

MINNESOTA STATE BOARD
OF INVESTMENT
MEETING
December 5, 2007

&

INVESTMENT ADVISORY
COUNCIL MEETING
December 3, 2007

STATE BOARD OF INVESTMENT

AGENDA AND MINUTES

December 5, 2007

AGENDA
STATE BOARD OF INVESTMENT MEETING
Wednesday, December 5, 2007
9:00 A.M. - Room 123
State Capitol – St. Paul

- | | |
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(July 1, 2007 – September 30, 2007) | |
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| B. Alternative Investment Committee | G |
| 1. Review of current strategy | |
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Minutes
State Board of Investment
October 15, 2007

The State Board of Investment (SBI) met at 1:00 P.M., Monday, October 15, 2007 in Room 123, 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 June 6, 2007 meeting were approved.

Executive Director's Report

Mr. Bicker, Executive Director, referred members to Tab A of the meeting materials and he reported that the Combined Funds had exceeded its Composite Index over the ten year period ending June 30, 2007 (Combined Funds 8.3% vs. Composite 8.1%), and had provided a real rate of return over the latest 20 year period (Combined Funds 10.0% vs. CPI 3.0%). He stated that the Basic Funds have outperformed its Composite Index (Basic Funds 8.5% vs. Composite 8.3%) over the last ten years and reported that the Post Fund had also outperformed its composite over the last ten-year period (Post Fund 8.1% vs. Composite 7.9%).

Mr. Bicker reported that the Basic Fund's assets increased 3.4% for the quarter ending June 30, 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 4.9% vs. Composite 4.8%) and for the year (Basic Funds 18.5% vs. Composite 18.2%).

Mr. Bicker reported that the market value of the Post Fund's assets increased 4.7 % for the quarter ending June 30, 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 4.7% vs. Composite 4.6%) and for the year (Post Fund 18.2% vs. Composite 17.7%).

Mr. Bicker reported that the domestic stock manager group matched its target for the quarter (Domestic Stock 5.8% vs. Domestic Equity Asset Class Target 5.8%) and underperformed it for the year (Domestic Stocks 19.7% vs. Domestic Equity Asset Class Target 20.1%). He said the International Stock manager group outperformed its Composite Index for the quarter (International Stocks 8.6% vs. International Equity Asset Class Target 8.2%) and for the year (International Stocks 30.3% vs. International Equity Asset Class Target 29.6%). Mr. Bicker stated that the bond segment matched its target for the quarter (Bonds -0.5% vs. Fixed Income Asset Class Target -0.5%) and outperformed for the year (Bonds 6.3% vs. Fixed Income Asset Class Target 6.1%). He noted that the alternative investments had also performed strongly for the year (Alternatives 25.6%). He concluded his report with the comment that as of June 30, 2007, the SBI was responsible for over \$63 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 asked Christie Eller, Assistant Attorney General to update members on the status of litigation. She stated that all cases are now closed and there is nothing more to report.

Proxy Voting Committee Report

Mr. Sausen referred members to Tab C of the meeting materials and stated that the first recommendation for the Board's consideration is to re-authorize the Proxy Voting Committee. Mr. Ritchie moved approval of the Committee's recommendation, as stated in the Committee Report, which reads: **"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."** The motion passed (see Attachment A). Mr. Sausen said that the Committee is also recommending approval by the Board of the Proxy Voting Guidelines. He referred members to the revised guidelines distributed at the meeting (see Attachment B) and noted that the Committee had made a minor wording change to the guidelines and he briefly reviewed the proposed changes. Mr. Sausen added that the Board will also be updated regarding contact with various companies doing business in the Sudan, as required by recently enacted legislation. Ms. Otto moved approval of the guidelines, as presented in Attachment A. The motion passed. Mr. Bicker referred members to pages 13-16 for additional information regarding the quarterly update on Sudan as required by the new legislation.

Accounting System Review Committee

Mr. Sausen referred members to Tab D of the meeting materials and reported that the Committee was recommending that Financial Controls System should remain the SBI's accounting vendor. He noted that six firms were provided an RFP and that two responses were received. He stated that the Committee believed Financial Controls will continue to provide the best services for the lowest fees. Mr. Ritchie 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 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.” The motion passed.

Compensation Review Committee

Mr. Bergstrom referred members to Tab E of the meeting materials and reported that the Committee is recommending that the SBI authorize the Executive Director to grant salary increases to non-represented unclassified employees up to 3.25% for Fiscal Year 2008 and up to 3.25% for Fiscal Year 2009. He stated that these amounts are consistent with the AFSCME and MAPE contracts. Ms. Otto moved approval of the Committee's recommendation, as stated in the Committee Report, which reads: **“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.”** The motion passed.

Stock and Bond Manager Committee Report

Mr. Troutman referred members to Tab F of the meeting materials and briefly reviewed the performance of the various asset classes. He stated that the Committee conducted a review of Voyageur Asset Management during the quarter. He summarized the Committee's review and stated that the Committee believes that Voyageur has a good process and is a stable organization and that no action is needed at this time.

Mr. Troutman briefly discussed several follow-up items related to the Domestic Equity Program Review. He stated that the manager search process will no longer use special manager search committees. He explained that the search process will be conducted by staff and that final candidates will be presented to the Stock and Bond Committee for final approval on an as-needed basis. Mr. Troutman stated that staff believes it would be prudent to have the ability to passively or semi-passively manage each of the style groupings in the Domestic Equity Program when it becomes necessary to terminate an active manager. He noted that a recommendation will be forthcoming in the near future. Mr. Troutman stated that staff is recommending that the allocation ranges within the Domestic Equity Program be changed to 0-50% for active and semi-passive management and 25-100% for passive management. He noted that currently about one-third of the program is in each of the three components. Ms. Otto moved approval of the recommendation regarding the allocation ranges as stated in the Committee Report, which reads: **“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.” The motion passed.

Mr. Troutman referred members to a memo from staff distributed at the meeting regarding a recommendation to transition to the new MSCI standard indexes (see **Attachment C**). He explained that the indexes are being revised to provide broader coverage of international equity markets and improved size segmentation of the global investable universe. He discussed some issues regarding small cap stocks and said that the recommendation also includes continuing to review closely both developed and emerging market small cap opportunities, and how the marketplace develops in response to the index changes. Mr. Ritchie moved approval of the recommendation, as stated in Attachment B. The motion passed.

Alternative Investment Committee

Mr. Troutman referred members to Tab G of the meeting materials and briefly reviewed the five new investments for approval, which are new investments with one existing yield-oriented manager (Goldman Sachs), one existing resource manager (Natural Gas Partners) and three existing private equity managers (Wayzata Investment Partners, Warburg Pincus and Blum Capital Partners). Mr. Ritchie moved approval of the Committee's five recommendations, as stated in the Committee Report, which reads: **"The Committee recommends that the SBI authorize the Executive Director, with assistance from the SBI's legal counsel, to negotiate and execute a commitment of up to \$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.**

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.

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.

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.

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." The motion passed.

In response to a question from Governor Pawlenty, Mr. Bicker stated that staff had received correspondence from the Service Employees International Union and that Board members would receive a copy of staff's response.

The meeting adjourned at 1:35 P.M.

Respectfully submitted,



Howard Bicker
Executive Director

**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

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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, at its discretion, 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 plan 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.

DATE: September 4, 2007

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

FROM: Stock and Bond Manager Committee

SUBJECT: **MSCI Index Changes**

**MINNESOTA
STATE
BOARD OF
INVESTMENT**



Board Members:

Governor
Tim Pawlenty

State Auditor
Rebecca Otto

Secretary of State
Mark Ritchie

Attorney General
Lori Swanson

Executive Director:

Howard J. Bicker

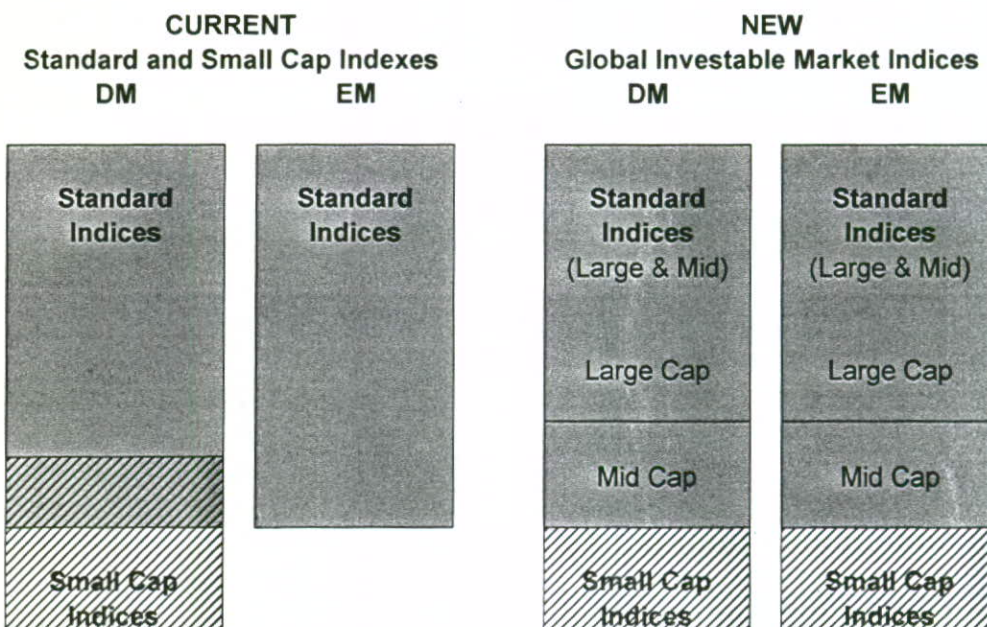
MSCI Barra is enhancing its indexes to provide broader coverage of international equity markets and improved size segmentation of the global investable universe.

Current MSCI Standard Indexes

MSCI's current Standard Indexes use a sampling methodology to represent 85% of each industry group by country. While the resulting index achieves good market representation, there is inconsistent size representation across markets. In addition, MSCI's current Small Cap Index only includes developed market securities and does not dovetail with the Standard Index. There are companies that appear in both indexes due to the different methods used to determine constituent membership. Currently MSCI does not have an emerging markets small cap index.

New MSCI Global Investable Market Indices

MSCI's revised methodology for the new Standard Indexes will aim to represent the top 85% of the capitalization in each market (rather than in each industry in each market) in the Standard Index, which will be comprised of a Large and a Mid cap index. The Standard Index will then become fully compatible with the Small Cap indexes, which will target all companies with a market capitalization below that of the companies in the new Standard indexes. Together the Standard and Small Cap indexes will offer up to 99% coverage of the free-float adjusted investable universe in both the developed and emerging markets.



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MSCI Index Transition

The revised methodology will result in additions and deletions to the Standard indexes, as well as reclassifications of securities from the Standard to the Small Cap indexes.

Summary of Changes to Existing MSCI Standard Indexes:

	2-way turnover	Current Total Index Market Capitalization	New Total Index Market Capitalization	Mkt Cap Change	Current # of constituents	New # of constituents	Adds	Deletes	Net
ACWI ex US		16,156,665	16,436,475	1.73%	2,128	1,850	157	435	-278
EAFE	7.25%	12,861,301	13,042,186	1.41%	1,162	1,046	89	205	-116
Canada	10.60%	941,087	986,937	4.90%	113	110	8	11	-3
EM	12.42%	2,354,277	2,407,352	2.25%	853	694	60	219	-159

MSCI will transition the indexes in two phases. The first phase will be effective as of the Close on November 30th, 2007. The second phase will be effective as of the close on May 30th, 2008. At each phase, one-half of the market capitalization of each addition and deletion will be added to or deleted from the Standard and Small Cap indexes.

SBI International Equity Program

The SBI currently uses the MSCI Standard Indexes to benchmark both Manager and Program performance. The developed markets managers are benchmarked against the Standard MSCI World ex US (net) Index, the emerging markets managers are benchmarked against the Standard MSCI Emerging Markets (net) Index and the SBI International Equity Program's asset class target is the Standard MSCI All Country World (ACWI) ex US (net) Index.

The SBI does not currently have any dedicated small cap international equity managers. However, several of the SBI's current managers do invest opportunistically in this area, and some small cap names are included in the Standard indexes. As of July 31, 2007, 2.43% of the total International Equity Program was invested in companies with a market cap of \$1B and less versus a benchmark (MSCI ACWI ex US) weight of 1.62%. An additional 4.2% of the program was invested in companies with a market cap of between \$1B to \$2B versus a benchmark weight of 3.98%.

Going forward, the minimum size at construction for the MSCI Standard Indexes will be \$2.1B for the developed markets indexes and \$1.02B for the emerging markets indexes. The minimum size at construction for the new MSCI IMI (Large+Mid+Small cap) indexes will be \$370M for the developed markets indexes and \$185M for the emerging markets indexes. As a result, approximately 12% of the MSCI ACWI ex US IMI Index will be in small cap names. If the SBI were to transition to the broad MSCI IMI indices, after transitioning the passive portfolio to the broad MSCI IMI developed markets index, the program would still need approximately \$400M of developed markets small cap exposure and \$200M of emerging markets small cap exposure across 3,772 small cap securities in the new small cap indexes (as of July 31, 2007 market values).

Characteristics of new MSCI Standard, Small Cap, and IMI (Standard+Small Cap) indices:

	Standard		Small Cap		IMI		Minimum Size at Construction: Full Market Cap of Companies		Cumulative Coverage of Free Float Adjusted Market Capitalization of the Investable Universe		
	mkt cap	# securities	mkt cap	# securities	mkt cap	# securities	Standard	IMI	Standard	Small Cap	IMI
	ACWI ex US	16,436,474	1,850	2,277,002	3,772	18,713,476	5,622				
EAFE	13,042,186	1,046	1,733,814	2,279	14,776,000	3,325	2,089	370	87.20%	11.50%	98.80%
Canada	986,937	110	155,434	223	1,142,371	333	2,089	370	85.30%	13.30%	98.60%
EM	2,407,352	694	387,755	1,272	2,795,106	1,966	1,020	185	85.10%	12.80%	97.90%

Small Cap Issues & Considerations

- While SBI managers agree that over the long term small cap investments can increase returns and reduce risk, at present they see better relative value in mid and large cap securities.
- MSCI EM Small Cap Index is new. There are no emerging markets small cap products (active or passive) or demonstrated track records.
- New MSCI EM Small Cap index introduces 1228 names that lack liquidity and may have insignificant performance contribution given the high concentration in the MSCI EM index.
- Limited products in small cap developed markets are open to new investors and the performance track records are against an index that will be changing significantly.
 - o Per Wilshire Compass, only 6 active small cap managers with assets under management of over \$1B are open to new investors (11 other small cap managers are closed).
 - o The number of index constituents in the developed markets small cap index will be changing from 1336 to 2500 with an estimated one-way turnover of 70%.
- Moving to a structural benchmark allocation to small cap has consequences that need to be carefully considered:
 - o Significant increase in number of stocks held.
 - o Increase in volatility of returns.
 - o Additional risks of holding a greater number of illiquid securities.
 - o Potentially higher trading costs.

Recommendation:

The Committee recommends that the International Equity Program transition to the new MSCI Standard indexes. We recommend continuing to closely review both developed and emerging market small cap opportunities, and how the marketplace develops in response to the index changes.

INVESTMENT ADVISORY COUNCIL

AGENDA AND MINUTES

December 3, 2007

AGENDA
INVESTMENT ADVISORY COUNCIL MEETING
Monday, December 3, 2007
2:00 P.M. - Board Room – First Floor
60 Empire Drive, St. Paul, MN

- | | |
|--|------------|
| | TAB |
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| 2. Update on Cohen, Klingenstein & Marks, a domestic equity manager | |
| 3. Re-interview of AllianceBernstein, a domestic equity manager | |
| B. Alternative Investment Committee (Judy Mares) | G |
| 1. Review of current strategy | |
| 2. Recommendation of new investments with one existing real estate manager, one new resource manager and one new private equity manager: | |
| • Lehman Brothers | |
| • EnCap | |
| • CVC Capital Partners | |
| 7. Post Retirement Fund Presentation (Retirement Directors) | |

Minutes
Investment Advisory Council
September 4, 2007

MEMBERS PRESENT: Frank Ahrens; Jeff Bailey; Dave Bergstrom; John Bohan; Doug Gorence; Laurie Hacking; Heather Johnston; P. Jay Kiedrowski; Judy Mares; Malcolm McDonald; Gary Norstrem; Mike Troutman; and Mary Vanek.

MEMBERS ABSENT: Kerry Brick; Daralyn Peifer; and Tom Hanson.

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

OTHERS ATTENDING: Ann Posey, Richards & Tierney; Peter Sausen; Christie Eller; Celeste Grant; Tom Durand; Joyce Sukola and Mr. Sukola, Bonnie Wurst and Jim Verlautz, Mercer Human Resource Consulting; Erin Leonard, MSRS; Larry Pfaff, PERA Retiree and Marvin McNeff, MSRS Retiree.

Mr. Troutman called the meeting to order and the minutes of the June 5, 2007 meeting were approved.

Executive Director's Report

Mr. Bicker, Executive Director, referred members to Tab A of the meeting materials and he reported that the Combined Funds had exceeded its Composite Index over the ten year period ending June 30, 2007 (Combined Funds 8.3% vs. Composite 8.1%), and had provided a real rate of return over the latest 20 year period (Combined Funds 10.0% vs. CPI 3.0%). He stated that the Basic Funds have outperformed its Composite Index (Basic Funds 8.5% vs. Composite 8.3%) over the last ten years and reported that the Post Fund had also outperformed its composite over the last ten-year period (Post Fund 8.1% vs. Composite 7.9%).

Mr. Bicker reported that the Basic Fund's assets increased 3.4% for the quarter ending June 30, 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 4.9% vs. Composite 4.8%) and for the year (Basic Funds 18.5% vs. Composite 18.2%).

Mr. Bicker reported that the market value of the Post Fund's assets increased 4.7 % for the quarter ending June 30, 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 4.7% vs. Composite 4.6%) and for the year (Post Fund 18.2% vs. Composite 17.7%).

Mr. Bicker reported that the domestic stock manager group matched its target for the quarter (Domestic Stock 5.8% vs. Domestic Equity Asset Class Target 5.8%) and underperformed it for the year (Domestic Stocks 19.7% vs. Domestic Equity Asset Class Target 20.1%). He said the International Stock manager group outperformed its Composite Index for the quarter (International Stocks 8.6% vs. International Equity Asset Class Target 8.2%) and for the year (International Stocks 30.3% vs. International Equity Asset Class Target 29.6%). Mr. Bicker stated that the bond segment matched its target for the quarter (Bonds -0.5% vs. Fixed Income Asset Class Target -0.5%) and outperformed for the year (Bonds 6.3% vs. Fixed Income Asset Class Target 6.1%). He noted that the alternative investments had also performed strongly for the year (Alternatives 25.6%). He concluded his report with the comment that as of June 30, 2007, the SBI was responsible for over \$63 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 asked Christie Eller, Assistant Attorney General to update members on the status of litigation. She stated that the State received approximately \$190,000 in distributions from the Broadcom class action, an additional \$49,000 from the WorldCom case and \$3.29 million from the AOL class action. She added that the State had also recently filed an additional claim regarding Mercury Finance because another settlement fund had been established.

Proxy Voting Committee Report

Mr. Sausen referred members to Tab C of the meeting materials and stated that the first recommendation for the Board's consideration is to re-authorize the Proxy Voting Committee. He said that the Committee is also recommending approval by the Board of the Proxy Voting Guidelines. He noted that the Committee had met just prior to the IAC meeting and had made a minor wording change to the guidelines and he briefly reviewed the proposed changes. Mr. Sausen added that the Board will also be provided an update regarding contact with various companies doing business in the Sudan, as required by recently enacted legislation.

Accounting System Review Committee

Mr. Sausen referred members to Tab D of the meeting materials and reported that the Committee was recommending that Financial Controls System should remain the SBI's accounting vendor. He noted that six firms were provided an RFP and that two responses were received. He stated that the Committee believed Financial Controls will continue to provide the best services for the lowest fees.

Compensation Review Committee

Mr. Bergstrom referred members to Tab E of the meeting materials and reported that the Committee is recommending that the SBI authorize the Executive Director to grant salary increases to non-represented unclassified employees up to 3.25% for Fiscal Year 2008 and up to 3.25% for Fiscal Year 2009. He stated that these amounts are consistent with the AFSCME and MAPE contracts.

Stock and Bond Manager Committee Report

Mr. Bohan referred members to Tab F of the meeting materials and briefly reviewed the performance of the various asset classes. He stated that the Committee conducted a review of Voyageur Asset Management during the quarter. He summarized the Committee's review and stated that the Committee believes that Voyageur has a good process and is a stable organization and that no action is needed at this time. In response to a question from Ms. Johnston, Mr. Bohan confirmed that any manager can be re-evaluated at any point in time.

Mr. Bicker briefly discussed several follow-up items related to the Domestic Equity Program Review. He stated that the manager search process will no longer use special manager search committees. He explained that the search process will be conducted by staff and that final candidates will be presented to the Stock and Bond Committee for final approval on an as needed basis. Mr. Bicker stated that staff believes it would be prudent to have the ability to passively or semi-passively manage each of the style groupings in the Domestic Equity Program when it becomes necessary to terminate an active manager. He noted that a recommendation will be forthcoming in the near future. Mr. Bicker stated that staff is recommending that the allocation ranges within the Domestic Equity Program be changed to 0-50% for active and semi-passive management and 25-100% for passive management. He noted that the current allocation range is 25-40% for each of the three components. Mr. Bohan moved approval of the recommendation regarding the allocation ranges as stated in the Committee Report. In response to a question from Mr. Troutman, Mr. Bicker stated that the current target for each component of the Domestic Equity Program is one third. The motion passed.

Mr. Bicker distributed a memo from staff regarding a recommendation to transition to the new MSCI standard indexes (see **Attachment A**). He explained that the indexes are being revised to provide broader coverage of international equity markets and improved size segmentation of the global investable universe. He noted some concerns regarding small cap issues and said that the recommendation also includes continuing to closely review both developed and emerging market small cap opportunities, and how the marketplace develops in response to the index changes. A discussion followed. In response to a comment from Mr. Troutman, Mr. Bicker confirmed that the managers may still invest in small cap stocks, but that small caps will not be part of their benchmark. Mr. McDonald moved approval of the recommendation, as stated in Attachment A. Ms. Hacking seconded the motion. The motion passed.

Alternative Investment Committee

Ms. Mares referred members to Tab G of the meeting materials and briefly reviewed the five new investments for approval, which are new investments with one existing yield-oriented manager (Goldman Sachs), one existing resource manager (Natural Gas Partners) and three existing private equity managers (Wayzata Investment Partners, Warburg Pincus and Blum Capital Partners). Ms. Mares moved approval of the Committee's five recommendations, as stated in the Committee Report. The motion passed.

Mr. Troutman stated that the remainder of the meeting would be a presentation by the retirement systems' actuaries (see **Attachment B**) and he introduced Ms. Wurst and Mr. Verlautz.

The meeting adjourned at 4:12 P.M.

Respectfully submitted,



Howard Bicker
Executive Director

DATE: September 4, 2007

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

FROM: Stock and Bond Manager Committee

SUBJECT: MSCI Index Changes

**MINNESOTA
STATE
BOARD OF
INVESTMENT**



Board Members:

Governor
Tim Pawlenty

State Auditor
Rebecca Otto

Secretary of State
Mark Ritchie

Attorney General
Lori Swanson

Executive Director:

Howard J. Bicker

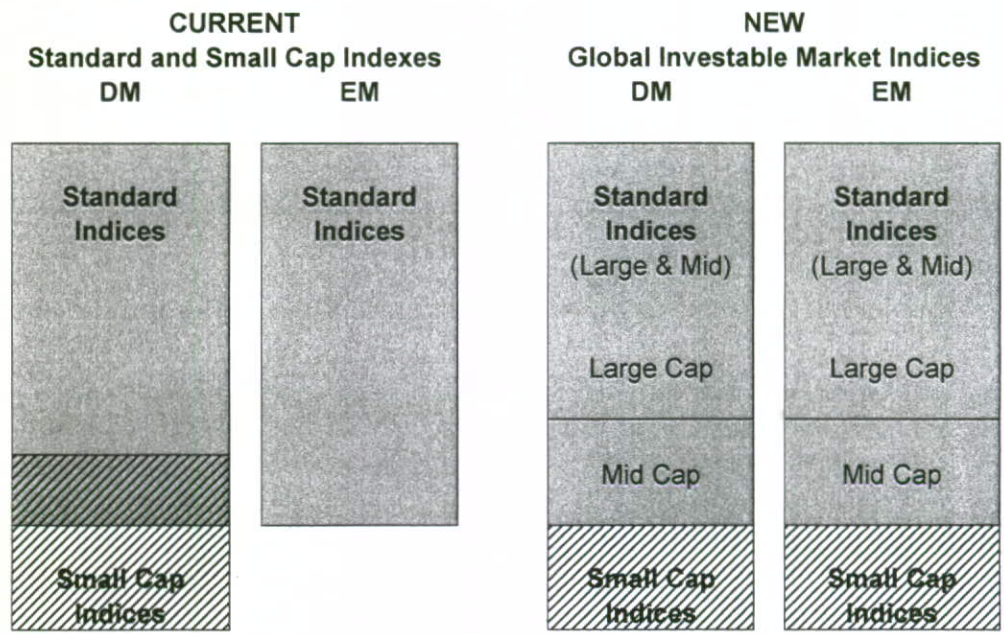
MSCI Barra is enhancing its indexes to provide broader coverage of international equity markets and improved size segmentation of the global investable universe.

Current MSCI Standard Indexes

MSCI's current Standard Indexes use a sampling methodology to represent 85% of each industry group by country. While the resulting index achieves good market representation, there is inconsistent size representation across markets. In addition, MSCI's current Small Cap Index only includes developed market securities and does not dovetail with the Standard Index. There are companies that appear in both indexes due to the different methods used to determine constituent membership. Currently MSCI does not have an emerging markets small cap index.

New MSCI Global Investable Market Indices

MSCI's revised methodology for the new Standard Indexes will aim to represent the top 85% of the capitalization in each market (rather than in each industry in each market) in the Standard Index, which will be comprised of a Large and a Mid cap index. The Standard Index will then become fully compatible with the Small Cap indexes, which will target all companies with a market capitalization below that of the companies in the new Standard indexes. Together the Standard and Small Cap indexes will offer up to 99% coverage of the free-float adjusted investable universe in both the developed and emerging markets.



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MSCI Index Transition

The revised methodology will result in additions and deletions to the Standard indexes, as well as reclassifications of securities from the Standard to the Small Cap indexes.

Summary of Changes to Existing MSCI Standard Indexes:

	2-way turnover	Current Total Index Market Capitalization	New Total Index Market Capitalization	Mkt Cap Change	Current # of constituents	New # of constituents	Adds	Deletes	Net
ACWI ex US		16,156,665	16,436,475	1.73%	2,128	1,850	157	435	-278
EAFE	7.25%	12,861,301	13,042,186	1.41%	1,162	1,046	89	205	-116
Canada	10.60%	941,087	986,937	4.90%	113	110	8	11	-3
EM	12.42%	2,354,277	2,407,352	2.25%	853	694	60	219	-159

MSCI will transition the indexes in two phases. The first phase will be effective as of the Close on November 30th, 2007. The second phase will be effective as of the close on May 30th, 2008. At each phase, one-half of the market capitalization of each addition and deletion will be added to or deleted from the Standard and Small Cap indexes.

SBI International Equity Program

The SBI currently uses the MSCI Standard Indexes to benchmark both Manager and Program performance. The developed markets managers are benchmarked against the Standard MSCI World ex US (net) Index, the emerging markets managers are benchmarked against the Standard MSCI Emerging Markets (net) Index and the SBI International Equity Program's asset class target is the Standard MSCI All Country World (ACWI) ex US (net) Index.

The SBI does not currently have any dedicated small cap international equity managers. However, several of the SBI's current managers do invest opportunistically in this area, and some small cap names are included in the Standard indexes. As of July 31, 2007, 2.43% of the total International Equity Program was invested in companies with a market cap of \$1B and less versus a benchmark (MSCI ACWI ex US) weight of 1.62%. An additional 4.2% of the program was invested in companies with a market cap of between \$1B to \$2B versus a benchmark weight of 3.98%.

Going forward, the minimum size at construction for the MSCI Standard Indexes will be \$2.1B for the developed markets indexes and \$1.02B for the emerging markets indexes. The minimum size at construction for the new MSCI IMI (Large+Mid+Small cap) indexes will be \$370M for the developed markets indexes and \$185M for the emerging markets indexes. As a result, approximately 12% of the MSCI ACWI ex US IMI Index will be in small cap names. If the SBI were to transition to the broad MSCI IMI indices, after transitioning the passive portfolio to the broad MSCI IMI developed markets index, the program would still need approximately \$400M of developed markets small cap exposure and \$200M of emerging markets small cap exposure across 3,772 small cap securities in the new small cap indexes (as of July 31, 2007 market values).

Characteristics of new MSCI Standard, Small Cap, and IMI (Standard+Small Cap) indices:

	Standard		Small Cap		IMI		Minimum Size at Construction: Full Market Cap of Companies		Cumulative Coverage of Free Float Adjusted Market Capitalization of the Investable Universe		
	mkt cap	# securities	mkt cap	# securities	mkt cap	# securities	Standard	IMI	Standard	Small Cap	IMI
ACWI ex US	16,436,474	1,850	2,277,002	3,772	18,713,476	5,622					
EAFE	13,042,186	1,046	1,733,814	2,279	14,776,000	3,325	2,089	370	87.20%	11.50%	98.80%
Canada	986,937	110	155,434	223	1,142,371	333	2,089	370	85.30%	13.30%	98.60%
EM	2,407,352	694	387,755	1,272	2,795,106	1,966	1,020	185	85.10%	12.80%	97.90%

Small Cap Issues & Considerations

- While SBI managers agree that over the long term small cap investments can increase returns and reduce risk, at present they see better relative value in mid and large cap securities.
- MSCI EM Small Cap Index is new. There are no emerging markets small cap products (active or passive) or demonstrated track records.
- New MSCI EM Small Cap index introduces 1228 names that lack liquidity and may have insignificant performance contribution given the high concentration in the MSCI EM index.
- Limited products in small cap developed markets are open to new investors and the performance track records are against an index that will be changing significantly.
 - o Per Wilshire Compass, only 6 active small cap managers with assets under management of over \$1B are open to new investors (11 other small cap managers are closed).
 - o The number of index constituents in the developed markets small cap index will be changing from 1336 to 2500 with an estimated one-way turnover of 70%.
- Moving to a structural benchmark allocation to small cap has consequences that need to be carefully considered:
 - o Significant increase in number of stocks held.
 - o Increase in volatility of returns.
 - o Additional risks of holding a greater number of illiquid securities.
 - o Potentially higher trading costs.

Recommendation:

The Committee recommends that the International Equity Program transition to the new MSCI Standard indexes. We recommend continuing to closely review both developed and emerging market small cap opportunities, and how the marketplace develops in response to the index changes.

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



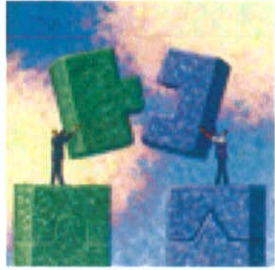
Application of Financial Economics to Public Sector

- 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*

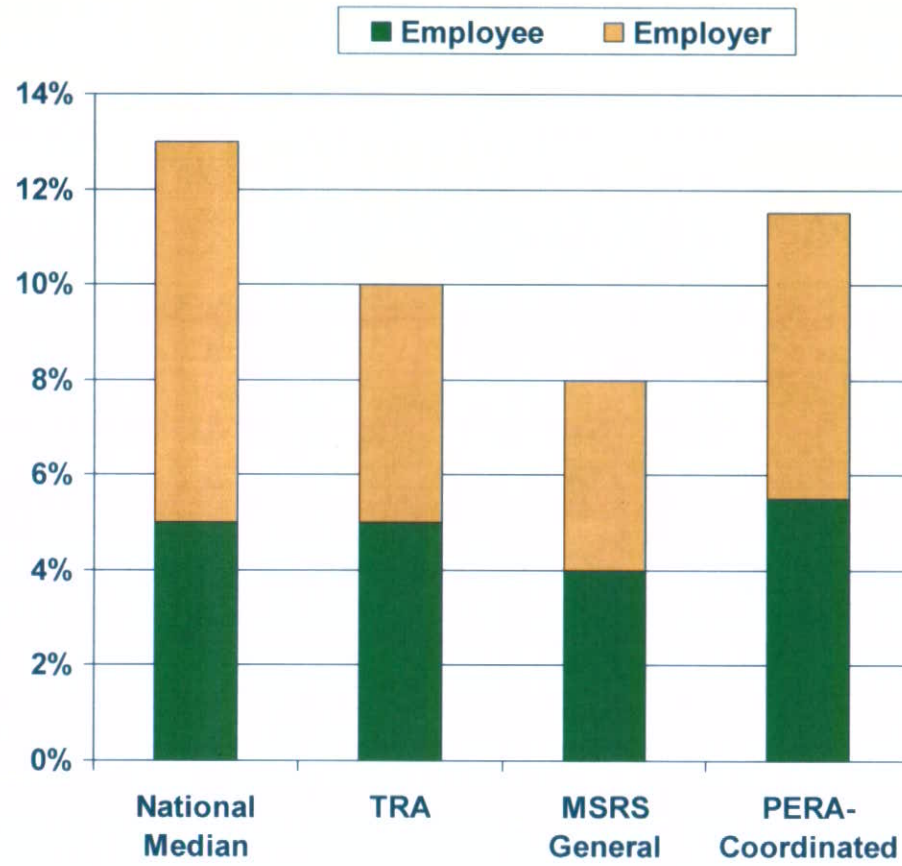
	MSRS	PERA	TRA
Baseline			
Funding Ratio	96.2%	74.7%	92.6%
Total Required Contribution	10.1%	12.9%	12.1%
Contribution Sufficiency/Deficiency	(0.1%)	0.1%	(0.3%)
Amortization Period	14 years	26-27 years	30 years
Combining Funds (Recognize PF Deficit)			
Funding Ratio	93.2%	70.4%	86.4%
Total Required Contribution	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.

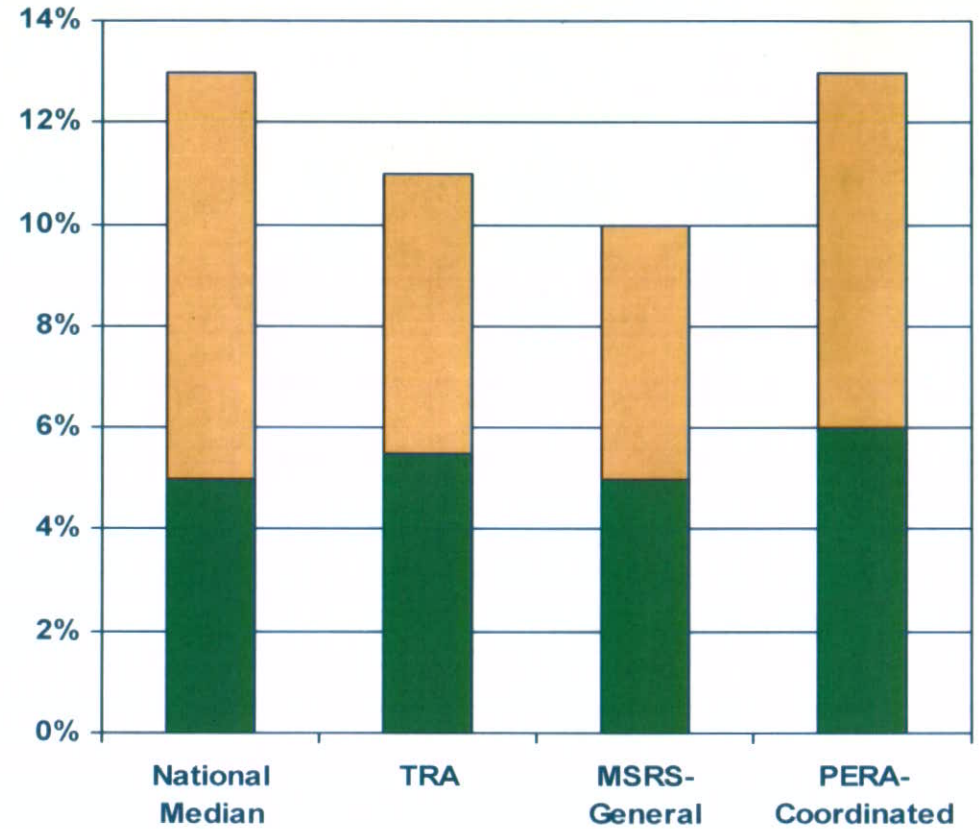
** Estimates assume that active and post funds assets are at markets value and actuarial assumptions regarding salary/payroll growth are changed.



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

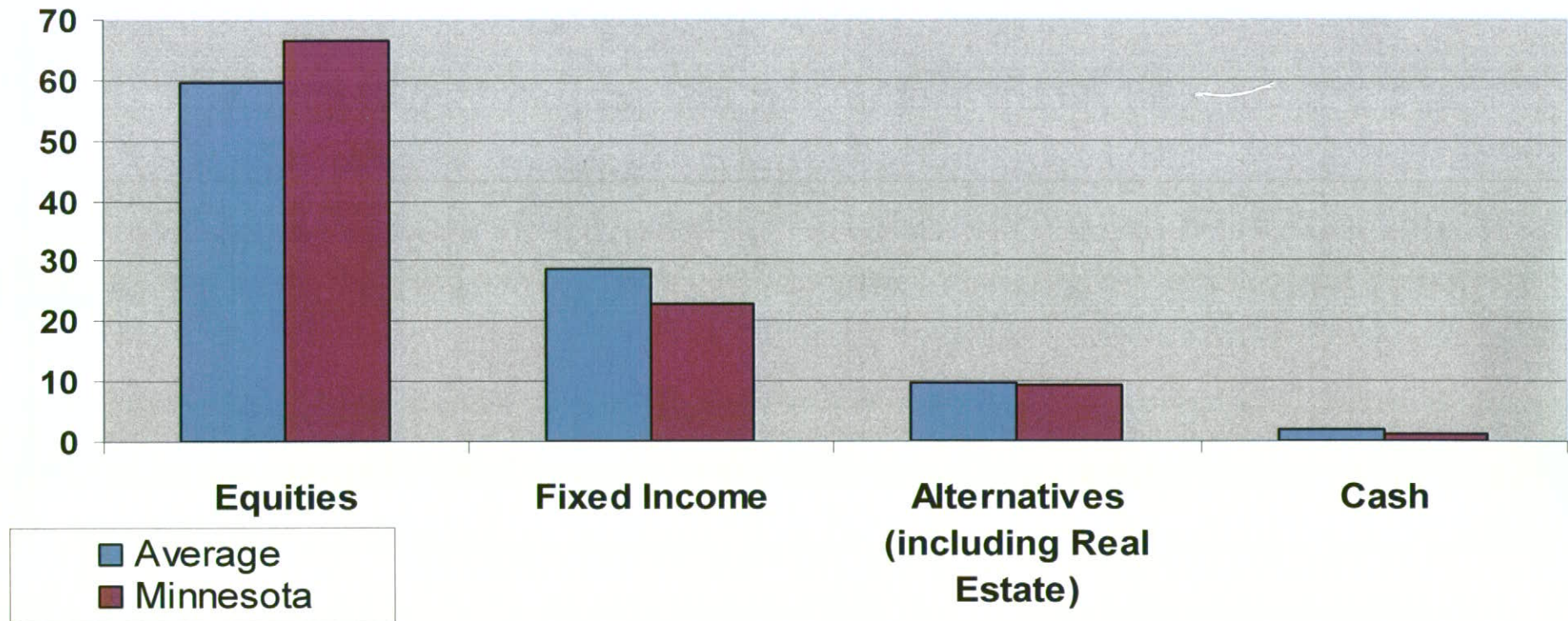


Discount Rate

- 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?

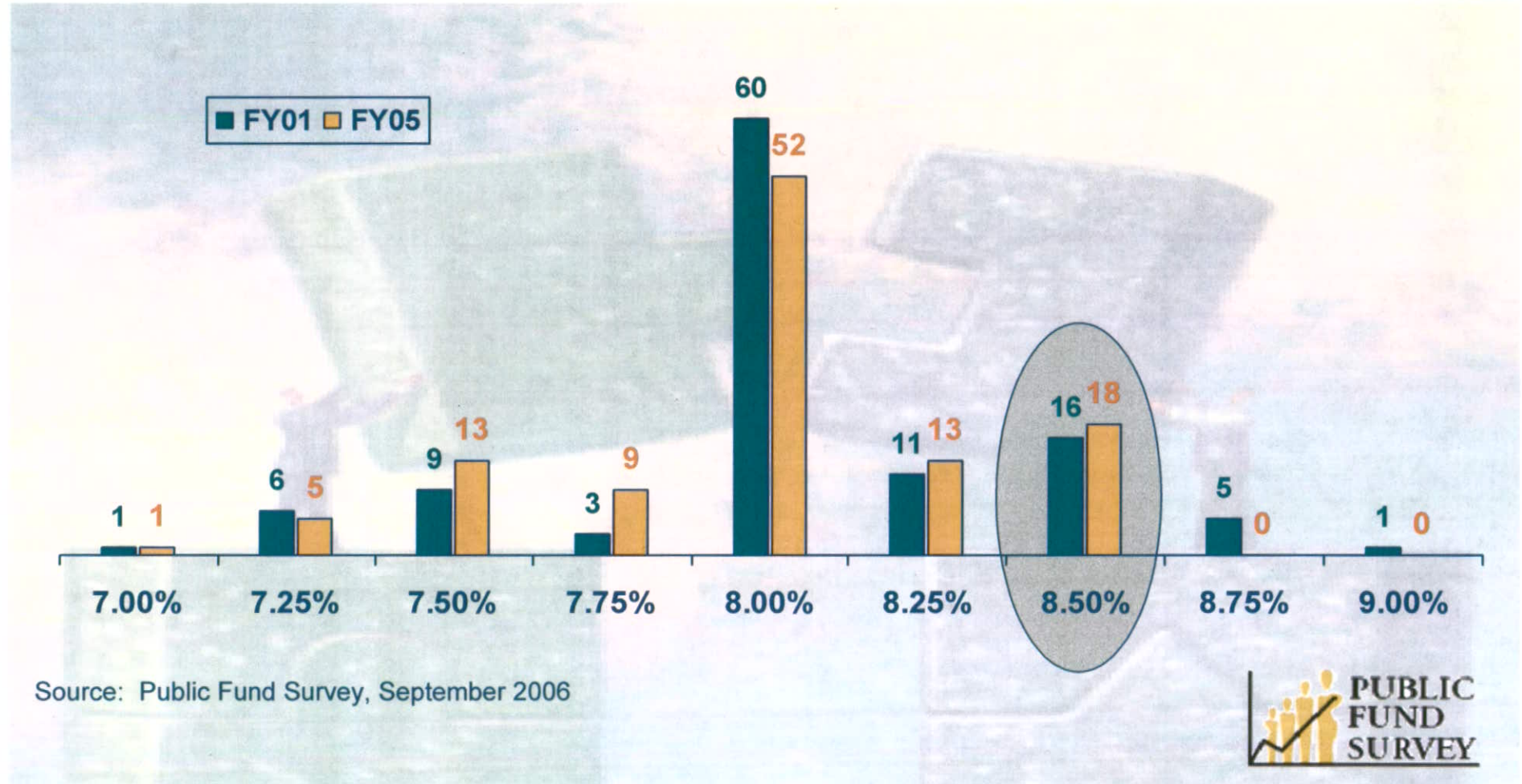


Average Asset Allocation - Public Fund Survey



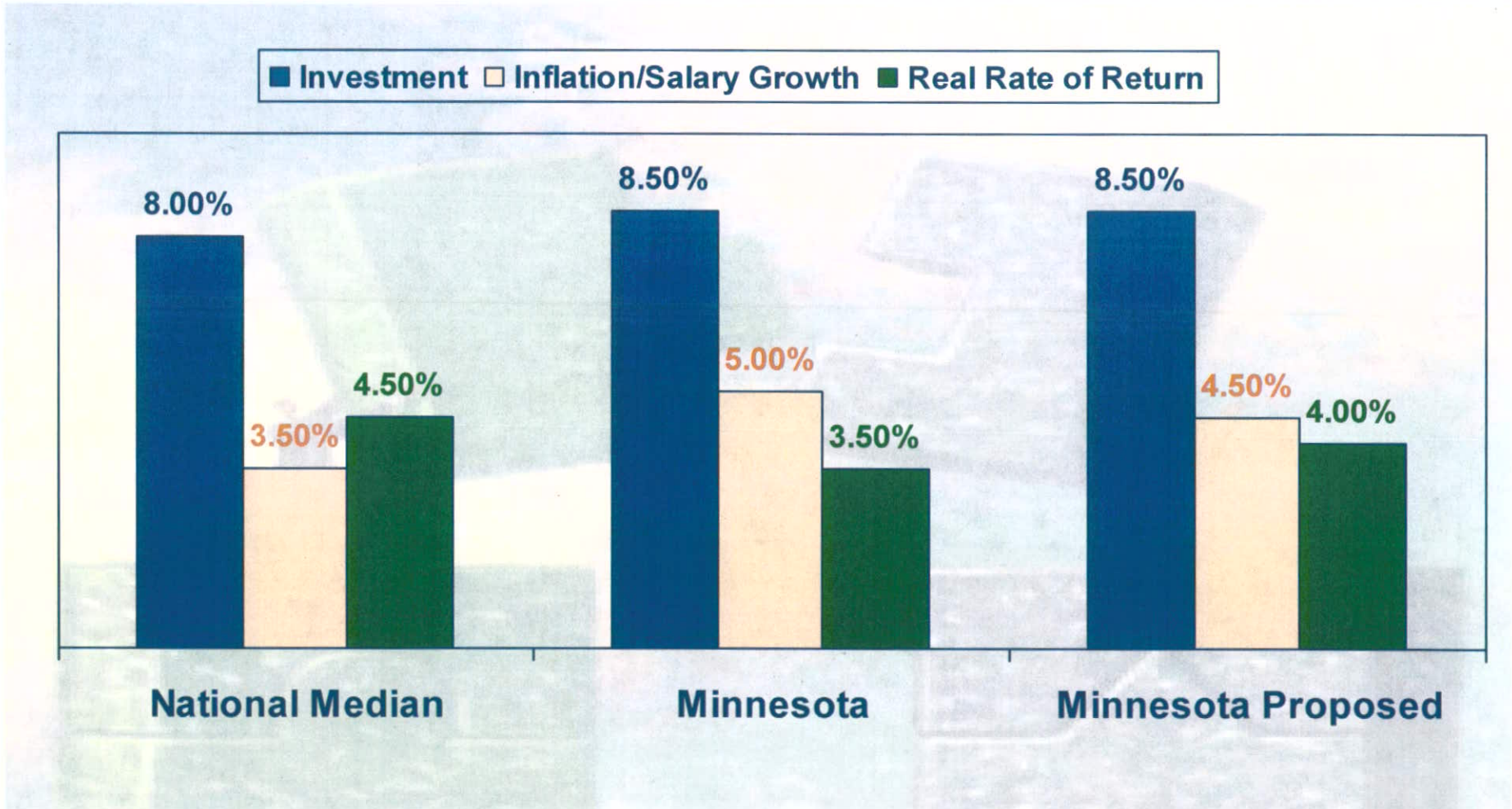


Changes in Investment Return Assumptions FY01 - FY05





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

Tab A

LONG TERM OBJECTIVES
Period Ending 9/30/2007

COMBINED FUNDS: \$51.1 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>	7.8% (1)	0.1 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>	9.9%	6.9 percentage points above CPI

BASIC RETIREMENT FUNDS: \$25.4 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>	8.0%	0.1 percentage point above target

POST RETIREMENT FUND: \$25.7 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>	7.7%	0.1 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

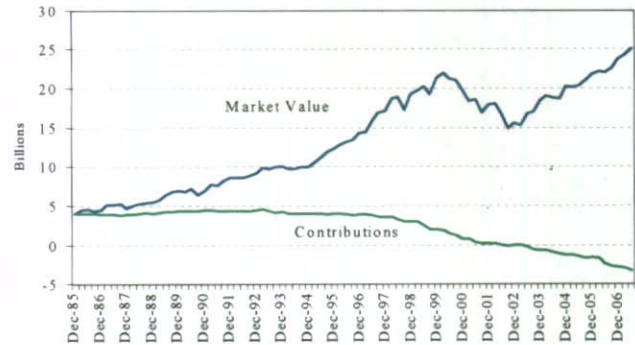
EXECUTIVE SUMMARY
Basic Retirement Funds (Net of Fees)

Asset Growth

The market value of the Basic Funds increased 1.5% during the third quarter of 2007. Positive investment returns accounted for the increase.

Asset Growth
During Third Quarter 2007
(Millions)

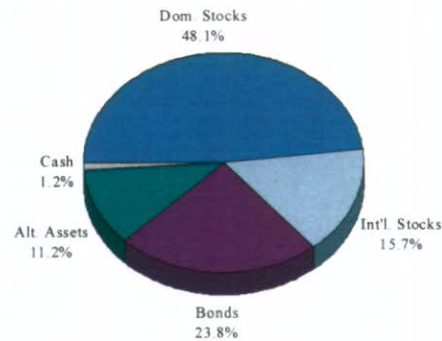
Beginning Value	\$ 25,062
Net Contributions	-271
Investment Return	648
Ending Value	\$ 25,439



Asset Mix

The allocation to domestic equity and international equity decreased over the quarter due to rebalancing into fixed income.

	Policy Targets	Actual Mix 9/30/2007	Actual Market Value (Millions)
Domestic Stocks	45.0%	48.1%	\$12,235
Int'l. Stocks	15.0	15.7	3,976
Bonds	24.0	23.8	6,061
Alternative Assets*	15.0	11.2	2,856
Unallocated Cash	1.0	1.2	311
	100.0%	100.0%	\$25,439

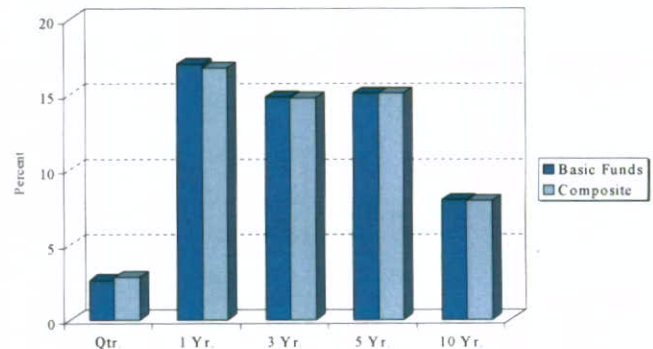


* Any uninvested allocation is held in domestic stocks

Fund Performance (Net of Fees)

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

	Period Ending 9/30/2007				
	Qtr.	1 Yr.	3 Yr.	5 Yr.	10 Yr.
Basics	2.6%	17.0%	14.8%	15.1%	8.0%
Composite	2.8	16.7	14.8	15.0	7.9



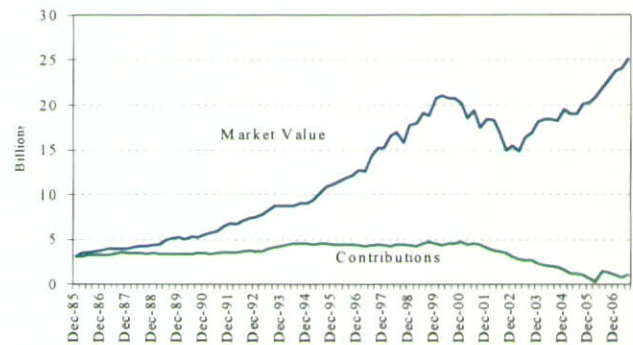
EXECUTIVE SUMMARY
Post Retirement Fund (Net of Fees)

Asset Growth

The market value of the Post Fund increased 1.9% during the third quarter of 2007. Positive investment returns accounted for the increase.

Asset Growth
During Third Quarter 2007
(Millions)

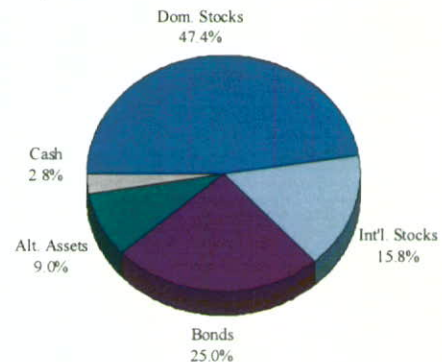
Beginning Value	\$25,176
Net Contributions	-160
Investment Return	637
Ending Value	\$25,653



Asset Mix

The allocation to domestic equity and international equity decreased over the quarter due to rebalancing into fixed income.

	Policy Targets	Actual Mix 9/30/2007	Actual Market Value (Millions)
Domestic Stocks	45.0%	47.4%	\$12,168
Int'l. Stocks	15.0	15.8	4,039
Bonds	25.0	25.0	6,418
Alternative Assets*	12.0	9.0	2,317
Unallocated Cash	3.0	2.8	711
	100.0%	100.0%	\$25,653

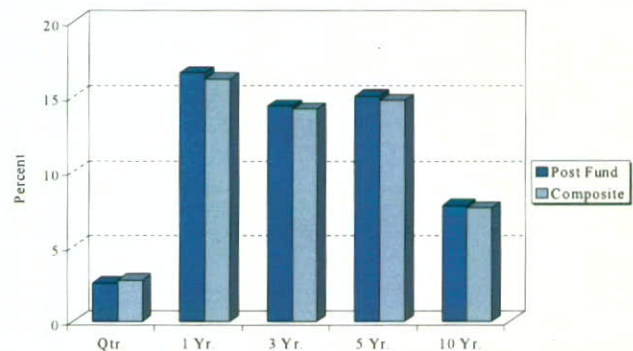


* Any uninvested allocation is held in domestic stocks.

Fund Performance (Net of Fees)

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

	Period Ending 9/30/2007				
	Qtr.	1 Yr.	3 Yr.	5 Yr.	10 Yr.
Post	2.6%	16.6%	14.4%	15.0%	7.7%
Composite	2.7	16.2	14.2	14.8	7.6



EXECUTIVE SUMMARY

Stock and Bond Manager Performance (Net of Fees)

Domestic Stocks

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

	Period Ending 9/30/2007				
	Annualized				
	Qtr.	1 Yr.	3 Yr.	5 Yr.	10 Yr.
Dom. Stocks	1.4%	16.3%	13.4%	15.9%	6.2%
Asset Class Target*	1.5	16.5	13.7	16.2	6.4

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

	Period Ending 9/30/2007				
	Annualized				
	Qtr.	1 Yr.	3 Yr.	5 Yr.	10 Yr.
Int'l. Stocks	4.2%	30.6%	25.9%	25.2%	8.7%
Asset Class Target*	4.6	30.5	26.0	25.7	8.6

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) trailed its target for the quarter, and matched for the year.

	Period Ending 9/30/2007				
	Annualized				
	Qtr.	1 Yr.	3 Yr.	5 Yr.	10 Yr.
Bonds	2.6%	5.1%	4.1%	4.8%	6.2%
Asset Class Target*	2.8	5.1	3.9	4.1	6.0

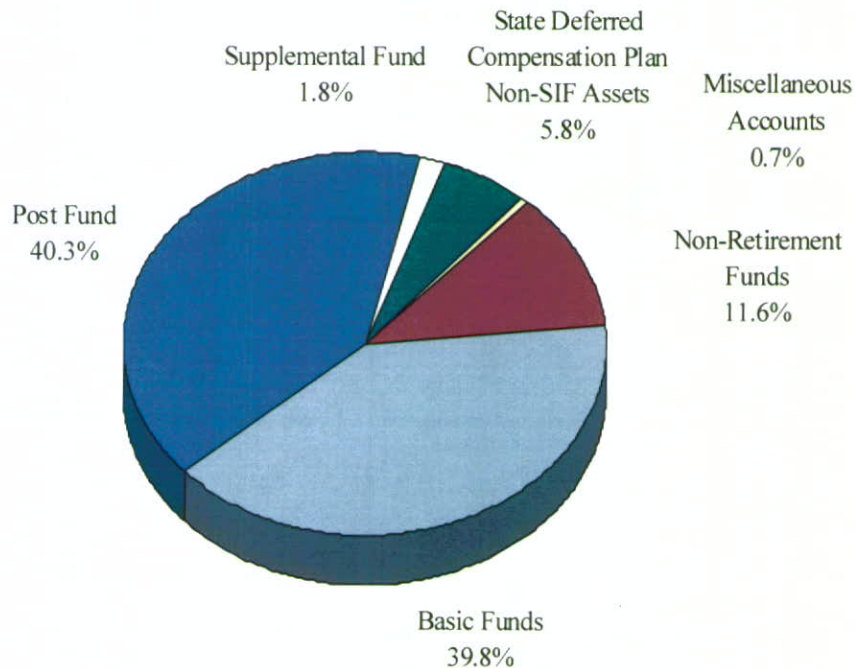
Lehman Aggregate: The Lehman Brothers Aggregate Bond Index reflects the performance of the broad bond market for investment grade (Baa or higher) bonds, U.S. treasury and agency securities, and mortgage obligations with maturities greater than one year.

* 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 9/30/2007				
	Annualized				
	Qtr.	1 Yr.	3 Yr.	5 Yr.	10 Yr.
Alternatives	6.2%	29.2%	32.9%	24.0%	16.9%

EXECUTIVE SUMMARY
Funds Under Management



	9/30/2007 Market Value (Billions)
Retirement Funds	
Basic Retirement Funds	\$25.4
Post Retirement Fund	25.7
Supplemental Investment Fund	1.2
State Deferred Compensation Plan Non-SIF Assets	3.7
Non-Retirement Funds*	
Assigned Risk Plan	0.4
Permanent School Fund	0.7
Environmental Trust Fund	0.5
State Cash Accounts	5.8
Miscellaneous Accounts	0.4
Total	\$63.8

MINNESOTA STATE BOARD OF INVESTMENT

QUARTERLY INVESTMENT REPORT

Third Quarter 2007
(July 1, 2007 - September 30, 2007)

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VARIOUS CAPITAL MARKET INDICES

	Period Ending 9/30/2007				
	Qtr.	Yr.	3 Yr.	5 Yr.	10 Yr.
Domestic Equity					
Dow Jones Wilshire Composite	1.5%	17.0%	14.0%	16.5%	6.8%
Dow Jones Industrials	4.2	21.7	13.9	15.5	7.9
S&P 500	2.0	16.4	13.1	15.5	6.6
Russell 3000 (broad market)	1.5	16.5	13.7	16.2	6.8
Russell 1000 (large cap)	2.0	16.9	13.8	16.0	6.9
Russell 2000 (small cap)	-3.1	12.3	13.4	18.8	7.2
Domestic Fixed Income					
Lehman Aggregate (1)	2.8	5.1	3.9	4.1	6.0
Lehman Gov't./Corp.	3.0	5.1	3.7	4.2	6.0
3 month U.S. Treasury Bills	1.2	5.0	4.1	2.9	3.7
International					
EAFE (2)	2.2	24.9	23.2	23.6	8.0
Emerging Markets Free (3)	14.5	58.6	41.3	39.1	11.9
ACWI Free ex-U.S. (4)	4.7	31.1	26.5	26.3	9.2
World ex-U.S. (5)	2.7	25.9	23.7	24.1	8.3
Salomon Non U.S. Gov't. Bond	8.1	9.5	4.8	8.0	5.7
Inflation Measure					
Consumer Price Index CPI-U (6)	0.1	2.8	2.9	2.7	2.5
Consumer Price Index CPI-W (7)	0.0	2.8	3.2	2.9	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 1.5% during the third quarter of 2007. The quarter ended in positive territory with the help of the Federal Reserve's 50 basis point cut in the federal funds rate and discount rate along with continued strong global growth aided by a cheaper dollar. Large capitalization stocks outperformed small capitalization stocks, and growth stocks outperformed value stocks. The integrated oils sector generated the largest total return within the Russell 3000 index. The financial sector generated the lowest total return.

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

Large Growth	Russell 1000 Growth	4.2%
Large Value	Russell 1000 Value	-0.2%
Small Growth	Russell 2000 Growth	0.0%
Small Value	Russell 2000 Value	-6.3%

The Russell 3000 index returned 16.5% for the year ending September 30, 2007.

