MINNESOTA STATE BOARD
OF INVESTMENT
MEETING
June 6, 2007

&

INVESTMENT ADVISORY
COUNCIL MEETING
June 5, 2007

STATE BOARD OF INVESTMENT

AGENDA AND MINUTES

June 6, 2007

AGENDA
STATE BOARD OF INVESTMENT MEETING
Wednesday, June 6, 2007
9:00 A.M. - Room 123
State Capitol – St. Paul

	TAB
1. Approval of Minutes of March 20, 2007	
2. Report from the Executive Director (Howard Bicker)	**A**
A. Quarterly Investment Review (January 1, 2007 – March 31, 2007)	
B. Administrative Report	**B**
1. Reports on budget and travel	
2. Legislative Update	
3. Litigation Update	
4. Education Investment Roundtable	
3. Report from the SBI Administrative Committee (Peter Sausen)	**C**
4. Report from the Master Custody Review Committee (Peter Sausen)	**D**
5. Report from the Local Custody Review Committee (Peter Sausen)	**E**
6. Report from the Proxy Voting Committee (Peter Sausen)	**F**
7. Reports from the Investment Advisory Council (Mike Troutman)	
A. Stock and Bond Manager Committee	**G**
1. Review of manager performance	
2. Domestic Equity Program Review	
3. Update of Oppenheimer Capital; Domestic Equity Manager	
4. Review of manager Investment Guidelines	
B. Alternative Investment Committee	**H**
1. Review of current strategy	
2. Recommendation of additional investment with one existing private equity manager in an existing fund	
• Court Square Capital	

Minutes
State Board of Investment
March 20, 2007

The State Board of Investment (SBI) met at 9:00 A.M. Tuesday, March 20, 2007 in Room 318 State Capitol, St. Paul, Minnesota. Governor Tim Pawlenty; State Auditor Rebecca Otto; Secretary of State Mark Ritchie; and Attorney General Lori Swanson were present. The minutes of the December 6, 2006 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 its Composite Index over the ten year period ending December 31, 2006 (Combined Funds 8.7% vs. Composite 8.5%), and had provided a real rate of return over the latest 20 year period (Combined Funds 10.4% vs. CPI 3.0%). He stated that the Basic Funds have outperformed its Composite Index (Basic Funds 8.9% vs. Composite 8.7%) over the last ten years and reported that the Post Fund had also outperformed its composite over the last ten-year period (Post Fund 8.6% vs. Composite 8.3%).

Mr. Bicker reported that the Basic Fund's assets increased 5.2% for the quarter ending December 31, 2006 due to positive investment returns. He said that the asset mix had been rebalanced and is now essentially on target. He reported that the Basic Funds outperformed its Composite Index for the quarter (Basic Funds 5.8% vs. Composite 5.6%) and underperformed for the year (Basic Funds 14.7% vs. Composite 14.9%).

Mr. Bicker reported that the market value of the Post Fund's assets increased 4.7% for the quarter ending December 31, 2006, also due to positive investment returns. He said that the Post Fund's asset mix is also on target after being rebalanced. He stated that the Post Fund outperformed its Composite Index for the quarter (Post Fund 5.8% vs. Composite 5.6%) and for the year (Post Fund 14.5% vs. Composite 14.4%).

Mr. Bicker reported that the domestic stock manager group underperformed its target for the quarter (Domestic Stock 6.9% vs. Domestic Equity Asset Class Target 7.1%) and for the year (Domestic Stocks 14.5% vs. Domestic Equity Asset Class Target 15.7%). He said the International Stock manager group underperformed its Composite Index slightly for the quarter (International Stocks 11.1% vs. International Equity Asset Class Target 11.2%) and outperformed it for the year (International Stocks 27.0% vs. International Equity Asset Class Target 26.7%). Mr. Bicker stated that the bond segment outperformed its target for the quarter (Bonds 1.3% vs. Fixed Income Asset Class Target 1.2%) and for the year (Bonds 4.7% vs. Fixed Income Asset Class Target 4.3%). He noted that the alternative investments had also performed strongly for the year (Alternatives 21.8%). He concluded his report with the comment that as of December 31, 2006, the SBI was responsible for over $58 billion in assets.

Executive Director's Administrative Report
Mr. Bicker referred members to Tab B of the meeting materials for the quarterly updates on budget and travel. He reported that the SBI had received a "clean audit opinion" for fiscal year 2006 from the Legislative Auditor's Office.

Mr. Bicker referred members to a handout he distributed (see **Attachment A**), and he gave a brief legislative update, stating that a bill regarding Duluth's Other Post Retirement Benefits had passed in the Senate and is on the floor in the House. He noted that the statewide version of the same bill is currently on the floor of both the Senate and the House.

Mr. Bicker reported that a bill giving the Minneapolis Employee's Retirement Fund (MERF) the flexibility to invest some of its assets with the SBI is being considered. He stated that the SBI's budget has been heard in both the House and the Senate. He concluded by stating that a bill has been introduced regarding Sudan. He said that the Board passed a resolution at its December 2006 related to Sudan and that staff will be making some reports on the progress of the resolution at the June 2007 Board meeting.

Mr. Bicker asked Christie Eller, Assistant Attorney General to update members on the status of litigation. She stated that the State is waiting for distributions in two class action cases in which the SBI was the lead plaintiff, AOL and Broadcom. After all the claims have been sorted out, a distribution plan will need to be submitted to the court for approval in both cases.

Mr. Bicker reported that staff is recommending three additional investment options for the 529 Minnesota College Savings Plan. Ms. Otto moved approval of staff's recommendations, as stated in the Executive Director's Administrative Report, which reads: "**Staff recommends that the Board approve the addition of three investment options be TIAA-CREF in the 529 Minnesota College Savings Plan. These options would be added upon the preparation by TIAA-CREF appropriate disclosure and informational materials:**

- **Money Market option**
- **100% Fixed Income option**
- **60% Stock/40% Bond Balanced option."**

The motion passed.

IAC Membership Review Committee
Mr. Sausen referred members to Tab C of the meeting materials and reported that the terms of six of the Investment Advisory Council (IAC) members had expired. He said that the six current members had reapplied along with two new applicants. He noted that statute requires these members to be knowledgeable in general investment matters. He stated that the Committee reviewed the resumes of all eight candidates and is recommending the six incumbents be re-appointed to the IAC. Ms. Otto moved approval of the Committee's recommendation, as stated in the Committee Report, which reads: "**The Committee recommends that the Board reappoint the following as members of**

the Investment Advisory Council, with terms expiring in January 2011: John Bohan; Kerry Brick; Malcolm McDonald; Gary Norstrem; Daralyn Peifer; and Michael Troutman." The motion passed.

Stock and Bond Committee Report

Mr. Troutman referred members to Tab D of the meeting materials and briefly reviewed the performance of the managers. He reported that staff met with GE Asset Management during the quarter to discuss organizational changes and their investment strategy. He said that the Committee is satisfied with the steps GE is taking and that no action is required at this time. He added that staff will continue to monitor the firm.

Mr. Troutman noted that the Committee reviewed the differences in the level of oversight by the SBI concerning mutual fund relationships and why the Committee reviews funds for the Deferred Compensation Plan but not for other plans. He then presented a list of potential replacements for the Deferred Compensation Plan mutual funds.

Mr. Troutman stated that the Committee is recommending that an allocation of up to $1 billion of the Invested Treasurer's Cash Pool in 1 to 3 year maturity investments. In response to questions from Governor Pawlenty, Mr. Troutman confirmed that this recommendation allows the SBI the flexibility of longer maturities, but does not require the change if, for instance, the yield curve remains flat. Mr. Ritchie moved approval of the Committee's recommendation, as stated in the Committee Report, which reads: **"The Committee recommends that the Board approve an allocation of up to $1 billion of the Invested Treasurer's Cash Pool to 1 to 3 year maturity investments."** The motion passed.

Mr. Troutman said that the Committee is recommending a new policy weight range for the semi-passive investments in the International Equity program from the current 10% to no more than 33%. He noted that the SBI would continue to require that at least 25% remain in passive management and that at least 33% will be actively managed. In response to questions from Governor Pawlenty, Mr. Troutman noted the differences between passive and semi-passive management, and Mr. Bicker confirmed that the current semi-passive segment has added value versus its benchmark. Mr. Bicker added that the recommendation gives the SBI more flexibility and that the SBI is not planning on making a change to the allocation at this time. He added that currently the program is slightly over its 10% allocation because it has performed well and that if the recommendation does not pass the SBI would need to sell off some assets to rebalance back to the 10% level. Ms. Otto moved approval of the Committee's recommendation, as stated in the Committee Report, which reads: **"The Committee recommends that the SBI approve a change to the policy allocation in the International Equity Program, to establish a new range for the semi-passive investments, as follows: "No more than 33% to semi-passive management. At least 25% of the program will be passively managed and at least 33% will be actively managed."** The motion passed.

Mr. Troutman reported that the Committee is recommending the termination of Holt-Smith & Yates Advisors in the Domestic Equity Program due to continuing underperformance and significant asset and account loss. Ms. Swanson moved approval of the Committee's recommendation, as stated in the Committee Report, which reads: **"The Committee recommends that the SBI terminate its relationship with Holt-Smith & Yates Advisors."** The motion passed.

Alternative Investment Committee

Mr. Troutman referred members to Tab E of the meeting materials and reported that the alternative asset class has performed very well. He stated that the Committee is recommending new investments with one existing real estate manager; three new resource managers and two existing private equity managers and he briefly reviewed each recommendation.

In response to a question from Governor Pawlenty, Mr. Bicker stated that the SBI's allocation is currently approximately 10.8% in the Basics and 8.6% for the Post Fund. He said that those percentages are based on market value and that it typically takes 1-3 years for committed funds to be drawn down and invested. He added that even though $540 million is being proposed this quarter, last quarter the SBI received approximately $480 million in cash back from previous investments. Mr. Ritchie moved approval of all six of the Committee's recommendations, as stated in the Committee Report, which reads: **"The Committee recommends that the SBI authorize the Executive Director, with assistance from the SBI's legal counsel, to negotiate and execute a commitment of up to $100 million or 20%, whichever is less, in Blackstone Real Estate Partners VI, L.P. 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 nor its Executive Director have any liability for reliance by Blackstone upon this approval. Until the Executive Director on behalf of the SBI executes a formal agreement, further due diligence and negotiations may result in the imposition of additional terms and conditions on Blackstone or reduction or termination of the commitment.**

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 $100 million or 20%, whichever is less, in NGP Midstream & Resources L.P. 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 nor its Executive Director have any liability for reliance by NGP Midstream & Resources upon this approval. Until the Executive Director on behalf of the SBI executes a formal agreement, further due diligence and negotiations may result in the imposition of additional terms and conditions on NGP Midstream & Resources or reduction or termination of the commitment.

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 $100 million or 20%, whichever is less, in Sheridan Production Partners I, L.P. 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 nor its Executive Director have any liability for reliance by Sheridan Production Partners upon this approval. Until the Executive Director on behalf of the SBI executes a formal agreement, further due diligence and negotiations may result in the imposition of additional terms and conditions on Sheridan Production Partners or reduction or termination of the commitment.

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 $100 million or 20%, whichever is less, in TCW Energy Fund XIV, L.P. 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 nor its Executive Director have any liability for reliance by TCW Energy & Infrastructure Group upon this approval. Until the Executive Director on behalf of the SBI executes a formal agreement, further due diligence and negotiations may result in the imposition of additional terms and conditions on TCW Energy & Infrastructure Group or reduction or termination of the commitment.

The Committee recommends that the SBI authorize the Executive Director, with assistance from the SBI's legal counsel, to negotiate and execute a commitment of up to $40 million in addition to the $100 million already committed, for up to $140 million in total, or 20%, whichever is less, in Blackstone Capital Partners V, L.P. 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 nor its Executive Director have any liability for reliance by Blackstone upon this approval. Until the Executive Director on behalf of the SBI executes a formal agreement, further due diligence and negotiations may result in the imposition of additional terms and conditions on Blackstone or reduction or termination of the commitment.

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 $100 million or 20%, whichever is less, in Silver Lake Partners III, L.P. 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 nor its Executive Director have any liability for reliance by Silver Lake upon this approval. Until the Executive Director on behalf of the SBI executes a formal agreement, further due diligence and negotiations may result in

the imposition of additional terms and conditions on Silver Lake or reduction or termination of the commitment." The motion passed.

Mr. Troutman noted that the retirement systems had presented an informative report at the IAC meeting on the liabilities of the plans.

The meeting adjourned at 9:46 A.M.

Respectfully submitted,

Howard Bicker

Howard Bicker
Executive Director

Bills of Interest to the Minnesota State Board of Investment
2007 Legislative Session
Includes Action Through 3/15/07

Description of Bill	**HF/SF # and Author**	**Current Status**
Duluth Other Post Retirement Benefits	H.F. 163 (Huntley)	On General Register as S.F. 60
- Trust Fund - SBI invests assets	**S.F. 60 (Prettner Solon)**	Senate passed 3/1
Statewide Other Post Retirement Benefits	H.F. 1160 (Hilstrom)	3/12 Amended and passed Local Gov't and Metro affairs; Referred to Finance
- Trust Funds - SBI as one investment option	S.F. 892 (Betzold)	2/15 Passed State & Local Gov't Op's & Oversight 3/13 Taxes laid over until 3/20
Minneapolis Employees Retirement Fund	H.F. 1313 (Thissen)	Referred to Gov't Op's
- MERF Fund may invest with SBI	S.F. 1141 (Betzold)	Referred to State and Local Gov't Op's
SBI Budget - General Fund appropriation		House Budget hearing 3/15 Senate Budget hearing 2/7
Sudan - Divesting of companies in Sudan	H.F. 1332 (Clark) S.F. 1075 (Pappas)	Referred to Gov't Op's Referred to State & Local Gov't Op's

INVESTMENT ADVISORY COUNCIL

AGENDA AND MINUTES

June 5, 2007

AGENDA
INVESTMENT ADVISORY COUNCIL MEETING
Tuesday, June 5, 2007
2:00 P.M. - Board Room – First Floor
60 Empire Drive, St. Paul, MN

	TAB
1. Approval of Minutes of March 6, 2007	
2. Report from the Executive Director (Howard Bicker)	**A**
A. Quarterly Investment Review (January 1, 2007 – March 31, 2007)	
B. Administrative Report 1. Reports on budget and travel 2. Legislative Update 3. Litigation Update 4. Education Investment Roundtable	**B**
3. Report from the SBI Administrative Committee (Peter Sausen)	**C**
4. Report from the Master Custody Review Committee (Peter Sausen)	**D**
5. Report from the Local Custody Review Committee (Peter Sausen)	**E**
6. Report from the Proxy Voting Committee (Peter Sausen)	**F**
7. Reports from the Investment Advisory Council	
A. Stock and Bond Manager Committee (John Bohan) 1. Review of manager performance 2. Domestic Equity Program Review 3. Update of Oppenheimer Capital; Domestic Equity Manager 4. Review of manager Investment Guidelines	**G**
B. Alternative Investment Committee (Judy Mares) 1. Review of current strategy 2. Recommendation of additional investment with one existing private equity manager in an existing fund • Court Square Capital	**H**
8. Domestic Equity Program Review	

Minutes
Investment Advisory Council
March 6, 2007

MEMBERS PRESENT:	Frank Ahrens; Jeff Bailey; Dave Bergstrom; John Bohan; Kerry Brick; Laurie Hacking; Judy Mares; Malcolm McDonald; Daralyn Peifer; Mike Troutman; and Mary Vanek.
MEMBERS ABSENT:	Doug Gorence; Tom Hanson; Heather Johnston; P. Jay Kiedrowski; Hon. Ken Maas; and Gary Norstrem.
SBI STAFF:	Howard Bicker; Mansco Perry; Jim Heidelberg; Mike Menssen; Tammy Brusehaver-Derby; Susan Sutton; Patricia Ammann; Stephanie Gleeson; John Griebenow; Andy Christensen; Steve Kuettel; Debbie Griebenow; Carol Nelson; and Charlene Olson.
OTHERS ATTENDING:	Ann Posey, Richards & Tierney; Peter Sausen; Christie Eller; Celeste Grant; Tom Durand; Jerry Irsfeld, REAM; Ed Rapp, Education Minnesota and Bonnie Wurst, Mercer.

The Investment Advisory Council (IAC) met at 2:00 p.m., Tuesday, March 6, 2007 in the Board Room, First Floor, 60 Empire Drive. Mr. Troutman called the meeting to order and the minutes of the December 5, 2006 IAC 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 its Composite Index over the ten year period ending December 31, 2006 (Combined Funds 8.7% vs. Composite 8.5%), and had provided a real rate of return over the latest 20 year period (Combined Funds 10.4% vs. CPI 3.0%). He stated that the Basic Funds have outperformed its Composite Index (Basic Funds 8.9% vs. Composite 8.7%) over the last ten years and reported that the Post Fund had also outperformed its composite over the last ten-year period (Post Fund 8.6% vs. Composite 8.3%).

Mr. Bicker reported that the Basic Fund's assets increased 5.2% for the quarter ending December 31, 2006 due to positive investment returns. He said that the asset mix had been rebalanced and is now essentially on target. He reported that the Basic Funds outperformed its Composite Index for the quarter (Basic Funds 5.8% vs. Composite 5.6%) and underperformed for the year (Basic Funds 14.7% vs. Composite 14.9%).

Mr. Bicker reported that the market value of the Post Fund's assets increased 4.7% for the quarter ending December 31, 2006, also due to positive investment returns. He said that the Post Fund's asset mix is also on target after being rebalanced. He stated that the

Post Fund outperformed its Composite Index for the quarter (Post Fund 5.8% vs. Composite 5.6%) and for the year (Post Fund 14.5% vs. Composite 14.4%).

Mr. Bicker reported that the domestic stock manager group underperformed its target for the quarter (Domestic Stock 6.9% vs. Domestic Equity Asset Class Target 7.1%) and for the year (Domestic Stocks 14.5% vs. Domestic Equity Asset Class Target 15.7%). He said the International Stock manager group underperformed its Composite Index slightly for the quarter (International Stocks 11.1% vs. International Equity Asset Class Target 11.2%) and outperformed it for the year (International Stocks 27.0% vs. International Equity Asset Class Target 26.7%). Mr. Bicker stated that the bond segment outperformed its target for the quarter (Bonds 1.3% vs. Fixed Income Asset Class Target 1.2%) and for the year (Bonds 4.7% vs. Fixed Income Asset Class Target 4.3%). He noted that the alternative investments had also performed strongly for the year (Alternatives 21.8%). He concluded his report with the comment that as of December 31, 2006, the SBI was responsible for over $58 billion in assets.

Executive Director's Administrative Report

Mr. Bicker referred members to Tab B of the meeting materials for the quarterly updates on budget and travel. He reported that the SBI had received a "clean audit opinion" for fiscal year 2006 from the Legislative Auditor's Office.

Mr. Bicker gave a brief legislative update, stating that a bill regarding Duluth Other Post Retirement Benefits had passed in the Senate and is on the floor in the House. He noted that there is also a statewide version of the same bill.

Mr. Bicker reported a bill has been introduced regarding Sudan and that staff would monitor the bill. He concluded his legislative update by stating that the SBI's budget had received a hearing in the Senate.

Mr. Bicker asked Christie Eller, Assistant Attorney General to update members on the status of litigation. She stated that the State is waiting for distributions in two class action cases in which the SBI was the lead plaintiff, AOL and Broadcom. After all the claims have been sorted out, a distribution plan will need to be submitted to the court for approval in both cases.

Mr. Bicker stated that staff will be organizing an educational investment roundtable in June and that the topic has not yet been finalized.

Mr. Bicker reported that staff is recommending for Board approval three additional investment options for the 529 Minnesota College Savings Plan. In response to a question from Mr. Bohan, Mr. Bicker stated that the additional options were requested by both TIAA-CREF and participants. He noted that the full contract would be rebid in approximately 18 months.

IAC Membership Review Committee
Mr. Sausen referred members to Tab C of the meeting materials and reported that the terms of six of the Investment Advisory Council (IAC) members had expired. He said that the six current members had reapplied along with two new applicants. He noted that statute requires these members to be knowledgeable in general investment matters. He stated that the Committee reviewed the resumes of all eight candidates and is recommending to the Board that the six incumbents be re-appointed to the IAC.

Stock and Bond Committee Report
Mr. Bohan referred members to Tab D of the meeting materials and briefly reviewed the performance of the managers. Mr. Bicker noted that staff and the Committee may consider making some changes to the Fixed Interest Account and Minnesota Fixed Fund for the Deferred Compensation Plan. In response to a question from Mr. Bergstrom, Mr. Bicker stated that he believes there were several factors that led to the underperformance by the growth managers and that staff is continuing to do an analysis of the domestic equity program in preparation for the June 2007 meeting.

Mr. Bohan reported that staff met with GE Asset Management during the quarter to discuss organizational changes and their investment strategy. He said that the Committee is satisfied with the steps GE is taking and that no action is required at this time. He added that staff will continue to monitor the firm.

Mr. Bohan noted that the Committee reviewed the differences in the level of oversight by the SBI concerning mutual fund relationships and why the Committee reviews funds for the Deferred Compensation Plan but not for other plans. Mr. Bicker went on to explain the SBI's role with the MnSCU plan. Mr. Bohan then presented a list of potential replacements for the Deferred Compensation Plan mutual funds.

Mr. Bohan stated that the Committee is recommending that an allocation of up to \$1 billion of the Invested Treasurer's Cash Pool be placed in 1 to 3 year maturity investments. In response to questions from Mr. Bailey, Mr. Bicker confirmed that this recommendation allows the SBI the flexibility of longer maturities, but does not require the change and that more discretion can be given later when the new Board members are more familiar with the SBI's operations. The Committee's recommendation, as stated in the Committee Report was approved.

Mr. Bohan said that the Committee is recommending a new policy weight range for the semi-passive investments in the International Equity program from the current 10% to no more than 33%. He noted that the SBI would continue to require that at least 25% remain in passive management and that at least 33% will be actively managed. Mr. Bicker added that the recommendation gives the SBI more flexibility and that the SBI is not planning on making a change to the allocation at this time. He added that currently the program is slightly over its 10% allocation because it has performed well and that if the recommendation does not pass the SBI would need to sell off some assets to rebalance back to the 10% level. The Committee's recommendation, as stated in the Committee Report, was approved.

Mr. Troutman reported that the Committee is recommending the termination of Holt-Smith & Yates Advisors in the Domestic Equity Program due to continuing underperformance and significant asset and account loss. The Committee's recommendation, as stated in the Committee Report was approved.

Alternative Investment Committee
Ms. Mares referred members to Tab E of the meeting materials. She stated that the Committee is recommending new investments with one existing real estate manager; three new resource managers and two existing private equity managers and briefly reviewed each recommendation. The Committee's six recommendations, as stated in the Committee Report were approved.

Mr. Bergstrom, Executive Director of the Minnesota State Retirement System; Ms. Vanek, Executive Director of the Public Employees Retirement Association; and Ms. Hacking, Executive Director of the Teachers Retirement Association presented information regarding the liabilities associated with each of their plans (see **Attachment A**).

The meeting adjourned at 4:20 P.M.

Respectfully submitted,

Howard Bicker
Executive Director

Tab A

LONG TERM OBJECTIVES
Period Ending 3/31/2007

COMBINED FUNDS: $48.3 Billion	Result	Compared to Objective
Match or Exceed Composite Index (10 Yr.) Outperform a composite market index weighted in a manner that reflects the long-term asset allocation of the Combined Funds over the latest 10 year period.	**9.0% (1)**	0.2 percentage point above target
Provide Real Return (20 yr.) Provide returns that are 3-5 percentage points greater than inflation over the latest 20 year period.	**9.8%**	6.8 percentage points above CPI

BASIC RETIREMENT FUNDS: $24.3 Billion	Result	Compared to Objective
Match or Exceed Composite Index (10 Yr.) Outperform a composite market index weighted in a manner that reflects the long-term asset allocation of the Basic Funds over the latest 10 year period.	**9.1%**	0.1 percentage point above target

POST RETIREMENT FUND: $24.0 Billion	Result	Compared to Objective
Match or Exceed Composite Index (10 Yr.) Outperform a composite market index weighted in a manner that reflects the long-term asset allocation of the Post Fund over the latest 10 year period.	**8.8%**	0.3 percentage point above target

(1) Performance is calculated net of fees.

SUMMARY OF ACTUARIAL VALUATIONS

All Eight Plans of MSRS, PERA and TRA Including Post Fund
July 1, 2006

	Active (Basics)	Retired (Post)	Total (Combined)
Liability Measures			
1. Current and Future Benefit Obligation	$36.9 billion	$26.0 billion	$62.9 billion
2. Accrued Liabilities	27.1	26.0	53.1
Asset Measures			
3. Current and Future Actuarial Value	$34.1 billion	$26.0 billion	$60.1 billion
4. Current Actuarial Value	20.4	26.0	46.4
Funding Ratios			
Future Assets vs. Future Obligations (3 ÷ 1)	92%	100%	95%
Current Actuarial Value vs. Accrued Liabilities (4 ÷ 2)	75%	100%	87%*

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

Notes:
1. Present value of projected benefits that will be due to all current participants.
2. Liabilities attributed to past service calculated using entry age normal cost method.
3. Present value of future statutory contributions plus current actuarial value.
4. Same as required reserves for Post; Difference between actual returns and actuarially expected returns spread over five years for Basics.

Actuarial Assumptions:

Salary Growth: 6.5%, resulting from a graded rate future increase assumption
Interest/Discount Rate: 8.5% Basics, 6.0% Post
Full Funding Target Date: 2031

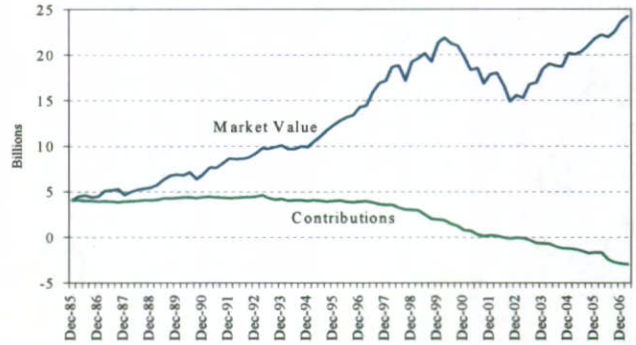
EXECUTIVE SUMMARY
Basic Retirement Funds (Net of Fees)

Asset Growth

The market value of the Basic Funds increased 2.3% during the first quarter of 2007. Positive investment returns accounted for the increase.

Asset Growth
During First Quarter 2007
(Millions)

Beginning Value	$ 23,694
Net Contributions	-87
Investment Return	634
Ending Value	$ 24,241

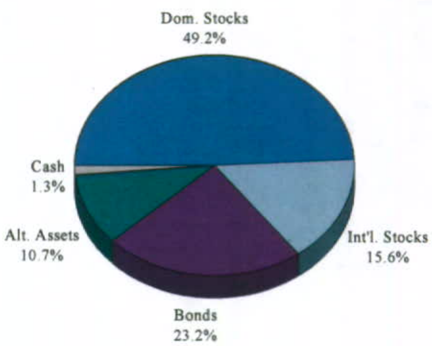


Asset Mix

Assets were rebalanced from international and domestic equities to fixed income and cash during the quarter.

	Policy Targets	Actual Mix 3/31/2007	Actual Market Value (Millions)
Domestic Stocks	**45.0%**	49.2%	$11,934
Int'l. Stocks	**15.0**	15.6	3,771
Bonds	**24.0**	23.2	5,616
Alternative Assets*	**15.0**	10.7	2,599
Unallocated Cash	**1.0**	1.3	321
	100.0%	100.0%	$24,241

* Any uninvested allocation is held in domestic stocks

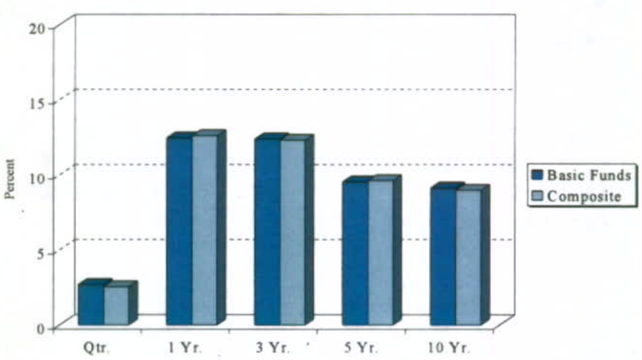


Fund Performance (Net of Fees)

The Basic Funds exceeded the quarterly market index composite, and trailed for the year.

Period Ending **3/31/2007**

	Qtr.	1 Yr.	3 Yr.	5 Yr.	10 Yr.
			Annualized		
Basics	**2.7%**	**12.5%**	**12.4%**	**9.5%**	**9.1%**
Composite	2.5	12.6	12.3	9.6	9.0



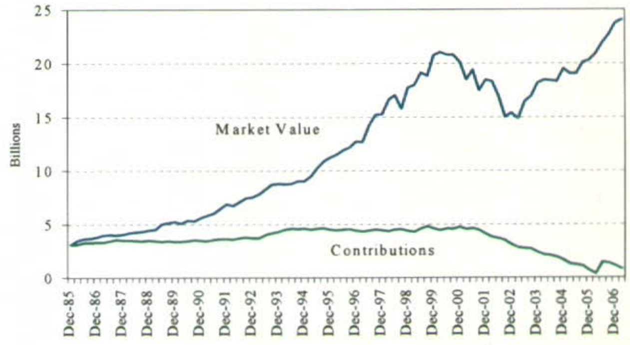
EXECUTIVE SUMMARY

Post Retirement Fund (Net of Fees)

Asset Growth

The market value of the Post Fund increased 1.3% during the first quarter of 2007. Positive investment returns accounted for the increase.

	Asset Growth During First Quarter 2007 (Millions)
Beginning Value	$23,733
Net Contributions	-300
Investment Return	603
Ending Value	$24,036

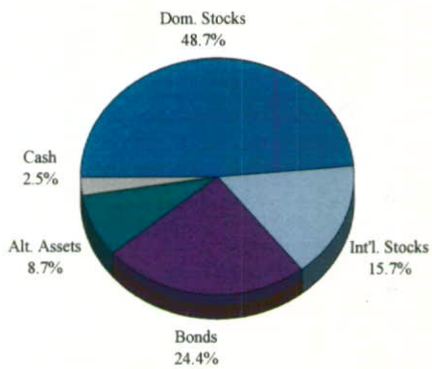


Asset Mix

Assets were rebalanced from international and domestic equities to fixed income and cash during the quarter.

	Policy Targets	Actual Mix 3/31/2007	Actual Market Value (Millions)
Domestic Stocks	**45.0%**	48.7%	$11,701
Int'l. Stocks	**15.0**	15.7	3,779
Bonds	**25.0**	24.4	5,861
Alternative Assets*	**12.0**	8.7	2,082
Unallocated Cash	**3.0**	2.5	613
	100.0%	100.0%	$24,036

* Any uninvested allocation is held in domestic stocks.

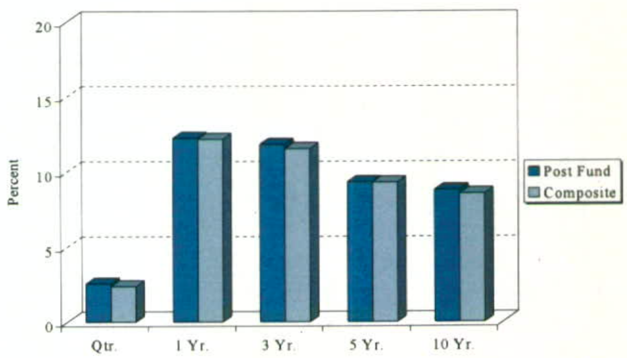


Fund Performance (Net of Fees)

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

Period Ending **3/31/2007**

		Annualized			
	Qtr.	1 Yr.	3 Yr.	5 Yr.	10 Yr.
Post	**2.6%**	**12.3%**	**11.8%**	**9.3%**	**8.8%**
Composite	2.4	12.2	11.5	9.3	8.5



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

Domestic Stocks

The domestic stock manager group outperformed its target for the quarter and underperformed for the year.

Russell 3000: The Russell 3000 measures the performance of the 3,000 largest U.S. companies based on total market capitalization.

	Period Ending 3/31/2007				
		Annualized			
	Qtr.	1 Yr.	3 Yr.	5 Yr.	10 Yr.
Dom. Stocks	**1.4%**	**10.5%**	**10.6%**	**7.0%**	**8.2%**
Asset Class Target*	1.3	11.3	10.8	7.3	8.3

* The Domestic Equity Asset Class Target is the Russell 3000 effective 10/1/03. From 7/1/99 to 9/30/03, it was the Wilshire 5000 Investable Index. From 11/1/93 to 6/30/99, the target was the Wilshire 5000 as reported with no adjustments.

International Stocks

The international stock manager group outperformed its target for the quarter and for the year.

MSCI ACWI Free ex U.S. (net): The Morgan Stanley Capital International All Country World Index is a free float-adjusted market capitalization Index that is designed to measure equity market performance in the global developed and emerging markets. There are 47 countries included in this index. It does not include the United States.

	Period Ending 3/31/2007				
		Annualized			
	Qtr.	1 Yr.	3 Yr.	5 Yr.	10 Yr.
Int'l. Stocks	**3.9%**	**19.9%**	**20.8%**	**16.4%**	**8.6%**
Asset Class Target*	3.8	19.8	20.9	16.9	8.3

* The Int'l Equity Asset Class Target is MSCI ACWI Free ex U.S. (net) effective 10/1/03. From 1/1/01 to 9/30/03, the target was MSCI EAFE Free (net) + Emerging Markets Free (EMF) (net), and from 7/1/99 to 12/31/00 was MSCI EAFE Free (net) + EMF (gross). From 7/1/99 to 9/30/03, the weight of each index fluctuated with market cap. From 12/31/96 to 6/30/99 the target was fixed at 87% EAFE-Free/13% EMF. On 5/1/96 the portfolio transitioned from 100% EAFE Free to the 12/31/96 fixed weights. 100% EAFE-Free prior to 5/1/96.

Bonds

The bond manager group outperformed its target for the quarter, and for the year.

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

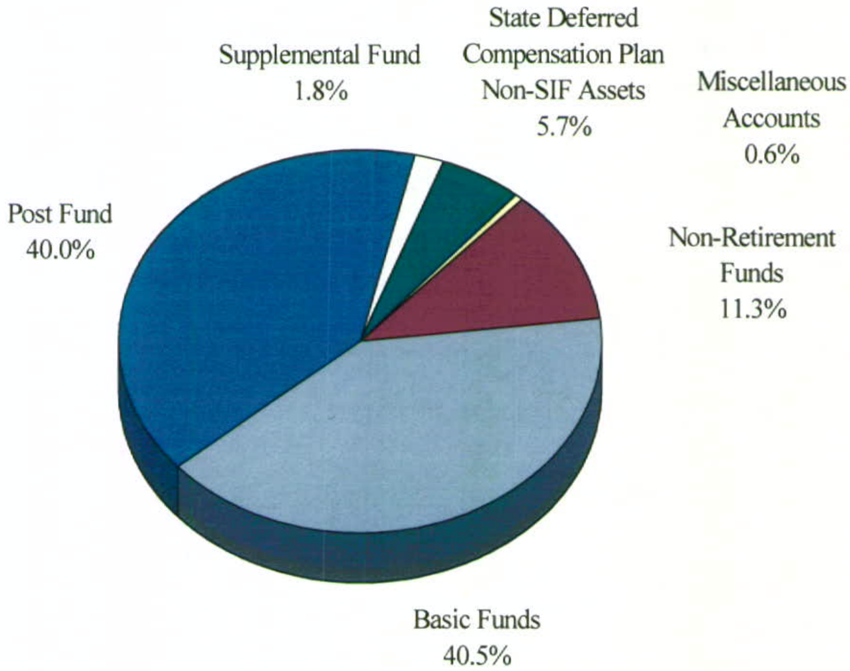
	Period Ending 3/31/2007				
		Annualized			
	Qtr.	1 Yr.	3 Yr.	5 Yr.	10 Yr.
Bonds	**1.6%**	**6.8%**	**3.8%**	**5.7%**	**6.8%**
Asset Class Target*	1.5	6.6	3.3	5.4	6.5

* The Fixed Income Asset Class Target is the Lehman Aggregate, effective 7/1/1994. Prior to 7/1/1994, the fixed income target was the Salomon BIG.

Alternative Investments

	Period Ending 3/31/2007				
		Annualized			
	Qtr.	1 Yr.	3 Yr.	5 Yr.	10 Yr.
Alternatives	**9.9%**	**25.2%**	**30.6%**	**20.6%**	**17.2%**

EXECUTIVE SUMMARY
Funds Under Management



	3/31/2007 Market Value (Billions)
Retirement Funds	
Basic Retirement Funds	$24.3
Post Retirement Fund	24.0
Supplemental Investment Fund	1.1
State Deferred Compensation Plan Non-SIF Assets	3.4
Non-Retirement Funds*	
Assigned Risk Plan	0.3
Permanent School Fund	0.7
Environmental Trust Fund	0.5
State Cash Accounts	5.3
Miscellaneous Accounts	0.3
Total	$59.9

MINNESOTA STATE BOARD OF INVESTMENT

QUARTERLY INVESTMENT REPORT

First Quarter 2007
(January 1, 2007 - March 31, 2007)

Table of Contents

VARIOUS CAPITAL MARKET INDICES

	Period Ending 3/31/2007				
	Qtr.	Yr.	3 Yr.	5 Yr.	10 Yr.
Domestic Equity					
Dow Jones Wilshire Composite	1.4%	11.3%	11.0%	7.7%	8.7%
Dow Jones Industrials	-0.3	13.9	8.6	5.9	8.6
S&P 500	0.6	11.8	10.1	6.3	8.2
Russell 3000 (broad market)	1.3	11.3	10.8	7.2	8.7
Russell 1000 (large cap)	1.2	11.8	10.7	6.9	8.6
Russell 2000 (small cap)	1.9	5.9	12.0	10.9	10.2
Domestic Fixed Income					
Lehman Aggregate (1)	1.5	6.6	3.3	5.4	6.5
Lehman Gov't./Corp.	1.5	6.4	2.9	5.6	6.5
3 month U.S. Treasury Bills	1.3	5.0	3.5	2.6	3.7
International					
EAFE (2)	4.1	20.2	19.8	15.8	8.3
Emerging Markets Free (3)	2.3	21.0	28.0	24.8	8.8
ACWI Free ex-U.S. (4)	3.8	20.3	21.4	17.4	9.0
World ex-U.S. (5)	4.0	19.6	20.0	16.0	8.6
Salomon Non U.S. Gov't. Bond	1.1	8.3	2.7	10.2	5.4
Inflation Measure					
Consumer Price Index CPI-U (6)	1.8	2.8	2.8	2.7	2.4
Consumer Price Index CPI-W (7)	1.7	2.7	3.1	2.8	2.5

(1) Lehman Brothers Aggregate Bond index. Includes governments, corporates and mortgages.

(2) Morgan Stanley Capital International index of Europe, Australasia and the Far East (EAFE). (Net index)

(3) Morgan Stanley Capital International Emerging Markets Free index. (Gross index)

(4) Morgan Stanley Capital International All Country World Index Ex-U.S. (Gross index)

(5) Morgan Stanley Capital International World Ex-U.S. Index (Developed Markets) (Net index)

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

(7) Consumer Price Index (CPI) for all wage earners, also known as CPI-W.

FINANCIAL MARKETS REVIEW

DOMESTIC STOCKS

The U.S. stock market, as measured by the Russell 3000 index, gained 1.3% during the first quarter of 2007. Market volatility picked up during the first quarter with mixed economic data contributing to investor's fears about inflation and a potential recession. Small capitalization stocks outperformed large capitalization stocks, and growth stocks outperformed value stocks by 3 basis points. The materials and processing sector generated the largest total return within the Russell 3000 index. The financial sector generated the lowest total return.

Performance of the Russell Style Indices for the quarter is shown below:

Large Growth	Russell 1000 Growth	1.2%
Large Value	Russell 1000 Value	1.2%
Small Growth	Russell 2000 Growth	2.5%
Small Value	Russell 2000 Value	1.5%

The Russell 3000 index returned 11.3% for the year ending March 31, 2007.

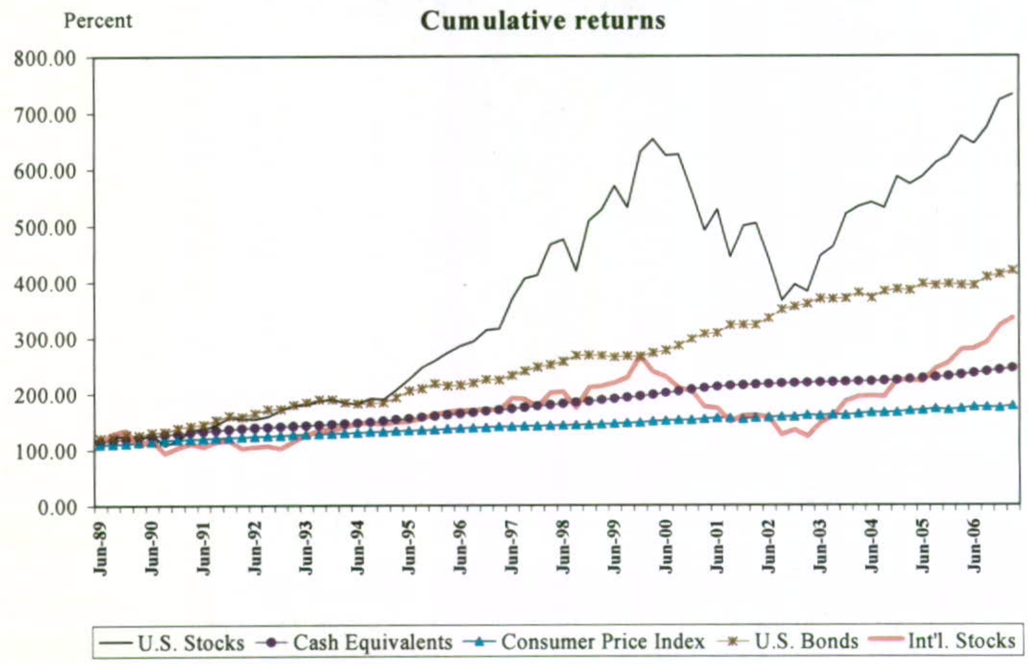
DOMESTIC BONDS

The bond market posted a gain of 1.5% for the quarter and 6.6% for the year. Fixed income markets posted healthy gains in the first quarter, as concerns regarding slowing growth, persistent inflation, weakness in the housing market, and increased stock volatility led investors to the relative safety of bonds. Despite the signs of slowing growth, the Federal Reserve Board left its target rate at 5.25%, citing a healthy labor market and inflationary pressures. Performance in non-Treasury sectors (Agencies, Mortgages, Credit) was not additive to the performance of the Lehman Aggregate index in the quarter, as the gains that were posted in January were mostly eroded by the end of March.

The major sector returns for the Lehman Aggregate for the quarter were:

U.S. Treasury	1.5%
Agency	1.5
Credit	1.5
Mortgages	1.6

PERFORMANCE OF CAPITAL MARKETS
Cumulative returns



FINANCIAL MARKETS REVIEW

INTERNATIONAL STOCKS

In aggregate, developed international stock markets (as measured by the MSCI World ex U.S. index) provided a return of 4.0% for the quarter. The quarterly performance of the six largest stock markets is shown below:

United Kingdom	3.0%
Japan	3.5
France	2.8
Switzerland	2.5
Germany	6.8
Canada	3.2

The World ex U.S. index increased by 19.6% during the last year.

The World ex U.S. index is compiled by Morgan Stanley Capital International (MSCI) and is a measure of 22 markets located in Europe, Australasia, Far East, and Canada. The major markets listed above comprise about 73% 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 2.4% for the quarter. The quarterly performance of the five largest stock markets in the index is shown below:

Korea	3.4%
Taiwan	-3.2
South Africa	7.1
Mexico	5.9
Brazil	6.2

The Emerging Markets Free index increased by 21.0% during the last year.

The Emerging Markets Free (EMF) index is compiled by MSCI and measures performance of 25 stock markets in Latin America, Asia, Africa and Eastern Europe. EMF includes only those securities foreign investors are allowed to hold. The markets listed above comprise about 66% of the value of the international markets in the index.

REAL ESTATE

A positive but measured outlook for real estate fundamentals is expected to continue for the first part of 2007. If growth in the U.S. economy decelerates, growth in real estate returns would likely be more reliant on income growth than on the pure capital-driven price increases of the recent past.

PRIVATE EQUITY

U.S. private equity firms raised $215 billion for private equity limited partnerships of all types, from venture capital to buyouts in 2006. This represents a 32% increase relative to the revised 2005 total of $163 billion. First quarter 2007 saw $43.9 billion in funds raised.

RESOURCE FUNDS

During the first quarter of 2007, crude oil averaged $58.23 per barrel, down from the average price of $60.16 during the prior quarter. In spite of the significant decrease, prices are still high relative to historical levels and continue to reflect the instability in the Middle East.

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.

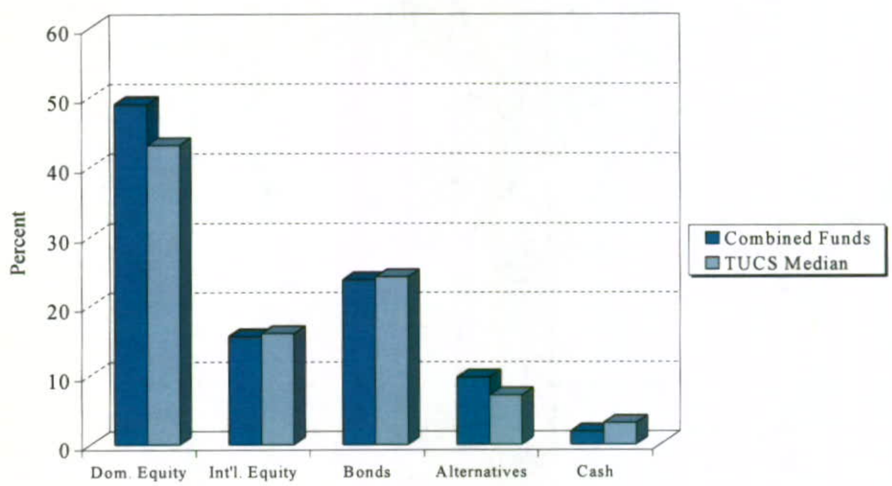
The comparison universe used by the SBI is the Trust Universe Comparison Service (TUCS). Only funds with assets over $1 billion are included in the comparisons shown in this section.

Asset Mix Compared to Other Pension Funds

On March 31, 2007, the actual asset mix of the Combined Funds was:

	$ Millions	%
Domestic Stocks	$23,635	49.0%
International Stocks	7,551	15.6
Bonds	11,477	23.8
Alternative Assets	4,681	9.7
Unallocated Cash	934	1.9
Total	$48,278	100.0%

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



	Dom. Equity	Int'l Equity	Bonds	Alternatives	Cash
Combined Funds	**49.0%**	**15.6%**	**23.8%**	**9.7%**	**1.9%**
Median Allocation in TUCS*	43.1	16.0	24.2	7.1**	3.1

* Public and corporate plans over $1 billion.
** May include assets other than alternatives.

COMBINED FUNDS
Performance Compared to Other Pension Funds

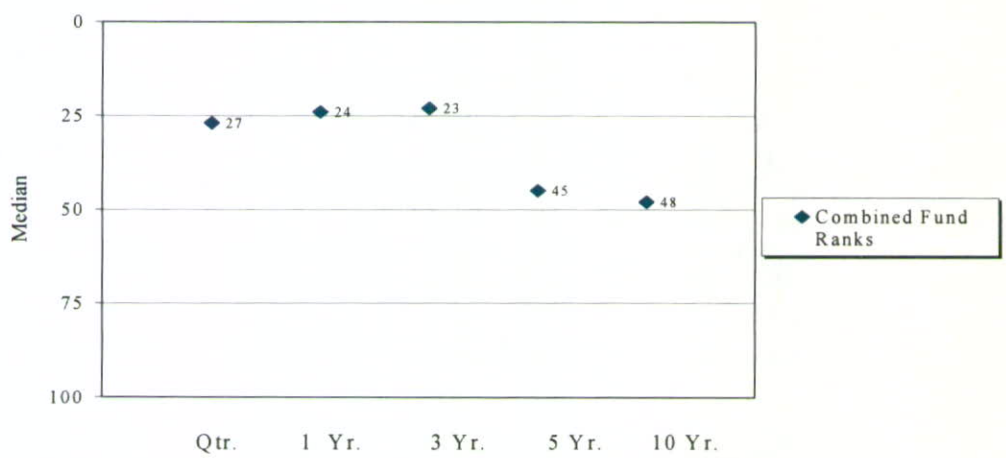
While the SBI is concerned with how its returns compare to other pension investors, universe comparisons should be used with great care. There are several reasons why such comparisons will provide an "apples to oranges" look at performance:

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

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

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

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



Period Ending 3/31/2007

	Qtr.	1 Yr.	3 Yr.	5 Yr.	10 Yr.
Combined Funds Percentile Rank in TUCS*	27th	24th	23rd	45th	48th

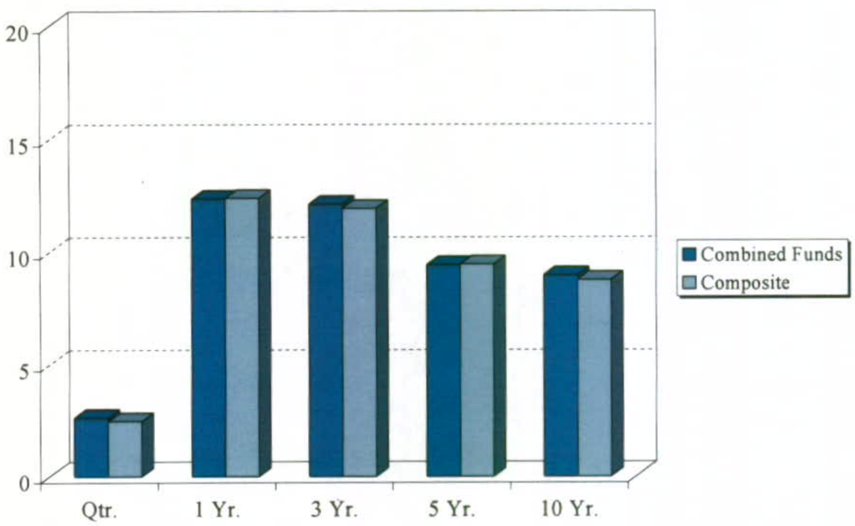
* Compared to public and corporate plans greater than $1 billion, gross of fees.

COMBINED FUNDS
Performance Compared to Composite Index

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

	Market Index	Combined Funds Composite* 1Q07
Domestic Stocks	Russell 3000	49.3%*
Int'l. Stocks	MSCI ACWI Free ex-U.S.	15.0
Bonds	Lehman Aggregate	24.5
Alternative Investments	Alternative Investments	9.2*
Unallocated Cash	3 Month T-Bills	2.0
		100.0%

* Alternative asset and domestic equity weights are reset in the composite at the start of each month to reflect the amount of unfunded commitments in alternative asset classes. The above Combined Funds Composite weighting was as of the beginning of the quarter.



Period Ending 3/31/2007

	Qtr.	1 Yr.	3 Yr.	5 Yr. (Annualized)	10 Yr.
Combined Funds**	**2.6%**	**12.4%**	**12.1%**	**9.4%**	**9.0%**
Composite Index	2.5	12.4	11.9	9.5	8.8

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

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BASIC RETIREMENT FUNDS

Investment Objectives

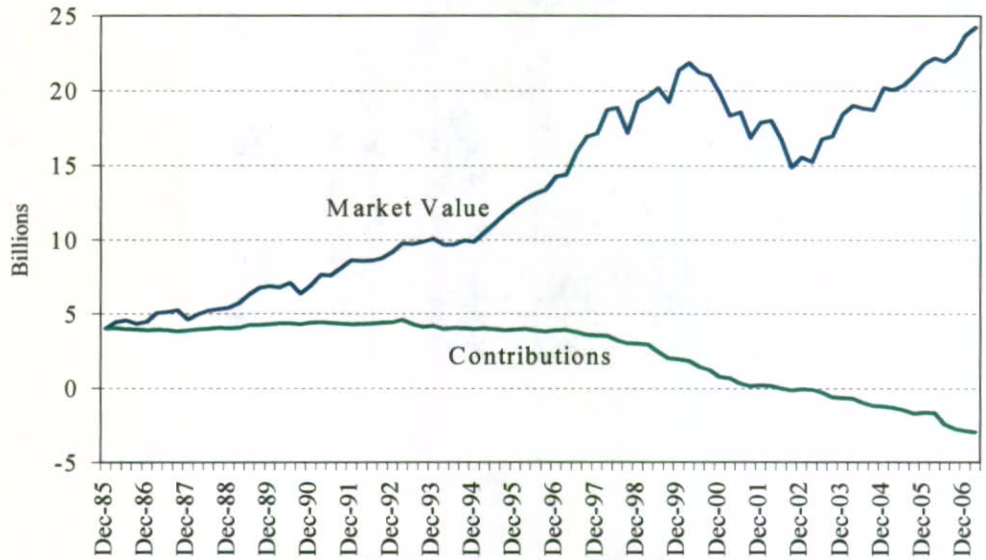
The Basic Retirement Funds are composed of the retirement assets for currently working participants in eight statewide retirement funds. The Funds serve as accumulation pools for the pension contributions of public employees and their employers during the employees' years of active service. Approximately 322,000 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 Funds increased 2.3% during the first quarter of 2007. Positive investment returns accounted for the increase.



Last Five Years
In Millions

	12/02	12/03	12/04	12/05	12/06	Latest Qtr. 3/07
Beginning Value	$17,874	$15,561	$18,435	$20,201	$21,816	$23,694
Net Contributions	-247	-592	-577	-411	-1,219	-87
Investment Return	-2,066	3,466	2,343	2,026	3,097	634
Ending Value	$15,561	$18,435	$20,201	$21,816	$23,694	$24,241

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.

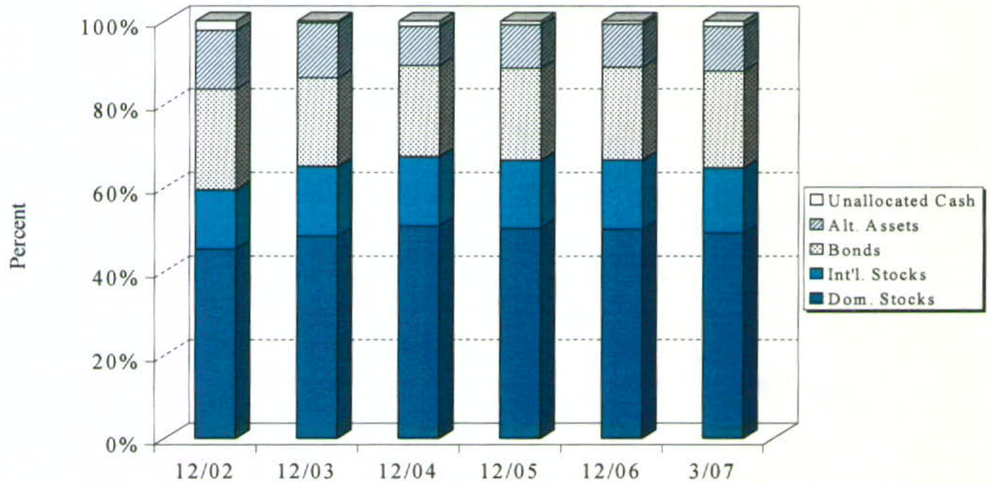
Domestic Stocks	45.0%
Int'l. Stocks	15.0
Bonds	24.0
Alternative Assets*	15.0
Unallocated Cash	1.0

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

In October 2003, the Board provisionally revised its long term asset allocation targets for the Basic Funds, increasing the allocation for alternative investments from 15% to 20% and decreasing fixed income from 24% to 19%.

Over the last year, the allocations remained nearly the same as the asset classes with strong returns were rebalanced into fixed income and cash.

During the quarter, assets were rebalanced from international and domestic equities to fixed income and cash.



	Last Five Years					Latest Qtr.
	12/02	12/03	12/04	12/05	12/06	3/07
Domestic Stocks	45.3%	48.5%	50.9%	50.3%	50.1%	49.2%
Int'l. Stocks	14.1	16.6	16.6	16.3	16.6	15.6
Bonds	24.2	21.2	21.8	22.1	22.2	23.2
Alternative Assets	10.4	13.3	9.4	10.4	10.3	10.7
Unallocated Cash	2.3	0.4	1.3	0.9	0.8	1.3
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

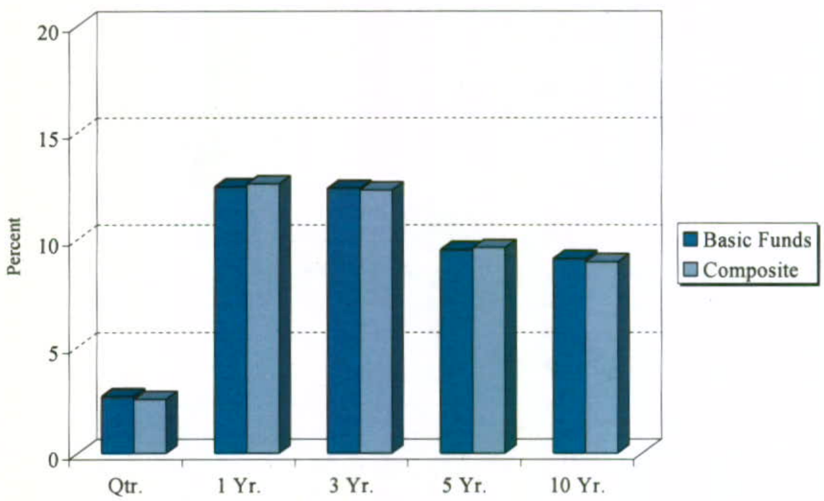
BASIC RETIREMENT FUNDS

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* 1Q07
Domestic Stocks	45.0%	Russell 3000	49.7%*
Int'l. Stocks	15.0	MSCI ACWI Free ex-U.S.	15.0
Bonds	24.0	Lehman Aggregate	24.0
Alternative Investments	15.0	Alternative Investments	10.3*
Unallocated Cash	1.0	3 Month T-Bills	1.0
	100.0%		100.0%

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



Period Ending 3/31/2007

	Qtr.	1 Yr.	3 Yr.	5 Yr. (Annualized)	10 Yr.
Basic Funds**	**2.7%**	**12.5%**	**12.4%**	**9.5%**	**9.1%**
Composite Index	2.5	12.6	12.3	9.6	9.0

**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. Effective July 1, 2003, the Basic and Post Funds share the same alternative pool. Performance of the alternative assets is on page 16.

POST RETIREMENT FUND

The Post Retirement Investment Fund contains the pension assets of retired public employees covered by statewide retirement plans. Approximately 114,000 retirees receive monthly annuities from the assets of the Fund.

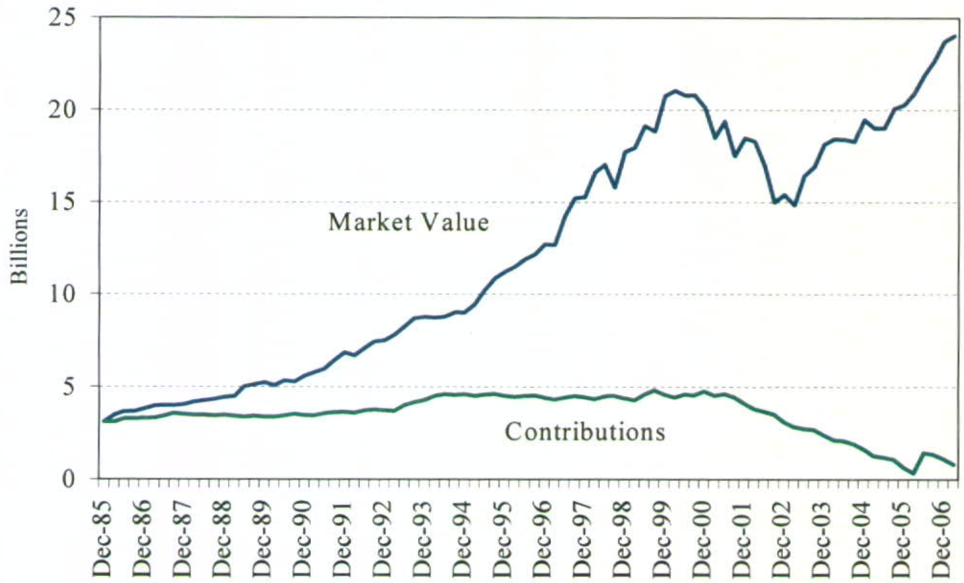
Upon an employee's retirement, a sum of money sufficient to finance the fixed monthly annuity is transferred from accumulation pools in the Basic Funds to the Post Fund. In order to support promised benefits, the Post Fund must "earn" at least 6% on its invested assets on an annualized basis. If the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

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

Asset Growth

The market value of the Post Fund increased 1.3% during the first quarter of 2007.

Positive investment returns accounted for the increase.



Last Five Years
In Millions

	12/02	12/03	12/04	12/05	12/06	Latest Qtr. 3/07
Beginning Value	$18,475	$15,403	$18,162	$19,480	$22,678	$23,733
Net Contributions	-1,000	-719	-749	-984	-240	-300
Investment Return	-2,072	3,478	2,067	1,799	1,295	603
Ending Value	$15,403	$18,162	$19,480	$20,295	$23,733	$24,036

POST RETIREMENT FUND
Asset Mix

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

Domestic Stocks	45.0%
Int'l. Stocks	15.0
Bonds	25.0
Alternative Assets*	12.0
Unallocated Cash	3.0
	100.0%

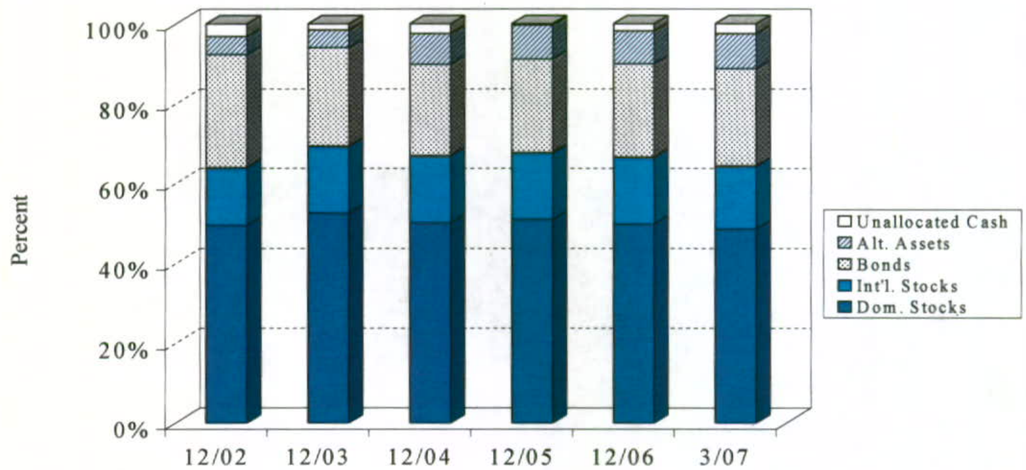
* Alternative assets include equity-oriented real estate, venture capital, resource, and yield-oriented funds. Any uninvested allocation is held in domestic stocks.

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

In October 2003, the Board revised its long term asset allocations for the Post Fund, increasing alternative investments from 5% to 12% and decreasing domestic equity from 50% to 45% and decreasing fixed income from 27% to 25%.

Over the last year, the allocations remained nearly the same as the asset classes with strong returns were rebalanced into fixed income and cash.

During the quarter, assets were rebalanced from international and domestic equities to fixed income and cash.



	Last Five years					Latest Qtr.
	12/02	12/03	12/04	12/05	12/06	3/07
Dom. Stocks	49.6%	52.7%	50.2%	51.1%	49.9%	48.7%
Int'l. Stocks	14.4	16.7	16.8	16.6	16.7	15.7
Bonds	28.3	24.6	22.9	23.5	23.3	24.4
Alt. Assets	4.5	4.4	7.6	8.5	8.3	8.7
Unallocated Cash	3.2	1.6	2.5	0.3	1.8	2.5
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

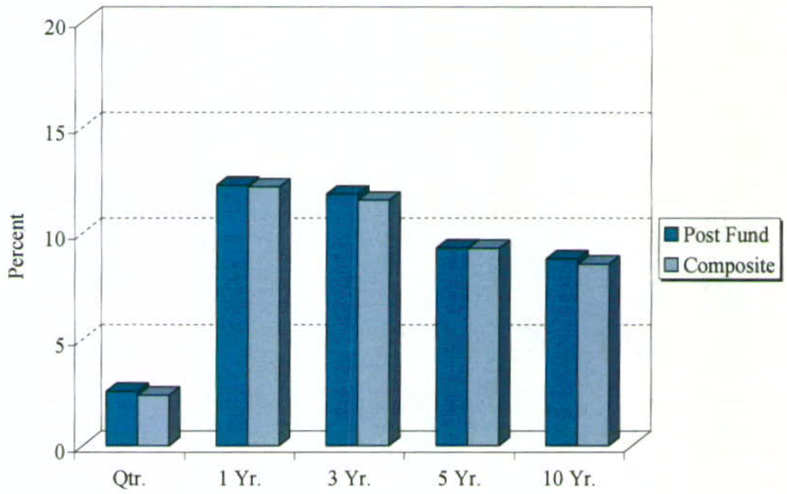
POST RETIREMENT FUND

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* 1Q07
Domestic Stocks	45.0%	Russell 3000	48.8%
Int'l. Stocks	15.0	MSCI ACWI Free ex-U.S.	15.0
Bonds	25.0	Lehman Aggregate	25.0
Alternative Investments	12.0	Alternative Investments	8.2*
Unallocated Cash	3.0	3 Month T-Bills	3.0
	100.0%		100.0%

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



Period Ending 3/31/2007

	Qtr.	1 Yr.	3 Yr.	5 Yr. (Annualized)	10 Yr.
Post Fund**	**2.6%**	**12.3%**	**11.8%**	**9.3%**	**8.8%**
Composite Index	2.4	12.2	11.5	9.3	8.5

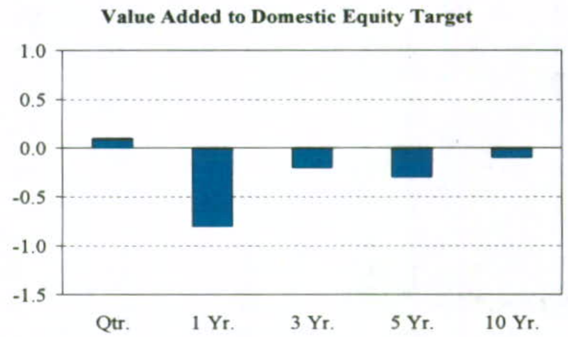
** Returns are reported net of fees.

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. Effective July 1, 2003, the Basic and Post Funds share the same alternative pool. Performance of the alternative assets is on page 16.

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

Domestic Stocks

Target: Russell 3000
Expectation: If one-third of the pool is actively managed, one-third is semi-passively managed, and one-third is passively managed, the entire pool is expected to exceed the target by +.18 - .40% annualized, over time.



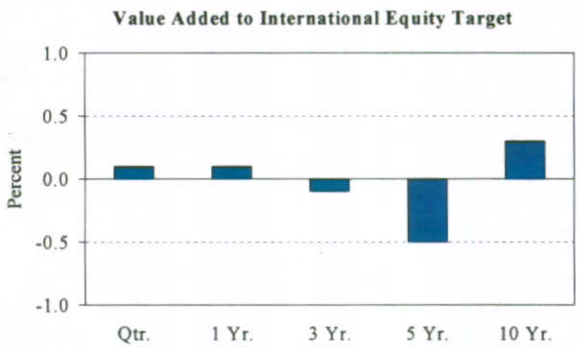
Period Ending 3/31/2007

		Annualized			
	Qtr.	1 Yr.	3 Yr.	5 Yr.	10 Yr.
Domestic Stocks	**1.4%**	**10.5%**	**10.6%**	**7.0%**	**8.2%**
Asset Class Target*	1.3	11.3	10.8	7.3	8.3

* The Domestic Equity Asset Class Target is the Russell 3000 effective 10/1/03. From 7/1/99 to 9/30/03, it was the Wilshire 5000 Investable Index. From 11/1/93 to 6/30/99, the target was the Wilshire 5000 as reported with no adjustments.

International Stocks

Target: MSCI ACWI Free ex U.S. (net)
Expectation: If at least one-third of the pool is managed actively and at least one-third is passively managed, the entire pool is expected to exceed the target by +.25%-.75% annualized, over time.



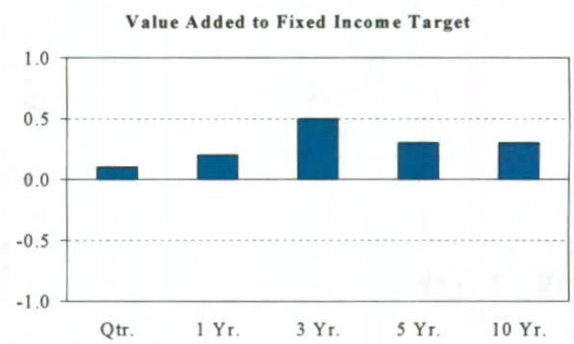
Period Ending 3/31/2007

		Annualized			
	Qtr.	1 Yr.	3 Yr.	5 Yr.	10 Yr.
Int'l. Stocks	**3.9%**	**19.9%**	**20.8%**	**16.4%**	**8.6%**
Asset Class Target*	3.8	19.8	20.9	16.9	8.3

* The Int'l Equity Asset Class Target is MSCI ACWI Free ex U.S. (net) effective 10/1/03. From 1/1/01 to 9/30/03, the target was MSCI EAFE Free (net) + Emerging Markets Free (EMF) (net), and from 7/1/99 to 12/31/00 was MSCI EAFE Free (net) + EMF (gross). From 7/1/99 to 9/30/03, the weight of each index fluctuated with market cap. From 12/31/96 to 6/30/99 the target was fixed at 87% EAFE-Free/13% EMF. On 5/1/96 the portfolio transitioned from 100% EAFE Free to the 12/31/96 fixed weights. 100% EAFE-Free prior to 5/1/96.

Bonds

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.



Period Ending 3/31/2007

		Annualized			
	Qtr.	1 Yr.	3 Yr.	5 Yr.	10 Yr.
Bonds	**1.6%**	**6.8%**	**3.8%**	**5.7%**	**6.8%**
Asset Class Target	1.5	6.6	3.3	5.4	6.5

ALTERNATIVE INVESTMENTS
Performance of Asset Categories
(Net of Fees)

Alternative Investments

Expectation: The alternative investments are measured against themselves using actual portfolio returns.

	Period Ending 3/31/2007		Annualized		
	Qtr.	Yr.	3 Yr.	5 Yr.	10 Yr.
Alternatives	9.9%	25.2%	30.6%	20.6%	17.2%
Inflation	1.8%	2.8%	2.8%	2.7%	2.4%

Real Estate Investments (Equity emphasis)

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

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

	Period Ending 3/31/2007		Annualized		
	Qtr.	Yr.	3 Yr.	5 Yr.	10 Yr.
Real Estate	9.2%	20.8%	20.0%	15.5%	14.9%

Private Equity Investments (Equity emphasis)

Expectation: Private equity investments are expected to exceed the rate of inflation by 10% annualized, over the life of the investment.

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

	Period Ending 3/31/2007		Annualized		
	Qtr.	Yr.	3 Yr.	5 Yr.	10 Yr.
Private Equity	10.5%	22.0%	30.7%	19.5%	16.6%

Resource Investments (Equity emphasis)

Expectation: Resource investments are expected to exceed the rate of inflation by 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 are relatively immature and returns may not be indicative of future results.

	Period Ending 3/31/2007		Annualized		
	Qtr.	Yr.	3 Yr.	5 Yr.	10 Yr.
Resource	26.6%	77.2%	78.5%	46.0%	26.6%

Yield Oriented Investments (Debt emphasis)

Expectation: Yield oriented investments are expected to exceed the rate of inflation by 5.5% annualized, over the life of the investment.

The SBI began its yield oriented program in 1994. Some of the existing investments are relatively immature and returns may not be indicative of future returns.

	Period Ending 3/31/2007		Annualized		
	Qtr.	Yr.	3 Yr.	5 Yr.	10 Yr.
Yield Oriented	4.7%	23.8%	28.7%	20.7%	16.7%

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 Minnesota State Colleges and University's 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.

On March 31, 2007 the market value of the entire Fund was $1.1 billion.

Investment Options

	3/31/2007 Market Value (In Millions)
Income Share Account – a balanced portfolio utilizing both common stocks and bonds.	$252
Growth Share Account – an actively managed, all common stock portfolio.	$119
Common Stock Index Account – a passively managed, all common stock portfolio designed to track the performance of the entire U.S. stock market.	$340
International Share Account – a portfolio of non U.S. stocks that incorporates both active and passive management.	$101
Bond Market Account – an actively managed, all bond portfolio.	$136
Money Market Account – a portfolio utilizing short-term, liquid debt securities.	$81
Fixed Interest Account – a portfolio of guaranteed investment contracts (GIC's) and GIC type investments which offer a fixed rate of return for a specified period of time.	$64

SUPPLEMENTAL INVESTMENT FUND ACCOUNTS

INCOME SHARE ACCOUNT

Investment Objective

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

Asset Mix

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

	Target	Actual
Stocks	60.0%	60.6%
Bonds	35.0	35.1
Unallocated Cash	5.0	4.3
	100.0%	100.0%

Period Ending 3/31/2007

	Qtr.	1 Yr. (Annualized)	3 Yr. (Annualized)	5 Yr. (Annualized)	10 Yr. (Annualized)
Total Account	**1.5%**	**9.8%**	**8.4%**	**6.7%**	**8.0%**
Benchmark*	1.4	9.4	7.9	6.6	7.8

* 60% Russell 3000/35% Lehman Aggregate Bond Index/5% T-Bills Composite since 10/1/03. 60% Wilshire 5000/35% Lehman Aggregate Bond Index/5% T-Bills composite through 9/30/03.

