

MINNESOTA STATE BOARD
OF INVESTMENT
MEETING
October 15, 2007

&

INVESTMENT ADVISORY
COUNCIL MEETING
September 4, 2007

STATE BOARD OF INVESTMENT

AGENDA AND MINUTES

October 15, 2007

AGENDA
STATE BOARD OF INVESTMENT MEETING
Monday, October 15, 2007
1:00 P.M. - Room 123
State Capitol – St. Paul

- | | |
|---|------------|
| 1. Approval of Minutes of June 6, 2007 | TAB |
| 2. Report from the Executive Director (Howard Bicker) | A |
| A. Quarterly Investment Review
(April 1, 2007 – June 30, 2007) | |
| B. Administrative Report | B |
| 1. Reports on budget and travel | |
| 2. Litigation Update | |
| 3. Report from the Proxy Voting Committee (Peter Sausen) | C |
| 4. Report from the Accounting System Review Committee (Peter Sausen) | D |
| 5. Report from the Compensation Review Committee (Dave Bergstrom) | E |
| 6. Reports from the Investment Advisory Council (Mike Troutman) | |
| A. Stock and Bond Manager Committee | F |
| 1. Review of manager performance | |
| 2. Review of Voyageur Asset Management, a domestic equity manager | |
| 3. Domestic Equity Program Review – follow up items | |
| B. Alternative Investment Committee | G |
| 1. Review of current strategy | |
| Recommendation of new investments with one existing yield-oriented manager, one existing resource manager and three existing private equity managers: | |
| • Goldman Sachs | |
| • Natural Gas Partners | |
| • Wayzata Investment Partnters | |
| • Warburg Pincus | |
| • Blum Capital Partners | |

**Minutes
State Board of Investment
June 6, 2007**

The State Board of Investment (SBI) met at 9:00 A.M. Tuesday, June 6, 2007 in Room 318 State Capitol, St. Paul, Minnesota. Governor Tim Pawlenty; State Auditor Rebecca Otto; Secretary of State Mark Ritchie; and Attorney General Lori Swanson were present. The minutes of the December 6, 2006 Board meeting were approved.

Executive Director's Report

Mr. Bicker, Executive Director, referred members to Tab A of the meeting materials and reported that the Combined Funds had exceeded its Composite Index over the ten year period ending March 31, 2007 (Combined Funds 9.0% vs. Composite 8.8%), and had provided a real rate of return over the latest 20 year period (Combined Funds 9.8% vs. CPI 3.0%). He stated that the Basic Funds have outperformed its Composite Index (Basic Funds 9.1% vs. Composite 9.0%) over the last ten years and reported that the Post Fund had also outperformed its composite over the last ten-year period (Post Fund 8.8% vs. Composite 8.5%).

Mr. Bicker reported that the Basic Fund's assets increased 2.3% for the quarter ending March 31, 2007 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 2.7% vs. Composite 2.5%) and slightly underperformed for the year (Basic Funds 12.5% vs. Composite 12.6%).

Mr. Bicker reported that the market value of the Post Fund's assets increased 1.3% for the quarter ending March 31, 2007, also due to positive investment returns. He said that the Post Fund's asset mix is also on target. He stated that the Post Fund outperformed its Composite Index for the quarter (Post Fund 2.6% vs. Composite 2.4%) and for the year (Post Fund 12.3% vs. Composite 12.2%).

Mr. Bicker reported that the domestic stock manager group outperformed its target for the quarter (Domestic Stock 1.4% vs. Domestic Equity Asset Class Target 1.3%) but underperformed it for the year (Domestic Stocks 10.5% vs. Domestic Equity Asset Class Target 11.3%). He said the International Stock manager group outperformed its Composite Index slightly for the quarter (International Stocks 3.9% vs. International Equity Asset Class Target 3.8%) and for the year (International Stocks 19.9% vs. International Equity Asset Class Target 19.8%). Mr. Bicker stated that the bond segment outperformed its target for the quarter (Bonds 1.6% vs. Fixed Income Asset Class Target 1.5%) and for the year (Bonds 6.8% vs. Fixed Income Asset Class Target 6.6%). He noted that the alternative investments had also performed strongly for the year (Alternatives 25.2%). He concluded his report with the comment that as of March 31, 2007, the SBI was responsible for over \$59 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 referred members to page 7 of Tab B, and he gave a brief legislative update stating that a bill regarding Duluth's Other Post Retirement Benefits was signed into law. He reported that the State Government Finance Bill had passed and that the SBI's budget was included in that bill. He said that legislation also passed regarding Sudan, and he noted that more information on Sudan would be presented later in the agenda. Mr. Bicker reported that a bill giving the Minneapolis Employee's Retirement Fund (MERF) the flexibility to invest some of its assets with the SBI had also passed.

Mr. Bicker asked Christie Eller, Assistant Attorney General to update members on the status of litigation. She stated that the State is waiting for distributions in two class action cases in which the SBI was the lead plaintiff, AOL and Broadcom. She added that the State will also be filing an additional claim regarding Mercury Finance because another settlement fund had been established.

Administrative Committee Report

Mr. Sausen referred members to Tab C of the meeting materials and briefly reviewed the items on the Committee's agenda. He stated that the Committee had reviewed the Executive Director's Workplan for FY08 and is recommending that the workplan be approved by the Board and that it also be used as a basis for the Executive Director's Performance Evaluation for FY08. Mr. Ritchie moved approval of the Committee's recommendation.

In response to a question from Ms. Otto, Mr. Bicker stated that the SBI plans to develop a plan to manage assets to support local government Other Post Retirement Employee Benefit Plans that could be used for any local government to utilize should the statewide version of the legislation be passed at a future date.

Mr. Sausen reported that the Committee is also recommending approval of the FY08 Administrative Budget Plan, the Continuing Fiduciary Education Plan, and the process to be used for the Executive Director's FY07 performance evaluation. He stated that the last item from the Committee is an information item only that the SBI's Disaster Recovery Plan had been updated. Mr. Ritchie agreed to amend his motion to incorporate all of the Committee's recommendations for approval, as stated in the Committee Report, which reads: **"The Committee recommends that the SBI approve the FY08 Executive Director's Workplan. Further, the Committee recommends that the workplan serve as the basis for the Executive Director's performance evaluation for FY08.**

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

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

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

- **The evaluation will be completed prior to the September 2007 meeting of the SBI and will be based on the results of the Executive Director's workplan for FY07.**
- **The SBI deputies/designees will develop an appropriate evaluation form for use by each member, which will reflect the categories in the Executive Director's position description and workplan.**
- **As the Chair of the Board, the Governor's representative (Department of Finance), will coordinate distribution and collection of the evaluation forms and will forward the completed forms to the Executive Director. Board members are encouraged to meet individually with the Executive Director to review their own evaluation." The motion passed.**

Master Custodian Review Committee Report

Mr. Sausen referred members to Tab D of the meeting materials and reported that the Committee had issued an RFP for master custody services to which seven banks had responded. He stated that based on services, fees and securities lending capabilities, the Committee is recommending that State Street Bank and Trust continue to be retained for a five year period ending April 30, 2013. Ms. Otto moved approval of the Committee's recommendation, as stated in the Committee Report, which reads: **"Based on the results of the RFP, the Committee unanimously recommends that the Board authorize the Executive Director, with the assistance of SBI counsel, to negotiate and execute a contract with State Street Bank and Trust Company, Boston MA, for Master Custodial services for a five year period ending April 30, 2013.**

Approval by the SBI of this potential commitment is not intended to be, and does not constitute in any way, a binding or legal agreement or impose any legal obligation on the State Board of Investment and neither the State of Minnesota, the State Board of Investment or its Executive Director have any liability for reliance by State Street Bank and Trust Company upon this approval. Until a formal agreement is executed by the Executive Director on behalf of the SBI, further due diligence and negotiations may result in the imposition of additional terms and conditions on State Street Bank and Trust or reduction or termination of the commitment." The motion passed.

Local Custody Review Committee Report

Mr. Sausen referred members to Tab E of the meeting materials and noted that this RFP was prepared in conjunction with the RFP for the State's Major Revenue/Deposit Banking Services. He stated that the RFP was sent to six banks and that two banks responded. He said that based on the review of the responses, the Committee is

recommending that Wells Fargo continue to be retained for local custodial services for a five year period ending December 31, 2012. Ms. Otto moved approval of the Committee's recommendation, as stated in the Committee Report, which reads: **"Based on the results of the RFP, the Committee unanimously recommends that the Board authorize the Executive Director, with the assistance of SBI Counsel, to negotiate and execute a contract with Wells Fargo for local custodial services for a five year period ending December 31, 2012.**

Approval by the SBI of this potential commitment is not intended to be, and does not constitute in any way, a binding or legal agreement or impose any legal obligation on the State Board of Investment and neither the State of Minnesota, the State Board of Investment or its Executive Director have any liability for reliance by Wells Fargo upon this approval. Until a formal agreement is executed by the Executive Director on behalf of the SBI, further due diligence and negotiations may result in the imposition of additional terms and conditions on Wells Fargo or reduction or termination of the commitment."

Proxy Voting Committee Report

Mr. Sausen referred members to Tab F of the meeting materials and stated that at its December 2006 Board meeting, the Board passed a resolution to direct staff and the Committee to identify a list of companies with operations in Sudan. He stated that the Legislature then passed a bill related to Sudan which becomes effective August 1, 2007. He reported that the legislation calls for the SBI to make its best efforts to identify all "scrutinized companies" in which the SBI has direct or indirect holdings or could possibly have holdings in the future. He said that the list of companies staff and the Committee compiled related to the SBI's Sudan resolution comes from the Sudan Divestment Task Force and is substantially the same as the list of companies appropriate for the legislation. He said that if the Board approves the Committee's recommendation and approves the list of companies, as shown in Attachment B of Tab F, staff and the Committee will proceed with the next requirement of the law which is to engage each scrutinized company. In response to a question from Ms. Otto, Mr. Sausen confirmed that the list of companies will be updated on a quarterly basis. Ms. Otto moved approval of the Committee's recommendation, as stated in the Committee Report, which reads: **"The Proxy Voting Committee recommends the Board adopt the list of companies with operations in Sudan identified in Attachment B for use in implementation of the Sudan Divestment Legislation."** The motion passed.

Stock and Bond Committee Report

Mr. Troutman referred members to Tab G of the meeting materials and briefly reviewed the manager performance. He stated that staff had completed a Domestic Equity Program Review and that staff and the IAC had identified 9 or 10 areas to study over the next 12-18 months to evaluate potential enhancements to the Domestic Equity Program.

Mr. Troutman reported that the Committee is recommending the termination of Oppenheimer Capital due to sustained underperformance and organizational concerns. Ms. Swanson moved approval of the Committee's recommendation, as stated in the Committee Report, which reads: **"Due to sustained underperformance, Committee recommends that the SBI terminate the relationship with Oppenheimer Capital for investment management services."** The motion passed.

Mr. Troutman stated that staff and the Committee had reviewed and updated the Investment Manager Guidelines and the Committee is recommending their approval. He noted that the revisions were either technical corrections or expanded clarifications and that there were no substantive changes to the guidelines. Mr. Ritchie moved approval of the Committee's recommendation, as stated in the Committee Report, which reads: **"The Committee recommends that the SBI approve the revised Investment Manager Guidelines."** The motion passed.

Alternative Investment Committee Report

Mr. Troutman referred members to Tab H of the meeting materials and stated that the Committee is recommending a follow-on investment with one existing private equity manager, Court Square Capital Partners. Mr. Ritchie moved approval of the Committee's recommendation, as stated in the Committee Report, which reads: **"The Committee recommends that the SBI authorize the Executive Director, with assistance from the SBI's legal counsel, to negotiate and execute a commitment of up to \$75 million in addition to the \$100 million already committed, for up to \$175 million in total, or 20%, whichever is less, in Court Square Capital Partners II, L.P. Approval by the SBI of this potential commitment is not intended to be, and does not constitute in any way, a binding or legal agreement or impose any legal obligations on the State Board of Investment and neither the State of Minnesota, the State Board of Investment nor its Executive Director have any liability for reliance by Court Square upon this approval. Until the Executive Director on behalf of the SBI executes a formal agreement, further due diligence and negotiations may result in the imposition of additional terms and conditions on Court Square or reduction or termination of the commitment."** The motion passed.

The meeting adjourned at 9:42 A.M.

Respectfully submitted,



Howard Bicker
Executive Director

INVESTMENT ADVISORY COUNCIL

AGENDA AND MINUTES

September 4, 2007

AGENDA
INVESTMENT ADVISORY COUNCIL MEETING
Tuesday, September 4, 2007
2:00 P.M. - Board Room – First Floor
60 Empire Drive, St. Paul, MN

- | | |
|---|------------|
| | TAB |
| 1. Approval of Minutes of June 5, 2007 | |
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| A. Stock and Bond Manager Committee | F |
| 1. Review of manager performance | |
| 2. Review of Voyageur Asset Management, a domestic equity manager | |
| 3. Domestic Equity Program Review – follow up items | |
| B. Alternative Investment Committee | G |
| 1. Review of current strategy | |
| Recommendation of new investments with one existing yield-oriented manager, one existing resource manager and three existing private equity managers: | |
| • Goldman Sachs | |
| • Natural Gas Partners | |
| • Wayzata Investment Partnters | |
| • Warburg Pincus | |
| • Blum Capital Partners | |
| 7. Presentation by the Retirement Systems Actuary (Bonnie Wurst) | |

**Minutes
Investment Advisory Council
June 5, 2007**

MEMBERS PRESENT: Frank Ahrens; Jeff Bailey; Dave Bergstrom; John Bohan; Kerry Brick; Doug Gorence Laurie Hacking; Tom Hanson; Heather Johnston; Judy Mares; Malcolm McDonald; Gary Norstrem; Daralyn Peifer; Mike Troutman; and Mary Vanek.

MEMBERS ABSENT: P. Jay Kiedrowski.

SBI STAFF: Howard Bicker; Mansco Perry; Jim Heidelberg; Tammy Brusehaver-Derby; Susan Sutton; Patricia Ammann; Stephanie Gleeson; Andy Christensen; Steve Kuettel; Debbie Griebenow; Carol Nelson; and Charlene Olson.

OTHERS ATTENDING: Ann Posey, Richards & Tierney; Peter Sausen; Christie Eller; Celeste Grant; Tom Durand; Joyce Sukola, Jerry Irsfeld, REAM; Chiraq Mehta, Service Employees International Union.

Mr. Troutman called the meeting to order and informed members that Judge Ken Maas, a member of the IAC, had passed away.

The minutes of the March 6, 2007 meeting were approved.

Executive Director's Report

Mr. Bicker, Executive Director, referred members to Tab A of the meeting materials noted that the retirement directors are revising the actuarial information in Tab A and that the updated information will be available next quarter. He reported that the Combined Funds had exceeded its Composite Index over the ten year period ending March 31, 2007 (Combined Funds 9.0% vs. Composite 8.8%), and had provided a real rate of return over the latest 20 year period (Combined Funds 9.8% vs. CPI 3.0%). He stated that the Basic Funds have outperformed its Composite Index (Basic Funds 9.1% vs. Composite 9.0%) over the last ten years and reported that the Post Fund had also outperformed its composite over the last ten-year period (Post Fund 8.8% vs. Composite 8.5%).

Mr. Bicker reported that the Basic Fund's assets increased 2.3% for the quarter ending March 31, 2007 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 2.7% vs. Composite 2.5%) and slightly underperformed for the year (Basic Funds 12.5% vs. Composite 12.6%).

Mr. Bicker reported that the market value of the Post Fund's assets increased 1.3% for the quarter ending March 31, 2007, also due to positive investment returns. He said that the Post Fund's asset mix is also on target. He stated that the Post Fund outperformed its Composite Index for the quarter (Post Fund 2.6% vs. Composite 2.4%) and for the year (Post Fund 12.3% vs. Composite 12.2%).

Mr. Bicker reported that the domestic stock manager group outperformed its target for the quarter (Domestic Stock 1.4% vs. Domestic Equity Asset Class Target 1.3%) but underperformed it for the year (Domestic Stocks 10.5% vs. Domestic Equity Asset Class Target 11.3%). He said the International Stock manager group outperformed its Composite Index slightly for the quarter (International Stocks 3.9% vs. International Equity Asset Class Target 3.8%) and for the year (International Stocks 19.9% vs. International Equity Asset Class Target 19.8%). Mr. Bicker stated that the bond segment outperformed its target for the quarter (Bonds 1.6% vs. Fixed Income Asset Class Target 1.5%) and for the year (Bonds 6.8% vs. Fixed Income Asset Class Target 6.6%). He noted that the alternative investments had also performed strongly for the year (Alternatives 25.2%). He concluded his report with the comment that as of March 31, 2007, the SBI was responsible for over \$59 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 referred members to page 7 of Tab B, and he gave a brief legislative update, stating that a bill regarding Duluth's Other Post Retirement Benefits was signed into law. He added that the statewide version of the bill was not enacted. He reported that the State Government Finance Bill had passed and that the SBI's budget was included in that bill. He said that legislation passed regarding Sudan, and he noted that more information on Sudan would be presented later in the agenda. Mr. Bicker reported that a bill giving the Minneapolis Employee's Retirement Fund (MERF) the flexibility to invest some of its assets with the SBI had also passed.

Mr. Bicker asked Christie Eller, Assistant Attorney General to update members on the status of litigation. She stated that the State is waiting for distributions in two class action cases in which the SBI was the lead plaintiff, AOL and Broadcom. She added that the State will also be filing an additional claim regarding Mercury Finance because another settlement fund had been established.

Mr. Troutman noted that he would like to change the order of the agenda to allow Mr. McDonald to make his Committee Report before leaving due to time constraints.

Alternative Investment Committee Report

Mr. McDonald referred members to Tab H of the meeting materials and stated that the Committee is recommending a follow-on investment with one existing private equity manager, Court Square Capital Partners. Mr. Bicker clarified that the \$75 million is an additional commitment to the \$100 million the SBI has previously invested with them. Mr. Norstrom moved approval of the Committee's recommendation, as stated in the Committee Report. The motion was seconded and the motion was passed.

Administrative Committee Report

Mr. Sausen referred members to Tab C of the meeting materials and briefly reviewed the items on the Committee's agenda. He stated that the Committee had reviewed the Executive Director's Workplan for FY08 and is recommending that the workplan be approved by the Board and that it also be used as a basis for the Executive Director's Performance Evaluation for FY08.

Mr. Sausen reported that the Committee is also recommending approval of the FY08 Administrative Budget Plan, the Continuing Fiduciary Education Plan, and the process to be used for the Executive Director's FY07 performance evaluation. He stated that the last item from the Committee is an information item only that the SBI's Disaster Recovery Plan had been updated. In response to a question from Mr. Ahrens, Mr. Bicker stated that the majority of the SBI's budget is billed back to the retirement systems.

Master Custodian Review Committee Report

Mr. Sausen referred members to Tab D of the meeting materials and reported that the Committee had issued an RFP for master custody services to which seven banks had responded. He stated that based on services, fees and securities lending capabilities, the Committee is recommending that State Street Bank and Trust continue to be retained for a five year period ending April 30, 2013. Ms. Vanek moved approval of the Committee's recommendation, as stated in the Committee Report. Ms. Mares seconded the motion. In response to questions from Mr. Bailey and Ms. Johnston, Mr. Bicker stated that there were two other serious bidders and that the contract period is for five years. The motion passed. In response to a question from Mr. Hanson, Mr. Bicker stated that U.S. Bank had done a joint bid with Credit Suisse and that their bid was not financially competitive.

Local Custody Review Committee Report

Mr. Sausen referred members to Tab E of the meeting materials and noted that this RFP was prepared in conjunction with the RFP for the State's Major Revenue/Deposit Banking Services. He stated that the RFP was sent to six banks and that two banks responded. He said that based on the review of the responses, the Committee is recommending that Wells Fargo continue to be retained for local custodial services for a five year period ending December 31, 2012.

Proxy Voting Committee Report

Mr. Sausen referred members to Tab F of the meeting materials. He stated that at its December 2006 Board meeting the Board passed a resolution to direct staff and the Committee to identify a list of companies with operations in Sudan. He stated that the Legislature then passed a bill related to Sudan which becomes effective on August 1, 2007. He reported that the legislation calls for the SBI to make its best efforts to identify all "scrutinized companies" in which the SBI has direct or indirect holdings or could possibly have holdings in the future. He said that the list of companies staff and the Committee compiled related to the SBI's Sudan resolution comes from the Sudan Divestment Task Force and is substantially the same as the list of companies appropriate for the legislation. He said that if the Board approves the Committee's recommendation and approves the list of companies, as shown in Attachment B of Tab F, staff and the Committee will proceed with the next requirement of the law which is to engage each scrutinized company. In response to questions from Mr. Bohan, Mr. Bicker confirmed that there will be some required divestiture of approximately \$30 million based on this legislation. Ms. Eller noted that the legislation takes effect on August 1, 2007. Ms. Johnston and Ms. Hacking made and seconded a motion regarding the receipt of reports from the SBI Administrative Committee, the Local Custody Review Committee and the Proxy Voting Committee. The motion passed.

Stock and Bond Committee Report

Mr. Bohan referred members to Tab G of the meeting materials and briefly reviewed the manager performance. In response to a question from Mr. Bergstrom, Mr. Heidelberg and Mr. Bohan said Legg Mason's underperformance will continue to be monitored.

Mr. Bohan reported that the Committee is recommending the termination of Oppenheimer capital due to sustained underperformance. In response to a question from Mr. Troutman, Mr. Bicker stated that Oppenheimer appears to be focusing more on their mutual fund business. Both Mr. Bicker and Ms. Posey noted that the current portfolio manager is getting close to retirement and that the SBI's portfolio is the only account he is currently managing. The motion made by Mr. Bohan was seconded by Mr. Gorence. The motion passed.

Mr. Bohan stated that staff and the Committee had reviewed and updated the Investment Manager Guidelines, and the Committee is recommending their approval. He noted that the revisions were either technical corrections or expanded clarifications and that there were no substantive changes to the guidelines. Mr. Bohan moved approval of the Committee's recommendation, as stated in the Committee Report. Ms. Peifer seconded the motion. The motion passed.

Mr. Troutman and Mr. Bicker stated that the discussion regarding understanding the liabilities of the State's defined benefit plans would continue at the September 2007 meeting, and they asked members to submit any questions they may have in writing prior to the meeting so that the actuaries would have time to prepare their responses and organize their presentation around members' questions. Mr. Troutman requested that questions be submitted by July 1, 2007.

Domestic Equity Review

Mr. Bicker referred members to the handouts (see **Attachment A**) and presented the review of the Domestic Equity Program. Discussion followed.

The meeting adjourned at 3:45 P.M.

Respectfully submitted,

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

Howard Bicker
Executive Director

ATTACHMENT A

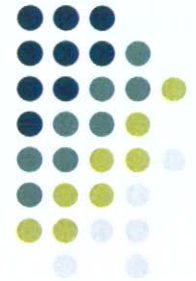
SBI Domestic Equity Program Review

June 5, 2007 - Investment Advisory Council



Domestic Equity Program Review

Discussion Outline



- Executive Summary
 - Current Structure
 - Recent Manager Changes
 - Recommendation
- 2006 Performance
 - Performance: Current Structure
 - Review 2006 Market Dynamics
 - Assessment and Implications for Program Structure
- Program Review
 - Role of Domestic Equity relative to Total Fund
 - Philosophy: Sources of Risk and Return
 - Objectives: Risk and Return
 - Performance: Current Structure
- Future topics for Review
 - Implementation Process
 - Reporting

Domestic Equity Program Review

Executive Summary



- Current Structure
 - Asset Class Target is Russell 3000 as reported.
 - Style bias risk control achieved via allocation to published Russell indices.
 - Current indices used are R1000, R1000 Growth, R1000 Value, R2000 Growth, R2000 Value.
 - Custom Dynamic Completeness Fund benchmark process is available if necessary to control misfit risk.
 - Active risk is managed and controlled through allocations to Active, Semi-Passive and Passive components.
 - Weight of each component ranges from 25% to 40% of Domestic Equity program.
 - Benchmarks
 - Each manager is assigned one of 5 published Russell indices used for style bias control.
 - Passive manager is assigned Russell 3000.
 - Semi-passive managers are assigned Russell 1000.
 - Active managers are assigned Russell 1000, 1000 Growth, 1000 Value , 2000 Growth, 2000 Value as appropriate.

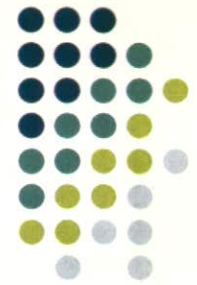
Domestic Equity Program Review Executive Summary Cont'd



- Recent Manager changes
 - Passive manager and semi-passive managers (3) have been in place since 1995.
 - Currently have 26 active managers.
 - Since Dec 2003: Hired 17 new managers and fired 8 managers (two were newly hired).
 - New managers were hired to achieve adequate style box representation and diversification.
- Recommend no changes to program structure at this time.
 - Recommendations regarding individual managers will continue to be made as appropriate.

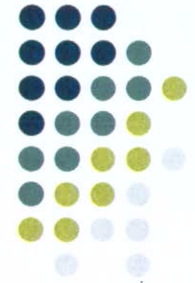
Domestic Equity Program Review

Performance: Current Structure



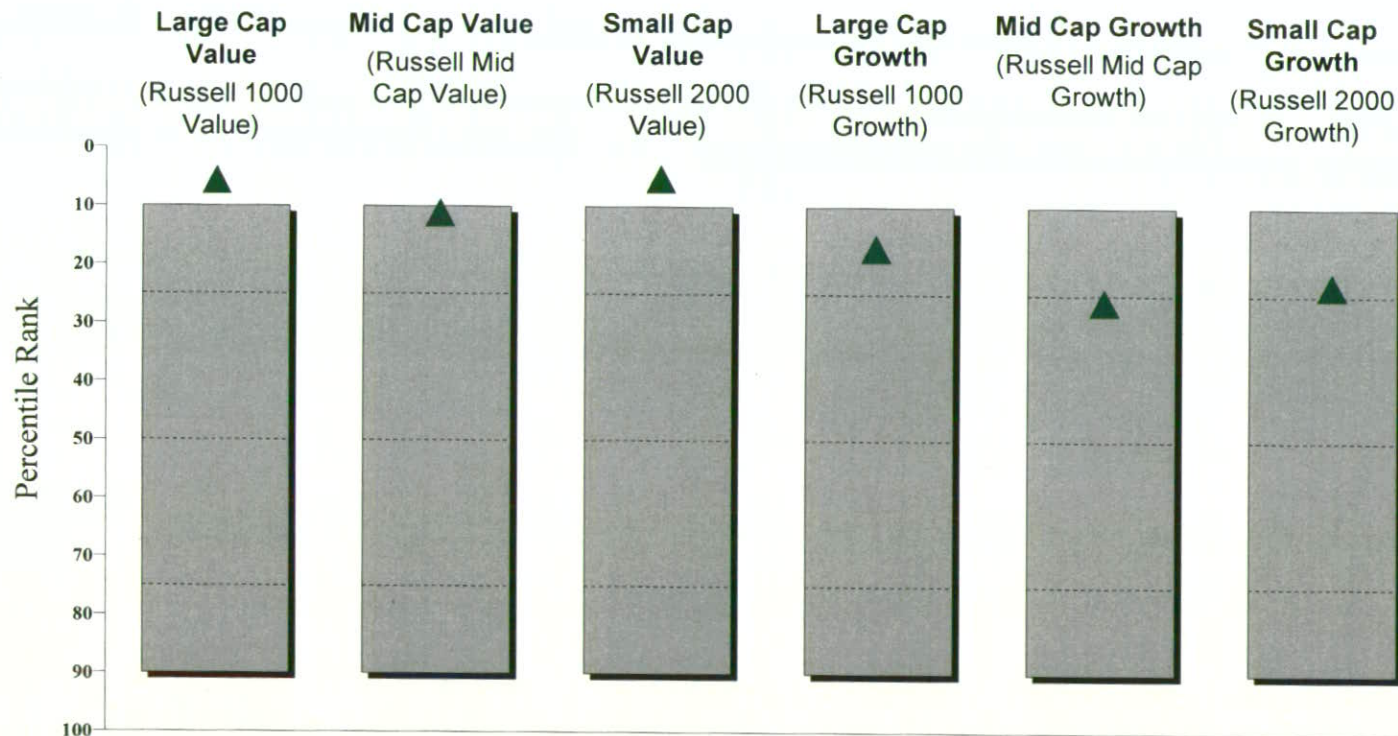
	Calendar Year Return			Annualized 3 Yrs Period Ended 12/31/2006	
	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>Return</u>	<u>Risk</u>
Total Domestic Equity					
Value-Added (Actual vs Aggr Bnmk)	-1.07	0.17	0.21	-0.23	0.54
Misfit (Aggr Bnmk vs Target)	-0.04	0.00	-0.06	-0.04	0.04
Excess (Actual vs Target)	-1.11	0.17	0.14	-0.27	0.53
Value-Added of Components					
Active	-3.75	0.51	0.12	-1.06	1.31
Semi-Passive	0.56	-0.05	0.28	0.26	0.60
Passive	0.04	0.05	0.04	0.04	0.07
Total Domestic Equity					
Actual	14.43	6.29	12.11	10.89	7.71
Aggregate Bnmk	15.67	6.12	11.88	11.15	7.56
Target	15.71	6.12	11.95	11.19	7.58

Domestic Equity Program Review Calendar Year 2006



- Lipper Active Manager Universe (mutual fund data)
 - Russell index returns used in Active Component each ranked in the top quartile.
 - Passive investments outperformed the majority of active managers in 2006.

BENCHMARK RANKING VS. LIPPER ACTIVE MANAGER UNIVERSE
One-Year Ending December 31, 2006



Domestic Equity Program Review

Calendar Year 2006: Manager Survey

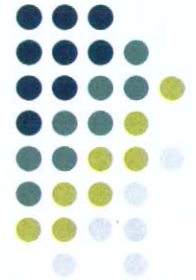


SBI managers were surveyed regarding 2006 - common themes included:

- Investors' high appetite for risk
 - Companies that were less profitable with less expected earnings growth and lower quality were the strongest performers.
 - A bias toward earnings growth detracted.
- Robust M&A and private equity activity
 - Caused many companies with negative earnings and poor fundamentals not to decline in price. Active managers that avoided companies with poor fundamentals saw many of those companies rise in price within the benchmark.
- Sector rotation was high – difficult for long term oriented strategies
 - Technology and health care were worst performers in 2Q, then best performers 3Q.
 - Energy, specifically oil service, was best performer in 2Q, and worst in 3Q.
 - 2005 winners experienced correction in early 2006.
 - Traditional growth sectors underperformed.
 - Health care, technology, consumer discretionary
 - Particularly difficult environment for large cap growth strategies

Domestic Equity Program Review

Calendar Year 2006: Manager Survey Continued



- ETF growth
 - ETFs grew from \$100B to \$300B.
 - Some research suggests that investors sold active mutual funds and bought passive investments, including ETFs. If true, this would pressure actively managed stocks, while increasing prices for benchmark stocks.
 - Discussions with BGI, creator of Russell iShares, suggest that the ETF impact may be overstated.
 - Use of small cap ETFs may be creating more transparency and liquidity in small cap space. This would result in a more efficient small cap market and a head wind for active small cap managers.
- Momentum
 - Worst performing risk factor
 - SBI Aggregate Active Managers have been overweight momentum since 2000.
- REITs outperformed
 - REITs were among best performing stocks.
 - SBI Managers in aggregate were underweight REITs
 - Many traditional active stock managers choose not to own REITs, as they do not have a competency in covering the real estate market.
 - Those managers that do cover REITS tended to be underweight in 2006 due to concerns that the industry was overvalued.

Domestic Equity Program Review

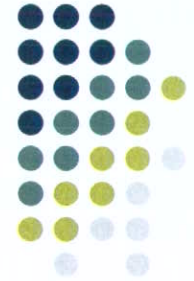
Calendar Year 2006: SBI Specific Issues



- SBI Restrictions
 - Asset Class Target and benchmarks are not adjusted for SBI imposed investment restrictions (current restrictions include tobacco related companies).
 - Relative impact from SBI restrictions was 12 bps for the five years (annualized) ending 12/31/2006.
 - 2006 relative impact was 7 bps.
- Russell Reconstitution
 - Russell indices have been rebalanced annually on the last Friday in June.
 - Arbitraders anticipate index changes, causing short term price impacts at month/quarter end.
 - Short names ahead of the recon that will be deleted, knowing that passive managers must sell them.
 - Buy names ahead of the recon that will be added, knowing that passive managers must buy them.

Domestic Equity Program Review

Calendar Year 2006: SBI Specific Issues Cont'd



- Russell Reconstitution Cont'd
 - Names dropping out of the Russell indices are expected to underperform 5/31 to Reconstitution date, and the added names are expected to outperform.
 - 2006
 - Russell 1000 names behaved as expected – deletes lost 4.59% and additions gained 3.90%.
 - In small caps, the opposite happened – Russell 2000 deletes gained 2.55% and additions lost 4.80%.
 - 2006 rebalance incurred larger than usual impacts:
 - Last Friday in June was also the last trading day before the July 4th holiday weekend.
 - The FOMC met 6/29/06; increased rates by 25 bps, but sent a strong signal that future increases were on hold. The market rallied on the news heading into the reconstitution, increasing volatility in a lower liquidity market.
 - Russell announced changes to timing and process for the 2007 reconstitution should help reduce return impact.

Domestic Equity Program Review Calendar Year 2006: Assessment



- **Total Domestic Equity Program: Annualized Active Risk (StdDev) is 1.14***
 - While extremely disappointing, 2006 performance is within the expected outcome distribution implied by this risk level.
- **Aggregate Active Managers: Annualized Active Risk (StdDev) is 2.55***
 - 2006 underperformance falls within 2 standard deviations. While disappointing, this is within the expected outcome distribution.

* Measured over 10-year period.

Domestic Equity Program Review

Role of Domestic Equity



- Current Policy target is 45% for Domestic Equity (Basics and Post).
 - US equity market provides attractive risk and return trade off relative to other asset classes.
 - US equity program is the investment choice for unallocated dollars within the Alternative program.
 - The actual allocation to US Equity is 45% plus the difference between the actual market value of the alternative investments and the target – 15% for Basics, 12% for Post.
 - Currently the combined target allocation to US equity is 49.32% (2/28/07).
- 2003 Asset Allocation Assumptions: US Equity
 - Historically the Domestic Equity program has provided the largest source of return to the SBI with the commensurate amount of risk.
 - Based on the 2003 Asset Allocation study, the Domestic Equity program continues to be the largest source of expected return for the total fund.
 - Basics Total Fund: annual expected return 8.98%, annual expected risk ± 12.38
 - Post Total Fund: annual expected return 8.60%, annual expected risk ± 11.57
 - Domestic Equity Only: annual expected return 9.25%, annual expected risk ± 17.00
- ***Given that the SBI has a long term investment horizon, it can sustain short-term variability of returns.***

Domestic Equity Program Review

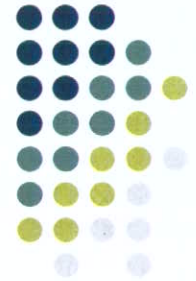
SBI Philosophy



- **The entire Domestic Equity Program assets are managed in a risk-controlled manner relative to the Asset Class Target.**
 - Semi-passively manage a portion of the Domestic Equity Program to achieve a small amount of relative outperformance while assuming a relatively low level of active risk (1-3%).
 - Due to size of SBI assets, passively manage a portion of Domestic Equity Program to efficiently implement the overall allocation to equities with minimal fees and expenses.
 - Passive management is expected to underperform a published index due to fees and expenses.
- **The role of active management is to add value, net of fees and expenses.**
 - The average active manager has an additional performance hurdle due to the impact of fees and transaction costs.
 - Superior value added managers that outperform do exist.
 - Value added managers are a scarce resource.
 - They are difficult to identify and manage.
 - Actively manage a portion of the Domestic Equity Program for the potential to earn back Program fees and expenses, plus earn additional return.
 - “A tie is a win” – net of fees and expenses.

Domestic Equity Program Review

SBI Philosophy: Sources of Risk & Return



- **Systematic (Beta)**
 - SBI allocation to Domestic Equities will be fully invested at all times.
 - SBI expects to earn the market return and experience market level risk.
 - This is the passive implementation alternative.
 - Passive management is expected underperform a published index due to fees and expenses.
- **Style Bias (Misfit)**
 - Aggregate program is structured to neutralize style bias relative to asset class target.
 - SBI seeks to minimize this risk as it does not expect to be compensated for taking style bets relative to the asset class target.
- **Active Risk (Skill)**
 - SBI expects to earn incremental return from active management.
 - Actual returns are expected to exceed benchmarks.
 - SBI has exhibited limited risk tolerance for active risk.
 - SBI expects to pay higher fees to active managers.

Returns are measured net of fees and expenses.

Domestic Equity Program Review

SBI Risk & Return Objectives



- Total Domestic Equity Program Return
 - Match or exceed return of Asset Class Target
 - ***Net of fees and expenses***

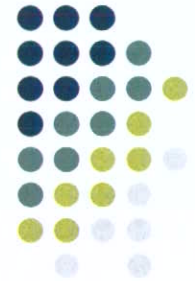
- Total Domestic Equity Program Risk*
 - Systematic Risk: Match risk level of the Asset Class Target
 - Style Risk: Minimize risk associated with style bias (misfit risk) – 0-50 bps
 - Active Risk: Limited exposure to total active risk - approximately ± 1 .

Public Master Fund Trusts - Assets > \$1 B Provided by State Street – <u>gross</u> of fees 29 observations Period ending December 31, 2006	5 Year Annualized Tracking Error
Maximum	9.44
25th Percentile	3.28
50th Percentile	2.23
75th Percentile	1.18
Minimum	0.31
MN Domestic Equity Total	0.65

* Risk is measured in terms of tracking error – annualized standard deviation of excess returns.

Domestic Equity Program Review

Issues for Further Review



- **Implementation Process**
 - Risk Control: Systematic, Misfit, Active
 - Allocation of assets within the Domestic Equity Program
 - Within and across Program components (active, semi-passive & passive)
 - Within and across active component style categories
 - Benchmark Quality
 - Diversification of managers within each style area
 - Manager Search Process
 - Manager Continuation Policy

- **Reporting**
 - Focus on total program and long-term results of current program
 - Relative to Risk and Return objectives
 - De-emphasize individual manager short term results

Tab A

LONG TERM OBJECTIVES
Period Ending 6/30/2007

COMBINED FUNDS: \$50.2 Billion	Result	Compared to Objective
<p>Match or Exceed Composite Index (10 Yr.)</p> <p>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.</p>	8.3% (1)	0.2 percentage point above target
<p>Provide Real Return (20 yr.)</p> <p>Provide returns that are 3-5 percentage points greater than inflation over the latest 20 year period.</p>	10.0%	7.0 percentage points above CPI

BASIC RETIREMENT FUNDS: \$25.0 Billion	Result	Compared to Objective
<p>Match or Exceed Composite Index (10 Yr.)</p> <p>Outperform a composite market index weighted in a manner that reflects the long-term asset allocation of the Basic Funds over the latest 10 year period.</p>	8.5%	0.2 percentage point above target

POST RETIREMENT FUND: \$25.2 Billion	Result	Compared to Objective
<p>Match or Exceed Composite Index (10 Yr.)</p> <p>Outperform a composite market index weighted in a manner that reflects the long-term asset allocation of the Post Fund over the latest 10 year period.</p>	8.1%	0.2 percentage point above target

(1) Performance is calculated net of fees.

SUMMARY OF ACTUARIAL VALUATIONS

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

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

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

Notes:

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

Actuarial Assumptions:

Salary Growth: 6.5%, resulting from a graded rate future increase assumption

Interest/Discount Rate: 8.5% Basics, 6.0% Post

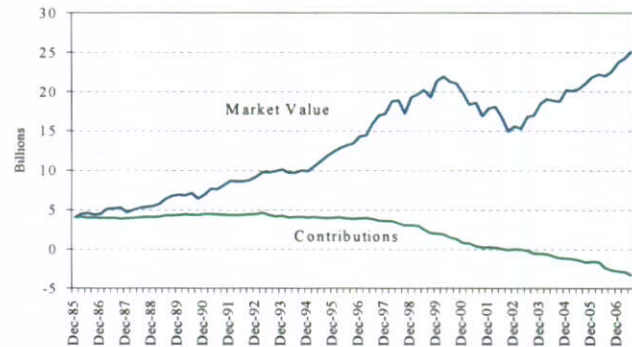
Full Funding Target Date: 2031

EXECUTIVE SUMMARY
Basic Retirement Funds (Net of Fees)

Asset Growth

The market value of the Basic Funds increased 3.4% during the second quarter of 2007. Positive investment returns accounted for the increase.

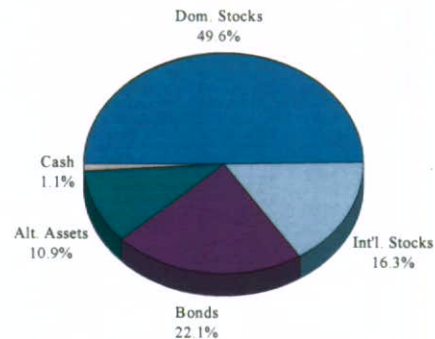
Asset Growth	
During Second Quarter 2007	
(Millions)	
Beginning Value	\$ 24,241
Net Contributions	-377
Investment Return	1,198
Ending Value	\$ 25,062



Asset Mix

The allocation to domestic equity and international equity increased over the quarter due to positive returns.

	Policy Targets	Actual Mix 6/30/2007	Actual Market Value (Millions)
Domestic Stocks	45.0%	49.6%	\$12,423
Int'l. Stocks	15.0	16.3	4,084
Bonds	24.0	22.1	5,532
Alternative Assets*	15.0	10.9	2,739
Unallocated Cash	1.0	1.1	284
	100.0%	100.0%	\$25,062

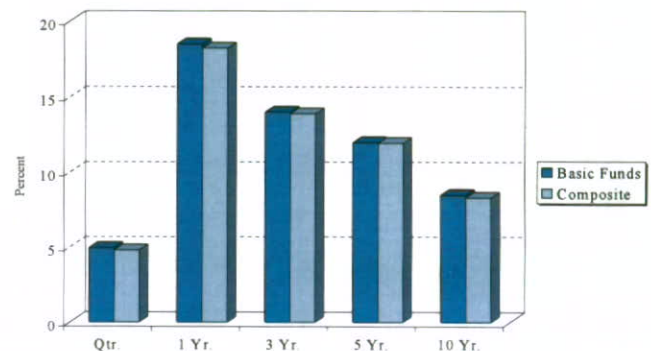


* Any uninvested allocation is held in domestic stocks

Fund Performance (Net of Fees)

The Basic Funds exceeded the quarterly and one-year market index composite.

	Period Ending 6/30/2007				
	Qtr.	1 Yr.	3 Yr.	5 Yr.	10 Yr.
Basics	4.9%	18.5%	14.0%	12.0%	8.5%
Composite	4.8	18.2	13.9	11.9	8.3



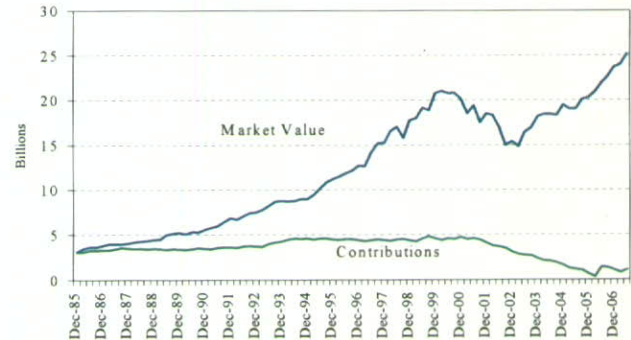
EXECUTIVE SUMMARY
Post Retirement Fund (Net of Fees)

Asset Growth

The market value of the Post Fund increased 4.7% during the second quarter of 2007. Positive investment returns accounted for the increase.

Asset Growth
During Second Quarter 2007
(Millions)

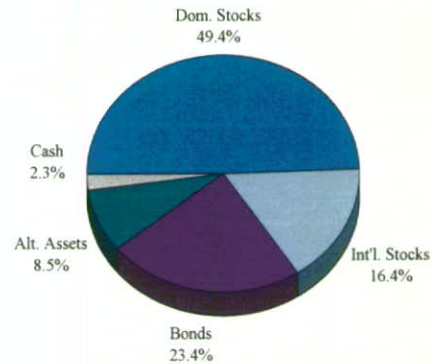
Beginning Value	\$24,036
Net Contributions	11
Investment Return	1,129
Ending Value	\$25,176



Asset Mix

The allocation to domestic equity and international equity increased over the quarter due to positive returns.

	Policy Targets	Actual Mix 6/30/2007	Actual Market Value (Millions)
Domestic Stocks	45.0%	49.4%	\$12,448
Int'l. Stocks	15.0	16.4	4,118
Bonds	25.0	23.4	5,890
Alternative Assets*	12.0	8.5	2,147
Unallocated Cash	3.0	2.3	573
	100.0%	100.0%	\$25,176

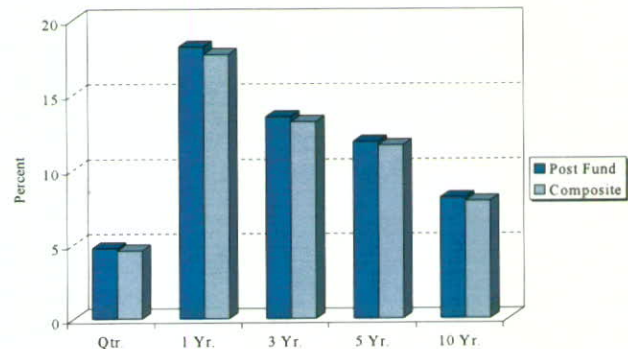


* Any uninvested allocation is held in domestic stocks.

Fund Performance (Net of Fees)

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

	Period Ending 6/30/2007				
	Qtr.	1 Yr.	3 Yr.	5 Yr.	10 Yr.
Post	4.7%	18.2%	13.5%	11.8%	8.1%
Composite	4.6	17.7	13.2	11.6	7.9



EXECUTIVE SUMMARY

Stock and Bond Manager Performance (Net of Fees)

Domestic Stocks

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

	Period Ending 6/30/2007				
	Qtr.	1 Yr.	3 Yr.	5 Yr.	10 Yr.
Dom. Stocks	5.8%	19.7%	12.3%	11.3%	7.1%
Asset Class Target*	5.8	20.1	12.4	11.6	7.2

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

* 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) outperformed its target for the quarter and for the year.

	Period Ending 6/30/2007				
	Qtr.	1 Yr.	3 Yr.	5 Yr.	10 Yr.
Int'l. Stocks	8.6%	30.3%	24.6%	18.8%	8.3%
Asset Class Target*	8.2	29.6	24.5	19.3	7.9

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

* 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) matched its target for the quarter, and outperformed for all other periods shown.

	Period Ending 6/30/2007				
	Qtr.	1 Yr.	3 Yr.	5 Yr.	10 Yr.
Bonds	-0.5%	6.3%	4.3%	5.0%	6.3%
Asset Class Target*	-0.5	6.1	4.0	4.5	6.0

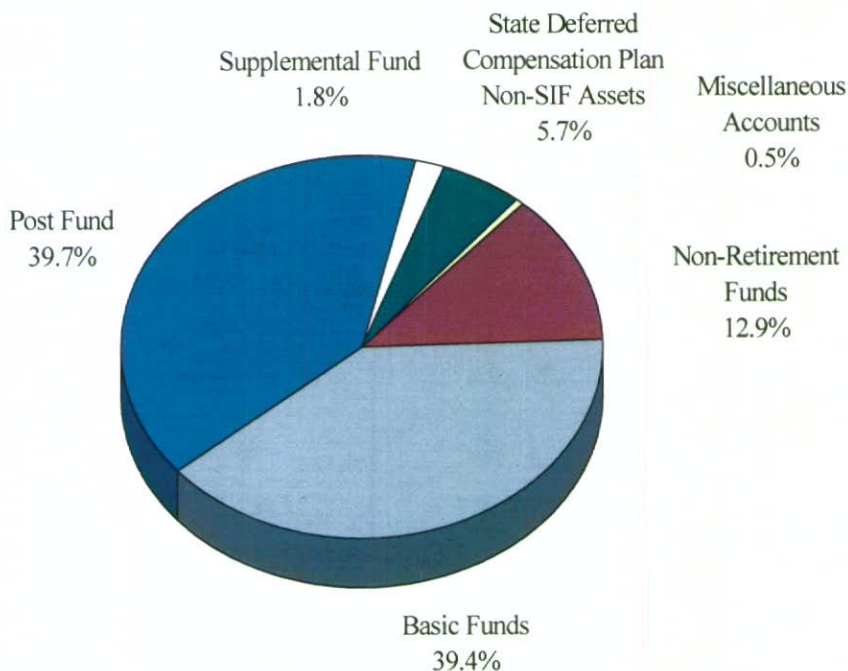
Lehman Aggregate: The Lehman Brothers Aggregate Bond Index reflects the performance of the broad bond market for investment grade (Baa or higher) bonds, U.S. treasury and agency securities, and mortgage obligations with maturities greater than one year.

* 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 6/30/2007				
	Qtr.	1 Yr.	3 Yr.	5 Yr.	10 Yr.
Alternatives	7.8%	25.6%	31.9%	22.2%	17.7%

EXECUTIVE SUMMARY
Funds Under Management



	6/30/2007 Market Value (Billions)
Retirement Funds	
Basic Retirement Funds	\$25.0
Post Retirement Fund	25.2
Supplemental Investment Fund	1.1
State Deferred Compensation Plan Non-SIF Assets	3.6
Non-Retirement Funds*	
Assigned Risk Plan	0.3
Permanent School Fund	0.7
Environmental Trust Fund	0.5
State Cash Accounts	6.7
Miscellaneous Accounts	
	0.3
Total	\$63.5

MINNESOTA STATE BOARD OF INVESTMENT

QUARTERLY INVESTMENT REPORT

Second Quarter 2007
(April 1, 2007 - June 30, 2007)

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VARIOUS CAPITAL MARKET INDICES

	Period Ending 6/30/2007				
	Qtr.	Yr.	3 Yr.	5 Yr.	10 Yr.
Domestic Equity					
Dow Jones Wilshire Composite	6.1%	20.5%	12.7%	12.0%	7.7%
Dow Jones Industrials	9.1	23.0	11.3	10.2	7.9
S&P 500	6.3	20.6	11.7	10.7	7.1
Russell 3000 (broad market)	5.8	20.1	12.4	11.5	7.6
Russell 1000 (large cap)	5.9	20.4	12.3	11.3	7.5
Russell 2000 (small cap)	4.4	16.4	13.4	13.9	9.1
Domestic Fixed Income					
Lehman Aggregate (1)	-0.5	6.1	4.0	4.5	6.0
Lehman Gov't./Corp.	-0.5	6.0	3.8	4.7	6.1
3 month U.S. Treasury Bills	1.2	5.1	3.8	2.7	3.7
International					
EAFE (2)	6.4	27.0	22.2	17.7	7.7
Emerging Markets Free (3)	15.1	45.5	38.7	30.7	9.4
ACWI Free ex-U.S. (4)	8.4	30.1	25.0	19.9	8.6
World ex-U.S. (5)	7.0	27.1	22.7	18.1	8.0
Salomon Non U.S. Gov't. Bond	-1.8	2.2	3.3	6.9	5.0
Inflation Measure					
Consumer Price Index CPI-U (6)	1.5	2.7	2.9	2.8	2.6
Consumer Price Index CPI-W (7)	1.6	2.7	3.2	3.0	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, gained 5.8% during the second quarter of 2007. Stock prices continued to benefit from significant global economic expansion, strong company earnings and a high level of share repurchase and acquisition activity. Investors remained resilient despite concerns about the weak housing market and subprime mortgage defaults. Large capitalization stocks outperformed small capitalization stocks, and growth stocks outperformed value stocks. Within the Russell 3000 Index, the other energy sector generated the largest total return and the financial services sector generated the lowest total return.

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

Large Growth	Russell 1000 Growth	6.9%
Large Value	Russell 1000 Value	4.9%
Small Growth	Russell 2000 Growth	6.7%
Small Value	Russell 2000 Value	2.3%

The Russell 3000 index returned 20.1% for the year ending June 30, 2007.

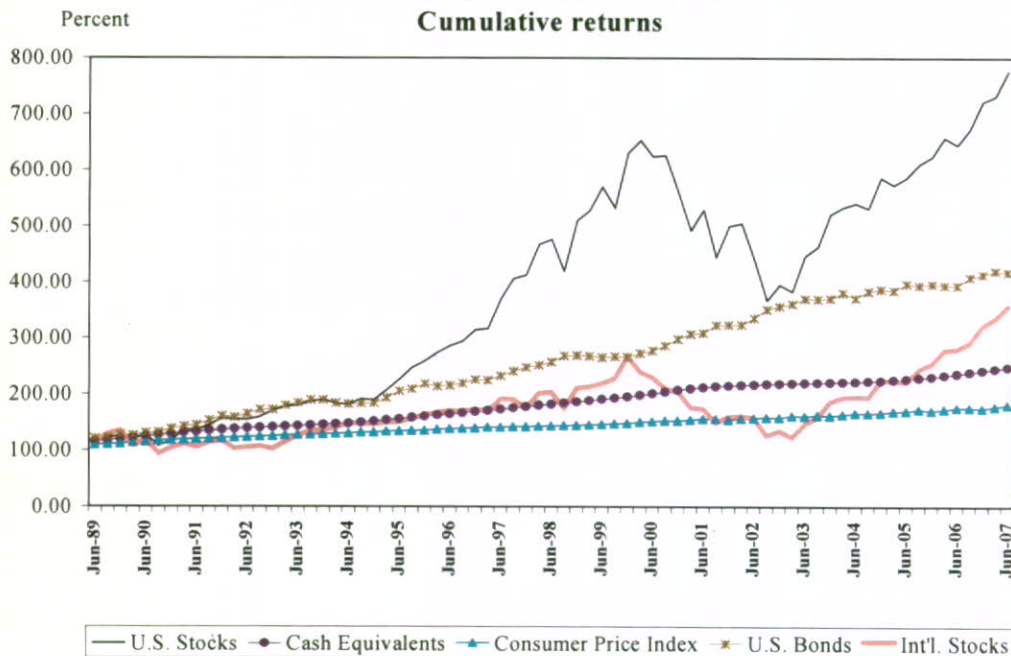
DOMESTIC BONDS

The bond market was down 0.5% for the quarter and posted a gain of 6.6% for the year. Fixed income markets came under pressure in the second quarter, as intermediate and long-term yields rose in response to lingering inflationary pressures, concerns in the subprime mortgage market, and the market's belief that the Federal Reserve Board is less likely to cut its target rate in the near future. Performance in the non-Treasury sectors (Agencies, Mortgages, Credit) was generally weak during the quarter.