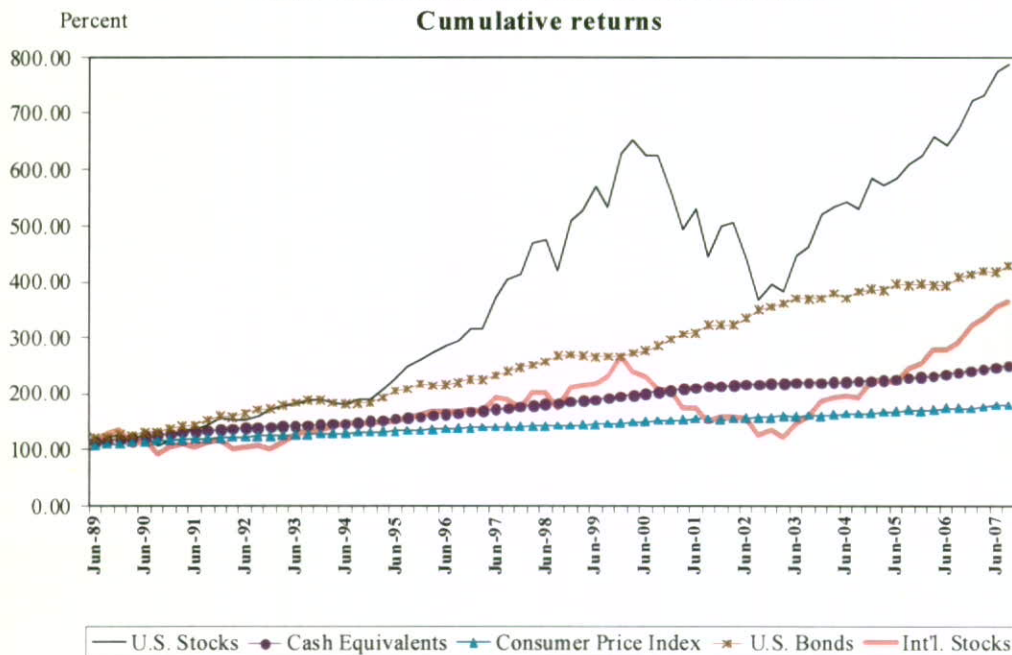
DOMESTIC BONDS

The bond market experienced one of its more volatile quarters of the past decade in the third quarter of 2007. A decline in subprime mortgages evolved rapidly into a market-wide technical imbalance. Fear of broader contagion led to widespread margin calls and reduction of leverage. The resulting forced selling caused an ongoing supply/demand imbalance during July and August. This leverage unwind was the predominant theme of the quarter, as the subprime contagion was of greater magnitude than many had originally thought, causing a flight to quality. The resulting high demand for treasuries caused yields to drop significantly along the entire yield curve. The U.S. bond market returned 2.84% for the third quarter and posted a gain of 5.14% for the year.

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

U.S. Treasury	3.8%
Agency	3.2
Credit	1.8
Mortgages	2.6

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 2.7% for the quarter. The quarterly performance of the six largest stock markets is shown below:

United Kingdom	0.2%
Japan	-0.9
France	-0.4
Switzerland	1.6
Germany	3.7
Canada	9.5

The World ex U.S. index increased by 25.9% during the last year.

The World ex U.S. index is compiled by Morgan Stanley Capital International (MSCI) and is a measure of 22 markets located in Europe, Australasia, Far East, and Canada. The major markets listed above comprise about 73% of the value of the international markets in the index.

EMERGING MARKETS

Emerging markets (as measured by MSCI Emerging Markets Free index) provided a return of 14.5% for the quarter. The quarterly performance of the five largest stock markets in the index is shown below:

Korea	14.0%
Taiwan	6.9
South Africa	6.0
Mexico	-4.4
Brazil	20.8

The Emerging Markets Free index increased by 58.6% 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

The residential sub-prime mortgage melt down has recently introduced some uncertainty in the capital markets. However, real estate fundamentals in the commercial real estate markets remain in good condition and some analysts believe a recovery in the capital markets is likely.

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 three quarters of 2007 show a continued strong fund raising environment, with \$199 billion in funds raised.

RESOURCE FUNDS

During the third quarter of 2007, crude oil averaged \$75.15 per barrel, up from the average price of \$65.02 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.

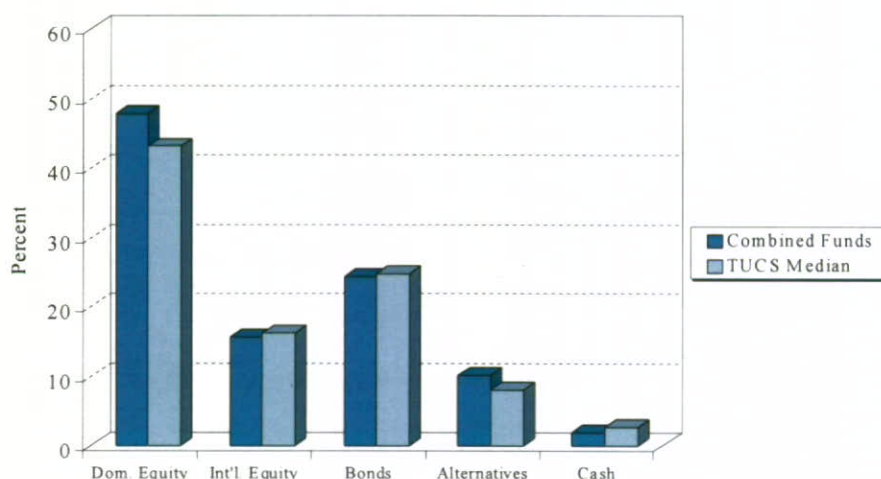
The comparison universe used by the SBI is the Trust Universe Comparison Service (TUCS). Only funds with assets over \$1 billion are included in the comparisons shown in this section.

Asset Mix Compared to Other Pension Funds

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

	\$ Millions	%
Domestic Stocks	\$24,403	47.8%
International Stocks	8,015	15.7
Bonds	12,479	24.4
Alternative Assets	5,173	10.1
Unallocated Cash	1,023	2.0
Total	\$51,093	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	47.8%	15.7%	24.4%	10.1%	2.0%
Median Allocation in TUCS*	43.2	16.2	24.8	8.1**	2.7

* Public and corporate plans over \$1 billion.

** May include assets other than alternatives.

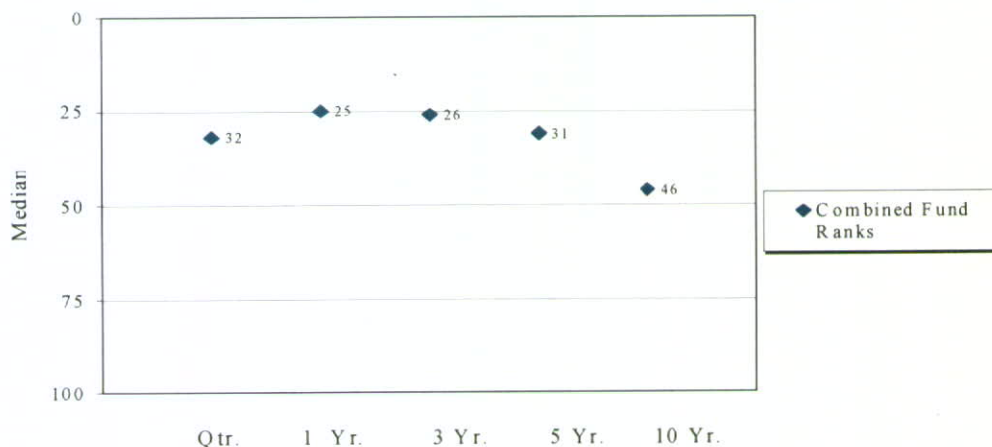
**COMBINED FUNDS
Performance Compared to Other Pension Funds**

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

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

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

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



	Period Ending 9/30/2007				
	Qtr.	1 Yr.	3 Yr.	5 Yr.	10 Yr.
Combined Funds Percentile Rank in TUCS*	32nd	25th	26th	31st	46th

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

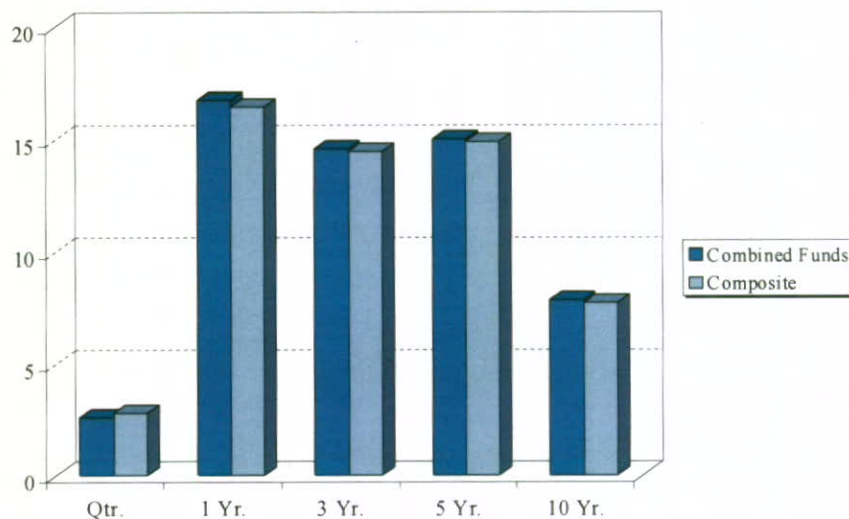
COMBINED FUNDS
Performance Compared to Composite Index

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* 3Q07
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 9/30/2007				
	Qtr.	1 Yr.	3 Yr.	5 Yr.	10 Yr.
Combined Funds**	2.6%	16.8%	14.6%	15.0%	7.8%
Composite Index	2.8	16.5	14.5	14.9	7.7

**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

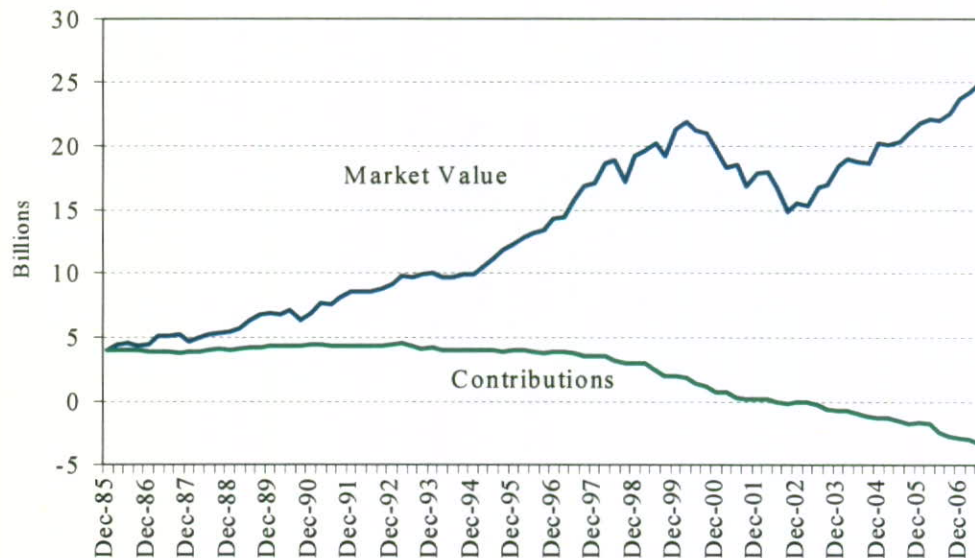
projected pension costs, the Basic Retirement Funds must generate investment returns of at least 8.5% on an annualized basis, over time.

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 1.5% during the third 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	9/07
Beginning Value	\$17,874	\$15,561	\$18,435	\$20,201	\$21,816	\$23,694	\$24,241	\$25,062
Net Contributions	-247	-592	-577	-411	-1,219	-87	-377	-271
Investment Return	-2,066	3,466	2,343	2,026	3,097	634	1,198	648
Ending Value	\$15,561	\$18,435	\$20,201	\$21,816	\$23,694	\$24,241	\$25,062	\$25,439

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.

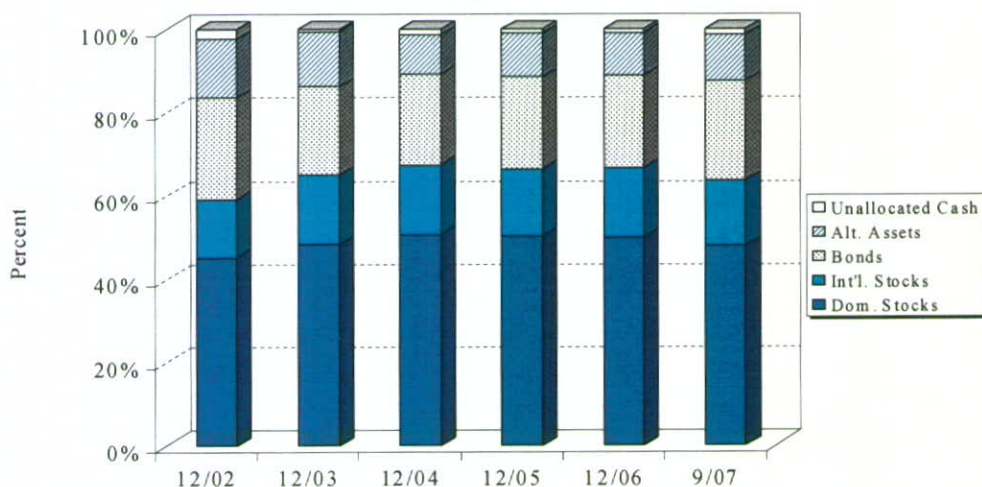
In October 2003, the Board provisionally revised its long term asset allocation targets for the Basic Funds, increasing the allocation for alternative investments from 15% to 20% and decreasing fixed income from 24% to 19%.

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 allocation to alternative assets increased due to strong returns. The allocation to international equity remained stable as the strong returns were rebalanced into fixed income and cash.

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

During the quarter, the allocation to domestic and international equity decreased over the quarter due to rebalancing into fixed income.



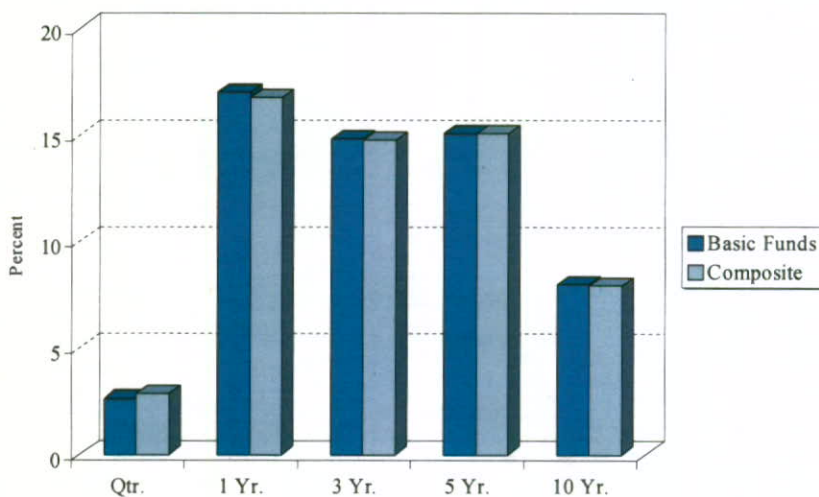
	Last Five Years					Latest Qtr.		
	12/02	12/03	12/04	12/05	12/06	3/07	6/07	9/07
Domestic Stocks	45.3%	48.5%	50.9%	50.3%	50.1%	49.2%	49.6%	48.1%
Int'l. Stocks	14.1	16.6	16.6	16.3	16.6	15.6	16.3	15.7
Bonds	24.2	21.2	21.8	22.1	22.2	23.2	22.1	23.8
Alternative Assets	10.4	13.3	9.4	10.4	10.3	10.7	10.9	11.2
Unallocated Cash	2.3	0.4	1.3	0.9	0.8	1.3	1.1	1.2
Total	100.0%	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* 3Q07
Domestic Stocks	45.0%	Russell 3000	49.2%*
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	10.8*
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 9/30/2007				
	Qtr.	1 Yr.	3 Yr.	5 Yr.	10 Yr.
Basic Funds**	2.6%	17.0%	14.8%	15.1%	8.0%
Composite Index	2.8	16.7	14.8	15.0	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.

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.

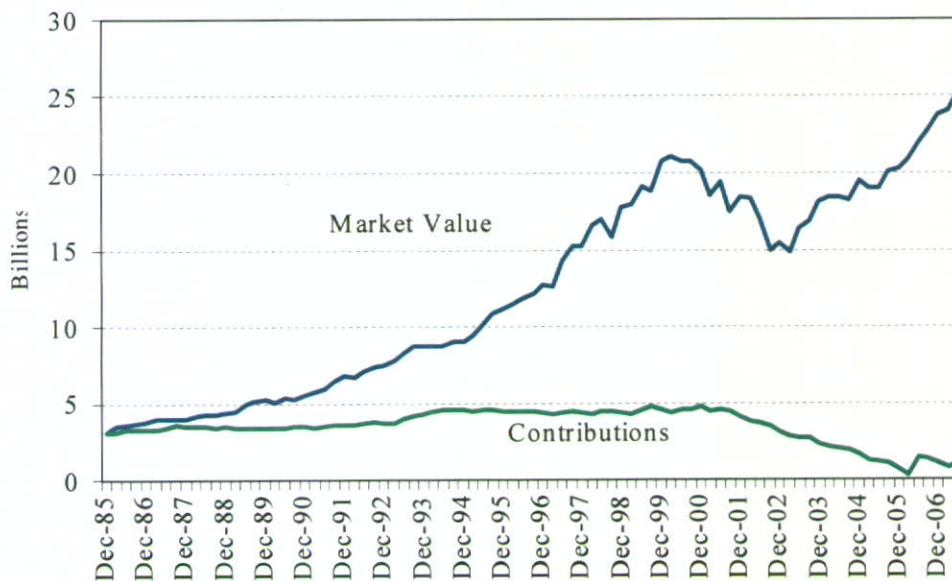
The post retirement benefit increase formula is based on the total return of the Fund. As a result, the Board maintains a long-term asset allocation strategy for the Post Fund which incorporates a substantial commitment to common stocks.

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 1.9% during the third quarter of 2007.

Positive investment returns accounted for the increase.



	Last Five Years						Latest Qtr.	
	In Millions						3/07	6/07
	12/02	12/03	12/04	12/05	12/06			
Beginning Value	\$18,475	\$15,403	\$18,162	\$19,480	\$22,678	\$23,733	\$24,036	\$25,176
Net Contributions	-1,000	-719	-749	-984	-240	-300	11	-160
Investment Return	-2,072	3,478	2,067	1,799	1,295	603	1,129	637
Ending Value	\$15,403	\$18,162	\$19,480	\$20,295	\$23,733	\$24,036	\$25,176	\$25,653

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.

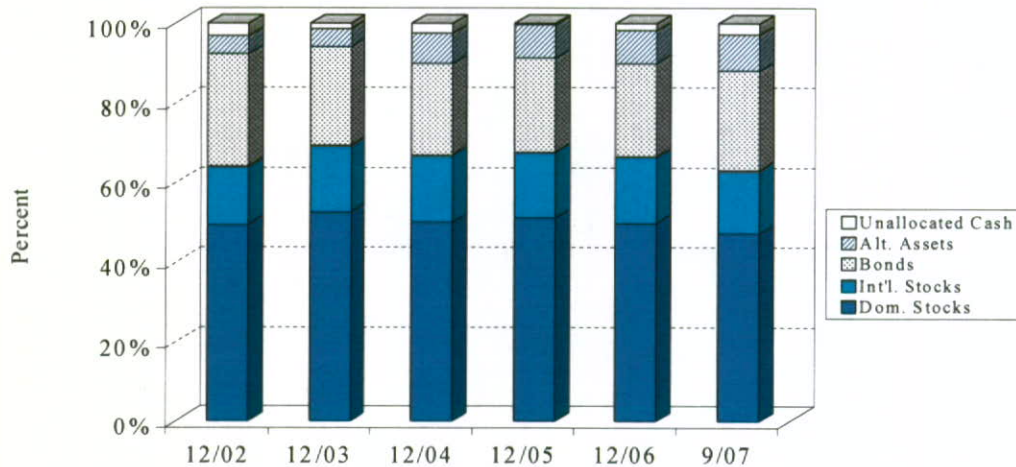
In October 2003, the Board revised its long term asset allocations for the Post Fund, increasing alternative investments from 5% to 12% and decreasing domestic equity from 50% to 45% and decreasing fixed income from 27% to 25%.

Over the last year, the allocation to alternative assets increased due to strong returns. The allocation to fixed income increased as assets were transferred from domestic and international equity.

During the quarter, the allocation to domestic and international equity decreased over the quarter due to rebalancing into fixed income.

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.



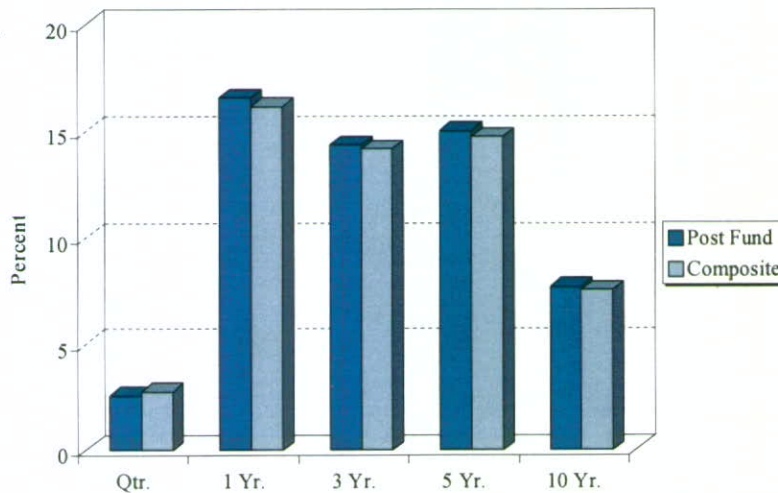
	Last Five years						Latest Qtr.	
	12/02	12/03	12/04	12/05	12/06	3/07	6/07	9/07
Dom. Stocks	49.6%	52.7%	50.2%	51.1%	49.9%	48.7%	49.4%	47.4%
Int'l. Stocks	14.4	16.7	16.8	16.6	16.7	15.7	16.4	15.8
Bonds	28.3	24.6	22.9	23.5	23.3	24.4	23.4	25.0
Alt. Assets	4.5	4.4	7.6	8.5	8.3	8.7	8.5	9.0
Unallocated Cash	3.2	1.6	2.5	0.3	1.8	2.5	2.3	2.8
Total	100.0%	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* 3Q07
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 9/30/2007				
	Qtr.	1 Yr.	3 Yr.	Annualized 5 Yr.	10 Yr.
Post Fund**	2.6%	16.6%	14.4%	15.0%	7.7%
Composite Index	2.7	16.2	14.2	14.8	7.6

** 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)

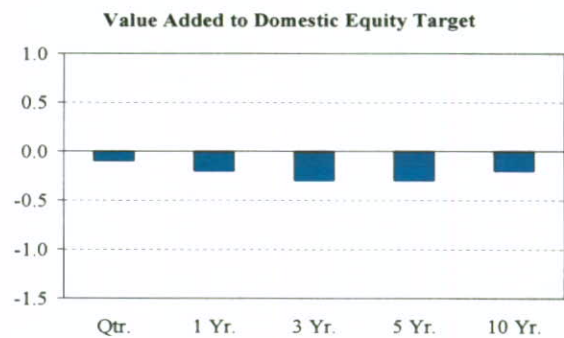
Domestic Stocks

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 9/30/2007				
		Annualized			
	Qtr.	1 Yr.	3 Yr.	5 Yr.	10 Yr.
Domestic Stocks	1.4%	16.3%	13.4%	15.9%	6.2%
Asset Class Target*	1.5	16.5	13.7	16.2	6.4

* 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.



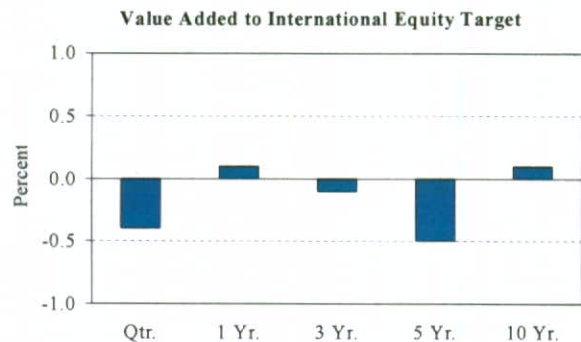
International Stocks

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 9/30/2007				
		Annualized			
	Qtr.	1 Yr.	3 Yr.	5 Yr.	10 Yr.
Int'l. Stocks	4.2%	30.6%	25.9%	25.2%	8.7%
Asset Class Target*	4.6	30.5	26.0	25.7	8.6

* 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.

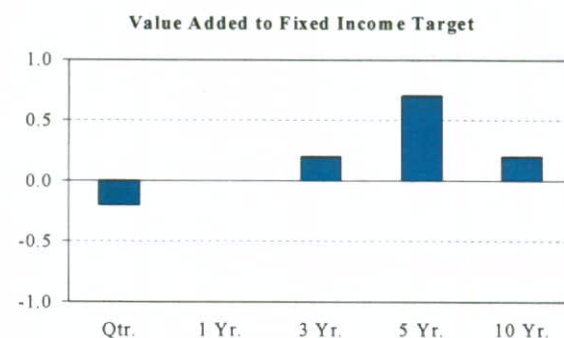


Bonds

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 9/30/2007				
		Annualized			
	Qtr.	1 Yr.	3 Yr.	5 Yr.	10 Yr.
Bonds	2.6%	5.1%	4.1%	4.8%	6.2%
Asset Class Target	2.8	5.1	3.9	4.1	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 9/30/2007				
	Qtr.	Yr.	3 Yr.	5 Yr.	10 Yr.
Alternatives	6.2%	29.2%	32.9%	24.0%	16.9%
Inflation	0.1%	2.8%	2.9%	2.7%	2.5%

Real Estate Investments (Equity emphasis)

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

	Period Ending 9/30/2007				
	Qtr.	Yr.	3 Yr.	5 Yr.	10 Yr.
Real Estate	4.3%	25.4%	22.3%	17.7%	14.7%

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.

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.

	Period Ending 9/30/2007				
	Qtr.	Yr.	3 Yr.	5 Yr.	10 Yr.
Private Equity	8.1%	33.6%	32.8%	24.1%	16.7%

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.

Resource Investments (Equity emphasis)

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

	Period Ending 9/30/2007				
	Qtr.	Yr.	3 Yr.	5 Yr.	10 Yr.
Resource	7.4%	27.8%	78.3%	46.4%	22.1%

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.

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.

	Period Ending 9/30/2007				
	Qtr.	Yr.	3 Yr.	5 Yr.	10 Yr.
Yield Oriented	2.5%	21.8%	30.7%	23.4%	17.7%

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.

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 September 30, 2007 the market value of the entire Fund was \$1.2 billion.

Investment Options

	9/30/2007 Market Value (In Millions)
Income Share Account – a balanced portfolio utilizing both common stocks and bonds.	\$262
Growth Share Account – an actively managed, all common stock portfolio.	\$123
Common Stock Index Account – a passively managed, all common stock portfolio designed to track the performance of the entire U.S. stock market.	\$359
International Share Account – a portfolio of non U.S. stocks that incorporates both active and passive management.	\$115
Bond Market Account – an actively managed, all bond portfolio.	\$152
Money Market Account – a portfolio utilizing short-term, liquid debt securities.	\$99
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.	\$63

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%	62.6%
Bonds	35.0	34.5
Unallocated Cash	5.0	2.9
	100.0%	100.0%

Period Ending 9/30/2007

	Annualized				
	Qtr.	1 Yr.	3 Yr.	5 Yr.	10 Yr.
Total Account	1.8%	12.2%	10.2%	11.7%	6.6%
Benchmark*	2.0	11.9	9.8	11.3	6.5

* 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 9/30/2007

	Annualized				
	Qtr.	1 Yr.	3 Yr.	5 Yr.	10 Yr.
Total Account	1.2%	16.1%	13.1%	15.6%	5.9%
Benchmark*	1.5	16.5	13.7	16.2	6.4

* 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 9/30/2007

	Annualized				
	Qtr.	1 Yr.	3 Yr.	5 Yr.	10 Yr.
Total Account	1.5%	16.4%	13.8%	16.2%	6.7%
Benchmark*	1.5	16.5	13.7	16.2	6.5

* 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 9/30/2007

	Annualized				
	Qtr.	1 Yr.	3 Yr.	5 Yr.	10 Yr.
Total Account	4.2%	30.8%	26.1%	25.4%	8.9%
Benchmark*	4.6	30.5	26.0	25.7	8.6

* 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 9/30/2007				
	Qtr.	1 Yr.	3 Yr.	5 Yr.	10 Yr.
Total Account	2.6%	5.2%	4.2%	4.8%	6.2%
Lehman Agg.	2.8	5.1	3.9	4.1	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 9/30/2007				
	Qtr.	1 Yr.	3 Yr.	5 Yr.	10 Yr.
Total Account	1.3%	5.2%	4.1%	3.0%	4.0%
3 month T-Bills	1.2	5.0	4.1	2.9	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 9/30/2007				
	Qtr.	1 Yr.	3 Yr.	5 Yr.	10 Yr.
Total Account	1.2%	4.7%	4.5%	4.5%	5.4%
Benchmark*	1.2	5.0	4.8	4.0	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

	9/30/2007 Market Value (in Millions)
Vanguard Institutional Index (passive)	\$501
Janus Twenty (active)	\$449
Legg Mason Appreciation Y (active)	\$133
Vanguard Mid Cap Index (passive)	\$151
T. Rowe Price Small Cap (active)	\$406
Fidelity Diversified International (active)	\$314
Vanguard Institutional Developed Markets (passive)	\$94
Dodge & Cox Balanced Fund (active)	\$321
Vanguard Balanced Fund (passive)	\$182
Dodge & Cox Income Fund (active)	\$94
Vanguard Total Bond Market Fund (passive)	\$57
Money Market Account	\$81
Fixed Interest Account	\$141
Fixed Fund	\$776

DEFERRED COMPENSATION PLAN ACCOUNTS

LARGE CAP EQUITY

Vanguard Institutional Index (passive)

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

		Period Ending 9/30/2007			
		Annualized			
Fund		Qtr.	1 Yr.	3 Yr.	5 Yr.
S&P 500		2.1%	16.5%	13.2%	15.5%
		2.0	16.4	13.1	15.5

Janus Twenty (active)

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

		Period Ending 9/30/2007			
		Annualized			
Fund		Qtr.	1 Yr.	3 Yr.	5 Yr.
S&P 500		12.3%	37.8%	20.4%	19.9%
		2.0	16.4	13.1	15.5

Legg Mason Partners Appreciation Y (active)

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

		Period Ending 9/30/2007			
		Annualized			
Fund		Qtr.	1 Yr.	3 Yr.	Since
S&P 500		3.2%	16.6%	12.3%	12/1/03
		2.0	16.4	13.1	12.1

MID CAP EQUITY

Vanguard Mid Cap Index (passive)

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

		Period Ending 9/30/2007			
		Annualized			
Fund		Qtr.	1 Yr.	3 Yr.	Since
MSCI US		-0.9%	18.1%	17.9%	1/1/04
Mid-Cap 450		-0.9	18.1	17.8	15.5

SMALL CAP EQUITY

T. Rowe Price Small Cap (active)

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

		Period Ending 9/30/2007			
		Annualized			
Fund		Qtr.	1 Yr.	3 Yr.	5 Yr.
Russell 2000		-2.5%	11.6%	12.9%	16.6%
		-3.1	12.3	13.4	18.8

INTERNATIONAL EQUITY

Fidelity Diversified International (active)

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

		Period Ending 9/30/2007			
		Annualized			
Fund		Qtr.	1 Yr.	3 Yr.	5 Yr.
MSCI EAFE		4.9%	27.9%	24.0%	24.8%
		2.2	24.9	23.2	23.6

Vanguard Institutional Developed Markets (passive)

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

		Period Ending 9/30/2007			
		Annualized			
Fund		Qtr.	1 Yr.	3 Yr.	Since
MSCI EAFE		2.4%	25.2%	23.4%	12/1/03
		2.2	24.9	23.2	21.4

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.

Fund	Period Ending 9/30/2007			
	Qtr.	1 Yr.	3 Yr.	Annualized Since 10/1/03
Dodge & Cox Balanced Fund	-0.6%	9.8%	11.1%	12.1%
Benchmark	2.4	11.9	9.4	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.

Fund	Period Ending 9/30/2007			
	Qtr.	1 Yr.	3 Yr.	Annualized Since 12/1/03
Vanguard Balanced Fund	2.2%	12.2%	9.9%	9.3%
Benchmark	2.1	12.2	9.9	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.

Fund	Period Ending 9/30/2007			
	Qtr.	1 Yr.	3 Yr.	Annualized Since 5 Yr.
Dodge & Cox Income Fund	2.1%	5.1%	3.9%	4.6%
Lehman Agg.	2.8	5.1	3.9	4.1

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.

Fund	Period Ending 9/30/2007			
	Qtr.	1 Yr.	3 Yr.	Annualized Since 12/1/03
Vanguard Total Bond Market Fund	3.0%	5.2%	3.9%	4.2%
Lehman Agg.	2.8	5.1	3.9	4.2

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.

Fund	Period Ending 9/30/2007			
	Qtr.	1 Yr.	3 Yr.	Annualized Since 5 Yr.
Money Market Account	1.3%	5.2%	4.1%	3.0%
3-Mo. Treas.	1.2	5.0	4.1	2.9

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.

Fund	Period Ending 9/30/2007			
	Qtr.	1 Yr.	3 Yr.	Annualized Since 5 Yr.
Fixed Interest Account	1.2%	4.8%	4.5%	4.5%
Benchmark	1.2	5.0	4.8	4.0

FIXED FUND

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

Period Ending 9/30/2007

The quarterly blended rate is: 4.64%

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.

	9/30/2007 Target	9/30/2007 Actual
Stocks	20.0%	25.5%
Bonds	80.0	74.5
Total	100.0%	100.0%

Investment Management

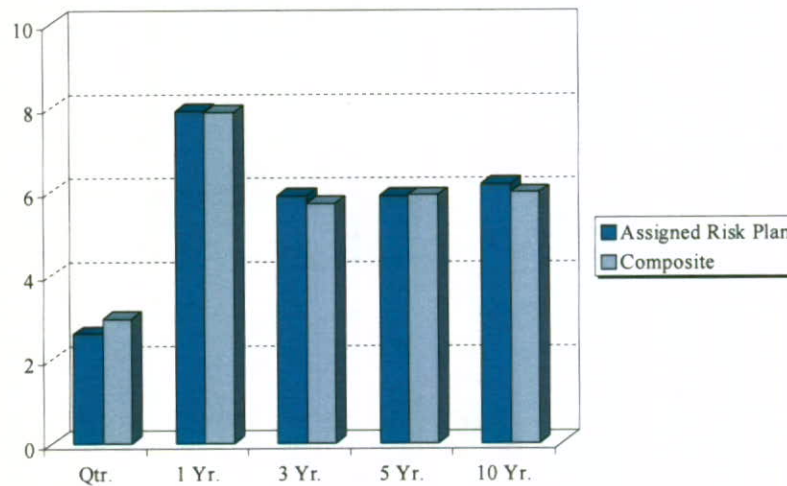
Voyageur Asset Management manages the bond segment of the Fund. GE Investment Management manages the equity segment.

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 September 30, 2007 the market value of the Assigned Risk Plan was \$352 million.



Period Ending 9/30/2007

	Annualized				
	Qtr.	1 Yr.	3 Yr.	5 Yr.	10 Yr.
Total Fund*	2.6%	7.9%	5.9%	5.9%	6.1%
Composite	3.0	7.9	5.7	5.9	5.9
Equity Segment*	3.6	17.5	12.9	13.8	7.3
Benchmark	2.0	16.4	13.1	15.5	6.6
Bond Segment*	2.3	5.0	3.8	3.6	5.2
Benchmark	3.2	5.7	3.8	3.5	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.

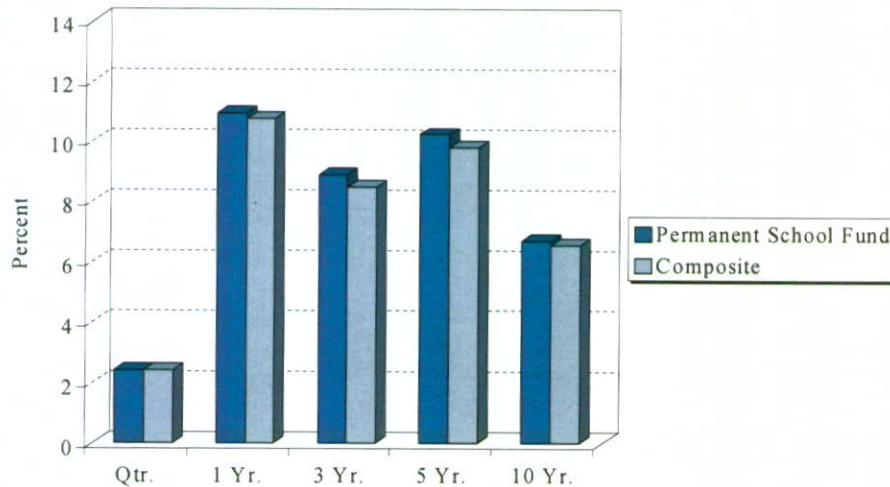
Investment Management

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 September 30, 2007 the market value of the Permanent School Fund was \$731 million.

	9/30/2007 Target	9/30/2007 Actual
Stocks	50.0%	52.0%
Bond	48.0	46.3
Unallocated Cash	2.0	1.7
Total	100.0%	100.0%



	Period Ending 9/30/2007				
	Qtr.	1 Yr.	3 Yr.	5 Yr.	10 Yr.
Total Fund (1) (2)	2.4%	10.9%	8.9%	10.2%	6.7%
Composite	2.4	10.8	8.5	9.8	6.6
Equity Segment (1) (2)	2.0	16.4	13.2	15.5	6.6
S&P 500	2.0	16.4	13.1	15.5	6.6
Bond Segment (1)	3.0	5.4	4.5	5.0	6.3
Lehman Aggregate	2.8	5.1	3.9	4.1	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.

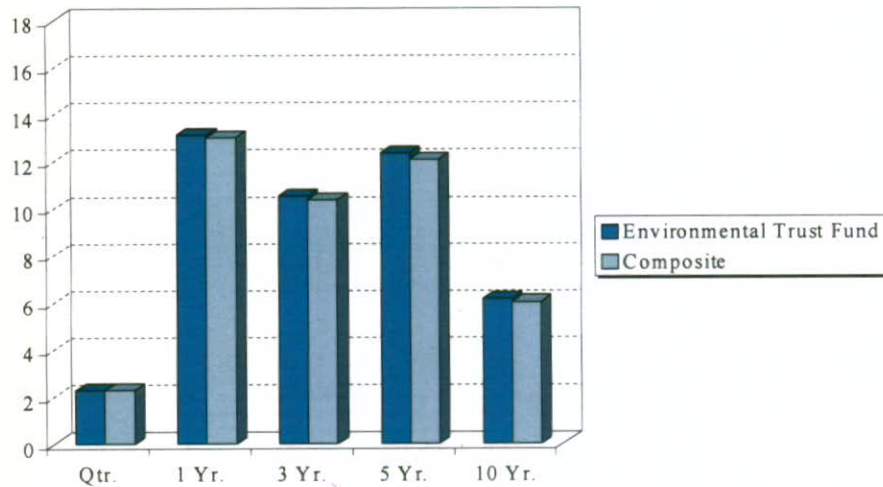
Investment Management

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 September 30, 2007 the market value of the Environmental Trust Fund was \$505 million.

	9/30/2007 Target	9/30/2007 Actual
Stocks	70.0%	70.3%
Bonds	28.0	29.2
Unallocated Cash	2.0	0.5
Total	100.0%	100.0%



	Period Ending 9/30/2007				
	Qtr.	1 Yr.	3 Yr.	5 Yr.	10 Yr.
Total Fund*	2.3%	13.1%	10.5%	12.3%	6.2%
Composite	2.3	13.0	10.4	12.0	6.0
Equity Segment*	2.0	16.4	13.2	15.5	6.7
S&P 500	2.0	16.4	13.1	15.5	6.6
Bond Segment*	3.0	5.4	4.5	5.1	6.4
Lehman Agg.	2.8	5.1	3.9	4.1	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

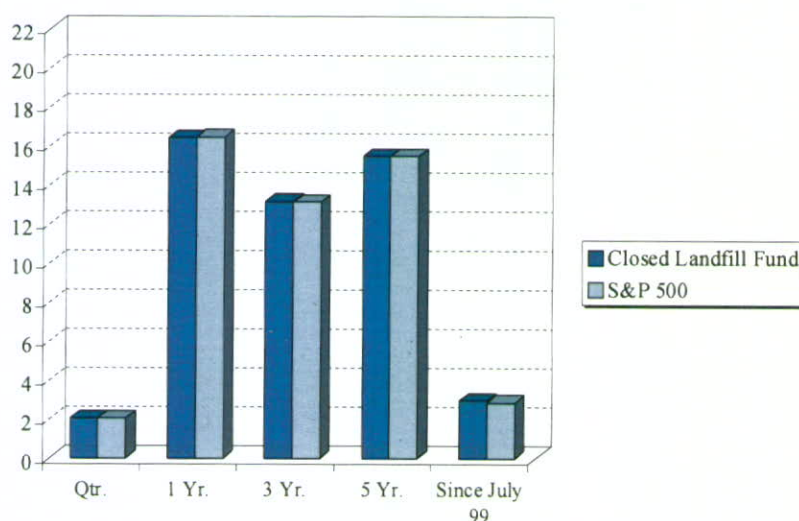
SBI staff manage all assets of the Closed Landfill Investment Fund. The assets are managed to passively track the performance of the S&P 500 index.

Market Value

On September 30, 2007, the market value of the Closed Landfill Investment Fund was \$57.8 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 9/30/2007				
	Qtr.	1 Yr.	3 Yr.	5 Yr.	Since 7/1/1999
Total Fund (1)	2.0%	16.4%	13.2%	15.5%	3.0%
S&P 500 (2)	2.0	16.4	13.1	15.5	2.9

- (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 9/30/2007				
		Qtr.	1 Yr.	3 Yr.	Annualized 5 Yr.	10 Yr.
Treasurer's Cash Pool*	\$5,512	1.4%	5.4%	4.3%	3.1%	4.2%
Custom Benchmark**		1.2	4.8	3.7	2.5	3.6
Trust Fund Cash Pool*	\$26	1.3	5.3	4.2	3.0	4.0
Custom Benchmark***		1.2	4.8	3.7	2.5	3.4
3 month T-Bills		1.2	5.0	4.1	2.9	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 September 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	94,149 1.14%	0	1,973,714 23.84%	0	3,986,626 48.14%	1,294,846 15.64%	931,117 11.24%	8,280,452 100%
Public Employees Retirement Fund	101,416 1.39%	0	1,731,458 23.80%	0	3,493,650 48.01%	1,135,211 15.60%	814,789 11.20%	7,276,524 100%
State Employees Retirement Fund	68,278 1.16%	0	1,398,457 23.85%	0	2,822,288 48.12%	917,140 15.64%	658,826 11.23%	5,864,989 100%
Public Employees Police & Fire	37,476 1.16%	0	768,710 23.85%	0	1,551,065 48.13%	503,996 15.64%	361,739 11.22%	3,222,986 100%
Highway Patrol Retirement Fund	2,959 1.16%	0	60,656 23.85%	0	122,389 48.13%	39,768 15.64%	28,541 11.22%	254,313 100%
Judges Retirement Fund	671 1.16%	0	13,777 23.85%	0	27,798 48.13%	9,032 15.64%	6,483 11.22%	57,761 100%
Correctional Employees Retirement	3,586 1.16%	0	73,567 23.85%	0	148,439 48.13%	48,233 15.64%	34,620 11.22%	308,445 100%
Public Employees Correctional	3,007 1.73%	0	41,193 23.71%	0	83,117 47.85%	27,008 15.55%	19,387 11.16%	173,712 100%
TOTAL BASIC FUNDS	311,542 1.22%	0	6,061,532 23.83%	0	12,235,372 48.10%	3,975,234 15.63%	2,855,502 11.22%	25,439,182 100%
POST RETIREMENT FUND	711,606 2.78%	0	6,418,244 25.02%	0	12,168,257 47.43%	4,038,149 15.74%	2,317,254 9.03%	25,653,510 100%
TOTAL BASIC AND POST	1,023,148 2.00%	0	12,479,776 24.43%	0	24,403,629 47.76%	8,013,383 15.68%	5,172,756 10.13%	51,092,692 100%

	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	7,589 2.90%	90,330 34.48%	0	0	164,076 62.62%	0	0	261,995 100%
Growth Share Account	0	0	0	0	122,984 100.00%	0	0	122,984 100%
Money Market Account	99,096 100.00%	0	0	0	0	0	0	99,096 100%
Common Stock Index	0	0	0	0	359,130 100.00%	0	0	359,130 100%
Bond Market Account	0	0	152,145 100.00%	0	0	0	0	152,145 100%
International Share Account	0	0	0	0	0	115,544 100.00%	0	115,544 100%
Stable Value Fund Monthly	1,345 2.13%	0	61,820 97.87%	0	0	0	0	63,165 100%
TOTAL SUPPLEMENTAL FUNDS	108,030 9.20%	90,330 7.69%	213,965 18.23%	0	646,190 55.04%	115,544 9.84%	0	1,174,059 100%
MN DEFERRED COMP PLAN *	81,233 2.20%	0	1,398,527 37.79%	0	1,811,954 48.96%	408,834 11.05%	0	3,700,548 100%
TOTAL RETIREMENT FUNDS	1,212,411 2.17%	90,330 0.16%	14,092,268 25.18%	0	26,861,773 48.00%	8,537,761 15.25%	5,172,756 9.24%	55,967,299 100%

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

	Cash and Short Term Securities	Bond Internal	Bond External	Stock Internal	Stock External	External Int'l	Alternative Assets	Total
ASSIGNED RISK PLAN	2,648 0.75%	0	260,178 73.95%	0	89,010 25.30%	0	0	351,836 100%
ENVIRONMENTAL FUND	2,866 0.57%	147,338 29.19%	0	354,604 70.24%	0	0	0	504,808 100%
PERMANENT SCHOOL FUND	12,497 1.71%	338,448 46.29%	0	380,178 52.00%	0	0	0	731,123 100%
CLOSED LANDFILL INVESTMENT	105 0.18%	0	0	57,697 99.82%	0	0	0	57,802 100%
TREASURERS CASH	5,516,984 100.00%	0	0	0	0	0	0	5,516,984 100%
HOUSING FINANCE AGENCY	58,773 23.48%	191,510 76.52%	0	0	0	0	0	250,283 100%
MINNESOTA DEBT SERVICE FUND	0	34,445 100.00%	0	0	0	0	0	34,445 100%
MISCELLANEOUS ACCOUNTS	27,663 6.91%	240,601 60.11%	0	131,990 32.98%	0	0	0	400,254 100%
TOTAL CASH AND NON-RETIREMENT	5,621,536 71.63%	952,342 12.14%	260,178 3.32%	924,469 11.78%	89,010 1.13%	0	0	7,847,535 100%
GRAND TOTAL	6,833,947 10.71%	1,042,672 1.63%	14,352,446 22.49%	924,469 1.45%	26,950,783 42.23%	8,537,761 13.38%	5,172,756 8.11%	63,814,834 100%

Tab B

EXECUTIVE DIRECTOR'S ADMINISTRATIVE REPORT

DATE: November 26, 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 to date through October 31, 2007 is included as **Attachment A**.

A report on travel for the period from August 16, 2007 - November 15, 2007 is included as **Attachment B**.

2. Post Retirement Benefit Increase for FY07

The Post Retirement benefit increase for FY07 will be 2.5%. The increase will be payable to eligible retirees effective January 1, 2008.

The benefit increase is comprised of two components, the investment component and the inflation component. There is no investment component for FY07. The inflation component for FY07 is 2.5% which is the maximum allowable increase. The increase in the Consumer Price Index for wage earners (CPI-W) for the twelve months ending June 30, 2007 was 2.7%. The following shows the benefit increases for the past ten years:

1998	9.8%
1999	11.1%
2000	9.5%
2001	4.5%
2002	0.7%
2003	2.1%
2004	2.5%
2005	2.5%
2006	2.5%
2007	2.5%

3. Legislative Update

I will present a verbal update on any legislative activity of interest to the SBI.

4. Results of FY07 Audit

The Legislative Auditor is nearly finished with its financial audit of SBI operations for FY07. I should be able to provide a verbal report of the audit findings at the Board meeting on December 5, 2007.

5. Draft of FY07 Annual Report

A draft of the SBI's annual report for FY07 was sent to the Board members/designees and IAC members. The final report should be distributed by the end of the year.

6. Tentative Meeting Dates for Calendar 2008

The quarterly meetings of the IAC/SBI are normally held on the first consecutive Tuesday and Wednesday of March, June, September and December. The dates for the calendar 2008 are:

IAC	SBI
Tuesday, March 4, 2008	Wednesday, March 5, 2008
Tuesday, June 3, 2008	Wednesday, June 4, 2008
Tuesday, September 2, 2008	Wednesday, September 3, 2008
Tuesday, December 2, 2008	Wednesday, December 3, 2008

SBI staff will confirm the availability of Board members for the above dates over the next few weeks.

ATTACHMENT A

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

ITEM	FISCAL YEAR 2008 BUDGET	FISCAL YEAR 2008 ACTUAL
PERSONAL SERVICES		
FULL TIME EMPLOYEES	\$ 2,150,000	\$ 561,154
PART TIME EMPLOYEES		\$ 22,505
SEVERENCE PAYOFF	20,000	0
WORKERS COMPENSATION INSURANCE	1,000	499
MISCELLANEOUS PAYROLL	4,000	0
SUBTOTAL	\$ 2,175,000	\$ 584,158
STATE OPERATIONS		
RENTS & LEASES	205,000	62,286
REPAIRS/ALTERATIONS/MAINTENANCE	10,000	918
PRINTING & BINDING	10,000	2,036
PROFESSIONAL/TECHNICAL SERVICES	0	0
COMPUTER SYSTEMS SERVICES	10,000	2,889
COMMUNICATIONS	30,000	7,723
TRAVEL, IN-STATE	1,000	654
TRAVEL, OUT-STATE	50,000	13,154
SUPPLIES	35,000	1,496
EQUIPMENT	15,000	1,854
EMPLOYEE DEVELOPMENT	15,000	6,815
OTHER OPERATING COSTS	9,000	516
SUBTOTAL	\$ 390,000	\$ 100,341
ORIGINAL BUDGET	\$ 2,565,000	\$ 684,499
ADJUSTMENTS TO ORIGINAL BUDGET	\$ 0	
TOTAL GENERAL FUND	\$ 2,565,000	\$ 684,499

ATTACHMENT B

STATE BOARD OF INVESTMENT

Travel Summary by Date
SBI Travel August 16, 2007 – November 15, 2007

Purpose	Name(s)	Destination and Date	Total Cost
In State Travel: Fire Relief Association	H. Bicker	Windom, MN 9/6-9/7	\$289.10
Manager Monitoring: Alternative Investment Manager: Banc Fund Annual Partners Meeting	A. Christensen	White Sulphur Springs, WV 9/20-9/21	919.60 1148.49
In State Travel: Fire Sectional School	J. Heidelberg	Duluth, MN 9/22	133.50
In State Travel: Retired Educators Association of Minnesota Convention 2007	H. Bicker	Hinckley, MN 9/24-9/25	162.99
Conference: National Association of State Investment Officers (NASIO)	H. Bicker M. Perry	Seattle, WA 9/28-10/3	5,525.09
Manager Monitoring: Domestic Equity Managers: AllianceBernstein; LSV Asset Mgmt.; UBS Global Asset Mgmt.; Voyageur Asset Mgmt. Consultant Visit: Richards & Tierney, Inc.	P. Ammann	Chicago, IL 10/2-10/4	717.32
Manager Monitoring: Alternative Investment Manager: SCF Partners Manager Search: Alternative Investment Manager: Encap Investments	J. Griebenow	Houston, TX 10/4-10/5	1,210.12

Purpose	Name(s)	Destination and Date	Total Cost
Conference: National Council on Teacher Retirement (NCTCR) Annual Convention	H. Bicker	Phoenix, AZ 10/8-10/10	\$989.43
Manager Monitoring: Alternative Investment Manager: T. Rowe Price Associates Conference: Institutional Limited Partners Association (ILPA) Fall Conference 2007	J. Griebenow A. Christensen	Baltimore, MD Washington, D.C. 10/9-10/11	3,820.17
Conference: Public Pension Financial Forum	W. Nicol	Seattle, WA 10/15-10/17	1,253.97
Manager Monitoring: Alternative Investment Managers: Blackstone; KKR; Lehman Brothers Real Estate; Manager Search: Alternative Investment Managers: Advent; Apax; CVC; Candover; Charterhouse; Cinven; Duke Street; Permira; 3i	J. Griebenow A. Christensen	London, England 10/25-11/2	3,857.06
Manager Monitoring: Domestic Bond Managers: Aberdeen Asset Mgmt.; BlackRock Financial Mgmt.; Goldman Sachs Asset Mgmt.; Morgan Stanley Investment Mgmt. Manager Search: Domestic Bond Manager: Delaware Investments	M. Menssen J.J. Kirby	Philadelphia, PA New York, NY 11/5-11/7	2,633.97

Tab C

COMMITTEE REPORT

DATE: November 26, 2007

TO: Members, State Board of Investment

FROM: **Compensation Review Committee**

Annual Salary Administration for the Executive Director

Section 4 of the State Board of Investment (SBI) Salary Administration Plan provides that the salary limit available for the position of the Executive Director of the SBI will increase each January by the Consumer Price Index for all urban consumers (CPI-U) from October of the second prior year to the October of the immediate prior year. The performance of the Executive Director shall be reviewed on an annual basis and a salary adjustment may be granted. The CPI-U increase effective January 1, 2008, as posted on the Department of Employee Relations website, is 3.5%.

The Compensation Review Committee is recommending that the SBI authorize a salary increase of 3.5% for the Executive Director, effective January 1, 2008. The Executive Directors' salary would become \$144,711.

RECOMMENDATION:

The Compensation Review Committee recommends that the SBI approve an increase of 3.5% for the salary of the Executive Director, effective January 1, 2008.

Tab D

COMMITTEE REPORT

DATE: November 26, 2007

TO: Members, State Board of Investment

FROM: Deferred Compensation Review Committee

Combining the SIF Fixed Interest Account and the MN Fixed Fund Option

The Deferred Compensation Review Committee met November 16, 2007 to consider a proposal to combine the Supplemental Investment Fund (SIF) Fixed Interest Account and the Minnesota Fixed Fund Option for the State Deferred Compensation Plan.

The State Board of Investment (SBI) has the responsibility in state statute to select and review investment options for the State Deferred Compensation Plan (the Plan). The Plan is a \$3.6 billion 457(b) plan with eleven mutual fund choices, a money market option, a stable value option, and an insurance company fixed return option. Minnesota State Retirement System (MSRS) has the statutory responsibility to administer the Plan.

The insurance company fixed return option, called the Minnesota Fixed Fund (Fixed Fund), and the stable value option, called the Supplemental Investment Fund Fixed Interest Account (SIF Fixed Interest), currently look very similar to participants. Both are conservative investment options that have similar durations and provide similar yields. Moreover, because the Fixed Fund is invested in the general accounts of three insurance companies, participants face restrictions on transferring money out of the option. Participants may transfer out no more than 20 percent of their balance in a year. MSRS finds itself repeating the explanation of the restriction to many who seek to move from the Fixed Fund to other options or to those who wish to rebalance their entire portfolio but cannot use MSRS's tool for doing so because the tool cannot effectively accommodate the restriction.

In short, MSRS and SBI staff wish to combine the two fixed income options into one. Both options are very similar from an investment and participant perspective and the combination would make plan communications more understandable. The 20 percent transfer restriction would also be eliminated. The remaining option would be a daily valued vehicle in the Plan.

Background on the Options

As of September 30, 2007, the SIF Fixed Interest had about \$203 million of assets. The SIF Fixed Interest Account is managed by Galliard Capital Management, Minneapolis. Galliard is a stable value manager who invests the Account primarily in synthetic insurance contracts that are portfolios of fixed income securities wrapped by one or more insurance companies who promise to provide participant withdrawals at book value. A very small proportion of the Account is invested in traditional guaranteed investment contracts, which are essentially certificate of deposit instruments offered by (a now dwindling number of) insurance companies and banks. The remaining portion of the portfolio is invested in liquid instruments to handle normal withdrawals from the option.

As of September 30, 2007, the Fixed Fund had about \$776 million of assets. The Fixed Fund invests participants' balances in the general accounts of three insurance companies retained by the SBI: Minnesota Life, Principal Life and Great-West Life. The three insurance companies bid quarterly on new cashflows and their rates determine what portions of the next quarter's cashflows each receive. The Plan recordkeeper calculates a new blended rate for the subsequent quarter that will be credited to participant accounts. Each company's rate is applied to the dollars received by that company in the quarter and applies for a period of five years. After five years the dollars from these maturing segments are rolled into the next bid. The Fixed Fund is essentially a blend of five-year insurance contracts from three insurance companies plus a liquidity buffer account.

Request for Information

Staff spoke with a number of firms about the stable value/ fixed product market. Staff then sent a request for information to eight firms. All eight firms responded. They are:

- Deutsche Asset Management
- Dwight Asset Management
- Galliard Capital Management
- Great-West Life
- Minnesota Life
- Morley Financial Services
- Principal Global Investors
- State Street Global Advisors

A copy of the request for information is attached (see **Attachment A**). Staff received additional inquiries after the request was sent out. None of those organizations chose to respond.

Suggested structure of new option

The Committee discussed the proposal to have a new option combine the assets of the SIF Fixed Interest and the Fixed Fund. The new option would adopt a stable value investment approach and phase out the insurance general account approach. A stable value approach would give the SBI more flexibility to diversify managers over time, reduce fees, and make the Board's program more "state of the art". (Many insurance companies no longer do this type of business). The manager will incorporate the stated yield or crediting rate from each of the pieces of the new option to strike daily net asset

values. Assets from the current five year insurance contracts within the Fixed Fund will mature each quarter and will be invested by the manager retained in the stable value manner within the SIF Fixed Interest structure. Investments within the stable value structure will increase from the \$203 million level as the Fixed Fund segments mature. When assets within the stable value structure reach approximately \$500 million, staff intends to review the program to see if additional outside managers need to be added to diversify the investment risk. When all segments of the Fixed Fund have matured, the new option will have in excess of \$1 billion.

In addition to investing assets and striking a net asset value for the new option, the manager of the new option will manage liquidity needs, manage the duration and cashflows of the portfolio, negotiate wrap contracts with insurance companies and provide necessary portfolio administration and reporting.

Analysis and Recommendation

The Committee reviewed the staff evaluation of the eight responses, which were based on the responses and further information gathered from the responders.

Staff offered the following comments about the firms.

Great-West Minnesota Life Principal	All three are very solid organizations. However, each would manage assets within their own organization which would provide the SBI with no manager diversification.
Deutsche SSgA	Both organizations do not strike a daily NAV which is required.
Morley Dwight Galliard	All three are traditional stable value managers who possess the skills, experience and personnel to manage the assignment. Galliard is the SBI's current stable value manager. Galliard has developed good communications among the manager, MSRS, SBI, and State Street Bank, and has provided good investment results.

Based on this information and discussion of the proposal, the Committee concurred with the staff recommendation that Galliard be retained for the expanded assignment to avoid the risks, costs, and difficulties that may arise from a transfer of account assets and instruments to another manager.

Other considerations

MSRS and the recordkeeper are uncertain as to how many dollars, if any, will be transferred out of Fixed Fund assets when the options are combined and the 20 percent restriction is removed. A greater level of liquidity may, therefore, be needed upon the initial consolidation. The cash and liquidity positions of the SIF Fixed Interest will be combined with the liquidity buffer account of the Fixed Fund. As an added measure of liquidity, staff recommended that the dollars from the maturing segments of the Fixed Fund in December be added to cash rather than rolled into a new bid.

Current contracts with the three insurance companies call for appropriate notice to terminate. After termination, the insurance companies would continue to manage the assets, pay the stated rates on the five year segments and roll over maturing balances to the manager of the new option.

