MINNESOTA STATE BOARD
OF INVESTMENT
MEETING
September 6, 2006

&

INVESTMENT ADVISORY
COUNCIL MEETING
September 5, 2006

STATE BOARD OF INVESTMENT

AGENDA AND MINUTES

June 7, 2006

AGENDA
STATE BOARD OF INVESTMENT MEETING
Wednesday, September 6, 2006
9:00 A.M. - Room 123
State Capitol – St. Paul

		TAB
1.	**Approval of Minutes of June 7, 2006**	
2.	**Report from the Executive Director (Howard Bicker)**	**A**
	A. Quarterly Investment Review (April 1, 2006 – June 30, 2006)	
	B. Administrative Report	**B**
	1. Reports on budget and travel	
	2. Litigation Update	
3.	**Report from the Consultant Review Committee (Carla Heyl)**	**C**
4.	**Reports from the Investment Advisory Council (Mike Troutman)**	
	A. Stock and Bond Manager Committee	**D**
	1. Review of manager performance	
	2. A review of RiverSource Investments, international equity manager	
	B. Alternative Investment Committee	**E**
	1. Review of current strategy	
	2. Recommendation with one existing private equity manager, and one new private equity manager: • Goldman Sachs • Diamond Castle	

Minutes
State Board of Investment
June 7, 2006

The State Board of Investment (SBI) met at 9:00 A.M. Wednesday, June 7, 2006 in Room 123 State Capitol, St. Paul, Minnesota. Governor Tim Pawlenty; State Auditor Patricia Anderson, Secretary of State Mary Kiffmeyer and Attorney General Mike Hatch were present. The minutes of the March 8, 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 March 31, 2006 (Combined Funds 9.0% vs. Composite 8.6%), and had provided a real rate of return over the latest 20 year period (Combined Funds 10.0% vs. CPI 3.0%). He stated that the Basic Funds have outperformed its composite index (Basic Funds 9.2% vs. Composite 8.9%) over the last ten years and reported that the Post Fund had also outperformed its composite over the last ten-year period (Post Fund 8.7% vs. Composite 8.3%).

Mr. Bicker reported that the Basic Fund's assets increased 4.6% for the quarter ending March 31, 2006 due to positive investment returns. He said that the asset mix is essentially on target. He reported that the Basic Funds outperformed its composite index for the quarter (Basic Funds 4.7% vs. Composite 4.6%) and for the year (Basic Funds 15.7% vs. Composite 15.4%).

Mr. Bicker reported that the market value of the Post Fund's assets increased 3.0% for the quarter ending March 31, 2006, also due to positive investment returns. He noted that the Fund had negative contributions for the quarter. 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 4.6% vs. Composite 4.5%) and for the year (Post Fund 15.2% vs. Composite 14.6%).

Mr. Bicker reported that the domestic stock manager group underperformed its target for the quarter (Domestic Stock 5.1% vs. Domestic Equity Asset Class Target 5.3%) and outperformed it for the year (Domestic Stocks 14.4% vs. Domestic Equity Asset Class Target 14.3%). He said the International Stock manager group outperformed its composite index for the quarter (International Stocks 10.0% vs. International Equity Asset Class Target 9.7%) and for the year (International Stocks 27.9% vs. International Equity Asset Class Target 27.6%). Mr. Bicker stated that the bond segment outperformed its target for the quarter (Bonds -0.4% vs. Fixed Income Asset Class Target -0.6%) and for the year (Bonds 2.7% vs. Fixed Income Asset Class Target 2.3%). He noted that the alternative investments had also performed strongly for the quarter (Alternatives 6.8%) and for the year (Alternatives 38.9%). He concluded his report with the comment that as of March 31, 2006, the SBI was responsible for over $54 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.

Mr. Bicker briefly updated members on legislative items that are of interest to the SBI in the 2006 Legislative Session. He stated that a bill relating to the merger of the Minneapolis Teachers Plan into the State's Teachers Retirement Association has been signed into law. He noted that any assets would be absorbed by the SBI by June 30, 2006. Mr. Bicker stated that the bill giving the SBI some additional budget flexibility had passed along with legislation regarding a 5% cap on Post Retirement Fund benefit increases. He stated that legislation also passed giving first class city teacher plans the ability to invest in certain investment options offered by the SBI. He noted that they will not be eligible to participate in the alternative investment pool due to legal reasons. Mr. Bicker reported that the bill having the SBI be an investment vehicle for certain Post Retirement Health liabilities did not pass and that a bill pertaining to Minnesota venture capital also had no action during the 2006 session.

Mr. Bicker asked Christie Eller, Assistant Attorney General, to update members on the status of litigation. She said that proofs of claims have been submitted to AOL and that the appeal deadline had expired last week.

Mr. Bicker reported that the shareholder resolution submitted to Wyeth regarding access to drugs from Canada received support from 25.5% of total votes cast.

SBI Administrative Committee

Mr. Sausen referred members to Tab C of the meeting materials and stated that the Committee had five recommendations for the Board's consideration. He briefly reviewed the Executive Director's Proposed Workplan for FY07. In response to a question from Governor Pawlenty, Mr. Bicker clarified that the recommendations could be approved as a group if the Chair so desired. Mr. Sausen continued by reviewing the second recommendation regarding the SBI's Budget Plan for FY07. He noted that the Legislature had approved the change in the SBI's budget process, and he briefly reviewed the revised budget figures listed on page 7 of Tab C of the meeting materials. Mr. Sausen stated that the third recommendation is to approve the Continuing Fiduciary Education Plan, and he noted that under the plan each Board member is allocated $2,500 for travel to investment related seminars or conferences related to the SBI. He stated that the fourth recommendation is to approve the Executive Director's Evaluation Process, and he noted that the recommendation is to continue with the same process that has been in place and to use Mr. Bicker's FY06 workplan as the basis for the review. Mr. Sausen stated that Ms. Vanek, Executive Director of PERA and Chair of the Compensation Review Committee would make the presentation pertaining to the Annual Salary Administration.

Ms. Vanek thanked members on behalf of the three statewide retirement boards for their support of the SBI's modified budget process and new compensation plan. She stated that the Compensation Review Committee is recommending that a 2% salary increase for staff salaries for those who are covered by the new plan for FY07. She noted that this increase is in line with that allowed by the Managerial Plan for other non-represented state employees. Ms. Anderson moved approval of all five of the Committee's recommendations, as stated in the Committee Report, which reads: "**The Committee recommends that the SBI approve the FY07 Executive Director's Workplan. Further, the Committee recommends that the workplan serve as the basis for the Executive Director's performance evaluation for FY07.**

If the proposed legislation to change the SBI budget procedure is enacted, the Committee recommends that the SBI approve the revised FY07 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.

If the proposed legislation is not enacted, the Committee recommends that the SBI approve the FY07 Administrative Budget Plan As Appropriated, 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.

The Committee recommends that the SBI adopt the following process for the Executive Director's FY06 performance evaluation:

- **The evaluation will be completed prior to the September 2006 meeting of the SBI and will be based on the results of the Executive Director's workplan for FY06.**

- **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.**

The Compensation Review Subcommittee recommends that the SBI grant approval authorizing the Executive Director to grant salary increases to non-represented unclassified employees covered by the SBI Salary Administration Plan up to 2.0% in aggregate salaries for Fiscal Year 2007."

Stock and Bond Manager Committee Report
Mr. Troutman referred members to Tab D of the meeting materials and briefly reviewed the performance of the various asset classes. He stated that the Committee had also conducted a review during the quarter of Oppenheimer Capital Management, a domestic equity manager. He noted that the firm's long term performance for the SBI has been good but that recent returns had been below expectations due to an incorrect bet they had

made on the energy sector of the market. He said that the Committee decided to take no action at this time, but that close monitoring of the firm would continue.

Alternative Investment Committee Report

Mr. Troutman referred members to Tab E of the meeting materials and stated that the Committee is recommending new investments with one existing real estate manager, TA Associates Realty; two existing private equity managers, KKR Associates and GTCR Golder Rauner; and one existing resource manager First Reserve. He briefly described each proposed investment, and Ms. Kiffmeyer moved approval of all four of the Committee 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 The Realty Associates Fund VIII. 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 TA Associates Realty 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 TA Associates Realty 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 $200 million or 20%, whichever is less, in KKR 2006 Fund, 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 KKR Associates 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 KKR Associates 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 GTCR Fund IX, 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 GTCR Golder Rauner 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 GTCR Golder Rauner 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 $150 million or 20%, whichever is less, in First Reserve Fund XI, 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 First Reserve 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 First Reserve or reduction or termination of the commitment." The motion passed.

IAC Governance Review Task Force

Mr. Troutman referred members to Tab F of the meeting materials and briefly discussed the process used by the Task Force in completing the IAC Governance Review as presented in Tab F. He reviewed the assumptions on which the recommendations were predicated, and he noted the proposed revision to the mission statement. Mr. Troutman presented each of the findings and recommendations to members. Mr. Hatch thanked members of the IAC for their dedication in general and for taking on the governance review. Mr. Hatch noted the recommendation pertaining to liabilities and commented that the IAC should not feel responsible for any underfunding issues or feel pressure to assume a higher or inappropriate level of risk in order to help reduce the underfunded level of a plan. In response to a question from Mr. Hatch, Mr. Troutman stated that the IAC has not discussed the issue of public funds becoming involved in the recruitment of directors at public companies. He also said that the issue falls more under the proxy voting committee's area than that of the IAC and that it would be a major undertaking for the SBI. Mr. Bicker agreed.

Ms. Kiffmeyer also expressed her thanks to the IAC and said she appreciates the tremendous amount of time IAC members devote voluntarily. A discussion followed on the differences between generalists versus specialized areas of expertise by current and potential members.

Mr. Hatch moved approval of all the Governance Review Task Force recommendations and the revised mission statement, as presented in Tab F. The motion passed. The findings and recommendations as approved by the Board are attached as **Attachment A**.

The meeting adjourned at 10:50 A.M.

Respectfully submitted,

Howard Bicker

Howard Bicker
Executive Director

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Findings and Recommendations
Investment Advisory Council
Ad hoc Governance Review Task Force
April 12, 2006

Recommendations are predicated on the following assumptions

- No changes to the legislative statute that creates and defines the IAC.
- The current level of professionalism and investment sophistication at the SBI staff will be maintained or improved.
    - The legislature will take the necessary actions to enhance the compensation structure that allows adequate professional staffing of the SBI investment staff.
    - The budget process will be adjusted to appropriately reflect the source of funding.
- The deputies of the SBI principals are encouraged to attend the Alternative Investment and Stock & Bond Committee meetings, as well as the full IAC meetings. These committee meetings are the best forums for information on both investment policy and implementation issues.

Findings and Recommendations

Mission Statement

Findings: Strong affirmation that the current mission is appropriate and that there is a continued need for the existence of the IAC and its independent and expert review of investment issues, given the lay nature of the SBI Principals.

Recommendations:

- Publish the mission statement of the IAC in the annual report of the SBI. Suggested Language:

Mission Statement:

The IAC fulfills its statutory duty to the SBI by providing advice and independent due diligence review of the investment policy and implementation recommendations that guide the SBI's investment of assets.

Roles and Responsibilities

Findings: The IAC can best fulfill its advisory responsibilities by focusing more of its time and attention on investment policy issues and less time and attention on implementation issues. Modifications to the current manager search process and performance reporting will facilitate an increased focus on investment policy issues.

Recommendations:

- IAC shall gain a better understanding of the nature of the liabilities associated with retirement assets entrusted to the SBI. Presentations to the IAC by the retirement fund directors on their respective pension programs will be a primary source for this education.

- More time of the IAC meetings should be devoted to important investment policy issues. The chair of the IAC to will work with staff to develop agendas for upcoming meetings.

- The manager search process should become a part of the Stock & Bond committee responsibilities. Staff will conduct a thorough due diligence process and submit final candidates to the Stock & Bond Committee for final recommendations to the IAC. Discontinue the use of special manager search committees.

- The Minnesota statute covering the roles and responsibilities of the IAC shall be circulated annually to the members of the IAC.

Consultant Role

Findings: The role of an outside investment consultant continues to be valued. Currently, the consultant provides objective review of policy and implementation to the SBI principals through one-on-one meetings and provides investment expertise and resources to the staff. The consultant role should be expanded to include a more active participation in policy discussions at IAC meetings.

Recommendations:

- Encourage the SBI's consultant to participate at IAC meetings.

IAC Structure

Findings: The structure of the IAC sub committees should be consistent with the roles and functions assigned to each. At present, the roles of the Stock and Bond committee and the Alternative committee are different as they pertain to manager selection.

Recommendations:

- Eliminate the manager search committees.

- Transfer the manager search responsibilities to the Stock and Bond committee. With this change, the functions of the Stock and Bond and Alternative committees shall be similar.

Membership

Findings: The statute provides for a total of seventeen (17) IAC members. Ten (10) members are to be investment professionals from the local community. The most desirable candidates for the ten (10) investment professional members should have broad investment knowledge and experience across all asset classes.

Recommendations:

- The ten (10) investment professional members should be generalists with broad investment knowledge across asset classes. Local plan sponsors are a primary source for potential IAC members.

Candidate Members Solicitation Process

Findings: The existing investment professional members should be encouraged to provide ideas for and input on potential new members.

Recommendations:

- Executive Director shall solicit ideas from IAC members as part of the process for identifying candidate members to be recommended for Board approval.

Attendance and Removal Policy

Findings: Section 15.059 in statute defines attendance and member removal policy.

Recommendations:

- Section 15.059 states that the chair of the advisory council shall inform the appointing authority of a member missing three consecutive meetings.
- Communicate attendance expectations clearly to IAC members as contained in section 15.059.
- Participation by videoconferencing will be considered as attendance at an IAC or committee meeting.
- Charge the vice-chair of the IAC with the responsibility to see that members are notified after they have missed two consecutive council or committee meetings.

IAC Governance Review Process

Findings: Formal and informal reviews of efficiency and effectiveness are an important component of good governance practices.

Recommendations:

- A governance review should be scheduled every 5 to 10 years unless significant events warrant an adhoc review.
- The IAC shall annually assess the perspectives and suggestions of its members.

INVESTMENT ADVISORY COUNCIL

AGENDA AND MINUTES

June 6, 2006

AGENDA
INVESTMENT ADVISORY COUNCIL MEETING
Tuesday, September 5, 2006
2:00 P.M. - Board Room – First Floor
60 Empire Drive, St. Paul, MN

	TAB
1. Approval of Minutes of June 6, 2006	
2. Election of IAC Chair and Vice Chair	
3. Report from the Executive Director (Howard Bicker)	**A**
A. Quarterly Investment Review (April 1, 2006 – June 30, 2006)	
B. Administrative Report	**B**
1. Reports on budget and travel	
2. Litigation Update	
4. Report from the Consultant Review Committee (Carla Heyl)	**C**
5. Reports from the Investment Advisory Council	
A. Stock and Bond Manager Committee (Doug Gorence)	**D**
1. Review of manager performance	
2. A review of RiverSource Investments, international equity manager	
B. Alternative Investment Committee (Judy Mares)	**E**
1. Review of current strategy	
2. Recommendation with one existing private equity manager, and one new private equity manager:	
• Goldman Sachs	
• Diamond Castle	
6. Discussion of Future Topics (Mike Troutman)	

Minutes
Investment Advisory Council
June 6, 2006

MEMBERS PRESENT:	Frank Ahrens; Dave Bergstrom; John Bohan; Doug Gorence; Laurie Hacking; Heather Johnston; Hon. Ken Maas; Malcolm McDonald; Gary Norstrem; Daralyn Peifer; Mike Troutman; Mary Vanek.
MEMBERS ABSENT:	Kerry Brick; Peggy Ingison; P. Jay Kiedrowski; and Judy Mares.
SBI STAFF:	Howard Bicker; Mansco Perry; Jim Heidelberg; Tammy Brusehaver-Derby; Susan Sutton; John Griebenow; Andy Christensen; Debbie Griebenow; Carol Nelson; and Charlene Olson.
OTHERS ATTENDING:	Ann Posey, Richards & Tierney; Christie Eller; Peter Sausen; Carla Heyl; Peter Sausen; Jerry Irsfeld, John Fisher, Bob Heimerl, Dale Hanke, REAM; and Jack Hill Private Citizen.

The Investment Advisory Council (IAC) met at 1:00 P.M. Tuesday, June 6, 2006 in the Board Room, First Floor, 60 Empire Drive, St. Paul, Minnesota. The minutes of the March 7, 2006 and April 28, 2006 IAC meetings 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 March 31, 2006 (Combined Funds 9.0% vs. Composite 8.6%), and had provided a real rate of return over the latest 20 year period (Combined Funds 10.0% vs. CPI 3.0%). He stated that the Basic Funds have outperformed its composite index (Basic Funds 9.2% vs. Composite 8.9%) over the last ten years and reported that the Post Fund had also outperformed its composite over the last ten-year period (Post Fund 8.7% vs. Composite 8.3%).

Mr. Bicker reported that the Basic Fund's assets increased 4.6% for the quarter ending March 31, 2006 due to positive investment returns. He said that the asset mix is essentially on target. He reported that the Basic Funds outperformed its composite index for the quarter (Basic Funds 4.7% vs. Composite 4.6%) and for the year (Basic Funds 15.7% vs. Composite 15.4%).

Mr. Bicker reported that the market value of the Post Fund's assets increased 3.0% for the quarter ending March 31, 2006, also due to positive investment returns. He noted that the Fund had negative contributions for the quarter. 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 4.6% vs. Composite 4.5%) and for the year (Post Fund 15.2% vs. Composite 14.6%).

Mr. Bicker reported that the domestic stock manager group underperformed its target for the quarter (Domestic Stock 5.1% vs. Domestic Equity Asset Class Target 5.3%) and outperformed it for the year (Domestic Stocks 14.4% vs. Domestic Equity Asset Class Target 14.3%). He said the International Stock manager group outperformed its composite index for the quarter (International Stocks 10.0% vs. International Equity Asset Class Target 9.7%) and for the year (International Stocks 27.9% vs. International Equity Asset Class Target 27.6%). Mr. Bicker stated that the bond segment outperformed its target for the quarter (Bonds -0.4% vs. Fixed Income Asset Class Target -0.6%) and for the year (Bonds 2.7% vs. Fixed Income Asset Class Target 2.3%). He noted that the alternative investments had also performed strongly for the quarter (Alternatives 6.8%) and for the year (Alternatives 38.9%). He concluded his report with the comment that as of March 31, 2006, the SBI was responsible for over $54 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.

Mr. Bicker briefly updated members on legislative items that are of interest to the SBI in the 2006 Legislative Session. He stated that a bill relating to the merger of the Minneapolis Teachers Plan into the State's Teachers Retirement Association has been signed into law. He noted that any assets would be absorbed by the SBI by June 30, 2006. Mr. Bicker stated that the bill giving the SBI some additional budget flexibility had passed along with legislation regarding a 5% cap on Post Retirement Fund benefit increases. He stated that legislation also passed giving first class city teacher plans the ability to invest in certain investment options offered by the SBI. He noted that they will not be eligible to participate in the alternative investment pool due to legal reasons. Mr. Bicker reported that the bill having the SBI be an investment vehicle for certain Post Retirement Health liabilities did not pass and that a bill pertaining to Minnesota venture capital also had no action during the 2006 session. He stated that a bill regarding investments in the Sudan was heard in hearings only and that the Proxy Committee may be discussing the issue at a future date.

Mr. Bicker stated that the SBI also received authority to establish its own compensation plan. Mr. Norstrem noted that he hoped the new compensation plan aids the SBI in maintaining its high quality staff.

Mr. Bicker asked Christie Eller, Assistant Attorney General, to update members on the status of litigation. She said that proofs of claims have been submitted to AOL and that the appeal deadline had expired last week.

Mr. Bicker reported that the shareholder resolution submitted to Wyeth regarding access to drugs from Canada received support from 25.5% of total votes cast.

SBI Administrative Committee
Mr. Sausen referred members to Tab C of the meeting materials and stated that the Administrative Committee had five recommendations for the Board's consideration. He briefly reviewed the Executive Director's Proposed Workplan for FY07. Mr. Troutman clarified that the recommendations could be endorsed as a group. Mr. Sausen continued by reviewing the second recommendation regarding the SBI's Budget Plan for FY07. He noted that the Legislature had approved the change in the SBI's budget process, and he briefly reviewed the revised budget figures listed on page 7 of Tab C of the meeting materials. Mr. Sausen stated that the third recommendation is to approve the Continuing Fiduciary Education Plan, and he noted that under the plan each Board member has a travel allocation for investment related seminars or conferences related to the SBI. He stated that the fourth recommendation is to approve the Executive Director's Evaluation Process, and he noted that the recommendation is to continue with the same process that has been in place and to use Mr. Bicker's FY06 workplan as the basis for the review. Mr. Sausen stated that Ms. Vanek, Executive Director of PERA and Chair of the Compensation Review Committee would make the presentation pertaining to the Annual Salary Administration.

Ms. Vanek stated that the Compensation Review Committee is recommending that a 2% salary increase for staff salaries for those who are covered by the new plan for FY07. In response to a question from Mr. Troutman, Mr. Bicker clarified that this increase is separate from any changes made as a result of the new compensation plan. In response to questions from Mr. Gorence, Mr. Bicker stated that there is some discretion to move dollars between budget categories if needed for travel. In response to questions from Mr. Ahrens, Mr. Bicker briefly reviewed how the new budget process will work. He added that the new budget process can be fine-tuned as it goes along. Mr. McDonald made a motion to endorse the Committee's recommendations. Mr. Maas seconded the motion. The motion passed. Mr. Bicker thanked the IAC members and the retirement fund directors for their support and assistance in getting these changes passed by the Legislature.

Stock and Bond Manager Committee Report
Mr. Bohan referred members to Tab D of the meeting materials and reviewed the performance of the various asset classes. He stated that the Committee had also conducted a review during the quarter of Oppenheimer Capital Management, a domestic equity manager. He noted that the firm's recent returns had been below expectations due to an incorrect bet they had made on the energy sector of the market. He said that the Committee decided to take no action at this time, but that close monitoring of the firm would continue. Mr. Bicker clarified that staff believes Oppenheimer is a solid organization and that another possibility in the future, if necessary, is to request a new portfolio manager.

Alternative Investment Committee Report

Mr. McDonald referred members to Tab E of the meeting materials and stated that the Committee is recommending new investments with one existing real estate manager, TA Associates Realty; two existing private equity managers, KKR Associates and GTCR Golder Rauner; and one existing resource manager First Reserve. He briefly described each proposed investment, and Ms. Vanek moved approval of all four of the Committee recommendations as stated in the Committee Report. Ms. Peifer seconded the motion. In response to questions from Mr. Gorence, Mr. McDonald briefly reviewed the return expectations for KKR. In response to a question from Mr. Troutman, Mr. McDonald and Mr. Bicker stated that First Reserve examines opportunities in all areas of energy, not just oil and gas. The motion passed.

IAC Governance Review Task Force

Mr. Troutman referred members to Tab F of the meeting materials and briefly discussed the process used by the Task Force in completing the IAC Governance Review as presented in Tab F. He reviewed the assumptions on which the recommendations were predicated, and he noted the proposed revision to the mission statement. Mr. Troutman presented each of the findings and recommendations to members. Mr. Maas moved approval of the revised mission statement (see **Attachment A**). Mr. McDonald seconded the motion. The motion passed. Mr. McDonald moved approval of the remainder of the findings and recommendations of the Task Force as stated in Tab F of the meeting materials. Mr. Gorence seconded the motion. The motion passed.

Mr. Bicker informed members of an opening on the IAC, and he requested suggestions on possible candidates to fill the position. Mr. Troutman requested that staff distribute an email to members regarding potential policy issues for discussion by the IAC for the upcoming year.

The meeting adjourned at 2:04 P.M.

Respectfully submitted,

Howard Bicker

Howard Bicker
Executive Director

Initial Mission Statement:

The IAC's statutory duty is to advise the SBI and its Executive Directory by providing independent due diligence review of investment policy that guides the SBI's investment of assets.

Final Mission Statement:

The IAC fulfills its statutory duty to the SBI by providing advice and independent due diligence review of the investment policy and implementation recommendations that guide the SBI's investment of assets.

Tab A

LONG TERM OBJECTIVES
Period Ending 6/30/2006

COMBINED FUNDS: $43.9 Billion	Result	Compared to Objective
Match or Exceed Composite Index (10 Yr.)	**8.6% (1)**	0.3 percentage point above target
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.		
Provide Real Return (20 yr.)	**9.8%**	6.7 percentage points above CPI
Provide returns that are 3-5 percentage points greater than inflation over the latest 20 year period.		

BASIC RETIREMENT FUNDS: $22.0 Billion	Result	Compared to Objective
Match or Exceed Composite Index (10 Yr.)	**8.8%**	0.3 percentage point above target
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.		

POST RETIREMENT FUND: $21.9 Billion	Result	Compared to Objective
Match or Exceed Composite Index (10 Yr.)	**8.3%**	0.3 percentage point above target
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.		

(1) Performance is calculated net of fees.

SUMMARY OF ACTUARIAL VALUATIONS

All Eight Plans of MSRS, PERA and TRA Including Post Fund
July 1, 2005

	Active (Basics)	Retired (Post)	Total (Combined)
Liability Measures			
1. Current and Future Benefit Obligation	$34.3 billion	$23.4 billion	$57.7 billion
2. Accrued Liabilities	25.3	23.4	48.7
Asset Measures			
3. Current and Future Actuarial Value	$32.0 billion	$23.4 billion	$55.4 billion
4. Current Actuarial Value	20.4	23.4	43.8
Funding Ratios			
Future Assets vs. Future Obligations (3 ÷ 1)	93%	100%	96%
Current Actuarial Value vs. Accrued Liabilities (4 ÷ 2)	81%	100%	90%*

* 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.

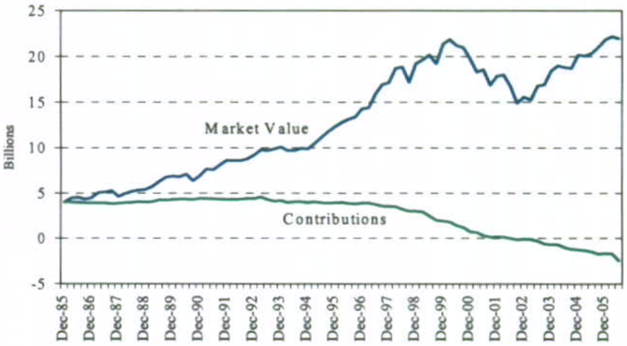
Actuarial Assumptions:

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 decreased 3.7% during the second quarter of 2006. Negative investment returns and negative contributions accounted for the decrease.



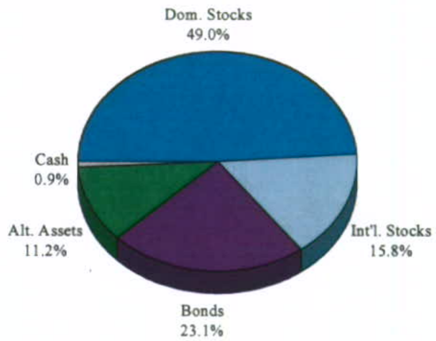
	Asset Growth During Second Quarter 2006 (Millions)
Beginning Value	$ 22,820
Net Contributions	-752
Investment Return	-89
Ending Value	$ 21,979

Asset Mix

The allocation to alternative assets increased over the quarter due to positive investment returns.

	Policy Targets	Actual Mix 6/30/2006	Actual Market Value (Millions)
Domestic Stocks	**45.0%**	49.0%	$10,775
Int'l. Stocks	**15.0**	15.8	3,466
Bonds	**24.0**	23.1	5,066
Alternative Assets*	**15.0**	11.2	2,467
Unallocated Cash	**1.0**	0.9	205
	100.0%	100.0%	$21,979

* Any uninvested allocation is held in domestic stocks

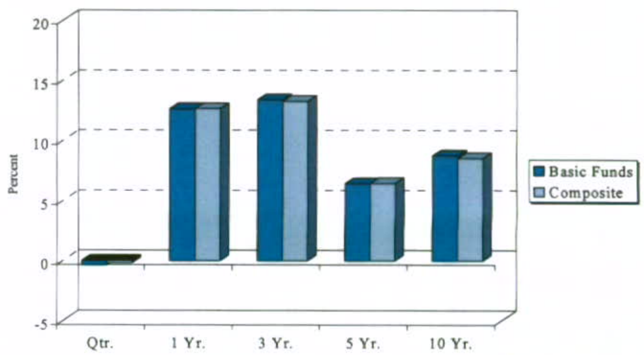


Fund Performance (Net of Fees)

The Basic Funds trailed the quarterly composite market index and matched for the one-year period.

Period Ending **6/30/2006**

	Qtr.	1 Yr.	3 Yr.	5 Yr.	10 Yr.
		Annualized			
Basics	**-0.4%**	**12.6%**	**13.4%**	**6.4%**	**8.8%**
Composite	-0.2	12.6	13.2	6.4	8.5



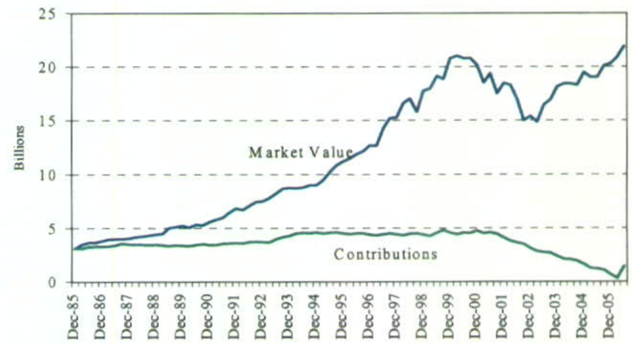
EXECUTIVE SUMMARY

Post Retirement Fund (Net of Fees)

Asset Growth

The market value of the Post Fund increased 4.8% during the second quarter of 2006. Positive net contributions accounted for the increase.

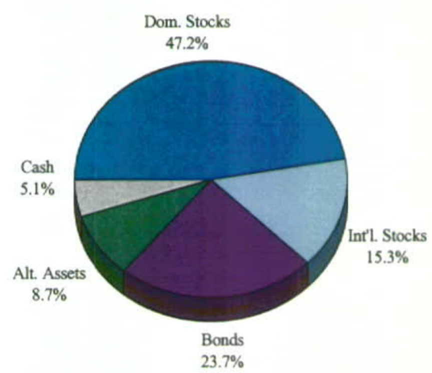
	Asset Growth During Second Quarter 2006 (Millions)
Beginning Value	$20,909
Net Contributions	1,106
Investment Return	-104
Ending Value	$21,911



Asset Mix

The allocation to domestic stocks decreased over the quarter due to negative returns. The unallocated cash increased over the quarter due to assets received from the Minneapolis Teacher's merger with Teacher's Retirement Association.

	Policy Targets	Actual Mix 6/30/2006	Actual Market Value (Millions)
Domestic Stocks	**45.0%**	47.2%	$10,341
Int'l. Stocks	**15.0**	15.3	3,342
Bonds	**25.0**	23.7	5,199
Alternative Assets*	**12.0**	8.7	1,903
Unallocated Cash	**3.0**	5.1	1,126
	100.0%	100.0%	$21,911



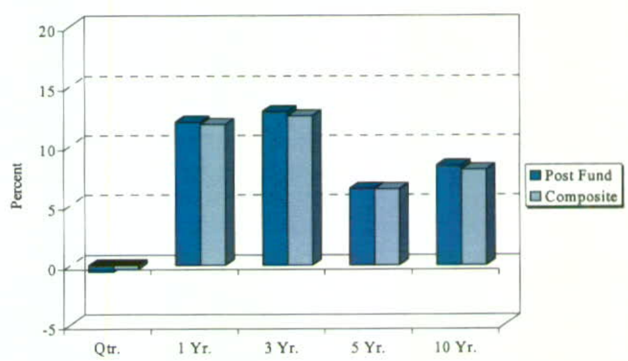
* Any uninvested allocation is held in domestic stocks.

Fund Performance (Net of Fees)

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

Period Ending **6/30/2006**

	Qtr.	1 Yr.	3 Yr. (Annualized)	5 Yr. (Annualized)	10 Yr. (Annualized)
Post	**-0.5%**	**12.0%**	**12.9%**	**6.4%**	**8.3%**
Composite	-0.3	11.8	12.5	6.4	8.0



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

Domestic Stocks

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

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

Period Ending 6/30/2006

	Qtr.	1 Yr.	3 Yr. (Annualized)	5 Yr. (Annualized)	10 Yr. (Annualized)
Dom. Stocks	**-2.3%**	**8.9%**	**12.5%**	**3.2%**	**8.0%**
Asset Class Target*	-2.0	9.6	12.6	3.5	8.0

* 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 (active, semi-passive and passive combined) slightly trailed its target for the quarter and exceeded the benchmark 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 48 countries included in this index. It does not include the United States.

Period Ending 6/30/2006

	Qtr.	1 Yr.	3 Yr. (Annualized)	5 Yr. (Annualized)	10 Yr. (Annualized)
Int'l. Stocks	**-0.1%**	**28.2%**	**24.7%**	**11.1%**	**7.3%**
Asset Class Target*	0.0	27.9	25.3	11.2	6.4

* 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 (active and passive combined) outperformed its target for all periods shown.

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 6/30/2006

	Qtr.	1 Yr.	3 Yr. (Annualized)	5 Yr. (Annualized)	10 Yr. (Annualized)
Bonds	**0.0%**	**-0.2%**	**2.7%**	**5.4%**	**6.6%**
Asset Class Target*	-0.1	-0.8	2.1	5.0	6.2

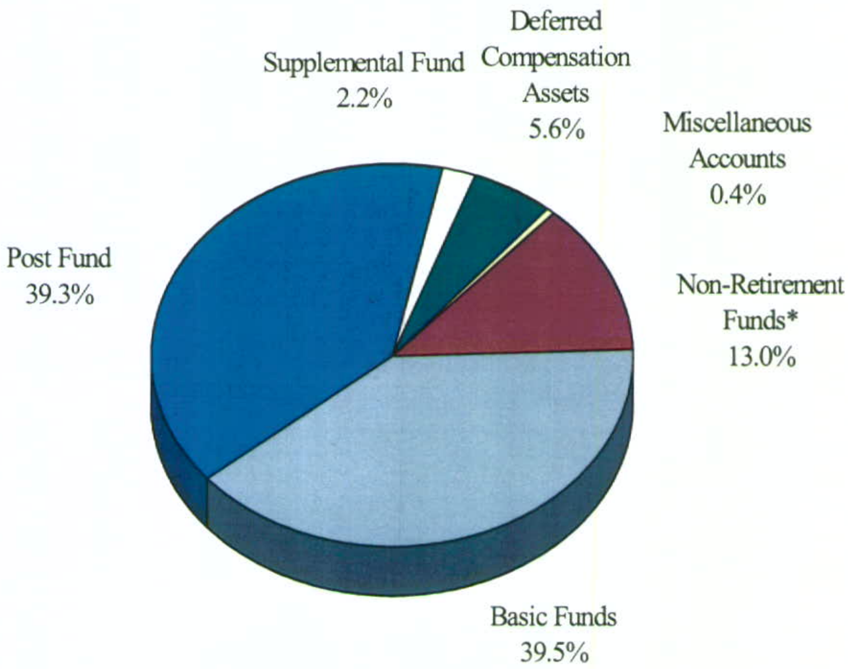
* The Fixed Income Asset Class Target is the Lehman Aggregate, effective 7/1/1994. Prior to 7/1/1994, the fixed income target was the Salomon BIG.

Alternative Investments

Period Ending 6/30/2006

	Qtr.	1 Yr.	3 Yr. (Annualized)	5 Yr. (Annualized)	10 Yr. (Annualized)
Alternatives	**7.5%**	**43.7%**	**28.7%**	**16.2%**	**17.2%**

EXECUTIVE SUMMARY
Funds Under Management



	6/30/2006 Market Value (Billions)
Retirement Funds	
Basic Retirement Funds	$22.0
Post Retirement Fund	21.9
Supplemental Investment Fund	1.2
State Deferred Compensation Plan Non-SIF Assets	3.1
Non-Retirement Funds*	
Assigned Risk Plan	0.3
Permanent School Fund	0.6
Environmental Trust Fund	0.4
State Cash Accounts	5.9
Miscellaneous Accounts	0.2
Total	$55.7

MINNESOTA STATE BOARD OF INVESTMENT

QUARTERLY INVESTMENT REPORT

Second Quarter 2006
(April 1, 2006 - June 30, 2006)

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VARIOUS CAPITAL MARKET INDICES

	Period Ending 6/30/2006				
	Qtr.	Yr.	3 Yr.	5 Yr.	10 Yr.
Domestic Equity					
Dow Jones Wilshire Composite	-2.0%	9.9%	13.0%	4.0%	8.4%
Dow Jones Industrials	0.9	11.1	10.0	3.5	9.2
S&P 500	-1.4	8.6	11.2	2.5	8.3
Russell 3000 (broad market)	-2.0	9.6	12.6	3.5	8.5
Russell 1000 (large cap)	-1.7	9.1	12.0	3.1	8.6
Russell 2000 (small cap)	-5.0	14.6	18.7	8.5	9.0
Domestic Fixed Income					
Lehman Aggregate (1)	-0.1	-0.8	2.1	5.0	6.2
Lehman Gov't./Corp.	-0.1	-1.5	1.6	5.1	6.3
3 month U.S. Treasury Bills	1.2	4.1	2.4	2.2	3.7
International					
EAFE (2)	0.7	26.6	23.9	10.0	6.4
Emerging Markets Free (3)	-4.3	35.9	34.8	21.5	6.7
ACWI Free ex-U.S. (4)	0.2	28.4	25.8	11.9	7.2
World ex-U.S. (5)	0.7	26.9	24.2	10.4	6.8
Salomon Non U.S. Gov't. Bond	4.0	0.0	5.0	9.6	4.9
Inflation Measure					
Consumer Price Index CPI-U (6)	1.6	3.5	3.1	2.5	2.5
Consumer Price Index CPI-W (7)	1.7	4.5	3.4	2.6	2.6

(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, lost -2.0% during the second quarter of 2006. Fear seemed to rule the market during the period and volatility returned. Investors were anxious regarding future interest rates moves by the Federal Reserve. Economic data that was strong and potentially inflationary raised concern that the Fed would continue increasing rates rather than pausing. Middle East tensions continued to grow and oil prices surged. Large capitalization stocks outperformed small capitalization stocks, and value stocks outperformed growth stocks. The other energy sector generated the largest total return within the Russell 3000 index. The technology sector generated the lowest total return.

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

Large Growth	Russell 1000 Growth	-3.9%
Large Value	Russell 1000 Value	0.6%
Small Growth	Russell 2000 Growth	-7.3%
Small Value	Russell 2000 Value	-2.7%

The Russell 3000 returned 9.6% for the year ending June 30, 2006.

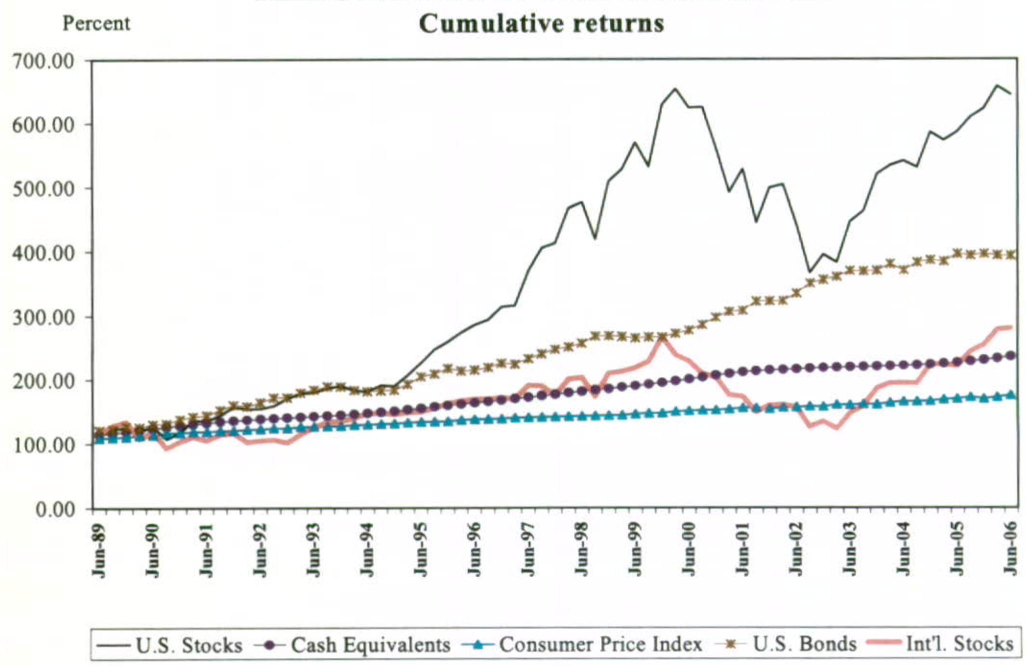
DOMESTIC BONDS

The bond market posted a loss of 0.1% for the quarter and -0.8% for the year. U.S. interest rates of all maturities moved higher in the second quarter driving bond prices lower. Continued policy tightening by the Fed (25 bps per meeting at two meetings) ended the quarter at 5.25%. As the entire yield curve moved upward, bonds with shorter durations (and less sensitivity to interest rate changes) outperformed those with longer durations. Mortgage rates moved higher in tandem with the yield curve, but mortgage-backed bonds benefited from slowing prepayment activity and healthy demand. Agencies were the best performing sector shown below.

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

U.S. Treasury	-0.1%
Agency	0.2
Credit	-0.4
Mortgages	0.1

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 0.7% for the quarter. The quarterly performance of the six largest stock markets is shown below:

United Kingdom	4.9%
Japan	-4.6
France	2.5
Switzerland	2.7
Germany	-0.3
Canada	0.4

The World ex U.S. index increased by 26.9% 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 -4.3% for the quarter. The quarterly performance of the five largest stock markets in the index is shown below:

Korea	-3.0%
Taiwan	0.9
South Africa	-14.9
Mexico	-3.8
Brazil	-2.4

The Emerging Markets Free index increased by 35.9% 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

While inflation is a concern, strong job growth and rising rents in the first half of 2006 may lead to improved fundamental performance in the U.S. real estate market.

PRIVATE EQUITY

U.S. private equity firms raised $152 billion for private equity limited partnerships of all types, from venture capital to buyouts in 2005. This represents a 66% increase relative to the revised 2004 total of $92 billion. The first half of 2006 saw a total of $96 billion in funds raised.

RESOURCE FUNDS

During the second quarter of 2006, crude oil averaged $70.66 per barrel, slightly higher than an average price of $63.48 during the prior quarter. The sustained high oil prices continue to reflect the relative 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.

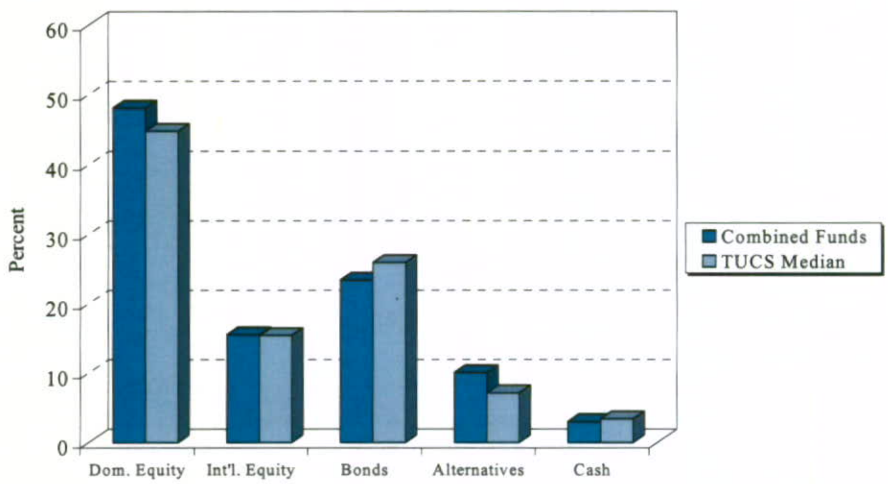
The comparison universe used by the SBI is the Trust Universe Comparison Service (TUCS). Only funds with assets over $1 billion are included in the comparisons shown in this section.

Asset Mix Compared to Other Pension Funds

On June 30, 2006, the actual asset mix of the Combined Funds was:

	$ Millions	%
Domestic Stocks	$21,117	48.1%
International Stocks	6,808	15.5
Bonds	10,264	23.4
Alternative Assets	4,370	10.0
Unallocated Cash	1,331	3.0
Total	$43,890	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	**48.1%**	**15.5%**	**23.4%**	**10.0%**	**3.0%**
Median Allocation in TUCS*	44.8	15.4	25.9	7.1**	3.4

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

COMBINED FUNDS
Performance Compared to Other Pension Funds

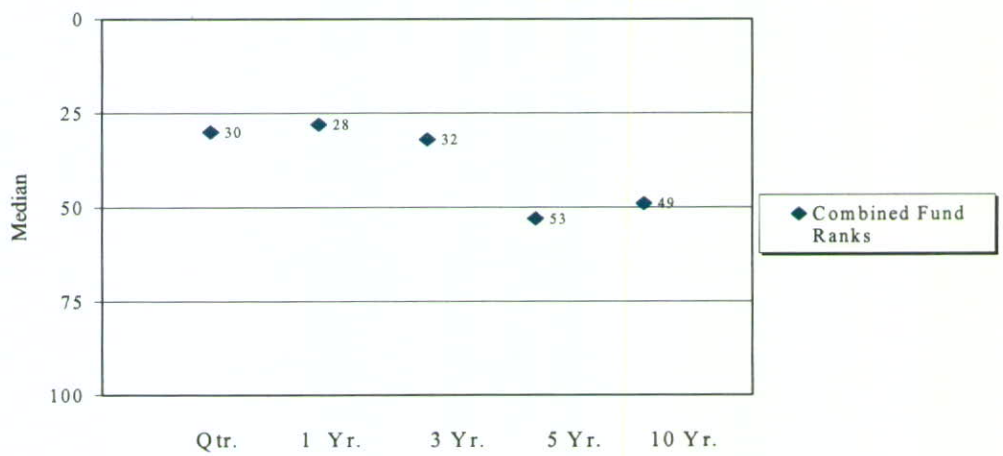
While the SBI is concerned with how its returns compare to other pension investors, universe comparisons should be used with great care. There are several reasons why such comparisons will provide an "apples to oranges" look at performance:

— **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 6/30/2006				
	Qtr.	1 Yr.	3 Yr.	5 Yr.	10 Yr.
Combined Funds Percentile Rank in TUCS*	30th	28th	32nd	53rd	49th

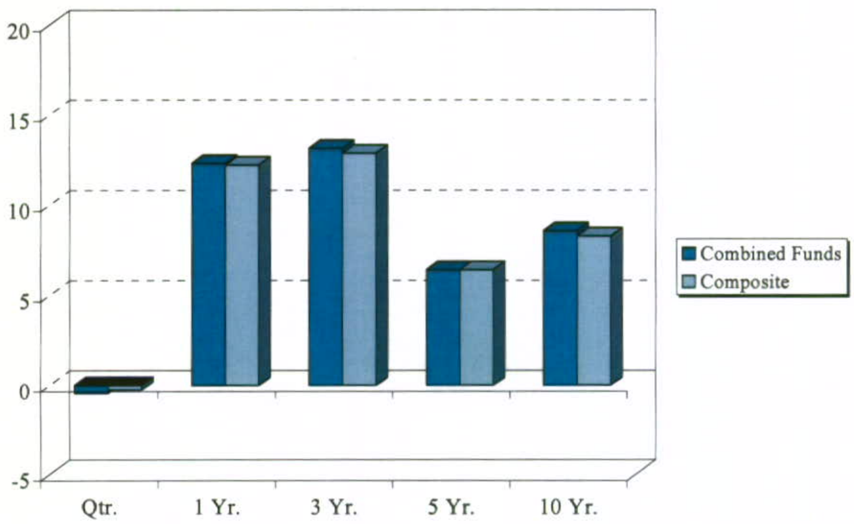
* Compared to public and corporate plans greater than $1 billion, gross of fees.

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* 2Q06
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	9.3*
Unallocated Cash	3 Month T-Bills	1.9
		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 6/30/2006

	Qtr.	1 Yr.	3 Yr.	5 Yr.	10 Yr.
				Annualized	
Combined Funds**	**-0.4%**	**12.3%**	**13.2%**	**6.4%**	**8.6%**
Composite Index	-0.2	12.2	12.9	6.4	8.3

**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

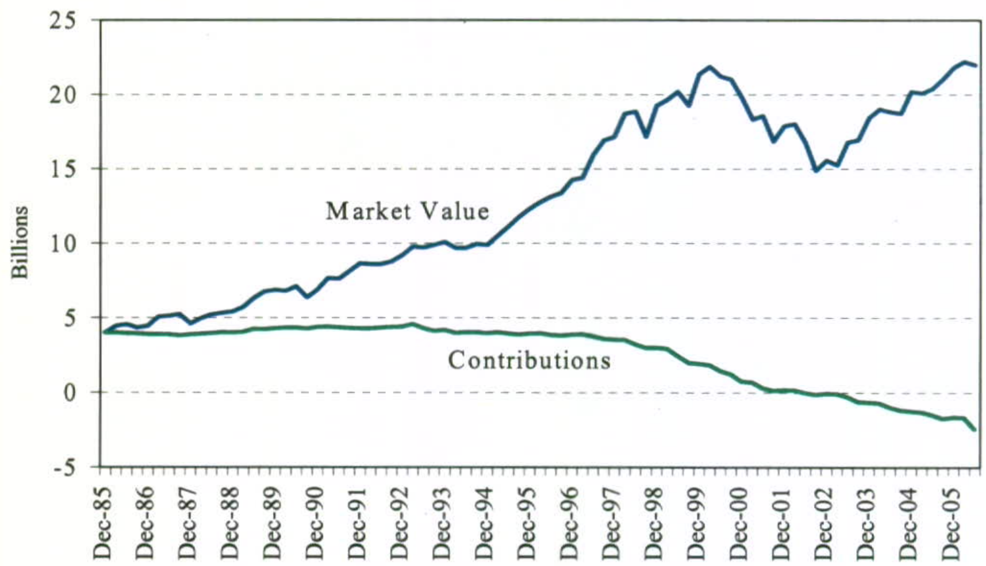
The Basic Retirement Funds are composed of the retirement assets for currently working participants in eight statewide retirement funds. The Funds serve as accumulation pools for the pension contributions of public employees and their employers during the employees' years of active service. Approximately 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 decreased 3.7% during the second quarter of 2006. Negative investment returns and negative contributions accounts for the decrease.



Last Five Years
In Millions

	12/01	12/02	12/03	12/04	12/05	3/06	Latest Qtr. 6/06
Beginning Value	$19,807	$17,874	$15,561	$18,435	$20,201	$21,816	$22,820
Net Contributions	-572	-247	-592	-577	-411	-24	-752
Investment Return	-1,361	-2,066	3,466	2,343	2,026	1,028	-89
Ending Value	$17,874	$15,561	$18,435	$20,201	$21,816	$22,820	$21,979

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.

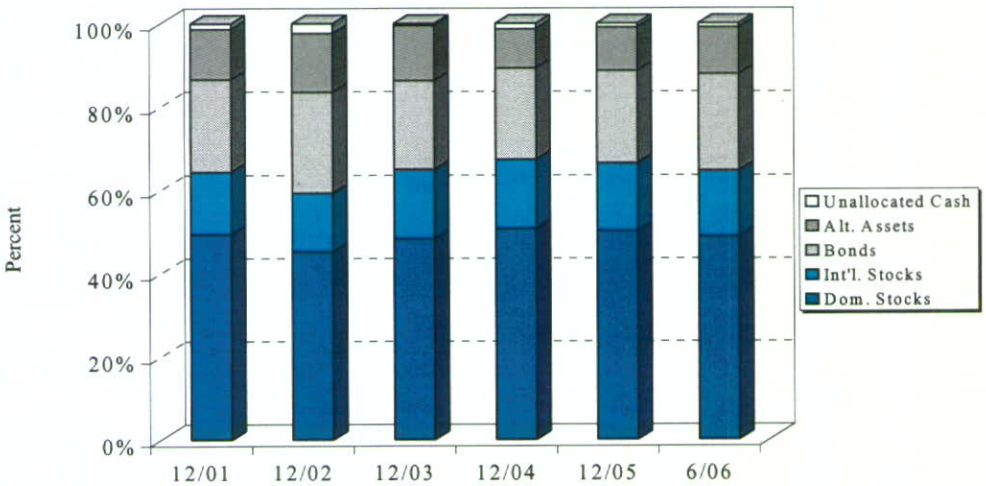
Domestic Stocks	45.0%
Int'l. Stocks	15.0
Bonds	24.0
Alternative Assets*	15.0
Unallocated Cash	1.0

* 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 allocation to alternatives and international stocks increased due to strong returns.

During the quarter, the allocation to alternative investments increased due to positive investment returns.