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

U.S. Treasury	-0.4%
Agency	-0.1
Credit	-0.8
Mortgages	-0.5

PERFORMANCE OF CAPITAL MARKETS



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 7.0% for the quarter. The quarterly performance of the six largest stock markets is shown below:

United Kingdom	7.6%
Japan	-0.6
France	9.9
Switzerland	3.2
Germany	16.2
Canada	14.9

The World ex U.S. index increased by 27.1% 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 15.1% for the quarter. The quarterly performance of the five largest stock markets in the index is shown below:

Korea	18.3%
Taiwan	14.2
South Africa	2.7
Mexico	13.0
Brazil	23.9

The Emerging Markets Free index increased by 45.5% during the last year.

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

REAL ESTATE

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

PRIVATE EQUITY

U.S. private equity firms raised a revised total of \$261 billion for private equity limited partnerships of all types, from venture capital to buyouts in 2006. This represents a 32% increase relative to the revised 2005 total of \$163 billion. The first half of 2007 shows a continuing strong fund raising environment, with \$137 billion in funds raised.

RESOURCE FUNDS

During the second quarter of 2007, crude oil averaged \$65.02 per barrel, up from the average price of \$58.23 during the prior quarter. Prices remain high relative to historical levels and continue to reflect the instability in the Middle East.

COMBINED FUNDS

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

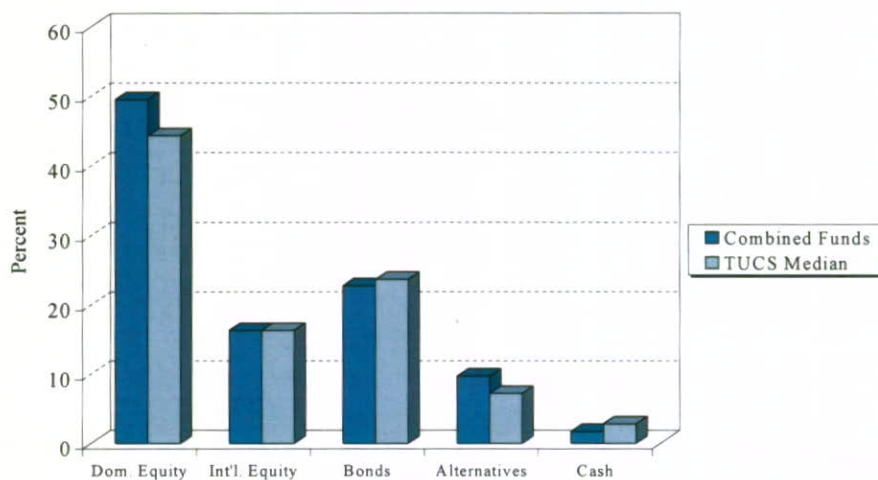
The comparison universe used by the SBI is the Trust Universe Comparison Service (TUCS). Only funds with assets over \$1 billion are included in the comparisons shown in this section.

Asset Mix Compared to Other Pension Funds

On June 30, 2007, the actual asset mix of the Combined Funds was:

	\$ Millions	%
Domestic Stocks	\$24,872	49.5%
International Stocks	8,202	16.3
Bonds	11,422	22.8
Alternative Assets	4,886	9.7
Unallocated Cash	856	1.7
Total	\$50,238	100.0%

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



	Dom. Equity	Int'l Equity	Bonds	Alternatives	Cash
Combined Funds	49.5%	16.3%	22.8%	9.7%	1.7%
Median Allocation in TUCS*	44.3	16.3	23.7	7.2**	2.8

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

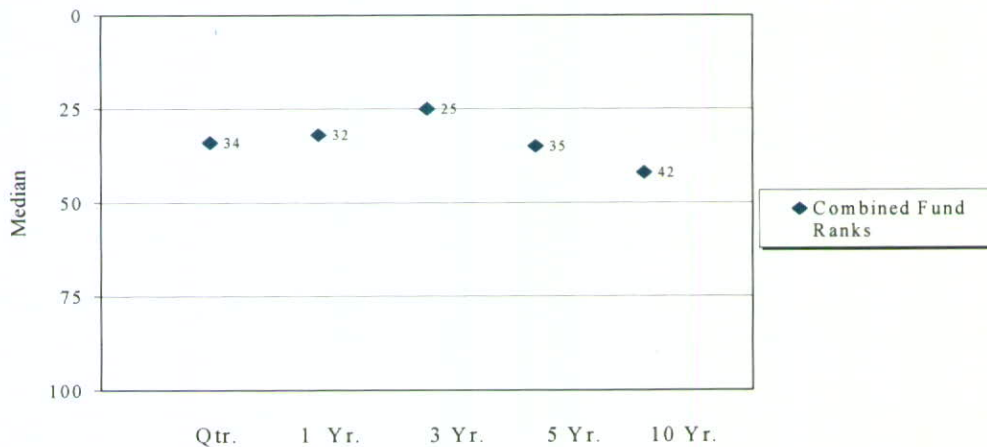
**COMBINED FUNDS
Performance Compared to Other Pension Funds**

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.



Combined Funds	Period Ending 6/30/2007				
	Qtr.	1 Yr.	3 Yr.	5 Yr.	10 Yr.
Percentile Rank in TUCS*	34th	32nd	25th	35th	42nd

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

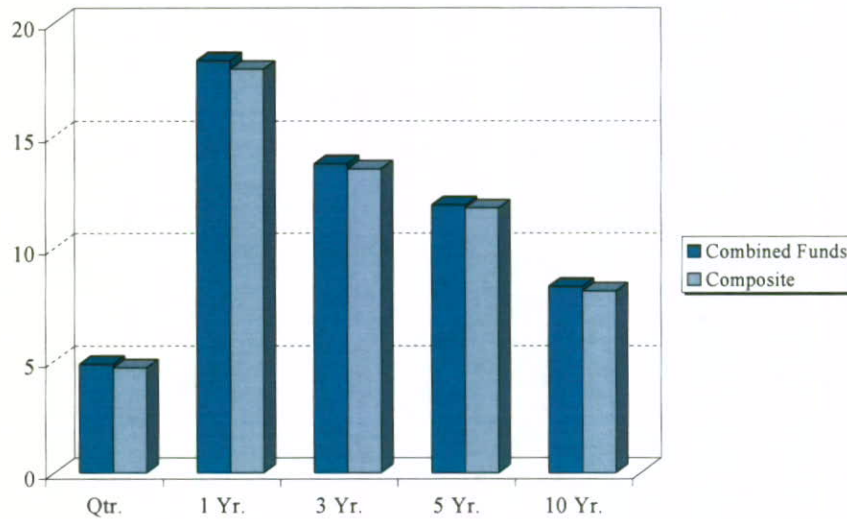
**COMBINED FUNDS
Performance Compared to Composite Index**

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* 2Q07
Domestic Stocks	Russell 3000	48.8%*
Int'l. Stocks	MSCI ACWI Free ex-U.S.	15.0
Bonds	Lehman Aggregate	24.5
Alternative Investments	Alternative Investments	9.7*
Unallocated Cash	3 Month T-Bills	2.0
		100.0%

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



	Period Ending 6/30/2007				
	Qtr.	1 Yr.	3 Yr.	5 Yr.	10 Yr.
Combined Funds**	4.8%	18.3%	13.8%	11.9%	8.3%
Composite Index	4.7	18.0	13.5	11.8	8.1

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

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BASIC RETIREMENT FUNDS

Investment Objectives

The Basic Retirement Funds are composed of the retirement assets for currently working participants in eight statewide retirement funds. The Funds serve as accumulation pools for the pension contributions of public employees and their employers during the employees' years of active service. Approximately 322,000 public employees participate in the Basic Funds.

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

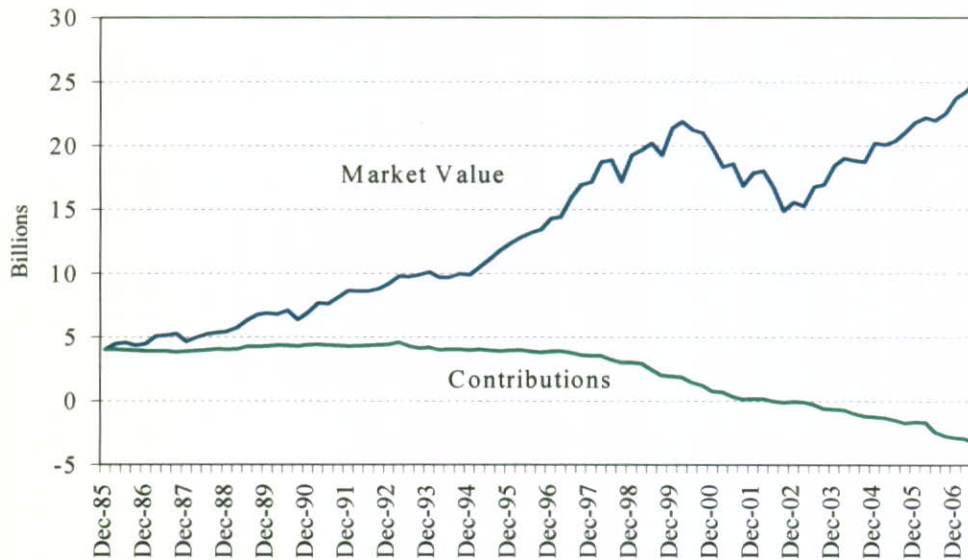
projected pension costs, the Basic Retirement Funds must generate investment returns of at least 8.5% on an annualized basis, over time.

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

Asset Growth

The market value of the Basic Funds increased 3.4% during the second quarter of 2007.

Positive investment returns accounted for the increase.



Last Five Years In Millions

	12/02	12/03	12/04	12/05	12/06	3/07	Latest Qtr. 6/07
Beginning Value	\$17,874	\$15,561	\$18,435	\$20,201	\$21,816	\$23,694	\$24,241
Net Contributions	-247	-592	-577	-411	-1,219	-87	-377
Investment Return	-2,066	3,466	2,343	2,026	3,097	634	1,198
Ending Value	\$15,561	\$18,435	\$20,201	\$21,816	\$23,694	\$24,241	\$25,062

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.

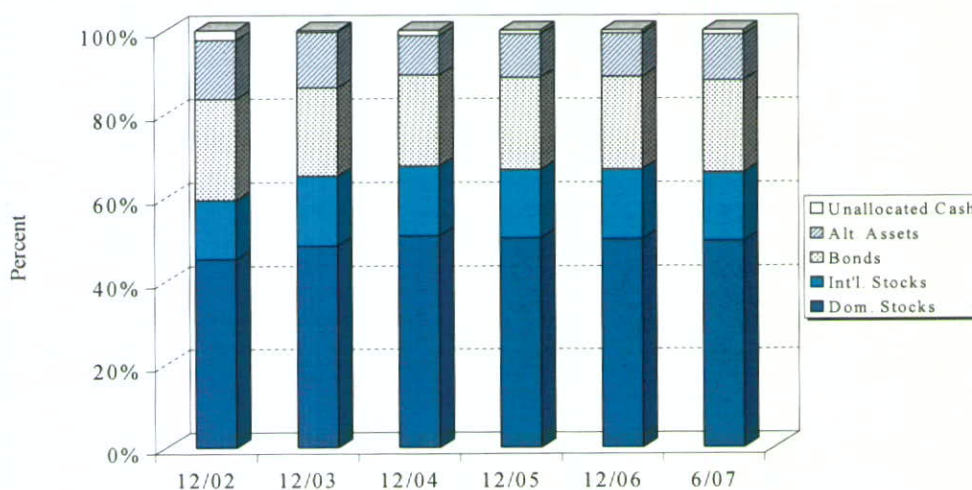
In October 2003, the Board provisionally revised its long term asset allocation targets for the Basic Funds, increasing the allocation for alternative investments from 15% to 20% and decreasing fixed income from 24% to 19%.

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

Over the last year, the allocations to domestic and international equity increased slightly as the strong returns were rebalanced into fixed income and cash.

During the quarter, the allocation to domestic and international equity increased over the quarter due to positive returns.

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



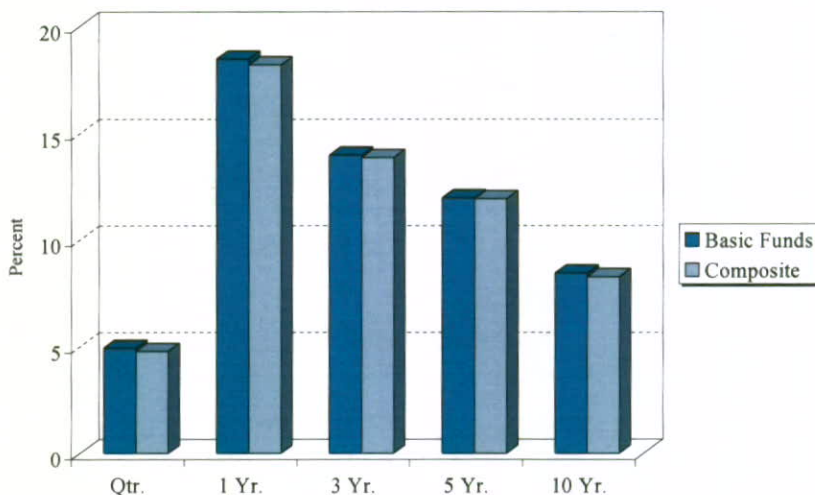
	Last Five Years					Latest Qtr.	
	12/02	12/03	12/04	12/05	12/06	3/07	6/07
Domestic Stocks	45.3%	48.5%	50.9%	50.3%	50.1%	49.2%	49.6%
Int'l. Stocks	14.1	16.6	16.6	16.3	16.6	15.6	16.3
Bonds	24.2	21.2	21.8	22.1	22.2	23.2	22.1
Alternative Assets	10.4	13.3	9.4	10.4	10.3	10.7	10.9
Unallocated Cash	2.3	0.4	1.3	0.9	0.8	1.3	1.1
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* 2Q07
Domestic Stocks	45.0%	Russell 3000	49.3%*
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	10.7*
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 6/30/2007

	Qtr.	1 Yr.	3 Yr.	Annualized 5 Yr.	10 Yr.
Basic Funds**	4.9%	18.5%	14.0%	12.0%	8.5%
Composite Index	4.8	18.2	13.9	11.9	8.3

**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.

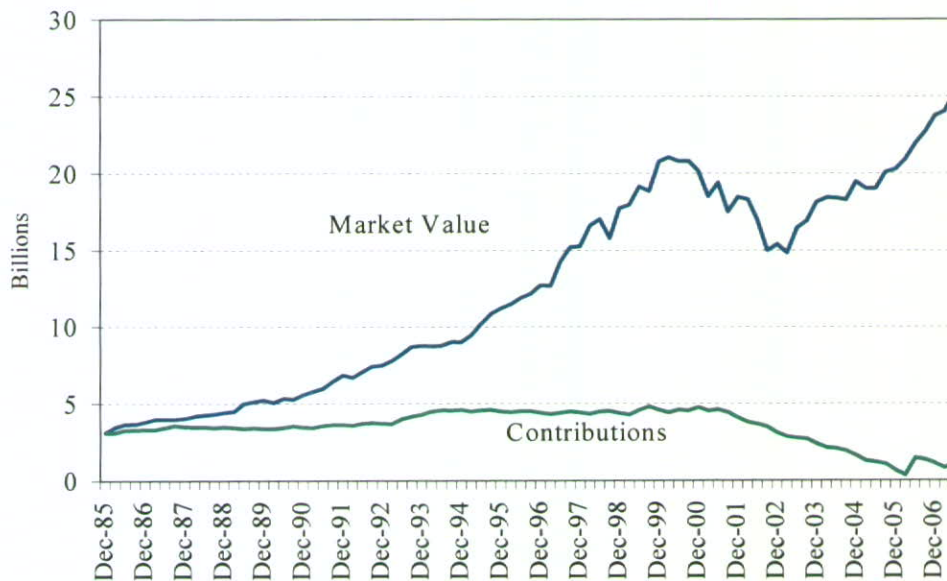
The post retirement benefit increase formula is based on the total return of the Fund. As a result, the Board maintains a long-term asset allocation strategy for the Post Fund which incorporates a substantial commitment to common stocks.

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.

Asset Growth

The market value of the Post Fund increased 4.7% during the first quarter of 2007.

Positive investment returns accounted for the increase.



	Last Five Years					Latest Qtr.	
	In Millions						
	12/02	12/03	12/04	12/05	12/06	3/07	6/07
Beginning Value	\$18,475	\$15,403	\$18,162	\$19,480	\$22,678	\$23,733	\$24,036
Net Contributions	-1,000	-719	-749	-984	-240	-300	11
Investment Return	-2,072	3,478	2,067	1,799	1,295	603	1,129
Ending Value	\$15,403	\$18,162	\$19,480	\$20,295	\$23,733	\$24,036	\$25,176

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.

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

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

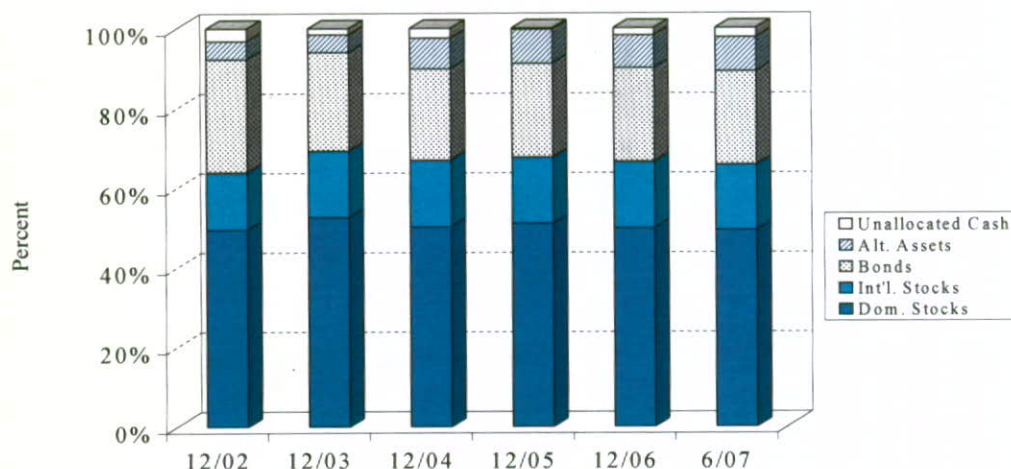
Over the last year, the allocations to domestic and international equity increased slightly as the strong returns were rebalanced into fixed income and cash.

During the quarter, the allocation to domestic and international equity increased over the quarter due to positive returns.

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.



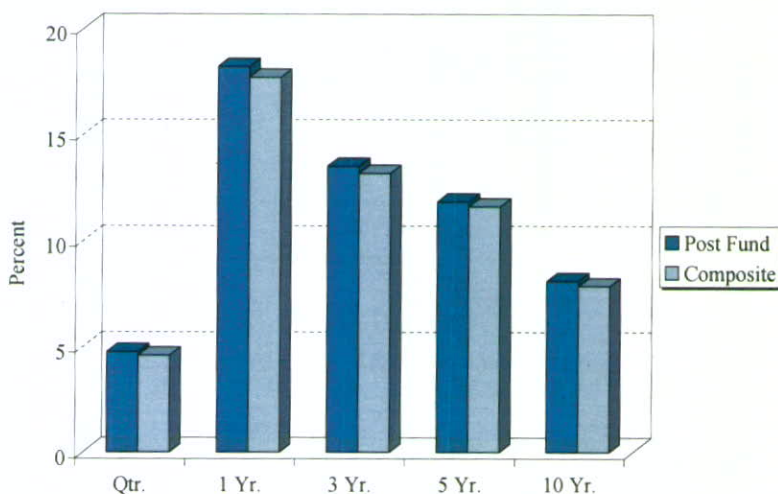
	Last Five years					Latest Qtr.	
	12/02	12/03	12/04	12/05	12/06	3/07	6/07
Dom. Stocks	49.6%	52.7%	50.2%	51.1%	49.9%	48.7%	49.4%
Int'l. Stocks	14.4	16.7	16.8	16.6	16.7	15.7	16.4
Bonds	28.3	24.6	22.9	23.5	23.3	24.4	23.4
Alt. Assets	4.5	4.4	7.6	8.5	8.3	8.7	8.5
Unallocated Cash	3.2	1.6	2.5	0.3	1.8	2.5	2.3
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* 2Q07
Domestic Stocks	45.0%	Russell 3000	48.4%
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	8.6*
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 6/30/2007

	Qtr.	1 Yr.	3 Yr.	Annualized 5 Yr.	10 Yr.
Post Fund**	4.7%	18.2%	13.5%	11.8%	8.1%
Composite Index	4.6	17.7	13.2	11.6	7.9

** 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)

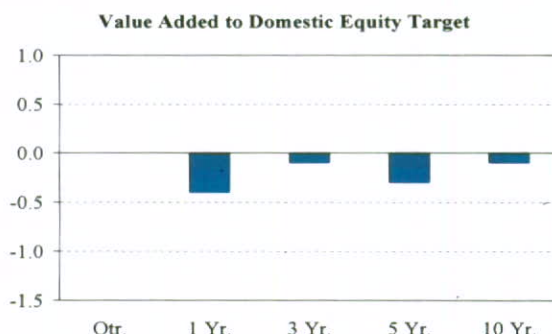
Domestic Stocks

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 6/30/2007				
		Annualized			
	Qtr.	1 Yr.	3 Yr.	5 Yr.	10 Yr.
Domestic Stocks	5.8%	19.7%	12.3%	11.3%	7.1%
Asset Class Target*	5.8	20.1	12.4	11.6	7.2

* 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.



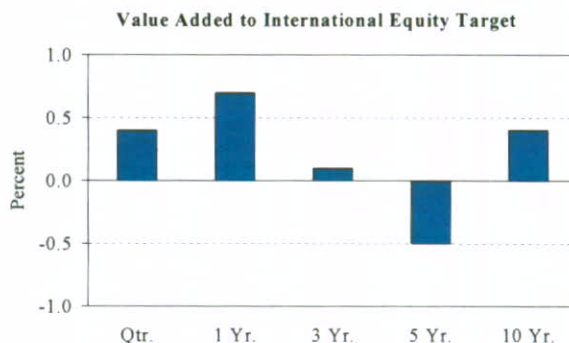
International Stocks

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 6/30/2007				
		Annualized			
	Qtr.	1 Yr.	3 Yr.	5 Yr.	10 Yr.
Int'l. Stocks	8.6%	30.3%	24.6%	18.8%	8.3%
Asset Class Target*	8.2	29.6	24.5	19.3	7.9

* 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.

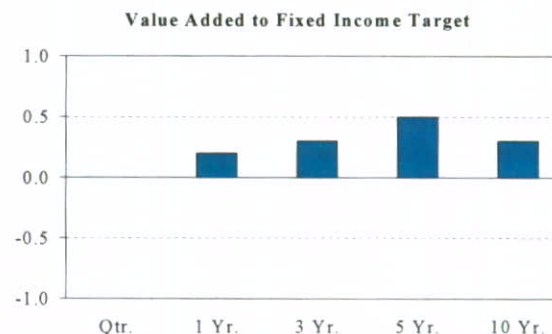


Bonds

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 6/30/2007				
		Annualized			
	Qtr.	1 Yr.	3 Yr.	5 Yr.	10 Yr.
Bonds	-0.5%	6.3%	4.3%	5.0%	6.3%
Asset Class Target	-0.5	6.1	4.0	4.5	6.0



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 6/30/2007				
	Qtr.	Yr.	3 Yr.	5 Yr.	10 Yr.
Alternatives	7.8%	25.6%	31.9%	22.2%	17.7%
Inflation	1.5%	2.7%	2.9%	2.8%	2.6%

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 6/30/2007				
	Qtr.	Yr.	3 Yr.	5 Yr.	10 Yr.
Real Estate	6.1%	23.8%	21.6%	16.6%	15.5%

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 6/30/2007				
	Qtr.	Yr.	3 Yr.	5 Yr.	10 Yr.
Private Equity	8.8%	25.3%	31.5%	21.6%	17.2%

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 6/30/2007				
	Qtr.	Yr.	3 Yr.	5 Yr.	10 Yr.
Resource	-1.5%	52.3%	78.1%	44.1%	25.7%

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 6/30/2007				
	Qtr.	Yr.	3 Yr.	5 Yr.	10 Yr.
Yield Oriented	9.3%	20.6%	30.4%	22.4%	17.9%

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, 2007 the market value of the entire Fund was \$1.1 billion.

Investment Options

	6/30/2007 Market Value (In Millions)
Income Share Account – a balanced portfolio utilizing both common stocks and bonds.	\$259
Growth Share Account – an actively managed, all common stock portfolio.	\$125
Common Stock Index Account – a passively managed, all common stock portfolio designed to track the performance of the entire U.S. stock market.	\$358
International Share Account – a portfolio of non U.S. stocks that incorporates both active and passive management.	\$108
Bond Market Account – an actively managed, all bond portfolio.	\$136
Money Market Account – a portfolio utilizing short-term, liquid debt securities.	\$85
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.	\$62

SUPPLEMENTAL INVESTMENT FUND ACCOUNTS

INCOME SHARE ACCOUNT

Investment Objective

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

Asset Mix

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

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

Period Ending 6/30/2007

	Annualized				
	Qtr.	1 Yr.	3 Yr.	5 Yr.	10 Yr.
Total Account	3.4%	14.9%	9.6%	9.2%	7.1%
Benchmark*	3.3	14.3	9.1	8.8	7.0

* 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 6/30/2007

	Annualized				
	Qtr.	1 Yr.	3 Yr.	5 Yr.	10 Yr.
Total Account	5.7%	19.5%	12.1%	11.1%	6.8%
Benchmark*	5.8	20.1	12.4	11.6	7.2

* 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 6/30/2007

	Annualized				
	Qtr.	1 Yr.	3 Yr.	5 Yr.	10 Yr.
Total Account	5.8%	20.0%	12.5%	11.6%	7.5%
Benchmark*	5.8	20.1	12.4	11.6	7.3

* 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 6/30/2007

	Annualized				
	Qtr.	1 Yr.	3 Yr.	5 Yr.	10 Yr.
Total Account	8.7%	30.5%	24.7%	19.0%	8.4%
Benchmark*	8.2	29.6	24.5	19.3	7.9

* 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.

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.

	Period Ending 6/30/2007				
	Qtr.	1 Yr.	3 Yr.	5 Yr.	10 Yr.
Total Account	-0.4%	6.3%	4.4%	5.0%	6.3%
Lehman Agg.	-0.5	6.1	4.0	4.5	6.0

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.

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.

	Period Ending 6/30/2007				
	Qtr.	1 Yr.	3 Yr.	5 Yr.	10 Yr.
Total Account	1.3%	5.1%	3.8%	2.9%	4.0%
3 month T-Bills	1.2	5.1	3.8	2.7	3.7

FIXED INTEREST ACCOUNT

Investment Objectives

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

Asset Mix

The 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.

	Period Ending 6/30/2007				
	Qtr.	1 Yr.	3 Yr.	5 Yr.	10 Yr.
Total Account	1.2%	4.7%	4.4%	4.6%	5.4%
Benchmark*	1.3	5.1	4.6	3.9	4.6

* The Fixed Interest Benchmark is 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

	6/30/2007 Market Value (in Millions)
Vanguard Institutional Index (passive)	\$496
Janus Twenty (active)	\$395
Legg Mason Appreciation Y (active)	\$131
Vanguard Mid Cap Index (passive)	\$148
T. Rowe Price Small Cap (active)	\$423
Fidelity Diversified International (active)	\$297
Vanguard Institutional Developed Markets (passive)	\$90
Dodge & Cox Balanced Fund (active)	\$318
Vanguard Balanced Fund (passive)	\$180
Dodge & Cox Income Fund (active)	\$90
Vanguard Total Bond Market Fund (passive)	\$54
Money Market Account	\$73
Fixed Interest Account	\$135
Fixed Fund	\$771

DEFERRED COMPENSATION PLAN ACCOUNTS

LARGE CAP EQUITY

Vanguard Institutional Index (passive)

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

Fund	Period Ending 6/30/2007			
	Qtr.	1 Yr.	3 Yr.	5 Yr.
S&P 500	6.3%	20.6%	11.7%	10.8%
	6.3	20.6	11.7	10.7

Janus Twenty (active)

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

Fund	Period Ending 6/30/2007			
	Qtr.	1 Yr.	3 Yr.	5 Yr.
S&P 500	9.1%	24.7%	15.9%	14.3%
	6.3	20.6	11.7	10.7

Legg Mason Partners Appreciation Y (active)

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

Fund	Period Ending 6/30/2007			
	Qtr.	1 Yr.	3 Yr.	Since 12/1/03
S&P 500	6.3%	17.5%	10.4%	11.1%
	6.3	20.6	11.7	12.3

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.

Fund	Period Ending 6/30/2007			
	Qtr.	1 Yr.	3 Yr.	Since 1/1/04
MSCI US Mid-Cap 450	6.1%	20.8%	17.9%	17.1%
	6.1	20.8	17.9	17.0

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.

Fund	Period Ending 6/30/2007			
	Qtr.	1 Yr.	3 Yr.	5 Yr.
Russell 2000	4.6%	14.4%	13.3%	12.8%
	4.4	16.4	13.4	13.9

INTERNATIONAL EQUITY

Fidelity Diversified International (active)

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

Fund	Period Ending 6/30/2007			
	Qtr.	1 Yr.	3 Yr.	5 Yr.
MSCI EAFE	7.8%	25.7%	22.1%	19.0%
	6.4	27.0	22.2	17.7

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.

Fund	Period Ending 6/30/2007			
	Qtr.	1 Yr.	3 Yr.	Since 12/1/03
MSCI EAFE	6.4%	27.2%	22.2%	22.5%
	6.4	27.0	22.2	22.3

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 6/30/2007			
		Annualized			Since
		Qtr.	1 Yr.	3 Yr.	10/1/03
Fund		3.7%	15.2%	11.6%	13.2%
Benchmark		3.5	14.7	8.6	9.5

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 6/30/2007			
		Annualized			Since
		Qtr.	1 Yr.	3 Yr.	12/1/03
Fund		3.4%	14.4%	9.2%	9.3%
Benchmark		3.4	14.6	9.2	9.3

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 6/30/2007			
		Annualized			5 Yr.
		Qtr.	1 Yr.	3 Yr.	5 Yr.
Fund		-0.2%	6.4%	4.1%	4.9%
Lehman Agg.		-0.5	6.1	4.0	4.5

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 6/30/2007			
		Annualized			Since
		Qtr.	1 Yr.	3 Yr.	12/1/03
Fund		-0.6%	6.2%	4.0%	3.6%
Lehman Agg.		-0.5	6.1	4.0	3.7

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 6/30/2007			
		Annualized			5 Yr.
		Qtr.	1 Yr.	3 Yr.	5 Yr.
Fund		1.3%	5.1%	3.8%	2.9%
3-Mo. Treas.		1.2	5.1	3.8	2.7

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 6/30/2007			
		Annualized			5 Yr.
		Qtr.	1 Yr.	3 Yr.	5 Yr.
Fund		1.2%	4.8%	4.5%	4.6%
Benchmark		1.3	5.1	4.6	3.9

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.

The quarterly blended rate is: 4.50%

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.

	6/30/2007 Target	6/30/2007 Actual
Stocks	20.0%	25.2%
Bonds	80.0	74.8
Total	100.0%	100.0%

Investment Management

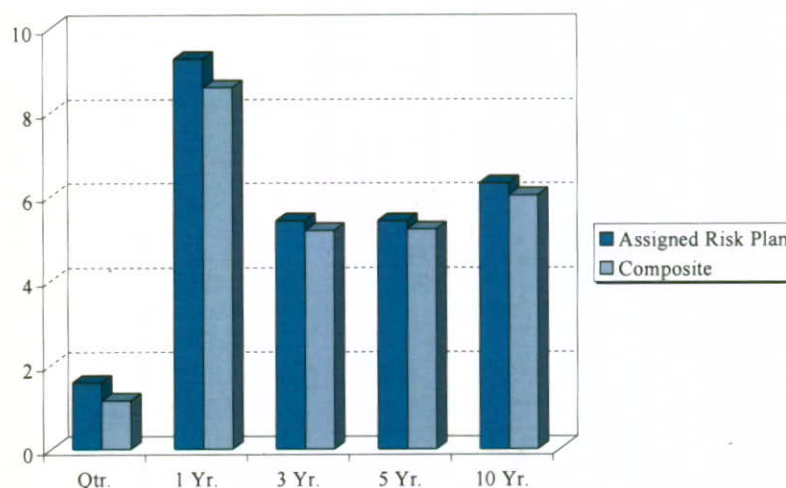
Voyageur Asset Management manages the bond segment of the Fund. GE Investment Management manages the equity segment.

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, 2007 the market value of the Assigned Risk Plan was \$344 million.



Period Ending 6/30/2007

	Annualized				
	Qtr.	1 Yr.	3 Yr.	5 Yr.	10 Yr.
Total Fund*	1.6%	9.3%	5.4%	5.4%	6.3%
Composite	1.2	8.6	5.2	5.2	6.0
Equity Segment*	6.9	20.9	10.8	9.1	7.8
Benchmark	6.3	20.6	11.7	10.7	7.1
Bond Segment*	-0.1	5.9	3.8	3.9	5.2
Benchmark	-0.1	5.7	3.6	3.7	5.5

* 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.

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.

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.

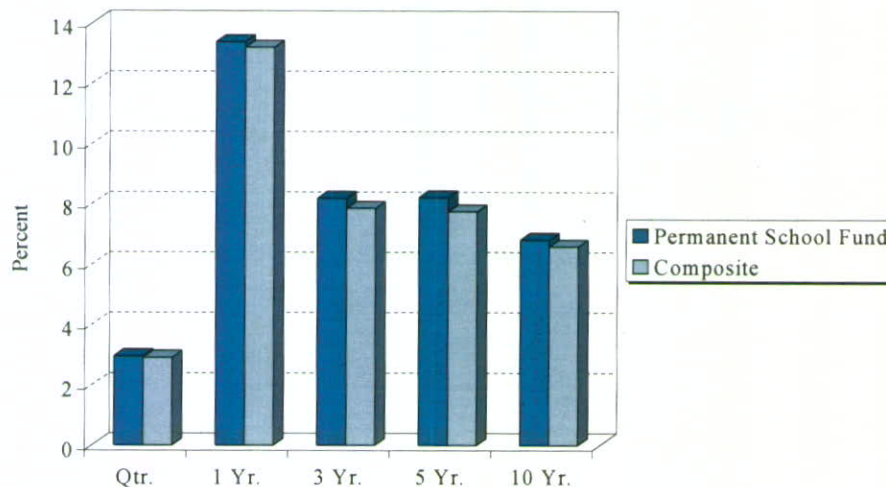
Investment Management

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, 2007 the market value of the Permanent School Fund was \$714 million.

	6/30/2007 Target	6/30/2007 Actual
Stocks	50.0%	52.3%
Bond	48.0	46.0
Unallocated Cash	2.0	1.7
Total	100.0%	100.0%



Period Ending 6/30/2007

	Annualized				
	Qtr.	1 Yr.	3 Yr.	5 Yr.	10 Yr.
Total Fund (1) (2)	3.0%	13.4%	8.2%	8.2%	6.8%
Composite	2.9	13.2	7.9	7.7	6.6
Equity Segment (1) (2)	6.3	20.6	11.7	10.8	6.6
S&P 500	6.3	20.6	11.7	10.7	6.5
Bond Segment (1)	-0.5	6.2	4.6	5.3	6.3
Lehman Aggregate	-0.5	6.1	4.0	4.5	6.0

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

ENVIRONMENTAL TRUST FUND

Investment Objective

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

Asset Mix

The Environmental Trust Fund is invested in a balanced portfolio of common stocks and bonds. Common stocks provide the potential for significant capital appreciation, while bonds act as a deflation hedge and provide portfolio diversification. As of July 1, 1999, the asset

allocation changed from 50% stocks/50% fixed income to 70% stocks /30% fixed income.

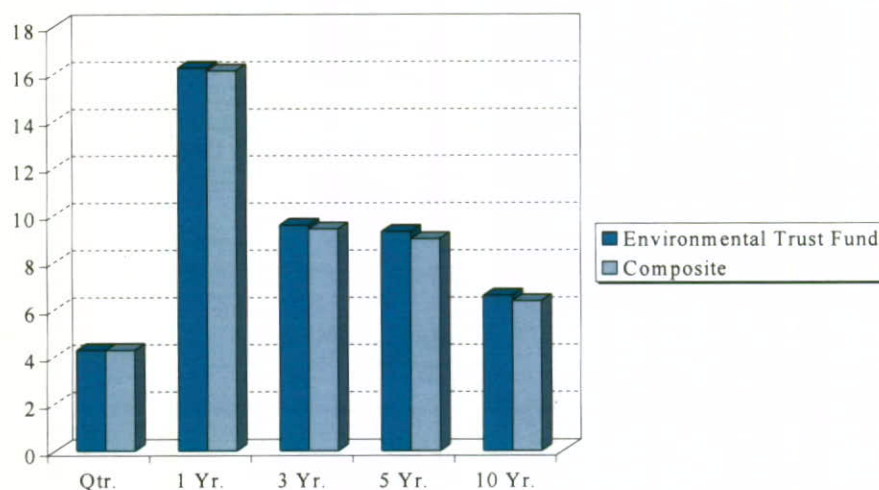
Investment Management

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

Market Value

On June 30, 2007 the market value of the Environmental Trust Fund was \$494 million.

	6/30/2007 Target	6/30/2007 Actual
Stocks	70.0%	71.3%
Bonds	28.0	28.2
Unallocated Cash	2.0	0.5
Total	100.0%	100.0%



	Period Ending 6/30/2007				
	Qtr.	1 Yr.	3 Yr.	5 Yr.	10 Yr.
Total Fund*	4.3%	16.2%	9.6%	9.3%	6.6%
Composite	4.3	16.1	9.4	9.0	6.3
Equity Segment*	6.3	20.6	11.7	10.8	7.2
S&P 500	6.3	20.6	11.7	10.7	7.1
Bond Segment*	-0.5	6.2	4.6	5.4	6.5
Lehman Agg.	-0.5	6.1	4.0	4.5	6.0

* 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.

Investment Management

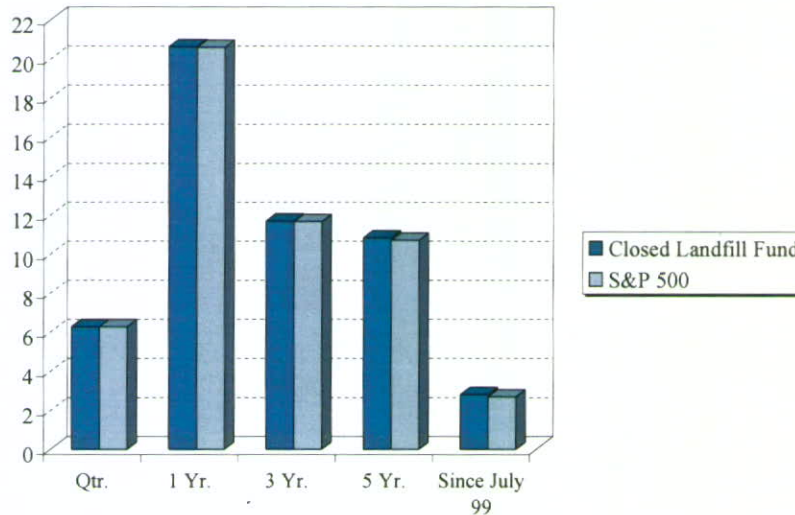
SBI staff manage all assets of the Closed Landfill Investment Fund. The assets are managed to passively track the performance of the S&P 500 index.

Market Value

On June 30, 2007, the market value of the Closed Landfill Investment Fund was \$56.6 million.

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.



Period Ending 6/30/2007

	Qtr.	1 Yr.	Annualized 3 Yr.	5 Yr.	Since 7/1/1999
Total Fund (1)	6.3%	20.6%	11.7%	10.8%	2.8%
S&P 500 (2)	6.3	20.6	11.7	10.7	2.7

- (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.

	Market Value (Millions)	Period Ending 6/30/2007				
		Qtr.	1 Yr.	3 Yr.	Annualized 5 Yr.	10 Yr.
Treasurer's Cash Pool*	\$6,322	1.2%	5.4%	3.9%	3.0%	4.2%
Custom Benchmark**		1.2	4.8	3.4	2.4	3.6
Trust Fund Cash Pool*	\$41	1.3	5.4	3.9	2.9	4.0
Custom Benchmark***		1.2	4.8	3.4	2.3	3.4
3 month T-Bills		1.2	5.1	3.8	2.7	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, 2007 (in Thousands)

	Cash and Short term Securities	Bonds Internal	Bonds External	Stocks Internal	Stocks External	External Int'l	Alternative Assets	Total
BASIC RETIREMENT FUNDS:								
Teachers Retirement Fund	93,432 1.14%	0	1,791,536 21.80%	0	4,066,735 49.50%	1,340,570 16.32%	923,535 11.24%	8,215,808 100%
Public Employees Retirement Fund	79,755 1.12%	0	1,579,947 22.21%	0	3,529,010 49.61%	1,158,388 16.28%	766,626 10.78%	7,113,726 100%
State Employees Retirement Fund	65,009 1.12%	0	1,288,323 22.22%	0	2,876,492 49.61%	944,081 16.28%	624,093 10.77%	5,797,998 100%
Public Employees Police & Fire	35,544 1.12%	0	701,251 22.19%	0	1,567,455 49.60%	514,630 16.29%	341,220 10.80%	3,160,100 100%
Highway Patrol Retirement Fund	2,865 1.13%	0	56,071 22.16%	0	125,453 49.59%	41,202 16.29%	27,388 10.83%	252,979 100%
Judges Retirement Fund	631 1.12%	0	12,508 22.22%	0	27,926 49.61%	9,167 16.29%	6,059 10.76%	56,291 100%
Correctional Employees Retirement	3,390 1.13%	0	66,810 22.20%	0	149,256 49.61%	48,996 16.28%	32,439 10.78%	300,891 100%
Public Employees Correctional	2,831 1.71%	0	36,506 22.09%	0	81,509 49.31%	26,752 16.19%	17,689 10.70%	165,287 100%
TOTAL BASIC FUNDS	283,457 1.13%	0	5,532,952 22.08%	0	12,423,836 49.57%	4,083,786 16.29%	2,739,049 10.93%	25,063,080 100%
POST RETIREMENT FUND	572,873 2.27%	0	5,890,999 23.40%	0	12,448,457 49.44%	4,118,404 16.36%	2,146,549 8.53%	25,177,282 100%
TOTAL BASIC AND POST	856,330 1.70%	0	11,423,951 22.74%	0	24,872,293 49.51%	8,202,190 16.33%	4,885,598 9.72%	50,240,362 100%

	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	8,757 3.39%	88,210 34.12%	0	0	161,582 62.49%	0	0	258,549 100%
Growth Share Account	0	0	0	0	124,802 100.00%	0	0	124,802 100%
Money Market Account	85,112 100.00%	0	0	0	0	0	0	85,112 100%
Common Stock Index	0	0	0	0	358,033 100.00%	0	0	358,033 100%
Bond Market Account	0	0	136,259 100.00%	0	0	0	0	136,259 100%
International Share Account	0	0	0	0	0	108,017 100.00%	0	108,017 100%
Fixed Interest Account	189 0.30%	0	61,989 99.70%	0	0	0	0	62,178 100%
TOTAL SUPPLEMENTAL FUNDS	94,058 8.30%	88,210 7.79%	198,248 17.50%	0	644,417 56.88%	108,017 9.53%	0	1,132,950 100%
MN DEFERRED COMP PLAN *	72,548 2.01%	0	1,380,499 38.35%	0	1,759,538 48.88%	387,331 10.76%	0	3,599,916 100%
TOTAL RETIREMENT FUNDS	1,022,936 1.86%	88,210 0.16%	13,002,698 23.65%	0	27,276,248 49.62%	8,697,538 15.82%	4,885,598 8.89%	54,973,228 100%

* 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	5,126 1.49%	0	253,349 73.62%	0	85,634 24.89%	0	0	344,109 100%
ENVIRONMENTAL FUND	2,692 0.55%	139,304 28.20%	0	351,944 71.25%	0	0	0	493,940 100%
PERMANENT SCHOOL FUND	12,682 1.78%	328,196 45.96%	0	373,112 52.26%	0	0	0	713,990 100%
CLOSED LANDFILL INVESTMENT	91 0.16%	0	0	56,563 99.84%	0	0	0	56,654 100%
TREASURERS CASH	6,329,585 100.00%	0	0	0	0	0	0	6,329,585 100%
HOUSING FINANCE AGENCY	51,562 27.87%	133,480 72.13%	0	0	0	0	0	185,042 100%
MINNESOTA DEBT SERVICE FUND	0	171,378 100.00%	0	0	0	0	0	171,378 100%
MISCELLANEOUS ACCOUNTS	43,226 16.36%	96,239 36.42%	0	124,799 47.22%	0	0	0	264,264 100%
TOTAL CASH AND NON-RETIREMENT	6,444,964 75.30%	868,597 10.15%	253,349 2.96%	906,418 10.59%	85,634 1.00%	0	0	8,558,962 100%
GRAND TOTAL	7,467,900 11.75%	956,807 1.51%	13,256,047 20.86%	906,418 1.43%	27,361,882 43.07%	8,697,538 13.69%	4,885,598 7.69%	63,532,190 100%

Tab B

EXECUTIVE DIRECTOR'S ADMINISTRATIVE REPORT

DATE: August 28, 2007

TO: Members, State Board of Investment

FROM: **Howard Bicker**

1. Reports on Budget and Travel

A report on the SBI's administrative budget for the Fiscal Year 2007 is included as **Attachment A**. A report on the SBI's administrative budget for the Fiscal Year 2008 Year to Date is included as **Attachment B**.

A report on travel for the period from May 1, 2007 - August 15, 2007 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 October 15, 2007.

ATTACHMENT A

**STATE BOARD OF INVESTMENT
FISCAL YEAR 2007 ADMINISTRATIVE BUDGET REPORT
FISCAL YEAR FINAL**

ITEM	FISCAL YEAR 2007 BUDGET	FISCAL YEAR 2007 ACTUAL
PERSONAL SERVICES		
FULL TIME EMPLOYEES	\$ 1,975,000	\$ 1,892,995
PART TIME EMPLOYEES		\$ 48,246
SEVERENCE PAYOFF	32,000	33,929
WORKERS COMPENSATION INSURANCE	1,000	777
MISCELLANEOUS PAYROLL	2,000	0
SUBTOTAL	\$ 2,010,000	\$ 1,975,947
STATE OPERATIONS		
RENTS & LEASES	210,000	202,087
REPAIRS/ALTERATIONS/MAINTENANCE	8,000	5,700
PRINTING & BINDING	8,000	6,693
PROFESSIONAL/TECHNICAL SERVICES	0	0
COMPUTER SYSTEMS SERVICES	10,000	12,532
COMMUNICATIONS	20,000	23,628
TRAVEL, IN-STATE	1,000	365
TRAVEL, OUT-STATE	50,000	43,173
SUPPLIES	30,000	23,875
EQUIPMENT	20,000	46,334
EMPLOYEE DEVELOPMENT	10,000	10,797
OTHER OPERATING COSTS	8,000	8,642
SUBTOTAL	\$ 375,000	\$ 383,826
ORIGINAL BUDGET	\$ 2,385,000	\$ 2,359,773
ADJUSTMENTS TO ORIGINAL BUDGET	\$ 0	
TOTAL	\$ 2,385,000	\$ 2,359,773

**STATE BOARD OF INVESTMENT
FISCAL YEAR 2008 ADMINISTRATIVE BUDGET REPORT
GENERAL FUND APPROPRIATION
FISCAL YEAR TO DATE THROUGH JULY 31, 2007**

ITEM	FISCAL YEAR 2008 BUDGET	FISCAL YEAR 2008 ACTUAL
PERSONAL SERVICES		
FULL TIME EMPLOYEES	\$ 2,150,000	\$ 163,759
PART TIME EMPLOYEES		\$ 5,424
SEVERENCE PAYOFF	20,000	0
WORKERS COMPENSATION INSURANCE	1,000	499
MISCELLANEOUS PAYROLL	4,000	0
SUBTOTAL	\$ 2,175,000	\$ 169,682
STATE OPERATIONS		
RENTS & LEASES	205,000	15,623
REPAIRS/ALTERATIONS/MAINTENANCE	10,000	136
PRINTING & BINDING	10,000	0
PROFESSIONAL/TECHNICAL SERVICES	0	0
COMPUTER SYSTEMS SERVICES	10,000	960
COMMUNICATIONS	30,000	1,704
TRAVEL, IN-STATE	1,000	0
TRAVEL, OUT-STATE	50,000	1,205
SUPPLIES	35,000	0
EQUIPMENT	15,000	463
EMPLOYEE DEVELOPMENT	15,000	1,120
OTHER OPERATING COSTS	9,000	277
SUBTOTAL	\$ 390,000	\$ 21,488
ORIGINAL BUDGET	\$ 2,565,000	\$ 191,170
ADJUSTMENTS TO ORIGINAL BUDGET	\$ 0	
TOTAL GENERAL FUND	\$ 2,565,000	\$ 191,170

ATTACHMENT C

STATE BOARD OF INVESTMENT

Travel Summary by Date
SBI Travel May 1, 2007 – August 15, 2007

Purpose	Name(s)	Destination and Date	Total Cost
Conference: State Street's Vision Conference07	M. Perry	Dana Point, CA 5/7-5/9	\$354.80
Manager Monitoring: Alternative Investment Managers: Blum Annual Meeting; Hellman Annual Meeting	J. Griebenow	San Francisco, CA 5/8-5/10	944.80
Manager Monitoring: Alternative Investment Manager: KKR Annual Meeting	A. Christensen	Carlsbad, CA 5/20-5/22	630.80
Conference: Investors Circle 07 Conference	M. Ritchie	San Francisco, CA 5/22-5/24	1,781.72
Manager Monitoring: International Equity Managers: AllianceBernstein; Pyramis Global Advisors. Trust Co.; J. P. Morgan Investment Mgmt.; Marathon Asset Mgmt.; State Street Global Advisors; Threadneedle Asset Mgmt. (RiverSource); UBS Global Asset Mgmt.; Manager Search: International Equity Managers: Lloyd George; Pictet; Sanderson; Silchester;	S. Gleeson	London, England 6/22-6/29	3,606.54
Manager Monitoring: Alternative Investment Manager: NGP Annual Meeting	A. Christensen	Santa Fe, NM 7/17-7/20	1,667.91

Purpose	Name(s)	Destination and Date	Total Cost
Manager Monitoring: Domestic Bond Manager: Lehman Brothers Asset Mgmt. Consultant Visit: Richards & Tierney	M. Menssen T. Brusehaver	Chicago, IL 8/2-8/2	545.61

Tab C

COMMITTEE REPORT

DATE: August 28, 2007

TO: Members, State Board of Investment

FROM: Proxy Voting Committee

1. Reauthorization of the Proxy Voting Committee

In March 1982, the Board established the Proxy Voting Committee to carry out the SBI's voting responsibilities. Each Board member has one designee on the Committee. The current membership is:

Peter Sausen	Governor's designee
Celeste Grant	State Auditor's designee
Tom Durand	Secretary of State designee
Rebecca Spartz	Attorney General's designee

According to statute, committees of this nature must be re-authorized every two years (the last authorization was in June 2005). A resolution to accomplish this is in **Attachment A**.

RECOMMENDATION:

The Executive Director recommends that the SBI adopt the resolution in Attachment A which reauthorizes the Proxy Voting Committee and delegates proxy voting responsibilities according to established guidelines.

2. Proxy Voting Guidelines

The Proxy Voting Committee votes the Board's proxies according to Guidelines approved by the Board. The Committee recommends that the Board review and approve changes to the Guidelines as shown in **Attachment B**.

RECOMMENDATION:

The Proxy Voting Committee recommends that the Board approve changes to the Proxy Voting Guidelines as shown in Attachment B.

3. Sudan Update

The Committee discussed the staff actions taken to comply with the recently enacted legislation concerning companies with operations in Sudan. Committee members reviewed letters prepared by staff that are required to be sent to identified companies. The letters were sent August 17 with responses from the companies due November 19. Examples of the letters sent are shown in **Attachment C**.

The list of companies that will receive further review by the Committee and staff is shown in **Attachment D**. Companies listed in Attachment D under the headings of Unknown Current Operations and Companies with No Publicly Traded Equity will not receive a letter. The Committee and staff will bring an updated list to the Board at subsequent Board meetings, as required by the legislation.

ATTACHMENT A

**RESOLUTION OF THE
MINNESOTA BOARD OF INVESTMENT
CONCERNING PROXY VOTING**

WHEREAS, as a stockholder, the Minnesota State Board of Investment (SBI) is entitled to sponsor and cosponsor shareholder resolutions and participate in corporate annual meetings by casting its votes by proxy or through direct attendance at the meetings; and

WHEREAS, the SBI has previously established a Proxy Committee:

NOW THEREFORE, BE IT RESOLVED THAT:

1. To advise and assist the SBI in the implementation of proxy voting guidelines previously adopted by the Board the SBI hereby authorizes and reaffirms the establishment of the SBI Proxy Committee composed of a representative selected by each member of the SBI to be chaired by the designee of the Governor and convened as necessary in accord with the Guidelines.
2. The SBI further authorizes the SBI Proxy Committee to review the Guidelines periodically and report to the SBI as necessary.
3. The SBI further directs its staff to advise and assist the Proxy Committee in the implementation of this resolution and directs its Executive Director to obtain such consulting and reporting services as may be necessary.
4. This resolution shall take effect immediately.

Adopted this 15th day
of October, 2007

Governor Tim Pawlenty
Chair, Minnesota
State Board of Investment

Proxy Voting Guidelines

The Minnesota State Board of Investment (SBI) has formulated proxy voting guidelines by which it casts votes on a wide range of corporate governance and social responsibility issues.

