MINNESOTA STATE BOARD
OF INVESTMENT
MEETING
March 20, 2007

&

INVESTMENT ADVISORY
COUNCIL MEETING
March 6, 2007

STATE BOARD OF INVESTMENT

AGENDA AND MINUTES

March 20, 2007

AGENDA
STATE BOARD OF INVESTMENT MEETING
Tuesday, March 20, 2007
9:00 A.M. - Room 318
State Capitol – St. Paul

	TAB
1. Approval of Minutes of December 6, 2006	
2. Report from the Executive Director (Howard Bicker)	**A**
A. Quarterly Investment Review (October 1, 2006 – December 31, 2006)	
B. Administrative Report	**B**
1. Reports on budget and travel	
2. Results of FY06 Financial Audit	
3. Legislative Update	
4. Litigation Update	
5. Educational Investment Roundtable	
6. Recommendation regarding Minnesota College Savings Plan Investment Options	
3. Report from the IAC Membership Review Committee (Peter Sausen)	**C**
4. Reports from the Investment Advisory Council (Mike Troutman)	
A. Stock and Bond Manager Committee	**D**
1. Review of manager performance	
2. Update on GE Asset Management, Domestic Equity Manager for the Assigned Risk Plan	
3. SBI responsibilities concerning mutual fund relationships	
4. Potential replacements for State Deferred Compensation Plan Mutual Funds	
5. Recommendation regarding longer maturity allocation for the Invested Treasurer's Cash Pool	
6. Recommendation to establish a new policy weight range for the Semi-Passive investments in the International Equity Program	
7. Recommendation to terminate Holt-Smith & Yates, a manager in the Domestic Equity Program	
B. Alternative Investment Committee	**E**
1. Review of current strategy	
2. Recommendation of new investments with one existing real estate manager, three new resource managers and two existing private equity managers	

- Blackstone Real Estate Partners
- NGP Midstream & Resources
- Sheridan Production Partners
- TCW Energy
- Blackstone Capital Partners
- Sliver Lake Partners

Minutes
State Board of Investment
December 6, 2006

The State Board of Investment (SBI) met at 9:00 A.M. Wednesday, December 6, 2006 in Room 123 State Capitol, St. Paul, Minnesota. Governor Tim Pawlenty; State Auditor Patricia Anderson, and Attorney General Mike Hatch were present. A revised agenda was distributed at the meeting (see **Attachment A**). The minutes of the September 6, 2006 Board meeting were approved.

Executive Director's Report
Mr. Bicker, Executive Director, referred members to Tab A of the meeting materials and reported that the Combined Funds had exceeded its Composite Index over the ten year period ending September 30, 2006 (Combined Funds 8.7% vs. Composite 8.5%), and had provided a real rate of return over the latest 20 year period (Combined Funds 10.3% vs. CPI 3.1%). He stated that the Basic Funds have outperformed its Composite Index (Basic Funds 8.9% vs. Composite 8.7%) over the last ten years and reported that the Post Fund had also outperformed its composite over the last ten-year period (Post Fund 8.5% vs. Composite 8.2%).

Mr. Bicker reported that the Basic Fund's assets increased 2.5% for the quarter ending September 30, 2006 due to positive investment returns. He said that the asset mix is essentially on target. He reported that the Basic Funds slightly underperformed its Composite Index for the quarter (Basic Funds 3.9% vs. Composite 4.1%) and for the year (Basic Funds 12.0% vs. Composite 12.1%).

Mr. Bicker reported that the market value of the Post Fund's assets increased 3.5% for the quarter ending September 30, 2006, due to positive investment returns. He said that the Post Fund's asset mix is also on target. He stated that the Post Fund slightly underperformed its Composite Index for the quarter (Post Fund 4.0% vs. Composite 4.1%) and outperformed it for the year (Post Fund 11.6% vs. Composite 11.5%).

Mr. Bicker reported that the domestic stock manager group underperformed its target for the quarter (Domestic Stock 4.3% vs. Domestic Equity Asset Class Target 4.6%) and for the year (Domestic Stocks 9.6% vs. Domestic Equity Asset Class Target 10.2%). He said the International Stock manager group outperformed its Composite Index slightly for the quarter (International Stocks 4.0% vs. International Equity Asset Class Target 3.9%) and for the year (International Stocks 19.3% vs. International Equity Asset Class Target 18.9%). Mr. Bicker stated that the bond segment slightly underperformed its target for the quarter (Bonds 3.7% vs. Fixed Income Asset Class Target 3.8%) and outperformed it for the year (Bonds 3.9% vs. Fixed Income Asset Class Target 3.7%). He noted that the alternative investments had also performed strongly for the year (Alternatives 34.2%). He concluded his report with the comment that as of September 30, 2006, the SBI was responsible for over $55 billion in assets.

Executive Director's Administrative Report
Mr. Bicker referred members to Tab B of the meeting materials for the quarterly updates on budget and travel. He reported that on January 1, 2007, retirees will receive a 2.5% benefit increase which represents the inflation component of the formula.

Mr. Bicker gave a brief legislative update, stating that the SBI will have budget legislation and some potential legislation related to the Post Retirement Fund. He noted that there are a lot of discussions taking place regarding the Post Fund and that he will keep members apprised of any developments or potential legislation.

Mr. Bicker asked Christie Eller, Assistant Attorney General, to update members on the status of litigation. She stated that the only remaining open case involves AOL (Time Warner). She reported that the Judge issued the final order approving the attorneys' fees and that distribution of the money to the class is expected by the end of the February 2007. She noted that a large number of individuals filed claims.

Mr. Bicker stated that the official legislative auditor opinion has not been received yet but that staff has received a verbal confirmation that the SBI will receive a clean audit opinion with no findings. He stated that the Annual Report draft had been distributed for comments and that the final version would be going to press in mid December 2006. He also noted that the calendar dates for Board meetings in 2007 had been set.

In response to a question from Ms. Anderson, Mr. Bicker reminded members that the IAC had recently decided to work on policy issues on a more specific basis and that he anticipated the Domestic Equity Program to be a topic for one of the upcoming meetings.

Compensation Review Committee Report
Ms. Vanek referred members to the memo distributed to members at the meeting from the Compensation Review Committee (see **Attachment B**). She stated that the Committee is recommending a 1.3% salary increase for Mr. Bicker. She noted the increase is based on the CPI-U figure as of October 2006. **Mr. Hatch moved approval of the Committee's recommendation, as stated in Attachment B. The motion passed.**

Proxy Committee Report
Mr. Bicker referred members to resolution language that was distributed to members at the meeting (see **Attachment C**). He stated that the Proxy Committee is recommending that the Board adopt the resolution regarding Sudan. **Mr. Hatch moved approval of the resolution, as stated in Attachment C. The motion passed.**

Stock and Bond Committee Report
Mr. Troutman referred members to Tab C of the meeting materials and stated that the Committee had conducted a review of Cohen, Klingenstein and Marks, one of the SBI's domestic equity managers. He stated that turnover in key personnel had triggered the review but that staff and the Committee are comfortable with the new personnel in place and that no action is warranted at this time.

Mr. Troutman reported that the Committee had also completed a review of Summit Creek Advisors, also a domestic equity manager. He stated that the firm had experienced both poor performance and a major loss of clients. He said that the Committee is recommending that Summit Creek be terminated. Mr. Hatch moved approval of the Committee's recommendation, as stated in the Committee Report, which reads: **"The Committee recommends that the SBI terminate the relationship with Summit Creek Advisors LLC for investment management services."** The motion passed.

Alternative Investment Committee Report

Mr. Troutman referred members to Tab D of the meeting materials and reported that the Committee is recommending new investments with two new private equity managers, CarVal Investors and EBF and Associates; and one existing private equity manager, Hellman & Friedman. He briefly described each new fund and Ms. Anderson moved approval of all three 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 $200 million or 20%, whichever is less, in Cargill Value Investment's (CVI) Global Value Fund, L.P. Approval by the SBI of this potential commitment is not intended to be, and does not constitute in any way, a binding or legal agreement or impose any legal obligations on the State Board of Investment and neither the State of Minnesota, the State Board of Investment nor its Executive Director have any liability for reliance by CarVal 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 CarVal 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 $75 million or 20%, whichever is less, in Merced Partners II, L.P. Approval by the SBI of this potential commitment is not intended to be, and does not constitute in any way, a binding or legal agreement or impose any legal obligations on the State Board of Investment and neither the State of Minnesota, the State Board of Investment nor its Executive Director have any liability for reliance by EBF & Associates upon this approval. Until the Executive Director on behalf of the SBI executes a formal agreement, further due diligence and negotiations may result in the imposition of additional terms and conditions on EBF & Associates or reduction or termination of the commitment.

The Committee recommends that the SBI authorize the Executive Director, with assistance from the SBI's legal counsel, to negotiate and execute a commitment of up to $175 million or 20%, whichever is less, in Hellman & Friedman Capital Partners VI, L.P. Approval by the SBI of this potential commitment is not intended to be, and does not constitute in any way, a binding or legal agreement or impose any legal obligations on the State Board of Investment and neither the State of Minnesota, the State Board of Investment nor its Executive Director have any liability for reliance

by Hellman & Friedman 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 Hellman & Friedman or reduction or termination of the commitment. The motion passed.

Mr. Hatch noted his concerns about the Alternative asset area and in moving to a 15% position in alternatives. Mr. Troutman noted the potential risks of this asset class, but said that he believes the SBI has been careful about how the program has been built.

Mr. Troutman and Governor Pawlenty thanked Auditor Anderson and Attorney General Hatch for their years of service on the Board. Mr. Hatch thanked Mr. Troutman and the IAC for their service to the Board.

The meeting adjourned at 9:30 A.M.

Respectfully submitted,

Howard Bicker
Executive Director

ATTACHMENT A

REVISED AGENDA

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

	TAB
1. Approval of Minutes of September 6, 2006	
2. Report from the Executive Director (Howard Bicker)	**A**
A. Quarterly Investment Review (July 1, 2006 – September 30, 2006)	
B. Administrative Report	**B**
1. Reports on budget and travel	
2. Post Retirement Benefit Increase for FY06	
3. Legislative Update	
4. Litigation Update	
5. Results of FY06 Audit	
6. Draft of FY06 Annual Report	
7. Tentative Meeting Dates for Calendar 2007	
3. Report from the Compensation Review Committee (Mary Vanek)	
4. Report from the Proxy Committee (Howard Bicker)	
5. Reports from the Investment Advisory Council (Mike Troutman)	
A. Stock and Bond Manager Committee	**C**
1. Review of manager performance	
2. Review of Cohen, Klingenstein & Marks, a domestic equity manager	
3. Recommendation to terminate Summit Creek Advisors, a domestic equity manager	
B. Alternative Investment Committee	**D**
1. Review of current strategy	
2. Recommendation of new investments with two private equity managers, and one new existing private equity manager:	
• CarVal Investors	
• EBF & Associates	
• Hellman & Friedman	

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MINNESOTA STATE BOARD OF INVESTMENT

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DATE: December 6, 2006

TO: Members, State Board of Investment

FROM: Members, Compensation Review Committee

SUBJECT: 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, 2007, as posted on the Department of Employee Relations website, is 1.3%.

The Compensation Review Committee is recommending that the SBI authorize a salary increase of 1.3% for the Executive Director, effective January 1, 2007. The Executive Directors' salary would become $139,817.

RECOMMENDATION:

The Compensation Review Committee recommends that the SBI approve an increase of 1.3% for the salary of the Executive Director, effective January 1, 2007.

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RESOLUTION OF THE MINNESOTA STATE BOARD OF INVESTMENT

WHEREAS, according to published reports, there are atrocities occurring within the Darfur region of Sudan.

WHEREAS, there is significant evidence that Sudan's military, in coordination with Janjaweed militias, have killed between 200,000 to 400,000 citizens in the southern Darfur region and created approximately 2 to 4 million refugees.

WHEREAS, the government of Sudan in Khartoum supports the Arab Janjaweed militias and has continued to obstruct both the peace process and efforts to deliver humanitarian aid to Darfur refugees.

WHEREAS, the United States Congress, for the first time in history, issued a joint House of Representatives and Senate resolution declaring that genocide exists in Darfur.

WHEREAS, Sudan, which processes significant oil reserves, has negotiated with companies to produce these reserves which has generated significant revenue for the country.

WHEREAS, there is significant evidence that the majority of these revenues flow directly to the military.

WHEREAS, a company associated with the atrocities taking place in Sudan poses a serious risk to creating sustained and responsible long-term value.

WHEREAS, a company associated with the atrocities also runs a myriad of risks including but not limited to federal and international sanctions, substantial fines and penalties imposed by authorities, an impairment of their ability to raise capital in public markets as well as long term reputational damage.

WHEREAS, the Minnesota State Board of Investment has fiduciary responsibility for the assets under its direction.

WHEREAS, the Minnesota State Board of Investment must consider all risks associated with the investment under its control.

NOW THEREFORE BE IT RESOLVED:

1. Board directs the SBI Proxy Committee and Staff to:

   a. Develop, maintain and monitor a list of companies, from available sources, that have operations in Sudan.

   b. Contact the companies on the list to determine to what extent, if any, each company has assessed the risks of continuing their association with Sudan.

   c. Contact investment managers who have been contracted by the SBI to invest equity portfolios to inform them of the Board's actions; and to determine what if any actions they have taken as it relates to the risk of continued investment in companies doing business in Sudan.

   d. Review any correspondence received from the companies, and managers, to determine appropriate actions which may include but not limited to:

      - initiate appropriate shareholder resolutions;

      - co-sponsor shareholder resolutions;

      - coordinate our efforts with other organizations to reduce the risk of investing in any company doing business in Sudan;

      - meet with managements to express the concerns of the SBI related to the additional risks of association with Sudan.

Adopted this 6th day
of December, 2006

Governor Tim Pawlenty
Chair, Minnesota State Board of Investment

INVESTMENT ADVISORY COUNCIL

AGENDA AND MINUTES

March 6, 2007

AGENDA
INVESTMENT ADVISORY COUNCIL MEETING
Tuesday, March 6, 2007
2:00 P.M. - Board Room – First Floor
60 Empire Drive, St. Paul, MN

	TAB
1. Approval of Minutes of December 5, 2006	
2. Report from the Executive Director (Howard Bicker)	**A**
A. Quarterly Investment Review (October 1, 2006 – December 31, 2006)	
B. Administrative Report	**B**
1. Reports on budget and travel	
2. Results of FY06 Financial Audit	
3. Legislative Update	
4. Litigation Update	
5. Educational Investment Roundtable	
6. Recommendation regarding Minnesota College Savings Plan Investment Options	
3. Report from the IAC Membership Review Committee (Peter Sausen)	**C**
4. Reports from the Investment Advisory Council	
A. Stock and Bond Manager Committee (John Bohan)	**D**
1. Review of manager performance	
2. Update on GE Asset Management, Domestic Equity Manager for the Assigned Risk Plan	
3. SBI responsibilities concerning mutual fund relationships	
4. Potential replacements for State Deferred Compensation Plan Mutual Funds	
5. Recommendation regarding longer maturity allocation for the Invested Treasurer's Cash Pool	
6. Recommendation to establish a new policy weight range for the Semi-Passive investments in the International Equity Program	
7. Recommendation to terminate Holt-Smith & Yates, a manager in the Domestic Equity Program	
B. Alternative Investment Committee (Judy Mares)	**E**
1. Review of current strategy	
2. Recommendation of new investments with one existing real estate manager, three new resource managers and two existing private equity managers	

- Blackstone Real Estate Partners
- NGP Midstream & Resources
- Sheridan Production Partners
- TCW Energy
- Blackstone Capital Partners
- Sliver Lake Partners

5. Retirement Systems Overview

Minutes
Investment Advisory Council
December 5, 2006

MEMBERS PRESENT:	Frank Ahrens; Jeff Bailey; Dave Bergstrom; John Bohan; Kerry Brick; Laurie Hacking; Peggy Ingison; Heather Johnston; P. Jay Kiedrowski; Hon. Ken Maas; Judy Mares; Malcolm McDonald; Gary Norstrem; Mike Troutman; and Mary Vanek.
MEMBERS ABSENT:	Doug Gorence and Daralyn Peifer.
SBI STAFF:	Howard Bicker; Mansco Perry; Jim Heidelberg; Mike Menssen; 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; Christie Eller; Carla Heyl; Alberto Quintela; Jerry Irsfeld, Joyce and Lyndon Sukola, REAM; and Greg Walz-Chojnacki, Senate Majority Research.

The Investment Advisory Council (IAC) met at 2:00 p.m., Tuesday, December 5, 2006 in the Board Room, First Floor, 60 Empire Drive. Mr. Troutman called the meeting to order and the minutes of the September 5, 2006 IAC meeting were approved.

Executive Director's Report

Mr. Bicker, Executive Director, referred members to Tab A of the meeting materials and reported that the Combined Funds had exceeded its Composite Index over the ten year period ending September 30, 2006 (Combined Funds 8.7% vs. Composite 8.5%), and had provided a real rate of return over the latest 20 year period (Combined Funds 10.3% vs. CPI 3.1%). He stated that the Basic Funds have outperformed its Composite Index (Basic Funds 8.9% vs. Composite 8.7%) over the last ten years and reported that the Post Fund had also outperformed its composite over the last ten-year period (Post Fund 8.5% vs. Composite 8.2%).

Mr. Bicker reported that the Basic Fund's assets increased 2.5% for the quarter ending September 30, 2006 due to positive investment returns. He said that the asset mix is essentially on target. He reported that the Basic Funds slightly underperformed its Composite Index for the quarter (Basic Funds 3.9% vs. Composite 4.1%) and for the year (Basic Funds 12.0% vs. Composite 12.1%).

Mr. Bicker reported that the market value of the Post Fund's assets increased 3.5% for the quarter ending September 30, 2006, due to positive investment returns. He said that the Post Fund's asset mix is also on target. He stated that the Post Fund slightly underperformed its Composite Index for the quarter (Post Fund 4.0% vs. Composite 4.1%) and outperformed it for the year (Post Fund 11.6% vs. Composite 11.5%).

Mr. Bicker reported that the domestic stock manager group underperformed its target for the quarter (Domestic Stock 4.3% vs. Domestic Equity Asset Class Target 4.6%) and for the year (Domestic Stocks 9.6% vs. Domestic Equity Asset Class Target 10.2%). He said the International Stock manager group outperformed its Composite Index slightly for the quarter (International Stocks 4.0% vs. International Equity Asset Class Target 3.9%) and for the year (International Stocks 19.3% vs. International Equity Asset Class Target 18.9%). Mr. Bicker stated that the bond segment slightly underperformed its target for the quarter (Bonds 3.7% vs. Fixed Income Asset Class Target 3.8%) and outperformed it for the year (Bonds 3.9% vs. Fixed Income Asset Class Target 3.7%). He noted that the alternative investments had also performed strongly for the year (Alternatives 34.2%). He concluded his report with the comment that as of September 30, 2006, the SBI was responsible for over $55 billion in assets.

Executive Director's Administrative Report
Mr. Bicker referred members to Tab B of the meeting materials for the quarterly updates on budget and travel. He reported that on January 1, 2007, retirees will receive a 2.5% benefit increase which represents the inflation component of the formula.

Mr. Bicker gave a brief legislative update, stating that the SBI will have budget legislation and some potential legislation related to the Post Retirement Fund. He noted a joint retirement Board meeting has been scheduled for December 13, 2006. He said that there are a lot of discussions taking place regarding the Post Fund. In response to a question from Mr. Troutman, Mr. Bicker stated that staff is not expecting any difficulties with the new budgetary process this year. In response to a question from Ms. Johnston, Mr. Bicker stated that the SBI could potentially be an investment vehicle for cities, counties and school districts to fund their post retirement health insurance related expenses.

Mr. Bicker asked Christie Eller, Assistant Attorney General, to update members on the status of litigation. She stated that the only remaining open case involves AOL (Time Warner). She reported that the Judge had issued the final order approving the attorneys' fees and that distribution of the money to the class is expected by the end of the February 2007. She noted that a large number of individuals filed claims.

Mr. Bicker stated that the official legislative auditor opinion has not been received yet but that staff has received a verbal confirmation that the SBI will receive a clean audit opinion with no findings. He stated that the Annual Report draft had been distributed for comments and that the final version would be going to press in mid December 2006. He also noted that the calendar dates for Board meetings in 2007 had been set.

Stock and Bond Committee Report
Mr. Bohan referred members to Tab C of the meeting materials and reviewed the performance of the stock and bond segments and managers. He stated that the Committee had conducted a review of Cohen, Klingenstein and Marks, one of the SBI's domestic equity managers. He stated that turnover in key personnel had triggered the review but that staff and the Committee are comfortable with the new personnel in place and that no action is warranted at this time.

Mr. Bohan reported that the Committee had also completed a review of Summit Creek Advisors, also a domestic equity manager. He stated that the firm had experienced both poor performance and a major loss of clients. He said that the Committee is recommending that Summit Creek be terminated. Ms. Mares moved approval of the Committee's recommendation, as stated in the Committee Report. Mr. McDonald seconded the motion. The motion passed.

Alternative Investment Committee Report
Ms. Mares referred members to Tab D of the meeting materials and reported that the Committee is recommending new investments with two new private equity managers, CarVal Investors and EBF and Associates; and one existing private equity manager, Hellman & Friedman. She briefly described each new fund and Mr. Norstrem moved approval of all three recommendations, as stated in the Committee Report. Mr. Bergstrom seconded the motion. The motion passed.

Mr. Bicker proceeded to give a slide show presentation on an overview of the State Board of Investment and its investment programs (see **Attachment A**).

The meeting adjourned at 3:50 P.M.

Respectfully submitted,

Howard Bicker

Howard Bicker
Executive Director

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Minnesota State Board of Investment
OVERVIEW

ATTACHMENT A

December 2006

Minnesota State Board of Investment
Assets under Management
Market Value June 30, 2006 (in thousands)

- **RETIREMENT FUNDS**

- BASIC RETIREMENT FUNDS

Teachers Retirement Fund	$7,391,848		
Public Employees Retirement Fund	6,043,377		
State Employees Retirement Fund	5,044,816		
Public Employees Police & Fire	2,758,987		
Highway Patrol Retirement Fund	264,406		
Judges Retirement Fund	48,900		
Correctional Employees Retirement	302,502		
Public Employees Correctional	125,204		
Total Basic Funds		$21,980,040	39.4%
POST RETIREMENT FUND		$21,911,804	39.3

Assets Under Management (Cont.)

MINNESOTA SUPPLEMENTAL FUNDS			
Income Share Account	$ 454,552		
Growth Share Account	144,107		
Money Market Account	64,537		
Common Stock Index	240,352		
Bond Market Account	135,970		
International Share Account	111,162		
Fixed Interest Account	73,292		
Total Supplemental Funds		$1,223,972	2.2
MINNESOTA DEFERRED COMPENSATION PLAN		$3,098,081	5.6
TOTAL RETIREMENT FUNDS		**$48,213,897**	86.5%

Assets Under Management (Cont.)

CASH AND NON-RETIREMENT FUNDS

TREASURERS CASH	$5,529,929		
ASSIGNED RISK PLAN	319,341		
ENVIRONMENTAL TRUST FUND	415,755		
PERMANENT SCHOOL FUND	635,299		
CLOSED LANDFILL	46,966		
HOUSING FINANCE AGENCY	185,499		
MN DEBT SERVICE FUND	184,181		
MISCELLANEOUS ACCOUNTS	220,282		
TOTAL CASH AND NON-RETIREMENT		**$ 7,537,252**	**13.5%**
TOTAL ASSETS		**$55,751,149**	100.0%

Assets Under Management (Cont.)

1) Each Fund has its own asset allocation that was developed by the SBI or established by legislation.

2) Retirement and non-retirement assets can not be commingled for investment management purposes.

Assets Under Management (Cont.)

EXTERNALLY MANAGED ASSETS

All retirement related assets*

Cash	$1,480,400	
Bonds	11,951,270	
Domestic Equity	23,369,128	
International Equity	7,196,514	
Alternative Assets	4,370,374	
Total		**$48,367,686**

Assets Under Management (Cont.)

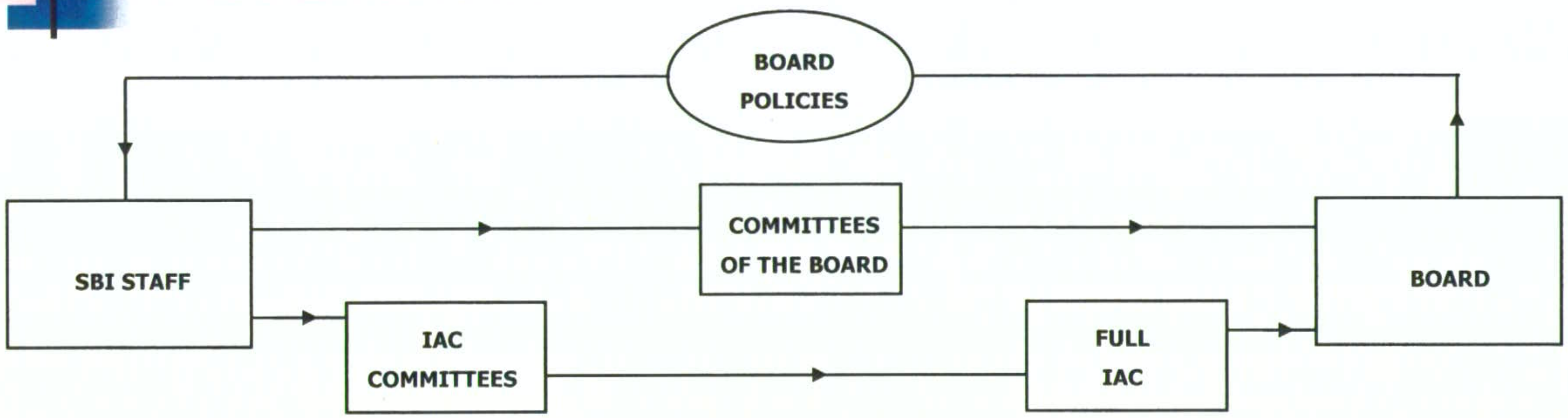
INTERNALLY MANAGED ASSETS

All non-retirement related assets*

Cash	$5,646,722	
Bonds	1,031,060	
Domestic Equity	705,681	
Total		**$7,383,463**
TOTAL ASSETS		**$55,751,149**

* The bond portion of the Income Share Account is internally managed and the Assigned Risk Plan is externally managed.

SBI Decision-Making Process



- Asset Allocation
- Stock and Bond Managers
- Alternative Investments

Analyze Alternatives and Propose Policies	Advisory Review and Recommendations	Policy Review and Approval
Implement Approved Policies		

The Board's consultants provide input throughout the decision-making process.

Asset Allocation for the Basic and Post Funds

Asset Allocation: Basic Retirement Funds

Issues Considered in Establishing Asset Allocation Policy

- **Fund Objective** — To ensure that sufficient assets are available to pay promised benefits at the time of retirement.
- **Return Objective** — The Basic Funds has a statutory required rate of return of 8.5% which must be achieved over the long term in order to meet the Fund's investment and actuarial assumptions.
- **Time Horizon** — The Basic Funds are for active workers and have a time horizon of 30 to 40 years.
- **Liquidity Needs** — The Basic Funds have minimal liquidity needs, since transfers to fund retiree benefits from the Basic Funds to the Post Fund are accomplished with the transfer of assets via pool units, not cash.

Asset Allocation: Basic Retirement Funds (Cont.)

- **Risk Tolerance**

  Rather than a purely independent factor, risk tolerance is, in part, an outcome of the time horizon, return objective and liquidity decisions. With the Funds long term horizon, low liquidity needs, and aggressive return objective, the Funds should accept a higher risk tolerance.

- **Accounting Considerations**

  Unlike ERISA pension plans, the State has the ability to withstand short-term negative market results without being required to make additional cash contributions or make contribution rate changes.

Asset Allocation: Post Retirement Fund

Issues Considered in Establishing Asset Allocation Policy

Fund Objective	To earn sufficient returns to ensure that assets are available to pay initially promised benefits as well as any increases granted to fund participants.
Return Objective	The Post Fund uses a 6% assumed rate of return for the participants initial benefit. Retirees receive an annual benefit increase equal to 100% of inflation up to 2.5%. In addition, benefit increase may be paid based upon investment performance.
Time Horizon	The average beneficiary receives benefits from the fund for approximately 20 years.
Liquidity Needs	The Fund makes monthly benefit payments to retirees. Currently, the Post Fund averages net outflows of approximately $600 million over a six-month period, or about 3% of the Fund.

Asset Allocation: Post Retirement Fund (Cont.)

- **Risk Tolerance**

  The Post Fund, like the Basic Funds, should have an above average risk tolerance based upon its long time horizon and aggressive return objective of 8.5%.

- **Accounting Considerations**

  The benefit increase formula for the Post Fund is based upon the Fund earning 6% to support the initial benefit and up to an additional 2.5% to support inflation based increases. Any earnings over 8.5%, assuming there is no deficit in the plan, is paid to retirees in the form of a lifetime permanent benefit increase. The earnings over 8.5% are spread over a five-year period to smooth the increases. There are on-going discussions as to whether the five-year period is appropriate or whether a new formula should be adopted.

2003 Asset Allocation Study Assumptions Used

Asset Class	Real* Return	Nominal** Return	Risk/ Std.Dev.
Equity			
Domestic	6.25	9.25	17.00
International-Unhedged	6.25	9.25	19.00
International-Hedged	6.05	9.05***	17.00
Emerging Markets	8.50	11.50	25.00
Alternative Assets			
Private Equity	10.00	13.00	30.00
Real Assets	5.00	8.00	12.00
Yield Oriented	5.50	8.50	13.00
Fixed Income			
Domestic Bonds	3.50	6.50	7.00
Non Dollar Bonds-Unhedged	3.50	6.50	8.00
Non Dollar Bonds-Hedged	3.30	6.30***	7.00
High-Yield	4.50	7.50	10.00
Cash Equivalent	1.00	4.00	2.00
Inflation		3.00	

* Real Return = nominal return - inflation.
** Nominal return is the long-term (20+ years) expected return.
*** Unhedged return less assumed hedging cost of 20 b.p.

Asset Allocation: Correlation Matrix

	1	2	3	4	5	6	7	8	9	10	11	12
1 US Stocks	1.00											
2 Intl Unhed	.60	1.00										
3 Intl Hed	.70	.80	1.00									
4 Emerg Mkts	.55	.50	.50	1.00								
5 Priv. Equity	.50	.20	.40	.10	1.00							
6 Real Assets	.40	.25	.30	.30	.30	1.00						
7 Yield Oriented	.45	.30	.35	.00	.40	.15	1.00					
8 US Bonds	.30	.20	.25	-.10	.15	.20	.50	1.00				
9 Non US-un.	.40	.40	.25	-.20	.00	.10	.05	.60	1.00			
10 Non US-hed.	.25	.20	.30	-.10	.10	.15	.15	.75	.50	1.00		
11 Cash Equiv.	-.10	-.10	.00	.00	.00	.15	.10	.10	-.10	.10	1.00	
12 High Yield	.50	.35	.40	.30	.30	.25	.60	.40	.00	.25	.00	1.00

Sources: SBI historical, PCA, UBS, J.P. Morgan, Wilshire, Goldman Sachs and Ibbottson.

Asset Allocation Targets Adopted on September 3, 2003

	Basic		Post	
Equity	60.0%*		60.0%	
Domestic		45.0%		45.0%
International Unhedged		13.5		13.5
Emerging Markets		1.5		1.5
Alternative Assets	15.0*		12.0*	
Fixed Income	25.0*		28.0	
Domestic Bonds		24.0*		25.0
Cash Equivalents		1.0		3.0
Total	100.0%		100.0%	
Annualized				
Expected Return	8.88		8.60	
Standard Deviation	± 12.17		± 11.57	

* The alternative asset allocation target increases to 20.0% in the Basic Funds after the current target is reached for both the Basic and Post Funds. The increase in the Basic Funds target would result in a decrease in the allocation to Domestic Bonds.

Asset Class Management Structure

Alternative Investments

- Venture Capital
- Private Equity
- Real Estate
- Mezzanine Debt
- Resource Funds
- Others

Minnesota Statutes authorize investments in this area with the following restrictions:

1. Investments must be made in commingled vehicles such as limited partnerships, collective funds, and private placements.
2. There must be at least four other participants in the commingled vehicle.
3. The SBI's participation may not exceed 20%.
4. The SBI may not accept general liability.

Alternative Investments (Cont.)

Unfunded Committed Capital

The following allocation percentages are used in determining funds available for investment in the alternative investment asset class:

	Target Market Value	Target Market Value + Unfunded Commitments
Basic Retirement Funds	15%	22.5%
Post Retirement Fund	12%	18.0%

Many alternative investments are made in the form of a limited partnership which will "take down" the dollars committed over a period of time (typically 2-5 years). If the SBI did not make a provision for unfunded capital commitments, the Board would not be able to reach and maintain the market exposure contemplated in its asset allocation policy. Unfunded commitments plus market value may be up to 1.5 times market value.

Fixed Income

Asset Class Target

- Lehman Aggregate Bond Index.
- All managers are measured against the asset class target.

Active Management

- 50% of the program.
- Tracking error objective for each manager is 0.5% - 2.5%.
- Duration that is no more than $\pm$ 2 years from the asset class target.
- If approved, a manager may invest up to 15% of the SBI's portfolio in a U.S. below investment grade bonds and up to 15% in non-dollar bonds, subject to a combined maximum of 20% of the assets allocated to the manager.

Fixed Income (Cont.)

Semi-Passive

- 50% of the program
- Tracking error objective for the program is no more than 0.5%.
- Duration that is no more than $\pm$ 0.2 years from the asset class target.
- If approved, a manager may invest up to 5% of the SBI's portfolio in U.S. below investment grade bonds and up to 5% in non-dollar bonds.

International Equities

Asset Class Target

- MSCI All Country World Index Free ex U.S. Index (Net), unhedged.

Active Management

- Allocation of at least 33% of the program.
- Developed market managers will be measured against the MSCI World ex U.S. Index (net), unhedged.
- The tracking error objective of each manager is 3-7%.
- Emerging market managers will be measured against the MSCI Emerging Markets Index (Net), unhedged.
- The tracking error objective of each manager is 3-7%.

International Equities (Cont.)

Semi-Passive Management

- Allocation of up to 10% of the program.
- Measured against the MSCI World ex U.S. (Net) Index, unhedged.
- The tracking error objective for each manager is 1-3%.

Passive Management

- At least 25% of the program. In aggregate, at least 33% of the program will be allocated to passive and semi-passive management.
- The tracking error objective for the manager is no more than 0.6%.

Domestic Equities

Asset Class Target – Russell 3000

Active Management

- Allocation of 25% to 40% of the program.
- Published Russell sub-indices are used to measure and monitor managers.
  - 1000 (Core)
  - 1000 Growth
  - 1000 Value
  - 2000 Growth
  - 2000 Value
  - Tracking error objective for each manager is at least 3%.

Domestic Equities (Cont.)

- **Semi-Passive Management**
  - Allocation of 25% to 40% of the program.
  - Benchmarked against the Russell 1000.
  - Tracking error objective of each manager is 1-3%.
- **Passive Management**
  - Allocation of 25% to 40% of the program
  - Benchmarked against the Russell 3000
  - Tracking error objective of the manager is no more than 0.6%.
- **Misfit**
  - Control misfit risk by allocating assets on the basis of manager benchmarks to match the Russell 3000.
  - If necessary, use Completeness Fund (semi-passive managers) to correct misfit risk.

Tab A

LONG TERM OBJECTIVES
Period Ending 12/31/2006

COMBINED FUNDS: $47.4 Billion	Result	Compared to Objective
Match or Exceed Composite Index (10 Yr.) Outperform a composite market index weighted in a manner that reflects the long-term asset allocation of the Combined Funds over the latest 10 year period.	**8.7% (1)**	0.2 percentage point above target
Provide Real Return (20 yr.) Provide returns that are 3-5 percentage points greater than inflation over the latest 20 year period.	**10.4%**	7.4 percentage points above CPI

BASIC RETIREMENT FUNDS: $23.7 Billion	Result	Compared to Objective
Match or Exceed Composite Index (10 Yr.) Outperform a composite market index weighted in a manner that reflects the long-term asset allocation of the Basic Funds over the latest 10 year period.	**8.9%**	0.2 percentage point above target

POST RETIREMENT FUND: $23.7 Billion	Result	Compared to Objective
Match or Exceed Composite Index (10 Yr.) Outperform a composite market index weighted in a manner that reflects the long-term asset allocation of the Post Fund over the latest 10 year period.	**8.6%**	0.3 percentage point above target

(1) Performance is calculated net of fees.

SUMMARY OF ACTUARIAL VALUATIONS

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

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

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

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

Actuarial Assumptions:

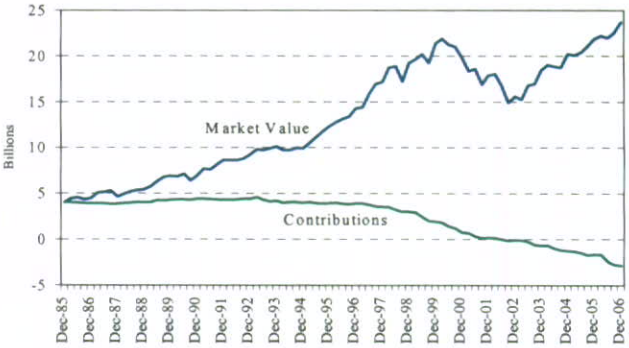
Salary Growth: 6.5%, resulting from a graded rate future increase assumption
Interest/Discount Rate: 8.5% Basics, 6.0% Post
Full Funding Target Date: 2031

EXECUTIVE SUMMARY
Basic Retirement Funds (Net of Fees)

Asset Growth

The market value of the Basic Funds increased 5.2% during the fourth quarter of 2006. Positive investment returns accounted for the increase.

	Asset Growth During Fourth Quarter 2006 (Millions)
Beginning Value	$ 22,522
Net Contributions	-128
Investment Return	1,300
Ending Value	$ 23,694

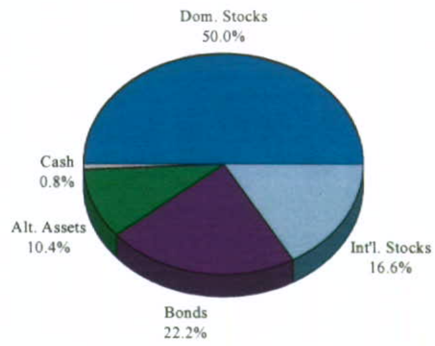


Asset Mix

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

	Policy Targets	Actual Mix 12/31/2006	Actual Market Value (Millions)
Domestic Stocks	**45.0%**	50.0%	$11,850
Int'l. Stocks	**15.0**	16.6	3,930
Bonds	**24.0**	22.2	5,259
Alternative Assets*	**15.0**	10.4	2,460
Unallocated Cash	**1.0**	0.8	195
	100.0%	100.0%	$23,694

* Any uninvested allocation is held in domestic stocks

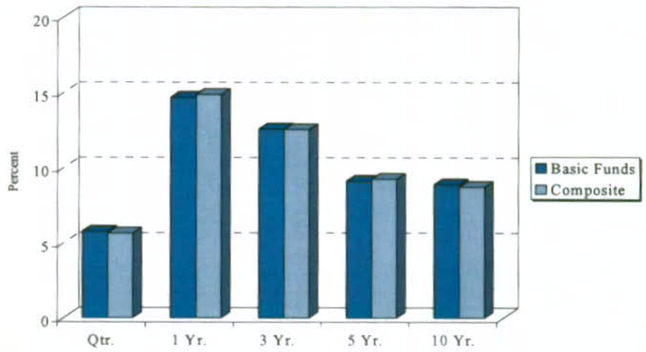


Fund Performance (Net of Fees)

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

Period Ending **12/31/2006**

	Qtr.	1 Yr.	3 Yr.	5 Yr.	10 Yr.
			Annualized		
Basics	**5.8%**	**14.7%**	**12.6%**	**9.1%**	**8.9%**
Composite	5.6	14.9	12.6	9.3	8.7



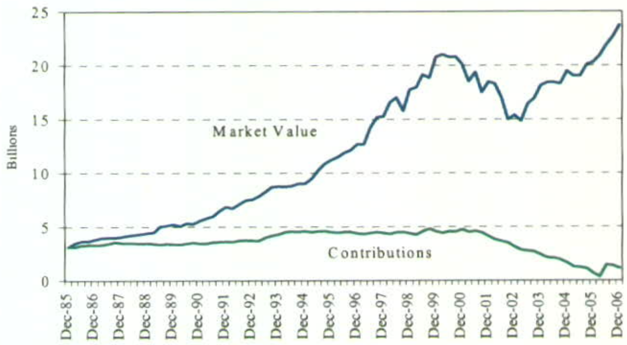
EXECUTIVE SUMMARY

Post Retirement Fund (Net of Fees)

Asset Growth

The market value of the Post Fund increased 4.7% during the fourth quarter of 2006. Positive investment returns accounted for the increase.

	Asset Growth During Fourth Quarter 2006 (Millions)
Beginning Value	$22,678
Net Contributions	-240
Investment Return	1,295
Ending Value	$23,733

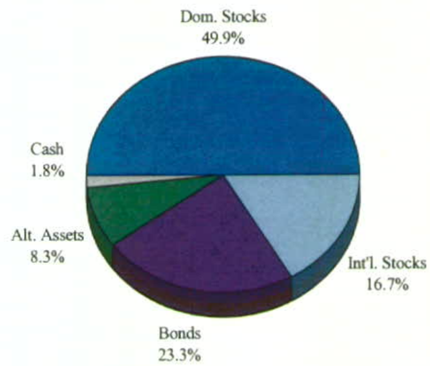


Asset Mix

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

	Policy Targets	Actual Mix 12/31/2006	Actual Market Value (Millions)
Domestic Stocks	**45.0%**	49.9%	$11,844
Int'l. Stocks	**15.0**	16.7	3,960
Bonds	**25.0**	23.3	5,540
Alternative Assets*	**12.0**	8.3	1,960
Unallocated Cash	**3.0**	1.8	429
	100.0%	100.0%	$23,733

* Any uninvested allocation is held in domestic stocks.

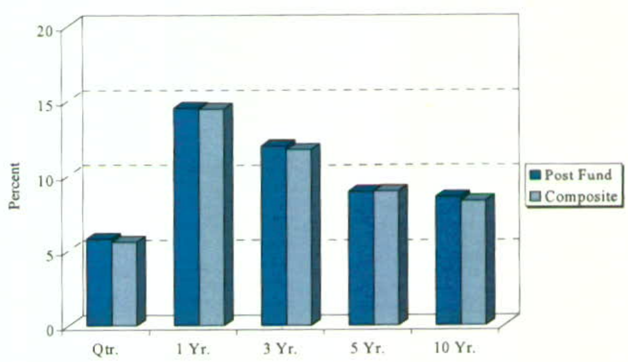


Fund Performance (Net of Fees)

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

Period Ending **12/31/2006**

	Qtr.	1 Yr.	3 Yr. (Annualized)	5 Yr. (Annualized)	10 Yr. (Annualized)
Post	**5.8%**	**14.5%**	**12.0%**	**8.9%**	**8.6%**
Composite	5.6	14.4	11.7	8.9	8.3



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

Domestic Stocks

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

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

	Period Ending 12/31/2006		Annualized		
	Qtr.	1 Yr.	3 Yr.	5 Yr.	10 Yr.
Dom. Stocks	**6.9%**	**14.5%**	**11.0%**	**6.8%**	**8.1%**
Asset Class Target*	7.1	15.7	11.2	7.2	8.2

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

International Stocks

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

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

	Period Ending 12/31/2006		Annualized		
	Qtr.	1 Yr.	3 Yr.	5 Yr.	10 Yr.
Int'l. Stocks	**11.1%**	**27.0%**	**21.0%**	**16.2%**	**8.5%**
Asset Class Target*	11.2	26.7	21.3	16.3	7.9

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

Bonds

The bond manager group (active and passive combined) outperformed its target for the quarter, and for all other periods shown.

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

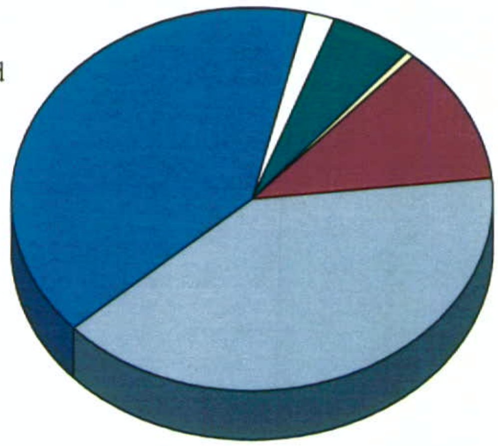
	Period Ending 12/31/2006		Annualized		
	Qtr.	1 Yr.	3 Yr.	5 Yr.	10 Yr.
Bonds	**1.3%**	**4.7%**	**4.2%**	**5.4%**	**6.5%**
Asset Class Target*	1.2	4.3	3.7	5.1	6.2

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

Alternative Investments

	Period Ending 12/31/2006		Annualized		
	Qtr.	1 Yr.	3 Yr.	5 Yr.	10 Yr.
Alternatives	**2.7%**	**21.8%**	**29.3%**	**18.8%**	**16.4%**

EXECUTIVE SUMMARY
Funds Under Management



	12/31/2006 Market Value (Billions)
Retirement Funds	
Basic Retirement Funds	$23.7
Post Retirement Fund	23.7
Supplemental Investment Fund	1.1
State Deferred Compensation Plan Non-SIF Assets	3.3
Non-Retirement Funds*	
Assigned Risk Plan	0.3
Permanent School Fund	0.7
Environmental Trust Fund	0.5
State Cash Accounts	5.3
Miscellaneous Accounts	0.3
Total	$58.9

MINNESOTA STATE BOARD OF INVESTMENT

QUARTERLY INVESTMENT REPORT

Fourth Quarter 2006
(October 1, 2006 - December 31, 2006)

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VARIOUS CAPITAL MARKET INDICES

	Period Ending 12/31/2006				
	Qtr.	Yr.	3 Yr.	5 Yr.	10 Yr.
Domestic Equity					
Dow Jones Wilshire Composite	7.2%	15.8%	11.5%	7.6%	8.6%
Dow Jones Industrials	7.3	18.9	8.5	6.8	8.9
S&P 500	6.7	15.8	10.4	6.2	8.4
Russell 3000 (broad market)	7.1	15.7	11.2	7.2	8.6
Russell 1000 (large cap)	7.0	15.5	11.0	6.8	8.6
Russell 2000 (small cap)	8.9	18.4	13.6	11.4	9.4
Domestic Fixed Income					
Lehman Aggregate (1)	1.2	4.3	3.7	5.1	6.2
Lehman Gov't./Corp.	1.0	3.8	3.4	5.2	6.3
3 month U.S. Treasury Bills	1.2	4.9	3.1	2.4	3.7
International					
EAFE (2)	10.4	26.3	19.9	15.0	7.7
Emerging Markets Free (3)	17.6	32.6	31.0	27.0	9.4
ACWI Free ex-U.S. (4)	11.2	27.2	21.8	16.9	8.6
World ex-U.S. (5)	10.1	25.7	20.1	15.3	8.0
Salomon Non U.S. Gov't. Bond	2.1	6.9	2.9	9.5	4.7
Inflation Measure					
Consumer Price Index CPI-U (6)	-0.5	2.5	2.8	2.5	2.4
Consumer Price Index CPI-W (7)	-0.6	2.4	3.1	2.7	2.4

(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 7.1% during the fourth quarter of 2006. The equity market rallied during the quarter as investors' recession and inflation fears lessened. Corporate profits remained strong and merger & acquisition activity increased. Consumer spending held up well despite pressures from housing weakness. Small capitalization stocks outperformed large capitalization stocks, and value stocks outperformed growth stocks. The integrated oils sector generated the largest total return within the Russell 3000 index. The health care sector generated the lowest total return as investors feared the impact of a Democratic majority in both the House and Senate.

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

Large Growth	Russell 1000 Growth	5.9%
Large Value	Russell 1000 Value	8.0%
Small Growth	Russell 2000 Growth	8.8%
Small Value	Russell 2000 Value	9.0%

The Russell 3000 index returned 15.7% for the year ending December 31, 2006.

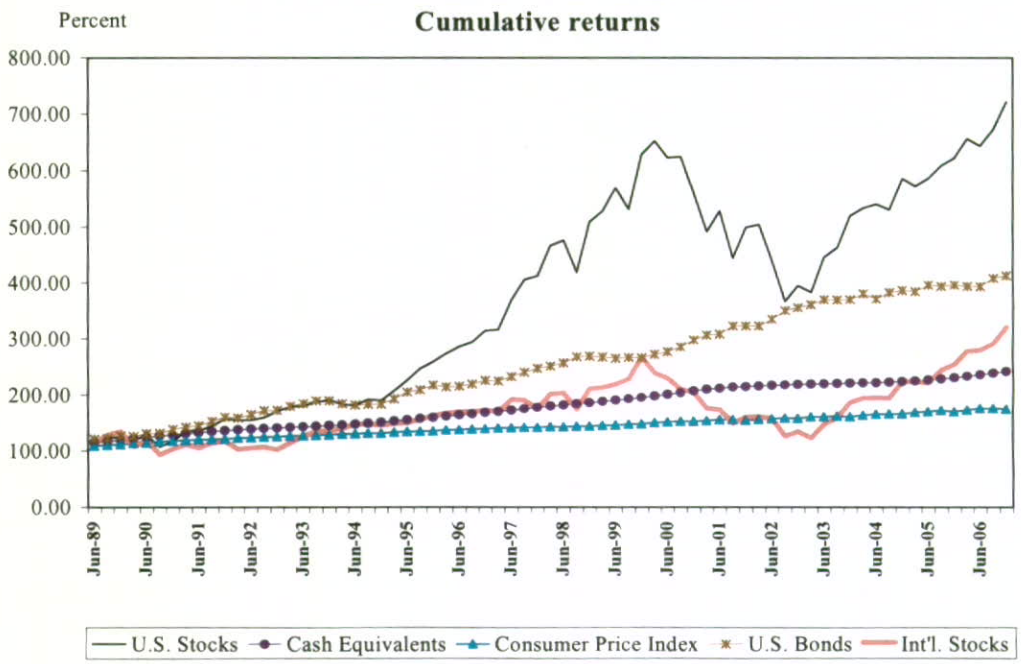
DOMESTIC BONDS

The bond market posted a gain of 1.2% for the quarter and 4.3% for the year. Steadfast corporate profits and moderating inflationary pressures helped the economy withstand a cooling housing market, and fixed income markets posted modest gains in the fourth quarter. Interest rates moved slightly higher across the yield curve without prompting from the Federal Reserve Board, which left its rate target unchanged throughout the period at 5.25%. Performance in non-Treasury sectors (Agencies, Mortgages, Credit) was positive during the quarter, with all sectors posting positive returns versus equivalent duration Treasuries.

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

U.S. Treasury	0.7%
Agency	1.1
Credit	1.4
Mortgages	1.6

PERFORMANCE OF CAPITAL MARKETS
Cumulative returns



FINANCIAL MARKETS REVIEW

INTERNATIONAL STOCKS

In aggregate, developed international stock markets (as measured by the MSCI World ex U.S. index) provided a return of 10.1% for the quarter. The quarterly performance of the six largest stock markets is shown below:

United Kingdom	10.3%
Japan	5.0
France	10.5
Switzerland	7.9
Germany	14.4
Canada	7.0

The World ex U.S. index increased by 25.7% 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 17.6% for the quarter. The quarterly performance of the five largest stock markets in the index is shown below:

Korea	4.8%
Taiwan	12.9
South Africa	28.4
Mexico	18.4
Brazil	24.6

The Emerging Markets Free index increased by 32.6% 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

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

PRIVATE EQUITY

U.S. private equity firms raised $215 billion for private equity limited partnerships of all types, from venture capital to buyouts in 2006. This represents a 32% increase relative to the revised 2005 total of $163 billion and surpassed the record $177 billion raised in 2000.

RESOURCE FUNDS

During the fourth quarter of 2006, crude oil averaged $60.16 per barrel, down from the average price of $70.65 during the prior quarter. In spite of the significant decrease, prices are still high relative to historical levels and continue to reflect the instability in the Middle East.

COMBINED FUNDS

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

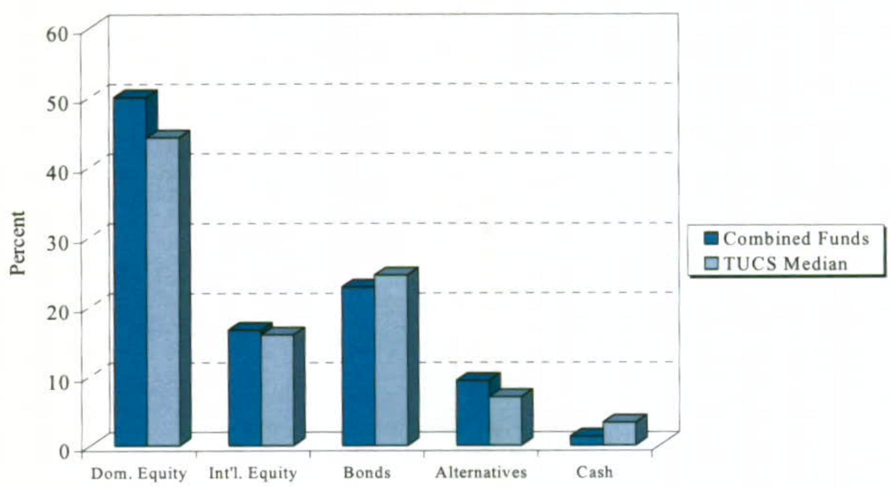
The comparison universe used by the SBI is the Trust Universe Comparison Service (TUCS). Only funds with assets over $1 billion are included in the comparisons shown in this section.

Asset Mix Compared to Other Pension Funds

On December 31, 2006, the actual asset mix of the Combined Funds was:

	$ Millions	%
Domestic Stocks	$23,694	50.0%
International Stocks	7,890	16.6
Bonds	10,799	22.8
Alternative Assets	4,420	9.3
Unallocated Cash	624	1.3
Total	$47,427	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	**50.0%**	**16.6%**	**22.8%**	**9.3%**	**1.3%**
Median Allocation in TUCS*	44.2	15.9	24.5	7.0**	3.3

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

COMBINED FUNDS
Performance Compared to Other Pension Funds

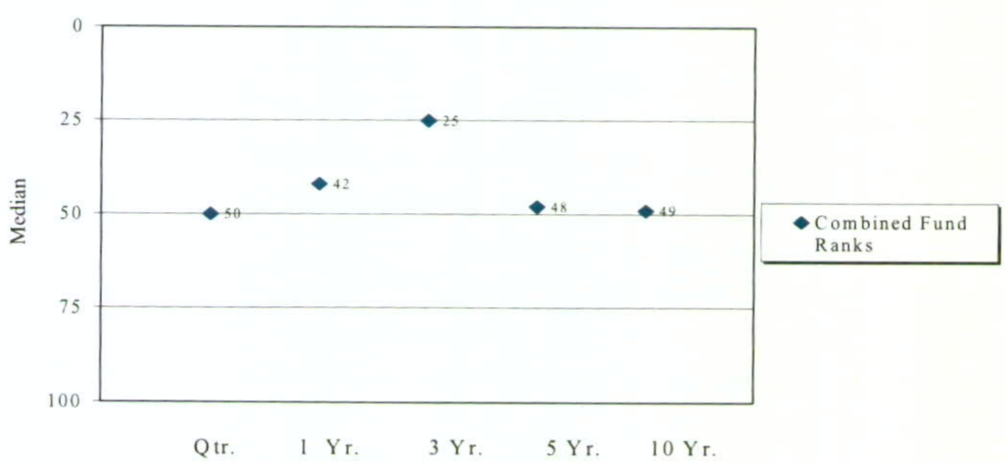
While the SBI is concerned with how its returns compare to other pension investors, universe comparisons should be used with great care. There are several reasons why such comparisons will provide an "apples to oranges" look at performance:

— **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 12/31/2006				
	Qtr.	1 Yr.	3 Yr.	5 Yr.	10 Yr.
Combined Funds Percentile Rank in TUCS*	50th	42nd	25th	48th	49th

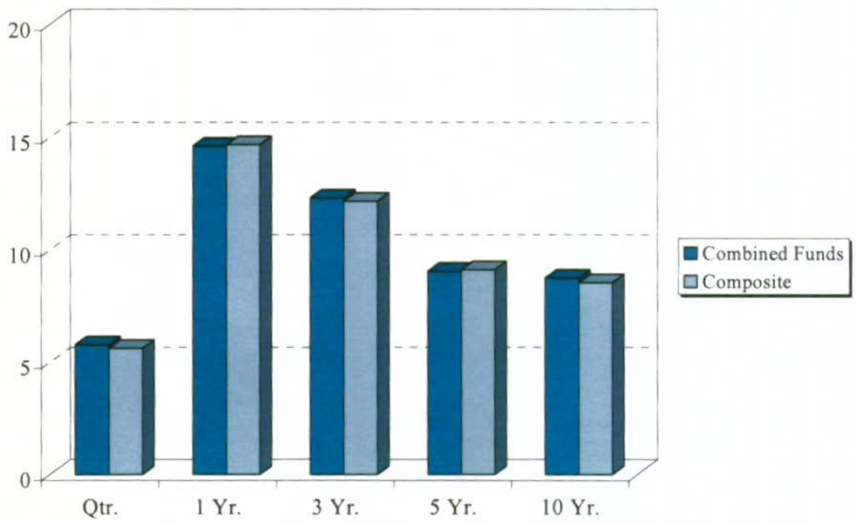
* Compared to public and corporate plans greater than $1 billion, gross of fees.