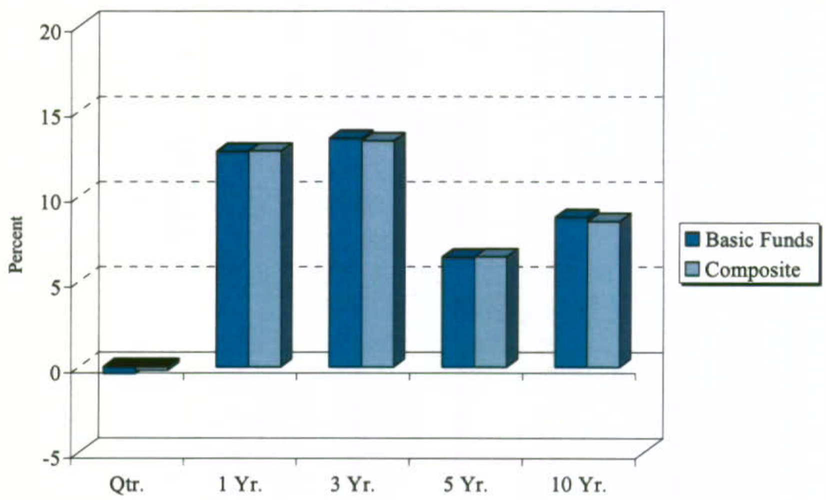
	Last Five Years						Latest Qtr.
	12/01	12/02	12/03	12/04	12/05	3/06	6/06
Domestic Stocks	49.5%	45.3%	48.5%	50.9%	50.3%	49.7%	49.0%
Int'l. Stocks	15.0	14.1	16.6	16.6	16.3	15.7	15.8
Bonds	22.1	24.2	21.2	21.8	22.1	22.9	23.1
Alternative Assets	13.3	9.4	13.3	9.4	10.4	10.2	11.2
Unallocated Cash	1.3	2.3	0.4	1.3	0.9	1.5	0.9
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

BASIC RETIREMENT FUNDS
Total Fund Performance (Net of Fees)

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

	Basics Target	Market Index	Basics Composite* 2Q06
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 6/30/2006

	Qtr.	1 Yr.	3 Yr.	5 Yr.	10 Yr.
				Annualized	
Basic Funds**	**-0.4%**	**12.6%**	**13.4%**	**6.4%**	**8.8%**
Composite Index	-0.2	12.6	13.2	6.4	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.

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.

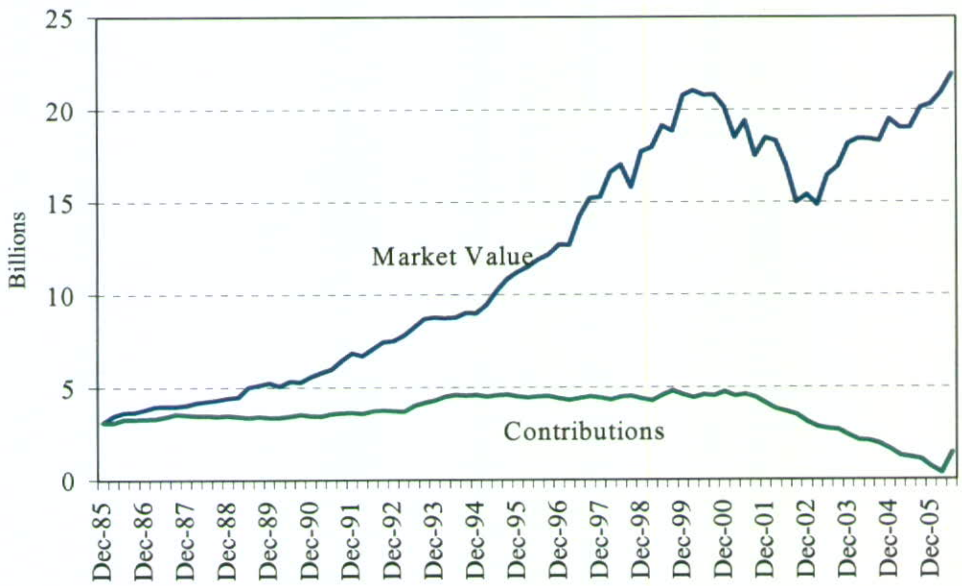
Upon an employee's retirement, a sum of money sufficient to finance the fixed monthly annuity is transferred from accumulation pools in the Basic Funds to the Post Fund. In order to support promised benefits, the Post Fund must "earn" at least 6% on its invested assets on an annualized basis. If the 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 4.8% during the first quarter of 2006.

Positive net contributions accounted for the increase.



Last Five Years
In Millions

	12/01	12/02	12/03	12/04	12/05	3/06	Latest Qtr. 6/06
Beginning Value	$20,153	$18,475	$15,403	$18,162	$19,480	$20,295	$20,909
Net Contributions	-647	-1,000	-719	-749	-984	-315	1,106
Investment Return	-1,031	-2,072	3,478	2,067	1,799	929	-104
Ending Value	$18,475	$15,403	$18,162	$19,480	$20,295	$20,909	$21,911

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%

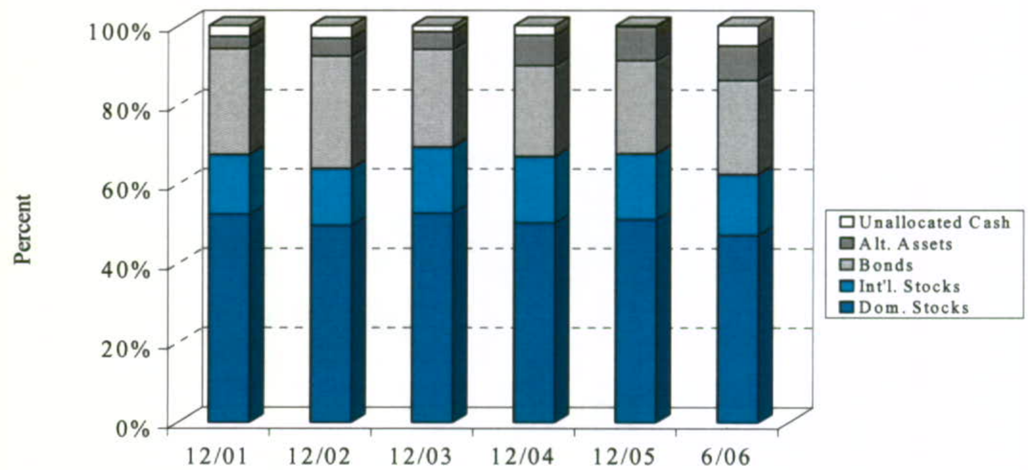
* Alternative assets include equity-oriented real estate, venture capital, resource, and yield-oriented funds. Any uninvested allocation is held in domestic stocks.

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 allocation to alternative investments increased due to strong returns.

During the quarter, the allocation to domestic stocks decreased due to negative returns. The unallocated cash increased over the quarter due to assets received from the Minneapolis Teacher's merger with Teacher's Retirement Association.



	Last Five years						Latest Qtr.
	12/01	**12/02**	**12/03**	**12/04**	**12/05**	**3/06**	**6/06**
Dom. Stocks	52.4%	49.6%	52.7%	50.2%	51.1%	49.2%	47.2%
Int'l. Stocks	15.1	14.4	16.7	16.8	16.6	15.8	15.3
Bonds	26.7	28.3	24.6	22.9	23.5	24.1	23.7
Alt. Assets	3.1	4.5	4.4	7.6	8.5	8.2	8.7
Unallocated Cash	2.7	3.2	1.6	2.5	0.3	2.7	5.1
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

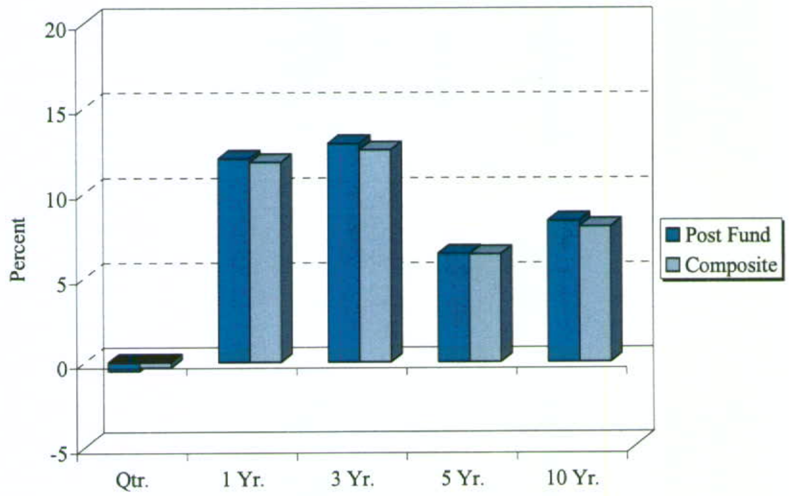
POST RETIREMENT FUND

Total Fund Performance (Net of Fees)

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

Asset Class	Post Target	Market Index	Post Composite* 2Q06
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 6/30/2006

	Qtr.	1 Yr.	3 Yr.	5 Yr.	10 Yr.
			Annualized		
Post Fund**	**-0.5%**	**12.0%**	**12.9%**	**6.4%**	**8.3%**
Composite Index	-0.3	11.8	12.5	6.4	8.0

** 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.

STOCK AND BOND MANAGERS

Performance of Asset Pools (Net of Fees)

Domestic Stocks

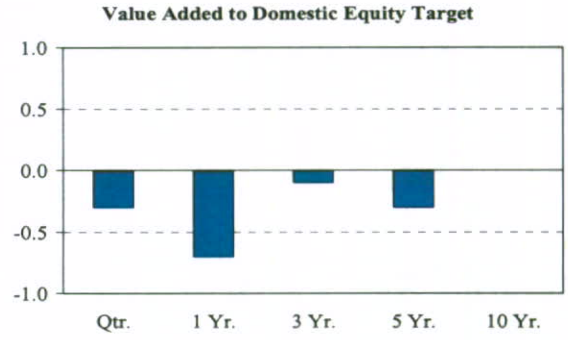
Target: Russell 3000

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 6/30/2006

	Qtr.	1 Yr. (Annualized)	3 Yr. (Annualized)	5 Yr. (Annualized)	10 Yr. (Annualized)
Domestic Stocks	**-2.3%**	**8.9%**	**12.5%**	**3.2%**	**8.0%**
Asset Class Target*	-2.0	9.6	12.6	3.5	8.0

* 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

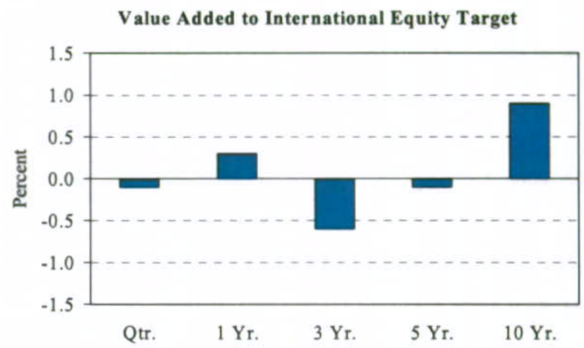
Target: MSCI ACWI Free ex U.S. (net)

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 6/30/2006

	Qtr.	1 Yr. (Annualized)	3 Yr. (Annualized)	5 Yr. (Annualized)	10 Yr. (Annualized)
Int'l. Stocks	**-0.1%**	**28.2%**	**24.7%**	**11.1%**	**7.3%**
Asset Class Target*	0.0	27.9	25.3	11.2	6.4

* 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.



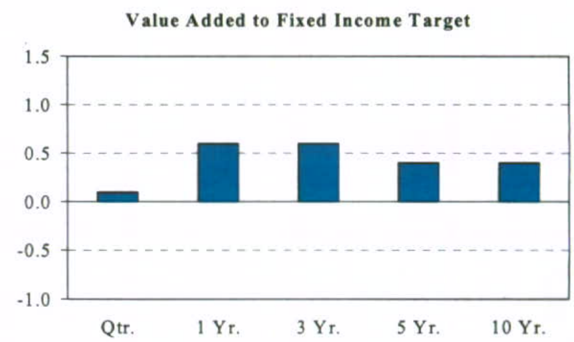
Bonds

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 6/30/2006

	Qtr.	1 Yr. (Annualized)	3 Yr. (Annualized)	5 Yr. (Annualized)	10 Yr. (Annualized)
Bonds	**0.0%**	**-0.2%**	**2.7%**	**5.4%**	**6.6%**
Asset Class Target	-0.1	-0.8	2.1	5.0	6.2



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 6/30/2006					
			Annualized		
	Qtr.	Yr.	3 Yr.	5 Yr.	10 Yr.
Alternatives	7.5%	43.7%	28.7%	16.2%	17.2%
Inflation	1.6%	3.5%	3.1%	2.5%	2.5%

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 6/30/2006					
			Annualized		
	Qtr.	Yr.	3 Yr.	5 Yr.	10 Yr.
Real Estate	3.6%	22.1%	17.5%	12.3%	13.9%

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 6/30/2006					
			Annualized		
	Qtr.	Yr.	3 Yr.	5 Yr.	10 Yr.
Private Equity	5.9%	39.3%	30.0%	14.4%	17.4%

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 6/30/2006					
			Annualized		
	Qtr.	Yr.	3 Yr.	5 Yr.	10 Yr.
Resource	14.6%	88.2%	57.1%	31.6%	23.9%

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 6/30/2006					
			Annualized		
	Qtr.	Yr.	3 Yr.	5 Yr.	10 Yr.
Yield Oriented	12.1%	61.5%	28.8%	19.4%	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 June 30, 2006 the market value of the entire Fund was $1.2 billion.

Investment Options

	6/30/2006 Market Value (In Millions)
Income Share Account – a balanced portfolio utilizing both common stocks and bonds.	$455
Growth Share Account – an actively managed, all common stock portfolio.	$144
Common Stock Index Account – a passively managed, all common stock portfolio designed to track the performance of the entire U.S. stock market.	$240
International Share Account – a portfolio of non U.S. stocks that incorporates both active and passive management.	$111
Bond Market Account – an actively managed, all bond portfolio.	$136
Money Market Account – a portfolio utilizing short-term, liquid debt securities.	$64
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.	$73

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%	61.4%
Bonds	35.0	34.5
Unallocated Cash	5.0	4.1
	100.0%	100.0%

Period Ending 6/30/2006			Annualized		
	Qtr.	1 Yr.	3 Yr.	5 Yr.	10 Yr.
Total Account	**-1.1%**	**6.4%**	**8.9%**	**4.2%**	**7.7%**
Benchmark*	-1.1	5.6	8.4	4.3	7.6

* 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 6/30/2006			Annualized		
	Qtr.	1 Yr.	3 Yr.	5 Yr.	10 Yr.
Total Account	**-2.6%**	**8.3%**	**12.3%**	**3.0%**	**7.7%**
Benchmark*	-2.0	9.6	12.6	3.5	8.0

* 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 6/30/2006			Annualized		
	Qtr.	1 Yr.	3 Yr.	5 Yr.	10 Yr.
Total Account	**-1.9%**	**9.9%**	**12.7%**	**3.5%**	**8.4%**
Benchmark*	-2.0	9.6	12.6	3.5	8.1

* 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 6/30/2006			Annualized		
	Qtr.	1 Yr.	3 Yr.	5 Yr.	10 Yr.
Total Account	**0.0%**	**28.4%**	**24.9%**	**11.3%**	**7.4%**
Benchmark*	0.0	27.9	25.3	11.2	6.4

* 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 6/30/2006					
			Annualized		
	Qtr.	1 Yr.	3 Yr.	5 Yr.	10 Yr.
Total Account	**0.1%**	**-0.2%**	**2.8%**	**5.4%**	**6.6%**
Lehman Agg.	-0.1	-0.8	2.1	5.0	6.2

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 6/30/2006					
			Annualized		
	Qtr.	1 Yr.	3 Yr.	5 Yr.	10 Yr.
Total Account	**1.1%**	**4.0%**	**2.5%**	**2.4%**	**4.0%**
3 month T-Bills	1.2	4.1	2.4	2.2	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 6/30/2006					
			Annualized		
	Qtr.	1 Yr.	3 Yr.	5 Yr.	10 Yr.
Total Account	**1.1%**	**4.5%**	**4.3%**	**4.9%**	**5.6%**
Benchmark*	1.3	5.0	3.9	3.6	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

	6/30/2006 Market Value (in Millions)
Vanguard Institutional Index (passive)	$418
Janus Twenty (active)	$331
Smith Barney Appreciation Y (active)	$114
Vanguard Mid Cap Index (passive)	$109
T. Rowe Price Small Cap (active)	$396
Fidelity Diversified International (active)	$229
Vanguard Institutional Developed Markets (passive)	$48
Dodge & Cox Balanced Fund (active)	$239
Vanguard Balanced Fund (passive)	$164
Dodge & Cox Income Fund (active)	$78
Vanguard Total Bond Market Fund (passive)	$47
Money Market Account	$56
Fixed Interest Account	$124
Fixed Fund	$746

DEFERRED COMPENSATION PLAN ACCOUNTS

LARGE CAP EQUITY

Vanguard Institutional Index (passive)

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

Period Ending 6/30/2006

	Qtr.	1 Yr.	3 Yr. (Annualized)	5 Yr. (Annualized)
Fund	**-1.4%**	**8.7%**	**11.2%**	**2.5%**
S&P 500	-1.4	8.6	11.2	2.5

Janus Twenty (active)

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

Period Ending 6/30/2006

	Qtr.	1 Yr.	3 Yr. (Annualized)	5 Yr. (Annualized)
Fund	**-2.1%**	**11.7%**	**15.1%**	**2.7%**
S&P 500	-1.4	8.6	11.2	2.5

Smith Barney Appreciation Y (active)

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

Period Ending 6/30/2006

	Qtr.	1 Yr.	3 Yr. (Annualized)	Since 12/1/03 (Annualized)
Fund	**-0.6%**	**10.9%**	**N/A**	**9.3%**
S&P 500	-1.4	8.6	N/A	9.3

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 6/30/2006

	Qtr.	1 Yr.	3 Yr. (Annualized)	Since 1/1/04 (Annualized)
Fund	**-2.9%**	**14.6%**	**N/A**	**15.6%**
MSCI US Mid-Cap 450	-2.8	14.6	N/A	15.5

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 6/30/2006

	Qtr.	1 Yr.	3 Yr. (Annualized)	5 Yr. (Annualized)
Fund	**-4.9%**	**15.9%**	**17.6%**	**9.5%**
Russell 2000	-5.0	14.6	18.7	8.5

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 6/30/2006

	Qtr.	1 Yr.	3 Yr. (Annualized)	5 Yr. (Annualized)
Fund	**-1.3%**	**26.2%**	**24.2%**	**13.5%**
MSCI EAFE	0.7	26.6	23.9	10.1

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 6/30/2006

	Qtr.	1 Yr.	3 Yr. (Annualized)	Since 12/1/03 (Annualized)
Fund	**0.9%**	**26.9%**	**N/A**	**20.7%**
MSCI EAFE	0.7	26.6	N/A	20.6

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 6/30/2006

		Annualized		
	Qtr.	1 Yr.	3 Yr.	Since 10/1/03
Fund	**0.5%**	**9.9%**	**N/A**	**12.5%**
Benchmark	-0.9	4.8	N/A	7.7

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 6/30/2006

		Annualized		
	Qtr.	1 Yr.	3 Yr.	Since 12/1/03
Fund	**-1.2%**	**5.6%**	**N/A**	**7.4%**
Benchmark	-1.2	5.6	N/A	7.4

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 6/30/2006

		Annualized		
	Qtr.	1 Yr.	3 Yr.	5 Yr.
Fund	**0.0%**	**0.4%**	**2.5%**	**5.5%**
Lehman Agg.	-0.1	-0.8	2.1	5.0

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 6/30/2006

		Annualized		
	Qtr.	1 Yr.	3 Yr.	Since 12/1/03
Fund	**-0.2%**	**-0.9%**	**N/A**	**2.7%**
Lehman Agg.	-0.1	-0.8	N/A	2.7

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 6/30/2006

		Annualized		
	Qtr.	1 Yr.	3 Yr.	5 Yr.
Fund	**1.1%**	**4.0%**	**2.5%**	**2.4%**
3-Mo. Treas.	1.2	4.1	2.4	2.2

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 6/30/2006

		Annualized		
	Qtr.	1 Yr.	3 Yr.	5 Yr.
Fund	**1.1%**	**4.5%**	**4.3%**	**4.9%**
Benchmark	1.3	5.0	3.9	3.6

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 6/30/2006

The quarterly blended rate is: 4.57%

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.

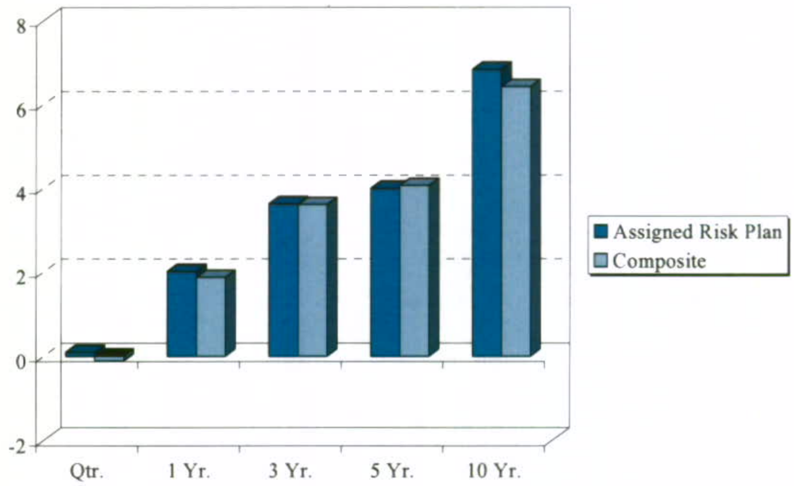
Asset Mix
The Assigned Risk Plan is invested in a portfolio of common stocks and bonds. The actual asset mix will fluctuate in response to changes in the Plan's liability stream.

	6/30/2006 Target	6/30/2006 Actual
Stocks	20.0%	22.4%
Bonds	80.0	77.6
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 June 30, 2006 the market value of the Assigned Risk Plan was $319 million.



Period Ending 6/30/2006

	Qtr.	1 Yr.	3 Yr. (Annualized)	5 Yr. (Annualized)	10 Yr. (Annualized)
Total Fund*	**0.1%**	**2.0%**	**3.6%**	**4.0%**	**6.8%**
Composite	-0.1	1.9	3.6	4.1	6.4
Equity Segment*	**-1.0**	**7.0**	**8.9**	**1.7**	**8.9**
Benchmark	-1.4	8.6	11.2	2.5	8.3
Bond Segment*	**0.4**	**0.6**	**2.1**	**4.0**	**5.4**
Benchmark	0.2	0.2	1.7	4.2	5.7

* 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.

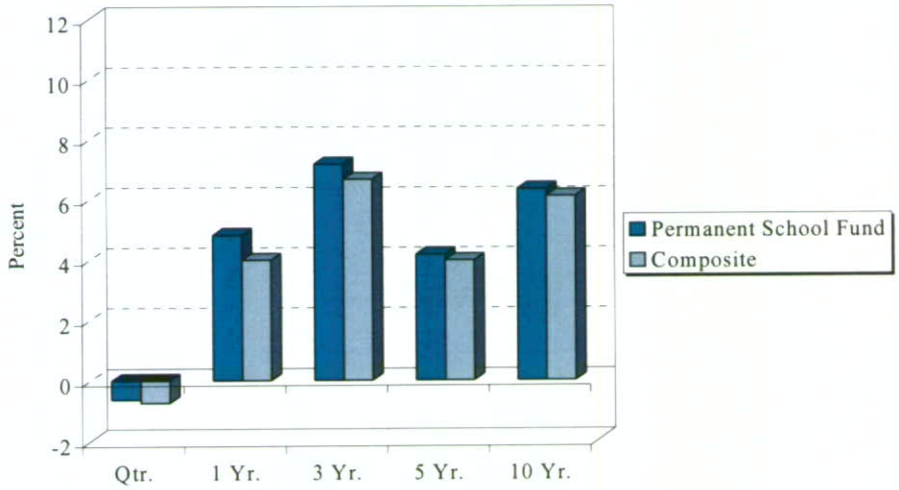
Asset Mix
Effective with FY98, the Permanent School Fund is invested in a balanced portfolio of common stocks and bonds. Common stocks provide the potential for significant capital appreciation, while bonds provide portfolio diversification and a more stable stream of current income.

	6/30/2006 Target	6/30/2006 Actual
Stocks	50.0%	50.3%
Bond	48.0	47.8
Unallocated Cash	2.0	1.9
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 June 30, 2006 the market value of the Permanent School Fund was $635 million.



Period Ending 6/30/2006

		Annualized			
	Qtr.	**1 Yr.**	**3 Yr.**	**5 Yr.**	**10 Yr.**
Total Fund (1) (2)	**-0.6%**	**4.8%**	**7.2%**	**4.2%**	**6.3%**
Composite	-0.7	4.0	6.7	4.0	6.1
Equity Segment (1) (2)	**-1.4**	**8.7**	**11.2**	**2.5**	**N/A**
S&P 500	-1.4	8.6	11.2	2.5	N/A
Bond Segment (1)	**0.2**	**0.5**	**2.8**	**5.4**	**6.6**
Lehman Aggregate	-0.1	-0.8	2.1	5.0	6.2

(1) Actual returns are calculated net of fees.
(2) Equities were added to the asset mix effective July 28, 1997. Prior to that date the fund was invested entirely in bonds. The composite Index has been weighted accordingly.

ENVIRONMENTAL TRUST FUND

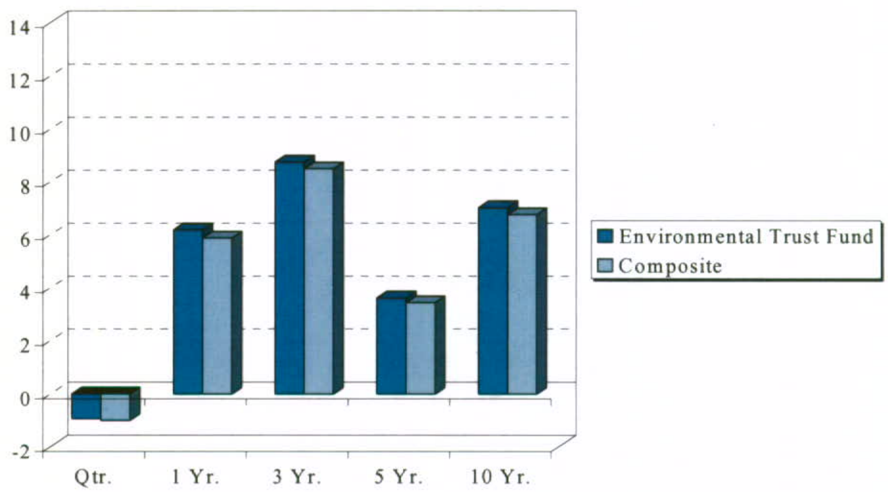
Investment Objective
The objective of the Environmental Trust Fund is to increase the market value of the Fund over time in order to increase the annual amount made available for spending.

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 June 30, 2006 the market value of the Environmental Trust Fund was $416 million.

	6/30/2006 Target	6/30/2006 Actual
Stocks	70.0%	69.5%
Bonds	28.0	30.0
Unallocated Cash	2.0	0.5
Total	100.0%	100.0%



Period Ending 6/30/2006

	Qtr.	1 Yr.	3 Yr. (Annualized)	5 Yr. (Annualized)	10 Yr. (Annualized)
Total Fund*	**-0.9%**	**6.2%**	**8.8%**	**3.6%**	**7.0%**
Composite	-1.0	5.9	8.5	3.4	6.8
Equity Segment*	**-1.4**	**8.7**	**11.3**	**2.6**	**8.4**
S&P 500	-1.4	8.6	11.2	2.5	8.3
Bond Segment*	**0.2**	**0.5**	**3.0**	**5.5**	**6.8**
Lehman Agg.	-0.1	-0.8	2.1	5.0	6.2

* Actual returns are calculated net of fees.

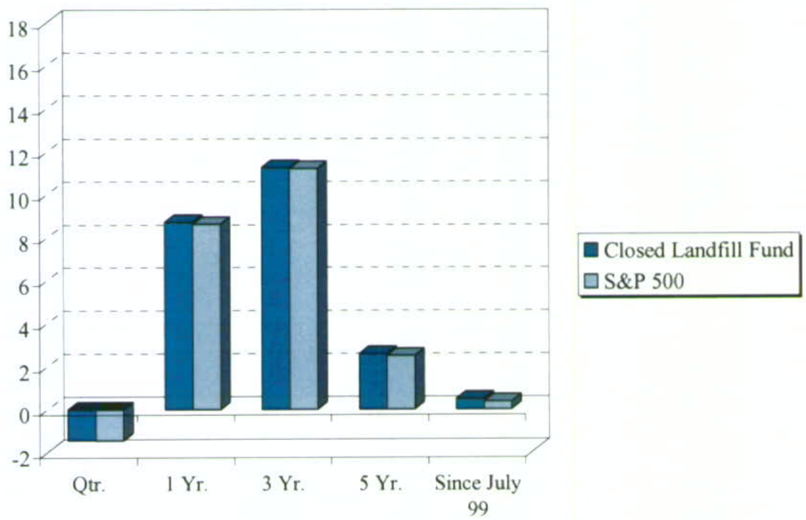
CLOSED LANDFILL INVESTMENT FUND

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 June 30, 2006, the market value of the Closed Landfill Investment Fund was $47.0 million.



Period Ending 6/30/2006

	Qtr.	1 Yr.	Annualized 3 Yr.	5 Yr.	Since 7/1/1999
Total Fund (1)	**-1.4%**	**8.7%**	**11.3%**	**2.6%**	**0.5%**
S&P 500 (2)	-1.4	8.6	11.2	2.5	0.4

(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 6/30/2006

	Market Value (Millions)	Qtr.	1 Yr.	Annualized 3 Yr.	5 Yr.	10 Yr.
Treasurer's Cash Pool*	**$5,525**	**1.2%**	**4.2%**	**2.5%**	**2.5%**	**4.2%**
Custom Benchmark**		1.1	3.7	1.9	2.1	3.7
Trust Fund Cash Pool*	**$61**	**1.2**	**4.2**	**2.5**	**2.3**	**4.0**
Custom Benchmark***		1.1	3.7	1.9	1.7	3.5
3 month T-Bills		1.2	4.1	2.4	2.2	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 June 30, 2006 (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	70,421	0	1,679,142	0	3,627,141	1,173,000	842,144	7,391,848
	0.95%		22.72%		49.07%	15.87%	11.39%	100%
Public Employees Retirement Fund	53,451	0	1,404,244	0	2,963,153	949,840	672,689	6,043,377
	0.88%		23.24%		49.03%	15.72%	11.13%	100%
State Employees Retirement Fund	44,925	0	1,170,557	0	2,473,510	793,418	562,406	5,044,816
	0.89%		23.20%		49.03%	15.73%	11.15%	100%
Public Employees Police & Fire	24,488	0	640,637	0	1,352,757	433,768	307,337	2,758,987
	0.89%		23.22%		49.03%	15.72%	11.14%	100%
Highway Patrol Retirement Fund	2,352	0	61,367	0	129,640	41,579	29,468	264,406
	0.89%		23.21%		49.03%	15.73%	11.14%	100%
Judges Retirement Fund	432	0	11,364	0	23,976	7,685	5,443	48,900
	0.88%		23.24%		49.03%	15.72%	11.13%	100%
Correctional Employees Retirement	2,689	0	70,196	0	148,321	47,574	33,722	302,502
	0.89%		23.20%		49.03%	15.73%	11.15%	100%
Public Employees Correctional	2,095	0	28,864	0	60,901	19,521	13,823	125,204
	1.67%		23.06%		48.64%	15.59%	11.04%	100%
TOTAL BASIC FUNDS	200,853	0	5,066,371	0	10,779,399	3,466,385	2,467,032	21,980,040
	0.91%		23.05%		49.04%	15.77%	11.23%	100%
POST RETIREMENT FUND	1,126,072	0	5,199,457	0	10,341,439	3,341,494	1,903,342	21,911,804
	5.14%		23.73%		47.19%	15.25%	8.69%	100%
TOTAL BASIC AND POST	1,326,925	0	10,265,828	0	21,120,838	6,807,879	4,370,374	43,891,844
	3.02%		23.39%		48.12%	15.51%	9.96%	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	18,456	156,802	0	0	279,294	0	0	454,552
	4.06%	34.50%			61.44%			100%
Growth Share Account	0	0	0	0	144,107	0	0	144,107
					100.00%			100%
Money Market Account	64,537	0	0	0	0	0	0	64,537
	100.00%							100%
Common Stock Index	0	0	0	0	240,352	0	0	240,352
					100.00%			100%
Bond Market Account	0	0	135,970	0	0	0	0	135,970
			100.00%					100%
International Share Account	0	0	0	0	0	111,162	0	111,162
						100.00%		100%
Fixed Interest Account	14,748	0	58,544	0	0	0	0	73,292
	20.12%		79.88%					100%
TOTAL SUPPLEMENTAL FUNDS	97,741	156,802	194,514	0	663,753	111,162	0	1,223,972
	7.99%	12.81%	15.89%		54.23%	9.08%		100%
MN DEFERRED COMP PLAN *	55,734	0	1,251,131	0	1,513,743	277,473	0	3,098,081
	1.80%		40.38%		48.86%	8.96%		100%
TOTAL RETIREMENT FUNDS	1,480,400	156,802	11,711,473	0	23,298,334	7,196,514	4,370,374	48,213,897
	3.07%	0.33%	24.29%		48.32%	14.93%	9.06%	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	8,750	0	239,797	0	70,794	0	0	319,341
	2.74%		75.09%		22.17%			100%
ENVIRONMENTAL FUND	2,369	124,503	0	288,883	0	0	0	415,755
	0.57%	29.95%		69.48%				100%
PERMANENT SCHOOL FUND	11,982	303,627	0	319,690	0	0	0	635,299
	1.89%	47.79%		50.32%				100%
CLOSED LANDFILL INVESTMENT	63	0	0	46,903	0	0	0	46,966
	0.13%			99.87%				100%
TREASURERS CASH	5,529,929	0	0	0	0	0	0	5,529,929
	100.00%							100%
HOUSING FINANCE AGENCY	23,659	161,840	0	0	0	0	0	185,499
	12.75%	87.25%						100%
MINNESOTA DEBT SERVICE FUND	0	184,181	0	0	0	0	0	184,181
		100.00%						100%
MISCELLANEOUS ACCOUNTS	69,970	100,107	0	50,205	0	0	0	220,282
	31.76%	45.45%		22.79%				100%
TOTAL CASH AND NON-RETIREMENT	5,646,722	874,258	239,797	705,681	70,794	0	0	7,537,252
	74.92%	11.60%	3.18%	9.36%	0.94%			100%
GRAND TOTAL	7,127,122	1,031,060	11,951,270	705,681	23,369,128	7,196,514	4,370,374	55,751,149
	12.78%	1.85%	21.44%	1.26%	41.92%	12.91%	7.84%	100%

Tab B

EXECUTIVE DIRECTOR'S ADMINISTRATIVE REPORT

DATE: August 29, 2006

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 Fiscal Year 2006 is included as **Attachment A**. A report on the SBI's administrative budget for the Fiscal Year 2007 Year to Date is included as **Attachment B**.

A report on travel for the period from May 16, 2006 - August 15, 2006 is included as **Attachment C**.

2. Litigation Update

SBI legal counsel will give the Board a verbal update on the status of the litigation at the Board meeting on September 6, 2006.

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STATE BOARD OF INVESTMENT
FISCAL YEAR 2006 ADMINISTRATIVE BUDGET REPORT
GENERAL FUND APPROPRIATION
FISCAL YEAR FINAL

ITEM	FISCAL YEAR 2006 BUDGET	FISCAL YEAR 2006 ACTUAL
PERSONAL SERVICES		
FULL TIME EMPLOYEES	$ 1,900,000	$ 1,765,555
SEVERENCE PAYOFF	37,000	0
WORKERS COMPENSATION INSURANCE	1,000	994
MISCELLANEOUS PAYROLL	2,000	0
SUBTOTAL	**$ 1,940,000**	**$ 1,766,549**
STATE OPERATIONS		
RENTS & LEASES	205,000	205,851
REPAIRS/ALTERATIONS/MAINTENANCE	15,000	5,628
PRINTING & BINDING	10,000	5,040
PROFESSIONAL/TECHNICAL SERVICES	0	0
COMPUTER SYSTEMS SERVICES	10,000	30,785
COMMUNICATIONS	20,000	21,471
TRAVEL, IN-STATE	1,000	468
TRAVEL, OUT-STATE	50,000	30,952
SUPPLIES	30,000	32,070
EQUIPMENT	20,000	43,210
EMPLOYEE DEVELOPMENT	10,000	12,580
OTHER OPERATING COSTS	10,000	7,131
SUBTOTAL	**$ 381,000**	**$ 395,186**
ORIGINAL BUDGET	**$ 2,321,000**	**$ 2,161,735**
UNALLOCATED BALANCE FORWARD - FY 2005	**$ 102,388**	
TOTAL GENERAL FUND	**$ 2,423,388**	**$ 2,161,735**

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STATE BOARD OF INVESTMENT
FISCAL YEAR 2007 ADMINISTRATIVE BUDGET REPORT
GENERAL FUND APPROPRIATION
FISCAL YEAR TO DATE THROUGH AUGUST 8, 2006

ITEM	FISCAL YEAR 2007 BUDGET	FISCAL YEAR 2007 ACTUAL
PERSONAL SERVICES		
FULL TIME EMPLOYEES	$ 1,975,000	$ 146,136
SEVERENCE PAYOFF	32,000	0
WORKERS COMPENSATION INSURANCE	1,000	0
MISCELLANEOUS PAYROLL	2,000	0
SUBTOTAL	**$ 2,010,000**	**$ 146,136**
STATE OPERATIONS		
RENTS & LEASES	210,000	35,001
REPAIRS/ALTERATIONS/MAINTENANCE	8,000	258
PRINTING & BINDING	8,000	0
PROFESSIONAL/TECHNICAL SERVICES	0	0
COMPUTER SYSTEMS SERVICES	10,000	0
COMMUNICATIONS	20,000	489
TRAVEL, IN-STATE	1,000	0
TRAVEL, OUT-STATE	50,000	2,341
SUPPLIES	30,000	583
EQUIPMENT	20,000	467
EMPLOYEE DEVELOPMENT	10,000	0
OTHER OPERATING COSTS	8,000	342
SUBTOTAL	**$ 375,000**	**$ 39,481**
ORIGINAL BUDGET	**$ 2,385,000**	**$ 185,617**
ADJUSTMENTS TO ORIGINAL BUDGET	**$ 0**	
TOTAL GENERAL FUND	**$ 2,385,000**	**$ 185,617**

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ATTACHMENT C

STATE BOARD OF INVESTMENT

Travel Summary by Date
SBI Travel May 16, 2006 –August 15, 2006

Purpose	Name(s)	Destination and Date	Total Cost
Manager Monitoring: Alternative Investment Managers: Blum Capital Partners; Elevation Partners; Fox Paine & Co.; Gold Hill Venture Lending; Hellman & Friedman; KKR; Silver Lake Partners; Split Rock Partners	A. Christensen	San Jose, CA 5/31-6/5	$1,762.40
Manager Monitoring Domestic Equity Managers: Alliance Capital Mgmt.; LSV Asset Mgmt.; UBS Global Asset Mgmt.; Voyageur Asset Mgmt. **Consultant Visit:** Richards & Tierney	S. Sutton	Chicago, IL 6/12-6/13	726.16
Manager Monitoring: Domestic Equity Managers: Lehman Brothers Asset Mgmt. **Consultant Visit:** Richards & Tierney	H. Bicker	Chicago, IL 6/20-6/22	957.11
Conference: National Association of Public Pension Attorneys 2006 Legal Education Conference	C. Eller	New York, NY 6/27-6/30	2,251.25

Purpose	Name(s)	Destination and Date	Total Cost
Manager Monitoring: **International Equity Managers:** Alliance Capital Mgmt.; Capital International; Fidelity Mgmt. Trust Co.; INVESCO Global Asset Mgmt.; JP Morgan Investment Mgmt.; Marathon Asset Mgmt.; Threadneedle Asset Mgmt.; State Street Global Advisors; UBS Global Asset Mgmt; **Manager Monitoring:** **Alternative Investment Managers:** First Reserve Corp.; KKR **Manager Search:** **International Equity Manager:** Longview Partners	H. Bicker	London, England 7/6-7/15	$3,560.37

Tab C

COMMITTEE REPORT

DATE: August 29, 2006

TO: Members, State Board of Investment

FROM: Consultant Review Committee

The SBI retains consultants to provide independent advice to Board members and technical assistance to SBI staff on a variety of issues related to management of the assets under the SBI's control. Consultants are selected through a periodic Request for Proposal (RFP) process with review and recommendation by a Consultant Review Committee.

The members of the Consultant Review Committee are:

Peter Sausen	Governor's Representative
Christie Eller	Attorney General's Representative
Carla Heyl	Auditor's Representative
Alberto Quintela	Secretary of State's Representative
Dave Bergstrom	IAC Representative
Malcolm McDonald	IAC Representative

Review Process

The Committee developed the RFP and criteria for evaluating responses. The range of tasks included in the RFP was very broad and consultants were encouraged to respond to any area of the RFP in which they have special expertise. The RFP stated that more than one consultant may be required to fulfill all the proposed duties. A copy of the RFP is included beginning on **page 5.**

The RFP was announced in the State Register on July 10, 2006 and sent to 14 firms. Three (3) firms responded by the July 26, 2006 deadline:

Ennis Knupp & Associates
Pension Consulting Alliance
Richards & Tierney, Inc.

All firms responded to all sections of the RFP and submitted total fee bids. Additionally, Ennis Knupp & Associates and Pension Consulting Alliance submitted fee bids for specified services.

After reviewing the services that the SBI requires from an investment management consultant, the Committee determined that continuing to have the services of a general consultant and a consultant for special projects is desirable.

The Committee concluded that the general consultant would provide a broad range of consulting and analytical services. The special projects consultant would address specific needs, as necessary. It is envisioned that the special projects consultant may be called upon to assist with assignments such as an asset allocation study, review of custodial services, or other project that may be required of the Board.

Conclusions
After reviewing the strengths of each responder in relation to the above needs, the Committee recommends the following:

- **Richards & Tierney, Inc.** (R&T) should be retained as the SBI's general consultant. R&T can provide general consulting on all asset classes and offer access to a range of sophisticated analytical tools that will assist the SBI in the on-going development and evaluation of its investment programs.

- **Pension Consulting Alliance** (PCA) should be retained as the SBI's special projects consultant. Through the expertise of its managing directors and its supplementary network of consulting specialists, the PCA is well positioned to respond to a variety of tasks as specific needs arise.

Richards & Tierney has served as the SBI's primary consultant since 1986. The firm was founded in 1984 and is wholly owned by five principles. The firm is located in Chicago, IL and currently has 20 clients.

The project team assigned to the SBI's account would be:

- Ann Posey, Principal (lead)
- Tom Richards, Principal (back up)
- 13 other professionals would perform work on the account relationship

Pension Consulting Alliance was founded in 1988 and is owned by two managing directors, Allan Emkin and Nori Gerardo Lietz. The firm's primary offices are in Encino, CA. PCA is a boutique pension consulting firm which contracts with specialized firms in several disciplines to provide technical research and databases. PCA focuses on consulting for large public plans. The firm has 34 clients, many of whom utilize PCA for work on specific asset classes. PCA has worked with the SBI since 1992.

Allan Emkin, Managing Director, would serve as the SBI's contact for all special project work.

RECOMMENDATION:

The Committee recommends that the SBI authorize the Executive Director, with assistance from SBI's legal counsel, to negotiate and execute contracts with Richards & Tierney, Inc. for general consulting services and with Pension Consulting Alliance for special projects. Both contracts should cover the five year period beginning July 1, 2007 and will be subject to the standard termination provisions required by state statute.

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REQUEST FOR PROPOSAL (RFP)

REGARDING THE SELECTION OF A CONSULTANT OR CONSULTANTS TO ASSIST THE MINNESOTA STATE BOARD OF INVESTMENT (SBI) IN CARRYING OUT ITS FIDUCIARY RESPONSIBILITIES.

This RFP does not obligate the SBI to complete the project and the SBI reserves the right to cancel the solicitation if the SBI considers it to be in the best interest of the SBI.

I. INTRODUCTION

The Minnesota State Board of Investment (SBI) is charged with the investment of approximately $54.1 billion for the State of Minnesota and related constituents. Of this amount, nearly $47.0 billion represents retirement funds which the SBI invests on behalf of various State and local governmental employees.

The selected consultant(s) will report to the Board and its individual members. In carrying out its responsibilities, the consultant(s) will work closely with individual Board members and their staffs, the SBI's Executive Director and other SBI staff and members of the SBI's Investment Advisory Council.

The SBI has established performance objectives for each of the funds under its control. A brief description of each fund and its performance objectives is included as **Exhibit A**. In its efforts to meet or exceed these objectives, the SBI has sought and will continue to seek consultants' advice and recommendations in the design, development and implementation of its investment programs.

The primary advisory responsibilities of the consultant(s) selected through this RFP shall include, but are not limited to, the subjects of investment objectives and asset allocation, management structures, performance measurement and evaluation, risk management and analysis and other operational needs.

The SBI has retained the services of consulting firms since 1982. Currently, the firm of Richards & Tierney, Inc., Chicago IL serves as the SBI's primary consultant. Pension Consulting Alliance, Studio City, California serves as the SBI's consultant for special projects. The SBI has responsibility for deferred compensation investment activities. This RFP does not include services for the deferred compensation program.

The SBI is issuing this RFP to comply with State law which requires all consultant contracts be rebid each five years, not out of dissatisfaction with the performance of the incumbent consultants. The SBI remains open to alternative approaches and encourages consulting organizations to respond to this RFP.

The SBI has requested a Consultant Review Committee to prepare and distribute a formal RFP to evaluate available consulting services. The Committee will review responses and will recommend one or more candidates to the SBI for approval. The SBI assumes that the process for evaluating and selecting a consultant or consultants will proceed expeditiously and will be completed by September 2006.

II. PURPOSE

The SBI utilizes qualified consultants to provide independent, objective and creative input in the process of fulfilling its fiduciary responsibility.

The consultant(s) employed by the SBI through this RFP will be expected to offer analysis, advice and recommendations with respect to one or more of the following:

- Investment Policies
- Investment Management Structures
- Manager Selection
- Performance Evaluation
- Risk Management and Analysis
- Operations and Resources
- Special Projects
- On-Site Consultation and Assistance

Detailed requirements are set forth in Section V of this RFP.

III. CONSULTANT RELATIONSHIP

The selected Consultant(s) will report to the Board. However, the Consultant(s) will bear the responsibility for maintaining direct communication with members of the Board and their staffs, the SBI's Executive Director and other SBI staff and members of the SBI's Investment Advisory Council.

The SBI recognizes that more than one consulting firm may be required to fulfill the duties described in Section V. The SBI's goal is to hire a consultant or consultants whose experience, whether broad-based or specialized, can best satisfy its needs.

Consultants are encouraged to respond to each of the duties cited in Section V in which they have special expertise.

IV. BACKGROUND REGARDING THE SBI

A. Legal Authorization

The SBI was created pursuant to Article XI, Section 8, of the Minnesota Constitution for the purpose of "administering and directing the investment of all state funds." Statutory provisions relating to fiduciary responsibility, portfolio composition, and the types of securities in which the SBI may legally invest are set forth in Minnesota Statutes Chapter 11A and 356A, copies of which are attached as **Exhibit B**.

B. Composition

By constitutional requirement, the SBI is composed of four (4) elected officials: Governor, State Auditor, Secretary of State, and State Attorney General.

The Consultant Review Committee is composed of a designee of each member of the SBI and two (2) members of the SBI's Investment Advisory Council.

C. Investments and Managers

Currently, the SBI invests in domestic and international equities, fixed income, real estate, private equity and venture capital, resource funds (oil and gas), guaranteed investment contracts and derivative securities.

Less than 20% of the assets under the control of the SBI are managed internally. The remaining assets are managed by external money managers:

30 Domestic Equity (28 active, 3 semi-passive and 1 passive)
15 Foreign Equity (8 active, 1 passive, 3 semi-passive, and 3 emerging markets)
8 Fixed Income (5 active and 3 semi-passive)
12 Real Estate
40 Private Equity and Venture Capital
4 Resource
1 Stable Asset/GIC
6 Deferred Compensation Mutual Funds

In addition, the SBI utilizes a master custodian to provide a variety of administrative and management functions.

D. Staffing and Support Services

The SBI has a staff of nineteen (19) persons supervised by an Executive Director. This group manages the day-to-day investment responsibilities. The Executive Director reports investment developments to the SBI at its quarterly and special meetings. In order to carry out its duties effectively, the SBI staff maintains close contact with the Board members and their staffs, the State Legislature, the state-wide and local retirement systems with assets managed by the SBI, and the many firms providing various forms of investment services.

The SBI also receives investment assistance from its 17-member Investment Advisory Council (IAC), whose duties are set forth in Minnesota Statutes 11A.08. The IAC is composed of the State Commissioner of Finance, the Executive Directors of the three statewide retirement systems whose funds are invested by the SBI, a retiree representative, two active employee representatives and ten persons knowledgeable in general investment matters.

The IAC's duties are to advise the SBI on general investment policy matters and perform other advisory tasks as the SBI requests. In order to function efficiently, the IAC is organized into three separate committees: Asset Allocation, Stock and Bond Managers, and Alternative Investments. The committees consider issues of interest to the Board that fall within their specific areas of responsibility. The committees meet as needed and report to the full IAC at the IAC's quarterly meetings.

The SBI has established an Administrative Committee to oversee the Executive Director's work plan and administrative budget. The Committee is comprised of each Board member (or his/her designee) as well as the chair and vice chair of the IAC and the Directors of the three statewide retirement systems.

The Proxy Committee establishes guidelines for voting shares held by the SBI. Proxies are voted by the SBI accordingly.

At times, the SBI may establish ad hoc committees to carry out specific tasks which it may assign.

Charts illustrating the SBI's functional organizational structure and decision-making process are included as **Exhibits C and D**.

E. Funds Invested by the SBI

The funds invested by the SBI are listed below, along with their March 31, 2006 market values.

	Market Value (Billions)
Basic Retirement Funds	$22.8
Post Retirement Fund	20.9
Supplemental Investment Fund	1.2
State Deferred Compensation Plan Non-SIF Assets	3.1
Assigned Risk Plan	0.3
Permanent School Fund	0.6
Environmental Trust Fund	0.4
State Cash Accounts	4.5
Miscellaneous Accounts	0.2
Total	$54.1

A brief description of each fund is included as **Exhibit A**.

V. DUTIES OF THE CONSULTANT(S)

The SBI has established performance objectives for each of the funds under its control (See **Exhibit A**). In its efforts to meet or exceed these objectives, the SBI has sought and will continue to seek consultants' advice and recommendations in the design, development and implementation of its investment programs.

The following list of duties represents the consultant(s) primary areas of responsibility. The SBI expects the consultant(s) selected through this RFP to provide independent, objective and creative input to its decision making process.

Most of the duties outlined in this section have been addressed by the SBI in the past or are being addressed now. However, during the contract period, the consultant(s) may be required to perform any or all of the following tasks:

A. Investment Policies:

1. An initial project for the consultant retained will be to prepare a comprehensive review or analysis of the investment policies established for the Basic Retirement Funds and Post Retirement Fund and recommend changes, if appropriate. The review should address investment objectives, asset allocation and management structure. Performance benchmarks or measures at each management level (total fund, asset class segment, individual manager) should be reviewed as well.

2. Conduct a similar review for other funds managed by the SBI, as requested.

3. Provide technical assistance in analyzing the investment characteristics of available asset classes and alternative asset mixes for each fund managed by the SBI.

4. Advise in the development of guidelines and procedures for rebalancing the asset mix of each fund and for evaluating the effectiveness of such procedures.

5. Assist in developing or updating a comprehensive written investment policy statement for each fund managed by the SBI.

B. Investment Management Structures:

1. Assist in developing an appropriate investment management structure for each fund and asset class which considers the role of passive versus active management, the range and mix of available management styles, as well as the number of managers hired.

2. Assist in developing criteria for evaluating the effectiveness of the current investment management structure for each fund and for altering the investment management structures under various market conditions.

3. Keep the SBI abreast of new developments in investment management techniques within each asset class and each fund as a whole. Analyze how these new techniques might enhance the SBI's investment program and how they might best be implemented.

C. Manager Selection:

1. Assist in designing and implementing manager selection processes.

2. Analyze the SBI's needs for particular managers within each asset class.

3. Assist in establishing appropriate qualitative and quantitative requirements for reviewing potential candidates.

4. Assist in screening prospective managers and recommending finalists which meet stated requirements.

D. Performance Evaluation:

1. Assist in developing of a composite index for each fund to measure total fund performance relative to its established target asset mix.

2. Analyze actual performance relative to the composite indices established for the Basic Retirement Funds, Post Retirement Fund and Combined (Basic and Post) Funds on an on-going basis.

3. Assist in analyzing the performance of other SBI funds, as requested.

4. Where appropriate, provide performance attribution for each manager in each asset class utilized in the Basic Retirement Funds and Post Retirement Fund. Provide an analysis of the individual and aggregate risk positions of the above managers on a periodic basis.

5. Assist in establishing appropriate performance benchmarks at the asset class and individual manager level in all asset classes.

6. Assist in evaluating manager performance and consistency relative to guidelines, standards, and desired characteristics.

7. Assist the SBI in continued implementation of performance-based fees. Currently, only domestic equity managers utilize performance-based fees.

E. Risk Management and Analysis

1. Assisting in developing and maintaining comprehensive risk measurement systems for each fund under SBI management.

2. Analyze the risk exposure of each fund under SBI management.

3. Assist the SBI to develop an agency wide risk analysis program.

F. Operations and Resources:

1. Review the Executive Director's annual work plan and recommend modifications, where appropriate.

2. Comment on the adequacy of the operational resources available to carry out the plan (e.g. budget, staffing, data processing systems).
   new technologies

3. Recommend new technologies which may be available to enhance the productivity of the operation.

G. Special Requests:

1. Prepare comprehensive analyses of specific issues designated by the SBI. These may include topics such as tobacco related investments, custodial relationships or data processing needs.