As a stockholder, the Board is entitled to participate in corporate annual meetings by casting its votes by proxy or through direct attendance at the meetings. The following guidelines constitute an effort by the SBI to manage and control its proxy voting.

Overview of the SBI

By the Minnesota Constitution, the Board is composed of the Governor, the State Auditor, the Secretary of State, and the Attorney General. The Board employs a professional staff to carry out its policies. The Board and staff are assisted by a seventeen member Investment Advisory Council.

The SBI invests the pension assets of the three statewide public employee retirement systems with approximately 320,000 members:

- Public Employees Retirement Association (PERA)
- Teachers Retirement Association (TRA)
- Minnesota State Retirement System (MSRS)

The SBI also invests the cash balances of state government funds and assets of several trust funds.

Statutory Purpose

According to statute, state assets are to be responsibly invested by the SBI to maximize the total rate of return without incurring undue risk.¹ Only a small portion of the SBI's equity holdings are in non-pension accounts. The focus, therefore, of the SBI's proxy voting activities is the extensive domestic and international equity holdings within the pension asset portfolios.

Fiduciary Responsibility

As fiduciaries of pension assets, members of the Board and the executive director owe a fiduciary duty to the members of the plans, to the taxpayers of the state and political subdivisions who help to finance the plans, and to the State of Minnesota.²

In addition to the general standard of fiduciary conduct, members of the Board, the executive director, the members of the Investment Advisory Council, staff, and members of Board committees must carry out their duties in accordance with the prudent person standard as articulated in statute.³

**Voting
Process**

The Board recognizes its fiduciary responsibility to cast votes on proxy issues. The Board delegates proxy voting responsibilities to its Proxy Committee. Each Board member appoints one member to the Proxy Committee. The four member Committee meets only if it has a quorum and casts votes on proxy issues based on a majority vote of those present. In the unusual event that it reaches a tie vote or a quorum is not present, the Committee will cast a vote to abstain.

The Committee has formulated guidelines by which it casts votes on a wide range of corporate governance and social responsibility issues. These guidelines encompass both domestic and international proxy issues. Each year the Committee reviews existing guidelines and determines which issues it will review on a case-by-case basis. The Proxy Committee also reviews certain corporate governance issues pertaining to companies headquartered in Minnesota.

Domestic voting: The SBI directly votes shares held in non-pension accounts and shares held in domestic equity manager portfolios.

International voting: The SBI delegates to international equity managers the voting of shares held in the managers' portfolios. The SBI believes that several factors affecting the voting of international proxies, including time constraints and lack of company specific information, support the conclusion that the SBI's international equity managers can more efficiently and effectively vote the proxies in their portfolios.

Corporate Governance Issues

**Routine
Matters**

In general, the SBI **supports** management on routine matters of corporate governance. These issues include:

- uncontested election of directors.
- selection of auditors and approval of financial statements.
- management proposals on non-executive compensation issues including savings plans and stock options.
- limits on director and officer liability or increases in director and officer indemnification permitted under the laws of the state of incorporation.

The SBI directs the Proxy Committee to review the positions taken by directors and withhold votes from some or all of the directors standing for election if they have taken positions on issues which are potentially not in the best interests of shareholders.

Shareholder Rights

In general, the SBI **opposes** proposals that would restrict shareholder ability to effect change. Such proposals include:

- instituting supermajority requirements to ratify certain or events.
- creating classified boards.
- barring shareholders from participating in the determination of the rules governing the board's actions, such as quorum requirements and the duties of directors.
- prohibiting or limiting shareholder action by written consent.
- granting certain stockholders superior voting rights over other stockholders.

In general, the SBI **supports** proposals that preserve shareholder rights to effect change. Such proposals include:

- having boards of directors comprised of a majority of independent directors.
- having compensation committees comprised entirely of independent directors.
- requiring shareholder approval of poison pill plans.
- repealing classified boards.
- adopting secret ballot of proxy votes.
- reinstating cumulative voting.
- adopting anti-greenmail provisions.

Executive Compensation

In general, the SBI **supports** efforts to have executive compensation linked to a company's long-term performance and to encourage full disclosure of compensation packages for principal executives. Accordingly, the SBI evaluates compensation packages on a case-by-case basis, including compensation agreements that are contingent upon corporate change in control.

Buyouts

In general, the SBI **supports** friendly takeovers and management buyouts.

Special Cases

The SBI evaluates the following proposals on a case-by-case basis:

- hostile takeovers.
- recapitalization plans.
- contested election of directors.

Notwithstanding the above, in general, the SBI reviews corporate governance issues if the company is incorporated or is headquartered in Minnesota.

Social Responsibility Issues

Tobacco

The SBI supports shareholder resolutions that call for a company to reduce its involvement in liquor and tobacco production, product marketing and other related lines of business in order to diversify its business in a manner that will reduce or eliminate potential liability to legal claims associated with liquor and tobacco that may negatively impact the value of the SBI's holdings.

In furtherance of this policy, the SBI has sponsored and co-sponsored shareholder resolutions to reduce youth access to tobacco products, to request companies to voluntarily comply with FDA regulations, to eliminate smoking in restaurants, and other tobacco related issues.

**Northern
Ireland**

The SBI **supports** resolutions that call for the adoption of the MacBride Principles as a means to encourage equal employment opportunities in Northern Ireland.

The SBI **supports** resolutions that request companies to submit reports to shareholders concerning their labor practices or their sub-contractors' labor practices in Northern Ireland.

In addition to casting proxy votes, the SBI sponsors and cosponsors Northern Ireland resolutions as required by *Minnesota Statutes*, Section 11A.241.

Environmental Protection/Awareness

In general, the SBI **supports** resolutions that require a corporation to report or disclose to shareholders company efforts in the environmental arena.

In general, the SBI **supports** resolutions that request a corporation to report on progress toward achieving the objectives of the CERES Principles, an environmental code of conduct for corporations.

South Africa

~~In general, the SBI **supports** resolutions that promote the welfare of black employees and improve the quality of black life outside the work environment.~~

Sudan

Laws of Minnesota 2007, Chapter 117, which became effective August 1, 2007 requires the SBI to make its best efforts to identify all "scrutinized companies" with operations in the Sudan, in which the SBI has direct or indirect holdings or could possibly have holdings in the future. The SBI will engage each scrutinized company. The legislation calls for the SBI to: encourage companies with inactive business operations to continue to refrain from initiating active operations; and to notify companies with active business operations that it may be subject to divestment by the State Board of Investment. In general, the SBI **supports** resolutions consistent with this legislation.

Other Issues

In general, the SBI **supports** proposals that require a company to report or disclose to shareholders company efforts concerning a variety of social responsibility issues. In the past, these reporting resolutions have included issues such as affirmative action programs, animal testing procedures, and nuclear plant safety procedures.

In general, the SBI **opposes** proposals that require a company to institute a specific business action in response to such issues. As an example, the SBI voted against a shareholder proposal which would have required a utility to phase out operations of a nuclear power plant.

1 *Minnesota Statutes 2002 2006*, Section 11A.01.

2 *Minnesota Statutes 2002 2006*, Section 356A.04, subdivision 1.

3 *Minnesota Statutes 2002 2006*, Section 11A.09, and Section 356A.04, subdivision 2.

ATTACHMENT C

Letter Sent to "Highest Offenders" Companies

The Minnesota State Board of Investment (MSBI) is writing to you as required by legislation enacted during the 2007 Legislative Session by the Minnesota Legislature and signed into law by the Governor related to companies with business operations in Sudan.

The legislation requires the MSBI to identify all "scrutinized companies" (defined in the law—copy attached) in which the MSBI has direct or indirect holdings or could possibly have such holdings in the future. The Board has selected the Sudan Divestment Task Force as its source for this information.

The Board is then directed to engage all scrutinized companies in which it has direct or indirect holdings. _____ has been identified as a company with active business operations in Sudan. The MSBI encourages _____ to either cease its scrutinized business operations or convert such operations to inactive business operations. The MSBI requests that you clarify to us in writing your current Sudan-related business operations and any future plans the company may have relating to your Sudan operations by November 19, 2007.

If _____ chooses not to comply with our request the legislation clearly calls for a phased divestment of any securities related to your company that the MSBI owns.

Please send a written response to:

James E. Heidelberg
Manager, Public Programs
Minnesota State Board of Investment
60 Empire Drive, Suite 355
St. Paul, MN 55103-3555

Please contact James E. Heidelberg at (651) 296-3328 if you have any questions.

Sincerely,

Howard Bicker
Executive Director

Letter Sent to Companies for Ongoing Engagement

The Minnesota State Board of Investment (MSBI) is writing to you as required by legislation enacted during the 2007 Legislative Session by the Minnesota Legislature and signed into law by the Governor related to companies with business operations in Sudan.

The legislation requires the MSBI to identify all “scrutinized companies” (defined in the law—copy attached) in which the MSBI has direct or indirect holdings or could possibly have such holdings in the future. The Board has selected the Sudan Divestment Task Force as its source for this information.

The Board is then directed to engage all scrutinized companies in which it has direct or indirect holdings. _____ has been identified as a company with inactive business operations in Sudan. The MSBI encourages you to refrain from initiating active business operations in Sudan. The MSBI would also request from you all available information related to your future plans as it relates to operations in Sudan by November 19, 2007.

If _____ should choose to initiate active business operations in Sudan, the legislation clearly calls for a phased divestment of any securities related to your company that the MSBI owns.

Please send a written response to:

James E. Heidelberg
Manager, Public Programs
Minnesota State Board of Investment
60 Empire Drive, Suite 355
St. Paul, MN 55103-3555

Please contact James E. Heidelberg at (651) 296-3328 if you have any questions.

Sincerely,

Howard Bicker
Executive Director

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

<u>Company Name</u>	<u>Country of Origin</u>
Oil and Natural Gas Company, AKA ONGC	India
Mangalore Refinery and Petrochemicals Ltd.	India
PetroChina	China
CNPC Hong Kong	HK
China National Petroleum Corporation AKA CNPC	China
Sinopec Corporation AKA China Chemical and Petroleum Corporation	China
Sinopec Shanghai Petrochemical Co. Ltd.	China
Sinopec Kanton Holdings	China
Sinopec Group AKA China Petrochemical Corporation	China
Petronas/Petronas Capital Limited	Malaysia
Petronas Gas	Malaysia
Petronas Dagangan	Malaysia
MISC Berhad AKA Malaysia International Shipping Company	Malaysia
Al-Thani Investment	United Arab Emirates
Kuwait Foreign Petroleum Exploration Company AKA Kupfec	Kuwait
Lundin Petroleum	Sweden
AREF Investment Group	Kuwait
PECD Berhad	Malaysia
Petrofac	UK
Muhibbah Engineering Berhad	Malaysia
Kejuruteraan Samundra Timur Bhd	Malaysia
Kencana Petroleum Berhad	Malaysia
Areva Group	France
La Mancha Resources	Canada
Reliance Industries AKA RIL	India
Reliance Petroleum	India
Sudan Telecommunications Company AKA Sudatel	Sudan
Bharat Heavy Electricals	India
Harbin Power Equipment	China
Alstom	France
AviChina Industry & Technology Company, Ltd.	China

Hafei Aviation Industry	China
Harbin Dongan Auto Engine Co.	China
Jiangxi Hongdu Aviation AKA Hongdu Aviation	China
Jiangxi Changhe Automobile Co.	China
Norinco AKA China North Industries Corporation	China
Dongfeng Automotive Company Limited	China
Mitsui Engineering & Shipbuilding	Japan
Indian Oil Corporation Ltd. AKA IOCL	India
Lanka IOC	India
Chennai Petroleum Corporation Limited (CPCL)	India
Bongaigaon Refinery & Petrochemicals Limited (BRPL)	India
Scomi AKA KMC Oil Tools	Malaysia
Scomi Engineering	Malaysia
Weir Group	UK
Electricity Generating Company AKA EGCO	Thailand

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

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

<u>Company Name</u>	<u>Country of Origin</u>
Videocon	India
PTT Exploration and Production AKA PTTEP	Thailand
Pertamina AKA PT Pertamina Persero	Indonesia
Nam Fatt	Malaysia
Bollere Group	France
Man AG	Germany
ICSA	India
Sojitz	Japan
Alcatel-Lucent	France
Concordia Maritime	Sweden
Marubeni Corporation	Japan
Total SA	France

Schlumberger	France
Rolls Royce	UK
Petrobas AKA Petroleo Brasileiro	Brazil
White Nile Petroleum	UK
Nippon Yusen AKA NYK Line	Japan
Cummins Inc.	US

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

<u>Company Name</u>	<u>Country of Origin</u>
Bharat Electronics Limited	India
Sumatec Resources	Malaysia
Ranhill	Malaysia
Mercator Lines	India
PSL Limited	India
UMW Holdings	Malaysia

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

<u>Company Name</u>	<u>Country of Origin</u>
China National Petroleum Company	China
Sinopec Group AKA China Petrochemical Corporation	China
Sudapet AKA Sudan Petroleum Company	Sudan
Hi Tech Petroleum	Sudan
PetroSA	South Africa
Qatar Petroleum Corporation	Qatar
Dodsal	India
Trafigura Beheer	Netherlands
Lahmeyer	Germany

APS Engineering Company
Vitol Group
Zaver Petroleum Company
K & K Capital Group AKA KKCG
Express Petroleum and Gas Company
Qatari Diar Real Estate Investment Company AKA Qatari Diar
Sinohydro AKA China Hydraulic and Hydroelectric Construction Group
Shandong Electric Power Construction Corporation AKA Shandong Electric Power Group
Ansan Wikfs/Shaher Trading Company
Al-Qahtani & Sons Group of Companies
Dindir Petroleum/Edgo Group
Tamoil
Petrolin
Peschaud & Cie International
Delta Petrol/Tower Holdings
Mohan Energy Corp.
Arcadia Petroleum
Ascom Group SA

Italy
Switzerland
Pakistan
Czech Republic
Nigeria
Qatar
China
China
Yemen
Saudi Arabia
Jordan
Libya
Gabon
France
Turkey/Luxembourg
India
UK
Moldova

15-Aug-07

Tab D

COMMITTEE REPORT

DATE: August 28, 2007

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

FROM: **Accounting System Review Committee**

The SBI's contract with Financial Controls System for accounting services expires on June 30, 2008. It is the SBI's practice to review the contract through a request for proposal (RFP) on at least a five-year basis.

An RFP was announced in the State Register on June 25, 2007. RFP's were sent to the six known providers in this industry:

Financial Controls System	Chadds Ford, PA
QED Information Systems	Marlton, NJ
Sunguard Financial	Boston, MA
Eagle Investment System	Newton, MA
SS&C	Bloomington, MN
TPG Software	Houston, TX

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

CONCLUSION:

Based on its review of the RFP responses, the Committee concluded that Financial Controls System should remain the SBI's accounting vendor.

- **Services.** The Committee believes that Financial Controls will continue to provide "state of the art" accounting services. The quality of its product and services equals or exceeds that of the other respondent.
- **Fees.** On a gross fee basis, Financial Controls fee proposal was the lowest that included all the services required by the SBI.

RECOMMENDATION:

Based on the results of the RFP, the Committee unanimously recommends that the Board authorize the Executive Director, with the assistance of SBI counsel, to negotiate and execute a contract with Financial Controls System, Chadds Ford PA, for accounting services for a five year period ending June 30, 2013.

Approval by the SBI of this potential commitment is not intended to be, and does not constitute in any way, a binding or legal agreement or impose any legal obligation on the State Board of Investment and neither the State of Minnesota, the State Board of Investment or its Executive Director have any liability for reliance by Financial Controls System upon this approval. Until a formal agreement is executed by the Executive Director on behalf of the SBI, further due diligence and negotiations may result in the imposition of additional terms and conditions on Financial Controls System or reduction or termination of the commitment.

Tab E

COMMITTEE REPORT

DATE: August 28, 2007

TO: Members, State Board of Investment

FROM: Compensation Review Committee

The SBI Salary Administration Plan was approved by the Board at its March 2006 meeting.

Section 6(b) of the SBI Salary Administration Plan provides that the Executive Director of the SBI shall annually review the performance of employees covered by the SBI Plan. As a result of each review, the Executive Director may grant compensation adjustments. The aggregate amount of salary increases granted through this provision shall be subject to the approval of the Board.

The Compensation Review Committee is recommending that the SBI grant approval authorizing the Executive Director to grant salary increases to the employees covered by this Plan up to 3.25% in aggregate for Fiscal Year 2008 and up to 3.25% in aggregate for Fiscal Year 2009.

Contracts with the Minnesota Association of Professional Employees (MAPE) and the American Federation of State, County and Municipal Employees Council (AFSCME) have been negotiated and accepted for Fiscal Years 2008 and 2009. These contracts are retroactive to July 1, 2007 and each provides for a general salary increase of 3.25% for Fiscal Year 2008 and for Fiscal Year 2009. The granting of annual salary increases of up to 3.25% in each fiscal year for the SBI Plan members would put the increase on an equal basis with the MAPE and AFSCME Plans.

RECOMMENDATION

The Compensation Review Committee 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 3.25% in aggregate salaries for Fiscal Year 2008 retroactive to July 1, 2007 and up to 3.25% in aggregate for Fiscal Year 2009.

Tab F

COMMITTEE REPORT

DATE: August 28, 2007

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

FROM: **Stock and Bond Manager Committee**

The Stock and Bond Manager Committee met on Wednesday, August 15, 2007 to consider the following agenda items:

- Review the manager performance for the period ending June 30, 2007.
- Review of Voyageur Asset Management, a domestic equity manager.
- Domestic Equity Program Review – follow-up items.

Action is required by the SBI / IAC on the last item.

INFORMATION ITEMS:

1. Review the manager performance for the period ending June 30, 2007.

- ***Domestic Equity Program***

For the period ending June 30, 2007, the **Domestic Equity Program** matched the asset class target during the quarter, but underperformed for all other periods.

Time period	Total Program	DE Asset Class Target*
Quarter	5.8%	5.8%
1 Year	19.7%	20.1%
3 Years	12.3%	12.4%
5 Years	11.3%	11.6%

* 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, 2007, the **Fixed Income Program** matched the Lehman Aggregate for the quarter, but outperformed over all other time periods.

Time period	Total Program	Lehman Aggregate
Quarter	-0.5%	-0.5%
1 Year	6.3%	6.1%
3 Years	4.3%	4.0%
5 Years	5.0%	4.5%

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

- **International Equity Program**

For the period ending June 30, 2007, the **International Equity Program** outperformed the composite index over the quarter, year and three-year time periods, but underperformed over five-years.

Time Period	Total* Program	Int'l Equity Asset Class Target**
Quarter	8.6%	8.2%
1 Year	30.3%	29.6%
3 Year	24.6%	24.5%
5 Year	18.8%	19.3%

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

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

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

2. Review of Voyager Asset Management, a domestic equity manager.

David Cox and Nancy Scinto, the primary portfolio managers on the SBI account, made a presentation to the Stock & Bond Committee. The team reviewed the philosophy and process, organization, succession plan, and market dynamics that have impacted performance.

Background

Voyageur was hired 7/1/2000 under the Emerging Manager Program. Voyageur lifted the large growth team out of Chicago Trust Company during 1999. The team manages the portfolio out of Chicago.

Philosophy and Process

Voyageur follows a conservative growth process. The portfolio will typically not keep up during aggressive growth periods, but should do better when aggressive growth is out of favor. Strategy seeks superior returns through careful equity selection from a universe of high quality companies, strong fundamental research, and adherence to strict risk controls.

Initial universe includes stocks with market caps greater than \$4 billion. Quantitative screening narrows universe based on 5 year sales and operating income greater than S&P 500, return on equity greater than S&P 500, longer term debt to capital ratio less than S&P 500, and 5 year earnings growth rate consistency greater than S&P 500. The S&P 500 is used to represent the broad market because it is more stable and consistent from year to year than the Russell 1000 Growth index.

The portfolio is concentrated, holding no more than 40 and no less than 30 stocks.

People

The investment team has remained stable, and employment contracts for key senior professionals have been extended through 2010. The research staff has increased over time.

Assets Gained/Lost

Product assets grew steadily from under \$1 billion at the beginning of 2001 to a peak of just under \$7 billion during 2006. However, in recent periods, the strategy has begun to lose assets:

2Q2007: -\$1,003 M 1Q2007: -\$530 M 4Q2006: -\$211 M

The team indicates that the account losses are primarily from clients they've had less than three years.

Benchmark Issues

The benchmark choice has always been difficult for this portfolio, as the style seems to fall between core and growth. At time of hire, manager benchmark was the Russell 1000 Growth index until the custom benchmark was created. In addition, representative account data going back to 1994 is benchmarked relative to the Russell 1000 Growth index.

Effective 10/1/2003, staff determined that the Russell 1000 index was a more appropriate benchmark than the Russell 1000 Growth index. However, the manager has continued to follow a conservative growth process, and only one other client benchmarks the manager against the Russell 1000.

Effective 1/1/2007, the SBI portfolio benchmark was changed to the Russell 1000 Growth index.

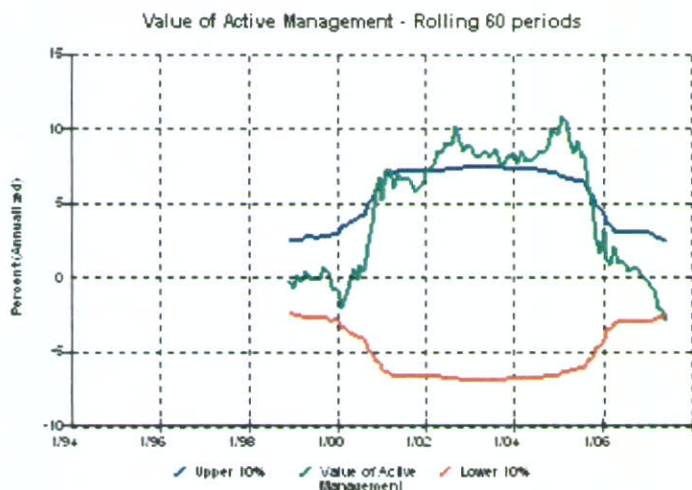
Performance

Recent performance has been disappointing. Performance relative to the Russell 1000 Growth benchmark and VAM chart are provided below.

Name	One year	Three years	Five years	84 Months Ending June, 2007
Voyageur Portfolio	10.6	5.4	6.2	0.4
Russell 1000 Growth Index	19.0	8.7	9.3	-4.4
Difference	-8.4	-3.3	-3.1	4.8

Name	6 Months Ending 12/31/2000	2001	2002	2003	2004	2005	2006	YTD 6/30/2007
Voyageur Portfolio	6.3	-19.4	-20.6	23.2	10.6	3.9	2.1	4.9
Russell 1000 Growth Index	-25.6	-20.4	-27.9	29.8	6.3	5.3	9.1	8.1
Difference	31.9	1.0	7.3	-6.6	4.3	-1.4	-7.0	-3.2

Russell 1000 Growth VAM



Voyageur explained their process and strategy to the Committee. The Committee believes that Voyageur has a good process and a stable organization and that no action needs to be taken at this time.

ACTION ITEMS:

1. Domestic Equity Program Review – follow-up items.

At the Second Quarter 2007 Stock and Bond Committee and Investment Advisory Council meetings, staff presented a review of the SBI Domestic Equity Program. Staff indicated that there would be several follow-up items that staff would continue to review and would present when recommendations were developed. At this time, staff will address the following:

- Manager Search Process.
- Ability to passively or semi-passively manage each of the style groupings in the Domestic Equity Program (i.e., small growth, small value, large growth and large value).
- Allocation ranges for passive, semi-passive and active components for domestic equities.

Manager Search Process (for equity and fixed income)

In June 2006, the IAC Governance Task Force recommended and the Board approved the following:

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

To implement this process, staff will recommend prospective domestic equity, international equity and fixed income managers to the Stock and Bond Committee on an as needed basis. As in the past, staff will continually monitor the investment landscape for potential candidates and conduct due diligence on the more promising candidates.

Ability to passively or semi-passively manage each of the style groupings in the Domestic Equity Program

Currently when an active manager is terminated the general tendency has been to find prospective active managers that manage money against the same index. While it is necessary to manage assets against the same index as the terminated manager to minimize program misfit, it may not always be possible or desirable to continue to use active management.

Given that the Domestic Equity Program is structured around standard published Russell indices, the SBI can use passive management to replace the terminated active managers. SBI Staff also has determined that there are semi-passive managers that can manage portfolios against these indices.

Staff believes that it would be prudent to have the ability to place assets in a passive portfolio in any of the style groupings if the need arises. Currently, if a manager in one of the style groupings is terminated, generally those dollars would have to be reallocated to other managers in that same style group. There may be situations where we are unable or do not desire to place the assets with a current manager. Staff believes that the SBI will have greater flexibility if we had a passive manager under contract that had the ability to manage portfolios in each of the style groupings. The Committee will interview potential candidates at a future meeting.

Allocation Ranges

The current allocation range for the Domestic Equity Program is as follows:

Active	25-40%
Semi-Passive	25-40%
Passive	25-40%

The current allocation was approved by the Board at the September 2003 SBI meeting as part of the Asset Class Target and Asset Class Structure Review. Active management provides the highest expected return, but also possesses the highest risk level. Passive management yields a less than benchmark expected return, but has a minimal degree of risk relative to the benchmark. Semi-passive management offers excess return and risk levels that are in between the extremes of active and passive management.

The current ranges reflect the SBI's desire to construct a low risk portfolio with the potential to produce excess returns. Allocations to active or semi-passive management provide the risk to the portfolio. Market environments such as 2006 force investors to question how much risk they can tolerate. Expanding the ranges for passive and semi-passive management provides greater flexibility to increase or decrease the risk level of the total domestic equity portfolio. Under the current allocations such flexibility is restricted.

Given the size of the SBI portfolio, there is a high probability that the SBI portfolio will always contain a significant allocation to passive management. The size of the allocation to active or semi-passive management is dependent upon the ability to hire and retain skilled managers who can add value. In the event that such managers are unavailable, it is not prudent to allocate dollars to active or semi-passive management to meet a minimum requirement.

The primary reason for investing in domestic equities is to gain exposure to the asset class. This is done most efficiently with a passive management allocation. The desire to achieve excess returns in the asset class is secondary to gaining exposure to the asset class. The rationale for active or semi-passive management is to achieve excess returns. However, if one does not have confidence that excess returns are achievable, allocating dollars to active or semi-passive management may be sub-optimal.

Staff proposed that the SBI modify our allocation ranges. The proposed ranges are:

Active	0-50%
Semi-Passive	0-50%
Passive	25-100%

The change in the passive management allocation recognizes and allows for the flexibility to be completely passive in the event that skillful active or semi-passive managers are unavailable. We need to recognize that if this were to occur, the portfolio should be expected to perform below the benchmark. The change to the active and semi-passive allocation provides flexibility in the event there is the need to lower the allocations if skillful managers are unavailable or if the risk tolerance declines. But it also allows flexibility for greater risk management if there is a desire to increase the risk level of the portfolio.

RECOMMENDATION

Staff recommends that the allocation ranges within the Domestic Equity Program be changed to the following:

Active	0-50%
Semi-Passive	0-50%
Passive	25-100%

and that no more than 75% of the Domestic Equity Program will be managed on a combined active and semi-passive basis.



STATE BOARD OF INVESTMENT

Domestic Equity Manager Evaluation Reports

Second Quarter, 2007

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Domestic Equity

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COMBINED RETIREMENT FUNDS
ACTIVE DOMESTIC STOCK MANAGERS
Periods Ending June, 2007

	Quarter		1 Year		3 Years		5 Years	
	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %
Russell 1000 Core Aggregate	5.3	5.9	20.2	20.4	13.4	12.3		
Russell 1000 Growth Aggregate	6.2	6.9	16.0	19.0	7.5	8.7		
Russell 1000 Value Aggregate	6.7	4.9	21.6	21.9	13.9	15.9		
Russell 2000 Growth Aggregate	10.4	6.7	17.3	16.8	12.3	11.8		
Russell 2000 Value Aggregate	3.5	2.3	13.6	16.1	13.9	15.0		
Active Manager Aggregate	6.5	5.6	18.8	19.7	11.9	12.4		
Semi-Passive Aggregate	5.0	5.9	20.2	20.4	12.2	12.3		
Passive Manager (BGI)	5.8	5.8	20.0	20.1	12.5	12.4		
Historical Aggregate	5.8	5.8	19.7	20.1	12.3	12.4		
SBI DE Asset Class Target		5.8		20.1		12.4		
Russell 3000 Index		5.8		20.1		12.4		

	2006		2005		2004	
	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %
Russell 1000 Core Aggregate	15.8	15.5	6.4	6.3	14.5	11.4
Russell 1000 Growth Aggregate	2.2	9.1	7.3	5.3	6.1	6.3
Russell 1000 Value Aggregate	17.4	22.2	6.0	7.1	14.3	16.5
Russell 2000 Growth Aggregate	10.0	13.3	4.7	4.2	9.7	14.3
Russell 2000 Value Aggregate	13.1	23.5	7.7	4.7	25.0	22.2
Active Manager Aggregate	11.5	15.8	6.5	6.0	12.5	12.3
Semi-Passive Aggregate	16.1	15.5	6.2	6.3	11.7	11.4
Passive Manager (BGI)	15.8	15.7	6.2	6.1	12.0	11.9
Historical Aggregate	14.5	15.7	6.4	6.1	12.2	11.9
SBI DE Asset Class Target		15.7		6.1		11.9
Russell 3000 Index		15.7		6.1		11.9

COMBINED RETIREMENT FUNDS
ACTIVE DOMESTIC STOCK MANAGERS
Periods Ending June, 2007
Performance versus Russell Style Benchmarks for All Periods

	Quarter		1 Year		3 Years		5 Years		Since Inception (1)		Market Value (in millions)	Pool %
	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %		
LARGE CAP												
Russell 1000 Core												
Franklin Portfolio	2.8	5.9	21.2	20.4	14.2	12.3	10.8	11.3	12.3	11.9	\$528.6	2.1%
New Amsterdam Partners (2)	5.5	5.9	15.8	20.4	11.7	12.3	11.7	12.4	13.8	12.4	\$552.6	2.2%
UBS Global	6.8	5.9	22.1	20.4	14.2	12.3	13.1	11.3	11.8	11.1	\$870.1	3.4%
Aggregate	5.3	5.9	20.2	20.4	13.4	12.3						
Russell 1000 Growth												
Alliance Capital	5.9	6.9	14.7	19.0	8.4	8.7	7.2	9.3	14.2	11.0	\$292.4	1.1%
Cohen, Klingenstein & Marks	7.2	6.9	22.0	19.0	5.9	8.7	8.3	9.3	9.0	9.5	\$157.1	0.6%
INTECH	4.4	6.9	14.8	19.0					8.5	9.0	\$342.2	1.3%
Jacobs Levy	5.7	6.9	14.9	19.0					6.7	9.0	\$312.2	1.2%
Lazard Asset Mgmt.	7.4	6.9	21.2	19.0					9.9	9.0	\$63.8	0.2%
Sands Capital	4.3	6.9	11.1	19.0					4.7	9.0	\$223.2	0.9%
Voyageur-Chicago Equity (4)	4.9	6.9	10.6	19.0	5.4	8.7	6.2	9.3	0.4	-4.4	\$52.3	0.2%
Winslow-Large Cap	9.0	6.9	19.3	19.0					11.6	9.0	\$124.1	0.5%
Zevenbergen Capital	8.7	6.9	21.2	19.0	11.7	8.7	14.1	9.3	10.9	9.5	\$277.5	1.1%
Aggregate	6.2	6.9	16.0	19.0	7.5	8.7						
Russell 1000 Value												
Barrow, Hanley	7.1	4.9	21.9	21.9	15.8	15.9			15.4	14.9	\$515.6	2.0%
Earnest Partners	7.5	4.9	18.6	21.9	17.1	15.9	15.3	13.3	8.0	9.4	\$204.9	0.8%
Lord Abbett & Co.	5.6	4.9	19.0	21.9	12.3	15.9			11.9	14.9	\$355.1	1.4%
LSV Asset Mgmt.	6.8	4.9	22.6	21.9	18.9	15.9			18.1	14.9	\$505.6	2.0%
Systematic Financial Mgmt.	6.0	4.9	22.7	21.9	16.4	15.9			15.5	14.9	\$357.6	1.4%
Aggregate	6.7	4.9	21.6	21.9	13.9	15.9						
SMALL CAP												
Russell 2000 Growth												
McKinley Capital	8.6	6.7	16.0	16.8	11.8	11.8			11.2	11.8	\$260.1	1.0%
Next Century Growth	15.0	6.7	17.9	16.8	20.4	11.8	17.6	13.1	1.3	0.9	\$270.0	1.1%
Turner Investment Partners	7.9	6.7	18.4	16.8	13.0	11.8			12.5	11.8	\$261.6	1.0%
Aggregate	10.4	6.7	17.3	16.8	12.3	11.8						
Russell 2000 Value												
Goldman Sachs	3.6	2.3	17.4	16.1	14.0	15.0			13.5	15.2	\$145.8	0.6%
Hotchkis & Wiley	5.7	2.3	14.1	16.1	12.3	15.0			13.8	15.2	\$147.2	0.6%
Martingale Asset Mgmt.	1.0	2.3	9.1	16.1	12.9	15.0			14.7	15.2	\$151.2	0.6%
Peregrine Capital	4.0	2.3	14.6	16.1	15.7	15.0	14.3	14.6	17.2	15.9	\$236.4	0.9%
RiverSource/Kenwood	2.6	2.3	11.2	16.1	13.6	15.0			14.8	15.2	\$67.9	0.3%
Aggregate	3.5	2.3	13.6	16.1	13.9	15.0						
Active Mgr. Aggregate (3)	6.5	5.6	18.8	19.7	11.9	12.4						

- (1) Since retention by the SBI. Time period varies for each manager.
- (2) New Amsterdam Partners' published benchmark is the Russell 1000 core index beginning 10/1/03. Prior to that date it was the Russell Midcap Index.
- (3) The Active Manager Aggregate Benchmark is the aggregate of the weighted average of the active manager benchmarks and is not the Russell 3000.
- (4) Voyageur's benchmark changed to the Russell 1000 Growth effective 1/1/2007. The benchmark shown is the R1000 Growth for all time periods.

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

	2006		2005		2004		2003		2002	
	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %
LARGE CAP										
Russell 1000 Core										
Franklin Portfolio	20.4	15.5	3.4	6.3	15.7	11.4	32.9	29.9	-25.4	-21.7
New Amsterdam Partners (2)	9.3	15.5	7.6	6.3	14.8	11.4	34.2	38.0	-17.5	-16.2
UBS Global	16.8	15.5	8.6	6.3	13.4	11.4	30.7	29.9	-14.7	-21.7
Aggregate	15.8	15.5	6.4	6.3	14.5	11.4				
Russell 1000 Growth										
Alliance Capital	-0.4	9.1	14.2	5.3	5.7	6.3	22.4	29.7	-26.8	-27.9
Cohen, Klingenstein & Marks	4.4	9.1	-0.9	5.3	6.1	6.3	41.2	29.7	-35.0	-27.9
INTECH (1)	7.4	9.1	7.8	5.3						
Jacobs Levy (1)	6.1	9.1	5.3	5.3						
Lazard Asset Mgmt. (1)	7.1	9.1	6.6	5.3						
Sands Capital (1)	-5.5	9.1	10.9	5.3						
Voyageur-Chicago Equity (4)	2.1	9.1	3.9	5.3	10.6	6.3	23.2	29.7	-20.6	-27.9
Winslow-Large Cap (1)	7.6	9.1	10.5	5.3						
Zevenbergen Capital	6.2	9.1	9.0	5.3	13.1	6.3	49.3	29.7	-36.2	-27.9
Aggregate	2.2	9.1	7.3	5.3	6.1	6.3				
Russell 1000 Value										
Barrow, Hanley (1)	15.4	22.2	9.6	7.1						
Earnest Partners	13.8	22.2	15.6	7.1	18.9	16.5	32.0	30.0	-18.1	-15.5
Lord Abbett & Co. (1)	18.6	22.2	3.5	7.1						
LSV Asset Mgmt. (1)	21.7	22.2	12.5	7.1						
Systematic Financial Mgmt. (1)	17.9	22.2	10.3	7.1						
Aggregate	17.4	22.2	6.0	7.1	14.3	16.5				
SMALL CAP										
Russell 2000 Growth										
McKinley Capital	12.5	13.3	0.2	4.2	12.2	14.3				
Next Century Growth	12.4	13.3	25.2	4.2	6.4	14.3	50.7	48.5	-33.3	-30.3
Turner Investment Partners	13.6	13.3	6.2	4.2	11.6	14.3				
Aggregate	10.0	13.3	4.7	4.2	9.7	14.3				
Russell 2000 Value										
Goldman Sachs	17.8	23.5	4.1	4.7	19.9	22.2				
Hotchkis & Wiley	3.0	23.5	10.4	4.7	27.1	22.2				
Martingale Asset Mgmt.	14.8	23.5	6.2	4.7	30.8	22.2				
Peregrine Capital	14.3	23.5	10.1	4.7	23.6	22.2	44.2	46.0	-8.1	-11.4
RiverSource/Kenwood	19.4	23.5	4.8	4.7	25.8	22.2				
Aggregate	13.1	23.5	7.7	4.7	25.0	22.2				
Active Mgr. Aggregate (3)	11.5	15.8	6.5	6.0	12.5	12.3				

- (1) Includes full-year returns only. Performance of managers hired during a calendar year are reported beginning with the following calendar year.
- (2) New Amsterdam Partners' published benchmark is the Russell 1000 core index beginning 10/1/03. Prior to that date it was the Russell Midcap Index.
- (3) The Active Manager Aggregate Benchmark is the aggregate of the weighted average of the active manager benchmarks and is not the Russell 3000.
- (4) Voyageur's benchmark changed to the Russell 1000 Growth effective 1/1/2007. The benchmark shown is the R1000 Growth for all time periods.

**COMBINED RETIREMENT FUNDS
DOMESTIC STOCK MANAGERS
Periods Ending June, 2007
Versus Manager Benchmarks (1)**

	Quarter		1 Year		3 Years		5 Years		Since Inception (2)		Market Value (in millions)	Pool %
	Actual	Bmk	Actual	Bmk	Actual	Bmk	Actual	Bmk	Actual	Bmk		
	%	%	%	%	%	%	%	%	%	%		%
SEMI-PASSIVE MANAGERS												
Barclays Global Investors	5.3	5.9	19.3	20.4	12.5	12.3	11.8	11.2	11.7	11.0	\$3,544.8	13.9%
Franklin Portfolio	3.9	5.9	19.2	20.4	12.0	12.3	10.6	11.2	10.6	11.0	\$2,516.5	9.9%
JP Morgan	5.5	5.9	22.2	20.4	12.1	12.3	10.9	11.2	11.0	11.0	\$2,791.6	10.9%
Semi-Passive Aggregate (R1000)	5.0	5.9	20.2	20.4	12.2	12.3	11.2	11.2	11.1	11.0		
PASSIVE MANAGER (R3000)												
Barclays Global Investors	5.8	5.8	20.0	20.1	12.5	12.4	11.6	11.6	10.6	10.5	\$8,587.1	33.7%
Historical Aggregate (3)	5.8	5.8	19.7	20.1	12.3	12.4	11.3	11.7	11.8	12.1	\$25,515.9	100.0%
SBI DE Asset Class Target (4)		5.8		20.1		12.4		11.6		12.0		
Russell 3000		5.8		20.1		12.4		11.5		12.4		
Wilshire 5000		6.1		20.5		12.7		12.0		12.3		
Russell 1000		5.9		20.4		12.3		11.3		12.6		
Russell 2000		4.4		16.4		13.4		13.9		10.7		

- (1) Semi-Passive managers' benchmark is the Russell 1000 index beginning 1/1/04 and was the Completeness Fund benchmark prior to 1/1/04.
- (2) Since retention by the SBI. Time period varies for each manager.
- (3) Includes the performance of terminated managers.
- (4) The Domestic Equity Asset Class Target is the Russell 3000 effective 10/1/03. From 7/1/99 to 9/30/03, it was the Wilshire 5000 Investable Index. From 11/1/93 to 6/30/99, the target was the Wilshire 5000 as reported with no adjustments. Prior to 11/1/93, the Wilshire 5000 was adjusted to reflect SBI mandated restrictions, which included liquor and tobacco, American Home Products and South Africa.

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

	2006		2005		2004		2003		2002	
	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %
SEMI-PASSIVE MANAGERS										
Barclays Global Investors	15.6	15.5	7.6	6.3	11.7	11.4	30.0	28.5	-19.1	-19.7
Franklin Portfolio	16.5	15.5	6.1	6.3	11.7	11.4	26.9	28.5	-20.2	-19.7
JP Morgan	16.5	15.5	4.7	6.3	11.7	11.4	28.9	28.5	-21.8	-19.7
Semi-Passive Aggregate (R1000)	16.1	15.5	6.2	6.3	11.7	11.4	28.8	28.5	-20.3	-19.7
PASSIVE MANAGER (R3000)										
Barclays Global Investors	15.8	15.7	6.2	6.1	12.0	11.9	30.9	31.2	-21.4	-21.5
Historical Aggregate (2)	14.5	15.7	6.4	6.1	12.2	11.9	31.0	31.4	-22.4	-21.1
SBI DE Asset Class Target (3)		15.7		6.1		11.9		31.2		-21.5
Russell 3000		15.7		6.1		11.9		31.1		-21.5
Wilshire 5000		15.8		6.4		12.5		31.6		-20.9
Russell 1000		15.5		6.3		11.4		29.9		-21.7
Russell 2000		18.4		4.6		18.3		47.3		-20.5

(1) Semi-Passive managers' benchmark is the Russell 1000 index beginning 1/1/04 and was the Completeness Fund benchmark prior to 1/1/04.

(2) Includes the performance of terminated managers.

(3) The Domestic Equity Asset Class Target is the Russell 3000 Index effective 10/1/03. From 7/1/99 to 9/30/03, it was the Wilshire 5000 Investable Index.

From 11/1/93 to 6/30/99, the target was the Wilshire 5000 as reported with no adjustments. Prior to 11/1/93, the Wilshire 5000 was adjusted to reflect SBI mandated restrictions, which included liquor and tobacco, American Home Products and South Africa.

Note: Includes full-year returns only. Performance of managers hired during a calendar year are reported beginning with the following calendar year.

Large Cap Core (R1000)

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Large Cap Core (R1000)

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FRANKLIN PORTFOLIO ASSOCIATES
Periods Ending June, 2007

Portfolio Manager: John Cone

Assets Under Management: \$528,563,334

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 underperformed by 3.1 percentage points (ppt) during the quarter. Overweight positions coupled with poor stock selection in the consumer staples and financials sectors proved detrimental. For the year, the portfolio outperformed by 0.8 ppt. Strong stock selection in integrated oils, autos & transportation and utilities aided returns.

On July 2, 2007, Franklin's parent company, Mellon Financial, announced the completion of their merger with The Bank of New York to form The Bank of New York Mellon Corporation. No adverse changes are anticipated at Franklin as a result of this merger.

Recommendation

No action required

Quantitative Evaluation

Period Returns

(Annualized for multi-year periods)

	Actual	Russell 1000 Core
Last Quarter	2.8%	5.9%
Last 1 year	21.2	20.4
Last 2 years	15.2	14.6
Last 3 years	14.2	12.3
Last 4 years	15.9	14.1
Last 5 years	10.8	11.3
Since Inception (4/89)	12.3	11.9

Calendar Year Returns

	Actual	Russell 1000 Core
2006	20.4%	15.5%
2005	3.4	6.3
2004	15.7	11.4
2003	32.9	29.9
2002	-25.4	-21.7

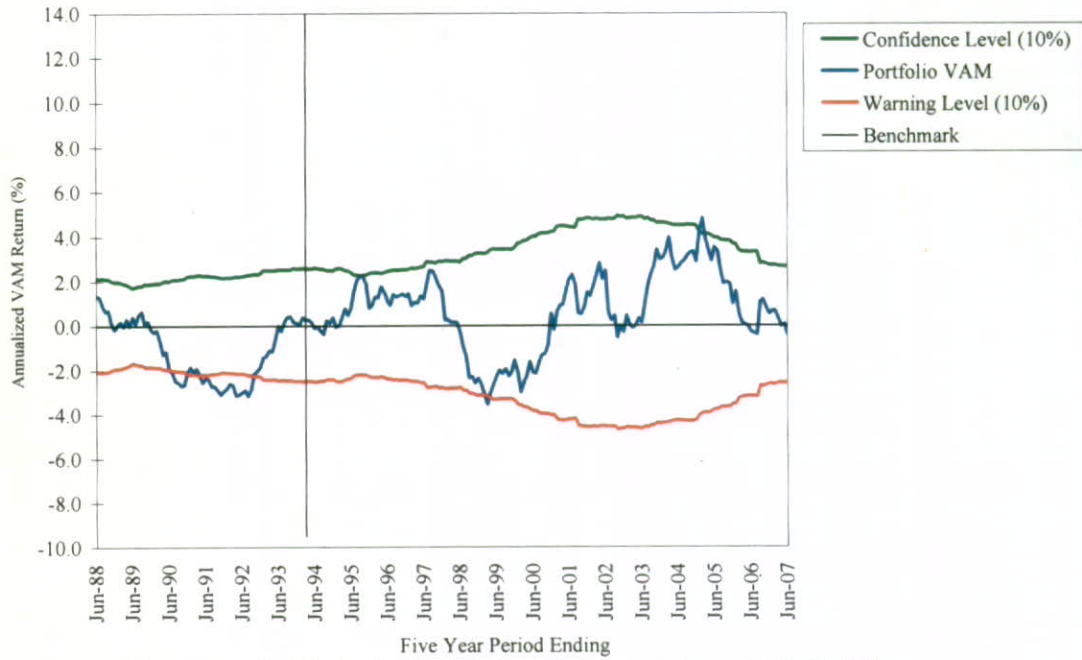
FRANKLIN PORTFOLIO ASSOCIATES

Periods Ending June, 2007

Portfolio Manager: John Cone

Assets Under Management: \$528,563,334

FRANKLIN PORTFOLIO ASSOCIATES - Active
Rolling Five Year VAM vs. Russell 1000 Core



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

NEW AMSTERDAM PARTNERS
Periods Ending June, 2007

Portfolio Manager: Michelle Clayman

Assets Under Management: \$552,592,301

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

The portfolio underperformed by 0.4 percentage point (ppt) during the quarter. An underweight allocation to integrated oils coupled with poor stock selection was not beneficial. Poor stock selection within the technology, consumer staples, and utilities sectors also hurt returns.

For the year, the portfolio underperformed by 4.6 ppt. Weak stock selection in financials and integrated oils provided a majority of the underperformance. An overweight position coupled with poor stock selection in the consumer staples and autos & transportation sectors negatively impacted returns.

Recommendation

No action required.

Quantitative Evaluation

Period Returns

(Annualized for multi-year periods)

	Actual	Russell Index (1)
Last Quarter	5.5%	5.9%
Last 1 year	15.8	20.4
Last 2 years	10.8	14.6
Last 3 years	11.7	12.3
Last 4 years	14.8	15.0
Last 5 years	11.7	12.4
Since Inception (4/94)	13.8	12.4

Calendar Year Returns

	Actual	Russell Index (1)
2006	9.3%	15.5%
2005	7.6	6.3
2004	14.8	11.4
2003	34.2	38.0
2002	-17.5	-16.2

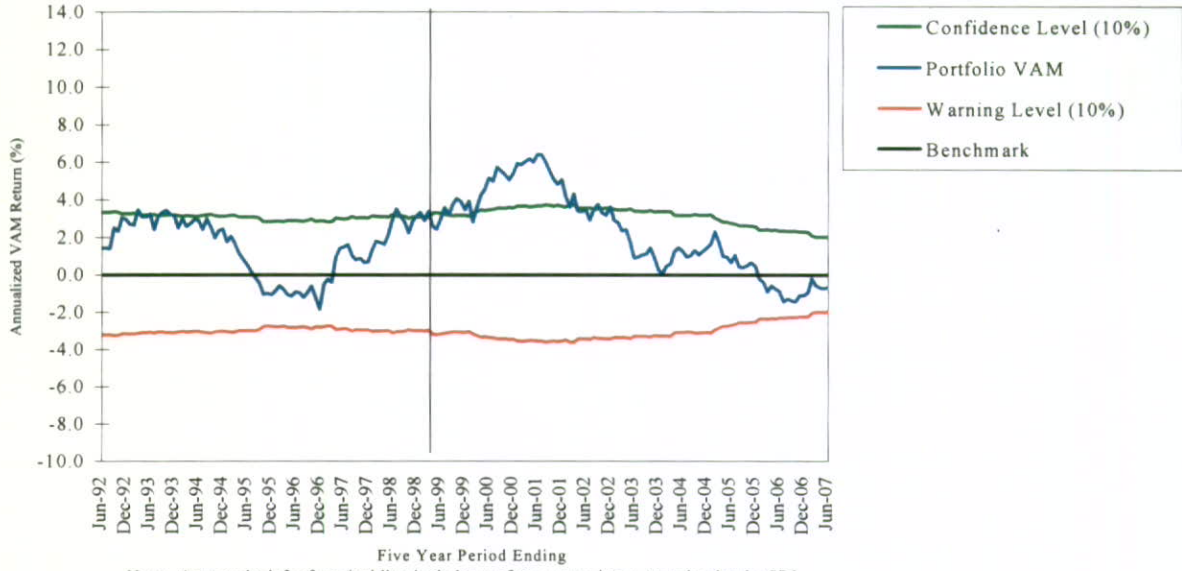
(1) New Amsterdam Partners' published benchmark is the Russell 1000 Core beginning 10/1/03. Prior to that date it was the Russell Midcap index.

NEW AMSTERDAM PARTNERS
Periods Ending June, 2007

Portfolio Manager: Michelle Clayman

Assets Under Management: \$552,592,301

NEW AMSTERDAM PARTNERS
Rolling Five Year VAM vs. Russell Index (1)



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

UBS GLOBAL ASSET MANAGEMENT, INC.
Periods Ending June, 2007

Portfolio Manager: John Leonard

Assets Under Management: \$870,118,652

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

No comment at this time.

Recommendation

No action required.

Quantitative Evaluation

Period Returns

(Annualized for multi-year periods)

	Actual	Russell 1000 Core
Last Quarter	6.8%	5.9%
Last 1 year	22.1	20.4
Last 2 years	15.9	14.6
Last 3 years	14.2	12.3
Last 4 years	15.4	14.1
Last 5 years	13.1	11.3
Since Inception (7/93)	11.8	11.1

Calendar Year Returns

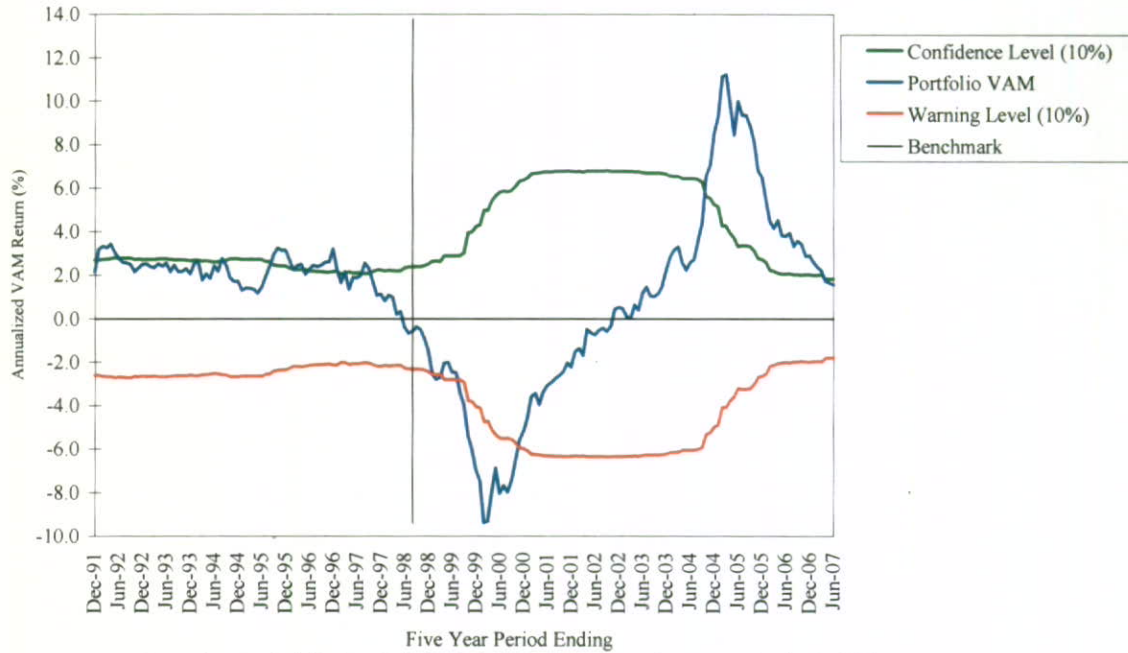
	Actual	Russell 1000 Core
2006	16.8%	15.5%
2005	8.6	6.3
2004	13.4	11.4
2003	30.7	29.9
2002	-14.7	-21.7

UBS GLOBAL ASSET MANAGEMENT, INC.
Periods Ending June, 2007

Portfolio Manager: John Leonard

Assets Under Management: \$870,118,652

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.

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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, 2007

Portfolio Manager: Stephanie Simon

Assets Under Management: \$292,375,752

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 by 1.0 percentage point (ppt) during the quarter and 4.3 ppt for the year. Stock selection within the health care sector was the primary detractor for the quarter. For the year, underweight allocations to technology and health care coupled with weak stock selection detracted from performance.

Stephanie Simon was officially assigned management duties on the SBI account effective 6/30/2007. Jack Koltes will continue to manage a small number of accounts and will continue to be a resource for the large growth team. Stephanie works with Jack in the Minneapolis office. Stephanie managed the SBI portfolio in the past during a period when Jack was incapacitated. Staff has reviewed this change and does not believe the SBI portfolio will be adversely affected.

Recommendation

No action required.