COMBINED FUNDS
Performance Compared to Composite Index

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

	Market Index	Combined Funds Composite* 4Q06
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 12/31/2006

	Qtr.	1 Yr.	3 Yr. (Annualized)	5 Yr. (Annualized)	10 Yr. (Annualized)
Combined Funds**	**5.8%**	**14.6%**	**12.3%**	**9.0%**	**8.7%**
Composite Index	5.6	14.7	12.1	9.1	8.5

**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

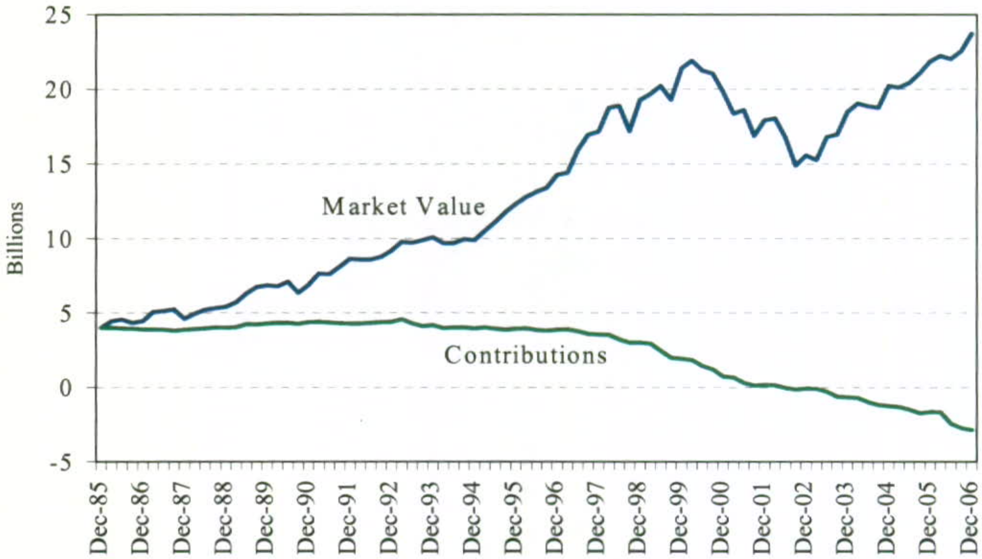
The Basic Retirement Funds are composed of the retirement assets for currently working participants in eight statewide retirement funds. The Funds serve as accumulation pools for the pension contributions of public employees and their employers during the employees' years of active service. Approximately 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 5.2% during the fourth quarter of 2006. Positive investment returns accounted for the increase.



Last Five Years
In Millions

	12/01	12/02	12/03	12/04	12/05	3/06	6/06	9/06	Latest Qtr. 12/06
Beginning Value	$19,807	$17,874	$15,561	$18,435	$20,201	$21,816	$22,820	$21,979	$22,522
Net Contributions	-572	-247	-592	-577	-411	-24	-752	-315	-128
Investment Return	-1,361	-2,066	3,466	2,343	2,026	1,028	-89	858	1,300
Ending Value	$17,874	$15,561	$18,435	$20,201	$21,816	$22,820	$21,979	$22,522	$23,694

BASIC RETIREMENT FUNDS
Asset Mix

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

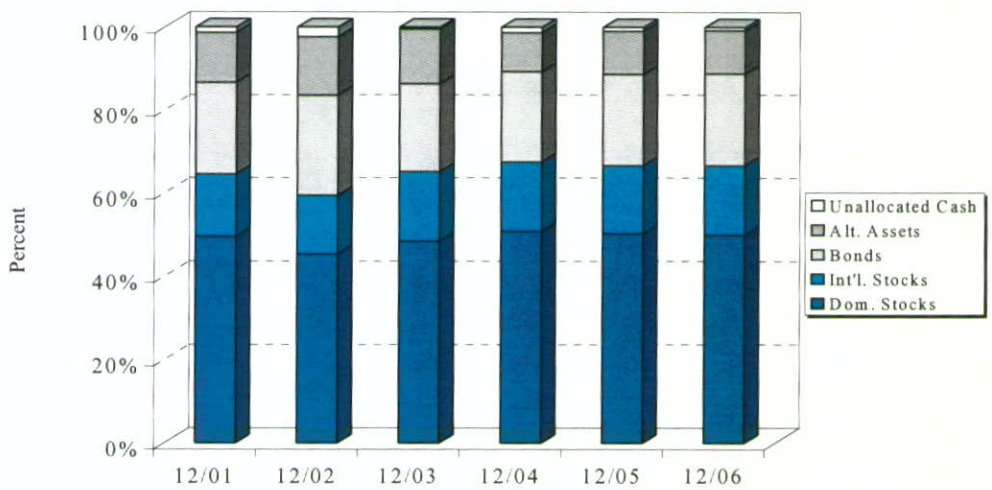
Domestic Stocks	45.0%
Int'l. Stocks	15.0
Bonds	24.0
Alternative Assets*	15.0
Unallocated Cash	1.0

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

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

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

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



	Last Five Years								Latest Qtr.
	12/01	12/02	12/03	12/04	12/05	3/06	6/06	9/06	12/06
Domestic Stocks	49.5%	45.3%	48.5%	50.9%	50.3%	49.7%	49.0%	49.3%	50.0%
Int'l. Stocks	15.0	14.1	16.6	16.6	16.3	15.7	15.8	15.7	16.6
Bonds	22.1	24.2	21.2	21.8	22.1	22.9	23.1	23.0	22.2
Alternative Assets	13.3	9.4	13.3	9.4	10.4	10.2	11.2	10.7	10.4
Unallocated Cash	1.3	2.3	0.4	1.3	0.9	1.5	0.9	1.3	0.8
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

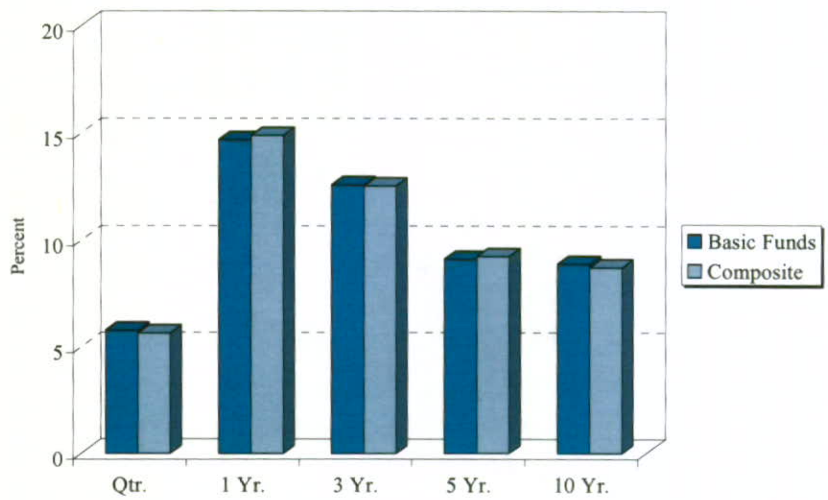
BASIC RETIREMENT FUNDS

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* 4Q06
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 12/31/2006

	Qtr.	1 Yr.	3 Yr.	5 Yr. (Annualized)	10 Yr.
Basic Funds**	**5.8%**	**14.7%**	**12.6%**	**9.1%**	**8.9%**
Composite Index	5.6	14.9	12.6	9.3	8.7

**Returns are reported net of fees.

Effective July 1, 1993, the Basic and Post Funds share the same domestic stock, international stock, and bond managers. See page 15 for the performance of these asset pools. Effective July 1, 2003, the Basic and Post Funds share the same alternative pool. Performance of the alternative assets is on page 16.

POST RETIREMENT FUND

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

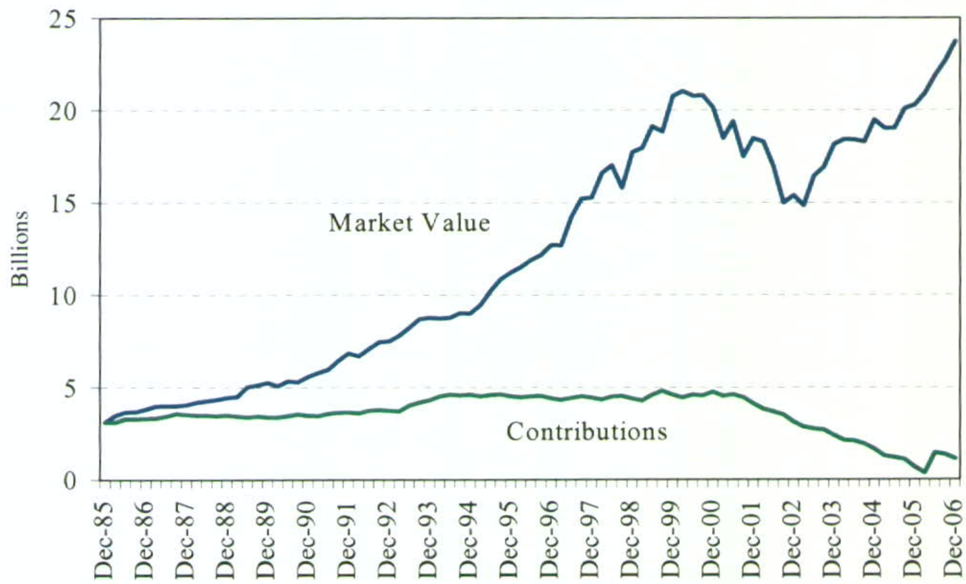
Upon an employee's retirement, a sum of money sufficient to finance the fixed monthly annuity is transferred from accumulation pools in the Basic Funds to the Post Fund. In order to support promised benefits, the Post Fund must "earn" at least 6% on its invested assets on an annualized basis. If the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

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

Asset Growth

The market value of the Post Fund increased 4.7% during the fourth quarter of 2006.

Positive investment returns accounted for the increase.



Last Five Years
In Millions

	12/01	12/02	12/03	12/04	12/05	3/06	6/06	9/06	Latest Qtr. 12/06
Beginning Value	$20,153	$18,475	$15,403	$18,162	$19,480	$20,295	$20,909	$21,911	$22,678
Net Contributions	-647	-1,000	-719	-749	-984	-315	1,106	-99	-240
Investment Return	-1,031	-2,072	3,478	2,067	1,799	929	-104	866	1,295
Ending Value	$18,475	$15,403	$18,162	$19,480	$20,295	$20,909	$21,911	$22,678	$23,733

POST RETIREMENT FUND
Asset Mix

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

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

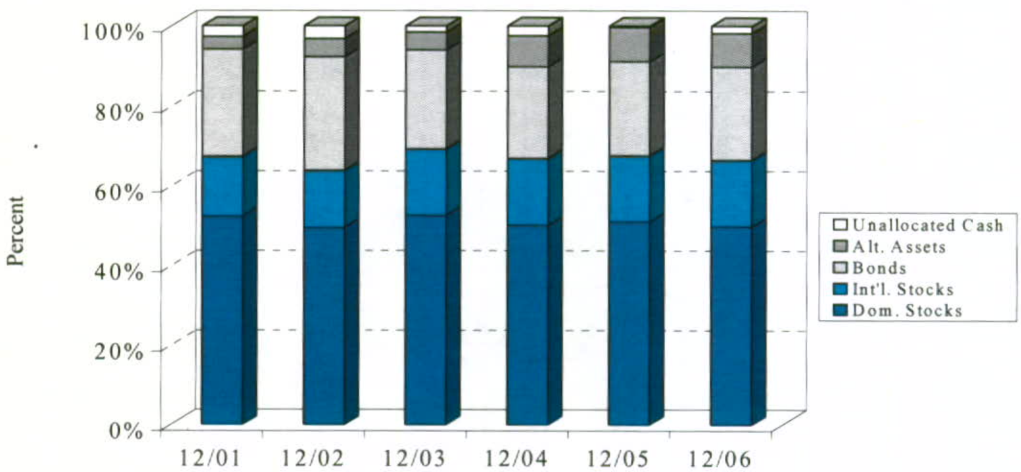
* Alternative assets include equity-oriented real estate, venture capital, resource, and yield-oriented funds. Any uninvested allocation is held in domestic stocks.

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

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

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

During the quarter, the allocations to domestic stocks and international stocks increased due to strong returns.



	Last Five years								Latest Qtr.
	12/01	12/02	12/03	12/04	12/05	3/06	6/06	9/06	12/06
Dom. Stocks	52.4%	49.6%	52.7%	50.2%	51.1%	49.2%	47.2%	49.1%	49.9%
Int'l. Stocks	15.1	14.4	16.7	16.8	16.6	15.8	15.3	15.8	16.7
Bonds	26.7	28.3	24.6	22.9	23.5	24.1	23.7	24.2	23.3
Alt. Assets	3.1	4.5	4.4	7.6	8.5	8.2	8.7	8.6	8.3
Unallocated Cash	2.7	3.2	1.6	2.5	0.3	2.7	5.1	2.3	1.8
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

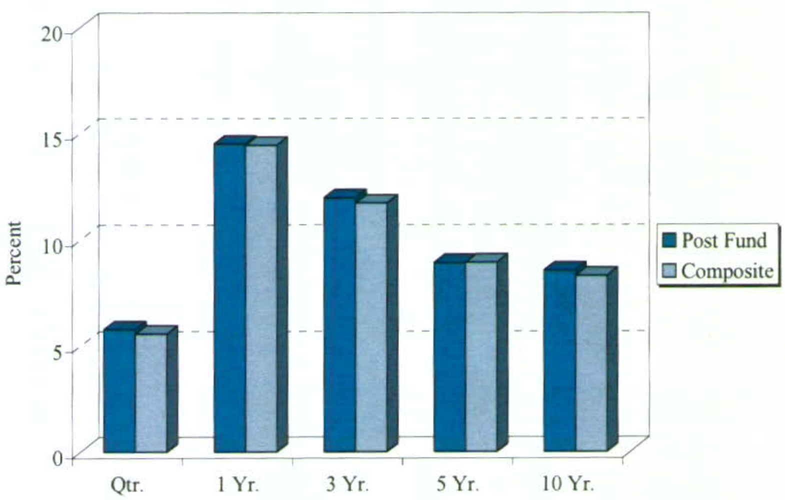
POST RETIREMENT FUND

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* 4Q06
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 12/31/2006

	Qtr.	1 Yr.	3 Yr. (Annualized)	5 Yr. (Annualized)	10 Yr. (Annualized)
Post Fund**	**5.8%**	**14.5%**	**12.0%**	**8.9%**	**8.6%**
Composite Index	5.6	14.4	11.7	8.9	8.3

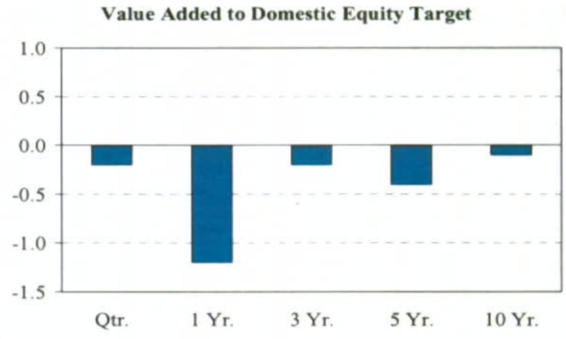
** Returns are reported net of fees.

Effective July 1, 1993, the Basic and Post Funds share the same domestic stock, international stock, and bond managers. See page 15 for the performance of these asset pools. Effective July 1, 2003, the Basic and Post Funds share the same alternative pool. Performance of the alternative assets is on page 16.

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.



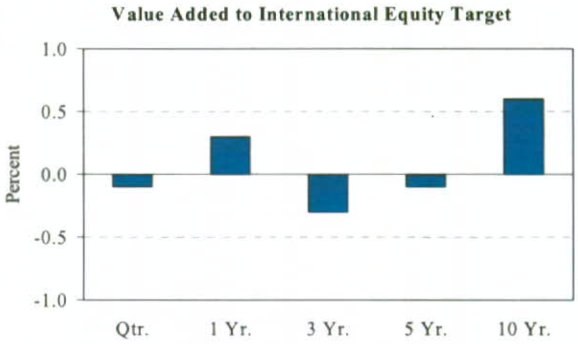
Period Ending 12/31/2006

	Qtr.	1 Yr.	3 Yr.	5 Yr.	10 Yr.
			Annualized		
Domestic Stocks	**6.9%**	**14.5%**	**11.0%**	**6.8%**	**8.1%**
Asset Class Target*	7.1	15.7	11.2	7.2	8.2

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

International Stocks

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



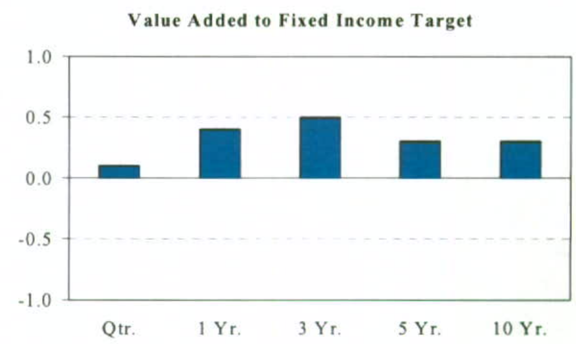
Period Ending 12/31/2006

	Qtr.	1 Yr.	3 Yr.	5 Yr.	10 Yr.
			Annualized		
Int'l. Stocks	**11.1%**	**27.0%**	**21.0%**	**16.2%**	**8.5%**
Asset Class Target*	11.2	26.7	21.3	16.3	7.9

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

Bonds

Target: Lehman Brothers Aggregate Bond Index
Expectation: If half of the pool is actively managed and half is managed semi-passively, the entire pool is expected to exceed the target by +.20-.35% annualized, over time.



Period Ending 12/31/2006

	Qtr.	1 Yr.	3 Yr.	5 Yr.	10 Yr.
			Annualized		
Bonds	**1.3%**	**4.7%**	**4.2%**	**5.4%**	**6.5%**
Asset Class Target	1.2	4.3	3.7	5.1	6.2

ALTERNATIVE INVESTMENTS
Performance of Asset Categories
(Net of Fees)

Alternative Investments

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

	Period Ending 12/31/2006				
			Annualized		
	Qtr.	Yr.	3 Yr.	5 Yr.	10 Yr.
Alternatives	2.7%	21.8%	29.3%	18.8%	16.4%
Inflation	-0.5%	2.5%	2.8%	2.5%	2.4%

Real Estate Investments (Equity emphasis)

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

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

	Period Ending 12/31/2006				
			Annualized		
	Qtr.	Yr.	3 Yr.	5 Yr.	10 Yr.
Real Estate	3.8%	23.0%	18.2%	13.5%	14.2%

Private Equity Investments (Equity emphasis)

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

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

	Period Ending 12/31/2006				
			Annualized		
	Qtr.	Yr.	3 Yr.	5 Yr.	10 Yr.
Private Equity	2.7%	18.8%	29.8%	17.0%	15.8%

Resource Investments (Equity emphasis)

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

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

	Period Ending 12/31/2006				
			Annualized		
	Qtr.	Yr.	3 Yr.	5 Yr.	10 Yr.
Resource	-4.5%	30.6%	70.0%	43.9%	24.2%

Yield Oriented Investments (Debt emphasis)

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

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

	Period Ending 12/31/2006				
			Annualized		
	Qtr.	Yr.	3 Yr.	5 Yr.	10 Yr.
Yield Oriented	3.9%	24.9%	28.6%	20.2%	16.5%

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 December 31, 2006 the market value of the entire Fund was $1.1 billion.

Investment Options

	12/31/2006 Market Value (In Millions)
Income Share Account – a balanced portfolio utilizing both common stocks and bonds.	$250
Growth Share Account – an actively managed, all common stock portfolio.	$119
Common Stock Index Account – a passively managed, all common stock portfolio designed to track the performance of the entire U.S. stock market.	$324
International Share Account – a portfolio of non U.S. stocks that incorporates both active and passive management.	$99
Bond Market Account – an actively managed, all bond portfolio.	$134
Money Market Account – a portfolio utilizing short-term, liquid debt securities.	$74
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.	$66

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%	63.4%
Bonds	35.0	34.0
Unallocated Cash	5.0	2.6
	100.0%	100.0%

Period Ending 12/31/2006			Annualized		
	Qtr.	1 Yr.	3 Yr.	5 Yr.	10 Yr.
Total Account	**5.0%**	**11.9%**	**8.7%**	**6.5%**	**7.8%**
Benchmark*	4.7	11.1	8.2	6.5	7.7

* 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 12/31/2006			Annualized		
	Qtr.	1 Yr.	3 Yr.	5 Yr.	10 Yr.
Total Account	**6.9%**	**13.7%**	**10.7%**	**6.5%**	**7.8%**
Benchmark*	7.1	15.7	11.2	7.2	8.2

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

COMMON STOCK INDEX ACCOUNT

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

The Account is invested 100% in common stock.

Period Ending 12/31/2006			Annualized		
	Qtr.	1 Yr.	3 Yr.	5 Yr.	10 Yr.
Total Account	**7.1%**	**15.9%**	**11.3%**	**7.3%**	**8.5%**
Benchmark*	7.1	15.7	11.2	7.2	8.3

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

INTERNATIONAL SHARE ACCOUNT

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

Period Ending 12/31/2006			Annualized		
	Qtr.	1 Yr.	3 Yr.	5 Yr.	10 Yr.
Total Account	**11.1%**	**27.1%**	**21.2%**	**16.4%**	**8.6%**
Benchmark*	11.2	26.7	21.3	16.3	7.9

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

SUPPLEMENTAL INVESTMENT FUND ACCOUNTS

BOND MARKET ACCOUNT

Investment Objective

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

Asset Mix

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

Period Ending 12/31/2006					
			Annualized		
	Qtr.	1 Yr.	3 Yr.	5 Yr.	10 Yr.
Total Account	**1.3%**	**4.7%**	**4.2%**	**5.4%**	**6.6%**
Lehman Agg.	1.2	4.3	3.7	5.1	6.2

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 12/31/2006					
			Annualized		
	Qtr.	1 Yr.	3 Yr.	5 Yr.	10 Yr.
Total Account	**1.2%**	**4.7%**	**3.2%**	**2.5%**	**4.0%**
3 month T-Bills	1.2	4.9	3.1	2.4	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 12/31/2006					
			Annualized		
	Qtr.	1 Yr.	3 Yr.	5 Yr.	10 Yr.
Total Account	**1.1%**	**4.6%**	**4.3%**	**4.7%**	**5.5%**
Benchmark*	1.2	5.2	4.3	3.7	4.7

* 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

	12/31/2006 Market Value (in Millions)
Vanguard Institutional Index (passive)	$469
Janus Twenty (active)	$358
Legg Mason Appreciation Y (active)	$127
Vanguard Mid Cap Index (passive)	$123
T. Rowe Price Small Cap (active)	$408
Fidelity Diversified International (active)	$266
Vanguard Institutional Developed Markets (passive)	$67
Dodge & Cox Balanced Fund (active)	$270
Vanguard Balanced Fund (passive)	$175
Dodge & Cox Income Fund (active)	$84
Vanguard Total Bond Market Fund (passive)	$49
Money Market Account	$58
Fixed Interest Account	$130
Fixed Fund	$753

DEFERRED COMPENSATION PLAN ACCOUNTS

LARGE CAP EQUITY

Vanguard Institutional Index (passive)

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

Period Ending 12/31/2006				
		Annualized		
	Qtr.	1 Yr.	3 Yr.	5 Yr.
Fund	**6.7%**	**15.8%**	**10.5%**	**6.2%**
S&P 500	6.7	15.8	10.4	6.2

Janus Twenty (active)

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

Period Ending 12/31/2006				
		Annualized		
	Qtr.	1 Yr.	3 Yr.	5 Yr.
Fund	**9.6%**	**12.3%**	**15.0%**	**7.7%**
S&P 500	6.7	15.8	10.4	6.2

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 12/31/2006				
		Annualized		
	Qtr.	1 Yr.	3 Yr.	Since 12/1/03
Fund	**6.7%**	**15.0%**	**9.6%**	**11.0%**
S&P 500	6.7	15.8	10.4	12.0

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 12/31/2006				
		Annualized		
	Qtr.	1 Yr.	3 Yr.	Since 1/1/04
Fund	**7.4%**	**13.8%**	**N/A**	**16.1%**
MSCI US Mid-Cap 450	7.4	13.7	N/A	16.0

SMALL CAP EQUITY

T. Rowe Price Small Cap (active)

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

Period Ending 12/31/2006				
		Annualized		
	Qtr.	1 Yr.	3 Yr.	5 Yr.
Fund	**6.7%**	**12.8%**	**13.3%**	**10.5%**
Russell 2000	8.9	18.4	13.6	11.4

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 12/31/2006				
		Annualized		
	Qtr.	1 Yr.	3 Yr.	5 Yr.
Fund	**9.8%**	**22.5%**	**19.8%**	**17.3%**
MSCI EAFE	10.4	26.3	19.9	15.1

Vanguard Institutional Developed Markets (passive)

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

Period Ending 12/31/2006				
		Annualized		
	Qtr.	1 Yr.	3 Yr.	Since 12/1/03
Fund	**10.2%**	**26.3%**	**20.0%**	**22.4%**
MSCI EAFE	10.4	26.3	19.9	22.3

DEFERRED COMPENSATION PLAN ACCOUNTS

BALANCED

Dodge & Cox Balanced Fund (active)

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

Period Ending 12/31/2006

			Annualized	
	Qtr.	1 Yr.	3 Yr.	Since 10/1/03
Fund	**4.9%**	**13.8%**	**11.2%**	**13.5%**
Benchmark	4.5	11.1	7.8	9.5

Vanguard Balanced Fund (passive)

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

Period Ending 12/31/2006

			Annualized	
	Qtr.	1 Yr.	3 Yr.	Since 12/1/03
Fund	**4.7%**	**11.1%**	**8.4%**	**9.2%**
Benchmark	4.7	11.1	8.4	9.2

FIXED INCOME

Dodge & Cox Income Fund (active)

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

Period Ending 12/31/2006

			Annualized	
	Qtr.	1 Yr.	3 Yr.	5 Yr.
Fund	**1.7%**	**5.3%**	**3.7%**	**5.5%**
Lehman Agg.	1.2	4.3	3.7	5.1

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.

Period Ending 12/31/2006

			Annualized	
	Qtr.	1 Yr.	3 Yr.	Since 12/1/03
Fund	**1.4%**	**4.4%**	**3.8%**	**3.9%**
Lehman Agg.	1.2	4.3	3.7	3.9

Money Market Account

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

Period Ending 12/31/2006

			Annualized	
	Qtr.	1 Yr.	3 Yr.	5 Yr.
Fund	**1.2%**	**4.7%**	**3.2%**	**2.5%**
3-Mo. Treas.	1.2	4.9	3.1	2.4

FIXED INTEREST ACCOUNT

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

Period Ending 12/31/2006

			Annualized	
	Qtr.	1 Yr.	3 Yr.	5 Yr.
Fund	**1.2%**	**4.6%**	**4.4%**	**4.7%**
Benchmark	1.2	5.2	4.3	3.7

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 12/31/2006

The quarterly blended rate is: 4.56%

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.

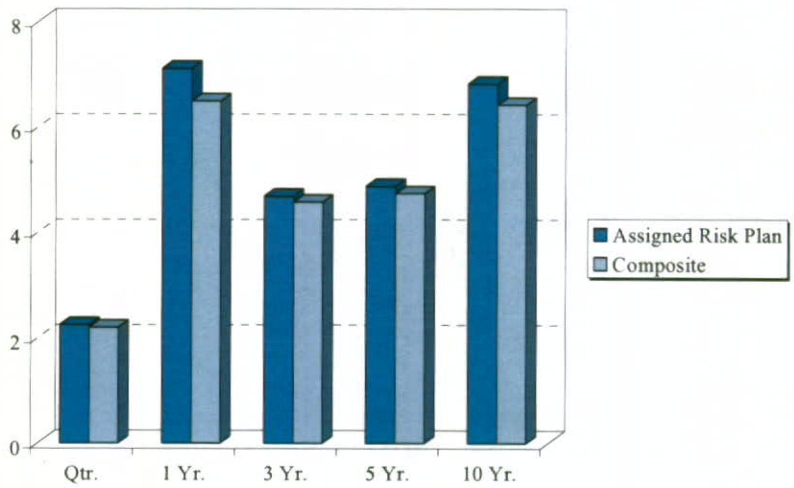
Asset Mix
The Assigned Risk Plan is invested in a portfolio of common stocks and bonds. The actual asset mix will fluctuate in response to changes in the Plan's liability stream.

	12/31/2006 Target	12/31/2006 Actual
Stocks	20.0%	24.0%
Bonds	80.0	76.0
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 December 31, 2006 the market value of the Assigned Risk Plan was $338 million.



Period Ending 12/31/2006

	Qtr.	1 Yr.	3 Yr. (Annualized)	5 Yr.	10 Yr.
Total Fund*	**2.3%**	**7.1%**	**4.7%**	**4.9%**	**6.8%**
Composite	2.2	6.5	4.6	4.7	6.4
Equity Segment*	**6.0**	**16.4**	**9.1**	**5.0**	**9.1**
Benchmark	6.7	15.8	10.4	6.2	8.4
Bond Segment*	**1.1**	**4.5**	**3.4**	**4.3**	**5.4**
Benchmark	1.1	4.3	3.1	4.2	5.7

* Actual returns are calculated net of fees.

PERMANENT SCHOOL FUND

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

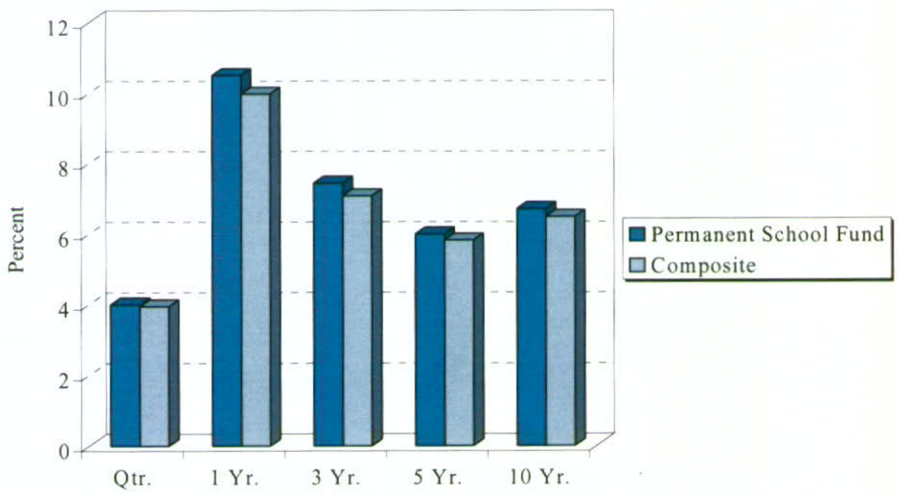
Asset Mix
Effective with FY98, the Permanent School Fund is invested in a balanced portfolio of common stocks and bonds. Common stocks provide the potential for significant capital appreciation, while bonds provide portfolio diversification and a more stable stream of current income.

	12/31/2006 Target	12/31/2006 Actual
Stocks	50.0%	51.7%
Bond	48.0	46.5
Unallocated Cash	2.0	1.8
Total	100.0%	100.0%

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

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

Market Value
On December 31, 2006 the market value of the Permanent School Fund was $692 million.



Period Ending 12/31/2006

	Qtr.	1 Yr. (Annualized)	3 Yr.	5 Yr.	10 Yr.
Total Fund (1) (2)	**4.0%**	**10.5%**	**7.4%**	**6.0%**	**6.7%**
Composite	3.9	10.0	7.1	5.8	6.5
Equity Segment (1) (2)	**6.7**	**15.9**	**10.5**	**6.3**	**N/A**
S&P 500	6.7	15.8	10.4	6.2	N/A
Bond Segment (1)	**1.2**	**5.1**	**4.3**	**5.4**	**6.6**
Lehman Aggregate	1.2	4.3	3.7	5.1	6.2

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

ENVIRONMENTAL TRUST FUND

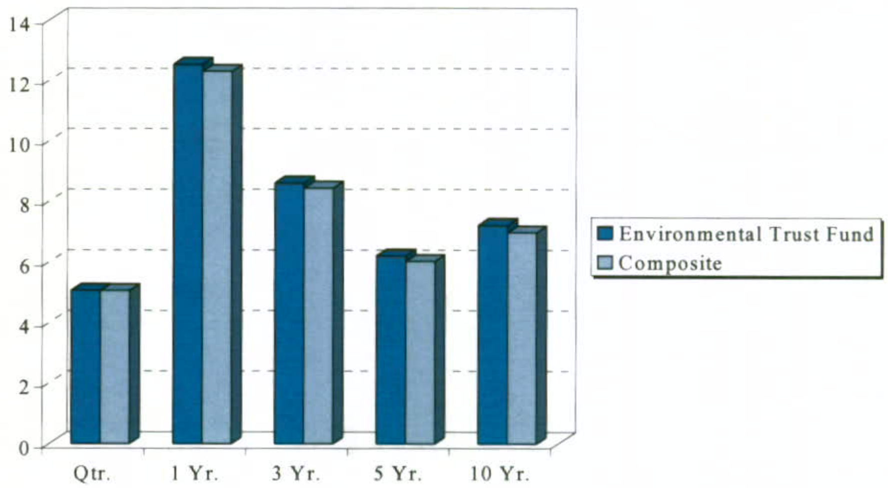
Investment Objective
The objective of the Environmental Trust Fund is to increase the market value of the Fund over time in order to increase the annual amount made available for spending.

Asset Mix
The Environmental Trust Fund is invested in a balanced portfolio of common stocks and bonds. Common stocks provide the potential for significant capital appreciation, while bonds act as a deflation hedge and provide portfolio diversification. As of July 1, 1999, the asset allocation changed from 50% stocks/50% fixed income to 70% stocks /30% fixed income.

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

Market Value
On December 31, 2006 the market value of the Environmental Trust Fund was $463 million.

	12/31/2006 Target	12/31/2006 Actual
Stocks	70.0%	70.4%
Bonds	28.0	29.0
Unallocated Cash	2.0	0.6
Total	100.0%	100.0%



Period Ending 12/31/2006

	Qtr.	1 Yr.	3 Yr. (Annualized)	5 Yr. (Annualized)	10 Yr. (Annualized)
Total Fund*	**5.1%**	**12.5%**	**8.6%**	**6.2%**	**7.2%**
Composite	5.0	12.3	8.4	6.0	7.0
Equity Segment*	**6.7**	**15.9**	**10.5**	**6.3**	**8.5**
S&P 500	6.7	15.8	10.4	6.2	8.4
Bond Segment*	**1.2**	**5.1**	**4.3**	**5.5**	**6.7**
Lehman Agg.	1.2	4.3	3.7	5.1	6.2

* Actual returns are calculated net of fees.

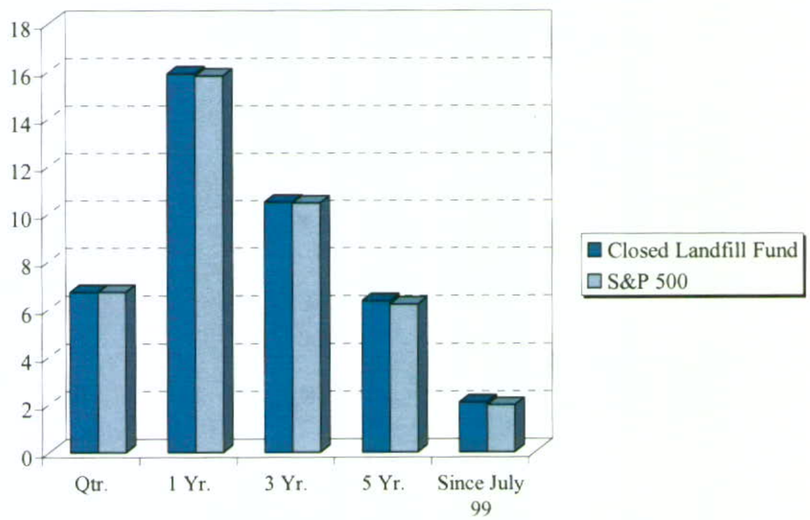
CLOSED LANDFILL INVESTMENT FUND

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

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

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

Market Value
On December 31, 2006, the market value of the Closed Landfill Investment Fund was $53.0 million.



Period Ending 12/31/2006

	Qtr.	1 Yr.	Annualized 3 Yr.	5 Yr.	Since 7/1/1999
Total Fund (1)	**6.7%**	**15.9%**	**10.5%**	**6.3%**	**2.1%**
S&P 500 (2)	6.7	15.8	10.4	6.2	2.0

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

STATE CASH ACCOUNTS

Description
State Cash Accounts represent the cash balances in more than 400 separate accounts that flow through the Minnesota State Treasury. These accounts range in size from $5,000 to over $400 million.

Most accounts are invested by SBI staff through two short-term pooled funds:

1. Trust Fund Pool contains the temporary cash balances of certain trusts and retirement-related accounts.

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

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

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

Investment Objectives

Safety of Principal. To preserve capital.

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

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

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

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

Period Ending 12/31/2006

	Market Value (Millions)	Qtr.	1 Yr.	Annualized 3 Yr.	5 Yr.	10 Yr.
Treasurer's Cash Pool*	**$4,920**	**1.3%**	**5.1%**	**3.2%**	**2.7%**	**4.2%**
Custom Benchmark**		1.2	4.5	2.6	2.1	3.7
Trust Fund Cash Pool*	**$48**	**1.3**	**5.1**	**3.2**	**2.5**	**4.0**
Custom Benchmark***		1.2	4.5	2.6	2.0	3.4
3 month T-Bills		1.2	4.9	3.1	2.4	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 December 31, 2006 (in Thousands)

	Cash and Short term Securities	Bonds Internal	Bonds External	Stocks Internal	Stocks External	External Int'l	Alternative Assets	Total
BASIC RETIREMENT FUNDS:								
Teachers Retirement Fund	62,713	0	1,762,506	0	3,970,166	1,315,193	813,839	7,924,417
	0.79%		22.24%		50.10%	16.60%	10.27%	100%
Public Employees Retirement Fund	54,377	0	1,471,107	0	3,310,158	1,097,204	677,846	6,610,692
	0.82%		22.25%		50.07%	16.60%	10.26%	100%
State Employees Retirement Fund	44,561	0	1,208,968	0	2,718,880	901,062	555,382	5,428,853
	0.82%		22.27%		50.08%	16.60%	10.23%	100%
Public Employees Police & Fire	24,542	0	664,312	0	1,494,606	495,393	305,894	2,984,747
	0.82%		22.26%		50.07%	16.60%	10.25%	100%
Highway Patrol Retirement Fund	2,274	0	49,953	0	116,985	39,268	28,350	236,830
	0.96%		21.09%		49.40%	16.58%	11.97%	100%
Judges Retirement Fund	458	0	11,800	0	26,789	8,905	5,713	53,665
	0.85%		21.99%		49.92%	16.59%	10.65%	100%
Correctional Employees Retirement	2,710	0	60,066	0	140,400	47,100	33,776	284,052
	0.95%		21.15%		49.43%	16.58%	11.89%	100%
Public Employees Correctional	3,181	0	32,039	0	72,053	23,879	14,718	145,870
	2.18%		21.96%		49.40%	16.37%	10.09%	100%
TOTAL BASIC FUNDS	194,816	0	5,260,751	0	11,850,037	3,928,004	2,435,518	23,669,126
	0.82%		22.23%		50.06%	16.60%	10.29%	100%
POST RETIREMENT FUND	429,322	0	5,541,855	0	11,843,921	3,958,386	1,940,818	23,714,302
	1.81%		23.37%		49.95%	16.69%	8.18%	100%
TOTAL BASIC AND POST	624,138	0	10,802,606	0	23,693,958	7,886,390	4,376,336	47,383,428
	1.32%		22.80%		50.00%	16.64%	9.24%	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	6,187	82,127	0	0	161,678	0	0	249,992
	2.48%	32.85%			64.67%			100%
Growth Share Account	0	0	0	0	119,016	0	0	119,016
					100.00%			100%
Money Market Account	74,343	0	0	0	0	0	0	74,343
	100.00%							100%
Common Stock Index	0	0	0	0	324,340	0	0	324,340
					100.00%			100%
Bond Market Account	0	0	134,250	0	0	0	0	134,250
			100.00%					100%
International Share Account	0	0	0	0	0	99,223	0	99,223
						100.00%		100%
Fixed Interest Account	37	0	66,005	0	0	0	0	66,042
	0.06%		99.94%					100%
TOTAL SUPPLEMENTAL FUNDS	80,567	82,127	200,255	0	605,034	99,223	0	1,067,206
	7.55%	7.70%	18.76%		56.69%	9.30%		100%
MN DEFERRED COMP PLAN *	57,844	0	1,306,723	0	1,640,571	332,932	0	3,338,070
	1.73%		39.15%		49.15%	9.97%		100%
TOTAL RETIREMENT FUNDS	762,549	82,127	12,309,584	0	25,939,563	8,318,545	4,376,336	51,788,704
	1.47%	0.16%	23.77%		50.09%	16.06%	8.45%	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	3,025 0.90%	0	255,273 75.58%	0	79,437 23.52%	0	0	337,735 100%
ENVIRONMENTAL FUND	2,647 0.57%	134,423 29.05%	0	325,714 70.38%	0	0	0	462,784 100%
PERMANENT SCHOOL FUND	12,294 1.78%	321,891 46.51%	0	357,867 51.71%	0	0	0	692,052 100%
CLOSED LANDFILL INVESTMENT	93 0.18%	0	0	52,877 99.82%	0	0	0	52,970 100%
TREASURERS CASH	4,922,171 100.00%	0	0	0	0	0	0	4,922,171 100%
HOUSING FINANCE AGENCY	26,046 12.97%	174,778 87.03%	0	0	0	0	0	200,824 100%
MINNESOTA DEBT SERVICE FUND	0	195,213 100.00%	0	0	0	0	0	195,213 100%
MISCELLANEOUS ACCOUNTS	51,746 20.32%	92,866 36.46%	0	110,065 43.22%	0	0	0	254,677 100%
TOTAL CASH AND NON-RETIREMENT	5,018,022 70.49%	919,171 12.91%	255,273 3.59%	846,523 11.89%	79,437 1.12%	0	0	7,118,426 100%
GRAND TOTAL	5,780,571 9.81%	1,001,298 1.70%	12,564,857 21.33%	846,523 1.44%	26,019,000 44.17%	8,318,545 14.12%	4,376,336 7.43%	58,907,130 100%

Tab B

EXECUTIVE DIRECTOR'S ADMINISTRATIVE REPORT

DATE: February 27, 2007

TO: Members, State Board of Investment

FROM: Howard Bicker

1. Reports on Budget and Travel

A report on the SBI's administrative budget for the period ending January 31, 2007 is included as **Attachment A**.

A report on travel for the period from November 16, 2006 - February 15, 2007 is included as **Attachment B**.

2. Results of FY06 Financial Audit

The Office of the Legislative Auditor has completed its audit of SBI operations for Fiscal Year 2006. I am pleased to report that the SBI received a "clean opinion" on its financial statements. See **Attachment C**.

3. Legislative Update

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

4. Litigation Update

SBI legal counsel will give the Board a verbal update on the status of the litigation at the Board meeting on March 20, 2007.

5. Educational Investment Roundtable

Staff will be organizing an Educational Investment Roundtable. The roundtable will take place in the second quarter and staff will inform the Board and the IAC of the details.

6. Additional Investment Options for the 529 Minnesota College Savings Plan

Under *Minnesota Statutes*, chapter 136G, the SBI has responsibility with the Minnesota Office of Higher Education (MOHE) to provide a qualified state college savings plan. MOHE is charged with designing and establishing the plan's requirements and administering the Plan, and must consult with the SBI about investment options. The SBI and MOHE may jointly contract with a third-party entity for investment and administrative services for the Plan. Currently, SBI and MOHE contract with TIAA-CREF to provide recordkeeping, educational and investment management services.

The investment options offered by TIAA-CREF are designed specifically for the 529 plan market. The Plan offers three options:

- An age-based option, in which assets for the beneficiary are invested more conservatively as the beneficiary reaches college age
- A 100 percent equity option
- A fixed option.

The assets of the age-based and 100 percent equity options are invested in a range of underlying TIAA-CREF mutual funds. The fixed option is invested in the insurance company arm of TIAA-CREF. The overall cost of the Plan to account holders is 0.65% a year, an expense charge that covers all investment management charges and Plan recordkeeping and informational services.

The Minnesota Plan has been quite successful, opening over 55,000 accounts representing almost $490 million in assets. The Plan is highly regarded among those who follow the 529 market.

TIAA-CREF operates 529 Plans in ten states. Each plan is distributed by TIAA-CREF directly to account holders rather than being distributed by a third-party broker or financial planner. Direct distribution provides a significantly lower expense ratio. Each TIAA-CREF plan has similar investment options. All have five or six options or are moving to expand to the five or six options. Other states direct sold plans have more options than Minnesota's plan.

MOHE and SBI staff met with TIAA-CREF who proposes to add three additional options. These options are:

- Money Market Account
- 100% Fixed Income, which would be invested 75% in TIAA-CREF bond mutual fund and 25% in TIAA-CREF inflation protected bond mutual fund.
- 60% Stock/40% Bond Balanced Account, which would be invested using the same TIAA-CREF mutual funds as is used by the Plan's age-based option.

MOHE and SBI staff believes that the addition of these options to the Minnesota Plan will serve to keep the Plan properly positioned in a changing market. Accordingly, staff recommends the Board approve the addition of the three options.

RECOMMENDATION:

Staff recommends that the Board approve the addition of three investment options be TIAA-CREF in the 529 Minnesota College Savings Plan. These options would be added upon the preparation by TIAA-CREF appropriate disclosure and informational materials:

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

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

ITEM	FISCAL YEAR 2007 BUDGET	FISCAL YEAR 2007 ACTUAL
PERSONAL SERVICES		
FULL TIME EMPLOYEES	$ 1,975,000	$ 975,120
PART TIME EMPLOYEES		$ 18,184
SEVERENCE PAYOFF	32,000	33,929
WORKERS COMPENSATION INSURANCE	1,000	777
MISCELLANEOUS PAYROLL	2,000	0
SUBTOTAL	**$ 2,010,000**	**$ 1,028,010**
STATE OPERATIONS		
RENTS & LEASES	210,000	122,454
REPAIRS/ALTERATIONS/MAINTENANCE	8,000	2,814
PRINTING & BINDING	8,000	2,935
PROFESSIONAL/TECHNICAL SERVICES	0	0
COMPUTER SYSTEMS SERVICES	10,000	5,651
COMMUNICATIONS	20,000	12,192
TRAVEL, IN-STATE	1,000	213
TRAVEL, OUT-STATE	50,000	22,048
SUPPLIES	30,000	11,706
EQUIPMENT	20,000	9,798
EMPLOYEE DEVELOPMENT	10,000	2,938
OTHER OPERATING COSTS	8,000	5,235
SUBTOTAL	**$ 375,000**	**$ 197,984**
ORIGINAL BUDGET	**$ 2,385,000**	**$ 1,225,994**
ADJUSTMENTS TO ORIGINAL BUDGET	**$ 0**	
TOTAL GENERAL FUND	**$ 2,385,000**	**$ 1,225,994**

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STATE BOARD OF INVESTMENT

Travel Summary by Date
SBI Travel November 16, 2006 – February 15, 2007

Purpose	Name(s)	Destination and Date	Total Cost
Manager Monitoring: Deferred Compensation Plan Managers: GE; Legg Mason **Manager Search: Deferred Compensation Plan Manager:** Royce	J. Heidelberg	New York, NY 1/2-1/4	$1,108.85
Conference: Public Funds Summit sponsored by: Opal Financial Group	H. Bicker	Phoenix, AZ 1/9-1/12	503.61
Conference: Elkind Economics Emerging Market Forum **Manager Monitoring: Domestic Equity Manager:** Barrow, Hanley Mewhinney & Strauss	M. Perry	Irving, TX 1/10-1/12	1,057.80
Manager Monitoring: Alternative Investment Manager: Merit Energy **Manager Search: Alternative Investment Manager:** Natural Gas Partners	J. Griebenow	Dallas, TX 1/24-1/25	799.87
Conference: Domestic & International Securities Lending and REPO sponsored by: Information Management Network	S. Kuettel	Phoenix, AZ 2/4-2/7	2,162.82

Purpose	Name(s)	Destination and Date	Total Cost
Manager Monitoring: Alternative Investment Managers: Apache Corp.; First Reserve; SCF Partners Annual Meeting **Manager Search: Alternative Investment Managers:** Sheridan Production Partners; TCW Energy	A. Christensen	Houston, TX 2/5-2/7	$1,105.30
Conference: Investment Education Symposium sponsored by: Opal Financial Group	H. Bicker	New Orleans, LA 2/13-2/16	740.20

OLA OFFICE OF THE LEGISLATIVE AUDITOR
STATE OF MINNESOTA • James Nobles, Legislative Auditor

Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*

Senator Ann H. Rest, Chair
Legislative Audit Commission

Members of the Legislative Audit Commission

Members of the Minnesota State Board of Investment

Mr. Howard J. Bicker, Executive Director
Minnesota State Board of Investment

We have audited the financial statements of the Supplemental Investment Fund and the Post Retirement Investment Fund of the Minnesota State Board of Investment as of and for the year ended June 30, 2006, and have issued our report thereon dated December 21, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Minnesota State Board of Investment's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Minnesota State Board of Investment's financial statements are free of material misstatement, we performed tests of its

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compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of the financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Legislative Audit Commission and the Minnesota State Board of Investment's management and is not intended to be and should not be used by anyone other than these specified parties.

James R. Nobles
Legislative Auditor

Cecile M. Ferkul, CPA, CISA
Deputy Legislative Auditor

End of Fieldwork: December 21, 2006

Report Signed On: February 15, 2007

Tab C

COMMITTEE REPORT

DATE: February 27, 2007

TO: Members, State Board of Investment

FROM: IAC Membership Review Committee

The terms of six members of the Investment Advisory Council expired in January 2007. The six members are as follows:

John Bohan	V.P., Pension Investments (Retired) Grand Metropolitan-Pillsbury
Kerry Brick	Manager, Pension Investments Cargill, Inc.
Malcolm McDonald	Director & Corporate Secretary (Retired) Space Center, Inc.
Gary Norstrem	Treasurer (Retired) City of St. Paul
Daralyn Peifer	Chief Investment Officer General Mills, Inc.
Michael Troutman	Strategic Planning & Development (Retired) Board of Pensions Evangelical Lutheran Church in America

Each of the above named have submitted applications for reappointment to the IAC. The above named applicants have extensive professional plan sponsor and institutional investor experience, which are meaningful characteristics for service on the IAC.

The Committee also received two additional applications for membership to the Council. The applicants are as follows:

Javier Morillo-Alicea	President SEIU Local 26
David Edwin Wright	Project Consultant Minnesota State Retirement System

After reviewing all the applications the Committee is making the following recommendation.

RECOMMENDATION:

The Committee recommends that the Board reappoint the following as members of the Investment Advisory Council, with terms expiring in January 2011:

John Bohan

Kerry Brick

Malcolm McDonald

Gary Norstrem

Daralyn Peifer

Michael Troutman

Tab D

COMMITTEE REPORT

DATE: February 27, 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, February 21st, 2007 to consider the following agenda items:

- Review the manager performance for the period ending December 31, 2006.
- Update on GE Asset Management, Domestic Equity Manager for the Assigned Risk Plan.
- SBI responsibilities concerning mutual fund relationships.
- Potential replacements for State Deferred Compensation Plan Mutual Funds.
- Recommendation regarding longer maturity allocation for the Invested Treasurer's Cash Pool.
- Recommendation to establish a new policy weight range for the Semi-Passive investments in the International Equity Program.
- Recommendation to terminate Holt-Smith & Yates, a manager in the Domestic Equity Program.

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

INFORMATION ITEMS:

1. Review the manager performance for the period ending December 31, 2006.

- ***Domestic Equity Program***

For the period ending December 31, 2006, the **Domestic Equity Program** underperformed over all time periods.

Time period	Total Program	DE Asset Class Target*
Quarter	6.9%	7.1%
1 Year	14.5%	15.7%
3 Years	11.0%	11.2%
5 Years	6.8%	7.2%

* 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 December 31, 2006, the **Fixed Income Program** outperformed the Lehman Aggregate over all time periods.

Time period	Total Program	Lehman Aggregate
Quarter	1.3%	1.2%
1 Year	4.7%	4.3%
3 Years	4.2%	3.7%
5 Years	5.4%	5.1%

The performance evaluation reports for the fixed income managers start on the **blue page A-97** of this Tab.

- ***International Equity Program***

For the period ending December 31, 2006, the **International Equity Program** outperformed the composite index over the year and underperformed over all other time periods.

Time Period	Total* Program	Int'l Equity Asset Class Target**
Quarter	11.1%	11.2%
1 Year	27.0%	26.7%
3 Year	21.0%	21.3%
5 Year	16.2%	16.3%

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

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

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

2. Update on GE Asset Management, Domestic Equity Manager for the Assigned Risk Plan.

GE Asset Management has managed the equity portion of the Assigned Risk Plan since January 1995 in its U.S. Multi-Style Equity Strategy. The Committee met with GE at its February 2006 meeting to discuss organizational changes, revisions to its investment strategy, and portfolio underperformance.

Dave Carlson, the GE CIO, explained his firm's investment strategy and addressed steps that GE is taking to improve performance. The Committee decided to take no action regarding GE at that time and requested that Staff present an update in one year.

The GE U.S. Multi-Style strategy is comprised of a value, a growth, and a research portfolio. The three portfolios are weighted 40%, 40%, and 20%, respectively. Periodically, GE rebalances the Multi-Style portfolio to reflect its cyclical viewpoint regarding the relative attractiveness of growth versus value given recent market movements and forecast opportunities ahead.

Mr. Carlson has made the following decisions to address performance issues:

- rebalanced the multi-style portfolio
- removed their constraint of sector neutrality compared to the benchmark to allow for greater flexibility to overweight or underweight sectors depending upon convictions
- has hired new analysts
- introduced weekly meetings in which analysts' portfolio picks are challenged by other analysts
- regular meetings that push the investment team to take a fresh look at large holdings in the portfolio style.

The Committee agrees with the staff assessment that GE has implemented its strategy through a disciplined process and that all organizational changes have been implemented.

Recent performance has shown improvement. While the portfolio underperformed the benchmark in the fourth quarter, the portfolio outperformed for the year.

	1Q06	**2Q06**	**3Q06**	**4Q06**	**1 Year**
GE	4.2%	-1.0%	6.5%	6.0%	16.4%
S&P 500	4.2	-1.4	5.7	6.7	15.8

3. SBI responsibilities concerning mutual fund relationships.

The SBI has varied responsibilities for mutual fund relationships for several different plans. The Committee reviewed a memo that summarized those differences and explained why the Committee reviews the Deferred Compensation Plan mutual funds but not others.

I. Deferred Compensation Plan

Under *Minnesota Statutes*, section 352.96, the state retirement system (MSRS) has responsibility for administrative issues and the SBI has responsibility for selecting and monitoring investment options for the Plan. MSRS and SBI staff works closely to maintain a well structured plan that offers participants an appropriate range of investment options, understandable plan information, state of the art recordkeeping, and low administrative fees.

Accordingly, MSRS contracts with Great-West Life (FasCorp) for participant recordkeeping and operates a phone bank to provide information to participants as requested. The SBI contracts with mutual fund providers for mutual fund offerings specific to asset classes chosen for the Plan. Under statute, the SBI must undertake a periodic review at least every two years. The Committee reviews these mutual funds in its regular quarterly review of managers.

II. Minnesota State Colleges and Universities Plan

Minnesota State Colleges and Universities (MnSCU) operates a defined contribution retirement plan for faculty and administrators of the MnSCU system. The provisions of *Minnesota Statutes*, section 354B.25 assign some responsibility to the SBI for investment options.

The SBI has a somewhat different level of responsibility for the MnSCU Plan compared to that for the Deferred Compensation Plan. The SBI must recommend investment providers to MnSCU for the Plan. The statutory language is not clear concerning the extent of ongoing monitoring required of the SBI other than stating the SBI must periodically review at least every three years. In 2004 and 2005, staff worked with MnSCU to restructure the Plan, and that restructuring included selecting a set of actively managed mutual funds and a set of passively managed mutual funds. As directed by statute, the SBI does not contract with the MnSCU Plan providers; MnSCU does, with the contract subject to approval by the SBI.

MnSCU has determined that they will contract with a consultant to fulfill their statutory responsibility to provide ongoing information about investment options to their participants. In order to satisfy the statutory language requiring the SBI to review MnSCU providers at least every three years, SBI staff has agreed to provide an annual review of the providers to MnSCU personnel. Since the SBI does not have the same level of ongoing responsibility and does not have direct, contractual relationships with the Plan's investment providers, the SBI does not monitor the MnSCU mutual funds through the Committee's quarterly review process.

III. Minnesota College Savings Plan

Under *Minnesota Statutes*, chapter 136G, the SBI has responsibility with the Minnesota Office of Higher Education (MOHE) to provide a qualified state college savings plan. MOHE is charged with designing and establishing the plan's requirements and administering the Plan, and must consult with the SBI about investment options. The SBI and MOHE may jointly contract with a third-party entity for investment and administrative services for the Plan. Currently, SBI and MOHE contract with TIAA-CREF to provide recordkeeping, educational and investment management services.

Because the SBI is jointly responsible for 529 Plan activities and TIAA-CREF provides administrative as well as investment management services, the SBI does not assign responsibility to the Committee to review Plan investment options.

4. Potential replacements for State Deferred Compensation Plan Mutual Funds.

The State Deferred Compensation Plan, a 457(b) qualified plan, offers participants six actively managed mutual funds and five passively managed mutual funds in distinct asset classes. This memo identifies potential replacement funds in these asset class categories.

In general, staff seeks well-managed funds with stable investment teams, disciplined investment approaches, and modest expenses, of sufficient size to adequately handle the larger asset flows of the Plan.

A. Active Funds

<u>Large Cap Equity, Concentrated Growth</u> (the current fund offering is Janus Twenty)

- Fidelity Fifty
- Legg Mason Value FI
- Thompson Plumb Growth (managed by Thompson Investment Management, Madison, WI)

<u>Large Cap Equity Blend</u> (the current fund offering is Legg Mason Partners Appreciation Y)

- American Century Equity Growth Institutional
- American Funds Fundamental Investors R5
- Neuberger Berman Partners Institutional
- T. Rowe Price Dividend Growth

Small Cap Equity (the current fund offering is T. Rowe Price Small-Cap Stock)

- Pennsylvania Mutual (Royce & Associates)
- Oppenheimer Main Street Small Cap Y
- ICM Small Company (Investment Company of Maryland)

Balanced (the current fund offering is Dodge & Cox Balanced Fund)

- American Funds American Balanced R5 (Capital Management & Research)
- Fidelity Balanced
- T. Rowe Price Balanced

Bond (the current offering is Dodge & Cox Income)

- BlackRock Total Return II BR
- PIMCO Total Return Institutional
- Western Asset Core Plus Bond Institutional

International (the current offering is Fidelity Diversified International)

- American Funds EuroPacific R5
- Legg Mason International Equity Institutional (managed by Batterymarch)

B. Passive Funds

Large Cap Equity (the current fund offering is Vanguard Institutional Index Plus)

- Fidelity Spartan U.S. Equity Index
- SSgA S&P 500 Index
- USAA S&P Index Reward (managed by Northern Trust)

Mid-Cap Equity (the current fund offering is Vanguard Mid-Cap Index)

- Columbia Mid-Cap Index Z
- Dreyfus Mid-Cap Index
- Gartmore Mid-Market Index Institutional (managed by BlackRock)
- VALIC I Mid-Cap Index (managed by AIM Global Investment)

Balanced Fund (the current fund offering is Vanguard Balanced Index Institutional Fund)

Staff is unaware of any balanced funds managed passively other than the current Vanguard Balanced Index fund.