2. Present such analyses to the SBI and IAC when requested.

H. On-Site Consultation and Assistance:

1. Be available to attend all quarterly and special meetings of the SBI and the Investment Advisory Council (IAC). Generally, the IAC and SBI meet on consecutive days once each quarter.

   The consultant may be called upon to comment on specific items presented to the SBI for approval, to evaluate elements of the SBI's investment management programs, to review trends in the economy and capital markets.

2. Meet with each member of the SBI or their designee on a quarterly basis, or as requested, to discuss pertinent investment management issues.

3. Meet with SBI staff, as needed, to assure timely completion of the tasks set forth in this section.

VI. PREPARATION OF PROPOSAL

The consultant's response to this RFP shall be organized in the following manner. **Please observe the page limits shown for each section.** Please note that consultants will be evaluated, in part, on their ability to communicate clearly and succinctly. **Brevity will be appreciated and considered in the evaluation of the RFP responses.**

Executive Summary
Page Limit: One

Section 1: Consulting Services Provided
Page Limit: No more than 15

- A statement of the services the consultant is prepared to provide the SBI in order to respond to one or more of the duties delineated in Section V of this RFP. If necessary, provide a statement of any other tasks the consultant believes must be performed to completely meet the SBI's needs.

- The consultant's approach for providing services delineated in Section V of this RFP.

- A statement of any expected tasks or contributions by the State of Minnesota (including the members of the Board, the Consultant Review Committee, the SBI staff, any other State agencies or the IAC) necessary to provide documents or other data needed by the consultant to accomplish the work plan.

- Designation of a project manager and project team for the consulting relationship.

- After reviewing the SBI's annual report, provide a statement of your firm's philosophy relating to the SBI's investment management structure, including but not limited to the concept of the use of customized benchmark portfolios.

- A statement describing the consultant's plan for performing and managing the contract with particular focus on the delivery of services.

Section 2: Organization and Personnel
Page Limit: No more than 10

- A description of the organization which includes the following information:

  - Date business commenced.

  - Ownership structure.

  - Affiliation with other firms (i.e. parent companies, brokerage firms, investment banking firms or other entities).

  - Description of the firm's financial position and sources of revenue. Include a copy of the firm's most recent audited financial statements.

  - Description of any litigation pending against the firm.

  - Number of consulting relationships gained and lost in each of the following periods:

    - January - December 2003
    - January - December 2004
    - January - December 2005
    - January - June 2006

  - Number and title of professional personnel gained and lost in the same periods.

- Brief description of the firm's growth plan and capacity to undertake this consulting relationship.

- A resume or biography of each professional staff person to be assigned to this consulting relationship, outlining their qualifications, previous experience in similar tasks or engagements and the relative contribution (in person-hours) of each.

Section 3: Computer Capability
Page Limit: No more than 6

- A description of the databases, software and hardware that will be used to support the delivery of investment consultant services.

- A description regarding how the databases and software will be accessed by SBI staff. Specify the hardware necessary to accomplish such access.

- A description of the consultant's plan to keep its data processing systems, databases, software and hardware current. Please reference how your organization determines the need to upgrade existing systems and when to introduce new applications.

Section 4: Experience and References
Page Limit: No more than 7

- A presentation of the previous experience of the consultant with similar tasks or engagements.

- A list of all pension fund clients under contract as of June 2006.

- A list of at least three references. The references must be current public or private pension fund clients and should have accounts of similar size and complexity as those described in this RFP. The references shall include the name, title, organization, address and phone number of the responder's primary contact at the client organization.

Section 5: Fee Proposal
Page Limit: No more than 2

- Proposed fees shall be stated in one of the following alternatives:

  (1) Total fee to be charged and a list of the services to be provided.

  (2) Individual costs related to each service the consultant proposes to provide. (All proposed fees should be all inclusive. No additional charges such as travel will be accepted).

- A statement that the fee estimate is valid for a minimum of one hundred and twenty (120) days. This period may be extended by mutual agreement between a responder and the Consultant Review Committee.

Section 6 or Attachment: **Affirmative Action Data Page, Location of Service Disclosure Form, Certification Regarding Lobbying, and Affidavit of Noncollusion.**

Page Limit: **None Specified**

- Complete the State of Minnesota Affirmative Action Data Page that appears as **Exhibit E** on page 81 of this package.

- Complete the Location of Service Disclosure Form that appears as **Exhibit F** on page 83 of this package.

- Complete the Certification Regarding Lobbying Form that appears as **Exhibit G** on page 85 of this package.

- Complete the Affidavit of Noncollusion Form that appears as **Exhibit H** on page 87 of this package.

Section 7 or Attachments: **Report Formats**

Page Limit: **None Specified**

- Sample reports or reporting formats that the consultant would intend to provide the SBI on a regular basis. Provide the production schedule and the required inputs.

- List the accounting conventions used in performance calculations. Describe the firm's ability to modify/adapt these conventions.

- A list of research reports or articles prepared by the consultant for use by its clients within the last three (3) years.

- One (1) sample report or article from the above list which relates to one or more of the following topics: market analysis, asset allocation or performance evaluation.

VII. SUBMISSION OF RESPONSE

The responder shall submit twenty (20) bound copies of its RFP response to the SBI at the following address:

Mansco Perry, III
Assistant Executive Director
Minnesota State Board of Investment
60 Empire Drive, Suite 355
St. Paul, MN 55103-3555

(651) 296-3328
minn.sbi@state.mn.us

- **No proposal received after 3:00 P.M. Central Daylight Time on July 26, 2006 will be considered.**
- **One (1) copy of the response must be unbound and signed in ink by an authorized officer of the responding firm.**
- **Copy on disk or CD readable by Microsoft Word.**
- **Each copy of the response must be sealed in a mailing envelope or package with the responder's name and address clearly written on the outside. Please identify the unbound copy on the outside of its envelope as well.**

VIII. PROJECT TIMETABLE AND RELATED REQUIREMENTS

RFP Issued. July 10, 2006

Consultants' proposals due. July 26, 2006

NO PROPOSALS RECEIVED AFTER 3:00 P.M. CENTRAL TIME ON 7/26/06 WILL BE CONSIDERED.

Proposals evaluated by the Consultant Review Committee. August 2006*

The Consultant Review Committee may require that a consultant submitting a proposal make an oral presentation to the Committee during the evaluation process. In such event, the Committee shall notify the consultant of the time and location of same.

Consultant selected by the SBI.	September 2006*
Contract completed and executed.	July 1, 2007*

* Projected dates, subject to change.

IX. INFORMATION CONTACTS

The SBI's exclusive agents for purposes of responding to consultants' inquiries on RFP requirements are:

Howard Bicker
Executive Director

Mansco Perry, III
Assistant Executive Director

Minnesota State Board of Investment
60 Empire Drive, Suite 355
St. Paul, MN 55103
Telephone: (651) 296-3328
minn.sbi@state.mn.us

Other persons are not authorized to discuss RFP requirements with responders before the proposal submission deadline.

The SBI shall not be bound by and responders may not rely on information regarding RFP requirements obtained from non-authorized persons.

X. PROPOSAL SELECTION

A. Nature of Procurement.

This procurement is undertaken by the SBI pursuant to the provisions of Minnesota Statutes, section 16C.08. As such, it is not governed by strict competitive bidding requirements frequently associated with the purchase of supplies and materials by the State and selection will not be based exclusively on the concept of lowest responsible bidder. The SBI reserves the right to waive minor informalities. Accordingly, the SBI shall select the Consultant(s) whose proposal and oral presentation, if requested, demonstrate, in SBI's sole opinion, clear capability to best fulfill the purposes of the RFP in a cost effective manner. The SBI reserves the right to accept or reject proposals, in whole or in part, and to negotiate separately as necessary to serve the best interest of the State of Minnesota.

B. Selection Criteria.

90% of the evaluation of the proposals will be based on:

1. **The quality and completeness of the consultant's answer to Section V of the RFP as it relates to the prescribed duties. (15%)**

   The approach, methodology and techniques should be appropriately specific, logical and organized. The consultant must demonstrate the capability to gather the necessary information, develop fully supportable conclusions, and communicate findings and recommendations clearly and succinctly.

2. **The consultant's demonstrated knowledge and experience in investment consulting. (15%)**

   It is imperative that the consultant has been frequently and recently engaged in the field of investment consulting for large pension plan sponsors. In addition, knowledge and experience with respect to endowments, cash accounts, and insurance portfolios is desirable.

3. **The quality of staff to be assigned to fulfill this contract and available support. (15%)**

   The consultant must assign to this contract, in terms of numbers and quality, sufficient staff with experience in the fields of financial and investment analysis, data processing and systems support, and general pension fund management. The consultant should explain to the best of its ability to what extent back-up professional personnel are available to substitute for loss of professional personnel identified as necessary in the proposal.

4. **The quality of the data processing and analytical systems necessary to support the consulting services. (15%)**

   The consultant should demonstrate its ability to manage and maintain the computer software, hardware and databases referenced in its proposal. The consultant's commitment to upgrade existing systems and to introduce new applications which will enhance its ability to perform its duties also will be assessed.

5. **The consultant's demonstrated ability to communicate effectively. (15%)**

   As the consultant will have to interact with individuals who have varying degrees of investment knowledge and experience, the consultant's ability to effectively communicate (in written and oral form) his or her opinions and observation's to audiences with varying levels of investment expertise will be evaluated.

6. **The consultant's demonstrated ability to manage the assignment effectively and assure the successful delivery of the services provided.** (15%)

   The plan for performing and managing the contract, including the framework within which the project team will function relative to the State, will be evaluated. The consultant should demonstrate its ability to manage and control its duties, including specification of the reporting mechanisms and inter-relationships between the consultant, the SBI and its staff, and outside vendors of the SBI.

XI. COST AND METHOD OF PAYMENT (10%)

- All costs relating to the proposal shall be explained in detail.
- Payment shall be made on a pro rata quarterly basis billed in arrears.
- The evaluation team reserves the right to reject unreasonable costs proposed by responders. Specifically, the evaluation team will not consider any proposed costs that are, at the sole discretion of the state, not rational or are not competitively priced. Such proposals will be regarded as non-responsive and receive no further consideration.
- 10% of the evaluation of the proposal will be based on cost.

XII. PERIOD OF CONTRACT

The contract shall be for five (5) years commencing on or about July 1, 2007.

By Minnesota law, the contract may be canceled by the State Board of Investment, the Commissioner of Administration of the State of Minnesota, or the contractor at any time, with or without cause, upon thirty (30) day written notice to the other party.

XIII. PUBLIC STATUS OF PROPOSALS SUBMITTED

Pursuant to Minnesota law, all proposals submitted in response to this RFP shall become the property of the State of Minnesota. Such proposals shall also constitute public records in accordance with Minn. Stat. section 13.591 and shall be available for viewing and reproduction by any person.

OTHER GENERAL REQUIREMENTS

Affidavit of Noncollusion

Each responder must complete the attached Affidavit of Noncollusion and include it with the response.

Conflicts of Interest

Responder must provide a list of all entities with which it has relationships that create, or appear to create, a conflict of interest with the work that is contemplated in this request for proposals. The list should indicate the name of the entity, the relationship, and a discussion of the conflict.

Proposal Contents

By submission of a proposal, Responder warrants that the information provided is true, correct and reliable for purposes of evaluation for potential contract award. The submission of inaccurate or misleading information may be grounds for disqualification from the award as well as subject the responder to suspension or debarment proceedings as well as other remedies available by law.

Disposition of Responses

All materials submitted in response to this RFP will become property of the State and will become public record in accordance with Minnesota Statutes, section 13.591, after the evaluation process is completed. Pursuant to the statute, completion of the evaluation process occurs when the government entity has completed negotiating the contract with the selected vendor. If the Responder submits information in response to this RFP that it believes to be trade secret materials, as defined by the Minnesota Government Data Practices Act, Minn. Stat. § 13.37, the Responder must: clearly mark all trade secret materials in its response at the time the response is submitted, include a statement with its response justifying the trade secret designation for each item, and defend any action seeking release of the materials it believes to be trade secret, and indemnify and hold harmless the State, its agents and employees, from any judgments or damages awarded against the State in favor of the party requesting the materials, and any and all costs connected with that defense. This indemnification survives the State's award of a contract. In submitting a response to this RFP, the Responder agrees that this indemnification survives as long as the trade secret materials are in possession of the State.

The State will not consider the prices submitted by the Responder to be proprietary or trade secret materials.

Organizational Conflicts of Interest

The responder warrants that, to the best of its knowledge and belief, and except as otherwise disclosed, there are no relevant facts or circumstances which could give rise to organizational conflicts of interest. An organizational conflict of interest exists when, because of existing or planned activities or because of relationships with other persons, a vendor is unable or potentially unable to render impartial assistance or advice to the State, or the vendor's objectivity in performing the contract work is or might be otherwise impaired, or the vendor has an unfair competitive advantage. The responder agrees that, if after award, an organizational conflict of interest is discovered, an immediate and full disclosure in writing must be made to the Assistant Director of the Department of Administration's Materials Management Division ("MMD") which must include a description of the action which the contractor has taken or proposes to take to avoid or mitigate such conflicts. If an organization conflict of interest is determined to exist, the State may, at its discretion, cancel the contract. In the event the responder was aware of an organizational conflict of interest prior to the award of the contract and did not disclose the conflict to MMD, the State may terminate the contract for default. The provisions of this clause must be included in all subcontracts for work to be performed similar to the service provided by the prime contractor, and the terms "contract," "contractor," and "contracting officer" modified appropriately to preserve the State's rights.

Preference to Targeted Group and Economically Disadvantaged Business and Individuals

In accordance with Minnesota Rules, part 1230.1810, subpart B and Minnesota Rules, part 1230.1830, certified Targeted Group Businesses and individuals submitting proposals as prime contractors shall receive the equivalent of a six percent preference in the evaluation of their proposal, and certified Economically Disadvantaged Businesses and individuals submitting proposals as prime contractors shall receive the equivalent of a six percent preference in the evaluation of their proposal. For information regarding certification, contact the Materials Management Helpline at 651.296.2600, or you may reach the Helpline by e-mail at mmd.help.line@state.mn.us. For TTY/TDD communications, contact the Helpline through the Minnesota Relay Services at 1.800.627.3529.

Human Rights Requirements

For all contracts estimated to be in excess of $100,000, responders are required to complete the attached Affirmative Action Data page and return it with the response. As required by Minn. R. 5000.3600, "It is hereby agreed between the parties that Minn. Stat. § 363A.36 and Minn. R.5000.3400 - 5000.3600 are incorporated into any contract between these parties based upon this specification or any modification of it. A copy of Minn. Stat. § 363A.36 and Minn. R.5000.3400 - 5000.3600 are available upon request from the contracting agency."

Certification Regarding Lobbying

Federal money will be used or may potentially be used to pay for all or part of the work under the contract, therefore the Proposer must complete the attached **Certification Regarding Lobbying** and submit it as part of its proposal.

Certification Regarding Debarment, Suspension, Ineligibility, and Voluntary Exclusion.

Federal money will be used or may potentially be used to pay for all or part of the work under the contract, therefore the Proposer must certify the following, as required by the regulations implementing Executive Order 12549.

Certification Regarding Debarment, Suspension, Ineligibility and Voluntary Exclusion -- Lower Tier Covered Transactions

Instructions for Certification

1. By signing and submitting this proposal, the prospective lower tier participant is providing the certification set out below.

2. The certification in this clause is a material representation of fact upon which reliance was placed when this transaction was entered into. If it is later determined that the prospective lower tier participant knowingly rendered an erroneous certification, in addition to other remedies available to the Federal Government, the department or agency with which this transaction originated may pursue available remedies, including suspension and/or debarment.

3. The prospective lower tier participant shall provide immediate written notice to the person to which this proposal is submitted if at any time the prospective lower tier participant learns that its certification was erroneous when submitted or had become erroneous by reason of changed circumstances.

4. The terms *covered transaction, debarred, suspended, ineligible, lower tier covered transaction, participant, person, primary covered transaction, principal, proposal, and voluntarily excluded*, as used in this clause, have the meaning set out in the Definitions and Coverages sections of rules implementing Executive Order 12549. You may contact the person to which this proposal is submitted for assistance in obtaining a copy of those regulations.

5. The prospective lower tier participant agrees by submitting this response that, should the proposed covered transaction be entered into, it shall not knowingly enter into any lower tier covered transaction with a person who is proposed for debarment under 48 CFR part 9, subpart 9.4, debarred, suspended, declared ineligible, or voluntarily excluded from participation in this covered transaction, unless authorized by the department or agency with which this transaction originated.

6. The prospective lower tier participant further agrees by submitting this proposal that it will include this clause titled "Certification Regarding Debarment, Suspension, Ineligibility and Voluntary Exclusion--Lower Tier Covered Transaction," without modification, in all lower tier covered transactions and in all solicitations for lower tier covered transactions.

7. A participant in a covered transaction may rely upon a certification of a prospective participant in a lower tier covered transaction that it is not proposed for debarment under 48 CFR part 9, subpart 9.4, debarred, suspended, ineligible, or voluntarily excluded from covered transactions, unless it knows that the certification is erroneous. A participant may decide the method and frequency by which it determines the eligibility of its principals. Each participant may, but is not required to, check the List of Parties Excluded from Federal Procurement and Nonprocurement Programs.

8. Nothing contained in the foregoing shall be construed to require establishment of a system of records in order to render in good faith the certification required by this clause. The knowledge and information of a participant is not required to exceed that which is normally possessed by a prudent person in the ordinary course of business dealings.

9. Except for transactions authorized under paragraph 5 of these instructions, if a participant in a covered transaction knowingly enters into a lower tier covered transaction with a person who is proposed for debarment under 48 C.F.R. 9, subpart 9.4, suspended, debarred, ineligible, or voluntarily excluded from participation in this transaction, in addition to other remedies available to the federal government, the department or agency with which this transaction originated may pursue available remedies, including suspension and/or debarment.

Certification Regarding Debarment, Suspension, Ineligibility and Voluntary Exclusion - Lower Tier Covered Transactions

1. The prospective lower tier participant certifies, by submission of this proposal, that neither it nor its principals is presently debarred, suspended, proposed for debarment, declared ineligible, or voluntarily excluded from participation in this transaction by any Federal department or agency.

2. Where the prospective lower tier participant is unable to certify to any of the statements in this certification, such prospective participant shall attach an explanation to this proposal.

Insurance Requirements

Consultant will provide evidence of professional liability/errors and omissions insurance coverage to SBI. If Consultant has employees located in Minnesota, Consultant will provide evidence of workers' compensation insurance coverage that complies with Minnesota state law.

DATE: July 10, 2006

Tab D

COMMITTEE REPORT

DATE: August 29, 2006

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

FROM: Stock and Bond Manager Committee

The Stock and Bond Manager Committee met on Wednesday, August 16, 2006 to consider the following agenda items:

- Review the manager performance for the period ending June 30, 2006.
- A review of RiverSource Investments, international equity manager.

No action is required by the SBI / IAC.

INFORMATION ITEMS:

1. Review the manager performance for the period ending June 30, 2006.

- ***Domestic Equity Program***

For the period ending June 30, 2006, the **Domestic Equity Program** underperformed over all time periods.

Time period	Total Program	DE Asset Class Target*
Quarter	-2.3%	-2.0%
1 Year	8.9%	9.6%
3 Years	12.5%	12.6%
5 Years	3.2%	3.5%

* 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 June 30, 2006, the **Fixed Income Program** outperformed the Lehman Aggregate over all time periods.

Time period	Total Program	Lehman Aggregate
Quarter	0.0%	-0.1%
1 Year	-0.2%	-0.8%
3 Years	2.7%	2.1%
5 Years	5.4%	5.0%

The performance evaluation reports for the fixed income managers start on the **blue page A-101** of this Tab.

- *International Equity Program*

For the period ending June 30, 2006, the **International Equity Program** outperformed the composite index over the year, and underperformed over the quarter, three and five year time periods.

Time Period	Total* Program	Int'l Equity Asset Class Target**
Quarter	-0.1%	0.0%
1 Year	28.2%	27.9%
3 Year	24.7%	25.3%
5 Year	11.1%	11.2%

* 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-113** of this Tab.

2. Review of RiverSource Investments, International Equity Manager.

The International Equity Active Developed Markets Manager Search Committee re-interviewed RiverSource (formerly American Express) / Threadneedle on April 28, 2005. Following the re-interview, the Search Committee recommended to the Stock & Bond Manager Committee that RiverSource be retained and be reviewed again by Staff after the end of the State's fiscal year on June 30, 2006.

RiverSource was hired by the SBI in March 2000 for an active developed markets mandate. RiverSource acquired Threadneedle Asset Management, a London based firm, on September 30, 2003. On November 7, 2003, the Threadneedle team assumed management of the SBI's international developed markets equity portfolio. The majority of Threadneedle's assets are managed in regional products which have built successful track records over time. Prior to their acquisition by RiverSource, Threadneedle did not have experience in managing multi-regional strategies such as MSCI EAFE or MSCI World ex US. After the firm was re-interviewed last year, some Committee members felt it was not clear how the firm was implementing the top-down portion of their strategy in the SBI's multi-regional portfolio, while other Committee members felt that over a one-year time period, it is difficult to analyze the strengths and weaknesses of Threadneedle's process and performance. Since Threadneedle had demonstrated the ability over time to add value through stock selection in their regional products, the Committee decided to retain the firm and review them again after the 2006 fiscal year end.

RiverSource/Threadneedle's (hereinafter RiverSource) investment process continues to focus on the key forces of change in markets and the companies that will benefit. They have an integrated research process, combining top down views on macroeconomics and trends in global sectors with bottom-up fundamental company analysis. Research is conducted within a clear macroeconomic and thematic framework and is organized along regional and global sector lines. RiverSource's process has a dynamic style, retaining a flexible approach to growth/value biases within the portfolio. They believe that in a global marketplace, where sustainable competitive advantage is rare, their research should focus on the dynamics of change.

Over the past year RiverSource has focused more on adding value in the SBI's portfolio via stock selection, where they have a demonstrated track record, rather than through country-weighting bets. The results have been positive. Relative performance has improved significantly over the year. The portfolio added 1.6% in relative value over the benchmark return in FY06. In addition, (based on Factset processes), attribution shows that the portfolio's value added over the one-year time period beginning July 1, 2005 through June 30, 2006 was entirely due to positive stock selection. RiverSource added value in eighteen of twenty-two of the benchmark's constituent countries.

The Committee decided to take no action regarding RiverSource Investments at this time.

STATE BOARD OF INVESTMENT

Domestic Equity Manager Evaluation Reports

Second Quarter, 2006

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COMBINED RETIREMENT FUNDS
ACTIVE DOMESTIC STOCK MANAGERS
Periods Ending June, 2006

	Quarter		1 Year		3 Years		5 Years	
	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %
Russell 1000 Core Aggregate	-1.6	-1.7	8.6	9.1				
Russell 1000 Growth Aggregate	-6.7	-3.9	3.6	6.1				
Russell 1000 Value Aggregate	-0.2	0.6	9.0	12.1				
Russell 2000 Growth Aggregate	-7.0	-7.3	16.0	14.6				
Russell 2000 Value Aggregate	-4.8	-2.7	10.4	14.6				
Active Manager Aggregate	**-3.4**	**-2.3**	**8.0**	**9.8**				
Semi-Passive Aggregate	**-1.7**	**-1.7**	**8.9**	**9.1**				
Passive Manager (BGI)	**-2.0**	**-2.0**	**9.7**	**9.6**				
Historical Aggregate	**-2.3**	**-2.0**	**8.9**	**9.5**				
SBI DE Asset Class Target		**-2.0**		**9.6**				
Russell 3000 Index		**-2.0**		**9.6**				

	2006		2005		2004		2003		2002	
	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %
Russell 1000 Core Aggregate	2.8	2.8	6.4	6.3	14.5	11.4				
Russell 1000 Growth Aggregate	-4.9	-0.9	7.3	5.3	6.1	6.3				
Russell 1000 Value Aggregate	4.4	6.6	6.0	7.1	14.3	16.5				
Russell 2000 Growth Aggregate	8.2	6.1	4.7	4.2	9.7	14.3				
Russell 2000 Value Aggregate	4.9	10.4	7.7	4.7	25.0	22.2				
Active Manager Aggregate	1.6	3.6	6.5	6.0	12.5	12.3				
Semi-Passive Aggregate	2.8	2.8	6.2	6.3	11.7	11.4				
Passive Manager (BGI)	3.3	3.2	6.2	6.1	12.0	11.9				
Historical Aggregate		3.2	6.4	6.1	12.2	11.9				
SBI DE Asset Class Target		3.2		6.1		11.9				
Russell 3000 Index		3.2		6.1		11.9				

COMBINED RETIREMENT FUNDS
ACTIVE DOMESTIC STOCK MANAGERS
Periods Ending June, 2006
Performance versus Russell Style Benchmarks for All Periods

	Quarter		1 Year		3 Years		5 Years		Since Inception (1)	
	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %
LARGE CAP										
Russell 1000 Core										
Franklin Portfolio	-0.7	-1.7	9.5	9.1	14.1	12.0	2.8	3.1	11.8	11.4
New Amsterdam Partners (2)	-1.4	-1.7	6.1	9.1	14.5	13.3	5.3	6.3	13.6	11.7
UBS Global	-2.2	-1.7	9.9	9.1	13.3	12.0	7.0	3.1	11.0	10.4
Voyageur-Chicago Equity	-5.3	-1.7	4.0	9.1	7.8	12.0	0.4	3.1	-1.2	-0.1
Aggregate	-1.6	-1.7	8.6	9.1						
Russell 1000 Growth										
Alliance Capital	-7.7	-3.9	6.7	6.1	7.5	8.3	-0.8	-0.8	14.2	10.7
Cohen, Klingenstein & Marks	-8.2	-3.9	-6.3	6.1	3.8	8.3	-6.0	-0.8	8.0	8.8
Holt-Smith & Yates	-4.1	-3.9	-0.2	6.1	6.3	8.3	-1.0	-0.8	-2.2	-7.8
INTECH	-4.4	-3.9	6.7	6.1					4.6	2.8
Jacobs Levy	-5.1	-3.9	4.0	6.1					1.5	2.8
Lazard Asset Mgmt.	-6.6	-3.9	7.4	6.1					3.0	2.8
Sands Capital	-7.6	-3.9	3.1	6.1					0.6	2.8
Winslow-Large Cap	-4.8	-3.9	10.3	6.1					6.8	2.8
Zevenbergen Capital	-6.6	-3.9	13.0	6.1	13.4	8.3	0.4	-0.8	10.1	8.8
Aggregate	-6.7	-3.9	3.6	6.1						
Russell 1000 Value										
Barrow, Hanley	-0.3	0.6	6.7	12.1					12.7	12.0
Earnest Partners	-0.3	0.6	12.0	12.1	18.8	15.7	8.1	6.9	6.4	7.5
Lord Abbett & Co.	-0.3	0.6	12.4	12.1					8.8	12.0
LSV Asset Mgmt.	1.6	0.6	15.3	12.1					16.1	12.0
Oppenheimer	-1.0	0.6	4.5	12.1	10.5	15.7	3.2	6.9	12.2	11.8
Systematic Financial Mgmt.	-0.3	0.6	12.6	12.1					12.4	12.0
Aggregate	-0.2	0.6	9.0	12.1						
SMALL CAP										
Russell 2000 Growth										
McKinley Capital	-5.7	-7.3	18.3	14.6					9.4	9.8
Next Century Growth	-4.5	-7.3	30.6	14.6	24.1	16.3	5.5	3.5	-1.3	-1.6
Summit Creek Advisors	-9.9	-7.3	6.1	14.6	11.5	16.3	0.9	3.5	0.2	-1.6
Turner Investment Partners	-8.1	-7.3	18.3	14.6					10.2	9.8
Aggregate	-7.0	-7.3	16.0	14.6						
Russell 2000 Value										
RiverSource/Kenwood	-2.1	-2.7	16.0	14.6					16.2	14.8
Goldman Sachs	-4.3	-2.7	12.7	14.6					12.0	14.8
Hotchkis & Wiley	-8.4	-2.7	4.9	14.6					13.7	14.8
Martingale Asset Mgmt.	-3.3	-2.7	9.3	14.6					17.0	14.8
Peregrine Capital	-4.5	-2.7	11.8	14.6	22.2	21.0	13.6	13.1	17.6	15.9
Aggregate	-4.8	-2.7	10.4	14.6						
Active Mgr. Aggregate (3)	-3.4	-2.3	8.0	9.8						

(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.

COMBINED RETIREMENT FUNDS
ACTIVE DOMESTIC STOCK MANAGERS
Calendar Year Returns Versus (1)
Russell Style Benchmarks for All Periods

	2005		2004		2003		2002		2001	
	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %
LARGE CAP										
Russell 1000 Core										
Franklin Portfolio	3.4	6.3	15.7	11.4	32.9	29.9	-25.4	-21.7	-6.6	-12.5
New Amsterdam Partners (2)	7.6	6.3	14.8	11.4	34.2	38.0	-17.5	-16.2	-3.3	-5.6
UBS Global	8.6	6.3	13.4	11.4	30.7	29.9	-14.7	-21.7	5.2	-12.5
Voyageur-Chicago Equity	3.9	6.3	10.6	11.4	23.2	29.9	-20.6	-21.7	-19.4	-12.5
Aggregate	6.4	6.3	14.5	11.4						
Russell 1000 Growth										
Alliance Capital	14.2	5.3	5.7	6.3	22.4	29.7	-26.8	-27.9	-13.7	-20.4
Cohen, Klingenstein & Marks	-0.9	5.3	6.1	6.3	41.2	29.7	-35.0	-27.9	-25.0	-20.4
Holt-Smith & Yates	1.5	5.3	7.3	6.3	22.1	29.7	-28.0	-27.9	-1.7	-20.4
INTECH (1)	7.8	5.3								
Jacobs Levy (1)	5.3	5.3								
Lazard Asset Mgmt. (1)	6.6	5.3								
Sands Capital (1)	10.9	5.3								
Winslow-Large Cap (1)	10.5	5.3								
Zevenbergen Capital	9.0	5.3	13.1	6.3	49.3	29.7	-36.2	-27.9	-29.0	-20.4
Aggregate	7.3	5.3	6.1	6.3						
Russell 1000 Value										
Barrow, Hanley (1)	9.6	7.1								
Earnest Partners	15.6	7.1	18.9	16.5	32.0	30.0	-18.1	-15.5	-0.4	-5.6
Lord Abbett & Co. (1)	3.5	7.1								
LSV Asset Mgmt. (1)	12.5	7.1								
Oppenheimer	1.0	7.1	12.0	16.5	28.9	30.0	-15.5	-15.5	-7.0	-5.6
Systematic Financial Mgmt. (1)	10.3	7.1								
Aggregate	6.0	7.1	14.3	16.5						
SMALL CAP										
Russell 2000 Growth										
McKinley Capital	0.2	4.2	12.2	14.3						
Next Century Growth	25.2	4.2	6.4	14.3	50.7	48.5	-33.3	-30.3	-22.8	-9.2
Summit Creek Advisors	4.4	4.2	8.9	14.3	37.6	48.5	-25.0	-30.3	-6.1	-9.2
Turner Investment Partners	6.2	4.2	11.6	14.3						
Aggregate	4.7	4.2	9.7	14.3						
Russell 2000 Value										
RiverSource/Kenwood	4.8	4.7	25.8	22.2						
Goldman Sachs	4.1	4.7	19.9	22.2						
Hotchkis & Wiley	10.4	4.7	27.1	22.2						
Martingale Asset Mgmt.	6.2	4.7	30.8	22.2						
Peregrine Capital	10.1	4.7	23.6	22.2	44.2	46.0	-8.1	-11.4	12.6	14.0
Aggregate	7.7	4.7	25.0	22.2						
Active Mgr. Aggregate (3)	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.

COMBINED RETIREMENT FUNDS
DOMESTIC STOCK MANAGERS
Periods Ending June, 2006
Versus Manager Benchmarks

	Quarter		1 Year		3 Years		5 Years		Since Inception (2)		Market	
	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Value (in millions)	Pool %
ACTIVE MANAGERS												
Large Cap Core (R1000)												
Franklin Portfolio	-0.7	-1.7	9.5	9.1	14.1	12.4	2.8	5.0	11.8	11.5	$607.6	2.8%
New Amsterdam Partners	-1.4	-1.7	6.1	9.1	14.5	13.1	5.3	5.5	13.6	13.1	$477.4	2.2%
UBS Global	-2.2	-1.7	9.9	9.1	13.3	12.1	7.0	3.9	11.0	10.5	$885.7	4.1%
Voyageur-Chicago Equity	-5.3	-1.7	4.0	9.1	7.8	12.0	0.4	3.7	-1.2	0.2	$47.3	0.2%
Aggregate	-1.6	-1.7	8.6	9.1								
Large Cap Growth (R1000 Growth)												
Alliance Capital	-7.7	-3.9	6.7	6.1	7.5	8.2	-0.8	0.1	14.2	10.7	$491.1	2.3%
Cohen, Klingenstein & Marks	-8.2	-3.9	-6.3	6.1	3.8	8.7	-6.0	2.3	8.0	10.5	$388.3	1.8%
Holt-Smith & Yates	-4.1	-3.9	-0.2	6.1	6.3	8.9	-1.0	3.3	-2.2	3.2	$78.9	0.4%
INTECH	-4.4	-3.9	6.7	6.1					4.6	2.8	$298.2	1.4%
Jacobs Levy	-5.1	-3.9	4.0	6.1					1.5	2.8	$120.8	0.6%
Lazard Asset Mgmt.	-6.6	-3.9	7.4	6.1					3.0	2.8	$27.2	0.1%
Sands Capital	-7.6	-3.9	3.1	6.1					0.6	2.8	$200.9	0.9%
Winslow-Large Cap	-4.8	-3.9	10.3	6.1					6.8	2.8	$52.7	0.2%
Zevenbergen Capital	-6.6	-3.9	13.0	6.1	13.4	8.7	0.4	0.9	10.1	11.8	$229.1	1.1%
Aggregate	-6.7	-3.9	3.6	6.1								
Large Cap Value (R1000 Value)												
Barrow, Hanley	-0.3	0.6	6.7	12.1					12.7	12.0	$322.6	1.5%
Earnest Partners	-0.3	0.6	12.0	12.1	18.8	16.9	8.1	11.4	6.4	13.3	$72.9	0.3%
Lord Abbett & Co.	-0.3	0.6	12.4	12.1					8.8	12.0	$298.3	1.4%
LSV Asset Mgmt.	1.6	0.6	15.3	12.1					16.1	12.0	$412.3	1.9%
Oppenheimer	-1.0	0.6	4.5	12.1	10.5	15.6	3.2	5.1	12.2	12.3	$717.9	3.3%
Systematic Financial Mgmt.	-0.3	0.6	12.6	12.1					12.4	12.0	$192.1	0.9%
Aggregate	-0.2	0.6	9.0	12.1								
Small Cap Growth (R2000 Growth)												
McKinley Capital	-5.7	-7.3	18.3	14.6					9.4	9.8	$212.8	1.0%
Next Century Growth	-4.5	-7.3	30.6	14.6	24.1	16.0	5.5	5.3	-1.3	0.5	$151.2	0.7%
Summit Creek Advisors	-9.9	-7.3	6.1	14.6	11.5	16.3	0.9	5.8	0.2	2.9	$148.9	0.7%
Turner Investment Partners	-8.1	-7.3	18.3	14.6					10.2	9.8	$162.1	0.7%
Aggregate	-7.0	-7.3	16.0	14.6								
Small Cap Value (R2000 Value)												
Goldman Sachs	-4.3	-2.7	12.7	14.6					12.0	14.8	$124.2	0.6%
Hotchkis & Wiley	-8.4	-2.7	4.9	14.6					13.7	14.8	$129.0	0.6%
Martingale Asset Mgmt.	-3.3	-2.7	9.3	14.6					17.0	14.8	$138.6	0.6%
Peregrine Capital Mgmt.	-4.5	-2.7	11.8	14.6	22.2	21.2	13.6	14.3	17.6	18.2	$206.3	0.9%
RiverSource/Kenwood	-2.1	-2.7	16.0	14.6					16.2	14.8	$61.0	0.3%
Aggregate	-4.8	-2.7	10.4	14.6								
Active Mgr. Aggregate (1)	-3.4	-2.3	8.0	9.8								

(1) The Active Manager Aggregate Benchmark is the aggregate of the weighted average of the active manager benchmarks and is not the Russell 3000.

COMBINED RETIREMENT FUNDS
DOMESTIC STOCK MANAGERS
Calendar Year Returns Versus
Manager Benchmarks (1)

	2005		2004		2003		2002		2001	
	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %
ACTIVE MANAGERS										
Large Cap Core (R1000)										
Franklin Portfolio	3.4	6.3	15.7	11.4	32.9	36.9	-25.4	-19.8	-6.6	-5.4
New Amsterdam Partners	7.6	6.3	14.8	11.4	34.2	37.1	-17.5	-22.2	-3.3	3.7
UBS Global	8.6	6.3	13.4	11.4	30.7	30.8	-14.7	-20.6	5.2	-11.0
Voyageur-Chicago Equity	3.9	6.3	10.6	11.4	23.2	28.9	-20.6	-20.7	-19.4	-12.0
Aggregate	6.4	6.3	14.5	11.4						
Large Cap Growth (R1000 Growth)										
Alliance Capital	14.2	5.3	5.7	6.3	22.4	26.3	-26.8	-24.0	-13.7	-15.3
Cohen, Klingenstein & Marks	-0.9	5.3	6.1	6.3	41.2	39.3	-35.0	-23.8	-25.0	-11.2
Holt-Smith & Yates	1.5	5.3	7.3	6.3	22.1	31.3	-28.0	-19.0	-1.7	4.6
INTECH (1)	7.8	5.3								
Jacobs Levy (1)	5.3	5.3								
Lazard Asset Mgmt. (1)	6.6	5.3								
Sands Capital (1)	10.9	5.3								
Winslow-Large Cap (1)	10.5	5.3								
Zevenbergen Capital	9.0	5.3	13.1	6.3	49.3	31.3	-36.2	-24.2	-29.0	-3.2
Aggregate	7.3	5.3	6.1	6.3						
Large Cap Value (R1000 Value)										
Barrow, Hanley (1)	9.6	7.1								
Earnest Partners	15.6	7.1	18.9	16.5	32.0	41.8	-18.1	-11.6	-0.4	11.5
Lord Abbett & Co. (1)	3.5	7.1								
LSV Asset Mgmt. (1)	12.5	7.1								
Oppenheimer	1.0	7.1	12.0	16.5	28.9	31.4	-15.5	-20.7	-7.0	-9.5
Systematic Financial Mgmt. (1)	10.3	7.1								
Aggregate	6.0	7.1	14.3	16.5						
Small Cap Growth (R2000 Growth)										
McKinley Capital	0.2	4.2	12.2	14.3						
Next Century Growth	25.2	4.2	6.4	14.3	50.7	48.5	-33.3	-27.8	-22.8	-5.5
Summit Creek Advisors	4.4	4.2	8.9	14.3	37.6	51.3	-25.0	-26.7	-6.1	4.6
Turner Investment Partners	6.2	4.2	11.6	14.3						
Aggregate	4.7	4.2	9.7	14.3						
Small Cap Value (R2000 Value)										
RiverSource/Kenwood	4.8	4.7	25.8	22.2						
Goldman Sachs	4.1	4.7	19.9	22.2						
Hotchkis & Wiley	10.4	4.7	27.1	22.2						
Martingale Asset Mgmt.	6.2	4.7	30.8	22.2						
Peregrine Capital Mgmt.	10.1	4.7	23.6	22.2	44.2	44.2	-8.1	-6.9	12.6	22.9
Aggregate	7.7	4.7	25.0	22.2						
Active Mgr. Aggregate (2)	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) The Active Manager Aggregate Benchmark is the aggregate of the weighted average of the active manager benchmarks and is not the Russell 3000.

COMBINED RETIREMENT FUNDS
DOMESTIC STOCK MANAGERS
Periods Ending June, 2006
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	-1.7	-1.7	10.0	9.1	12.8	12.1	4.8	4.0	11.0	10.2	$2,972.0	13.6%
Franklin Portfolio	-1.3	-1.7	9.2	9.1	11.9	12.1	3.6	4.0	9.9	10.2	$2,112.1	9.7%
JP Morgan	-2.2	-1.7	7.3	9.1	11.3	12.1	2.9	4.0	10.1	10.2	$2,283.6	10.5%
Semi-Passive Aggregate (R1000)	-1.7	-1.7	8.9	9.1	12.1	12.1	3.8	4.0	10.4	10.2		
PASSIVE MANAGER (R3000)												
Barclays Global Investors	-2.0	-2.0	9.7	9.6	12.6	12.6	3.5	3.5	9.8	9.6	$7,157.1	32.9%
									Since 1/1/84			
Historical Aggregate (3)	**-2.3**	**-2.0**	**8.9**	**9.5**	**12.5**	**12.5**	**3.2**	**4.0**	**11.4**	**11.7**	$21,780.5	100.0%
SBI DE Asset Class Target (4)		-2.0		9.6		12.6		3.5		11.6		
Russell 3000		-2.0		9.6		12.6		3.5		12.1		
Wilshire 5000		-2.0		9.9		13.0		4.0		12.0		
Russell 1000		-1.7		9.1		12.0		3.1		12.3		
Russell 2000		-5.0		14.6		18.7		8.5		10.4		

(1) Active and emerging manager benchmarks are Russell Style Indexes beginning 10/1/03, and were custom benchmarks prior to 10/1/03.

(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)

	2005		2004		2003		2002		2001	
	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %
SEMI-PASSIVE MANAGERS										
Barclays Global Investors	7.6	6.3	11.7	11.4	30.0	28.5	-19.1	-19.7	-7.8	-9.7
Franklin Portfolio	6.1	6.3	11.7	11.4	26.9	28.5	-20.2	-19.7	-9.0	-9.7
JP Morgan	4.7	6.3	11.7	11.4	28.9	28.5	-21.8	-19.7	-8.7	-9.7
Semi-Passive Aggregate (R1000)	6.2	6.3	11.7	11.4	28.8	28.5	-20.3	-19.7	-8.5	-9.7
PASSIVE MANAGER (R3000)										
Barclays Global Investors	6.2	6.1	12.0	11.9	30.9	31.2	-21.4	-21.5	-11.8	-11.7
Historical Aggregate (2)	**6.4**	**6.1**	**12.2**	**11.9**	**31.0**	**31.4**	**-22.4**	**-21.1**	**-11.1**	**-9.9**
SBI DE Asset Class Target (3)		6.1		11.9		31.2		-21.5		-11.7
Russell 3000		6.1		11.9		31.1		-21.5		-11.5
Wilshire 5000		6.4		12.5		31.6		-20.9		-11.0
Russell 1000		6.3		11.4		29.9		-21.7		-12.5
Russell 2000		4.6		18.3		47.3		-20.5		2.5

(1) Active and Emerging Manager benchmarks are Russell Style Indexes beginning 10/1/03, and were custom benchmarks prior to 10/1/03.

(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.

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Large Cap Core (R1000)

Large Cap Core (R1000)

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FRANKLIN PORTFOLIO ASSOCIATES
Periods Ending June, 2006

Portfolio Manager: John Cone — **Assets Under Management: $607,629,011**

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 1.0 percentage point (ppt) during the quarter. Strong overall stock selection contributed to performance and was particularly effective within the consumer discretionary, utilities and financial services sectors.

For the year, the portfolio outperformed the Russell 1000 index by 0.4 ppt. Strong overall stock selection aided returns, particularly within the materials & processing and health care sectors.

Recommendation

No action required

Quantitative Evaluation

Period Returns
(Annualized for multi-year periods)

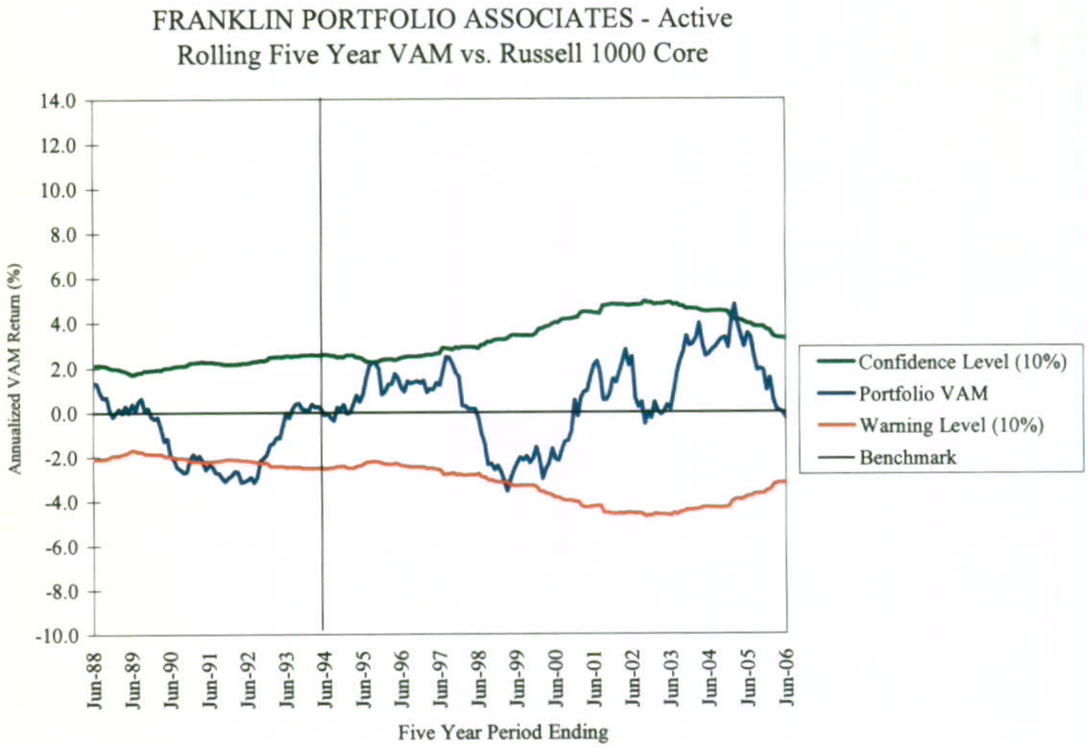
	Actual	Russell 1000 Core	Manager Benchmark
Last Quarter	-0.7%	-1.7%	-1.7%
Last 1 year	9.5	9.1	9.1
Last 2 years	10.8	8.5	8.5
Last 3 years	14.1	12.0	12.4
Last 4 years	8.4	9.2	10.5
Last 5 years	2.8	3.1	5.0
Since Inception (4/89)	11.8	11.4	11.5

Calendar Year Returns

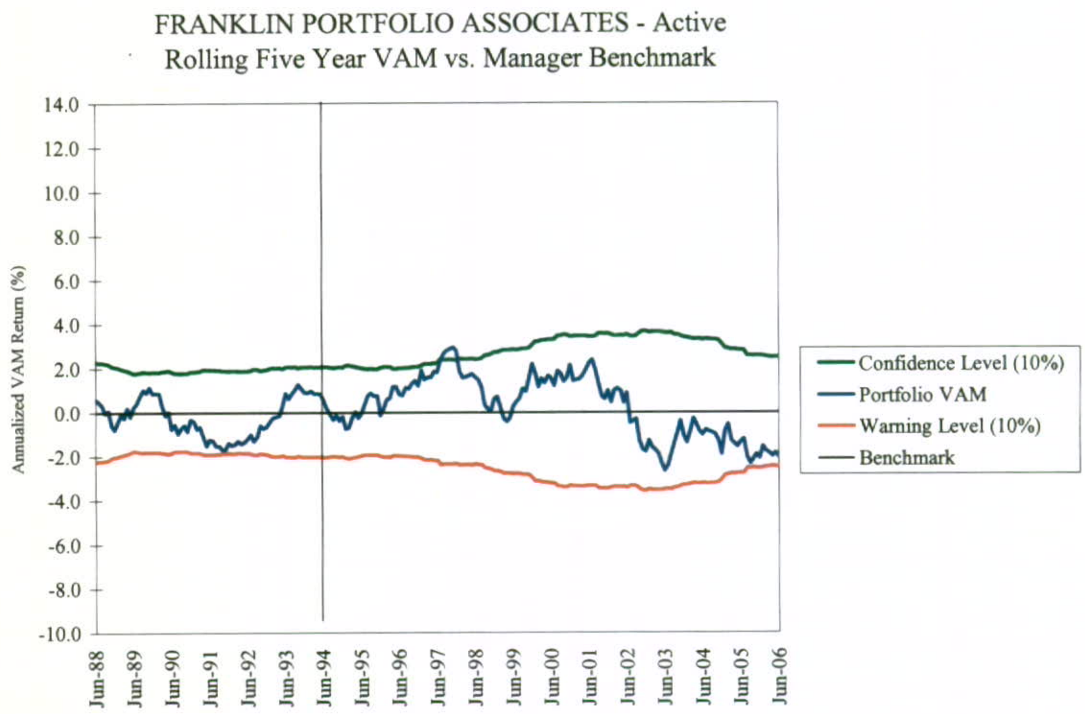
	Actual	Russell 1000 Core	Manager Benchmark
2005	3.4%	6.3%	6.3%
2004	15.7	11.4	11.4
2003	32.9	29.9	36.9
2002	-25.4	-21.7	-19.8
2001	-6.6	-12.5	-5.4

FRANKLIN PORTFOLIO ASSOCIATES
Periods Ending June, 2006

Portfolio Manager: John Cone **Assets Under Management: $607,629,011**



Note: Area to the left of vertical line includes performance prior to retention by the SBI.



Note: Area to the left of vertical line includes performance prior to retention by the SBI.

NEW AMSTERDAM PARTNERS
Periods Ending June, 2006

Portfolio Manager: Michelle Clayman **Assets Under Management: $477,374,508**

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)	Manager Benchmark
Last Quarter	-1.4%	-1.7%	-1.7%
Last 1 year	6.1	9.1	9.1
Last 2 years	9.8	8.5	8.5
Last 3 years	14.5	13.3	13.1
Last 4 years	10.7	10.5	9.7
Last 5 years	5.3	6.3	5.5
Since Inception (4/94)	13.6	11.7	13.1

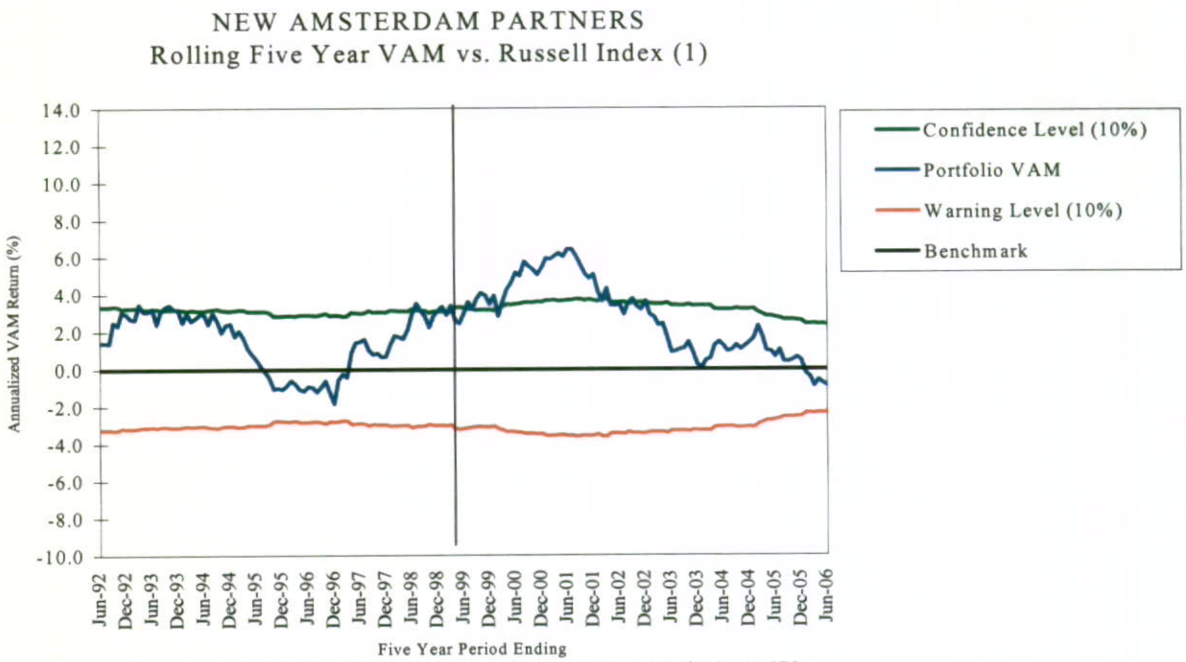
Calendar Year Returns

	Actual	Russell Index (1)	Manager Benchmark
2005	7.6%	6.3%	6.3%
2004	14.8	11.4	11.4
2003	34.2	38.0	37.1
2002	-17.5	-16.2	-22.2
2001	-3.3	-5.6	3.7

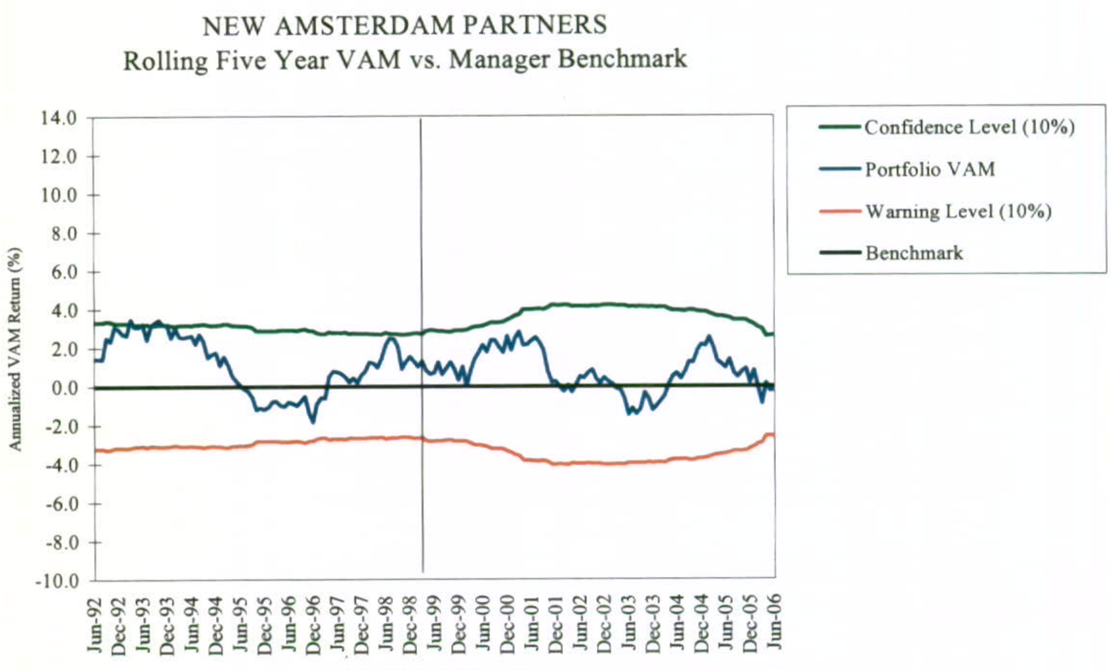
(1) New Amsterdam Partners' published benchmark is the Russell 1000 Core beginning 10/1/03. Prior to that date it was the Russell Midcap index.