In addition to the daily valued assets of the Deferred Compensation Plan, Galliard manages a monthly valued portion of the SIF Fixed Interest on behalf of the Unclassified Employees Plan, the Post Retirement Health Care Savings Plan and the Public Employees Defined Contribution Plan. The Committee agreed with staff's preference to eliminate the monthly sleeve, thereby simplifying the stable value manager's duties, and have all assets daily valued. Staff is working with MSRS and PERA to see if they can accommodate the change.

Implementation of the new option is scheduled for April 1, 2008. MSRS will handle necessary communications with Plan participants about the new option. (MSRS and PERA will handle necessary communications with participants of the current monthly valued plans.)

RECOMMENDATION

The Committee recommends the proposed consolidation of the two investment options, the retention of Galliard Capital Management to manage the expanded new option, the termination of the existing three insurance companies, the cancelling of the December Fixed Fund bid and subsequent rollover of that cashflow into the liquidity buffer account, and the proposal to eliminate the monthly portion of the SIF Fixed Interest.

ATTACHMENT A

I. Introduction

The Minnesota State Board of Investment (SBI) has the responsibility in state statute to select and review investment options for the State Deferred Compensation Plan (the Plan). The Plan is a \$3.6 billion 457(b) with eleven mutual fund choices, a money market option, a stable value option, and an insurance company fixed return option.

The SBI seeks information about how best to combine the insurance company fixed return option and the stable value option into one option.

II. Purpose

The purpose of this request for information is to find the best method for combining the insurance company fixed return option and the stable value option.

The insurance company fixed return option, called the Minnesota Fixed Fund, and the stable value option, called the Supplemental Investment Fund Fixed Interest Account (SIF Fixed Interest), currently look very similar to participants. The administering organization, Minnesota State Retirement System (MSRS), has difficulty communicating the two options' features. Both are conservative investment options that have similar durations and provide similar yields. Moreover, because the Minnesota Fixed Fund is invested in the general accounts of three insurance companies, participants face restrictions on transferring money out of the option. Participants may transfer out no more than 20 percent of their balance in a year. MSRS finds itself repeating the explanation of the restriction to many who seek to move from the Fixed Fund to other options or to those who wish to rebalance their entire portfolio but cannot use MSRS's tool for doing so because the tool cannot effectively accommodate the restriction.

In short, MSRS and the SBI wish to eliminate the 20 percent transfer restriction and combine the two options. The remaining option would be a daily valued vehicle in the Plan.

III. Background Regarding the SBI

The SBI is responsible for the investment management of various retirement funds, trust funds and cash accounts. On June 30, 2007, the market value of all assets was \$63 billion.

The SBI is established by Article XI of the Minnesota Constitution to invest all state funds. Its membership as specified in the Constitution is comprised of the Governor (who is designated as chair of the Board), State Auditor, Secretary of State and State Attorney General.

All investments undertaken by the SBI are governed by the prudent person rule and other standards codified in *Minnesota Statutes*, Chapter 11A and Chapter 356A.

Within the requirements defined by state law, the SBI, with assistance from SBI staff and the Investment Advisory Council, establishes investment policies for all funds under its management. These investment policies are tailored to the particular needs of each fund and specify investment objectives, risk tolerance, asset allocation, investment management structure and specific performance standards.

IV. Funds Included in this Request

The funds included in this request are the \$197 million stable value portfolio managed by an investment manager retained by the SBI and the \$771 million insurance company fixed return option.

A. Details of the State Deferred Compensation Plan

The Plan has the following options:

- six actively managed mutual fund options
- five passively managed mutual fund options
- a money market option
- a stable value option
- an insurance company fixed return option

As of June 30, 2007, the Plan had monthly contributions of about \$21 million and \$3.6 billion in total assets split among investment options as shown in the following table:

**Minnesota State Deferred Compensation Plan
By Investment Option as of 6/30/07**

	Contributions	Assets
Minnesota Fixed Fund	\$2,549,375	\$771,353,704
<i>Liquid Account</i>	n/a	32,063,070
<i>Minnesota Life</i>	n/a	171,682,488
<i>Principal Life</i>	n/a	332,282,968
<i>Great-West Life</i>	n/a	235,325,179
SIF Fixed Interest Account	756,013	135,021,987
SIF Money Market Account Active	859,206	72,334,442
Dodge & Cox Income Fund	773,773	90,256,346
Dodge & Cox Balanced Fund	2,593,794	317,715,402
T. Rowe Price Small-Cap Stock Fund	2,032,834	422,722,388
Legg Mason Partners Appreciation Fund	710,578	130,654,986
Janus Twenty Fund	2,230,349	395,041,757
Fidelity Diversified International Fund Passive	2,064,202	297,015,589
Vanguard Total Bond Market Index	370,448	53,598,356
Vanguard Balanced Index Fund	669,311	180,039,291
Vanguard Mid Cap	1,866,789	147,996,351
Vanguard Inst'l Index Plus	2,626,320	495,680,028
Vanguard Inst'l Developed Markets Window	871,323	90,315,664
Ameritrade SDB	n/a	27,889,573
Total	\$20,974,315	\$3,627,635,863

B. Minnesota Fixed Fund and the SIF Fixed Interest Account

1. Minnesota Fixed Fund invests participants' balances in the general accounts of three insurance companies retained by the SBI. The three insurance companies bid quarterly on new cashflows and their rates determine what portions of the next quarter's cashflows each receive. The Plan recordkeeper calculates a new blended rate for the subsequent quarter that will be credited to participant accounts. Each company's rate is applied to the dollars received by that company in the quarter and applies for a period of five years. After five years the dollars from these maturing segments are rolled into the next bid. The Minnesota Fixed Fund is essentially a blend of five-year insurance contracts from three insurance companies plus a liquidity buffer account.

Note that two of the three insurance companies have non-segmented balances from the period July 1, 1999 through June 30, 2002 that are being rolled over into current bids on a structured, quarterly basis.

The following table displays a schedule of maturing balances by quarter.

Minnesota Fixed Fund Schedule of Quarterly Segments and Maturities

	Ending Book Value & Accrued Balance 6/30/2007	Annual effective interest	Maturity	Dollars Maturing	
				Qtr	Total in qtr
Great-West Life					
MINN Buffer	32,063,069.90		n/a		
GWL 5YR SEGMT 2002 3rd Qtr	9,839,690.32	5.03%	2007 3rd Qtr		
GWL 5YR SEGMT 2002 4th Qtr	12,020,994.27	3.79%	2007 4th Qtr		
GWL 5YR SEGMT 2003 2nd Qtr	34,844,926.72	4.07%	2008 2nd Qtr		
GWL 5YR SEGMT 2003 3rd Qtr	7,046,657.18	2.70%	2008 3rd Qtr		
GWL 5YR SEGMT 2004 1st Qtr	13,775,885.55	3.75%	2009 1st Qtr		
GWL 5YR SEGMT 2004 3rd Qtr	25,173,022.63	4.47%	2009 3rd Qtr		
GWL 5YR SEGMT 2004 4th Qtr	13,323,326.38	3.80%	2009 4th Qtr		
GWL 5YR SEGMT 2005 1st Qtr	14,171,185.15	3.80%	2010 1st Qtr		
GWL 5YR SEGMT 2005 2nd Qtr	14,358,440.95	4.55%	2010 2nd Qtr		
GWL 5YR SEGMT 2005 3rd Qtr	6,906,066.30	3.93%	2010 3rd Qtr	2007 III	36,364,052.96
GWL 5YR SEGMT 2006 2nd Qtr	13,364,763.41	5.10%	2011 2nd Qtr	2007 IV	51,973,919.77
GWL 5YR SEGMT 2006 4th Qtr	27,951,135.50	5.20%	2011 4th Qtr	2008 I	39,683,162.64
GWLA Portfolio	42,549,084.34	4.27%	\$4.7M per Qtr thru 09 3rd Qtr	2008 II	46,744,926.72
				2008 III	39,996,258.56
				2008 IV	43,583,736.09
				2009 I	39,453,524.52
				2009 III	62,245,084.02
				2009 IV	33,307,548.24
				2010 I	47,223,762.08
				2010 II	35,802,882.36
				2010 III	34,539,829.03
				2010 IV	38,213,690.76
				2011 I	30,958,040.59
				2011 II	33,401,851.69
				2011 III	25,548,510.18
				2011 IV	27,951,135.50
				2012 I	18,215,326.18
				2012 II	21,048,147.16
Total GWLA Assets	267,388,248.59				
Minnesota Life					
MINN LIFE 5 YR SEGMT 2002 3rd Qtr	4,917,968.85	4.86%	2007 3rd Qtr		
MINN LIFE 5 YR SEGMT 2002 4th Qtr	12,020,579.87	3.77%	2007 4th Qtr		
MINN LIFE 5 YR SEGMT 2003 4th Qtr	7,917,531.54	3.49%	2008 4th Qtr		
MINN LIFE 5 YR SEGMT 2004 4th Qtr	6,659,189.67	3.64%	2009 4th Qtr		
MINN LIFE 5 YR SEGMT 2005 1st Qtr	9,445,438.86	3.75%	2010 1st Qtr		
MINN LIFE 5 YR SEGMT 2005 3rd Qtr	13,815,886.52	4.04%	2010 3rd Qtr		
MINN LIFE 5 YR SEGMT 2005 4th Qtr	15,283,146.00	4.39%	2010 4th Qtr		
MINN LIFE 5 YR SEGMT 2006 1st Qtr	7,735,693.10	4.72%	2011 1st Qtr		
MINN LIFE 5 YR SEGMT 2006 2nd Qtr	10,017,250.54	4.96%	2011 2nd Qtr		
MINN LIFE 5 YR SEGMT 2006 3rd Qtr	6,382,990.59	5.58%	2011 3rd Qtr		
MINN LIFE 5 YR SEGMT 2007 1st Qtr	4,551,879.77	4.87%	2012 1st Qtr		
MINN LIFE 5 YR SEGMT 2007 2nd Qtr	8,417,029.34	4.87%	2012 2nd Qtr		
MINN LIFE Portfolio	64,517,903.30	6.48%	\$7.2M per Qtr thru 09 3rd Qtr		
Total Minnesota Life Assets	171,682,487.95				
Principal Life					
PRINCIPAL 5 YR SEGMT 2002 3rd Qtr	9,706,393.80	5.00%	2007 3rd Qtr		
PRINCIPAL 5 YR SEGMT 2002 4th Qtr	16,032,345.64	3.90%	2007 4th Qtr		
PRINCIPAL 5 YR SEGMT 2003 1st Qtr	27,783,162.64	4.19%	2008 1st Qtr		
PRINCIPAL 5 YR SEGMT 2003 3rd Qtr	21,049,601.38	2.90%	2008 3rd Qtr		
PRINCIPAL 5 YR SEGMT 2003 4th Qtr	23,766,204.55	3.73%	2008 4th Qtr		
PRINCIPAL 5 YR SEGMT 2004 1st Qtr	13,777,638.97	3.80%	2009 1st Qtr		
PRINCIPAL 5 YR SEGMT 2004 2nd Qtr	21,168,257.80	3.25%	2009 2nd Qtr		
PRINCIPAL 5 YR SEGMT 2004 3rd Qtr	25,172,061.39	4.45%	2009 3rd Qtr		
PRINCIPAL 5 YR SEGMT 2004 4th Qtr	13,325,032.19	3.85%	2009 4th Qtr		
PRINCIPAL 5 YR SEGMT 2005 1st Qtr	23,607,138.07	3.95%	2010 1st Qtr		
PRINCIPAL 5 YR SEGMT 2005 2nd Qtr	21,444,441.41	4.70%	2010 2nd Qtr		
PRINCIPAL 5 YR SEGMT 2005 3rd Qtr	13,817,876.21	4.10%	2010 3rd Qtr		
PRINCIPAL 5 YR SEGMT 2005 4th Qtr	22,930,544.76	4.50%	2010 4th Qtr		
PRINCIPAL 5 YR SEGMT 2006 1st Qtr	23,222,347.49	4.90%	2011 1st Qtr		
PRINCIPAL 5 YR SEGMT 2006 2nd Qtr	10,019,837.74	5.00%	2011 2nd Qtr		
PRINCIPAL 5 YR SEGMT 2006 3rd Qtr	19,165,519.59	5.82%	2011 3rd Qtr		
PRINCIPAL 5 YR SEGMT 2007 1st Qtr	13,663,446.41	5.06%	2012 1st Qtr		
PRINCIPAL 5 YR SEGMT 2007 2nd Qtr	12,631,117.82	5.06%	2012 2nd Qtr		
Total Principal Life Assets	332,282,967.85				
Total Minnesota Fixed Fund Assets	771,353,704.39				

Contributions, withdrawals and transfers for calendar years 2004, 2005 and 2006 are shown below.

Minnesota Fixed Fund

	2004	2005	2006
Dec Balance Prior Year	\$565,257,015	\$638,156,222	\$719,121,056
Contributions	\$130,324,871	\$104,377,329	\$ 80,616,602
Withdrawals	\$(50,007,886)	\$(54,307,702)	\$(67,819,151)
Transfers	<u>\$ 13,457,359</u>	<u>\$ 14,711,772</u>	<u>\$ 20,859,267</u>
Net Flow	\$ 93,774,345	\$ 64,781,398	\$ 33,656,718
Accrued Interest	\$ 28,723,234	\$ 30,895,473	\$ 33,227,217
Interest Paid	<u>\$(49,598,372)</u>	<u>\$(14,712,037)</u>	<u>\$(20,847,617)</u>
Dec Balance Current Year	\$638,156,222	\$719,121,056	\$765,157,373

**Interest Paid is the interest on 5 year segments that is rolled into the next quarterly bid.

2. SIF Fixed Interest Account

The SIF Fixed Interest Account is managed on a separate account basis by a stable value manager retained by the SBI. The stable value manager invests the assets, manages liquidity, and strikes daily values for the option. As of June 30, 2007 the portfolio had the following characteristics:

SIF Fixed Interest Account Characteristics

Total Assets	\$197.2 million
Weighted Average Quality	Aa1/AA+
Effective Duration	3.09 years
Sector Distribution	
Collective Funds	9.8%
Investment Contracts	1.8%
Security Backed Contracts	
Targeted Duration	41.2%
Targeted Benchmark	47.6%
Contract Quality Distribution	
AAA	39.0%
AA+	61.0%

V. Responses

Please provide a description of your firm's recommended structure for a combined option. Include a discussion of transition issues, fees and other factors you determine to be of importance in structuring this investment option.

Note that guaranteed separate account contracts may not be part of your recommended solution. Guaranteed separate account contracts are not allowed in Minnesota according to State of Minnesota Department of Commerce Bulletin 97-6, issued October 22, 1997. A copy of the Bulletin may be accessed at the Department's website www.state.mn.us/portal/jsp/home.do?agency=Commerce

Responses should include a description of your organization that includes, at a minimum, the following information:

- Assets under management in the fixed return/stable value product
- Description of fixed return/stable value investment philosophy
- Description of fixed return/stable value investment process
- Number of client relationships in fixed return/stable value similar to the SBI
- Number of client relationships in fixed return/stable value gained and lost in each of the past four calendar years.
- Brief biography of each professional staff person to be assigned to this relationship.
- Number and title of professional personnel in fixed return/stable value gained or lost in the same periods.

VI. Timetable

August 31, 2007	Responses due in SBI offices to the following: James E. Heidelberg State Board of Investment Suite 355 60 Empire Drive St. Paul, MN 55103-3555
September - November 2007	SBI Deferred Compensation Review Committee reviews staff recommendations Interviews with potential managers, if necessary SBI Deferred Compensation Review Committee formulates recommendation for full Board
December 5, 2007	SBI meets to consider recommendations
July 1, 2007	New option in place

VII. Inquiries

Please address any questions to James E. Heidelberg at (651) 296-3328 or jim.heidelberg@state.mn.us

Tab E

COMMITTEE REPORT

DATE: November 26, 2007

TO: Members, State Board of Investment

FROM: Proxy Voting Committee

Update on Sudan Legislation

Legislative Directive

Laws of Minnesota 2007, Chapter 117 requires the Minnesota State Board of Investment (SBI) to take the following actions as it relates to companies with operations in Sudan.

- 1) Within 90 days following the date of enactment of the law, the SBI shall make its best efforts to identify all scrutinized companies, as defined in the law, in which the SBI has direct or indirect holdings or could possibly have such holdings in the future. This list has been adopted by the SBI (**Attachment A**).
- 2) The SBI must identify the companies on the list in which it owns direct or indirect holdings.
- 3) For each company identified with only inactive business operations, the SBI shall send a written notice to the company informing it about this law and encourage it to continue to refrain from initiating active business operations in Sudan. The SBI shall continue such correspondence on a semi-annual basis. No divestment is required.
- 4) For each company identified with active business operations, the SBI shall send a letter notice informing the company of its scrutinized company status and that it may become subject to divestment by the SBI. The notice shall offer the company the opportunity to clarify its Sudan-related activities and shall encourage the company, within 90 days, to either cease its scrutinized business operations or convert such operations to inactive business operations to avoid qualifying for divestment by the SBI. If after 90 days following the SBI's first engagement with a company and they continue to have scrutinized active business operations, the SBI shall divest all publicly traded securities of the company according to the following schedule:
 - at least 50% shall be sold within nine months after the company appeared on the scrutinized list.
 - 100% within fifteen months after the company appeared on the scrutinized list.

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

- summary of correspondence with companies engaged by the SBI
- list of investment to be divested
- list of all prohibited investments
- any progress made related to managers of investment funds containing companies with scrutinized active business operations requesting managers to consider removing such companies.

Copies of this report will be provided to each SBI Board member.

Implementation

The following is a list of the companies with inactive operations that the SBI owns. **Attachment B** is any correspondence the SBI has received from the companies:

Alcatel-Lucent
Atlas Copco AB
Bharat Electronics
Man AG
Marubeni Corp.
Nippon Oil
Nippon Yusen
Reliance Industries
Sojitz Corp.
Sterlite Industries India
Total SA
UMW Holdings

The following is a list of the companies with active operations that the SBI owns. **Attachment C** is any correspondence the SBI has received from the companies.

Alstom
Bharat Heavy Electricals
China Petroleum and Chemical (Sinopec Corp)
Lundin Petroleum
MISC Bhd (Malaysia International Shipping Company)
Mitsui Engineering and Shipbuilding
Oil and Natural Gas Corp
PetroChina Company
Petrofac Ltd
Weir Group

This list of companies is subject to divestment by the SBI. The Board first approved a list of companies at its June 6, 2007 meeting to use when the law became effective August 1, 2007. Accordingly, the SBI will:

- divest at least 50% of these holdings by May 1, 2008 (nine months after August 1); and
- divest 100% of these holdings by November 1, 2008 (fifteen months after August 1).

Divestment of these companies will commence after the SBI has received this report at its December 5, 2007 Board meeting.

Weatherford International and Wartsila Oyj also have been identified as scrutinized companies. Staff has sent the required written notices to these firms. The SBI may need to divest 50% of its holdings in Weatherford International and Wartsila Oyj by August 5, 2008 and 100% of its holdings by January 5, 2009.

New List of Companies

Attachment D is an updated list of companies doing business in Sudan.

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ATTACHMENT A

Sudan Divestment Task Force List of "Highest Offenders" Companies in Sudan Task Force List Effective Through May 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 Group AKA China Petrochemical Corporation	China
Petronas/Petronas Capital Limited	Malaysia
Petronas Gas	Malaysia
Petronas Dagangan	Malaysia
MISC Berhad AKA Malaysia International Shipping Company	Malaysia
Schlumberger	France
Al-Thani Investment	United Arab Emirates
Kuwait Foreign Petroleum Exploration Company AKA Kupfex	Kuwait
Lundin Petroleum	Sweden
AREF Investment Group	Kuwait
PECD Berhad	Malaysia
Petrofac	UK
Rolls Royce	UK
Muhibbah Engineering Berhad	Malaysia
Kejuruteraan	Malaysia
Samundra Timur Bhd.	Malaysia
Kencana Petroleum Berhad	Malaysia
Areva Group	France
La Mancha Resources	Canada
Reliance Industries	India
Reliance Energy	India
Reliance Capital Venture	India
Reliance Communications	India
Reliance Natural Resources	India
Sudan Telecommunications Company AKA Sudatel	Sudan
Bharat Heavy Electricals	India
Harbin Power Equipment	China
Alstom	France
Norinco AKA China North Industries Corporation	China
Dongfeng Automotive Company Limited	China
Indian Oil Corporation Ltd. AKA IOCL	India
Scomi AKA KMC Oil Tools	Malaysia
CHC Helicopter	Canada
Electricity Generating Company AKA EGCO	Thailand

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

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

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

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

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

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

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

54, rue La Boétie
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Mr James E. Heidelberg
Manager, Public Programs
Minnesota State Board of Investment
60 Empire Drive, Suite 355
St. Paul MN 55103-3555
United States of America

Paris, 22nd October, 2007

Dear Mr Heidelberg,

I acknowledge receipt of the letter from Howard Bicker on your behalf, concerning our business operations in Sudan.

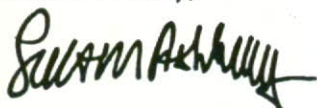
First, please be assured that we at Alcatel-Lucent fully share your concerns, and those of many others around the globe, regarding the situation in Sudan.

Alcatel-Lucent is a telecommunication solutions provider present in more than 130 countries in the world. Among these countries, Alcatel-Lucent maintains a limited commercial activity in Sudan, focused on civilian telecommunications. A detailed description of our limited involvement in Sudan has been available to the public since November 2005 (please refer to the correspondence filed with the Securities and Exchange Commission on November 18, 2005; a copy of the text therein describing the activities in Sudan as well as Syria, Libya, Iran is attached for your ease of reference).

We are mindful of our ethical responsibilities in the global community when conducting business throughout the world. We sincerely believe that our limited operations in Syria, Libya, Iran, and Sudan help foster the dissemination of communication services to the population as a whole and promote economic development, which ultimately should help strengthen democracy.

Finally, we are convinced that Alcatel-Lucent's ethics policy, its statement on business practices and its membership to the United Nation Global Compact reflect our commitment to support and respect the protection of internationally-proclaimed human rights.

Yours sincerely,



Scott Ashby
Deputy Chief Financial Officer
Alcatel-Lucent



54, rue la Boétie
75411 Paris Cedex 08
France
Tél.: +33(0) 1 40 76 10 10
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VIA EDGAR AND OVERNIGHT COURIER

Cecilia D. Blye
Chief, Office of Global Security Risk
Division of Corporation Finance
United States Securities and Exchange Commission
450 Fifth Street, N.W.
Washington, D.C. 20549-5546

November 18, 2005

Re: **Alcatel**
Form 20-F for the Fiscal Year Ended December 31, 2004
Filed March 31, 2005
File No. 001-11130

Dear Ms. Blye:

Reference is made to the comments of the Office of Global Security Risk of the Securities and Exchange Commission with respect to the above referenced annual report on Form 20-F of Alcatel, a French *société anonyme*, for the fiscal year ended December 31, 2004 that was filed on March 31, 2005, in your letter dated September 29, 2005.

I am writing to respond to the comments of your office and to provide the supplemental information that you have requested.

For your convenience, your comments are set forth in this letter, followed by our responses and the requested supplemental information.

General

1. With a view to disclosure, please describe for us all previous, current and anticipated operations in, and ties to, Syria, Libya, Iran and Sudan. Your response should detail all operations and ties, including contracts through distributors, foreign subsidiaries and other arrangements whether direct or indirect.



Cecilia D. Blye
Office of Global Security Risk
Securities and Exchange Commission
November 18, 2005
Page 2

A. Our operations in, and ties to, Syria are as follows:

In April 2003, Polytech International for Supplies & Consultation, Inc. ("PISC") was awarded a contract by Syrian Telecom for the supply and installation of a public data network. PISC subcontracted to us the supply of 5,000 asymmetrical digital subscriber line ("ADSL") ports under their contract with Syrian Telecom. The value of this contract is not significant.

In March 2005, we executed a commercial contract with Syrian Telecom for the supply, installation and commissioning of a customer care and billing system. This contract is valued at approximately €19 million and is expected to be implemented by November 2005. Syrian Telecom is an incumbent fixed line operator that is wholly owned by the Syrian government.

We are currently in discussions with Spacotel Syria regarding the implementation of a universal mobile telephone communications system trial network.

B. Our operations in, and ties to, Libya are as follows:

Alcatel began conducting business with General Post and Telecommunication Company ("GPTC") in 1979, mainly related to providing fixed communications equipment and services, including fixed switching and optical fiber networks. The expected revenue from our business with GPTC in 2005 is approximately €5 million. GPTC is wholly owned by the Libyan government.

Alcatel began conducting business with Al Malar in 2000, mainly related to providing mobile communications equipment and services, by way of a GSM network. The expected revenue from our business with Al Malar in 2005 is approximately €10 million. Al Malar is an incumbent mobile telecommunications operator and is wholly owned by GPTC, which in turn is wholly owned by the Libyan government.

We and AGIP gas Libya ("AGIP") are parties to a multi-year contract for network installation, design and building related to AGIP's oil rig in Libya. This contract is valued at approximately €60 million over the 5-year term of the contract. 50% of AGIP is owned by the Libyan government.

In April 2005, we made an offer to the General People's Committee for General Security of Libya ("GPCGS") for a homeland surveillance system, in the context of a bidding process.

Cecilia D. Blye
Office of Global Security Risk
Securities and Exchange Commission
November 18, 2005
Page 3

C. Our operations in, and ties to, Iran are as follows:

During the first quarter of 2004, Asre Danesh Afzar awarded a contract for 23,000 digital subscriber lines to us. Sales under this contract were completed during the first quarter of 2005, for approximately €3.4 million.

Toyo Engineering Company ("Toyo") is a major contractor for the National Iranian Oil Company ("NIOC"). NIOC is wholly owned by the Iranian government. During the second quarter of 2004, we entered into a sub-contract with Toyo, valued at approximately \$7.2 million, to provide an integrated communication solution for an onshore gas plant and three offshore platforms of the South Pars gas field in Iran by the end of 2006. As of November 2005, sales completed under this contract are negligible.

We entered into a contract in 2004 with Telecommunications Company of Iran ("TCI") for synchronous digital hierarchy transmission equipment. We expect to deliver approximately €9 million of equipment in 2005. TCI is an incumbent fixed telecommunications operator that is wholly owned by the Iranian government.

We entered into a contract with Rafsanjani Industrial Complex in 2004 to provide a mobile network. The contract is valued at approximately €3 million.

During the third quarter of 2005, we entered into a contract with National Iranian Gas Company ("NIGC"), valued at approximately €6.4 million, to provide telecommunication and control services for gas pipelines. As of November 2005, no sales have been completed under this contract. NIGC is wholly owned by the Iranian government.

Pursuant to a contract with Iranian Telecommunication Manufacturing Co. ("ITMC"), we expect to deliver €1.2 million of time division multiplexing switching equipment in 2005. 50% of ITMC is owned by TCI, which is wholly owned by the Iranian government.

We recently entered into a contract with a local distributor, Hamgara, for the delivery in 2006 of a €1.5 million "PABX" (a private access business exchange or switchboard). We have been advised that the ultimate customer is the Iranian Ministry of Defense.

D. Our operations in, and ties to, Sudan are as follows:

In December 2004, we signed a commercial contract with Bashair Telecom Co. Ltd ("BTCL," doing business as "Areeba"), valued at approximately €30 million, for the design, engineering, build-out, installation and commissioning of a second GSM network in Sudan, including UMTS equipment in the Khartoum area, in accordance with a license awarded by the Sudanese National Telecommunication Corporation to BTCL in October 2003. In order to finance a portion of the orders under this contract, Electro Banque, one



Cecilia D. Blye
Office of Global Security Risk
Securities and Exchange Commission
November 18, 2005
Page 4

of our subsidiaries, entered into a facility agreement with BTCL for €26,574,262 on April 29, 2005. The conditions precedent to the availability of the facility are currently in the process of being satisfied by BTCL, and therefore no drawdowns have yet been made under the facility.

We have a contract with Petrodar, an oil and gas company, to implement a telecommunications network (optical fiber) and supervisory control and data acquisition systems along an oil pipeline called the MELUT Basin project. This contract is valued at approximately €15 million.

We have a contract with Sudatel, an incumbent wireline operator, for the extension and maintenance of existing Alcatel public switches, as well as the expansion of the number of ADSL ports. 26% of Sudatel is owned by the Sudanese government. The value of this contract is not significant.

* * * * *

Alcatel's French subsidiary, Alcatel CIT, has a branch in Libya. Alcatel's German subsidiary, Alcatel SEL, has a branch in Iran. As noted above, we signed a contract with a local distributor in Iran concerning the sale of a PABX.

We have described in detail our operations in, and ties to, the above-referenced countries since 2003, except for Libya, for which we provided additional historical information. From 1999 through 2002, our operations in, and ties to, the above-referenced countries was of a similar nature and of equal or less economic importance.

2. With a view to disclosure, please address the materiality of all such operations, contacts or arrangements and your view as to whether those operations or arrangements constitute a material investment risk for your security holders.

Our 2005 revenues from operations in Syria, Libya, Iran and Sudan are estimated to be approximately €2 million, €24 million, €25 million and €45-50 million, respectively.

Qualitatively and quantitatively, we believe that our operations, contacts and arrangements in the above-referenced countries are not material to our business as a whole and do not constitute a material investment risk for our security holders. Our contracts in the above-referenced countries, in the aggregate, represent less than 1% of our total expected revenue in 2005.



Cecilia D. Blye
Office of Global Security Risk
Securities and Exchange Commission
November 18, 2005
Page 5

3. Please describe for us whether any of your equipment or services used or sold in the above-referenced countries has a military purpose or, to the best of your knowledge, understanding and belief, can be put to military use.

We do not believe that any of our equipment (which is "commercial off-the-shelf equipment") or services used or sold in the above-referenced countries, as described above, has a military purpose or, to the best of our knowledge, understanding and belief, can be put to military use, it being noted that the surveillance system and the PABX mentioned earlier are to be used by the Libyan GPCGS and the Iranian Ministry of Defense, respectively.

Over the last decade, Alcatel has pursued its efforts towards reconciling economic development with its ethical responsibilities in the global community. In the above-referenced countries, Alcatel maintains only limited commercial activity, focused on telecommunications. We believe that participating in the enhancement of the communication capabilities of a country can only benefit the country's economy and in turn help to improve the standard of living of its citizens.

We would appreciate your review of the responses and supplemental information provided herein and your notification to us if you have further comments or questions. Please contact Lauren K. Boglivi of Proskauer Rose LLP at (212) 969-3325 should you have any questions or additional comments.

Very truly yours,

ALCATEL

By: // Jean-Pascal Beaufret
Jean-Pascal Beaufret
Chief Financial Officer

cc: Larry Spigel, Assistant Director, Division of Corporation Finance
James Lopez, Office of Global Security Risk
Serge Tchuruk



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

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ulf.steinborn@man.eu

München
11.10.2007

Sudan involvement

Your letter dated August 17, 2007 to Mr. Håkan Samuelsson

Dear Mr. Heidelberg,

Sudan has no relevance as a market for the MAN Group. The average turnover of the past five years in Sudan amounted to approx. 0.2% of MAN's global turnover. In addition the MAN Group does not have any capital investment, any licensing agreements nor employees in Sudan.

In general, MAN is strictly committed to comply with any applicable export laws or regulations adopted by Germany, the EU or, if applicable, any other national or international jurisdiction.

Hopefully this clarifies your enquiry. If there are additional questions, please do not hesitate to contact us.

Kind regards


ppa. Ulf Steinborn
Strategy & Structure


ppa. Michael Fontaine
Legal

Alok Agarwal
Chief Financial Officer

Reliance Centre,
19, Walchand Hirachand Marg,
Ballard Estate, Mumbai - 400 001.
Phones : +91-22-2284 7000 / 2284 7121
(D) 2284 7120
Fax : +91-22-2284 7979
E-mail : alok_agarwal@ril.com

August 27, 2007

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

Dear Mr. James,

We are in receipt of your letter dated August 17, 2007 addressed to our Chairman and Managing Director, Mr. Mukesh Ambani.

We thank you very much for considering Reliance Industries Limited ("RIL") as your investment holding company.

During 2006-07, the revenue of RIL was US\$ 25.51 billion and our total exports were US\$ 15.02 billion. Our exports to Sudan were US\$ 68.74 million, which is less than 0.3% of our total revenue and less than 0.5% of our exports and insignificant in relation to our total exports.

These exports were of polyethylene (used for packaging various consumer products), polyester chips (used in fabric raw material) and high speed diesel (used as transportation fuel). All these products are eventually used for the needs of the common man and do not specifically support Sudan's oil sector. In addition, none of these products should have specific military purposes.

We do not believe that we are engaged in active business operations in Sudan.

RIL is a large exporter from India of refined products globally and its products are sold to all major traders and producers worldwide. It is possible that gasoline or diesel produced by us could be resold by any of the traders to Sudanese entities and we would have no effective control over this. However, since these are globally traded commodities sold at prevailing international prices, no undue benefits should accrue to any Sudanese entities. Except as discussed above, we do not have any trade with Sudan.

As a part of an undivided acquisition of retail petroleum operations in five countries in East Africa, certain assets in Sudan are indirectly held by one of our subsidiaries since July 30, 2007. However, we propose to take steps to divest ourselves of these assets as soon as possible. At such point, we do not believe that RIL will have any business operations in Sudan.



In fact, prior to the above acquisition, we were considering the option of having the Seller divest itself of these operations in Sudan as a pre-condition. However, due to certain prohibitory orders by the competent Mauritius court in favor of lending banks, these assets could not be divested. Since the claim of the banks has now been settled by us, these assets are no longer subject to any prohibitory orders.

We would like to emphasize that as an international company, we are very cognizant of the principles of good corporate governance and responsible corporate behavior. Our constant endeavors are to meet and exceed the highest standards of good corporate governance.

We hope this meets your requirements. In case you require any further clarification, please feel to contact me directly.

Yours sincerely,

Alok Agarwal
Chief Financial Officer



TOTAL

James E. Heidelberg
Minnesota State Board of Investment
60 Empire Drive, suite 355
St Paul, MN 55103-3555
U.S.A.

INVESTOR RELATIONS

Vice President

Our ref. : JS/ES/037-07

Paris la Défense, 28th August 2007

For the attention of James E. Heidelberg

Manager, Public programs

Via express mail

Dear Mr Heildelberg,

We thank you for the letter dated August 17, 2007 sent by Mr Bicker, regarding Total's presence in Sudan. In order to give you a comprehensive overview of our presence in South Sudan, please allow us to provide you with an update on the situation.

As you probably know, Total is present in 130 countries. Given the world's fast-growing demand for hydrocarbons, Total, as a responsible oil and gas company, cannot ignore the potential for long-term production growth that could come from eventual development projects in any countries in its globally diversified portfolio. However, pursuant to the Group's corporate and social responsibility policy, Total systematically integrates a local content approach to its projects to determine how its industrial presence could benefit local populations. In Sudan, and more particularly in South Sudan, like anywhere else, the nature of the relationship between Total and the local authorities is governed by our Code of Conduct appended to this letter.

As for Sudan, Total holds rights to explore for and produce hydrocarbons on Block B (South Sudan), through a 1980 EPSA (Exploration and Production Sharing Agreement), in partnership with Marathon Petroleum Sudan Ltd. of the United States (32.5%), Kufpec Sudan Ltd of Kuwait (24%) and Sudan's state-owned Sudapet (10%). The consortium conducted a seismic survey of the acreage in 1984 and

Adresse postale : 2 place de La Coupole - La Défense 6 - 92078 Paris La Défense Cedex
Tél. + 33 (0)1 47 44 45 46

- 19 -

TOTAL S.A.
Société Anonyme au capital de 5 981 907 382,50 euros
Siège social : 2 place de La Coupole - La Défense 6 - 92400 Courbevoie - France

1985. Operations were suspended in 1985 because of escalating insecurity, but the company maintained its rights.

The EPSA was revised effective December 21, 2004, and provided that "the Parties (i.e., the Government of Sudan and the consortium partners) shall mutually agree upon a Resumption Date when the petroleum operations can be undertaken physically in the contract area". Such resumption date would mark the starting point of our work obligations as foreseen in the contract. A joint decision on the Resumption Date has not occurred yet.

As to date, our local staffs is limited to a company representative in Khartoum, and few local employees in charge of administrative issues and relations with the local communities. The standard time frames in our industry means that it would be highly unlikely that Block B oil production would generate substantial revenue until five or six years after development begins (i.e. around the time when South Sudan will have to determine its future as an independent country). Such development would not be sanctioned unless future exploration were to confirm its technical and financial feasibility. In a best-case scenario, revenues from oil production would not accrue to either the Northern or the Southern Governments for the same duration (assuming commercially successful exploration).

We have, however, paid limited revenues to the government of Sudan for social welfare purposes. Under the terms of the Revised EPSA, Total pays annually to the government \$500,000 to be used for educational purposes (as a scholarship bonus) and \$500,000 to be used for social development.

Assuming that we resume our activities in South Sudan, we will make sure that our work complies fully with our Code of Conduct and our Ethics Charter. Within our scope of operations and authority, we are committed to upholding human rights and fundamental freedoms, including social, economic and cultural rights, and the rights and interests of local residents, minorities and other vulnerable groups.

In the area of its operations, Total will determine with the local population and NGO's what their needs may be and will study the best possibilities to implement the social and humanitarian actions envisioned for the local population in the area.

In addition, Total maintains close contacts with a number of non-governmental and expert organizations, including the European Coalition on Oil in Sudan, the Collaborative for Development Action, and the Sudan Divest Task Force, to keep them informed of how our operations in South Sudan would be conducted, share their assessment of the situation in the country and work with them to identify the best possible ways to help the people concerned.

As far as Darfur is concerned, it should be noted that Total is not present in Darfur. Our area of operations is located more than 1,000 kilometers southeast of the Darfur region and we have no plans to undertake any operations in that region. We share the international community's concerns regarding the ongoing violence in Darfur and hope that the initiatives undertaken by all parties will result in a quick resolution to the conflict, while maintaining the gains under the North/South Comprehensive Peace

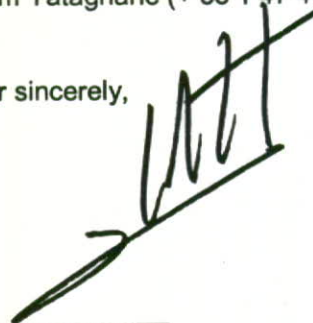
Agreement. In 2006, Total contributed to the UNHCR to support its Internal Displaced People (IDP) program.

We are aware of the position of some of our shareholders and of the expectations expressed by some other stakeholders on this subject. We seize every opportunity of dialogue with them to express our position and engage into a discussion in order to better share our respective points of view.

We believe this should give you the necessary background to understand our CSR policy and how our presence can benefit local populations. We also feel it should answer all the queries expressed in your letter referred above.

We remain at your disposal should you need additional information. You may also get in contact with Mr. Karim Yataghane (+ 33 1 47 44 41 58), who is in charge of CSR related matters within the IR team.

Your sincerely,



Jérôme SCHMITT
Vice President Investor Relations

Encl.: - *Total Code of Conduct*
- *Total 2006 Corporate Social Responsibility (CSR)*
- *Total 2006 Registration Document*

Copy: - *J.F. Lassalle, E&P Vice President Public Affairs*
- *R. Hammond, Director Investor Relations, North America*
- *K. Yataghane, Investor Relation*

NB: Please note that further information about Total's presence in South Sudan can be found on our website at the following address:

http://www.total.com/en/group/corporate_social_responsibility/ethics_governance/ethics/sudan_6816.htm

August 22, 2007

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

Dear Sir,

Alstom is a global Company that has projects in every part of the World. Indeed, one of these projects is currently being executed in Sudan. This project does not, however, have any connection at all with any terrorist activities or violation of human rights whatsoever. One of the hallmarks of Alstom's reputation for integrity is its respect for, and compliance with, those laws, regulations or similar mandatory requirements, that apply to the conduct of its business in all countries in which it operates.

Alstom's scope in the framework of Merowe Dam project in Sudan consists in the supply, erection and commissioning of the electro-mechanical equipment. The contract was awarded by the Ministry of Irrigation and Water Resources of the Republic of Sudan in November 2003 and represented less than 1% of Group sales for fiscal year 2005/06. This project is taking place in northern Sudan, around 700 kilometres from the Darfur region.

An Alstom office was opened in Khartoum to allow the execution of this project. Alstom does not have any investments in Sudan other than the ones that are related to the rented Khartoum office, i.e., for office furniture, cars, or the camp on the Merowe site.

The Group has no license agreements in nor any technical or commercial know-how transfers to Sudan, neither for this High Dam project nor for any other. The current activities are restricted to the execution of the Merowe project and a further Customer Service Activity for rehabilitation of generators and turbines at the Khartoum North Power Plant.

Today Alstom employs 23 employees in Sudan (8 expatriates, 6 locals and 9 staff of subcontractor). The Group also has several experts working at the Khartoum North Power Plants on an assignment basis for supervision.

The Merowe project contract is totally exempt of any taxes, duties and other fees or charges in Sudan.

The project is financed by various Arab funds and Alstom received direct payments from these funds after approval of the Dams Implementation Unit (DIU).

Concerning the policies and procedures for operation in Sudan, Alstom applies standard Environmental, Health and Security (EHS) procedures, as well as normal operational procedures, that would apply in any equivalent project anywhere. Furthermore, Alstom applies the standard regulations for safety, health and evacuation (See Alstom's code of Ethics enclosed).

Alstom has not done anything directly to promote and protect human rights as the Group is employed by the DIU, who is ultimately responsible for such issues. Alstom is the contractor responsible for the electro-mechanical scope and its implementation, in accordance with its contractual obligations. However, Alstom's policy is to fully comply with the United Nations Universal Declaration of Human Rights.

As the lack of available electrical power is a clear bottle-neck for the economic and social development in the country, the Merowe Dam project marks a milestone in the economic progress of Sudan. On completion, the power generation capacity of the country will be more than doubled to the benefit of the entire population.

Yours sincerely,



Patrick Kron
Chairman & CEO



September 5, 2007

Dear Sir,

This is with reference to your letter dated 17.08.07 regarding BHEL's business activities in Sudan. While we earnestly thank you for your kind confidence and interest in BHEL, we would like to assure that BHEL is fully sensitive to the issues raised in your letter. You may perhaps be aware that BHEL is a majority owned company by the Government of India and the Company functions within the legal and regulatory parameters laid down by the Government of India. BHEL's power plant business through development of utility power infrastructure facilitates social development which in turn helps economic growth. This serves to promote the interest of humanity, particularly the deprived and needy population in India and other developing economies. BHEL is also a signatory to UN Global Compact and adheres to the principles enshrined there under.

We would like to submit the following information with regard to BHEL activities in Sudan. You would kindly note that the activities are consistent with the objectives of social development without any discrimination:

1. BHEL as part of its international business is setting up a power plant of 500 MW capacity in Kosti, Sudan. The plant will provide electricity to all the regions of the country, once it starts generating power. This Power Plant will light up millions of homes, which should facilitate the peace process set in motion between North and South Sudan under the auspices of International Organisations. Further, the power generated will also be utilised for irrigation needs, thereby helping boost agricultural output and meet food needs of people of all the regions alike. Therefore, the project being set up by BHEL could be one of the steps in the direction of creating harmony and peace.
2. The project to be implemented by BHEL is being set up with funding support by Government of India. A project of this size should bring employment and prosperity and enhance economic activity in that region. It is believed that the project which has the approval of Government of India would improve the conditions of Sudan. We would like to reiterate that BHEL management is fully committed to promoting harmony and providing support to the needy while working within the laws and policy directives of the Government of India.

Further, as required by Minnesota State Board of Investment, we would like to assure you that none of the identified activities of Bharat Heavy Electricals Limited in Sudan support or aid those who are engaging in atrocities and human rights violation.

We do hope that the above points clarify all the issues contained in your letter. For further clarifications, if any, you may feel free to contact us.

With regards,

Yours sincerely,


(Ravindra K. Belapurkar) 5/9/07

Mr. Howard Bicker
Executive Director
Minnesota State Board of Investment
60 Empire Drive
Suite 355
St. Paul, MN 55103 (U.S.A)

Lundin Petroleum SA



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E-mail: info@lundin.ch ■ Website: www.lundin-petroleum.com

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

Geneva, September 12, 2007

Dear Mr. James E. Heidelberg,

Thank you for inquiring about our activities in Sudan and giving us the opportunity to explain what our current activities are there and the actions we are taking to exert a positive influence on the country's situation and its people.

First, let us underline the fact that the realities in Sudan have changed over the past two years; except for the very unfortunate crisis of Darfur, which hopefully is in the process of being resolved thanks to the efforts of the international community and Sudan's latest proposal to have a two-month truce to allow for peace negotiations, the rest of the country and in particular the South, which witnessed war for over two decades, is essentially at peace since January 9, 2005, date of the signing of the Comprehensive Peace Agreement (CPA).

The CPA has not only resulted in establishing peace in the majority of the country, but it is also starting to bring the expected rewards, i.e. the reconstruction and rehabilitation of Sudan, in particular South Sudan. This is being achieved in part by international donor contributions but significantly by oil revenues, 50% of which flow into the budget of the Government of South Sudan (GOSS) and 2% of which go directly to the producing state. The transfer of revenues from the Government of National Unity (GONU) to the South is now a reality, which we were able to check during our meetings with local representatives of the Southern States. As a result of this the economy of Sudan has witnessed constant growth, at around 9% in 2006 and projections reaching as high as 13% for 2007. This economic development will no doubt help stabilize the country as a whole and provide the basis for a more stable future.

As to Lundin Petroleum's role and responsibilities in Sudan, they are as follows:

Lundin Petroleum has retained a 24.5% non-operated asset in Block 5B, South Sudan; the operator, who is responsible for managing the project locally, is WNPOC. Up to now, field operations have consisted in the acquisition of seismic data. This field activity is being carried out with the consent and support of local Southern authorities and is accompanied by a community development program.

In other words, other than license fees, there are no revenues from the activities in Block 5B, only expenditures and this is likely to last for another few years, as WNPOC still needs to carry out exploration drilling, appraisal and development work before

being in the position to be able to produce, and therefore receive and share revenues with its partners and the governments of Sudan.

Given Lundin Petroleum's past activities as operator in Sudan, it is keenly aware of potential problems which can emerge in operating in such a country, which is why it adopted at its creation a Code of Conduct and developed mechanisms to deal with stakeholder problems or concerns (the Code of Conduct and other information relating to Lundin Petroleum's corporate responsibility approach, including its Corporate Donations program can be consulted on its website: www.lundin-petroleum.com).

Lundin Petroleum is in ongoing contact with various stakeholders regarding Sudan, whether the representatives of relevant authorities in Sudan, with local and international NGOs but most importantly with its partner in Sudan, WNPOC, to ensure that activities are conducted abiding to the highest principles of corporate citizenship, as contained in the documents referred to above.

In addition to the community development activities which it contributes to through the consortium, Lundin Petroleum has dedicated approximately one third of its Corporate Donations' program (see attached leaflet) to Sudan in 2006. Projects which it has carried out can be found on our website; all but one (Bridge of Hope, the first organisation which it funded when it started to work in Sudan) took place in the Juba area, seat of the Government of South Sudan. In 2007, Lundin Petroleum has continued and even expanded projects in South Sudan, particularly in the capacity building field, in collaboration with the University of Juba where it recently set up the Lundin Petroleum Chair in the field of *Public Sector Capacity Building in Southern Sudan*.

Thus while Lundin Petroleum is currently non-operator in Sudan, we nonetheless maintain a pro-active role in particular in matters relating to corporate social responsibility issues. Attached you will find an article which describes Lundin Petroleum's approach in Sudan, while operator, an approach which it is pursuing together with the operator.

Should you have any more questions or comments regarding the foregoing, please do not hesitate to contact Christine Batruch, VP Corporate Responsibility.

Sincerely,



Ashley Heppenstall
CEO

Encl: Code of Conduct, Lundin Approach in Sudan, Corporate Donation Leaflet

Oil and conflict: Lundin Petroleum's experience in Sudan

Christine Batruch

I. Introduction

Lundin Petroleum¹ obtained the rights to explore for and produce oil and gas in concession Block 5A, Unity State, Sudan, in February 1997; it sold these rights in June 2003.

During the period in which the company was active in Sudan, it operated in the belief that oil could benefit the economic development of the area and the country as a whole, and that this would have a catalysing effect on the peace process. The problems which it encountered in the area, however, led the company to constantly reassess its activities, role and responsibilities there.

This chapter examines the reasons why Lundin decided to operate in Sudan, the challenges it faced in the course of its activities, the steps it adopted to satisfy both its commercial objectives and ethical concerns, and its efforts to promote a peaceful resolution of the conflict.

II. Sudan's war

Sudan has been embroiled in a civil war that began shortly after it gained independence from the United Kingdom in 1956. It is one of the longest and most tragic wars of modern history: fighting has taken place for nearly 50 years, with a single reprieve between 1972 and 1983.² The Government of Sudan and the Sudan People's Liberation Movement/Army (SPLM/A), led by rebel leader John Garang, are the main protagonists in the conflict which

¹ On the independent Swedish oil and gas exploration and production company Lundin Petroleum AB—hereafter referred to as Lundin, or the company—see URL <<http://www.lundin-petroleum.com/>>. Lundin was the operator of Block 5A on behalf of the consortium which included OMV (Sudan) Exploration GmbH, Petronas Carigali Overseas Sdn Bhd and Sudapet. For a map showing the location of Block 5A, see URL <<http://www.lundin-petroleum.com/eng/sudan3.shtml>>.

² For an account of recent developments in this conflict see Wiharta, S. and Anthony, I., 'Major armed conflicts', *SIPRI Yearbook 2003: Armaments, Disarmament and International Security* (Oxford University Press: Oxford, 2003), pp. 101–104. At the time of writing, peace negotiations held under the auspices of the Intergovernmental Authority on Development (IGAD) were in their final phase and a comprehensive agreement was expected to be signed by the end of the year. On the peace process see 'Sudan: peace talks, humanitarian action', URL <<http://www.irinnews.org/webspecials/sudan/default.asp>>; and Powell, C. L., 'An opportunity for peace in Sudan', 28 Oct. 2003, URL <<http://www.sudan.net/news/posted/7274.html>>.

This document was prepared for publication as a chapter in Bailes, A. J. K. and Frommelt, I. (eds), Stockholm International Peace Research Institute (SIPRI), *Business and Security: Public-Private Sector Relationships in a New Security Environment* (Oxford University Press: Oxford, forthcoming 2004).

2 BUSINESS AND SECURITY

resumed in 1983, although armed militias in different parts of the country have also been involved at various times. The fighting has taken place chiefly in the southern-most parts of the country although other areas, such as the Nuba Mountains region, Unity State and more recently the Darfur region of western Sudan, have also witnessed periods of intense combat.

It is difficult to ascertain the root causes of the war and the contributing factors over such a long period of time. Nonetheless, certain elements have, at various times, played a role in the conflict. They include: (a) the country's extreme poverty—Sudan is ranked among the poorest nations of the world;³ (b) the religious/racial divide—northern Sudan is mainly Arab and Muslim, while southern Sudan is African and Animist or Christian; (c) the competition for power—political opponents seek a greater participation in power, while regions seek greater autonomy from the central government; and (d) the competition for resources—southern regions contest the government's control over national resources such as water and oil, which originate in the south.

When peace is achieved, it will be easier to determine which of these elements played the decisive role in the conflict and its eventual resolution. What is clear, however, is that the war began years before the presence of oil was even suspected, and it was only after oil was produced that a material basis for a sustainable peace was seen to have been achieved. It is only then that an active, internationally mediated peace process began.⁴

Until that time, Sudan's war had been largely ignored, except from a humanitarian perspective. The conflict was seen as another typical African war: over local issues and involving local parties. The situation seemed insoluble because of the many problems to be resolved and the slight foundations for sustainable peace. However, in the course of the 1990s a number of developments brought the world's attention to Sudan.

The early 1990s had seen the rise of Islamic fundamentalism, which figured prominently in the Sudanese Government; the harbouring of renowned terrorists such as 'Carlos the Jackal' and later Osama bin Laden; and the suspicion that Sudan was linked to the 1995 assassination attempt on Egyptian President Hosni Mubarak. At this stage, Sudan was considered a 'rogue nation' which had to be isolated from the community of nations.⁵ In the latter part of the 1990s, however, the government adopted certain progressive measures, which the international community interpreted as signals of impending reform and of Sudan's interest in shedding its pariah status. The steps taken by Sudan included the handover of Carlos to French authorities, the expulsion of Osama

³ For a discussion of Sudan's economy and the positive impact of oil in the past few years see the US Department of Energy Internet site at URL <<http://www.eia.doe.gov/emeu/cabs/sudan.html>>.

⁴ The current phase of peace negotiations originated with the activities of Senator John Danforth, who was appointed by President George W. Bush as Special Envoy for Peace in Sudan on 6 Sep. 2001. See Danforth, J. C., 'Report to the President of the United States on the outlook for peace in Sudan, April 26, 2002', at URL <<http://www.sudan.net>> (under 'Latest news', 'Press releases and commentary', posted on 14 May 2002). The oil issue and the means for resolving the conflict are also discussed there.

⁵ Because of Sudan's perceived connection with international terrorism, the UN and the USA imposed sanctions against Sudan, the former through a travel ban on Sudanese officials and the latter in the form of a ban on the conduct of business in the country by US companies.

bin Laden, the purging of key Islamic fundamentalists from the government, allowing the return of political opponents from abroad, the signing of the 1997 Khartoum Peace Agreement with southern opposition groups (see section III), improved relations with neighbouring countries, and the adoption of a new Constitution and Bill of Rights.

Whereas the United States was reluctant to recognize these efforts immediately, the European Union (EU) decided to engage in a constructive dialogue with the Sudanese Government because it believed that this approach was more likely to bring results than keeping Sudan isolated. Thus, when Lundin acquired the rights to explore for and produce oil and gas in Block 5A, world opinion regarding Sudan was beginning to change.

III. Lundin in Sudan

The company's primary concern when considering a new area for activities is geological. If an area presents the required geological profile—that is, if it is assumed to contain oil reserves—Lundin proceeds to study the technical and commercial feasibility of exploiting the oil. In the case of Sudan, the main risk identified in the course of the company's risk analysis was financial. The company decided, however, that the estimated potential oil reserves were important enough to justify the significant investments required for the venture, in particular investments in infrastructure development. It did not identify any legal risks—there were no international or EU sanctions against Sudan that prohibited a European company from doing business there—or political risks—there were no SPLA forces in the concession area, as the civil war was proceeding further south.

The company therefore engaged in negotiations to obtain a licence to explore for and produce oil and gas in Block 5A. As in most countries, mining rights in Sudan belong to the central state. Negotiations were therefore held with representatives of the Sudanese Ministry of Energy and Mining (MEM). The terms of the agreement were standard for the trade, with an initial period for oil exploration—in exchange for a work commitment and the carrying of costs—followed by a period of oil production, with cost recovery sought after initial production. The only terms that were specific to the exploration and production-sharing agreement (EPSA) concerned the 'Sudanization' of the operations. At the request of the MEM, the company committed itself to hire and train Sudanese with a view to their constituting 50 per cent of the staff within 5 years of the commencement of operations and 80 per cent within 10 years. There was also a provision that the company would carry the costs of its Sudanese partner, Sudapet, which had a 5 per cent interest in the venture.

On its first visit to the concession area, Lundin met with key representatives of the local community, who welcomed oil activities as the only way to pro-

4 BUSINESS AND SECURITY

mote long-term economic development in their area.⁶ They also committed themselves to providing a safe environment for the company to operate in. This commitment arose out of the terms of the Khartoum Peace Agreement, which they had signed with the Sudanese Government and which set out the parties' respective rights and responsibilities in the area.⁷

Security, however, proved to be elusive. The prevalence of arms, coupled with the division of tribes into various factions, contributed to making the situation volatile.⁸ Within a few years, instances of fighting started to increase. While the company was not directly affected by the fighting at the time, it was nevertheless worried about the safety of its staff and its operations. It was also concerned because of the criticisms that were being directed against an oil consortium situated in a nearby concession. To better understand these developments, Lundin decided in 1999 to commission a socio-political assessment of the area.

The study, conducted both at the Lundin head office in Geneva and in Sudan, was based on an analysis of reports on the political and human rights situation in Sudan, on interviews with company representatives in the head office and in Sudan, and on meetings with members of the Government of Sudan and humanitarian organizations. It also included a visit to the concession area.

The report's conclusion was that, despite the lack of evidence of a direct link between the sporadic fighting that had taken place in the concession area and company activities, there was a potential risk of deterioration if the local communities ceased to perceive the role of oil companies as beneficial. The report also noted that in view of the limited positive benefits of the oil activities at the time—revenues were not expected for a number of years, since activities were at the exploration stage—there was a distinct possibility that the local communities would grow disgruntled.⁹ The report's main recommendations were that the company should continue to monitor socio-political developments in the concession area and reinforce its existing relationship with the local community.

⁶ The company met with Dr Riek Machar, who, pursuant to the 1997 Khartoum Peace Agreement, was Vice-President of Sudan and President of the South Sudan Co-ordinating Council (the government representative for the south); with Taban Deng Gai, the Governor of Unity State; and with representatives of the local factions.

⁷ The text of the Khartoum Peace Agreement, signed in Apr. 1997, is available at URL <<http://www.sudani.co.za/Documents%20and%20Issues/Khartoum%20Peace%20Agreement.htm>>. It was signed between the Government of the Sudan, the South Sudan United Democratic Salvation Front (UDSF)—comprising the South Sudan Independence Movement (SSIM) and the Union of Sudan African Parties (USAP)—the SPLM, the Equatoria Defence Force (EDF), and the South Sudan Independents Group (SSIG).

⁸ The main tribe in the area is the Nuer tribe, which has 5 sub-groups: the Bul, Lek, Jikany, Jagei and Dok Nuer. In turn, these groups are affiliated with local militia.

⁹ Oil exploration and production are by nature a long-term activity: it takes a number of years before oil is found, and several more before it is brought into production and sold. It therefore takes years for revenue from oil to accrue to an area, which, in the meantime, has observed construction activity, equipment being brought in, and teams of people going back and forth. In many areas of the world, this poses no particular problem, but in an area like southern Sudan, where the majority of the population live in very precarious conditions, this issue requires special attention.

Community relations

From the time it started its activities in Block 5A, Lundin adopted a proactive approach to community relations. The company not only met with representatives of the local community but also sought to show goodwill towards the population by hiring local staff and improving the infrastructure in the area.¹⁰ The company believed that, if the local population obtained tangible benefits from oil activities, they would be even more supportive of these activities. However, given the lack of required skills locally, the number of people who were hired was minimal and the impact of this effort was limited. Similarly, while infrastructure developments such as bridge and road building increased local mobility, because they had been carried out for operational purposes the company did not consider them as community projects.

The company therefore sought ways to make a more direct contribution to the local community. It initiated a number of projects, which later became an integral part of the company's Community Development and Humanitarian Assistance Programme (CDHAP). The projects had three main objectives: (a) to promote better health, hygiene, education and general quality of life for the current and future inhabitants of the concession area of Block 5A, Unity State; (b) to contribute to the economic and social development of the area; and (c) to reinforce relationships between the local community and the company.

Through this programme, the company also wished to demonstrate to the local and central authorities that it was concerned with the interests and welfare of the population and was prepared to make significant contributions, despite the fact that it would not obtain any revenues from its activities for a number of years.

In order to ensure that its projects were relevant, Lundin had consulted with a number of local actors, in particular non-governmental organizations (NGOs) that were active in the area. With their assistance, it identified areas of need where it felt it could make a contribution, such as the supply of fresh water, health, education and capacity building.

In the three years Lundin ran CDHAP, it spent over \$1.7 million on its various projects. These ranged from the delivery of fresh water by trucks, to the drilling of water wells and the construction of a water filtration unit. In the field of education, Lundin started by supplying educational materials to existing schools and orphanages, then built schools with local materials, and eventually constructed a permanent building to accommodate several hundred children. Through a team of five Sudanese doctors, assisted by local nurses, Lundin provided medical assistance in mobile tent clinics, temporary straw clinics and eventually in a fully equipped permanent clinic which it had built.

¹⁰ The uniqueness of Lundin's approach did not go unnoticed. Indeed, in a meeting with representative of an international NGO, Dr Riek Machar, who had then defected from the Government of Sudan, stated that Lundin was different in that it had consulted with the local people and tried to involve them in its activities.