Bond (the current fund offering is Vanguard Total Bond Market Index Institutional)

- Dreyfus Bond Market Index Basic
- Fidelity U.S. Bond Index
- Gartmore Bond Index Institutional (managed by BlackRock)
- Vantagepoint Core Bond Index I (managed by Mellon Capital Mgmt.)

International (The current fund offering is Vanguard Institutional Developed Markets Index)

- Dreyfus International Stock Index
- Fidelity Spartan Institutional Investment
- Gartmore International Index Institutional (managed by BlackRock-Mellon)

ACTION ITEMS:

5. Recommendation regarding longer maturity allocation for the Invested Treasurer's Cash Pool.

In September 1996, the Board approved a staff position paper that recommended technical changes to the performance benchmark for the Invested Treasurer's Cash Pool (ITC), and recommended periodic reviews of the allocation of a fixed dollar amount of cash to a longer maturity portion of the Fund. The attached paper represents an updated review of the allocation of a longer maturity portion for ITC.

The State Board of Investment (SBI) manages a money market like short-term fund called the Invested Treasurer's Cash Pool. The fund is used as a pooled investment vehicle for about 525 state accounts, providing daily earnings and liquidity for each participant. The pool is invested in high quality, liquid, government, agency, or corporate debt obligations with a maturity of three years or less. The majority of the fund has, because of cash flow considerations, been invested in securities with a maturity of 1 year or less. The staff, after reviewing the fund's cash flow requirements and fund balance, should recommend to the Board, if appropriate, a fixed dollar amount of the ITC to be invested in long-term (1 – 3 years) investments with the expectation of increasing ITC's earnings.

Previous allocations to the longer maturity portion have ranged from $600 million to $1.5 billion. During fiscal year 2003, staff recommended that the fixed dollar allocation be brought to zero by selling or allowing the securities in the fixed dollar portion of the pool to mature, due to the economic downturn and pending $4 billion State budget shortfall. Since that time, there has been no allocation to the longer term portion. Staff has conducted a review of historical cash flow requirements and the state's economic forecast. Based on this analysis, the attached policy paper, which starts on **page 11**, recommends that an allocation of up to $1 billion of the ITC be invested in 1 to 3 year maturity investments. Staff will continue to review the cash flow and fund balance of ITC and recommend appropriate changes to the Board, as necessary.

RECOMMENDATION:

The Committee recommends that the Board approve an allocation of up to $1 billion of the Invested Treasurer's Cash Pool to 1 to 3 year maturity investments.

6. **Recommendation to establish a new policy weight range for the Semi-Passive investments in the International Equity Program.**

In September 2003 the Minnesota State Board of Investment (SBI) approved a policy allocation of up to 10% to semi-passive, or enhanced index, management for the developed markets portion of the International Equity Program, as a result of the recommendation from the 2003 Asset Allocation Committee review. While the semi-passive mandates have been successfully used in both the Domestic Equity and Fixed Income Programs for some time, this was a new allocation to the International Equity Program at that time. Previously, there had been few institutional quality product offerings in the international semi-passive management space. The SBI conducted a search and three managers were funded to fill the 10% allocation in July 2005. The following three enhanced index developed markets managers were funded and remain in good standing:

- AQR Capital Management, LLC
- Pyramis Global Advisors Trust Company (Fidelity)
- State Street Global Advisors

At the time of the 2003 Asset Allocation review Staff presented an optimization analysis which concluded that adding a 10% semi-passive allocation could increase incremental return and modestly decrease overall risk in the International Equity Program. The analysis was based on the historical performance of the SBI's active and passive developed markets managers and the track record of a semi-passive mandate. The 10% allocation was recommended to reflect the fact that there were few international equity risk-controlled mandates at that time.

While the semi-passive segment of the International Equity Program has not had a long history, the results to date have exceeded expectations. Each manager has exceeded value added expectations at lower than expected risk levels yielding a greater information ratio than specified in the SBI guidelines, as illustrated below:

	Since Inception (18 months)			
	Actual	**Benchmark**	**Tracking Error**	**Info Ratio**
AQR	29.1	28.1	1.18	0.655
Pyramis	29.2	28.1	1.59	0.546
SSgA	29.5	28.1	1.01	1.103
SBI Semi-Passive Aggregate	29.2	28.1	0.84	1.078

	SBI Manager Investment Guidelines	
	Tracking Error	**Info Ratio**
AQR	2-4%	>0.2
Pyramis	1-3%	>0.2
SSgA	1-4%	>0.2

The current policy allocations within the International Equity Program are governed by the following rule:

> "Up to 10% allocation to semi-passive management and at least 25% to passive. In aggregate, at least 33% to passive and semi-passive management. At least 33% of the Program will be actively managed."

RECOMMENDATION:

The Committee recommends that the SBI approve a change to the policy allocation in the International Equity Program, to establish a new range for the semi-passive investments, as follows:

> **"No more than 33% to semi-passive management. At least 25% of the program will be passively managed and at least 33% will be actively managed."**

7. **Recommendation to terminate Holt-Smith & Yates, a manager in the Domestic Equity Program.**

The SBI hired Holt-Smith & Yates to manage a large cap equity growth portfolio in July, 2000. Recently, staff met with Holt-Smith & Yates to address issues concerning performance, account and asset attrition, and organizational issues relating to leadership of the equity investment team and ownership.

Holt-Smith & Yates has experienced significant underperformance. In four of the past five years, the firm has underperformed the Russell 1000 Growth benchmark.

Period Ending 12/31/06	Holt-Smith & Yates	Russell 1000 Growth
2006	1.9%	9.1%
2005	1.5%	5.3%
2004	7.3%	6.3%
2003	22.1%	29.7%
2002	-28.0%	-27.9%

When the SBI hired Holt-Smith & Yates in July 2000, the firm had less than $400 million in assets under management. During our tenure with the firm, assets under management reached $1.8 billion during the first half of 2005. Since June 30, 2005, Holt-Smith & Yates has had a continuous decline in assets. As of December 31, 2006, the firm had $471 million in assets under management; $324 in assets with the large cap product. The SBI held $106 million on December 31, 2006. Due to declining assets, the SBI portfolio represents 22.5% of firm assets.

Lastly, the organization has experienced leadership issues which have resulted in the termination of one of the two principal owners as an employee of the firm. At this time, the owners have been unable to agree on the terms of the buy-sell agreement. Litigation has commenced and it is expected that a trial will begin this summer to determine the value of the firm.

With continuing underperformance, significant asset and account loss, and on-going ownership issues, the Committee and Staff do not have confidence regarding the stability of Holt-Smith & Yates Advisors.

RECOMMENDATION:

The Committee recommends that the SBI terminate its relationship with Holt-Smith & Yates Advisors.

LONGER MATURITY ALLOCATION FOR THE INVESTED TREASURER'S CASH POOL

Staff Position Paper

January 2007

LONGER MATURITY ALLOCATION FOR THE INVESTED TREASURER'S CASH POOL

In September 1996, the Board approved a staff position paper that recommended technical changes to the performance benchmark for the Invested Treasurer's Cash Pool (ITC), and recommended periodic reviews of the allocation of a fixed dollar amount of cash to a longer maturity portion of the Fund. This paper provides that ongoing review.

Background

The State Board of Investment (SBI) manages a money market like short-term fund called the Invested Treasurer's Cash Pool. The fund is used as a pooled investment vehicle for about 525 state accounts, providing daily earnings and liquidity for each participant. The pool is invested in high quality, liquid, government, agency, or corporate debt obligations with a maturity of three years or less. The majority of the fund has, because of cash flow considerations, been invested in securities with a maturity of 1 year or less. The staff, after reviewing the fund's cash flow requirements and fund balance, should recommend to the Board, if appropriate, a fixed dollar amount of the ITC to be invested in long-term (1 – 3 years) investments with the expectation of increasing ITC's earnings.

Performance

Performance of the Fund is measured against a blended benchmark which consists of a fixed dollar amount (currently $0) measured against the Lehman Brother's 1 to 3 year

U.S. Government Bond Index and the balance of the Fund against the iMoney Net Money Fund Index. The fixed dollar allocation has been periodically reviewed and changed as the fund balance and the economy have changed. Previous allocations were:

10/96 - $600 million

1/98 - $850 million

10/98 - $1,500 million

During fiscal year 2003, staff recommended that the fixed dollar allocation be brought to zero by selling or allowing the securities in the fixed dollar portion of the pool to mature, due to the economic downturn and pending $4 billion State budget shortfall.

Fund Analysis

The balance of ITC, as of January 31, 2007, was $5.63 billion. The cash flow pattern in ITC has been consistent year over year. (See Appendix I for a comparison of ending daily balance of ITC for the Fiscal Years 2004, 2005, 2006 and through January 31, 2007). This consistency is due to both revenues and expenditures being received or paid at times or dates specified in statute.

The following shows the ending daily balance statistics for the last five fiscal years.

Fiscal Year (All figures in Billions)	Maximum	Minimum	Average
2003	5.37	2.85	3.80
2004	5.23	3.28	3.84
2005	4.84	2.90	3.59
2006	5.53	3.05	4.10
2007 (to 1/31)	5.80	4.14	4.80

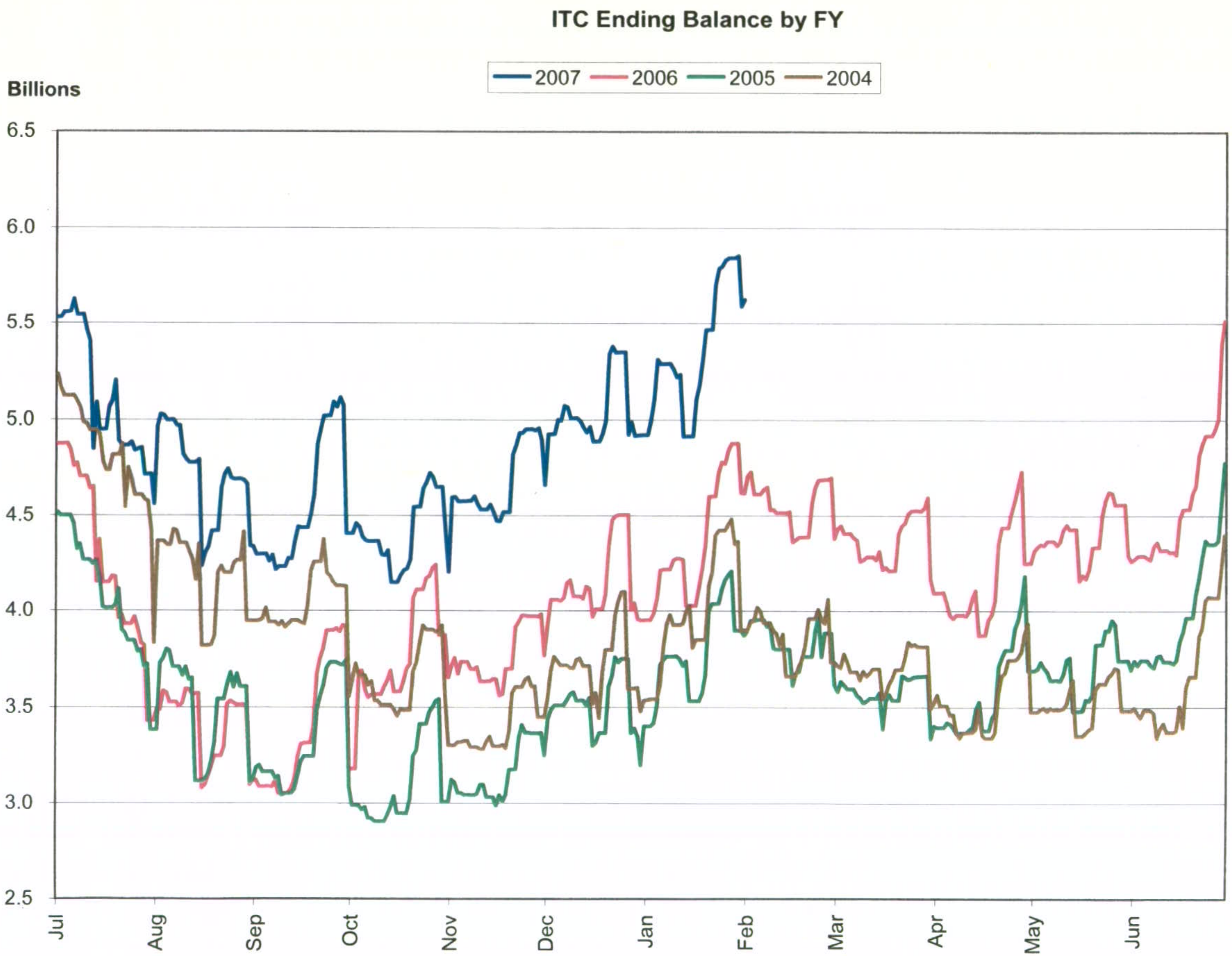
For the purpose of determining the appropriate portion of the ITC that can be invested in longer maturities, it is useful to view the fund in three components. The first component is the State General Fund, now at \$2.55 billion, which represents 44 percent of ITC; the second component is accounts other than the General Fund that have balances greater than \$10 million, currently composed of 31 accounts totaling approximately \$3.2 billion or 55 percent of ITC; and the final component is the remaining accounts that total only \$0.1 billion or 1 percent of ITC.

The General Fund component is the most volatile part of the ITC. Given its volatility, it is appropriate that the majority of this component continue to be invested in short-term, money market instruments, maturing in one year or less.

The second component of the ITC, the 31 funds with balances greater than \$10 million in the fund, appears to have more stable cash flows. The cash flow analyst of the Minnesota Department of Finance has identified 16 of these 31 funds that collectively have shown, over the last several years, a relatively stable balance of about $1.5 billion. All of these funds are "expendable" funds, but tend to be engaged in longer-term projects, such as transportation or economic development, or provide a reserve for expenditures such as healthcare. These fund balances do not appear to be as quickly impacted significantly on an annual basis by changes in the economic environment or governmental policy. The sustainability of these balances suggest that a portion could be invested in longer term securities.

Economic Considerations

The economic forecast by the Minnesota Department of Finance anticipates a budget surplus of $1 billion at the end of FY 2007 with another surplus of $1 billion during FY 2008. It is still too early in the current legislative session to know how the legislature plans to use this surplus. Thus, until things become more definite, prudence dictates that these funds be invested in short term, money market securities. Staff will continue to monitor the market and economic conditions for their impact on ITC balances.


ITC Ending Balance by FY
2007
2006
2005
2004
Billions
6.5
6.0
5.5
5.0
4.5
4.0
3.5
3.0
2.5
Jul
Aug
Sep
Oct
Nov
Dec
Jan
Feb
Mar
Apr
May
Jun

STATE BOARD OF INVESTMENT

Domestic Equity Manager Evaluation Reports

Fourth Quarter, 2006

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

	Quarter		1 Year		3 Years		5 Years	
	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %
Russell 1000 Core Aggregate	7.5	7.0	15.8	15.5	12.1	11.0		
Russell 1000 Growth Aggregate	4.8	5.9	2.2	9.1	5.2	6.9		
Russell 1000 Value Aggregate	6.9	8.0	17.4	22.2	12.5	15.1		
Russell 2000 Growth Aggregate	6.7	8.8	10.0	13.3	8.1	10.5		
Russell 2000 Value Aggregate	8.9	9.0	13.1	23.5	15.1	16.5		
Active Manager Aggregate	**6.7**	**7.3**	**11.5**	**15.8**	**10.1**	**11.3**		
Semi-Passive Aggregate	**7.1**	**7.0**	**16.1**	**15.5**	**11.3**	**11.0**		
Passive Manager (BGI)	**7.1**	**7.1**	**15.8**	**15.7**	**11.2**	**11.2**		
Historical Aggregate	**6.9**	**7.1**	**14.5**	**15.7**	**11.0**	**11.2**		
SBI DE Asset Class Target		**7.1**		**15.7**		**11.2**		
Russell 3000 Index		**7.1**		**15.7**		**11.2**		

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

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

	Quarter		1 Year		3 Years		5 Years		Since Inception (1)		Market	Pool
	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Value (in millions)	%
LARGE CAP												
Russell 1000 Core												
Franklin Portfolio	9.4	7.0	20.4	15.5	13.0	11.0	7.4	6.8	12.2	11.8	$694.9	2.9%
New Amsterdam Partners (2)	6.2	7.0	9.3	15.5	10.5	11.0	8.4	9.6	13.8	12.3	$516.4	2.1%
UBS Global	7.1	7.0	16.8	15.5	12.9	11.0	9.9	6.8	11.7	11.0	$1,012.0	4.2%
Aggregate	7.5	7.0	15.8	15.5	12.1	11.0						
Russell 1000 Growth												
Alliance Capital	4.3	5.9	-0.4	9.1	6.3	6.9	1.5	2.7	14.2	10.9	$526.8	2.2%
Cohen, Klingenstein & Marks	7.4	5.9	4.4	9.1	3.1	6.9	0.1	2.7	8.7	9.2	$259.9	1.1%
Holt-Smith & Yates	0.5	5.9	1.9	9.1	3.5	6.9	-0.5	2.7	-1.7	-5.8	$106.3	0.4%
INTECH	5.5	5.9	7.4	9.1					7.6	7.2	$322.7	1.3%
Jacobs Levy	5.6	5.9	6.1	9.1					5.7	7.2	$296.7	1.2%
Lazard Asset Mgmt.	5.6	5.9	7.1	9.1					6.8	7.2	$57.4	0.2%
Sands Capital	3.0	5.9	-5.5	9.1					2.4	7.2	$208.5	0.9%
Voyageur-Chicago Equity	3.2	5.9	2.1	9.1	5.5	6.9	2.8	2.7	-0.3	-5.8	$49.9	0.2%
Winslow-Large Cap	4.1	5.9	7.6	9.1					9.0	7.2	$112.0	0.5%
Zevenbergen Capital	5.1	5.9	6.2	9.1	9.4	6.9	4.5	2.7	10.2	9.2	$243.4	1.0%
Aggregate	4.8	5.9	2.2	9.1	5.2	6.9						
Russell 1000 Value												
Barrow, Hanley	6.2	8.0	15.4	22.2					14.8	15.3	$472.3	1.9%
Earnest Partners	4.6	8.0	13.8	22.2	16.0	15.1	11.1	10.9	7.3	9.1	$188.1	0.8%
Lord Abbett & Co.	5.5	8.0	18.6	22.2					11.8	15.3	$335.3	1.4%
LSV Asset Mgmt.	8.1	8.0	21.7	22.2					17.8	15.3	$461.8	1.9%
Oppenheimer	8.4	8.0	18.2	22.2	10.2	15.1	7.8	10.9	12.9	12.5	$369.6	1.5%
Systematic Financial Mgmt.	7.2	8.0	17.9	22.2					14.7	15.3	$326.5	1.3%
Aggregate	6.9	8.0	17.4	22.2	12.5	15.1						
SMALL CAP												
Russell 2000 Growth												
McKinley Capital	5.2	8.8	12.5	13.3	8.1	10.5			8.1	10.5	$226.6	0.9%
Next Century Growth	7.5	8.8	12.4	13.3	14.4	10.5	8.5	6.9	-1.4	-0.4	$225.8	0.9%
Turner Investment Partners	10.2	8.8	13.6	13.3	10.4	10.5			10.4	10.5	$233.3	1.0%
Aggregate	6.7	8.8	10.0	13.3	8.1	10.5						
Russell 2000 Value												
Goldman Sachs	7.5	9.0	17.8	23.5	13.7	16.5			13.7	16.5	$137.6	0.6%
Hotchkis & Wiley	7.8	9.0	3.0	23.5	13.1	16.5			13.1	16.5	$135.2	0.6%
Martingale Asset Mgmt.	12.6	9.0	14.8	23.5	16.8	16.5			16.8	16.5	$149.1	0.6%
Peregrine Capital	8.4	9.0	14.3	23.5	15.9	16.5	15.5	15.4	17.6	16.5	$223.0	0.9%
RiverSource/Kenwood	8.2	9.0	19.4	23.5	16.3	16.5			16.3	16.5	$66.0	0.3%
Aggregate	8.9	9.0	13.1	23.5	15.1	16.5						
Active Mgr. Aggregate (3)	6.7	7.3	11.5	15.8	10.1	11.3						

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

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

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

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

	2006		2005		2004		2003		2002	
	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %
LARGE CAP										
Russell 1000 Core										
Franklin Portfolio	20.4	15.5	3.4	6.3	15.7	11.4	32.9	29.9	-25.4	-21.7
New Amsterdam Partners (2)	9.3	15.5	7.6	6.3	14.8	11.4	34.2	38.0	-17.5	-16.2
UBS Global	16.8	15.5	8.6	6.3	13.4	11.4	30.7	29.9	-14.7	-21.7
Aggregate	15.8	15.5	6.4	6.3	14.5	11.4				
Russell 1000 Growth										
Alliance Capital	-0.4	9.1	14.2	5.3	5.7	6.3	22.4	29.7	-26.8	-27.9
Cohen, Klingenstein & Marks	4.4	9.1	-0.9	5.3	6.1	6.3	41.2	29.7	-35.0	-27.9
Holt-Smith & Yates	1.9	9.1	1.5	5.3	7.3	6.3	22.1	29.7	-28.0	-27.9
INTECH (1)	7.4	9.1	7.8	5.3						
Jacobs Levy (1)	6.1	9.1	5.3	5.3						
Lazard Asset Mgmt. (1)	7.1	9.1	6.6	5.3						
Sands Capital (1)	-5.5	9.1	10.9	5.3						
Voyageur-Chicago Equity	2.1	9.1	3.9	5.3	10.6	6.3	23.2	29.7	-20.6	-27.9
Winslow-Large Cap (1)	7.6	9.1	10.5	5.3						
Zevenbergen Capital	6.2	9.1	9.0	5.3	13.1	6.3	49.3	29.7	-36.2	-27.9
Aggregate	2.2	9.1	7.3	5.3	6.1	6.3				
Russell 1000 Value										
Barrow, Hanley (1)	15.4	22.2	9.6	7.1						
Earnest Partners	13.8	22.2	15.6	7.1	18.9	16.5	32.0	30.0	-18.1	-15.5
Lord Abbett & Co. (1)	18.6	22.2	3.5	7.1						
LSV Asset Mgmt. (1)	21.7	22.2	12.5	7.1						
Oppenheimer	18.2	22.2	1.0	7.1	12.0	16.5	28.9	30.0	-15.5	-15.5
Systematic Financial Mgmt. (1)	17.9	22.2	10.3	7.1						
Aggregate	17.4	22.2	6.0	7.1	14.3	16.5				
SMALL CAP										
Russell 2000 Growth										
McKinley Capital	12.5	13.3	0.2	4.2	12.2	14.3				
Next Century Growth	12.4	13.3	25.2	4.2	6.4	14.3	50.7	48.5	-33.3	-30.3
Turner Investment Partners	13.6	13.3	6.2	4.2	11.6	14.3				
Aggregate	10.0	13.3	4.7	4.2	9.7	14.3				
Russell 2000 Value										
Goldman Sachs	17.8	23.5	4.1	4.7	19.9	22.2				
Hotchkis & Wiley	3.0	23.5	10.4	4.7	27.1	22.2				
Martingale Asset Mgmt.	14.8	23.5	6.2	4.7	30.8	22.2				
Peregrine Capital	14.3	23.5	10.1	4.7	23.6	22.2	44.2	46.0	-8.1	-11.4
RiverSource/Kenwood	19.4	23.5	4.8	4.7	25.8	22.2				
Aggregate	13.1	23.5	7.7	4.7	25.0	22.2				
Active Mgr. Aggregate (3)	11.5	15.8	6.5	6.0	12.5	12.3				

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

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

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

COMBINED RETIREMENT FUNDS
DOMESTIC STOCK MANAGERS
Periods Ending December, 2006
Versus Manager Benchmarks (1)

	Quarter Actual %	Quarter Bmk %	1 Year Actual %	1 Year Bmk %	3 Years Actual %	3 Years Bmk %	5 Years Actual %	5 Years Bmk %	Since Inception (2) Actual %	Since Inception (2) Bmk %	Market Value (in millions)	Pool %
SEMI-PASSIVE MANAGERS												
Barclays Global Investors	6.9	7.0	15.6	15.5	11.6	11.0	7.9	7.1	11.6	10.8	$3,332.7	13.7%
Franklin Portfolio	7.2	7.0	16.5	15.5	11.3	11.0	6.9	7.1	10.6	10.8	$2,385.5	9.8%
JP Morgan	7.2	7.0	16.5	15.5	10.9	11.0	6.5	7.1	10.9	10.8	$2,604.3	10.7%
Semi-Passive Aggregate (R1000)	7.1	7.0	16.1	15.5	11.3	11.0	7.2	7.1	11.1	10.8		
PASSIVE MANAGER (R3000)												
Barclays Global Investors	7.1	7.1	15.8	15.7	11.2	11.2	7.2	7.2	10.4	10.3	$8,019.2	33.0%
									Since 1/1/84			
Historical Aggregate (3)	**6.9**	**7.1**	**14.5**	**15.7**	**11.0**	**11.2**	**6.8**	**7.3**	**11.7**	**12.0**	$24,298.8	100.0%
SBI DE Asset Class Target (4)		7.1		15.7		11.2		7.2		11.9		
Russell 3000		7.1		15.7		11.2		7.2		12.4		
Wilshire 5000		7.2		15.8		11.5		7.6		12.3		
Russell 1000		7.0		15.5		11.0		6.8		12.6		
Russell 2000		8.9		18.4		13.6		11.4		10.6		

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

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

(3) Includes the performance of terminated managers.

(4) The Domestic Equity Asset Class Target is the Russell 3000 effective 10/1/03. From 7/1/99 to 9/30/03, it was the Wilshire 5000 Investable Index. From 11/1/93 to 6/30/99, the target was the Wilshire 5000 as reported with no adjustments. Prior to 11/1/93, the Wilshire 5000 was adjusted to reflect SBI mandated restrictions, which included liquor and tobacco, American Home Products and South Africa.

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

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

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

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

Large Cap Core (R1000)

Large Cap Core (R1000)

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FRANKLIN PORTFOLIO ASSOCIATES
Periods Ending December, 2006

Portfolio Manager: John Cone | **Assets Under Management: $694,895,817**

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

No comment at this time.

Recommendation

No action required

Quantitative Evaluation

Period Returns
(Annualized for multi-year periods)

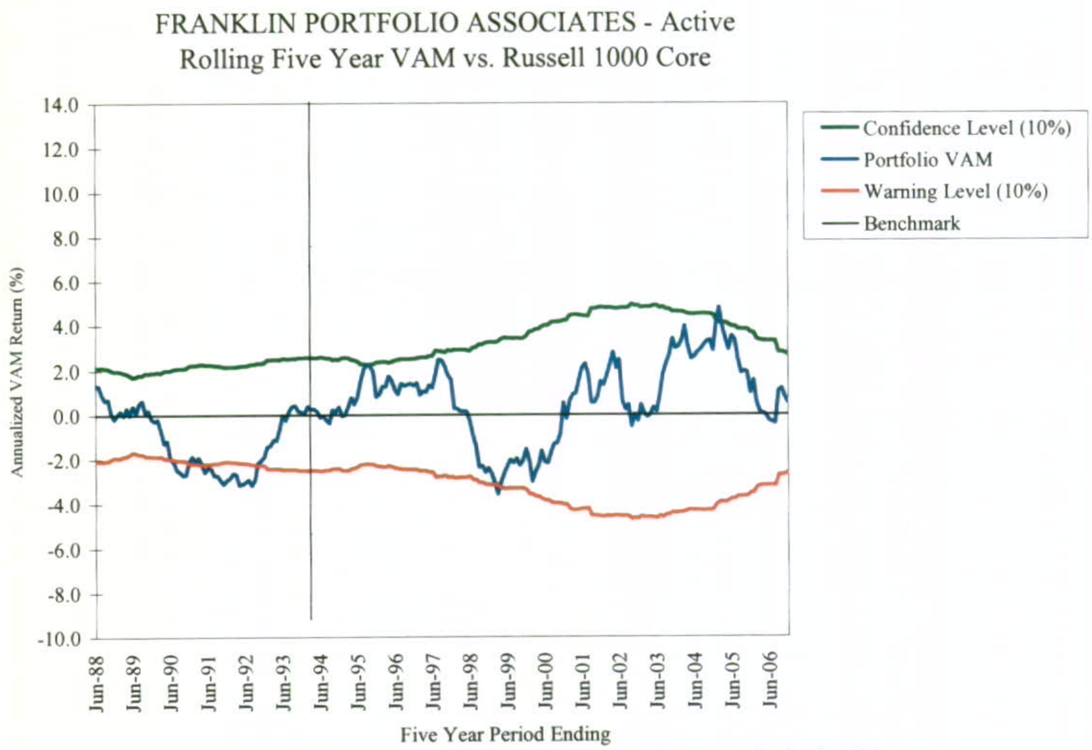
	Actual	Russell 1000 Core
Last Quarter	9.4%	7.0%
Last 1 year	20.4	15.5
Last 2 years	11.6	10.8
Last 3 years	13.0	11.0
Last 4 years	17.6	15.4
Last 5 years	7.4	6.8
Since Inception (4/89)	12.2	11.8

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 December, 2006

Portfolio Manager: John Cone **Assets Under Management: $694,895,817**



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

NEW AMSTERDAM PARTNERS
Periods Ending December, 2006

Portfolio Manager: Michelle Clayman **Assets Under Management: $516,419,839**

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

Staff conducted a site visit during the quarter. Philosophy, process, people and the organization were reviewed in detail. Staff met with the new investment professionals on the team and reviewed the quantitative and fundamental process.

Recommendation

No action required.

Quantitative Evaluation

Period Returns
(Annualized for multi-year periods)

	Actual	Russell Index (1)
Last Quarter	6.2%	7.0%
Last 1 year	9.3	15.5
Last 2 years	8.5	10.8
Last 3 years	10.5	11.0
Last 4 years	16.0	17.2
Last 5 years	8.4	9.6
Since Inception (4/94)	13.8	12.3

Calendar Year Returns

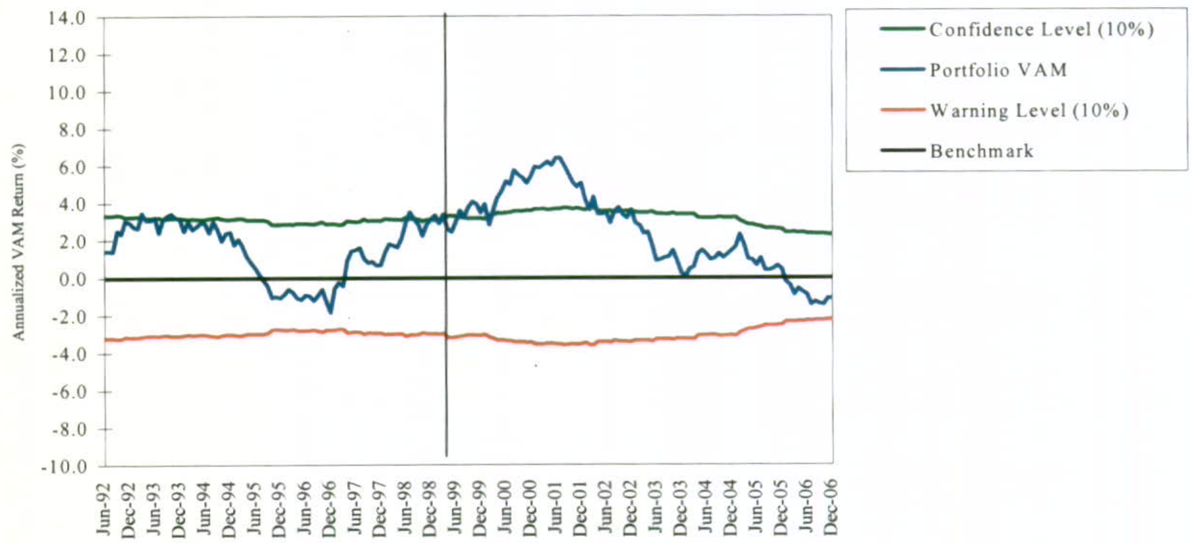
	Actual	Russell Index (1)
2006	9.3%	15.5%
2005	7.6	6.3
2004	14.8	11.4
2003	34.2	38.0
2002	-17.5	-16.2

(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 December, 2006

Portfolio Manager: Michelle Clayman **Assets Under Management: $516,419,839**

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 December, 2006

Portfolio Manager: John Leonard **Assets Under Management: $1,012,022,391**

Investment Philosophy

UBS uses a relative value approach to equity investing. They believe that the market price will ultimately reflect the present value of the cash flows the security will generate for the investor. They focus on a bottom-up stock selection process to provide insight into finding opportunistic investments. UBS uses a proprietary discounted free cash flow model as the primary analytical tool for estimating the intrinsic value of a company.

Staff Comments

No comment at this time.

Recommendation

No action required.

Quantitative Evaluation

Period Returns
(Annualized for multi-year periods)

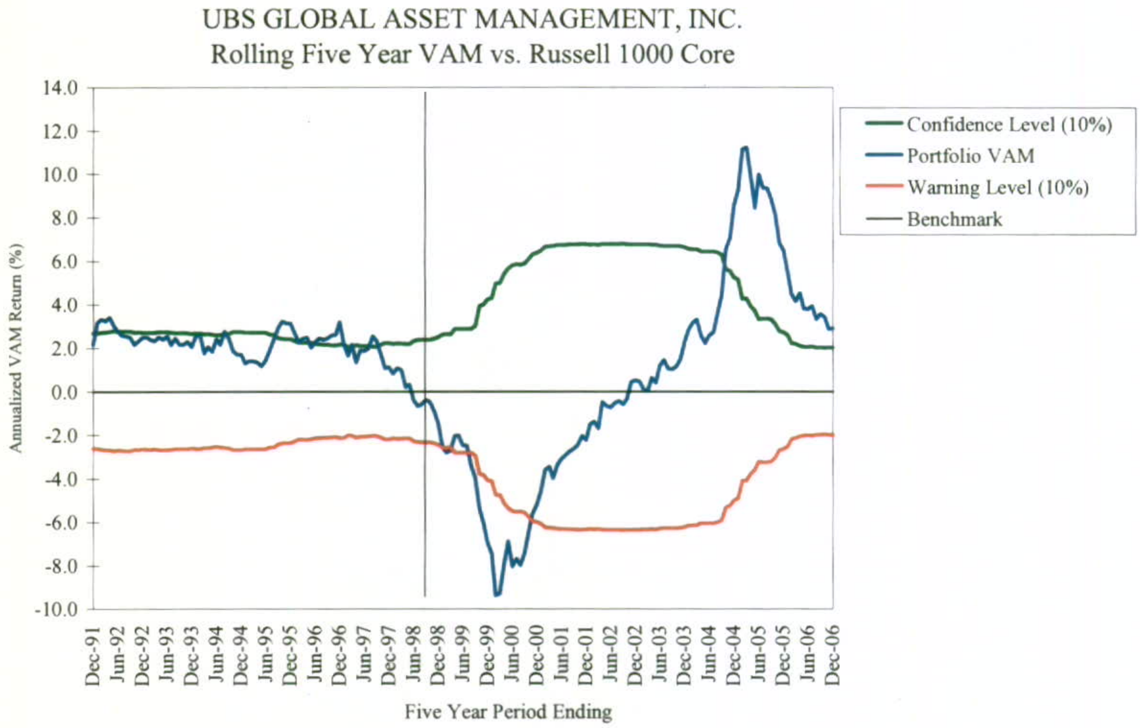
	Actual	Russell 1000 Core
Last Quarter	7.1%	7.0%
Last 1 year	16.8	15.5
Last 2 years	12.6	10.8
Last 3 years	12.9	11.0
Last 4 years	17.1	15.4
Last 5 years	9.9	6.8
Since Inception (7/93)	11.7	11.0

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 December, 2006

Portfolio Manager: John Leonard **Assets Under Management: $1,012,022,391**



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 December, 2006

Portfolio Manager: Jack Koltes | **Assets Under Management: $526,837,122**

Investment Philosophy

Alliance searches for companies likely to experience high rates of earnings growth, on either a cyclical or secular basis. Alliance invests in a range of medium to large growth and cyclically sensitive companies. There is no clear distinction on the part of the firm as to an emphasis on one particular type of growth company over another. However, the firm's decision-making process appears to be much more oriented toward macroeconomic considerations than is the case with most other growth managers. Accordingly, cyclical earnings prospects, rather than secular, appear to play a larger role in terms of stock selection. Alliance is not an active market timer, rarely raising cash above minimal levels.

Staff Comments

The portfolio underperformed the Russell 1000 Growth index by 1.6 percentage points (ppt) during the quarter. An overweight allocation to health care coupled with weak stock selection pressured returns. An underweight allocation to technology combined with weak stock selection detracted from performance.

For the year, the portfolio underperformed the Russell 1000 Growth index by 9.5 ppt. An overweight position in health care and an underweight to technology hindered performance during the period. An overweight allocation to the consumer discretionary sector also detracted. Weak stock selection in all three sectors enhanced the negative impact.

Recommendation

No action required.

Quantitative Evaluation

Period Returns
(Annualized for multi-year periods)

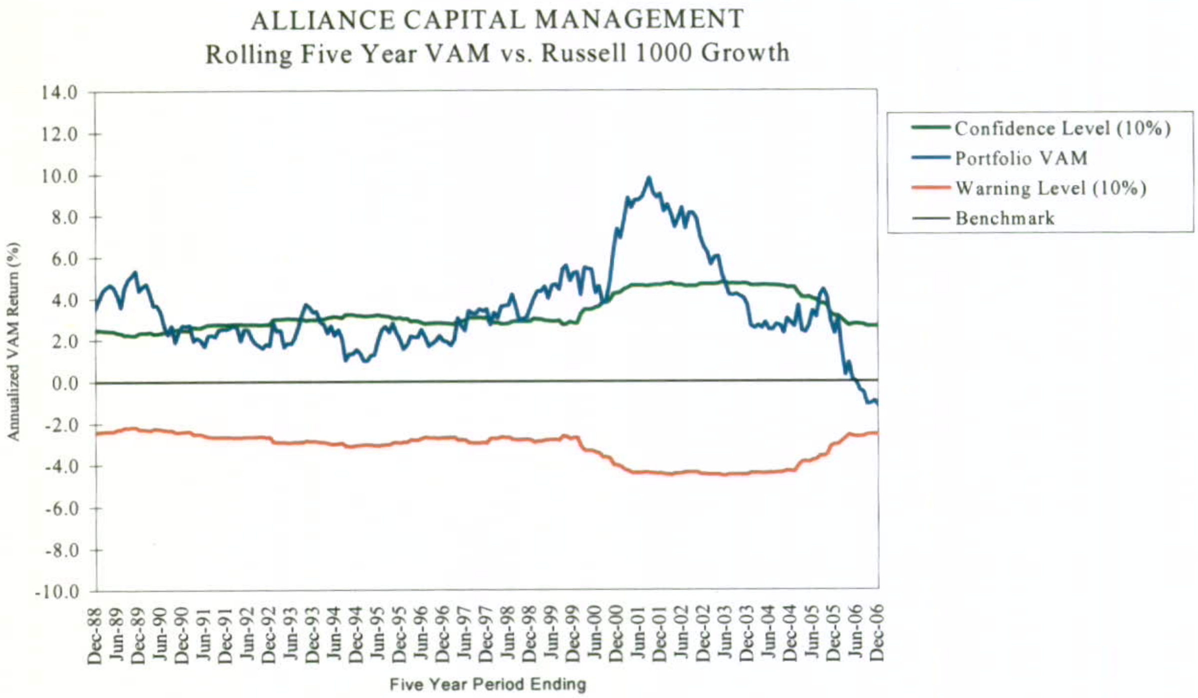
	Actual	Russell 1000 Growth
Last Quarter	4.3%	5.9%
Last 1 year	-0.4	9.1
Last 2 years	6.7	7.2
Last 3 years	6.3	6.9
Last 4 years	10.1	12.2
Last 5 years	1.5	2.7
Since Inception (1/84)	14.2	10.9

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 December, 2006

Portfolio Manager: Jack Koltes **Assets Under Management: $526,837,122**



COHEN KLINGENSTEIN & MARKS INCORPORATED
Periods Ending December, 2006

Portfolio Manager: George Cohen | **Assets Under Management: $259,920,684**

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 the Russell 1000 Growth index by 1.5 percentage points (ppt) during the quarter. Strong stock selection within the technology and financial services sectors supported performance. For the year, the portfolio underperformed the Russell 1000 Growth index by 4.7 ppt. Weak stock selection within the consumer discretionary and technology sectors detracted from returns.

Staff conducted a site visit during the quarter. Philosophy, process, people and the organization were reviewed in detail. Staff met with the new members of the investment team and was impressed with the interaction of the group. Individual portfolio holdings were discussed, as well as recent research projects. Sheila Devlin impressed staff as a strong investment professional and is clearly a leader within the firm.

Recommendation

No action required.

Quantitative Evaluation

Period Returns
(Annualized for multi-year periods)

	Actual	Russell 1000 Growth
Last Quarter	7.4%	5.9%
Last 1 year	4.4	9.1
Last 2 years	1.7	7.2
Last 3 years	3.1	6.9
Last 4 years	11.5	12.2
Last 5 years	0.1	2.7
Since Inception (4/94)	8.7	9.2

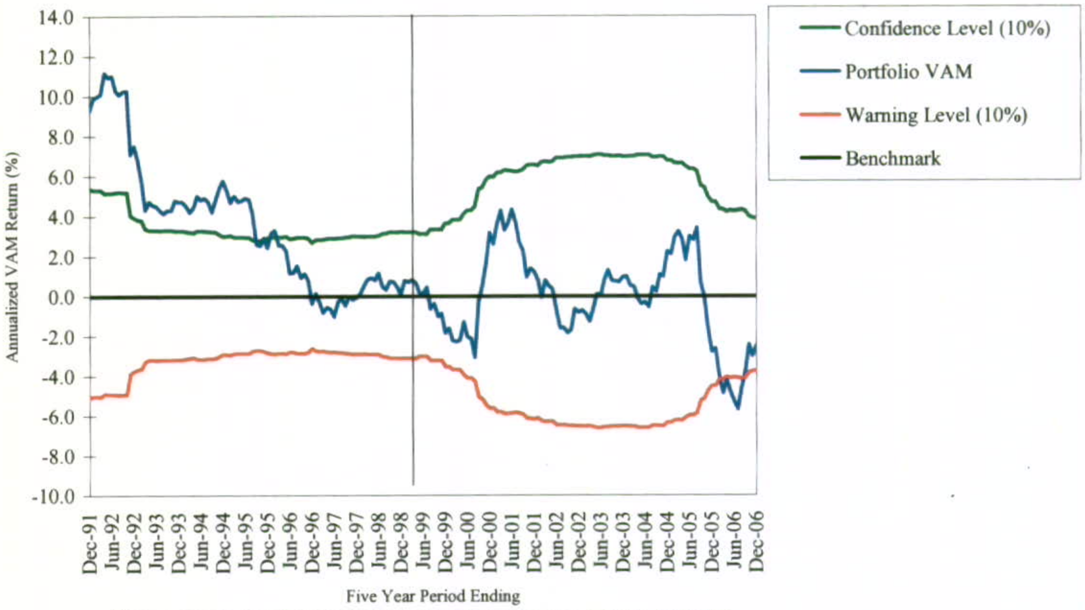
Calendar Year Returns

	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 December, 2006

Portfolio Manager: George Cohen **Assets Under Management: $259,920,684**

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.

HOLT-SMITH & YATES ADVISORS
Periods Ending December, 2006

Portfolio Manager: Ryan Erickson **Assets Under Management: $106,330,308**

Investment Philosophy

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

Staff Comments

No comment at this time.

Recommendation

No action required.

Quantitative Evaluation

Period Returns
(Annualized for multi-year periods)

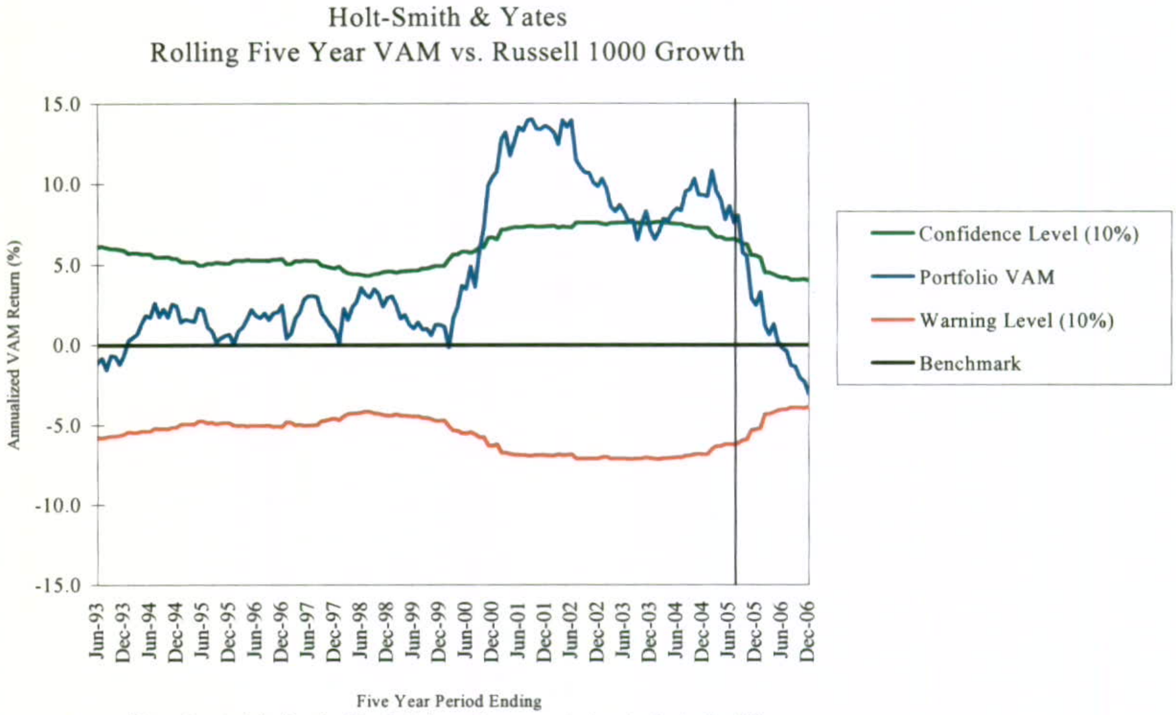
	Actual	Russell 1000 Growth
Last Quarter	0.5%	5.9%
Last 1 year	1.9	9.1
Last 2 years	1.7	7.2
Last 3 years	3.5	6.9
Last 4 years	7.9	12.2
Last 5 years	-0.5	2.7
Since Inception (7/00)	-1.7	-5.8

Calendar Year Returns

	Actual	Russell 1000 Growth
2006	1.9%	9.1%
2005	1.5	5.3
2004	7.3	6.3
2003	22.1	29.7
2002	-28.0	-27.9

HOLT-SMITH & YATES ADVISORS
Periods Ending December, 2006

Portfolio Manager: Ryan Erickson **Assets Under Management: $106,330,308**



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

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

Portfolio Manager: Robert Fernholz **Assets Under Management: $ 322,734,971**

Investment Philosophy

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

Staff Comments

No comment at this time.

Recommendation

No action required.

Quantitative Evaluation

Period Returns
(Annualized for multi-year periods)

	Actual	Russell 1000 Growth
Last Quarter	5.5%	5.9%
Last 1 year	7.4	9.1
Last 2 years	7.6	7.2
Last 3 years	N/A	N/A
Last 4 years	N/A	N/A
Last 5 years	N/A	N/A
Since Inception (1/05)	7.6	7.2

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 December, 2006

Portfolio Manager: Robert Fernholz **Assets Under Management: $322,734,971**

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

JACOBS LEVY EQUITY MANAGEMENT
Periods Ending December, 2006

Portfolio Manager: Bruce Jacobs and Ken Levy **Assets Under Management: $296,745,495**

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

Staff conducted a site visit during the quarter. Philosophy, process, people and organization were reviewed in detail. There is no plan to expand with international strategies, as the models perform best in the U.S. Pete Rudolph, CFO, retired at year end, and Mike Davidson was promoted to CFO. Heath Weisberg joined the firm as General Counsel and has assumed the compliance duties formerly conducted by Pete Rudolph.

Recommendation

No action required.

Quantitative Evaluation

Period Returns
(Annualized for multi-year periods)

	Actual	Russell 1000 Growth
Last Quarter	5.6%	5.9%
Last 1 year	6.1	9.1
Last 2 years	5.7	7.2
Last 3 years	N/A	N/A
Last 4 years	N/A	N/A
Last 5 years	N/A	N/A
Since Inception (1/05)	5.7	7.2

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 December, 2006

Portfolio Manager: Bruce Jacobs and Ken Levy **Assets Under Management: $296,745,495**

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

LAZARD ASSET MANAGEMENT LLC
Periods Ending December, 2006

Portfolio Manager: Jim Tatera | **Assets Under Management: $57,430,164**

Investment Philosophy

The strategy invests in companies exhibiting substantial growth opportunities, strong business models, solid management teams, and the probability for positive earnings surprises. The approach emphasizes earnings growth as the fundamental driver of stock prices over time. The process combines quantitative, qualitative and valuation criteria. The quantitative component addresses fundamentals and is focused on operating trends. Qualitative analysis involves confirmation of company fundamentals through discussions with company contacts and related parties. Valuation models focus on relative rankings of the fundamentals within the industry, the market overall and the company itself.

Staff Comments

No comment at this time.

Recommendation

No action required.

Quantitative Evaluation

Period Returns
(Annualized for multi-year periods)

	Actual	Russell 1000 Growth
Last Quarter	5.6%	5.9%
Last 1 year	7.1	9.1
Last 2 years	6.8	7.2
Last 3 years	N/A	N/A
Last 4 years	N/A	N/A
Last 5 years	N/A	N/A
Since Inception (1/05)	6.8	7.2

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 December, 2006

Portfolio Manager: Jim Tatera **Assets Under Management: $57,430,164**

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

SANDS CAPITAL MANAGEMENT LLC
Periods Ending December, 2006

Portfolio Manager: Frank Sands, Sr. **Assets Under Management: $208,467,945**

Investment Philosophy

The manager invests in high-quality, seasoned and growing businesses. Bottom-up, company-focused, long-term oriented research is the cornerstone of the investment process. The strategy focuses on six (6) key investment criteria: 1) sustainable above average earnings growth; 2) leadership position in a promising business space; 3) significant competitive advantages or unique business franchise; 4) management with a clear mission and value added focus; 5) financial strength; and 6) rational valuation relative to the overall market and the company's business prospects.

Staff Comments

The portfolio underperformed the Russell 1000 Growth index by 2.9 percentage points (ppt) during the quarter. For the year, the portfolio underperformed the Russell 1000 Growth index by 14.6 ppt.

In both periods, overweight allocations to the health care and consumer discretionary sectors coupled with weak stock selection detracted from performance. An underweight technology position in both periods represented a missed opportunity. Ineffective stock selection exacerbated the negative impact.

Recommendation

No action required.

Quantitative Evaluation

Period Returns
(Annualized for multi-year periods)

	Actual	Russell 1000 Growth
Last Quarter	3.0%	5.9%
Last 1 year	-5.5	9.1
Last 2 years	2.4	7.2
Last 3 years	N/A	N/A
Last 4 years	N/A	N/A
Last 5 years	N/A	N/A
Since Inception (1/05)	2.4	7.2

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 December, 2006

Portfolio Manager: Frank Sands, Sr. **Assets Under Management: $208,467,945**

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

VOYAGEUR ASSET MANAGEMENT
Periods Ending December, 2006

Portfolio Manager: Charles Henderson **Assets Under Management: $49,851,471**

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

No comment at this time.

Recommendation

No action required.

Quantitative Evaluation

Period Returns
(Annualized for multi-year periods)

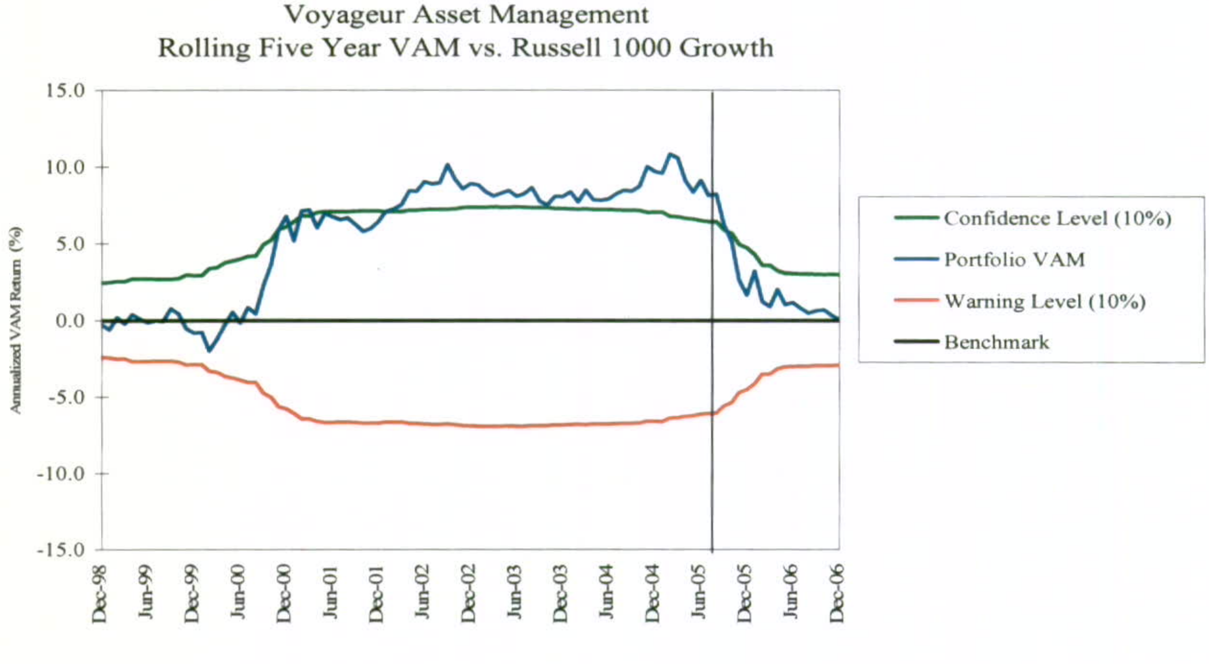
	Actual	Russell 1000 Growth
Last Quarter	3.2%	5.9%
Last 1 year	2.1	9.1
Last 2 years	3.0	7.2
Last 3 years	5.5	6.9
Last 4 years	9.6	12.2
Last 5 years	2.8	2.7
Since Inception (7/00)	-0.3	-5.8

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 December, 2006

Portfolio Manager: Charles Henderson **Assets Under Management: $49,851,471**



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

WINSLOW CAPITAL MANAGEMENT, INC.
Periods Ending December, 2006

Portfolio Manager: Clark Winslow | **Assets Under Management: $111,961,424**

Investment Philosophy

The strategy identifies companies that can grow earnings above consensus expectations to build portfolios with forward weighted earnings growth in the range of 15-20% annually. A quantitative screen is employed for factors such as revenue and earnings growth, return on invested capital, earnings consistency, earnings revisions, low financial leverage and high free cash flow rates relative to net income. Resulting companies are subjected to a qualitative assessment within the context of industry sectors. Detailed examination of income statements, cash flow and balance sheet projections is conducted, along with a judgment on the quality of management. Attractively valued stocks are chosen based on P/E relative to the benchmark, sector peers, the company's sustainable future growth rate and return on invested capital. Final portfolio construction includes diversification by economic sectors, earnings growth rates, price/earnings ratios and market capitalizations.

Staff Comments

No comment at this time.

Recommendation

No action required.

Quantitative Evaluation

Period Returns
(Annualized for multi-year periods)

	Actual	Russell 1000 Growth
Last Quarter	4.1%	5.9%
Last 1 year	7.6	9.1
Last 2 years	9.0	7.2
Last 3 years	N/A	N/A
Last 4 years	N/A	N/A
Last 5 years	N/A	N/A
Since Inception (1/05)	9.0	7.2

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 December, 2006

Portfolio Manager: Clark Winslow **Assets Under Management: $111,961,424**

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

ZEVENBERGEN CAPITAL INC.
Periods Ending December, 2006

Portfolio Manager: Nancy Zevenbergen **Assets Under Management: $243,447,563**

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)

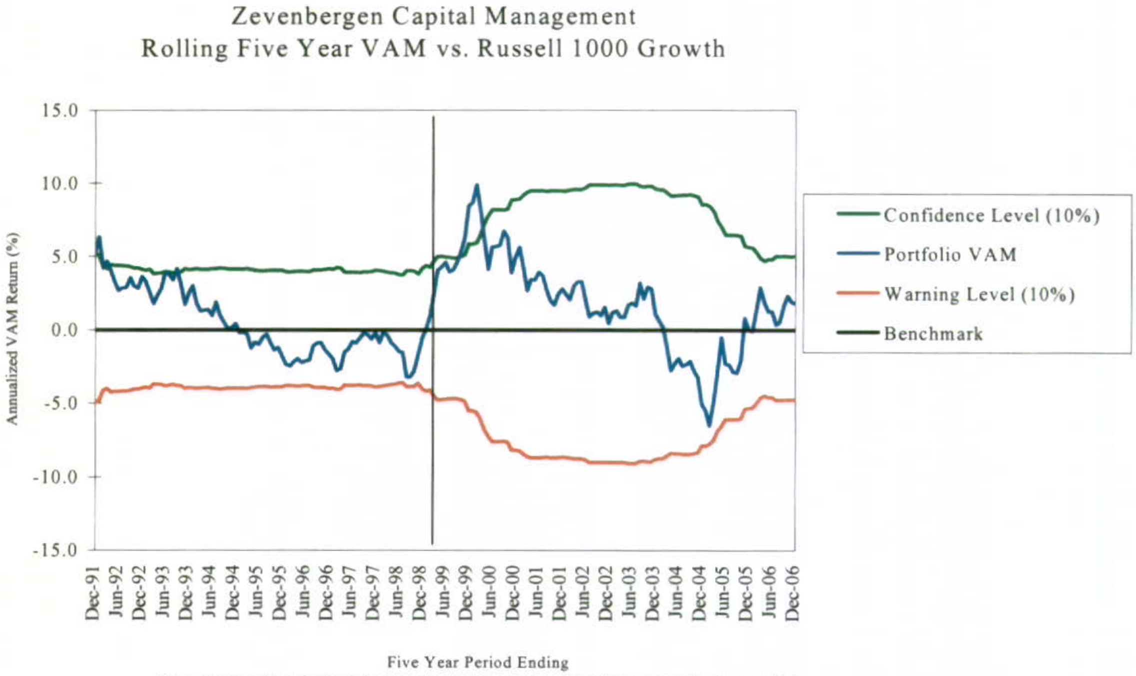
	Actual	Russell 1000 Growth
Last Quarter	5.1%	5.9%
Last 1 year	6.2	9.1
Last 2 years	7.6	7.2
Last 3 years	9.4	6.9
Last 4 years	18.2	12.2
Last 5 years	4.5	2.7
Since Inception (4/94)	10.2	9.2

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 December, 2006

Portfolio Manager: Nancy Zevenbergen **Assets Under Management: $243,447,563**



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 December, 2006

Portfolio Manager: Tim Culler **Assets Under Management: $472,271,487**

Investment Philosophy

The manager's approach is based on the underlying philosophy that markets are inefficient. Inefficiencies can best be exploited through adherence to a value-oriented investment process dedicated to the selection of securities on a bottom-up basis. The team does not attempt to time the market or rotate in and out of broad market sectors.