NEW AMSTERDAM PARTNERS
Periods Ending June, 2006

Portfolio Manager: Michelle Clayman **Assets Under Management: $477,374,508**



Note: Area to the left of vertical line includes performance prior to retention by the SBI.



Note: Area to the left of vertical line includes performance prior to retention by the SBI.

UBS GLOBAL ASSET MANAGEMENT, INC.
Periods Ending June, 2006

Portfolio Manager: John Leonard **Assets Under Management: $885,733,779**

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 index during the quarter by 0.5 percentage point (ppt) during the quarter. Weak stock selection within the utilities and materials & processing sectors pressured returns. For the year, the portfolio outperformed the Russell 1000 index by 0.8 ppt. Strong stock selection within health care and integrated oils contributed to performance.

Staff conducted a site visit during the quarter. Philosophy, process and people were reviewed, as well as the organization. Specific portfolio securities were reviewed in detail. Bill DeAllaume, energy analyst, provided an industry overview.

Recommendation

No action required.

Quantitative Evaluation

Period Returns
(Annualized for multi-year periods)

	Actual	Russell 1000 Core	Manager Benchmark
Last Quarter	-2.2%	-1.7%	-1.7%
Last 1 year	9.9	9.1	9.1
Last 2 years	10.4	8.5	8.5
Last 3 years	13.3	12.0	12.1
Last 4 years	10.9	9.2	9.4
Last 5 years	7.0	3.1	3.9
Since Inception (7/93)	11.0	10.4	10.5

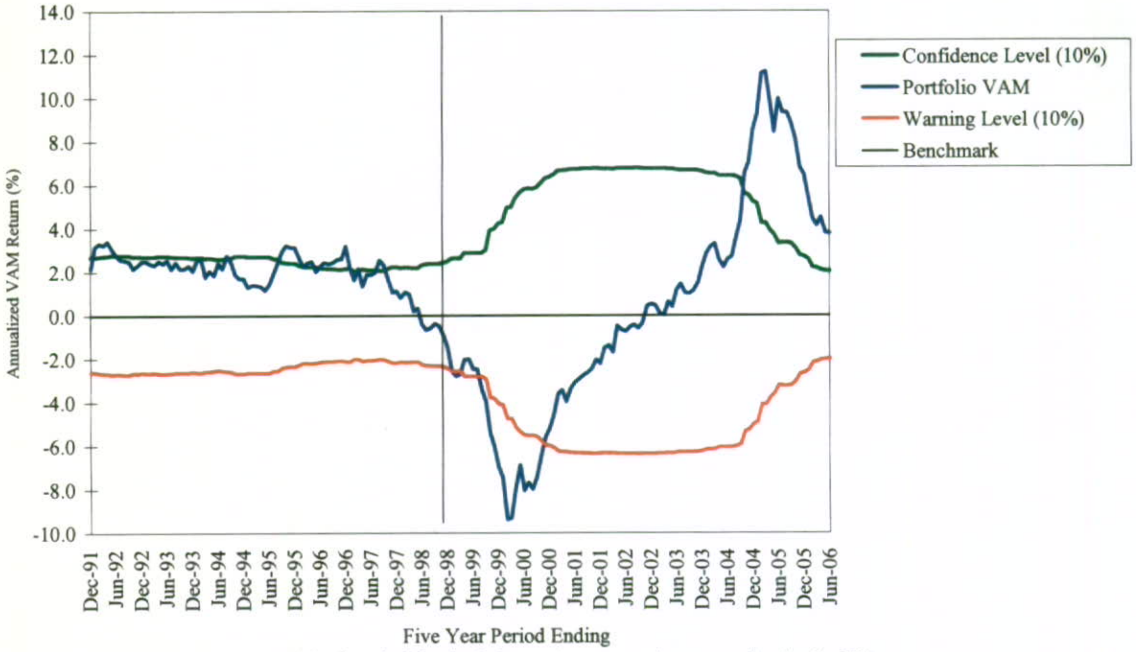
Calendar Year Returns

	Actual	Russell 1000 Core	Manager Benchmark
2005	8.6%	6.3%	6.3%
2004	13.4	11.4	11.4
2003	30.7	29.9	30.8
2002	-14.7	-21.7	-20.6
2001	5.2	-12.5	-11.0

UBS GLOBAL ASSET MANAGEMENT, INC.
Periods Ending June, 2006

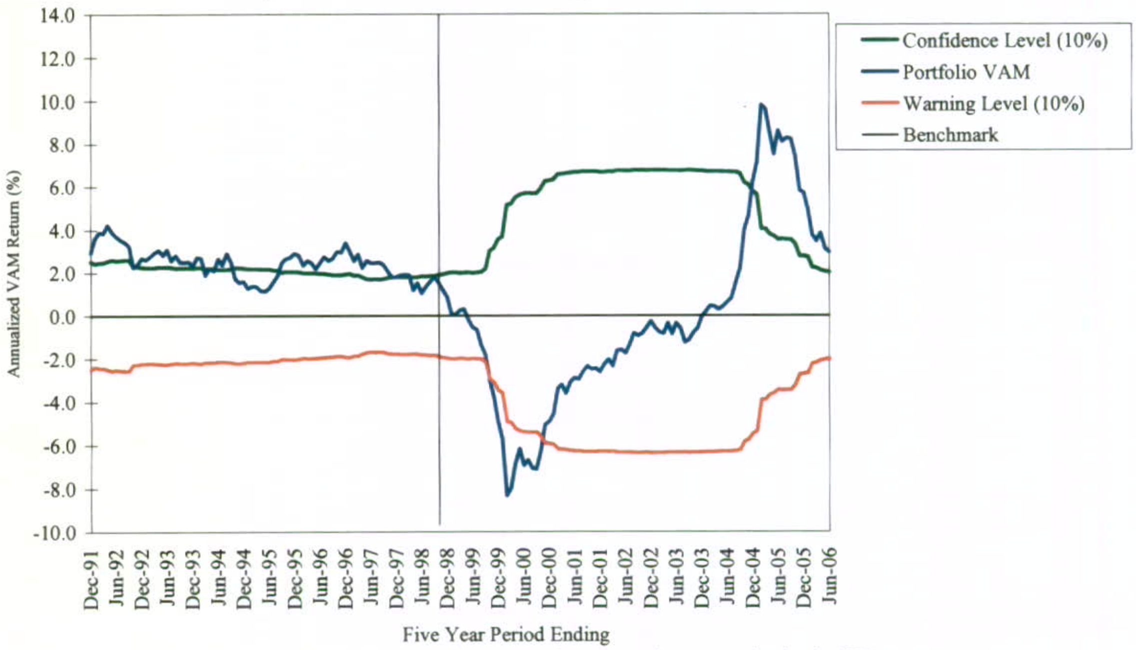
Portfolio Manager: John Leonard **Assets Under Management: $885,733,779**

UBS GLOBAL ASSET MANAGEMENT, INC.
Rolling Five Year VAM vs. Russell 1000 Core



Note: Area to the left of vertical line includes performance prior to retention by the SBI.

UBS GLOBAL ASSET MANAGEMENT, INC.
Rolling Five Year VAM vs. Manager Benchmark



Note: Area to the left of vertical line includes performance prior to retention by the SBI.

VOYAGEUR ASSET MANAGEMENT
Periods Ending June, 2006

Portfolio Manager: Charles Henderson **Assets Under Management: $47,300,440**

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 index by 3.6 percentage points (ppt) for the quarter and 5.1 ppt for the year. In both periods overweight allocations to the technology and consumer discretionary sectors proved detrimental. Weak stock selection within these sectors detracted from performance in both periods.

Staff conducted a site visit during the quarter. Philosophy, process and people were reviewed in detail. Team remains committed to their conservative growth process and high quality portfolio bias. Approximately half of the clients benchmark to the Russell 1000 Growth and half to the S&P 500. MSBI is the only client using the Russell 1000 benchmark.

Recommendation

No action required.

Quantitative Evaluation

Period Returns
(Annualized for multi-year periods)

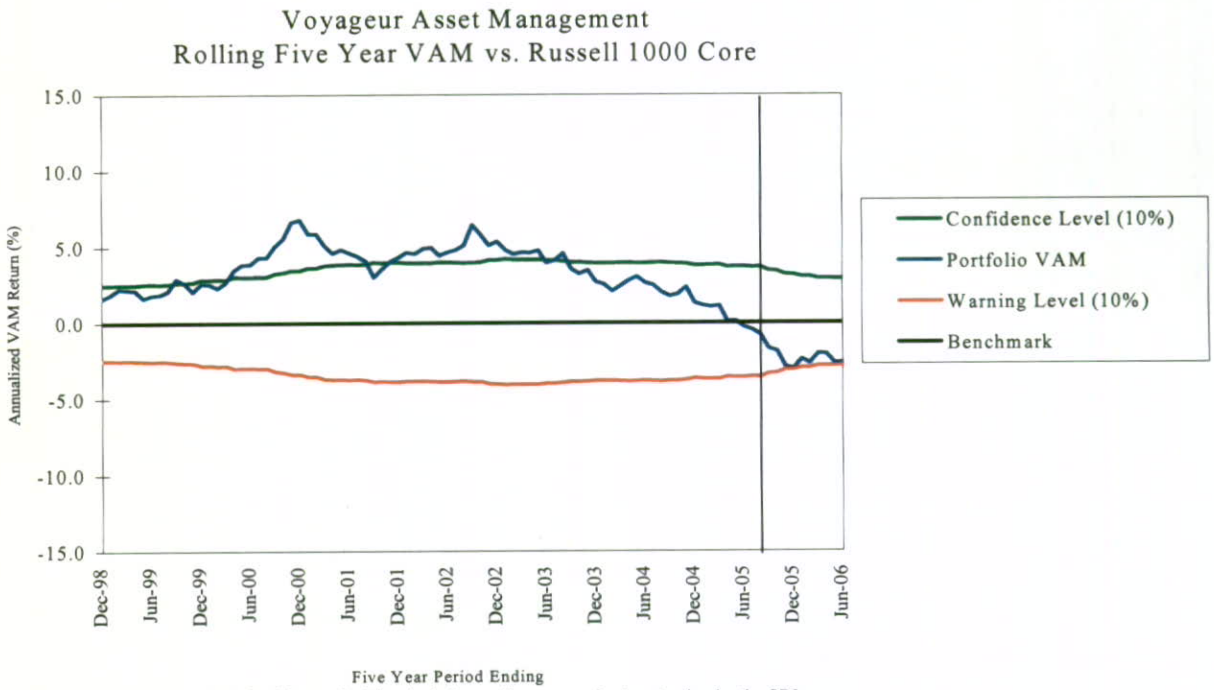
	Actual	Russell 1000 Core	Manager Benchmark
Last Quarter	-5.3%	-1.7%	-1.7%
Last 1 year	4.0	9.1	9.1
Last 2 years	2.9	8.5	8.5
Last 3 years	7.8	12.0	12.0
Last 4 years	5.1	9.2	8.8
Last 5 years	0.4	3.1	3.7
Since Inception (7/00)	-1.2	-0.1	0.2

Calendar Year Returns

	Actual	Russell 1000 Core	Manager Benchmark
2005	3.9%	6.3%	6.3%
2004	10.6	11.4	11.4
2003	23.2	29.9	28.9
2002	-20.6	-21.7	-20.7
2001	-19.4	-12.5	-12.0

VOYAGEUR ASSET MANAGEMENT
Periods Ending June, 2006

Portfolio Manager: Charles Henderson **Assets Under Management: $47,300,440**



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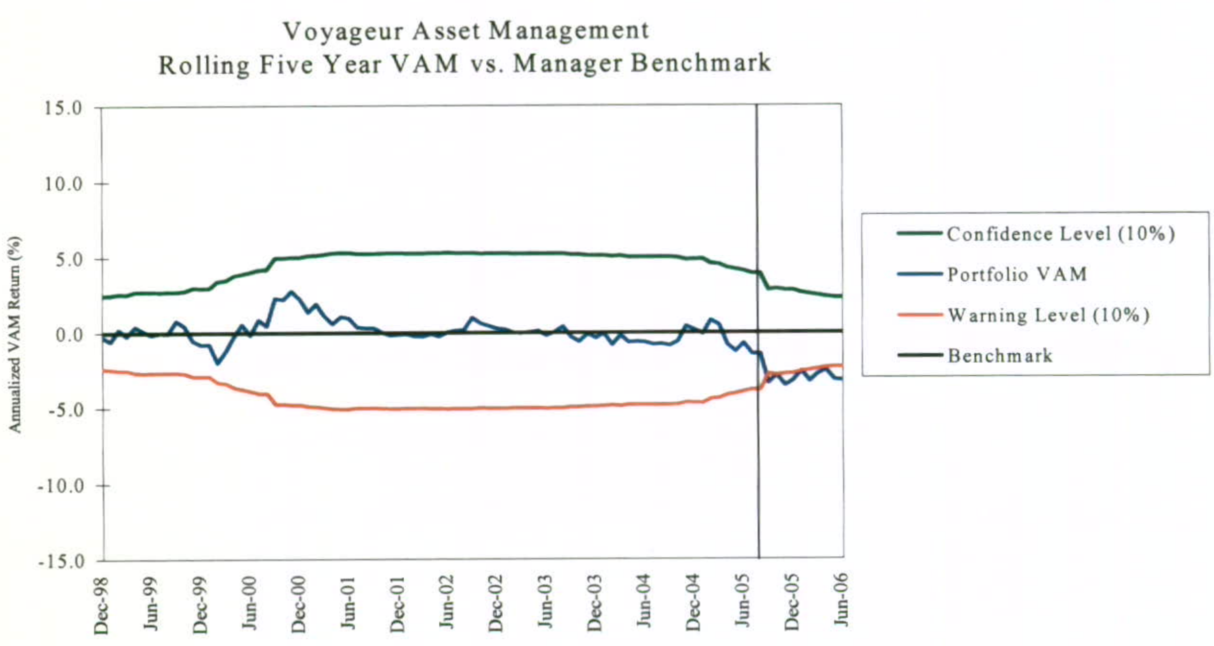

Note: Area to left of vertical line includes performance prior to retention by the SBI.

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Large Cap Growth (R1000 Growth)

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Large Cap Growth (R1000 Growth)

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ALLIANCE CAPITAL MANAGEMENT
Periods Ending June, 2006

Portfolio Manager: Jack Koltes **Assets Under Management: $491,079,117**

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 3.8 percentage points (ppt) during the quarter. The portfolio is positioned aggressively for growth; however, fear dominated the period and growth stocks were punished. Weak stock selection in the technology sector was the primary detractor from performance.

For the year, the portfolio outperformed the Russell 1000 Growth index by 0.6 ppt. Strong stock selection within technology proved beneficial. An overweight allocation to the other energy sector coupled with strong stock selection contributed to performance.

Recommendation

No action required.

Quantitative Evaluation

Period Returns
(Annualized for multi-year periods)

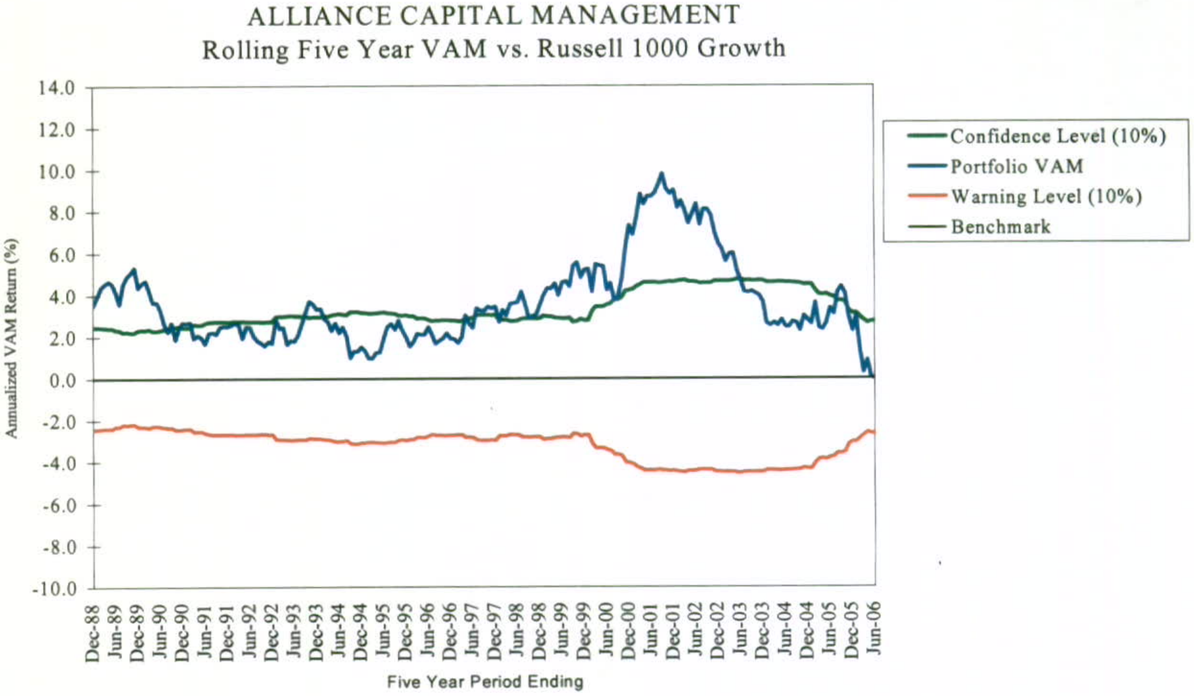
	Actual	Russell 1000 Growth	Manager Benchmark
Last Quarter	-7.7%	-3.9%	-3.9%
Last 1 year	6.7	6.1	6.1
Last 2 years	5.3	3.9	3.9
Last 3 years	7.5	8.3	8.2
Last 4 years	5.4	7.0	6.5
Last 5 years	-0.8	-0.8	0.1
Since Inception (1/84)	14.2	10.7	10.7

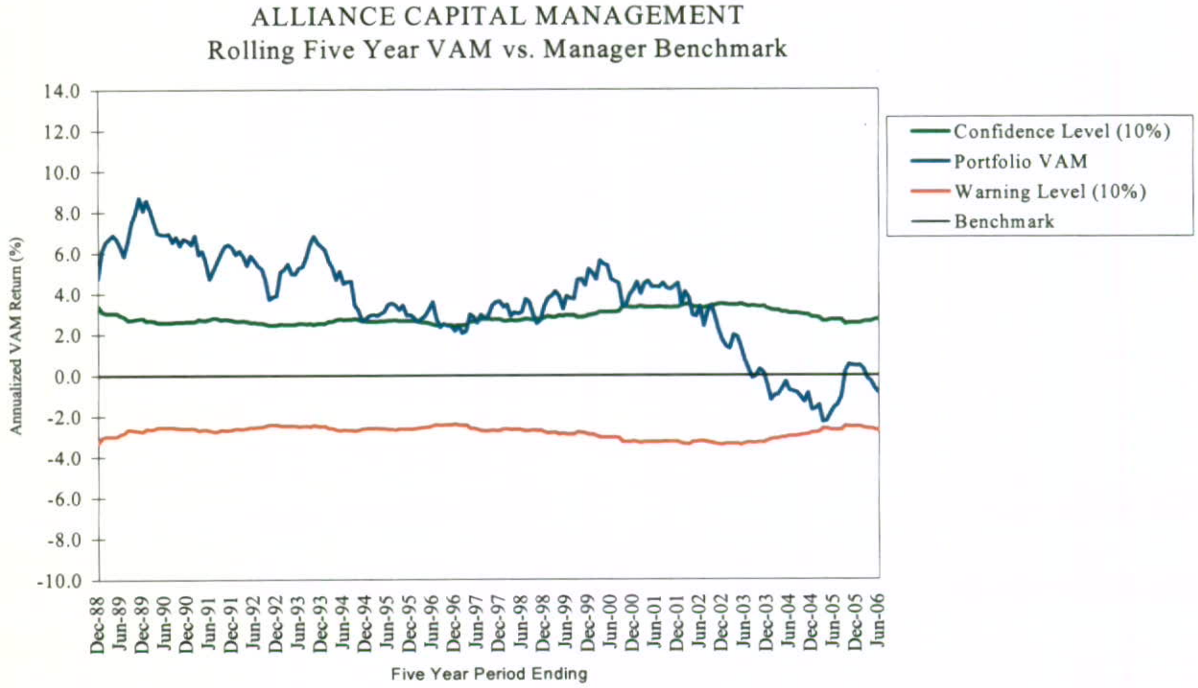
Calendar Year Returns

	Actual	Russell 1000 Growth	Manager Benchmark
2005	14.2%	5.3%	5.3%
2004	5.7	6.3	6.3
2003	22.4	29.7	26.3
2002	-26.8	-27.9	-24.0
2001	-13.7	-20.4	-15.3

ALLIANCE CAPITAL MANAGEMENT
Periods Ending June, 2006

Portfolio Manager: Jack Koltes | **Assets Under Management: $491,079,117**





COHEN KLINGENSTEIN & MARKS INCORPORATED
Periods Ending June, 2006

Portfolio Manager: George Cohen — **Assets Under Management: $388,271,431**

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

The portfolio underperformed the Russell 1000 Growth index by 4.3 percentage points (ppt) during the quarter and 12.4 ppt for the year. An overweight position in consumer discretionary coupled with weak stock selection detracted from performance in both periods.

Senior portfolio manager Joel Silverstein left the firm after six years. It was hoped that Joel would assume more firm management duties, but he preferred to focus on investing. Sheila Devlin, who joined the firm in September 2005, has assumed the role of managing director.

Recommendation

Due to prolonged underperformance, staff has been reviewing the firm intensely. The team is able to articulate to staff a clear thesis for the portfolio holdings and continues to take a very long term view. Staff will continue to monitor personnel changes closely.

Quantitative Evaluation

Period Returns
(Annualized for multi-year periods)

	Actual	Russell 1000 Growth	Manager Benchmark
Last Quarter	-8.2%	-3.9%	-3.9%
Last 1 year	-6.3	6.1	6.1
Last 2 years	-1.4	3.9	3.9
Last 3 years	3.8	8.3	8.7
Last 4 years	5.1	7.0	9.1
Last 5 years	-6.0	-0.8	2.3
Since Inception (4/94)	8.0	8.8	10.5

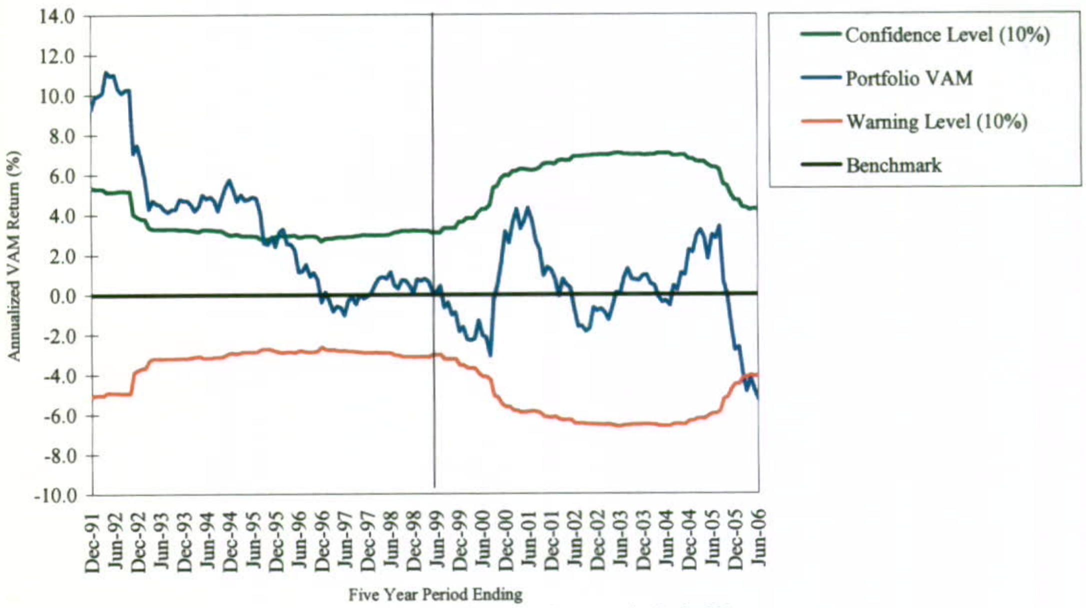
Calendar Year Returns

	Actual	Russell 1000 Growth	Manager Benchmark
2005	-0.9%	5.3%	5.3%
2004	6.1	6.3	6.3
2003	41.2	29.7	39.3
2002	-35.0	-27.9	-23.8
2001	-25.0	-20.4	-11.2

COHEN KLINGENSTEIN & MARKS INCORPORATED
Periods Ending June, 2006

Portfolio Manager: George Cohen **Assets Under Management: $388,271,431**

COHEN KLINGENSTEIN & MARKS
Rolling Five Year VAM vs. Russell 1000 Growth



Note: Area to the left of vertical line includes performance prior to retention by the SBI.

COHEN KLINGENSTEIN & MARKS
Rolling Five Year VAM vs. Manager Benchmark

Note: Area to the left of vertical line includes performance prior to retention by the SBI.

HOLT-SMITH & YATES ADVISORS
Periods Ending June, 2006

Portfolio Manager: Ryan Erickson **Assets Under Management: $78,895,590**

Investment Philosophy

Holt-Smith & Yates invest in companies demonstrating superior growth in earnings over a long period of time. They use bottom-up fundamental analysis, focusing on historical and forecasted sales and earnings trends, profit margin trends, debt levels and industry conditions. They seek to purchase large-cap companies that meet their strict valuation criteria and have superior fundamentals to that of the benchmark. Companies must currently have a five year projected growth rate of over 20% and a PEG (P/E ratio to growth rate) ratio of below 150%. They hold concentrated portfolios; industry positions are limited to one stock per industry, and the portfolio has low turnover.

Staff Comments

No comment at this time.

Recommendation

No action required.

Quantitative Evaluation

Period Returns
(Annualized for multi-year periods)

	Actual	Russell 1000 Growth	Manager Benchmark
Last Quarter	-4.1%	-3.9%	-3.9%
Last 1 year	-0.2	6.1	6.1
Last 2 years	2.5	3.9	3.9
Last 3 years	6.3	8.3	8.9
Last 4 years	3.2	7.0	6.0
Last 5 years	-1.0	-0.8	3.3
Since Inception (7/00)	-2.2	-7.8	3.2

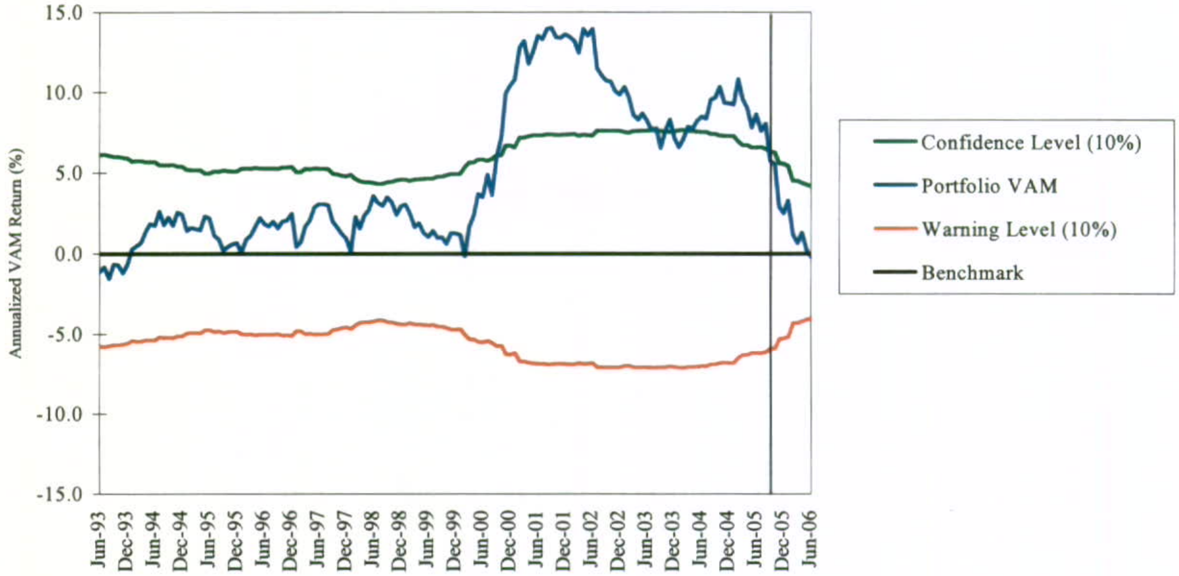
Calendar Year Returns

	Actual	Russell 1000 Growth	Manager Benchmark
2005	1.5%	5.3%	5.3%
2004	7.3	6.3	6.3
2003	22.1	29.7	31.3
2002	-28.0	-27.9	-19.0
2001	-1.7	-20.4	4.6

HOLT-SMITH & YATES ADVISORS
Periods Ending June, 2006

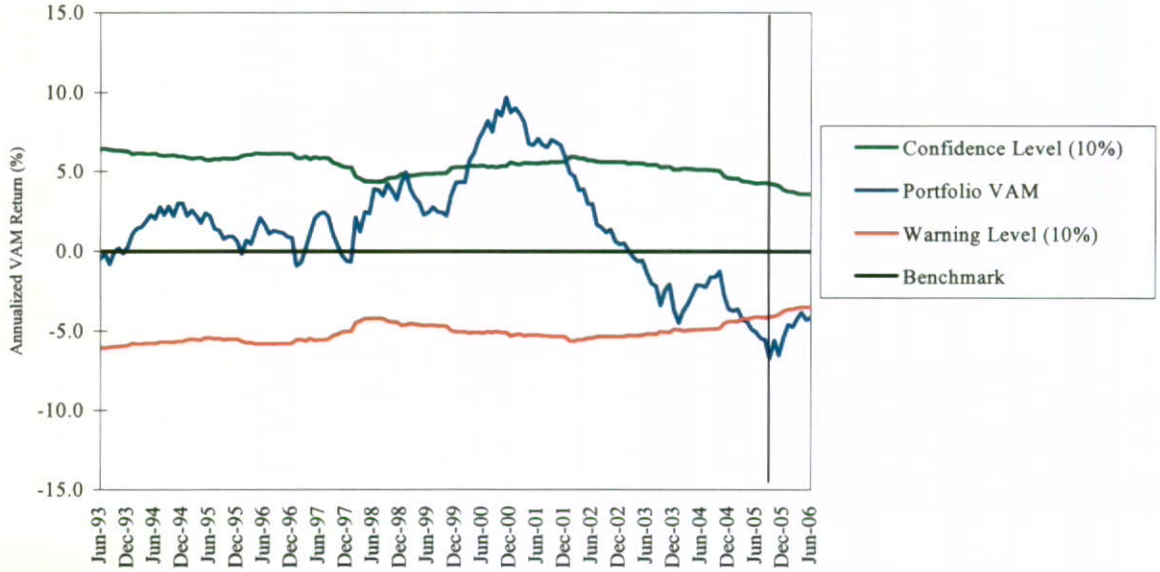
Portfolio Manager: Ryan Erickson **Assets Under Management: $78,895,590**

Holt-Smith & Yates
Rolling Five Year VAM vs. Russell 1000 Growth



Five Year Period Ending
Note: Area to left of vertical line includes performance prior to retention by the SBI.

Holt-Smith & Yates
Rolling Five Year VAM vs. Manager Benchmark



Five Year Period Ending
Note: Area to left of vertical line includes performance prior to the retention by the SBI.

INTECH (ENHANCED INVESTMENT TECHNOLOGIES, LLC)
Periods Ending June, 2006

Portfolio Manager: Robert Fernholz **Assets Under Management: $ 298,215,886**

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

No comment at this time.

Recommendation

No action required.

Quantitative Evaluation

Period Returns
(Annualized for multi-year periods)

	Actual	Russell 1000 Growth	Manager Benchmark
Last Quarter	-4.4%	-3.9%	-3.9%
Last 1 year	6.7	6.1	6.1
Last 2 years	N/A	N/A	N/A
Last 3 years	N/A	N/A	N/A
Last 4 years	N/A	N/A	N/A
Last 5 years	N/A	N/A	N/A
Since Inception (1/05)	4.6	2.8	2.8

Calendar Year Returns

	Actual	Russell 1000 Growth	Manager Benchmark
2005	7.8%	5.3%	5.3%
2004	N/A	N/A	N/A
2003	N/A	N/A	N/A
2002	N/A	N/A	N/A
2001	N/A	N/A	N/A

INTECH (ENHANCED INVESTMENT TECHNOLOGIES, LLC)
Periods Ending June, 2006

Portfolio Manager: Robert Fernholz **Assets Under Management: $298,215,886**

VAM Graphs will be drawn for period ending 3/31/07.

JACOBS LEVY EQUITY MANAGEMENT
Periods Ending June, 2006

Portfolio Manager: Bruce Jacobs and Ken Levy **Assets Under Management: $120,775,691**

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.

Staff Comments

No comment at this time.

Recommendation

No action required.

Quantitative Evaluation

Period Returns
(Annualized for multi-year periods)

	Actual	Russell 1000 Growth	Manager Benchmark
Last Quarter	-5.1%	-3.9%	-3.9%
Last 1 year	4.0	6.1	6.1
Last 2 years	N/A	N/A	N/A
Last 3 years	N/A	N/A	N/A
Last 4 years	N/A	N/A	N/A
Last 5 years	N/A	N/A	N/A
Since Inception (1/05)	1.5	2.8	2.8

Calendar Year Returns

	Actual	Russell 1000 Growth	Manager Benchmark
2005	5.3%	5.3%	5.3%
2004	N/A	N/A	N/A
2003	N/A	N/A	N/A
2002	N/A	N/A	N/A
2001	N/A	N/A	N/A

JACOBS LEVY EQUITY MANAGEMENT
Periods Ending June, 2006

Portfolio Manager: Bruce Jacobs and Ken Levy **Assets Under Management: $120,775,691**

VAM Graphs will be drawn for period ending 3/31/07

LAZARD ASSET MANAGEMENT LLC
Periods Ending June, 2006

Portfolio Manager: Jim Tatera **Assets Under Management: $27,189,300**

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	Manager Benchmark
Last Quarter	-6.6%	-3.9%	-3.9%
Last 1 year	7.4	6.1	6.1
Last 2 years	N/A	N/A	N/A
Last 3 years	N/A	N/A	N/A
Last 4 years	N/A	N/A	N/A
Last 5 years	N/A	N/A	N/A
Since Inception (1/05)	3.0	2.8	2.8

Calendar Year Returns

	Actual	Russell 1000 Growth	Manager Benchmark
2005	6.6%	5.3%	5.3%
2004	N/A	N/A	N/A
2003	N/A	N/A	N/A
2002	N/A	N/A	N/A
2001	N/A	N/A	N/A

LAZARD ASSET MANAGEMENT LLC
Periods Ending June, 2006

Portfolio Manager: Jim Tatera **Assets Under Management: $27,189,300**

VAM Graphs will be drawn for period ending 3/31/07

SANDS CAPITAL MANAGEMENT LLC
Periods Ending June, 2006

Portfolio Manager: Frank Sands, Sr. **Assets Under Management: $200,865,455**

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 underperformed the Russell 1000 Growth index by 3.7 percentage point (ppt) during the quarter. An overweight allocation to health care coupled with weak stock selection pressured returns. An underweight position in utilities represented a missed opportunity; weak stock selection enhanced the negative impact.

For the year, the portfolio underperformed the Russell 1000 Growth index by 3.0 ppt. Ineffective overall sector allocation decisions detracted from performance, particularly an overweight position in health care and an underweight allocation to the other energy sector.

Recommendation

No action required.

Quantitative Evaluation

Period Returns
(Annualized for multi-year periods)

	Actual	Russell 1000 Growth	Manager Benchmark
Last Quarter	-7.6%	-3.9%	-3.9%
Last 1 year	3.1	6.1	6.1
Last 2 years	N/A	N/A	N/A
Last 3 years	N/A	N/A	N/A
Last 4 years	N/A	N/A	N/A
Last 5 years	N/A	N/A	N/A
Since Inception (1/05)	0.6	2.8	2.8

Calendar Year Returns

	Actual	Russell 1000 Growth	Manager Benchmark
2005	10.9%	5.3%	5.3%
2004	N/A	N/A	N/A
2003	N/A	N/A	N/A
2002	N/A	N/A	N/A
2001	N/A	N/A	N/A

SANDS CAPITAL MANAGEMENT LLC
Periods Ending June, 2006

Portfolio Manager: Frank Sands, Sr. **Assets Under Management: $200,865,455**

VAM Graphs will be drawn for period ending 3/31/07

WINSLOW CAPITAL MANAGEMENT, INC.
Periods Ending June, 2006

Portfolio Manager: Clark Winslow **Assets Under Management: $52,716,961**

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	Manager Benchmark
Last Quarter	-4.8%	-3.9%	-3.9%
Last 1 year	10.3	6.1	6.1
Last 2 years	N/A	N/A	N/A
Last 3 years	N/A	N/A	N/A
Last 4 years	N/A	N/A	N/A
Last 5 years	N/A	N/A	N/A
Since Inception (1/05)	6.8	2.8	2.8

Calendar Year Returns

	Actual	Russell 1000 Growth	Manager Benchmark
2005	10.5%	5.3%	5.3%
2004	N/A	N/A	N/A
2003	N/A	N/A	N/A
2002	N/A	N/A	N/A
2001	N/A	N/A	N/A

WINSLOW CAPITAL MANAGEMENT, INC.
Periods Ending June, 2006

Portfolio Manager: Clark Winslow **Assets Under Management: $52,716,961**

VAM Graphs will be drawn for period ending 3/31/07

ZEVENBERGEN CAPITAL INC.
Periods Ending June, 2006

Portfolio Manager: Nancy Zevenbergen **Assets Under Management: $229,072,310**

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

No comment at this time.

Recommendation

No action required.

Quantitative Evaluation

Period Returns
(Annualized for multi-year periods)

	Actual	Russell 1000 Growth	Manager Benchmark
Last Quarter	-6.6%	-3.9%	-3.9%
Last 1 year	13.0	6.1	6.1
Last 2 years	7.3	3.9	3.9
Last 3 years	13.4	8.3	8.7
Last 4 years	12.4	7.0	7.3
Last 5 years	0.4	-0.8	0.9
Since Inception (4/94)	10.1	8.8	11.8

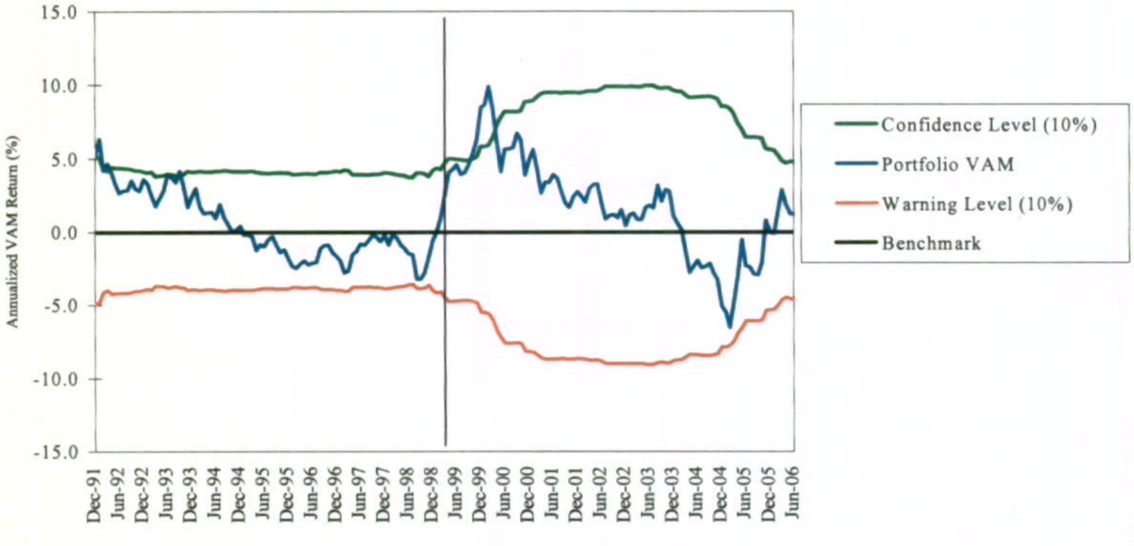
Calendar Year Returns

	Actual	Russell 1000 Growth	Manager Benchmark
2005	9.0%	5.3%	5.3%
2004	13.1	6.3	6.3
2003	49.3	29.7	31.3
2002	-36.2	-27.9	-24.2
2001	-29.0	-20.4	-3.2

ZEVENBERGEN CAPITAL INC.
Periods Ending June, 2006

Portfolio Manager: Nancy Zevenbergen **Assets Under Management: $229,072,310**

Zevenbergen Capital Management
Rolling Five Year VAM vs. Russell 1000 Growth



Five Year Period Ending
Note: Area to the left of vertical line includes performance prior to retention by the SBI.

Zevenbergen Capital Management
Rolling Five Year VAM vs. Manager Benchmark

Five Year Period Ending
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)

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BARROW, HANLEY, MEWHINNEY & STRAUSS, INC.
Periods Ending June, 2006

Portfolio Manager: Tim Culler **Assets Under Management: $322,635,489**

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.

Staff Comments

No comment at this time.

Recommendation

No action required.

Quantitative Evaluation

Period Returns
(Annualized for multi-year periods)

	Actual	Russell 1000 Value	Manager Benchmark
Last Quarter	-0.3%	0.6%	0.6%
Last 1 year	6.7	12.1	12.1
Last 2 years	12.9	13.1	13.1
Last 3 years	N/A	N/A	N/A
Last 4 years	N/A	N/A	N/A
Last 5 years	N/A	N/A	N/A
Since Inception (4/04)	12.7	12.0	12.0

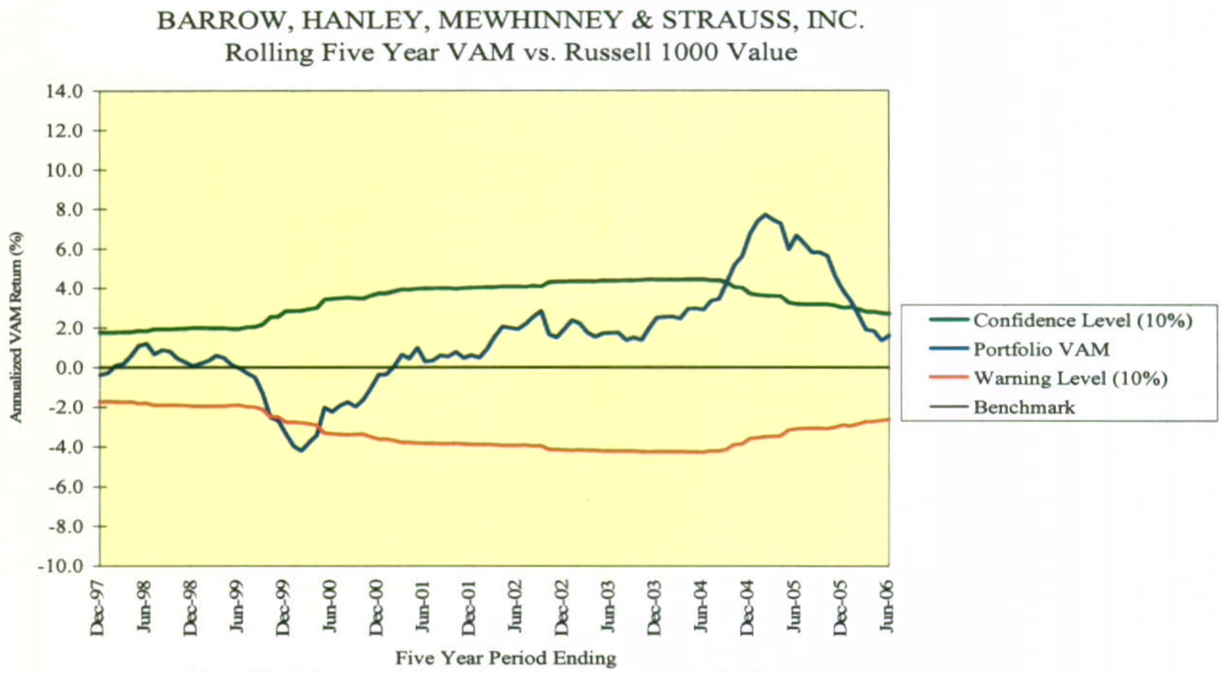
Calendar Year Returns

	Actual	Russell 1000 Value	Manager Benchmark
2005	9.6%	7.1%	7.1%
2004*	N/A	N/A	N/A
2003	N/A	N/A	N/A
2002	N/A	N/A	N/A
2001	N/A	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.

BARROW, HANLEY, MEWHINNEY & STRAUSS, INC.
Periods Ending June, 2006

Portfolio Manager: Tim Culler **Assets Under Management: $322,635,489**



Note: Shaded area includes performance prior to retention by the SBI.

EARNEST PARTNERS, LLC
Periods Ending June, 2006

Portfolio Manager: Paul Viera **Assets Under Management: $72,910,165**

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

No comment at this time.

Recommendation

No action required.

Quantitative Evaluation

Period Returns
(Annualized for multi-year periods)

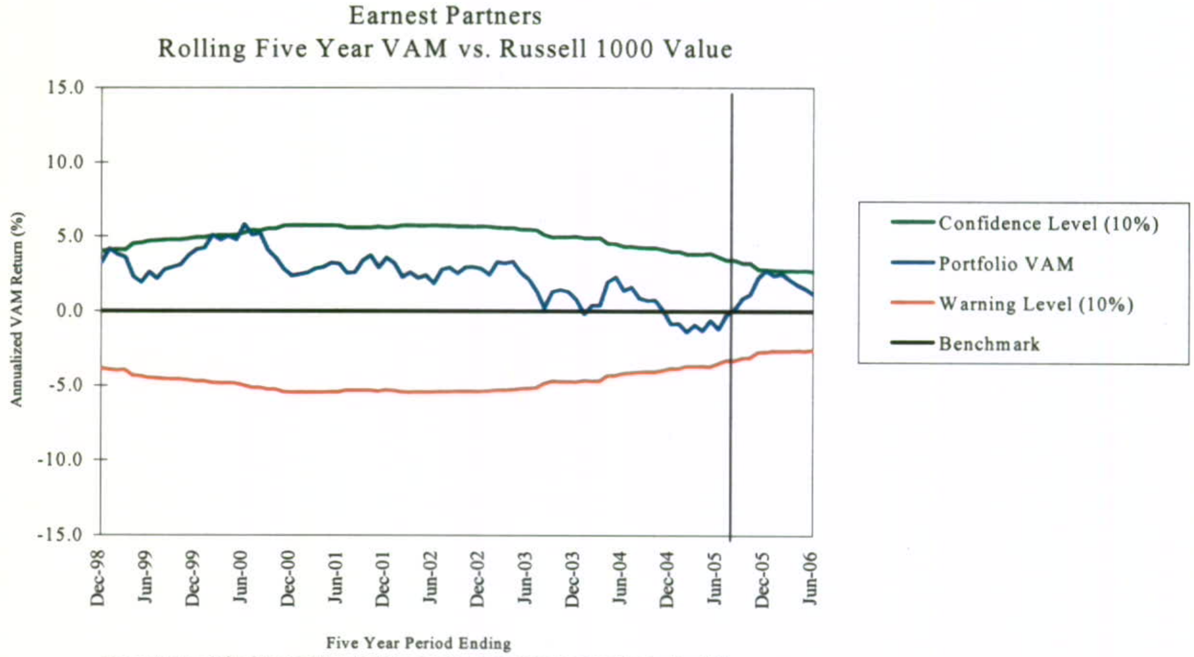
	Actual	Russell 1000 Value	Manager Benchmark
Last Quarter	-0.3%	0.6%	0.6%
Last 1 year	12.0	12.1	12.1
Last 2 years	16.3	13.1	13.1
Last 3 years	18.8	15.7	16.9
Last 4 years	14.4	11.3	14.2
Last 5 years	8.1	6.9	11.4
Since Inception (7/00)	6.4	7.5	13.3

Calendar Year Returns

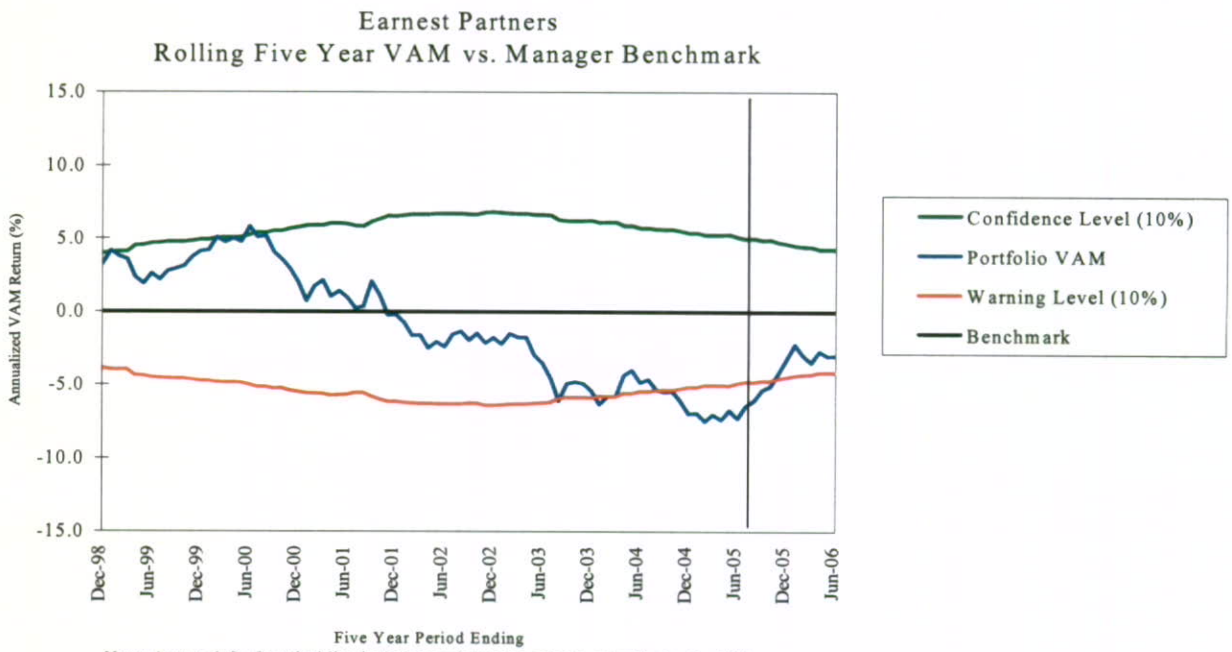
	Actual	Russell 1000 Value	Manager Benchmark
2005	15.6%	7.1%	7.1%
2004	18.9	16.5	16.5
2003	32.0	30.0	41.8
2002	-18.1	-15.5	-11.6
2001	-0.4	-5.6	11.5

EARNEST PARTNERS, LLC
Periods Ending June, 2006

Portfolio Manager: Paul Viera | **Assets Under Management: $72,910,165**



Note: Area to left of vertical line includes performance prior to retention by the SBI.



Note: Area to left of vertical line includes performance prior to retention by the SBI.

LORD ABBETT & CO. LLC
Periods Ending June, 2006

Portfolio Manager: Eli Saltzmann **Assets Under Management: $298,340,620**

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.

Staff Comments

No comment at this time.

Recommendation

No action required.