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Similarly, it relied on two veterinarians and local para-veterinarians whom it had trained to tend to local cattle in a vet station and in mobile vet clinics. The capacity-building projects included the creation of a mobile brick factory, a women's development centre and a nursery as well as a programme for training local people as midwives, para-veterinarians, nurses, brick layers, vector control specialists, computer analysts, and so on. In times of emergency brought about by climatic or security conditions, the company provided ad hoc humanitarian assistance by supplying people with water containers, soap, blankets, mosquito nets and medical services.¹¹

From its inception, CDHAP was a constant element of the company's presence in Unity State. Not only were CDHAP staff members often the first to go to projected areas of activities and the last to be pulled out when the security situation deteriorated, but they stayed there even when operations were suspended. During the company's temporary suspensions of activities in 2001 and 2002, services to the community continued to be rendered in the two main towns of the area, Rubkona and Bentiu, and in surrounding villages. Maintaining its presence in the area through CDHAP was the company's way of demonstrating its long-term commitment to the local community and the area.¹²

If CDHAP was the company's most tangible way of showing its concern for the people in the area, it was by no means the only way. Outbreaks of fighting, coupled with allegations that these conflicts were related to oil, led Lundin to re-assess its role and responsibilities and seek ways of exercising a positive influence on the protagonists in the conflict.

Internal review

In the latter part of 1999, civil rights activists started to question the role of the Greater Nile Petroleum Operating Company (GNPOC) oil consortium in the conflict.¹³ This consortium, which was operating in a concession area adjacent to Lundin's, had participated in the construction of a pipeline linking the southern oilfields of Unity State to the northern city of Port Sudan and was beginning to produce oil. Activists claimed that human rights violations, such as population displacement, had taken place in order to pave the way for the consortium's activities. The consortium consistently refuted these claims. The activists also believed that the revenues obtained by the Sudanese Government

¹¹ For a review of CDHAP activities in 2001–2002 see URL <<http://www.lundin-petroleum.com/eng/comdev.shtml>>.

¹² This commitment has been passed on to Petronas Carigali Overseas Sdn Bhd, Lundin's successor in the area, which has decided not only to pursue projects initiated by Lundin but also to expand the activities under CDHAP.

¹³ The GNPOC was at the time a consortium of Chinese, Malaysian, Canadian and Sudanese companies.

from GNPOC operations would be used to build up its military arsenal and quash the rebel SPLA.¹⁴

There was a marked discrepancy between Lundin's first-hand experience in its concession area and reports about what was being alleged to have taken place in the neighbouring GNPOC concession. The report commissioned by Lundin confirmed that many elements distinguished the two operations. First, the GNPOC concession area was sparsely inhabited, which gave credence to the claim that population displacement had taken place prior to the commencement of operations, even though this was disproved by satellite images.¹⁵ Second, the local community there was partly of Dinka origin, the main tribal group behind the SPLA; it was therefore conceivable that there could be clashes between them and government forces. Finally, GNPOC operations had started generating revenue for the government, of which little, if any, appeared to be reinvested by the government in the area.

Despite these differences, Lundin recognized that negative perceptions of the effects of oil operations could also come to be applied to its area and therefore decided to set out, in a Code of Conduct, the conditions under which it was prepared to operate.

The Lundin Code of Conduct

The process of development of the Code of Conduct was important for Lundin, as it required the company to assess the role of its business from a different perspective. Lundin's management had always seen (and continues to see) itself as making a positive contribution to economic growth by providing a necessary source of energy. It had also witnessed how oil revenues in undeveloped areas acted as a catalyst for economic development, paving the way for other businesses and international loans.¹⁶ Lundin was aware of the potential negative impacts of its operations on the environment, and took mitigating measures to address them. The socio-political dimension of its activities, however, was not something the company had had particular reason to consider before the Sudan experience. It believed that these were issues beyond its field of competence.

When faced with the possibility that its activities could have a negative impact on the conflict in Sudan, senior management re-examined the company's role from this wider perspective. Lundin established its objective to

¹⁴ The consortium contested these allegations. It provided evidence of population growth in the area and divulged the nature of its discussions with the government regarding the use of its facilities for military purposes.

¹⁵ The Canadian company in the consortium hired Kalagate Imagery Bureau, a British company specialized in the analysis of satellite images, to ascertain population patterns in its concession area in the 1980s and 1990s. The conclusions were that there was no evidence of appreciable population migration from the area.

¹⁶ It had felt this way about Sudan, and in many ways it turned out to be right. Over a period of 5 years Sudan shed its pariah nation status and became an attractive place for the international business community (sanctioned by the International Monetary Fund).

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play a positive role not only directly, in the economic field, but indirectly in the socio-political field as well. As stated by its chairman, the company's 'aim is not only to find oil and gas, we are also committed to developing this valuable resource in the best socio-economic manner possible for the benefit of all our partners, including the host country and local communities'.¹⁷

The Code of Conduct was developed after the company had consulted documents in the field of corporate responsibility¹⁸ and after discussions with members of the Board of Directors as well as senior corporate and country-based management. The Code was adopted as a consensus document which served as a guide for the company's activities worldwide.

The Code set out the company's values, responsibilities and the principles by which it was guided. The company recognized that it had specific responsibilities towards its shareholders, employees, host countries and local communities, as well as to the environment. It committed itself to act in a fair and honest way, to observe both national and international laws, and 'to act in accordance with generally accepted principles on the protection of human rights and the environment'.¹⁹ After the Code of Conduct had been adopted by the Board, Lundin disseminated it to its employees in Geneva and in Sudan, and to the company's affiliates. It became an integral part of the company's contracts of employment.

The adoption of the Code was followed by other initiatives, such as the publication of the company's policies on health and safety, the environment and community relations. The company also arranged for an awareness session on human rights and developed a human rights primer, explaining the origins of and guiding principles for the protection of human rights and how they relate to business. The company's security liaison personnel in Sudan were provided with information regarding human rights and security, to sensitize them to such issues in conflict situations, and were encouraged to report any violations they witnessed.²⁰

The internal dissemination of the Code of Conduct was necessary in order to ensure that the staff understood what the company stood for and what was

¹⁷ Code of Conduct, 'Message from the Chairman'. The text of the Lundin Code of Conduct and related documents are available at URL <http://www.lundin-petroleum.com/Documents/ot_lupe-code_e.pdf>.

¹⁸ These include the Caux Principles, the Global Sullivan Principles, the UN Declaration of Human Rights, the International Labour Organization's Tripartite Declaration of Principle concerning Multinational Enterprises and Social Policy, the Organisation for Economic Co-operation and Development's Guidelines for Multinational Enterprises, Amnesty International's Human Rights Code for Companies, the Prince of Wales Business Forum on Operating in Conflict Zones, and so on.

¹⁹ Code of Conduct (note 17).

²⁰ The relevant personnel received information about the Voluntary Principles on Security and Human Rights for the Extractive Sector, available at URL <<http://www.amnesty.org.uk/business/newslet/spring01/principles.shtml>>; Amnesty International's 10 Basic Human Rights Standards for Law Enforcement Officials, URL <[http://web.amnesty.org/aidoc/aidoc_pdf.nsf/Index/POL300041998ENGLISH/\\$File/POL3000498.pdf](http://web.amnesty.org/aidoc/aidoc_pdf.nsf/Index/POL300041998ENGLISH/$File/POL3000498.pdf)>; the 1990 UN Basic Principles on the Use of Force and Firearms by Law Enforcement Officials, URL <http://www.unhcr.ch/html/menu3/b/h_comp43.htm>; and the 1979 UN Code of Conduct for Law Enforcement Officials, URL <http://www.unhcr.ch/html/menu3/b/h_comp42.htm>.

expected of each and every one of them. It also became the basis for discussions with stakeholder groups in Sudan.

Stakeholder engagement

In the course of developing its Code of Conduct, the company defined more precisely who its stakeholders were in relation to its activities in Sudan. In the first few years of its operations in Sudan, it had cultivated friendly relations with business partners, government representatives at the central and local levels, and community representatives. It also had informal relations with other oil companies and NGOs active in the area. However, it decided, that in view of the competing claims being made about the impact of oil in the region, it needed not only to widen the scope of these contacts but also to alter the content of its discussions to include socio-political issues.

The company's early consultations with central and local authorities had revealed a shared view that oil represented a momentous opportunity for the development of the country and the area. Even the humanitarian and development organizations it had consulted at the time recognized this potential, but they remained more reserved as to whether the wealth produced would be properly shared among the population.

This general consensus began to erode, however, when representatives of the local communities whom Lundin had met at the outset accused the Sudanese Government of renegeing on its commitments under the Khartoum Peace Agreement and decided to resign from their governmental posts. Their decision, coupled with the defection of a local tribal faction to the SPLA, represented a turning point both in the conflict and for the company. Inter-factional fighting escalated into a conflict which pitted against each other militias that were backed by the two contenders in the civil war—the Government of Sudan and the SPLA.

Judging the situation as representing an undue risk to the safety of its staff—the SPLA having then indicated that it considered oil operations and staff as legitimate military targets—Lundin decided to temporarily suspend its operations. It made its resumption of activities conditional upon a peaceful environment, noting that this could only be achieved with the support of the local community.

Lundin also decided to enhance its knowledge of the situation by consulting not only those with whom it had formal relations, such as its partners in the consortium and the government, but also those with particular knowledge of, or interest in, the conflict in Sudan. The purpose of these discussions was to share information and opinions about the conflict and to establish what was required for company operations to resume.

The institutions with which the company met included the following.

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The Sudanese Government (host government) and the Government of Unity State (local government)

Discussions with the Sudanese and local governments focused on the means to render the area conducive to oil operations. The company expressed its view that the long-term security required for sustainable oil activities could only be achieved with the support of the local community. Lundin made it clear that, in its view, military action—except for defensive purposes—was not an acceptable option.

The Nuer opposition (local community)

In its discussions with representatives of the Nuer opposition, the company attempted to convey its view that oil presented the best opportunity to achieve sustainable peace and growth in the area and encouraged them to seek a peaceful way to assert their rights to the area.

The Swedish Ministry for Foreign Affairs (home government)

It was important for Lundin, as a Swedish company, to share with the Swedish Ministry for Foreign Affairs (MFA) its views about the situation in Sudan and its approach there. Given the allegations about wrongdoings committed in its area of operations, the company kept the MFA informed of its first-hand experience in the area and the steps taken to address local needs and concerns. As a member of the European Union, Sweden had adopted a policy of constructive engagement in Sudan: the activities of the company fell within this approach, in so far as it ensured that its activities were not affecting the conflict negatively.

United Nations relief organizations (the humanitarian community)

UN organizations were present in Sudan mainly to deliver humanitarian assistance under the umbrella organization Operation Lifeline Sudan (OLS).²¹ Set up both in Khartoum to service government-controlled areas and in Lokichoggio, Kenya, to service parts of the country under SPLA control, the OLS had witnessed the unbearable toll of the war on civilians. Its main concern was to have full access to all areas of the country in order to be able to provide humanitarian relief in the case of crises. As the company had itself offered assistance to internally displaced people fleeing from areas of natural or man-made catastrophe, it shared the view of the OLS that unrestricted humanitarian access was required and raised this issue in its meetings with government and Nuer representatives.

²¹ At that time, the OLS was comprised of 42 intergovernmental and non-governmental development and humanitarian organizations, among which were the UN Children's Fund (UNICEF), the UN Office for the Coordination of Humanitarian Affairs (OCHA) and the UN Development Programme (UNDP).

The United Nations Commission on Human Rights

The UN Commission on Human Rights had two representatives for Sudan: an in-country representative, whose role was to promote respect for human rights by the Sudanese Government and in government-controlled areas; and a Special Rapporteur on the Situation of Human Rights in Sudan, whose role was to assess and report on the human rights situation throughout the country. In 1999 the Special Rapporteur claimed that oil activities had exacerbated the conflict, although he had not visited the oilfields or even consulted with the oil companies. Lundin therefore contacted him to inform him of its first-hand experience and knowledge of the situation in the area and invited him to visit the oilfields instead of relying on secondary, sometimes biased, sources. The eventual visit of the Special Rapporteur to the area took place at such a time and was of such short duration (a mere three hours) that he could not conduct an in-depth inspection. In the course of discussions with company representatives, however, he admitted that the civil war was the cause of the human rights problems and that oil, if properly channelled, could contribute to a sustainable peace.

Non-governmental organizations

The NGOs with a focus on Sudan may be categorized in two broad groups: (a) those which have a permanent presence in Sudan, and assist the population through local humanitarian or development projects; and (b) those which are based outside Sudan, and promote special interests such as human rights, religious rights, development rights, and so on. Lundin was in contact with both groups to exchange views about the situation in Sudan and means to improve it. Not surprisingly, it found that organizations with a humanitarian focus were generally supportive of the company's efforts to contribute to the local communities in its area of operations. They were prepared to talk to company representatives and even work with them on certain projects. When the stigma surrounding oil activities became significant, most chose not to be publicly associated with the company and therefore only a few cooperative ventures continued, on a confidential basis.

Lundin's experience with special-interest NGOs was more difficult. In many cases, views about the situation in Sudan were so very different that discussions rarely went beyond each side trying to convince the other of the correctness of its views. This was particularly true with respect to religious-based organizations, which characterized the conflict as an attempt by Muslims to eradicate the Christian population in the south of Sudan in order to gain access to the oil there. Although the company responded to their claims, in discussions and in writing, it felt that not much would be gained from this effort. These NGOs believed that the cessation of oil activities was a means to

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achieve peace, while the company believed that oil activities would be the basis for peace.²²

There were two notable exceptions in Lundin's relations with special-interest groups: Amnesty International, particularly the Swedish branch; and the Church of Sweden. Both organizations believed in the benefits of constructive engagement with companies operating in Sudan and met with Lundin on a number of occasions. Lundin invited their representatives to visit its concession area, but because of its suspension of oil activities and later sale of the asset the visits never materialized. Nonetheless, some of these groups' views and recommendations were taken into consideration and, where appropriate, were integrated into Lundin's business conduct.²³

Think tanks

The think tanks which had been following and reporting on Sudan for a number of years also considered how oil could act as an incentive for peace in Sudan.²⁴ Above and beyond the obvious positive benefits of oil for the overall economic performance of the country, they were interested in ascertaining whether oil could be used as a peace incentive. Discussions with representatives of think tanks were dedicated to a review of oil exploration, production and revenue distribution schemes. It was generally accepted that a fair distribution of oil resources was a necessary condition for peace, and in this regard the company drew their attention to the equitable sharing scheme laid out in the Khartoum Peace Agreement.

The media (representing public interest)

When allegations of a possible connection between the war and Lundin's operations surfaced in the press, the company decided that the best way to respond was to invite both Swedish and international journalists to visit its concession area. Until that time, journalists who had reported from the field had been able to do so only with the support of rebel forces; their reports therefore presented only one side of the story. The company believed that if they had the opportunity to visit the area without support or interference from either rebel or government forces, they would have a more balanced and realistic view of the situation. A number of journalists took up the company's suggestion and visited the area in 2001 and 2002. They produced articles for the press as well as video recordings that were aired on both Swedish and Swiss television.

²² In Mar. 2001 Lundin posted a report on its Internet site 'Lundin in Sudan' which described company activities to date and responded to allegations regarding the nature of the conflict in its area of operations.

²³ Amnesty International (AI) had issued recommendations for oil companies operating in Sudan; these were circulated among relevant company staff, as were copies of the 10 Basic Human Rights Standards for Law Enforcement Officials (note 20).

²⁴ Two US-based think tanks devoted particular attention to this issue: the Center for Strategic International Studies (CSIS), Washington, DC; and the Carter Center Peace Program, Atlanta, Georgia.

Peace negotiators

As a principle, Lundin refrains from getting involved in the political affairs of a country; it believes that it cannot make a meaningful contribution in this sphere and prefers to restrict itself to its commercial mission. The situation it encountered in Sudan, however, was exceptional, and the company needed to make clear to the protagonists in the conflict that it saw peace as the best means to ensure sustainable oil operations. In this endeavour it relied on the skills and competence of Carl Bildt, a member of Lundin Petroleum's Board of Directors, whose experience as the UN Secretary-General's Special Envoy for the Balkans in 1999–2001 was particularly relevant. In a series of trips to Brussels, Cairo, Khartoum, Nairobi and Washington, Bildt met with high-level representatives of the Sudanese Government, including the President, his peace adviser, the Minister of Energy and Mining, the Minister of Foreign Affairs, and the main representative of the Nuer community (later deputy chairman of the SPLA), as well as with representatives of the key nations acting as peace mediators, such as Kenya, Norway, the UK and the USA. Bildt delivered the same message to all: oil represented an incentive for peace in so far as oil activities could not be pursued in a war context. He also underlined how oil provided the material basis for a sustainable peace. The company's repeated suspensions of activities were a proof that oil activities could not flourish in a conflict situation, and experience in various other countries demonstrated that a conflict of this nature could not be resolved militarily. In Bildt's view, the parties had to determine for themselves their minimum, not maximum, requirements for the achievement of peace. The mediators' role was to help the parties achieve this compromise by offering them support, in the form of international monitoring and monetary assistance for purposes of reconstruction.

IV. Lessons learned

During the seven years in which it acted as operator of Block 5A in southern Sudan, Lundin was faced with a constantly changing environment. The company learned that, despite its desire to restrict itself to a commercial role, it could not ignore either the socio-political developments in its area of operations or the claims—even if unfounded—of a possible connection between its activities and the conflict.

A reaffirmation of its values in a Code of Conduct, a greater involvement in community life, stakeholder engagement and the suspension of activities were the tools adopted by the company in response to the challenges it faced.

In the spring of 2003, the company sold its interest in Block 5A at a profit. The transaction was satisfying not only from a commercial perspective but also from the perspective of corporate responsibility. At the time the company left, active peace negotiations were under way and its community development programme was maintained by its successor. This reinforced Lundin's

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belief that it is possible for business to pursue commercial objectives while meeting ethical concerns, even in areas of conflict.



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August 21, 2007

THE MINNESOTA STATE BOARD
OF INVESTMENT

60 Empire Drive Suite 355

St. Paul, MN 55103-3555

Attn: Mr. James E. Heidelberg

Manager, Public Programs

Dear Sirs,

Thank you for your letter dated August 17, 2007.

We respond as follows:

After receipt of your letter, we have internally investigated our business activities in Sudan and our transactions with Sudanese entities.

We hereby confirm that we Mitsui Engineering & Shipbuilding Co., Ltd. ("MES") have never conducted any business in Sudan or have had any transactions with Sudanese entities, private or public sectors.

However, one of our overseas subsidiaries called Burmeister & Wain Scandinavian Contractor A/S ("BWSC"), a Danish corporation having an office at Allerod, Denmark has carried out business activities in Sudan in the field of energy business since 1970's, which included delivery of diesel engine power plants, management, operation, maintenance and technical service for such plants, training, system upgrade, etc.

Historically, BWSC was owned by a Swedish corporation called Celsius Industrier AB, and MES acquired their shares in the end of 1989.

Since our acquisition up to present, it has always been our policy to respect their independence in terms of carrying out their business by limiting our control and management to a minimum extent possible, and until the time we received your letter, we were not aware of their activities in Sudan.

:
We have transmitted a copy of your letter to BWSC, and you may obtain detailed information as to their business and any other information by having a direct contact to the person described below:

Mr. Christian Grundtvig
Director
Burmeister & Wain Scandinavian Contractor A/S
Gydevang 35 P.O. Box 235
DK3450, Allerod, Denmark
(E-mail address: chg@bwsc.dk)

Regards

T. oshima

Tadayasu Oshima
General Manager, IR Dept.



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

17 September 2007

Dear Mr Heidelberg

Thank you for your letter dated 17 August 2007. Our Chief Executive Officer, Ayman Asfari, has requested that I reply on his behalf.

Petrofac is engaged in the design, build and operation of oil & gas infrastructure with a focus on some of the world's key hydrocarbon regions, in particular the Middle East, the Commonwealth of Independent States, North and West Africa, the Asia-Pacific region and the UK Continental Shelf (UKCS). Through our Operations Services division, we provide facilities management and training services, predominantly to asset owners in the UKCS, but increasingly to other regions, including Dubai, Kuwait, and Sudan.

Although Petrofac has been listed for a relatively short time (since October 2005), the Company is working very hard to develop further its corporate social responsibility programme and its human rights policies. As a consequence, we are currently looking at revising our Code of Business Conduct to address more fully our approach to corporate social responsibility and human rights, including our activities in Sudan. Our existing Code of Business Conduct states that we aim always to comply with all relevant laws, rules and regulations. Our operations in Sudan are conducted in accordance with this policy and in accordance with the relevant provisions of international law.

Petrofac is very aware of its responsibilities to the communities in which it operates and is actively working to formulate specific community relations strategies for all of its major projects with a particular emphasis on education and training. In Sudan, we have helped to fund and build a classroom at Al Shawa primary school (North of Khartoum) and we have provided computers and training to an educational institution in the Sudanese capital.

We have recently met with the US and UK arms of the Sudan Divestment taskforce to answer their specific questions about the nature and scale of our

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operations in Sudan, our social responsibility programmes and human rights policies and our operations in Sudan. We have committed to remain in an ongoing dialogue with the taskforce. A report on Petrofac is available on the Taskforce's website via:

http://www.sudandivestment.org/docs/sudan_company_profiles.pdf

I hope that this assists you in consideration of your obligations as a responsible investor and that you will remain a supportive shareholder of Petrofac.

Please do not hesitate to contact us should you require any further assistance.

Yours sincerely

Jonathan Low
Head of Investor Relations

The Weir Group PLC

Clydesdale Bank Exchange

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15 October 2007

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

Dear Mr Heidelberg

Re. The Weir Group's operations in Sudan

Thank you for your letter dated 17 August 2007 to our chief executive Mark Selway, regarding The Weir Group and our contracts in Sudan. I would like to put the situation into context from the Weir Group's viewpoint.

Around the world, Weir products generally bring positive benefits to countries as they are used to produce clean water supplies, take care of waste water, help to provide electricity, aid economic development and thereby improve the quality of life of the population.

The company supplied equipment to the Sudan for over 25 years (much of it in the Khartoum area) for most of these applications. In the majority of cases, capital equipment was supplied through international contractors or commercial enterprise for use in new developments. This pumping equipment is for use in oil exploration, production and refining, power generation, water supply, food and drink industries and agriculture.

The company, however, has not supplied any new equipment to the Sudan for some time, but is currently undertaking a small number of contracts for pump spares and installation which are due to be completed by the end of the year. The company does not have any assets or any employees permanently in Sudan.

For commercial reasons, it is not our policy to provide details of individual contracts, but trust that the information provided in this letter is helpful to you.

Yours sincerely



AWF Mitchelson
Company Secretary and Director of Corporate Services

Sudan Divestment Task Force List of "Highest Offenders" Companies in Sudan
Task Force List Effective Through November 30, 2007
 Companies Ranked from Worst to Least Problematic

Company Name	Country of Origin
China National Petroleum Corporation AKA CNPC	China
PetroChina	China
CNPC Hong Kong	Hong Kong
Petronas Gas	Malaysia
Petronas Dagangan	Malaysia
MISC Berhad AKA Malaysia International Shipping Company	Malaysia
Oil and Natural Gas Company, AKA ONGC	India
Mangalore Refinery and Petrochemicals Ltd.	India
Sinopec Group AKA China Petrochemical Corporation	China
Sinopec Corporation AKA China Petroleum and Chemical Corporation	China
Sinopec Shanghai Petrochemical Co. Ltd.	China
Sinopec Kanton Holdings	China
Lundin Petroleum	Sweden
Lundin International SA	France
AREF Investment Group	Kuwait
Muhibbah Engineering Berhad	Malaysia
Kencana Petroleum Berhad	Malaysia
Kejuruteraan Samundra Timur Bhd	Malaysia
Petrofac	UK
PECD Berhad	Malaysia
Weatherford International Limited	US
Wartsila Oyj	Finland
Bharat Heavy Electricals	India
Harbin Power Equipment Company Limited	China
Alstom	France
Wuhan Boiler Company	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
Dongfeng Automotive Company Limited	China
Mitsui Engineering & Shipbuilding Company Limited	Japan
Indian Oil Corporation Ltd. AKA IOCL	India
Lanka IOC Limited	India

Chennai Petroleum Corporation Limited (CPCL)	India
Bongaigaon Refinery & Petrochemicals Limited (BRPL)	India
Scomi Group Berhad	Malaysia
Scomi Engineering Berhad	Malaysia
Weir Group	UK
Electricity Generating Company Limited AKA EGCO	Thailand

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

Sudan Divestment Task Force List of Companies in Sudan for Ongoing Engagement

Task Force List Effective Through November 30, 2007

Companies Ranked from Worst to Least Problematic

Company Name	Country of Origin
Reliance Industries Limited AKA RIL	India
Sudan Telecommunications Company AKA Sudatel	Sudan
Bollere Group	France
Man AG	Germany
Norinco AKA China North Industries Corporation	China
Nippon Oil	Japan
Sojitz	Japan
Bharat Electronics Limited	India
Concordia Maritime	Sweden
Sterlite Optical Technologies Ltd	India
Atlas Copco AB	Sweden
Nippon Yusen AKA NYK Line	Japan
Boustead Heavy Industries Corporation	Malaysia
Total SA	France
Kamaz	Russia
Rolls Royce PLC	UK
Schlumberger	France
La Mancha Resources	Canada
Alcatel-Lucent	France
Sumatec Resources Berhad	Malaysia
Mercator Lines	India
UMW Holdings	Malaysia

Sudan Divest.Task Force List of Companies in Sudan with No Publicly Traded Equity
Task Force List Effective Through November 30, 2007

Company Name	Country of Origin
Africa Energy	Nigeria
Al-Qahtani & Sons Group of Companies	Saudi Arabia
Al-Thani Investment	United Arab Emirates
Ansan Wikfs/Shaher Trading Company	Yemen
APS Engineering Company	Italy
Arcadia Petroleum	UK
Ascom Group SA	Moldova
Sinohydro AKA China Hydraulic and Hydroelectric Construction Group	China
Delta Petrol/Tower Holdings	Turkey/Luxembourg
Dindir Petroleum/Edgo Group	Jordan
Express Petroleum and Gas Company	Nigeria
Hi Tech Petroleum	Sudan
K & K Capital Group AKA KKCG	Czech Republic
Kuwait Foreign Petroleum Exploration Company AKA Kufpec	Kuwait
Lahmeyer	Germany
Mohan Energy Corp.	India
Mott MacDonald	UK
Peschaud & Cie International	France
Petrolin	Gabon
PetroSA	South Africa
Pertamina AKA PT Pertamina Persero	Indonesia
Shandong Electric Power Construction Corporation AKA Shandong Electric Power Group	China
Sudapet AKA Sudan Petroleum Company	Sudan
Tamoil	Libya
Trafigura Beheer	Netherlands
Vitol Group	Switzerland
Zaver Petroleum Company	Pakistan

7-Nov-07

Tab F

COMMITTEE REPORT

DATE: November 26, 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, November 14, 2007 to consider the following agenda items:

- Review the manager performance for the period ending September 30, 2007.
- Update on Cohen, Klingenstein & Marks, a domestic equity manager.
- Re-interview of AllianceBernstein, a domestic equity manager.

INFORMATION ITEMS:

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

- *Domestic Equity Program*

For the period ending September 30, 2007, the **Domestic Equity Program** underperformed slightly for all other periods.

Time period	Total Program	DE Asset Class Target*
Quarter	1.4%	1.5%
1 Year	16.3%	16.5%
3 Years	13.4%	13.7%
5 Years	15.9%	16.2%

* 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 September 30, 2007, the **Fixed Income Program** underperformed the Lehman Aggregate for the quarter, matched for the year, and outperformed over all other time periods.

Time period	Total Program	Lehman Aggregate
Quarter	2.6%	2.8%
1 Year	5.1%	5.1%
3 Years	4.1%	3.9%
5 Years	4.8%	4.1%

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 September 30, 2007, the **International Equity Program** outperformed the composite index over the year, but underperformed over all other time periods.

Time Period	Total* Program	Int'l Equity Asset Class Target**
Quarter	4.2%	4.6%
1 Year	30.6%	30.5%
3 Year	25.9%	26.0%
5 Year	25.2%	25.7%

* 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. Update on Cohen, Klingenstein and Marks, a domestic equity manager.

Cohen, Klingenstein & Marks, Inc. made a presentation to the Stock & Bond Committee on November 15, 2006 to address organizational issues and the underperformance of the SBI portfolio. The Committee chose to take no action at that time, but requested an update in one year.

ORGANIZATION

Cohen was hired by the SBI in 1994 to manage a large cap growth portfolio. As of September 30, 2007, the firm had \$520 million in assets under management. The SBI withdrew \$125 million from the portfolio during a rebalancing in June 2007. As of September 30, 2007, the SBI's portfolio was valued at \$164 million. The firm has six institutional accounts.

The firm began in 1981 as a consulting firm with two principals, George Cohen and Richard Marks, providing economic and quantitative analysis to large institutional investors. Tom Klingenstein, the third principal, joined the firm in 1991. In 1990, a commitment to the money management business was made.

STAFFING

As a result of the firm's growth, three additional members were added to the firm during the late 1990's with the intention that they would become the "second generation" – Joel Silverstein, Donovan Kukul and Jessica Caie. All three left the firm between 1Q05 and 3Q06.

Sheila Devlin joined the firm in September 2005 as Managing Director. Sheila is a senior investment professional (29 years of experience) and was brought in to join the principals in guiding the growth of the firm. The fifth member of the committee, Jafar Rizvi (16 years experience), joined the firm in 2006. The firm is in the process of recruiting 1-2 investment professionals, and would also consider adding another investment team.

INVESTMENT PROCESS

The investment process has remained consistent since 1994. The team continues to run a concentrated large cap growth portfolio of approximately 33 names. The process is valuation sensitive and combines macroeconomic and fundamental analysis. The universe is a subset of the 500 largest companies, and is comprised of approximately 200-250 growth stocks. The firm takes a long term view.

PERFORMANCE

Portfolio performance is provided below.

Period (9/30/07)	CKM	Russell 1000 Growth
Quarter	4.6%	4.2%
1 Year	21.2	19.4
3 Year	9.6	12.2
5 Year	14.0	13.8
Since Inception (4/1994)	9.2	9.7

Calendar Year	CKM	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 and Marks' investment process has remained consistent and has outperformed the benchmark over the most recent quarter and year, as of September 30th. The Committee took no action at this time and staff will continue to monitor the organization closely.

3. Re-interview of AllianceBernstein, a domestic equity manager.

AllianceBernstein made a presentation to the Stock & Bond Committee to address organizational issues and the underperformance of the SBI portfolio.

ORGANIZATION

Alliance was hired by the SBI in 1984 to manage a large cap growth portfolio. Alliance Capital merged with Bernstein in the fourth quarter of 2000, forming AllianceBernstein. As of September 30, 2007, total firm assets were \$813 billion. Total assets for the US Large Cap Growth product were \$26 billion. The SBI withdrew \$275 million from the portfolio during a rebalancing in June 2007. As of September 30, 2007, the SBI's portfolio was valued at \$311 million.

STAFFING

Jack Koltres managed our account from inception in January 1984 until June 2007, when portfolio management duties were officially assigned to Stephanie Simon. Stephanie has been with AllianceBernstein for 10 years and has been Jack's back-up for the past several years. In addition to the SBI account, Stephanie manages other institutional accounts, the team portfolio, and the Strategic Growth Portfolio.

INVESTMENT PROCESS

AllianceBernstein believes that relative earnings growth drives stock performance and that over time, as growth industries mature, earnings growth rates revert toward the mean. Within this framework, the team finds investment opportunities in two distinct phases of company growth cycles. First is the acceleration phase, where a company grows faster than consensus expectations. The second type of investment opportunity occurs when a company sustains relatively strong growth for longer than the market expects or even reaccelerates its growth, delaying mean reversion.

The majority of value added is derived from the internally generated research of analysts and portfolio managers. As of June 30, 2007, there were 73 fundamental analysts; 23 US analysts, 29 non-US developed market analysts, and 21 emerging markets analysts. Each analyst tracks approximately 20-25 names in either a single industry or closely related industries.

In the past, portfolio managers had much more individual discretion over the composition of their respective portfolios. Since Jim Reilly has taken the lead, he has instituted policies to limit dispersion across client portfolios while maintaining some portfolio manager discretion. The "Favored 25" is a list of best investment ideas and is determined through team debate. At least 65% of client portfolios are invested in these names. The top 35 names represent 75-80% of client portfolios. For names outside the top 35, positions are limited to 1.5%. Position sizes are determined by the stock's rank. For example, position sizes for stocks ranked in the top 5 are generally 3.5 to 6.0%. If a manager does not hold a top 25 name, it is debated by the team. The portfolio manager must convince the other portfolio managers of his/her position or change to the team's view.

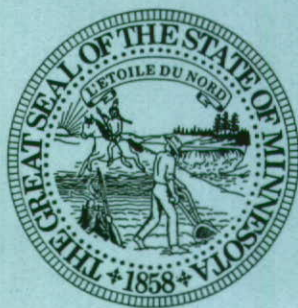
PERFORMANCE

Portfolio performance is provided below.

Period (9/30/07)	Alliance	Russell 1000 Growth
Quarter	6.6%	4.2%
1 Year	18.9	19.4
3 Year	12.3	12.2
5 Year	11.5	13.8
Since Inception (1/1984)	14.4	11.1

Calendar Year	Alliance	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

The Committee took no action at this time and requested that staff provide an update of the firm in one year.



STATE BOARD OF INVESTMENT

Domestic Equity Manager Evaluation Reports

Third Quarter, 2007

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Domestic Equity

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

	Quarter		1 Year		3 Years		5 Years	
	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %
Russell 1000 Core Aggregate	0.2	2.0	14.9	16.9	13.3	13.8		
Russell 1000 Growth Aggregate	5.6	4.2	19.6	19.4	11.3	12.2		
Russell 1000 Value Aggregate	0.2	-0.2	15.9	14.4	13.9	15.2		
Russell 2000 Growth Aggregate	4.8	0.0	29.1	18.9	16.8	14.1		
Russell 2000 Value Aggregate	-8.6	-6.3	4.9	6.1	10.1	12.5		
Active Manager Aggregate	1.2	0.9	16.9	15.9	12.9	13.5		
Semi-Passive Aggregate	1.3	2.0	15.4	16.9	13.4	13.8		
Passive Manager (BGI)	1.6	1.5	16.4	16.5	13.7	13.7		
Total Domestic Equity Aggregate	1.4	1.5	16.3	16.5	13.4	13.7		
SBI DE Asset Class Target		1.5		16.5		13.7		
Russell 3000 Index		1.5		16.5		13.7		

	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
Total Domestic Equity 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 September, 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	1.2	2.0	17.4	16.9	14.0	13.8	16.1	16.0	12.1	11.8	\$534.9	2.1%
New Amsterdam Partners (2)	0.6	2.0	14.3	16.9	11.8	13.8	15.9	17.3	13.6	12.3	\$555.9	2.2%
UBS Global	-0.8	2.0	13.6	16.9	14.1	13.8	17.0	16.0	11.5	11.1	\$863.4	3.4%
Aggregate	0.2	2.0	14.9	16.9	13.3	13.8						
Russell 1000 Growth												
Alliance Capital	6.6	4.2	18.9	19.4	12.3	12.2	11.5	13.8	14.4	11.1	\$311.7	1.2%
Cohen, Klingenstein & Marks	4.6	4.2	21.2	19.4	9.6	12.2	14.0	13.8	9.2	9.7	\$164.4	0.7%
INTECH	3.6	4.2	15.9	19.4					9.1	9.8	\$354.5	1.4%
Jacobs Levy	2.2	4.2	13.6	19.4					6.9	9.8	\$319.2	1.3%
Lazard Asset Mgmt.	6.2	4.2	24.5	19.4					11.4	9.8	\$67.7	0.3%
Sands Capital	9.8	4.2	21.0	19.4					7.8	9.8	\$244.9	1.0%
Voyageur-Chicago Equity (4)	6.6	4.2	15.4	19.4	8.9	12.2	10.9	13.8	1.3	-3.7	\$55.8	0.2%
Winslow-Large Cap	7.2	4.2	23.6	19.4					13.3	9.8	\$133.0	0.5%
Zevenbergen Capital	7.3	4.2	28.5	19.4	17.2	12.2	20.3	13.8	11.3	9.7	\$297.8	1.2%
Aggregate	5.6	4.2	19.6	19.4	11.3	12.2						
Russell 1000 Value												
Barrow, Hanley	-1.1	-0.2	14.7	14.4	14.7	15.2			13.9	13.7	\$510.2	2.0%
Earnest Partners	0.3	-0.2	14.3	14.4	16.6	15.2	19.4	18.1	7.8	9.0	\$205.5	0.8%
Lord Abnett & Co.	2.8	-0.2	14.9	14.4	14.1	15.2			11.9	13.7	\$365.0	1.5%
LSV Asset Mgmt.	-1.8	-0.2	16.3	14.4	17.4	15.2			16.1	13.7	\$496.6	2.0%
Systematic Financial Mgmt.	2.3	-0.2	20.1	14.4	17.2	15.2			15.0	13.7	\$365.9	1.5%
Aggregate	0.2	-0.2	15.9	14.4	13.9	15.2						
SMALL CAP												
Russell 2000 Growth												
McKinley Capital	2.9	0.0	24.2	18.9	15.5	14.1			11.3	10.9	\$267.6	1.1%
Next Century Growth	8.7	0.0	39.8	18.9	28.1	14.1	23.8	18.7	2.4	0.8	\$293.5	1.2%
Turner Investment Partners	2.7	0.0	26.8	18.9	16.0	14.1			12.4	10.9	\$268.5	1.1%
Aggregate	4.8	0.0	29.1	18.9	16.8	14.1						
Russell 2000 Value												
Goldman Sachs	-3.3	-6.3	10.2	6.1	11.6	12.5			11.6	12.2	\$141.1	0.6%
Hotchkis & Wiley	-17.8	-6.3	-3.4	6.1	4.9	12.5			7.1	12.2	\$121.1	0.5%
Martingale Asset Mgmt.	-7.8	-6.3	5.2	6.1	9.5	12.5			11.2	12.2	\$139.4	0.6%
Peregrine Capital	-7.0	-6.3	6.8	6.1	12.6	12.5	19.4	18.7	15.4	14.3	\$219.8	0.9%
RiverSource/Kenwood	-7.1	-6.3	3.4	6.1	10.5	12.5			11.5	12.2	\$63.0	0.3%
Aggregate	-8.6	-6.3	4.9	6.1	10.1	12.5						
Active Mgr. Aggregate (3)	1.2	0.9	16.9	15.9	12.9	13.5						

(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 was changed to the Russell 1000 Growth for all time periods on 1/1/2007.

**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 (1)	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	7.4	9.1	7.8	5.3						
Jacobs Levy	6.1	9.1	5.3	5.3						
Lazard Asset Mgmt.	7.1	9.1	6.6	5.3						
Sands Capital	-5.5	9.1	10.9	5.3						
Voyageur-Chicago Equity (3)	2.1	9.1	3.9	5.3	10.6	6.3	23.2	29.7	-20.6	-27.9
Winslow-Large Cap	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	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.	18.6	22.2	3.5	7.1						
LSV Asset Mgmt.	21.7	22.2	12.5	7.1						
Systematic Financial Mgmt.	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 (2)	11.5	15.8	6.5	6.0	12.5	12.3				

(1) 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.

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

(3) Voyageur's benchmark was changed to the Russell 1000 Growth for all time periods on 1/1/2007.

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

**COMBINED RETIREMENT FUNDS
DOMESTIC STOCK MANAGERS
Periods Ending September, 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	0.3	2.0	14.0	16.9	13.4	13.8	16.0	15.8	11.5	10.9	\$3,556.8	14.2%
Franklin Portfolio	2.1	2.0	15.5	16.9	13.5	13.8	15.2	15.8	10.6	10.9	\$2,569.9	10.3%
JP Morgan	1.8	2.0	17.1	16.9	13.3	13.8	15.6	15.8	11.0	10.9	\$2,842.4	11.3%
Semi-Passive Aggregate (R1000)	1.3	2.0	15.4	16.9	13.4	13.8	15.7	15.8	11.0	10.9		
PASSIVE MANAGER (R3000)												
Barclays Global Investors	1.6	1.5	16.4	16.5	13.7	13.7	16.2	16.2	10.5	10.4	\$8,720.3	34.8%
Historical Aggregate (3)	1.4		16.3		13.4		15.9		11.7		\$25,049.6	100.0%
SBI DE Asset Class Target (4)		1.5		16.5		13.7		16.2		11.9		
Russell 3000		1.5		16.5		13.7		16.2		12.4		
Wilshire 5000		1.5		17.0		14.0		16.5		12.3		
Russell 1000		2.0		16.9		13.8		16.0		12.6		
Russell 2000		-3.1		12.3		13.4		18.8		10.4		

(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.

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Large Cap Core (R1000)

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Large Cap Core (R1000)

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FRANKLIN PORTFOLIO ASSOCIATES
Periods Ending September, 2007

Portfolio Manager: John Cone

Assets Under Management: \$534,940,845

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 0.8 percentage points (ppt) during the quarter. Weak stock selection in the energy and financial sectors proved detrimental.

For the year, the portfolio outperformed by 0.5 ppt. Strong stock selection in autos & transportation and consumer discretionary sectors aided returns.

Recommendation

No action required

Quantitative Evaluation

Period Returns

(Annualized for multi-year periods)

	Actual	Russell 1000 Core
Last Quarter	1.2%	2.0%
Last 1 year	17.4	16.9
Last 2 years	14.7	13.5
Last 3 years	14.0	13.8
Last 4 years	14.8	13.8
Last 5 years	16.1	16.0
Since Inception (4/89)	12.1	11.8

Calendar Year Returns

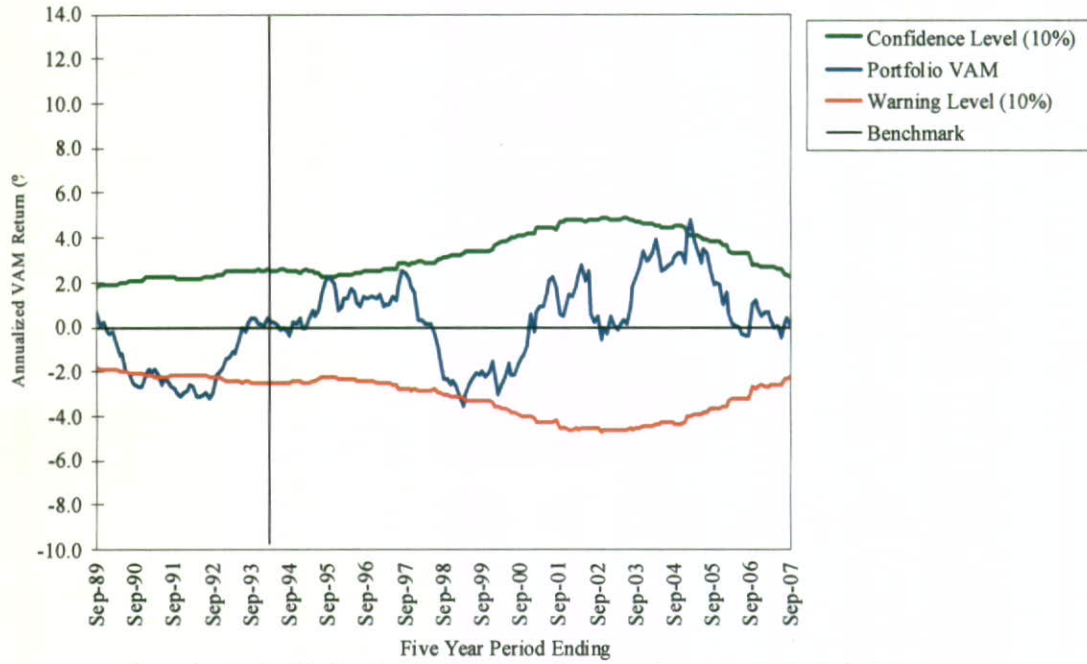
	Actual	Russell 1000 Core
2006	20.4%	15.5%
2005	3.4	6.3
2004	15.7	11.4
2003	32.9	29.9
2002	-25.4	-21.7

FRANKLIN PORTFOLIO ASSOCIATES
Periods Ending September, 2007

Portfolio Manager: John Cone

Assets Under Management: \$534,940,845

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 September, 2007

Portfolio Manager: Michelle Clayman

Assets Under Management: \$555,940,484

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 1.4 percentage point (ppt) during the quarter and 2.6 ppt for the year. The underperformance in both periods was attributed to weak stock selection in the financial sector primarily from companies impacted by the volatility in the credit markets.

Recommendation

No action required.

Quantitative Evaluation

Period Returns

(Annualized for multi-year periods)

	Actual	Russell Index (1)
Last Quarter	0.6%	2.0%
Last 1 year	14.3	16.9
Last 2 years	9.3	13.5
Last 3 years	11.8	13.8
Last 4 years	13.0	13.8
Last 5 years	15.9	17.3
Since Inception (4/94)	13.6	12.3

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

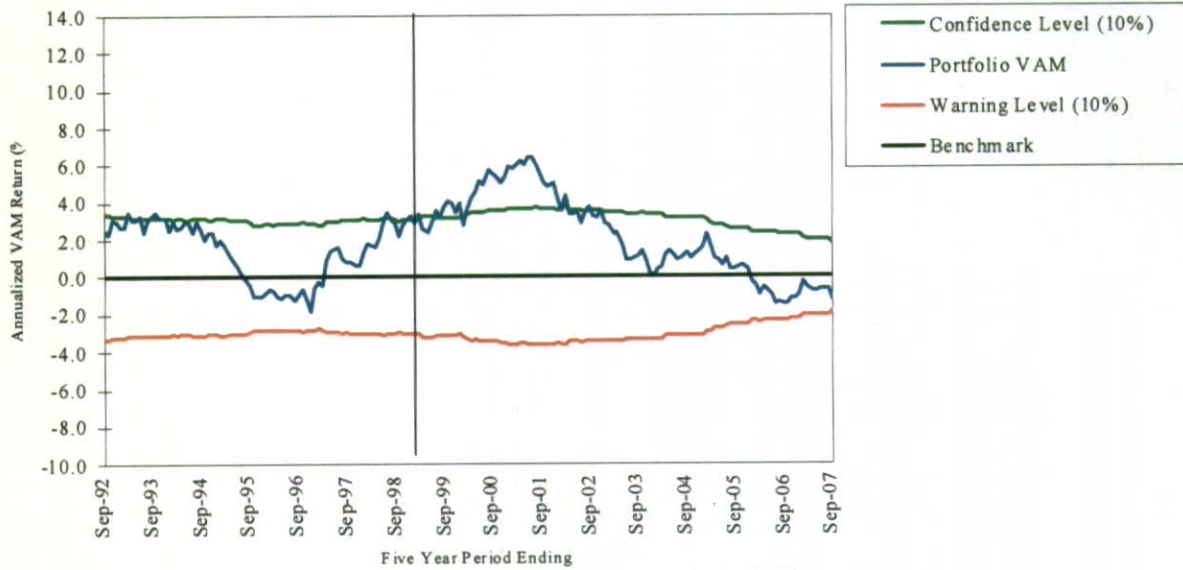
- (1) New Amsterdam Partners' published benchmark is the Russell 1000 Core beginning 10/1/03. Prior to that date it was the Russell Midcap index.

NEW AMSTERDAM PARTNERS
Periods Ending September, 2007

Portfolio Manager: Michelle Clayman

Assets Under Management: \$555,940,484

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 September, 2007

Portfolio Manager: John Leonard

Assets Under Management: \$863,364,416

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

Staff met with portfolio managers, John Leonard and Tom Cole, in the UBS Chicago office. In May 2007, John was appointed Head of Core Equities overseeing research and portfolio management worldwide and Tom Cole was appointed Deputy Head US Equities. John Leonard and Tom Cole lead the team of 22 analysts.

The portfolio underperformed by 2.8 percentage points (ppt) during the quarter and 3.3 ppt for the year. The underperformance in both periods was attributed to poor stock selection, an underweight position in materials & processing, and no allocation to the integrated oil sector.

Recommendation

No action required.

Quantitative Evaluation

Period Returns

(Annualized for multi-year periods)

	Actual	Russell 1000 Core
Last Quarter	-0.8%	2.0%
Last 1 year	13.6	16.9
Last 2 years	14.0	13.5
Last 3 years	14.1	13.8
Last 4 years	14.7	13.8
Last 5 years	17.0	16.0
Since Inception (7/93)	11.5	11.1

Calendar Year Returns

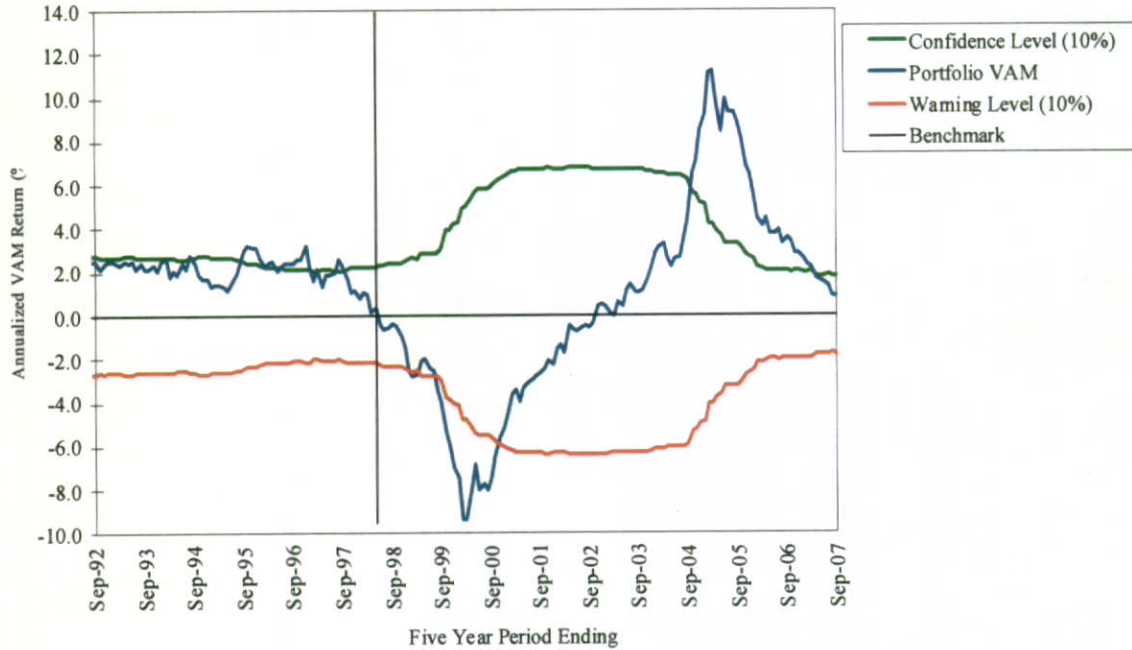
	Actual	Russell 1000 Core
2006	16.8%	15.5%
2005	8.6	6.3
2004	13.4	11.4
2003	30.7	29.9
2002	-14.7	-21.7

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

Portfolio Manager: John Leonard

Assets Under Management: \$863,364,416

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 September, 2007

Portfolio Manager: Stephanie Simon

Assets Under Management: \$311,725,426

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

Staff met with Alliance at their offices in Chicago and Minneapolis this quarter.

The portfolio outperformed during the quarter by 2.4 percentage points (ppt). Strong stock selection in technology in addition to strong stock selection and an underweight position in the consumer discretionary sector contributed to performance. For the year, the portfolio underperformed by 0.5 ppt due to weak stock selection and overweight position in the financial sector.

Recommendation

Stephanie Simon, who has been SBI's portfolio manager since 7/1/07, will make a presentation to the Stock & Bond Committee. A memo providing background information on the firm is provided.

Quantitative Evaluation

Period Returns

(Annualized for multi-year periods)

	Actual	Russell 1000 Growth
Last Quarter	6.6%	4.2%
Last 1 year	18.9	19.4
Last 2 years	9.9	12.5
Last 3 years	12.3	12.2
Last 4 years	10.6	11.0
Last 5 years	11.5	13.8
Since Inception (1/84)	14.4	11.1

Calendar Year Returns

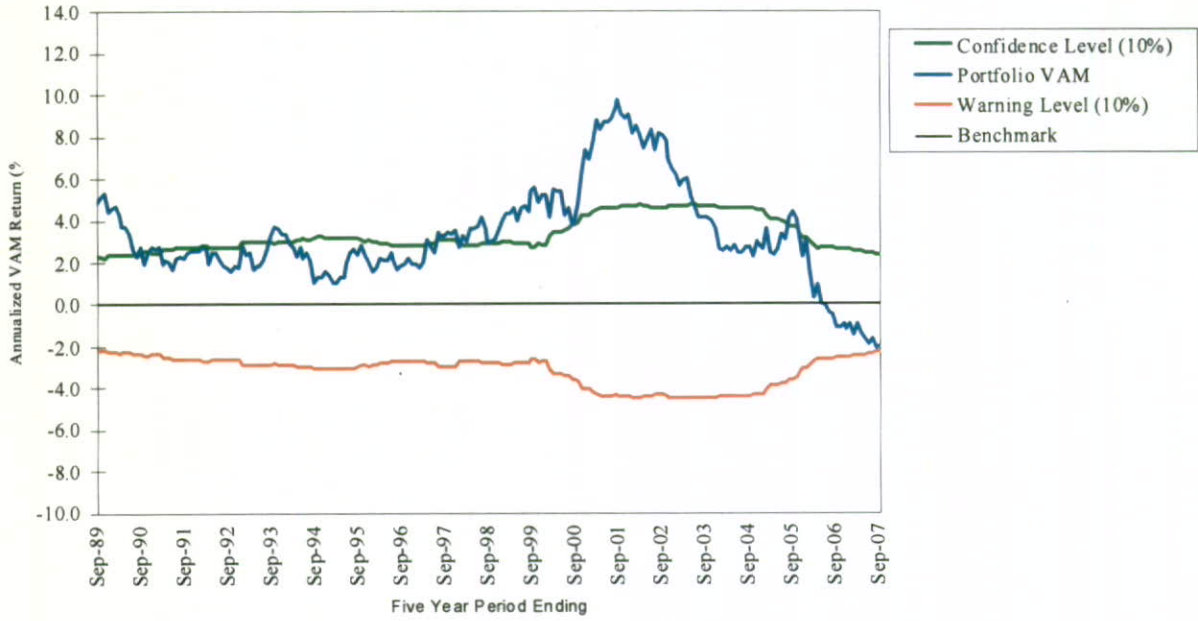
	Actual	Russell 1000 Growth
2006	-0.4%	9.1%
2005	14.2	5.3
2004	5.7	6.3
2003	22.4	29.7
2002	-26.8	-27.9

ALLIANCE CAPITAL MANAGEMENT
Periods Ending September, 2007

Portfolio Manager: Stephanie Simon

Assets Under Management: \$311,725,426

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



COHEN KLINGENSTEIN & MARKS INCORPORATED

Periods Ending September, 2007

Portfolio Manager: George Cohen**Assets Under Management: \$164,370,026****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 0.4 percentage point (ppt). Strong stock selection coupled with an overweight position in the technology sector benefited performance.

For the year the portfolio outperformed by 1.8 ppt. Strong stock selection in the consumer discretionary, financial and technology sectors contributed to performance.

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	4.6%	4.2%
Last 1 year	21.2	19.4
Last 2 years	10.1	12.5
Last 3 years	9.6	12.2
Last 4 years	7.8	11.0
Last 5 years	14.0	13.8
Since Inception (4/94)	9.2	9.7

Calendar Year Returns

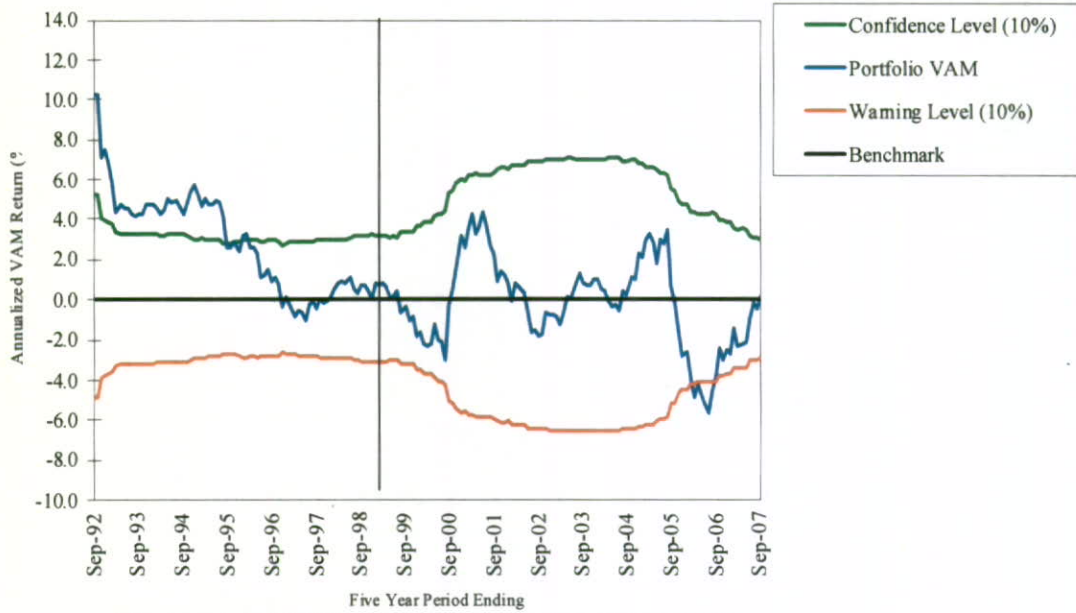
	Actual	Russell 1000 Growth
2006	4.4%	9.1%
2005	-0.9	5.3
2004	6.1	6.3
2003	41.2	29.7
2002	-35.0	-27.9

COHEN KLINGENSTEIN & MARKS INCORPORATED
Periods Ending September, 2007

Portfolio Manager: George Cohen

Assets Under Management: \$164,370,026

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 September, 2007

Portfolio Manager: Robert Fernholz

Assets Under Management: \$ 354,525,898

Investment Philosophy

Through the application of a proprietary mathematical process, the investment strategy is designed to determine more efficient weightings of the securities within the Russell 1000 Growth benchmark. No specific sector or security selection decisions based on fundamentals are required. Risk parameters include: 1) minimize absolute standard deviation or maximize information ratio, 2) security positions limited to lesser of 2.5% or 10 times maximum index security weight, and 3) beta equal to or less than benchmark beta. Target security positions are established using an optimization routine designed to build a portfolio that will outperform a passive benchmark over the long term. Rebalancing to target proportions occurs every six (6) business days, and partial re-optimization occurs weekly.

Staff Comments

The portfolio underperformed by 0.6 percentage points (ppt) during the quarter and 3.5 ppt for the year. Negative short-term trending in the overweighted and underweighted stocks was the primary driver of the underperformance for the quarter and the year.

Recommendation

No action required.

