MINNESOTA STATE BOARD
OF INVESTMENT
MEETING
June 28, 1995
&
INVESTMENT ADVISORY
COUNCIL MEETING
June 6, 1995

AGENDA
STATE BOARD OF INVESTMENT
MEETING
Wednesday, June 28, 1995
8:30 A.M. - Room 125
State Capitol - Saint Paul

	TAB
1. Approval of Minutes of March 15, 1995	
2. Report from the Executive Director (H. Bicker)	
A. Quarterly Investment Review (January 1, 1995 - March 31, 1995)	A
B. Portfolio Statistics (March 31, 1995)	B
C. Administrative Report	C
1. Budget and travel reports	
2. Update on 1995 Legislative Session	
3. Meeting dates for calendar 1995	
4. Appointment to vacancy on the IAC	
3. Report from the SBI Administrative Committee (M. McGrath)	D
1. Approval of Executive Director's work plan for FY96	
2. Approval of budget plan for FY96	
3. Approval of Continuing Fiduciary Education Plan	
4. Approval of process for Executive Director's FY95 evaluation	
5. Approval of contracts with insurance companies for the Higher Education Plan	
6. Approval of contract amendments to allow plan-to-plan transfers in the Deferred Compensation Plan	
4. Report from the Passive Manager Review Committee (P. Sausen)	E
5. Reports from the Investment Advisory Council (J. Yeomans)	
A. Domestic Manager Committee	F
1. Review of manager performance	
2. Review of selected active stock managers	
3. Approval of staff position paper on the use of below investment grade debt	
4. Annual review of investment manager guidelines	
5. Annual review of stock manager benchmark quality	
B. International/Global Manager Committee	G
1. Review of manager performance	
2. Annual review of investment manager guidelines	
C. Alternative Investment Committee	H
1. Review of current strategy	
2. Results of review sessions	

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Minutes
State Board of Investment
March 15, 1995

The State Board of Investment (SBI) met at 8:30 a.m. on Wednesday, March 15, 1995 in Room 125, State Capitol, St. Paul, Minnesota. Governor Arne H. Carlson, Chair; State Auditor Judi Dutcher; State Treasurer Michael A. McGrath; Secretary of State Joan Anderson Growe and Attorney General Hubert H. Humphrey III were present.

Mr. Carlson called the meeting to order and the minutes of the December 14, 1994 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 inflation over the ten year period ending December 31, 1994 (Combined Funds 11.9% vs. Inflation 3.6%) and matched the median fund (at 8.4%) for the most recent five years. He added that the Combined Funds had outperformed its composite index (Combined 8.4% vs. Composite 8.0%) over the same five year period. He reported that the Basic Funds had exceeded their composite index (Basics 8.5% vs. Composite 8.2%) over the last five years while the Post Fund has slightly underperformed its composite index for the one and one half year period ending December 31, 1994 (Post 2.7% vs. Composite 2.9%). He reminded members that the Post Fund's new asset allocation had been in place only since July 1, 1993.

Mr. Bicker reported that the Basic Funds' assets decreased 0.8% for the quarter ending December 31, 1994 and the asset mix is basically in-line with policy targets. He said that the Basic Funds had slightly underperformed its composite index for the quarter (Basics -0.1% vs. Composite 0.1%).

Mr. Bicker reported that the Post Retirement Fund had decreased in value by 0.1% during the quarter due to negative investment returns and that the Fund will rebalance its asset mix on April 1, 1995 to generate cash to make monthly annuity payments. He said the total fund has slightly underperformed its composite index (Post Fund -0.6% vs. Composite -0.3%) for the quarter.

Mr. Bicker stated that the domestic stock manager group had underperformed for the quarter (Domestic Stocks -1.1% vs. Wilshire 5000 -0.8%). He said the international stock manager group had underperformed its target for the quarter (International Stocks -1.7% vs. EAFE -1.0%) due, in large part, to a low exposure to Japan. He added that the domestic bond manager group had underperformed its target for the quarter (Domestic Bonds 0.2% vs. Lehman Aggregate 0.4%) but had outperformed for the most recent three year period (Bond Segment 5.1% vs. Lehman Aggregate 4.8%) and five year period (Bond Segment 8.1% vs. Lehman Aggregate 7.8%).

Mr. Bicker reported that the equity segment of the Assigned Risk Plan (ARP) had matched its benchmark for the quarter (at 0.0%). He reminded members that as of January 1, 1995 the equity segment is managed externally by a semi-passive equity manager. He concluded his report with the comment that as of December 31, 1994 the SBI was responsible for over $23 billion in assets.

Executive Director's Administrative Report
Mr. Bicker referred members to Tab C of the meeting materials for the current budget and travel reports. He noted that the meeting dates for the remainder of calendar year 1995 were also included and that the dates had been confirmed by all members.

Mr. Carlson asked if the discussion could return to the performance of the Post Fund and he asked why the Fund was underperforming its composite. Mr. Bicker reminded members of the costs associated with making the substantial shift in the Post Fund's asset mix, during fiscal year 1993. Mr. Bicker stated that the Fund provided a 4% benefit increase to retirees in January 1995 and he emphasized that he believes the increase would have been much smaller had the portfolio not been reconfigured to maximize long term total rate of return. He also noted that the asset allocation of Post Fund is still in transition as it begins the process of adding alternative investments to the Fund.

Mr. Bicker referred members back to Tab C of the meeting materials and reviewed the legislative update. He said that the bill related to consultant, professional and technical services contracts could severely impact the SBI's contracts with external managers, but he added that the SBI is not currently included in the bill. He noted that the legislation involving the Higher Education retirement plans would require the SBI to retain a mutual fund company as one investment provider, effective January 1, 1996. He reminded members that four insurance companies had just been retained by the Board at its last meeting for this same program. He said that staff will suggest modifications to the language in the bill to make the addition of another investment vendor an option and not a requirement. In response to questions from Ms. Growe, Mr. Bicker clarified that the professional services bill would require the reduction of all professional and technical contracts by 10%. He added that an amendment had been added to the bill to exclude the SBI which has Senator Metzen's support. Mr. Carlson stated that as Governor, he will not accept any amendments which provide exclusions to certain agencies since he believes good policies should apply to all. He added, however, that he believes this piece of legislation is not good policy.

Proxy Committee Report
Mr. Bicker referred members to Tab D of the meeting materials and he reviewed the role of the Proxy Committee. He said the Committee is requesting that the Board reaffirm the delegation of authority to the designees listed in the report and reaffirm the Committee's authority to vote the Board's proxies. Mr. Humphrey moved approval of the Committee's recommendation, as stated in the Committee Report which reads: "The Proxy Voting Committee recommends the Board adopt the resolution reaffirming the Committee's

authority and approve the revised Proxy Voting Guidelines." Ms. Dutcher seconded the motion. The motion passed.

Asset Allocation Committee
Ms. Yeomans referred members to Tab E of the meeting materials and reported that the Asset Allocation Committee had recently been re-designed to include all members of the IAC. She said the Committee met during the quarter to discuss currency management in the SBI's international stock portfolio, as discussed in a "working draft" position paper. She stated that staff will be conducting further analysis and providing educational opportunities for the IAC and Board members so they may become more familiar with currency issues and currency managers. She noted that no action is required by the Board at this time.

Stock and Bond Manager Committee
Ms. Yeomans referred members to Tab F of the meeting materials and briefly reviewed the performance of the domestic stock managers. She reported that four of the active managers (Forstmann-Leff, GeoCapital, Lynch & Mayer, and Weiss Peck and Greer) and the passive manager (Wilshire Asset Management) will be reviewed due to recent underperformance relative to their respective benchmarks. She noted that the results of those reviews will be available for the June 1995 Board meeting. Ms. Yeomans reviewed the performance of the bond managers and international stock managers, noting that the active bond managers' decision to hold a longer than market duration during a period of rising interest rates accounted for the segment's underperformance during the current quarter while the international stock managers' decision to underweight Japan accounted for the majority of underperformance by the international segment.

Mr. Bicker distributed a report **(see Attachment A)** which addressed two issues that arose after the Committee meeting. Ms. Yeomans stated that one of the Board's emerging stock managers, First Capital Advisers, had experienced a major loss of clients and assets and she said that the Committee is recommending that the Board terminate its relationship with the firm, effective March 31, 1995. Mr. Carlson asked for a motion that allows the Executive Director and his staff to make that decision and carry it out. Mr. McGrath moved approval of Mr. Carlson's suggested motion. Ms. Growe seconded the motion. The motion passed.

Ms. Yeomans reported that the second issue involves one of the international equity managers, Baring Asset Management, which is owned by Barings PLC, an investment banking firm that just recently filed for bankruptcy. She explained that ING Group, a large banking and insurance group based in the Netherlands, has acquired substantially all the business, assets and liabilities of the Barings Group and has become the new parent company for Baring Asset Management. She said SBI staff have been monitoring the situation and that so far there has been little turnover in staff and that business appears to be continuing as usual. Ms. Yeomans stated, however, that staff's recommendation is to follow the SBI's policy and formally place the firm on probation until a further review of the changes is completed. Mr. McGrath moved approval of staff's recommendation, as stated in the Attachment A, which reads: "Staff recommends that the SBI place Baring Asset Management in probationary status in accordance with the qualitative evaluation criteria in the SBI's Manager Continuation Policy. Further, staff recommends that the SBI authorize the Executive Director, with assistance from SBI legal counsel, to take any necessary action to assure that the SBI's contractual agreement with Baring Asset Management is continued under its new parent company, the ING Group." Mr. Humphrey seconded the motion. The motion passed. Mr. Bicker clarified that the motion includes assigning the contract to the new parent company, the ING Group. Mr. Carlson asked if there were any objections to the contract assignment and none were voiced. Mr. Humphrey requested that the Board also address the more general issue of whether active management is working for the SBI in the near future. Mr. Bicker stated that the scheduled reviews on the five individual stock managers would be presented at the June 1995 meeting and that a larger evaluation of several of the SBI's policies would occur at the September 1995 meeting.

Alternative Investment Committee

Ms. Yeomans referred members to Tab G of the meeting materials and reported that the Committee had review sessions with a real estate manager, TA Associates Realty and a private equity manager, T. Rowe Price. She said the review of TA Associates was satisfactory and that the new fund to date was going well. She explained that T. Rowe Price is retained to manage stocks the SBI receives as distributions from its private equity investments. She said that the manager's underperformance is attributable to one particular stock, British Petroleum Royalty Trust. She said that the stock was originally distributed at $25 a share and that the price has since declined to approximately $17 a share. She noted that the portfolio's performance, not including the British Petroleum situation, has been quite good and that staff will continue to monitor the manager.

Ms. Yeomans stated that the Committee is recommending an additional investment of up to $25 million with an existing resource manager, L.E. Simmons of SCF Partners, in SCF Partners 1995 Investment Fund. She noted that this investment is not just a pure commodity play on oil since the fund will invest in the energy service and equipment industry. Mr. Humphrey moved approval of the Committee's recommendation, as stated in the Committee Report, which reads: "The Committee recommends that the SBI authorize the Executive Director, with assistance form the SBI's legal counsel, to negotiate and execute a commitment of up to $25 million or 20%, whichever is less, in SCF Partners 1995 Investment Fund. This commitment will be allocated to the Basic Retirement Funds. 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 or its Executive Director have any liability for reliance by SCF

Partners upon this approval. Until a formal agreement is executed by the Executive Director on behalf of the SBI, further due diligence and negotiations may result in the imposition of additional terms and conditions on SCF Partners or reduction or termination of the commitment." Mr. McGrath seconded the motion. The motion passed. The meeting adjourned at 9:00 a.m.

Respectfully submitted,

Howard J. Bicker
Executive Director

MINNESOTA STATE BOARD OF INVESTMENT

Board Members:

Governor
Arne H. Carlson

State Auditor
Judi Dutcher

State Treasurer
Michael A. McGrath

Secretary of State
Joan Anderson Growe

Attorney General
Hubert H. Humphrey III

Executive Director:

Howard J. Bicker

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DATE: March 14, 1995

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

FROM: Howard Bicker

SUBJECT: Additional Recommendations Concerning Manager Status

Due to events that occurred after the Stock and Bond Manager Committee met on February 15, 1995, staff has two additional recommendations concerning manager status that are not reflected in the Committee Report:

- Recommendation to terminate the Board's relationship with **First Capital Advisers**, a domestic stock manager in the Emerging Manager Program.
- Recommendation to place **Baring Asset Management**, an international stock manager, on probation and consent to the continuation of their contract under their new parent firm, ING Group.

First Capital Advisers

On February 28, 1995, SBI staff advised First Capital Advisers, one of the 10 firms in the Emerging Manager Program, that I would be recommending that the State Board of Investment (SBI) terminate its relationship with the firm on March 31, 1995.

Since the firm was retained by the SBI, it has lost several account relationships. As of December 1994, the firm had 3 clients and $55 million in its equity product. Staff has learned that another of the remaining clients will allow its contract to expire on March 31. If the SBI remained with First Capital, the SBI's account would represent $30 million of the $31 million under separate account management after March 31.

As a consequence of this loss of clients and assets, SBI staff is recommending that the relationship with First Capital be terminated. This recommendation is consistent with the SBI's Manager Continuation Policy (which requires re-evaluation of any manager relationship when a firm experiences a significant gain or loss of accounts) as well as the stated focus of the Emerging Manager Program (which targets firms with assets of $50-350 million under management in the stated investment style prior to retention by the SBI).

RECOMMENDATION:

Staff recommends that the SBI contract with First Capital Advisers be terminated as of March 31, 1995.

Baring Asset Management
In April 1993, Baring Asset Management was retained by the SBI to manage an international stock portfolio. At the time, Baring Asset Management operated as an independent subsidiary within the much larger organization known as Barings PLC.

On February 26, 1995, Barings PLC, Britain's oldest investment banking firm, petitioned the court "to appoint joint administrators" due to a loss in excess of $1 billion on futures and options traded out of a Barings Brothers office in Singapore.

This action placed the following units of Barings PLC under the temporary administration of Ernst & Young:

Baring Group Holdings Ltd.	Baring Services Ltd.
Baring Brothers & Co.	Baring Asset Management Holdings Ltd.
Baring Securities Ltd.	Barings Asset Management Ltd.

On March 9, 1995, ING Group, a large banking and insurance group based in the Netherlands, acquired substantially all the business, assets and liabilities of the Barings Group and became the new parent company for Baring Asset Management.

Staff has been informed that the reported problems and losses concerning Baring Brothers have no impact on the operation of Baring Asset Management or the SBI's account with that firm. Based on the information available to date regarding the new ownership structure, staff anticipates that the investment philosophy and process of Baring Asset Management will remain largely unchanged.

Due to circumstances that led to the ownership change, staff recommends that Barings Asset Management be placed "on probation" in accordance with the SBI's Manager Continuation Policy. During the next quarter, staff will meet with personnel from Barings to discuss the situation in greater detail and expects to report back to the Board and the Investment Advisory Council at the June 1995 meetings.

RECOMMENDATION:
Staff recommends that the SBI place Baring Asset Management in probationary status in accordance with the qualitative evaluation criteria in the SBI's Manager Continuation Policy. Further, staff recommends that the SBI authorize the Executive Director, with assistance from SBI legal counsel, to take any necessary action to assure that the SBI's contractual agreement with Baring Asset Management is continued under its new parent company, the ING Group.

AGENDA
INVESTMENT ADVISORY COUNCIL
MEETING
Tuesday, June 6, 1995
2:00 P.M. - Minnesota Judicial Building
Room 230, 25 Constitution Avenue - Saint Paul

		TAB
1.	**Approval of Minutes of March 14, 1995**	
2.	**Report from the Executive Director (H. Bicker)**	
	A. Quarterly Investment Review (January 1, 1995 - March 31, 1995)	**A**
	B. Portfolio Statistics (March 31, 1995)	**B**
	C. Administrative Report	**C**
	1. Budget and travel reports	
	2. Update on 1995 Legislative Session	
	3. Meeting dates for calendar 1995	
	4. Appointment to vacancy on the IAC	
3.	**Report from the SBI Administrative Committee**	**D**
	1. Approval of Executive Director's work plan for FY96	
	2. Approval of budget plan for FY96	
	3. Approval of Continuing Fiduciary Education Plan	
	4. Approval of process for Executive Director's FY95 evaluation	
	5. Approval of contracts with insurance companies for the Higher Education Plan	
	6. Approval of contract amendments to allow plan-to-plan transfers in the Deferred Compensation Plan	
4.	**Report from the Passive Manager Review Committee (P. Sausen)**	**E**
5.	**Reports from the Investment Advisory Council**	
	A. Domestic Manager Committee (J. Bohan)	**F**
	1. Review of manager performance	
	2. Review of selected active stock managers	
	3. Approval of staff position paper on the use of below investment grade debt	
	4. Annual review of investment manager guidelines	
	5. Annual review of stock manager benchmark quality	
	B. International/Global Manager Committee (D. Veverka)	**G**
	1. Review of manager performance	
	2. Annual review of investment manager guidelines	
	C. Alternative Investment Committee (K. Gudorf)	**H**
	1. Review of current strategy	
	2. Results of review sessions	

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Minutes
Investment Advisory Council
March 14, 1995

MEMBERS PRESENT:	Gary Austin; Dave Bergstrom; John Bohan; Ken Gudorf; Laurie Fiori Hacking; Keith Johnson; Peter Kiedrowski; Daralyn Peifer; Michael Stutzer; Debbie Veverka; and Jan Yeomans.
MEMBERS ABSENT:	Laura King; Han Chin Liu; Malcolm McDonald; and Gary Norstrem.
SBI STAFF:	Howard Bicker; Jim Heidelberg; John Griebenow; Dan Egeland; Debbie Griebenow; Karen Vnuk; and Charlene Olson.
OTHERS ATTENDING:	Ann Posey, Richards & Tierney; Judy Hunt, Public Employees Retirement Association; John Wicklund, Teachers Retirement Association; Christie Eller; Jake Manahan; Carey Moe; Julie Bleyhl, AFSCME; Ed Stuart and John Hagman, REAM.

Ms. Yeomans called the meeting to order and the minutes of the December 13, 1994 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 inflation over the ten year period ending December 31, 1994 (Combined Funds 11.9% vs. Inflation 3.6%) and matched the median fund (at 8.4%) for the most recent five years. He added that the Combined Funds had outperformed its composite index (Combined 8.4% vs. Composite 8.0%) over the same five year period. He reported that the Basic Funds had exceeded their composite index (Basics 8.5% vs. Composite 8.2%) over the last five years while the Post Fund has slightly underperformed its composite index for the one and one half year period ending December 31, 1994 (Post 2.7% vs. Composite 2.9).

Mr. Bicker reported that the Basic Funds' assets decreased 0.8% for the quarter ending December 31, 1994 and that the asset mix is basically in-line with policy targets. He said that the Basic Funds had slightly underperformed its composite index for the quarter (Basics -0.1% vs. Composite 0.1%).

Mr. Bicker reported that the Post Retirement Fund had decreased in value by 0.1% during the quarter due to negative investment returns and that the Fund will rebalance its asset mix on April 1, 1995 to generate cash for monthly annuity payments. He said the total fund has slightly underperformed its composite index (Post Fund -0.6% vs. Composite -0.3%) for the quarter.

Mr. Bicker stated that the domestic stock manager group continued to have difficulty and underperformed for the quarter (Domestic Stocks -1.1% vs. Wilshire 5000 -0.8%). He said further discussion of the equity performance would take place during the Stock and Bond Manager Committee Report. He reminded members that since these returns are as of December 31, 1994, they do not include the performance of the newly retained semi-passive equity managers. He said the international stock manager group had underperformed its target for the quarter (International Stocks -1.7% vs. EAFE -1.0%) due, in large part, to a low exposure to Japan. He added that the domestic bond manager group had a slightly underperformed its target for the quarter (Domestic Bonds 0.2% vs. Lehman Aggregate 0.4%) but had outperformed for the most recent three year period (Bond Segment 5.1% vs. Lehman Aggregate 4.8%) and five year period (Bond Segment 8.1% vs. Lehman Aggregate 7.8%).

Mr. Bicker reported that the equity segment of the Assigned Risk Plan (ARP) had matched its benchmark for the quarter (at 0.0%). He reminded members that as of January 1, 1995, the equity segment is managed externally by GE Capital, a semi-passive equity manager. He concluded his report with the comment that as of December 31, 1994 the SBI was responsible for over $23 billion in assets.

Executive Director's Administrative Report

Mr. Bicker referred members to Tab C of the meeting materials for the current budget and travel reports. He noted that the IAC meeting dates for the remainder of calendar year 1995 were also included.

Mr. Bicker reviewed the legislative update and said that the bill related to consultant, professional and technical services contracts could severely impact the SBI's contracts with external managers. He added, however, that the SBI is currently not included in the bill. He noted that the legislation involving the Higher Education retirement plans would require the SBI to rebid the contract to include a mutual fund company as one type of investment provider, effective January 1, 1996. He reminded members that four insurance companies had just been retained by the Board at its last meeting for this same program. He said that staff will suggest modifications to the language in the bill to make the addition of another investment vendor an option and not a requirement. In response to a question from Mr. Bohan, Mr. Bicker said that he believes the legislation would result in the Higher Ed plan having too many options for participants to understand and select from. He added that he believes a better solution is to create a good flexible system with fewer vendors that includes the necessary portability features. Mr. Bicker stated that the costs for the participants are approximately the same regardless whether the products are offered by insurance or mutual fund companies. Mr. Bohan commented that he believes it is important to examine the costs of various vendors and that his perception had been that annuity products are more costly than other investment options. He added that he feels it is important to make the participants aware that the costs of the two product types are roughly the same. Mr. Bicker and Mr. Bergstrom reviewed the process recently completed by the Minnesota State Retirement System during the Deferred Compensation

Plan restructuring. They added that the costs associated with each option/vendor are provided to all Deferred Compensation participants and that the Higher Ed plan will also provide similar cost comparison information.

Mr. Bicker introduced Ms. Carrey Moe, the State Auditor's designee, to members of the IAC.

In response to a question from Ms. Hacking, Mr. Bicker reported that to date, there has not been any legislation introduced involving derivative securities. He said that there is still discussion taking place among two different groups pertaining to derivatives, but that the SBI should not be affected by the language of that bill. He said staff had been working with Representative Bishop to suggest language that would prohibit the use of leverage in the SBI's portfolios. He said that this would address concerns the Representative had related to the use of derivatives by the SBI and only codifies current practice. In response to a question from Mr. Bohan, Mr. Bicker stated that it would not be appropriate for the SBI to take a leadership role with respect to changes in other organizations' statutes concerning derivatives. In response to a question from Ms. Veverka, Mr. Bicker said a preliminary review of the SBI's cash portfolio and securities lending program at State Street Bank and Trust has been done and that no problems were cited. He added that the SBI has indemnification for securities lending at State Street.

Proxy Committee Report

Mr. Bicker referred members to Tab D of the meeting materials and reviewed the SBI's proxy voting process and Committee structure. He said that the Committee is recommending that the Board reaffirm the Committee's authority and approve the revised Proxy Voting Guidelines.

IAC Committee Structure Changes

Ms. Yeomans distributed a memo (see **Attachment A**) and stated that a slight change to the SBI's Committee structure is being proposed that would make all IAC members part of the Asset Allocation Committee and split the current Stock and Bond Manager Committee into two separate Committees, a Domestic Manager Committee and an International/Global Manager Committee. She reported that Ms. Veverka will chair the International/Global Manager Committee, Mr. Bohan will chair the Domestic Manager Committee, and Mr. Gudorf will chair the Alternative Investment Committee. Ms. Yeomans said that she hopes the new structure and assignments will bring a fresh perspective to all areas of the IAC.

Asset Allocation Committee

Ms. Yeomans referred members to Tab E of the meeting materials and stated that the Asset Allocation Committee had met during the quarter to discuss currency management in the SBI's international stock portfolio. She noted that a large part of the international segment's strong performance was due to currency movements alone. She said the Committee discussed the strengths and weaknesses of arguments presented in the draft paper and that the Committee was not prepared to make a final decision on many of the issues. She stated that the Committee did agree with staff that further analysis should be conducted and that the Committee suggested that staff provide additional opportunities for IAC and Board members to become more familiar with currency issues and currency managers. Mr. Bicker added that staff will be organizing a roundtable discussion on currency issues and he encouraged members to attend. He said that currency management is an important decision that the SBI needs to spend some time evaluating.

Mr. Bergstrom commented that he is leaning towards occasional hedging and he noted his concern that if the analysis takes too long, that the SBI could miss an opportunity to capture some returns associated with various currency exposures. Mr. Bicker stated that there are several issues involving the SBI's international program that staff would like the Board to consider at the September 1995 meeting.

In response to comments from Mr. Stutzer regarding the difference between currency hedging and currency bets, Mr. Bicker said that all types of currency management will be considered and discussed. He said that even if the outcome of the analysis is that the SBI decides not to pursue currency management, that he will feel comfortable with that decision because the SBI has examined the issues in a prudent manner. In response to a question from Ms. Peifer, Mr. Bicker confirmed that staff is recommending that the SBI reject constant hedging as long as the SBI's allocation to international stocks is less than 20% of the Combined Funds. Ms. Peifer then commented that this means that the discussion on currency management alternatives will be looking at a range of active currency management options.

In response to a question from Mr. Johnson, Ms. Lehman stated that based on information received from Pension Consulting Alliance, the SBI's international consultant, approximately 11% of international assets owned by other plan sponsors utilize some type of hedging program but that this probably omits the assets allocated to active managers who look at currency issues as part of their investment process. She added that recently there has been a higher level of interest among plan sponsors regarding currency overlay programs. This indicates that many others are currently going through the same evaluation process as the SBI.

Stock and Bond Manager Committee
Mr. Bohan referred members to Tab F of the meeting materials and reviewed the performance of the domestic stock managers. He noted that the segment's underperformance, in large part, was due to an overweighting in consumer nondurable stocks, which have performed poorly over the last year. He stated that staff had suggested that in-depth manager reviews be conducted for Forstmann-Leff, GeoCapital, Lynch & Mayer, Weiss Peck & Greer and Wilshire Asset Management and that the Committee agreed with staff's course of action. He said staff expects to come back with recommendations on these managers by June.

Mr. Bohan reviewed recent bond manager performance, noting that TCW's underperformance was primarily due to that manager's position in CMO's, which underperformed other areas of the poor performing mortgage sector. He reminded members that TCW was retained to manage a strictly mortgage portfolio for the SBI. In response to a question from Mr. Gudorf, Ms. Lehman clarified that the benchmark for TCW is the mortgage component of the Lehman Aggregate index. Mr. Bicker added that mortgage securities are difficult to price and that short-term performance is hard to evaluate because of those pricing problems.

Mr. Bohan reviewed international manager performance, noting that the majority of the most recent quarter's underperformance was due to an underweighting by managers in Japan. In response to questions from Mr. Gudorf regarding the status of Baring Asset Management, Mr. Bicker distributed a memo from staff (see **Attachment B**) regarding additional recommendations concerning manager status and a letter from Baring (see **Attachment C**) concerning the acquisition of Baring Asset Management by the ING Group. Mr. Bicker emphasized that the trading situation that forced Barings PLC into bankruptcy arose in an area of the Barings Group completely outside the management control of the SBI's manager, Baring Asset Management. He said that it appears business is continuing as usual with little or no changes in personnel, structure or investment philosophy. He stated, however, that staff is recommending that Barings be placed on probation in accordance with the SBI's Manager Continuation Policy. He said that during the next quarter, staff will meet with Barings to discuss the situation in greater detail and that staff expects to report back to the IAC and Board at the June 1995 meetings. Mr. Bicker explained that the Board will need to approve the contract assignment to the ING Group. Mr. Gudorf moved approval of staff's recommendation to place Baring Asset Management on probation and to assign the contract to the ING Group, as stated in Attachment B. Ms. Veverka seconded the motion. The motion passed.

Mr. Bicker referred members back to Attachment B and explained that one of the SBI's emerging managers, First Capital Advisers, had recently lost the majority of its clients and assets under management. He said that in accordance with the Manager Continuation Policy, staff is recommending that the contract with First Capital Advisers be terminated as of March 31, 1995. In response to several questions from Ms. Veverka, Mr. Bicker stated that the loss of accounts occurred very recently and that very little information is currently available regarding the specific circumstances. He stated that if approved, First Capital's portfolio will be liquidated as part of the process to raise additional cash for the Post Fund.

Ms. Veverka noted recent structural changes with two more of the SBI's managers, Valenzuela Capital Management and BEA Associates. She asked what the SBI's policy is on handling these types of interim changes that have occurred after the Committee meeting. Mr. Bicker and Ms. Lehman confirmed that those managers could be placed on probation now if members chose to do so. Ms. Lehman added that staff is already investigating the potential effects of the firm's changes on the SBI's portfolios. She reminded members that placing a manager on probation does not require any immediate action and that the guidelines provide a six month period within which to come to a conclusion. Ms. Veverka stated that she was indifferent as to whether the firms were formally placed on probation or not, but she voiced her concern that the BEA situation should be reviewed as quickly as possible. Mr. Bicker confirmed that staff is working on that situation at the present time. In response to a question from Ms. Hacking, Mr. Bohan stated that staff and the Committee would like to re-evaluate Wilshire's management and how the firm's tracking error was affected by administrative issues connected with rebalancing and by trading execution issues.

Mr. Kiedrowski moved approval of staff's recommendation to terminate First Capital Advisers, as stated in Attachment B. Mr. Gudorf seconded the motion. The motion passed.

Alternative Investment Committee

Ms. Veverka referred members to Tab G of the meeting materials and summarized the results of manager review sessions with T. Rowe Price and TA Associates Realty. She reported that staff and the Committee had been concerned with the performance of T. Rowe Price over the last year. She explained that a single large stock holding in British Petroleum Royalty Trust has severely hampered T. Rowe Price's otherwise satisfactory performance. She said the firm would continue to be monitored and that no action is recommended at this time. She said the review with TA Associates went well and produced no major surprises.

Ms. Veverka stated that Committee is recommending an additional investment with an existing resource manager, L.E. Simmons of SCF Partners, in SCF Partners 1995 Investment Fund. She added that while it is too soon to evaluate the manager's second fund, that the first fund performed very well in a difficult oil and gas environment. In response to questions from Mr. Bohan, Mr. Bicker stated that there is not currently a policy requiring a specific preferred return for partnerships. He expressed some concern about high hurdle rates possibly encouraging managers to hold rather than sell assets. Mr. Gudorf moved approval of the Committee's recommendation, as stated in the Committee Report. Mr. Kiedrowski seconded the motion. The motion passed.

Mr. Bicker encouraged members to attend the upcoming currency roundtable and the meeting adjourned at 3:15 p.m.

Respectfully submitted,

Howard J. Bicker
Executive Director

MINNESOTA STATE BOARD OF INVESTMENT

Board Members:

Governor
Arne H. Carlson

State Auditor
Judi Dutcher

State Treasurer
Michael A. McGrath

Secretary of State
Joan Anderson Growe

Attorney General
Hubert H. Humphrey III

Executive Director:

Howard J. Bicker

Suite 105, MEA Bldg.
55 Sherburne Avenue
St. Paul, MN 55155
(612)296-3328
FAX (612)296-9572

An Equal Opportunity Employer

DATE: March 13, 1995

TO: Members, Investment Advisory Council

FROM: Jan Yeomans, Chair

SUBJECT: IAC Committee Structure/Assignments

On December 14, 1994, the State Board of Investment appointed two new members to the Investment Advisory Council (IAC):

Daralyn Peifer Manager, Benefit Finance General Mills, Inc.	Michael ("Mike") Stutzer Associate Professor of Finance Carlson School of Management

I hope you will join me in welcoming them to the Council.

I have reviewed the IAC Committee structure in light of these new appointments and made several changes:

- The membership of the Asset Allocation Committee has been broadened to include all members of the IAC. It will meet, as needed, at the call of the chair.
- The work of the Stock and Bond Manager Committee is being split into two separate committees, a Domestic Manager Committee and an International/Global Manager Committee. Both new committees will meet on a quarterly basis. This change reflects the growing number of international/global issues that staff expects to bring before the IAC during the next 1-2 years.
- New chairs have been designated for each Committee.

A new committee list is attached. I hope that the new structure and assignments will bring a fresh perspective to all areas of the IAC.

Please contact me if you have questions about your committee assignments.

Attachments

cc: Board Members/Designees
Howard Bicker, Executive Director

MINNESOTA STATE BOARD OF INVESTMENT

Board Members:

Governor
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DATE: March 14, 1995

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

FROM: Howard Bicker

SUBJECT: Additional Recommendations Concerning Manager Status

Due to events that occurred after the Stock and Bond Manager Committee met on February 15, 1995, staff has two additional recommendations concerning manager status that are not reflected in the Committee Report:

- Recommendation to terminate the Board's relationship with **First Capital Advisers**, a domestic stock manager in the Emerging Manager Program.
- Recommendation to place **Baring Asset Management**, an international stock manager, on probation and consent to the continuation of their contract under their new parent firm, ING Group.

First Capital Advisers

On February 28, 1995, SBI staff advised First Capital Advisers, one of the 10 firms in the Emerging Manager Program, that I would be recommending that the State Board of Investment (SBI) terminate its relationship with the firm on March 31, 1995.

Since the firm was retained by the SBI, it has lost several account relationships. As of December 1994, the firm had 3 clients and $55 million in its equity product. Staff has learned that another of the remaining clients will allow its contract to expire on March 31. If the SBI remained with First Capital, the SBI's account would represent $30 million of the $31 million under separate account management after March 31.

As a consequence of this loss of clients and assets, SBI staff is recommending that the relationship with First Capital be terminated. This recommendation is consistent with the SBI's Manager Continuation Policy (which requires re-evaluation of any manager relationship when a firm experiences a significant gain or loss of accounts) as well as the stated focus of the Emerging Manager Program (which targets firms with assets of $50-350 million under management in the stated investment style prior to retention by the SBI).

RECOMMENDATION:

Staff recommends that the SBI contract with First Capital Advisers be terminated as of March 31, 1995.

Baring Asset Management

In April 1993, Baring Asset Management was retained by the SBI to manage an international stock portfolio. At the time, Baring Asset Management operated as an independent subsidiary within the much larger organization known as Barings PLC.

On February 26, 1995, Barings PLC, Britain's oldest investment banking firm, petitioned the court "to appoint joint administrators" due to a loss in excess of $1 billion on futures and options traded out of a Barings Brothers office in Singapore.

This action placed the following units of Barings PLC under the temporary administration of Ernst & Young:

Baring Group Holdings Ltd.	Baring Services Ltd.
Baring Brothers & Co.	Baring Asset Management Holdings Ltd.
Baring Securities Ltd.	Barings Asset Management Ltd.

On March 9, 1995, ING Group, a large banking and insurance group based in the Netherlands, acquired substantially all the business, assets and liabilities of the Barings Group and became the new parent company for Baring Asset Management.

Staff has been informed that the reported problems and losses concerning Baring Brothers have no impact on the operation of Baring Asset Management or the SBI's account with that firm. Based on the information available to date regarding the new ownership structure, staff anticipates that the investment philosophy and process of Baring Asset Management will remain largely unchanged.

Due to circumstances that led to the ownership change, staff recommends that Barings Asset Management be placed "on probation" in accordance with the SBI's Manager Continuation Policy. During the next quarter, staff will meet with personnel from Barings to discuss the situation in greater detail and expects to report back to the Board and the Investment Advisory Council at the June 1995 meetings.

RECOMMENDATION:

Staff recommends that the SBI place Baring Asset Management in probationary status in accordance with the qualitative evaluation criteria in the SBI's Manager Continuation Policy. Further, staff recommends that the SBI authorize the Executive Director, with assistance from SBI legal counsel, to take any necessary action to assure that the SBI's contractual agreement with Baring Asset Management is continued under its new parent company, the ING Group.

ATTACHMENT C

BARINGS

High Street Tower, 125 High Street, Suite 2700, Boston, MA 02110-2723

9 March 1995

Ms. Beth Lehman
Assistant Executive Director
Minnesota State Board of Investment
MEA Building
55 Sherburne Avenue
Room 105
St. Paul, MN 55155

Dear Beth:

As Chief Executive Officer of the Baring Asset Management Group, I felt it important that I should write and personally apologise for the inconvenience and worry caused to you over the past two weeks. I cannot thank you enough for your patience and understanding throughout this difficult period. Notwithstanding some very adverse press comment regarding the management of Barings, the facts will not be known until the full independent enquiry has been completed, but I would like to reassure you that this problem arose in an area of the Barings Group completely outside the management control of Baring Asset Management.

The regulators and the ING Group are totally satisfied with the controls in place within the Baring Asset Management Group. With the administrators now released from their responsibilities we are back to running our business as before.

As you are aware the ING Group has acquired Baring Asset Management Holdings and its subsidiaries and substantially all of the business, assets and liabilities of the Barings Group.

ING Group is the seventh largest financial institution in Europe and is quoted on the Netherlands stock exchange with a market capitalisation of approximately U$13 bn. It was formed by the merger in 1991 of Nationale-Nederlanden, the largest insurance group in Holland and NMB Postbank Group, the number three bank in Holland. The group has grown from its Dutch roots into an organisation which is active world-wide, offering a comprehensive range of financial products and services. Today the group operates in 47 countries through an extensive network of subsidiaries, offices, branches and agencies mainly in Europe, the Far East, North America and Latin America.

You should be comforted by the enclosed letter signed by Mr Aad Jacobs confirming that the independence of our business is maintained, which means that our investment philosophy and process remains unchanged. Honouring the bonus has given a great deal of confidence to us all that the ING Group is fully aware of the need to maintain the existing working relationships amongst the staff. The last two weeks have clearly emphasised the strength and importance of our team. To date no people have left. The maintenance of the profit sharing scheme for Baring Asset Management employees will ensure the continuation of the spirit of partnership.

I would like to reiterate our deep gratitude for your continued support and to assure you that all of us here at Baring Asset Management are doing our very best to achieve your investment objectives.

Yours sincerely,

John D Bolsover
Chief Executive Officer

JDB/kem

Enclosure

BARINGS

ING GROUP

EXECUTIVE BOARD

Aad G. Jacobs
Chairman

FOR THE ATTENTION OF ALL CLIENTS OF BARING ASSET MANAGEMENT LIMITED

Date 9 March 1995

I am delighted that we have finally completed our acquisition of Baring Asset Management Holdings Limited and its subsidiaries.

We are all most grateful for the patience you have demonstrated throughout this period of administration and would like to thank you for this and to assure you that:

1) We are totally satisfied with the management of the Baring Asset Management Group and wish them to remain largely autonomous. Barings successful investment philosophy and process will remain unchanged. We have been very impressed by the quality of the people and their enthusiasm to work with us. We are pleased that there have been no staff departures.

2). We have honoured bonuses in respect of 1994 and will maintain the present profit sharing/ bonus system, enabling staff to be fully motivated. In this way you should have every confidence that Baring Asset Management, backed by ourselves, will continue to deliver the superior investment performance and service that you have come to expect from them.

We look forward to a continued and prosperous working relationship with you.

Strawinskylaan 2631, Amsterdam
P.O. Box 810, 1000 AV Amsterdam, The Netherlands
Telephone: +(31 20) 541 54 00

Fax: +(31 20) 541 54 90
Internationale Nederlanden Groep N.V.
Trade Register The Hague no. 133250

Tab A

RETURN OBJECTIVES
Period Ending 3/31/95

COMBINED FUNDS: $ Billion	Return	Compared to Objective
Provide Real Return (10 yr.) Provide returns that are 3-5 percentage points greater than inflation over moving 10 year periods.	11.8% (1)	8.2 percentage points above
Exceed Median Fund (5 yr.) Outperform the median fund from a universe of public and corporate funds with a balanced asset mix over moving 5 year periods.	10.1% (1)	0.1 percentage points above target Rank: 47th percentile (2)
Exceed Composite Index (5 yr.) Outperform a composite market index weighted in a manner that reflects the actual asset mix of the Combined Funds over moving 5 year periods.	10.1% (1)	0.2 percentage points above target

BASIC RETIREMENT FUNDS: $ Billion	Return	Compared to Objective
Exceed Composite Index (5 Yr.) Outperform a composite index weighted in a manner that reflects the long-term asset allocation of the Basic Funds over moving 5 year periods.	10.1%	0.1 percentage points above target

POST RETIREMENT FUND: $ Billion	Return	Compared to Objective
Exceed Composite Index Outperform a composite index weighted in a manner that reflects the long-term asset allocation of the Post Fund over moving 5 year periods.	5.9% (3)	0.5 percentage points below target (3)

(1) Reflects performance of Basic Funds only through 6/30/93, Combined Funds thereafter.

(2) The SBI's stated performance objective is to rank in the top half (above 50th percentile) of the comparative universe. The SBI will strive to achieve performance which ranks in the top third (above 33rd percentile).

(3) Since asset allocation transition was completed, 7/1/93, annualized.

ACTUARIAL VALUATIONS

MSRS, TRA, PERA General Plans
June 30, 1994

	Active (Basics)	Retired (Post)	Total (Basics & Post)
Liability Measures			
1. Current and Future Benefit Obligation	$16.5 billion	$7.5 billion	$24.0 billion
2. Accrued Liabilities	11.7	7.5	19.2
Asset Measures			
3. Current and Future Actuarial Value	$15.7 billion	$7.5 billion	$23.2 billion
4. Current Actuarial Value	8.0	7.5	15.5
Funding Ratios			
Future Obligations vs. Future Assets (3 ÷ 1)	95%	100%	97%
Accrued Liabilities vs. Current Actuarial Value (4 ÷ 2)	68%	100%	81%*

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

The funding ratio required by **Governmental Standard Accounting Board Statement No. 5** compares Cost Value of assets to the Current Benefit Obligation. This calculation provides funded ratios of **82%** for the Basics, **100%** for the Post and **90%** for the Total, respectively.

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. Cost plus one-third of the difference between cost and market value for Basics.

Actuarial Assumptions:

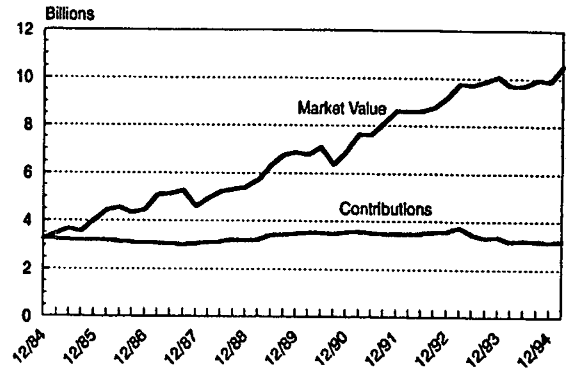
Salary Growth: 6.5%
Interest//Discount Rate: 8.5% Basics, 5.0% Post
Full Funding Target Date: 2020

EXECUTIVE SUMMARY

Basic Retirement Funds

Asset Growth

The market value of the Basic Funds increased 6.2% during the first quarter of 1995. Positive net contributions and investment return accounted for the increase during the period.



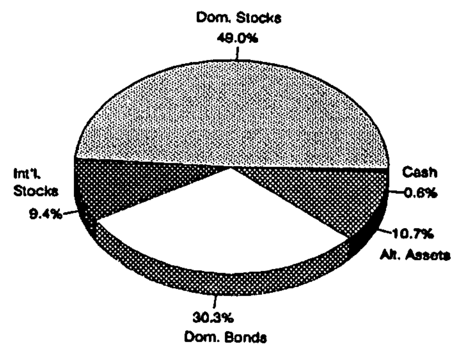
Asset Growth During First Quarter 1995 (Millions)

Beginning Value	$9,890
Net Contributions	63
Investment Return	555
Ending Value	$10,508

Asset Mix

Domestic stocks, cash and international stocks are slightly under the policy target. Bonds will exceed their target until alternative assets increase.

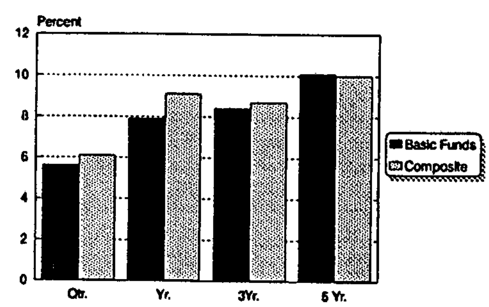
	Policy Asset Mix	Actual Mix 3/31/95	Actual Market Value (Millions)
Domestic Stocks	50.0%	49.0%	$5,148
Int'l. Stocks	10.0	9.4	1,000
Bonds	24.0	30.3	3,179
Alternative Assets	15.0	10.7	1,122
Unallocated Cash	1.0	0.6	59
	100.0%	100.0%	$10,508



Fund Performance

The Basic Funds trailed its composite market index for the quarter and for the year.

	Qtr.	1 Yr.	3 Yr.	5 Yr.
Basics	5.6%	7.9%	8.4%	10.1%
Composite	6.1	9.1	8.7	10.0



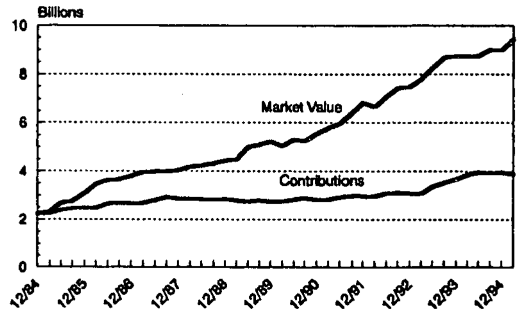
EXECUTIVE SUMMARY

Post Retirement Fund

Asset Growth

The market value of the Post Fund increased 5.1% during the first quarter of 1995. The increase resulted from positive investment returns.

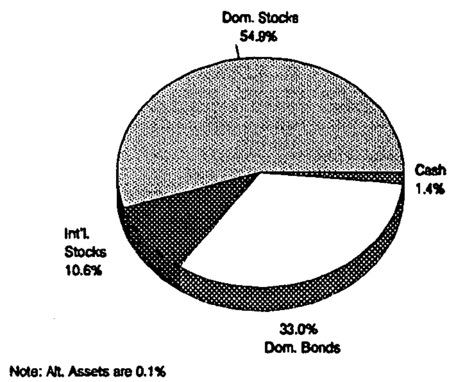
	Asset Growth During First Quarter 1995 (Millions)
Beginning Value	$9,001
Net Contributions	(100)
Investment Return	559
Ending Value	$9,460



Asset Mix

Domestic stocks and international stocks are slightly over the policy target while cash is slightly under. Bonds will exceed their target until alternative assets increase.

	Policy Asset Mix	Actual Mix 3/31/95	Actual Market Value (Millions)
Domestic Stocks	50.0%	54.9%	$5,193
Int'l. Stocks	10.0	10.6	1,008
Bonds	32.0	33.0	3,120
Alternative Assets	5.0	0.1	10
Unallocated Cash	3.0	1.4	129
	100.0%	100.0%	$9,460

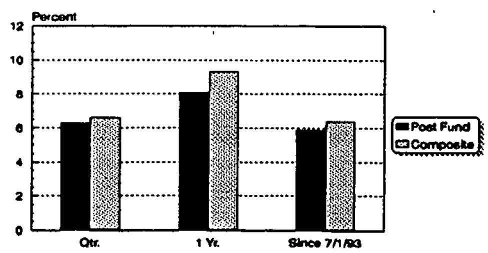


Fund Performance

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

	Qtr.	1 Yr.	Since 7/1/93*
Post Fund	**6.3%**	**8.1%**	**5.9%**
Composite	6.6	9.3	6.4

* Date asset allocation transition to 50% domestic common stocks was completed.



EXECUTIVE SUMMARY
Stock and Bond Manager Performance

Domestic Stocks

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

	Qtr.	1 Yr.	3 Yr.	5 Yr.
Dom. Stocks	8.5%	11.5%	9.5%	10.8%
Wilshire 5000*	9.0	13.2	10.1	11.3

* Buy/hold index adjusted for liquor and tobacco restrictions through 3/31/93 and AHP restriction through 10/31/93.

International Stocks

The international stock manager group (active and passive combined) trailed its target for the quarter and for the year.

	Qtr.	1 Yr.	Since Incept.*
Int'l Stocks	-0.1%	4.1%	13.3%
EAFE	1.9	6.1	14.4

* since 10/1/92.

Domestic Bonds

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

* Prior to July 1, 1994, the Salomon Broad Investment Grade Bond Index was used.

	Qtr.	1 Yr.	3 Yr.	5 Yr.
Bonds	5.0%	4.5%	7.3%	9.4%
Lehman Agg.*	5.0	5.1	6.9	9.0

Note: The above returns reflect the performance of the Basic Funds' managers through 6/30/93 and of the Combined Funds (Basic and Post since 7/1/93).

Wilshire 5000: The Wilshire 5000 stock index reflects the performance of all publicly traded stocks of companies domiciled in the U.S.

EAFE: The Morgan Stanley Capital International index of 20 stock markets in Europe, Australia and the Far East.

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

EXECUTIVE SUMMARY
Assigned Risk Plan

Investment Objective
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.

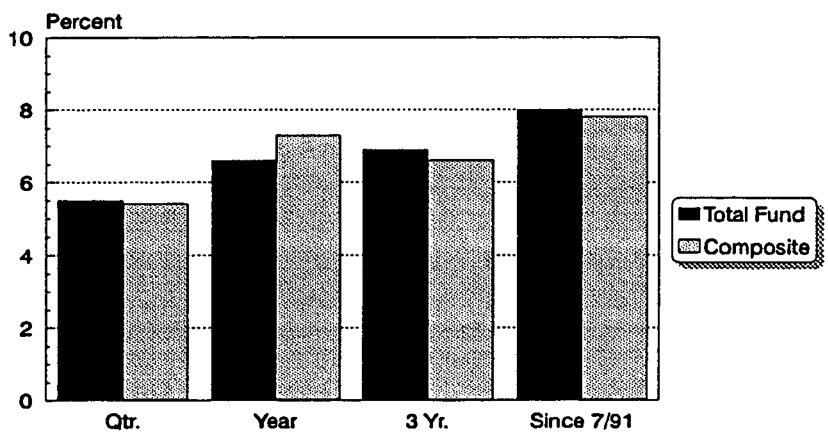
Asset Mix
The Assigned Risk Plan is invested in a balanced portfolio of common stocks and bonds. The actual asset mix will fluctuate in response to changes in the Plan's liability stream.

	3/31/95 Target	3/31/95 Actual
Stocks	20.0%	21.6%
Bonds	80.0	78.4
Unallocated Cash	0.0	0.0
Total	100.0%	100.0%

Investment Management
Voyageur Asset Management has managed the bond segment of the Fund since inception and GE Capital has managed the equity segment since 1/95. The portfolio was transferred from the Department of Commerce to the SBI on May 1, 1991.

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. The equity benchmark is the S&P 500 as of July 1, 1994. Prior to that, it was a custom benchmark. The total fund benchmark is a combination of the fixed income and equity benchmarks, weighted according to the asset allocation target.

Market Value
On March 31, 1995 the market value of the Assigned Risk Plan was $480 million.

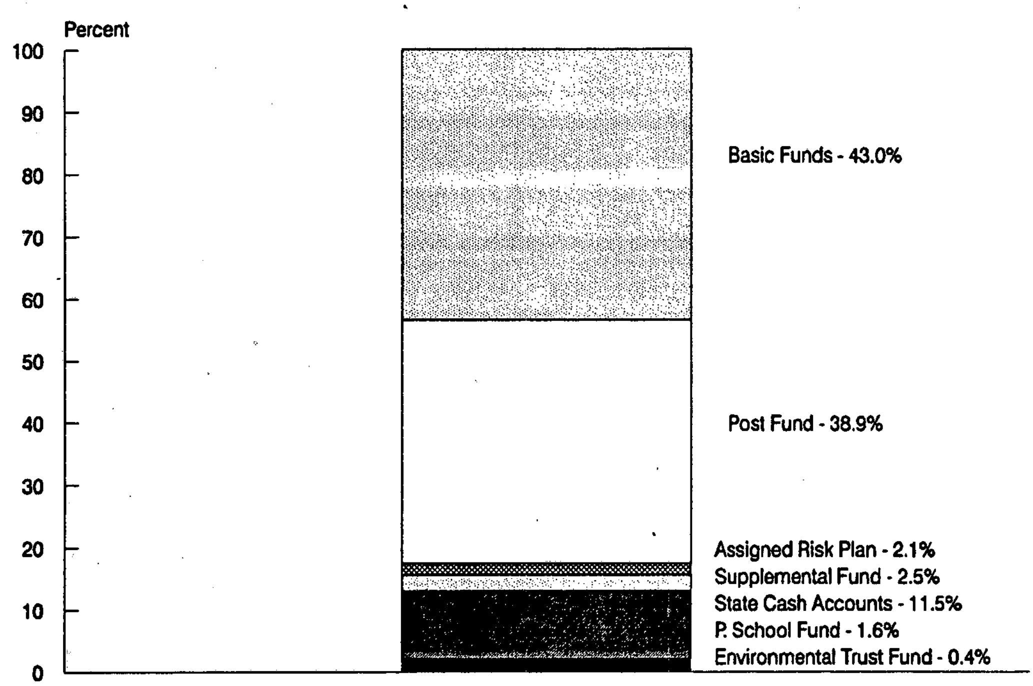


Period Ending 3/31/95

	Qtr.	Yr.	3 Yr.	Since 7/1/91
Total Fund	**5.5%**	**6.6%**	**6.9%**	**8.0%**
Composite Index	5.4	7.3	6.6	7.8
Equity Segment	**9.5**	**13.3**	**6.6**	**8.4**
Benchmark	9.7	15.8	7.0	9.1
Bond Segment	**4.5**	**4.8**	**6.8**	**7.9**
Benchmark	4.3	5.2	6.4	7.4

EXECUTIVE SUMMARY

Funds Under Management



	3/31/95 Market Value (Billions)
Basic Retirement Funds	$10.5
Post Retirement Fund	9.5
Assigned Risk Plan	0.5
Supplemental Investment Fund	0.6
State Cash Accounts	2.8
Permanent School Fund	0.4
Environmental Trust Fund	0.1
Total	$24.4

MINNESOTA STATE BOARD OF INVESTMENT

QUARTERLY INVESTMENT REPORT

First Quarter 1995

(January 1, 1995 — March 31, 1995)

Table of Contents

VARIOUS CAPITAL MARKET INDICES

	Period Ending 3/31/95				
	Qtr.	Yr.	3 Yr.	5 Yr.	10 Yr.
Domestic Equity					
Wilshire 5000	9.0%	13.2%	10.2%	11.5%	13.7%
Dow Jones Industrials	9.2	17.6	11.9	12.3	16.6
S&P 500	9.7	15.6	10.6	11.4	14.4
Russell 2000	4.6	5.5	10.4	11.7	10.6
Domestic Fixed Income					
Lehman Aggregate	5.0	5.0	6.8	8.9	10.3
Lehman Gov't./Corp.	5.0	4.6	7.1	9.0	10.1
90 Day U.S. Treasury Bills	1.5	5.0	3.8	4.8	6.0
International					
EAFE**	1.9	6.1	13.2	6.5	16.7
Salomon Non U.S. Gov't. Bond	14.4	19.0	15.4	15.9	16.7
Inflation Measure					
Consumer Price Index***	1.1	2.9	2.8	3.3	3.6

* Lehman Brothers Aggregate bond index
** Morgan Stanley Capital International index of Europe, Australia and the Far East (EAFE)
*** Consumer Price Index (CPI) for all urban consumers, also known as CPI-U.

FINANCIAL MARKETS REVIEW

DOMESTIC STOCKS

For the quarter, the stock market generated strong positive returns. The increase was due to indications that the economy was starting to cool down. This caused the market to gain confidence that inflation would not increase significantly and that the Federal Reserve would stop increasing interest rates. All sectors of the economy posted positive returns with transportation being the highest and consumer durables the lowest.

The Wilshire 5000 provided a 9.0% return for the quarter. Performance among the different Wilshire Style Indexes for the quarter are shown below:

Large Value	10.3%
Small Value	5.1
Large Growth	9.7
Small Growth	8.1

The Wilshire 5000 increased 13.2% during the latest year.

DOMESTIC BONDS

Returns for the quarter were high as interest rates fell. It appears that the economy is slowing, making inflation less of a threat. In that environment, investors are more willing to buy bonds, which contributes to a decline in interest rates. The yield curve steepened with two year rates declining 0.9% and long rates declining 0.4%.

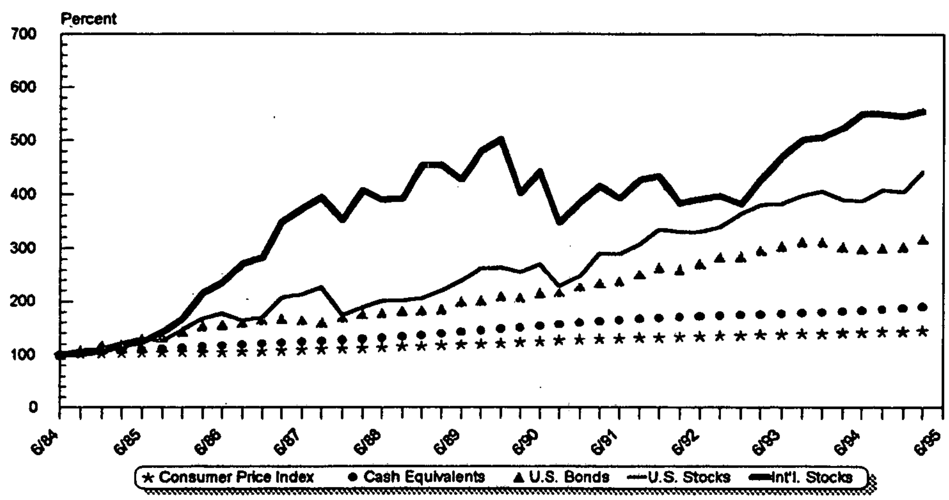
Overall, the Lehman Brothers Aggregate Bond Index increased 5.0% for the quarter. The Lehman Aggregate sector returns for the quarter were:

Treasury/Agency	4.7%
Corporates	5.9
Mortgages	5.2

The Lehman Aggregate increased 5.0% for the latest year.

PERFORMANCE OF CAPITAL MARKETS

Cumulative Returns



Indices used are: Morgan Stanley's Index of Europe, Australia and the Far East (EAFE); Wilshire 5000 Index; Lehman Brothers Aggregate Bond Index; 91 Day Treasury Bills; and the Consumer Price Index.

FINANCIAL MARKETS REVIEW

INTERNATIONAL STOCKS

In aggregate, the international stock markets (as measured by the EAFE index) provided a return of 1.9% for the quarter. As shown below, performance varied widely among the major markets:

Japan	-2.1%
United Kingdom	6.6
Germany	4.3
France	12.7

The EAFE index increased by 6.1% during the latest year. The index is compiled by Morgan Stanley Capital International and is a measure of 20 markets located in Europe, Australia and the Far East (EAFE). The major markets listed above comprise about 75% of the value of international markets.

REAL ESTATE

Nationally, many real estate markets are improving and currently, property types most favored by buyers include apartments, industrial parks and suburban office buildings. Real estate investing by institutions is picking up after a long dry spell.

PRIVATE EQUITY

According to the *Private Equity Analyst*, "total commitments to private equity partnerships of all kinds soared 51% in 1994 to $19.4 billion. That's a new record, surpassing the previous peak of $17.5 billion set in 1987." So far, 1995 looks to be another strong year for commitments to private equity partnerships.

RESOURCE FUNDS

Crude oil prices averaged $17.83 per barrel during the quarter compared to $14.00 per barrel a year earlier. Natural gas prices were weak during the quarter averaging $1.51 per thousand cubic feet versus an unusually strong $2.42 per thousand cubic feet a year earlier.

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.

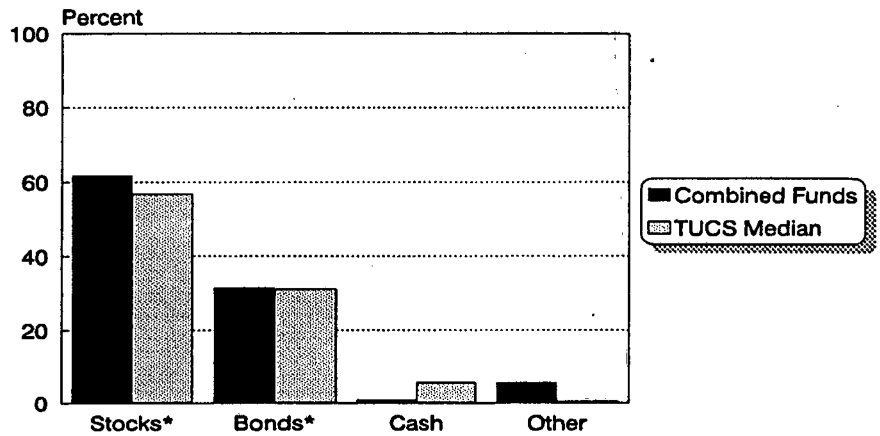
The comparison universe used by the SBI is the Master Trust portion of the Trust Universe Comparison Service (TUCS). This universe contains information on more than 200 public and corporate pension and trust funds with a balanced asset mix.

Asset Mix Compared to Other Pension Funds

On March 31, 1995, the actual asset mix of the Combined Funds was:

	$ Millions	%
Domestic Stocks	$10,341	51.8%
International Stocks	2,008	10.1
Bonds	6,299	31.5
Alternative Assets	1,132	5.7
Unallocated Cash	188	0.9
Total	$19,968	100.0%

Comparisons of the Combined Funds' asset mix to the median allocation to stocks, bond and other assets of the public and corporate funds in TUCS on March 31, 1995 are shown below:



	Stocks*	Bonds*	Cash	Other
Combined Funds	**61.8%**	**31.5%**	**0.9%**	**5.7%**
Median Allocation in TUCS	56.8	31.2	5.6	0.6

* Both domestic and international.

COMBINED FUNDS
Performance Compared to Other Pension Funds

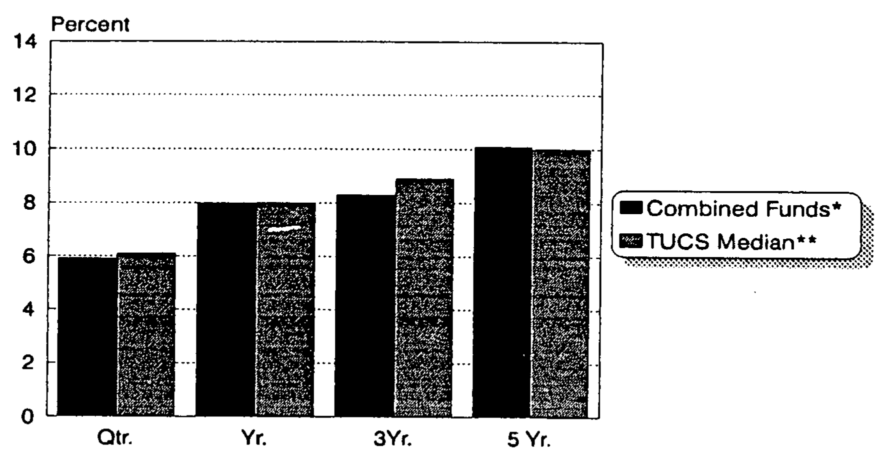
While the SBI is naturally concerned with how its returns compare to other pension investors, universe comparison data should be used with great care. There are several reasons why such comparisons will provide an "apples to oranges" look at performance:

— **Differing Treatment of Fees.** All SBI returns in this report are shown *after* all management fees while TUCS data is reported *before* fees. If the SBI reported returns before fees, its returns and rankings would be *higher* than those shown in this report.

— **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 TUCS are shown below:



Period Ending 3/31/95

	Qtr.	Yr.	Annualized 3 Yr.	5 Yr.
Combined Funds Return*	**5.9%**	**8.0%**	**8.3%**	**10.1%**
TUCS Median Fund Return**	6.1	8.0	8.9	10.0
Percentile Rank in TUCS	53rd	49th	67th	47th

* After fees. Includes Basic Funds only through 6/30/93, Basic and Post thereafter.
** Before fees

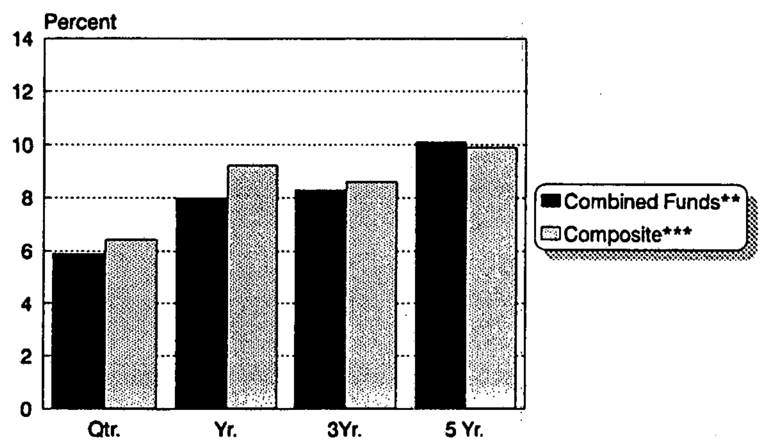
The SBI's stated performance objective is that the Combined Funds will rank in the top half of the universe (above the 50th percentile) over the most recent five year period. The SBI will strive to achieve performance which ranks in the top third (above the 33rd percentile).

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 Index Weights 1/1/95
Domestic Stocks	Wilshire 5000	50.0%
Int'l. Stocks	EAFE	10.0
Domestic Bonds	Lehman Aggregate	32.4*
Alternative Assets	Wilshire Real Estate	2.4*
	Venture Capital Funds	2.7*
	Resource Funds	0.5*
Unallocated Cash	91 Day T-Bills	2.0
		100.0%

* Alternative asset and bond weights are reset in the composite each quarter to reflect the amount of unfunded commitments in alternative asset classes.



Period Ending 12/31/94

	Qtr.	Yr.	Annualized 3 Yr.	Annualized 5 Yr.
Combined Funds**	**5.9%**	**8.0%**	**8.3%**	**10.1%**
Composite Index***	6.4	9.2	8.6	9.9

**Includes performance of Basic Funds through 6/30/93, Basic and Post Funds thereafter.

***Adjusted to reflect the SBI's restrictions on liquor and tobacco stocks through 3/31/93 and AHP restriction through 10/31/93.

BASIC RETIREMENT FUNDS

Investment Objectives

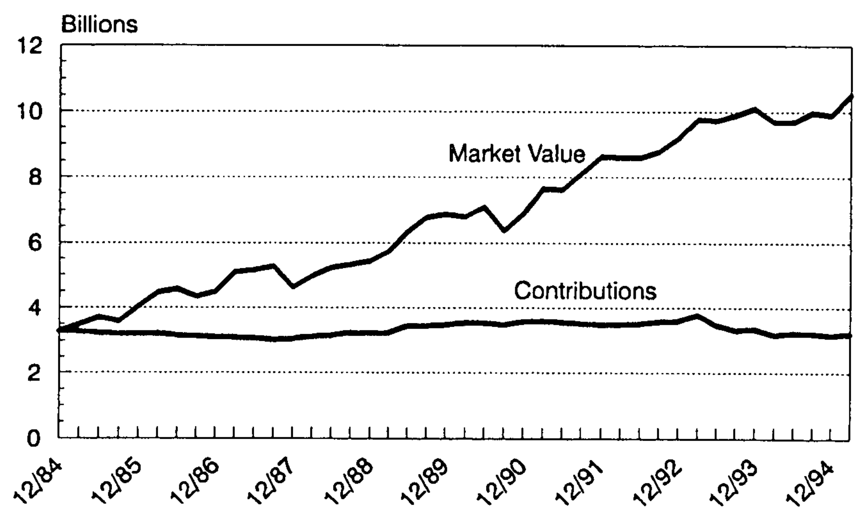
The Basic Retirement Funds are composed of the retirement assets for currently working participants in eight statewide retirement funds. The Funds serve as accumulation pools for the pension contributions of public employees and their employers during the employees' years of active service. Approximately 250,000 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 Retirement Funds' assets increased 6.2% during the first quarter of 1995. Positive net contributions and investment returns accounted for the increase.



Last Five Years
In Millions

	12/90	12/91	12/92	12/93	12/94	Latest Qtr. 3/95
Beginning Value	$6,875	$6,919	$8,639	$9,191	$10,086	$9,890
Net Contributions	91	-92	-34	-239	-206	63
Investment Return	-47	1,812	586	1,134	-10	555
Ending Value	$6,919	$8,639	$9,191	$10,086	$9,890	$10,508

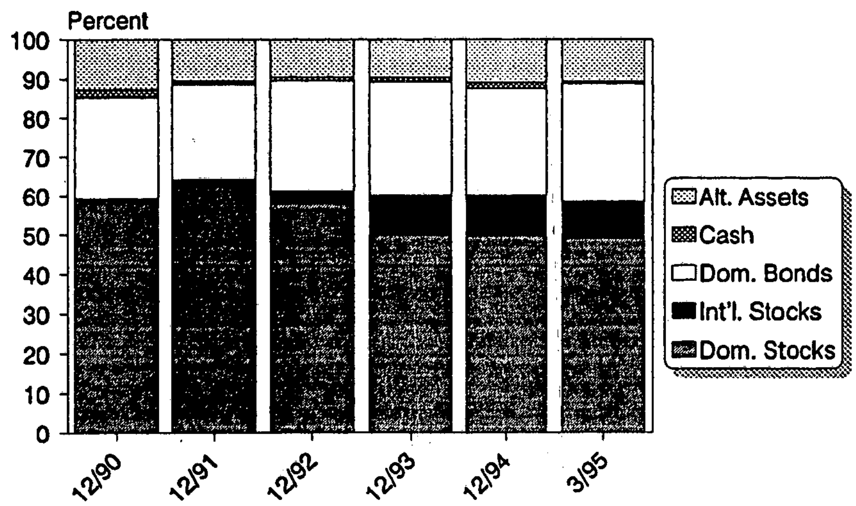
BASIC RETIREMENT FUNDS
Asset Mix

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 targets are designed to add value to the Basic Funds over their long-term investment time horizon.

Domestic Stocks	50.0%
Int'l. Stocks	10.0
Domestic Bonds	24.0
Alternative Assets*	15.0
Unallocated Cash	1.0

*Alternative assets include real estate, venture capital and resource funds.

The actual asset mix changed only slightly from the prior quarter. This was due primarily to rebalancing of the domestic equity segment.



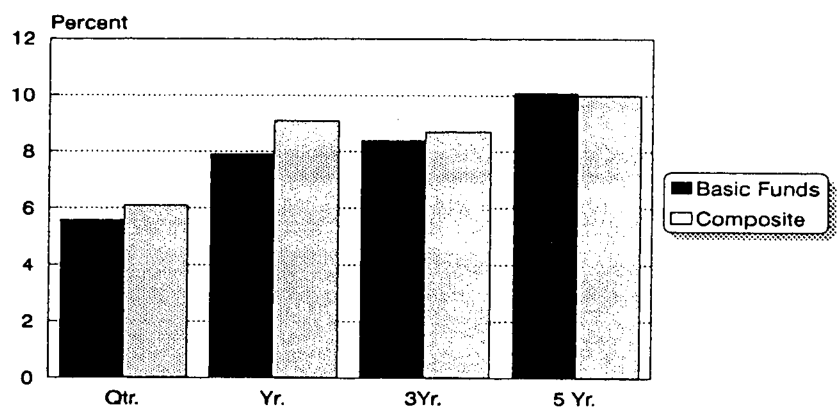
	Last Five Years					Latest Qtr.
	12/90	12/91	12/92	12/93	12/94	3/95
Domestic Stocks	59.1%	63.9%	57.9%	49.9%	49.7%	49.0%
Int'l. Stocks	0.0	0.0	3.2	10.0	10.3	9.4
Domestic Bonds	26.2	24.7	28.5	29.4	27.5	30.3
Real Estate	7.0	4.8	4.2	4.1	4.6	4.3
Private Equity	4.2	4.7	4.2	4.6	5.6	5.6
Resource Funds	1.5	1.1	1.2	1.1	0.9	0.8
Unallocated Cash	2.0	0.8	0.8	0.9	1.4	0.6
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

BASIC RETIREMENT FUNDS
Total Fund Performance

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 1/1/95
Domestic Stocks	50.0%	Wilshire 5000	50.0%
Int'l. Stocks	10.0	EAFE	10.0
Domestic Bonds	24.0	Lehman Aggregate	28.3*
Alternative Assets	15.0	Wilshire Real Estate	4.5*
		Private Equity Funds	5.2*
		Resource Funds	1.0*
Unallocated Cash	1.0	91 Day T-Bills	1.0
	100.0%		100.0%

* Alternative asset and bond weights are reset in the composite each quarter to reflect the amount of unfunded commitments in alternative asset classes.



Period Ending 3/31/95

	Qtr.	Yr.	Annualized 3 Yr.	Annualized 5 Yr.
Basic Funds	5.6%	7.9%	8.4%	10.1%
Composite Index**	6.1	9.1	8.7	10.0

**Adjusted to reflect the SBI's restrictions on liquor and tobacco stocks through 3/31/93 and AHP restriction through 10/31/93.

Effective July 1, 1993, the Basic and Post Funds share the same stock, domestic bond and international stock managers. See page14 for the performance of these asset pools. Performance of the Basic Funds' alternative assets is on page 15.

POST RETIREMENT FUND

The Post Retirement Investment Fund contains the pension assets of retired public employees covered by statewide retirement plans. Approximately 60,000 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 5% 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.

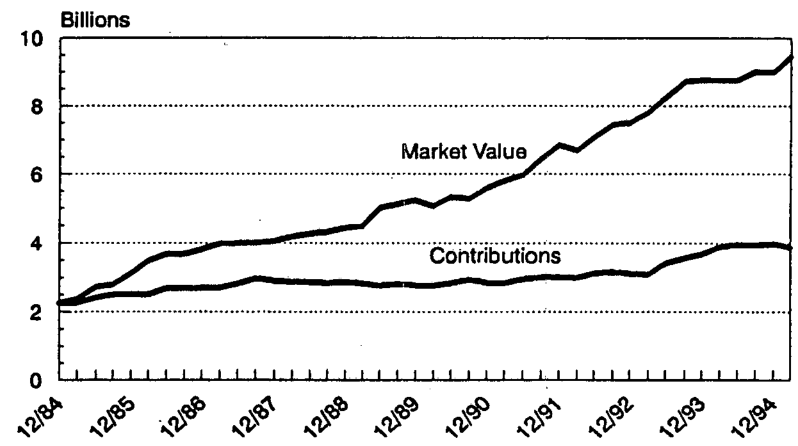
Through fiscal year 1992, unrealized capital gains (or losses) were excluded from the statutory definition of earnings. For this reason the Post Fund previously was not designed to maximize long-term total rates of return. Rather, the SBI attempted to generate a high, consistent stream of realized earnings for the Post Fund that maintained current benefits, as well as produced benefit increases over time.

Beginning in fiscal year 1993, the post retirement benefit increase formula is based on total return rather than realized earnings. As a result, the Board has adopted a new long-term asset allocation strategy for the Post Fund which incorporates a substantial commitment to common stocks. The transition to the new asset allocation strategy was completed by the start of fiscal year 1994 (7/1/93).

Asset Growth

The market value of the Post Retirement Fund increased by 5.1% during the first quarter of 1995.

The increase was due to positive investment returns.



	In Millions					Latest Qtr.
	12/90	12/91	12/92	12/93	12/94	3/95
Beginning Value	$5,238	$5,590	$6,855	$7,500	$8,766	$9,001
Net Contributions	88	162	95	386	314	-100
Investment Return	264	1,103	550	880	-79	559
Ending Value	$5,590	$6,855	$7,500	$8,766	$9,001	$9,460

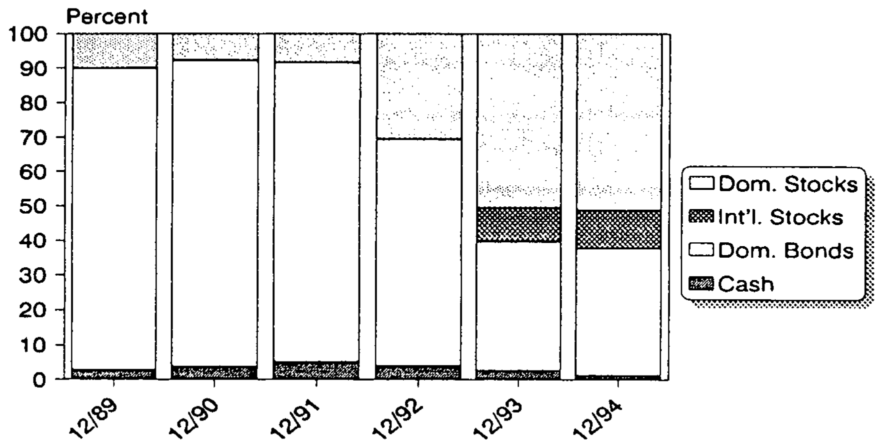
POST RETIREMENT FUND
Asset Mix

The Board adopted a new asset allocation strategy for the Post Fund in fiscal year 1993 which reflects the new post retirement benefit increase formula recently 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	50.0%
Int'l. Stocks	10.0
Domestic Bonds	32.0
Alternative Assets	5.0
Unallocated Cash	3.0
Total	100.0%

The large allocation to common stocks will allow 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.

Funding for alternative assets began first quarter 1994 with a small private equity investment. Domestic equities and international stocks are slightly above the target allocation due to market movements.