GROWTH SHARE ACCOUNT

Investment Objective

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

Asset Mix

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

Period Ending 3/31/2007

	Qtr.	1 Yr. (Annualized)	3 Yr. (Annualized)	5 Yr. (Annualized)	10 Yr. (Annualized)
Total Account	**1.5%**	**10.1%**	**10.4%**	**6.8%**	**7.9%**
Benchmark*	1.3	11.3	10.8	7.3	8.3

* Russell 3000 since 10/1/03. 100% Wilshire 5000 Investable from July 1999 to September 2003. 100% Wilshire 5000 from November 1996 to June 1999. 95% Wilshire 5000/5% T-Bills Composite through October 1996.

COMMON STOCK INDEX ACCOUNT

Investment Objective and Asset Mix

The investment objective of the Common Stock Index Account is to generate returns that track those of the U.S. stock market as a whole. The Account is designed to track the performance of the Russell 3000, a broad-based equity market indicator.

The Account is invested 100% in common stock.

Period Ending 3/31/2007

	Qtr.	1 Yr. (Annualized)	3 Yr. (Annualized)	5 Yr. (Annualized)	10 Yr. (Annualized)
Total Account	**1.2%**	**11.2%**	**11.0%**	**7.3%**	**8.6%**
Benchmark*	1.3	11.3	10.8	7.3	8.4

* Russell 3000 since 10/1/03. Wilshire 5000 Investable from 7/1/00 to 9/30/03. Wilshire 5000 through 6/30/00.

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. At least twenty-five percent of the Account is "passively managed" and up to 10% of the Account is "semi-passively managed." These portions of the Account are designed to track and modestly outperform, respectively, the return of 22 developed markets included in the Morgan Stanley Capital International World ex U.S. Index. The remainder of the Account is "actively managed" by several international managers and emerging markets specialists who buy and sell stocks in an attempt to maximize market value.

Period Ending 3/31/2007

	Qtr.	1 Yr. (Annualized)	3 Yr. (Annualized)	5 Yr. (Annualized)	10 Yr. (Annualized)
Total Account	**3.9%**	**20.0%**	**20.9%**	**16.6%**	**8.8%**
Benchmark*	3.8	19.8	20.9	16.9	8.3

* The Int'l Equity Asset Class Target is MSCI ACWI Free ex U.S. (net) since 10/1/03. From 1/1/01 to 9/30/03, the target was MSCI EAFE Free (net) + Emerging Markets Free (EMF) (net), and from 7/1/99 to 12/31/00 was MSCI EAFE Free (net) + EMF (gross). From 7/1/99 to 9/30/03, the weight of each index fluctuated with market cap. From 12/31/96 to 6/30/99 the target was fixed at 87% EAFE-Free/13% EMF. On 5/1/96 the portfolio transitioned from 100% EAFE Free to the 12/31/96 fixed weights. 100% EAFE-Free prior to 5/1/96.

SUPPLEMENTAL INVESTMENT FUND ACCOUNTS

BOND MARKET ACCOUNT

Investment Objective
The investment objective of the Bond Market Account is to exceed the return of the broad domestic bond market by investing in fixed income securities.

Period Ending 3/31/2007					
		Annualized			
	Qtr.	1 Yr.	3 Yr.	5 Yr.	10 Yr.
Total Account	**1.6%**	**6.8%**	**3.8%**	**5.7%**	**6.8%**
Lehman Agg.	1.5	6.6	3.3	5.4	6.5

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.

MONEY MARKET ACCOUNT

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

Period Ending 3/31/2007					
		Annualized			
	Qtr.	1 Yr.	3 Yr.	5 Yr.	10 Yr.
Total Account	**1.3%**	**5.0%**	**3.5%**	**2.7%**	**4.0%**
3 month T-Bills	1.3	5.0	3.5	2.6	3.7

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.

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.

Period Ending 3/31/2007					
		Annualized			
	Qtr.	1 Yr.	3 Yr.	5 Yr.	10 Yr.
Total Account	**1.1%**	**4.6%**	**4.4%**	**4.6%**	**5.5%**
Benchmark*	1.3	5.2	4.5	3.8	4.7

* The Fixed Interest Benchmark is the 3 year Constant Maturity Treasury Bill +45 basis points.

Asset Mix
The assets in the Account are **invested primarily in stable value instruments** such as insurance company investment contracts, bank investment contracts, and security backed contracts. These instruments are issued by highly rated U.S. financial institutions, typically have maturities of 3-6 years and are rated "A" or better at the time of purchase. The interest rate credited will change, reflecting the blended interest rate available from all investments in the account including cash reserves which are maintained to provide liquidity. The Fixed Interest Benchmark in the 3 year Constant Maturity Treasury Bill +45 basis points.

DEFERRED COMPENSATION PLAN ACCOUNTS

The Deferred Compensation Plan provides public employees with a tax-sheltered retirement savings plan that is a supplement to their primary retirement plan. (In most cases, the primary plan is a defined benefit plan administered by TRA, PERA, or MSRS.)

Participants choose from 6 actively managed mutual funds and 5 passively managed mutual funds.

The SBI also offers a money market option, a fixed interest option, and a fixed fund option. All provide for daily pricing needs of the plan administrator. Participants may also choose from hundreds of funds in a mutual fund window. The current plan structure became effective March 1, 2004. The investment options and objectives are outlined below.

Investment Options

	3/31/2007 Market Value (in Millions)
Vanguard Institutional Index (passive)	$472
Janus Twenty (active)	$363
Legg Mason Appreciation Y (active)	$125
Vanguard Mid Cap Index (passive)	$133
T. Rowe Price Small Cap (active)	$411
Fidelity Diversified International (active)	$276
Vanguard Institutional Developed Markets (passive)	$80
Dodge & Cox Balanced Fund (active)	$294
Vanguard Balanced Fund (passive)	$175
Dodge & Cox Income Fund (active)	$88
Vanguard Total Bond Market Fund (passive)	$52
Money Market Account	$66
Fixed Interest Account	$131
Fixed Fund	$754

DEFERRED COMPENSATION PLAN ACCOUNTS

LARGE CAP EQUITY

Vanguard Institutional Index (passive)

- A passive domestic stock portfolio that tracks the S&P 500.

Period Ending 3/31/2007

	Qtr.	Annualized 1 Yr.	3 Yr.	5 Yr.
Fund	**0.6%**	**11.8%**	**10.1%**	**6.3%**
S&P 500	0.6	11.8	10.1	6.3

Janus Twenty (active)

- A concentrated fund of large cap stocks which is expected to outperform the S&P 500, over time.

Period Ending 3/31/2007

	Qtr.	Annualized 1 Yr.	3 Yr.	5 Yr.
Fund	**2.6%**	**11.9%**	**14.0%**	**9.6%**
S&P 500	0.6	11.8	10.1	6.3

Legg Mason Partners Appreciation Y (active)

- A diversified fund of large cap stocks which is expected to outperform the S&P 500, over time.

Period Ending 3/31/2007

	Qtr.	Annualized 1 Yr.	3 Yr.	Since 12/1/03
Fund	**-0.3%**	**9.9%**	**8.7%**	**10.0%**
S&P 500	0.6	11.8	10.1	11.3

MID CAP EQUITY

Vanguard Mid Cap Index (passive)

- A fund that passively invests in companies with medium market capitalizations that tracks the Morgan Stanley Capital International (MSCI) U.S. Midcap 450 index.

Period Ending 3/31/2007

	Qtr.	Annualized 1 Yr.	3 Yr.	Since 1/1/04
Fund	**4.6%**	**10.6%**	**16.0%**	**16.3%**
MSCI US Mid-Cap 450	4.6	10.6	16.0	16.3

SMALL CAP EQUITY

T. Rowe Price Small Cap (active)

- A fund that invests primarily in companies with small market capitalizations and is expected to outperform the Russell 2000.

Period Ending 3/31/2007

	Qtr.	Annualized 1 Yr.	3 Yr.	5 Yr.
Fund	**2.6%**	**4.1%**	**12.5%**	**10.2%**
Russell 2000	1.9	5.9	12.0	10.9

INTERNATIONAL EQUITY

Fidelity Diversified International (active)

- A fund that invests primarily in stocks of companies located outside the United States and is expected to outperform the MSCI index of Europe, Australasia and the Far East (EAFE), over time.

Period Ending 3/31/2007

	Qtr.	Annualized 1 Yr.	3 Yr.	5 Yr.
Fund	**3.1%**	**15.2%**	**18.4%**	**17.4%**
MSCI EAFE	4.1	20.2	19.8	15.8

Vanguard Institutional Developed Markets (passive)

- A fund that passively invests in stocks of companies located outside the United States that tracks the MSCI EAFE index.

Period Ending 3/31/2007

	Qtr.	Annualized 1 Yr.	3 Yr.	Since 12/1/03
Fund	**4.3%**	**20.6%**	**20.0%**	**22.1%**
MSCI EAFE	4.1	20.2	19.8	21.9

DEFERRED COMPENSATION PLAN ACCOUNTS

BALANCED

Dodge & Cox Balanced Fund (active)

A fund that invests in a mix of stock and bonds. The fund invests in mid-to large-cap stocks and in high quality bonds, and is expected to outperform a weighted benchmark of 60% S&P 500/40% Lehman Aggregate, over time.

Period Ending 3/31/2007				
			Annualized	
	Qtr.	1 Yr.	3 Yr.	Since 10/1/03
Fund	**1.6%**	**11.7%**	**10.3%**	**13.0%**
Benchmark	1.0	9.8	7.4	9.1

Vanguard Balanced Fund (passive)

- A fund that passively invests in a mix of domestic stocks and bonds. The fund is expected to track a weighted benchmark of 60% MSCI US Broad Market Index/40% Lehman Aggregate.

Period Ending 3/31/2007				
			Annualized	
	Qtr.	1 Yr.	3 Yr.	Since 12/1/03
Fund	**1.4%**	**9.4%**	**8.0%**	**9.0%**
Benchmark	1.4	9.4	7.9	9.0

FIXED INCOME

Dodge & Cox Income Fund (active)

- A fund that invests primarily in investment grade securities in the U.S. bond market which is expected to outperform the Lehman Aggregate, over time.

Period Ending 3/31/2007				
			Annualized	
	Qtr.	1 Yr.	3 Yr.	5 Yr.
Fund	**1.4%**	**6.7%**	**3.5%**	**5.6%**
Lehman Agg.	1.5	6.6	3.3	5.4

Vanguard Total Bond Market Fund (passive)

- A fund that passively invests in a broad, market-weighted bond index that is expected to track the Lehman Aggregate.

Period Ending 3/31/2007				
			Annualized	
	Qtr.	1 Yr.	3 Yr.	Since 12/1/03
Fund	**1.5%**	**6.7%**	**3.3%**	**4.1%**
Lehman Agg.	1.5	6.6	3.3	4.1

Money Market Account

- A fund that invests in short-term debt instruments which is expected to outperform the return on 3-month U.S. Treasury Bills.

Period Ending 3/31/2007				
			Annualized	
	Qtr.	1 Yr.	3 Yr.	5 Yr.
Fund	**1.3%**	**5.0%**	**3.5%**	**2.7%**
3-Mo. Treas.	1.3	5.0	3.5	2.6

FIXED INTEREST ACCOUNT

- A portfolio composed of stable value instruments which are primarily investment contracts and security backed contracts. The account is expected to outperform the return of the 3 year Constant Maturity Treasury + 45 basis points, over time.

Period Ending 3/31/2007				
			Annualized	
	Qtr.	1 Yr.	3 Yr.	5 Yr.
Fund	**1.2%**	**4.7%**	**4.4%**	**4.7%**
Benchmark	1.3	5.2	4.5	3.8

FIXED FUND

- The Fixed Fund invests participant balances in the general accounts of three insurance companies that have been selected by the SBI. The three insurance companies provide a new rate each quarter. A blended yield rate is calculated and then credited to the participants.

Period Ending 3/31/2007

The quarterly blended rate is: 4.54%

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.

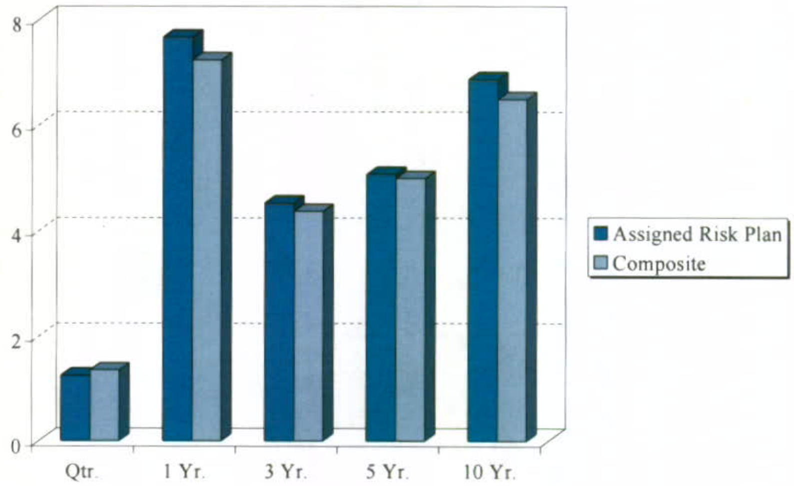
Asset Mix
The Assigned Risk Plan is invested in a portfolio of common stocks and bonds. The actual asset mix will fluctuate in response to changes in the Plan's liability stream.

	3/31/2007 Target	3/31/2007 Actual
Stocks	20.0%	23.7%
Bonds	80.0	76.3
Total	100.0%	100.0%

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

Performance Benchmarks
A custom benchmark has been established for the fixed income portfolio. It reflects the duration of the liability stream and the long-term sector allocation of Voyageur Asset Management. Since July 1, 1994, the equity benchmark has been the S&P 500 index. 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 March 31, 2007 the market value of the Assigned Risk Plan was $342 million.



Period Ending 3/31/2007

	Qtr.	1 Yr.	3 Yr.	5 Yr.	10 Yr.
		Annualized			
Total Fund*	**1.3%**	**7.7%**	**4.5%**	**5.1%**	**6.9%**
Composite	1.4	7.2	4.4	5.0	6.5
Equity Segment*	**0.1**	**11.8**	**8.8**	**4.8**	**8.8**
Benchmark	0.6	11.8	10.1	6.3	8.2
Bond Segment*	**1.6**	**6.4**	**3.3**	**4.6**	**5.5**
Benchmark	1.5	6.1	2.9	4.5	5.8

* Actual returns are calculated net of fees.

PERMANENT SCHOOL FUND

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

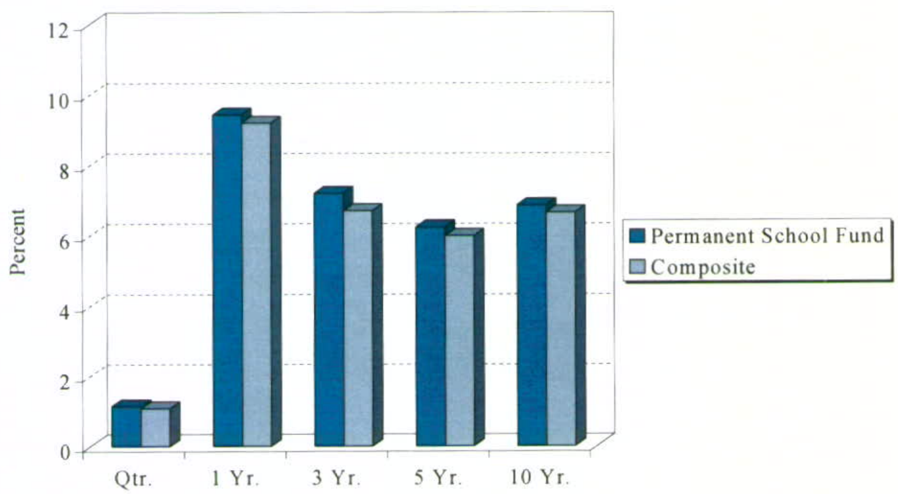
Asset Mix
Effective with FY98, the Permanent School Fund is invested in a balanced portfolio of common stocks and bonds. Common stocks provide the potential for significant capital appreciation, while bonds provide portfolio diversification and a more stable stream of current income.

	3/31/2007 Target	3/31/2007 Actual
Stocks	50.0%	51.1%
Bond	48.0	47.1
Unallocated Cash	2.0	1.8
Total	100.0%	100.0%

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

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

Market Value
On March 31, 2007 the market value of the Permanent School Fund was $700 million.



Period Ending 3/31/2007

	Qtr.	1 Yr. (Annualized)	3 Yr. (Annualized)	5 Yr. (Annualized)	10 Yr. (Annualized)
Total Fund (1) (2)	**1.1%**	**9.4%**	**7.2%**	**6.2%**	**6.9%**
Composite	1.1	9.2	6.7	6.0	6.7
Equity Segment (1) (2)	**0.6**	**11.9**	**10.1**	**6.4**	**N/A**
S&P 500	0.6	11.8	10.1	6.3	N/A
Bond Segment (1)	**1.7**	**7.0**	**4.2**	**5.8**	**6.8**
Lehman Aggregate	1.5	6.6	3.3	5.4	6.5

(1) Actual returns are calculated net of fees.
(2) Equities were added to the asset mix for FY98. Prior to that date the fund was invested entirely in bonds. The composite Index has been weighted accordingly.

ENVIRONMENTAL TRUST FUND

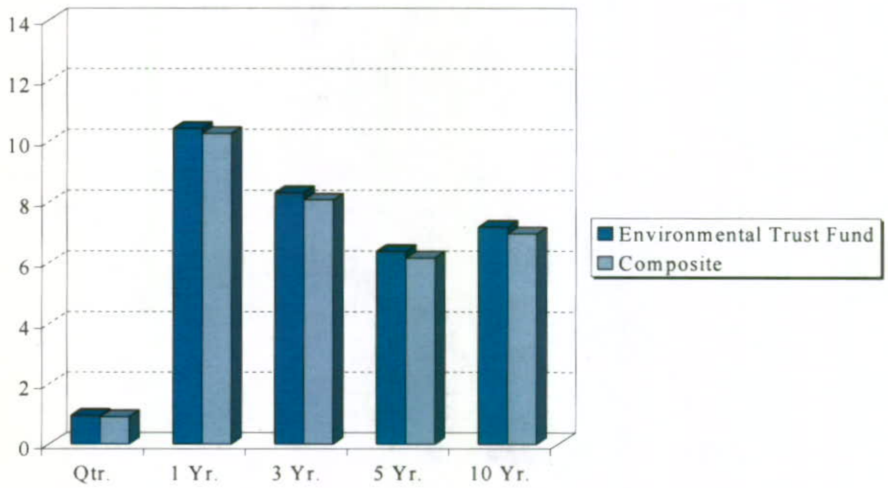
Investment Objective
The objective of the Environmental Trust Fund is to increase the market value of the Fund over time in order to increase the annual amount made available for spending.

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. As of July 1, 1999, the asset allocation changed from 50% stocks/50% fixed income to 70% stocks /30% fixed income.

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 March 31, 2007 the market value of the Environmental Trust Fund was $471 million.

	3/31/2007 Target	3/31/2007 Actual
Stocks	70.0%	69.7%
Bonds	28.0	29.7
Unallocated Cash	2.0	0.6
Total	100.0%	100.0%



Period Ending 3/31/2007

	Qtr.	Annualized 1 Yr.	3 Yr.	5 Yr.	10 Yr.
Total Fund*	**1.0%**	**10.4%**	**8.3%**	**6.4%**	**7.2%**
Composite	0.9	10.2	8.1	6.1	6.9
Equity Segment*	**0.6**	**11.9**	**10.1**	**6.4**	**8.3**
S&P 500	0.6	11.8	10.1	6.3	8.2
Bond Segment*	**1.7**	**7.0**	**4.2**	**5.9**	**7.0**
Lehman Agg.	1.5	6.6	3.3	5.4	6.5

* Actual returns are calculated net of fees.

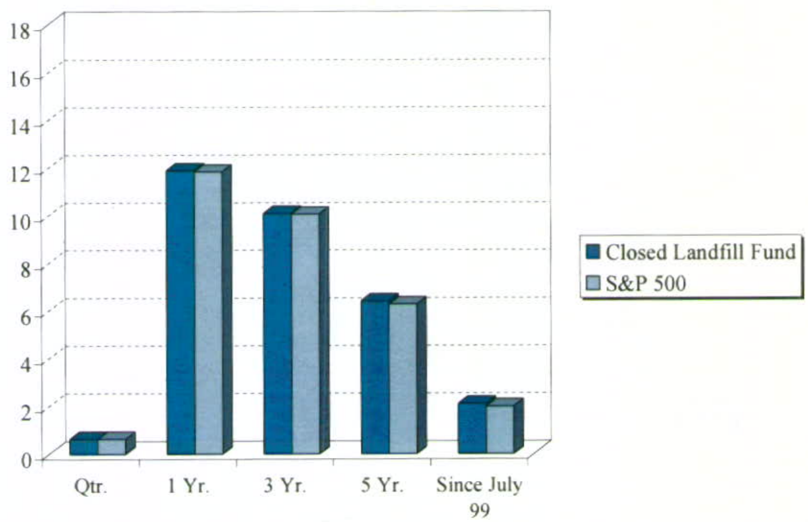
CLOSED LANDFILL INVESTMENT FUND

Investment Objectives
The investment objective of the Closed Landfill Investment Fund is to generate high returns from capital appreciation. The Fund will be used by the Commissioner of the PCA (Pollution Control Agency) to pay for the long-term costs of maintaining the integrity of landfills in Minnesota once they are closed. However, by statute, the assets of the Fund are unavailable for expenditure until after fiscal year 2020.

Asset Mix
Effective July 1999, the Closed Landfill Investment Fund is invested entirely in common stock. Given the long time horizon of this Fund and the lack of need for any short or mid-term withdrawals, this strategy will maximize the long-term gain of the Fund.

Investment Management
SBI staff manage all assets of the Closed Landfill Investment Fund. The assets are managed to passively track the performance of the S&P 500 index.

Market Value
On March 31, 2007, the market value of the Closed Landfill Investment Fund was $53.0 million.



Period Ending 3/31/2007

	Qtr.	1 Yr.	Annualized 3 Yr.	5 Yr.	Since 7/1/1999
Total Fund (1)	**0.6%**	**11.9%**	**10.1%**	**6.4%**	**2.1%**
S&P 500 (2)	0.6	11.8	10.1	6.3	2.0

(1) Actual returns are calculated net of fees.
(2) The benchmark of the fund is the S&P 500. The portfolio was initially invested in mid July 1999. The benchmark was adjusted to reflect this mid month starting period.

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 temporary cash balances of certain trusts and retirement-related accounts.

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

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

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

Investment Objectives

Safety of Principal. To preserve capital.

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

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

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

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

Period Ending 3/31/2007

	Market Value (Millions)	Qtr.	1 Yr.	Annualized 3 Yr.	5 Yr.	10 Yr.
Treasurer's Cash Pool*	**$4,952**	**1.3%**	**5.3%**	**3.6%**	**2.8%**	**4.2%**
Custom Benchmark**		1.2	4.7	3.0	2.2	3.7
Trust Fund Cash Pool*	**$35**	**1.3**	**5.3**	**3.6**	**2.7**	**4.0**
Custom Benchmark***		1.2	4.7	3.0	2.1	3.4
3 month T-Bills		1.3	5.0	3.5	2.6	3.7

* Actual returns are calculated net of fees.

** Beginning in January 2003, the Treasurer's Cash Pool is measured against the iMoneyNet, All Taxable Money Fund Report Average. From January 1997 to December 2002 the fund was measured against a blended benchmark consisting of the Lehman Brother's 1-3 year Government Index and the iMoneyNet, All Taxable Money Fund Report Average. The proportion of each component of the blended benchmark is adjusted periodically as the asset allocation of the Cash Pool is modified. From April 1993 through December 1996, the benchmark was 75% State Street Short Term Investment Fund/25% Lehman Brothers 1-3 Year Treasury Index.

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

MINNESOTA STATE BOARD OF INVESTMENT
Composition of State Investment Portfolios By Type of Investment
Market Value March 31, 2007 (in Thousands)

	Cash and Short term Securities	Bonds Internal	Bonds External	Stocks Internal	Stocks External	External Int'l	Alternative Assets	Total
BASIC RETIREMENT FUNDS:								
Teachers Retirement Fund	118,419	0	1,885,622	0	4,005,697	1,265,617	868,830	8,144,185
	1.45%		23.15%		49.19%	15.54%	10.67%	100%
Public Employees Retirement Fund	89,768	0	1,571,825	0	3,338,569	1,054,999	724,231	6,779,392
	1.32%		23.19%		49.25%	15.56%	10.68%	100%
State Employees Retirement Fund	66,091	0	1,285,735	0	2,730,912	862,977	592,385	5,538,100
	1.19%		23.22%		49.31%	15.58%	10.70%	100%
Public Employees Police & Fire	36,191	0	703,671	0	1,494,785	472,380	324,427	3,031,454
	1.20%		23.21%		49.31%	15.58%	10.70%	100%
Highway Patrol Retirement Fund	2,903	0	56,503	0	120,013	37,924	26,034	243,377
	1.19%		23.22%		49.31%	15.58%	10.70%	100%
Judges Retirement Fund	642	0	12,450	0	26,444	8,357	5,734	53,627
	1.20%		23.22%		49.31%	15.58%	10.69%	100%
Correctional Employees Retirement	3,476	0	67,025	0	142,605	45,095	31,170	289,371
	1.20%		23.16%		49.28%	15.59%	10.77%	100%
Public Employees Correctional	3,811	0	35,274	0	74,921	23,675	16,255	153,936
	2.48%		22.91%		48.67%	15.38%	10.56%	100%
TOTAL BASIC FUNDS	321,301	0	5,618,105	0	11,933,946	3,771,024	2,589,066	24,233,442
	1.33%		23.18%		49.25%	15.56%	10.68%	100%
POST RETIREMENT FUND	613,472	0	5,862,617	0	11,701,181	3,779,545	2,073,925	24,030,740
	2.55%		24.40%		48.69%	15.73%	8.63%	100%
TOTAL BASIC AND POST	934,773	0	11,480,722	0	23,635,127	7,550,569	4,662,991	48,264,182
	1.94%		23.79%		48.97%	15.64%	9.66%	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	10,765	88,614	0	0	152,755	0	0	252,134
	4.27%	35.15%			60.58%			100%
Growth Share Account	0	0	0	0	119,548	0	0	119,548
					100.00%			100%
Money Market Account	80,830	0	0	0	0	0	0	80,830
	100.00%							100%
Common Stock Index	0	0	0	0	339,980	0	0	339,980
					100.00%			100%
Bond Market Account	0	0	135,892	0	0	0	0	135,892
			100.00%					100%
International Share Account	0	0	0	0	0	100,638	0	100,638
						100.00%		100%
Fixed Interest Account	665	0	63,253	0	0	0	0	63,918
	1.04%		98.96%					100%
TOTAL SUPPLEMENTAL FUNDS	92,260	88,614	199,145	0	612,283	100,638	0	1,092,940
	8.44%	8.11%	18.22%		56.02%	9.21%		100%
MN DEFERRED COMP PLAN *	65,905	0	1,333,334	0	1,663,926	355,610	0	3,418,775
	1.93%		39.00%		48.67%	10.40%		100%
TOTAL RETIREMENT FUNDS	1,092,938	88,614	13,013,201	0	25,911,336	8,006,817	4,662,991	52,775,897
	2.07%	0.17%	24.66%		49.10%	15.17%	8.83%	100%

* includes assets in the MN Fixed Fund,
which are invested with three insurance cos.

	Cash and Short Term Securities	Bond Internal	Bond External	Stock Internal	Stock External	External Int'l	Alternative Assets	Total
ASSIGNED RISK PLAN	2,626	0	259,392	0	80,222	0	0	342,240
	0.77%		75.79%		23.44%			100%
ENVIRONMENTAL FUND	2,750	139,963	0	328,713	0	0	0	471,426
	0.58%	29.69%		69.73%				100%
PERMANENT SCHOOL FUND	12,384	330,035	0	358,043	0	0	0	700,462
	1.77%	47.12%		51.11%				100%
CLOSED LANDFILL INVESTMENT	103	0	0	53,207	0	0	0	53,310
	0.19%			99.81%				100%
TREASURERS CASH	4,953,843	0	0	0	0	0	0	4,953,843
	100.00%							100%
HOUSING FINANCE AGENCY	31,742	163,013	0	0	0	0	0	194,755
	16.30%	83.70%						100%
MINNESOTA DEBT SERVICE FUND	0	183,783	0	0	0	0	0	183,783
		100.00%						100%
MISCELLANEOUS ACCOUNTS	35,750	97,009	0	114,704	0	0	0	247,463
	14.45%	39.20%		46.35%				100%
TOTAL CASH AND NON-RETIREMENT	5,039,198	913,803	259,392	854,667	80,222	0	0	7,147,282
	70.50%	12.79%	3.63%	11.96%	1.12%			100%
GRAND TOTAL	6,132,136	1,002,417	13,272,593	854,667	25,991,558	8,006,817	4,662,991	59,923,179
	10.23%	1.67%	22.15%	1.43%	43.38%	13.36%	7.78%	100%

Tab B

EXECUTIVE DIRECTOR'S ADMINISTRATIVE REPORT

DATE: May 29, 2007

TO: Members, State Board of Investment

FROM: Howard Bicker

1. Reports on Budget and Travel

A report on the SBI's administrative budget for the period ending April 30, 2007 is included as **Attachment A**.

A report on travel for the period from February 16, 2007 – April 30, 2007 is included as **Attachment B**.

2. Legislative Update

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

3. Litigation Update

SBI legal counsel will give the Board a verbal update on the status of the litigation at the Board meeting on June 6, 2007.

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ATTACHMENT A

STATE BOARD OF INVESTMENT
FISCAL YEAR 2007 ADMINISTRATIVE BUDGET REPORT
FISCAL YEAR TO DATE THROUGH APRIL 30, 2007

ITEM	FISCAL YEAR 2007 BUDGET	FISCAL YEAR 2007 ACTUAL
PERSONAL SERVICES		
FULL TIME EMPLOYEES	$ 1,975,000	$ 1,494,704
PART TIME EMPLOYEES		$ 35,179
SEVERENCE PAYOFF	32,000	33,929
WORKERS COMPENSATION INSURANCE	1,000	777
MISCELLANEOUS PAYROLL	2,000	0
SUBTOTAL	**$ 2,010,000**	**$ 1,564,589**
STATE OPERATIONS		
RENTS & LEASES	210,000	170,777
REPAIRS/ALTERATIONS/MAINTENANCE	8,000	3,840
PRINTING & BINDING	8,000	6,492
PROFESSIONAL/TECHNICAL SERVICES	0	0
COMPUTER SYSTEMS SERVICES	10,000	8,535
COMMUNICATIONS	20,000	18,633
TRAVEL, IN-STATE	1,000	236
TRAVEL, OUT-STATE	50,000	35,352
SUPPLIES	30,000	17,627
EQUIPMENT	20,000	11,865
EMPLOYEE DEVELOPMENT	10,000	7,562
OTHER OPERATING COSTS	8,000	7,873
SUBTOTAL	**$ 375,000**	**$ 288,792**
ORIGINAL BUDGET	**$ 2,385,000**	**$ 1,853,381**
ADJUSTMENTS TO ORIGINAL BUDGET	**$ 0**	
TOTAL	**$ 2,385,000**	**$ 1,853,381**

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ATTACHMENT B

STATE BOARD OF INVESTMENT

Travel Summary by Date
SBI Travel February 16, 2007 – April 30, 2007

Purpose	Name(s)	Destination and Date	Total Cost
Manager Monitoring: **Domestic Equity Managers:** Franklin Portfolio Associates; Martingale Asset Mgmt.; Sands Capital Mgmt.; Turner Investment Partners **Manager Search:** **Domestic Equity Managers:** State Street Global Advisors (Enhanced Index); Wellington **Master Custodian:** State Street Bank	S. Sutton P. Ammann	Boston, MA Philadelphia, PA Arlington, VA 2/26-3/1	$2,949.43
Manager Monitoring: **Domestic Bond Managers:** Dodge & Cox Investment Mgmt.; Western Asset Mgmt.	M. Menssen T. Brusehaver	San Francisco, CA Pasadena, CA 3/6-3/8	1,957.10
Conference: U.S. Pensions Summit sponsored by: Marcus Evans Summits	H. Bicker	Colorado Springs, CO. 3/11-3/13	442.91
Conference: Money Markets Expo 2007 sponsored by: Institute for International Research	J. Kirby	Orlando, FL 3/19-3/22	3,920.86
Conference: National Association of State Investment Professionals (NASIP)	M. Menssen	Phoenix, AZ 4/8-4/11	1,881.80

Purpose	Name(s)	Destination and Date	Total Cost
Manager Monitoring: Alternative Investment Manager: Merit Energy Company Annual Meeting	J. Griebenow	Dallas, TX 4/16-4/18	$508.80
Manager Monitoring: Alternative Investment Managers: Court Square Capital; Diamond Castle; DLJ Investment Partners; First Reserve Annual Meeting; Goldman Sachs Mezzanine; Goldman Sachs Capital Partners; Lehman Brothers Real Estate; Morgan Stanley Prime Property Fund; Thomas McNerney Partners; UBS Realty; Warburg Pincus Annual Meeting	A. Christensen	Hartford, CT New York, NY 4/23-4/27	2,129.90
Other: Wyeth Annual Meeting **Manager Monitoring: Alternative Investment Manager:** Goldman Sachs Capital Partners	M. Perry	Morristown, NJ 4/25-4/27	1,046.91

ATTACHMENT C

Bills of Interest to the Minnesota State Board of Investment
2007 Legislative Session
Includes Action Through 5/23/07

Description of Bill	HF/SF # and Author	Current Status
Duluth Other Post Retirement Benefits - Trust Fund - SBI invests assets	Chapter 14	Signed by Governor 3/30
State Gov't Finance Bill SBI Budget - General Fund Appropriation	**H.F. 548 (Simon)**	5/21 Passed by House 5/21 Passed by Senate
Sudan - Divesting of companies in Sudan	H.F. 1332 (Clark) **S.F. 1075 (Pappas)**	Signed by Governor 5/23
Omnibus Pension bill - Minneapolis Employees Retirement Fund may invest with SBI	H.F. 1978 (M. Murphy) article 8, section 2 **S.F. 430 (Betzold)** article 8, section 2	Presented to Governor 5/22
Omnibus Tax Bill Statewide Other Post Retirement Benefits - Trust Funds - SBI as one investment option	**H.F. 2268 (Lenczewski)**	5/21/ Passed by House 5/21 Passed by Senate

Tab C

COMMITTEE REPORT

DATE: May 29, 2007

TO: Members, State Board of Investment

FROM: SBI Administrative Committee

The Administrative Committee met on May 23, 2007 to consider the following agenda items:

- Review of Executive Director's Proposed Workplan for FY08
- Review of Budget Plan for FY08
- Review of Continuing Fiduciary Education Plan
- Review of Executive Director's Evaluation Process
- Update of Disaster Recovery Plan

Action is required by the SBI on the first four items.

1. Review of Executive Director's Proposed Workplan for FY08.

The Executive Director's Proposed Workplan for FY08 was presented. As in previous workplans, the FY08 plan follows the same category order found in the Executive Director's position description. The plan is a compilation of on-going responsibilities as well as the new initiatives the Executive Director will undertake during the next fiscal year.

A summary of the proposed plan is shown in **Attachment A** on **page 5** of this Tab. Supporting information was sent to each Board member in May 2006 as part of the FY08 Management and Budget Plan document.

RECOMMENDATION:

The Committee recommends that the SBI approve the FY08 Executive Director's Workplan. Further, the Committee recommends that the workplan serve as the basis for the Executive Director's performance evaluation for FY08.

2. **FY08 Administrative Budget Plan.**

The SBI's Administrative budget is set annually by the Board with direct charge back to entities that invest with the SBI. The general fund appropriation for the management of general fund assets is appropriated by the Legislature.

An overview of the budget is **Attachment B** on **page 7** of this tab. Supporting information was sent to each Board member in May 2007 as part of the FY08 Management and Budget Plan.

RECOMMENDATION:

The Committee recommends that the SBI approve the FY08 Administrative Budget Plan, as presented to the Committee, and that the Executive Director has the flexibility to reallocate funds between budget categories if the Executive Director deems necessary.

3. **Review of Continuing Fiduciary Education Plan.**

Minnesota Statutes Chapter 356A requires each public pension plan to establish a continuing education plan for its fiduciaries. The plan approved by the Committee is in **Attachment C** on **page 9** of this Tab. Please note that the travel allocation policy for Board members and their designees is included in the plan.

RECOMMENDATION:

The Committee recommends that the SBI adopt the attached Continuing Fiduciary Education Plan.

4. **Review of Executive Director's Evaluation Process.**

The Committee discussed the process that will be used by the Board to evaluate the Executive Director for FY07. The Committee members agreed that the performance reviews should be completed prior to the September 2007 meeting of the SBI and should follow the process used in the past.

RECOMMENDATION:

The Committee recommends that the SBI adopt the following process for the Executive Director's FY07 performance evaluation:

- **The evaluation will be completed prior to the September 2007 meeting of the SBI and will be based on the results of the Executive Director's workplan for FY07.**

- **The SBI deputies/designees will develop an appropriate evaluation form for use by each member, which will reflect the categories in the Executive Director's position description and workplan.**

- **As the Chair of the Board, the Governor's representative (Department of Finance), will coordinate distribution and collection of the evaluation forms and will forward the completed forms to the Executive Director. Board members are encouraged to meet individually with the Executive Director to review their own evaluation.**

5. **Update of Disaster Recovery Plan.**

Staff updated the Committee regarding the SBI's Disaster Recovery Plan. The plan provides information and procedures required to respond to an emergency.

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ATTACHMENT A

STATE BOARD OF INVESTMENT
Executive Director's Proposed Workplan

FY08

(Categories A, B, C, D, E correspond to the position description)

	Projected Time Frame
A. DEVELOPMENT OF INVESTMENT POLICIES	
1. Develop Plan to Manage Assets to Support Local Government Other Post Retirement Employee Benefit Plans	Jul - Sep
2. Review Fixed Fund and Fixed Interest Account in Deferred Compensation Plan	Apr - Aug
3. Research Alternative Indexing Approaches	Jul - Mar
4. Research Portable Alpha Strategies	Aug - Dec
5. Research the Use of Long-Short Portfolios	Jul - Jun
B. IMPLEMENTATION OF INVESTMENT POLICIES APPROVED BY THE SBI	
1. Meet or exceed the performance objectives	Ongoing
2. Implement Board Resolution Concerning Sudan	May-Oct
3. Conduct Investment Manager Compliance Review of Guidelines and Contracts	Ongoing
4. Maintain External Investment Manager Short Lists	Ongoing
5. Investments with New/Existing Alternative Asset Managers	On-going

C. REVIEW AND CONTROL OF INVESTMENT POLICIES

1. Monitor and Evaluate Investment Manager Performance	On-going
2. Annual Review of Investment Manager Guidelines	Mar - Jun
3. Monitor Implementation of Northern Ireland Mandate	Aug - Mar
4. Provide Staff Support to Proxy Committee for Proxy Voting and Shareholder Initiatives	Jul - Jun

D. ADMINISTRATION AND MANAGEMENT OF STAFF OPERATIONS

1. RFP for Accounting System	Jun - Dec
2. Coordinate Financial Audit by Legislative Auditor	Jul - Dec
3. Prepare 2008 Legislative package	Sep - May
4. Prepare FY09 Management and Budget Plan	Jan - Jun
5. Update Disaster Recovery Plan	Apr

E. COMMUNICATION AND REPORTING

1. Prepare reports on investment results	Qtly
2. Prepare status reports	As requested
3. Meet with SBI and IAC	Qtly
4. Meet with Board's designees	Qtly
5. Prepare FY 2007 Annual Report	Jul - Jan
6. Prepare Annual SIF Investment Options Prospectus	May - Aug
7. Coordinate Public Pension Plan Performance Reporting Disclosure	On-going
8. Conduct Manager Round Tables	Periodic

Administrative Budget
FY 08 – 09 Budget Plan
Overview

The FY 08 – 09 budget request is based on budget procedures instituted by the Department of Finance.

New statutory authority was passed during the 2006 legislative session to establish a fixed amount from the General Fund and to have the balance of the MSBI's budget billed to organizations that use the MSBI's services. This new authority was used to generate the fiscal year 2007 budget and also is the basis for the 2008 – 2009 budget projections.

	FY07 Budget	FY07 Projected	FY08 Request	FY09 Request
Personnel Services	$2,061,000	$1,884,940	$2,065,000	$2,225,000
Operating Expense	374,000	361,060	370,000	390,000
	$2,435,000	**$2,246,000**	**$2,435,000**	**$2,615,000**

Personnel Services: **85% of the budget**
Salaries, retirement, insurance, FICA, severance

Operating Expenses: **15% of the budget**
Rents, leases, printing, data processing
Professional/technical contracts
Communications, travel, employee development, misc. fees
Office equipment, furnishings, supplies

STATE BOARD OF INVESTMENT
FISCAL YEAR 2008 BUDGET PLAN

DESCRIPTION	FY2004 ACTUAL	FY2005 ACTUAL	FY2006 ACTUAL	FY2007 PROJECTED	FY2008 BUDGET
PERSONNEL SERVICES					
FULL TIME EMPLOYEES	$ 1,747,375	$ 1,703,189	$ 1,765,555	$ 1,800,000	$ 1,975,000
PART TIME EMPLOYEES	-		0	50,000	50,000
SEVERENCE PAYOFF	38,414	-	0	33,930	35,000
WORKERS COMPENSATION INSURANCE	860	860	994	860	1,000
MISCELLANEOUS PAYROLL	148	-	0	150	4,000
SUBTOTAL	$ 1,786,797	$ 1,704,049	$ 1,766,549	$ 1,884,940	$ 2,065,000
STATE OPERATIONS					
RENTS & LEASES	193,919	199,898	205,851	205,000	205,000
REPAIRS/ALTERATIONS/MAINTENANCE	14,527	7,484	5,628	8,060	10,000
PRINTING & BINDING	5,381	4,968	5,040	7,000	10,000
PROFESSIONAL/TECHNICAL SERVICES	-	-	-	0	-
COMPUTER SYSTEMS SERVICES	10,100	10,229	10,642	10,000	10,000
COMMUNICATIONS	19,903	20,641	20,828	23,000	30,000
TRAVEL, IN-STATE	252	441	468	500	1,000
TRAVEL, OUT-STATE	28,920	30,035	30,952	43,500	35,000
SUPPLIES	22,919	31,327	24,025	27,000	35,000
EQUIPMENT	-	23,509	43,210	15,000	15,000
EMPLOYEE DEVELOPMENT	6,780	10,244	12,580	11,000	12,000
OTHER OPERATING COSTS	7,705	5,558	6,503	11,000	7,000
SUBTOTAL	$ 310,406	$ 344,334	$ 365,727	$ 361,060	$ 370,000
TOTAL GENERAL FUND	$ 2,097,203	$ 2,048,383	$ 2,132,276	$ 2,246,000	$ 2,435,000
PERCENT INCREASE OVER PRIOR YEAR		-2.3%	4.1%	5.3%	8.4%

CONTINUING FIDUCIARY EDUCATION PLAN

REQUIRED BY MS 356A.13

The State Board of Investment (SBI) undertakes the following activities related to fiduciary education. Taken as a group, these activities shall constitute the plan for continuing fiduciary education required by Minnesota Statutes 356A.13 (copy attached). In addition, pursuant to statutory requirements of qualification, the SBI executive director and many members of the Board's Investment Advisory Council (IAC) can be reasonably considered to be experts with respect to their duties as fiduciaries.

1. Briefing for New Board/IAC Members

Shortly after election to the Board or appointment to the IAC, each new member is briefed on SBI operations and policies. As part of the briefing, SBI's legal counsel will review the member's fiduciary obligations and responsibilities as specified in Minnesota Statutes Chapters 11A and 356A.

2. Development and Review of Investment Policies

The SBI adopts comprehensive investment policies for each fund under its control. The policies cover investment objectives, asset allocation, management structure and performance evaluation. Policy papers or reports on these topics are developed and written by SBI staff in conjunction with the IAC and consultants. Relevant research and analyses from the academic and professional investment fields are used to formulate these policy guidelines.

After the Board formally adopts them, these written policies guide the management of all assets under the SBI's control. The SBI intends to review its stated investment policies periodically. This review may occur within the framework of the SBI's regular quarterly meetings or may take place at special meetings or seminars specifically designated for this purpose.

3. Input from Board's Consultants

The SBI retains outside investment consultants to advise the Board members on a wide variety of investment management issues. As part of their contracts with the SBI, the consultants offer to meet with the Board members or their designees to discuss investment-related issues. These individual consultations occur throughout the year. In addition, the general consultant is available at each meeting of the Board and IAC. These meetings are supplemented by quarterly reports on investment performance prepared by the general consultant.

4. Manager Round Tables

The SBI intends to convene small groups of its external money managers to discuss issues related to investment management and the financial markets. These round table discussions will be held periodically throughout the year and will be open to Board members and their designees, IAC members and other interested parties. It is anticipated that 1-2 round tables will be held each year.

5. Travel Allocation

The SBI allocates $2,500 annually to each Board member (or their designee) for costs associated with attendance at investment-related seminars and conferences. This allocation is used at the discretion of each Board member.

Date: May, 2007

1996 Minnesota Statutes

356A.13. CONTINUING FIDUCIARY EDUCATION.

Subdivision 1. **Obligation of fiduciaries**. A fiduciary of a covered pension plan shall make reasonable effort to obtain knowledge and skills sufficient to enable the fiduciary to perform fiduciary activities adequately. At a minimum, a fiduciary of a covered pension plan shall comply with the program established in accordance with subdivision 2.

Subd. 2. **Continuing fiduciary education program**. The governing boards covered pension plans shall each develop and periodically revise a program for the continuing education of any of their board members and any of their chief administrative officers who are not reasonably considered to be experts with respect to their activities as fiduciaries. The program must be designed to provide those persons with knowledge and skills sufficient to enable them to perform their fiduciary activities adequately.

Tab D

COMMITTEE REPORT

DATE: May 29, 2007

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

FROM: Master Custody Review Committee

The SBI's contract with State Street Bank for master custody services expires on April 30, 2008. It is the SBI's practice to review the contract through a request for proposal (RFP) on at least a five-year basis.

An RFP was prepared and sent to the seven leading master custody providers in the industry as well as the additional local banks. The RFP was announced in the State Register on March 5, 2007. Responses were received from seven vendors:

Bank of New York	New York
Credit Suisse	New York
J. P. Morgan / Chase	New York
Mellon Bank	Boston
Northern Trust	Chicago
State Street Bank and Trust	Boston
U S Bank	Minneapolis

The responses were evaluated by the committee for the vendor's adherence to the RFP requirements, the perceived ability of the vendor to meet the needs of the SBI for these services over the next five years, and the cost of the services proposed by the vendor.

A summary of the review process and the individual responses are attached.

CONCLUSION:

Based on its review of the RFP responses, the Committee concluded that State Street Bank and Trust should remain the SBI's custodian.

- **Services.** The Committee believes that State Street will continue to provide "state of the art" custodial services. The quality of its product and services equals or exceeds that of all other respondents.

- **Fees.** On a gross fee basis, State Street's fee proposal was the lowest that included all the services required by the SBI. On a net fee basis, State Street will guarantee the SBI a zero net fee. This means that the SBI will be credited with securities lending income at least sufficient to cover all gross fees for the five-year life of the contract. In addition, the proposed fee represents a reduction from the current contract.

- **Securities Lending.** State Street will provide the SBI with a higher level of indemnification on its securities lending program than all other respondents.

RECOMMENDATION:

Based on the results of the RFP, the Committee unanimously recommends that the Board authorize the Executive Director, with the assistance of SBI counsel, to negotiate and execute a contract with State Street Bank and Trust Company, Boston MA, for Master Custodial services for a five year period ending April 30, 2013.

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 obligation 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 State Street Bank and Trust Company 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 State Street Bank and Trust or reduction or termination of the commitment.

Tab E

COMMITTEE REPORT

DATE: May 29, 2007

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

FROM: Local Custody Review Committee

The SBI's contract with Wells Fargo Bank for custody services expires on December 31, 2007. It is the SBI's practice to review a contract through a request for proposal (RFP) for a term up to five years.

An RFP was prepared in conjunction with the RFP for the State's Major Revenue/Deposit Banking Services and announced in the State Register April 2, 2007. RFPs were sent to the following banks:

American National Bank	St. Paul
Bremer Bank	Lake Elmo
M&I Bank	Minneapolis
TCF Bank	Minneapolis
US Bank	St. Paul
Wells Fargo	St. Paul

A Responders Conference was held Thursday, April 12, 2007 at the Department of Finance. Three potential respondents attended: US Bank, M&I Bank and Wells Fargo. Actual responses for the custodial portion were received from two vendors: US Bank and Wells Fargo.

The responses were evaluated for the vendor's adherence to the RFP requirements, the perceived ability of the vendor to meet the needs of the SBI for these services over the next five years, and the costs for the services proposed by the vendor.

CONCLUSION:

Based on its review of the RFP responses, the Committee unanimously concluded that Wells Fargo should remain the SBI's custodian for local custody services.

- **Proven Financial Strength** Both US Bank and Wells Fargo received a "pass" ranking, however, Wells Fargo's Bond Rating and Bank Financial Strength rating exceeds that of US Bank.

- **Securities Lending** Wells Fargo provides total indemnification which will allow the SBI to continue its securities lending program. It is anticipated that the revenue from this program will totally offset all costs to the SBI for security clearance. U.S. Bank's proposal provides for only partial indemnification.

- **Fees** On a gross fee basis, both US Bank's and Wells Fargo's monthly fees were nearly identical with US Bank being $373 lower. However, with the indemnification provided by Wells Fargo, the SBI would continue its security lending program which would more than make up the difference in fees.

RECOMMENDATION:

Based on the results of the RFP, the Committee unanimously recommends that the Board authorize the Executive Director, with the assistance of SBI Counsel, to negotiate and execute a contract with Wells Fargo for local custodial services for a five year period ending December 31, 2012.

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 obligation 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 Wells Fargo 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 Wells Fargo or reduction or termination of the commitment.

Tab F

COMMITTEE REPORT

DATE: May 29, 2007

TO: Members, State Board of Investment

FROM: Proxy Voting Committee

SUBJECT: Board Resolution on Sudan
Sudan Divestment Legislation

At its December 6, 2006 meeting the Board adopted a resolution concerning Sudan. The resolution directs staff and the Proxy Voting Committee to identify a list of companies with operations in Sudan.

At its May 17, 2007 meeting the Proxy Voting Committee considered information compiled by staff concerning Sudan. Staff communicated with numerous public pension funds, service providers and the Board's consultants about available information sources.

Potential sources were identified to provide a list of companies with operations in Sudan:

- Institutional Shareholder Services could provide a list for a fee.
- The company KLD would also provide a list at a fee.
- The Sudan Divestment Task Force is a nonprofit entity and shares their research and regularly updates the list at no charge.

Based upon input from a number of organizations, the Committee concludes that the Sudan Divestment Task Force's information appears to be the best available.

On May 18, 2007 S.F. 1075 which appears as **Attachment A** was passed by the Legislature and on May 23, 2007 the Governor signed into law legislation related to the SBI's investment in companies with operations in Sudan.

The legislation calls for the SBI to make its best efforts to indemnify all "scrutinized companies" in which the SBI has direct or indirect holdings or could possibly have holdings in the future. The list of companies the staff and Proxy Committee compiled related to the SBI's Sudan resolutions is substantially the same list of companies the Sudan Divestment Task Force would recommend as "scrutinized companies" that would comply with the requirements of S.F. 1075. The list is to be updated quarterly.

If the SBI approves the list of companies in **Attachment B**, the staff and Proxy Committee will proceed with the next requirement of the law which is to engage each scrutinized company.

The staff and Proxy Committee will report to the SBI at its next meeting as to the process and results of this engagement.

RECOMMENDATION:

The Proxy Voting Committee recommends the Board adopt the list of companies with operations in Sudan identified in Attachment B for use in implementation of the Sudan Divestment Legislation.

ATTACHMENT A

KEY: ~~stricken~~ = removed, old language. underscored = added, new language.

S.F. No. 1075, 1st Engrossment - 85th Legislative Session (2007-2008) Posted on Apr 24, 2007

A bill for an act

relating to the State Board of Investment; requiring divestment from certain investments relating to Sudan;proposing coding for new law in Minnesota Statutes, chapter 11A.

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF MINNESOTA:

Section 1. **[11A.243] INVESTMENT IN SUDAN.**

Subdivision 1. **Definitions.** (a) For the purposes of this section, the following items have the meanings given them in this subdivision.

(b) "Active business operations" means all business operations that are not inactive business operations.

(c) "Business operations" means engaging in commerce in any form in Sudan, including by acquiring, developing, maintaining, owning, selling, possessing, leasing, or operating equipment, facilities, personnel, products, services, personal property, real property, or any other apparatus of business or commerce.

(d) "Company" means any sole proprietorship, organization, association, corporation, partnership, joint venture, limited partnership, limited liability partnership, limited liability company, or other entity or business association, including all wholly owned subsidiaries, majority-owned subsidiaries, parent companies, or affiliates of such entities or business associations, that exists for profit-making purposes.

(e) "Complicit" means taking actions during any preceding 20-month period that have directly supported or promoted the genocidal campaign in Darfur, including, but not limited to, preventing Darfur's victimized population from communicating with each other, encouraging Sudanese citizens to speak out against an internationally approved security force for Darfur, actively working to deny, cover up, or alter the record on human rights abuses in Darfur, or other similar actions.

(f) "Direct holdings" in a company means all securities of that company held directly by the State Board of Investment or in an account or fund in which the State Board of Investment owns all shares or interests.

(g) "Government of Sudan" means the government in Khartoum, Sudan, which is led by the national congress party (formerly known as the national Islamic front) or any successor government formed on or after October 13, 2006, including the coalition national unity government agreed upon in the comprehensive peace agreement for Sudan, and does not include the regional government of southern Sudan.

(h) "Inactive business operations" means the mere continued holding or renewal of rights to property previously operated for the purpose of generating revenues but not presently deployed for such purpose.

(i) "Indirect holdings" in a company means all securities of that company held in an account or fund, such as a mutual fund, managed by one or more persons not employed by the State Board of Investment, in which the State Board of Investment owns shares or interests together with other investors not subject to the provisions of this section.

(j) "Marginalized populations of Sudan" include, but are not limited to, the portion of the population in the Darfur region that has been genocidally victimized; the portion of the population of southern Sudan victimized by Sudan's north-south civil war; the Beja, Rashidiya, and other similarly underserved groups of eastern Sudan; the Nubian and other similarly underserved groups in Sudan's Abyei, Southern Blue Nile, and Nuba Mountain regions; and the Amri, Hamadab, Manasir, and other similarly underserved groups of northern Sudan.

(k) "Military equipment" means weapons, arms, military supplies, and equipment that readily may be used for military purposes, including, but not limited to, radar systems or military-grade transport vehicles, or supplies or services sold or provided directly or indirectly to any force actively participating in armed conflict in Sudan.

(l) "Mineral extraction activities" include exploring, extracting, processing, transporting, or wholesale selling or trading of elemental minerals or associated metal alloys or oxides (ore), including gold, copper, chromium, chromite, diamonds, iron, iron ore, silver, tungsten, uranium, and zinc, as well as facilitating such activities, including the provision of supplies or services in support of such activities.

(m) "Oil-related activities" include, but are not limited to, owning rights to oil blocks; exporting, extracting, producing, refining, processing, exploring for, transporting, selling, or trading of oil; constructing, maintaining, or operating a pipeline, refinery, or other oil-field infrastructure; and facilitating such activities, including the provision of supplies or services in support of such activities, provided that the mere retail sale of gasoline and related consumer products shall not be considered oil-related activities.

(n) "Power production activities" means any business operation that involves a project commissioned by the National Electricity Corporation (NEC) of Sudan or other similar government of Sudan entity whose purpose is to facilitate power generation and delivery, including, but not limited to, establishing power-generating plants or hydroelectric dams, selling or installing components for the project, providing service contracts related to the installation or maintenance of the project, as well as facilitating such activities, including the provision of supplies or services in support of such activities.

(o) "Scrutinized company" means any company that meets the criteria in clause (1), (2), or (3):

(1) the company has business operations that involve contracts with or provision of supplies or services to:

(i) the government of Sudan;

(ii) companies in which the government of Sudan has any direct or indirect equity share;

(iii) government of Sudan-commissioned consortiums or projects; or

(iv) companies involved in government of Sudan-commissioned consortiums or projects; and

(A) more than ten percent of the company's revenues or assets linked to Sudan involve oil-related activities or mineral extraction activities; less than 75 percent of the company's revenues or assets linked to Sudan involve contracts with or provision of oil-related or mineral extracting products or services to the regional government of southern Sudan or a project or consortium created exclusively by that regional government; and the company has failed to take substantial action; or

(B) more than ten percent of the company's revenues or assets linked to Sudan involve power production activities; less than 75 percent of the company's power production activities include projects whose intent is to provide power or electricity to the marginalized populations of Sudan; and the company has failed to take substantial action;

(2) the company is complicit in the Darfur genocide; or

(3) the company supplies military equipment within Sudan, unless it clearly shows that the military equipment cannot be used to facilitate offensive military actions in Sudan or the company implements rigorous and verifiable safeguards to prevent use of that equipment by forces actively participating in armed conflict, for example, through postsale tracking of such equipment by the company, certification from a reputable and objective third party that such equipment is not being used by a party participating in armed conflict in Sudan, or sale of such equipment solely to the regional government of southern Sudan or any internationally recognized peacekeeping force or humanitarian organization.

Notwithstanding any other provision to the contrary in this section, a social development company that is not complicit in the Darfur genocide shall not be considered a scrutinized company.

(p) "Social development company" means a company whose primary purpose in Sudan is to provide humanitarian goods or services, including medicine or medical equipment, agricultural supplies or infrastructure, educational opportunities, journalism-related activities, information or information materials, spiritual-related activities, services of a purely clerical or reporting nature, food, clothing, or general consumer goods that are unrelated to oil-related activities, mineral extraction activities, or power production activities.

(q) "Substantial action" means adopting, publicizing, and implementing a formal plan to cease scrutinized business operations within one year and to refrain from any such new business operations; undertaking significant humanitarian efforts in conjunction with an international organization, the government of Sudan, the regional government of southern Sudan, or a nonprofit entity that has been evaluated and certified by an independent third party to be in substantial relationship to the company's Sudan business operations and of benefit to one or more marginalized populations of Sudan; or through engagement with the government of Sudan, materially improving conditions for the genocidally victimized population in Darfur.

Subd. 2. **Identification of companies.** (a) Within 90 days following the date of enactment of this section, the State Board of Investment shall make its best efforts to identify all scrutinized companies in which the State Board of Investment has direct or indirect holdings or could possibly have such holdings in the future. Such efforts shall include, as appropriate:

(1) reviewing and relying, as appropriate in the State Board of Investment's judgment, on publicly available information regarding companies with business operations

in Sudan, including information provided by nonprofit organizations, research firms, international organizations, and government entities;

(2) contacting asset managers contracting with the State Board of Investment who invest in companies with business operations in Sudan; or

(3) contacting other institutional investors that have divested from or engaged with companies that have business operations in Sudan.

(b) At the first meeting of the State Board of Investment after it has completed the requirements of paragraph (a), the State Board of Investment shall assemble a list of scrutinized companies.

(c) The State Board of Investment shall update the scrutinized companies list each quarter based on continuing information, including, but not limited to, information from sources identified in paragraph (a).

Subd. 3. **Engagement of scrutinized companies.** The State Board of Investment shall use the following procedure for companies on the scrutinized companies list:

(a) After completing the list required under subdivision 2, paragraph (a), the State Board of Investment shall immediately identify the companies on the list in which the State Board of Investment owns direct or indirect holdings.

(b) For each company identified in paragraph (a) with only inactive business operations, the State Board of Investment shall send a written notice to the company with information about this section and encourage it to continue to refrain from initiating active business operations in Sudan until it is able to avoid scrutinized business operations. The State Board of Investment shall continue such correspondence on a semiannual basis.

(c) For each company newly identified in paragraph (a) with active business operations, the State Board of Investment shall send a written notice informing the company of its scrutinized company status and that it may become subject to divestment by the State Board of Investment. The notice shall offer the company the opportunity to clarify its Sudan-related activities and shall encourage the company, within 90 days, to either cease its scrutinized business operations or convert such operations to inactive business operations in order to avoid qualifying for divestment by the State Board of Investment.

(d) If, within 90 days following the State Board of Investment's first engagement with a company under paragraph (c), that company ceases scrutinized business operations, the company shall be removed from the scrutinized companies list and the provisions of this section shall cease to apply to it unless it resumes scrutinized business operations. If, within 90 days following the State Board of Investment's first engagement, the company converts its scrutinized active business operations to inactive business operations, the company shall be subject to all provisions of this section relating to inactive business operations.

Subd. 4. **Divestment.** (a) If, after 90 days following the State Board of Investment's first engagement with a company under subdivision 3, paragraph (c), the company continues to have scrutinized active business operations, and only while the company continues to have scrutinized active business operations, the State Board of Investment shall sell, redeem, divest, or withdraw all publicly traded securities of the company, except as provided in subdivisions 5 to 11, according to the following schedule:

(1) at least 50 percent of the assets in the company shall be removed from the State

Board of Investment's assets under management by nine months after the company's most recent appearance on the scrutinized companies list; and

(2) 100 percent of the assets in the company shall be removed from the State Board of Investment's assets under management within 15 months after the company's most recent appearance on the scrutinized companies list.

(b) If a company that ceased scrutinized active business operations following engagement under subdivision 3, paragraph (c), resumes such operations, paragraph (a) shall immediately apply to the company and the State Board of Investment shall send a written notice to the company. The company shall also be immediately reintroduced onto the scrutinized companies list.

Subd. 5. **Prohibition on acquisition of certain securities.** At no time shall the State Board of Investment acquire securities of companies on the scrutinized companies list that have active business operations, except as provided in this section.

Subd. 6. **Exemption.** If the federal government affirmatively excludes a company from its present or any future federal sanctions regime relating to Sudan, the company is exempt from the divestment and investment requirements of subdivisions 4 and 5.

Subd. 7. **Excluded securities.** Notwithstanding any other provision in this section to the contrary, subdivisions 4 and 5 do not apply to indirect holdings in actively managed investment funds. The State Board of Investment shall submit letters to the managers of investment funds containing companies with scrutinized active business operations requesting the managers to consider removing such companies from the fund or to create a similar actively managed fund with indirect holdings that do not include the companies. If a manager creates a similar fund, the State Board of Investment shall promptly replace all applicable investments with investments in the similar fund consistent with prudent investing standards. For the purposes of this section, "private equity" funds shall be deemed to be actively managed investment funds.

Subd. 8. **Reporting.** (a) Within 30 days after creating the scrutinized companies list, the State Board of Investment shall submit the list to the chairs of the legislative committees and divisions with jurisdiction over the State Board of Investment.

(b) By January 15, 2008, and on January 15 of each year thereafter, the State Board of Investment shall submit a report to the chairs of the legislative committees and divisions with jurisdiction over the State Board of Investment and send a copy of that report to the United States Presidential Special Envoy to Sudan or the appropriate designee or successor for the envoy. The report must include:

(1) a summary of correspondence with companies engaged by the State Board of Investment under subdivision 3, paragraphs (b) and (c);

(2) a list of all investments sold, redeemed, divested, or withdrawn in compliance with subdivision 4;

(3) a list of all prohibited investments under subdivision 5; and

(4) a description of any progress made under subdivision 7.

Subd. 9. **Expiration.** This section shall expire upon the occurrence of any of the following:

(1) the Congress or president of the United States declares that the Darfur genocide has been halted for at least 12 months;

(2) the United States revokes all sanctions imposed against the government of Sudan;

(3) the Congress or president of the United States declares that the government of Sudan has honored its commitments to cease attacks on civilians, demobilize and demilitarize the Janjaweed and associated militias, grant free and unfettered access for deliveries of humanitarian assistance, and allow for the safe and voluntary return of refugees and internally displaced persons; or

(4) the Congress or president of the United States, through legislation or executive order, declares that mandatory divestment of the type provided for in this section interferes with the conduct of United States foreign policy.

Subd. 10. **Other legal obligations.** The State Board of Investment is exempt from any statutory or common law obligations that conflict with actions taken in compliance with this section, including all good-faith determinations regarding companies as required by this section, including any obligations regarding the choice of asset managers, investment funds, or investments for the State Board of Investment's securities portfolios.

Subd. 11. **Reinvestment in certain companies with scrutinized active business operations.** Notwithstanding any provision of this section to the contrary, the State Board of Investment shall be permitted to cease divesting from certain scrutinized companies under subdivision 4 or to reinvest in certain scrutinized companies from which it divested under subdivision 4 if clear and convincing evidence shows that the value for all assets under management by the State Board of Investment is equal to or less than 99.5 percent (50 basis points) of the hypothetical value of all assets under management by the State Board of Investment without any divestment for any company under subdivision 4. Cessation of divestment, reinvestment, or any subsequent ongoing investment authorized by this subdivision shall be strictly limited to the minimum steps necessary to avoid the contingency. For any cessation of divestment, reinvestment, or subsequent ongoing investment authorized by this subdivision, the State Board of Investment shall provide a written report to the chairs of the legislative committees and divisions with jurisdiction over the State Board of Investment in advance of initial reinvestment, updated semiannually thereafter as applicable, setting forth the reasons and justification, supported by clear and convincing evidence, for its decisions to cease divestment, reinvest, or remain invested in companies with scrutinized active business operations. This subdivision does not apply to reinvestment in companies because they have ceased scrutinized active business operations.

ATTACHMENT B

Sudan Divestment Task Force List of "Highest Offenders" Companies in Sudan
Task Force List Effective Through May 31, 2007

Company Name	Country of Origin
Oil and Natural Gas Company, AKA ONGC	India
Mangalore Refinery and Petrochemicals Ltd.	India
PetroChina	China
CNPC Hong Kong	HK?
China National Petroleum Corporation AKA CNPC	China?
Sinopec Corporation AKA China Chemical and Petroleum Corporation	China
Sinopec Shanghai Petrochemical Co. Ltd.	China
Sinopec Group AKA China Petrochemical Corporation	China
Petronas/Petronas Capital Limited	Malaysia
Petronas Gas	Malaysia
Petronas Dagangan	Malaysia
MISC Berhad AKA Malaysia International Shipping Company	Malaysia
Schlumberger	France
Al-Thani Investment	United Arab Emirates
Kuwait Foreign Petroleum Exploration Company AKA Kupfec	Kuwait
Lundin Petroleum	Sweden
AREF Investment Group	Kuwait
PECD Berhad	Malaysia
Petrofac	UK
Rolls Royce	UK
Muhibbah Engineering Berhad	Malaysia
Kejuruteraan	Malaysia
Samundra Timur Bhd.	Malaysia
Kencana Petroleum Berhad	Malaysia
Areva Group	France
La Mancha Resources	Canada
Reliance Industries	India
Reliance Energy	India
Reliance Capital Venture	India
Reliance Communications	India
Reliance Natural Resources	India
Sudan Telecommunications Company AKA Sudatel	Sudan
Bharat Heavy Electricals	India
Harbin Power Equipment	China
Alstom	France
Norinco AKA China North Industries Corporation	China
Dongfeng Automotive Company Limited	China
Indian Oil Corporation Ltd. AKA IOCL	India
Scomi AKA KMC Oil Tools	Malaysia
CHC Helicopter	Canada
Electricity Generating Company AKA EGCO	Thailand

Note: List contains parent companies and subsidiaries publicly traded
AKA means "also known as"

Sudan Divestment Task Force List of Companies in Sudan for Ongoing Engagement
Task Force List Effective Through May 31, 2007

Company Name	Country of Origin
Weir Group	UK
Nam Fatt	Malaysia
Bollore Group	France
ICSA	India
Alcatel	France
Concordia Maritime	Sweden
Total SA	France
Petrobas AKA Petroleo Brasileiro	Brazil
White Nile Petroleum	UK
Nippon Yusen AKA NYK Line	Japan
Cummins Inc.	US

Sudan Divest.Task Force List of Companies in Sudan with Unknown Current Operations
Task Force List Effective Through May 31, 2007

Company Name	Country of Origin
Bharat Electronics Limited	India
Videocon	India
Sumatec Resources	Malaysia
Ranhill	Malaysia
Malaysia Mining Corporation	Malaysia
Mercator Lines	India
PSL Limited	India

Sudan Divest.Task Force List of Companies in Sudan with No Publicly Traded Equity
Task Force List Effective Through May 31, 2007

Company Name	Country of Origin
China National Petroleum Company	China
Sinopec Group AKA China Petrochemical Corporation	China
Sudapet AKA Sudan Petroleum Company	Sudan
Hi Tech Petroleum	Sudan
PetroSA	South Africa
Bentini Construction	Italy
Qatar Petroleum Corporation	Qatar
Dodsal	India
Trafigura Beheer	Netherlands
Lahmeyer	Germany
APS Engineering Company	Italy
Vitol Group	Switzerland
Zaver Petroleum Company	Pakistan
K & K Capital Group AKA KKCG	Czech Republic
Express Petroleum and Gas Company	Nigeria
Qatari Diar Real Estate Investment Company AKA Qatari Diar	Qatar
Sinohydro AKA China Hydraulic and Hydorelectric Construction Group	China
Ansan Wikfs/Shaher Trading Company	Yemen
Al-Qahtani & Sons Group of Companies	Saudi Arabia
Dindir Petroleum/Edgo Group	Jordan
Peschaud & Cie International	France
Delta Petrol/Tower Holdings	Turkey/Luxembourg
Mahan Energy Corp.	India
Ascom Group SA	Moldova

Tab G

COMMITTEE REPORT

DATE: May 29, 2007

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

FROM: Stock and Bond Manager Committee

The Stock and Bond Manager Committee met on Wednesday, May 16, 2007 to consider the following agenda items:

- Review the manager performance for the period ending March 31, 2007.
- Domestic Equity Program Review.
- Update of Oppenheimer Capital Management, domestic equity manager.
- Review of manager Investment Guidelines.

Action is required by the SBI / IAC on the last two items.

INFORMATION ITEMS:

1. Review the manager performance for the period ending March 31, 2007.

- ***Domestic Equity Program***

For the period ending March 31, 2007, the **Domestic Equity Program** outperformed during the quarter, but underperformed for all other periods.

Time period	Total Program	DE Asset Class Target*
Quarter	1.4%	1.3%
1 Year	10.5%	11.3%
3 Years	10.6%	10.8%
5 Years	7.0%	7.3%

* The DE Asset Class Target is the Russell 3000 since 10/1/03, the Wilshire 5000 Investable from 7/1/99 to 9/30/03, and the Wilshire 5000 prior to 7/1/99.

The performance evaluation reports for the domestic equity managers start on the **blue page A-1** of this Tab.

- *Fixed Income Program*

For the period ending March 31, 2007, the **Fixed Income Program** outperformed the Lehman Aggregate over all time periods.

Time period	Total Program	Lehman Aggregate
Quarter	1.6	1.5
1 Year	6.8	6.6
3 Years	3.8	3.3
5 Years	5.7	5.4

The performance evaluation reports for the fixed income managers start on the **blue page A-95** of this Tab.

- *International Equity Program*

For the period ending March 31, 2007, the **International Equity Program** outperformed the composite index over the quarter and year and underperformed over the three and five-year time periods.

Time Period	Total* Program	Int'l Equity Asset Class Target**
Quarter	3.9	3.8
1 Year	19.9	19.8
3 Year	20.8	20.9
5 Year	16.4	16.9

* Includes impact of currency overlay on the passive EAFE portfolio from 12/1/95-10/31/00.

** Since 10/1/03, the international equity asset class target is the MSCI ACWI Free ex. U.S. (net). From 7/1/99 to 9/30/03 the target was the MSCI EAFE-Free plus Emerging Markets Free index. The weighting of each index fluctuated with market capitalization. From 12/31/96 to 6/30/99, the target was fixed at 87% EAFE-Free/13% Emerging Markets Free. On 5/1/96, the portfolio began transitioning from 100% EAFE-Free to the 12/31/96 fixed weights. Prior to 5/1/96, the target was 100% EAFE-Free.

The performance evaluation reports for the international equity managers start on the **blue page A-109** of this Tab.

2. Domestic Equity Program Review.

Staff presented the Committee with a preview of the Domestic Equity Program Review, which will be presented to the full IAC at the June 5, 2007 meeting.

ACTION ITEMS:

3. Update of Oppenheimer Capital Management, Domestic Equity Manager.

Oppenheimer Capital made a presentation to the Stock & Bond Committee on May 16, 2006 to address the underperformance of the SBI portfolio. The Committee chose to take no action at that time but requested that staff provide an update in one year.

Investment Process
Throughout the history of our relationship with Oppenheimer Capital, the organization and our portfolio manager have maintained a consistent investment philosophy and process, investing in stocks trading at a discount to intrinsic value. The manager believes that in the long term, markets are efficient and a stock's price reflects its true worth. However, in the short term, there are opportunities to capitalize on mispriced securities. The manager does not restrict itself to investing in stocks, which meet the traditional definition of value. Rather, Oppenheimer will invest in stocks that are undervalued regardless of growth and value classifications.