Quantitative Evaluation

Period Returns
(Annualized for multi-year periods)

	Actual	Russell 1000 Value	Manager Benchmark
Last Quarter	-0.3%	0.6%	0.6%
Last 1 year	12.4	12.1	12.1
Last 2 years	9.1	13.1	13.1
Last 3 years	N/A	N/A	N/A
Last 4 years	N/A	N/A	N/A
Last 5 years	N/A	N/A	N/A
Since Inception (4/04)	8.8	12.0	12.0

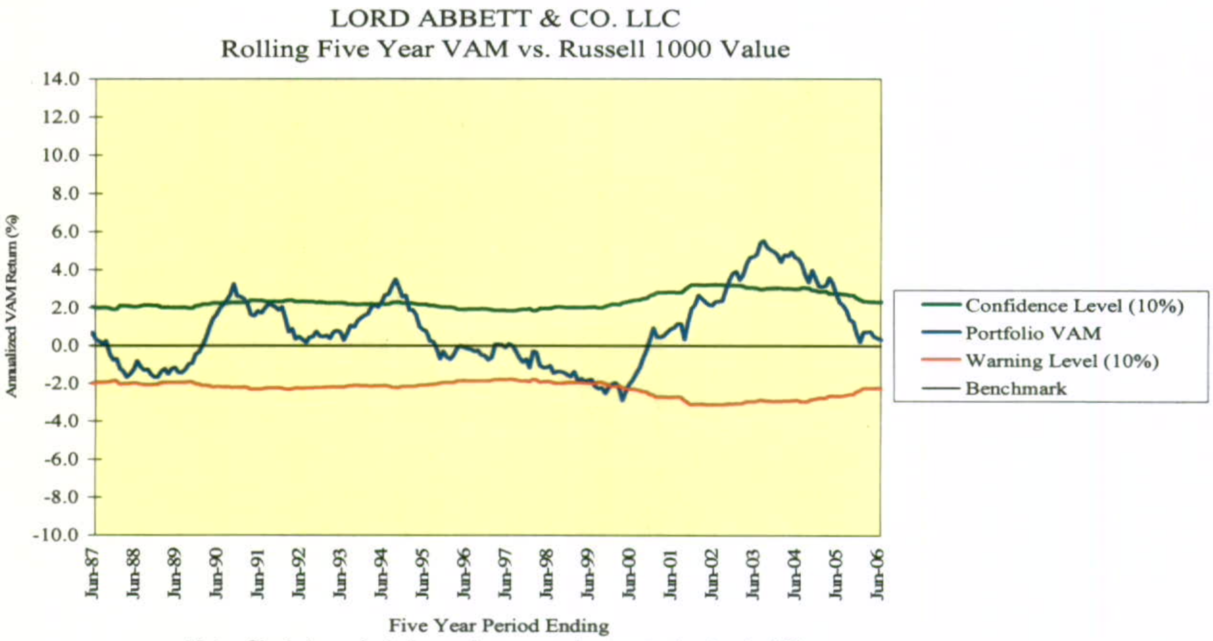
Calendar Year Returns

	Actual	Russell 1000 Value	Manager Benchmark
2005	3.5%	7.1%	7.1%
2004*	N/A	N/A	N/A
2003	N/A	N/A	N/A
2002	N/A	N/A	N/A
2001	N/A	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.

LORD ABBETT & CO. LLC
Periods Ending June, 2006

Portfolio Manager: Eli Saltzmann — **Assets Under Management: $298,340,620**



Note: Shaded area includes performance prior to retention by the SBI.

LSV ASSET MANAGEMENT
Periods Ending June, 2006

Portfolio Manager: Josef Lakonishok **Assets Under Management: $412,266,654**

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.

Staff Comments

The portfolio outperformed the Russell 1000 Value index by 1.0 percentage point (ppt) during the quarter and 3.2 ppt for the year. Strong overall stock selection contributed to performance in both periods. An overweight position in integrated oils coupled with strong stock selection proved beneficial for both the quarter and year.

Staff conducted a site visit during the quarter. Philosophy, process, people and organization were reviewed in detail. A demonstration of the investment model and portfolio construction process was conducted. Staff interviewed the Director of Research and Compliance Officer. Staff remains impressed with the organization.

Recommendation

No action required.

Quantitative Evaluation

Period Returns
(Annualized for multi-year periods)

	Actual	Russell 1000 Value	Manager Benchmark
Last Quarter	1.6%	0.6%	0.6%
Last 1 year	15.3	12.1	12.1
Last 2 years	17.1	13.1	13.1
Last 3 years	N/A	N/A	N/A
Last 4 years	N/A	N/A	N/A
Last 5 years	N/A	N/A	N/A
Since Inception (4/04)	16.1	12.0	12.0

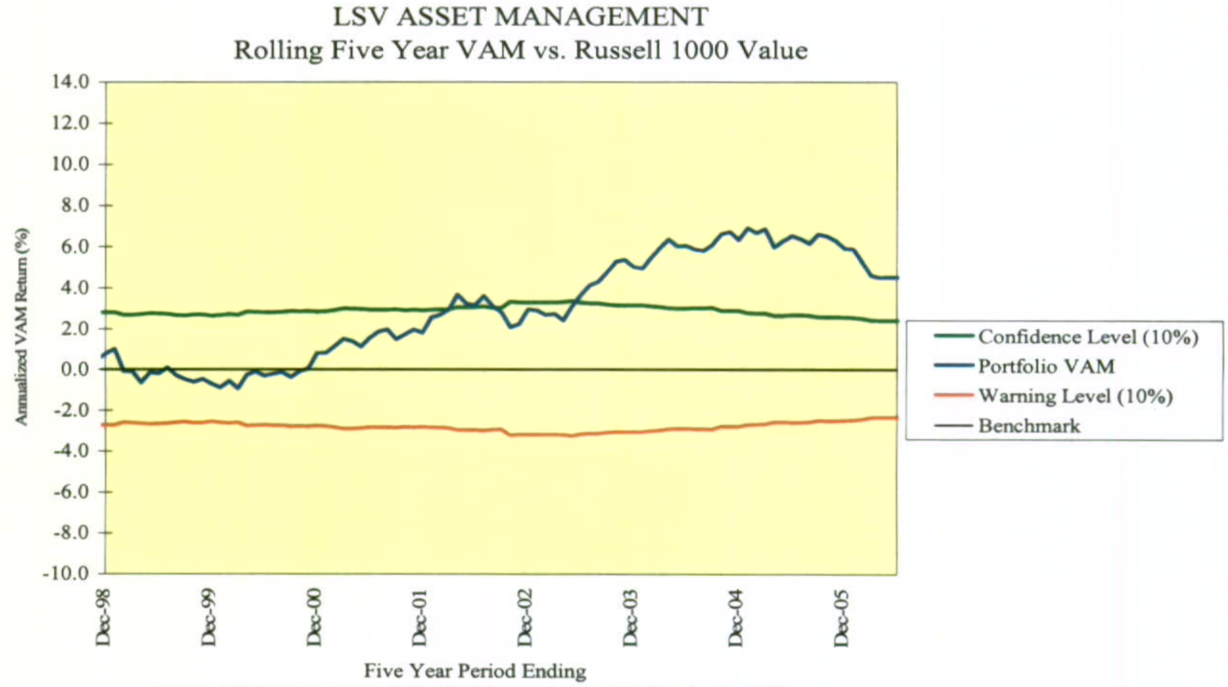
Calendar Year Returns

	Actual	Russell 1000 Value	Manager Benchmark
2005	12.5%	7.1%	7.1%
2004*	N/A	N/A	N/A
2003	N/A	N/A	N/A
2002	N/A	N/A	N/A
2001	N/A	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.

LSV ASSET MANAGEMENT
Periods Ending June, 2006

Portfolio Manager: Josef Lakonishok | **Assets Under Management: $412,266,654**



Note: Shaded area includes performance prior to retention by the SBI.

OPPENHEIMER CAPITAL
Periods Ending June, 2006

Portfolio Manager: John Lindenthal | **Assets Under Management: $717,912,113**

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

No comment at this time.

Recommendation

Manager was re-interviewed by the Stock & Bond Committee 1Q06. Staff continues to monitor closely.

Quantitative Evaluation

Period Returns
(Annualized for multi-year periods)

	Actual	Russell 1000 Value	Manager Benchmark
Last Quarter	-1.0%	0.6%	0.6%
Last 1 year	4.5	12.1	12.1
Last 2 years	5.7	13.1	13.1
Last 3 years	10.5	15.7	15.6
Last 4 years	8.4	11.3	11.1
Last 5 years	3.2	6.9	5.1
Since Inception (7/93)	12.2	11.8	12.3

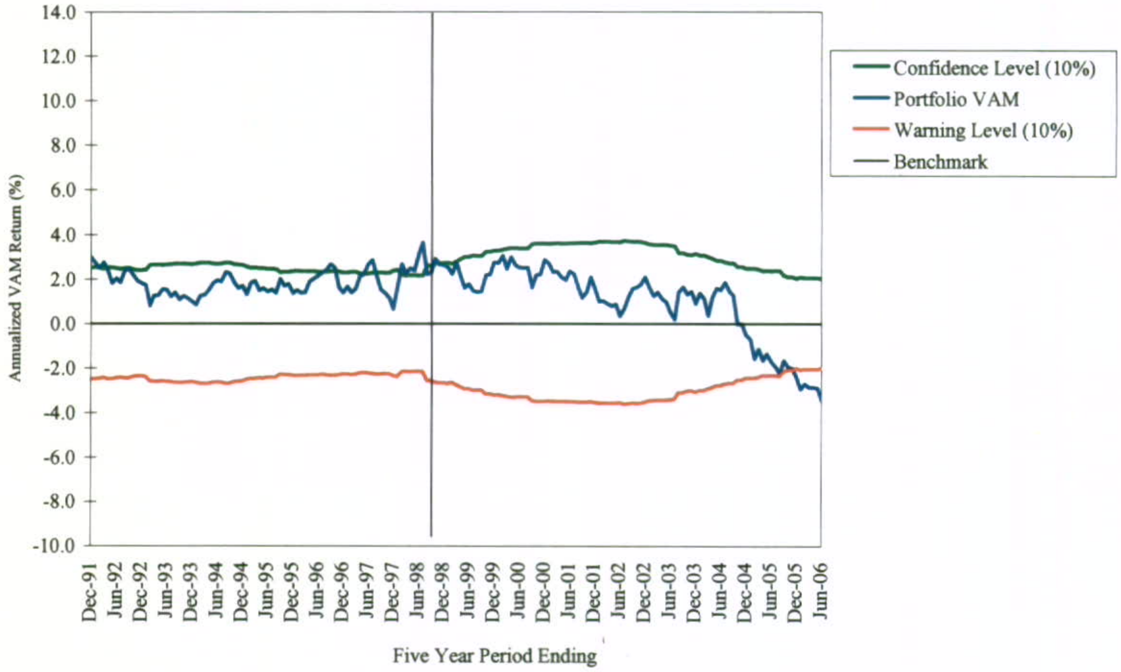
Calendar Year Returns

	Actual	Russell 1000 Value	Manager Benchmark
2005	1.0%	7.1%	7.1%
2004	12.0	16.5	16.5
2003	28.9	30.0	31.4
2002	-15.5	-15.5	-20.7
2001	-7.0	-5.6	-9.5

OPPENHEIMER CAPITAL
Periods Ending June, 2006

Portfolio Manager: John Lindenthal **Assets Under Management: $717,912,113**

OPPENHEIMER CAPITAL
Rolling Five Year VAM vs. Russell 1000 Value



Note: Area to the left of vertical line includes performance prior to retention by the SBI.

OPPENHEIMER CAPITAL
Rolling Five Year VAM vs. Manager Benchmark

Note: Area to the left of vertical line includes performance prior to retention by the SBI.

SYSTEMATIC FINANCIAL MANAGEMENT, L.P.
Periods Ending June, 2006

Portfolio Manager: Kevin McCreesh — **Assets Under Management: $192,062,871**

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	Manager Benchmark
Last Quarter	-0.3%	0.6%	0.6%
Last 1 year	12.6	12.1	12.1
Last 2 years	13.4	13.1	13.1
Last 3 years	N/A	N/A	N/A
Last 4 years	N/A	N/A	N/A
Last 5 years	N/A	N/A	N/A
Since Inception (4/04)	12.4	12.0	12.0

Calendar Year Returns

	Actual	Russell 1000 Value	Manager Benchmark
2005	10.3%	7.1%	7.1%
2004*	N/A	N/A	N/A
2003	N/A	N/A	N/A
2002	N/A	N/A	N/A
2001	N/A	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 underperformed the Russell 1000 Value index by 0.9 percentage point (ppt) during the quarter. Weak overall stock selection hindered returns, and was particularly ineffective within the consumer discretionary, technology and financial services sectors.

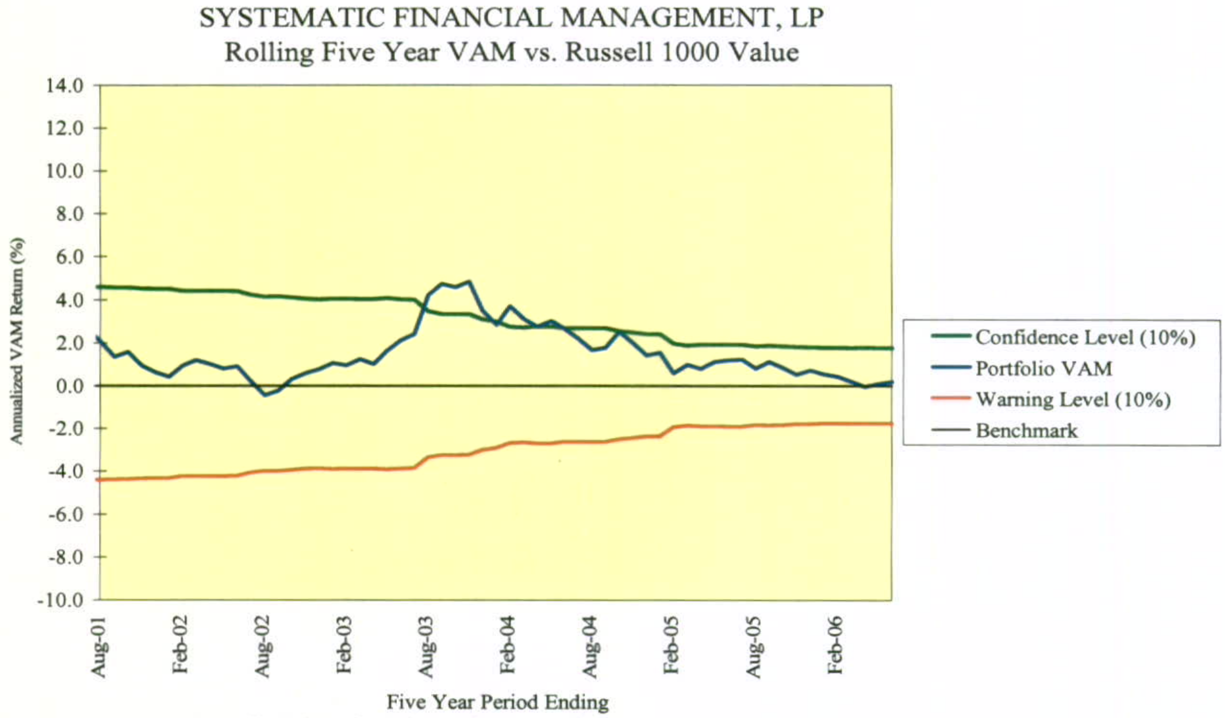
For the year, the portfolio outperformed the Russell 1000 Value index by 0.5 ppt. Strong stock selection within the financial services and producer durables sectors aided returns. An overweight allocation to the other energy sector coupled with strong stock selection contributed to performance.

Recommendation

No action required.

SYSTEMATIC FINANCIAL MANAGEMENT, L.P.
Periods Ending June, 2006

Portfolio Manager: Kevin McCreesh **Assets Under Management: $192,062,871**



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)

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MCKINLEY CAPITAL MANAGEMENT
Periods Ending June, 2006

Portfolio Manager: Robert Gillam, Sr. **Assets Under Management: $212,814,794**

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	Manager Benchmark
Last Quarter	-5.7%	-7.3%	-7.3%
Last 1 year	18.3	14.6	14.6
Last 2 years	9.7	9.3	9.3
Last 3 years	N/A	N/A	N/A
Last 4 years	N/A	N/A	N/A
Last 5 years	N/A	N/A	N/A
Since Inception (1/04)	9.4	9.8	9.8

Calendar Year Returns

	Actual	Russell 2000 Growth	Manager Benchmark
2005	0.2%	4.2%	4.2%
2004	12.2	14.3	14.3
2003	N/A	N/A	N/A
2002	N/A	N/A	N/A
2001	N/A	N/A	N/A

Staff Comments

The portfolio outperformed the Russell 2000 Growth index by 1.6 percentage points (ppt) during the quarter. Strong stock selection within the technology and producer durables aided returns.

For the year, the portfolio outperformed the Russell 2000 Growth index by 3.7 ppt. Overweight allocations to the technology, producer durables and auto & transportation sectors coupled with strong stock selection contributed to performance.

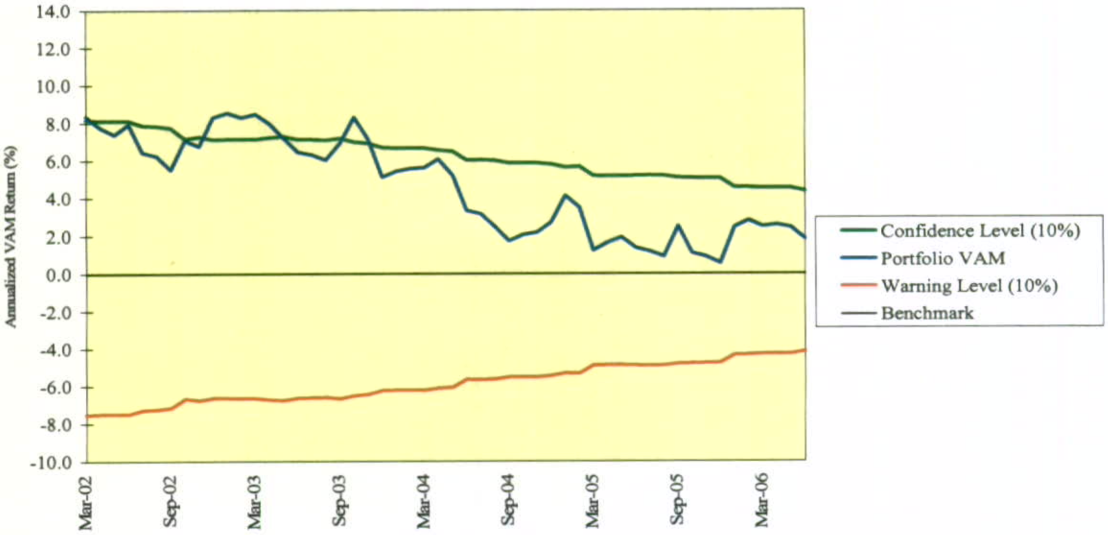
Recommendation

No action required.

MCKINLEY CAPITAL MANAGEMENT
Periods Ending June, 2006

Portfolio Manager: Robert Gillam, Sr. **Assets Under Management: $212,814,794**

MCKINLEY CAPITAL MANAGEMENT
Rolling Five Year VAM vs. Russell 2000 Growth



Five Year Period Ending
Note: Shaded area includes performance prior to retention by the SBI.

NEXT CENTURY GROWTH INVESTORS, LLC
Periods Ending June, 2006

Portfolio Manager: Thomas Press and Don Longlet **Assets Under Management: $151,241,304**

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

No comment at this time.

Recommendation

No action required.

Quantitative Evaluation

Period Returns
(Annualized for multi-year periods)

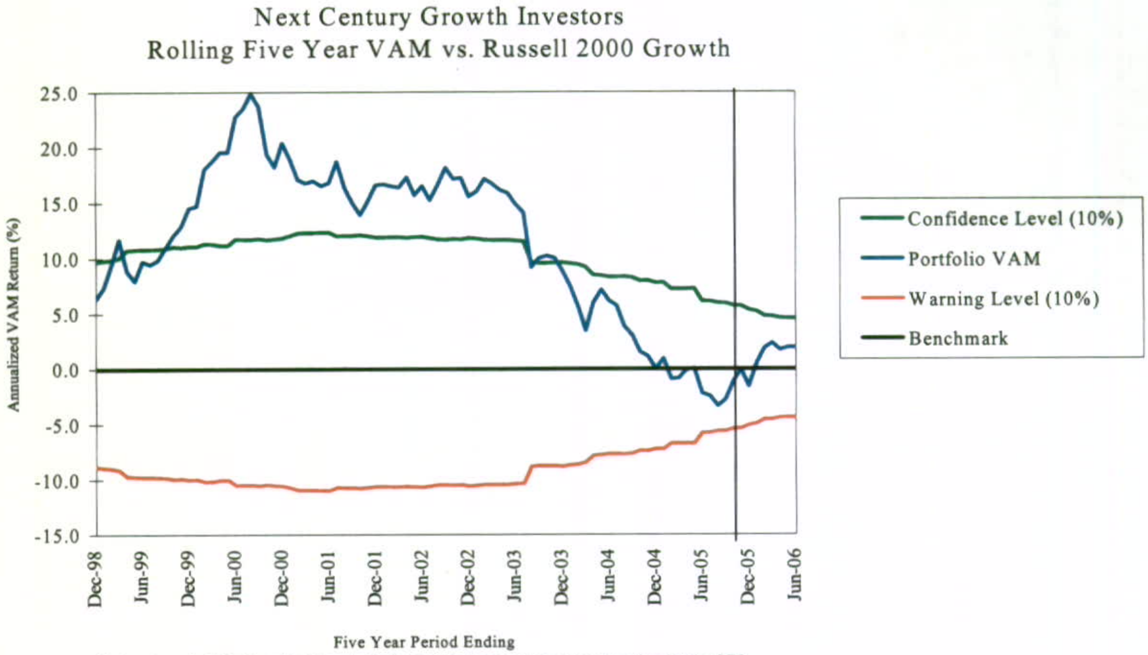
	Actual	Russell 2000 Growth	Manager Benchmark
Last Quarter	-4.5%	-7.3%	-7.3%
Last 1 year	30.6	14.6	14.6
Last 2 years	21.7	9.3	9.3
Last 3 years	24.1	16.3	16.0
Last 4 years	17.5	12.2	13.6
Last 5 years	5.5	3.5	5.3
Since Inception (7/00)	-1.3	-1.6	0.5

Calendar Year Returns

	Actual	Russell 2000 Growth	Manager Benchmark
2005	25.2%	4.2%	4.2%
2004	6.4	14.3	14.3
2003	50.7	48.5	48.5
2002	-33.3	-30.3	-27.8
2001	-22.8	-9.2	-5.5

NEXT CENTURY GROWTH INVESTORS, LLC
Periods Ending June, 2006

Portfolio Manager: Thomas Press and Don Longlet **Assets Under Management: $151,241,304**



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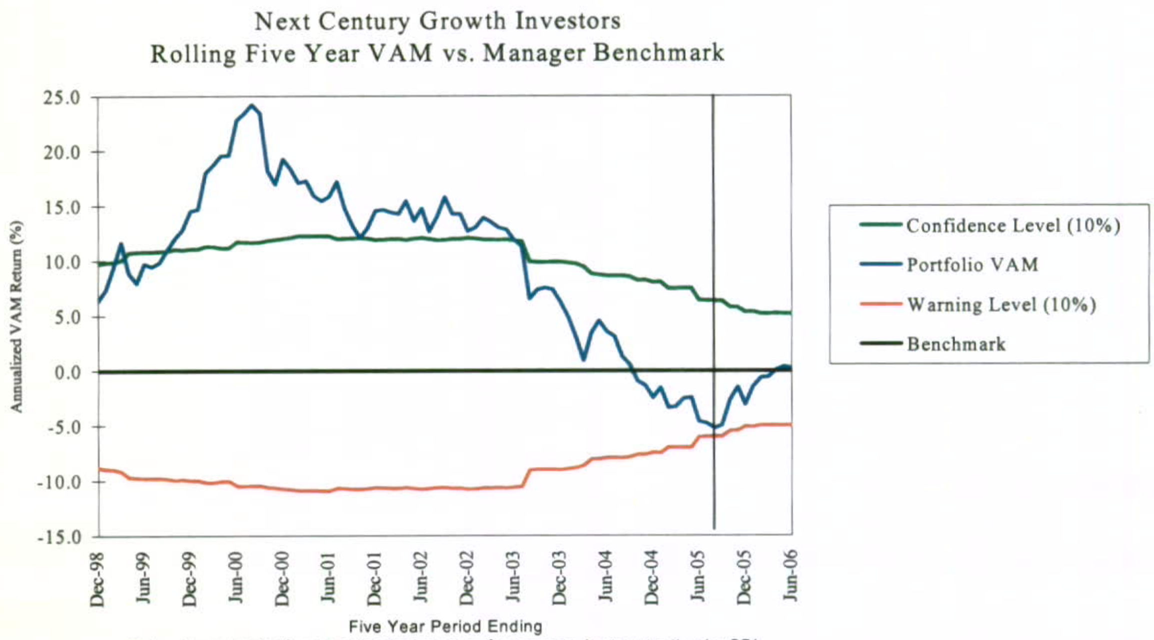


Note: Area to left of vertical line includes performance prior to retention by SBI.

SUMMIT CREEK ADVISORS, LLC
Periods Ending June, 2006

Portfolio Manager: Joseph Docter | **Assets Under Management: $148,949,883**

Investment Philosophy

Winslow Capital believes that companies with above average earnings growth rates provide the best opportunities for superior portfolio returns. They look for companies with three to five year records of increased sales and earnings, steady 20-30% growth, low financial leverage with strong cash flow, and significant management ownership. Through internal fundamental research, they calculate projected fundamentals – earnings projections, forecasts of relative P/E ratios, and projected 12-18 month returns – which are used in the valuation model to rank securities. Individual positions do not exceed five percent. The portfolio is diversified across sectors.

Staff Comments

The portfolio underperformed the Russell 2000 Growth index by 2.6 percentage points (ppt) during the quarter. Weak stock selection within the consumer discretionary and materials & processing sectors proved detrimental. An underweight allocation to the outperforming other energy sector represented a missed opportunity.

For the year, the portfolio underperformed the Russell 2000 Growth index by 8.5 ppt. Weak stock selection within the health care sector pressured returns. An overweight position in technology coupled with weak stock selection detracted from performance.

Recommendation

No action required.

Quantitative Evaluation

Period Returns
(Annualized for multi-year periods)

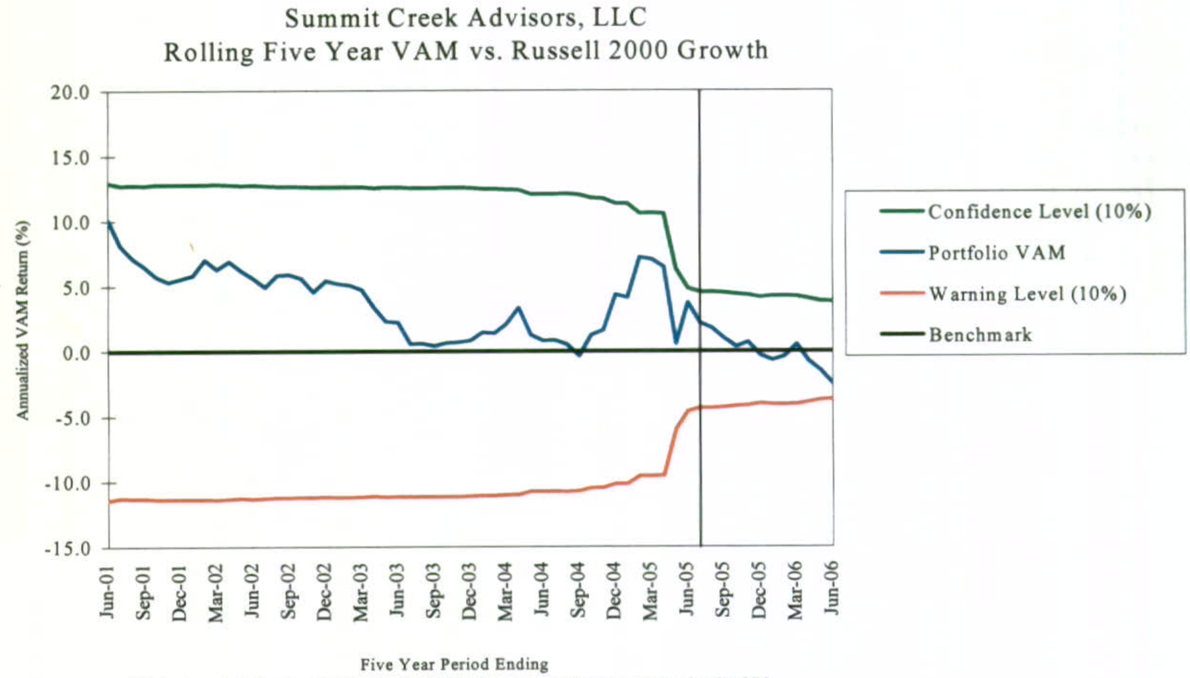
	Actual	Russell 2000 Growth	Manager Benchmark
Last Quarter	-9.9%	-7.3%	-7.3%
Last 1 year	6.1	14.6	14.6
Last 2 years	6.1	9.3	9.3
Last 3 years	11.5	16.3	16.3
Last 4 years	9.8	12.2	12.5
Last 5 years	0.9	3.5	5.8
Since Inception (7/00)	0.2	-1.6	2.9

Calendar Year Returns

	Actual	Russell 2000 Growth	Manager Benchmark
2005	4.4%	4.2%	4.2%
2004	8.9	14.3	14.3
2003	37.6	48.5	51.3
2002	-25.0	-30.3	-26.7
2001	-6.1	-9.2	4.6

SUMMIT CREEK ADVISORS, LLC
Periods Ending June, 2006

Portfolio Manager: Joseph Docter **Assets Under Management: $148,949,883**



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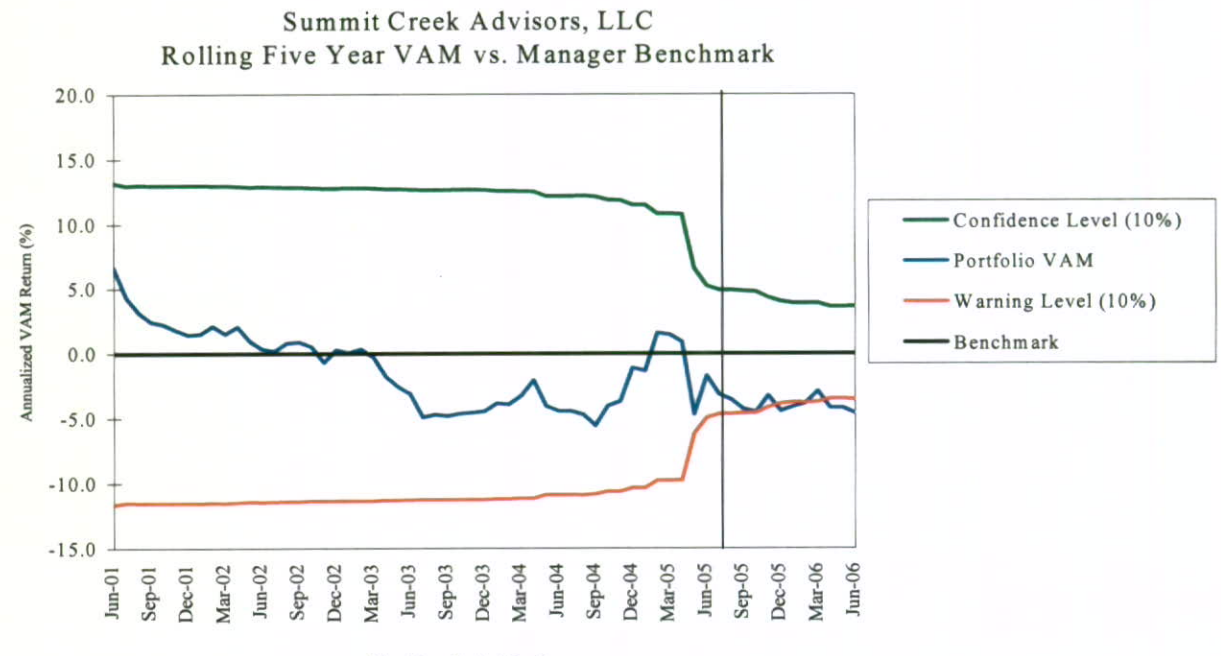


Note: Area to left of vertical line includes performance prior to retention by the SBI.

TURNER INVESTMENT PARTNERS
Periods Ending June, 2006

Portfolio Manager: William McVail **Assets Under Management: $162,108,367**

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 underperformed the Russell 2000 Growth index by 0.8 percentage point (ppt) during the quarter. Weak stock selection within the technology sector negatively impacted returns. An underweight position in the financial services sector coupled with weak stock selection proved detrimental.

For the year, the portfolio outperformed the Russell 2000 Growth index by 3.7 ppt. Strong overall stock selection contributed to performance and was particularly effective within the financial services and consumer discretionary sectors.

Recommendation

No action required.

Quantitative Evaluation

Period Returns
(Annualized for multi-year periods)

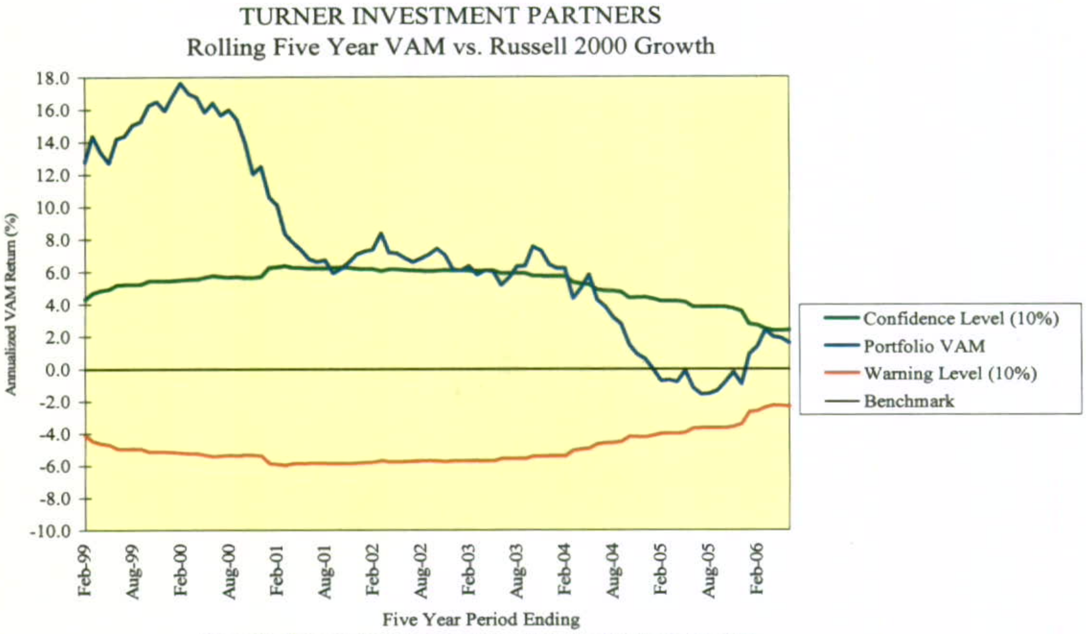
	Actual	Russell 2000 Growth	Manager Benchmark
Last Quarter	-8.1%	-7.3%	-7.3%
Last 1 year	18.3	14.6	14.6
Last 2 years	10.4	9.3	9.3
Last 3 years	N/A	N/A	N/A
Last 4 years	N/A	N/A	N/A
Last 5 years	N/A	N/A	N/A
Since Inception (1/04)	10.2	9.8	9.8

Calendar Year Returns

	Actual	Russell 2000 Growth	Manager Benchmark
2005	6.2%	4.2%	4.2%
2004	11.6	14.3	14.3
2003	N/A	N/A	N/A
2002	N/A	N/A	N/A
2001	N/A	N/A	N/A

TURNER INVESTMENT PARTNERS
Periods Ending June, 2006

Portfolio Manager: William McVail **Assets Under Management: $162,108,367**



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Small Cap Value (R2000 Value)

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Small Cap Value (R2000 Value)

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GOLDMAN SACHS ASSET MANAGEMENT
Periods Ending June, 2006

Portfolio Manager: Chip Otness **Assets Under Management: $124,195,397**

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	Manager Benchmark
Last Quarter	-4.3%	-2.7%	-2.7%
Last 1 year	12.7	14.6	14.6
Last 2 years	12.3	14.5	14.5
Last 3 years	N/A	N/A	N/A
Last 4 years	N/A	N/A	N/A
Last 5 years	N/A	N/A	N/A
Since Inception (1/04)	12.0	14.8	14.8

Calendar Year Returns

	Actual	Russell 2000 Value	Manager Benchmark
2005	4.1%	4.7%	4.7%
2004	19.9	22.2	22.2
2003	N/A	N/A	N/A
2002	N/A	N/A	N/A
2001	N/A	N/A	N/A

Staff Comments

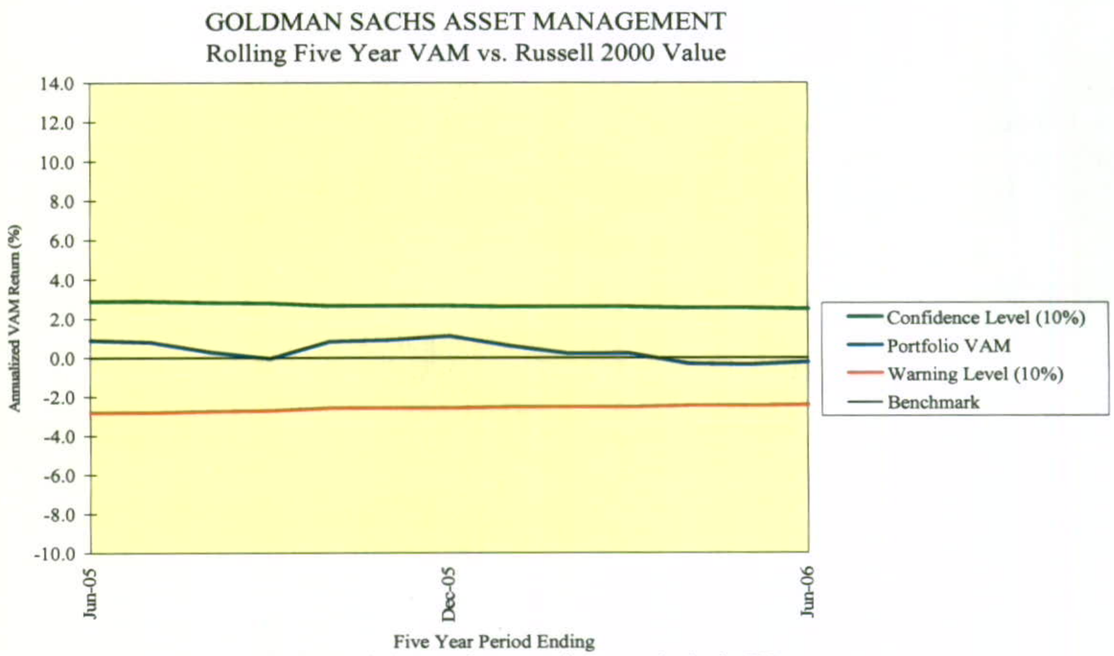
No comment at this time.

Recommendation

No action required.

GOLDMAN SACHS ASSET MANAGEMENT
Periods Ending June, 2006

Portfolio Manager: Chip Otness **Assets Under Management: $124,195,397**



Note: Shaded area includes performance prior to retention by the SBI.

HOTCHKIS & WILEY CAPITAL MANAGEMENT
Periods Ending June, 2006

Portfolio Manager: Jim Miles and David Green **Assets Under Management: $129,047,162**

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

The portfolio underperformed the Russell 2000 Value index by 5.7 percentage points (ppt) during the quarter and 9.7 ppt for the year. Two major active bets impacted performance in both periods – an overweight to homebuilders (within producer durables) and an overweight to media and advertising (within consumer discretionary). Each of these bets detracted from performance in both periods.

Despite near term weakness and a rising interest rate environment, the team believes strongly that valuations, cash flow characteristics and land values support a long term investment in homebuilders.

Recommendation

No action required.

Quantitative Evaluation

Period Returns
(Annualized for multi-year periods)

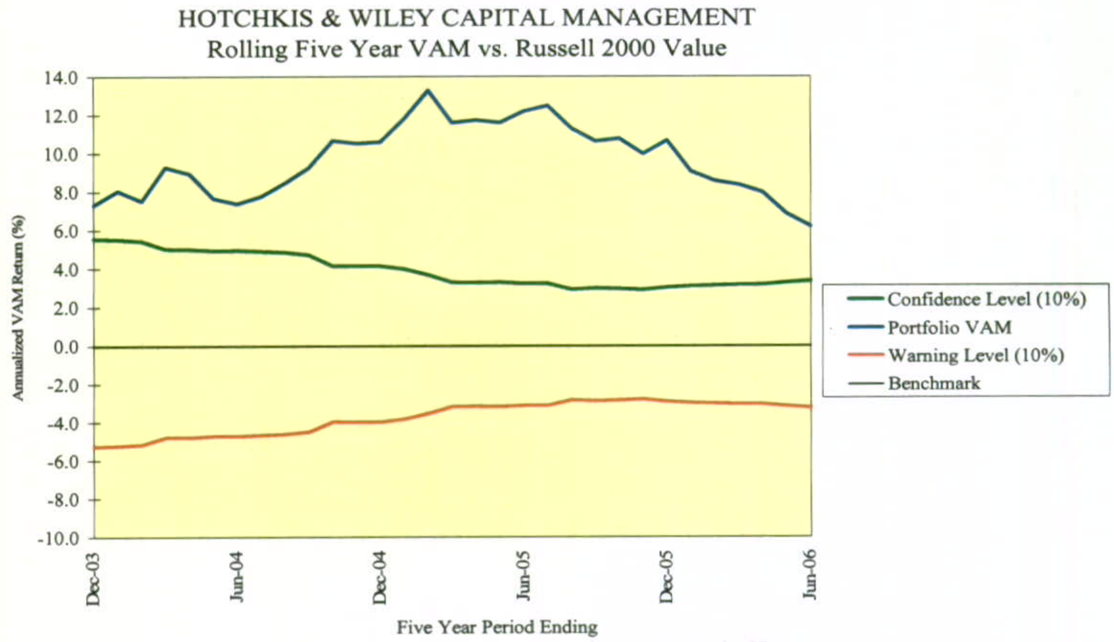
	Actual	Russell 2000 Value	Manager Benchmark
Last Quarter	-8.4%	-2.7%	-2.7%
Last 1 year	4.9	14.6	14.6
Last 2 years	11.5	14.5	14.5
Last 3 years	N/A	N/A	N/A
Last 4 years	N/A	N/A	N/A
Last 5 years	N/A	N/A	N/A
Since Inception (1/04)	13.7	14.8	14.8

Calendar Year Returns

	Actual	Russell 2000 Value	Manager Benchmark
2005	10.4%	4.7%	4.7%
2004	27.1	22.2	22.2
2003	N/A	N/A	N/A
2002	N/A	N/A	N/A
2001	N/A	N/A	N/A

HOTCHKIS & WILEY CAPITAL MANAGEMENT
Periods Ending June, 2006

Portfolio Manager: Jim Miles and David Green **Assets Under Management: $129,047,162**



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MARTINGALE ASSET MANAGEMENT
Periods Ending June, 2006

Portfolio Manager: William Jacques **Assets Under Management: $138,571,554**

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.

Staff Comments

The portfolio underperformed the Russell 2000 Value index by 0.6 percentage point (ppt) during the quarter. Overweight allocations to producer durables, materials & processing and health care, coupled with weak stock selection, detracted from performance.

For the year, the portfolio underperformed the Russell 2000 Value index by 5.3 ppt. Weak overall stock selection pressured returns, and was particularly ineffective within the materials & processing and consumer staples sectors. An underweight position in producer durables coupled with weak stock selection hindered performance.

Recommendation

No action required.

Quantitative Evaluation

Period Returns
(Annualized for multi-year periods)

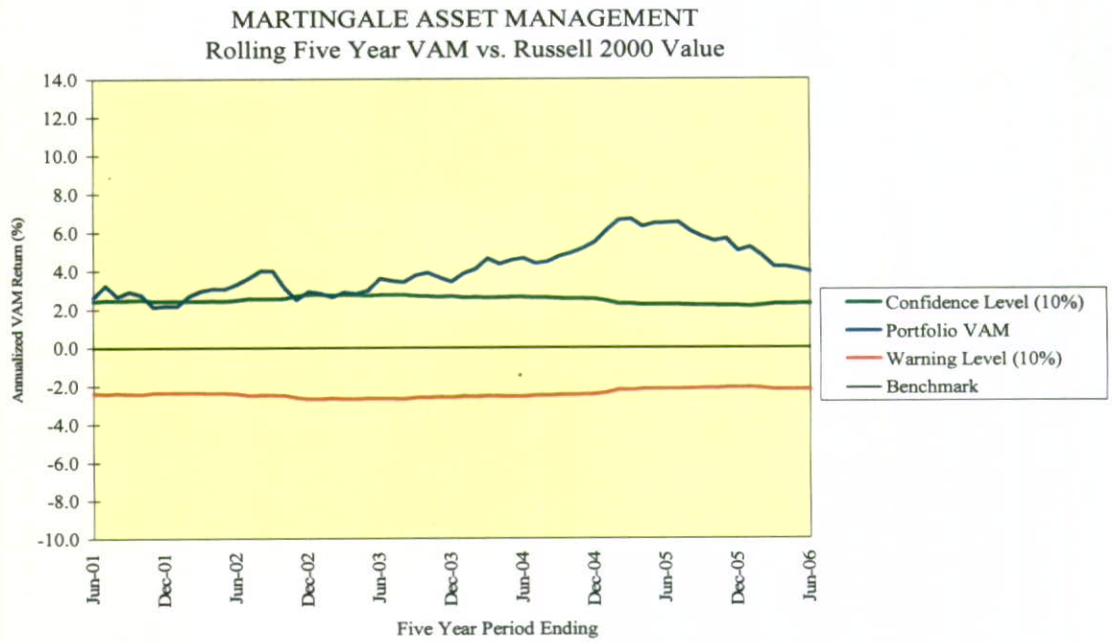
	Actual	Russell 2000 Value	Manager Benchmark
Last Quarter	-3.3%	-2.7%	-2.7%
Last 1 year	9.3	14.6	14.6
Last 2 years	14.8	14.5	14.5
Last 3 years	N/A	N/A	N/A
Last 4 years	N/A	N/A	N/A
Last 5 years	N/A	N/A	N/A
Since Inception (1/04)	17.0	14.8	14.8

Calendar Year Returns

	Actual	Russell 2000 Value	Manager Benchmark
2005	6.2%	4.7%	4.7%
2004	30.8	22.2	22.2
2003	N/A	N/A	N/A
2002	N/A	N/A	N/A
2001	N/A	N/A	N/A

MARTINGALE ASSET MANAGEMENT
Periods Ending June, 2006

Portfolio Manager: William Jacques — **Assets Under Management: $138,571,554**



Note: Shaded area includes performance prior to retention by the SBI.

PEREGRINE CAPITAL MANAGEMENT
Periods Ending June, 2006

Portfolio Manager: Doug Pugh and Tasso Coin **Assets Under Management: $206,287,006**

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

No comment at this time.

Recommendation

No action required.

Quantitative Evaluation

Period Returns
(Annualized for multi-year periods)

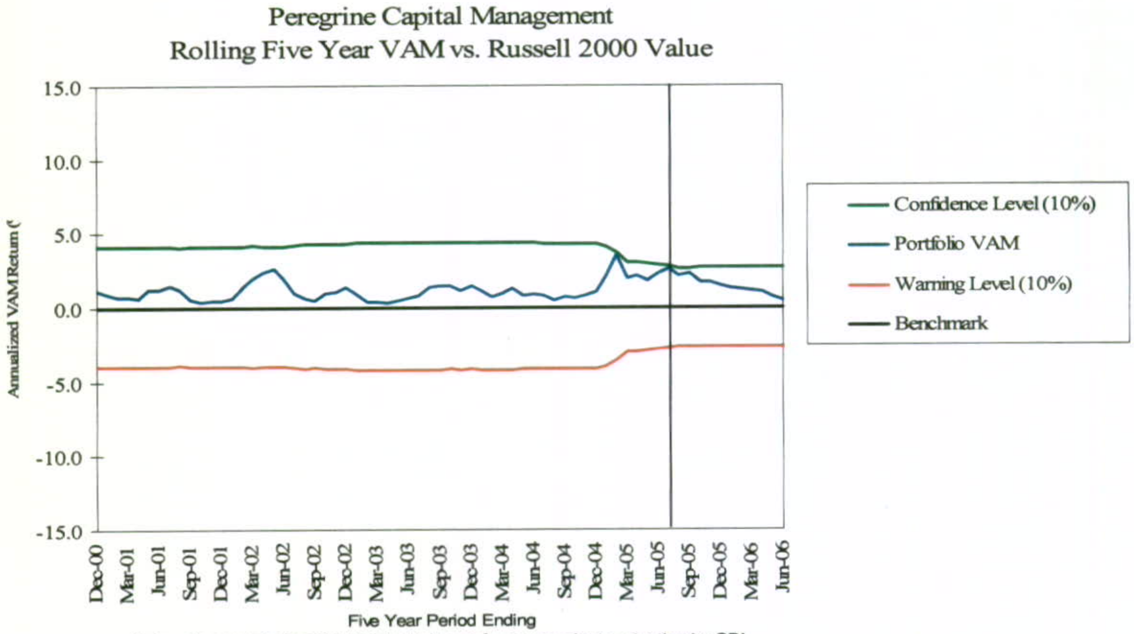
	Actual	Russell 2000 Value	Manager Benchmark
Last Quarter	-4.5%	-2.7%	-2.7%
Last 1 year	11.8	14.6	14.6
Last 2 years	16.2	14.5	14.5
Last 3 years	22.2	21.0	21.2
Last 4 years	14.2	14.3	15.1
Last 5 years	13.6	13.1	14.3
Since Inception (7/00)	17.6	15.9	18.2

Calendar Year Returns

	Actual	Russell 2000 Value	Manager Benchmark
2005	10.1%	4.7%	4.7%
2004	23.6	22.2	22.2
2003	44.2	46.0	44.2
2002	-8.1	-11.4	-6.9
2001	12.6	14.0	22.9

PEREGRINE CAPITAL MANAGEMENT
Periods Ending June, 2006

Portfolio Manager: Doug Pugh and Tasso Coin **Assets Under Management: $206,287,006**



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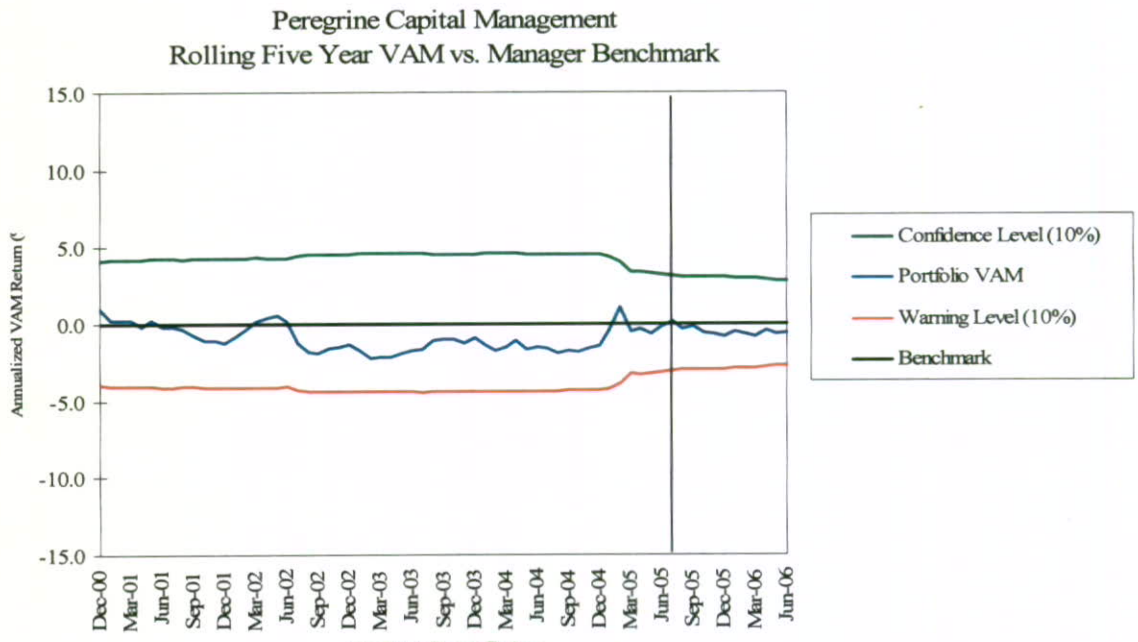


Note: Area to left of vertical line includes performance prior to retention by SBI.