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

Quantitative Evaluation

Period Returns
(Annualized for multi-year periods)

	Actual	Russell 1000 Value
Last Quarter	6.2%	8.0%
Last 1 year	15.4	22.2
Last 2 years	12.5	14.4
Last 3 years	N/A	N/A
Last 4 years	N/A	N/A
Last 5 years	N/A	N/A
Since Inception (4/04)	14.8	15.3

Calendar Year Returns*

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

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

Staff Comments

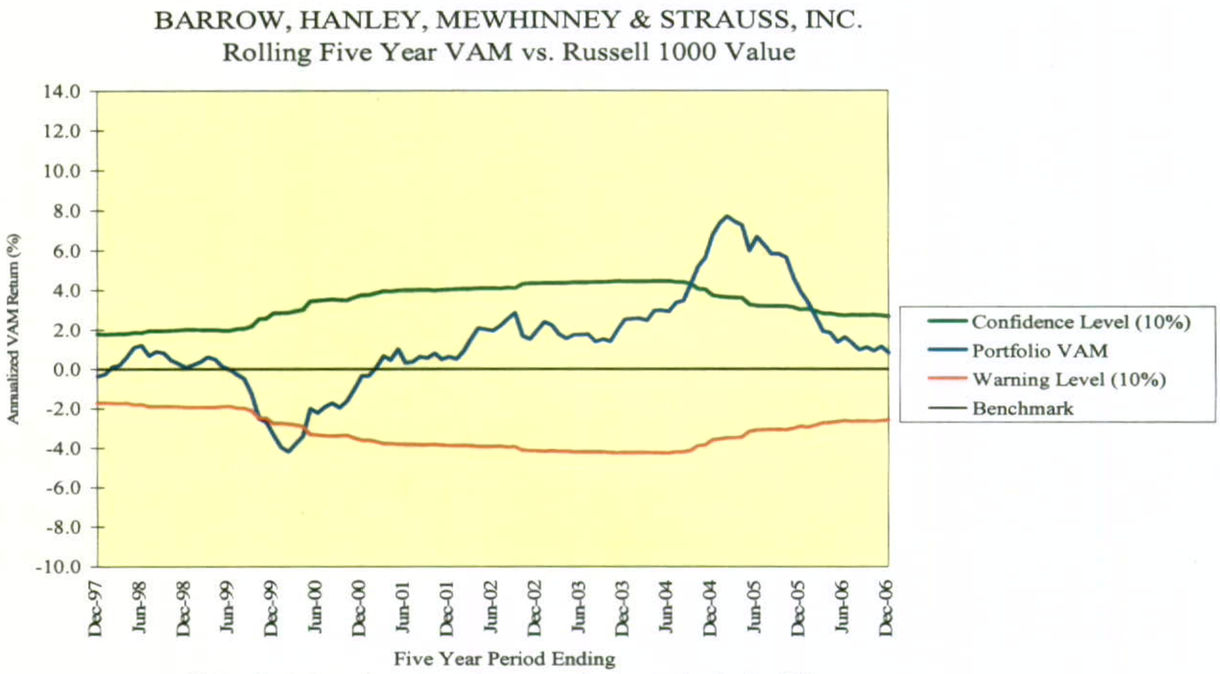
No comment at this time.

Recommendation

No action required.

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

Portfolio Manager: Tim Culler | **Assets Under Management: $472,271,487**



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

EARNEST PARTNERS, LLC
Periods Ending December, 2006

Portfolio Manager: Paul Viera **Assets Under Management: $188,102,995**

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)

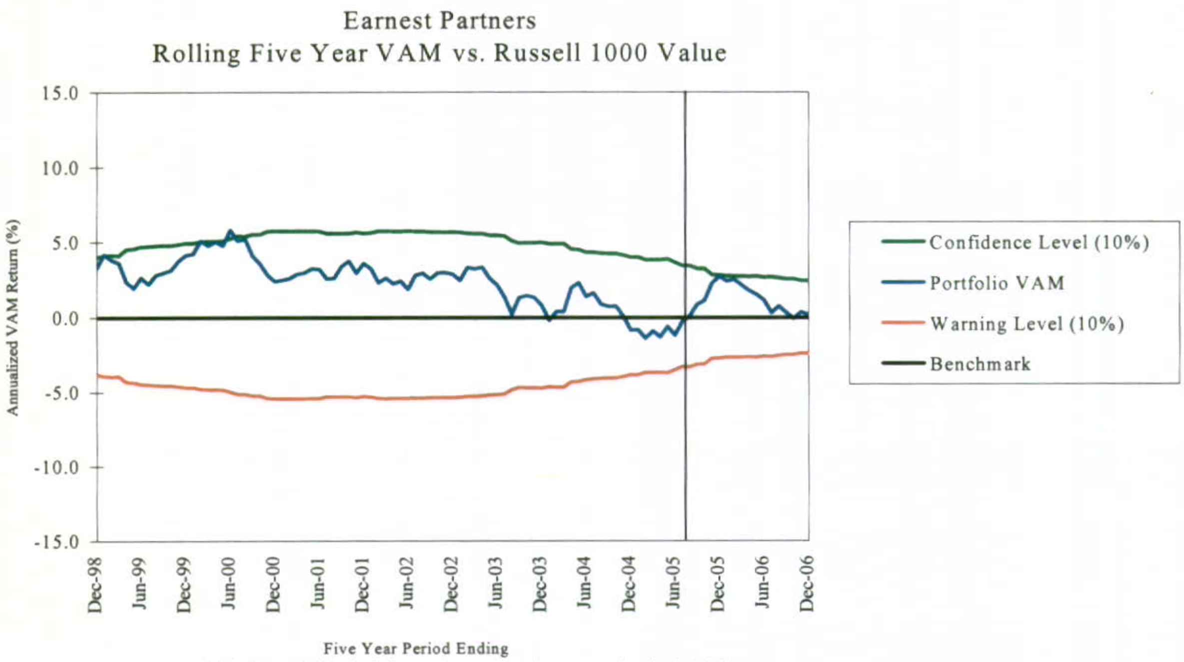
	Actual	Russell 1000 Value
Last Quarter	4.6%	8.0%
Last 1 year	13.8	22.2
Last 2 years	14.7	14.4
Last 3 years	16.0	15.1
Last 4 years	19.9	18.7
Last 5 years	11.1	10.9
Since Inception (7/00)	7.3	9.1

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 December, 2006

Portfolio Manager: Paul Viera **Assets Under Management: $188,102,995**



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

LORD ABBETT & CO. LLC
Periods Ending December, 2006

Portfolio Manager: Eli Saltzmann **Assets Under Management: $335,279,681**

Investment Philosophy

Utilizing a value-based, disciplined investment process that employs both informed judgment and quantitative analysis, Lord Abbett seeks to invest in companies with improving business fundamentals that are attractively valued. This process is implemented via a traditional fundamental active stock selection approach.

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

Staff Comments

The portfolio underperformed the Russell 1000 Value index by 2.5 percentage points (ppt) during the quarter and 3.6 ppt for the year. An overweight allocation to health care coupled with weak stock selection detracted from performance in both periods.

Staff conducted a site visit during the quarter. Philosophy, process, people and organization were reviewed in detail. Fixed income is a growth area for the firm. International is another growth area, and a portfolio team was brought in from Warburg/Credit Suisse. The firm is intentionally slowing asset growth in large cap value by effectively shutting down separately managed account channels. The resulting outflow of assets increases capacity for institutional separate accounts.

Recommendation

No action required.

Quantitative Evaluation

Period Returns
(Annualized for multi-year periods)

	Actual	Russell 1000 Value
Last Quarter	5.5%	8.0%
Last 1 year	18.6	22.2
Last 2 years	10.8	14.4
Last 3 years	N/A	N/A
Last 4 years	N/A	N/A
Last 5 years	N/A	N/A
Since Inception (4/04)	11.8	15.3

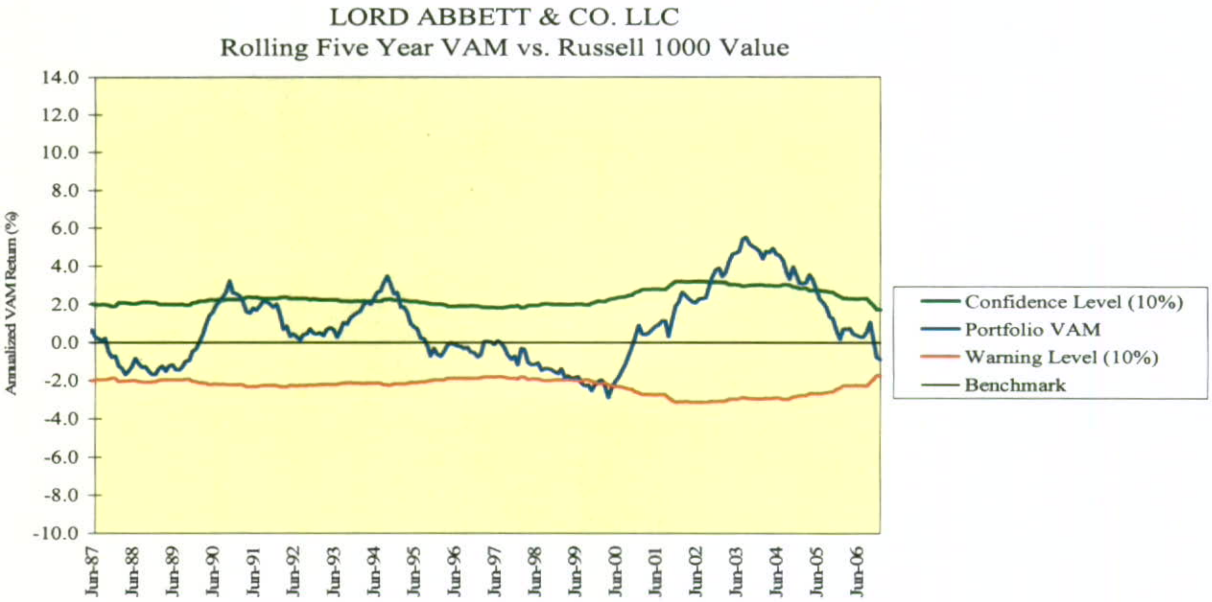
Calendar Year Returns*

	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 December, 2006

Portfolio Manager: Eli Saltzmann | **Assets Under Management: $335,279,681**



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

LSV ASSET MANAGEMENT
Periods Ending December, 2006

Portfolio Manager: Josef Lakonishok | **Assets Under Management: $461,845,852**

Investment Philosophy

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

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

Staff Comments

The portfolio outperformed the Russell 1000 Value index during the quarter by 0.1 percentage point. Strong stock selection within the auto & transportation and technology sectors proved beneficial. An overweight position in the consumer discretionary sector coupled with strong stock selection contributed to performance.

For the year, the portfolio underperformed the Russell 1000 Value index by 0.5 percentage point. An overweight allocation to the other energy sector combined with weak stock selection detracted from performance. Underweight positions in the consumer staples and utilities sectors represented missed opportunities. Weak stock selection enhanced the negative impact.

Recommendation

No action required.

Quantitative Evaluation

Period Returns
(Annualized for multi-year periods)

	Actual	Russell 1000 Value
Last Quarter	8.1%	8.0%
Last 1 year	21.7	22.2
Last 2 years	17.0	14.4
Last 3 years	N/A	N/A
Last 4 years	N/A	N/A
Last 5 years	N/A	N/A
Since Inception (4/04)	17.8	15.3

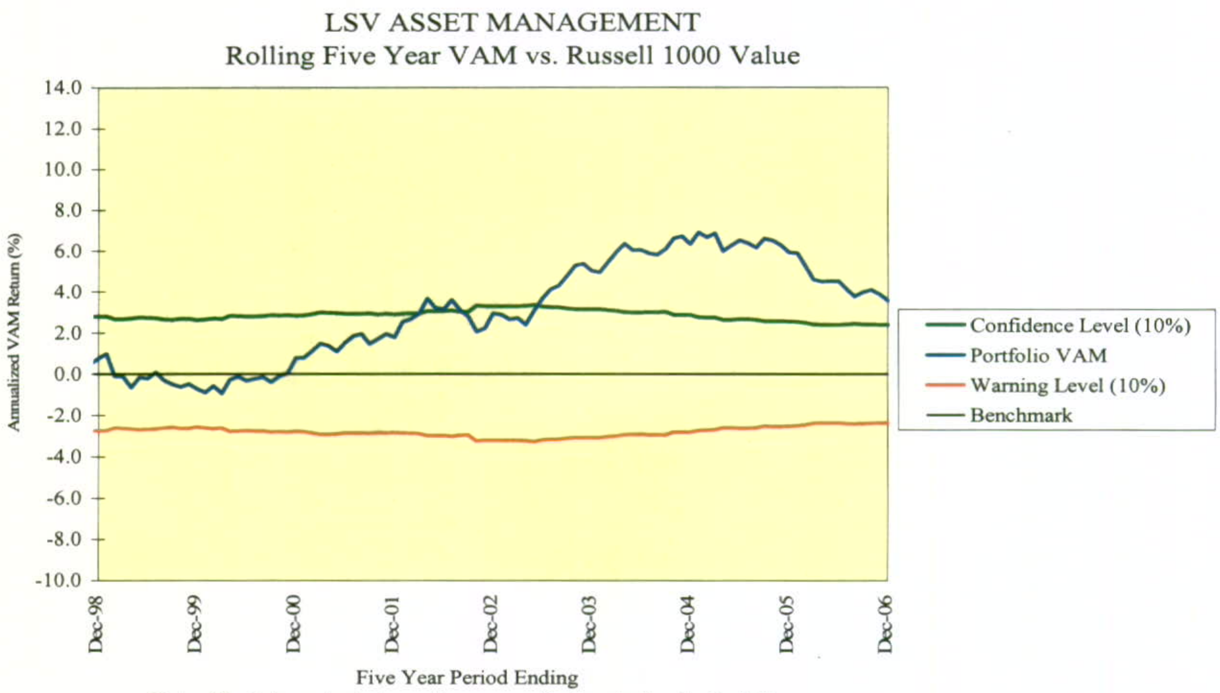
Calendar Year Returns*

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

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

LSV ASSET MANAGEMENT
Periods Ending December, 2006

Portfolio Manager: Josef Lakonishok **Assets Under Management: $461,845,852**



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

OPPENHEIMER CAPITAL
Periods Ending December, 2006

Portfolio Manager: John Lindenthal | **Assets Under Management: $369,595,172**

Investment Philosophy

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

Staff Comments

The portfolio outperformed the Russell 1000 Value index by 0.4 percentage point (ppt) during the quarter. Overweight allocations to the consumer discretionary and producer durables sector, coupled with strong stock selection contributed to performance. For the year, the portfolio underperformed the Russell 1000 Value index by 4.0 ppt. Weak stock selection within the technology and financial services sectors proved detrimental.

Staff conducted a site visit during the quarter. Philosophy, process, people, organization, and portfolio holdings were reviewed in detail.

Recommendation

No action required.

Quantitative Evaluation

Period Returns
(Annualized for multi-year periods)

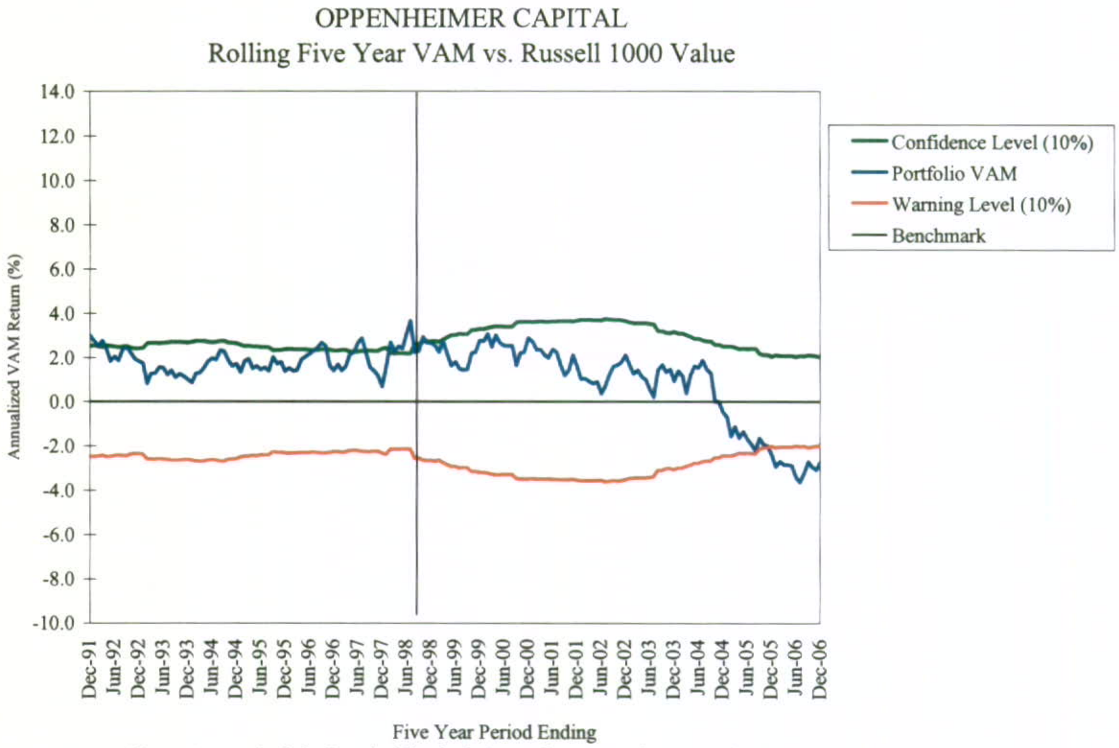
	Actual	Russell 1000 Value
Last Quarter	8.4%	8.0%
Last 1 year	18.2	22.2
Last 2 years	9.3	14.4
Last 3 years	10.2	15.1
Last 4 years	14.6	18.7
Last 5 years	7.8	10.9
Since Inception (7/93)	12.9	12.5

Calendar Year Returns

	Actual	Russell 1000 Value
2006	18.2%	22.2%
2005	1.0	7.1
2004	12.0	16.5
2003	28.9	30.0
2002	-15.5	-15.5

OPPENHEIMER CAPITAL
Periods Ending December, 2006

Portfolio Manager: John Lindenthal **Assets Under Management: $369,595,172**



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

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

Portfolio Manager: Kevin McCreesh **Assets Under Management: $326,495,598**

Investment Philosophy

Systematic's investment strategy favors companies with low forward P/E multiples and a positive earnings catalyst. Cash flow is analyzed to confirm earnings and to avoid companies that may have employed accounting gimmicks to report earnings in excess of Wall Street expectations. The investment strategy attempts to avoid stocks in the "value trap" by focusing only on companies with confirmed fundamental improvement as evidenced by a genuine positive earnings surprise.

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

Quantitative Evaluation

Period Returns
(Annualized for multi-year periods)

	Actual	Russell 1000 Value
Last Quarter	7.2%	8.0%
Last 1 year	17.9	22.2
Last 2 years	14.0	14.4
Last 3 years	N/A	N/A
Last 4 years	N/A	N/A
Last 5 years	N/A	N/A
Since Inception (4/04)	14.7	15.3

Calendar Year Returns*

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

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

Staff Comments

The portfolio underperformed the Russell 1000 Value index during the quarter by 0.8 percentage point (ppt) and 4.3 ppt for the year. An overweight position in the other energy sector coupled with weak stock selection proved detrimental in both periods.

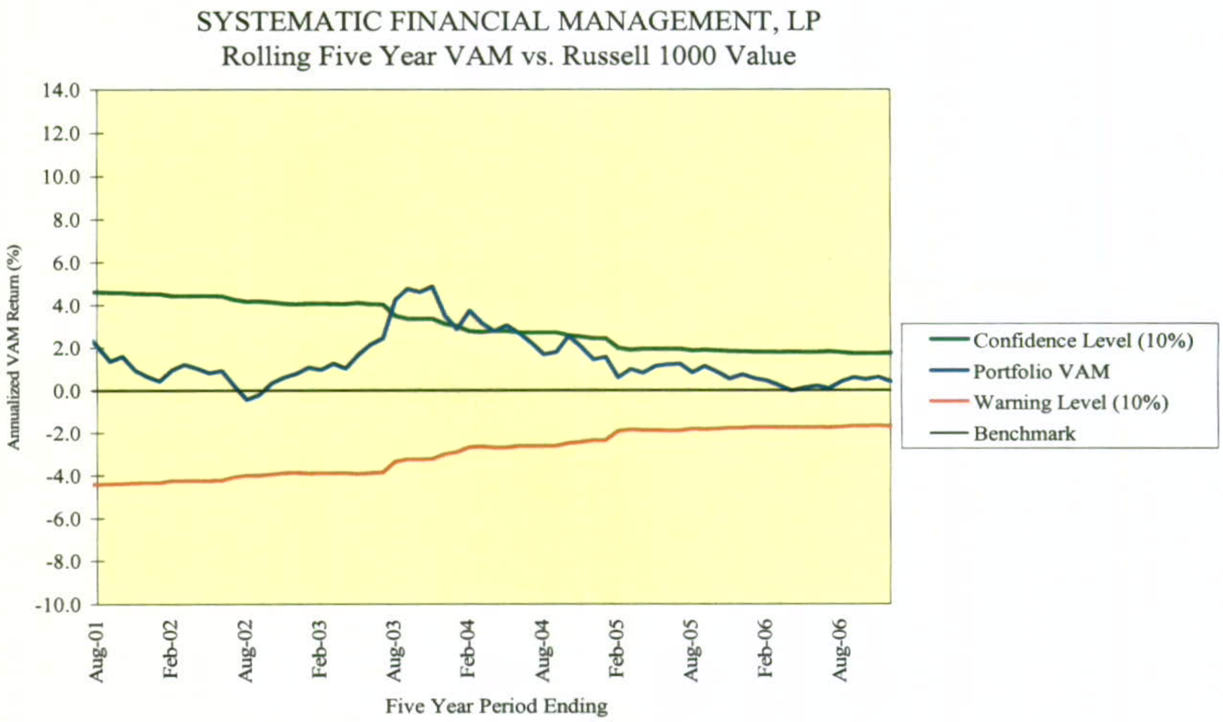
Staff conducted a site visit during the quarter. Philosophy, process, people and organization were reviewed in detail. Compliance and the disaster recovery plan were reviewed. The firm is enhancing its operational capability by introducing automation into both the reconciliation process and corporate action processing.

Recommendation

No action required.

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

Portfolio Manager: Kevin McCreesh **Assets Under Management: $326,495,598**



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 December, 2006

Portfolio Manager: Robert Gillam, Sr. **Assets Under Management: $226,602,877**

Investment Philosophy

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

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

Quantitative Evaluation

Period Returns
(Annualized for multi-year periods)

	Actual	Russell 2000 Growth
Last Quarter	5.2%	8.8%
Last 1 year	12.5	13.3
Last 2 years	6.2	8.7
Last 3 years	8.1	10.5
Last 4 years	N/A	N/A
Last 5 years	N/A	N/A
Since Inception (1/04)	8.1	10.5

Calendar Year Returns

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

Staff Comments

The portfolio underperformed the Russell 2000 Growth index by 3.6 percentage points (ppts) for the quarter. Stock returns in technology and financial services negatively impacted performance.

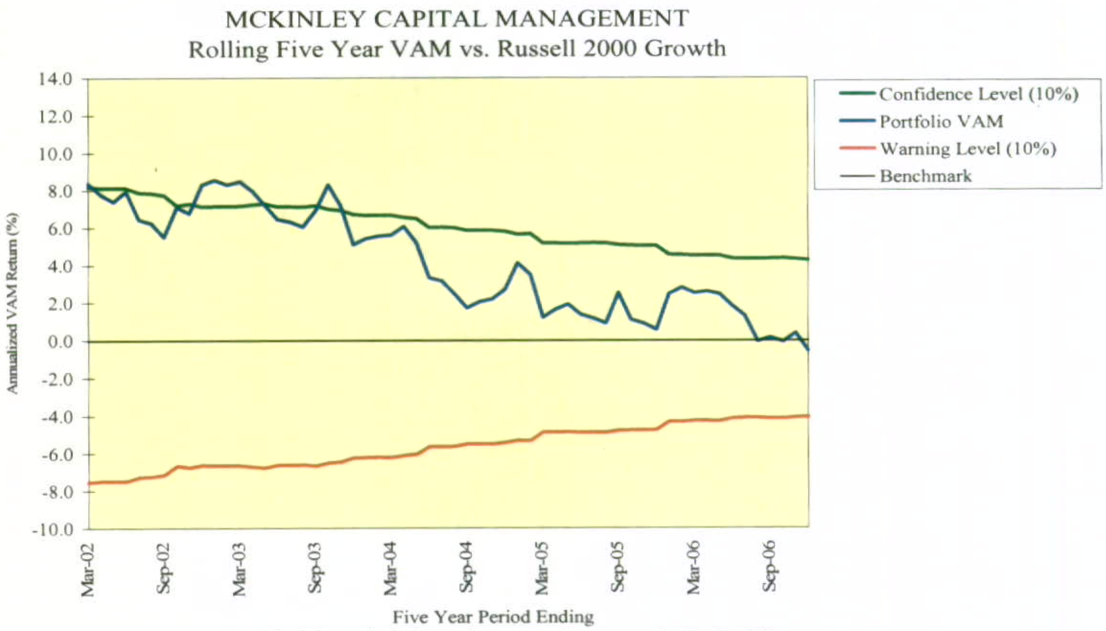
For the year, the portfolio underperformed the Russell 2000 Growth index by 0.8 percentage point (ppt). On a total return basis, health care was the only sector to report a negative return for the year and was the primary source of underperformance. Stock selection in the financial services and technology sectors also detracted from performance.

Recommendation

No action required.

MCKINLEY CAPITAL MANAGEMENT
Periods Ending December, 2006

Portfolio Manager: Robert Gillam, Sr. **Assets Under Management: $226,602,877**



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

NEXT CENTURY GROWTH INVESTORS, LLC
Periods Ending December, 2006

Portfolio Manager: Thomas Press and Don Longlet **Assets Under Management: $225,811,860**

Investment Philosophy

Next Century Growth's (NCG) goal is to invest in the highest quality and fastest growing companies in America. They believe that growth opportunities exist regardless of the economic cycle. NCG uses fundamental analysis to identify companies that will surpass consensus earnings estimates, which they believe to be the number one predictor of future out-performance. Their investment process focuses on growth companies that have superior top line revenue growth (15% or greater), high profitability, and strong balance sheets, and are well poised to outperform the market. NCG believes in broad industry diversification; sector exposures are limited to twice the benchmark weighting and individual positions to five percent.

Staff Comments

No comment at this time.

Recommendation

No action required.

Quantitative Evaluation

Period Returns
(Annualized for multi-year periods)

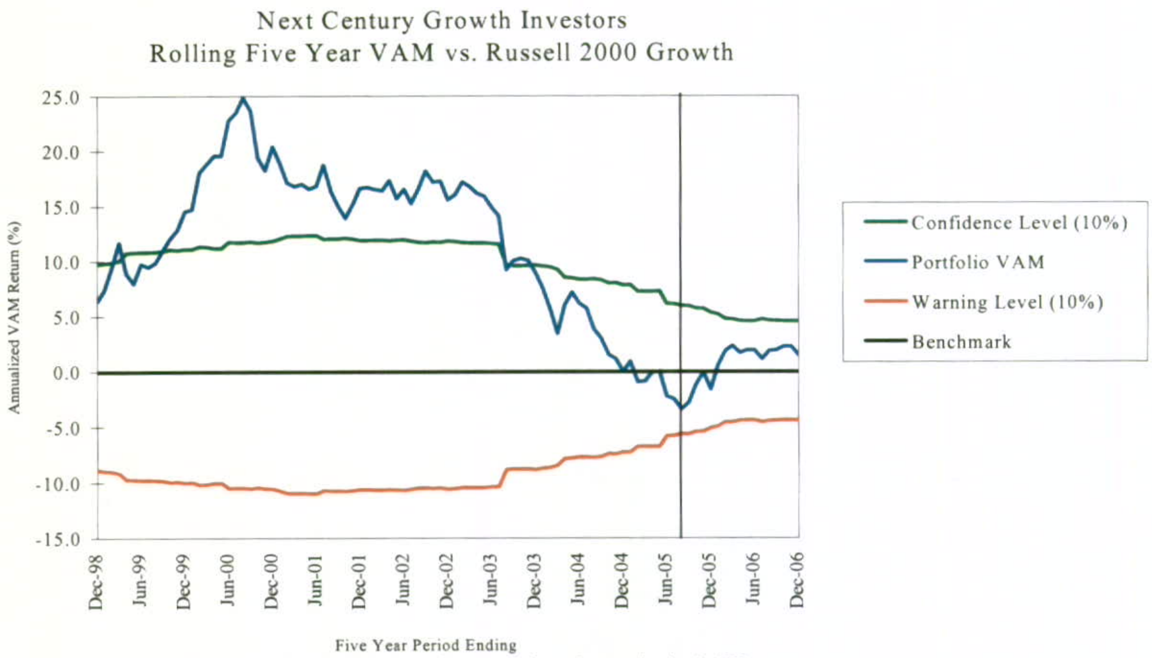
	Actual	Russell 2000 Growth
Last Quarter	7.5%	8.8%
Last 1 year	12.4	13.3
Last 2 years	18.6	8.7
Last 3 years	14.4	10.5
Last 4 years	22.6	19.0
Last 5 years	8.5	6.9
Since Inception (7/00)	-1.4	-0.4

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 December, 2006

Portfolio Manager: Thomas Press and Don Longlet **Assets Under Management: $225,811,860**



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

TURNER INVESTMENT PARTNERS
Periods Ending December, 2006

Portfolio Manager: William McVail | **Assets Under Management: $233,329,980**

Investment Philosophy

The team's investment philosophy is based on the belief that earnings expectations drive stock prices. The team adds value primarily through stock selection and pursues a bottom-up strategy. Ideal candidates for investment are growth companies that have above average earnings prospects, reasonable valuations, favorable trading volume, and price patterns. Each security is subjected to three separate evaluation criteria: fundamental analysis (80%), quantitative screening (10%), and technical analysis (10%).

Proprietary computer models enable the team to assess the universe based on multiple earnings growth and valuation factors. The factors are specific to each economic sector. Fundamental analysis is the heart of the stock selection process and helps the team determine if a company will exceed, meet or fall short of consensus earnings expectations. Technical analysis is used to evaluate trends in trading volume and price patterns for individual stocks as the team searches for attractive entry and exit points.

Staff Comments

The portfolio outperformed the Russell 2000 Growth index for the quarter by 1.4 percentage points (ppts) and for the year by 0.3 ppt. Strong stock selection in the materials & processing and health care sectors provided significant excess return for both time periods. The portfolio benefited from holdings in commodity related businesses (metals and mining) and pharmaceuticals.

Recommendation

No action required.

Quantitative Evaluation

Period Returns
(Annualized for multi-year periods)

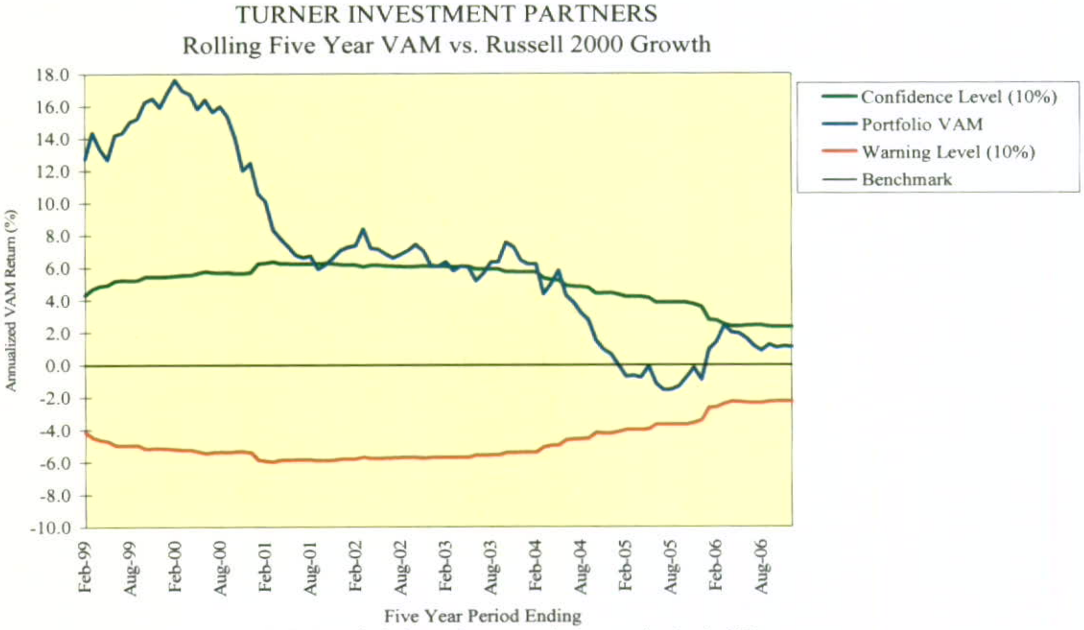
	Actual	Russell 2000 Growth
Last Quarter	10.2%	8.8%
Last 1 year	13.6	13.3
Last 2 years	9.8	8.7
Last 3 years	10.4	10.5
Last 4 years	N/A	N/A
Last 5 years	N/A	N/A
Since Inception (1/04)	10.4	10.5

Calendar Year Returns

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

TURNER INVESTMENT PARTNERS
Periods Ending December, 2006

Portfolio Manager: William McVail **Assets Under Management: $233,329,980**



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

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Small Cap Value (R2000 Value)

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Small Cap Value (R2000 Value)

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GOLDMAN SACHS ASSET MANAGEMENT
Periods Ending December, 2006

Portfolio Manager: Chip Otness **Assets Under Management: $137,591,031**

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	7.5%	9.0%
Last 1 year	17.8	23.5
Last 2 years	10.8	13.7
Last 3 years	13.7	16.5
Last 4 years	N/A	N/A
Last 5 years	N/A	N/A
Since Inception (1/04)	13.7	16.5

Calendar Year Returns

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

Staff Comments

The portfolio underperformed the Russell 2000 Value index by 1.5 percentage points (ppts) for the quarter. Weak stock selection in addition to underweight positions in the financial services and consumer discretionary sectors were detrimental to performance. For the year, the portfolio underperformed the Russell 2000 Value index by 5.7 ppts. Underweight allocations to producer durables and financial services along with negative stock selection in these sectors were detrimental to the performance of the portfolio.

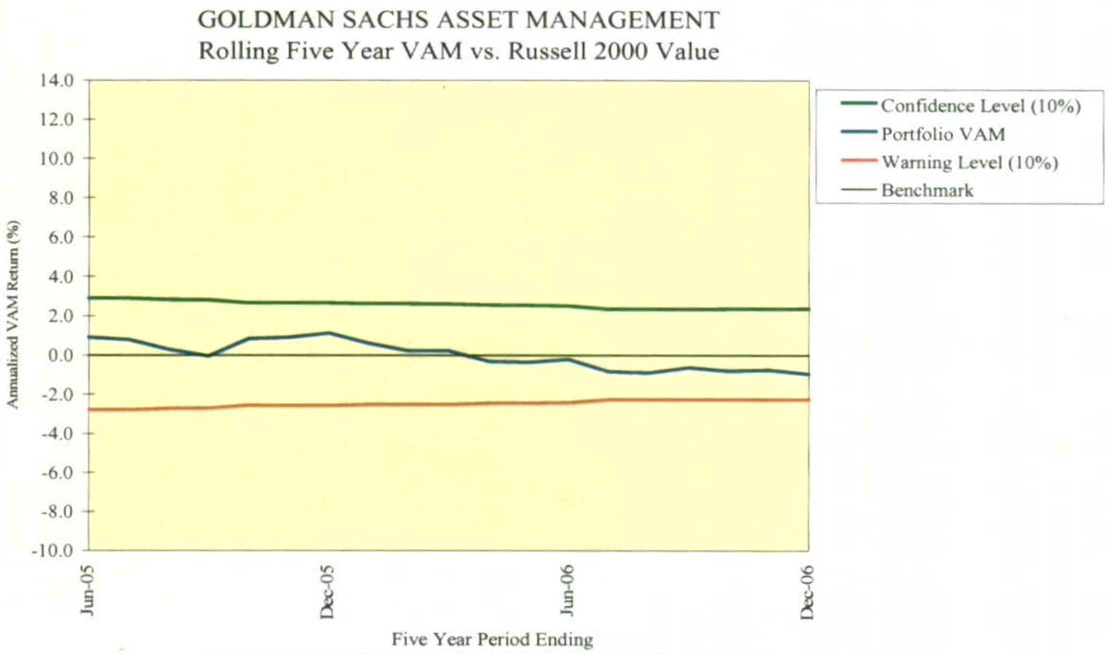
Staff conducted a site visit during the quarter. The philosophy, people and process remain constant. The organization has added resources to the small cap product.

Recommendation

No action required.

GOLDMAN SACHS ASSET MANAGEMENT
Periods Ending December, 2006

Portfolio Manager: Chip Otness **Assets Under Management: $137,591,031**



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

HOTCHKIS & WILEY CAPITAL MANAGEMENT
Periods Ending December, 2006

Portfolio Manager: Jim Miles and David Green **Assets Under Management: $135,150,366**

Investment Philosophy

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

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

Staff Comments

The portfolio underperformed the Russell 2000 Value index for the quarter by 1.2 percentage points (ppts). Weak stock selection in consumer discretionary and autos & transportation sectors were main detractors from performance.

For the year, the portfolio underperformed the Russell 2000 Value index by 20.5 percentage points (ppts). The majority of underperformance is from a significant overweight to consumer discretionary coupled with weak stock selection in both consumer discretionary and producer durables sectors. Specifically, exposure to homebuilders, mortgage REITs and media conglomerates hurt performance.

Recommendation

No action required.

Quantitative Evaluation

Period Returns
(Annualized for multi-year periods)

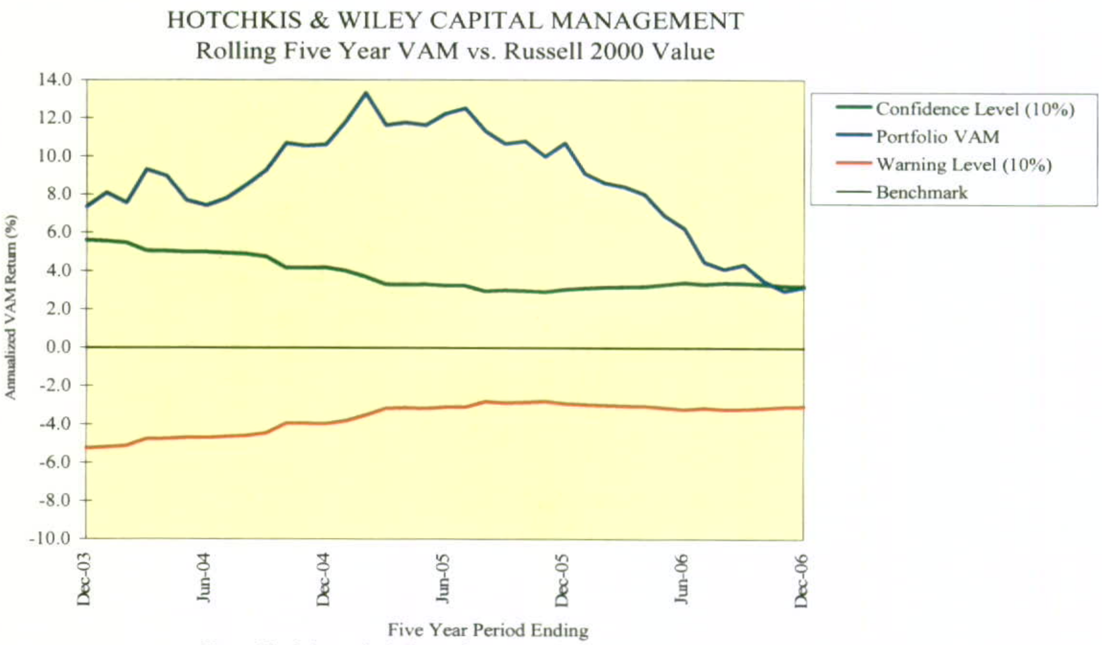
	Actual	Russell 2000 Value
Last Quarter	7.8%	9.0%
Last 1 year	3.0	23.5
Last 2 years	6.6	13.7
Last 3 years	13.1	16.5
Last 4 years	N/A	N/A
Last 5 years	N/A	N/A
Since Inception (1/04)	13.1	16.5

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 December, 2006

Portfolio Manager: Jim Miles and David Green **Assets Under Management: $135,150,366**



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

MARTINGALE ASSET MANAGEMENT
Periods Ending December, 2006

Portfolio Manager: William Jacques **Assets Under Management: $149,138,421**

Investment Philosophy

Martingale's investment process seeks to exploit the long-term link between undervalued company fundamentals and current market prices to achieve superior investment returns. Martingale has a long history of employing sound quantitative methods.

The valuation process is comprised of well-researched valuation indicators that have stood the test of time, with improvements made only after careful evaluation, testing and analysis. Multiple characteristics of quality, value and momentum are examined. The quality of company management is assessed by reviewing commitment to R&D, accounting practices with regard to earnings and cash flow from operations, and the ability to manage inventory.

The average holding period of a stock is typically one year. Every holding is approached as an investment in the business, with the intention of holding it until either objectives are reached, or it becomes apparent that there are better opportunities in other stocks.

Staff Comments

The portfolio outperformed the Russell 2000 Value index for the quarter by 3.6 percentage points (ppts). Strong stock selection in the health care and financial services sectors benefited the portfolio.

For the year, the portfolio underperformed the Russell 2000 Value index by 8.7 ppts. Detractors from performance were weak stock selection in materials & processing and producer durables.

Recommendation

No action required.

Quantitative Evaluation

Period Returns
(Annualized for multi-year periods)

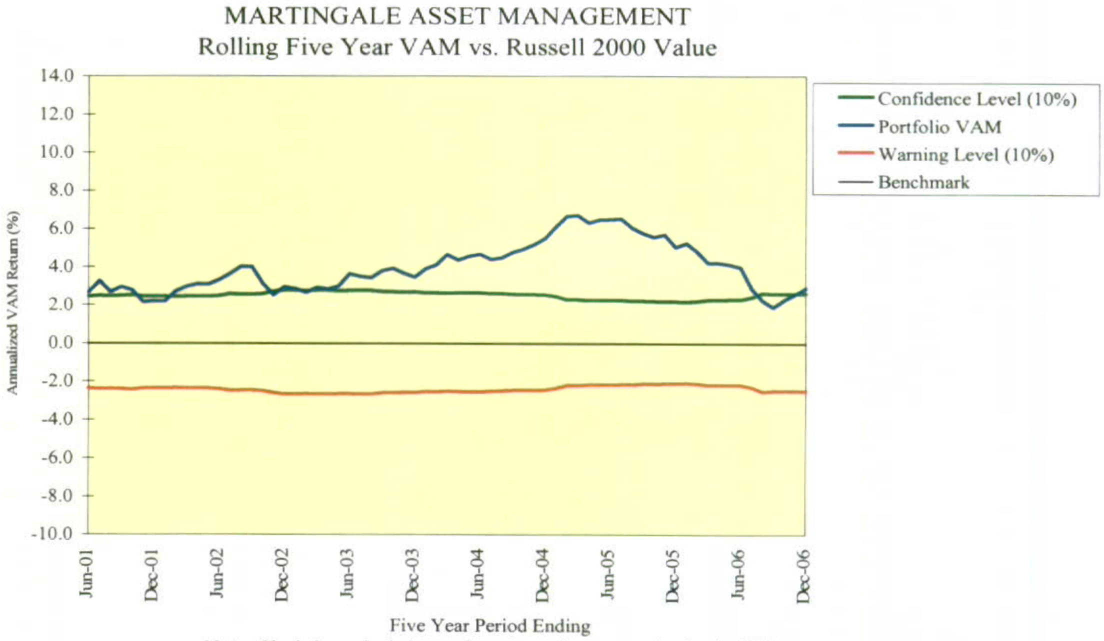
	Actual	Russell 2000 Value
Last Quarter	12.6%	9.0%
Last 1 year	14.8	23.5
Last 2 years	10.4	13.7
Last 3 years	16.8	16.5
Last 4 years	N/A	N/A
Last 5 years	N/A	N/A
Since Inception (1/04)	16.8	16.5

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 December, 2006

Portfolio Manager: William Jacques **Assets Under Management: $149,138,421**



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

PEREGRINE CAPITAL MANAGEMENT
Periods Ending December, 2006

Portfolio Manager: Doug Pugh and Tasso Coin **Assets Under Management: $222,995,981**

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	8.4%	9.0%
Last 1 year	14.3	23.5
Last 2 years	12.2	13.7
Last 3 years	15.9	16.5
Last 4 years	22.4	23.3
Last 5 years	15.5	15.4
Since Inception (7/00)	17.6	16.5

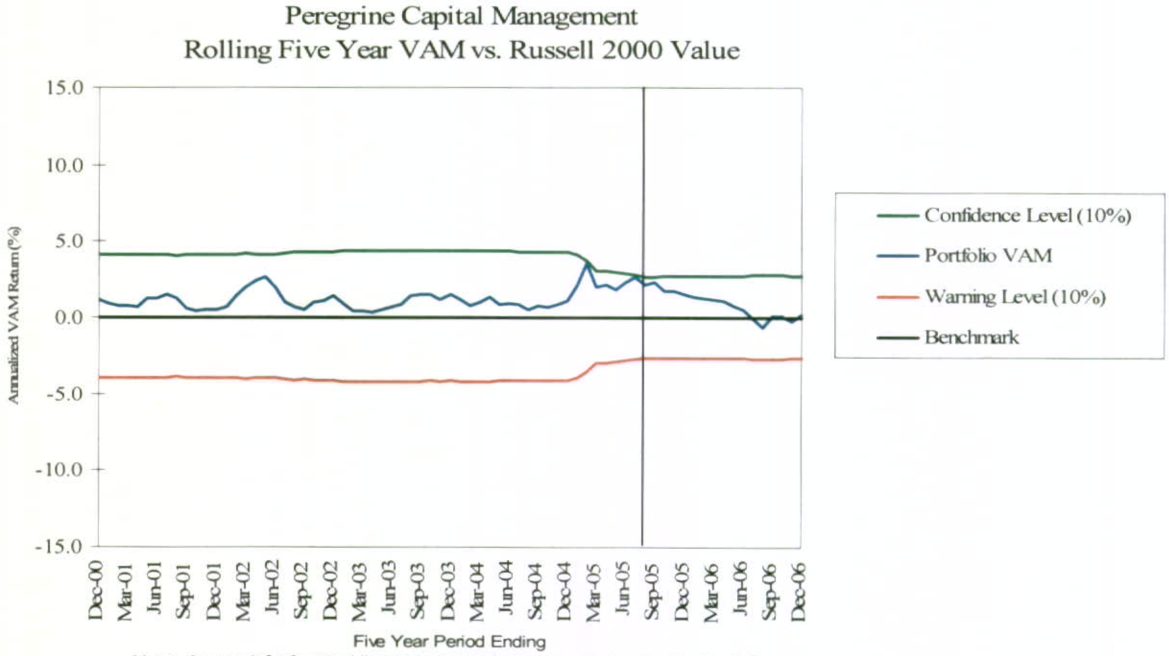
Calendar Year Returns

	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

PERIODS ENDING DECEMBER

PEREGRINE CAPITAL MANAGEMENT
Periods Ending December, 2006

Portfolio Manager: Doug Pugh and Tasso Coin **Assets Under Management: $222,995,981**



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

RIVERSOURCE INVESTMENTS/KENWOOD CAPITAL MANAGEMENT
Periods Ending December, 2006

Portfolio Manager: Jacob Hurwitz and Kent Kelley **Assets Under Management: $65,964,910**

Investment Philosophy

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

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

Staff Comments

The portfolio underperformed the Russell 2000 Value index by 0.8 percentage point (ppt) for the quarter. Stock selection in consumer discretionary and technology sectors contributed to this underperformance.

For the year, the portfolio underperformed the Russell 2000 Value index by 4.1 ppts. Weak stock selection in technology, consumer discretionary, utilities, and consumer staples detracted from performance. An overweight allocation in technology added to the underperformance.

Recommendation

No action required.

Quantitative Evaluation

Period Returns
(Annualized for multi-year periods)

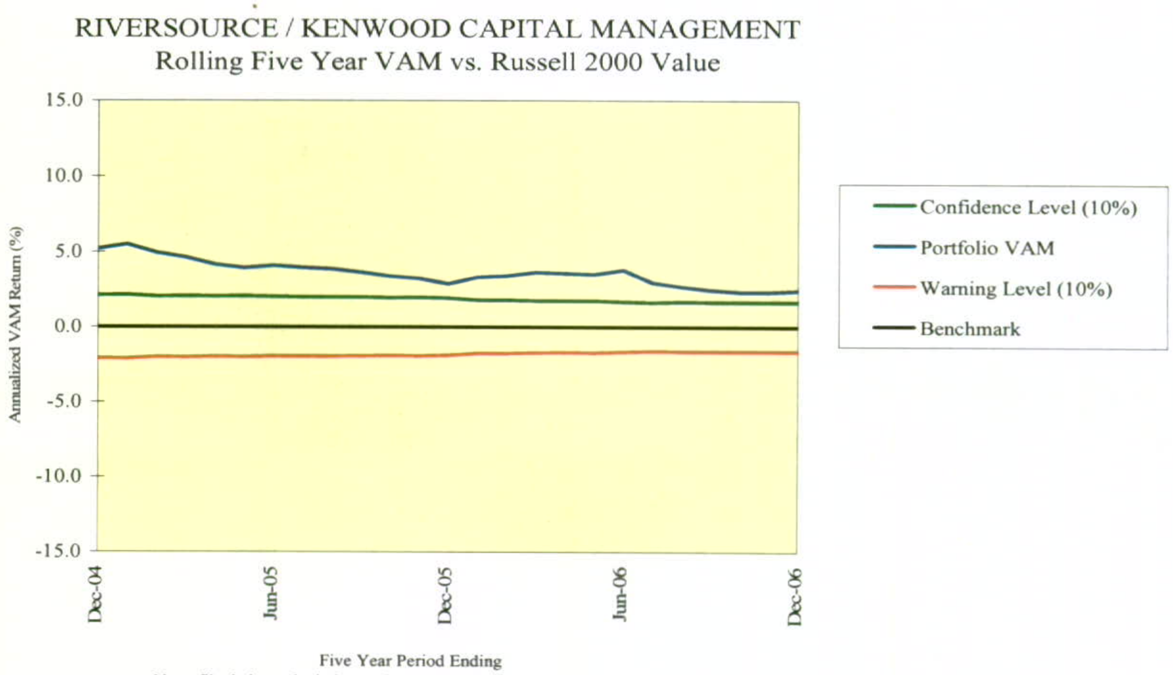
	Actual	Russell 2000 Value
Last Quarter	8.2%	9.0%
Last 1 year	19.4	23.5
Last 2 years	11.9	13.7
Last 3 years	16.3	16.5
Last 4 years	N/A	N/A
Last 5 years	N/A	N/A
Since Inception (1/04)	16.3	16.5

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 December, 2006

Portfolio Manager: Jacob Hurwitz and Kent Kelley **Assets Under Management: $65,964,910**



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 December, 2006

Portfolio Manager: Scott Clifford **Assets Under Management: $3,332,663,854**

Investment Philosophy – Semi-Passive Style

The Core Alpha Model desegregates individual equity returns for each of the 3500 stocks in their universe into fundamental, expectational, and technical components. The fundamental factors look at measures of underlying company value including earnings, book value, cash flow, and sales. These factors help identify securities that trade at prices below their true economic value. The expectational factors incorporate future earnings and growth rate forecasts made by over 2500 security analysts. The technical factors provide a measure of recent changes in company fundamentals, consensus expectations, and performance. Estimated alphas are then calculated and are used in a portfolio optimization algorithm to identify the optimal portfolio.

Staff Comments

No comment at this time.

Recommendation

No action required.

Quantitative Evaluation

Period Returns
(Annualized for multi-year periods)

	Actual	Manager Benchmark*
Last Quarter	6.9%	7.0%
Last 1 year	15.6	15.5
Last 2 years	11.5	10.8
Last 3 years	11.6	11.0
Last 4 years	15.9	15.1
Last 5 years	7.9	7.1
Since Inception (1/95)	11.6	10.8

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.

Portfolio Manager: Scott Clifford **Assets Under Management: $3,332,663,854**

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 December, 2006

Portfolio Manager: John Cone **Assets Under Management: $2,385,486,679**

Investment Philosophy – Semi-Passive Style

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

Staff Comments

No comment at this time.

Recommendation

No action required.

Quantitative Evaluation

Period Returns
(Annualized for multi-year periods)

	Actual	Manager Benchmark*
Last Quarter	7.2%	7.0%
Last 1 year	16.5	15.5
Last 2 years	11.2	10.8
Last 3 years	11.3	11.0
Last 4 years	15.0	15.1
Last 5 years	6.9	7.1
Since Inception (1/95)	10.6	10.8

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 December, 2006

Portfolio Manager: John Cone | **Assets Under Management: $2,385,486,679**

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 December, 2006

Portfolio Manager: Ralph Zingone and Terance Chen Assets Under Management: $2,604,291,048

Investment Philosophy – Semi-Passive Style

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

Staff Comments

The portfolio outperformed the Russell 1000 index by 0.2 percentage point (ppt) for the quarter. Strong stock selection in healthcare, financial services and utilities benefited the portfolio. For the year, the portfolio outperformed the Russell 1000 index by 1.0 ppt primarily due to strong stock selection in the financial services, consumer discretionary and technology sectors.

Staff conducted a site visit during the quarter. Philosophy, process, people, organization, and portfolio holdings were reviewed in detail. The process is driven by fundamental research; as a result, the research analysts are an integral part of the process. The 21 research analysts that make up the U.S. equity team average 14 years of experience. Staff met with the head of equity research, research analysts, the two portfolio managers, head trader, and risk management staff.

Recommendation

No action required.