John Lindenthal has managed our account since inception July 1993. He has over 30 years of experience and has managed through many market cycles and environments. Our portfolio has experienced annual turnover of approximately 30% and is concentrated with approximately 45 securities.

Oppenheimer Capital devotes significant resources to the large cap research team, has a history of well-defined succession planning and pays close attention to the management of the business.

Performance
During the May 2006 presentation, Oppenheimer cited narrow markets as a major difficulty in performance. In particular, the portfolio was underexposed to energy when that sector dramatically outperformed, creating a significant headwind.

In the last 12 months, the portfolio has continued to struggle. While staff recognizes the significantly difficult market environment active managers faced in 2006, staff believes the continued underperformance is unacceptable and has little confidence that the situation will change soon.

Performance for the Oppenheimer portfolio appears below. The manager has underperformed the benchmark in all periods shown.

ANNUALIZED RETURNS
Periods Ending March, 2007

Name	1 year	3 years	5 years
Oppenheimer	13.24	9.17	7.44
Benchmark	16.83	14.42	10.25
+/- Benchmark	-3.07	-4.59	-2.55

RECOMMENDATION
Due to sustained underperformance, Committee recommends that the SBI terminate the relationship with Oppenheimer Capital for investment management services.

4. **Review of Investment Manager Guidelines.**

The Minnesota State Board of Investment (SBI) has established guidelines that govern the investment actions of the investment managers. While these guidelines may be changed at any time, they are part of the formal contractual agreement between the manager and the SBI. The guidelines address issues such as return objectives, benchmarks, authorized investments, performance evaluation, communication, and reporting requirements. Staff reviews the guidelines annually for accuracy and completeness.

This year, the major change to the external manager guidelines was purely administrative. Generally, manager guidelines are separated into two parts. Part A of the manager guidelines focuses on provisions, which are specific to the manager group. Part B of the manager guidelines contains provisions, which are common to all the manager groups. In the proposed revisions to the guidelines which follow, Part A for each manager group is presented, while Part B is presented once.

Most of the revisions to the guidelines for all manager groups were either technical corrections or expanded clarifications on various items. There were no major substantive changes to the guidelines.

The proposed investment guidelines for all asset classes appear beginning on **page 5** of this Tab.

RECOMMENDATION:

The Committee recommends that the SBI approve the revised Investment Manager Guidelines.

2007 GUIDELINES

TABLE OF CONTENTS

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Part A:

Investment Manager Guidelines

External Domestic Equity

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MINNESOTA STATE BOARD OF INVESTMENT
INVESTMENT GUIDELINES
EXTERNAL ACTIVE DOMESTIC COMMON STOCK MANAGERS

The investment actions of the Minnesota State Board of Investment (SBI) external active domestic common stock managers will be governed and evaluated by the following guidelines, which are comprised of Parts A and B:

Part A

A1. RISK/RETURN OBJECTIVES

The Manager will be evaluated, in part, based on performance in delivering cumulative returns, net of fees and expenses, in excess of a predetermined benchmark assigned to the Manager. The Manager is responsible for actively managing the absolute level and composition of the active risk of the Manager's portfolio relative to the benchmark. The Manager's objectives are:

(a) Over the most recent five-year period, the actual portfolio shall have a realized active risk level relative to the benchmark in the range of ______ to ______, where active risk is the annualized standard deviation of the Manager's excess returns relative to the benchmark.

The Manager must notify and explain to Staff in the Quarterly Manager Commentary (see investment guideline B5 (b)) any deviation from this range. ~~and explain any deviation from this range.~~

The level of active risk in the actual portfolio will be monitored on a five-year rolling period basis to ascertain the trend in active risk. In addition, the current active risk level will be compared to the active risk of the product at the time the manager was hired. And,

(b) A portfolio information ratio of 0.20 or greater over the most recent 5-year period, where the information ratio is the annualized excess return over the benchmark, net of fees and expenses, divided by the annualized standard deviation of excess return over the benchmark.

The Manager must notify and explain to Staff in the Quarterly Manager Commentary (see investment guideline B5 (b)) any deviation from this range. ~~and explain any deviation from this range.~~

The information ratio will also be monitored on a five-year rolling period basis to ascertain the trend in the information ratio. In addition, the current information ratio will be compared to the information ratio of the product at the time the Manager was hired.

A2. BENCHMARK

The benchmark is the Total Return Russell style index (varies by manager, e.g. large growth, small value, etc.). The Total Return Russell style index will be used to calculate the manager's performance based fee for periods beginning October 1, 2003. For periods prior to October 1, 2003, the custom benchmark will be used to calculate the performance based fee. SBI reserves the right to change the benchmark upon prior written notification to Manager.

A3. ELIGIBLE INVESTMENTS

The Manager is restricted to trading common stocks, stock index futures, exchange traded funds, and the SBI STIF fund. The Manager may hold any security received as a distribution from an existing holding. The Manager must have the SBI's written approval to purchase equity options, preferred stocks, warrants and convertible issues. The investments of the Manager must satisfy the following criteria and constraints:

(a) All securities held must be covered by the authorization in *Minnesota Statutes* Chapter 11A.24.

(b) The stocks held must be issued by corporations organized under the laws of the U.S. or its states, the Dominion of Canada or its provinces, and/or be listed on an exchange regulated by an agency of the United States (including NASDAQ) or Canadian national government at time of purchase. These include REITS and American Depository Receipts (ADR's) traded on such an exchange.

(c) The Manager may not purchase restricted stock or letter stock.

(d) Private placements, defined as those securities for which a public market does not exist or which will be subject to any known trading restrictions at any time during which the security is held in the SBI's portfolio, may not be purchased in the Account.

(e) Debt securities, except cash equivalents, may not be purchased in the Account.

(f) Without prior written authorization from the SBI, manager may not purchase open or closed-end funds or pooled investment vehicles ~~of any kind~~. Investments in Business Development Companies that are members of managers' assigned benchmark at time of purchase are permitted.

(g) The Manager shall not hold at any time more than three (3) percent of the total outstanding shares of any corporation in the SBI's portfolio. If a holding should breach this level or the Manager desires to hold a larger position, the Manager must notify the SBI in writing for approval.

(h) Cash equivalents shall be invested in the SBI's STIF fund, managed by its custodian bank.

(i) Stock options, if authorized, and stock index futures, purchased through a regulated exchange, may be used to adjust the effective equity exposure of the portfolio. Over-the-counter derivative instruments are not permitted. All option and futures transactions must be entered into with a fully offsetting amount of cash or cash equivalents. The cash or cash equivalent position used to offset the futures position at the time of purchase, plus any mark to market adjustments, must be maintained over the life of the futures position to ensure that a leveraged position, as defined in Part B4, does not occur.

(j) The Manager may not purchase stocks from the SBI's List of Restricted Tobacco Stocks. The SBI will periodically provide the Manager with an updated List.

A4. PROXY VOTING

The Manager may not vote proxies on behalf of the SBI's account unless specifically requested by the SBI to do so.

Revised: ~~September 2005~~ May 2007

Executive Director/
Assistant Executive Director

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Date ____________________

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MINNESOTA STATE BOARD OF INVESTMENT
INVESTMENT GUIDELINES
EXTERNAL SEMI-PASSIVE DOMESTIC COMMON STOCK MANAGERS

The investment actions of the Minnesota State Board of Investment (SBI) external semi-passive domestic common stock managers will be governed and evaluated by the following guidelines, which is comprised of Parts A and B:

Part A

A1. RISK/RETURN OBJECTIVES

The Manager will be evaluated, in part, based on performance in delivering cumulative returns, net of fees and expenses, in excess of a predetermined benchmark assigned to the Manager. The Manager is responsible for actively managing the absolute level and composition of the active risk of the Manager's portfolio relative to the benchmark. The Manager's objectives are:

(a) Over the most recent five-year period, the actual portfolio shall have a realized active risk level relative to the benchmark in the range of ______ to ______, where active risk is the annualized standard deviation of the Manager's excess returns relative to the benchmark.

The Manager must notify and explain to Staff in the Quarterly Manager Commentary (see investment guideline B5 (b)) any deviation from this range. ~~and explain any deviation from this range.~~

The level of active risk in the actual portfolio will be monitored on a five-year rolling period basis to ascertain the trend in active risk. In addition, the current active risk level will be compared to the active risk of the product at the time the manager was hired. And,

(b) A portfolio information ratio of 0.20 or greater over the most recent 5-year period, where the information ratio is the annualized excess return over the benchmark, net of fees and expenses, divided by the annualized standard deviation of excess return over the benchmark.

The Manager must notify and explain to Staff in the Quarterly Manager Commentary (see investment guideline B5 (b)) any deviation from this range. ~~and explain any deviation from this range.~~

The information ratio will also be monitored on a five-year rolling period basis to ascertain the trend in the information ratio. In addition, the current information ratio will be compared to the information ratio of the product at the time the Manager was hired.

A2. BENCHMARK INDEX

The benchmark is the Total Return Russell 1000 (R1000) Index beginning January 1, 2004. SBI reserves the right to change the benchmark upon prior notification to Manager.

A3. ELIGIBLE INVESTMENTS

The Manager is restricted to trading common stocks, stock index futures, exchange traded funds, and the SBI STIF fund. The Manager may hold any security received as a distribution from an existing holding. The Manager must have the SBI's written approval to purchase equity options, preferred stocks, warrants and convertible issues. The investments of the Manager must satisfy the following criteria, and constraints:

(a) All securities held must be covered by the authorization in *Minnesota Statutes* Chapter 11A.24.

(b) The stocks held must be issued by corporations organized under the laws of the U.S. or its states, the Dominion of Canada or its provinces, and/or be listed on an exchange regulated by an agency of the United States (including NASDAQ) or Canadian national government at time of purchase. These include REITs and American Depository Receipts (ADR's) traded on such an exchange.

(c) The Manager may not purchase restricted stock or letter stock.

(d) Private placements, defined as those securities for which a public market does not exist or which will be subject to any known trading restrictions at any time during which the security is held in the SBI's portfolio, may not be purchased in the Account.

(e) Debt securities, except cash equivalents, may not be purchased in the Account.

(f) Without prior written authorization from the SBI, manager may not purchase open or closed-end funds or pooled investment vehicles ~~of any kind~~. Investments in Business Development Companies that are members of managers assigned benchmark at time of purchase are permitted.

(g) The Manager shall not hold at any time more than three (3) percent of the total outstanding shares of any corporation in the SBI's portfolio. If a holding should breach this level or the Manager desires to hold a larger position, the Manager must notify the SBI in writing for approval.

(h) Cash equivalents shall be invested in the SBI's STIF fund, managed by its custodian bank.

(i) Stock options, if authorized, and stock index futures, purchased through a regulated exchange, may be used to adjust the effective equity exposure of the portfolio. Over-the-counter derivative instruments are not permitted. All option and futures transactions must be entered into with a fully offsetting amount of cash or cash equivalents. The cash or cash equivalent position used to offset the futures position at the time of purchase, plus any mark to market adjustments, must be maintained over the life of the futures position to ensure that a leveraged position, as defined in Part B4, does not occur.

(j) The Manager may not purchase stocks from the SBI's List of Restricted Tobacco Stocks. The SBI will periodically provide the Manager with an updated List.

A4. PROXY VOTING

The Manager may not vote proxies on behalf of the SBI's account unless specifically requested by the SBI to do so.

Revised: ~~September 2005~~ May 2007

Executive Director/
Assistant Executive Director

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Date ______________________

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MINNESOTA STATE BOARD OF INVESTMENT
INVESTMENT GUIDELINES
EXTERNAL PASSIVE DOMESTIC COMMON STOCK MANAGER

The investment actions of the Minnesota State Board of Investment (SBI) external passive domestic common stock manager will be governed and evaluated by the following guidelines, which are comprised of Parts A and B:

Part A

A1. RISK/RETURN OBJECTIVES

The Manager will be evaluated, in part, based on performance in delivering cumulative returns, net of fees and expenses, in line with a predetermined benchmark assigned to the Manager. The Manager is responsible for managing the absolute level and composition of the active risk of the Manager's portfolio relative to the benchmark. The Manager's objectives are:

(a) An actual portfolio that has a realized active risk level relative to the benchmark of _____ or less, where active risk is the annualized standard deviation of the Manager's excess returns relative to the benchmark. And,

(b) A portfolio that tracks the return of the benchmark closely. Over time, the annual return shortfall relative to the benchmark, due to fees and trading expenses, should be no more than 0.10%.

A2. BENCHMARK INDEX

The benchmark is the Total Return Russell 3000 (R3000) Index. SBI reserves the right to change the benchmark upon notification to the Manager.

A3. ELIGIBLE INVESTMENTS

The Manager is restricted to trading common stocks that are in the benchmark index, stock index futures, exchange traded funds, and the SBI STIF fund. The Manager may sell any securities removed from the target index over a reasonable period of time. The investments must satisfy the following criteria and constraints:

(a) All securities held must be covered by the authorization in *Minnesota Statutes* Chapter 11A.24.

(b) Cash equivalent reserves shall be invested in the SBI's STIF fund, managed by its custodian bank.

(c) Stock index futures, purchased through a regulated futures exchange, may be used to equitize cash in the portfolio. Over-the-counter futures instruments are not permitted. All futures transactions must be entered into with a fully offsetting amount of cash or cash equivalents. The cash or cash equivalent position used to offset the futures position at the time of purchase, plus any mark to market adjustments, must be maintained over the life of the futures position to ensure that a leveraged position, as defined in Part B4, does not occur.

A4. PROXY VOTING

The Manager may not vote proxies on behalf of the SBI's account unless specifically requested by the SBI to do so.

Revised: ~~September 2005~~ May 2007

Executive Director/
Assistant Executive Director

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Date ________________________

Part A:

Investment Manager Guidelines

International Equity

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MINNESOTA STATE BOARD OF INVESTMENT
INVESTMENT GUIDELINES
ACTIVE INTERNATIONAL DEVELOPED MARKETS EQUITY MANAGERS

The investment actions of the Minnesota State Board of Investment (SBI) active international developed markets equity managers will be governed and evaluated by the following guidelines which are comprised of Parts A and B:

Part A

A1. RISK/RETURN OBJECTIVE

The Manager will be evaluated, in part, based on performance in delivering cumulative returns, net of fees and expenses, in excess of a predetermined benchmark assigned to the Manager. The Manager is responsible for actively managing the absolute level and composition of the active risk of the Manager's portfolio relative to the benchmark. The Manager's objectives are:

(a) Over the most recent five-year period, the actual portfolio shall have a realized active risk level relative to the benchmark in the range of ______ to ______, where active risk is the annualized standard deviation of the Manager's excess returns relative to the benchmark.

The Manager must notify and explain to Staff in the Quarterly Manager Commentary (see investment guideline B5 (b)) any deviation from this range. ~~and explain any deviation from this range.~~

The level of active risk in the actual portfolio will be monitored on a five-year rolling period basis to ascertain the trend in active risk. In addition, the current active risk level will be compared to the active risk of the product at the time the manager was hired. And,

(b) A portfolio information ratio of 0.20 or greater over the most recent 5-year period, where the information ratio is the annualized excess return over the benchmark, net of fees and expenses, divided by the annualized standard deviation of excess return over the benchmark.

The Manager must notify and explain to Staff in the Quarterly Manager Commentary (see investment guideline B5 (b)) any deviation from this range. ~~and explain any deviation from this range.~~

The information ratio will also be monitored on a five-year rolling period basis to ascertain the trend in the information ratio. In addition, the current information ratio will be compared to the information ratio of the product at the time the Manager was hired.

A2. BENCHMARK

The benchmark is the Morgan Stanley Capital International (MSCI) World ex. U.S. Index, unhedged, with dividends net of tax withholdings. SBI reserves the right to change the benchmark upon notification to the Manager.

A3. ELIGIBLE MARKETS

~~Subject to the constraints in A4 below, the Manager is authorized to purchase eligible securities only in the countries that are not constituents of the MSCI Emerging Market Free (EMF) Index.~~ Manager may invest in eligible securities in countries in the MSCI World ex US index. Manager may not invest in countries in the MSCI Emerging Markets index. Manager must request authorization to invest in any countries that are not represented in either index. The country classification of a security shall be its country of listing.

A4. ELIGIBLE INVESTMENTS

Subject to the constraints in A3 above, the Manager will be restricted to trading common stocks, preferred stocks, exchange traded funds, currency forwards and spot, Reits, stapled units and the SBI's STIF fund. The Manager may hold any security received as a distribution from an existing holding. The Manager must have the SBI's written approval to purchase warrants, rights, open-end country funds and closed-end country or regional funds, stock index futures and options, currency futures and options, convertible issues, and any security that is not specifically outlined in this guideline. The investments of the Manager must satisfy the following criteria and constraints:

(a) All securities held must be covered by the authorization in *Minnesota Statutes* Chapter 11A.24.

(b) U.S. cash equivalents shall be invested in the SBI's STIF fund, managed by its custodian bank.

(c) Private placements, defined as those securities for which a public market does not exist or which will be subject to any known trading restrictions at any time during which the security is held in the SBI's portfolio, may not be purchased in the Account.

(d) Debt securities, except cash equivalents may not be purchased in the Account.

(e) ~~The Manager shall not hold at any time more than three (3) percent of the total outstanding shares of any corporation in the SBI's portfolio.~~ In the SBI's portfolio, the Manager shall not at any time hold more than three (3) percent of the total outstanding shares of any corporation. If a holding should breach this level or the Manager desire to hold a larger position, the Manager must notify the SBI in writing for approval.

(f) The stock of companies domiciled in the US shall not be held in the Account. However, with the SBI's prior written authorization, Manager may hold open-end and closed-end funds, which invest primarily in international securities. The Manager may purchase dually listed MSCI World ex US index securities that are listed on a U.S. exchange. The Manager may purchase Canadian Investment Trusts, provided they have no trading restrictions, trade on a public market and can be priced daily.

(g) ~~American Depository Receipts (ADR's) and Global Depository Receipts (GDR's) may be held in the Account provided they are issued by an eligible market, depository eligible and can be priced on a daily basis.~~ American Depository Receipts (ADR's) and Global Depository Receipts (GDR's) may be held in the Account provided they are issued by a company which is traded or listed on an eligible market, and can be priced on a daily basis. Non-U.S. securities issued pursuant to Rule 144A may be purchased for the Account if, upon issuance, they will be publicly-traded securities in their local market(s) and can be priced on a daily basis.

(h) Upon written authorization by the SBI, stock options purchased through a governmentally regulated futures exchange and stock index futures approved by the Commodity Futures Trading Commission (CFTC) may be used to adjust the effective equity exposure of the portfolio. Over-the-counter derivative instruments are not permitted. All futures transactions must be entered into with a fully offsetting amount of cash or cash equivalents. The cash or cash equivalent position used to offset the futures position at the time of purchase, plus any mark to market adjustments, must be maintained over the life of the futures position to ensure that a leveraged position, as defined in Part B4, does not occur.

(i) For eligible market countries outside the MSCI World ex US index, eligible securities shall not exceed 10% of the Account's market value at the time of purchase.

(j) Currency forwards may be used to adjust the effective non-US currency exposure of the portfolio. Manager is permitted to hedge all or any portion of the non-US currency exposure back to the US dollar and may also attempt to add value from anticipated declines in the value of any non-US currency, through hedging out of one non-US currency into another non-US currency. The Manager is permitted to increase the exposure to any non-US currency of an eligible market beyond that established by the equity security holdings of the portfolio or that of the country allocation within the benchmark; provided, however, that the total non-U.S. currency exposure of all securities and currency forwards may not exceed the total market value of the portfolio. The Manager has no obligation to hedge currency risk and will not be required to do so.

(k) The Manager may not purchase stocks from the SBI's List of Restricted Tobacco Stocks. The SBI will periodically provide the Manager with an updated List.

A5. COUNTERPARTY BANKS

Each counterparty bank used by the Manager to execute currency transactions must have a credit rating of A1/P1/F1 or better from at least two of the following rating organizations: S&P, Moody's or Fitch/IBCA. Prior written authorization is required to execute current transactions with counterparty banks rated A1/P1/F1 or better by only one acceptable rating agency.

Any agreement entered into by the Manager on behalf of the SBI's account must be reviewed and approved by legal representatives of the SBI before entering into the agreement. Any such agreement must provide that SBI liability for settlement, commissions and fees is limited solely to funds of the SBI under Manager's control and does not constitute a general obligation of the State of Minnesota.

The Manager is responsible for monitoring the counterparty credit ratings of each counterparty bank and/or counterparty group, and the Manager will promptly notify the SBI of any counterparty rating downgrade below the A1/P1/F1 level.

A6. PROXY VOTING

The SBI retains the right to vote its proxies directly. Unless the SBI notifies the Manager that it is exercising this right, the Manager shall vote all proxies on behalf of the SBI. On a best efforts basis, the Manager shall vote all proxies according to guidelines provided to the Manager by the SBI. The Manager shall report annually on its voting practices with respect to the SBI portfolio. This report shall be received by the SBI within sixty (60) days following the fiscal year ending June 30. The SBI represents that such delegation of voting rights is consistent with applicable *Minnesota Statutes*. The SBI agrees to instruct the Custodian to forward all proxy materials to the Manager upon receipt. Manager shall not be liable with regard to voting of proxies in the event proxy materials are not received by the Manager in a timely manner.

Revised: ~~September 2005~~ May 2007

Executive Director/
Assistant Executive Director

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Date ______________________

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MINNESOTA STATE BOARD OF INVESTMENT
INVESTMENT GUIDELINES
SEMI-PASSIVE INTERNATIONAL DEVELOPED MARKETS
EQUITY MANAGERS

The investment actions of the Minnesota State Board of Investment (SBI) active international developed markets equity managers will be governed and evaluated by the following guidelines which are comprised of Parts A and B:

Part A

A1. RISK/RETURN OBJECTIVE

The Manager will be evaluated, in part, based on performance in delivering cumulative returns, net of fees and expenses, in excess of a predetermined benchmark assigned to the Manager. The Manager is responsible for actively managing the absolute level and composition of the active risk of the Manager's portfolio relative to the benchmark. The Manager's objectives are:

(a) Over the most recent five-year period, the actual portfolio shall have a realized active risk level relative to the benchmark in the range of ______ to ______, where active risk is the annualized standard deviation of the Manager's excess returns relative to the benchmark.

The Manager must notify and explain to Staff in the Quarterly Manager Commentary (see investment guideline B5 (b)) any deviation from this range. ~~and explain any deviation from this range.~~

The level of active risk in the actual portfolio will be monitored on a five-year rolling period basis to ascertain the trend in active risk. In addition, the current active risk level will be compared to the active risk of the product at the time the manager was hired. And,

(b) A portfolio information ratio of 0.20 or greater over the most recent 5-year period, where the information ratio is the annualized excess return over the benchmark, net of fees and expenses, divided by the annualized standard deviation of excess return over the benchmark.

The Manager must notify and explain to Staff in the Quarterly Manager Commentary (see investment guideline B5 (b)) any deviation from this range. ~~and explain any deviation from this range.~~

The information ratio will also be monitored on a five-year rolling period basis to ascertain the trend in the information ratio. In addition, the current information ratio will be compared to the information ratio of the product at the time the Manager was hired.

A2. BENCHMARK

The benchmark is the Morgan Stanley Capital International (MSCI) World ex. U.S. Index, unhedged, with dividends net of tax withholdings. SBI reserves the right to change the benchmark upon notification to the Manager.

A3. ELIGIBLE MARKETS

~~Subject to the constraints in A4 below, the Manager is authorized to purchase eligible securities only in the countries that are not constituents of the MSCI Emerging Market Free (EMF) Index.~~ Manager may invest in eligible securities in countries in the MSCI World ex US index. Manager may not invest in countries in the MSCI Emerging Markets index. Manager must request authorization to invest in any countries that are not represented in either index. The country classification of a security shall be its country of listing.

A4. ELIGIBLE INVESTMENTS

Subject to the constraints in A3 above, the Manager will be restricted to trading common stocks, preferred stocks, exchange traded funds, currency forwards and spot, Reits, stapled units and the SBI's STIF fund. The Manager may hold any security received as a distribution from an existing holding. The Manager must have the SBI's written approval to purchase warrants, rights, open-end country funds and closed-end country or regional funds, stock index futures and options, currency futures and options, convertible issues, and any security that is not specifically outlined in this guideline. The investments of the Manager must satisfy the following criteria and constraints:

(a) All securities held must be covered by the authorization in *Minnesota Statutes* Chapter 11A.24.

(b) U.S. cash equivalents shall be invested in the SBI's STIF fund, managed by its custodian bank.

(c) Private placements, defined as those securities for which a public market does not exist or which will be subject to any known trading restrictions at any time during which the security is held in the SBI's portfolio, may not be purchased in the Account.

(d) Debt securities, except cash equivalents may not be purchased in the Account.

(e) ~~The Manager shall not hold at any time more than three (3) percent of the total outstanding shares of any corporation in the SBI's portfolio~~. In the SBI's portfolio, the Manager shall not at any time hold more than three (3) percent of the total outstanding shares of any corporation. If a holding should breach this level or the Manager desire to hold a larger position, the Manager must notify the SBI in writing for approval.

(f) The stock of companies domiciled in the US shall not be held in the Account. However, with the SBI's prior written authorization, Manager may hold open-end and closed-end funds, which invest primarily in international securities. The Manager may purchase dually listed MSCI World ex US index securities that are listed on a U.S. exchange. The Manager may purchase Canadian Investment Trusts, provided they have no trading restrictions, trade on a public market and can be priced daily.

(g) ~~American Depository Receipts (ADR's) and Global Depository Receipts (GDR's) may be held in the Account provided they are issued by an eligible market, depository eligible and can be priced on a daily basis.~~ American Depository Receipts (ADR's) and Global Depository Receipts (GDR's) may be held in the Account provided they are issued by a company which is traded or listed on an eligible market, and can be priced on a daily basis. Non-U.S. securities issued pursuant to Rule 144A may be purchased for the Account if, upon issuance, they will be publicly-traded securities in their local market(s) and can be priced on a daily basis.

(h) Upon written authorization by the SBI, stock options purchased through a governmentally regulated futures exchange and stock index futures approved by the Commodity Futures Trading Commission (CFTC) may be used to adjust the effective equity exposure of the portfolio. Over-the-counter derivative instruments are not permitted. All futures transactions must be entered into with a fully offsetting amount of cash or cash equivalents. The cash or cash equivalent position used to offset the futures position at the time of purchase, plus any mark to market adjustments, must be maintained over the life of the futures position to ensure that a leveraged position, as defined in Part B4, does not occur.

(i) For eligible market countries outside the MSCI World ex US index, eligible securities shall not exceed 10% of the Account's market value at the time of purchase.

(j) Currency forwards may be used to adjust the effective non-US currency exposure of the portfolio. Manager is permitted to hedge all or any portion of the non-US currency exposure back to the US dollar and may also attempt to add value from anticipated declines in the value of any non-US currency, through hedging out of one non-US currency into another non-US currency. The Manager is permitted to increase the exposure to any non-US currency of an eligible market beyond that established by the equity security holdings of the portfolio or that of the country allocation within the benchmark; provided, however, that the total non-U.S. currency exposure of all securities and currency forwards may not exceed the total market value of the portfolio. The Manager has no obligation to hedge currency risk and will not be required to do so.

(k) The Manager may not purchase stocks from the SBI's List of Restricted Tobacco Stocks. The SBI will periodically provide the Manager with an updated List.

A5. COUNTERPARTY BANKS

Each counterparty bank used by the Manager to execute currency transactions must have a credit rating of A1/P1/F1 or better from at least two of the following rating organizations: S&P, Moody's or Fitch/IBCA. Prior written authorization is required to execute current transactions with counterparty banks rated A1/P1/F1 or better by only one acceptable rating agency.

Any agreement entered into by the Manager on behalf of the SBI's account must be reviewed and approved by legal representatives of the SBI before entering into the agreement. Any such agreement must provide that SBI liability for settlement, commissions and fees is limited solely to funds of the SBI under Manager's control and does not constitute a general obligation of the State of Minnesota.

The Manager is responsible for monitoring the counterparty credit ratings of each counterparty bank and/or counterparty group, and the Manager will promptly notify the SBI of any counterparty rating downgrade below the A1/P1/F1 level.

A6. PROXY VOTING

The SBI retains the right to vote its proxies directly. Unless the SBI notifies the Manager that it is exercising this right, the Manager shall vote all proxies on behalf of the SBI. On a best efforts basis, the Manager shall vote all proxies according to guidelines provided to the Manager by the SBI. The Manager shall report annually on its voting practices with respect to the SBI portfolio. This report shall be received by the SBI within sixty (60) days following the fiscal year ending June 30. The SBI represents that such delegation of voting rights is consistent with applicable *Minnesota Statutes*. The SBI agrees to instruct the Custodian to forward all proxy materials to the Manager upon receipt. Manager shall not be liable with regard to voting of proxies in the event proxy materials are not received by the Manager in a timely manner.

Revised: ~~September 2005~~ May 2007

Executive Director/
Assistant Executive Director

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Date ______________________

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MINNESOTA STATE BOARD OF INVESTMENT
INVESTMENT GUIDELINES
PASSIVE INTERNATIONAL DEVELOPED MARKETS EQUITY MANAGER

The investment actions of the Minnesota State Board of Investment (SBI) Passive Fund Manager will be governed and evaluated by the following guidelines which are comprised of Parts A and B:

Part A

A1. RETURN/TRACKING ERROR OBJECTIVE

The Manager will be evaluated, in part, based on performance in delivering cumulative returns, net of fees and expenses, in line with a predetermined benchmark provided to the Manager. The Manager is responsible for managing the absolute level and composition of the active risk of the Manager's portfolio relative to the benchmark. The Manager's objectives are:

(a) An actual portfolio that has a realized active risk level relative to the benchmark of 0.60 or less, where active risk is the annualized standard deviation of the Manager's excess returns relative to the benchmark. And,

(b) A portfolio that tracks the return of the benchmark closely. Over time, the annual return relative to the benchmark should exceed 0.10%.

A2. BENCHMARK INDEX

The benchmark is the Morgan Stanley Capital International (MSCI) World ex. U.S. Index, unhedged, with dividends net of tax withholdings. SBI reserves the right to change the benchmark upon notification to the Manager.

A3. ELIGIBLE INVESTMENTS

The Manager is restricted to trading stocks in the benchmark index, Commodity Futures Trading Commission (CFTC) approved stock index futures, exchange traded funds, and the SBI's STIF fund subject to the following constraints:

(a) All securities held must be covered by the authorization in *Minnesota Statutes* Section 11A.24.

(b) U.S. cash equivalents shall be invested in the SBI's STIF fund, managed by its custodian bank.

(c) CFTC approved stock index futures may be used to equitize cash in the portfolio. Over-the-counter futures instruments are not permitted. All future transactions must be entered into and maintained with a fully offsetting amount of cash or cash equivalents. The cash or cash equivalent position used to offset the futures position at the time of purchase, plus any mark to market adjustments, must be maintained over the life of the futures position to ensure that a leveraged position, as defined in Part B4, does not occur.

A4. PROXY VOTING

The SBI retains the right to vote its proxies directly. Unless the SBI notifies the Manager that it is exercising this right, the Manager shall vote all proxies on behalf of the SBI. On a best efforts basis, the Manager shall vote all proxies according to guidelines provided to the Manager by the SBI. The Manager shall report annually on its voting practices with respect to the SBI portfolio. This report shall be received by the SBI within sixty (60) days following the fiscal year ending June 30. The SBI represents that such delegation of voting rights is consistent with applicable *Minnesota Statutes*. The SBI agrees to instruct the Custodian to forward all proxy materials to the Manager upon receipt. Manager shall not be liable with regard to voting of proxies in the event proxy materials are not received by the Manager in a timely manner.

The SBI reserves the right to review the proxies and, on a limited basis (not to exceed 6 times per year), may notify the Manager to have Institutional Shareholder Services (ISS) override the standing instructions with SBI's vote. Any override on a meeting in Japan will be sent to the Manager at least 9 business days before the meeting. We understand the custodian will handle any notice past this deadline on a "best efforts" basis. The SBI will notify the Manager of an override via fax with authorized signature to a designee of the custodian, and will be followed up with an email to that designee of the custodian and copy the designee of the Manager via e-mail.

Date: ~~September 2005~~ May 2007

Executive Director/
Assistant Executive Director

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Date ______________________

MINNESOTA STATE BOARD OF INVESTMENT
INVESTMENT GUIDELINES
ACTIVE INTERNATIONAL EMERGING MARKETS EQUITY MANAGERS

The investment actions of the Minnesota State Board of Investment (SBI) international emerging markets equity managers will be governed and evaluated by the following guidelines which are comprised of Parts A and B:

A1. RISK/RETURN OBJECTIVE

The Manager will be evaluated, in part, based on performance in delivering cumulative returns, net of fees and expenses, in excess of a predetermined benchmark provided to the Manager. The Manager is responsible for actively managing the absolute level and composition of the active risk of the Manager's portfolio relative to the benchmark. The Manager's objectives are:

(a) Over the most recent five-year period, the actual portfolio shall have a realized active risk level relative to the benchmark in the range of ______ to ______, where active risk is the annualized standard deviation of the Manager's excess returns relative to the benchmark.

The Manager must notify <u>and explain to</u> Staff <u>in the Quarterly Manager Commentary (see investment guideline B5 (b)) any deviation from this range.</u> ~~and explain any deviation from this range.~~

The level of active risk in the actual portfolio will be monitored on a five-year rolling period basis to ascertain the trend in active risk. In addition, the current active risk level will be compared to the active risk of the product at the time the manager was hired. And,

(b) A portfolio information ratio of 0.20 or greater over the most recent 5-year period, where the information ratio is the annualized excess return over the benchmark, net of fees and expenses, divided by the annualized standard deviation of excess return over the benchmark.

The Manager must notify <u>and explain to</u> Staff <u>in the Quarterly Manager Commentary (see investment guideline B5 (b)) any deviation from this range.</u> ~~and explain any deviation from this range.~~

The information ratio will also be monitored on a five-year rolling period basis to ascertain the trend in the information ratio. In addition, the current information ratio will be compared to the information ratio of the product at the time the Manager was hired.

A2. BENCHMARK

The benchmark is the Morgan Stanley Capital International Emerging Markets Free (MSCI EMF) index unhedged, with dividends net of tax withholdings. SBI reserves the right to change the benchmark upon notification to the Manager.

A3. ELIGIBLE MARKETS

~~Subject to the constraints in A4 below, the Manager is authorized to purchase eligible securities only in the countries that are not constituents of the MSCI World ex U.S. index and subject to the following constraints:~~ Manager may invest in eligible securities in countries in the MSCI Emerging Markets index. Manager may not invest in countries in the MSCI World ex US index. Manager must request authorization to invest in any countries that are not represented in either index. The country classification of a security shall be its country of listing.

Group I. The Manager is not restricted regarding publicly traded securities of companies in the following markets:

Argentina
Chile
Czech Rep.
Hungary
Poland
Taiwan

Group II. The Manager may purchase publicly traded securities of companies in the following markets if the Manager believes it would be a breach of fiduciary responsibility not to do so. If the Manager chooses to invest in one or more of these markets, the Manager must notify the SBI in writing of its decision to do so.

Brazil	Korea, Rep. of	Philippines
Colombia	Malaysia	South Africa
India	Mexico	Thailand
Indonesia	Morocco	Turkey
Israel	Peru	Venezuela

Group III. The Manager may invest in publicly traded securities of companies in the following markets if the Manager believes it would be a breach of fiduciary responsibility not to do so. If the Manager chooses to invest in one or more of these markets, the Manager must notify the SBI in writing of its decision to do so.

China
Egypt
Jordan
Pakistan
Russia

A4. ELIGIBLE INVESTMENTS

Subject to the constraints in A3 above, the Manager will be restricted to trading common stocks, preferred stocks, exchange traded funds, currency forwards and spot, Reits, stapled units and the SBI's STIF fund. The Manager may hold any security received as a distribution from an existing holding. The Manager must have the SBI's written approval to purchase warrants, rights, open-end country funds and closed-end country or regional funds, stock index futures and options, currency futures and options, convertible issues, and any security that is not specifically outlined in this guideline. The investments of the Manager must satisfy the following criteria and constraints:

(a) All securities held must be covered by the authorization in *Minnesota Statutes* Section 11A.24.

(b) U.S. cash equivalents shall be invested in the SBI's STIF fund, managed by its custodian bank.

(c) Private placements, defined as those securities for which a public market does not exist or which will be subject to any known trading restrictions at any time during which the security is held in the SBI's portfolio, may not be purchased.

(d) Debt securities, except cash equivalents may not be purchased.

(e) The stock of companies in, or open and closed-end funds investing principally in, any of the following countries shall not be held in the Account: U.S.; and all MSCI World ex U.S. markets unless the company/fund gets all or substantially all of its revenue from an emerging market country(ies) as set out in A3 above. Notwithstanding the foregoing sentence, Manager may hold closed-end funds (or open-end funds that have been converted from closed-end funds held by the Account), provided all or substantially all of the assets of such instruments or funds satisfy this constraint. The Manager may not at any time hold more than 3% of the assets of a Closed-end Fund unless it can be demonstrated that an SEC filing is not required when ownership exceeds 5%. In addition, Manager may purchase securities listed in Hong Kong to gain exposure to China.

(f) For emerging market countries outside the EMF benchmark, eligible securities shall not exceed 10% of the Account's market value in aggregate at the time of purchase.

(g) ~~Depository Receipts may be held in the Account provided they are issued by an emerging market company, are depository eligible, and can be priced on a daily basis.~~ American Depository Receipts (ADR's) and Global Depository Receipts (GDR's) may be held in the Account provided they are issued by a company which is traded or listed on an eligible market, and can be priced on a daily basis. Non-U.S. securities and Depository Receipts issued pursuant to Rule 144A may be purchased for the Account if, upon issuance, these securities (or their underlying shares in the case of Depository Receipts) will be publicly-traded securities in their local market(s) or another regulated market and can be priced on a daily basis.

(h) ~~The Manager shall not hold, at any time, more than three (3) percent of the total outstanding shares of any corporation in the Account at any time.~~ In the SBI's portfolio, the Manager shall not at any time hold more than three (3) percent of the total outstanding shares of any corporation. If a holding should breach this level or the Manager desire to hold a larger position, the Manager must notify the SBI in writing for approval.

(i) Currency forwards may be used to adjust the effective non-U.S. country exposure of the Account from 0 to 100%. Hedging back to USD or to the Euro is permitted. Cross hedging from one eligible market currency into another eligible market currency is permitted with prior written notification to Staff. The total non-U.S. currency exposure of all securities and currency forwards may not exceed the total market value of the portfolio. The Manager has no obligation to hedge currency risk and will not be required to do so.

(j) The Manager may not purchase stocks from the SBI's List of Restricted Tobacco Stocks. The SBI will periodically provide the Manager with an updated List.

A5. COUNTERPARTY BANKS

Each counterparty bank used by the Manager to execute currency transactions must have a credit rating of A1/P1/F1 or better from at least two of the following rating organizations: S&P, Moody's or Fitch/IBCA. Prior written authorization is required to execute current transactions with counterparty banks rated A1/P1/F1 or better by only one acceptable rating agency.

Any agreement entered into by the Manager on behalf of the SBI's account must be reviewed and approved by legal representatives of the SBI before entering into the agreement. Any such agreement must provide that SBI liability for settlement, commissions and fees is limited solely to funds of the SBI under Manager's control and does not constitute a general obligation of the State of Minnesota.

The Manager is responsible for monitoring the counterparty credit ratings of each counterparty bank and/or counterparty group, and the Manager will promptly notify the SBI of any counterparty rating downgrade below the A1/P1/F1 level.

A6. PROXY VOTING

The SBI retains the right to vote its proxies directly. Unless the SBI notifies the Manager that it is exercising this right with respect to all proxies, the Manager shall vote all proxies on behalf of the SBI. On a best efforts basis, the Manager shall vote all proxies according to guidelines provided to the Manager by the SBI. The Manager shall report annually on its voting practices with respect to the SBI portfolio. This report shall be received by the SBI within sixty (60) days following the fiscal year ending June 30. The SBI represents that such delegation of voting rights is consistent with applicable *Minnesota Statutes*. The SBI agrees to instruct the Custodian to forward all proxy materials to the Manager upon receipt. Manager shall not be liable with regard to voting of proxies in the event proxy materials are not received by the Manager in a timely manner.

Revised: ~~September 2005~~ May 2007

Executive Director/
Assistant Executive Director

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Date ______________________

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Part A:

Investment Manager Guidelines

External Fixed Income

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MINNESOTA STATE BOARD OF INVESTMENT
INVESTMENT GUIDELINES
EXTERNAL ACTIVE FIXED INCOME MANAGERS

The investment actions of the Minnesota State Board of Investment (SBI) external active fixed income managers will be governed and evaluated by the following guidelines which are comprised of Parts A and B:

Part A

A1. RISK/RETURN OBJECTIVES

The Manager will be evaluated, in part, based on performance in delivering cumulative returns, net of fees and expenses, in excess of a predetermined benchmark assigned to the Manager. The Manager is responsible for actively managing the absolute level and composition of the active risk of the Manager's portfolio relative to the benchmark. The Manager's objectives are:

(a) Over the most recent five-year period, the actual portfolio shall have a realized active risk level relative to the benchmark in the range of ___ to ___, where active risk is the annualized standard deviation of the Manager's excess returns relative to the benchmark.

The Manager must notify and explain to Staff in the Quarterly Manager Commentary (see investment guideline B5 (b)) any deviation from this range. ~~and explain any deviation from this range.~~

The level of active risk in the actual portfolio will be monitored on a five-year rolling period basis to ascertain the trend in active risk. In addition, the current active risk level will be compared to the active risk of the product at the time the manager was hired. And,

(b) A portfolio information ratio of 0.20 or greater over the most recent 5-year period, where the information ratio is the annualized excess return over the benchmark, net of fees and expenses, divided by the annualized standard deviation of excess return over the benchmark.

The Manager must notify and explain to Staff in the Quarterly Manager Commentary (see investment guideline B5 (b)) any deviation from this range. ~~and explain any deviation from this range.~~

The information ratio will also be monitored on a five-year rolling period basis to ascertain the trend in the information ratio. In addition, the current information ratio will be compared to the information ratio of the product at the time the Manager was hired.

A2. BENCHMARK

The benchmark is the Lehman Brothers Aggregate Bond Index (Lehman Aggregate). The SBI reserves the right to change the benchmark upon notification to the Manager.

A3. ELIGIBLE INVESTMENTS

The Manager may purchase or sell fixed income instruments, interest rate derivative instruments which are defined as interest rate futures on U.S. Treasury securities, Eurodollar futures, and interest rate options on U.S. Treasury futures and Eurodollar futures. The investments must satisfy the following criteria:

(a) All securities held must be covered by the authorization in *Minnesota Statutes* Chapter 11A.24.

(b) ~~(a)~~ Governmental bonds, notes, bills, mortgages, and other evidences of indebtedness provided the issue is backed by the full faith and credit of the Government. The obligations in which the Manager may invest under this subdivision include guaranteed or insured issues of:

(1) the United States, its agencies, its instrumentalities, or organizations created and regulated by an act of Congress;

(2) Canada and its provinces, provided the principal and interest is payable in United States dollars;

(3) the International Bank for Reconstruction and Development, the Inter- American Development Bank, the Asian Development Bank, the African Development Bank, or any other United States Government sponsored organization of which the United States is a member, provided the principal and interest is payable in United States dollars.

(c) ~~(b)~~ Fixed income securities issued by any U.S. state or U.S. territory, or any municipality, political subdivision, agency or instrumentality thereof, provided that:

(1) such securities may not be purchased by the Manager directly from the issuer or the issuer's agent, such as an underwriter of

underwriting syndicate. All purchases of securities under this subdivision must be transacted in the secondary market; and

(2) the principal and interest of such obligations shall be payable in United States dollars.

(d)
~~(c)~~ The Manager may invest funds in fixed income securities issued or guaranteed by a corporation organized under the laws of the United States or any state thereof, or the Dominion of Canada or any province thereof provided that:

(1) the principal and interest of such obligations shall be payable in United States dollars; and

(2) obligations shall be rated among the top four quality categories by Moody's, Standard & Poor's, or Fitch/IBCA at time of purchase; and

(3) the Manager shall not hold more than 5 percent of the market value of the portfolio in one issuer.

(e)
~~(d)~~ With the SBI's prior written authorization, the Manager may invest up to 15 percent of the portfolio, measured on a market value or contribution to duration basis, whichever is greater, in below investment grade ~~corporate bonds~~ fixed income securities issued or guaranteed by a corporation organized under the laws of the United States or any state thereof, or the Dominion of Canada or any province thereof. At time of purchase, the bond must be rated B or higher by Moody's, Standard & Poor's, and Fitch/IBCA provided that:

(1) the principal and interest of such obligations shall be payable in United States dollars; and

(2)
~~(1)~~ participation is limited to 20 percent of a single offering;

(3)
~~(2)~~ participation is limited to 10 percent of an issuer's total outstanding obligations;

(4)
~~(3)~~ the manager shall not hold more than 2 percent of the market value of the portfolio in any one issuer, and

(5)
~~(4)~~ the total value of such instruments plus the value of any non-dollar investments allowed under ~~4(i)~~ A3(l) below not exceed 20

percent of the total portfolio, measured on a market value or contribution to duration basis, whichever is greater.

(f) ~~(d)~~ Mortgage-backed securities purchased must be rated in the top four quality categories by Moody's, Standard & Poor's, or Fitch/IBCA at time of purchase and the Manager shall not hold more than 5 percent of the market value of the portfolio in one issuer, excluding the following issuers: Government National Mortgage Association, Federal National Mortgage Association, and Federal Home Loan Mortgage Corporation.

(g) ~~(e)~~ Asset-backed securities purchased must be rated in the top four quality categories by Moody's, Standard & Poor's, or Fitch/IBCA at time of purchase, and the Manager shall not hold more than 5 percent of the market value of the portfolio in one issuer.

(h) ~~(f)~~ For mortgage-backed securities and asset-backed securities, if the entity issues both direct and also as a servicer through a bankruptcy remote entity or trust, the manager is limited to 5% of the market value of the portfolio for direct issues, and 5% of the market value as a servicer.

(i) ~~(g)~~ Yankee bonds and Eurodollar bonds purchased must be rated in the top four quality categories by Moody's, Standard & Poor's, or Fitch/IBCA at time of purchase and the Manager shall not hold more than 5 percent of the market value of the portfolio in one issuer.

(j) ~~(h)~~ The Manager may invest up to 5 percent of the market value of the portfolio in non-rated securities, which if rated by Moody's, Standard & Poor's, or Fitch/IBCA would have a rating of BBB of better.

(k) ~~(i)~~ Cash equivalent reserves shall be invested in the SBI's STIF fund, managed by its custodian bank. With prior written SBI authorization, the Manager may purchase and manage cash equivalent reserves outside of the SBI's STIF fund.

(l) ~~(j)~~ With prior written authorization from SBI, the Manager may invest up to 15 percent of the portfolio, measured on a market value or contribution to duration basis, whichever is greater, in non-dollar denominated bonds, provided that the total value of such instruments plus the value of any below investment grade corporate investments allowed under ~~4(e)~~ A3(e) above not exceed 20 percent of the total portfolio, measured on a market value or contribution to duration basis, whichever is greater. Non-dollar denominated bonds purchased must be rated in the top four quality categories by Moody's, Standard & Poor's, or Fitch/IBCA at the time of purchase and the manager shall not hold more than 5 percent of the market value of the portfolio in any one issuer. The manager shall have discretion to hedge the portfolio's currency exposure, up to the amount invested in non-dollar bonds, using currency forwards, futures or options.

(m) ~~(k)~~ Interest rate options on U.S. Treasury futures and Eurodollar futures, interest rate futures on U.S. Treasury securities and Eurodollar futures must be purchased or sold through a governmentally regulated exchange. Over-the-counter instruments are not permitted. All options and futures transactions must be entered into and maintained with a fully offsetting amount of collateral as defined in A4(b)(2) below. The portfolio may not be leveraged in any way.

A4. INVESTMENT CONSTRAINTS

(a) Duration Guidelines

(1) The option-adjusted duration of the portfolio must be within +/-2 years of the duration of the Lehman Brothers Aggregate Index.

(b) Derivative Guidelines

(1) Restrictions

Total net notional exposure from all derivative contracts must be less than 50% of the manager's portfolio net asset value and the total net contribution to duration exposure due to all derivative contracts must be less than 50% of the Lehman Aggregate's index duration.

(2) Collateral Guidelines

All cash and cash equivalents, which is defined as:

(i) All investment grade securities with an effective duration and spread duration of one year or less.

(ii) All U.S. Treasury securities (excluding U.S. Treasury Inflation Indexed Securities) with an effective duration of three years or less.

(iii) All U.S. Treasury Inflation Indexed Securities with a maturity of 5 years or less.

(iv) Any U.S. Treasury security that will satisfy the delivery requirement for a derivative contract currently being held in the manager's SBI portfolio.

(3) Net Notional Liability Exposure

Total liability exposure due to derivative contracts will be calculated on a net notional value basis.

All futures contracts will use their current price to calculate the net notional value.

All net positions for puts and calls sold by the manager will have a notional value equal to the current notional value of the underlying contract. All net positions for puts and calls purchased by the manager will have a notional value of zero.

(4) Derivative Contracts subject to the Above Constraints

The following derivative contracts are subject to the above constraints:

1) interest rate futures on U.S. Treasury securities and Eurodollar futures;

2) interest rate options on U.S. Treasury futures and options on Eurodollar futures; and

3) all TBA mortgages.

A5. REPORTING

(a) The manager is expected to provide the SBI staff with a "Derivative Report" within ten (10) business days after month end. The report should show each derivative contract, the number of contracts, the total notional value for each contract, and the total contribution to duration for each contract. The report should also show which contracts offset each other to calculate the total net notional value of the portfolio. The SBI reserves the right to ask for a "Derivative Report" at any time during the month. The report should also show the portfolio assets that qualify as collateral, as defined in A4(b)(2), their duration, and their market value.

(b) The Manager is expected to provide the SBI staff with an overall portfolio characteristics report within twelve (12) business days after month end. The report should show the sector and quality breakdown on a market value basis and on a contribution to duration basis and both reports should show a total for the SBI portfolio, the Lehman Aggregate Benchmark and the difference between the two, all numbers should be expressed as a percentage to two decimal places. In the sector breakdown, a category showing the allocation to non-dollar bonds must be included. In the quality breakdown, there must be one category for all below investment grade securities.

The 1 month, 3 month, YTD, 1 year, 3 year, 5 year, and since inception performance versus the benchmark showing value added, tracking error, the information ratio, T-statistic, and Sharpe Ratio should be provided.

The report should include a portfolio characteristic summary showing the convexity, option adjusted duration, term to maturity, average quality, yield to maturity, and average coupon for the portfolio and the Lehman Aggregate.

Revised: ~~March 2006~~ May 2007

Executive Director/
Assistant Executive Director

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Date ______________________

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MINNESOTA STATE BOARD OF INVESTMENT
INVESTMENT GUIDELINES
EXTERNAL SEMI-PASSIVE FIXED INCOME MANAGERS

The investment actions of the Minnesota State Board of Investment (SBI) external semi-passive fixed income managers will be governed and evaluated by the following guidelines which are comprised of Parts A and B:

Part A:

A1. RISK/RETURN OBJECTIVES

The Manager will be evaluated, in part, based on performance in delivering cumulative returns, net of fees and expenses, in excess of a predetermined benchmark assigned to the Manager. The Manager is responsible for actively managing the absolute level and composition of the active risk of the Manager's portfolio relative to the benchmark. The Manager's objectives are:

(a) Over the most recent five-year period, the actual portfolio shall have a realized active risk level relative to the benchmark in the range of ___ to ___, where active risk is the annualized standard deviation of the Manager's excess returns relative to the benchmark.

The Manager must notify and explain to Staff in the Quarterly Manager Commentary (see investment guideline B5 (b)) any deviation from this range. ~~and explain any deviation from this range.~~

The level of active risk in the actual portfolio will be monitored on a five-year rolling period basis to ascertain the trend in active risk. In addition, the current active risk level will be compared to the active risk of the product at the time the manager was hired. And,

(b) A portfolio information ratio of 0.20 or greater over the most recent 5-year period, where the information ratio is the annualized excess return over the benchmark, net of fees and expenses, divided by the annualized standard deviation of excess return over the benchmark.

The Manager must notify and explain to Staff in the Quarterly Manager Commentary (see investment guideline B5 (b)) any deviation from this range. ~~and explain any deviation from this range.~~

The information ratio will also be monitored on a five-year rolling period basis to ascertain the trend in the information ratio. In addition, the current information ratio will be compared to the information ratio of the product at the time the Manager was hired.

A2. BENCHMARK

The benchmark is the Lehman Brothers Aggregate Bond Index (Lehman Aggregate). The SBI reserves the right to change the benchmark upon notification to the Manager.

A3. ELIGIBLE INVESTMENTS

The Manager may purchase or sell fixed income instruments, interest rate derivative instruments which are defined as interest rate futures on U.S. Treasury securities, Eurodollar futures, and interest rate options on U.S. Treasury ~~securities~~ futures and Eurodollar futures. The investments must satisfy the following criteria:

(a) All securities held must be covered by the authorization in *Minnesota Statutes* Chapter 11A.24.

(b) ~~(a)~~ Governmental bonds, notes, bills, mortgages, and other evidences of indebtedness provided the issue is backed by the full faith and credit of the Government. The obligations in which the Manager may invest under this subdivision include guaranteed or insured issues of:

(1) the United States, its agencies, its instrumentalities, or organizations created and regulated by an act of Congress;

(2) Canada and its provinces, provided the principal and interest is payable in United States dollars;

(3) the International Bank for Reconstruction and Development, the Inter- American Development Bank, the Asian Development Bank, the African Development Bank, or any other United States Government sponsored organization of which the United States is a member, provided the principal and interest is payable in United States dollars.

(c) ~~(b)~~ The manager may invest in fixed income securities issued by any U.S. state or U.S. territory, or any municipality, political subdivision, agency or instrumentality thereof, provided that:

(1) such securities may not be purchased by the Manager directly from the issuer or the issuer's agent, such as an underwriter of

underwriting syndicate. All purchases of securities under this subdivision must be transacted in the secondary market; and

(2) the principal and interest of such obligations shall be payable in United States dollars.

(d) ~~(c)~~ The Manager may invest funds in fixed income securities issued or guaranteed by a corporation organized under the laws of the United States or any state thereof, or the Dominion of Canada or any province thereof provided that:

(1) the principal and interest of such obligations of corporations shall be payable in United States dollars; and

(2) obligations shall be rated among the top four quality categories by Moody's, Standard & Poor's, or Fitch/IBCA at time of purchase; and

(3) the Manager shall not hold more than 5 percent of the market value of the portfolio in one issuer.

(e) ~~(d)~~ With the SBI's prior written authorization, the Manager may invest up to 5 percent of the portfolio, measured on a market value or contribution to duration basis, whichever is greater, in below investment grade ~~corporate bonds~~ fixed income securities issued or guaranteed by a corporation organized under the laws of the United States or any state thereof, or the Dominion of Canada or any province thereof. At time of purchase, the bond must be rated B or higher by Moody's, Standard & Poor's, and Fitch/IBCA provided that:

(1) the principal and interest of such obligations of corporations shall be payable in United States dollars; and

(2) ~~(1)~~ participation is limited to 20 percent of a single offering;

(3) ~~(2)~~ participation is limited to 10 percent of an issuer's total outstanding obligations;

(4) ~~(3)~~ the manager shall not hold more than 2 percent of the market value of the portfolio in any one issuer, and

(5)
~~(4)~~ the total value of such instruments plus the value of any non-dollar investments allowed under ~~A3(j)~~ A3(l) below not exceed 10 percent of the total portfolio, measured on a market value or contribution to duration basis, whichever is greater.

(f)
~~(d)~~ Mortgage-backed securities purchased must be rated in the top four quality categories by Moody's, Standard & Poor's or Fitch/IBCA at time of purchase and the Manager shall not hold more than 5 percent of the market value of the portfolio in one issuer, excluding the following issuers: Government National Mortgage Association, Federal National Mortgage Association, and Federal Home Loan Mortgage Corporation.

(g)
~~(e)~~ Asset-backed securities purchased must be rated in the top four quality categories by Moody's, Standard & Poor's, or Fitch/IBCA at time of purchase and the Manager shall not hold more than 5 percent of the market value of the portfolio in one issuer.

(h)
~~(f)~~ For mortgage-backed securities and asset-backed securities, if the entity issues both direct and also as a servicer through a bankruptcy remote entity or trust, the manager is limited to 5% of the market value of the portfolio for direct issues, and 5% of the market value as a servicer.

(i)
~~(g)~~ Yankee bonds and Eurodollar bonds purchased must be rated in the top four quality categories by Moody's, Standard & Poor's, or Fitch/IBCA at time of purchase and the Manager shall not hold more than 5 percent of the market value of the portfolio in one issuer.

(j)
~~(h)~~ Cash equivalent reserves shall be invested in the SBI's STIF fund, managed by its custodian bank. With prior written SBI authorization, the Manager may purchase and manage cash equivalent reserves outside of the SBI's STIF fund.

(k)
~~(i)~~ Interest rate options ~~and~~ on U.S. Treasury futures and Eurodollar futures, interest rate futures on U.S. Treasury securities and Eurodollar futures must be purchased through a governmentally regulated exchange. Over-the-counter instruments are not permitted. All options and futures transactions must be entered into and maintained with collateral as defined in A4(d)(2) below. The portfolio may not be leveraged in any way.

(1)
~~(i)~~ With prior written authorization from SBI, the Manager may invest up to 5 percent of the portfolio, measured on a market value or contribution to duration basis, whichever is greater, in non-dollar denominated bonds, provided that the total value of such instruments plus the value of any below investment grade corporate investments allowed under ~~A3(e)~~ A3(e) above not exceed 10 percent of the total portfolio, measured on a market value or contribution to duration basis, whichever is greater. Non-dollar denominated bonds purchased must be rated in the top four quality categories by Moody's, Standard & Poor's, or Fitch/IBCA at time of purchase, and the manager shall not hold more than 2 percent of the market value of the portfolio in any one issuer. The manager shall have discretion to hedge the portfolio's currency exposure, up to the amount invested in non-dollar bonds, using currency forwards, futures or options.

A4. INVESTMENT CONSTRAINTS

The investment parameters are based on contribution to duration. Contribution to duration is the sector percentage multiplied by the sector's duration of the Lehman Brothers Aggregate.

(a) Sector Weighting Guidelines

Treasury/Agency Sector	+/- 50% of the Government sector contribution to duration of the Lehman Brothers Aggregate.
Mortgage Sector	+/- 50% of the Mortgage-Backed sector sector contribution to duration of the Lehman Brothers Aggregate.
Corporate Sector	+/- 50% of the Combined Corporate and Asset-Backed sectors contribution to duration of the Lehman Brothers Aggregate.
Issues Outside the Index*	Maximum 10% of the Lehman Brothers Aggregate contribution to duration. These must be eligible securities as defined in A3 above.

* Issues collateralized by securities that are part of the index are not considered to be outside the index. For instance, CMO's collateralized by mortgages that are part of the index are not considered to be outside the index.

(b) Corporate Credit Guidelines

AAA/AA +/- 75% of the combined AAA and AA sector contribution to duration of the Lehman Brothers Aggregate.

A/BBB +/- 50% of the combined A and BBB sector contribution to duration of the Lehman Brothers Aggregate.

(c) Duration Guidelines

(1) The option-adjusted duration of the portfolio must be within +/-0.2 years of the duration of the Lehman Brothers Aggregate Index.

(d) Derivative Guidelines

(1) Restrictions

Total net notional exposure from all derivative contracts must be less than 50% of the manager's portfolio net asset value and the total net contribution to duration exposure due to all derivative contracts must be less than 50% of the Lehman Aggregate's index duration.

(2) Collateral Guidelines

All cash and cash equivalents, which is defined as:

(i) All investment grade securities with an effective duration and spread duration of one year or less.

(ii) All U.S. Treasury securities (excluding U.S. Treasury Inflation Indexed Securities) with an effective duration of three years or less.

(iii) All U.S. Treasury Inflation Indexed Securities with a maturity of 5 years or less.

(iv) Any U.S. Treasury security that will satisfy the delivery requirement for a derivative contract currently being held in the manager's SBI portfolio.

(3) Net Notional Liability Exposure

Total liability exposure due to derivative contracts will be calculated on a net notional value basis.

All futures contracts will use their current price to calculate the net notional value.

All net positions for puts and calls sold by the manager will have a notional value equal to the current notional value of the underlying contract. All net positions for puts and calls purchased by the manager will have a notional value of zero.

(4) Derivative Contracts subject to the Above Constraints

The following derivative contracts are subject to the above constraints:

1) interest rate futures on U.S. Treasury securities and Eurodollar futures;

2) interest rate options on U.S. Treasury futures and options on Eurodollar futures; and

3) all TBA mortgages.

A5. REPORTING

(a) The manager is expected to provide the SBI staff with a "Derivative Report" within ten (10) business days after month end. The report should show each derivative contract, the number of contracts, the total notional value for each contract, and the total contribution to duration for each contract. The report should also show which contracts offset each other to calculate the total net notional value of the portfolio. The SBI reserves the right to ask for a "Derivative Report" at any time during the month. The report should also show the portfolio assets that qualify as collateral, as defined in A4(d)(2), their duration, and their market value.

(b) The Manager is expected to provide the SBI staff with an overall portfolio characteristics report within twelve (12) business days after month end. The report should show the sector and quality breakdown on a market value basis and on a contribution to duration basis and both reports should show a total for the SBI portfolio, the Lehman Aggregate Benchmark and the difference between the two, all numbers should be expressed as a percentage to two decimal places. In the sector breakdown, a category showing the allocation to non-dollar bonds must be included. In the quality of breakdown, there must be one category for all below investment grade securities.

The 1 month, 3 month, YTD, 1 year, 3 year, 5 year, and since inception performance versus the benchmark showing value added, tracking error, the information ratio, T-statistic, and Sharpe Ratio should be provided.

The report should include a portfolio characteristic summary showing the convexity, option adjusted duration, term to maturity, average quality, yield to maturity, and average coupon for the portfolio and the Lehman Aggregate.

The report should show a comparison of the SBI's portfolio to the Lehman Aggregate index by sector, credit, and duration; the percentage difference between the portfolio and index, and a column showing the guideline constraints.

Revised: ~~March 2006~~ May 2007

Executive Director/
Assistant Executive Director

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Date ______________________

Part A:

Investment Manager Guidelines

Assigned Risk Plan

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MINNESOTA STATE BOARD OF INVESTMENT
INVESTMENT GUIDELINES
ASSIGNED RISK PLAN COMMON STOCK MANAGER

The investment actions of the Minnesota State Board of Investment (SBI) Assigned Risk Common Stock Manager will be governed and evaluated by the following guidelines which is comprised of Parts A and B:

Part A

A1. RISK/RETURN OBJECTIVE

The Manager will be evaluated, in part, based on performance in delivering cumulative returns, net of fees and expenses, in excess of a predetermined benchmark assigned to the Manager. The Manager is responsible for actively managing the absolute level and composition of the active risk of the Manager's portfolio relative to the benchmark. The Manager's objectives are:

(a) Over the most recent five-year period, the actual portfolio shall have a realized active risk level relative to the benchmark in the range of ______ to ______, where active risk is the annualized standard deviation of the Manager's excess returns relative to the benchmark.

The Manager must notify and explain to Staff in the Quarterly Manager Commentary (see investment guideline B5 (b)) any deviation from this range. ~~and explain any deviation from this range.~~

The level of active risk in the actual portfolio will be monitored on a five-year rolling period basis to ascertain the trend in active risk. In addition, the current active risk level will be compared to the active risk of the product at the time the manager was hired. And,

(b) A portfolio information ratio of 0.20 or greater over the most recent 5-year period, where the information ratio is the annualized excess return over the benchmark, net of fees and expenses, divided by the annualized standard deviation of excess return over the benchmark.

The Manager must notify and explain to Staff in the Quarterly Manager Commentary (see investment guideline B5 (b)) any deviation from this range. ~~and explain any deviation from this range.~~

The information ratio will also be monitored on a five-year rolling period basis to ascertain the trend in the information ratio. In addition, the current information ratio will be compared to the information ratio of the product at the time the Manager was hired.

A2. BENCHMARK

The benchmark is the S&P 500 (Standard & Poor's 500 Stock Index). SBI reserves the right to change the benchmark upon notification to the Manager.

A3. ELIGIBLE INVESTMENTS

The Manager is restricted to trading common stocks, stock index futures, exchange traded funds and cash equivalents. The Manager may hold any security received as a distribution from an existing holding. The Manager must have the SBI's written approval to purchase equity options, preferred stocks, warrants and convertible issues. The Manager's investments must satisfy the following criteria and constraints.

(a) All securities held must be covered by the authorization in *Minnesota Statutes* Chapter 11A.24.

(b) The stocks held must be issued by corporations organized under the laws of the U.S. or its states, the Dominion of Canada or its provinces and/or be listed on an exchange regulated by an agency of the United States (including NASDAQ) or Canadian national government at the time of purchase. These include REITS and American Depository Receipts (ADR's) traded on such an exchange.

(c) The Manager may not purchase restricted stock~~,~~ or letter stock~~, or private placements~~.

(d) Private placements, defined at those securities for which a public market does not exist or which will be subject to any known trading restrictions at any time during which the security is held in the SBI's portfolio, may not be purchased in the Account.

(e)
~~(d)~~ Debt securities, except cash equivalents, may not be purchased in the Account.

(f)
~~(e)~~ Without prior written authorization from SBI, Manager may not purchase open or closed-end funds or pooled investment vehicles ~~of any kind~~. Investments in Business Development Companies that are members of managers assigned benchmark at time of purchase are permitted.

(g)
~~(f)~~ The Manager shall not hold at any time more than three (3) percent of the total outstanding shares of any corporation in the SBI's portfolio. If a holding should breach this level or the Manager desires to hold a larger position, the Manager must notify the SBI in writing for approval.

(h)
~~(g)~~ Cash equivalent reserves shall be invested in the SBI's STIF fund, managed by its custodian bank.

(i)
~~(h)~~ Stock options, if authorized, and stock index futures, purchased through a regulated ~~futures~~ exchange, may be used to adjust the effective equity exposure of the portfolio. Over-the-counter derivative instruments are not permitted. All option and futures transactions must be entered into ~~and maintained~~ with a fully offsetting amount of cash or cash equivalents. The cash or cash equivalent position used to offset the futures position at the time of purchase, plus any mark to market adjustments, must be maintained over the life of the futures position to ensure that a leveraged position, as defined in Part B4, does not occur.

(j)
~~(i)~~ The Manager may not purchase stocks from the SBI's List of Restricted Tobacco Stocks. The SBI will periodically provide the Manager with an updated List.

A4. PROXY VOTING

The Manager may not vote proxies on behalf of the SBI's account unless specifically requested by the SBI to do so.

Revised: ~~September 2005~~ May 2007

Executive Director/
Assistant Executive Director

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Date ______________________

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MINNESOTA STATE BOARD OF INVESTMENT
INVESTMENT GUIDELINES
ASSIGNED RISK PLAN BOND MANAGER

The investment actions of the Minnesota State Board of Investment (SBI) Assigned Risk Plan Bond Manager will be governed and evaluated by the following guidelines which is comprised of Parts A and B:

Part A

A1. RISK/RETURN OBJECTIVE

The Manager is expected to deliver cumulative returns in excess of the benchmark. Excess returns are expected to be 10 basis points net of fees over time on an annualized basis.

A2. BENCHMARK

The benchmark portfolio for this Account is constructed to complement the liability stream out to ten years of the Assigned Risk Plan. The benchmark is composed using the following indexes:

10% 90 day T-Bill
25% Merrill 1-3 Government
15% Merrill 3-5 Government
25% Merrill 5-10 Government
25% Merrill Mortgage Master

Performance will be monitored and evaluated against this custom benchmark.

The SBI reserves the right to change the benchmark upon notification to the Manager.

A3. ELIGIBLE INVESTMENTS

The Manager may purchase or sell fixed income instruments, interest rate derivative instruments which are defined as interest rate futures on U.S. Treasury securities, Eurodollar futures, and interest rate options on U.S. Treasury securities and Eurodollar futures. The investments must satisfy the following criteria:

(a) All securities held must be covered by the authorization in Minnesota Statutes Chapter 11A.24.

(b)
~~(a)~~ Governmental bonds, notes, bills, mortgages, and other evidences of indebtedness provided the issue is backed by the full faith and credit of the Government. The obligations in which the Manager may invest under this subdivision include guaranteed or insured issues of:

(1) the United States, its agencies, its instrumentalities, or organizations created and regulated by an act of Congress;

(2) Canada and its provinces, provided the principal and interest is payable in United States dollars;

(3) the International Bank for Reconstruction and Development, the Inter- American Development Bank, the Asian Development Bank, the African Development Bank, or any other United States Government sponsored organization of which the United States is a member, provided the principal and interest is payable in United States dollars.

(c)
~~(b)~~ Fixed income securities issued by any U.S. state or U.S. territory, or any municipality, political subdivision, agency or instrumentality thereof, provided that:

(1) such securities may not be purchased by the Manager directly from the issuer or the issuer's agent, such as an underwriter of underwriting syndicate. All purchases of securities under this subdivision must be transacted in the secondary market; and

(2) the principal and interest of such obligations shall be payable in United States dollars.

~~(c)~~ ~~Other obligations not specified in (a) or (b) must meet the provisions of MS 11A.24 subdivision 4. Manager shall not hold more than 5 percent of the market value of the portfolio in one issuer, excluding the following issuers: Government National Mortgage Association, Federal National Mortgage Association, and Federal Home Loan Mortgage Corporation.~~

(d) Mortgage-backed securities purchased must be rated in the top four quality categories by Moody's, Standard & Poor's, or Fitch/IBCA at time of purchase and the Manager shall not hold more than 5 percent of the market value of the portfolio in one issuer, excluding the following issuers: Government National Mortgage Association, Federal National Mortgage Association, and Federal Home Loan Mortgage Corporation.

(e) Asset-backed securities purchased must be rated in the top four quality categories by Moody's, Standard & Poor's, or Fitch/IBCA at time of purchase, and the Manager shall not hold more than 5 percent of the market value of the portfolio in one issuer.

(f) Yankee bonds and Eurodollar bonds purchased must be rated in the top four quality categories by Moody's, Standard & Poor's, or Fitch/IBCA at time of purchase and the Manager shall not hold more than 5 percent of the market value of the portfolio in one issuer.

(g) The Manager may invest up to 5 percent of the market value of the portfolio in non-rated securities, which if rated by Moody's, Standard & Poor's, or Fitch/IBCA would have a rating of BBB of better.

(h)
~~(d)~~ Interest rate options, interest rate futures on U.S. Treasury securities and Eurodollar futures must be purchased or sold through a governmentally regulated exchange. Over-the-counter instruments are not permitted. All options and futures transactions must be entered into and maintained with a fully offsetting amount of collateral as defined in ~~A3(d)(1) below~~ A4(a). The portfolio may not be leveraged in any way.

A4. INVESTMENT CONSTRAINTS

(a)
~~(1)~~ Collateral Guidelines

All cash and cash equivalents, which is defined as:

(i) All investment grade securities with an effective duration and spread duration of one year or less.

(ii) All U.S. Treasury securities (excluding U.S. Treasury Inflation Indexed Securities) with an effective duration of three years or less.

(iii) All U.S. Treasury Inflation Indexed Securities with a maturity of 5 years or less.

(iv)
~~(iii)~~ Any U.S. Treasury security that will satisfy the delivery requirement for a derivative contract currently being held in the manager's SBI portfolio.

(b)
~~(e)~~ The Manager is not constrained regarding:

(1) transactions turnover

(2) use of covered call options as hedging devices
(3) number of fixed income issues which must be held at any given point in time
(4) the use of fixed income index futures or options to adjust the effective total portfolio duration.

~~(f) The Manager may purchase cash equivalent reserves, as necessary, or they may be invested in the SBI's STIF fund, managed by its custodian bank.~~

Revised: ~~*September 2005*~~ <u>*May 2007*</u>

Executive Director/
Assistant Executive Director

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Date ______________________

Investment Manager Guidelines

Internal Equity and Fixed Income

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MINNESOTA STATE BOARD OF INVESTMENT
INVESTMENT GUIDELINES
INTERNAL ACTIVE FIXED INCOME MANAGER
INCOME SHARE ACCOUNT

The investment actions of Minnesota State Board of Investment (SBI) internal active fixed income manager will be governed and evaluated by the following guidelines:

A1. RISK/RETURN OBJECTIVES

The Manager will be evaluated, in part, based on performance in delivering cumulative returns, net of fees and expenses, in excess of a predetermined benchmark provided to the Manager. The Manager is responsible for actively managing the absolute level and composition of the active risk of the Manager's portfolio relative to the benchmark. The Manager's objectives are:

(a) Over the most recent five year period, ~~An~~ the actual portfolio ~~that has~~ shall have an active risk level relative to the benchmark that does not ~~to~~ exceed 2.0, where active risk is the annualized standard deviation of the Manager's excess returns relative to the benchmark. And,

The level of active risk in the actual portfolio will be monitored on a five-year rolling period basis to ascertain the trend in active risk. ~~In addition, the current active risk level will be compared to the active risk of the product at the time the manager was hired.~~ And,

(b) ~~A portfolio information ratio of 0.20 or greater. The information ratio is the annualized excess return over the benchmark, net of fees and expenses, divided by the annualized standard deviation of excess return over the benchmark.~~

A portfolio information ratio of 0.20 or greater over the most recent 5-year period, where the information ratio is the annualized excess return over the benchmark, net of fees and expenses, divided by the annualized standard deviation of excess return over the benchmark.