Quantitative Evaluation

Period Returns

(Annualized for multi-year periods)

	Actual	Russell 1000 Growth
Last Quarter	5.9%	6.9%
Last 1 year	14.7	19.0
Last 2 years	10.6	12.4
Last 3 years	8.4	8.7
Last 4 years	9.2	10.9
Last 5 years	7.2	9.3
Since Inception (1/84)	14.2	11.0

Calendar Year Returns

	Actual	Russell 1000 Growth
2006	-0.4%	9.1%
2005	14.2	5.3
2004	5.7	6.3
2003	22.4	29.7
2002	-26.8	-27.9

ALLIANCE CAPITAL MANAGEMENT
Periods Ending June, 2007

Portfolio Manager: Stephanie Simon

Assets Under Management: \$292,375,752

ALLIANCE CAPITAL MANAGEMENT
Rolling Five Year VAM vs. Russell 1000 Growth



COHEN KLINGENSTEIN & MARKS INCORPORATED
Periods Ending June, 2007

Portfolio Manager: George Cohen

Assets Under Management: \$157,128,012

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 outperformed during the quarter by 0.3 percentage point (ppt). Despite an overweight position in the consumer discretionary sector, strong stock selection contributed to performance.

For the year, the portfolio outperformed by 3.0 ppt. Strong overall stock selection aided returns, and was particularly effective with the consumer discretionary, financial services and health care sectors.

Recommendation

The Stock & Bond Committee re-interviewed manager at the 11/15/2006 meeting. Staff continues to monitor closely.

Quantitative Evaluation

Period Returns

(Annualized for multi-year periods)

	Actual	Russell 1000 Growth
Last Quarter	7.2%	6.9%
Last 1 year	22.0	19.0
Last 2 years	6.9	12.4
Last 3 years	5.9	8.7
Last 4 years	8.1	10.9
Last 5 years	8.3	9.3
Since Inception (4/94)	9.0	9.5

Calendar Year Returns

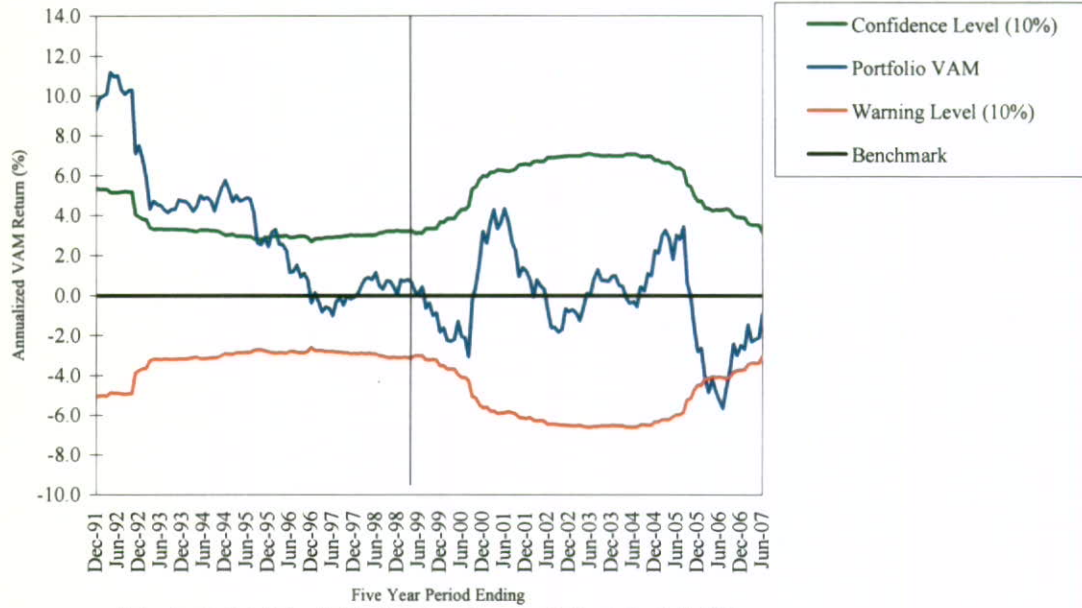
	Actual	Russell 1000 Growth
2006	4.4%	9.1%
2005	-0.9	5.3
2004	6.1	6.3
2003	41.2	29.7
2002	-35.0	-27.9

COHEN KLINGENSTEIN & MARKS INCORPORATED
Periods Ending June, 2007

Portfolio Manager: George Cohen

Assets Under Management: \$157,128,012

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.

INTECH (ENHANCED INVESTMENT TECHNOLOGIES, LLC)
Periods Ending June, 2007

Portfolio Manager: Robert Fernholz

Assets Under Management: \$ 342,205,707

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
Last Quarter	4.4%	6.9%
Last 1 year	14.8	19.0
Last 2 years	10.7	12.4
Last 3 years	N/A	N/A
Last 4 years	N/A	N/A
Last 5 years	N/A	N/A
Since Inception (1/05)	8.5	9.0

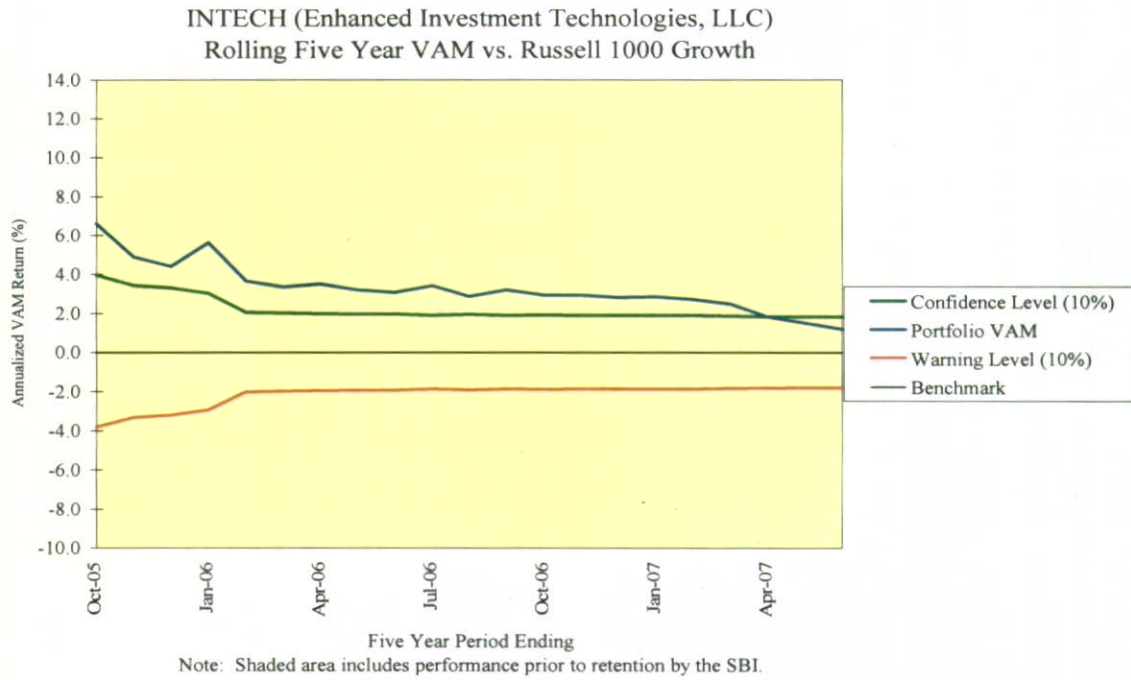
Calendar Year Returns

	Actual	Russell 1000 Growth
2006	7.4%	9.1%
2005	7.8	5.3
2004	N/A	N/A
2003	N/A	N/A
2002	N/A	N/A

INTECH (ENHANCED INVESTMENT TECHNOLOGIES, LLC)
Periods Ending June, 2007

Portfolio Manager: Robert Fernholz

Assets Under Management: \$342,205,707



JACOBS LEVY EQUITY MANAGEMENT
Periods Ending June, 2007

Portfolio Manager: Bruce Jacobs and Ken Levy

Assets Under Management: \$312,168,054

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

The portfolio underperformed by 1.2 percentage points (ppt) during the quarter and 4.1 ppt for the year. In both periods an underweight allocation to technology represented a missed opportunity; weak stock selection enhanced the negative impact. An overweight position in the consumer discretionary sector coupled with weak stock selection pressured returns for the quarter and year. An emphasis on short term price reversals and price momentum detracted in both periods.

Recommendation

No action required.

Quantitative Evaluation

Period Returns

(Annualized for multi-year periods)

	Actual	Russell 1000 Growth
Last Quarter	5.7%	6.9%
Last 1 year	14.9	19.0
Last 2 years	9.3	12.4
Last 3 years	N/A	N/A
Last 4 years	N/A	N/A
Last 5 years	N/A	N/A
Since Inception (1/05)	6.7	9.0

Calendar Year Returns

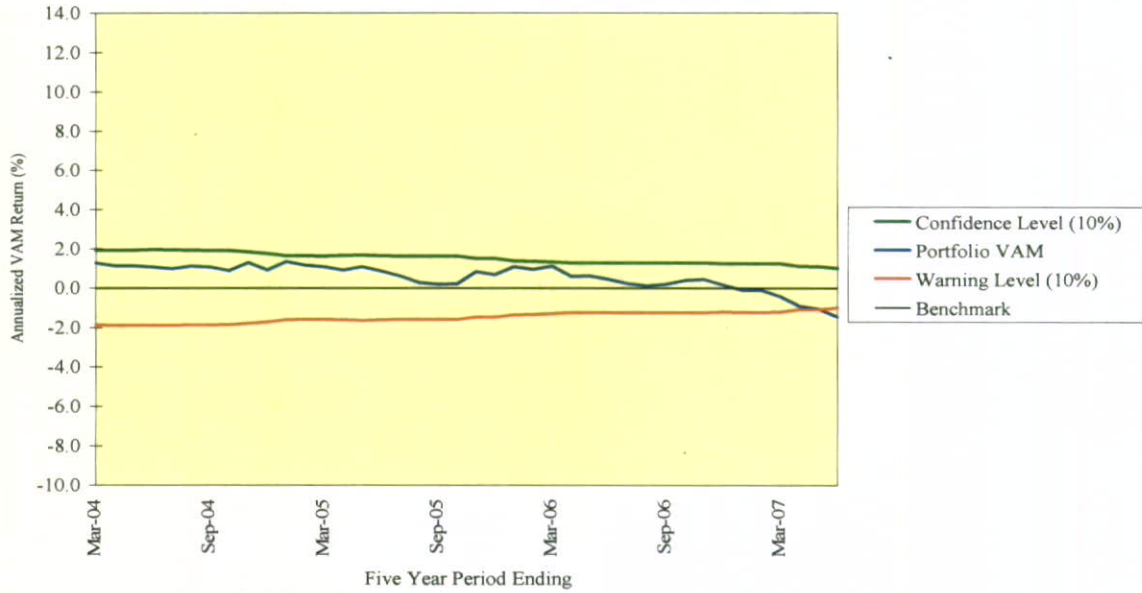
	Actual	Russell 1000 Growth
2006	6.1%	9.1%
2005	5.3	5.3
2004	N/A	N/A
2003	N/A	N/A
2002	N/A	N/A

JACOBS LEVY EQUITY MANAGEMENT
Periods Ending June, 2007

Portfolio Manager: Bruce Jacobs and Ken Levy

Assets Under Management: \$312,168,054

JACOBS LEVY EQUITY MANAGEMENT
Rolling Five Year VAM vs. Russell 1000 Growth



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

LAZARD ASSET MANAGEMENT LLC
Periods Ending June, 2007

Portfolio Manager: Jim Tatera

Assets Under Management: \$63,753,960

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

The portfolio outperformed by 0.5 percentage point during the quarter and 2.2 ppt for the year. In both periods an overweight position in the materials and processing sector proved beneficial. Strong stock selection enhanced the positive impact.

Recommendation

No action required.

Quantitative Evaluation

Period Returns

(Annualized for multi-year periods)

	Actual	Russell 1000 Growth
Last Quarter	7.4%	6.9%
Last 1 year	21.2	19.0
Last 2 years	14.1	12.4
Last 3 years	N/A	N/A
Last 4 years	N/A	N/A
Last 5 years	N/A	N/A
Since Inception (1/05)	9.9	9.0

Calendar Year Returns

	Actual	Russell 1000 Growth
2006	7.1%	9.1%
2005	6.6	5.3
2004	N/A	N/A
2003	N/A	N/A
2002	N/A	N/A

LAZARD ASSET MANAGEMENT LLC
Periods Ending June, 2007

Portfolio Manager: Jim Tatera

Assets Under Management: \$63,753,960

LAZARD ASSET MANAGEMENT, LLC.
 Rolling Five Year VAM vs. Russell 1000 Growth



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

SANDS CAPITAL MANAGEMENT LLC

Periods Ending June, 2007

Portfolio Manager: Frank Sands, Sr.

Assets Under Management: \$223,158,381

Investment Philosophy

Staff Comments

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.

No comment at this time.

Recommendation

No action required.

Quantitative Evaluation

Period Returns

(Annualized for multi-year periods)

	Actual	Russell 1000 Growth
Last Quarter	4.3%	6.9%
Last 1 year	11.1	19.0
Last 2 years	7.0	12.4
Last 3 years	N/A	N/A
Last 4 years	N/A	N/A
Last 5 years	N/A	N/A
Since Inception (1/05)	4.7	9.0

Calendar Year Returns

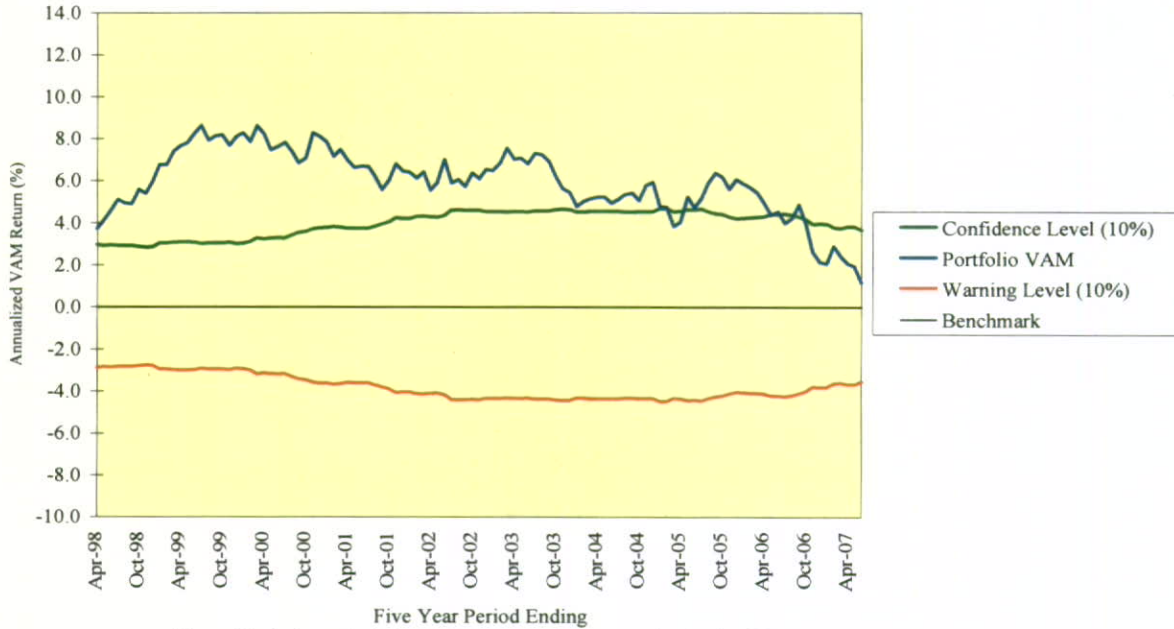
	Actual	Russell 1000 Growth
2006	-5.5%	9.1%
2005	10.9	5.3
2004	N/A	N/A
2003	N/A	N/A
2002	N/A	N/A

SANDS CAPITAL MANAGEMENT LLC
Periods Ending June, 2007

Portfolio Manager: Frank Sands, Sr.

Assets Under Management: \$223,158,381

Sands Capital Management, LLC
 Rolling Five Year VAM vs. Russell 1000 Growth



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

VOYAGEUR ASSET MANAGEMENT
Periods Ending June, 2007

Portfolio Manager: Charles Henderson

Assets Under Management: \$52,304,144

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

Voyageur will make a presentation at the August 2007 Stock and Bond Committee to address the performance of the SBI portfolio.

Recommendation

No action required.

Quantitative Evaluation

Period Returns

(Annualized for multi-year periods)

	Actual	Russell 1000 Growth
Last Quarter	4.9%	6.9%
Last 1 year	10.6	19.0
Last 2 years	7.2	12.4
Last 3 years	5.4	8.7
Last 4 years	8.5	10.9
Last 5 years	6.2	9.3
Since Inception (7/00)	0.4	-4.4

Calendar Year Returns

	Actual	Russell 1000 Growth
2006	2.1%	9.1%
2005	3.9	5.3
2004	10.6	6.3
2003	23.2	29.7
2002	-20.6	-27.9

VOYAGEUR ASSET MANAGEMENT
Periods Ending June, 2007

Portfolio Manager: Charles Henderson

Assets Under Management: \$52,304,144

Voyageur Asset Management
 Rolling Five Year VAM vs. Russell 1000 Growth



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

WINSLOW CAPITAL MANAGEMENT, INC.

Periods Ending June, 2007

Portfolio Manager: Clark Winslow

Assets Under Management: \$124,096,906

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

The portfolio outperformed by 2.1 percentage points (ppt) during the quarter. An underweight position in the consumer discretionary sector coupled with strong stock selection aided returns. Strong stock selection within financials contributed to performance.

For the year the portfolio outperformed by 0.3 ppt. An overweight allocation to financials along with strong stock selection proved beneficial. An underweight position in the autos & transportation sector coupled with effective stock selection aided returns.

Recommendation

No action required.

Quantitative Evaluation

Period Returns

(Annualized for multi-year periods)

	Actual	Russell 1000 Growth
Last Quarter	9.0%	6.9%
Last 1 year	19.3	19.0
Last 2 years	14.7	12.4
Last 3 years	N/A	N/A
Last 4 years	N/A	N/A
Last 5 years	N/A	N/A
Since Inception (1/05)	11.6	9.0

Calendar Year Returns

	Actual	Russell 1000 Growth
2006	7.6%	9.1%
2005	10.5	5.3
2004	N/A	N/A
2003	N/A	N/A
2002	N/A	N/A

WINSLOW CAPITAL MANAGEMENT, INC.
Periods Ending June, 2007

Portfolio Manager: Clark Winslow

Assets Under Management: \$124,096,906

WINSLOW CAPITAL MANAGEMENT, INC.
 Rolling Five Year VAM vs. Russell 1000 Growth



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

ZEVENBERGEN CAPITAL INC.
Periods Ending June, 2007

Portfolio Manager: Nancy Zevenbergen

Assets Under Management: \$277,548,831

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
Last Quarter	8.7%	6.9%
Last 1 year	21.2	19.0
Last 2 years	17.0	12.4
Last 3 years	11.7	8.7
Last 4 years	15.3	10.9
Last 5 years	14.1	9.3
Since Inception (4/94)	10.9	9.5

Calendar Year Returns

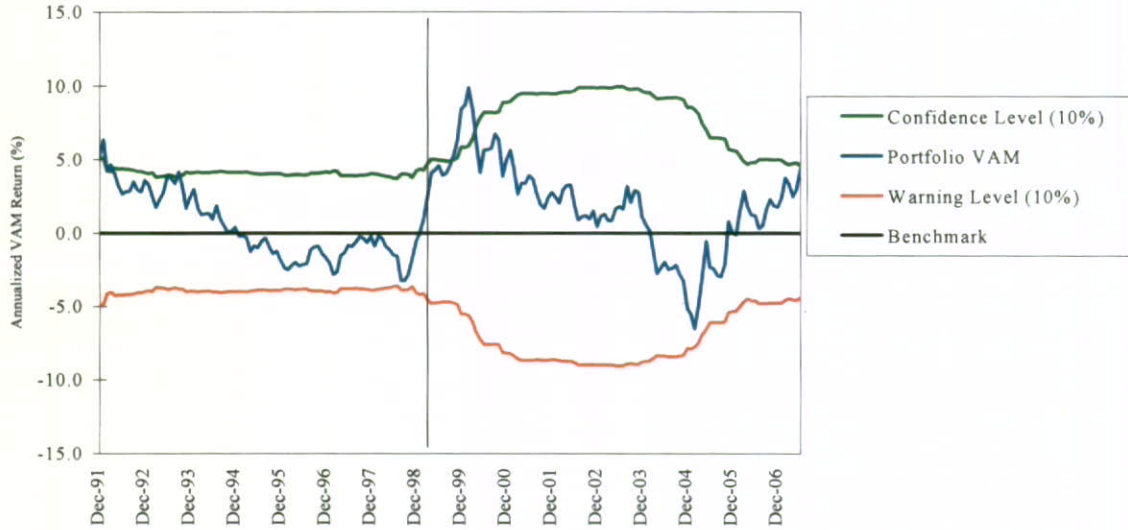
	Actual	Russell 1000 Growth
2006	6.2%	9.1%
2005	9.0	5.3
2004	13.1	6.3
2003	49.3	29.7
2002	-36.2	-27.9

ZEVENBERGEN CAPITAL INC.
Periods Ending June, 2007

Portfolio Manager: Nancy Zevenbergen

Assets Under Management: \$277,548,831

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.

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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, 2007

Portfolio Manager: Tim Culler

Assets Under Management: \$515,646,809

Investment Philosophy

Staff Comments

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.

No comment at this time.

Recommendation

No action required.

The manager remains fully invested with a defensive, conservative orientation based on the belief that superior returns can be achieved while taking below average risks. This strategy is implemented by constructing portfolios of individual stocks that exhibit price/earnings and price/book ratios significantly *below* the market and dividend yields significantly *above* the market. Risk control is achieved by limiting sector weights to 35% and industry weights to 15%. In periods of economic recovery and rising equity markets, profitability and earnings growth are rewarded by the expansion of price/earnings ratios and the generation of excess returns.

Quantitative Evaluation

Period Returns

(Annualized for multi-year periods)

	Actual	Russell 1000 Value
Last Quarter	7.1%	4.9%
Last 1 year	21.9	21.9
Last 2 years	14.0	16.9
Last 3 years	15.8	15.9
Last 4 years	N/A	N/A
Last 5 years	N/A	N/A
Since Inception (4/04)	15.4	14.9

Calendar Year Returns*

	Actual	Russell 1000 Value
2006	15.4%	22.2%
2005	9.6	7.1
2004	N/A	N/A
2003	N/A	N/A
2002	N/A	N/A

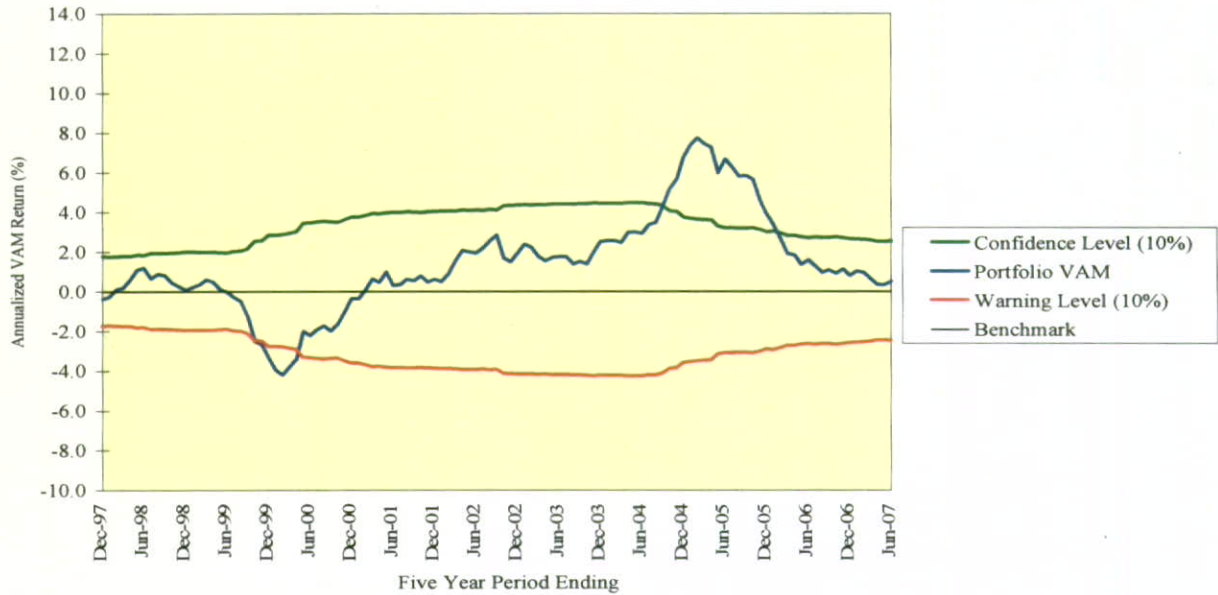
* Note: Manager was funded 4/04. Includes full-year returns only. Performance of managers hired during a calendar year are reported beginning with the following calendar year.

BARROW, HANLEY, MEWHINNEY & STRAUSS, INC.
Periods Ending June, 2007

Portfolio Manager: Tim Culler

Assets Under Management: \$515,646,809

BARROW, HANLEY, MEWHINNEY & STRAUSS, INC.
 Rolling Five Year VAM vs. Russell 1000 Value



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

EARNEST PARTNERS, LLC
Periods Ending June, 2007

Portfolio Manager: Paul Viera

Assets Under Management: \$204,856,431

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
Last Quarter	7.5%	4.9%
Last 1 year	18.6	21.9
Last 2 years	15.3	16.9
Last 3 years	17.1	15.9
Last 4 years	18.8	17.2
Last 5 years	15.3	13.3
Since Inception (7/00)	8.0	9.4

Calendar Year Returns

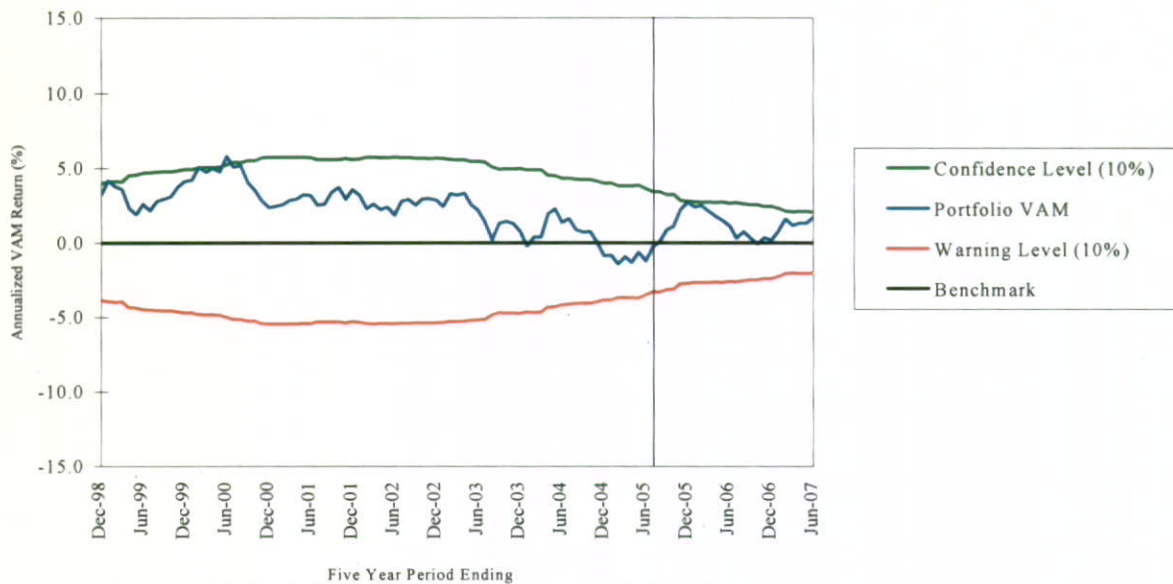
	Actual	Russell 1000 Value
2006	13.8%	22.2%
2005	15.6	7.1
2004	18.9	16.5
2003	32.0	30.0
2002	-18.1	-15.5

EARNEST PARTNERS, LLC
Periods Ending June, 2007

Portfolio Manager: Paul Viera

Assets Under Management: \$204,856,431

Earnest Partners
 Rolling Five Year VAM vs. Russell 1000 Value



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

LORD ABBETT & CO. LLC
Periods Ending June, 2007

Portfolio Manager: Eli Saltzmann

Assets Under Management: \$355,146,416

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

The portfolio outperformed by 0.7 percentage point (ppt) during the quarter. An underweight allocation to financials coupled with strong stock selection proved beneficial. Effective stock selection within the materials & processing and consumer staples sectors also aided returns.

For the year the portfolio underperformed by 2.9 ppt. Weak overall sector allocation decisions pressured returns. An underweight position in the consumer discretionary sector represented a missed opportunity; ineffective stock selection increased the negative impact.

Recommendation

No action required.

Quantitative Evaluation

Period Returns

(Annualized for multi-year periods)

	Actual	Russell 1000 Value
Last Quarter	5.6%	4.9%
Last 1 year	19.0	21.9
Last 2 years	15.7	16.9
Last 3 years	12.3	15.9
Last 4 years	N/A	N/A
Last 5 years	N/A	N/A
Since Inception (4/04)	11.9	14.9

Calendar Year Returns*

	Actual	Russell 1000 Value
2006	18.6%	22.2%
2005	3.5	7.1
2004	N/A	N/A
2003	N/A	N/A
2002	N/A	N/A

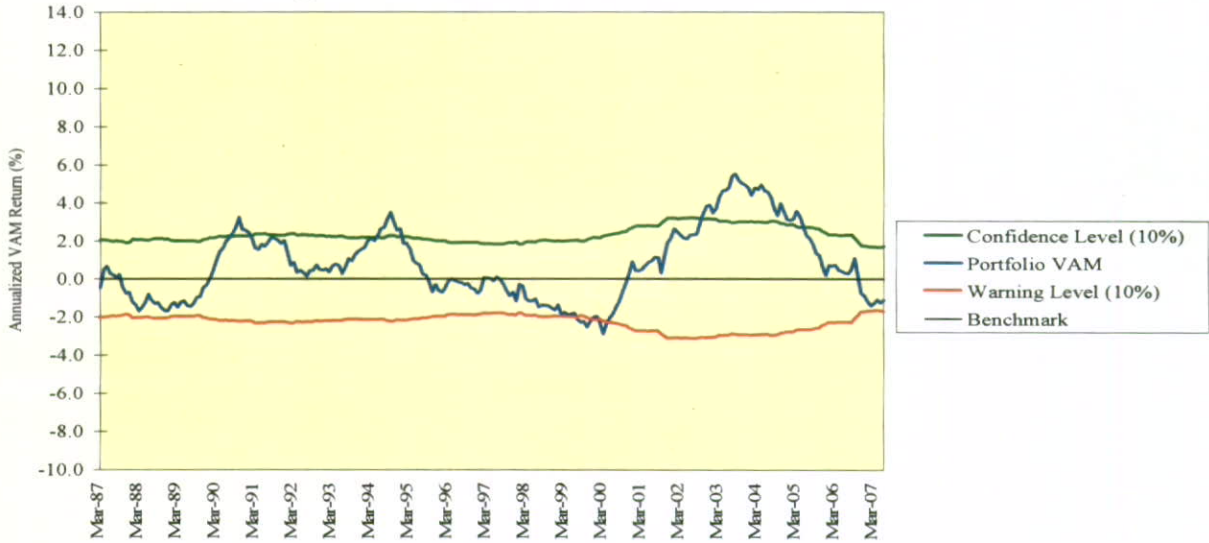
* Note: Manager was funded 4/04. Includes full-year returns only. Performance of managers hired during a calendar year are reported beginning with the following calendar year.

LORD ABBETT & CO. LLC
Periods Ending June, 2007

Portfolio Manager: Eli Saltzmann

Assets Under Management: \$355,146,416

LORD ABBETT & CO. LLC
Rolling Five Year VAM vs. Russell 1000 Value



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

LSV ASSET MANAGEMENT
Periods Ending June, 2007

Portfolio Manager: Josef Lakonishok

Assets Under Management: \$505,585,762

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 by 1.9 percentage points (ppt) for the quarter and 0.7 ppt for the year. In both periods overall sector allocation and stock selection decisions contributed to performance. Overweight positions in producer durables and technology combined with strong stock selection contributed to performance for both the quarter and year.

Recommendation

No action required.

Quantitative Evaluation

Period Returns

(Annualized for multi-year periods)

	Actual	Russell 1000 Value
Last Quarter	6.8%	4.9%
Last 1 year	22.6	21.9
Last 2 years	18.9	16.9
Last 3 years	18.9	15.9
Last 4 years	N/A	N/A
Last 5 years	N/A	N/A
Since Inception (4/04)	18.1	14.9

Calendar Year Returns*

	Actual	Russell 1000 Value
2006	21.7%	22.2%
2005	12.5	7.1
2004	N/A	N/A
2003	N/A	N/A
2002	N/A	N/A

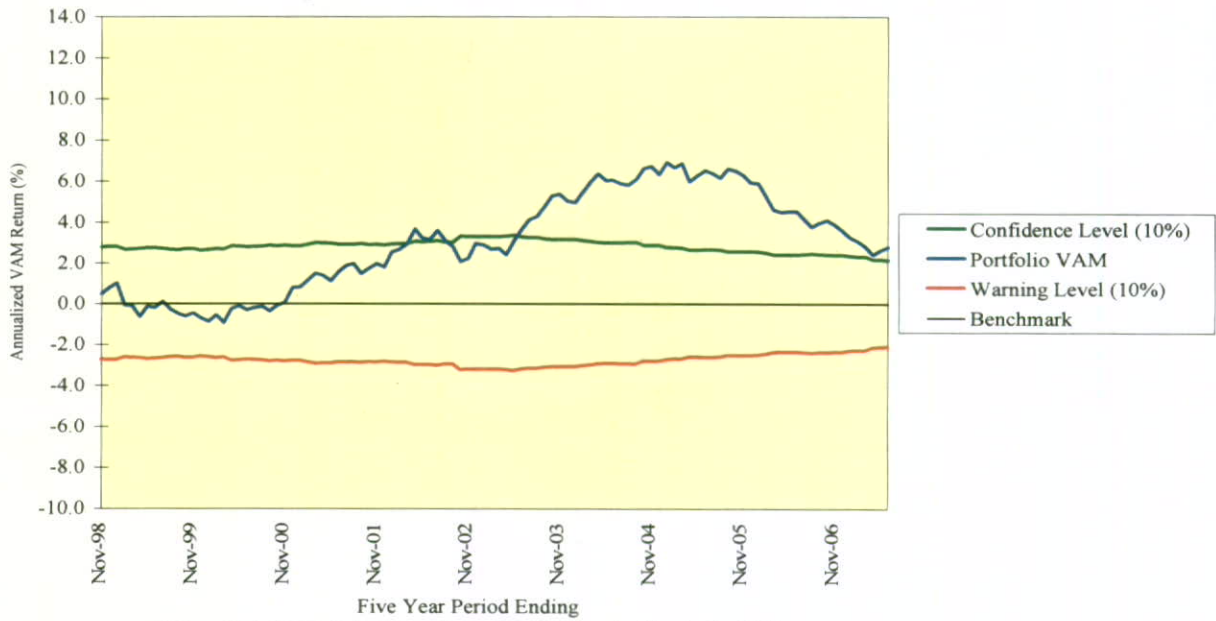
* Note: Manager was funded 4/04. Includes full-year returns only. Performance of managers hired during a calendar year are reported beginning with the following calendar year.

LSV ASSET MANAGEMENT
Periods Ending June, 2007

Portfolio Manager: Josef Lakonishok

Assets Under Management: \$505,585,762

LSV ASSET MANAGEMENT
Rolling Five Year VAM vs. Russell 1000 Value



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

SYSTEMATIC FINANCIAL MANAGEMENT, L.P.

Periods Ending June, 2007

Portfolio Manager: Kevin McCreesh

Assets Under Management: \$357,582,496

Investment Philosophy

Staff Comments

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 portfolio outperformed by 1.1 percentage points (ppt) during the quarter and 0.8 ppt for the year. An underweight position in financials combined with effective stock selection aided returns for the quarter and the year. Effective stock selection within the producer durables and materials & processing sectors contributed to performance in both periods.

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.

Recommendation

No action required.

Quantitative Evaluation

Period Returns

(Annualized for multi-year periods)

	Actual	Russell 1000 Value
Last Quarter	6.0%	4.9%
Last 1 year	22.7	21.9
Last 2 years	17.6	16.9
Last 3 years	16.4	15.9
Last 4 years	N/A	N/A
Last 5 years	N/A	N/A
Since Inception (4/04)	15.5	14.9

Calendar Year Returns*

	Actual	Russell 1000 Value
2006	17.9%	22.2%
2005	10.3	7.1
2004	N/A	N/A
2003	N/A	N/A
2002	N/A	N/A

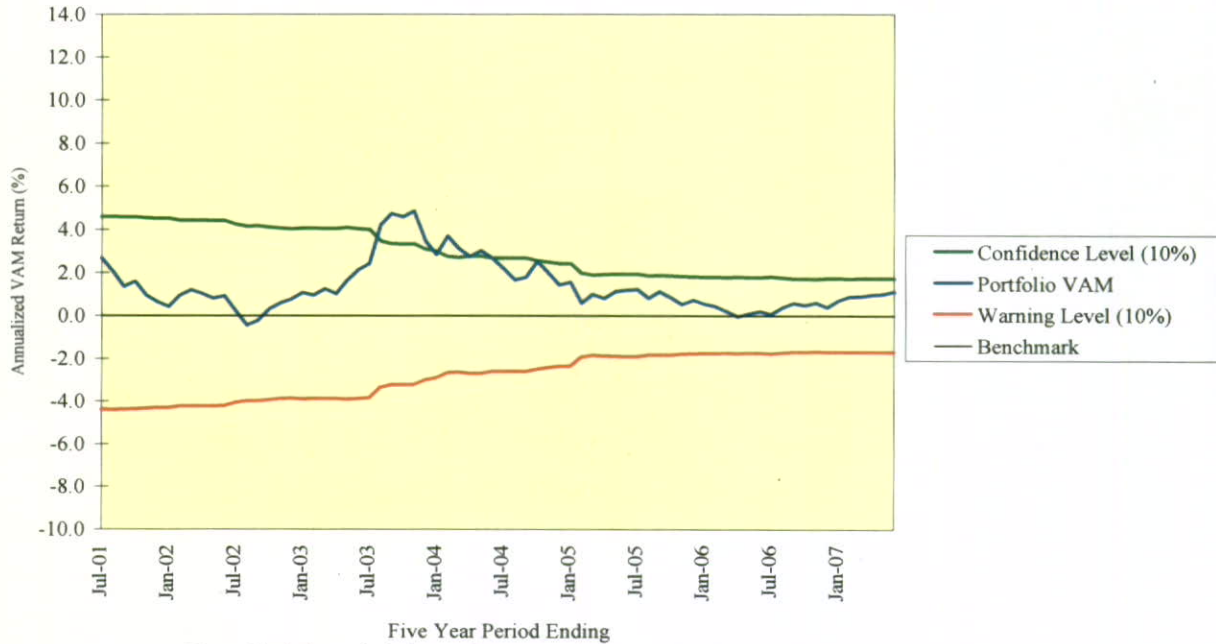
* Note: Manager was funded 4/04. Includes full-year returns only. Performance of managers hired during a calendar year are reported beginning with the following calendar year.

SYSTEMATIC FINANCIAL MANAGEMENT, L.P.
Periods Ending June, 2007

Portfolio Manager: Kevin McCreesh

Assets Under Management: \$357,582,496

SYSTEMATIC FINANCIAL MANAGEMENT, LP
Rolling Five Year VAM vs. Russell 1000 Value



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, 2007

Portfolio Manager: Robert Gillam, Sr.

Assets Under Management: \$260,133,147

Investment Philosophy

The team believes that excess market returns can be achieved through the construction and management of a diversified, fundamentally sound portfolio of inefficiently priced securities whose earnings growth rates are accelerating above market expectations. Using proprietary quantitative models, the team systematically searches for and identifies early signs of accelerating growth. The initial universe consists of growth and value stocks from all capitalization categories.

The primary model includes a linear regression model to identify common stocks that are inefficiently priced relative to the market while adjusting each security for standard deviation. The ratio of alpha to standard deviation is the primary screening value and is used to filter out all but the top 10% of stocks in our initial universe. The remaining candidates are tested for liquidity and strength of earnings. In the final portfolio construction process, qualitative aspects are examined, including economic factors, Wall Street research, and specific industry themes.

Quantitative Evaluation

Period Returns

(Annualized for multi-year periods)

	Actual	Russell 2000 Growth
Last Quarter	8.6%	6.7%
Last 1 year	16.0	16.8
Last 2 years	17.1	15.7
Last 3 years	11.8	11.8
Last 4 years	N/A	N/A
Last 5 years	N/A	N/A
Since Inception (1/04)	11.2	11.8

Calendar Year Returns

	Actual	Russell 2000 Growth
2006	12.5%	13.3%
2005	0.2	4.2
2004	12.2	14.3
2003	N/A	N/A
2002	N/A	N/A

Staff Comments

The portfolio outperformed by 1.9 percentage points (ppt) during the quarter. Overall sector allocation decisions and stock selection aided performance. An underweight position in financials coupled with strong stock selection proved beneficial.

For the year, the portfolio underperformed by 0.8 ppt. Overall stock selection detracted from performance and was particularly weak within the technology, consumer discretionary and health care sectors.

Recommendation

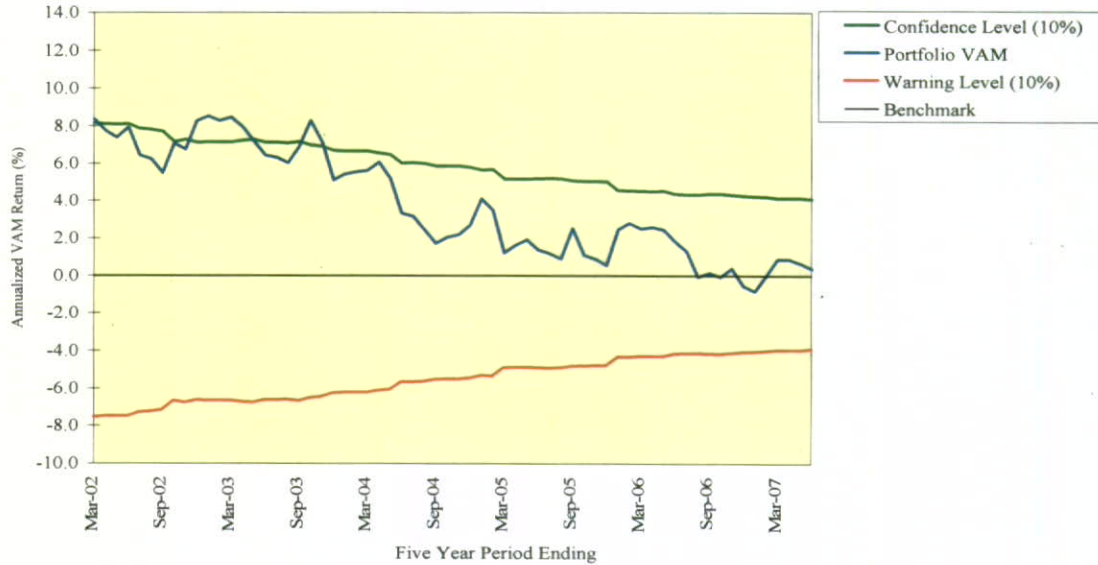
No action required.

MCKINLEY CAPITAL MANAGEMENT
Periods Ending June, 2007

Portfolio Manager: Robert Gillam, Sr.

Assets Under Management: \$260,133,147

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



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

NEXT CENTURY GROWTH INVESTORS, LLC
Periods Ending June, 2007

Portfolio Manager: Thomas Press and Don Longlet

Assets Under Management: \$270,017,440

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
Last Quarter	15.0%	6.7%
Last 1 year	17.9	16.8
Last 2 years	24.1	15.7
Last 3 years	20.4	11.8
Last 4 years	22.5	16.4
Last 5 years	17.6	13.1
Since Inception (7/00)	1.3	0.9

Calendar Year Returns

	Actual	Russell 2000 Growth
2006	12.4%	13.3%
2005	25.2	4.2
2004	6.4	14.3
2003	50.7	48.5
2002	-33.3	-30.3

NEXT CENTURY GROWTH INVESTORS, LLC
Periods Ending June, 2007

Portfolio Manager: Thomas Press and Don Longlet

Assets Under Management: \$270,017,440

Next Century Growth Investors
 Rolling Five Year VAM vs. Russell 2000 Growth



TURNER INVESTMENT PARTNERS
Periods Ending June, 2007

Portfolio Manager: William McVail

Assets Under Management: \$261,559,958

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

No comment at this time.

Recommendation

No action required.

Quantitative Evaluation

Period Returns

(Annualized for multi-year periods)

	Actual	Russell 2000 Growth
Last Quarter	7.9%	6.7%
Last 1 year	18.4	16.8
Last 2 years	18.4	15.7
Last 3 years	13.0	11.8
Last 4 years	N/A	N/A
Last 5 years	N/A	N/A
Since Inception (1/04)	12.5	11.8

Calendar Year Returns

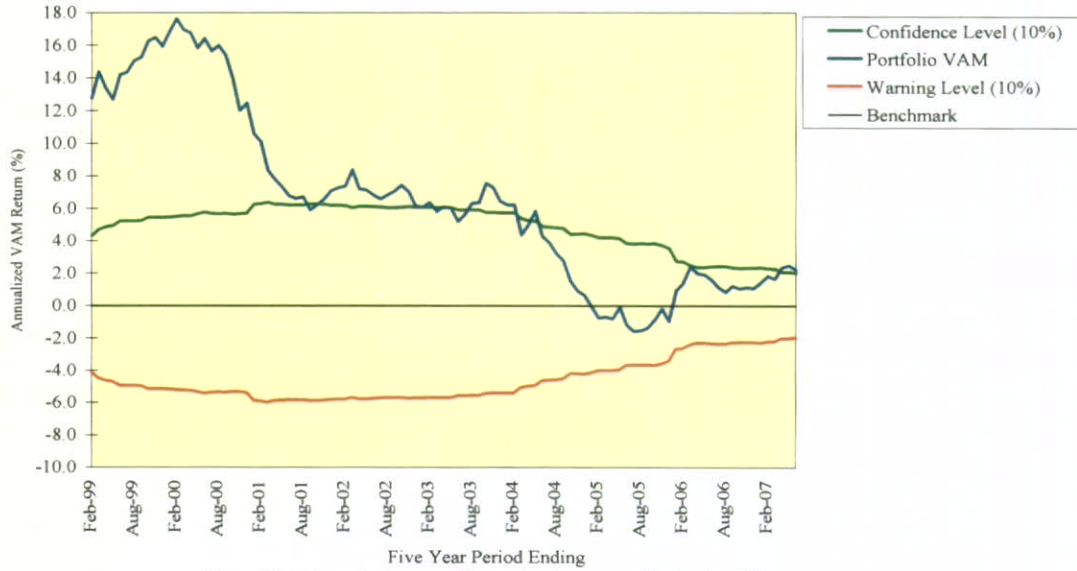
	Actual	Russell 2000 Growth
2006	13.6%	13.3%
2005	6.2	4.2
2004	11.6	14.3
2003	N/A	N/A
2002	N/A	N/A

TURNER INVESTMENT PARTNERS
Periods Ending June, 2007

Portfolio Manager: William McVail

Assets Under Management: \$261,559,958

TURNER INVESTMENT PARTNERS
Rolling Five Year VAM vs. Russell 2000 Growth



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

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Small Cap Value (R2000 Value)

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Small Cap Value (R2000 Value)

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GOLDMAN SACHS ASSET MANAGEMENT
Periods Ending June, 2007

Portfolio Manager: Chip Otness

Assets Under Management: \$145,849,705

Investment Philosophy

The firm's value equity philosophy is based on the belief that all successful investing begins with fundamental stock selection that should thoughtfully weigh a stock's price and prospects. A company's prospective ability to generate high cash flow returns on capital will strongly influence investment success. The team follows a strong valuation discipline to purchase well-positioned, cash generating businesses run by shareholder-oriented management teams.

Through extensive proprietary research, the team confirms that a candidate company's long-term competitive advantage and earnings power are intact. The team seeks to purchase a stock at a price that encompasses a healthy margin of safety. The investment process involves three steps: 1) prioritizing research, 2) analyzing fundamentals, and 3) portfolio construction. The independent Risk and Performance Analytics Group (RPAG) monitors daily portfolio management risk, adherence to client guidelines and general portfolio strategy.

Quantitative Evaluation

Period Returns

(Annualized for multi-year periods)

	Actual	Russell 2000 Value
Last Quarter	3.6%	2.3%
Last 1 year	17.4	16.1
Last 2 years	15.0	15.3
Last 3 years	14.0	15.0
Last 4 years	N/A	N/A
Last 5 years	N/A	N/A
Since Inception (1/04)	13.5	15.2

Calendar Year Returns

	Actual	Russell 2000 Value
2006	17.8%	23.5%
2005	4.1	4.7
2004	19.9	22.2
2003	N/A	N/A
2002	N/A	N/A

Staff Comments

The portfolio outperformed by 1.3 percentage points (ppt) during the quarter and the year. In both periods overall sector allocation decisions and stock selection contributed to performance. An overweight position in technology coupled with effective stock selection aided returns for both the quarter and year.

Recommendation

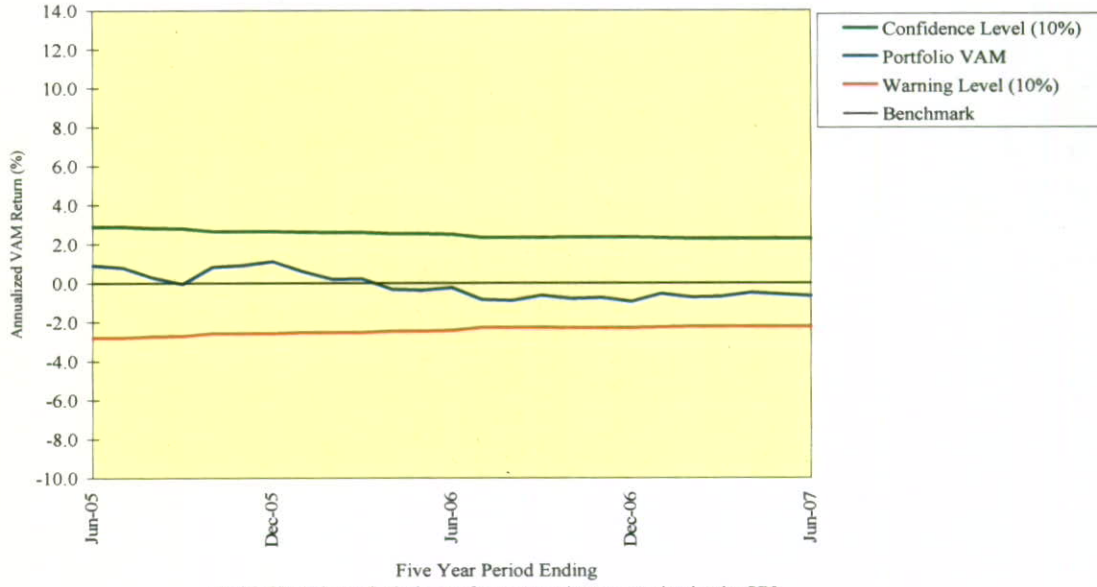
No action required.

GOLDMAN SACHS ASSET MANAGEMENT
Periods Ending June, 2007

Portfolio Manager: Chip Otness

Assets Under Management: \$145,849,705

GOLDMAN SACHS ASSET MANAGEMENT
Rolling Five Year VAM vs. Russell 2000 Value



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

HOTCHKIS & WILEY CAPITAL MANAGEMENT
Periods Ending June, 2007

Portfolio Manager: Jim Miles and David Green

Assets Under Management: \$147,227,054

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 outperformed by 3.4 percentage points (ppt) during the quarter. An underweight allocation to financials coupled with effective stock selection proved beneficial. Strong stock selection within the consumer discretionary sector contributed to performance.

For the year, the portfolio underperformed by 2.0 ppt. Weak stock selection within the producer durables sector, particularly within the homebuilding industry, detracted from performance. An underweight position in the other energy sector combined with ineffective stock selection pressured returns.

Recommendation

No action required.

Quantitative Evaluation

Period Returns

(Annualized for multi-year periods)

	Actual	Russell 2000 Value
Last Quarter	5.7%	2.3%
Last 1 year	14.1	16.1
Last 2 years	9.4	15.3
Last 3 years	12.3	15.0
Last 4 years	N/A	N/A
Last 5 years	N/A	N/A
Since Inception (1/04)	13.8	15.2

Calendar Year Returns

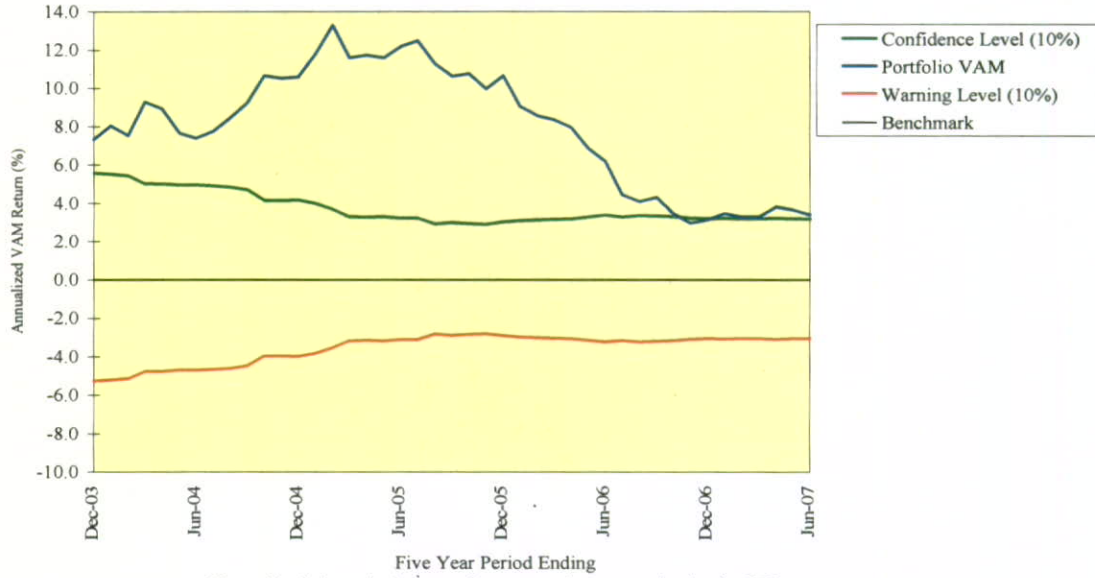
	Actual	Russell 2000 Value
2006	3.0%	23.5%
2005	10.4	4.7
2004	27.1	22.2
2003	N/A	N/A
2002	N/A	N/A

HOTCHKIS & WILEY CAPITAL MANAGEMENT
Periods Ending June, 2007

Portfolio Manager: Jim Miles and David Green

Assets Under Management: \$147,227,054

HOTCHKIS & WILEY CAPITAL MANAGEMENT
Rolling Five Year VAM vs. Russell 2000 Value



MARTINGALE ASSET MANAGEMENT
Periods Ending June, 2007

Portfolio Manager: William Jacques

Assets Under Management: \$151,220,045

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

No comment at this time.