Quantitative Evaluation

Period Returns
(Annualized for multi-year periods)

	Actual	Manager Benchmark*
Last Quarter	7.2%	7.0%
Last 1 year	16.5	15.5
Last 2 years	10.4	10.8
Last 3 years	10.9	11.0
Last 4 years	15.1	15.1
Last 5 years	6.5	7.1
Since Inception (1/95)	10.9	10.8

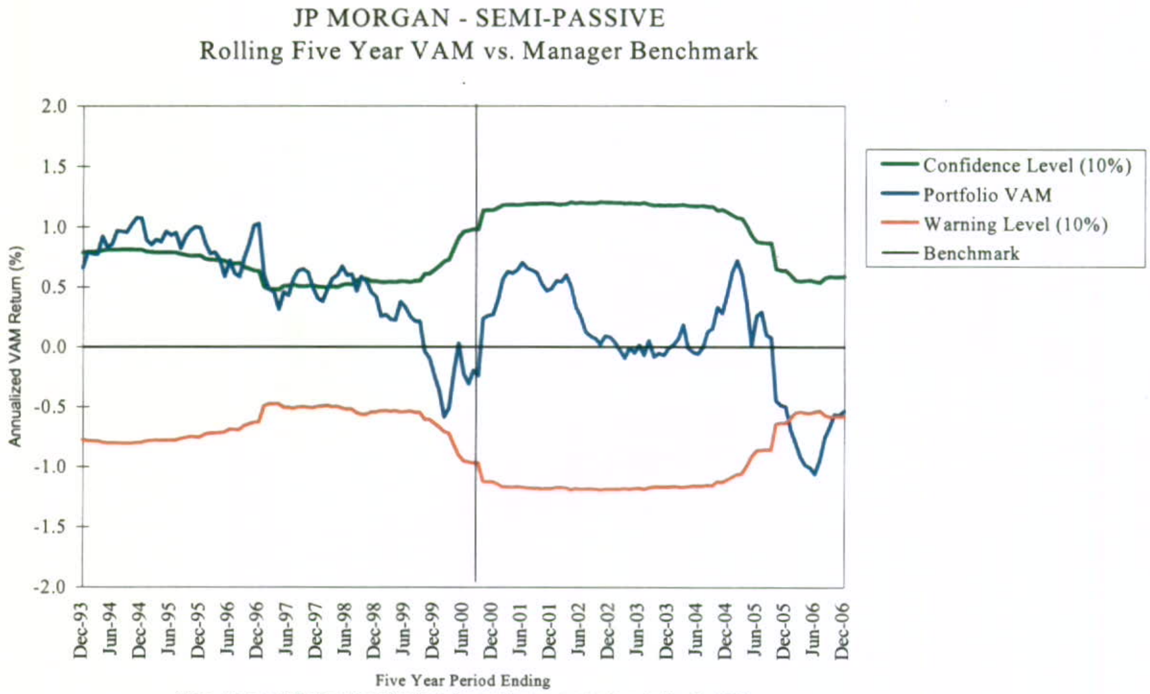
Calendar Year Returns

	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 December, 2006

Portfolio Manager: Ralph Zingone and Terance Chen Assets Under Management: $2,604,291,048



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

BARCLAYS GLOBAL INVESTORS
Periods Ending December, 2006

Portfolio Manager: Amy Schioldager | **Assets Under Management: $8,019,164,052**

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	7.1%	7.1%
Last 1 year	15.8	15.7
Last 2 years	10.9	10.8
Last 3 years	11.2	11.2
Last 4 years	15.9	15.9
Last 5 years	7.2	7.2
Since Inception (7/95)	10.4	10.3

Calendar Year Returns

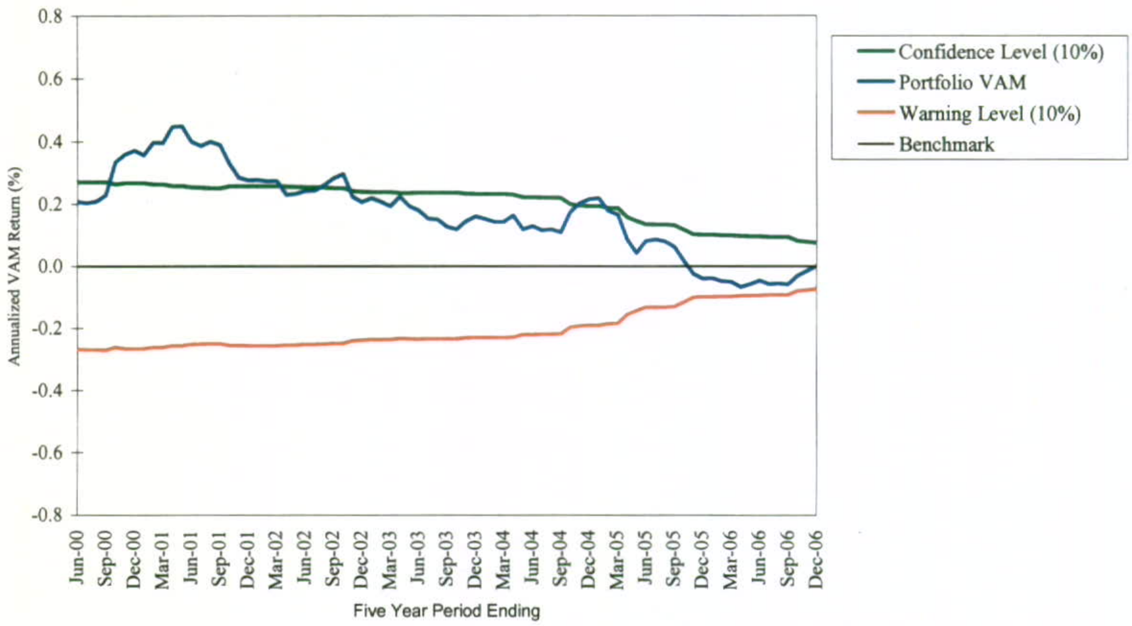
	Actual	Manager Benchmark*
2006	15.8%	15.7%
2005	6.2	6.1
2004	12.0	11.9
2003	30.9	31.2
2002	-21.4	-21.5

* 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 December, 2006

Portfolio Manager: Amy Schioldager **Assets Under Management: $8,019,164,052**

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

Fourth Quarter, 2006

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COMBINED RETIREMENT FUNDS
BOND MANAGERS
Periods Ending December, 2006

	Quarter		1 Year		3 Years		5 Years		Since (1) Inception		Market	Pool
	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Value (in millions)	%
Active Managers												
Aberdeen	1.3	1.2	4.8	4.3	4.2	3.7	5.6	5.1	7.0	6.5	$1,085.2	9.9%
Dodge & Cox	1.8	1.2	5.5	4.3	4.0	3.7	6.1	5.1	7.5	6.5	$1,108.6	10.1%
Morgan Stanley	1.3	1.2	4.2	4.3	4.3	3.7	5.2	5.1	9.2	8.9	$889.8	8.1%
RiverSource	1.3	1.2	4.7	4.3	4.1	3.7	4.4	5.1	6.0	6.2	$912.1	8.3%
Western	1.7	1.2	5.4	4.3	4.9	3.7	6.6	5.1	10.2	8.9	$1,454.7	13.3%
Semi-Passive Managers												
BlackRock	1.1	1.2	4.3	4.3	3.8	3.7	5.2	5.1	6.6	6.3	$1,895.9	17.3%
Goldman	1.2	1.2	4.5	4.3	4.1	3.7	5.4	5.1	6.5	6.2	$1,899.8	17.4%
Lehman	1.3	1.2	4.5	4.3	3.9	3.7	5.2	5.1	7.6	7.5	$1,687.1	15.4%
											$10,933.1	**100.0%**
									Since 7/1/84			
Historical Aggregate (2)	**1.3**	**1.2**	**4.7**	**4.3**	**4.2**	**3.7**	**5.4**	**5.1**	**9.0**	**8.8**		
Lehman Aggregate (3)		1.2		4.3		3.7		5.1		8.9		

(1) Since retention by the SBI. Time period varies for each manager.
(2) Includes performance of terminated managers.
(3) Prior to July 1994, this index reflects the Salomon BIG.

ABERDEEN ASSET MANAGEMENT
Periods Ending December, 2006

Portfolio Manager: Warren Davis **Assets Under Management: $1,085,177,712**

Investment Philosophy

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

Staff Comments

Aberdeen exceeded the quarterly and one-year benchmark. The quarterly performance was helped by security selection in the corporate, insurance and telecom sectors. The one-year outperformance was due to individual security selection in the spread sectors.

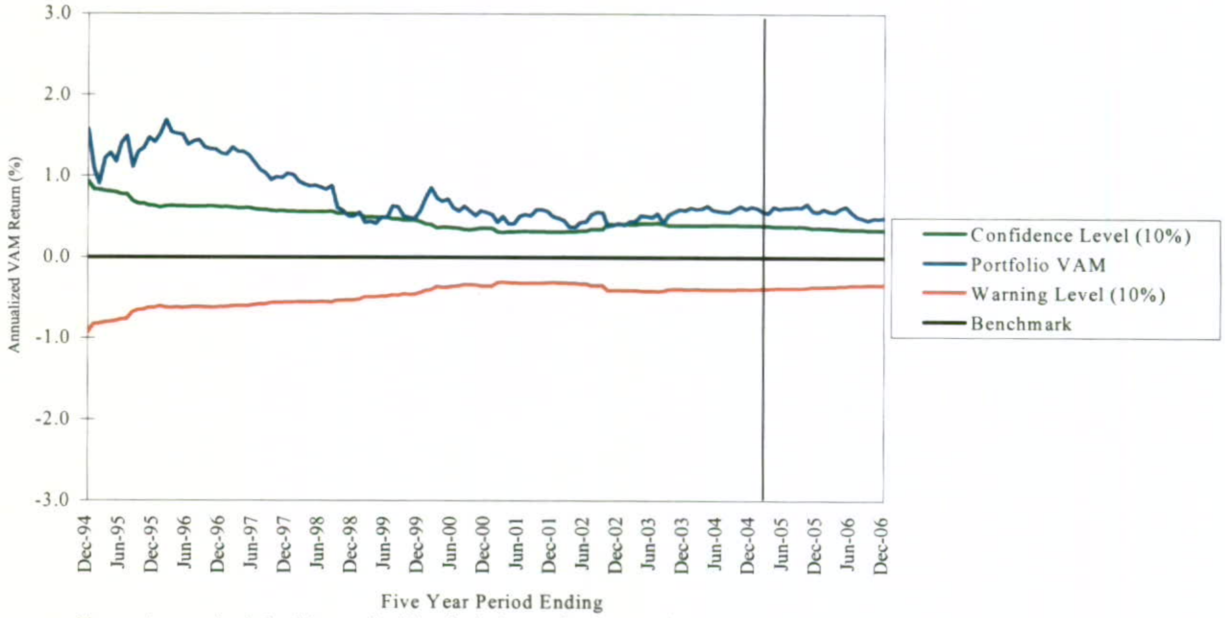
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	1.3%	1.2%
Last 1 year	4.8	4.3
Last 2 years	3.8	3.4
Last 3 years	4.2	3.7
Last 4 years	4.5	3.8
Last 5 years	5.6	5.1
Since Inception (2/00)	7.0	6.5

Recommendations

No action required.

ABERDEEN ASSET MANAGEMENT
Rolling Five Year VAM



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

DODGE & COX INVESTMENT MANAGERS
Periods Ending December, 2006

Portfolio Manager: Dana Emery | **Assets Under Management: $1,108,605,580**

Investment Philosophy

Dodge & Cox manages a high quality, diversified portfolio of securities that are selected through fundamental analysis. The firm believes that by combining fundamental research with a long-term investment horizon it is possible to uncover inefficiencies in market sectors and individual securities. The firm combines this fundamental research with a disciplined program of risk analysis. To seek superior returns over the long-term, Dodge & Cox emphasizes sector and security selection, strives to build portfolios that have a higher yield than the broad bond market, and analyzes portfolio and individual security risk. Dodge & Cox was retained by the SBI in February 2000.

Staff Comments

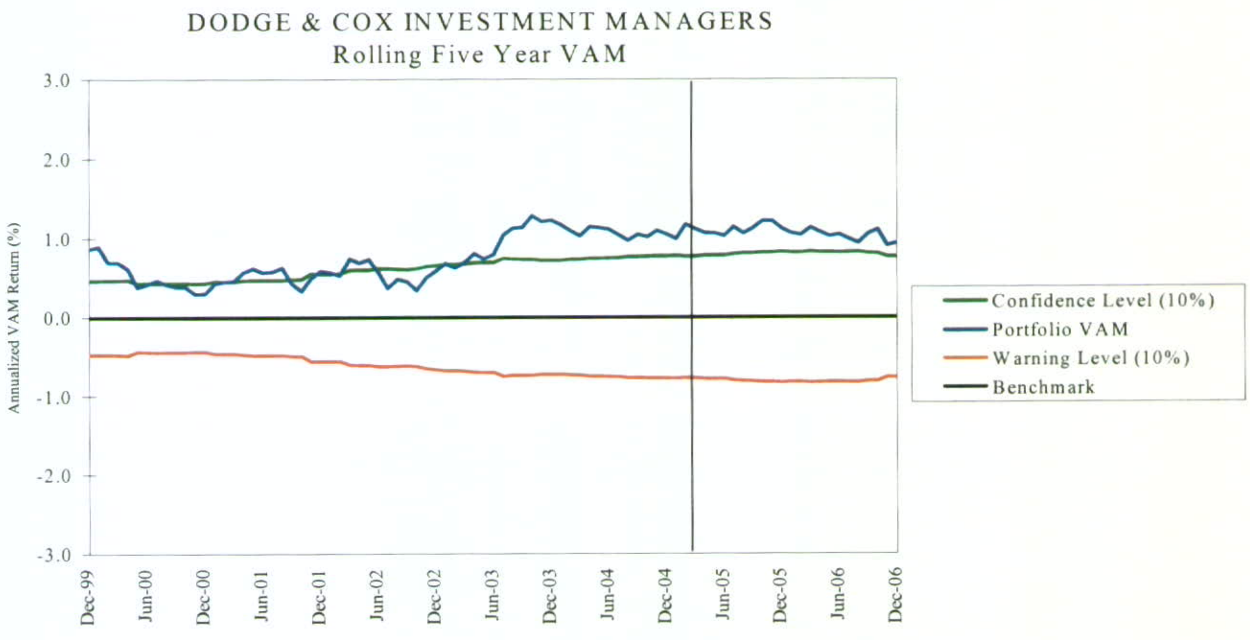
Dodge & Cox outperformed the quarterly and one-year benchmark. Both periods were helped by the portfolio's shorter effective duration and yield curve positioning, as well as security selection.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	1.8%	1.2%
Last 1 year	5.5	4.3
Last 2 years	4.0	3.4
Last 3 years	4.0	3.7
Last 4 years	4.8	3.8
Last 5 years	6.1	5.1
Since Inception (2/00)	7.5	6.5

Recommendations

No action required.



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

MORGAN STANLEY DEAN WITTER INVESTMENT MANAGEMENT
Periods Ending December, 2006

Portfolio Manager: David Horowitz **Assets Under Management: $889,809,585**

Investment Philosophy

MSDW focuses on four key portfolio decisions: interest-rate sensitivity, yield-curve exposure, credit quality, and prepayment risk. The firm is a value investor, purchasing securities they believe are relatively cheap and holding them until relative values change or until other securities are identified which are better values. In developing interest-rate strategy, the firm relies on value-based criteria to determine when markets are offering generous compensation for bearing interest-rate risk, rather than trying to anticipate interest rates. Value is added in the corporate sector by selecting the cheapest bonds and controlling credit risk through diversification. MSDW has developed significant expertise in mortgage securities, which are often used to replace U.S. Treasuries in portfolios. Morgan Stanley was retained by the SBI in July 1984.

Staff Comments

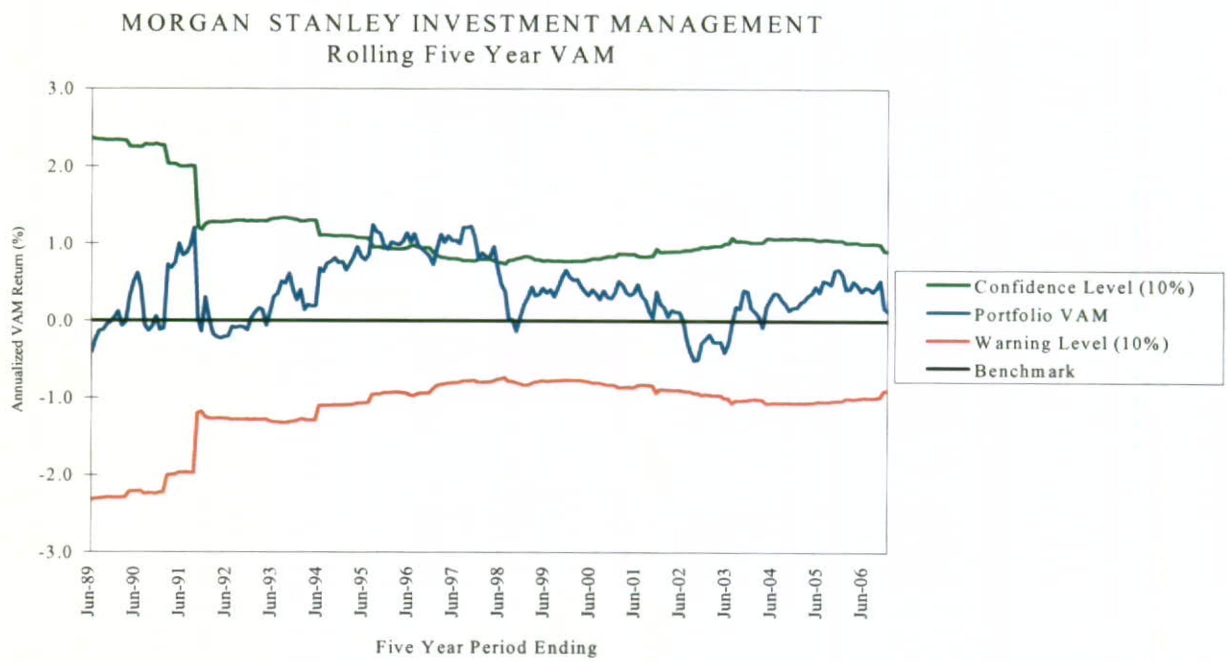
Morgan Stanley exceeded the benchmark for the quarter and trailed for the year. The below benchmark interest rate bet helped performance during the quarter. Security selection in the mortgage sector hurt the one-year return.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	1.3%	1.2%
Last 1 year	4.2	4.3
Last 2 years	4.2	3.4
Last 3 years	4.3	3.7
Last 4 years	4.5	3.8
Last 5 years	5.2	5.1
Since Inception (7/84)	9.2	8.9

Recommendations

No action required.



RIVERSOURCE INVESTMENTS
Periods Ending December, 2006

Portfolio Manager: Colin Lundgren **Assets Under Management: $912,082,354**

Investment Philosophy

RiverSource (formerly American Express) manages portfolios using a top-down approach culminating with in-depth fundamental research and credit analysis. Five portfolio components are actively managed: duration, maturity structure, sector selection, industry emphasis, and security selection. Duration and maturity structure are determined by the firm's economic analysis and interest rate outlook. This analysis also identifies sectors and industries expected to produce the best risk adjusted return. In-depth fundamental research and credit analysis combined with proprietary valuation disciplines is used to identify attractive individual securities. RiverSource was retained by the SBI in July 1993.

Staff Comments

RiverSource outperformed the quarterly and one-year benchmark. The portfolio's overweight to the CMBS sector had a positive impact on both periods as this sector provided strong excess returns. Over the last year, the portfolio was also helped by its non-dollar exposure.

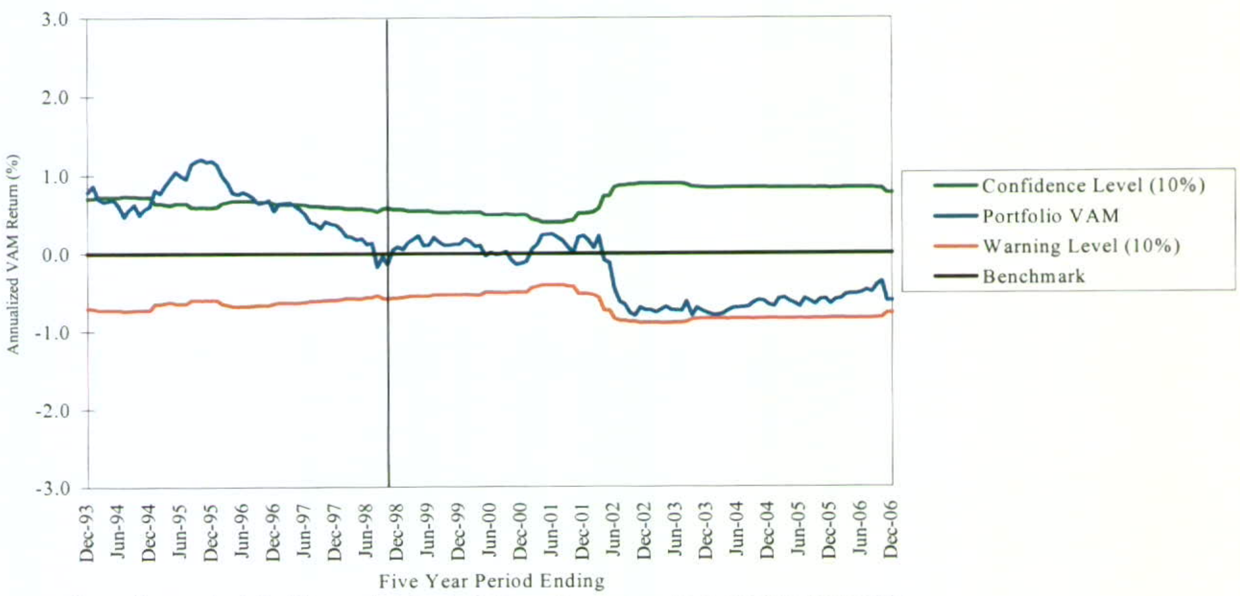
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	1.3%	1.2%
Last 1 year	4.7	4.3
Last 2 years	3.6	3.4
Last 3 years	4.1	3.7
Last 4 years	4.2	3.8
Last 5 years	4.4	5.1
Since Inception (7/93)	6.0	6.2

Recommendations

No action required.

RIVERSOURCE INVESTMENTS - FIXED INCOME
Rolling Five Year VAM



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

WESTERN ASSET MANAGEMENT
Periods Ending December, 2006

Portfolio Manager: Ken Leech **Assets Under Management: $1,454,667,763**

Investment Philosophy

Western emphasizes the use of multiple strategies and active sector and issue selection, while constraining interest rate risk. Multiple strategies are proportioned so that results do not depend on one or two opportunities. This approach adds consistent value over time and can reduce volatility. Long term value investing is Western's fundamental approach. In making their sector decision, the firm seeks out the greatest long-term value by analyzing all fixed income market sectors and their economic expectations. Individual issues are identified based on relative credit strength, liquidity, issue structure, event risk, and market valuation. Western believes that successful interest rate forecasting is extremely difficult and consequently keeps portfolio duration within a narrow band around the benchmark. Western was retained by the SBI in July 1984.

Staff Comments

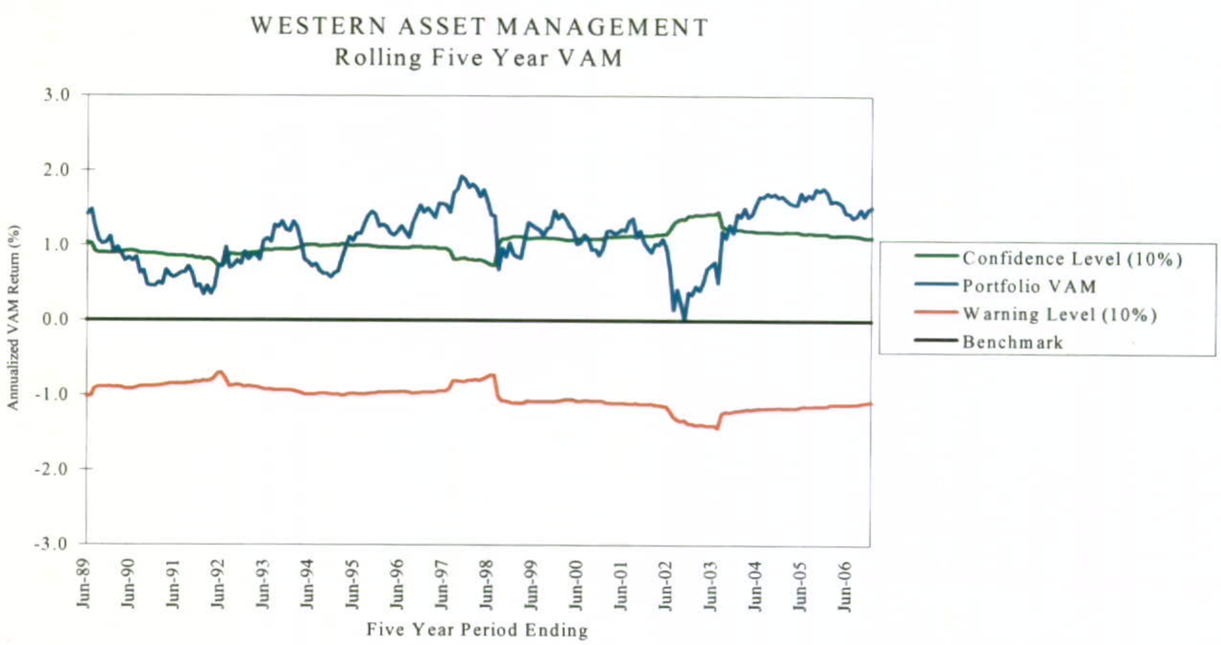
Western outperformed the quarterly and one-year benchmark. Both periods were helped by the high-yield allocation, particularly GM and Ford. The quarterly return was also benefited from their tactical duration bets.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	1.7%	1.2%
Last 1 year	5.4	4.3
Last 2 years	4.0	3.4
Last 3 years	4.9	3.7
Last 4 years	6.0	3.8
Last 5 years	6.6	5.1
Since Inception (7/84)	10.2	8.9

Recommendations

No action required.



BLACKROCK, INC.
Periods Ending December, 2006

Portfolio Manager: Keith Anderson **Assets Under Management: $1,895,932,005**

Investment Philosophy

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

Staff Comments

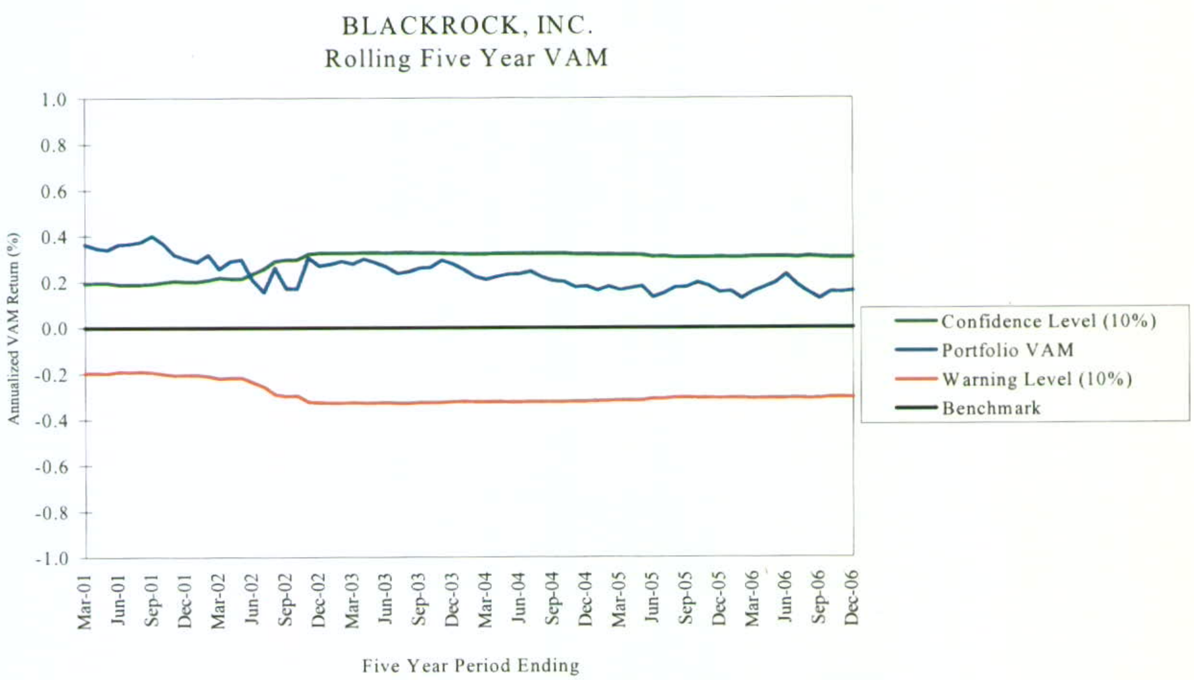
BlackRock lagged the quarterly benchmark and matched for the year. The quarterly performance was hurt by an underweight to the corporate and agency sectors. The one-year performance was helped by a short duration position.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	1.1%	1.2%
Last 1 year	4.3	4.3
Last 2 years	3.5	3.4
Last 3 years	3.8	3.7
Last 4 years	4.0	3.8
Last 5 years	5.2	5.1
Since Inception (4/96)	6.6	6.3

Recommendation

No action required.



GOLDMAN SACHS ASSET MANAGEMENT
Periods Ending December, 2006

Portfolio Manager: Jonathon Beinner **Assets Under Management: $1,899,780,167**

Investment Philosophy

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

Staff Comments

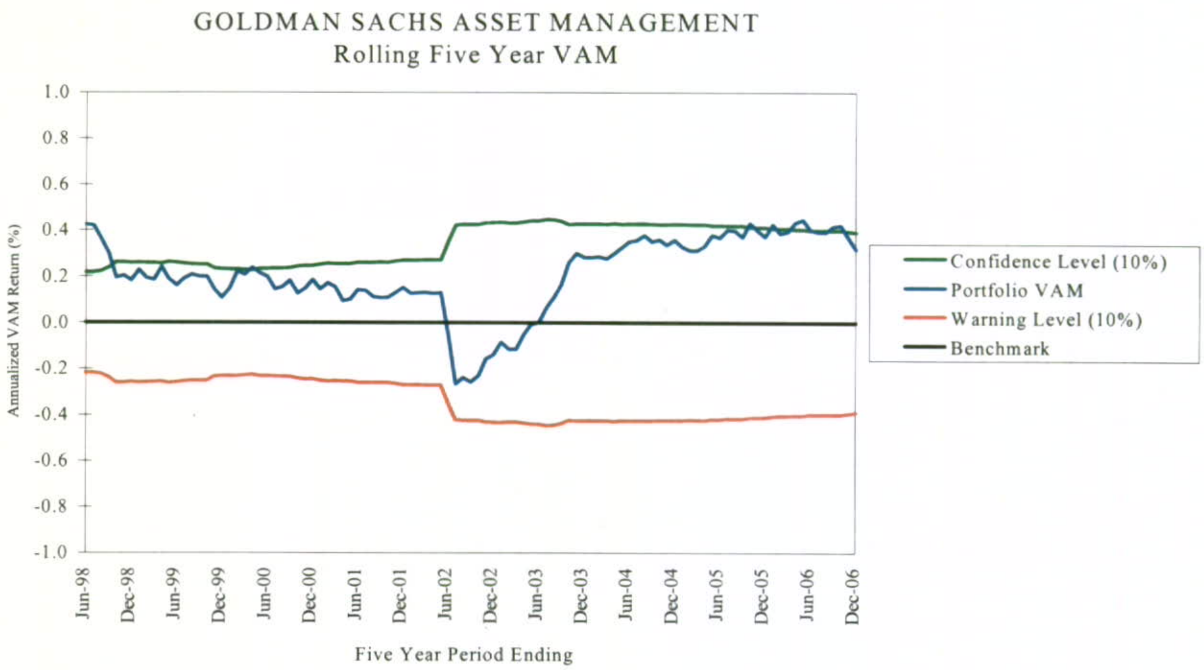
For the quarter, Goldman matched their benchmark. Goldman outperformed for the year. The one-year return was helped by a short duration position.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	1.2%	1.2%
Last 1 year	4.5	4.3
Last 2 years	3.7	3.4
Last 3 years	4.1	3.7
Last 4 years	4.5	3.8
Last 5 years	5.4	5.1
Since Inception (7/93)	6.5	6.2

Recommendations

No action required.



LEHMAN BROTHERS ASSET MANAGEMENT
Periods Ending December, 2006

Portfolio Manager: Andrew Johnson **Assets Under Management: $1,687,083,136**

Investment Philosophy

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

Staff Comments

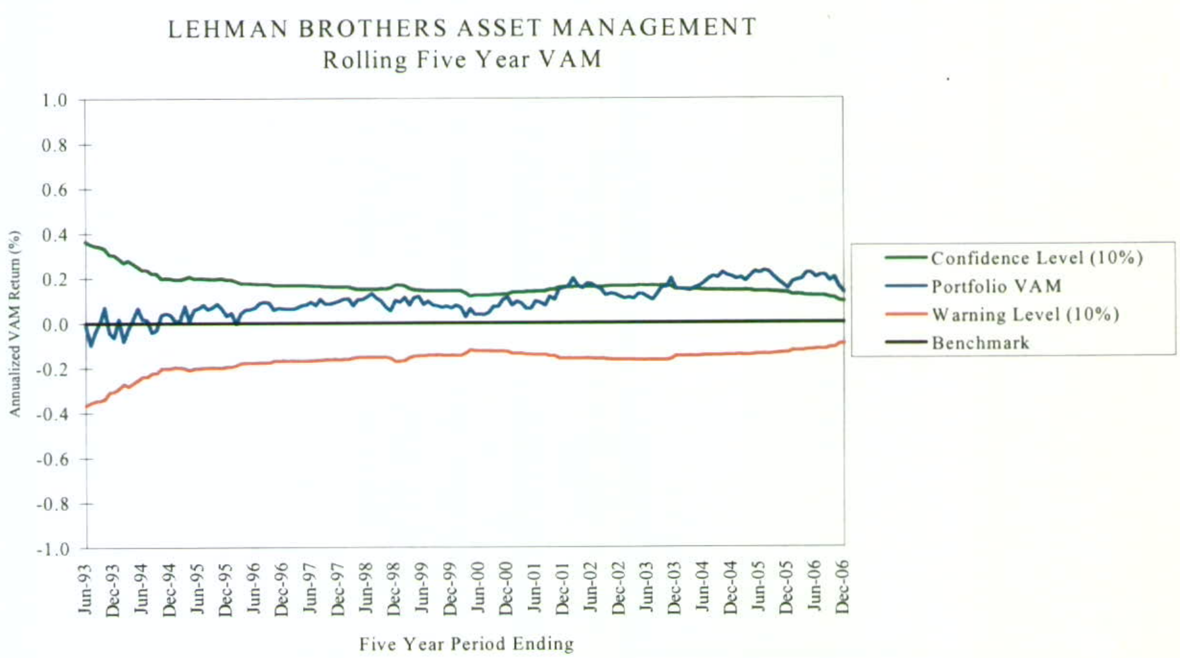
Lehman outperformed the benchmark for the quarter and for the year. Both periods were helped by security selection in the mortgage and corporate sector.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	1.3%	1.2%
Last 1 year	4.5	4.3
Last 2 years	3.5	3.4
Last 3 years	3.9	3.7
Last 4 years	4.0	3.8
Last 5 years	5.2	5.1
Since Inception (7/88)	7.6	7.5

Recommendations

No action required.



STATE BOARD OF INVESTMENT

International Manager Evaluation Reports

Fourth Quarter, 2006

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COMBINED RETIREMENT FUNDS
INTERNATIONAL STOCK MANAGERS
Periods Ending December, 2006

	Quarter Actual %	Quarter Bmk %	1 Year Actual %	1 Year Bmk %	3 Years Actual %	3 Years Bmk %	5 Years Actual %	5 Years Bmk %	Since (1) Inception Actual %	Since (1) Inception Bmk %	Market Value (in millions)	Pool %
Active Developed Markets (2)												
Acadian	10.7	10.1	31.9	25.7					36.6	28.1	$403.6	5.1%
Invesco	7.9	10.1	26.0	25.7	19.1	20.1	15.1	15.1	7.8	5.2	$524.3	6.6%
J.P. Morgan	8.4	10.1	23.1	25.7					25.3	28.1	$349.6	4.4%
Marathon (3)	10.4	10.1	27.5	25.7	22.7	20.1	20.1	17.8	11.0	8.2	$614.7	7.7%
McKinley	10.3	10.1	25.4	25.7					29.3	28.1	$367.7	4.6%
Pyramis (Fidelity)	10.1	10.1	22.7	25.7					27.2	28.1	$356.1	4.5%
RiverSource	8.8	10.1	23.6	25.7	18.4	20.1	13.0	15.1	1.2	5.2	$371.6	4.7%
UBS Global	10.0	10.1	25.6	25.7	18.4	20.1	13.6	15.1	9.9	8.8	$546.5	6.8%
Active Emerging Markets												
AllianceBernstein	17.3	17.6	30.4	32.2	30.6	30.5	27.8	26.9	18.9	19.3	$405.8	5.1%
Capital International	17.7	17.6	35.6	32.2	30.9	30.5	25.1	26.9	16.6	19.3	$357.1	4.5%
Morgan Stanley	19.7	17.6	37.6	32.2	31.9	30.5	28.3	26.9	20.2	19.3	$383.2	4.8%
Semi-Passive Developed Markets (2)												
AQR	10.5	10.1	25.2	25.7					29.1	28.1	$287.9	3.6%
Pyramis (Fidelity)	11.5	10.1	26.8	25.7					29.2	28.1	$292.6	3.7%
State Street	11.1	10.1	27.1	25.7					29.5	28.1	$293.2	3.7%
Passive Developed Markets (2)												
State Street	10.1	10.1	26.0	25.7	20.3	20.1	15.4	15.1	9.2	9.0	$2,434.4	30.5%
									Since 10/1/92			
Equity Only (4) (6)	11.1	11.2	27.0	26.7	21.0	21.3	16.2	16.3	9.6	9.1	$7,988.8	100.0%
Total Program (5) (6)	**11.1**	**11.2**	**27.0**	**26.7**	**21.0**	**21.3**	**16.2**	**16.3**	**9.9**	**9.1**	**$7,988.8**	
SBI Int'l Equity Target (6)		11.2		26.7		21.3		16.3		9.1		
MSCI ACWI Free ex. U.S. (7)		11.2		26.7		21.3		16.4		9.5		
MSCI World ex U.S. (net)		10.1		25.7		20.1		15.3		9.2		
MSCI EAFE Free (net)		10.4		26.3		19.9		15.0		9.0		
MSCI Emerging Markets Free (8)		17.6		32.2		30.5		26.6		10.6		

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

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ACADIAN ASSET MANAGEMENT, INC.
Periods Ending December, 2006

Portfolio Manager: John Chisholm **Assets Under Management: $403,632,486**

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

Positive stock selection overall contributed significantly to the portfolio's outperformance over both the quarter and the year. Stock selection across the European region, particularly in Germany and in France, was strong. In addition, selection in the industrials, materials and energy sectors added value over both time periods.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	10.7%	10.1%
Last 1 year	31.9	25.7
Last 2 years	N/A	N/A
Last 3 years	N/A	N/A
Last 4 years	N/A	N/A
Last 5 years	N/A	N/A
Since Inception (7/05)	36.6	28.1

Recommendations

No action required.

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

INVESCO GLOBAL ASSET MANAGMENT
Periods Ending December, 2006

Portfolio Manager: Erik Granade **Assets Under Management: $524,304,121**

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

Negative stock selection, particularly in Europe and in the consumer sectors, contributed to the portfolio's underperformance during the quarter.

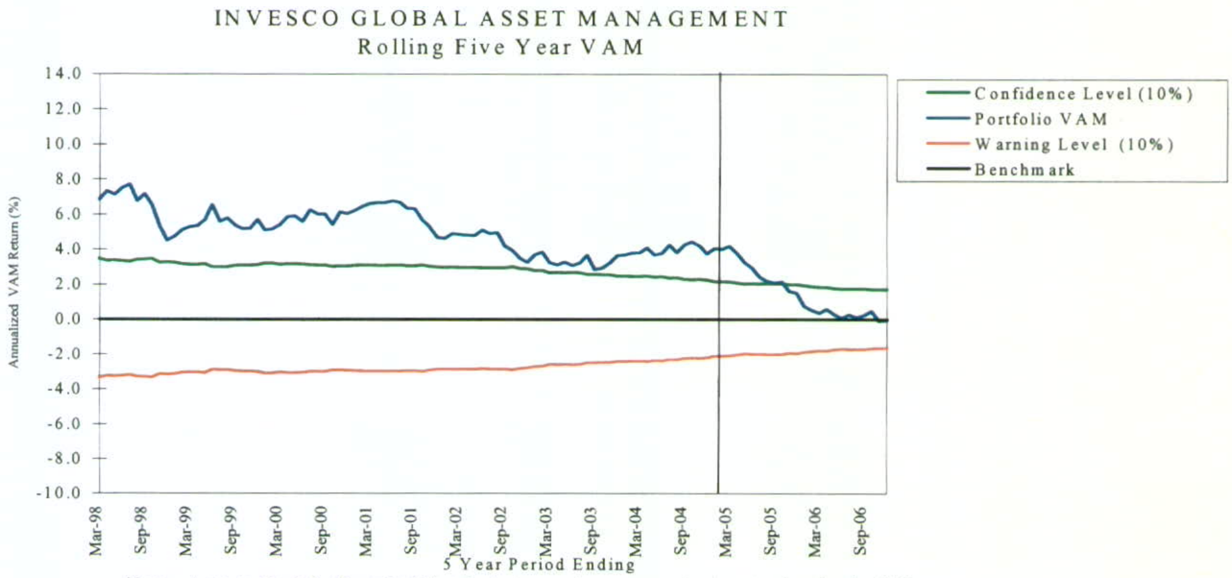
For the year, stock selection in Japan contributed significantly to the portfolio's outperformance.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	7.9%	10.1%
Last 1 year	26.0	25.7
Last 2 years	18.0	20.0
Last 3 years	19.1	20.1
Last 4 years	22.5	24.5
Last 5 years	15.1	15.1
Since Inception (3/00)	7.8	5.2

Recommendations

No action required.



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

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

Portfolio Manager: James Fisher **Assets Under Management: $349,599,237**

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 overall did not add value over recent time periods. Selection throughout Europe and in the financials sector, detracted significantly from performance over both the quarter and the year.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	8.4%	10.1%
Last 1 year	23.1	25.7
Last 2 years	N/A	N/A
Last 3 years	N/A	N/A
Last 4 years	N/A	N/A
Last 5 years	N/A	N/A
Since Inception (7/05)	25.3	28.1

Recommendations

No action required.

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

MARATHON ASSET MANAGEMENT
Periods Ending December, 2006

Portfolio Manager: William Arah **Assets Under Management: $614,712,066**

Investment Philosophy

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

Staff Comments

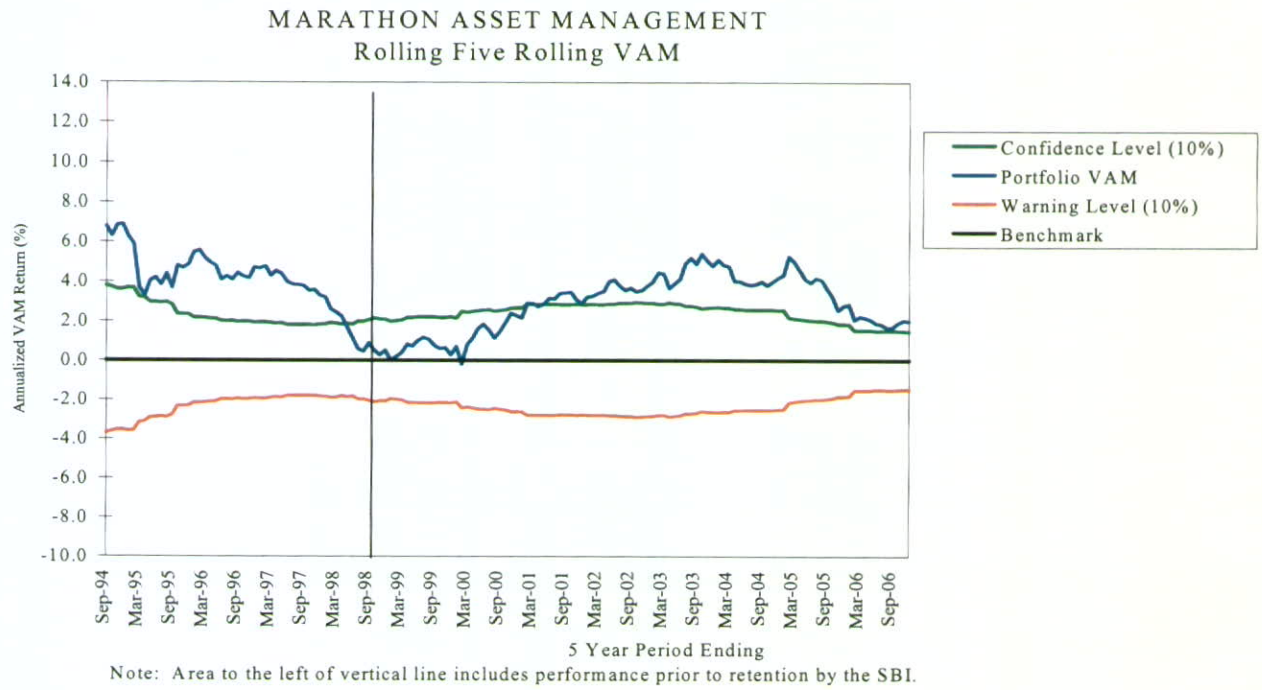
Stock selection overall, particularly throughout Europe and Canada, and in the industrials sector, was the main contributor to the portfolio's outperformance over both the quarter and the year. The portfolio has benefited from increased mergers and acquisition activity in European holdings in recent periods.

Quantitative Evaluation

	Actual	Custom Benchmark
Last Quarter	10.4%	10.1%
Last 1 year	27.5	25.7
Last 2 years	21.8	20.0
Last 3 years	22.7	20.1
Last 4 years	28.4	26.4
Last 5 years	20.1	17.8
Since Inception (11/93)	11.0	8.2

Recommendations

No action required.



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

MCKINLEY CAPITAL MANAGEMENT, INC.
Periods Ending December, 2006

Portfolio Manager: Robert Gillam, Jr. **Assets Under Management: $367,727,992**

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

During the quarter, stock selection overall added value, especially in Canada and in the financials sector.

For the year, stock selection in Japan and in the consumer sectors detracted from returns. The portfolio's overweight to the healthcare sector, one of the three worst performing sectors, also contributed to the portfolio's underperformance.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	10.3%	10.1%
Last 1 year	25.4	25.7
Last 2 years	N/A	N/A
Last 3 years	N/A	N/A
Last 4 years	N/A	N/A
Last 5 years	N/A	N/A
Since Inception (7/05)	29.3	28.1

Recommendations

No action required.

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

PYRAMIS GLOBAL ADVISORS TRUST COMPANY
(Formerly Fidelity Management Trust Company)
Periods Ending December, 2006

Portfolio Manager: Michael Strong **Assets Under Management: $356,089,169**

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

The portfolio matched the benchmark return for the quarter. Marginal positive contributions from stock selection were offset by the resulting sector and country allocations.

During the year, stock selection overall, particularly in Japan and in the United Kingdom, the two largest markets in the index, contributed significantly to the portfolio's underperformance.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	10.1%	10.1%
Last 1 year	22.7	25.7
Last 2 years	N/A	N/A
Last 3 years	N/A	N/A
Last 4 years	N/A	N/A
Last 5 years	N/A	N/A
Since Inception (7/05)	27.2	28.1

Recommendations

No action required.

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

RIVERSOURCE INVESTMENTS
Periods Ending December, 2006

Portfolio Manager: Alex Lyle and Ed Gaunt **Assets Under Management: $371,645,487**

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

The portfolio underperformed over both the quarter and the year. For both time periods, stock selection overall was negative. Selection in Japan and in the consumer discretionary sector was the largest detractor from returns.

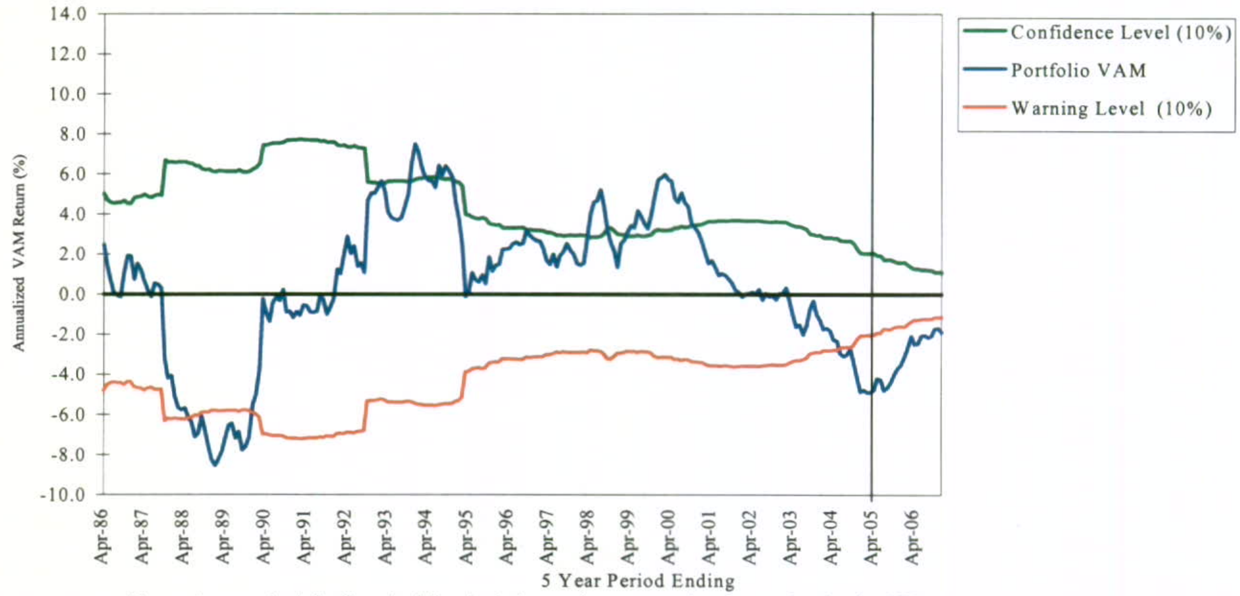
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	8.8%	10.1%
Last 1 year	23.6	25.7
Last 2 years	18.8	20.0
Last 3 years	18.4	20.1
Last 4 years	21.2	24.5
Last 5 years	13.0	15.1
Since Inception (3/00)	1.2	5.2

Recommendations

No action required.

RIVERSOURCE INVESTMENTS
Rolling Five Year VAM



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

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

Portfolio Manager: Thomas Madsen **Assets Under Management: $546,523,865**

Investment Philosophy

UBS's investment research process focuses on identifying discrepancies between a security's fundamental or intrinsic value and its observed market price both across and within international equity markets. UBS exploits these discrepancies using a disciplined fundamental approach. The research analysts evaluate companies in their markets around the world and assign relative price/intrinsic value rankings based on the present value of the future cash flows. The portfolio management team draws upon the analysts' stock and industry-level research and synthesizes it with the firm's macro analysis of the global economy, country specific views and various market-driven issues to systematically develop portfolio strategy. UBS develops currency strategies separately and in coordination with country allocations. They utilize currency equilibrium bands to determine which currencies are over or under valued.

Staff Comments

The portfolio underperformed marginally over the quarter and the year. Stock selection and an underweight position in the materials sector, which was a top performer, contributed negatively over both time periods.

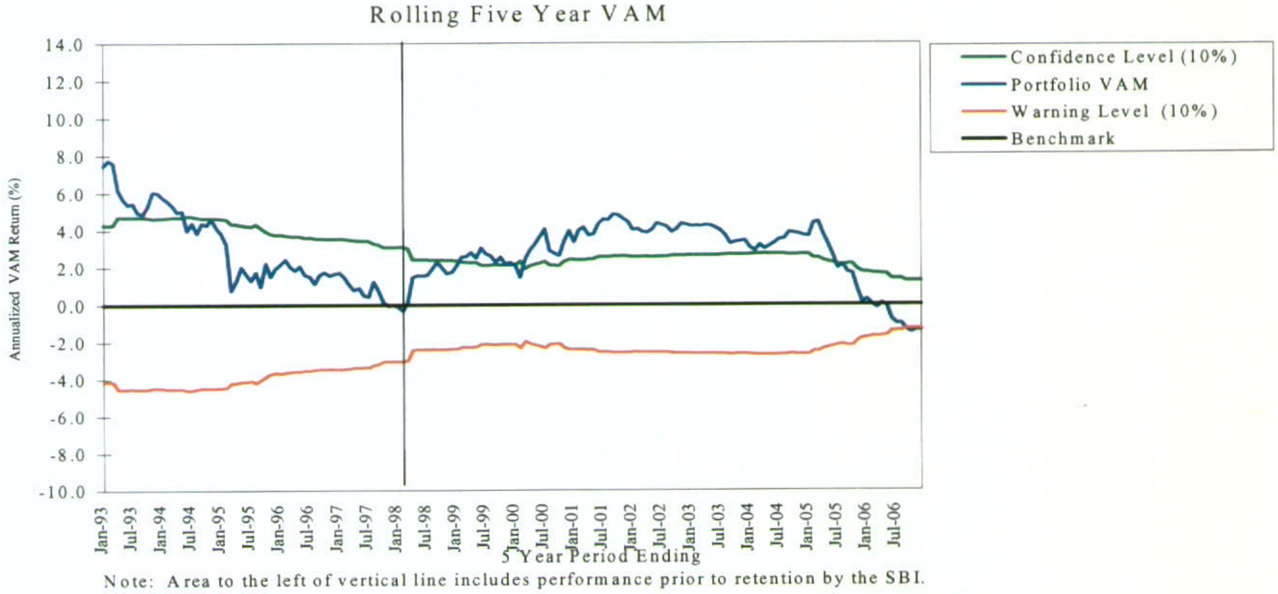
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	10.0%	10.1%
Last 1 year	25.6	25.7
Last 2 years	17.6	20.0
Last 3 years	18.4	20.1
Last 4 years	21.7	24.5
Last 5 years	13.6	15.1
Since Inception (4/93)	9.9	8.8

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 December, 2006

Portfolio Manager: Edward Baker **Assets Under Management: $405,790,650**

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

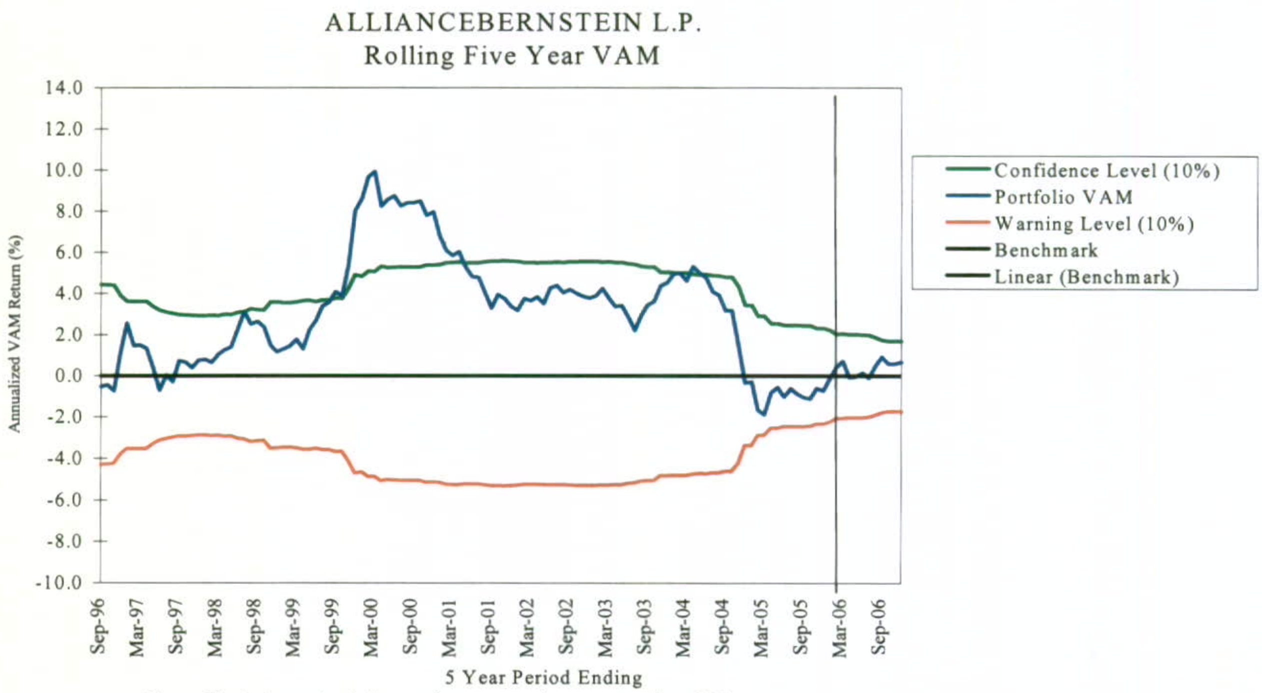
The portfolio underperformed over both recent time periods. Stock selection in Israel, Russia, and Korea detracted from performance, as did an overweight to and selection in the healthcare sector, which was the most negative performer over the quarter and the year.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	17.3	17.6
Last 1 year	30.4	32.2
Last 2 years	31.6	33.1
Last 3 years	30.6	30.5
Last 4 years	36.1	36.4
Last 5 years	27.8	26.9
Since Inception (3/01)	18.9	19.3

Recommendations

Staff is monitoring the firm due to personnel turnover.



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

CAPITAL INTERNATIONAL, INC.
Periods Ending December, 2006

Portfolio Manager: Victor Kohn **Assets Under Management: $357,065,802**

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

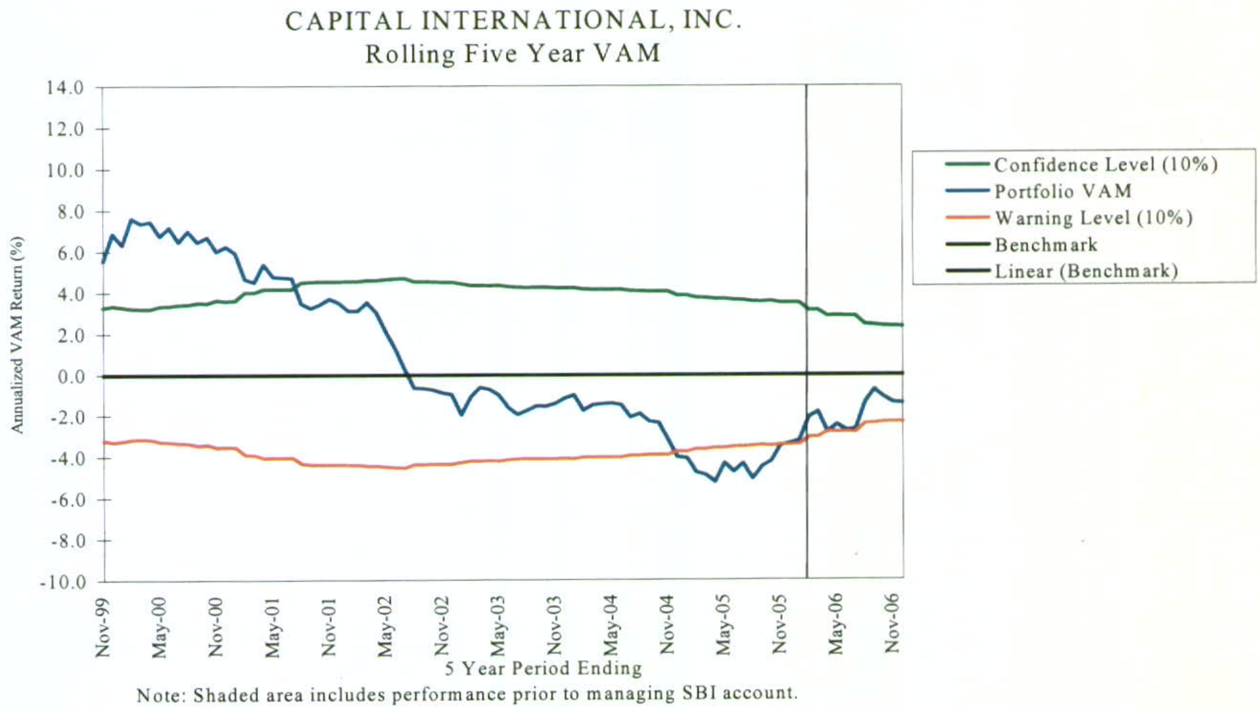
Capital outperformed for both the quarter and the year. Strong stock selection in every region, especially in Mexico, Taiwan and Russia and in the telecommunications and the consumer discretionary sectors contributed significantly.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	17.7%	17.6%
Last 1 year	35.6	32.2
Last 2 years	37.0	33.1
Last 3 years	30.9	30.5
Last 4 years	36.3	36.4
Last 5 years	25.1	26.9
Since Inception (3/01)	16.6	19.3

Recommendations

No action required.