Quantitative Evaluation

Period Returns

(Annualized for multi-year periods)

	Actual	Russell 1000 Growth
Last Quarter	3.6%	4.2%
Last 1 year	15.9	19.4
Last 2 years	10.7	12.5
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)	9.1	9.8

Calendar Year Returns

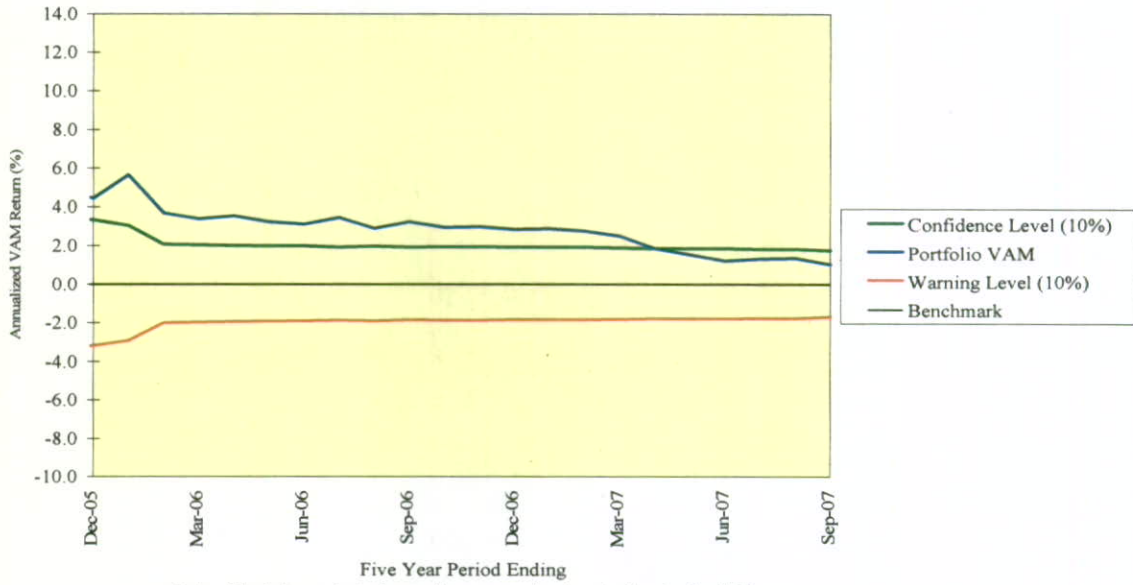
	Actual	Russell 1000 Growth
2006	7.4%	9.1%
2005	7.8	5.3
2004	N/A	N/A
2003	N/A	N/A
2002	N/A	N/A

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

Portfolio Manager: Robert Fernholz

Assets Under Management: \$354,525,898

INTECH (Enhanced Investment Technologies, LLC)
 Rolling Five Year VAM vs. Russell 1000 Growth



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

JACOBS LEVY EQUITY MANAGEMENT
Periods Ending September, 2007

Portfolio Manager: Bruce Jacobs and Ken Levy

Assets Under Management: \$319,151,867

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 2.0 percentage points (ppt) during the quarter and 5.8 ppt for the year. In both periods weak stock selection in the financial and technology sectors detracted from performance.

Recommendation

No action required.

Quantitative Evaluation

Period Returns

(Annualized for multi-year periods)

	Actual	Russell 1000 Growth
Last Quarter	2.2%	4.2%
Last 1 year	13.6	19.4
Last 2 years	8.9	12.5
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)	6.9	9.8

Calendar Year Returns

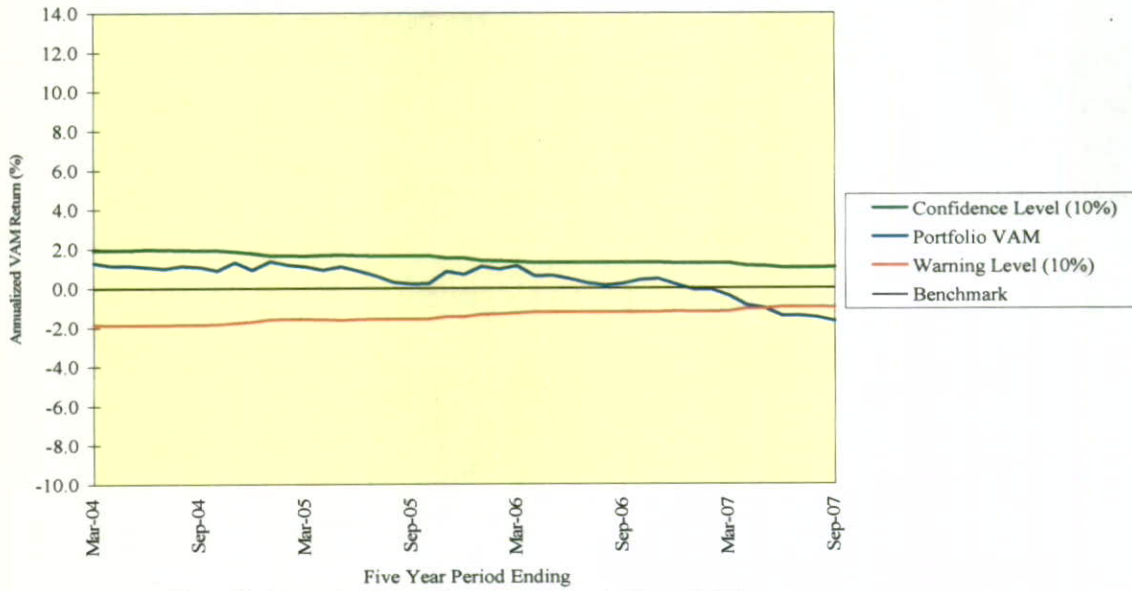
	Actual	Russell 1000 Growth
2006	6.1%	9.1%
2005	5.3	5.3
2004	N/A	N/A
2003	N/A	N/A
2002	N/A	N/A

JACOBS LEVY EQUITY MANAGEMENT
Periods Ending September, 2007

Portfolio Manager: Bruce Jacobs and Ken Levy

Assets Under Management: \$319,151,867

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 September, 2007

Portfolio Manager: Jim Tatera

Assets Under Management: \$67,711,741

Investment Philosophy

Staff Comments

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.

No comment at this time.

Recommendation

No action required.

Quantitative Evaluation

Period Returns

(Annualized for multi-year periods)

	Actual	Russell 1000 Growth
Last Quarter	6.2%	4.2%
Last 1 year	24.5	19.4
Last 2 years	15.2	12.5
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)	11.4	9.8

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 September, 2007

Portfolio Manager: Jim Tatera

Assets Under Management: \$67,711,741

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 September, 2007

Portfolio Manager: Frank Sands, Sr.

Assets Under Management: \$244,917,859

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.

The portfolio outperformed by 5.6 percentage points (ppt) during the quarter and 1.6 ppt for the year. In both periods an overweight position in the energy sector proved beneficial. Strong stock selection enhanced the returns.

Recommendation

No action required.

Quantitative Evaluation

Period Returns

(Annualized for multi-year periods)

	Actual	Russell 1000 Growth
Last Quarter	9.8%	4.2%
Last 1 year	21.0	19.4
Last 2 years	9.0	12.5
Last 3 years	N/A	N/A
Last 4 years	N/A	N/A
Last 5 years	N/A	N/A
Since Inception (1/05)	7.8	9.8

Calendar Year Returns

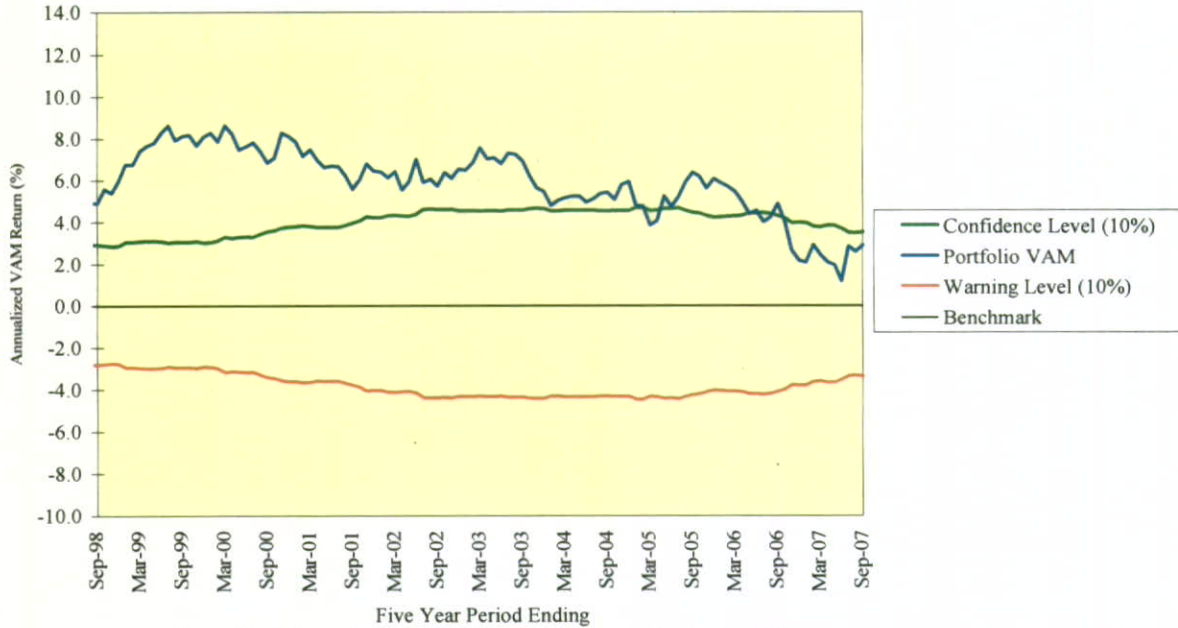
	Actual	Russell 1000 Growth
2006	-5.5%	9.1%
2005	10.9	5.3
2004	N/A	N/A
2003	N/A	N/A
2002	N/A	N/A

SANDS CAPITAL MANAGEMENT LLC
Periods Ending September, 2007

Portfolio Manager: Frank Sands, Sr.

Assets Under Management: \$244,917,859

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 September, 2007

Portfolio Manager: David Cox and Nancy Scinto

Assets Under Management: \$55,755,490

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

Staff met with Voyageur in their Chicago office this quarter.

The portfolio outperformed by 2.4 percentage points (ppt) during the quarter. Strong stock selection in the health care and technology sectors benefited returns. For the year the portfolio underperformed by 4.0 ppt. Weak stock selection in consumer discretionary and materials & processing hurt returns.

Recommendation

The Stock & Bond Committee re-interviewed manager at the 8/15/2007 meeting. Staff continues to monitor closely.

Quantitative Evaluation

Period Returns

(Annualized for multi-year periods)

	Actual	Russell 1000 Growth
Last Quarter	6.6%	4.2%
Last 1 year	15.4	19.4
Last 2 years	8.9	12.5
Last 3 years	8.9	12.2
Last 4 years	9.5	11.0
Last 5 years	10.9	13.8
Since Inception (7/00)	1.3	-3.7

Calendar Year Returns

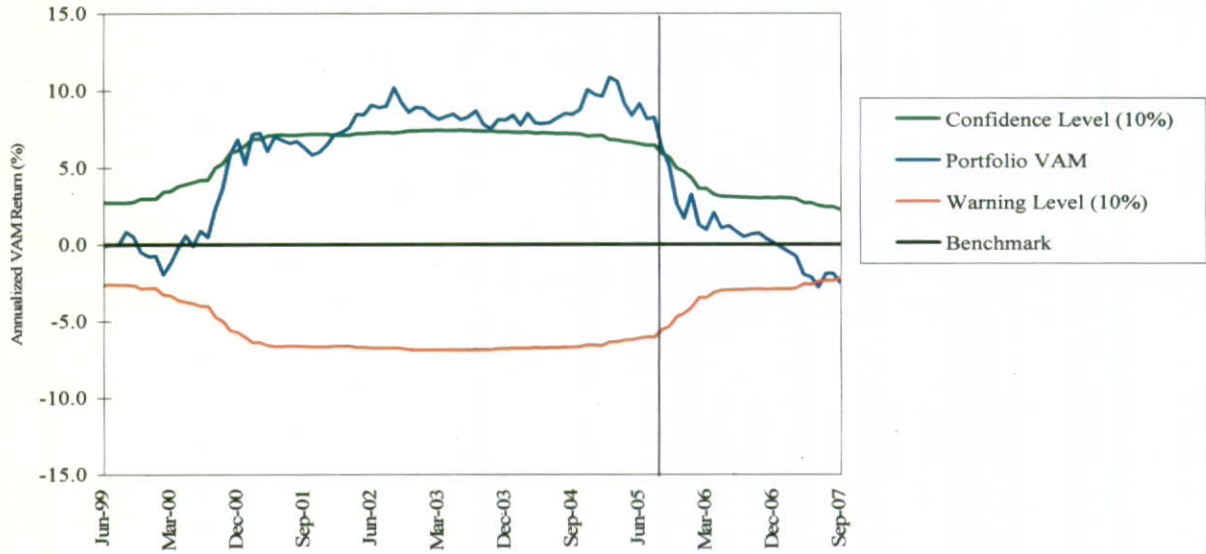
	Actual	Russell 1000 Growth
2006	2.1%	9.1%
2005	3.9	5.3
2004	10.6	6.3
2003	23.2	29.7
2002	-20.6	-27.9

VOYAGEUR ASSET MANAGEMENT
Periods Ending September, 2007

Portfolio Manager: David Cox and Nancy Scinto

Assets Under Management: \$55,755,490

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



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

WINSLOW CAPITAL MANAGEMENT, INC.
Periods Ending September, 2007

Portfolio Manager: Clark Winslow

Assets Under Management: \$132,985,008

Investment Philosophy

Staff Comments

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.

No comment at this time.

Recommendation

No action required.

Quantitative Evaluation

Period Returns

(Annualized for multi-year periods)

	Actual	Russell 1000 Growth
Last Quarter	7.2%	4.2%
Last 1 year	23.6	19.4
Last 2 years	15.1	12.5
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)	13.3	9.8

Calendar Year Returns

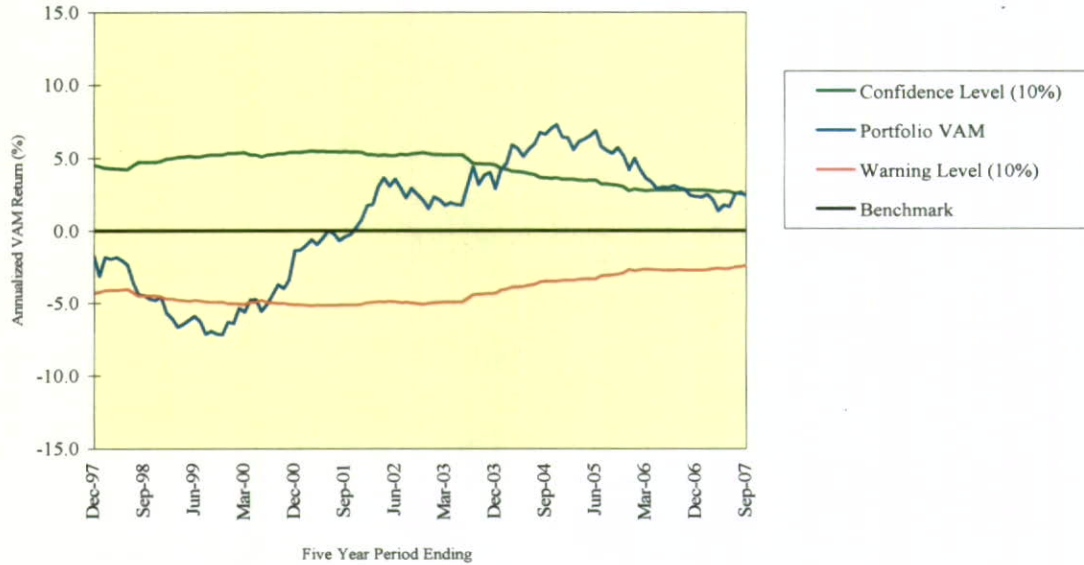
	Actual	Russell 1000 Growth
2006	7.6%	9.1%
2005	10.5	5.3
2004	N/A	N/A
2003	N/A	N/A
2002	N/A	N/A

WINSLOW CAPITAL MANAGEMENT, INC.
Periods Ending September, 2007

Portfolio Manager: Clark Winslow

Assets Under Management: \$132,985,008

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 September, 2007

Portfolio Manager: Nancy Zevenbergen

Assets Under Management: \$297,773,089

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	7.3%	4.2%
Last 1 year	28.5	19.4
Last 2 years	17.9	12.5
Last 3 years	17.2	12.2
Last 4 years	16.0	11.0
Last 5 years	20.3	13.8
Since Inception (4/94)	11.3	9.7

Calendar Year Returns

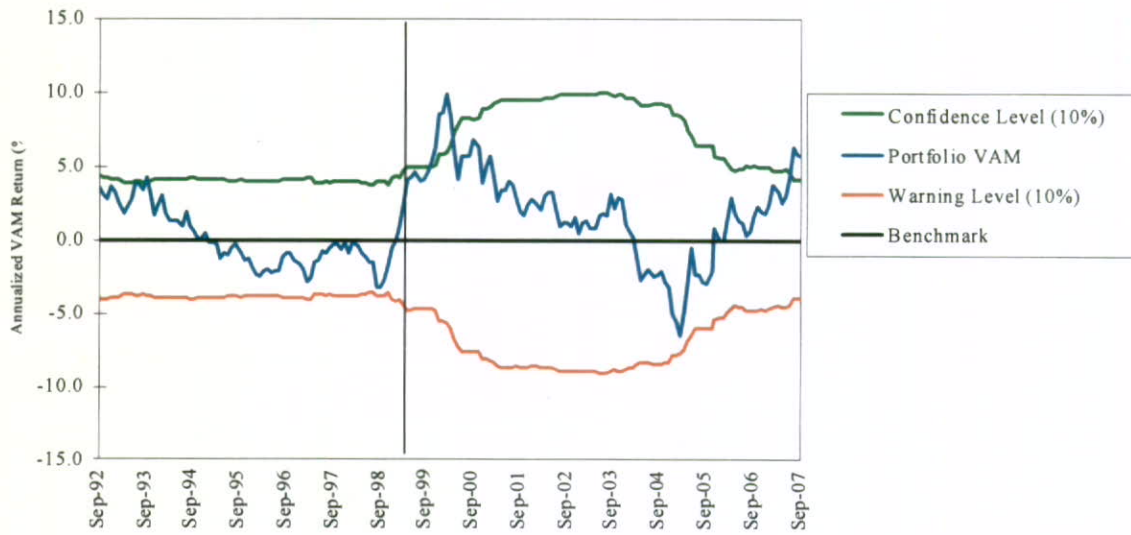
	Actual	Russell 1000 Growth
2006	6.2%	9.1%
2005	9.0	5.3
2004	13.1	6.3
2003	49.3	29.7
2002	-36.2	-27.9

ZEVENBERGEN CAPITAL INC.
Periods Ending September, 2007

Portfolio Manager: Nancy Zevenbergen

Assets Under Management: \$297,773,089

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 September, 2007

Portfolio Manager: Tim Culler

Assets Under Management: \$510,154,003

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	-1.1%	-0.2%
Last 1 year	14.7	14.4
Last 2 years	11.4	14.5
Last 3 years	14.7	15.2
Last 4 years	N/A	N/A
Last 5 years	N/A	N/A
Since Inception (4/04)	13.9	13.7

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

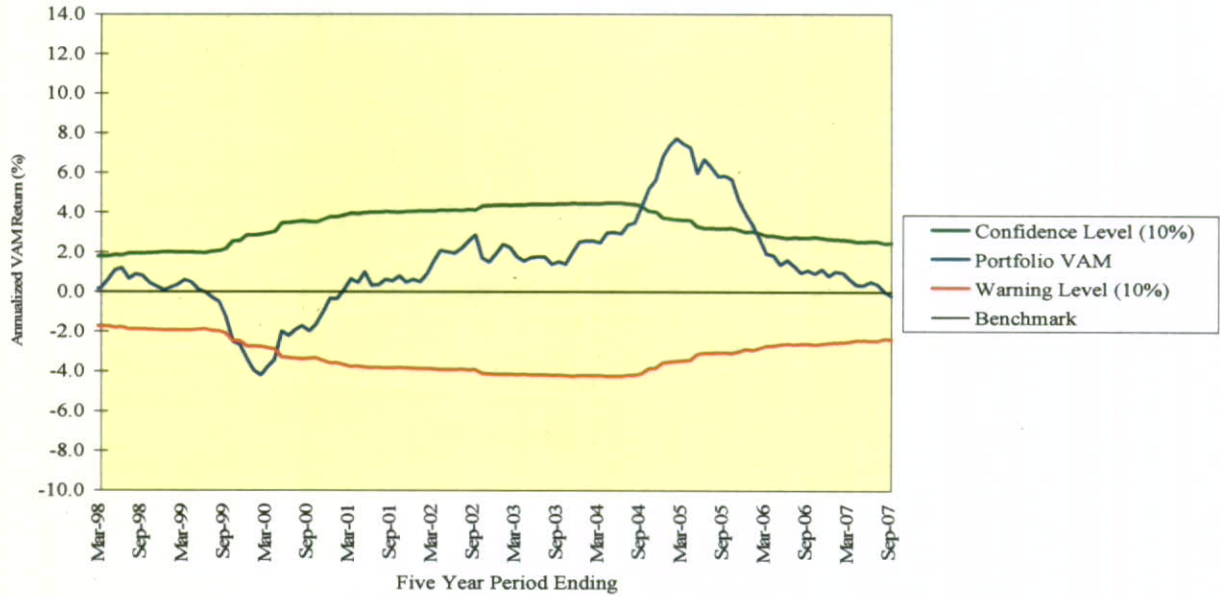
* Note: Manager was funded 4/04. Includes full-year returns only. Performance of managers hired during a calendar year are reported beginning with the following calendar year.

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

Portfolio Manager: Tim Culler

Assets Under Management: \$510,154,003

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 September, 2007

Portfolio Manager: Paul Viera

Assets Under Management: \$205,524,130

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	0.3%	-0.2%
Last 1 year	14.3	14.4
Last 2 years	12.9	14.5
Last 3 years	16.6	15.2
Last 4 years	17.8	16.5
Last 5 years	19.4	18.1
Since Inception (7/00)	7.8	9.0

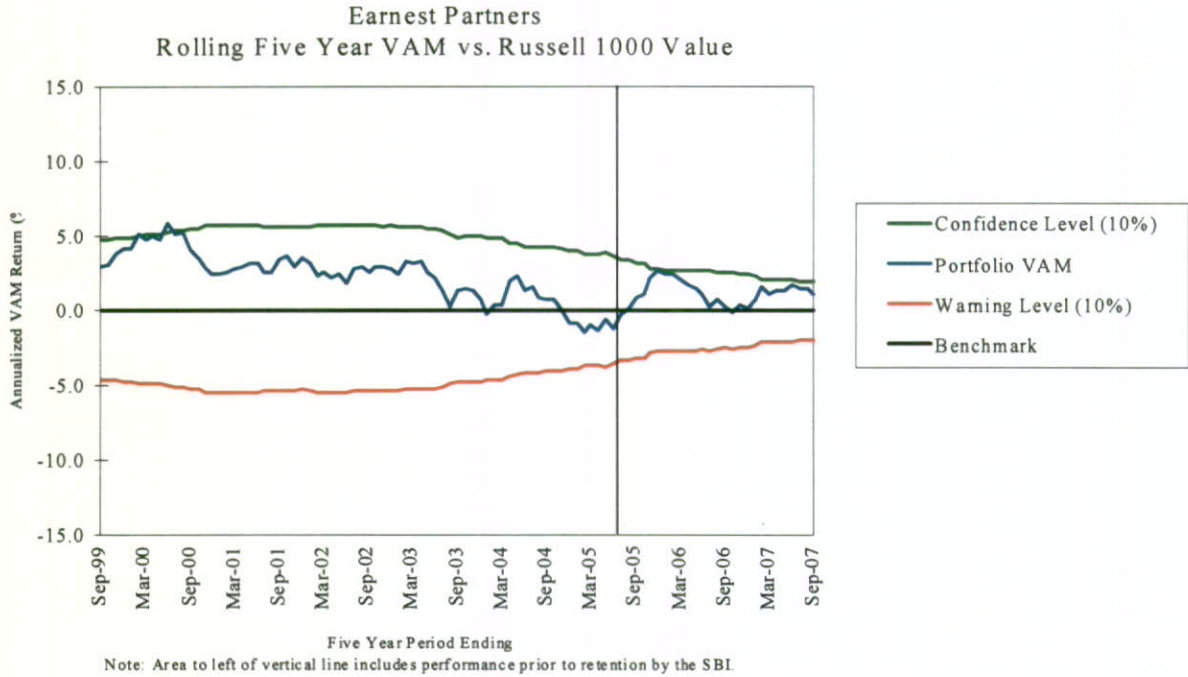
Calendar Year Returns

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

EARNEST PARTNERS, LLC
Periods Ending September, 2007

Portfolio Manager: Paul Viera

Assets Under Management: \$205,524,130



LORD ABBETT & CO. LLC
Periods Ending September, 2007

Portfolio Manager: Eli Saltzmann

Assets Under Management: \$365,011,080

Investment Philosophy

Staff Comments

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.

No comment at this time.

Recommendation

No action required.

As a value manager, Lord Abbett believes that the market systematically misprices stocks. By coupling valuation criteria with thorough research of corporate and industry fundamentals, informed judgments can be made about where the market would price these stocks at fair value. The portfolio is constructed to exploit pricing discrepancies where it is perceived that: 1) these price differences will be closed over a reasonable period of time, or 2) there may be a catalyst for price appreciation. This process is implemented while maintaining sensitivity to both benchmark and macro-economic risk exposures.

Quantitative Evaluation

Period Returns

(Annualized for multi-year periods)

	Actual	Russell 1000 Value
Last Quarter	2.8%	-0.2%
Last 1 year	14.9	14.4
Last 2 years	15.0	14.5
Last 3 years	14.1	15.2
Last 4 years	N/A	N/A
Last 5 years	N/A	N/A
Since Inception (4/04)	11.9	13.7

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

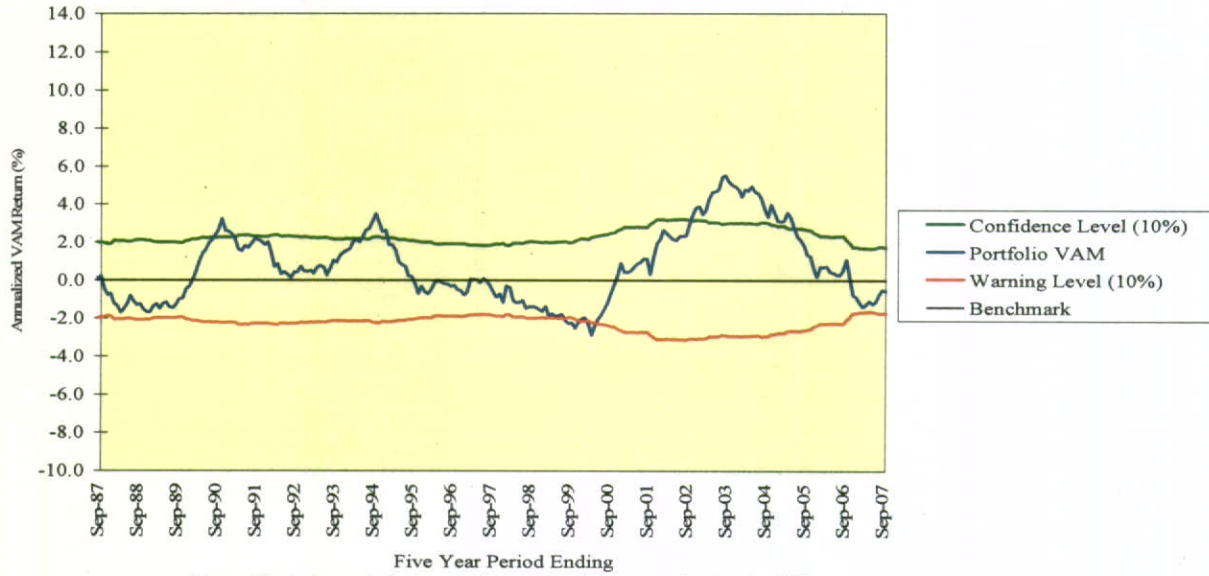
* Note: Manager was funded 4/04. Includes full-year returns only. Performance of managers hired during a calendar year are reported beginning with the following calendar year.

LORD ABBETT & CO. LLC
Periods Ending September, 2007

Portfolio Manager: Eli Saltzmann

Assets Under Management: \$365,011,080

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 September, 2007

Portfolio Manager: Josef Lakonishok

Assets Under Management: \$496,638,329

Investment Philosophy

The fundamental premise on which LSV's investment philosophy is based is that superior long-term results can be achieved by systematically exploiting the judgmental biases and behavioral weaknesses that influence the decisions of many investors. These include: the tendency to extrapolate the past too far into the future, wrongly equating a good company with a good investment irrespective of price, ignoring statistical evidence and developing a "mindset" about a company.

The strategy's primary emphasis is the use of quantitative techniques to select individual securities in what would be considered a bottom-up approach. Value factors and security selection dominate sector/industry factors as explanatory variables of performance. The competitive strength of this strategy is that it avoids introducing to the process any judgmental biases and behavioral weaknesses that often influence investment decisions.

Quantitative Evaluation

Period Returns

(Annualized for multi-year periods)

	Actual	Russell 1000 Value
Last Quarter	-1.8%	-0.2%
Last 1 year	16.3	14.4
Last 2 years	15.0	14.5
Last 3 years	17.4	15.2
Last 4 years	N/A	N/A
Last 5 years	N/A	N/A
Since Inception (4/04)	16.1	13.7

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.

Recommendation

No action required.

Staff met with LSV in their Chicago office this quarter. The product remains closed to new investors.

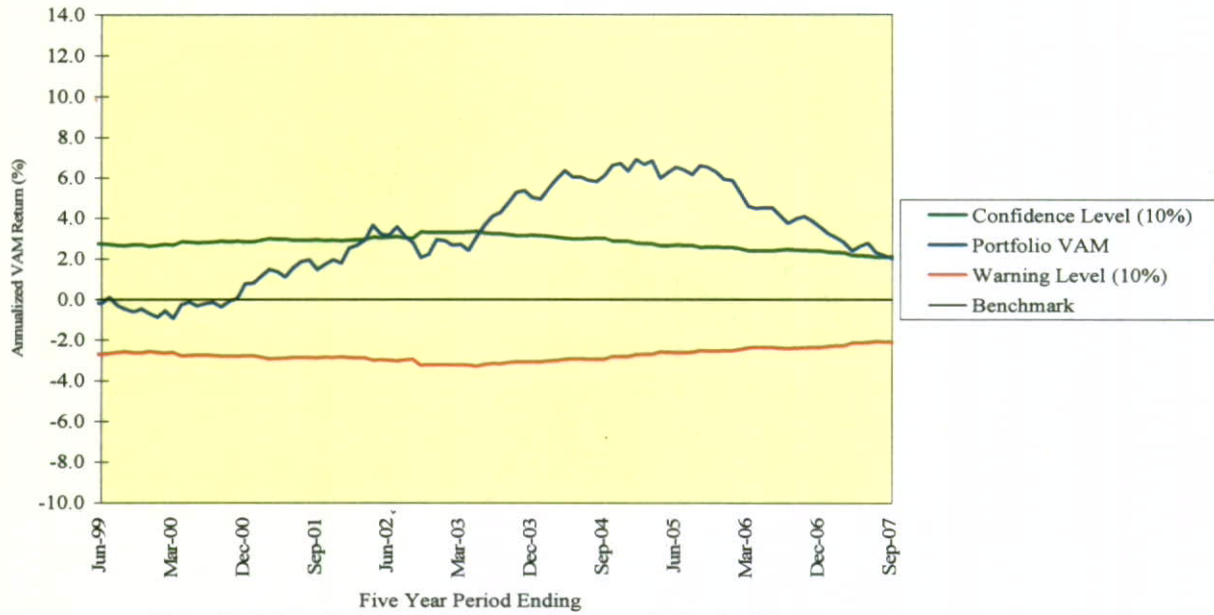
The portfolio underperformed by 1.6 percentage points (ppt) for the quarter. Weak stock selection in the financial and consumer discretionary sectors hurt performance. For the year the portfolio outperformed by 1.9 ppt. The portfolio benefited from an overweight position in the integrated oils sector and strong stock selection in consumer staples.

LSV ASSET MANAGEMENT
Periods Ending September, 2007

Portfolio Manager: Josef Lakonishok

Assets Under Management: \$496,638,329

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 September, 2007

Portfolio Manager: Kevin McCreesh

Assets Under Management: \$365,875,437

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 2.5 percentage points (ppt) during the quarter and 5.7 ppt for the year. An underweight position in the financial sector combined with effective stock selection aided returns for the quarter and the year.

Recommendation

No action required.

The investment process begins with quantitative screening that ranks the universe based on: 1) low forward P/E, and 2) a positive earnings catalyst, which is determined by a proprietary 16-factor model that is designed to be predictive of future positive earnings surprises. The screening process generates a research focus list of 150 companies, sorted by sector, upon which rigorous fundamental analysis is conducted to confirm each stock's value and catalysts for appreciation.

Quantitative Evaluation

Period Returns

(Annualized for multi-year periods)

	Actual	Russell 1000 Value
Last Quarter	2.3%	-0.2%
Last 1 year	20.1	14.4
Last 2 years	15.5	14.5
Last 3 years	17.2	15.2
Last 4 years	N/A	N/A
Last 5 years	N/A	N/A
Since Inception (4/04)	15.0	13.7

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

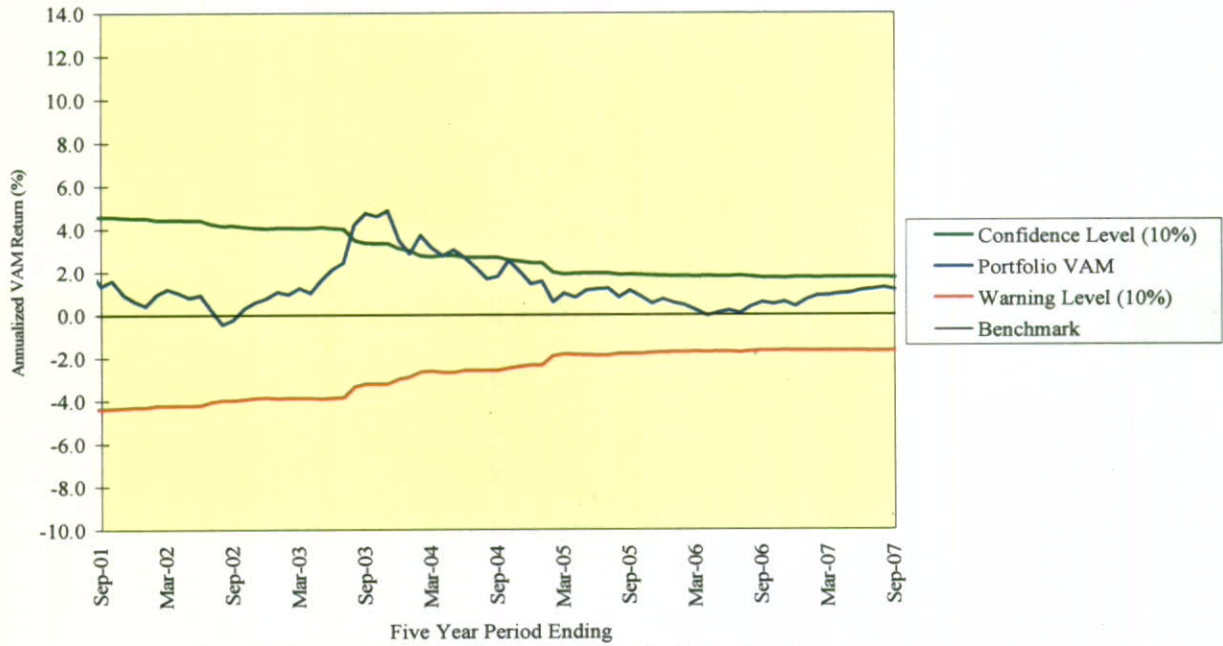
* Note: Manager was funded 4/04. Includes full-year returns only. Performance of managers hired during a calendar year are reported beginning with the following calendar year.

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

Portfolio Manager: Kevin McCreesh

Assets Under Management: \$365,875,437

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 September, 2007

Portfolio Manager: Robert Gillam, Sr.

Assets Under Management: \$267,560,080

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	2.9%	0.0%
Last 1 year	24.2	18.9
Last 2 years	14.2	12.2
Last 3 years	15.5	14.1
Last 4 years	N/A	N/A
Last 5 years	N/A	N/A
Since Inception (1/04)	11.3	10.9

Calendar Year Returns

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

Staff Comments

No comment at this time.

Recommendation

No action required.

MCKINLEY CAPITAL MANAGEMENT
Periods Ending September, 2007

Portfolio Manager: Robert Gillam, Sr.

Assets Under Management: \$267,560,080

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 September, 2007

Portfolio Manager: Thomas Press and Don Longlet

Assets Under Management: \$293,472,529

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

Staff met with Next Century in their Minneapolis office this quarter. The small cap growth product remains closed to new investors.

The portfolio outperformed by 8.7 percentage points (ppt) for the quarter and 20.9 ppt for the year. Stock selection in the consumer discretionary and technology sectors benefited returns for both time periods.

Recommendation

No action required.

Quantitative Evaluation

Period Returns

(Annualized for multi-year periods)

	Actual	Russell 2000 Growth
Last Quarter	8.7%	0.0%
Last 1 year	39.8	18.9
Last 2 years	24.2	12.2
Last 3 years	28.1	14.1
Last 4 years	20.7	13.6
Last 5 years	23.8	18.7
Since Inception (7/00)	2.4	0.8

Calendar Year Returns

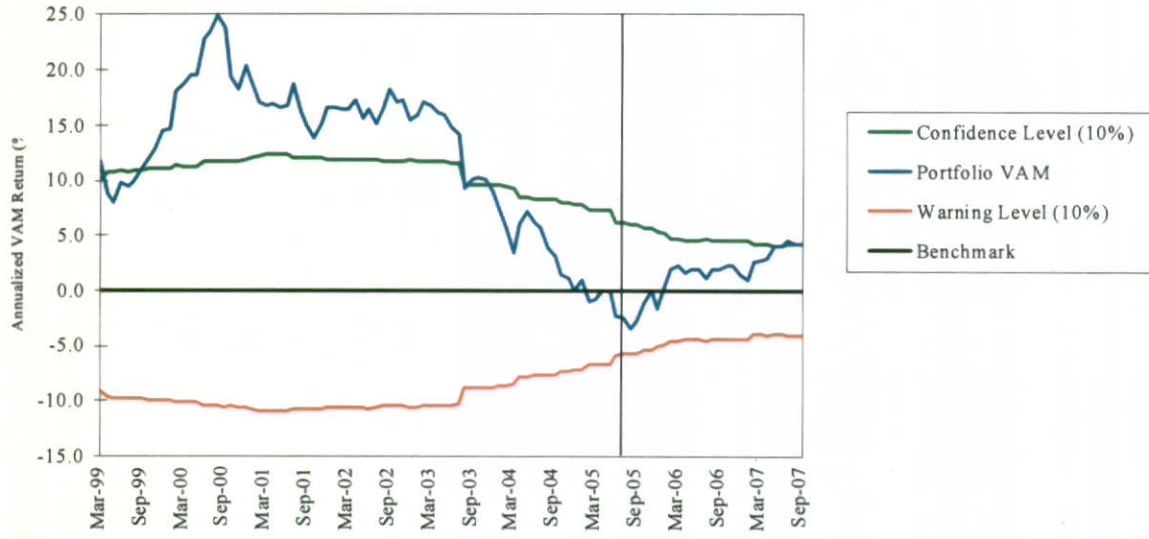
	Actual	Russell 2000 Growth
2006	12.4%	13.3%
2005	25.2	4.2
2004	6.4	14.3
2003	50.7	48.5
2002	-33.3	-30.3

NEXT CENTURY GROWTH INVESTORS, LLC
Periods Ending September, 2007

Portfolio Manager: Thomas Press and Don Longlet

Assets Under Management: \$293,472,529

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



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

TURNER INVESTMENT PARTNERS
Periods Ending September, 2007

Portfolio Manager: William McVail

Assets Under Management: \$268,500,983

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.

Quantitative Evaluation

Period Returns

(Annualized for multi-year periods)

	Actual	Russell 2000 Growth
Last Quarter	2.7%	0.0%
Last 1 year	26.8	18.9
Last 2 years	16.1	12.2
Last 3 years	16.0	14.1
Last 4 years	N/A	N/A
Last 5 years	N/A	N/A
Since Inception (1/04)	12.4	10.9

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

Staff Comments

Turner Investment Partners has announced that it will offer a minority of its equity ownership to the public and expects the offering to be completed by the end of the year.

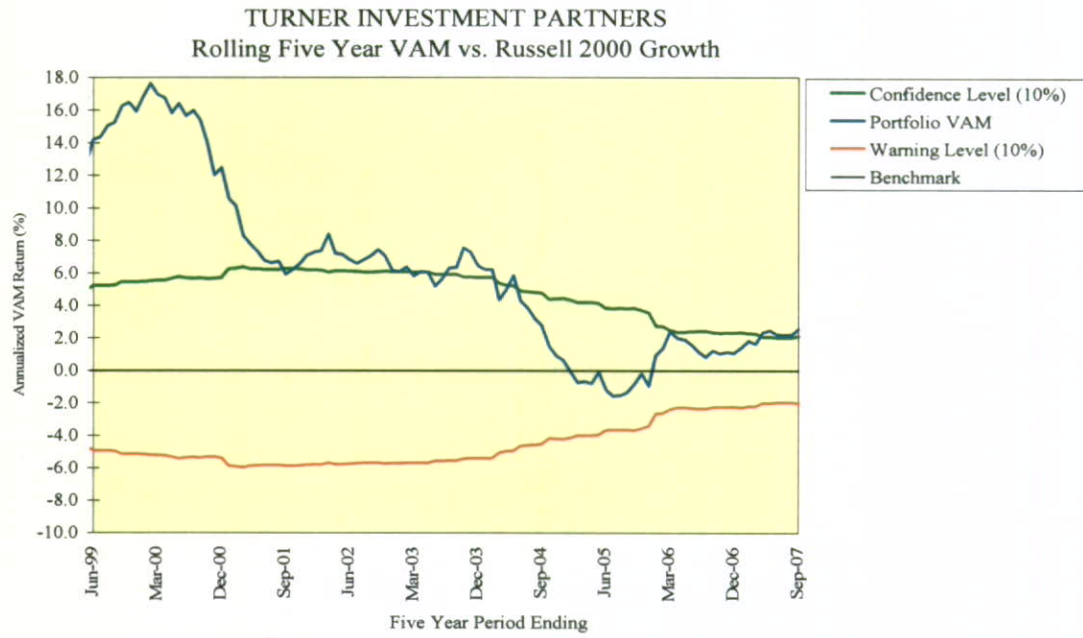
Recommendation

No action required.

TURNER INVESTMENT PARTNERS
Periods Ending September, 2007

Portfolio Manager: William McVail

Assets Under Management: \$268,500,983



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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 September, 2007

Portfolio Manager: Chip Otness

Assets Under Management: \$141,078,865

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	-3.3%	-6.3%
Last 1 year	10.2	6.1
Last 2 years	11.5	10.0
Last 3 years	11.6	12.5
Last 4 years	N/A	N/A
Last 5 years	N/A	N/A
Since Inception (1/04)	11.6	12.2

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

No comment at this time.

Recommendation

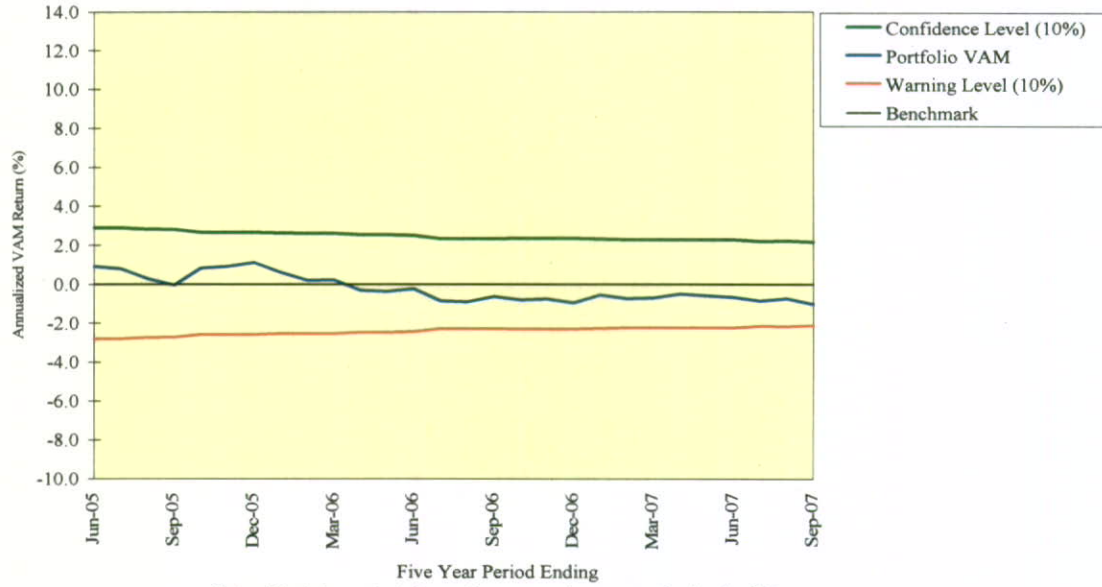
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GOLDMAN SACHS ASSET MANAGEMENT
Periods Ending September, 2007

Portfolio Manager: Chip Otness

Assets Under Management: \$141,078,865

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 September, 2007

Portfolio Manager: Jim Miles and David Green

Assets Under Management: \$121,082,987

Investment Philosophy

The firm seeks to exploit mis-priced securities in the small cap market by investing in “undiscovered” or “out of favor” companies. The team invests in stocks where the present value of the company's future cash flows exceeds the current market price. This approach exploits equity market inefficiencies created by irrational investor behavior and lack of Wall Street research coverage of smaller capitalization stocks. The team employs a disciplined, bottom-up investment process that emphasizes internally generated fundamental research.

The investment process begins with a quantitative screen based on market capitalization, trading liquidity and enterprise value/normalized EBIT, supplemented with ideas generated from the investment team. Internal research is then utilized to identify the most attractive valuation opportunities within this value universe. The primary focus of the research analyst is to determine a company’s “normal” earnings power, which is the basis for security valuation.

Staff Comments

The portfolio underperformed by 11.5 percentage points (ppt) during the quarter and 9.5 ppt for the year. Hotchkis & Wiley’s underperformance over the past quarter and year is attributed to their large overweight allocation to the consumer discretionary sector, which was worsened by the negative stock return of the advertising and broadcasting companies within this sector. The firm also was negatively impacted by the weak stock selection in the producer durables sector, concentrated within homebuilding companies.

Recommendation

No action required.

Quantitative Evaluation

Period Returns

(Annualized for multi-year periods)

	Actual	Russell 2000 Value
Last Quarter	-17.8%	-6.3%
Last 1 year	-3.4	6.1
Last 2 years	-2.7	10.0
Last 3 years	4.9	12.5
Last 4 years	N/A	N/A
Last 5 years	N/A	N/A
Since Inception (1/04)	7.1	12.2

Calendar Year Returns

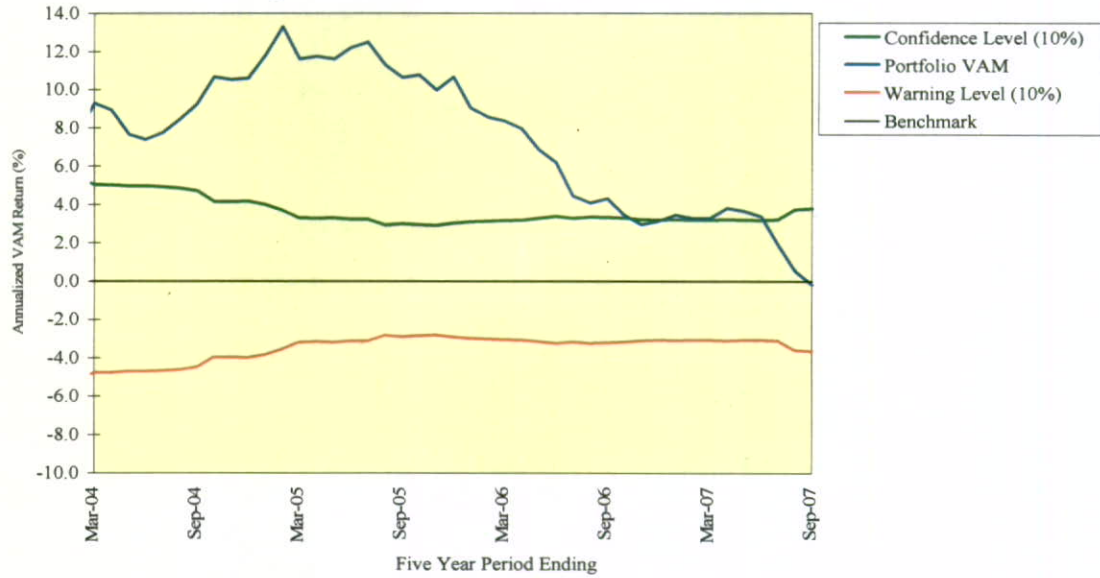
	Actual	Russell 2000 Value
2006	3.0%	23.5%
2005	10.4	4.7
2004	27.1	22.2
2003	N/A	N/A
2002	N/A	N/A

HOTCHKIS & WILEY CAPITAL MANAGEMENT
Periods Ending September, 2007

Portfolio Manager: Jim Miles and David Green

Assets Under Management: \$121,082,987

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



MARTINGALE ASSET MANAGEMENT
Periods Ending September, 2007

Portfolio Manager: William Jacques

Assets Under Management: \$139,366,743

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	-7.8%	-6.3%
Last 1 year	5.2	6.1
Last 2 years	3.2	10.0
Last 3 years	9.5	12.5
Last 4 years	N/A	N/A
Last 5 years	N/A	N/A
Since Inception (1/04)	11.2	12.2

Calendar Year Returns

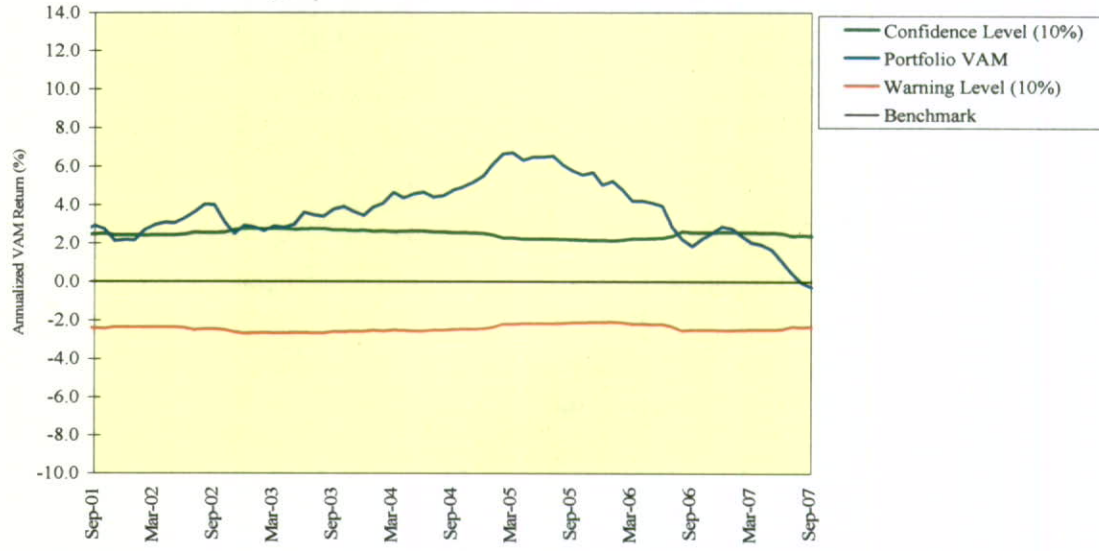
	Actual	Russell 2000 Value
2006	14.8%	23.5%
2005	6.2	4.7
2004	30.8	22.2
2003	N/A	N/A
2002	N/A	N/A

MARTINGALE ASSET MANAGEMENT
Periods Ending September, 2007

Portfolio Manager: William Jacques

Assets Under Management: \$139,366,743

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 September, 2007

Portfolio Manager: Doug Pugh and Tasso Coin

Assets Under Management: \$219,779,892

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	-7.0%	-6.3%
Last 1 year	6.8	6.1
Last 2 years	7.0	10.0
Last 3 years	12.6	12.5
Last 4 years	15.1	15.7
Last 5 years	19.4	18.7
Since Inception (7/00)	15.4	14.3

Calendar Year Returns

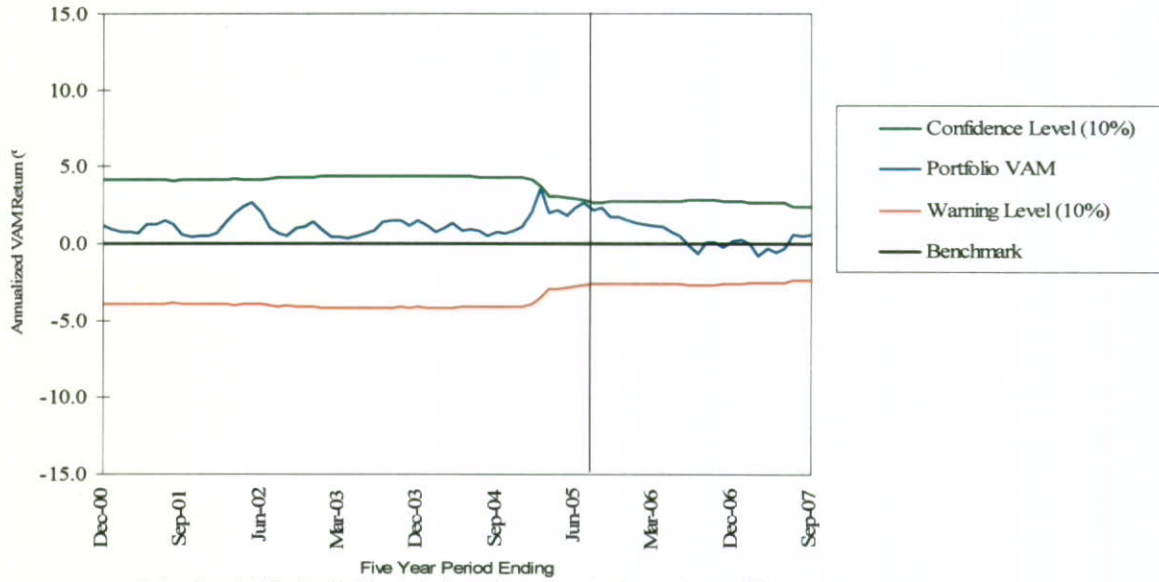
	Actual	Russell 2000 Value
2006	14.3%	23.5%
2005	10.1	4.7
2004	23.6	22.2
2003	44.2	46.0
2002	-8.1	-11.4

PEREGRINE CAPITAL MANAGEMENT
Periods Ending September, 2007

Portfolio Manager: Doug Pugh and Tasso Coin

Assets Under Management: \$219,779,892

Peregrine Capital Management
 Rolling Five Year VAM vs. Russell 2000 Value



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

RIVERSOURCE INVESTMENTS/KENWOOD CAPITAL MANAGEMENT
Periods Ending September, 2007

Portfolio Manager: Jacob Hurwitz and Kent Kelley Assets Under Management: \$63,039,413

Investment Philosophy

The portfolio management team relies primarily on quantitative appraisal; fundamental analysis supplements the model-based stock selection discipline. The goal is to systematically tilt client portfolios toward stocks that offer a superior return-to-risk tradeoff. In order to achieve consistency of performance, risk management is integrated into all aspects of the investment process. Risk is monitored at the security, sector, and portfolio level.

The centerpiece of the stock selection process is a quantitative model that ranks stocks based upon potential excess return. Key elements of the model include assessments of valuation, earnings, and market reaction. Models are created for twelve sectors using sector-specific criteria. Qualitative analysis assesses liquidity, litigation/regulatory risk, and event risk. The team focuses on bottom up stock selection within a sector neutral framework.

Staff Comments

No comment at this time.

Recommendation

No action required.

Quantitative Evaluation

Period Returns

(Annualized for multi-year periods)

	Actual	Russell 2000 Value
Last Quarter	-7.1%	-6.3%
Last 1 year	3.4	6.1
Last 2 years	7.0	10.0
Last 3 years	10.5	12.5
Last 4 years	N/A	N/A
Last 5 years	N/A	N/A
Since Inception (1/04)	11.5	12.2

Calendar Year Returns

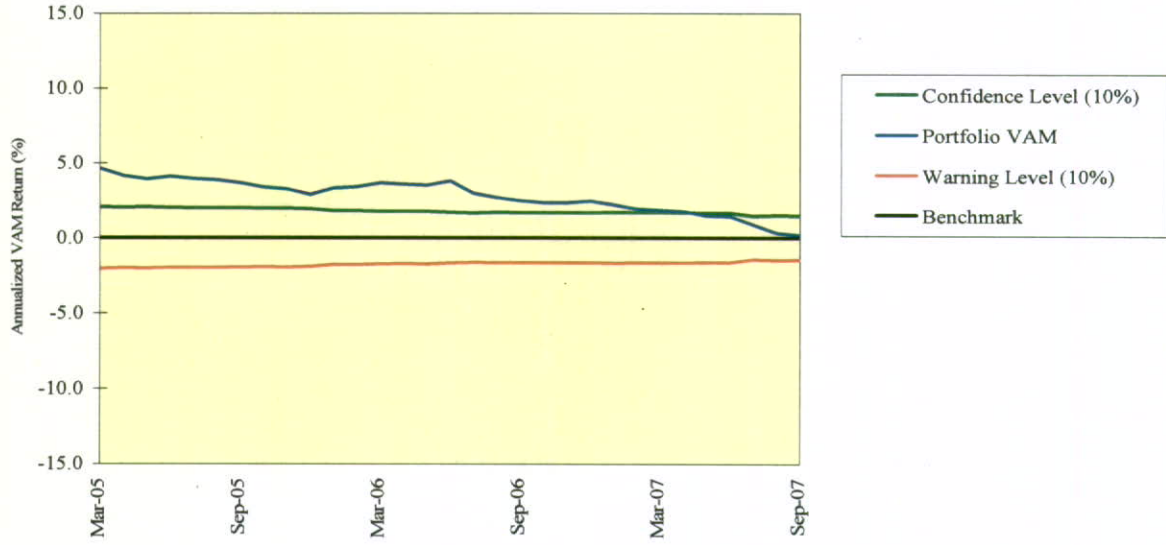
	Actual	Russell 2000 Value
2006	19.4%	23.5%
2005	4.8	4.7
2004	25.8	22.2
2003	N/A	N/A
2002	N/A	N/A

RIVERSOURCE INVESTMENTS/KENWOOD CAPITAL MANAGEMENT
Periods Ending September, 2007

Portfolio Manager: Jacob Hurwitz and Kent Kelley

Assets Under Management: \$63,039,413

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 September, 2007

Portfolio Manager: Russ Koesterich

Assets Under Management: \$3,556,806,805

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

The portfolio underperformed by 1.7 percentage points (ppt) during the quarter and 2.9 ppts for the year. For both time periods it was an underweight position in the energy sector worsened by weak stock selection in the financial and consumer discretionary sectors.

Recommendation

No action required.

Quantitative Evaluation

Period Returns

(Annualized for multi-year periods)

	Actual	Manager Benchmark*
Last Quarter	0.3%	2.0%
Last 1 year	14.0	16.9
Last 2 years	12.6	13.5
Last 3 years	13.4	13.8
Last 4 years	13.7	13.9
Last 5 years	16.0	15.8
Since Inception (1/95)	11.5	10.9

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

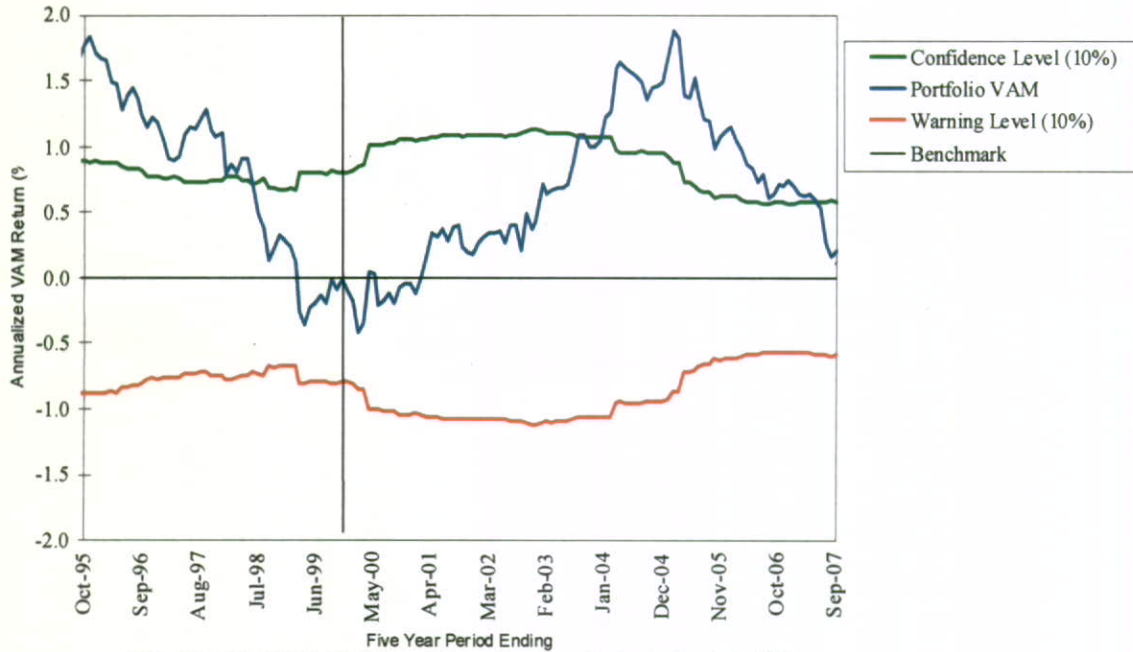
* Completeness Fund until 12/31/03; Russell 1000 beginning 1/1/04.