Recommendation

No action required.

Quantitative Evaluation

Period Returns

(Annualized for multi-year periods)

	Actual	Russell 2000 Value
Last Quarter	1.0%	2.3%
Last 1 year	9.1	16.1
Last 2 years	9.2	15.3
Last 3 years	12.9	15.0
Last 4 years	N/A	N/A
Last 5 years	N/A	N/A
Since Inception (1/04)	14.7	15.2

Calendar Year Returns

	Actual	Russell 2000 Value
2006	14.8%	23.5%
2005	6.2	4.7
2004	30.8	22.2
2003	N/A	N/A
2002	N/A	N/A

MARTINGALE ASSET MANAGEMENT
Periods Ending June, 2007

Portfolio Manager: William Jacques

Assets Under Management: \$151,220,045

MARTINGALE ASSET MANAGEMENT
Rolling Five Year VAM vs. Russell 2000 Value



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

PEREGRINE CAPITAL MANAGEMENT
Periods Ending June, 2007

Portfolio Manager: Doug Pugh and Tasso Coin

Assets Under Management: \$236,410,484

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
Last Quarter	4.0%	2.3%
Last 1 year	14.6	16.1
Last 2 years	13.2	15.3
Last 3 years	15.7	15.0
Last 4 years	20.3	19.8
Last 5 years	14.3	14.6
Since Inception (7/00)	17.2	15.9

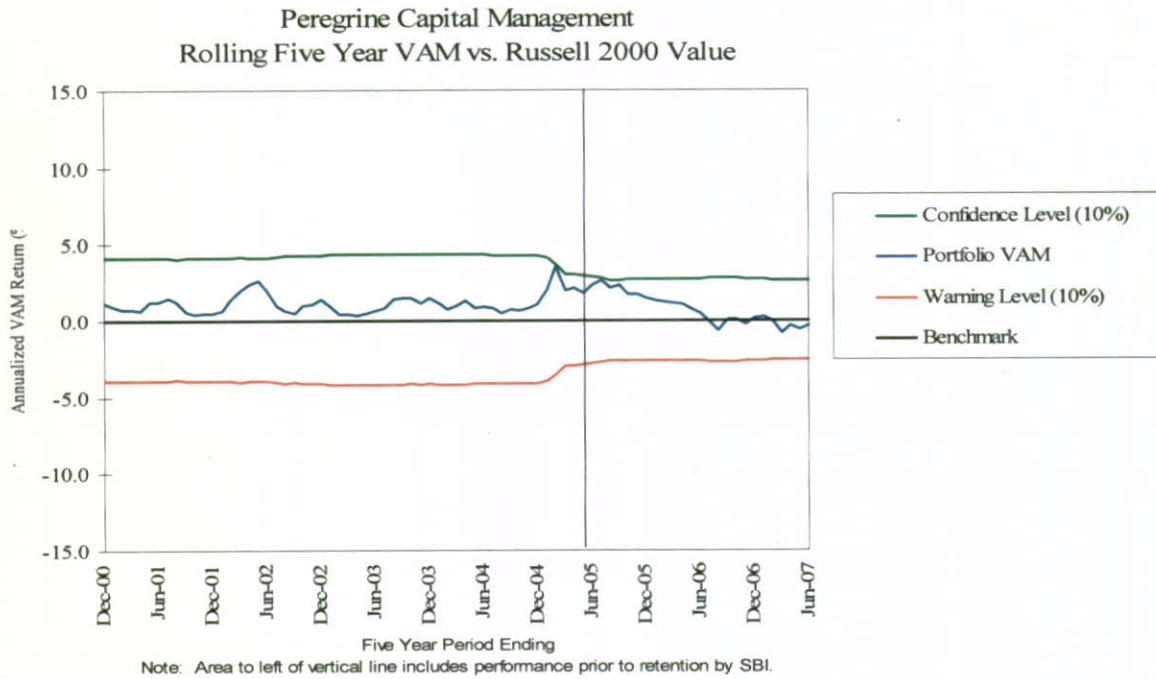
Calendar Year Returns

	Actual	Russell 2000 Value
2006	14.3%	23.5%
2005	10.1	4.7
2004	23.6	22.2
2003	44.2	46.0
2002	-8.1	-11.4

PEREGRINE CAPITAL MANAGEMENT
Periods Ending June, 2007

Portfolio Manager: Doug Pugh and Tasso Coin

Assets Under Management: \$236,410,484



RIVERSOURCE INVESTMENTS/KENWOOD CAPITAL MANAGEMENT
Periods Ending June, 2007

Portfolio Manager: Jacob Hurwitz and Kent Kelley

Assets Under Management: \$67,873,866

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

The portfolio outperformed for the quarter by 0.3 percentage point (ppt). Overweight allocations to materials & processing, producer durables and other energy combined with strong stock selection contributed to performance.

For the year the portfolio underperformed by 4.9 ppt. Weak overall stock selection detracted from performance and was particularly ineffective with the financial services and consumer discretionary sectors. Merger & acquisition activity impacting underweighted positions pressured relative returns.

Recommendation

No action required.

Quantitative Evaluation

Period Returns

(Annualized for multi-year periods)

	Actual	Russell 2000 Value
Last Quarter	2.6%	2.3%
Last 1 year	11.2	16.1
Last 2 years	13.6	15.3
Last 3 years	13.6	15.0
Last 4 years	N/A	N/A
Last 5 years	N/A	N/A
Since Inception (1/04)	14.8	15.2

Calendar Year Returns

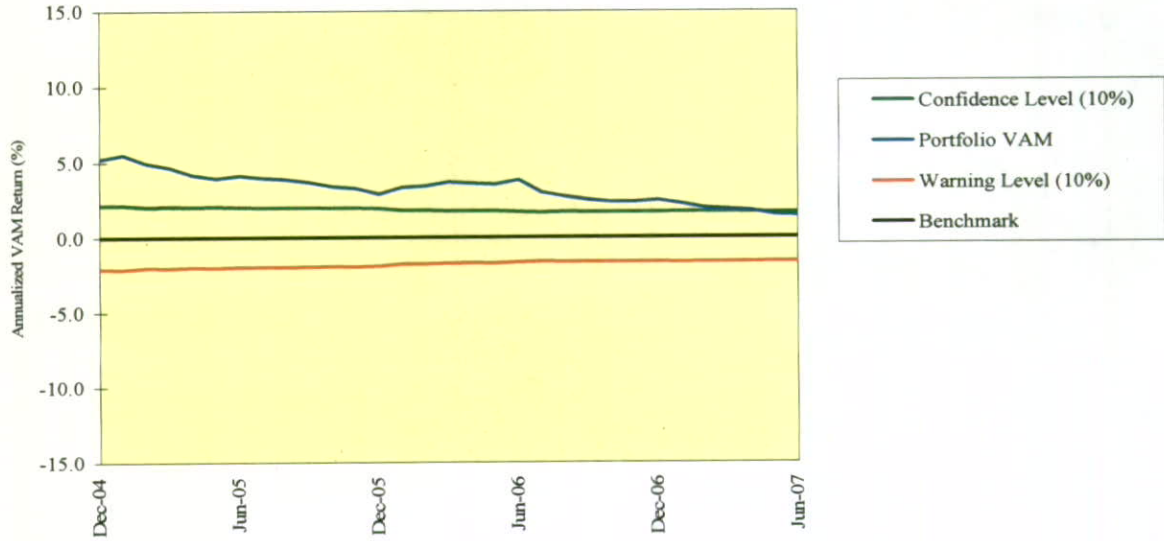
	Actual	Russell 2000 Value
2006	19.4%	23.5%
2005	4.8	4.7
2004	25.8	22.2
2003	N/A	N/A
2002	N/A	N/A

RIVERSOURCE INVESTMENTS/KENWOOD CAPITAL MANAGEMENT
Periods Ending June, 2007

Portfolio Manager: Jacob Hurwitz and Kent Kelley

Assets Under Management: \$67,873,866

RIVERSOURCE / KENWOOD CAPITAL MANAGEMENT
Rolling Five Year VAM vs. Russell 2000 Value



Five Year Period Ending
 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, 2007

Portfolio Manager: Russ Koesterich

Assets Under Management: \$3,544,837,784

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	5.3%	5.9%
Last 1 year	19.3	20.4
Last 2 years	14.5	14.6
Last 3 years	12.5	12.3
Last 4 years	14.4	14.1
Last 5 years	11.8	11.2
Since Inception (1/95)	11.7	11.0

Calendar Year Returns

	Actual	Manager Benchmark*
2006	15.6%	15.5%
2005	7.6	6.3
2004	11.7	11.4
2003	30.0	28.5
2002	-19.1	-19.7

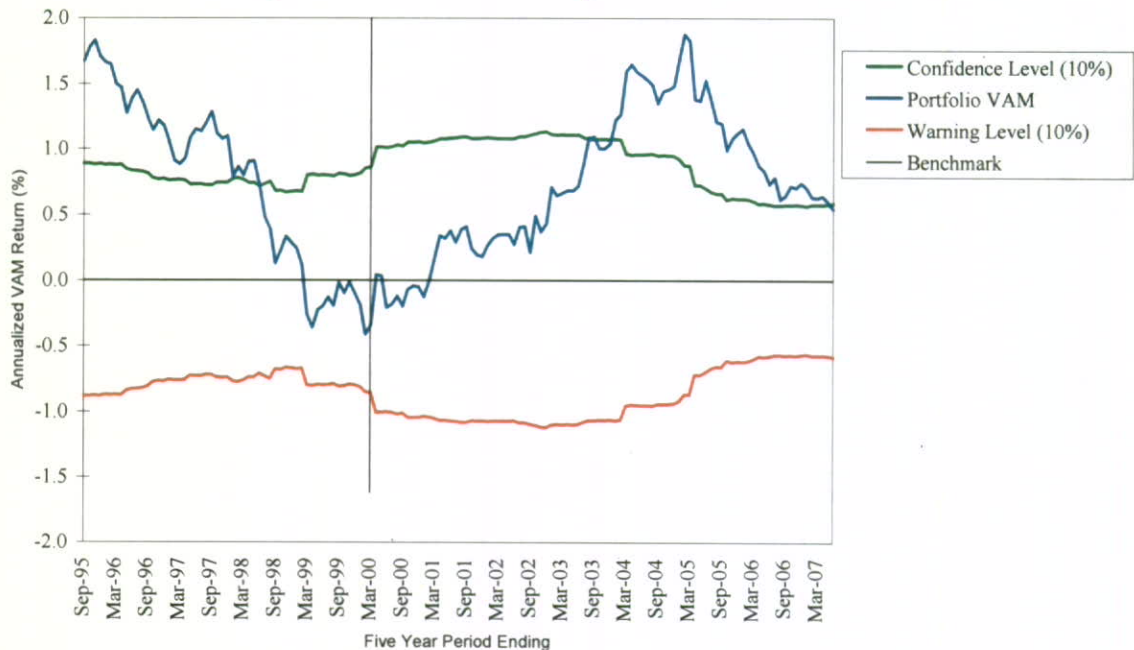
* Completeness Fund until 12/31/03; Russell 1000 beginning 1/1/04.

BARCLAYS GLOBAL INVESTORS
Periods Ending June, 2007

Portfolio Manager: Russ Koesterich

Assets Under Management: \$3,544,837,784

BARCLAYS GLOBAL INVESTORS - 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.

FRANKLIN PORTFOLIO ASSOCIATES
Periods Ending June, 2007

Portfolio Manager: John Cone

Assets Under Management: \$2,516,545,800

Investment Philosophy – Semi-Passive Style

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

Staff Comments

The portfolio underperformed by 2.0 percentage points (ppt) during the quarter and 1.2 ppt for the year. In both time periods, poor stock selection in financials and consumer staples hurt returns.

On July 2, 2007, Franklin's parent company, Mellon Financial, announced the completion of their merger with The Bank of New York to form The Bank of New York Mellon Corporation. No adverse changes are anticipated at Franklin as a result of this merger.

Recommendation

No action required.

Quantitative Evaluation

Period Returns

(Annualized for multi-year periods)

	Actual	Manager Benchmark*
Last Quarter	3.9%	5.9%
Last 1 year	19.2	20.4
Last 2 years	14.1	14.6
Last 3 years	12.0	12.3
Last 4 years	13.7	14.1
Last 5 years	10.6	11.2
Since Inception (1/95)	10.6	11.0

Calendar Year Returns

	Actual	Manager Benchmark*
2006	16.5%	15.5%
2005	6.1	6.3
2004	11.7	11.4
2003	26.9	28.5
2002	-20.2	-19.7

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

FRANKLIN PORTFOLIO ASSOCIATES

Periods Ending June, 2007

Portfolio Manager: John Cone

Assets Under Management: \$2,516,545,800

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, 2007

Portfolio Manager: Ralph Zingone and Terance Chen Assets Under Management: \$2,791,588,413

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 by 0.4 percentage point (ppt) during the quarter. Weak stock selection in consumer discretionary, utilities, and technology sectors negatively impacted performance.

For the year, the portfolio outperformed by 1.8 ppt. Strong stock selection in health care, consumer discretionary, technology and financials benefited performance.

Recommendation

No action required.

Quantitative Evaluation

Period Returns

(Annualized for multi-year periods)

	Actual	Manager Benchmark*
Last Quarter	5.5%	5.9%
Last 1 year	22.2	20.4
Last 2 years	14.5	14.6
Last 3 years	12.1	12.3
Last 4 years	13.9	14.1
Last 5 years	10.9	11.2
Since Inception (1/95)	11.0	11.0

Calendar Year Returns

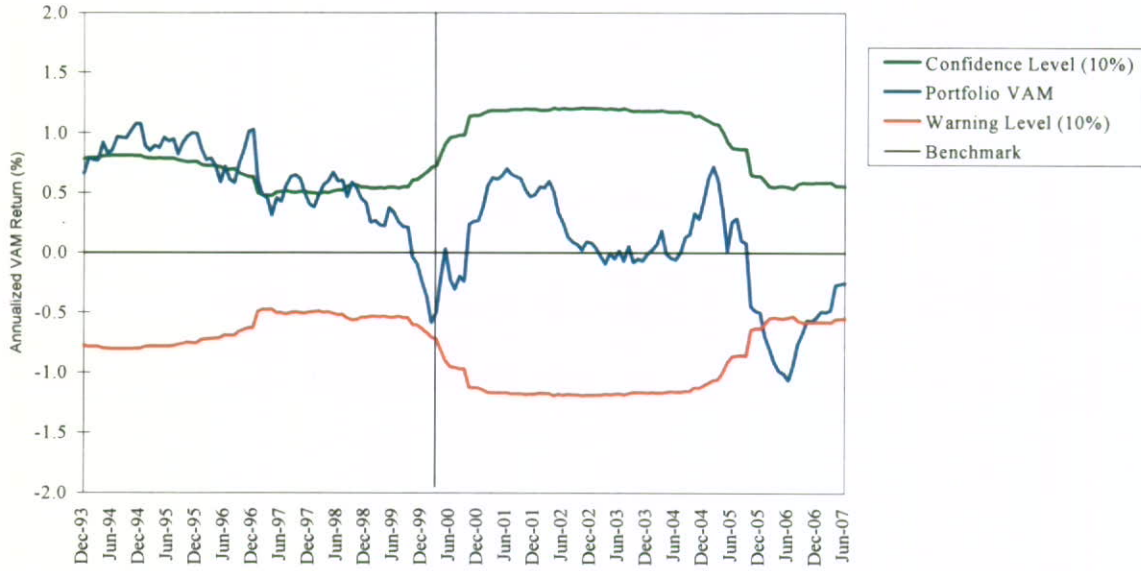
	Actual	Manager Benchmark*
2006	16.5%	15.5%
2005	4.7	6.3
2004	11.7	11.4
2003	28.9	28.5
2002	-21.8	-19.7

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

J.P. MORGAN INVESTMENT MANAGEMENT, INC.
Periods Ending June, 2007

Portfolio Manager: Ralph Zingone and Terance Chen Assets Under Management: \$2,791,588,413

JP MORGAN - SEMI-PASSIVE
Rolling Five Year VAM vs. Manager Benchmark



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

BARCLAYS GLOBAL INVESTORS
Periods Ending June, 2007

Portfolio Manager: Amy Schioldager

Assets Under Management: \$8,587,118,104

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	5.8%	5.8%
Last 1 year	20.0	20.1
Last 2 years	14.7	14.7
Last 3 years	12.5	12.4
Last 4 years	14.4	14.4
Last 5 years	11.6	11.6
Since Inception (7/95)	10.6	10.5

Calendar Year Returns

	Actual	Manager Benchmark*
2006	15.8%	15.7%
2005	6.2	6.1
2004	12.0	11.9
2003	30.9	31.2
2002	-21.4	-21.5

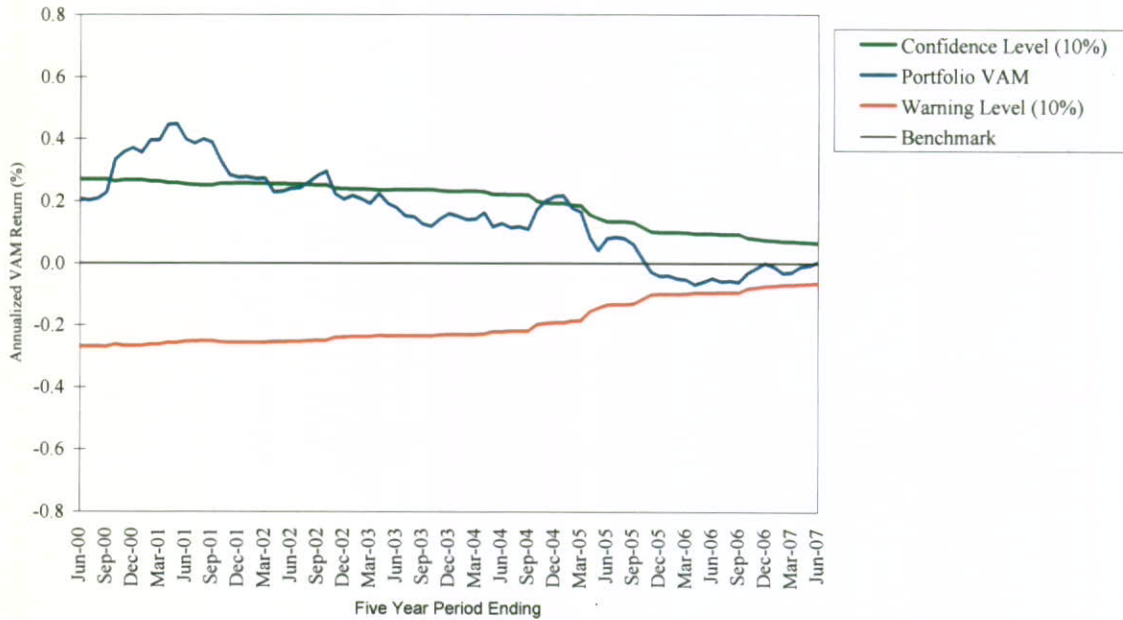
* The Domestic Equity Asset Class Target is the Russell 3000 Index effective 10/1/03. From Account inception to 6/30/99, the target was the Wilshire 5000 as reported with no adjustments.

BARCLAYS GLOBAL INVESTORS
Periods Ending June, 2007

Portfolio Manager: Amy Schioldager

Assets Under Management: \$8,587,118,104

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

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Bond Managers

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**COMBINED RETIREMENT FUNDS
BOND MANAGERS
Periods Ending June, 2007**

	Quarter		1 Year		3 Years		5 Years		Since (1) Inception		Market Value (in millions)	Pool %
	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %		
Active Managers												
Aberdeen	-0.4	-0.5	6.5	6.1	4.4	4.0	5.1	4.5	6.7	6.2	\$1,097.9	9.5%
Dodge & Cox	-0.1	-0.5	6.7	6.1	4.5	4.0	5.6	4.5	7.2	6.2	\$1,124.1	9.7%
Morgan Stanley	0.0	-0.5	6.1	6.1	4.6	4.0	4.9	4.5	9.1	8.8	\$904.7	7.8%
RiverSource	-0.3	-0.5	6.3	6.1	4.4	4.0	4.6	4.5	5.9	6.0	\$1,025.0	8.9%
Western	-0.9	-0.5	6.9	6.1	4.7	4.0	6.1	4.5	10.0	8.7	\$1,566.9	13.6%
Active Mgr. Aggregate	-0.4	-0.5	6.5	6.1	4.5	4.0	5.2	4.5	9.2	8.7	\$5,718.6	49.5%
Semi-Passive Managers												
BlackRock	-0.7	-0.5	5.7	6.1	4.0	4.0	4.7	4.5	6.3	6.1	\$1,911.7	16.5%
Goldman	-0.4	-0.5	6.2	6.1	4.3	4.0	5.0	4.5	6.3	6.0	\$1,921.6	16.6%
Lehman	-0.5	-0.5	6.2	6.1	4.1	4.0	4.6	4.5	7.5	7.4	\$2,006.8	17.4%
Semi-Passive Mgr. Aggregate	-0.5	-0.5	6.0	6.1	4.1	4.0	4.8	4.5	7.6	7.4	\$5,840.1	50.5%
									Since 7/1/84			
Historical Aggregate (2)	-0.5	-0.5	6.3	6.1	4.3	4.0	5.0	4.5	8.9	8.8	\$11,558.73	100.0%
Lehman Aggregate (3)		-0.5		6.1		4.0		4.5		8.7		

(1) Since retention by the SBI. Time period varies for each manager.

(2) Includes performance of terminated managers.

(3) Prior to July 1994, this index reflects the Salomon BIG.

COMBINED RETIREMENT FUNDS
BOND MANAGERS
Calendar Year Returns

	2006		2005		2004		2003		2002	
	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %
Active Managers										
Aberdeen	4.8	4.3	2.7	2.4	5.1	4.3	5.2	4.1	10.2	10.3
Dodge & Cox	5.5	4.3	2.5	2.4	4.1	4.3	7.4	4.1	11.1	10.3
Morgan Stanley	4.2	4.3	4.1	2.4	4.6	4.3	5.1	4.1	7.9	10.3
RiverSource	4.7	4.3	2.6	2.4	5.1	4.3	4.3	4.1	5.5	10.3
Western	5.4	4.3	2.7	2.4	6.6	4.3	9.2	4.1	9.4	10.3
Active Mgr. Aggregate	5.0	4.3	2.9	2.4	5.3	4.3	6.6	4.1	8.0	10.3
Semi-Passive Managers										
BlackRock	4.3	4.3	2.7	2.4	4.5	4.3	4.4	4.1	10.4	10.3
Goldman	4.5	4.3	2.8	2.4	5.1	4.3	5.7	4.1	8.9	10.3
Lehman	4.5	4.3	2.5	2.4	4.6	4.3	4.4	4.1	10.1	10.3
Semi-Passive Mgr. Aggregate	4.5	4.3	2.6	2.4	4.7	4.3	4.8	4.1	9.8	10.3
Historical Aggregate										
	4.7	4.3	2.8	2.4	5.0	4.3	5.7	4.1	8.9	10.3
Lehman Aggregate		4.3		2.4		4.3		4.1		10.3

ABERDEEN ASSET MANAGEMENT
Periods Ending June, 2007

Portfolio Manager: Warren Davis

Assets Under Management: \$1,097,886,804

Investment Philosophy

Aberdeen (formerly Deutsche) believes there are significant pricing inefficiencies inherent in bond markets and that diligent credit analysis, security structure evaluation, and relative value assessment can be used to exploit these inefficiencies. The firm avoids interest rate forecasting and sector rotation because they believe these strategies will not deliver consistent out performance versus the benchmark over time. The firm's valued added is derived primarily from individual security selection. Portfolio managers and analysts research bonds within their sector of expertise and construct portfolios from the bottom-up, bond by bond. Sector weightings are a byproduct of the bottom-up security selection. Aberdeen was retained by the SBI in February 2000.

Staff Comments

Aberdeen exceeded the quarterly and one-year benchmark. The quarterly performance was helped by security selection in the mortgage sector. The one-year outperformance was due to an overweight to BBB securities and an overweight to mortgage-backed securities.

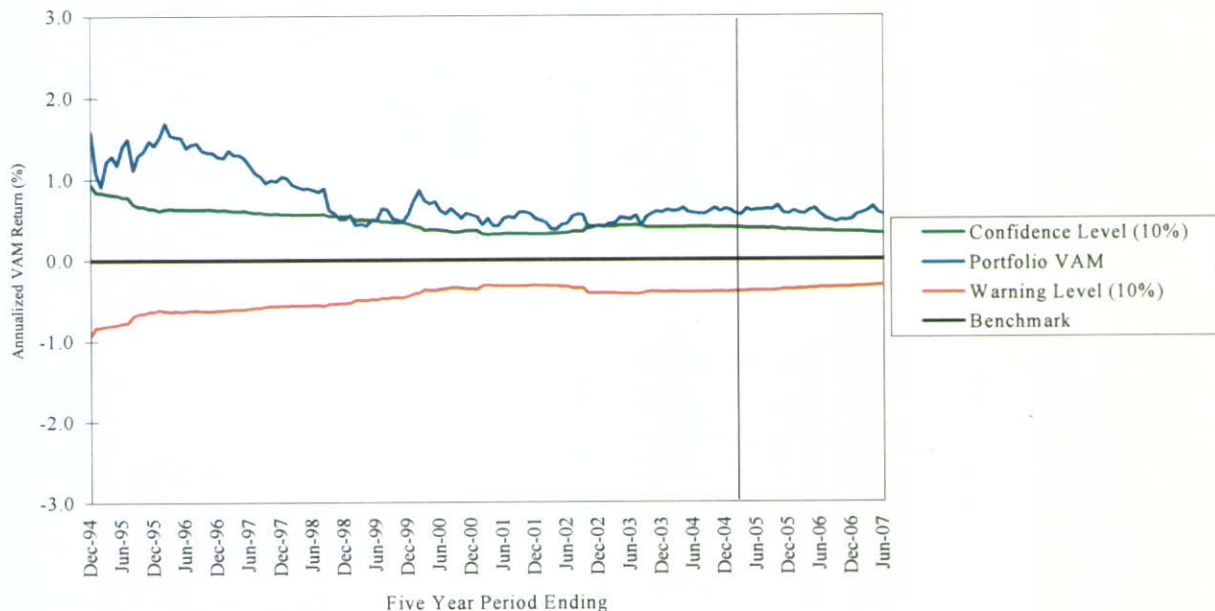
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	-0.4%	-0.5%
Last 1 year	6.5	6.1
Last 2 years	2.9	2.6
Last 3 years	4.4	4.0
Last 4 years	3.6	3.1
Last 5 years	5.1	4.5
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, 2007

Portfolio Manager: Dana Emery

Assets Under Management: \$1,124,132,926

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 for the quarter and the one-year benchmark. Both periods were helped by security selection in the corporate sector. The quarterly return also benefited from the portfolio's shorter effective duration.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	-0.1%	-0.5%
Last 1 year	6.7	6.1
Last 2 years	3.7	2.6
Last 3 years	4.5	4.0
Last 4 years	3.8	3.1
Last 5 years	5.6	4.5
Since Inception (2/00)	7.2	6.2

Recommendations

No action required.

DODGE & COX INVESTMENT MANAGERS
Rolling Five Year VAM



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

MORGAN STANLEY INVESTMENT MANAGEMENT
Periods Ending June, 2007

Portfolio Manager: David Armstrong

Assets Under Management: \$904,653,097

Investment Philosophy

Morgan Stanley 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. Morgan Stanley has developed significant expertise in mortgage securities, which are often used to replace U.S. Treasuries in portfolios. Morgan Stanley was retained by the SBI in July 1984.

Staff Comments

Morgan Stanley exceeded the benchmark for the quarter and matched for the year. Security selection in the mortgage sector helped performance during both periods. The below benchmark interest rate bet also helped the quarterly return.

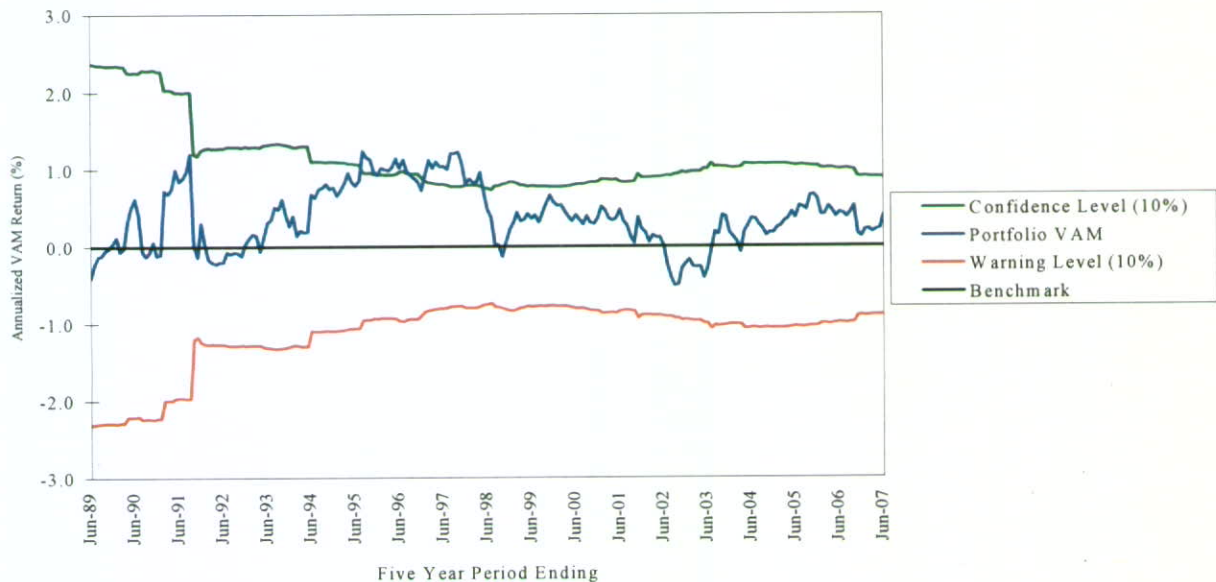
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	0.0%	-0.5%
Last 1 year	6.1	6.1
Last 2 years	3.5	2.6
Last 3 years	4.6	4.0
Last 4 years	4.1	3.1
Last 5 years	4.9	4.5
Since Inception (7/84)	9.1	8.8

Recommendations

No action required.

MORGAN STANLEY INVESTMENT MANAGEMENT
Rolling Five Year VAM



RIVERSOURCE INVESTMENTS
Periods Ending June, 2007

Portfolio Manager: Colin Lundgren

Assets Under Management: \$1,025,030,946

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 exceeded the quarterly and one-year benchmark. Both periods were helped by a short duration position and security selection in the mortgage sector.

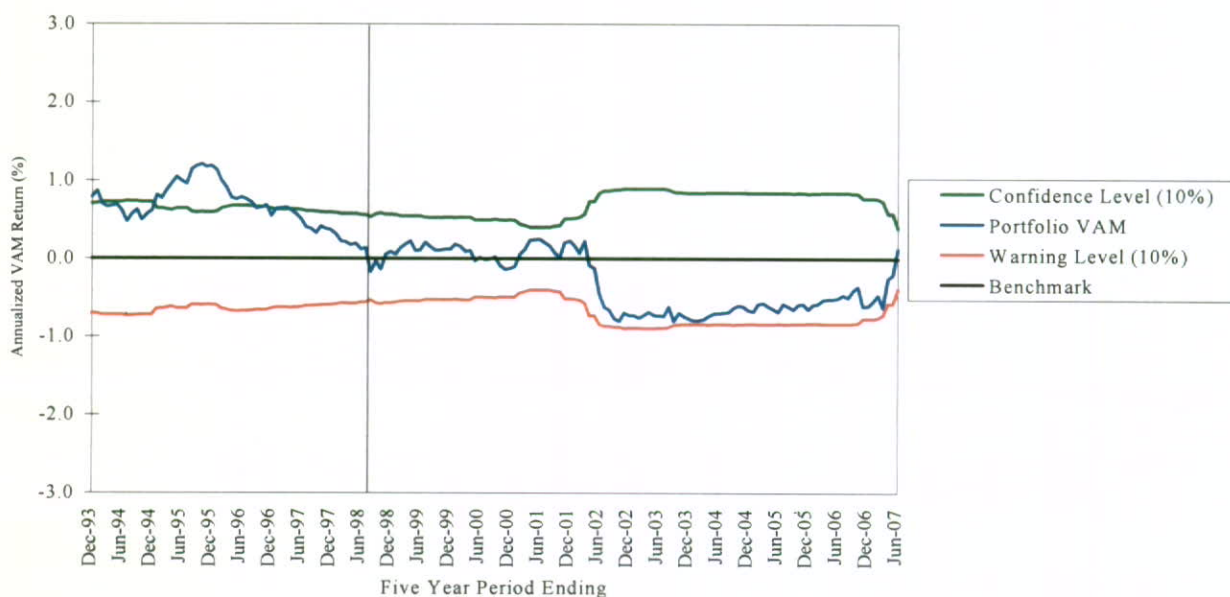
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	-0.3%	-0.5%
Last 1 year	6.3	6.1
Last 2 years	3.1	2.6
Last 3 years	4.4	4.0
Last 4 years	3.4	3.1
Last 5 years	4.6	4.5
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, 2007

Portfolio Manager: Ken Leech

Assets Under Management: \$1,566,900,764

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 and outperformed for the year. The quarterly return was hurt by their tactical duration bets and an overweight exposure to the mortgage-backed sector. The one-year return benefited from an overweight exposure to the mortgage-backed sector.

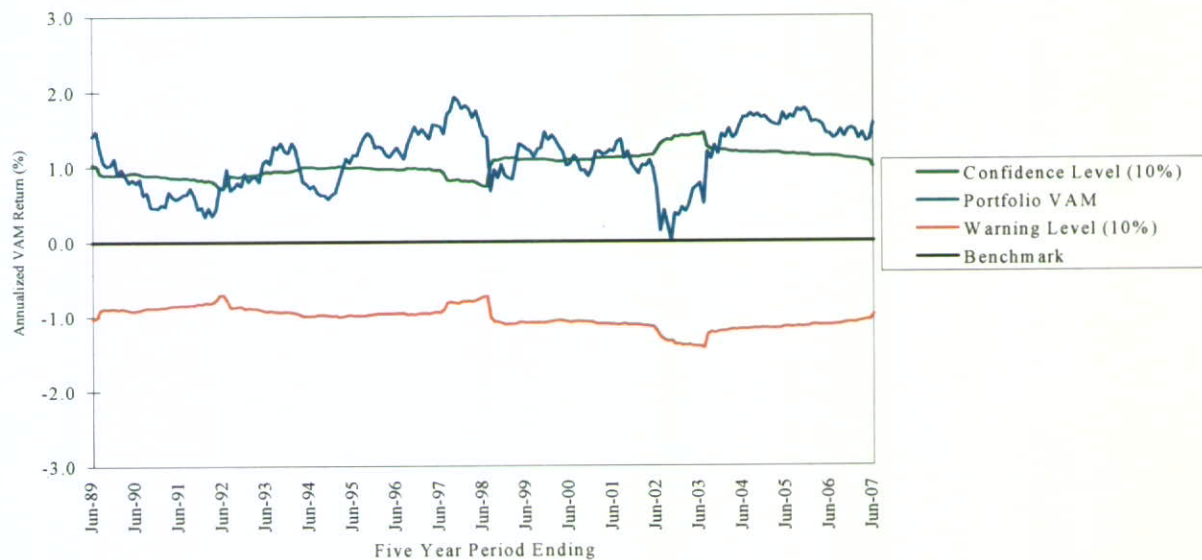
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	-0.9%	-0.5%
Last 1 year	6.9	6.1
Last 2 years	3.2	2.6
Last 3 years	4.7	4.0
Last 4 years	4.5	3.1
Last 5 years	6.1	4.5
Since Inception (7/84)	10.0	8.7

Recommendations

No action required.

WESTERN ASSET MANAGEMENT
Rolling Five Year VAM



BLACKROCK, INC.
Periods Ending June, 2007

Portfolio Manager: Keith Anderson

Assets Under Management: \$1,911,675,534

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 lagged the quarterly and one-year benchmark. Both periods were negatively impacted by security selection in the mortgage-backed sector.

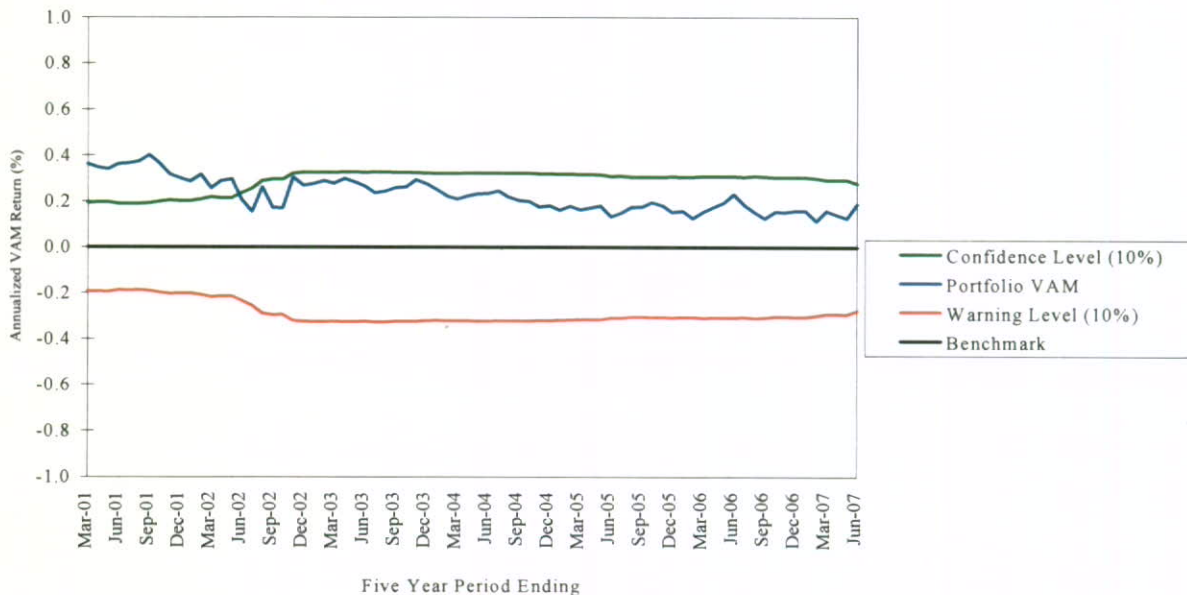
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	-0.7%	-0.5%
Last 1 year	5.7	6.1
Last 2 years	2.6	2.6
Last 3 years	4.0	4.0
Last 4 years	3.1	3.1
Last 5 years	4.7	4.5
Since Inception (4/96)	6.3	6.1

Recommendation

No action required.

BLACKROCK, INC.
Rolling Five Year VAM



GOLDMAN SACHS ASSET MANAGEMENT
Periods Ending June, 2007

Portfolio Manager: Jonathon Beinner

Assets Under Management: \$1,921,626,520

Investment Philosophy

Goldman manages an enhanced index portfolio closely tracking the Lehman Aggregate. Goldman's process can be viewed as active management within a very risk-controlled framework. The firm relies primarily on sector allocation and security selection strategies to generate incremental return. To a lesser degree, term structure strategies are also implemented. Goldman combines long-term strategic investment tilts with short-term tactical trading opportunities. Strategic tilts are based on fundamental and quantitative sector research and seek to optimize the long-term risk/return profile of portfolios. Tactical trades between sectors and securities within sectors are implemented to take advantage of short-term market anomalies. Goldman was retained by the SBI in July 1993.

Staff Comments

For both periods, Goldman outperformed their benchmark. Their short duration strategy contributed to returns over both timeframes.

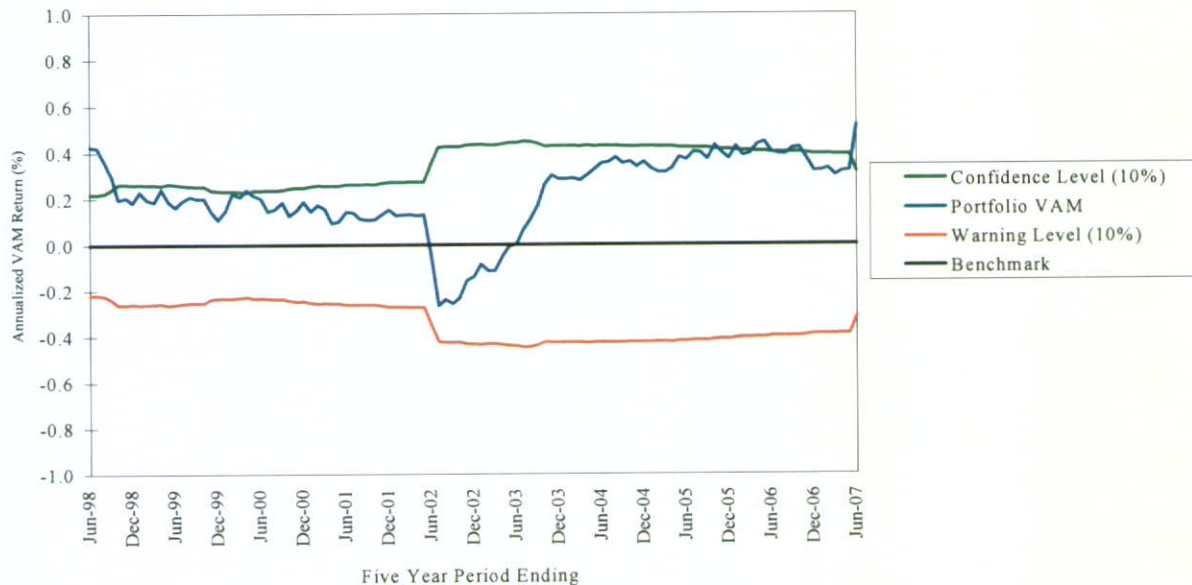
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	-0.4%	-0.5%
Last 1 year	6.2	6.1
Last 2 years	2.8	2.6
Last 3 years	4.3	4.0
Last 4 years	3.6	3.1
Last 5 years	5.0	4.5
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, 2007

Portfolio Manager: Andrew Johnson

Assets Under Management: \$2,006,818,742

Investment Philosophy

Lehman (formerly Lincoln) manages an enhanced index portfolio closely tracking the Lehman Aggregate. Lehman's process relies on a combination of quantitative tools and active management judgment. Explicit quantification and control of risks are at the heart of their process. Lehman uses proprietary risk exposure measures to analyze 25 interest rate factors, and over 30 spread-related factors. For each interest rate factor, the portfolio is very closely matched to the index to ensure that the portfolio earns the same return as the index for any change in interest rates. For each spread factor, the portfolio can deviate slightly from the index as a means of seeking value-added. Setting target active risk exposures that must fall within pre-established maximums controls risk. To control credit risk, corporate holdings are diversified across a large number of issues. Lehman was retained by the SBI in July 1988.

Staff Comments

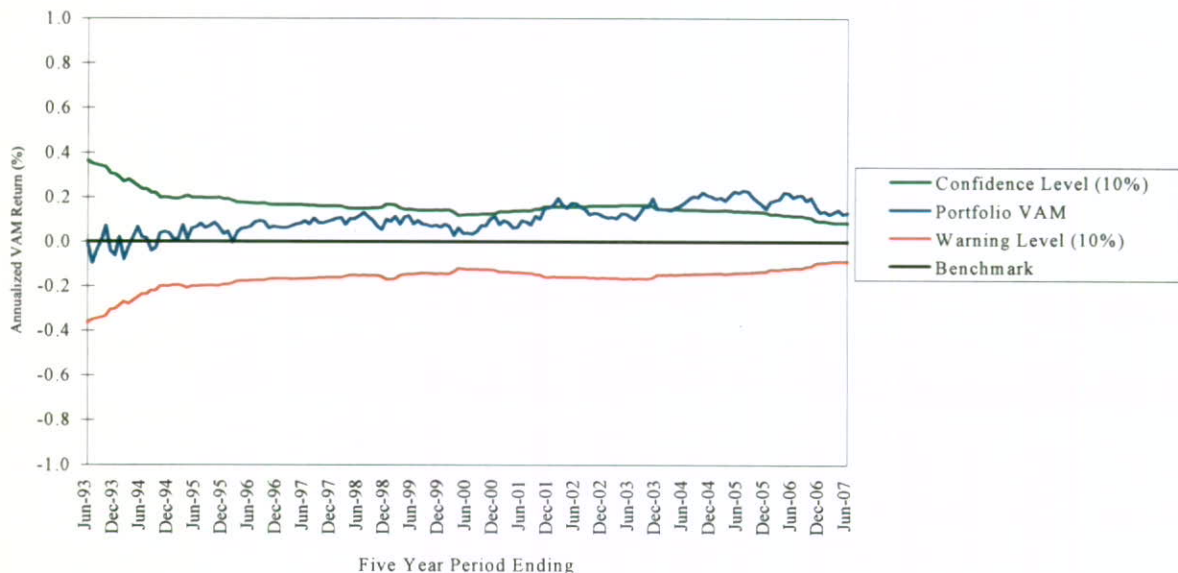
Lehman matched the benchmark for the quarter and outperformed for the year. The one-year return was helped by security selection in the mortgage and corporate sector.

Quantitative Evaluation

	Actual	Benchmark	
Last Quarter	-0.5%	-0.5%	No action required.
Last 1 year	6.2	6.1	
Last 2 years	2.7	2.6	
Last 3 years	4.1	4.0	
Last 4 years	3.2	3.1	
Last 5 years	4.6	4.5	
Since Inception (7/88)	7.5	7.4	

Recommendations

LEHMAN BROTHERS ASSET MANAGEMENT
Rolling Five Year VAM



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STATE BOARD OF INVESTMENT

International Manager Evaluation Reports

Second Quarter, 2007

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**COMBINED RETIREMENT FUNDS
INTERNATIONAL STOCK MANAGERS
Periods Ending June, 2007**

	Quarter		1 Year		3 Years		5 Years		Since (1) Inception		Market Value (in millions)	Pool %
	Actual	Bmk	Actual	Bmk	Actual	Bmk	Actual	Bmk	Actual	Bmk		
	%	%	%	%	%	%	%	%	%	%		
Active Developed Markets (2)												
Acadian	11.0	7.0	34.1	27.1					35.5	27.0	\$362.9	4.4%
Invesco	6.1	7.0	24.8	27.1	20.5	22.7	15.9	17.9	8.7	6.4	\$330.6	4.0%
J.P. Morgan	7.3	7.0	22.5	27.1					23.9	27.0	\$280.4	3.4%
Marathon (3)	7.1	7.0	29.7	27.1	24.9	22.7	20.9	19.5	11.6	8.7	\$583.9	7.0%
McKinley	9.2	7.0	30.9	27.1					30.8	27.0	\$326.7	3.9%
Pyramis (Fidelity)	8.5	7.0	25.5	27.1					26.5	27.0	\$297.1	3.6%
RiverSource	6.3	7.0	23.0	27.1	21.2	22.7	15.1	17.9	2.5	6.4	\$306.3	3.7%
UBS Global	6.9	7.0	24.7	27.1	20.2	22.7	15.5	17.9	10.2	9.3	\$326.4	3.9%
Aggregate	7.9	7.0	27.4	27.1	22.4	22.7	16.9	17.9	9.3	8.1		
Active Emerging Markets												
AllianceBernstein	14.2	15.0	44.9	45.0	37.5	38.2	30.6	30.3	20.3	20.7	\$418.1	5.0%
Capital International	15.2	15.0	51.9	45.0	40.6	38.2	30.4	30.3	18.6	20.7	\$428.9	5.2%
Morgan Stanley	14.3	15.0	48.7	45.0	40.5	38.2	31.1	30.3	21.5	20.7	\$449.8	5.4%
Aggregate	14.5	15.0	48.3	45.0	39.4	38.2	30.4	30.3	9.7	9.6		
Semi-Passive Developed Markets (2)												
AQR	8.4	7.0	28.2	27.1					27.9	27.0	\$321.3	3.9%
Pyramis (Fidelity)	7.7	7.0	29.6	27.1					28.6	27.0	\$329.4	4.0%
State Street	7.3	7.0	27.5	27.1					28.2	27.0	\$326.8	3.9%
Aggregate	7.8	7.0	28.4	27.1					28.2	27.0		
Passive Developed Markets (2)												
State Street	7.1	7.0	27.3	27.1	22.9	22.7	18.1	17.9	9.7	9.5	\$2,712.7	32.6%
									Since 10/1/92			
Equity Only (4) (6)	8.6	8.2	30.3	29.6	24.6	24.5	18.8	19.3	10.2	9.6	\$8,310.2	93.9%
Total Program (5) (6)	8.6	8.2	30.3	29.6	24.6	24.5	18.8	19.3	10.4	9.6	\$8,310.2	
SBI Int'l Equity Target (6)		8.2	29.6		24.5		19.3			9.6		
MSCI ACWI Free ex. U.S. (7)		8.2	29.6		24.5		19.5			10.0		
MSCI World ex U.S. (net)		7.0	27.1		22.7		18.1			9.7		
MSCI EAFE Free (net)		6.4	27.0		22.2		17.7			9.4		
MSCI Emerging Markets Free (8)		15.0	45.0		38.2		30.3			11.5		

(1) Since retention by the SBI. Time period varies for each manager.

(2) Since 10/1/03, the Active and Passive Developed Markets managers benchmark is MSCI World ex U.S. (net). Prior to that date; it was MSCI EAFE Free (net). From 10/1/01 to 5/31/02 the benchmark was the Provisional MSCI EAFE Free (net). Since inception of 7/1/05, the Semi-Passive Developed Markets managers benchmark is MSCI World ex U.S. (net).

(3) As of 10/1/03, Marathon's benchmark is MSCI World ex U.S. (net). Through 9/30/03 Marathon was measured against a custom composite benchmark: 55% Citigroup EMI EPAC and 45% Citigroup PMI EPAC.

(4) Equity managers only. Includes impact of terminated managers.

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

(6) Since 10/1/03, the International Equity asset class target is MSCI ACWI Free ex. U.S. (net). From 1/1/01 to 9/30/03, the target was MSCI EAFE Free (net) plus Emerging Markets Free (net), and from 7/1/99 to 12/31/00 the target was MSCI EAFE Free (net) plus Emerging Markets Free (gross). From 7/1/99 to 9/30/03, the weighting of each index fluctuated with market capitalization. From 10/1/01 to 5/31/02 all international benchmarks being reported were the MSCI Provisional indices. From 12/31/96 to 6/30/99 the benchmark was fixed at 87% EAFE Free (net)/13% Emerging Markets Free (gross). On 5/1/96, the portfolio began transitioning from 100% EAFE Free (net) to the 12/31/96 fixed weights. 100% EAFE Free (net) prior to 5/1/96.

(7) MSCI ACWI Free ex U.S. (gross) through 12/31/00. MSCI ACWI Free ex U.S. (net) thereafter.

(8) MSCI Emerging Markets Free (gross) through 12/31/00. MSCI Emerging Markets Free (net) thereafter.

**COMBINED RETIREMENT FUNDS
INTERNATIONAL STOCK MANAGERS
Calendar Year Returns**

	2006		2005		2004		2003		2002	
	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %
Active Developed Markets (1)										
Acadian	31.9	25.7								
Invesco	26.0	25.7	10.6	14.5	21.4	20.4	33.0	38.5	-10.3	-15.6
J.P. Morgan	23.1	25.7								
Marathon (2)	27.5	25.7	16.4	14.5	24.6	20.4	47.2	47.6	-8.0	-11.3
McKinley	25.4	25.7								
Pyramis (Fidelity)	22.7	25.7								
RiverSource	23.6	25.7	14.2	14.5	17.5	20.4	30.2	38.5	-14.7	-15.6
UBS Global	25.6	25.7	10.0	14.5	20.1	20.4	32.3	38.5	-13.8	-15.6
Aggregate	25.8	25.7	13.6	14.5	19.0	20.4	35.1	38.5	-13.8	-15.6
Active Emerging Markets										
AllianceBernstein	30.4	32.2	32.7	34.0	28.6	25.5	54.1	55.8	-0.8	-5.1
Capital International	35.6	32.2	38.4	34.0	19.5	25.5	54.2	55.8	-11.3	-5.1
Morgan Stanley	37.6	32.2	34.3	34.0	24.2	25.5	58.8	55.8	-4.6	-5.1
Aggregate	34.4	32.2	34.9	34.0	22.9	25.5	56.0	55.8	-6.2	-5.1
Semi-Passive Developed Markets (1)										
AQR	25.2	25.7								
Pyramis (Fidelity)	26.8	25.7								
State Street	27.1	25.7								
Aggregate	26.4	25.7								
Passive Developed Markets (1)										
State Street	26.0	25.7	14.6	14.5	20.6	20.4	38.6	38.5	-15.3	-15.6
Since 10/1/92										
Equity Only (3) (5)	27.0	26.7	16.4	16.6	20.0	20.9	38.2	40.1	-13.6	-14.8
Total Program (4) (5)	27.0	26.7	16.4	16.6	20.0	20.9	38.2	40.1	-13.6	-14.8
SBI Int'l Equity Target (5)		26.7		16.6		20.9		40.1		-14.8
MSCI ACWI Free ex. U.S. (6)		26.7		16.6		20.9		40.8		-14.9
MSCI World ex U.S. (net)		25.7		14.5		20.4		39.4		-15.8
MSCI EAFE Free (net)		26.3		13.5		20.2		38.6		-15.9
MSCI Emerging Markets Free (7)		32.2		34.0		25.5		55.8		-6.2

- (1) Since 10/1/03, the Active and Passive Developed Markets managers benchmark is MSCI World ex U.S. (net). Prior to that date, it was MSCI EAFE Free (net). From 10/1/01 to 5/31/02 the benchmark was the Provisional MSCI EAFE Free (net). Since inception of 7/1/05, the Semi-Passive Developed Markets managers benchmark is MSCI World ex U.S. (net).
- (2) As of 10/1/03, Marathon's benchmark is MSCI World ex U.S. (net). Through 9/30/03 Marathon was measured against a custom composite benchmark: 55% Citigroup EMI EPAC and 45% Citigroup PMI EPAC.
- (3) Equity managers only. Includes impact of terminated managers.
- (4) Includes impact of currency overlay on the passive EAFE portfolio from 12/1/95-10/31/00.
- (5) Since 10/1/03, the International Equity asset class target is MSCI ACWI Free ex U.S. (net). From 1/1/01 to 9/30/03, the target was MSCI EAFE Free (net) plus Emerging Markets Free (net), and from 7/1/99 to 12/31/00 the target was MSCI EAFE Free (net) plus Emerging Markets Free (gross). From 7/1/99 to 9/30/03, the weighting of each index fluctuated with market capitalization. From 10/1/01 to 5/31/02 all international benchmarks being reported were the MSCI Provisional indices. From 12/31/96 to 6/30/99 the benchmark was fixed at 87% EAFE Free (net)/13% Emerging Markets Free (gross). On 5/1/96, the portfolio began transitioning from 100% EAFE Free (net) to the 12/31/96 fixed weights. 100% EAFE Free (net) prior to 5/1/96.
- (6) MSCI ACWI Free ex U.S. (gross) through 12/31/00. MSCI ACWI Free ex U.S. (net) thereafter.
- (7) MSCI Emerging Markets Free (gross) through 12/31/00. MSCI Emerging Markets Free (net) thereafter.