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

MORGAN STANLEY INVESTMENT MANAGEMENT
Periods Ending December, 2006

Portfolio Manager: Ruchir Sharma **Assets Under Management: $383,158,116**

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

The portfolio's significant outperformance over both the quarter and the year was driven by strong stock selection overall. Selection in Russia and Mexico and in the energy and financials sectors was particularly strong. The portfolio's underweight position in Korea, which underperformed over both time periods, also added value.

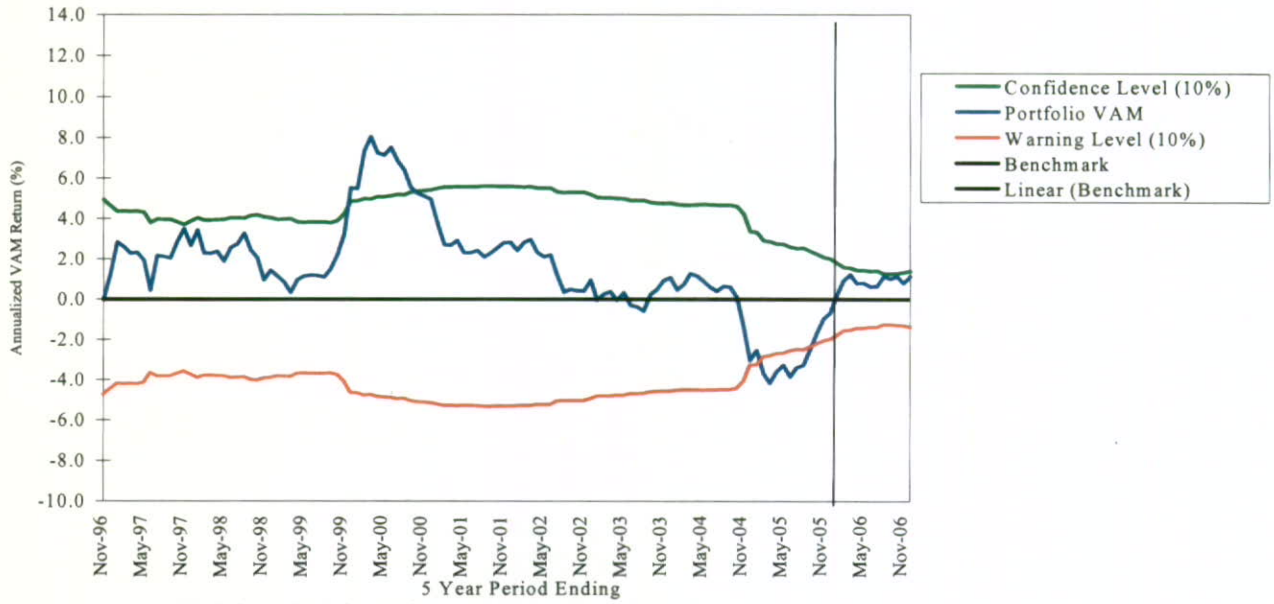
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	19.7%	17.6%
Last 1 year	37.6	32.2
Last 2 years	35.9	33.1
Last 3 years	31.9	30.5
Last 4 years	38.2	36.4
Last 5 years	28.3	26.9
Since Inception (3/01)	20.2	19.3

Recommendations

Staff is monitoring the firm due to personnel turnover.

MORGAN STANLEY INVESTMENT MANAGEMENT
Rolling Five Year VAM



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

AQR CAPITAL MANAGEMENT, LLC
Periods Ending December, 2006

Portfolio Manager: Cliff Asness **Assets Under Management: $287,855,682**

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 overall, particularly in Japan and Europe added value over both recent time periods. However, for the year, negative country weighting decisions contributed significantly to the portfolio's underperformance.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	10.5%	10.1%
Last 1 year	25.2	25.7
Last 2 years	N/A	N/A
Last 3 years	N/A	N/A
Last 4 years	N/A	N/A
Last 5 years	N/A	N/A
Since Inception (7/05)	29.1	28.1

Recommendations

No action required.

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

PYRAMIS GLOBAL ADVISORS TRUST COMPANY
(Formerly Fidelity Management Trust Company)
Periods Ending December, 2006

Portfolio Manager: Cesar Hernandez **Assets Under Management: $292,590,020**

Investment Philosophy

Select International combines active stock selection with quantitative risk control to provide consistent excess returns above the benchmartk while minimizing relative volatility and risk. By combining five regional sub-portfolios in the U.K., Canada, Continental Europe, Japan, and the Pacific Basin ex Japan, the portfolio manager produces a portfolio made up of the best ideas of the firm's research analysts. Each regional portfolio is created so that stock selection is the largest contributor to active return while systematic, sector, and factor risks are minimized. The portfolio manager uses a combination of proprietary and third-party optimization models to monitor and control risk within each regional module. Resulting portfolios typically contain between 275-325 holdings.

Staff Comments

Stock selection overall, particularly in Europe and in the industrials and financials sectors, contributed to the portfolio's outperformance over both the quarter and the year.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	11.5%	10.1%
Last 1 year	26.8	25.7
Last 2 years	N/A	N/A
Last 3 years	N/A	N/A
Last 4 years	N/A	N/A
Last 5 years	N/A	N/A
Since Inception (7/05)	29.2	28.1

Recommendations

No action required.

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

STATE STREET GLOBAL ADVISORS
Periods Ending December, 2006

Portfolio Manager: Paul Moghtader | **Assets Under Management: $293,182,853**

Investment Philosophy

SSgA's Alpha strategy is managed using a quantitative process. Stock selection provides the best opportunity to add consistent value. Industry factors have come to dominate country factors and an approach that uses industry weights to add incremental value complements stock selection. Unwanted biases are controlled for through disciplined risk-control techniques. Country and regional allocations are a result of the security selection process but are managed to remain with +/- 5% of the benchmarks allocation. Sector and industry allocations are managed to be within +/- 3% of the benchmarks allocation. The portfolio managers on this team have extensive experience and insight, which is used in conjunction with the models to create core portfolios.

Staff Comments

The portfolio outperformed over both the quarter and the year, due to strong stock selection overall, particularly in Japan and Germany and in the financials, materials and industrials sectors.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	11.1%	10.1%
Last 1 year	27.1	25.7
Last 2 years	N/A	N/A
Last 3 years	N/A	N/A
Last 4 years	N/A	N/A
Last 5 years	N/A	N/A
Since Inception (7/05)	29.5	28.1

Recommendations

No action required.

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

STATE STREET GLOBAL ADVISORS
Periods Ending December, 2006

Portfolio Manager: Lynn Blake **Assets Under Management: $2,434,399,850**

Investment Philosophy

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

Staff Comments

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

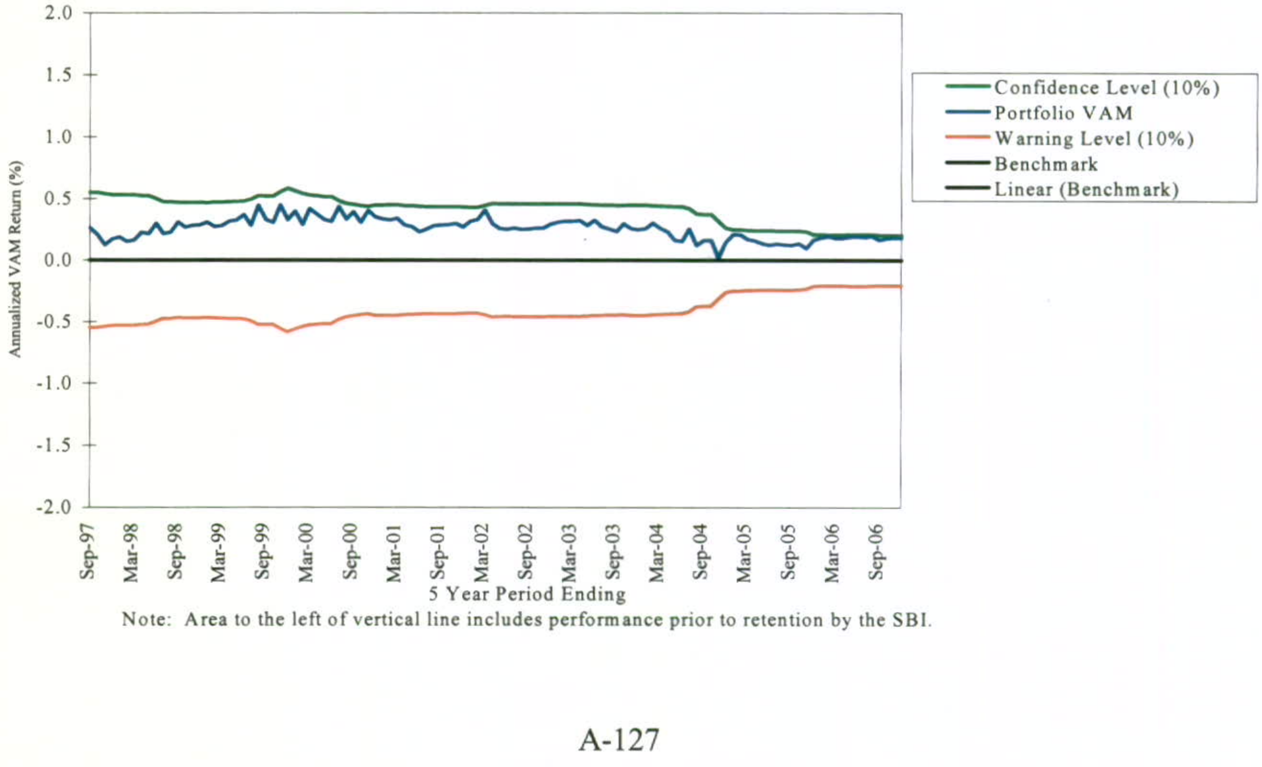
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	10.1%	10.1%
Last 1 year	26.0	25.7
Last 2 years	20.1	20.0
Last 3 years	20.3	20.1
Last 4 years	24.6	24.5
Last 5 years	15.4	15.1
Since Inception (10/92)	9.2	9.0

Recommendation

No action required.

STATE STREET GLOBAL ADVISORS
Rolling Five Year VAM



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

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STATE BOARD OF INVESTMENT

Non-Retirement Manager Evaluation Reports

Fourth Quarter, 2006

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NON - RETIREMENT MANAGERS
Periods Ending December, 2006

	Quarter		1 Year		3 Years		5 Years		Since (1) Inception		Market
	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Value (in millions)
GE Asset Management (S&P 500 Index)*	6.0	6.7	16.4	15.8	9.1	10.4	5.0	6.2	12.2	11.8	$80.8
Voyageur Asset Management (Custom Benchmark)*	1.1	1.1	4.5	4.3	3.4	3.1	4.3	4.2	6.4	6.4	$256.9
Galliard Capital Management (3 yr. Constant Maturity Treasury + 45 bp)*	1.1	1.2	4.6	5.2	4.3	4.3	4.7	3.7	5.7	5.0	$196.3
Internal Stock Pool (S&P 500 Index)*	6.7	6.7	15.9	15.8	10.5	10.4	6.3	6.2	11.0	10.9	$846.5
Internal Bond Pool - Income Share (Lehman Aggregate)*(2)	1.4	1.2	5.0	4.3	4.2	3.7	5.3	5.1	7.9	7.5	$82.1
Internal Bond Pool - Trust (Lehman Aggregate)*	1.2	1.2	5.1	4.3	4.3	3.7	5.5	5.1	7.2	6.8	$501.4

* 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.

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

Portfolio Manager: Dave Carlson **Assets Under Management: $80,830,655**

Investment Philosophy
Assigned Risk Plan

GE's Multi-Style Equity program attempts to outperform the S&P 500 consistently while controlling overall portfolio risk through a multiple manager approach. A value portfolio, a growth portfolio and a research portfolio are combined to create a well diversified equity portfolio while maintaining low relative volatility and a style-neutral position between growth and value. All GE managers focus on stock selection from a bottom-up perspective.

Staff Comments

GE trailed the quarterly benchmark and exceeded the one-year benchmark. Security selection in the materials, health care, and the energy sectors hurt the quarterly return. Strong stock selection within media, energy, technology, industrials, and materials helped the one-year outperformance.

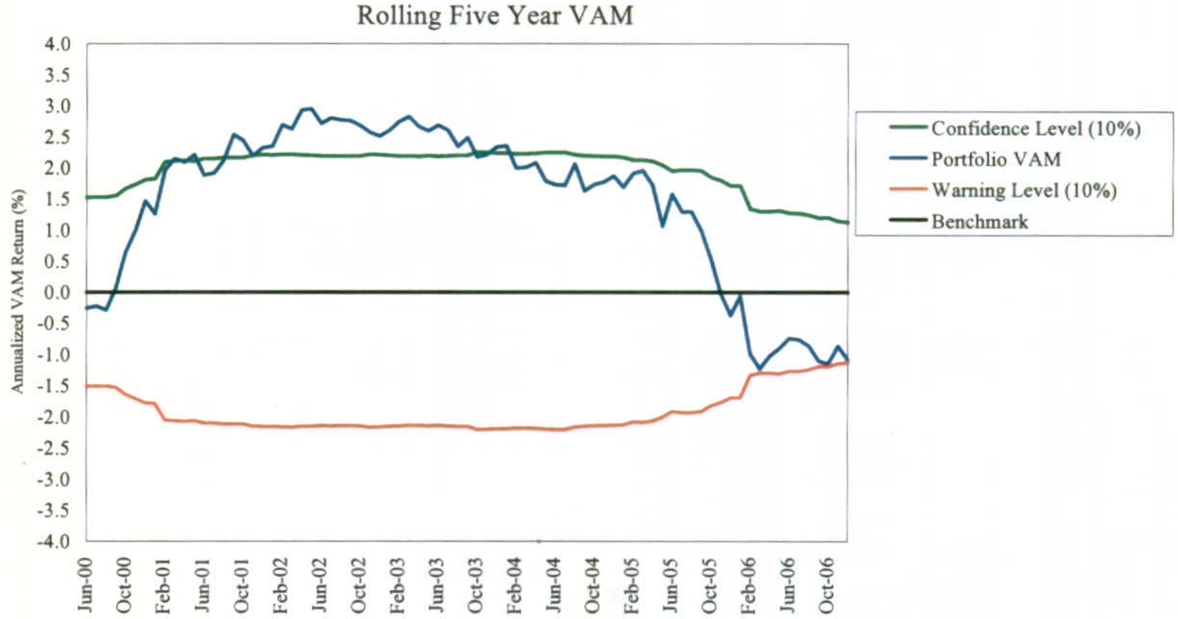
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	6.0%	6.7%
Last 1 year	16.4	15.8
Last 2 years	9.3	10.2
Last 3 years	9.1	10.4
Last 4 years	12.6	14.7
Last 5 years	5.0	6.2
Since Inception (1/95)	12.2	11.8

Recommendation

No recommendation at this time.

GE ASSET MANAGEMENT
Rolling Five Year VAM



5 Year Period Ending

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

Portfolio Manager: John Huber **Assets Under Management: $256,904,930**

Investment Philosophy
Assigned Risk Plan

Voyageur uses a top-down approach to fixed income investing. Their objective is to obtain superior long-term investment returns over a pre-determined benchmark that reflects the quality constraints and risk tolerance of the Assigned Risk Plan. Due to the specific liability requirement of the plan, return enhancement will focus on sector analysis and security selection. Yield curve and duration analysis are secondary considerations.

Staff Comments

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

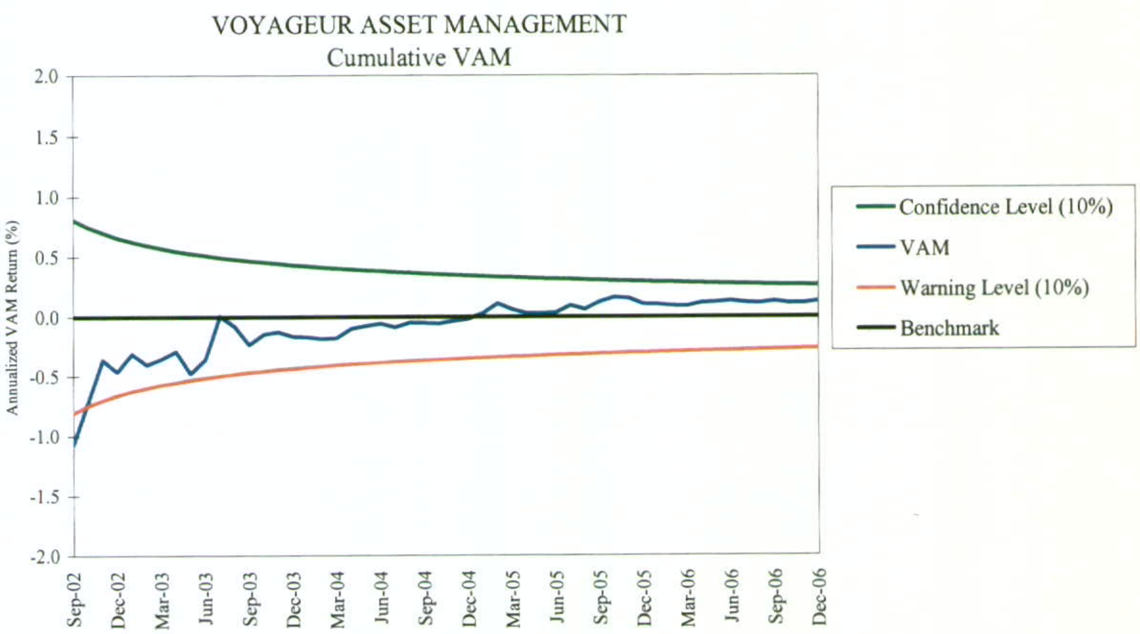
Quantitative Evaluation

	Actual	Benchmark*
Last Quarter	1.1%	1.1%
Last 1 year	4.5	4.3
Last 2 years	3.5	3.2
Last 3 years	3.4	3.1
Last 4 years	3.2	2.9
Last 5 years	4.3	4.2
Since Inception (7/91)	6.4	6.4

*Custom benchmark since inception date.

Recommendation

No action required.



GALLIARD CAPITAL MANAGEMENT
Periods Ending December, 2006

Portfolio Manager: Karl Tourville **Assets Under Management: $196,287,951**

Investment Philosophy

Galliard Capital Management manages the Fixed Interest Account in the Supplemental Investment Fund. The stable value fund is managed to protect principal and provide competitive interest rates using instruments somewhat longer than typically found in money market-type accounts. The manager invests cash flows to optimize yields. The manager invests in high quality instruments diversified among traditional investment contracts and alternative investment contracts with U.S. and non-U.S. financial institutions. To maintain necessary liquidity, the manager invests a portion of the portfolio in its Stable Return Fund and in cash equivalents. The Stable Return Fund is a large, daily priced fund consisting of a wide range of stable value instruments that is available to retirement plans of all sizes.

Staff Comments

Galliard slightly trailed its quarterly benchmark. The portfolio underperformed for the year. The one year underperformance was the result of the overall portfolio lagging in performance in a rising interest rate environment and a large MnSCU withdrawal at the end of June which reduced opportunities to reinvest.

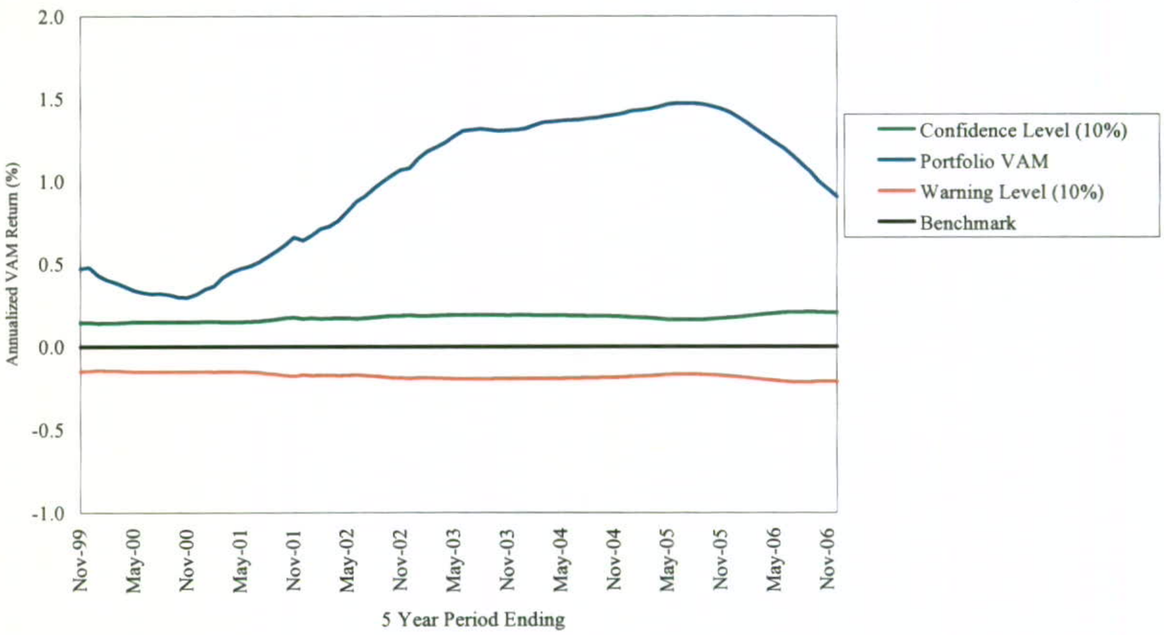
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	1.1%	1.2%
Last 1 year	4.6	5.2
Last 2 years	4.4	4.8
Last 3 years	4.3	4.3
Last 4 years	4.4	3.9
Last 5 years	4.7	3.7
Since Inception (11/94)	5.7	5.0

Recommendation

No action required.

Galliard Capital Management
Rolling Five Year VAM



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

Portfolio Manager: Mike Menssen **Assets Under Management: $846,523,587**

Investment Philosophy
Environmental Trust Fund
Permanent School Fund

The Internal Equity Pool is managed to closely track the S&P 500 Index. The strategy replicates the S&P 500 by owning all of the names in the index at weightings similar to those of the index. The optimization model's estimate of tracking error with this strategy is approximately 10 basis points per year.

Staff Comments

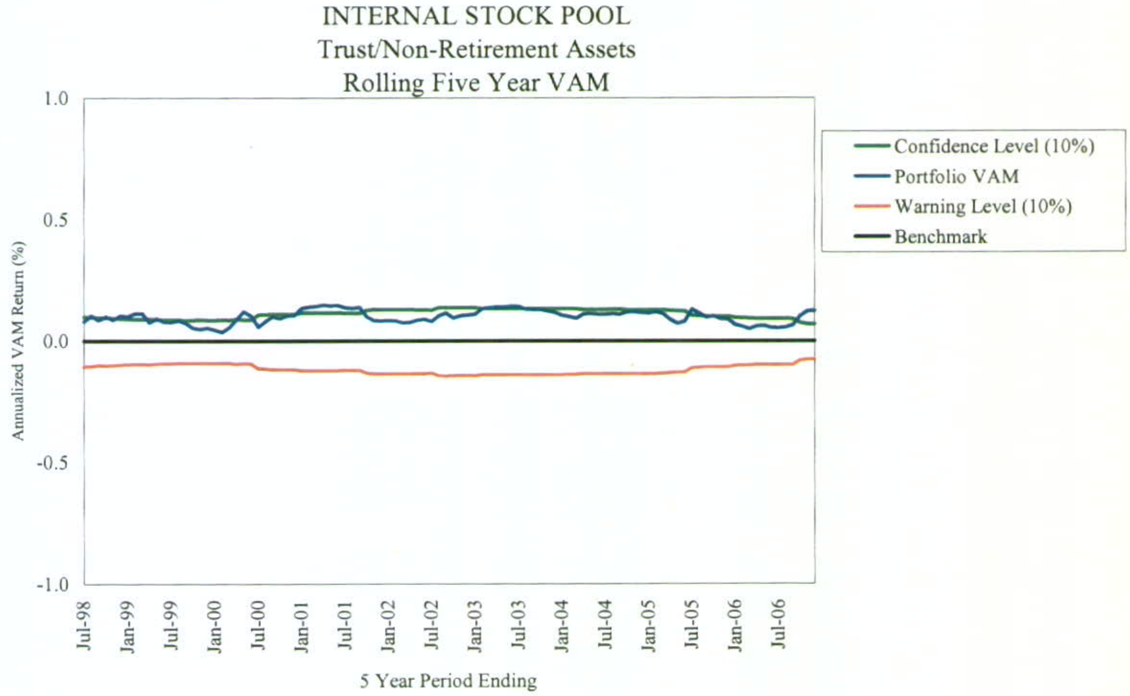
The portfolio matched the benchmark for the quarter and slightly outperformed for the year.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	6.7%	6.7%
Last 1 year	15.9	15.8
Last 2 years	10.3	10.2
Last 3 years	10.5	10.4
Last 4 years	14.8	14.7
Last 5 years	6.3	6.2
Since Inception (7/93)	11.0	10.9

Recommendation

No action required.



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

Portfolio Manager: Mike Menssen **Assets Under Management: $82,127,483**

Investment Philosophy
Income Share Account

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

Staff Comments

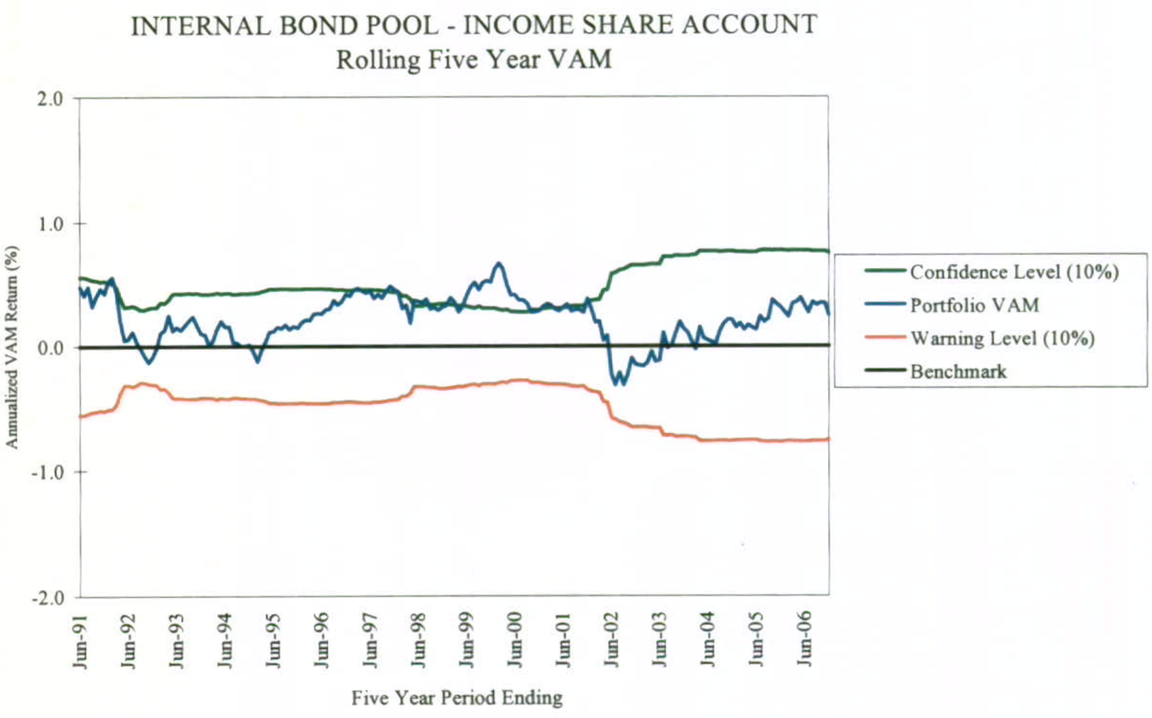
The income share account exceeded the quarterly benchmark due to an overweight to the credit sector. The portfolio outperformed the one-year benchmark and was helped by a short duration position and an overweight to the credit sector.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	1.4%	1.2%
Last 1 year	5.0	4.3
Last 2 years	3.8	3.4
Last 3 years	4.2	3.7
Last 4 years	4.6	3.8
Last 5 years	5.3	5.1
Since Inception (7/86)	7.9	7.5

Recommendation

No action required.



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

Portfolio Manager: Mike Menssen **Assets Under Management: $501,406,442**

Investment Philosophy
Environmental Trust Fund
Permanent School Trust Fund

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

Staff Comments

The internal trust account matched the quarterly benchmark. The portfolio outperformed the one-year benchmark and was helped by a short duration position and an overweight to the credit sector.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	1.2%	1.2%
Last 1 year	5.1	4.3
Last 2 years	3.9	3.4
Last 3 years	4.3	3.7
Last 4 years	4.7	3.8
Last 5 years	5.5	5.1
Since Inception (7/94)*	7.2	6.8

* Date started managing the pool against the Lehman Aggregate.

Recommendation

No action required.

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

STATE BOARD OF INVESTMENT

Deferred Compensation Plan Evaluation Reports

Fourth Quarter, 2006

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

457 Mutual Funds	Quarter Actual %	Quarter Bmk %	1 Year Actual %	1 Year Bmk %	3 Years Actual %	3 Years Bmk %	5 Years Actual %	5 Years Bmk %	Since Retention by SBI * %	Since Retention by SBI * %	State's Participation In Fund ($ millions)
Large Cap Equity:											
Janus Twenty (S&P 500)	9.6	6.7	12.3	15.8	15.0	10.4	7.7	6.2	-0.4	2.1	$358.4
Legg Mason Partners Appr Y (S&P 500)	6.7	6.7	15.0	15.8	9.6	10.4	6.5	6.2	11.0	12.0	$127.1
Vanguard Institutional Index Plus (S&P 500)	6.7	6.7	15.8	15.8	10.5	10.4	6.2	6.2	2.1	2.1	$468.9
Mid Cap Equity:											
Vanguard Mid-Cap Index (MSCI US Mid-Cap 450)	7.4	7.4	13.8	13.7	16.1	16.0	12.4	12.3	16.1	16.0	$122.7
Small Cap Equity:											
T. Rowe Price Small-Cap Stock (Russell 2000)	6.7	8.9	12.8	18.4	13.3	13.6	10.5	11.4	11.5	8.9	$408.5
Balanced:											
Dodge & Cox Balanced Fund (60% S&P 500/40% Lehman Agg)	4.9	4.5	13.8	11.1	11.2	7.8	10.7	6.0	13.5	9.5	$270.1
Vanguard Balanced Index Inst. Fund (60% MSCI US Broad Market, 40% Lehman Agg)	4.7	4.7	11.1	11.1	8.4	8.4	6.7	6.8	9.2	9.2	$174.5
Bond:											
Dodge & Cox Income Fund (Lehman Aggregate)	1.7	1.2	5.3	4.3	3.7	3.7	5.5	5.1	6.5	6.1	$84.1
Vanguard Total Bond Market Index Inst. (Lehman Aggregate)	1.4	1.2	4.4	4.3	3.8	3.7	4.7	5.1	3.9	3.9	$49.3
International:											
Fidelity Diversified International (MSCI EAFE-Free)	9.8	10.4	22.5	26.3	19.8	19.9	17.3	15.1	12.5	7.0	$266.1
Vanguard Inst. Dev. Mkts. Index (MSCI EAFE)	10.2	10.4	26.3	26.3	20.0	19.9	15.2	15.0	22.4	22.3	$66.9

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

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

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

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

Fixed Fund:	%
Blended Yield Rate for current quarter***:	4.6
Bid Rates for current quarter:	
Great West Life	5.2
Minnesota Life	4.9
Principal Life	5.0

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

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

		State's Participation in Fund:	**$358,443,287**
Portfolio Manager:	**Scott W. Schoelzel**	**Total Assets in Fund:**	**$9,788,900,000**

Investment Philosophy
Janus Twenty

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

Staff Comments

Janus outperformed the quarterly benchmark and trailed for the year. The quarterly performance was helped by holdings in the materials sector, particularly Potash Corporation.

Quantitative Evaluation

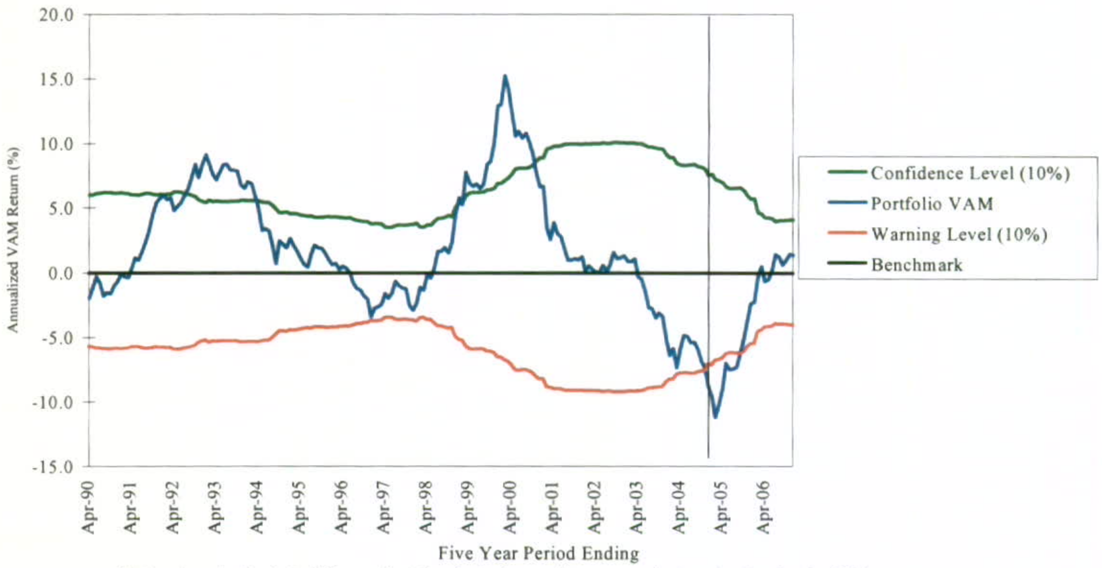
	Actual	**Benchmark***
Last Quarter	9.6%	6.7%
Last 1 year	12.3	15.8
Last 2 years	10.9	10.2
Last 3 years	15.0	10.4
Last 4 years	17.5	14.7
Last 5 years	7.7	6.2
Since Retention by SBI (7/99)	-0.4	2.1

*Benchmark is the S&P 500.

Recommendation

No action required.

LARGE CAP EQUITY - JANUS TWENTY
Rolling Five Year VAM



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

MN STATE 457 DEFERRED COMPENSATION PLAN
LARGE CAP EQUITY – LEGG MASON PARTNERS APPRECIATION Y
Periods Ending December, 2006

State's Participation in Fund:	**$127,133,302**
Total Assets in Fund:	**$6,107,444,874**

Portfolio Manager: Scott Glasser

Investment Philosophy
Legg Mason Partners Appreciation Y

The Fund invests in U.S. growth and value stocks, primarily blue-chip companies that are dominant in their industries. Investments are selected from among a core base of stocks with a strong financial history, recognized industry leadership, and effective management teams that strive to earn consistent returns for shareholders. The portfolio manager looks for companies that he believes are undervalued with the belief that a catalyst will occur to unlock these values.

Staff Comments

Legg Mason (formerly Smith Barney) matched the quarterly benchmark due to security selection, especially the financials sector. The one year underperformance was primarily due to stock selection, particularly in the consumer staples sector.

Quantitative Evaluation

	Actual	Benchmark*
Last Quarter	6.7%	6.7%
Last 1 year	15.0	15.8
Last 2 years	9.7	10.2
Last 3 years	9.6	10.4
Last 4 years	13.3	14.7
Last 5 years	6.5	6.2
Since Retention by SBI (12/03)	11.0	12.0

*Benchmark is the S&P 500.
Numbers in black are returns since retention by SBI.
Numbers in blue include returns prior to retention by SBI.

Recommendation

No action required.

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

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

MN STATE 457 DEFERRED COMPENSATION PLAN
EQUITY INDEX – VANGUARD INSTITUTIONAL INDEX PLUS
Periods Ending December, 2006

State's Participation in Fund: $468,943,848
Portfolio Manager: George U. Sauter **Total Assets in Fund: $20,294,000,000**

Investment Philosophy
Vanguard Institutional Index

This fund attempts to provide investment results, before fund expenses, that parallel the performance of the Standard & Poor's 500 Index. The fund invests in all 500 stocks listed in the S&P 500 index in approximately the same proportions as they are represented in the index. The managers have tracked the S&P 500's performance with a high degree of accuracy. The fund may use futures and options for temporary purposes, but generally remains fully invested in common stock.

Staff Comments

No comment at this time.

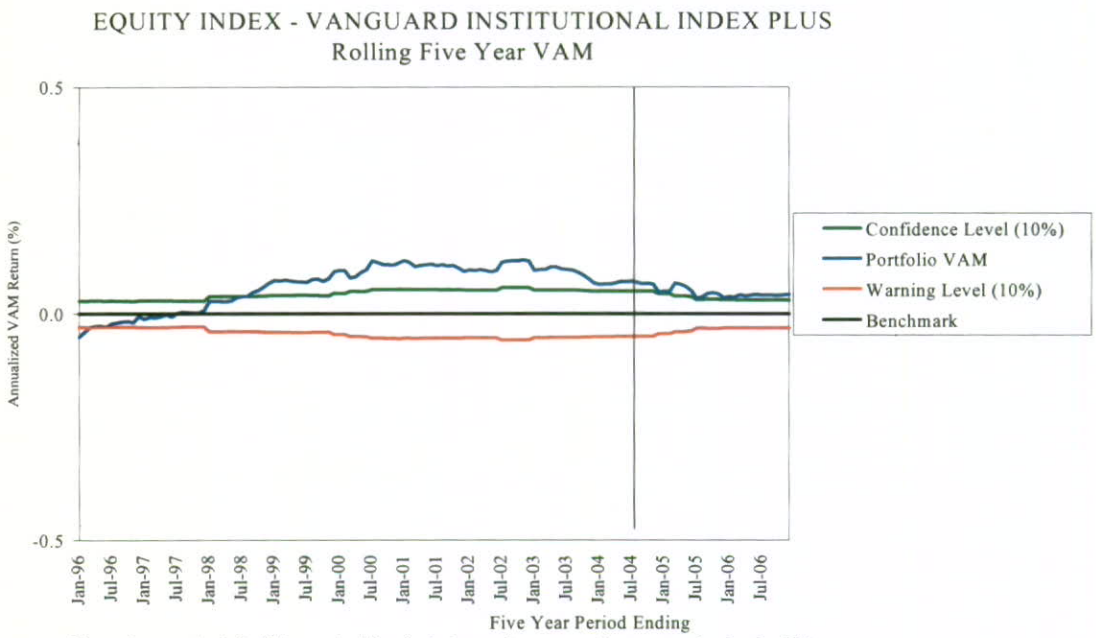
Quantitative Evaluation

	Actual	Benchmark*
Last Quarter	6.7%	6.7%
Last 1 year	15.8	15.8
Last 2 years	10.3	10.2
Last 3 years	10.5	10.4
Last 4 years	14.8	14.7
Last 5 years	6.2	6.2
Since Retention by SBI (7/99)	2.1	2.1

*Benchmark is the S&P 500.

Recommendation

No action required.



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

MN STATE 457 DEFERRED COMPENSATION PLAN
MID CAP EQUITY – VANGUARD MID-CAP INDEX
Periods Ending December, 2006

		State's Participation in Fund:	**$122,696,490**
Portfolio Manager:	**George U. Sauter**	**Total Assets in Fund:**	**$4,633,000,000**

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

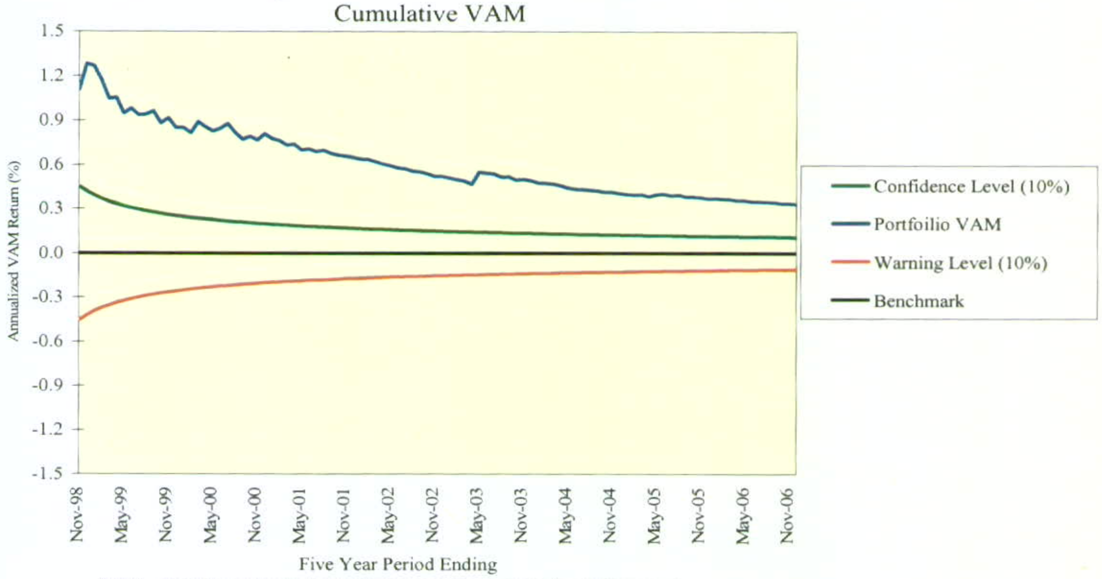
	Actual	Benchmark*
Last Quarter	7.4%	7.4%
Last 1 year	13.8	13.7
Last 2 years	13.9	13.8
Last 3 years	16.1	16.0
Last 4 years	20.4	20.2
Last 5 years	12.4	12.3
Since Retention by SBI (1/04)	16.1	16.0

*Benchmark is the MSCI US Mid Cap 450.
Numbers in black are returns since retention by SBI.
Numbers in blue include returns prior to retention by SBI.

Recommendation

No action required.

MID-CAP EQUITY - VANGUARD MID-CAP INDEX
Cumulative VAM



Note: Shaded area includes performance prior to managing SBI account

MN STATE 457 DEFERRED COMPENSATION PLAN
SMALL CAP EQUITY – T. ROWE PRICE SMALL CAP STOCK FUND
Periods Ending December, 2006

		State's Participation in Fund:	**408,477,086**
Portfolio Manager:	**Gregory A. McCrickard**	**Total Assets in Fund:**	**7,679,893,492**

Investment Philosophy
T. Rowe Price Small Cap Equity Fund

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

Staff Comments

T. Rowe-Price trailed the benchmark for the quarter and the year. The fund lagged its quarterly benchmark largely due to stock selection and an underweight among consumer discretionary stocks. The one-year return was negatively impacted by stock selection in the consumer discretionary and industrials and business services sectors.

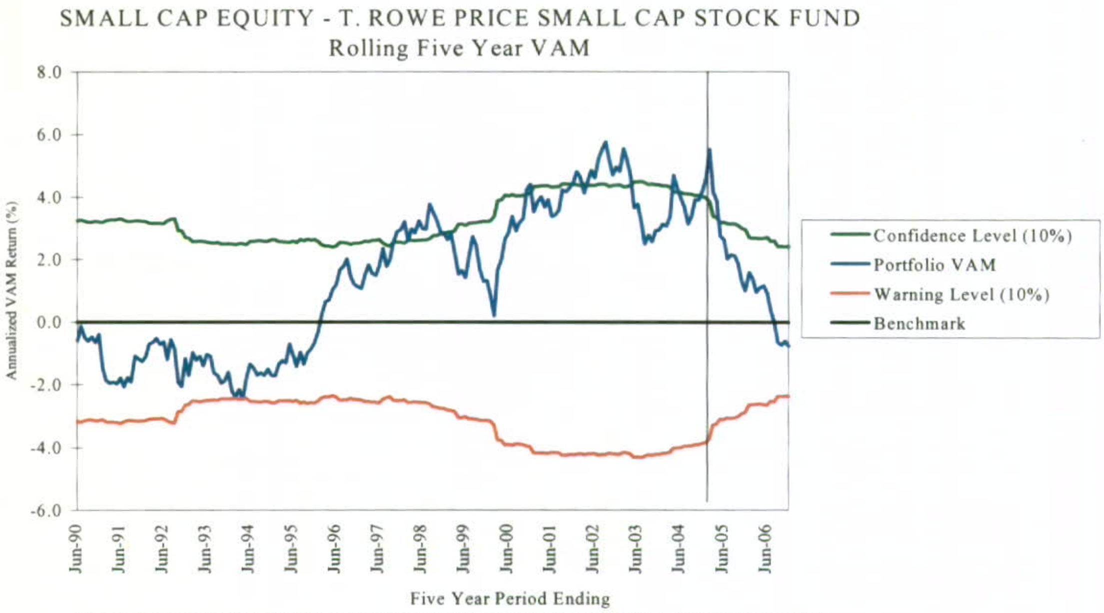
Quantitative Evaluation

	Actual	Benchmark*
Last Quarter	6.7%	8.9%
Last 1 year	12.8	18.4
Last 2 years	10.6	11.2
Last 3 years	13.3	13.6
Last 4 years	17.8	21.2
Last 5 years	10.5	11.4
Since Retention by SBI (7/99)	11.5	8.9

*Benchmark is the Russell 2000.

Recommendation

No action required.



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

STATE 457 DEFERRED COMPENSATION PLAN
BALANCED – DODGE & COX BALANCED FUND
Periods Ending December, 2006

State's Participation in Fund: $270,103,713
Portfolio Manager: John Gunn **Total Assets in Fund: $27,457,804,255**

Investment Philosophy
Dodge & Cox Balanced Fund

The Fund seeks regular income, conservation of principal and an opportunity for long-term growth of principal and income. The Fund invests in a diversified portfolio of common stocks preferred stocks and fixed income securities.

Staff Comments

Dodge & Cox outperformed the quarterly benchmark due to the fixed income portfolio exceeding its respective benchmark. The fixed income portfolio was positively impacted by strong performance from the portfolio's corporate and mortgage-backed security holdings.

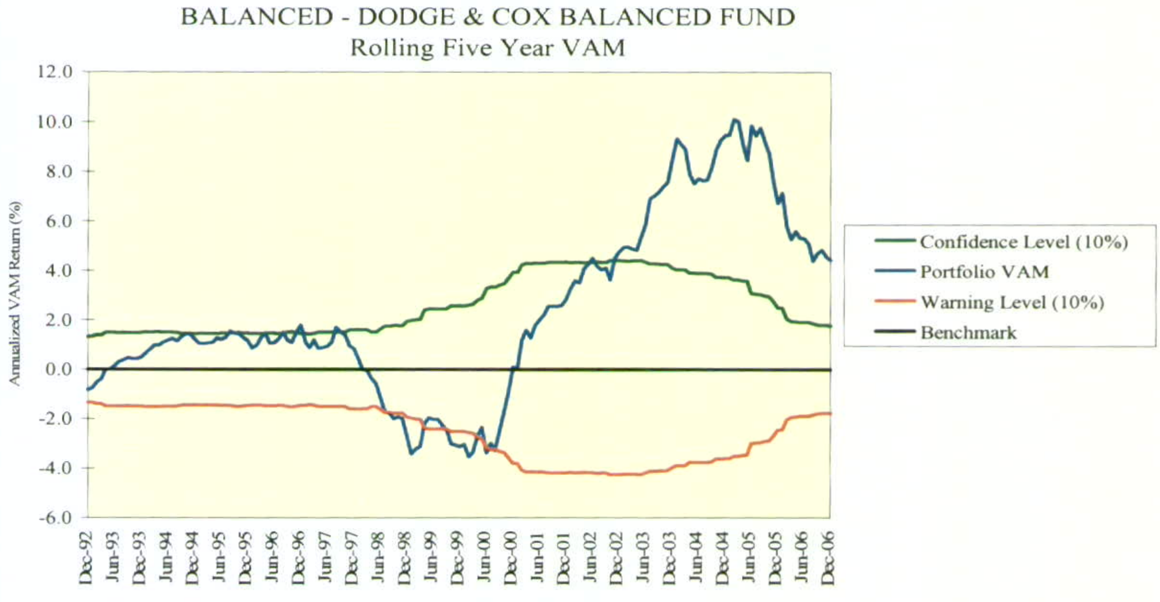
Quantitative Evaluation

	Actual	Benchmark*
Last Quarter	4.9%	4.5%
Last 1 year	13.8	11.1
Last 2 years	10.1	7.5
Last 3 years	11.2	7.8
Last 4 years	14.4	10.4
Last 5 years	10.7	6.0
Since Retention By SBI (10/03)	13.5	9.5

*Benchmark is 60% S&P 500, 40% Lehman Aggregate.
Numbers in black are returns since retention by SBI.
Numbers in blue include returns prior to retention by SBI.

Recommendation

No action required.



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

MN STATE 457 DEFERRED COMPENSATION PLAN
BALANCED – VANGUARD BALANCED INDEX INSTITUTIONAL FUND
Periods Ending December, 2006

State's Participation in Fund: $174,512,476
Portfolio Manager: George U. Sauter **Total Assets in Fund: $2,666,000,000**

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.

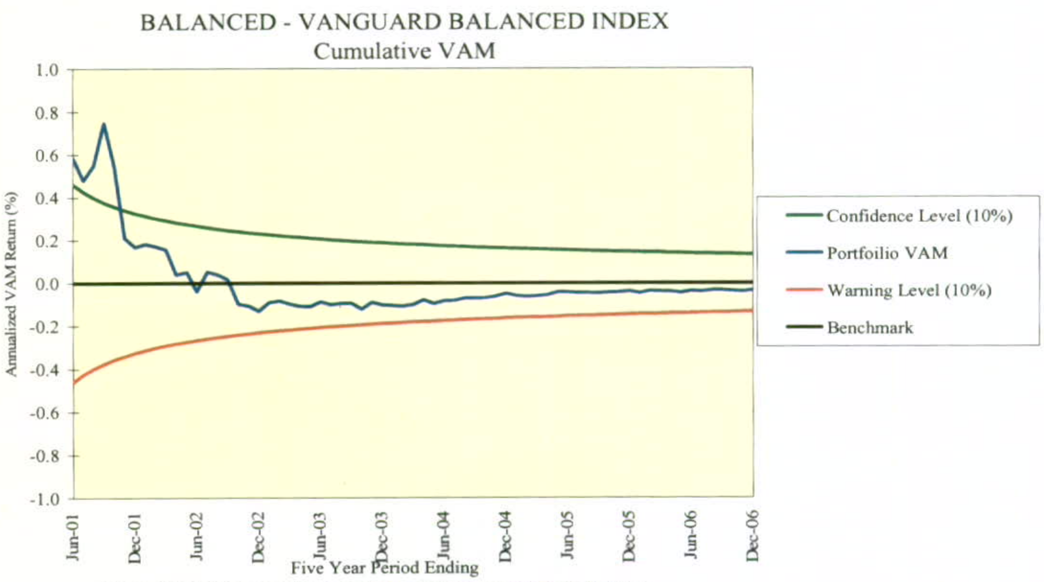
Quantitative Evaluation

	Actual	Benchmark*
Last Quarter	4.7%	4.7%
Last 1 year	11.1	11.1
Last 2 years	7.9	7.9
Last 3 years	8.4	8.4
Last 4 years	11.2	11.2
Last 5 years	6.7	6.8
Since Retention by SBI (12/03)	9.2	9.2

*Benchmark is 60% MSCI US Broad Market, 40% Lehman Aggregate.
Equity benchmark was Wilshire 5000 prior to April 1, 2005.
Numbers in black are returns since retention by SBI.
Numbers in blue include returns prior to retention by SBI.

Recommendation

No action required.



Note: Shaded area includes performance prior to managing SBI account

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

State's Participation in Fund: **$84,120,994**
Portfolio Manager: Dana Emery **Total Assets in Fund:** **$11,971,716,833**

Investment Philosophy
Dodge & Cox Income Fund

The objective of this fund is a high and stable rate of current income with capital appreciation being a secondary consideration. This portfolio is invested primarily in intermediate term, investment-grade quality corporate and mortgage bonds and, to a lesser extent, government issues. While the fund invests primarily in the U.S. bond market, it may invest a small portion of assets in dollar-denominated foreign securities. The duration of the portfolio is kept near that of the bond market as a whole.

Staff Comments

Dodge & Cox exceeded the quarterly benchmark due to security selection in the corporate sector and the fund's shorter than benchmark duration.

Quantitative Evaluation

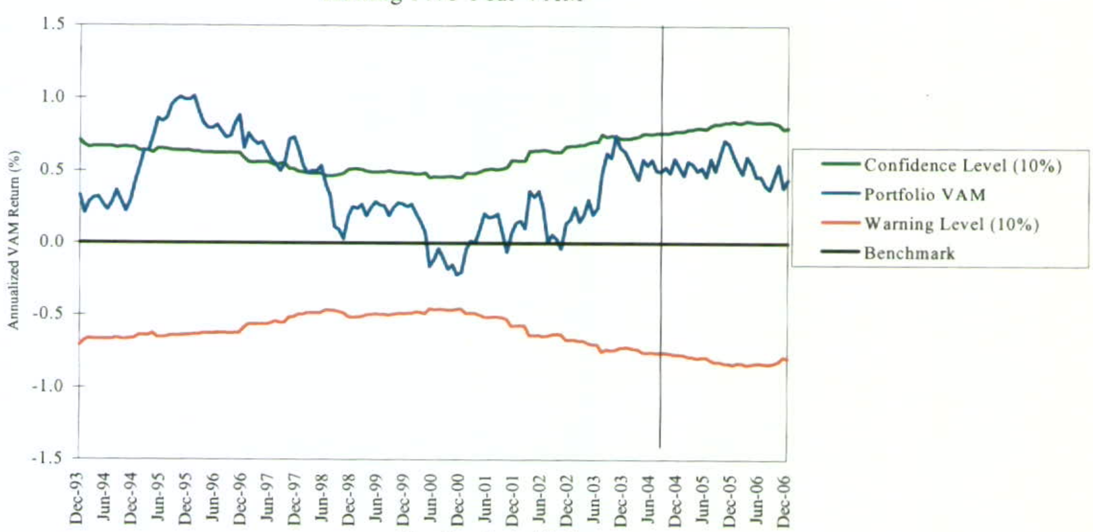
	Actual	Benchmark*
Last Quarter	1.7%	1.2%
Last 1 year	5.3	4.3
Last 2 years	3.6	3.4
Last 3 years	3.7	3.7
Last 4 years	4.3	3.8
Last 5 years	5.5	5.1
Since Retention By SBI (7/99)	6.5	6.1

*Benchmark is the Lehman Aggregate.

Recommendation

No action required.

BOND - DODGE & COX INCOME FUND
Rolling Five Year VAM



Five Year Period Ending
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 December, 2006

		State's Participation in Fund:	**$49,314,022**
Portfolio Manager:	**Robert Auwaerter**	**Total Assets in Fund:**	**$8,257,000,000**

Investment Philosophy
Vanguard Total Bond Market Index Institutional

The fund attempts to track the performance of the Lehman Brothers Aggregate Bond Index, which is a widely recognized measure of the entire taxable U.S. bond market. The index consists of more than 5,000 U.S. Treasury, federal agency, mortgage-backed, and investment-grade corporate securities. Because it is not practical or cost-effective to own every security in the index, the fund invests in a large sampling that matches key characteristics of the index (such as market-sector weightings, coupon interest rates, credit quality, and maturity). To boost returns, the fund holds a higher percentage than the index in short-term, investment-grade corporate bonds and a lower percentage in short-term Treasury securities.

Staff Comments

No comment at this time.

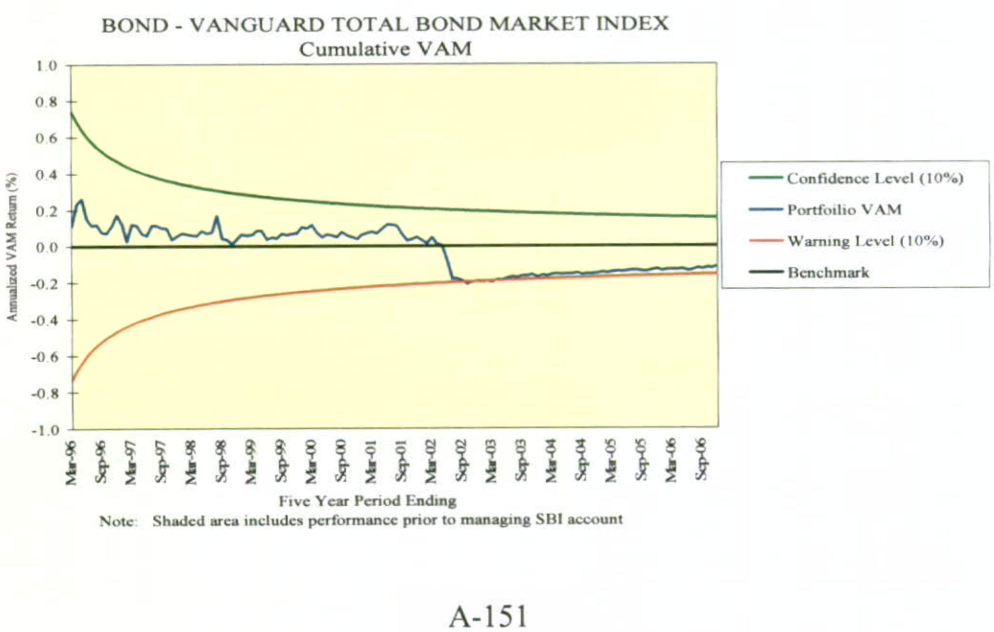
Quantitative Evaluation

	Actual	Benchmark*
Last Quarter	1.4%	1.2%
Last 1 year	4.4	4.3
Last 2 years	3.4	3.4
Last 3 years	3.8	3.7
Last 4 years	3.8	3.8
Last 5 years	4.7	5.1
Since Retention by SBI (12/03)	3.9	3.9

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

Recommendation

No action required.



Note: Shaded area includes performance prior to managing SBI account

MN STATE 457 DEFERRED COMPENSATION PLAN
INTERNATIONAL – FIDELITY DIVERSIFIED INTERNATIONAL
Periods Ending December, 2006

	State's Participation in Fund:	**$266,055,476**
Portfolio Manager: William Bower	**Total Assets in Fund:**	**$47,341,770,000**

Investment Philosophy
Fidelity Diversified International

The goal of this fund is capital appreciation by investing in securities of companies located outside of the United States. While the fund invests primarily in stocks, it may also invest in bonds. Most investments are made in companies that have a market capitalization of $100 million or more and which are located in developed countries. To select the securities, the fund utilizes a rigorous computer-aided quantitative analysis supplemented by relevant economic and regulatory factors. The manager rarely invests in currency to protect the account from exchange fluctuations.