The Manager must notify and explain to Staff in the Quarterly Manager Commentary (see investment guideline B5 (b)) any deviation from this range.

The information ratio will also be monitored on a five-year rolling period basis to ascertain the trend in the information ratio.

A2. BENCHMARK

The benchmark is the Lehman Brothers Aggregate Bond Index (Lehman Aggregate). SBI reserves the right to change the benchmark upon notification to the Manager.

A3. ~~4.~~ ELIGIBLE INVESTMENTS ~~AND PORTFOLIO CONSTRAINTS~~

~~The Manager may purchase or sell fixed income instruments, interest rate options and futures on U.S. Treasuries, and cash equivalents. The investments must satisfy the following criteria:~~

The Manager may purchase or sell fixed income instruments, interest rate derivative instruments which are defined as interest rate futures on U.S. Treasury securities, Eurodollar futures, and interest rate options on U.S. Treasury futures and Eurodollar futures. The investments must satisfy the following criteria:

(a) All securities held must be covered by the authorization in *Minnesota Statutes* Chapter 11A.24.

(b) ~~(a)~~ Governmental bonds, notes, bills, mortgages, and other evidences of indebtedness provided the issue is backed by the full faith and credit of the Government. The obligations in which the Manager may invest under this subdivision include guaranteed or insured issues of:

(1) the United States, its agencies, its instrumentalities, or organizations created and regulated by an act of Congress;

(2) Canada and its provinces, provided the principal and interest is payable in United States dollars;

(3) the International Bank for Reconstruction and Development, the Inter- American Development Bank, the Asian Development Bank, the African Development Bank, or any other United States Government sponsored organization of which the United States is a member, provided the principal and interest is payable in United States dollars.

(c) ~~(b)~~ ~~The manager may invest in fixed~~ Fixed income securities issued by any U.S. state or U.S. territory, or any municipality, political subdivision, agency or instrumentality thereof, provided that:

(1) such securities may not be purchased by the Manager directly from the issuer or the issuer's agent, such as an underwriter of

underwriting syndicate. All purchases of securities under this subdivision must be transacted in the secondary market; and

(2) the principal and interest of such obligations shall be payable in United States dollars.

(d)
~~(c)~~ The Manager may invest funds in fixed income securities issued or guaranteed by a corporation organized under the laws of the United States or any state thereof, or the Dominion of Canada or any province thereof provided that:

(1) the principal and interest of such obligations shall be payable in United States dollars; and

(2) obligations shall be rated among the top four quality categories by Moody's, Standard & Poor's or Fitch/IBCA at time of purchase and

(3) the Manager may not hold more than 5% of the market value of the portfolio in one issuer.

(e) The Manager may invest up to 10% of the portfolio measured on a market value or contribution to duration basis, which ever is greater, in below investment grade ~~corporate bonds~~ fixed income securities issued or guaranteed by a corporation organized under the laws of the United States or any state thereof, or the Dominion of Canada or any province thereof. At the time of purchase, the bonds must be rated BB by Moody's, Standard & Poor's and Fitch/IBCA provided that:

(1) the principal and interest of such obligations shall be payable in United States dollars; and

(2)
~~(1)~~ participation is limited to 20 percent of a single offering and

(3)
~~(2)~~ participation is limited to 10 percent of an issuer's total outstanding obligations and

(4)
~~(3)~~ the Manager shall not hold more than 2 percent of the market value of the portfolio in any one issuer.

(f)
~~(d)~~ Mortgage-backed securities purchased must be rated in the top four quality categories by Moody's, Standard & Poor's, or Fitch/IBCA at time of purchase and the Manager shall not hold more than 5 percent of the market value of the portfolio in one issuer, excluding the following

issuers: Government National Mortgage Association, Federal National Mortgage Association, and Federal Home Loan Mortgage Corporation.

(g)
(e) Asset-backed securities purchased must be rated in the top four quality categories by Moody's, Standard & Poor's, or Fitch/IBCA at time of purchase and the Manager shall not hold more than 5 percent of the market value of the portfolio in one issuer.

(h)
~~(f)~~ For mortgage-backed securities and asset-backed securities, if the entity issues both direct and also as a servicer through a bankruptcy remote entity or trust, the manager is limited to 5% of the market value of the portfolio for direct issues, and 5% of the market value as a servicer.

(i)
~~(g)~~ Yankee bonds and Eurodollar bonds purchased must be rated in the top four quality categories by Moody's, Standard & Poor's, or Fitch/IBCA at time of purchase and the Manager shall not hold more than 5 percent of the market value of the portfolio in one issuer.

(j) The Manager may invest up to 5 percent of the market value of the portfolio in non-rated securities, which if rated by Moody's, Standard & Poor's, or Fitch/IBCA would have a rating of BBB of better.

~~(h) The Manager may manage cash equivalent reserves or they may be invested in the SBI's STIF fund, managed by its custodian bank.~~

(k) Cash equivalent reserves shall be invested in the SBI's STIF fund, managed by its custodian bank. With prior written SBI authorization, the Manager may purchase and manage cash equivalent reserves outside of the SBI's STIF fund.

~~(i) Interest rate futures on U.S. treasury securities must be purchased or sold through a governmentally regulated exchange. Over-the-counter instruments are not permitted. All options and future transactions must be entered into and maintained with a fully offsetting amount of collateral as defined in 5(b)(2) below. The portfolio may not be leveraged in any way.~~

(l) Interest rate options on U.S. Treasury futures and Eurodollar futures, interest rate futures on U.S. Treasury securities and Eurodollar futures must be purchased or sold through a governmentally regulated exchange. Over-the-counter instruments are not permitted. All options and futures transactions must be entered into and maintained with a fully offsetting amount of collateral as defined in A4(b)(2) below. The portfolio may not be leveraged in any way.

A4.
~~5.~~

INVESTMENT CONSTRAINTS

(a) Duration Guidelines

(1) The option-adjusted duration of the portfolio must be within +/- 1 years of the duration of the Lehman Brothers Aggregate Index.

(b) Derivative Guidelines

(1) Restrictions

Total net notional exposure from all derivative contracts must be less than 50% of the manager's portfolio net asset value and the total net contribution to duration exposure due to all derivative contracts must be less than 50% of the Lehman Aggregate's index duration.

(2) Collateral Guidelines

All cash and cash equivalents, which is defined as:

(i) all investment grade securities with an effective duration and spread duration of one year or less.

(ii) All U.S. Treasury securities (excluding U.S. Treasury Inflation Indexed Securities) with an effective duration of three years or less.

~~(iii) Any U.S. Treasury security that will satisfy the delivery requirement for a derivative contract currently being held in the manager's SBI portfolio.~~

(iii) All U.S. Treasury Inflation Indexed Securities with a maturity of 5 years or less.

(iv) Any U.S. Treasury security that will satisfy the delivery requirement for a derivative contract currently being held in the manager's SBI portfolio.

(3) Net Notional Liability Exposure

Total liability exposure due to derivative contracts will be calculated on a net notional value basis.

All futures contracts will use their current price to calculate the net notional value.

All net positions for puts and calls sold by the manager will have a notional value equal to the current notional value of the underlying contract. All net positions for puts and calls purchased by the manager will have a notional value of zero.

(4) Derivative Contracts subject to the Above Constraints

The following derivative contracts are subject to the above constraints:

(1) Interest rate futures on U.S. Treasury securities and Eurodollar futures;

(2) Interest rate options on U.S. Treasury futures and options on Eurodollar futures; and

(3) All TBA mortgages.

Revised: ~~September 2005~~ May 2007

Executive Director/
Assistant Executive Director

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Date ______________________

MINNESOTA STATE BOARD OF INVESTMENT
INVESTMENT GUIDELINES
INTERNAL ACTIVE FIXED INCOME MANAGER
TRUST FUND POOL

The investment actions of Minnesota State Board of Investment (SBI) internal active fixed income manager will be governed and evaluated by the following guidelines:

A1. RISK/RETURN OBJECTIVES

The Manager will be evaluated, in part, based on performance in delivering cumulative returns, net of fees and expenses, in excess of a predetermined benchmark provided to the Manager. The Manager is responsible for actively managing the absolute level and composition of the active risk of the Manager's portfolio relative to the benchmark. The Manager's objectives are:

(a) Over the most recent five year period, ~~An~~ the actual portfolio ~~that has~~ shall have an active risk level relative to the benchmark that does not ~~to~~ exceed 1.5, where active risk is the annualized standard deviation of the Manager's excess returns relative to the benchmark. And,

The level of active risk in the actual portfolio will be monitored on a five-year rolling period basis to ascertain the trend in active risk. ~~In addition, the current active risk level will be compared to the active risk of the product at the time the manager was hired.~~ And,

(b) ~~A portfolio information ratio of 0.20 or greater. The information ratio is the annualized excess return over the benchmark, net of fees and expenses, divided by the annualized standard deviation of excess return over the benchmark.~~

A portfolio information ratio of 0.20 or greater over the most recent 5-year period, where the information ratio is the annualized excess return over the benchmark, net of fees and expenses, divided by the annualized standard deviation of excess return over the benchmark.

The Manager must notify and explain to Staff in the Quarterly Manager Commentary (see investment guideline B5 (b)) any deviation from this range.

The information ratio will also be monitored on a five-year rolling period basis to ascertain the trend in the information ratio.

A2. BENCHMARK

The benchmark is the Lehman Brothers Aggregate Bond Index (Lehman Aggregate). SBI reserves the right to change the benchmark upon notification to the Manager.

A3.
~~4.~~ ELIGIBLE INVESTMENTS ~~AND PORTFOLIO CONSTRAINTS~~

~~The Manager may purchase or sell fixed income instruments, interest rate options and futures on U.S. Treasuries, and cash equivalents. The investments must satisfy the following criteria:~~

The Manager may purchase or sell fixed income instruments, interest rate derivative instruments which are defined as interest rate futures on U.S. Treasury securities, Eurodollar futures, and interest rate options on U.S. Treasury futures and Eurodollar futures. The investments must satisfy the following criteria:

(a) All securities held must be covered by the authorization in *Minnesota Statutes* Chapter 11A.24.

(b)
~~(a)~~ Governmental bonds, notes, bills, mortgages, and other evidences of indebtedness provided the issue is backed by the full faith and credit of the Government. The obligations in which the Manager may invest under this subdivision include guaranteed or insured issues of:

(1) the United States, its agencies, its instrumentalities, or organizations created and regulated by an act of Congress;

(2) Canada and its provinces, provided the principal and interest is payable in United States dollars;

(3) the International Bank for Reconstruction and Development, the Inter- American Development Bank, the Asian Development Bank, the African Development Bank, or any other United States Government sponsored organization of which the United States is a member, provided the principal and interest is payable in United States dollars.

(c)
~~(b)~~ The manager may invest in fixed income securities issued by any U.S. state or U.S. territory, or any municipality, political subdivision, agency or instrumentality thereof, provided that:

(1) such securities may not be purchased by the Manager directly from the issuer or the issuer's agent, such as an underwriter of

underwriting syndicate. All purchases of securities under this subdivision must be transacted in the secondary market; and

(2) the principal and interest of such obligations shall be payable in United States dollars.

(d)
~~(c)~~ The Manager may invest funds in fixed income securities issued or guaranteed by a corporation organized under the laws of the United States or any state thereof, or the Dominion of Canada or any province thereof provided that:

(1) the principal and interest of such obligations shall be payable in United States dollars; and

(2) obligations shall be rated among the top four quality categories by Moody's, Standard & Poor's or Fitch/IBCA at time of purchase and

(3) the Manager may not hold more than 5% of the market value of the portfolio in one issuer.

(e) The Manager may invest up to 10% of the portfolio measured on a market value or contribution to duration basis, which ever is greater, in below investment grade ~~corporate bonds~~ fixed income securities issued or guaranteed by a corporation organized under the laws of the United States or any state thereof, or the Dominion of Canada or any province thereof. At the time of purchase, the bonds must be rated BB by Moody's, Standard & Poor's and Fitch/IBCA provided that:

(1) the principal and interest of such obligations shall be payable in United States dollars; and

(2)
~~(1)~~ participation is limited to 20 percent of a single offering and

(3)
~~(2)~~ participation is limited to 10 percent of an issuer's total outstanding obligations and

(4)
~~(3)~~ the Manager shall not hold more than 2 percent of the market value of the portfolio in any one issuer.

(f)
~~(d)~~ Mortgage-backed securities purchased must be rated in the top four quality categories by Moody's, Standard & Poor's, or Fitch/IBCA at time of purchase and the Manager shall not hold more than 5 percent of the market value of the portfolio in one issuer, excluding the following issuers: Government National Mortgage Association, Federal National Mortgage Association, and Federal Home Loan Mortgage Corporation.

(g)
~~(e)~~ Asset-backed securities purchased must be rated in the top four quality categories by Moody's, Standard & Poor's, or Fitch/IBCA at time of purchase and the Manager shall not hold more than 5 percent of the market value of the portfolio in one issuer.

(h)
~~(f)~~ For mortgage-backed securities and asset-backed securities, if the entity issues both direct and also as a servicer through a bankruptcy remote entity or trust, the manager is limited to 5% of the market value of the portfolio for direct issues, and 5% of the market value as a servicer.

(i)
~~(g)~~ Yankee bonds and Eurodollar bonds purchased must be rated in the top four quality categories by Moody's, Standard & Poor's, or Fitch/IBCA at time of purchase and the Manager shall not hold more than 5 percent of the market value of the portfolio in one issuer.

(j) The Manager may invest up to 5 percent of the market value of the portfolio in non-rated securities, which if rated by Moody's, Standard & Poor's, or Fitch/IBCA would have a rating of BBB of better.

~~(h) The Manager may manage cash equivalent reserves or they may be invested in the SBI's STIF fund, managed by its custodian bank.~~

(k) Cash equivalent reserves shall be invested in the SBI's STIF fund, managed by its custodian bank. With prior written SBI authorization, the Manager may purchase and manage cash equivalent reserves outside of the SBI's STIF fund.

~~(i) Interest rate futures on U.S. treasury securities must be purchased or sold through a governmentally regulated exchange. Over-the-counter instruments are not permitted. All options and future transactions must be entered into and maintained with a fully offsetting amount of collateral as defined in 5(b)(2) below. The portfolio may not be leveraged in any way.~~

(l) Interest rate options on U.S. Treasury futures and Eurodollar futures, interest rate futures on U.S. Treasury securities and Eurodollar futures must be purchased or sold through a governmentally regulated exchange. Over-the-counter instruments are not permitted. All options and futures transactions must be entered into and maintained with a fully offsetting amount of collateral as defined in A4(b)(2) below. The portfolio may not be leveraged in any way.

A4.
~~5.~~ **INVESTMENT CONSTRAINTS**

(a) Duration Guidelines

(1) The option-adjusted duration of the portfolio must be within +/- 1 years of the duration of the Lehman Brothers Aggregate Index.

(b) Derivative Guidelines

(1) Restrictions

Total net notional exposure from all derivative contracts must be less than 50% of the manager's portfolio net asset value and the total net contribution to duration exposure due to all derivative contracts must be less than 50% of the Lehman Aggregate's index duration.

(2) Collateral Guidelines

All cash and cash equivalents, which is defined as:

(i) all investment grade securities with an effective duration and spread duration of one year or less.

(ii) All U.S. Treasury securities with an effective duration of three years or less.

~~(iii) Any U.S. Treasury security that will satisfy the delivery requirement for a derivative contract currently being held in the manager's SBI portfolio.~~

(iii) All U.S. Treasury Inflation Indexed Securities with a maturity of 5 years or less.

(iv) Any U.S. Treasury security that will satisfy the delivery requirement for a derivative contract currently being held in the manager's SBI portfolio.

(3) Net Notional Liability Exposure

Total liability exposure due to derivative contracts will be calculated on a net notional value basis.

All futures contracts will use their current price to calculate the net notional value.

All net positions for puts and calls sold by the manager will have a notional value equal to the current notional value of the underlying contract. All net positions for puts and calls purchased by the manager will have a notional value of zero.

(4) Derivative Contracts subject to the Above Constraints

The following derivative contracts are subject to the above constraints:

(1) Interest rate futures on U.S. Treasury securities and Eurodollar futures;

(2) Interest rate options on U.S. Treasury futures; and options on Eurodollar futures; and

(3) All TBA mortgages.

Revised: ~~September 2005~~ May 2007

Executive Director/
Assistant Executive Director

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Date ______________________

MINNESOTA STATE BOARD OF INVESTMENT
INVESTMENT GUIDELINES
INTERNAL PASSIVE DOMESTIC COMMON STOCK MANAGER

The investment actions of the Minnesota State Board of Investment (SBI) internal passive domestic common stock manager will be governed and evaluated by the following guidelines:

A1. RISK/RETURN OBJECTIVES

The Manager will be evaluated, in part, based on performance in delivering cumulative returns, net of fees and expenses, in line with a predetermined benchmark ~~provided~~ assigned to the Manager. The Manager is responsible for managing the absolute level and composition of the active risk of the Manager's portfolio relative to the benchmark. The Manager's objectives are:

(a) An actual portfolio that has ~~an~~ realized active risk level relative to the benchmark of 0.20 or less, where active risk is the annualized standard deviation of the Manager's excess returns relative to the benchmark. And,

(b) A portfolio that tracks the return of the benchmark closely. Over time, the annual return shortfall relative to the benchmark, due to fees and trading expenses, should be no more than 0.10%.

A2. BENCHMARK INDEX

The benchmark is the Standard & Poors 500 (S&P 500). SBI reserves the right to change the benchmark upon notification to the Manager.

A3. ~~4.~~ ELIGIBLE INVESTMENTS

The Manager ~~will be~~ is restricted to trading common stocks that are in the benchmark index, stock index futures, stock index exchange traded funds, and the SBI STIF fund. The Manager may sell any securities removed from the target index over a reasonable period of time. The investments must satisfy the following criteria and constraints:

(a) All securities held must be covered by the authorization in *Minnesota Statutes* Chapter 11A.24.

(b) Cash equivalent reserves shall be invested in the SBI's STIF fund, ~~designated by the SBI~~ managed by its custodian bank.

(c) Stock index futures, purchased through a regulated futures exchange, may be used to equitize cash in the portfolio. Over-the-counter futures instruments are not permitted. All futures transactions must be entered into ~~and maintained~~ with a fully offsetting amount of cash or cash equivalents. The cash or cash equivalent position used to offset the futures position at the time of purchase, plus any mark to market adjustments, must be maintained over the life of the futures position to ensure that a leveraged position, as defined in Part B4, does not occur.

A4.
~~7.~~ PROXY VOTING

The Manager may not vote proxies on behalf of the SBI's account unless specifically requested by the Executive Director or Assistant Executive Director to do so.

Revised: ~~September 2005~~ May 2007

Executive Director/
Assistant Executive Director

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Date _______________________

Part B:

Investment Manager Guidelines

External Domestic Equity, External International Equity, External Fixed Income, Assigned Risk Plan, Internal Equity and Internal Fixed Income Managers

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MINNESOTA STATE BOARD OF INVESTMENT
INVESTMENT GUIDELINES
EXTERNAL DOMESTIC EQUITY, EXTERNAL INTERNATIONAL EQUITY, EXTERNAL FIXED INCOME, ASSIGNED RISK PLAN, INTERNAL EQUITY AND INTERNAL FIXED INCOME MANAGERS

Part B:

B1. PERFORMANCE EVALUATION

Manager performance will be evaluated according to qualitative and quantitative guidelines set forth in the SBI's Manager Continuation Policy. These guidelines, which may change from time to time, assist the SBI in its decisions concerning retention and termination of investment managers.

B2. SEPARATE ACCOUNT AND DAILY PRICING

The SBI's portfolio will be managed as a separate account. All assets will be held in custody by the SBI's custodian bank. All securities held in the portfolio must be capable of being priced on a daily basis and accessible by the custodian. Commingled vehicles may not be held in the portfolio without the prior written approval of the SBI.

B3. OPTION AND FUTURES TRADING AGREEMENT

Any option and futures trading agreement entered into by the Manager on behalf of the SBI's account must be reviewed and approved by legal representatives of the SBI before entering into the agreement. Any such agreement must provide that SBI's liability, including margin requirements, commissions and fees, is limited solely to funds of the SBI under the Manager's control and does not constitute a general obligation of the State of Minnesota. The total SBI liability for margin requirements, commissions and fees among all brokers should be limited to the total market value of the SBI's assets under the Manager's control.

B4. LEVERAGE

The Manager may not leverage the account at any time. Leverage exists when the market value of the assets in the portfolio exceeds the owner's (SBI) equity in the assets when viewing the portfolio at any time. Leverage is presumed to exist if the owner's equity is unable to satisfy all of the obligations existing in the portfolio.

The Manager may not short individual securities.

B5. COMMUNICATION

The SBI requires its investment managers to communicate, at a minimum, with SBI staff on the following basis:

(a) The Manager is expected to meet with SBI staff to review the results of the Manager's investment decision-making process on at least an annual basis.

(b) The Manager is expected to provide SBI staff with a "Manager Commentary" as described in the SBI's Manager Continuation Policy within ten (10) business days after quarter end. The Commentary will summarize performance results over both the most recent quarter and year, discuss current investment strategy, discuss all organizational changes affecting the management of the SBI's account, and affirm account reconciliation with the custodial bank.

(c) The Manager may not commence or file any litigation or class action lawsuits on behalf of the SBI ~~including class action lawsuits~~. The Manager will promptly inform SBI staff and the SBI's custodian of any known litigation relating to any holding in the Account. In the event the Manager utilizes a third party service to review class actions, the Manager will attempt to notify the SBI on a best efforts basis. The SBI reserves the right to initiate or participate in any litigation on its own behalf.

B6. ACCOUNT RECONCILIATION

The Manager shall assist in account reconciliation as follows:

(a) To ensure fast, accurate month-end reporting, the Manager is required to complete two forms each month (copies are attached):

(1) **Mid-Month Share and Pricing Reconciliation** – the Manager must reconcile with the custodial bank using State Street's Insight or Global Quest systems. The date of the reconciliation must be as of the business day closest to the 21st calendar day. The reconciliation will include a comparison of the number of shares for each security between the Manager's records and State Street's, and any differences must be reconciled by the end of the month. The reconciliation should also include the identification of security price differences of 5% or greater at the security level. The Manager must email the completed reconciliation form (copy

attached) to minnrecon@statestreet.com no later than the business day closest to the 23rd calendar day. On this form, the Manager must note all discrepancies or positively state that there are no discrepancies.

(2) **Performance & Net Asset Value Comparison** – the Manager must provide preliminary net asset values and month-to-date performance as of the close of business on the 4th business day prior to month-end. Net asset values are comprised of the total market value of the entire fund, plus all open trades and pending income. The completed form must be emailed to minnrecon@statestreet.com no later than the 3rd business day prior to month-end.

(b) The Manager must report all trades to the SBI's custodian bank via facsimile, SWIFT or affirmation by Trade Date + 1 at 11:00 AM EST. For same day settlement trades, the deadline is 10:30 AM EST. Any trades after these deadlines should not be sent until the following day to ensure a smooth and accurate pricing process.

(c) The account will be priced by the SBI's custodian bank and such prices will be used to measure performance of the SBI Account. The Manager agrees to accept the prices established by the custodian bank. If the custodian bank is unable to get a price for a particular security, price requests will be sent to the Manager during the last five business days of each month. The Manager must return these pricing requests by 5:00 PM EST on the day received to facilitate timely valuation of the Account. The Manager may appeal to the SBI if the Manager and custodian bank cannot arrive at mutually agreeable pricing. At the end of each quarter, the Manager must report to the SBI in the quarterly Manager Commentary whether or not the Manager agrees with the Custodian's pricing for the quarter.

B7. COMPLIANCE WITH GUIDELINES

The Manager must immediately inform the SBI, in writing, if the Manager becomes aware of any violations of these guidelines.

At the end of each quarter, the Manager must certify to the SBI in the quarterly Manager Commentary that the Manager is in compliance with these guidelines and has been in compliance over the last three months. If the Manager has violated the guidelines in the past three months and cannot certify compliance over this period, the Manager must describe in a letter all violations that occurred in the last three months.

B8. FUTURE MODIFICATIONS

The SBI reserves the right to modify these investment guidelines at any time. Managers will be notified in advance of changes to the investment guidelines.

Revised: ~~September 2005~~ May 2007

Executive Director/
Assistant Executive Director

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Investment Manager Guidelines

Stable Asset Manager

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MINNESOTA STATE BOARD OF INVESTMENT
INVESTMENT GUIDELINES
EXTERNAL STABLE ASSET MANAGER

The investment actions of State Board of Investment (SBI) external stable asset manager will be governed and evaluated using the following guidelines:

1. INVESTMENT OBJECTIVES

The Manager's portfolio is expected to:

- preserve principal
- provide adequate liquidity for inter-fund transfers and withdrawals
- achieve market returns over the benchmark while controlling investment return volatility within acceptable limits

The Manager is expected to deliver cumulative returns in excess of the returns of the benchmark, over time, net of fees and expenses.

2. BENCHMARKS

The Manager's portfolio is compared to the average yield of the rolling three-year Constant Maturity Treasury (CMT) security plus 45 basis points.

The Manager's portfolio will maintain a minimum average credit quality rating of AA for contract issues and AA- for securities underlying alternative investment contracts.

3. LEVERAGE

The Manager may not leverage the account at any time. Leverage exists when the market value of the assets in the portfolio exceeds the owner's (SBI) equity in the assets when viewing the portfolio at any time. Leverage is presumed to exist if the owner's equity is unable to satisfy all of the obligations existing in the portfolio.

4. ACCEPTABLE INVESTMENTS

The Manager may trade high quality fixed income securities, cash equivalents and investment contracts that have a stated maturity and that satisfy the following constraints and criteria:

(a) Guaranteed Investment Contracts/Bank Investment Contracts: Investment contracts issued by banks or insurance companies must be from a financial institution that has at the time of issuance a credit rating of at least AA- with Standard & Poor's or at least AA3 with Moody's, and the contract may have a maturity of no more than five years.

(b) Separate Account Contracts: Separate account contracts issued by insurance companies, in which the assets are held in a separate account of the issuer and are protected from other creditors of the company must be issued by an insurance company on the Manager's approved list at the time of issuance. The maturity of such contract may not exceed five years, and the underlying assets must satisfy the provisions of *Minnesota Statutes* 11A.24 and the criteria described elsewhere in this section.

(c) Security-Backed Investment Contracts: Security-backed investment contracts (wrappers) must provide benefit responsiveness, be issued by financial institutions or other corporations that are rated at least A+ and have an average maturity of no more than seven years. Fixed income securities purchased by the Manager which underlie these contracts must be rated AAA or better if a single security is used or must have an average portfolio rating of AA- or higher for multiple security portfolios. All securities must individually satisfy the provisions of Minnesota Statutes, section 11A.24 and the criteria outlined under "Acceptable Underlying Assets."

(d) Acceptable Underlying Assets of security-backed investment contracts are:

(1) Treasury Securities.
(2) Agency Obligations, including mortgage pass-through securities and mortgage-backed securities backed by U.S. agencies but not including interest-only, principal-only, or inverse floater instruments.
(3) Asset Backed Securities rated in the highest two rating categories.
(4) Other Fixed Income Securities must be rated A or better and be publicly traded, or AAA if used in a single security contract.

(e) Short-Term Investments with maturities no longer than twelve months must comply with the provisions of *Minnesota Statutes,* section 11A.24, subdivision 4.

(f) The Manager may hold units of the Wells Fargo Stable Return Fund for EBT (Stable Return Fund) up to a maximum of 25 percent of the portfolio. <u>Intra-month exceptions to this maximum are permitted in order to allow for monthly rebalancing of assets among participating plans whose valuation cycles differ. Plans operating with daily valuation may invest incoming assets in the Stable Return Fund where they will be held awaiting the next monthly reallocation cycle.</u> The Stable Return Fund should serve as a buffer fund to provide liquidity for participant withdrawals and contributions. Cash equivalents (short-term investments) should be minimal and should not exceed 3 percent of the portfolio.

(g) The Manager may not invest in evergreen investment contracts that have no fixed maturity nor in actively managed security-backed investment contracts that are actively managed by another manager.

5. PERFORMANCE EVALUATION

Manager performance will be evaluated according to qualitative and quantitative guidelines established in the SBI's Manager Continuation Policy. These guidelines, which may change from time to time, assist the SBI in its decisions concerning retention and termination of investment managers.

6. PORTFOLIO CONSIDERATIONS

(a) Credit, Risk and Diversification

The average quality of the instruments held in the portfolio will be at least AA. The average quality of securities underlying security-backed contracts will be at least AA-. The Manager will use its internal credit review process to determine acceptable contract issuers. No single wrap provider shall guarantee more than 20% of the Fund's assets, measured on the basis of gross principal exposure to the financial institution. No more than 5% of the aggregate portfolio will be invested in traditional investment contracts from any one contract issuer. ~~No more than 7.5 percent of the portfolio may be invested with or guaranteed by any one financial institution measured on the basis of net principal exposure to the institution.~~

(b) ~~Weighted Average Maturity~~ Portfolio Duration

The weighted average ~~maturity~~ duration of the total portfolio must be at least 2 years and no more than 3.5 years.

(c) Legal Review

The Manager will perform any needed legal review of investment contracts as part of its investment product review.

7. COMMUNICATION

The SBI requires its investment managers to communicate, at a minimum, with SBI staff on the following basis:

(a) The Manager is expected to meet with SBI staff to review the results of the Manager's investment decision-making process on at least an annual basis.

(b) The Manager is expected to provide SBI staff with a "Manager Commentary" as described in the Manager Continuation Policy, within ten (10) business days after quarter-end. The commentary will summarize performance results over the most recent quarter and year, discuss current investment strategy, discuss all organizational changes affecting the management of the SBI's portfolio, and affirm account reconciliation with the custodial bank.

(c) The Manager may not commence or file any litigation on behalf of the SBI including class action lawsuits. The Manager will promptly inform SBI staff and the SBI's custodian of any litigation relating to any holding in the portfolio. The SBI reserves the right to initiate or participate in any litigation on its own behalf.

8. ACCOUNT RECONCILIATION

The SBI's custodian bank will set book values for portfolio investments and such values will be used to measure performance of the SBI's portfolio. The Manager will provide all information requested by the SBI's custodian bank and will transmit values for its Stable Return Fund. The Manager agrees to accept the values established by the custodian. The Manager will review the custodian's values on a monthly basis and report any differences or discrepancies to the custodian. The Manager may appeal to the SBI if the Manager and the custodian cannot arrive at mutually agreeable values. At the end of the each quarter, the Manager will report to the SBI that the Manager agrees with the custodian's values for the quarter.

9. COMPLIANCE WITH GUIDELINES

The Manager must immediately inform the SBI, in writing, if the Manager becomes aware of any violations of these guidelines.

At the end of each quarter, the Manager must certify to the SBI in the quarterly Manager Commentary that the Manager is in compliance with these guidelines and has been in compliance over the last three months. If the Manager has violated the guidelines in the past three months and cannot certify compliance over this period, the Manager must describe in a letter all violations that occurred in the last three months.

10. FUTURE MODIFICATIONS

The SBI reserves the right to modify these investment guidelines at any time to ensure that the Manager is in compliance with Minnesota statutes and SBI policy. The Manager will be notified in advance of changes to these guidelines.

Revised: ~~September 2005~~ May 2007

Executive Director/
Assistant Executive Director

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Date ______________________

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Investment Manager Guidelines

Internal Short-Term

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MINNESOTA STATE BOARD OF INVESTMENT
INVESTMENT GUIDELINES
INTERNAL SHORT-TERM CORPORATE FIXED-INCOME

The investment actions of the State Board of Investment (SBI) internal short-term corporate fixed-income manager will be governed and evaluated using the following guidelines:

1. RISK/RETURN OBJECTIVES

The primary objectives of the fund is to preserve capital, maintain a high degree of liquidity and within these constraints provide a high level of current income.

The portfolio is expected to deliver annualized returns that beat the benchmark over time.

2. BENCHMARKS

The benchmark is the Lehman 1-3 year Government Treasury Index. SBI reserves the right to change the benchmark upon notification to the Manager.

3. LEVERAGE

The Manager may not leverage the account at any time. Leverage exists when the market value of the assets in the portfolio exceeds the owner's (SBI) equity in the assets when viewing the portfolio at any time. Leverage is presumed to exist if the owner's equity is unable to satisfy all of the obligations existing in the portfolio.

4. ELIGIBLE INVESTMENTS AND PORTFOLIO CONSTRAINTS

The investments must satisfy the following criteria:

(a) The Manager may invest funds in fixed income securities with one to three years remaining to maturity and issued or guaranteed by a corporation organized under the laws of the United States or any state thereof, or the Dominion of Canada or any providence thereof provided that:

   (1) the principal and interest of obligations of corporations incorporated or organized under the laws of the United States or any state, or the Dominion of Canada or any providence thereof shall be payable in United States dollars; and

   (2) obligations shall be A+/A1 rated or better by Moody's, Standard & Poor's, or Fitch/IBCA at time of purchase.

(b) Yankee corporate bonds with one to three years remaining to maturity, encompassing those foreign-domiciled issuers who borrow U.S. dollars and pay in U.S. dollars, and A+/A1-rated or better, by Moody's, Standard & Poor's, or Fitch/IBCA at time of purchase.

(c) Euro-dollar corporate obligations with one to three years remaining to maturity denominated in U.S. dollars and are A+/A1-rated or better by Moody's, Standard & Poor's, or Fitch/IBCA at time of purchase.

(d) Up to 20% of the portfolio may be invested in U.S. dollar-denominated yankee or euro-dollar securities;

(e) Cash will be swept to the ITC fund.

(f) No one issuer may exceed 10% of the portfolio's total value.

5. IMPLEMENTATION

(a) The Manager is required to limit capital realized net daily gains and losses to not more than 10% of the daily cash income distribution of the Invested Treasurer's Cash Pool unless prior permission of the Head of Short-Term Trading and either the SBI Executive Director or Assistant Executive Director has been received.

(b) Manager must have a clear description of a security before purchase. Manager must be able to certify daily the exact principal outstanding, the interest rate and the calculation method for each security.

(c) Portfolio duration will deviate no more than +/-.2 years from the benchmark.

6. PERFORMANCE EVALUATION

Manager performance will be evaluated according to qualitative and quantitative guidelines set forth in the SBI's Manager Continuation Policy. These guidelines, which may change from time to time, assist the SBI in its decisions concerning retention and termination of investment managers.

7. COMMUNICATION

On a monthly basis the Manager will meet with the Short-Term Manager to discuss cash flows and other relevant issues. The Manager is expected to report monthly on returns and portfolio statistics to the Director and Assistant Director. In addition, Manager will meet with the Executive Director and Assistant Executive Director quarterly to review the results of the Manager's investment decision-making process. In reviewing past and current investment strategies and performance, the Manager is expected to present the analysis relative to the benchmark portfolio.

8. CUSTODY OF ASSETS

All assets will be held in custody by the State's custodial bank. All securities held in the portfolio must be capable of being priced on a daily basis and accessible by the custodian.

9. COMPLIANCE WITH GUIDELINES

The Manager must immediately inform the Executive Director or Assistant Executive Director, in writing, if the Manager becomes aware of any violations of these guidelines.

Within twenty (20) business days following the SBI's June 30 fiscal year end, the Manager must certify, in writing, that they are in compliance with these guidelines and have been in compliance over the last twelve months. If the Manager has violated the guidelines in the past twelve months and cannot certify compliance over this period, the Manager must describe in the letter all violations that occurred in the last twelve months.

10. FUTURE MODIFICATIONS

The SBI reserves the right to modify these investment guidelines at any time. The Manager will be notified in advance of changes to the investment guidelines.

Revised: ~~September 2005~~ May 2007

Executive Director/
Assistant Executive Director

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Date ______________________

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MINNESOTA STATE BOARD OF INVESTMENT
INVESTMENT GUIDELINES
INTERNAL POOLED CASH MANAGEMENT

The investment actions of the Minnesota State Board of Investment (SBI) internal pooled cash manager will be governed and evaluated by the following guidelines:

1. RISK/RETURN OBJECTIVES

The primary objectives of the funds are to preserve capital, maintain a high degree of liquidity and within these constraints provide a high level of current income.

The portfolios are expected to deliver annualized returns in excess of the benchmark return over time.

2. INVESTED TREASURER'S CASH FUND BENCHMARK

The major cash pool, the Invested Treasurer's Cash Fund, is evaluated against a blended benchmark. Currently that benchmark is composed of the Lehman 1-3 Year Government Bond Index (currently $0) and the balance of the portfolio will be measured against the IBC All Taxable Money Fund Average Index. SBI reserves the right to change the benchmark upon notification to the Manager. Other cash portfolios are difficult to evaluate due to their unique purposes and funding requirements.

3. LEVERAGE

The Manager may not leverage the account at any time. Leverage exists when the market value of the assets in the portfolio exceeds the owner's (SBI) equity in the assets when viewing the portfolio at any time. Leverage is presumed to exist if the owner's equity is unable to satisfy all of the obligations existing in the portfolio.

4. ELIGIBLE INVESTMENTS AND PORTFOLIO CONSTRAINTS

The Manager may hold only fixed income investments that meet the criteria in *Minnesota Statutes,* section 11A.24. References to quality categories of rating organizations do not include modifiers that may be used within categories. The investments must satisfy the following criteria and constraints listed below:

(a) Governmental bonds, notes, bills, mortgages, and other evidences of indebtedness provided the issue is backed by the full faith and credit of the Government. The obligations in which the Board may invest under this subdivision include guaranteed or insured issues of:

(1) the United States, its agencies, its instrumentalities, or organizations created and regulated by an act of Congress;

(2) Canada and its provinces, provided the principal and interest is payable in United States dollars;

(3) the International Bank of Reconstruction and Development, the Inter-American Development Bank, the Asian Development Bank, the African Development Bank, or any other United States Government sponsored organization of which the United States is a member, provided the principal and interest is payable in United States dollars.

(b) The manager may invest in fixed income securities issued by any U.S. state or U.S. territory, or any municipality, political subdivision, agency or instrumentality thereof, provided that:

(1) such securities may not be purchased by the Manager directly from the issuer or the issuer's agent, such as an underwriter of underwriting syndicate. All purchases of securities under this subdivision must be transacted in the secondary market; and

(2) the principal and interest of such obligations shall be payable in United States dollars.

(c) U.S. and Canadian corporate obligations, including private placements, must be payable in U.S. dollars and be rated in the top three long term debt quality categories by Moody's, Standard & Poor's or Fitch/IBCA at time of purchase.

(d) Bankers acceptances and deposit notes of U.S. banks rated in the top three deposit quality categories by Moody's, Standard & Poor's or Fitch/IBCA at time of purchase.

(e) Commercial paper, including asset backed commercial paper and rated private placement commercial paper, of U.S. corporations or their Canadian subsidiaries rated in the top commercial paper quality category by Moody's, Standard & Poor's or Fitch/IBCA at time of purchase. The Manager shall not hold at time of purchase more than the lesser of 10 percent of the issuers total outstanding commercial paper or 5% of the market value of the portfolio in one issuer.

(f) Asset backed securities, including private placements, that are U.S. dollar denominated and rated in the top two long term debt quality categories by Moody's, Standard & Poor's or Fitch/IBCA at time of purchase.

(g) Repurchase agreements must be backed by collateral meeting the requirements of *Minnesota Statutes,* section 11A.24 and:

  (1) With a dealer, the dealer must be a primary dealer recognized by the New York Federal Reserve Bank, and:

    (a) if done on a tri-party basis, the dealer must have short-term obligation ratings no lower than A2/P2.

    (b) if done on a hold in custody basis, the dealer must have short-term obligation ratings no lower than A1/P1 and have net excess regulatory capital of at least $200 million.

  (2) With a bank, the bank must have deposit ratings of A1/P1 and be among the largest one hundred banks as rated by deposits.

  (3) If collateral is delivered to the state's federal reserve account, the counterparty may be any federally regulated bank or dealer.

(h) Mortgage securities that are U.S. dollar denominated and rated in the top three categories by Moody's, Standard & Poor's or Fitch/IBCA at time of purchase.

(i) International securities must be payable in U.S. dollars and must meet the same quality criteria as domestic securities.

(j) The Cash Pools may not hold a security that exceeds five years to its final legal maturity.

(k) The Cash Pools may not hold structured securities that are leveraged or tied to more than one index.

In aggregate, the investments must satisfy the following constraints:

  (a) A portfolio must not be leveraged.

  (b) Up to 20 percent of a portfolio may be invested in international securities.

  (c) Up to 5 percent of a portfolio may exceed three years to maturity.

5. COMMUNICATION

The Manager is expected to report monthly on returns and portfolio statistics to the Executive Director and Assistant Executive Director. In addition, Manager will meet with the Executive Director or Assistant Executive Director quarterly to review the results of the Manager's investment decision-making process. In reviewing past and current investment strategies and performance, the Manager is expected to present the analysis relative to the benchmark portfolio.

6. SEPARATE ACCOUNT

The SBI's portfolio will be managed as a separate account. All assets will be held in custody by the SBI's custodian bank.

7. COMPLIANCE WITH GUIDELINES

The Manager must immediately inform the SBI Executive Director and Assistant Executive Director, in writing, if the Manager becomes aware of any violations of these guidelines.

Within twenty (20) business days following the SBI's June 30 fiscal year end, the Manager must certify, in writing, that they are in compliance with these guidelines and have been in compliance over the last twelve months. If the Manager has violated the guidelines in the past twelve months and cannot certify compliance over this period, the Manager must describe in the letter all violations that occurred in the last twelve months.

8. FUTURE MODIFICATIONS

The SBI reserves the right to modify these investment guidelines at any time. The Manager will be notified in advance of changes to the investment guidelines.

Revised: ~~*September 2005*~~ *May 2007*

Executive Director/
Assistant Executive Director

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Date ______________________

STATE BOARD OF INVESTMENT

Domestic Equity Manager Evaluation Reports

First Quarter, 2007

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Domestic Equity

Table of Contents

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COMBINED RETIREMENT FUNDS
ACTIVE DOMESTIC STOCK MANAGERS
Periods Ending March, 2007

	Quarter		1 Year		3 Years		5 Years	
	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %
Russell 1000 Core Aggregate	1.3	1.2	12.2	11.8	11.8	10.7		
Russell 1000 Growth Aggregate	1.7	1.2	1.9	7.1	5.4	7.0		
Russell 1000 Value Aggregate	1.4	1.2	13.8	16.8	12.2	14.4		
Russell 2000 Growth Aggregate	4.5	2.5	-1.2	1.6	8.4	9.4		
Russell 2000 Value Aggregate	1.7	1.5	4.5	10.4	13.0	14.5		
Active Manager Aggregate	**1.7**	**1.3**	**7.8**	**10.8**	**9.9**	**10.9**		
Semi-Passive Aggregate	**1.3**	**1.2**	**12.4**	**11.8**	**10.9**	**10.7**		
Passive Manager (BGI)	**1.2**	**1.3**	**11.2**	**11.3**	**10.9**	**10.8**		
Historical Aggregate	**1.4**	**1.3**	**10.5**	**11.3**	**10.6**	**10.8**		
SBI DE Asset Class Target		**1.3**		**11.3**		**10.8**		
Russell 3000 Index		**1.3**		**11.3**		**10.8**		

	2006		2005		2004	
	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %
Russell 1000 Core Aggregate	15.8	15.5	6.4	6.3	14.5	11.4
Russell 1000 Growth Aggregate	2.2	9.1	7.3	5.3	6.1	6.3
Russell 1000 Value Aggregate	17.4	22.2	6.0	7.1	14.3	16.5
Russell 2000 Growth Aggregate	10.0	13.3	4.7	4.2	9.7	14.3
Russell 2000 Value Aggregate	13.1	23.5	7.7	4.7	25.0	22.2
Active Manager Aggregate	11.5	15.8	6.5	6.0	12.5	12.3
Semi-Passive Aggregate	16.1	15.5	6.2	6.3	11.7	11.4
Passive Manager (BGI)	15.8	15.7	6.2	6.1	12.0	11.9
Historical Aggregate	14.5	15.7	6.4	6.1	12.2	11.9
SBI DE Asset Class Target		15.7		6.1		11.9
Russell 3000 Index		15.7		6.1		11.9

COMBINED RETIREMENT FUNDS
ACTIVE DOMESTIC STOCK MANAGERS
Periods Ending March, 2007
Performance versus Russell Style Benchmarks for All Periods

	Quarter		1 Year		3 Years		5 Years		Since Inception (1)		Market	Pool
	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Value (in millions)	%
LARGE CAP												
Russell 1000 Core												
Franklin Portfolio	3.1	1.2	17.1	11.8	13.2	10.7	7.3	6.9	12.3	11.7	$514.3	2.1%
New Amsterdam Partners (2)	1.4	1.2	8.2	11.8	9.8	10.7	8.3	8.9	13.6	12.1	$523.6	2.2%
UBS Global	0.1	1.2	11.8	11.8	12.5	10.7	9.3	6.9	11.5	10.9	$814.7	3.4%
Aggregate	1.3	1.2	12.2	11.8	11.8	10.7						
Russell 1000 Growth												
Alliance Capital	1.0	1.2	0.0	7.1	6.7	7.0	2.5	3.5	14.1	10.8	$531.9	2.2%
Cohen, Klingenstein & Marks	0.7	1.2	4.5	7.1	2.6	7.0	1.1	3.5	8.6	9.1	$261.8	1.1%
INTECH	1.5	1.2	5.0	7.1					7.4	6.9	$327.6	1.4%
Jacobs Levy	-0.5	1.2	3.2	7.1					4.8	6.9	$295.2	1.2%
Lazard Asset Mgmt.	3.3	1.2	5.4	7.1					7.6	6.9	$59.3	0.2%
Sands Capital	2.7	1.2	-1.5	7.1					3.3	6.9	$214.0	0.9%
Voyageur-Chicago Equity (4)	0.0	1.2	-0.2	7.1	4.3	7.0	2.6	3.5	-0.3	-5.5	$49.9	0.2%
Winslow-Large Cap	1.7	1.2	4.2	7.1					8.8	6.9	$113.9	0.5%
Zevenbergen Capital	4.9	1.2	4.1	7.1	10.3	7.0	6.9	3.5	10.4	9.1	$255.3	1.1%
Aggregate	1.7	1.2	1.9	7.1	5.4	7.0						
Russell 1000 Value												
Barrow, Hanley	1.9	1.2	13.5	16.8	14.2	14.4			14.2	14.4	$481.3	2.0%
Earnest Partners	1.3	1.2	10.0	16.8	14.9	14.4	11.5	10.2	7.2	9.0	$190.6	0.8%
Lord Abbett & Co.	0.3	1.2	12.4	16.8	10.9	14.4			10.9	14.4	$336.4	1.4%
LSV Asset Mgmt.	2.5	1.2	16.6	16.8	17.1	14.4			17.1	14.4	$473.4	2.0%
Oppenheimer	-1.1	1.2	13.2	16.8	9.2	14.4	7.4	10.2	12.6	12.4	$365.3	1.5%
Systematic Financial Mgmt.	3.3	1.2	15.4	16.8	14.6	14.4			14.6	14.4	$337.3	1.4%
Aggregate	1.4	1.2	13.8	16.8	12.2	14.4						
SMALL CAP												
Russell 2000 Growth												
McKinley Capital	5.7	2.5	0.8	1.6	7.6	9.4			9.3	10.5	$239.6	1.0%
Next Century Growth	4.0	2.5	-2.1	1.6	15.9	9.4	10.8	7.9	-0.8	-0.1	$234.8	1.0%
Turner Investment Partners	3.9	2.5	0.9	1.6	10.6	9.4			10.9	10.5	$242.5	1.0%
Aggregate	4.5	2.5	-1.2	1.6	8.4	9.4						
Russell 2000 Value												
Goldman Sachs	2.3	1.5	8.6	10.4	13.1	14.5			13.4	15.6	$140.8	0.6%
Hotchkis & Wiley	3.0	1.5	-1.1	10.4	10.1	14.5			13.0	15.6	$139.2	0.6%
Martingale Asset Mgmt.	0.4	1.5	4.5	10.4	13.3	14.5			15.6	15.6	$149.7	0.6%
Peregrine Capital	1.9	1.5	5.2	10.4	14.8	14.5	12.7	13.6	17.2	16.1	$227.3	0.9%
RiverSource/Kenwood	0.3	1.5	6.1	10.4	13.1	14.5			15.1	15.6	$66.1	0.3%
Aggregate	1.7	1.5	4.5	10.4	13.0	14.5						
Active Mgr. Aggregate (3)	1.7	1.3	7.8	10.8	9.9	10.9						

(1) Since retention by the SBI. Time period varies for each manager.

(2) New Amsterdam Partners' published benchmark is the Russell 1000 core index beginning 10/1/03. Prior to that date it was the Russell Midcap Index.

(3) The Active Manager Aggregate Benchmark is the aggregate of the weighted average of the active manager benchmarks and is not the Russell 3000.

(4) Voyageur's benchmark changed to the Russell 1000 Growth effective 1/1/2007. The benchmark shown is the R1000 Growth for all time periods.

COMBINED RETIREMENT FUNDS
ACTIVE DOMESTIC STOCK MANAGERS
Calendar Year Returns Versus (1)
Russell Style Benchmarks for All Periods

	2006		2005		2004		2003		2002	
	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %
LARGE CAP										
Russell 1000 Core										
Franklin Portfolio	20.4	15.5	3.4	6.3	15.7	11.4	32.9	29.9	-25.4	-21.7
New Amsterdam Partners (2)	9.3	15.5	7.6	6.3	14.8	11.4	34.2	38.0	-17.5	-16.2
UBS Global	16.8	15.5	8.6	6.3	13.4	11.4	30.7	29.9	-14.7	-21.7
Aggregate	15.8	15.5	6.4	6.3	14.5	11.4				
Russell 1000 Growth										
Alliance Capital	-0.4	9.1	14.2	5.3	5.7	6.3	22.4	29.7	-26.8	-27.9
Cohen, Klingenstein & Marks	4.4	9.1	-0.9	5.3	6.1	6.3	41.2	29.7	-35.0	-27.9
Holt-Smith & Yates	1.9	9.1	1.5	5.3	7.3	6.3	22.1	29.7	-28.0	-27.9
INTECH (1)	7.4	9.1	7.8	5.3						
Jacobs Levy (1)	6.1	9.1	5.3	5.3						
Lazard Asset Mgmt. (1)	7.1	9.1	6.6	5.3						
Sands Capital (1)	-5.5	9.1	10.9	5.3						
Voyageur-Chicago Equity (4)	2.1	9.1	3.9	5.3	10.6	6.3	23.2	29.7	-20.6	-27.9
Winslow-Large Cap (1)	7.6	9.1	10.5	5.3						
Zevenbergen Capital	6.2	9.1	9.0	5.3	13.1	6.3	49.3	29.7	-36.2	-27.9
Aggregate	2.2	9.1	7.3	5.3	6.1	6.3				
Russell 1000 Value										
Barrow, Hanley (1)	15.4	22.2	9.6	7.1						
Earnest Partners	13.8	22.2	15.6	7.1	18.9	16.5	32.0	30.0	-18.1	-15.5
Lord Abbett & Co. (1)	18.6	22.2	3.5	7.1						
LSV Asset Mgmt. (1)	21.7	22.2	12.5	7.1						
Oppenheimer	18.2	22.2	1.0	7.1	12.0	16.5	28.9	30.0	-15.5	-15.5
Systematic Financial Mgmt. (1)	17.9	22.2	10.3	7.1						
Aggregate	17.4	22.2	6.0	7.1	14.3	16.5				
SMALL CAP										
Russell 2000 Growth										
McKinley Capital	12.5	13.3	0.2	4.2	12.2	14.3				
Next Century Growth	12.4	13.3	25.2	4.2	6.4	14.3	50.7	48.5	-33.3	-30.3
Turner Investment Partners	13.6	13.3	6.2	4.2	11.6	14.3				
Aggregate	10.0	13.3	4.7	4.2	9.7	14.3				
Russell 2000 Value										
Goldman Sachs	17.8	23.5	4.1	4.7	19.9	22.2				
Hotchkis & Wiley	3.0	23.5	10.4	4.7	27.1	22.2				
Martingale Asset Mgmt.	14.8	23.5	6.2	4.7	30.8	22.2				
Peregrine Capital	14.3	23.5	10.1	4.7	23.6	22.2	44.2	46.0	-8.1	-11.4
RiverSource/Kenwood	19.4	23.5	4.8	4.7	25.8	22.2				
Aggregate	13.1	23.5	7.7	4.7	25.0	22.2				
Active Mgr. Aggregate (3)	11.5	15.8	6.5	6.0	12.5	12.3				

(1) Includes full-year returns only. Performance of managers hired during a calendar year are reported beginning with the following calendar year.

(2) New Amsterdam Partners' published benchmark is the Russell 1000 core index beginning 10/1/03. Prior to that date it was the Russell Midcap Index.

(3) The Active Manager Aggregate Benchmark is the aggregate of the weighted average of the active manager benchmarks and is not the Russell 3000.

(4) Voyageur's benchmark changed to the Russell 1000 Growth effective 1/1/2007. The benchmark shown is the R1000 Growth for all time periods.

COMBINED RETIREMENT FUNDS
DOMESTIC STOCK MANAGERS
Periods Ending March, 2007
Versus Manager Benchmarks (1)

	Quarter		1 Year		3 Years		5 Years		Since Inception (2)		Market	Pool
	Actual	Bmk	Actual	Bmk	Actual	Bmk	Actual	Bmk	Actual	Bmk	Value	Pool
	%	%	%	%	%	%	%	%	%	%	(in millions)	%
SEMI-PASSIVE MANAGERS												
Barclays Global Investors	1.0	1.2	11.3	11.8	11.0	10.7	7.9	7.3	11.4	10.7	$3,365.0	13.9%
Franklin Portfolio	1.5	1.2	13.2	11.8	11.0	10.7	7.1	7.3	10.5	10.7	$2,421.6	10.0%
JP Morgan	1.6	1.2	13.3	11.8	10.6	10.7	6.7	7.3	10.8	10.7	$2,645.0	10.9%
Semi-Passive Aggregate (R1000)	1.3	1.2	12.4	11.8	10.9	10.7	7.3	7.3	10.9	10.7		
PASSIVE MANAGER (R3000)												
Barclays Global Investors	1.2	1.3	11.2	11.3	10.9	10.8	7.3	7.3	10.3	10.2	$8,118.6	33.5%
									Since 1/1/84			
Historical Aggregate (3)	**1.4**	**1.3**	**10.5**	**11.3**	**10.6**	**10.8**	**7.0**	**7.4**	**11.6**	**11.9**	$24,247.2	100.0%
SBI DE Asset Class Target (4)		1.3		11.3		10.8		7.3		11.9		
Russell 3000		1.3		11.3		10.8		7.2		12.3		
Wilshire 5000		1.4		11.3		11.0		7.7		12.2		
Russell 1000		1.2		11.8		10.7		6.9		12.5		
Russell 2000		1.9		5.9		12.0		10.9		10.6		

(1) Semi-Passive managers' benchmark is the Russell 1000 index beginning 1/1/04 and was the Completeness Fund benchmark prior to 1/1/04.
(2) Since retention by the SBI. Time period varies for each manager.
(3) Includes the performance of terminated managers.
(4) The Domestic Equity Asset Class Target is the Russell 3000 effective 10/1/03. From 7/1/99 to 9/30/03, it was the Wilshire 5000 Investable Index. From 11/1/93 to 6/30/99, the target was the Wilshire 5000 as reported with no adjustments. Prior to 11/1/93, the Wilshire 5000 was adjusted to reflect SBI mandated restrictions, which included liquor and tobacco, American Home Products and South Africa.

COMBINED RETIREMENT FUNDS
DOMESTIC STOCK MANAGERS
Calendar Year Returns Versus
Manager Benchmarks (1)

	2006		2005		2004		2003		2002	
	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %
SEMI-PASSIVE MANAGERS										
Barclays Global Investors	15.6	15.5	7.6	6.3	11.7	11.4	30.0	28.5	-19.1	-19.7
Franklin Portfolio	16.5	15.5	6.1	6.3	11.7	11.4	26.9	28.5	-20.2	-19.7
JP Morgan	16.5	15.5	4.7	6.3	11.7	11.4	28.9	28.5	-21.8	-19.7
Semi-Passive Aggregate (R1000)	16.1	15.5	6.2	6.3	11.7	11.4	28.8	28.5	-20.3	-19.7
PASSIVE MANAGER (R3000)										
Barclays Global Investors	15.8	15.7	6.2	6.1	12.0	11.9	30.9	31.2	-21.4	-21.5
Historical Aggregate (2)	**14.5**	**15.7**	**6.4**	**6.1**	**12.2**	**11.9**	**31.0**	**31.4**	**-22.4**	**-21.1**
SBI DE Asset Class Target (3)		15.7		6.1		11.9		31.2		-21.5
Russell 3000		15.7		6.1		11.9		31.1		-21.5
Wilshire 5000		15.8		6.4		12.5		31.6		-20.9
Russell 1000		15.5		6.3		11.4		29.9		-21.7
Russell 2000		18.4		4.6		18.3		47.3		-20.5

(1) Semi-Passive managers' benchmark is the Russell 1000 index beginning 1/1/04 and was the Completeness Fund benchmark prior to 1/1/04.
(2) Includes the performance of terminated managers.
(3) The Domestic Equity Asset Class Target is the Russell 3000 Index effective 10/1/03. From 7/1/99 to 9/30/03, it was the Wilshire 5000 Investable Index. From 11/1/93 to 6/30/99, the target was the Wilshire 5000 as reported with no adjustments. Prior to 11/1/93, the Wilshire 5000 was adjusted to reflect SBI mandated restrictions, which included liquor and tobacco, American Home Products and South Africa.

Note: Includes full-year returns only. Performance of managers hired during a calendar year are reported beginning with the following calendar year.

Large Cap Core (R1000)

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Large Cap Core (R1000)

Table of Contents

FRANKLIN PORTFOLIO ASSOCIATES
Periods Ending March, 2007

Portfolio Manager: John Cone | **Assets Under Management: $514,304,859**

Investment Philosophy – Active Style

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 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. Franklin uses the BARRA E3 risk model to monitor the portfolio's systematic risk and industry weightings, relative to the selected benchmark, to achieve a residual risk of 4.0 to 4.5 percent for the active portfolio.

Staff Comments

The portfolio outperformed the Russell 1000 index by 1.9 percentage points (ppt) and 5.3 ppt for the quarter and year, respectively. Strong stock selection in utilities and consumer staples in both periods benefited the portfolio.

Staff conducted a site visit during the quarter. Philosophy, process, people and organization were reviewed in detail. Staff is impressed with the investment team and reviewed in detail the quantitative portfolio construction process with the portfolio manager. Franklin's parent company, Mellon Financial, is schedule to close on its merger with Bank of New York in 3Q2007.

Recommendation

No action required

Quantitative Evaluation

Period Returns
(Annualized for multi-year periods)

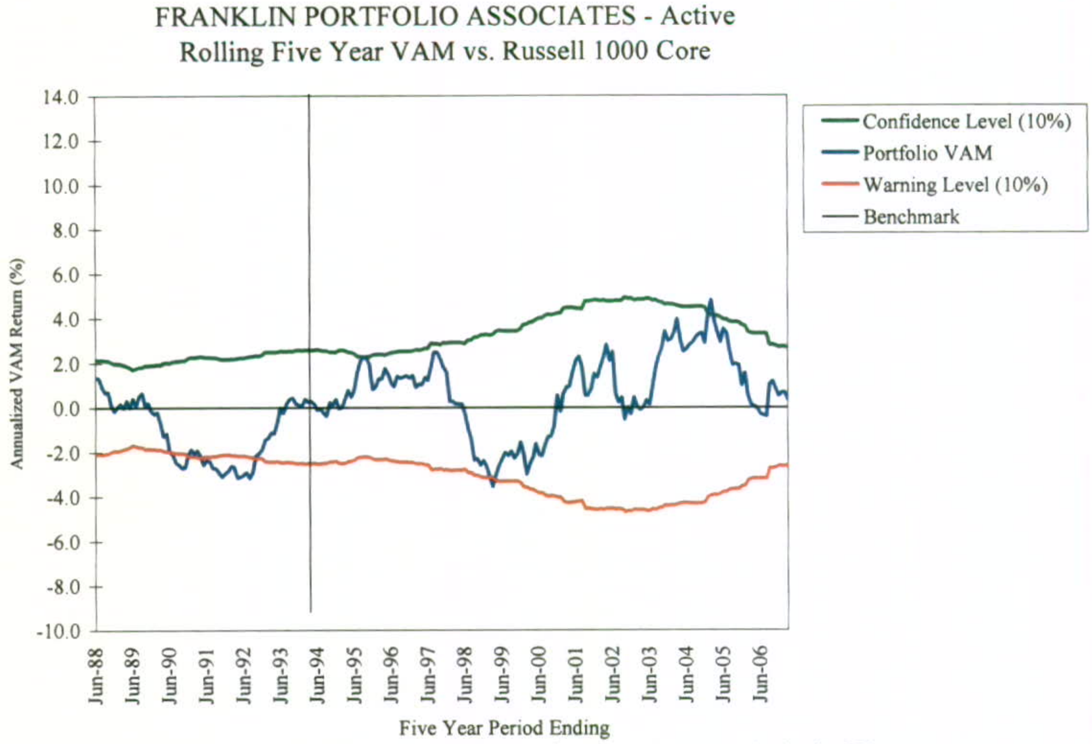
	Actual	Russell 1000 Core
Last Quarter	3.1%	1.2%
Last 1 year	17.1	11.8
Last 2 years	14.4	12.5
Last 3 years	13.2	10.7
Last 4 years	20.1	16.6
Last 5 years	7.3	6.9
Since Inception (4/89)	12.3	11.7

Calendar Year Returns

	Actual	Russell 1000 Core
2006	20.4%	15.5%
2005	3.4	6.3
2004	15.7	11.4
2003	32.9	29.9
2002	-25.4	-21.7

FRANKLIN PORTFOLIO ASSOCIATES
Periods Ending March, 2007

Portfolio Manager: John Cone **Assets Under Management: $514,304,859**



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

NEW AMSTERDAM PARTNERS
Periods Ending March, 2007

Portfolio Manager: Michelle Clayman **Assets Under Management: $523,555,616**

Investment Philosophy

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

Staff Comments

No comment at this time.

Recommendation

No action required.

Quantitative Evaluation

Period Returns
(Annualized for multi-year periods)

	Actual	Russell Index (1)
Last Quarter	1.4%	1.2%
Last 1 year	8.2	11.8
Last 2 years	9.4	12.5
Last 3 years	9.8	10.7
Last 4 years	17.4	18.2
Last 5 years	8.3	8.9
Since Inception (4/94)	13.6	12.1

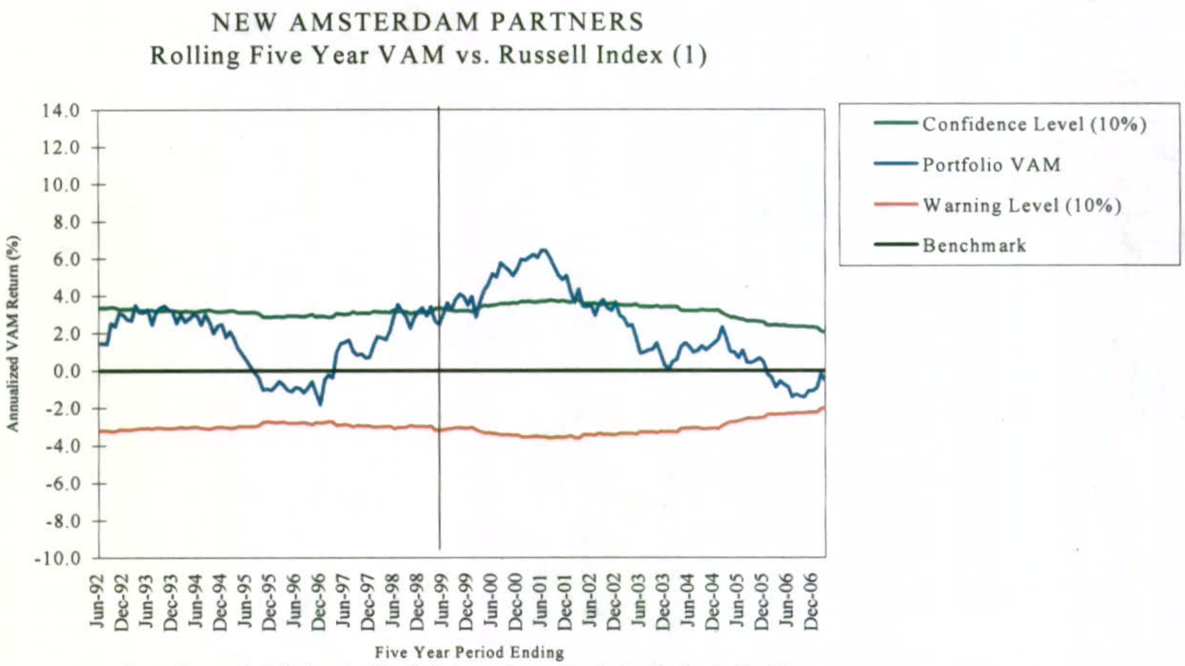
Calendar Year Returns

	Actual	Russell Index (1)
2006	9.3%	15.5%
2005	7.6	6.3
2004	14.8	11.4
2003	34.2	38.0
2002	-17.5	-16.2

(1) New Amsterdam Partners' published benchmark is the Russell 1000 Core beginning 10/1/03. Prior to that date it was the Russell Midcap index.

NEW AMSTERDAM PARTNERS
Periods Ending March, 2007

Portfolio Manager: Michelle Clayman **Assets Under Management: $523,555,616**



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

UBS GLOBAL ASSET MANAGEMENT, INC.
Periods Ending March, 2007

Portfolio Manager: John Leonard **Assets Under Management: $814,746,149**

Investment Philosophy

UBS 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 focus on a bottom-up stock selection process to provide insight into finding opportunistic investments. UBS uses a proprietary discounted free cash flow model as the primary analytical tool for estimating the intrinsic value of a company.

Staff Comments

The portfolio underperformed the Russell 1000 by 1.1 percentage points (ppt) during the quarter. An overweight allocation to financial services and technology sectors coupled with weak stock selection in those sectors detracted from performance.

For the year, the portfolio matched the Russell 1000 index performance. Strong stock selection in technology and financial services in addition to an over weight allocation in financial services helped the portfolio match the return of the benchmark.

Recommendation

No action required.

Quantitative Evaluation

Period Returns
(Annualized for multi-year periods)

	Actual	Russell 1000 Core
Last Quarter	0.1%	1.2%
Last 1 year	11.8	11.8
Last 2 years	14.1	12.5
Last 3 years	12.5	10.7
Last 4 years	18.2	16.6
Last 5 years	9.3	6.9
Since Inception (7/93)	11.5	10.9

Calendar Year Returns

	Actual	Russell 1000 Core
2006	16.8%	15.5%
2005	8.6	6.3
2004	13.4	11.4
2003	30.7	29.9
2002	-14.7	-21.7

Portfolio Manager: John Leonard **Assets Under Management: $814,746,149**

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

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Large Cap Growth (R1000 Growth)

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Large Cap Growth (R1000 Growth)

Table of Contents

ALLIANCE CAPITAL MANAGEMENT
Periods Ending March, 2007

Portfolio Manager: Jack Koltes **Assets Under Management: $531,918,150**

Investment Philosophy

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

Staff Comments

The portfolio underperformed the Russell 1000 Growth index by 0.2 percentage point (ppt) during the quarter. Weak stock selection in utilities and materials and processing coupled with an underweight to materials and processing detracted from performance.

For the year, the portfolio underperformed the Russell 1000 Growth index by 7.1 ppts. Weak stock selection in technology and health care hurt performance for the year.

Recommendation

No action required.

Quantitative Evaluation

Period Returns
(Annualized for multi-year periods)

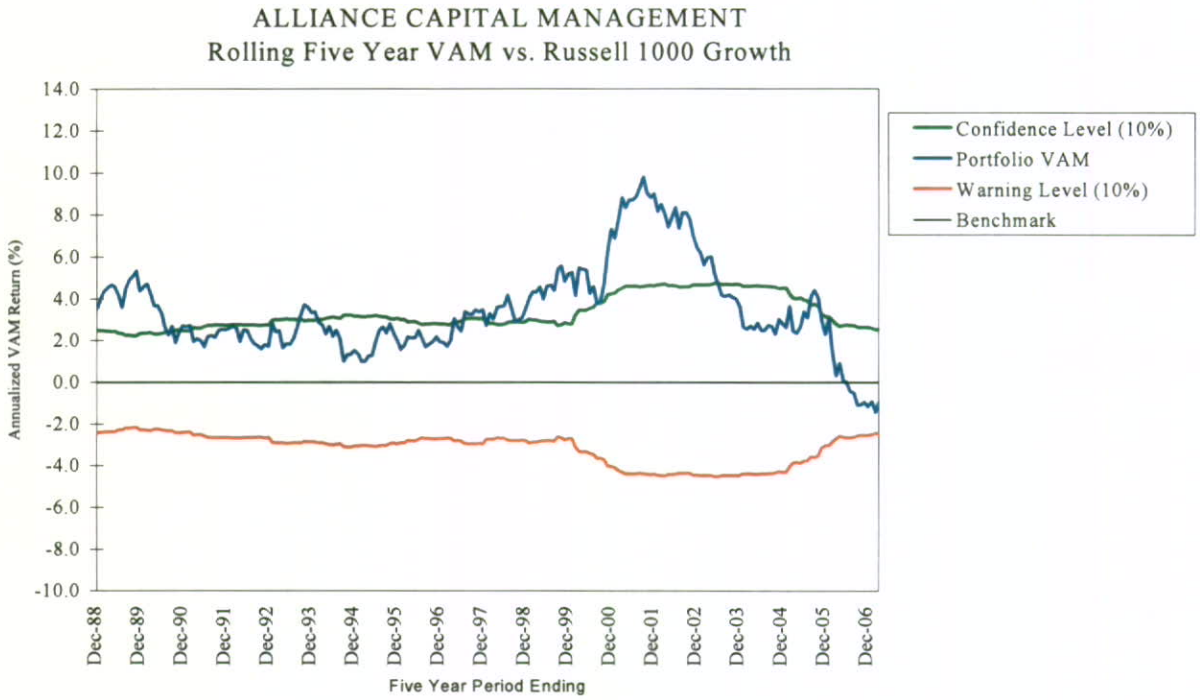
	Actual	Russell 1000 Growth
Last Quarter	1.0%	1.2%
Last 1 year	0.0	7.1
Last 2 years	10.5	10.1
Last 3 years	6.7	7.0
Last 4 years	10.7	12.8
Last 5 years	2.5	3.5
Since Inception (1/84)	14.1	10.8

Calendar Year Returns

	Actual	Russell 1000 Growth
2006	-0.4%	9.1%
2005	14.2	5.3
2004	5.7	6.3
2003	22.4	29.7
2002	-26.8	-27.9

ALLIANCE CAPITAL MANAGEMENT
Periods Ending March, 2007

Portfolio Manager: Jack Koltes **Assets Under Management: $531,918,150**



COHEN KLINGENSTEIN & MARKS INCORPORATED
Periods Ending March, 2007

Portfolio Manager: George Cohen | **Assets Under Management: $261,756,223**

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 of corporate profits and interest rates. Similarly, they believe that stock prices normally reflect earnings expectations. CKM exploits short run inefficiencies through an unbiased process that relates the price of a stock to the consensus earnings expectations.

Staff Comments

No comment at this time.

Recommendation

The Stock & Bond Committee re-interviewed manager at the 11/15/2006 meeting. Staff continues to monitor closely.

Quantitative Evaluation

Period Returns
(Annualized for multi-year periods)

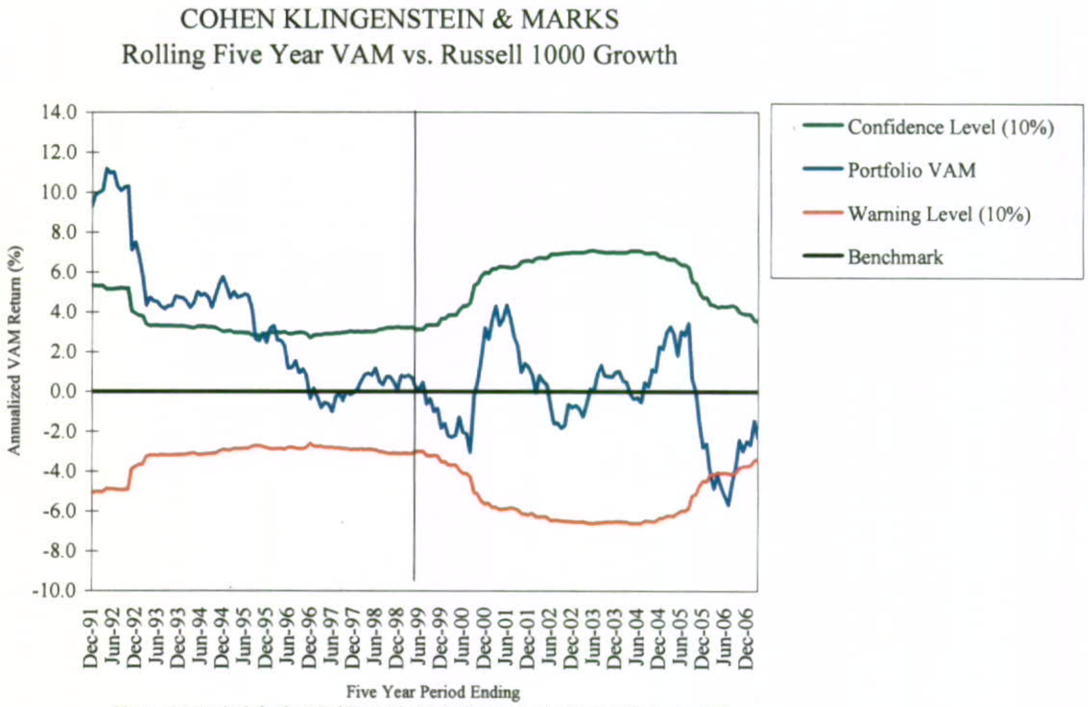
	Actual	Russell 1000 Growth
Last Quarter	0.7%	1.2%
Last 1 year	4.5	7.1
Last 2 years	4.6	10.1
Last 3 years	2.6	7.0
Last 4 years	11.8	12.8
Last 5 years	1.1	3.5
Since Inception (4/94)	8.6	9.1

Calendar Year Returns

	Actual	Russell 1000 Growth
2006	4.4%	9.1%
2005	-0.9	5.3
2004	6.1	6.3
2003	41.2	29.7
2002	-35.0	-27.9

COHEN KLINGENSTEIN & MARKS INCORPORATED
Periods Ending March, 2007

Portfolio Manager: George Cohen **Assets Under Management: $261,756,223**



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

INTECH (ENHANCED INVESTMENT TECHNOLOGIES, LLC)
Periods Ending March, 2007

Portfolio Manager: Robert Fernholz **Assets Under Management: $ 327,626,727**

Investment Philosophy

Through the application of a proprietary mathematical process, the investment strategy is designed to determine more efficient weightings of the securities within the Russell 1000 Growth benchmark. No specific sector or security selection decisions based on fundamentals are required. Risk parameters include: 1) minimize absolute standard deviation or maximize information ratio, 2) security positions limited to lesser of 2.5% or 10 times maximum index security weight, and 3) beta equal to or less than benchmark beta. Target security positions are established using an optimization routine designed to build a portfolio that will outperform a passive benchmark over the long term. Rebalancing to target proportions occurs every six (6) business days, and partial re-optimization occurs weekly.