Note: Alt. Investments are 0.1%

	Last Five years					Latest Qtr.
	12/90	12/91	12/92	12/93	12/94	3/95
Dom. Stocks	7.9%	8.5%	30.6%	50.5%	51.2%	54.9%
Int'l. Stocks	0.0	0.0	0.0	10.0	11.0	10.6
Dom. Bonds	88.5	80.0	65.6	36.9	36.5	33.0
Alt. Assets	0.0	0.0	0.0	0.0	0.1	0.1
Unallocated Cash	3.6	5.0	3.8	2.6	1.2	1.4
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

* less than 0.1%

POST RETIREMENT FUND

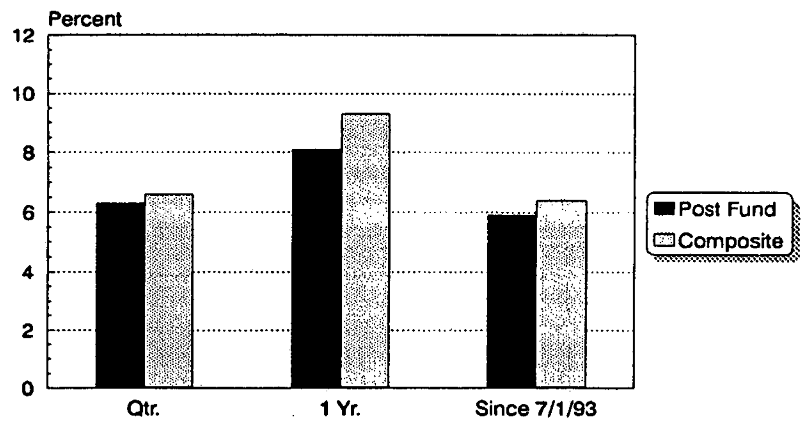
Total Fund Performance

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 1/1/95
Domestic Stocks	50%	Wilshire 5000	50.0%
Int'l. Stocks	10	EAFE	10.0
Domestic Bonds	32	Lehman Aggregate	37.0*
Alternative Assets	5	---	0.0*
Unallocated Cash	3	91 Day T-Bills	3.0
	100%		100.0%

* Until the alternative asset allocation is fully funded, the composite will be overweighted in bonds.

The asset mix of the Post Fund was moved toward a 50% stock allocation during fiscal year 1993 and in fiscal year 1994, a 10% international stock allocation was added. The performance of the fund since the transition was completed is shown below.



	Qtr.	1 Yr.	Since 7/1/93
Post Fund	**6.3%**	**8.1%**	**5.9%**
Composite Index	6.6	9.3	6.4

Effective July 1, 1993, the Basic and Post Funds share the same domestic stock, domestic bond and international stock managers. See page14 for the performance of these asset pools.

STOCK AND BOND MANAGERS

Performance of Asset Pools

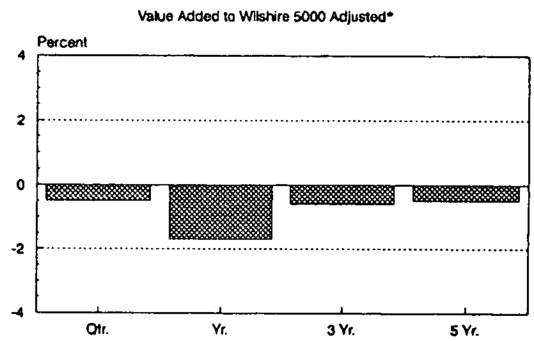
Domestic Stock Pool

Target: Wilshire 5000 Adjusted*

Expectation: If half of the pool is actively managed and half is passively and semi-passively managed, the entire pool is expected to exceed the target by +.25-.55% annualized, over time.

			Annualized	
	Qtr.	Yr.	3 Yrs.	5 Yrs.
Stock Pool	**8.5%**	**11.5%**	**9.5%**	**10.8%**
Wilshire 5000*	9.0	13.2	10.1	11.3

*Buy/hold index adjusted for liquor and tobacco restrictions through 3/31/93 and AHP restriction through 10/31/93.



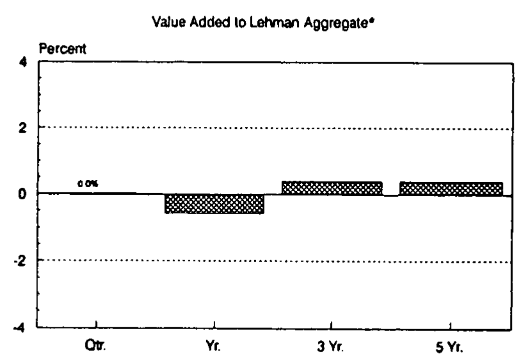
Domestic Bond Pool

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.

			Annualized	
	Qtr.	Yr.	3 Yrs.	5 Yrs.
Bond Pool	**5.0%**	**4.5%**	**7.3%**	**9.4%**
Lehman Aggregate*	5.0	5.1	6.9	9.0

* Prior to July 1, 1994, the Salomon Broad Investment Grade Bond Index was used.

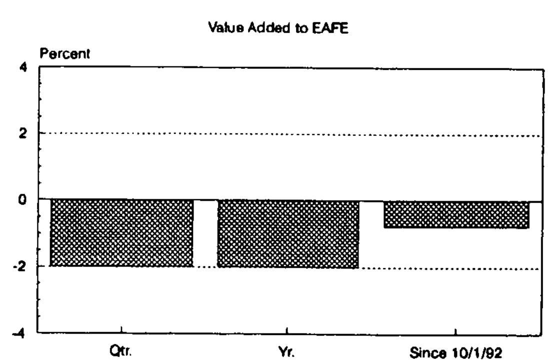


International Stock Pool

Target: EAFE

Expectation: If half of the pool is managed actively and half managed passively, the entire pool is expected to exceed the target by +.25-.75% annualized, over time.

	Qtr.	Yr.	Since 10/1/92
Int'l. Pool	**-0.1%**	**4.1%**	**13.3%**
EAFE	1.9	6.1	14.4



ALTERNATIVE ASSET MANAGERS
Performance of Asset Pools

Real Estate Pool (Basic Funds only)

Expectation: Real estate investments are expected to exceed the rate of inflation by 3-5% annualized, over the life of the investment.

The Wilshire Real Estate Index contains returns of 30 commingled funds. The index does not include returns from funds that are less than 3 years old or are not fully invested.

			Annualized	
	Qtr.	Yr.	3 Yrs.	5 Yrs.
Real Estate	**2.2%**	**5.7%**	**-0.8%**	**-3.1%**
Real Estate Index	2.2	4.5	-2.2	-3.9
Inflation	1.1	2.9	2.8	3.3

Private Equity Pool (Basic Funds only)

Expectation: Private equity investments (primarily venture capital) are expected to provide annualized returns at least 3% greater than historical public equity returns, over the life of the investment. This equates to an absolute return of approximately 13-14% annualized.

The SBI began its venture capital programs in the mid-1980's. Some of the investments, therefore, are relatively immature and returns may not be indicative of future results.

			Annualized	
	Qtr.	Yr.	3 Yrs.	5 Yrs.
Private Equity	**-0.6%**	**4.1%**	**4.6%**	**17.0%**

Resource Pool (Basic Funds only)

Expectation: Resource investments (primarily oil and gas) are expected to exceed the rate of inflation by 3-5% annualized, over the life of the investment.

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

			Annualized	
	Qtr.	Yr.	3 Yrs.	5 Yrs.
Resource Funds	**-4.1%**	**0.9%**	**2.2%**	**8.3%**

ASSIGNED RISK PLAN

Investment Objective
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.

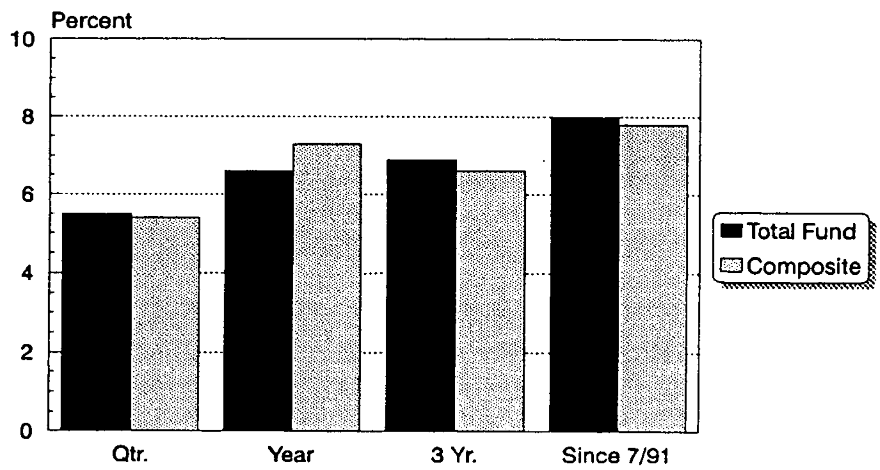
Asset Mix
The Assigned Risk Plan is invested in a balanced portfolio of common stocks and bonds. The actual asset mix will fluctuate in response to changes in the Plan's liability stream.

	3/31/95 Target	3/31/95 Actual
Stocks	20.0%	21.6%
Bonds	80.0	78.4
Unallocated Cash	0.0	0.0
	100.0%	100.0%

Investment Management
Voyageur Asset Management has managed the bond segment of the Fund since inception while GE Capital has managed the equity segment since 1/95. The portfolio was transferred from the Department of Commerce to the SBI on May 1, 1991.

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. The equity benchmark is the S&P 500 as of July 1, 1994. Prior to that, it was a custom benchmark. The total fund benchmark is a combination of the fixed income and equity benchmarks, weighted according to the asset allocation target.

Market Value
On March 31, 1995 the market value of the Assigned Risk Plan was $480 million.



Period Ending 3/31/95

	Qtr.	Yr.	1 Yr.	Since 7/1/91
Total Account	**5.5%**	**6.6%**	**6.9%**	**8.0%**
Composite	5.4	7.3	6.6	7.8
Equity Segment	**9.5**	**13.3**	**6.6**	**8.4**
Benchmark	9.7	15.8	7.0	9.1
Bond Segment	**4.5**	**4.8**	**6.8**	**7.9**

SUPPLEMENTAL INVESTMENT FUND

The Minnesota Supplemental Investment Fund is a multi-purpose investment program that offers a range of investment options to state and local public employees. The different participating groups use the Fund for a variety of purposes:

1. It functions as the investment manager for all assets of the Unclassified Employees Retirement Plan, Public Employees Defined Contribution Plan and Hennepin County Supplemental Retirement Plan.

2. It is one investment vehicle offered to employees as part of the state's Deferred Compensation Plan, the 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 but they do not include a deduction from asset based charges used to defray costs of the administering retirement organizations.

On March 31, 1995 the market value of the entire fund was $638 million.

Investment Options

Income Share Account - a balanced portfolio utilizing both common stocks and bonds.

Growth Share Account - an actively managed, all common stock portfolio.

Common Stock Index Account - a passively managed, all common stock portfolio designed to track the performance of the entire stock market.

International Share Account - a portfolio of non U.S. stocks that incorporates both active and passive management.

Bond Market Account - an actively managed, all bond portfolio.

Money Market Account - a portfolio utilizing short-term, liquid debt securities.

Fixed Interest Account - an option utilizing guaranteed investment contracts (GIC's), which offer a fixed rate of return for a specified period of time.

SUPPLEMENTAL INVESTMENT FUND
Income Share Account

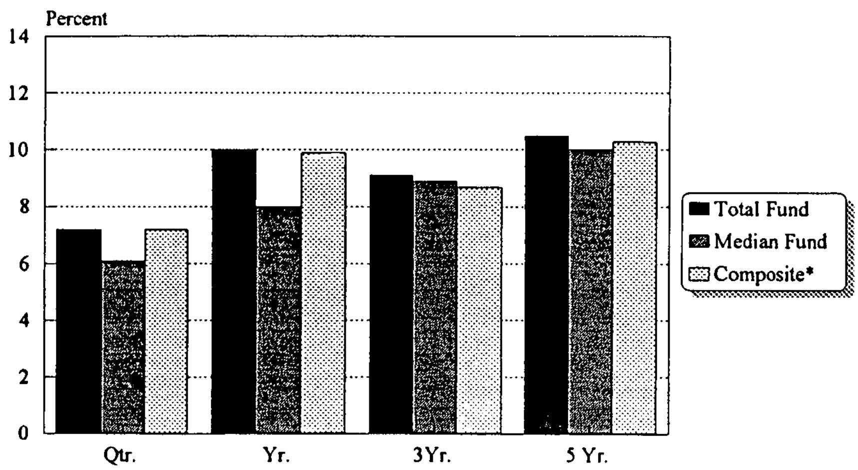
Investment Objective
The primary investment objective of the Income Share Account is similar to that of the Combined Funds. The Account seeks to maximize long-term real rates of return, while limiting short-run portfolio return volatility.

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.

Investment Management
The Account combines internal and external management. Internal investment staff manage the entire fixed income segment. Throughout the period shown below, the entire stock segment has been managed by Wilshire Associates as part of a passively managed index fund designed to track the Wilshire 5000. Prior to April 1988, a significant portion of the stock segment was actively managed.

Market Value
On March 31, 1995 the market value of the Income Share Account was $309 million.

	Target	Actual
Stocks	60.0%	62.3%
Bonds	35.0	33.6
Unallocated Cash	5.0	4.1
	100.0%	100.0%



Period Ending 3/31/95	Qtr.	Yr.	Annualized 3 Yr.	Annualized 5 Yr.
Total Account	**7.2%**	**10.0%**	**9.1%**	**10.5%**
Median Fund*	6.1	8.0	8.9	10.0
Composite**	7.2	9.9	8.7	10.3
Equity Segment	**8.8**	**13.6**	**10.8**	**11.7**
Wilshire 5000***	9.0	13.2	10.1	11.3
Bond Segment	**4.9**	**4.3**	**7.2**	**9.1**
Lehman Aggregrate	5.0	5.1	6.9	9.0

*TUCS Median Master Trust

**60% Wilshire 5000/35% Lehman Aggregate Bond Index/5% T-Bills Composite. Wilshire 5000 is adjusted as noted below.

*** Buy/hold index adjusted for liquor and tobacco restrictions through 3/31/93 and AHP restriction through 10/31/93.

Note: Prior to 7/1/94 the Salomon BIG was the benchmark and a component of the Composite.

SUPPLEMENTAL INVESTMENT FUND

Growth Share Account

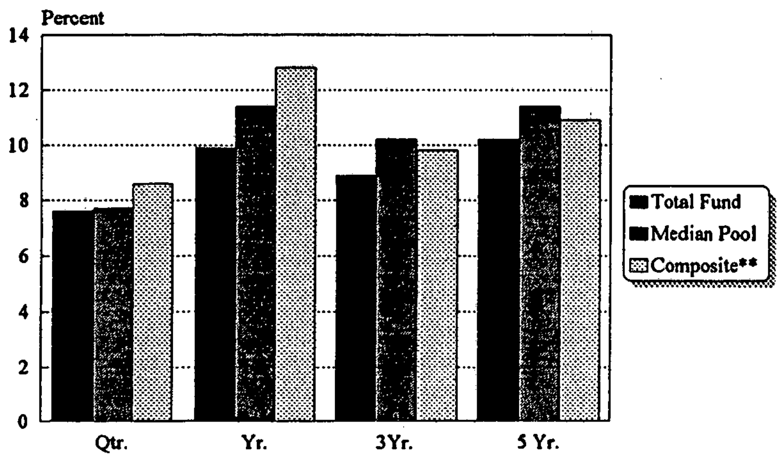
Investment Objective
The Growth Share Account's investment objective is to generate above-average returns from capital appreciation on common stocks.

Asset Mix
The Growth Share Account is invested almost entirely in common stocks. Generally, the small cash equivalents component represents the normal cash reserves held by the Account as a result of net contributions not yet allocated to stocks or held in reserve to accomodate withdrawals.

	Target	Actual
Stocks	95.0%	93.9%
Unallocated Cash	5.0	6.1
	100.0%	100.0%

Investment Management
Throughout the period shown below, the entire Account has been managed by the same group of active external stock managers utilized by the Basic and Post Retirement Funds. Prior to April 1988, other active managers controlled a substantial portion of the account.

Market Value
On March 31, 1995 the market value of the Growth Share Account was $115 million.



Period Ending 3/31/95

		Annualized		
	Qtr.	Yr.	3 Yr.	5 Yr.
Total Account	**7.6%**	**9.9%**	**8.9%**	**10.2%**
Median Pool*	7.7	11.4	10.2	11.4
Composite**	8.6	12.8	9.8	10.9

* TUCS Median Equity Pool

** 95% Wilshire 5000/5% T-Bills Composite. Wilshire 5000 buy/hold index is adjusted for liquor and tobacco restrictions through 3/31/93 and AHP restriction through 10/31/93.

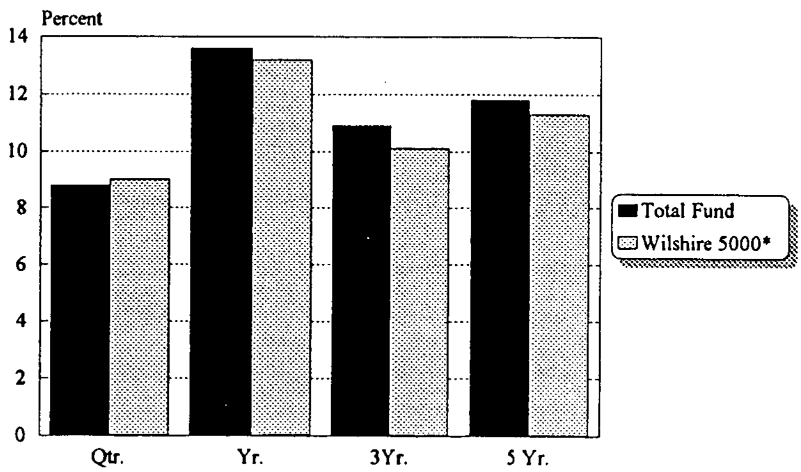
SUPPLEMENTAL INVESTMENT FUND
Common Stock Index Account

Investment Objective and Asset Mix
The investment objective of the Common Stock Index Account is to generate returns that match those of the common stock market. The Account is designed to track the performance of the Wilshire 5000, a broad-based equity market indicator.

The Account is invested 100% in common stock.

Investment Management
The entire Account is managed by Wilshire Associates as part of a passively managed index fund.

Market Value
On March 31, 1995 the market value of the Common Stock Index Account was $60 million.



Period Ending 3/31/95

		Annualized		
	Qtr.	**Yr.**	**3 Yr.**	**5 Yr.**
Total Account	**8.8%**	**13.6%**	**10.9%**	**11.8%**
Wilshire 5000*	9.0	13.2	10.1	11.3

*Buy/hold index adjusted for liquor and tobacco restrictions through 3/31/93 and AHP restriction through 10/31/93.

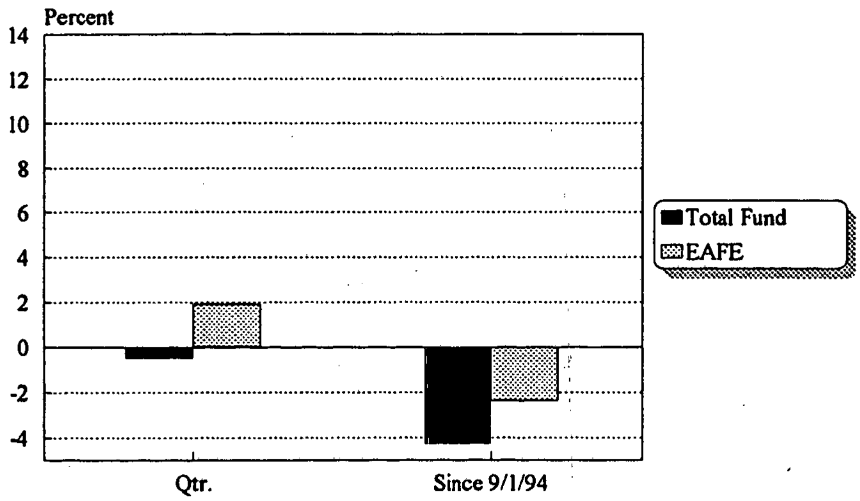
SUPPLEMENTAL INVESTMENT FUND

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. Approximately half of the Account is "passively managed" and is designed to track the return of 20 markets included in the Morgan Capital International index of Europe, Australia and the Far East (EAFE). The remainder of the Account is "actively managed" by several international managers who buy and sell stocks in an attempt to maximize market value.

Investment Management
The Account was opened for contributions on September 1, 1994. Beginning October 1, 1994, the Account will use the same group of international active and passive international stock managers as the Basic and Post Retirement Funds.

Market Value
On March 31, 1995 the market value of the International Share Account was $8 million.



	Period Ending 3/31/95	
	Qtr.	Since 9/1/94
Total Account*	**-0.5%**	**-4.3%**
EAFE	1.9	-2.4

* Account established on September 1, 1994.

SUPPLEMENTAL INVESTMENT FUND

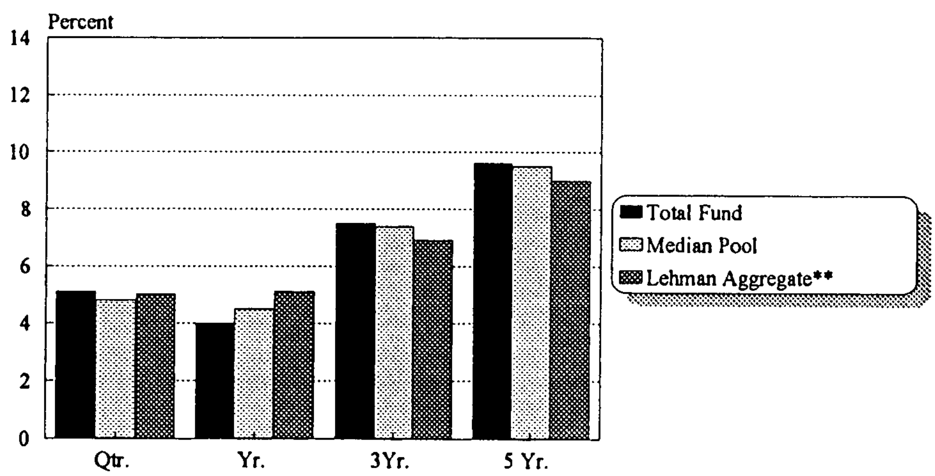
Bond Market Account

Investment Objective
The investment objective of the Bond Market Account is to earn a high rate of return 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.

Investment Management
The entire Account is managed by the same group of active external bond managers utilized by the Basic and Post Retirement Funds.

Market Value
On March 31, 1995 the market value of the Bond Market Account was $21 million.



Period Ending 3/31/95

	Qtr.	Yr.	3 Yr. (Annualized)	5 Yr. (Annualized)
Total Account	**5.1%**	**4.0%**	**7.5%**	**9.6%**
Median Pool*	4.8	4.5	7.4	9.5
Lehman Aggregate**	5.0	5.1	6.9	9.0

* TUCS Median Fixed Income Pool
** Prior to July 1, 1994, the Salomon Broad Investment Grade Index was used.

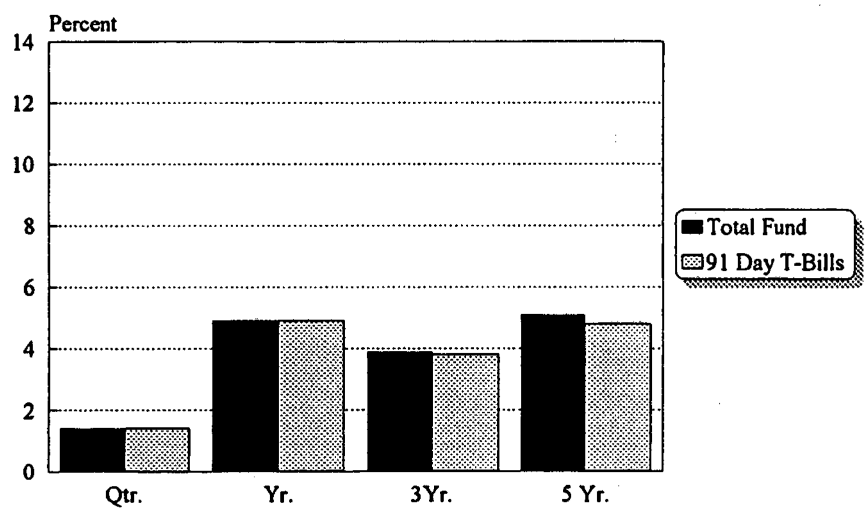
SUPPLEMENTAL INVESTMENT FUND
Money Market Account

Investment Objective
The investment objective of the Money Market Account is to purchase short-term, liquid fixed income investments that pay interest at rates competitive with those available in the money markets.

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.

Investment Management
The Money Market Account is managed solely by State Street Bank and Trust Company. State Street manages a major portion of the Board's cash reserves.

Market Value
On March 31, 1995 the market value of the Money Market Account was $55 million.



Period Ending 3/31/95

		Annualized		
	Qtr.	**Yr.**	**3 Yr.**	**5 Yr.**
Total Account	**1.4%**	**4.9%**	**3.9%**	**5.1%**
91 Day T-Bills	1.4	4.9	3.8	4.8

SUPPLEMENTAL INVESTMENT FUND
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 Fixed Interest Account is invested in guaranteed investment contracts (GIC's) offered by major U.S. insurance companies and banks and GIC type investments. Effective November 1, 1994 new contributions into the Account are deposited into a new pool of GIC's and GIC-type investments. The pool has a blend of maturities and a credited interest rate that changes monthly. The two existing GIC's will remain in place and will mature in 1995 and 1996, respectively.

Investment Management
The new portfolio of GIC's and GIC-type investments is managed by Norwest Investment Management.

Market Value
On March 31, 1995 the market value of the Fixed Interest Account was $70 million.

Existing Contracts

Contract Period	Annual Effective Interest Rate	Manager
Nov. 1, 1992-Oct. 31, 1995	5.280%	Norwest Bank Minnesota
Nov. 1, 1993-Oct. 31, 1996	4.625% (blended rate)	Principal Mutual/Hartford Life

Blended Portfolio	Annualized Credited Interest Rate	Manager
Nov. 94	5.750%	Norwest Investment Management
Dec. 94	6.790	
Jan. 95	6.790	
Feb. 95	7.310	
Mar. 95	6.910	

PERMANENT SCHOOL FUND

Investment Objectives
The SBI invests the Permanent School Fund to produce a high, consistent level of income that will assist in offsetting state expenditures on school aids.

The Permanent School Fund's investment objectives have been influenced by the legal provisions under which its investments must be managed. These provisions require that the Permanent School Fund's principal remain inviolate. Further, any net realized equity and fixed income capital gains must be added to principal. Moreover, if the Permanent School Fund realizes net capital losses, these losses must be offset against interest and dividend income before such income can be distributed. Finally, all interest and dividend income must be distributed in the year in which it is earned.

These legal provisions have limited the investment time horizon over which the Permanent School Fund is managed. Long-run growth in its assets is difficult to achieve without seriously reducing current spendable income and exposing the spendable income stream to unacceptable volatility. The SBI, therefore, has invested the Permanent School Fund's assets to produce the maximum amount of current income, within the constraint of maintaining adequate portfolio quality.

Asset Mix
The Permanent School Fund continues to hold only fixed income securities with the Lehman Aggregate as a benchmark.

Investment Management
The entire fund is managed by the SBI investment staff.

Asset Growth
The market value of the Permanent School Fund's assets increased 2.1% during the first quarter due to positive investment returns.

Asset Growth
During First Quarter 1995
(Millions)

Beginning Value	$398.4
Net Contributions	-11.8
Investment Return	20.1
Ending Value	$406.7

Bond Segment Performance
The composition of the Permanent School Fund's bond portfolio was essentially unchanged during the quarter. At the quarter's-end, the portfolio had a current yield of 7.57%, duration of 5.55 years, and a AAA quality rating. The portfolio has 46% in cash and Treasury securities with the remainder primarily distributed among mortgages, industrials and utilities.

Bond Portfolio Statistics
3/31/95

Value at Market	$406.7 million
Value at Cost	399.3
Average Coupon	8.09%
Current Yield	7.57
Yield to Maturity	7.39
Average Time to Maturity	9.28
Duration	5.55
Average Quality Rating	AAA
Number of Issues	109
Treasury & Cash	46.0%
Agency	0.3
Corporate	18.9
Mortgages	34.8
Total	100.0%

ENVIRONMENTAL TRUST FUND

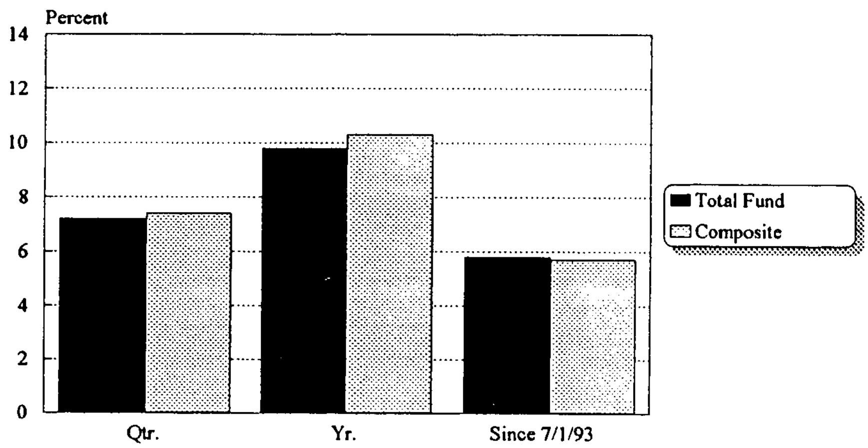
Investment Objective
The Environmental Trust Fund's objective is to produce a growing level of spendable income, within the constraints of maintaining adequate portfolio quality and liquidity.

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.

	Target	Actual
Stocks	50.0%	49.6%
Bonds	50.0	44.5
Unallocated Cash	0.0	5.9
	100.0%	100.0%

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

Market Value
On March 31, 1995 the market value of the Environmental Trust Fund was $96 million.



Period Ending 3/31/95	Qtr.	1 Yr.	Since 7/1/93
Total Fund	7.2%	9.8%	5.8%
Composite	7.4	10.3	5.7
Equity Segment	9.8	15.2	9.3
Benchmark	9.7	15.6	9.2
Bond Segment	5.0	5.1	3.4
Benchmark	5.0	5.1	2.7

STATE CASH ACCOUNTS

Description
State Cash Accounts represent the cash balances in more than 200 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 cash balances of retirement-related accounts managed internally and cash balances in the Permanent School Fund.

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

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

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

Investment Objectives

Safety of Principal. To preserve capital.

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

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

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

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

Period Ending 3/31/95

	Market Value (Millions)	Qtr.	Yr.	3 Yrs. Annualized
Treasurer's Cash Pool	**$2,270**	**1.8%**	**4.8%**	**4.4%**
Trust Fund Cash Pool	**98**	**1.5**	**5.1**	**4.6**
Benchmark*		2.0	4.9	NA
91-Day T-Bills		1.4	4.9	3.8

* 75% State Street Short Term Investment Fund/25% 1-3 Year Treasuries. This benchmark was established in April 1993. The Investment Advisory Council (IAC) intend to review the appropriateness of this benchmark in FY96. Until that time the IAC believe the pools should continue to be monitored against 91-Day T-Bills.

Tab B

PORTFOLIO STATISTICS

MINNESOTA STATE BOARD OF INVESTMENT
Composition of State Investment Portfolios By Type of Investment
Market Value March 31, 1995 (in Millions)

	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	$38,407	-0-	$1,385,536	-0-	$2,243,976	$435,789	$489,231	$4,592,939
	0.83%		30.17%		48.86%	9.49%	10.65%	100%
Public Employees Retirement Fund	$9,941	-0-	$663,309	-0-	$1,074,232	$208,620	$234,204	$2,190,306
	0.45%		30.28%		49.05%	9.53%	10.69%	100%
State Employees Retirement Fund	$7,103	-0-	$634,995	-0-	$1,028,374	$199,714	$224,225	$2,094,411
	0.34%		30.32%		49.10%	9.54%	10.70%	100%
Public Employees Police & Fire Fund	$2,486	-0-	$312,987	-0-	$506,867	$98,436	$110,522	$1,031,298
	0.24%		30.35%		49.15%	9.54%	10.72%	100%
Highway Patrol Retirement Fund	$529	-0-	$47,763	-0-	$77,345	$15,021	$16,866	$157,524
	0.34%		30.32%		49.10%	9.54%	10.70%	100%
Judges Retirement Fund	$38	-0-	$3,401	-0-	$5,508	$1,070	$1,201	$11,218
	0.34%		30.32%		49.10%	9.54%	10.70%	100%
Public Employees P.F. Consolidated	$820	$261	$95,891	$19	$155,843	$30,265	$33,975	$317,074
	0.26%	0.08%	30.24%	0.01%	49.15%	9.55%	10.71%	100%
Correctional Employees Retirement	$385	-0-	$34,422	-0-	$55,747	$10,826	$12,155	$113,535
	0.34%		30.32%		49.10%	9.54%	10.70%	100%
POST RETIREMENT FUND	$129,591	-0-	$3,119,957	-0-	$5,192,809	$1,008,239	$9,810	$9,460,405
	1.37%		$32.98%		54.89%	10.66%	0.10%	100%
TOTAL BASIC & POST	$189,300	$261	$6,298,261	$19	$10,340,701	$2,007,980	$1,132,189	$19,968,711
	0.95%	0.00%	31.54%	0.00%	51.78%	10.06%	5.67%	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	$12,521 4.06%	-0-	$103,711 33.60%	-0-	$192,476 62.34%	-0-	-0-	$308,708 100%
Growth Share Account	$7,063 6.14%	-0-	$107,979 93.86%	-0-	-0-	-0-	-0-	$115,042 100%
Money Market Account	$54,741 100%	-0-	-0-	-0-	-0-	-0-	-0-	$54,741 100%
Common Stock Index Account	-0-	-0-	-0-	-0-	$60,007 100%	-0-	-0-	$60,007 100%
Bond Market Account	-0-	-0-	$20,874 100%	-0-	-0-	-0-	-0-	$20,874 100%
International Share Account	-0-	-0-	-0-	-0-	$8,421 100%	-0-	-0-	$8,421 100%
Fixed Interest Account	-0-	-0-	$70,259 100%	-0-	-0-	-0-	-0-	$70,259 100%
TOTAL SUPPLEMENTAL FUNDS	$74,325 11.65%	-0-	$302,823 47.46%	-0-	$260,904 40.89%	-0-	-0-	$638,052 100%
TOTAL RETIREMENT FUNDS	$263,625 1.28%	$261 0.00%	$6,601,084 32.03%	$19 0.00%	$10,601,605 51.45%	$2,007,980 9.74%	$1,132,189 5.50%	$20,606,763 100%

	Cash And Short Term Securities	Bonds Internal	Bonds External	Stocks Internal	Stocks External	External Int'l.	Alternative Assets	Total
ASSIGNED RISK PLAN	$15,139 3.15%	-0-	$369,343 76.96%	-0-	$95,437 19.89%	-0-	-0-	$479,919 100%
ENVIRONMENTAL FUND	$5,626 5.86%	$42,735 44.54%	-0-	$47,600 49.60%	-0-	-0-	-0-	$95,961 100%
PERMANENT SCHOOL FUND	$39,587 9.73%	$367,083 90.27%	-0-	-0-	-0-	-0-	-0-	$406,670 100%
TREASURERS CASH	$2,281,713 100%	-0-	-0-	-0-	-0-	-0-	-0-	$2,281,713 100%
HOUSING FINANCE AGENCY	$88,682 42.55%	$119,757 57.45%	-0-	-0-	-0-	-0-	-0-	$208,439 100%
MINNESOTA DEBT SERVICE FUND	$2,333 11.08%	$18,731 88.92%	-0-	-0-	-0-	-0-	-0-	$21,064 100%
MISCELLANEOUS ACCOUNTS	$55,817 19.37%	$232,370 80.63%	-0-	-0-	-0-	-0-	-0-	$288,187 100%
GRAND TOTAL	$2,752,522 11.29%	$780,937 3.20%	$6,970,427 28.58%	$47,619 0.20%	$10,697,042 43.86%	$2,007,980 8.23%	$1,132,189 4.64%	$24,388,716 100%

STATE OF MINNESOTA
STATE BOARD OF INVESTMENT

Net Cash Flow Available For Investment
January 1, 1995 - March 31, 1995

Teachers Retirement Fund	$55,000,000.00
Public Employees Retirement Fund	8,000,000.00
State Employees Retirement Fund	0.00
Public Employees Police & Fire	(4,500,000.00)
Highway Patrol Retirement Fund	(833,000.00)
Judges Retirement Fund	0.00
Public Employees P&F Consolidated	5,182,954.00
Correctional Employees Retirement Fund	0.00
Post Retirement Fund	(99,693,155.00)
Supplemental Retirement Fund - Income	(1,775,340.72)
Supplemental Retirement Fund - Growth	(920,831.66)
Supplemental Retirement Fund - Money Market	(3,037,850.61)
Supplemental Retirement Fund - Index	1,174,970.17
Supplemental Retirement Fund - Bond Market	107,098.45
Supplemental Retirement Fund - Fixed Interest	7,140,960.71
Supplemental Retirement Fund - International	1,832,586.77
Total Retirement Funds Net Cash Flow	**($32,321,607.89)**
Assigned Risk Plan	($1,177,568.64)
Permanent School Fund	(11,844,531.62)
Total Net Cash Flow	**($45,343,708.15)**

STATE OF MINNESOTA

STATE BOARD OF INVESTMENT

Transaction and Asset Summary

Retirement Funds

	Net Transactions			Asset Summary (at Market Value)				
	Bonds (Millions)	Stocks (Millions)	Total (Millions)	Cash Flow (Millions)	Short-Term % of Fund	Bonds % of Fund	Equity % of Fund	Total Mkt. Value (Millions)
January 1992	-42	-3	-45	11	3.6	50.3	46.1	15,878
February	-19	0	-19	57	4.1	49.4	46.5	16,086
March	292	-300	-8	2	4.2	51.6	44.2	15,870
April	-6	2	-4	4	4.2	51.5	44.3	15,905
May	-13	5	-8	72	4.7	51.3	44.0	16,127
June	-22	0	-22	150	5.7	51.5	42.8	16,264
July	389	152	541	123	3.0	53.3	43.7	16,726
August	-149	151	2	-11	3.0	53.1	43.9	16,627
September	-200	200	0	-10	2.9	52.0	45.1	16,809
October	-282	282	0	10	2.9	49.8	47.3	16,771
November	-248	270	22	-9	2.7	47.5	49.8	17,057
December	-500	518	18	4	2.6	44.7	52.7	17,305
January 1993	-138	158	20	40	2.6	44.0	53.4	17,617
February	-253	266	13	2	2.6	42.9	54.5	17,811
March	-272	335	63	70	2.6	40.7	56.7	18,180
April	-412	423	11	8	2.6	38.9	58.5	18,101
May	-206	200	-6	1	2.5	37.2	60.3	18,387
June	-250	210	-40	15	2.8	36.3	60.9	18,573
July	-17	-26	-43	20	3.1	36.4	60.5	18,649
August	0	10	10	-12	3.0	36.0	61.0	19,183
September	6	1	7	-15	2.8	36.2	61.0	19,216
October	-23	101	78	-21	2.3	35.8	61.9	19,433
November	-426	460	34	-22	2.0	34.0	64.0	19,032
December	-113	158	45	73	2.1	32.8	65.1	19,486
January 1994	-1	1	0	14	2.1	32.3	65.6	20,105
February	-26	-25	-51	10	2.5	32.1	65.4	19,735
March	-3	14	11	1	2.5	32.4	65.1	19,051
April	37	186	223	132	2.0	31.9	66.1	19,285
May	0	-24	-24	-11	2.1	31.8	66.1	19,349
June	-13	0	-13	-6	2.1	32.2	65.7	19,038
July	0	4	4	25	2.2	32.0	65.8	19,507
August	0	-1	-1	-18	2.1	31.3	66.6	19,982
September	0	25	25	-30	1.8	31.5	66.7	19,581
October	0	2	2	22	1.9	30.9	67.2	19,824
November	0	0	0	-41	1.7	31.8	66.5	19,324
December	2	14	16	7	1.7	31.7	66.6	19,493
January 1995	1	10	11	-11	1.5	32.0	66.5	19,681
February	1	0	1	-1	1.5	31.8	66.7	20,249
March	2	18	20	-18	1.3	31.5	67.2	20,607

Tab C

EXECUTIVE DIRECTOR'S ADMINISTRATIVE REPORT

DATE: May 30, 1995

TO: Members, State Board of Investment

FROM: Howard Bicker

1. Budget and Travel Reports

A report on the SBI's FY95 administrative budget for the period ending April 30, 1995 is in **Attachment A**. A travel report for the period from February 1, - May 15, 1995 is included as **Attachment B.**

2. Board Meeting Dates for Remainder of Calendar 1995

After the last Board meeting, the dates set aside for the September meeting of the SBI/IAC had to be changed. The quarterly meetings of the SBI/IAC for the remainder of calendar 1995 have been now scheduled for:

SBI	IAC
Tuesday, September 26, 1995	Monday, September 25, 1995
Wednesday, December 13, 1995	Tuesday, December 12, 1995

All Board members have indicated their availability for the above dates.

3. Legislative Update

During the 1995 regular session, the Legislature enacted several bills of interest to the SBI. The following is a brief description of these measures:

<u>SBI Budget</u>
SF 1678, the State Departments appropriation bill, provides $2,092,000 in FY1996 and $2,093,000 in FY1997 for the SBI's administrative budget. These are the amounts originally requested by the SBI and recommended to the Legislature as part of the Governor's budget recommendations for the next biennium.

<u>Contract Compliance</u>
SF 1678 modifies several statutes regarding contracting procedures for technical and professional contracts (see Article I sections 52-58). Article I section 93 of the same bill caps the aggregate amount any agency listed in MS 15.91, subd. 1 may spend on professional and technical services contracts in the FY 96-97 biennium at 95% of the

expenditures made in the FY 94-95 biennium. Since the SBI is not included in MS 15.91, it does not appear this provision will apply to the SBI. There are also exemptions for contracts that fall under various categories specified in the new law.

Change in SBI Investment Authority

Chapter 122 (HF 1626) adds new language to the SBI's statute (MS 11A) which prohibits the use of leverage in any of the funds managed by the SBI. The new law requires that securities lending be done only when the SBI receives as collateral at least 100 percent of the value of the securities it lends, and that options and futures may only be used when there is an offsetting amount of cash or securities to back the instruments that are purchased. This language codifies current practice and therefore does not materially affect the SBI's investment authority.

4. Appointment to IAC Vacancy

Due to the recent resignation of an Investment Advisory Council (IAC) member, there is one vacancy among the Board appointees to the Council. The vacancy was announced through the Open Appointments process and the Secretary of State's office has forwarded all applications to the SBI.

The SBI Deputies were convened to review the applications on May 25, 1995. They are forwarding the following name as their recommended candidate:

Judith W. Mares
Mares Financial Consulting

Ms. Mares is a former member and chair of the IAC. She is returning to Minnesota from the Chicago area where she was the manager of the Ameritech pension fund.

RECOMMENDATION:

The SBI Deputies recommend that the Board appoint Judith W. Mares to the current vacancy among Board appointees to the IAC.

ATTACHMENT A

STATE BOARD OF INVESTMENT
FISCAL YEAR 1995 ADMINISTRATIVE BUDGET REPORT
GENERAL FUND APPROPRIATION
FISCAL YEAR TO DATE THROUGH APRIL 30, 1995

ITEM	FISCAL YEAR 1995 BUDGET	FISCAL YEAR 1995 EXPENDITURES
PERSONAL SERVICES		
CLASSIFIED EMPLOYEES	$ 345,000	$ 269,505
UNCLASSIFIED EMPLOYEES	1,160,000	880,897
SEVERENCE PAYOFF	0	0
WORKERS COMPENSATION INSURANCE	0	0
MISCELLANEOUS PAYROLL	7,686	2,572
SUBTOTAL	**$ 1,512,686**	**$ 1,152,974**
EXPENSES & CONTRACTUAL SERVICES		
RENTS & LEASES	86,000	71,042
REPAIRS/ALTERATIONS/MAINTENANCE	10,000	9,151
BONDS AND INSURANCE	1,000	895
PRINTING & BINDING	8,000	10,021
PROFESSIONAL/TECHNICAL SERVICES	58,000	37,495
DATA PROCESSING & SYSTEM SERVICES	202,500	151,875
PURCHASED SERVICES	35,000	23,930
SUBTOTAL	**$ 400,500**	**$ 304,409**
MISCELLANEOUS OPERATING EXPENSES		
COMMUNICATIONS	27,000	17,424
TRAVEL, IN-STATE	2,000	32
TRAVEL, OUT-STATE	40,000	35,784
FEES & OTHER FIXED CHARGES	8,000	7,450
SUBTOTAL	**$ 77,000**	**$ 60,690**
SUPPLIES/MATERIALS/PARTS	**34,500**	**23,946**
CAPITAL EQUIPMENT	**54,000**	**22,639**
TOTAL GENERAL FUND	**$ 2,078,686**	**$ 1,564,658**

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STATE BOARD OF INVESTMENT

Travel Summary by Date
February 1, 1995 - May 15, 1995

Purpose	Name(s)	Destination and Date	Total Cost
Manager Monitoring **Fixed Income** Fidelity, Standish **Manager Search** **Fixed Income** Avery & Wook, Durkee Capital **Staff Conference** "Credible Signals of Reforming Governments" sponsored by Harvard University and Baring Asset Management	J. Lukens	Boston, MA 2/5-2/8	$1,531.76
Staff Conference Equitable Real Estate Investment Conference	H. Bicker	Rancho Mirage, CA 2/12-2/15	$203.80
Manager Monitoring **Alternative Investments** Hellman Friedman, RREEF **Staff Education** "Public Fund Review of Alternative Investments" sponsored by Mass. PRIM	J. Griebenow D. Egeland	San Francisco, CA 3/18-3/22	$1,874.74
Manager Monitoring **Emerging Managers** CIC, Zevenbergen **Manager Monitoring** **Fixed Income** TCW, Western **Manager Search** Towle/Johnson Associates	M. Perry	Seattle, WA Los Angeles, CA 3/19-3/24	$2,142.91

Purpose	Name(s)	Destination and Date	Total Cost
Staff Education "Public Fund Review of Alternative Investments" sponsored by Mass. PRIM	H. Bicker	San Francisco, CA 3/20-3/21	$1,419.50
Manager Monitoring **Domestic Equity Managers** Wells Fargo, Wilshire	M. Menssen L. Buermann	Santa Monica, CA San Francisco, CA 3/20-3/22	$2,787.68
Staff Education State Street Bank Annual Client Conference	H. Bicker M. Schmitt	Phoenix, AZ 3/25-3/29	$1,089.00
Board Member Travel Council of Institutional Investors Semi-Annual Meeting	M. McGrath	Washington, D.C. 3/25-3/29	$1,035.96
Manager Monitoring **Alternative Investments** Citicorp, KKR, Warburg Pincus **Manager Search** **Alternative Investments** VSA **Staff Education** "Investing in Venture Capital" sponsored by Institute for International Research	D. Egeland	New York, NY 3/25-3/31	$642.72
Manger Monitoring **Domestic Equity Managers** Forstmann Leff, GeoCapital, J.P. Morgan, Lynch & Mayer, Weiss Peck & Greer	M. Menssen L. Buermann	New York, NY 4/2-4/7	$3,582.92
Staff Education Institutional Limited Partners Association Meeting	J. Griebenow	Boston, MA 4/23-4/26	$1,619.50

Purpose	Name(s)	Destination and Date	Total Cost
Manager Monitoring **Alternative Investments** KKR's 1995 Investors Conference	D. Egeland	Palm Springs, CA 5/4-5/7	$1,180.00
Manager Monitoring **International Managers** Scudder, State Street Global Advisors **Manager Search** **International Managers** Boston Int'l Advisors, DSI Int'l Management **Consultant Meeting** InterSec	K. Vnuk	Boston, MA Stamford, CT New York, NY 5/4-5/8	$1,292.08
Staff Conference Southern Pension Conference	H. Bicker	Atlanta, GA 5/8-5/10	$878.00
Manager Search **Passive Stock Managers** State Street Global Advisors	M. Menssen	Boston, MA 5/4	$1,120.50
Manager Search **Global Fixed Income** Baring, Fidelity, Fischer Francis Trees & Watts, Robert Fleming, Goldman Sachs, J.P. Morgan, Julius Baer, Lehman Brothers, Lombard Odier, Morgan Grenfell, Rogge Global, Warburg, World Invest	J. Lukens	London, England 5/15-5/20	$1,942.00

Tab D

STATE OF MINNESOTA
OFFICE OF THE STATE TREASURER

303 State Administration Building
50 Sherburne Avenue
Saint Paul, Minnesota 55155

MICHAEL A. MCGRATH
Treasurer

(612) 296-7091
Fax (612) 296-8615

DATE: May 30, 1995

TO: Members, State Board Investment

FROM: Michael A. McGrath, Chair
SBI Administrative Committee

SUBJECT: Report for the SBI Administrative Committee

The SBI Administrative Committee met on May 30, 1995 and took action on the following items:

1) Executive Director's FY96 Workplan

Mr. Bicker presented his proposed workplan for FY96. Like the previous workplans, the FY96 plan follows the same category order found in the Executive Director's position description. The plan is a compilation of on-going responsibilities as well as the new initiatives the Executive Director will undertake during the next quarter.

A summary of the proposed plans shown in **Attachment A**. Supporting information was sent to each Board member as part of the FY96 Management and Budget Plan document.

RECOMMENDATION:

The Committee recommends that the SBI approve the FY96 Executive Director's Workplan. Further, the Committee recommends that the workplan serve as the basis for the Executive Director's performance evaluation for FY96.

2) FY96 Administrative Budget Plan

The SBI's Administrative budget is funded by a legislative appropriation from the general fund. All expenditures are billed back to the various funds under the supervision of the SBI and the receipts are deposited in the general fund as non-dedicated revenue.

S 80

An overview and summary of the budget is in **Attachment B**. Supporting information was sent to each Board Member as part of the FY96 Management and Budget Plan.

RECOMMENDATION:

The Committee recommends that the SBI approve the FY96 Administrative Budget Plan and that the Executive Director have the flexibility to reallocate funds between budget categories in the event budgeting needs change during the year.

3) **Fiduciary Education Plan**

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

RECOMMENDATION:

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

4) **Process for Executive Director's FY95 Evaluation**

The Committee discussed the process that will be used by the Board to evaluate the Executive Director for FY95. The Committee members agreed that the performance reviews should be completed prior to the September 1995 meeting of the SBI and should follow the process used in the past.

RECOMMENDATION:

The Committee recommends that the SBI adopt the following process for the Executive Director's FY95 performance evaluation:

- **The evaluation will be completed prior to the September 1995 meeting of the SBI and will be based on the results of the Executive Director's workplan for FY95.**

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

- **As the chair of the Board, the Governor's representative (Department of Finance), will coordinate distribution and collection of the evaluation forms and will forward the completed forms to the Executive Director. Board Members are**

encouraged to meet individually with the Executive Director to review their own evaluation.

5) **Approval of Higher Education Plan Contracts**

At its December 14, 1994 meeting the Board approved a recommendation from the Deferred Compensation Review Committee that the State Universities and Community College System select TIAA-CREF, VALIC, Great-West and Minnesota Mutual as product providers for the Higher Education retirement plans. The Board also approved the recommendation that the contract terms set forth in the SBI's request for proposal (RFP) be the basis for contracts the State Universities and Community College System will sign with the product providers.

SBI staff negotiated substantially similar contract provisions with the four companies. Staff representing the State Universities, Community Colleges and Technical Colleges (to be merged into the Higher Education Board effective July 1, 1995) will sign the final contract documents. As provided in statute, these contracts must be approved by the SBI before execution.

The primary provisions of the final documents are:

- portability--allows participants to transfer, without charge, all or a portion of their account balances from one product provider to another.
- investment options--provides similar mix of options from each provider, including name-brand mutual funds.
- marketing relationships--requires the providers to work through the Higher Education Board's third party administrator to provide product information and communication materials to participants. This includes making presentations to participant groups at the times, places and frequency as arranged by the third party administrator.
- termination dates and termination for cause--contracts terminate in five years, or earlier for cause with the specific criteria delineated.

Complete copies of the contract documents will be distributed to Board members under separate cover prior to the SBI meeting on June 28 and identified as **"Addendum to the Meeting Materials for June 28, 1995: Proposed Higher Education Plan Contracts".**

6) **Approval of Plan-to-Plan Transfers in Deferred Compensation Plan**

The Minnesota State Retirement System (MSRS) has recommended the addition of participant plan-to-plan transfers in the State Deferred Compensation Plan. A plan-to-plan transfer is the transfer by the participant of his or her entire account balances from one 457 plan to another 457 plan. Generally, such transfers involve an employee moving from one state to another.

The Internal Revenue Code allows transfers from one 457 deferred compensation plan to another 457 plan, but only after termination of service. Currently, MSRS does not allow transfers. Plan-to-plan transfers may be added by MSRS only upon approval by the SBI of amendments to the deferred compensation plan contracts between the SBI and Great-West and Minnesota Mutual, the two outside product providers.

Both Great-West and Minnesota Mutual support the addition of this feature if the transfer provisions comply with Internal Revenue Code Section 457 and certain criteria are met. These criteria are contained in the proposed amendments to the two SBI/insurance company contracts.

The contract amendments begin on page 15 of this Tab.

For your information, a memo to the MSRS Board from David Bergstrom, MSRS Executive Director is attached along with the necessary amendments to the existing contracts with Great-West and Minnesota Mutual Life.

RECOMMENDATION:

The SBI Administrative Committee recommends that the SBI approve the contract amendments with Minnesota Mutual and Great-West as presented in the meeting materials and authorize the SBI Executive Director to execute those amendments

ATTACHMENT A

STATE BOARD OF INVESTMENT
Executive Director's Proposed Workplan

FY96

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

A. DEVELOPMENT OF INVESTMENT POLICIES	**Projected Time Frame**
1. Review the long term asset allocation policy of the Basics, Post and Combined Funds.	Jul. - Sep.
2. Develop policy on currency exposure in the international stock program.	Jul. - Dec.
3. Develop policy on global/international bonds.	Jul. - Dec.
4. Expand international stock program to include allocation to emerging markets.	Sep. - Mar.
5. Review investment policy of the Permanent School Fund.	Jan. - Jun.

B. IMPLEMENTATION OF INVESTMENT POLICIES APPROVED BY THE SBI

1. Meet or exceed the performance objectives established for the Basics, Post, and Combined Funds.	On-going, reported quarterly

- Obtain returns that are 3-5 percentage points over inflation over the last 10 years (FY87-FY96) for the Combined Funds.

- Outperform the median fund from the TUCS universe of Master Trusts over the last 5 years (FY92-FY96) for the Combined Funds.

- Outperform a composite of market indices over the last 5 years (FY92-FY96). Separate composites are constructed for the Combined, the Basics and the Post Funds.

2. Review structure and performance of the domestic stock pool. — Jul. - Dec.

3. Implement new guidelines for below investment grade debt in the bond pool, if approved in FY95. — Jul. - Dec.

4. Implement Manager Monitoring Programs for domestic stocks, international stocks and domestic bonds. — On-going

5. Consider additional investments with new/existing alternative investment managers. — On-going

C. REVIEW AND CONTROL OF INVESTMENT POLICIES

1. Review results of new benchmark for the Invested Treasurer's Cash (ITC) portfolio. — Jul.-Dec.

2. Monitor insurance company vendors retained for the Deferred Compensation Plan, teacher tax sheltered annuities (403b) and Higher Education Individual Retirement Account Program (IRAP). — On-going

3. Monitor and evaluate active manager performance in accordance with the SBI's Manager Continuation Policy. — On-going

4. Review investment guidelines for stock and bond managers on an annual basis. — Apr. - Jun.

5. Monitor implementation of Northern Ireland mandate. — On-going

6. Monitor implementation of the Board's guidelines on international investing. — On-going

7. Monitor implementation of proxy voting procedures. — On-going

8. Provide staff support for initiatives assigned to the Proxy Committee. — As needed

D. ADMINISTRATION AND MANAGEMENT OF STAFF OPERATIONS

1. Cooperate in all respects with the annual audit of SBI operations by the Legislative Auditor.	Jul. - Dec.
2. Prepare and seek approval of the SBI's legislative proposals for 1996 Legislative Session, if needed.	Oct. - May
3. Prepare FY97 Management and Budget Plan.	Mar. - Jun.
4. Coordinate police and fire fund consolidations.	As needed

E. COMMUNICATION AND REPORTING

1. Prepare reports on investment results.	Quarterly
2. Prepare status reports on the Executive Director's FY96 workplan for review by the SBI, IAC and Consultant, as requested.	As requested
3. Meet with the SBI and IAC on a quarterly basis and at other times as required.	Quarterly, or as requested
4. Meet with the Board's designees on a monthly basis, as requested.	Monthly, or as requested
5. Prepare FY95 Annual Report.	Jul. - Feb.
6. Coordinate round table discussions with SBI's external managers.	Periodic, 2-3 per year

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Administrative Budget
Fiscal Year 1995
Budget to Actual/Projected
Overview

Overall, projected FY95 expenditures are now expected to be $27,092 less than the amount budgeted for the year.

	FY95 BUDGET	FY95 PROJECTED	DIFFERENCE
Personnel	$1,512,686	$1,451,686	$-61,000
Contractual Services	400,500	416,008	+15,508
Operating Expenses	77,000	83,400	+6,400
Supplies and Equipment	88,500	100,500	+12,000
	$2,078,686	$2,051,594	$-27,092

Personnel: Salaries, retirement, insurance, FICA, severance

Personnel costs will be approximately $61,000 less than the amount originally budgeted. The costs associated with increases granted under union contracts was less than expected. Additional savings were obtained from the reduced cost of three positions which have been filled at less than full time for most of the year.

Contractual Services: Rents, leases, printing, data processing

Contractual services expenditures will be approximately $15,508 higher than budgeted. The increased costs are associated with a new office space lease negotiated with the Minnesota Education Association. Under the new lease the SBI paid for new carpet in exchange for a lease extension at a lower rate of increase.

Operating Expenses: Communications, travel, miscellaneous fees

Operating expenses are expected to increase by approximately $ 6,400 over the budgeted amount. Airfare increases caused staff travel expenses to increase.

Supplies/Equipment: Office equipment, furnishings, supplies

Expenditures for supplies and equipment are expected to be $12,000 more than budgeted. This increase will be caused by making an extra payment on the five year lease purchase contract for the modular furniture purchased in FY 1992.

STATE BOARD OF INVESTMENT
FISCAL YEAR 1995 ADMINISTRATIVE BUDGET REPORT
GENERAL FUND APPROPRIATION

ITEM	FISCAL YEAR 1994 ACTUAL	FISCAL YEAR 1995 BUDGET	FISCAL YEAR 1995 EXPENDITURES THROUGH 3/31/95	FISCAL YEAR 1995 EXPENDITURES PROJECTED 6/30/95
PERSONAL SERVICES				
CLASSIFIED EMPLOYEES	$ 326,422	$ 345,000	$ 243,683	$ 340,000
UNCLASSIFIED EMPLOYEES	1,090,662	1,160,000	795,339	1,109,000
WORKERS COMPENSATION INSURANCE	985	0	0	0
SEVERENCE PAY	24,990	0	0	0
MISCELLANEOUS PAYROLL	4,345	7,686	2,572	2,686
SUBTOTAL	$ 1,447,404	$ 1,512,686	$ 1,041,594	$ 1,451,686
EXPENSES & CONTRACTUAL SERVICES				
RENTS & LEASES	$ 81,950	$ 86,000	$ 63,938	$ 102,537
REPAIRS/ALTERATIONS/MAINTENANCE	11,086	10,000	7,502	12,800
BONDS AND INSURANCE	959	1,000	895	895
PRINTING & BINDING	13,628	8,000	10,021	11,776
PROFESSIONAL/TECHNICAL SERVICES	41,320	58,000	36,785	52,000
DATA PROCESSING & SYSTEM SERVICES	202,500	202,500	135,000	202,500
PURCHASED SERVICES	29,817	35,000	21,534	33,500
SUBTOTAL	$ 381,260	$ 400,500	$ 275,675	$ 416,008
MISCELLANEOUS OPERATING EXPENSES				
COMMUNICATIONS	$ 25,093	$ 27,000	15,379	27,000
TRAVEL, IN-STATE	729	2,000	75	400
TRAVEL, OUT-STATE	35,908	40,000	30,049	47,000
FEES & OTHER FIXED CHARGES	9,037	8,000	7,352	9,000
SUBTOTAL	$ 70,767	$ 77,000	$ 52,855	$ 83,400
SUPPLIES/MATERIALS/PARTS	30,718	34,500	18,884	26,500
CAPITAL EQUIPMENT	45,091	54,000	18,807	74,000
TOTAL GENERAL FUND	$ 1,975,240	$ 2,078,686	$ 1,407,815	$ 2,051,594

ATTACHMENT C

CONTINUING FIDUCIARY EDUCATION PLAN

REQUIRED BY MS 356A.13

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

1. Briefing for New Board/IAC Members

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

2. Development and Review of Investment Policies

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

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

3. Input from Board's Consultants

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

4. **Manager "Round Tables"**

The SBI intends to convene small groups of its external money managers to discuss issues related to investment management and the financial markets. These "round table" discussions will be held periodically throughout the year and will be open to Board members and their designees, IAC members and other interested parties. It is anticipated that 2-3 round tables will be held each year.

5. **Travel Allocation**

The SBI allocates $2,000 annually to each Board member (or their designee) for costs associated with attendance at investment-related seminars and conferences. This allocation is used at the discretion of each Board member.

Date: April, 1995

1992 Minnesota Statutes

356A.13. CONTINUING FIDUCIARY EDUCATION.

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

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

OFFICE MEMORANDUM

MINNESOTA STATE RETIREMENT SYSTEM
175 W. Lafayette Frontage Road
St. Paul, MN 55107-1425

Tel. (612) 296-2761
Toll Free 800-657-5757
Fax (612) 297-5238

DATE: March 10, 1995

FROM: David Bergstrom

SUBJECT: Deferred Compensation Plan - Recommendation to Allow Plan-to-Plan Transfers

TO: MSRS Board of Directors

We occasionally receive requests from participants to transfer money to or from the Deferred Compensation Plan. Internal Revenue Code allows transfers from one deferred compensation plan covered by Internal Revenue Code 457 to another 457 plan, but only after termination of service. Currently, we do not allow transfers.

Participants are mostly interested in plan-to-plan transfers to avoid having accounts in several places. For example, we recently received a request from a former Wisconsin employee and a California employee to transfer to the Minnesota plan. The volume of requests will not be high, maybe 15 to 20 per year, but it would be a nice service that does not require much additional work.

Staff is proposing that we amend the contracts with the two insurance companies to allow transfers both into and out of the State of Minnesota Deferred Compensation Plan. Both insurance companies are agreeable to the change, if the transfers comply with IRC Section 457 and the criteria below is met for transfers out of the plan.

1. The employee has terminated employment with the State or governmental entity.

2. The employee is a full-time employee with a new government entity and is currently participating in a 457 plan.

3. The deferred compensation plan available in the new entity would have a reciprocal agreement allowing participants to transfer to the State plan without surrender charges.

4. The State plan is not available to that government entity.

The criteria are intended to eliminate the possibility of assets only going out of the plan rather than both ways. For example, a participant wishing to transfer to the State plan would be reluctant to transfer assets if a surrender charge (ranging from 1 to 9% of total assets) is assessed by the vendor. Both insurance companies are comfortable allowing transfers without surrender charges as long as the receiving vendor would not charge a surrender fee on transfers to the Minnesota plan. This will make sure assets can flow both in and out of the plan.

Transfers into the plan would have to comply with IRC 457 and any rules adopted by the vendor submitting the assets. If you approve plan-to-plan transfers, an amendment to the Minnesota Mutual and Great-West contracts would have to be approved by the SBI. Howard Bicker is supportive of the change, and does not feel it would be a problem since the two insurance companies have already agreed.

AMENDMENT NO. 1 TO THE DEFERRED COMPENSATION PLAN BUSINESS PLAN AGREEMENT

WHEREAS, Minnesota Mutual Life Insurance Company (hereinafter called the "Minnesota Mutual"), and the State Board of Investment (hereinafter called "SBI") and the Minnesota State Retirement System (hereinafter called "MSRS"), entered into a letter agreement M-8639 to amend and supplement Group Deferred Variable Annuity Contract, Number 0844049; and

WHEREAS, paragraph XIX provides that:

The provisions of (1) Paragraphs B, C and D of Section IV, (2) Paragraphs B, C, D and E of Section V, (3) Paragraphs D and E of Section VI, (4) Section VIII, (5) Section XIII and (6) Section XV herein shall survive any termination of this Agreement; provided, however, that the provisions of Paragraphs D and E of Section VI shall not survive a termination of this Agreement prior to June 30, 1999.

WHEREAS, the parties have agreed to add additional provisions to the Agreement to provide for plan to plan transfers.

NOW, THEREFORE IT IS AGREED BY AND BETWEEN THE PARTIES THERETO:

A. That paragraph XIX shall be amended to read as follows:

   The provisions of (1) Paragraphs B, C and D of Section IV, (2) Paragraphs B, C, D and E of Section V, (3) Paragraphs D and E of Section VI, (4) Section VIII, (5) Section XIII, (6) Section XV, and (7) Section XX herein shall survive any termination of this Agreement; provided, however, that the provisions of Paragraphs D and E of Section VI shall not survive a termination of this Agreement prior to June 30, 1999.

B. The Letter Agreement is amended by adding a new section as follows:

XX. Plan to Plan Transfers

   a. Minnesota Mutual agrees to allow without charge transfers of accumulation values held in the general account and the separate account to another §457 deferred compensation plan if:

      i. the transfers comply with §457 of the Internal Revenue Code of 1986, as amended, or any rules and regulations thereunder;

      ii. the participant has terminated employment with the State of Minnesota or a political subdivision or with an entity by which the employee was deemed to be covered by a retirement fund in Minnesota Statutes, §356.20, subdivision 2;

iii. the participant is employed by a new entity that is covered by a different §457 deferred compensation plan and is participating in that plan;

iv. the §457 deferred compensation plan available at the new entity allows participants to transfer to the Minnesota Deferred Compensation Plan (the Plan) without surrender charges; and

v. the Plan is not available to the participant as an employee of the new entity.

b. Minnesota Mutual agrees to allow transfers from another §457 deferred compensation plan to the Plan if:

i. the transfers comply with §457 of the Internal Revenue Code of 1986, as amended, or any rules and regulations thereunder;

ii. the participant has terminated employment with the entity that is covered by the different §457 deferred compensation plan;

iii. the participant is currently participating in the Plan;

iv. the §457 deferred compensation plan accepts transfers from the Plan, and allows participants to transfer to the Plan without surrender changes; and

v. the §457 deferred compensation plan is not available to the participant.

APPROVED: Except as herein amended, the terms and conditions of the original Letter Agreement remain in full force and effect.

MINNESOTA STATE BOARD OF INVESTMENT

By: ____________________

Title: ____________________

Date: ____________________

STATE OF MINNESOTA
THE OFFICE OF THE ATTORNEY GENERAL

By: ____________________
Assistant Attorney General

Date: ____________________

MINNESOTA STATE RETIREMENT SYSTEM

By: ____________________
Executive Director

Date: ____________________

STATE OF MINNESOTA
DEPARTMENT OF ADMINISTRATION

By: ____________________

Title: ____________________

Date: ____________________

THE MINNESOTA MUTUAL LIFE INSURANCE COMPANY

By: ____________________

Title: ____________________

Date: ____________________

By: ____________________

Title: ____________________

Date: ____________________

STATE OF MINNESOTA
DEPARTMENT OF FINANCE

By: ____________________

Title: ____________________

Date: ____________________

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AMENDMENT NO. 1 TO THE LETTER AGREEMENT ATTACHED TO AND FORMING A PART OF THE GREAT WEST LIFE AND ANNUITY INSURANCE COMPANY GROUP DEFERRED COMPENSATION ANNUITY CONTRACT

WHEREAS, Great West Life and Annuity Insurance Company (hereinafter called the "Insurance Company") and the State Board of Investment (hereinafter called "SBI" or "group policy holder") and the Minnesota State Retirement System (hereinafter called "MSRS" or "group policy holder"), entered into a letter agreement M-8640 attached to and forming a part of the Group Deferred Compensation Annuity Contract, Group Policy Number 88300-01, effective on September 1, 1994; and

WHEREAS, paragraph 28 provides that: Ongoing obligations. The provisions of Sections 1, 2, 3, 4, 6, 8, 9, 12, 18, 19, 23 and 25 shall survive any termination of this Letter Agreement.

WHEREAS, the parties have agreed to add additional provisions to the Agreement to provide for plan to plan transfers.

NOW, THEREFORE IT IS AGREED BY AND BETWEEN THE PARTIES THERETO:

A. That paragraph 29 shall be amended to read as follows:

29. Ongoing obligations. The provisions of Sections 1, 2, 3, 4, 6, 8, 9, 12, 18, 19, 23, 25 and 29 shall survive any termination of this Letter Agreement.

B. The Letter Agreement is amended by adding a new section as follows:

29. Plan to plan transfers.

  a. Insurance Company agrees to allow without charge transfers to another §457 deferred compensation plan if:

    i. the transfers comply with §457 of the Internal Revenue Code of 1986, as amended, or any rules and regulations thereunder;

    ii. the participant has terminated employment with the State of Minnesota or a political subdivision or with an entity by which the employee was deemed to be covered by a retirement fund in Minnesota Statutes, §356.20, subdivision 2;

    iii. the participant is employed by a new entity that is covered by a different §457 deferred compensation plan and is participating in that plan;

iv. the §457 deferred compensation plan available at the new entity allows participants to transfer to the Minnesota Deferred Compensation Plan (the Plan) without surrender charges; and

v. the Plan is not available to the participant as an employee of the new entity.

b. Insurance Company agrees to allow transfers from another §457 deferred compensation plan to the Plan if:

i. the transfers comply with §457 of the Internal Revenue Code of 1986, as amended, or any rules and regulations thereunder;

ii. the participant has terminated employment with the entity that is covered by the different §457 deferred compensation plan;

iii. the participant is currently participating in the Plan;

iv. the §457 deferred compensation plan accepts transfers from the Plan, and allows participants to transfer to the Plan without surrender charges; and

v. the §457 deferred compensation plan is not available to the participant.

APPROVED: Except as herein amended, the terms and conditions of the original Letter Agreement remain in full force and effect.

MINNESOTA STATE BOARD OF INVESTMENT

By: ______________________

Title: ______________________

Date: ______________________

STATE OF MINNESOTA
THE OFFICE OF THE ATTORNEY GENERAL

By: ______________________
Assistant Attorney General

Date: ______________________

MINNESOTA STATE RETIREMENT SYSTEM

By: ______________________
Executive Director

Date: ______________________

STATE OF MINNESOTA
DEPARTMENT OF ADMINISTRATION

By: ______________________

Title: ______________________

Date: ______________________

GREAT-WEST LIFE ANNUITY COMPANY

By: ______________________

Title: ______________________

Date: ______________________

By: ______________________

Title: ______________________

Date: ______________________

STATE OF MINNESOTA
DEPARTMENT OF FINANCE

By: ______________________

Title: ______________________

Date: ______________________

Tab E

DATE: May 30, 1995

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

FROM: Passive Manager Review Committee

During the last quarter, the Passive Manager Review Committee was convened to review the performance of the SBI's current domestic passive stock manager, Wilshire Asset Management, and consider alternative firms as potential replacements. The members of the Committee were:

Name		**Representing**
Peter Sausen	Assist. Commissioner of Finance	Governor Carlson
Christie Eller	Assistant Attorney General	State Attorney General Humphrey
Jake Manahan	Deputy State Treasurer	State Treasurer McGrath
Carey Moe	Assistant to the State Auditor	State Auditor Dutcher
Elaine Voss	Deputy Secretary of State	Secretary of State Growe
Dave Bergstrom	MSRS	Investment Advisory Council
John Bohan	The Pillsbury Company	Investment Advisory Council
Gary Norstrem	Piper Capital Management	Investment Advisory Council
Daralyn Peifer	General Mills, Inc.	Investment Advisory Council

BACKGROUND:

Last quarter, staff recommended that a full review of Wilshire Asset Management be done due to on-going concerns about their performance. The IAC concurred with this recommendation and staff conducted an on-site review with the firm in April. Staff's conclusions were:

- While Wilshire's performance from 1983-1989 was generally satisfactory, the firm's tracking error has not met expectations since 1990. Tracking error in the large account (tilted index fund) has been consistently negative and tracking error in the small account (Supplemental Investment Fund) has been consistently positive. Returns in both accounts have exceeded the SBI's stated expectations which are no more than $\pm$ 0.60% from the benchmark over any 12 month period and no more than -0.10% annualized over longer periods.

- Wilshire's business focus has changed from passive stock management to a much broader line of products which has caused a shift in the use of their resources.

- Personnel changes, specifically the loss of the head trader, further reduce staff's confidence in Wilshire's ability to meet SBI's passive management goals.

As a result, staff recommended that the SBI terminate its relationship with Wilshire Asset Management and seek a new passive domestic stock manager. A copy of the staff analysis is in **Attachment A.**

Staff also recommended that the new manager should use the Wilshire 5000 index as its target rather than the customized benchmark used for the tilted index fund/completeness fund. The completeness fund benchmark changes slightly from quarter to quarter due to changes in the active manager program. This generates turnover in the benchmark which, in turn, impacts the ability of a passive manager to track that benchmark. The resulting transactions costs generate a "drag" on performance that is difficult for a passive manager to overcome. As a result, staff believes that the completeness fund mandate is not well suited to passive management.

The passive and semi-passive segments represent approximately 50% of the domestic stock program. Currently, both the passive and semi-passive managers use the completeness fund benchmark. Going forward, staff recommends that the semi-passive managers continue to use the completeness fund benchmark and that the passive manager track the Wilshire 5000. This means 25% of the program will be managed semi-passively as a completeness fund and 25% will be indexed to the Wilshire 5000. The assets currently under management in the semi-passive style are sufficient to provide the tilt necessary to offset the active managers' misfit/style bias.

The Committee concurred with the staff recommendations and considered two firms to replace Wilshire Asset Management as the SBI's domestic passive stock manager. Both firms were interviewed on May 16, 1995:

- State Street Global Advisors
- Wells Fargo Nikko Investment Advisors

Based on the interviews, questionnaire responses and supporting information gathered by staff, the Committee recommends that Wells Fargo Nikko Investment Advisors (WFNIA) be retained by the SBI. A fact sheet on WFNIA is included as **Attachment B**.

Shortly before the Committee convened, WFNIA had announced that it was seeking new ownership structure and equity partners for the firm. At the time this report was prepared, the outcome of those negotiations was unknown.

RECOMMENDATIONS:

The Committee recommends that:

- SBI terminate its contract with Wilshire Asset Management for passive domestic stock management.

- SBI authorize the executive director, with the assistance from SBI legal counsel, to negotiate and execute a contract with Wells Fargo Nikko Investment Advisors (WFNIA), San Francisco, CA for passive domestic stock management. This recommendation is subject to successful fee negotiations and satisfactory resolution of the ownership structure of WFNIA.

- SBI direct WFNIA to manage passive domestic stock assets against the Wilshire 5000 stock index. This means the structure of the domestic stock program will be approximately 50% actively managed, 25% semi-passively managed using the completeness fund benchmark and 25% passively managed against the Wilshire 5000 index.

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WILSHIRE ASSET MANAGEMENT
SUMMARY PERFORMANCE REVIEW

The review provides a brief history of Wilshire Asset Management's relationship with the State Board of Investment (SBI), summarizes staff's quantitative and qualitative performance concerns and presents staff's recommendations concerning the firm and the assets it currently manages for the SBI.

History

Wilshire Asset Management (WAM) was retained as the SBI's passive domestic stock manager on December 1, 1983 and was fully funded by January 1, 1984. From January 1, 1984-October 1, 1990, WAM managed one portfolio that was designed to track the performance of the Wilshire 5000 less the SBI's prohibited liquor and tobacco stocks.

Since October 1, 1990, WAM has managed two separate portfolios for the SBI:

- *Tilted Index Fund.* The majority of the assets are in a completeness fund/tilted index fund. The benchmark for the tilted index fund is designed to offset any style bias in the aggregate benchmarks of the active domestic stock managers.

- *Supplemental Fund Index Account.* A relatively small portion of the assets continued to be managed by WAM against the Wilshire 5000 index.

Quantitative Review

In light of the above history, actual results should be examined in three parts:

- **Wilshire 5000 Account** which is from inception (January 1, 1984) to the start of the tilted index fund (October 1, 1990).

- **Supplemental Fund Index Account** which runs from the start of the separate index account in the Supplemental Fund (October 1, 1990) to the most recent time period (Mar. 31, 1995).

- **Tilted Index Fund** which runs from the start of the completness fund (October 1, 1990) to the most recent time period (Mar. 31, 1995).