ACADIAN ASSET MANAGEMENT, INC.
Periods Ending June, 2007

Portfolio Manager: John Chisholm

Assets Under Management: \$362,853,742

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

The portfolio outperformed significantly over both the quarter and the year. Strong stock selection in Germany and Japan was the primary contributor to returns over both periods.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	11.0%	7.0%
Last 1 year	34.1	27.1
Last 2 years	35.5	27.0
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)	35.5	27.0

Recommendations

No action required.

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

INVESCO GLOBAL ASSET MANAGEMENT
Periods Ending June, 2007

Portfolio Manager: Erik Granade

Assets Under Management: \$330,550,085

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

Over both the quarter and the year, the portfolio's underweight positions in Germany and Australia, together with stock selection in the United Kingdom, detracted significantly from performance.

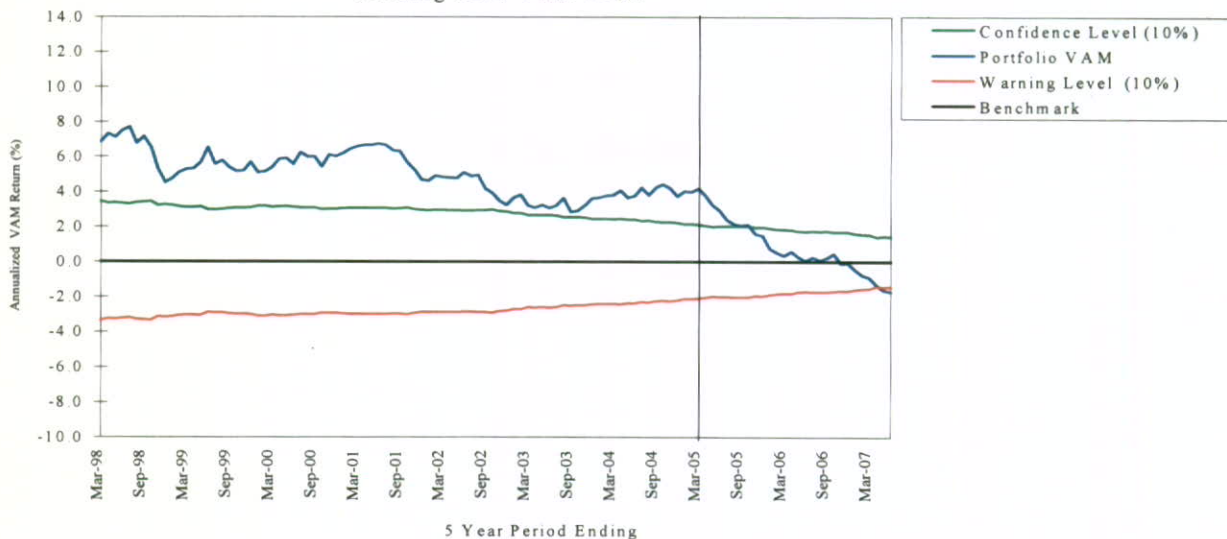
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	6.1%	7.0%
Last 1 year	24.8	27.1
Last 2 years	25.0	27.0
Last 3 years	20.5	22.7
Last 4 years	23.1	25.0
Last 5 years	15.9	17.9
Since Inception (3/00)	8.7	6.4

Recommendations

No action required.

INVESCO GLOBAL ASSET MANAGEMENT
 Rolling Five Year VAM



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, 2007

Portfolio Manager: James Fisher

Assets Under Management: \$280,410,373

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

While stock selection in Japan and continental Europe detracted from performance over the year, it contributed to performance over the quarter. Selection in the industrials and the telecommunications sectors also benefited the quarterly returns.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	7.3%	7.0%
Last 1 year	22.5	27.1
Last 2 years	23.9	27.0
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)	23.9	27.0

Recommendations

No action required.

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

MARATHON ASSET MANAGEMENT
Periods Ending June, 2007

Portfolio Manager: William Arah

Assets Under Management: \$583,854,244

Investment Philosophy

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

Staff Comments

Stock selection overall contributed significantly to the portfolio's outperformance for the quarter and the year. Selection in Canada and in Italy was particularly strong during both periods.

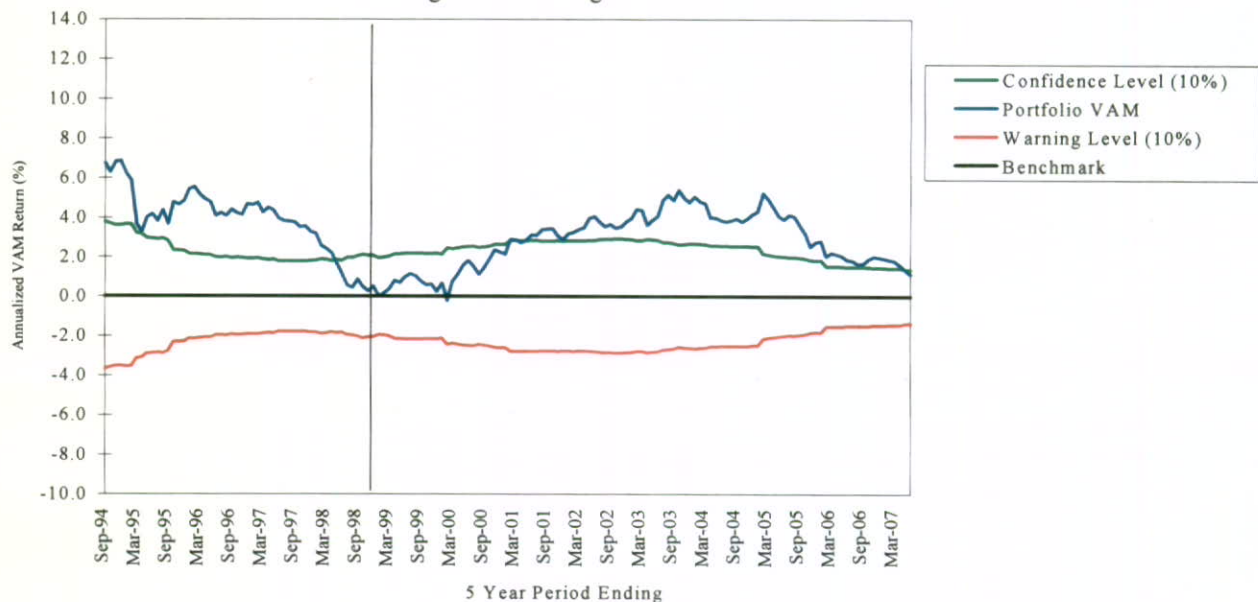
Quantitative Evaluation

	Actual	Custom Benchmark
Last Quarter	7.1%	7.0%
Last 1 year	29.7	27.1
Last 2 years	28.8	27.0
Last 3 years	24.9	22.7
Last 4 years	28.8	25.7
Last 5 years	20.9	19.5
Since Inception (11/93)	11.6	8.7

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, 2007

Portfolio Manager: Robert Gillam, Jr.

Assets Under Management: \$326,732,783

Investment Philosophy

At McKinley Capital, investment decisions are based on the philosophy that excess market returns can be achieved through the construction and active management of a diversified, fundamentally sound portfolio of inefficiently priced common stocks whose earnings growth rates are accelerating above market expectations. A disciplined quantitative investment process drives all product strategies. The firm can be described as a bottom-up growth manager. They employ both a systematic screening process and a qualitative overview to construct and manage portfolios. Investment ideas are initially generated by the quantitative investment process. The balance of the qualitative overlay seeks to identify securities with earnings estimates that are reasonable and sustainable. All portfolios managed by McKinley Capital use the same investment process and construction methodology to manage portfolios.

Staff Comments

Stock selection in Canada, Spain, Italy and Japan contributed significantly to the portfolio's outperformance during the quarter and the year.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	9.2%	7.0%
Last 1 year	30.9	27.1
Last 2 years	30.8	27.0
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)	30.8	27.0

Recommendations

No action required.

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

PYRAMIS GLOBAL ADVISORS TRUST COMPANY
(Formerly Fidelity Management Trust Company)
Periods Ending June, 2007

Portfolio Manager: Michael Strong

Assets Under Management: \$297,120,680

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

While stock selection in Europe and in the financials sector contributed to the portfolio's quarterly outperformance, stock selection in Japan was a significant detractor over the one-year time period.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	8.5%	7.0%
Last 1 year	25.5	27.1
Last 2 years	26.5	27.0
Last 3 years	N/A	N/A
Last 4 years	N/A	N/A
Last 5 years	N/A	N/A
Since Inception (7/05)	26.5	27.0

Recommendations

No action required.

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

RIVERSOURCE INVESTMENTS
Periods Ending June, 2007

Portfolio Manager: Alex Lyle and Ed Gaunt

Assets Under Management: \$306,338,153

Investment Philosophy

RiverSource's philosophy focuses on key forces of change in markets and the companies that will benefit. The firm believes that in a global marketplace, where sustainable competitive advantage is rare, their research should focus on the dynamics of change. A good understanding of the likely impact of these changes at a company level, complemented with an appreciation of the ability of management to exploit these changes, creates significant opportunities to pick winners and avoid losers.

Staff Comments

Stock selection and an overweight position in Japan were the primary negative contributors to the portfolio's performance over both the quarter and the year.

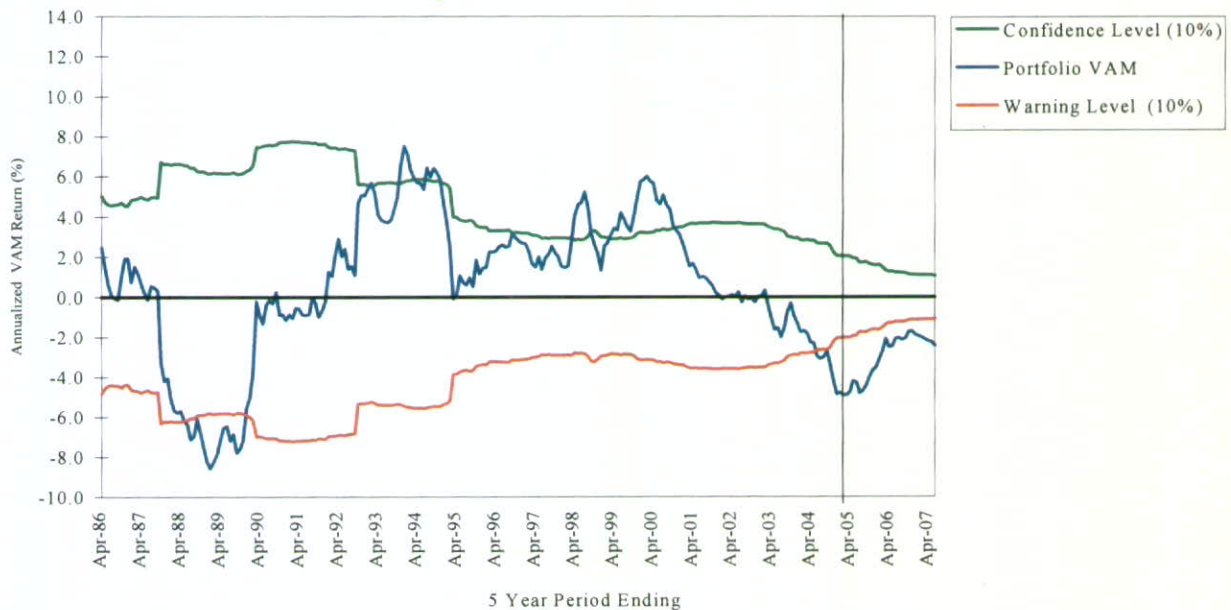
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	6.3%	7.0%
Last 1 year	23.0	27.1
Last 2 years	25.7	27.0
Last 3 years	21.2	22.7
Last 4 years	22.1	25.0
Last 5 years	15.1	17.9
Since Inception (3/00)	2.5	6.4

Recommendations

No action required.

RIVERSOURCE INVESTMENTS
Rolling Five Year VAM



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

UBS GLOBAL ASSET MANAGEMENT, INC.

Periods Ending June, 2007

Portfolio Manager: Ilario di Bon

Assets Under Management: \$326,422,991

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

The portfolio underperformed over the quarter and the year. Stock selection in the consumer discretionary sector detracted from returns during the quarter, while stock selection in Japan was a primary negative contributor during the year.

Tom Madsen has assumed a new role at UBS as business head of all equity, which includes both value and growth products. He is no longer a portfolio manager on the Global Portfolio Management team. The SBI's portfolio continues to be managed by Ilario di Bon.

Quantitative Evaluation

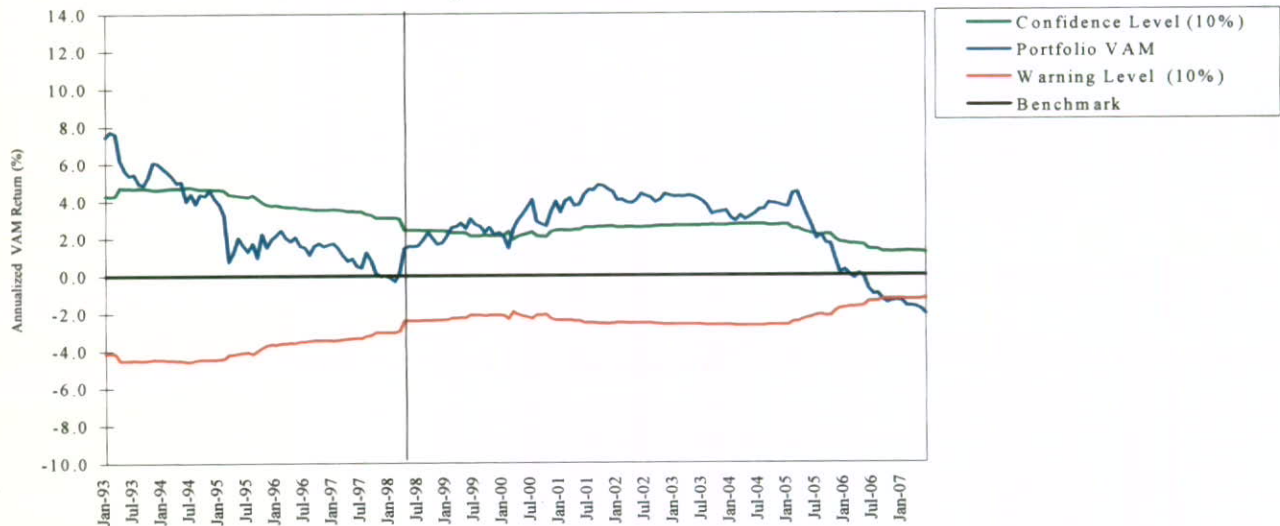
	Actual	Benchmark
Last Quarter	6.9%	7.0%
Last 1 year	24.7	27.1
Last 2 years	23.8	27.0
Last 3 years	20.2	22.7
Last 4 years	22.3	25.0
Last 5 years	15.5	17.9
Since Inception	10.2	9.3

(4/93)

Recommendations

No action required.

UBS GLOBAL ASSET MANAGEMENT, INC. (INT'L)
Rolling Five Year VAM



5 Year Period Ending

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

ALLIANCEBERNSTEIN L.P.
Periods Ending June, 2007

Portfolio Manager: Steve Beinhacker

Assets Under Management: \$418,089,776

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

Stock selection in Asia contributed significantly to the portfolio's underperformance over both the quarter and the year.

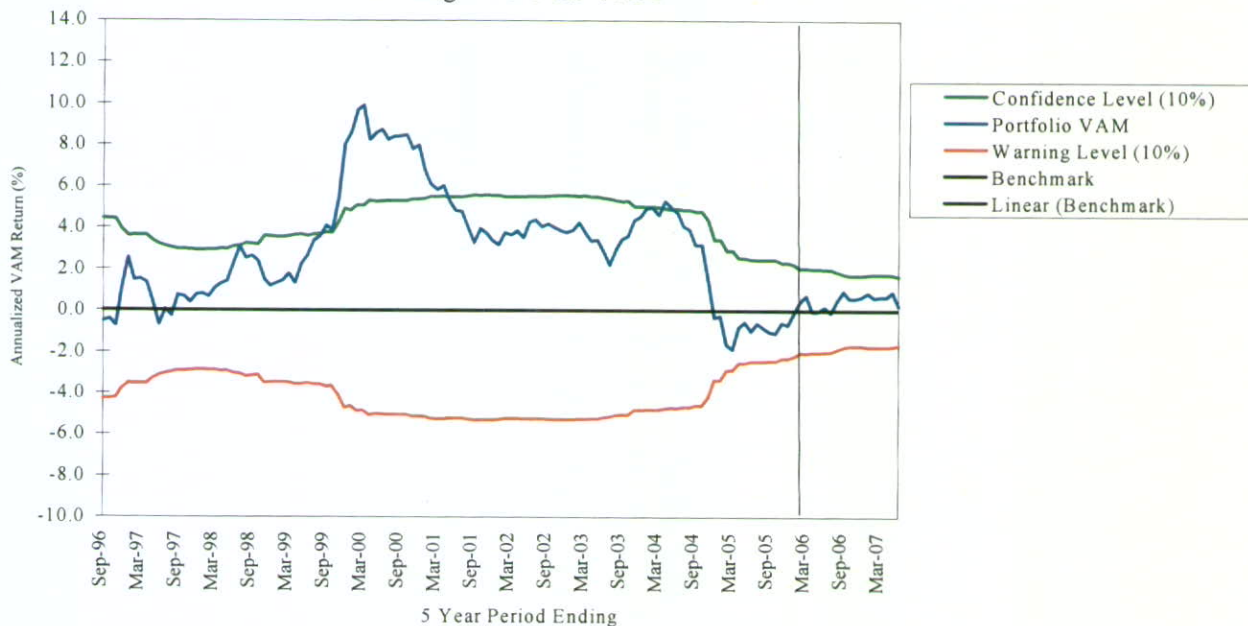
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	14.2%	15.0%
Last 1 year	44.9	45.0
Last 2 years	38.8	40.1
Last 3 years	37.5	38.2
Last 4 years	36.6	36.9
Last 5 years	30.6	30.3
Since Inception (3/01)	20.3	20.7

Recommendations

No action required.

ALLIANCEBERNSTEIN L.P.
Rolling Five Year VAM



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

CAPITAL INTERNATIONAL, INC.
Periods Ending June, 2007

Portfolio Manager: Victor Kohn

Assets Under Management: \$428,889,836

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 benefited over the quarter and the year from stock selection and an underweight position in Russian energy stocks.

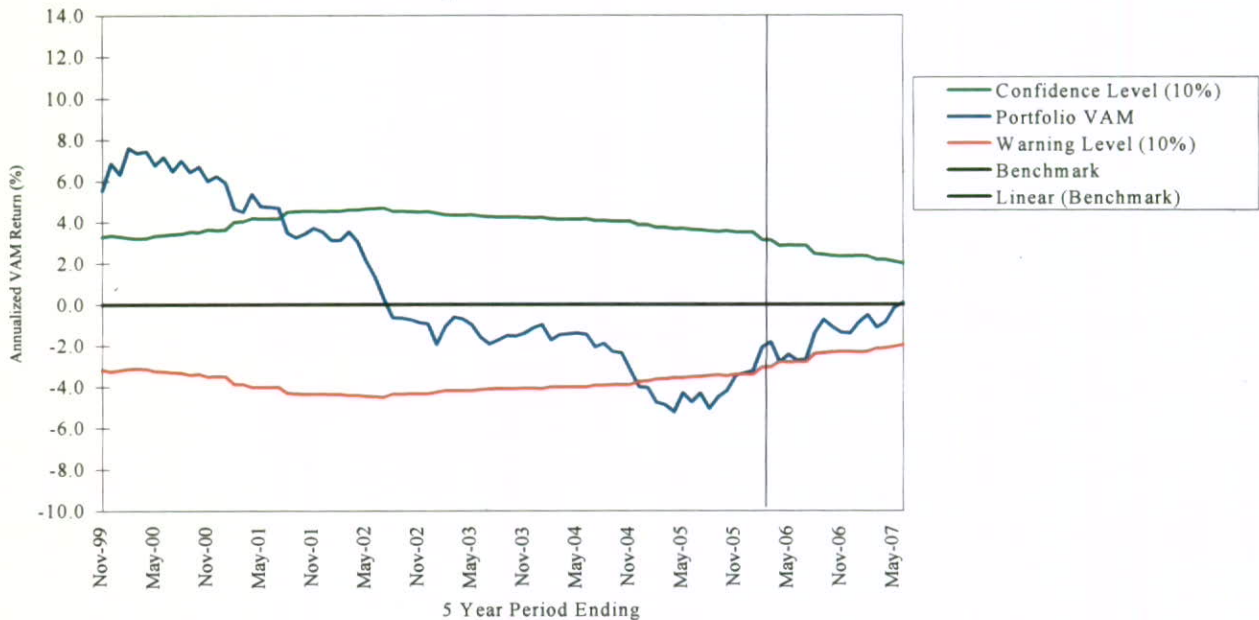
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	15.2%	15.0%
Last 1 year	51.9	45.0
Last 2 years	44.6	40.1
Last 3 years	40.6	38.2
Last 4 years	37.5	36.9
Last 5 years	30.4	30.3
Since Inception (3/01)	18.6	20.7

Recommendations

No action required.

CAPITAL INTERNATIONAL, INC.
Rolling Five Year VAM



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

MORGAN STANLEY INVESTMENT MANAGEMENT
Periods Ending June, 2007

Portfolio Manager: Ruchir Sharma

Assets Under Management: \$449,831,357

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

Stock selection in consumer stocks in Mexico detracted from returns during the quarter, while stock selection in Russia contributed significantly to the portfolio's performance for the year.

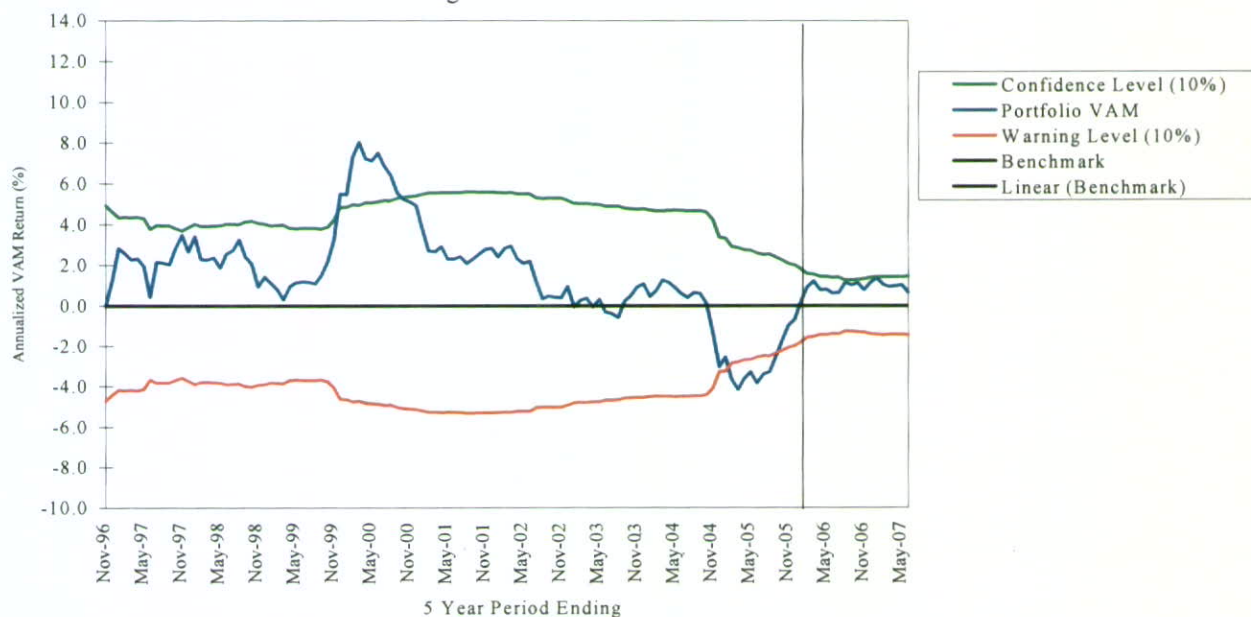
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	14.3%	15.0%
Last 1 year	48.7	45.0
Last 2 years	43.6	40.1
Last 3 years	40.5	38.2
Last 4 years	38.7	36.9
Last 5 years	31.1	30.3
Since Inception (3/01)	21.5	20.7

Recommendations

No action required.

MORGAN STANLEY INVESTMENT MANAGEMENT
Rolling Five Year VAM



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

AQR CAPITAL MANAGEMENT, LLC
Periods Ending June, 2007

Portfolio Manager: Cliff Asness

Assets Under Management: \$321,299,262

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

Strong stock selection in Japan contributed to the portfolio's outperformance during the quarter and the year.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	8.4%	7.0%
Last 1 year	28.2	27.1
Last 2 years	27.9	27.0
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)	27.9	27.0

Recommendations

No action required.

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

PYRAMIS GLOBAL ADVISORS TRUST COMPANY
(Formerly Fidelity Management Trust Company)
Periods Ending June, 2007

Portfolio Manager: Cesar Hernandez

Assets Under Management: \$329,396,941

Investment Philosophy

Select International combines active stock selection with quantitative risk control to provide consistent excess returns above the benchmark 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

Over both the quarter and the year, stock selection in Japan and the portfolio's overweight position in Germany contributed positively to returns. During the quarter, stock selection in the industrials and in the utilities sectors also added to the portfolio's gains.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	7.7%	7.0%
Last 1 year	29.6	27.1
Last 2 years	28.6	27.0
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)	28.6	27.0

Recommendations

No action required.

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

STATE STREET GLOBAL ADVISORS
Periods Ending June, 2007

Portfolio Manager: Paul Moghtader

Assets Under Management: \$326,806,567

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

Stock selection in Japan and an overweight position in Germany contributed to the portfolio's outperformance during the quarter and the year.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	7.3%	7.0%
Last 1 year	27.5	27.1
Last 2 years	28.2	27.0
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)	28.2	27.0

Recommendations

No action required.

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

STATE STREET GLOBAL ADVISORS
Periods Ending June, 2007

Portfolio Manager: Lynn Blake

Assets Under Management: \$2,712,677,338

Investment Philosophy

State Street Global Advisors passively manages the portfolio against the Morgan Stanley Capital International (MSCI) World ex U.S. index of 22 markets located in the developed markets outside of the United States (including Canada). SSgA fully replicates the index whenever possible because it results in lower turnover, higher tracking accuracy and lower market impact costs. The MSCI World ex U.S. (net) index reinvests dividends assuming a withholding tax on dividends, according to the Luxembourg tax rate. Whereas the portfolio reinvests dividends using all available reclaims and tax credits available to a U.S. pension fund, which should result in modest positive tracking error, over time.

Staff Comments

The portfolio's tracking error over all time periods is within expectation.

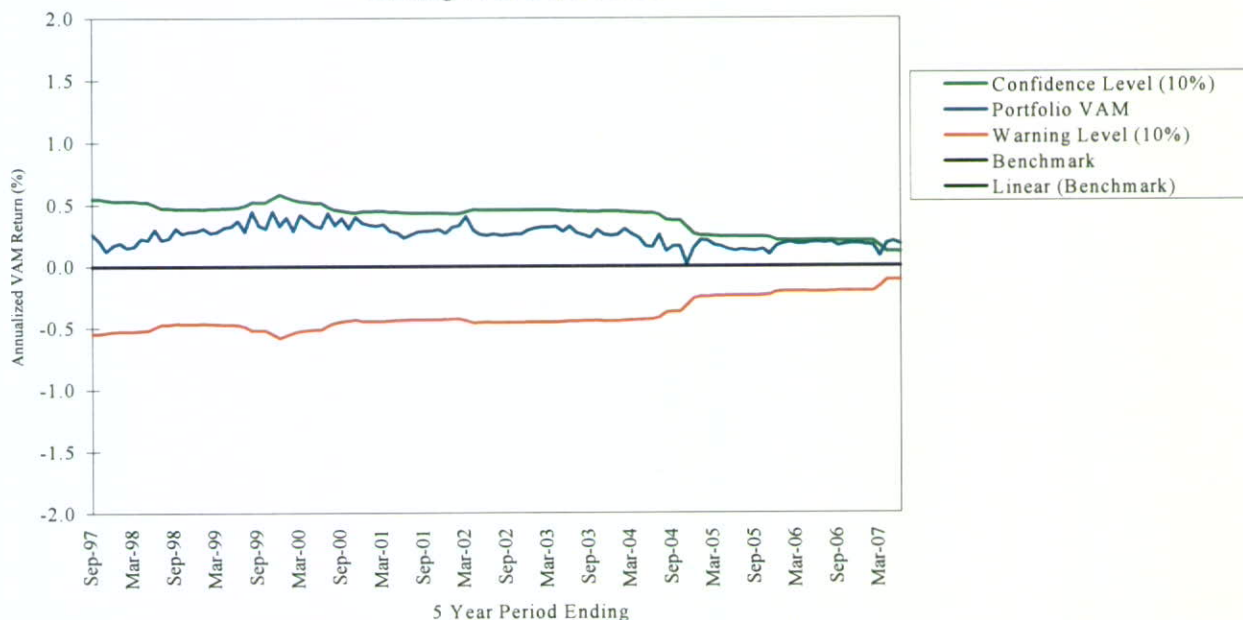
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	7.1%	7.0%
Last 1 year	27.3	27.1
Last 2 years	27.2	27.0
Last 3 years	22.9	22.7
Last 4 years	25.1	25.0
Last 5 years	18.1	17.9
Since Inception (10/92)	9.7	9.5

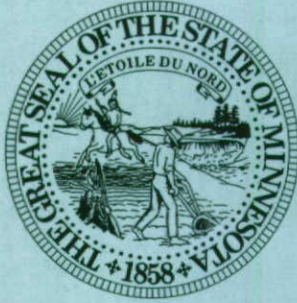
Recommendation

No action required.

STATE STREET GLOBAL ADVISORS
Rolling Five Year VAM



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



STATE BOARD OF INVESTMENT

Non-Retirement Manager Evaluation Reports

Second Quarter, 2007

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Non-Retirement Managers

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NON - RETIREMENT MANAGERS
Periods Ending June, 2007

	Quarter		1 Year		3 Years		5 Years		Since (1) Inception		Market Value (in millions)
	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	
GE Asset Management (S&P 500 Index)*	6.9	6.3	20.9	20.6	10.8	11.7	9.1	10.7	12.3	11.9	\$86.5
Voyageur Asset Management (Custom Benchmark)*	-0.1	-0.1	5.9	5.7	3.8	3.6	3.9	3.7	6.3	6.3	\$257.6
Galliard Capital Management (3 yr. Constant Maturity Treasury + 45 bp)*	1.2	1.3	4.7	5.1	4.4	4.6	4.6	3.9	5.7	5.0	\$197.2
Internal Stock Pool (S&P 500 Index)*	6.3	6.3	20.6	20.6	11.7	11.7	10.8	10.7	11.1	11.0	\$906.4
Internal Bond Pool - Income Share (Lehman Aggregate)*(2)	-0.5	-0.5	6.5	6.1	4.6	4.0	5.3	4.5	7.7	7.4	\$88.2
Internal Bond Pool - Trust (Lehman Aggregate)*	-0.5	-0.5	6.2	6.1	4.6	4.0	5.4	4.5	7.0	6.6	\$514.5

* Benchmarks for the Funds are noted in parentheses below the Fund names.

(1) Since retention by the SBI. Time period varies by manager.

(2) Prior to July 1994, the benchmark was the Salomon BIG.

NON - RETIREMENT MANAGERS
Calendar Year Returns

	2006		2005		2004		2003		2002	
	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %
GE Asset Management (S&P 500 Index)*	16.4	15.8	2.6	4.9	8.8	10.9	23.7	28.7	-20.5	-22.1
Voyageur Asset Management (Custom Benchmark)*	4.5	4.3	2.5	2.1	3.2	3.0	2.6	2.5	8.8	9.3
Galliard Capital Management (3 yr. Constant Maturity Treasury + 45 bp)*	4.6	5.2	4.3	4.4	4.1	3.3	4.7	2.6	5.8	3.3
Internal Stock Pool (S&P 500 Index)*	15.9	15.8	4.9	4.9	10.9	10.9	28.9	28.7	-21.8	-22.1
Internal Bond Pool - Income Share (Lehman Aggregate)*(2)	5.0	4.3	2.7	2.4	5.1	4.3	5.8	4.1	8.1	10.3
Internal Bond Pool - Trust (Lehman Aggregate)*	5.1	4.3	2.8	2.4	5.0	4.3	5.9	4.1	8.8	10.3

* Benchmarks for the Funds are noted in parentheses below the Fund names.

(1) Since retention by the SBI. Time period varies by manager.

(2) Prior to July 1994, the benchmark was the Salomon BIG.

GE ASSET MANAGEMENT - Assigned Risk Plan
Periods Ending June, 2007

Portfolio Manager: Dave Carlson

Assets Under Management: \$86,543,536

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 the one-year benchmark. An underweight to the financial and utility sectors helped the quarterly performance. The underweight to financials also contributed to the one-year outperformance.

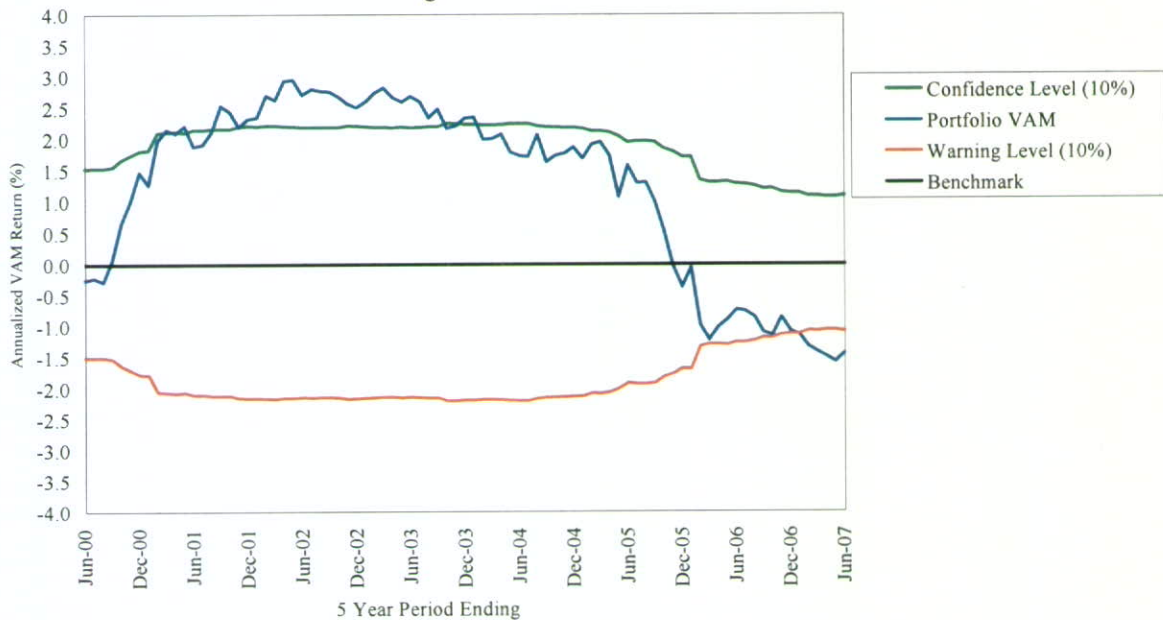
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	6.9%	6.3%
Last 1 year	20.9	20.6
Last 2 years	13.7	14.5
Last 3 years	10.8	11.7
Last 4 years	11.7	13.5
Last 5 years	9.1	10.7
Since Inception (1/95)	12.3	11.9

Recommendation

No recommendation at this time.

GE ASSET MANAGEMENT
Rolling Five Year VAM



VOYAGEUR ASSET MANAGEMENT - Assigned Risk Plan
Periods Ending June, 2007

Portfolio Manager: John Huber

Assets Under Management: \$257,557,321

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 matched the benchmark for the quarter and outperformed for the year. The one-year return was helped by a general overweight to fixed income sectors other than Treasuries.

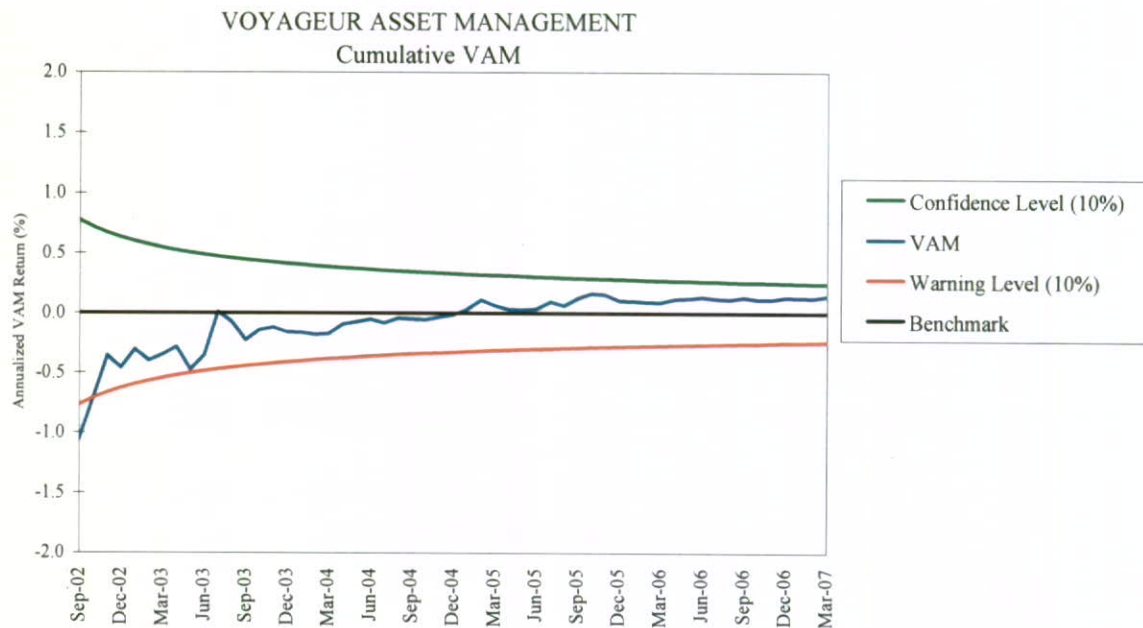
Quantitative Evaluation

	Actual	Benchmark*
Last Quarter	-0.1%	-0.1%
Last 1 year	5.9	5.7
Last 2 years	3.2	2.9
Last 3 years	3.8	3.6
Last 4 years	3.0	2.7
Last 5 years	3.9	3.7
Since Inception (7/91)	6.3	6.3

Recommendation

No action required.

*Custom benchmark since inception date.



GALLIARD CAPITAL MANAGEMENT
Periods Ending June, 2007

Portfolio Manager: Karl Tourville

Assets Under Management: \$197,156,037

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.

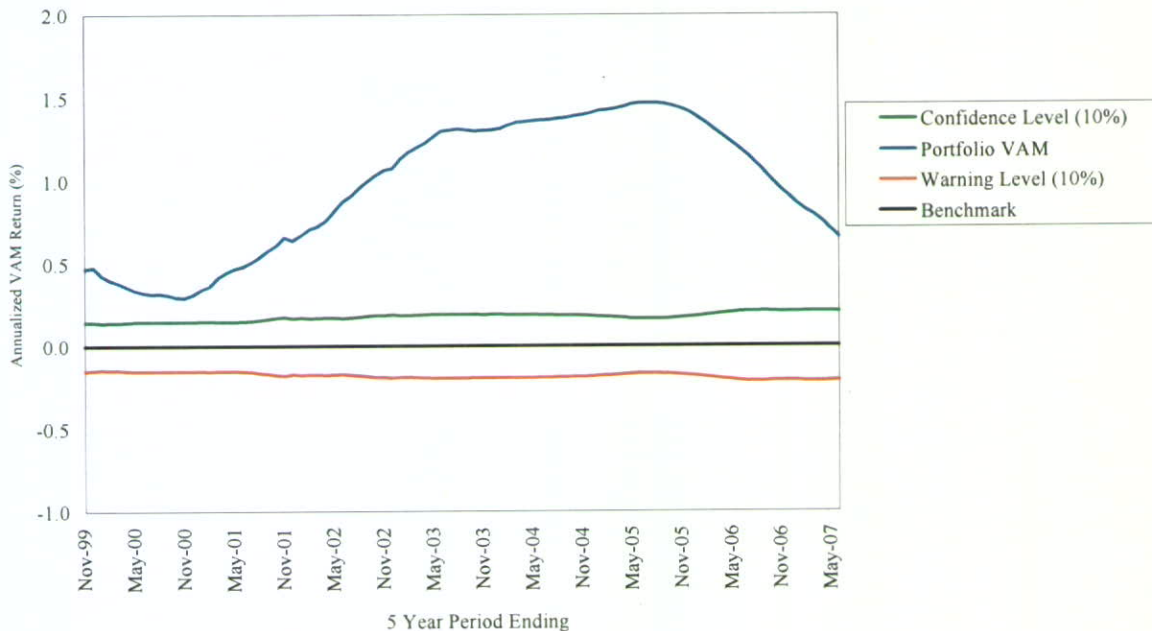
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	1.2%	1.3%
Last 1 year	4.7	5.1
Last 2 years	4.6	5.1
Last 3 years	4.4	4.6
Last 4 years	4.4	4.2
Last 5 years	4.6	3.9
Since Inception (11/94)	5.7	5.0

Recommendation

No action required.

Galliard Capital Management
Rolling Five Year VAM



INTERNAL STOCK POOL - Trust/Non-Retirement Assets
Periods Ending June, 2007

Portfolio Manager: Mike Menssen

Assets Under Management: \$906,416,619

Investment Philosophy
Environmental Trust Fund
Permanent School Fund

Staff Comments

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.

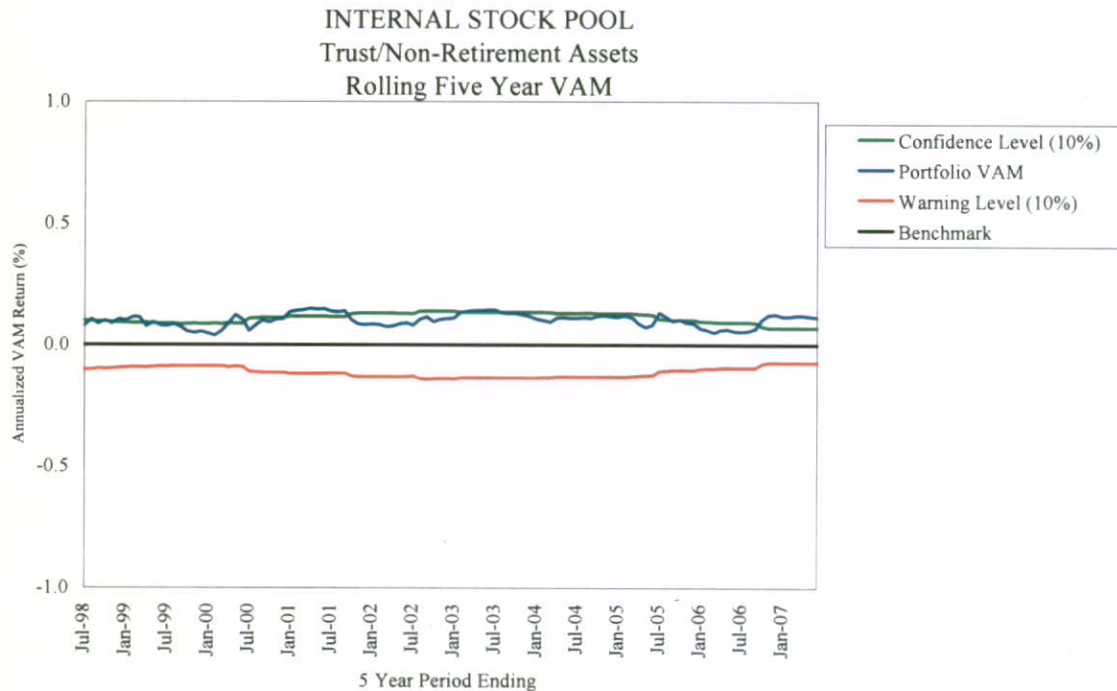
The portfolio matched the benchmark for the quarter and for the year.

Quantitative Evaluation

Recommendation

	Actual	Benchmark
Last Quarter	6.3%	6.3%
Last 1 year	20.6	20.6
Last 2 years	14.5	14.5
Last 3 years	11.7	11.7
Last 4 years	13.5	13.5
Last 5 years	10.8	10.7
Since Inception (7/93)	11.1	11.0

No action required.



INTERNAL BOND POOL - Income Share Account
Periods Ending June, 2007

Portfolio Manager: Mike Messen

Assets Under Management: \$88,209,407

Investment Philosophy
Income Share Account

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

Staff Comments

The internal bond pool matched the quarterly benchmark. The internal bond pools outperformance of the one-year benchmark was helped by a short duration position earlier in the year.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	-0.5%	-0.5%
Last 1 year	6.5	6.1
Last 2 years	3.4	2.6
Last 3 years	4.6	4.0
Last 4 years	3.9	3.1
Last 5 years	5.3	4.5
Since Inception (7/86)	7.7	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, 2007

Portfolio Manager: Mike Messen

Assets Under Management: \$514,540,694

Investment Philosophy
Environmental Trust Fund
Permanent School Trust Fund

Staff Comments

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.

The internal bond pool matched the quarterly benchmark. The internal bond pools outperformance of the one-year benchmark was helped by a short duration position earlier in the year.

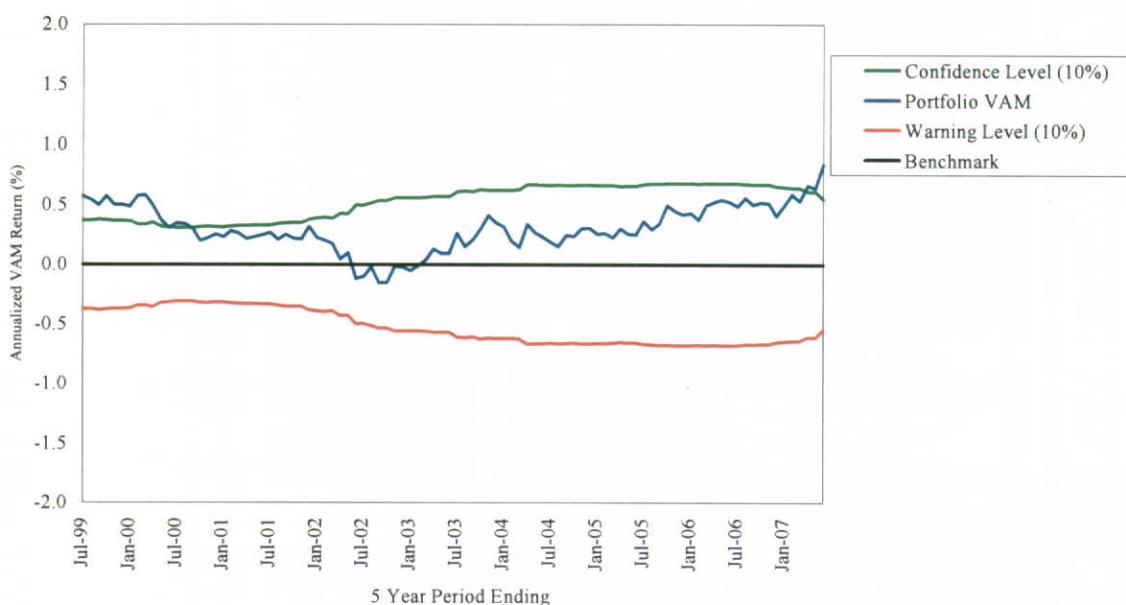
Quantitative Evaluation

Recommendation

	Actual	Benchmark	
Last Quarter	-0.5%	-0.5%	No action required.
Last 1 year	6.2	6.1	
Last 2 years	3.3	2.6	
Last 3 years	4.6	4.0	
Last 4 years	3.8	3.1	
Last 5 years	5.4	4.5	
Since Inception (7/94)*	7.0	6.6	

* Date started managing the pool against the Lehman Aggregate.

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



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STATE BOARD OF INVESTMENT

Deferred Compensation Plan Evaluation Reports

Second Quarter, 2007

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Mutual Fund Managers

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MN STATE 457 DEFERRED COMPENSATION PLAN
MUTUAL FUND MANAGERS
Periods Ending June, 2007

457 Mutual Funds	Quarter		1 Year		3 Years		5 Years		Since Retention by SBI *		State's Participation
	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	%	%	In Fund (\$ millions)
Large Cap Equity:											
Janus Twenty (S&P 500)	9.1	6.3	24.7	20.6	15.9	11.7	14.3	10.7	1.1	2.8	\$395.0
Legg Mason Partners Appr I (S&P 500)	6.3	6.3	17.5	20.6	10.4	11.7	9.9	10.7	11.1	12.3	\$130.7
Vanguard Institutional Index Plus (S&P 500)	6.3	6.3	20.6	20.6	11.7	11.7	10.8	10.7	2.8	2.8	\$495.7
Mid Cap Equity:											
Vanguard Mid-Cap Index (MSCI US Mid-Cap 450)	6.1	6.1	20.8	20.8	17.9	17.9	15.5	15.4	17.1	17.0	\$148.0
Small Cap Equity:											
T. Rowe Price Small-Cap Stock (Russell 2000)	4.6	4.4	14.4	16.4	13.3	13.4	12.8	13.9	11.8	9.1	\$422.7
Balanced:											
Dodge & Cox Balanced Fund (60% S&P 500/40% Lehman Agg)	3.7	3.5	15.2	14.7	11.6	8.6	11.8	8.4	13.2	9.5	\$317.7
Vanguard Balanced Index Inst. Fund (60% MSCI US Broad Market, 40% Lehman Agg)	3.4	3.4	14.4	14.6	9.2	9.2	9.1	9.1	9.3	9.3	\$180.0
Bond:											
Dodge & Cox Income Fund (Lehman Aggregate)	-0.2	-0.5	6.4	6.1	4.1	4.0	4.9	4.5	6.3	5.8	\$90.3
Vanguard Total Bond Market Index Inst. (Lehman Aggregate)	-0.6	-0.5	6.2	6.1	4.0	4.0	4.3	4.5	3.6	3.7	\$53.6
International:											
Fidelity Diversified International (MSCI EAFE-Free)	7.8	6.4	25.7	27.0	22.1	22.2	19.0	17.7	13.1	7.9	\$297.0
Vanguard Inst. Dev. Mkts. Index (MSCI EAFE)	6.4	6.4	27.2	27.0	22.2	22.2	17.8	17.7	22.5	22.3	\$90.3

Numbers in black are returns **since** retention by SBI.

Numbers in blue include returns **prior** to retention by SBI.

Benchmarks for the Funds are noted in parentheses below the Fund names.

* Vanguard Mid-Cap Index Fund retained January 2004; Legg Mason, Vanguard Inst. Dev. Mkt., Vanguard Balanced, Vanguard Total Bond Mkt. retained December 2003; Dodge & Cox Balanced Fund retained in October 2003; all others, July 1999.

Fixed Fund:

Blended Yield Rate for current quarter***:	4.5
Bid Rates for current quarter:	
Great West Life	4.6
Minnesota Life	4.9
Principal Life	5.0

***The Blended Yield Rate for the current quarter includes the return on the existing portfolio assets and the Liquidity Buffer Account (money market). The Bid Rates for the current quarter determine the allocation of new cash flow.

**MN STATE 457 DEFERRED COMPENSATION PLAN
MUTUAL FUND MANAGERS
Calendar Year Returns**

457 Mutual Funds	2006		2005		2004		2003		2002	
	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %
Large Cap Equity:										
Janus Twenty (S&P 500)	12.3	15.8	9.4	4.9	23.9	10.9	25.3	28.7	-24.0	-22.1
Legg Mason Partners Appr I (S&P 500)	15.0	15.8	4.6	4.9	9.3	10.9	25.1	28.7	-16.7	-22.1
Vanguard Institutional Index Plus (S&P 500)	15.8	15.8	5.0	4.9	10.9	10.9	28.7	28.7	-22.0	-22.1
Mid Cap Equity:										
Vanguard Mid-Cap Index (MSCI US Mid-Cap 450)	13.8	13.7	14.1	13.9	20.5	20.5	34.3	33.8	-14.5	-14.5
Small Cap Equity:										
T. Rowe Price Small-Cap Stock (Russell 2000)	12.8	18.4	8.4	4.6	18.8	18.3	32.3	47.3	-14.2	-20.5
Balanced:										
Dodge & Cox Balanced Fund (60% S&P 500/40% Lehman Agg)	13.8	11.1	6.6	4.0	13.3	8.3	24.5	18.5	-2.9	-9.8
Vanguard Balanced Index Inst. Fund (60% MSCI US Broad Market, 40% Lehman Agg)	11.1	11.1	4.8	4.8	9.5	9.3	20.1	20.1	-9.4	-9.0
Bond:										
Dodge & Cox Income Fund (Lehman Aggregate)	5.3	4.3	2.0	2.4	3.8	4.3	6.0	4.1	10.8	10.3
Vanguard Total Bond Market Index Inst. (Lehman Aggregate)	4.4	4.3	2.5	2.4	4.4	4.3	4.1	4.1	8.4	10.3
International:										
Fidelity Diversified International (MSCI EAFE-Free)	22.5	26.3	17.2	13.5	19.7	20.2	42.4	38.6	-9.4	-15.6
Vanguard Inst. Dev. Mkts. Index (MSCI EAFE)	26.3	26.3	13.6	13.5	20.3	20.2	38.9	38.6	-15.5	-15.9

Numbers in black are returns **since** retention by SBI.