Staff Comments

The portfolio outperformed the Russell 1000 Growth by 0.3 percentage point (ppt) during the quarter. Strong stock selection in health care benefited the portfolio. The portfolio's smaller cap emphasis contributed 1.3% of value added, while short term stock volatility detracted 0.9%.

For the year, the portfolio underperformed the Russell 1000 Growth index by 2.1 ppt. An overweight allocation to healthcare, where stock selection was not strong hurt performance. Weak stock selection in consumer discretionary also detracted from performance.

Recommendation

No action required.

Quantitative Evaluation

Period Returns
(Annualized for multi-year periods)

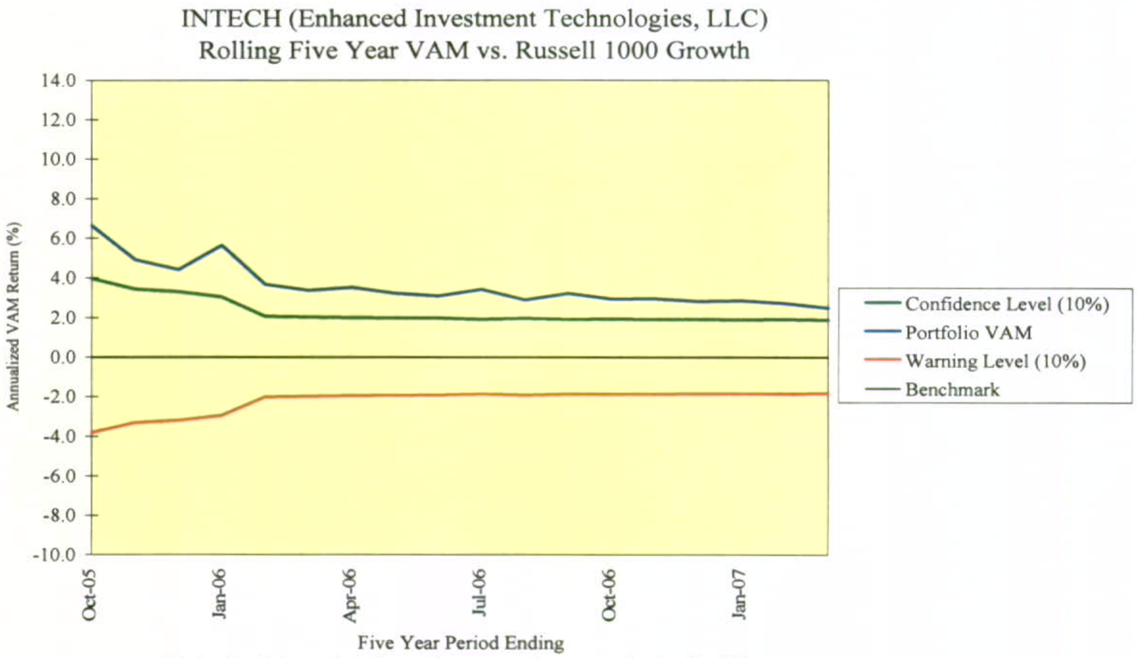
	Actual	Russell 1000 Growth
Last Quarter	1.5%	1.2%
Last 1 year	5.0	7.1
Last 2 years	9.4	10.1
Last 3 years	N/A	N/A
Last 4 years	N/A	N/A
Last 5 years	N/A	N/A
Since Inception (1/05)	7.4	6.9

Calendar Year Returns

	Actual	Russell 1000 Growth
2006	7.4%	9.1%
2005	7.8	5.3
2004	N/A	N/A
2003	N/A	N/A
2002	N/A	N/A

INTECH (ENHANCED INVESTMENT TECHNOLOGIES, LLC)
Periods Ending March, 2007

Portfolio Manager: Robert Fernholz **Assets Under Management: $327,626,727**



Note: Shaded area includes performance prior to retention by the SBI.

JACOBS LEVY EQUITY MANAGEMENT
Periods Ending March, 2007

Portfolio Manager: Bruce Jacobs and Ken Levy **Assets Under Management: $295,246,919**

Investment Philosophy

The strategy combines human insight and intuition, finance and behavioral theory, and state-of-the-art quantitative and statistical methods. Security expected returns generated from numerous models become inputs for the firm's proprietary portfolio optimizer. The optimizer is run daily with the objective of maximizing the information ratio, while ensuring proper diversification across market inefficiencies, securities, industries, and sectors. Extensive data scrubbing is conducted on a daily basis using both human and technology resources. Liquidity, trading costs, and investor guidelines are incorporated within the optimizing process.

Quantitative Evaluation

Period Returns
(Annualized for multi-year periods)

	Actual	Russell 1000 Growth
Last Quarter	-0.5%	1.2%
Last 1 year	3.2	7.1
Last 2 years	7.9	10.1
Last 3 years	N/A	N/A
Last 4 years	N/A	N/A
Last 5 years	N/A	N/A
Since Inception (1/05)	4.8	6.9

Calendar Year Returns

	Actual	Russell 1000 Growth
2006	6.1%	9.1%
2005	5.3	5.3
2004	N/A	N/A
2003	N/A	N/A
2002	N/A	N/A

Staff Comments

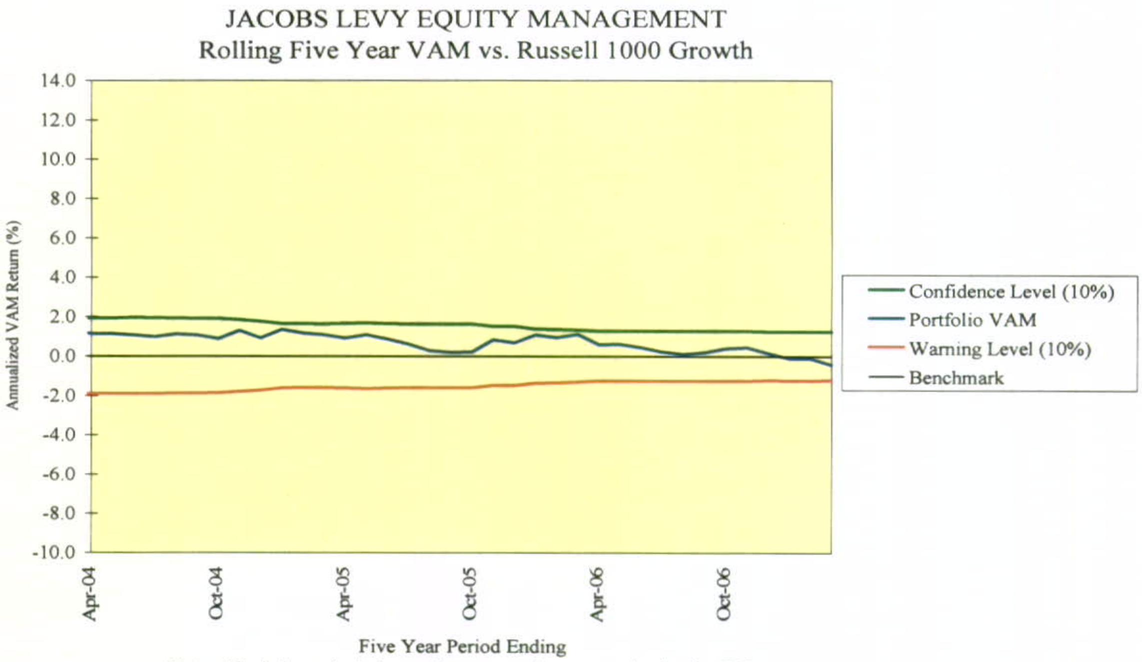
No comment at this time.

Recommendation

No action required.

JACOBS LEVY EQUITY MANAGEMENT
Periods Ending March, 2007

Portfolio Manager: Bruce Jacobs and Ken Levy **Assets Under Management: $295,246,919**



Note: Shaded area includes performance prior to retention by the SBI.

LAZARD ASSET MANAGEMENT LLC
Periods Ending March, 2007

Portfolio Manager: Jim Tatera **Assets Under Management: $59,345,873**

Investment Philosophy

The strategy invests in companies exhibiting substantial growth opportunities, strong business models, solid management teams, and the probability for positive earnings surprises. The approach emphasizes earnings growth as the fundamental driver of stock prices over time. The process combines quantitative, qualitative and valuation criteria. The quantitative component addresses fundamentals and is focused on operating trends. Qualitative analysis involves confirmation of company fundamentals through discussions with company contacts and related parties. Valuation models focus on relative rankings of the fundamentals within the industry, the market overall and the company itself.

Staff Comments

No comment at this time.

Recommendation

No action required.

Quantitative Evaluation

Period Returns
(Annualized for multi-year periods)

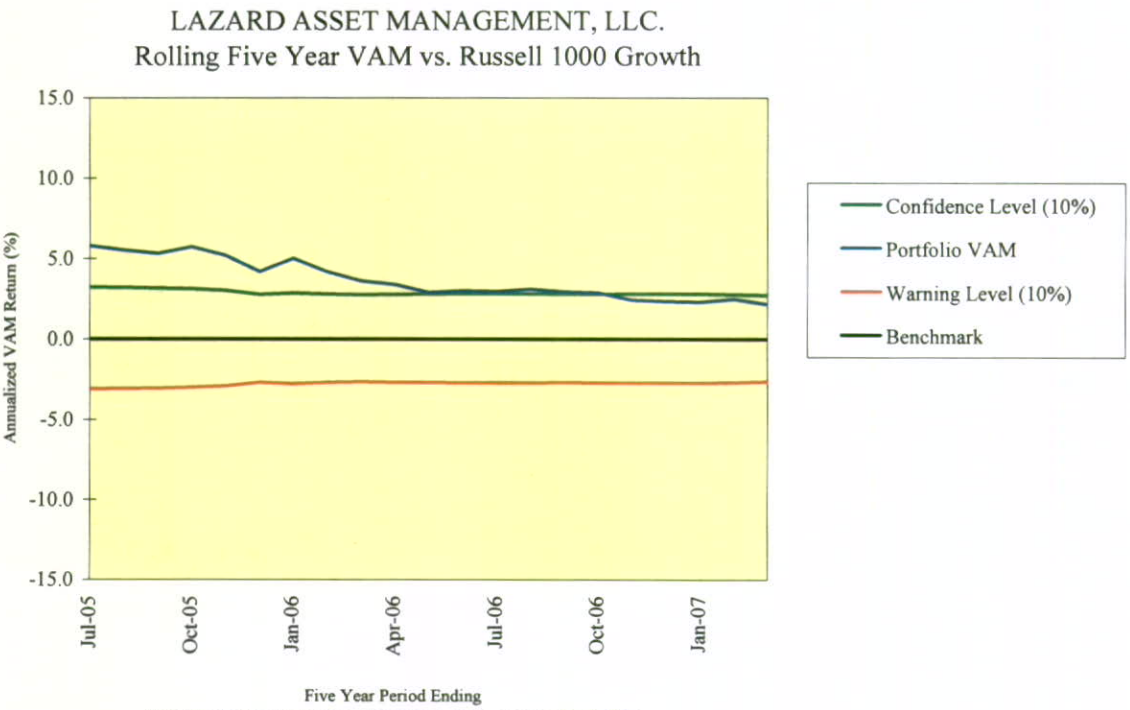
	Actual	Russell 1000 Growth
Last Quarter	3.3%	1.2%
Last 1 year	5.4	7.1
Last 2 years	10.9	10.1
Last 3 years	N/A	N/A
Last 4 years	N/A	N/A
Last 5 years	N/A	N/A
Since Inception (1/05)	7.6	6.9

Calendar Year Returns

	Actual	Russell 1000 Growth
2006	7.1%	9.1%
2005	6.6	5.3
2004	N/A	N/A
2003	N/A	N/A
2002	N/A	N/A

LAZARD ASSET MANAGEMENT LLC
Periods Ending March, 2007

Portfolio Manager: Jim Tatera **Assets Under Management: $59,345,873**



Note: Shaded area includes performance prior to retention by the SBI.

SANDS CAPITAL MANAGEMENT LLC
Periods Ending March, 2007

Portfolio Manager: Frank Sands, Sr. **Assets Under Management: $214,037,631**

Investment Philosophy

The manager invests in high-quality, seasoned and growing businesses. Bottom-up, company-focused, long-term oriented research is the cornerstone of the investment process. The strategy focuses on six (6) key investment criteria: 1) sustainable above average earnings growth; 2) leadership position in a promising business space; 3) significant competitive advantages or unique business franchise; 4) management with a clear mission and value added focus; 5) financial strength; and 6) rational valuation relative to the overall market and the company's business prospects.

Staff Comments

The portfolio outperformed the Russell 1000 Growth Index by 1.5 percentage points (ppt) during the quarter. An underweight position in technology coupled with significantly strong stock selection proved beneficial. For the year, the portfolio underperformed the Russell 1000 Growth Index by 8.6 ppt. Weak stock selection within the consumer discretionary, health care and technology sectors detracted from performance.

Staff conducted a site visit during the quarter, reviewing philosophy, process, team, organization and other factors. The firm's business mix is approximately 80% institutional and 20% high net worth. Staff continues to be impressed with the depth of research conducted and the research analysts employed by the firm.

Recommendation

No action required.

Quantitative Evaluation

Period Returns
(Annualized for multi-year periods)

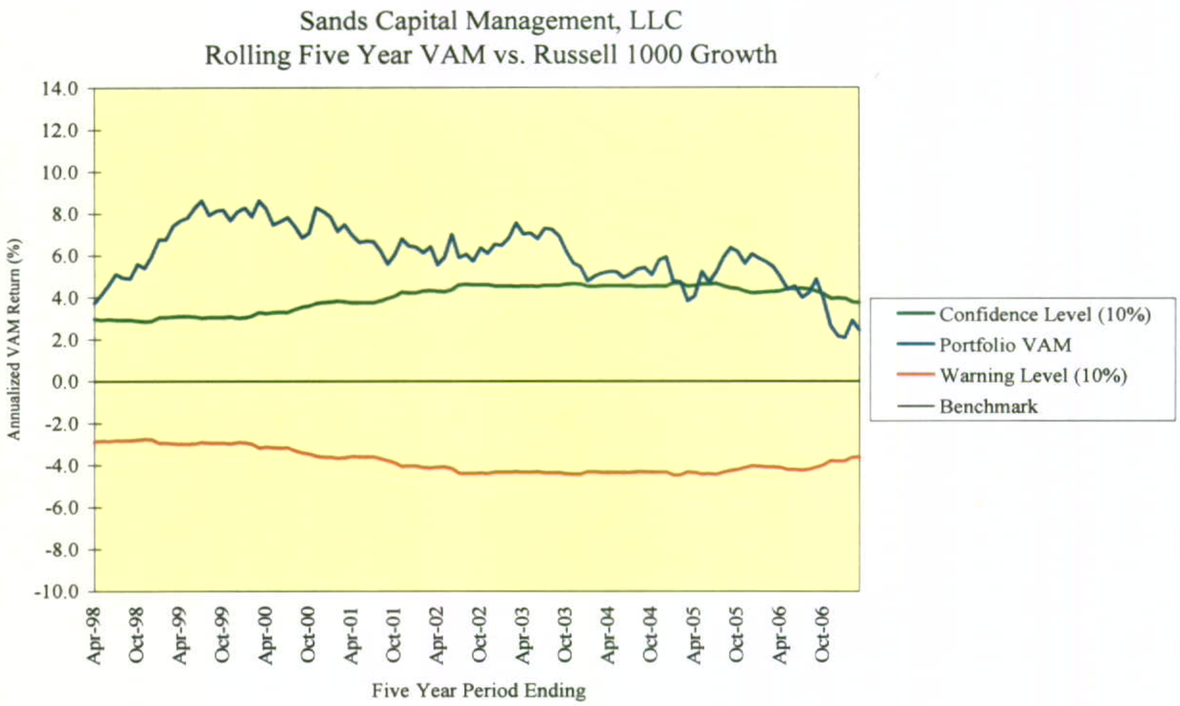
	Actual	Russell 1000 Growth
Last Quarter	2.7%	1.2%
Last 1 year	-1.5	7.1
Last 2 years	8.9	10.1
Last 3 years	N/A	N/A
Last 4 years	N/A	N/A
Last 5 years	N/A	N/A
Since Inception (1/05)	3.3	6.9

Calendar Year Returns

	Actual	Russell 1000 Growth
2006	-5.5%	9.1%
2005	10.9	5.3
2004	N/A	N/A
2003	N/A	N/A
2002	N/A	N/A

SANDS CAPITAL MANAGEMENT LLC
Periods Ending March, 2007

Portfolio Manager: Frank Sands, Sr. **Assets Under Management: $214,037,631**



Note: Shaded area includes performance prior to retention by the SBI.

VOYAGEUR ASSET MANAGEMENT
Periods Ending March, 2007

Portfolio Manager: Charles Henderson | **Assets Under Management: $49,851,678**

Investment Philosophy

Voyageur's Large Cap Growth Equity strategy is focused on achieving consistent, superior performance with near-benchmark risk. They seek high quality growth companies with exceptional financial strength and proven growth characteristics. They believe that sound fundamental analysis reveals those companies with superior earnings achievement and potential. Their screening process identifies companies that over the past five years have had higher growth in sales, earnings, return on equity, earnings stability and have lower debt ratios relative to their benchmark. Because they focus on diversification and sector limitations, they believe they can continue to outperform as different investment styles move in and out of favor.

Staff Comments

The portfolio underperformed the Russell 1000 Growth index by 1.2 percentage points (ppt) during the quarter. An underweight allocation in consumer discretionary represented a missed opportunity with ineffective stock selection. Another detractor was the overweight allocation to financial services and materials & processing coupled with weak stock selection.

For the year, the portfolio underperformed the Russell 1000 Growth index by 7.3 ppt. Weak stock selection in technology, financial services, and consumer discretionary had a negative impact on the portfolio.

Recommendation

No action required.

Quantitative Evaluation

Period Returns
(Annualized for multi-year periods)

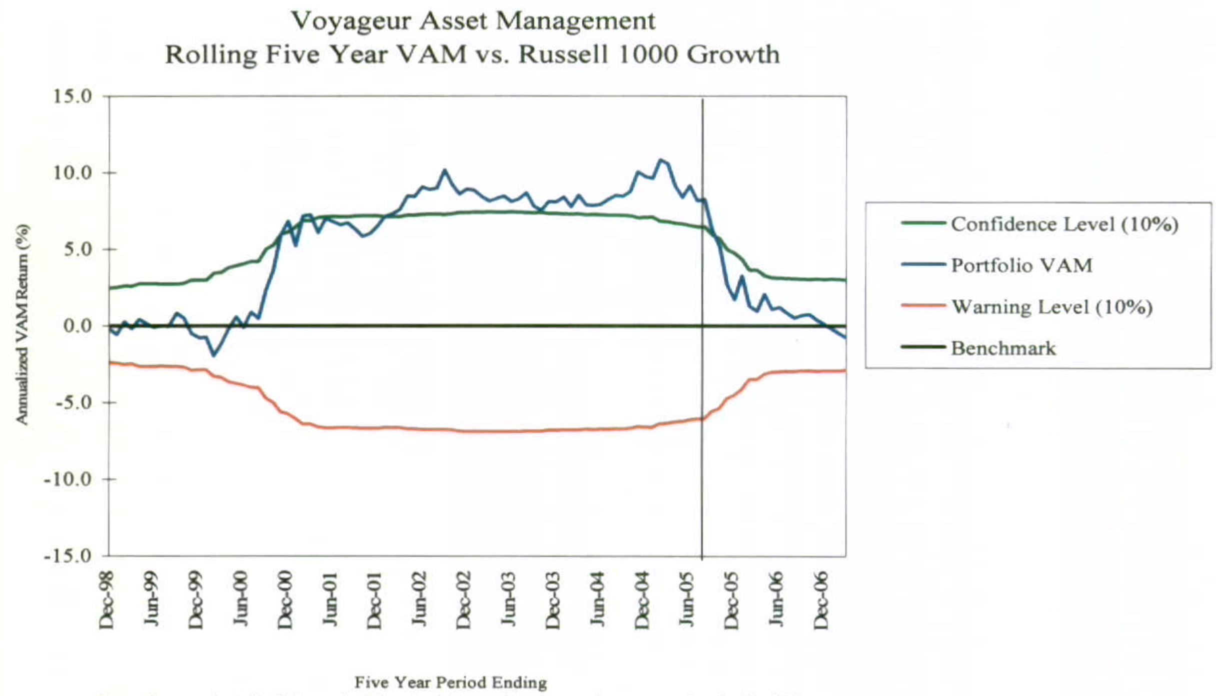
	Actual	Russell 1000 Growth
Last Quarter	0.0%	1.2%
Last 1 year	-0.2	7.1
Last 2 years	5.2	10.1
Last 3 years	4.3	7.0
Last 4 years	10.7	12.8
Last 5 years	2.6	3.5
Since Inception (7/00)	-0.3	-5.5

Calendar Year Returns

	Actual	Russell 1000 Growth
2006	2.1%	9.1%
2005	3.9	5.3
2004	10.6	6.3
2003	23.2	29.7
2002	-20.6	-27.9

VOYAGEUR ASSET MANAGEMENT
Periods Ending March, 2007

Portfolio Manager: Charles Henderson **Assets Under Management: $49,851,678**



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

WINSLOW CAPITAL MANAGEMENT, INC.
Periods Ending March, 2007

Portfolio Manager: Clark Winslow | **Assets Under Management: $113,861,775**

Investment Philosophy

The strategy identifies companies that can grow earnings above consensus expectations to build portfolios with forward weighted earnings growth in the range of 15-20% annually. A quantitative screen is employed for factors such as revenue and earnings growth, return on invested capital, earnings consistency, earnings revisions, low financial leverage and high free cash flow rates relative to net income. Resulting companies are subjected to a qualitative assessment within the context of industry sectors. Detailed examination of income statements, cash flow and balance sheet projections is conducted, along with a judgment on the quality of management. Attractively valued stocks are chosen based on P/E relative to the benchmark, sector peers, the company's sustainable future growth rate and return on invested capital. Final portfolio construction includes diversification by economic sectors, earnings growth rates, price/earnings ratios and market capitalizations.

Staff Comments

No comment at this time.

Recommendation

No action required.

Quantitative Evaluation

Period Returns
(Annualized for multi-year periods)

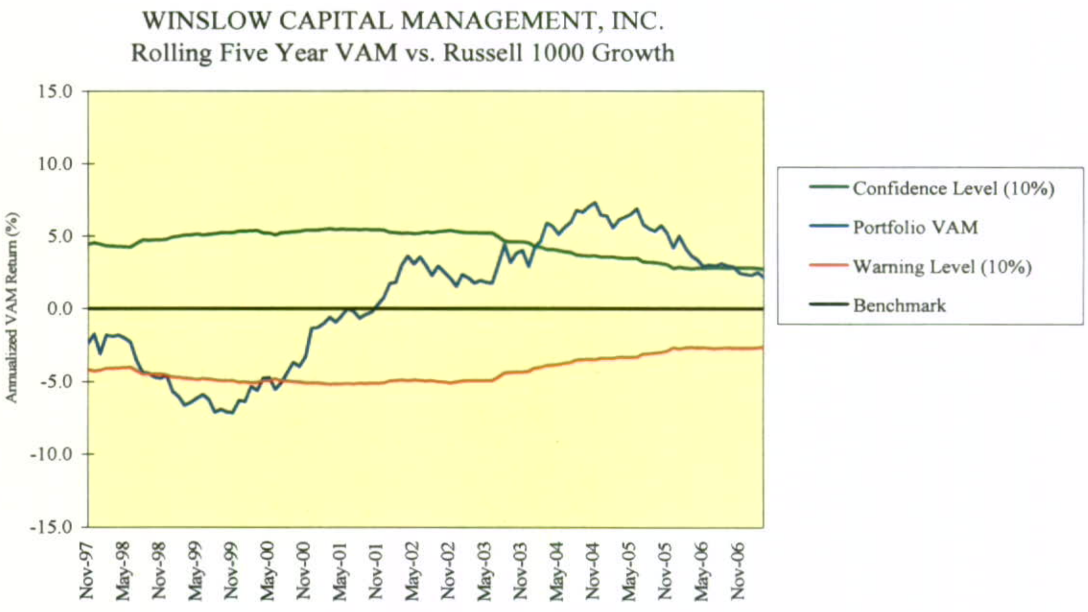
	Actual	Russell 1000 Growth
Last Quarter	1.7%	1.2%
Last 1 year	4.2	7.1
Last 2 years	12.7	10.1
Last 3 years	N/A	N/A
Last 4 years	N/A	N/A
Last 5 years	N/A	N/A
Since Inception (1/05)	8.8	6.9

Calendar Year Returns

	Actual	Russell 1000 Growth
2006	7.6%	9.1%
2005	10.5	5.3
2004	N/A	N/A
2003	N/A	N/A
2002	N/A	N/A

WINSLOW CAPITAL MANAGEMENT, INC.
Periods Ending March, 2007

Portfolio Manager: Clark Winslow | **Assets Under Management: $113,861,775**



Note: Shaded area includes performance prior to retention by the SBI.

ZEVENBERGEN CAPITAL INC.
Periods Ending March, 2007

Portfolio Manager: Nancy Zevenbergen **Assets Under Management: $255,291,971**

Investment Philosophy

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

Staff Comments

The portfolio outperformed the Russell 1000 Growth index by 3.7 percentage points (ppts) during the quarter. Strong stock selection in health care, technology, utilities, and consumer discretionary benefited the portfolio.

For the year, the portfolio underperformed the Russell 1000 Growth index by 3.0 ppt. Weak stock selection in consumer staples and consumer discretionary detracted from performance.

Recommendation

No action required.

Quantitative Evaluation

Period Returns
(Annualized for multi-year periods)

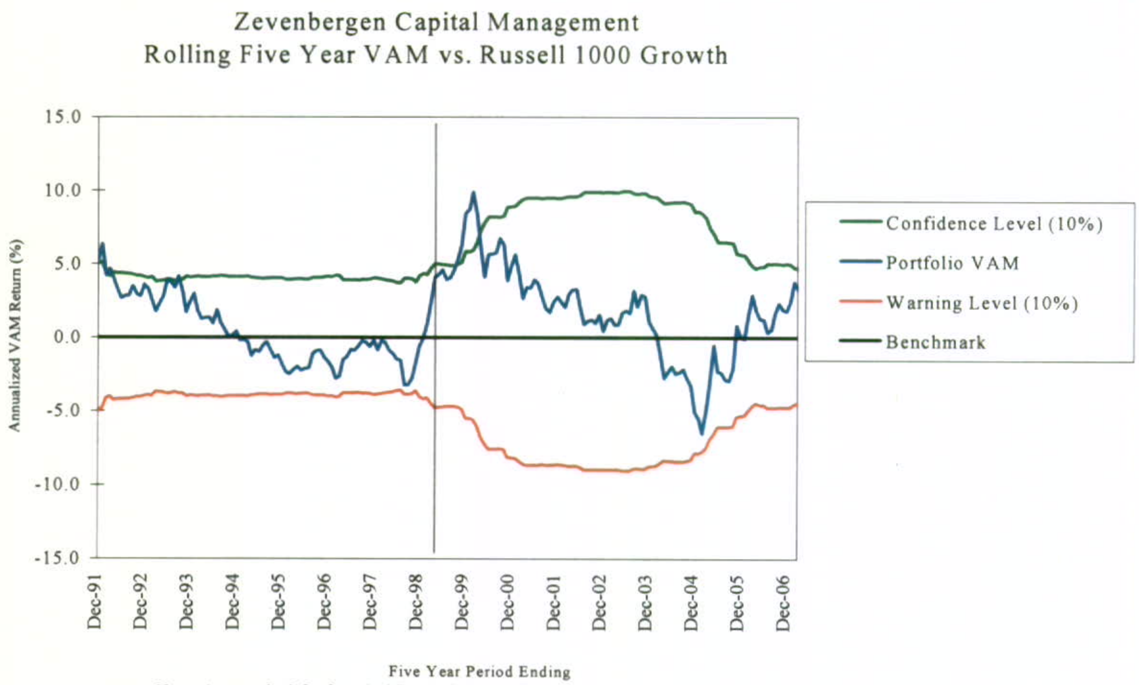
	Actual	Russell 1000 Growth
Last Quarter	4.9%	1.2%
Last 1 year	4.1	7.1
Last 2 years	14.3	10.1
Last 3 years	10.3	7.0
Last 4 years	18.9	12.8
Last 5 years	6.9	3.5
Since Inception (4/94)	10.4	9.1

Calendar Year Returns

	Actual	Russell 1000 Growth
2006	6.2%	9.1%
2005	9.0	5.3
2004	13.1	6.3
2003	49.3	29.7
2002	-36.2	-27.9

ZEVENBERGEN CAPITAL INC.
Periods Ending March, 2007

Portfolio Manager: Nancy Zevenbergen **Assets Under Management: $255,291,971**



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

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Large Cap Value (R1000 Value)

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Large Cap Value (R1000 Value)

Table of Contents

BARROW, HANLEY, MEWHINNEY & STRAUSS, INC.
Periods Ending March, 2007

Portfolio Manager: Tim Culler | **Assets Under Management: $481,291,447**

Investment Philosophy

The manager's approach is based on the underlying philosophy that markets are inefficient. Inefficiencies can best be exploited through adherence to a value-oriented investment process dedicated to the selection of securities on a bottom-up basis. The team does not attempt to time the market or rotate in and out of broad market sectors.

The manager remains fully invested with a defensive, conservative orientation based on the belief that superior returns can be achieved while taking below average risks. This strategy is implemented by constructing portfolios of individual stocks that exhibit price/earnings and price/book ratios significantly *below* the market and dividend yields significantly *above* the market. Risk control is achieved by limiting sector weights to 35% and industry weights to 15%. In periods of economic recovery and rising equity markets, profitability and earnings growth are rewarded by the expansion of price/earnings ratios and the generation of excess returns.

Quantitative Evaluation

Period Returns
(Annualized for multi-year periods)

	Actual	Russell 1000 Value
Last Quarter	1.9%	1.2%
Last 1 year	13.5	16.8
Last 2 years	12.5	15.1
Last 3 years	14.2	14.4
Last 4 years	N/A	N/A
Last 5 years	N/A	N/A
Since Inception (4/04)	14.2	14.4

Calendar Year Returns*

	Actual	Russell 1000 Value
2006	15.4%	22.2%
2005	9.6	7.1
2004	N/A	N/A
2003	N/A	N/A
2002	N/A	N/A

* Note: Manager was funded 4/04. Includes full-year returns only. Performance of managers hired during a calendar year are reported beginning with the following calendar year.

Staff Comments

The portfolio outperformed the Russell 1000 Value index by 0.7 percentage point (ppt) during the quarter. An overweight allocation to producer durables and consumer discretionary in addition to strong stock selection contributed to performance.

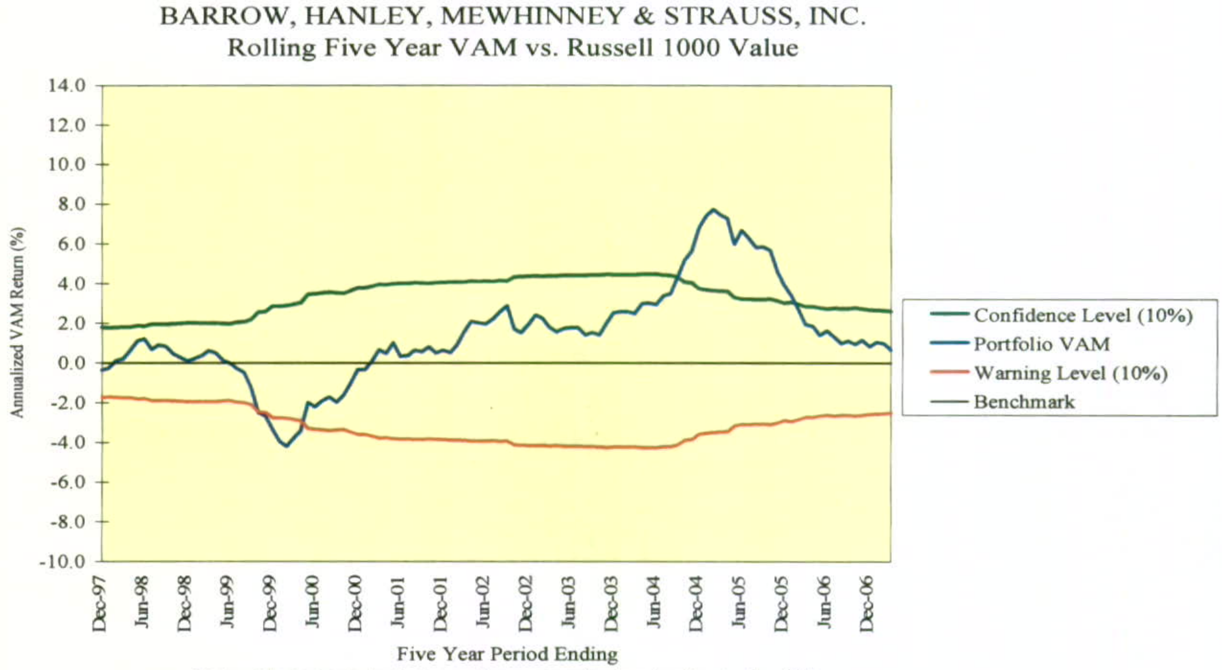
For the year, the portfolio underperformed the Russell 1000 Value index by 3.3 ppt. Weak stock selection in consumer discretionary, financial services and integrated oils detracted from performance.

Recommendation

No action required.

BARROW, HANLEY, MEWHINNEY & STRAUSS, INC.
Periods Ending March, 2007

Portfolio Manager: Tim Culler **Assets Under Management: $481,291,447**



Note: Shaded area includes performance prior to retention by the SBI.

EARNEST PARTNERS, LLC
Periods Ending March, 2007

Portfolio Manager: Paul Viera | **Assets Under Management: $190,582,737**

Investment Philosophy

Earnest Partners utilizes its proprietary Return Pattern Recognition model and rigorous fundamental review to identify stocks with the most attractive relative returns. They have identified six performance drivers – valuation measures, operating trends, market trends, growth measures, profitability measures and macroeconomic measures. Extensive research is conducted to determine which combination of performance drivers, or return patterns, precede out-performance for stocks in each sector. They select stocks whose return patterns suggest favorable performance and control risk using a statistical program designed to measure and control the prospects of substantially under-performing the benchmark. The portfolio is diversified across industry groups.

Staff Comments

The portfolio outperformed the Russell 1000 Value index by 0.1 percentage point (ppt) during the quarter. An overweight allocation to health care, other energy and technology coupled with strong stock selection benefited performance.

For the year, the portfolio underperformed the Russell 1000 Value index by 6.8 ppt. An overweight allocation to technology and underweight allocations to utilities and integrated oils hurt performance. Ineffective stock selection in these sectors exacerbated the negative impact.

Recommendation

No action required.

Quantitative Evaluation

Period Returns
(Annualized for multi-year periods)

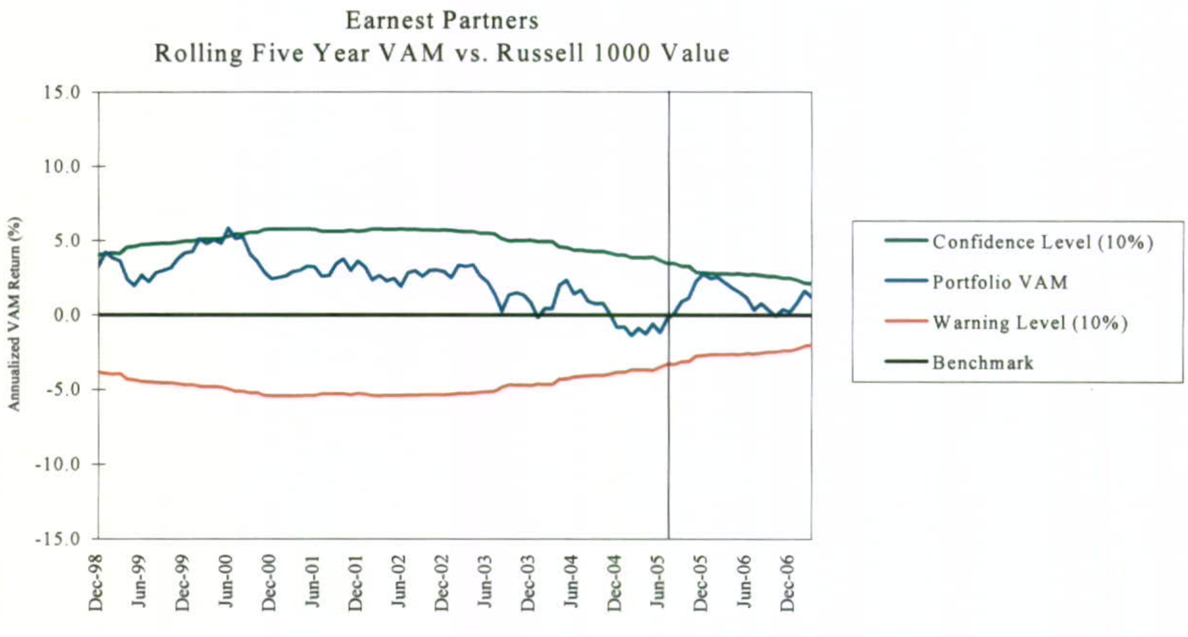
	Actual	Russell 1000 Value
Last Quarter	1.3%	1.2%
Last 1 year	10.0	16.8
Last 2 years	13.8	15.1
Last 3 years	14.9	14.4
Last 4 years	21.0	20.5
Last 5 years	11.5	10.2
Since Inception (7/00)	7.2	9.0

Calendar Year Returns

	Actual	Russell 1000 Value
2006	13.8%	22.2%
2005	15.6	7.1
2004	18.9	16.5
2003	32.0	30.0
2002	-18.1	-15.5

EARNEST PARTNERS, LLC
Periods Ending March, 2007

Portfolio Manager: Paul Viera | **Assets Under Management: $190,582,737**



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

LORD ABBETT & CO. LLC
Periods Ending March, 2007

Portfolio Manager: Eli Saltzmann

Assets Under Management: $336,376,924

Investment Philosophy

Utilizing a value-based, disciplined investment process that employs both informed judgment and quantitative analysis, Lord Abbett seeks to invest in companies with improving business fundamentals that are attractively valued. This process is implemented via a traditional fundamental active stock selection approach.

As a value manager, Lord Abbett believes that the market systematically misprices stocks. By coupling valuation criteria with thorough research of corporate and industry fundamentals, informed judgments can be made about where the market would price these stocks at fair value. The portfolio is constructed to exploit pricing discrepancies where it is perceived that: 1) these price differences will be closed over a reasonable period of time, or 2) there may be a catalyst for price appreciation. This process is implemented while maintaining sensitivity to both benchmark and macro-economic risk exposures.

Quantitative Evaluation

Period Returns
(Annualized for multi-year periods)

	Actual	Russell 1000 Value
Last Quarter	0.3%	1.2%
Last 1 year	12.4	16.8
Last 2 years	12.4	15.1
Last 3 years	10.9	14.4
Last 4 years	N/A	N/A
Last 5 years	N/A	N/A
Since Inception (4/04)	10.9	14.4

Calendar Year Returns*

	Actual	Russell 1000 Value
2006	18.6%	22.2%
2005	3.5	7.1
2004	N/A	N/A
2003	N/A	N/A
2002	N/A	N/A

* Note: Manager was funded 4/04. Includes full-year returns only. Performance of managers hired during a calendar year are reported beginning with the following calendar year.

Staff Comments

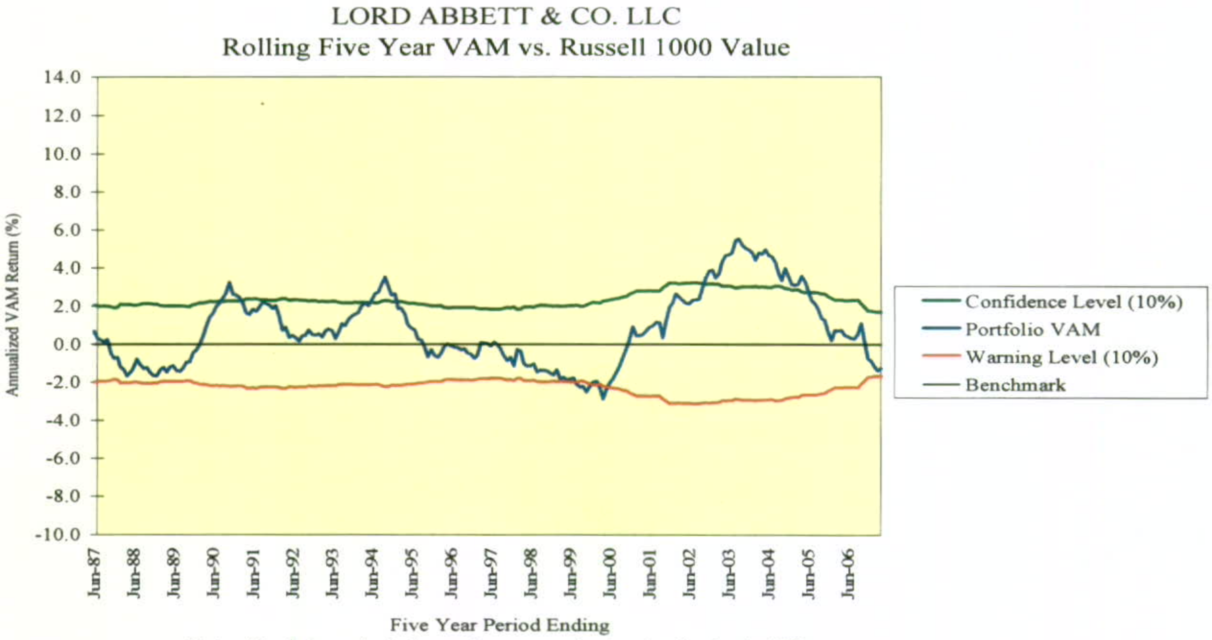
No comment at this time.

Recommendation

No action required.

LORD ABBETT & CO. LLC
Periods Ending March, 2007

Portfolio Manager: Eli Saltzmann **Assets Under Management: $336,376,924**



Note: Shaded area includes performance prior to retention by the SBI.

LSV ASSET MANAGEMENT
Periods Ending March, 2007

Portfolio Manager: Josef Lakonishok **Assets Under Management: $473,427,159**

Investment Philosophy

The fundamental premise on which LSV's investment philosophy is based is that superior long-term results can be achieved by systematically exploiting the judgmental biases and behavioral weaknesses that influence the decisions of many investors. These include: the tendency to extrapolate the past too far into the future, wrongly equating a good company with a good investment irrespective of price, ignoring statistical evidence and developing a "mindset" about a company.

The strategy's primary emphasis is the use of quantitative techniques to select individual securities in what would be considered a bottom-up approach. Value factors and security selection dominate sector/industry factors as explanatory variables of performance. The competitive strength of this strategy is that it avoids introducing to the process any judgmental biases and behavioral weaknesses that often influence investment decisions.

Quantitative Evaluation

Period Returns
(Annualized for multi-year periods)

	Actual	Russell 1000 Value
Last Quarter	2.5%	1.2%
Last 1 year	16.6	16.8
Last 2 years	17.5	15.1
Last 3 years	17.1	14.4
Last 4 years	N/A	N/A
Last 5 years	N/A	N/A
Since Inception (4/04)	17.1	14.4

Calendar Year Returns*

	Actual	Russell 1000 Value
2006	21.7%	22.2%
2005	12.5	7.1
2004	N/A	N/A
2003	N/A	N/A
2002	N/A	N/A

* Note: Manager was funded 4/04. Includes full-year returns only. Performance of managers hired during a calendar year are reported beginning with the following calendar year.

Staff Comments

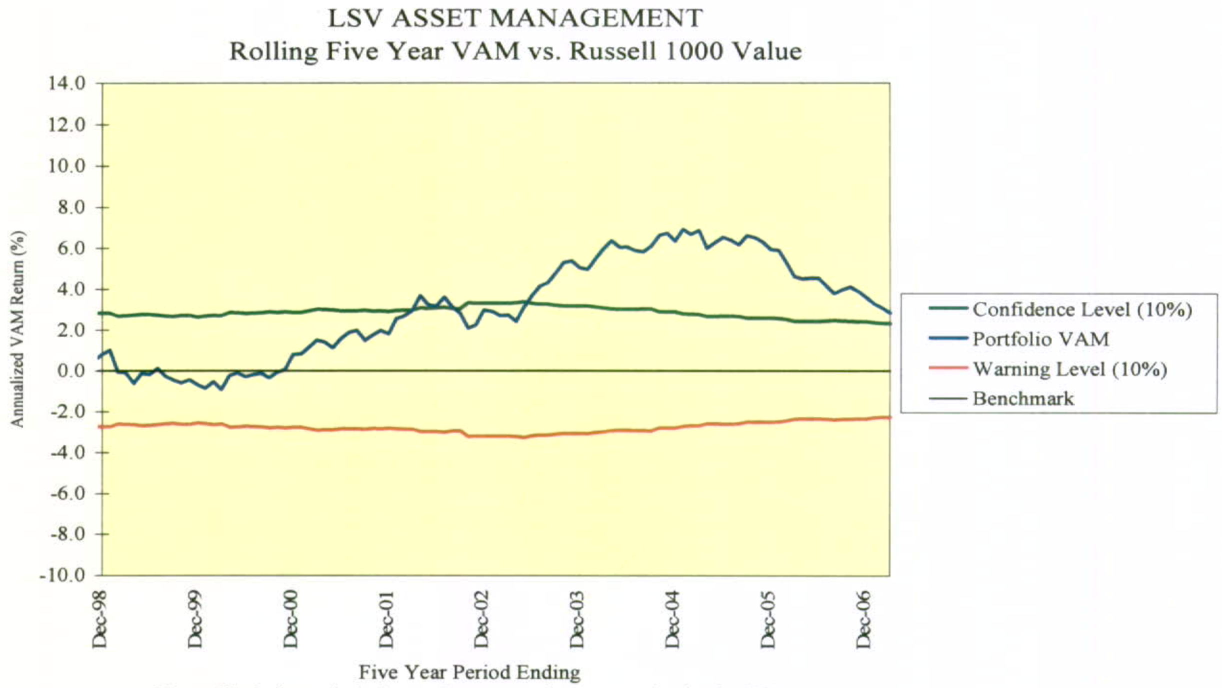
No comment at this time.

Recommendation

No action required.

LSV ASSET MANAGEMENT
Periods Ending March, 2007

Portfolio Manager: Josef Lakonishok **Assets Under Management: $473,427,159**



Note: Shaded area includes performance prior to retention by the SBI.

OPPENHEIMER CAPITAL
Periods Ending March, 2007

Portfolio Manager: John Lindenthal | **Assets Under Management: $365,346,304**

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. Oppenheimer focuses on five key variables when evaluating companies: management, financial strength, profitability, industry position, and valuation.

Staff Comments

Please see update from staff and recommendation.

Recommendation

Manager was re-interviewed by the Committee 1Q06. Staff continues to monitor closely.

Quantitative Evaluation

Period Returns
(Annualized for multi-year periods)

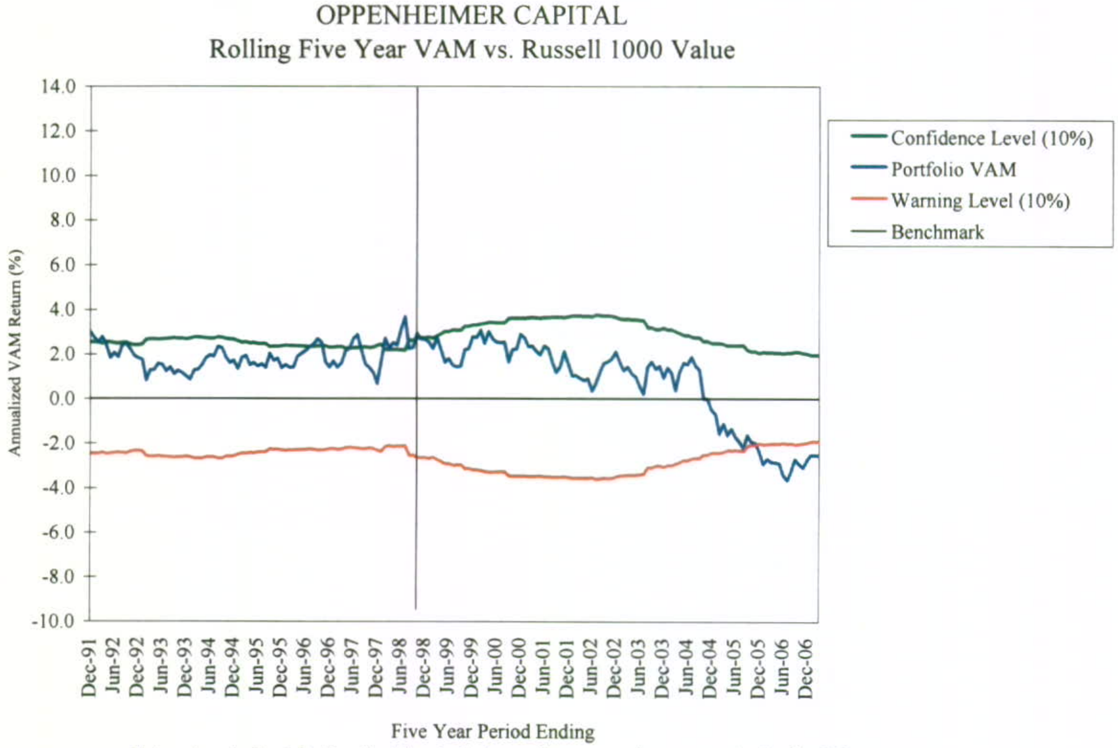
	Actual	Russell 1000 Value
Last Quarter	-1.1%	1.2%
Last 1 year	13.2	16.8
Last 2 years	9.9	15.1
Last 3 years	9.2	14.4
Last 4 years	15.6	20.5
Last 5 years	7.4	10.2
Since Inception (7/93)	12.6	12.4

Calendar Year Returns

	Actual	Russell 1000 Value
2006	18.2%	22.2%
2005	1.0	7.1
2004	12.0	16.5
2003	28.9	30.0
2002	-15.5	-15.5

OPPENHEIMER CAPITAL
Periods Ending March, 2007

Portfolio Manager: John Lindenthal **Assets Under Management: $365,346,304**



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

SYSTEMATIC FINANCIAL MANAGEMENT, L.P.
Periods Ending March, 2007

Portfolio Manager: Kevin McCreesh **Assets Under Management: $337,268,859**

Investment Philosophy

Systematic's investment strategy favors companies with low forward P/E multiples and a positive earnings catalyst. Cash flow is analyzed to confirm earnings and to avoid companies that may have employed accounting gimmicks to report earnings in excess of Wall Street expectations. The investment strategy attempts to avoid stocks in the "value trap" by focusing only on companies with confirmed fundamental improvement as evidenced by a genuine positive earnings surprise.

The investment process begins with quantitative screening that ranks the universe based on: 1) low forward P/E, and 2) a positive earnings catalyst, which is determined by a proprietary 16-factor model that is designed to be predictive of future positive earnings surprises. The screening process generates a research focus list of 150 companies, sorted by sector, upon which rigorous fundamental analysis is conducted to confirm each stock's value and catalysts for appreciation.

Quantitative Evaluation

Period Returns
(Annualized for multi-year periods)

	Actual	Russell 1000 Value
Last Quarter	3.3%	1.2%
Last 1 year	15.4	16.8
Last 2 years	15.3	15.1
Last 3 years	14.6	14.4
Last 4 years	N/A	N/A
Last 5 years	N/A	N/A
Since Inception (4/04)	14.6	14.4

Calendar Year Returns*

	Actual	Russell 1000 Value
2006	17.9%	22.2%
2005	10.3	7.1
2004	N/A	N/A
2003	N/A	N/A
2002	N/A	N/A

* Note: Manager was funded 4/04. Includes full-year returns only. Performance of managers hired during a calendar year are reported beginning with the following calendar year.

Staff Comments

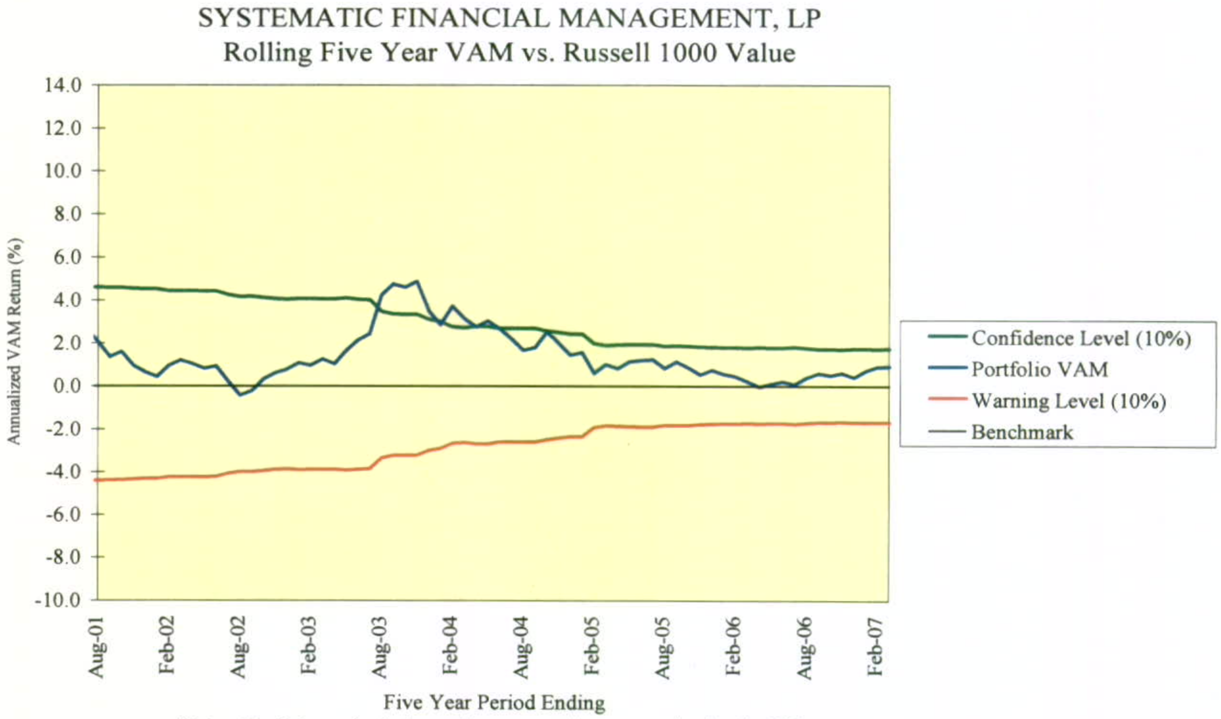
No comment at this time.

Recommendation

No action required.

SYSTEMATIC FINANCIAL MANAGEMENT, L.P.
Periods Ending March, 2007

Portfolio Manager: Kevin McCreesh | **Assets Under Management: $337,268,859**



Note: Shaded area includes performance prior to retention by the SBI.

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Small Cap Growth (R2000) Growth

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Small Cap Growth (R2000 Growth)

Table of Contents

MCKINLEY CAPITAL MANAGEMENT
Periods Ending March, 2007

Portfolio Manager: Robert Gillam, Sr. **Assets Under Management: $239,550,423**

Investment Philosophy

The team believes that excess market returns can be achieved through the construction and management of a diversified, fundamentally sound portfolio of inefficiently priced securities whose earnings growth rates are accelerating above market expectations. Using proprietary quantitative models, the team systematically searches for and identifies early signs of accelerating growth. The initial universe consists of growth and value stocks from all capitalization categories.

The primary model includes a linear regression model to identify common stocks that are inefficiently priced relative to the market while adjusting each security for standard deviation. The ratio of alpha to standard deviation is the primary screening value and is used to filter out all but the top 10% of stocks in our initial universe. The remaining candidates are tested for liquidity and strength of earnings. In the final portfolio construction process, qualitative aspects are examined, including economic factors, Wall Street research, and specific industry themes.

Quantitative Evaluation

Period Returns
(Annualized for multi-year periods)

	Actual	Russell 2000 Growth
Last Quarter	5.7%	2.5%
Last 1 year	0.8	1.6
Last 2 years	14.2	13.9
Last 3 years	7.6	9.4
Last 4 years	N/A	N/A
Last 5 years	N/A	N/A
Since Inception (1/04)	9.3	10.5

Calendar Year Returns

	Actual	Russell 2000 Growth
2006	12.5%	13.3%
2005	0.2	4.2
2004	12.2	14.3
2003	N/A	N/A
2002	N/A	N/A

Staff Comments

No comment at this time.

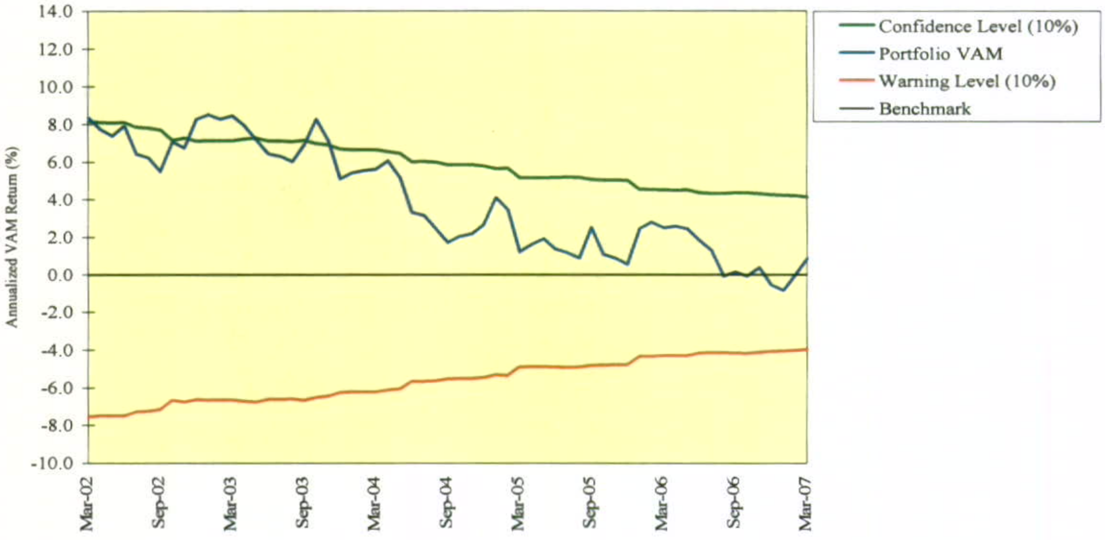
Recommendation

No action required.

MCKINLEY CAPITAL MANAGEMENT
Periods Ending March, 2007

Portfolio Manager: Robert Gillam, Sr. **Assets Under Management: $239,550,423**

MCKINLEY CAPITAL MANAGEMENT
Rolling Five Year VAM vs. Russell 2000 Growth



Note: Shaded area includes performance prior to retention by the SBI.

NEXT CENTURY GROWTH INVESTORS, LLC
Periods Ending March, 2007

Portfolio Manager: Thomas Press and Don Longlet **Assets Under Management: $234,825,312**

Investment Philosophy

Next Century Growth's (NCG) goal is to invest in the highest quality and fastest growing companies in America. They believe that growth opportunities exist regardless of the economic cycle. NCG uses fundamental analysis to identify companies that will surpass consensus earnings estimates, which they believe to be the number one predictor of future out-performance. Their investment process focuses on growth companies that have superior top line revenue growth (15% or greater), high profitability, and strong balance sheets, and are well poised to outperform the market. NCG believes in broad industry diversification; sector exposures are limited to twice the benchmark weighting and individual positions to five percent.

Staff Comments

The portfolio outperformed the Russell 2000 Growth Index by 1.5 percentage points (ppt) during the quarter. Strong stock selection within the materials & processing and other energy sectors contributed to performance. An underweight allocation to financial services coupled with strong stock selection proved beneficial.

For the year, the portfolio underperformed the Russell 2000 Growth Index by 3.7 ppt. Underweight positions in the consumer discretionary and financial services sectors represented missed opportunities as they outperformed within the index. Weak stock selection enhanced the negative impact.

Recommendation

No action required.

Quantitative Evaluation

Period Returns
(Annualized for multi-year periods)

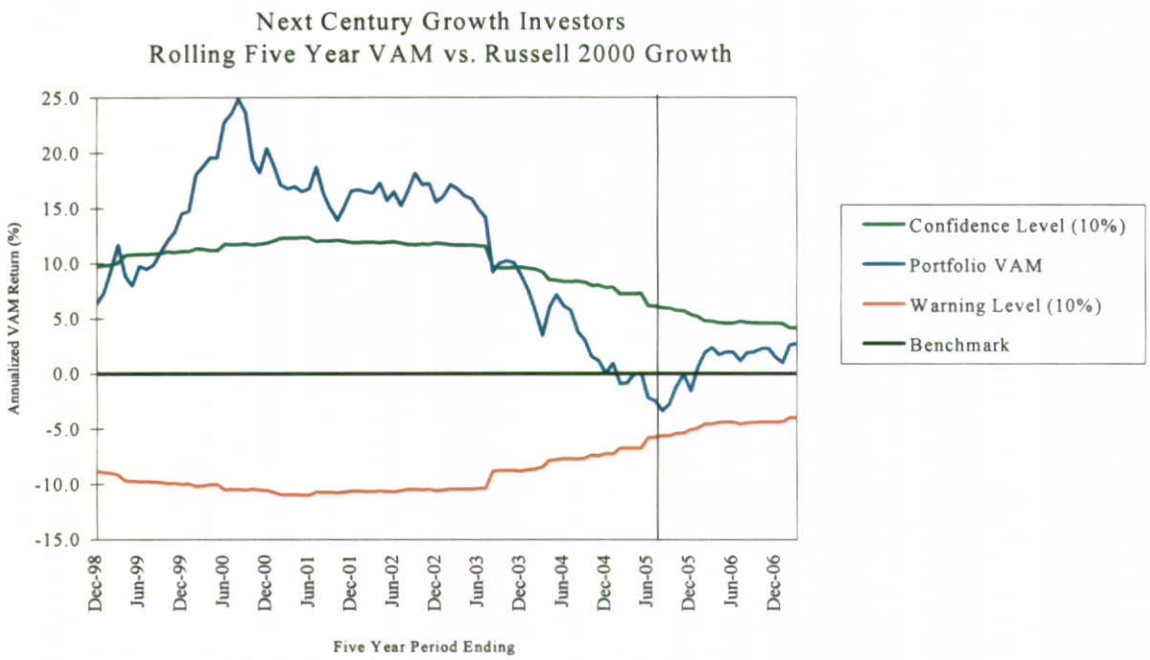
	Actual	**Russell 2000 Growth**
Last Quarter	4.0%	2.5%
Last 1 year	-2.1	1.6
Last 2 years	21.5	13.9
Last 3 years	15.9	9.4
Last 4 years	24.8	20.9
Last 5 years	10.8	7.9
Since Inception (7/00)	-0.8	-0.1

Calendar Year Returns

	Actual	**Russell 2000 Growth**
2006	12.4%	13.3%
2005	25.2	4.2
2004	6.4	14.3
2003	50.7	48.5
2002	-33.3	-30.3

NEXT CENTURY GROWTH INVESTORS, LLC
Periods Ending March, 2007

Portfolio Manager: Thomas Press and Don Longlet **Assets Under Management: $234,825,312**



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

TURNER INVESTMENT PARTNERS
Periods Ending March, 2007

Portfolio Manager: William McVail **Assets Under Management: $242,486,744**

Investment Philosophy

The team's investment philosophy is based on the belief that earnings expectations drive stock prices. The team adds value primarily through stock selection and pursues a bottom-up strategy. Ideal candidates for investment are growth companies that have above average earnings prospects, reasonable valuations, favorable trading volume, and price patterns. Each security is subjected to three separate evaluation criteria: fundamental analysis (80%), quantitative screening (10%), and technical analysis (10%).

Proprietary computer models enable the team to assess the universe based on multiple earnings growth and valuation factors. The factors are specific to each economic sector. Fundamental analysis is the heart of the stock selection process and helps the team determine if a company will exceed, meet or fall short of consensus earnings expectations. Technical analysis is used to evaluate trends in trading volume and price patterns for individual stocks as the team searches for attractive entry and exit points.

Staff Comments

The portfolio outperformed the Russell 2000 Growth Index by 1.4 percentage points (ppt) during the quarter. Strong overall stock selection aided returns, and was particularly effective within health care and materials & processing. For the year, the portfolio underperformed the Russell 2000 Growth Index by 0.7 ppt. Weak stock selection within technology and financial services detracted from performance.

Staff conducted a site visit during the quarter, reviewing philosophy, process, people, organization, etc. Firm is increasing the sector team members from 3 to 4 analysts in each of the major sector areas. This is necessary to support launch of an international mutual fund product. Analysts cover all market caps within their sector. The product is closed to new investors.

Recommendation

No action required.

Quantitative Evaluation

Period Returns
(Annualized for multi-year periods)

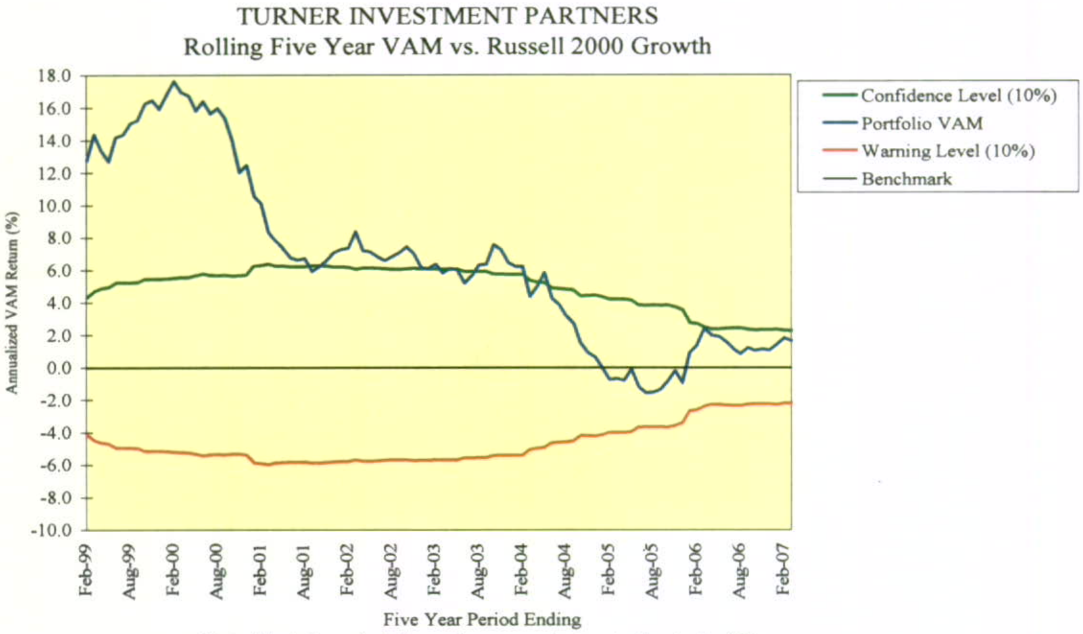
	Actual	Russell 2000 Growth
Last Quarter	3.9%	2.5%
Last 1 year	0.9	1.6
Last 2 years	16.2	13.9
Last 3 years	10.6	9.4
Last 4 years	N/A	N/A
Last 5 years	N/A	N/A
Since Inception (1/04)	10.9	10.5

Calendar Year Returns

	Actual	Russell 2000 Growth
2006	13.6%	13.3%
2005	6.2	4.2
2004	11.6	14.3
2003	N/A	N/A
2002	N/A	N/A

TURNER INVESTMENT PARTNERS
Periods Ending March, 2007

Portfolio Manager: William McVail **Assets Under Management: $242,486,744**



Note: Shaded area includes performance prior to retention by the SBI.

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Small Cap Value (R2000 Value)

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Small Cap Value (R2000 Value)

Table of Contents

GOLDMAN SACHS ASSET MANAGEMENT
Periods Ending March, 2007

Portfolio Manager: Chip Otness **Assets Under Management: $140,814,287**

Investment Philosophy

The firm's value equity philosophy is based on the belief that all successful investing begins with fundamental stock selection that should thoughtfully weigh a stock's price and prospects. A company's prospective ability to generate high cash flow returns on capital will strongly influence investment success. The team follows a strong valuation discipline to purchase well-positioned, cash generating businesses run by shareholder-oriented management teams.

Through extensive proprietary research, the team confirms that a candidate company's long-term competitive advantage and earnings power are intact. The team seeks to purchase a stock at a price that encompasses a healthy margin of safety. The investment process involves three steps: 1) prioritizing research, 2) analyzing fundamentals, and 3) portfolio construction. The independent Risk and Performance Analytics Group (RPAG) monitors daily portfolio management risk, adherence to client guidelines and general portfolio strategy.

Quantitative Evaluation

Period Returns
(Annualized for multi-year periods)

	Actual	Russell 2000 Value
Last Quarter	2.3%	1.5%
Last 1 year	8.6	10.4
Last 2 years	15.0	16.9
Last 3 years	13.1	14.5
Last 4 years	N/A	N/A
Last 5 years	N/A	N/A
Since Inception (1/04)	13.4	15.6

Calendar Year Returns

	Actual	Russell 2000 Value
2006	17.8%	23.5%
2005	4.1	4.7
2004	19.9	22.2
2003	N/A	N/A
2002	N/A	N/A

Staff Comments

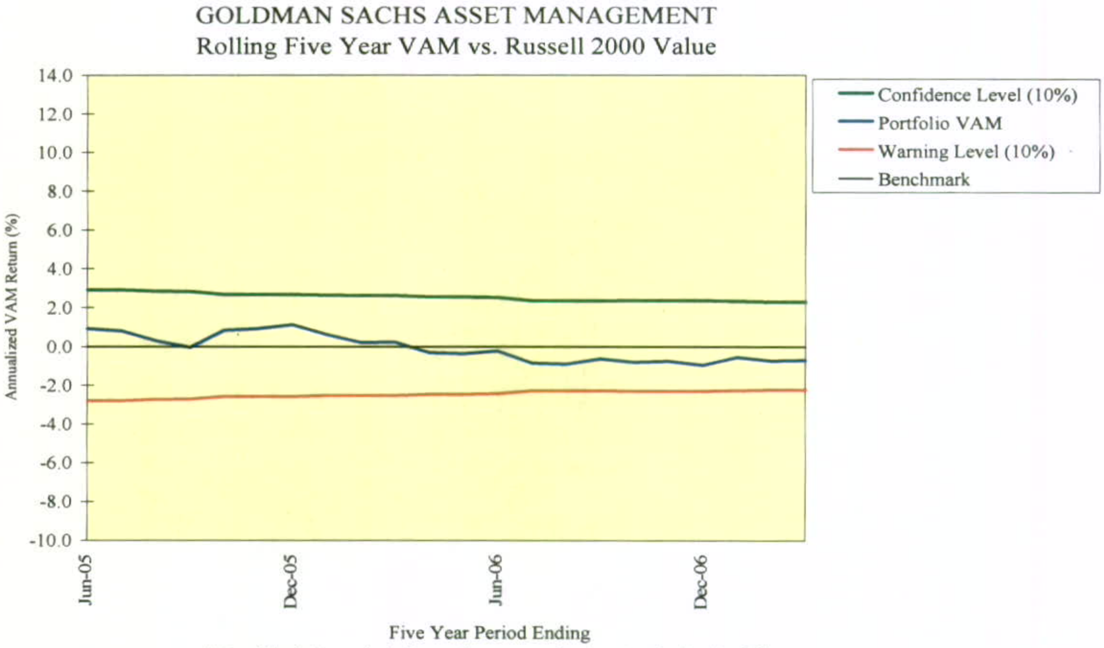
No comment at this time.

Recommendation

No action required.