Staff Comments

Fidelity trailed the quarterly and one-year benchmark. Performance for both periods was hurt by security selection in the financials sector and an underweight to the utilities sector.

Quantitative Evaluation

	Actual	Benchmark*
Last Quarter	9.8%	10.4%
Last 1 year	22.5	26.3
Last 2 years	19.8	19.8
Last 3 years	19.8	19.9
Last 4 years	25.1	24.3
Last 5 years	17.3	15.1
Since Retention By SBI (7/99)	12.5	7.0

*Benchmark is the MSCI EAFE-Free.

Recommendation

No action required.

INTERNATIONAL - FIDELITY DIVERSIFIED INTERNATIONAL
Rolling Five Year VAM

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

MN STATE 457 DEFERRED COMPENSATION PLAN
INTERNATIONAL – VANGUARD INSTITUTIONAL DEVELOPED MARKETS INDEX
Periods Ending December, 2006

		State's Participation in Fund:	**$66,876,722**
Portfolio Manager:	**George U. Sauter**	**Total Assets in Fund:**	**$3,933,000,000**

Investment Philosophy Vanguard Institutional Developed Market Index

The fund seeks to track the performance of the MSCI EAFE Index by passively investing in two other Vanguard funds—the European Stock Index Fund and the Pacific Stock Index Fund. The combination of the two underlying index funds, in turn, seeks to track the investment results of the Morgan Stanley Capital International (MSCI) Europe, Australasia, Far East (EAFE) Index. The MSCI EAFE Index includes approximately 1,000 common stocks of companies located in Europe, Australia, Asia, and the Far East.

Staff Comments

No comment at this time.

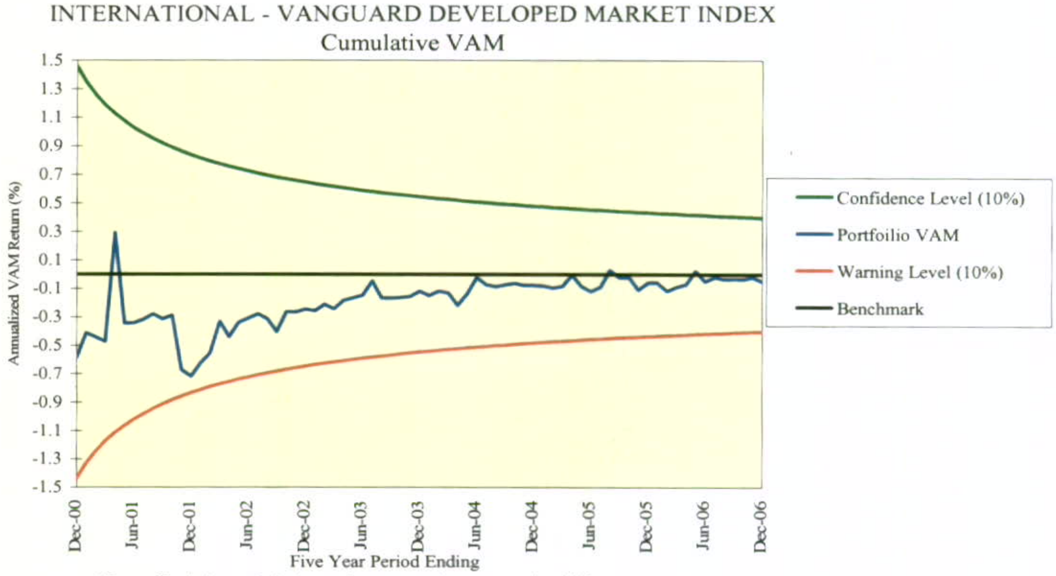
Quantitative Evaluation

	Actual	Benchmark*
Last Quarter	10.2%	10.4%
Last 1 year	26.3	26.3
Last 2 years	19.8	19.8
Last 3 years	20.0	19.9
Last 4 years	24.4	24.3
Last 5 years	15.2	15.0
Since Retention by SBI (12/03)	22.4	22.3

*Benchmark is the MSCI EAFE International
Numbers in black are returns since retention by SBI.
Numbers in blue include returns prior to retention by SBI.

Recommendation

No action required.



Note: Shaded area includes performance prior to managing SBI account

MN STATE 457 DEFERRED COMPENSATION PLAN
MN FIXED FUND
Periods Ending December, 2006

Total Assets in MN Fixed Fund: $753,403,308 *
*Includes $14-18M in Liquidity Buffer Account

Principal Life

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

Assets in MN Fixed Fund: $327,769,523

Investment Philosophy

The manager invests in fixed income securities, commercial mortgages, mortgage-backed securities and residential whole loans, with lesser amounts invested in stock, cash equivalents and direct real estate. The manager relies upon in-house analysis and prefers investments that offer more call protection. The manager strongly prefers private placements to corporate bonds in the belief that private placements offer higher yields and superior protective covenants compared to public bonds. A portion of the fixed income portfolio is invested in US dollar-denominated foreign corporate bonds. Mortgage-backed bonds are actively managed to prices at or below par to reduce prepayment risk. Conservative underwriting standards, small loan sizes and an emphasis on industrial properties minimizes commercial loan risk.

Minnesota Life

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

Assets in MN Fixed Fund: $170,641,381

Assets in Prior MN 457 Plan: $0

Total Assets: $170,641,381

Investment Philosophy

Investment decisions support an asset/liability match for the company's many product lines. A conservative investment philosophy uses a number of active and passive investment strategies to manage general account assets and cash flow. Assets are primarily invested in a widely diversified portfolio of high quality fixed income investments that includes public and private corporate bonds, commercial mortgages, residential mortgage securities and other structured investment products, providing safety of principal and stable, predictable cash flow to meet liabilities and to invest in and produce consistent results in all phases of the economic cycle.

Great-West Life

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

Assets in MN Fixed Fund: $243,724,706

Assets in Prior MN 457 Plan: $ 0

Total Assets: $243,724,706

Investment Philosophy

The Company observes strict asset/liability matching guidelines to ensure that the investment portfolio will meet the cash flow and income requirements of its liabilities. The manager invests in public and privately placed corporate bonds, government and international bonds, common stocks, mortgage loans, real estate, redeemable preferred stocks and short-term investments. To reduce portfolio risk, the manager invests primarily in investment grade fixed maturities rated by third-party rating agencies or by the manager if private placements. Mortgage loans reflect a broadly diversified portfolio of commercial and industrial mortgages subject to strict underwriting criteria.

MN STATE 457 DEFERRED COMPENSATION PLAN
MN FIXED FUND
Periods Ending December, 2006

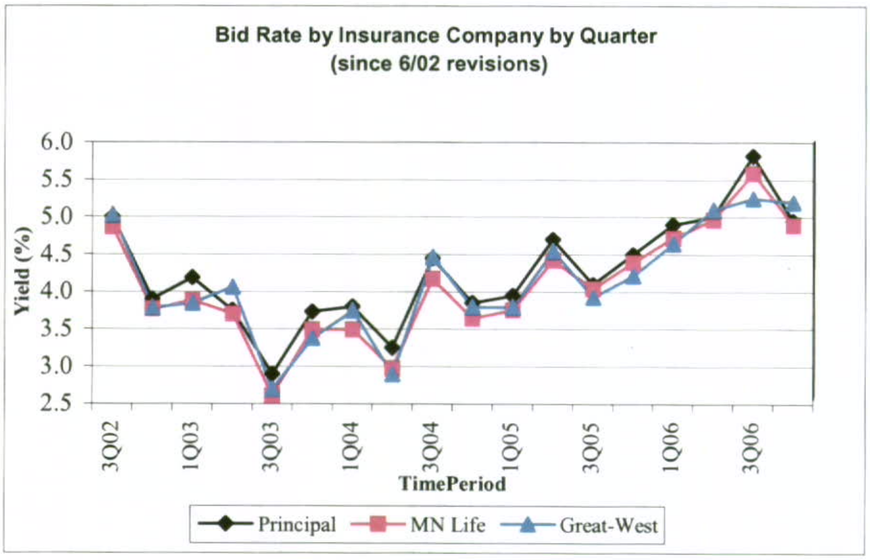
Current Quarter

Dollar Amount of Bid: $27,600,000 **Blended Rate: 4.56%**

Bid Rates:

Principal Life	4.95%
Minnesota Life	4.89%
Great-West Life	5.20%

Contracts were renewed in June 2002. Under these contracts, bid rates are effective for five years on the quarterly cash flows, the bid rate bands were narrowed to 8 b.p. from 10 b.p., and additional bid scenarios were added. All changes were effective for 3Q 2002 bids. The separate portfolio managed by Minnesota Life (previously referred to as the "existing portfolio") no longer exits. All assets of that portfolio matured in June 2004 and have been rolled into the Fixed Fund.



Staff Comments on Bid Rates

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

	1Q06	2Q06	3Q06	4Q06
Principal Life	75.0%	30.0%	75.0%	0.0
Minnesota Life	25.0%	30.0%	25.0%	0.0
Great-West Life	0.0%	40.0%	0.0%	100.0%

Staff Comments

Great West was the top bidder and was awarded 100%.

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Tab E

COMMITTEE REPORT

DATE: February 27, 2007

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

FROM: Alternative Investment Committee

The Alternative Investment Committee met on February 21, 2007 to review the following information and action agenda items:

1. Review of current strategy.
2. New investments with one existing real estate manager, three new resource managers and two existing private equity managers regarding investments in new funds:
    - Blackstone Real Estate Partners
    - NGP Midstream & Resources
    - Sheridan Production Partners
    - TCW Energy & Infrastructure Group
    - Blackstone Capital Partners
    - Silver Lake 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, Blackstone Real Estate Partners, in Blackstone Real Estate Partners VI, L.P.**

Blackstone Real Estate Partners is seeking investors for a new $8 billion real estate fund. This fund is a successor to five other prior real estate funds managed by Blackstone in which the SBI has invested $100 million in Fund V. Like the prior fund, this fund will seek to earn attractive returns through a diversified portfolio of real estate investments.

More information on Blackstone Real Estate Partners VI, L.P. is included as **Attachment C**.

RECOMMENDATION:

The Committee recommends that the SBI authorize the Executive Director, with assistance from the SBI's legal counsel, to negotiate and execute a commitment of up to $100 million or 20%, whichever is less, in Blackstone Real Estate Partners VI, L.P. Approval by the SBI of this potential commitment is not intended to be, and does not constitute in any way, a binding or legal agreement or impose any legal obligations on the State Board of Investment and neither the State of Minnesota, the State Board of Investment nor its Executive Director have any liability for reliance by Blackstone upon this approval. Until the Executive Director on behalf of the SBI executes a formal agreement, further due diligence and negotiations may result in the imposition of additional terms and conditions on Blackstone or reduction or termination of the commitment.

2) **Investment with a new resource manager, NGP Midstream & Resources, in NGP Midstream & Resources L.P.**

NGP Midstream & Resources is seeking investors for a new $1.5 billion resource fund. This fund is the first fund for NGP Midstream & Resources. The principals of NGP Midstream & Resources were previously successful energy industry executives that joined NGP (NGP is a successful energy fund investment management company) to form this new venture. This fund will seek to earn attractive returns through a diversified portfolio of energy investments.

More information on NGP Midstream & Resources 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 NGP Midstream & Resources L.P. Approval by the SBI of this potential commitment is not intended to be, and does not constitute in any way, a binding or legal agreement or impose any legal obligations on the State Board of Investment and neither the State of Minnesota, the State Board of Investment nor its Executive Director have any liability for reliance by NGP Midstream & Resources upon this approval. Until the Executive Director on behalf of the SBI executes a formal agreement, further due diligence and negotiations may result in the imposition of additional terms and conditions on NGP Midstream & Resources or reduction or termination of the commitment.

3) **Investment with a new resource manager, Sheridan Production Partners, in Sheridan Production Partners I, L.P.**

Sheridan Production Partners is seeking investors for a new $1 billion resource fund. This fund is the first fund for Sheridan Production Partners. The principals of Sheridan Production Partners were previously successful energy industry executives who were recruited by Warburg Pincus (one of the SBI's existing private equity managers) to form this Warburg Pincus-sponsored energy fund. This fund will seek to earn attractive returns through a diversified portfolio of energy investments.

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

4) **Investment with a new resource manager, TCW Energy & Infrastructure Group, in TCW Energy Fund XIV, L.P.**

TCW Energy & Infrastructure Group, an affiliate of one of the SBI's existing yield-oriented managers, is seeking investors for a new $2 billion resource fund. This fund is a successor to thirteen other prior resource funds managed by TCW Energy & Infrastructure Group. Like the other predecessor funds, this fund will seek to earn attractive returns through a diversified portfolio of resource investments.

More information on TCW Energy Fund XIV, L.P. is included as **Attachment F.**

RECOMMENDATION:

The Committee recommends that the SBI authorize the Executive Director, with assistance from the SBI's legal counsel, to negotiate and execute a commitment of up to $100 million or 20%, whichever is less, in TCW Energy Fund XIV, L.P. Approval by the SBI of this potential commitment is not intended to be, and does not constitute in any way, a binding or legal agreement or impose any legal obligations on the State Board of Investment and neither the State of Minnesota, the State Board of Investment nor its Executive Director have any liability for reliance by TCW Energy & Infrastructure Group upon this approval. Until the Executive Director on behalf of the SBI executes a formal agreement, further due diligence and negotiations may result in the imposition of additional terms and conditions on TCW Energy & Infrastructure Group or reduction or termination of the commitment.

5) Investment with an existing private equity manager, Blackstone Capital Partners, in Blackstone Capital Partners V, L.P.

Blackstone Capital Partners V, L.P. started its investment period in December 2005 and held its "final" close on \$15.8 billion in June 2006. The SBI committed \$100 million to Blackstone Capital Partners V, L.P. Given Blackstone's unusually rapid deployment of capital for Blackstone Capital Partners V, L.P., Blackstone re-opened its investor subscription period in the Partnership by offering existing limited partners and new investors the opportunity to subscribe for additional capital commitments. Each limited partner is being offered the right to subscribe for its pro rata share (approximately 40% of original commitment or \$40 million for the SBI) of any offering of additional capital commitments, and any portion not taken up was made available, first to other limited partners that wish to subscribe for more than their pro rata share, and thereafter to new investors chosen by the general partner. Limited partners will only participate in deals that close after the date that their new subscription to the re-opened fund is closed on. The fund will continue to seek to earn attractive returns through a diversified portfolio of private equity investments.

More information on Blackstone Capital Partners V, L.P. is included as **Attachment G.**

RECOMMENDATION:

The Committee recommends that the SBI authorize the Executive Director, with assistance from the SBI's legal counsel, to negotiate and execute a commitment of up to \$40 million in addition to the \$100 million already committed, for up to \$140 million in total, or 20%, whichever is less, in Blackstone Capital Partners V, L.P. Approval by the SBI of this potential commitment is not intended to be, and does not constitute in any way, a binding or legal agreement or impose any legal obligations on the State Board of Investment and neither the State of Minnesota, the State Board of Investment nor its Executive Director have any liability for reliance by Blackstone upon this approval. Until the Executive Director on behalf of the SBI executes a formal agreement, further due diligence and negotiations may result in the imposition of additional terms and conditions on Blackstone or reduction or termination of the commitment.

6) **Investment with an existing private equity manager, Silver Lake Partners, in Silver Lake Partners III, L.P.**

Silver Lake Partners is seeking investors for a new $8 billion private equity fund. This fund is a successor to two other prior private equity funds managed by Silver Lake Partners. The SBI invested $100 million in the prior fund, Fund II. Like the prior fund, this fund will seek to earn attractive returns through a diversified portfolio of private equity investments.

More information on Silver Lake Partners III, L.P. is included as **Attachment H.**

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

Minnesota State Board of Investment

Pooled Alternative Investments

Combined Retirement Funds

December 31, 2006

Basic Retirement Funds Market Value	$23,693,495,331
Post Retirement Fund Market Value	$23,733,595,459
Amount Available for Investment	**$2,052,276,395**

	Current Level	Target Level	Difference
Market Value (MV)	$4,349,779,360	$6,402,055,755	$2,052,276,395
MV +Unfunded	$7,138,707,096	$9,603,083,632	$2,464,376,536

Asset Class	Market Value	Unfunded Commitment	Total
Private Equity	$2,334,861,924	$1,659,631,511	$3,994,493,435
Real Estate	$785,868,315	$217,822,020	$1,003,690,336
Resource	$243,927,306	$170,001,969	$413,929,275
Yield-Oriented	$985,121,815	$741,472,236	$1,726,594,051
Total	$4,349,779,360	$2,788,927,736	$7,138,707,096

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ATTACHMENT B

Minnesota State Board of Investment

- Alternative Investments -

As of December 31, 2006

Investment	Total Commitment	Funded Commitment	Market Value	Distributions	Unfunded Commitment	IRR %	Period Years
Real Estate							
American Republic Realty Fund	1	1	130,000	5,000	0	107.6	16.9
Blackstone Real Estate V	100,000,000	46,648,967	44,051,983	10,748,500	53,351,033	N/A	0.7
Colony Capital							
Colony Investors II	80,000,000	78,482,328	629,794	88,682,745	1,517,672	4.5	11.8
Colony Investors III	100,000,000	100,000,000	17,344,333	152,755,421	0	14.7	9.0
CSFB Strategic Partners III RE	25,000,000	4,691,805	4,521,117	0	20,308,195	-5.2	1.5
Lehman Brothers Real Estate Partners II	75,000,000	33,854,880	32,482,475	10,668,414	41,145,120	36.3	1.5
Morgan Stanley (Lend Lease)	40,000,000	40,000,000	246,023,523	0	0	7.6	25.2
T.A. Associates Realty							
Realty Associates Fund IV	50,000,000	50,000,000	9,887,089	94,445,785	0	13.0	9.9
Realty Associates Fund V	50,000,000	50,000,000	38,987,028	52,161,126	0	11.7	7.6
Realty Associates Fund VI	50,000,000	50,000,000	52,010,815	22,447,003	0	18.0	4.5
Realty Associates Fund VII	75,000,000	73,500,000	74,695,623	6,337,759	1,500,000	11.9	2.1
Realty Associates Fund VIII	100,000,000	0	0	0	100,000,000	N/A	0.5
UBS Realty	42,376,529	42,376,529	265,104,536	0	0	8.2	24.7
Real Estate Total	787,376,530	569,554,510	785,868,315	438,251,753	217,822,020		
Resource							
Apache Corp III	30,000,000	30,000,000	9,976,770	52,269,584	0	12.6	20.0
First Reserve							
First Reserve Fund I	15,000,000	15,000,000	16,248	14,552,526	0	-0.3	25.3
First Reserve Fund II	7,000,000	7,000,000	55,480	14,879,948	0	5.9	23.9
First Reserve Fund V	16,800,000	16,800,000	155,477	50,261,377	0	16.2	16.7
First Reserve Fund VII	40,000,000	40,000,000	3,015,002	55,976,613	0	9.7	10.5
First Reserve Fund VIII	100,000,000	100,000,000	47,483,900	133,079,914	0	13.8	8.7
First Reserve Fund IX	100,000,000	100,000,000	41,696,776	241,587,719	0	47.1	5.7
First Reserve Fund X	100,000,000	81,139,739	70,246,955	48,126,626	18,860,261	51.5	2.2
First Reserve Fund XI	150,000,000	3,525,397	3,525,397	0	146,474,603	N/A	0.0
Simmons							
Simmons - SCF-II	17,000,000	14,706,629	999,999	30,582,945	2,293,371	9.1	15.4
Simmons - SCF-IV	50,000,000	47,626,265	59,067,080	107,089,527	2,373,735	27.2	8.8
T. Rowe Price	10,690,037	10,690,037	7,688,223	36,254	0	-27.7	1.9
Resource Total	636,490,037	466,488,068	243,927,306	748,443,033	170,001,969		

Minnesota State Board of Investment
- Alternative Investments -
As of December 31, 2006

Investment	Total Commitment	Funded Commitment	Market Value	Distributions	Unfunded Commitment	IRR %	Period Years
Yield-Oriented							
Carbon Capital	50,000,000	46,184,308	2,936,398	57,519,596	3,815,692	15.4	4.6
Citicorp Mezzanine							
Citicorp Mezzanine I	40,000,000	40,000,000	139,740	57,043,150	0	10.4	12.0
Citicorp Mezzanine III	100,000,000	88,029,296	26,160,062	103,060,080	11,970,704	16.4	7.2
CT Mezzanine Partners II	100,000,000	36,804,097	1,563,276	50,802,048	63,195,903	19.7	5.3
DLJ Investment Partners							
DLJ Investment Partners II	50,000,000	21,026,211	5,648,651	26,716,089	28,973,789	11.2	7.0
DLJ Investment Partners III	100,000,000	11,627,921	9,211,348	0	88,372,079	N/A	0.5
Gold Hill Venture Lending	40,000,000	29,600,000	25,369,758	3,748,117	10,400,000	-1.2	2.3
GMAC Institutional Advisors							
Institutional Commercial Mortgage Fd III	21,500,000	21,275,052	8,193,449	26,798,142	224,948	8.2	10.1
Institutional Commercial Mortgage Fd IV	14,300,000	14,300,000	4,709,664	17,854,140	0	8.4	9.0
Institutional Commercial Mortgage Fd V	37,200,000	37,200,000	26,770,170	27,958,758	0	8.3	7.4
GS Mezzanine Partners							
GS Mezzanine Partners II	100,000,000	83,092,437	48,761,854	70,300,738	16,907,563	10.8	6.8
GS Mezzanine Partners III	75,000,000	52,896,411	40,296,302	29,669,352	22,103,589	18.4	3.5
GS Mezzanine Partners 2006	100,000,000	25,845,263	20,117,847	6,138,611	74,154,737	N/A	0.7
GTCR Capital Partners	80,000,000	69,589,422	11,263,007	95,661,539	10,410,578	11.0	7.1
KB Mezzanine Fund II	25,000,000	25,000,000	1,536,508	12,080,745	0	-11.5	11.2
Merit Capital Partners (fka William Blair)							
William Blair Mezzan. Cap. Fd. III	60,000,000	55,998,000	27,286,422	53,774,400	4,002,000	10.8	7.0
Merit Mezzanine Fund IV	75,000,000	25,166,209	24,560,483	0	49,833,791	-2.8	2.0
Merit Energy Partners							
Merit Energy Partners B	24,000,000	24,000,000	61,947,845	51,765,395	0	25.4	10.5
Merit Energy Partners C	50,000,000	50,000,000	188,858,069	78,549,018	0	35.8	8.2
Merit Energy Partners D	88,000,000	70,938,303	190,341,651	28,530,896	17,061,697	32.1	5.6
Merit Energy Partners E	100,000,000	40,581,510	54,110,891	2,483,297	59,418,490	19.2	2.2
Merit Energy Partners F	100,000,000	18,784,783	17,137,771	0	81,215,217	N/A	0.8
Prudential Capital Partners							
Prudential Capital Partners I	100,000,000	95,074,386	40,571,311	76,864,120	4,925,614	8.6	5.7
Prudential Capital Partners II	100,000,000	36,159,987	34,756,039	2,010,074	63,840,013	2.2	1.5
Summit Partners							
Summit Subordinated Debt Fund I	20,000,000	18,000,000	82,921	31,406,578	2,000,000	30.6	12.8
Summit Subordinated Debt Fund II	45,000,000	40,275,000	6,129,869	81,724,965	4,725,000	56.6	9.4
Summit Subordinated Debt Fund III	45,000,000	23,400,000	16,003,439	10,373,867	21,600,000	9.6	2.9
T. Rowe Price	35,756,500	35,756,500	450,649	32,834,356	0	-28.0	6.5
TCW/Crescent Mezzanine							
TCW/Crescent Mezzanine Partners I	40,000,000	37,130,039	4,398,524	57,050,388	2,869,961	15.2	10.7
TCW/Crescent Mezzanine Partners II	100,000,000	87,479,046	4,600,489	128,184,441	12,520,954	12.9	8.1
TCW/Crescent Mezzanine Partners III	75,000,000	68,835,264	34,615,211	95,530,820	6,164,736	34.1	5.8
Windjammer Capital Investors							
Windjammer Mezzanine & Equity Fund II *	66,708,861	49,643,981	43,589,332	31,355,457	17,064,880	13.5	6.7
Windjammer Senior Equity Fund III	67,974,684	4,274,383	3,002,865	0	63,700,301	N/A	1.0
Yield-Oriented Total	2,125,440,045	1,383,967,809	985,121,815	1,347,789,178	741,472,236		

Minnesota State Board of Investment

- Alternative Investments -

As of December 31, 2006

Investment	Total Commitment	Funded Commitment	Market Value	Distributions	Unfunded Commitment	IRR %	Period Years
Private Equity							
Adams Street Partners (Brinson)							
Brinson Partners I	5,000,000	3,800,000	49,722	9,387,104	1,200,000	13.2	18.6
Brinson Partners II	20,000,000	20,000,000	63,491	37,898,512	0	24.1	16.1
Affinity Ventures	4,000,000	1,391,847	1,050,221	405,436	2,608,153	4.7	2.5
Bank Fund							
Banc Fund V	48,000,000	48,000,000	37,965,162	65,849,766	0	15.0	8.5
Banc Fund VII	45,000,000	25,200,000	23,755,334	380,725	19,800,000	-5.0	1.7
Blackstone Capital Partners							
Blackstone Capital Partners II	50,000,000	47,271,190	4,406,140	94,930,770	2,728,810	34.2	13.1
Blackstone Capital Partners IV	70,000,000	60,054,871	59,202,636	53,374,064	9,945,129	50.3	4.5
Blackstone Capital Partners V	100,000,000	35,602,307	33,359,653	578,519	64,397,693	N/A	0.9
BLUM Capital Partners							
Blum Strategic Partners I	50,000,000	49,001,812	18,456,600	86,426,434	998,188	14.7	8.0
Blum Strategic Partners II	50,000,000	40,081,967	31,855,946	50,964,622	9,918,033	25.4	5.5
Blum Strategic Partners III	75,000,000	63,938,680	63,485,458	9,456,587	11,061,320	17.2	1.6
Chicago Growth Partners (William Blair)							
William Blair Capital Partners VII	50,000,000	45,500,000	30,616,195	21,971,737	4,500,000	4.7	5.8
Chicago Growth Partners VIII	50,000,000	18,591,998	14,515,268	2,792,517	31,408,002	-12.2	1.4
Contrarian Capital Fund II	37,000,000	33,244,395	9,418,364	38,797,573	3,755,605	5.3	9.6
Coral Partners							
Coral Partners II	10,000,000	10,000,000	334,241	36,632,559	0	24.9	16.4
Coral Partners IV	15,000,000	15,000,000	2,509,043	13,156,023	0	1.0	12.4
Coral Partners V	15,000,000	14,625,000	2,656,204	3,106,198	375,000	-15.0	8.5
Court Square Capital							
Citigroup Venture Capital Equity	100,000,000	79,614,184	48,711,669	90,793,802	20,385,816	29.2	5.1
Court Square Capital Partners II	100,000,000	7,121,768	7,121,768	0	92,878,232	N/A	0.3
Crescendo							
Crescendo III	25,000,000	25,000,000	1,492,658	9,321,908	0	-21.6	8.2
Crescendo IV	101,500,000	101,500,000	40,824,509	4,018,614	0	-18.0	6.8
CSFB/ DLJ							
DLJ Merchant Banking Partners III	125,000,000	117,419,326	75,372,819	130,628,600	7,580,674	19.2	6.3
DLJ Strategic Partners	100,000,000	85,986,044	41,970,871	100,967,058	14,013,956	23.0	5.9
CSFB Strategic Partners II-B	100,000,000	71,981,057	61,760,125	71,995,672	28,018,943	49.9	3.5
CSFB Strategic Partners III VC	25,000,000	11,582,951	11,808,765	485,366	13,417,049	9.7	1.6
CSFB Strategic Partners III-B	100,000,000	24,356,014	25,069,003	2,481,823	75,643,986	26.8	1.6
Diamond Castle Partners IV	100,000,000	35,830,061	34,255,079	90,065	64,169,939	N/A	0.3
DSV Partners	10,000,000	10,000,000	1,233,389	28,861,427	0	9.6	21.7
Elevation Partners	75,000,000	23,685,852	22,045,559	0	51,314,148	-9.9	1.6
First Century Partners III	10,000,000	10,000,000	2,922	15,226,240	0	7.5	22.0
Fox Paine Capital Fund							
Fox Paine Capital Fund I	40,000,000	40,000,000	6,113,873	39,288,122	0	2.2	8.7
Fox Paine Capital Fund II	50,000,000	37,598,342	29,304,991	44,478,121	12,401,658	31.4	6.5

Minnesota State Board of Investment

- Alternative Investments -

As of December 31, 2006

Investment	Total Commitment	Funded Commitment	Market Value	Distributions	Unfunded Commitment	IRR %	Period Years
GHJM Marathon Fund							
GHJM Marathon Fund IV	40,000,000	39,051,000	9,952,687	44,201,952	949,000	8.3	7.7
GHJM Marathon Fund V	28,985,714	27,519,528	26,153,716	3,197,797	1,466,186	7.3	2.2
Golder,Thoma, Cressey, Rauner							
Golder, Thoma, Cressey & Rauner Fund III	14,000,000	14,000,000	172,079	78,123,015	0	30.9	19.2
Golder, Thoma, Cressey & Rauner Fund IV	20,000,000	20,000,000	49,455	41,313,157	0	24.9	12.9
Golder, Thoma, Cressey & Rauner Fund V	30,000,000	30,000,000	7,970,768	45,116,772	0	10.8	10.5
GS Capital Partners							
GS Capital Partners 2000	50,000,000	50,000,000	26,609,706	63,897,457	0	23.3	6.3
GS Capital Partners V	100,000,000	57,505,427	61,506,655	0	42,494,573	8.0	1.7
GS Capital Partners 2006	100,000,000	0	0	0	100,000,000	N/A	0.0
GTCR Golder Rauner							
GTCR VI	90,000,000	90,000,000	26,974,615	73,072,247	0	3.4	8.5
GTCR VII	175,000,000	151,156,249	96,338,820	199,881,448	23,843,751	21.5	6.9
GTCR IX	75,000,000	4,232,519	4,232,519	0	70,767,481	N/A	0.5
Hellman & Friedman							
Hellman & Friedman Capital Partners III	40,000,000	32,113,684	210,103	72,594,844	7,886,316	34.4	12.3
Hellman & Friedman Capital Partners IV	150,000,000	133,967,494	108,281,478	216,751,719	16,032,506	33.7	7.0
Hellman & Friedman Capital Partners V	160,000,000	140,029,535	147,429,783	7,860,279	19,970,465	15.0	2.1
Hellman & Friedman Capital Partners VI	175,000,000	0	0	0	175,000,000	N/A	0.0
Kohlberg Kravis Roberts							
KKR 1987 Fund	145,950,000	145,373,652	3,452,147	395,130,030	576,348	8.7	19.1
KKR 1993 Fund	150,000,000	150,000,000	1,465,296	307,737,864	0	16.8	13.0
KKR 1996 Fund	200,000,000	200,000,000	55,575,104	300,628,969	0	13.1	10.3
KKR Millennium Fund	200,000,000	196,141,009	206,325,048	111,796,748	3,858,991	35.2	4.1
KKR 2006 Fund	200,000,000	16,198,000	11,287,005	2,031,000	183,802,000	N/A	0.3
Lexington Capital Partners VI	100,000,000	21,385,027	20,139,048	766,563	78,614,973	-6.1	1.0
RWI Ventures							
RWI Group III	616,430	616,430	483,285	91,742	0	-7.1	0.5
RWI Ventures I	7,603,265	6,623,265	6,113,753	231,706	980,000	-4.3	0.5
Sightline Healthcare							
Sightline Healthcare Fund II	10,000,000	10,000,000	3,246,234	4,190,002	0	-4.6	9.8
Sightline Healthcare Fund III	20,000,000	20,000,000	7,375,668	2,494,843	0	-13.7	7.9
Sightline Healthcare Fund IV	7,700,000	6,202,939	4,368,940	2,613,367	1,497,061	5.3	3.3
Silver Lake Partners II	100,000,000	71,464,912	71,364,960	119,698	28,535,088	0.0	2.5
Split Rock Partners	50,000,000	12,327,272	10,824,972	0	37,672,728	-16.8	1.7
Summit Partners							
Summit Ventures II	30,000,000	28,500,000	104,770	74,524,292	1,500,000	28.8	18.6
Summit Ventures V	25,000,000	23,875,000	2,582,120	27,885,671	1,125,000	6.6	8.8
T. Rowe Price	153,026,154	153,026,154	85,286,887	89,806,936	0	14.6	8.8

Minnesota State Board of Investment
- Alternative Investments -
As of December 31, 2006

Investment	Total Commitment	Funded Commitment	Market Value	Distributions	Unfunded Commitment	IRR %	Period Years
Thoma Cressey							
Thoma Cressey Fund VI	35,000,000	33,915,000	16,658,433	8,659,003	1,085,000	-5.1	8.4
Thoma Cressey Fund VII	50,000,000	41,855,000	24,403,194	42,453,874	8,145,000	28.6	6.3
Thoma Cressey Fund VIII	70,000,000	28,350,000	27,764,119	0	41,650,000	N/A	0.7
Thomas, McNerney & Partners							
Thomas, McNerney & Partners I	30,000,000	19,650,000	16,485,239	4,672,914	10,350,000	4.2	4.2
Thomas, McNerney & Partners II	50,000,000	5,000,000	5,000,000	0	45,000,000	N/A	0.5
Vestar Capital Partners							
Vestar Capital Partners IV	55,000,000	50,666,481	34,489,119	33,852,074	4,333,519	11.5	7.0
Vestar Capital Partners V	75,000,000	19,889,357	19,438,227	0	55,110,643	-5.1	1.0
Warburg Pincus							
Warburg, Pincus Ventures	50,000,000	50,000,000	3,580,589	250,335,559	0	49.2	12.0
Warburg Pincus Equity Partners	100,000,000	100,000,000	24,368,392	125,474,344	0	9.8	8.5
Warburg Pincus Private Equity VIII	100,000,000	100,000,000	101,372,570	37,646,638	0	14.3	4.7
Warburg Pincus Private Equity IX	100,000,000	45,505,208	46,012,199	1,104,000	54,494,792	4.5	1.4
Wayzata Opportunities Fund	100,000,000	79,801,778	76,019,652	140,887	20,198,222	-6.3	1.0
Welsh, Carson, Anderson & Stowe							
Welsh, Carson, Anderson & Stowe VIII	100,000,000	100,000,000	63,072,636	44,094,800	0	1.0	8.4
Welsh, Carson, Anderson & Stowe IX	125,000,000	116,250,000	102,707,361	68,318,389	8,750,000	13.1	6.5
Welsh, Carson, Anderson & Stowe X	100,000,000	28,578,466	26,604,008	0	71,421,534	-8.1	1.0
Zell/ Chilmark	30,000,000	30,000,000	220,886	76,940,413	0	17.7	16.5
Private Equity Total	5,573,381,563	3,913,750,053	2,334,861,924	3,924,498,979	1,659,631,511		

REAL ESTATE MANAGER SUMMARY PROFILE

I. Background Data

Name of Fund:	Blackstone Real Estate Partners VI L.P. ("The Fund" or "BREP VI")
Type of Fund:	Real Estate
Total Fund Size:	$8 billion target
Fund Manager:	Blackstone Real Estate Associates VI L.P.
Manager Contact:	Ken Whitney 345 Park Avenue New York, NY 10154 212-583-5316 whitney@blackstone.com

II. Organization and Staff

The Blackstone Group (together with its affiliates, "Blackstone"), a privately held merchant banking firm, is sponsoring its eighth real estate fund and its sixth U.S./global real estate investment fund, Blackstone Real Estate Partners VI L.P., together with its parallel funds ("BREP VI" or the "Partnership"). BREP VI is the successor fund to Blackstone Real Estate Partners V L.P. and its parallel funds ("BREP V"), a $5.25 billion fund that began its investment period in December 2005.

Blackstone is one of the world's largest and most successful alternative asset managers, having raised more than $53 billion for private alternative asset investing and approximately $20 billion for liquid alternative asset investing. To date, Blackstone has raised approximately $10 billion of capital for real estate private equity investing through its U.S./global real estate investment funds and nearly $3 billion for its European-focused funds.

Since 1991, through its U.S./global real estate funds, its two European-focused funds and "Pre-BREP" real estate investments, Blackstone has invested/committed approximately $11.5 billion of equity capital into 211 separate real-related estate transactions (including all add-ons) with a total transaction value of approximately $99 billion (which includes pending transactions through December 2006).

III. Investment Strategy

Blackstone expects to focus on the same core strategies that it has successfully pursued in the past, including public-to-private transactions, acquiring institutional-quality assets that have certain flaws, implementing a strategy to correct those flaws and subsequently seeking to dispose of the assets into the deep capital markets.

BREP VI, like its predecessor funds, is expected to continue to be flexible and nimble and adjust its acquisition strategy as the markets adjust over time.

As with its earlier funds, Blackstone expects BREP VI to benefit from the advice of its London and Paris offices for European investments. By generally co-investing between 20%–40% in each of BREP International's transactions, it is anticipated that roughly 10%–20% of BREP VI's equity will be allocated to International investments.

IV. Investment Performance

Previous fund performance as of September 30, 2006 for Blackstone Real Estate Partners and the SBI's investments with previous funds, where applicable, is shown below:

Fund	Inception Date	Total Equity Commitments	SBI Investment	Net IRR from Inception *
BREP I	1994	$338 million	--	39.7%
BREP II	1996	$1,111 million	--	18.7%
BREP III	1998	$1,432 million	--	20.0%
BREP IV	2002	$2,050 million	--	50.6%
BREP V	2005	$5,255 million	$100 million	96.7%

* These IRR's have been 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

Blackstone will invest $100 million in the Fund, plus up to an additional 10% in each Investment on a side-by-side basis (based on an annual election).

VI. Takedown Schedule

The General Partner will give at least ten business days' written notice prior to any drawdown of unused Capital Commitments. Funds will be taken down as needed pro rata based generally on unused Capital Commitments, to make Investments (including to pay fees and expenses payable by the Partnership associated therewith), to pay Partnership Expenses, to make additional contributions to existing Investments to repay borrowings, or to satisfy guarantees or other obligations of the Partnership.

VII. Fees

The Applicable Management Fee Percentage of such Limited Partner's (i) Capital Commitment during the Investment Period and (ii) invested capital with respect to Investments that have not been disposed of after the earlier of the end of the

Investment Period and the time management fees in connection with a successor fund have begun to accrue. The "Applicable Management Fee Percentage" equals (i) 1.5% per annum if such Limited Partner has aggregate Capital Commitments of less than $300 million and (ii) 1.25% per annum if such Limited Partner has aggregate Capital Commitments equal to or greater than $300 million.

Management Fees will generally be reduced by an amount equal to the sum of (i) 80% of any Additional Fees and (ii) 50% of any acquisition fees (except for acquisition fees equal to .50% or less of the total acquisition price); provided, that such fees will be allocated among the Partnership, BREP International, and, to the extent applicable, Other Blackstone Funds on a pro rata basis in applying the foregoing.

VIII. Allocations and Distributions

Upon disposition of an Investment (calculated separately for each Limited Partner with respect to its pro rata share):

• First, 100% to the Limited Partner until it receives a return of contributions for the Investment that has been disposed of, Allocated Fees and Expenses that have not been recouped on all Investments that have been disposed of, unrecouped losses on Investments previously disposed of, unrealized losses on Investments not disposed of, and an 8% compound annual return on contributions with respect to Investments disposed of, plus Allocated Fees and Expenses;

• Second, 80% to the General Partner and 20% to the Limited Partner until the General Partner receives its 20% carried interest; and

• Thereafter, 80% to the Limited Partner and 20% to the General Partner.

Current Income is generally distributed as described above, except that distributions are made on an Investment-by-Investment basis and will not take into account a return of capital contributions or any writedowns, but will take into account actual unrecouped losses from prior dispositions.

IX. Investment Period and Term

The investment period for drawdown notices to fund new Investments will expire not more than five years from the Last Equalization Date.

The term of the Partnership will end on the later of: the fifth anniversary of the last day of the Investment Period; and the eighth anniversary of the Effective Date, with an option on the part of the General Partner to extend the term of the Partnership for up to two additional one-year periods, if the L.P. Advisory Committee does not object to such extension.

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RESOURCE MANAGER SUMMARY PROFILE

I. Background Data

Name of Fund:	NGP Midstream & Resources, L.P.
Type of Fund:	Resource Limited Partnership
Total Fund Size:	$1.5 billion
Fund Manager:	NGP Energy Capital Management
Manager Contact:	Kenneth A. Hersh 125 E. John Carpenter Fwy. Suite 600 Irving, TX 75062 972-432-1440

II. Organization and Staff

NGP Midstream & Resources, L.P. (the "Fund") is being sponsored by NGP Energy Capital Management, L.L.C. (NGP) which is headquartered in Irving, Texas and has offices in Stamford, Connecticut and Santa Fe, New Mexico. NGP, John T. Raymond, John G. Calvert and Craig Glick (the "Management Team") will serve as Managing Partners of the Fund with responsibility for sourcing, structuring, executing and monitoring the Fund's investments. NGP and the Management Team are the sole owners of the Fund's General Partner. Mr. Raymond will serve as CEO, Mr. Calvert will serve as COO and Mr. Glick will serve as Managing Director and General Counsel of the Fund's manager. NGP's CEO, Kenneth A. Hersh, will be Chairman of the Fund's Investment Committee.

NGP: NGP is the leading investment firm in the energy industry. Its investment platform includes the Natural Gas Partners private equity fund complex, a family of funds with over $3 billion of total capital under management since 1988. NGP has also sponsored and provides oversight for NGP Energy Technology Partners and NGP Capital Resources Company, as well as two co-investment funds. NGP's investment professionals have managed the NGP funds for 18 years and have built an investment team that has grown from 4 individuals at inception to 14 current members, with no turnover among the senior investment professionals. The investment professional staff is assisted by an experienced accounting and administrative staff.

John T. Raymond: Mr. Raymond is a successful senior executive with substantial experience in the midstream sector of the energy industry. He serves as a director of Vulcan Energy Corporation, the privately held successor of Plains Resources, Inc. Mr. Raymond served as CEO of Plains Resources and has served in other senior executive capacities for a number of other successful public energy companies during his 14 year career in the energy industry.

John G. Calvert: Mr. Calvert is a successful senior investment banker with 15 years experience in the natural resource industries. Most recently Mr. Calvert served as a Managing Director at Deutsche Bank, where he provided strategic counsel and transaction execution advice to Deutsche Bank's global mining and metals clients. Prior to that, Mr. Calvert was a Managing Director and global head of mining investment banking at Credit Suisse First Boston.

Craig Glick: Mr. Glick will apply his deep experience in structuring and executing complex energy industry transactions gained while serving in senior management positions with large, dynamic publicly and privately held energy companies, such as Westside Energy, Kosmos Energy, Hunt Oil and Gulf Canada.

III. Investment Strategy

The Fund, NGP Midstream & Resources, L.P. ("NGP Midstream & Resources" or the "Fund") will concentrate on making direct investments in selected areas of the energy infrastructure and natural resources sectors, primarily targeting the midstream energy sector and all facets of the mining, minerals and related power sectors. The Fund is seeking to raise investment commitments of up to $1.5 billion. The Fund anticipates making individual investments ranging from $50 million to $250 million, which may include direct or indirect interests in assets, securities of companies or other interests in entities that acquire, develop or own energy infrastructure or mining, mineral or related power assets. The Fund will generally not invest in oil and gas exploration and production companies or in smaller "start-up, leveraged build-up" companies in the midstream sectors.

IV. Investment Performance

This fund is a first time fund that presents investors with the opportunity to invest with NGP, Mr. Raymond, Mr. Calvert and Mr. Glick in a new venture. No prior fund performance is available for this group as a team. However, previous fund performance for the eight NGP funds managed by NGP as of January 31, 2007 is shown below.

NGP Fund	Inception Date	Total Equity Commitments	SBI Investment	Net IRR from Inception
I	1988	$100 million	$0	22%
II	1994	$37 million	$0	16%
III	1995	$30 million	$0	10%
IV	1996	$150 million	$0	10%
V	1998	$320 million	$0	25%
VI	2000	$370 million	$0	73%
VII	2003	$600 million	$0	20%
VIII	2005	$1,300 million	$0	34%

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

V. General Partner's Investment

The General Partner of the Fund will commit 2% of the aggregate investor commitments to the Fund and NGP and the Fund's management will collectively commit an additional 3% as limited partners of the Fund.

VI. Takedown Schedule

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

VII. Fees

The Fund will pay the General Partner an annual management fee (the "Management Fee") equal to a specified percentage (2.0% during the Investment Period, 1.5% after the Investment Period and before dissolution and wind-up of the Fund, and 1% after dissolution and during wind-up of the Fund) of a base amount equal to the aggregate capital commitments (as such commitments may be reduced pursuant to the agreement) minus the amount of invested capital returned to the Limited Partners upon liquidation of investments. The General Partner will apply 100% of all fees received in connection with the Fund's investments in portfolio companies (such as directors' fees, advisory fees, investment banking fees, structuring fees, break-up fees and success fees), first to offset unreimbursed expenses associated with the transaction, then to general reimbursable expenses of the Fund, and then to reduce the Management Fee. The Fund will reimburse the General Partner up to $750,000 for actual expenses incurred in organizing and raising capital for the Fund.

VIII. Allocation and Distributions

Generally, net profits will accrue and be distributed 80% to the limited partners and 20% to the general partner, subject to an 8% preferred return to limited partners. Upon dissolution and final liquidation of the Fund, to the extent that the General Partner has received over the life of the Fund distributions with respect to its carried interest in excess of 20% of the Total Net Income (the "Excess Carry"), the General Partner will be liable to return to the Fund the Excess Carry, less an amount calculated to account for federal, state and local income taxes payable with respect to the Excess Carry by the individuals owning interests in the General Partner.

IX. Investment Period and Term

The Investment Period will begin on the Initial Closing and end on the earlier to occur of (a) the fifth anniversary of the Final Closing, or (b) the date that all of the Fund's Commitments have been drawn, committed for investment or reserved by the General Partner for future payments of the management fees and reimbursable expenses.

The Fund shall continue for ten years after the Final Closing, unless the Fund is terminated sooner pursuant to the Partnership Agreement, or unless the term is extended, at the General Partner's discretion, for no more than two one year periods.

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ATTACHMENT E

RESOURCE MANAGER SUMMARY PROFILE

I. Background Data

Name of Fund:	Sheridan Production Partners I, L.P. ("Sheridan" or the "Partnership"
Type of Fund:	Resource Limited Partnership
Total Fund Size:	$1.0 billion
Fund Manager:	Sheridan Production Partners I, LLC
Manager Contact:	Lisa Stewart Sheridan Partners San Felipe Plaza 5847 San Felipe, Ste. 2020 Houston TX 77057 Phone: (713) 874-9465

II. Organization and Staff

Sheridan Production Partners I, L.P. is being established by Lisa A. Stewart and her management team, and Warburg Pincus LLC to make investments in oil and gas properties in the United States with the objective of providing attractive, relatively low-risk returns, strong quarterly cash distributions and long-term exposure to oil and gas prices.

Ms. Stewart was most recently (2004-2006) President of El Paso E&P where she had overall responsibility for oil and gas operations. While there, Ms. Stewart had overall responsibility for a large and diverse E&P company that generated operating revenue of $1.8 billion and earnings of $699 million. Prior to her time at El Paso, Ms. Stewart spent 20 years at Apache Corporation, leaving in January 2004 as Executive Vice President. Under Ms. Stewart's leadership, the Apache acquisition team successfully completed 28 major acquisition transactions with total proved reserves of 1.4 billion BOE (barrel of oil equivalent) and aggregate value of $8.2 billion.

Sheridan's senior management team (Lisa Stewart, Eric L. Harry, James K. Bass, and J. Timothy Blaine) has worked together for over a decade at El Paso and Apache. They will recruit qualified technical and operating personnel as an independent oil and gas company. The overall size of the staff will depend on the complexity and number of properties under management.

Sheridan will be headquartered in Houston, Texas. As Sheridan acquires multiple properties with geographic concentrations, Sheridan's operations may also include field offices with supervisory personnel closer to field operations.

The Warburg Pincus energy team has known and worked with Ms. Stewart through a variety of professional interactions for over a decade. The particular attractiveness of this opportunity combined with their relationship and appreciation for each party's unique contribution have led to the creation of Sheridan.

III. Investment Strategy

Sheridan will pursue a strategy of (i) acquiring a portfolio of currently producing properties characterized by primarily proved reserves and a balance between oil and gas in geographically diverse areas onshore in the United States and on the Gulf of Mexico shelf; (ii) optimizing the operations of those properties through production acceleration and recovery enhancement, appropriate use of capital reinvestment and aggressive cost control; and (iii) providing investors with relatively low risk, long-term cash distribution through prudent hedging and leverage strategies.

The Investment Committee of the General Partner will comprise two representatives of Sheridan management, initially MS. Stewart and Mr. Harry, and three designated investment professionals of the Warburg Pincus energy team with extensive experience and success in creating E&P companies. The investment committee will meet regularly in person and by teleconference to approve capital and expense budgets, all material property acquisitions and other materials expenditures, to oversee hedging and leverage policies, and to determine distributions to investors in Sheridan.

IV. Investment Performance

This fund is a first time fund that presents investors with the opportunity to invest with Sheridan, Ms. Stewart and Warburg Pincus in a new venture. No prior fund performance is available for this group as a team. However, previous fund performance for the Warburg Pincus Energy investments as of September 30, 2006 is shown below.

Fund	Inception Date	Total Equity Commitments	Net IRR from Inception*
Warburg Pincus E&P Investments (16 total)	1990-2006	$1.1 billion	23%

* IRRs and other data contained in this report are provided by the General Partner. Note: these investments were not made through any one particular fund, and as such the Net IRR presented is based on an assumed 20% carried interest and a 1.5% management fee applied to the cash flows over the period. Returns may not be indicative of future results.

Based on information provided by Ms. Stewart's former employers, the team calculates that its acquisitions achieved a hypothetical cash flow multiple of approximately 3.8X and a property level IRR in excess of 30%.

V. General Partner's Investment

Members of Sheridan management and Warburg Pincus LLC will subscribe for at least $50 million of Capital Commitments.

VI. Takedown Schedule

The General Partner will draw down capital as needed to fund investments and operations and will provide Limited Partners 10 business days prior written notice.

VII. Fees

The Partnership will pay a management fee to the Manager, semi-annually in advance during the term of the Partnership, starting on the date of the initial closing, at the rate of:

(i) during the Investment Period, 1.50% per annum of Capital Commitments;
(ii) from the end of the Investment Period through the 12^{th} anniversary of the initial closing, 1.25% per annum of Capital Commitments; and
(iii) after the 12^{th} anniversary of the initial closing, 1.25% per annum of the lesser of Capital Commitments and the fair value of the Partnership's properties as of the last day of the immediately preceding semi-annual measurement period.

None of the General Partner, the Manager, or Warburg Pincus will charge the Partnership any fees other than the Management Fee for services rendered to the Partnership. Any transaction fees or other fees received by the General Partner, the Manager, Warburg Pincus or any of their affiliates from third parties related to the Partnership's investments will be applied entirely to reduce the Management Fee.

VIII. Allocation and Distributions

During the Investment Period, distributions may be made at the discretion of the General Partner. After the Investment Period, distributions generally will be made on a quarterly basis to the extent of cash available for distribution in the following order of priority:

(i) *Return of Capital and Costs*: first, 100% to such Limited Partner until such Limited Partner has received 100% of its capital contributions (including capital contributions for Partnership Expenses, Organizational Expenses and Management Fees);
(ii) *Preferred Return*: second, 100% to such Limited Partner until the cumulative distributions to such Limited Partner represent a 6% annual rate of return on its outstanding capital contributions;
(iii) *General Partner Catch-up*: third, 100% to the General Partner until the cumulative distributions to the General Partner pursuant to this clause (iii) equal

20% of the total amounts distributed pursuant to clause (ii) and this clause (iii); and

(iv) *Thereafter*, 80% to such Limited Partner and 20% to the General Partner (the distributions to the General Partner described in clause (iii) and this clause (iv) being referred to as "Carried Interest").

IX. Investment Period and Term

The Investment Period terminates six years after the initial closing of the Partnership. The Partnership's term will be 15 years from the initial closing date, subject to extension for up to two years in the discretion of the General Partner with the consent of a majority in interest of Limited Partners.

RESOURCE MANAGER SUMMARY PROFILE

I. Background Data

Name of Fund:	TCW Energy Fund XIV, L.P. (the "Fund")
Type of Fund:	Resource Limited Partnership
Total Fund Size:	$2 billion
Fund Manager:	TCW Asset Management Company
Manager Contact:	Judy Hirsch Trust Company of the West 865 South Figueroa Street Los Angeles CA 90017 Phone: 213-244-0019

II. Organization and Staff

The Energy & Infrastructure Group ("EIG") at TCW Asset Management Company ("TCW"), one of the leading providers of institutional capital to the energy sector, is forming TCW Energy Fund XIV, L.P. (the "Fund"). Since 1982, EIG has continuously invested in the energy sector and has raised total capital for investment in excess of $6.6 billion.

The Fund is being formed for the purpose of making mezzanine and equity investments in energy and energy-related infrastructure projects and companies on a global basis, with an emphasis on the United States, Canada, Western Europe and Australia. The Fund will represent EIG's fourteenth fund focused on energy and energy-related infrastructure investment.

EIG is one of the leading providers of institutional capital to the energy sector globally. EIG has a 24-year track record investing in the sector with more than $6.6 billion of capital and more than 180 portfolio investments in 22 countries. The group has 23 investment professionals operating from offices in Los Angeles, Houston, New York and London and invests across the capital structure of energy and energy-related infrastructure companies, providing mezzanine debt, equity and structured financial products.

III. Investment Strategy

The Fund will seek mezzanine and equity investments in energy and energy-related infrastructure projects and companies on a global basis. The Fund will generally target negotiated private placements with small and mid-cap energy companies and projects active throughout the sector, including:

- upstream projects, including the acquisition and development of oil and natural gas reserves;

- midstream projects, including pipelines, gathering systems, processing facilities and liquefied natural gas ("LNG") terminals;
- power generation, transmissions and distribution;
- energy infrastructure projects, such as LNG and other specialty tankers, floating production storage and offloading facilities and drilling rigs and ships;
- energy-related industrial processes creating hydrocarbon-related commodities, such as ammonia, fertilizer and methanol; and
- mining and similar natural resource extraction projects.

The Fund will pursue investment opportunities on a global basis but will concentrate its activities on the United States, Canada, Western Europe and Australia.

The Fund will target both mezzanine and equity investment opportunities. EIG's substantial "in-house" technical expertise and brand in the energy industry provide a competitive advantage in sourcing, analyzing and executing energy projects, in the view of EIG management. In EIG's experience, having this flexibility to invest both in debt and equity positions is beneficial in accessing the investment structure that produces the most favorable combination of risk and reward based on the project's technical and other risk characteristics.

The mezzanine strategy for the Fund is to structure such investments to provide current income to investors with equity kickers in the form of royalties, warrants, cash flow participations and similar instruments to achieve targeted returns and provide upside potential. Current cash flow from investments typically permits the payment of current income to investors commencing within the first year of the Fund's initial closing and TCW anticipates a return of capital to investors within 6-7 years after the Fund's initial closing. Mezzanine investments are typically secured by either assets or shares and provide meaningful covenants or other control rights to facilitate active portfolio management by EIG. Since 1982, EIG has experienced a relatively low 13% default rate on its debt investments. The aggregate recovery on these defaulted debt investments is 167%, meaning that EIG has not only recovered the principal outstanding at the time of default but has also realized a positive rate of return in the aggregate on its defaulted debt investments.

EIG's equity strategy generally involves utilizing its extensive market presence and track record in energy mezzanine to identify attractive equity opportunities, often from existing portfolio companies. Typically, this will involve identifying one or more mezzanine investments early in the life of a company or project and then utilizing EIG's acquired knowledge and relationship with management to facilitate "non-public" equity opportunities. Equity investments generally take the form of preferred or common stock. If the investment is a minority position, it will commonly be structured in the form of a preferred security to achieve liquidation preference over the common shareholders. EIG normally acquires common stock in instances where it takes a controlling interest in a portfolio company. In both mezzanine and equity investments, EIG will often receive the ability to appoint directors or observers to the board of the portfolio company.

IV. Investment Performance

Previous fund performance as of June 30, 2006 for TCW's Energy Investment Group is shown below:

Fund	Inception Date	Total Equity Commitments	SBI Investment	Net IRR from Inception*
Debt & Royalty Fund III	1989	$208 million	--	15%
Debt & Royalty Fund IV	1993	$308 million	--	9%
Debt & Royalty Fund V	1994	$600 million	--	17%
Debt & Royalty Fund VI	1997	$278 million	--	14%
Energy Fund X	2003	$734 million	--	24%

* IRRs and other data contained in this report are provided by the General Partner. It should be noted that TCW manages other energy funds, not listed here, with mandates that are different from the proposed fund. Hence, the Fund numbers are non-sequential.

Previous fund investments may not be indicative of future results.

V. General Partner's Investment

TCW, including employees and affiliates, will commit a minimum of $20 million to Fund XIV.

VI. Takedown Schedule

Capital Commitments will be drawn down by the Fund as needed to make investments and to pay Fund liabilities and expenses generally upon 10 business days' prior written notice.

VII. Fees

Through the end of the Investment Period, the Manager will receive an annual management fee (the "Management Fee") equal to 1.25% of Capital Commitments. Thereafter, the Management Fee will be 1.25% of invested capital outstanding. The Management Fee is payable quarterly in advance.

The Fund will bear all legal and other expenses incurred in the formation of the Fund and the offering of the Interests (other than any placement fees), up to an amount not to exceed the greater of $2.5 million and 0.25% of Capital Commitments. Organizational expenses in excess of this amount, and any placement fees, will be paid by the Fund but borne by the Manager through a 100% offset against the Management Fee.

The Manager and its affiliates may charge portfolio companies transaction fees, monitoring fees, advisory fees, break-up fees and other similar fees. An amount equal to 80% of all such fees, and 100% of all directors' fees paid by portfolio companies that are received by the Manager with respect to the Fund's investment, net of any unreimbursed expenses incurred by the Manager or its affiliates in connection with unconsummated transactions, will be applied to reduce the Management Fee otherwise payable. All such fees will be allocated among the Fund and any related investing entities on the basis of capital committed by each to the relevant investment. Management Fee reductions will be carried forward if necessary.