Numbers in blue include returns **prior** to retention by SBI.

Benchmarks for the Funds are noted in parentheses below the Fund names.

**MN STATE 457 DEFERRED COMPENSATION PLAN
LARGE CAP EQUITY – JANUS TWENTY
Periods Ending June, 2007**

Portfolio Manager: Scott W. Schoelzel

**State's Participation in Fund: \$395,041,757
Total Assets in Fund: \$10,529,002,246**

**Investment Philosophy
Janus Twenty**

The investment objective of this fund is long-term growth of capital from increases in the market value of the stocks it owns. The fund will concentrate its investments in a core position of between twenty to thirty common stocks. This non-diversified fund seeks to invest in companies that the portfolio manager believes have strong current financial positions and offer growth potential.

Staff Comments

Janus outperformed the quarterly benchmark and outperformed for the year. The quarterly performance was helped by stock selection in the materials and information technology sectors.

Quantitative Evaluation

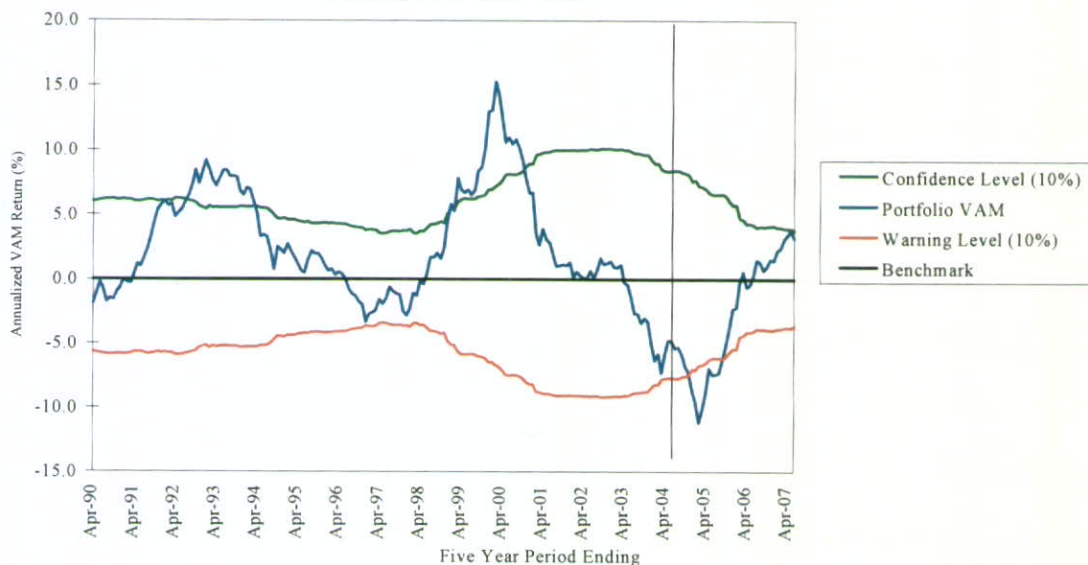
	Actual	Benchmark*
Last Quarter	9.1%	6.3%
Last 1 year	24.7	20.6
Last 2 years	18.0	14.5
Last 3 years	15.9	11.7
Last 4 years	17.4	13.5
Last 5 years	14.3	10.7
Since Retention by SBI (7/99)	1.1	2.8

Recommendation

No action required.

*Benchmark is the S&P 500.

**LARGE CAP EQUITY - JANUS TWENTY
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
LARGE CAP EQUITY – LEGG MASON PARTNERS APPRECIATION Y
Periods Ending June, 2007**

Portfolio Manager: Scott Glasser

**State's Participation in Fund: \$130,654,986
Total Assets in Fund: \$6,206,546,000**

**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) matched the quarterly benchmark and underperformed for the year. The one year underperformance was due to stock selection in several sectors and an overweight to the industrials and information technology sectors along with an underweight to the telecommunications services and utilities sectors.

Quantitative Evaluation

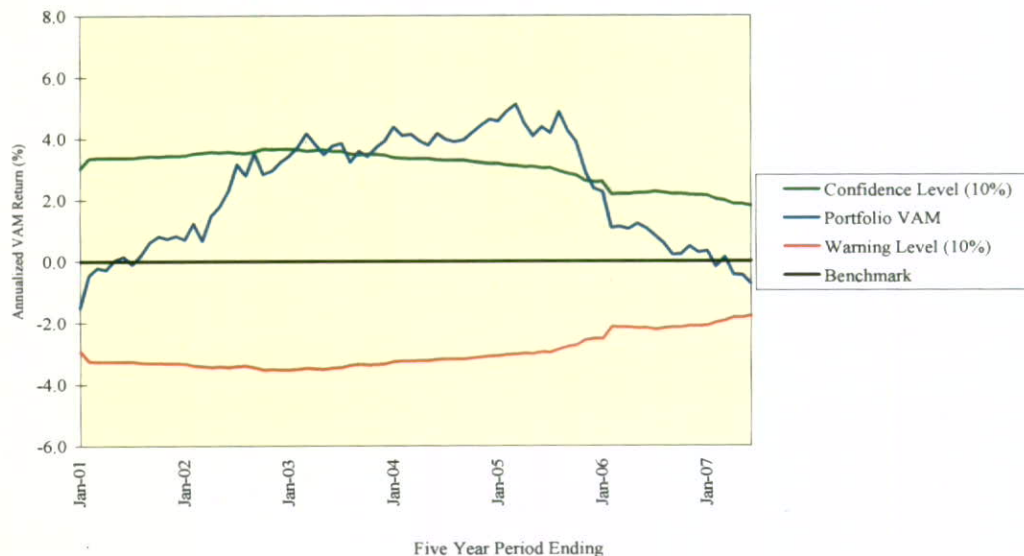
	Actual	Benchmark*
Last Quarter	6.3%	6.3%
Last 1 year	17.5	20.6
Last 2 years	13.4	14.5
Last 3 years	10.4	11.7
Last 4 years	12.2	13.5
Last 5 years	9.9	10.7
Since Retention by SBI (12/03)	11.1	12.3

Recommendation

No action required.

*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.

**LARGE CAP EQUITY - LEGG MASON PARTNERS APPRECIATION Y
Rolling Five Year VAM**



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

**MN STATE 457 DEFERRED COMPENSATION PLAN
EQUITY INDEX – VANGUARD INSTITUTIONAL INDEX PLUS
Periods Ending June, 2007**

Portfolio Manager: Donald Butler

**State's Participation in Fund: \$495,680,028
Total Assets in Fund: \$24,992,000,000**

**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.

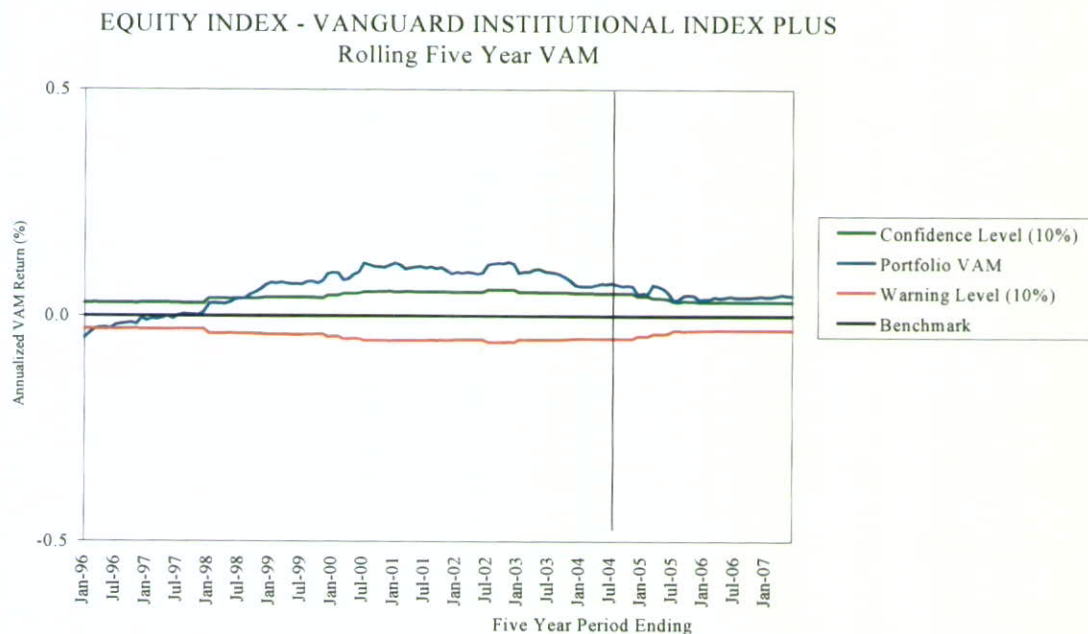
Quantitative Evaluation

	Actual	Benchmark*
Last Quarter	6.3%	6.3%
Last 1 year	20.6	20.6
Last 2 years	14.5	14.5
Last 3 years	11.7	11.7
Last 4 years	13.5	13.5
Last 5 years	10.8	10.7
Since Retention by SBI (7/99)	2.8	2.8

Recommendation

No action required.

*Benchmark is the S&P 500.



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, 2007**

Portfolio Manager: Donald Butler

**State's Participation in Fund: \$147,996,351
Total Assets in Fund: \$5,876,000,000**

**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.

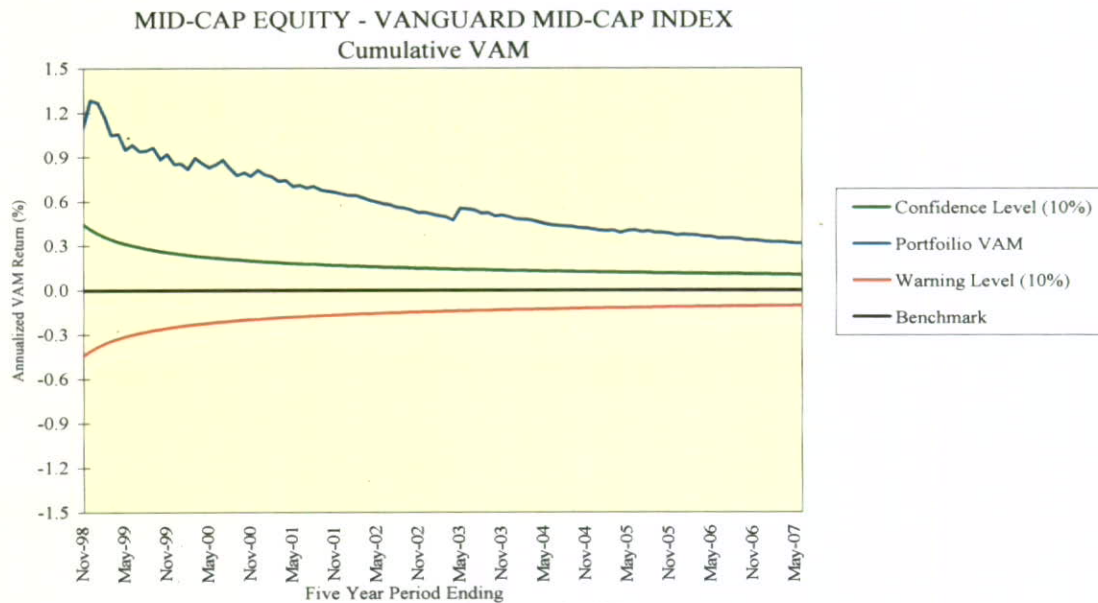
Quantitative Evaluation

	Actual	Benchmark*
Last Quarter	6.1%	6.1%
Last 1 year	20.8	20.8
Last 2 years	17.6	17.6
Last 3 years	17.9	17.9
Last 4 years	20.3	20.3
Last 5 years	15.5	15.4
Since Retention by SBI (1/04)	17.1	17.0

Recommendation

No action required.

*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.



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, 2007**

Portfolio Manager: Gregory A. McCrickard

**State's Participation in Fund: 422,722,388
Total Assets in Fund: 7,950,813,671**

**Investment Philosophy
T. Rowe Price Small Cap Equity Fund**

The strategy of this fund is to invest primarily in stocks of small to medium-sized companies that are believed to offer either superior earnings growth or appear undervalued. The fund normally invests at least 80% of assets in equities traded in the U.S. over-the-counter market. The manager does not favor making big bets on any particular sector or any particular stock. The fund's combination of growth and value stocks offers investors relatively more stable performance compared to other small cap stock funds.

Staff Comments

T. Rowe-Price exceeded the quarterly benchmark and trailed for the year. They outperformed the quarterly benchmark due to sector weightings, especially an overweight position and stock selection in the industrials and business services sector. The one-year return was negatively impacted by stock selection in the consumer discretionary and materials sectors.

Quantitative Evaluation

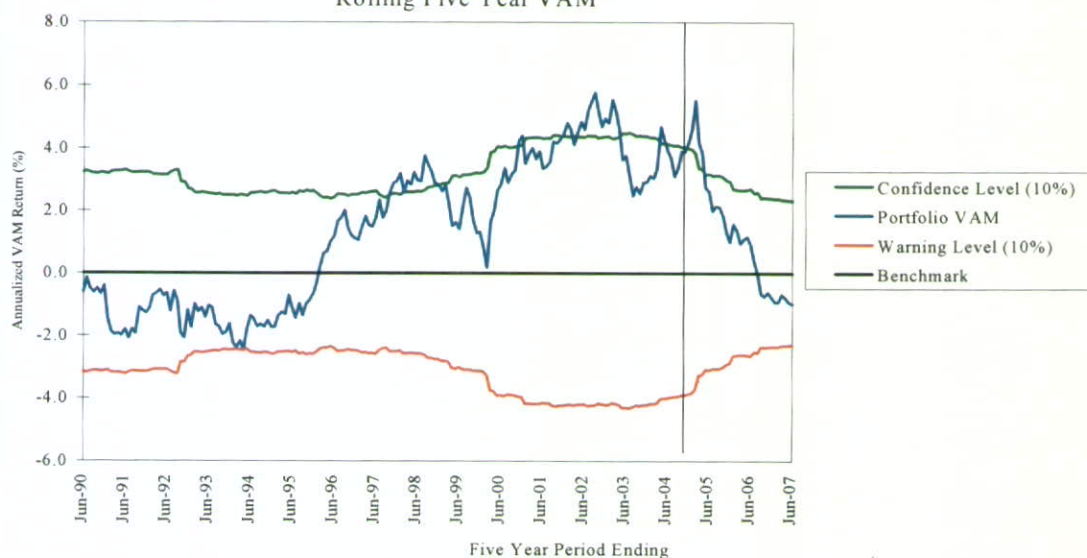
	Actual	Benchmark*
Last Quarter	4.6%	4.4%
Last 1 year	14.4	16.4
Last 2 years	15.1	15.5
Last 3 years	13.3	13.4
Last 4 years	16.8	18.1
Last 5 years	12.8	13.9
Since Retention by SBI (7/99)	11.8	9.1

Recommendation

No action required.

*Benchmark is the Russell 2000.

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, 2007**

Portfolio Manager: John Gunn

**State's Participation in Fund: \$317,715,402
Total Assets in Fund: \$29,312,449,006**

**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 having a higher weighting relative to the Combined Index. The equity portfolio was positively impacted by stock selection in the energy sector. The fixed income portfolio was helped by the fund's shorter than benchmark duration.

Quantitative Evaluation

	Actual	Benchmark*
Last Quarter	3.7%	3.5%
Last 1 year	15.2	14.7
Last 2 years	12.5	9.6
Last 3 years	11.6	8.6
Last 4 years	13.4	9.3
Last 5 years	11.8	8.4
Since Retention By SBI (10/03)	13.2	9.5

Recommendation

No action required.

*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.

**BALANCED - DODGE & COX BALANCED FUND
Rolling Five Year VAM**



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

**MN STATE 457 DEFERRED COMPENSATION PLAN
BALANCED – VANGUARD BALANCED INDEX INSTITUTIONAL FUND
Periods Ending June, 2007**

Portfolio Manager: Michael Perre

**State's Participation in Fund: \$180,039,291
Total Assets in Fund: \$2,821,000,000**

**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.

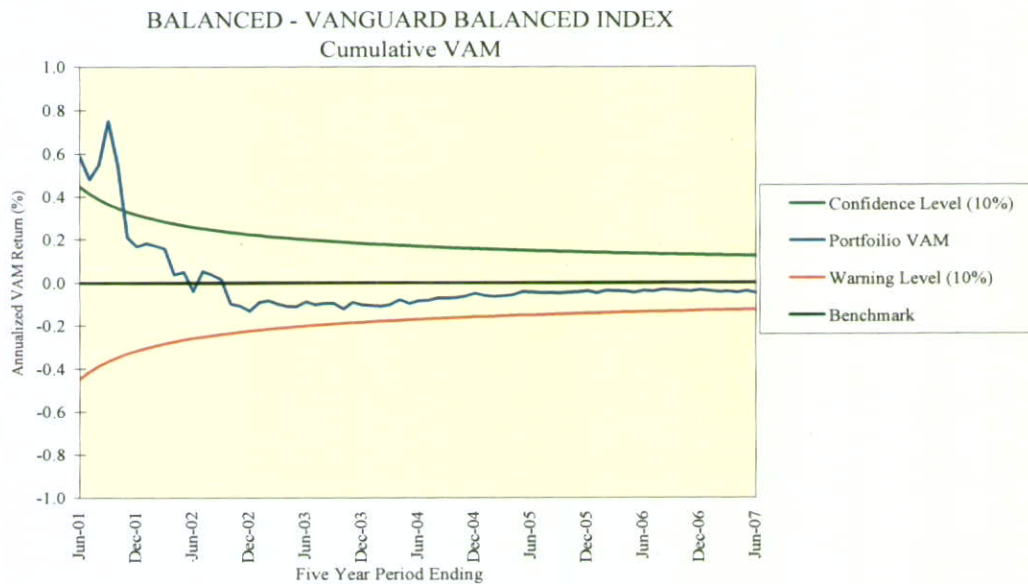
Quantitative Evaluation

	Actual	Benchmark*
Last Quarter	3.4%	3.4%
Last 1 year	14.4	14.6
Last 2 years	9.9	10.0
Last 3 years	9.2	9.2
Last 4 years	10.0	10.1
Last 5 years	9.1	9.1
Since Retention by SBI (12/03)	9.3	9.3

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, 2007**

Portfolio Manager: Dana Emery

**State's Participation in Fund: \$90,256,346
Total Assets in Fund: \$14,340,709,711**

**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 and security selection in the corporate sector.

Quantitative Evaluation

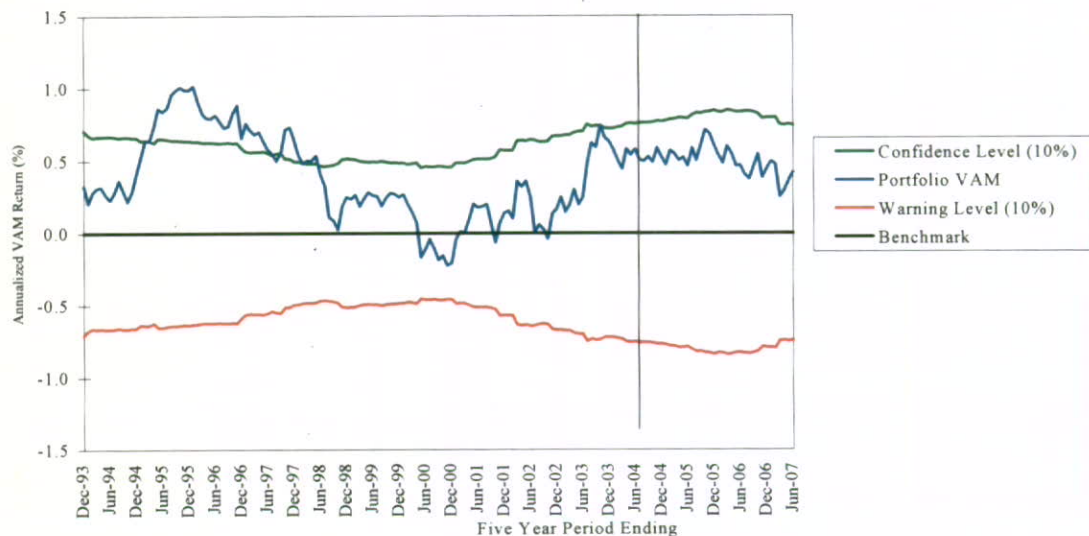
	Actual	Benchmark*
Last Quarter	-0.2%	-0.5%
Last 1 year	6.4	6.1
Last 2 years	3.4	2.6
Last 3 years	4.1	4.0
Last 4 years	3.5	3.1
Last 5 years	4.9	4.5
Since Retention By SBI (7/99)	6.3	5.8

Recommendation

No action required.

*Benchmark is the Lehman Aggregate.

**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, 2007

Portfolio Manager: Kenneth Volpert

State's Participation in Fund: \$53,598,356
Total Assets in Fund: \$8,655,000,000

Investment Philosophy
Vanguard Total Bond Market Index
Institutional

Staff Comments

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.

No comment at this time.

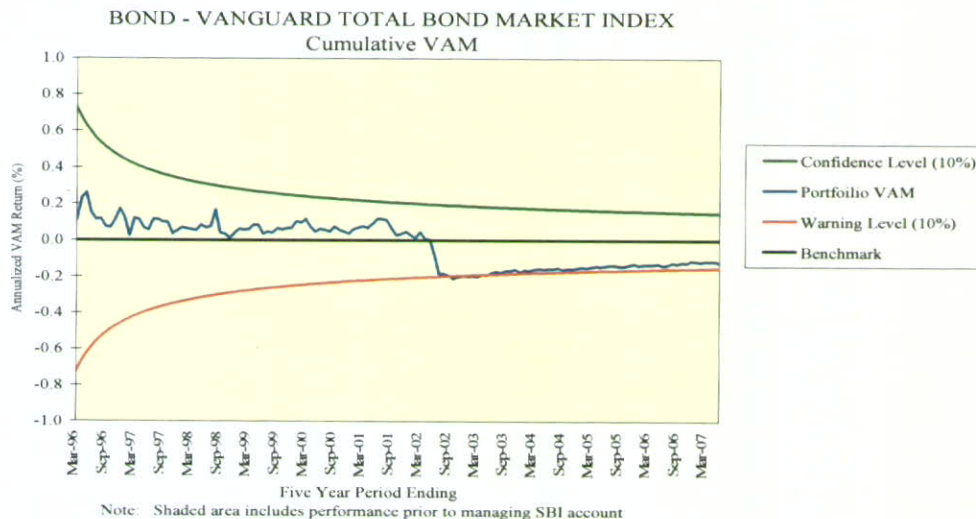
Quantitative Evaluation

Recommendation

	Actual	Benchmark*
Last Quarter	-0.6%	-0.5%
Last 1 year	6.2	6.1
Last 2 years	2.6	2.6
Last 3 years	4.0	4.0
Last 4 years	3.0	3.1
Last 5 years	4.3	4.5
Since Retention by SBI (12/03)	3.6	3.7

No action required.

*Benchmark is the Lehman Aggregate.
 Numbers in black are returns since retention by SBI.
 Numbers in blue include returns prior to retention by SBI.



**MN STATE 457 DEFERRED COMPENSATION PLAN
INTERNATIONAL – FIDELITY DIVERSIFIED INTERNATIONAL
Periods Ending June, 2007**

Portfolio Manager: William Bower

**State's Participation in Fund: \$297,015,589
Total Assets in Fund: \$53,188,620,000**

**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 outperformed the quarterly benchmark and trailed for the year. Performance over the quarter was helped by security selection in the financials sector.

Quantitative Evaluation

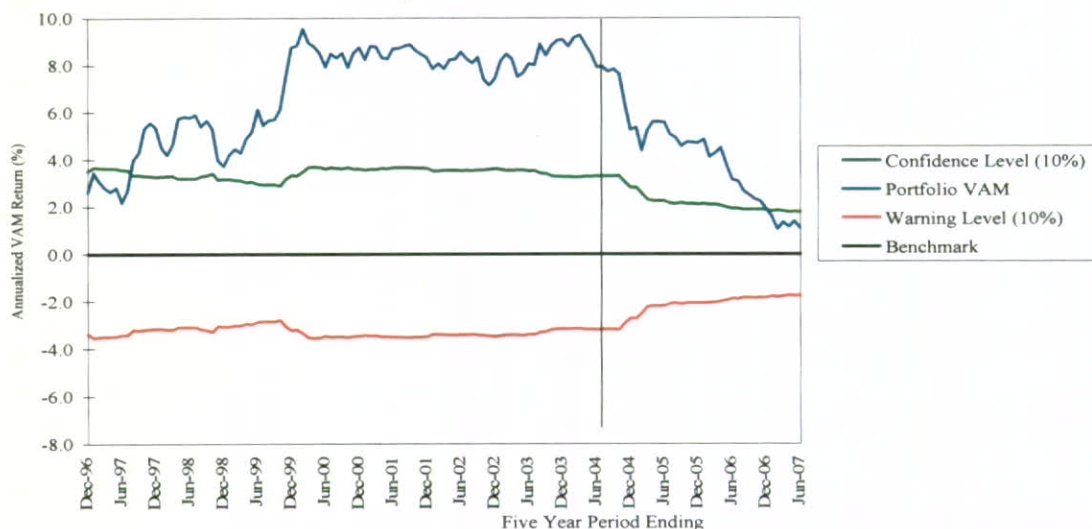
	Actual	Benchmark*
Last Quarter	7.8%	6.4%
Last 1 year	25.7	27.0
Last 2 years	26.0	26.8
Last 3 years	22.1	22.2
Last 4 years	24.6	24.7
Last 5 years	19.0	17.7
Since Retention By SBI (7/99)	13.1	7.9

Recommendation

No action required.

*Benchmark is the MSCI EAFE-Free.

**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, 2007**

Portfolio Manager: Duane Kelly and Michael Buek	State's Participation in Fund: \$90,315,664
	Total Assets in Fund: \$4,567,000,000

**Investment Philosophy
Vanguard Institutional Developed Market
Index**

Staff Comments

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.

No comment at this time.

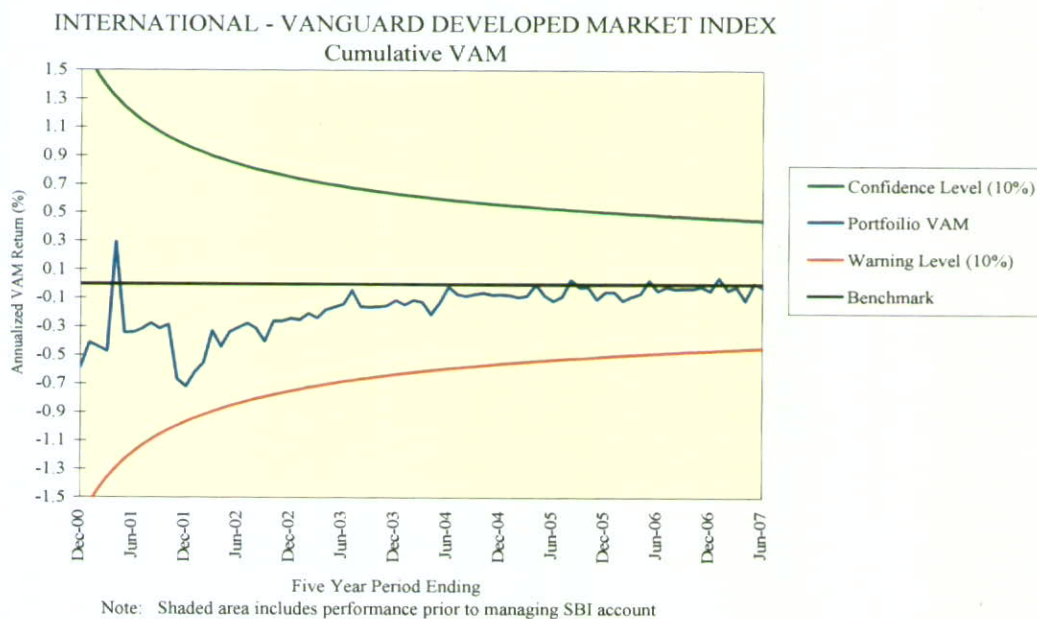
Quantitative Evaluation

Recommendation

	Actual	Benchmark*
Last Quarter	6.4%	6.4%
Last 1 year	27.2	27.0
Last 2 years	27.1	26.8
Last 3 years	22.2	22.2
Last 4 years	24.8	24.7
Last 5 years	17.8	17.7
Since Retention by SBI (12/03)	22.5	22.3

No action required.

*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.



MN STATE 457 DEFERRED COMPENSATION PLAN
MN FIXED FUND
Periods Ending June, 2007

Total Assets in MN Fixed Fund: \$771,353,704 *

*Includes \$14-18M in Liquidity Buffer Account

Principal Life

Investment Philosophy

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

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.

Assets in MN Fixed Fund: \$332,282,968

Minnesota Life

Investment Philosophy

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

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.

Assets in MN Fixed Fund: \$171,682,488

Assets in Prior MN 457 Plan: \$0

Total Assets: \$171,682,488

Great-West Life

Investment Philosophy

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

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.

Assets in MN Fixed Fund: \$235,325,179

Assets in Prior MN 457 Plan: \$0

Total Assets: \$235,325,179

**MN STATE 457 DEFERRED COMPENSATION PLAN
MN FIXED FUND
Periods Ending June, 2007**

Current Quarter

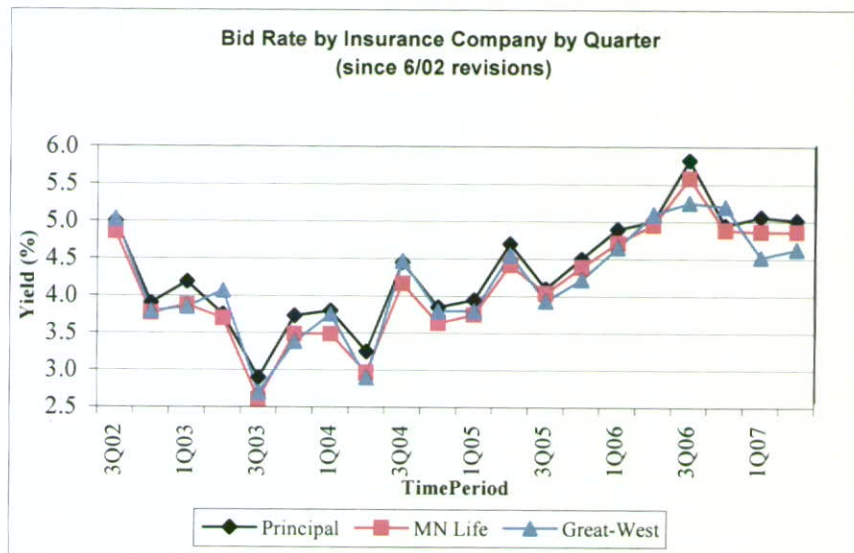
Dollar Amount of Bid: \$20,800,000

Blended Rate: 4.50%

Bid Rates:

Principal Life 5.02%
Minnesota Life 4.87%
Great-West Life 4.63%

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 exists. All assets of that portfolio matured in June 2004 and have been rolled into the Fixed Fund.



Staff Comments on Bid Rates

The graph indicates bid rates for the new cash flows which are effective for five year periods. Prior to that, the bids were effective for a quarter for the total portfolio.

	3Q06	4Q06	1Q07	2Q07	Staff Comments
Principal Life	75.0%	0.0%	75.0%	60.0%	Principal was awarded 60% and Minnesota Life received 40% of the bid dollars this quarter.
Minnesota Life	25.0%	0.0%	25.0%	40.0%	
Great-West Life	0.0%	100.0%	0.0%	0.0%	

Tab G

COMMITTEE REPORT

DATE: August 28, 2007

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

FROM: Alternative Investment Committee

The Alternative Investment Committee met on August 15, 2007 to review the following information and action agenda items:

1. Review of current strategy.
2. New investments with one existing yield-oriented manager, one existing resource manager and three existing private equity managers:
 - Goldman Sachs
 - Natural Gas Partners
 - Wayzata Investment Partners
 - Warburg Pincus
 - Blum Capital Partners

Board/IAC action is required on the last item.

INFORMATION ITEMS:

1) Review of Current Strategy.

To increase overall portfolio diversification, 15% of the Basic Retirement Funds and 12% of the Post Retirement Fund are allocated to alternative investments. Alternative investments include real estate, private equity, resource, and yield-oriented investments where Minnesota State Board of Investment (SBI) participation is limited to commingled funds or other pooled vehicles. Charts summarizing the Board's current commitments are attached (see **Attachments A and B**).

- The real estate investment strategy calls for the establishment and maintenance of a broadly diversified real estate portfolio comprised of investments that provide overall diversification by property type and location. The main component of this portfolio consists of investments in diversified Real Estate Investment Trusts (REITs), open-end commingled funds and closed-end commingled funds. The remaining portion of the portfolio can include investments in less diversified; more focused (specialty) commingled funds and REITs.

- The private equity investment strategy, which includes leveraged buyouts and venture capital, is to establish and maintain a broadly diversified private equity portfolio comprised of investments that provide diversification by industry type, stage of corporate development and location.
- The strategy for resource investments is to establish and maintain a portfolio of resource investment vehicles that provide an inflation hedge and additional diversification. Resource investments will include oil and gas investments, energy service industry investments and other investments that are diversified geographically and by type.
- The strategy for yield-oriented investments will target funds that typically provide a current return and may have an equity component such as subordinated debt or mezzanine investments. Yield-oriented investments will provide diversification by including investments in the private equity, resource and real estate categories.

ACTION ITEMS:

- 1) **Investment with an existing yield-oriented manager, Goldman Sachs, in Goldman Sachs Mezzanine Partners V, L.P.**

Goldman Sachs is seeking investors for a new \$7.0 billion (equity capitalization) yield-oriented fund. This fund is a successor to four other prior yield-oriented funds managed by Goldman Sachs in which the SBI has invested a total of \$275 million in the three most recent prior funds. Like the prior funds, this fund will seek to earn attractive returns through a diversified portfolio of yield-oriented investments.

More information on Goldman Sachs Mezzanine Partners V, 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 \$150 million or 20%, whichever is less, in Goldman Sachs Mezzanine Partners V, L.P. Approval by the SBI of this potential commitment is not intended to be, and does not constitute in any way, a binding or legal agreement or impose any legal obligations on the State Board of Investment and neither the State of Minnesota, the State Board of Investment nor its Executive Director have any liability for reliance by 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 an existing resource manager, Natural Gas Partners, in Natural Gas Partners IX, L.P.

Natural Gas Partners is seeking investors for a new \$3-4 billion resource fund. This fund is the ninth flagship resource fund for Natural Gas Partners. The SBI recently invested \$100 million with Natural Gas Partners in a Natural Gas Partners sponsored affiliate fund, NGP Midstream & Resources. This fund will seek to earn attractive returns through a diversified portfolio of energy investments.

More information on Natural Gas Partners IX, 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 \$150 million or 20%, whichever is less, in Natural Gas Partners 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 Natural Gas Partners upon this approval. Until the Executive Director on behalf of the SBI executes a formal agreement, further due diligence and negotiations may result in the imposition of additional terms and conditions on Natural Gas Partners or reduction or termination of the commitment.

3) Investment with an existing private equity manager, Wayzata Investment Partners, in Wayzata Opportunities Fund II, L.P.

Wayzata Investment Partners is seeking investors for a new \$2.5 billion private equity fund. This fund is a successor to eleven other prior private equity funds managed by Wayzata Investment Partners. The SBI invested \$100 million in the prior fund, Fund I. Like the prior fund, this fund will seek to earn attractive returns through a diversified portfolio of private equity investments focusing on distressed debt and special situation investments.

More information on Wayzata Opportunities Fund II, L.P. is included as **Attachment E**.

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 \$150 million or 20%, whichever is less, in Wayzata Opportunities Fund II, L.P. Approval by the SBI of this potential commitment is not intended to be, and does not constitute in any way, a binding or legal agreement or impose any legal obligations on the State Board of Investment and neither the State of Minnesota, the State Board of Investment nor its Executive Director have any liability for reliance by Wayzata Investment Partners upon this approval. Until the Executive Director on behalf of the SBI executes a formal agreement, further due diligence and negotiations may result in the imposition of additional terms and conditions on Wayzata Investment Partners or reduction or termination of the commitment.

4) Investment with an existing private equity manager, Warburg Pincus, in Warburg Pincus Private Equity X, L.P.

Warburg Pincus is seeking investors for a new \$12 billion private equity fund. This fund is a successor to nine other prior private equity funds managed by Warburg Pincus. The SBI invested a total of \$350 million in the 4 most recent 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 Warburg Pincus Private Equity X, L.P. is included as Attachment F.

RECOMMENDATION:

The Committee recommends that the SBI authorize the Executive Director, with assistance from the SBI's legal counsel, to negotiate and execute a commitment of up to \$150 million or 20%, whichever is less, in Warburg Pincus Private Equity X, 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 Warburg Pincus 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 Warburg Pincus or reduction or termination of the commitment.

5) Investment with an existing private equity manager, Blum Capital Partners, in Blum Strategic Partners IV, L.P.

Blum Capital Partners is seeking investors for a new \$2 billion private equity fund. This fund is a successor to three other prior private equity funds managed Blum Capital Partners. The SBI invested a total of \$175 million in the prior funds. Like the prior funds, this fund will seek to earn attractive returns through a diversified portfolio of private and public equity investments.

More information on Blum Strategic Partners IV, L.P. is included as **Attachment G**.

RECOMMENDATION:

The Committee recommends that the SBI authorize the Executive Director, with assistance from the SBI's legal counsel, to negotiate and execute a commitment of up to \$150 million or 20%, whichever is less, in Blum Strategic 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 Blum Capital Partners upon this approval. Until the Executive Director on behalf of the SBI executes a formal agreement, further due diligence and negotiations may result in the imposition of additional terms and conditions on Blum Capital Partners or reduction or termination of the commitment.

ATTACHMENT A

Minnesota State Board of Investment
Pooled Alternative Investments
Combined Retirement Funds
 June 30, 2007

Basic Retirement Funds Market Value	\$25,062,067,082
Post Retirement Fund Market Value	\$25,176,222,937
 Amount Available for Investment	 \$2,046,046,500

	Current Level	Target Level	Difference
Market Value (MV)	\$4,734,410,315	\$6,780,456,815	\$2,046,046,500
MV +Unfunded	\$7,805,610,427	\$10,170,685,222	\$2,365,074,795

Asset Class	Market Value	Unfunded Commitment	Total
Private Equity	\$2,629,222,980	\$1,771,346,427	\$4,400,569,408
Real Estate	\$935,296,067	\$239,541,699	\$1,174,837,767
Resource	\$172,663,682	\$430,257,278	\$602,920,960
Yield-Oriented	\$997,227,585	\$630,054,708	\$1,627,282,293
Total	\$4,734,410,315	\$3,071,200,113	\$7,805,610,427

ATTACHMENT B

Minnesota State Board of Investment

- Alternative Investments -

As of June 30, 2007

Investment	Total Commitment	Funded Commitment	Market Value	Distributions	Unfunded Commitment	IRR %	Period Years
I. Real Estate							
American Republic Realty Fund	1	1	30,000	75,000	0	104.3	17.4
Blackstone							
Blackstone Real Estate V	100,000,000	74,906,935	100,903,068	14,477,508	25,093,065	91.4	1.2
Blackstone Real Estate VI	100,000,000	0	0	0	100,000,000	N/A	0.2
Colony Capital							
Colony Investors II	80,000,000	78,482,328	87,267	89,725,483	1,517,672	4.6	12.2
Colony Investors III	100,000,000	100,000,000	17,387,969	167,089,052	0	15.9	9.5
CSFB Strategic Partners III RE	25,000,000	5,610,456	5,587,279	0	19,389,544	-0.4	2.0
Lehman Brothers Real Estate Partners II	75,000,000	57,958,582	56,820,525	15,246,459	17,041,418	31.3	2.0
Morgan Stanley (Lend Lease)	40,000,000	40,000,000	269,137,395	0	0	7.9	25.7
T.A. Associates Realty							
Realty Associates Fund IV	50,000,000	50,000,000	748,389	106,787,825	0	13.4	10.4
Realty Associates Fund V	50,000,000	50,000,000	34,090,203	64,434,856	0	12.6	8.1
Realty Associates Fund VI	50,000,000	50,000,000	58,047,764	26,645,920	0	20.6	5.0
Realty Associates Fund VII	75,000,000	73,500,000	79,629,727	9,976,977	1,500,000	16.3	2.6
Realty Associates Fund VIII	100,000,000	25,000,000	25,000,000	128,141	75,000,000	N/A	1.0
UBS Realty	42,376,529	42,376,529	287,826,479	0	0	8.4	25.2
Real Estate Total	887,376,530	647,834,831	935,296,067	494,587,221	239,541,699		
II. Resource							
Apache Corp III	30,000,000	30,000,000	8,041,410	52,269,584	0	12.4	20.5
First Reserve							
First Reserve Fund I	15,000,000	15,000,000	13,758	14,552,526	0	-0.3	25.7
First Reserve Fund II	7,000,000	7,000,000	55,000	14,879,948	0	5.9	24.4
First Reserve Fund V	16,800,000	16,800,000	148,396	50,261,377	0	16.2	17.2
First Reserve Fund VII	40,000,000	40,000,000	1,548,653	60,016,961	0	10.4	11.0
First Reserve Fund VIII	100,000,000	100,000,000	9,936,807	201,883,104	0	16.6	9.2
First Reserve Fund IX	100,000,000	100,000,000	4,796,828	297,962,868	0	48.5	6.2
First Reserve Fund X	100,000,000	92,100,438	55,218,173	83,973,499	7,899,562	47.9	2.7
First Reserve Fund XI	150,000,000	12,557,968	11,724,646	0	137,442,032	N/A	0.5
NGP Midstream & Resources	100,000,000	990,566	990,566	0	99,009,434	N/A	0.2
Sheridan Production Partners I	100,000,000	1,093,750	1,093,750	0	98,906,250	N/A	0.2
Simmons							
Simmons SCF-II	14,706,629	14,706,629	211,114	31,861,962	0	9.3	15.9
Simmons SCF-III	23,408,729	23,408,729	45,720	65,339,342	0	18.4	12.0
Simmons SCF-IV	47,626,265	47,626,265	56,016,499	107,089,527	0	26.2	9.2
T. Rowe Price	51,735,289	51,735,289	9,822,363	64,308,099	0	27.4	N/A
TCW Energy Partners XIV	100,000,000	13,000,000	13,000,000	0	87,000,000	N/A	0.2
Resource Total	996,276,913	566,019,635	172,663,682	1,044,398,798	430,257,278		

Minnesota State Board of Investment

- Alternative Investments -

As of June 30, 2007

Investment	Total Commitment	Funded Commitment	Market Value	IRR Distributions	Unfunded Commitment	IRR %	Period Years
<i>III. Yield-Oriented</i>							
Carbon Capital	50,000,000	46,184,308	3,675,347	57,519,596	3,815,692	15.8	5.1
Citicorp Mezzanine III	100,000,000	88,029,296	19,912,066	111,971,557	11,970,704	16.6	7.7
DLJ Investment Partners							
<i>DLJ Investment Partners II</i>	50,000,000	21,026,211	3,979,792	28,513,699	28,973,789	11.0	7.5
<i>DLJ Investment Partners III</i>	100,000,000	12,578,181	11,417,756	539,201	87,421,819	-5.4	1.0
Gold Hill Venture Lending	40,000,000	32,400,000	27,638,756	5,578,392	7,600,000	1.5	2.8
GS Mezzanine Partners							
<i>GS Mezzanine Partners II</i>	100,000,000	83,092,437	47,932,817	70,300,738	16,907,563	10.1	7.3
<i>GS Mezzanine Partners III</i>	75,000,000	52,896,411	36,125,022	36,539,146	22,103,589	17.6	4.0
<i>GS Mezzanine Partners 2006</i>	100,000,000	25,845,263	28,140,524	6,138,611	74,154,737	47.5	1.2
GTCR Capital Partners	80,000,000	69,589,422	7,850,064	99,636,298	10,410,578	11.0	7.6
KB Mezzanine Fund II	25,000,000	25,000,000	439,116	12,080,745	0	-13.7	11.7
Merit Capital Partners (fka William Blair)							
<i>William Blair Mezz. Fund III</i>	60,000,000	55,998,000	17,159,999	77,119,683	4,002,000	14.3	7.5
<i>Merit Mezzanine Fund IV</i>	75,000,000	33,572,802	33,601,943	0	41,427,198	0.1	2.5
Merit Energy Partners							
<i>Merit Energy Partners B</i>	24,000,000	24,000,000	63,334,837	57,087,926	0	25.3	11.0
<i>Merit Energy Partners C</i>	50,000,000	50,000,000	204,463,432	92,629,301	0	35.7	8.7
<i>Merit Energy Partners D</i>	88,000,000	70,938,303	203,583,011	45,345,101	17,061,697	32.5	6.1
<i>Merit Energy Partners E</i>	100,000,000	36,489,813	53,310,545	5,194,347	63,510,187	20.3	2.7
<i>Merit Energy Partners F</i>	100,000,000	17,103,529	19,330,753	662,221	82,896,471	14.2	1.3
Prudential Capital Partners							
<i>Prudential Capital Partners I</i>	100,000,000	95,074,386	37,820,476	85,480,787	4,925,614	9.9	6.2
<i>Prudential Capital Partners II</i>	100,000,000	42,173,888	40,860,888	3,322,290	57,826,112	4.3	2.0
Quadrant Real Estate Advisors (GMAC)							
<i>Institutional Commercial Mortgage Fd III</i>	21,275,052	21,275,052	2,412,631	32,756,723	0	8.2	10.6
<i>Institutional Commercial Mortgage Fd IV</i>	14,300,000	14,300,000	4,095,348	18,636,930	0	8.4	9.5
<i>Institutional Commercial Mortgage Fd V</i>	37,200,000	37,200,000	25,288,674	30,405,159	0	8.3	7.9
Summit Partners							
<i>Summit Subordinated Debt Fund I</i>	20,000,000	18,000,000	85,333	31,406,578	2,000,000	30.6	13.2
<i>Summit Subordinated Debt Fund II</i>	45,000,000	40,500,000	6,602,300	82,081,400	4,500,000	56.5	9.9
<i>Summit Subordinated Debt Fund III</i>	45,000,000	31,050,000	20,743,229	12,688,002	13,950,000	6.2	3.4
T. Rowe Price	53,394,449	53,394,449	228,773	52,072,531	0	-10.7	N/A
TCW/Crescent Mezzanine							
<i>TCW/Crescent Mezzanine Partners I</i>	40,000,000	37,130,039	3,338,935	57,050,388	2,869,961	14.8	11.2
<i>TCW/Crescent Mezzanine Partners III</i>	75,000,000	68,835,264	17,846,838	134,045,624	6,164,736	37.7	6.3
Windjammer Capital Investors							
<i>Windjammer Mezzanine & Equity Fund II</i>	66,708,861	49,756,007	38,491,576	35,750,735	16,952,854	12.2	7.2
<i>Windjammer Senior Equity Fund III</i>	67,974,684	19,365,277	17,516,803	0	48,609,407	-27.5	1.5
Yield-Oriented Total	1,902,853,047	1,272,798,339	997,227,585	1,282,553,709	630,054,708		

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- Alternative Investments -

As of June 30, 2007

Investment	Total Commitment	Funded Commitment	Market Value	Distributions	Unfunded Commitment	IRR %	Period Years
IV. Private Equity							
Adams Street Partners (Brinson)							
<i>Brinson Partners I</i>	3,800,000	3,800,000	89,891	9,387,104	0	13.2	19.1
<i>Brinson Partners II</i>	20,000,000	20,000,000	108,872	37,898,512	0	24.1	16.6
Affinity Ventures IV	4,000,000	1,391,847	980,031	405,436	2,608,153	-0.4	3.0
Banc Fund							
<i>Banc Fund V</i>	48,000,000	48,000,000	9,703,109	97,319,526	0	15.2	9.0
<i>Banc Fund VII</i>	45,000,000	32,400,000	29,816,586	380,725	12,600,000	-6.2	2.2
Blackstone							
<i>Blackstone Capital Partners II</i>	47,271,190	47,271,190	4,751,346	94,979,972	0	34.2	13.6
<i>Blackstone Capital Partners IV</i>	70,000,000	60,422,499	58,248,564	73,922,652	9,577,501	53.5	5.0
<i>Blackstone Capital Partners V</i>	140,000,000	47,850,210	49,952,398	5,029,255	92,149,790	24.1	1.4
BLUM Capital Partners							
<i>Blum Strategic Partners I</i>	50,000,000	49,001,812	22,118,078	89,371,650	998,188	15.5	8.5
<i>Blum Strategic Partners II</i>	50,000,000	40,081,967	31,539,188	60,403,062	9,918,033	27.2	5.9
<i>Blum Strategic Partners III</i>	75,000,000	70,106,444	73,474,224	9,456,587	4,893,556	15.2	2.1
CVI Global Value Fund	100,000,000	50,000,000	52,859,806	23,001	50,000,000	N/A	0.5
Chicago Growth Partners (William Blair)							
<i>William Blair Capital Partners VII</i>	50,000,000	47,050,000	37,251,935	22,097,178	2,950,000	7.1	6.3
<i>Chicago Growth Partners VIII</i>	50,000,000	28,541,998	26,102,732	3,091,419	21,458,002	3.3	1.9
Contrarian Capital Fund II	37,000,000	33,244,395	3,387,269	44,800,034	3,755,605	5.3	10.1
Coral Partners							
<i>Coral Partners II</i>	10,000,000	10,000,000	332,659	36,632,559	0	24.9	16.9
<i>Coral Partners IV</i>	15,000,000	15,000,000	1,737,642	13,538,879	0	0.4	12.9
<i>Coral Partners V</i>	15,000,000	14,625,000	2,574,193	3,106,198	375,000	-14.7	9.0
Court Square Capital							
<i>Citigroup Venture Capital Equity</i>	100,000,000	79,614,537	38,091,404	109,394,913	20,385,463	30.0	5.5
<i>Court Square Capital Partners II</i>	175,000,000	25,268,992	23,205,937	1,060,206	149,731,008	N/A	0.8
Crescendo							
<i>Crescendo III</i>	25,000,000	25,000,000	1,391,245	9,321,908	0	-21.3	8.6
<i>Crescendo IV</i>	101,500,000	101,500,000	42,497,723	4,018,614	0	-15.4	7.3
CSFB/ DLJ							
<i>DLJ Merchant Banking Partners III</i>	125,000,000	117,052,400	60,537,524	155,893,755	7,947,600	19.8	6.7
<i>DLJ Strategic Partners</i>	100,000,000	87,010,130	36,343,872	114,490,918	12,989,870	23.5	6.4
<i>CSFB Strategic Partners II-B</i>	100,000,000	74,611,049	57,971,308	86,016,406	25,388,951	47.8	4.0
<i>CSFB Strategic Partners III VC</i>	25,000,000	12,624,618	14,716,750	876,508	12,375,382	22.5	2.1
<i>CSFB Strategic Partners III-B</i>	100,000,000	38,401,502	41,851,243	4,984,861	61,598,498	32.8	2.1
Diamond Castle Partners IV	100,000,000	38,861,534	38,814,084	287,251	61,138,466	N/A	0.8
DSV Partners IV	10,000,000	10,000,000	1,233,472	29,130,667	0	9.7	22.2
EBF Merced Partners II	75,000,000	3,750,000	3,750,000	0	71,250,000	N/A	0.2
Elevation Partners	75,000,000	23,967,102	22,392,968	244,445	51,032,898	-6.5	2.1
First Century Partners III	10,000,000	10,000,000	2,591	15,226,240	0	7.5	22.5
Fox Paine Capital Fund							
<i>Fox Paine Capital Fund I</i>	40,000,000	40,000,000	5,428,938	39,288,122	0	1.9	9.2
<i>Fox Paine Capital Fund II</i>	50,000,000	37,598,342	29,500,150	45,038,976	12,401,658	29.9	7.0

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As of June 30, 2007

Investment	Total Commitment	Funded Commitment	Market Value	Distributions	Unfunded Commitment	IRR %	Period Years
GHJM Marathon Fund							
<i>GHJM Marathon Fund IV</i>	40,000,000	39,051,000	9,347,919	44,201,952	949,000	7.8	8.2
<i>GHJM Marathon Fund V</i>	50,000,000	36,769,382	35,063,646	3,877,797	13,230,618	5.7	2.7
Golder, Thoma, Cressey, Rauner							
<i>Golder, Thoma, Cressey & Rauner Fund III</i>	14,000,000	14,000,000	178,389	78,123,015	0	30.9	19.7
<i>Golder, Thoma, Cressey & Rauner Fund IV</i>	20,000,000	20,000,000	50,952	41,949,783	0	25.0	13.4
<i>Golder, Thoma, Cressey & Rauner Fund V</i>	30,000,000	30,000,000	4,488,505	50,344,570	0	11.2	11.0
GS Capital Partners							
<i>GS Capital Partners 2000</i>	50,000,000	50,000,000	28,078,826	70,424,142	0	25.0	6.8
<i>GS Capital Partners V</i>	100,000,000	62,626,198	93,206,231	4,245,168	37,373,802	39.8	2.2
<i>GS Capital Partners VI</i>	100,000,000	3,000,000	2,957,532	0	97,000,000	N/A	0.4
GTCR Golder Rauner							
<i>GTCR VI</i>	90,000,000	90,000,000	27,084,609	72,435,621	0	3.1	9.0
<i>GTCR VII</i>	175,000,000	152,796,874	67,496,674	260,881,011	22,203,126	23.3	7.4
<i>GTCR IX</i>	75,000,000	9,999,020	8,157,181	4,741,730	65,000,980	N/A	1.0
Hellman & Friedman							
<i>Hellman & Friedman Capital Partners IV</i>	150,000,000	133,967,494	73,712,299	279,887,959	16,032,506	35.0	7.5
<i>Hellman & Friedman Capital Partners V</i>	160,000,000	139,782,815	193,655,907	23,349,511	20,217,185	42.5	2.6
<i>Hellman & Friedman Capital Partners VI</i>	175,000,000	30,413,885	30,413,885	0	144,586,115	N/A	0.3
Kohlberg Kravis Roberts							
<i>KKR 1987 Fund</i>	145,373,652	145,373,652	5,954,209	395,130,030	0	8.8	19.6
<i>KKR 1993 Fund</i>	150,000,000	150,000,000	2,564,254	307,737,864	0	16.8	13.5
<i>KKR 1996 Fund</i>	200,000,000	200,000,000	53,664,611	314,144,121	0	13.5	10.8
<i>KKR Millennium Fund</i>	200,000,000	196,315,009	219,121,729	129,396,168	3,684,991	34.9	4.6
<i>KKR 2006 Fund</i>	200,000,000	24,357,528	19,785,992	2,037,824	175,642,472	N/A	0.8
Lexington Capital Partners VI-B	100,000,000	26,785,696	23,287,439	5,128,344	73,214,304	9.0	1.5
RWI Ventures							
<i>RWI Group III</i>	616,430	616,430	302,524	259,070	0	N/A	1.0
<i>RWI Ventures I</i>	7,603,265	7,023,265	5,557,971	835,636	580,000	N/A	1.0
Sightline Healthcare							
<i>Sightline Healthcare Fund II</i>	10,000,000	10,000,000	2,223,674	4,190,002	0	-6.9	10.3
<i>Sightline Healthcare Fund III</i>	20,000,000	20,000,000	6,397,420	2,494,843	0	-14.7	8.4
<i>Sightline Healthcare Fund IV</i>	7,700,000	6,358,012	4,247,246	2,613,367	1,341,988	2.8	3.8
Silver Lake Partners							
<i>Silver Lake Partners II</i>	100,000,000	80,172,022	89,961,820	14,148,430	19,827,978	20.4	3.0
<i>Silver Lake Partners III</i>	100,000,000	0	0	0	100,000,000	N/A	0.2
Split Rock Partners	50,000,000	16,290,911	14,548,142	0	33,709,089	-11.0	2.2
Summit Partners							
<i>Summit Ventures II</i>	30,000,000	28,500,000	165,648	74,524,292	1,500,000	28.8	19.1
<i>Summit Ventures V</i>	25,000,000	23,875,000	1,739,816	30,706,246	1,125,000	7.9	9.2
T. Rowe Price	759,526,774	759,526,774	100,463,078	712,132,191	0	9.7	N/A

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As of June 30, 2007

Investment	Total Commitment	Funded Commitment	Market Value	Distributions	Unfunded Commitment	IRR %	Period Years
Thoma Cressey Bravo							
<i>Thoma Cressey Fund VI</i>	35,000,000	33,915,000	15,111,411	8,659,003	1,085,000	-5.9	8.9
<i>Thoma Cressey Fund VII</i>	50,000,000	44,855,000	26,426,304	46,489,614	5,145,000	28.4	6.8
<i>Thoma Cressey Fund VIII</i>	70,000,000	28,350,000	27,153,120	0	41,650,000	-5.7	1.2
Thomas, McNerney & Partners							
<i>Thomas, McNerney & Partners I</i>	30,000,000	20,925,000	17,147,114	4,672,914	9,075,000	2.1	4.6
<i>Thomas, McNerney & Partners II</i>	50,000,000	6,250,000	5,300,125	0	43,750,000	N/A	1.0
Vestar Capital Partners							
<i>Vestar Capital Partners IV</i>	55,000,000	51,540,460	28,838,011	42,040,723	3,459,540	11.4	7.5
<i>Vestar Capital Partners V</i>	75,000,000	32,125,437	32,037,188	0	42,874,563	-0.4	1.5
Warburg Pincus							
<i>Warburg, Pincus Ventures</i>	50,000,000	50,000,000	3,326,140	251,772,539	0	49.2	12.5
<i>Warburg Pincus Equity Partners</i>	100,000,000	100,000,000	28,625,189	128,414,394	0	10.6	9.0
<i>Warburg Pincus Private Equity VIII</i>	100,000,000	100,000,000	118,450,809	58,993,461	0	21.7	5.2
<i>Warburg Pincus Private Equity IX</i>	100,000,000	64,005,208	67,848,703	2,163,125	35,994,792	9.2	1.9
<i>Wayzata Opportunities Fund</i>	100,000,000	93,601,778	94,834,164	12,020,887	6,398,222	13.5	1.5
Welsh, Carson, Anderson & Stowe							
<i>Welsh, Carson, Anderson & Stowe VIII</i>	100,000,000	100,000,000	68,171,711	64,155,749	0	4.1	8.9
<i>Welsh, Carson, Anderson & Stowe IX</i>	125,000,000	116,250,000	98,147,341	95,252,292	8,750,000	15.6	7.0
<i>Welsh, Carson, Anderson & Stowe X</i>	100,000,000	51,578,466	51,136,335	0	48,421,534	-1.1	1.5
<i>Zell/ Chilmark</i>	30,000,000	30,000,000	33,454	77,129,496	0	17.7	17.0
Private Equity Total	6,546,391,311	4,775,044,884	2,629,222,980	4,938,822,426	1,771,346,427		

YIELD-ORIENTED MANAGER SUMMARY PROFILE

I. Background Data

<i>Name of Fund:</i>	GS Mezzanine Partners V, L.P. (the "Fund" or "GSMP V")
<i>Type of Fund:</i>	Mezzanine Debt
<i>Fund Size (Currently expected equity capitalization):</i>	\$7.0 Billion
<i>Fund Manager:</i>	GS Mezzanine Advisors V, L.L.C.
<i>Manager Contact:</i>	Muneer Satter Global Head of GS Mezzanine business Goldman Sachs & Co. 71 South Wacker Drive Chicago, IL 60606 Tel: (312) 655-4887 Email: muneer.satter@gs.com

II. Organization and Staff

Goldman Sachs, a leading international investment banking firm, is establishing GS Mezzanine Partners V, L.P. (the "Fund," the "Partnership," or "GSMP V") as a vehicle for investors seeking both long-term capital appreciation as well as current returns through investments in mezzanine securities. The Partnership will represent the fifth in a series of funds raised by Goldman Sachs since 1996 to make investments in mezzanine securities.