GOLDMAN SACHS ASSET MANAGEMENT
Periods Ending March, 2007

Portfolio Manager: Chip Otness **Assets Under Management: $140,814,287**



Note: Shaded area includes performance prior to retention by the SBI.

HOTCHKIS & WILEY CAPITAL MANAGEMENT
Periods Ending March, 2007

Portfolio Manager: Jim Miles and David Green **Assets Under Management: $139,242,930**

Investment Philosophy

The firm seeks to exploit mis-priced securities in the small cap market by investing in "undiscovered" or "out of favor" companies. The team invests in stocks where the present value of the company's future cash flows exceeds the current market price. This approach exploits equity market inefficiencies created by irrational investor behavior and lack of Wall Street research coverage of smaller capitalization stocks. The team employs a disciplined, bottom-up investment process that emphasizes internally generated fundamental research.

The investment process begins with a quantitative screen based on market capitalization, trading liquidity and enterprise value/normalized EBIT, supplemented with ideas generated from the investment team. Internal research is then utilized to identify the most attractive valuation opportunities within this value universe. The primary focus of the research analyst is to determine a company's "normal" earnings power, which is the basis for security valuation.

Staff Comments

No comment at this time.

Recommendation

No action required.

Quantitative Evaluation

Period Returns
(Annualized for multi-year periods)

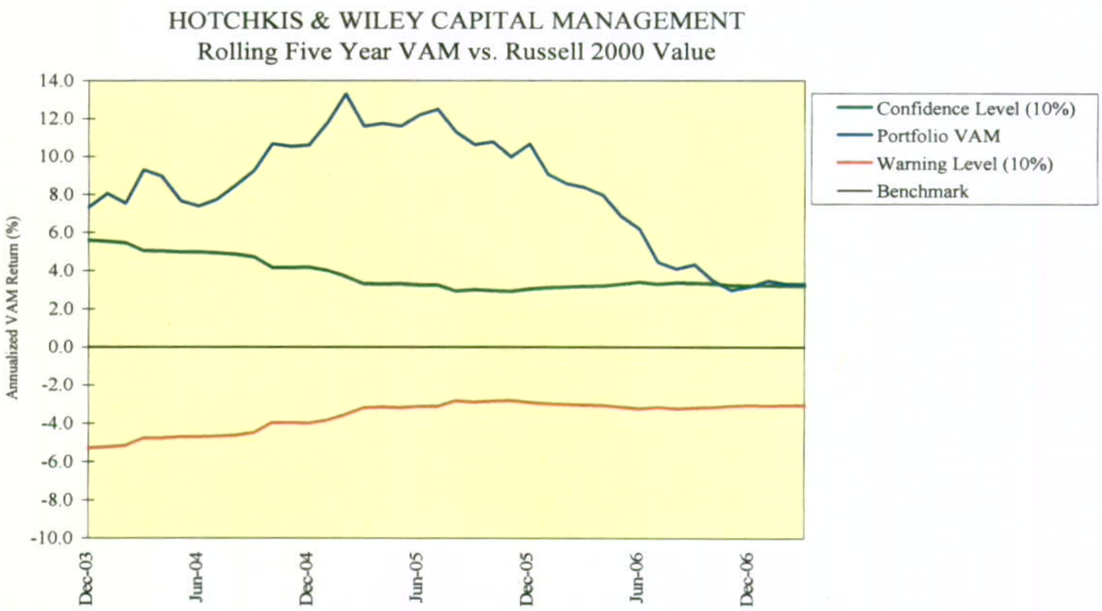
	Actual	Russell 2000 Value
Last Quarter	3.0%	1.5%
Last 1 year	-1.1	10.4
Last 2 years	8.6	16.9
Last 3 years	10.1	14.5
Last 4 years	N/A	N/A
Last 5 years	N/A	N/A
Since Inception (1/04)	13.0	15.6

Calendar Year Returns

	Actual	Russell 2000 Value
2006	3.0%	23.5%
2005	10.4	4.7
2004	27.1	22.2
2003	N/A	N/A
2002	N/A	N/A

HOTCHKIS & WILEY CAPITAL MANAGEMENT
Periods Ending March, 2007

Portfolio Manager: Jim Miles and David Green | **Assets Under Management: $139,242,930**



Note: Shaded area includes performance prior to retention by the SBI.

MARTINGALE ASSET MANAGEMENT
Periods Ending March, 2007

Portfolio Manager: William Jacques **Assets Under Management: $149,749,608**

Investment Philosophy

Martingale's investment process seeks to exploit the long-term link between undervalued company fundamentals and current market prices to achieve superior investment returns. Martingale has a long history of employing sound quantitative methods.

The valuation process is comprised of well-researched valuation indicators that have stood the test of time, with improvements made only after careful evaluation, testing and analysis. Multiple characteristics of quality, value and momentum are examined. The quality of company management is assessed by reviewing commitment to R&D, accounting practices with regard to earnings and cash flow from operations, and the ability to manage inventory.

The average holding period of a stock is typically one year. Every holding is approached as an investment in the business, with the intention of holding it until either objectives are reached, or it becomes apparent that there are better opportunities in other stocks.

Quantitative Evaluation

Period Returns
(Annualized for multi-year periods)

	Actual	Russell 2000 Value
Last Quarter	0.4%	1.5%
Last 1 year	4.5	10.4
Last 2 years	11.8	16.9
Last 3 years	13.3	14.5
Last 4 years	N/A	N/A
Last 5 years	N/A	N/A
Since Inception (1/04)	15.6	15.6

Calendar Year Returns

	Actual	Russell 2000 Value
2006	14.8%	23.5%
2005	6.2	4.7
2004	30.8	22.2
2003	N/A	N/A
2002	N/A	N/A

Staff Comments

The portfolio underperformed the Russell 2000 Value Index during the quarter by 0.9 percentage point (ppt). Weak stock selection within financial services and technology hindered returns. For the year, the portfolio underperformed the Russell 2000 Growth Index by 5.9 ppt. Overweight allocations to materials & processing and producer durables coupled with weak stock selection detracted from performance.

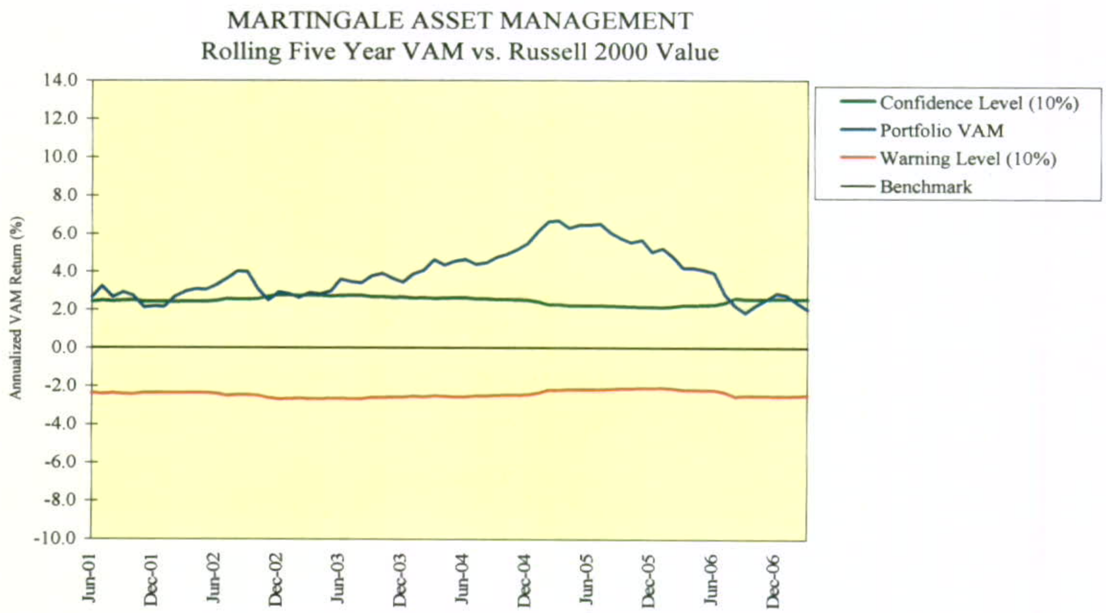
Staff conducted a site visit during the quarter, reviewing philosophy, process, people, organization and other factors. Staff continues to be impressed with the investment professionals and the research conducted on the current process and potential new factors.

Recommendation

No action required.

MARTINGALE ASSET MANAGEMENT
Periods Ending March, 2007

Portfolio Manager: William Jacques **Assets Under Management: $149,749,608**



Note: Shaded area includes performance prior to retention by the SBI.

PEREGRINE CAPITAL MANAGEMENT
Periods Ending March, 2007

Portfolio Manager: Doug Pugh and Tasso Coin **Assets Under Management: $227,324,910**

Investment Philosophy

Peregrine's Small Cap Value investment process begins with the style's proprietary valuation analysis, which is designed to identify the small cap value stocks most likely to outperform. The valuation analysis identifies the most under-priced securities on a sector-by-sector basis. Drawing on thirty years of data, the analysis looks at different combinations of sixty fundamental factors most relevant in each independent sector to identify stocks that offer significant value relative to the companies' underlying fundamentals. The focus of the team's fundamental research is to determine if one or more of the style's "Value Buy Criteria" are present. These include short-term problems, unrecognized assets, take-over potential, and catalysts for change. The portfolio is diversified and sector weights are aligned closely with the benchmark. This allows stock selection to drive performance.

Staff Comments

The portfolio outperformed the Russell 2000 Value Index by 0.4 percentage point (ppt) during the quarter. An underweight allocation to financial services coupled with strong stock selection contributed to performance. Overweight positions in health care and consumer discretionary along with effective stock selection proved beneficial.

For the year, the portfolio underperformed the Russell 2000 Value Index by 5.2 ppt. Weak overall stock selection detracted from performance, and was particular ineffective within the consumer discretionary, consumer staples, and technology sectors.

Recommendation

No action required.

Quantitative Evaluation

Period Returns
(Annualized for multi-year periods)

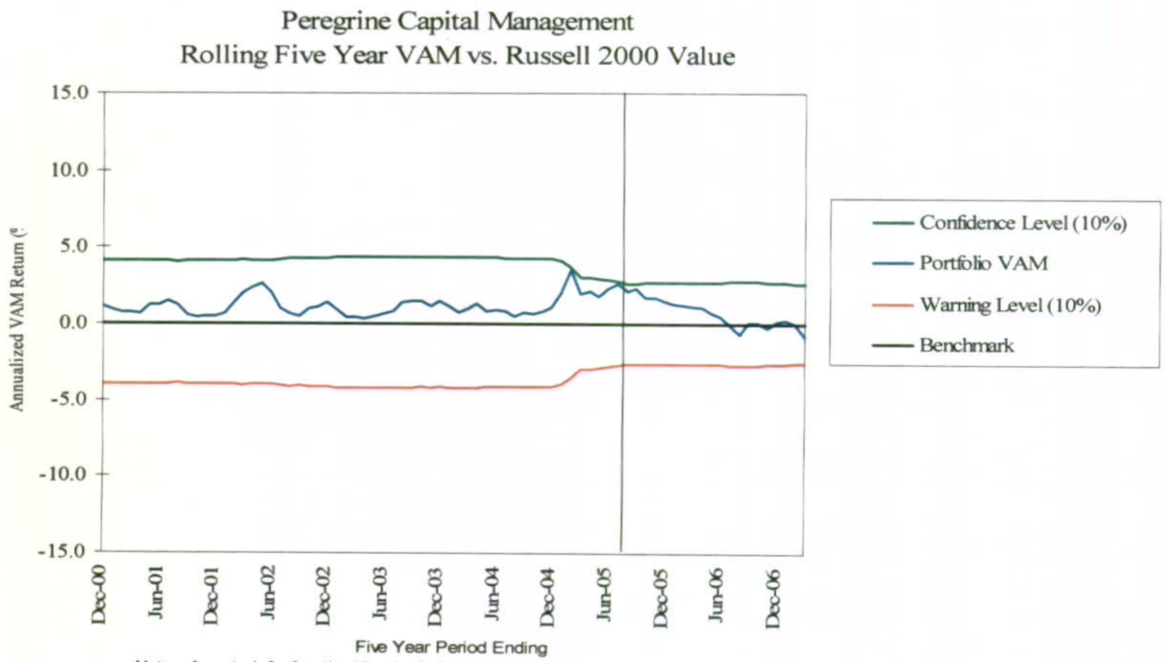
	Actual	Russell 2000 Value
Last Quarter	1.9%	1.5%
Last 1 year	5.2	10.4
Last 2 years	14.5	16.9
Last 3 years	14.8	14.5
Last 4 years	25.6	25.3
Last 5 years	12.7	13.6
Since Inception (7/00)	17.2	16.1

Calendar Year Returns

	Actual	Russell 2000 Value
2006	14.3%	23.5%
2005	10.1	4.7
2004	23.6	22.2
2003	44.2	46.0
2002	-8.1	-11.4

PEREGRINE CAPITAL MANAGEMENT
Periods Ending March, 2007

Portfolio Manager: Doug Pugh and Tasso Coin **Assets Under Management: $227,324,910**



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

RIVERSOURCE INVESTMENTS/KENWOOD CAPITAL MANAGEMENT
Periods Ending March, 2007

Portfolio Manager: Jacob Hurwitz and Kent Kelley **Assets Under Management: $66,145,608**

Investment Philosophy

The portfolio management team relies primarily on quantitative appraisal; fundamental analysis supplements the model-based stock selection discipline. The goal is to systematically tilt client portfolios toward stocks that offer a superior return-to-risk tradeoff. In order to achieve consistency of performance, risk management is integrated into all aspects of the investment process. Risk is monitored at the security, sector, and portfolio level.

The centerpiece of the stock selection process is a quantitative model that ranks stocks based upon potential excess return. Key elements of the model include assessments of valuation, earnings, and market reaction. Models are created for twelve sectors using sector-specific criteria. Qualitative analysis assesses liquidity, litigation/regulatory risk, and event risk. The team focuses on bottom up stock selection within a sector neutral framework.

Staff Comments

No comment at this time.

Recommendation

No action required.

Quantitative Evaluation

Period Returns
(Annualized for multi-year periods)

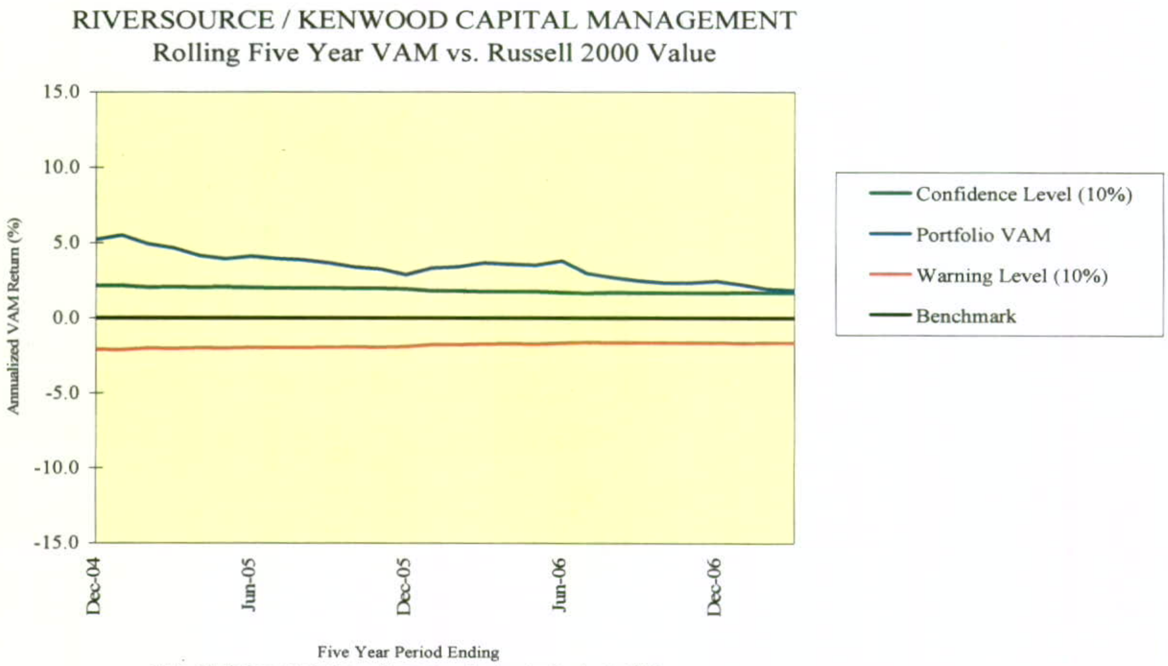
	Actual	Russell 2000 Value
Last Quarter	0.3%	1.5%
Last 1 year	6.1	10.4
Last 2 years	13.9	16.9
Last 3 years	13.1	14.5
Last 4 years	N/A	N/A
Last 5 years	N/A	N/A
Since Inception (1/04)	15.1	15.6

Calendar Year Returns

	Actual	Russell 2000 Value
2006	19.4%	23.5%
2005	4.8	4.7
2004	25.8	22.2
2003	N/A	N/A
2002	N/A	N/A

RIVERSOURCE INVESTMENTS/KENWOOD CAPITAL MANAGEMENT
Periods Ending March, 2007

Portfolio Manager: Jacob Hurwitz and Kent Kelley **Assets Under Management: $66,145,608**



Note: Shaded area includes performance prior to retention by the SBI.

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Semi-Passive and Passive

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Semi-Passive and Passive

Table of Contents

BARCLAYS GLOBAL INVESTORS
Periods Ending March, 2007

Portfolio Manager: Scott Clifford **Assets Under Management: $3,364,992,948**

Investment Philosophy – Semi-Passive Style

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.

Quantitative Evaluation

Period Returns
(Annualized for multi-year periods)

	Actual	Manager Benchmark*
Last Quarter	1.0%	1.2%
Last 1 year	11.3	11.8
Last 2 years	12.9	12.5
Last 3 years	11.0	10.7
Last 4 years	16.8	16.4
Last 5 years	7.9	7.3
Since Inception (1/95)	11.4	10.7

Calendar Year Returns

	Actual	Manager Benchmark*
2006	15.6%	15.5%
2005	7.6	6.3
2004	11.7	11.4
2003	30.0	28.5
2002	-19.1	-19.7

* Completeness Fund until 12/31/03; Russell 1000 beginning 1/1/04.

Staff Comments

The portfolio underperformed the Russell 1000 index by 0.2 percentage point (ppt) and 0.5 ppt during the quarter and year, respectively. In both periods, weak stock selection in consumer discretionary and technology detracted from performance.

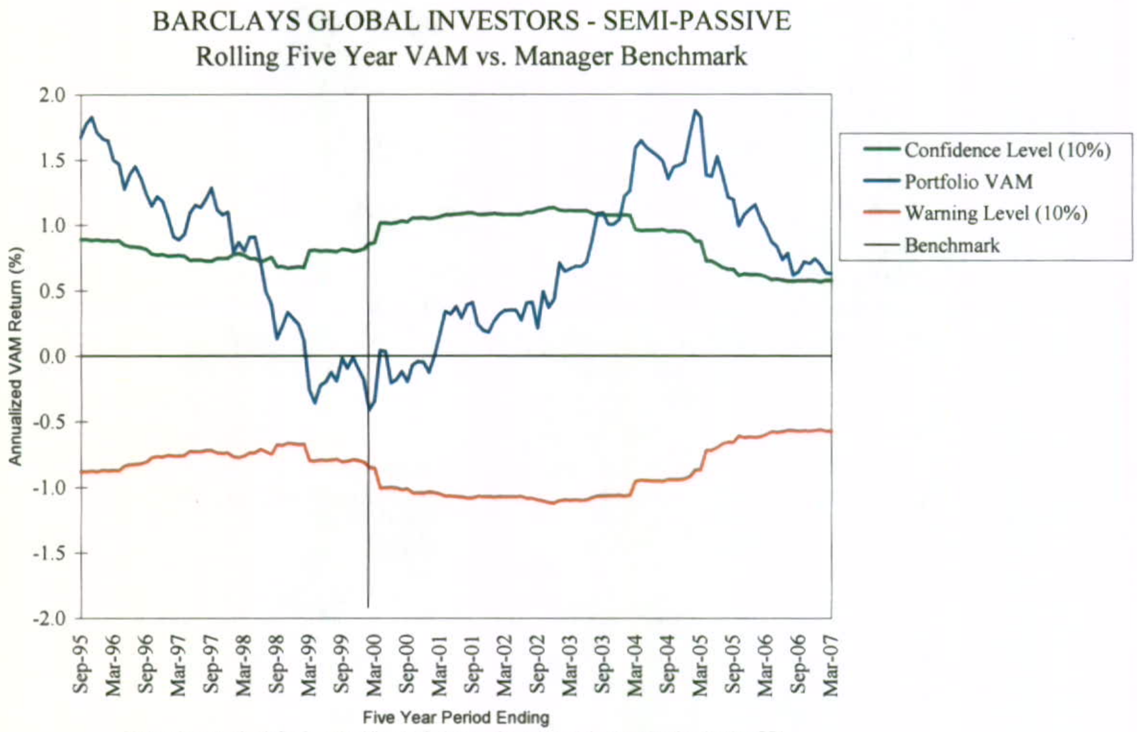
Barclays plc announced a deal to purchase Dutch bank ABN Amro Holding N.V. for approximately $91 billion in shares. The deal, which has opposition, is planned to be completed by fourth quarter 2007.

Recommendation

No action required.

BARCLAYS GLOBAL INVESTORS
Periods Ending March, 2007

Portfolio Manager: Scott Clifford | **Assets Under Management: $3,364,992,948**



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

FRANKLIN PORTFOLIO ASSOCIATES
Periods Ending March, 2007

Portfolio Manager: John Cone **Assets Under Management: $2,421,617,108**

Investment Philosophy – Semi-Passive Style

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

Staff Comments

The portfolio outperformed the Russell 1000 index by 0.3 percentage points (ppt) and 1.4 ppt for the quarter and year, respectively. Strong stock selection in utilities and auto & transportation benefited the portfolio for the quarter. For the year, strong stock selection in utilities, health care, and consumer discretionary was beneficial.

Staff conducted a site visit during the quarter. Philosophy, process, people and organization were reviewed in detail. Staff is impressed with the investment team and reviewed in detail the quantitative portfolio construction process with the portfolio manager. Franklin's parent company, Mellon Financial, is scheduled to close on its merger with Bank of New York in 3Q2007.

Recommendation

No action required.

Quantitative Evaluation

Period Returns
(Annualized for multi-year periods)

	Actual	Manager Benchmark*
Last Quarter	1.5%	1.2%
Last 1 year	13.2	11.8
Last 2 years	12.8	12.5
Last 3 years	11.0	10.7
Last 4 years	16.6	16.4
Last 5 years	7.1	7.3
Since Inception (1/95)	10.5	10.7

Calendar Year Returns

	Actual	Manager Benchmark*
2006	16.5%	15.5%
2005	6.1	6.3
2004	11.7	11.4
2003	26.9	28.5
2002	-20.2	-19.7

* Completeness Fund until 12/31/03; Russell 1000 beginning 1/1/04.

FRANKLIN PORTFOLIO ASSOCIATES
Periods Ending March, 2007

Portfolio Manager: John Cone **Assets Under Management: $2,421,617,108**

FRANKLIN PORTFOLIO ASSOCIATES - SEMI-PASSIVE
Rolling Five Year VAM vs. Manager Benchmark

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

J.P. MORGAN INVESTMENT MANAGEMENT, INC.
Periods Ending March, 2007

Portfolio Manager: Ralph Zingone and Terance Chen   Assets Under Management: $2,645,027,050

Investment Philosophy – Semi-Passive Style

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

Staff Comments

No comment at this time.

Recommendation

No action required.

Quantitative Evaluation

Period Returns
(Annualized for multi-year periods)

	Actual	Manager Benchmark*
Last Quarter	1.6%	1.2%
Last 1 year	13.3	11.8
Last 2 years	12.6	12.5
Last 3 years	10.6	10.7
Last 4 years	16.5	16.4
Last 5 years	6.7	7.3
Since Inception (1/95)	10.8	10.7

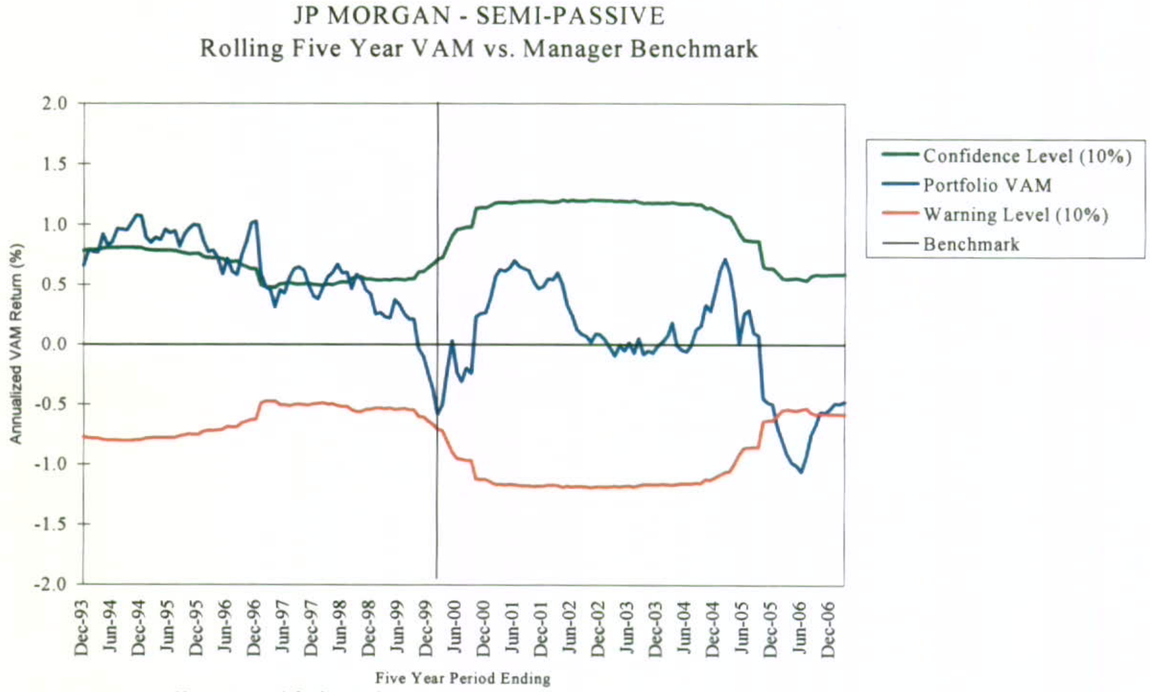
Calendar Year Returns

	Actual	Manager Benchmark*
2006	16.5%	15.5%
2005	4.7	6.3
2004	11.7	11.4
2003	28.9	28.5
2002	-21.8	-19.7

* Completeness Fund until 12/31/03; Russell 1000 beginning 1/1/04.

J.P. MORGAN INVESTMENT MANAGEMENT, INC.
Periods Ending March, 2007

Portfolio Manager: Ralph Zingone and Terance Chen   Assets Under Management: $2,645,027,050



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

BARCLAYS GLOBAL INVESTORS
Periods Ending March, 2007

Portfolio Manager: Amy Schioldager **Assets Under Management: $8,118,570,353**

Investment Philosophy – Passive Style

Barclays Global Investors seeks to minimize 1) tracking error, 2) transaction costs, and 3) investment and operational risks. The portfolio is passively managed against the asset class target using a proprietary optimization process that integrates a transaction cost model. The resulting portfolio closely matches the characteristics of the benchmark with less exposure to illiquid stocks.

Staff Comments

No comment at this time.

Recommendation

No action required.

Quantitative Evaluation

Period Returns
(Annualized for multi-year periods)

	Actual	Manager Benchmark*
Last Quarter	1.2%	1.3%
Last 1 year	11.2	11.3
Last 2 years	12.8	12.8
Last 3 years	10.9	10.8
Last 4 years	17.1	17.1
Last 5 years	7.3	7.3
Since Inception (7/95)	10.3	10.2

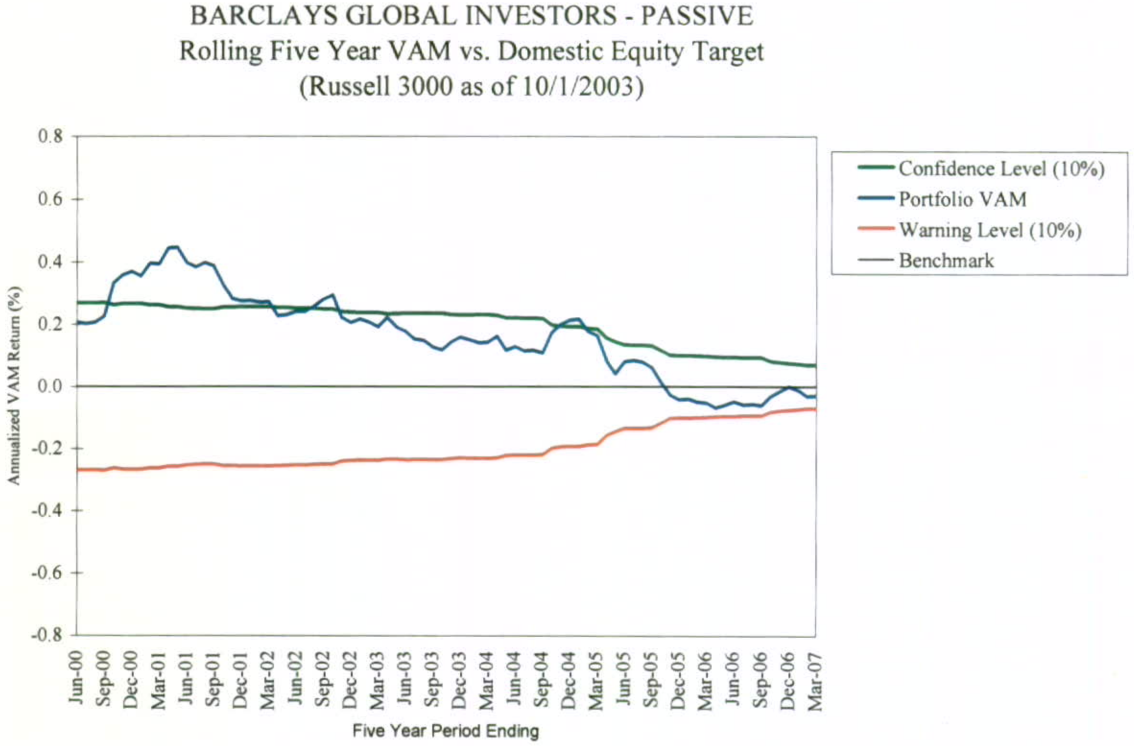
Calendar Year Returns

	Actual	Manager Benchmark*
2006	15.8%	15.7%
2005	6.2	6.1
2004	12.0	11.9
2003	30.9	31.2
2002	-21.4	-21.5

* The Domestic Equity Asset Class Target is the Russell 3000 Index effective 10/1/03.
From Account inception to 6/30/99, the target was the Wilshire 5000 as reported with no adjustments.

BARCLAYS GLOBAL INVESTORS
Periods Ending March, 2007

Portfolio Manager: Amy Schioldager **Assets Under Management: $8,118,570,353**



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STATE BOARD OF INVESTMENT

Bond Manager Evaluation Reports

First Quarter, 2007

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Bond Managers

Table of Contents

COMBINED RETIREMENT FUNDS
BOND MANAGERS
Periods Ending March, 2007

	Quarter		1 Year		3 Years		5 Years		Since (1) Inception		Market	
	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Value (in millions)	Pool %
Active Managers												
Aberdeen	1.6	1.5	6.9	6.6	3.7	3.3	6.0	5.4	7.0	6.5	$1,102.7	9.5%
Dodge & Cox	1.5	1.5	7.0	6.6	3.8	3.3	6.2	5.4	7.5	6.5	$1,125.5	9.7%
Morgan Stanley	1.7	1.5	6.3	6.6	4.2	3.3	5.5	5.4	9.2	8.9	$904.8	7.8%
RiverSource	1.5	1.5	6.6	6.6	3.7	3.3	4.7	5.4	6.0	6.2	$1,027.6	8.8%
Western	1.7	1.5	7.5	6.6	4.5	3.3	6.9	5.4	10.2	8.8	$1,580.9	13.6%
Active Mgr. Aggregate	**1.6**	**1.5**	**6.9**	**6.6**	**4.0**	**3.3**	**5.8**	**5.4**	**9.3**	**8.8**	**$5,741.6**	**49.4%**
Semi-Passive Managers												
BlackRock	1.5	1.5	6.5	6.6	3.5	3.3	5.5	5.4	6.6	6.3	$1,924.2	16.6%
Goldman	1.6	1.5	6.7	6.6	3.7	3.3	5.7	5.4	6.5	6.2	$1,929.3	16.6%
Lehman	1.5	1.5	6.7	6.6	3.5	3.3	5.5	5.4	7.6	7.5	$2,017.9	17.4%
Semi-Passive Mgr. Aggregate	**1.5**	**1.5**	**6.7**	**6.6**	**3.5**	**3.3**	**5.6**	**5.4**	**7.7**	**7.5**	**$5,871.4**	**50.6%**
									Since 7/1/84			
Historical Aggregate (2)	**1.6**	**1.5**	**6.8**	**6.6**	**3.8**	**3.3**	**5.7**	**5.4**	**9.0**	**8.9**	**$11,612.95**	**100.0%**
Lehman Aggregate (3)		1.5		6.6		3.3		5.4		8.9		

(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.

COMBINED RETIREMENT FUNDS
BOND MANAGERS
Calendar Year Returns

	2006		2005		2004		2003		2002	
	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %
Active Managers										
Aberdeen	4.8	4.3	2.7	2.4	5.1	4.3	5.2	4.1	10.2	10.3
Dodge & Cox	5.5	4.3	2.5	2.4	4.1	4.3	7.4	4.1	11.1	10.3
Morgan Stanley	4.2	4.3	4.1	2.4	4.6	4.3	5.1	4.1	7.9	10.3
RiverSource	4.7	4.3	2.6	2.4	5.1	4.3	4.3	4.1	5.5	10.3
Western	5.4	4.3	2.7	2.4	6.6	4.3	9.2	4.1	9.4	10.3
Active Mgr. Aggregate	**5.0**	**4.3**	**2.9**	**2.4**	**5.3**	**4.3**	**6.6**	**4.1**	**8.0**	**10.3**
Semi-Passive Managers										
BlackRock	4.3	4.3	2.7	2.4	4.5	4.3	4.4	4.1	10.4	10.3
Goldman	4.5	4.3	2.8	2.4	5.1	4.3	5.7	4.1	8.9	10.3
Lehman	4.5	4.3	2.5	2.4	4.6	4.3	4.4	4.1	10.1	10.3
Semi-Passive Mgr. Aggregate	**4.5**	**4.3**	**2.6**	**2.4**	**4.7**	**4.3**	**4.8**	**4.1**	**9.8**	**10.3**
Historical Aggregate	**4.7**	**4.3**	**2.8**	**2.4**	**5.0**	**4.3**	**5.7**	**4.1**	**8.9**	**10.3**
Lehman Aggregate		4.3		2.4		4.3		4.1		10.3

ABERDEEN ASSET MANAGEMENT
Periods Ending March, 2007

Portfolio Manager: Warren Davis **Assets Under Management: $1,102,698,628**

Investment Philosophy

Aberdeen (formerly Deutsche) believes there are significant pricing inefficiencies inherent in bond markets and that diligent credit analysis, security structure evaluation, and relative value assessment can be used to exploit these inefficiencies. The firm avoids interest rate forecasting and sector rotation because they believe these strategies will not deliver consistent out performance versus the benchmark over time. The firm's valued added is derived primarily from individual security selection. Portfolio managers and analysts research bonds within their sector of expertise and construct portfolios from the bottom-up, bond by bond. Sector weightings are a byproduct of the bottom-up security selection. Aberdeen was retained by the SBI in February 2000.

Staff Comments

Aberdeen exceeded the quarterly and one-year benchmark. The quarterly performance was helped by security selection in the mortgage sector. The one-year outperformance was due to an overweight to BBB securities and an overweight to mortgage-backed securities.

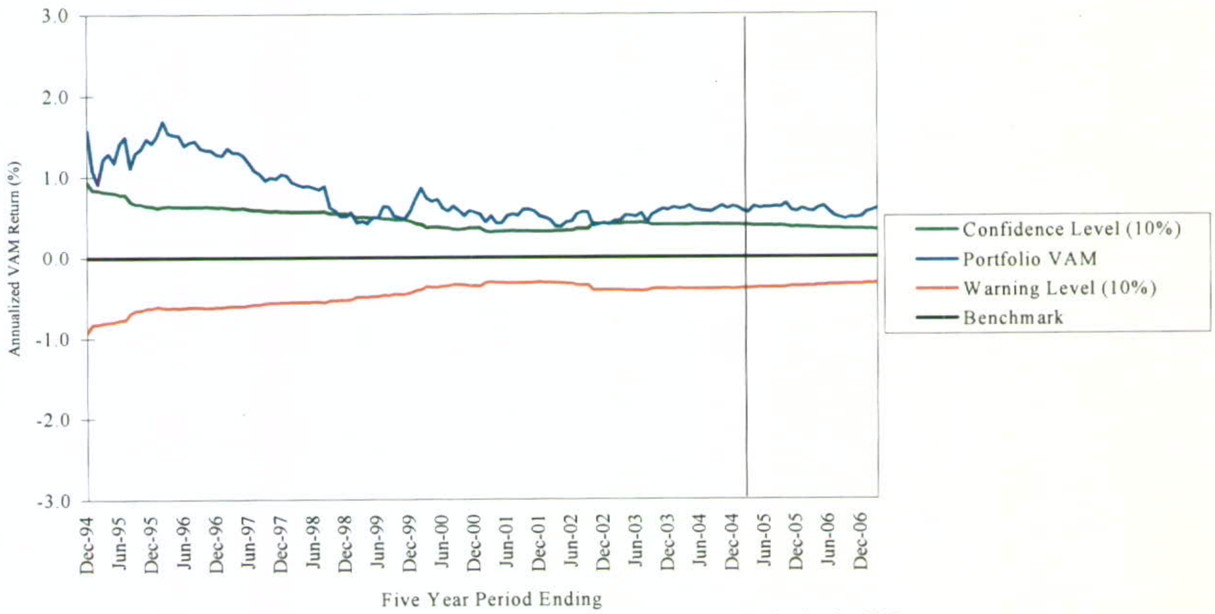
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	1.6%	1.5%
Last 1 year	6.9	6.6
Last 2 years	4.7	4.4
Last 3 years	3.7	3.3
Last 4 years	4.5	3.8
Last 5 years	6.0	5.4
Since Inception (2/00)	7.0	6.5

Recommendations

No action required.

ABERDEEN ASSET MANAGEMENT
Rolling Five Year VAM



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

DODGE & COX INVESTMENT MANAGERS
Periods Ending March, 2007

Portfolio Manager: Dana Emery **Assets Under Management: $1,125,532,975**

Investment Philosophy

Dodge & Cox manages a high quality, diversified portfolio of securities that are selected through fundamental analysis. The firm believes that by combining fundamental research with a long-term investment horizon it is possible to uncover inefficiencies in market sectors and individual securities. The firm combines this fundamental research with a disciplined program of risk analysis. To seek superior returns over the long-term, Dodge & Cox emphasizes sector and security selection, strives to build portfolios that have a higher yield than the broad bond market, and analyzes portfolio and individual security risk. Dodge & Cox was retained by the SBI in February 2000.

Staff Comments

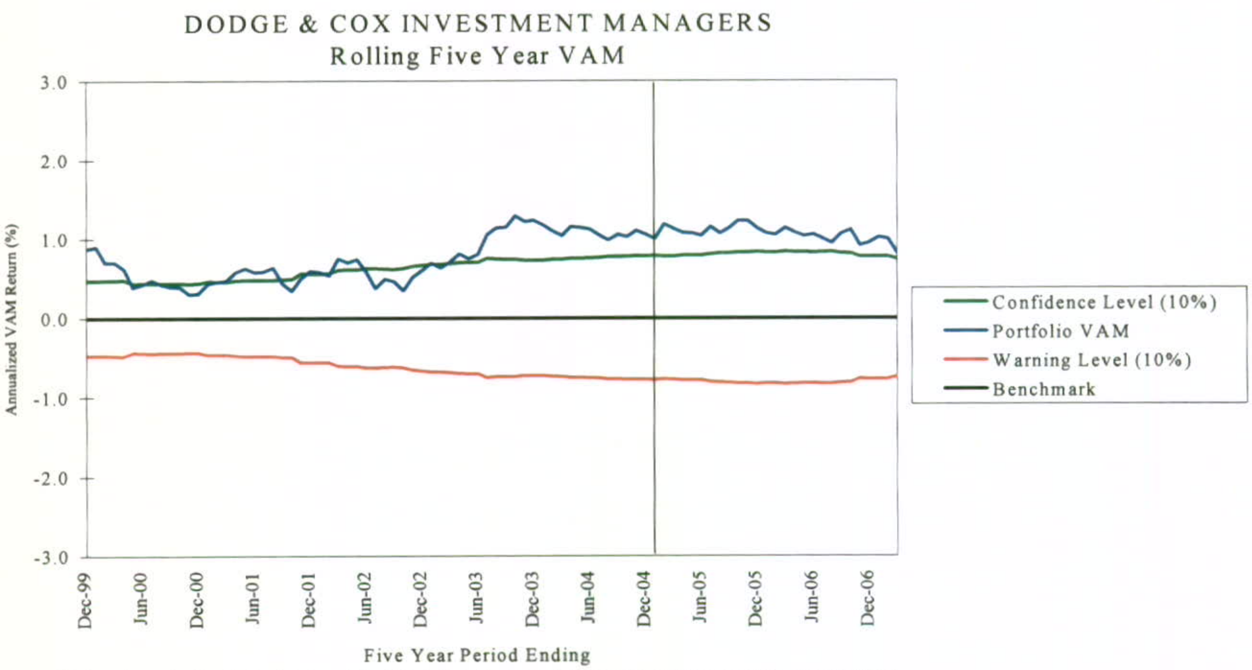
Dodge & Cox matched for the quarter and outperformed the one-year benchmark. Both periods were helped by security selection in the mortgage sector. The one-year return also benefited from security selection in the corporate sector.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	1.5%	1.5%
Last 1 year	7.0	6.6
Last 2 years	4.9	4.4
Last 3 years	3.8	3.3
Last 4 years	4.7	3.8
Last 5 years	6.2	5.4
Since Inception (2/00)	7.5	6.5

Recommendations

No action required.



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

MORGAN STANLEY DEAN WITTER INVESTMENT MANAGEMENT
Periods Ending March, 2007

Portfolio Manager: David Armstrong | **Assets Under Management: $904,802,943**

Investment Philosophy

MSDW focuses on four key portfolio decisions: interest-rate sensitivity, yield-curve exposure, credit quality, and prepayment risk. The firm is a value investor, purchasing securities they believe are relatively cheap and holding them until relative values change or until other securities are identified which are better values. In developing interest-rate strategy, the firm relies on value-based criteria to determine when markets are offering generous compensation for bearing interest-rate risk, rather than trying to anticipate interest rates. Value is added in the corporate sector by selecting the cheapest bonds and controlling credit risk through diversification. MSDW has developed significant expertise in mortgage securities, which are often used to replace U.S. Treasuries in portfolios. Morgan Stanley was retained by the SBI in July 1984.

Staff Comments

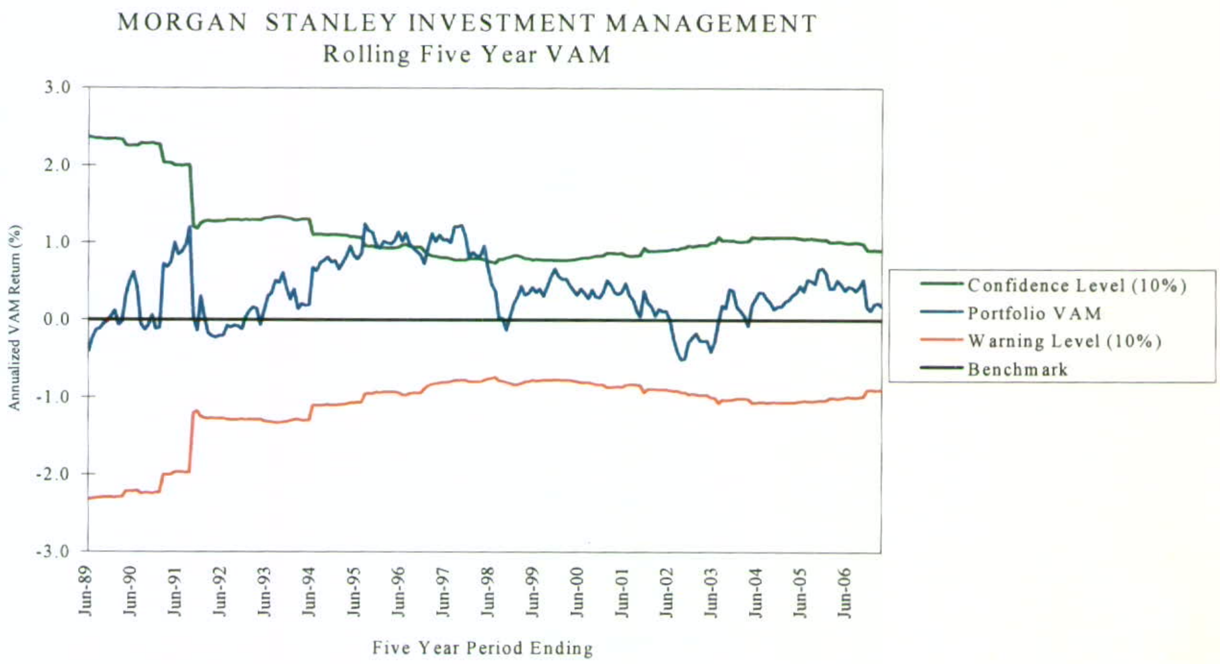
Morgan Stanley exceeded the benchmark for the quarter and trailed for the year. Security selection in the mortgage sector helped performance during the quarter. The below benchmark interest rate bet hurt the one-year return.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	1.7%	1.5%
Last 1 year	6.3	6.6
Last 2 years	5.0	4.4
Last 3 years	4.2	3.3
Last 4 years	4.5	3.8
Last 5 years	5.5	5.4
Since Inception (7/84)	9.2	8.9

Recommendations

No action required.



RIVERSOURCE INVESTMENTS
Periods Ending March, 2007

Portfolio Manager: Colin Lundgren **Assets Under Management: $1,027,647,255**

Investment Philosophy

RiverSource (formerly American Express) manages portfolios using a top-down approach culminating with in-depth fundamental research and credit analysis. Five portfolio components are actively managed: duration, maturity structure, sector selection, industry emphasis, and security selection. Duration and maturity structure are determined by the firm's economic analysis and interest rate outlook. This analysis also identifies sectors and industries expected to produce the best risk adjusted return. In-depth fundamental research and credit analysis combined with proprietary valuation disciplines is used to identify attractive individual securities. RiverSource was retained by the SBI in July 1993.

Staff Comments

RiverSource matched the quarterly and one-year benchmark.

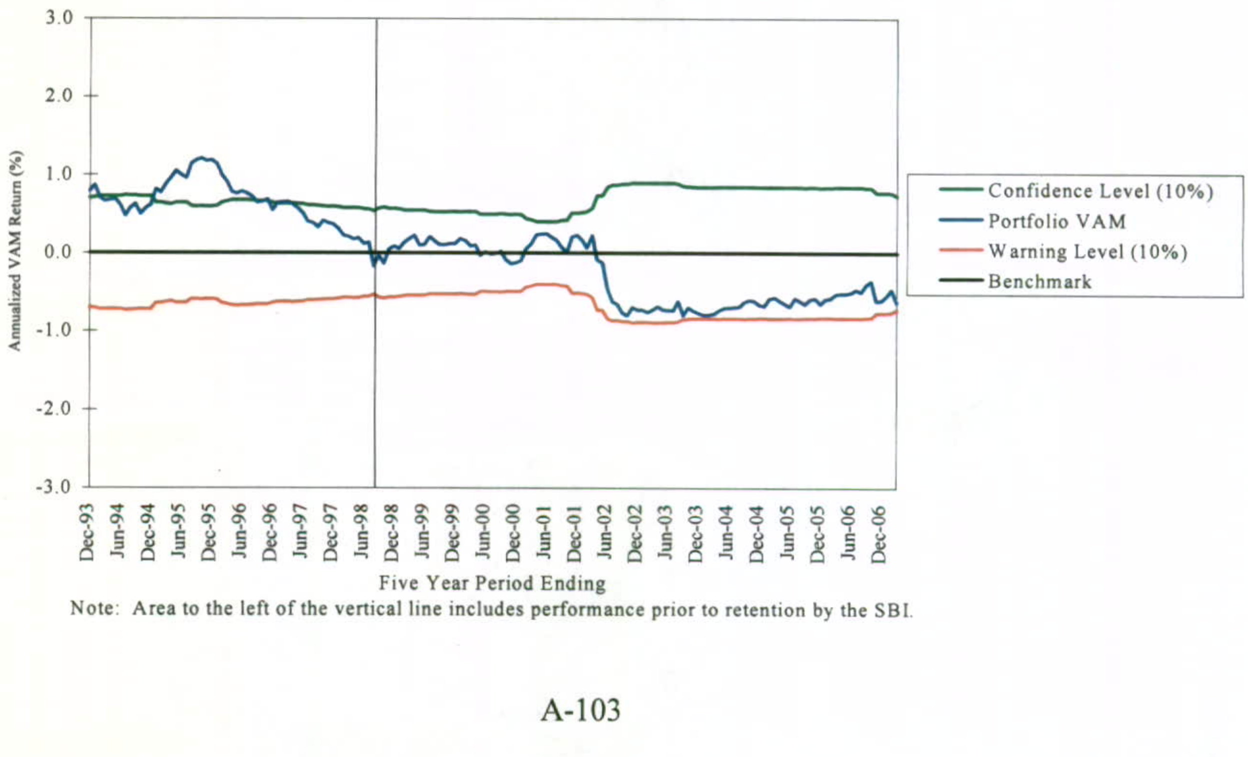
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	1.5%	1.5%
Last 1 year	6.6	6.6
Last 2 years	4.6	4.4
Last 3 years	3.7	3.3
Last 4 years	4.2	3.8
Last 5 years	4.7	5.4
Since Inception (7/93)	6.0	6.2

Recommendations

No action required.

RIVERSOURCE INVESTMENTS - FIXED INCOME
Rolling Five Year VAM



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

WESTERN ASSET MANAGEMENT
Periods Ending March, 2007

Portfolio Manager: Ken Leech **Assets Under Management: $1,580,878,007**

Investment Philosophy

Western emphasizes the use of multiple strategies and active sector and issue selection, while constraining interest rate risk. Multiple strategies are proportioned so that results do not depend on one or two opportunities. This approach adds consistent value over time and can reduce volatility. Long term value investing is Western's fundamental approach. In making their sector decision, the firm seeks out the greatest long-term value by analyzing all fixed income market sectors and their economic expectations. Individual issues are identified based on relative credit strength, liquidity, issue structure, event risk, and market valuation. Western believes that successful interest rate forecasting is extremely difficult and consequently keeps portfolio duration within a narrow band around the benchmark. Western was retained by the SBI in July 1984.

Staff Comments

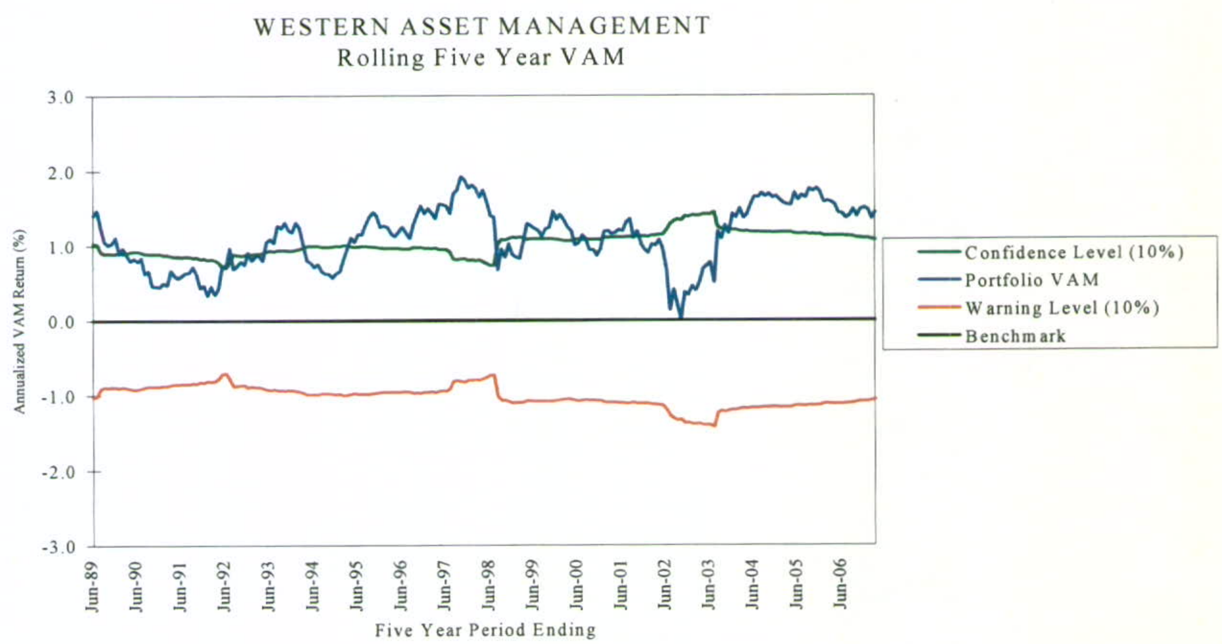
Western outperformed the quarterly and one-year benchmark. Both periods were helped by tactical duration bets and moderate TIPS exposure. The one-year return was also helped by an overweight exposure to the mortgage-backed sector.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	1.7%	1.5%
Last 1 year	7.5	6.6
Last 2 years	5.3	4.4
Last 3 years	4.5	3.3
Last 4 years	5.7	3.8
Last 5 years	6.9	5.4
Since Inception (7/84)	10.2	8.8

Recommendations

No action required.



BLACKROCK, INC.
Periods Ending March, 2007

Portfolio Manager: Keith Anderson **Assets Under Management: $1,924,236,006**

Investment Philosophy

BlackRock manages an enhanced index portfolio closely tracking the Lehman Aggregate. The firm's enhanced index strategy is a controlled-duration, sector rotation style, which can be described as active management with tighter duration, sector, and quality constraints. BlackRock seeks to add value through: (i) controlling portfolio duration within a narrow band relative to the benchmark, (ii) relative value sector/sub-sector rotation and security selection, (iii) rigorous quantitative analysis to the valuation of each security and of the portfolio as a whole, (iv) intense credit analysis and review, and (v) the judgment of experienced portfolio managers. Advanced risk analytics measure the potential impact of various sector and security strategies to ensure consistent value added and controlled volatility. BlackRock was retained by the SBI in April 1996.

Staff Comments

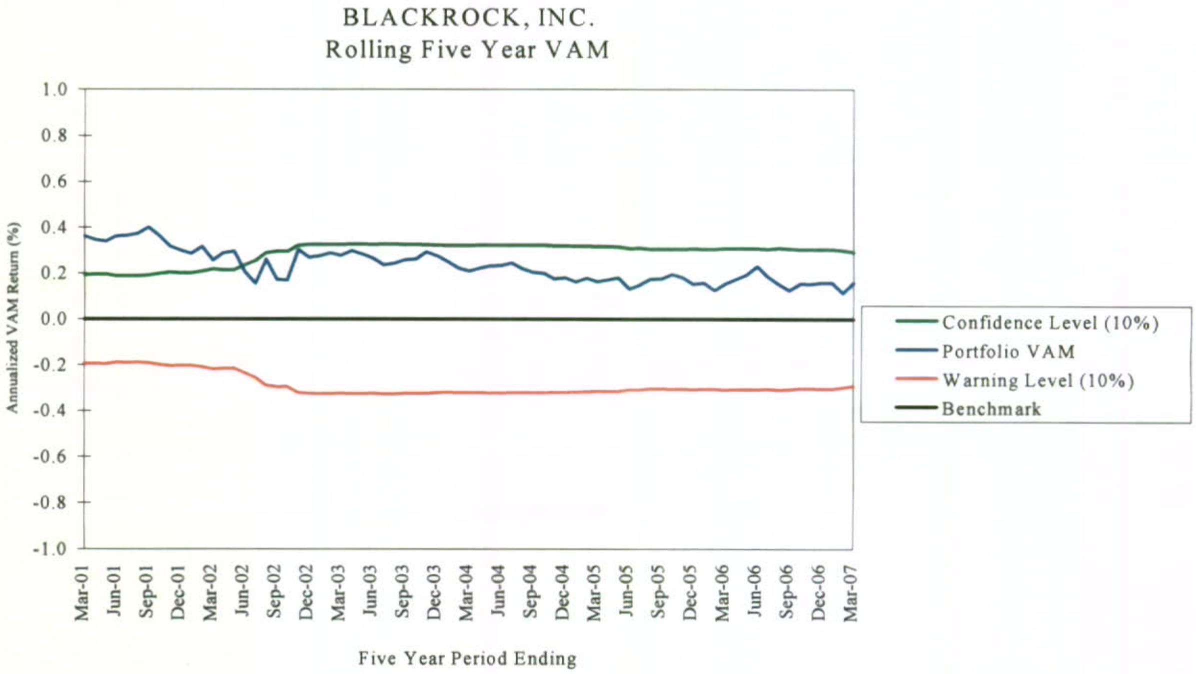
BlackRock matched the quarterly benchmark and slightly lagged for the year. The quarterly performance was helped by an underweight to the agency sector. The one-year performance was hurt by security selection in the mortgage sector.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	1.5%	1.5%
Last 1 year	6.5	6.6
Last 2 years	4.4	4.4
Last 3 years	3.5	3.3
Last 4 years	4.0	3.8
Last 5 years	5.5	5.4
Since Inception (4/96)	6.6	6.3

Recommendation

No action required.



GOLDMAN SACHS ASSET MANAGEMENT
Periods Ending March, 2007

Portfolio Manager: Jonathon Beinner | **Assets Under Management: $1,929,300,426**

Investment Philosophy

Goldman manages an enhanced index portfolio closely tracking the Lehman Aggregate. Goldman's process can be viewed as active management within a very risk-controlled framework. The firm relies primarily on sector allocation and security selection strategies to generate incremental return. To a lesser degree, term structure strategies are also implemented. Goldman combines long-term strategic investment tilts with short-term tactical trading opportunities. Strategic tilts are based on fundamental and quantitative sector research and seek to optimize the long-term risk/return profile of portfolios. Tactical trades between sectors and securities within sectors are implemented to take advantage of short-term market anomalies. Goldman was retained by the SBI in July 1993.

Staff Comments

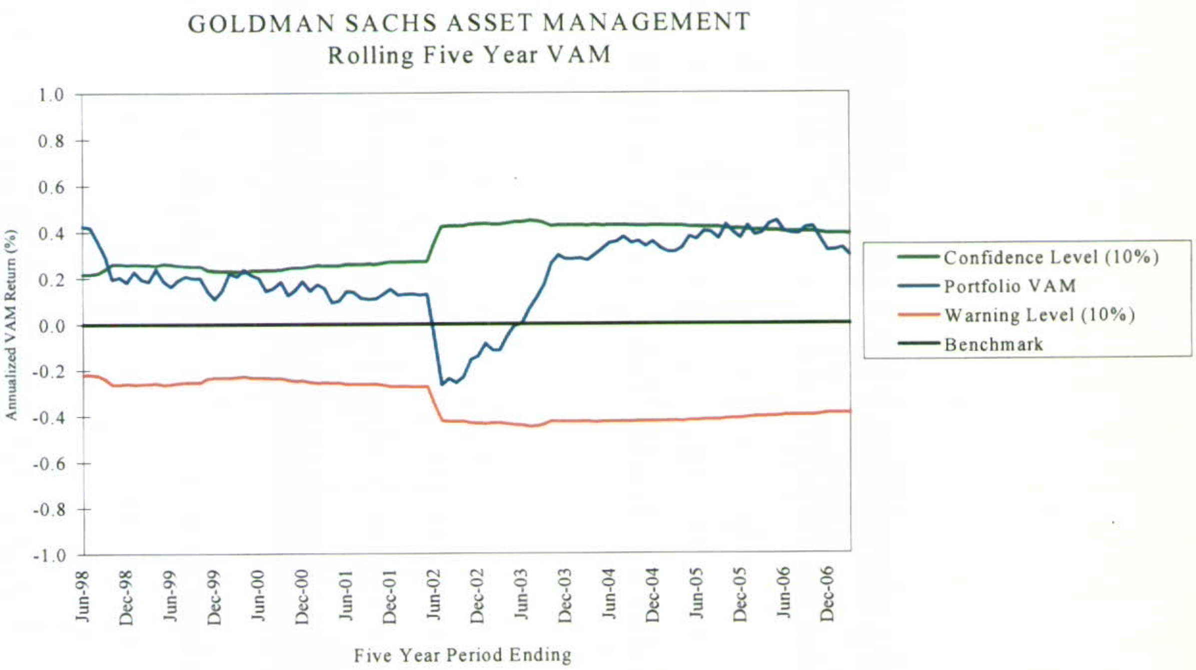
For both periods, Goldman outperformed their benchmark. The quarterly return was helped by security selection and an allocation to TIPS. For the year an overweight and security selection in mortgages contributed to the outperformance.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	1.6%	1.5%
Last 1 year	6.7	6.6
Last 2 years	4.6	4.4
Last 3 years	3.7	3.3
Last 4 years	4.5	3.8
Last 5 years	5.7	5.4
Since Inception (7/93)	6.5	6.2

Recommendations

No action required.



LEHMAN BROTHERS ASSET MANAGEMENT
Periods Ending March, 2007

Portfolio Manager: Andrew Johnson **Assets Under Management: $2,017,851,035**

Investment Philosophy

Lehman (formerly Lincoln) manages an enhanced index portfolio closely tracking the Lehman Aggregate. Lehman's process relies on a combination of quantitative tools and active management judgment. Explicit quantification and control of risks are at the heart of their process. Lehman uses proprietary risk exposure measures to analyze 25 interest rate factors, and over 30 spread-related factors. For each interest rate factor, the portfolio is very closely matched to the index to ensure that the portfolio earns the same return as the index for any change in interest rates. For each spread factor, the portfolio can deviate slightly from the index as a means of seeking value-added. Setting target active risk exposures that must fall within pre-established maximums controls risk. To control credit risk, corporate holdings are diversified across a large number of issues. Lehman was retained by the SBI in July 1988.

Staff Comments

Lehman matched the benchmark for the quarter and outperformed for the year. The one-year return was helped by security selection in the mortgage and corporate sector.

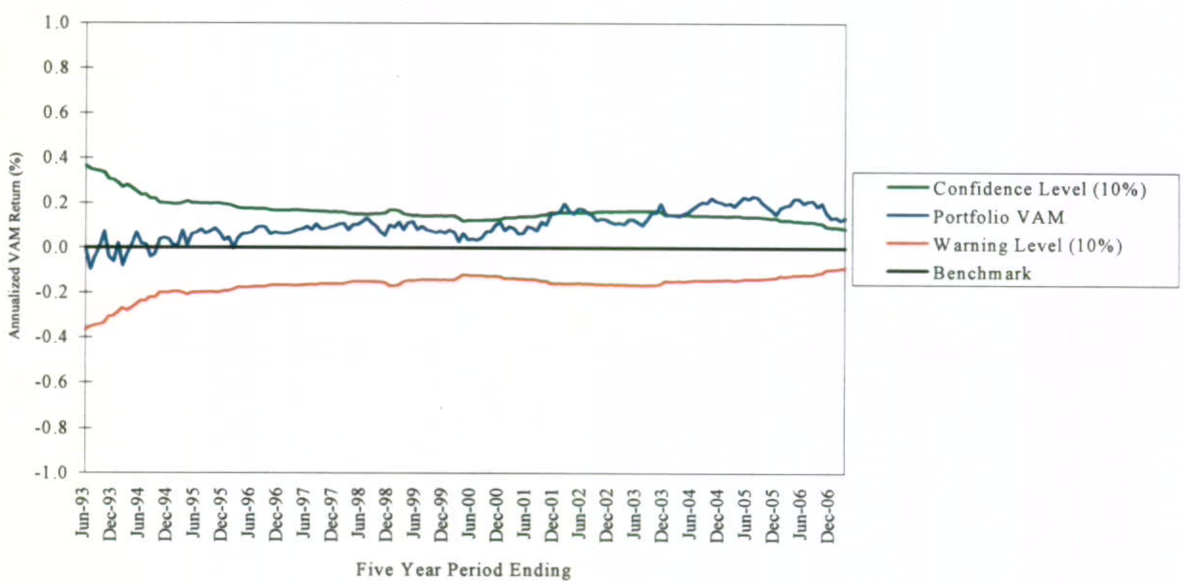
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	1.5%	1.5%
Last 1 year	6.7	6.6
Last 2 years	4.5	4.4
Last 3 years	3.5	3.3
Last 4 years	4.0	3.8
Last 5 years	5.5	5.4
Since Inception (7/88)	7.6	7.5

Recommendations

No action required.

LEHMAN BROTHERS ASSET MANAGEMENT
Rolling Five Year VAM



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STATE BOARD OF INVESTMENT

International Manager Evaluation Reports

First Quarter, 2007

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International Managers

Table of Contents

COMBINED RETIREMENT FUNDS
INTERNATIONAL STOCK MANAGERS
Periods Ending March, 2007

	Quarter Actual %	Quarter Bmk %	1 Year Actual %	1 Year Bmk %	3 Years Actual %	3 Years Bmk %	5 Years Actual %	5 Years Bmk %	Since (1) Inception Actual %	Since (1) Inception Bmk %	Market Value (in millions)	Pool %
Active Developed Markets (2)												
Acadian	3.7	4.0	23.1	19.6					33.4	26.4	$418.6	5.5%
Invesco	3.7	4.0	19.7	19.6	19.3	20.0	14.9	15.9	8.1	5.6	$311.6	4.1%
J.P. Morgan	2.0	4.0	14.3	19.6					22.7	26.4	$356.5	4.7%
Marathon (3)	5.8	4.0	22.5	19.6	22.1	20.0	20.1	18.0	11.2	8.4	$545.1	7.1%
McKinley	6.5	4.0	20.0	19.6					29.2	26.4	$391.5	5.1%
Pyramis (Fidelity)	2.7	4.0	15.3	19.6					24.8	26.4	$365.8	4.8%
RiverSource	3.5	4.0	15.9	19.6	18.4	20.0	13.5	15.9	1.7	5.6	$384.7	5.0%
UBS Global	2.0	4.0	17.6	19.6	17.7	20.0	14.0	15.9	9.9	8.9	$305.5	4.0%
Aggregate	4.0	4.0	19.1	19.6	19.4	20.0	15.1	15.9	8.9	7.8		
Active Emerging Markets												
AllianceBernstein	3.0	2.3	19.1	20.7	27.4	27.5	25.5	24.6	18.6	18.9	$366.1	4.8%
Capital International	4.3	2.3	26.4	20.7	28.6	27.5	23.2	24.6	16.7	18.9	$372.5	4.9%
Morgan Stanley	2.7	2.3	24.3	20.7	28.8	27.5	25.8	24.6	19.8	18.9	$393.7	5.1%
Aggregate	3.3	2.3	23.0	20.7	28.1	27.5	24.7	24.6	8.6	8.4		
Semi-Passive Developed Markets (2)												
AQR	2.9	4.0	18.1	19.6					26.5	26.4	$296.3	3.9%
Pyramis (Fidelity)	4.5	4.0	20.6	19.6					27.7	26.4	$305.7	4.0%
State Street	3.9	4.0	19.9	19.6					27.5	26.4	$304.5	4.0%
Aggregate	3.8	4.0	19.5	19.6					27.2	26.4		
Passive Developed Markets (2)												
State Street	4.0	4.0	19.9	19.6	20.2	20.0	16.0	15.9	9.4	9.1	$2,532.6	33.1%
									Since 10/1/92			
Equity Only (4) (6)	3.9	3.8	19.9	19.8	20.8	20.9	16.4	16.9	9.7	9.2	$7,651.2	100.0%
Total Program (5) (6)	**3.9**	**3.8**	**19.9**	**19.8**	**20.8**	**20.9**	**16.4**	**16.9**	**10.0**	**9.2**	**$7,651.2**	
SBI Int'l Equity Target (6)		3.8		19.8		20.9		16.9		9.2		
MSCI ACWI Free ex. U.S. (7)		3.8		19.8		20.9		16.9		9.6		
MSCI World ex U.S. (net)		4.0		19.6		20.0		16.0		9.3		
MSCI EAFE Free (net)		4.1		20.2		19.8		15.8		9.1		
MSCI Emerging Markets Free (8)		2.3		20.7		27.5		24.5		10.6		

(1) Since retention by the SBI. Time period varies for each manager.
(2) Since 10/1/03, the Active and Passive Developed Markets managers benchmark is MSCI World ex U.S. (net). Prior to that date, it was MSCI EAFE Free (net). From 10/1/01 to 5/31/02 the benchmark was the Provisional MSCI EAFE Free (net). Since inception of 7/1/05, the Semi-Passive Developed Markets managers benchmark is MSCI World ex U.S. (net).
(3) As of 10/1/03, Marathon's benchmark is MSCI World ex U.S. (net). Through 9/30/03 Marathon was measured against a custom composite benchmark: 55% Citigroup EMI EPAC and 45% Citigroup PMI EPAC.
(4) Equity managers only. Includes impact of terminated managers.
(5) Includes impact of currency overlay on the passive EAFE portfolio from 12/1/95-10/31/00.
(6) Since 10/1/03, the International Equity asset class target is MSCI ACWI Free ex. U.S. (net). From 1/1/01 to 9/30/03, the target was MSCI EAFE Free (net) plus Emerging Markets Free (net), and from 7/1/99 to 12/31/00 the target was MSCI EAFE Free (net) plus Emerging Markets Free (gross). From 7/1/99 to 9/30/03, the weighting of each index fluctuated with market capitalization. From 10/1/01 to 5/31/02 all international benchmarks being reported were the MSCI Provisional indices. From 12/31/96 to 6/30/99 the benchmark was fixed at 87% EAFE Free (net)/13% Emerging Markets Free (gross). On 5/1/96, the portfolio began transitioning from 100% EAFE Free (net) to the 12/31/96 fixed weights. 100% EAFE Free (net) prior to 5/1/96.
(7) MSCI ACWI Free ex U.S. (gross) through 12/31/00. MSCI ACWI Free ex U.S. (net) thereafter.
(8) MSCI Emerging Markets Free (gross) through 12/31/00. MSCI Emerging Markets Free (net) thereafter.

COMBINED RETIREMENT FUNDS
INTERNATIONAL STOCK MANAGERS
Calendar Year Returns

	2006		2005		2004		2003		2002	
	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %
Active Developed Markets (1)										
Acadian	31.9	25.7								
Invesco	26.0	25.7	10.6	14.5	21.4	20.4	33.0	38.5	-10.3	-15.6
J.P. Morgan	23.1	25.7								
Marathon (2)	27.5	25.7	16.4	14.5	24.6	20.4	47.2	47.6	-8.0	-11.3
McKinley	25.4	25.7								
Pyramis (Fidelity)	22.7	25.7								
RiverSource	23.6	25.7	14.2	14.5	17.5	20.4	30.2	38.5	-14.7	-15.6
UBS Global	25.6	25.7	10.0	14.5	20.1	20.4	32.3	38.5	-13.8	-15.6
Aggregate	25.8	25.7	13.6	14.5	19.0	20.4	35.1	38.5	-13.8	-15.6
Active Emerging Markets										
AllianceBernstein	30.4	32.2	32.7	34.0	28.6	25.5	54.1	55.8	-0.8	-5.1
Capital International	35.6	32.2	38.4	34.0	19.5	25.5	54.2	55.8	-11.3	-5.1
Morgan Stanley	37.6	32.2	34.3	34.0	24.2	25.5	58.8	55.8	-4.6	-5.1
Aggregate	34.4	32.2	34.9	34.0	22.9	25.5	56.0	55.8	-6.2	-5.1
Semi-Passive Developed Markets (1)										
AQR	25.2	25.7								
Pyramis (Fidelity)	26.8	25.7								
State Street	27.1	25.7								
Aggregate	26.4	25.7								
Passive Developed Markets (1)										
State Street	26.0	25.7	14.6	14.5	20.6	20.4	38.6	38.5	-15.3	-15.6
									Since 10/1/92	
Equity Only (3) (5)	27.0	26.7	16.4	16.6	20.0	20.9	38.2	40.1	-13.6	-14.8
Total Program (4) (5)	**27.0**	**26.7**	**16.4**	**16.6**	**20.0**	**20.9**	**38.2**	**40.1**	**-13.6**	**-14.8**
SBI Int'l Equity Target (5)		26.7		16.6		20.9		40.1		-14.8
MSCI ACWI Free ex. U.S. (6)		26.7		16.6		20.9		40.8		-14.9
MSCI World ex U.S. (net)		25.7		14.5		20.4		39.4		-15.8
MSCI EAFE Free (net)		26.3		13.5		20.2		38.6		-15.9
MSCI Emerging Markets Free (7)		32.2		34.0		25.5		55.8		-6.2

(1) Since 10/1/03, the Active and Passive Developed Markets managers benchmark is MSCI World ex U.S. (net). Prior to that date, it was MSCI EAFE Free (net). From 10/1/01 to 5/31/02 the benchmark was the Provisional MSCI EAFE Free (net). Since inception of 7/1/05, the Semi-Passive Developed Markets managers benchmark is MSCI World ex U.S. (net).