BARCLAYS GLOBAL INVESTORS
Periods Ending September, 2007

Portfolio Manager: Russ Koesterich

Assets Under Management: \$3,556,806,805

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 September, 2007

Portfolio Manager: John Cone

Assets Under Management: \$2,569,896,739

Investment Philosophy – Semi-Passive Style

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

Staff Comments

The portfolio outperformed by 0.1 percentage point (ppt) during the quarter. Strong stock selection in the technology and consumer staples sectors benefited the portfolio.

For the year the portfolio underperformed by 1.4 ppt. Weak stock selection in the financial and health care sectors hurt returns.

Recommendation

No action required.

Quantitative Evaluation

Period Returns

(Annualized for multi-year periods)

	Actual	Manager Benchmark*
Last Quarter	2.1%	2.0%
Last 1 year	15.5	16.9
Last 2 years	13.4	13.5
Last 3 years	13.5	13.8
Last 4 years	13.7	13.9
Last 5 years	15.2	15.8
Since Inception (1/95)	10.6	10.9

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

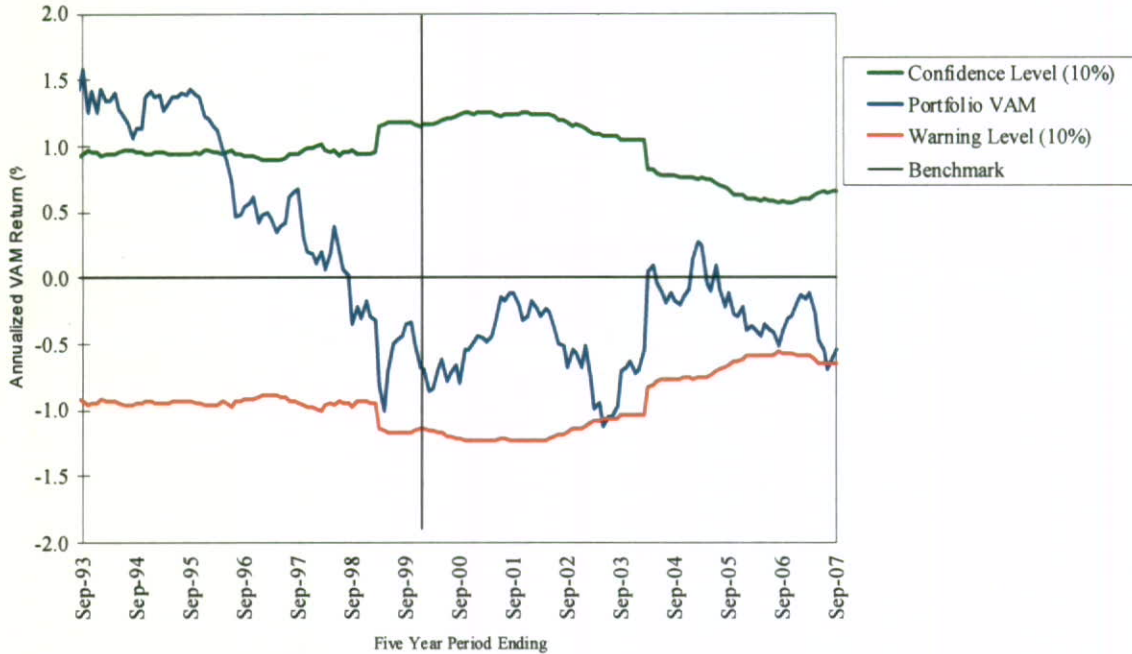
* Completeness Fund until 12/31/03; Russell 1000 beginning 1/1/04.

FRANKLIN PORTFOLIO ASSOCIATES
Periods Ending September, 2007

Portfolio Manager: John Cone

Assets Under Management: \$2,569,896,739

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 September, 2007

Portfolio Manager: Ralph Zingone and Terance Chen Assets Under Management: \$2,842,360,808

Investment Philosophy – Semi-Passive Style

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

Staff Comments

No comment at this time.

Recommendation

No action required.

Quantitative Evaluation

Period Returns

(Annualized for multi-year periods)

	Actual	Manager Benchmark*
Last Quarter	1.8%	2.0%
Last 1 year	17.1	16.9
Last 2 years	13.9	13.5
Last 3 years	13.3	13.8
Last 4 years	13.9	13.9
Last 5 years	15.6	15.8
Since Inception (1/95)	11.0	10.9

Calendar Year Returns

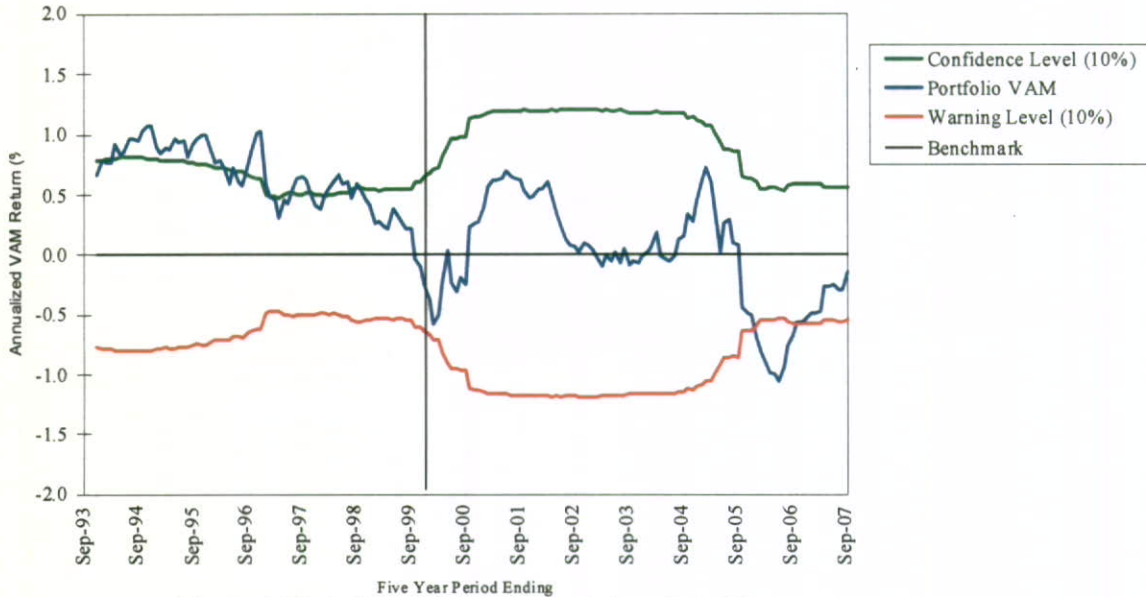
	Actual	Manager Benchmark*
2006	16.5%	15.5%
2005	4.7	6.3
2004	11.7	11.4
2003	28.9	28.5
2002	-21.8	-19.7

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

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

Portfolio Manager: Ralph Zingone and Terance Chen Assets Under Management: \$2,842,360,808

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



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

BARCLAYS GLOBAL INVESTORS
Periods Ending September, 2007

Portfolio Manager: Amy Schioldager

Assets Under Management: \$8,720,289,040

Investment Philosophy – Passive Style

Barclays Global Investors seeks to minimize 1) tracking error, 2) transaction costs, and 3) investment and operational risks. The portfolio is passively managed against the asset class target using a proprietary optimization process that integrates a transaction cost model. The resulting portfolio closely matches the characteristics of the benchmark with less exposure to illiquid stocks.

Staff Comments

No comment at this time.

Recommendation

No action required.

Quantitative Evaluation

Period Returns

(Annualized for multi-year periods)

	Actual	Manager Benchmark*
Last Quarter	1.6%	1.5%
Last 1 year	16.4	16.5
Last 2 years	13.3	13.3
Last 3 years	13.7	13.7
Last 4 years	13.9	13.9
Last 5 years	16.2	16.2
Since Inception (7/95)	10.5	10.4

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

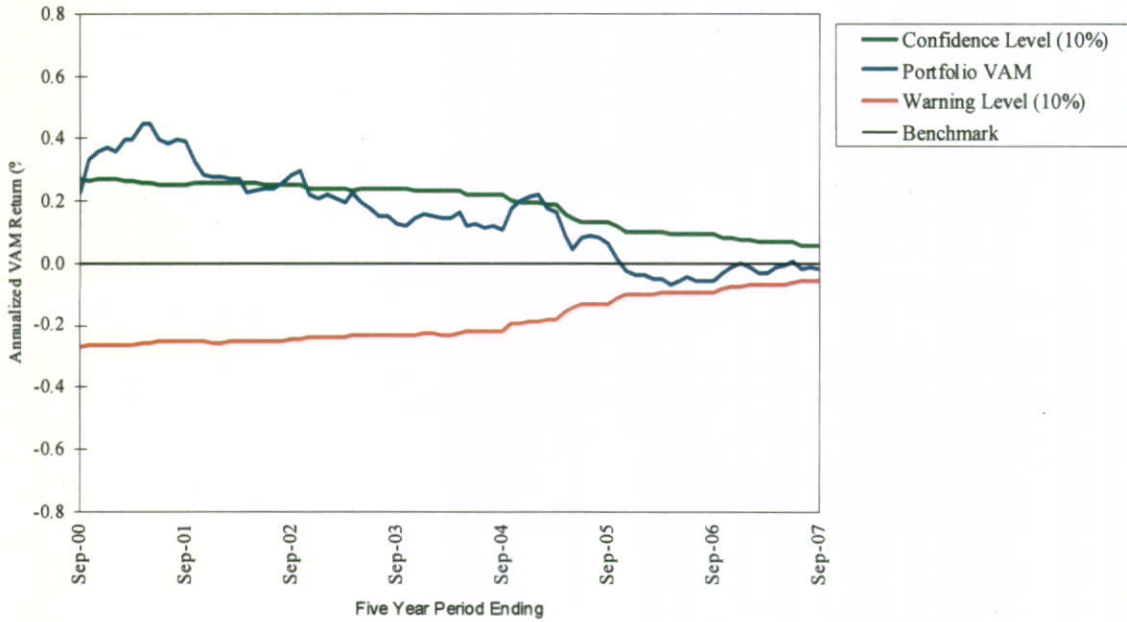
* The Domestic Equity Asset Class Target is the Russell 3000 Index effective 10/1/03. From Account inception to 6/30/99, the target was the Wilshire 5000 as reported with no adjustments.

BARCLAYS GLOBAL INVESTORS
Periods Ending September, 2007

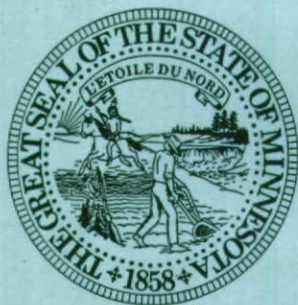
Portfolio Manager: Amy Schioldager

Assets Under Management: \$8,720,289,040

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

Third Quarter, 2007

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Bond Managers

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**COMBINED RETIREMENT FUNDS
BOND MANAGERS
Periods Ending September, 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	2.4	2.8	4.9	5.1	4.1	3.9	4.5	4.1	6.8	6.3	\$1,226.0	9.7%
Dodge & Cox	2.1	2.8	5.4	5.1	4.2	3.9	5.1	4.1	7.2	6.3	\$1,249.7	9.9%
Morgan Stanley	2.5	2.8	5.6	5.1	4.6	3.9	4.9	4.1	9.1	8.8	\$1,030.2	8.2%
RiverSource	2.7	2.8	5.3	5.1	4.2	3.9	4.6	4.1	6.0	6.1	\$1,052.9	8.3%
Western	2.4	2.8	5.0	5.1	4.3	3.9	6.0	4.1	10.0	8.8	\$1,605.0	12.7%
Active Mgr. Aggregate	2.4	2.8	5.2	5.1	4.3	3.9	5.1	4.1	9.2	8.7	\$6,163.8	48.8%
Semi-Passive Managers												
BlackRock	2.9	2.8	4.9	5.1	3.9	3.9	4.4	4.1	6.5	6.2	\$2,120.8	16.8%
Goldman	2.9	2.8	5.3	5.1	4.1	3.9	4.9	4.1	6.4	6.1	\$2,131.3	16.9%
Lehman	2.7	2.8	5.0	5.1	3.9	3.9	4.3	4.1	7.5	7.5	\$2,215.1	17.5%
Semi-Passive Mgr. Aggregate	2.8	2.8	5.1	5.1	4.0	3.9	4.5	4.1	7.6	7.5	\$6,467.2	51.2%
Historical Aggregate (2)	2.6	2.8	5.1	5.1	4.1	3.9	4.8	4.1	Since 7/1/84		\$12,631.05	100.0%
Lehman Aggregate (3)		2.8		5.1		3.9		4.1		8.8		

(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 September, 2007

Portfolio Manager: Warren Davis

Assets Under Management: \$1,226,043,973

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 underperformed the benchmark for both the quarter and the past 12 months. The quarterly performance was mainly affected by poor performance in the corporate and mortgage-backed bonds. An overweight position to CMBS and the financial sectors negatively impacted returns over the last 12 months.

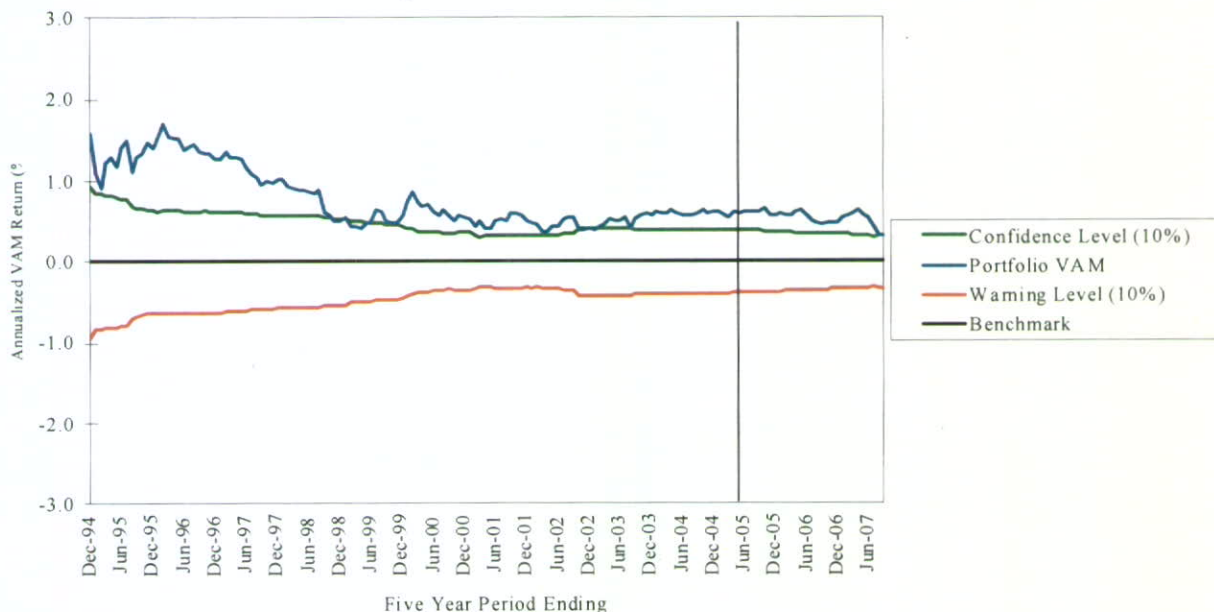
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	2.4%	2.8%
Last 1 year	4.9	5.1
Last 2 years	4.4	4.4
Last 3 years	4.1	3.9
Last 4 years	4.2	3.8
Last 5 years	4.5	4.1
Since Inception (2/00)	6.8	6.3

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 September, 2007

Portfolio Manager: Dana Emery

Assets Under Management: \$1,249,734,517

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 underperformed the benchmark for the third quarter and outperformed the benchmark over the last 12 months. Quarterly performance was affected by an overweight exposure to corporates and MBS and an underweight of U.S. Treasuries. The portfolio's relative short duration also detracted from performance for the quarter. Yearly performance was helped by issue-specific performance in corporates as well as the portfolio's nominal yield advantage.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	2.1%	2.8%
Last 1 year	5.4	5.1
Last 2 years	4.8	4.4
Last 3 years	4.2	3.9
Last 4 years	4.2	3.8
Last 5 years	5.1	4.1
Since Inception (2/00)	7.2	6.3

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 September, 2007

Portfolio Manager: David Armstrong

Assets Under Management: \$1,030,153,406

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 underperformed the benchmark for the quarter and outperformed it for the last 12 months. Quarterly performance was impacted by spread widening in both the corporate and mortgage sectors. Over the past year, a defensive credit posture and a yield curve steepening bias added value.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	2.5%	2.8%
Last 1 year	5.6	5.1
Last 2 years	4.7	4.4
Last 3 years	4.6	3.9
Last 4 years	4.6	3.8
Last 5 years	4.9	4.1
Since Inception (7/84)	9.1	8.8

Recommendations

No action required.

MORGAN STANLEY INVESTMENT MANAGEMENT
Rolling Five Year VAM



RIVERSOURCE INVESTMENTS
Periods Ending September, 2007

Portfolio Manager: Colin Lundgren

Assets Under Management: \$1,052,942,461

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 underperformed the benchmark for the quarter and outperformed over the last 12 months. The quarterly performance was a result of poor performance in non-Treasury sectors, particularly High Yield corporate bonds. Overweights in both residential and commercial mortgage-backed securities also detracted from quarterly return. Individual security selection as well as interest rate decisions contributed to outperformance of the benchmark for the year.

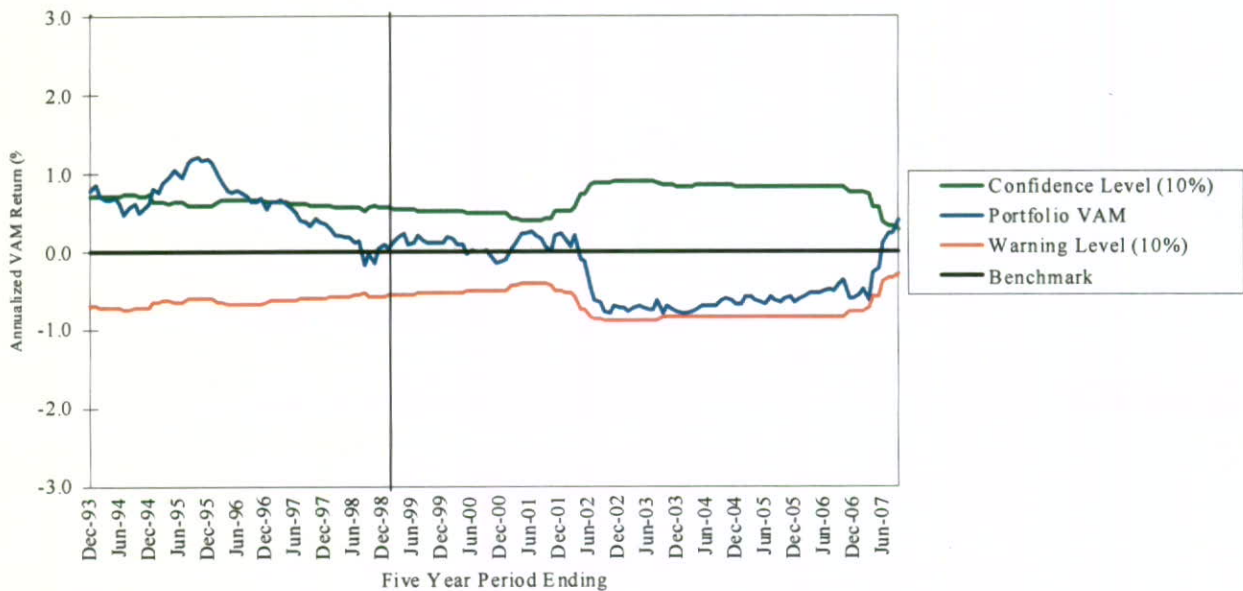
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	2.7%	2.8%
Last 1 year	5.3	5.1
Last 2 years	4.7	4.4
Last 3 years	4.2	3.9
Last 4 years	4.2	3.8
Last 5 years	4.6	4.1
Since Inception (7/93)	6.0	6.1

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 September, 2007

Portfolio Manager: Ken Leech

Assets Under Management: \$1,604,954,541

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 underperformed the benchmark for both the quarter and the last 12 months. Quarterly and annual performance suffered from an overweight exposure to the mortgage-backed sector and high-yield corporates, as spreads in both of these sectors widened. Non-dollar exposure also detracted from returns.

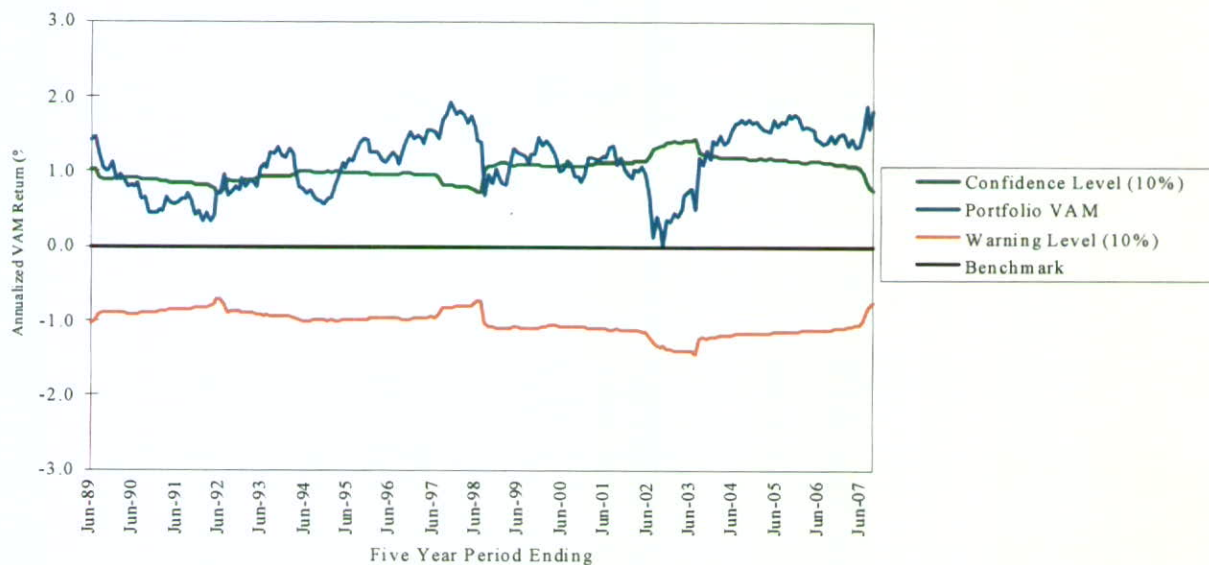
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	2.4%	2.8%
Last 1 year	5.0	5.1
Last 2 years	4.5	4.4
Last 3 years	4.3	3.9
Last 4 years	5.0	3.8
Last 5 years	6.0	4.1
Since Inception (7/84)	10.0	8.8

Recommendations

No action required.

WESTERN ASSET MANAGEMENT
Rolling Five Year VAM



BLACKROCK, INC.
Periods Ending September, 2007

Portfolio Manager: Keith Anderson

Assets Under Management: \$2,120,774,877

Investment Philosophy

BlackRock manages an enhanced index portfolio closely tracking the Lehman Aggregate. The firm's enhanced index strategy is a controlled-duration, sector rotation style, which can be described as active management with tighter duration, sector, and quality constraints. BlackRock seeks to add value through: (i) controlling portfolio duration within a narrow band relative to the benchmark, (ii) relative value sector/sub-sector rotation and security selection, (iii) rigorous quantitative analysis to the valuation of each security and of the portfolio as a whole, (iv) intense credit analysis and review, and (v) the judgment of experienced portfolio managers. Advanced risk analytics measure the potential impact of various sector and security strategies to ensure consistent value added and controlled volatility. BlackRock was retained by the SBI in April 1996.

Staff Comments

Blackrock outperformed the benchmark for the quarter, but underperformed for the last 12 months. Quarterly performance can be attributed to yield curve positioning and Credit security selection. However, overweight exposure to CMBS hurt performance for the 12 month period.

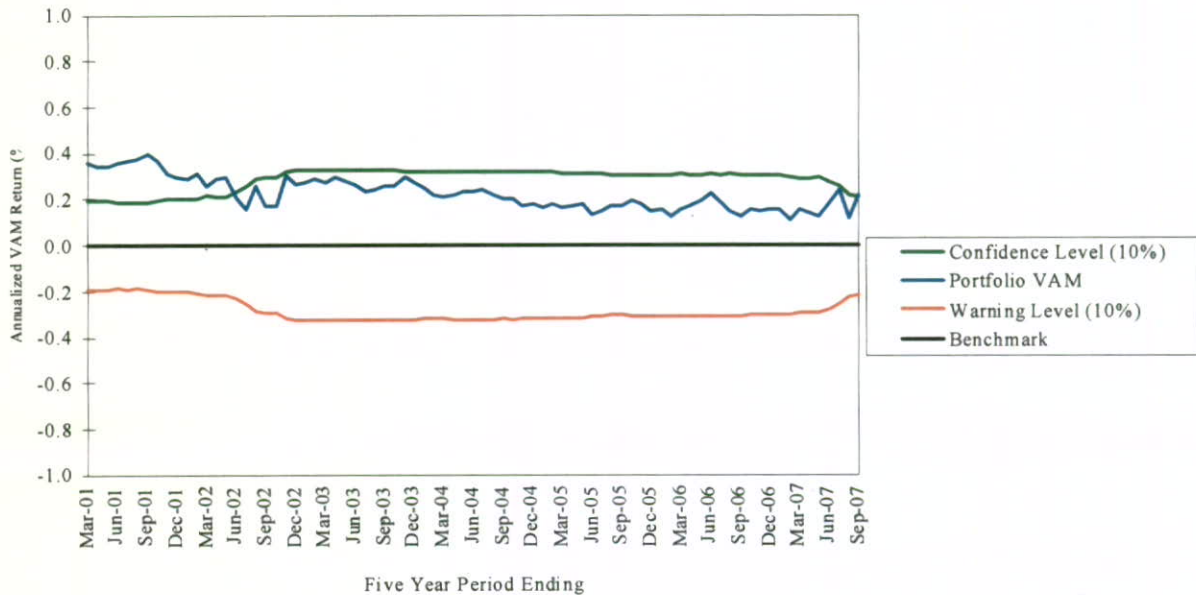
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	2.9%	2.8%
Last 1 year	4.9	5.1
Last 2 years	4.4	4.4
Last 3 years	3.9	3.9
Last 4 years	3.9	3.8
Last 5 years	4.4	4.1
Since Inception (4/96)	6.5	6.2

Recommendation

No action required.

BLACKROCK, INC.
Rolling Five Year VAM



GOLDMAN SACHS ASSET MANAGEMENT
Periods Ending September, 2007

Portfolio Manager: Jonathon Beinner

Assets Under Management: \$2,131,320,872

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

Goldman outperformed the benchmark for the quarter and over the last 12 months. The quarterly performance was helped by a shift in duration throughout the quarter from a short position to a long position. Underweight exposure to corporates and mortgages significantly contributed to returns as spread sectors were volatile throughout the quarter due to risk aversion and liquidity-related concerns.

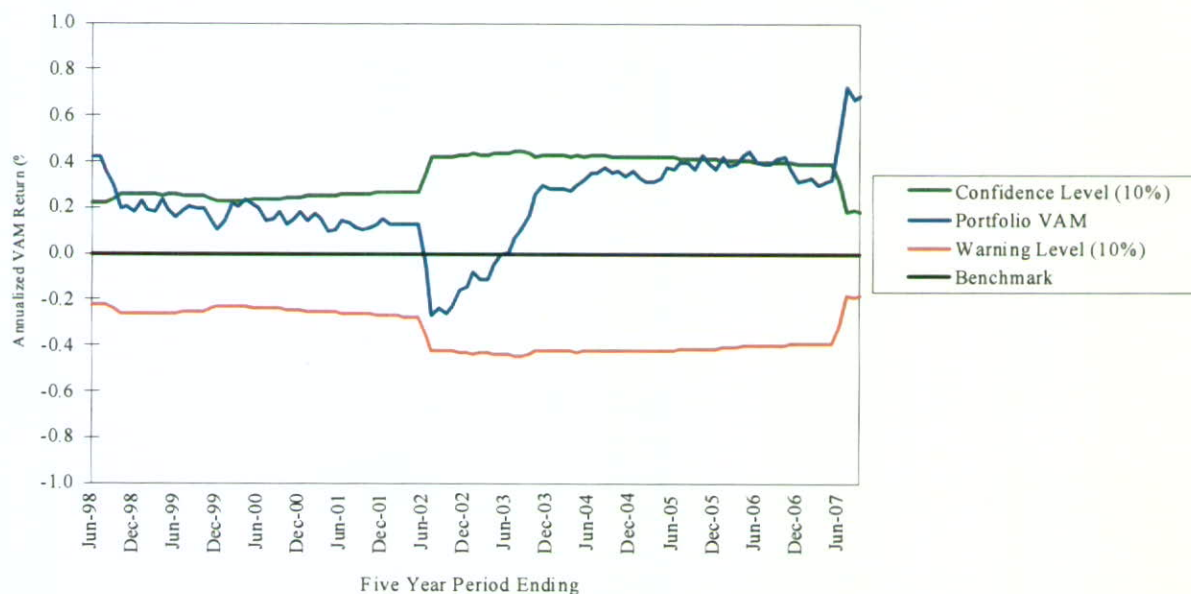
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	2.9%	2.8%
Last 1 year	5.3	5.1
Last 2 years	4.6	4.4
Last 3 years	4.1	3.9
Last 4 years	4.3	3.8
Last 5 years	4.9	4.1
Since Inception (7/93)	6.4	6.1

Recommendations

No action required.

GOLDMAN SACHS ASSET MANAGEMENT
Rolling Five Year VAM



LEHMAN BROTHERS ASSET MANAGEMENT
Periods Ending September, 2007

Portfolio Manager: Andrew Johnson

Assets Under Management: \$2,215,123,812

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 underperformed the benchmark for the quarter and the last 12 months. The quarterly performance was the result of spread widening that occurred in AAA-rated mortgage-backed floating rate securities. Positive contributions during the 12 month period from corporates were not enough to overcome the negative impact of third quarter performance.

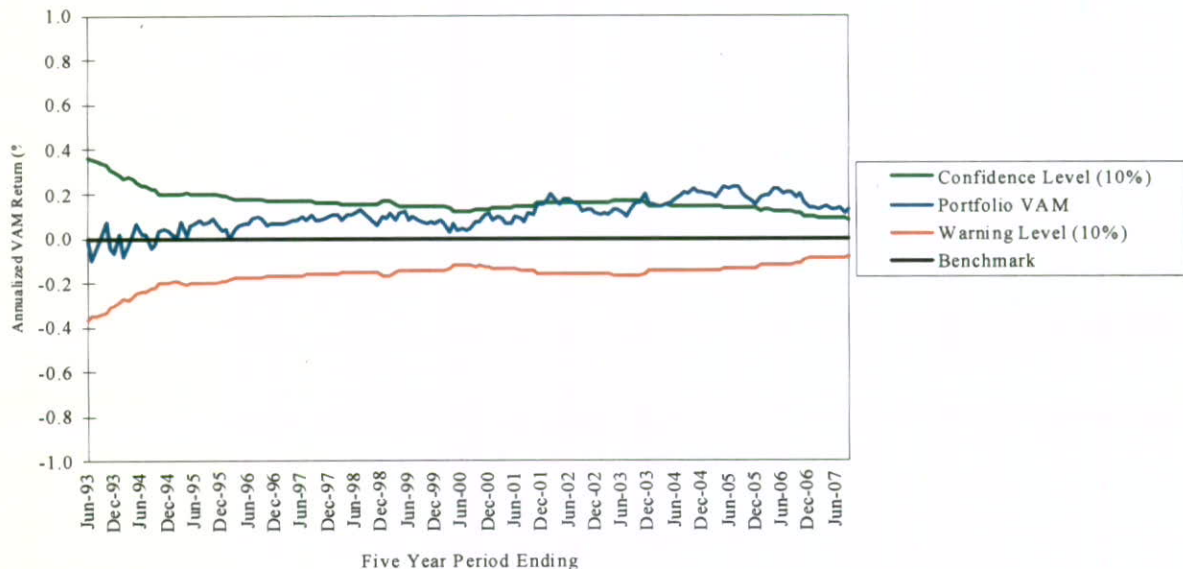
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	2.7%	2.8%
Last 1 year	5.0	5.1
Last 2 years	4.4	4.4
Last 3 years	3.9	3.9
Last 4 years	3.9	3.8
Last 5 years	4.3	4.1
Since Inception (7/88)	7.5	7.5

Recommendations

No action required.

LEHMAN BROTHERS ASSET MANAGEMENT
Rolling Five Year VAM



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STATE BOARD OF INVESTMENT

International Manager Evaluation Reports

Third Quarter, 2007

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International Managers

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**COMBINED RETIREMENT FUNDS
INTERNATIONAL STOCK MANAGERS
Periods Ending September, 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	1.9	2.7	29.8	25.9					32.1	25.1	\$369.8	4.5%
Invesco	1.1	2.7	20.1	25.9	21.0	23.7	21.6	23.9	8.5	6.6	\$334.2	4.1%
J.P. Morgan	0.6	2.7	19.4	25.9					21.3	25.1	\$282.0	3.5%
Marathon	2.1	2.7	27.7	25.9	25.7	23.7	26.8	23.9	11.5	8.2	\$596.1	7.3%
McKinley	2.9	2.7	32.0	25.9					28.6	25.1	\$336.4	4.1%
Pyramis (Fidelity)	4.8	2.7	28.6	25.9					25.8	25.1	\$311.3	3.8%
RiverSource	1.8	2.7	21.8	25.9	21.7	23.7	20.5	23.9	2.6	6.6	\$311.7	3.8%
UBS Global	1.1	2.7	21.2	25.9	20.1	23.7	21.4	23.9	10.1	9.3	\$329.9	4.1%
Aggregate	2.0	2.7	25.4	25.9	23.3	23.7	22.9	23.9	9.3	8.2		
Active Emerging Markets												
AllianceBernstein	13.4	14.4	56.5	58.2	39.6	40.8	37.7	38.7	21.7	22.3	\$474.2	5.8%
Capital International	11.8	14.4	58.0	58.2	42.5	40.8	38.9	38.7	19.8	22.3	\$479.4	5.9%
Morgan Stanley	14.9	14.4	61.5	58.2	43.3	40.8	39.7	38.7	23.1	22.3	\$516.8	6.4%
Aggregate	13.4	14.4	58.6	58.2	41.7	40.8	38.6	38.7	10.7	10.7		
Semi-Passive Developed Markets (2)												
AQR	0.6	2.7	24.1	25.9					24.8	25.1	\$323.3	4.0%
Pyramis (Fidelity)	4.2	2.7	30.8	25.9					27.3	25.1	\$343.3	4.2%
State Street	2.1	2.7	26.4	25.9					25.8	25.1	\$333.6	4.1%
Aggregate	2.3	2.7	27.1	25.9					26.0	25.1		
Passive Developed Markets (2)												
State Street	2.8	2.7	26.1	25.9	23.9	23.7	24.1	23.9	9.7	9.5	\$2,787.7	34.3%
									Since 10/1/92			
Equity Only (3) (5)	4.2	4.6	30.6	30.5	25.9	26.0	25.2	25.7	10.3	9.8	\$8,130.0	100.0%
Total Program (4) (5)	4.2	4.6	30.6	30.5	25.9	26.0	25.2	25.7	10.5	9.8	\$8,130.0	
SBI Int'l Equity Target (5)		4.6		30.5		26.0		25.7		9.8		
MSCI ACWI Free ex. U.S. (6)		4.6		30.5		26.0		25.8		10.2		
MSCI World ex U.S. (net)		1.8		24.8		23.4		23.9		9.6		
MSCI EAFE Free (net)		2.2		24.9		23.2		23.6		9.4		
MSCI Emerging Markets Free (7)		14.4		58.2		40.8		38.7		12.3		

(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) 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.

**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	27.5	25.7	16.4	14.5	24.6	20.4	47.2	38.5	-8.0	-15.6
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 (2) (4)	27.0	26.7	16.4	16.6	20.0	20.9	38.2	40.1	-13.6	-14.8
Total Program (3) (4)	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 (4)		26.7		16.6		20.9		40.1		-14.8
MSCI ACWI Free ex. U.S. (5)		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 (6)		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) Equity managers only. Includes impact of terminated managers.

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

(4) 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.

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

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

ACADIAN ASSET MANAGEMENT, INC.
Periods Ending September, 2007

Portfolio Manager: John Chisholm

Assets Under Management: \$369,769,146

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

Stock selection in France was the primary contributor to the portfolio's underperformance during the quarter. Whereas stock selection in Japan, Germany and Australia were the primary contributors to the portfolio's outperformance during the year.

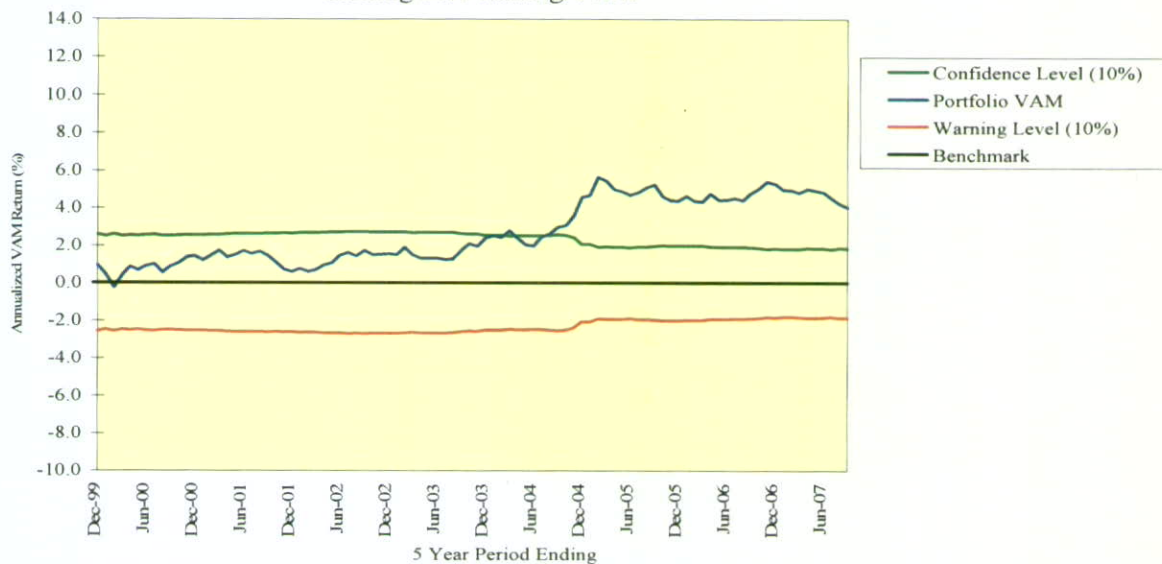
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	1.9%	2.7%
Last 1 year	29.8	25.9
Last 2 years	26.4	22.2
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)	32.1	25.1

Recommendations

No action required.

ACADIAN ASSET MANAGEMENT
Rolling Five Rolling VAM



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

INVESCO GLOBAL ASSET MANAGEMENT
Periods Ending September, 2007

Portfolio Manager: Erik Granade

Assets Under Management: \$334,227,014

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

The portfolio's underweight position in the materials sector and in the Australian and Canadian markets contributed significantly to the portfolio's underperformance during both the quarter and the year.

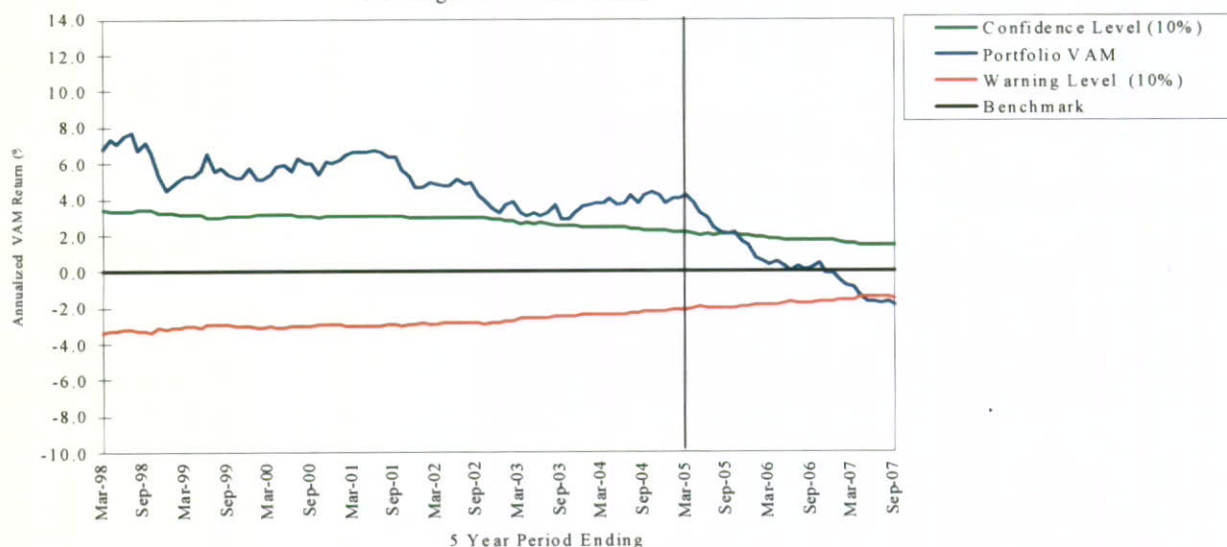
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	1.1%	2.7%
Last 1 year	20.1	25.9
Last 2 years	20.3	22.2
Last 3 years	21.0	23.7
Last 4 years	21.7	23.4
Last 5 years	21.6	23.9
Since Inception (3/00)	8.5	6.6

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 September, 2007

Portfolio Manager: James Fisher

Assets Under Management: \$281,992,285

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

Stock selection in the financials and materials sectors contributed significantly to the portfolio's underperformance during both the quarter and the year.

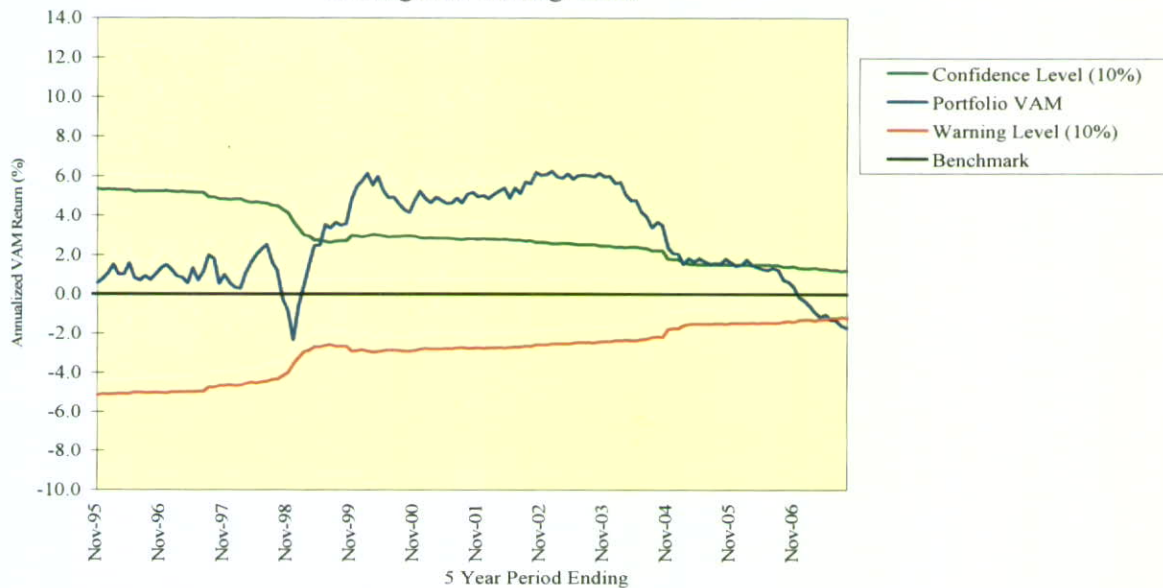
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	0.6%	2.7%
Last 1 year	19.4	25.9
Last 2 years	19.1	22.2
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)	21.3	25.1

Recommendations

No action required.

J.P. MORGAN INVESTMENT MANAGEMENT, INC.
 Rolling Five Rolling VAM



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

MARATHON ASSET MANAGEMENT
Periods Ending September, 2007

Portfolio Manager: William Arah

Assets Under Management: \$596,126,155

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

An overweight position in the consumer discretionary sector and an underweight position in the utilities sector contributed to the portfolio's underperformance for the quarter. Whereas the portfolio's overweight position in the industrials sector and underweight position in the financials sector contributed to outperformance during the year.

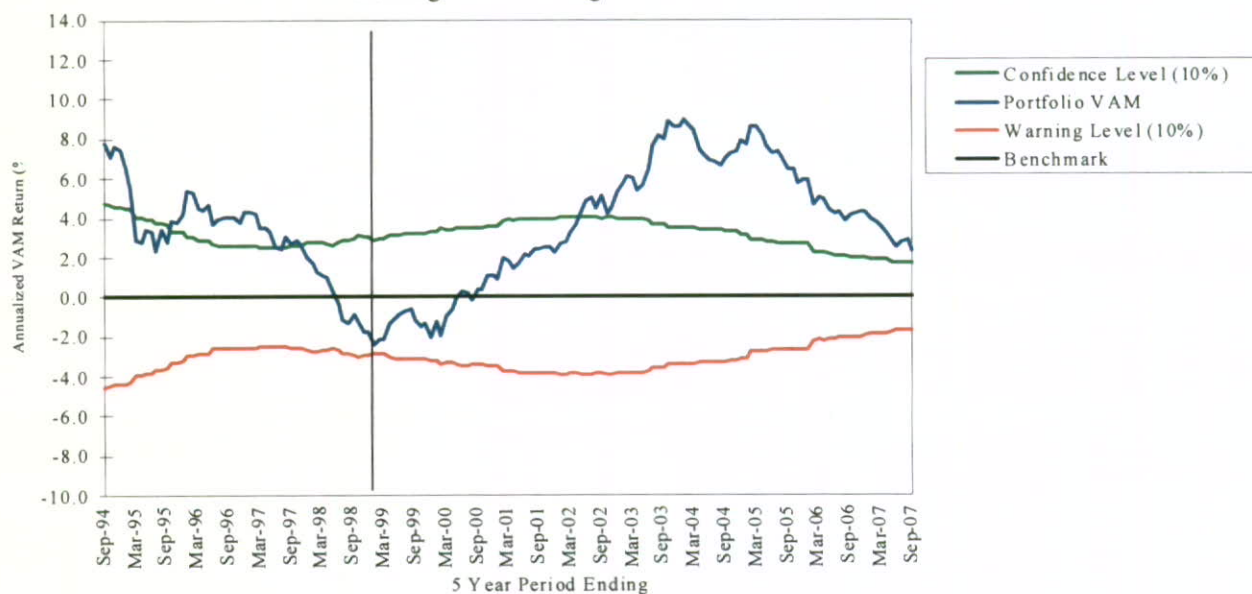
Quantitative Evaluation

	Custom	
	Actual	Benchmark
Last Quarter	2.1%	2.7%
Last 1 year	27.7	25.9
Last 2 years	23.8	22.2
Last 3 years	25.7	23.7
Last 4 years	25.3	23.4
Last 5 years	26.8	23.9
Since Inception (11/93)	11.5	8.2

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 September, 2007

Portfolio Manager: Robert Gillam, Jr.

Assets Under Management: \$336,353,004

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 both the financials and materials sectors contributed significantly to the portfolio's outperformance during the quarter and the year.

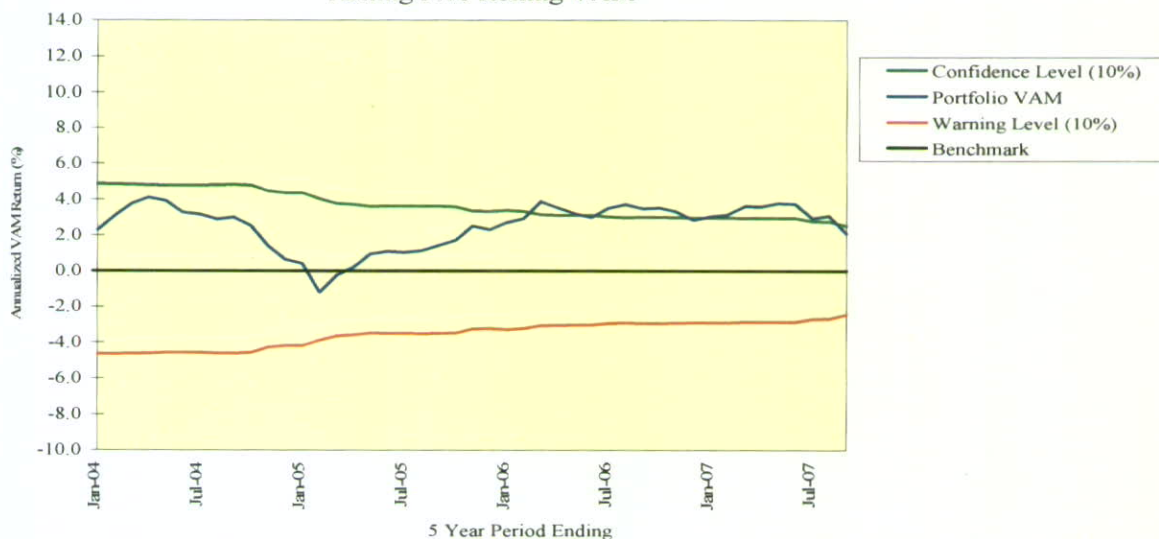
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	2.9%	2.7%
Last 1 year	32.0	25.9
Last 2 years	24.3	22.2
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	25.1

Recommendations

No action required.

MCKINLEY CAPITAL MANAGEMENT, INC.
 Rolling Five Rolling VAM



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

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

Portfolio Manager: Michael Strong

Assets Under Management: \$311,317,448

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

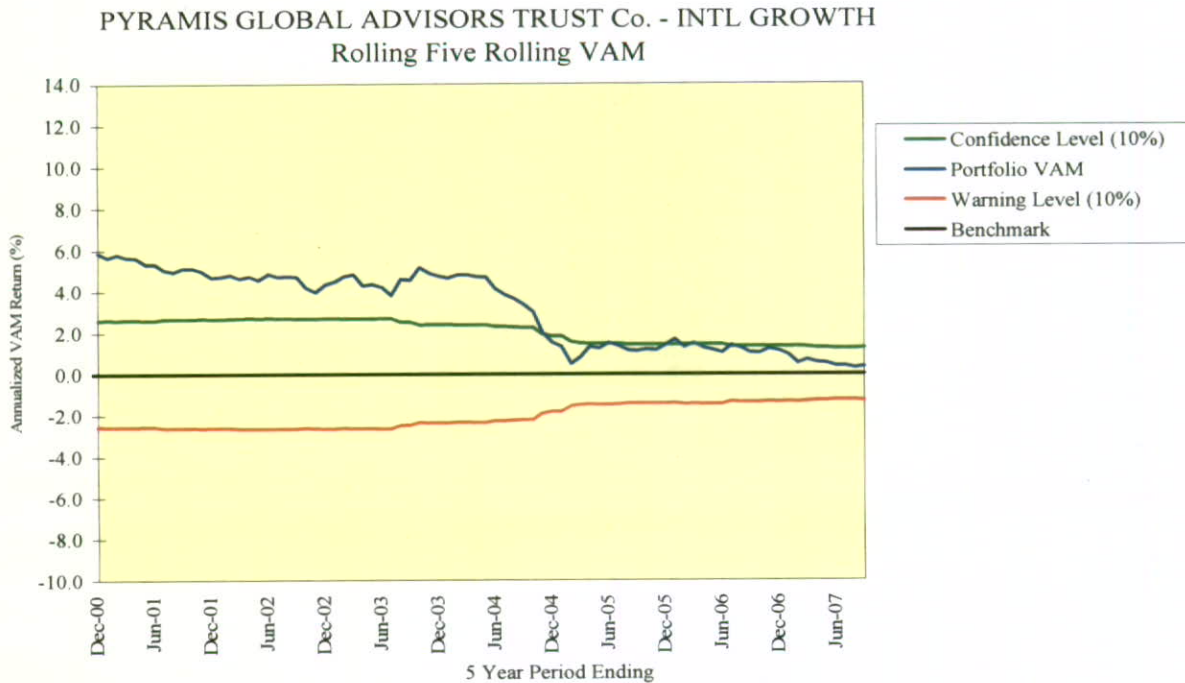
During the quarter, stock selection in the United Kingdom and in Hong Kong contributed to the portfolio's outperformance. During the year, stock selection in Canada and in both the financials and healthcare sectors added to excess relative returns.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	4.8%	2.7%
Last 1 year	28.6	25.9
Last 2 years	22.8	22.2
Last 3 years	N/A	N/A
Last 4 years	N/A	N/A
Last 5 years	N/A	N/A
Since Inception (7/05)	25.8	25.1

Recommendations

No action required.



RIVERSOURCE INVESTMENTS
Periods Ending September, 2007

Portfolio Manager: Alex Lyle and Ed Gaunt

Assets Under Management: \$311,729,924

Investment Philosophy

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

Staff Comments

Stock selection in Japan was the primary contributor to the portfolio's underperformance over both the quarter and the year.

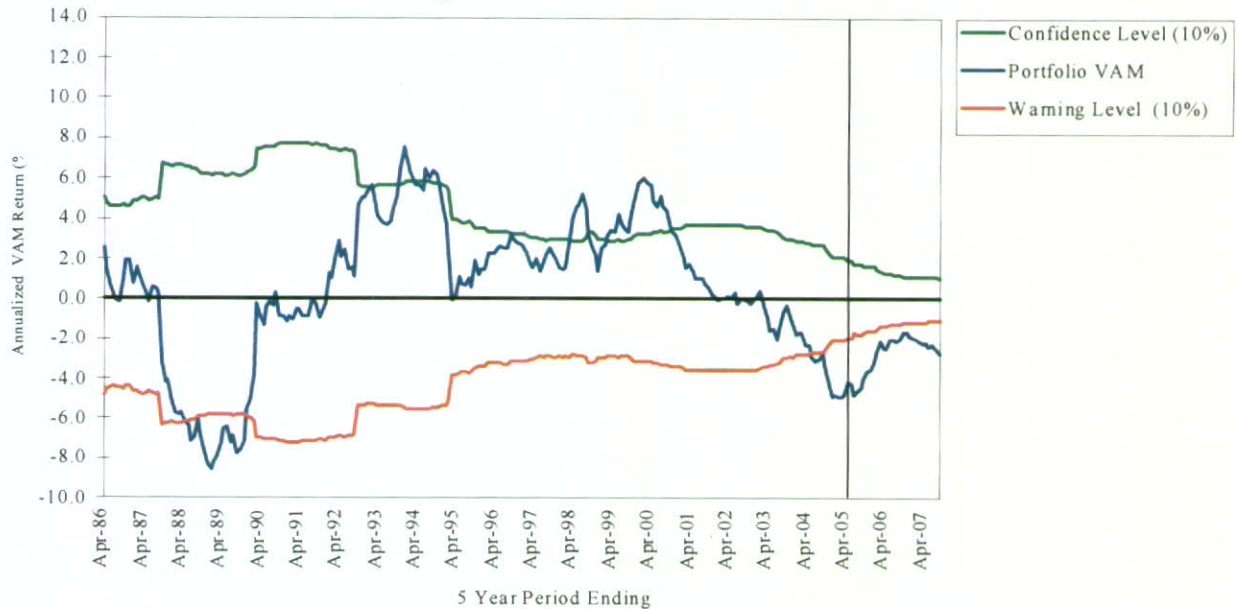
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	1.8%	2.7%
Last 1 year	21.8	25.9
Last 2 years	19.6	22.2
Last 3 years	21.7	23.7
Last 4 years	20.6	23.4
Last 5 years	20.5	23.9
Since Inception (3/00)	2.6	6.6

Recommendations

No action required.

RIVERSOURCE INVESTMENTS
Rolling Five Year VAM



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

Portfolio Manager: Ilario di Bon

Assets Under Management: \$329,923,168

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

Stock selection in both the financials and materials sectors was the primary contributor to the portfolio's quarterly and annual underperformance.

UBS has hired Nick Melhuish to join the firm as Head of the Global Equity Team, replacing Tom Madsen. In addition, UBS announced that four of the remaining ten Global Equity Team members have transferred to other teams within UBS and an additional team member has left the firm.

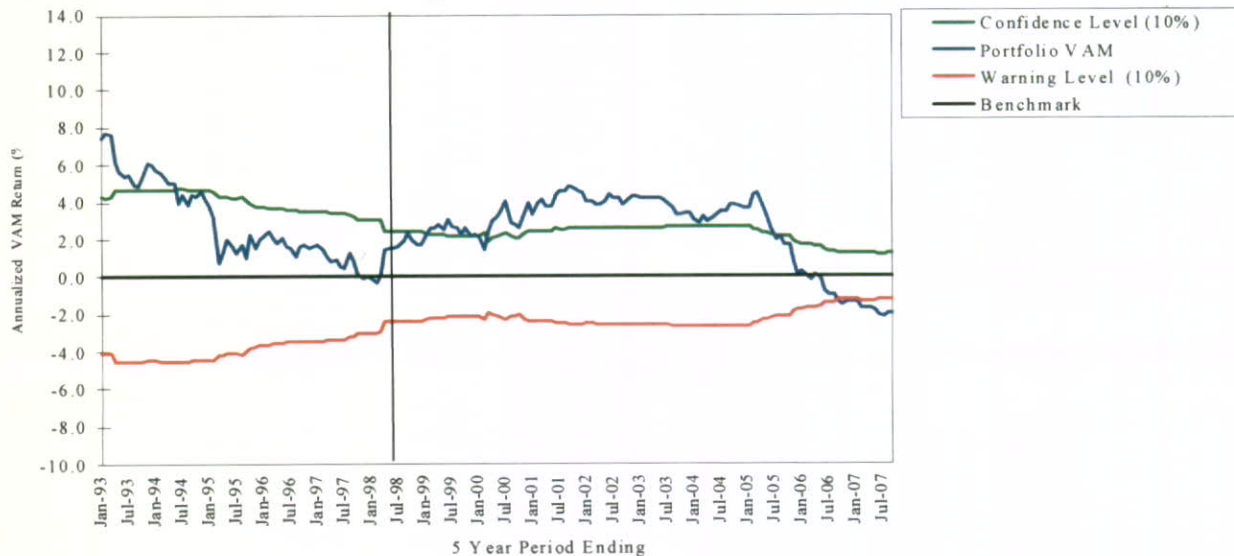
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	1.1%	2.7%
Last 1 year	21.2	25.9
Last 2 years	19.9	22.2
Last 3 years	20.1	23.7
Last 4 years	20.9	23.4
Last 5 years	21.4	23.9
Since Inception (4/93)	10.1	9.3

Recommendations

No action required.

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



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

ALLIANCEBERNSTEIN L.P.
Periods Ending September, 2007

Portfolio Manager: Steve Beinhacker

Assets Under Management: \$474,165,864

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

Over both the quarter and the year, stock selection in the Asian region, particularly in Taiwan, Korea and China, was the primary negative contributor to the portfolio's underperformance relative to the benchmark.