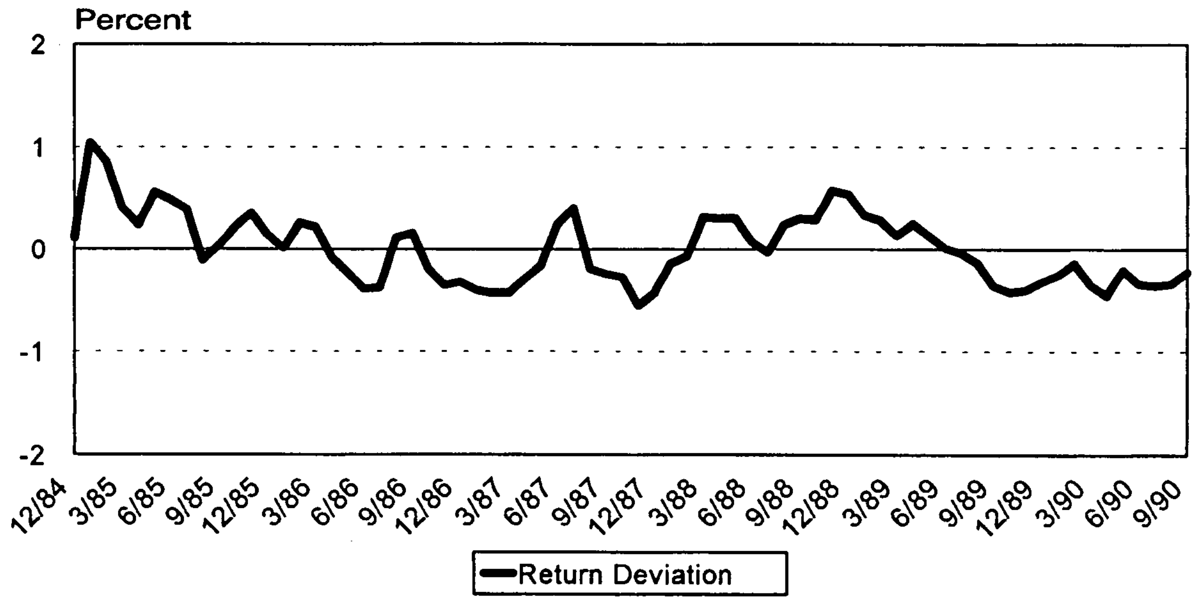
In each case, return deviation expectations were no more than $\pm$ 0.60% over any 12 month period. Over longer periods, returns were expected to trail the benchmark by approximately -0.10% annualized due to the transactions costs and management fees associated with any passive strategy.

The following pages show the performance analysis of Wilshire Asset Management broken down into the time frames mentioned above.

Wilshire 5000 Stock Account
Time Period 1/1/84 to 9/31/90

Year	Actual Return	Benchmark return	Return Deviation
1984	3.25%	3.13%	0.12
1985	32.50	32.61	-0.11
1986	15.63	16.01	-0.33
1987	1.93	2.37	-0.38
1988	18.46	17.84	0.52
1989	28.55	28.96	-0.32
1990 (9 mo.)	-13.75	-13.52	-0.27
1/84 - 9/90 (Annualized)	11.76%	11.89%	-0.12

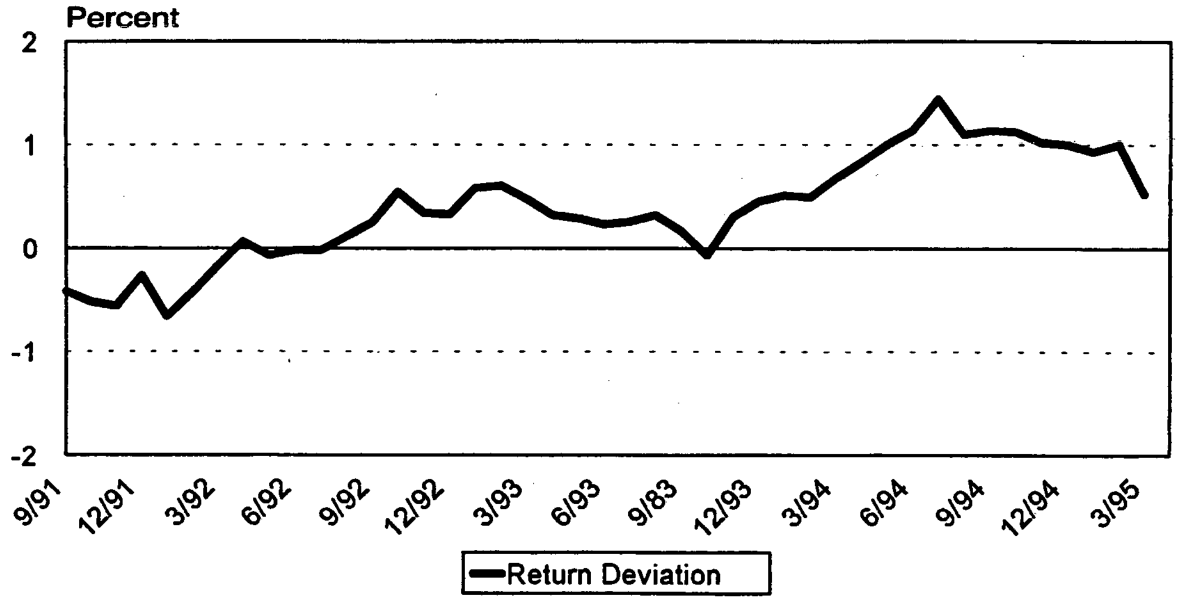
Wilshire 5000 Account
12 Month Rolling Time Periods



Supplemental Investment Fund Index Account
Time Period 10/1/90 to 3/31/95

Year	Actual Return	Benchmark Return	Return Deviation
1990 (3 mo.)	8.55%	8.73%	-0.17
1991	33.86	34.21	-0.26
1992	9.34	8.98	0.33
1993	11.96	11.46	0.45
1994	0.76	-0.24	1.00
1995 (3 mo.)	8.86	9.03	-0.16
10/90-3/95 (Annualized)	16.01%	15.71%	0.26

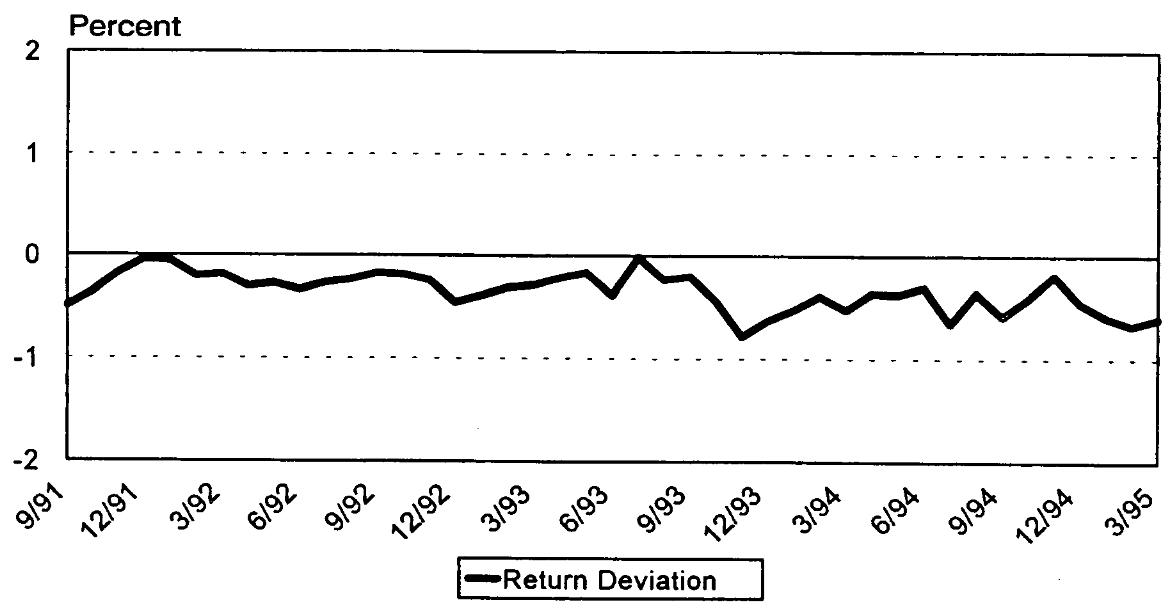
Supplemental Investment Index Account
12 Month Rolling Time Periods



Tilted Index
Time Period 10/01/90 to 3/31/95

Year	Actual Return	Benchmark Return	Return Deviation
1990 (3 mo.)	8.40%	8.66%	-0.24
1991	32.33	32.39	-0.04
1992	8.62	9.12	-0.48
1993	10.99	11.70	-0.64
1994	-0.95	-0.51	-0.44
1995 (3 mo.)	8.99	9.07	-0.07
10/90 - 3/95 (Annualized)	14.88%	15.36%	-0.42

Tilted Index Fund
12 Month Rolling Time Periods



Several conclusions can be drawn from the data on the previous pages.

- The initial **Wilshire 5000 Account** generally met expectations. Annual return deviation was generally within $\pm$0.60% and was relatively unbiased (both positive and negative) over time. For the entire 5.75 years, return deviation was -0.12% annualized which is close to the long term objective. Turnover during this period was about 20% per year which is also within expectations for a passive strategy.

- The smaller **Supplemental Fund Index Account** has not met return deviation expectations. Return deviation has been both positive and negative but has been positively biased due to extremely high deviations in certain periods (e.g. +1.00% in 1994). Turnover during this period was about 20% per year which is within expectations.

- The **Tilted Index Fund** has not met expectations. Over the 4.5 year period return deviation has been consistently negative. The negative drag due to transactions costs has been -0.42% annualized largely due to turnover of 50-60% annually. While some additional turnover was expected due to the dynamic nature of the completeness fund benchmark, staff believes that WAM has failed to control turnover and associated trading costs adequately. This has been especially apparent during the last year when turnover remained high despite a general absence of programmatic changes.

The result with the tilted index fund leads to the conclusion that a completeness fund is not well suited to purely passive management. It appears to be very difficult for a passive manager to track the changing benchmark of a completeness fund without incurring unacceptably high turnover and transactions costs. While another passive manager may be able to manage the trade off between tracking and trading in a tilted index fund more successfuly than WAM, the return deviation error is likely to be unacceptably high for any passive manager.

Qualitative Review

Staff believes that two qualitative issues will impact WAM's ability to manage the SBI's passive portfolios in the future:

- **New Product Development.** When WAM was retained, the focus of their business was passive domestic stock management. In the last few years, WAM has been aggressively developing and marketing new products. These include style index funds, semi-passive small cap growth portfolios, a passive real estate product which utilizes real estate investment trusts (REIT's) and most recently a semi-passive bond product. They are also investigating some international products. The change in focus is apparently tied to WAM's perception that they can not compete with larger indexers such as Wells Fargo, State Street Bank and Bankers Trust in gaining new index account business. The new products are designed to serve niche markets and to generate higher fee revenue for the firm. WAM is currently offering 9 different products or strategies. Staff believes that WAM lacks sufficient resources to adequately support their expanding product line.

- **Personnel Changes.** WAM's head trader left the firm in January 1995. His assistant has assumed his former duties. Staff believes that this change further reduces the resources devoted to passive stock management within the firm.

Conclusions

Staff believes that the SBI should terminate its relationship with WAM and retain a new passive manager for domestic stock portfolios. The concerns with WAM are both quantitative and qualitative:

- Return deviation exceeds expectations in both of the current accounts.

- WAM's emphasis on developing and marketing more profitable investment products appears to reduce the resources that will be devoted to domestic passive stock products in the future.

- Changes in key personnel at the firm only exacerbate the above concerns.

Staff believes that semi-passive management is more likely to provide the management flexibility necessary to control turnover and minimize related transactions costs related to managing against a completeness fund benchmark. As a result, staff concludes that the assets currently devoted to the passively managed portion of the completeness fund should be converted to a "pure" index fund designed to track the Wilshire 5000. The completeness fund role should be allocated solely to the current semi-passive component of the domestic stock program.

This change would provide a balance between active, semi-passive and passive management within the domestic stock program. While the assets allocated to the completeness fund function would be reduced, the amount allocated to semi-passive management (currently 25% of the total domestic stock program) should be adequate to maintain the style bias control of the completeness fund.

	Current Benchmark	**Proposed Benchmark**
Active	individual, customized	individual, customized
Semi-Passive	completeness fund	completeness fund
Passive	completeness fund	Wilshire 5000
Total Program	Wilshire 5000	Wilshire 5000

ATTACHMENT B

MANAGER FACT SHEET

Manager: Wells Fargo Nikko Investment Advisors (WFNIA)

Investment Approach

WFNIA's investment management philosophy with respect to passively managed extended market portfolios, such as the Wilshire 5000 and Russell 3000, consists of three key objectives: to minimize tracking error, to minimize trading costs, and to maximize control over all investment and operational risks.

WFNIA's US equity market universe of approximately 6,000 issues consists of eight modular equity funds, each representing a specific segment of the US equity market. For large capitalization indexes, WFNIA employs full replication, generally holding every stock at its market capitalization weight. An optimization approach is used where full replication is impossible or impractical, such as small cap market segments that are too illiquid to be purchased by an institutional investor. The optimization is performed along fourteen portfolio dimensions, including beta, size, yield, and eleven economic sectors.

In constructing an index portfolio for the Minnesota State Board of Investment, Wells Fargo would fully replicate almost the entire index and would optimize only the smallest capitalization stocks. They feel that given their large universe of stocks, only the smallest capitalization stocks will pose a liquidity problem in managing a separate account for the SBI.

Once the portfolio is in place, the optimization approach is used to develop trade lists which indicate the net improvement to expected tracking error that would be gained by actually implementing the trade list. Trading costs are weighed against tracking error by examining how much it will cost to transact in a particular security versus its contribution to tracking error.

Trading

WFNIA believes their volume of trading and experience make them uniquely qualified to handle even the most challenging trading demands. WFNIA focuses their trading methodology to achieve the client's investment objectives in an effective and timely execution while minimizing transaction costs as much as possible. WFNIA trading strategies rely primarily on crossing between their customers and on competitive package trading techniques executed with major brokerage firms. Initially, WFNIA looks for crossing opportunities. They start by looking for internal crosses between their commingled and separate accounts. Next, they look for external crossing opportunities using public and private venues. Private crossing occurs when match trades with a variety of institutional investors. They also participate in public crossing networks such as POSIT and Instinet. The internal crosses do not incur commission or market impact costs while the external crosses avoid market impact costs and only a nominal commission charge is paid to a broker to process the trade.

For the residual trading activity that will be traded on the open market, WFNIA prefers to use negotiated agency package trades rather than guaranteed or principal package trading. They believe that negotiated trades will reduce the spread, market impact, and opportunity cost components and keep total transaction costs lower than the cost of a guaranteed or principal package trade.

WFNIA's trading staff monitors execution by external brokers on both an individual stock basis and across entire trade programs. They compare target prices to actual prices and any trades that appear to have incurred anomalous prices must be substantiated by the broker. Also, they monitor all trades to verify compliance with the time frame and other parameters set by the initial trade agreement.

Ownership

Wells Fargo Nikko Investment Advisors (WFNIA) is a global joint venture partnership owned by Wells Fargo & Company and The Nikko Securities Co., Ltd. Prior to the formation of the joint venture in April of 1990, Wells Fargo Investment Advisors (WFIA) was a wholly-owned subsidiary of Wells Fargo & Company. WFIA became a subsidiary in January, 1985. Previously WFIA was a division of Wells Fargo Bank, N.A.

Wells Fargo Institutional Trust Company, N.A. (WFITC) was formed in April, 1990 and is a limited purpose national bank which is the primary fiduciary and contracting party to clients' accounts. WFITC engages WFNIA to act as investment advisor. WFITC is 99.9% owned by WFNIA and 0.1% owned by Wells Fargo & Company. Prior to April, 1990 WFITC was a division of Wells Fargo Bank, N.A. and operated as the Advisors Trust Division of the Bank.

Total Number of Passive Equity Portfolio Managers / Analysts: 7

Total Number of Passive Equity Traders: 2

Total Tax-exempt Equity Assets Managed: $168,580 MM

Total tax-exempt Domestic Passive Equity Assets Managed: $93,645 MM

Total number of tax-exempt Domestic Passive Equity Accounts: 746

Three Largest Tax-exempt Passive Domestic Equity Accounts Managed Against the Wilshire 5000 or Russell 3000: (No names disclosed with asset values)

$1,493 MM
$1,089 MM
$853 MM

Tab F

COMMITTEE REPORT

DATE: May 30, 1995

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

FROM: Domestic Manager Committee

The Domestic Manager Committee met on May 16, 1995 to consider the following agenda items:

- review of manager performance for the period ending March 31, 1995
- review of selected active stock managers
- consideration of staff position paper on the use of below investment grade debt
- annual review of investment manager guidelines
- annual review of active stock manager benchmark quality

Board action is requested on the first four items.

ACTION ITEMS:

1. Review of Manager Performance

- *Stock Managers*

For the quarter ended March 31, 1995, the domestic stock manager program underperformed the Wilshire 5000 by 0.4 percentage points and underperformed the aggregate benchmark by 0.5 percentage points. For the latest year and three years, the **current** managers underperformed the benchmark and the Wilshire 5000. For the five year period, the **current** manager group outperformed the Wilshire 5000 but underperformed the benchmark:

Time period	Actual	Wilshire 5000*	Aggregate Benchmark
Quarter	8.6%	9.0%	9.1%
1 Year	11.6	13.2	13.8
3 Years	9.8	10.1	10.5
5 Years	11.4	11.3	11.6

* Adjusted for SBI's restrictions, as appropriate

The active managers' decisions to hold consumer non-durables (retail, food, apparel), software (as opposed to hardware or semiconductors) within the technology sector, and cash contributed to the underperformance for the current quarter.

The performance evaluation reports for the stock managers start on page 71 of this Tab. Manager Commentaries are in Tab I.

- *Bond Managers*

For the quarter ended March 31, 1995, the bond manager program matched the Lehman Aggregate. For the latest year, the managers underperformed by 0.4 percentage point. For the latest three and five year periods, the **current** manager group outperformed the index by 0.4 and 0.5 percentage point, respectively.

Time period	Actual	Lehman Aggregate*
Quarter	5.0%	5.0%
1 Year	4.5	5.1
3 Years	7.3	6.9
5 Years	9.5	9.0

* reflects Salomon BIG index prior to 7/94.

Performance among the individual managers was mixed for the quarter. The managers who underperformed for the quarter suffered negative impact of a shorter than benchmark duration during a period when interest rates declined and/or exposure to foreign bonds during a period when the dollar declined. For the year, a significant contributor to the underperformance was Fidelity who suffered a loss on their position in dollar denominated foreign bonds and then sold the position before the same issues rebounded.

The performance evaluation reports for the bond managers start on page 99 of this Tab. Manager Commentaries are in Tab I.

Staff also discussed organizational changes at BEA, Fidelity and TCW which are noted in the Manager Commentaries. While no action is recommended at this time for Fidelity and TCW, staff recommended that BEA be placed on probation due to the departure of the SBI's portfolio manager and BEA's decision to acquire CS Fist Boston. After discussion, the Committee concurred with staff. Staff has scheduled an on-site meeting with BEA early in the next quarter to assess the impact of the organizational changes and expects to make a recommendation concerning the continuation or termination of the firm at the next quarterly meeting of the SBI/IAC.

RECOMMENDATION:

The Committee recommends that the SBI place BEA Associates on probation due changes in the bond management team and the personnel associated with the SBI's bond portfolio at that firm.

2. Review of Selected Active Domestic Stock Managers

Last quarter, the Committee concurred with a staff recommendation that four active domestic stock managers (Forstmann-Leff, GeoCapital, Lynch & Mayer, and Weiss, Peck & Greer) be reviewed due to concerns about poor performance in recent time periods. Subsequent to that meeting, staff added a manager (Jundt Associates) to the list and conducted extensive reviews of all five firms. Staff's recommendations on these firms can be summarized as follows:

- Despite poor performance in recent time periods, no action should be taken at this time with respect to *GeoCapital, Jundt Associates* and *Weiss, Peck & Greer*. Staff has confidence in both the investment process and personnel utilized by these firms. Historically, these firms have displayed a high degree of volatility relative to their benchmarks. If the SBI is willing to "ride out" the current period of underperformance, it should be rewarded with strong performance in the future.

- In accordance with the SBI's Manager Continuation Policy, *Forstmann-Leff* and *Lynch & Mayer* should be brought before a special committee and formally re-interviewed during the next quarter. Staff no longer has a high level of confidence in the ability of these firms to add value. After interviewing the firms, the special committee should make a recommendation to the Board concerning the retention or termination of these two managers.

After discussion, the Committee concurred with each of the staff recommendations. Further detail on the reviews is available from staff, upon request.

Staff also reported that they intend to conduct similar in-depth reviews of two additional firms (*Investment Advisers* and *Waddell & Reed*) during the next quarter. In both cases, the precipitating factors have been poor performance over the short term and personnel changes at the firm.

RECOMMENDATION:

In accordance with the SBI's Manager Continuation Policy, the Committee recommends that the SBI convene a special committee to re-interview Forstmann-Leff and Lynch & Mayer. The special committee will make a recommendation to the Board concerning the continuation or termination of the two firms. The special committee should be comprised of a designee of each Board member and at least two members of the Domestic Manager Committee.

3. **Consideration of Below Investment Grade Debt**

In 1993, the Board requested that the IAC and staff evaluate the impact of investment constraints on the performance of the Basic and Post Retirement Funds. As a result of the study, the IAC recommended that the SBI seek legislative changes that would increase the SBI's flexibility in asset allocation decisions and have the potential to increase long term returns. One of those recommendations was to re-establish the SBI's authority to invest in unrated and below investment grade debt. In 1994, the Legislature approved the recommended changes and gave the SBI authority to invest up to 5% of the total retirement fund portfolios in these securities.

Since that time, staff has conducted further research on the application of the new authority. Staff is now recommending that the SBI use below investment grade debt on a tactical basis. The SBI should grant limited authority to its existing fixed income managers to invest in BB and B rated debt, if the manager can demonstrate that the firm has used such authority successfully in the past. Managers granted this authority should be limited to investing a maximum of 10% of their portfolio in these securities. The Lehman Aggregate (or its appropriate subset for sector specialty managers) would remain as the benchmark. Staff, with the concurrence of the Domestic Manager Committee, should have discretion to grant authority to individual managers based on the manager's experience and expertise.

The staff position paper which discusses the below investment grade market and delineates staff's recommendations begins on page 7.

RECOMMENDATION:

The Committee recommends that the SBI adopt the attached position paper on below investment grade debt and proceed with implementation plan outlined in the recommendation section of that paper.

4. **Review of Investment Manager Guidelines**

The SBI has established guidelines for the external active and semi-passive managers which govern their investment actions. While these guidelines may be changed at any time, they are part of the formal contractual agreement between the SBI and manager. The guidelines address return objectives, benchmarks, authorized investments, performance evaluation, communication and reporting requirements.

Staff and the Committee review the guidelines annually for accuracy and completeness. The changes made this year can be summarized as follows:

- Each set of the guidelines was revised to include language that requires that all purchases of forwards, futures and options be fully collateralized or "covered". These additions formalize current practice.

- Expected risk/return ratios on the active and semi-passive stock managers were revised downward to reflect more realistic expectations.

- The bond manager guidelines were revised to include limited authority to purchase BB and B debt. This authority will be granted on a manager-by-manager basis after review by the Domestic Manager Committee.

- The guidelines for the managers in the Assigned Risk Plan were modified to reflect the separation of the stock and bond segments in that fund.

The revised guidelines begin on page 35. Additions to the current guidelines are noted by <u>underline</u> and deletions are indicated by ~~strikeout~~.

RECOMMENDATION:

The Committee recommends that the SBI adopt the revised investment manager guidelines as presented.

INFORMATION ITEM:

1. Review of Active Stock Manager Benchmarks

The SBI's Manager Continuation Policy requires staff to review all custom benchmarks for active domestic stock managers on an annual basis. The purpose of the analysis is to determine whether a benchmark adequately reflects the manager's unique investment style and therefore can be used as a valid performance measurement standard for the manager.

Staff reviewed with the Committee the findings of the benchmark quality analysis and believes that the current benchmarks are satisfactory. A summary of the benchmark quality analysis begins on page 67. Further detail on each benchmark is available from staff, upon request.

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The Rationale for Below Investment Grade Debt

Mansco Perry III
Minnesota State Board of Investment

May 25, 1995

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Table of Contents

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EXECUTIVE SUMMARY

In 1994, the Minnesota State Legislature granted the State Board of Investment (SBI) the authority to invest in below investment grade fixed income instruments. This paper reviews the below investment grade market and recommends a policy on the SBI's use of this new authority for retirement assets.

What is Below Investment Grade Debt?

Below investment grade debt securities are generally considered to be corporate bonds rated below BBB by a major rating agency such as Standard & Poors or Moody's, or if unrated, are of similar quality. Historically, the SBI has invested only in debt labeled "investment grade", or debt that is rated among the top four rating categories by a nationally recognized rating agency (AAA, AA, A, BBB).

The size of the total below investment grade debt market has not been specifically defined. However, the aggregate of the estimated sectors is in excess of \$620 billion. The U. S. Corporate sector is estimated to be approximately \$300 billion. Emerging market debt is estimated at \$270 billion. The market for below investment grade mortgages is estimated at a minimum of \$25 billion. The market for non-rated debt with below investment grade characteristics is also estimated at a minimum of \$25 billion.

Below investment grade debt is commonly referred to as high yield debt and also "junk bonds." Historically, most below investment grade bonds were "fallen angels", which are bonds originally issued by firms with investment grade ratings but since downgraded. In the late 1970's, more firms began to issue below investment grade debt.

The below investment grade debt issues of the 1980's and 1990's have been for friendly mergers and acquisitions, hostile takeovers, leveraged buyouts (LBOs), management buyouts (MBOs), stock buybacks, and spin-offs of new, smaller companies. They have been issued by small and large companies, including some of the country's best known and most respected companies.

In recent years, it has been estimated that as much as 70 percent of the corporate bonds issued are rated below investment grade.

The definition of high yield bonds has expanded in recent times. Certain non-SEC registered and private placement securities are considered to be part of the market. High income coupon hybrids with price appreciation potential are in the mix. International bonds have also been added to the high yield universe. Governments, agencies, and corporations from Europe, Canada and Mexico issue non-investment grade U.S. dollar denominated high yield debt.

In recent years, 90% of the high yield market has been comprised of securities graded at single-B or better. Emerging market debt, including Brady bonds, and mortgages also comprise significant sectors of the below investment grade universe.

Why Invest in Below Investment Grade Debt ?

The primary reasons for considering an investment in below grade debt securities are not unlike the argument for investing in other asset classes. An investment in high yield debt provides diversification benefits and the opportunity to enhance total returns to one's aggregate portfolio. A potentially adverse factor for investing in high yield securities is the enhanced possibility of default by an issuer and subsequent loss of investment.

High yield bonds are a better diversifying asset, with respect to large cap stocks, than are other asset classes, such as international or small cap stocks. In fact, high yield bonds have no significant correlation with any other asset class.

Research on corporate bonds has shown that investors have been well compensated for accepting the additional credit risk associated with high yield bonds. Historically, the total return for high yield debt securities has been higher than for investment grade bonds. While there is inherently more risk with lower grades of debt securities, the corresponding volatility is not as significant as one might think. In particular, the volatility of BB securities is no higher than that of investment grade debt.

Investors in high yield debt receive a yield premium which compensates for the potential of default or loss which might be incurred by high yield debt. The annual average default rate over the past decade has been approximately 3.5 %. During the same time period, investment losses, due to defaults, in the high yield market have averaged approximately 2 % annually.

How are the incremental returns provided by below investment debt captured?

Fixed income managers can employ below investment grade debt to enhance the returns on an investment grade fixed income portfolio. The key ingredient to outstanding performance in the high yield markets is outstanding credit research capabilities.

Staff Recommendation

Staff recommends that the SBI allow active and semi-passive fixed income managers the authority to invest in BB and B rated debt. Managers' use of these types of securities should be limited to a maximum of 10% of their SBI portfolio. Staff should have discretion in determining which managers are granted the new authority. The Lehman Aggregate (or its appropriate subset) will remain as the benchmark for these managers.

INTRODUCTION

In 1994, the Minnesota State Legislature granted the State Board of Investment (SBI) the authority to invest in below investment grade fixed income instruments. The purpose of this document is to provide background on the below investment grade market and outline the rationale for the SBI to invest in these securities.

While the paper discusses the broad spectrum of below investment grade debt, the primary focus will be on the use of BB, B and non-rated debt securities with similar risk characteristics.

Finally, Staff recommends that the SBI grant the authority to invest in below investment grade debt to several of the existing bond managers on a selective basis. The ability of these managers to invest in below investment grade debt should be constrained in an aggregate amount, with limitations as to exposure to any single issue, and subject to characteristics for the overall portfolio managed for the SBI by the respective manager.

WHAT IS BELOW INVESTMENT GRADE DEBT?

"Below investment grade debt securities" are generally considered to be corporate bonds rated below BBB by a major rating agency such as Standard & Poors or Moody's, or if unrated, are of similar quality. Historically, the SBI has invested only in debt labeled "investment grade", or debt that is rated among the top four rating categories by a nationally recognized rating agency (AAA, AA, A, BBB). (See Appendix A for a more detailed explanation of bond ratings). The rating agencies analyze the financial condition of a corporation and then assign a rating assessing the overall financial health of the organization. To compensate investors for the greater risk of investing in lower-rated securities, these bonds offer significantly higher yields than investment grade corporate bonds and Treasuries.

The definition of high yield bonds has expanded in recent times. Certain non-SEC registered and private placement securities are considered to be part of the market. High income coupon hybrids with price appreciation potential are in the mix. International bonds have also been added to the high yield universe. Governments, agencies, and corporations from Europe, Canada and Mexico issue non-investment grade U.S. dollar denominated high yield debt.

The size of the total below investment grade debt market has not been specifically defined. However, the aggregate of the estimated sectors is in excess of $620 billion. The U. S. corporate sector is estimated to be approximately $300 billion.[1] Dollar denominated emerging market debt is estimated at $270 billion.[2] The market for below investment grade mortgages is estimated at $25 billion minimum.[3] Non-rated debt with below investment grade characteristics is also estimated at a minimum of $25 billion.[4]

U. S. Corporate Issues

Below investment grade corporate debt is commonly referred to as high yield debt and also "junk bonds." Historically, most of these bonds were "fallen angels", which are debt securities originally issued by firms with investment grade ratings but since downgraded. In the late 1970's, more firms began to issue below investment grade debt to finance a wide variety of corporate needs broadly classified as restructurings. This

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[1] High Yield Handbook, CS First Boston, January 1995; 1994 High Yield Market Year-End Review, Salomon Brothers, February 17, 1995. Lehman Brothers High Yield Index, Lehman Brothers, October 1993.
[2] Emerging Markets Tradable Debt Universe, Salomon Brothers Inc., March 10, 1995
[3] Miller, Anderson & Sherrerd
[4] Miller, Anderson & Sherrerd

debt found new acceptance in the marketplace as many believed the default rates on these bonds did not justify the large yield spreads commonly exhibited. Firms unable to muster an investment grade rating viewed this market as a new source of financing. Previously, these firms were forced to borrow from banks, and junk issues were a lower-cost financing alternative. Prior to 1977, the market was predominated by issues representing fallen angels. In 1994, fallen angels comprised about 25% of the market.[5] The below investment grade corporate market rose from less than $30 billion in the late 1970's to an estimated $250 to $300 billion market in 1994.

The below investment grade debt issues of the 1980's and 1990's have been for friendly mergers and acquisitions, hostile takeovers, leveraged buyouts (LBOs), management buyouts (MBOs), stock buybacks, and spin-offs of new, smaller companies. They have been issued by small and large companies, including some of the country's best known and most respected companies. (Appendix B includes a list of some U.S. companies that have recently issued high yield bonds as part of their debt structure).

In recent years, it has been estimated that as much as 70 percent of the corporate bonds issued are rated below investment grade. Frequently cited reasons for this expansion are the flexibility and permanence of high yield bonds when compared to short term bank debt. Banks typically demand stricter covenants from corporations and require them to periodically pay down their loans. High yield bond covenants are generally less restrictive than bank loan covenants and often do not require high levels of amortization of principal. High yield bonds are used by some firms as a strategic part of their balance

[5] A Primer on High Yield Bonds for Institutional Investors, pages 1-2, Keystone Investment Management Corporation, 1994.

sheet as the increased leverage improves return on equity and minimizes the risk of hostile takeovers.

There is a broad spectrum of opportunities within the below investment grade range. Unfortunately, the terms "below investment grade" or "high yield" conjure up images of the speculative grade securities promoted by Drexel Burnham Lambert during the leveraged buyout craze of the mid-1980's. Rather, BB, B, and non-rated debt securities with similar risk characteristics predominate the high yield market and provide the most appropriate method of providing yield enhancements without a corresponding increase in portfolio risk.

While estimates of the below investment grade corporate market approach $300 billion dollars, it is necessary to look at corporate based indices to get a feel for the segmentation of the market by investment grade ratings and other criteria.

In recent years, 90% of the high yield market has been comprised of securities graded at single-B or better:

High Yield Market Composition by Rating Category

Grade Rating	Dec. 31, 1993	December 31, 1994
Split BBB / BB	18 %	16 %
BB	30 %	31 %
B	40 %	45 %
CCC	4 %	4 %
CC or lower	0 %	0 %
Not Rated	7 %	4 %

Source: Salomon Brothers

The above information indicates that most of the below investment grade universe is at the high quality end of the high yield market with ratings of BB or B. One could postulate that focusing on this end of the below investment grade spectrum mitigates the degree of speculation one would associate with high yield debt. Additionally, as seen below, the high yield market is comprised of primarily intermediate term securities. The presence of intermediate term securities may lessen the price sensitivity associated with these securities.

U. S. Corporate High Yield Market Composition by Maturity

Maturity	December 31, 1993	December 31, 1994
< 5 years	14 %	10 %
5 - 10 years	66 %	72 %
> 10 years	20 %	18 %

Source : Salomon Brothers

Emerging Market Issues

In defining the below investment grade market place, it is important to include emerging market debt. Emerging market debt is largely represented by sovereign debt of Latin American countries. These securities are dollar denominated, i.e. pay principal and interest in U.S. dollars. An important portion of these securities were created under the Brady plan and in some cases the principal and a portion of the interest of these securities is defeased by U.S. Treasury securities. The emerging debt market is estimated be $270 billion and is an important adjunct to the medium and lower quality corporate credit market place. [6] Following is a breakdown of the traditional sources and forms of emerging market debt.

[6]Many consider the Emerging Market debt to be Brady bonds and the sovereign and corporate debt of underdeveloped nations which are securitized and denominated in U.S. dollars . However, there are other

Emerging Market Debt

($US Millions (FACE VALUE) as of March 10, 1995)

	Brady Bonds	Sovereign Debt	Corporate Bonds	TOTAL
Latin America	$126,080	$32,617	$34,848	193,545
Eastern Europe	12,819	29,297	1,504	43,620
Asia	4,209	16,439	6,329	26,977
Africa / Mid East	2,756	4,151	669	7,576
TOTAL	$145,864	$82,504	$43,349	$271,718

Source: Salomon Brothers

Mortgages and Other Issues

In recent years, pools of mortgages or other asset backed securities have been divided into "senior/subordinated" structures which enabled these pools of assets to receive high credit ratings. Defaults that are incurred on a pool of mortgages or other assets are directed first to a class of securities designated as subordinated with regard to credit risk. In the past, these subordinated bonds were retained by the originators of mortgage and asset backed securities. However, in recent years, these subordinated securities have been sold into the market place along with the senior tranches. This trend began as a result of change in the risk-based capital requirements imposed upon financial institutions who originate many of these securities.

The growth of the subordinated market for single family mortgage, commercial mortgage, and other asset-backed securities has created investment opportunities which can be compared to unsecured corporate debt and emerging market debt in the below investment grade categories. Indeed, at times, mortgages have appeared to have wider

forms of tradable indebtedness which exist within the Emerging Markets Tradable Debt Universe. These include tradable loans and other forms of indebtedness which are mostly in the local currencies.

spreads than comparably rated corporates. It is estimated that the market for below investment grade mortgage securities is approximately $25 billion. However, significant growth is expected to occur in the coming years.

Occasionally, a manager or analyst may uncover attractive securities that are non-rated, have defaulted or are rated below B. Because the recognized rating process often lags the improvement in credits, quality opportunities for investment in securities with competitive expected returns and credit quality comparable to more highly rated securities periodically appear. It is estimated that there may be in excess of $25 billion of these type of securities outstanding.[7]

WHY INVEST IN BELOW INVESTMENT GRADE DEBT ?

The primary reasons for considering an investment in below grade debt securities are not unlike the argument for investing in other asset classes. An investment in high yield provides diversification benefits and the opportunity to enhance total returns to one's aggregate portfolio. A potentially adverse factor for investing in high yield securities is the enhanced possibility of default by an issuer and subsequent loss of investment.

Correlations with Other Assets

Following is a correlation matrix which compares how high yield bonds have fared against other asset classes:

[7] There is no definitive index or source for below investment grade mortgages or non-rated debt to accurately gauge the size of the market. In discussions with SBI fixed income managers, in particular Miller, Anderson & Sherrerd, it appears as though $25 billion is a reasonable estimate and conservative estimate for each sector.

Correlations of High Yield Bonds with Other Asset Classes

1978 - 1993

	High yield Bonds	Treasury Bills	Investment Grade Bonds	Foreign Bonds	Large Cap Stocks	Small Cap Stocks	Foreign Stocks
High Yield Bonds	1.00						
Treasury Bills	-0.28	1.00					
Investment Grade Bonds	0.65	0.03	1.00				
Foreign Bonds	0.20	-0.43	0.16	1.00			
Large Cap Stocks	0.35	0.02	0.38	0.13	1.00		
Small Cap Stocks	0.47	0.02	0.10	-0.13	0.75	1.00	
Foreign Stocks	0.21	-0.29	0.08	0.61	0.42	0.20	1.00

Source : Ibbotson Associates

The above table indicates that high yield bonds have a 0.65 correlation with investment grade bonds and 0.35 correlation to large cap stocks. This relatively low correlation suggests high yield bonds are a better diversifying asset, with respect to large cap stocks, than are other asset classes, such as international or small cap stocks. The lower the correlation of returns, the greater the reduction in risk achieved by adding the asset to the portfolio. In fact, high yield bonds have no significant correlation with any of the other asset classes. Correlations with high yield bonds range from a low of -0.28 (with Treasury Bills) to a high of only 0.65 (with Investment Grade Bonds).

Risk versus Return

Research on corporate bonds has shown that investors have been well compensated for accepting the additional credit risk associated with high yield bonds.

Historically, the total return for high yield debt securities has been higher than for investment grade bonds. While there is inherently more risk with lower grades of debt securities, the corresponding volatility is not as significant as one might think. In particular, the volatility of BB securities is no higher than that of investment grade debt. An analysis of returns and standard deviations from corporate bonds of differing rating categories reveals the following:

Corporate Bonds
Total Returns and Standard Deviations
1987 - 1994

Index	Annualized Total Return	Standard Deviation
Aggregate	7.89%	4.60%
AAA Corporate	7.89%	4.84%
AA Corporate	8.16%	5.34%
A Corporate	8.30%	5.17%
BBB Corporate	8.89%	5.01%
BB Corporate	9.70%	5.13%
B Corporate	9.86%	7.92%
CCC or lower Corporate	N.A.	N.A.

Sources: Lehman Brothers and Miller, Anderson & Sherrerd

While below investment grade securities have had strong returns, volatility of those returns has been generally consistent with investment grade bonds. In addition, below investment grade rated securities often provide additional protection through a series of covenants that limit future activities of the issuing corporation, such as borrowing, dividends, asset sales, and change of control. These covenants are largely absent in securities of more highly rated issuers.

An analysis of investment grade bond returns for the 20-, 10-, and 5- year periods ending December 1994 shows that investors were rewarded for taking increasing levels of credit risk. On average, the ratings assigned by major nationally recognized rating organizations have successfully differentiated the credit risk associated with corporate issuers. The results in the following table demonstrate that higher returns have been achieved on lower rated issues:

Annualized Total Returns
U.S. Treasuries, Corporates, and the S&P 500
Periods Ending December 1994

	20 Years	10 Years	5 Years
7 - Year Treasuries	9.05%	9.98%	7.20%
Investment Grade Corporates	10.30%	10.66%	8.27%
AAA	9.60%	10.40%	8.12%
AA	9.90%	10.50%	8.15%
A	10.47%	10.67%	8.46%
BBB	11.86%	11.33%	8.66%
BB		14.78%	11.98%
B		12.58%	12.68%

Sources: Lehman Brothers and Miller Anderson & Sherrerd

The primary concerns to the investors in below investment grade debt, are the possibility of default and investment losses. To evaluate whether investors are compensated for the potential losses which might be incurred, one should compare the breakeven yield spread versus the actual yield spread versus Treasuries. The "breakeven yield spread" measures the incremental return in basis points a corporate bond would have to receive, versus comparable Treasuries, to offset any default losses incurred. The excess to receive, versus comparable Treasuries, to offset any default losses incurred. The excess premium (i.e., actual yield spread - breakeven yield spread) is the additional return an investor would receive for accepting incremental credit risk. Following is a comparison of actual yield spreads for the 10 years 1984-1993 and the breakeven spread needed to compensate for defaults during that time period.

Actual versus Breakeven Yield Spread over Treasury Issues : 10 Years 1984-1993 (in basis points)

	Actual Spread	Breakeven Spread	Excess Premium
AAA	41	9	32
AA	57	12	45
A	78	24	54
BBB	115	38	77
BB	322	195	127
B	549	378	171

Source : Lehman Brothers, Salomon Brothers, Moody's Investor Service, and Miller, Anderson & Sherrerd

As can be seen from the above table, investors of below investment grade debt have been rewarded handsomely for accepting incremental risk. Holders of BB and B securities received 127 and 171 additional basis points in annual yield for accepting the additional credit risk. CS First Boston has estimated that the excess premium received by high yield portfolios averaged 347 basis points per year during 1986-1993.[8]

[8] "The High Yield Market Today", page 3, Fidelity Management Trust Company, August 1994

Default Risk

The evidence appears to support the notion that below investment grade securities do provide incremental total returns to investment grade bonds without adding a correspondingly higher degree of risk to the portfolio. The potential risk to the portfolio from exposure to below investment grade debt can be inferred from the occurrence of default and loss of principal on high yield debt. The default rate is measured as the annual amount of principal defaulted of the total outstanding amount of high yield debt issued. Similarly, the loss rate is measured as the amount of principal and interest defaulted of the total outstanding amount of high yield debt issued. The following table lists the annual loss and default rates, for the period 1985 - 1994, for high yield debt issued from January 1, 1977 through December 31, 1994:

Summary of Annual Default Rates and Default Loss Rates, 1985 - 1994

	Annual Default Rate	Annual Loss Rate
1985	2.16 %	1.19 %
1986	2.31 %	1.30 %
1987	2.22 %	1.21 %
1988	2.03 %	1.09 %
1989	2.76 %	1.62 %
1990	4.70 %	2.81 %
1991	6.06 %	3.48 %
1992	5.37 %	3.00 %
1993	4.47 %	2.46 %
1994	3.78 %	2.04 %

HOW ARE THE INCREMENTAL RETURNS PROVIDED BY BELOW INVESTMENT GRADE DEBT CAPTURED?

Most investment managers focus on intense credit analysis to exploit the below investment grade market. Research staffs review companies in hopes of being able to identify bonds that are likely to provide superior total returns without exposing investors to excessive credit risk. Research analysts seek to identify those organizations with sound operating fundamentals, adequate interest and asset coverage, improving earnings prospects and strong management teams. Analysts and portfolio managers meet regularly with company management to better evaluate issues ranging from a company's asset value to intangibles like franchise value and quality of management at all levels of the organization. The expected outcome of this process is to determine which bonds have become cheap or overvalued. Potential strategies employed by managers are to focus on "overlooked" BB securities, searching for "rising stars", and identifying companies that are deleveraging their balance sheets. Each of these approaches relies on extensive credit analysis to identify potential opportunities.

Overlooked BB's

Generally, BB debt securities are overlooked by both investment grade and high yield oriented investors. The high yield market is dominated by investors who seek the highest current yields available in the marketplace. Most new below investment grade issuers are rated single B. Single B-rated issues tend to be callable and subordinated within the issuer's capital structure. These features tend to increase the yield on such securities and enhance their appeal to the investors seeking high current income. The securities and enhance their appeal to the investors seeking high current income. The yields on BB rated issues are often too low for most high yield investors. On the other hand, many fixed income investors restrict purchases to investment grade securities, with a minimum rating of BBB. These investment grade investors also will not consider BB rated bonds for their portfolios. As a result, the BB bond market is often ignored by many fixed income investors.

BB rated bonds are commonly senior within the capital structure as are investment grade corporates. Many are call free and issued by larger and more mature firms. Although the sector is overlooked, BB bonds offer attractive returns relative to the investment grade market without significant incremental risk. As such, they represent an opportunity for the total return oriented investment manager with corporate bond expertise.

Rising Stars

Many fixed income managers attempt to identify "rising stars". Rising stars are bonds which were rated as below investment grade and have been reclassified as investment grade by the rating agencies. By giving greater scrutiny to financial ratios than is given by the financial rating agencies (i.e., Standard & Poors, Moody's, etc.), managers attempt to identify those high yield issues which will be upgraded. The agencies focus on a set of traditional accounting oriented indicators in determining their credit ratings. Investment managers will attempt to look more at the underlying economic value of firms to determine if there are some companies where the rating agencies have over- or under-rated a company's financial condition. Additionally, the investment managers take a more future oriented approach than the rating agencies appear to be able to do. The rating agencies determine a credit rating at issuance and provide periodic reviews whereas the investment manager's research is continuous and more up-to-date. The ability to identify under-rated securities provides the potential to capture both high yield and capital appreciation as the debt is upgraded and the spread is tightened. The absence of continuous and widespread research in the market place creates inefficiencies. This provides opportunities for "cherry picking" for those managers able to identify situations where credit quality will improve. Managers able to identify these situations will reap the gains when the security has a larger following.

The Deleveraging Strategy

Other managers seek to identify firms that are deleveraging. This approach presumes that a company is making an effort to reduce debt and lower its interest cost which should result in higher earnings. The preferred deleveraging play is one where the company is rapidly paying down debt in order to enhance shareholder value. In such a case, the stockholder and bondholder have identical interests -- to improve the financial position and perceived value of the company by reducing the debt burden. If executed properly, deleveraging should result in an upgraded debt rating for the particular company. When a debt security is upgraded, the spread between the securities and a comparable Treasury bond should narrow. As spreads narrow, the price of the corporate bond will appreciate relative to the Treasury.

on companies that possess substantial financial strength (e.g., market capitalization, interest coverage, asset values, etc.) The strategy looks for a trend rather than an exact earnings per share calculation. Ideally, this means that the company only has to perform close to the expectations of a bond analyst (e.g., pay down $300 million in debt during the year versus a $500 million estimate) rather than have to meet an exact earnings estimate required by an equity analyst. In these situations, the bonds will improve regardless of the ultimate stock performance.

Clearly, the key ingredient to outstanding performance in the high yield markets is outstanding credit research capabilities. As a point of information, the ratings on more than $4.2 billion of high yield debt issues were raised to investment grade in 1994.[9]

STAFF RECOMMENDATION

Staff recommends that the SBI allow its active and semi-passive fixed income managers the authority to invest in BB and B rated debt. Managers use of these types of securities will be limited to a maximum of 10% of their SBI portfolio. Staff shall have discretion, with the concurrence of the Domestic Manager Committee, in determining which managers are granted the authority based on the individual manager's experience and expertise. Due to the limited and tactical nature of this new authority, the Lehman Aggregate (or its appropriate subset in the case of a sector specialist) will remain as the benchmark for these managers.

[9] The High Yield Market, page 30, Salomon Brothers, February 17, 1995

Appendix A: Bond Ratings

	Very High Quality		High Quality		Speculative		Very Poor	
Standard & Poor's	AAA	AA	A	BBB	BB	B	CCC	D
Moody's	Aaa	Aa	A	Baa	Ba	B	Caa	C

At times both Moody's and Standard & Poor's have used adjustments to these ratings.
S & P uses plus and minus signs: A+ is the strongest and A- the weakest.
Moody's uses a 1, 2, or 3 designation --- with 1 indicating the strongest.

Moody's	S & P	
Aaa	AAA	Debt rated Aaa and AAA has the highest rating. Capacity to pay interest and principal is extremely strong.
Aa	AA	Debt rated Aa and AA has a very strong capacity to pay interest and repay principal. Together with the highest rating, this group comprises the high grade bond class.
A	A	Debt rated A has a strong capacity to pay interest and repay principal, although it is somewhat more susceptible to the adverse effects of changes in circumstances and economic conditions than debt in higher rated categories.
Baa	BBB	Debt rated Baa and BBB is regarded as having adequate capacity to pay interest and repay principal. Whereas it normally exhibits adequate protection parameters, adverse economic conditions or changing circumstances are more likely to lead to a weakened capacity to pay interest and repay principal for debt in this category than in higher rated categories. These bonds are medium grade obligations.
Ba B Caa Ca	BB B CCC CC	Debt in these categories is regarded on balance, as predominantly speculative with respect to capacity to pay interest and repay principal in accordance with terms of the obligation. BB and Ba indicate the lowest degree of speculation, and CC and Ca the highest degree of speculation. Although such debt will likely have some quality and protective characteristics, these are outweighed by large uncertainties or major risk exposures to adverse conditions. Some issues may be in default.
C	C	This rating is reserved for income bonds on which no interest is being paid.
D	D	Debt rated D is in default, and payment of interest and/or principal is in arrears.

Appendix B:

1993 High Yield Issuers

American Standard	Keystone Group
Ann Taylor	Kroger Company
Armco	Levitz Furniture
Bell & Howell	McCaw Cellular
Bethlehem Steel	McDonnell Douglas
Black & Decker	Owens-Illinois
Chrysler	Pathmark Stores
Coca-Cola Bottling	Revlon
Continental Cablevision	Shawmut National
Delta Airlines	Time Warner
Dr. Pepper / Seven-Up	Turner Broadcasting
Fort Howard	Unisys
Greyhound	United Airlines
Hospital Corp. of America	US Air

Source: Keystone Investment Management Corp. ; Salomon Brothers, Lehman Bros.

GLOSSARY

actual yield spread - The yield spread between a high yield bond and a Treasury security. For usage in comparison with breakeven yield spread.

below investment grade - Bonds rated BB+ or lower by Standard & Poor's (Ba1 or lower by Moody's); also known as "high yield bonds" or "junk bonds."

Brady Bonds - Named for former U.S. Treasury Secretary Nicholas Brady, bonds which restructure the debt of foreign nations, generally issued as U.S. dollar obligations.

breakeven yield spread - A measure of the additional promised yield one would need on a high yield bond to match the comparable Treasury security when compensating for the default experience of high yield bonds.

call provision - Provision in a bond's indenture that defines the terms under which the issuer may redeem the bond prior to its scheduled maturity.

covenant - Legal agreement between the bond issuer and the bondholder which restricts the actions of the bond issuer in the interests of the bondholder.

defeasance - A technique whereby debt is discharged without repaying it prior to maturity.

deleveraging - The process of reducing the outstanding indebtedness of the issuer.

emerging markets - Generally, Latin American and other developing country markets which represent new, less-than-mature investment markets having a strong demand for external capital.

investment grade bond - A bond rated BBB- or higher by Standard & Poor's or Baa3, or higher by Moody's Investor Services.

junk bonds - A somewhat pejorative term developed in the early 1980's to describe both "fallen angels" and early original issue high yield bonds. Used as a synonym for high yield bonds.

private placement - A security not registered with the Securities and Exchange Commission; generally a smaller, less liquid financial transaction placed with a limited number of institutional purchasers. Many companies with public high yield bonds outstanding offered these issues as privates and later registered them.

senior debt - Loans or debt securities that have claim prior to junior obligations and equity on a corporation's assets in the event of liquidation. Senior debt commonly includes funds borrowed from banks, insurance companies, or other financial institutions, as well as notes, bonds, or debentures not expressly defined as junior or subordinated.

sovereign debt - Debt issued by the government of a foreign nation.

subordinated debt - Junior in claim on assets to other debt, that is, repayable only after other debts with a higher claim have been satisfied. Some subordinated debt may have less claim on assets than other subordinated debt; a junior subordinated debenture ranks below a subordinated debenture, for example.

yield spread - The yield differential measured in basis points between two securities, a security and an index, two indices, etc.

Source: A Primer on High Yield Bonds for Institutional Investors, Keystone Investment Management Corporation, 1994; and Dictionary of Finance and Investment Terms 3rd. ed.,, Barron's, 1991.

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MINNESOTA STATE BOARD OF INVESTMENT

INVESTMENT GUIDELINES
EXTERNAL ACTIVE DOMESTIC COMMON STOCK MANAGERS

The investment actions of State Board of Investment (SBI) external active domestic common stock managers will be governed and evaluated by the following guidelines:

1. RETURN/RISK OBJECTIVES

The external common stock managers are expected to deliver cumulative returns in excess of a predetermined benchmark portfolio (see Benchmarks below). Over time, each manager will be expected to produce portfolios which differ from the manager's benchmark portfolio in the following manner:

(a) The actual portfolio will realize active risk (annualized residual standard deviation), relative to the benchmark, in excess of one (1) percent.

(b) The actual portfolio will generate positive cumulative excess returns significant enough to compensate the SBI for the active risk assumed. Generally, the ratio of annualized excess return to active risk in (a) above should be .50 or greater.

2. BENCHMARKS

Each manager must provide and maintain a customized benchmark (normal) portfolio, agreed upon by both manager and SBI, for the purpose of performance evaluation and risk measurement. The benchmark portfolio provided by the manager must satisfy the following characteristics:

(a) **Unambiguous**. The names and weights of securities comprising the benchmark are clearly delineated.

(b) **Investable**. The option is available to forego active management and simply hold the benchmark portfolio.

(c) **Measurable**. It is possible to readily calculate the benchmark's return on a monthly basis.

(d) **Appropriate**. The benchmark is consistent with the manager's investment style or biases.

(e) **Reflective of current investment opinions**. The manager has current investment opinions (be they positive, negative, or neutral) on the securities which make up the benchmark.

(f) **Specified in advance**. The benchmark must be available prior to the start of an evaluation period.

3. ELIGIBLE INVESTMENTS

The investment managers will be restricted to holding common stocks, stock index futures, bonds, and cash equivalents. The investments of each manager must satisfy the following criteria and constraints.

(a) The stocks held must be issued by corporations organized under the laws of the U.S. or its states, the Dominion of Canada or its provinces, and/or be listed on the New York Stock Exchange or American Stock Exchange.

(b) Total SBI holdings in any one corporation shall not exceed five (5) percent of the total outstanding shares of that corporation. Individual investment manager holdings will be monitored by the SBI staff to assure compliance.

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

(d) Individual Manager holdings in convertible bonds shall not exceed five (5) percent of the total market value of the portfolio.

(e) Investment Managers are not constrained regarding:

(1) transaction turnover
(2) use of covered call options as hedging devices
(3) liquidity requirements
(4) number of individual equity issues which must be held at any given time
(5) the percentage of assets held in cash reserves which must be held at any given time
(6) the use of stock index futures to adjust the effective equity exposure of the portfolio from 0 to 100%. <u>In addition, all commodity futures transactions must be done on a fully collateralized basis</u>.

4. PERFORMANCE EVALUATION

Manager performance will be evaluated according to the guidelines established in the SBI's Manager Continuation Policy. These guidelines, which may change from time to time, assist the SBI in its decisions concerning retention and termination of investment managers.

5. COMMUNICATION

The SBI requires its investment managers to communicate with SBI staff on a regular basis. Managers are expected to meet with staff to review the results of the manager's investment decision-making process at least annually. In reviewing past and current investment strategies and performance, the manager is expected to present the analysis relative to the benchmark portfolio. The SBI requires a quarterly written report containing information as requested by the SBI for each account under the investment management supervision of the manager.

6. PROXY VOTING

The SBI is responsible for proxy voting.

7. COMMODITY FUTURES TRADING AGREEMENT

Any commodity futures trading agreement entered into by the Manager must provide that SBI liability for margin requirements, commissions and fees is limited solely to funds of the SBI and does not constitute a general obligation of the State of Minnesota. The total SBI liability for margin requirements, commissions and fees among all brokers for any individual SBI manager is limited to the total market value of the assets for that manager.

8. FUTURE MODIFICATIONS

The SBI reserves the right to modify these investment guidelines at any time. Managers will be notified in advance of changes to the investment guidelines.

Revised: May 1995

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MINNESOTA STATE BOARD OF INVESTMENT

INVESTMENT GUIDELINES
EXTERNAL SEMI-PASSIVE DOMESTIC COMMON STOCK MANAGER

The investment actions of State Board of Investment (SBI) external semi-passive domestic common stock managers will be governed and evaluated by the following guidelines:

1. RETURN/RISK OBJECTIVES

The Manager is expected to deliver cumulative returns in excess of the predetermined benchmark provided to the Manager. The Manager is expected to achieve the following:

(a) The actual portfolio will realize active risk (annualized residual standard deviation), relative to the benchmark, in excess of one (1) percent, but no more than one and one half (1.5) percent.

(b) The actual portfolio will generate positive cumulative excess returns significant enough to compensate the SBI for the active risk assumed. Generally, the ratio of annualized excess return to active risk in (a) above should be 0.10 or greater.

2. BENCHMARK INDEX

The initial benchmark will be a tilted index/customized benchmark furnished by a consultant retained by SBI. SBI reserves the right to change the benchmark index upon notification to Manager.

3. ELIGIBLE INVESTMENTS

The Manager will be restricted to holding common stocks, stock index futures, and cash equivalents. The investments must satisfy the following criteria and constraints.

(a) The stocks held must be issued by corporations organized under the laws of the U.S. or its states and/or be listed on the New York Stock Exchange or American Stock Exchange.

(b) Total SBI holdings in any one corporation shall not exceed five (5) percent of the total outstanding shares of that corporation. Individual Manager holdings will be monitored by the SBI staff to assure compliance.

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

(d) Manager is not constrained regarding:

(1) transaction turnover
(2) use of covered call options as hedging devices
(3) liquidity requirements
(4) number of individual equity issues which must be held at any given time
(5) the percentage of assets held in cash reserves which must be held at any given time
(6) the use of stock index futures to adjust the effective equity exposure of the portfolio from 0 to 100%. In addition, all commodity futures transactions must be done on a fully collateralized basis.

4. PERFORMANCE EVALUATION

Manager performance will be evaluated according to guidelines established in the SBI's Manager Continuation Policy. These guidelines, which may change from time to time, assist the SBI in its decisions concerning retention and termination of this investment manager.

5. COMMUNICATION

The SBI requires its investment managers to communicate with SBI staff on a regular basis. The Manager is expected to meet with staff to review the results of the Manager's investment decision-making process at least annually. In reviewing past and current investment strategies and performance, the Manager is expected to present the analysis relative to the benchmark portfolio. The SBI requires a quarterly written report containing information as requested by SBI for each Account under the investment management supervision of the Manager.

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The SBI is responsible for proxy voting.

7. COMMODITY FUTURES TRADING AGREEMENT

Any commodity futures trading agreement entered into by the Manager must provide that SBI liability for margin requirements, commissions and fees is limited solely to funds of the SBI and does not constitute a general obligation of the State of Minnesota. The total SBI liability for margin requirements, commissions and fees among all brokers for any individual SBI manager is limited to the total market value of the assets for that manager.

8. FUTURE MODIFICATIONS

The SBI reserves the right to modify these investment guidelines at any time. The Manager will be notified in advance of changes to the investment guidelines.

Revised: May 1995

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MINNESOTA STATE BOARD OF INVESTMENT

INVESTMENT GUIDELINES
EXTERNAL EMERGING DOMESTIC COMMON STOCK MANAGERS

The investment actions of State Board of Investment (SBI) external active domestic common stock managers will be governed and evaluated by the following guidelines:

1. RETURN/RISK OBJECTIVES

The external common stock managers are expected to deliver cumulative returns that exceed a predetermined benchmark portfolio by at least 1.0 percentage point, net of fees, annually (see Benchmarks below). Over time, each manager will be expected to produce portfolios which differ from the manager's benchmark portfolio in the following manner:

(a) The actual portfolio will realize active risk (annualized residual standard deviation), relative to the benchmark, in excess of one (1) percent.

(b) The actual portfolio will generate positive cumulative excess returns significant enough to compensate the SBI for the active risk assumed. Generally, the ratio of annualized excess return to active risk in (a) above should be .50 or greater.

2. BENCHMARKS

Each manager must provide an initial published index benchmark agreed upon by both manager and SBI prior to the effective date of the contract, for purpose of performance evaluation and risk measurement. The published index must be representative of the manager's investment style.

Within 24 months of retention, each manager must provide benchmark (normal) portfolio, agreed upon by both manager and SBI, for the purpose of performance evaluation and risk measurement. The benchmark portfolio provided by the manager must satisfy the following characteristics:

(a) **Unambiguous**. The names and weights of securities comprising the benchmark are clearly delineated.

(b) **Investable**. The option is available to forego active management and simply hold the benchmark portfolio.

(c) **Measurable**. It is possible to readily calculate the benchmark's return on a monthly basis.

(d) **Appropriate**. The benchmark is consistent with the manager's investment style or biases.

(e) **Reflective of current investment opinions**. The manager has current investment opinions (be they positive, negative, or neutral) on the securities which make up the benchmark.

(f) **Specified in advance**. The benchmark must be available prior to the start of an evaluation period.

3. ELIGIBLE INVESTMENTS

The investment managers will be restricted to holding common and preferred stocks, convertible bonds, equity options, warrants, stock index futures and cash equivalents. The investments of each manager must satisfy the following criteria and constraints.

(a) The stocks held must be issued by corporations organized under the laws of the U.S. or its states, the Dominion of Canada or its provinces and/or be listed on the New York Stock Exchange (NYSE) or American Stock Exchange. <u>These include American Depositary Receipts (ADR's) traded on the NYSE and the ASE, but exclude ADR's traded over-the-counter.</u>

(b) Total SBI holdings in any one corporation shall not exceed five (5) percent of the total outstanding shares of that corporation. Individual investment manager holdings will be monitored by the SBI staff to assure compliance.

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

(d) Individual manager holdings in convertible bonds shall not exceed five (5) percent of the total market value of the portfolio.

(e) Investment Managers are not constrained regarding:

(1) transaction turnover
(2) use of covered call options as hedging devices
(3) liquidity requirements
(4) number of individual equity issues which must be held at any given time
(5) the percentage of assets held in cash reserves which must be held at any given time
(6) the use of stock index futures to adjust the effective equity exposure of the portfolio from 0 to 100%. <u>In addition, all commodity futures transactions must be done on a fully collateralized basis.</u>

4. **PERFORMANCE EVALUATION**

Manager performance will be evaluated according to the guidelines established in the SBI's Manager Continuation Policy. These guidelines assist the SBI in its decisions concerning retention and termination of investment managers.

Manager performance will be compared against an agreed upon published index until completion of a customized benchmark. ~~The custom benchmark will become the return comparison standard at the start of the first quarter after its acceptable completion~~. Upon completion of an acceptable custom benchmark, return comparisons will be restated back to the date the investment manager's relationship began with the SBI.

5. **COMMUNICATION**

The SBI requires its investment managers to communicate with SBI staff on a regular basis. Managers are expected to meet with staff to review the results of the manager's investment decision-making process at least annually. In reviewing past and current investment strategies and performance, the manager is expected to present the analysis relative to the agreed upon benchmark. The SBI requires a quarterly written report containing information as requested by the SBI for each account under the investment management supervision of the manager.

6. **PROXY VOTING**

The SBI is responsible for proxy voting.

7. **COMMODITY FUTURES TRADING**

Any commodity futures trading agreement entered into by the Manager must provide that SBI liability for margin requirements, commissions and fees is limited solely to the total funds of the SBI manager and does not constitute a general obligation of the State of Minnesota. The total SBI liability for margin requirements, commissions and fees among all brokers for any individual SBI manager is limited to the total market value of the assets for that manager.

8. **FUTURE MODIFICATIONS**

The SBI reserves the right to modify these investment guidelines at any time. Managers will be notified in advance of changes to the investment guidelines.

Revised: May 1995

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

The investment actions of State Board of Investment (SBI) external active fixed income managers will be governed and evaluated using the following guidelines:

1. RISK/RETURN OBJECTIVES

A manager's portfolio is expected to differ from the benchmark in a way consistent with its investment philosophy. Staff will evaluate differences based on characteristics such as duration, sector weighting, industry weighting, and coupon and company selection.

A manager's portfolio is expected to deliver annualized returns of at least 25 basis points above the benchmark, over time, after fees. Excess returns should be commensurate with portfolio risk measured using annualized standard deviation.

2. BENCHMARKS

- A manager's benchmark is used to evaluate performance and measure risk.
- Managers who invest in all sectors of the investment grade bond universe are compared to the Lehman Brothers Aggregate Bond Index (Lehman Aggregate), or its appropriate subset in the case of a sector specialist.

These indices satisfy the following characteristics:

a)	*Unambiguous.*	The securities comprising the benchmarks are clearly delineated.
b)	*Investable.*	The option is available to forego active management and hold the benchmark portfolios.
c)	*Measurable.*	It is possible to calculate each benchmark's return on a monthly basis.
d)	*Appropriate.*	The benchmarks are consistent with the investment styles of the SBI's active managers.
e)	*Specified in Advance.*	The benchmarks are established prior to the start of the evaluation period.

3. ELIGIBLE INVESTMENTS

The investment managers may hold fixed income instruments, fixed income options and futures, and cash equivalents. The investments of each manager must satisfy the following criteria and constraints:

a) Government obligations of the U.S. or its agencies, Canada or its provinces, or obligations of other U.S. sponsored organizations must be payable in U.S. dollars and comply with the provisions of Minnesota Statutes 11A.24 subdivision 2.

b) U.S. and Canadian corporate obligations must be payable in U.S. dollars, be rated among the top four quality categories by a nationally recognized rating agency, and comply with all provisions of Minnesota Statutes 11A.24 subdivision 3.

c) Other obligations not specified in (a) or (b) must meet the provisions of Minnesota Statutes 11A.24 subdivision 4, clauses 1 through 5.

d) Total portfolio duration must stay within a 3 to 7 year band.

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

f) Investments can be made in Yankee bonds. This market encompasses those foreign-domiciled issuers who register with the SEC and borrow U.S. dollars via issues underwritten by a U.S. syndicate for delivery in the United States and payable in U.S. dollars. The obligations must be rated among the top four quality categories by a nationally recognized rating agency.

Investment managers are not constrained regarding:

1) transaction turnover.
2) use of covered call options as hedging devices.
3) liquidity requirements.
4) number of fixed income issues held.
5) the percentage of assets held in cash reserves.
6) the use of bond index futures to adjust the effective fixed income exposure of the portfolio from 0 to 100%. <u>In addition, all commodity futures transactions must be done on a fully collateralized basis.</u>

4. PERFORMANCE EVALUATION

Manager performance is evaluated using the guidelines established in the SBI's Manager Continuation Policy. These guidelines help the SBI decide whether to continue or terminate investment managers.

5. COMMUNICATION

The SBI requires its investment managers to communicate with SBI staff on a regular basis. Managers are expected to meet with staff to review the results of the manager's investment decision-making process at least annually. In reviewing past and current investment strategies and performance, the manager is expected to present the analysis relative to the agreed upon benchmark. The SBI requires a quarterly written report containing information as requested by the SBI for each account under the investment management supervision of the manager.

6. COMMODITY FUTURES TRADING AGREEMENT

Any commodity futures or options trading agreement entered into by a manager must provide that SBI liability for margin requirements, commissions and fees is limited solely to funds of the SBI and does not constitute a general obligation for the State of Minnesota.

7. FUTURE MODIFICATIONS

The SBI reserves the right to modify these investment guidelines at any time to insure the managers, both individually and collectively, are in compliance with Minnesota statues and SBI policy. Managers will be notified in advance of changes to these guidelines.

Revised: May 1995

Active Fixed Income Manager Guidelines
Possible Amendments to Section 3

The investment guidelines for an active fixed income manager may be amended to incorporate any or all of the following authorities. The additional authority will be granted on a manager-by-manager basis according to the experience and expertise of the individual firm.

Amendment to Section 3 of External Active Fixed Income Manager Investment Guidelines:

In addition to the investments allowed under Section 3, the external active fixed income manager is authorized to:

g) invest up to 10% of the portfolio in foreign fixed income securities. The Manager has discretion to hedge the currency exposure up to the 10% limit using currency forwards, futures or options. <u>In addition, all currency transactions must be done on a fully collateralized basis.</u>

h) <u>invest up to 10% of the portfolio in dollar denominated fixed income instruments rated BB or B by Standard and Poor's or an equivalent rating by another nationally recognized rating agency.</u>

i) use the following market neutral strategies for the simultaneous purchase and sale of options and futures:

1) Hedged volatility transactions
2) Inter-market spreads
3) Calendar spreads
4) Box spreads

At no time shall the combined market exposure of all enhanced cash strategies in place exceed 100% of the current portfolio market value. <u>In addition, all transactions must be done on a fully collateralized basis</u>.

The manager may invest in puts and call options and future contracts traded on a contract market regulated by a governmental agency or by a financial institution regulated by a governmental agency. This allows the manager to invest in the following:

1) U.S. or foreign stock index futures
2) U.S. or foreign stock index options
3) U.S. or foreign options on stock index futures
4) U.S. or foreign forward exchange contracts
5) U.S. or foreign currency options
6) U.S. or foreign currency futures

MINNESOTA STATE BOARD OF INVESTMENT

INVESTMENT GUIDELINES
EXTERNAL SEMI-PASSIVE FIXED INCOME MANAGERS

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

1. RISK/RETURN OBJECTIVES

The SBI expects external semi-passive fixed income managers to develop and manage the index portfolio with characteristics similar to the Lehman Brothers Aggregate Bond Index (Lehman Aggregate). The specific manger risk tolerances are specified below in the section on investment parameters. These parameters should generate only moderate tracking errors from index performance and are consistent with an enhanced index strategy.

The management objective is to provide a return above the Lehman Aggregate index performance. The manager will be expected to generate minimum returns of 10 basis points above the Lehman Aggregate index return on an annualized basis.

2. ELIGIBLE INVESTMENTS

The investment managers may hold fixed income instruments, fixed income index options and futures, and cash equivalents. The investments of each manager must satisfy the following criteria and constraints:

(a) Government obligations of the U.S., its agencies, Canada, its provinces, or U.S. sponsored organizations must be payable in U.S. dollars and comply with the provisions of SBI investment guidelines 11A.24 subdivision 2.

(b) U.S. and Canadian corporate obligations must be payable in U.S. dollars, be rated among the top four quality categories by a nationally recognized rating agency, and comply with all provisions of 11A.24 subdivision 3.

(c) Other obligations not specified in (a) or (b) must meet the provisions of 11A.24 subdivision 4.

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

(e) Investments can be made in Yankee bonds. This market encompasses those foreign-domiciled issuers who register with the SEC and borrow U.S. dollars via issues underwritten by a U.S. syndicate for delivery in the United States and payable in U.S. dollars. The obligations must be rated among the top four quality categories by a nationally recognized rating agency.

Investment managers are not constrained regarding:

(1) transaction turnover
(2) use of covered call options as hedging devices
(3) liquidity requirement
(4) number of fixed income issues which must be held at any given point in time
(5) the use of bond index futures to adjust the effective fixed income exposure of the portfolio from 0 to 100%. In addition, all commodity futures transactions must be done on a fully collateralized basis.

3. INVESTMENT PARAMETERS

The investment parameters are based on contribution to duration. Contribution to duration is the sector percentage multiplied by the sector duration.

Sector Weighting Guidelines

Treasury/Agency Sector	± 75% of the Lehman Brothers Government sector contribution to duration
Mortgage Sector	± 75% of the Lehman Brothers Mortgage-Backed sector contribution to duration
Corporate Sector	± 75% of the Combined Lehman Brothers Corporate and Asset-Backed sectors contribution to duration
Issues Outside the Index	Maximum 10% of the Lehman Brothers Aggregate contribution to duration

Corporate Credit Guidelines

AAA/AA ± 75% of the combined Lehman Brothers Corporate AAA and AA contribution to duration

A/BBB ± 75% of the combined Lehman Brothers Corporate A and BBB contribution to duration

Duration Guidelines

± 0.2 years of the Lehman Brothers Aggregate duration

4. PERFORMANCE EVALUATION

Manager performance is evaluated using the guidelines established in the SBI's Manager Continuation Policy. These guidelines help the SBI decide whether to continue or terminate investment managers.

5. COMMUNICATION

The SBI requires its investment managers to communicate with SBI staff on a regular basis. Managers are expected to meet with staff to review the results of the manager's investment decision-making process at least annually. In reviewing past and current investment strategies and performance, the manager is expected to present the analysis relative to the agreed upon benchmark. The SBI requires a quarterly written report containing information as requested by the SBI for each account under the investment management supervision of the manager.

6. COMMODITY FUTURES TRADING AGREEMENT

Any commodity futures or options trading agreement entered into by a manager must provide that SBI liability for margin requirements, commissions and fees is limited solely to funds of the SBI and does not constitute a general obligation for the State of Minnesota.

7. FUTURE MODIFICATIONS

The SBI reserves the right to modify these investment guidelines at any time to insure the managers, both individually and collectively, are in compliance with Minnesota statues and SBI policy. Managers will be notified in advance of changes to these guidelines.

Revised: May 1995

Semi-Passive Fixed Income Manager Guidelines
Possible Amendments to Section 3

The investment guidelines for a semi-passive fixed income manager may be amended to incorporate the following investments the authorities will be granted on a manager-by-manager basis according to the experience and expertise of the individual firm.

The guidelines of Minnesota State Board of Investment (SBI) external semi-passive fixed income managers shall incorporate the following modifications:

Amendment to Section 3 of External Semi-Passive Fixed Income Manager Investment Guidelines:

The investment parameter relating to Issues Outside of Index is modified as follows:

Issues Outside the Index*	Maximum 10% of the Lehman Brothers Aggregate contribution to duration.

* Issues in this category may include:

a) foreign bonds.

b) dollar denominated fixed income securities rated BB or B by Standard and Poor's or an equivalent rating by another nationally recognized rating agency.

Revised: May 1995

MINNESOTA STATE BOARD OF INVESTMENT

INVESTMENT GUIDELINES
ASSIGNED RISK PLAN
COMMON STOCK MANAGER

The investment actions of State Board of Investment (SBI) Assigned Risk Plan Common Stock Manager will be governed and evaluated by the following guidelines:

1. RETURN/RISK OBJECTIVES

The Manager is expected to deliver cumulative returns in excess of a predetermined benchmark portfolio (see Benchmarks below). Over time, the Manager will be expected to produce portfolios which differ from the manager's benchmark portfolio in the following manner:

(a) The actual portfolio will realize active risk (annualized residual standard deviation), relative to the benchmark, in excess of one (1) percent.

(b) The actual portfolio will generate positive cumulative excess returns significant enough to compensate the SBI for the active risk assumed. Generally, the ratio of annualized excess return to active risk in (a) above should be 0.10 or greater.

2. BENCHMARKS

The Manager must provide and maintain a customized benchmark (normal) portfolio, agreed upon by both manager and SBI, for the purpose of performance evaluation and risk measurement. The benchmark portfolio provided by the Manager must satisfy the following characteristics:

(a) **Unambiguous**. The names and weights of securities comprising the benchmark are clearly delineated.

(b) **Investable**. The option is available to forego active management and simply hold the benchmark portfolio.

(c) **Measurable**. It is possible to readily calculate the benchmark's return on a monthly basis.

(d) **Appropriate**. The benchmark is consistent with the manager's investment style or biases.

(e) **Reflective of current investment opinions**. The manager has current investment opinions (be they positive, negative, or neutral) on the securities which make up the benchmark.

(f) **Specified in advance**. The benchmark must be available prior to the start of an evaluation period.

3. ELIGIBLE INVESTMENTS

The Manager will be restricted to holding stocks, stock index futures, options, bonds, and cash equivalents. The investments of the Manager must satisfy the following criteria and constraints.

(a) The stocks held must be issued by corporations organized under the laws of the U.S. or its states, and/or be listed on the New York Stock Exchange or American Stock Exchange.

(b) Total SBI holdings in any one corporation shall not exceed five (5) percent of the total outstanding shares of that corporation. Individual Manager holdings will be monitored by the SBI staff to assure compliance.

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

(d) Individual Manager holdings in convertible bonds shall not exceed five (5) percent of the total market value of the portfolio.

(e) Manager is not constrained regarding:

(1) transaction turnover
(2) use of covered call options as hedging devices
(3) liquidity requirements
(4) number of individual equity issues which must be held at any given time
(5) the percentage of assets held in cash reserves which must be held at any given time
(6) the use of stock index futures to adjust the effective equity exposure of the portfolio from 0 to 100%. In addition, all commodity futures transactions must be done on a fully collateralized basis.

4. PERFORMANCE EVALUATION

Manager performance will be evaluated according to the guidelines established in the SBI's Manager Continuation Policy. These guidelines assist the SBI in its decisions concerning retention and termination of investment managers.

5. COMMUNICATION

The SBI requires its investment managers to communicate with SBI staff on a regular basis. The Manager is expected to meet with staff to review the results of the Manager's investment decision-making process at least annually. In reviewing past and current investment strategies and performance, the manager is expected to present the analysis relative to the benchmark portfolio. The SBI requires a quarterly written report containing information as requested by SBI for each account under the investment management supervision of the Manager.

6. PROXY VOTING

The SBI is responsible for proxy voting.

7. COMMODITY FUTURES TRADING AGREEMENT

Any commodity futures trading agreement entered into by the Manager must provide that SBI liability for margin requirements, commissions and fees is limited solely to funds of the SBI and does not constitute a general obligation of the State of Minnesota. The total SBI liability for margin requirements, commissions and fees among all brokers for any individual SBI manager is limited to the total market value of the assets for the Manager.