(2) As of 10/1/03, Marathon's benchmark is MSCI World ex U.S. (net). Through 9/30/03 Marathon was measured against a custom composite benchmark: 55% Citigroup EMI EPAC and 45% Citigroup PMI EPAC.

(3) Equity managers only. Includes impact of terminated managers.

(4) Includes impact of currency overlay on the passive EAFE portfolio from 12/1/95-10/31/00.

(5) Since 10/1/03, the International Equity asset class target is MSCI ACWI Free ex. U.S. (net). From 1/1/01 to 9/30/03, the target was MSCI EAFE Free (net) plus Emerging Markets Free (net), and from 7/1/99 to 12/31/00 the target was MSCI EAFE Free (net) plus Emerging Markets Free (gross). From 7/1/99 to 9/30/03, the weighting of each index fluctuated with market capitalization. From 10/1/01 to 5/31/02 all international benchmarks being reported were the MSCI Provisional indices. From 12/31/96 to 6/30/99 the benchmark was fixed at 87% EAFE Free (net)/13% Emerging Markets Free (gross). On 5/1/96, the portfolio began transitioning from 100% EAFE Free (net) to the 12/31/96 fixed weights. 100% EAFE Free (net) prior to 5/1/96.

(6) MSCI ACWI Free ex U.S. (gross) through 12/31/00. MSCI ACWI Free ex U.S. (net) thereafter.

(7) MSCI Emerging Markets Free (gross) through 12/31/00. MSCI Emerging Markets Free (net) thereafter.

ACADIAN ASSET MANAGEMENT, INC.
Periods Ending March, 2007

Portfolio Manager: John Chisholm **Assets Under Management: $418,618,491**

Investment Philosophy

Acadian believes there are inefficiencies in the global equity markets that can be exploited by a disciplined quantitative investment process. In evaluating markets and stocks, Acadian believes it is most effective to use a range of measures, including valuation, price trends, financial quality and earnings information. Risk control is a critical part of the Acadian approach. Acadian's process seeks to capture value-added at both the stock and the sector/country level. The process is active and bottom-up, but each stock forecast also contains a sector/country forecast. Selection is made from a very broad investment universe using disciplined, factor-driven quantitative models. Portfolios are constructed with an optimizer and are focused on targeting a desired level of active risk relative to a client's chosen benchmark index.

Staff Comments

Acadian underperformed narrowly during the quarter. Stock selection in the financials and the consumer discretionary sectors detracted from returns.

For the year, stock selection in Japan and Germany contributed to the portfolio's outperformance.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	3.7%	4.0%
Last 1 year	23.1	19.6
Last 2 years	N/A	N/A
Last 3 years	N/A	N/A
Last 4 years	N/A	N/A
Last 5 years	N/A	N/A
Since Inception (7/05)	33.4	26.4

Recommendations

No action required.

VAM Graphs will be drawn for period ending 9/30/07.

INVESCO GLOBAL ASSET MANAGMENT
Periods Ending March, 2007

Portfolio Manager: Erik Granade | **Assets Under Management: $311,605,940**

Investment Philosophy

INVESCO believes they can add value by identifying and investing in companies whose share price does not reflect the proven and sustainable growth of the company's earnings and assets. They also believe that a systematic process that identifies mis-valued companies, combined with a consistently applied portfolio design process, can control the predictability and consistency of returns. Portfolios are constructed on a bottom-up basis; they select individual companies rather than countries, themes, or industry groups. This is the first of four cornerstones of their investment approach. Secondly, they conduct financial analysis on a broad universe of non-U.S. companies whose key financial data is adjusted to be comparable across borders and currencies. Third, Invesco believes that using local investment professionals enhances fundamental company research. Finally, they manage risk and assure broad diversification relative to clients' benchmarks through a statistics-based portfolio construction approach rather than resorting to country or industry constraints.

Staff Comments

INVESCO underperformed narrowly during the quarter. Stock selection in Japan and in the industrials sector detracted from performance.

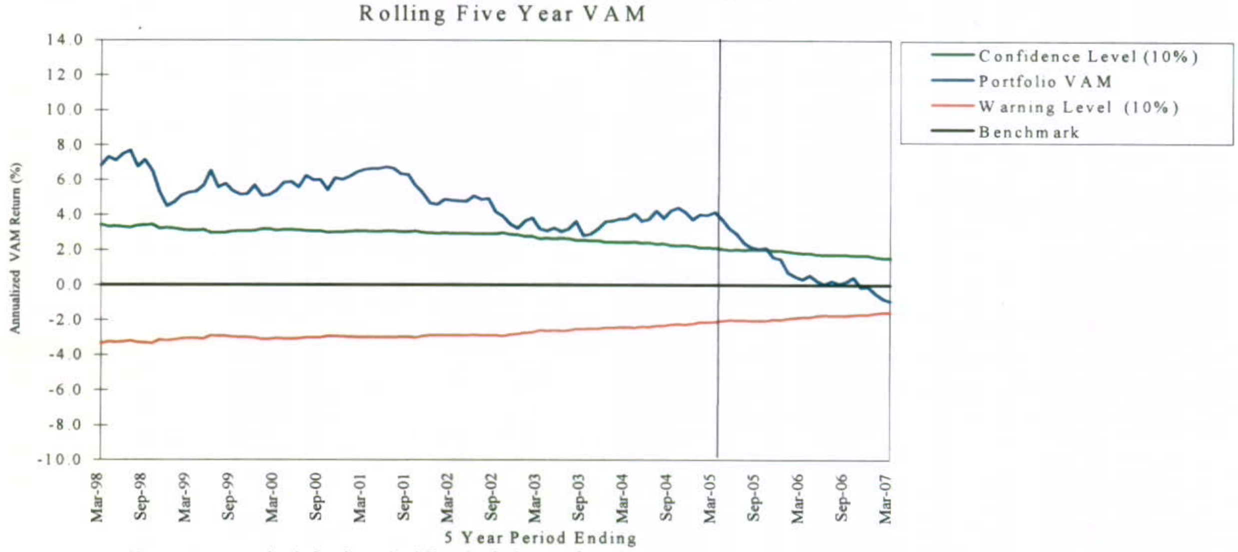
The portfolio beat the index for the year. Stock selection in the information technology and telecom sectors was positive.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	3.7%	4.0%
Last 1 year	19.7	19.6
Last 2 years	20.2	22.3
Last 3 years	19.3	20.0
Last 4 years	26.3	28.4
Last 5 years	14.9	15.9
Since Inception (3/00)	8.1	5.6

Recommendations

No action required.



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

J.P. MORGAN INVESTMENT MANAGEMENT INC.
Periods Ending March, 2007

Portfolio Manager: James Fisher **Assets Under Management: $356,520,766**

Investment Philosophy

JP Morgan's international equity strategy seeks to add value through active stock selection, while remaining diversified by both sector and region. The portfolio displays a large capitalization size bias and a slight growth orientation. Stock selection decisions reflect the insights of approximately 150 locally based investors, ranking companies within their respective local markets. The most attractive names in each region are then further validated by a team of Global Sector Specialists who seek to take the regional team rankings and put these into a global context. The team of six senior portfolio managers draws together the insights of both the regional and global specialists, constructing a portfolio of the most attractive names.

Staff Comments

Over both the quarter and the year, stock selection in Japan and in the financials sector contributed significantly to the portfolio's underperformance.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	2.0%	4.0%
Last 1 year	14.3	19.6
Last 2 years	N/A	N/A
Last 3 years	N/A	N/A
Last 4 years	N/A	N/A
Last 5 years	N/A	N/A
Since Inception (7/05)	22.7	26.4

Recommendations

No action required.

VAM Graphs will be drawn for period ending 9/30/07.

MARATHON ASSET MANAGEMENT
Periods Ending March, 2007

Portfolio Manager: William Arah **Assets Under Management: $545,095,435**

Investment Philosophy

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

Staff Comments

Stock selection overall, particularly throughout Europe, added considerable value to the portfolio over both the quarter and the year.

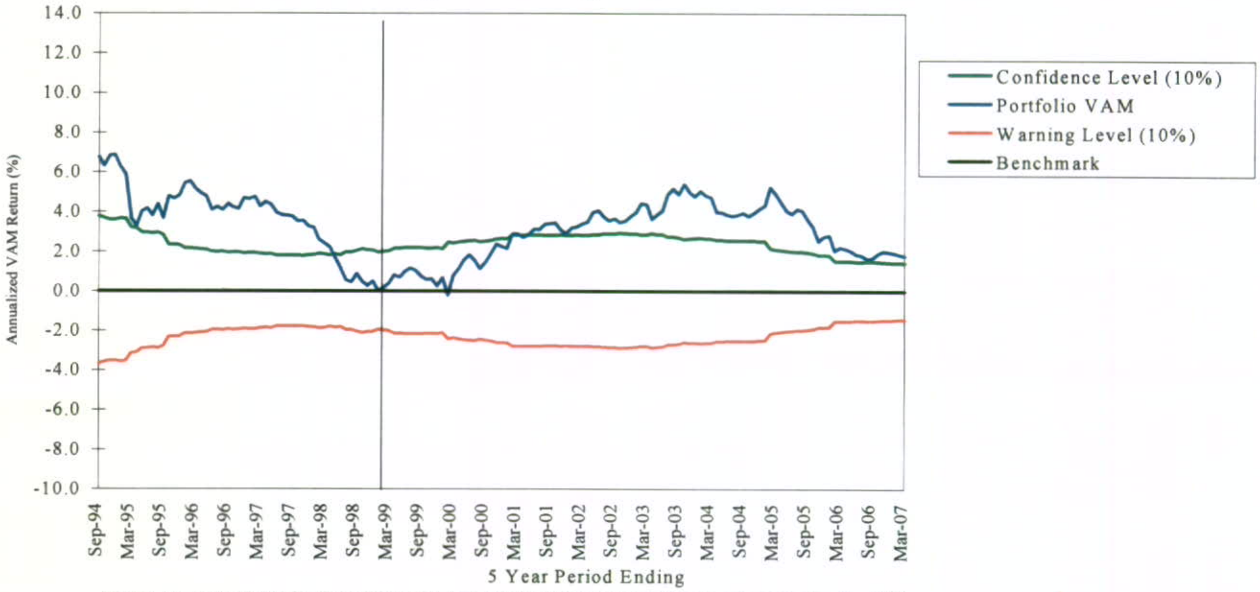
Quantitative Evaluation

	Actual	Custom Benchmark
Last Quarter	5.8%	4.0%
Last 1 year	22.5	19.6
Last 2 years	24.2	22.3
Last 3 years	22.1	20.0
Last 4 years	32.1	29.8
Last 5 years	20.1	18.0
Since Inception (11/93)	11.2	8.4

Recommendations

No action required.

MARATHON ASSET MANAGEMENT
Rolling Five Rolling VAM



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

MCKINLEY CAPITAL MANAGEMENT, INC.
Periods Ending March, 2007

Portfolio Manager: Robert Gillam, Jr. **Assets Under Management: $391,453,949**

Investment Philosophy

At McKinley Capital, investment decisions are based on the philosophy that excess market returns can be achieved through the construction and active management of a diversified, fundamentally sound portfolio of inefficiently priced common stocks whose earnings growth rates are accelerating above market expectations. A disciplined quantitative investment process drives all product strategies. The firm can be described as a bottom-up growth manager. They employ both a systematic screening process and a qualitative overview to construct and manage portfolios. Investment ideas are initially generated by the quantitative investment process. The balance of the qualitative overlay seeks to identify securities with earnings estimates that are reasonable and sustainable. All portfolios managed by McKinley Capital use the same investment process and construction methodology to manage portfolios.

Staff Comments

Stock selection in Italy and France and in the information technology sector contributed to the portfolio's outperformance over the quarter and the year.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	6.5%	4.0%
Last 1 year	20.0	19.6
Last 2 years	N/A	N/A
Last 3 years	N/A	N/A
Last 4 years	N/A	N/A
Last 5 years	N/A	N/A
Since Inception (7/05)	29.2	26.4

Recommendations

No action required.

VAM Graphs will be drawn for period ending 9/30/07.

PYRAMIS GLOBAL ADVISORS TRUST COMPANY
(Formerly Fidelity Management Trust Company)
Periods Ending March, 2007

Portfolio Manager: Michael Strong **Assets Under Management: $365,756,795**

Investment Philosophy

International Growth is a core, growth-oriented strategy that provides diversified exposure to the developed international markets. The investment process combines active stock selection and regional asset allocation. Four portfolio managers in London, Tokyo, Hong Kong, and Boston construct regional sub-portfolios, selecting stocks based on Fidelity analysts' bottom-up research and their own judgment and expertise. Portfolio guidelines seek to ensure risk is commensurate with the performance target and to focus active risk on stock selection. Resulting portfolios typically contain between 200-250 holdings.

Staff Comments

Stock selection in Japan and in the materials and consumer sectors contributed significantly to the portfolio's underperformance over both the quarter and the year.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	2.7%	4.0%
Last 1 year	15.3	19.6
Last 2 years	N/A	N/A
Last 3 years	N/A	N/A
Last 4 years	N/A	N/A
Last 5 years	N/A	N/A
Since Inception (7/05)	24.8	26.4

Recommendations

No action required.

VAM Graphs will be drawn for period ending 9/30/07.

RIVERSOURCE INVESTMENTS
Periods Ending March, 2007

Portfolio Manager: Alex Lyle and Ed Gaunt **Assets Under Management: $384,672,082**

Investment Philosophy

RiverSource's philosophy focuses on key forces of change in markets and the companies that will benefit. The firm believes that in a global marketplace, where sustainable competitive advantage is rare, their research should focus on the dynamics of change. A good understanding of the likely impact of these changes at a company level, complemented with an appreciation of the ability of management to exploit these changes, creates significant opportunities to pick winners and avoid losers.

Staff Comments

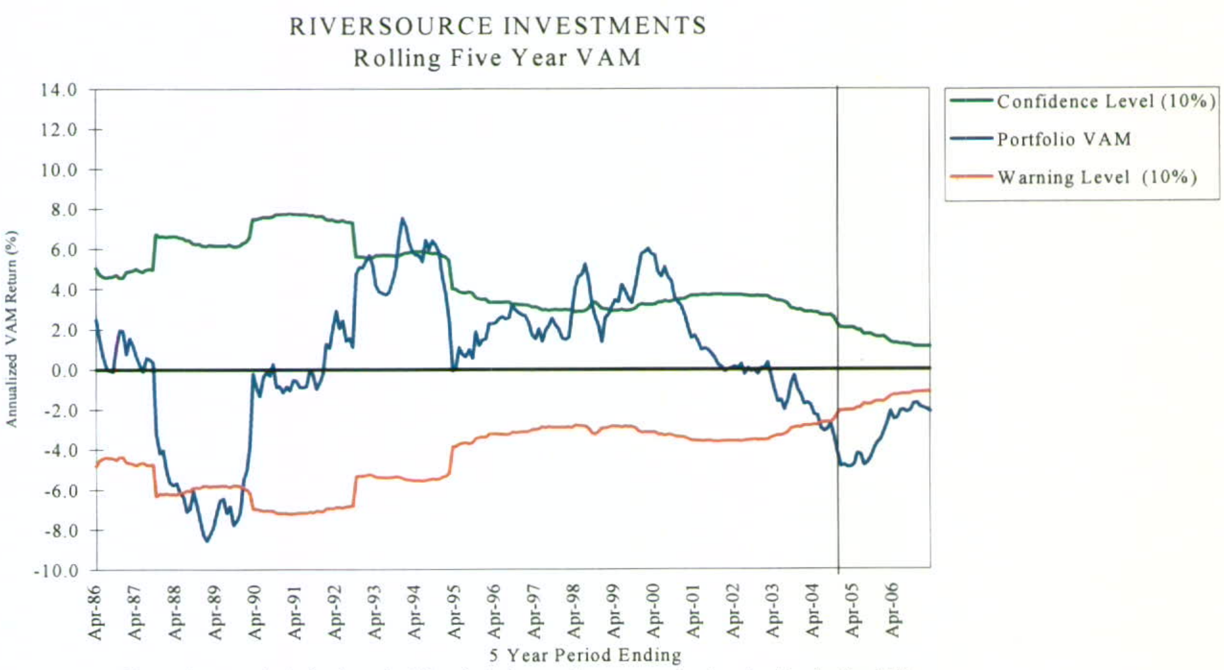
Stock selection in Japan contributed to the portfolio's underperformance over both the quarter and the year.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	3.5%	4.0%
Last 1 year	15.9	19.6
Last 2 years	21.4	22.3
Last 3 years	18.4	20.0
Last 4 years	25.2	28.4
Last 5 years	13.5	15.9
Since Inception (3/00)	1.7	5.6

Recommendations

No action required.



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

UBS GLOBAL ASSET MANAGEMENT, INC.
Periods Ending March, 2007

Portfolio Manager: Thomas Madsen **Assets Under Management: $305,455,658**

Investment Philosophy

UBS's investment research process focuses on identifying discrepancies between a security's fundamental or intrinsic value and its observed market price both across and within international equity markets. UBS exploits these discrepancies using a disciplined fundamental approach. The research analysts evaluate companies in their markets around the world and assign relative price/intrinsic value rankings based on the present value of the future cash flows. The portfolio management team draws upon the analysts' stock and industry-level research and synthesizes it with the firm's macro analysis of the global economy, country specific views and various market-driven issues to systematically develop portfolio strategy. UBS develops currency strategies separately and in coordination with country allocations. They utilize currency equilibrium bands to determine which currencies are over or under valued.

Staff Comments

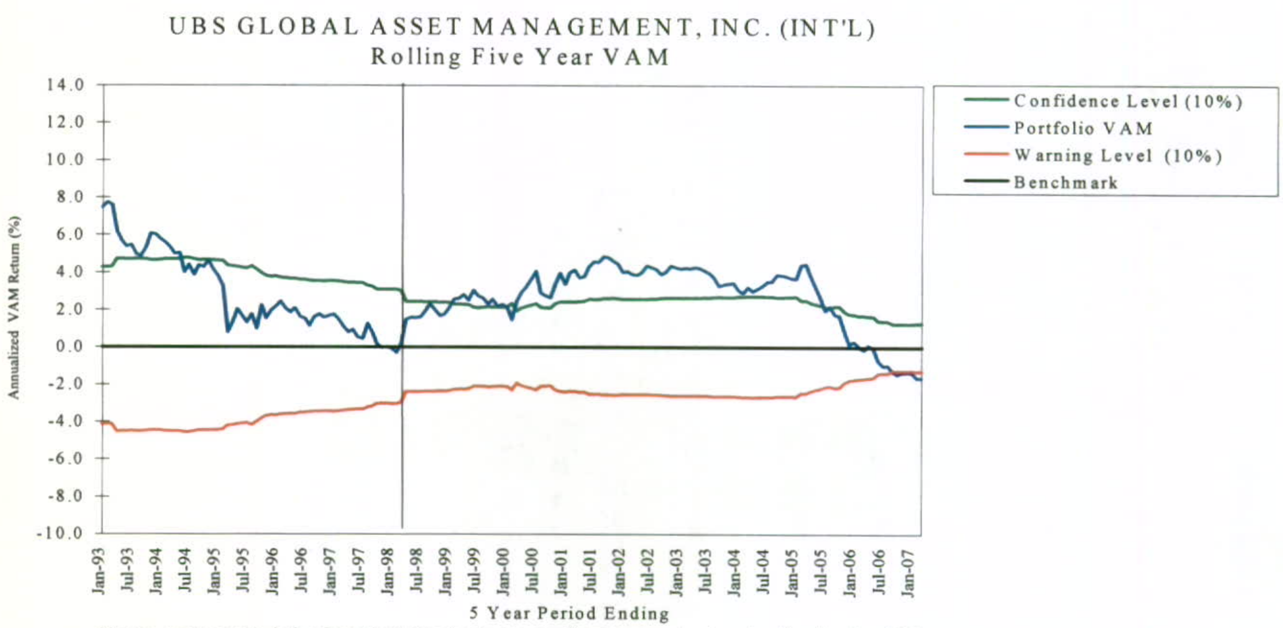
Over the quarter and the year, stock selection in Japan and in the materials sector, contributed significantly to the portfolio's underperformance.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	2.0%	4.0%
Last 1 year	17.6	19.6
Last 2 years	19.0	22.3
Last 3 years	17.7	20.0
Last 4 years	25.6	28.4
Last 5 years	14.0	15.9
Since Inception (4/93)	9.9	8.9

Recommendations

No action required.



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

ALLIANCEBERNSTEIN L.P.
Periods Ending March, 2007

Portfolio Manager: Edward Baker | **Assets Under Management: $366,102,243**

Investment Philosophy

Alliance employs a growth style of investment management. They believe that fundamental research-driven stock selection, structured by industries within regions, will produce superior investment performance. Their strategy emphasizes bottom-up, large capitalization stock selection. Country and industry exposures are a by-product of stock selection. Alliance looks for companies with the best combination of forward-looking growth and valuation attractiveness.

Staff Comments

During the quarter, the portfolio benefited from strong stock selection in China and Russia. For the year, stock selection in financials contributed to the portfolio's underperformance.

During the quarter, AllianceBernstein announced that Ed Baker would be retiring in mid-April 2007. He will be replaced by Steve Beinhacker, an experienced portfolio manager from the firm's developed markets equity strategy. Staff plans to meet with the manager and address issues relating to personnel turnover.

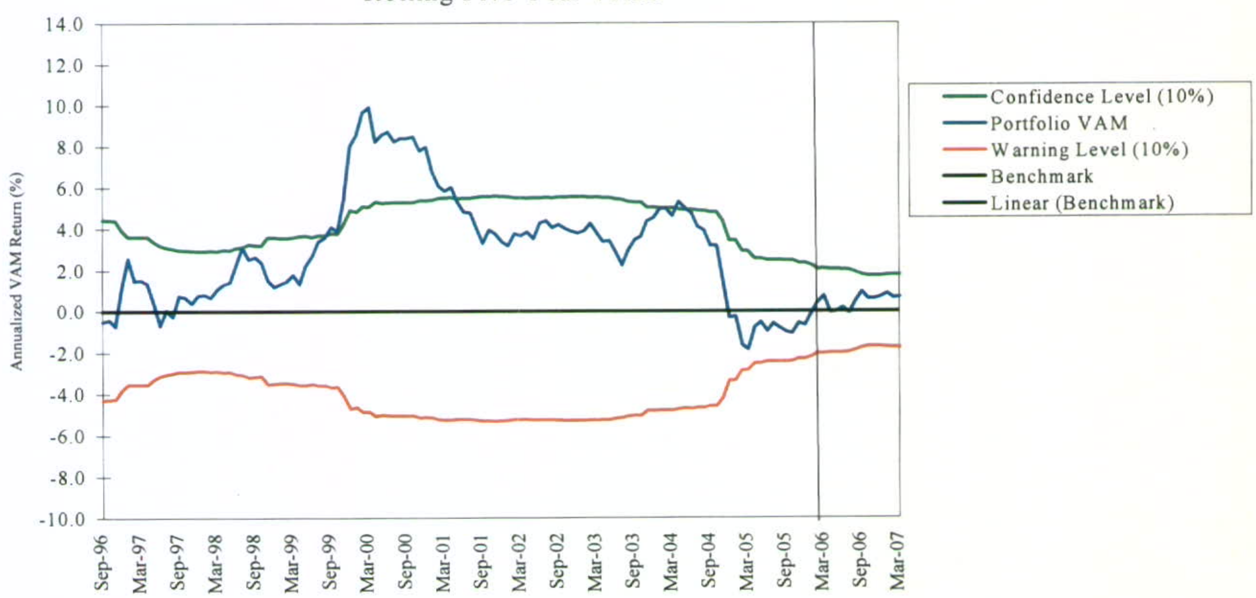
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	3.0%	2.3%
Last 1 year	19.1	20.7
Last 2 years	32.7	33.4
Last 3 years	27.4	27.5
Last 4 years	39.6	39.3
Last 5 years	25.5	24.6
Since Inception (3/01)	18.6	18.9

Recommendations

No action required.

ALLIANCEBERNSTEIN L.P.
Rolling Five Year VAM



5 Year Period Ending
Note: Shaded area includes performance prior to managing SBI account.

CAPITAL INTERNATIONAL, INC.
Periods Ending March, 2007

Portfolio Manager: Victor Kohn **Assets Under Management: $372,450,797**

Investment Philosophy

Capital International's philosophy is value-oriented, as they focus on identifying the difference between the underlying value of a company and the price of its securities in its home market. Capital International's basic, fundamental, bottom-up approach is blended with macroeconomic and political judgments on the outlook for economies, industries, currencies and markets. The team of portfolio managers and analysts each select stocks for the portfolio based on extensive field research and direct company contact.

Staff Comments

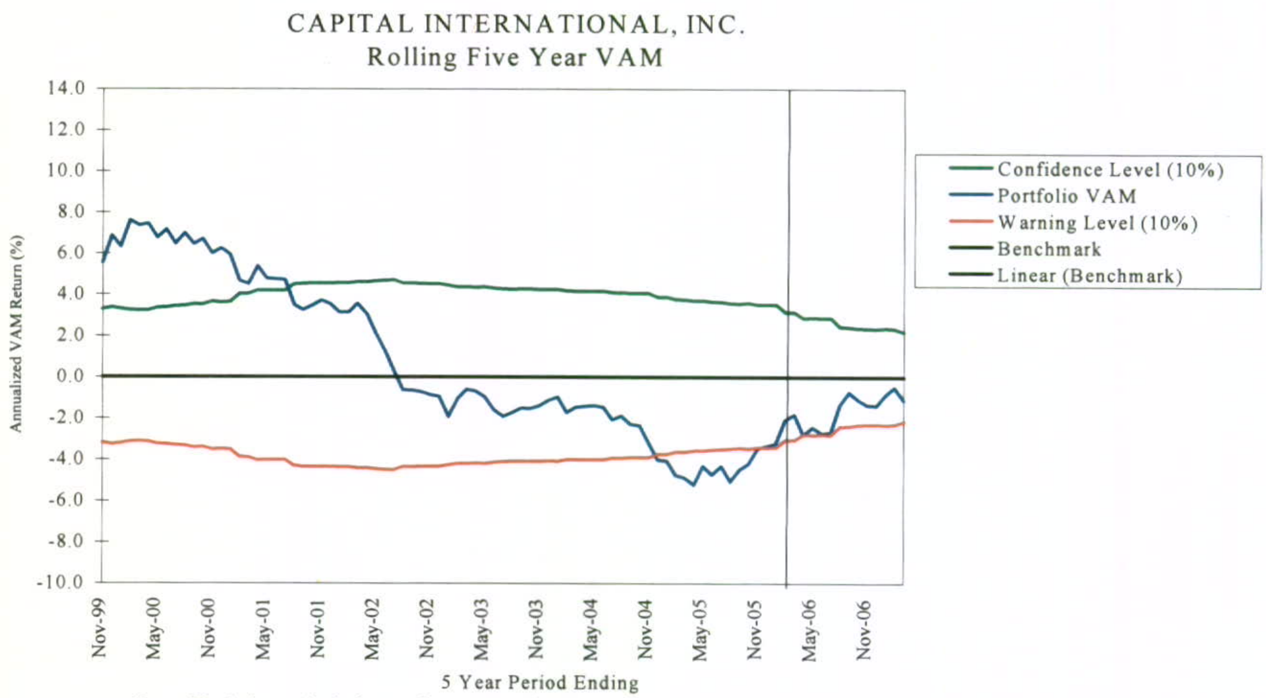
Over both the quarter and the year, stock selection in Russia and China and in the financials sector contributed significantly to the portfolio's outperformance.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	4.3%	2.3%
Last 1 year	26.4	20.7
Last 2 years	38.9	33.4
Last 3 years	28.6	27.5
Last 4 years	39.8	39.3
Last 5 years	23.2	24.6
Since Inception (3/01)	16.7	18.9

Recommendations

No action required.



Note: Shaded area includes performance prior to managing SBI account.

MORGAN STANLEY INVESTMENT MANAGEMENT
Periods Ending March, 2007

Portfolio Manager: Ruchir Sharma | **Assets Under Management: $393,666,988**

Investment Philosophy

Morgan Stanley's style is core with a growth bias. They follow a top-down approach to country allocation and a bottom-up approach to stock selection. Morgan Stanley's macro-economic and stock selection analyses are qualitative as well as quantitative, concentrating on fundamentals. Their top-down analysis highlights countries with improving fundamentals and attractive valuations. Their bottom-up approach to stock selection focuses on purchasing companies with strong operating earnings potential at attractive valuations.

Staff Comments

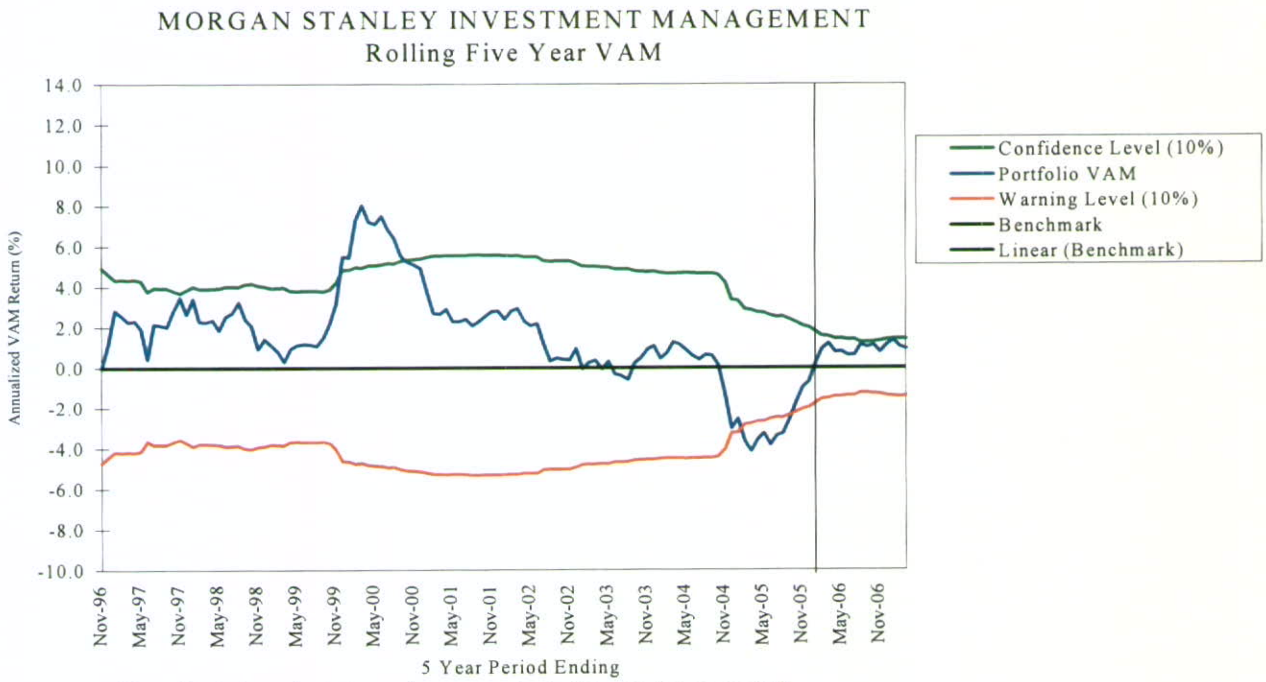
Over both the quarter and the year, stock selection in Russia contributed significantly to performance.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	2.7%	2.3%
Last 1 year	24.3	20.7
Last 2 years	36.8	33.4
Last 3 years	28.8	27.5
Last 4 years	41.6	39.3
Last 5 years	25.8	24.6
Since Inception (3/01)	19.8	18.9

Recommendations

No action required.



Note: Shaded area includes performance prior to the retention by the SBI

AQR CAPITAL MANAGEMENT, LLC
Periods Ending March, 2007

Portfolio Manager: Cliff Asness **Assets Under Management: $296,321,439**

Investment Philosophy

AQR employs a disciplined quantitative approach emphasizing both top-down country/currency allocation and bottom-up security selection decisions to generate excess returns. AQR's investment philosophy is based on the fundamental concepts of value and momentum. AQR's international equity product incorporates stock selection, country selection, and currency selection models as the primary alpha sources. Dynamic strategy allocation (between the three primary alpha sources) and style weighting are employed as secondary alpha sources.

Staff Comments

During the quarter, stock selection in financials detracted from performance. For the year, stock selection in the utilities sector contributed negatively to returns.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	2.9%	4.0%
Last 1 year	18.1	19.6
Last 2 years	N/A	N/A
Last 3 years	N/A	N/A
Last 4 years	N/A	N/A
Last 5 years	N/A	N/A
Since Inception (7/05)	26.5	26.4

Recommendations

No action required.

VAM Graphs will be drawn for period ending 9/30/07.

PYRAMIS GLOBAL ADVISORS TRUST COMPANY
(Formerly Fidelity Management Trust Company)
Periods Ending March, 2007

Portfolio Manager: Cesar Hernandez **Assets Under Management: $305,742,244**

Investment Philosophy

Select International combines active stock selection with quantitative risk control to provide consistent excess returns above the benchmartk while minimizing relative volatility and risk. By combining five regional sub-portfolios in the U.K., Canada, Continental Europe, Japan, and the Pacific Basin ex Japan, the portfolio manager produces a portfolio made up of the best ideas of the firm's research analysts. Each regional portfolio is created so that stock selection is the largest contributor to active return while systematic, sector, and factor risks are minimized. The portfolio manager uses a combination of proprietary and third-party optimization models to monitor and control risk within each regional module. Resulting portfolios typically contain between 275-325 holdings.

Staff Comments

Stock selection overall, particularly in Europe and in the industrials and information technology sectors, contributed to the portfolio's outperformance over both the quarter and the year.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	4.5%	4.0%
Last 1 year	20.6	19.6
Last 2 years	N/A	N/A
Last 3 years	N/A	N/A
Last 4 years	N/A	N/A
Last 5 years	N/A	N/A
Since Inception (7/05)	27.7	26.4

Recommendations

No action required.

VAM Graphs will be drawn for period ending 9/30/07.

STATE STREET GLOBAL ADVISORS
Periods Ending March, 2007

Portfolio Manager: Paul Moghtader **Assets Under Management: $304,532,564**

Investment Philosophy

SSgA's Alpha strategy is managed using a quantitative process. Stock selection provides the best opportunity to add consistent value. Industry factors have come to dominate country factors and an approach that uses industry weights to add incremental value complements stock selection. Unwanted biases are controlled for through disciplined risk-control techniques. Country and regional allocations are a result of the security selection process but are managed to remain with +/- 5% of the benchmarks allocation. Sector and industry allocations are managed to be within +/- 3% of the benchmarks allocation. The portfolio managers on this team have extensive experience and insight, which is used in conjunction with the models to create core portfolios.

Staff Comments

The portfolio narrowly underperformed during the quarter. Stock selection in the United Kingdom and in the financials and consumer sectors detracted.

Over the year, the portfolio outperformed. Stock selection in the telecoms and information technology sectors was positive.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	3.9%	4.0%
Last 1 year	19.9	19.6
Last 2 years	N/A	N/A
Last 3 years	N/A	N/A
Last 4 years	N/A	N/A
Last 5 years	N/A	N/A
Since Inception (7/05)	27.5	26.4

Recommendations

No action required.

VAM Graphs will be drawn for period ending 9/30/07.

STATE STREET GLOBAL ADVISORS
Periods Ending March, 2007

Portfolio Manager: Lynn Blake **Assets Under Management: $2,532,594,060**

Investment Philosophy

State Street Global Advisors passively manages the portfolio against the Morgan Stanley Capital International (MSCI) World ex U.S. index of 22 markets located in the developed markets outside of the United States (including Canada). SSgA fully replicates the index whenever possible because it results in lower turnover, higher tracking accuracy and lower market impact costs. The MSCI World ex U.S. (net) index reinvests dividends assuming a withholding tax on dividends, according to the Luxembourg tax rate. Whereas the portfolio reinvests dividends using all available reclaims and tax credits available to a U.S. pension fund, which should result in modest positive tracking error, over time.

Staff Comments

The portfolio's tracking error over all time periods is within expectation.

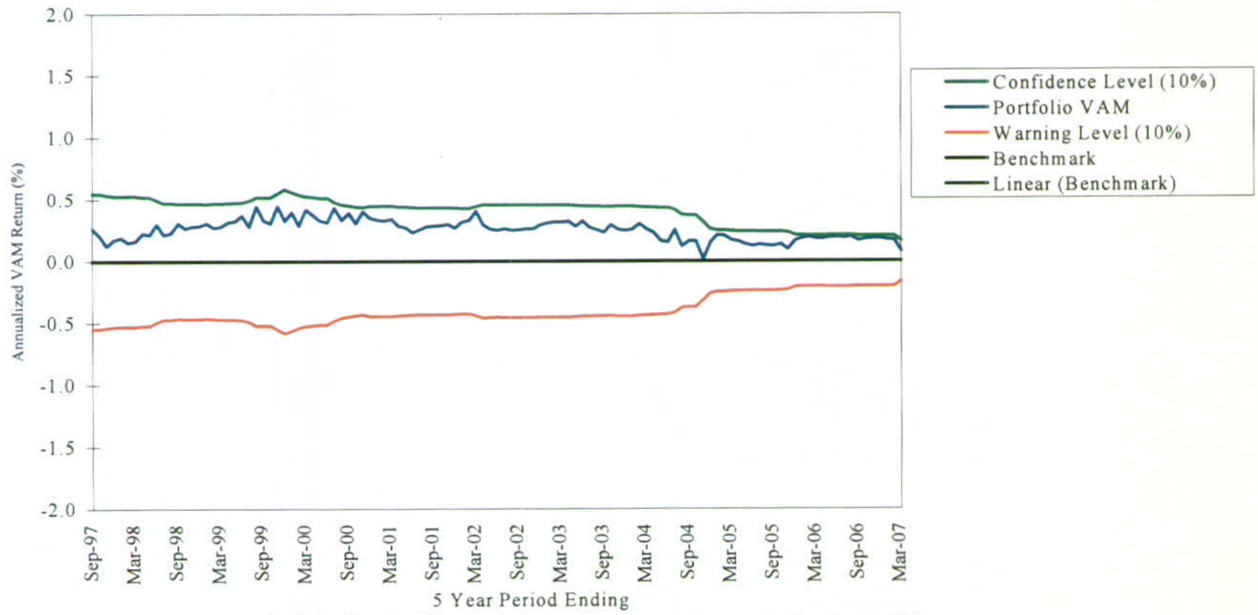
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	4.0%	4.0%
Last 1 year	19.9	19.6
Last 2 years	22.4	22.3
Last 3 years	20.2	20.0
Last 4 years	28.6	28.4
Last 5 years	16.0	15.9
Since Inception (10/92)	9.4	9.1

Recommendation

No action required.

STATE STREET GLOBAL ADVISORS
Rolling Five Year VAM



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

STATE BOARD OF INVESTMENT

Non-Retirement Manager Evaluation Reports

First Quarter, 2007

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Non-Retirement Managers

Table of Contents

NON - RETIREMENT MANAGERS
Periods Ending March, 2007

	Quarter Actual %	Quarter Bmk %	1 Year Actual %	1 Year Bmk %	3 Years Actual %	3 Years Bmk %	5 Years Actual %	5 Years Bmk %	Since (1) Inception Actual %	Since (1) Inception Bmk %	Market Value (in millions)
GE Asset Management (S&P 500 Index)*	0.1	0.6	11.8	11.8	8.8	10.1	4.8	6.3	12.0	11.6	$80.9
Voyageur Asset Management (Custom Benchmark)*	1.6	1.5	6.4	6.1	3.3	2.9	4.6	4.5	6.4	6.4	$261.3
Galliard Capital Management (3 yr. Constant Maturity Treasury + 45 bp)*	1.1	1.3	4.6	5.2	4.4	4.5	4.6	3.8	5.7	5.0	$195.3
Internal Stock Pool (S&P 500 Index)*	0.6	0.6	11.9	11.8	10.1	10.1	6.4	6.3	10.8	10.7	$854.7
Internal Bond Pool - Income Share (Lehman Aggregate)*(2)	1.7	1.5	7.0	6.6	4.2	3.3	5.7	5.4	7.9	7.5	$88.6
Internal Bond Pool - Trust (Lehman Aggregate)*	1.7	1.5	7.0	6.6	4.2	3.3	5.9	5.4	7.2	6.8	$516.3

* Benchmarks for the Funds are noted in parentheses below the Fund names.

(1) Since retention by the SBI. Time period varies by manager.
(2) Prior to July 1994, the benchmark was the Salomon BIG.

NON - RETIREMENT MANAGERS
Calendar Year Returns

	2006		2005		2004		2003		2002	
	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %
GE Asset Management (S&P 500 Index)*	16.4	15.8	2.6	4.9	8.8	10.9	23.7	28.7	-20.5	-22.1
Voyageur Asset Management (Custom Benchmark)*	4.5	4.3	2.5	2.1	3.2	3.0	2.6	2.5	8.8	9.3
Galliard Capital Management (3 yr. Constant Maturity Treasury + 45 bp)*	4.6	5.2	4.3	4.4	4.1	3.3	4.7	2.6	5.8	3.3
Internal Stock Pool (S&P 500 Index)*	15.9	15.8	4.9	4.9	10.9	10.9	28.9	28.7	-21.8	-22.1
Internal Bond Pool - Income Share (Lehman Aggregate)*(2)	5.0	4.3	2.7	2.4	5.1	4.3	5.8	4.1	8.1	10.3
Internal Bond Pool - Trust (Lehman Aggregate)*	5.1	4.3	2.8	2.4	5.0	4.3	5.9	4.1	8.8	10.3

* Benchmarks for the Funds are noted in parentheses below the Fund names.

(1) Since retention by the SBI. Time period varies by manager.
(2) Prior to July 1994, the benchmark was the Salomon BIG.

GE ASSET MANAGEMENT - Assigned Risk Plan
Periods Ending March, 2007

Portfolio Manager: Dave Carlson **Assets Under Management: $80,929,650**

Investment Philosophy
Assigned Risk Plan

GE's Multi-Style Equity program attempts to outperform the S&P 500 consistently while controlling overall portfolio risk through a multiple manager approach. A value portfolio, a growth portfolio and a research portfolio are combined to create a well diversified equity portfolio while maintaining low relative volatility and a style-neutral position between growth and value. All GE managers focus on stock selection from a bottom-up perspective.

Staff Comments

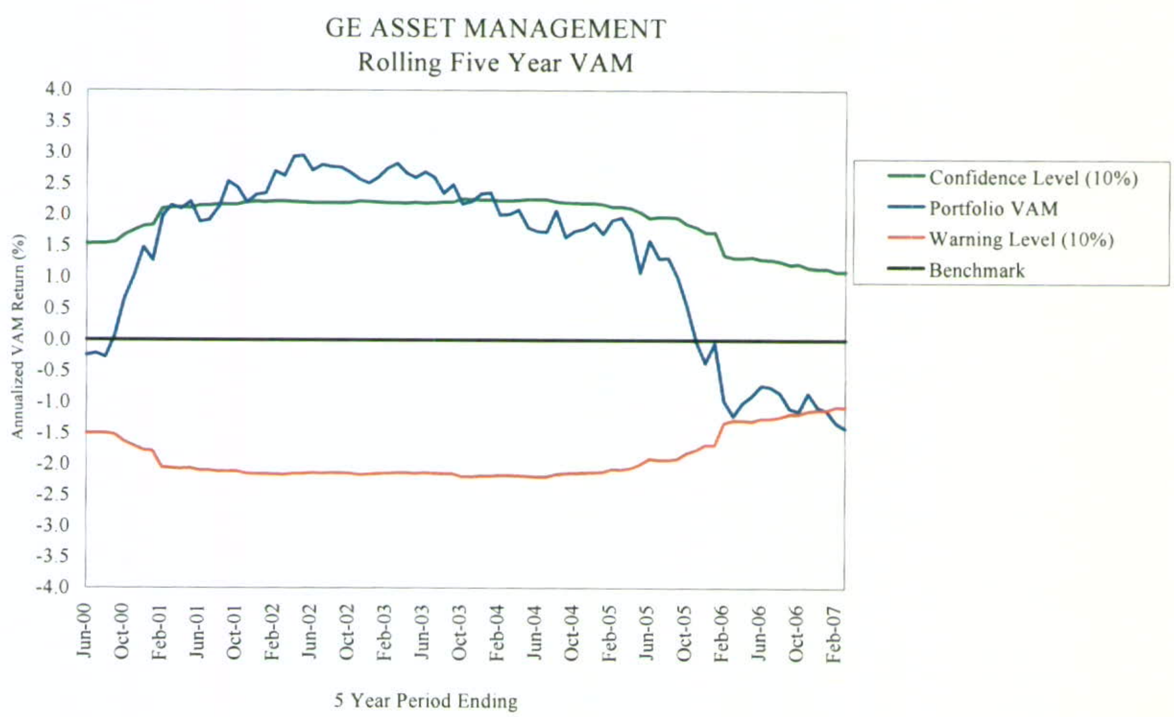
GE trailed the quarterly benchmark and matched the one-year benchmark. Security selection in the materials, health care, and the telecommunication sectors hurt the quarterly return.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	0.1%	0.6%
Last 1 year	11.8	11.8
Last 2 years	10.5	11.8
Last 3 years	8.8	10.1
Last 4 years	13.6	15.8
Last 5 years	4.8	6.3
Since Inception (1/95)	12.0	11.6

Recommendation

No recommendation at this time.



VOYAGEUR ASSET MANAGEMENT - Assigned Risk Plan
Periods Ending March, 2007

Portfolio Manager: John Huber **Assets Under Management: $261,288,009**

Investment Philosophy
Assigned Risk Plan

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

Staff Comments

Voyageur outperformed the benchmark for the quarter and for the year. The quarterly return was helped by security selection in the mortgage sector. The one-year return was helped by a general overweight to fixed income sectors other than Treasuries.

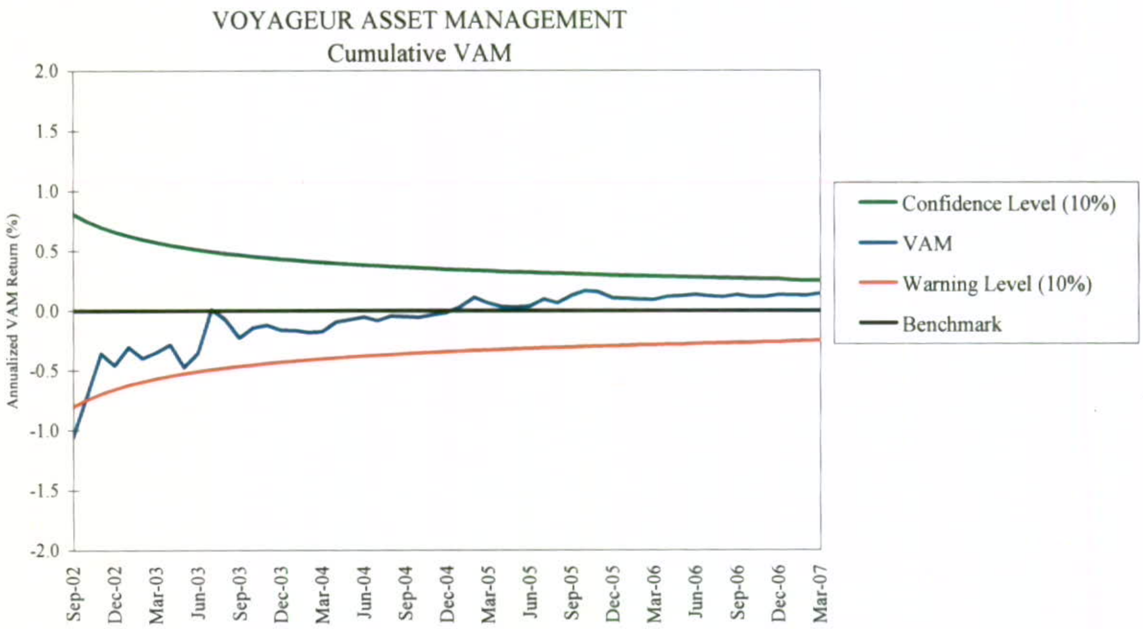
Quantitative Evaluation

	Actual	Benchmark*
Last Quarter	1.6%	1.5%
Last 1 year	6.4	6.1
Last 2 years	4.5	4.2
Last 3 years	3.3	2.9
Last 4 years	3.4	3.1
Last 5 years	4.6	4.5
Since Inception (7/91)	6.4	6.4

*Custom benchmark since inception date.

Recommendation

No action required.



GALLIARD CAPITAL MANAGEMENT
Periods Ending March, 2007

Portfolio Manager: Karl Tourville **Assets Under Management: $195,259,319**

Investment Philosophy

Galliard Capital Management manages the Fixed Interest Account in the Supplemental Investment Fund. The stable value fund is managed to protect principal and provide competitive interest rates using instruments somewhat longer than typically found in money market-type accounts. The manager invests cash flows to optimize yields. The manager invests in high quality instruments diversified among traditional investment contracts and alternative investment contracts with U.S. and non-U.S. financial institutions. To maintain necessary liquidity, the manager invests a portion of the portfolio in its Stable Return Fund and in cash equivalents. The Stable Return Fund is a large, daily priced fund consisting of a wide range of stable value instruments that is available to retirement plans of all sizes.

Staff Comments

Galliard slightly trailed its quarterly benchmark.

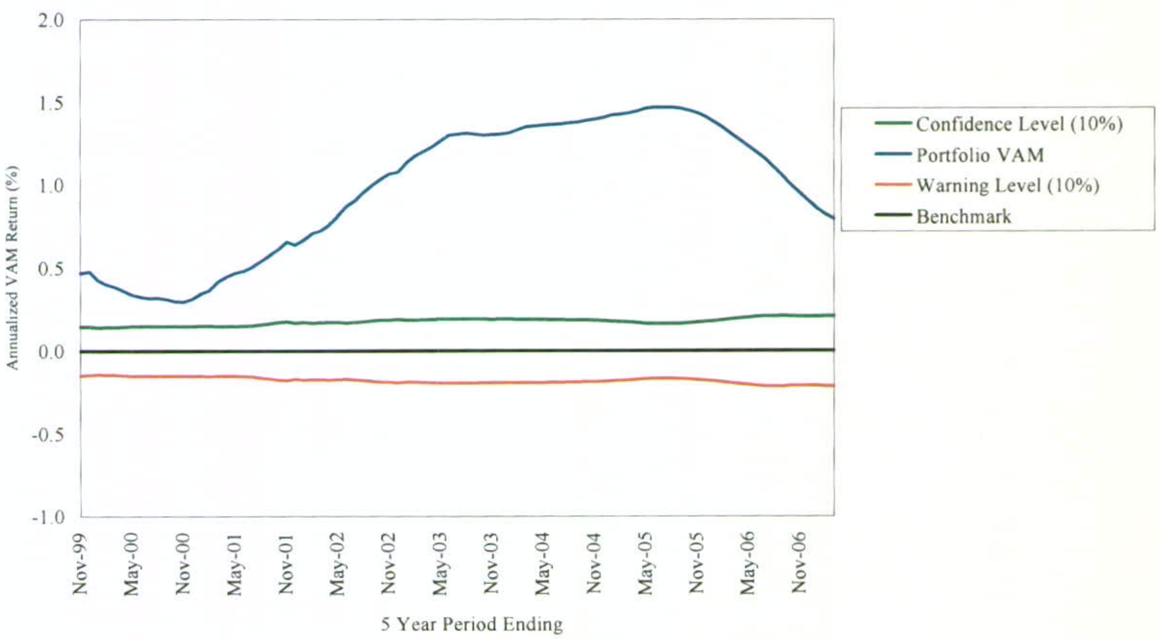
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	1.1%	1.3%
Last 1 year	4.6	5.2
Last 2 years	4.5	4.9
Last 3 years	4.4	4.5
Last 4 years	4.4	4.0
Last 5 years	4.6	3.8
Since Inception (11/94)	5.7	5.0

Recommendation

No action required.

Galliard Capital Management
Rolling Five Year VAM



INTERNAL STOCK POOL - Trust/Non-Retirement Assets
Periods Ending March, 2007

Portfolio Manager: Mike Menssen | **Assets Under Management: $854,666,847**

Investment Philosophy
Environmental Trust Fund
Permanent School Fund

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

Staff Comments

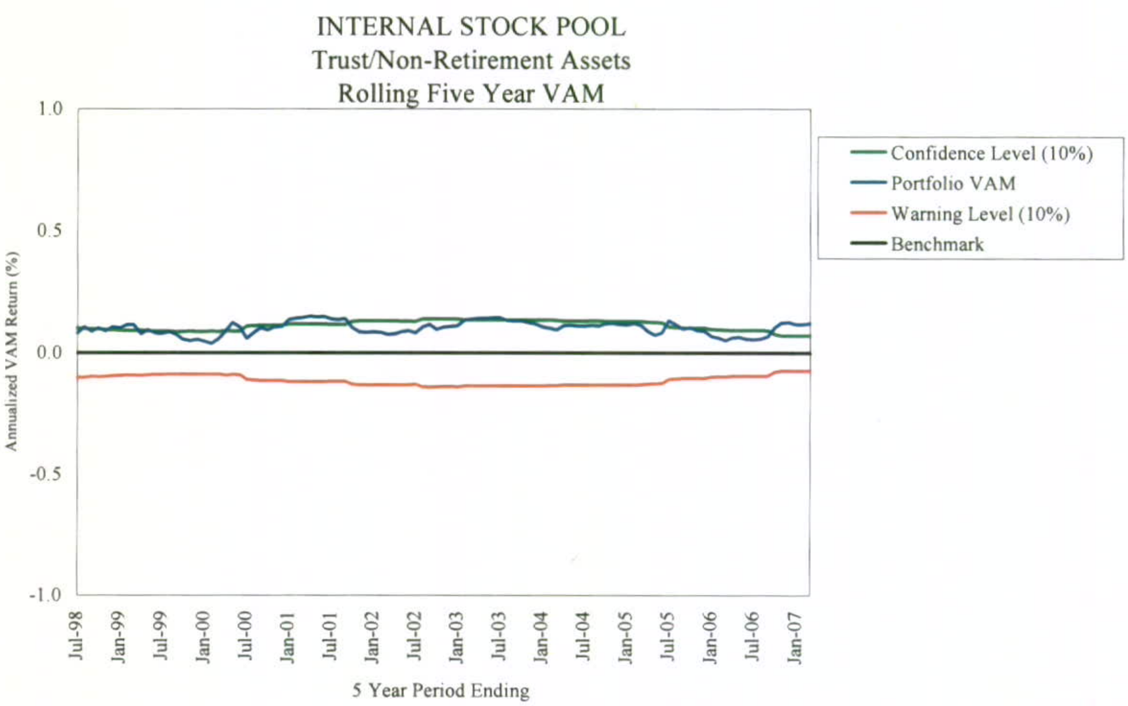
The portfolio matched the benchmark for the quarter and slightly outperformed for the year.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	0.6%	0.6%
Last 1 year	11.9	11.8
Last 2 years	11.8	11.8
Last 3 years	10.1	10.1
Last 4 years	15.9	15.8
Last 5 years	6.4	6.3
Since Inception (7/93)	10.8	10.7

Recommendation

No action required.



INTERNAL BOND POOL - Income Share Account
Periods Ending March, 2007

Portfolio Manager: Mike Menssen — **Assets Under Management: $88,613,754**

Investment Philosophy
Income Share Account

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

Staff Comments

The internal bond pool exceeded the quarterly benchmark due to an overweight to the mortgage sector. The internal bond pool outperformance of the one-year benchmark was helped by a short duration position and an overweight to the credit sector.

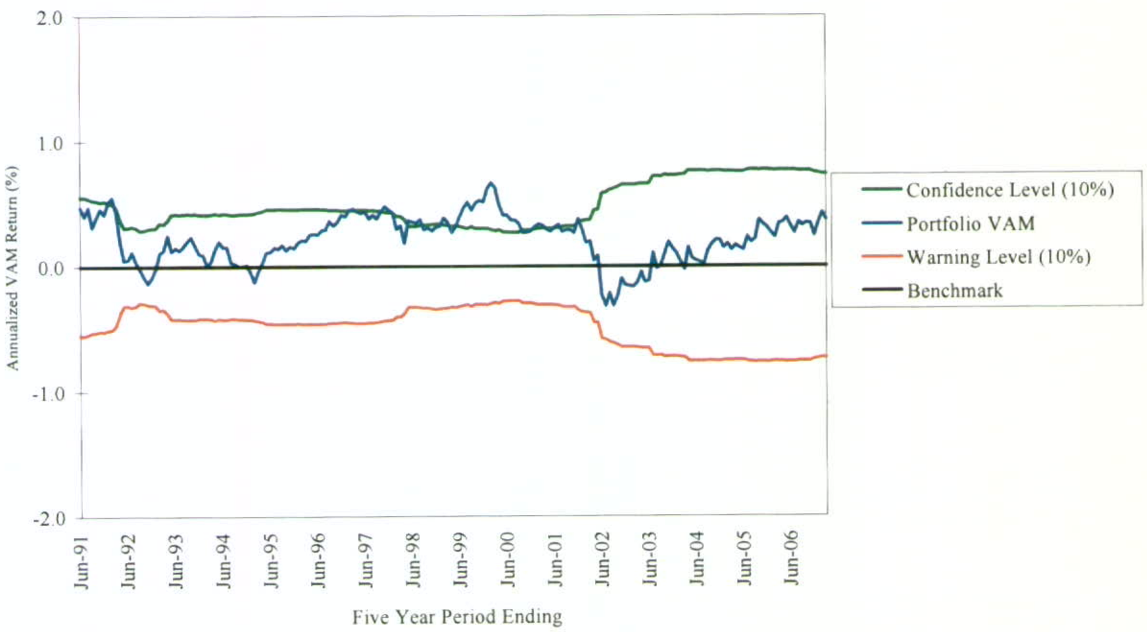
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	1.7%	1.5%
Last 1 year	7.0	6.6
Last 2 years	5.0	4.4
Last 3 years	4.2	3.3
Last 4 years	4.7	3.8
Last 5 years	5.7	5.4
Since Inception (7/86)	7.9	7.5

Recommendation

No action required.

INTERNAL BOND POOL - INCOME SHARE ACCOUNT
Rolling Five Year VAM



INTERNAL BOND POOL - Trust/Non-Retirement Assets
Periods Ending March, 2007

Portfolio Manager: Mike Menssen — **Assets Under Management: $516,349,497**

Investment Philosophy
Environmental Trust Fund
Permanent School Trust Fund

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

Staff Comments

The internal bond pool exceeded the quarterly benchmark due to an overweight to the mortgage sector. The internal bond pool outperformance of the one-year benchmark was helped by a short duration position and an overweight to the credit sector.

Quantitative Evaluation

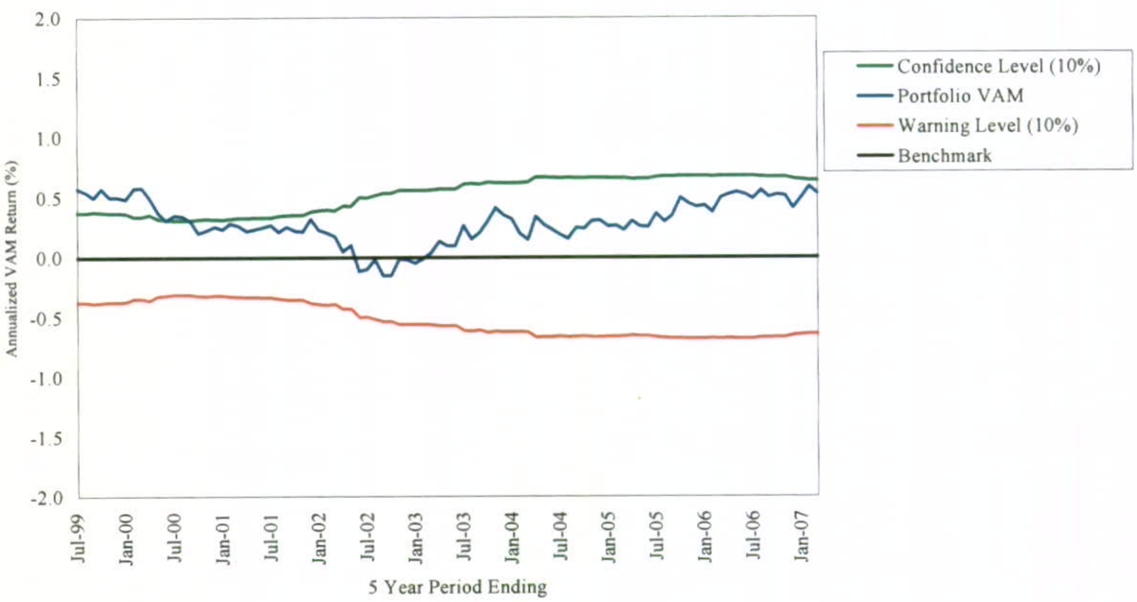
	Actual	Benchmark
Last Quarter	1.7%	1.5%
Last 1 year	7.0	6.6
Last 2 years	5.0	4.4
Last 3 years	4.2	3.3
Last 4 years	4.7	3.8
Last 5 years	5.9	5.4
Since Inception (7/94)*	7.2	6.8

* Date started managing the pool against the Lehman Aggregate.

Recommendation

No action required.

INTERNAL BOND POOL - TRUST/NON-RETIREMENT ASSETS
Rolling Five Year VAM



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STATE BOARD OF INVESTMENT

Deferred Compensation Plan Evaluation Reports

First Quarter, 2007

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Mutual Fund Managers

Table of Contents

MN STATE 457 DEFERRED COMPENSATION PLAN
MUTUAL FUND MANAGERS
Periods Ending March, 2007

457 Mutual Funds	Quarter Actual %	Quarter Bmk %	1 Year Actual %	1 Year Bmk %	3 Years Actual %	3 Years Bmk %	5 Years Actual %	5 Years Bmk %	Since Retention by SBI * %	Since Retention by SBI * %	State's Participation In Fund ($ millions)
Large Cap Equity:											
Janus Twenty (S&P 500)	2.6	0.6	11.9	11.8	14.0	10.1	9.6	6.3	0.0	2.1	$358.4
Legg Mason Partners Appr Y (S&P 500)	-0.3	0.6	9.9	11.8	8.7	10.1	6.4	6.3	10.0	11.3	$127.1
Vanguard Institutional Index Plus (S&P 500)	0.6	0.6	11.8	11.8	10.1	10.1	6.3	6.3	2.1	2.1	$468.9
Mid Cap Equity:											
Vanguard Mid-Cap Index (MSCI US Mid-Cap 450)	4.6	4.6	10.6	10.6	16.0	16.0	12.0	11.9	16.3	16.3	$122.7
Small Cap Equity:											
T. Rowe Price Small-Cap Stock (Russell 2000)	2.6	1.9	4.1	5.9	12.5	12.0	10.2	10.9	11.5	8.8	$408.5
Balanced:											
Dodge & Cox Balanced Fund (60% S&P 500/40% Lehman Agg)	1.6	1.0	11.7	9.8	10.3	7.4	10.3	6.1	13.0	9.1	$270.1
Vanguard Balanced Index Inst. Fund (60% MSCI US Broad Market, 40% Lehman Agg)	1.4	1.4	9.4	9.4	8.0	7.9	6.9	7.0	9.0	9.0	$174.5
Bond:											
Dodge & Cox Income Fund (Lehman Aggregate)	1.4	1.5	6.7	6.6	3.5	3.3	5.6	5.4	6.5	6.1	$84.1
Vanguard Total Bond Market Index Inst. (Lehman Aggregate)	1.5	1.5	6.7	6.6	3.3	3.3	5.0	5.4	4.1	4.1	$49.3
International:											
Fidelity Diversified International (MSCI EAFE-Free)	3.1	4.1	15.2	20.2	18.4	19.8	17.4	15.8	12.5	7.3	$266.1
Vanguard Inst. Dev. Mkts. Index (MSCI EAFE)	4.3	4.1	20.6	20.2	20.0	19.8	15.9	15.8	22.1	21.9	$66.9

Numbers in black are returns **since** retention by SBI.
Numbers in blue include returns **prior** to retention by SBI.

Benchmarks for the Funds are noted in parentheses below the Fund names.

* Vanguard Mid-Cap Index Fund retained January 2004; Legg Mason, Vanguard Inst. Dev. Mkt., Vanguard Balanced, Vanguard Total Bond Mkt. retained December 2003; Dodge & Cox Balanced Fund retained in October 2003; all others, July 1999.

Fixed Fund:	%
Blended Yield Rate for current quarter***:	4.5
Bid Rates for current quarter:	
Great West Life	4.5
Minnesota Life	4.9
Principal Life	5.1

***The Blended Yield Rate for the current quarter includes the return on the existing porfolio assets and the Liquidity Buffer Account (money market). The Bid Rates for the current quarter determine the allocation of new cash flow.

MN STATE 457 DEFERRED COMPENSATION PLAN
MUTUAL FUND MANAGERS
Calendar Year Returns

457 Mutual Funds	2006 Actual %	2006 Bmk %	2005 Actual %	2005 Bmk %	2004 Actual %	2004 Bmk %	2003 Actual %	2003 Bmk %	2002 Actual %	2002 Bmk %
Large Cap Equity:										
Janus Twenty (S&P 500)	12.3	15.8	9.4	4.9	23.9	10.9	25.3	28.7	-24.0	-22.1
Legg Mason Partners Appr Y (S&P 500)	15.0	15.8	4.6	4.9	9.3	10.9	25.1	28.7	-16.7	-22.1
Vanguard Institutional Index Plus (S&P 500)	15.8	15.8	5.0	4.9	10.9	10.9	28.7	28.7	-22.0	-22.1
Mid Cap Equity:										
Vanguard Mid-Cap Index (MSCI US Mid-Cap 450)	13.8	13.7	14.1	13.9	20.5	20.5	34.3	33.8	-14.5	-14.5
Small Cap Equity:										
T. Rowe Price Small-Cap Stock (Russell 2000)	12.8	18.4	8.4	4.6	18.8	18.3	32.3	47.3	-14.2	-20.5
Balanced:										
Dodge & Cox Balanced Fund (60% S&P 500/40% Lehman Agg)	13.8	11.1	6.6	4.0	13.3	8.3	24.5	18.5	-2.9	-9.8
Vanguard Balanced Index Inst. Fund (60% MSCI US Broad Market, 40% Lehman Agg)	11.1	11.1	4.8	4.8	9.5	9.3	20.1	20.1	-9.4	-9.0
Bond:										
Dodge & Cox Income Fund (Lehman Aggregate)	5.3	4.3	2.0	2.4	3.8	4.3	6.0	4.1	10.8	10.3
Vanguard Total Bond Market Index Inst. (Lehman Aggregate)	4.4	4.3	2.5	2.4	4.4	4.3	4.1	4.1	8.4	10.3
International:										
Fidelity Diversified International (MSCI EAFE-Free)	22.5	26.3	17.2	13.5	19.7	20.2	42.4	38.6	-9.4	-15.6
Vanguard Inst. Dev. Mkts. Index (MSCI EAFE)	26.3	26.3	13.6	13.5	20.3	20.2	38.9	38.6	-15.5	-15.9

Numbers in black are returns **since** retention by SBI.
Numbers in blue include returns **prior** to retention by SBI.
Benchmarks for the Funds are noted in parentheses below the Fund names.

MN STATE 457 DEFERRED COMPENSATION PLAN
LARGE CAP EQUITY – JANUS TWENTY
Periods Ending March, 2007

		State's Participation in Fund:	**$363,054,309**
Portfolio Manager:	**Scott W. Schoelzel**	**Total Assets in Fund:**	**$9,808,000,000**

Investment Philosophy
Janus Twenty

The investment objective of this fund is long-term growth of capital from increases in the market value of the stocks it owns. The fund will concentrate its investments in a core position of between twenty to thirty common stocks. This non-diversified fund seeks to invest in companies that the portfolio manager believes have strong current financial positions and offer growth potential.

Staff Comments

Janus outperformed the quarterly benchmark and outperformed for the year. The quarterly performance was helped by stock selection, particularly Gilead Sciences.

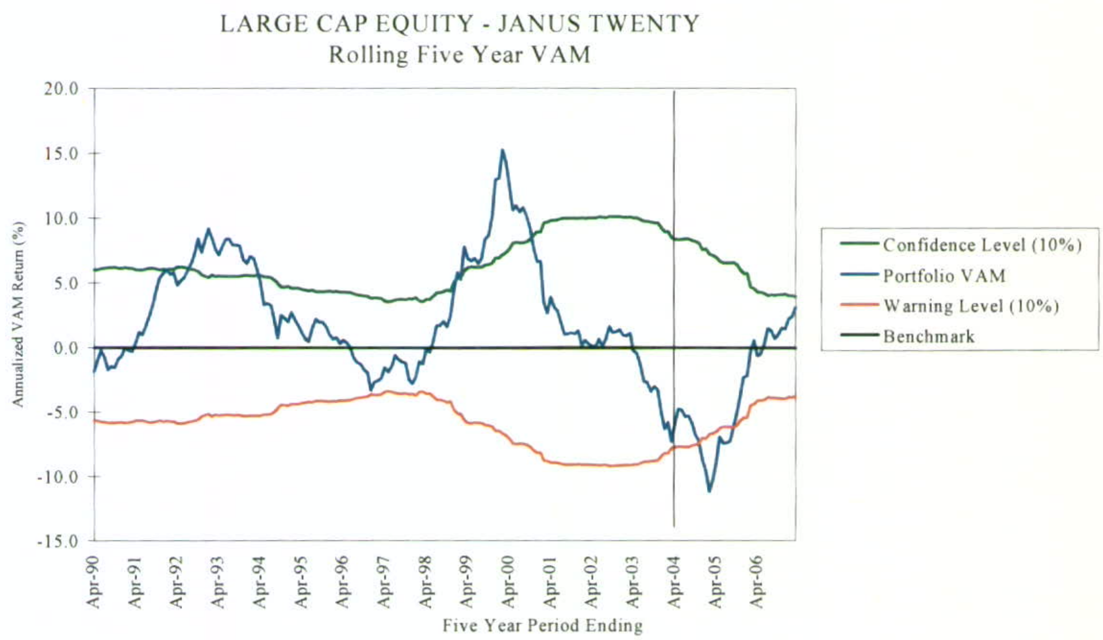
Quantitative Evaluation

	Actual	Benchmark*
Last Quarter	2.6%	0.6%
Last 1 year	11.9	11.8
Last 2 years	16.6	11.8
Last 3 years	14.0	10.1
Last 4 years	18.4	15.8
Last 5 years	9.6	6.3
Since Retention by SBI (7/99)	0.0	2.1

*Benchmark is the S&P 500.

Recommendation

No action required.



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

MN STATE 457 DEFERRED COMPENSATION PLAN
LARGE CAP EQUITY – LEGG MASON PARTNERS APPRECIATION Y
Periods Ending March, 2007

	State's Participation in Fund: $125,490,580
Portfolio Manager: Scott Glasser	**Total Assets in Fund: $6,035,311,198**

Investment Philosophy
Legg Mason Partners Appreciation Y

The Fund invests in U.S. growth and value stocks, primarily blue-chip companies that are dominant in their industries. Investments are selected from among a core base of stocks with a strong financial history, recognized industry leadership, and effective management teams that strive to earn consistent returns for shareholders. The portfolio manager looks for companies that he believes are undervalued with the belief that a catalyst will occur to unlock these values.

Staff Comments

Legg Mason (formerly Smith Barney) trailed the quarterly benchmark due to security selection, specifically the health care, consumer discretionary, industrials and financials sectors. The one year underperformance was due to sector allocation especially an underweight to the utility sector and stock selection in the energy sector.

Quantitative Evaluation

	Actual	Benchmark*
Last Quarter	-0.3%	0.6%
Last 1 year	9.9	11.8
Last 2 years	9.7	11.8
Last 3 years	8.7	10.1
Last 4 years	13.7	15.8
Last 5 years	6.4	6.3
Since Retention by SBI (12/03)	10.0	11.3

*Benchmark is the S&P 500.
Numbers in black are returns since retention by SBI.
Numbers in blue include returns prior to retention by SBI.

Recommendation

No action required.

LARGE CAP EQUITY - LEGG MASON PARTNERS APPRECIATION Y
Rolling Five Year VAM

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

MN STATE 457 DEFERRED COMPENSATION PLAN
EQUITY INDEX – VANGUARD INSTITUTIONAL INDEX PLUS
Periods Ending March, 2007

State's Participation in Fund: $471,617,786
Portfolio Manager: George U. Sauter **Total Assets in Fund: $22,131,000,000**

Investment Philosophy
Vanguard Institutional Index

This fund attempts to provide investment results, before fund expenses, that parallel the performance of the Standard & Poor's 500 Index. The fund invests in all 500 stocks listed in the S&P 500 index in approximately the same proportions as they are represented in the index. The managers have tracked the S&P 500's performance with a high degree of accuracy. The fund may use futures and options for temporary purposes, but generally remains fully invested in common stock.

Staff Comments

No comment at this time.