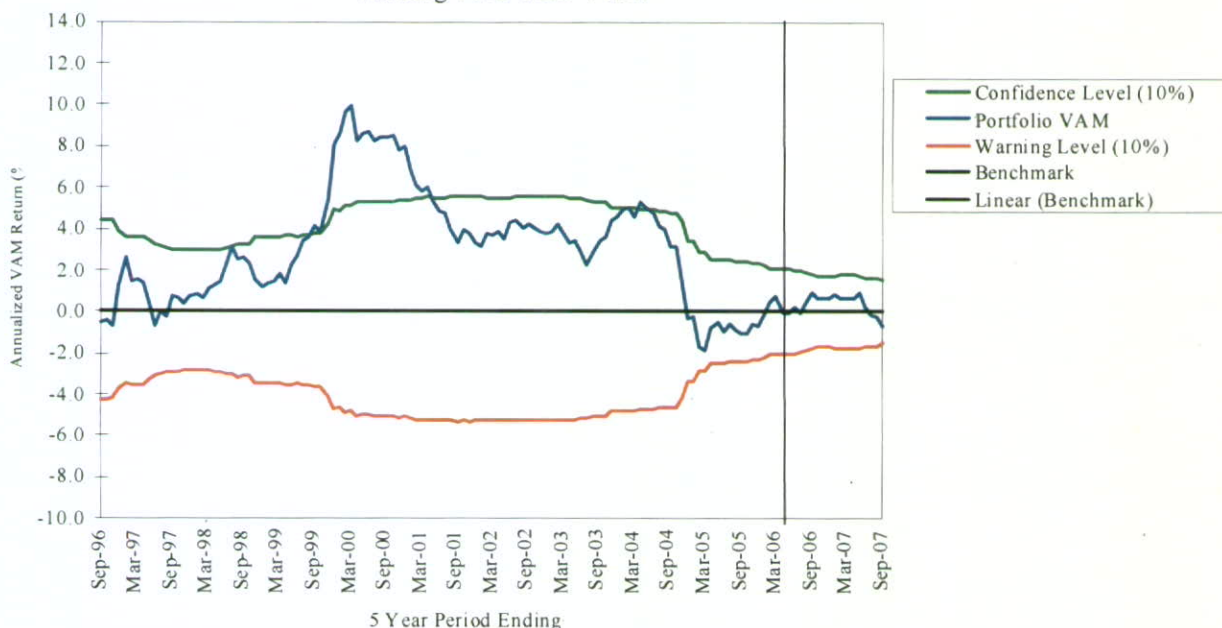
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	13.4%	14.4%
Last 1 year	56.5	58.2
Last 2 years	36.1	38.0
Last 3 years	39.6	40.8
Last 4 years	36.3	37.0
Last 5 years	37.7	38.7
Since Inception (3/01)	21.7	22.3

Recommendations

No action required.

ALLIANCEBERNSTEIN L.P.
 Rolling Five Year VAM



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

CAPITAL INTERNATIONAL, INC.
Periods Ending September, 2007

Portfolio Manager: Victor Kohn

Assets Under Management: \$479,383,925

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

Stock selection in both the materials and industrials sectors contributed significantly to the portfolio's underperformance during the quarter and the year.

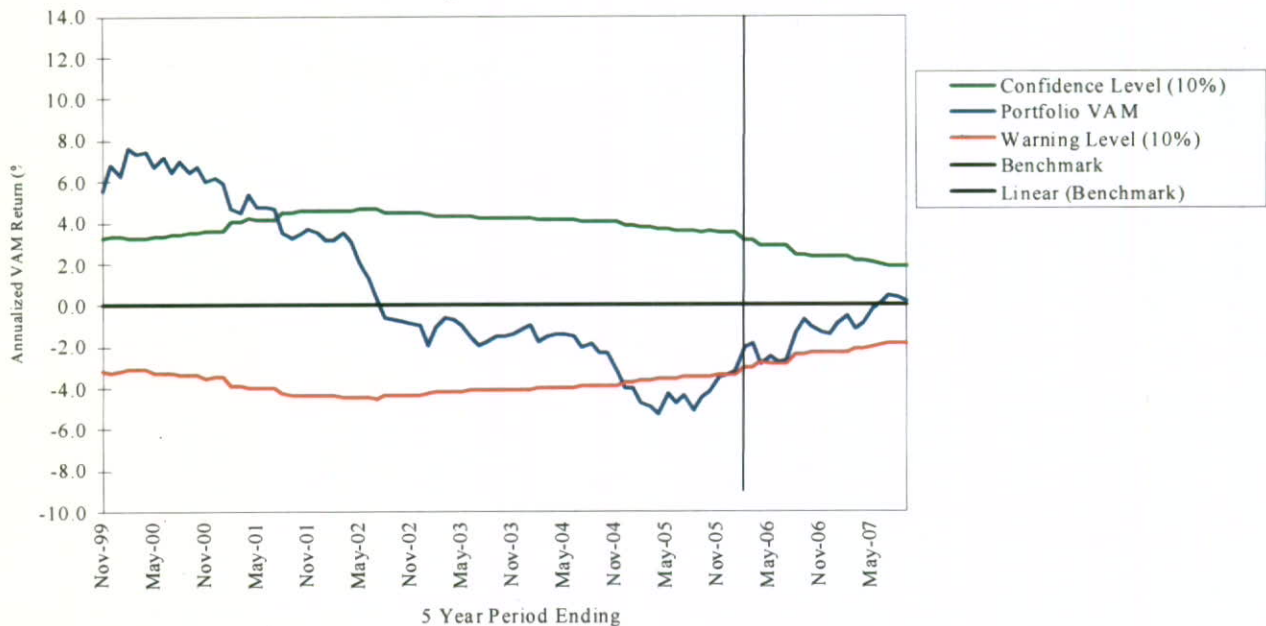
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	11.8%	14.4%
Last 1 year	58.0	58.2
Last 2 years	41.4	38.0
Last 3 years	42.5	40.8
Last 4 years	36.7	37.0
Last 5 years	38.9	38.7
Since Inception (3/01)	19.8	22.3

Recommendations

No action required.

CAPITAL INTERNATIONAL, INC.
Rolling Five Year VAM



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

MORGAN STANLEY INVESTMENT MANAGEMENT
Periods Ending September, 2007

Portfolio Manager: Ruchir Sharma

Assets Under Management: \$516,800,752

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 and an overweight position in China, together with underweight positions in Taiwan and Israel, contributed to the portfolio's outperformance over the quarter and the year. During the year, stock selection in Russia was the primary positive contributor to returns.

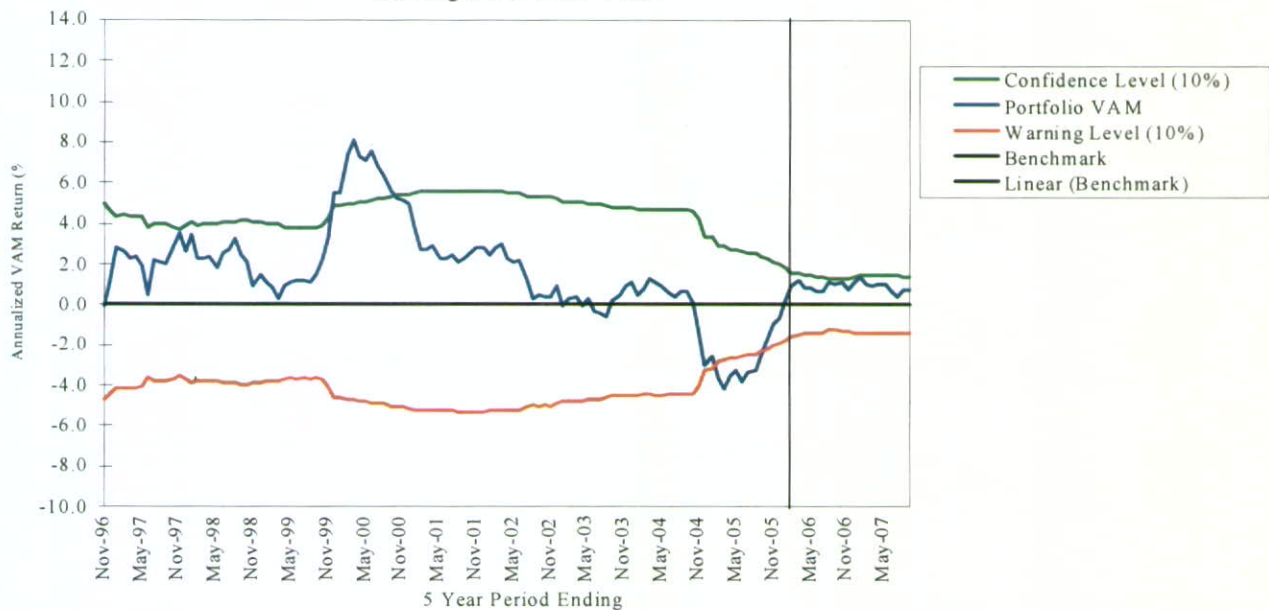
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	14.9%	14.4%
Last 1 year	61.5	58.2
Last 2 years	41.2	38.0
Last 3 years	43.3	40.8
Last 4 years	38.7	37.0
Last 5 years	39.7	38.7
Since Inception (3/01)	23.1	22.3

Recommendations

No action required.

MORGAN STANLEY INVESTMENT MANAGEMENT
Rolling Five Year VAM



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

AQR CAPITAL MANAGEMENT, LLC
Periods Ending September, 2007

Portfolio Manager: Cliff Asness

Assets Under Management: \$323,288,746

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

Stock selection in the United Kingdom and Europe detracted from returns during the quarter. An overweight position in Japan contributed to the portfolio's underperformance over both the quarter and the year.

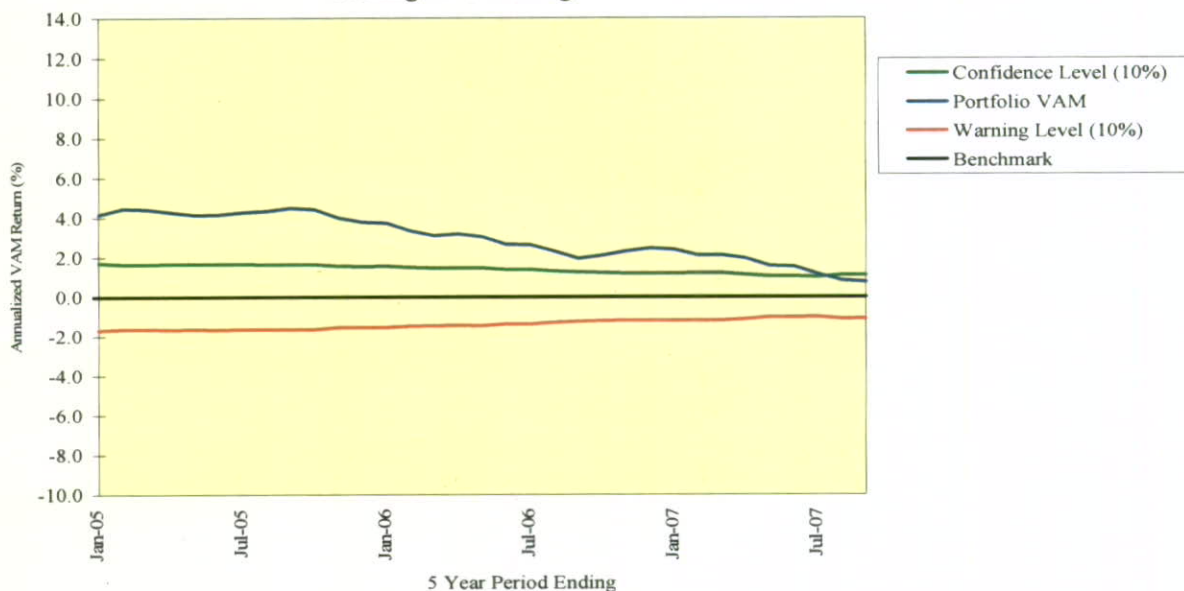
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	0.6%	2.7%
Last 1 year	24.1	25.9
Last 2 years	21.2	22.2
Last 3 years	N/A	N/A
Last 4 years	N/A	N/A
Last 5 years	N/A	N/A
Since Inception (7/05)	24.8	25.1

Recommendations

No action required.

AQR CAPITAL MANAGEMENT, LLC
Rolling Five Rolling VAM



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

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

Portfolio Manager: Cesar Hernandez

Assets Under Management: \$343,288,266

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

Stock selection in the industrials and information technology sectors contributed significantly to the portfolio's outperformance during the quarter and the year.

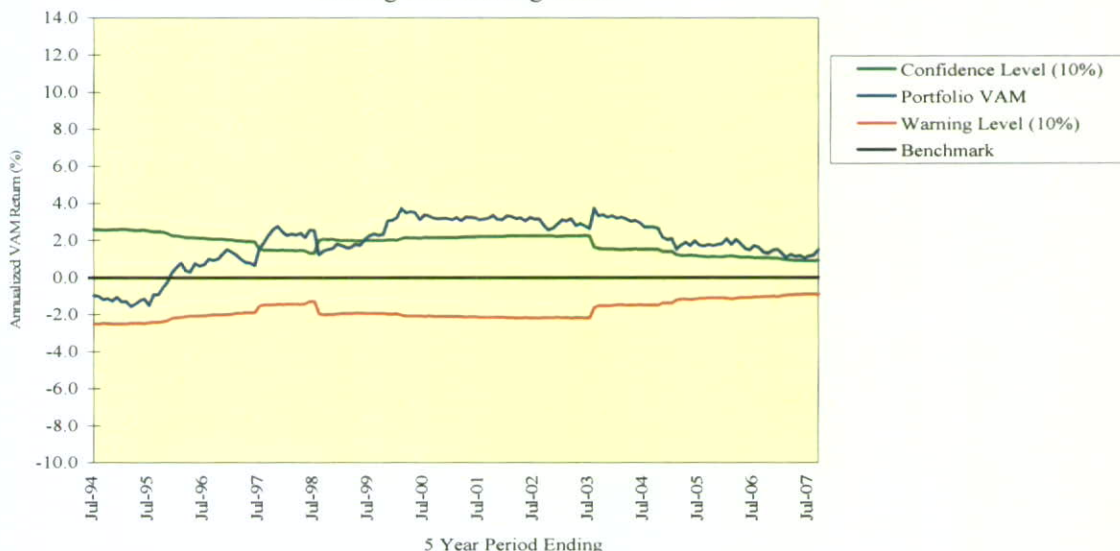
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	4.2%	2.7%
Last 1 year	30.8	25.9
Last 2 years	24.1	22.2
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)	27.3	25.1

Recommendations

No action required.

PYRAMIS GLOBAL ADVISORS TRUST Co. - SELECT INTL
Rolling Five Rolling VAM



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

STATE STREET GLOBAL ADVISORS
Periods Ending September, 2007

Portfolio Manager: Paul Moghtader

Assets Under Management: \$333,609,633

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 across Europe and Japan detracted from returns during the quarter, but contributed to the portfolio's outperformance during the year.

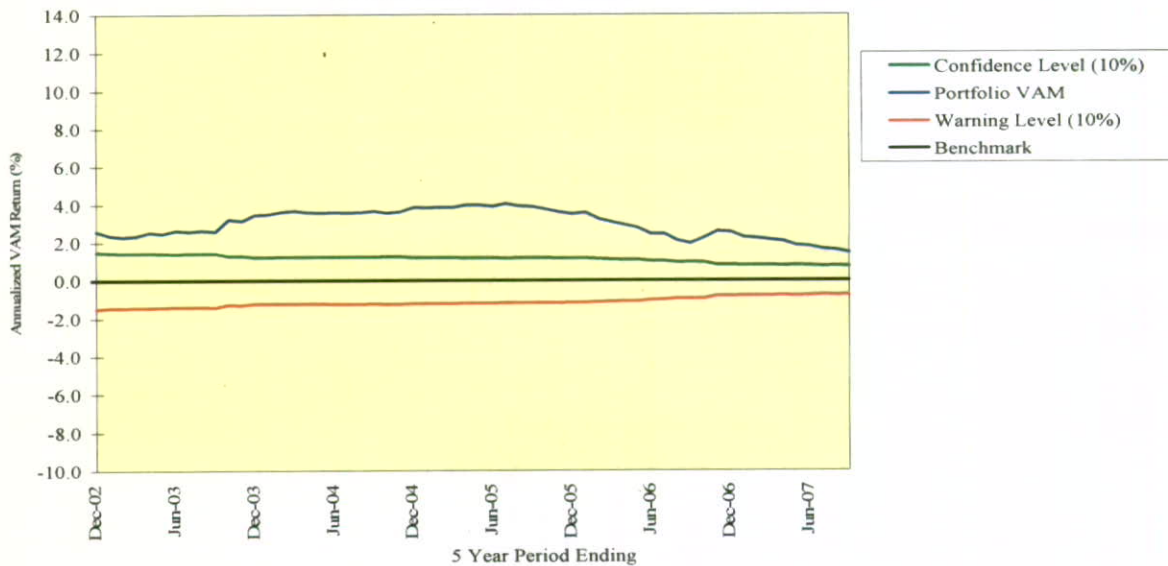
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	2.1%	2.7%
Last 1 year	26.4	25.9
Last 2 years	22.8	22.2
Last 3 years	N/A	N/A
Last 4 years	N/A	N/A
Last 5 years	N/A	N/A
Since Inception (7/05)	25.8	25.1

Recommendations

No action required.

STATE STREET GLOBAL ADVISORS - ALPHA
Rolling Five Rolling VAM



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

STATE STREET GLOBAL ADVISORS
Periods Ending September, 2007

Portfolio Manager: Lynn Blake

Assets Under Management: \$2,787,719,560

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 tracking error of the passive portfolio is within expectation over all time periods.

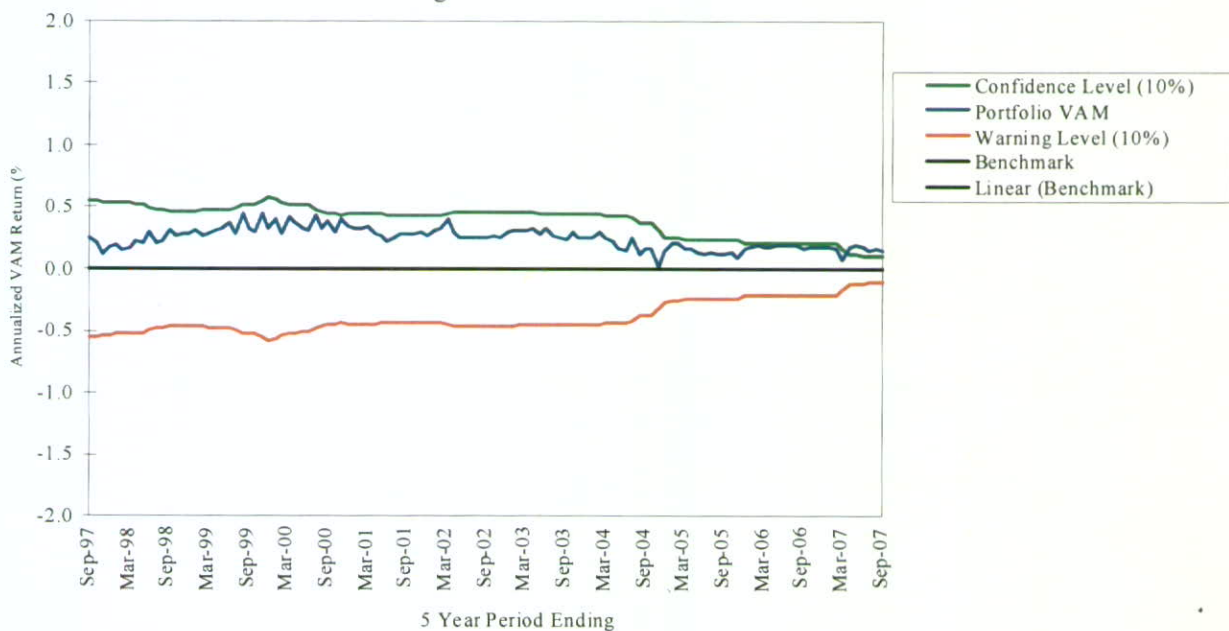
Quantitative Evaluation

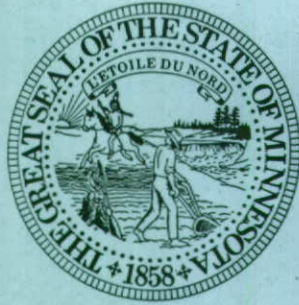
	Actual	Benchmark
Last Quarter	2.8%	2.7%
Last 1 year	26.1	25.9
Last 2 years	22.4	22.2
Last 3 years	23.9	23.7
Last 4 years	23.6	23.4
Last 5 years	24.1	23.9
Since Inception (10/92)	9.7	9.5

Recommendation

No action required.

STATE STREET GLOBAL ADVISORS - PASSIVE
 Rolling Five Year VAM





STATE BOARD OF INVESTMENT

Non-Retirement Manager Evaluation Reports

Third Quarter, 2007

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Non-Retirement Managers

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NON - RETIREMENT MANAGERS
Periods Ending September, 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)*	3.6	2.0	17.5	16.4	12.9	13.1	13.8	15.5	12.4	11.8	\$89.6
Voyageur Asset Management (Custom Benchmark)*	2.3	3.2	5.0	5.7	3.8	3.8	3.6	3.5	6.3	6.4	\$262.2
Galliard Capital Management (3 yr. Constant Maturity Treasury + 45 bp)*	1.2	1.2	4.7	5.0	4.5	4.8	4.5	4.0	5.7	5.0	\$203.8
Internal Stock Pool (S&P 500 Index)*	2.0	2.0	16.4	16.4	13.2	13.1	15.5	15.5	11.1	11.0	\$924.5
Internal Bond Pool - Income Share (Lehman Aggregate)*(2)	2.4	2.8	5.1	5.1	4.3	3.9	4.9	4.1	7.8	7.4	\$90.3
Internal Bond Pool - Trust (Lehman Aggregate)*	3.0	2.8	5.4	5.1	4.5	3.9	5.1	4.1	7.1	6.7	\$537.4

* 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 September, 2007

Portfolio Manager: Dave Carlson

Assets Under Management: \$89,620,476

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

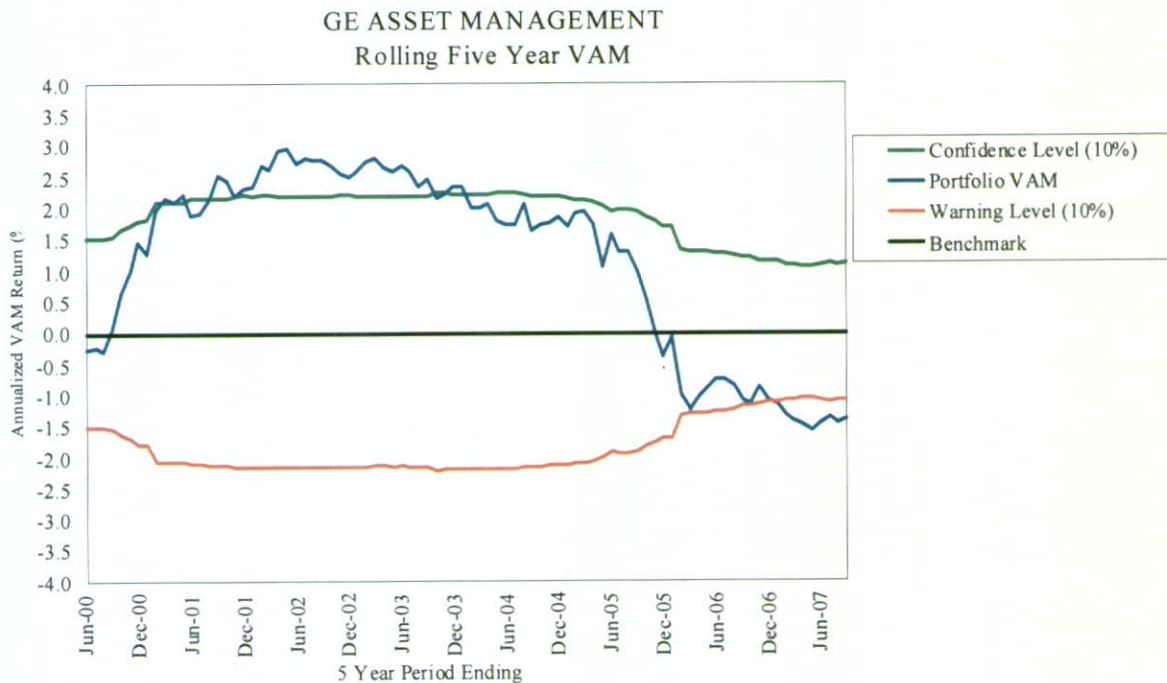
The manager outperformed for the quarter and the year.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	3.6%	2.0%
Last 1 year	17.5	16.4
Last 2 years	14.5	13.6
Last 3 years	12.9	13.1
Last 4 years	12.2	13.3
Last 5 years	13.8	15.5
Since Inception (1/95)	12.4	11.8

Recommendation

No recommendation at this time.



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

Portfolio Manager: John Huber

Assets Under Management: \$262,205,641

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 continues to employ its investment strategy and portfolio choices despite the quarterly underperformance, which resulted from "a systemic widening of risk spreads."

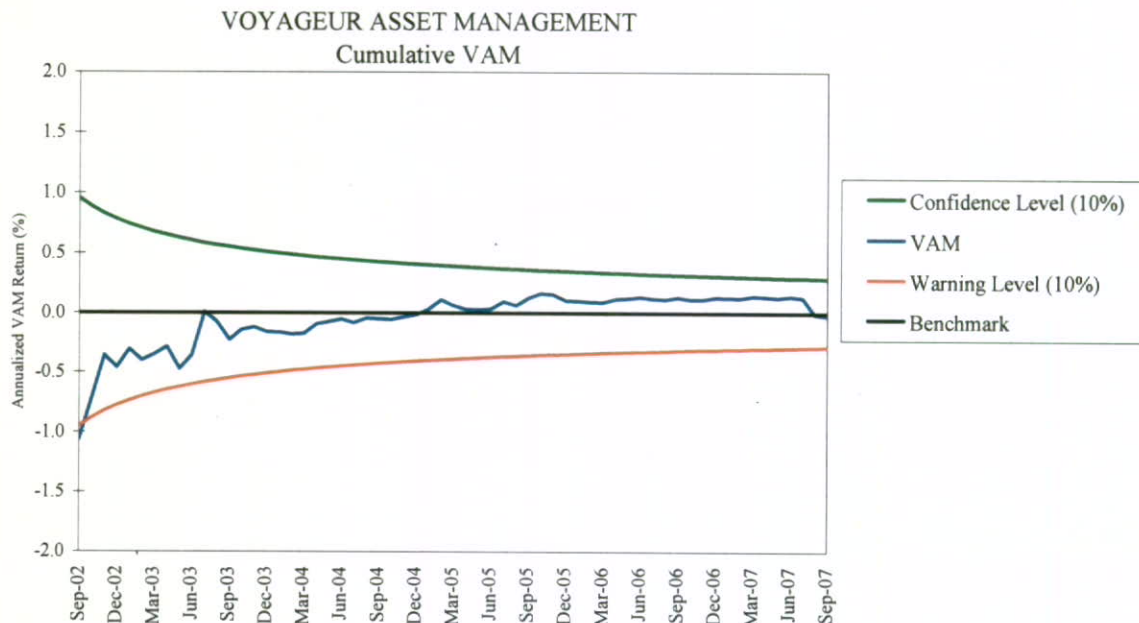
Quantitative Evaluation

	Actual	Benchmark*
Last Quarter	2.3%	3.2%
Last 1 year	5.0	5.7
Last 2 years	4.4	4.7
Last 3 years	3.8	3.8
Last 4 years	3.6	3.5
Last 5 years	3.6	3.5
Since Inception (7/91)	6.3	6.4

Recommendation

No action required.

*Custom benchmark since inception date.



GALLIARD CAPITAL MANAGEMENT
Periods Ending September, 2007

Portfolio Manager: Karl Tourville

Assets Under Management: \$203,763,512

Investment Philosophy

Staff Comments

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.

No comment at this time.

Quantitative Evaluation

Recommendation

	Actual	Benchmark
Last Quarter	1.2%	1.2%
Last 1 year	4.7	5.0
Last 2 years	4.6	5.1
Last 3 years	4.5	4.8
Last 4 years	4.4	4.3
Last 5 years	4.5	4.0
Since Inception (11/94)	5.7	5.0

No action required.

Galliard Capital Management
 Rolling Five Year VAM



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

Portfolio Manager: Mike Messen

Assets Under Management: \$924,468,106

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.

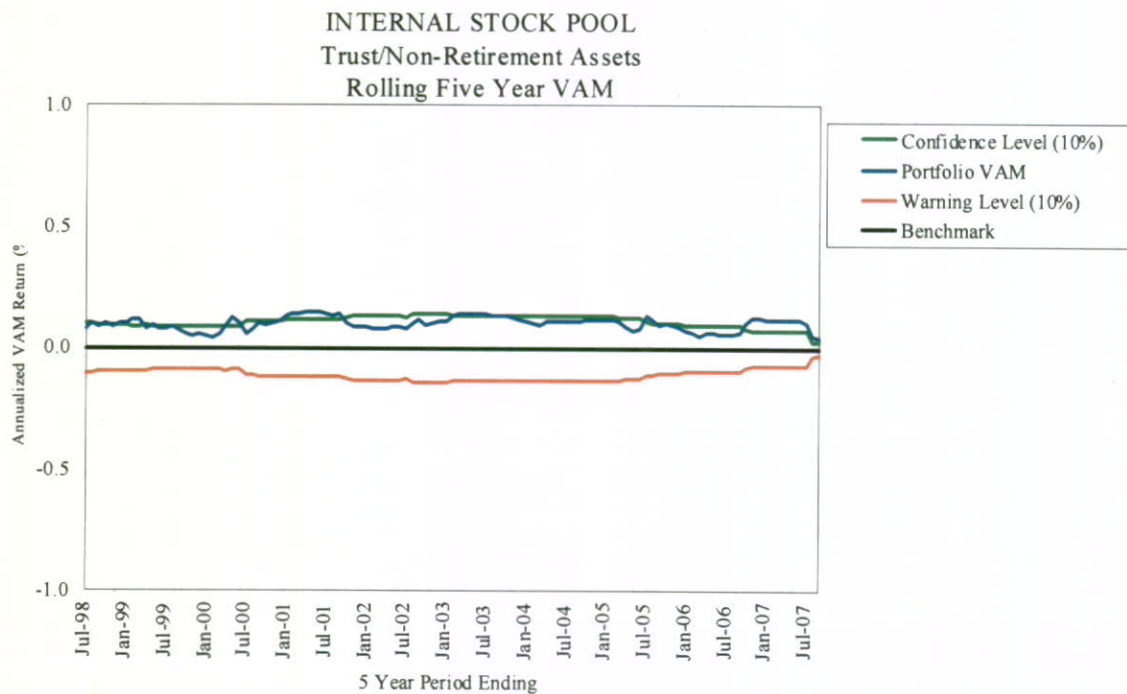
No comment at this time.

Quantitative Evaluation

Recommendation

	Actual	Benchmark
Last Quarter	2.0%	2.0%
Last 1 year	16.4	16.4
Last 2 years	13.6	13.6
Last 3 years	13.2	13.1
Last 4 years	13.4	13.3
Last 5 years	15.5	15.5
Since Inception (7/93)	11.1	11.0

No action required.



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

Portfolio Manager: Mike Messen

Assets Under Management: \$90,329,357

Investment Philosophy
Income Share Account

Staff Comments

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.

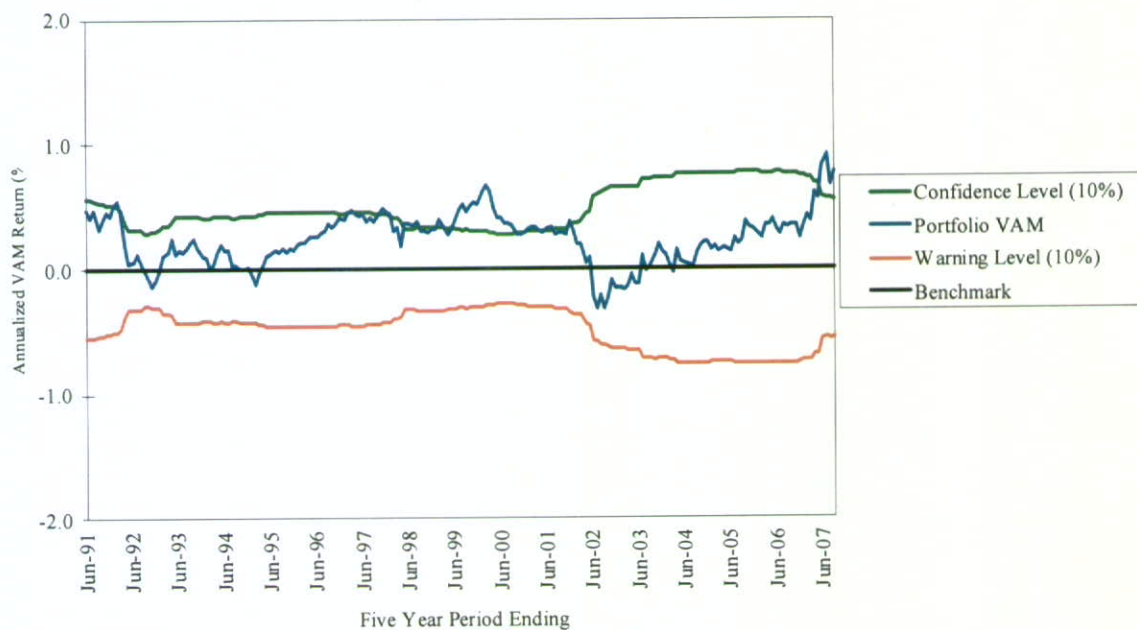
No comment at this time.

Quantitative Evaluation

Recommendation

	Actual	Benchmark	
Last Quarter	2.4%	2.8%	No action required.
Last 1 year	5.1	5.1	
Last 2 years	4.8	4.4	
Last 3 years	4.3	3.9	
Last 4 years	4.3	3.8	
Last 5 years	4.9	4.1	
Since Inception (7/86)	7.8	7.4	

INTERNAL BOND POOL - INCOME SHARE ACCOUNT
Rolling Five Year VAM



INTERNAL BOND POOL - Trust/Non-Retirement Assets
Periods Ending September, 2007

Portfolio Manager: Mike Menssen

Assets Under Management: \$537,372,862

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.

No comment at this time.

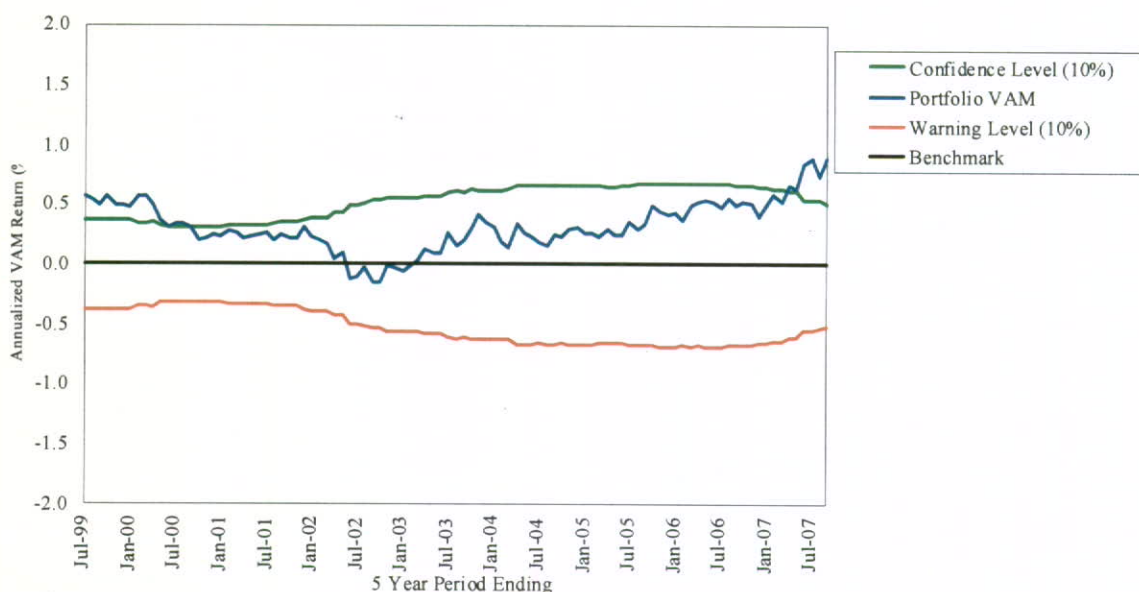
Quantitative Evaluation

Recommendation

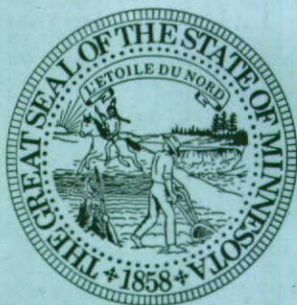
	Actual	Benchmark	
Last Quarter	3.0%	2.8%	No action required.
Last 1 year	5.4	5.1	
Last 2 years	5.0	4.4	
Last 3 years	4.5	3.9	
Last 4 years	4.5	3.8	
Last 5 years	5.1	4.1	
Since Inception (7/94)*	7.1	6.7	

* 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

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Mutual Fund Managers

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

457 Mutual Funds	Quarter		1 Year		3 Years		5 Years		Since Retention by SBI *		State's Participation In Fund (\$ millions)
	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	%	%	
Large Cap Equity:											
Janus Twenty (S&P 500)	12.3	2.0	37.8	16.4	20.4	13.1	19.9	15.5	2.5	3.0	\$449.3
Legg Mason Partners Appr I (S&P 500)	3.2	2.0	16.6	16.4	12.3	13.1	13.8	15.5	11.3	12.1	\$133.2
Vanguard Institutional Index Plus (S&P 500)	2.1	2.0	16.5	16.4	13.2	13.1	15.5	15.5	3.0	3.0	\$501.3
Mid Cap Equity:											
Vanguard Mid-Cap Index (MSCI US Mid-Cap 450)	-0.9	-0.9	18.1	18.1	17.9	17.8	19.6	19.5	15.5	15.5	\$150.7
Small Cap Equity:											
T. Rowe Price Small-Cap Stock (Russell 2000)	-2.5	-3.1	11.6	12.3	12.9	13.4	16.6	18.8	11.1	8.4	\$405.6
Balanced:											
Dodge & Cox Balanced Fund (60% S&P 500/40% Lehman Agg)	-0.6	2.4	9.8	11.9	11.1	9.4	13.8	10.9	12.1	9.5	\$320.6
Vanguard Balanced Index Inst. Fund (60% MSCI US Broad Market, 40% Lehman Agg)	2.2	2.1	12.2	12.2	9.9	9.9	11.5	11.6	9.3	9.3	\$181.8
Bond:											
Dodge & Cox Income Fund (Lehman Aggregate)	2.1	2.8	5.1	5.1	3.9	3.9	4.6	4.1	6.3	6.0	\$94.4
Vanguard Total Bond Market Index Inst. (Lehman Aggregate)	3.0	2.8	5.2	5.1	3.9	3.9	4.1	4.1	4.2	4.2	\$57.1
International:											
Fidelity Diversified International (MSCI EAFE-Free)	4.9	2.2	27.9	24.9	24.0	23.2	24.8	23.6	13.3	7.9	\$314.4
Vanguard Inst. Dev. Mkts. Index (MSCI EAFE)	2.4	2.2	25.2	24.9	23.4	23.2	23.8	23.6	21.6	21.4	\$94.4

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:	%	***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.
Blended Yield Rate for current quarter***:	4.6	
Bid Rates for current quarter:		
Great West Life	4.5	
Minnesota Life	5.1	
Principal Life	5.3	

**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 September, 2007**

Portfolio Manager: Scott W. Schoelzel

**State's Participation in Fund: \$449,320,453
Total Assets in Fund: \$11,697,160,210**

**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

The fund experienced strong performance in the quarter and the year. A new manager, Ben Sachs, Manager of Janus Orion, a concentrated all-cap fund, will take over the fund January 1, 2008.

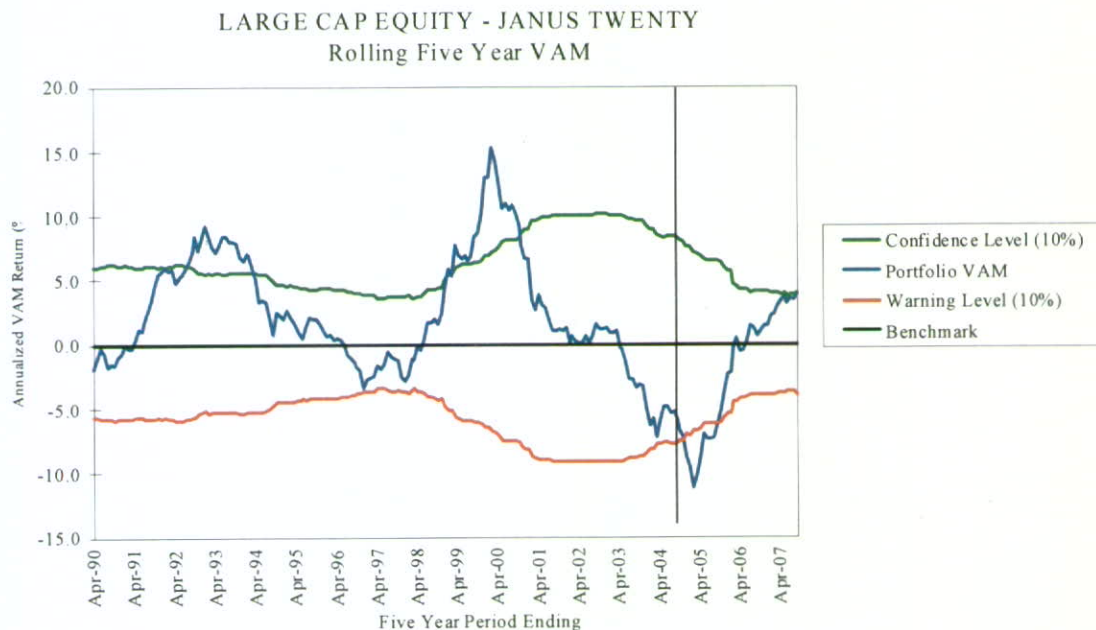
Quantitative Evaluation

	Actual	Benchmark*
Last Quarter	12.3%	2.0%
Last 1 year	37.8	16.4
Last 2 years	19.7	13.6
Last 3 years	20.4	13.1
Last 4 years	20.6	13.3
Last 5 years	19.9	15.5
Since Retention by SBI (7/99)	2.5	3.0

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
LARGE CAP EQUITY – LEGG MASON PARTNERS APPRECIATION Y
Periods Ending September, 2007**

Portfolio Manager: Scott Glasser

**State's Participation in Fund: \$133,163,772
Total Assets in Fund: \$6,143,068,000**

**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

The fund outperformed for the quarter and the year.

Quantitative Evaluation

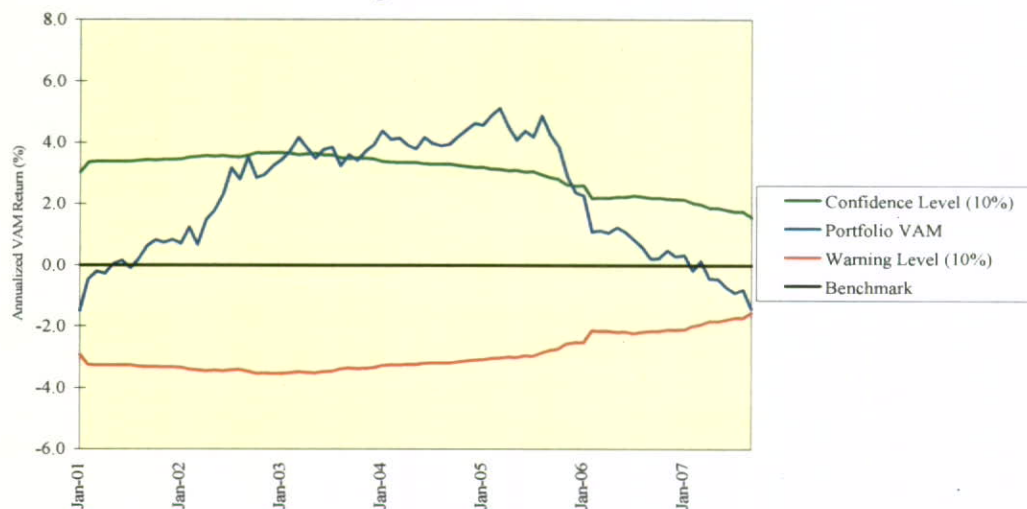
	Actual	Benchmark*
Last Quarter	3.2%	2.0%
Last 1 year	16.6	16.4
Last 2 years	13.1	13.6
Last 3 years	12.3	13.1
Last 4 years	12.4	13.3
Last 5 years	13.8	15.5
Since Retention by SBI (12/03)	11.3	12.1

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**



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

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

Portfolio Manager: Donald Butler

**State's Participation in Fund: \$501,344,060
Total Assets in Fund: \$25,468,000,000**

**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

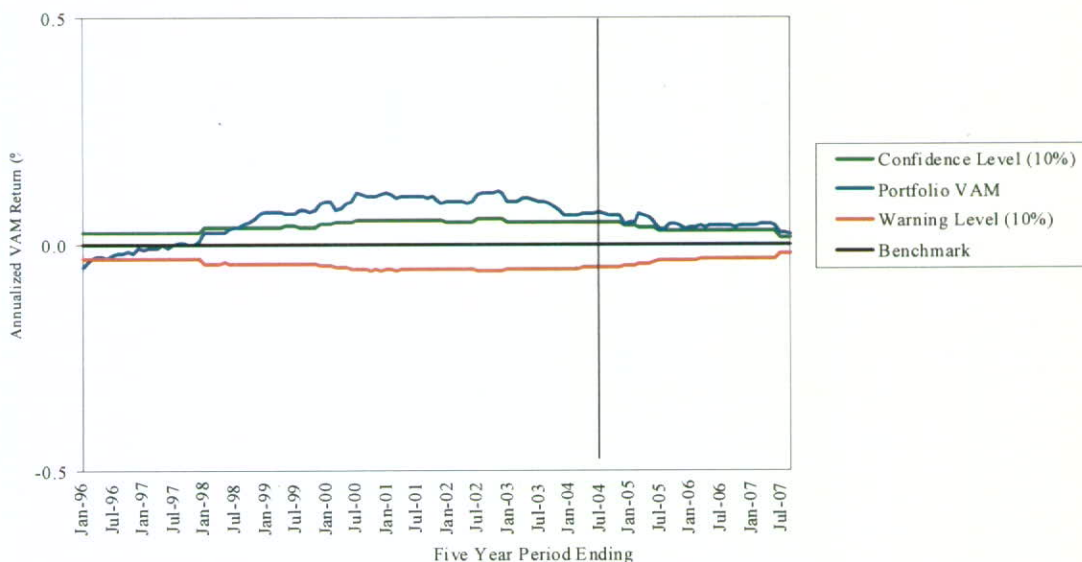
	Actual	Benchmark*
Last Quarter	2.1%	2.0%
Last 1 year	16.5	16.4
Last 2 years	13.6	13.6
Last 3 years	13.2	13.1
Last 4 years	13.3	13.3
Last 5 years	15.5	15.5
Since Retention by SBI (7/99)	3.0	3.0

Recommendation

No action required.

*Benchmark is the S&P 500.

**EQUITY INDEX - VANGUARD INSTITUTIONAL INDEX PLUS
Rolling Five Year VAM**



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

**MN STATE 457 DEFERRED COMPENSATION PLAN
MID CAP EQUITY – VANGUARD MID-CAP INDEX
Periods Ending September, 2007**

Portfolio Manager: Donald Butler

**State's Participation in Fund: \$150,688,355
Total Assets in Fund: \$6,092,000,000**

**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.

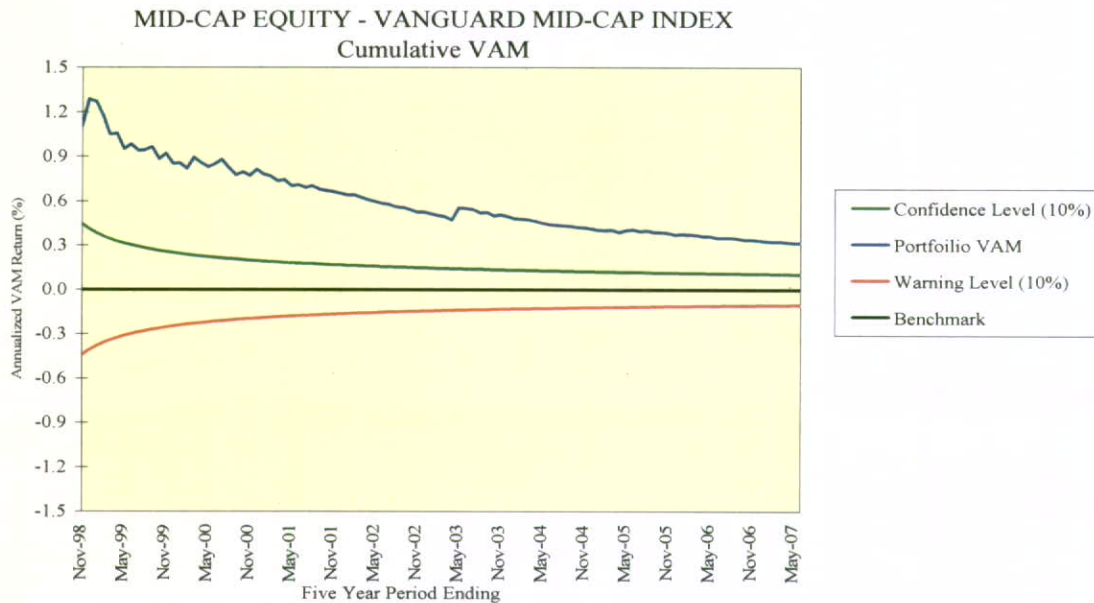
Quantitative Evaluation

	Actual	Benchmark*
Last Quarter	-0.9%	-0.9%
Last 1 year	18.1	18.1
Last 2 years	13.5	13.5
Last 3 years	17.9	17.8
Last 4 years	18.2	18.2
Last 5 years	19.6	19.5
Since Retention by SBI (1/04)	15.5	15.5

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.



**MN STATE 457 DEFERRED COMPENSATION PLAN
SMALL CAP EQUITY – T. ROWE PRICE SMALL CAP STOCK FUND
Periods Ending September, 2007**

Portfolio Manager: Gregory A. McCrickard

State's Participation in Fund: 405,611,153
Total Assets in Fund: 7,590,134,477

**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

The fund underperformed for the quarter and the year.

Quantitative Evaluation

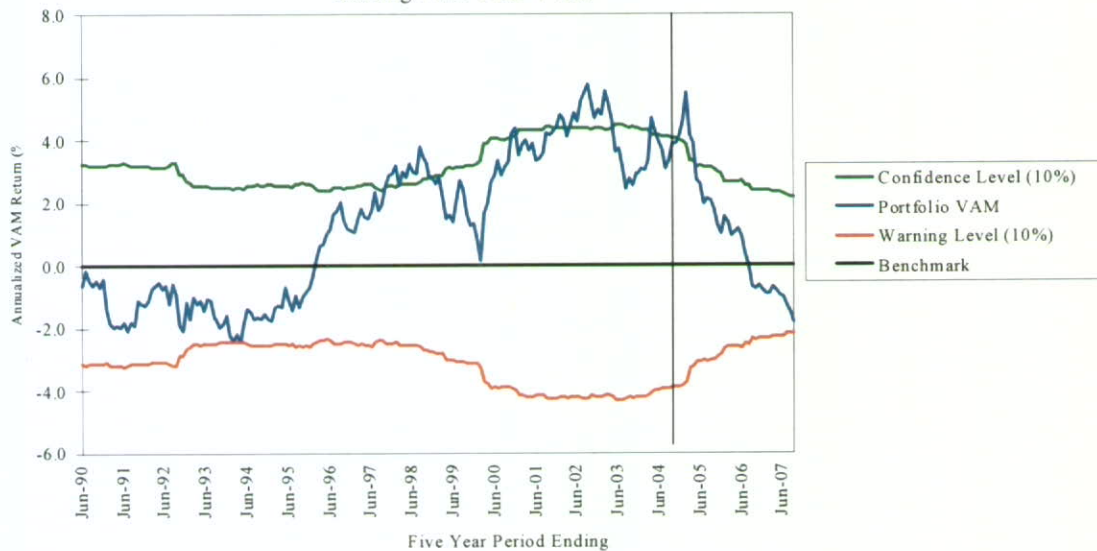
	Actual	Benchmark*
Last Quarter	-2.5%	-3.1%
Last 1 year	11.6	12.3
Last 2 years	10.4	11.1
Last 3 years	12.9	13.4
Last 4 years	14.7	14.7
Last 5 years	16.6	18.8
Since Retention by SBI (7/99)	11.1	8.4

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 September, 2007**

Portfolio Manager: John Gunn

**State's Participation in Fund: \$320,624,436
Total Assets in Fund: \$28,757,627,337**

**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

No comment at this time.

Quantitative Evaluation

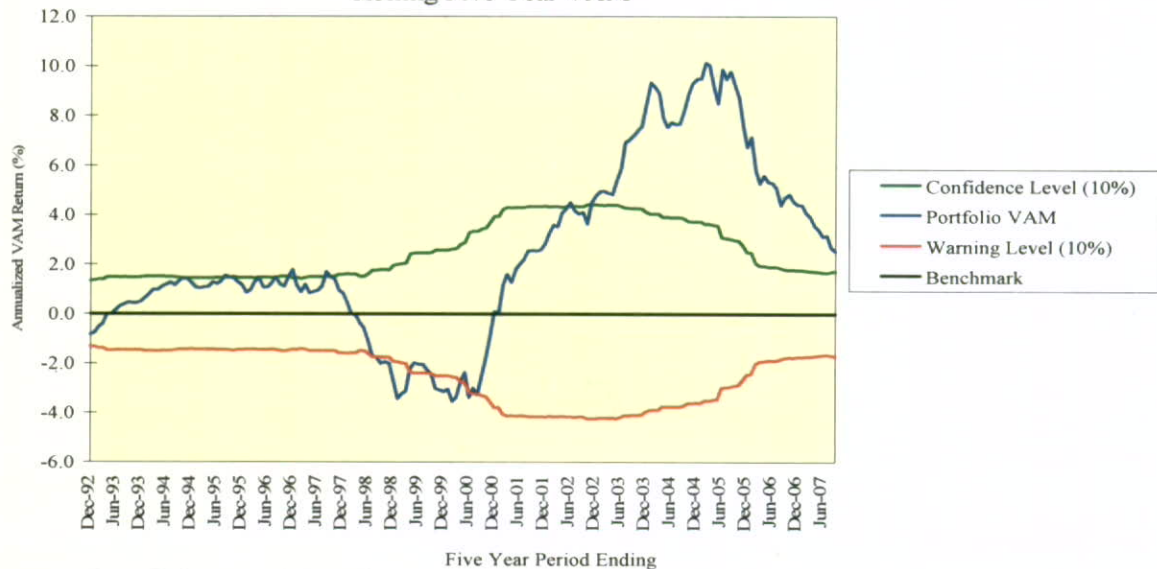
	Actual	Benchmark*
Last Quarter	-0.6%	2.4%
Last 1 year	9.8	11.9
Last 2 years	10.3	9.9
Last 3 years	11.1	9.4
Last 4 years	12.1	9.5
Last 5 years	13.8	10.9
Since Retention By SBI (10/03)	12.1	9.5

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

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

Portfolio Manager: Michael Perre

**State's Participation in Fund: \$181,806,840
Total Assets in Fund: \$2,889,000,000**

**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.

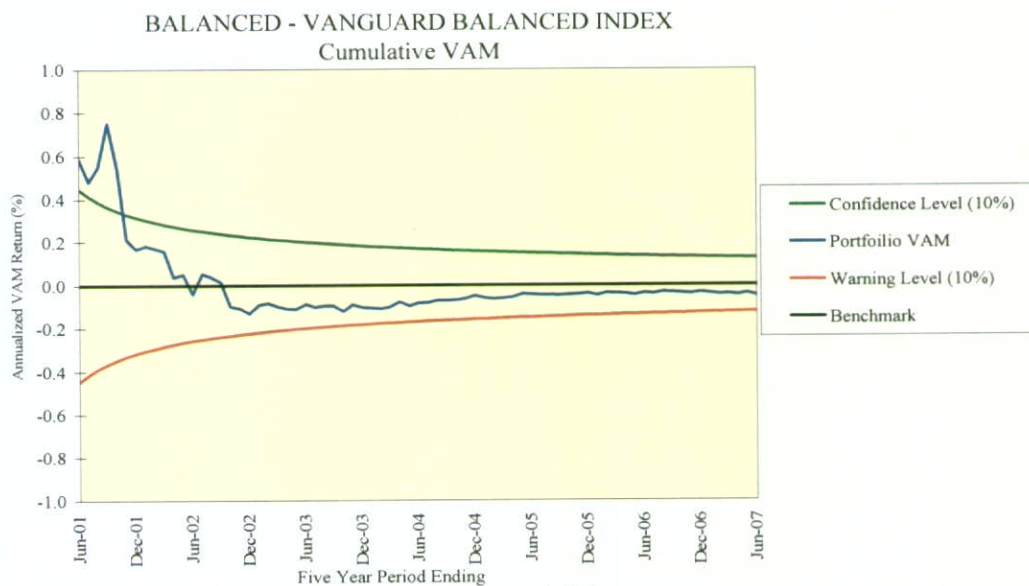
Quantitative Evaluation

	Actual	Benchmark*
Last Quarter	2.2%	2.1%
Last 1 year	12.2	12.2
Last 2 years	10.0	9.9
Last 3 years	9.9	9.9
Last 4 years	10.0	10.0
Last 5 years	11.5	11.6
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.



**MN STATE 457 DEFERRED COMPENSATION PLAN
BOND – DODGE & COX INCOME FUND
Periods Ending September, 2007**

Portfolio Manager: Dana Emery

**State's Participation in Fund: \$94,445,257
Total Assets in Fund: \$15,509,908,254**

**Investment Philosophy
Dodge & Cox Income Fund**

Staff Comments

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.

No comment at this time.

Quantitative Evaluation

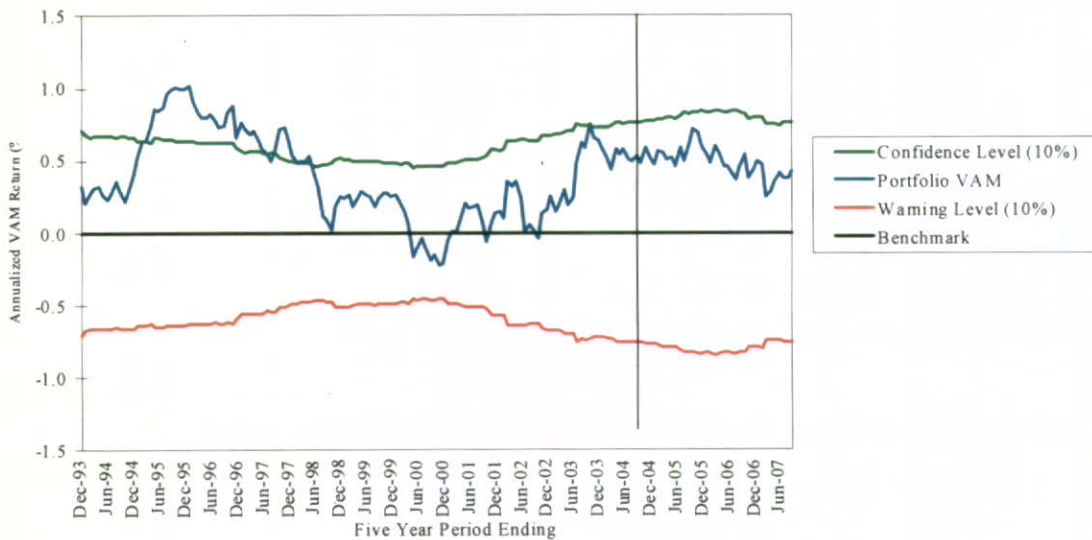
Recommendation

	Actual	Benchmark*
Last Quarter	2.1%	2.8%
Last 1 year	5.1	5.1
Last 2 years	4.6	4.4
Last 3 years	3.9	3.9
Last 4 years	3.9	3.8
Last 5 years	4.6	4.1
Since Retention By SBI (7/99)	6.3	6.0

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 September, 2007**

Portfolio Manager: Kenneth Volpert

**State's Participation in Fund: \$57,117,480
Total Assets in Fund: \$9,023,000,000**

**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.

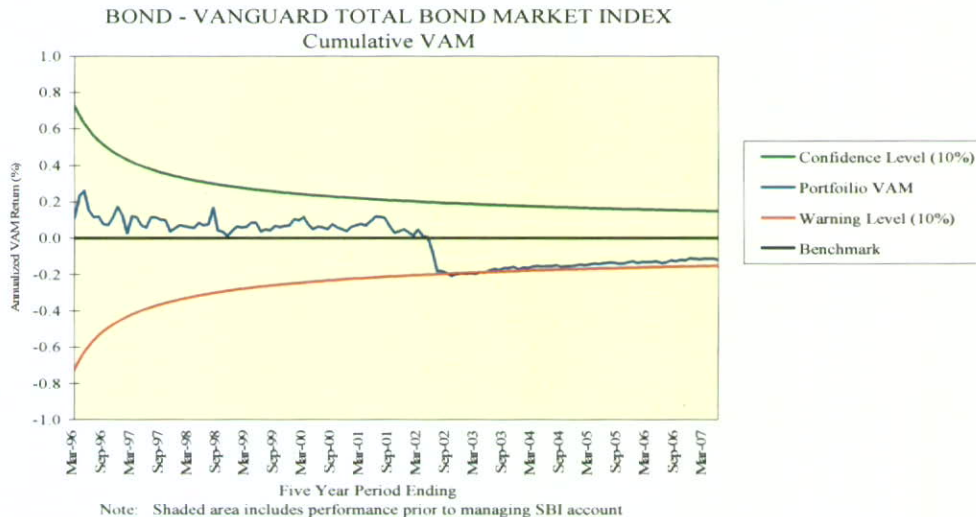
Quantitative Evaluation

Recommendation

	Actual	Benchmark*
Last Quarter	3.0%	2.8%
Last 1 year	5.2	5.1
Last 2 years	4.4	4.4
Last 3 years	3.9	3.9
Last 4 years	3.8	3.8
Last 5 years	4.1	4.1
Since Retention by SBI (12/03)	4.2	4.2

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 September, 2007**

Portfolio Manager: William Bower

**State's Participation in Fund: \$314,419,967
Total Assets in Fund: \$55,984,900,000**

**Investment Philosophy
Fidelity Diversified International**

Staff Comments

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.