VIII. Allocation and Distributions

Net proceeds attributable to the disposition of a portfolio investment, including distributions in kind of securities, will be distributed to all Partners participating in such investment. Each such Partner's proportionate share thereof generally will be distributed in the following order of priority (taking into account any prior distributions of current income):

(a) *Return of Capital Contributions*: First, 100% to such Partner until the cumulative distributions to such Partner equal the aggregate capital contributions of such Partner;

(b) *Preferred Return*: Second, 100% to such Partner until the cumulative distributions to such Partner are sufficient to provide such Partner with an 8% internal rate of return, compounded annually, on the aggregate capital contributions of such Partner;

(c) *Catch Up*: Third, 100% to the Manager as a performance fee until the Manager has received in respect of such Partner 20% of the excess of (*i*) the cumulative distributions made to such Partner and to the Manager in respect of such Partner over (*ii*) the aggregate capital contributions of such Partner; and

(d) *80/20 Split*: Thereafter, 80% to such Partner and 20% to the Manager as a performance fee (together with the performance fee to the Manager in paragraph (c) above, the "Performance Fee").

Distributions prior to the dissolution of the Fund will be made in cash or marketable securities. Upon dissolution of the Fund, distributions may also include restricted securities or other assets of the Fund for which the General Partner will generally seek a valuation from independent experts.

IX. Investment Period and Term

The Investment Period will last from the initial closing through the fifth anniversary of the last day of the month of the initial closing.

The term of the Fund will be ten years, subject to up to two consecutive additional one-year extensions as determined by the General Partner to allow for the orderly liquidation of the Fund's investments.

ATTACHMENT G

PRIVATE EQUITY MANAGER SUMMARY PROFILE

I. Background Data

Name of Fund:	Blackstone Capital Partners V L.P. ("BCP V")
Type of Fund:	Private Equity Limited Partnership
Total Fund Size:	$20 billion Target
Fund Manager:	The Blackstone Group
Manager Contact:	Kenneth C. Whitney 345 Park Ave. New York, NY 10154 Phone: (212) 583-5316 e-mail: Whitney@blackstone.com

BCP V started its investment period in December 2005 and held its "final" close on $15.8 billion in June 2006. The SBI committed $100 million at that time. Given Blackstone's unusually rapid deployment of capital for BCP V, Blackstone re-opened its investor subscription period in the Partnership by offering existing Limited Partners and new investors the opportunity to subscribe for Additional Capital Commitments. Each Limited Partner was offered the right to subscribe for its *pro rata* share (approximately 40% of original commitment or $40 million for the SBI) of any offering of Additional Capital Commitments, and any portion not taken up was made available, first to other Limited Partners that wish to subscribe for more than their *pro rata* share, and thereafter to new investors chosen by the General Partner. The initial closing with respect to the offering of Additional Capital Commitments took place on December 22, 2006. A second close was held on February 1, 2007. Additional closings are scheduled for March 16, April 20, and July 31, 2007. The offering of Additional Capital Commitments will not, in the aggregate, exceed $5.75 billion and the final subsequent closing with respect thereto will occur no later than July 31, 2007. There will be no equalization in connection with these closings; Limited Partners will only participate in deals that close after the date that their subscription is accepted.

II. Organization and Staff

The Blackstone Group is a private merchant banking firm based in New York, with offices in London, Paris, Hamburg, Mumbai, Hong Kong, Boston, Atlanta, Chicago, and Los Angeles whose businesses, in addition to Corporate Private Equity Investing, include Real Estate Private Equity Investing, Corporate Debt Investing, Corporate Advisory Services, Restructuring and Reorganization Advisory Services, Funds of Hedge Funds, Proprietary Hedge Funds, Mutual Fund Management, and Private Placement Services to Alternative Investment Funds (through its Park Hill affiliates). The firm was founded in 1985 by its current Senior Chairman, Peter G. Peterson (former Chairman and CEO of Lehman Brothers and a former U.S. Secretary of Commerce) and by its current Chairman and CEO, Stephen A. Schwarzman (former Chairman of Lehman Brothers' Mergers & Acquisitions Committee). Hamilton E. James serves as President, and J. Tomilson Hill serves as Vice Chairman.

The Blackstone Group has a distinguished record as both investor and advisor. Through its different investment businesses, Blackstone has raised committed capital of approximately $54.6 billion for discretionary private investment funds focused on alternative asset classes. Blackstone also manages approximately $16 billion in discretionary marketable alternative asset programs, approximately $2 billion in proprietary hedge funds, and approximately $2 billion in mutual funds.

There are 18 Senior Managing Directors in the private equity group, with an average tenure at Blackstone of 9 years. Including the Senior Managing Directors, Blackstone currently has 82 professionals in the private equity group, which include 49 in New York, 23 in London, 8 in Mumbai, and 2 in Hong Kong.

III. Investment Strategy

While Blackstone will continue to consider all manner and form of investing on an opportunistic basis, the firm will seek to rely on essentially the same core competencies that have underpinned its past success:

Large Cap Focus. Blackstone continues to believe that the larger end of the private equity market is less competitive than the overall private equity market. The number of funds that can invest $500 million of equity into any one investment is limited, and becomes even more limited as this amount increases. In addition, it has been Blackstone's experience that the market for large cap transactions continues to be the fastest growing segment of the buyout industry in terms of aggregate transaction value and overall number of potential targets. These favorable competitive dynamics, together with Blackstone's capabilities and organizational strengths, make large cap buyouts the most compelling opportunities for Blackstone's style of value-oriented investing from a risk/reward standpoint.

Corporate Partnerships. Corporate partnership transactions represent a signature form of private equity investing for Blackstone. As the economy continues to perform well and corporations return to the M&A market, Blackstone believes this strategy will become a more important part of the new investments that will be completed over the next several years. Teaming up with corporate partners enables Blackstone to compete effectively against other corporate bidders, benefit from anticipated synergies, and compensate for what are expected to be higher valuations. Blackstone has invested or committed to invest $5.8 billion of equity capital, or 26% of total corporate private equity capital invested/committed by Blackstone since 1988 in 42 corporate partnership transactions.

Disciplined, Value-Oriented Investment Approach. Blackstone's analysis of any investment opportunity is underpinned by a rigorous and analytical focus on value. Blackstone defines value not in a strict fashion (i.e., there is no uniform EBITDA multiple threshold), but rather by focusing on (i) industry structure and prospects, (ii) company positioning, and (iii) valuation. By focusing on these issues, Blackstone believes it can set up investments that can achieve its expected returns with conservative assumptions about future growth and exit multiples, together with prudent capital structures.

Sector Expertise. Given the competitive nature of the private equity business, and with the significant size of both BCP III, raised in 1997, and BCP IV, raised in 2002, Blackstone made a conscious decision to focus its professionals along sectoral lines, covering the major industries of both the U.S. and European economies. Although opportunities arise in different sectors and at different times, the knowledge and contacts that are obtained by developing this industry expertise provide Blackstone with the insight both to move quickly in competitive situations and to recognize value in out-of-favor and under-appreciated industries.

Transatlantic Opportunities. Blackstone opened its London private equity office in August 2000, and now has 23 professionals or approximately one-third of its total private equity staff, in London. Fifteen of BCP IV's 30 separate investments (including three add-ons) involving approximately $3 billion of capital have been invested in companies either based in Europe or with a European component. Five of BCP V's fifteen separate investments that it has committed to, through January 2007, are either based in Europe or have a European component. Blackstone believes the deal flow in Europe will remain active over the next several years, with European companies continuing to divest their non-core assets as they go through the kinds of restructurings that U.S. companies went through in the 1990s. In addition, Blackstone believes it has an advantage in those transatlantic opportunities involving a U.S. owner of a European asset, a European owner of a U.S. asset, or an asset that has significant operations in both the United States and Europe, given its significant presence in both markets.

Operating Expertise. In 2004, Blackstone brought on James Quella, former Senior Operating Partner with DLJ Merchant Banking Partners–CSFB Private Equity to oversee its portfolio company monitoring and management program. In addition, Mr. Quella is expected to coordinate Blackstone's activities with the over 20 operating executives with whom Blackstone has established proprietary relationships. These executives help find and analyze deals and work intensively with portfolio companies to enhance operating performance. The feedback from Blackstone's portfolio companies on this program has been outstanding. In 2005, Blackstone brought on board Greg Beutler, a leading supply chain expert at General Electric, to oversee its portfolio company procurement program. The initial estimate of the potential annual savings from this portfolio procurement initiative is $100 million–$200 million across Blackstone's current companies, which Blackstone estimates could create incremental equity value in excess of $1 billion. In 2006, Blackstone brought on David McVeigh, a former Partner at McKinsey & Co. and one of the leaders of that firm's North American chemicals and northeast energy and materials practices, to monitor and advise on the strategy and operational performance of the portfolio companies.

IV. *Investment Performance*

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

Fund	Inception Date	Total Capital Commitments	SBI Investment	Net IRR from Inception [2]
Blackstone Capital Partners I[1]	1987	$810 million	--	19%
Blackstone Capital Partners II	1993	$1.3 billion	$50 million	33%
Blackstone Capital Partners III	1997	$3.8 billion	--	13%
Blackstone Capital Partners IV	2002	$6.45 billion	$70 million	53%
Blackstone Capital Partners V [3]	2005/2006	$18.1 billion	$100 million	N/A

[1] The Net IRR for Blackstone Capital Partners I is as of July 26, 2004 which was the termination date for the fund.

[2] Net IRR's were provided by Blackstone.

[3] Commitments as of the 2/1/07 close. As BCP V and BCP V-S investment period began less than one year ago, return information is not yet meaningful.

Past performance is not necessarily indicative of future results.

V. *General Partner's Investment*

Blackstone will make a Capital Commitment in an amount equal to $300 million, plus up to an additional 7.5% in each investment on a side-by-side basis (based on an annual election).

VI. *Takedown Schedule*

The General Partner will give at least ten days' written notice prior to any takedown of unused Capital Commitments, which, in the case of a takedown notice for an Investment, will include a brief description of the Investment and the business to which it relates. Funds will be taken down as needed *pro rata* based generally on unused Capital Commitments to make Investments, to pay Partnership Expenses (further defined within the PPM), to make additional contributions to existing Investments, to repay borrowings, or to satisfy guarantees or other obligations of the Partnership (further defined within the PPM).

VII. *Fees*

Management fees are payable quarterly in advance based on the following:

- During the Investment Period: 1.5% per annum of the aggregate capital commitments up to $6.5 billion and 1.0% of the aggregate capital commitments above $6.5 billion. (excluding those commitments of the GP and its affiliates). A limited Partner with a capital commitment in excess of $1 billion may be entitled to a reduction in respect of Management Fees applicable to such excess amount over $1 billion.
- After the Investment Period: 0.75% of invested capital.

Management Fees will be reduced by:

- 100% of net breakup, topping, commitment, transaction, monitoring, director, and organizational fees up to the amount of Broken Deal Expenses;
- 80% of net breakup, topping, and commitment fees in excess of Broken Deal Expenses; and
- 50% of net monitoring, directors and organizational fees in excess of Broken Deal Expenses.

VIII. Allocations and Distributions

Upon disposition of an Investment (calculated separately for each Limited Partner):

- First, 100% to the Limited Partner until it has received a return of capital and Allocated Fees and Expenses for the Investment which has been disposed of, unrecouped losses on Investments previously disposed of, unrealized losses on Investments not disposed of, and a 8% compound annual return on capital contributions on Investments disposed of;
- Second, 80% to the General Partner and 20% to the Limited Partner until the General Partner receives its 20% carried interest; and
- Thereafter, 80% to the Limited Partner and 20% to the General Partner.

Current Income is generally distributed as described above, except that distributions are made on an investment-by-investment basis and will not take into account a return of capital or any writedowns, but will take into account actual unrecouped losses from prior dispositions.

IX. Investment Period and Term

The Fund's Investment Period is six years and commenced on December 7, 2005, and the Fund's term is eleven years, subject to two one-year extensions if approved by the L.P. Advisory Committee.

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PRIVATE EQUITY MANAGER SUMMARY PROFILE

I. Background Data

Name of Fund:	Silver Lake Partners III, L.P. ("the Fund" or "SLP III")
Type of Fund:	Private Equity Limited Partnership
Total Fund Size:	$7.5 billion
Fund Manager:	Silver Lake Technology Associates III, LLC
Manager Contact:	Susannah Carrier 9 West 57th Street, 25th Floor New York, NY 10019 Phone: 212-381-7301

II. Organization and Staff

In 1999, Silver Lake raised Silver Lake Partners, L.P., together with its parallel fund, Silver Lake Investors, L.P., a $2.3 billion partnership and the first large-scale private equity fund focused exclusively on technology industries. In 2003, the Firm raised Silver Lake Partners II, L.P., a $3.6 billion partnership and the largest-ever technology-focused private equity fund. Silver Lake Partners III, L.P. is seeking $7.5 billion or more in Commitments to pursue large-scale private equity investments in companies within the technology, technology-enabled, and related growth industries.

The Firm has 79 people across its offices in Menlo Park, New York and London: 39 investment professionals; 15 professionals focused on finance, information technology, legal, marketing and investor relations; and an additional 25 support staff.

III. Investment Strategy

Silver Lake Partners III, L.P. will pursue large-scale private equity investments in companies within the technology, technology-enabled, and related growth industries. The Fund seeks to achieve superior returns by investing with the strategic insight of an experienced industry participant, the operating skill of a world-class management team, and the discipline of a leading private equity firm. Silver Lake believes that it employs a highly differentiated investment model. The Firm combines sector specialization with rigorous due diligence processes to create an information advantage for evaluating investments. Silver Lake believes that this advantage, coupled with the Firm's expertise in identifying growth opportunities and adding value to portfolio companies, has helped the Firm achieve strong investment results. Silver Lake believes that generalist firms, including those with small dedicated technology teams, lack the specialized sector knowledge, network of relationships, value creation capabilities, and organizational breadth that the Firm possesses within its target sectors.

Silver Lake's ideal target company has an established industry position, sustainable and profitable business model, strong management team, proprietary core technologies, sound business processes, opportunities for value creation, and growth prospects that enhance returns. Silver Lake has invested in companies that are important participants in a variety of critical sectors. These companies not only have contributed to the Prior Funds' investment performance, but have also increased the Firm's stature and extended its relationship network.

Silver Lake's investments to date have varied with respect to size and structure, and Silver Lake expects this diversity to continue. SLP III expects to focus on companies with enterprise values ranging from approximately $500 million to $20 billion or greater. The Fund expects to invest between approximately $200 million and $1 billion or more in equity per transaction, supplemented by third-party debt and co-investor equity.

In summary, Silver Lake's investment strategy is to (i) apply sector expertise, (ii) conduct deep due diligence, (iii) focus on market leaders, (iv) invest in growth, and (v) create value in portfolio companies.

IV. Investment Performance

Previous fund performance as of September 30, 2006 for Silver Lake and the SBI's investments with previous funds, where applicable, is shown below.

Fund	Inception Date	Total Equity Commitments	SBI Investment	Net IRR from Inception*
Silver Lake Partners I	1999	$2.3 billion	--	26%
Silver Lake Partners II	2003	$3.6 billion	$100 million	37%

* Net IRR's were provided by Silver Lake.

The returns provided above may not be indicative of future results

V. General Partner's Investment

The General Partner and its affiliates expect to commit a minimum of 2% of the aggregate commitments, up to $170 million, to SLP III. The General Partner may increase the Capital Commitment of the General Partner and its Affiliates above the Silver Lake minimum commitment at any time prior to the date of the final subsequent closing and/or as of the beginning of each calendar quarter by written notice to the Limited Partners prior to the effective date of any such increase.

VI. Takedown Schedule

Commitments generally will be drawn down proportionately to Limited Partners' unfunded commitments on an as-needed basis to fund portfolio investments, the management fee and fund expenses, with a minimum of 10 days' prior notice to the Limited Partners.

VII. Fees

The Fund will pay a management fee to the Investment Advisor quarterly in advance in respect of each Limited Partner.

During the Commitment Period: 1.5% per annum of the aggregate Commitments of the unaffiliated Limited Partners up to $6 billion and 1.0% per annum of the aggregate Commitments of the unaffiliated Limited Partners above $6 billion.

After the end of the Commitment Period (or, if earlier, the commencement of operations of a Competing Fund (defined below)): 1.0% per annum of the cost basis of Portfolio Investments remaining in the Fund.

VIII. Allocation and Distributions

Net cash proceeds from the sale of investments or any portion of an investment or marketable securities available for distribution and to be distributed ("Disposition Proceeds") will be distributed as soon as practicable after receipt thereof (except as otherwise provided herein). Current cash receipts from dividends, interest and other similar distributions from Portfolio Investments net of current expenses ("Current Income") generally will be distributed at least annually. The General Partner will be entitled to withhold from any distribution amounts necessary to create, in its discretion, appropriate reserves for expenses and liabilities of the Fund as well as for any required tax withholdings. Amounts of tax credits received by the Fund and amounts withheld for taxes will be treated as distributions for purposes of the calculations described below.

Distributions of Disposition Proceeds and Current Income (together, "Investment Proceeds") in respect of each Portfolio Investment will generally be made in the first instance to the Limited Partners and the General Partner pro rata in proportion to each of their percentage interests with respect to such Portfolio Investment. Each Limited Partner's share of Investment Proceeds otherwise distributable to such Limited Partner will be distributed to such Limited Partner and the General Partner in the following amounts and order of priority:

a. Return of Capital and Costs: First, 100% to such Limited Partner until such Limited Partner has received distributions of Investment Proceeds from such Portfolio Investment and all Portfolio Investments that have been disposed of ("Realized Investments") equal to (i) such Limited Partner's capital contributions for all Realized Investments; (ii) such Limited Partner's capital contributions for Organization Expenses, Management Fees and

Fund Expenses allocable to the Realized Investments; and (iii) such Limited Partner's pro rata share of any net unrealized losses on writedowns of the Fund's other Portfolio Investments (taken in the aggregate); and

b. 8% Preferred Return: Second, 100% to such Limited Partner until the cumulative distributions of Investment Proceeds to such Limited Partner represent an 8% annual rate of return on the cumulative distributions made pursuant to clause a. above; and

c. General Partner Catch-up: Third, 100% to the General Partner or such Limited Partner, as the case may be, such that the cumulative distributions to the General Partner from Realized Investments with respect to such Limited Partner pursuant to this clause c. equal 20% of the total amounts distributed to all Partners pursuant to clause b. and this clause c.; and

d. 80/20 Split: Thereafter, 80% to such Limited Partner and 20% to the General Partner (the distributions to the General Partner described in clause c. and this clause d. being referred to collectively as "Carried Interest").

IX. Investment Period and Term

Capital calls may be required from time to time for a period of six years from the effective date of commencement of the Fund's activities (the "Effective Date") as specified in writing by the General Partner (the "Commitment Period"). Thereafter, the Limited Partners will be released from any further obligation with respect to their undrawn Commitments (the "Unfunded Commitments"), except to the extent necessary to: (i) cover the expenses of the Fund, including Management Fees; (ii) complete investments by the Fund in respect of transactions committed to by the Fund prior to the end of the Commitment Period; and (iii) make follow-on investments in Portfolio Companies in an amount not to exceed 15% of the aggregate amount of the Commitments (excluding commitments and reserves made therefor during the Commitment Period as specified in a notice given by the General Partner). In no event will a Limited Partner be required to make a capital contribution in an amount in excess of its Unfunded Commitment. The General Partner may terminate the Commitment Period following "Full Investment". Additionally, the Commitment Period is subject to earlier termination as provided under the "Key Man Event" provision.

The Fund will terminate upon the later of ten years from the effective date of the Fund ("Effective Date") and five years after the end of the Commitment Period, but may be extended at the discretion of the General Partner for up to two consecutive one-year periods; provided, that the General Partner will provide prior notice of such extension to the LP Advisory Committee and the term of the Fund will not be so extended if a majority of the members of the LP Advisory Committee object to such extension within 30 days of receiving such notice. The Fund is subject to earlier termination as provided under "No-Fault Termination by Limited Partners" as referenced in the PPM.

Retirement Systems of Minnesota
March 6, 2007

Retirement Systems of Minnesota

Minnesota State Retirement System • Public Employees Retirement Association • Teachers Retirement Association

Laurie Hacking | Mary Vanek | Dave Bergstrom

SBI- Investment Advisory Council

March 6, 2007

Retirement Systems of Minnesota

Minnesota State Retirement System • Public Employees Retirement Association • Teachers Retirement Association

Minnesota Statewide Pension Funds

MSRS

- State employees
- U of Minnesota
- Metropolitan Council

Membership
- 51,587 active members
- 14,085 deferred members
- 25,204 benefit recipients

Plans
- General
- Highway Patrol
- Correctional Officers
- Judges
- Legislators
- Constitutional Officers
- Unclassified
- Deferred Compensation
  - 78,000+ participants
- Health Care Savings Plan
  - 24,000+ participants

Assets: $10.8 billion

PERA

- City
- County
- Non-teaching school district employees

Membership
- 151,470 active members
- 35,551 deferred members
- 61,190 benefit recipients

Plans
- Coordinated
- Basic
- Police & Fire
- Correctional
- Defined Contribution

Assets: $14.2 billion

TRA

- Public teachers/admin.
- State universities
- Community colleges
- Charter schools

Membership
- 72,008 active members
- 10,767 deferred members
- 37,649 benefit recipients

Plans
- Coordinated
- Basic

Assets: $15.1 billion

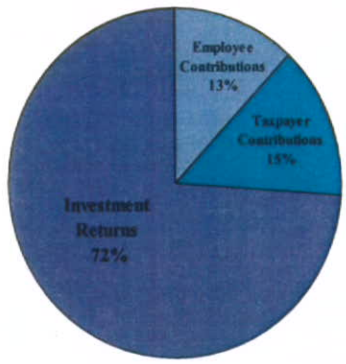
2

Retirement Systems of Minnesota

Minnesota State Retirement System • Public Employees Retirement Association • Teachers Retirement Association

Statewide Traditional Pension Systems

Revenue Sources for Benefits Paid 1996-2006

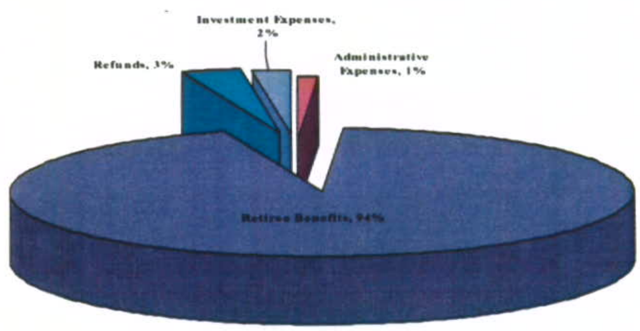


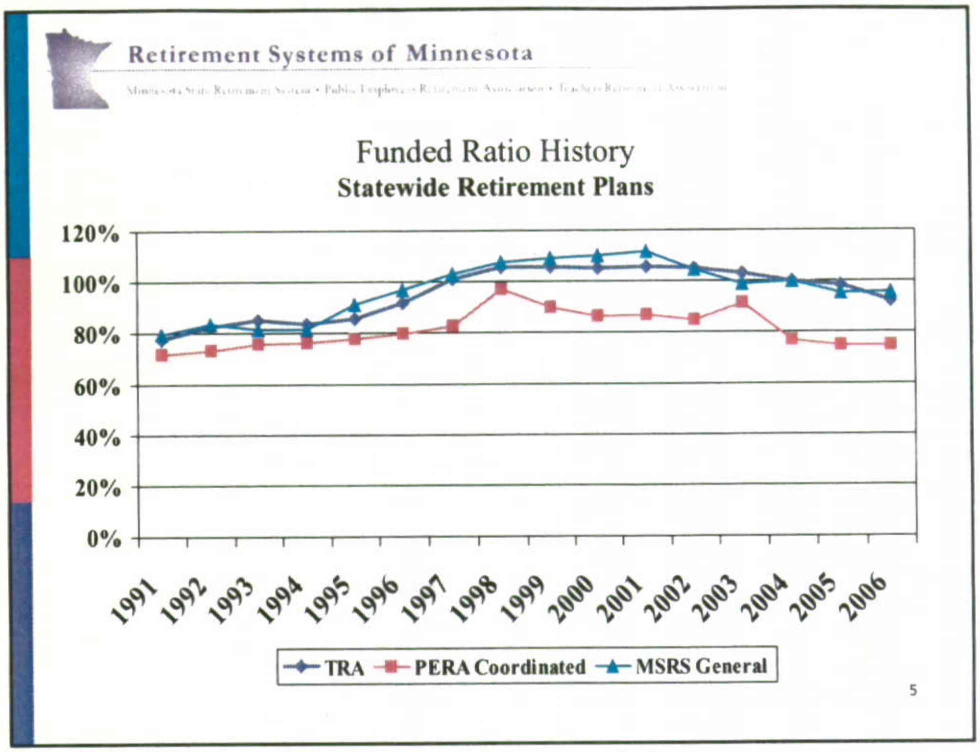
Retirement Systems of Minnesota

Minnesota State Retirement System • Public Employees Retirement Association • Teachers Retirement Association

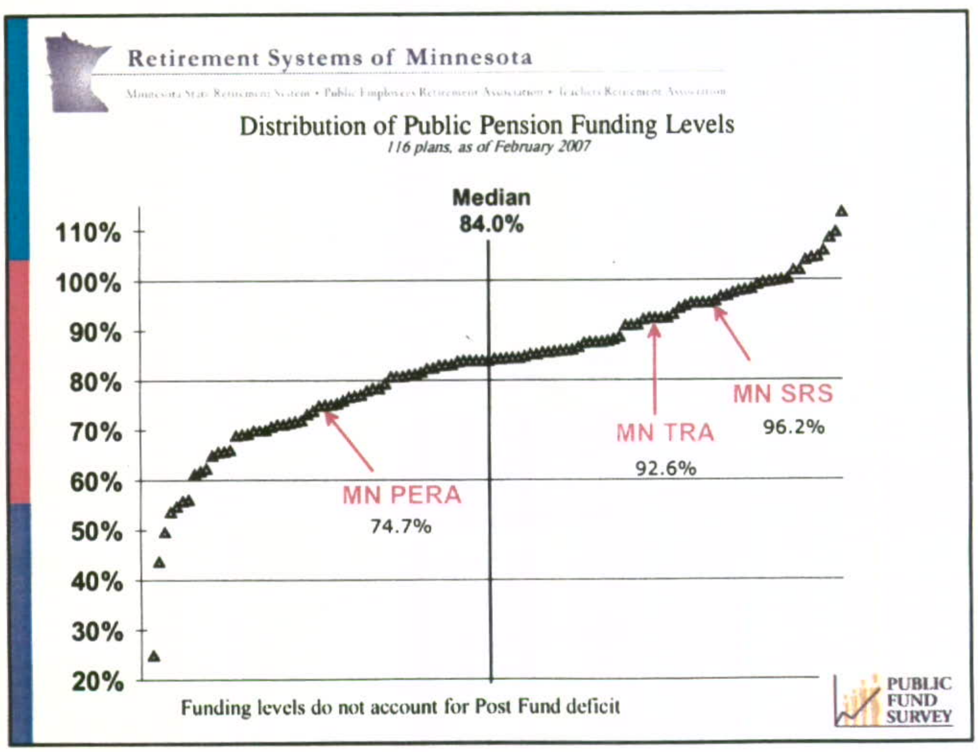
Use of Pension Funds

Statewide Retirement Plans (1996-2006)





Retirement Systems of Minnesota
Funded Ratio History
Statewide Retirement Plans
120%
100%
80%
60%
40%
20%
0%
1991
1992
1993
1994
1995
1996
1997
1998
1999
2000
2001
2002
2003
2004
2005
2006
TRA
PERA Coordinated
MSRS General
5



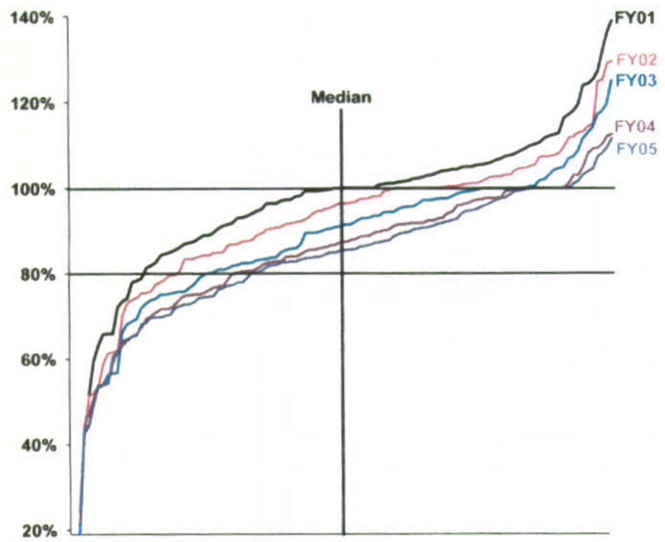
Retirement Systems of Minnesota
Distribution of Public Pension Funding Levels
116 plans, as of February 2007
Median
84.0%
110%
100%
90%
80%
70%
60%
50%
40%
30%
20%
MN SRS
96.2%
MN TRA
92.6%
MN PERA
74.7%
Funding levels do not account for Post Fund deficit
PUBLIC FUND SURVEY

Retirement Systems of Minnesota

Minnesota State Retirement System • Public Employees Retirement Association • Teachers Retirement Association

Progression of Public Pension Funding Levels FY01-FY05

111 Plans



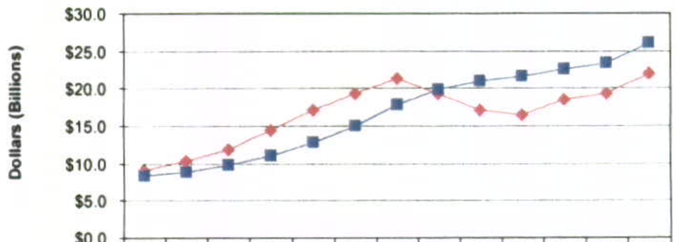
Retirement Systems of Minnesota

Minnesota State Retirement System • Public Employees Retirement Association • Teachers Retirement Association

Minnesota Post Retirement Investment Fund

History of Assets, Liabilities & Funding Ratio

6/30/94 to 6/30/06



	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Assets = Market Value	$9.0	$10.2	$11.9	$14.3	$17.1	$19.3	$21.3	$19.3	$17.0	$16.5	$18.4	$19.3	$22.0
Required Reserves = Liabilities	$8.3	$8.9	$9.8	$11.1	$12.8	$15.0	$17.8	$19.9	$21.0	$21.6	$22.6	$23.4	$26.1
Surplus (Deficit)	$0.7	$1.3	$2.1	$3.2	$4.3	$4.3	$3.5	($0.6)	($4.0)	($5.1)	($4.2)	($4.1)	($4.1)
Funding Ratio	108%	115%	121%	129%	134%	129%	120%	97%	81%	76%	81%	82%	84%

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Retirement Systems of Minnesota

Minnesota State Retirement System • Public Employees Retirement Association • Teachers Retirement Association

History of Pension Law Changes

1989
- Formula improved to 1.5% of salary per year of service
- Rule of 90 eliminated for new hires*
- Full benefit retirement age increased to age 67 (now 66)*
- Early retirement penalties increased*

1997
- Formula increased to 1.7%
- Post Fund COLA decreased by 1%
- Cost neutral
- Funds shifted from TRA and MSRS to PERA and to Minneapolis and St. Paul Teachers

2005
- PERA contributions increased

2006
- MSRS contributions increased
- Post Fund increases capped at 5%
- Annual COLA for deferred members decreased to 2.5% (from 3%/5%)**
- Minneapolis Teachers merged into TRA
- TRA formula increased to 1.9%, prospective service only

*Applicable to employees hired after July 1, 1989
** Applicable to employees hired after July 1, 2007

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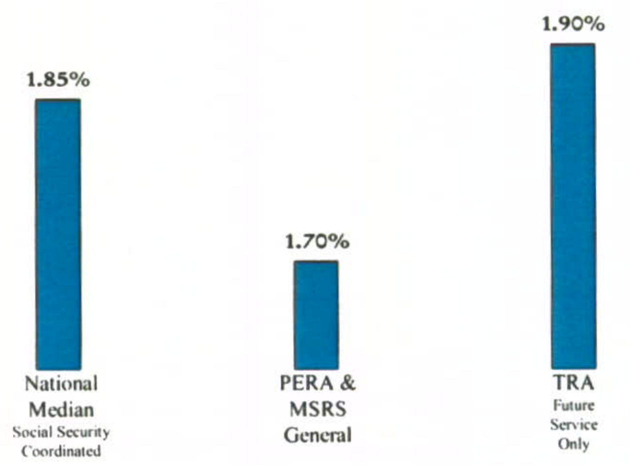
Retirement Systems of Minnesota

Minnesota State Retirement System • Public Employees Retirement Association • Teachers Retirement Association

Median Retirement Multipliers, FY05



Source: Public Fund Survey, September 2006

PUBLIC FUND SURVEY

Retirement Systems of Minnesota

Pension Plan Contribution Policy in Minnesota
LCPR Principles of Pension Policy

- Equal Pension Financing Burden for Generations of Taxpayers
  - Financing method should distribute total pension costs fairly among current and future generations of taxpayers
- Allocation of Funding Burden Between Members and Employers
  - Members of general public employee plans; employees and employers should make matching contributions to meet the normal cost and administrative expenses of the DB plan
  - Protective service and public safety employee plans; the employee should pay 40% of the total, the employer should pay 60% of the actuarial cost
- Appropriate Basis for Modifying Contribution Rates
  - Employee and employer contribution rates should only be modified based on the trend in total support rate deficiency or sufficiency revealed in the actuarial valuation reports

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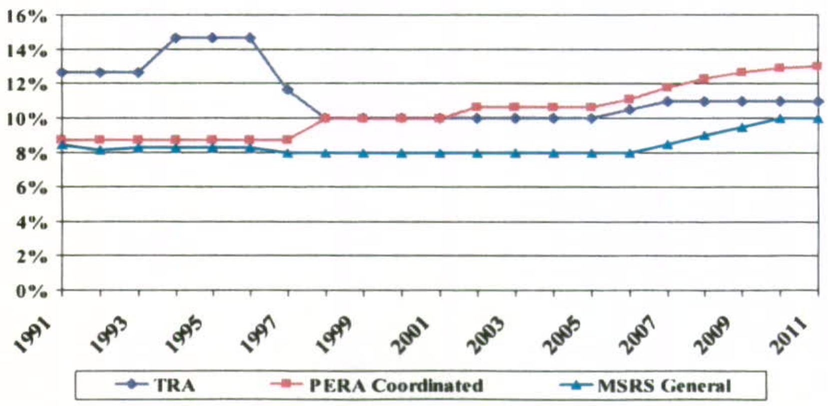
Retirement Systems of Minnesota

Contribution Rate History
Statewide Retirement Plans



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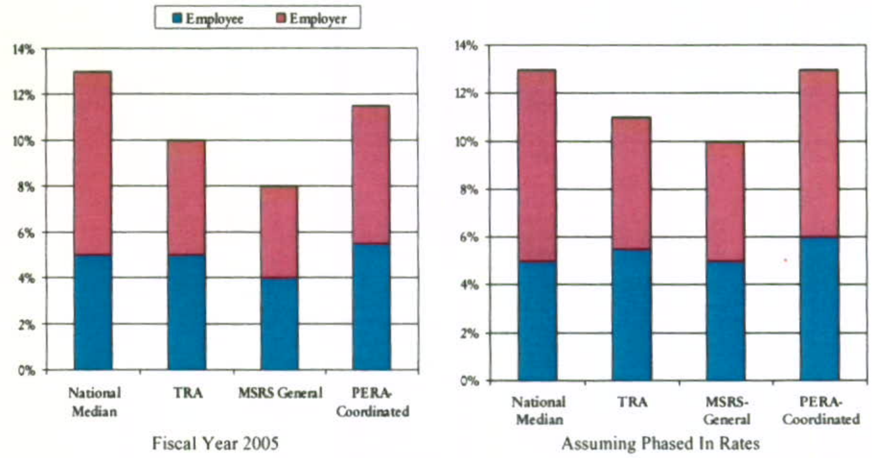
Retirement Systems of Minnesota

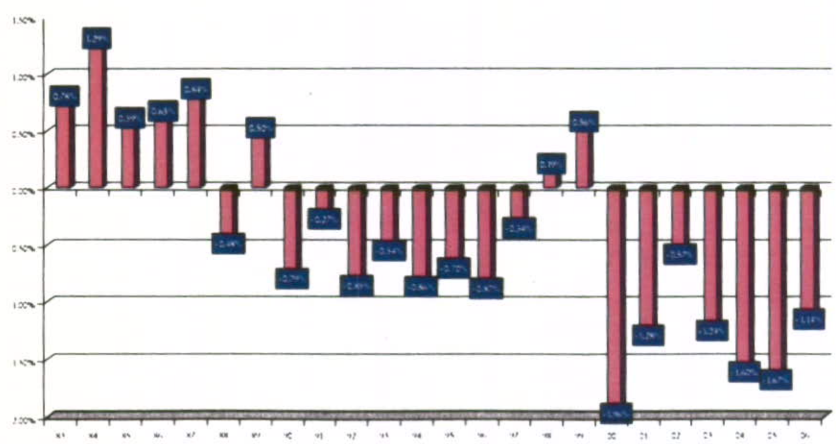
Median Contribution Rates



Source: Public Fund Survey, September 2006

Retirement Systems of Minnesota

PERA Coordinated Plan
Schedule of Contribution Sufficiency/Deficiency
1983-2006



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Retirement Systems of Minnesota

Minnesota State Retirement System • Public Employees Retirement Association • Teachers Retirement Association

Pension Plan Actuarial Valuation in Minnesota
LCPR Principles of Pension Policy

- Actuarial Funding of Pension Benefits
  - Entry age normal cost of the defined benefit plan and administrative expenses should be funded on a current basis
  - Existing unfunded liabilities of the DB plan should be amortized over a reasonable time that should be related to the average working career of the membership, but not the exceed forty years

    (NOTE: GASB only allows a maximum of 30 year amortization)

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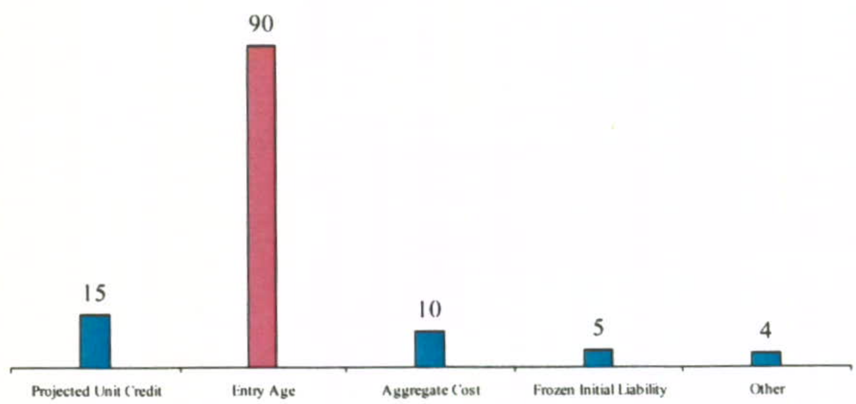
Retirement Systems of Minnesota

Minnesota State Retirement System • Public Employees Retirement Association • Teachers Retirement Association

Actuarial Valuation Method

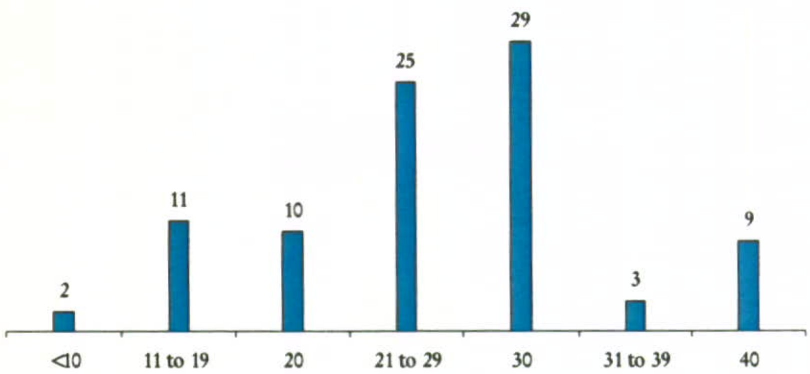
124 plans



Source: Public Fund Survey, September 2006

Retirement Systems of Minnesota

Distribution of Funding Amortization Periods



Source: Public Fund Survey, September 2006

Retirement Systems of Minnesota

Pension Plan Actuarial Assumptions in Minnesota
LCPR Principles of Pension Policy

- Funding of Postretirement Adjustments
  - Automatic postretirement adjustment mechanisms should be funded on an actuarial basis as part of the requirements and contribution structure of the DB plan
- Appropriate Basis for Actuarial Assumption Changes
  - Actuarial assumption changes should only be based on the results of the gain/loss analyses in the actuarial valuation reports and experience studies
  - Actuarial assumption changes should stand on their own merit, and should not be changed solely to improve benefits or lower contribution rates

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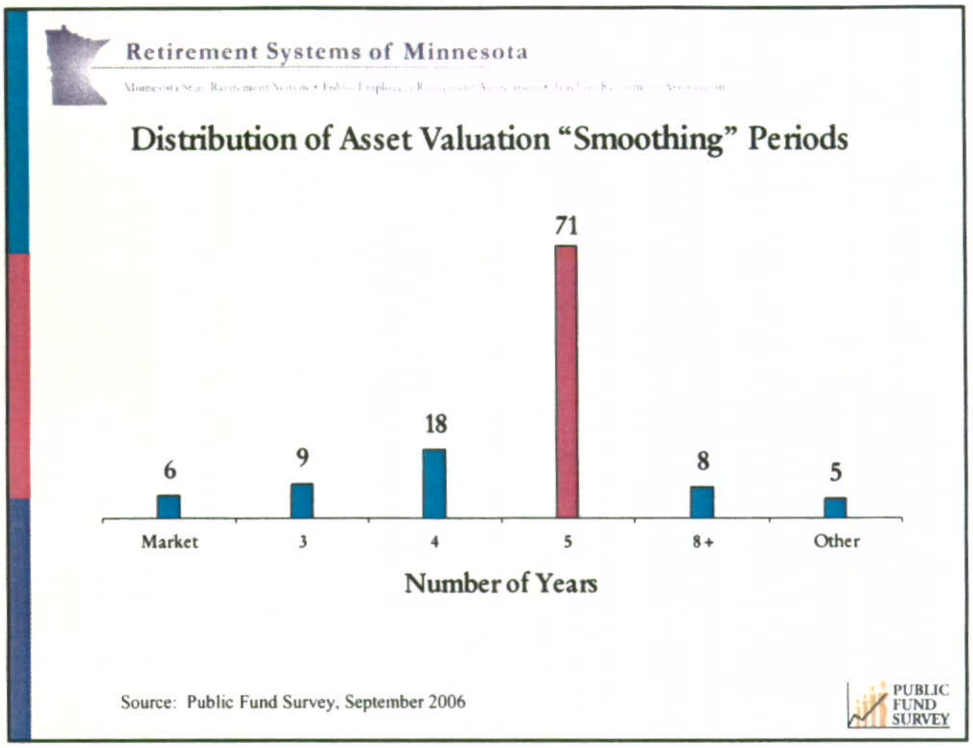
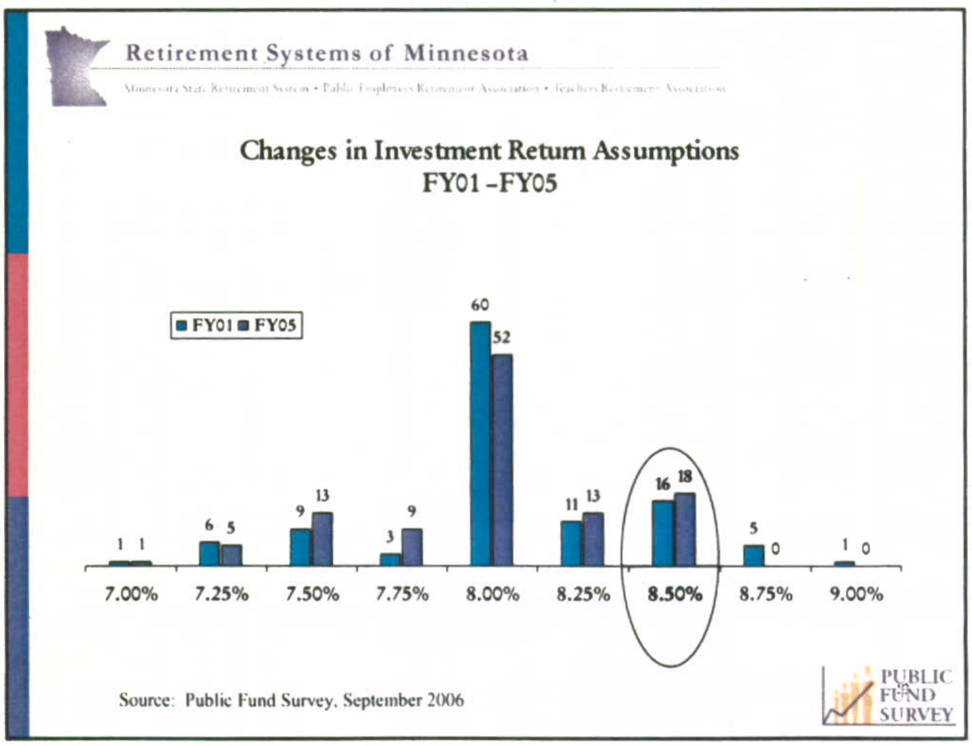
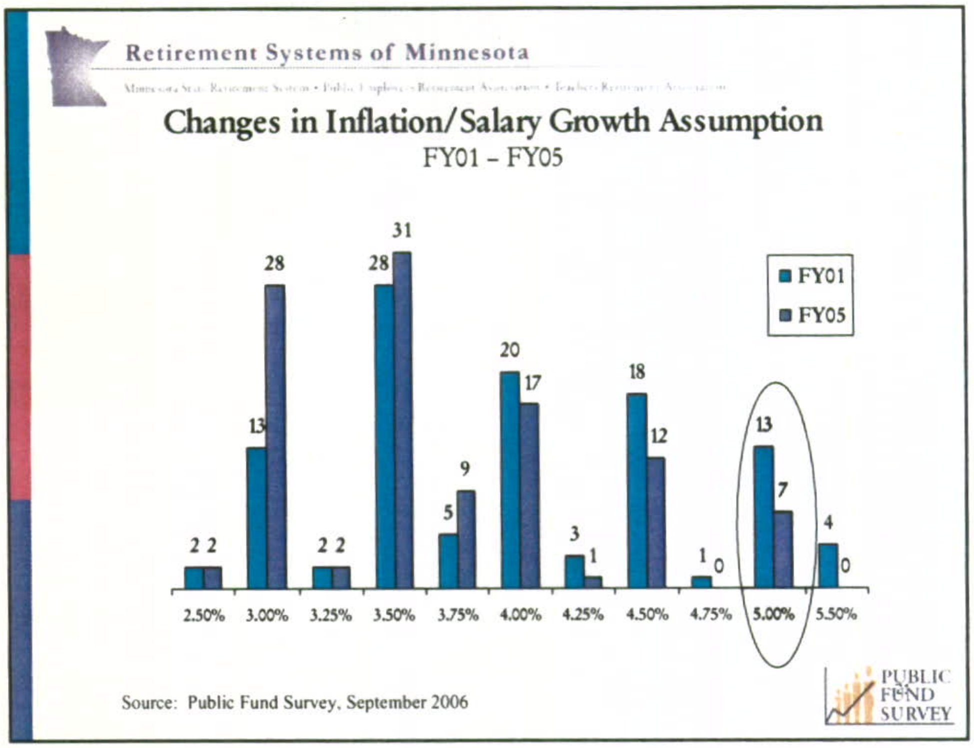
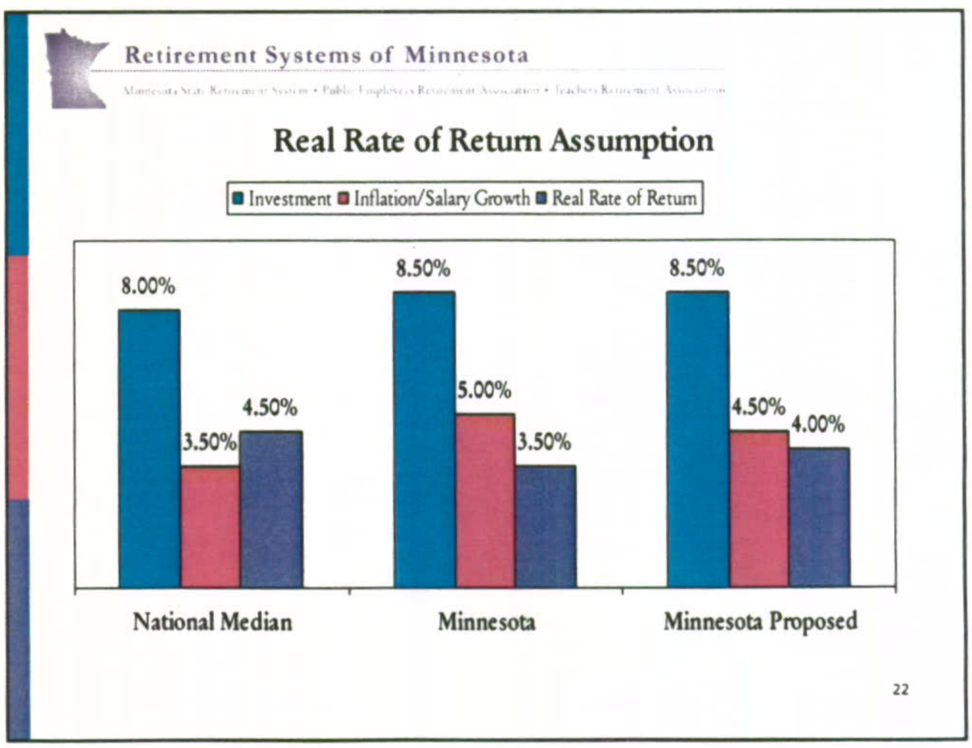

Retirement Systems of Minnesota
Distribution of Asset Valuation "Smoothing" Periods
71
18
6
9
8
5
Market
3
4
5
8+
Other
Number of Years
Source: Public Fund Survey, September 2006
PUBLIC
FUND
SURVEY


Retirement Systems of Minnesota
Changes in Investment Return Assumptions
FY01 -FY05
FY01 FY05
1 1
6 5
9 13
3 9
60 52
11 13
16 18
5 0
1 0
7.00%
7.25%
7.50%
7.75%
8.00%
8.25%
8.50%
8.75%
9.00%
Source: Public Fund Survey, September 2006
PUBLIC
FUND
SURVEY



Retirement Systems of Minnesota
Changes in Inflation/Salary Growth Assumption
FY01 – FY05
FY01
FY05
2 2
13
28
2 2
28
31
5
9
20
17
3
1
18
12
1
0
13
7
4
0
2.50%
3.00%
3.25%
3.50%
3.75%
4.00%
4.25%
4.50%
4.75%
5.00%
5.50%
Source: Public Fund Survey, September 2006
PUBLIC FUND SURVEY



Retirement Systems of Minnesota
Real Rate of Return Assumption
Investment
Inflation/Salary Growth
Real Rate of Return
8.00%
3.50%
4.50%
8.50%
5.00%
3.50%
8.50%
4.50%
4.00%
National Median
Minnesota
Minnesota Proposed
22

Retirement Systems of Minnesota

Minnesota State Retirement System • Public Employees Retirement Association • Teachers Retirement Association

Minnesota State Board of Investment
Capital Market Assumptions Used in Asset Allocation Simulations

Nominal Returns/Risk

Asset Class	Returns (Sept. 2003)	Updated Returns (Jan. 2007)	Risk/ Std.Dev.
Equity			
Domestic	9.25%	9.00%	17.00%
International-unhedged	9.25%	9.00%	19.00%
Emerging Markets	11.50%	11.00%	25.00%
Alternative Assets			
Private Equity	13.00%	13.00%	30.00%
Real Assets	8.00%	8.00%	12.00%
Yield Oriented	8.50%	8.50%	13.00%
Fixed Income			
Domestic Bonds	6.50%	5.50%	7.00%
Cash Equivalents	4.00%	3.00%	2.00%
Inflation	3.00%	3.00%	

Correlation Matrix

	1	2	3	4	5	6	7	10
1 US Stocks	1.00							
2 Intl.-unhed.	.60	1.00						
3 Emerg. Mkts.	.55	.50	1.00					
4 Priv. equity	.50	.20	.10	1.00				
5 Real assets	.40	.25	.30	.30	1.00			
6 Yield oriented	.45	.30	.00	.40	.15	1.00		
7 US bonds	.30	.20	-.10	.15	.20	.50	1.00	
8 Cash equiv.	-.10	-.10	.00	.00	.15	.10	.10	1.00

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Retirement Systems of Minnesota

Minnesota State Retirement System • Public Employees Retirement Association • Teachers Retirement Association

Minnesota State Board of Investment
Asset Mix Simulations

	Based on Current Returns (Sept. 2003)	Based on Updated Returns (Jan. 2007)
Equity	60.0%	60.0%
Domestic	45.0%	45.0%
International-unhedged	13.5%	13.5%
Emerging Markets	1.5%	1.5%
Alternative Assets	15.0%	15.0%
Private Equity	10.0%	10.0%
Real Assets	2.5%	2.5%
Yield Oriented	2.5%	2.5%
Fixed Income	25.0%	25.0%
Domestic Bonds	24.0%	24.0%
Cash Equivalents	1.0%	1.0%
Expected Return*	8.9%	8.5%
Standard Deviation	+/- 12.2%	+/- 12.7%
Return change from current		+0.10
Risk change from current		+0.21

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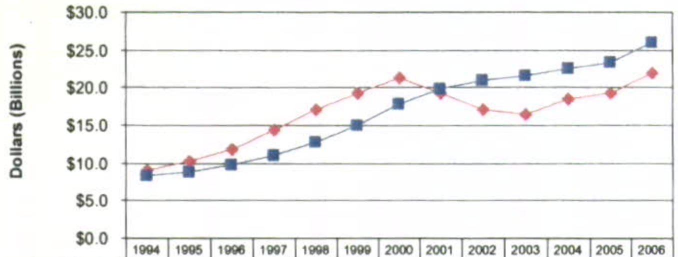
* Normal return (Real return + expected inflation of 3%)

Retirement Systems of Minnesota

Minnesota Post Retirement Investment Fund
History of Assets, Liabilities & Funding Ratio

6/30/94 to 6/30/06



	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Assets = Market Value	$9.0	$10.2	$11.9	$14.3	$17.1	$19.3	$21.3	$19.3	$17.0	$16.5	$18.4	$19.3	$22.0
Required Reserves = Liabilities	$8.3	$8.9	$9.8	$11.1	$12.8	$15.0	$17.8	$19.9	$21.0	$21.6	$22.6	$23.4	$26.1
Surplus (Deficit)	$0.7	$1.3	$2.1	$3.2	$4.3	$4.3	$3.5	($0.6)	($4.0)	($5.1)	($4.2)	($4.1)	($4.1)
Funding Ratio	108%	115%	121%	129%	134%	129%	120%	97%	81%	76%	81%	82%	84%

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Retirement Systems of Minnesota

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.

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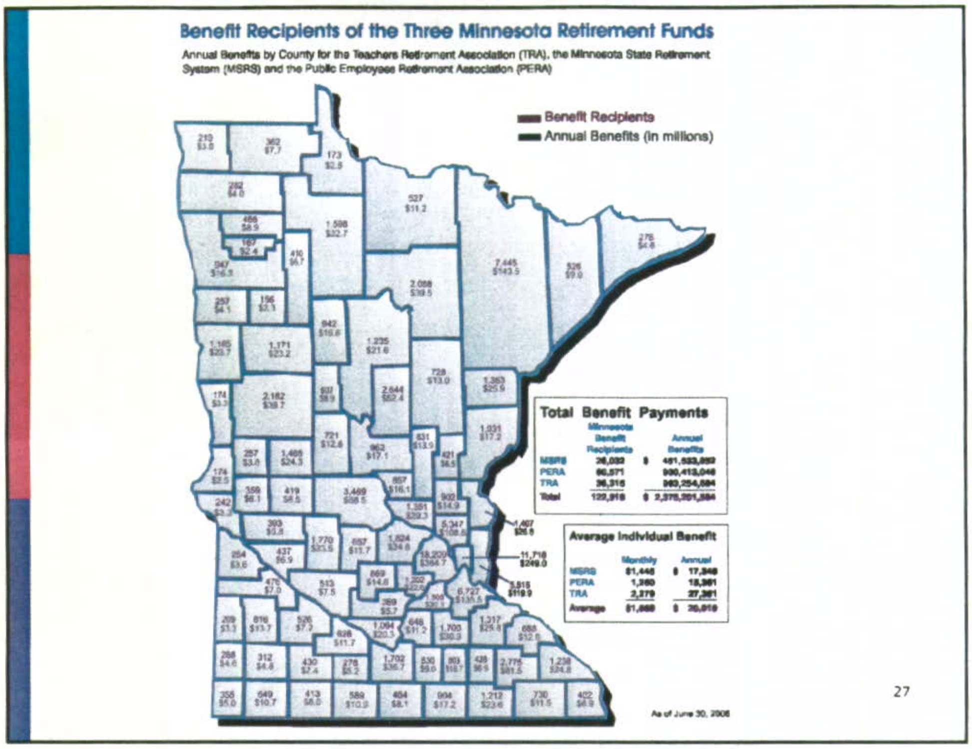
Benefit Recipients of the Three Minnesota Retirement Funds
Annual Benefits by County for the Teachers Retirement Association (TRA), the Minnesota State Retirement System (MSRS) and the Public Employees Retirement Association (PERA)
Benefit Recipients
Annual Benefits (in millions)
Total Benefit Payments
Minnesota Benefit Recipients
Annual Benefits
MSRS 26,032 $ 461,533,852
PERA 60,571 930,413,046
TRA 36,316 983,254,684
Total 122,919 $ 2,375,201,584
Average Individual Benefit
Monthly
Annual
MSRS $1,446 $ 17,348
PERA 1,260 15,361
TRA 2,279 27,361
Average $1,668 $ 20,019
As of June 30, 2006
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