RIVERSOURCE INVESTMENTS/KENWOOD CAPITAL MANAGEMENT
Periods Ending June, 2006

Portfolio Manager: Jacob Hurwitz and Kent Kelley **Assets Under Management: $61,022,977**

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)

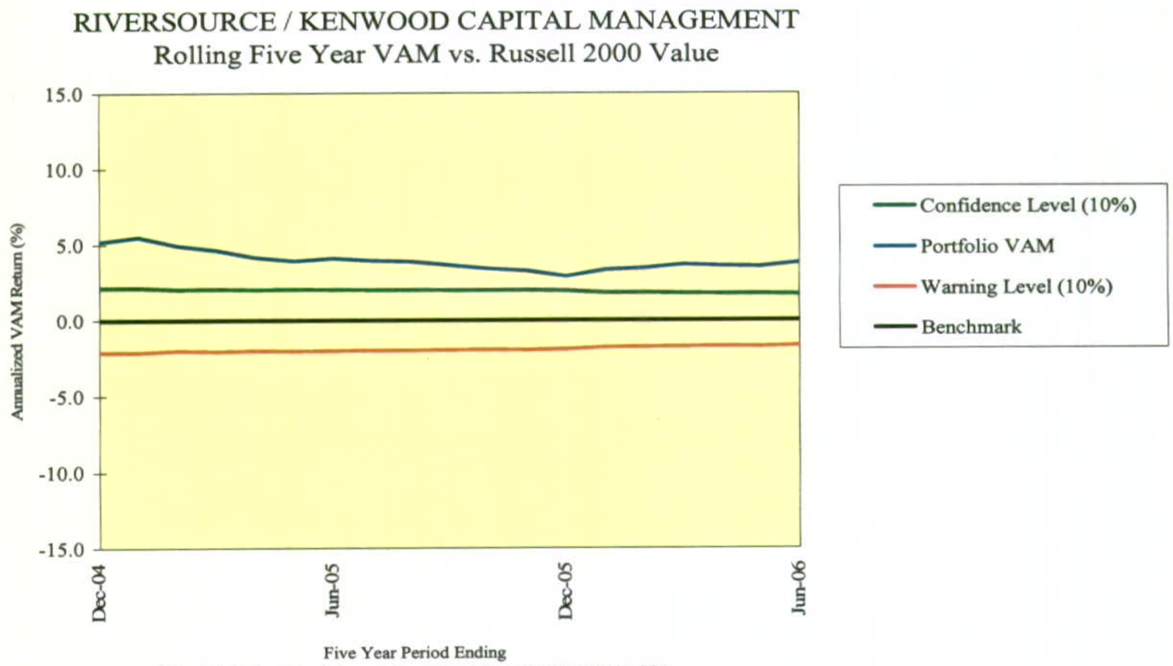
	Actual	Russell 2000 Value	Manager Benchmark
Last Quarter	-2.1%	-2.7%	-2.7%
Last 1 year	16.0	14.6	14.6
Last 2 years	14.8	14.5	14.5
Last 3 years	N/A	N/A	N/A
Last 4 years	N/A	N/A	N/A
Last 5 years	N/A	N/A	N/A
Since Inception (1/04)	16.2	14.8	14.8

Calendar Year Returns

	Actual	Russell 2000 Value	Manager Benchmark
2005	4.8%	4.7%	4.7%
2004	25.8	22.2	22.2
2003	N/A	N/A	N/A
2002	N/A	N/A	N/A
2001	N/A	N/A	N/A

RIVERSOURCE INVESTMENTS/KENWOOD CAPITAL MANAGEMENT
Periods Ending June, 2006

Portfolio Manager: Jacob Hurwitz and Kent Kelley **Assets Under Management: $61,022,977**



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

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BARCLAYS GLOBAL INVESTORS
Periods Ending June, 2006

Portfolio Manager: Rhonda Vitanye **Assets Under Management: $2,971,994,447**

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.

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	-1.7%	-1.7%
Last 1 year	10.0	9.1
Last 2 years	9.3	8.5
Last 3 years	12.8	12.1
Last 4 years	10.0	9.0
Last 5 years	4.8	4.0
Since Inception (1/95)	11.0	10.2

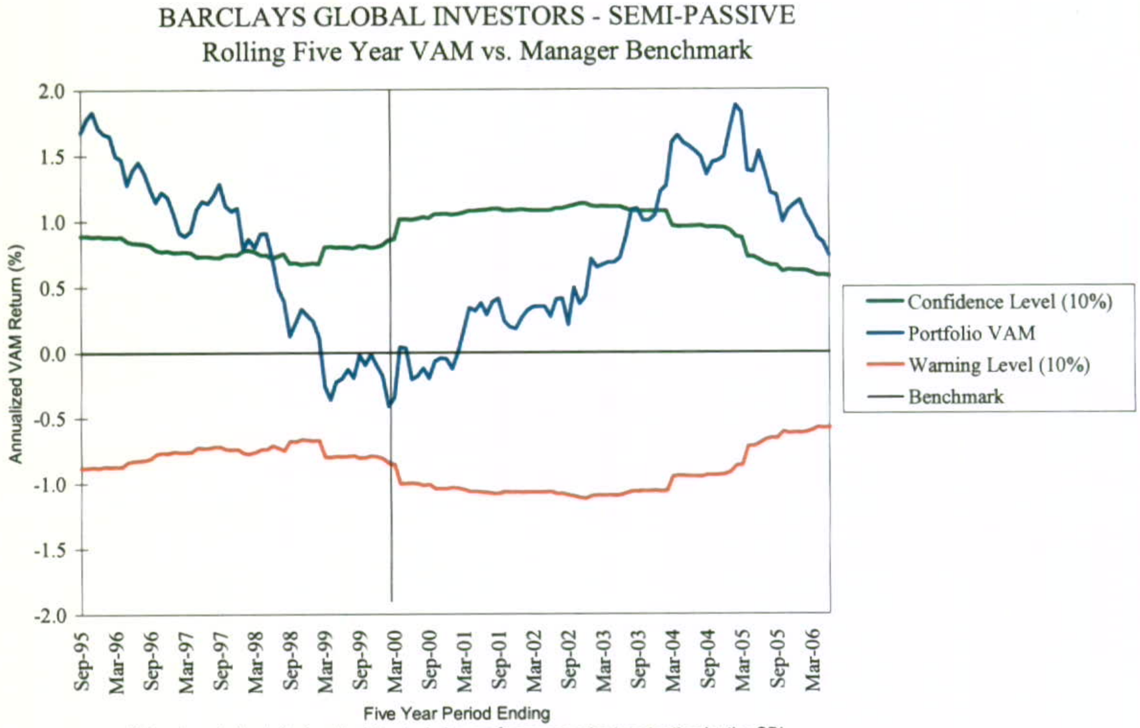
Calendar Year Returns

	Actual	Manager Benchmark*
2005	7.6%	6.3%
2004	11.7	11.4
2003	30.0	28.5
2002	-19.1	-19.7
2001	-7.8	-9.7

* Completeness Fund until 12/31/03; Russell 1000 beginning 1/1/04.

BARCLAYS GLOBAL INVESTORS
Periods Ending June, 2006

Portfolio Manager: Rhonda Vitanye **Assets Under Management: $2,971,994,447**



Note: Area to the left of vertical line includes performance prior to retention by the SBI.

FRANKLIN PORTFOLIO ASSOCIATES
Periods Ending June, 2006

Portfolio Manager: John Cone | **Assets Under Management: $2,112,061,358**

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

No comment at this time.

Recommendation

No action required.

Quantitative Evaluation

Period Returns
(Annualized for multi-year periods)

	Actual	Manager Benchmark*
Last Quarter	-1.3%	-1.7%
Last 1 year	9.2	9.1
Last 2 years	8.5	8.5
Last 3 years	11.9	12.1
Last 4 years	8.5	9.0
Last 5 years	3.6	4.0
Since Inception (1/95)	9.9	10.2

Calendar Year Returns

	Actual	Manager Benchmark*
2005	6.1%	6.3%
2004	11.7	11.4
2003	26.9	28.5
2002	-20.2	-19.7
2001	-9.0	-9.7

* Completeness Fund until 12/31/03; Russell 1000 beginning 1/1/04.

FRANKLIN PORTFOLIO ASSOCIATES
Periods Ending June, 2006

Portfolio Manager: John Cone **Assets Under Management: $2,112,061,358**

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 June, 2006

Portfolio Manager: Ralph Zingone and Terance Chen Assets Under Management: $2,283,589,630

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

The portfolio underperformed the Russell 1000 index by 0.5 percentage point (ppt) during the quarter and 1.8 ppt during the year. In both periods overweight allocations to health care and technology coupled with weak stock selection proved detrimental. An underweight position in utilities represented a missed opportunity; ineffective stock selection enhanced the negative impact.

Staff reviewed the analyst changes with the portfolio manager and is comfortable with the steps being taken to replace analysts. However, staff is monitoring this situation closely. In addition, the strategy emphasizes valuation. This aspect of the process had been out of favor in recent periods during the momentum driven markets but appears to be reversing.

Recommendation

No action required.

Quantitative Evaluation

Period Returns
(Annualized for multi-year periods)

	Actual	Manager Benchmark*
Last Quarter	-2.2%	-1.7%
Last 1 year	7.3	9.1
Last 2 years	7.3	8.5
Last 3 years	11.3	12.1
Last 4 years	8.2	9.0
Last 5 years	2.9	4.0
Since Inception (1/95)	10.1	10.2

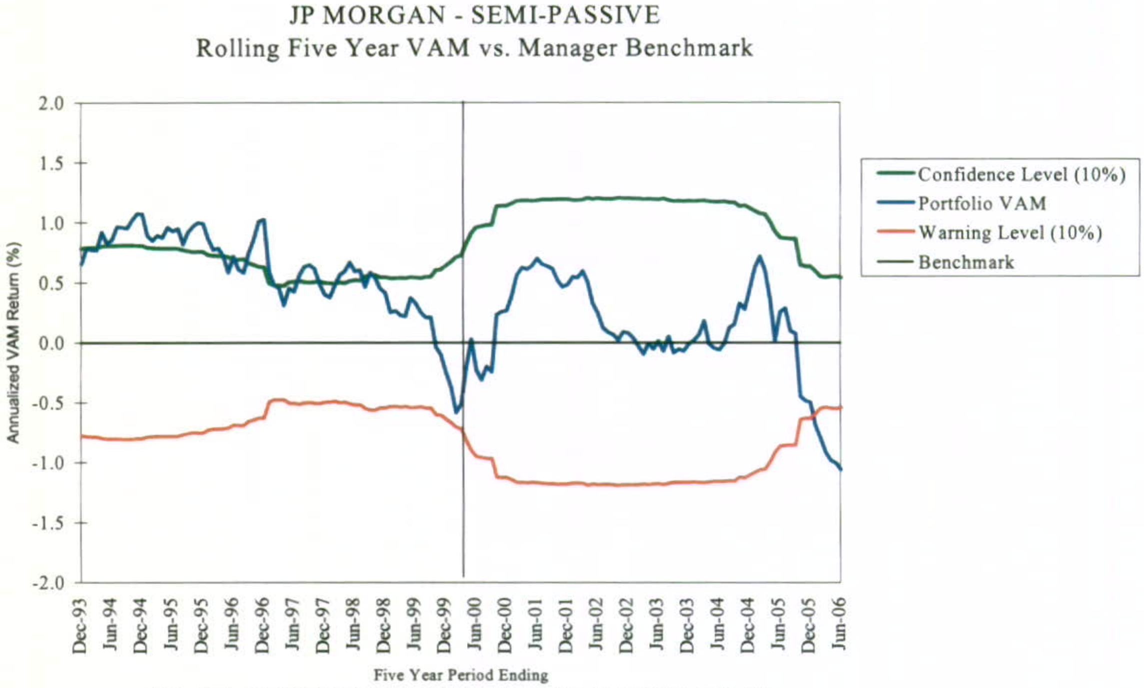
Calendar Year Returns

	Actual	Manager Benchmark*
2005	4.7%	6.3%
2004	11.7	11.4
2003	28.9	28.5
2002	-21.8	-19.7
2001	-8.7	-9.7

* Completeness Fund until 12/31/03; Russell 1000 beginning 1/1/04.

J.P. MORGAN INVESTMENT MANAGEMENT, INC.
Periods Ending June, 2006

Portfolio Manager: Ralph Zingone and Terance Chen   Assets Under Management: $2,283,589,630



Note: Area to the left of vertical line includes performance prior to retention by the SBI.

BARCLAYS GLOBAL INVESTORS
Periods Ending June, 2006

Portfolio Manager: Amy Schioldager **Assets Under Management: $7,157,149,289**

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	-2.0%	-2.0%
Last 1 year	9.7	9.6
Last 2 years	8.9	8.8
Last 3 years	12.6	12.6
Last 4 years	9.6	9.5
Last 5 years	3.5	3.5
Since Inception (7/95)	9.8	9.6

Calendar Year Returns

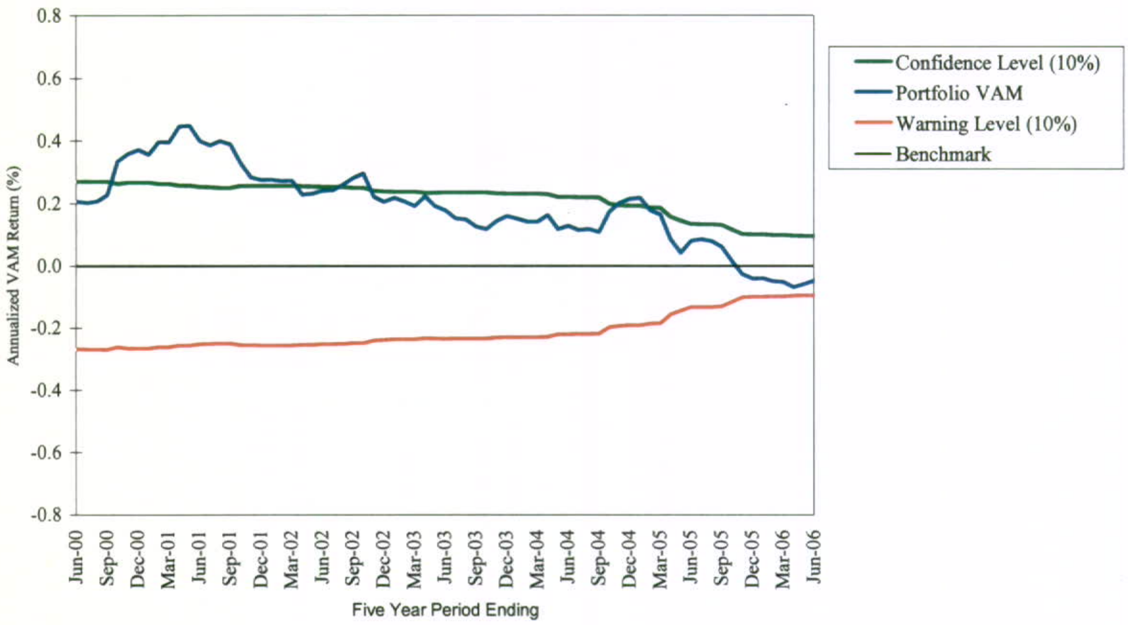
	Actual	Manager Benchmark*
2005	6.2%	6.1%
2004	12.0	11.9
2003	30.9	31.2
2002	-21.4	-21.5
2001	-11.8	-11.7

* 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 June, 2006

Portfolio Manager: Amy Schioldager **Assets Under Management: $7,157,149,289**

BARCLAYS GLOBAL INVESTORS - PASSIVE
Rolling Five Year VAM vs. Domestic Equity Target
(Russell 3000 as of 10/1/2003)



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STATE BOARD OF INVESTMENT

Bond Manager Evaluation Reports

Second Quarter, 2006

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COMBINED RETIREMENT FUNDS
BOND MANAGERS
Periods Ending June, 2006

	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	0.0	-0.1	-0.6	-0.8	2.6	2.1	5.6	5.0	6.7	6.2	$1,031.2	9.9%
Dodge & Cox	0.2	-0.1	0.7	-0.8	2.9	2.1	6.1	5.0	7.3	6.2	$1,053.7	10.1%
Morgan Stanley	0.1	-0.1	0.9	-0.8	3.4	2.1	5.4	5.0	9.2	8.9	$852.7	8.2%
RiverSource	0.0	-0.1	-0.1	-0.8	2.5	2.1	4.4	5.0	5.9	6.0	$868.7	8.4%
Western	-0.3	-0.1	-0.3	-0.8	3.7	2.1	6.5	5.0	10.1	8.8	$1,371.6	13.2%
Semi-Passive Managers												
BlackRock	0.2	-0.1	-0.4	-0.8	2.3	2.1	5.2	5.0	6.4	6.1	$1,809.2	17.4%
Goldman	0.1	-0.1	-0.5	-0.8	2.7	2.1	5.4	5.0	6.3	6.0	$1,808.7	17.4%
Lehman	0.0	-0.1	-0.7	-0.8	2.2	2.1	5.2	5.0	7.6	7.5	$1,604.3	15.4%
											$10,400.0	**100.0%**
									Since 7/1/84			
Historical Aggregate (2)	**0.0**	**-0.1**	**-0.2**	**-0.8**	**2.7**	**2.1**	**5.4**	**5.0**	**9.0**	**8.8**		
Lehman Aggregate (3)		-0.1		-0.8		2.1		5.0		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.

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ABERDEEN ASSET MANAGEMENT
Periods Ending June, 2006

Portfolio Manager: Warren Davis **Assets Under Management: $1,031,228,281**

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 benchmark for the quarter and the year due to individual security selection in the spread sectors.

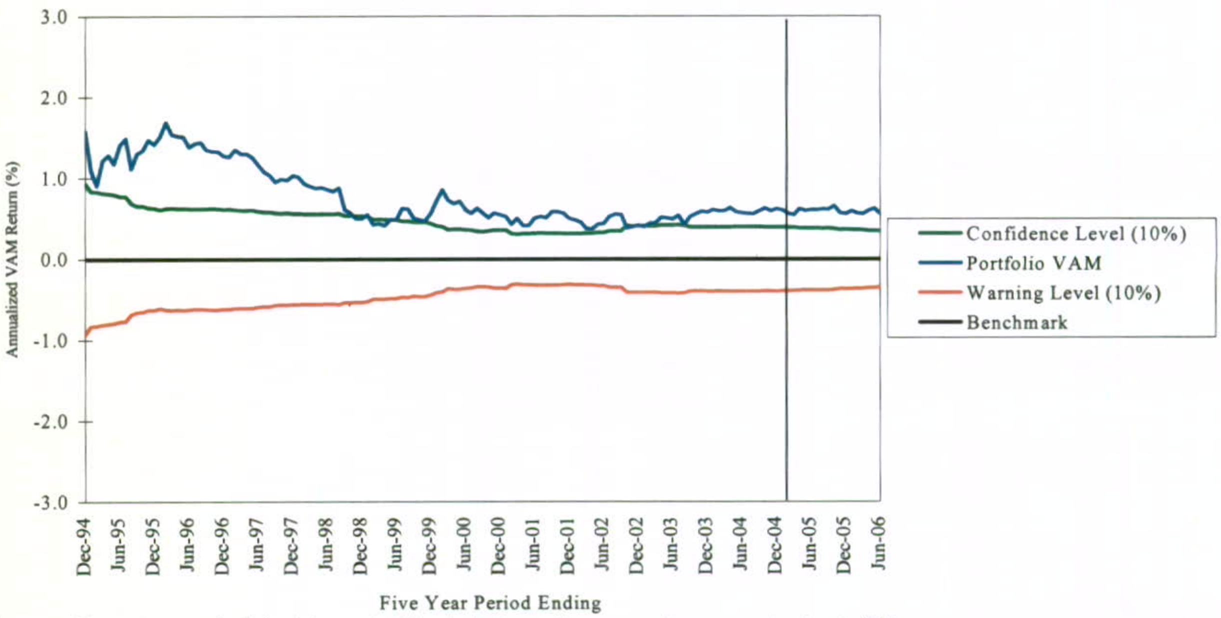
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	0.0%	-0.1%
Last 1 year	-0.6	-0.8
Last 2 years	3.4	2.9
Last 3 years	2.6	2.1
Last 4 years	4.7	4.1
Last 5 years	5.6	5.0
Since Inception (2/00)	6.7	6.2

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 June, 2006

Portfolio Manager: Dana Emery | **Assets Under Management: $1,053,676,901**

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

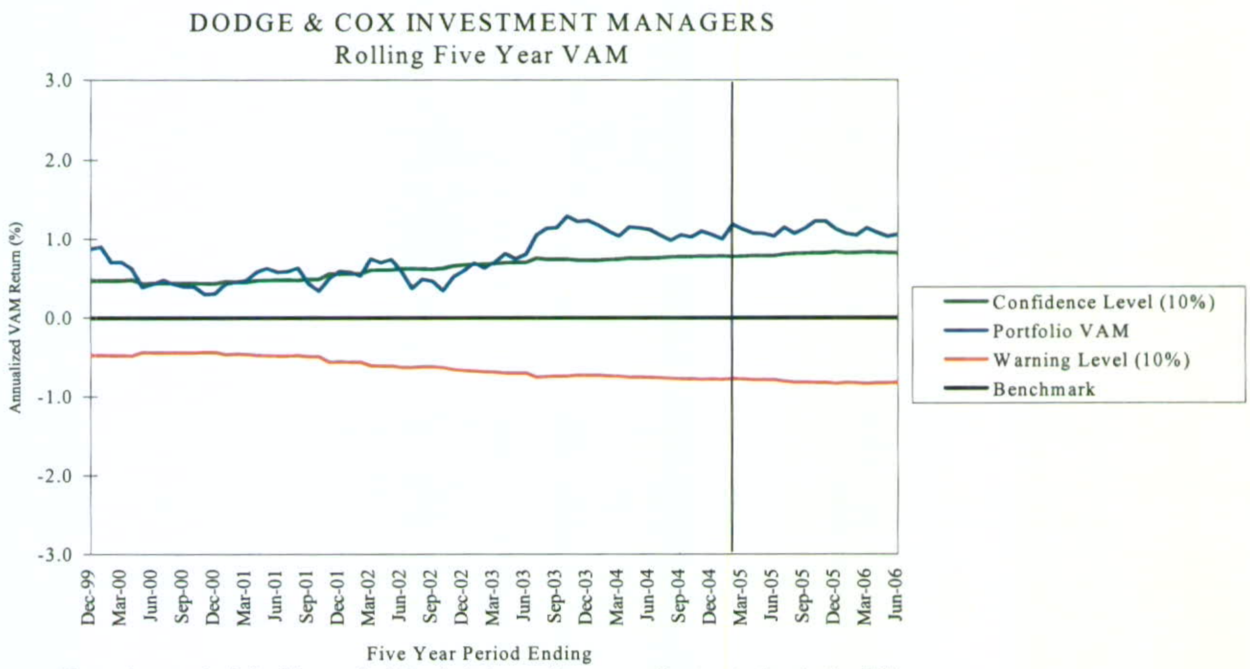
Dodge & Cox outperformed the quarterly and one-year benchmark. Both periods were helped by the portfolio's shorter effective duration. The quarterly performance was also helped by security selection, specifically Ford Motor Credit and GMAC. The one-year return also benefited from an overweight of the corporate sector.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	0.2%	-0.1%
Last 1 year	0.7	-0.8
Last 2 years	3.4	2.9
Last 3 years	2.9	2.1
Last 4 years	5.3	4.1
Last 5 years	6.1	5.0
Since Inception (2/00)	7.3	6.2

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 June, 2006

Portfolio Manager: David Horowitz | **Assets Under Management: $852,688,390**

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

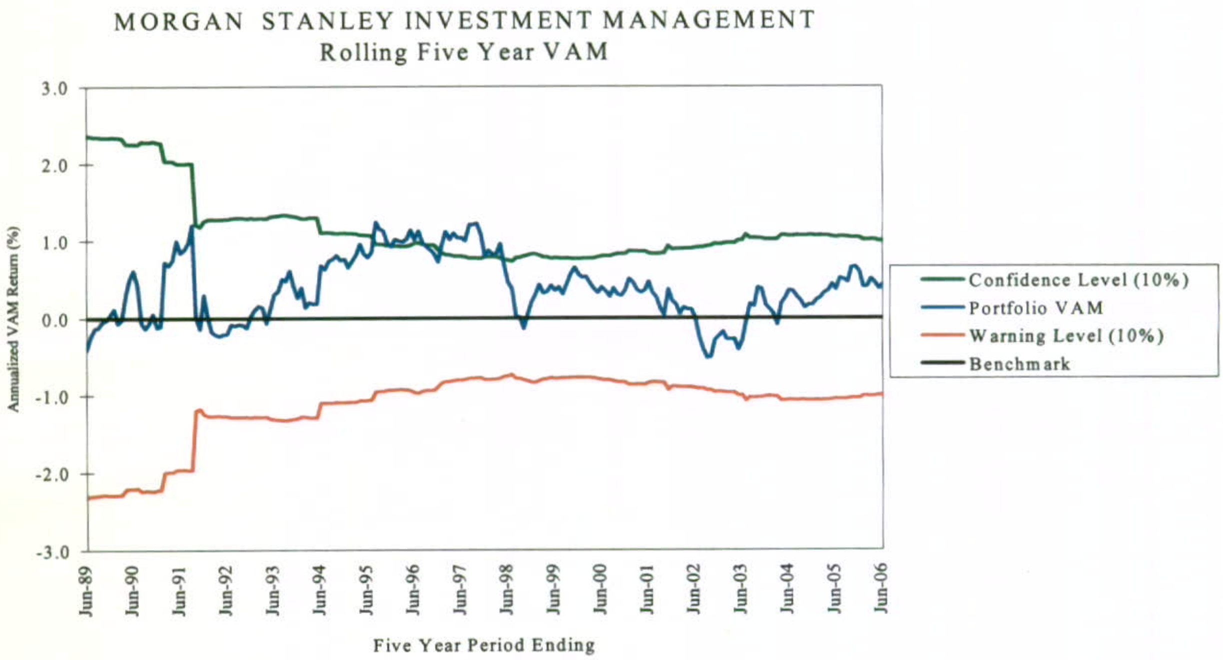
Morgan Stanley outperformed for the quarter and the year. The portfolio benefited from its below benchmark interest rate bet for both time periods as well as security selection in the corporate sector.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	0.1%	-0.1%
Last 1 year	0.9	-0.8
Last 2 years	3.9	2.9
Last 3 years	3.4	2.1
Last 4 years	4.6	4.1
Last 5 years	5.4	5.0
Since Inception (7/84)	9.2	8.9

Recommendations

No action required.



RIVERSOURCE INVESTMENTS
Periods Ending June, 2006

Portfolio Manager: Colin Lundgren | **Assets Under Management: $868,686,180**

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 outperformed for the quarter and the year. Both periods were helped by security selection in the credit sector. The quarterly outperformance was also helped by the non-dollar allocation. They one-year outperformance also benefited from a short duration position.

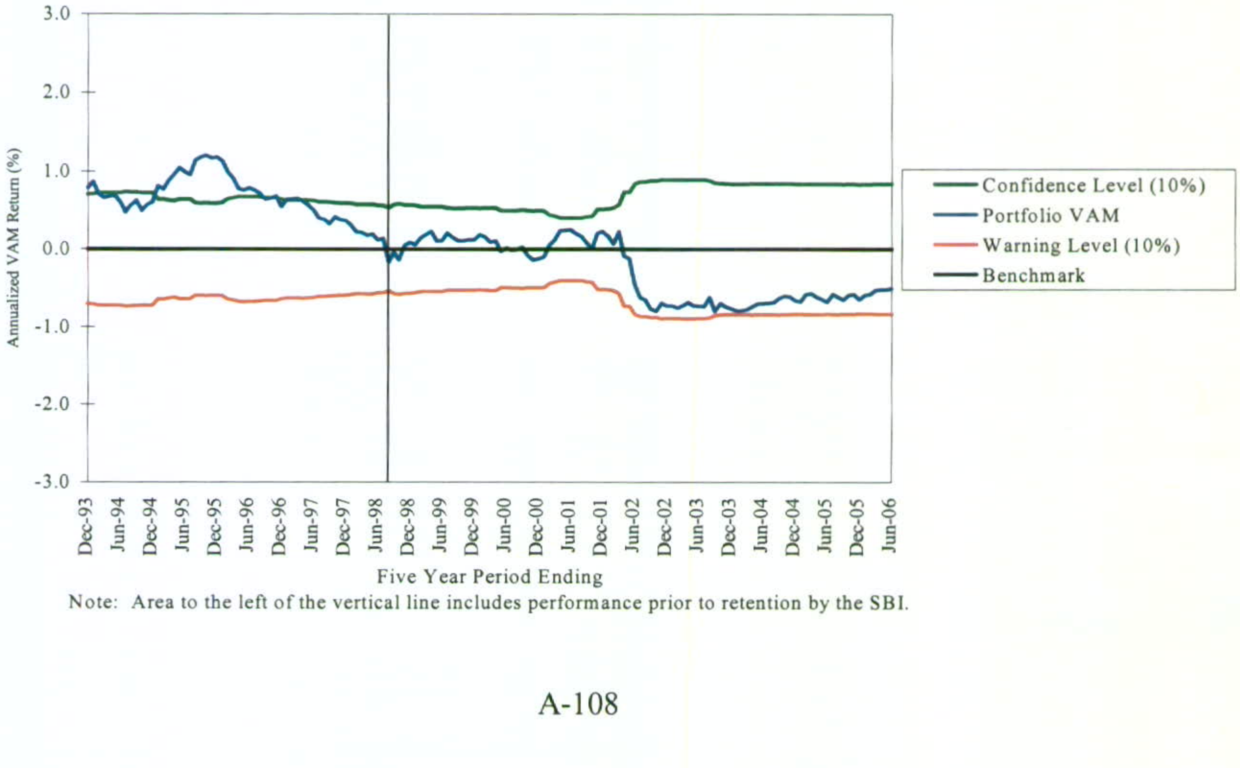
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	0.0%	-0.1%
Last 1 year	-0.1	-0.8
Last 2 years	3.5	2.9
Last 3 years	2.5	2.1
Last 4 years	4.2	4.1
Last 5 years	4.4	5.0
Since Inception (7/93)	5.9	6.0

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 June, 2006

Portfolio Manager: Ken Leech **Assets Under Management: $1,371,637,231**

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 trailed the quarterly benchmark. The quarterly return was negatively impacted by an overweight duration position, and an overweight exposure to the mortgage-backed sector. Western outperformed for the year due to an underweight in the credit sector and an overweight exposure to the mortgage-backed sector.

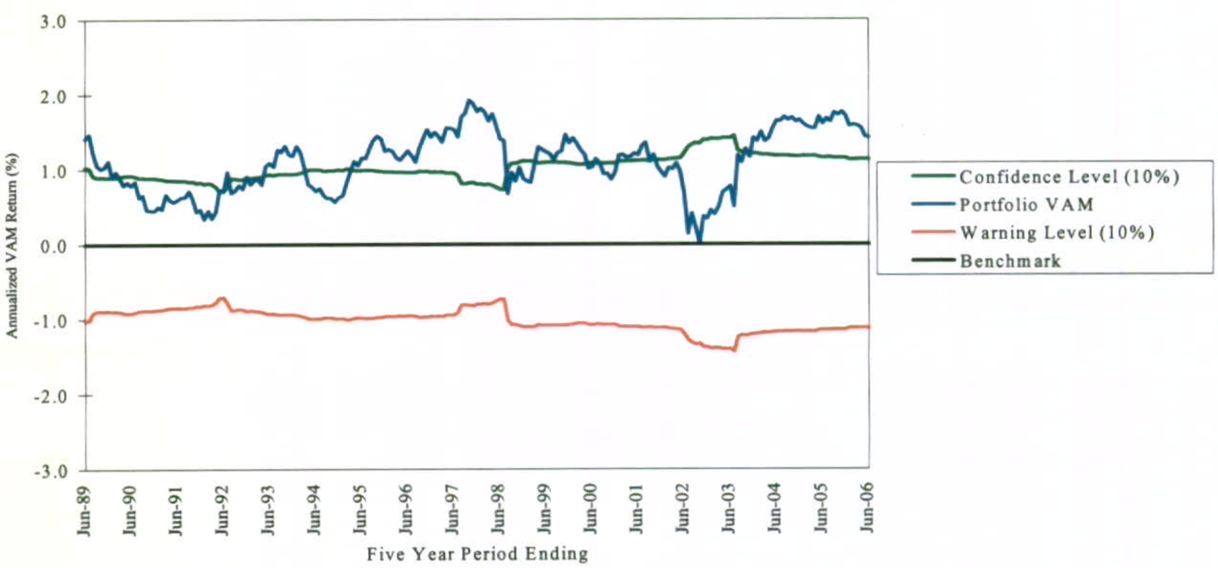
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	-0.3%	-0.1%
Last 1 year	-0.3	-0.8
Last 2 years	3.6	2.9
Last 3 years	3.7	2.1
Last 4 years	5.9	4.1
Last 5 years	6.5	5.0
Since Inception (7/84)	10.1	8.8

Recommendations

No action required.

WESTERN ASSET MANAGEMENT
Rolling Five Year VAM



BLACKROCK, INC.
Periods Ending June, 2006

Portfolio Manager: Keith Anderson | **Assets Under Management: $1,809,153,716**

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 outperformed the quarterly and one-year benchmark. Both periods were helped by the short duration position and an underweight to the mortgage and corporate sectors.

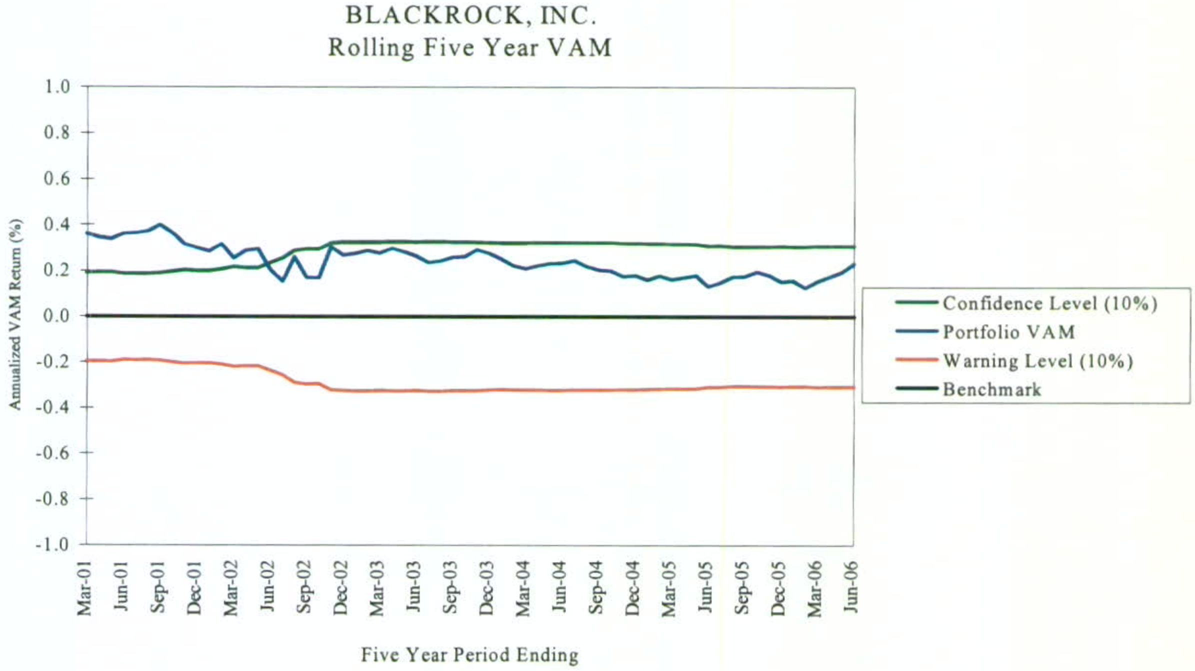
On February 15, 2006, Blackrock and Merrill Lynch announced an agreement to merge. The merger is expected to close September 30, 2006.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	0.2%	-0.1%
Last 1 year	-0.4	-0.8
Last 2 years	3.2	2.9
Last 3 years	2.3	2.1
Last 4 years	4.4	4.1
Last 5 years	5.2	5.0
Since Inception (4/96)	6.4	6.1

Recommendation

No action required.



GOLDMAN SACHS ASSET MANAGEMENT
Periods Ending June, 2006

Portfolio Manager: Jonathon Beinner **Assets Under Management: $1,808,676,986**

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 the quarter and the year, Goldman outperformed their benchmark. Both periods were helped by a short duration bias. The quarterly return was also helped by an overweight to the mortgage sector.

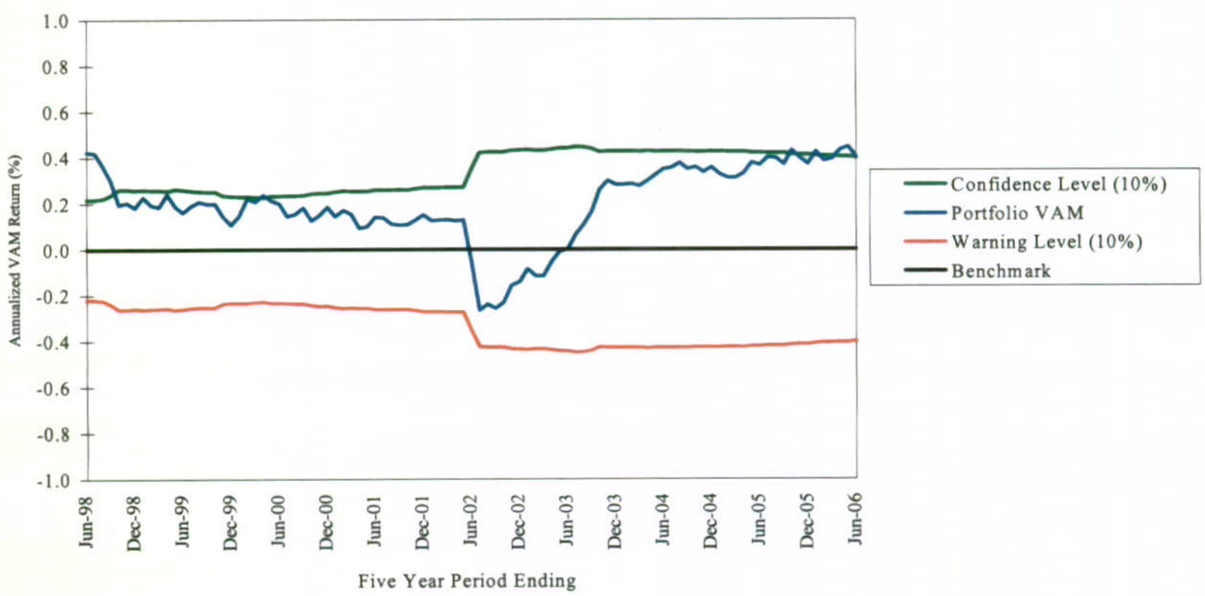
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	0.1%	-0.1%
Last 1 year	-0.5	-0.8
Last 2 years	3.3	2.9
Last 3 years	2.7	2.1
Last 4 years	4.7	4.1
Last 5 years	5.4	5.0
Since Inception (7/93)	6.3	6.0

Recommendations

No action required.

GOLDMAN SACHS ASSET MANAGEMENT
Rolling Five Year VAM



LEHMAN BROTHERS ASSET MANAGEMENT
Periods Ending June, 2006

Portfolio Manager: Andrew Johnson — **Assets Under Management: $1,604,255,209**

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

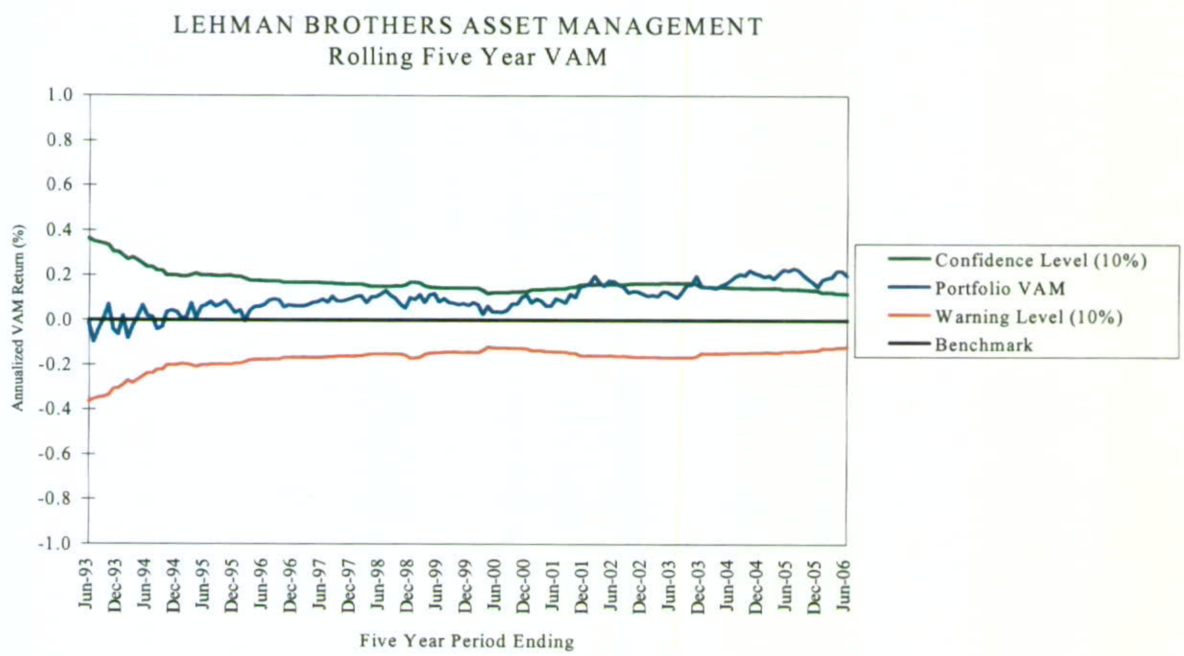
Lehman outperformed the benchmark for the quarter and for the year. Both periods were helped by security selection in the mortgage and corporate sector.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	0.0%	-0.1%
Last 1 year	-0.7	-0.8
Last 2 years	3.1	2.9
Last 3 years	2.2	2.1
Last 4 years	4.2	4.1
Last 5 years	5.2	5.0
Since Inception (7/88)	7.6	7.5

Recommendations

No action required.



STATE BOARD OF INVESTMENT

International Manager Evaluation Reports

Second Quarter, 2006

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COMBINED RETIREMENT FUNDS
INTERNATIONAL STOCK MANAGERS
Periods Ending June, 2006

	Quarter		1 Year		3 Years		5 Years		Since (1) Inception		Market Value	Pool
	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	(in millions)	%
Active Developed Markets (2)												
Acadian	1.9	0.7	37.0	26.9					37.0	26.9	$346.4	5.0%
Fidelity	-0.2	0.7	27.5	26.9					27.5	26.9	$316.4	4.6%
Invesco	1.8	0.7	25.1	26.9	22.5	24.3	10.3	10.2	6.3	3.5	$462.1	6.7%
J.P. Morgan	0.1	0.7	25.4	26.9					25.4	26.9	$312.5	4.5%
Marathon (3)	1.2	0.7	27.8	26.9	28.5	25.3	14.8	12.7	10.3	7.4	$536.8	7.8%
McKinley	0.1	0.7	30.6	26.9					30.6	26.9	$326.7	4.7%
RiverSource	0.2	0.7	28.5	26.9	21.8	24.3	8.0	10.2	-0.4	3.5	$332.5	4.8%
UBS Global	0.8	0.7	22.9	26.9	21.5	24.3	9.4	10.2	9.2	8.0	$477.9	6.9%
Active Emerging Markets												
Alliance Capital	-6.1	-4.3	33.0	35.5	34.0	34.3	21.9	21.7	16.2	16.7	$329.6	4.8%
Capital International	-4.2	-4.3	37.7	35.5	33.1	34.3	18.4	21.7	13.3	16.7	$282.4	4.1%
Morgan Stanley	-4.5	-4.3	38.6	35.5	35.5	34.3	22.5	21.7	17.0	16.7	$302.4	4.4%
Semi-Passive Developed Markets (2)												
AQR	-0.1	0.7	27.7	26.9					27.7	26.9	$250.7	3.6%
Fidelity	0.2	0.7	27.5	26.9					27.5	26.9	$254.1	3.7%
State Street	0.9	0.7	28.9	26.9					28.9	26.9	$256.4	3.7%
Passive Developed Markets (2)												
State Street	0.9	0.7	27.1	26.9	24.4	24.3	10.4	10.2	8.5	8.3	$2,131.5	30.8%
									Since 10/1/92			
Equity Only (4) (6)	-0.1	0.0	28.2	27.9	24.7	25.3	11.1	11.2	8.8	8.3	$6,919.0	100.0%
Total Program (5) (6)	**-0.1**	**0.0**	**28.2**	**27.9**	**24.7**	**25.3**	**11.1**	**11.2**	**9.1**	**8.3**	**$6,919.0**	
SBI Int'l Equity Target (6)		0.0		27.9		25.3		11.2		8.3		
MSCI ACWI Free ex. U.S. (7)		0.0		27.9		25.3		11.4		8.7		
MSCI World ex U.S. (net)		0.7		26.9		24.2		10.4		8.5		
MSCI EAFE Free (net)		0.7		26.6		23.9		10.0		8.2		
MSCI Emerging Markets Free (8)		-4.3		35.5		34.3		21.2		9.4		

(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.

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ACADIAN ASSET MANAGEMENT, INC.
Periods Ending June, 2006

Portfolio Manager: John Chisholm **Assets Under Management: $346,391,920**

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's portfolio outperformed over both the quarter and twelve month periods. Stock selection drove returns over both time frames, with particular success seen in the United Kingdom, Japan and Germany.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	1.9%	0.7%
Last 1 year	37.0	26.9
Last 2 years	N/A	N/A
Last 3 years	N/A	N/A
Last 4 years	N/A	N/A
Last 5 years	N/A	N/A
Since Inception (7/05)	37.0	26.9

Recommendations

No action required.

VAM Graphs will be drawn for period ending 9/30/07.

FIDELITY MANAGEMENT TRUST COMPANY
Periods Ending June, 2006

Portfolio Manager: Michael Strong | **Assets Under Management: $316,388,310**

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

Fidelity's International Growth portfolio underperformed for the quarter. Stock selection in Japan and the United Kingdom, as well as in the consumer sectors, were the primary negative contributors. The portfolio's outperformance for the year was largely driven by stock selection in Japan and in several major European markets.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	-0.2%	0.7%
Last 1 year	27.5	26.9
Last 2 years	N/A	N/A
Last 3 years	N/A	N/A
Last 4 years	N/A	N/A
Last 5 years	N/A	N/A
Since Inception (7/05)	27.5	26.9

Recommendations

No action required.

VAM Graphs will be drawn for period ending 9/30/07.

INVESCO GLOBAL ASSET MANAGMENT
Periods Ending June, 2006

Portfolio Manager: Erik Granade **Assets Under Management: $462,107,503**

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

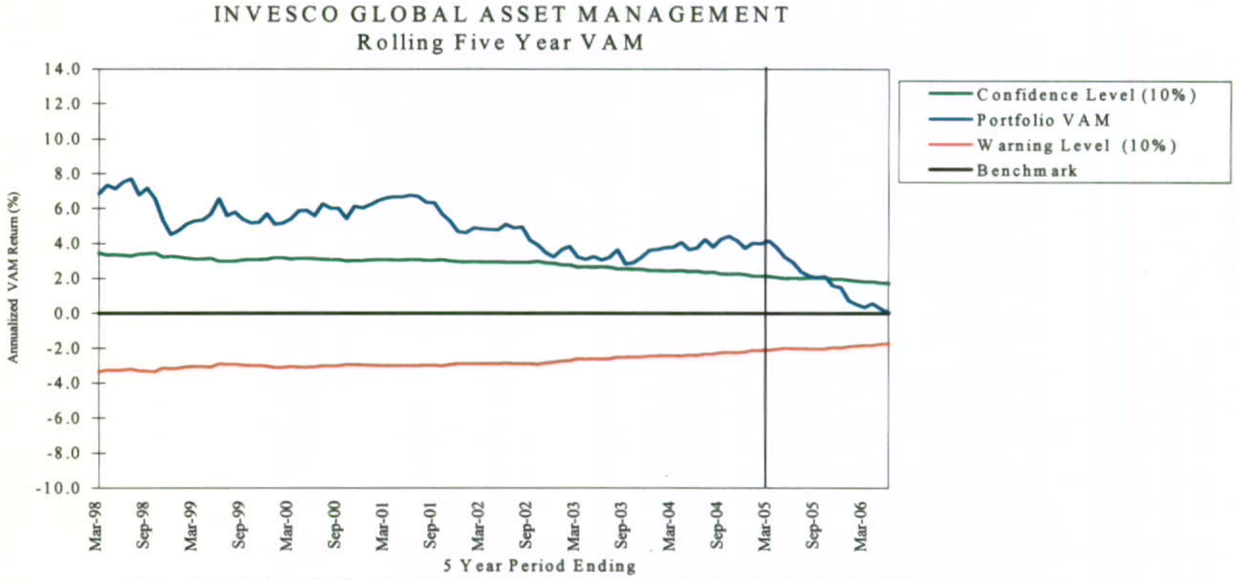
INVESCO's portfolio outperformed during the quarter but trailed for the year, primarily due to stock selection over both periods. While holdings in Japan added value over the quarter, they detracted from performance over the year.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	1.8%	0.7%
Last 1 year	25.1	26.9
Last 2 years	18.4	20.6
Last 3 years	22.5	24.3
Last 4 years	13.8	15.7
Last 5 years	10.3	10.2
Since Inception (3/00)	6.3	3.5

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 June, 2006

Portfolio Manager: James Fisher **Assets Under Management: $312,487,891**

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

J.P. Morgan's portfolio trailed the benchmark over both the quarter and the year. Stock selection in the industrials and healthcare sectors in the United Kingdom were primary negative contributors over both periods.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	0.1%	0.7%
Last 1 year	25.4	26.9
Last 2 years	N/A	N/A
Last 3 years	N/A	N/A
Last 4 years	N/A	N/A
Last 5 years	N/A	N/A
Since Inception (7/05)	25.4	26.9

Recommendations

No action required.

VAM Graphs will be drawn for period ending 9/30/07.

MARATHON ASSET MANAGEMENT
Periods Ending June, 2006

Portfolio Manager: William Arah **Assets Under Management: $536,809,500**

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

Marathon's portfolio has consistently outperformed over all annualized time periods. Strong stock selection overall, particularly in Japan over the quarter and in the United Kingdom over the year, drove returns. In addition, stock selection in the industrials sector was additive over both periods.

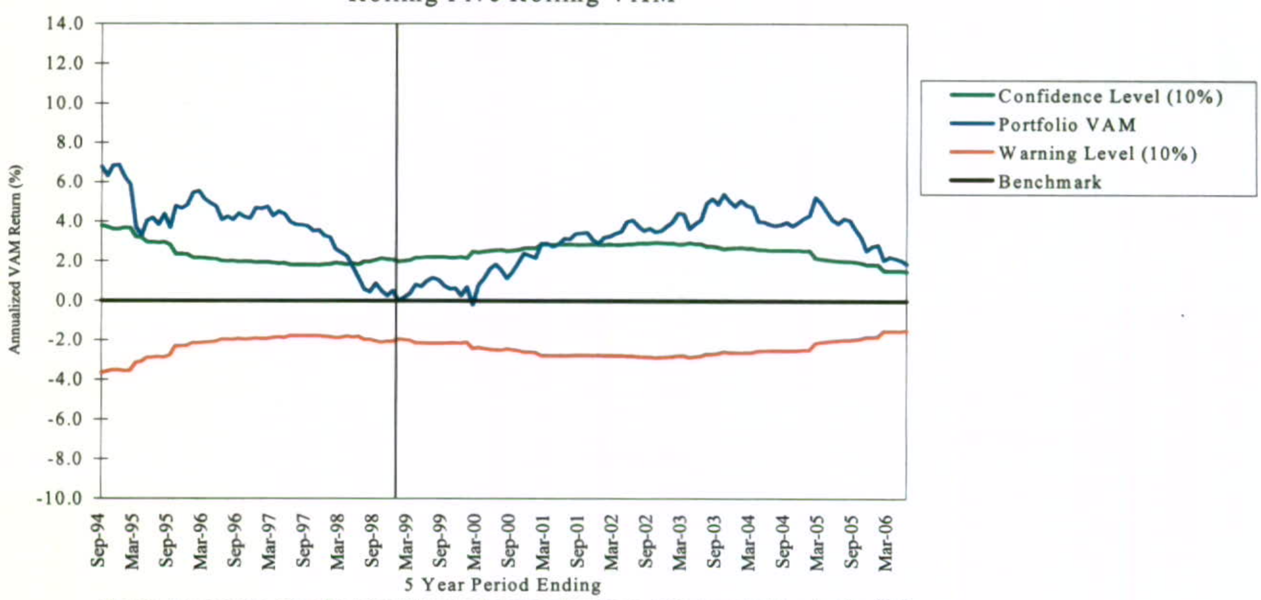
Quantitative Evaluation

	Actual	Custom Benchmark
Last Quarter	1.2%	0.7%
Last 1 year	27.8	26.9
Last 2 years	22.6	20.6
Last 3 years	28.5	25.3
Last 4 years	18.8	17.7
Last 5 years	14.8	12.7
Since Inception (11/93)	10.3	7.4

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 June, 2006

Portfolio Manager: Robert Gillam, Jr. **Assets Under Management: $326,663,183**

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

McKinley's portfolio underperformed during the quarter and outperformed for the year. Holdings in Japan were the primary negative contributor over the quarter, while holdings in Europe were significantly beneficial during the year. In terms of sectors, holdings in financials and energy were the most detrimental over the quarter, and the most additive for the year.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	0.1%	0.7%
Last 1 year	30.6	26.9
Last 2 years	N/A	N/A
Last 3 years	N/A	N/A
Last 4 years	N/A	N/A
Last 5 years	N/A	N/A
Since Inception (7/05)	30.6	26.9

Recommendations

No action required.

VAM Graphs will be drawn for period ending 9/30/07.