8. FUTURE MODIFICATIONS

The SBI reserves the right to modify these investment guidelines at any time. Managers will be notified in advance of changes to the investment guidelines.

Revised: May 1995

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MINNESOTA STATE BOARD OF INVESTMENT

INVESTMENT GUIDELINES
ASSIGNED RISK PLAN
ASSET MIX/BONDS

The investment actions of the Manager are governed by the following guidelines:

1. **ASSET MIX**

   Manager must recommend an appropriate asset mix for the total portfolio based upon the liability stream of the Assigned Risk Plan. Manager must provide written analysis to support its asset mix decisions on an on-going basis as requested by SBI staff.

2. **RETURN/RISK OBJECTIVES**

   Manager is expected to deliver cumulative returns in excess of a predetermined benchmark portfolio for the fixed income segment (see Benchmark below). Excess returns ~~must~~ are expected to be 10 basis points net of fees on the fixed income portion over time on an annualized basis.

3. **BENCHMARK**

   Manager must provide and maintain a customized benchmark (normal) portfolio for the fixed income segment, agreed upon by both the manager and SBI, for the purpose of performance evaluation and risk measurement. The benchmark portfolio must satisfy the following characteristics:

   (a) **Unambiguous**. The names and weights of securities comprising the benchmark are clearly delineated.

   (b) **Investable**. The option is available to forego active management and simply hold the benchmark portfolio.

   (c) **Measurable**. It is possible to readily calculate the benchmark's return on a monthly basis.

   (d) **Appropriate**. The benchmark is consistent with Manager's investment style or biases.

   (e) **Reflective of current investment opinions**. Manager has current investment opinions (be they positive, negative, or neutral) on the securities which make up the benchmark.

(f) **Specified in advance**. The benchmark must be available prior to the start of an evaluation period.

~~4. ELIGIBLE EQUITY INVESTMENTS~~

~~Equity investments will be managed by the SBI and must satisfy the following criteria and constraints:~~

~~(a) The stocks held must be issued by corporations organized under the laws of the U.S. or its states, the Dominion of Canada or its provinces and/or be listed on the New York Stock Exchange, American Stock Exchange, or NASDQ OTC.~~

~~(b) Total SBI holdings in any one corporation shall not exceed five (5) percent of the total outstanding shares of that corporation.~~

~~(c) Equity investments are not constrained regarding:~~

~~(1) transaction turnover~~
~~(2) use of covered call options as hedging devices~~
~~(3) number of individual equity issues which must be held at any given time~~
~~(4) the use of stock index futures to adjust the effective equity exposure of the portfolio. All futures positions must be fully collateralized.~~

4 ~~5.~~ ELIGIBLE FIXED INCOME INVESTMENTS

Fixed income investments must satisfy the following criteria and constraints:

(a) Government obligations of the U.S., its agencies, Canada, its provinces, or U.S. sponsored organizations must be payable in U.S. dollars and comply with the provisions of Minnesota Statutes (MS) 11A.24 subdivision 2.

(b) U.S. and Canadian corporate obligations must be payable in U.S. dollars; be among the top four quality categories by a nationally recognized rating agency if the security is rated; or deemed to be to the top four quality categories equivalent if the security is not rated; and otherwise comply with all provisions of MS 11A.24 subdivision 3.

(c) Other obligations not specified in (a) or (b) must meet the provisions of MS 11A.24 subdivision 4.

(d) Manager is not constrained regarding:

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

5 ~~6~~. CASH EQUIVALENTS

Cash equivalent reserves shall be invested in a STIF fund managed by the custodian bank.

6 ~~7~~. CFTC CLEARING BROKER

The use of futures or options requires a separate commodities trading agreement between the SBI, Manager, and CFTC clearing broker prior to commencement of trading.

7 ~~8~~. COMMUNICATION

The SBI requires its investment managers to communicate with SBI staff on a regular basis. Managers are expected to meet with staff to review the results of the manager's investment decision-making process at least annually. In reviewing past and current investment strategies and performance, the manager is expected to present the analysis relative to the benchmark portfolio.

8 ~~10~~. PROXY VOTING

The SBI is responsible for proxy voting.

9 ~~11~~. FUTURE MODIFICATIONS

The SBI reserves the right to modify these investment guidelines at any time. Manager will be notified in advance of changes to the investment guidelines.

Date:May 1995

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Benchmark Analysis
Summary Grid

	Alliance	Brinson	Forstmann	Franklin	GeoCapital
Coverage	adequate	good	good	good	adequate
Active Positions	good	good	good	good	good
Turnover	adequate	good	improve	good	improve
Active Risk	good	adequate	good	good	good
Correlation Anal.					
EXM/MFT	good	adequate	good	good	good
MFT/VAM	good	good	good	good	good
Relative Style Plot	good	good	good	good	adequate

Key:

good	exceeds standard
adequate	meets standard
improve	needs improvement
N/A	insufficient data available at this time to make assessment

Overall Assessment of Benchmark Quality:

Alliance: Satisfactory

Brinson: Satisfactory.

Forstmann: Satisfactory, but must address the high level of turnover.

Franklin: Satisfactory.

GeoCapital: Satisfactory, but must address the high level of turnover.

Summary Grid (con't)

	Lynch & Mayer	Oppenheimer	Waddell	Weiss Peck
Coverage	good	good	adequate	adequate
Active Positions	good	good	good	good
Turnover	improve	good	good	improve
Active Risk	good	good	good	good
Correlation Anal.				
EXM/MFT	good	good	good	good
MFT/VAM	good	good	adequate	adequate
Relative Style Plot	good	good	adequate	adequate

Key:

good	exceeds standard
adequate	meets standard
improve	needs improvement
N/A	insufficient data available at this time to make assessment

Overall Assessment of Benchmark Quality:

Lynch & Mayer: Satisfactory, but must address the high level of turnover.

Oppenheimer: Satisfactory.

Waddell: Satisfactory, since Waddell & Reed implemented a change to their benchmark process on January 1, 1995 to address staff's concerns.

Weiss Peck: Satisfactory, since the firm has taken action to resolve concerns about turnover and correlation. Revisions were implemented April 1, 1995.

Summary Grid (con't)

	IAI	IDS	Independence	Jundt	Lincoln
Coverage	good	good	good	good	good
Active Positions	improve	good	good	good	good
Turnover	N/A	adequate	good	improve	good
Active Risk	N/A	adequate	good	good	adequate
Correlation Anal.					
EXM/MFT	N/A	adequate	adequate	good	good
MFT/VAM	N/A	good	good	adequate	adequate
Relative Style Plot	good	good	good	adequate	adequate

Key:

good	exceeds standard
adequate	meets standard
improve	needs improvement
N/A	insufficient data available at this time to make assessment

Overall Assessment of Benchmark Quality:

IAI: New benchmark in place on April 1, 1995.

IDS: Satisfactory.

Independence: Satisfactory.

Jundt: Satisfactory, but must address the high level of turnover.

Lincoln: Satisfactory.

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STATE BOARD OF INVESTMENT

Stock Manager Evaluation Reports

First Quarter, 1995

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DOMESTIC STOCK MANAGERS
Period Ending 3/31/95

Current Managers	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 %
Alliance	8.0	8.9	10.9	13.2	10.0	8.0	13.3	10.1	16.3	11.2	$759.22	7.3%
Brinson	9.4	9.5	14.5	13.4					8.9	8.8	$288.00	2.8%
Forstmann-Leff	10.4	8.7	6.5	12.9	6.5	9.2	9.8	10.5	11.8	11.4	$374.47	3.6%
Franklin Portfolio	9.7	9.7	12.7	13.6	13.7	11.9	12.1	12.4	12.6	12.0	$407.89	3.9%
GeoCapital	8.5	10.9	6.7	20.6	7.9	15.8	14.4	16.2	14.4	16.2	$276.05	2.6%
IAI	7.1	9.0	10.2	15.8					10.0	10.9	$123.41	1.2%
IDS	6.2	8.9	10.0	14.9	10.5	12.1	10.9	12.3	13.8	13.6	$396.53	3.8%
Independence	9.4	9.7	12.7	15.5	11.0	11.2			10.2	10.4	$398.30	3.8%
Jundt Associates	2.9	8.9	9.3	16.3					6.8	11.7	$228.87	2.2%
Lincoln	10.1	9.7	18.3	18.0					10.6	10.4	$288.56	2.8%
Lynch & Mayer	7.1	8.7	8.8	14.3	7.3	12.0			7.0	10.6	$337.14	3.2%
Oppenheimer	12.0	9.5	15.8	13.8					10.1	8.5	$293.70	2.8%
Waddell & Reed	5.5	7.9	4.8	10.8	10.4	11.7	10.3	11.8	11.4	11.4	$408.95	3.9%
Weiss Peck & Greer	6.2	9.0	2.6	11.6					2.7	10.3	$211.29	2.0%
Emerging Managers (2)	7.5	7.7	11.5	12.9					11.5	12.9	$334.36	3.2%
Semi-Passive												
Franklin Portfolio (3)	8.7	9.1							8.7	9.1	$844.07	8.1%
JP Morgan (3)	9.1	9.1							9.1	9.1	$866.11	8.3%
Wells Fargo(3)	9.1	9.1							9.1	9.1	$847.95	8.1%
Passive												
Wilshire Associates (4)	9.0	9.1	12.6	13.3	9.6	10.1	10.8	11.3	13.0	13.2	$2,763.81	26.5%
											$10,448.68	100.0%
									Since 1/1/84			
Current Aggregate (5)	8.6	9.1	11.6	13.8	9.8	10.5	11.4	11.6	13.4	13.2		
Historical Aggregate (6)	**8.5**	**9.1**	**11.5**	**13.8**	9.5	**10.4**	**10.8**	**11.5**	**12.8**	**13.1**		
Wilshire Adjusted (7)		9.0		13.2		10.1		11.3		13.1		
Wilshire 5000		9.0		13.2		10.2		11.5		13.4		

(1) Since retention by the SBI. Time period varies for each manager.
(2) Aggregate of emerging manager group.
(3) Semi-passive manager. Tilted index fund benchmark.
(4) Passive manager. Tilted index fund began 10/90. Fully implemented 1/92.
(5) Current Aggregate does not include Emerging Managers.
(6) Includes performance of terminated managers.
(7) Buy hold index adjusted for liquor and tobacco restrictions through 3/31/93 and AHP restriction through 10/31/93.

EMERGING EQUITY MANAGERS
Period Ending 3/31/95

Current Managers	Quarter Actual %	Quarter Bmk %	1 Year Actual %	1 Year Bmk %	3 years Actual %	3 years Bmk %	5 Years Actual %	5 Years Bmk %	Since Inception Actual %	Since Inception Bmk %	Market Value (in millions)	Pool %
CIC Assets (1)	9.8	9.7	11.1	15.6					11.1	15.6	$33.33	10.0%
Cohen, Klingenstein, & Marks (1)	5.9	9.7	17.1	15.6					17.1	15.6	35.12	10.5%
Compass Capital (2)	12.2	9.7	18.3	13.6					18.3	13.6	35.49	10.6%
First Capital (1)	8.8	9.7	9.6	15.6					9.6	15.6	32.87	9.8%
Kennedy Capital (3)	3.8	4.6	3.2	5.5					3.2	5.5	30.97	9.3%
New Amsterdam (4)	9.5	9.6	7.2	14.4					7.2	14.4	32.15	9.6%
Valenzuela Capital (1)	9.0	9.7	10.5	15.6					10.5	15.6	33.14	9.9%
Wilke/Thompson (4)	4.3	6.2	13.8	8.5					13.8	8.5	34.14	10.2%
Winslow Capital (5)	5.9	9.5	14.9	17.6					14.9	17.6	34.47	10.3%
Zevenbergen Capital (5)	5.6	9.5	8.9	17.6					8.9	17.6	$32.68	9.8%
Current Aggregate	**7.5**	**8.8** *	**11.5**	**14.0**					**11.5**	**14.0** *	**$334.36**	**100.0%**

Benchmarks currently used are:

(1) S&P500
(2) S&P500 (Equal-Weight)
(3) Russell 2000
(4) Reflects Custom Benchmarks Since 4/1/94
(5) Russell 1000 Growth
(6) Inception date for all managers is 4/1/94

* weighted average of above benchmarks

ALLIANCE CAPITAL MANAGEMENT
Period Ending 3/31/95

Portfolio Manager: Jack Koltes | **Assets Under Management: $759,216,389**

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.

Qualitative Evaluation (reported by exception)

Exceptional strengths are:

—Highly successful and experienced professionals.

—Organizational continuity and strong leadership.

—Well-acquainted with needs of large clients.

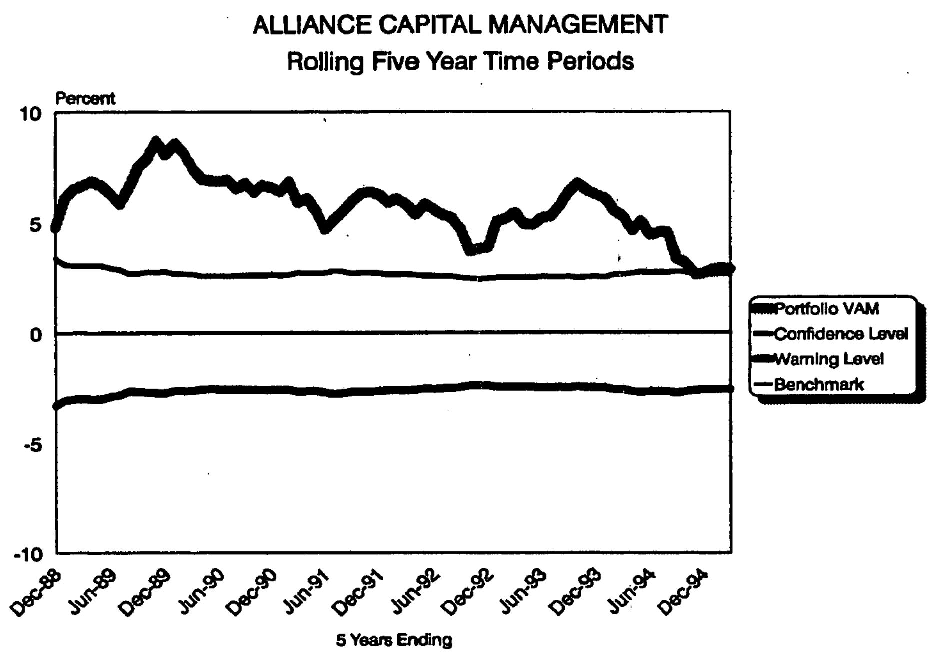
—Investment style consistently and successfully applied over a variety of market environments.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	8.0%	8.9%
Last 1 year	10.9	13.2
Last 2 years	6.3	6.4
Last 3 years	10.0	8.0
Last 4 years	12.1	9.0
Last 5 years	13.3	10.1
Since Inception (1/84)	16.3	11.2

Recommendation

No action recommended.



Note: Graph uses 80/20 confidence interval.

BRINSON PARTNERS
Period Ending 3/31/95

Portfolio Manager: Jeff Diermeier **Assets Under Management: $288,001,641**

Investment Philosophy

Brinson Partners uses a relative value approach to equity investing. They believe that the market price will ultimately reflect the present value of the cash flows that the security will generate for the investor. They also believe both a macroeconomic theme approach and a bottom-up stock selection process can provide insight into finding opportunistic investments. Brinson uses their own discounted free cash flow model as their primary analytical tool for estimating the intrinsic value of a company.

Qualitative Evaluation
(reported by exception)

Exceptional strengths are:

—Familiar with the needs of large institutional clients.

—Highly successful and experienced professionals.

—Investment style consistently and successfully applied over a variety of market environments.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	9.4%	9.5%
Last 1 year	14.5	13.4
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 (7/93)	8.9	8.8

Recommendation

No action recommended.

VAM graph will be created for period ending 6/30/95.

FORSTMANN LEFF ASSOCIATES
Period Ending 3/31/95

Portfolio Manager: Joel Leff | **Assets Under Management: $374,474,710**

Investment Philosophy

Forstmann Leff is a classic example of a "rotational" manager. The firm focuses almost exclusively on asset mix and sector weighting decisions. Based upon its macroeconomic outlook, the firm will move aggressively into and out of equity sectors over the course of a market cycle. The firm tends to purchase liquid, medium to large capitalization stocks. In the past, Forstmann Leff has made sizable market timing moves at any point during a market cycle.

Qualitative Evaluation
(reported by exception)

Exceptional strengths are:

—Highly successful and experienced leadership.

—Well acquainted with needs of large clients.

Current concerns are:

—Continuing deterioration in levels of value added.

—Perceived changes in organization and investment approach.

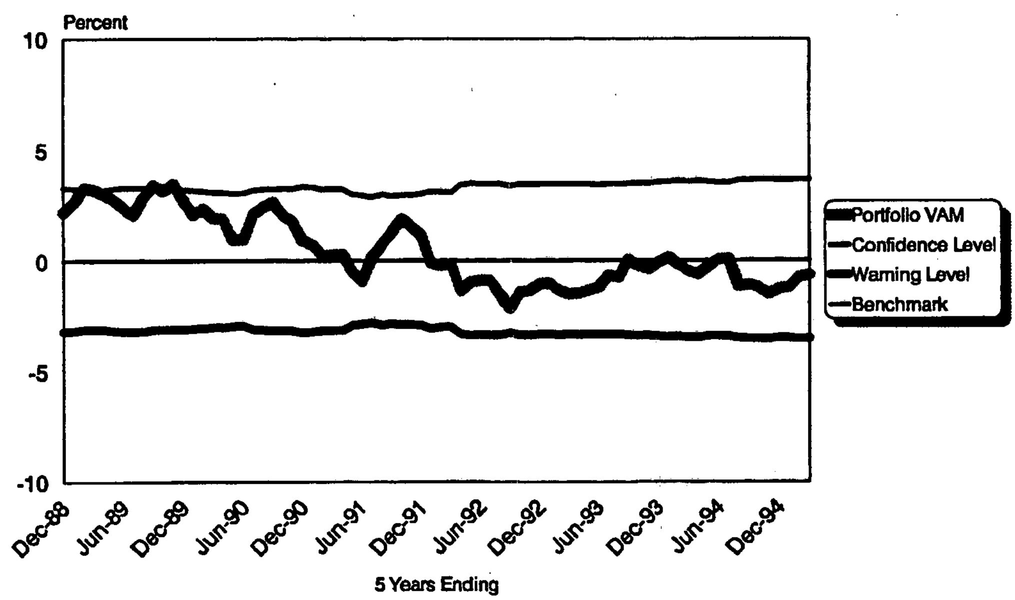
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	10.4%	8.7%
Last 1 year	6.5	12.9
Last 2 years	6.1	7.4
Last 3 years	6.5	9.2
Last 4 years	8.5	10.2
Last 5 years	9.8	10.5
Since Inception (1/84)	11.8	11.4

Recommendation

Due to concerns regarding Forstmann Leff's research staff and organization, staff recommends that Forstmann Leff be re-interviewed by a special committee during the next quarter.

FORSTMANN-LEFF ASSOCIATES
Rolling Five Year Time Periods



Note: Graph uses 80/20 confidence interval.

FRANKLIN PORTFOLIO ASSOCIATES
Period Ending 3/31/95

Portfolio Manager: John Nagorniak | **Assets Under Management: $407,888,246**

Investment Philosophy

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, then a composite ranking provides one ranked list of securities reflecting their relative attractiveness. Stocks that fall below the median ranking are sold and proceeds reinvested in stocks from the top deciles in the ranking system. They use the BARRA E.2 risk model to monitor the portfolio's systematic risk and industry weightings relative to the selected benchmark to acheive a residual risk of 3.0% to 4.0 for the active portfolio.

Qualitative Evaluation
(reported by exception)

Exceptional strengths are:

—Familiar with the needs of large institutional clients.

—Firms investment approach has been consistently applied over a number of markets cycles.

—Highly successful and experienced professionals.

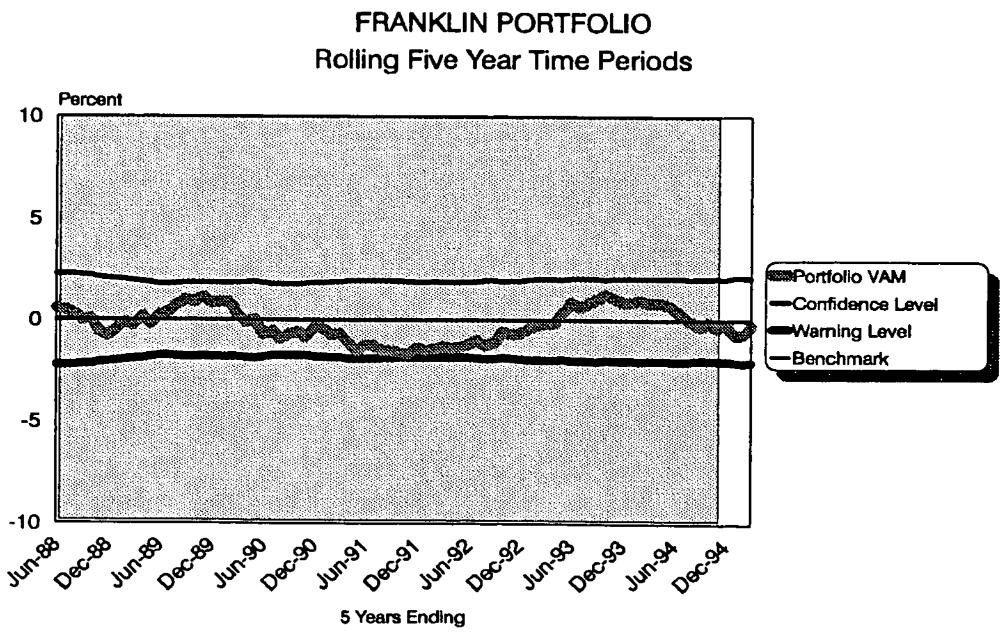
—Organizational continuity and strong leadership.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	9.7%	9.7%
Last 1 year	12.7	13.6
Last 2 years	9.1	8.4
Last 3 years	13.7	11.9
Last 4 years	12.9	12.5
Last 5 years	12.1	12.4
Since Inception (4/89)	12.6	12.0

Recommendation

No action recommended.



Note: Shaded area includes performance prior to managing SBI account. Graph uses 80/20 confidence interval.

GEOCAPITAL CORP.
Period Ending 3/31/95

Portfolio Manager: Barry Fingerhut — **Assets Under Management: $276,048,379**

Investment Philosophy

GeoCapital invests primarily in small capitalization equities with the intent to hold them as they grow into medium and large capitalization companies. The firm uses a theme approach and an individual stock selection analysis to invest in the growth/technology and intrinsic value areas of the market. In the growth/technology area, GeoCapital looks for companies that will have above average growth due to a good product development and limited competition. In the intrinsic value area, the key factors in this analysis are corporate assets, free cash flow, and a catalyst that will cause a positive change in the company. The firm generally stays fully invested, with any cash positions due to the lack of attractive investment opportunities.

Qualitative Evaluation (reported by exception)

Exceptional strengths are:

—Investment style consistently and successfully applied over a variety of market environments.

—Attractive, unique investment approach.

—Highly successful and experienced professionals.

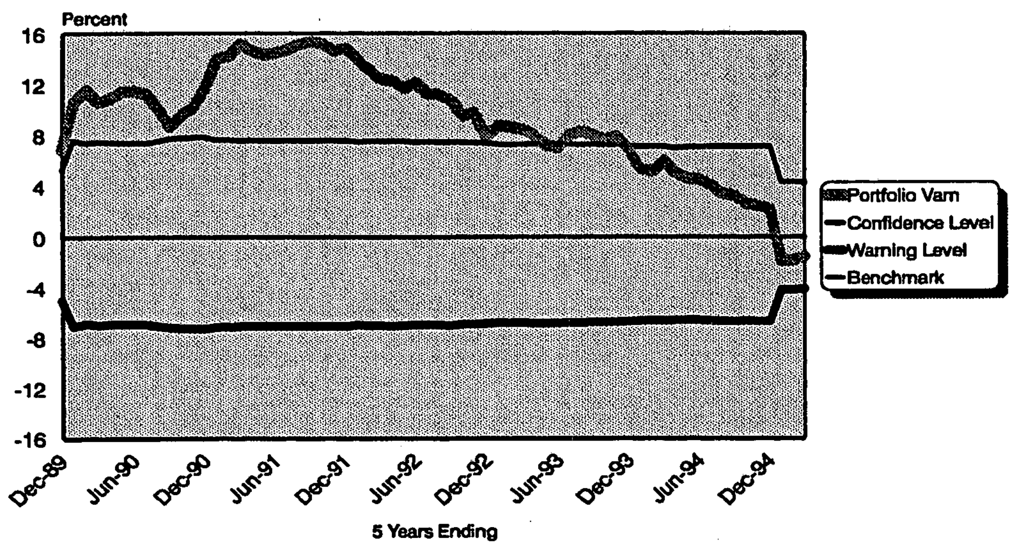
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	8.5%	10.9%
Last 1 year	6.7	20.6
Last 2 years	9.8	17.8
Last 3 years	7.9	15.8
Last 4 years	12.7	16.8
Last 5 years	14.4	16.2
Since Inception (4/90)	14.4	16.2

Recommendation

No action recommended.

GEOCAPITAL
Rolling Five Year Time Periods



Note: Shaded area includes performance prior to managing SBI account.
Scale differs from other manager VAM graphs. Graph uses 80/20 confidence interval.

INVESTMENT ADVISERS INC.
Period Ending 3/31/95

Portfolio Manager: Julian (Bing) Carlin | **Assets Under Management: $123,405,183**

Investment Philosophy

IAI's investment philosophy is to own the highest quality companies which demonstrate sustainable growth. IAI tries to achieve this objective by investing at least 80% of the portfolio in companies which have their headquarters in Minnesota, Wisconsin, Illinois, Iowa, Nebraska, Montana, North Dakota and South Dakota. Twenty percent of the portfolio can be used to purchase large capitalization stocks that display the same quality and growth characteristics but have headquarters outside this region.

Qualitative Evaluation
(reported by exception)

Exceptional strengths are:

—Attractive, unique investment approach.

—Investment style successfully applied over a number of market cycles.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	7.1%	9.0%
Last 1 year	10.2	15.8
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 (7/93)	10.0	10.9

Recommendation

No action recommended.

VAM graph will be created for period ending 6/30/95.

IDS ADVISORY
Period Ending 3/31/95

Portfolio Manager: Pete Anderson **Assets Under Management:** $396,533,352

Investment Philosophy

IDS employs a "rotational" style of management, shifting among industry sectors based upon its outlook for the economy and the financial markets. The firm emphasizes primarily sector and industry weighting decisions. After the sector weightings have been determined IDS will select the best companies in those sectors based on fundamental analysis by their in-house analysts to reach the desired weightings. Moderate market timing is also used. Over a market cycle, IDS will invest in a wide range of industries. It tends to buy liquid, large capitalization stocks. While IDS will make occasional significant asset mix shifts over a market cycle, the firm is a less aggressive market timer than most rotational managers.

Qualitative Evaluation (reported by exception)

Exceptional strengths are:

—Investment style consistently and successfully applied over a variety of market environments.

—Familiar with the needs of large institutional clients.

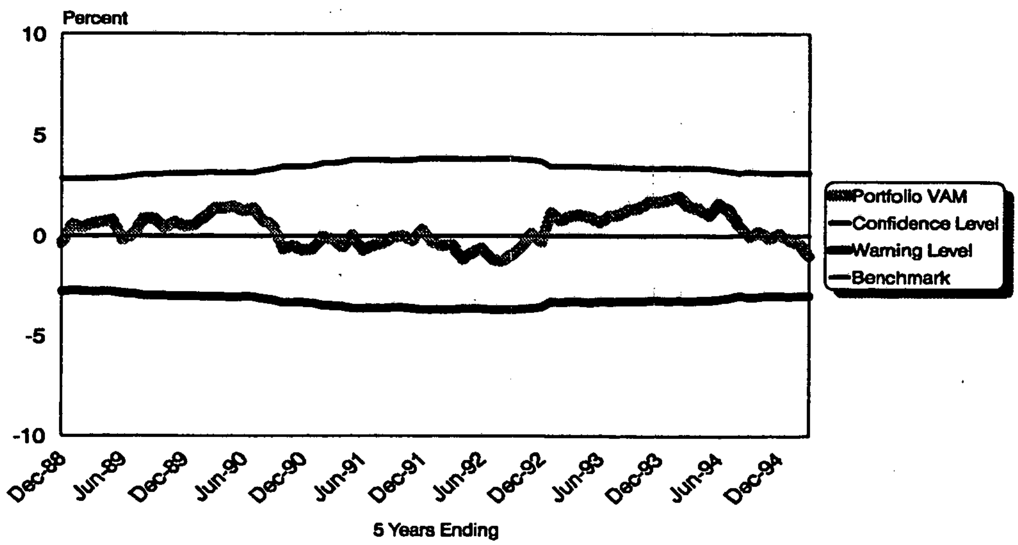
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	6.2%	8.9%
Last 1 year	10.0	14.9
Last 2 years	7.2	9.0
Last 3 years	10.5	12.1
Last 4 years	11.5	12.8
Last 5 years	10.9	12.3
Since Inception (1/84)	13.8	13.6

Recommendation

No action recommended.

IDS ADVISORY
Rolling Five Year Time Periods



Note: Graph uses 80/20 confidence interval.

INDEPENDENCE INVESTMENT ASSOCIATES
Period Ending 3/31/95

Portfolio Manager: Bill Fletcher | **Assets Under Management: $398,296,578**

Investment Philosophy

Independence believes that individual stocks which outperform the market always have two characteristics: they are intrinsically cheap and their business is in the process of improving. Independence ranks their universe using a multifactor model. Based on input primarily generated by their internal analysts, the model ranks each stock based on 10 discreet criteria. Independence constricts their portfolio to the top 60% of their ranked universe. The portfolio is optimized relative to the benchmark selected by the client to minimize the market and industry risks. Independence maintains a fully invested portfolio and rarely holds more than a 1% cash position.

Qualitative Evaluation (reported by exception)

Exceptional strengths are:

—Investment style consistently and successfully applied over a variety of market environments.

—Attractive, unique investment approach.

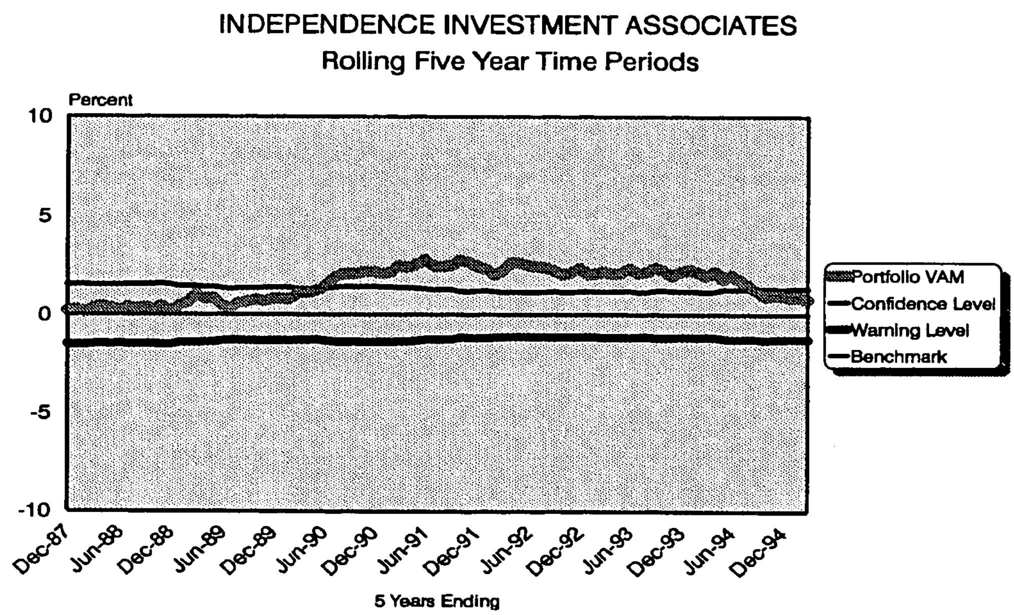
—Highly successful and experienced professionals.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	9.4%	9.7%
Last 1 year	12.7	15.5
Last 2 years	7.2	7.9
Last 3 years	11.0	11.2
Last 4 years	N/A	N/A
Last 5 years	N/A	N/A
Since Inception (2/92)	10.2	10.4

Recommendation

No action recommended.



Note: Shaded area includes performance prior to managing SBI account. Graph uses 80/20 confidence interval.

JUNDT ASSOCIATES
Period Ending 3/31/95

Portfolio Manager: James Jundt — Assets Under Management: $228,870,140

Investment Philosophy

Jundt Associates' investment philosophy is growth oriented with a focus on companies generating significant revenue increases. They concentrate on larger-capitalization companies, with at least half the equity securities consisting of companies with annual revenues over $750 million. Within these parameters, the firm's mission is to establish equity positions in 30 to 50 of the fastest growing corporations in America. Particular emphasis is placed on companies the firm believes will achieve annual revenue growth of 15% or greater. Jundt utilizes a bottom-up stock selection process combined with a top-down theme overlay. The firm attempts to identify five to seven investment themes and typically invests three to five stocks in each theme.

Qualitative Evaluation (reported by exception)

Exceptional strengths are:

—Attractive, unique investment approach.

—Investment style has been consistently applied over a number of market cycles.

Current Concerns are:

—Significant underperformance over the past year.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	2.9%	8.9%
Last 1 year	9.3	16.3
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 (7/93)	6.8	11.7

Recommendation

Due to above concerns, staff is reviewing the firm and will report recommendations under a separate cover.

VAM graph will be created for period ending 6/30/95.

LINCOLN CAPITAL MANAGEMENT
Period Ending 3/31/95

Portfolio Manager: Parker Hall | **Assets Under Management: $288,562,177**

Investment Philosophy

Lincoln Capital concentrates on established medium to large capitalization companies that have demonstrated historically strong growth and will continue to grow. The firm uses traditional fundamental company analysis and relative price/earnings valuation disciplines in its stock selection process. In addition, companies held by Lincoln generally exhibit premium price/book ratios, high return on equity, strong balance sheets and moderate earnings variability.

Qualitative Evaluation (reported by exception)

Exceptional strengths are:

—Organizational continuity and strong leadership.

—Familiar with the needs of large clients.

—Investment style has been consistently applied over a number of market cycles.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	10.1%	9.7%
Last 1 year	18.3	18.0
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 (7/93)	10.6	10.4

Recommendation

No action recommended.

VAM graph will be created for period ending 6/30/95.

LYNCH & MAYER
Period Ending 3/31/95

Portfolio Manager: Dennis Lynch, Ed Petner | **Assets Under Management: $337,144,471**

Investment Philosophy

Lynch & Mayer invest primarily in high-quality, medium to large capitalization growth stocks. They believe that outstanding investments are a function of corporate earnings growth that is considerably above historical trends or consensus expectations. Lynch & Mayer are bottom up stock pickers and rely on very little economic analysis in their selection process. The firm screens out stocks below a certain market capitalization and liquidity level and then eliminates additional stocks based on various fundamental criteria. After the screening process they look for at least one of the following four factors: 1) acceleration of growth; 2) improving industry environment; 3) corporate restructuring; or 4) turnaround. The firm generally stays fully invested, with any cash due to lack of attractive investment opportunities.

Qualitative Evaluation (reported by exception)

Exceptional strengths are:

—Highly successful and experienced professionals.

Current concerns are:

—Continuing deterioration in levels of value added.

—Perceived changes in organization and investment process.

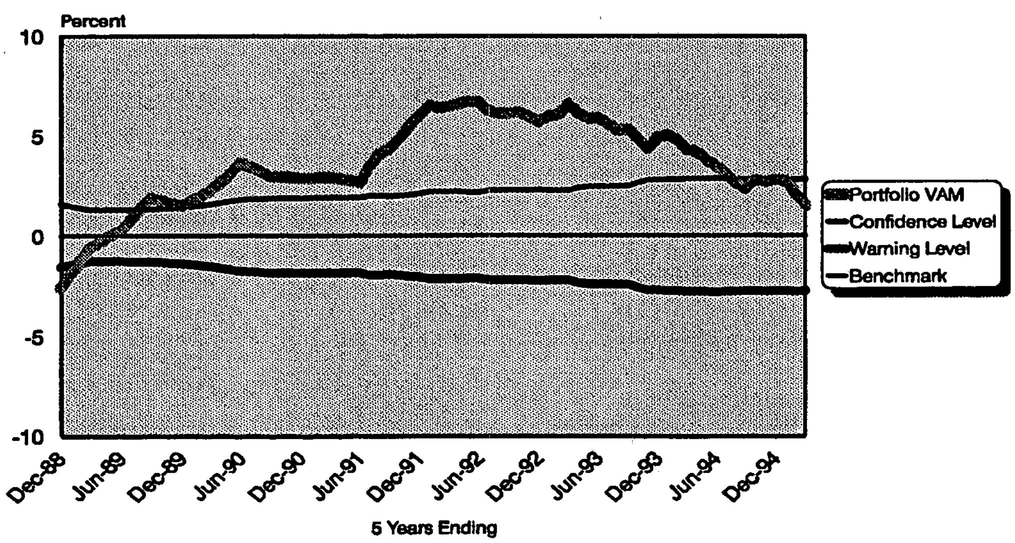
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	7.1%	8.7%
Last 1 year	8.8	14.3
Last 2 years	4.0	11.2
Last 3 years	7.3	12.0
Last 4 years	N/A	N/A
Last 5 years	N/A	N/A
Since Inception (2/92)	7.0	10.6

Recommendation

Due to concerns about Lynch and Mayer's investment process and organizational changes, staff recommends that Lynch & Mayer be re-interviewed next quarter by a special committee.

LYNCH & MAYER
Rolling Five Year Time Periods



Note: Shaded area includes performance prior to managing SBI account. Graph uses 80/20 confidence interval.

OPPENHEIMER CAPITAL
Period Ending 3/31/95

Portfolio Manager: John Lindenthal | Assets Under Management: $293,695,723

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. Based on its outlook on the market and the economy, Oppenheimer will make moderate shifts between cash and equities. Oppenheimer focuses on five key variables when evaluating companies: management, financial strength, profitability, industry position and valuation.

Qualitative Evaluation
(reported by exception)

Exceptional strengths are:

—Highly successful and experienced professionals.

—Familiar with the needs of large institutional clients.

—Investment style has been consistently applied over a number of market cycles.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	12.0%	9.5%
Last 1 year	15.8	13.8
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 (7/93)	10.1	8.5

Recommendation

No action recommended.

VAM graph will be created for period ending 6/30/95.

WADDELL & REED ASSET MANAGEMENT
Period Ending 3/31/95

Portfolio Manager: Henry Herrmann | **Assets Under Management: $408,954,812**

Investment Philosophy

Waddell & Reed focuses its attention primarily on smaller capitalization growth stocks. However, the firm has demonstrated a willingness to make significant bets against this investment approach for extended periods of time and has been very eclectic in its choice of stocks in recent years. The firm is an active market timer and will raise cash to extreme levels at various points in the market cycle.

Qualitative Evaluation (reported by exception)

Exceptional strengths are:

—Highly successful and experienced professionals.

Current concerns are:

—Significant organizational changes have occurred at the firm recently.

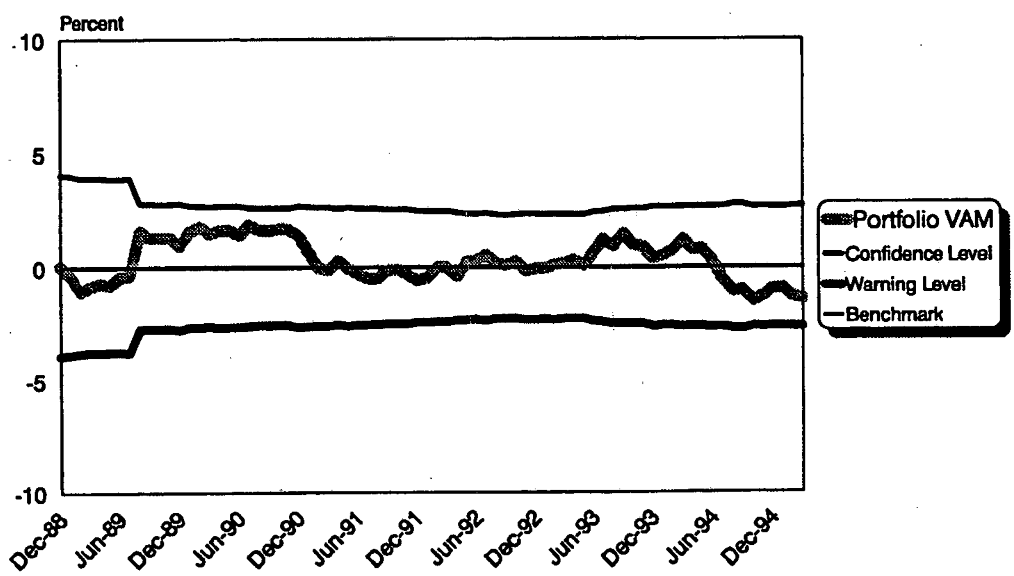
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	5.5%	7.9%
Last 1 year	4.8	10.8
Last 2 years	9.1	11.3
Last 3 years	10.4	11.7
Last 4 years	11.5	12.6
Last 5 years	10.3	11.8
Since Inception (1/84) (1/84)	11.4	11.4

Recommendation

Due to concerns cited above, staff plans to review the firm next quarter including in-depth meeting at their home office.

WADDELL & REED
Rolling Five Year Time Periods



Note: Graph uses 80/20 confidence interval.

WEISS, PECK & GREER
Period Ending 3/31/95

Portfolio Manager: Melville Straus | **Assets Under Management: $211,293,952**

Investment Philosophy

Weiss, Peck & Greer's dynamic growth process concentrates on small to medium size growth companies that have demonstrated consistent superior earnings growth rates. The process emphasizes companies in new or dynamic, rapidly growing industries where there is a potential for a major acceleration in earnings growth. The firm also believes that superior stock selection can be achieved through in-depth fundamental company research.

Qualitative Evaluation (reported by exception)

Exceptional strengths are:

—Highly successful and experienced professionals.

—Investment style has been consistently applied over a number of market cycles.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	6.2%	9.0%
Last 1 year	2.6	11.6
Last 2 years	N/A	N/A
Last 3 years	N/A	N/A
Last 4 years	N/A	N/A
Last 5 years	N/A	N/A
Since Inception (7/93)	2.7	10.3

Recommendation

Due to significant underperformance, staff conducted a review at the firm during the last quarter. Staff continues to have confidence in the firm's investment approach and personnel and therefore recommends no action at this time.

VAM graph will be created for period ending 6/30/95.

FRANKLIN PORTFOLIO ASSOCIATES
Period Ending 3/31/95

Portfolio Manager: John Nagorniak | **Assets Under Management: $844,065,340**

Investment Philosophy
Semi-Passive

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, then a composite ranking provides one ranked list of securities reflecting their relative attractiveness. Stocks that fall below the median ranking are sold and proceeds reinvested in stocks from the top deciles in the ranking system. They use the BARRA E.2 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 acheive a residual risk of 1.5% or less. The firm remains fully invested at all times.

Qualitative Evaluation
(reported by exception)

Exceptional strengths are:

—Familiar with the needs of large institutional clients.

—Firm's investment approach has been consistently applied over a number of markets cycles.

—Highly successful and experienced professionals.

—Organizational continuity and strong leadership.

Quantitative Evaluation

	Actual	Benchmark*
Last Quarter	8.7%	9.1%
Last 1 year	N/A	N/A
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 (1/95)	8.7	9.1

* Completeness Fund

Recommendation

No action required.

VAM graph will be created for period ending 12/31/96.

J.P. MORGAN INVESTMENT MANAGEMENT, INC.
Period Ending 3/31/95

Portfolio Manager: Rick Nelson — **Assets Under Management: $866,110,217**

Investment Philosophy
Semi-Passive

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 these 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 sector. Stocks most undervalued are placed in the first quintile. The portfolio includes stocks from the first four quintiles always favoring the highest ranked stocks whenever possible and sells those in the fifth quintile. In addition, the portfolio will closely approximate the sector, style, and security weightings of the index chosen by the plan sponsor. The firm remains fully invested at all times.

Qualitative Evaluation
(reported by exception)

Exceptional strengths are:

—Familiar with the needs of large institutional clients.

—Highly successful and experienced professionals.

—Organizational continuity and strong leadership.

Quantitative Evaluation

	Actual	Benchmark*
Last Quarter	9.1%	9.1%
Last 1 year	N/A	N/A
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 (1/95)	9.1	9.1

* Completeness Fund

Recommendation

No action required.

VAM graph will be created for period ending 12/31/96.

WELLS FARGO INSTITUTIONAL TRUST COMPANY, N.A.
Period Ending 3/31/95

Portfolio Manager: Nancy Feldkircher **Assets Under Management: $847,954,397**

Investment Philosophy
Semi-Passive

The Core Alpha Model desegregates individual equity returns for each of the 3500 stocks in their universe into three components (fundamental, expectation, and technical). 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. An alpha is then calculated. The estimated alphas are used in a portfolio optimization algorithm to identify the optimal portfolio.

Qualitative Evaluation
(reported by exception)

Exceptional strengths are:

—Familiar with the needs of large institutional clients.

—Highly successful and experienced professionals.

—Attractive, unique investment approach.

Quantitative Evaluation

	Actual	Benchmark*
Last Quarter	9.1%	9.1%
Last 1 year	N/A	N/A
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 (1/95)	9.1	9.1

* Completeness Fund

Recommendation

No action required.

VAM graph will be created for period ending 12/31/96.

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CIC ASSET MANAGEMENT
Period Ending 3/31/95

Portfolio Manager: Jorge Castro | **Assets Under Management: $33,332,892**

Investment Philosophy

CIC Asset Management (CIC) uses a disciplined relative value approach to managing equities. CIC believes that purchasing companies at attractive prices provides superior long-term performance with lower volatility. This investment process is designed for clients who desire equity market exposure with both incremental value added and downside protection due to reasonable dividend yields, moderate price to book values and low normalized price to earnings ratios. Finally, the process provides a synergy between quantitative valuation techniques and "Graham & Dodd" fundamental analyses.

Quantitative Evaluation

	Actual	Benchmark*
Last Quarter	9.8%	9.7%
Last 1 Year	11.1	15.6
Since Inception (4/94)	11.1	15.6

* S&P 500

COHEN DAVIS & MARKS INCORPORATED
Period Ending 3/31/95

Portfolio Manager: George Cohen | **Assets Under Management: $35,124,970**

Investment Philosophy

Cohen Davis & Marks Inc. (CDM) 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 on corporate profits and interest rates. Similarly, they believe that stock prices normally reflect earnings expectations. CDM exploits short run inefficiencies through an unbiased process that relates the price of a stock to the consensus earnings expectations.

Quantitative Evaluation

	Actual	Benchmark*
Last Quarter	5.9%	9.7%
Last 1 Year	17.1	15.6
Since Inception (4/94)	17.1	15.6

* S&P 500

COMPASS CAPITAL MANAGEMENT
Period Ending 3/31/95

Portfolio Manager: Charles Kelley | **Assets Under Management: $35,487,286**

Investment Philosophy

Compass Capital Management (CCM) combines aspects of growth and value investing to achieve the proper blend of return (growth) and risk (value). They use a computer based data network to screen for large, well established companies whose earnings grow in spite of a weak economy and companies whose earnings have grown well over long time periods, but which may experience earnings pressure with downturns in the economy. Particular focus is given to growth in sales, earnings, dividends, book value and the underlying industry. Due to their "growing company" orientation, their portfolios generally hold no utility, bank, deep cyclical (auto companies for example), or oil and gas stocks.

Quantitative Evaluation

	Actual	Benchmark*
Last Quarter	12.2%	9.7%
Last 1 Year	18.3	13.6
Since Inception (4/94)	18.3	13.6

* S&P 500 (Equal Weight)

FIRST CAPITAL ADVISORS, INC.
Period Ending 3/31/95

Portfolio Manager: Phil Orlando | **Assets Under Management: $32,866,478**

Investment Philosophy

First Capital Advisers believes that cash flow, "true" earnings, tangible asset values, and inherent growth are measures of potential relative performance that are often superior to measures based simply on "reported earnings". First Capital Advisors bases its valuations primarily on these "value-related" factors. They employ a sector-rotational equity strategy, which combines elements of both top-down and bottom-up analysis. Their primary investment focus is on large capitalization companies with strong balance sheets and are highly liquid. First Capital combines fundamental and technical analyses to identify superior longer-term investment opportunities and to endeavor to maximize short-term trading strategies.

Quantitative Evaluation

	Actual	Benchmark*
Last Quarter	8.8%	9.7%
Last 1 Year	9.6	15.6
Since Inception (4/94)	9.6	15.6

Note: The SBI discontinued its relationship with First Capital on 3/31/95.

KENNEDY CAPITAL MANAGEMENT
Period Ending 3/31/95

Portfolio Manager: Richard Sinise — **Assets Under Management: $30,968,363**

Investment Philosophy

Kennedy Capital Management (KCM) is dedicated to exploiting pricing inefficiencies in under-followed and misunderstood small capitalization stocks. They believe that stocks are efficiently priced where there is a proper distribution of information. However, many emerging growth companies suffer from lack of analytical coverage and information flow, and therefore, are "invisible" to institutional investors. KCM believes it is this lack of information which creates pricing inefficiencies. They anticipate that by closing this information gap they can transform these holdings into attractive institutional candidates. This, in turn, will increase the price of the stock.

Quantitative Evaluation

	Actual	Benchmark*
Last Quarter	3.8%	4.6%
Last 1 Year	3.2	5.5
Since Inception (4/94)	3.2	5.5

* Russell 2000

NEW AMSTERDAM PARTNERS
Period Ending 3/31/95

Portfolio Manager: Michelle Clayman — **Assets Under Management: $32,153,560**

Investment Philosophy

New Amsterdam Partners believe 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.

Quantitative Evaluation

	Actual	Benchmark*
Last Quarter	9.5%	9.6%
Last 1 Year	7.2	14.4
Since Inception (4/94)	7.2	14.4

* New Amsterdam began comparing results to a custom benchmark as of 1/1/95. Benchmark results have been restated from inception date.

VALENZUELA CAPITAL MANAGEMENT
Period Ending 3/31/95

Portfolio Manager: Peter McCarthy **Assets Under Management: $33,136,562**

Investment Philosophy

Valenzuela Capital Management's (VCM believes that stock selection and adherence to valuation analysis are the backbone of superior performance. Their investment philosophy is one of risk averse growth. VCM seeks companies undergoing strong rates of change in earnings, cash flow and returns. These companies are experiencing positive changes in revenues, gross and operating margins and financial structure. To be considered for investment, these stocks must sell at or below market valuations. VCM believe that below market valuations provide downside protection during weak market periods. In strong markets the portfolios will be driven by both earnings growth and multiple expansion.

Quantitative Evaluation

	Actual	Benchmark*
Last Quarter	9.0%	9.7%
Last 1 Year	10.5	15.6
Since Inception (4/94)	10.5	15.6

* S&P 500

WILKE/THOMPSON CAPITAL MANAGEMENT INC.
Period Ending 3/31/95

Portfolio Manager: Mark Thompson **Assets Under Management: $34,140,221**

Investment Philosophy

The investment philosophy of Wilke/Thompson (W/T) is to invest in high quality growth companies that demonstrate the ability to sustain strong secular earnings growth, notwithstanding overall economic conditions. W/T's investment approach involves a bottom-up fundamental process. The stock selection process favors companies with strong earnings, high unit growth, a proprietary market niche, minimum debt, conservative accounting and strong management practices. They formulate investment ideas by networking with the corporate managers of their current and prospective holdings, as well as with regional brokers, venture capitalists, and other buy-side portfolio managers.

Quantitative Evaluation

	Actual	Benchmark*
Last Quarter	4.3%	6.2%
Last 1 Year	13.8	8.5
Since Inception (4/94)	13.8	8.5

* Wilke/Thompson began comparing results to a custom benchmark as of 1/1/95. Benchmark results have been restated from inception date.

WINSLOW CAPITAL MANAGEMENT
Period Ending 3/31/95

Portfolio Manager: Clark Winslow | **Assets Under Management: $34,468,208**

Investment Philosophy

Winslow Capital Management (WCM) believes that investing in companies with above average earnings growth provide the best opportunities for superior portfolio returns over time. WCM believes that a high rate of earnings growth is often found in medium capitalization growth companies of $1 to $10 billion market capitalization. Thus, to seek superior portfolio returns while maintaining good liquidity, Winslow Capital emphasizes a growth strategy buying securities of both medium and large cap companies. The objective is to achieve a weighted average annual earnings growth rate of 15-20% over a 2-3 year time horizon.

Quantitative Evaluation

	Actual	Benchmark*
Last Quarter	5.9%	9.5%
Last 1 Year	14.9	17.6
Since Inception (4/94)	14.9	17.6

* Russell 1000 Growth

ZEVENBERGEN CAPITAL INC
Period Ending 3/31/95

Portfolio Manager: Nancy Zevenbergen | **Assets Under Management: $32,677,559**

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 to potential diversification. The firm emphasizes that they are not market timers.

Quantitative Evaluation

	Actual	Benchmark*
Last Quarter	5.6%	9.5%
Last 1 Year	8.9	17.6
Since Inception (4/94)	8.9	17.6

* Russell 1000 Growth

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STATE BOARD OF INVESTMENT

Bond Manager Evaluation Reports

First Quarter, 1995

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DOMESTIC BOND MANAGERS
Period Ending 3/31/95

Current Managers	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 %
BEA	5.1	5.0	4.7	5.1					2.8	2.7	$292.74	4.6%
IAI	4.2	5.0	4.2	5.1	7.9	6.9	9.7	9.0	11.7	11.4	477.76	7.6%
Miller	5.4	5.0	3.9	5.1	7.5	6.9	9.9	9.0	11.5	11.4	529.61	8.4%
Standish	4.5	5.0	3.8	5.1					2.0	2.7	475.75	7.5%
Western	5.8	5.0	4.9	5.1	8.1	6.9	10.1	9.1	12.5	11.3	897.70	14.2%
IDS (2)	4.7	5.0	4.8	4.7					2.6	2.5	249.61	4.0%
TCW (3)	4.8	5.2	0.4	6.0					0.9	3.2	242.11	3.8%
Semi-Passive												
Goldman (4)	4.9	5.0	5.4	5.1					3.3	2.7	1,061.38	16.8%
Fidelity (4)	4.2	5.0	4.1	5.1	7.0	6.9	9.2	9.0	9.2	9.1	1,043.06	16.5%
Lincoln (4)	5.3	5.0	5.3	5.1	7.1	6.9	9.1	9.0	9.1	9.1	1,049.41	16.6%
											$6,319.13	100.0%
									Since 7/1/84			
Current Aggregate	5.0	5.0	4.5	5.1	7.3	6.9	9.5	9.0	11.8	11.3		
Historical Aggregate (5)	**5.0**	**5.0**	**4.5**	**5.1**	**7.3**	**6.9**	**9.4**	**9.0**	**11.2**	**11.2**		
Lehman Aggregate (6)		5.0		5.1		6.9		9.0		10.7		

(1) Since retention by the SBI. Time period varies for each manager.
(2) Govt./Corp. only.
(3) Mortgages only.
(4) Semi- passive manager.
(5) Includes performance of terminated managers.
(6) Prior to July 1994, this index reflects the Salomon BIG.

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BEA ASSOCIATES
Period Ending 3/31/95

Portfolio Manager: Bob Moore **Assets Under Management: $292,740,184**

Investment Philosophy

BEA's investment approach focuses on individual bond selection and on sector selection rather than short term interest rate forecasting. BEA keeps the duration close to the benchmark but may be slightly longer or shorter depending on their long-term economic outlook. BEA's approach is distinguished by 1) a quantitative approach which avoids market timing; 2) contrarian weightings of bond sectors; and 3) rigorous call and credit analysis rather than yield driven management.

Qualitative Evaluation (reported by exception)

Exceptional strengths are:

—Highly successful and experienced professionals.

—Extensive option analysis capabilities.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	5.1%	5.0%
Last 1 year	4.7	5.1
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 (7/93)	2.8	2.7

Recommendations

No action recommended.

VAM graph will be drawn for period ending 9/30/95.

INVESTMENT ADVISERS
Period Ending 3/31/95

Portfolio Manager: Larry Hill **Assets Under Management: $477,763,239**

Investment Philosophy

Investment Advisers is a traditional top down bond manager. The firm's approach is oriented toward correct identification of the economy's position in the credit cycle. This analysis leads the firm to its interest rate forecast and maturity decisions, from which the firm derives most of its value-added. Investment Advisers is an active asset allocator, willing to make rapid, significant moves between cash and long maturity investments over the course of an interest rate cycle. Quality and sector choices are made through yield spread analyses consistent with the interest rate forecasts. Individual security selection receives very limited emphasis and focuses largely on specific bond characteristics such as call provisions.

Qualitative Evaluation (reported by exception)

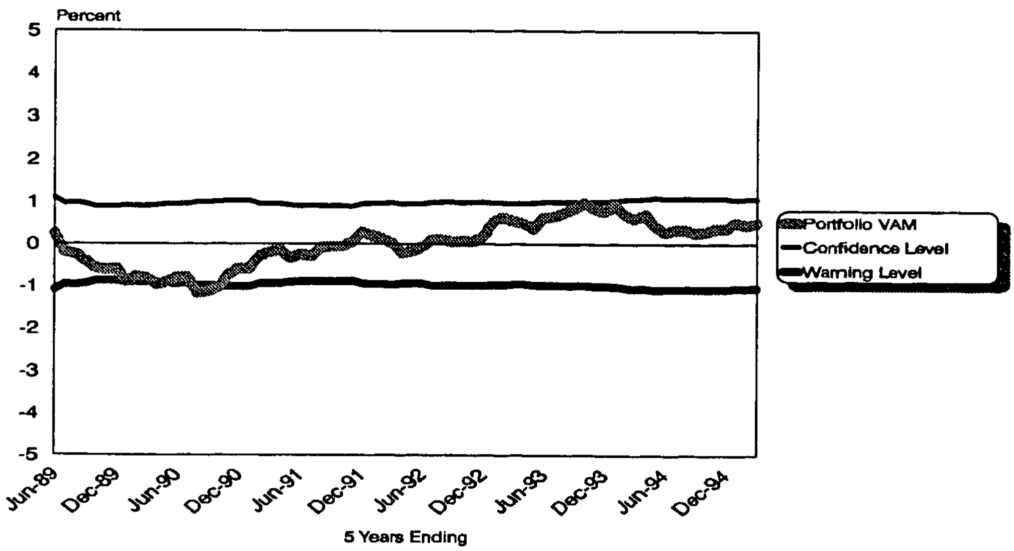
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	4.2%	5.0%
Last 1 year	4.2	5.1
Last 2 years	3.7	3.8
Last 3 years	7.9	6.9
Last 4 years	8.8	8.1
Last 5 years	9.7	9.0
Since Inception (7/84)	11.7	11.4

Recommendations

No action recommended.

Investment Advisers
Rolling Five Year Time Periods



Note: Graph uses 80/20 confidence interval.

MILLER ANDERSON & SHERRERD
Period Ending 3/31/95

Portfolio Manager: Tom Bennett — **Assets Under Management: $529,612,854**

Investment Philosophy

Miller Anderson focuses its investments in misunderstood or under-researched classes of securities. Over the years this approach has led the firm to emphasize mortgage-backed and specialized corporate securities in its portfolios. Based on its economic and interest rate outlook, the firm establishes a desired maturity level for its portfolios. Changes are made gradually over an interest rate cycle and extremely high cash positions are never taken. Total portfolio maturity is always kept within an intermediate three-to-seven year duration band. Unlike other firms that invest in mortgage securities, Miller Anderson intensively researches and, in some cases, manages the mortgage pools in which it invests.

Qualitative Evaluation (reported by exception)

The firms strengths continue to be:

—Highly successful and experienced professionals.

—Extensive securities research process.

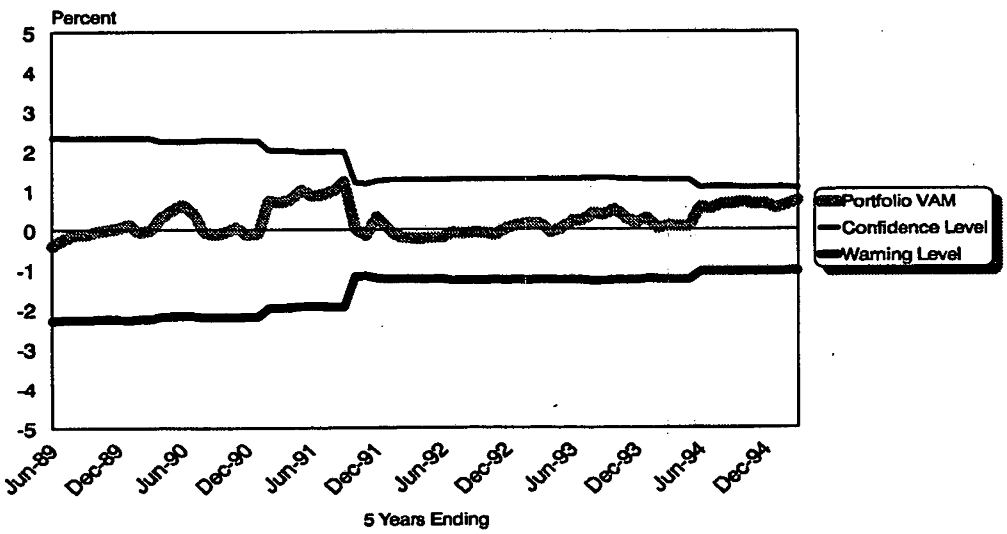
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	5.4%	5.0%
Last 1 year	3.9	5.1
Last 2 years	4.0	3.8
Last 3 years	7.5	6.9
Last 4 years	9.1	8.1
Last 5 years	9.9	9.0
Since Inception (7/84)	11.5	11.4

Recommendations

No action recommended.

MILLER ANDERSON
Rolling Five Year Time Periods



Note: Graph uses 80/20 confidence interval.

STANDISH, AYER & WOOD
Period Ending 3/31/95

Portfolio Manager: Austin Smith | **Assets Under Management: $475,749,523**

Investment Philosophy

Standish adds value by capitalizing on market inefficiencies and trading actively through intra and inter-sector swapping. The firm does not forecast interest rates but adds value to the portfolio by buying non-Treasury issues. Key to the approach is active sector trading and relative spread analysis of both sectors and individual issues. In addition to sector spreads, the firm also analyzes how secular trends affect bond pricing. The firm believes that 65% of its value added comes from inter-sector swapping in non-government sectors.

Qualitative Evaluation
(reported by exception)

Exceptional strengths are:

—Highly successful and experienced professionals

—Extensive corporate research capabilities.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	4.5%	5.0%
Last 1 year	3.8	5.1
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 (7/93)	2.0	2.7

Recommendations

No action recommended.

VAM graph will be drawn for period ending 9/30/95

WESTERN ASSET MANAGEMENT
Period Ending 3/31/95

Portfolio Manager: Kent Engel **Assets Under Management: $897,695,274**

Investment Philosophy

Western recognizes the importance of interest rate changes on fixed income portfolio returns. However, the firm believes that successful interest rate forecasting, particularly short run forecasting, is extremely difficult to accomplish consistently. Thus, the firm attempts to keep portfolio maturity in a narrow band near that of the market, making only relatively small, gradual shifts over an interest rate cycle. It prefers to add value primarily through appropriate sector decisions. Based on its economic analysis, Western will significantly overweight particular sectors, shifting these weights as economic expectations warrant. Issue selection, like maturity decisions, are of secondary importance to the firm.

Qualitative Evaluation
(reported by exception)

The firm's exceptional strengths continue to be:

—Highly successful and experienced professionals.

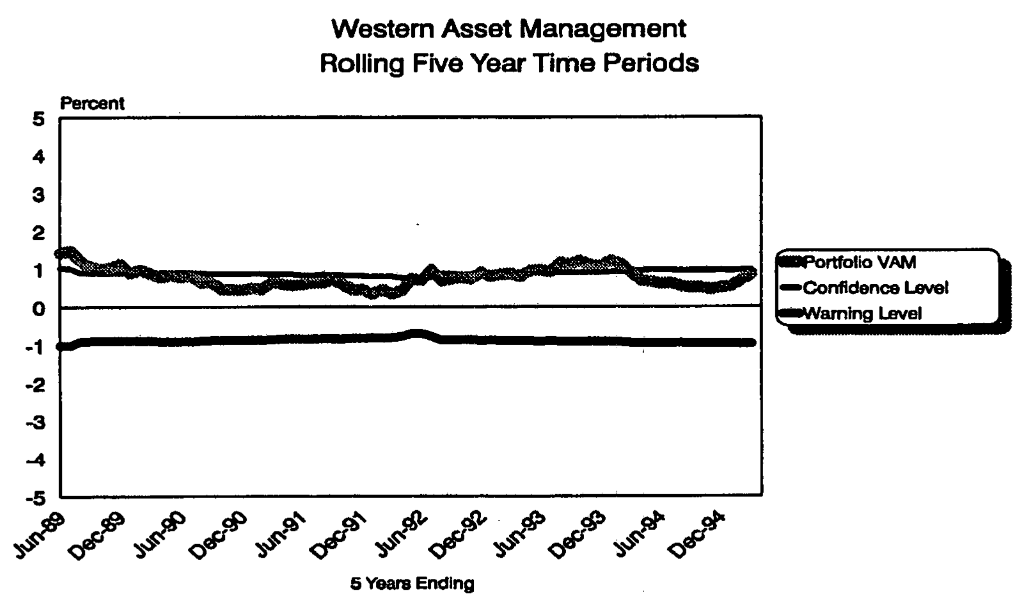
—Extensive securities research process.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	5.8%	5.0%
Last 1 year	4.9	5.1
Last 2 years	4.9	3.8
Last 3 years	8.1	6.9
Last 4 years	9.4	8.2
Last 5 years	10.1	9.1
Since Inception (7/84)	12.5	11.3

Recommendations

No action recommended.



Note: Graph uses 80/20 confidence interval.

IDS ADVISORY GROUP
Period Ending 3/31/95

Portfolio Manager: Ed Labenski | **Assets Under Management: $249,606,539**

Investment Philosophy

IDS manages a corporate and treasury portfolio for the SBI. The firm uses duration management combined with in-depth fundamental analysis of the corporate sector to add value to the portfolio. Active duration management begins with an economic overview and interest rate outlook. These factors help IDS determine the direction of both short and long-term interest rates which leads to the portfolio duration decisions. After IDS determines duration, they use their extensive corporate research capabilities to determine corporate sector allocation and to select individual issues.

Qualitative Evaluation
(reported by exception)

Exceptional strengths are:

—Highly successful and experienced professionals.

—Extensive corporate research capabilities.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	4.7%	5.0%
Last 1 year	4.8	4.7
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 (7/93)	2.6	2.5

Recommendations

No action recommended.

VAM graph will be drawn for period ending 9/30/95.

TCW
Period Ending 3/31/95

Portfolio Manager: Philip Barach **Assets Under Management: $242,113,309**

Investment Philosophy

TCW manages a mortgage only portfolio for the SBI. TCW is a mortgage manager that emphasizes security selection. TCW invests a significant portion of the portfolio in collateralized mortgage obligations (CMO's). The staff analyzes various Wall Street models used to evaluate CMO's and determines the validity of their underlying assumptions. Historically, they have added significant value by understanding the strengths and weaknesses of these models. This helps them purchase undervalued securities and avoid those that are overpriced.

Qualitative Evaluation
(reported by exception)

Exceptional strengths are:

—Highly successful and experienced professionals.

—Extensive CMO investment experience.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	4.8%	5.2%
Last 1 year	-0.4	6.0
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 (7/93)	0.9	3.2

Recommendations

No action recommended.

VAM graph will be drawn for period ending 9/30/95.

GOLDMAN SACHS
Period Ending 3/31/95

Portfolio Manager: Sharmin Mossavar Rahmani **Assets Under Management: $1,061,384,413**

Investment Philosophy

Goldman is an enhanced index manager who focuses on security selection. When analyzing treasuries, the firm models Treasury coupons with an arbitrage based pricing model. This model determines the spread between actual and intrinsic market yields and determines whether the security is rich or cheap. Goldman takes a highly quantitative and analytical approach to value mortgage securities as well. Goldman uncovers undervalued securities using proprietary research and internally developed models. In the corporate sector, Goldman performs its own credit review of each issue. Goldman adds value to the corporate sector with extensive research, market knowledge, and trading skill.

Qualitative Evaluation
(reported by exception)

Exceptional strengths are:

—Highly successful and experienced professionals.

—Quantitative capabilities.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	4.9%	5.0%
Last 1 year	5.4	5.1
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	3.3	2.7

Recommendations

No action recommended.

Tracking graph will be drawn for the period ending 9/30/95.

FIDELITY MANAGEMENT TRUST
Period Ending 3/31/95

Portfolio Manager: Charles Morrison | **Assets Under Management: $1,043,057,864**

Investment Philosophy

Fidelity is an enhanced index manager who builds an index portfolio using stratified sampling and a risk factor model. Using stratified sampling, Fidelity divides the Salomon BIG into subsectors based on characteristics like maturity, coupon, sector and quality and chooses securities to represent each cell. The portfolio is then compared to the Salomon BIG using a risk factor model. Fidelity adds value to the portfolio through sector selection, issue selection, credit research and yield curve strategies. Fidelity weights sectors based on their relative value and attempts to buy stable credits or credits likely to be upgraded. Finally, Fidelity changes the maturity distribution of the portfolio securities to take advantage of non-parallel shifts in the yield curve.

Qualitative Evaluation (reported by exception)

Exceptional strengths are:

—Highly successful and experienced professionals.

—Extensive securities research process.

—Quantitative capabilities.

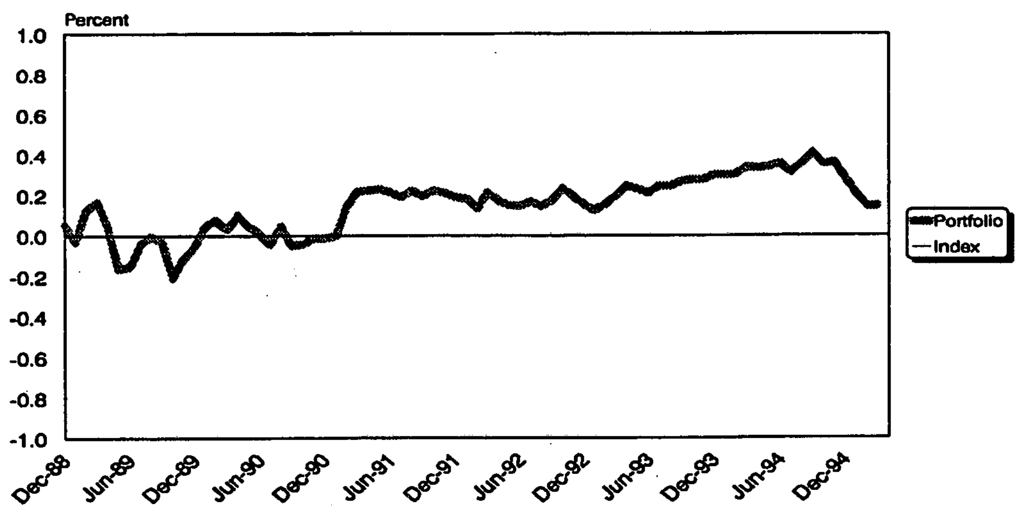
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	4.2%	5.0%
Last 1 year	5.4	5.1
Last 2 years	3.8	3.8
Last 3 years	7.0	6.9
Last 4 years	8.2	8.1
Last 5 years	9.2	9.0
Since Inception (7/88)	9.2	9.1

Recommendations

No action recommended.

Fidelity Management Trust
Cumulative Annualized Tracking Report



LINCOLN CAPITAL MANAGEMENT
Period Ending 3/31/95

Portfolio Manager: Brian Johnson | Assets Under Management: $1,049,411,596

Investment Philosophy

Lincoln is an enhanced index manager that uses a quantitative approach to managing the portfolio. Lincoln calculates the index's expected return for changes in 54 variables. These variables include interest rates, yield curve shape, call features and sector spreads. Lincoln then constructs a portfolio to match the expected returns for a given change in any of the variables. Lincoln relaxes the return tolerances, defined as the difference between the portfolio's expected returns and that for the index, for an enhanced index fund. The portfolio's securities are selected from a universe of 250 liquid issues using a proprietary risk-valuation model. A linear program or portfolio optimizer then constructs the most undervalued portfolio that still matches the return characteristics of the index.

Qualitative Evaluation
(reported by exception)

The firm's strengths are:

—Highly successful and experienced professionals.

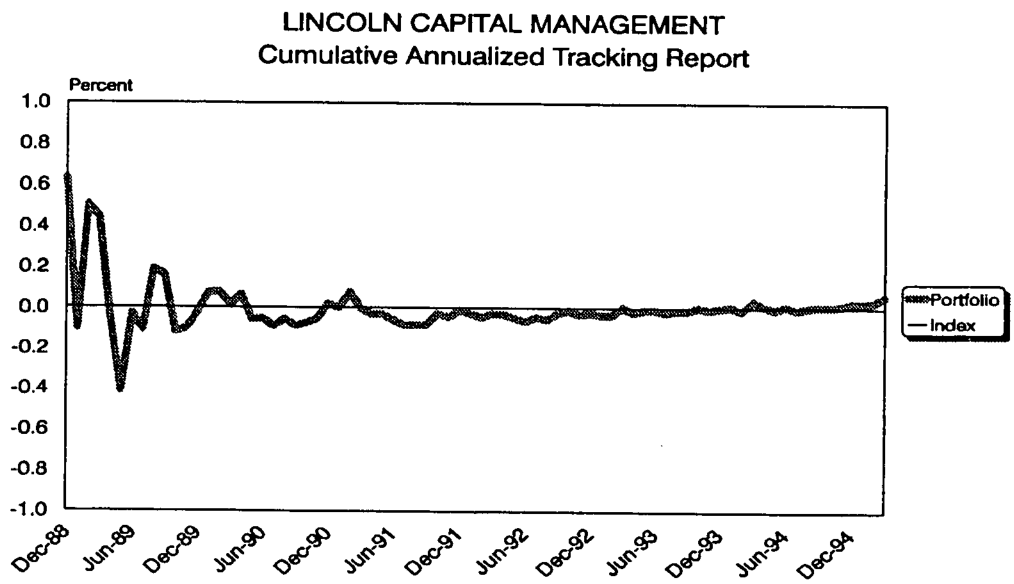
—Extensive quantitative capabilities.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	5.3%	5.0%
Last 1 year	5.3	5.1
Last 2 years	4.0	3.8
Last 3 years	7.1	6.9
Last 4 years	8.2	8.1
Last 5 years	9.2	9.0
Since Inception (7/88)	9.1	9.1

Recommendations

No action recommended.



Tab G

COMMITTEE REPORT

DATE: May 30, 1995

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

FROM: International/Global Manager Committee

The International/Global Manager Committee met on May 11, 1995 to review the following agenda items:

- review of manager performance for the period ending March 31, 1995
- annual review of investment manager guidelines

The Board is requested to take action on the second item.

INFORMATION ITEM:

1. Review of Manager Performance

For the period ended March 31, 1995, the international stock manager program underperformed the EAFE index by 2.0 percentage points for the quarter and the latest year. Since inception in October 1992 (2.5 years), the program has underperformed by 0.9 percentage point annualized.

Time Period	Actual	EAFE
Quarter	-0.1%	1.9%
Year	4.1	6.1
Since Inception	13.3	14.4

While the active managers added value during the quarter when measured in local currency terms, their exposures did not capture all of the positive return due to currency impact in the EAFE index. Performance attribution for the quarter shows the following:

	Actual	EAFE	Value Added
Local Currency	-7.1%	-7.8%	+0.7%
Currency Impact	10.5	7.6	-2.8
US Dollar Return	-0.1%	1.9%	-2.0%

Source: State Street Analytics

The large currency impact is due primarily to the sharp rise of the Japanese yen against the US dollar during the quarter. Since the active managers were underweighted in Japanese stocks during the period, they were also underexposed to the yen. Some of the managers have further reduced their exposure to the yen through hedging since they believe the yen will decline against the dollar in the future.

The performance evaluation reports for the international stock managers begin on page 9 of the Tab. Manager Commentaries are in Tab I.

ACTION ITEM:

1. Annual Review of Investment Guidelines

The SBI has established guidelines for the external international managers which govern their investment actions. While these guidelines may be changed at any time, they are part of the formal contractual agreement between the SBI and manager. The guidelines address return objectives, benchmarks, authorized investments, performance evaluation, communication and reporting requirements.

Staff and the Committee review the guidelines annually for accuracy and completeness. No substantive changes were proposed to the existing guidelines. The additions serve to clarify current policy with respect to the use of forwards, options and futures.

The revised guidelines begin on page 3. Additions to the current guidelines are noted by underline and deletions are indicated by ~~strikeout~~.

RECOMMENDATION:

The Committee recommends that the SBI adopt the revised investment manager guidelines as presented.

MINNESOTA STATE BOARD OF INVESTMENT

INVESTMENT GUIDELINES
ACTIVE INTERNATIONAL EQUITY MANAGER

The investment actions of the State Board of Investment (SBI) active international and active country/passive stock managers will be governed by the following guidelines:

1. RETURN OBJECTIVE

The manager is expected to deliver returns that exceed the benchmark, net of fees, by at least 1 percentage point annually, over time.