The Principal Investment Area of Goldman Sachs' Merchant Banking Division (the "PIA"), which has achieved twenty-one years of successful results in its private investments, will evaluate, structure, monitor, manage, and harvest the Fund's investments. The PIA currently consists of approximately 125 investment professionals in New York, San Francisco, Hong Kong, London, Mumbai and Tokyo.

All investment decisions are made by the 22-member Investment Committee of Goldman Sachs, which includes Muneer Satter, global head of Mezzanine for the PIA.

III. Investment Strategy

The Partnership plans to invest in securities which will principally include fixed income securities, such as debt and preferred stock, and may also include an equity component, such as warrants, options or common stock.

The Partnership will consider a broad array of investment opportunities, primarily in North America and Europe, including leveraged buyout and other private equity sponsored transactions, recapitalizations, refinancings, restructurings, acquisitions and structured transactions. The General Partner will seek to create a global portfolio of mezzanine investments and to use leverage on an appropriate basis to seek to enhance the return to investors in the Partnership.

IV. Investment Performance

Previous fund performance as of June 30, 2007 for Goldman Sachs Mezzanine Partners 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 *
GSMP I	1996	\$800 million	--	8.8%
GSMP II	2000	\$1,000 million	\$100 million	10.1%
GSMP III	2003	\$2,001 million	\$75 million	17.6%
GSMP 2006	2006	\$5,250 million	\$100 million	47.5%

* For GSMP I, the net IRR was as of March 31, 2007 and was provided by Goldman Sachs. The net IRR's for GSMP II, III and 2006 were provided by SBI staff and the SBI's master custodian, State Street Bank.

Previous fund investments may be relatively immature and therefore, returns may not be indicative of future results.

V. Goldman Sachs' Investment

The Goldman Sachs Group, Inc. ("GS Group"), together with Goldman, Sachs & Co. and its other subsidiaries and affiliates, including the General Partner (collectively, "Goldman Sachs"), expects to invest an aggregate of at least \$3.0 billion in GSMP V, including amounts invested by employees of Goldman Sachs.

VI. Takedown Schedule

It is anticipated that the Commitments will generally be drawn down during the Commitment Period on an "as needed" basis. The General Partner will give

15 calendar days notice prior to each takedown of funds. Goldman Sachs will generally call 5 - 10% of investors' capital to fund investments, and then use leverage representing approximately 50% of investors' capital to fund the next investments.

VII. Fees

Each Limited Partner (other than Goldman Sachs and its affiliated entities that are direct or indirect Limited Partners (the "GSLP")) will be charged an annual management fee (the "Management Fee") on invested capital (including any leverage and any reinvested capital but reduced by the cost basis of full or partially harvested investments) at a fixed rate of 1.5% per annum.

Goldman Sachs will seek to perform investment banking, brokerage, asset management, and other services for, and will expect to receive customary investment banking compensation from, the Partnership as well as the Portfolio Companies in which the Partnership makes mezzanine investments. 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, 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.

Amounts paid by Portfolio Companies upon the consummation of the Partnership's investments in Securities will generally be paid to the Partnership. Goldman Sachs employees may receive fees and options paid and granted to directors on the boards of directors of Portfolio Companies, and those 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.

The Partnership will bear its allocable portion of expenses incurred in connection with the organization and the offering of LP interests in the Funds. In addition, the Partnership will bear the ongoing direct or indirect expenses of the Partnership, including, without limitation, (i) all expenses relating to identifying, evaluating, structuring, monitoring, managing and harvesting investments and potential investments (whether or not completed) for the Partnership, (ii) all costs of leverage incurred by GSMP V as well as costs incurred in implementing the Partnership's hedging strategies, and (iii) other out-of-pocket expenses incurred in connection with the administration of the Partnership, as well as expenses relating to fund accounting, insurance, 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. The Partnership will seek to be reimbursed by third parties for its expenses when possible.

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, (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), as follows: Net income of the Partnership will be allocated in a manner so that the Limited Partners are allocated income in proportion to their capital commitments, until the Limited Partners have achieved a return of 6% 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 the aggregate net income. Any additional net income of the Partnership will be allocated 20% to the holders of SLP interests and 80% to the General and Limited Partners (including the holders of SLP interests). 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.

The amount and timing of distributions from the Partnership to the Partners will be at the discretion of the General Partner. Distributions will be made generally in accordance with allocations of gain and loss.

IX. Investment Period and Term

The Partnership will have a commitment period from the date of the closing of the offering of LP Interests until December 31, 2011, with an ability to extend this period for three one-year periods at the discretion of the General Partner (this period, including extensions, the "Commitment Period").

The term of the Partnership will be the earlier of (i) ten years following the expiration of the Commitment Period, with an ability to extend this period for one year at the discretion of the General Partner, or (ii) the fifteenth anniversary of the formation of the Partnership, subject to the General Partner's right to liquidate the Partnership at any time (this period, including extensions, 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.

RESOURCE MANAGER SUMMARY PROFILE

I. Background Data

<i>Name of Fund:</i>	Natural Gas Partners IX, L.P.
<i>Type of Fund:</i>	Resource Limited Partnership
<i>Total Fund Size:</i>	\$3-4 billion
<i>Fund Manager:</i>	NGP Energy Capital Management
<i>Manager Contact:</i>	Kenneth A. Hersh 125 E. John Carpenter Fwy. Suite 600 Irving, TX 75062 972-432-1440

II. Organization and Staff

NGP is a leading investment firm in the energy industry. Its investment platform includes the Natural Gas Partners private equity fund complex, a family of funds with over \$3 billion of total capital under management since 1988. NGP has also sponsored and provides oversight for NGP Energy Technology Partners, NGP Midstream & Resources, and NGP Capital Resources Company, as well as two co-investment funds. NGP's investment professionals have managed the NGP funds for 18 years and have built an investment team that has grown from 4 individuals at inception to 24 current members, with no turnover among the senior investment professionals. NGP has offices in Irving and Houston, Texas; Santa Fe, New Mexico; and Stamford, Connecticut.

The management of NGP ECM and the General Partner will be led by Kenneth A. Hersh, David R. Albin, William J. Quinn, Richard L. Covington, John S. Foster, Scott A. Gieselman, Tony R. Weber and John A. Weinzierl. Messrs. Albin, Hersh and Foster have worked together continuously for nearly 19 years managing the operations of the NGP Funds. Mr. Covington, Mr. Quinn and Mr. Weinzierl joined the current Management Team in 1997, 1998 and 1999, respectively, and subsequently became Key Management Members through internal promotions. Mr. Weber joined NGP ECM in 2004, becoming a Key Management Member in 2006 and Scott A. Gieselman joined NGP ECM as a Key Management Member in April 2007.

III. Investment Strategy

The Partnership's investments will focus on the sectors of the energy industry that are primarily related to the production and development of crude oil and natural gas in North America. Secondly, investments will be considered in gathering and processing, energy service and other energy and resource related sectors, both domestic and international.

NGP devotes considerable time and effort to forming close relationships with the management groups it selects. As a result of these efforts, many of NGP's portfolio company managers operate at least one company through a successful realization event and then go on to form new companies backed again by the same or subsequent NGP funds. Continuation of this pattern is expected to mitigate the Partnership's exposure to selecting an underperforming portfolio company management group, which in NGP's opinion is the most important risk assumed within its investment strategy.

NGP implements its strategy in two general types of transactions. The first is a typical private equity transaction referred to as a "buy-and-build" investment. These investments, which are usually between \$20 million and \$100 million, take the form of equity positions in early stage companies within several sectors of the energy industry. These investments account for most of the investments made by NGP to date.

The second type of transaction consists of large acquisitions or corporate restructurings within the energy industry. These opportunities arise primarily as a result of asset portfolio rationalization decisions made on a regular basis by most oil and gas production companies. NGP's ability to invest capital at an attractive valuation, introduce new management, and provide sponsorship and credibility to large acquisitions and corporate restructurings takes advantage of the same skills that are applied in the firm's buy-and-build investments.

IV. Investment Performance

Previous fund performance as of June 30, 2007 for Natural Gas Partners is shown below:

NGP Fund	Inception Date	Total Equity Commitments	SBI Investment	Net IRR from Inception
I	1988	\$100 million	\$0	22%
II	1994	\$37 million	\$0	16%
III	1995	\$30 million	\$0	10%
IV	1996	\$150 million	\$0	10%
V	1998	\$320 million	\$0	25%
VI	2000	\$370 million	\$0	76%
VII	2003	\$600 million	\$0	31%
VIII	2005	\$1,300 million	\$0	32%

* IRRs and other data contained in this report are provided by the General Partner. Previous fund investments may be relatively immature and therefore, returns may not be indicative of future results.

V. General Partner's Investment

The General Partner of the Fund will commit 2% of the aggregate investor commitments to the Fund and NGP and the Fund's management will collectively commit an additional 2.5% as limited partners of the Fund.

VI. Takedown Schedule

Takedown of investor commitments will be, as needed, on 10 days' notice.

VII. Fees

The Partnership will pay the General Partner an annual management fee (the "Management Fee") equal to the following percentage of the Fee Capital Base (defined below), calculated as follows: 2.0% of the Fee Capital Base up to \$2.5 billion; and 1.75% of the Fee Capital Base in excess of \$2.5 billion.

The "Fee Capital Base" is equal to Aggregate Commitments, as they may be reduced pursuant to the Partnership Agreement, minus the amount of invested capital returned upon liquidation of investments, except for capital returned within 13 months which is reinstated to commitments. Reductions in the Fee Capital Base during the Investment Period will reduce each component of the Management Fee (i.e. the 2% and 1.75% components) proportionately, based upon the Aggregate Commitments at the final closing of the Partnership.

From and after the end of the Investment Period, the Management Fee will reduce to 1.5% of the Fee Capital Base, until the effective date of dissolution of the Partnership whether by expiration of its full term, including the permitted extensions thereof or otherwise) at which time such 1.5% will be reduced to 1%. The Management Fee will be payable quarterly in advance.

The General Partner will apply all fees that it or its affiliates receive (such as directors' fees, monitoring fees, advisory fees, investment banking fees, structuring fees, commitment fees, break-up fees and success fees) first to offset reimbursable expenses and then to reduce the Management Fee.

The Partnership will reimburse the General Partner for actual expenses incurred in organizing and raising capital for the Partnership (other than with respect to placement fees), up to a maximum of \$2,000,000.

VIII. Allocation and Distributions

Generally, net profits will accrue and be distributed 80% to the limited partners and 20% to the general partner, subject to an 8% preferred return to limited partners. Upon dissolution and final liquidation of the Fund, to the extent that the sum of distributions to Partners over the life of the Partnership is less than the amount of all Capital Contributions made by such Partners plus the greater of (a) 80% of all profits distributed to the Partners, or (b) the Preferred Return on such contributions (the "Clawback Amount") the General Partner will be liable to return to the Fund the Clawback Amount, less an amount calculated to account for federal, state and local income taxes payable with respect to the Clawback Amount by the individuals owning interests in the General Partner.

IX. Investment Period and Term

The Investment Period will begin on the termination of the Investment Period for NGP8 and end on the earlier to occur of (a) the date that all of the commitments have been invested, or (b) the earlier of (i) the fifth anniversary of the date of commencement of the Investment Period or (ii) the sixth anniversary of the date of the Partnership Agreement.

The Partnership will continue through the close of business on December 31, 2017, unless the Partnership is terminated sooner pursuant to the Partnership Agreement, or unless the term is extended, at the General Partner's discretion, for no more than two one-year periods.

PRIVATE EQUITY MANAGER SUMMARY PROFILE

I. Background Data

Name of Fund:	Wayzata Opportunities Fund II, LP ("WOF II" and "Fund")
Type of Fund:	Distressed Debt/ Special Situations
Total Fund Size:	\$2.5 billion
Fund Manager:	Wayzata Investment Partners LLC ("Wayzata" and "Manager")
Manager Contact:	John Foley Phone: 617-375-5835 Email: jfoley@wayzpartners.com

II. Organization and Staff

Wayzata, which consists of 7 partners and 21 professionals, has its main office located in Wayzata, MN. Wayzata also has offices in Boston, Houston, Mumbai and Singapore.

Wayzata was formed following a management buyout of CFSC Wayland Advisers, Inc. ("Wayland"), a former wholly owned subsidiary of Cargill Financial Services Corporation ("CFSC"). The Wayzata partners (collectively, the "Wayzata Partners") agreed with CFSC on the terms of a transaction whereby the ownership of Wayland was transferred to Wayzata. Wayzata is registered with the Securities Exchange Commission as an investment adviser under the Investment Advisers Act of 1940, as amended.

Wayland had been formed in 1997 to invest third-party capital in distressed debt, non-distressed bank loans and high yield bonds. Wayland was the successor to the CFSC High Yield/Reorg of Cargill, Inc. which had managed a proprietary portfolio of distressed investments and performing high yield assets for CFSC from January 1992 to July 1997.

Since 1992, certain of the Wayzata Partners have managed the investment of over \$9.2 billion in 516 investments.

III. Investment Strategy

Wayzata will employ the same disciplined investment strategy and approach that it has used in previous funds and investing efforts. Wayzata believes that the

following four key elements of its investment strategy distinguish it from its competitors: (i) its emphasis on controlling risk by targeting investments in the debt of companies with underlying physical assets; (ii) its focus on research and investments in the small- and middle-market sectors where more opportunistic investors cannot withstand the illiquid nature of investments and which are not the focus of larger distressed investors; (iii) its willingness to champion the reorganization process through active involvement in the bankruptcy and restructuring process; and (iv) its ability to invest in both complicated situations and cyclical sectors in an effort to achieve superior long-term, risk-adjusted returns. While many Fund investments will be in assets of distressed companies, Wayzata will also elect to pursue non-distressed investments and strategies if such opportunities are deemed to offer compelling risk/reward profiles. Such non-distressed investments may include, among other things, senior debt obligations, direct investment in assets and equity securities (including those not traded on public exchanges). Depending on the opportunities available, Wayzata may make substantial investments in non-distressed situations.

IV. Investment Performance

Previous fund performance as of June 30, 2007 for the Wayzata Funds is shown below:

Fund Name	Inception Date	Total Capital Commitments	SBI Investment	Net IRR from Inception **
CFSC High Yield/Reorg *	1992	\$400 million	--	17.3%
Wayland I *	Dec-1997	\$600 million	--	2.2%
Wayland II *	Feb-2001	\$450 million	--	32.6%
Managed Account *	Dec-2001	\$50 million	--	22.4%
Wayland Recovery *	Nov-2002	\$350 million	--	15.9%
Sapphire *	Apr-2003	\$55 million	--	33.2%
WDOF I-A *	Jul-2003	\$34 million	--	29.4%
WDOF I-B	Apr-2004	\$34 million	--	21.9%
WDOF I-C	Apr-2004	\$75 million	--	21.4%
Wayzata Recovery	Oct-2004	\$509 million	--	11.4%
WOF	Dec-2005	\$1.25 billion	\$100 million	13.5%

* These Funds have been fully liquidated.

** The Net IRR's were provided by the General Partner except for the Net IRR for WOF which was provided by SBI staff and the SBI's master custodian, State Street Bank.

Previous Fund investments may be relatively immature and therefore, returns may not be indicative of future results.

V. General Partner's Investment

The GP will be committing \$30 million to WOF II.

VI. Takedown Schedule

Each member's commitment will be payable in U.S. dollars when called on ten business days advance notice by Wayzata (or such shorter notice as may be determined by Wayzata, but in no event less than five business days) to make investments and meet anticipated Fund expenses.

VII. Fees (Advisory and Other)

During the Commitment Period, the Fund will pay Wayzata advisory fees (the "Advisory Fees") quarterly in advance at a rate equal to 1.75% annually of the total Commitments. Thereafter, until termination or liquidation of the Fund, the Advisory Fees will be 1.50% of the aggregate cost basis of all investments (other than cash and cash equivalents) then held by the Fund, calculated at the beginning of each fiscal quarter.

All loan origination fees, consulting fees, advisory fees, management fees, transaction fees, closing fees or break-up fees in connection with investments or potential investments derived from third parties will be applied to reduce the Advisory Fees subsequently payable to the Fund. Any consent fees or amendment fees earned in connection with any Fund investment will be for the account of and paid to the Fund. Any placement fees will be applied to reduce the Advisory Fees subsequently payable to the Fund.

VIII. Distributions

- First, 100% to the Limited Partners until they receive a return of their realized capital and costs and an 8% annual rate of return thereon;
- Then, 80% to the General Partner and 20% to the Limited Partners until the General Partner "catches up" to an overall 20% Carried Interest;
- Followed by 80% to the Limited Partners and 20% to the General Partner.

IX. Commitment Period and Term

The Commitment period will be for four years from the date of the final closing of the Fund. During the Commitment Period, proceeds from wholly or partially realized investments may be reinvested or distributed, at the election of the General

Partner, to the Partners, in whole or in part, after providing for tax distributions to the General Partner. Any amounts distributed to Limited Partners shall be available during the Commitment Period to be recalled for reinvestment by the Fund.

The Term of the Fund will be eight years after the final closing date, subject to three consecutive one-year extensions at the discretion of the General Partner (subject to the consent of the Advisory Committee).

PRIVATE EQUITY MANAGER SUMMARY PROFILE

I. Background Data

<i>Name of Fund:</i>	Warburg Pincus Private Equity X, L.P.
<i>Type of Fund:</i>	Private Equity Limited Partnership
<i>Total Fund Size:</i>	\$12 billion
<i>Fund Manager:</i>	Warburg Pincus LLC
<i>Manager Contact:</i>	Steve Schneider 466 Lexington Ave. New York NY 10017 212-878-6238

II. Organization and Staff

Warburg Pincus has been a leading firm in private equity investing since 1971. The firm's 17-person Executive Management Group coordinates investment-related activities across the firm's different industry groups. The firm has 60 partners and a total of 150 professionals in offices in New York, San Francisco, London, Frankfurt, Hong Kong, Beijing, Shanghai, Mumbai and Tokyo. Warburg Pincus' sole business is private equity investing.

III. Investment Strategy

Over more than three decades in private equity investing, Warburg Pincus has established a record of leading performance by applying its strategy in a unique and value-added manner. Warburg Pincus funds have consistently produced attractive returns in terms of both internal rate of return and multiple of investment. The firm's strategy of investing at all stages of the business cycle – from venture capital start ups to growth companies to buyouts and recapitalizations of later stage companies – is combined with industry and geographic expertise to build diversified funds with attractive risk/reward dynamics and the ability to generate superior returns. Warburg Pincus implements this approach with a unique perspective on alignment of interests with investors, taking no transaction fees from portfolio companies and offering distinctive value-added capabilities and shared services to its management teams.

IV. Investment Performance

Previous fund performance as of June 30, 2007 for the SBI's investments with Warburg Pincus funds is shown below:

Fund	Inception Date	Total Equity Commitments	SBI Investment	Net IRR from Inception*
Warburg Pincus Ventures	1994	\$2.0 billion	\$50 million	49%
Warburg Pincus Equity Partners	1998	\$5.0 billion	\$100 million	11%
Warburg Pincus VIII	2001	\$5.3 billion	\$100 million	22%
Warburg Pincus IX	2005	\$8.0 billion	\$100 million	9%

* Provided by SBI Staff and the SBI's master custodian, State Street Bank. Previous Funds may be relatively immature and therefore not meaningful. Returns may not be indicative of future results.

V. General Partner's Investment

Warburg Pincus and its professionals will invest a minimum of \$300 million in WP X.

VI. Takedown Schedule

Capital will be called from the Limited Partners as required through the sixth anniversary of the initial closing date.

VII. Fees

An annual Management Fee (deducted in computing profits) equal to 1.5% of total commitments will be paid to the Manager quarterly for the six years following the initial closing date. After the sixth anniversary of the initial closing date, the annual Management Fee will be based on the cost of investments remaining in the portfolio.

VIII. Allocations and Distributions

Profits will accrue 80% to the Limited Partners and 20% to the General Partner, except for income derived from cash and cash equivalents (all of which will accrue to the Limited Partners).

IX. Investment Period and Term

The Partnership's term will be twelve years from the initial closing date, subject to extension by the General Partner (with Advisory Committee approval) for up to two years to permit orderly dissolution.

PRIVATE EQUITY MANAGER SUMMARY PROFILE

I. Background Data

Name of Fund:	Blum Strategic Partners IV, L.P.
Type of Fund:	Private Equity Limited Partnership
Total Fund Size:	\$2 billion
Fund Manager:	Blum Capital Partners, L.P.
Manager Contact:	Jane Su 909 Montgomery Street San Francisco, CA 94133 (415) 288-7217 jsu@blumcapital.com

II. Organization and Staff

Blum Capital has 12 investment professionals. These professionals—with prior backgrounds in public and private equity, investment banking, management consulting, venture capital, investment research, real estate, law and public accounting—have been instrumental in developing public and private investments, in a variety of industries, and successfully executing these investments.

The General Partner of the Partnership will be an affiliate of Blum Capital Partners. The Blum Capital team includes nine partners. Richard Blum and Colin Lind have been partners for the past 20 years and together have been the chief architects of Blum Capital's investment process.

III. Investment Strategy

Blum Capital ("Blum Capital" or "Blum") has established Blum Strategic Partners IV, L.P. ("Fund IV" or the "Partnership"), a successor fund to Blum Strategic Partners, L.P. ("Fund I"), Blum Strategic Partners II, L.P. ("Fund II") and Blum Strategic Partners III, L.P. ("Fund III" and together with Fund I and Fund II, the "Strategic Funds") for the purpose of making Strategic Block and control investments in public and private transactions, consistent with the public/private "hybrid" investment strategy pioneered by Blum Capital over 30 years ago. Blum Capital's hybrid investment strategy combines a rigorous "private equity approach" applied to the public markets with a proven ability to play a constructive, active role in unlocking value in its portfolio companies through the implementation of financial, business, management and governance strategies. Founded in 1975, Blum Capital has demonstrated expertise in sourcing Strategic Block (with an "influence at a discount" approach) and control (with a selective, proprietary approach)

investments through a focus on small- and mid-capitalization public companies, and subsequently working with the managements of its portfolio companies to increase shareholder value. Blum Capital is forming Fund IV with the goal of achieving superior long-term investment returns.

IV. Investment Performance

Previous fund performance as of June 30, 2007 for the SBI's investments with Blum funds is shown below:

Fund	Inception Date	Total Equity Commitments	SBI Investment	Net IRR from Inception*
Blum Strategic Partners, L.P.	1998	\$639 million	\$50 million	15.5%
Blum Strategic Partners II, L.P.	2001	\$950 million	\$50 million	27.2%
Blum Strategic Partners III, L.P.	2005	\$1.2 billion	\$75 million	15.2%

* Provided by SBI Staff and the SBI's master custodian, State Street Bank.

Previous fund investments may be relatively immature and therefore, returns may not be indicative of future results.

V. General Partner's Investment

Equal to or greater than 3% of committed capital.

VI. Takedown Schedule

Commitments will be drawn down on an as-needed basis, with ten (10) business days' prior notice

VII. Fees

The Management Fee will equal 1.50% of Total Commitments until the earlier of the expiration of the Commitment Period or the closing of a Competing Fund at which time the fee will reduce to 1.25% of any remaining capital contributions invested in Portfolio Companies. The Partnership will bear up to \$2 million of organizational expenses.

VIII. Allocations and Distributions

Limited Partners will receive (i) a return of capital, fees and expenses and aggregate net losses from write-downs; (ii) an 8% preferred return (subject to a catch-up by the General Partner); and (iii) 80% of the distributions thereafter.

20% of the after-tax distributions to which the General Partner would otherwise be entitled will be escrowed pending the future performance of the Partnership and may be subject to reallocation and distribution to the Limited Partners upon termination of the Partnership.

IX. Investment Period and Term

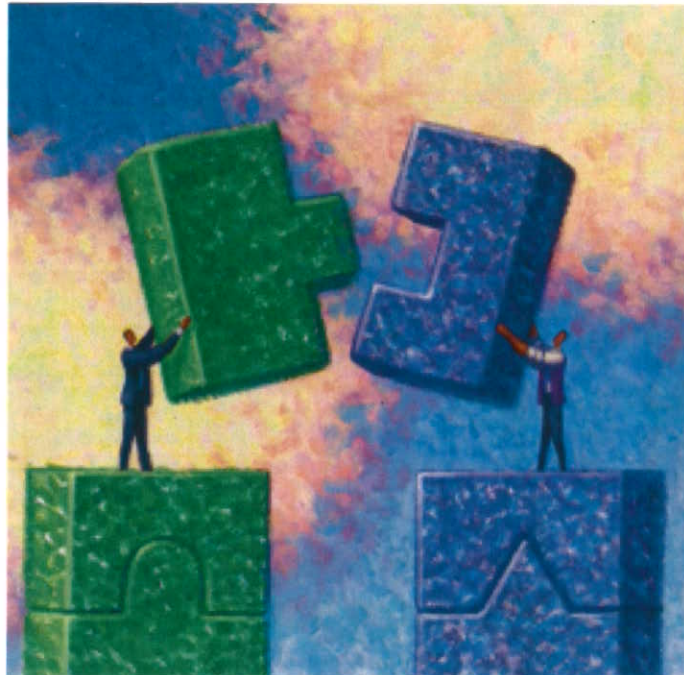
Commitment period is five years from the final closing.

The term is ten years, subject to two consecutive one-year extensions with approval of a majority in interest of Limited Partners.

**Mercer Human Resource Consulting
SBI-Investment Advisory Council
September 4, 2007**

MERCER

Human Resource Consulting



September 4, 2007

SBI - Investment Advisory Council

Bonnie Wurst, ASA
Jim Verlautz, FSA



Marsh & McLennan Companies



Current Approaches for Calculations of Pension Liabilities

- Traditional actuarial approach
- Financial economics



Financial Economics Rationale

- Corporations exist to benefit stockholders
- All corporations will eventually reach an end (sale, bankruptcy, etc.) when the fair value of liabilities will be important
- Disclosures based on fair value in current marketplace are most useful for stockholders
 - Value of liability based on a relatively risk-free discount rate and independent of the return on plan assets
- Corporate pension plan funding addresses:
 - Solvency
 - Allocation of risk between participants and stockholders



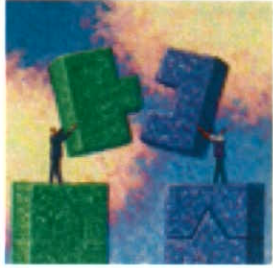
Application of Financial Economics to Public Sector

- Public pension funds exist to balance the needs of participants, government, and taxpayers - not stockholders
- Bankruptcy or other end-game event is not of high concern
- Who are the users of the financial statements and what are their needs?
 - GASB's job is to meet these needs for all users
 - GASB's standards embrace a traditional actuarial approach, rather than fair value
- Public pension plan funding addresses:
 - Generational equity
 - Budgeting needs (stable contribution rates)



Assets as of July 1, 2006 (000's)

	<u>MSRS</u>	<u>PERA</u>	<u>TRA</u>
Fair Market Value			
Active Fund	\$ 5,078,000	\$ 6,038,000	\$ 7,414,000
Post Fund	3,140,000	5,748,000	10,350,000
Total	8,218,000	11,786,000	17,764,000
Actuarial Value			
Active Fund (<i>smoothed</i>)	\$ 4,798,000	\$ 5,704,000	\$ 6,665,000
Post Fund (<i>assets set equal to liabilities</i>)	3,689,000	6,791,000	12,371,000
Total	8,487,000	12,495,000	19,036,000



Liability Comparison

	<u>Market Value of Liabilities</u>	<u>Actuarial Accrued Liability</u>
Benefits	Earned benefits without future salary increases	Projected benefits, including future salary increases
Discount Rate	Current market-based bond interest rate	Expected investment return (8.5% for MN)
Contribution Pattern	Increasing	Level
Funding Method	Unit Credit	Entry Age Normal



Liabilities as of July 1, 2006 (000's)

	<u>MSRS</u>	<u>PERA</u>	<u>TRA</u>
Actuarial Accrued Liability			
Active Fund	\$ 5,130,000	\$ 9,947,000	\$ 8,255,000
Post Fund	3,689,000	6,791,000	12,306,000
Total	8,819,000	16,738,000	20,561,000
Fair Market Value Liability	Not calculated	Not calculated	Not calculated



Estimated Market Value Liability Calculation

- Some unknowns...
 - Should future COLA's be included in market value of liability?
 - If interest rates are low, will COLA be paid?
 - Are COLA's like pay increases – to be earned in the future?
 - What is the market for public sector pension liability?
 - State can't transfer its liability to others
- Rough estimates of MSRS market value liability
 - With COLA included - \$9 billion
 - Without COLA - \$7 billion
 - Based on 6% discount rate
- MSRS Actuarial Accrued Liability = \$8.8 billion



Required Contributions

- Normal Cost – value of benefit accrual for one year
- Expenses
- Amortization of unfunded actuarial accrued liability



Actuarial Estimates*

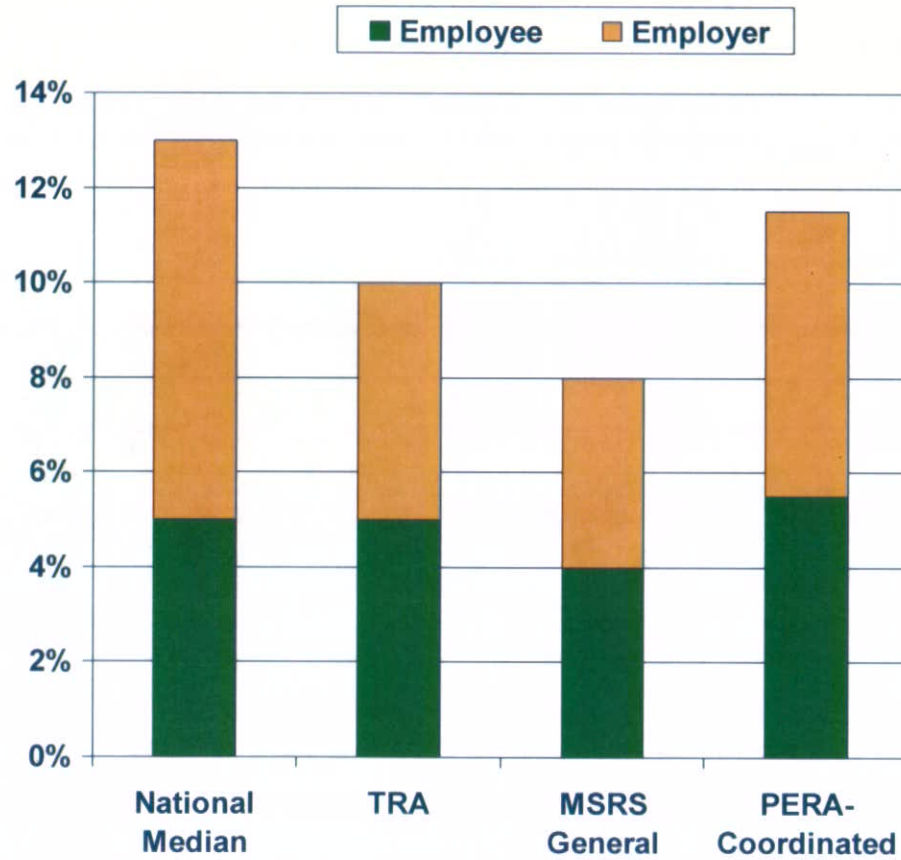
	MSRS	PERA	TRA
Baseline			
Funding Ratio	96.2%	74.7%	92.6%
Total Required Contribution	10.1%	12.9%	12.1%
Contribution Sufficiency/Deficiency	(0.1%)	0.1%	(0.3%)
Amortization Period	14 years	26-27 years	30 years
Combining Funds (Recognize PF Deficit)			
Funding Ratio	93.2%	70.4%	86.4%
Total Required Contribution	10.8%	13.7%	13.9%
Contribution Sufficiency/Deficiency	(0.8%)	(0.7%)	(2.1%)
Amortization Period	18 years	26-27 years	30 years
Combining Active & Post Funds			
Recognition of Assumption Changes **			
Funding Ratio	94.7%	71.9%	86.8%
Total Required Contribution	9.4%	13.0%	13.5%
Contribution Sufficiency/Deficiency	0.60%	(0.0%)	(1.7%)
Amortization Period	18 years	26-27 years	30 years

* Estimates assume full implementation of contribution rate increases passed by legislature in 2005 and 2006.

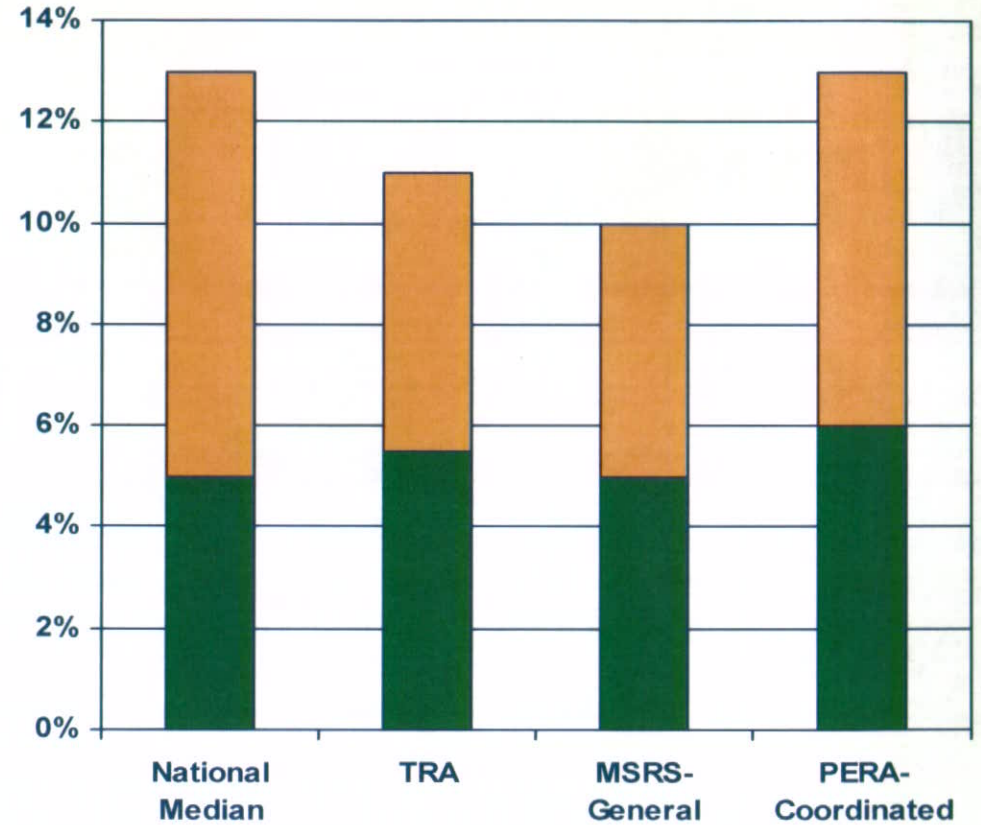
** Estimates assume that active and post funds assets are at markets value and actuarial assumptions regarding salary/payroll growth are changed.



Median Contribution Rates



Fiscal Year 2005



Assuming Phased In Rates

Source: Public Fund Survey, September 2006

Mercer Human Resource Consulting





Post Fund Increases

- Inflation increases up to 2.5% are paid regardless of funded status of Post Fund
- Additional investment-related increases are payable when:
 - Post Fund is 100% funded; and
 - Excess investment returns exist (smoothed over 5 years)
- Post Fund increases are immediately reflected in the liability
- Post Fund increases have been less than actual inflation each year since 2005
- Post Fund design is currently under review – Directors to provide an update



2001 Mercer Survey of 115 Statewide Retirement Plans – COLA's

■ Fixed Rate	16%
■ CPI Related	36%
■ Ad Hoc	27%
■ Investment Return and CPI	10%
■ Other	6%
■ Information Not Reported	5%

Survey shows investment return COLA is not typical among public pension plans.



What are the major economic variables that will drive long term liabilities?

- Economic
 - Discount rate
 - Salary increases
 - Cost of living adjustments (inflation)
- Demographic
 - Retirements
 - Mortality
 - Turnover

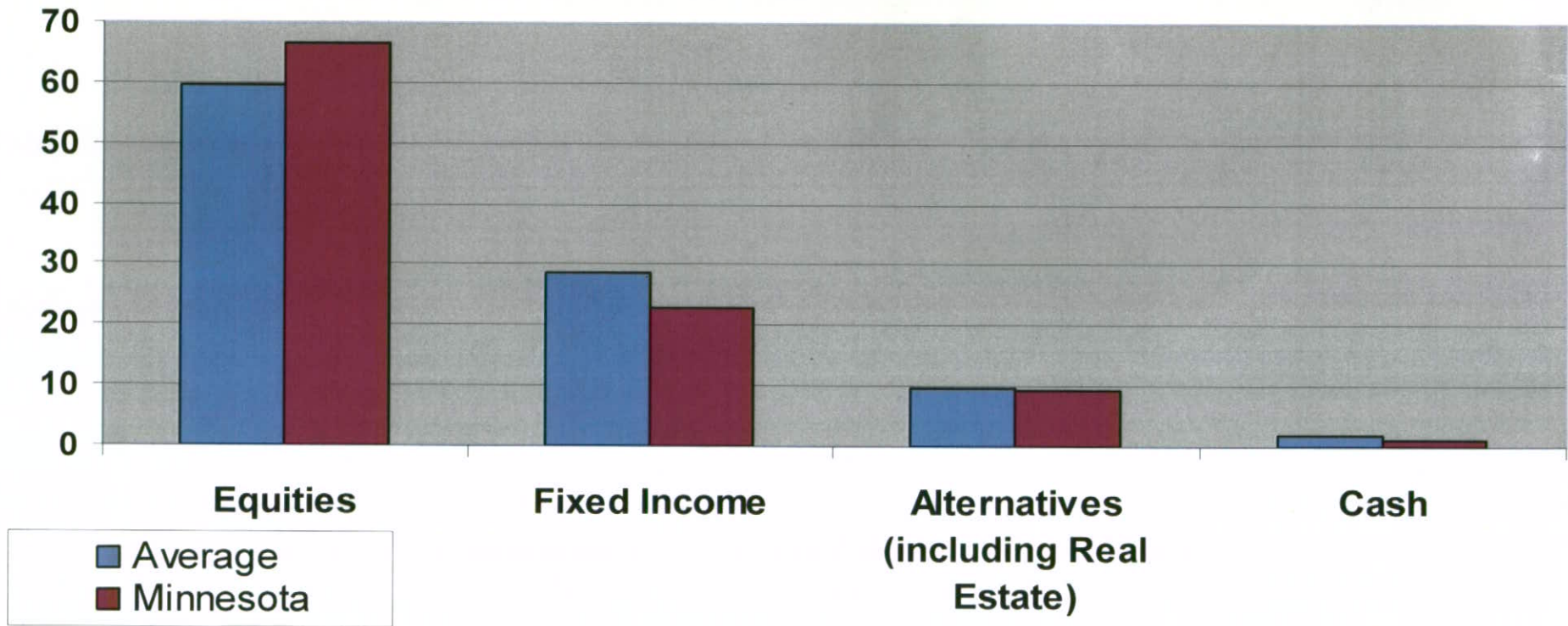


Discount Rate

- Do public funds commonly use a discount rate based on expected asset returns?
 - Yes
- If the rate for public funds is based on expected asset returns, and the assets of both plans are pooled, then why use different discount rates for each plan?
 - Effective discount rate for both Active and Post Fund is 8.5%
- Have the actuaries evaluated how the SBI asset allocation compares to peers? Is the SBI more or less aggressive in its capital market assumptions?

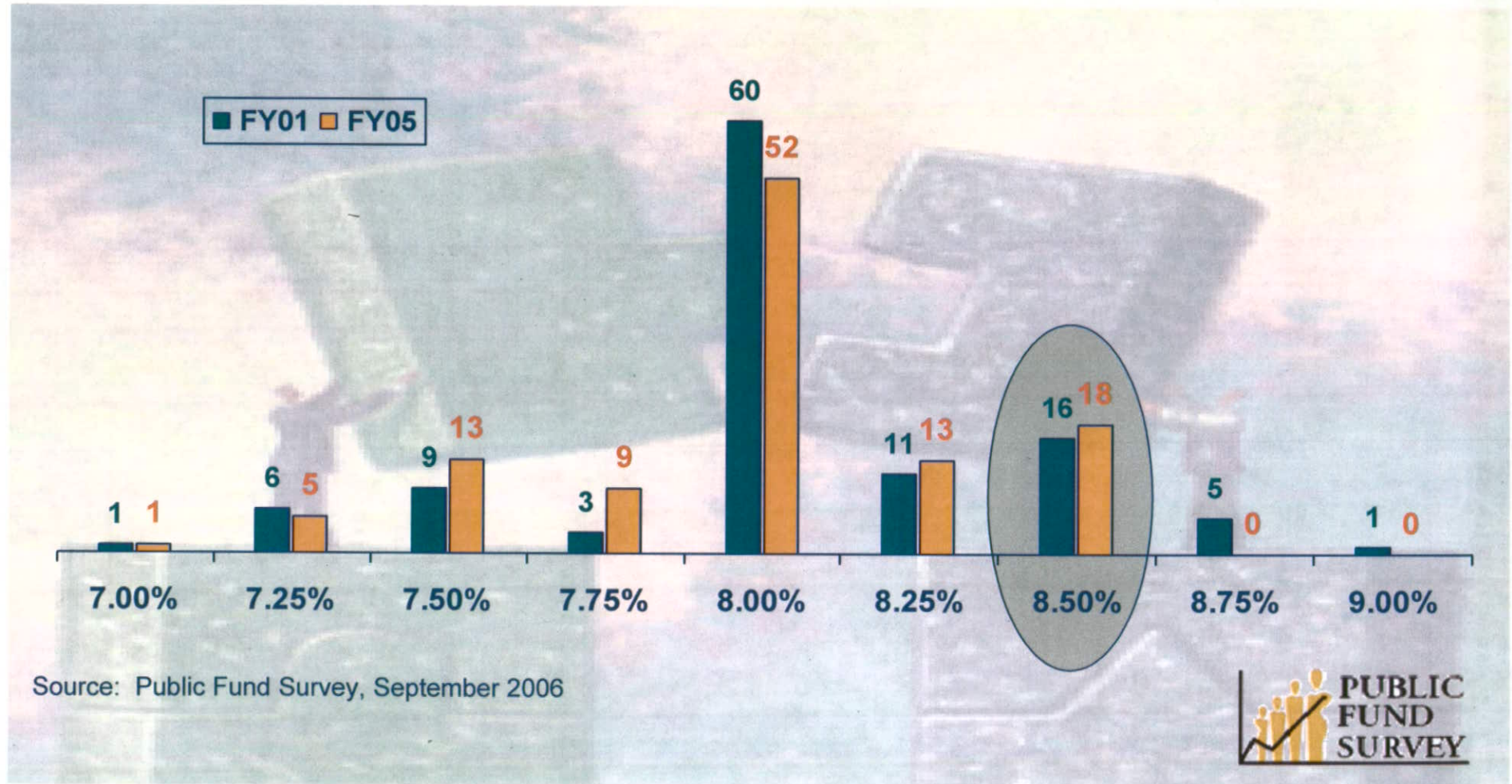


Average Asset Allocation - Public Fund Survey



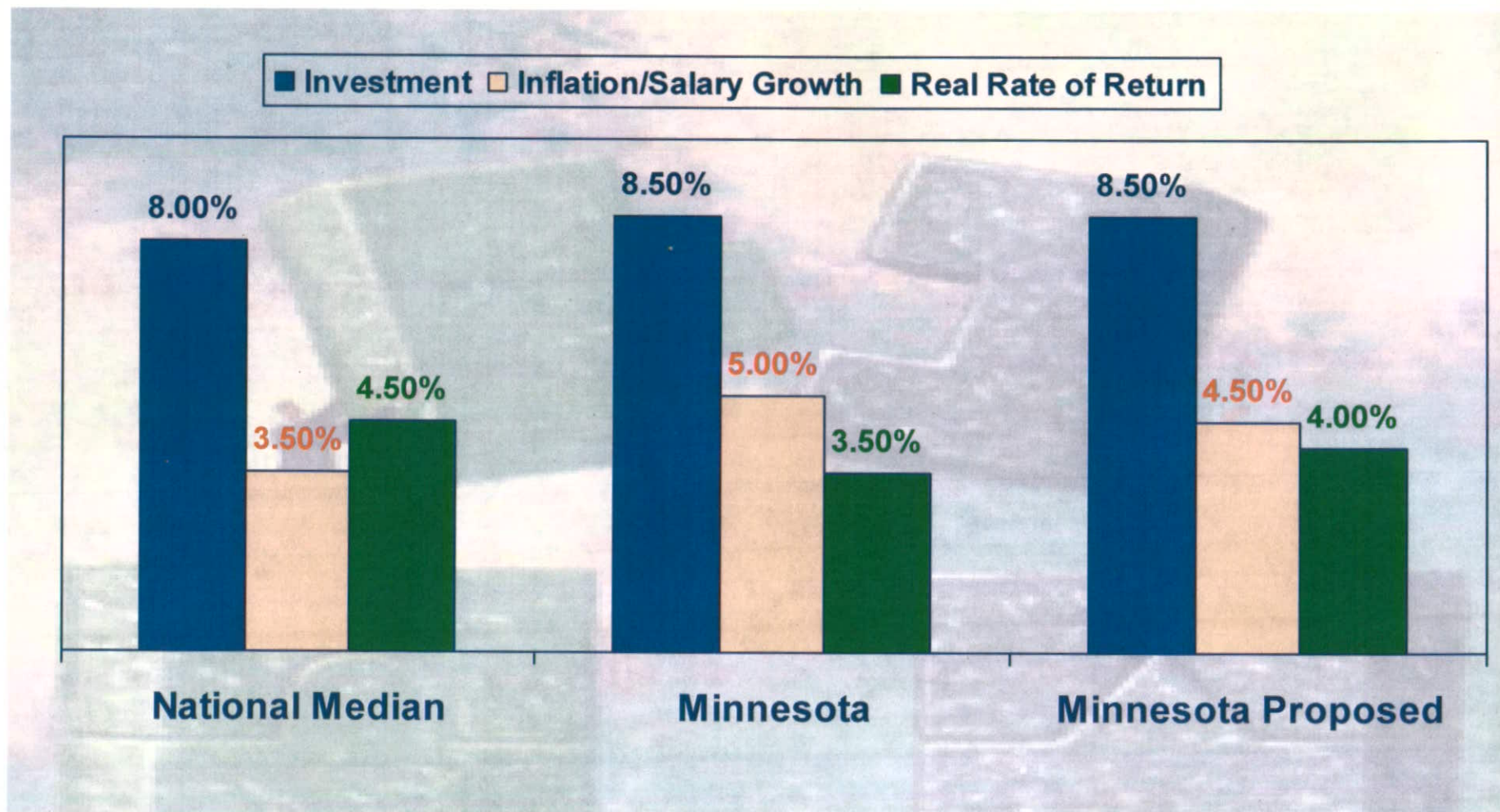


Changes in Investment Return Assumptions FY01 -FY05





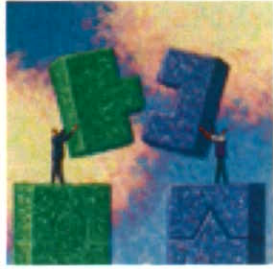
Real Rate of Return Assumption





How does the actuary get comfortable that asset allocation policy justifies the discount rate being used?

- Plan's asset allocation is entered into actuary's modeling tool
- Modeling tool based on capital market outlooks for individual asset classes
- Modeling tool develops expected range of long-term investment return



Experience Studies

- Assumptions compared to actual experience every four years
- Most recent experience study completed in 2006 based on data through June 30, 2004
- Process for assumption changes:
 - Actuary recommends assumption changes to Retirement Fund
 - Retirement Fund recommends assumption changes to Legislative Commission and Legislature
 - Action required by Legislative Commission and/or Legislature



Salary Increase Assumption

- Building block approach
 - Inflation
 - Productivity
 - Merit
- Age related rates, with adjustments for first 10 years of employment



Mortality

- Current assumptions - 1983 Group Annuity Mortality
 - Set back 1 year for PERA
 - Set back 1 year for MSRS males, 2 years for MSRS females
 - Set back 6 years for TRA males, 3 years for TRA females
- Actual experience was very close to assumption in most recent experience study
- Mortality assumption to be reviewed again after June 30, 2008 and strengthened if appropriate