The fund outperformed during the quarter and the year.

Quantitative Evaluation

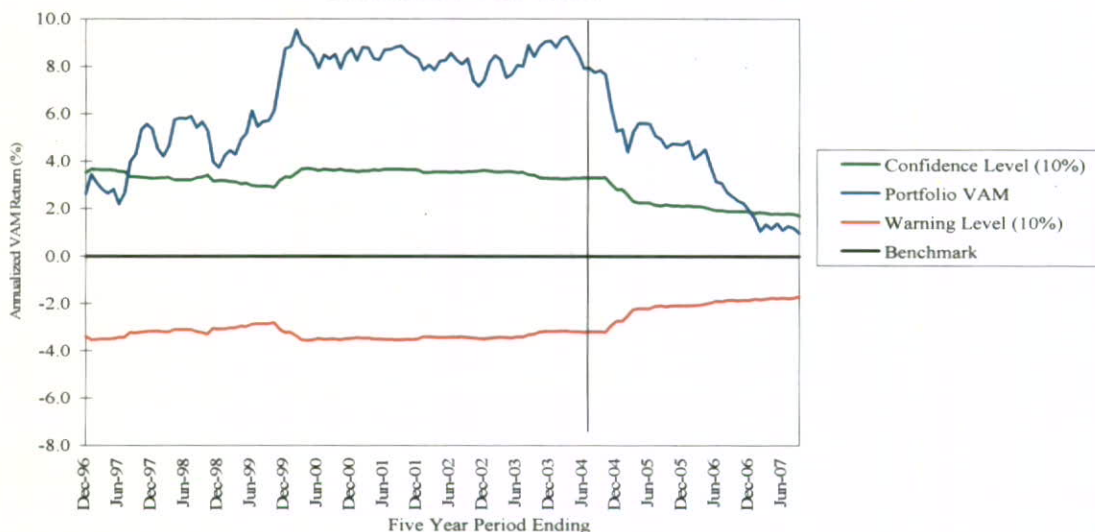
Recommendation

	Actual	Benchmark*
Last Quarter	4.9%	2.2%
Last 1 year	27.9	24.9
Last 2 years	22.5	22.0
Last 3 years	24.0	23.2
Last 4 years	23.2	22.9
Last 5 years	24.8	23.6
Since Retention By SBI (7/99)	13.3	7.9

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 September, 2007

Portfolio Manager: Duane Kelly and Michael Buek	State's Participation in Fund: \$94,413,855
	Total Assets in Fund: \$4,877,000,000

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.

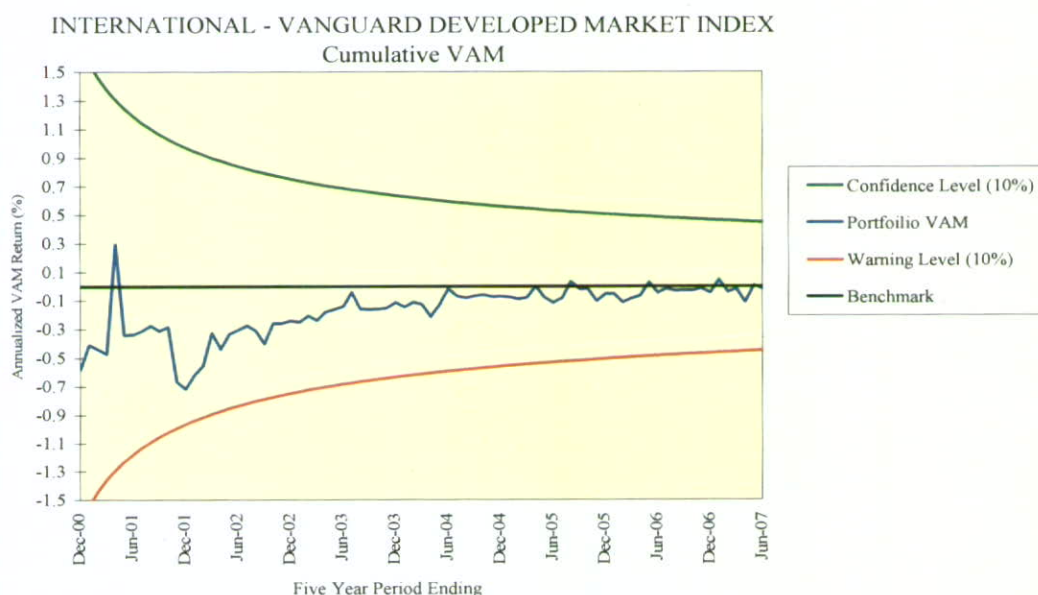
No comment at this time.

Quantitative Evaluation

Recommendation

	Actual	Benchmark*	
Last Quarter	2.4%	2.2%	No action required.
Last 1 year	25.2	24.9	
Last 2 years	22.1	22.0	
Last 3 years	23.4	23.2	
Last 4 years	23.1	22.9	
Last 5 years	23.8	23.6	
Since Retention by SBI (12/03)	21.6	21.4	

*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 September, 2007

Total Assets in MN Fixed Fund: \$775,761,085 *

*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: \$348,986,794

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: \$169,318,773

Assets in Prior MN 457 Plan: \$0

Total Assets: \$169,318,773

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: \$229,980,204

Assets in Prior MN 457 Plan: \$0

Total Assets: \$229,980,204

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

Current Quarter

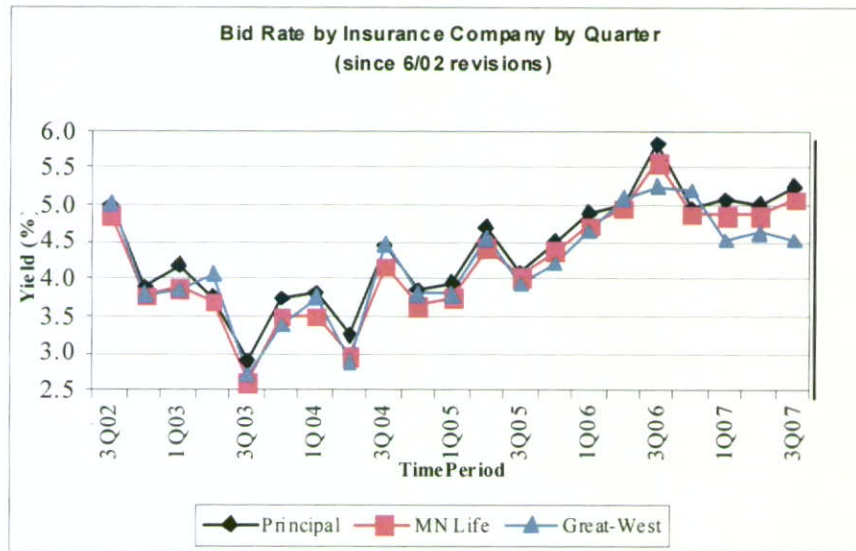
Dollar Amount of Bid: \$52,100,000

Blended Rate: 4.64%

Bid Rates:

Principal Life 5.25%
Minnesota Life 5.07%
Great-West Life 4.52%

Contracts were renewed in June 2002. Under these contracts, bid rates are effective for five years on the quarterly cash flows, the bid rate bands were narrowed to 8 b.p. from 10 b.p., and additional bid scenarios were added. All changes were effective for 3Q 2002 bids. The separate portfolio managed by Minnesota Life (previously referred to as the "existing portfolio") no longer 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.

	4Q06	1Q07	2Q07	3Q07	Staff Comments
Principal Life	0.0%	75.0%	60.0%	75.0%	Principal was awarded 75%; Minnesota Life was awarded 25%.
Minnesota Life	0.0%	25.0%	40.0%	25.0%	
Great-West Life	100.0%	0.0%	0.0%	0.0%	

Tab G

COMMITTEE REPORT

DATE: November 26, 2007

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

FROM: Alternative Investment Committee

The Alternative Investment Committee met on November 14, 2007 to review the following information and action agenda items:

1. Review of current strategy.
2. New investments with one existing real estate manager, one new resource manager and one new private equity manager:
 - Lehman Brothers
 - EnCap
 - CVC 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 real estate manager, Lehman Brothers, in Lehman Brothers Real Estate Partners III L.P.**

Lehman Brothers is seeking investors for a new \$4.0 billion real estate fund. This fund is a successor to other prior real estate funds managed by Lehman Brothers in which the SBI has invested a \$75 million in the most recent prior fund. Like the prior funds, this fund will seek to earn attractive returns through a diversified portfolio of real estate investments.

More information on 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 Lehman Brothers Real Estate Partners III L.P. Approval by the SBI of this potential commitment is not intended to be, and does not constitute in any way, a binding or legal agreement or impose any legal obligations on the State Board of Investment and neither the State of Minnesota, the State Board of Investment nor its Executive Director have any liability for reliance by Lehman Brothers 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 Lehman Brothers or reduction or termination of the commitment.

2) Investment with a new resource manager, EnCap, in EnCap Energy Capital Fund VII, L.P.

EnCap is seeking investors for a new \$2.5 billion resource fund. This fund is the seventh resource private equity fund for EnCap. Like prior funds, this fund will seek to earn attractive returns through a diversified portfolio of energy investments.

More information on EnCap Energy Capital Fund VII, L.P. is included as **Attachment D**.

RECOMMENDATION:

The Committee recommends that the SBI authorize the Executive Director, with assistance from the SBI's legal counsel, to negotiate and execute a commitment of up to \$100 million or 20%, whichever is less, in EnCap Energy Capital Fund VII, 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 EnCap 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 EnCap or reduction or termination of the commitment.

3) Investment with an new private equity manager, CVC Capital Partners, in CVC European Equity Partners V, L.P.

CVC Capital Partners is seeking investors for a new €11 billion Euros private equity fund. This fund is a successor to four other prior private equity funds managed by CVC Capital Partners. Like the prior funds, this fund will seek to earn attractive returns through a diversified portfolio of primarily European private equity investments.

More information on CVC European Equity Partners V, 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 €100 million Euros or 20%, whichever is less, in CVC European Equity 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 CVC 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 CVC Capital Partners or reduction or termination of the commitment.

ATTACHMENT A

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

Basic Retirement Funds Market Value	\$25,439,255,708
Post Retirement Fund Market Value	\$25,653,569,354
 Amount Available for Investment	 \$1,742,760,242

	Current Level	Target Level	Difference
Market Value (MV)	\$5,151,556,437	\$6,894,316,679	\$1,742,760,242
MV +Unfunded	\$7,808,431,901	\$10,341,475,018	\$2,533,043,117

Asset Class	Market Value	Unfunded Commitment	Total
Private Equity	\$2,938,812,640	\$1,455,847,531	\$4,394,660,171
Real Estate	\$1,002,318,450	\$191,996,831	\$1,194,315,281
Resource	\$208,737,324	\$399,328,197	\$608,065,521
Yield-Oriented	\$1,001,688,023	\$609,702,904	\$1,611,390,927
Total	\$5,151,556,437	\$2,656,875,463	\$7,808,431,901

(Blank)

ATTACHMENT B

Investment	Total Commitment	Funded Commitment	Market Value	Distributions	Unfunded Commitment	IRR %	Period Years
Real Estate							
Blackstone							
<i>Blackstone Real Estate V</i>	100,000,000	76,716,908	104,358,656	22,170,916	23,283,092	79.0	1.4
<i>Blackstone Real Estate VI</i>	100,000,000	14,256,327	14,256,327	0	85,743,673	N/A	0.5
Colony Investors III	100,000,000	100,000,000	11,437,800	167,305,052	0	15.4	9.7
CSFB Strategic Partners III RE	25,000,000	8,559,865	8,494,035	81,811	16,440,135	0.2	2.2
Lehman Brothers Real Estate Partners II	75,000,000	58,470,069	56,915,803	18,013,512	16,529,931	28.6	2.2
Morgan Stanley (Lend Lease)	40,000,000	40,000,000	284,954,499	0	0	8.0	26.0
T.A. Associates Realty							
<i>Realty Associates Fund IV</i>	50,000,000	50,000,000	724,385	106,787,825	0	13.4	10.7
<i>Realty Associates Fund V</i>	50,000,000	50,000,000	32,314,894	67,413,377	0	12.7	8.4
<i>Realty Associates Fund VI</i>	50,000,000	50,000,000	55,468,567	30,029,535	0	19.9	5.3
<i>Realty Associates Fund VII</i>	75,000,000	75,000,000	81,099,162	11,797,318	0	15.2	2.9
<i>Realty Associates Fund VIII</i>	100,000,000	50,000,000	49,378,450	255,065	50,000,000	-2.1	1.2
UBS Realty	42,376,529	42,376,529	302,915,872	0	0	8.6	25.4
Real Estate Total	807,376,529	615,379,698	1,002,318,450	423,854,411	191,996,831		
Resource							
Apache Corp III	30,000,000	30,000,000	9,117,000	52,418,248	0	12.5	20.8
First Reserve							
<i>First Reserve Fund I</i>	15,000,000	15,000,000	13,282	14,552,526	0	-0.3	26.0
<i>First Reserve Fund II</i>	7,000,000	7,000,000	55,212	14,879,948	0	5.9	24.7
<i>First Reserve Fund V</i>	16,800,000	16,800,000	120,765	50,261,377	0	16.2	17.4
<i>First Reserve Fund VII</i>	40,000,000	40,000,000	829,002	60,016,961	0	10.2	11.2
<i>First Reserve Fund VIII</i>	100,000,000	100,000,000	1,482,003	201,883,104	0	15.9	9.4
<i>First Reserve Fund IX</i>	100,000,000	100,000,000	914,000	297,962,868	0	48.1	6.5
<i>First Reserve Fund X</i>	100,000,000	93,366,814	63,038,521	89,276,364	6,633,186	51.8	2.9
<i>First Reserve Fund XI</i>	150,000,000	18,375,012	17,074,043	0	131,624,988	N/A	0.8
NGP Midstream & Resources	100,000,000	11,427,717	10,484,119	0	88,572,283	N/A	0.5
Sheridan Production Partners I	100,000,000	9,502,260	9,502,260	0	90,497,740	N/A	0.5
Simmons							
<i>SCF-II</i>	14,706,629	14,706,629	82,293	31,979,667	0	9.3	16.1
<i>SCF-IV</i>	47,626,265	47,626,265	66,641,466	112,381,527	0	27.4	9.5
T. Rowe Price	57,027,289	57,027,289	11,921,667	66,521,074	0	26.5	N/A
TCW Energy Partners XIV	100,000,000	18,000,000	17,461,692	0	82,000,000	N/A	0.4
Resource Total	978,160,184	578,831,987	208,737,324	992,133,664	399,328,197		

Investment	Total Commitment	Funded Commitment	Market Value	Market Distributions	Unfunded Commitment	IRR %	Period Years
Yield-Oriented							
Carbon Capital	50,000,000	46,184,308	3,500,309	59,522,956	3,815,692	17.0	5.4
Citicorp Mezzanine							
<i>Citicorp Mezzanine I</i>	40,000,000	40,000,000	5,550	59,302,781	0	11.0	12.7
<i>Citicorp Mezzanine III</i>	100,000,000	88,029,296	22,917,990	111,971,557	11,970,704	17.1	7.9
DLJ Investment Partners							
<i>DLJ Investment Partners II</i>	50,000,000	21,026,211	2,882,538	29,942,757	28,973,789	11.2	7.7
<i>DLJ Investment Partners III</i>	100,000,000	7,774,583	4,018,083	228,259	92,225,417	-26.2	1.3
GMAC Institutional Advisors							
<i>Institutional Commercial Mortgage Fd III</i>	21,275,052	21,275,052	1,588,234	33,608,948	0	8.2	10.8
<i>Institutional Commercial Mortgage Fd IV</i>	14,300,000	14,300,000	3,707,384	19,067,504	0	8.4	9.8
<i>Institutional Commercial Mortgage Fd V</i>	37,200,000	37,200,000	24,053,278	32,135,136	0	8.3	8.2
Gold Hill Venture Lending	40,000,000	32,400,000	28,557,145	6,329,619	7,600,000	4.1	3.0
GS Mezzanine Partners							
<i>GS Mezzanine Partners II</i>	100,000,000	83,092,437	46,967,149	70,300,738	16,907,563	9.6	7.6
<i>GS Mezzanine Partners III</i>	75,000,000	52,896,411	35,628,692	39,124,047	22,103,589	16.7	4.2
<i>GS Mezzanine Partners 2006</i>	100,000,000	51,845,263	51,238,320	9,767,865	48,154,737	28.1	1.5
GTCR Capital Partners	80,000,000	69,589,422	7,819,507	101,320,279	10,410,578	11.3	7.9
KB Mezzanine Fund II	25,000,000	25,000,000	441,513	12,080,745	0	-13.6	12.0
Merit Capital Partners (fka William Blair)							
<i>William Blair Mezzan. Cap. Fd. III</i>	60,000,000	55,998,000	6,694,992	87,028,222	4,002,000	14.0	7.7
<i>Merit Mezzanine Fund IV</i>	75,000,000	42,045,330	42,566,019	0	32,954,670	1.1	2.8
Merit Energy Partners							
<i>Merit Energy Partners B</i>	24,000,000	24,000,000	60,499,810	59,421,091	0	24.9	11.2
<i>Merit Energy Partners C</i>	50,000,000	50,000,000	204,488,969	99,209,784	0	35.2	8.9
<i>Merit Energy Partners D</i>	88,000,000	70,938,303	199,386,454	52,600,969	17,061,697	31.3	6.4
<i>Merit Energy Partners E</i>	100,000,000	36,489,813	54,071,182	5,194,347	63,510,187	19.1	3.0
<i>Merit Energy Partners F</i>	100,000,000	17,103,529	17,616,500	662,221	82,896,471	4.8	1.5
Prudential Capital Partners							
<i>Prudential Capital Partners I</i>	100,000,000	95,856,253	37,066,279	90,748,877	4,143,747	10.7	6.5
<i>Prudential Capital Partners II</i>	100,000,000	43,876,804	42,567,038	4,182,916	56,123,196	4.1	2.3
Summit Partners							
<i>Summit Subordinated Debt Fund I</i>	20,000,000	18,000,000	85,720	31,406,578	2,000,000	30.6	13.5
<i>Summit Subordinated Debt Fund II</i>	45,000,000	40,500,000	7,052,072	82,081,400	4,500,000	56.5	10.2
<i>Summit Subordinated Debt Fund III</i>	45,000,000	31,050,000	18,252,293	15,021,842	13,950,000	5.2	3.6
T. Rowe Price	53,394,449	53,394,449	254,969	52,072,531	0	-10.1	N/A
TCW/Crescent Mezzanine							
<i>TCW/Crescent Mezzanine Partners I</i>	40,000,000	37,130,039	3,766,935	57,050,388	2,869,961	14.9	11.5
<i>TCW/Crescent Mezzanine Partners II</i>	100,000,000	87,479,046	1,838,188	134,950,360	12,520,954	13.4	8.9
<i>TCW/Crescent Mezzanine Partners III</i>	75,000,000	68,835,264	18,094,418	136,442,148	6,164,736	37.9	6.5
Windjammer Capital Investors							
<i>Windjammer Mezzanine & Equity Fund II</i>	66,708,861	50,004,199	38,704,899	37,250,735	16,704,662	12.3	7.5
<i>Windjammer Senior Equity Fund III</i>	67,974,684	19,836,130	15,355,597	2,395,368	48,138,554	-18.8	1.7
Yield Oriented Total	2,042,853,047	1,433,150,142	1,001,688,023	1,532,422,969	609,702,904		

Investment	Total Commitment	Funded Commitment	Market Value	Distributions	Unfunded Commitment	IRR %	Period Years
Private Equity							
Adams Street Partners							
<i>Adams Street VPAF Fund I</i>	3,800,000	3,800,000	89,891	9,387,104	0	13.2	19.4
<i>Adams Street VPAF Fund II</i>	20,000,000	20,000,000	108,872	37,898,512	0	24.1	16.8
<i>Affinity Ventures IV</i>	4,000,000	1,791,847	1,189,793	405,436	2,208,153	-10.4	3.2
Banc Fund							
<i>Banc Fund V</i>	48,000,000	48,000,000	301,065	107,716,441	0	15.4	9.2
<i>Banc Fund VII</i>	45,000,000	36,000,000	31,680,864	812,725	9,000,000	-8.1	2.5
Blackstone							
<i>Blackstone Capital Partners II</i>	47,271,190	47,271,190	5,059,292	94,979,972	0	34.2	13.9
<i>Blackstone Capital Partners IV</i>	70,000,000	61,375,280	58,439,329	81,814,603	8,624,720	54.0	5.2
<i>Blackstone Capital Partners V</i>	140,000,000	65,614,824	64,495,688	5,029,255	74,385,176	8.3	1.7
BLUM Capital Partners							
<i>Blum Strategic Partners I</i>	50,000,000	49,001,812	23,751,554	89,408,820	998,188	15.7	8.8
<i>Blum Strategic Partners II</i>	50,000,000	40,081,967	34,880,210	61,282,135	9,918,033	27.8	6.2
<i>Blum Strategic Partners III</i>	75,000,000	74,220,092	78,780,246	16,421,797	779,908	20.2	2.3
<i>CVI Global Value Fund</i>	125,000,000	68,750,000	72,901,017	23,001	56,250,000	N/A	0.7
Chicago Growth Partners (William Blair)							
<i>William Blair Capital Partners VII</i>	50,000,000	47,400,000	35,776,112	37,235,979	2,600,000	12.7	6.6
<i>Chicago Growth Partners VIII</i>	50,000,000	28,941,998	25,534,316	8,265,574	21,058,002	18.7	2.2
Coral Partners							
<i>Coral Partners II</i>	10,000,000	10,000,000	333,143	36,632,559	0	24.9	17.2
<i>Coral Partners IV</i>	15,000,000	15,000,000	1,737,200	13,538,879	0	0.4	13.2
<i>Coral Partners V</i>	15,000,000	14,625,000	2,542,164	3,106,198	375,000	-14.5	9.3
Court Square Capital							
<i>Citigroup Venture Capital Equity</i>	100,000,000	79,682,733	41,054,837	116,064,938	20,317,267	31.6	5.8
<i>Court Square Capital Partners II</i>	100,000,000	42,547,743	40,140,354	1,060,206	57,452,257	-9.3	1.1
Crescendo							
<i>Crescendo III</i>	25,000,000	25,000,000	1,387,740	9,321,908	0	-20.9	8.9
<i>Crescendo IV</i>	101,500,000	101,500,000	43,560,422	4,018,614	0	-14.2	7.6
CSFB/ DLJ							
<i>DLJ Merchant Banking Partners III</i>	125,000,000	117,153,815	70,132,621	157,298,999	7,846,185	20.8	7.0
<i>DLJ Strategic Partners</i>	100,000,000	87,368,100	32,795,044	122,586,657	12,631,900	24.0	6.7
<i>CSFB Strategic Partners II-B</i>	100,000,000	74,641,697	51,981,580	96,032,034	25,358,303	47.2	4.2
<i>CSFB Strategic Partners III VC</i>	25,000,000	14,773,428	16,849,796	1,677,493	10,226,572	22.5	2.3
<i>CSFB Strategic Partners III-B</i>	100,000,000	44,888,986	45,196,667	11,356,480	55,111,014	33.1	2.3
<i>Diamond Castle Partners IV</i>	100,000,000	46,318,250	47,808,586	331,777	53,681,750	4.9	1.1
<i>EBF Merced Partners II</i>	75,000,000	18,750,000	18,670,200	0	56,250,000	N/A	0.5
<i>Elevation Partners</i>	75,000,000	28,422,765	26,803,862	244,445	46,577,235	-6.2	2.4
<i>First Century Partners III</i>	10,000,000	10,000,000	2,591	15,226,240	0	7.5	22.8
Fox Paine Capital Fund							
<i>Fox Paine Capital Fund I</i>	40,000,000	40,000,000	5,467,051	39,288,122	0	1.9	9.4
<i>Fox Paine Capital Fund II</i>	50,000,000	37,598,342	29,824,057	45,038,976	12,401,658	29.2	7.2

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	9,348,043	44,201,952	949,000	7.7	8.5
<i>GHJM Marathon Fund V</i>	50,000,000	36,769,382	36,277,740	3,877,797	13,230,618	7.2	3.0
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	19.9
<i>Golder, Thoma, Cressey & Rauner Fund IV</i>	20,000,000	20,000,000	50,952	41,949,783	0	25.0	13.7
<i>Golder, Thoma, Cressey & Rauner Fund V</i>	30,000,000	30,000,000	4,084,171	51,250,489	0	11.3	11.2
GS Capital Partners							
<i>GS Capital Partners 2000</i>	50,000,000	50,000,000	33,799,595	70,424,142	0	26.1	7.1
<i>GS Capital Partners V</i>	100,000,000	62,626,198	114,013,900	4,245,168	37,373,802	49.9	2.5
<i>GS Capital Partners VI</i>	100,000,000	13,000,000	12,631,801	0	87,000,000	N/A	0.7
GTCR Golder Rauner							
<i>GTCR VI</i>	90,000,000	90,000,000	22,941,005	73,737,932	0	2.2	9.2
<i>GTCR VII</i>	175,000,000	152,796,874	73,286,994	275,963,737	22,203,126	24.5	7.6
<i>GTCR IX</i>	75,000,000	9,999,020	8,033,248	4,741,730	65,000,980	64.8	1.2
Hellman & Friedman							
<i>Hellman & Friedman Capital Partners III</i>	32,113,684	32,113,684	3,457	72,926,361	0	34.4	13.0
<i>Hellman & Friedman Capital Partners IV</i>	150,000,000	133,967,494	73,480,242	282,443,871	16,032,506	34.8	7.7
<i>Hellman & Friedman Capital Partners V</i>	160,000,000	139,782,815	233,162,340	25,887,527	20,217,185	51.6	2.8
<i>Hellman & Friedman Capital Partners VI</i>	175,000,000	42,053,555	41,711,363	0	132,946,445	N/A	0.5
Kohlberg Kravis Roberts							
<i>KKR 1987 Fund</i>	145,373,652	145,373,652	6,371,276	395,130,030	0	8.8	19.9
<i>KKR 1993 Fund</i>	150,000,000	150,000,000	2,747,423	307,737,864	0	16.8	13.8
<i>KKR 1996 Fund</i>	200,000,000	200,000,000	47,672,005	327,016,399	0	13.8	11.1
<i>KKR Millennium Fund</i>	200,000,000	196,315,009	220,789,720	143,273,365	3,684,991	34.8	4.8
<i>KKR 2006 Fund</i>	200,000,000	114,883,528	106,598,001	5,751,824	85,116,472	-8.0	1.0
Lexington Capital Partners VI-B	100,000,000	35,600,694	32,435,991	6,188,264	64,399,306	12.1	1.8
RWI Ventures							
<i>RWI Group III</i>	616,430	616,430	325,433	259,070	0	-5.7	1.3
<i>RWI Ventures I</i>	7,603,265	7,198,265	9,157,946	835,636	405,000	33.6	1.3
Sightline Healthcare							
<i>Sightline Healthcare Fund II</i>	10,000,000	10,000,000	1,523,154	4,883,002	0	-6.8	10.6
<i>Sightline Healthcare Fund III</i>	20,000,000	20,000,000	6,638,776	3,288,320	0	-12.1	8.7
<i>Sightline Healthcare Fund IV</i>	7,700,000	6,590,622	4,622,312	2,613,367	1,109,378	3.5	4.0
Silver Lake Partners							
<i>Silver Lake Partners II</i>	100,000,000	80,172,022	92,375,587	14,148,430	19,827,978	19.2	3.2
<i>Silver Lake Partners III</i>	100,000,000	451,686	451,686	0	99,548,314	N/A	0.5
Split Rock Partners	50,000,000	17,000,002	14,946,946	0	32,999,998	-10.4	2.4
Summit Partners							
<i>Summit Ventures II</i>	30,000,000	28,500,000	166,980	74,524,292	1,500,000	28.8	19.4
<i>Summit Ventures V</i>	25,000,000	24,000,000	1,807,686	30,855,612	1,000,000	7.9	9.5
T. Rowe Price	770,346,444	770,346,444	108,056,765	719,742,133	0	9.9	N/A

Investment	Total Commitment	Funded Commitment	Market Value	Distributions	Unfunded Commitment	IRR %	Period Years
Thoma Cressey							
<i>Thoma Cressey Fund VI</i>	35,000,000	33,915,000	15,599,859	8,859,003	1,085,000	-5.4	9.1
<i>Thoma Cressey Fund VII</i>	50,000,000	44,855,000	29,846,089	46,489,614	5,145,000	29.3	7.1
<i>Thoma Cressey Fund VIII</i>	70,000,000	52,500,000	51,384,585	0	17,500,000	-3.4	1.4
Thomas, McNerney & Partners							
<i>Thomas, McNerney & Partners I</i>	30,000,000	21,675,000	16,309,471	4,776,632	8,325,000	-1.3	4.9
<i>Thomas, McNerney & Partners II</i>	50,000,000	6,750,000	5,492,711	768,885	43,250,000	-9.1	1.2
Vestar Capital Partners							
<i>Vestar Capital Partners IV</i>	55,000,000	51,540,460	29,504,883	44,458,191	3,459,540	12.4	7.8
<i>Vestar Capital Partners V</i>	75,000,000	32,125,437	31,559,775	3,665,481	42,874,563	10.7	1.8
Warburg Pincus							
<i>Warburg, Pincus Ventures</i>	50,000,000	50,000,000	2,770,099	252,522,539	0	49.2	12.7
<i>Warburg Pincus Equity Partners</i>	100,000,000	100,000,000	28,851,668	128,426,894	0	10.5	9.3
<i>Warburg Pincus Private Equity VIII</i>	100,000,000	100,000,000	122,918,281	65,527,461	0	22.7	5.5
<i>Warburg Pincus Private Equity IX</i>	100,000,000	68,655,208	74,447,702	3,913,125	31,344,792	11.7	2.2
<i>Wayzata Opportunities Fund</i>	100,000,000	97,904,318	102,911,928	2,743,427	2,095,682	6.4	1.8
Welsh, Carson, Anderson & Stowe							
<i>Welsh, Carson, Anderson & Stowe VIII</i>	100,000,000	100,000,000	58,314,450	75,954,400	0	4.2	9.2
<i>Welsh, Carson, Anderson & Stowe IX</i>	125,000,000	116,250,000	83,968,764	122,638,925	8,750,000	16.9	7.3
<i>Welsh, Carson, Anderson & Stowe X</i>	100,000,000	56,578,466	55,931,831	0	43,421,534	-1.2	1.8
<i>Zell/ Chilmark</i>	30,000,000	30,000,000	33,454	77,129,496	0	17.7	17.2
Private Equity Total	6,492,324,665	5,036,477,135	2,938,812,640	5,127,201,067	1,455,847,531		

REAL ESTATE MANAGER SUMMARY PROFILE
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I. Background Data

<i>Name of Fund:</i>	Lehman Brothers Real Estate Partners III, L.P. ("The Fund")
<i>Type of Fund:</i>	Real Estate
<i>Total Fund Size:</i>	\$4 billion target
<i>Fund Manager:</i>	Lehman Brothers
<i>Manager Contact:</i>	Tanya T. Oblak (212.526.5771)

II. Organization and Staff

Founded in 1850, Lehman Brothers Holdings Inc. (together with its affiliates, "Lehman Brothers") actively participates in the global capital markets through a closely integrated network of 52 offices in 23 countries, anchored by worldwide headquarters in New York and regional headquarters in London and Tokyo. The General Partner believes that the Fund will garner a competitive advantage in its investment activities as a result of its access to the capital markets expertise, intellectual capital and global reach of Lehman Brothers.

Led by Messrs. Brett Bossung and Mark Newman, each with over 18 years of real estate experience, the General Partner will be comprised of approximately 80 experienced real estate professionals who will manage the Fund on a daily basis. Messrs. Bossung and Newman will lead a team of professionals with extensive real estate investment experience that will be dedicated to the activities of the Fund. The LBREP Principals who lead this team were among those responsible for the acquisitions, asset management and finance and investor relations of LBREP I and II. The LBREP Principals, with an average of 15 years in the real estate industry, have broad contacts in the business, which are expected to generate further transaction opportunities for the Fund.

III. Investment Strategy

The Fund will seek to achieve compounded annual returns to the Limited Partners in excess of 18% in the aggregate, net of management fees, partnership expenses and General Partner Profits Interest.

The General Partner intends to employ the same fundamental, value-driven investment strategy and approach that the LBREP Funds and Lehman Brothers have historically used to achieve superior risk-adjusted returns in the real estate sector. The LBREP Principals will seek to maximize returns on investments in properties, real estate companies and service businesses ancillary to the real estate industry by:

- Investing with operating partners that have established capabilities in their given property type and geographical market of expertise, and that also have a proven track record with LBREP and Lehman Brothers' Global Real Estate Group.
- Leveraging deal flow through access to Lehman Brothers' global market presence and extensive network of relationships to invest in proven themes and markets.
- Exploiting first-mover advantage in new market penetration and emerging trends before they are generally recognized and pursued by other investors.
- Looking beyond the bricks by evaluating opportunities to participate in operations, create ancillary revenues through services and financial products, build brands and other trademarks and engineer financial and tax solutions to improve investment profitability.
- Employing active, value-driven asset management of investments and considering multiple exit strategies to attempt to maximize total return throughout the investment holding period.

IV. Investment Performance

Previous fund performance as of June 30, 2007 for Lehman Brothers Real Estate Partners is shown below.

Fund	Inception Date	Total Equity Commitments	SBI Investment	Net IRR from Inception*
Lehman Brothers Real Estate Partners, L.P.	2000	\$1.6 billion	--	28%
Lehman Brothers Real Estate Partners II, L.P.	2004	\$2.4 billion	\$75 million	35%

* 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

Lehman Brothers and its employees will invest at least 20% of the total capital commitments up to \$800 million.

VI. Takedown Schedule

Capital Commitments will be drawn down *pro rata* (each a "Capital Contribution"), on an as-needed basis, for specific investments (including the funding of operating cash flow deficits) and to cover Organizational Expenses and Operating Expenses, with a minimum of ten business days' prior notice to the Limited Partners.

VII. Fees

Acquisition and Disposition Fees: None

Investment Advisory/Management Fee: Each Limited Partner will pay an annual management fee (the "Management Fee"), payable semi-annually in advance, according to the following schedule:

During the Commitment Period:

The sum of (i) 1.00% of the portion of the Limited Partner's Capital Commitment that is less than or equal to \$25 million, (ii) 0.80% of the portion of the Limited Partner's Capital Commitment that is greater than \$25 million but less than or equal to \$100 million and (iii) 0.70% of the portion of the Limited Partner's Capital Commitment that exceeds \$100 million.

Plus 0.70% of such Limited Partner's share of the unreturned invested equity in all Portfolio Investments.

After the Commitment Period:

1.00% of such Limited Partner's unreturned Capital Contributions.

The Management Fee will commence as of the Initial Closing regardless of when a Limited Partner is actually admitted. Later payments of the Management Fee related to the period from the Initial Closing to subsequent closings will include an additional amount accrued at the rate of 9% per annum. Invested equity is comprised of Capital Contributions and funds drawn under the Subscription Facility to make investments. The Fund may offset amounts otherwise distributable to Limited Partners in order to pay the Management Fee to the General Partner or its designated affiliate.

Other Fees and Expenses: The Fund will pay all expenses relating to the activities of the Fund, including, but not limited to: (i) administrative expenses related to the operation of the Fund (e.g., the fees and expenses of accountants, lawyers and other professionals incurred in connection with the Fund's annual audit, legal compliance, financial reporting, legal opinions and tax return preparation, including without limitation Capital Analytics, L.P. and/or other affiliated or unaffiliated financial reporting service providers), including expenses of the Investor Advisory Committee; (ii) all fees, costs and expenses related to the acquisition, asset management, financing, hedging, refinancing and sale or other disposition of investments and the evaluation of potential investments regardless of whether the potential investments are consummated (including without limitation fees related to such services provided by TriMont Real Estate Advisors Inc. and/or other third-party asset managers); (iii) any expenses related to making temporary investments and any interest expenses; and (iv) any extraordinary administrative or operating fees or expenses (e.g., litigation or indemnification expenses). Operating Expenses will generally be allocated among the investments on a basis that the General Partner determines is fair and reasonable.

VIII. Allocations and Distributions

After the Final Closing, net proceeds from the operation, disposition and refinancing of each investment or portion thereof ("Distributable Proceeds") will be allocated to the Partners in accordance with their respective percentage interests. Each Limited Partner's allocable share of Distributable Proceeds will then be distributed to such Limited Partner and the General Partner in the following order of priority:

(A). Return of Capital

First, 100% to such Limited Partner until the cumulative amount distributed to such Limited Partner equals the aggregate of the following (collectively, the "Return of Capital"):

- (i) the Limited Partner's Capital Contributions attributable to such investment and all realized investments, including allocated Operating Expenses and Organizational Expenses;
- (ii) the Limited Partner's share of aggregate net loss from write-downs, if any, from the Fund's unrealized investments (taken as a whole), as of the date of such distribution; and
- (iii) the Limited Partner's Management Fees paid to date that are attributable to such investment and all realized investments.

(B). Preferred Return

Second, 100% to such Limited Partner until the cumulative distributions to such Limited Partner pursuant to clauses (B) through (D) for such investment and all realized investments equal a 9% compounded annual preferred return on the amounts referred to in sub-clauses (i) and (iii) above, from the date such amounts were contributed or paid until the date such amounts are repaid (the "Preferred Return").

(C). GP Catch-up

Third, (i) 30% to such Limited Partner and (ii) 70% to the General Partner until the cumulative profits interest distributions to the General Partner from such investment and all realized investments equal 20% of the total amount distributed to such Limited Partner and the General Partner pursuant to clauses (B) through (D).

(D). Additional Distributions to Partners

Thereafter, 80% to such Limited Partner and 20% to the General Partner (together with the General Partner's share of the catch-up amounts, the "General Partner Profits Interest").

IX. Investment Period and Term

The Commitment Period is expected to last four years from the First Closing Date and the term will be five years from the end of the Commitment Period, subject to two one-year extensions.

RESOURCE MANAGER SUMMARY PROFILE

I. Background Data

<i>Name of Fund:</i>	EnCap Energy Capital Fund VII, L.P.
<i>Type of Fund:</i>	Resource Limited Partnership
<i>Total Fund Size:</i>	\$2.0 - \$2.5 billion
<i>Fund Manager:</i>	EnCap Investments L.P.
<i>Manager Contact:</i>	Gary Petersen 1100 Louisiana Suite 3150 Houston, Texas 77002 713.659.6100 phone 713.659.6130 fax

II. Organization and Staff

EnCap, founded in 1988, is a leading provider of private equity capital to the independent sector of the U.S. oil and gas industry. EnCap is owned and managed by David B. Miller, Gary R. Petersen, D. Martin Phillips and Robert L. Zorich (the "Principals"), who collectively have over 130 years of oil and gas investment experience and have worked together for more than 30 years. In addition to the Principals, EnCap has a highly qualified team of 14 oil and gas investment professionals, including three petroleum engineers, with the 11 most senior professionals having an average of 15 years of related experience (the "Investment Professionals").

Since its inception, EnCap has raised 12 institutional oil and gas investment funds. The first six were comprised of three reserve acquisition funds and three mezzanine debt funds. In 1994, the Firm transitioned into private equity based on the belief that it offered a more attractive risk/return equation and better alignment of interest with the management teams of EnCap portfolio companies. The last six funds (EnCap Energy Capital Funds I, II, III, IV, V and VI) have concentrated on providing growth capital to small to mid-cap independents. To date, EnCap has invested over \$2.1 billion in 140 different companies. Ninety-five (95) investments representing \$1.2 billion of that total have been realized, generating over \$2.7 billion of distributions to EnCap's institutional partners, with an internal rate of return ("IRR") of 47.5% and a return on investment ("ROI") of 2.3x. Significantly, 10 of the 12 funds are essentially fully realized.

III. Investment Strategy

EnCap Energy Capital Fund VII, L.P. ("Fund VII" or the "Partnership") is seeking capital commitments of \$2.0 billion to make privately negotiated equity and equity-linked investments in the independent sector of the oil and gas industry. The Partnership will primarily focus on providing growth capital, typically making investments of \$50 million

to \$200 million per transaction, to oil and gas companies with seasoned management teams whose principal objective is the acquisition and exploitation of oil and gas reserves and/or the development of lower-risk, repeatable drilling projects in the United States and Canada. Fund VII will target an overall annualized internal rate of return ("IRR") of at least 25% and a return on invested capital ("ROI") of approximately 2.0x.

Throughout its history, EnCap has consistently generated superior returns across multiple industry and hydrocarbon price cycles by applying a lower-risk, disciplined philosophy that balances capital preservation and value creation. EnCap will not invest in speculative situations dependent on inflated hydrocarbon price assumptions to achieve its return objectives.

In investing Fund VII, EnCap intends to adhere to the same core tenets that have served its investors well since 1988, including:

- Balancing capital preservation and value creation;
- Partnering with seasoned management teams possessing demonstrable track records of success and solid value creation strategies;
- Structurally aligning the interests of management and Fund VII;
- Monitoring investments closely and managing risk pro-actively;
- Adapting its investment approach to exploit market and industry inefficiencies; and
- Exiting opportunistically.

EnCap's Investment Professionals effectively work in partnership with management teams in addressing strategic issues regarding capital employment, capital structure, hedging policies and exit alternatives. As has been the case in earlier funds, EnCap anticipates that it will control the boards or other governing bodies of a large percentage of the companies in which it invests.

EnCap's capital is typically advanced incrementally, and whether the opportunity is centered on a reserve acquisition or a drilling project, the Firm is heavily focused on managing risk to ensure capital preservation.

EnCap expects to continue to benefit from substantial proprietary deal flow, including the opportunity to re-back historical management teams on the heels of successful exits. The Principals and Investment Professionals have spent their entire careers developing extensive contacts and relationships within the oil and gas industry and energy-related financial community. Furthermore, EnCap has established a strong reputation as an innovative, value-added source of private equity capital to the independent sector.

In conclusion, EnCap believes the landscape for private equity investment in oil and gas remains compelling. EnCap will continue to identify the segments of the market that offer the most attractive opportunities and adapt or fine tune elements of its overall strategy to take advantage of the current environment, while adhering to the investment principles and employing the risk management tools that have guided the Firm for the past 19 years. Consistent with EnCap's historical track record, Fund VII is expected to generate attractive equity returns for investors.

IV. Investment Performance*

Previous fund performance as of June 30, 2007 for EnCap is shown below (\$ in millions):

EnCap Fund	Inception Date	Total Equity Commitment	SBI Investment	Net IRR from Inception
Mezzanine Debt Fund I	1989	\$100.0	\$0	15.7%**
Mezzanine Debt Fund II	1992	\$115.0	\$0	16.3%**
Mezzanine Debt Fund III	1993	\$100.0	\$0	16.1%**
Reserve Acquisition Fund I	1988	\$20.0	\$0	17.3%**
Reserve Acquisition Fund II	1990	\$53.3	\$0	29.8%**
Reserve Acquisition Fund III	1994	\$73.5	\$0	41.4%**
Private Equity Fund I	1994	\$104.0	\$0	24.8%
Private Equity Fund II	1996	\$115.0	\$0	3.6%
Private Equity Fund III	1997	\$480.0	\$0	23.7%
Private Equity Fund IV	2001	\$525.0	\$0	69.7%
Private Equity Fund V	2004	\$825.0	\$0	25.4%
Private Equity Fund VI	2006	\$1,500.0	\$0	NA

* 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.

**Gross IRRs are provided for the mezzanine debt and reserve acquisition funds. Net IRRs are unavailable due to these funds' limited partners' ability to invest on a deal-by-deal basis.

V. General Partner's Investment

The General Partner will make an aggregate cash commitment equal to 2.0% of the aggregate Commitments.

VI. Takedown Schedule

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

VII. Fees

The management fee during the investment period will be 2.0% per annum of aggregate commitments up to \$1.5 billion and 1.5% per annum on amounts of aggregate commitments over \$1.5 billion; thereafter, 1.5% per annum of funded commitments. After offsetting expenses associated with such transactions, transaction and break-up fees will be credited 50% against the management fee. Director's fees will be credited 100% against the management fee. The Partnership will bear up to \$1.0 million of organizational expenses.

VIII. Distributions

In general, the Partners first will receive:

- a return of all investment costs, fees and expenses; plus
- an 8% preferred return on the above amounts.

After which, distributions will be made:

- 80% to the General Partner and 20% to all Partners in proportion to funded Commitments as a "catch-up" provision until the General Partner has received a 20% carried interest; and thereafter;
- 80% to all Partners in proportion to funded Commitments and 20% to the General Partner.

IX. Commitment Period and Term

The commitment period is five years from the final closing. The term of the Fund is ten years, subject to two consecutive one-year extensions at the election of the General Partner and 66 and 2/3 percent in interest of the Limited Partners.

PRIVATE EQUITY MANAGER SUMMARY PROFILE

I. Background Data

<i>Name of Fund:</i>	CVC European Equity Partners V L.P.
<i>Type of Fund:</i>	Private Equity
<i>Total Fund Size:</i>	€11billion
<i>Fund Manager:</i>	CVC Capital Partners Group
<i>Manager Contact:</i>	Marc St John, marcstjohn@cvc.com

II. Organization and Staff

CVC Capital Partners ("CVC") was organized as an independent entity in 1993 and raised its first institutional private equity partnership in 1996. During its history, the firm has raised and managed seven partnerships with over \$25 billion of committed capital and invested in over 150 companies.

CVC Capital Partners Group ("CVC") is a privately owned investment and advisory company with funds under management in Europe and Asia. CVC's European and North American operations consist of 130 individuals, including 67 Investment Professionals with over 420 years of combined investment experience. The professionals operate out of CVC's integrated European network located in the cities of Amsterdam, Brussels, Copenhagen, Frankfurt, London, Madrid, Milan, New York, Paris, Stockholm, and Zurich.

III. Investment Strategy

CVC's strategy is to look for superior investment opportunities where it can exercise control and incentivise operational management teams. CVC's pan European network of 10 offices, one in New York and the liaison with its Asia fund network, allow it to source diverse and proprietary. CVC has maintained an active deal flow and is a leader in the European buyout market by number of deals completed during the period from 1998 through 2007. CVC is one of the few buyout groups structured for both the European mid and large buyout markets, with investment opportunities available from a broad range of sectors and geographies.

Over its history, CVC has developed a focused, consistent investment philosophy that it has executed with a disciplined but flexible approach:

Origination. The Partnership will seek to generate significant long-term capital appreciation primarily by investing in European management buyouts, buyins and other related transactions (including transactions with multinational components).

CVC generally seeks to exert control in its buyout investments, through equity or equity-related and debt-related instruments.

Target Companies. CVC has established a set of investment guidelines, policies and procedures to which it seeks to adhere to during the evaluation of investment opportunities. In order to satisfy CVC's investment guidelines, the Partnership's target companies will typically be required to exhibit one or more of the following characteristics:

- a strong market position and product portfolio
- a realistic business plan and a persuasive strategy for achieving it
- opportunities for cash flow and profit growth, internally or through alliances or acquisitions

Management. In addition to the CVC Investment Professionals team, CVC has access to world class operational management who are committed and motivated by equity incentives and with whom they have developed an effective working relationship over more than one investment cycle. CVC's network includes many managers, who have provided operational assistance to multiple CVC portfolio companies.

Value Creation. Throughout the life of the Partnership, the General Partner and its affiliates will:

- work closely with management to articulate a business plan, with the assistance of outside advisors, which becomes the blueprint against which both management and company performance are gauged;
- seek to enhance and realise the value of portfolio companies, particularly in the early phase of the investment, using best practices honed over two decades of investing;
- closely monitor the financial performance of portfolio companies;
- typically have representatives serve on the boards of directors of portfolio companies;

Realisation. CVC typically targets up to a five year investment holding period. CVC has successfully exited portfolio companies by taking them public, selling them to corporate or other institutional buyers and affecting recapitalisations. The particular exit strategy adopted for a portfolio company will depend on the nature of the investment and market conditions at the time. CVC's integrated network of offices are uniquely positioned to identify, develop and achieve investment realisations through cross-border sales and stock market listings. Moreover, CVC's portfolio committee closely monitors investment company progress and analyses and guides realization timing.

IV. Investment Performance

Previous fund performance as of June 30, 2007 for CVC is shown below.

Fund	Inception Date	Total Limited Partner Commitments	SBI Investment	Net IRR from Inception*
CVC Fund I	1996	\$630 million	--	24%
CVC Fund II	1998	\$2.5 billion	--	21%
CVC Fund III	2001	\$3.7 billion	--	48%
CVC Fund IV**	2005	€6.0 billion	--	56%
CVC Tandem Fund**	2007	€4.1 billion	--	N/A

* IRRs and other data contained in this report are provided by the General Partner. For Funds I, II and III, the "Net IRR" is calculated based on the actual U.S. Dollar cash flows, and for Fund IV and Tandem Fund actual Euro cash flows. Previous fund investments may be relatively immature and therefore, returns may not be indicative of future results.

**The Tandem Fund was raised in 2007 to invest alongside CVC Fund IV in larger transactions. As of Sept. 30, 2007, fund IV was 81% committed and the Tandem Fund was 32% committed.

V. General Partner's Investment

The General Partner and its affiliates will make an aggregate Commitment of at least 1.5% of the total aggregate commitments to the Partnership.

VI. Takedown Schedule

Partners must make their capital contributions upon ten business days' written notice by the General Partner to fund Investments, Management Fees, organizational expenses and partnership expenses.

VII. Fees

Annual Management Fee: 1.5% of the aggregate commitments up to €8.5 billion and 1.0% on the balance, until the expiration of the commitment period, the closing of a Successor Fund, or on investment of 90% of commitments and, thereafter, 1.125% on non-returned invested capital at cost.

Transaction Fee Split: 80% set off against the Management Fee.

VIII. Allocations and Distributions

Distributions: 100% to all Partners until (i) return of all previously contributed capital for realised or written down investments and expenses (including management fees and other Partnership expenses) and (ii) payment of the Preferred Return (8%).

Thereafter, 80% to all Partners and 20% to the General Partner, after 100% "catch-up" for the General Partner.

IX. Investment Period and Term

The commitment period will last through the sixth anniversary of the initial closing, subject to 10% retention beyond the sixth year for follow-on investments.

Unless terminated sooner, the Partnership will have a term of ten years from the date of the initial capital call notice. At the General Partner's discretion the term may be extended by up to two additional years and thereafter with the consent of a majority in interest of the Limited Partners, to allow for the orderly termination of the Partnership. The Partnership is subject to earlier dissolution and termination upon the occurrence of certain events described in the Partnership Agreement.

**Document File Name:
3Q 2007 Meeting Materials**

**Retirement Systems of Minnesota
The Post Fund Proposal
December 3, 2007**



Retirement Systems of Minnesota

Minnesota State Retirement System • Public Employees Retirement Association • Teachers Retirement Association



The Post Fund Proposal Investment Advisory Council

December 3, 2007



Joint Committee Proposal 2 approaches



- High Investment Returns
- Post Deficit Reduced/Eliminated

Post Fund Continues

- Inflation Component
- Revised Investment Component (Added Inflation Protection)
- Inflation Equalizer for more recent retirees
- 5% cap on increases
- Excess asset mechanism*

- Sluggish/Negative Returns
- Post Deficit Worsens

Post Fund Merged

- Safeguard Merger of Post and Active Funds
- Flat 2.5% Annual Increase
- Additional incremental increases proposed by each Board after comprehensive benefits analysis

*If Post Fund becomes at least 115% funded, future retirement system boards could propose to the legislature an additional increase.



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Post Fund Continues

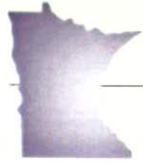


Example of Added Inflation Protection

- ❑ Maintain current inflation adjustment up to 2.5 percent
- ❑ Additional inflation protection will **replace** investment increase and paid if Post Fund becomes fully funded again and assets are sufficient to pay added inflation protection.
- ❑ Maintain 5 percent cap

Example assuming Post Fund is more than fully funded:

Inflation (CPI-W) =	3.75%	Initial Inflation Increase =	2.50%
		Additional Inflation =	1.25%
		Total Increase =	3.75%



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Post Fund Continues -- Inflation Equalizer

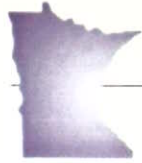
□ Inflation Equalizer – New Feature

- If inflation is less than 2.5% and investments exceed 8.5%, an extra inflation increase would be paid to retirees whose benefits lag inflation.
- Inflation equalizer paid only if Post Fund is at least 90% funded.
- Total inflation component capped at 2.5% until fully funded.

Example: Inflation 2.0% & Investment Earnings 9.25%

All Retirees Increase	=	2.0%
Additional Inflation Equalizer	=	0.5%

Inflation equalizer paid as long as the Post Fund continues, but if the Post Fund is dissolved, the equalizer would sunset.



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Equalizer -- Post Fund Increases vs. Inflation

Year of Benefit Increase Paid	% Post Fund Increase	% Inflation	Difference	Cum. Difference Thru 1/2007
1994	6.0	2.8	+3.2	+43.4
1995	4.0	2.4	+1.6	+40.2
1996	6.4	3.1	+3.3	+38.6
1997	8.0	2.8	+5.2	+35.3
1998	10.1	2.1	+8.0	+30.1
1999	9.8	1.5	+8.3	+22.1
2000	11.1	1.9	+9.2	+13.8
2001	9.5	3.9	+5.6	+4.4
2002	4.5	2.7	+1.8	-1.17
2003	0.7	0.7	0	-3.07
2004	2.1	2.1	0	-3.07
2005	2.5	3.2	-0.7	-3.07
2006	2.5	2.6	-0.1	-2.27
2007	2.5	4.5	-2.0	-2.17
2008	2.5	2.67	-0.17	-0.17



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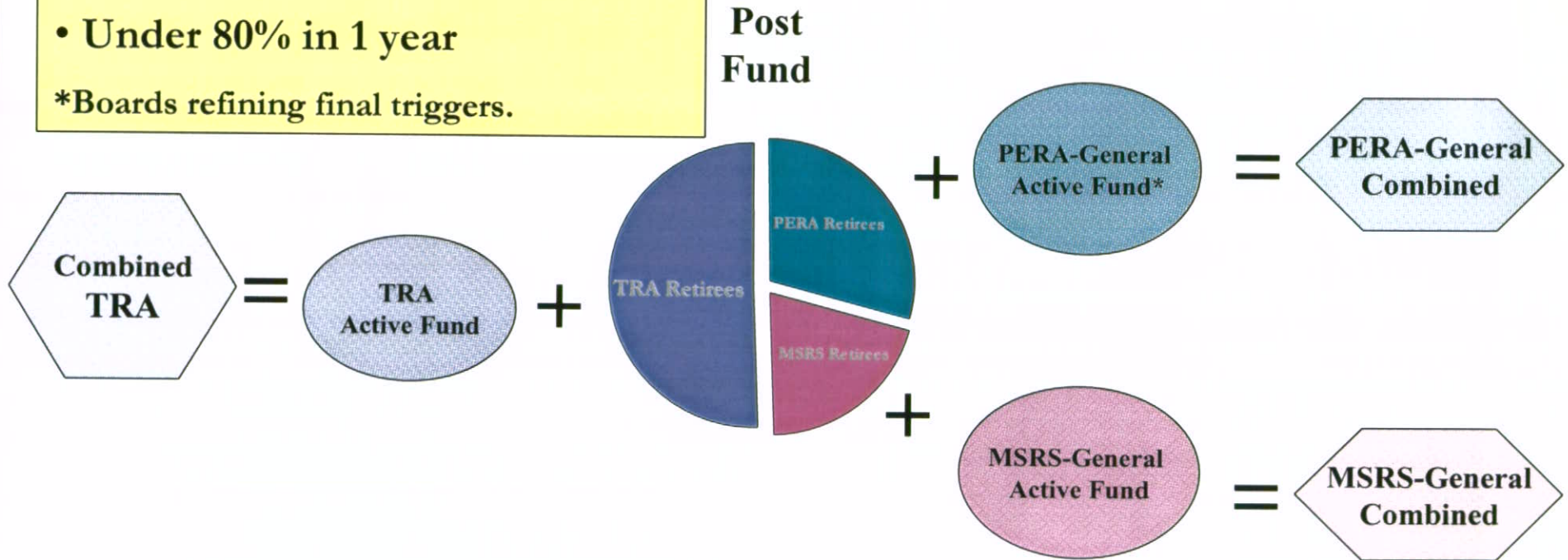


Post Fund and Active Funds Combine

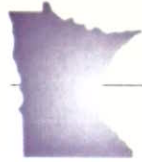
Post Fund Merger Triggers*

- Under 85% for 2 years in a row
- Under 80% in 1 year

*Boards refining final triggers.



* This represents only the General Plans only for PERA and MSRS and is for illustrative purposes only. We would see a separate illustration for the combined assets of the smaller plans administered by PERA and MSRS also.



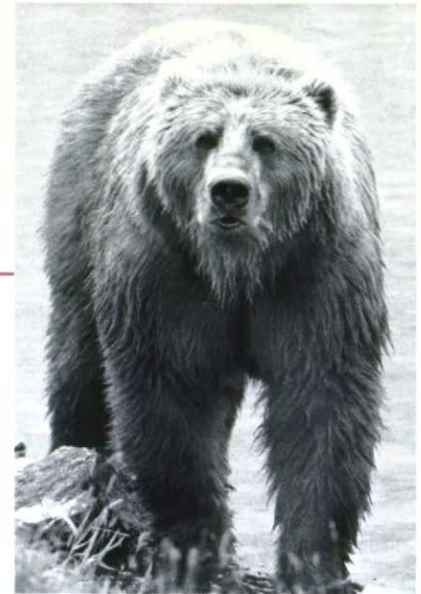
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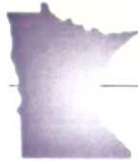
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Retiree Increases if Active/Post Funds Combine

⇒ Fixed 2.5% annual increase

- Every January 1 each retiree will receive a 2.5 percent adjustment, regardless of inflation and investment return.
- Each board will study the plans' benefit structures and determine if anything more can be paid to retirees.





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Joint Committee Objectives

- ❑ Financially protect the Post Fund by planning for 2 contingencies:
 1. Post Fund recovers
 2. Post Fund deficit worsens

- ❑ Assure both retirees and actives of the future financial viability of the retirement systems

Action is important to ensure measures are in place in the event the Post Fund deficit worsens.