RIVERSOURCE INVESTMENTS
Periods Ending June, 2006

Portfolio Manager: Alex Lyle and Ed Gaunt **Assets Under Management: $332,457,500**

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

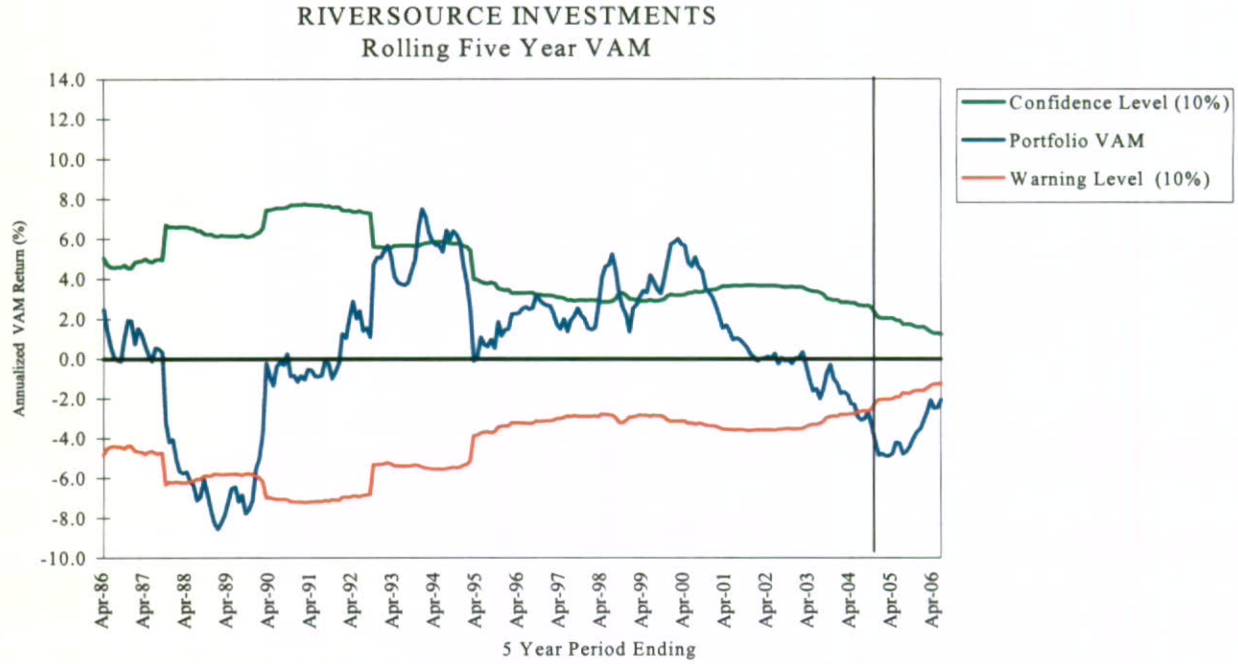
Riversource modestly underperformed during the quarter, but achieved strong performance over the year. The firm's stock selection in Japan, along with a modest underweight position in the United Kingdom, the best performing market during the quarter, hindered returns in 2Q06. For the year, stock selection across all but three markets overwhelmingly accounted for the portfolio's outperformance.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	0.2%	0.7%
Last 1 year	28.5	26.9
Last 2 years	20.4	20.6
Last 3 years	21.8	24.3
Last 4 years	13.2	15.7
Last 5 years	8.0	10.2
Since Inception (3/00)	-0.4	3.5

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 June, 2006

Portfolio Manager: Thomas Madsen **Assets Under Management: $477,883,902**

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

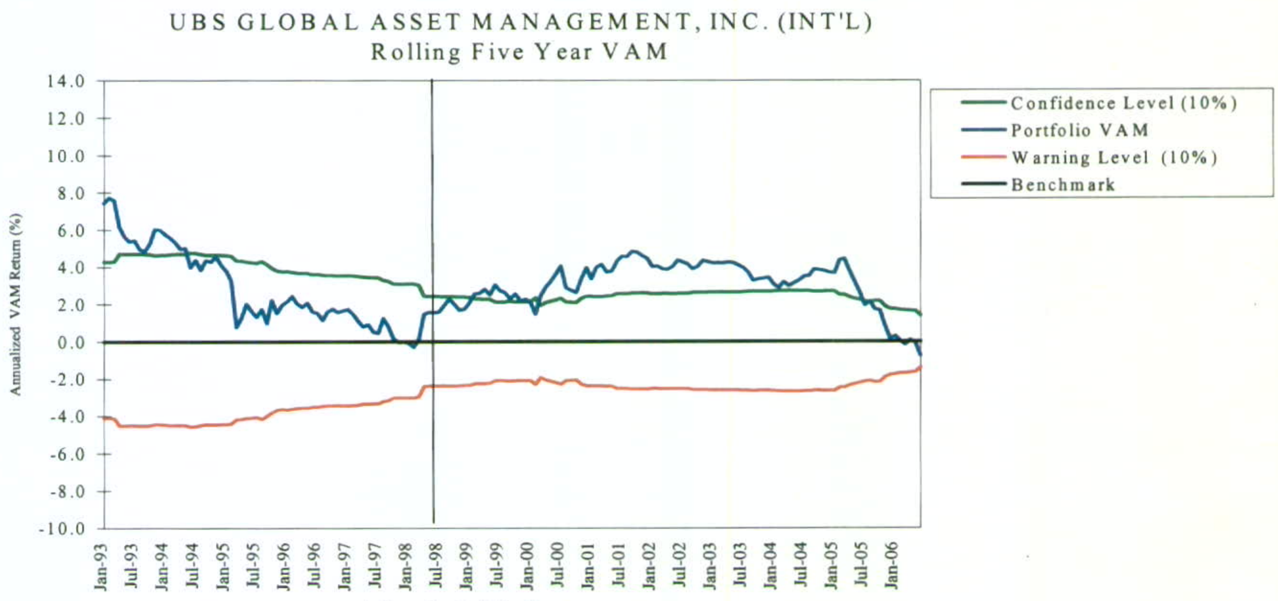
UBS's portfolio added minimal value over the quarter and trailed for the year. Performance over the quarter benefited from stock selection in the information technology, industrials and healthcare sectors. While for the year, holdings in Japan, France, the United Kingdom and Canada were the most detrimental.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	0.8%	0.7%
Last 1 year	22.9	26.9
Last 2 years	18.0	20.6
Last 3 years	21.5	24.3
Last 4 years	13.3	15.7
Last 5 years	9.4	10.2
Since Inception (4/93)	9.2	8.0

Recommendations

No action required.



Note: Area to the left of vertical line includes performance prior to retention by the SBI.

ALLIANCE CAPITAL MANAGEMENT INTERNATIONAL
Periods Ending June, 2006

Portfolio Manager: Edward Baker **Assets Under Management: $329,592,174**

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

Alliance's country weighting decisions led to underperformance over both the quarter and the year. The portfolio's overweight positions in South Africa, India and Turkey, along with stock selection in these markets, were among the primary negative contributors over both recent time periods.

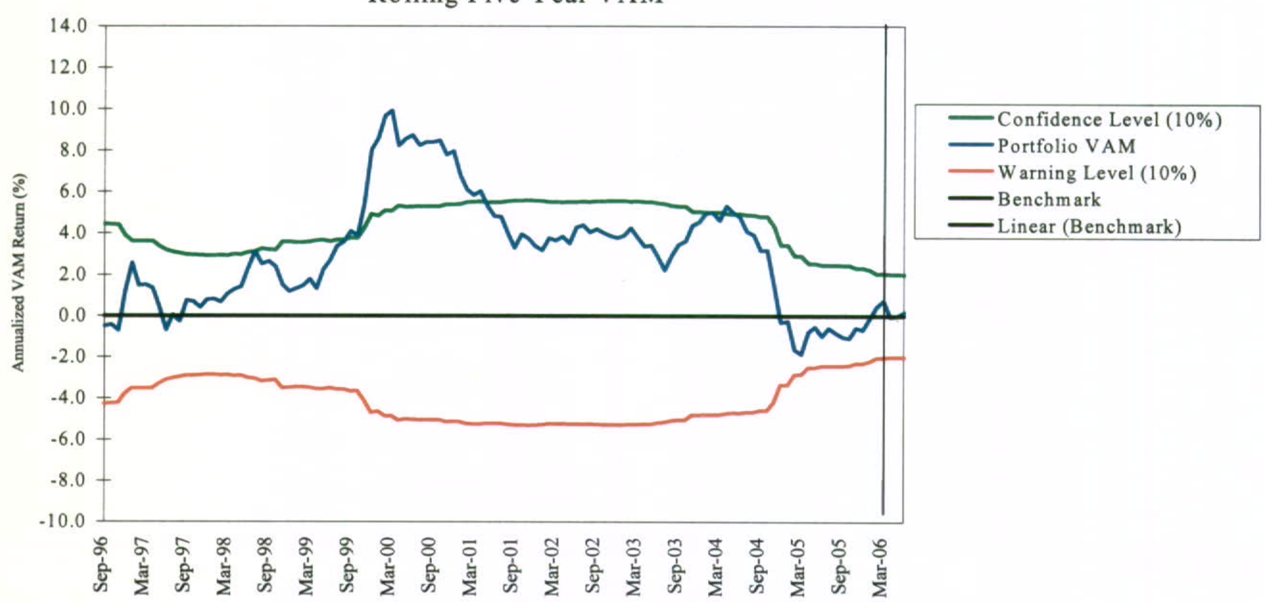
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	-6.1	-4.3
Last 1 year	33.0	35.5
Last 2 years	33.9	34.9
Last 3 years	34.0	34.3
Last 4 years	27.2	26.8
Last 5 years	21.9	21.7
Since Inception (3/01)	16.2	16.7

Recommendations

Staff is closely monitoring the firm due to personnel turnover.

ALLIANCE CAPITAL MANAGEMENT
Rolling Five Year VAM



5 Year Period Ending

Note: Shaded area includes performance prior to managing SBI account.

CAPITAL INTERNATIONAL, INC.
Periods Ending June, 2006

Portfolio Manager: Victor Kohn | **Assets Under Management: $282,440,949**

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

The portfolio narrowly outperformed during the quarter primarily due to stock selection in India and Brazil and an underweight position in the energy sector, a strong performer. Capital's outperformance for the year was overwhelmingly due to positive stock selection across many markets including Taiwan, Korea, Brazil and South Africa.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	-4.2	-4.3
Last 1 year	37.7	35.5
Last 2 years	35.3	34.9
Last 3 years	33.1	34.3
Last 4 years	25.5	26.8
Last 5 years	18.4	21.7
Since Inception (3/01)	13.3	16.7

Recommendations

Staff is closely monitoring the firm due to longer term performance concerns.

Note: Shaded area includes performance prior to managing SBI account.

MORGAN STANLEY INVESTMENT MANAGEMENT
Periods Ending June, 2006

Portfolio Manager: Ruchir Sharma | **Assets Under Management: $302,437,663**

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

Morgan Stanley narrowly underperformed for the quarter primarily due to overweight positions in South Africa, India and Turkey, which were among the worst performing major markets. During the year, stock selection and weighting decisions in Russia, Taiwan, Brazil and Mexico were the strongest contributors to the portfolio's outperformance.

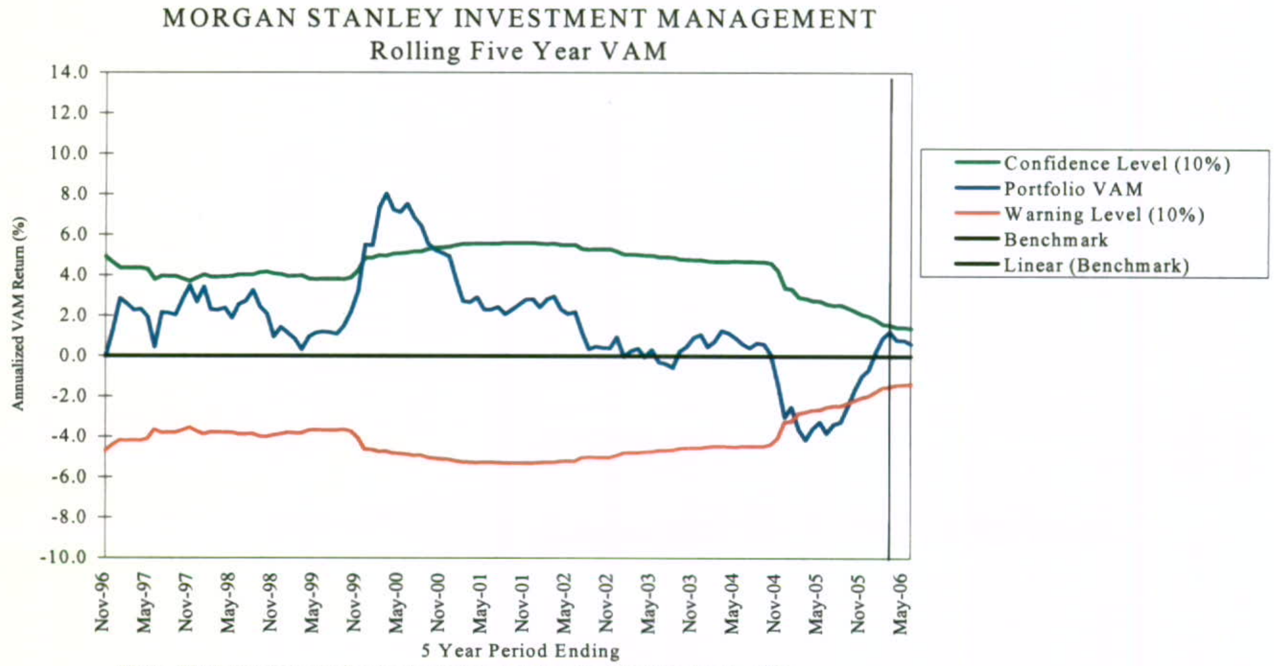
Morgan Stanley announced that Narayan Ramachandran, co-portfolio manager for the emerging markets equity strategy, will be changing roles to become head of Morgan Stanley's business in India. Ruchir Sharma, who has been the other co-portfolio manager for the strategy, will assume sole responsibility.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	-4.5%	-4.3%
Last 1 year	38.6	35.5
Last 2 years	36.6	34.9
Last 3 years	35.5	34.3
Last 4 years	27.0	26.8
Last 5 years	22.5	21.7
Since Inception (3/01)	17.0	16.7

Recommendations

Staff is closely monitoring the firm due to personnel turnover.



Note: Shaded area includes performance prior to the retention by the SBI

AQR CAPITAL MANAGEMENT, LLC
Periods Ending June, 2006

Portfolio Manager: Cliff Asness **Assets Under Management: $250,674,532**

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

AQR underperformed for the quarter and outperformed for the year. The portfolio's underweight positions in the United Kingdom and France, two strong performers, negatively effected returns over the quarter. For the year, stock selection in Japan and across most European markets, was the primary positive contributor.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	-0.1%	0.7%
Last 1 year	27.7	26.9
Last 2 years	N/A	N/A
Last 3 years	N/A	N/A
Last 4 years	N/A	N/A
Last 5 years	N/A	N/A
Since Inception (7/05)	27.7	26.9

Recommendations

No action required.

VAM Graphs will be drawn for period ending 9/30/07.

FIDELITY MANAGEMENT TRUST COMPANY
Periods Ending June, 2006

Portfolio Manager: Cesar Hernandez **Assets Under Management: $254,077,764**

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

Fidelity's underperformance for the quarter was primarily due to holdings in the United Kingdom and France as well as in the materials sector. While for the year, the portfolio benefited from stock selection in the United Kingdom and across Europe as well as in the financials sector.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	0.2%	0.7%
Last 1 year	27.5	26.9
Last 2 years	N/A	N/A
Last 3 years	N/A	N/A
Last 4 years	N/A	N/A
Last 5 years	N/A	N/A
Since Inception (7/05)	27.5	26.9

Recommendations

No action required.

VAM Graphs will be drawn for period ending 9/30/07.

STATE STREET GLOBAL ADVISORS
Periods Ending June, 2006

Portfolio Manager: Paul Moghtader **Assets Under Management: $256,414,226**

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

SSgA's Alpha strategy benefited from strong stock selection over the quarter and the year. Holdings in France and Germany as well as in the materials sector were primary contributors over both periods.

During the quarter, SSgA added three members to the regional investment teams.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	0.9%	0.7%
Last 1 year	28.9	26.9
Last 2 years	N/A	N/A
Last 3 years	N/A	N/A
Last 4 years	N/A	N/A
Last 5 years	N/A	N/A
Since Inception (7/05)	28.9	26.9

Recommendations

No action required.

VAM Graphs will be drawn for period ending 9/30/07.

STATE STREET GLOBAL ADVISORS
Periods Ending June, 2006

Portfolio Manager: Lynn Blake **Assets Under Management: $2,131,459,827**

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

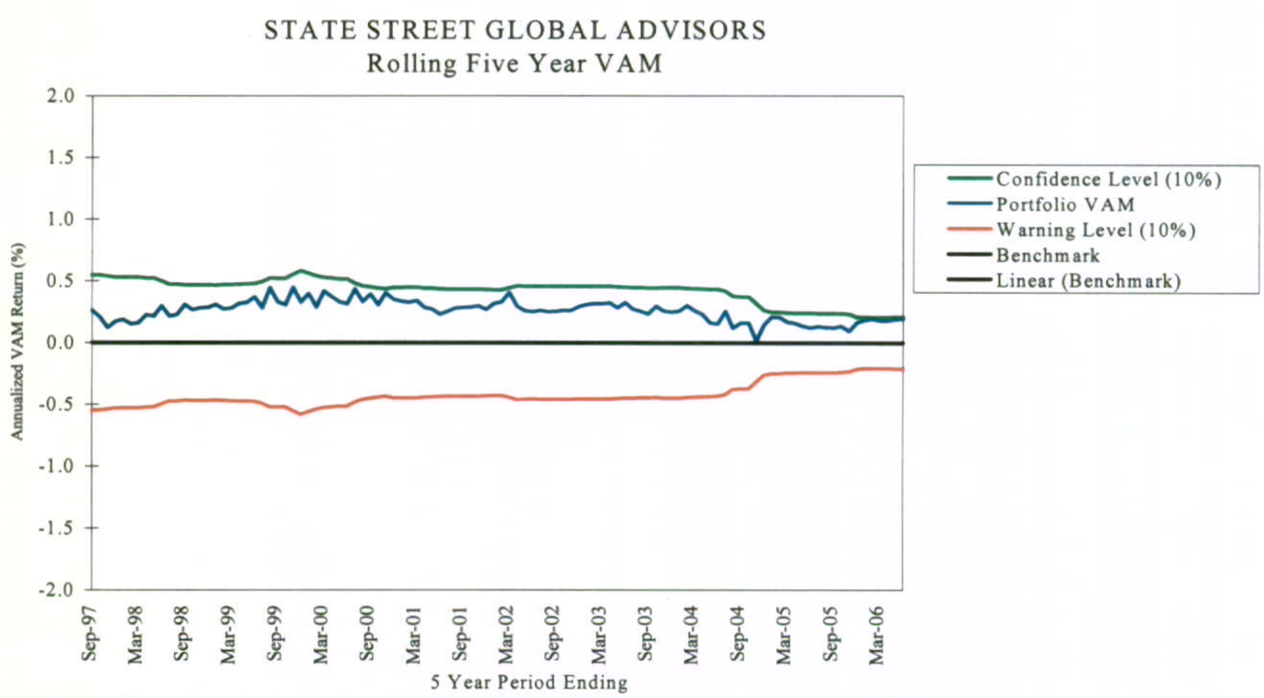
SSgA's passive strategy's positive tracking error during the quarter was largely due to dividend income received in the portfolio.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	0.9%	0.7%
Last 1 year	27.1	26.9
Last 2 years	20.8	20.6
Last 3 years	24.4	24.3
Last 4 years	16.0	15.7
Last 5 years	10.4	10.2
Since Inception (10/92)	8.5	8.3

Recommendation

No action required.



Note: Area to the left of vertical line includes performance prior to retention by the SBI.

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STATE BOARD OF INVESTMENT

Non-Retirement Manager Evaluation Reports

Second Quarter, 2006

NON - RETIREMENT MANAGERS
Periods Ending June, 2006

	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)*	-1.0	-1.4	7.0	8.6	8.9	11.2	1.7	2.5	11.6	11.1	$71.6
Voyageur Asset Management (Custom Benchmark)*	0.4	0.2	0.6	0.2	2.1	1.7	4.0	4.2	6.3	6.3	$247.7
Galliard Capital Management (3 yr. Constant Maturity Treasury + 45 bp)*	1.1	1.3	4.5	5.0	4.3	3.9	4.9	3.6	5.8	5.0	$197.7
Internal Stock Pool (S&P 500 Index)*	-1.4	-1.4	8.7	8.6	11.3	11.2	2.6	2.5	10.4	10.3	$705.7
Internal Bond Pool - Income Share (Lehman Aggregate)*(2)	0.0	-0.1	0.3	-0.8	3.0	2.1	5.3	5.0	7.8	7.4	$156.8
Internal Bond Pool - Trust (Lehman Aggregate)*	0.2	-0.1	0.5	-0.8	3.0	2.1	5.5	5.0	7.1	6.6	$470.6

* 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.

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GE ASSET MANAGEMENT - Assigned Risk Plan
Periods Ending June, 2006

Portfolio Manager: Dave Carlson | **Assets Under Management: $71,610,090**

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

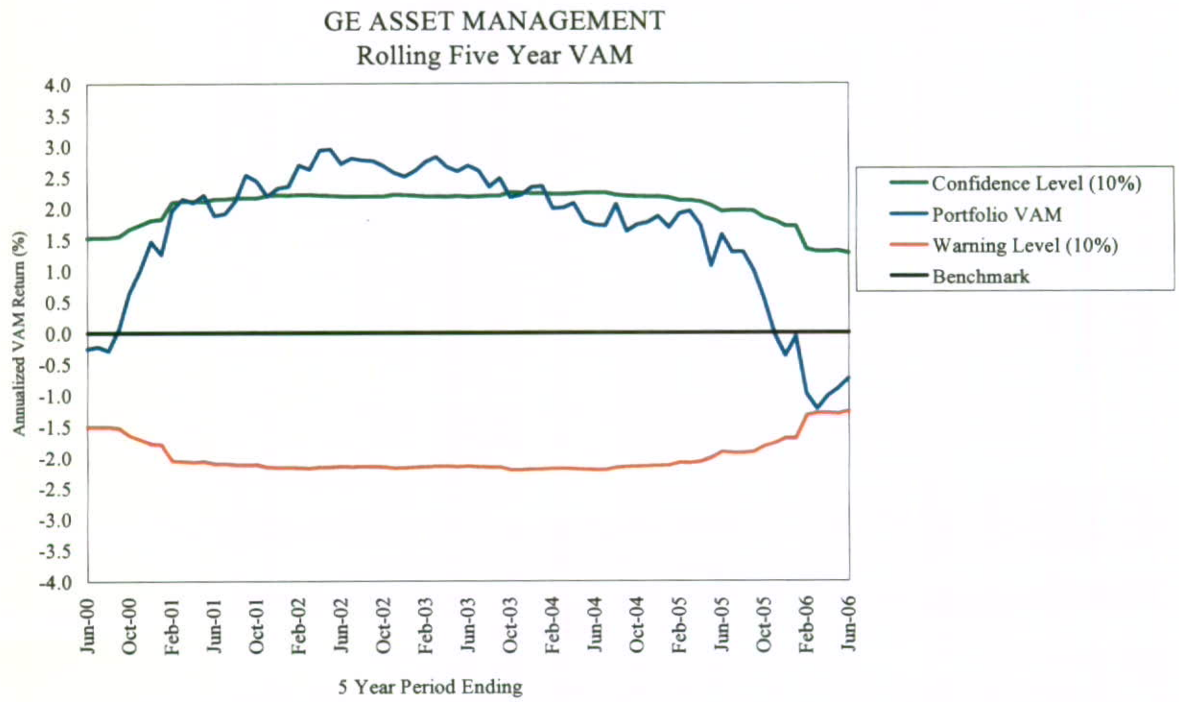
GE exceeded the quarterly benchmark and trailed the one-year benchmark. Security selection in the information technology sector, consumer staples sector, and the consumer discretionary sector helped the quarterly return. An underweight to the financial sector and stock selection in the health care sector detracted from the one-year return.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	-1.0%	-1.4%
Last 1 year	7.0	8.6
Last 2 years	6.1	7.5
Last 3 years	8.9	11.2
Last 4 years	6.4	8.4
Last 5 years	1.7	2.5
Since Inception (1/95)	11.6	11.1

Recommendation

No recommendation at this time.



VOYAGEUR ASSET MANAGEMENT - Assigned Risk Plan
Periods Ending June, 2006

Portfolio Manager: John Huber **Assets Under Management: $247,729,307**

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 an underweight in the Agency and Mortgage-Backed sectors. The one-year return was helped by security selection in the mortgage sector.

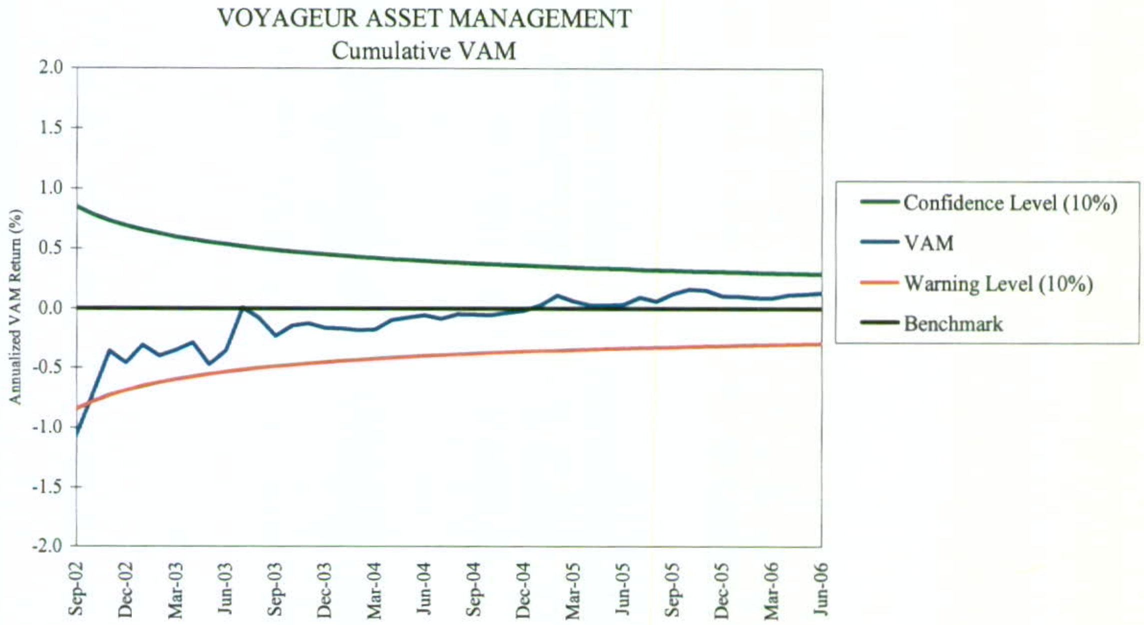
Quantitative Evaluation

	Actual	Benchmark*
Last Quarter	0.4%	0.2%
Last 1 year	0.6	0.2
Last 2 years	2.8	2.5
Last 3 years	2.1	1.7
Last 4 years	3.4	3.2
Last 5 years	4.0	4.2
Since Inception (7/91)	6.3	6.3

*Custom benchmark since inception date.

Recommendation

No action required.



GALLIARD CAPITAL MANAGEMENT
Periods Ending June, 2006

Portfolio Manager: Karl Tourville **Assets Under Management: $197,740,703**

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.

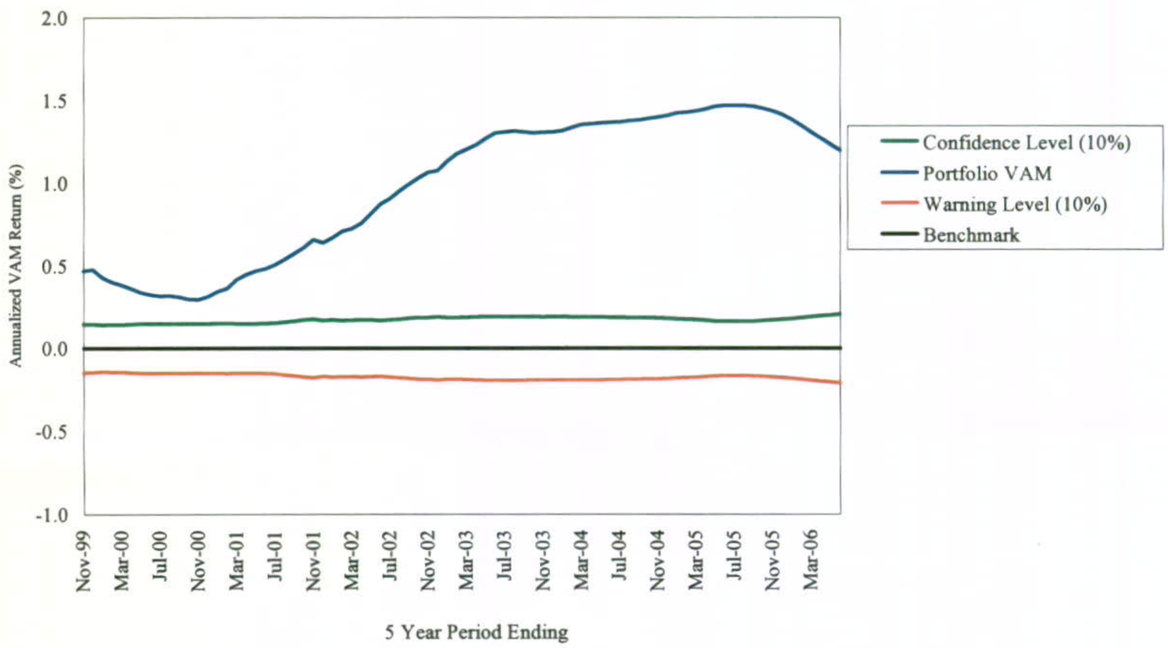
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	1.1%	1.3%
Last 1 year	4.5	5.0
Last 2 years	4.3	4.4
Last 3 years	4.3	3.9
Last 4 years	4.5	3.6
Last 5 years	4.9	3.6
Since Inception (11/94)	5.8	5.0

Recommendation

No action required.

Galliard Capital Management
Rolling Five Year VAM



INTERNAL STOCK POOL - Trust/Non-Retirement Assets
Periods Ending June, 2006

Portfolio Manager: Mike Menssen **Assets Under Management: $705,680,456**

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

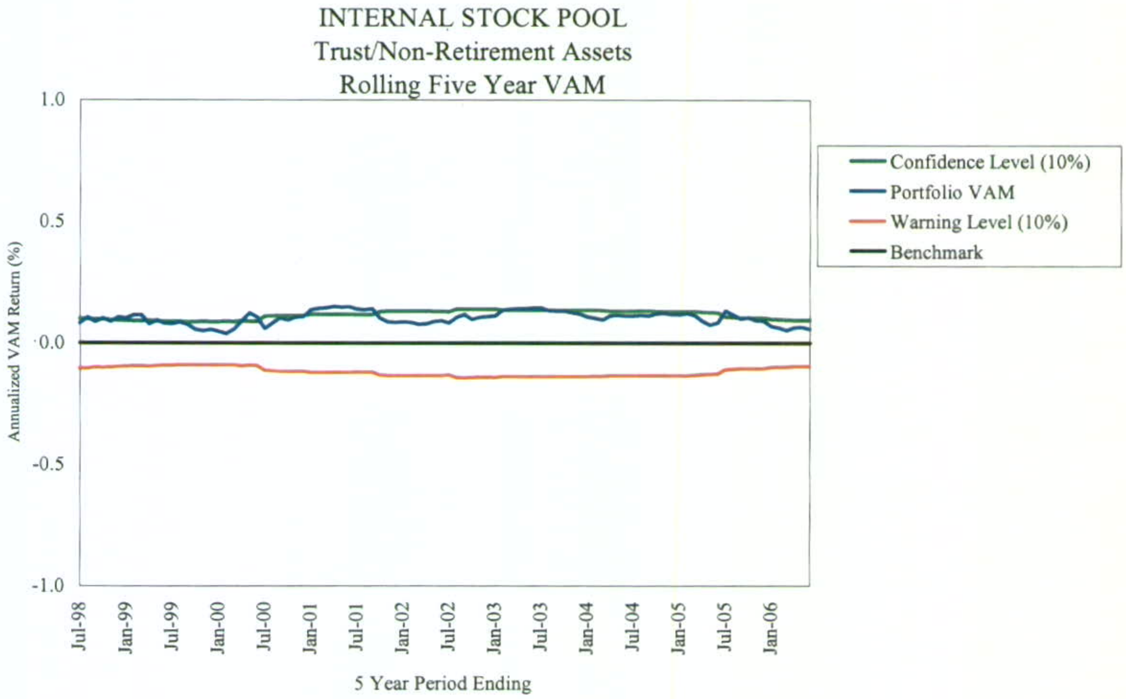
The portfolio matched the benchmark for the quarter and slightly outperformed for the year.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	-1.4%	-1.4%
Last 1 year	8.7	8.6
Last 2 years	7.5	7.5
Last 3 years	11.3	11.2
Last 4 years	8.5	8.4
Last 5 years	2.6	2.5
Since Inception (7/93)	10.4	10.3

Recommendation

No action required.



INTERNAL BOND POOL - Income Share Account
Periods Ending June, 2006

Portfolio Manager: Mike Menssen **Assets Under Management: $156,802,099**

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 pools outperformed the quarterly and one-year benchmark. Both periods were helped by a short duration position.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	0.0%	-0.1%
Last 1 year	0.3	-0.8
Last 2 years	3.7	2.9
Last 3 years	3.0	2.1
Last 4 years	5.0	4.1
Last 5 years	5.3	5.0
Since Inception (7/86)	7.8	7.4

Recommendation

No action required.

INTERNAL BOND POOL - INCOME SHARE ACCOUNT
Rolling Five Year VAM

INTERNAL BOND POOL - Trust/Non-Retirement Assets
Periods Ending June, 2006

Portfolio Manager: Mike Menssen | **Assets Under Management: $470,584,286**

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 pools outperformed the quarterly and one-year benchmark. Both periods were helped by a short duration position.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	0.2%	-0.1%
Last 1 year	0.5	-0.8
Last 2 years	3.7	2.9
Last 3 years	3.0	2.1
Last 4 years	5.1	4.1
Last 5 years	5.5	5.0
Since Inception (7/94)*	7.1	6.6

* Date started managing the pool against the Lehman Aggregate.

Recommendation

No action required.

INTERNAL BOND POOL - TRUST/NON-RETIREMENT ASSETS
Rolling Five Year VAM

STATE BOARD OF INVESTMENT

Deferred Compensation Plan Evaluation Reports

Second Quarter, 2006

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MN STATE 457 DEFERRED COMPENSATION PLAN
MUTUAL FUND MANAGERS
Periods Ending June, 2006

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)	-2.1	-1.4	11.7	8.6	15.1	11.2	2.7	2.5	-1.9	0.5	$330.6
Legg Mason Partners Appr Y (S&P 500)	-0.6	-1.4	10.9	8.6	10.9	11.2	3.9	2.5	9.3	9.3	$113.6
Vanguard Institutional Index Plus (S&P 500)	-1.4	-1.4	8.7	8.6	11.2	11.2	2.5	2.5	0.5	0.5	$418.3
Mid Cap Equity:											
Vanguard Mid-Cap Index (MSCI US Mid-Cap 450)	-2.9	-2.8	14.6	14.6	20.2	20.1	10.2	10.1	15.6	15.5	$108.6
Small Cap Equity:											
T. Rowe Price Small-Cap Stock (Russell 2000)	-4.9	-5.0	15.9	14.6	17.6	18.7	9.5	8.5	11.4	8.1	$395.9
Balanced:											
Dodge & Cox Balanced Fund (60% S&P 500/40% Lehman Agg)	0.5	-0.9	9.9	4.8	12.8	7.6	9.3	3.8	12.5	7.7	$238.7
Vanguard Balanced Index Inst. Fund (60% MSCI US Broad Market, 40% Lehman Agg)	-1.2	-1.2	5.6	5.6	8.6	8.6	4.6	4.7	7.4	7.4	$164.0
Bond:											
Dodge & Cox Income Fund (Lehman Aggregate)	0.0	-0.1	0.4	-0.8	2.5	2.1	5.5	5.0	6.2	5.8	$77.5
Vanguard Total Bond Market Index Inst. (Lehman Aggregate)	-0.2	-0.1	-0.9	-0.8	2.0	2.1	4.5	5.0	2.7	2.7	$46.8
International:											
Fidelity Diversified International (MSCI EAFE-Free)	-1.3	0.7	26.2	26.6	24.2	23.9	13.5	10.1	11.4	5.4	$229.5
Vanguard Inst. Dev. Mkts. Index (MSCI EAFE)	0.9	0.7	26.9	26.6	24.0	23.9	10.0	10.0	20.7	20.6	$48.0

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; Smith Barney, 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***:	4.6
Bid Rates for current quarter:	
Great West Life	5.1
Minnesota Life	5.0
Principal Life	5.0

***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.

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MN STATE 457 DEFERRED COMPENSATION PLAN
LARGE CAP EQUITY – JANUS TWENTY
Periods Ending June, 2006

		State's Participation in Fund:	**$330,622,369**
Portfolio Manager:	**Scott W. Schoelzel**	**Total Assets in Fund:**	**$9,252,846,247**

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 underperformed for the quarter and outperformed the one-year benchmark. The quarterly performance was hurt by overall stock selection, particularly the individual holding Electronic Arts.

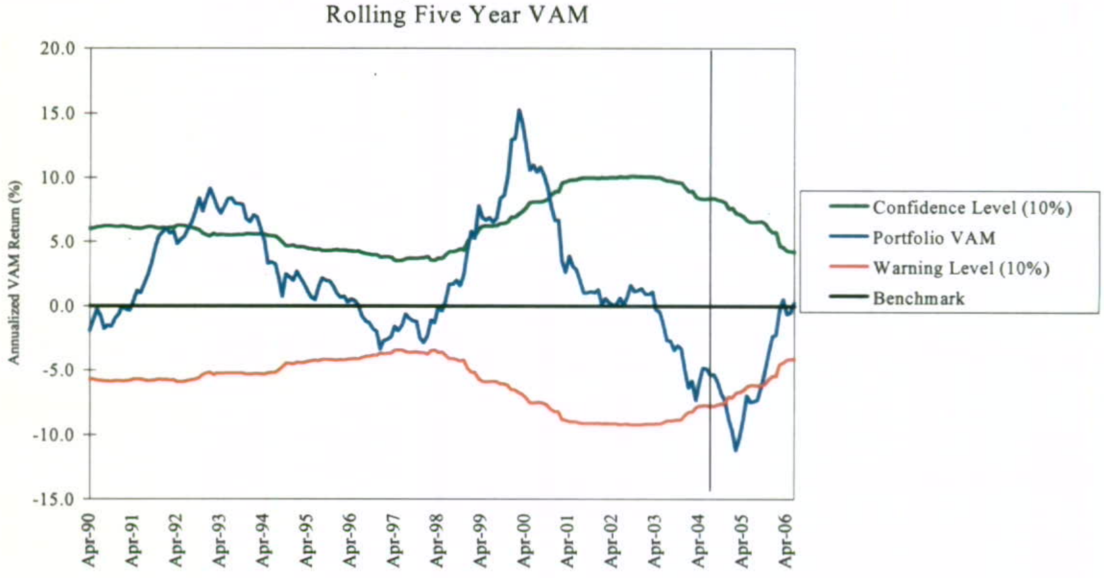
Quantitative Evaluation

	Actual	Benchmark*
Last Quarter	-2.1%	-1.4%
Last 1 year	11.7	8.6
Last 2 years	11.8	7.5
Last 3 years	15.1	11.2
Last 4 years	11.8	8.4
Last 5 years	2.7	2.5
Since Retention by SBI (7/99)	-1.9	0.5

*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 June, 2006

		State's Participation in Fund:	**$113,628,133**
Portfolio Manager:	**Scott Glasser**	**Total Assets in Fund:**	**$5,756,942,181**

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) exceeded the quarterly benchmark due to stock selection, especially in the information technology, financials and materials sectors. The one year outperformance was helped by sector allocation, particularly the Fund's underweight in health care and its overweights to industrials and materials.

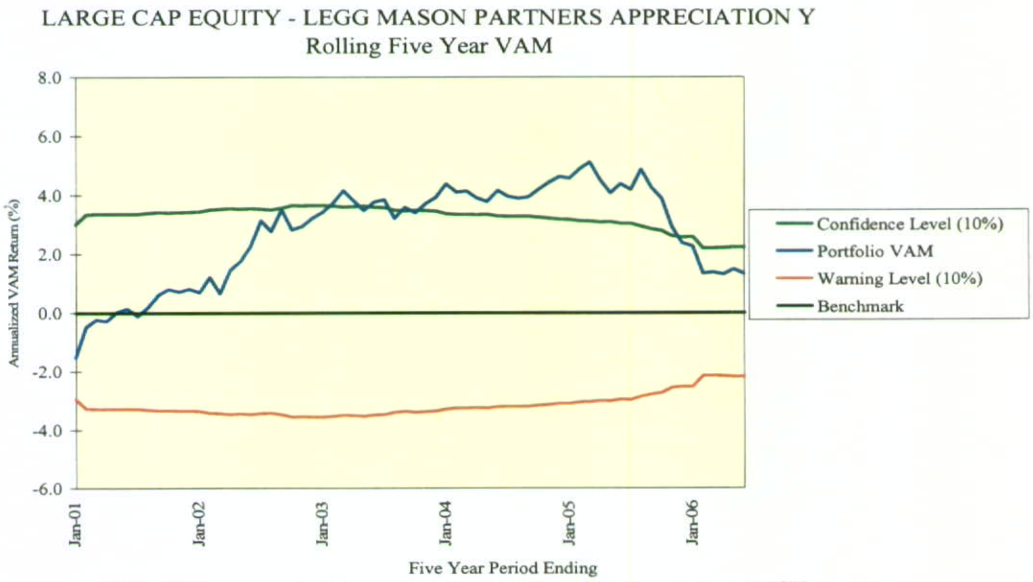
Quantitative Evaluation

	Actual	Benchmark*
Last Quarter	-0.6%	-1.4%
Last 1 year	10.9	8.6
Last 2 years	7.7	7.5
Last 3 years	10.9	11.2
Last 4 years	8.4	8.4
Last 5 years	3.9	2.5
Since Retention by SBI (12/03)	9.3	9.3

*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.



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 June, 2006

State's Participation in Fund: $418,325,060
Portfolio Manager: George U. Sauter **Total Assets in Fund: $17,067,000,000**

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

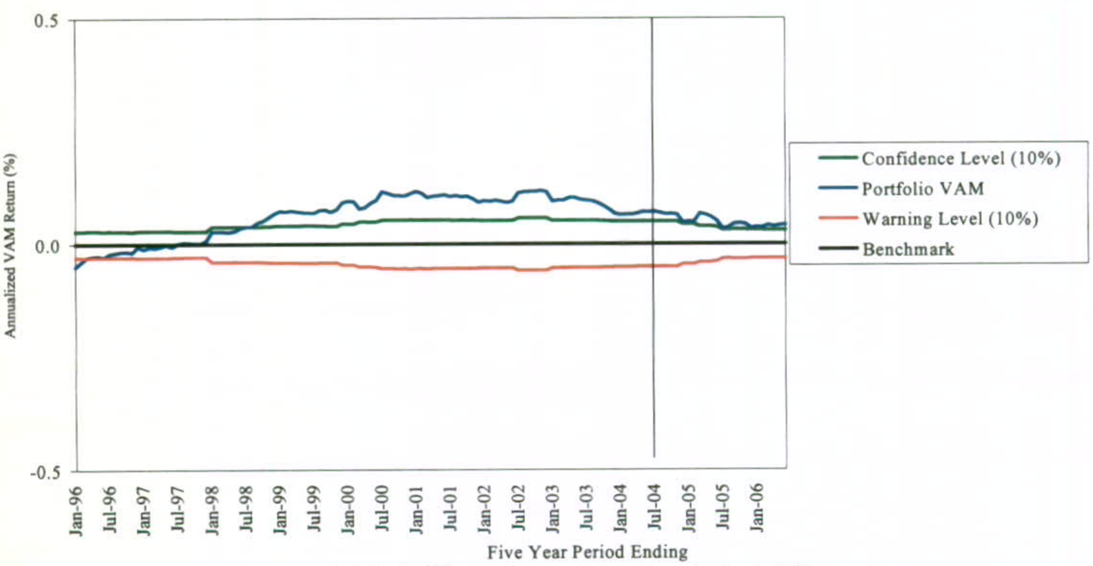
	Actual	Benchmark*
Last Quarter	-1.4%	-1.4%
Last 1 year	8.7	8.6
Last 2 years	7.5	7.5
Last 3 years	11.2	11.2
Last 4 years	8.4	8.4
Last 5 years	2.5	2.5
Since Retention by SBI (7/99)	0.5	0.5

*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 June, 2006

Portfolio Manager: George U. Sauter

State's Participation in Fund: $108,630,747
Total Assets in Fund: $3,602,000,000

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.

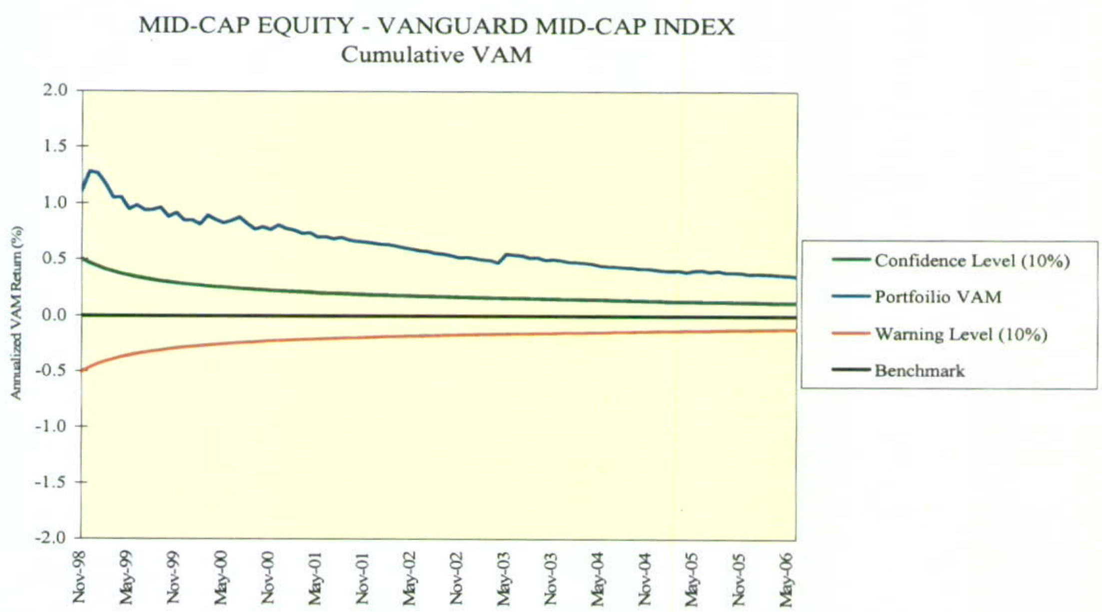
Quantitative Evaluation

	Actual	Benchmark*
Last Quarter	-2.9%	-2.8%
Last 1 year	14.6	14.6
Last 2 years	16.5	16.4
Last 3 years	20.2	20.1
Last 4 years	14.3	14.1
Last 5 years	10.2	10.1
Since Retention by SBI (1/04)	15.6	15.5

*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.



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 June, 2006

		State's Participation in Fund:	**395,946,197**
Portfolio Manager:	**Gregory A. McCrickard**	**Total Assets in Fund:**	**7,679,056,109**

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 outperformed the quarterly and one-year benchmark. Stock selection, specifically the higher-quality stocks, helped the quarterly performance. The one-year return was helped by the strategy's stock selection and an underweight position in the consumer discretionary sector.

Quantitative Evaluation

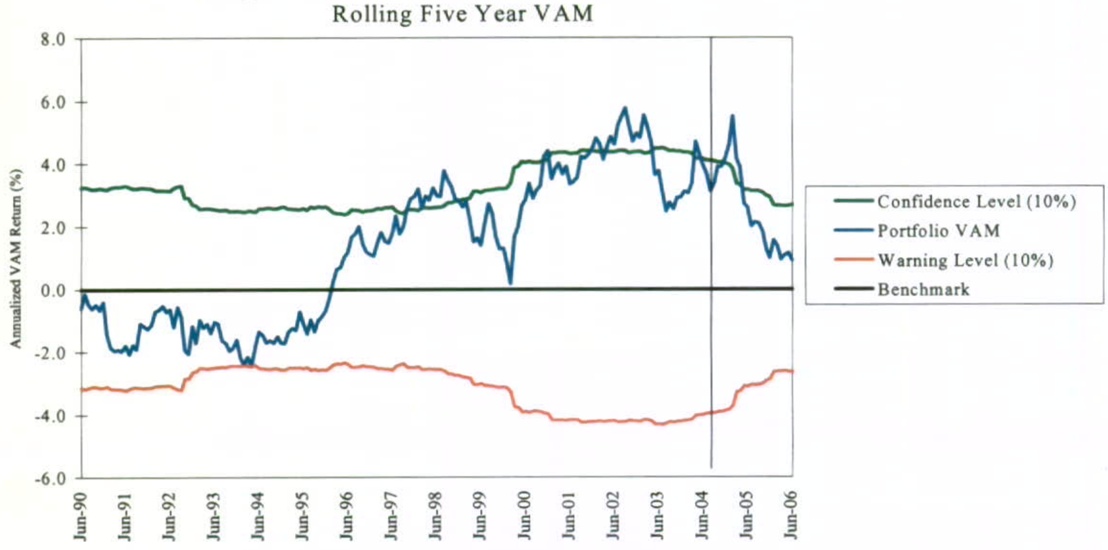
	Actual	Benchmark*
Last Quarter	-4.9%	-5.0%
Last 1 year	15.9	14.6
Last 2 years	12.7	12.0
Last 3 years	17.6	18.7
Last 4 years	12.3	13.3
Last 5 years	9.5	8.5
Since Retention by SBI (7/99)	11.4	8.1

*Benchmark is the Russell 2000.

Recommendation

No action required.

SMALL CAP EQUITY - T. ROWE PRICE SMALL CAP STOCK FUND
Rolling Five Year VAM



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 June, 2006

State's Participation in Fund: $238,723,299
Portfolio Manager: John Gunn **Total Assets in Fund: $24,659,735,135**

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 and fixed income portfolio exceeding their respective benchmarks. The equity portfolio was helped by security selection in the consumer discretionary and financials sectors. The fixed income portfolio was positively impacted by its shorter than benchmark duration.

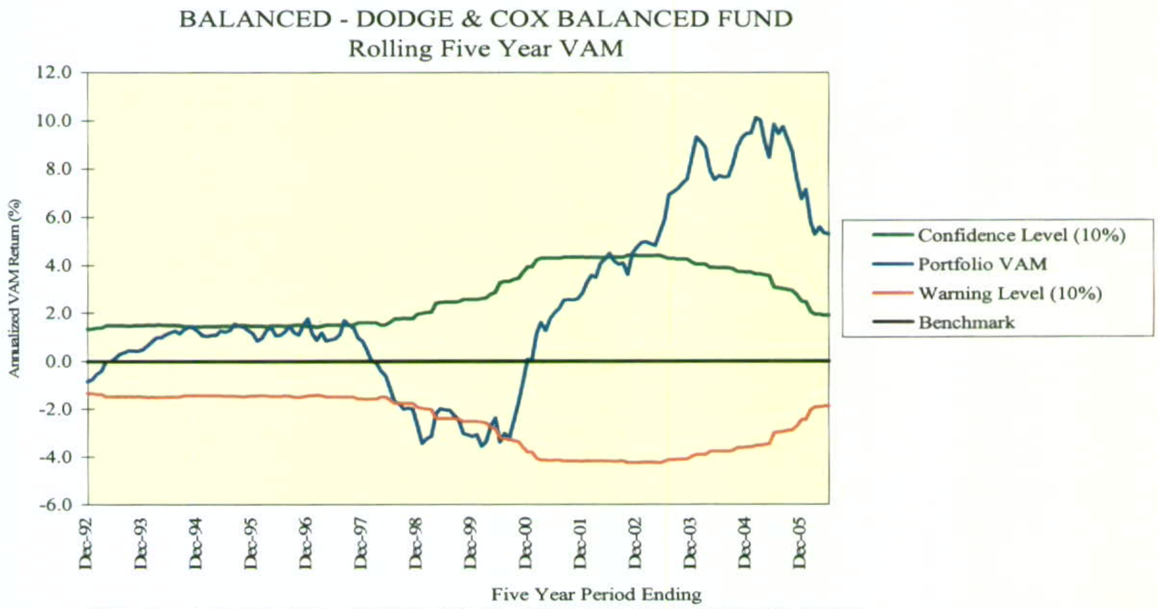
Quantitative Evaluation

	Actual	Benchmark*
Last Quarter	0.5%	-0.9%
Last 1 year	9.9	4.8
Last 2 years	9.8	5.7
Last 3 years	12.8	7.6
Last 4 years	10.9	6.9
Last 5 years	9.3	3.8
Since Retention By SBI (10/03)	12.5	7.7

*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.



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 June, 2006

		State's Participation in Fund:	**$164,018,140**
Portfolio Manager:	**George U. Sauter**	**Total Assets in Fund:**	**$2,185,000,000**

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.

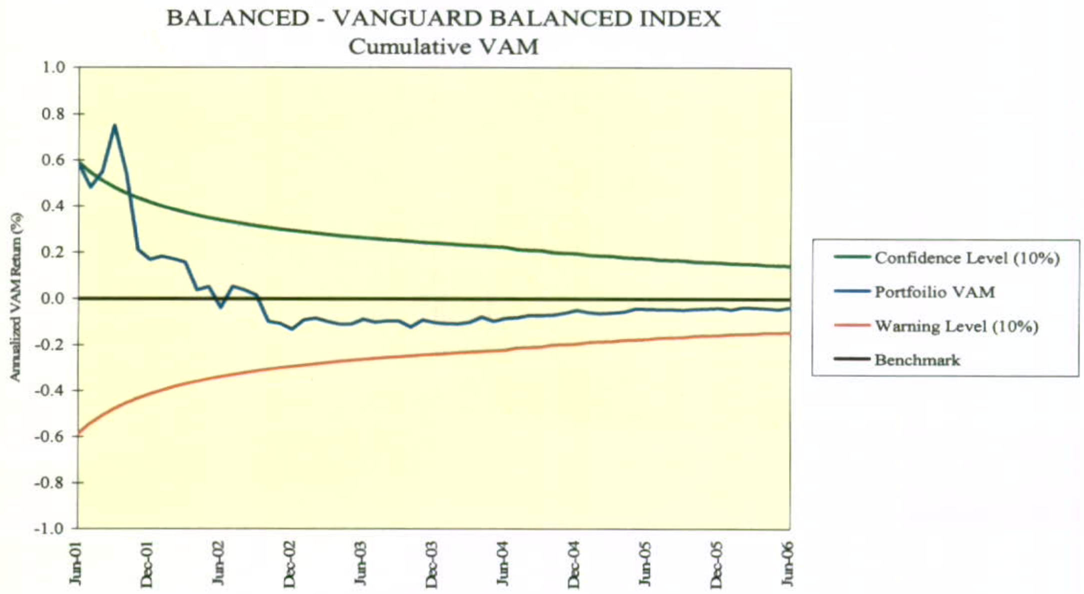
Quantitative Evaluation

	Actual	Benchmark*
Last Quarter	-1.2%	-1.2%
Last 1 year	5.6	5.6
Last 2 years	6.7	6.7
Last 3 years	8.6	8.6
Last 4 years	7.8	7.8
Last 5 years	4.6	4.7
Since Retention by SBI (12/03)	7.4	7.4

Recommendation

No action required.