2. PERFORMANCE BENCHMARK

Until a benchmark that is more representative of the manager's style is developed, the performance benchmark for the portfolio will be the Morgan Stanley Capital International (MSCI) Index of Europe, Australia and the Far East (EAFE), capitalization weighted, excluding those securities that US investors are not allowed to own. This is commonly referred to as EAFE "Free" by MSCI.

3. PRICING AND PERFORMANCE MEASUREMENT

The portfolio will be priced by the SBI's custodian bank and such prices will be used to measure performance of the SBI account. The manager agrees to accept the prices established by the custodian. The manager will review the custodian's pricing on a monthly basis and report any differences or discrepancies to the custodian and the SBI.

4. PERFORMANCE EVALUATION

Manager will be evaluated according to the guidelines set forth in the SBI's Manager Continuation Policy.

5. ELIGIBLE MARKETS

Subject to the constraints in #6 below, the manager is authorized to purchase securities in the following markets:

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

Australia	Germany	Netherlands	Spain
Austria	Greece	New Zealand	Sweden
Belgium	Hong Kong	Norway	Switzerland
Canada	Hungary	Poland	United Kingdom
Czech Republic	Italy	Portugal	Uruguay
Denmark	Ireland	Singapore	
Finland	Japan	Slovak Republic	
France	Luxembourg	Slovenia	

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

Argentina	Israel	South Africa
Brazil	Jamaica	Sri Lanka
Chile	Korea, Rep. of	Taiwan
Colombia	Malaysia	Thailand
Ecuador	Mauritius	Trinidad & Tobago
Egypt	Mexico	Turkey
Estonia	Philippines	Venezuela
India	Russia	Zimbabwe

Group III. The manager may invest in publicly traded securities in the following markets if the manager believes it would be a breach of fiduciary responsibility not to do so. If the manager chooses to invest in one or more of these markets, the manager must appear at a meeting of the SBI to present its reason(s) for the decision to do so.

China	Morocco
Croatia	Nigeria
Indonesia	Peru
Jordan	Pakistan
Kuwait	Vietnam

6. ELIGIBLE SECURITIES

Subject to the constraints in #5 above, the manager may hold stocks, warrants, convertibles, common trust funds, open-end country funds registered under the Investment Company Act of 1940, equity options, currency futures and options, financial and commodity futures, and commodities and options thereon, currency forwards and cash equivalents provided:

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

- US cash equivalent reserves shall be invested in the SBI's STIF fund, managed by its custodian bank.

- Convertibles shall not comprise more than 5% of portfolio value.

- The stock of companies domiciled in the US shall not be held in the account.

- Non-US stock index futures may be used to adjust the effective equity exposure of the portfolio from 0 to 100%. In addition, all transactions must be done on a fully collateralized basis.

- Currency forwards and futures and options may be used to adjust the effective non US currency exposure of the portfolio from 0 to 100%. In addition, all transactions must be done on a fully collateralized basis.

The manager is not constrained regarding:

- transaction turnover
- use of covered call options as hedging devices
- liquidity requirements
- number of individual equity issues which must be held at any given time

7. COMMUNICATION

The SBI requires its investment managers to communicate with SBI staff on a regular basis.

- The manager is expected to meet with staff to review the results of the manager's investment decision-making process on at least an annual basis.

- The manager is expected to provide SBI staff with a "Manager Commentary" as described in the SBI's Manager Continuation Policy on a quarterly basis (see #4 above). The Commentary will summarize performance results over the most recent quarter and year and highlights any organizational changes which may impact management of the SBI's account.

8. PROXY VOTING

The SBI retains the right to vote its proxies directly. Unless the SBI notifies the manager that it is exercising this right, the manager shall vote all proxies on behalf of the SBI according to guidelines provided to the manager by the SBI. The manager shall report periodically on its voting practices with respect to the SBI portfolio. The SBI represents that such delegation of voting rights is consistent with applicable Minnesota Statutes. The SBI agrees to instruct the Custodian to forward all proxy materials to the Manager upon receipt. Manager shall not be liable with regard to voting of proxies in the event proxy materials are not received by the Manager in a timely manner.

9. COMMODITY FUTURES TRADING AGREEMENT

Any commodity futures or options trading agreement entered into by the Manager must provide that SBI liability for margin requirements, commissions and fees is limited solely to funds of the SBI and does not constitute a general obligation of the State of Minnesota.

10. FUTURE MODIFICATIONS

The SBI reserves the right to modify these investment guidelines at any time. The Manager will be notified in advance of changes to the investment guidelines.

Revised: May 1995

MINNESOTA STATE BOARD OF INVESTMENT
INVESTMENT GUIDELINES
EAFE INDEX FUND MANAGER

The investment actions of the State Board of Investment (SBI) EAFE Index Fund Manager will be governed by the following guidelines:

1. RETURN/TRACKING ERROR OBJECTIVE

The manager is expected to deliver returns that track the benchmark index within ± 20 basis points on an annual basis before management fees, custody charges and return enhancements such as securities lending income.

2. BENCHMARK INDEX

The benchmark index will be the Morgan Stanley Capital International (MSCI) Index of Europe, Australia and the Far East (EAFE), capitalization weighted, excluding those securities that US investors are not allowed to own. This is commonly referred to as EAFE "Free" by MSCI.

3. PRICING AND PERFORMANCE MEASUREMENT

The portfolio will be priced by the SBI's custodian bank and such prices will be used to measure the performance of the SBI account. The manager agrees to accept the prices established by the custodian. The manager will review the custodian's pricing on a monthly basis and report any differences or discrepancies to the custodian and the SBI.

4. ELIGIBLE INVESTMENTS

The manager may hold stocks, stock index futures, bonds and cash equivalents subject to the following constraints:

- All securities held must be covered by the authorization in Minnesota Statutes Chapter 11A.24.
- Cash equivalent reserves shall be invested in the SBI's STIF fund, managed by its custodian bank.
- The use of stock index futures may be used to adjust the effective equity exposure of the portfolio from 0 to 100%. In addition, all transactions must be done on a fully collateralized basis.

The manager is not constrained regarding:

- transaction turnover
- use of covered call options as hedging devices
- liquidity requirements
- number of individual equity issues which must be held at any given time

5. COMMUNICATION

The SBI requires its investment managers to communicate with SBI staff on a regular basis.

- The manager is expected to meet with staff to review the results of the manager's investment decision-making process on at least an annual basis.

- The manager is expected to provide SBI staff with a status report pertaining to number of accounts, assets under management, and relevant personnel and ownership changes on a quarterly basis.

6. PROXY VOTING

The SBI is responsible for proxy voting. The SBI may delegate responsibility for proxy voting in certain countries to the Manager. If so, such delegation will be made in writing along with appropriate voting policy direction.

7. COMMODITY FUTURES TRADING AGREEMENT

Any commodity futures trading agreement entered into by the Manager must provide that SBI liability for margin requirements, commissions and fees is limited solely to funds of the SBI and does not constitute a general obligation of the State of Minnesota.

8. FUTURE MODIFICATIONS

The SBI reserves the right to modify these investment guidelines at any time. The Manager will be notified in advance of changes to the investment guidelines.

Date: May 1995

STATE BOARD OF INVESTMENT

International Manager Evaluation Reports

First Quarter, 1995

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INTERNATIONAL STOCK MANAGERS
Period Ending 3/31/95

Current Managers	Quarter Actual %	Quarter Bmk %	1 Year Actual %	1 Year Bmk %	3 years Actual %	3 years Bmk %	5 Years Actual %	5 Years Bmk %	Since Inception Actual %	Since Inception Bmk %	Market Value (in millions)	Pool %
Baring (1)	-1.1	1.9	3.7	6.1					12.8	14.0	$183.95	9.1%
Brinson (1)	-3.0	1.9	0.5	6.1					5.2	14.0	162.27	8.0%
Marathon (2)	-4.6	1.9	1.5	6.1					7.7	5.2	166.57	8.3%
Rowe Price (2)	-0.8	1.9	1.5	6.1					4.5	5.2	159.36	7.9%
Scudder (2)	-0.2	1.9	1.0	6.1					1.8	5.2	157.09	7.8%
Templeton (2)	1.4	1.9	3.9	6.1					4.8	5.2	163.50	8.1%
State Street (3)	1.3	1.9	6.2	6.1					14.4	14.4	1,023.66	50.8%
Current Aggregate	**-0.1**	**1.9**	**4.1**	**6.1**					**13.3**	**14.4**	**$2,016.40**	**100.0%**

(1) Active country/passive stock. Retained April 1, 1993
(2) Fully active. Retained November 1, 1993
(3) Index. Retained October 1, 1992

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BARING INTERNATIONAL INVESTMENT LTD.
Period Ending 3/31/95

Portfolio Manager: Philip Bullen **Assets Under Management: $183,950,854**

Investment Philosophy

Barings manages an active country/passive stock portfolio for the SBI. Barings' strategic policy team is responsible for the country and currency decisions. Country allocation decisions are made using a macroeconomic framework which seeks to identify growing economies as evidenced by positive changes in GDP and interest rates. The team uses multiple inputs including regional specialists, local market valuations and a computer model that functions as an audit of the qualitative valuation process. Currency specialists within Barings provide assessments on flow of funds, currency rates, monetary policy, inflation and interest rates. Barings uses country index funds managed by State Street Global Advisors to implement their country allocations. At Barings' direction, State Street also implements currency/hedging strategies for the portfolio.

Qualitative Evaluation
(reported by exception)

Exceptional strengths are:

—Highly successful and experienced professionals.

—Familiar with the needs of large institutional clients.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	-1.1%	1.9%
Last 1 year	3.7	6.1
Last 2 years	12.8	14.0
Last 3 years	N/A	N/A
Last 4 years	N/A	N/A
Last 5 years	N/A	N/A
Since Inception (4/93)	12.8%	14.0%.

Recommendations

Barings has been put on probation by the Board at the March 1995 meeting due to the bankruptcy of Barings PLC and the subsequent purchase by Dutch firm ING. Staff will monitor this situation.

VAM graph will be drawn for period ending 6/30/95.

BRINSON PARTNERS
Period Ending 3/31/95

Portfolio Manager: Richard Carr | **Assets Under Management: $162,267,506**

Investment Philosophy

Brinson manages an active country/passive stock portfolio for the SBI. The firm uses a proprietary valuation model to rank the relative attractiveness of individual markets based on fundamental considerations. Inputs include forecasts for growth, inflation, risk premiums and foreign exchange movements. Quantitative tools are used to monitor and control portfolio risk, while qualitative judgments from the firm's professionals are used to determine country allocations. Brinson establishes an allocation range around the target index to define the limits of their exposure to individual countries and to assure diversification. Brinson constructs its country index funds using a proprietary optimization system.

Brinson utilizes currency equilibrium bands to determine which currencies are over or under valued. The firm will hedge to control the potential risk for real losses from currency depreciation.

Qualitative Evaluation
(reported by exception)

Exceptional strengths are:

— Highly successful and experienced professionals.

— Familiar with the needs of large institutional clients.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	-3.0%	1.9%
Last 1 year	0.5	6.1
Last 2 years	5.2	14.0
Last 3 years	N/A	N/A
Last 4 years	N/A	N/A
Last 5 years	N/A	N/A
Since Inception (4/93)	5.2%	14.0%

Recommendations

No action recommended.

VAM graph will be created for period ending 6/30/95.

MARATHON ASSET MANAGEMENT
Period Ending 3/31/95

Portfolio Manager: William Arah **Assets Under Management: $166,566,467**

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.

Qualitative Evaluation (reported by exception)

Exceptional strengths are:

—Attractive, unique investment approach.

Current concerns are:

—The firm has experienced a fair amount of client growth over the last year.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	-4.6%	1.9%
Last 1 year	1.5	6.1
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 (11/93)	7.7%	5.2%

Recommendations

No action recommended.

VAM graph will be drawn for period ending 3/31/96.

ROWE PRICE-FLEMING INTERNATIONAL, INC.
Period Ending 3/31/95

Portfolio Manager: Martin Wade | **Assets Under Management: $159,359,802**

Investment Philosophy

Rowe Price-Fleming (RPF) believes that world stock markets are segmented. The firm attempts to add value by identifying and exploiting the resulting pricing inefficiencies. In addition, they believe that growth is frequently under priced in the world markets. RPF establishes its economic outlook based largely on interest rate trends and earnings momentum. The portfolio management team then assesses the country, industry and currency profile for the portfolio. Within this framework, stock selection is the responsibility of regional portfolio managers. Stocks are selected using fundamental analysis that emphasizes companies with above-market earnings growth at reasonable valuations. Information derived from the stock selection process is a key factor in country allocation as well.

Qualitative Evaluation
(reported by exception)

The firms strengths continue to be:

— Extensive securities research process.

— Successful investment approach which has been consistently applied over a number of market cycles.

— Familiarity with the needs of large institutional clients.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	-0.8%	1.9%
Last 1 year	1.5	6.1
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 (11/93)	4.5%	5.2%

Recommendations

No action recommended.

VAM graph will be created for period ending 3/31/96.

SCUDDER, STEVEN & CLARK
Period Ending 3/31/95

Portfolio Manager: Nicholas Bratt — **Assets Under Management: $157,087,344**

Investment Philosophy

Scudder believes that successful international investing requires knowledge of each country's economy, political environment and financial market obtained through continuous and thorough research of individual markets and securities. The investment process focuses on three areas: country analysis, global themes and unique situations. Ideas from all three areas are integrated into Scudder's research universe. Using their own internal research, the firm seeks companies with potential for earnings and dividend growth, strong or improving balance sheets, superior management, conservative accounting practices and dominant position in growing industries.

Qualitative Evaluation
(reported by exception)

Exceptional strengths are:

—Strong leadership.

—Extensive securities research capabilities.

—Successful investment approach which has been consistently applied over a number of market cycles.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	-0.2%	1.9%
Last 1 year	1.0	6.1
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 (11/93)	1.8%	5.2%

Recommendations

No action recommended.

VAM graph will be drawn for period ending 3/31/96.

TEMPLETON INVESTMENT COUNSEL, INC.
Period Ending 3/31/95

Portfolio Manager: Jim Chaney — **Assets Under Management: $163,503,256**

Investment Philosophy

Templeton's goal is to identify those companies selling at the greatest discount to future intrinsic value. The firm takes a long-term approach to investing and believes that, over time, markets are efficient and patience will reward those who have identified undervalued stocks. Stock selection dominates Templeton's investment approach; country, sector and industry weightings are a residual of the stock selection process. Stock ideas are obtained from a worldwide network of research sources and screens of their own global database. From this preliminary list, analysts conduct fundamental analysis to distinguish a "cheap' stock from a "bargain." Templeton seeks stocks that are cheap relative to their own price history, their global industry and their domestic market. Each stock on the resulting "bargain list" has established buy and sell price targets and is purchased and sold accordingly.

Qualitative Evaluation
(reported by exception)

Exceptional strengths are:

—Extensive securities research process.

—Successful investment approach which has been consistently applied over a number of market cycles.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	1.4%	1.9%
Last 1 year	3.9	6.1
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 (11/93)	4.8%	5.2%

Recommendations

No action recommended.

VAM graph will be drawn for period ending 3/31/96.

Tab H

COMMITTEE REPORT

DATE: May 30, 1995

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

FROM: **Alternative Investment Committee**

The Alternative Investment Committee met during the quarter to review the following information items:

- Review of current strategy.

- Results of review sessions with a private equity manager, Coral Group and a real estate manager, Heitman Advisory.

No action by the Board is requested at this time.

INFORMATION ITEMS:

1) Review of Current Strategy.

To increase overall portfolio diversification, 15% of the Basic Retirement Funds and 5% of the Post Retirement Fund are allocated to alternative investments. Alternative investments include real estate, private equity and resource investments where Minnesota State Board of Investment (SBI) participation is limited to commingled funds or other pooled vehicles. A chart summarizing the Board's current commitments is attached (see **Attachment A and B**).

Basic Funds

- 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 open-end and closed-end commingled funds. The remaining portion of the portfolio can include investments in less diversified, more focused (specialty) commingled funds. Currently, the SBI has committed $536 million to twenty-one (21) commingled real estate funds.

- The private equity investment strategy 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. To date, the SBI has committed to twenty-nine (29) commingled private equity funds for a total commitment of $830 million.

- The strategy for resource investment requires that investment be made in resource investment vehicles that are specifically designed for institutional investors to provide an inflation hedge and additional diversification. Individual resource investments will include proved producing oil and gas properties, royalties and other investments that are diversified geographically and by type. Currently, the SBI has committed $113 million to seven (7) commingled oil and gas funds.

Post Fund

- The Post Fund assets allocated to alternative investments will be invested separately from the Basic Funds' alternative investments to assure that returns are accounted for appropriately. Because the Post Fund invests the retired employee's pension assets, an allocation to yield oriented alternative investments will be emphasized. The Basic Retirement Funds' invest the active employees' pension assets and have less concern regarding the current yield for their alternative investments. Currently, the SBI has committed $60 million to two (2) yield oriented private equity funds for the Post Fund.

2) Results of Review Sessions with Existing Managers.

During the quarter, staff held a review session with one of the SBI's private equity managers, Coral Group, and one of the SBI's real estate managers, Heitman Advisory.

The meetings with both managers went well and produced no major surprises.

Summaries of the review sessions are included as **Attachments C and D** of this Committee Report.

ATTACHMENT A

Minnesota State Board of Investment

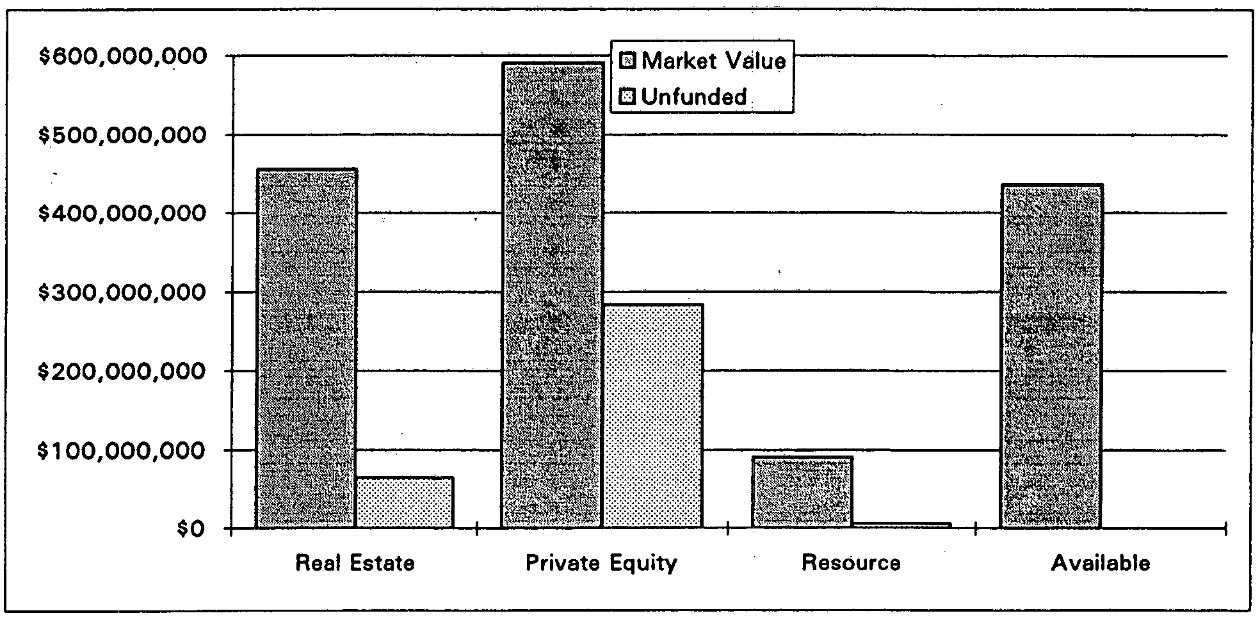
Alternative Investments Basic Retirement Funds

March 31, 1995

Market Value of Basic Retirement Fund (Basic)	$10,508,303,576
Amount Available For Investment	$436,587,569

	Current Level	*Target Level*	*Difference*
Market Value	$1,139,657,967	$1,576,245,536	$436,587,569
MV + Unfunded	$1,493,978,908	$2,101,660,715	$607,681,807

Asset Class	Market Value	Unfunded Commitment	Total
Real estate	$456,792,822 *4.3%*	$65,318,636 *0.6%*	$522,111,458 *5.0%*
Private Equity	$590,930,149 *5.6%*	$282,938,732 *2.7%*	$873,868,881 *8.3%*
Resource	$91,934,996 *0.9%*	$6,063,573 *0.1%*	$97,998,569 *0.9%*
Total	$1,139,657,967 *10.8%*	$354,320,941 *3.4%*	$1,493,978,908 *14.2%*



ATTACHMENT A (con't)

STATE OF MINNESOTA
ALTERNATIVE INVESTMENTS - BASIC FUNDS
March 31, 1995

	INCEPTION DATE	TOTAL COMMITMENT	FUNDED COMMITMENT	MARKET VALUE	DISTRIBUTIONS	UNFUNDED COMMITMENT	IRR (%)	PERIOD (YEARS)
REAL ESTATE								
AETNA 013420	Sep-94	2,591,431	2,591,431	2,719,233	0	0	N/M	0.5
AETNA 007367	Apr-82	40,000,000	40,000,000	63,933,048	0	0	4.06	12.9
AEW III	Sep-85	20,000,000	20,000,000	17,376,817	3,908,287	0	0.68	9.6
AEW IV	Sep-86	17,400,000	15,000,000	4,664,797	829	2,400,000	-13.12	8.5
AEW V	Dec-87	15,000,000	15,000,000	10,110,978	434,825	0	-4.97	7.3
AMERICAN REPUBLIC	Feb-90	1	1	1	0	0	0.00	5.2
EQUITABLE	Oct-81	40,000,000	40,000,000	73,228,704	0	0	5.00	13.5
FIRST ASSET REALTY	Apr-94	907,097	907,097	851,479	9,162	0	N/M	0.9
HEITMAN I	Aug-84	20,000,000	20,000,000	12,190,826	11,842,633	0	2.84	10.6
HEITMAN II	Nov-85	30,000,000	30,000,000	25,364,068	13,364,802	0	3.65	9.4
HEITMAN III	Jan-87	20,000,000	20,000,000	14,298,188	6,284,610	0	0.46	8.2
HEITMAN V	Dec-91	20,000,000	20,000,000	21,802,947	2,186,527	0	7.26	3.3
LASALLE	Sep-91	15,000,000	7,398,818	7,652,530	845,792	7,601,182	5.72	3.5
PAINE WEBBER	Feb-90	500,000	500,000	308,265	121,448	0	-3.25	5.2
REALTY ASSOCIATES FUND III	Jun-94	40,000,000	31,400,000	25,853,512	6,713,374	8,600,000	N/M	0.8
RREEF	May-84	75,000,000	75,000,000	68,921,141	23,574,712	0	2.68	10.9
TCW III	Aug-85	40,000,000	40,000,000	28,489,067	10,900,073	0	-0.20	9.7
TCW IV	Nov-86	30,000,000	30,000,000	22,083,812	2,399,405	0	-2.85	8.4
ZELL/MERRILL LYNCH II	Nov-91	50,000,000	37,482,546	40,840,308	1,713,084	12,517,454	2.73	3.3
ZELL/MERRILL LYNCH III	Jan-94	50,000,000	15,800,000	16,103,100	388,406	34,200,000	5.80	1.2
TOTAL REAL ESTATE		***526,398,529***	***461,079,894***	***456,792,822***	***84,687,969***	***65,318,636***		
PRIVATE EQUITY								
ALLIED	Sep-85	5,000,000	5,000,000	2,550,641	3,668,252	0	4.01	9.5
BANK FUND III TRUST	Oct-92	20,000,000	13,000,000	13,297,702	219,955	7,000,000	1.87	2.4
BLACKSTONE PARTNERS II	Nov-93	50,000,000	14,549,808	12,405,060	1,036,600	35,450,192	-16.68	1.4
BRINSON	May-88	5,000,000	5,000,000	2,889,370	4,600,104	0	10.11	6.9
BRINSON II	Nov-90	20,000,000	15,800,000	11,012,528	13,231,397	4,200,000	24.13	4.3
CHURCHILL CAPITAL PARTNERS II	Oct-92	20,000,000	9,400,000	8,331,624	2,137,796	10,600,000	7.05	2.4
CORAL PARTNERS I SUPERIOR	Jun-86	7,160,972	7,160,972	6,357,922	2,994,163	0	5.90	8.8
CORAL PARTNERS II	Jul-90	10,000,000	8,000,000	9,022,970	1,579,857	2,000,000	3.93	4.7
CORAL PARTNERS IV	Jul-94	15,000,000	2,269,110	2,763,370	0	12,730,890	N/M	0.7
DSV	Apr-85	10,000,000	10,000,000	9,696,376	2,986,061	0	2.72	10.0
FIRST CENTURY	Dec-84	10,000,000	10,000,000	8,239,638	6,185,970	0	8.15	10.3
GOLDER THOMA III	Oct-87	14,000,000	13,025,000	10,452,796	14,486,100	975,000	18.48	7.4
GOLDER THOMA IV	Jan-94	20,000,000	7,700,000	7,445,407	0	12,300,000	-5.07	1.2
HELLMAN & FRIEDMAN III	Sep-94	40,000,000	0	0	0	40,000,000	0.00	0.5
IAI VENTURES I	Mar-91	1,222,828	1,057,744	589,504	652,078	165,084	10.25	4.1
IMR PARTNERSHIP	Aug-92	15,000,000	1,374,900	1,046,905	38,997	13,625,100	-14.13	2.7
INMAN BOWMAN	Jun-85	7,500,000	7,500,000	5,512,098	2,910,732	0	1.76	9.8
KKR I	Jun-84	25,000,000	25,000,000	48,153,740	70,875,899	0	29.26	10.8
KKR II	Apr-86	18,365,339	18,365,339	58,193,927	44,325,404	0	24.37	9.0
KKR III	Nov-87	145,950,000	145,950,000	213,819,080	120,615,618	0	10.32	7.4
KKR IV	Dec-93	150,000,000	54,365,949	47,960,997	5,922,324	95,634,051	-3.71	1.3
MATRIX II	Aug-85	10,000,000	10,000,000	3,958,645	15,948,066	0	13.20	9.6
MATRIX III	May-90	10,000,000	9,375,000	21,883,630	11,881,192	625,000	59.22	4.9
NORTHWEST	Jan-84	10,000,000	10,000,000	2,016,730	10,411,651	0	3.10	11.2
SUMMIT I	Dec-84	10,000,000	10,000,000	1,331,751	18,235,680	0	12.84	10.3
SUMMIT II	May-88	30,000,000	27,000,000	11,759,890	41,805,945	3,000,000	23.47	6.9
T.ROWE PRICE	Nov-87	71,341,977	71,341,977	29,806,316	39,579,716	0	-4.28	7.4
WARBURG PINCUS	Dec-94	50,000,000	6,000,000	5,980,400	0	44,000,000	N/M	0.2
ZELL/CHILMARK	Jul-90	30,000,000	29,366,585	34,451,132	2,778,715	633,415	8.90	4.7
TOTAL VENTURE CAPITAL		***830,541,116***	***547,602,384***	***590,930,149***	***439,008,272***	***282,938,732***		
RESOURCES								
AMGO I	Sep-81	15,000,000	15,000,000	6,109,028	3,614,536	0	-4.15	13.5
AMGO II	Feb-83	7,000,000	7,000,000	7,051,335	2,325,453	0	3.26	12.2
AMGO IV	May-88	12,300,000	12,300,000	16,884,935	1,508,552	0	7.68	6.9
AMGO V	May-90	16,800,000	15,925,203	24,315,786	3,403,869	874,797	14.08	4.9
APACHE III	Dec-86	30,000,000	30,000,000	8,641,048	36,797,428	0	11.55	8.3
MORGAN OIL&GAS	Aug-88	15,000,000	13,799,697	16,989,757	1,642,266	1,200,303	4.85	6.6
SIMMONS OFS	Aug-91	17,000,000	13,011,527	11,943,107	774,080	3,988,473	-1.38	3.6
TOTAL RESOURCES		***113,100,000***	***107,036,427***	***91,934,996***	***50,066,184***	***6,063,573***		
TOTAL PORTFOLIO		**1,470,039,645**	**1,115,718,705**	**1,139,657,967**	**573,762,425**	**354,320,941**		

** - Acquired in local police and fire fund consolidation with PERA*
*** - Acquired from Post Retirement Fund as part of asset allocation transition during FY93*

ATTACHMENT B

Minnesota State Board of Investment

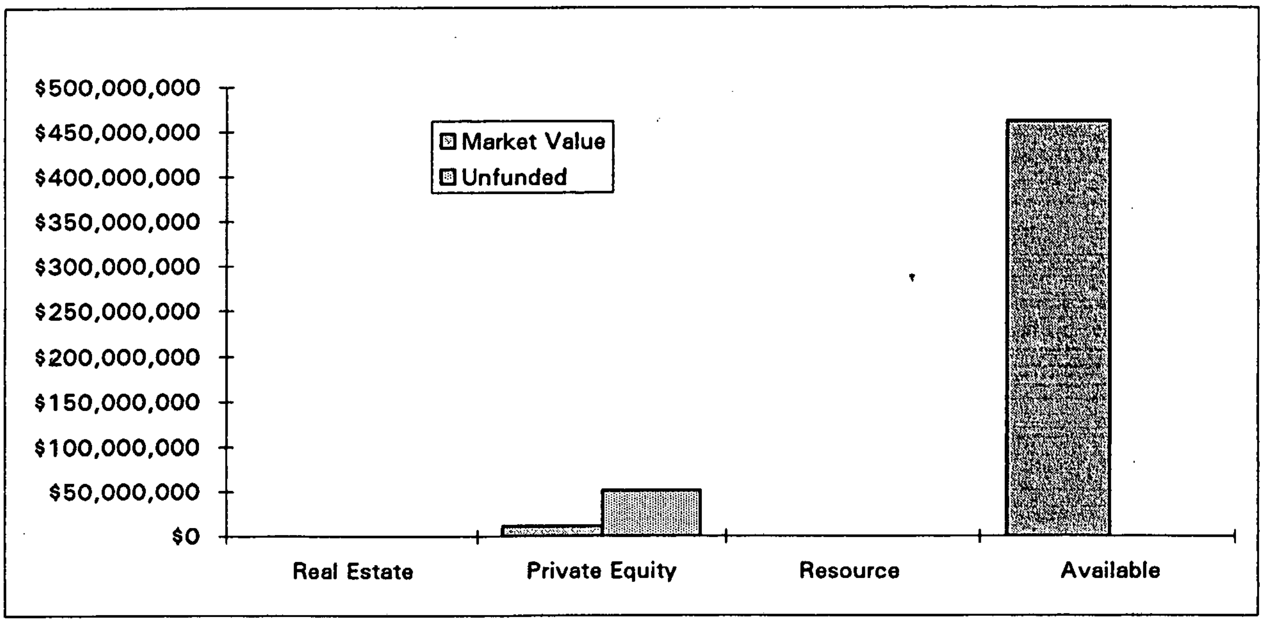
Alternative Investments Post Retirement Fund

March 31, 1995

Market Value of Post Retirement Fund (Post)	$9,460,405,299
Amount Available For Investment	$461,795,760

	Current Level	*Target Level*	*Difference*
Market Value	$11,224,505	$473,020,265	$461,795,760
MV + Unfunded	$62,746,244	$946,040,530	$883,294,286

Asset Class	Market Value	Unfunded Commitment	Total
Real estate	$0 *0.0%*	$0 *0.0%*	$0 *0.0%*
Private Equity	$11,224,505 *0.1%*	$51,521,739 *0.5%*	$62,746,244 *0.6%*
Resource	$0 *0.0%*	$0 *0.0%*	$0 *0.0%*
Total	$11,224,505 *0.1%*	$51,521,739 *0.5%*	$62,746,244 *0.6%*



ATTACHMENT B (con't)

STATE OF MINNESOTA
ALTERNATIVE INVESTMENTS - POST FUND
March 31, 1995

	INCEPTION DATE	TOTAL COMMITMENT	FUNDED COMMITMENT	MARKET VALUE	DISTRIBUTIONS	UNFUNDED COMMITMENT	IRR (%)	PERIOD (YEARS)
REAL ESTATE								
TOTAL REAL ESTATE		0	0	0	0	0		
PRIVATE EQUITY								
SUMMIT III (GP58)	Mar-94	20,000,000	5,000,000	6,304,717	0	15,000,000	N/M	1.0
CITICORP MEZZANINE (GP58)	Dec-94	40,000,000	3,478,261	4,919,788	0	36,521,739	N/M	
TOTAL VENTURE CAPITAL		60,000,000	8,478,261	11,224,505	0	51,521,739		
RESOURCES								
TOTAL RESOURCES		0	0	0	0	0		
TOTAL PORTFOLIO		60,000,000	8,478,261	11,224,505	0	51,521,739		

REVIEW SUMMARY
CORAL VENTURE CAPITAL GROUP
MAY 1, 1995

MANAGER REPRESENTATIVES: Yuval Almog, Linda Watchmaker

SBI ASSETS UNDER MANAGEMENT: $18,733,766

BACKGROUND AND DESCRIPTION:

The Coral Group Inc. comprised the professional staff of IAI Venture Capital Group prior to the spinout of that group from Investment Advisors, Inc. in the fall of 1993. The SBI has investments in four funds managed by the Coral Group Inc. The first fund, IAI Venture Partners I, is a $50 million venture capital limited partnership that was acquired by the SBI in a Fire and Police Fund consolidation in 1991. It was formed in 1983 with an eleven year term which now has been extended 2 years. The second fund, Coral Partners I - Superior is a $36 million venture capital limited partnership that was formed in 1986 and has an eleven year term. Coral Partners II, the third fund, is a $63 million venture capital limited partnership which was formed in 1990 and has a ten year term. The fourth fund, Coral Partners IV is a $78 million venture capital limited partnership that was formed in 1994 and has a ten year term. All four funds diversify nationally but emphasize Minnesota-based investments.

QUALITATIVE EVALUATION:

IAI Venture Partners and Coral Partners I are currently in the liquidation phase of their term and the General Partner expects them to achieve projected net annualized IRR's (internal rates of return) of 8-10% and 12-15%, respectively.

Coral II is currently in a fully invested/build value stage. It is anticipated that Coral II will achieve a projected net annualized IRR (internal rate of return) of 25% over its term.

Coral IV is currently in an invest/build value stage and has drawndown approximately 20% of its committed capital for investments. The initial investment pace for Coral Partners IV has been rapid and is expected to slow down over the next year as the general partner believes the venture capital market will undergo a period of higher valuations and increased competition. At this time it is too early to tell what the Coral IV's ultimate IRR will be.

Two large investments, Racotek and Tricord (both owned by Coral I and Coral II), have experienced disappointing performance over the last year relative to expectations. The Coral Group has focused significant attention on these companies in order to boost performance.

The Coral Group will hire one or two more people over the next year including a senior manager at the General Partner level and a younger associate.

QUANTITATIVE EVALUATION:

	IAI I**	CORAL I	CORAL II	CORAL IV
COMMITMENT *	$1.223	$7.160	$10.000	$15.000
FUNDED COMMITMENT *	$1.223	$7.160	$8.000	$2.269
MARKET VALUE OF FUNDED COMMITMENT *	$0.600	$6.358	$9.023	$2.763
CASH DISTRIBUTION:	$0.60	$2.994	$1.580	$0
INCEPTION DATE(S)	March 1991	June 1986	July 1990	July 1994
INTERNAL RATE OF RETURN (IRR): (annualized, since inception)	10.2%	5.9%	3.9%	N/M

* All dollars in millions
** Received from police and fire consolidations

DIVERSIFICATION PROFILE

LOCATION	PERCENTAGE
Minnesota	43.40%
West	41.37
Midwest	9.06
East	6.17
	100.00%

STAGE OF DEVELOPMENT	PERCENTAGE
Seed	.28%
Development	26.94
Introduction	22.28
Expansion	7.12
Public	43.38
	100.00%

INDUSTRY	PERCENTAGE
Technical	70.63%
Healthcare	23.38
Consumer	5.99
	100.00%

REVIEW SUMMARY
HEITMAN FUNDS I, II, III, V
MAY 3, 1994

MANAGER REPRESENTATIVES: Herb Kuehnle, George Gaines, Doug Kinney

SBI ASSETS UNDER MANAGEMENT: $73,656,029

BACKGROUND AND DESCRIPTION:

The Heitman Funds I, II, III and V are managed by Heitman Advisory Corporation, whose primary office is in Chicago. Funds I, II, III and V were begun in August 1984, November 1985, January 1987 and July 1991, respectively. The SBI investment commitment totals $90 million for the four Funds. Funds I, II, III and V have been fully funded. Each fund has a fifteen year term. The majority of the funds' investments are equity real estate diversified by property type and location. Heitman Properties Ltd., an affiliate of Heitman, manages the funds' wholly owned properties. Heitman is a subsidiary of United Asset Management.

QUALITATIVE EVALUATION:

- In December 1994, JMB Institutional Realty Corporation merged into Heitman Advisory Corporation, forming Heitman/JMB Advisory Corporation.
- Going forward, Heitman will focus on a disposition analysis of Fund properties in order to provide an orderly liquidation of properties in Funds nearing termination dates. The earliest Heitman Fund, Fund I, terminates in 1999.
- Heitman Funds I, II, III and V enjoyed positive returns in 1994 compared to the negative returns experienced in the prior several years. Occupancies for all of the Heitman Funds remain strong. Funds I, II, III and V have occupancies of 91%, 88%, 95% and 96% respectively.
- Three regional malls from Fund V are committed to be placed into Heitman Mall Investors (HMI) in 1995. By placing these three regional malls in HMI, the Fund will receive shares in a regional mall real estate investment trust (REIT). The ownership of the REIT shares will provide the Fund with a more diversified overall position in regional malls.

QUANTITATIVE EVALUATION:

	Heitman Funds			
	I	II	III	V
Commitment*	$20	$30	$20	$20
Funded Commitment*	$20	$30	$20	$20
Market Value of Funded Commitment*	$12.2	$25.3	$14.3	$21.8
Cash Distributions*	$11.8	$13.3	$6.3	$2.2
Inception Date	Aug-84	Nov-85	Feb-87	Dec-91
Annualized IRR Since Inception	2.84%	3.55%	0.46%	7.26%

**-All Dollars In Millions*

DIVERSIFICATION PROFILE

LOCATION

Northeast	14 %
Midwest	10
Southeast	12
Southwest	7
E.N. Central	17
W.N. Central	17
Mountain	10
Pacific	13
	100 %

PROPERTY TYPE

Office	28 %
Retail	57
Industrial	11
Other	4
	100 %

Tab I

STATE BOARD OF INVESTMENT

Manager Commentaries

Period Ending March 31, 1995

Manager Commentary
Alliance Capital Management L.P.

Period Ending:	**3/31/95**	**Returns**	**Qtr.**	**1 Yr.**
Total Firm Assets Under Management	$126 billion	Actual	8.0%	10.9%
Total Firm Assets Managed in this Discipline	$ 12 billion	Benchmark	8.9%	13.2%

1. ***Past Performance.** Summarize your performance over the last quarter and year. Specifically, what active bets did you make relative to your benchmark? Which of these bets worked/did not work and why?*

During the first quarter we slightly underperformed the benchmark. Our overweight in airlines was a positive as UAL was +20% as well as entertainment and publishing where Disney was +16% and Multimedia +33%. Offsetting this, however, was our overweight in cable and cellular. The final valuation of Lin Broadcasting came in at the low end of expectations in their buyout by AT&T which affected all cellular stocks. The cable sector continued to be affected by rate regulation and potential competition. In the consumer sector we remain underweighted but our overweighting in tobacco, i.e. Philip Morris, was positive at +14% and in retail, where we are equal weighted, both WalMart and Kohls were strong performers. We are about equal weighted in healthcare and the performance was mixed. Abbott and Amgen were very strong but United Healthcare, which had been an excellent stock over the past few years, underperformed. The financial overweighting was very positive as brokers Merrill Lynch and Morgan Stanley rebounded sharply after underperforming last year and regional bank stocks and Fannie Mae also contributed to a positive performance. Our overweighting in technology was mixed as Intel, the largest position in the portfolio, was +33% but both Motorola and Compaq declined in price.

For the year we underperformed the benchmark. While we are about equally weighted to the benchmark in technology, our overweighting in semiconductors was a positive as well as some specific names such as Microsoft +68%. Our underweighting in the consumer and healthcare areas was a negative as these sectors did well as interest rates rose and signs of a slowing economy emerged. Our financial overweighting was a negative as interest rates rose throughout the year. In the media area names such as Disney and Multimedia were strong while Time Warner and Telecommunications underperformed. Probably the largest area of underperformance came in the consumer manufacturing sector where we were equal weighted to the benchmark, but our concentration in auto stocks was a negative as investors became concerned that the auto cycle would not be an extended one.

2. ***Future Strategy.** What active bets are in place at the present time relative to your benchmark? Summarize the rationale for making these active bets.*

Our future strategy is based on a positive outlook for the investment environment and our belief that U.S. assets have become more competitive and very attractive worldwide. We have recently moved our healthcare sector to an equal weighting with the benchmark but continue to underweight consumer staples. As I mentioned in my last report, the fundamentals of many consumer companies with primarily a domestic orientation are not compelling in our view. We continue to be overweighted in the technology sector because of the strong gains in the PC cycle and in financials because the P/E to growth rate for many stocks in this area is attractive. Our weighting in cellular will decline as Lin Broadcasting is bought out for cash in the next couple of months. We expect upcoming legislation to be positive for cable stocks and should occur this year. Also we believe there is enough room for cable and competitors such as satellite and telephone to co-exist.

3. ***Organizational Issues.*** *Describe any significant ownership or personnel changes at the firm over the last quarter. List accounts gained and lost in this discipline over the same time period.*

New Accounts	**Lost Accounts**
UARCO	None
AXA Insurance	

4. ***Other Comments.*** *Highlight any other issues/events that are pertinent to the management of the SBI account at your firm.*

None

Staff Comments

No comments at this time.

Manager Commentary
Brinson Partners, Inc.

Period Ending:	**3/31/95**	**Returns**	**Qtr.**	**1 Yr.**
Total Firm Assets Under Management	$36.5 Billion	Actual	9.4%	14.5%
Total Firm Assets Managed in this Discipline	$ 9.4 Billion	Benchmark	9.5%	13.4%

1. ***Past Performance. Summarize your performance over the last quarter and year. Specifically, what active bets did you make relative to your benchmark? Which of these bets worked/did not work and why?***

Continued strong corporate profits and cash flows along with declining long-term interest rates were two of the key elements that supported U.S. equity prices at record high levels during the first quarter of 1995. Active factor exposures contributed modestly to portfolio performance during the first quarter and for the twelve months ending March 31, 1995. The portfolio is overweight with respect to stocks with high earnings/price and has an underweight in stocks that rank high in terms of relative strength or momentum. These exposures had a materially positive effect on performance for both the first quarter of 1995 and the year ending in March. Partially offsetting those benefits was an underweight with respect to the size measure as larger capitalization stocks continued to outperform smaller capitalization stocks. Finally, the portfolio overweight in economically sensitive stocks contributed to portfolio performance during both the first three months of 1995 and the year ending March 31, 1995.

Industry weightings contributed materially to first quarter performance and added the largest increment to portfolio performance during the year ending March 31, 1995. During the first three months of 1995, positive returns from relative overweights in the aerospace, insurance, railroad, service and paper sectors and from underweights in traditional telephone and auto industries more than offset negative contributions to performance from our relative overweight in metals and underweight in energy related stocks. For the twelve months ending March 31, 1995, portfolio performance benefited from overweights in aerospace, electronics, paper and aluminum and from underweights in autos and electric utilities. Positive returns to these exposures more than offset negative returns to underweight in the energy and media sectors. Industry returns during the last part of 1994 and early 1995 were characterized by generally weak returns to economically sensitive stocks, especially among the basic industries. Due in part to strong industry effects, stock selection has detracted from portfolio performance during both the first quarter and for the year ending in March. Holdings which contributed to negative stock selection during the first quarter included Citicorp, Kimberly Clark, Schering Plough, RJR Nabisco Inland Steel and Lyondell Petrochemical.

2. ***Future Strategy. What active bets are in place at the present time relative to your benchmark? Summarize the rationale for making these active bets.***

Our process remains focused on identifying those stocks that are most attractive in price/value terms through intensive individual company analysis, which incorporates strategic themes and industry research. We now have a material overweight to the earnings/price factor, in part due to the fact that some of our economically sensitive issues are now reporting strong earnings as opposed to prior losses. The portfolio continues to carry a reduced but meaningful exposure to stocks that possess a high degree of economic sensitivity and financial leverage. The relative underperformance of some basic stocks during the last quarter of 1994 and early 1995 has stalled our movement towards a more neutral position here. Finally, the portfolio possesses an important exposure to stocks with high book-to-price ratios and a meaningful negative exposure to relative strength.

From an industry perspective we continue to possess an overweight in financial/interest sensitive stocks, comprised of a neutral weight in banks and an overweight in non-bank financials (primarily insurance). A common thread through our holdings in the insurance industry is conservative, focused management. The portfolio is underweighted utilities, including both electric utilities and the traditional telephones. We continue to believe that the eventual deregulation of power generation is accelerating competitive pressure from lower cost utility and non-utility generators. Little if any rate relief appears available to utilities and investors remain concerned about potential dividend cuts. We add to electric utility shares in our portfolio as valuations for selected stocks become attractive. Competition will also intensify in the telecommunications industry as regulatory barriers between traditional business lines are blurred and protection diminishes for the traditional regional telephones companies. We are underweighted in the traditionally defensive consumer sector including nondurables, retail/apparel and discretionary spending stocks. The demographic profile of U.S. consumer and the pressures from sustained reduction in labor content in many corporations suggest trend growth in this area will continue to be slightly below that of the general economy. Selected consumer nondurables should perform well under current market conditions while demand for durable goods should peak during 1995. The portfolio also remains overweighted in selected healthcare and drug stocks. While the immediate threat of direct government regulation of health care has now passed, the industry faces a longer-term intensification of competition due to the growing power of health care consumers. Since we see this trend progressing, all of our health care selections are companies which we believe can maintain profitability in a more competitive environment. Finally, the portfolio continues to be slightly overweighted in some of the basic industries including iron, steel and paper stocks.

Key holdings include Citicorp, Honeywell, Lockheed Martin, Pfizer, RJR Nabisco, Schering-Plough, Schlumberger and Sprint.

3. ***Organizational Issues.*** *Describe any significant ownership or personnel changes at the firm over the last quarter. List accounts gained and lost in this discipline over the same time period.*

   There have been no significant organizational changes and no turnover of our senior investment professionals in this past quarter.

   In the first quarter of 1995, Brinson Partners gained one U.S. equity client with $100 million and lost none. In addition, existing clients added $70 million for the firm to manage.

4. ***Other Comments.*** *Highlight any other issues/events that are pertinent to the management of the SBI account at your firm.*

   None this quarter.

Staff Comments

No comments at this time.

Manager Commentary
Forstmann-Leff Associates Inc.

Period Ending:	**3/31/95**	**Returns**	**Qtr.**	**1 Yr.**
Total Firm Assets Under Management	$2.7 billion	Actual	10.4%	6.5%
Total Firm Assets Managed in this Discipline	$1.3 billion	Benchmark	8.7%	12.9%

1. ***Past Performance.*** *Summarize your performance over the last quarter and year. Specifically, what active bets did you make relative to your benchmark? Which of these bets worked/did not work and why?*

Over the quarter, the portfolio was helped by good stock selection in the very areas which had cost us so much performance in previous periods. Gains were made in the economically oriented segment of the portfolio which had underperformed in the second through fourth quarters of 1994, as discussed below. The improving prospects for a soft economic landing and a more favorable interest rate climate reassured investors that cyclical companies could continue to post healthy profit gains. In fact, our holdings in the autos, hotel/motel, paper and forest products and the rails all met or exceeded our expectations for earnings, contributing to the first quarter's advance. In addition, a healthy gain in Price/Costco Inc. added roughly 75 basis points to the quarter's return.

For the year ending March 31st, the disappointing comparison reflects the lingering effect of the underperformance of the second through fourth quarters of 1994. During that period, our equity strategy weathered a market rotation away from economically sensitive names, following several interest rate increases by the Fed. Our view that the year would see moderate economic growth, with no recession through 1995, led us to focus upon economically sensitive issues including the autos, rails and hotels/motels, among others. Through the first quarter of 1994 the market rewarded this strategy. However, Fed actions began to produce a shift in investor sentiment by the second quarter, as the market moved away from these economically sensitive names toward a more defensive strategy geared to a moderation of economic growth and favoring issues with more predictable, albeit lower, earnings growth.

Although we were correct on our economic and earnings forecasts, this shift produced an environment which, after the first quarter, severely discounted otherwise healthy profits, particularly in the more cyclically oriented segment of the market. Holdings such as our autos and rails were hit hard, and though their earnings met our expectations, significant investor disaffection with these names last year generated negative returns which are heavily weighted in the one year number. Further difficulties were experienced among the retail holdings, such as Price/Costco, Inc. In spite of the consumer's willingness to take on additional debt to finance purchases, the retail environment remained extremely competitive through the end of the year, causing weakness across the group. As noted above, this holding made considerable progress in the first quarter, contributing with the cyclicals to the quarter's strong advance. Lastly, mid-cap names, traditionally our area of focus, experienced p/e contractions in a market which viewed them as vulnerable to both rising inflation and an economic slowdown. We were helped by a considerable underweighted position in the consumer non-durables and the utilities, two segments of the market which performed very poorly for the year. However, the negative effects of the overweighted economically sensitive issues were significant enough to overwhelm these positives.

2. ***Future Strategy.*** *What active bets are in place at the present time relative to your benchmark? Summarize the rationale for making these active bets.*

   In view of the market's preoccupation with the probabilities of a hard or soft landing and the increasing volatility among sectors, we have chosen to pursue thematically driven investment strategies which should transcend, at least to some extent, these forces. We continue to favor companies which supply goods or services to faster growing economies. This includes brand name consumer growth companies with appeal to new markets, as well as selected commodity cyclicals such as the paper and forest products companies. The rails provide another attractive area, as they are well positioned to benefit from continuing export strength. Additionally, the rails are competitively positioned to gain share from the truckers, as new developments in teamsters contracts will allow long haul shippers to increase their use of cheaper rail service over truck transport.

   We also see opportunities in the energy area, where oil in real terms is trading at pre-embargo levels. With a perceived floor of $16 per barrel, there is room for an extended advance with minimal downside risk. In the communications area we favor the suppliers over the carriers, as we anticipate that the delivery industry will undergo a competitive shakeout. Suppliers of both content and equipment, particularly those with the ability to capitalize upon worldwide demand, should benefit from rapid expansion and accelerating expenditures by carriers contending for a piece of the market. Finally, the hotel/motel area holds much promise, as a lack of construction in the full service area over the last several years leaves the suppliers well positioned to enhance profitability through rate increases.

3. ***Organizational Issues.*** *Describe any significant ownership or personnel changes at the firm over the last quarter. List accounts gained and lost in this discipline over the same time period.*

   Ron Katz, our new head trader, joined the firm from Salomon Brothers. His background includes several years of experience trading at other highly regarded organizations including Coniston Partners and Bass Brothers. Our previous head trader of almost twenty years, Mary Ann Spence, retired with her family to Florida to pursue other interests.

   No accounts were gained or lost in this discipline over the quarter.

4. ***Other Comments.*** *Highlight any other issues/events that are pertinent to the management of the SBI account at your firm.*

   Though we have much work ahead of us, we are confident in the adjustments made to the portfolio and pleased by the momentum building since the beginning of the year. All of us are grateful for your continued commitment as we move forward from last year's disappointment.

Staff Comments

Staff recently visited Forstmann-Leff at their office in New York. A summary of the meeting is in a separate memo as part of the IAC Domestic Manager Committee Report. Staff recommended that due to deterioration of analytical ability of Forstmann-Leff's research staff, they be re-interviewed by a special committee next quarter at which time a retention or termination decision be made.

Manager Commentary
Franklin Portfolio Associates Trust
Active Account

Period Ending:	**3/31/95**	**Returns**	**Qtr.**	**1 Yr.**
Total Firm Assets Under Management	$7.3 Billion	Actual	9.7%	12.7%
Total Firm Assets Managed in this Discipline	$407 Million	Benchmark	9.7%	13.6%

1. ***Past Performance.*** *Summarize your performance over the last quarter and year. Specifically, what active bets did you make relative to your benchmark? Which of these bets worked/did not work and why?*

First Quarter Performance:
For the quarter, the account was slightly ahead of the benchmark with a total return of 9.74% compared to 9.68%. For the same period, the S&P 500 produced a return of 9.70%. According to the performance attribution analysis, stock selection was a positive contributor to active return in the quarter. Industry exposures made a negative contribution and risk-index exposures were neutral. Factor and Industry contributions represent the combination of the average bets made relative to the benchmark and the performance of these factors/industries.

The positive risk factor bets which helped performance were the E/P and Variability-in-Markets factors. These two factors contributed an estimated 62 basis points to the active return. A positive bet on Success, which is like a measure of past relative strength, was a negative contributor with an estimated contribution of -49 basis points. Positive industry bets in Electronics, Gas Utilities, and Media also contributed an estimated 88 basis points to active return. Under-weighted positions in Miscellaneous Finance,. Producer Goods, Railroads, International Oils, and Aerospace were a negative for performance since all these industries did well during the quarter. The estimated impact of these bets was -97 basis points. An improved interest-rate picture and/or strong quarterly earnings were the reasons for these groups performance during the quarter.

From a specific stock selection point of view the following were strong positive contributors to performance-Micron Technology Inc. (manufacturer of semiconductor devices), AFLAC, Inc. (life insurance), Computer Associates (computer software), MBNA Corp. (credit-card issuer), and Columbia HCA Healthcare. Offsetting these strong performers were weak performers in the following holdings: EMC Corp. (computer storage), Compaq Computer Corp., Phelps Dodge, and Archer Daniels Midland.

Twelve Month Performance:
For the past twelve months, stock specific bets were a small positive contributor and industry exposures were a net negative. Factor bets were neutral. The two most positive risk factor contributors were positive bets in Variability-in-Markets and Foreign Income, contributing an estimated 87 basis points to return. A positive bet on the Success factor had a negative 78 basis points impact. Industry bets which worked were - positive bets in Drugs, Banks, and Electronics. The total estimated contribution was 173 basis points. Significant industry bets which hurt performance were Telephones, Paper, Health (non-drugs), and Producer Goods. The total impact was -197 basis points. In these cases we were, on average, underweighted in these industries and they performed well during the period.

From a specific stock point of view, the top contributors to performance were: Micron Technology, Computer Associates, Syntex Corp. (A takeover play), Johnson & Johnson, and Silicon Graphics (high-performance computers). Holdings in Snapple Beverage, Continental Corp., Unum Corp., International Game Technology (gaming machines), and H.F. Ahmanson (California based Thrift) decreased performance.

2. ***Future Strategy.*** *What active bets are in place at the present time relative to your benchmark? Summarize the rationale for making these active bets.*

As of March 31, 1995, the following significant active bets existed in the account relative to the benchmark:

A. Factor bets (bets stated as standard deviation from benchmark):
Success = 0.22 Earnings/Price = 0.27 Foreign Income = -0.12 Labor Intensity = -0.12

B. Industry bets (bets stated as percentage deviation from benchmark weight):

5 Most Positive Bets:		**5 Most Negative Bets:**	
Food Stores	3.77%	Retail	-4.40%
Food	2.75	Services	-2.98
Electric Utilities	2.32	International Oils	-1.62
Gas Utilities	2.32	Apparel, Textile	-1.27
Publishing	2.06	Railroads	-1.14

C. Ten largest Stock bets (bets stated as percentage deviation from benchmark weight):

Textron Inc.	2.24%	**Unicom Corp.**	2.15%
Archer Daniels Midl	2.11	**Union Camp Corp.**	2.08
Phillips Pete	2.08	**American Greetings**	1.96
Aon Corp.	1.92	**Panhandle Eastern**	1.86
Merck & Co.	1.85	**Compaq Computer**	1.81

All active bets in the portfolio are based on two considerations - (a) the rank of individual issues as determined by Franklin's valuation system, and (b) the impact of each issue on overall tracking error or risk of the total portfolio relative to the benchmark. The portfolio construction objective is to obtain as high a rank as possible consistent with the residual risk (tracking error relative to the benchmark) objective. We attempt to maintain a total tracking error of approximately 3% relative to the benchmark with approximately 70% to 80% of the tracking error resulting from stock bets. As a result of the stock selection bets, the portfolio acquires the factor and industry bets as described above. As of quarter-end, the forecast total tracking error for the portfolio was 3.10% with 84% of the tracking coming from stock specific risk.

3. ***Organizational Issues.*** *Describe any significant ownership or personnel changes at the firm over the last quarter. List accounts gained and lost in this discipline over the same time period.*

We gained one account which was the semi-passive account we are now managing for the State. We lost no accounts.

4. ***Other Comments.*** *Highlight any other issues/events that are pertinent to the management of the SBI account at your firm.*

In February we began managing a long/short completeness fund for an existing client. Previously this account was a long only portfolio.

Staff Comments

No comments at this time.

Manager Commentary
GeoCapital Corporation

Period Ending:	**3/31/95**	**Returns**	**Qtr.**	**1 Yr.**
Total Firm Assets Under Management	$1.7 billion	Actual	8.5%	6.7%
Total Firm Assets Managed in this Discipline	$1.7 billion	Benchmark	10.9%	20.6%

1. ***Past Performance.*** *Summarize your performance over the last quarter and year. Specifically, what active bets did you make relative to your benchmark? Which of these bets worked/did not work and why?*

GeoCapital had good performance in the first quarter of 1995 generating much higher returns than the Russell 2000. Relative to the benchmark we were behind because the benchmark portfolio contains some stocks over $1 billion in market cap that we do not buy, and also our portfolio has 12.5% in cash versus 2.0% in the benchmark. The reason for the increased cash is that we sold some older larger stocks and are in the process of reinvesting the funds in new companies. We were also negatively impacted by 0.41% because of trading and other categories. The technology and financial stocks performed well for us in the quarter. Good performance in the education area during the period included Apollo, Devry, Learning Company, and Minnesota Education. Also doing well were State of the Art, Xcellenet, and Alantec in the networking software area. Mercury Finance and Riverwood did well in special situations. A strong outlook for earnings helped these stocks. Herman Miller, Quantum Health and Applied Digital Access did not perform well because of concern for future earning trends. Overall we added value above the benchmark in technology and were hurt in the consumer non durables versus the benchmark.

During the year ended 3/31/95, the consumer non durables sector hurt us the most while technology and financial showed improvement mainly because of better relative returns versus the benchmark in the recent quarter. The medical service stocks continued to consolidate in the last six months hurting the relative performance in consumer non durables.

2. ***Future Strategy.*** *What active bets are in place at the present time relative to your benchmark? Summarize the rationale for making these active bets.*

We continue to add to our technology holdings as short term product transition delays give us more attractive prices in order to buy. Both the financial and health care services area continue to consolidate and represent attractive investment areas. We plan to continue to invest our cash position cautiously as the market presents us with reasonable valuations for our favored stocks.

3. ***Organizational Issues.*** *Describe any significant ownership or personnel changes at the firm over the last quarter. List accounts gained and lost in this discipline over the same time period.*

   No change in personnel.

   This quarter we lost one account in this discipline to a global manager.

4. ***Other Comments.*** *Highlight any other issues/events that are pertinent to the management of the SBI account at your firm.*

   Our activity has increased during 1995 as we continue to restructure and refresh the SBI portfolio since we continue to be very positive for small cap stocks in 1995 and 1996. Our expectations are that the portfolio may tilt more to the growth side during 1995.

Staff Comments

Staff recently visited GeoCapital at their office in New York. A summary of the meeting is in a separate memo as part of the IAC Domestic Manager Committee report. Staff recommended that no action be taken at this time but will closely monitor the firm over the next year.

Please refer to #1 regarding stocks over $1 billion market cap in their current benchmark. They are in the process of evaluating what the maximum market cap should be in the benchmark. Currently, the benchmark construction process allows companies over a billion dollars in market cap under certain circumstances. Once GeoCapital has finished their evaluation, staff will review any proposed change for reasonableness.

Manager Commentary
Investment Advisers, Inc.

Period Ending:	**3/31/95**	**Returns**	**Qtr.**	**1 Yr.**
Total Firm Assets Under Management	$14.4 Billion	Actual	7.1%	10.2%
Total Firm Assets Managed in this Discipline	$ 726 Million	Benchmark	9.0%	15.8%

1. ***Past Performance.*** *Summarize your performance over the last quarter and year. Specifically, what active bets did you make relative to your benchmark? Which of these bets worked/did not work and why?*

   For the quarter ended March 31, 1995, the portfolio was up 7.1% versus 9.0% for the benchmark. On a pure stock basis, the portfolio was up 8.2% so our cash position was the main contributor to underperformance. This is consistent with our strategy of neutralizing the bets in the portfolio going into the year. Our cash position rose throughout the quarter due to an adherence to our sell discipline and an unwillingness to stretch our buy points.

   For the year, the two themes developed in 1994 that helped the most were the resurgence of health care and telecommunications equipment. Both themes had a significant positive impact on one year results. The most significant drag on performance were the small cap "story" stocks. These stocks had their greatest relative impact in the June quarter of 1994, but individual stocks continued to run into problems through year end 1994.

2. ***Future Strategy.*** *What active bets are in place at the present time relative to your benchmark? Summarize the rationale for making these active bets.*

   The portfolio has essentially neutral weightings against most economic sectors in the Benchmark. The only area with a significant overweighting is Capital Goods (specifically Producer Manufacturing and Process Industries). Our overweighting in Capital Goods is based on a stock by stock view of the earnings outlook and valuation of the companies held. In general, we have been attracted to Capital Goods stocks with strong growth stories (looking out 3 years) feeling that the valuations justified our overweighting. The other active sector bet is an overweighting of life insurance/annuity companies within the Finance portion of the portfolio. Though our total Finance weighting is relatively neutral, we have skewed the weighting into life insurance stocks.

3. ***Organizational Issues.*** *Describe any significant ownership or personnel changes at the firm over the last quarter. List accounts gained and lost in this discipline over the same time period.*

   During the fourth quarter, there were no ownership or personnel changes at IAI. We are actively interviewing candidates for a research analyst position to work exclusively on the Regional discipline. Our goal is to have someone in place at year-end 1995.

   No accounts were gained or lost in this discipline during the quarter.

4. ***Other Comments.*** *Highlight any other issues/events that are pertinent to the management of the SBI account at your firm.*

   Our comments for the quarter ending March 31, 1995 pertain to our use of a benchmark created by BARRA. We have come to agreement on the use of a regional index as our benchmark. This benchmark is a modified version of an Index we track internally at IAI - The Regional 300. We are pleased this Index has been accepted because it represents the 300 largest companies in our region (the bulk of our investment universe). It is also exciting to have this Index track how our region stacks up as a place to invest. Our contention has always been that this is a very exciting and profitable place for investors to focus.

Staff Comments

Staff reviewed and agreed with IAI's proposal to use a modified version of a regional index as their benchmark. Staff will continue to monitor the new benchmark going forward to make sure it meets statistical tests of benchmark quality. In addition, staff is having historical information reconstructed to obtain additional information on the benchmark's ability to reflect IAI's investment process. The regional index benchmark will be used on the performance standard beginning April 1, 1995.

Manager Commentary
IDS Advisory Group, Inc.

Period Ending:	**3/31/95**	**Returns**	**Qtr.**	**1 Yr.**
Total Firm Assets Under Management	$21.7 Billion	Actual	6.2%	10.0%
Total Firm Assets Managed in this Discipline	$ 5.6 Billion	Benchmark	8.9%	14.9%

1. ***Past Performance.*** *Summarize your performance over the last quarter and year. Specifically, what active bets did you make relative to your benchmark? Which of these bets worked/did not work and why?*

Performance over the latest three months as well as the latest 12 months has been disappointing:

	Latest 3 Months	**Latest 12 Months**
Total Account	6.2	10.0
S&P 500	9.7	15.6
Normal Portfolio	8.9	14.9

Poor performance during the quarter reflected a significant cash position as well as poor stock selection. Sector returns were neutral to the market. Cash averaged 8-9% during the course of the quarter and cost the portfolio approximately 85 basis points of performance. Stock selection was negatively impacted by major holdings in poorly performing consumer cyclical stocks such as the autos and retailers. In addition, several technology, telecommunications, and basic industrial stocks significantly underperformed the market. Key to the underperformance was not merely what we owned but what we did not hold. Stocks such as IBM and Eastman Kodak have generated outstanding performance thus far in 1995, and our failure to own these securities carried a significant penalty. Over the years, IDS' Research Department has been one of its major strengths. I continue to believe that will be the case in the future. Hopefully, the first quarter was merely an aberration.

2. ***Future Strategy.*** *What active bets are in place at the present time relative to your benchmark? Summarize the rationale for making these active bets.*

Our sector weights are as follows:

	03/31/94	**03/31/95**	**Normal Portfolio 03/31/95**
Technology	12.1	11.5	14.5
Consumer Stable	4.4	15.5	25.8
Consumer Cyclical	25.6	10.5	15.7
Utilities (non Electric)	3.4	5.1	7.3
Financial Services	17.2	19.2	9.1
Energy	5.2	8.1	6.3
Industrial Basic	13.6	7.3	5.3
Industrial Growth	3.6	4.5	3.5
Industrial Cyclical	12.6	9.3	7.5
Equity Cash	2.4	8.8	5.0
	100.0	100.0	100.0

As you will note, relative to the normal portfolio we are moderately underweighted in the technology, consumer cyclical, and utility areas. We are significantly underweighted in the consumer stable sector. Our underweighting in technology is a recent phenomenon. At the end of last year our technology weighting was 15-16%. Our reduction in this sector reflects the outstanding performance of many of the stocks in this area. It is our intention to rebuild our technology positions assuming the stocks correct. While our consumer stable weighting is less than that of the market, we have built our holdings in this area significantly in recent months. At the end of December, weightings in the consumer stable area were 9% while as of today holdings are almost 16%. This rapid increase is a reflection of the fact that Advisory feels that the consumer stable sector will perform well in an environment of slowing earnings growth which we are forecasting over the next 18 months. The portfolio is heavily overweighted in the financial services sector which is a reflection of our belief that a decline in interest rates is likely as economic activity slows later this year. This also happens to be the most undervalued sector of the market. In the industrial basic area we have reduced holdings dramatically and currently have a weighting of approximately 5%. This reflects our belief that this sector will bear the brunt of the expected slowdown in earnings next year. Finally, we are carrying a cash position of approximately 13%. This cash position reflects our belief that the market is likely to sustain a correction in the next few months. The market has advanced more than 20% on a total rate of return basis over the last 5 1/2 months. This advance has occurred without a single meaningful correction. Even strong markets occasionally correct, and in this case, the correction is long overdue.

3. ***Organizational Issues.*** *Describe any significant ownership or personnel changes at the firm over the last quarter. List accounts gained and lost in this discipline over the same time period.*

There have been no ownership or personnel changes at IDS Equity Advisors in the last quarter.

IDS ADVISORY GROUP
First Quarter 1995

	Gains		Losses	
Product	**# of Accounts**	**Assets ($MM)**	**# of Accounts**	**Assets ($MM)**
Large Cap Equities	4	48.5	0	0.0
Fixed Income	2	65.6	0	0.0
Balanced	8	79.5	0	0.0
International	1	50.0	0	0.0
Small Cap Equities	0	0.0	0	0.0
Mid Cap Equities	0	0.0	0	0.0
Research Core	0	0.0	0	0.0
Research Aggressive	2	75.0	0	0.0
Global Bonds	0	0.0	0	0.0

4. ***Other Comments.*** *Highlight any other issues/events that are pertinent to the management of the SBI account at your firm.*

None at this time.

Staff Comments

No comments at this time.

Manager Commentary
Independence Investment Associates

Period Ending:	3/31/95	Returns	Qtr.	1 Yr.
Total Firm Assets Under Management	$17 Billion	Actual	9.4%	12.7%
Total Firm Assets Managed in this Discipline	$ 8 Billion	Benchmark	9.7%	15.5%

1. ***Past Performance.*** *Summarize your performance over the last quarter and year. Specifically, what active bets did you make relative to your benchmark? Which of these bets worked/did not work and why?*

The most recent 12 month period for your portfolio has been disappointing, with most of the underperformance coming from the July - October, 1994 period. As we discussed in our previous report, the valuation approach that drives our process did not work in that period. It was a difficult period in which it appears that cheap stocks with improving fundamentals were not recognized in the marketplace. Neither the intrinsic value nor earnings momentum components of our model added value, an unusual but not unprecedented event. Although this has happened in the past, it is a rare enough occurrence that there is not enough data available to make a statistically accurate analysis as to why this happens. We have been able to observe however, that it tends to happen when there is a rapid change in investment styles favored by the market, as in this case from value to growth. It tends to be a period which causes turmoil in the market and the improving value of specific stocks are not always recognized. It also tends to be short-lived, with normal fundamentals once again receiving recognition. In keeping with this, since the July - October period, the models have reflected a positive turn in the performance trend and although your account did slightly underperform the benchmark in the first quarter, our valuation system was skillful in stock selection. Because your portfolio is an existing portfolio of stocks and the cost of turnover must be considered, it takes some time for this to be reflected. The financial markets posted solid gains in the first quarter of 1995, despite concerns over derivative losses and currency scares in both Mexico and the United States. Your portfolio also posted a solid gain of 9.4%. SEI median manager return for the quarter was 8.6%.

Market leadership during the first quarter continued to oscillate between economically sensitive and stable growth issues, as varying themes of a soft landing and a recession played out. Economic data such as slowing auto sales, a drop in housing starts and the report of modest buildups in inventories supported the picture of a slowing economy. On the inflation front, the competitive consumer environment is preventing manufacturers from passing the commodity price increases seen over the lst year onto the consumer, and companies continued to invest heavily in technology to protect profit margins. After the Fed raised rates in January for the seventh time in the last twelve months, investors seemed to conclude that the Fed had successfully slowed the economy.

The best performing stocks in your portfolio this quarter included technology issues such as Intel, Hewlett-Packard and Texas Instruments, financial stocks like MBNA Corp. and 1st Bank System, and healthcare companies such as Columbia/HCA Healthcare, Baxter, and Medtronics for example. In addition, broadline retailers such as Federated Department Stores and Wal-Mart rallied while selected material stocks like Phelps Dodge, International Paper and Louisiana Pacific lagged in the quarter as did utilities like AT&T and Unicom and the autos.

2. ***Future Strategy.*** *What active bets are in place at the present time relative to your benchmark? Summarize the rationale for making these active bets.*

   As always, our disciplined investment process focuses on those companies exhibiting "cheapness and improving fundamentals", characteristics that are reflected in your portfolio by the low P/E of 11.9X relative to the S&P 500's P/E of 14.9X, which is indicative of the value aspect of your portfolio and the long term growth rate of 9.3% relative to the S&P 500's long term growth of 7.0% is indicative of the improving fundamentals. Your portfolio continues to be highly diversified with 122 stocks and managed with strict risk control, as measured by a beta of 1.00 and an R2 of 0.982 relative to the benchmark.

3. ***Organizational Issues.*** *Describe any significant ownership or personnel changes at the firm over the last quarter. List accounts gained and lost in this discipline over the same time period.*

   A number of clients have inquired about Independence's use of derivatives. Recent stories in the press have highlighted institutions that have been hurt by the misuse of financial instrument. Independence does not use derivatives in your portfolio.

4. ***Other Comments.*** *Highlight any other issues/events that are pertinent to the management of the SBI account at your firm.*

   None.

Staff Comments

No comments at this time.

Manager Commentary
Jundt Associates, Inc.

Period Ending:	3/31/95	Returns	Qtr.	1 Yr.
Total Firm Assets Under Management	$3.5 Billion	Actual	2.9%	9.3%
Total Firm Assets Managed in this Discipline	$2.7 Billion	Benchmark	8.9%	16.3%

1. ***Past Performance.*** *Summarize your performance over the last quarter and year. Specifically, what active bets did you make relative to your benchmark? Which of these bets worked/did not work and why?*

   Quarter: The under performance of the actual portfolio versus the benchmark in the quarter primarily resulted from the adverse stock selection in the technology sector. The benchmark return was nearly 13%, and technology accounted for nearly 26% of the benchmark portfolio. The portfolio return in the technology area was modestly above 1% and was weighted to about 37%. The actual portfolio was hurt by several names including Sybase, EMC Corp., and Motorola. Conversely, the benchmark was strongly aided by investments in the semiconductor industry, which for the quarter rose by 16%. These companies tend to be highly cyclical and thus never will be broadly used in our portfolios. Nearly 70% of the negative performance came from the technology sector. The most significant other sector under performing was the consumer non-durables area. The benchmark and portfolio weights were about the same; but the benchmark benefited from its exposure to slower growing companies in the food and drug industries, which performed very well. These areas do not meet our top line growth criteria of at least 15%.

   Twelve Months: The twelve months under performance versus the benchmark of about 7% was mostly influenced by the events of the first calendar quarter of 1995. Our relative performance comparisons were especially hurt in the consumer non-durable area, reflecting the strong performance of the slow growing food, drug, and miscellaneous areas making up this sector. These companies generally benefited from the weak dollar versus the Japanese Yen and the D Mark.

2. ***Future Strategy.*** *What active bets are in place at the present time relative to your benchmark? Summarize the rationale for making these active bets.*

   The portfolio continues to invest in what we consider to be the fastest growing companies over the next three to five years. Ironically, the performance of what we consider to be "yesterday's" icons of growth, such as food, drugs, IBM, etcetera, was spectacular. We believe that this will prove to be a short-term phenomena as the top line revenue growth for most of these companies remains in single digit territory.

   As each quarter goes by, however, there is always a need for reassessment of the names that will be used, and we watch very closely as quarterly earnings are announced to insure our companies are executing at a high level to meet our growth expectation. Thus, new names will appear and the pruning of existing names is an on-going process.

   The portfolio continues to be heavily invested in the consumer non-durable area, including HMO's, specialty retailers, and wireless communications. Technology also continues to be a large weighting with investments in communications equipment, computer software and services, and electronics.

3. ***Organizational Issues.*** *Describe any significant ownership or personnel changes at the firm over the last quarter. List accounts gained and lost in this discipline over the same time period.*

   None to report.

4. ***Other Comments.*** *Highlight any other issues/events that are pertinent to the management of the SBI account at your firm.*

   Jundt Associates' focus is on owning 30 to 50 of the fastest growing companies in America. Stocks of these companies seldom perform in line with the Dow Jones or the S&P 500. But the fundamental outlook for their growth continues to be very strong. The composite growth rate in revenues for the portfolio currently exceeds 35%.

   With the Federal Reserve having raised rates several times, we are finally seeing signs that the economy is slowing. Historically, as cyclical earnings approach a peak rate of gain, investor interest tends to move to those companies capable of sustaining earnings momentum.

Staff Comments

Due to significant underperformance over the last year, staff is currently reviewing the firm. Findings recommendation will be reported under a separate cover.

Manager Commentary
Lincoln Capital Management Company

Period Ending:	3/31/95	Returns	Qtr.	1 Yr.
Total Firm Assets Under Management	$27.6 Billion	Actual	10.1%	18.3%
Total Firm Assets Managed in this Discipline	$ 9.1 Billion	Benchmark	9.7%	18.0%

1. ***Past Performance.*** *Summarize your performance over the last quarter and year. Specifically, what active bets did you make relative to your benchmark? Which of these bets worked/did not work and why?*

   The active portfolio modestly exceeded the benchmark during the first quarter. Sector weighting performance was modestly negative. The portfolio was helped by the overweighting in finance and the underweighting in retail, but hurt by the underweighting in healthcare and overweighting in capital goods/computer services. Selection was very good in technology, positive in retail and entertainment, generally poor in capital goods/computer services. Stock selection was positive in the quarter, more than compensating for the negative sector allocation.

   Over the past year the active portfolio modestly exceeded the benchmark. Sector weighting was modestly negative primarily due to the underweighting in health care and overweighting in financial issues. Stock selection was positive and overcame the sector weight impact. Positive selection occurred in capital goods, computer services, health care, and technology. There was below average selectivity in retail.

2. ***Future Strategy.*** *What active bets are in place at the present time relative to your benchmark? Summarize the rationale for making these active bets.*

   There is an overweighting in the consumer staples area - primarily global consumer products companies. These companies are very well positioned to expand geographically, and we believe the persistence of superior future growth is not yet reflected in the stocks. Health care remains underweighted. We remain concerned about pricing pressures, particularly in HMO's. Media is also underweighted as our interest in the information highway lies more with content and equipment suppliers than cable or network companies. The "other" category remains overweighted, specifically in electrical equipment (capital goods) and computer/business services (outsourcing entities such as Automatic Data and General Motors "E" or EDS).

3. ***Organizational Issues.*** *Describe any significant ownership or personnel changes at the firm over the last quarter. List accounts gained and lost in this discipline over the same time period.*

   None.

4. ***Other Comments.*** *Highlight any other issues/events that are pertinent to the management of the SBI account at your firm.*

   None.

Staff Comments

No comments at this time.

Manager Commentary
Lynch & Mayer, Inc.