Quantitative Evaluation

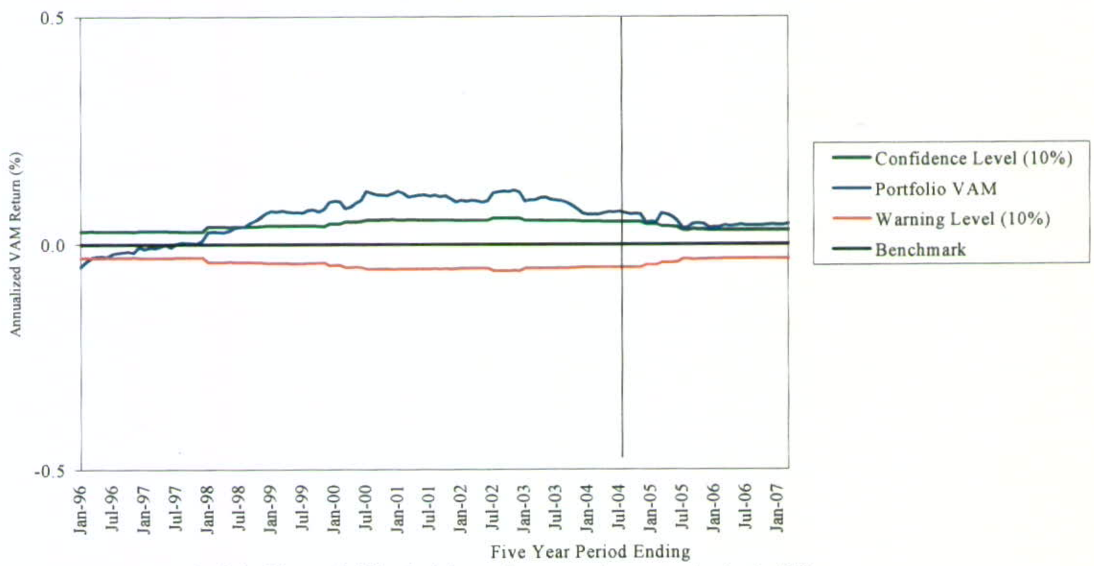
	Actual	Benchmark*
Last Quarter	0.6%	0.6%
Last 1 year	11.8	11.8
Last 2 years	11.8	11.8
Last 3 years	10.1	10.1
Last 4 years	15.9	15.8
Last 5 years	6.3	6.3
Since Retention by SBI (7/99)	2.1	2.1

*Benchmark is the S&P 500.

Recommendation

No action required.

EQUITY INDEX - VANGUARD INSTITUTIONAL INDEX PLUS
Rolling Five Year VAM



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

MN STATE 457 DEFERRED COMPENSATION PLAN
MID CAP EQUITY – VANGUARD MID-CAP INDEX
Periods Ending March, 2007

Portfolio Manager: George U. Sauter	**State's Participation in Fund: $133,187,338**
	Total Assets in Fund: $5,231,000,000

Investment Philosophy
Vanguard Mid-Cap Index

The fund employs a "passive management"- or indexing-investment approach designed to track the performance of the MSCI US Mid Cap 450 Index, a broadly diversified index of stocks of medium-size U.S. companies. The fund attempts to replicate the target index by investing all, or substantially all, of its assets in the stocks that make up the index, holding each stock in approximately the same proportion as its weighting within the index.

Staff Comments

No comment at this time.

Quantitative Evaluation

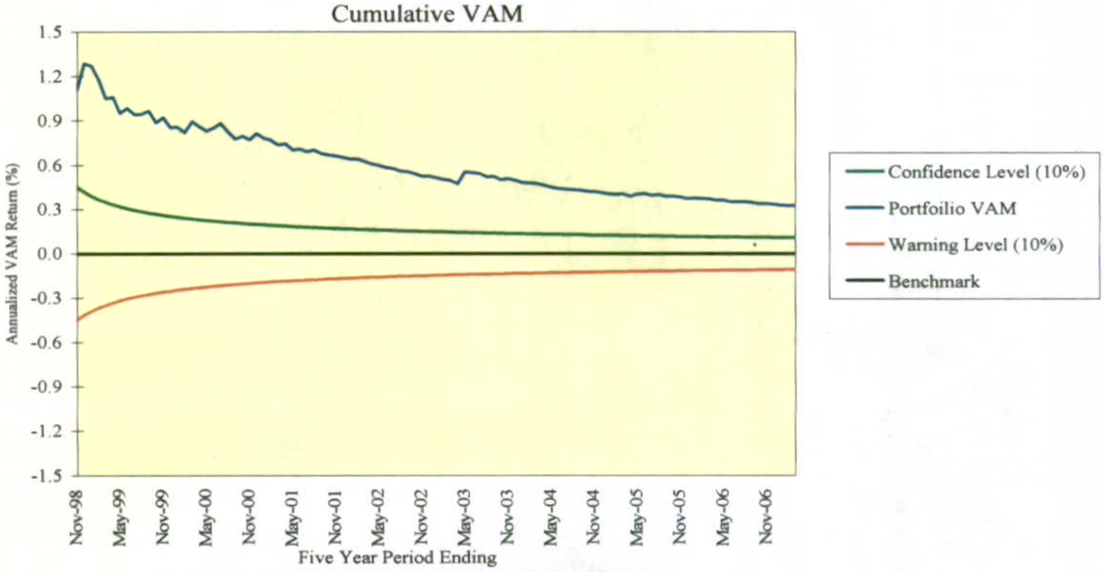
	Actual	Benchmark*
Last Quarter	4.6%	4.6%
Last 1 year	10.6	10.6
Last 2 years	16.7	16.6
Last 3 years	16.0	16.0
Last 4 years	23.1	23.0
Last 5 years	12.0	11.9
Since Retention by SBI (1/04)	16.3	16.3

*Benchmark is the MSCI US Mid Cap 450.
Numbers in black are returns since retention by SBI.
Numbers in blue include returns prior to retention by SBI.

Recommendation

No action required.

MID-CAP EQUITY - VANGUARD MID-CAP INDEX
Cumulative VAM



Note: Shaded area includes performance prior to managing SBI account

MN STATE 457 DEFERRED COMPENSATION PLAN
SMALL CAP EQUITY – T. ROWE PRICE SMALL CAP STOCK FUND
Periods Ending March, 2007

		State's Participation in Fund:	**410,858,556**
Portfolio Manager:	**Gregory A. McCrickard**	**Total Assets in Fund:**	**7,846,078,958**

Investment Philosophy
T. Rowe Price Small Cap Equity Fund

The strategy of this fund is to invest primarily in stocks of small to medium-sized companies that are believed to offer either superior earnings growth or appear undervalued. The fund normally invests at least 80% of assets in equities traded in the U.S over-the-counter market. The manager does not favor making big bets on any particular sector or any particular stock. The fund's combination of growth and value stocks offers investors relatively more stable performance compared to other small cap stock funds.

Staff Comments

T. Rowe-Price exceeded the quarterly benchmark and trailed for the year. They outperformed the quarterly benchmark due to stock selection across a range of sectors and industries, particularly capital markets in the financials sector. The one-year return was negatively impacted by stock selection in the consumer discretionary sector and an underweight to consumer staples.

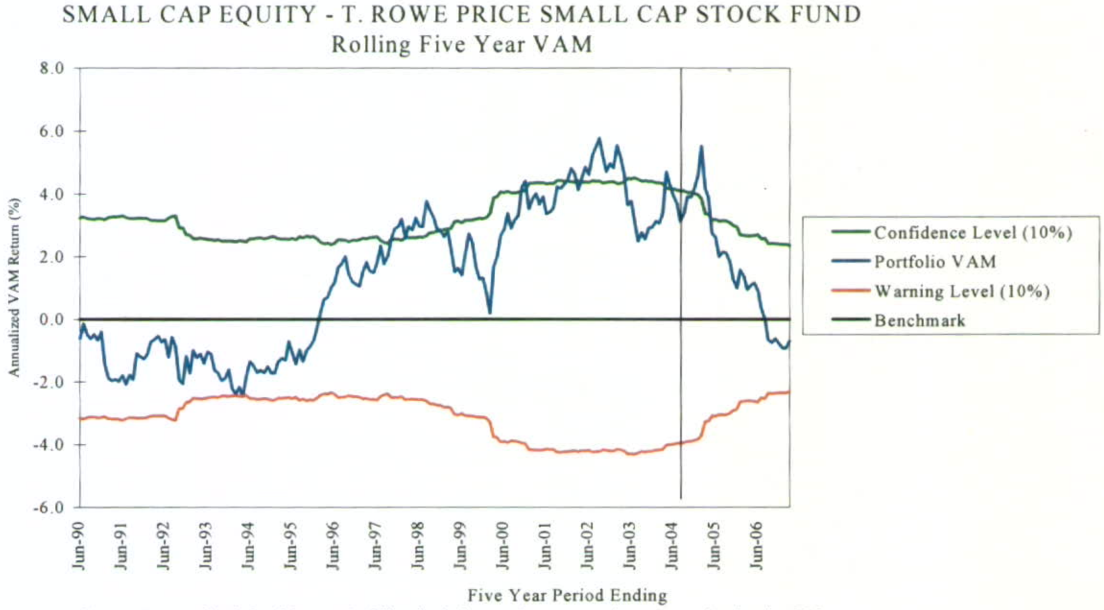
Quantitative Evaluation

	Actual	Benchmark*
Last Quarter	2.6%	1.9%
Last 1 year	4.1	5.9
Last 2 years	14.0	15.4
Last 3 years	12.5	12.0
Last 4 years	20.0	23.2
Last 5 years	10.2	10.9
Since Retention by SBI (7/99)	11.5	8.8

*Benchmark is the Russell 2000.

Recommendation

No action required.



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

STATE 457 DEFERRED COMPENSATION PLAN
BALANCED – DODGE & COX BALANCED FUND
Periods Ending March, 2007

State's Participation in Fund: $293,705,437
Portfolio Manager: John Gunn **Total Assets in Fund: $28,213,575,757**

Investment Philosophy
Dodge & Cox Balanced Fund

The Fund seeks regular income, conservation of principal and an opportunity for long-term growth of principal and income. The Fund invests in a diversified portfolio of common stocks preferred stocks and fixed income securities.

Staff Comments

Dodge & Cox outperformed the quarterly benchmark due to the equity portfolio exceeding its respective benchmark. The equity portfolio was positively impacted by strong stock selection across several sectors.

Quantitative Evaluation

	Actual	Benchmark*
Last Quarter	1.6%	1.0%
Last 1 year	11.7	9.8
Last 2 years	11.1	8.8
Last 3 years	10.3	7.4
Last 4 years	15.7	11.0
Last 5 years	10.3	6.1
Since Retention By SBI (10/03)	13.0	9.1

*Benchmark is 60% S&P 500, 40% Lehman Aggregate.
Numbers in black are returns since retention by SBI.
Numbers in blue include returns prior to retention by SBI.

Recommendation

No action required.

BALANCED - DODGE & COX BALANCED FUND
Rolling Five Year VAM

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

MN STATE 457 DEFERRED COMPENSATION PLAN
BALANCED – VANGUARD BALANCED INDEX INSTITUTIONAL FUND
Periods Ending March, 2007

State's Participation in Fund: $174,888,734
Portfolio Manager: George U. Sauter **Total Assets in Fund: $2,730,000,000**

Investment Philosophy
Vanguard Balanced Index Fund

The fund's assets are divided between stocks and bonds, with an average of 60% of its assets in stocks and 40% in bonds. The fund's stock segment attempts to track the performance of the MSCI US Broad Market Index, an unmanaged index representing the overall U.S. equity market. The fund's bond segment attempts to track the performance of the Lehman Brothers Aggregate Bond Index, an unmanaged index that covers virtually all taxable fixed-income securities.

Staff Comments

No comment at this time.

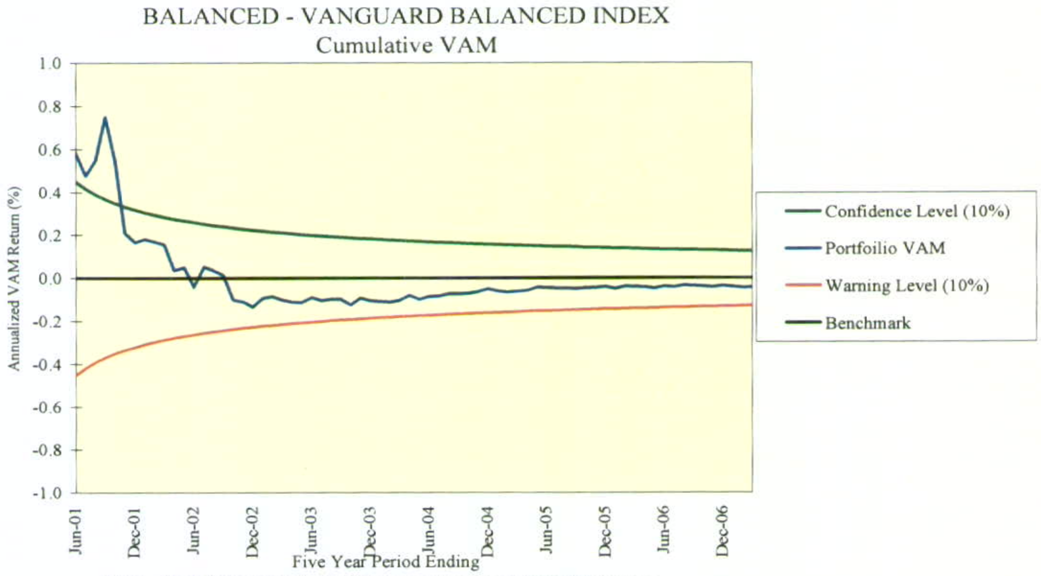
Quantitative Evaluation

	Actual	Benchmark*
Last Quarter	1.4%	1.4%
Last 1 year	9.4	9.4
Last 2 years	9.5	9.5
Last 3 years	8.0	7.9
Last 4 years	11.9	12.0
Last 5 years	6.9	7.0
Since Retention by SBI (12/03)	9.0	9.0

*Benchmark is 60% MSCI US Broad Market, 40% Lehman Aggregate.
Equity benchmark was Wilshire 5000 prior to April 1, 2005.
Numbers in black are returns since retention by SBI.
Numbers in blue include returns prior to retention by SBI.

Recommendation

No action required.



Note: Shaded area includes performance prior to managing SBI account

MN STATE 457 DEFERRED COMPENSATION PLAN
BOND – DODGE & COX INCOME FUND
Periods Ending March, 2007

State's Participation in Fund:	**$87,653,151**
Total Assets in Fund:	**$13,309,235,785**

Portfolio Manager: Dana Emery

Investment Philosophy
Dodge & Cox Income Fund

The objective of this fund is a high and stable rate of current income with capital appreciation being a secondary consideration. This portfolio is invested primarily in intermediate term, investment-grade quality corporate and mortgage bonds and, to a lesser extent, government issues. While the fund invests primarily in the U.S. bond market, it may invest a small portion of assets in dollar-denominated foreign securities. The duration of the portfolio is kept near that of the bond market as a whole.

Staff Comments

Dodge & Cox trailed the quarterly benchmark due to the fund's shorter than benchmark duration.

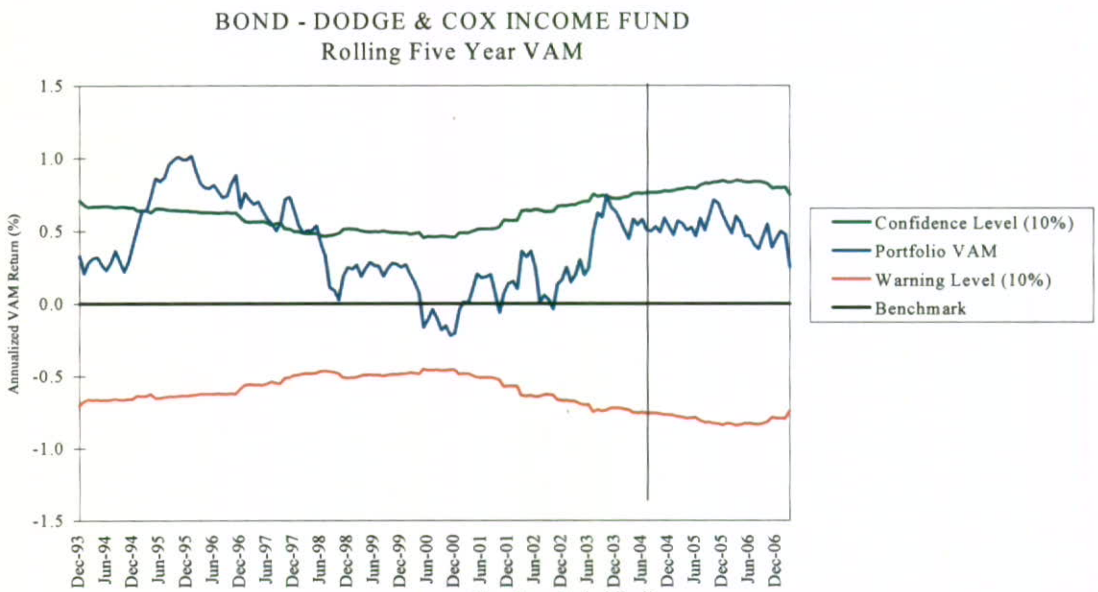
Quantitative Evaluation

	Actual	**Benchmark***
Last Quarter	1.4%	1.5%
Last 1 year	6.7	6.6
Last 2 years	4.6	4.4
Last 3 years	3.5	3.3
Last 4 years	4.3	3.8
Last 5 years	5.6	5.4
Since Retention By SBI (7/99)	6.5	6.1

*Benchmark is the Lehman Aggregate.

Recommendation

No action required.



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

MN STATE 457 DEFERRED COMPENSATION PLAN
BOND – VANGUARD TOTAL BOND MARKET INDEX INSTITUTIONAL
Periods Ending March, 2007

		State's Participation in Fund:	**$51,896,591**
Portfolio Manager:	**Robert Auwaerter**	**Total Assets in Fund:**	**$7,864,000,000**

Investment Philosophy
Vanguard Total Bond Market Index Institutional

The fund attempts to track the performance of the Lehman Brothers Aggregate Bond Index, which is a widely recognized measure of the entire taxable U.S. bond market. The index consists of more than 5,000 U.S. Treasury, federal agency, mortgage-backed, and investment-grade corporate securities. Because it is not practical or cost-effective to own every security in the index, the fund invests in a large sampling that matches key characteristics of the index (such as market-sector weightings, coupon interest rates, credit quality, and maturity). To boost returns, the fund holds a higher percentage than the index in short-term, investment-grade corporate bonds and a lower percentage in short-term Treasury securities.

Staff Comments

No comment at this time.

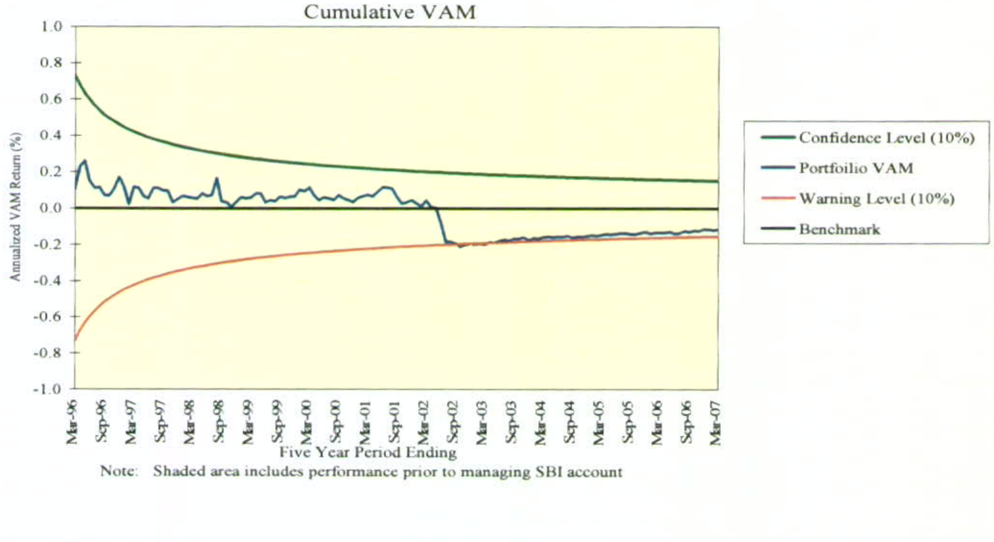
Quantitative Evaluation

	Actual	Benchmark*
Last Quarter	1.5%	1.5%
Last 1 year	6.7	6.6
Last 2 years	4.4	4.4
Last 3 years	3.3	3.3
Last 4 years	3.9	3.8
Last 5 years	5.0	5.4
Since Retention by SBI (12/03)	4.1	4.1

*Benchmark is the Lehman Aggregate.
Numbers in black are returns since retention by SBI.
Numbers in blue include returns prior to retention by SBI.

Recommendation

No action required.



Note: Shaded area includes performance prior to managing SBI account

MN STATE 457 DEFERRED COMPENSATION PLAN
INTERNATIONAL – FIDELITY DIVERSIFIED INTERNATIONAL
Periods Ending March, 2007

State's Participation in Fund: $275,743,969
Portfolio Manager: William Bower **Total Assets in Fund: $49,352,280,000**

Investment Philosophy
Fidelity Diversified International

The goal of this fund is capital appreciation by investing in securities of companies located outside of the United States. While the fund invests primarily in stocks, it may also invest in bonds. Most investments are made in companies that have a market capitalization of $100 million or more and which are located in developed countries. To select the securities, the fund utilizes a rigorous computer-aided quantitative analysis supplemented by relevant economic and regulatory factors. The manager rarely invests in currency to protect the account from exchange fluctuations.

Staff Comments

Fidelity trailed the quarterly and one-year benchmark. Performance over the quarter was hurt by security selection in the materials sector.

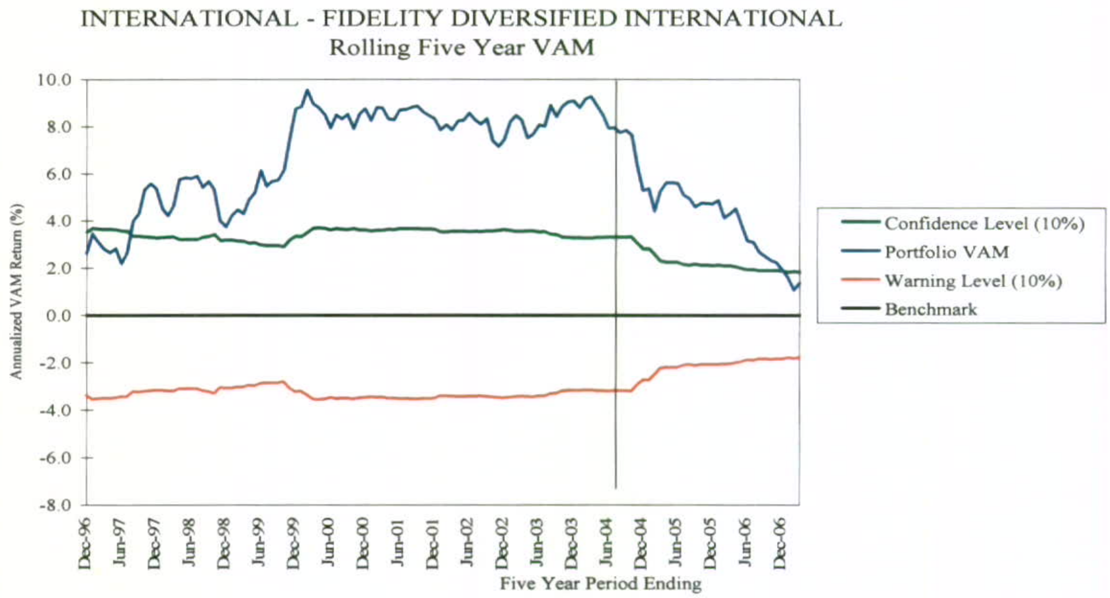
Quantitative Evaluation

	Actual	Benchmark*
Last Quarter	3.1%	4.1%
Last 1 year	15.2	20.2
Last 2 years	21.6	22.3
Last 3 years	18.4	19.8
Last 4 years	27.9	28.3
Last 5 years	17.4	15.8
Since Retention By SBI (7/99)	12.5	7.3

*Benchmark is the MSCI EAFE-Free.

Recommendation

No action required.



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

MN STATE 457 DEFERRED COMPENSATION PLAN
INTERNATIONAL – VANGUARD INSTITUTIONAL DEVELOPED MARKETS INDEX
Periods Ending March, 2007

Portfolio Manager:	**George U. Sauter**	**State's Participation in Fund:**	**$79,866,054**
		Total Assets in Fund:	**$4,371,000,000**

Investment Philosophy
Vanguard Institutional Developed Market Index

The fund seeks to track the performance of the MSCI EAFE Index by passively investing in two other Vanguard funds—the European Stock Index Fund and the Pacific Stock Index Fund. The combination of the two underlying index funds, in turn, seeks to track the investment results of the Morgan Stanley Capital International (MSCI) Europe, Australasia, Far East (EAFE) Index. The MSCI EAFE Index includes approximately 1,000 common stocks of companies located in Europe, Australia, Asia, and the Far East.

Staff Comments

No comment at this time.

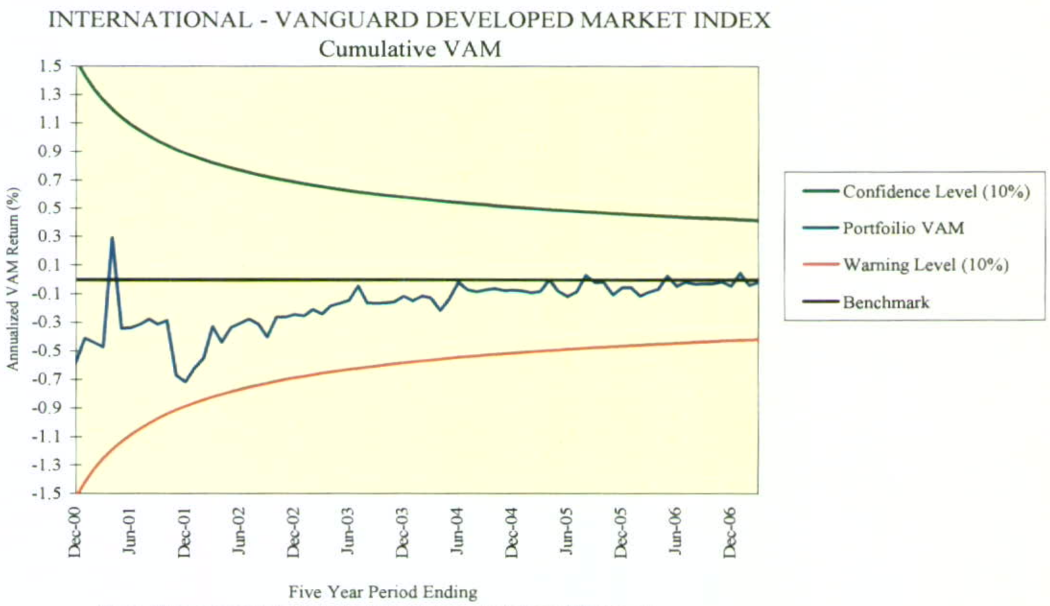
Quantitative Evaluation

	Actual	Benchmark*
Last Quarter	4.3%	4.1%
Last 1 year	20.6	20.2
Last 2 years	22.4	22.3
Last 3 years	20.0	19.8
Last 4 years	28.5	28.3
Last 5 years	15.9	15.8
Since Retention by SBI (12/03)	22.1	21.9

*Benchmark is the MSCI EAFE International
Numbers in black are returns since retention by SBI.
Numbers in blue include returns prior to retention by SBI.

Recommendation

No action required.



Note: Shaded area includes performance prior to managing SBI account

MN STATE 457 DEFERRED COMPENSATION PLAN
MN FIXED FUND
Periods Ending March, 2007

Total Assets in MN Fixed Fund: $753,566,689 *
*Includes $14-18M in Liquidity Buffer Account

Principal Life

Ratings:	Moody's	Aa2
	S&P	AA
	A.M. Best	A+
	Duff & Phelps	AA+

Assets in MN Fixed Fund: $322,688,824

Investment Philosophy

The manager invests in fixed income securities, commercial mortgages, mortgage-backed securities and residential whole loans, with lesser amounts invested in stock, cash equivalents and direct real estate. The manager relies upon in-house analysis and prefers investments that offer more call protection. The manager strongly prefers private placements to corporate bonds in the belief that private placements offer higher yields and superior protective covenants compared to public bonds. A portion of the fixed income portfolio is invested in US dollar-denominated foreign corporate bonds. Mortgage-backed bonds are actively managed to prices at or below par to reduce prepayment risk. Conservative underwriting standards, small loan sizes and an emphasis on industrial properties minimizes commercial loan risk.

Minnesota Life

Ratings:	Moody's	Aa2
	S&P	AA
	A.M. Best	A++
	Duff & Phelps	AA+

Assets in MN Fixed Fund: $172,877,087

Assets in Prior MN 457 Plan: $0

Total Assets: $172,877,087

Investment Philosophy

Investment decisions support an asset/liability match for the company's many product lines. A conservative investment philosophy uses a number of active and passive investment strategies to manage general account assets and cash flow. Assets are primarily invested in a widely diversified portfolio of high quality fixed income investments that includes public and private corporate bonds, commercial mortgages, residential mortgage securities and other structured investment products, providing safety of principal and stable, predictable cash flow to meet liabilities and to invest in and produce consistent results in all phases of the economic cycle.

Great-West Life

Ratings:	Moody's	Aa2
	S&P	AA+
	A.M. Best	A++
	Duff & Phelps	AAA

Assets in MN Fixed Fund: $239,719,369

Assets in Prior MN 457 Plan: $ 0

Total Assets: $239,719,369

Investment Philosophy

The Company observes strict asset/liability matching guidelines to ensure that the investment portfolio will meet the cash flow and income requirements of its liabilities. The manager invests in public and privately placed corporate bonds, government and international bonds, common stocks, mortgage loans, real estate, redeemable preferred stocks and short-term investments. To reduce portfolio risk, the manager invests primarily in investment grade fixed maturities rated by third-party rating agencies or by the manager if private placements. Mortgage loans reflect a broadly diversified portfolio of commercial and industrial mortgages subject to strict underwriting criteria.

MN STATE 457 DEFERRED COMPENSATION PLAN
MN FIXED FUND
Periods Ending March, 2007

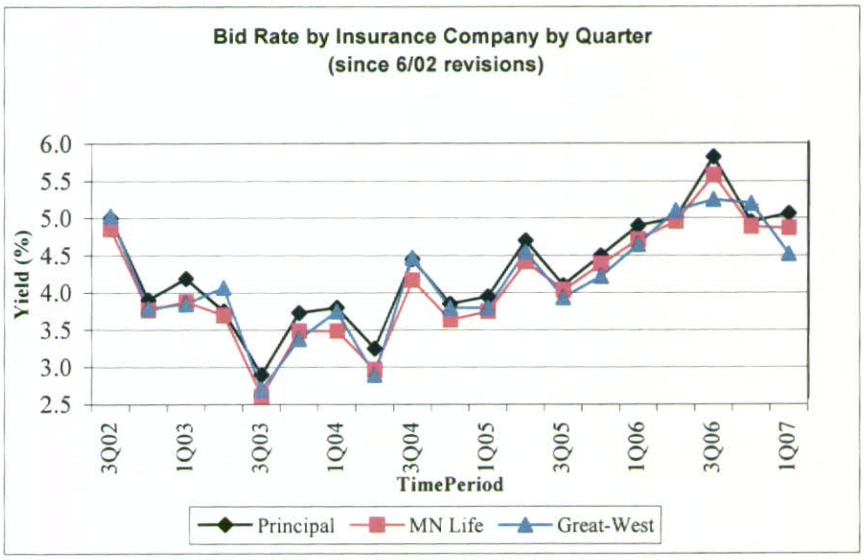
Current Quarter

Dollar Amount of Bid: $18,000,000 **Blended Rate: 4.54%**

Bid Rates:

Principal Life	5.06%
Minnesota Life	4.87%
Great-West Life	4.52%

Contracts were renewed in June 2002. Under these contracts, bid rates are effective for five years on the quarterly cash flows, the bid rate bands were narrowed to 8 b.p. from 10 b.p., and additional bid scenarios were added. All changes were effective for 3Q 2002 bids. The separate portfolio managed by Minnesota Life (previously referred to as the "existing portfolio") no longer exits. All assets of that portfolio matured in June 2004 and have been rolled into the Fixed Fund.



Staff Comments on Bid Rates

The graph indicates bid rates for the new cash flows which are effective for five year periods. Prior to that, the bids were effective for a quarter for the total portfolio.

	2Q06	3Q06	4Q06	1Q07
Principal Life	30.0%	75.0%	0.0	75.0
Minnesota Life	30.0%	25.0%	0.0	25.0
Great-West Life	40.0%	0.0%	100.0%	0.0%

Staff Comments

Principal was awarded 75% and Minnesota Life received 25% of the bid dollars this quarter.

Tab H

COMMITTEE REPORT

DATE: May 30, 2007

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

FROM: Alternative Investment Committee

The Alternative Investment Committee met on May 16, 2007 to review the following information and action agenda items:

1. Review of current strategy.
2. Follow-on investment with one existing private equity manager, Court Square Capital Partners.

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 12% of the Post Retirement Fund are allocated to alternative investments. Alternative investments include real estate, private equity, resource, and yield-oriented 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**).

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

- The private equity investment strategy, which includes leveraged buyouts and venture capital, 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.

- The strategy for resource investments is to establish and maintain a portfolio of resource investment vehicles that provide an inflation hedge and additional diversification. Resource investments will include oil and gas investments, energy service industry investments and other investments that are diversified geographically and by type.

- The strategy for yield-oriented investments will target funds that typically provide a current return and may have an equity component such as subordinated debt or mezzanine investments. Yield-oriented investments will provide diversification by including investments in the private equity, resource and real estate categories.

ACTION ITEMS:

1) **Investment with an existing private equity manager, Court Square Capital Partners, in Court Square Capital Partners II, L.P.**

The SBI made an initial investment of $100 million in Court Square Capital Partners II, LP in July 2006. Since then, Court Square has successfully spun-out from Citigroup and broadened their investor base from the prior fund in which the SBI has an investment of $100 million. As fundraising for Court Square Capital Partners II, LP comes to an end in July 2007; Court Square has offered the SBI the opportunity to increase their commitment before the final fund closing. The fund will continue to seek to earn attractive returns through a diversified portfolio of private equity investments.

More information on Court Square Capital Partners II, L.P. 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 $75 million in addition to the $100 million already committed, for up to $175 million in total, or 20%, whichever is less, in Court Square Capital Partners II, L.P. 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 nor its Executive Director have any liability for reliance by Court Square upon this approval. Until the Executive Director on behalf of the SBI executes a formal agreement, further due diligence and negotiations may result in the imposition of additional terms and conditions on Court Square or reduction or termination of the commitment.

Minnesota State Board of Investment

Pooled Alternative Investments
Combined Retirement Funds
March 31, 2007

Basic Retirement Funds Market Value	$24,241,402,913
Post Retirement Fund Market Value	$24,036,682,392
Amount Available for Investment	**$1,897,286,041**

	Current Level	Target Level	Difference
Market Value (MV)	$4,617,720,062	$6,520,612,324	$1,902,892,262
MV +Unfunded	$7,883,632,445	$9,780,918,486	$1,897,286,041

Asset Class	Market Value	Unfunded Commitment	Total
Private Equity	$2,497,923,862	$1,871,043,250	$4,368,967,112
Real Estate	$884,111,045	$275,107,790	$1,159,218,836
Resource	$289,793,643	$452,789,642	$742,583,285
Yield-Oriented	$945,891,512	$666,971,701	$1,612,863,213
Total	$4,617,720,062	$3,265,912,383	$7,883,632,445

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ATTACHMENT B

Minnesota State Board of Investment

- Alternative Investments -

As of March 31, 2007

Investment	Total Commitment	Funded Commitment	Market Value	Distributions	Unfunded Commitment	IRR %	Period Years
Real Estate							
American Republic Realty Fund	1	1	170,000	5,000	0	108.0	17.2
Blackstone Real Estate Partners							
Blackstone Real Estate V	100,000,000	72,744,026	83,574,612	12,371,883	27,255,974	N/A	0.9
Blackstone Real Estate VI	100,000,000	0	0	0	100,000,000	N/A	0.0
Colony Capital							
Colony Investors II	80,000,000	78,482,328	998,393	88,682,745	1,517,672	4.6	12.0
Colony Investors III	100,000,000	100,000,000	22,845,900	153,065,421	0	15.2	9.2
CSFB Strategic Partners III RE	25,000,000	4,691,805	4,383,094	0	20,308,195	-7.0	1.7
Lehman Brothers Real Estate Partners II	75,000,000	50,474,051	50,911,832	10,668,414	24,525,949	32.9	1.7
Morgan Stanley (Lend Lease)	40,000,000	40,000,000	256,470,007	0	0	7.7	25.5
T.A. Associates Realty							
Realty Associates Fund IV	50,000,000	50,000,000	2,937,157	104,387,451	0	13.4	10.2
Realty Associates Fund V	50,000,000	50,000,000	42,770,039	55,271,709	0	12.7	7.8
Realty Associates Fund VI	50,000,000	50,000,000	59,928,419	23,797,869	0	21.4	4.8
Realty Associates Fund VII	75,000,000	73,500,000	80,375,257	8,155,477	1,500,000	18.5	2.4
Realty Associates Fund VIII	100,000,000	0	0	128,141	100,000,000	N/A	0.7
UBS Realty	42,376,529	42,376,529	278,746,337	0	0	8.4	24.9
Real Estate Total	887,376,530	612,268,740	884,111,045	456,534,110	275,107,790		
Resource							
Apache Corp III	30,000,000	30,000,000	8,414,520	52,269,584	0	12.5	20.2
First Reserve							
First Reserve Fund I	15,000,000	15,000,000	14,275	14,552,526	0	-0.3	25.5
First Reserve Fund II	7,000,000	7,000,000	54,996	14,879,948	0	5.9	24.2
First Reserve Fund V	16,800,000	16,800,000	146,769	50,261,377	0	16.2	16.9
First Reserve Fund VII	40,000,000	40,000,000	5,596,001	55,976,613	0	10.4	10.7
First Reserve Fund VIII	100,000,000	100,000,000	79,903,015	133,079,914	0	16.8	8.9
First Reserve Fund IX	100,000,000	100,000,000	47,026,023	256,630,696	0	48.8	6.0
First Reserve Fund X	100,000,000	90,179,041	71,227,224	62,515,279	9,820,959	50.4	2.4
First Reserve Fund XI	150,000,000	7,031,317	6,828,921	0	142,968,683	N/A	0.3
NGP Midstream & Resources I	100,000,000	0	0	0	100,000,000	N/A	0.0
Sheridan Production Partners I	100,000,000	0	0	0	100,000,000	N/A	0.0
Simmons							
Simmons - SCF-II	17,000,000	14,706,629	258,943	31,814,138	0	9.3	15.6
Simmons - SCF-III	25,000,000	23,408,729	339,400	65,056,318	0	18.5	11.7
Simmons - SCF-IV	50,000,000	47,626,265	61,671,767	107,089,527	0	27.1	9.0
TCW Energy Fund XIV	100,000,000	0	0	0	100,000,000	N/A	0.0
T. Rowe Price	51,735,289	51,735,289	8,311,788	64,296,015	0	26.8	N/A
Resource Total	1,002,535,289	543,487,271	289,793,643	908,421,935	452,789,642		

Minnesota State Board of Investment

- Alternative Investments -

As of March 31, 2007

Investment	Total Commitment	Funded Commitment	Market Value	Distributions	Unfunded Commitment	IRR %	Period Years
Yield-Oriented							
Carbon Capital	50,000,000	46,184,308	2,988,587	57,519,596	3,815,692	15.4	4.9
Citicorp Mezzanine							
Citicorp Mezzanine I	40,000,000	40,000,000	447,586	57,080,440	0	10.5	12.2
Citicorp Mezzanine III	100,000,000	88,029,296	25,946,584	103,060,080	11,970,704	16.1	7.4
CT Mezzanine Partners II	100,000,000	36,804,097	1,086,187	51,945,721	0	20.1	5.5
DLJ Investment Partners							
DLJ Investment Partners II	50,000,000	21,026,211	5,080,268	27,104,800	28,973,789	10.9	7.2
DLJ Investment Partners III	100,000,000	12,162,770	9,356,564	479,248	87,837,230	N/A	0.8
Gold Hill Venture Lending	40,000,000	29,600,000	24,818,765	4,730,986	10,400,000	-0.1	2.5
GS Mezzanine Partners							
GS Mezzanine Partners II	100,000,000	83,092,437	44,405,807	70,300,738	16,907,563	9.4	7.1
GS Mezzanine Partners III	75,000,000	52,896,411	37,644,764	33,095,533	22,103,589	17.6	3.7
GS Mezzanine Partners 2006	100,000,000	25,845,263	26,942,599	6,138,611	74,154,737	N/A	1.0
GTCR Capital Partners	80,000,000	69,589,422	11,569,025	95,661,539	10,410,578	11.1	7.4
KB Mezzanine Fund II	25,000,000	25,000,000	212,065	12,080,745	0	-14.3	11.5
Merit Capital Partners (fka William Blair)							
William Blair Mezzan. Cap. Fd. III	60,000,000	55,998,000	5,549,695	76,376,400	4,002,000	11.0	7.2
Merit Mezzanine Fund IV	75,000,000	28,875,000	28,501,127	0	46,125,000	-1.3	2.3
Merit Energy Partners							
Merit Energy Partners B	24,000,000	24,000,000	57,025,007	55,939,572	0	24.9	10.7
Merit Energy Partners C	50,000,000	50,000,000	188,225,301	86,524,827	0	35.3	8.4
Merit Energy Partners D	88,000,000	70,938,303	197,793,484	39,181,999	17,061,697	32.8	5.8
Merit Energy Partners E	100,000,000	40,581,510	55,504,181	5,194,347	59,418,490	20.9	2.5
Merit Energy Partners F	100,000,000	18,784,783	17,275,731	662,221	81,215,217	-5.4	1.0
Prudential Capital Partners							
Prudential Capital Partners I	100,000,000	95,074,386	42,449,237	81,496,825	4,925,614	10.4	5.9
Prudential Capital Partners II	100,000,000	36,715,981	34,987,613	2,644,837	63,284,019	2.5	1.7
Quadrant Real Estate Advisors (GMAC)							
Institutional Commercial Mortgage Fd III	21,500,000	21,275,052	3,923,681	31,174,250	0	8.2	10.3
Institutional Commercial Mortgage Fd IV	14,300,000	14,300,000	4,656,479	17,975,809	0	8.4	9.3
Institutional Commercial Mortgage Fd V	37,200,000	37,200,000	26,064,228	29,219,143	0	8.3	7.7
Summit Partners							
Summit Subordinated Debt Fund I	20,000,000	18,000,000	84,958	31,406,578	2,000,000	30.6	13.0
Summit Subordinated Debt Fund II	45,000,000	40,500,000	6,905,308	81,724,965	4,500,000	56.6	9.7
Summit Subordinated Debt Fund III	45,000,000	23,400,000	14,632,214	10,373,867	21,600,000	4.7	3.1
T. Rowe Price	53,394,449	53,394,449	255,445	52,009,027	0	-11.6	6.7
TCW/Crescent Mezzanine							
TCW/Crescent Mezzanine Partners I	40,000,000	37,130,039	3,263,085	57,050,388	2,869,961	14.8	11.0
TCW/Crescent Mezzanine Partners II	100,000,000	87,479,046	1,284,751	132,680,735	12,520,954	13.0	8.4
TCW/Crescent Mezzanine Partners III	75,000,000	68,835,264	17,342,254	121,528,946	6,164,736	34.7	6.0
Windjammer Capital Investors							
Windjammer Mezzanine & Equity Fund II	66,708,861	49,750,617	41,023,803	35,415,735	16,958,244	13.5	7.0
Windjammer Senior Equity Fund III	67,974,684	10,222,797	8,645,133	0	57,751,887	-39.4	1.2
Yield-Oriented Total	2,143,077,994	1,412,685,443	945,891,512	1,467,778,508	666,971,701		

Minnesota State Board of Investment

- Alternative Investments -

As of March 31, 2007

Investment	Total Commitment	Funded Commitment	Market Value	Distributions	Unfunded Commitment	IRR %	Period Years
Private Equity							
Adams Street Partners							
Brinson Partners I	5,000,000	3,800,000	49,722	9,387,104	0	13.2	18.9
Brinson Partners II	20,000,000	20,000,000	63,488	37,898,512	0	24.1	16.3
Affinity Ventures	4,000,000	1,391,847	970,863	405,436	2,608,153	-1.0	2.7
Banc Fund							
Banc Fund V	48,000,000	48,000,000	27,300,629	79,784,166	0	15.3	8.7
Banc Fund VII	45,000,000	30,600,000	29,448,338	380,725	14,400,000	-2.7	2.0
Blackstone Capital Partners							
Blackstone Capital Partners II	50,000,000	47,271,190	4,806,186	94,979,972	0	34.2	13.4
Blackstone Capital Partners IV	70,000,000	60,422,499	66,038,683	57,490,628	9,577,501	52.7	4.7
Blackstone Capital Partners V	140,000,000	35,602,307	38,836,942	1,105,407	104,397,693	22.2	1.2
BLUM Capital Partners							
Blum Strategic Partners I	50,000,000	49,001,812	24,360,203	86,426,434	998,188	15.6	8.3
Blum Strategic Partners II	50,000,000	40,081,967	34,309,905	54,336,853	9,918,033	26.8	5.7
Blum Strategic Partners III	75,000,000	70,106,444	72,077,547	9,456,587	4,893,556	16.8	1.8
CVI Global Value Fund	100,000,000	43,750,000	45,813,558	23,001	56,250,000	N/A	0.2
Chicago Growth Partners (William Blair)							
William Blair Capital Partners VII	50,000,000	46,700,000	36,544,332	22,097,178	3,300,000	7.3	6.1
Chicago Growth Partners VIII	50,000,000	21,341,998	19,323,344	3,091,419	28,658,002	7.4	1.7
Contrarian Capital Fund II	37,000,000	33,244,395	6,465,460	41,752,631	3,755,605	5.3	9.8
Coral Partners							
Coral Partners II	10,000,000	10,000,000	332,235	36,632,559	0	24.9	16.7
Coral Partners IV	15,000,000	15,000,000	2,509,831	13,156,023	0	1.0	12.7
Coral Partners V	15,000,000	14,625,000	2,605,653	3,106,198	375,000	-14.9	8.8
Court Square Capital							
Citigroup Venture Capital Equity	100,000,000	79,614,537	36,341,776	101,141,146	20,385,463	28.0	5.3
Court Square Capital Partners II	100,000,000	7,121,768	5,238,559	1,060,206	92,878,232	N/A	0.6
Crescendo							
Crescendo III	25,000,000	25,000,000	1,473,985	9,321,908	0	-21.3	8.4
Crescendo IV	101,500,000	101,500,000	41,668,688	4,018,614	0	-16.6	7.1
CSFB/ DLJ							
DLJ Merchant Banking Partners III	125,000,000	117,904,967	74,626,619	136,428,548	7,095,033	19.3	6.5
DLJ Strategic Partners	100,000,000	86,893,888	40,304,603	107,282,810	13,106,112	23.3	6.2
CSFB Strategic Partners II-B	100,000,000	72,707,019	60,539,462	76,101,364	27,292,981	48.0	3.7
CSFB Strategic Partners III VC	25,000,000	11,707,951	13,764,894	876,508	13,292,049	28.8	1.8
CSFB Strategic Partners III-B	100,000,000	26,859,052	27,319,609	4,984,861	73,140,948	31.0	1.8
Diamond Castle Partners IV	100,000,000	33,797,891	29,248,931	287,251	66,202,109	N/A	0.6
DSV Partners IV	10,000,000	10,000,000	1,233,417	29,130,667	0	9.7	22.0
EBF Merced Partners II	75,000,000	0	0	0	75,000,000	N/A	0.0
Elevation Partners	75,000,000	23,685,852	21,920,285	183,204	51,314,148	-9.0	1.9
First Century Partners III	10,000,000	10,000,000	2,591	15,226,240	0	7.5	22.3
Fox Paine Capital Fund							
Fox Paine Capital Fund I	40,000,000	40,000,000	5,202,070	39,288,122	0	1.8	8.9
Fox Paine Capital Fund II	50,000,000	37,598,342	30,517,436	44,478,121	12,401,658	31.1	6.7

Minnesota State Board of Investment

- Alternative Investments -

As of March 31, 2007

Investment	Total Commitment	Funded Commitment	Market Value	Distributions	Unfunded Commitment	IRR %	Period Years
GHJM Marathon Fund							
GHJM Marathon Fund IV	40,000,000	39,051,000	9,958,101	44,201,952	949,000	8.2	8.0
GHJM Marathon Fund V	50,000,000	29,831,129	27,449,334	3,877,797	20,168,871	4.8	2.5
Golder,Thoma, Cressey, Rauner							
Golder, Thoma, Cressey & Rauner Fund III	14,000,000	14,000,000	178,389	78,123,015	0	30.9	19.4
Golder, Thoma, Cressey & Rauner Fund IV	20,000,000	20,000,000	50,952	41,949,783	0	25.0	13.2
Golder, Thoma, Cressey & Rauner Fund V	30,000,000	30,000,000	2,669,772	50,344,570	0	10.7	10.7
GS Capital Partners							
GS Capital Partners 2000	50,000,000	50,000,000	26,839,979	68,800,046	0	24.6	6.6
GS Capital Partners V	100,000,000	62,626,198	77,405,542	0	37,373,802	22.2	2.0
GS Capital Partners VI	100,000,000	3,000,000	3,000,000	0	97,000,000	N/A	0.2
GTCR Golder Rauner							
GTCR VI	90,000,000	90,000,000	27,060,261	72,435,621	0	3.2	8.7
GTCR VII	175,000,000	151,484,374	91,569,391	238,528,333	23,515,626	23.9	7.1
GTCR IX	75,000,000	4,232,519	4,049,958	0	70,767,481	N/A	0.7
Hellman & Friedman							
Hellman & Friedman Capital Partners III	40,000,000	32,113,684	222,832	72,594,844	0	34.4	12.5
Hellman & Friedman Capital Partners IV	150,000,000	133,967,494	110,630,321	239,419,866	16,032,506	35.3	7.2
Hellman & Friedman Capital Partners V	160,000,000	139,782,815	159,897,211	8,445,549	20,217,185	20.8	2.3
Hellman & Friedman Capital Partners VI	175,000,000	0	0	0	175,000,000	N/A	0.0
Kohlberg Kravis Roberts							
KKR 1987 Fund	145,950,000	145,373,652	3,825,288	395,130,030	0	8.7	19.4
KKR 1993 Fund	150,000,000	150,000,000	1,629,184	307,737,864	0	16.8	13.3
KKR 1996 Fund	200,000,000	200,000,000	56,998,432	302,377,222	0	13.2	10.6
KKR Millennium Fund	200,000,000	196,141,009	209,457,213	126,364,960	3,858,991	35.6	4.3
KKR 2006 Fund	200,000,000	20,201,528	17,116,528	2,037,824	179,798,472	N/A	0.5
Lexington Capital Partners VI-B	100,000,000	21,309,711	17,797,258	3,149,319	78,690,289	-2.9	1.3
RWI Ventures							
RWI Group III	616,430	616,430	293,179	259,070	0	N/A	0.8
RWI Ventures I	7,603,265	6,873,265	5,904,488	497,222	730,000	N/A	0.8
Sightline Healthcare							
Sightline Healthcare Fund II	10,000,000	10,000,000	2,234,389	4,190,002	0	-6.9	10.1
Sightline Healthcare Fund III	20,000,000	20,000,000	6,619,939	2,494,843	0	-14.8	8.2
Sightline Healthcare Fund IV	7,700,000	6,202,939	4,065,251	2,613,367	1,497,061	2.9	3.5
Silver Lake Partners							
Silver Lake Partners II	100,000,000	79,858,792	92,118,834	14,148,430	20,141,208	26.6	2.7
Silver Lake Partners III	100,000,000	0	0	0	100,000,000	N/A	0.0
Split Rock Partners	50,000,000	14,672,727	13,177,547	0	35,327,273	-12.2	1.9
Summit Partners							
Summit Ventures II	30,000,000	28,500,000	105,219	74,524,292	0	28.8	18.9
Summit Ventures V	25,000,000	23,875,000	2,467,259	28,586,179	1,125,000	7.0	9.0
T. Rowe Price	726,663,868	726,663,868	76,916,541	698,431,284	0	9.5	9.0

Minnesota State Board of Investment

- Alternative Investments -

As of March 31, 2007

Investment	Total Commitment	Funded Commitment	Market Value	Distributions	Unfunded Commitment	IRR %	Period Years
Thoma Cressey							
Thoma Cressey Fund VI	35,000,000	33,915,000	15,111,563	8,659,003	1,085,000	-6.1	8.6
Thoma Cressey Fund VII	50,000,000	44,855,000	28,073,582	42,453,874	5,145,000	27.9	6.6
Thoma Cressey Fund VIII	70,000,000	28,350,000	27,290,220	0	41,650,000	N/A	0.9
Thomas, McNerney & Partners							
Thomas, McNerney & Partners I	30,000,000	20,175,000	16,533,362	4,672,914	9,825,000	2.6	4.4
Thomas, McNerney & Partners II	50,000,000	5,000,000	4,337,845	0	45,000,000	N/A	0.7
Vestar Capital Partners							
Vestar Capital Partners IV	55,000,000	50,666,481	30,733,329	33,852,074	4,333,519	9.0	7.3
Vestar Capital Partners V	75,000,000	24,793,046	24,282,012	0	50,206,954	-3.7	1.3
Warburg Pincus							
Warburg, Pincus Ventures	50,000,000	50,000,000	3,332,603	251,389,008	0	49.2	12.2
Warburg Pincus Equity Partners	100,000,000	100,000,000	27,371,362	125,734,394	0	10.2	8.8
Warburg Pincus Private Equity VIII	100,000,000	100,000,000	112,218,033	40,708,735	0	17.1	5.0
Warburg Pincus Private Equity IX	100,000,000	59,005,208	61,998,751	1,104,000	40,994,792	8.3	1.7
Wayzata Opportunities Fund	100,000,000	79,801,778	82,191,351	5,840,887	20,198,222	10.7	1.3
Welsh, Carson, Anderson & Stowe							
Welsh, Carson, Anderson & Stowe VIII	100,000,000	100,000,000	74,780,258	44,094,800	0	2.6	8.7
Welsh, Carson, Anderson & Stowe IX	125,000,000	116,250,000	107,705,528	74,097,302	8,750,000	14.4	6.8
Welsh, Carson, Anderson & Stowe X	100,000,000	29,578,466	28,962,169	0	70,421,534	-2.0	1.3
Zell/ Chilmark	30,000,000	30,000,000	33,455	77,129,496	0	17.7	16.7
Private Equity Total	6,483,033,563	4,598,098,839	2,497,923,862	4,712,320,176	1,871,043,250		

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PRIVATE EQUITY MANAGER SUMMARY PROFILE

I. Background Data

Name of Fund:	Court Square Capital Partners II, LP
Type of Fund:	Private Equity Limited Partnership
Total Fund Size:	$3.0 billion
Fund Manager:	Court Square Capital GP, LLC 399 Park Avenue, 14th Floor New York, NY 10022
Manager Contact:	David Thomas Tel: 212 559 1119

The SBI made an initial investment in Court Square Capital Partners II, LP in July 2006 of $100 million. Since then, Court Square has successfully spun-out from Citigroup and broadened their investor base from the prior fund. As fundraising for Court Square Capital Partners II, LP comes to an end in July 2007, Court Square has offered the SBI the opportunity to increase their commitment before the final fund closing.

II. Organization and Staff

Court Square Capital GP, LLC, was formed as an independent spinout from, and successor to, Citigroup Venture Capital. The partners of Court Square had operated autonomously as Citigroup Venture Capital since 1979. Going forward, Court Square will continue to manage certain investments of Citigroup including Citigroup Venture Capital Equity Partners, L.P. (Fund I).

Court Square's five managing partners include: William T. Comfort; David F. Thomas; Thomas F. McWilliams; Michael A. Delaney and Joseph Silvestri. In addition to the managing partners, the firm's senior investment team also includes an additional eight partners. Overall, the 13 partner investment team has worked together, on average, for 14 years. Additional staff includes 9 other investment professionals and 16 support staff.

III. Investment Strategy

Court Square intends to continue to apply the same investment strategy that the investment team has successfully employed in Fund I and refined over the last three decades. Under this strategy, the investment team seeks to identify and invest primarily in U.S.-based middle-market companies capable of generating earnings growth in excess of either their underlying industry or their historical performance. Typically, these businesses possess some, if not all, of the following characteristics: unrecognized or untapped revenue potential; unrealized and sustainable cost reduction opportunities; and availability of highly accretive acquisitions.

The investment team believes that companies with such characteristics frequently represent attractive investment opportunities as their valuations are often driven by historical performance and, thus, reflect a discount to their true growth potential. By demonstrating improved earnings growth, Court Square believes it can improve exit valuations, broaden the universe of potential buyers and/or create the scale necessary to successfully exit through an initial public offering.

Court Square believes that it enjoys a strong competitive advantage with respect to sourcing and execution primarily as a result of the following factors: (1) the investment team's vast network developed over three decades of sponsoring middle market buyouts; (2) the investment team's recognized expertise in certain focus industries; and (3) the investment team's reputation for capitalizing on investments which involve business or transaction-related complexities.

Upon consummation of an investment, Court Square seeks to aggressively capitalize on the business's growth opportunities identified in the due diligence process. The investment team works in strong partnership with portfolio company management to focus on, among other things, developing and promoting revenue growth, improving operating efficiencies, establishing key financial and operating metrics, recruiting and retaining top-level employees and pursuing accretive acquisitions. Court Square has a proactive management approach, which typically includes exerting significant control over companies.

Finally, Court Square typically creates an equity incentive program for each of its portfolio company management teams. Such a program allows portfolio company managers to share in their company's value creation, thereby aligning their interests with those of the fund's investment professionals and the fund's limited partners.

IV. Investment Performance

Previous fund performance as of December 31, 2006 for principals of Court Square Capital Partners is shown below:

Fund Name	Inception Date	Total Capital Commitments (millions)	SBI Investment (millions)	Net IRR from Inception
Principals' investments prior to the formation of Citigroup Venture Capital Equity Partners, L.P.	1990	1,458	-	24%
Citigroup Venture Capital Equity Partners, L.P.	2001	$2,600	$100	29.5%

Previous fund investments may be relatively immature and therefore, returns may not be indicative of future results.

V. General Partner's Investment

The general partner intends to contribute one hundred fifty million dollars.

VI. Takedown Schedule

Takedown of investor commitments will be payable when called on 10 business days advance notice by the general partner (or such shorter notice as may be determined by the general partner, but in no event less than five business days).

VII. Fees

Management fees will be 1.5% of the aggregate commitments until the expiration of the commitment period, and thereafter 1.0% of unreturned capital and commitments reserved for follow-on investments. 80% of net portfolio company fees will be applied as an offset to the management fee. The fund will bear offering and organizational expenses up to $2,000,000.

VIII. Allocation and Distributions

In general, 100% to all partners until: (i) return of all previously contributed capital for realized or written down investments (including management fees and other partnership expenses) and; (ii) payment of the 8% preferred return - thereafter, 80% to all partners and 20% to the general partner, after 100% "catch-up" for the general partner.

IX. Investment Period and Term

The investment period for the fund is 5 years from the final closing. The term of the fund is 10 years from final closing, subject to extension for up to three additional one-year terms.

Document File Name:
1Q 2007 Meeting Materials

SBI Domestic Equity Program Review
Stock & Bond Committee
June 5, 2007

ATTACHMENT A

SBI Domestic Equity Program Review

June 5, 2007 - Investment Advisory Council

Domestic Equity Program Review
Discussion Outline

- Executive Summary
  - Current Structure
  - Recent Manager Changes
  - Recommendation

- 2006 Performance
  - Performance: Current Structure
  - Review 2006 Market Dynamics
  - Assessment and Implications for Program Structure

- Program Review
  - Role of Domestic Equity relative to Total Fund
  - Philosophy: Sources of Risk and Return
  - Objectives: Risk and Return
  - Performance: Current Structure

- Future topics for Review
  - Implementation Process
  - Reporting

Domestic Equity Program Review
Executive Summary

- Current Structure
  - Asset Class Target is Russell 3000 as reported.
  - Style bias risk control achieved via allocation to published Russell indices.
    - Current indices used are R1000, R1000 Growth, R1000 Value, R2000 Growth, R2000 Value.
    - Custom Dynamic Completeness Fund benchmark process is available if necessary to control misfit risk.
  - Active risk is managed and controlled through allocations to Active, Semi-Passive and Passive components.
    - Weight of each component ranges from 25% to 40% of Domestic Equity program.
  - Benchmarks
    - Each manager is assigned one of 5 published Russell indices used for style bias control.
      - Passive manager is assigned Russell 3000.
      - Semi-passive managers are assigned Russell 1000.
      - Active managers are assigned Russell 1000, 1000 Growth, 1000 Value , 2000 Growth, 2000 Value as appropriate.

Domestic Equity Program Review
Executive Summary Cont'd

- Recent Manager changes
  - Passive manager and semi-passive managers (3) have been in place since 1995.
  - Currently have 26 active managers.
    - Since Dec 2003: Hired 17 new managers and fired 8 managers (two were newly hired).
    - New managers were hired to achieve adequate style box representation and diversification.

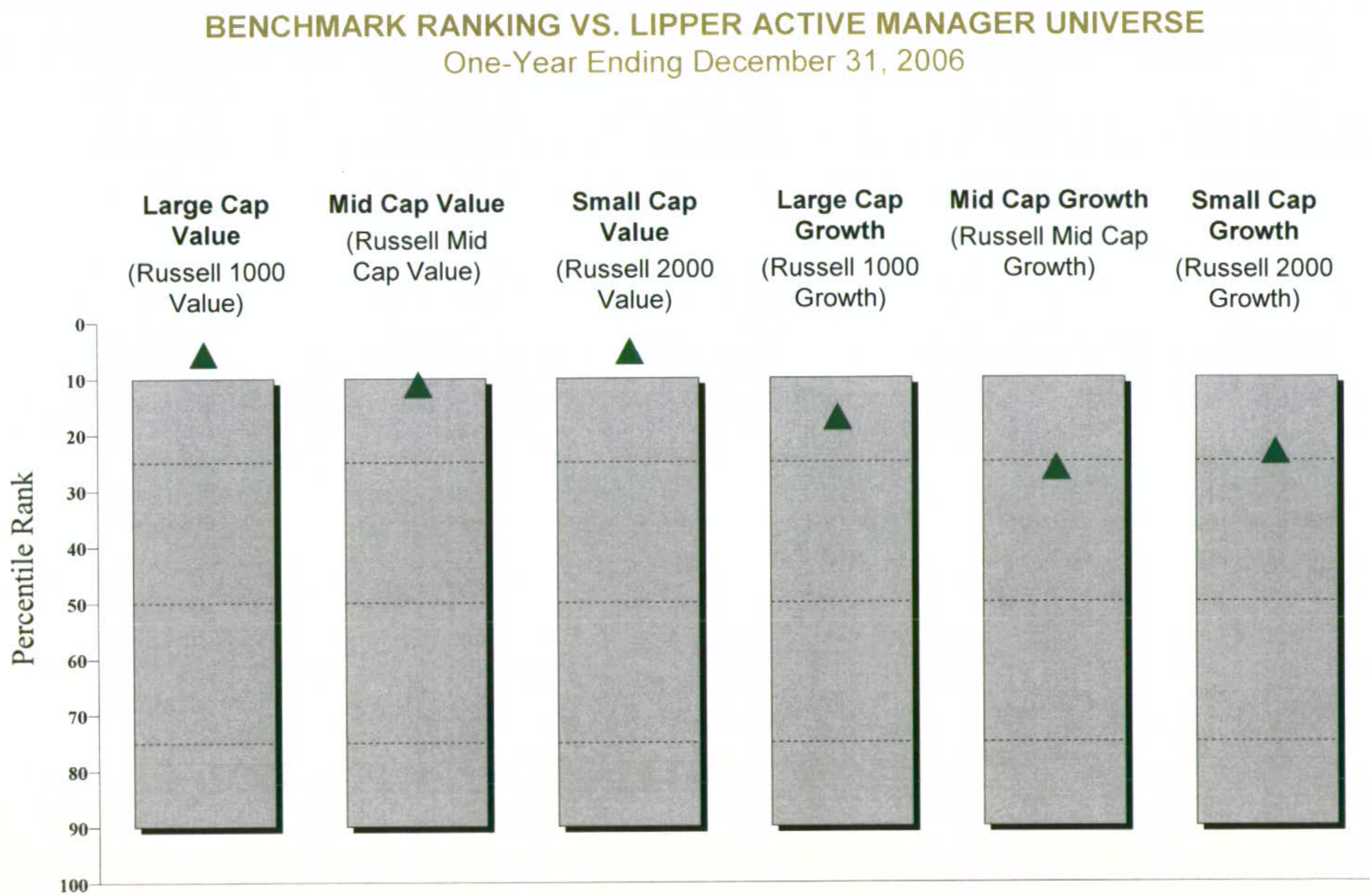
- Recommend no changes to program structure at this time.
  - Recommendations regarding individual managers will continue to be made as appropriate.

Domestic Equity Program Review
Performance: Current Structure

	Calendar Year Return			Annualized 3 Yrs Period Ended 12/31/2006	
	2006	**2005**	**2004**	**Return**	**Risk**
Total Domestic Equity					
Value-Added (Actual vs Aggr Bnmk)	-1.07	0.17	0.21	-0.23	0.54
Misfit (Aggr Bnmk vs Target)	-0.04	0.00	-0.06	-0.04	0.04
Excess (Actual vs Target)	-1.11	0.17	0.14	-0.27	0.53
Value-Added of Components					
Active	-3.75	0.51	0.12	-1.06	1.31
Semi-Passive	0.56	-0.05	0.28	0.26	0.60
Passive	0.04	0.05	0.04	0.04	0.07
Total Domestic Equity					
Actual	14.43	6.29	12.11	10.89	7.71
Aggregate Bnmk	15.67	6.12	11.88	11.15	7.56
Target	15.71	6.12	11.95	11.19	7.58

Domestic Equity Program Review
Calendar Year 2006

- **Lipper Active Manager Universe (mutual fund data)**
  - **Russell index returns used in Active Component each ranked in the top quartile.**
  - **Passive investments outperformed the majority of active managers in 2006.**



Domestic Equity Program Review
Calendar Year 2006: Manager Survey

SBI managers were surveyed regarding 2006 - common themes included:

- Investors' high appetite for risk
  - Companies that were less profitable with less expected earnings growth and lower quality were the strongest performers.
  - A bias toward earnings growth detracted.
- Robust M&A and private equity activity
  - Caused many companies with negative earnings and poor fundamentals not to decline in price. Active managers that avoided companies with poor fundamentals saw many of those companies rise in price within the benchmark.
- Sector rotation was high – difficult for long term oriented strategies
  - Technology and health care were worst performers in 2Q, then best performers 3Q.
  - Energy, specifically oil service, was best performer in 2Q, and worst in 3Q.
  - 2005 winners experienced correction in early 2006.
  - Traditional growth sectors underperformed.
    - Health care, technology, consumer discretionary
    - Particularly difficult environment for large cap growth strategies

Domestic Equity Program Review
Calendar Year 2006: Manager Survey Continued

- ETF growth
  - ETFs grew from $100B to $300B.
  - Some research suggests that investors sold active mutual funds and bought passive investments, including ETFs. If true, this would pressure actively managed stocks, while increasing prices for benchmark stocks.
  - Discussions with BGI, creator of Russell iShares, suggest that the ETF impact may be overstated.
  - Use of small cap ETFs may be creating more transparency and liquidity in small cap space. This would result in a more efficient small cap market and a head wind for active small cap managers.

- Momentum
  - Worst performing risk factor
  - SBI Aggregate Active Managers have been overweight momentum since 2000.

- REITs outperformed
  - REITs were among best performing stocks.
  - SBI Managers in aggregate were underweight REITs
    - Many traditional active stock managers choose not to own REITs, as they do not have a competency in covering the real estate market.
    - Those managers that do cover REITS tended to be underweight in 2006 due to concerns that the industry was overvalued.

Domestic Equity Program Review
Calendar Year 2006: SBI Specific Issues

- SBI Restrictions
  - Asset Class Target and benchmarks are not adjusted for SBI imposed investment restrictions (current restrictions include tobacco related companies).
  - Relative impact from SBI restrictions was 12 bps for the five years (annualized) ending 12/31/2006.
  - 2006 relative impact was 7 bps.

- Russell Reconstitution
  - Russell indices have been rebalanced annually on the last Friday in June.
  - Arbitragers anticipate index changes, causing short term price impacts at month/quarter end.
    - Short names ahead of the recon that will be deleted, knowing that passive managers must sell them.
    - Buy names ahead of the recon that will be added, knowing that passive managers must buy them.

Domestic Equity Program Review
Calendar Year 2006: SBI Specific Issues Cont'd

- Russell Reconstitution Cont'd
  - Names dropping out of the Russell indices are expected to underperform 5/31 to Reconstitution date, and the added names are expected to outperform.
    - 2006
      - Russell 1000 names behaved as expected – deletes lost 4.59% and additions gained 3.90%.
      - In small caps, the opposite happened – Russell 2000 deletes gained 2.55% and additions lost 4.80%.
  - 2006 rebalance incurred larger than usual impacts:
    - Last Friday in June was also the last trading day before the July 4th holiday weekend.
    - The FOMC met 6/29/06; increased rates by 25 bps, but sent a strong signal that future increases were on hold. The market rallied on the news heading into the reconstitution, increasing volatility in a lower liquidity market.
  - Russell announced changes to timing and process for the 2007 reconstitution should help reduce return impact.

Domestic Equity Program Review
Calendar Year 2006: Assessment

- **Total Domestic Equity Program: Annualized Active Risk (StdDev) is 1.14***
  - While extremely disappointing, 2006 performance is within the expected outcome distribution implied by this risk level.

- **Aggregate Active Managers: Annualized Active Risk (StdDev) is 2.55***
  - 2006 underperformance falls within 2 standard deviations. While disappointing, this is within the expected outcome distribution.

* Measured over 10-year period.

Domestic Equity Program Review
Role of Domestic Equity

- Current Policy target is 45% for Domestic Equity (Basics and Post).
  - US equity market provides attractive risk and return trade off relative to other asset classes.
  - US equity program is the investment choice for unallocated dollars within the Alternative program.
    - The actual allocation to US Equity is 45% plus the difference between the actual market value of the alternative investments and the target – 15% for Basics, 12% for Post.
    - Currently the combined target allocation to US equity is 49.32% (2/28/07).

- 2003 Asset Allocation Assumptions: US Equity
  - Historically the Domestic Equity program has provided the largest source of return to the SBI with the commensurate amount of risk.
  - Based on the 2003 Asset Allocation study, the Domestic Equity program continues to be the largest source of expected return for the total fund.
    - Basics Total Fund: annual expected return 8.98%, annual expected risk ±12.38
    - Post Total Fund: annual expected return 8.60%, annual expected risk ±11.57
    - Domestic Equity Only: annual expected return 9.25%, annual expected risk ±17.00

- ***Given that the SBI has a long term investment horizon, it can sustain short-term variability of returns.***

Domestic Equity Program Review
SBI Philosophy

- **The entire Domestic Equity Program assets are managed in a risk-controlled manner relative to the Asset Class Target.**
  - Semi-passively manage a portion of the Domestic Equity Program to achieve a small amount of relative outperformance while assuming a relatively low level of active risk (1-3%).
  - Due to size of SBI assets, passively manage a portion of Domestic Equity Program to efficiently implement the overall allocation to equities with minimal fees and expenses.
    - Passive management is expected to underperform a published index due to fees and expenses.

- **The role of active management is to add value, net of fees and expenses.**
  - The average active manager has an additional performance hurdle due to the impact of fees and transaction costs.
  - Superior value added managers that outperform do exist.
    - Value added managers are a scarce resource.
    - They are difficult to identify and manage.
  - Actively manage a portion of the Domestic Equity Program for the potential to earn back Program fees and expenses, plus earn additional return.
    - “A tie is a win” – net of fees and expenses.

Domestic Equity Program Review
SBI Philosophy: Sources of Risk & Return

- **Systematic (Beta)**
  - SBI allocation to Domestic Equities will be fully invested at all times.
  - SBI expects to earn the market return and experience market level risk.
  - This is the passive implementation alternative.
    - Passive management is expected underperform a published index due to fees and expenses.

- **Style Bias (Misfit)**
  - Aggregate program is structured to neutralize style bias relative to asset class target.
  - SBI seeks to minimize this risk as it does not expect to be compensated for taking style bets relative to the asset class target.

- **Active Risk (Skill)**
  - SBI expects to earn incremental return from active management.
    - Actual returns are expected to exceed benchmarks.
  - SBI has exhibited limited risk tolerance for active risk.
  - SBI expects to pay higher fees to active managers.

Returns are measured net of fees and expenses.

Domestic Equity Program Review
SBI Risk & Return Objectives

- Total Domestic Equity Program Return
  - Match or exceed return of Asset Class Target
  - ***Net of fees and expenses***

- Total Domestic Equity Program Risk*
  - Systematic Risk: Match risk level of the Asset Class Target
  - Style Risk: Minimize risk associated with style bias (misfit risk) – 0-50 bps
  - Active Risk: Limited exposure to total active risk - approximately ± 1.

Public Master Fund Trusts - Assets > $1 B Provided by State Street –gross of fees 29 observations Period ending December 31, 2006	**5 Year Annualized Tracking Error**
Maximum	9.44
25th Percentile	3.28
50th Percentile	2.23
75th Percentile	1.18
Minimum	0.31
MN Domestic Equity Total	**0.65**

*** Risk is measured in terms of tracking error – annualized standard deviation of excess returns.**

Domestic Equity Program Review
Issues for Further Review

- **Implementation Process**
  - Risk Control: Systematic, Misfit, Active
    - Allocation of assets within the Domestic Equity Program
      - Within and across Program components (active, semi-passive & passive)
      - Within and across active component style categories
    - Benchmark Quality
    - Diversification of managers within each style area
  - Manager Search Process
  - Manager Continuation Policy

- **Reporting**
  - Focus on total program and long-term results of current program
    - Relative to Risk and Return objectives
    - De-emphasize individual manager short term results