*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.



Note: Shaded area includes performance prior to managing SBI account

MN STATE 457 DEFERRED COMPENSATION PLAN
BOND – DODGE & COX INCOME FUND
Periods Ending June, 2006

	State's Participation in Fund:	**$77,514,977**
Portfolio Manager: Dana Emery	**Total Assets in Fund:**	**$10,341,628,582**

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 exceeded the quarterly benchmark due to the fund's shorter than benchmark duration.

Quantitative Evaluation

	Actual	Benchmark*
Last Quarter	0.0%	-0.1%
Last 1 year	0.4	-0.8
Last 2 years	3.0	2.9
Last 3 years	2.5	2.1
Last 4 years	4.5	4.1
Last 5 years	5.5	5.0
Since Retention By SBI (7/99)	6.2	5.8

*Benchmark is the Lehman Aggregate.

Recommendation

No action required.

BOND - DODGE & COX INCOME 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
BOND – VANGUARD TOTAL BOND MARKET INDEX INSTITUTIONAL
Periods Ending June, 2006

		State's Participation in Fund:	**$46,812,737**
Portfolio Manager:	**Robert Auwaerter**	**Total Assets in Fund:**	**$7,561,000,000**

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.

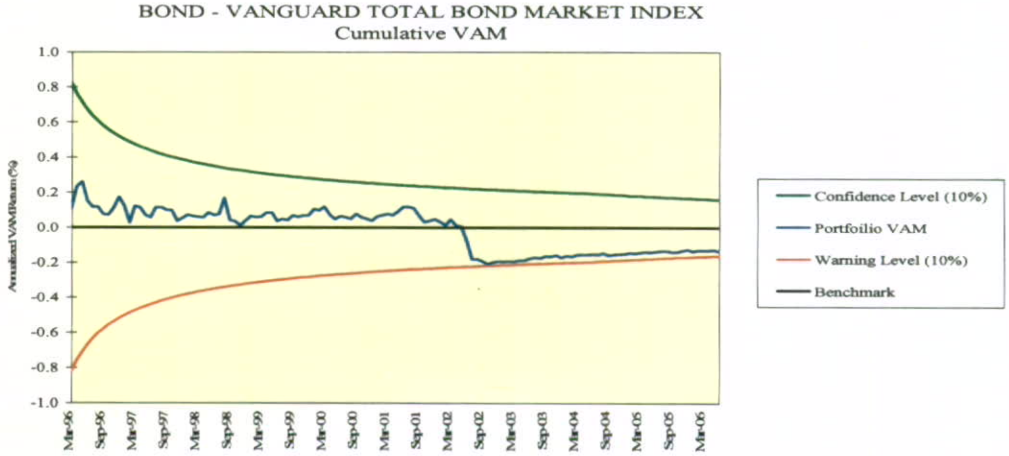
Quantitative Evaluation

	Actual	Benchmark*
Last Quarter	-0.2%	-0.1%
Last 1 year	-0.9	-0.8
Last 2 years	2.9	2.9
Last 3 years	2.0	2.1
Last 4 years	3.8	4.1
Last 5 years	4.5	5.0
Since Retention by SBI (12/03)	2.7	2.7

*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 June, 2006

State's Participation in Fund: $229,473,730
Portfolio Manager: William Bower | **Total Assets in Fund: $39,867,940,000**

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 benchmark primarily due to stock selection in the financials sector. The one-year return was hurt by stock selection in the consumer discretionary sector.

Quantitative Evaluation

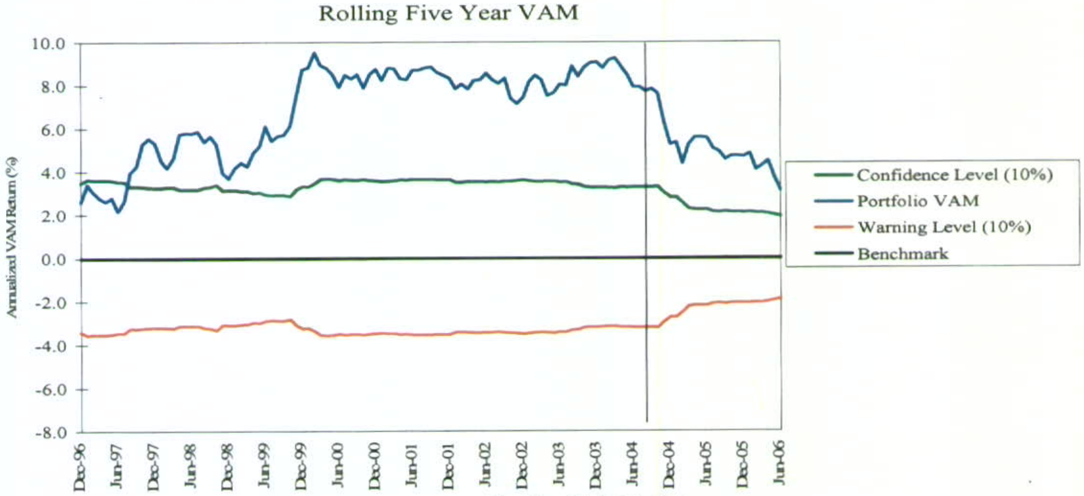
	Actual	Benchmark*
Last Quarter	-1.3%	0.7%
Last 1 year	26.2	26.6
Last 2 years	20.4	19.9
Last 3 years	24.2	23.9
Last 4 years	17.4	15.5
Last 5 years	13.5	10.1
Since Retention By SBI (7/99)	11.4	5.4

*Benchmark is the MSCI EAFE-Free.

Recommendation

No action required.

INTERNATIONAL - FIDELITY DIVERSIFIED INTERNATIONAL
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
INTERNATIONAL – VANGUARD INSTITUTIONAL DEVELOPED MARKETS INDEX
Periods Ending June, 2006

		State's Participation in Fund:	**$47,999,678**
Portfolio Manager:	**George U. Sauter**	**Total Assets in Fund:**	**$2,725,000,000**

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.

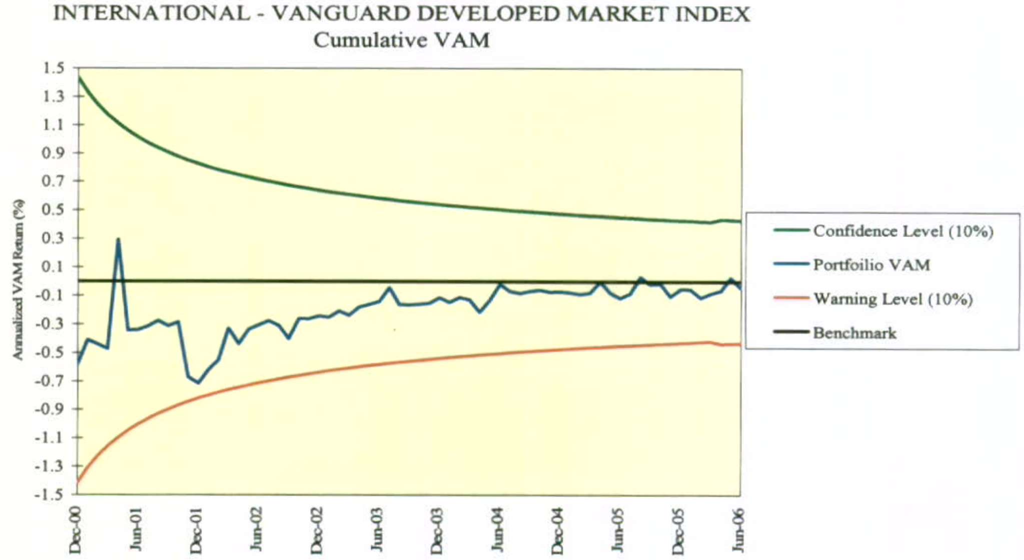
Quantitative Evaluation

	Actual	Benchmark*
Last Quarter	0.9%	0.7%
Last 1 year	26.9	26.6
Last 2 years	19.8	19.9
Last 3 years	24.0	23.9
Last 4 years	15.6	15.5
Last 5 years	10.0	10.0
Since Retention by SBI (12/03)	20.7	20.6

*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 June, 2006

Total Assets in MN Fixed Fund: $746,202,824 *
*Includes $14-18M in Liquidity Buffer Account

Total Assets in 457 Plan: $746,202,824 **
**Includes all assets in new and old fixed options

Principal Life

Ratings:	Moody's	Aa2
	S&P	AA
	A.M. Best	A+
	Duff & Phelps	AA+

Assets in MN Fixed Fund: $329,470,497

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: $175,326,211

Assets in Prior MN 457 Plan: $0

Total Assets: $175,326,211

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: $223,748,971

Assets in Prior MN 457 Plan: $ 0

Total Assets: $223,748,971

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 June, 2006

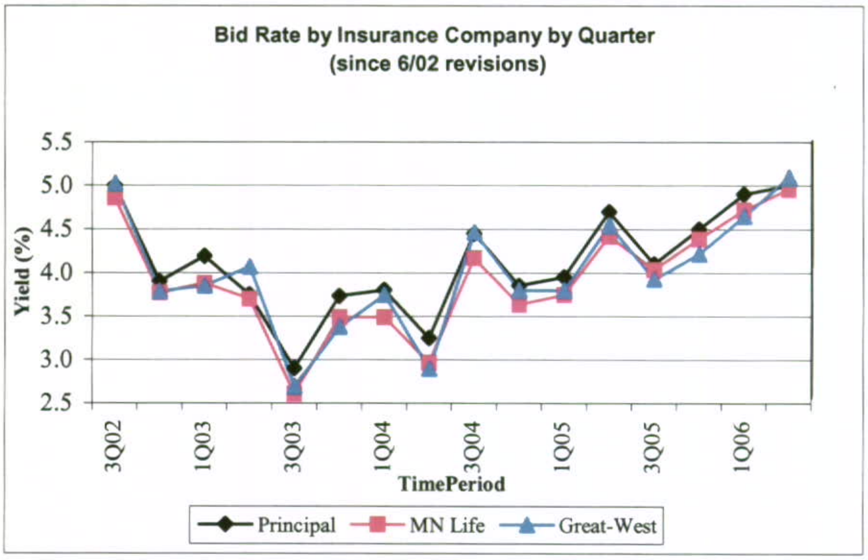
Current Quarter

Dollar Amount of Bid: $30,600,000 **Blended Rate: 4.57%**

Bid Rates:

Principal Life	5.00%
Minnesota Life	4.96%
Great-West Life	5.10%

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 line on the graph indicates when the contracts were renewed and the bid rates for the new cash flows became effective for five year periods. Prior to that, the bids were effective for a quarter for the total portfolio.

	3Q05	4Q05	1Q06	2Q06
Principal Life	40.0%	60.0%	75.0%	30.0%
Minnesota Life	40.0%	40.0%	25.0%	30.0%
Great-West Life	20.0%	0.0%	0.0%	40.0%

Staff Comments

Great West was the top bidder and was awarded 40%, Principal was awarded 30%, and Minnesota Life received 30%.

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Tab E

COMMITTEE REPORT

DATE: August 29, 2006

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

FROM: Alternative Investment Committee

The Alternative Investment Committee met on August 16, 2006 to review the following information and action agenda items:

- Review of current strategy.
- New investments with one existing private equity manager, Goldman Sachs; and one new private equity manager, Diamond Castle.

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, Goldman Sachs, in GS Capital Partners VI, L.P.**

Goldman Sachs is seeking investors for a new $10+ billion private equity fund. This fund is a successor to five prior private equity funds managed by Goldman Sachs. The SBI has invested an aggregate of $150 million in the last two prior funds. Like the prior funds, this fund will seek to earn attractive returns through a diversified portfolio of private equity investments.

More information on GS Capital Partners VI, 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 $100 million or 20%, whichever is less, in GS Capital 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 Goldman Sachs 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 Goldman Sachs or reduction or termination of the commitment.

2) **Investment with a new private equity manager, Diamond Castle, in Diamond Castle Partners IV, L.P.**

Diamond Castle, established in 2004, is seeking investors for a new $1.75 billion private equity fund. This fund is the first fund for Diamond Castle. The principals of Diamond Castle were previously longtime partners at Donaldson, Lufkin & Jenrette ("DLJ") and Credit Suisse First Boston ("CSFB") and were important contributors to the management and success of the three DLJ Merchant Banking funds. The SBI had invested $125 million in DLJ Merchant Banking Partners III. This fund will seek to earn attractive returns through a diversified portfolio of private equity investments.

More information on Diamond Castle Partners IV, L.P. is included as **Attachment D**.

RECOMMENDATION:

The Committee recommends that the SBI authorize the Executive Director, with assistance from the SBI's legal counsel, to negotiate and execute a commitment of up to $100 million or 20%, whichever is less, in Diamond Castle Partners IV, 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 Diamond Castle 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 Diamond Castle or reduction or termination of the commitment.

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Minnesota State Board of Investment

Pooled Alternative Investments
Combined Retirement Funds
June 30, 2006

Basic Retirement Funds Market Value	$21,979,158,742
Post Retirement Fund Market Value	$21,910,900,366
Amount Available for Investment	**$1,566,390,786**

	Current Level	Target Level	Difference
Market Value (MV)	$4,359,791,069	$5,926,181,855	$1,566,390,786
MV +Unfunded	$6,828,262,742	$8,889,272,783	$2,061,010,041

Asset Class	Market Value	Unfunded Commitment	Total
Private Equity	$2,186,314,941	$1,367,945,320	$3,554,260,261
Real Estate	$873,575,396	$267,471,874	$1,141,047,269
Resource	$242,831,346	$38,633,921	$281,465,267
Yield-Oriented	$1,057,069,386	$794,420,558	$1,851,489,945
Total	$4,359,791,069	$2,468,471,673	$6,828,262,742

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ATTACHMENT B

Minnesota State Board of Investment

- Alternative Investments -

As of June 30, 2006

Investment	Total Commitment	Funded Commitment	Market Value	Distributions	Unfunded Commitment	IRR %	Period Years
Real Estate							
American Republic Realty Fund	1	1	90,000	5,000	0	107.6	16.4
Blackstone Real Estate V	100,000,000	18,362,388	13,828,678	4,533,708	81,637,612	N/A	0.2
Colony Capital							
Colony Investors II	80,000,000	78,482,328	816,205	88,273,673	1,517,672	4.4	11.2
Colony Investors III	100,000,000	100,000,000	16,153,858	149,844,754	0	14.4	8.5
CSFB Strategic Partners III RE	25,000,000	2,503,313	2,447,482	0	22,496,687	-3.0	1.0
Equity Office Properties Trust	258,062,214	258,062,214	142,601,746	376,126,279	0	15.5	14.6
Heitman							
Heitman Advisory Fund V	20,000,000	20,000,000	18,490	35,792,461	0	8.6	14.6
Lehman Brothers Real Esate Partners II	75,000,000	14,680,097	14,727,377	4,387,257	60,319,903	32.4	1.0
Morgan Stanley (Lend Lease)	40,000,000	40,000,000	227,906,736	0	0	7.4	24.7
T.A. Associates Realty							
Realty Associates Fund III	40,000,000	40,000,000	416,234	81,734,724	0	10.9	12.1
Realty Associates Fund IV	50,000,000	50,000,000	17,313,038	86,639,496	0	13.1	9.4
Realty Associates Fund V	50,000,000	50,000,000	51,554,303	37,262,550	0	11.7	7.1
Realty Associates Fund VI	50,000,000	50,000,000	53,008,834	20,312,381	0	20.1	4.0
Realty Associates Fund VII	75,000,000	73,500,000	76,819,554	2,278,076	1,500,000	20.4	1.6
Realty Associates Fund VIII	100,000,000	0	0	0	100,000,000	N/A	0.0
UBS Realty	42,376,529	42,376,529	255,872,862	0	0	8.3	24.2
Real Estate Total	**1,105,438,744**	**837,966,870**	**873,575,396**	**887,190,360**	**267,471,874**		
Resource							
Apache Corp III	30,000,000	30,000,000	7,167,870	52,050,069	0	12.4	19.5
First Reserve							
First Reserve I	15,000,000	15,000,000	18,999	14,552,526	0	-0.3	24.7
First Reserve II	7,000,000	7,000,000	56,755	14,879,948	0	5.9	23.4
First Reserve V	16,800,000	16,800,000	167,306	50,261,377	0	16.2	16.2
First Reserve VII	40,000,000	40,000,000	2,986,997	55,976,613	0	9.7	10.0
First Reserve VIII	100,000,000	100,000,000	60,540,015	116,877,537	0	13.9	8.2
First Reserve IX	100,000,000	100,000,000	56,602,267	215,025,726	0	46.8	5.2
First Reserve X	100,000,000	67,624,455	68,730,862	30,248,551	32,375,545	67.8	1.7
Simmons							
Simmons - SCF Fund II	17,000,000	14,706,629	999,999	30,582,945	2,293,371	9.2	14.9
Simmons - SCF Fund III	25,000,000	23,408,729	4,523,221	61,269,117	1,591,271	18.6	11.0
Simmons - SCF Fund IV	50,000,000	47,626,265	29,682,364	102,704,320	2,373,735	23.4	8.2
T. Rowe Price	43,732,107	43,732,107	11,354,690	56,303,088	N/A	29.8	N/A
Resource Total	**544,532,107**	**505,898,186**	**242,831,346**	**800,731,817**	**38,633,921**		

Note: IRRs and other data contained in this report are provided by staff and the SBI's Master Custodian, State Street Bank, and have not been confirmed by the managers and/or general partners.

Investment	Total Commitment	Funded Commitment	Market Value	Distributions	Unfunded Commitment	IRR %	Period Years
Yield-Oriented							
Carbon Capital	50,000,000	46,184,308	3,069,640	57,404,366	3,815,692	15.6	4.1
CT Mezzanine Partners	100,000,000	36,804,097	2,354,986	49,093,973	63,195,903	19.1	4.8
Citicorp Mezzanine							
Citicorp Mezzanine Partners	40,000,000	40,000,000	6,220,103	48,128,346	0	9.4	11.5
Citicorp Mezzanine Partners III	100,000,000	85,821,706	35,059,477	87,602,095	14,178,294	15.9	6.7
DLJ Investment Partners							
DLJ Investment Partners II	50,000,000	29,622,332	14,547,612	25,499,603	20,377,668	10.8	6.5
DLJ Investment Partners III	100,000,000	0	0	0	100,000,000	N/A	0.0
Gold Hill Venture Lending	40,000,000	29,600,000	26,506,083	2,265,660	10,400,000	-3.2	1.8
GS Mezzanine Partners							
GS Mezzanine Partners II	100,000,000	83,092,437	61,602,403	64,401,098	16,907,563	13.5	6.3
GS Mezzanine Partners III	75,000,000	52,896,411	54,057,010	10,257,092	22,103,589	16.8	3.0
GS Mezzanine Partners 2006	100,000,000	9,989,637	9,989,637	0	90,010,363	N/A	0.2
GTCR Capital Partners	80,000,000	69,589,422	22,736,314	77,934,930	10,410,578	9.8	6.6
KB Mezzanine Fund IV	25,000,000	25,000,000	2,163,855	11,592,916	0	-11.4	10.7
Merit Capital Partners (William Blair)							
William Blair Mezzanine Fund III	60,000,000	55,803,600	26,732,921	53,774,400	4,196,400	11.2	6.5
Merit Mezzanine IV	75,000,000	17,155,220	16,326,211	0	57,844,780	-7.2	1.5
Merit Energy Partners							
Merit Energy Partners B	24,000,000	24,000,000	62,968,963	47,755,269	0	25.9	10.0
Merit Energy Partners C	50,000,000	50,000,000	206,582,543	47,181,941	0	37.2	7.7
Merit Energy Partners D	88,000,000	70,938,303	192,845,408	18,382,691	17,061,697	35.3	5.1
Merit Energy Partners E	100,000,000	40,581,510	54,307,487	2,483,297	59,418,490	26.7	1.7
Merit Energy Partners F	100,000,000	16,909,536	16,909,536	0	83,090,464	N/A	0.3
Prudential Capital Partners							
Prudential Capital Partners I	100,000,000	91,876,550	43,911,215	66,784,953	8,123,450	8.1	5.2
Prudential Capital Partners II	100,000,000	21,149,371	20,202,683	752,825	78,850,629	-1.6	1.0
Quadrant Institutional Advisors (GMAC)							
Institutional Commercial Mortgage Fund II	13,500,000	13,397,500	760,674	21,075,837	102,500	9.6	10.9
Institutional Commercial Mortgage Fund III	21,500,000	21,275,052	10,341,058	24,354,082	224,948	8.2	9.6
Institutional Commercial Mortgage Fund IV	14,300,000	14,300,000	6,340,214	15,902,462	0	8.3	8.5
Institutional Commercial Mortgage Fund V	37,200,000	37,200,000	27,897,050	25,653,003	0	8.3	6.9
Summit Partners							
Summit Sub. Debt Fund I	20,000,000	18,000,000	82,349	31,406,578	2,000,000	30.6	12.2
Summit Sub. Debt Fund II	45,000,000	40,275,000	9,248,020	76,883,887	4,725,000	56.6	8.9
Summit Sub. Debt Fund III	45,000,000	23,400,000	20,823,751	3,232,113	21,600,000	3.2	2.4
T. Rowe Price	53,340,603	53,340,603	429,674	51,844,812	N/A	-11.0	N/A
TCW/Crescent Mezzanine							
TCW/Crescent Mezzanine Partners	40,000,000	37,130,039	4,066,873	50,659,420	2,869,961	13.1	10.2
TCW/Crescent Mezzanine Partner II	100,000,000	87,479,046	4,467,309	128,184,441	12,520,954	12.9	7.6
TCW/Crescent Mezzanine Partners III	75,000,000	68,835,264	45,396,641	82,499,696	6,164,736	36.7	5.3
Windjammer Capital Investors							
Windjammer Mezzanine & Equity Fund II	66,708,861	49,620,215	47,872,176	22,455,331	17,088,646	12.6	6.2
Windjammer Senior Equity Fund III	67,974,684	836,430	249,509	0	67,138,254	N/A	0.5
Yield-Oriented Total	2,156,524,148	1,362,103,589	1,057,069,386	1,205,447,119	794,420,558		

Note: IRRs and other data contained in this report are provided by staff and the SBI's Master Custodian, State Street Bank, and have not been confirmed by the managers and/or general partners.

Minnesota State Board of Investment

- Alternative Investments -

As of June 30, 2006

Investment	Total Commitment	Funded Commitment	Market Value	Distributions	Unfunded Commitment	IRR %	Period Years
Private Equity							
Adams Street Partners (Brinson)							
Brinson Partners I	5,000,000	3,800,000	49,722	9,387,104	1,200,000	13.2	18.1
Brinson Partners II	20,000,000	20,000,000	207,490	37,754,513	0	24.1	15.6
Affinity Ventures	4,000,000	1,111,847	853,798	405,436	2,888,153	14.5	2.0
Bank Fund							
Banc Fund V	48,000,000	48,000,000	61,224,206	38,536,369	0	14.9	8.0
Banc Fund VII	45,000,000	18,000,000	16,876,314	0	27,000,000	-10.6	1.2
Blackstone Capital Partners							
Blackstone Capital Partners II	50,000,000	47,271,190	4,527,423	94,930,770	2,728,810	34.3	12.6
Blackstone Capital Partners IV	70,000,000	58,300,635	64,396,578	43,548,518	11,699,365	58.0	4.0
Blackstone Capital Partners V	100,000,000	11,221,696	11,221,696	0	88,778,304	N/A	0.4
BLUM Capital Partners							
Blum Strategic Partners I	50,000,000	48,771,954	30,288,725	86,426,434	1,228,046	17.1	7.5
Blum Strategic Partners II	50,000,000	38,540,567	44,722,090	44,064,347	11,459,433	30.2	5.0
Blum Strategic Partners III	75,000,000	50,677,989	44,368,466	9,456,587	24,322,011	11.9	1.1
Chicago Growth Partners (William Blair)							
Chicago Growth Partners VIII	50,000,000	7,491,998	6,715,827	0	42,508,002	N/A	0.9
William Blair Capital Partners VII	50,000,000	45,250,000	39,653,659	7,023,248	4,750,000	1.1	5.3
Citigroup Venture Capital Equity	100,000,000	79,574,761	50,829,572	79,364,615	20,425,239	28.5	4.6
Contrarian Capital Fund II	37,000,000	33,244,395	13,135,238	34,180,296	3,755,605	5.1	9.1
Coral Partners							
Coral Partners Fund II	10,000,000	10,000,000	333,428	36,632,559	0	24.9	15.9
Coral Partners Fund IV	15,000,000	15,000,000	2,363,055	13,156,023	0	0.8	11.9
Coral Partners Fund V	15,000,000	14,625,000	3,699,142	2,016,216	375,000	-16.0	8.0
Crescendo							
Crescendo II	15,000,000	15,000,000	489,652	20,347,039	0	20.5	9.5
Crescendo III	25,000,000	25,000,000	2,948,193	8,084,795	0	-21.6	7.6
Crescendo IV	101,500,000	98,962,500	37,722,806	4,018,614	2,537,500	-20.7	6.3
CSFB/ DLJ							
DLJ Strategic Partners	100,000,000	84,808,109	47,190,002	91,941,857	15,191,891	23.5	5.4
CSFB Strategic Partners II	100,000,000	68,814,402	63,580,233	59,491,574	31,185,598	53.5	3.0
CSFB Strategic Partners III	100,000,000	11,324,235	11,569,148	1,241,776	88,675,765	28.8	1.1
CSFB Strategic Partners III VC	25,000,000	8,724,845	9,091,449	212,400	16,275,155	17.0	1.1
DLJ Merchant Banking Partners III	125,000,000	113,605,208	69,722,609	121,441,506	11,394,792	18.4	5.7
DSV Partners	10,000,000	10,000,000	312,601	28,861,427	0	9.5	21.2
Elevation Partners	75,000,000	12,924,315	11,438,148	0	62,075,685	-17.8	1.1
First Century Partners III	10,000,000	10,000,000	76,042	15,098,689	0	7.5	21.5
Fox Paine Capital Fund							
Fox Paine Capital Fund	40,000,000	40,000,000	6,678,782	39,288,122	0	2.4	8.2
Fox Paine Capital Fund II	50,000,000	37,495,303	20,287,774	44,478,121	12,504,697	28.1	6.0
Golder,Thoma, Cressey, Rauner							
Golder, Thoma, Cressey & Rauner Fund IV	20,000,000	20,000,000	761,164	41,020,323	0	24.9	12.4
Golder, Thoma, Cressey & Rauner Fund V	30,000,000	30,000,000	9,749,169	42,483,476	0	10.7	10.0
GTCR Golder Rauner							
GTCR VI	90,000,000	90,000,000	30,065,267	69,555,004	0	3.5	8.0
GTCR VII	175,000,000	149,843,749	125,573,918	169,529,103	25,156,251	22.6	6.4
GTCR IX	75,000,000	0	0	0	75,000,000	N/A	0.0

Note: IRRs and other data contained in this report are provided by staff and the SBI's Master Custodian, State Street Bank, and have not been confirmed by the managers and/or general partners.

Minnesota State Board of Investment

- Alternative Investments -

As of June 30, 2006

Investment	Total Commitment	Funded Commitment	Market Value	Distributions	Unfunded Commitment	IRR %	Period Years
GS Capital Partners 2000							
GS Capital Partners 2000	50,000,000	50,000,000	31,183,593	50,099,612	0	20.7	5.8
GS Capital Partners V	100,000,000	49,005,427	51,071,349	0	50,994,573	9.2	1.2
GHJM Marathon Fund							
GHJM Marathon Fund IV	40,000,000	38,481,000	10,294,157	43,533,952	1,519,000	8.6	7.2
GHJM Marathon Fund V	28,985,714	17,966,228	16,587,433	137,660	11,019,486	-9.4	1.7
Hellman & Friedman							
Hellman & Friedman Capital Partners III	40,000,000	32,113,684	59,403	72,594,844	7,886,316	34.4	11.8
Hellman & Friedman Capital Partners IV	150,000,000	133,967,494	187,087,244	125,374,863	16,032,506	34.9	6.5
Hellman & Friedman Capital Partners V	160,000,000	95,226,580	90,510,526	6,230,238	64,773,420	2.9	1.6
Kohlberg Kravis Roberts							
KKR 1987 Fund	145,950,000	145,373,652	4,659,285	395,130,030	576,348	8.8	18.6
KKR 1993 Fund	150,000,000	150,000,000	1,995,465	307,737,864	0	16.8	12.5
KKR 1996 Fund	200,000,000	200,000,000	58,847,637	294,327,935	0	13.2	9.8
KKR Millennium Fund	200,000,000	183,130,098	212,888,797	86,508,406	16,869,902	42.3	3.6
Matrix Partners III	10,000,000	10,000,000	51,037	78,027,244	0	75.1	16.1
Lexington Capital Partners VI	100,000,000	3,863,681	3,024,207	43,156	96,136,319	N/A	0.5
RWI Ventures							
RWI Group III	616,430	616,430	616,430	0	0	N/A	0.0
RWI Ventures I	7,603,265	6,148,265	6,148,265	0	1,455,000	N/A	0.0
Sightline Healthcare							
Sightline Healthcare Fund II	10,000,000	10,000,000	3,338,701	4,190,002	0	-4.6	9.3
Sightline Healthcare Fund III	20,000,000	20,000,000	7,261,679	2,494,843	0	-15.2	7.4
Sightline Healthcare Fund IV	7,700,000	6,202,939	5,151,435	4,891	1,497,061	-11.4	2.8
Silver Lake Partners II	100,000,000	48,965,431	51,057,724	119,698	51,034,569	5.0	2.0
Split Rock Partners	50,000,000	6,872,727	6,007,966	0	43,127,273	-20.4	1.2
Summit Partners							
Summit Ventures II	30,000,000	28,500,000	104,451	74,524,292	1,500,000	28.8	18.1
Summit Ventures V	25,000,000	23,875,000	3,950,284	25,704,151	1,125,000	6.0	8.2
T. Rowe Price	680,585,389	680,585,389	65,913,663	668,623,628	N/A	10.7	N/A
Thoma Cressey							
Thoma Cressey Fund VI	35,000,000	33,915,000	17,267,004	8,659,003	1,085,000	-5.0	7.9
Thoma Cressey Fund VII	50,000,000	38,855,000	20,501,818	42,453,874	11,145,000	30.0	5.8
Thoma Cressey Fund VIII	70,000,000	4,200,000	4,200,000	0	65,800,000	N/A	0.2
Thomas, McNerney & Partners							
Thomas, McNerney & Partners I	30,000,000	16,200,000	15,040,772	2,110,783	13,800,000	3.4	3.6
Thomas, McNerney & Partners II	31,000,000	0	0	0	31,000,000	N/A	0.0
Vestar Capital Partners							
Vestar Capital Partners IV	55,000,000	49,350,092	35,114,194	28,545,950	5,649,908	10.6	6.5
Vestar Capital Partners V	75,000,000	10,162,988	9,826,817	0	64,837,012	N/A	0.5
Warburg Pincus							
Warburg, Pincus Ventures	50,000,000	50,000,000	10,545,064	244,167,930	0	49.2	11.5
Warburg Pincus Equity Partners	100,000,000	100,000,000	26,185,741	124,131,376	0	10.1	8.0
Warburg Pincus Private Equity VIII	100,000,000	98,200,000	101,471,031	29,564,709	1,800,000	14.5	4.2
Warburg Pincus Private Equity IX	100,000,000	29,505,208	28,150,376	1,043,000	70,494,792	N/A	0.9
Wayzata Opportunities Fund	100,000,000	58,500,000	58,600,211	140,887	41,500,000	N/A	0.5
Welsh, Carson, Anderson & Stowe							
Welsh, Carson, Anderson & Stowe VIII	100,000,000	100,000,000	67,558,948	31,977,159	0	-0.1	7.9
Welsh, Carson, Anderson & Stowe IX	125,000,000	116,250,000	111,138,169	58,786,643	8,750,000	14.3	6.0
Welsh, Carson, Anderson & Stowe X	100,000,000	21,578,466	20,141,815	0	78,421,534	N/A	0.5
Zell/ Chilmark	30,000,000	30,000,000	38,865	76,940,413	0	17.7	16.0
Private Equity Total	5,417,940,798	4,074,995,479	2,186,314,941	4,177,905,900	1,342,945,320		

Note: IRRs and other data contained in this report are provided by staff and the SBI's Master Custodian, State Street Bank, and have not been confirmed by the managers and/or general partners.

PRIVATE EQUITY MANAGER SUMMARY PROFILE

I. Background Data

Name of Fund:	GS Capital Partners VI, L.P. ("GSCP VI" or the "Partnership")
Type of Fund:	Private Equity
Target Fund Size:	At least $10 billion
Fund Manager:	Goldman, Sachs & Co.
Administrative Contact:	Kaca Enquist 85 Broad Street, 10th Floor New York, NY 10004 (212) 902-3141

II. Organization and Staff

The Principal Investment Area of Goldman Sachs' Merchant Banking Division ("PIA") will evaluate, structure, monitor and harvest the Partnership's investments. PIA's effort is supplemented by Goldman Sachs' professionals in investment banking and research, and by the wealth of other resources available throughout the Firm. PIA's approximately 110 investment professionals have extensive private equity investing experience across numerous industries, geographies and investing environments. PIA professionals who evaluate and structure investments also work closely with management to develop and implement a value creation plan, summarizing the key focus areas for operational and financial improvements post-closing in order to maximize shareholder value. In doing so, PIA professionals work with management teams in formulating strategic, capital and operating plans; executing acquisitions, divestitures and financings; implementing executive compensation programs and overseeing executive searches; and generally participating in the full array of decisions involved in developing successful companies. The 19 members of the Investment Committee who are responsible for making PIA's investment decisions and for monitoring the progress of investments have an average tenure of 16 years at Goldman Sachs.

III. Investment Strategy

GSCP ("Goldman Sachs Capital Partners") VI intends to follow an investment strategy similar to that of its predecessor funds, GSCP 2000 and GSCP V. This strategy has evolved over Goldman Sachs' 20 years of managing private equity funds over numerous investing cycles. The Investment Manager will focus on investments that are large enough to have an impact on the overall portfolio ($200 million to $800 million) within the Partnership's diversification limits. Alongside a limited number of large private equity funds, PIA targets investments in (i) companies with experienced management and market-leading positions that may be for sale or in need of equity capital, (ii) non-core operations of large corporate entities that may be in need of liquidity or (iii) companies which it believes are undervalued in the public markets. PIA may also invest opportunistically to acquire businesses in partnership with new management teams or in anticipation of retaining new management subsequent to closing.

In executing its strategy, PIA leverages Goldman Sachs' global leadership in investment banking, expertise across a wide array of industries and geographies and client relationships to identify and evaluate attractive investment opportunities.

The General Partner intends to leverage PIA's worldwide presence and global investing experience to identify and evaluate international investment opportunities for GSCP VI. Since 1992, PIA has invested 46% of its capital outside the Americas. The General Partner believes that a significant portion of GSCP VI's transactions may be generated outside the U.S., primarily in Northern, Southern and Western Europe and in targeted markets within Asia, particularly Japan, South Korea and Greater China.

In seeking to enhance returns on invested capital, the Partnership may borrow funds to make investments and defer calling committed capital. While the General Partner intends to utilize this type of leverage in the early years of the Partnership's term, the General Partner will not incur leverage to increase the aggregate pool of funds available for investment at any time beyond the aggregate amount of uncalled capital commitments.

IV. Investment Performance

Previous fund performance as of March 31, 2006 for Goldman Sachs and the SBI's investments with previous funds, where applicable, is shown below:

Fund	Inception Date	Total Equity Commitments	SBI Investment	Net IRR from Inception
GSCP I	1992	$1.035 billion		27%
GSCP II	1995	$1.750 billion		5%
GSCP III	1998	$2.775 billion		-2%
GSCP 2000	2000	$5.250 billion	$50 million	21%*
GSCP V	2005	$8.506 billion	$100 million	9%*

* IRRs and other data contained in this report are provided by staff and the SBI's Master Custodian, State Street Bank, and have not been confirmed by the managers and/or general partners.

The returns provided above may not be indicative of future results.

V. Goldman Sachs' Investment

Goldman Sachs and affiliated employee investment funds will commit, in the aggregate, at least $4.0 billion in capital to GSCP VI.

VI. Takedown Schedule

Capital Commitments generally will be drawn down by the Partnership pro rata from the Partners as needed with fifteen days' prior written notice.

VI. Fees

The Investment Manager will be paid an annual management fee, which will be payable semi-annually in arrears by all Limited Partners except for Goldman Sachs and its affiliated entities (including the Employee Fund) that are direct or indirect Limited Partners in the Partnership (collectively, the "GSLP").

Each Limited Partner (other than the GSLP) will be charged an annual management fee (the "Management Fee") of 1.5% on invested capital (including any leverage and any reinvested capital, but reduced by the cost basis of harvested investments).

Goldman Sachs will perform investment banking, brokerage, asset management, and other services for, and will receive customary investment banking compensation from, Portfolio Companies and the Partnership. This compensation may include brokerage fees, asset management fees, and financing or commitment fees paid by the Partnership, as well as financial advisory fees or fees in connection with restructurings and mergers and acquisitions, underwriting or placement fees, brokerage fees, asset management fees and financing or commitment fees paid by Portfolio Companies. This compensation will not reduce the Management Fee and will not be shared with the Partnership or its Limited Partners.

It is expected that Goldman Sachs will receive sponsor fees from Portfolio Companies in connection with acquisitions, dispositions and certain financings and recapitalizations by the Partnership and/or Portfolio Companies, including in situations where the Partnership is a co-investor with unaffiliated third parties. Because the Investment Manager charges the Management Fee on invested capital rather than committed capital, any sponsor fees will be paid to Goldman Sachs and will not be shared with the Partnership, except to the extent that any sponsor fees on an acquisition, disposition, financing or recapitalization by the Partnership and/or a Portfolio Company exceed 1% of the applicable company's enterprise value or 1% of the amount of the financing, as the case may be, in which case the Limited Partners' (other than the GSLP's) allocable portion of any excess will be credited against future Management Fees payable by or on behalf of those Limited Partners to the Investment Manager. The fees paid to Goldman Sachs in connection with the provision of investment banking, lending, brokerage and other services to the Partnership and Portfolio Companies will not be subject to the foregoing and will not be shared with the Partnership.

Portfolio Companies may be charged annual monitoring fees (e.g., fees for time devoted to a Portfolio Company) by Goldman Sachs, including in situations where the Partnership is a coinvestor with unaffiliated third parties. The Limited Partners' (other than the GSLP's) allocable portion of all monitoring fees paid to Goldman Sachs will be credited against future Management Fees payable by or on behalf of those Limited Partners and, therefore, should not increase the Partnership's costs.

In addition, Goldman Sachs officers or employees may receive fees and options paid and granted to directors on the boards of directors of Portfolio Companies. These fees and options are not required to be shared with the Partnership. Goldman Sachs' policy is that the fees and options received by its officers and employees (but not its former officers or employees or the former limited partners of The Goldman Sachs Group, L.P.) must be paid to or held for the benefit of Goldman Sachs.

Any commitment fees and break-up fees paid in connection with investments in Portfolio Companies, or potential investments, will generally be paid to Goldman Sachs. The Limited Partners' (other than the GSLP's) allocable portion of all commitment fees paid to Goldman Sachs will be credited against future Management Fees payable by those Limited Partners.
The Partnership will bear its allocable portion of expenses incurred in connection with the organization and the offering of LP Interests in the Partnerships. In addition, the Partnership will bear the ongoing expenses of the Partnership, including all expenses related to the potential acquisition, acquisition, holding and sale of investments, and abandoned transactions. The Partnership will seek to be reimbursed by third parties for its expenses when possible.

The Partnership will also bear out-of-pocket expenses incurred in connection with the administration of the Partnership, as well as expenses relating to fund accounting, tax and legal advice (including with respect to litigation, if any), and information technology, in each case, whether performed by internal staff of Goldman Sachs or third parties.
GSCP VI expects to engage unaffiliated persons with industry, managerial or other expertise as advisors ("Industry Advisors") in connection with GSCP VI's investment activities. The Partnership will be responsible for its allocable portion of the fees and expenses of the Industry Advisors. In addition, these Industry Advisors may invest in Portfolio Companies on the same or more favorable terms than the Partnerships, or otherwise receive equity incentives, and the Partnership may enter into transactions or otherwise take steps to facilitate their investments or equity incentives, including financing their investments in Portfolio Companies, which could result in the incurrence of additional costs to the Partnership.

The organizational and operating expenses to be borne by the Partnership as described above are incremental to the Management Fee.

VIII. Allocations and Distributions

If the Partnership achieves certain returns, Goldman Sachs and/or its employees, directly or indirectly, including through the Employee Fund (collectively, the "holders of SLP interests"), will receive an override (the "Override") of 20% of total profits otherwise allocable to Limited Partners (other than the GSLP), based on the following formula. Net income of the Partnership (the excess of all income and gains over expenses and losses, computed by marking to market unrealized gains and losses as described below) will be allocated in a manner so that the Limited Partners are allocated income in proportion to their capital commitments (subject to adjustment in the event of a Default (as defined below) by any Limited Partner), until the Limited Partners have achieved a return of 7% per annum on contributed capital (for this purpose, excluding capital contributions used to pay Management Fees) less distributions (for this purpose, including distributable amounts used to pay Management Fees) on an annually compounded basis (the "Preferred Return"). Net income of the Partnership in excess of the Preferred Return will be allocated 100% to the holders of SLP interests until they have, in the aggregate, achieved an override equal to 20% of aggregate net income. Thereafter, any additional net income of the Partnership will be allocated 20% to the holders of SLP interests and 80% to the Limited Partners. Losses will be allocated in a manner designed appropriately to reverse, on a cumulative basis, allocations previously made. No Override will be allocated if the Preferred Return is not achieved at the time of the allocation.

Unrealized gains and losses will be determined on the basis of the fair value of investments as determined by the Investment Committee. No independent appraisals will be obtained.

Tax allocations will generally follow the allocations to a Partner's Account described above, except that investments will not generally be marked to market.

Net Proceeds from Investment Dispositions (as defined below) with regard to investments that have been held longer than fifteen (15) months will be distributed to the Partners upon realization in accordance with the distribution provisions described below. Net Proceeds from Investment Dispositions with regard to investments that are realized within fifteen (15) months of the time of investment (regardless of whether the proceeds are received prior to or after the expiration of the Commitment Period) may, in the discretion of the General Partner, be (i) reinvested or (ii) distributed to the Partners and subsequently recalled for reinvestment (in each case, up to the amount used by the Partnership to acquire the investment and without regard to the limitations on investments after the expiration of the Commitment Period).

The amount and timing of distributions from the Partnership to the Partners will be at the discretion of the General Partner, and distributions will be subject to holdbacks in respect of Reserves. Subject to the foregoing, proceeds from the sale, refinancing, redemption, or other disposition of investments and extraordinary dividends or distributions in recapitalizations ("Net Proceeds from Investment Dispositions") generally will be distributed by the Partnership as soon as practicable after the proceeds are received by the Partnership, except as contemplated above regarding reinvestment.

Interest and dividends paid to the Partnership ("Current Cash Flow from Investments") generally will be applied by the Partnership to pay its expenses and to establish Reserves. Any remaining Current Cash Flow from Investments and Net Proceeds from Investment Dispositions will be distributed as follows: If the entire portfolio has not achieved the Preferred Return computed by marking to market unrealized gains and losses (as described above), distributions will be made to all Partners pro rata based on their capital commitments (subject to adjustment in the event of a Default) as of the distribution date. If the entire portfolio has achieved the Preferred Return computed by marking to market unrealized gains and losses (as described above), then amounts otherwise distributable to Limited Partners (other than the GSLP) will be distributed to the Limited Partners pro rata based on their capital commitments (subject to adjustment in the event of a Default) until the Limited Partners have received a cumulative amount (including distributions in respect of Current Cash Flow from Investments) equal to the sum of (i) their capital contributions used to fund the cost of all investments that have been sold, refinanced, redeemed or otherwise disposed, and (ii) the Preferred Return thereon. Next, distributions will be made so as to provide the holders of SLP interests with their Override. Thereafter, distributions will be made 20% to the holders of SLP interests and 80% to the Limited Partners.

Distributions may be made in-kind. In-kind distributions will be treated as distributions of Net Proceeds from Investment Dispositions. The Investment Committee will determine the fair value of any in-kind distribution in accordance with the valuation principles described herein. No independent appraisals will be obtained.

If, at the termination of the Partnership, the Limited Partners have not received the Preferred Return, the holders of SLP interests will contribute to the Accounts of the Limited Partners, in proportion to the amount of Override received by a holder of SLP interests, an aggregate amount equal to the lesser of (i) amounts previously received by the holders of SLP interests as Override or (ii) the amount necessary to provide the Limited Partners' Preferred Return. Moreover, if, at the end of the Commitment Period, at the end of the original ten year term of the Partnership and at the termination of the Partnership, the distributions in respect of the Override exceed the Override earned as of each of those dates, the holders of SLP interests will contribute to the Partnership for distribution to the Limited Partners the amount of the excess.

Allocations and distributions will be appropriately adjusted for any taxes payable by the Partnership or a lower tier investment vehicle (including any corporate, state, local, non-U.S. and withholding taxes). Taxes payable by the Partnership or a lower-tier investment vehicle, or withholding taxes imposed on income of the Partnership or a lower-tier investment vehicle, as a result of the residence or domicile of one or more Partners, or otherwise as a result of the tax status of one or more Partners, will be for the account of those Partners and distributions will be appropriately reduced. However, the Override will not be reduced to take into account these taxes.

The General Partner may make allocations and/or distributions in a manner other than as described above, including disproportionate allocations of gain or loss and/or disproportionate distributions of portfolio securities or net proceeds from the disposition of portfolio securities to the extent required, or otherwise deemed advisable or necessary by the General Partner in its discretion, under applicable laws, rules and regulations.

IX. Investment Period and Term

The term of the Partnership will be ten years, subject to the General Partner's right to liquidate the Partnership at any time and to extend the term for up to three successive one-year periods (the ten-year period and successive extensions collectively, the "Term"). Upon request of the General Partner and approval of a majority in interest of the Limited Partners other than the GSLP, the Term of the Partnership may be further extended.

PRIVATE EQUITY MANAGER SUMMARY PROFILE

I. Background Data

Name of Fund:	Diamond Castle Partners IV, L.P.
Type of Fund:	Private Equity Limited Partnership
Total Fund Size:	$1.75 billion
Fund Manager:	Diamond Castle Holdings, LLC. 280 Park Avenue New York, NY 10017
Manager Contact:	Lawrence M.v.D. Schloss 212-300-1999

II. Organization and Staff

Diamond Castle Holdings, LLC ("Diamond Castle Holdings," the "Firm" or the "Manager") and Diamond Castle Partners IV, L.P. ("Diamond Castle Partners IV" or the "Fund") were established as an independent entity in 2004 by Larry Schloss, Andy Rush, Mike Ranger, Ari Benacerraf and David Wittels (collectively, the "Principals"). The Principals were previously longtime partners at Donaldson, Lufkin & Jenrette ("DLJ") and Credit Suisse First Boston ("CSFB"). Larry Schloss was the former Chief Executive Officer of CSFB Private Equity, Inc., which had $32 billion of private equity funds under management. Messrs. Rush, Benacerraf and Wittlel were 3 of 4 Managing Directors responsible for U.S. investing for DLJ Merchant Banking Partners III, L.P. (DLJMBP III) and Mr. Ranger was Co-Head of DLJMBP's highly successful Global Energy Partners. Over a 17-year period of private equity investing as part of DLJ Merchant Banking ("DLJMBP") funds (investments totaling $8.6 billion in 138 companies through three private equity funds and pre-fund direct investments), the Principals were personally responsible for sourcing numerous investments, and had an important impact on the success of the DLJMBP funds, which generated outstanding investment results. Overall, the Principals invested and were responsible for 75% of the capital deployed in the U.S. for DLJMBP III. In total, the Fund's staff consists of 16 investment professionals, a CFO and a controller and four support staff.

III. Investment Strategy

The Fund will proactively focus its efforts on investing in companies based in the United States and Canada, principally in the four sectors in which the Principals have substantial expertise and investment experience: energy and power, healthcare, media and telecom, and financial services. Consistent with their prior investment experience, the Principals will also maintain a flexible investment mandate in order to capitalize on changing economic and financial market conditions and attractive opportunities in other industry sectors. The

Fund will generally seek to invest in businesses with strong management teams, substantial cash flow, attractive growth prospects, reasonable valuations and defensible competitive positions, and will generally seek to deploy between $75 million and $200 million per investment. The Principals intend to bring to the Fund's portfolio the proactive involvement necessary to drive organic growth, foster add-on acquisitions, increase efficiencies and, ultimately, increase value.

Diamond Castle has already invested or earmarked for associated expansion capital $530 million representing 35% of the $1.5 billion of capital commitments closed to date. These initial Fund investments include a non-regulated independent power company, a new reinsurance company, a consumer finance company and an aerial and general rental equipment company for industrial and construction end-users.

IV. Investment Performance

Previous investment performance for the Diamond Castle (DC) Principals that includes DLJMBP investments that one of the Principals led during his tenure with DLJMBP as of December 31, 2005 is shown below:

DC Led investments for DLJMBP (1)	Inception Date	Invested Cost (millions) (2)	SBI Investment (millions)	Net IRR from Inception (3)
DC Led investments for DLJMBP prior to Fund I (Predecessor).	1987-1991	$40 million	$0 million	107%
DC Led investments for DLJMBP Fund I	1992	$116 million	$0 million	136%
DC Led investments for DLJMBP Fund II	1996	$236 million	$0 million	10%
DC Led investments for DLJMBP Fund III	2000	$2,354 million	See note (4) below	21%

1) The Diamond Castle Principals led 28 investments aggregating $2.7 billion of capital representing approximately 33% of total capital committed by DLJMBP since 1987
2) The total Invested Cost of investments for Predecessor investments, DLJMBP I, DLJMBP II and DLJMBP III was $268 million, $996 million, $3,124 million and $4,214 million, respectively.
3) Provided by the General Partner using a simulated fund structure to provide hypothetical net IRRs.
4) The SBI has a $125 million investment in the DLJMBP Fund III

Previous fund investments may be relatively immature and therefore, returns may not be indicative of future results.

V. General Partner's Investment

The Principals intend to contribute \$52.5 million (assuming \$1.75 billion of capital commitments).

VI. Takedown Schedule

Takedown of investor commitments will be as needed on 10 business days' notice

VII. Fees

The management fee will be 1.5% of capital commitments during the Investment Period; thereafter 1.5% of funded capital commitments outstanding. Generally, 80% of all transaction, break-up, advisory, and other similar fees, and 100% of all directors' fees received by the General Partner or Diamond Castle Holdings will offset the management fee.

The partnership will reimburse the general partner for up to \$2.0 million of the partnership's organizational and startup expenses.

VIII. Allocation and Distributions

Generally, net profits will accrue 80% to the limited partners and 20% to the general partner, subject to an 8% preferred return to limited partners.

IX. Investment Period and Term

The fund may draw down capital commitments from the partners to make investments at any time during the period from the initial closing through December 31, 2010 (the "Investment Period"). After the end of the Investment Period, the fund shall not make new portfolio investments, but shall be able to (i) complete portfolio investments that are in process as of the expiration of the Investment Period and (ii) make follow-on investments in existing portfolio companies.

MINNESOTA STATE BOARD OF INVESTMENT

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60 Empire Drive
Suite 355
St. Paul, MN 55103
(651) 296-3328
FAX (651) 296-9572
E-mail:
minn.sbi@state.mn.us
www.sbi.state.mn.us

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DATE: September 6, 2006

TO: Members, State Board of Investment

FROM: IAC Membership Review Committee

SUBJECT: Recommended Appointment to IAC

The Investment Advisory Council has a vacancy as a result of the resignation of Ken Gudorf. Mr. Gudorf's term is scheduled to expire in January 2008.

Four applications for membership on the Council have been considered by the Committee. The applicants are as follows:

- Jeffery Bailey — Director, Benefits Finance, Target Corporation
- Michael Nguyen — Relationship Manager, Wells Capital Management
- Dana Pollard — Financial Consultant, Wells Fargo Investments
- Ted Sullivan — Attorney, Lind, Jensen, Sullivan & Peterson

Of the four additional applicants, Mr. Bailey is the only one with any plan sponsor or institutional investment experience. The other applicants have retail brokerage, treasury, and civil litigation backgrounds, which are less directly relevant to the business and function of the State Board of Investment.

RECOMMENDATION:

The Committee recommends that the Board appoint Jeffery Bailey as a member of the Investment Advisory Council for a term expiring in January 2008.