Period Ending:	3/31/95	Returns	Qtr.	Year
Total Firm Assets Under Management	$6.0 billion	Actual	7.1%	8.8%
Total Firm Assets Managed in this Discipline	$2.0 billion	Benchmark	8.7%	14.3%

1. ***Past Performance.*** *Summarize your performance over the last quarter and year. Specifically, what active bets did you make relative to your benchmark? Which of these bets worked/did not work and why?*

Performance is summarized above. A partial listing of the significant over- and underweighted average sector results for the quarter were:

Sector		Portfolio Weighting	Portfolio Results	Benchmark Weighting	Benchmark Results	Value Added
Technology	1st Q	32.5%	8.9%	32.3%	10.4%	-0.5%
	1-Yr.	31.8	23.8	28.6	27.0	-0.6
Consumer	1st Q	34.5%	9.1%	30.4%	9.4%	0.0%
Non Durables	1-Yr.	25.7	18.1	31.5	17.7	-0.1
Capital	1st Q	5.6%	2.9%	5.2%	9.6%	-0.4%
Goods	1-Yr.	11.2	-2.1	5.1	2.0	-1.0
Financial	1st Q	11.7%	8.2%	8.5%	10.7%	-0.3%
	1-Yr.	11.0	9.8	9.3	11.5	-0.4
Basic	1st Q	7.2%	9.3%	6.5%	1.6%	+0.3%
Materials	1-Yr.	7.8	7.1	6.3	5.1	0.0
Energy	1st Q	3.0%	3.4%	3.3%	11.7%	-0.2%
	1-Yr.	2.6	-16.8	3.4	16.9	-1.0

Sector bets during the first quarter and trailing one year were neutral; however, stock selection relative to the benchmark was negative. The best absolute performing sectors were Basic Materials, Consumer Non-Durables and Technology. Stocks that did particularly well during the quarter were Intel, Hewlett-Packard, Browning Ferris, Xerox and McDonald's. Holdings that did not perform well during the quarter were Home Depot, Aluminum Company of America and Motorola. Because these companies have perceived ties to the general economy, they are not being rewarded for strong earnings.

For the year ending March 30, our value added over the benchmark was -3.0%, before trading attribution of -1.9%, for a total of -4.9%. Stock selection in all sectors except Consumer Non-Durables and Basic Materials contributed negatively. This broad underperformance resulted in part from a highly volatile market during much of 1994, especially during the second quarter. For the year, it was reported that the S&P 500 companies, on average, were off 17% by the end of the year from their highs during the year. This environment caused one of our sell disciplines, which is activated by a stock price decline in excess of 15% relative to the S&P 500 over a rolling 52 week period, to be triggered more often than usual, with complete sales or reductions in a number of our holdings, e.g., DSC Communications, Promus, EMC Corp., Masco, and Shaw Industries.

2. ***Future Strategy.*** *What active bets are in place at the present time relative to your benchmark? Summarize the rationale for making these active bets.*

Stock selection continues to focus less on economically sensitive sectors as the U.S. economy seems to have entered a slower phase of expansion in the latest three months.

Lynch & Mayer (con't)

Our bottom-up investment philosophy of purchasing stocks of companies in the midst of positive fundamental change has resulted in the following sector bets relative to the benchmark:

a) Overweighting in the Consumer Non-Durables, Capital Goods and Financial sectors; and,
b) Underweighting in the Consumer Durables, Energy, Technology and Transportation sectors.

The top five holdings as of March 31, 1995 relative to the benchmark are:

Rationale for Investment	Company	Portfolio Weight	Benchmark Weight
Corporate Restructuring	Xerox	4.19%	0.17%
Acceleration of Growth	Pfizer	4.17	0.64
Acceleration of Growth	Proctor & Gamble	4.01	0.36
Acceleration of Growth	Gillette	3.89	0.64
Acceleration of Growth	McDonald's	3.80	0.42

Our investment philosophy hinges on the premise that earnings growth significantly above historical trend or consensus expectation invariably is preceded by a critical positive fundamental change. We search intensively for early indications of such change and group purchase candidates into four categories by source of earnings increase. The categories are: acceleration of growth; improving industry environment; corporate restructuring; and "turnaround" situations

3. ***Organizational Issues.*** *Describe any significant ownership or personnel changes at the firm over the last quarter. List accounts gained and lost in this discipline over the same time period.*

There were no ownership or personnel changes during the first quarter.

Accounts Gained (tax-exempt) First Quarter, 1995:
Unitarian Universalist Congregation - Large Cap
Hearst Foundation - Large Cap
National Merit Scholarship - Large Cap
Metropolitan Opera - Large Cap
St. James Church - Mid Cap
Starr Commonwealth Schools - Mid Cap
Navistar Int'l - Mid Cap

Accounts Lost (tax-exempt) First Quarter, 1995:
City of Cincinnati - Combined Cap (short-term performance)

4. ***Other Comments.*** *Highlight any other issues/events that are pertinent to the management of the SBI account at your firm.*

None.

Staff Comments

Staff recently visited Lynch & Mayer in their New York office. A summary of the meeting is in a separate memo as part of the IAC Domestic Manager Committee. Due to concerns about their investment process and organizational changes, staff recommended that Lynch & Mayer be re-interviewed by a special committee next quarter at which time a retention or termination decision will be made.

Manager Commentary
Oppenheimer Capital

Period Ending:	**3/31/95**	**Returns**	**Qtr.**	**1 Yr.**
Total Firm Assets Under Management	$30.1 Billion	Actual	12.0%	15.8%
Total Firm Assets Managed in this Discipline	$14.0 Billion	Benchmark	9.5%	13.8%

1. ***Past Performance.*** *Summarize your performance over the last quarter and year. Specifically, what active bets did you make relative to your benchmark? Which of these bets worked/did not work and why?*

QUARTER ENDED MARCH 31, 1995

Contributing to our performance during the quarter was our long-standing position in numerous financial companies, which responded to a more benign interest rate environment. Included in this group are AFLAC, American International Group, Federal Home Loan Mortgage Corp., First Interstate Bancorp, Mellon Bank, Transamerica and Travelers. Although the intrinsic value of these companies is not particularly sensitive to interest rate, they are frequently perceived as "interest rate plays" by the market and fluctuate accordingly. Another favorite theme of ours, restructuring companies, played out well as several large holdings, including Hercules, McDonnell Douglas and Monsanto, outperformed the market. The top ten contributors to performance during the first quarter are listed below:

Mellon Bank	34.8%	Federal Home Loan	20.4%
Intel	33.0	Travelers	20.0
Aflac	28.5	McDonnell Douglas	18.2
Dole Foods	27.5	First Interstate Bancorp	18.0
Hercules	21.8	Philip Morris	15.2

ONE YEAR ENDED MARCH 31, 1995

Key factors contributing to performance were excellent security selection within capital goods, finance, material services and technology sectors. Having no commitments to consumer durables or transportation sectors was a favored strategy. Our overweighting in consumer non-durables and finance, added value to performance. Below are the top ten contributors to performance during the year:

Pfizer	63.4%	Aflac	35.1%
McDonnell Douglas	57.6	UST	32.9
Becton Dickinson	47.2	Warner Lambert	30.9
Progressive	40.3	Hercules	24.4
Philip Morris	36.4	American Int'l. Group	24.4

2. ***Future Strategy.*** *What active bets are in place at the present time relative to your benchmark? Summarize the rationale for making these active bets*

   We are maintaining a cash position of 10% - 12% of the portfolio. In large part, this is because we are not finding as many values as we would like. We continue to manage the portfolio with a goal of preservation of capital, and we remain alert to opportunities to buy superior companies at reasonable prices as these opportunities arise.

   We also continue to hold a significant position in financial stocks. As we have mentioned before, this overweighting is not due to a particular interest rate forecast, but is a result of our stock selection process in which these companies were identified as possessing the attributes we believe to be important determinants of whether a stock will increase in value. These attributes include shareholder orientated managements, high returns on capital, and unique industrial positions.

3. ***Organizational Issues.*** *Describe any significant ownership or personnel changes at the firm over the last quarter. List accounts gained and lost in this discipline over the same time period.*

   Marilyn White joined us as a Vice President and Client Executive. For the past three years, she has been a Senior Vice President with Lehman Brothers Global Asset Management, responsible for marketing, sales and client service, primarily for global fixed income clients. From 1985 to 1992, Marilyn was Director of Pension Marketing for Lord, Abbett & Co. and for the six years prior, held senior marketing positions with Institutional Investor. She also has prior experience with Pensions & Investments Age and the United Way of the Tri-State Area in New York.

   ACCOUNTS GAINED/LOST:

Gained:	5 accounts with $260.5 million in assets.
Lost:	1 account with $11.8 million in assets.

4. ***Other Comments.*** *Highlight any other issues/events that are pertinent to the management of the SBI account at your firm.*

   None

Staff Comments

No comments at this time.

Manager Commentary
Weiss Peck and Greer

Period Ending:	**3/31/95**	**Returns**	**Qtr.**	**1 Yr.**
Total Firm Assets Under Management	$12.9 Billion	Actual	6.2%	2.6%
Total Firm Assets Managed in this Discipline	$ 1.3 Billion	Benchmark	9.0%	11.6%

1. ***Past Performance.*** *Summarize your performance over the last quarter and year. Specifically, what active bets did you make relative to your benchmark? Which of these bets worked/did not work and why?*

   Although we have underperformed the normal portfolio in both the last quarter and the last year, we continue to consistently overweight and outperform in the Consumer Non-durables area. Stocks such as Sunglass Hut, Petsmart, Papa Johns, and Just for Feet to name a few, have helped us to outperform the benchmark by over 300 basis points for the quarter and return 2.06% for the past twelve months while the benchmark returned -0.86%

   Areas of underperformance include technology, where our performance was negatively impacted by our positions in Storage Technology and Sybase, and our limited exposure to semi-conductors which was a strong performer for both the benchmark and our account.

   In healthcare we were hurt by our holdings in Resound Corp., Quantum Health Resources, and North American Vaccine. We were also negatively impacted by our underweighting in the managed care area.

2. ***Future Strategy.*** *What active bets are in place at the present time relative to your benchmark? Summarize the rationale for making these active bets.*

   Going forward, we are decreasing our weighting in the technology area as many of the issues we own reach their sell targets and become fully valued. Our decision not to re-invest in this area stems from the belief that the technology sector on a whole has become "over-bought", and we don't see much upside potential in the near term. At this time, we are keeping most of the proceeds in cash as we feel many of the technology issues are over valued and we wait for more reasonable prices in this area.

3. ***Organizational Issues.*** *Describe any significant ownership or personnel changes at the firm over the last quarter. List accounts gained and lost in this discipline over the same time period.*

Jonathan Smith and Sherrill Blalock departed from the firm in early 1995. Mr. Smith, an individual portfolio manager, acted as a client liaison for the IMD Growth division. Ms Blalock was also an individual portfolio manager.

There were no accounts gained or lost in the growth discipline.

4. ***Other Comments.*** *Highlight any other issues/events that are pertinent to the management of the SBI account at your firm.*

In the last six months, we have added two new staff members to the client service and portfolio manager support areas. Judy Lane and Fran Melville will be responsible for maintaining client contacts, handling client requests, and coordinating client presentation preparations as well as providing administrative and quantitative support to the investment managers.

Staff Comments

Staff recently visited Weiss, Peck & Greer at their office in New York. A summary of the meeting is provided in a separate memo to the IAC Domestic Manager Committee. Staff continues to have confidence in the firms investment approach and personnel and recommended that no action be taken at this time. Staff will continue to monitor the firm closely over the next year.

Manager Commentary
Franklin Portfolio Associates Trust
Semi-Passive Account

Period Ending:	**3/31/95**	**Returns**	**Qtr.**	**1 Yr.**
Total Firm Assets Under Management	$7.3 Billion	Actual	8.7%	N/A
Total Firm Assets Managed in this Discipline	$842 Million	Benchmark	9.1%	N/A

1. ***Past Performance.*** *Summarize your performance over the last quarter and year. Specifically, what active bets did you make relative to your benchmark? Which of these bets worked/did not work and why?*

First Quarter Performance:
For the quarter, the account underperformed the benchmark by 0.4% which included a transition period in January. For the period, risk index exposures were a net positive contributor to active return. Industry and stock specific bets had no net impact.

The most significant risk factor bet was a positive tilt on E/P factor. This represented an estimated 14 basis points contribution. The rest of the factors had very small contributions. Regarding industry bets, an overweighted position in Chemicals helped the most with a contribution of 12 basis points. Underweighting Railroads cost an estimated 7 basis points. Given the low-tracking error mandate for this account, we would generally expect small contributions from industry and risk-factor bets over time.

From a specific stock selection point of view the following were strong positive contributors to performance for the two month period - Fleetwood Enterprises (recreational vehicles, modular housing), Manpower Inc., Westcorp (California based Thrift), Trinova Corp. (Manufacturing), and ADT Ltd. (Security systems). Weak performers in the period were: Tech Data Corp (computer retailer), Toys "R" Us, Smith Foods & Drugs, Long Island Lighting, and Lin Broadcasting.

Twelve Month Performance:
The inception date for the account was the beginning of the year. In subsequent reports we will comment on year-to-date activity until we reach a full twelve months of history.

2. ***Future Strategy.*** *What active bets are in place at the present time relative to your benchmark? Summarize the rationale for making these active bets.*

As of March 31, 1995, the following significant active bets existed in the account relative to the benchmark:

A. Factor bets (bets stated as standard deviation from benchmark):
Success = 0.08 **Earnings/Price = 0.11**

B. Industry bets greater than .5% (bets stated as percentage deviations from benchmark weight):

Positive Bets:		**Negative Bets:**	
Chemicals	1.77%	Telephones	-0.93%
Food	0.82	Other Insurance	-0.76
Electric Utilities	0.75	Railroads	-0.70
Gas Utilities	0.55	Banks	-0.64
Misc. Metals	0.52	Misc. Finance	-0.51

C. Ten largest Stock bets (bets stated as percentage deviation from benchmark weight):

General Motors	-0.81%	Ahmanson H.F.	0.58%
Exxon Corp.	0.53	Microsoft Corp.	-0.47
IBM	0.46	Panhandle Eastern	0.45
Mobil Corp.	0.45	Coca Cola Enterpr	0.44
Bell Atlantic Corp.	-0.44	U S West Inc.	-0.43

All active bets in the portfolio are based on two considerations - (a) the rank of individual issues as determined by Franklin's valuation system, and (b) the impact of each issue on overall tracking error or risk of the total portfolio relative to the benchmark. The portfolio construction objective is to obtain as high a rank as possible consistent with the residual risk (tracking error relative to the benchmark) objective. We attempt to maintain a total tracking error of under 1.5% relative to the benchmark with approximately 70% to 80% of the tracking error resulting from stock bets. As a result of the stock selection bets, the portfolio acquires the factor and industry bets as described above. As of quarter-end, the forecast total tracking error for the portfolio was 1.09% with 74% of the tracking coming from stock specific risk.

3. ***Organizational Issues.*** *Describe any significant ownership or personnel changes at the firm over the last quarter. List accounts gained and lost in this discipline over the same time period.*

The one account we gained was this semi-passive account. We lost no accounts.

4. ***Other Comments.*** *Highlight any other issues/events that are pertinent to the management of the SBI account at your firm.*

In February we began managing a long/short completeness fund for an existing client. Previously this account was a long only portfolio.

Staff Comments

No comments at this time.

Manager Commentary
J.P. Morgan Investment Management, Inc.

Period Ending:	3/31/95	Returns	Qtr.	1 Yr.
Total Firm Assets Under Management	$120 Billion	Actual	9.1%	N/A
Total Firm Assets Managed in this Discipline	$ 4.9 Billion	Benchmark	9.1%	N/A

1. ***Past Performance.** Summarize your performance over the last quarter and year. Specifically, what active bets did you make relative to your benchmark? Which of these bets worked/did not work and why?*

   January marked the inception of the Research Enhanced Equity (REI) strategy which Morgan manages for Minnesota State Board of Investments. The REI portfolio outperformed the custom benchmark last quarter by 6 basis points despite incurring over 20% turnover while converting the original portfolio to the REI strategy.

   The REI strategy only makes stock selection bets relative to the benchmark. Last quarter, the largest overweighted positions included American Home Products, AT&T, National Services, and New England Electric, while the largest underweighted positions included Bristol Myers Squibb, Johnson & Johnson, Amoco, and NYNEX.

   The active bets in American Home Products, Bristol Myers Squibb, Johnson & Johnson, and Amoco added to return in the quarter, while the other four positions detracted from return. The success of these active bets is dependent on stock specific events as opposed to systematic factors. For example, American Home Products outperformed other stocks in the drug sector as analysts raised earnings estimates in response to the company's ability to cut costs following their acquisition of American Cyanamid.

2. ***Future Strategy.** What active bets are in place at the present time relative to your benchmark? Summarize the rationale for making these active bets.*

   The active bets described above are still in place. As will become evident in future reports, the method of adding value and the attribution of performance will depend almost entirely on specific stock selection. This stems from our investment process, whereby our sector analysts' fundamental forecasts are used to rank stocks in each of 19 sectors from first quintile (20% - the most undervalued stocks) to fifth quintile (20% - the most overvalued stocks). We then seek to eliminate fifth quintile holdings, underweight fourth quintile holdings, while matching the sector weights of the portfolio to those of the SBI benchmark. The result is a process that virtually eliminates style and sector bets from performance attributions, and leaves only specific stock selection (i.e., the relative accuracy of our analysts' stock specific forecasts within a sector).

3. ***Organizational Issues.*** *Describe any significant ownership or personnel changes at the firm over the last quarter. List accounts gained and lost in this discipline over the same time period.*

   There were no significant ownership or personnel changes during the last quarter. Two accounts in the discipline valued at about $150 million combined, were lost during the quarter because of asset allocation changes.

4. ***Other Comments.*** *Highlight any other issues/events that are pertinent to the management of the SBI account at your firm.*

   None.

Staff Comments

No comments at this time.

Manager Commentary
Waddell & Reed

Period Ending:	3/31/95	Returns	Qtr.	1 Yr.
Total Firm Assets Under Management	$17.7 Billion	Actual	5.5%	4.8%
Total Firm Assets Managed in this Discipline	$495 Million	Benchmark	7.9%	10.8%

1. ***Past Performance.*** *Summarize your performance over the last quarter and year. Specifically, what active bets did you make relative to your benchmark? Which of these bets worked/did not work and why?*

We have underperformed the custom benchmark index over the quarter and last one year. With the overall market achieving record valuation levels, we have maintained a substantial cash position. This position hindered the portfolio's recent performance as evidenced by our equity only return of 8.07% for the quarter. However, we believe this position is prudent relative to the risk we perceive in stocks at this time, particularly with short term rates of 7%, while equities are at an all time low yield.

Over the last year we made three important errors as an outgrowth of our belief that the economy wasn't as strong as many felt and that inflation was no threat. We heavily overweighted financial stocks, particularly brokers in the second quarter. When financial leverage problems arose due to the Fed's tightening, the group performed badly. Also, we reduced technology late in the first half because we felt that growth would slow and technology would get hurt - just as the group began to make a strong move, which we missed. Finally, we overweighted gold stocks when we thought financial leverage worries might give the group some momentum, which did not happen.

Over the last quarter, we have eliminated the gold stocks and substantially increased our exposure to technology and telecommunications. The sale of gold stocks reflects our thinking that U.S. economic growth will not be sufficiently robust to trigger a resumption of meaningful inflation. The renewed emphasis in technology, especially the semiconductor industry, indicates our view that unit volumes and earnings in these stocks are likely to be quite good, even in a more moderate economic growth environment. Specifically, we have purchased Advanced Micro Devices, Applied Materials, Silicon Valley Group, LSI Logic, Microsoft and GME.

We also think that growth in the telecommunications sector is a long term global phenomenon which still provides excellent investment potential. Accordingly, we initiated holdings in Motorola, MCI Communications, MFDS Communications and GM Hughes.

Our largest stock holding, Computer Associates experienced a 22.4% price appreciation in the quarter.

2. ***Future Strategy.*** *What active bets are in place at the present time relative to your benchmark? Summarize the rationale for making these active bets.*

   The US economy is showing indications of slowing growth following an extraordinary rise in interest rates in 1994. Retail sales, auto sales and housing activity are giving signals of a more modest economic performance. Debt levels for individual consumers remain high and debt servicing costs are in a rising trend. This is a lagged effect of the 1994 Fed action. As a result, we are avoiding cyclical stocks which are more directly affected by diminished consumer activity.

   Corporate earnings, in general, are quite strong and cash flow for many US companies is excellent. We believe these conditions create an environment in which capital spending for technology and information systems will continue to be very strong. Companies are likely to utilize their strong cash flow to continue to invest in systems which will enhance their competitive position and improve productivity. This is our rationale for emphasizing technology and telecommunications within the portfolio.

3. ***Organizational Issues.*** *Describe any significant ownership or personnel changes at the firm over the last quarter. List accounts gained and lost in this discipline over the same time period.*

   Staff Additions:
   Lawrence J. Cipolla, Vice President, Operations
   Stephen R. Frantz, Vice President & Account Manager
   Stephen E. Evans, Vice President & Account Manager
   Richard J. Hageman, Derivative & Quantitative Investment Analyst
   William M. Nelson, High Yield Bond Investment Analyst
   David P. Ginther, Energy & Oil Industry Analyst

   Staff Resignations:
   Eric Fuchs, Co-Portfolio Manager
   Jackson L. Allen, Vice President, Marketing
   Raymond J. Lawlor, Vice President, Operations
   David L. Upshaw, Portfolio Strategist, retired
   Dorothy L. Ochsner, Chief Economist, retired

4. ***Other Comments.*** *Highlight any other issues/events that are pertinent to the management of the SBI account at your firm.*

   James Wineland, portfolio manager of the United Vanguard Fund, become the co-portfolio manager for the aggressive equity account portfolios.

Staff Comments

Due to significant organizational changes indicated in #3 and 4, staff will be reviewing Waddell & Reed next quarter. Staff will review findings with the IAC Domestic Manager Committee.

Manager Commentary
Wells Fargo Nikko Investment Advisors

Period Ending:	3/31/95	Returns	Qtr.	1 Yr.
Total Firm Assets Under Management	$17.1 Billion	Actual	9.1%	N/A
Total Firm Assets Managed in this Discipline	$ 3.5 Billion	Benchmark	9.1%	N/A

1. ***Past Performance.*** *Summarize your performance over the last quarter and year. Specifically, what active bets did you make relative to your benchmark? Which of these bets worked/did not work and why?*

Wells Fargo Nikko Investment Advisors' Alpha Tilts Strategy, customized for the Minnesota SBI, underperformed the Minnesota Custom Benchmark by -0.01% in the first quarter of 1995 (inception date 1/1/95). This strategy systematically evaluates companies according to a broad set of investment characteristics in order to construct a risk-controlled, index-like portfolio with expected returns in excess of the benchmark. The active risk level of the portfolio is generally maintained at 1.0-1.5%; during the first quarter the realized active risk was well within this range.

The attribution of added returns in the first quarter is shown in the table below. The portfolio's use of analyst information to identify companies experiencing positive changes in earnings expectations added 0.57% during the quarter. The use of valuation measures to identify stocks trading at attractive prices relative to their underlying economic value contributed 0.06% during this period. These added returns were somewhat offset by capture recent price and earnings momentum. As expected, industry weighting differences made only a small contribution to the portfolio's active return (-0.01%), due to the tight risk controls we use in this area. Finally, the portfolio experienced negative security-specific returns in the first quarter, representing the idiosyncratic or residual returns of individual companies that cannot be explained by their industry group, style, size or other common characteristics. Over shorter measurement intervals, the returns attributable to security-specific sources can be relatively large in magnitude, but this source of tracking error risk tends to diversity toward zero over longer holding periods. The Alpha Tilts portfolio minimizes this risk through broad diversification (approximately 650 stocks) and by limiting the active positions taken in individual companies.

Active Return Attribution:

Analyst inputs:	0.57%
Fundamental value:	0.06
Technical inputs:	-0.22
Industry weights:	-0.01
Stock-specific	-0.44
Total active return:	**-0.01%**

2. ***Future Strategy.*** *What active bets are in place at the present time relative to your benchmark? Summarize the rationale for making these active bets.*

The current Minnesota Alpha Tilts portfolio is similar in structure to the first quarter 1995 portfolio. Our investment process seeks to identify companies for which consensus expectations will be improving, by carefully modeling the linkage between changes in analysts' forecasts and future expectations and returns. In addition, we emphasize companies that are trading at multiples (based on earnings and book value) that are below their industry peer group. These areas of emphasis in the portfolio are designed to be relatively consistent over time; we do make subjective or ad hoc changes to our investment process. The rationale for these bets is based on a combination of economic investment theory about how markets and investors operate and rigorous empirical testing to validate these ideas and determine the optimal way to incorporate them in highly risk-controlled portfolios. In general, we are seeking to capture systematic return effects that are generally overlooked by traditional investors.

3. ***Organizational Issues.*** *Describe any significant ownership or personnel changes at the firm over the last quarter. List accounts gained and lost in this discipline over the same time period.*

   During the first quarter of 1995, there have not been any significant ownership or personnel changes at WFNIA. However, as members of our executive staff have discussed with individuals of the Minnesota State Board of Investment, WFNIA has recently initiated discussions with a limited number of global financial institutions about forming a strategic partnership to expand the scope of our services. These discussions are preliminary and, if fruitful, would alter the current ownership structure with Wells Fargo and Nikko Securities. A possible new strategic partnership is based on the idea that our clients around the world are global investors who seek a broad based relationship with us in many countries. Our intention of initiating the discussions and potentially completing a partnership is to expand our global reach. These discussions should not impact your business with us or the relationship you have with WFNIA's key people, who are very supportive of this development. In addition, our executive team will continue to remain in contact with members of your organization regarding this issue as new information arises.

4. ***Other Comments.*** *Highlight any other issues/events that are pertinent to the management of the SBI account at your firm.*

   We are planning to make a small modification to our investment process next quarter, with the addition of a new input to the Alpha Tilts Strategy. This input, which is based on SEC-reported trading by corporate insiders, is the result of an extensive research project that we started last year. We have found that corporate insider trading can be used to complement the Expectational inputs currently used in our process. This does not represent a material change to our investment process - and will not impact the risk characteristics of the portfolio, but it does reflect an enhancement to the strategy. As you know, the Alpha Tilts Strategy is supported by an extensive, on-going research and development effort, which reflects our philosophy of continuously improvement. We will be providing more information on our research in this area during the second quarter.

Staff Comments

No comments at this time.

Manager Commentary
Wilshire Asset Management
Minnesota Completeness Fund

Period Ending:	**3/31/95**	**Returns**	**Qtr.**	**1 Yr.**
Total Firm Assets Under Management	$ 8 Billion	Actual	9.0%	12.6%
Total Firm Assets Managed in this Discipline	$2.8 Billion	Benchmark	9.1%	13.3%

1. ***Past Performance.*** *Summarize your performance over the last quarter and year. Specifically, what caused the positive or negative tracking error relative to your benchmark?*

   For the year ending March 31, the Minnesota Completeness Fund managed by Wilshire Asset Management underperformed its benchmark by 0.7%. As previously noted, 0.4% of this negative tracking occurred in the fourth quarter. For the first quarter of this year, the fund underperformed its benchmark by 0.1% which is within normal tolerance bands for such a fund. There were $125.4 million in purchases and $2,403.1 million in sells executed during the quarter. Sell turnover for the first quarter of 1995 was high due to approximately $2.3 billion withdrawn from this fund on January 3. To prepare for this transfer, trading was decreased during December. In anticipation of the transfer of additional funds in April, trading was again moderated. The total market value of the fund as of March 31, 1995 was $2,763.8 million.

2. ***Future Strategy.*** *Going forward, what strategies, if any, do you plan to implement to control tracking error within expectations?*

   It is our policy, on a regular basis, to review the exposures of the fund relative to its benchmark with respect to factors which are believed to be related to performance. We believe the portfolio continues to be representative of the exposures incorporated in the benchmark and as a result should adequately complement Minnesota's active managers.

3. ***Organizational Issues.*** *Describe any significant ownership or personnel changes at the firm over the last quarter. List accounts gained and lost in this discipline over the same time period.*

   Ownership of Wilshire Associates Incorporated is in the hands of working principals. Wilshire is continuing to expand its ownership and currently there are 25 principals.

   Wilshire Asset Management recently has had a few changes in staff. Richard Dixon, who was the Director of Trading, left Wilshire to pursue other interests. Stuart Matsuda who has worked with Mr. Dixon since 1992 now oversees all trading activity for WAM. Prior to joining the Asset Management Division, Mr. Matsuda spent four years as a consultant in Wilshire's Equity Management Services Division assisting institutional and corporate clientele in the development and implementation of customized solutions to portfolio management problems.

   Michael Torres, who was the Director of Real Estate Research, has left Wilshire to pursue other interests. While Wilshire Asset Management continues to manage a Real Estate Product, the research is conducted within Wilshire's consulting division.

   Wilshire Asset Management has added more mid-level staff to assist in back office work, trading, analytics and special projects. We currently number 16 individuals.

   In regards to the Wilshire 5000 Index category of business, there have been no accounts gained or lost.

4. ***Other Comments.*** *Highlight any other issues/events that are pertinent to the management of the SBI account at your firm.*

   Our product line has been expanded beyond our style and index products. We now offer a fixed income product as well as a real estate product. We have also added two enhanced growth equity products with very favorable performance profile relative to their peers.

Staff Comments

Due to concerns with performance and organizational change, staff is recommending that Wilshire Asset Management be terminated. The background and recommendation are detailed in a separate memo to the Passive Manager Review Committee.

Manager Commentary
Wilshire Asset Management
Wilshire 5000 Fund

Period Ending:	**3/31/95**	**Returns**	**Qtr.**	**1 Yr.**
Total Firm Assets Under Management	$ 8 Billion	Actual	8.9%	13.6%
Total Firm Assets Managed in this Discipline	$1.7 Billion	Benchmark	9.0%	13.2%

1. ***Past Performance.*** *Summarize your performance over the last quarter and year. Specifically, what caused the positive or negative tracking error relative to your benchmark?*

   The Wilshire 5000 Fund's tracking relative to the index was negative in the first quarter by 0.1%. For the latest 12 months, the fund has outperformed the index by 0.4%

2. ***Future Strategy.*** *Going forward, what strategies, if any, do you plan to implement to control tracking error within expectations?*

   Following a review with staff in March, it was determined that this fund should be run with tighter tolerance bands. This policy has now been implemented.

   To the extent that there will be only limited external cash flow in this fund, we will continue to carry out our fine-tuning through periodic rebalance programs. These will be small trades which will have no urgency at the time they are prepared and hence can be expected to have only a minimal impact on the fund's performance.

3. *Organizational Issues. Describe any significant ownership or personnel changes at the firm over the last quarter. List accounts gained and lost in this discipline over the same time period.*

   Ownership of Wilshire Associates Incorporated is in the hands of working principals. Wilshire is continuing to expand its ownership and currently there are 25 principals.

   Wilshire Asset Management recently has had a few changes in staff. Richard Dixon, who was the Director of Trading, left Wilshire to pursue other interests. Stuart Matsuda who has worked with Mr. Dixon since 1992 now oversees all trading activity for Wilshire Asset Management. Prior to joining the Asset Management Division, Mr. Matsuda spent four years as a consultant in Wilshire's Equity Management Services Division assisting institutional and corporate clientele in the development and implementation of customized solutions to portfolio management problems.

   Michael Torres, who was the Director of Real Estate Research, has left Wilshire to pursue other interests. While Wilshire Asset Management continues to manage a Real Estate Product, the research is conducted within Wilshire's consulting division.

   Wilshire Asset Management has added more mid-level staff to assist in back office work, trading analytics and special projects. We currently number 16 individuals.

   In regards to the Wilshire 5000 Index category of business, there have been no accounts gained or lost.

4. *Other Comments. Highlight any other issues/events that are pertinent to the management of the SBI account at your firm.*

   Our product line has been expanded beyond our style and index products. We now offer a fixed income product as well as a real estate product. We have also added two enhanced growth equity products with very favorable performance profile relative to their peers.

Staff Comments

Due to concerns with performance and organizational change, staff is recommending that Wilshire Asset Management be terminated. The background and recommendation are detailed in a separate memo to the Passive Manager Review Committee.

With respect to the comment in #2, staff has always maintained an expectation of a $\pm$ 60 basis point tracking error and reiterated that point again in our March meeting

Manager Commentary
CIC Asset Management, Inc.

Period Ending:	**3/31/95**	**Returns**	**Qtr.**	**Year**
Total Firm Assets Under Management	$167 Million	Actual	9.8%	11.1%
Total Firm Assets Managed in this Discipline	$167 Million	Benchmark	9.7%	15.6%

1. ***Past Performance.*** *Summarize your performance over the last quarter and year. Specifically, what active bets did you make relative to your benchmark? Which of these bets worked/did not work and why?*

CIC's performance in the first quarter was 10.01% (net of fees) versus 9.77% for the S&P 500 and 9.50% for the Russell 1000 value index. CIC benefited from our overweighting in financial stocks which were up 13.14% as a group, our overweighting in capital good stocks, our underweighting in utilities. We had especially strong individual stock performance from Dover (+25%), Deere (+23%), Union Pacific (+21%), Federal Home Loan Mortgage Corp. (+20%), American Express (+18%), Household International (+17%), R.R. Donnelley (+16.5%), ITT Corp. (+15.8%) and Lincoln National (+15%).

During the first quarter we increased our sector weights in consumer non-durables and utilities while we decreased our weights in consumer durables, technology, basic industries, and financial services. We established new stock positions in American Home Products, Boston Edison, Dow Chemical, Anheuser Bush, Becton Dickinson, Schering Plough, and Texaco. We significantly increased existing positions in American Telephone & Telegraph, Caterpillar, Colgate Palmolive, GTE, Toys "R" Us, Deere, International Paper, Pitney Bowes, Sears, Limited and Union Pacific. We eliminated positions in General Re, Knight Ridder, Walgreen, Deluxe, Hershey Foods, Intel, Johnson Controls, Procter & Gamble, and R.R. Donnelley and reduced positions in ITT, PNC Bancorp., Beneficial Corp., Exxon, Goodyear Tire, Household International, General Motors and J.P. Morgan. Cash remained fairly constant at 3.36%

Portfolio Construction Table: Industry exposure and cash holdings changed as follows:

Sector	**S&P 500 3/31/95**	**Portfolio 12/31/94**	**Portfolio 3/31/95**
Consumer Durables	3.02%	9.31%	8.10%
Consumer Non-Durables	33.65	20.50	25.19
Technology	9.74	3.77	2.67
Energy	10.65	6.49	6.10
Basic Industries	10.49	14.77	12.57
Cap. Goods Industries	8.41	15.63	15.71
Utilities & Telephones	12.74	5.75	8.69
Financial Services	11.31	20.68	17.60
Cash	0.00	3.10	3.36
TOTAL	**100.00%**	**100.00%**	**100.00%**

CIC Asset Management (con't)

2. ***Future Strategy.*** *What active bets are in place at the present time relative to your benchmark? Summarize the rationale for making these active bets.*

   We continue to be overweighted in the economically sensitive sectors of the market and underweighted in energy and utility stocks. We find late cycle capital goods and basic industry stocks that benefit from overseas expansion and the weak dollar to be attractive. Our early cycle cyclicals, which we reduced modestly, have declined so much that it is difficult to sell based on current valuations. Some of these stocks (Goodyear Tire and General Motors) have exhibited strong performance recently. We are likely to sell many of them on further price strength.

3. ***Organizational Issues.*** *Describe any significant ownership or personnel changes at the firm over the last quarter. List accounts gained and lost in this discipline over the same time period.*

   There are no significant ownership or personnel changes. As of last quarter, we no longer manage accounts for Progress Investment Management given their decision to graduate CIC after four years and that our investment style did not fit with their current investment strategy.

4. ***Other Comments.*** *Highlight any other issues/events that are pertinent to the management of the SBI account at your firm.*

   There are no issues to report at this time.

Staff Comments

Staff met with the manager to review investment strategy and portfolio performance during the quarter. Staff believes there are no concerns at this time.

As of April 1, 1995, the Russell 1000 Value Index will replace the S&P 500 as CIC's interim benchmark until its customized benchmark is developed. Staff concurs with CIC that the Russell 1000 Value Index is a more appropriate barometer of CIC's investment style than is the S&P 500.

CIC is working with BARRA to develop its customized benchmark.

Manager Commentary
Cohen, Klingenstein & Marks Incorporated

Period Ending:	**3/31/95**	**Returns**	**Qtr.**	**Year**
Total Firm Assets Under Management	$135 Million	Actual	5.9%	17.1%
Total Firm Assets Managed in this Discipline	$121 Million	Benchmark	9.7%	15.6%

1. ***Past Performance.*** *Summarize your performance over the last quarter and year. Specifically, what active bets did you make relative to your benchmark? Which of these bets worked/did not work and why?*

   The account increased by 5.9% during the first quarter of 1995 which compares to a 9.7% for the benchmark (S&P 500). Broadly speaking, the account was moderately overweighted in Cyclical stocks (with emphasis on Commodities, Capital Goods and other Late-Cycle stocks) and Growth Stocks. The account is also overweighted in interest rate sensitive stocks. Again, broadly speaking, the overweighting in the Cyclicals hurt performance some while the overweighting in the interest rate sensitive and growth sectors helped, though not enough. But more important than the impact from these "attribute" weightings was stock selection. Relative performance was hurt by Harley Davidson, Ford, Compaq, Reebok and Phelps Dodge.

2. ***Future Strategy.*** *What active bets are in place at the present time relative to your benchmark? Summarize the rationale for making these active bets.*

   We continue to make the same bets as described in the answer to the first question. Our economic outlook calls for moderate growth (better than consensus), lower interest rates, unexpectedly strong corporate profits and market volatility. As a result, the portfolio is moderately cyclical and moderately growth oriented. We wrote last quarter: "While our exposure to interest-rate sensitive stocks is only market like at present, we anticipate overweighting this sector rather soon". Indeed, and as implied above, we did increase our exposure here so the portfolio can be characterized as interest-rate sensitive as well. Consistent with our general optimism, there is an absence of defensive stocks. Also, there is mostly absent commodities (including energy) which largely reflects a favorable outlook for inflation.

Cohen, Klingenstein & Marks (con't)

3. ***Organizational Issues.*** *Describe any significant ownership or personnel changes at the firm over the last quarter. List accounts gained and lost in this discipline over the same time period.*

   There were no significant ownership or personnel changes last quarter.

Accounts Gained	Accounts Lost
Three (approximately $13 Million)	One (approximately $500,000)

4. ***Other Comments.*** *Highlight any other issues/events that are pertinent to the management of the SBI account at your firm.*

   The name of the firm was changed from Cohen, Davis & Marks to Cohen, Klingenstein & Marks (as has long been anticipated). This name change does not reflect a personnel change or any other change for that matter. Indeed, there is no practical significance to the name change. The name "Davis" has always referred to Tom Klingenstein. It is his middle name.

Staff Comments

Staff met with the manager to review investment strategy and portfolio performance during the quarter. Staff believes there are no concerns at this time.

CKM will be developing its customized benchmark internally.

Manager Commentary
Compass Capital Management, Inc.

Period Ending:	**3/31/95**	**Returns**	**Qtr.**	**Year**
Total Firm Assets Under Management	$175 Million	Actual	12.2%	18.3%
Total Firm Assets Managed in this Discipline	$ 89 Million	Benchmark	9.7%	13.6%

1. ***Past Performance.*** *Summarize your performance over the last quarter and year. Specifically, what active bets did you make relative to your benchmark? Which of these bets worked/did not work and why?*

The primary driver of investment performance, during the past three and twelve month periods, was being fully invested. Since the inception of the relationship, a very small cash position has been held. This has added to investment performance greatly.

Sectors	**Relative to S&P 500**	**Qtr.**	**Year**
Technology	Overweighted	Worked	Worked
Consumer Staples	Overweighted	Flat	Worked
Capital Goods	Overweighted	Did Not Work	Did Not Work
Financial	Underweighted	Did Not Work	Worked
Energy	No Position	Did Not Work	Did Not Work
Transportation	No Position	Did Not Work	Worked
Utilities	No Position	Worked	Worked
Basic Industries	Equal	Did Not Work	Did Not Work
Consumer Cyclicals	Overweighted	Did Not Work	Did Not Work

Compass captured the change in investor attitudes towards the foreign and emerging equity markets, this change was the flight back into high quality domestic stocks. As the economy slowed down, the consumer staples sector has performed quite well. The avoidance of interest rate sensitive securities has been beneficial. Individual stock selection within each sector has added to performance.

2. ***Future Strategy.*** *What active bets are in place at the present time relative to your benchmark? Summarize the rationale for making these active bets.*

The largest overweighted active bets are within the Consumer Staples (31.29%) and Consumer Cyclicals (23.62%) sectors of the portfolio. The most underweighted active bets are within the Energy (0%), Utilities (0%) and Financial (3.86%) sectors of the portfolio.

The consumer cyclical sector has underperformed the market the past three and twelve months. There are several high quality growth stocks representing this sector in the portfolio. The valuations of these stocks are attractive.

Compass Capital Management (con't)

3. ***Organizational Issues.*** *Describe any significant ownership or personnel changes at the firm over the last quarter. List accounts gained and lost in this discipline over the same time period.*

   No significant ownership or personnel changes during the quarter.

   One pension account gained.

   Two individual accounts gained.

4. ***Other Comments.*** *Highlight any other issues/events that are pertinent to the management of the SBI account at your firm.*

   None

Staff Comments

Compass Capital is working with Richards and Tierney to develop its customized benchmark.

Manager Commentary
Kennedy Capital Management

Period Ending:	3/31/95	Returns	Qtr.	Year
Total Firm Assets Under Management	$1,026 Million	Actual	3.8%	3.2%
Total Firm Assets Managed in this Discipline	$ 757 Million	Benchmark	4.6%	5.5%

1. ***Past Performance.*** *Summarize your performance over the last quarter and year. Specifically, what active bets did you make relative to your benchmark? Which of these bets worked/did not work and why?*

   After a disappointing 1994 in which our process of investing in under-followed companies contributed to relatively poor performance, the first quarter of 1995 brings a brighter outlook for our portfolio as interest in our universe is beginning to improve. Hindered by rising interest rates in 1994 and, to a lesser extent, a weak dollar in 1995, small cap stocks are still trailing larger cap stocks, especially those with overseas or export operations. Our performance for both the year and the quarter marginally trailed the larger Russell 2000 index. With stabilization in the dollar, however, we expect a solid performance from the smaller stocks and, because we do not make active industry or sector bets, we are well positioned for a broad range of potential economic scenarios.

2. ***Future Strategy.*** *What active bets are in place at the present time relative to your benchmark? Summarize the rationale for making these active bets.*

   Our process has always involved finding those companies that have attractive growth and value characteristics, yet are not being recognized by institutional investors because of size or information limitations. The Russell 2000 is considered by many to be the generally accepted threshold of investing for small stocks and we try to find stocks that are close to this threshold to optimize the gain in the stock and the realization time of that gain. Because the smallest stock in the index has increased in market cap from approximately $35 million to approximately $96 million in three years, we are finding that we should be focusing on slightly larger stocks to remain close to this threshold of discovery. We will continue to increase our average market cap, while still staying well below the average market cap of the Russell 2000 index.

3. ***Organizational Issues.*** *Describe any significant ownership or personnel changes at the firm over the last quarter. List accounts gained and lost in this discipline over the same time period.*

   At the end of 1994, a small portion of the firm's stock was issued to key employees. No other changes in ownership have occurred. We have grown to a full-time staff of 21 employees including 6 in portfolio management and trading, 7 in security research and analysis and 8 in client servicing and operations.

   No accounts were lost and 2 municipal accounts were gained in this discipline.

4. ***Other Comments.*** *Highlight any other issues/events that are pertinent to the management of the SBI account at your firm.*

   The creation of a custom normal benchmark is on schedule for 3/31/96 as the first run has already been sent to Richards & Tierney. This should allow for a year of actual history and modification, if necessary.

Staff Comments

The manager is developing a customzied benchmark internally.

Manager Commentary
New Amsterdam Partners L.P.

Period Ending:	3/31/95	Returns	Qtr.	Year
Total Firm Assets Under Management	$200 Million	Actual	9.5%	7.2%
Total Firm Assets Managed in this Discipline	$200 Million	Benchmark	9.6%	14.4%

1. *Past Performance. Summarize your performance over the last quarter and year. Specifically, what active bets did you make relative to your benchmark? Which of these bets worked/did not work and why?*

   Our investment style is a logical and structured discipline that may be described as Growth at a Reasonable Price or Relative Value that ranks securities on an expected return rating. Our portfolios look for high expected return stocks with better than average forecast growth and return on equity but lower valuation ratios (P/E and Price/Book). The portfolio has a midcap orientation. Your portfolio meets those characteristics:

March 31, 1995	Minnesota	S&P MidCap	S&P 500
Expected Return	13.6%	10.5%	10.0%
P/E	20.4x	21.7X	16.3X
Price to Book	2.9x	2.9x	3.0x
Yield	1.9%	2.0%	2.7%
Forecast Growth	9.9%	10.4%	8.1%
Return on Equity	17.6%	12.3%	18.4%
Wtd Avg Mkt Cap	$7.4bn	$1.8bn	$24.1bn

Our sector selection skill this quarter was fair. The best performing sectors of the S&P 500 were Transportation, Finance, Process Industries, Electronic Technology, and Health Technology. The poorest performing sectors were Non-Energy Minerals, Industrial Services, Consumer Non-Durables and Consumer Services.

As far as the best performing sectors were concerned, we were overweighted in Finance, underweighted in Process Industries and Health Technology and market weighted in Electronic Technology and Transportation. As far as the worst performing S&P sectors were concerned, we were market weighted in Non-Energy Minerals, underweighted in Industrial and Consumer Services and overweighted in Consumer Non-Durables. On balance it appears that our sector selection was fairly neutral this quarter.

As far as stock selection was concerned, within the Finance sector, our picks did better than the sector as a whole as did our Consumer Durables, Utilities, Non-Energy Minerals, and Non-Energy Minerals picks. Our Retail Trade, Producer Manufacturing, Process Industries, Commercial Services, Energy Minerals, Electronic Technology, Health Technology, Technology Services and Retail Trade choices underperformed their market sectors. Our other sector picks proved generally in line with their peers.

New Amsterdam Partners (con't)

Our Finance sector was up 25% for the quarter due to the strength of Countrywide Credit (+35.6), and Green Tree (+33.7%). Some of the Consumer stocks did well like Stride Rite (+14.4%) and Mattel (+22.2%) and in Retail, Lands' End (+27.3%). Technology was also strong with Lockheed Martin gaining 26.0%, Microsoft (+16.4%) and Cray Research up 17.6%. Less positive movers include Kaufman and Broad (-6.3%) and CML Group (-12.2%).

2. ***Future Strategy.*** *What active bets are in place at the present time relative to your benchmark? Summarize the rationale for making these active bets.*

   Right now, we believe that the Consumer Sector continue to offer attractive opportunities as do certain technology stocks. The consumer stocks offer relatively stable long-term growth at cheap valuation ratios. We maintain a slight overweighting in finance stocks.

3. ***Organizational Issues.*** *Describe any significant ownership or personnel changes at the firm over the last quarter. List accounts gained and lost in this discipline over the same time period.*

   There were no significant ownership or personnel changes. Two accounts totaling $17 million was gained in this discipline this quarter. None were lost.

4. ***Other Comments.*** *Highlight any other issues/events that are pertinent to the management of the SBI account at your firm.*

   We are pleased to include data on our customized benchmark which was completed by Richards and Tierney for us early this year.

Staff Comments

New Amsterdam's customized benchmark has now been completed. Benchmark results have been restated from inception of the SBI's account with the firm.

Manager Commentary
Valenzuela Capital Management, Inc.

Period Ending:	**3/31/95**	**Returns**	**Qtr.**	**Year**
Total Firm Assets Under Management	$975 Million	Actual	9.0%	10.5%
Total Firm Assets Managed in this Discipline	$975 Million	Benchmark	9.7%	15.6%

1. ***Past Performance.*** *Summarize your performance over the last quarter and year. Specifically, what active bets did you make relative to your benchmark? Which of these bets worked/did not work and why*

   Under our "bottom up" style, each stock pick is an active bet. Gains were made throughout the portfolio, with the largest contribution to performance stemming from Echlin (adding +0.89%). Newell (+0.79%), and H&R Block (+0.63%). Echlin and Newell are benefiting from investor realization of acceleration in the earnings power of the companies. H&R Block's CompuServe subsidiary is demonstrating extraordinary growth. Performance was adversely affected by MacFrugal's Bargains (-0.42%), where slowing sales growth will affect earnings, Student Loan Marketing Association (-0.19%), where political questions have arisen surrounding government student loan programs, and Bandag (-0.11%), where the stock is experiencing a price correction as there is no fundamental development to justify a decline.

2. ***Future Strategy.*** *What active bets are in place at the present time relative to our benchmark? Summarize the rationale for making these active bets.*

   Valenzuela Capital's investment philosophy is one of "risk-averse growth." We believe that growth in earnings and cash flow fuel price appreciation and that high price-to-earnings ratios cause volatility and risk. Hence, we try to sell higher P/E stocks and buy stocks in companies whose earnings will grow but whose P/E's are at or below the market. The portfolio was slightly realigned during the first quarter. We added to positions we felt still represented good value and trimmed others, largely for reasons of valuation. New investments were initiated in Anadarko Petroleum, H&R Block, Charter Medical, DENTSPLY, Duracell, Federated Department Stores, James River, Marsh & McLennan, McCormick & Company, and Student Loan Marketing Association. Realized gains were taken in Circuit City, Manpower, and Praxair. Also sold were Consolidated Freightways, where the lingering effects of mid-1994 strike were affecting earnings; Dexter, as rising raw material costs were penalizing margins; Mellon Bank, facing reduced earnings prospects and margin contraction due to rising interest rates; Ryder Systems, as an expected slowdown in the auto carriage business is limiting earnings growth; and TJX Companies, whose earnings have been penalized by a difficult retail environment.

Valenzuela Capital (con't)

3. ***Organizational Issues.*** *Describe any significant ownership or personnel changes at the firm over the last quarter. List accounts gained and lost in this discipline over the same time period.*

   As discussed with SBI Staff, Mariko O. Gordon left the firm to pursue her objective as an independent portfolio manger. Separately, Lisa L. Parisi joined as a portfolio manager and research analyst. She was personally introduced, and information on her background has been provided. No accounts have been lost during the last quarter.

4. ***Other Comments.*** *Highlight any other issues/events that are pertinent to the management of the SBI account at your firm.*

   It now appears that the Federal Reserve's attempts to slow down the economy with ever higher interest rates is beginning to take hold. Both the bond and stock markets are now behaving as though the Fed has engineered a "soft landing" that will be a painless transition to sustained economic growth. As we view the economic landscape, we are less sure that this "happy ending" is the most likely outcome. There are a number of issues that must be overcome: the budget deficit, tax cuts, the weakness of the dollar, and most importantly, whether or not there really is a soft landing in the offing. As some of these issues come to the fore, we believe that investors are likely to become less complacent, and the equity markets are likely to be more volatile as concerns arise. Our portfolios are constructed with companies whose earnings improvements are more driven by management's actions and less vulnerable to general economic conditions. We are, however, ever watching for possible changes in the outlook for each of our investments.

Staff Comments

Mariko Gordon, one of Valenzuela Capital's portfolio managers left the firm. Subsequently, staff met with the firm's principals and believes that there will be no adverse impact from Mariko's departure.

Valenzuela Capital is working with Richards and Tierney to develop its customized benchmark.

Manager Commentary
Wilke/Thompson Capital Management

Period Ending:	**3/31/95**	**Returns**	**Qtr.**	**Year**
Total Firm Assets Under Management	$596 Million	Actual	4.3%	13.8%
Total Firm Assets Managed in this Discipline	$396 Million	Benchmark	6.2%	8.5%

1. ***Past Performance.*** *Summarize your performance over the last quarter and year. Specifically, what active bets did you make relative to your benchmark? Which of these bets worked/did not work and why?*

   Wilke/Thompson Capital Management does not make active bets relative to a benchmark, rather we invest in high quality growth companies that have the ability to grow their earnings regardless of the economic environment. Large stocks performed better than small stocks during the quarter, which can be seen in the indices: the S&P 500 was up about 9.8% for the period, while the Russell 2000 and S&P Small-Cap indices showed gains of about 4.6%. Several themes cut across the market capitalization spectrum in the quarter, affecting all stocks, including the SBI portfolio. In general, areas that did well during the quarter included basic industry, conglomerates, energy, financial services, healthcare, and technology. Weakness was most apparent in the quarter in the consumer sector, including virtually all the consumer areas-staples, cyclicals, and services. The portfolio was helped during the quarter by its representation in business services, healthcare, software, and miscellaneous industrial services issues. The exposure in the consumer areas, particularly retailing and computer equipment dampened the portfolio returns for the period. In addition, profit-taking late in the quarter by market participants, especially in the technology sector, reduced the portfolio returns by several percentage points from the best levels attained during the quarter. In short, it was a great quarter up until the last week, and ended up with the SBI portfolio showing a solid gain for the period and still in position to post rewarding results for the year.

2. ***Future Strategy.*** *What active bets are in place at the present time relative to your benchmark? Summarize the rationale for making these active bets.*

   Looking forward to the balance of 1995, the environment remains positive for growth stock investors. A slowing economy with low inflation and steady interest rates will favor growth issues. Returns in the stock market, and in individual growth stocks in particular, come in bunches, and not in straight-line fashion. It pays to stay fully invested in high quality companies that have the ability to produce superior long-term gains in revenues and earnings. The SBI portfolio is positioned in just those types of companies.

Wilke/Thompson Capital (con't)

3. ***Organizational Issues.** Describe any significant ownership or personnel changes at the firm over the last quarter. List accounts gained and lost in this discipline over the same time period.*

   Ellen M. Scholz announced that she was terminating her full-time employment with Wilke/Thompson Capital Management effective March 31, 1995 and will remain employed as a consultant to the Firm through June of 1995. According to Wilke/Thompson's buy/sell agreement, Ellen's shares were sold back to the Firm.

   Wilke/Thompson Capital Management added four accounts in this style during the quarter that total $25.1 million and did not lose any accounts.

4. ***Other Comments.** Highlight any other issues/events that are pertinent to the management of the SBI account at your firm.*

   The SBI has continued to experience phenomenal relative performance relative to its benchmark since the inception of the account one year ago. We look forward to continuing to serve the SBI.

Staff Comments

Staff met with Wilke/Thompson to review investment strategy and portfolio performance during the quarter. Staff believes there are no concerns at this time.

Wilke/Thompson's customized benchmark has now been completed. Benchmark results have been restated from the inception of the SBI's account with the firm.

Manager Commentary
Winslow Capital Management, Inc.

Period Ending:	3/31/95	Returns	Qtr.	Year
Total Firm Assets Under Management	$600 Million	Actual	5.9%	14.9%
Total Firm Assets Managed in this Discipline	$440 Million	Benchmark	9.5%	17.6%

1. ***Past Performance.*** *Summarize your performance over the last quarter and year. Specifically, what active bets did you make relative to your benchmark? Which of these bets worked/did not work and why?*

Winslow Capital began managing assets for the Minnesota State Board of Investment on April 1, 1994. In the quarter ended March 31, 1995 the SBI portfolio appreciated 5.95% on a total return basis net of fees versus the benchmark Russell 1000 Growth increase of 9.52%. The performance for the SBI account since inception shows an increase of 14.84% net of fees versus 17.62% for the benchmark and 15.57% for the S&P 500.

During the first quarter of 1995, financial assets in the United States generated the best returns in four years. Our Large Cap Growth equity portfolios continued to be overweighted in technology, telecommunications, consumer discretionary and services. We also maintain a slight overweighting in the healthcare sector versus our benchmark. The investment process we follow is a fundamental "bottom up" approach that has led us to that exhibit strong earnings growth. In the most recent quarter, the average reported earnings gain for the companies in our portfolio was 31%. As the first quarter progressed, we continued to believe that these companies had outstanding potential because they combined rapidly growing earnings and attractive valuations.

The considerable overweighting of the portfolio in technology was additive to performance during the first quarter. Our slight overexposure to healthcare companies was a neutral factor in this quarters performance. The underperformance we experienced during the quarter ending March 31, 1995 was due to the overweighting of telecommunication and consumer discretionary and service sectors. Specifically, excess inventory for Motorola in the U.S. handset market caused analysts and the market to overreact in moving the value of the stock down. We continue to believe that Motorola will be a strong performing company and took the price weakness as an opportunity to add to our position. Also, the surprisingly low valuation AT&T's investment bankers placed on Lin Broadcasting in the tender process caused a drop in Lin's stocks and an adverse impact on several cellular related stocks. Lastly, the overall performance of retail securities was negative as investors continue to fear a slowdown in consumer spending and general economic weakness. We are confident that the specialty retailers in our portfolios are poised to deliver rapid earnings growth due to better underlying fundamentals than the overall retail environment.

Another factor that impacted the broad market during the first quarter was the effect of market capitalization. Many managers and investors focused their attention on larger companies in the equity markets for a variety of reasons. As we said in our Investment Outlook, "Big was Beautiful". With the economy's growth slowing we do not believe these large companies will be able to achieve sustainable earnings growth. While our portfolios maintain a lower average weighted market capitalization than either the Russell 1000 Growth or the S&P 500, we believe this will benefit the portfolios long term performance.

Winslow Capital (con't)

2. ***Future Strategy.*** *What active bets are in place at the present time relative to your benchmark? Summarize the rationale for making these active bets.*

   Winslow Capital Management, Inc. was hired to manage a Large Cap growth portfolio for the SBI. We have always been and will always be driven by strong future earnings growth potential at reasonable valuations. We continue to believe the sectors that are likely to exhibit the best earnings growth will be technology, specialty retail/consumer services, healthcare and telecommunications. Winslow Capital is overweighted in these sectors because on fundamental, bottom-up analysis we believe specific companies within the aforementioned sectors are poised to achieve strong future earnings growth. This growth will become more important as we experience a slowing of the domestic economy. We believe many economists and market participants are overestimating GDP growth and the rise of inflation. As the growth of GDP slows, we will see certain companies and sectors of the market receive a premium for their ability to sustain rapid earnings growth. The sectors that are likely to benefit from this, in our opinion, will be technology, telecommunications, healthcare and consumer services. Notwithstanding the strong results of the first quarter, we continue to believe that on an absolute and relative basis our P/E ratios remain attractive. The portfolio is currently forecasted to achieve earnings growth of 25% over the next year, while selling at only 15.1 times our 1996 estimates.

3. ***Organizational Issues.*** *Describe any significant ownership or personnel changes at the firm over the last quarter. List accounts gained and lost in this discipline over the same time period.*

   During the first quarter Burlington Industries and a London based Pension Trust hired Winslow Capital to manage growth equity portfolios. The total assets under management are now in excess of $600 million. Gordon Ritz sold his equity ownership to Gail Knappenberger and Richard Pyle, both Executive Vice Presidents.

4. ***Other Comments.*** *Highlight any other issues/events that are pertinent to the management of the SBI account at your firm.*

   None.

Staff Comments

Winslow Capital is working with BARRA to develop its customized benchmark.

Manager Commentary
Zevenbergen Capital, Inc.

Period Ending:	**3/31/95**	**Returns**	**Qtr.**	**Year**
Total Firm Assets Under Management	$306 Million	Actual	5.6%	8.9%
Total Firm Assets Managed in this Discipline	$306 Million	Benchmark	9.5%	17.6%

1. ***Past Performance.*** *Summarize your performance over the last quarter and year. Specifically, what active bets did you make relative to your benchmark? Which of these bets worked/did not work and why?*

The Minnesota State Board of Investment (MSBI) Portfolio had a positive return of 5.7% for the quarter, net of fees. The strong performance occurred in tandem with the S&P 500 (+9.8%) and Russell 1000 Growth (+9.4%) indices. Significant influences on first quarter performance included:

- Overweightings in technology and health care, which outperformed
- Strength among holdings in entertainment and media
- Strong stock selection in financial services (which helped offset our underweighting in that outperforming sector)
- Underweighting in traditional utilities stocks, which outperformed substantially during January (our most challenging month relative to benchmarks).

The deviation of performance from the above stated benchmarks can be attributed to the underweighting in the finance and utility sectors, which performed well during the first half of the quarter. Zevenbergen Capital believes these sectors lack long-term growth potential, therefore we continue to underweight these sectors.

The sectors which contributed to the positive performance for the quarter were consumer discretionary, specifically the entertainment and media issues, and financial services. (The financial services weighting consists primarily of transaction processing, database programming and marketing services equities, and are not considered traditional finance issues).

2. ***Future Strategy.*** *What active bets are in place at the present time relative to your benchmark? Summarize the rationale for making these active bets.*

ZCI's performance continues to be led by the strategic overweighting in the Technology, Telecommunications, Entertainment and Media sectors. Discovered through fundamental research our holdings in these sectors present the strongest growth opportunities for the coming decade. Sectors such as Producer Durables, Consumer Staples and traditional Financial Services are underweighted relative to our benchmark as they tend to lack long-term growth prospects. While short-term performance of these more cyclical sectors may add to benchmark returns, ZCI continues to believe the technology and telecommunications sectors will outperform over a market cycle.

Zevenbergen Capital (con't)

3. ***Organizational Issues.*** *Describe any significant ownership or personnel changes at the firm over the last quarter. List accounts gained and lost in this discipline over the same time period.*

   By virtue of their long-standing excellent service, Ceneth Schoettler and Brooke de Boutray increased their ownership in ZCI January 1995.

   ZCI gained two accounts during the quarter, The Glancy Foundation and GKW Foundation. One account was lost, Northern Air Cargo, Inc.

4. ***Other Comments.*** *Highlight any other issues/events that are pertinent to the management of the SBI account at your firm.*

   ZCI continues to work on a performance benchmark for the MSBI. We have explored several approaches and Richards & Tierney has been evaluating our work in progress. Three proposals are currently under consideration. Two of which are based on historical correlations, in the style pioneered by William F. Sharpe. The third approach uses screening "rules" similar to our investment criteria. The result is a portfolio of equities, internally generated by ZCI. We have provided returns for the first quarter of 1995 for all of these test benchmarks to the MSBI.

Staff Comments

Staff met with Zevenbergen Capital to review investment strategy and portfolio performance during the quarter. Staff believes there are no concerns at this time.

Zevenbergen is developing its customized benchmark internally with assistance from outside consultants.

Manager Commentary
BEA Associates

Period Ending:	**3/31/95**	**Returns**	**Qtr.**	**Year**
Total Firm Assets Under Management	$27.0 Billion	Actual	5.1%	4.7%
Total Firm Assets Managed in this Discipline	$4.0 Billion	Benchmark	5.0%	5.1%

1. ***Past Performance.*** *Summarize your performance over the last quarter and year. Specifically, what active bets did you make relative to your benchmark? Which of these bets worked/did not work and why?*

The performance of the fixed income portfolio lagged the Salomon Big Index by approximately 25 basis points. The bulk of the underperformance can be attributed to weaknesses in the perpetual note market and the fact that the thirty year government of Italy Yankee bonds held in the portfolio lagged the market. Also, our decision to avoid RJR bonds and traditional "A" type industrials had a modest negative impact.

The balance of the underperformance (30 basis points) is related to the fact that we implemented futures and options related strategies that would benefit from volatility declines in certain markets. The increase in volatility that occured in February and March has temporarily resulted in a negative return. As volatility's revert to more traditional levels, the portfolio should benefit by approximately 50 basis points from today's levels.

2. ***Future Strategy.*** *What active bets are in place at the present time relative to your benchmark? Summarize the rationale for making these active bets.*

Most of the strategies in place at the end of the third quarter continue to look attractive. International Perpetual FRN's and Yankees continue to provide good relative value. Government bonds from countries other than the US still earn high yields relative to domestic government bonds. The portfolio will be overweighted in Mortgages because of their excellent cashflow characteristics and supply outlook. The cashflow structure of the account will continue to be duration and curve neutral to the benchmark except from a modest overweighting in 30-year bonds. Limited new issuance of 30-year bonds should enhance their performance. As interest rates stabilize, all of the above sectors should provide superior performance as investors are forced to focus on maximizing relative value in their portfolios in order to optimize potential returns. In derivatives, because volatility is priced at low levels, the portfolio is positioned to benefit from increases in volatility.

BEA Associates (con't)

3. ***Organizational Issues.*** *Describe any significant ownership or personnel changes at the firm over the last quarter. List accounts gained and lost in this discipline over the same time period.*

   During the first quarter of 1995, there have been several developments at BEA, on which we would like to bring you up to date. BEA recently announced that our firm will be integrating the U.S. operations of CS First Boston Investment Management, a move that will significantly expand the size and scope of our firm's fixed income management activities. CSFB's recognized strength in high yield bond management will complement and enhance BEA's existing fixed income capabilities. The fact that our firms have very similar investment styles and philosophies will help make the transition a seamless one, and ensure absolute stability and continuity in the management of our clients' portfolios. A total of five fixed income professionals are joining BEA from CSFB. The addition of these highly skilled people will also allow us to significantly broaden both the scope and depth of our fixed income investment management activities, and will further BEA's development as a major global asset manager.

   As part of this change, Bob Moore, who has been Managing Director of the Fixed Income Group, has been appointed Head of Fixed Income, filling the position formerly held by Mark Arnold, who intends to start a new company that will focus on less liquid investments in the Emerging Markets; a choice we understand and respect. Mark remains a consultant to BEA, advising on future directions and helping to ensure a smooth transition, until later in the year. As you know, Bob has worked closely with Mark for the past eight years and is intimately familiar with our product range and investment strategies. Under Bob's stewardship, the fixed income team will continue to pursue the investment approach developed at BEA over the past ten years.

4. ***Other Comments.*** *Highlight any other issues/events that are pertinent to the management of the SBI account at your firm.*

   None

Staff Comments

Staff will be visiting BEA during July to assess the impact of the merger with CS First Boston. Staff believes it would be more appropriate to evaluate BEA after the organizational changes have settled.

BEA has been instructed to unwind all foreign holdings in the SBI portfolio following the departure of Mark Arnold.

Manager Commentary
Investment Advisers, Inc.

Period Ending:	**3/31/95**	**Returns**	**Qtr.**	**Year**
Total Firm Assets Under Management	$14.1 billion	Actual	4.2%	4.2%
Total Firm Assets Managed in this Discipline	$4.9 billion	Benchmark	5.0%	5.1%

1. ***Past Performance.*** *Summarize your performance over the last quarter and year. Specifically, what active bets did you make relative to your benchmark? Which of these bets worked/did not work and why?*

   The portfolio has modestly underperformed the benchmark during the first quarter of 1995 and for the trailing 12-month period. Our defensive duration stance and our underweighting in corporate bonds reduced our relative return during the first quarter of 1995. Our overweightings in asset-backed securities (ABS) and Treasury STRIPS enhanced our return during the first quarter.

2. ***Future Strategy.*** *What active bets are in place at the present time relative to your benchmark? Summarize the rationale for making these active bets.*

   Treasuries are at a neutral weighting, whereas ABS are overweighted. ABS are defensive, high-quality (AAA-rated) investments - ideal for a bear market. Mortgage passthroughs are underweighted due to very narrow yield spreads and a high probability of increases in prepayments over the next several months. Corporate bonds are underweighted as a result of narrow yield spreads and a trend towards credit deterioration in many sectors of the corporate bond market. At this stage of the credit cycle (late second phase), it is important to be defensively postured as interest rates are likely to rise and credit/quality spreads are likely to widen. The portfolio has a 3.9-year duration, approximately one year less than the duration of the benchmark. The portfolio is of "AAA+" quality and a modest barbell structure bias (in anticipation of additional yield curve flattening).

3. ***Organizational Issues.*** *Describe any significant ownership or personnel changes at the firm over the last quarter. List accounts gained and lost in this discipline over the same time period.*

   IAI hired two additional International Equity Portfolio Managers, Sookyong Kwak who will specialize in European Equity and Jennifer Torra who will specialize in Pacific Basin Equity.

   No investment professionals left IAI.

   The ownership of IAI by TSB Group, Plec. remains unchanged.

   IAI gained 3 fixed income accounts with \$158mm in assets and lost 2 fixed income accounts with \$34mm in assets. In this discipline, IAI lost 1 account which had \$29mm in assets.

4. ***Other Comments.*** *Highlight any other issues/events that are pertinent to the management of the SBI account at your firm.*

   No additional comments.

Staff Comments

No comments at this time.

Manager Commentary
Miller, Anderson & Sherrerd

Period Ending:	**3/31/95**	**Returns**	**Qtr.**	**Year**
Total Firm Assets Under Management	$30.1 billion	Actual	5.4%	3.9%
Total Firm Assets Managed in this Discipline	$18.0 billion	Benchmark	5.0%	5.1%

1. ***Past Performance.*** *Summarize your performance over the last quarter and year. Specifically, what active bets did you make relative to your benchmark? Which of these bets worked/did not work and why?*

   Over the last quarter, your portfolio has provided a return of 5.3% return (net of fees) versus a benchmark return of 5.0%. Over the last twelve months, your portfolio has provided a 3.6% return (net of fees) versus a 5.0% return for its benchmark. Over the last year, the active bets within your portfolio have included a duration that has been greater than that of your benchmark, a portfolio strategy that had a greater barbell in place than that represented by your benchmark, a declining exposure to mortgage-backed securities and a commitment to foreign fixed income securities. As interest rose both here and abroad, the above average duration and the currency hedged commitment to foreign securities detracted from investment results. The exposure to corporate and mortgage securities were relatively neutral, and the yield curve exposure was a significant positive addition to relative performance.

   For the preceding quarter, your portfolio had a duration that was greater than its benchmark, a modest barbell strategy and a commitment to foreign. The portfolio was modestly underweight mortgages and overweight corporates relative to your benchmark. For the quarter, as interest rates fell and the yield curve flattened, the duration and yield curve strategy contributed positively to relative performance, foreign and corporate securities detracted and the mortgage commitment relative to the benchmark was neutral.

2. ***Future Strategy.*** *What active bets are in place at the present time relative to your benchmark? Summarize the rationale for making these active bets.*

   As we begin the second quarter, the duration of your portfolio is about half a year greater than that of your portfolio and we maintain an 8.1% commitment to the foreign fixed income markets. The portfolio is essentially neutral with regard to mortgage and corporate exposure and continues to have a barbell strategy embedded within it.

   High real interest rates and a positively sloped yield curve generally translate into superior fixed income results. We have been comfortable maintaining our above average interest rate exposure in your portfolio, primarily because of the high level of real interest rates. As yields in the U.S. market have fallen, we have been cutting back the duration or interest rate sensitivity within the portfolio. Currently, the duration of your portfolio is about a quarter of a year greater than that of your benchmark and our target is to reduce that duration to the benchmark.

We continue to maintain a modest barbell position within the portfolio because we anticipate further flattening of the yield curve, and over the last year have reduced mortgage and corporate holdings selectively because the option-adjusted, credit-adjusted relative values available within these sectors has diminished.

We continue to maintain your commitment to the foreign fixed income markets because of the high real interest rates available in the major European bond markets.

3. ***Organizational Issues.*** *Describe any significant ownership or personnel changes at the firm over the last quarter. List accounts gained and lost in this discipline over the same time period.*

   Over the last quarter, one investment professional was hired.. No investment professionals left the firm during the quarter. We gained seven fixed income accounts and lost one.

4. ***Other Comments.*** *Highlight any other issues/events that are pertinent to the management of the SBI account at your firm.*

   None

Staff Comments

No comments at this time.

Manager Commentary
Standish, Ayer & Wood

Period Ending:	**3/31/95**	**Returns**	**Qtr.**	**Year**
Total Firm Assets Under Management	$26.3 billion	Actual	4.5%	3.8%
Total Firm Assets Managed in this Discipline	$9.4 billion	Benchmark	5.0%	5.1%

1. ***Past Performance.*** *Summarize your performance over the last quarter and year. Specifically, what active bets did you make relative to your benchmark? Which of these bets worked/did not work and why?*

1st Quarter Commentary

MSBI Portfolio underperformed the Lehman Aggregate by 23 basis points.

- Corporates were largest positive contributor adding some 10 basis points verses index.
- International continued to drag as it has for some time. Damage in Jan/Feb improving in March/April - 15 basis points.
- Mortgages were a slight drag with premiums hurting in an up market (-9 basis points).
- Duration slightly shorter than index cost 5 basis points (shorter duration partially offset by bullet structure's superior performance over barbell).
- Fees - 4 basis points.

1st Quarter Bets vs. Benchmark	**Commentary**
Mortgages (overweight)	The sector outperformed slightly with ARMs adding and premium mortgages dragging a bit.
Corporate (overweight)	BBB spreads continued to narrow positive contribution
International (overweight)	Japan strongest market which we underweight because of low yield. Performance improving in March.

Standish (con't)

2. ***Future Strategy.*** *What active bets are in place at the present time relative to your benchmark? Summarize the rationale for making these active bets.*

Sector	Weighting Strategy	Rationale
Mortgages (including asset backed)	Overweight	Spreads still good low risk source of excess yield (neutral to index in structure)
Corporates	Overweight (but by decreasing amt.)	Medium grade (BBB) still look ok, but event risk higher in high grade.
International	Overweight	Foreign real yields higher than U.S./ volatility now declining.
Treasuries	Underweight	But high for SAW - fewer opportunities in rest of market.

3. ***Organizational Issues.*** *Describe any significant ownership or personnel changes at the firm over the last quarter. List accounts gained and lost in this discipline over the same time period.*

No significant ownership changes to report

Personnel changes:	Darren P. Cullen	International Economist
	J. Britton Hutchinson	Small Cap Analyst
	Nicole Jackman	Municipal Analyst
	Harpreet Singh	Quantitative Equity Analyst
Accounts gained:	Public Pension $138 million	

4. ***Other Comments.*** *Highlight any other issues/events that are pertinent to the management of the SBI account at your firm.*

None

Staff Comments

Staff visited Standish Ayer to review investment strategy and portfolio performance during the quarter. Staff believes there are no concerns at this time.

Manager Commentary
Western Asset Management

Period Ending:	3/31/95	Returns	Qtr.	Year
Total Firm Assets Under Management	$14.0 Billion	Actual	5.8%	4.9%
Total Firm Assets Managed in this Discipline	$7.2 Billion	Benchmark	5.0%	5.1%

1. ***Past Performance. Summarize your performance over the last quarter and year. Specifically, what active bets did you make relative to your benchmark? Which of these bets worked/did not work and why?***

   The portfolio exceeded benchmark returns significantly last quarter, as all major strategies proved successful. Performance continues to lag on a 12-month basis, though the gap has narrowed. The portfolio's long-duration posture benefited from lower interest rates across the board, while its emphasis on the front end of the yield curve was rewarded as short-term interest rates fell more than long-term rates. The portfolio's overweight exposure to mortgages was a plus, as the mortgage sector did relatively well; more importantly, the emphasis on low-coupon issues was rewarded as these turned in the strongest performance. The portfolio's emphasis on ARMs proved beneficial as well, as these benefited from lower rates and a steepening curve. Overweight corporate exposure was also a plus for performance, as the sector was the top performer for the quarter and issues at the lower end of the investment quality scale did particularly well.

2. ***Future Strategy. What active bets are in place at the present time relative to your benchmark? Summarize the rationale for making these active bets.***

   Our long-term outlook remains bullish for bonds, since we think the Fed's actions over the past year have been preemptive and effective at slowing the pace of economic activity to non-inflationary levels. However, we have temporarily reduced the portfolio's overall duration to a modestly bullish posture, given the dramatic change in market sentiment which now assumes there is almost no chance of a Fed tightening, and the near-term risk of a dollar crisis. This was accomplished by reducing positions in intermediate maturity issues, building cash positions, and purchasing puts on Eurodollar futures, as these protect the portfolio against an unexpected strengthening of the economy. With the sharp rally in short-term interest rates, and the general steepening of the yield curve this has caused, we have concentrated duration exposure at the long end of the curve in order to take advantage of an expected flattening of the yield curve going forward. The Fed is likely to hold policy steady for several months, waiting for confirmation that the economy has truly slowed down, and thus keeping a floor under the front end of the yield curve. Meanwhile, longer-term interest rates should continue to adjust to the improved outlook for inflation that is implied by a Fed-engineered slowdown of the economy prior to any signs of higher inflation appearing.

We have taken advantage of a significant narrowing in mortgage spreads to reduce exposure to the sector substantially, concentrating holdings in ARMs and commercial mortgages in order to minimize prepayment risk in a falling interest rate environment. Against the favorable backdrop of a dearth of new supply and significantly restructured and strengthened balance sheets, our corporate exposure has been adjusted to minimize exposure to a further weakening in the economy by reducing exposure to cyclically sensitive industries, and increasing exposure to shorter-dated instruments.

3. ***Organizational Issues.*** *Describe any significant ownership or personnel changes at the firm over the last quarter. List accounts gained and lost in this discipline over the same time period.*

   Western Asset added five accounts. No accounts were lost.

4. ***Other Comments.*** *Highlight any other issues/events that are pertinent to the management of the SBI account at your firm.*

   None.

Staff Comments

Staff met with Western Asset to review investment strategy and portfolio performance during the quarter. Staff believes there are no concerns at this time.

Manager Commentary
IDS Advisory (IDS Fixed-Income Advisors)

Period Ending:	**3/31/95**	**Returns**	**Qtr.**	**Year**
Total Firm Assets Under Management	$21.7 Billion	Actual	4.7%	4.8%
Total Firm Assets Managed in this Discipline	$4.4 Billion	Benchmark	5.0%	4.7%

1. ***Past Performance.*** *Summarize your performance over the last quarter and year. Specifically, what active bets did you make relative to your benchmark? Which of these bets worked/did not work and why?*

   In the quarter ended March 31, 1995, investment performance of +0.5% compared to the +0.7% return on the Lehman Brothers Government/Corporate Bond Index. For the 12 months ended March 31, 1995, your account had a return of +4.8% compared with +4.6% for the Lehman Index. During the first calendar quarter the yield curve steepened. As a result, the barbell structure employed in managing your assets gave back the relative return performance gained in the fourth quarter of 1994. As the quarter progressed, portfolio cash was reduced. This reduction in cash lengthened portfolio duration. As a result, the duration which began the quarter at 5.4 years, lengthened to 6.1 years.

2. ***Future Strategy.*** *What active bets are in place at the present time relative to your benchmark? Summarize the rationale for making these active bets.*

   While the Federal Reserve Board did raise rates in their January meeting, a flatter yield curve did not materialize as we anticipated. While yields all along the curve from two years on out all decreased, yields in the 2-7 years area declined the most. Yield spreads between Corporates and Treasuries continue to remain stubbornly narrow and show no signs of widening. However, we remain convinced that the economy has entered a slow growth phase and an opportunity to improve portfolio yield by an increase in corporate bond holdings at a more advantageous yield spread will become available.

3. ***Organizational Issues.*** *Describe any significant ownership or personnel changes at the firm over the last quarter. List accounts gained and lost in this discipline over the same time period.*

There have been no significant ownership or personnel changes for IDS Fixed-Income Advisors over the last quarter.

	First Quarter 1995			
	Gains		Losses	
Product	**# of Accounts**	**Assets ($MM)**	**# of Accounts**	**Assets ($MM)**
Large Cap Equities	4	48.5	0	0
Fixed Income	2	65.6	0	0
Balanced	8	79.5	0	0
International	1	50.0	0	0
Small Cap Equities	0	0	0	0
Mid Cap Equities	0	0	0	0
Research Core	0	0	0	0
Research Aggressive	2	75.0	0	0
Global Bonds	0	0	0	0

4. ***Other Comments.*** *Highlight any other issues/events that are pertinent to the management of the SBI account at your firm.*

None at this time.

Staff Comments

No comments at this time.

Manager Commentary
TCW Asset Management

Period Ending:	**3/31/95**	**Returns**	**Qtr.**	**Year**
Total Firm Assets Under Management	$47.2 Billion	Actual	4.8%	0.4%
Total Firm Assets Managed in this Discipline	$7.9 Billion	Benchmark	5.2%	6.0%

1. ***Past Performance.*** *Summarize your performance over the last quarter and year. Specifically, what active bets did you make relative to your benchmark? Which of these bets worked/did not work and why?*

   During the last quarter we continued to utilize a barbell strategy of cash and other short assets combined with longer duration assets and discounted CMOs. The performance during the first quarter of 1995 reflects the success of this strategy. The long discounted CMO and inverse floater positions underperformed for most of 1994 due to rising interest rates. Once interest rates reversed course in late 1994 and early 1995, the long discount holdings and inverse floaters performed well.

2. ***Future Strategy.*** *What active bets are in place at the present time relative to your benchmark? Summarize the rationale for making these active bets.*

   Currently, we believe that CMOs in general are priced somewhat lower than pass-throughs and are therefore likely to deliver higher yields and total returns. Prepayment rates are expected to accelerate seasonally during the summer months lending support to discount mortgages and call protected CMOs. Therefore, we continue to emphasize CMOs in our strategy, while CMOs are absent from the benchmark. Unlike the benchmark which is comprised mainly of mortgage pass-throughs, pass-throughs represent about 15% of total holdings in your account. Approximately 30% of your account is invested in short-term assets as we continue to employ a barbell strategy. Portfolio cashflows are being invested in ARMs, which have very attractive performance characteristics in today's environment. We plan to reduce the 12% weighting in inverse floaters by allowing existing holdings to pay down. At a weighted average price of $91.30, your account is more than 6 points below the weighted average price of the mortgage index and yields about 50 basis points more than the index. Your account has more call protection, greater convexity and yields more than the benchmark and therefore is likely to outperform the benchmark in most scenarios.

TCW Asset Management (con't)

3. ***Organizational Issues.*** *Describe any significant ownership or personnel changes at the firm over the last quarter. List accounts gained and lost in this discipline over the same time period.*

   Five senior officers in the High Yield area of TCW announced their resignations during the first quarter, effective April 7, and are leaving to start their own investment management firm. A letter discussing this matter in greater detail was sent out several weeks ago. Please let us know if you require any additional information. Two accounts totaling approximately $170 million were lost in this strategy, and two accounts, totaling approximately $280 were added.

4. ***Other Comments.*** *Highlight any other issues/events that are pertinent to the management of the SBI account at your firm.*

   The TCW mortgage-backed securities investment strategy focuses on structuring high quality, high yielding mortgage portfolios with call protection. We employ various types of CMOs to help us achieve these goals because at times they offer higher yields and more call protection than mortgage pass-through securities without compromising credit quality. Our strategy emphasizes call protection as a means of minimizing the negative impact of prepayments while capturing above market rates of return when prepayments accelerate. With the portfolio offering higher yield and greater return potential than non-mortgage and mortgage benchmarks alike, we look forward to strong performance as we move into the second half of the 1990's.

Staff Comments

Staff met with TCW to review investment strategy and portfolio performance during the quarter. Staff raised the issue of the departure of several High Yield senior officers from TCW. Staff believes that these departures will have no impact on the mortgage area and little adverse impact on the TCW organization.

Manager Commentary
Goldman Sachs Asset Management

Period Ending:	**3/31/95**	**Returns**	**Qtr.**	**Year**
Total Firm Assets Under Management	$40.6 billion	Actual	4.9%	5.4%
Total Firm Assets Managed in this Discipline	$13.4 billion	Benchmark	5.0%	5.1%

1. ***Past Performance.*** *Summarize your performance over the last quarter and year. Specifically, what active bets did you make relative to your benchmark? Which of these bets worked/did not work and why?*

In the first quarter the portfolio outperformed the Lehman Brothers Aggregate Bond Index by 10 basis points. Corporate securities, option-adjusted spread (OAS) advantage and the mortgage sector were primarily responsible:

- Corporate security selection added about 9 basis points. In particular, spreads tightened 21 basis points on the portfolio's industrial securities compared to a 6 basis points tightening on the Index's Industrials.

- About 4 basis points were added due to incremental OAS advantage. Three basis points were added by overweighting non-Treasury sectors and 1 basis point was added by security selection.

- In mortgages, sector selection added about 1 basis point and the portfolio's CMOs added about 2 basis points. The portfolio's collateral security selection detracted slightly from performance.

Duration/Term Structure Exposure	-1.3	Mortgage	1.1
Agency	1.2	Municipal	0.0
Corporate	11.7	Residual	-3.9
Asset-backed	1.2	**Total**	**10.0**

2. ***Future Strategy.*** *What active bets are in place at the present time relative to your benchmark? Summarize the rationale for making these active bets.*

The duration/term structure of the portfolio is neutral.

In the mortgage sector (31% allocation), although we have a neutral outlook on spreads due to the historically tight levels, we expect to gain from opportunities for relative value trading. In the 30-year sector, we have focused on seasoned mortgages (for example, 86-87 issues) with undervalued payups in order to improve the convexity of the portfolio. We have also underweighted the 15-year sector. We shall continue to add CMOs when the additional spread is sufficient to warrant the incremental risk and lower liquidity.

In the corporate sector (30% allocation), we are less optimistic on corporate spreads due to the slowing economy, tight spreads and event risk concerns., We are overweighted on a market value basis but focused on short duration securities.

Within the corporate sector, we favor industrials and financials over utilities and Yankees. Industrials benefit most from the continued strength in the economy and we expect finance companies and banks to show solid earnings. Yankees have suffered from the performance of Canada, Italy and China. We may increase exposure as spreads widen. We continue to have fundamental concerns regarding the utility sector, but we may look to buy paper when recession threatens the economy.

3. ***Organizational Issues.*** *Describe any significant ownership or personnel changes at the firm over the last quarter. List accounts gained and lost in this discipline over the same time period.*

There were no changes in the ownership of GSAM.

GSAM had one addition and two losses to our U.S. fixed income portfolio management staff:

- Erica Adelberg, Associates; Portfolio Analyst joined GSAM in February, 1995.
- Eric Buckman, Associates; Portfolio Manager resigned in February 1995.
- David Waldman, Vice President; Portfolio Manager resigned in March 1995.

U.S. Fixed Income Accounts Gained: 1		U.S. Fixed Income Accounts Lost: 1	
U.S. Clients	0	U.S. Clients	0
Non-U.S. Clients	1	Non-U.S. Clients	1

4. ***Other Comments.*** *Highlight any other issues/events that are pertinent to the management of the SBI account at your firm.*

None

Staff Comments

No comments at this time.

Manager Commentary
Fidelity Management Trust Company

Period Ending:	**3/31/95**	**Returns**	**Qtr.**	**Year**
Total Firm Assets Under Management	$23.8 Billion	Actual	4.2%	4.1%
Total Firm Assets Managed in this Discipline	$4.6 Billion	Benchmark	5.0%	5.1%

1. *Past Performance. Summarize your performance over the last quarter and year. Specifically, what active bets did you make relative to your benchmark? Which of these bets worked/did not work and why?*

During the quarter, we focused on a defensive repositioning of the portfolio including emphasis on short duration corporate issues, increased allocation to high quality asset-backed securities, and continued exposure to collateralized mortgage obligations (CMOs). The portfolio lagged its benchmark primarily due to the portfolio's Mexican holdings which we significantly reduced by quarter-end.

Corporate yield spreads continued to remain at historically narrow levels during the quarter. The relative value this sector offers does not compensate for spread widening risk. To protect the portfolio from this risk, we continue to favor short duration, low quality credits versus long duration issues. The lower quality and shorter duration corporate exposure protects the portfolio from a widening in yield spreads relative to Treasuries, without sacrificing too much yield.

The portfolio benefited during the quarter from its continued emphasis on asset-backed securities and collateralized mortgage obligations. Both these asset classes have been experiencing favorable technicals. Asset-backed supply has been absorbed by strong demand for the short duration, high quality securities. CMO demand has been met with little to no supply.

Mexican holdings, however, accounted for most of the portfolio's negative relative performance. The peso's sudden devaluation in December led to a surge in Mexican interest rates. The lack of investor confidence in the Mexican government's ability to implement economic policies aimed at minimizing the extent of a Mexican recession and the satisfactory repayment of debt has kept interest rates high. These events resulted in significant spread widening in the short-term dollar-denominated Mexican exposure that existed in the portfolio. Given the heightened spread volatility of Mexican securities, we have worked to significantly reduce the Mexican exposure in the portfolio.

Fidelity Management Trust (con't)

2. ***Future Strategy.*** *What active bets are in place at the present time relative to your benchmark? Summarize the rationale for making these active bets.*

   Corporates
   Overweighted on a market value basis in corporates, underweighted on dollar duration basis. High valuation in the corporate sector continues to offset improving fundamentals. Emphasisremains on short duration, low quality issues. Over the quarter, we reduced the portfolio's bank issues as this sector has reached rich levels. We will continue to unwind the portfolio's Mexican Yankee holdings due to increased spread volatility following the December 1994 devaluation of the Peso. As paper becomes available, we will add to asset-backed holdings - this sector should continue to benefit from favorable technicals.

   Mortgages
   Pass-through securities are underweighted due to increasing negative convexity of the mortgage market and historically tight spreads to Treasuries.

   The portfolio continues to overweight commercial mortgage pass-throughs, seasoned pass-through securities, and collateralized mortgage obligations. These holdings still possess attractive relative values compared to non-seasoned agency pass-through mortgages.

   Yield Curve
   Uncertainty over Federal Reserve policy has caused us to move the portfolio to a more neutral positioning relative to the benchmark by the end of the quarter. Federal Reserve policy combined with economic fundamentals determines the term structure of interest rates.

3. ***Organizational Issues.*** *Describe any significant ownership or personnel changes at the firm over the last quarter. List accounts gained and lost in this discipline over the same time period.*

   Two accounts were lost during the quarter. Both were related to asset allocation decisions made by the clients.

4. ***Other Comments.*** *Highlight any other issues/events that are pertinent to the management of the SBI account at your firm.*

   None

Staff Comments

Staff met with Fidelity to review investment strategy and portfolio performance during the quarter. Staff stated concerns relating to Fidelity's institutional commitment to its pension business. Fidelity assured staff that there is a strong commitment to its pension fund business.

Fred L. Henning, Jr., an 18-year Fidelity executive, was named the new director of fixed income and money market investments in early May. He replaces Thomas J. Steffanci.

Manager Commentary
Lincoln Capital Management Company

Period Ending:	**3/31/95**	**Returns**	**Qtr.**	**Year**
Total Firm Assets Under Management	$26.0 billion	Actual	5.3%	5.3%
Total Firm Assets Managed in this Discipline	$8.1 billion	Benchmark	5.0%	5.1%

1. ***Past Performance.*** *Summarize your performance over the last quarter and year. Specifically, what active bets did you make relative to your benchmark? Which of these bets worked/did not work and why?*

	4th Quarter 1994		**12 Months Ended 3/31/95**	
	Active Strategy	**Value Added**	**Active Strategy**	**Value Added**
Mortgages	Overweighted	+0.01%	Overweighted	+0.07%
Corporates	Neutral	0.00	Neutral	0.00
BBBs	Neutral	0.00	Underweighted	0.00
Asset-Backeds	Overweighted	+0.01	Overweighted	+0.05
Agencies	Overweighted	0.00	Overweighted	0.00
Miscellaneous				
Rebalancing Transaction Cost	N/A	-0.01%	N/A	-0.04%
Security Selection	N/A	+0.09	N/A	+0.14
Total		**+0.10%**		**+0.22%**

The portfolio structure was stable this quarter. The overweighting in discount mortgages and asset-backed securities was unchanged and contributed favorably to the portfolio's excess return. The yield curve reshaping was the dominant factor in determining relative performance across the mortgage sector. Security selection also enhanced returns.

Lincoln (con't)

2. ***Future Strategy.*** *What active bets are in place at the present time relative to your benchmark? Summarize the rationale for making these active bets.*

Future Strategy	Strategy	Rationale
Government Trust Certificates	Overweighted vs Treasuries	1. Government Guarantee 2. Attractive Yield 3. Certain Cash Flow
Asset-Backed	Overweighted vs Treasuries and Corporates	1. High Quality 2 Attractive Yield 3. Low Event Risk 4. Low Prepayment Risk
Discount 30 Year Mortgages	Overweighted vs Treasuries	1. Agency Quality 2. Low Prepayment Risk 3. Wide Nominal Spreads

3. ***Organizational Issues.*** *Describe any significant ownership or personnel changes at the firm over the last quarter. List accounts gained and lost in this discipline over the same time period.*

	Number	Market Value ($ millions)
Accounts Gained	1	100
Accounts Lost	1	227

There were no personnel changes

4. ***Other Comments.*** *Highlight any other issues/events that are pertinent to the management of the SBI account at your firm.*

There are no issues or developments that would impact the SBI account.

Staff Comments

No comments at this time.

Manager Commentary
Baring Investment Services

Period Ending:	**3/31/95**	**Returns**	**Qtr.**	**Year**
Total Firm Assets Under Management	$11.2 Billion	Actual	-1.1%	3.7%
Total Firm Assets Managed in this Discipline	$ 1.2 Billion	Benchmark	1.9%	6.1%

1. ***Past Performance.*** *Summarize your performance over the last quarter and year. Specifically, what active bets did you make relative to your benchmark? Which of these bets worked/did not work and why?*

The following figures show a breakdown of your portfolio's performance during the last quarter:

	Total Return %	**Currency %**	**Market Weighting %**	**Tracking Error %**
Minnesota State Board	-1.1	7.2	-7.3	0.0
Benchmark	1.9	10.5	-7.8	---
Relative Return	-3.0	-3.0	0.5	0.0

Currency (Relative return -3.0%): The single most significant contributor to our underperformance came from underweighting of the Japanese Yen, which appreciated by 15.4% against the US Dollar. The underweight position in the Yen detracted -2.6% from performance, with most of that resulting from our hedge out of the Yen. Exposure to the Singapore Dollar; the Korean won and US Dollar cash also contributed to the underperformance.

Market Weighting (Relative return 0.5%): During the period money was added to Japan, largely funded through reduced exposure to Germany; South Korea and Singapore. Our continued underweighting of Japan market contributed 1.2%. Our overweighting of France, and our exposure to non-index Korea were also positive contributors to performance.

Tracking Error (Relative return 0.0%): Negative tracking error in Korea was offset by positive Thailand, producing a neutral effect on performance.

2. ***Future Strategy.*** *What active bets are in place at the present time relative to your benchmark? Summarize the rationale for making these active bets.*

The main features in your portfolio are:
A reduced underweighting in Japan;
Reduced overweighting in Germany;
Reduced overweighting in Singapore;
Increased further the overweighting in France;
Maintained the hedge from the Japanese Yen

During the quarter the Japanese stock market fell by 15.2% in local currency terms as the hopes of a strong economic recovery were dampened by the Kobe earthquake and the rise of the Yen. We are still forecasting a mild economic recovery in Japan this year and positive earnings momentum--the first increase in corporate profits in five years. The valuation of the market is not cheap but we estimate that it is now selling on between 25-28 times mid-cycle profits which is not unreasonable when compared to 4% bond yields. Finally the liquidity structure is surprising in Japan with the Bank of Japan recently cutting the discount side to 1%. We have taken advantage of the market's weakness to reduce our underweighting and would move to an overweighting on further weakness. We have, however, maintained our bearish view on the Japanese Yen and have maintained our underweight position.

The funding for the increased weighting in Japan came from reduction in Germany and Singapore. Germany has been at the cove of our European strategy for some time. The strength of the Deutschemark has caused us to change our view in favor of France and The Netherlands which continue to look attractive from both a growth and value perspective. Valuations in the French market look particularly attractive when taking into consideration our forecast for strong corporate profits growth over the next 24 months. In Singapore we have concerns over the size of the premia on foreign registered stock so we have reduced our position accordingly. We continue to believe that the pain of rising short rates, with the exception of Japan, will be with us for some time to come and therefore we believe that this will continue to produce an environment relatively low equity returns.

3. *Organizational Issues. Describe any significant ownership or personnel changes at the firm over the last quarter. List accounts gained and lost in this discipline over the same time period.*

- No accounts lost in the active/passive discipline. $221 million from existing active/passive clients was contributed in the first quarter.
- Nine North American clients lost for a total of $444 million.
- No personnel changes which would effect the active/passive process.

4. *Other Comments.*

During the first quarter Baring Asset Management was acquired by ING of The Netherlands. The relationship between ING and Baring Asset Management has started off positively and is being well received by both clients and staff. ING is committed to giving Baring Asset Management autonomy and has agreed to keep in place the same bonus scheme which has enabled us to attract, motivate and retain top quality investment professionals. No investment professionals have left the company as a result of the ING acquisition. We are very excited about the future under our new ownership and believe it was the best possible outcome.

Staff Comments

Staff met with Philip Bullen and Jamie Macmillan of Barings on 4/3/95 to review organizational status after the buyout by ING. Preliminary accounts are encouraging. Barings was purchased completely intact, and ING, so far, has taken a "hands-off" attitude. Barings was put on probation by the Board at the March 1995 meeting. Staff will monitor this situation to ensure that the purchase of Barings by ING will not negatively affect the management and performance of Baring Asset Management. Staff expects to make a recommendation regarding probationary status in September.

Manager Commentary
Brinson Partners, Inc.

Period Ending:	**3/31/95**	**Returns**	**Qtr.**	**Year**
Total Firm Assets Under Management	$36.5 Billion	Actual	-3.0%	0.5%
Total Firm Assets Managed in this Discipline	$ 8.2 Billion	Benchmark	1.9%	6.1%

1. ***Past Performance.*** *Summarize your performance over the last quarter and year. Specifically, what active bets did you make relative to your benchmark? Which of these bets worked/did not work and why?*

   Market allocation was strongly positive both in the first quarter of 1995 and the full year. The cash position added to performance as these were periods of generally weak equity markets. The non-U.S. index fell 6.9% in hedged terms for the quarter and fell 6.7% for the year. The portfolio also gained substantially from its 12% underweight of the very weak Japanese equity market which fell 14.5% in the quarter and fell 12.0% for the year, both in hedged terms. Underweighting Germany and Hong Kong helped as well. At the same time, overweighting Canada, Australia, the U.K. and the New Zealand benefited the portfolio, as these were among the few markets that generated positive local returns.

   Currency allocation had a significantly negative impact on performance throughout both time periods. The U.S. and Canadian dollars have been weak against the core DM-bloc currencies and especially weak against the Japanese yen. As we mentioned in prior performance summaries, foreign currencies, particularly the yen, have been rising versus the U.S. and Canadian dollars to levels far above their fundamental values. The rise that has taken place in this first quarter can be characterized as a speculative bubble that brings extreme risk with it.

2. ***Future Strategy.*** *What active bets are in place at the present time relative to your benchmark? Summarize the rationale for making these active bets.*

   The Japanese economy is experiencing a fragile recovery. While housing, public works and some areas of consumer spending appear to be growing, the problems of excess capacity, overly capitalized balance sheets, a weakened banking sector and a strong yen are likely to continue to exert downward pressure on the economy. Still, the steep decline of the Japanese market over the past 12 months has improved its price/value relationship and driven us to reduce our underweight position from 12% to 9% relative to the benchmark.

   Within the All Other Markets segment, the portfolio is overweighted in Australia, Canada and New Zealand as they have been experiencing healthy economic recovery. Belgium and the Netherlands are overweight due to their relative attractive price/value relationships. Germany has been underweight as many industries/companies have struggled with their competitiveness. The strength of the DM over the past couple of years, particularly versus European currencies, has exacerbated this strain. However, Germany's price weakness has improved its price/value relationship causing us to reduce its underweight. Canadian market strength has caused us to slightly reduce our overweight position.

Brinson (con't)

As a result of the dramatic, speculative run in the yen in March, we have further reduced our exposure to that currency, down to a zero position. The portfolio continues to maintain minimal exposure to the core ERM currencies, which also appear extremely overvalued. Offsetting these underweights are overweights in the U.S. and Canadian dollars, as well as the Australian and New Zealand dollars, Swedish krona and the Italian lira.

3. ***Organizational Issues.*** *Describe any significant ownership or personnel changes at the firm over the last quarter. List accounts gained and lost in this discipline over the same time period.*

   There have been no significant organizational changes and no turnover of our senior investment professionals in this past year.

   In the first quarter of 1995, Brinson Partners lost one non-U.S. equity client with $285 million and gained none. However, existing clients added $100 million for the firm to manage.

4. ***Other Comments.*** *Highlight any other issues/events that are pertinent to the management of the SBI account at your firm.*

   At the beginning of April, Anthony W. Robinson returned to Brinson Partners from a two-year leave of absence (family health reasons) to work closely with Rich Carr on international investment strategy. Tony originally joined our firm in 1979, playing an important role in developing many of our international investment tools and techniques. We are delighted to have Tony back.

Staff Comments

Performance attribution relative to EAFE for the quarter is shown below:

	Jan. -Mar. 1995
Country selection*	2.98
Stock selection*	-0.20
Currency effect	-2.76
Hedging activity	-5.56
Total Value Added to EAFE	-4.83

Source: State Street Analytics   * in local currency

Manager Commentary
Marathon Asset Management

Period Ending:	3/31/95	Returns	Qtr.	Year
Total Firm Assets Under Management	$2.6 Billion	Actual	-4.6%	1.5%
Total Firm Assets Managed in this Discipline	$1.3 Billion	Benchmark	1.9%	6.1%

1. ***Past Performance.*** *Summarize your performance over the last quarter and year. Specifically, what active bets did you make relative to your benchmark? Which of these bets worked/did not work and why?*

The portfolio fell 4.6% in the first quarter of 1995 versus a 1.9% rise in the MSCI EAFE Index. Returns in all areas were disappointing, with the yen currency hedge accounting for 239bp of the Fund's underperformance. Stock and country returns were both negative versus the index, with the underweighting of hard currency Europe (notably France) and ongoing consolidation in European cyclicals reinforced by the triple whammy of earthquake, Barings and the yen in Japan.

2. ***Future Strategy.*** *What active bets are in place at the present time relative to your benchmark? Summarize the rationale for making these active bets.*

Despite the extreme volatility (of investor psychology and the dollar if not the markets themselves) witnessed during the quarter, Marathon's asset allocation has remained unchanged. The bias in Europe remains firmly towards the soft currency markets of Scandinavia and Southern Europe where corporate earnings growth expectations continue to be revised up. In Asia a late global economic cycle perspective argues for core, defensive holdings in S.E. Asia, an overweighting of Australia and a full weighting in Japan. Smaller markets remain vulnerable to both a U.S. economic slowdown and a reversal in international investment flows. The latter is of particular concern: foreign ownership in most markets is at historic highs, and with the supply of new paper continuing unabated, a return to a domestic clearing price, mirroring a domestic bond - equity trade off, may see material weakness in some of the more overowned and overbought markets and sectors.

The major change over the quarter was hence not a country decision but a sectoral shift within Japan, where exposure to manufacturing exporters, cyclicals and processing sectors has been extensively reduced to allow accumulation of domestic defensives (consumer non-durables, foods and drugs), domestic "capex" (printing, advertising, and O.A. - related) and financials. Whilst further short-term currency strength cannot be ruled out we continue to believe we are nearing the end of the yen bubble, and any reversal in current extremely depressed sentiment could see a sharp recovery in both the Tokyo equity market and the dollar.

Marathon (con't)

3. ***Organizational Issues.*** *Describe any significant ownership or personnel changes at the firm over the last quarter. List accounts gained and lost in this discipline over the same time period.*

   Personnel: Analyst hired - support SE Asia/US

   Accounts Gained: R. W. Johnson Foundation
   Accounts Lost: N/A

4. ***Other Comments.*** *Highlight any other issues/events that are pertinent to the management of the SBI account at your firm.*

   N/A.

Staff Comments

Performance attribution for the quarter relative to EAFE is shown below:

	Jan. -Mar. 1995
Country selection*	0.80
Stock selection*	-3.75
Currency effect	-1.08
Hedging activity	-2.38
Total Value Added to EAFE	-6.34

Source: State Street Analytics * in local currency

Manager Commentary
Rowe Price-Fleming International

Period Ending:	**3/31/95**	**Returns**	**Qtr.**	**Year**
Total Firm Assets Under Management	$18.6 Billion	Actual	-0.8%	1.5%
Total Firm Assets Managed in this Discipline	$12.9 Billion	Benchmark	1.9%	6.1%

1. ***Past Performance.*** *Summarize your performance over the last quarter and year. Specifically, what active bets did you make relative to your benchmark? Which of these bets worked/did not work and why?*

   First Quarter:

   Country allocation was broadly neutral over the quarter. The overweightings in the Netherlands, Malaysia and New Zealand added value as did the underweighting in Japan. Unfortunately, the sharp fall in the Mexican and Brazilian markets subtracted a similar amount of value even through your portfolio's exposure to these markets was small in absolute terms.

   Stock selection was disappointing over the quarter with particular value subtracted in the Netherlands where publishing stocks were poor, and Japan where interest rate sensitive and defensive sectors led the market. Medium-sized and smaller companies continued to underperform with notable weakness in the UK and Japan.

   We continue to have no currency hedges in place.

2. ***Future Strategy.*** *What active bets are in place at the present time relative to your benchmark? Summarize the rationale for making these active bets.*

   Current position and outlook

   Despite the uninspiring start to the year, we believe that the outlook for international markets over the remainder of 1995 is now more positive. Economic activity continues to increase and this is underpinning strong growth in corporate profitability. Bond markets, taking their lead once again from the USA, are improving after the weakness seen last year. Valuations are now generally much more reasonable with a number of less developed markets beginning to look cheap. In the light of this, we think that the orientation of your portfolio away from Japan towards faster growth and better valuations in Continental Europe, South East Asia and Latin America makes sense.

Rowe Price (con't)

3. ***Organizational Issues.*** *Describe any significant ownership or personnel changes at the firm over the last quarter. List accounts gained and lost in this discipline over the same time period.*

   There have been no changes in the ownership of RPFI in the first quarter.

   During the quarter, we have not increased the size of the investment team. We have, however, added another member to the support team in London, in line with our policy of leveraging portfolio managers' time.

   During the first quarter, RPFI gained two new accounts with fully international mandates.

4. ***Other Comments.*** *Highlight any other issues/events that are pertinent to the management of the SBI account at your firm.*

   None.

Staff Comments

Performance attribution relative to EAFE for the quarter is shown below:

	Jan.-Mar. 1995
Country selection*	2.55
Stock selection*	-1.29
Currency effect	-4.19
Hedging activity	0.00
Total Value Added to EAFE	-2.51

Source: State Street Analytics * in local currency

Manager Commentary
Scudder, Stevens and Clark

Period Ending:	**3/31/95**	**Returns**	**Qtr.**	**Year**
Total Firm Assets Under Management	$90.0+ Billion	Actual	-0.2%	1.0%
Total Firm Assets Managed in this Discipline	$ 7.0 Billion	Benchmark	1.9%	6.1%

1. ***Past Performance.*** *Summarize your performance over the last quarter and year. Specifically, what active bets did you make relative to your benchmark? Which of these bets worked/did not work and why?*

   The value of your portfolio declined 0.2% during the first quarter of 1995. This compares to a 1.9% gain in the benchmark EAFE index. Japan once again proved to be the problem. Going into the quarter, your account had roughly a 25% exposure to the Japanese market (vs. 44% in EAFE) with an emphasis on blue chip exporters. That left the portfolio vulnerable to a strengthening Yen.

   The situation could have been worse had we not recognized the short-term potential for further Yen strengthening. We closed out all our Yen hedges in mid-February (when the Yen-Dollar rate was still around 98/99). It must be emphasized, however, that the closing out of the Yen hedges was strictly a short-term tactical move. On a longer-term basis, it is still our view that the Dollar is under-valued and we would be looking to re-instate the hedges (where appropriate) at the right time.

   We were also hurt by our exposure to Latin America (specifically Brazil and Argentina) which declined in the aftermath of the Mexican crisis. On the plus side, we benefited from overweight positions in a number of core European nations (Germany, the Netherlands and Switzerland), which were among the best performing markets in US Dollar terms, thanks in large part to strong currencies.

2. ***Future Strategy.*** *What active bets are in place at the present time relative to your benchmark? Summarize the rationale for making these active bets.*

   As a result of the recent currency turmoil the likelihood of a protracted global growth cycle is diminishing. Recognizing this risk, we have been steadily scaling back on your portfolio's exposure to those stocks most dependent on economic growth to support current valuation levels (e.g. autos, chemicals and certain German export-related industrial companies. Instead, the portfolio emphasis is gravitating more towards those sectors or situations whose fortunes are independent of the business cycle and are more insulated from currency fluctuations. From a sector perspective, we have been increasing your portfolio's exposure to energy, pharmaceuticals and selected consumer plays. We continue to favor global companies that are intrinsically hedged against currency volatility due to the international breadth of their operations.

   We continue to believe that the dollar is fundamentally undervalued, particularly against the yen. As such, we are comfortable maintaining a dollar-orientation to the overall portfolio mix. We are reducing our already underweight positions in Japan even further as our longer-term view on the country turns more bearish. Major structural problems remain unresolved, and recent developments have reduced our optimism for Japan's ability to effect the necessary changes. Furthermore the unprecedented strength of the Yen now threatens to de-rail the

Japanese recovery so that the country may no longer even have cyclical forces at its back. Finally, there is evidence to suggest that the unwinding of corporate cross-ownership may be accelerating. These cross-holdings represent over 50% of market capitalization and represent a major supply overhang, which could cap any upside potential to the market for years.

We continue to remain overweight in Europe, particularly the core countries, where economic recovery is still underway and where numerous companies offer attractive restructuring potential. Furthermore, to the extent that most European companies trade largely amongst other European countries, they are less exposed to the prevailing currency turmoil.

Finally, we are re-examining the Southeast Asian markets. Economic growth and long term potential in this region remain solid, and recent market corrections have brought valuations back to more attractive levels.

3. ***Organizational Issues.*** *Describe any significant ownership or personnel changes at the firm over the last quarter. List accounts gained and lost in this discipline over the same time period.*

Personnel Additions: Sheridan Reilly (Portfolio Manager)
Tara Kenney (Portfolio Manager/Latin American Analyst)

Accounts Gained: 5 ($20.9 M)
Accounts Lost: 2 ($29.2 M)

4. ***Other Comments.*** *Highlight any other issues/events that are pertinent to the management of the SBI account at your firm.*

None.

Staff Comments

Performance attribution relative to EAFE for the quarter is shown below:

	Jan. -Mar. 1995
Country selection*	2.54
Stock selection*	-2.08
Currency effect	-2.55
Hedging activity	-0.05
Total Value Added to EAFE	-1.89

Source: State Street Analytics * in local currency

Manager Commentary
Templeton Investment Counsel, Inc.

Period Ending:	**3/31/95**	**Returns**	**Qtr.**	**Year**
Total Firm Assets Under Management	$42.0 Billion	Actual	1.4%	3.9%
Total Firm Assets Managed in this Discipline	$12.1 Billion	Benchmark	1.9%	6.1%

1. ***Past Performance.*** *Summarize your performance over the last quarter and year. Specifically, what active bets did you make relative to your benchmark? Which of these bets worked/did not work and why?*

   The portfolio relative to peers is a first quartile performer on a YTD and one-year rolling basis. Alternatively, the portfolio underperformed the MSCI EAFE index for both periods. Portfolio performance for the recent quarter (relative to the index) benefited from an underweighting in Japan and an overweighting in Hong Kong. Alternatively, the portfolio suffered from it's exposure in emerging markets which are not included in the benchmark index. Currency also had a limited effect because our investment style does not include currency speculation/overlays.

2. ***Future Strategy.*** *What active bets are in place at the present time relative to your benchmark? Summarize the rationale for making these active bets.*

   Our investment strategy remains unchanged. We employ a value, stock-picking approach that generally results in low turnover. The portfolio's bets therefore do not change significantly form quarter to quarter. The portfolio remains underweighted in Japan and overweighted in Europe. Additionally, the portfolio's emerging markets exposure should remain at current levels with some selective buying. Financially, although the number of holdings has marginally increased, country diversification continues to expand.

Templeton (con't)

3. ***Organizational Issues.*** *Describe any significant ownership or personnel changes at the firm over the last quarter. List accounts gained and lost in this discipline over the same time period.*

   There were no ownership changes during the last quarter. Harry Ehrlich, Portfolio Manager and Research Analyst resigned in January. Harry and Jim Chaney were the portfolio managers responsible for the Minnesota State Board of Investment. Mr. Chaney continues to manage the Board's portfolio.

   No gains and no losses.

4. ***Other Comments.*** *Highlight any other issues/events that are pertinent to the management of the SBI account at your firm.*

   No additional comments at this time.

Staff Comments

On 2/28/95, staff met with Wes Freeman and Jim Chaney. Each portfolio manager selects securities from a "bargain list", which comprises recommendations from various Templeton analysts. This leads to some amount of discretion and variability between portfolios. However, staff does not believe the change of portfolio managers will materially affect the SBI's portfolio, but will monitor the situation closely.

Performance attribution relative to EAFE for the quarter is shown below:

	Jan. -Mar. 1995
Country selection*	5.37
Stock selection*	-0.16
Currency effect	-6.30
Hedging activity	0.00
Total Value Added to EAFE	-0.37

Source: State Street Analytics   * in local currency

Manager Commentary
State Street Global Advisors

Period Ending:	3/31/95	Returns	Qtr.	Year
Total Firm Assets Under Management	$160.0 Billion	Actual	1.3%	6.2%
Total Firm Assets Managed in this Discipline	$ 26.0 Billion	Benchmark	1.9%	6.1%

1. ***Past Performance.*** *Summarize your performance over the last quarter and year. Specifically, explain the reasons for the tracking error between the portfolio and the index.*

   In the first quarter, the account outperformed the benchmark primarily due to higher dividend payments than included in the benchmark calculation. The dividend payments of Japanese companies in March gave the portfolio the biggest boost to performance. The majority of the Portfolio's outperformance for the year is due to the account's more favorable dividend withholding tax rate compared to the benchmark.

2. ***Organizational Issues.*** *Describe any significant ownership or personnel changes at the firm over the last quarter. List accounts gained and lost in this discipline over the same time period.*

   Organization:
   In early February, State Street Bank and Trust Company announced the establishment of a new money management unit that will provide investment management and brokerage services for mutual funds, 401(k) providers, personal trust accounts and pension plans under one umbrella. State Street Global Advisors, along with Benefit Plan Services, the Trust Services Division and the Investment Research Division make up this newly formed unit.

   The new unit, call Global Investment Management (GIM), will have domestic assets totaling US $170 billion, making it at least the sixth largest investment advisor in the United States. Offshore assets of Global Investment Management are more than US $30 billion. Prior to formation of GIM, many of these services were provided by separate independent businesses.

   "We are confident that this reorganization reflects State Street's ability to provide efficient, low-cost services to an ever-changing global economic environment," said Marshall N. Carter, chairman and chief executive officer of State Street.

   Nicholas A. Lopardo, Chairman of State Street Global Advisors, has been named head of Global Investment Management, reporting directly to Mr. Carter.

   Gained and Lost Clients:

   During the first quarter, we lost one client following an EAFE Index strategy with total assets of $22 million, and gained two new EAFE Index clients with assets of $130 million.

State Street (con't)

3. ***Other comments.*** Highlight any other issues/events that are pertinent to the management of the SBI account at your firm.

   No changes have been made.

Staff Comments

Please refer to question number one. State Street Global Advisors reported quarterly performance as 1.94% and based their response on this number. The discrepancy is due to currency effect. State Street Global Advisors get their currency exchange rates from a different source than the custodian does. Performance attribution shown below ties to the 1.3% quarterly performance reported by the SBI and the custodian.

Performance attribution relative to EAFE for the quarter is shown below:

	Jan. -Mar. 1995
Country selection*	0.11
Stock selection*	-0.02
Currency effect	-0.69
Hedging activity	0.00
Total Value Added to EAFE	-0.52

Source: State Street Analytics   * in local currency

STATE BOARD OF INVESTMENT

Addendum to the Meeting Materials for June 28, 1995:

Proposed Higher Education Plans Contracts

- **Annuity Contract and Letter Agreement with Great-West**
- **Annuity Contract and Agreement with Minnesota Mutual**
- **Annuity Contract, Specimen Group Annuity Certificate and Agreement with VALIC**
- **Specimen Group Annuity Certificates and Agreement with TIAA-CREF**

Annuity Contract and Letter Agreement with Great-West

Great-West
LIFE & ANNUITY INSURANCE COMPANY

Application for Qualified Group Fixed and Variable Deferred Annuity Contract

The Employer or Trustee indicated below (hereinafter called the Applicant) hereby applies to Great-West Life & Annuity Insurance Company (hereinafter called the Company), for a Qualified Group Fixed and Variable Deferred Annuity Contract, form number QGAC 1-94, (hereinafter called the Group Annuity Contract). The Group Annuity Contract is not in force until this Application is accepted by the Company at its Home Office in Englewood, Colorado.

The effective date of the Group Annuity Contract is the date on which the first Deposit is credited to a Participant Annuity Account.

Please note, IRC sec. 401(a)/401(k) plans are subject to the provisions of ERISA. It is suggested that a Plan Document and, if applicable, an Application for Determination be submitted to the Internal Revenue Service prior to enrollment. It is required that you provide Great-West Life & Annuity with a copy of the Plan Document and Application for Determination submitted to the Internal Revenue Service when the Determination is received.

Basic Applicant Information

Full Legal name of Applicant: The Board of Trustees of the Minnesota State Colleges and Universities

Full Legal name of Plan: Minnesota State Colleges and Universities Defined Contribution Retirement Plan

Federal Tax I.D.#: ____________ State of Situs: Minnesota

Applicant's Address: 555 Park Street, Suite 230

St. Paul MN 55103

Affiliated Corporations, Groups or Service Organizations

____

Signature of Applicant **Dated**

Print Name of Applicant **Title**

WINWORD\UND\QGAC

Great-West Life & Annuity Insurance Company

Home Office - Englewood, Colorado
Administrative Offices - Englewood, Colorado

GROUP POLICYHOLDER	The Board of Trustees of the Minnesota State Colleges and Universities
GROUP POLICY NUMBER	95008-01
GROUP ANNUITY CONTRACT DATE	July 1, 1995

Group Annuity, Non-Participating

The provisions on the following pages, together with the application for this Group Annuity Contract, are part of this Group Contract.

For the purposes of this Group Annuity Contract, "Plan" means the plan that the Group Policyholder has designated.

Signed for Great-West Life & Annuity Insurance Company on the issuance of the Group Annuity Contract on the Group Annuity Contract Date.

Signed for the Company on the Issue Date.

D.C. Lennox
D.C. Lennox
Secretary

W.T. McCallum
W.T. McCallum
President and Chief Executive Officer

For the Actuary

This Group Annuity Contract is a legal contract between the Group Policyholder and Great-West Life & Annuity Insurance Company. PLEASE READ THIS ANNUITY CONTRACT CAREFULLY. IT IS A CONTRACT WHICH MAY PROVIDE FOR PAYMENTS OR VALUES WHICH ARE NOT GUARANTEED AS TO FIXED-DOLLAR AMOUNT BUT MAY INCREASE OR DECREASE ACCORDING TO THE INVESTMENT EXPERIENCE OF A VARIABLE ANNUITY ACCOUNT.

Qualified Group Fixed and Variable Deferred Annuity Contract
Form No. QGAC 1-94

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SECTION 1. DEFINITIONS

Accumulation Period - the period during which the Participant is covered under this Group Annuity Contract prior to the Participant's Annuity Commencement Date.

Accumulation Unit - an accounting measure used to determine the Variable Contract Value before the Annuity Commencement Date.

Administrative Offices - 8515 East Orchard Road, Englewood, Colorado 80111.

Annuitant - the person upon whose life the payment of an annuity is based.

Annuity Commencement Date - the date on which annuity payments commence under a payment option, which for any Participant is the date required under the Group Policyholder's Plan.

Annuity Payment Period - the period during which the Participant is covered under this Group Annuity Contract after the Participant's Annuity Commencement Date.

Annuity Unit - an accounting measure used to determine the dollar value of any Variable Dollar Annuity Payment after the first annuity payment is made.

Company - the Great-West Life & Annuity Insurance Company.

Deposit - includes contributions, transfers and other amounts deposited into Guaranteed or Variable Sub-Accounts.

Eligible Fund - a registered management investment company in which the assets of the Series Account may be invested.

Employer - the Employer who established and maintains the Plan.

Forfeiture - that portion of the Participant's Annuity Account Value which is not vested under the terms of the Plan as of the date a distribution is made.

Group Annuity Contract Date - the effective date indicated by the Group Policyholder on the application for this Group Annuity Contract, or such other date which is acceptable to the Company.

Group Policyholder - the Employer or the Plan Trustee that applies for this Group Annuity Contract.

Guaranteed Account - the portion of this Group Annuity Contract providing Guaranteed Sub-Accounts, each of which guarantees principal and past interest credits.

Guaranteed Account Value - the sum of the values of the Guaranteed Sub-Accounts credited to the Participant under a Participant Annuity Account.

Guaranteed Interest Rate - the minimum interest rate applicable to Guaranteed Sub-Accounts which is equal to an annual effective rate of 0%.

Guaranteed Sub-Account - a subdivision of the Guaranteed Account having a Guaranteed Interest Rate. This subdivision is described in greater detail in the attached Guaranteed Sub-Account Riders, if any.

In Service Withdrawal - a withdrawal of some or all of the Participant's Annuity Account Value, as allowed by the Plan, during his service with the Employer.

Intra-Company Transfer - amounts moved within and between the currently offered Variable and Guaranteed Sub-Accounts.

Investment Division - a division of the Series Account containing the shares of a specific portfolio of the Eligible Fund. There is an Investment Division for each portfolio of the Eligible Fund.

Letter Agreement - a formal written agreement signed by the Company and the Group Policyholder which is used to clarify or modify certain provisions of the Contract and will be attached to and form a part of this Group Annuity Contract.

Participant - an employee who has met the eligibility requirements under the Plan and for whom the Group Policyholder has applied for coverage.

Participant Annuity Account - a separate record in the name of each Participant which reflects the total value of the Guaranteed and Variable Sub-Accounts.

Participant Annuity Account Value - the sum of the Variable and Guaranteed Account Values credited to the Participant Annuity Account.

SECTION 1. DEFINITIONS (continued)

Participant Effective Date - the date on which the first Deposit is credited to a Participant Annuity Account.

Payee - the Group Policyholder or the person, including the Participant, designated to receive the value of the Participant Annuity Account.

Plan - a pension or profit sharing plan established and maintained by the Employer and which is qualified under Section 401(a) or 401(k) of the Internal Revenue Code of 1986, as amended.

Plan Administrator - the person(s) designated by the Plan to perform all administrative functions required by the Employee Retirement Income Security Act of 1974, as amended (ERISA), the Internal Revenue Code, Department of Labor Regulation and/or any other applicable law.

Premium Tax - the amount of premium tax, if any, charged by a state or other governmental authority.

Qualified Domestic Relations - a domestic relations order that creates or recognizes Order (QDRO) the existence of an alternate payee's right to, or assigns to an alternate payee the right to, receive all or a portion of the benefits payable with respect to a Participant and that complies with requirements of the Internal Revenue Code, Treasury Regulations and any other applicable law.

Request - any request in a form, either written, telephoned or computerized, satisfactory to the Company and received by the Company at its Administrative Office, from the Group Policyholder, or the Group Policyholder's designee as required by any provision of this contract, or as required by the Company.

Series Account - the [FutureFunds Series II Account,] a segregated investment account established by Great-West Life & Annuity Insurance Company under Colorado law.

Surrender - a lump-sum payment of the entire Participant Annuity Account Value as provided for in the Plan other than as an In-Service Withdrawal.

Transaction Date - Deposits and Requests will be processed on the date received by the Company at its Administrative Offices. Contributions and Requests received after 4:00 p.m. EST/EDT shall be deemed to have been received on the next business day. The Variable Account Value is valued on each date that the New York Stock Exchange is open for trading and on which the Company's Administrative Offices are open. The New York Stock Exchange is currently closed on weekends and on the following holidays: New Year's Day, President's Day, Good Friday, Memorial Day, July Fourth, Labor Day, Thanksgiving Day, and Christmas Day. The Company's Administrative Offices are normally not open on the following days: the Monday after New Year's Day, July Fourth, or Christmas Day if any of these holidays fall on a Sunday; the Friday before New Year's Day, July Fourth, or Christmas Day if any of these holidays fall on a Saturday; and the Friday after Thanksgiving.

Transfer to Other Companies - amounts moved from any Variable or Guaranteed Sub-Account to another company.

Trustee - the person or entity designated by the Plan.

Valuation Date - the date on which the net asset value of each Eligible Fund is determined.

Valuation Period - the period between successive Valuation Dates.

Variable Account - the account established under this Group Annuity Contract providing Variable Sub-Accounts, each having its own Accumulation Unit and Annuity Unit Value. All monies held in the Variable Account are held in the Series Account.

Variable Account Value - the sum of the values of the Variable Sub-Accounts credited to the Participant Annuity Account.

Variable Sub-Account - a sub-division of the Variable Account. Each Variable Sub-Account has its own Accumulation Unit and Annuity Unit Value.

SECTION 2. OWNERSHIP PROVISIONS

2.1 Ownership of Series Account
The Company has absolute ownership of the assets of the Series Account. The portion of the assets of the Series Account equal to the reserves and other contract liabilities with respect to the Series Account are not chargeable with liabilities arising out of any other business the Company may conduct.

2.2 Ownership of Group Annuity Contract
Upon the Group Policyholder's Application for this Group Annuity Contract, the Group Policyholder becomes the owner of the Group Annuity Contract for the benefit of the Participants.

Subject to the Plan participation provisions, each employee for whom Deposits have been made is a Participant for whom a Participant Annuity Account is kept.

2.3 Participant Annuity Account Value
Each Participant for whom a Participant Annuity Account is established and for whom Deposits have been received by the Company owns his Participant Annuity Account Value subject to the vesting provisions of the Plan.

2.4 Transfer and Assignment
The interest of the Group Policyholder in this Group Annuity Contract may not be transferred, sold, assigned, pledged, charged, encumbered, or in any way alienated without the prior written consent of the Company.

To the extent permitted by law, no proceeds or payments under the Group Annuity Contract will be subject to the claims of creditors of or legal process against the Group Policyholder.

To the extent permitted by law, no interest of a Participant or Beneficiary in this Group Annuity Contract may be assigned, charged, attached, anticipated, given as security or otherwise alienated, and no such interest shall be subject to execution, seizure or other legal or equitable process. To the extent permitted by law, neither a Participant nor any Beneficiary may commute or surrender any payment, benefit, or installment to which the Participant or Beneficiary may become entitled by the terms of the Group Annuity Contract.

SECTION 3. GENERAL PROVISIONS

3.1 The Group Annuity Contract
The Group Annuity Contract is issued by the Company to the Group Policyholder.

3.2 Entire Contract
This Group Annuity Contract, its application, Tables, Guaranteed Sub-Account Riders and /or Letter Agreements, if any, form the entire contract between the Group Policyholder and the Company. A copy of the application is attached to the Group Annuity Contract when issued to the Group Policyholder.

After issue, modifications to the Group Annuity Contract under the Contract Modification provisions become part of the Group Annuity Contract.

All statements in the application, in the absence of fraud, have been accepted as representations and not as warranties.

Only the President, a Vice-President, or the Secretary (or delegate) of the Company can modify or waive any provisions of the Group Annuity Contract.

3.3 The Plan
The terms and provisions of the Plan do not for any purpose form any part of this Group Annuity Contract and are not binding on the Company. The obligations of the Company are measured and determined solely by the terms and provisions of this Group Annuity Contract.

3.4 Non-Participating

This Group Annuity Contract is non-participating, meaning that it is not eligible to share in the Company's divisible surplus.

3.5 Currency and Payment of Deposits

All amounts to be paid to or by the Company must be in the currency of the United States of America. All Deposits to this Group Annuity Contract must be made payable to the Company or its designated agent.

3.6 Age

If the age of the Participant or Payee has been misstated, the payments established for him/her under the Participant Annuity Account will be made on the basis of his/her correct age.

If payments were too large because of misstatement, the difference with interest may be deducted by the Company from the next payment or payments.

3.7 Voting Rights and Reports

The Company will vote the shares of an Eligible Fund held in a Variable Sub-Account of the Investment Division of the Series Account. To the extent required by law, the Company will vote according to the instructions of the Group Policyholder in proportion to its interest in the Variable Sub-Account. In such event, the Company will send proxy materials and form(s) to the Group Policyholder for its reply. If no reply is received, the Company will vote shares of the appropriate Eligible Fund in the same proportion as shares of the Eligible Fund for which replies have been received.

During the Annuity Payment Period under the Participant Annuity Account, the number of votes will decrease as the assets held to fund annuity payments decrease, the Payee will be entitled to receive the proxy materials and form(s) otherwise provided to the Group Policyholder, and all other provisions concerning Voting Rights will apply to the Payee of a Variable Dollar Method of Payment Option.

The Company will furnish the Group Policyholder or the Payee of a Variable Dollar Method of Payment Option copies of any shareholder reports of the Eligible Funds and of any other notices, reports or documents required by law to be furnished to either of them.

Semi-annual reports of the Eligible Funds will be furnished as required by law to the Group Policyholder, who shall promptly deliver them to each Participant or Payee of a Variable Dollar Method of Payment Option. The Company will furnish the Group Policyholder not less frequently than annually a statement of each Participant's Participant Annuity Account Value, which the Group Policyholder will promptly deliver to the Participant. The Group Policyholder may direct the Company to deliver these reports and statements to the Participants.

3.8 Notice and Proof

Any notice or demand by the Company to or upon the Group Policyholder or any Payee may be given by mailing it to that person's last known address as stated in the Company's file.

When the Company requires it, the Group Policyholder will obtain the signature of the Participant's or Payee's spouse on forms provided by the Company.

The Company may require adequate proof of the age and death of any Payee before it admits a claim for or pays any payment.

Written materials developed by the Group Policyholder to describe this Group Annuity Contract must first be approved by the Company.

3.9 Tax Consequences of Payments

Subject to the provisions of the Plan, the Participant, Annuitant, Payee or Beneficiary, as the case may be, must determine the timing and amount of any benefit payable to him. Nothing contained herein shall be construed to be tax or legal advice and the Company assumes no responsibility or liability for any damages or costs, including but not limited to taxes, penalties, interest or attorney's fees incurred by the Plan, the Group Policyholder, the Participant, the Alternate Payee, the Beneficiary, or any other person arising out of any such determination.

SECTION 3. GENERAL PROVISIONS (continued)

3.10 Plan Amendments
The Group Policyholder shall, within thirty (30) days after the adoption of an amendment to the Plan, send a copy of each such amendment to the Company at its Administrative Services Offices.

3.11 Gender
Whenever a masculine pronoun is used, it shall be deemed in all instances where appropriate to mean the feminine pronoun as well.

SECTION 4. PURCHASE PROVISIONS

4.1 Commencement and Termination of Coverage
The Company may accept applications for coverage unless a Date of Cessation of Deposits has been declared. A person may commence coverage under the Group Annuity Contract when the Plan's conditions for participation have been met and the Company has been properly notified that such person has been designated a Participant. The responsibility for such designation will rest solely with the Group Policyholder.

An employee for whom an adequate application has been made becomes covered as a Participant as of the Participant Effective Date. Coverage of a Participant terminates upon the Group Policyholder's or Participant's total or partial distribution which results in a Participant Annuity Account Value of $0.

4.2 Deposits
Unless a Date of Cessation of Deposits has been declared, the Group Policyholder may from time to time pay Deposits in cash in respect of a Participant until the earlier of his/her death, Annuity Commencement Date, or the termination of the Participant Annuity Account.

The amount of Deposits to be paid by the Group Policyholder in respect of any Participant will be determined by the Group Policyholder.

The Group Policyholder will report the amount paid as Deposits on forms acceptable to the Company. The Group Policyholder's report is conclusive and binding on it and any person or entity claiming an interest under the Group Annuity Contract or any Participant Annuity Account. When the Group Policyholder's report does not coincide with the Deposits received, such Deposits may be returned.

4.3 Allocation of Deposits
After an adequate application on behalf of a Participant has been made, Deposits, less Premium Tax, if any, will be allocated in the Participant Annuity Account when received by the Company at its Administrative Offices.

Deposits on behalf of the Participant will be allocated among any number of currently offered Variable and Guaranteed Sub-Accounts in accordance with the latest recorded Request.

The allocation of Deposits may be changed at any time upon the Company's receipt at its Administrative Offices of the Request. A change of allocation will be effective for Deposits which are received after the Company's receipt and recording of the change.

SECTION 5. CONTRACT VALUE PROVISIONS

5.1 Variable Contract Value
The Variable Contract Value for a Participant on any date during the Accumulation Period will be the sum of the values of the Variable Sub-Accounts held for the Participant.

The value of a Participant's interest in a Variable Sub-Account will be determined by multiplying the number of Accumulation Units held for the Participant by the Accumulation Unit Value for that Variable Sub-Account.

5.2 Accumulation Units
For each Deposit, the number of Accumulation Units credited for the Participant to a Variable Sub-Account will be determined by dividing the amount of the Deposit by the accumulation unit value for that Variable Sub-Account on the applicable Transaction Date.

5.3 Accumulation Unit Value
The initial accumulation unit value of each Variable Sub-Account was established at $10. The accumulation unit value of a Variable Sub-Account on a Valuation Date is calculated by multiplying the accumulation unit value as of the immediately preceding Valuation Date by the net investment factor as described in the net investment factor provision below.

The dollar value of an Accumulation Unit will vary in amount depending upon the investment experience of the Eligible Fund.

5.4 Annuity Unit Value
The initial Annuity Unit Value of each Variable Sub-Account was established at $1 on the date a Deposit was first made under a Variable Annuity Method of Payment to the Variable Sub-Account(s).

The Annuity Unit Value may increase, decrease or remain unchanged as a result of the value of the net investment factor.

5.5 Risk Charge
The Company will deduct the risk charge for expense and mortality guarantees in the calculation of the net investment factor. This charge will not exceed 1.25% on an annual basis of the daily net asset value of each Variable Sub-Account. This deduction is made daily.

5.6 Net Investment Factor
The net investment factor for any Variable Sub-Account for any Valuation Period is determined by dividing (a) by (b), and subtracting (c) from the result where:

(a) is the net result of:
- (i) the net asset value per share of the Eligible Fund shares held in the Variable Sub-Account determined as of the end of the current Valuation Period; plus
- (ii) the per share amount of any dividend (or, if applicable, capital gain distributions) made by the Eligible Fund on shares held in the Variable Sub-Account if the "ex-dividend" date occurs during the current Valuation Period; minus or plus
- (iii) a per unit charge or credit for any taxes incurred by or reserved for in the Variable Sub-Account, which is determined by the Company to have resulted from the investment operations of the Variable Sub-Account.

(b) is the net result of:
- (i) the net asset value per share of the Eligible Fund shares held in the Variable Sub-Account determined as of the end of the immediately preceding Valuation Period; minus or plus
- (ii) the per unit charge or credit for any taxes incurred by or reserved for in the Variable Sub-Account for the immediately preceding Valuation Period.

(c) is an amount representing the risk charge deducted from each Variable Sub-Account on a daily basis as a percentage of the daily net asset value of each Variable Sub-Account.

The net investment factor may be greater than, less than, or equal to one. Therefore, the accumulation unit value may increase, decrease or remain unchanged.

The per share amount of any dividend referred to in paragraph (a)(ii) includes a deduction for an investment advisory fee. This fee compensates the investment adviser for services provided to the Eligible Fund. The fee may differ between Eligible funds and may be renegotiated each year.

SECTION 5. CONTRACT VALUE PROVISIONS (continued)

5.7 Guaranteed Account Value

A Participant's Guaranteed Account Value on any date during the Accumulation Period will be the sum of the values of the Guaranteed Sub-Accounts credited to the Participant Annuity Account.

The Company may offer one or more Guaranteed Sub-Accounts into which Deposits will be made.

5.8 Guaranteed Sub-Account Riders

The computation of the value of a Guaranteed Sub-Account is described in greater detail in the attached Guaranteed Sub-Account Riders, if any.

5.9 Contract Maintenance Charge

On the first day of each calendar year a contract maintenance charge of not more than $60 annually will be declared by the Company and deducted from the Participant Annuity Account. If a Participant Annuity Account is established for a Participant after that date, the contract maintenance charge will be deducted on the first day of the next quarter and will be pro-rated for the year remaining. No refund of this charge will be made.

The deduction will be pro-rated among the Variable and Guaranteed Sub-Accounts based upon their Variable and Guaranteed Account Values on the date of deduction. Whenever a deduction for a contract maintenance charge is to be made from a Variable Sub-Account, the Company will cancel Accumulation Units having a total value equal to the amount of the deduction. The Group Policyholder may elect to pay such expenses to the Company separately. If such an election has been made, then no charge will be made against the Variable and Guaranteed Sub-Accounts unless payment is not received within 30 days.

SECTION 6. TRANSFERS

6.1 Intra-Company Transfers

The Group Policyholder may Request transfers. The following provisions apply:

(a) All or a portion of the Annuity Account Value may be transferred within and between the Variable and Guaranteed Sub-Accounts currently offered by the Company at any time prior to the Annuity Commencement Date by Request of the Owner. No transfers are permitted after the Annuity Commencement Date.

(b) If a Transfer is made within 30 days of the Annuity Commencement Date, the Company may delay the Annuity Commencement Date by 30 days.

(c) A Transfer shall be effective upon the Transaction Date.

(d) A Transfer from Guaranteed Sub-Accounts shall be subject to the terms of the attached Guaranteed Sub-Account Rider(s), if any.

(e) No Surrender Charge will apply to Intra-Company Transfers.

6.2 Transfers out of the Group Annuity Contract

Transfers out of the Group Annuity Contract to an account currently offered by another Company under the terms of the Plan may be made only prior to the Annuity Commencement Date. The Contingent Deferred Sales Charge in Section 9, if applicable, will be deducted from each partial or total transfer out of the Group Annuity Contract.

SECTION 7. DISTRIBUTIONS TO A BENEFICIARY

7.1 Death of Participant after Annuity Commencement Date

If the Participant dies after the Annuity Commencement Date and before his/her entire interest has been distributed, payments will continue to the Beneficiary under the Payment Option applicable to the Participant on the Participant's date of death. Notwithstanding the preceding sentence, if the Plan allows the Beneficiary to change the method of distribution, a new Payment Option may be elected by Request by the Group Policyholder on behalf of the Beneficiary only so long as payments are made to the Beneficiary not less rapidly than under the Payment Option effective on the Participant's date of death. The Contingent Deferred Sales Charge will not apply.

7.2 Death of Participant before Annuity Commencement Date.

a. 5-Year Rule. If the Participant dies before the Annuity Commencement Date, the entire interest of the Participant must be distributed within five years after the death of the Participant. This Rule applies to all non-individual entities.

b. 1-Year Rule. If the Plan provides that any portion of the Participant's interest is payable to a designated Beneficiary, such portion may be distributed over the lesser of (1) the life of the "designated Beneficiary," or (2) over a period not extending beyond the life expectancy of the designated Beneficiary. Such distributions to a designated Beneficiary must begin not later than December 31 of the year following the date of the Participant's death. The Group Policyholder on behalf of the designated Beneficiary may elect by Request to take distributions either under the 5-Year Rule or under this 1-Year Rule. If no election is received by the Company by November 1 of the year following the year of the Participant's death, distributions will be made pursuant to the 5-Year Rule described in subsection a. of Section 7.2.

For purposes of this section, a designated Beneficiary is any individual named as a Beneficiary by the Participant.

c. Special Rule for Surviving Spouse. If the designated Beneficiary is the surviving spouse of the Participant, distributions must begin no later than the date on which the Participant would have attained age 70 1/2. Distributions may be elected at any time pursuant to Section 10 of this Contract; but in any event must commence on or before the later of (1) December 31 of the year immediately following the Participant's death and (2) December 31 of the calendar year in which the Participant would have attained age 70 1/2.

d. The Contingent Deferred Sales Charge will not apply.

7.3 Amount Payable on Death of Participant

If the Participant dies before the Annuity Commencement Date the amount payable on death will be:

(a) Where death occurs before the Participant's 70th birthday, the greater of:

(i) the Participant Annuity Account Value, less Premium Tax, if any, and

(ii) the sum of Deposits paid to, less any distributions made under this Contract from the Participant Annuity Account, less Premium Tax, if any.

(b) Where death occurs on or after the Participant's 70th birthday, the Participant Annuity Account Value, less Premium Tax, if any.

7.4 Requests For Distributions

Subject to the 5-Year rule, the 1-Year rule or the Special Rule for Surviving Spouse, as applicable, set forth in Section 7.2, an election to receive the amount described in Section 7.3 must be made pursuant to Section 10 of this Contract.

SECTION 8. DISTRIBUTIONS TO A PARTICIPANT

8.1 Requests for In Service Withdrawals and Surrenders

On the Company's receipt of the Request at least 30 days before the Annuity Commencement Date, the Group Policyholder on behalf of the Participant may:

a. Elect or change the Participant's Annuity Commencement Date to any future date which is not later than April 1 of the calendar year following the calendar year in which the Participant attains age 70 1/2. If any Annuity Commencement Date would be less than 30 days from the date the Request is received, the Company may delay the Annuity Commencement Date elected by 30 days. Given adequate time to process a Request, any such delay will not be later than April 1 of the calendar year following the calendar year in which the Participant attains age 70 1/2.

b. If the Group Policyholder on behalf of a married Participant has failed to elect a Payment Option within 30 days of the Annuity Commencement Date, the Company will pay the Group Policyholder on behalf of the Participant a Variable Joint and One-Half Survivor Annuity from the Variable Contract Value and a Fixed Joint and One-Half Survivor Annuity from the Guaranteed Contract Value.

c. If the Group Policyholder on behalf of an unmarried Participant has failed to elect a Payment Option within 30 days of the Annuity Commencement Date, the Company will pay the Group Policyholder on behalf of the Participant a Variable Life Annuity with a 10 year Guaranteed Period from the Variable Contract Value and a Fixed Life Annuity with a 10 year Guaranteed Period from the Guaranteed Contract Value.

8.2 In Service Withdrawal

By Request, the Group Policyholder may direct the Company to make an In Service Withdrawal from the Participant Annuity Account payable to the Participant. The In Service Withdrawal will take effect on the later of the date elected or the date the Request is received at the Administrative Offices of the Company.

The Group Policyholder must designate in the Request the Variable or Guaranteed Sub-Account(s), or a combination of them, from which the In Service Withdrawal is to be made.

8.3 Amount Payable on In Service Withdrawal

The amount payable on In Service Withdrawal will be paid in one sum under the In Service withdrawal provisions equal to:

(A) all or any portion of the Participant's Annuity Account Value as requested by the Group Policyholder, on behalf of the Participant, in accordance with the terms of the Plan, less
(B) Premium Tax, if any, less
(C) Forfeiture, if any, as determined by the Plan Administrator in accordance with the vesting schedule of the Plan, less
(D) the Contingent Deferred Sales Charge, described in Section 9, if any.

8.4 Surrender

By Request, the Group Policyholder may surrender the Participant Annuity Account on behalf of the Participant. The Surrender will take effect on the later of the date elected or the date the Request is received at the Administrative Offices of the Company. Instructions as to the allocation of any Forfeiture as a result of such surrender must accompany the Request. The responsibility for determining that such instructions are in accordance with the provisions of the Plan lies solely with the Group Policyholder.

8.5 Amount Payable On Surrender

If permitted by the Plan, the amount payable on Surrender may either be applied under the Methods of Payment provisions or paid in one sum under the Surrender provisions equal to:

(A) the Participant Annuity Account Value as of the effective date of the Surrender, less
(B) Premium Tax, if any, less
(C) Forfeiture, if any, less
(D) the Contingent Deferred Sales Charge, described in Section 9, if any.

8.6 Conditions of Payment

Payment will only be made if then available to the Payee under the terms and provisions of the Plan as determined by the Group Policyholder.

8.7 Adequate Proof

The Company may require adequate proof of age, separation from service or eligibility for another benefit to establish that a benefit has become payable under the provisions of the Plan prior to making any payment under this Group Annuity Contract.

SECTION 8. DISTRIBUTIONS TO A PARTICIPANT (continued)

8.8 Establishment of Alternate Payee Account
In the event the Company receives a request for a payment in connection with a Qualified Domestic Relations Order (QDRO) and the Group Policyholder notifies the Company that the Plan does not permit immediate distributions, or in the event the Company is unable to obtain all necessary information to make a distribution pursuant to such order, then the Company will establish a separate account on behalf of the Alternate Payee named in such order. Such Alternate Payee account will be established and administered in accordance with the provisions of the Plan.

8.9 Loans
If the Plan permits loans, loans will be available to a Participant in accordance with the terms set forth in the Plan and the loan application form.

SECTION 9. CONTINGENT DEFERRED SALES CHARGE

9.1 Transfers To Other Companies
On any total or partial transfer of the Participant Annuity Account to another company, the Contingent Deferred Sales Charge will be deducted from the amount transferred. The Contingent Deferred Sales Charge will be equal to a percentage of the amount transferred based on the table in 9.2 below.

9.2 Surrenders and In Service Withdrawals
On any Surrenders or In Service Withdrawals of the Participant Annuity Account permitted under the terms of the Plan, a Contingent Deferred Sales Charge will be deducted from the amount distributed. The Contingent Deferred Sales Charge will be equal to a percentage of the amount distributed based on the table below.

Contingent Deferred Sales Charge Table

Completed Years From Participant Effective Date Under this Contract	% of Amount Transferred or Distributed
0 - 4	5%
5 - 9	4%
10 - 14	3%
15 or more	0%

Notwithstanding anything in this Group Annuity Contract to the contrary, in no event shall the Contingent Deferred Sales Charge at any point in time exceed 8.5% of Deposits contributed by the Participant into this Group Annuity Contract.

SECTION 10. PAYMENT OPTIONS

10.1 How to Elect Payment Options

The Request of the Group Policyholder on behalf of the Participant or Beneficiary is required to elect, or change the election of, a payment option and must be received by the Company at least 30 days prior to the Annuity Commencement Date.

If an option has not been elected within 30 days of the Annuity Commencement Date, the Company will pay a Variable Joint and One-Half Survivor Annuity from the Variable Contract Value and a Fixed Joint and One-Half Survivor Annuity from the Guaranteed Contract Value.

10.2 Selection of Payment Options

(a) A single sum payment may be elected. If it is, the amount to be paid is the Surrender Value, and will be subject to any applicable Surrender Charge.

(b) If a variable annuity payment option is elected, the amount to be applied is the Variable Account Value, as of the Annuity Commencement Date, less Premium Tax, if any.

(c) If a fixed annuity payment option is elected, the amount to be applied is the Guaranteed Account Value, as of the Annuity Commencement Date, less Premium Tax, if any.

(d) The minimum amount that may be withdrawn from the Annuity Account Value to purchase an annuity payment option is $2,000. If the amount is less than $2,000, the Company may pay the amount in a single sum subject to Sections 8.3.

(e) Payments to be made under the annuity payment option selected must be at least $50. The Company reserves the right to make the payments using the most frequent payment interval which produces a payment of not less than $50.

(f) The maximum amount that may be applied under any annuity payment option is $1,000,000, unless prior approval is obtained from the Company.

10.3 Variable Annuity Payment Options

The guaranteed annuity table is based on mortality from the 1971 female Group Annuity Mortality Table with a five year setback, a 2% administrative charge and a guaranteed interest rate of 3 1/2% per year. The Company may offer a better rate than the guaranteed rate shown.

The following variable annuity payment options are available:

(a) *Option 1: Variable Life Annuity with Guaranteed Period*
Monthly payments for the guaranteed Annuity Payment Period elected or the lifetime of the Participant or Payee, whichever is longer. The guaranteed Annuity Payment Period elected may be 5, 10, 15, or 20 years. Upon death of the Participant or Payee, the Beneficiary will begin to receive the remaining payments at the same monthly interval elected by the Participant. See Table A.

(b) *Option 2: Variable Life Annuity*
Monthly payments for the Participant's lifetime, without a guaranteed period. See Table A.

(c) *Option 3: Variable Joint and One-Half Survivor Annuity*
A Variable Joint and One-Half Survivor Annuity provides a variable monthly payment to an Annuitant for his/her lifetime; thereafter, and upon receipt by the Company of adequate proof of the Annuitant's death, one-half of the variable payment continues to a designated beneficiary, if living, and terminates upon his/her death. Table B is applicable to this Option.

(d) *Option 4: Any Other Form*
Any other form of variable annuity which is acceptable to the Company.

These variable annuity payment options are subject to the following provisions:

(1) *Amount of First Monthly Payment*
The first monthly payment under a variable annuity payment option will be based on the value of each Variable Sub-Account on the 5th Valuation Date preceding the Annuity Commencement Date. It will be determined by applying the appropriate rate from Table A to the amount applied under the payment option.

(2) *Annuity Units*
The number of Annuity Units paid to the Participant for each Variable Sub-Account is determined by dividing the amount of the first monthly payment by the sub-account's annuity unit value on the 5th Valuation Date preceding the date the first payment is due. The number of Annuity Units used to calculate each payment for a Variable Sub-Account remains fixed during the Annuity Payment Period.

(3) *Amount of Monthly Payments after the First*
Monthly payments after the first will vary depending upon the investment experience of the Variable Sub-Accounts. The subsequent amount paid from each sub-account is determined by multiplying (a) by (b) where (a) is the number of sub-account Annuity Units to be paid and (b) is the sub-account annuity unit value on the 5th Valuation Date preceding the date the annuity payment is due. The total amount of each variable annuity payment will be the sum of the variable annuity payments for each Variable Sub-Account. The Company guarantees that the dollar amount of each payment after the first will not be affected by variations in expenses or mortality experience.

10.4 <u>Fixed Annuity Payment Options</u>
The guaranteed annuity table is based on mortality from the 1971 female Group Annuity Mortality Table with a five year setback, a 2% administrative charge and a guaranteed interest rate of 3 1/2% per year. The Company may offer a better rate than the guaranteed rate shown.

The following fixed annuity payment options are available:

(a) *Option 1: Income of Specified Amount*
An annuity payment at 12-, 6-, 3-, or 1-month intervals, of an amount elected for an Annuity Payment Period of not more than 240 months. Upon death of the Participant or Payee, the Beneficiary will begin to receive the remaining payments at the same monthly interval. See Table C.

(b) *Option 2: Income for a Specified Period*
An annuity payment at 12-, 6-, 3-, or 1-month intervals, for the number of months elected for an Annuity Payment Period of not more than 240 months. Upon death of the Participant, the Beneficiary will begin to receive the remaining payments at the same monthly interval that was elected by the Group Policyholder. See Table C.

(c) *Option 3: Fixed Life Annuity with Guaranteed Period*
Monthly payments for the guaranteed Annuity Payment Period elected which may be 5, 10, 15 or 20 years or the lifetime of the Annuitant whichever is longer. Upon death of the Participant, any amounts remaining payable under this payment option will be paid to the Beneficiary. See Table B.

(d) *Option 4: Fixed Life Annuity*
Monthly payments for the Participant's lifetime, without a guaranteed period. See Table B.

(e) *Option 5: Joint and One-Half Fixed Survivor Annuity*
A Joint and One-Half Fixed Survivor annuity provides a fixed monthly payment to an Annuitant for his/her lifetime; thereafter, and upon receipt by the Company of adequate proof of the Annuitant's death, one-half of the fixed payment continues to a designated beneficiary, if living, and terminates upon his/her death. Table E is applicable to this Option.

(f) *Option 6: Any Other Form*
Any other form of annuity which is acceptable to the Company.

SECTION 11. PERIODIC PAYMENTS

11.1 Periodic Payment Option

The Group Policyholder must Request that all or part of the Annuity Account be applied to a Periodic Payment Option. All outstanding loan balances must be paid in full before a Participant may apply for a Periodic Payment Option. While periodic payments are being received:

- the Group Policyholder may continue to exercise all contractual rights that are available prior to electing a payment option, except that no Contributions may be made by a Participant;
- Participants may continue to keep their current Guaranteed and Variable Sub-Accounts;
- charges and fees under the Contract, if applicable, continue to apply, except as noted below;
- a Surrender Charge does not apply to periodic payments; and
- if a partial withdrawal is made, a Surrender Charge, if applicable, will be deducted. The surrender charge free amount does not apply.

If periodic payments cease, the Participant may resume making Contributions, at which time the surrender charge free amount will be in effect.

The Group Policyholder will elect by Request:

- the payment frequency of either 12-, 6-, 3-, or 1-month intervals;
- a payment amount; a minimum of $50 is required;
- the calendar day of the month on which payments will be made;
- one payment option; and
- the allocation of payments from the Variable and/or Guaranteed Sub-Account(s) as follows:
  1) Prorate the amount to be paid across all Variable and Guaranteed Sub-Accounts in proportion to the assets in each sub-account; or
  2) Select the Investment Division(s) from which payments will be made. Once the Investment Division(s) have been depleted, the Company will automatically prorate the remaining payments unless the Group Policyholder Requests the selection of another Investment Division(s).

Payments will cease on the earlier of:

- the date the amount elected to be paid under the option selected has been reduced to zero;
- the Group Policyholder Requests the payments to stop;
- the death of the Participant; or
- the Annuity Account Value is zero.

The Group Policyholder must elect one of the following 5 payment options:

1) Income for a Specified Period for at least thirty-six (36) months - The Group Policyholder elects the duration over which payments will be made. This amount may vary based on the duration; or
2) Income of a Specified Amount for at least thirty-six (36) months - The Group Policyholder elects the dollar amount of the payments. Based on the amount elected, the duration may vary; or
3) Interest Only - The payments will be based on the amount of interest credited to the Guaranteed Sub-Account(s) between each payment. Available only if 100% of the account value is invested in the Guaranteed Sub-Account; or
4) Minimum Distribution - the Group Policyholder may Request minimum distributions as specified under Internal Revenue Code 401(a)(9); or
5) Any other form for a period of at least thirty-six (36) months - Any other form of periodic payment which is acceptable to the Company.

SECTION 12. CONTRACT MODIFICATION

12.1 Contract Modification
This Group Annuity Contract may be modified at any time by written agreement between the Company and the Group Policyholder. No such modification will, without the written consent of the Group Policyholder, affect the terms, provisions, or conditions of this Group Annuity Contract which are or may be applicable to Deposits paid in respect of Participants prior to the date of such modification.

However, the Company may at any time and without the consent of the Group Policyholder or any Participant or other person, but upon 30 days' written notice to the Group Policyholder, modify this Group Annuity Contract in any respect to conform it to changes in tax or other law, including applicable regulations or rulings.

12.2 Modification of Tables
The Company may at any time and without the consent of the Group Policyholder or any Participant or other person, but upon 30 days' written notice to the Group Policyholder, modify Tables A, B, C, D, and E, or any of them. However, no such modification will affect the terms, provisions or conditions of the Group Annuity Contract which are or may be applicable to Deposits paid in respect of Participants prior to the date of such modification.

12.3 Modification of Guaranteed Sub-Account Riders, if Any
Any Guaranteed Sub-Account Rider may be modified at any time by written agreement between the Company and the Group Policyholder. No such modification will, without the written consent of the Group Policyholder, affect the terms, provisions, or conditions of the Rider which are or may be applicable to Deposits paid in respect of Participants prior to the date of such modification.

12.4 Modification of Variable and/or Guaranteed Sub-Account Riders, If Any
Notwithstanding the other contract modification provisions, the Company may offer new or cease offering existing Variable or Guaranteed Sub-Accounts. No such modification shall affect the terms, provisions, or conditions which are or may be applicable to Deposits previously paid to any Variable or Guaranteed Sub-Account which is no longer offered by the Company. Maturing Certificates may be modified at the Certificate Maturity Date by the Company. The Company may periodically notify the Group Policyholder of the current offering of Variable or Guaranteed Sub-Accounts.

SECTION 13. CESSATION OF DEPOSITS

13.1 Cessation of Deposits
Upon 60 days' written notice to the other, the Group Policyholder or the Company may declare that, as from the date stated in the notice (that date being called a Date of Cessation of Deposits), no further Deposits will be made to certain or all Guaranteed and Variable Sub-Accounts of the Group Annuity Contract. If the Company receives notice from the Group Policyholder of a Cessation of Deposits and no Cessation of Deposits Date is stated in the notice, the Date of Cessation of Deposits will be 60 days from the date the notice was received by the Company.

If a Date of Cessation of Deposits has been declared for certain Sub-Accounts, the Group Policyholder in respect of the Participant may by Request make a change of allocation of his/her new Deposits. When no change of allocations is received, the Company may return all new Deposits affected by the declaration of the Date of Cessation of Deposits, or allocate such new Deposits to the Sub-Account chosen by the Company.

After the Date of Cessation of Deposits declared in respect of all Sub-Accounts, no new Participant Annuity Account will be established, and all Participant Annuity Accounts shall become subject to the provisions of Section 13.2 below.

13.2 Options on Declaration of Date of Cessation of Deposits

Upon the declaration of the Date of Cessation of Deposits for all Sub-Accounts, the Group Policyholder may by Request elect one of the following cessation options. If the Group Policyholder has not elected a cessation option within 30 days of the Date of Cessation, the Company will make the election in its sole discretion. Such election shall apply to all Participant Annuity Accounts and shall be binding on the Group Policyholder.

a. Cessation Option (1) Maintenance of Each Participant Annuity Account Value:
The Company will maintain each Participant Annuity Account Value until it is applied to a Payment Option or paid under the Group Annuity Contract. After Cessation Option (1) has been elected, Transfers To Other Companies will be permitted in accordance with Sections 6 and 9 of the Contract. A Contingent Deferred Sales Charge, if applicable, will apply.

b. Cessation Option (2) Installment Settlement of Contract Values:
Upon receipt of a Request from the Group Policyholder and subject to the provisions relating to Transfers, the Company will pay the sum of the Variable Contract Values in respect of Participants as of the Date of Cessation of Deposits to the successor insurer of the Plan or to the Group Policyholder within 7 days of the date the cessation option is elected.

Upon receipt of a Request from the Group Policyholder, the Company will pay the sum of the Guaranteed Contract Values in respect of the Participants as of the Date of Cessation of Deposits to the successor insurer of the Plan or to the Group Policyholder in 20 equal quarterly installments. The amount of the installments will be the amount determined by the Company on the date of the first such payment, but not less than $514.80 for each $10,000 of Guaranteed Contract Values. The first payment will be made 30 days after the Date of Cessation.

After Cessation Option (2) has been elected, no benefits will be paid, no Transfers will be made, no method of Payment option may be elected by a Participant or Payee and no Deposits will be accepted.

TABLE A - Variable Life Annuity

Monthly Payment for Each $1,000
of Participant Annuity Account Value

Age of Payee	Without Guaranteed Period	With Guaranteed Period			
		5 Years	10 Years	15 Years	20 Years
50	3.99	3.99	3.98	3.96	3.94
55	4.31	4.30	4.27	4.24	4.19
60	4.71	4.70	4.67	4.60	4.49
65	5.28	5.25	5.18	5.05	4.84
70	6.07	6.02	5.85	5.56	5.15
75	7.22	7.09	6.68	6.07	5.41

If payments commence on any other date than the exact age of the Payee as shown above, the amount of the monthly payment shall be determined by the Company on the actuarial basis used by it in determining the above amounts.

TABLE B - Variable Joint and One-Half Survivor Annuity

Monthly Payment for Each $1,000
of Participant Annuity Account Value

Age of Annuitant	If Designated Payee Is Age					
	50	55	60	65	70	75
50	3.88	3.91	3.94	3.96	3.97	3.98
55	4.09	4.15	4.19	4.23	4.25	4.27
60	4.34	4.43	4.51	4.58	4.63	4.66
65	4.64	4.77	4.90	5.01	5.10	5.16
70	4.99	5.17	5.36	5.55	5.70	5.83
75	5.40	5.65	5.91	6.19	6.46	6.69

If payments commence on any other date than the exact age of the Annuitant or designated Payee as shown above, the amount of the monthly payment shall be determined by the Company on the actuarial basis used by it in determining the above amounts.

TABLE C - Income of Specified Amount
- Income of a Specified Period

Monthly Payment for Each $1,000
of Participant Annuity Account Value

Years	Payment
3	28.61
4	21.82
5	17.75
6	15.04
7	13.10
8	11.66
9	10.54
10	9.63
11	8.90
12	8.30
13	7.78
14	7.34
15	6.96
16	6.63
17	6.34
18	6.08
19	5.85
20	5.64

To determine the payment for other frequencies of payment, multiply the above monthly payment by the following factors:

	Factor
Quarterly payment	2.99
Semi-annual payment	5.96
Annual payment	11.81

If payments are for an amount or duration different than that outlined above, the Company will determine the proper amount or duration using the actuarial basis used to determine the above Table.

TABLE D - Fixed Life Annuity

Monthly Payment for Each $1,000
of Participant Annuity Account Value

Age of Payee	Without Guaranteed Period	With Guaranteed Period 5 Years	10 Years	15 Years	20 Years
50	3.99	3.99	3.98	3.96	3.94
55	4.31	4.30	4.27	4.24	4.19
60	4.71	4.70	4.67	4.60	4.49
65	5.28	5.25	5.18	5.05	4.84
70	6.07	6.02	5.85	5.56	5.15
75	7.22	7.09	6.68	6.07	5.41

If payments commence on any other date than the exact age of the Payee as shown above, the amount of the monthly payment shall be determined by the Company on the actuarial basis used by it in determining the above amounts.

TABLE E - Joint and One-Half Survivor Fixed Annuity

Monthly Payment for Each $1,000
of Participant Annuity Account Value

Age of Annuitant	If Designated Payee Is Age 50	55	60	65	70	75
50	3.88	3.91	3.94	3.96	3.97	3.98
55	4.09	4.15	4.19	4.23	4.25	4.27
60	4.34	4.43	4.51	4.58	4.63	4.66
65	4.64	4.77	4.90	5.01	5.10	5.16
70	4.99	5.17	5.36	5.55	5.70	5.83
75	5.40	5.65	5.91	6.19	6.46	6.69

If payments commence on any other date than the exact age of the Annuitant or designated Payee as shown above, the amount of the monthly payment shall be determined by the Company on the actuarial basis used by it in determining the above amounts.

GUARANTEED FIXED FUND

GUARANTEED SUB-ACCOUNT RIDER

ATTACHED TO AND FORMING PART OF THE GROUP ANNUITY CONTRACT

The Participant, subject to the provisions of the Group Annuity Contract, may allocate all or a portion of his/her Deposits to the Guaranteed Fixed Fund, which is a Guaranteed Sub-Account. Deposits allocated to the Guaranteed Fixed Fund in a calendar quarter shall earn an initial annual effective rate of interest equal to the rate stated by the Company for that calendar quarter. Each initial rate shall remain in effect through the end of that calendar year and shall never be less than 3.5%.* Each year in which Deposits are allocated to the Guaranteed Fixed Fund shall be known as a deposit year.

All Deposits allocated and interest accrued thereon in a given deposit year which remain in the Guaranteed Fixed Fund shall constitute a separate portfolio as of January 1st of the year following the deposit year. Each separate portfolio shall earn an annual effective rate of interest stated by the Company, which shall be known as a renewal rate. Each renewal rate shall be effective for one calendar year and shall never be less than 3.5%.* A different renewal rate may be declared by the Company for each separate portfolio and for each calendar year.

The Participant, subject to the provisions of the Group Annuity Contract and this Guaranteed Sub-Account Rider, may transfer amounts from his/her Guaranteed Fixed Fund sub-account at any time. The Company may, from time to time, establish a maximum amount which may be transferred from the Participant's Guaranteed Fixed Fund sub-account in a calendar year, which shall never be less than 20% of the Participant's prior year end account balance in the Guaranteed Fixed Fund. However, if the Participant's Guaranteed Fixed Fund sub-account balance is $500 or less on the effective date of the transfer, all or a portion of that balance may be transferred. Amounts transferred shall be debited from the Participant's Guaranteed Fixed Fund sub-account on a last-in-first-out basis.

Distributions from the Guaranteed Fixed Fund sub-account shall be governed by the Group Annuity Contract. Amounts distributed from the Guaranteed Fixed Fund sub-account shall be debited on a last-in-first-out basis.

*<u>IMPORTANT NOTICE</u>: The Guaranteed Interest Rate defined in the Group Annuity Contract shall not apply to funds deposited into the Guaranteed Fixed Fund sub-account.

LETTER AGREEMENT

Attached to and Forming Part of
The Qualified Group Fixed and Variable Annuity Contract

WHEREAS, pursuant to Minnesota Statutes §136E.04 the Minnesota Higher Education Board is responsible for the individual retirement plans established pursuant to Minnesota Statutes chapter 354B;

WHEREAS, pursuant to Minnesota Laws 1995, Chapter 212 the name of the Minnesota Higher Education Board is changed to the Board of Trustees of the Minnesota State Colleges and Universities effective July 1, 1995;

WHEREAS, Great-West Life & Annuity Insurance Company has been approved by the Minnesota State Board of Investment as a financial institution which may provide annuity products to the Minnesota Higher Education Board; and

WHEREAS, the Minnesota State Board of Investment has approved the terms of this Agreement.

NOW THEREFORE, it is agreed to by the Great-West Life & Annuity Insurance Company (herein called the "Insurance Company") and the State of Minnesota Higher Education Board (herein called Higher Education Board or Group Policyholder) that the following modifications and clarifications of the Group Annuity Contract, group policy number 95008-01, issued by the Insurance Company shall be effective beginning July 1, 1995 and will terminate on June 30, 2000, unless terminated earlier pursuant to its terms. Group Policy 95008-01, along with this Letter Agreement, supersede and replace any other previous Contracts, Agreements, Riders or representation(s).

1. For the term of this Letter Agreement, the Contract Maintenance Charge, any other fees, charges, and the Contingent Deferred Sales Charges referred to in the Group Policy Number 95008-01 are hereby waived for the term of the contract, with the exception of the Risk Charge of 1.25% described in Section 5.5 of the contract. The Risk Charge of 1.25% will be reduced to .75% effective June 15, 1995 for this term of the Letter Agreement.

   Guaranteed Account Value Portability

   Each calendar year, participants may transfer up to 20% of their previous December 31st Guaranteed Fixed Fund balance to Great-West Variable Sub-Accounts, or up to 20% of their previous December 31st Guaranteed Fixed Fund balance to options of other Higher Education Board Plan product providers without charge or restriction. Transfers above the 20% limit each calendar year will not be allowed. Participants may transfer their Guaranteed Certificates as they mature, either to options of other Higher Education Board Plan product providers or to Great-West Variable Sub-Accounts without charge.

Variable Account Value Portability

Transfers among Great-West's Variable Sub-Accounts, transfers to the Great-West Guaranteed Fixed Fund Option, and transfers to options of the Higher Education Board Plan product providers will be permitted at any time, with no limits and no charges.

2. The Insurance Company agrees that the Guaranteed Account Value Portability, the Variable Account Value Portability, the Contingent Deferred Sales Charge and the Contract Management Charge will not be less favorable after the termination of this Agreement on June 30, 2000, than the provisions contained in this Letter Agreement.

   Upon termination of this Letter Agreement, Insurance Company may increase the Risk Charges and Investment Management Fees waived or reduced hereunder.

3. The Insurance Company agrees that it will charge no front-end load on contributions in addition to any assessed by the Higher Education Board's Administrative Services Agent.

4. The Insurance Company agrees to disclose all fees, expenses and charges (whether direct or indirect) to participants, to the Higher Education Board's Administrative Services Agent, to the Higher Education Board and to the State Board of Investment (SBI). The Insurance Company agrees to disclose all investment options rates of return to the Administrative Services Agent within 7 business days of the close of each calendar quarter in the manner specified by the SBI, unless by a reasoned written opinion of counsel to do otherwise would violate any restriction of the Securities and Exchange Commission (SEC), the Minnesota Department of Commerce, or of any other government regulatory body.

5.a. The Insurance Company will offer the following FutureFunds II investment fund options for deposits received after June 15, 1995 (The Insurance Company will make available these investment fund options June 15, 1995 to allow participants to make the investment allocation changes via a Voice Response Unit (VRU) system called KeyTalk before some of the existing investment fund options (noted in Section 5.b. of the Agreement) are discontinued).

- <u>Fixed/Guaranteed Fund Option</u>

    - Guaranteed Fixed Fund

- <u>Variable Fund Options - Core</u>

• Money Market Fund -	Maxim Money Market Portfolio
• Bond Fund -	Voyageur U.S. Government Securities Fund
• Equity Fund -	Maxim Growth Fund I, managed by Janus
• Balanced Fund -	Fidelity Advisor Income & Growth Fund
• International Equity Fund -	Maxim International Equity Portfolio, managed by Templeton

- <u>Additional Fund Options</u>

    - Fidelity Advisors Growth Opportunities Fund
    - Maxim Vista Growth & Income Fund (managed by Chase Manhattan Bank)
    - Twentieth Century Ultra Investors
    - Fidelity Advisors Overseas Portfolio

The Insurance Company may add or substitute FutureFunds II investment options only upon written agreement of the SBI and only 60 days prior written notice to the SBI of the Insurance Company's intention to add or substitute such investment options.

5.b. The following investment fund options will be eliminated effective August 1, 1995 and those participants who do not submit new investment election and transfer instructions will have their fund balances transferred to the following "Default" fund options effective August 1, 1995.

Eliminated Fund Options	TO	**"Default" Fund Options**
Daily Interest Guarantee Fund		Maxim Money Market Portfolio
Maxim Bond Portfolio		Voyageur U.S. Government Securities Fund
Maxim Stock Index Portfolio		Maxim Growth Fund I (managed by Janus)
Guaranteed Certificate Fund*		Guaranteed Fixed Fund
Government Guaranteed Fund		Voyageur U.S. Gov't Sec. Fund
Ariel Appreciation Fund		Maxim Growth Fund I (managed by Janus)
20th Century Select		Maxim Growth Fund I (managed by Janus)
20th Century Balanced		Fidelity Advisor Income & Growth
Vista Growth & Income		Maxim Vista Growth & Income (managed by Chase Manhattan Bank)

* At certificate maturity only.

In addition, all deferrals and maturing certificates that are directed to the discontinued fund options will automatically be redirected to the applicable default fund options listed above until new allocation instructions for new deferrals and maturing certificates are provided by the participant to the Insurance Company.

6. The Insurance Company agrees to furnish data about itself (including, but not limited to, financial data permitting an assessment of its credit worthiness) and/or its annuity contracts when requested by the State Board of Investment, the Administrative Services Agent, or the Higher Education Board. In addition, the books, records, documents and accounting procedures and practices of the Insurance Company relevant to this Agreement and Contract shall be subject to examination by the State Board of Investment, the Higher Education Board and the Minnesota Legislative Auditor of the State of Minnesota.

7. The Insurance Company agrees to provide product information, forms and communication materials to the Higher Education Board's Administrative Services Agent for distribution to participants. The Insurance Company agrees to make presentations to participant groups at the times, places and frequency as arranged by the Higher Education Board Plan's Administrative Services Agent.

8. To the extent permitted by law, the Insurance Company will reimburse the SBI for the Insurance Company's pro-rata share (determined by dividing the total cost amongst the number of product providers) of costs incurred by SBI, including consultant fees, for its review of the Higher Education Board's Plans, up to a maximum of $50,000 for the life of the contract, without prior consent of the Insurance Company. Payment shall be made based on an invoice prepared and submitted by the SBI. The invoice schedule will be determined by the SBI but the Insurance Company will be invoiced no more often than quarterly. Payments are due 30 days from the date of receipt of the invoice by Insurance Company.

9. Contract Termination

   The Group Policyholder will have an unconditional ability to terminate this contract on June 30, 2000.

10. Contract Termination for Cause

    Subject to Insurance Company's right to cure, the Contract may be terminated by Group Policyholder for cause at any time during the Contract term upon sixty (60) days written notice to Great-West Life.

"Cause" is defined as:

- Malfeasance, Misfeasance, Fraud

- Failure to perform any provision of the contract, subject to the Insurance Company having 90 days to cure any failure of contract performance.

- A material change in the Insurance Company's financial position, defined as the occurrence of two or more of the following:

  - Standard & Poor's rating falls to A+ or lower,

  - Moody's rating falls to A3 or lower,

  - Duff & Phelps rating falls to A+ or lower,

However, in the event of any drop in ratings that is a result of a recalibration of the life insurance industry by any of the aforementioned rating agencies, the parties will use best efforts to cause this provision to be amended consistent with any such recalibration by the parties to the Letter Agreement.

11. <u>Options at Contract Termination</u>

In the event that the contract is terminated, either on the contract expiration date or before, the contract will include the following termination options:

a) A market value adjustment formula that will apply to the Guaranteed Certificate Fund balances only, and will not apply to the Guaranteed Fixed Fund balances or to variable fund balances. This formula is as follows:

<u>Guaranteed Certificate Fund Market Value Adjustment</u>

- Applicable to the Guaranteed Certificate Fund, a Market Value Adjustment will be calculated based on the account value of the Guaranteed Certificate Fund multiplied by the Market Value Adjustment Factor. The Market Value Adjustment Factor is calculated for the entire Group Policyholder account. The same factor will be applied to each individual account.

- The Market Value Adjustment Factor will be determined by taking the sum of the discounted maturity values of each certificate within the Guaranteed Certificate Fund as of the Date of Cessation of Deposits, then dividing by the value of all individual participant accounts in the Guaranteed Certificate Fund on the Premium Cessation Date. The Market Value Adjustment Factor will not exceed 1.00.

- Discounting is calculated by using an interest rate equal to the larger of the 1) Moody's Baa Bond Yield Average-Monthly Average Corporate rate for the middle month of the calendar quarter in which the certificate was established, or 2) Moody's Baa Bond Yield Average-Monthly Average Corporate rate 60 days prior to the Premium Cessation Date.

The Insurance Company will pay the sum of the market value adjusted certificates in respect of participants to an investment company designated in writing by the Group Policyholder as the successor insurer of the Plan or to the Group Policyholder within one hundred and eighty (180) days after the Date of Cessation of Deposits.

Guaranteed Fixed Fund Market Value Adjustment

A market value adjustment formula that will apply to the Guaranteed Fixed Fund. The formula is as follows:

- If the five (5) year Moody's Baa Bond Yield Average-Monthly Average Corporate rate on the Date of Cessation of Deposits is less than B, as described below, than no market value gain or loss shall be applied to the balance of the Guaranteed Fixed Fund.

- If the five (5) year Moody's Baa Bond Yield Average-Monthly Average Corporate rate on the Date of Cessation of Deposits of is greater than B, as described below, then the market value loss, applied to the balance of the Guaranteed Fixed Fund, will be determined by the following formula:

  $$1-[(A-B) \times 6]$$

  Where:

  A = the five (5) year Moody's Baa Bond Yield Average-Monthly Average Corporate rate on the Date of Cessation of Deposits.

  B = the blended interest rate under the Contract on the date of Deposit Cessation. The blended interest rate is determined by blending the annual effective rate associated with each separate portfolio for each deposit year.

  The market value of the Guaranteed Fixed Fund is the balance of the Guaranteed Fixed Fund multiplied by the result of the above formula.

b) The Insurance Company will pay the sum of the Variable Contract Values in respect of participants to a new investment company designated in writing by the Group Policyholder as the successor insurer of the Plans or to the Group Policyholder within seven (7) days after the Date of Cessation of Deposits.

c) No new contributions will be accepted to the Insurance Company program, but participants will continue to direct the investment of their existing balances under the program and receive benefit payments under the program, subject to the provisions of Section 13.2.a. of the Group Annuity Contract.

d) Participants who have commenced receiving an annuity will not be affected by termination of the Group Annuity Contract, its Application, Tables, Guaranteed Sub Account Riders or Letter Agreement.

e) If the Date of Cessation of Deposits occurs within eighteen (18) months of the commencement date of the contract, a transfer fee of one half of one percent (.5%) will be deducted from the distribution of any Guaranteed Contract Values and Variable Contract Values. The Transfer Fee is applied after the calculation of the Market Value Adjustment.

f) For the term of this Letter Agreement the following factors will be used to determine a current installment payment factor per $10,000.00 of Guaranteed Contract Values. The 20 equal installment amounts described in Section 13.2.b, Cessation Option (2) Installment Settlement of Contract Values of the Contract:

- According to the change in the general level of interest rates in the economy (and hence the market values of the assets backing the plan), and

- The amount of unamortized expenses in the program.

In no event will the amount of the installment be less than $514.80 per $10,000.00 of Guaranteed Contract Values.

12. a) When making any benefit payments in accordance with the Plan, Insurance Company shall report to the Internal Revenue Service the amounts of such payments in accordance with Internal Revenue Service requirements.

b) Insurance Company agrees to withhold federal and state income taxes from benefit payments in accordance with instructions from the Plan participant as to the amounts to be withheld, or as is otherwise required by the Internal Revenue Service or by appropriate state tax authorities.

13. Insurance Company agrees that, with respect to matters relating to the Plan, Insurance Company will make information from its participant account records and aggregate level information available to the SBI, the Higher Education Board and the Administrative Services Agent upon request. Insurance Company shall provide, at its expense, software to allow the Higher Education Board or the Administrative Services Agent access to Insurance Company's system of Plan participant information relating to the Group Annuity Contract. All parties agree that Plan participant records are private and that only Insurance Company, the SBI, the Higher Education

Board and the Administrative Services Agent where necessary, shall have access to such records.

14. Insurance Company agrees to comply in all areas with:

    a) Rules of the Plan

    b) Minnesota Statutes Chapter 354B and Section 356.24 subd. 1, and any amendments thereto, provided such amendments do not impair a material provision of the Group Annuity Contract and this Agreement;

    c) and 401(a) of the Internal Revenue Code of 1986, as amended, or any rules and regulations thereunder.

15. No amendment to this Agreement shall be effective unless such amendment shall be in writing and signed by all of the parties thereto.

16. Any notice under this Agreement must be in writing and may be given by or on behalf of Insurance Company by delivering the same to the Higher Education Board or by mailing it to the Higher Education Board at its address of record with Insurance Company, and any notice to Insurance Company given by the Higher Education Board shall be in writing and mailed to Insurance Company at its Home Office. Any such notice shall be effective on the date of receipt unless the terms of this Agreement dictate otherwise.

17. This Agreement shall be construed according to the laws of Minnesota.

18. Insurance Company hereby agrees to indemnify and hold harmless the State of Minnesota, the Minnesota State Board of Investment, the Higher Education Board (herein collectively the "Boards"), each member of the Boards individually, the officers, and employees of each and every of the above, their successors, and any combination thereof, from all claims, demands, or causes of action arising out of an act or omission of Insurance Company related to this Agreement and the Group Annuity Contract.

    Insurance Company shall reimburse the State Board of Investment or the Higher Education Board, for all reasonable expenses incurred to defend and legal proceedings that may be brought against the State of Minnesota, the State Board of Investment, the Higher Education Board, each member of the Boards individually, the officers, and employees of each and every of the above, their successors, and any combination thereof, on any claim or demand arising out of an act or omission of the Provider related to the contract, and shall satisfy any judgment that may be rendered against such party or parties in respect to any such claim or demand. The State Board of Investment or the Higher Education Board shall notify Insurance Company upon receipt of any such claim or demand which it receives. Pursuant to Minnesota Statutes section 8.06, the Minnesota Attorney General (or its designee) shall be the legal counsel for the State of Minnesota, the Boards, the members of the Boards individually, and the officers, agents and employees of the Boards or the State of Minnesota.

19. The Insurance Company certifies that it has received a certificate of compliance from the Commissioner of Human Rights pursuant to Minnesota Statutes section 363.073.

20. To the extent that Insurance Company has access to data of the State entities which is classified as private, nonpublic or confidential pursuant to the Minnesota Government Data Practices Act, Minnesota Statutes Chapter 13, the Insurance Company agrees to comply with the requirements of Minnesota Statutes Chapter 13 in providing services under this Agreement and the Group Annuity Contract. The Insurance Company agrees to indemnify, save and hold harmless the State of Minnesota, the Minnesota State Board of Investment, the Higher Education Board, each member of the Boards individually, the officers, and employees of each and every of the above, from all claims, demands, or causes of action arising out of, resulting from any act or omission of the Insurance Company or in any violation by the Insurance Company of any provision of the Minnesota Government Data Practices Act, Minnesota Statutes Chapter 13, including legal fees and disbursements paid or incurred to enforce this provision of this Agreement and the Group Annuity Contract. In the event the Insurance Company subcontracts any or all of the work to be performed under this Agreement and Group Annuity Contract, Insurance Company shall retain responsibility under this paragraph for compliance with the Minnesota Government Data Practices Act.

21. Any waiver at any time by either party hereto of any right with respect to any matter arising in connection with this Agreement and the Group Annuity Contract shall not be deemed to be a waiver with respect to any subsequent matter.

22. Insurance Company shall assign to the State of Minnesota any and all claims for overcharges as goods and/or services provided in connection with this Agreement and the Group Annuity Contract resulting from antitrust violations which arise under the antitrust laws of the United States and the antitrust laws of the State of Minnesota.

23. The provisions of Sections 1, 2, 3, 4, 5, 6, 12, 13, 18, 20, 23, 24 and 25 of the Letter Agreement shall survive any termination of this Letter Agreement.

24. Effective July 1, 1995, the Insurance Company will change the name on the existing group policy number 95008-01 from "Minnesota State University System" to "Board of Trustees of the Minnesota State Colleges and Universities".

25. The Insurance Company shall provide participants with access to a Voice Response Unit (VRU), called KeyTalk, which will provide the following information to the participant from a touch-tone telephone:

(i) Current account balance, in total and broken down by fund
(ii) Current interest rates
(iii) Current variable fund unit values and/or share prices
(iv) Daily changes in variable fund unit values and/or share prices
(v) Current contribution allocation percentages

The VRU System will also allow participants to initiate and process the following transactions on their accounts:

(a) Change the allocation of future contributions
(b) Process transfers between fund investment options

Account information available from VRU will utilize the most currently available share prices, unit values and account balances. The VRU system is available 24 hours a day, except for routine maintenance of the system, which generally takes place between the hours of 12:00 a.m. M.T. and 12:00 p.m. M.T. each Sunday morning. However, the VRU system may be unavailable at other times, if necessary, for system maintenance.

Higher Education Board

By: ____________________ ____________________Date

Name: ____________________

Title: ____________________

Great-West Life & Annuity Insurance Company

By: ____________________ ____________________Date

Name: ____________________

Title: ____________________

By: ____________________ ____________________Date

Name: ____________________

Title: ____________________

STATE OF MINNESOTA
THE OFFICE OF THE ATTORNEY GENERAL

By: ____________________

Name: ____________________

Title: ____________________

STATE OF MINNESOTA
DEPARTMENT OF ADMINISTRATION

By: ____________________

Name: ____________________

Title: ____________________

STATE OF MINNESOTA
DEPARTMENT OF FINANCE

By: ____________________

Name: ____________________

Title: ____________________

Annuity Contract and Agreement with Minnesota Mutual

MINNESOTA MUTUAL

The Minnesota Mutual Life Insurance Company • 400 Robert Street North • St. Paul, Minnesota 55101-2098 • (612) 298-3500

CONTRACTHOLDER:

CONTRACT NUMBER:

EFFECTIVE DATE:

CONTRACT ANNIVERSARY:

JURISDICTION:

The Minnesota Mutual Life Insurance Company (herein called Minnesota Mutual) agrees to accept contributions hereunder from the Contractholder, to account for such contributions in the manner provided herein, and to pay contract benefits in such amounts and to such persons as are designated in writing by the Contractholder or its designate.

This contract is issued in consideration of the application by the Contractholder, a copy of which is attached to, and made a part of this contract, and the payment of contributions under this contract by the Contractholder.

This contract is executed by Minnesota Mutual at its home office in Saint Paul, Minnesota, to take effect as of the Effective Date.

Robert J Hasley
Secretary

Coleman Bloomfield
President

Registrar

INVESTMENT ACCUMULATION GROUP ANNUITY CONTRACT — II
ALLOCATED
PROVISION FOR FIXED DOLLAR ANNUITY PAYMENTS

ALL VALUES PROVIDED BY THIS CONTRACT
WHEN BASED ON INVESTMENT EXPERIENCE OF A
SEPARATE ACCOUNT, ARE VARIABLE AND ARE NOT GUARANTEED
AS TO FIXED DOLLAR AMOUNT

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TABLE OF CONTENTS, CONT.

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SECTION 1. DEFINITIONS

1.01 ANNUITY PAYMENTS

"Annuity Payments" means a series of payments which may be purchased and guaranteed under this contract on behalf of a Participant.

1.02 CONTRACT YEAR

"Contract Year" means a period between the Effective Date and the Contract Anniversary and, thereafter, a period of one year commencing on each Contract Anniversary.

1.03 FISCAL PERIOD

"Fiscal Period" means that period determined by Minnesota Mutual for purposes of establishing the duration of particular investment rates.

1.04 GENERAL ACCOUNT

"General Account" means all assets of Minnesota Mutual other than those in the Separate Accounts established by Minnesota Mutual.

1.05 GENERAL ACCOUNT NEW FUNDS RATE

"General Account New Funds Rate" means the investment rate or rates as determined by Minnesota Mutual to be applicable to amounts contributed to the General Account during the then current Fiscal Period.

1.06 GENERAL ACCOUNT RENEWAL FUNDS RATE

"General Account Renewal Funds Rate" means the investment rate or rates as determined by Minnesota Mutual to be applicable to amounts contributed to the General Account during any Fiscal Period prior to the then current Fiscal Period.

1.07 MARKET RATE

"Market Rate" is the General Account New Funds Rate applicable to contracts of this class which are issued as of a given date.

1.08 PARTICIPANT

"Participant" means a person on whose behalf benefits under the Plan have been or are being funded under this contract.

1.09 PLAN

"Plan" means a Pension or Profit Sharing Plan which meets the requirements for qualification under Section 401 of the Internal Revenue Code, as amended, or other section of the Code allowing similar tax treatment. No obligation under the Plan is assumed by Minnesota Mutual, nor shall the Plan or any amendment thereto be construed to amend or modify this contract in any way except with the express written consent of Minnesota Mutual. Minnesota Mutual may require the Contractholder to furnish a copy of a favorable determination letter from the Internal Revenue Service as to the qualified status of the Plan.

1.10 SEPARATE ACCOUNTS

"Separate Accounts" means those assets of Minnesota Mutual in the separate investment accounts established by Minnesota Mutual in accordance with the laws of Minnesota. All income, and all gains or losses, whether or not realized, from assets allocated to the Separate Accounts shall be credited to or charged against the Separate Accounts without regard to other income, gains or losses of Minnesota Mutual.

The Separate Accounts currently available under this contract include:

Stock Account — Separate Account C
Growth Stock Account — Separate Account M
Stock Index Account — Separate Account L
Money Market Account — Separate Account S
Bond Account — Separate Account E
Managed Account — Separate Account K

Minnesota Mutual reserves the right to add, combine, or remove any Separate Accounts from contracts of this class.

1.11 VALUATION DATE

"Valuation Date" means each date on which the New York Stock Exchange is open for trading, with the valuation occurring as of the close of business of the Exchange on such date. A valuation period is the period between successive Valuation Dates.

SECTION 2. CONTRIBUTIONS AND VALUATION

2.01 ALLOCATION OF CONTRIBUTIONS

The Contractholder shall determine the aggregate amount of contributions to be paid to Minnesota Mutual during each Contract Year. The Contractholder shall also determine the portion of such contributions which are made and allocated for each Participant. Contributions shall be allocated to the General Account or the Separate Accounts in accordance with the written instructions of the Contractholder. Allocations may be changed as to future contributions by written notice to Minnesota Mutual by the Contractholder. That notice must be received by Minnesota Mutual at its home office on or prior to the date those contributions are received. If a contribution is received without written allocation instructions or where Minnesota Mutual determines that written allocation instructions are inadequate, that contribution shall not be applied under the contract until adequate instructions are received.

All contributions are payable at the home office of Minnesota Mutual in St. Paul, Minnesota.

2.02 LIMITATION ON CONTRIBUTIONS

Minnesota Mutual reserves the right to limit the maximum contributions which it will accept from the Contractholder under this contract to the lesser of the amount of the actual employer contributions or the deductible contributions plus the employee contributions made to the Plan during the plan year ending in the Contract Year.

2.03 APPLICATION TO PROVIDE ACCUMULATION UNITS

Amounts allocated to any of the Separate Accounts will be applied by Minnesota Mutual to provide Accumulation Units. Minnesota Mutual will determine the number of Accumulation Units by dividing the contribution by the then current Accumulation Unit Value. Such determination will be made as of the Valuation Date coincident with or next following the date on which such contribution is applied by Minnesota Mutual, and shall be made separately for contributions allocated to each of the Separate Accounts. The number of Accumulation Units so determined shall not be affected by any subsequent change in the Accumulation Unit Value.

However, the total number of Separate Account Accumulation Units under this contract will be affected by future contract transactions. The number of Separate Account Accumulation Units will be increased by subsequent contributions and transfers to that Separate Account. The number of Separate Account Accumulation Units will be decreased by transfers or withdrawals from that Separate Account, including withdrawals pursuant to the Expense Charge provisions of this contract.

2.04 GENERAL ACCOUNT INTEREST CREDITS

Interest will be credited to amounts allocated to the General Account at such positive General Account New Funds Rate or Rates and Renewal Funds Rate or Rates as may be declared from time to time by Minnesota Mutual for this contract, in accordance with its usual practices for contracts of this class.

The General Account New Funds Rate and Renewal Funds Rate are expressed as an effective annual rate. However, during each Fiscal Period interest will be credited daily at a rate equivalent to that effective annual rate.

2.05 SEPARATE ACCOUNT NET INVESTMENT RATE, NET INVESTMENT FACTOR AND ACCUMULATION UNIT VALUE

The Separate Account net investment rate for each Separate Account for each valuation period shall be equal to the gross investment rate expressed in decimal form to six places, less appropriate deductions for investment management of the Separate Account and other expenses of the contract. These deductions will be determined in accordance with Minnesota Mutual's current expense allocation for contracts of this class. The rate of deductions will not exceed 2.0% per annum. Such gross investment rate is equal to (1) the investment income and capital gains and losses, whether realized or unrealized, on the assets of each Separate Account during such valuation period, less a deduction for any applicable income taxes arising from such income plus realized and unrealized capital gains, divided by (2) the value of such assets at the beginning of the valuation period. Such gross investment rate may be either positive or negative. Contract values may, therefore, increase or decrease according to the factors described.

The Net Investment Factor for each Separate Account is the sum of 1.000000 plus the net investment rate for that Separate Account.

The Separate Account Accumulation Unit Value on any Valuation Date is determined by multiplying the Separate Account Accumulation Unit Value on the immediately preceding Valuation Date by the Net Investment Factor for the valuation period just ended. The Separate Account Accumulation Unit Value as of any date other than a Valuation Date is equal to its value on the next succeeding Valuation Date.

2.06 VALUATION OF SEPARATE ACCOUNTS

The value of assets in a Separate Account means the market value, or where there is no readily available market, the fair value of the assets allocated to that Separate Account. The fair value is determined in accordance with Minnesota Mutual's rules, accepted accounting practices and applicable laws and regulations.

2.07 PARTICIPANT'S ACCUMULATION VALUE

A. The Participant's Accumulation Value as of any date is equal to the sum of Accumulation Values attributable to the General Account and the Separate Accounts.

B. The General Account Accumulation Value as of any date is equal to: all contributions allocated to the General Account, plus interest and dividends, if any, and transfers into the General Account, less any applicable Expense Charge, any applicable state premium taxes, any previous withdrawals from the General Account, and any transfers out of the General Account.

C. Each Separate Account Accumulation Value as of any date is equal to the product of (a) the number of Accumulation Units in the Separate Account and (b) the Separate Account Accumulation Unit Value.

2.08 EXPENSE CHARGE

As of the last day of each Contract Year, or as of such other date during a Contract Year as may be determined by Minnesota Mutual, an Expense Charge shall be determined by Minnesota Mutual in accordance with its then current expense allocation basis for contracts of this class. An Expense Charge shall be determined for each Contract Year until Final Termination of the contract as defined in Section 5.06. The amount of the Expense Charge shall be due and payable by the Contractholder upon receipt of a written statement from Minnesota Mutual. Minnesota Mutual shall have the right to collect such expense charge by deduction of a pro rata portion of this amount from each Participant's Accumulation Value if not paid by the Contractholder within 30 days after the date such payment is due.

2.09 PARTICIPANT REPORTS

Minnesota Mutual shall provide a report at least as frequently as annually on behalf of each Participant as of each Reporting Date, which shall show the Participant's Individual Account as of such Reporting Date. Minnesota Mutual shall also provide interim reports on behalf of a Participant as of the effective date of each withdrawal hereunder relating to that Participant. These interim reports shall confirm such withdrawal, and shall show the Participant's Accumulation Value following the withdrawal.

2.10 CONTRACTHOLDER REPORT

Minnesota Mutual shall provide a report to the Contractholder at least as frequently as annually. This report will show the date and amount of each contract transaction during the reporting period. This report will also show the value of the Contractholder's Account at the end of the reporting period.

SECTION 3. WITHDRAWALS AND TRANSFERS

3.01 PURPOSE OF WITHDRAWALS

Withdrawals may be made only for the purpose of:

(a) providing Plan benefits and participant loans in accordance with Section 4,

(b) payment of expense charges in accordance with Section 2.08,

(c) transfers to the Contractholder in accordance with Section 5.02, or

(d) other withdrawals mutually agreed upon by Minnesota Mutual and the Contractholder.

Withdrawal amounts shall be deducted from the Participant's Accumulation Value in such a manner as may be specified in a written notice. If not specified, withdrawals shall be made on a pro rata basis among the General Account and Separate Account portions of the Participant's Accumulation Value.

3.02 TRANSFER OF PARTICIPANT'S ACCUMULATION VALUE

Upon written request to Minnesota Mutual from the Contractholder, transfers may be made among the General Account and the Separate Accounts. The transfer date will be a Valuation Date which occurs within 30 days after receipt of the transfer request by Minnesota Mutual. No transfer request will be honored for an amount less than $250.

The maximum amount that may be transferred from the General Account to the Separate Accounts is 20% of the Participant's General Account Accumulation Value as of the date of transfer. Only one transfer between the General Account and the Separate Accounts may be made by each Participant in any 12 month period. Transfers among the Separate Accounts are permitted at any time.

3.03 WITHDRAWALS OR TRANSFERS FROM THE GENERAL ACCOUNT

All withdrawals or transfers from the General Account portion of the Participant's Accumulation Value for any purpose shall be on a last-in-first-out (LIFO) basis.

3.04 WITHDRAWALS OR TRANSFERS FROM A SEPARATE ACCOUNT

Whenever a withdrawal or transfer is to be made from a Separate Account, a number of Accumulation Units in that Separate Account shall be surrendered, such that the Accumulation Value of the surrendered Accumulation Units equals the amount withdrawn or transferred.

Withdrawals from and transfers among the Separate Accounts may be subject to postponement for any period during which trading on the New York Stock Exchange is restricted or any period during which an emergency exists, as determined by the Securities and Exchange Commission, as a result of which it is not reasonably practical to dispose of securities in the Separate Account or to fairly determine the value of the assets of the Separate Account. In the event of postponement, the amount of any transfer or payment shall be based on the Accumulation Unit Value as of the date of transfer or payment.

SECTION 4. BENEFIT PROVISIONS

4.01 NOTICE OF BENEFITS

Written notice shall be given to Minnesota Mutual by the Contractholder or the Contractholder's designee whenever any withdrawals are to be made from the Participant's Accumulation Value for the purpose of providing benefits or Participant loans under the Plan. Such withdrawals may be made for the purpose of purchasing Annuity Payments or making a cash payment to such person or persons specified in the written notice.

4.02 INFORMATION REQUIRED

A. If Annuity Payments are to be purchased, the written notice required by Section 4.01 must be given at least 30 days prior to the date Annuity Payments are to begin, and must contain such information as Minnesota Mutual may reasonably require in order to purchase Annuity Payments, including, but not limited to the following:

   (1) Name, address and Social Security number of the person or persons for whom Annuity Payments are to be purchased;

   (2) Proof, satisfactory to Minnesota Mutual, of the age of such person or persons;

   (3) The Annuity Commencement Date, which must be the first day of a calendar month;

   (4) The contribution amount on which taxes have already been paid by the person or persons for whom Annuity Payments are to be purchased;

   (5) The form and amount of the monthly Annuity Payment, such amount must be at least $20; and

   (6) Certification by the Contractholder that the Annuity Payments to be purchased are determined in accordance with the provisions of the Plan.

B. If a cash payment is to be made on behalf of a person or persons specified in the written notice required by Section 4.01, such notice must include the following information and such other information as Minnesota Mutual may reasonably require in order to effect such payment:

   (1) Name, address and Social Security number of the person or persons to whom a cash payment is to be made;

   (2) The date on which the payment is to be made;

   (3) The contribution amount on which taxes have already been paid by the person or persons receiving the cash payment; and

   (4) Certification by the Contractholder that the payment to be made is determined in accordance with the provisions of the Plan.

C. The dollar value of any amount which would be withdrawn in accordance with the provisions of this section may be payable to the Contractholder upon certification by the Contractholder that such amount will be applied to provide benefits or Participant loans in accordance with the Plan. Minnesota Mutual may require documentation of the benefit determination or loan agreement as a condition for payment.

4.03 RESPONSIBILITY OF MINNESOTA MUTUAL

Minnesota Mutual may rely upon the Contractholder's written notices and certifications received in connection with the Plan and shall not be liable in any way or to any person or persons because of its failure to question or challenge such notices or certifications given by the Contractholder.

The Contractholder shall furnish any information or evidence which Minnesota Mutual may reasonably require to administer this contract. If the Contractholder cannot furnish any required item of information, Minnesota Mutual may request the person concerned to furnish such information. Minnesota Mutual shall not be liable for the fulfillment of any obligation in any way dependent on such information until it receives such information in a form satisfactory to it. Information furnished to Minnesota Mutual may be corrected for demonstrated errors therein except that such correction will be at the option of Minnesota Mutual when it has already acted to its prejudice by relying on such information.

4.04 ADDITIONAL PROVISIONS RELATING TO ANNUITY PAYMENTS

The amount of the withdrawal made for the purpose of purchasing Annuity Payments will be the dollar amount of the Payment multiplied by the applicable purchase rate from Section 7, increased by the Policy Fee and any applicable state premium taxes.

Minnesota Mutual shall issue to the Contractholder for delivery to each person for whom Annuity Payments are purchased hereunder a certificate setting forth the principal provisions of such Annuity Payments. Minnesota Mutual may require proof that any person to whom a payment is to be made is living at the time specified for payment, and if so requested, such proof shall be furnished before payment shall be due.

If it shall be found that the age of any person with respect to whom an annuity shall have been purchased hereunder has been misstated, the amount of the annuity payable by Minnesota Mutual shall be that provided by the amount applied to effect such annuity on the basis of the corrected information, without changing the date of the first payment of the annuity. The dollar amount of any underpayment to be made by Minnesota Mutual shall be paid in full with the next payment due the payee. The dollar amount of any overpayment made by Minnesota Mutual shall be deducted from payments subsequently accruing to such payee.

If Minnesota Mutual receives evidence satisfactory to it that any person is legally, physically or mentally incapable of giving a valid release for any payment due such person under this contract, Minnesota Mutual may make payment thereof to such other person, persons or institution who appear to Minnesota Mutual as having assumed the custody and principal support of the person to whom such payment is due. Minnesota Mutual shall be released from liability to the extent of such payment.

The reserve held by Minnesota Mutual for any Annuity Payments hereunder shall be equal to the greater of (a) the reserve determined in accordance with the mortality table and interest rate used to establish the purchase rate for such Annuity Payments, and (b) the minimum reserve determined in accordance with the insurance laws of the jurisdiction in which this contract is delivered.

SECTION 5. DISCONTINUANCE

5.01 DATE OF DISCONTINUANCE

The contract may be discontinued by the Contractholder as of a date specified in a written notice to Minnesota Mutual, provided that the Date of Discontinuance specified by the Contractholder may not be earlier than the day notice is received and, provided further, if no date is specified, the Date of Discontinuance shall be the Valuation Date next following the date written notice is received.

The contract may be discontinued by Minnesota Mutual as of a date specified in a written notice to the Contractholder in the event that:

(a) The Plan is no longer deemed to be a "qualified plan" under Section 401 of the Internal Revenue Code or other section of the Code allowing similar tax treatment; or

(b) Minnesota Mutual determines that because of a change in the Plan or in the benefits to be provided thereunder, it is necessary to amend or modify this contract, and the Contractholder does not assent to the amendment or modification.

The contract will automatically be discontinued in the event of termination of the Plan, as of the effective date of such termination.

5.02 EFFECT OF DISCONTINUANCE

On and after the Date of Discontinuance, no further contributions will be accepted by Minnesota Mutual under this contract and no further withdrawals or transfers will be allowed by Minnesota Mutual.

A Liquidation Date will be determined, which date will be a Valuation Date not later than 60 days after the Date of Discontinuance.

Unless otherwise requested in writing by the Contractholder prior to the Liquidation Date, Minnesota Mutual shall, beginning on the Liquidation Date, pay to a Plan trustee designated by the Contractholder, the payments due under the installment method of liquidation as defined in Section 5.03. By written notice to Minnesota Mutual prior to the Liquidation Date, the Contractholder may elect, in lieu of such installment payments, the Lump Sum Liquidation Value defined in Section 5.04.

5.03 INSTALLMENT LIQUIDATION VALUES AND METHOD

Under the installment method of liquidation, the Separate Accounts portion of each Participant's Accumulation Value reduced by the Liquidation Charge will be paid as of the Liquidation Date to the Plan trustee designated by the Contractholder. The Separate Account Accumulation Value shall be determined on a Valuation Date determined not earlier than ten days prior to the Liquidation Date. Such date shall be determined by Minnesota Mutual in order to allow timely payment. The General Account portion of each Participant's Accumulation Value will then be paid to the Plan trustee in six substantially equal annual installments over a five year period, with the first installment due as of the Liquidation Date. Each installment will be reduced by the applicable Liquidation Charge.

Interest will be credited to the balance of the General Account Accumulation Value during the liquidation period at a rate equal to the General Account Renewal Funds Rate as of the Date of Discontinuance, reduced by 1.5%.

5.04 LUMP SUM LIQUIDATION VALUE

With respect to the Separate Accounts portion of each Participant's Accumulation Value, the Lump Sum Liquidation Value will be equal to the Participant's Separate Account Accumulation Value reduced by the Liquidation Charge. The Separate Account Accumulation Value shall be determined on a Valuation Date determined not earlier than ten days prior to the Liquidation Date. Such date shall be determined by Minnesota Mutual in order to allow timely payment. With respect to the General Account portion of the Participant's Accumulation Value, the Lump Sum Liquidation Value shall be equal to the product of (a) the Participant's General Account Accumulation Value on the Liquidation Date, reduced by the Liquidation Charge, and (b) a market value adjustment percentage. This determination will be made separately for the portions of the General Account Accumulation Value subject to the General Account New Funds Rate or Rates and Renewal Funds Rate or Rates.

The market value adjustment percentage for all funds subject to the General Account New Funds Rate or Rates shall be 100%.

The market value adjustment percentage for funds subject to the General Account Renewal Funds Rate or Rates will depend on the difference, if any, between the Market Rate and the Renewal Funds Rate as of the Date of Discontinuance and will be calculated as follows: If the Renewal Funds Rate exceeds the Market Rate, the percentage shall be 100%. If the Market Rate exceeds the Renewal Funds Rate, the percentage shall be 100% minus six times the excess.

5.05 LIQUIDATION CHARGE

The Liquidation Charge shall be equal to a percentage of each Participant's Accumulation Value as indicated below:

Number of Complete Months Following the Effective Date of this Contract	Liquidation Charge
0-23	6%
24-47	5%
48-71	4%
72-95	3%

5.06 FINAL TERMINATION

This contract shall finally terminate when each Participant's Accumulation Value is reduced to zero and Minnesota Mutual shall have completed all payments due hereunder.

SECTION 6. GENERAL PROVISIONS

6.01 CONTRACT

This contract, and the attached copy of the Contractholder's application constitute the entire contract between the parties. With respect to all transactions regarding this contract, except as may be specifically provided, Minnesota Mutual may deal with the Contractholder on the basis that the Contractholder has full ownership and control of this contract. The Contractholder's application for this contract must be accepted by Minnesota Mutual.

6.02 MODIFICATION OF CONTRACT

This contract may be modified at any time by written agreement between Minnesota Mutual and the Contractholder.

Minnesota Mutual reserves the right at any time to make such modifications in this contract as it may deem necessary because of any order from any government agency or law or regulation applicable to this contract.

No person except the President, a Vice President, the Secretary or an Assistant Secretary of Minnesota Mutual has authority on behalf of Minnesota Mutual to modify the contract or to waive any of Minnesota Mutual's rights or requirements.

Minnesota Mutual also reserves the right at any time to change the method of determining the market value adjustment described in Section 5.04, provided, however, that it provide a 31 day prior written notice to the Contractholder before such a modification in method takes effect.

6.03 ASSIGNMENT

This contract may not be assigned, sold, transferred, discounted or pledged as collateral for a loan or as security for the performance of an obligation or any other purpose, and to the maximum extent permitted by law, benefits payable under this contract shall be exempt from the claims of creditors.

6.04 PARTICIPATION IN DIVISIBLE SURPLUS

This is a participating contract. The portion, if any, of the divisible surplus of Minnesota Mutual accruing upon this contract shall be determined annually by Minnesota Mutual and credited to the contract on such basis as is determined by Minnesota Mutual.

6.05 MEMBERSHIP IN MINNESOTA MUTUAL

The Contractholder is a member of The Minnesota Mutual Life Insurance Company. Annual meetings of Minnesota Mutual are held at its home office on the first Tuesday in March of each year at three o'clock in the afternoon.

6.06 ADMINISTRATIVE SERVICES

If so requested by the Contractholder, Minnesota Mutual may perform record keeping functions associated with the Plan and its administration. The Contractholder must furnish any information or evidence which Minnesota Mutual requires to perform those functions. The Expense Charge in Section 2.08 shall be increased by the fee for the provision of those administrative services to contracts of this class.

SECTION 7. PURCHASE RATES FOR ANNUITY PAYMENTS

7.01 GENERAL

The purchase rates for $1.00 of monthly Annuity Payments under the life annuity form may be obtained from the table in Section 7.02. The rates shown in the table must be increased by any applicable state premium taxes. In addition, each purchase requires a one-time Policy Fee of $200. The adjusted age is determined from the actual age nearest birthday at the time the first Annuity Payment is due in the following manner:

Calendar Year of Birth	Adjusted Age is Equal to
Prior to 1920	Actual Age
1920 - 1939	Actual Age Minus 1
1940 - 1959	Actual Age Minus 2
1960 and Later	Actual Age Minus 3

The purchase rates in Section 7.02 are based on the Progressive Annuity Table with interest at 3.5% per annum, assuming births in the year 1900 and with an age setback of six years. The purchase rates for Annuity Payments purchased under this contract shall not exceed the rates in Section 7.02. Minnesota Mutual may, from time to time, specify rates for current annuity purchases under contracts of this class which are more favorable than the purchase rates shown in the table, in which event the more favorable rates shall apply.

Purchase rates for ages not shown in the tables and for additional annuity forms which may be mutually agreed upon by Minnesota Mutual and the Contractholder shall be calculated by Minnesota Mutual on the same actuarial basis and may be obtained by the Contractholder upon written request to Minnesota Mutual.

7.02 PURCHASE RATES FOR $1.00 OF MONTHLY ANNUITY PAYMENTS

(Rates shown are for a Life Annuity, with the first payment due immediately. They must be increased by any applicable state premium taxes and the Policy Fee.)

Adjusted Age of Participant	Purchase Rate
55	$214.88
56	210.85
57	206.73
58	202.54
59	198.27
60	193.93
61	189.51
62	185.03
63	180.48
64	175.87
65	171.21
66	166.49
67	161.73
68	156.93
69	152.09
70	147.23
71	142.35
72	137.46
73	132.56
74	127.67
75	122.79

THE MINNESOTA MUTUAL LIFE INSURANCE COMPANY
400 ROBERT STREET NORTH
ST. PAUL, MN 55101-2098
PH 612/298-3500

MINNESOTA MUTUAL

Section 1 of your contract, "Definitions" allows Minnesota Mutual to add, delete or change Separate Account options available under the contract.

Accordingly, Minnesota Mutual has added eight Separate Accounts to your contract. We have also renamed several of the existing Separate Accounts.

The Separate Accounts currently available under this contract include:

Equity Separate Accounts

Managed I	-Separate Account K
Managed II	-Separate Account I
Managed III	-Separate Account H
Growth and Income I	-Separate Account C
Growth and Income II	-Separate Account Q
Growth and Income III	-Separate Account X
Small Company I	-Separate Account O
Small Company II	-Separate Account J
Growth I	-Separate Account L
Growth II	-Separate Account M
Growth III	-Separate Account R
Growth IV	-Separate Account T
International Equity I	-Separate Account N
International Equity II	-Separate Account Y
International Equity III	-Separate Account W
Aggressive Growth I	-Separate Account P
Aggressive Growth II	-Separate Account Z
Value I	-Separate Account V

Fixed Income Separate Accounts

Bond I	-Separate Account E
Bond II	-Separate Account U
Bond III	-Separate Account G
Money Market	-Separate Account S

Please keep this communication with your contract for future reference.

AGREEMENT FOR 401(A) ANNUITY AND CUSTODIAL ACCOUNT SERVICES

This agreement is entered into by and between the Minnesota Higher Education Board and The Minnesota Mutual Life Insurance Company (hereinafter referred to as "Minnesota Mutual") (hereinafter "Provider").

WHEREAS, pursuant to Minnesota Statutes §136E.04 the Higher Education Board is responsible for the individual retirement account plans established pursuant to Minnesota Statutes chapter 354B;

WHEREAS, pursuant to Minnesota Laws 1995, Chapter 212 the name of the Minnesota Higher Education Board is changed to the Board of Trustees of the Minnesota State Colleges and Universities effective July 1, 1995;

WHEREAS, Minnesota Mutual has been approved by the Minnesota State Board of Investment as a financial institution which may provide annuity products to the Higher Education Board;

WHEREAS, the Minnesota State Board of Investment has approved the terms of this Agreement; and

WHEREAS, the Minnesota Higher Education Board and Minnesota Mutual have entered into a group qualified 401(A) annuity policy, no. 61385 (hereinafter referred to as "the Contract") which is attached hereto as Exhibit A and incorporated by reference herein (hereinafter the Contract and this Agreement are collectively referred to as the "contract").

NOW, THEREFORE, the Minnesota Higher Education Board and Minnesota Mutual in consideration of the promises and mutual agreements contained in this Agreement agree as follows:

1. For the term of the contract, there will be no contract maintenance charge, contingent deferred sales charges, or transfer fees. Participants may transfer their fixed annuity option balances and variable annuity option balances without charge in accordance with the following provisions:

   Once each calendar year, participants may transfer up to 20 percent of their account balances in the Minnesota Mutual General Account to Minnesota Mutual variable accounts, without charge.

   Once each calendar year, participants may transfer up to 20 percent of their account balances in the Minnesota Mutual General Account to options of other Plan product providers, without charge.

Participants may transfer all or a portion of their variable account balances to other Minnesota Mutual variable accounts or to options of other Plan product providers without charge or restriction.

2. Upon termination, the product providers may not introduce transfer fees affecting the portability of Plan assets. The Provider agrees that Plan portability, contract maintenance charges and contingent deferred sales charges will not be less favorable after the termination of the contract than the provisions contained in the contract.

3. The Provider agrees that it will charge no front-end load on contributions in addition to any assessed by the Plans' Administrative Services Agent (ASA.)

4. The Provider agrees that it will disclose all fees, expenses and charges (whether direct or indirect) to participants, to the Plans' ASA, to the Higher Education Board and to the State Board of Investment (SBI). The Provider agrees to disclose all investment option rates of return to the ASA within seven business days of the close of each calendar quarter in the manner specified by the SBI, unless by a reasoned written opinion of counsel to do otherwise would violate any restriction of the Securities and Exchange Commission (SEC), the Minnesota Department of Commerce, or of any other governing regulatory body.

5. The following investment options have been selected by the Provider for deposits received after July 1, 1995:

   Core Products

Fixed/Guaranteed account	Minnesota Mutual General Account
Money Market account	Minnesota Mutual Money Market Account
Bond account	Scudder Short-Term Bond Fund
Balanced account	Minnesota Mutual Managed Account
Equity Account	Fidelity Contrafund
International/Global account	Scudder International Fund

   Additional Products

   Janus Twenty Fund
   The Parnassus Fund
   Fidelity Growth and Income Portfolio
   Minnesota Mutual Growth Account II

   The Provider may add or substitute investment options only upon written agreement of the SBI and only 60 days after written notice to the SBI of such intention to add or substitute.

6. The Provider agrees to furnish data about itself (including, but not limited to, financial data permitting an assessment of its credit worthiness) and/or its annuity contracts when requested by the SBI, the ASA or the Higher Education Board. In addition, the

books, records, documents and accounting procedures and practices of the Provider relevant to the contract shall be subject to examination by the SBI, the Higher Education Board and the Minnesota Legislative Auditor of the State of Minnesota.

7. The Provider agrees to provide product information, forms, and communication materials to the Plans' ASA for distribution to participants. The Provider agrees to make presentations to participant groups at the times, places, and frequency as arranged by the Plans' ASA.

8. To the extent permitted by law, the Provider will reimburse the SBI for the Provider's pro-rata share (determined by dividing the total cost by the number of product providers) of costs incurred by SBI, including consultant fees, for its review of the Plans, up to a maximum of $50,000 for the life of the contract, without prior consent of the Provider. Payment shall be made based on an invoice prepared and submitted by the SBI. The invoice schedule will be determined by the SBI but the Provider will be invoiced no more often than quarterly. Payments are due 30 days from the date of receipt of the invoice by the Provider.

9. The Higher Education Board will have an unconditional ability to terminate the contract on June 30, 2000.

10. Subject to the Provider's right to cure, the contract may be terminated by the Higher Education Board for cause at any time during the contract term upon sixty (60) days written notice to the Provider. "Cause" is defined as:

    - Malfeasance, Misfeasance or Fraud.

    - Failure to perform any provision of the contract, subject to the Provider having 90 days to cure any failure of contract performance.

    - A material change in the Provider's financial position, defined as the occurrence of two or more of the following:

      Standard & Poor's rating falls to A+ or lower,

      Moody's rating falls to A3 or lower,

      Duff & Phelps rating falls to A+ or lower.

    However, in the event of any drop in ratings that is a result of a recalibration of the life insurance industry by any of the aforementioned rating agencies, the parties will use best efforts to cause this provision to be amended consistent with any such recalibration.

11. Participants who have begun receiving an annuity will not be affected by termination of the contract. In the event that the contract is terminated, either on the contract expiration date or before, the contract will include the following termination options:

a) A market value adjustment formula that will apply to fixed annuity balances only, and will not apply to variable fund balances. The Provider will pay the sum of the market value adjusted balances of participants to an investment company designated in writing by the SBI as the successor provider of the Plans or to the SBI within one hundred and eighty (180) days after the date deposits are no longer submitted to the Provider.

b) The Provider will pay the sum of the variable account balances of participants to a new investment company designated in writing by the SBI as the successor provider of the Plans or to the SBI within seven (7) business days after the date deposits are no longer submitted to the Provider.

c) No new contributions will be accepted by the Provider, but participants will continue to direct the investment of their existing balances under the program.

12. The Provider agrees that:

a) When making any benefit payments in accordance with the Plan, the Provider shall report to the Internal Revenue Service the amounts of such payments in accordance with Internal Revenue Service requirements.

b) The Provider agrees to withhold federal and state income taxes from benefit payments in accordance with instructions from the Plan participant as to the amounts to be withheld, or as is otherwise required by the Internal Revenue Service or by appropriate state tax authorities.

13. The Provider agrees that, with respect to matters relating to the Plan, the Provider will make information from its participant account records and aggregate level information from its participant account records available to the SBI, the Higher Education Board, and the ASA upon request. The Provider shall provide, at its expense, software to allow the Higher Education Board and the ASA access to the Provider's system of Plan participation information relating to the contract. All parties agree that Plan participant records are private and that only the product provider, the SBI, the Higher Education Board, and the ASA, where necessary, shall have access to such records.

14. The Provider agrees to comply in all areas with:

a) Rules of the Plans;

b) *Minnesota Statutes* Chapter 354B and Section 356.24, subd. 1 and any amendments thereto, provided such amendments do not impair a material provision of the Group Annuity Contract and this Agreement; and c). 401(a) of the Internal Revenue Code of 1986, as amended, or any rules and regulations thereunder.

15. No amendments to the contract shall be effective unless such amendment shall be in writing and signed by all of the parties thereto.

16. Any notice under the contract must be in writing and may be given by or on behalf of the Provider by delivering the same to the Higher Education Board or by mailing it to the Higher Education Board at its address of record with the Provider, and any notice to the Provider given by the Higher Education Board shall be in writing and mailed to the Provider at its Home Office. Any such notice shall be effective on the date of receipt unless the terms of the contract dictate otherwise.

17. The contract shall be construed according to the laws of Minnesota.

18. The Provider hereby agrees to indemnify and hold harmless the State of Minnesota, the Minnesota State Board of Investment, the Higher Education Board (herein collectively the "Boards"), each member of the Boards individually, the officers, and employees of each and every of the above, their successors, and any combination thereof, from all claims, demands, or causes of action arising out of an act or omission of the Provider related to the contract.

    The Provider shall reimburse the SBI or the Higher Education Board for all reasonable expenses incurred to defend and legal proceedings that may be brought against the State of Minnesota, the SBI, the Higher Education Board, each member of the Boards individually, the officers, and employees of each and every of the above, their successors, and any combination thereof, on any claim or demand arising out of an act or omission of the Provider related to the contract, and shall satisfy any judgment that may be rendered against such party or parties in respect to any such claim or demand. The SBI or the Higher Education Board shall notify the Provider upon receipt of any such claim or demand which it receives. Pursuant to *Minnesota Statutes* Section 8.06, the Minnesota Attorney General (or its designee) shall be the legal counsel for the State of Minnesota, the Boards, the members of the Boards individually, and the officers, agents and employees of the Boards or the State of Minnesota.

19. The Provider certifies that it has received a certificate of compliance from the Commissioner of Human Rights pursuant to *Minnesota Statutes* section 363.073.

20. To the extent the Provider has access to data of the State entities which is classified as private, nonpublic or confidential pursuant to the Minnesota Government Data Practices Act, *Minnesota Statutes* Chapter 13, the Provider agrees to comply with the requirements of *Minnesota Statutes* Chapter 13 in providing services under the contract. The Provider agrees to indemnify, save and hold harmless the State of Minnesota, the Minnesota State Board of Investment, the Higher Education Board, each member of the Boards individually, the officers, and employees of each and

every of the above, from all claims, demands, or causes of action arising out of, resulting from any act or omission of the Provider or in any violation by the Provider of any provision of the Minnesota Government Data Practices Act, *Minnesota Statutes* Chapter 13, including legal fees and disbursements paid or incurred to enforce this provision of the contract. In the event the Provider subcontracts any or all of the work to be performed under contract, the Provider shall retain responsibility under this paragraph for compliance with the Minnesota Government Data Practices Act.

21. Any waiver at any time by either party hereto of any right with respect to any matter arising in connection with the contract shall not be deemed to be a waiver with respect to any subsequent matter.

22. The Provider shall assign to the State of Minnesota any and all claims for overcharges as goods and/or services provided in connection with the contract resulting from antitrust violations which arise under the antitrust laws of the United States and the antitrust laws of the State of Minnesota.

23. The provisions relating to portability, fees, and responsibilities of the Provider shall survive any termination of the contract.

24. This Agreement shall be effective beginning July 1, 1995. Effective July 1, 1995 all references in this contract to the Minnesota Higher Education Board shall refer to the Board of Trustees of the Minnesota State Colleges and Universities.

Higher Education Board

By: ______________________ ______________________Date

Name: ______________________

Title: ______________________

The Minnesota Mutual Life Insurance Company

By: ______________________ ______________________Date

Name: ______________________

Title: ______________________

By: ______________________ ______________________Date

Name: ______________________

Title: ______________________

STATE OF MINNESOTA
THE OFFICE OF THE ATTORNEY GENERAL

By: ______________________

Name: ______________________

Title: ______________________

STATE OF MINNESOTA
DEPARTMENT OF ADMINISTRATION

By: ______________________

Name: ______________________

Title: ______________________

STATE OF MINNESOTA
DEPARTMENT OF FINANCE

By: ______________________

Name: ______________________

Title: ______________________

Annuity Contract, Specimen Group Annuity Certificate, and Agreement with VALIC

VALIC

★ An American General Company

The Variable Annuity
Life Insurance Company
2929 Allen Parkway
Houston, Texas 77019

CONTRACT OWNER: BOARD OF TRUSTEES OF THE MINNESOTA STATE COLLEGES AND UNIVERSITIES

CONTRACT NUMBER: 25012 **DATE OF ISSUE:** JULY 1, 1995

In return for Purchase Payment(s), VALIC will pay annuity and other benefits as provided in this Contract.

PLEASE READ YOUR CONTRACT CAREFULLY
See Index on Page 2

- **Maintenance Charge** -- There is no account maintenance charge.
- **Separate Account Charge** -- There is a daily charge against the Separate Account at an annual rate ranging from 1% to 1.25% of the average daily net asset value of the Separate Account, based upon the Variable Investment Option to which assets are allocated. This charge only applies to assets under Variable Investment Options. See Section 2.06 for a complete description.
- **Cash Surrender or Withdrawal Charge** -- There is no charge at the time of surrender or withdrawal.

The conditions and provisions on this and the following pages are the entire legal Contract between VALIC and the Contract Owner. No agent has the authority to change this Contract or waive any of its provisions. Only the President or a Vice President of VALIC may change this Contract. Any such changes must be in writing. All conditions and provisions are subject to applicable state laws.

EXECUTED AT VALIC'S HOME OFFICE ON THE DATE OF ISSUE.

Cynthia A. Toles

(Secretary)

(President)

ANNUITY PAYMENTS AND SURRENDER VALUES PROVIDED BY THIS CONTRACT WHEN BASED ON INVESTMENT EXPERIENCE OF THE SEPARATE ACCOUNT ARE VARIABLE AND ARE NOT GUARANTEED AS TO FIXED DOLLAR AMOUNT.

GROUP FIXED AND VARIABLE DEFERRED ANNUITY CONTRACT
INDIVIDUAL ALLOCATIONS
- NON-PARTICIPATING -

INDEX

Section 1 - DEFINITIONS

Accumulation Period - the time between the date of the first Purchase Payment and the Annuity Date for a Participant.

Accumulation Value - equals the sum of the values of the Fixed Interest Options and Variable Investment Options allocated to a Participant Account that have not been applied to provide annuity payments.

Annuity Period - the time during which VALIC makes annuity payments.

Certificate Year - a twelve month period starting with the issue date of a Participant's certificate and each anniversary of that date.

Code - the Internal Revenue Code of 1986, as amended.

Company Reference - "We," "Our," "Us," or "VALIC," means The Variable Annuity Life Insurance Company.

Contract Owner - the employer or other entity that makes application for the Contract.

Investment Fund - an investment portfolio which is the underlying investment medium for a Variable Investment Option.

General Account - the assets of VALIC other than those in the Separate Account or any other segregated asset account.

Home Office - the principal office of VALIC.

Participant - a person for whom or with respect to whom Purchase Payments are made under the Contract.

Participant Account - an individual account which is established for a Participant to record the Accumulation Value for the Participant.

Plan - the employer-sponsored retirement plan, annuity purchase arrangement, or deferred compensation program for which this Contract is issued.

Purchase Payment - an amount paid to VALIC for allocation to a Participant Account.

Separate Account - a segregated asset account established under the Texas Insurance Code (known as Separate Account A).

Surrender Value - the Accumulation Value of a Participant Account less any applicable surrender charge.

Section 2 - CONTRACT AND PURCHASE PAYMENTS

2.01 **Incontestability** - This Contract is incontestable. This Contract is non-participating and does not share in the profits or surplus of VALIC.

2.02 **Minimum Contract Value** - We can distribute the Surrender Value if the Accumulation Value for the Participant Account falls below $300 and there are no Purchase Payments for two Certificate Years.

2.03 **Plan Provisions** - As further explained in Section 5, this Contract is subject to the provisions of the Plan. To the extent provided by the Plan, any rights that may be exercised by a Participant under this Contract may instead be exercised by the Contract Owner or a Plan representative.

2.04 **Purchase Payments** - Purchase Payments may be made at any time during the Accumulation Period and may include amounts that are rolled over or directly transferred from another plan. We require no payment beyond the first. There is no penalty if any scheduled payments are omitted or stopped.

If only one Purchase Payment is to be allocated to a Participant's Account, it must be at least $1,000. Periodic payments must be at least $30 each. VALIC may waive this minimum.

We may deduct amounts from Purchase Payments or from the Accumulation Value for applicable premium taxes. We will allocate the net Purchase Payment to one or more Investment Options according to the Participant's directions unless the Contract Owner has retained that right under the Plan.

2.05 **Maintenance Charge** - There is no maintenance charge.

2.06 **Separate Account Charge** - We deduct a daily charge from the Separate Account. The amount of the charge depends on the Variable Investment Option from which it is deducted, and is imposed at an annual rate which ranges from 1% to 1.25% of the assets of the Variable Investment Option.

Section 3 - INVESTMENT OPTIONS

We will allocate Purchase Payments (less any charges) to one or more Investment Options selected by the Participant. We reserve the right to limit allocations among Investment Options to seven at any one time. Each selection must be a whole percentage of Purchase Payments.

3.01 **Fixed Interest Options** - Fixed Interest Options are based on the General Account. Allocations to Fixed Interest Options earn interest as credited by VALIC during the Accumulation Period. The interest credited will be at least 3% per year.

There are two Fixed Interest Options: Short Term Fixed Account and Fixed Account Plus.

(a) Short Term Fixed Account. We will credit interest to the Short Term Fixed Account on a portfolio basis. On the portfolio basis, all amounts accumulated will be credited with the same rate of interest for the current period.

(b) Fixed Account Plus. We will credit interest to the Fixed Account Plus on the following basis. Periodically, but not less than annually, We will declare interest rates that apply separately to amounts accumulated in separate time periods.

3.02 **Variable Investment Options** - Variable Investment Options are based upon Investment Funds available within Separate Account A. Separate Account A invests in a number of Investment Funds. Each Investment Fund underlying a Variable Investment Option has a different investment objective. Investment returns on Variable Investment Options may be positive or negative.

3.03 **Accumulation Unit** - An Accumulation Unit is a measuring unit for amounts allocated to a Variable Investment Option before annuity payments begin. The value of an Accumulation Unit will vary with the net investment return of the respective underlying Investment Fund. Accumulation Units may be credited to the Participant's Account due to a Purchase Payment or a transfer from another Investment Option. The number of Accumulation Units credited to the Participant's Account is determined by dividing the dollar amount of the transaction by the Accumulation Unit Value for that Variable Investment Option at the next time it is computed.

3.04 **Accumulation Unit Value** - The Accumulation Unit Value is the value of one Accumulation Unit of a Variable Investment Option. We will calculate it at the end of trading each day the New York Stock Exchange is open, except as otherwise permitted by the Securities and Exchange Commission. The value of an Accumulation Unit of a Variable Investment Option is the Accumulation Unit Value last computed, multiplied by one plus the Investment Rate for the period. The Investment Rate may be positive or negative.

The Investment Rate is the change in the value of the Investment Fund's portfolio (capital gains and losses whether or not realized and investment income) since the last computation, divided by the amount of assets at the beginning of the period, less a factor for

(a) the Separate Account Charge for the period at the applicable annualized rate ranging from 1% to 1.25%, and

(b) any taxes attributable to the Separate Account or reserve held for such taxes.

3.05 **Transfers During the Accumulation Period** - During the Accumulation Period, the Participant may transfer amounts among Investment Options, except as provided below.

(a) We reserve the right to limit allocations among Investment Options to seven at any one time.

(b) We reserve the right to require transfers to be at least 30 days apart.

(c) Transfers from the Short Term Fixed Account. After a transfer to the Short Term Fixed Account, the Participant may not make any transfer from the Short Term Fixed Account for 90 days. We may change this transfer restriction at any time. However, the transfer restriction period may not exceed 180 days.

(d) Transfers from Fixed Account Plus. The Participant may transfer up to 20% of the Accumulation Value allocated to Fixed Account Plus during each Certificate Year. If multiple transfers are made in a Certificate Year, the percentages of the Accumulation Value transferred each time will be added together to determine the 20% transfer limit for that Certificate Year. For each transfer, the percentage transferred is the ratio of the amount transferred to the portion of the Accumulation Value allocated to Fixed Account Plus immediately prior to the transfer. However, if following a 20% transfer, the remaining amount allocated to Fixed Account Plus would be less than $500, the Participant may transfer the remaining amount.

A withdrawal for the purpose of transfers from Fixed Account Plus to another funding entity counts as a transfer or withdrawal under Section 4.01 of this Contract.

3.06 **Transfers During the Annuity Period** - During the Annuity Period, the Participant may transfer Annuity Unit values among the Variable Investment Options. The Participant may also transfer Annuity Unit values from the Variable Investment Options underlying a Variable Annuity to provide a Fixed Annuity. Transfers must be at least 365 days apart. We will not permit any transfer from a Fixed Annuity during the Annuity Period.

Section 4 - BENEFITS

4.01 **Cash Surrender or Withdrawal** - There is no charge for cash surrenders or withdrawals.

(a) Cash Surrender. Subject to the restrictions in Sections 5.01 and 5.05, the Participant may surrender the Participant Account before the Annuity Date for a cash payment equal to the Surrender Value as of the date We receive the request at the Home Office. The Surrender Value is the Accumulation Value.

The Surrender Value of the Fixed Interest Options will never be less than the amount of all Purchase Payments allocated to the Fixed Interest Options, less any amounts transferred to Variable Investment Options or withdrawn.

(b) Withdrawal. Subject to the restrictions in Sections 5.01 and 5.05, the Participant may withdraw a portion of the Accumulation Value in cash at any time before the Annuity Date.

4.02 **Transfer Restriction to Other Funding Entities** - Up to 20% of Fixed Account Plus may be withdrawn or transferred to another funding entity each Certificate Year. However, if the Accumulation Value remaining under Fixed Account Plus would be less than $500, such value may be transferred in full at that time. A transfer from Fixed Account Plus to another Investment Option counts as a transfer or withdrawal under this section.

A Participant may choose to have Fixed Account Plus' Surrender Value transferred to another funding entity in one of two ways:

(a) Five Year Equal Amount Installment Method. The interest rate during the five year payout period will be declared in advance by VALIC. No other withdrawals may be made once payments begin.

(b) Decreasing Balance Method. Under this method, 1/5 of the account balance will be transferred the first year; 1/4 of the remaining balance the second year; 1/3 of the remaining balance the third year; 1/2 of the remaining balance the fourth year; the entire remaining balance the fifth year. Interest under this method will be credited at a rate determined by VALIC. Withdrawals may be made under this method.

4.03 **Conditions Under Which the Transfer Restriction to Other Funding Entities Will Not Apply** - There is no restriction on transfers from Fixed Account Plus to another funding entity under any of the following conditions:

(a) The Participant elects an Annuity Income Option; or

(b) After the death of the Participant; or

(c) The Participant has become totally and permanently disabled (see Section 5.01(c)); or

(d) The Participant is separated from service with the employer that maintains the Plan; or

(e) The Participant is retired from service with the employer that maintains the Plan; or

(f) To the extent that a withdrawal or surrender is made on account of a hardship under the terms of the employer's Plan.

4.04 **Annuity Period** - The Annuity Period begins at the Annuity Date, when the Participant's Accumulation Value is applied under an Annuity Income Option. The Participant may change the Annuity Date shown on the first page of the Participant Certificate by giving Us at least 30 days notice. The selected Annuity Date may be the first day of any calendar month, but if the Participant chooses a life income option, the Annuity Date may not precede the Participant's 50th birthday without Our permission.

4.05 **Starting Annuity Income Benefits** - At least 30 days in advance of the Annuity Date, the Participant must choose one of the Annuity Income Options in Section 4.09 and provide acceptable proof of age for any person whose age is taken into account under a life income option. If the Participant fails to select another Annuity Income Option, annuity payments will be made on the basis of the Second Option with payments guaranteed for a ten-year period, commencing on the Annuity Date.

4.06 **Partial Annuitization** - The Participant may choose to apply less than the full Accumulation Value under an Annuity Income Option and may choose different Annuity Dates and different Annuity Income Options for different portions of the Accumulation Value. Therefore, the Contract may, at times, be in both an Accumulation Period and an Annuity Period. If the Participant chooses to do this, the provisions of the Contract relating to the Accumulation Period and the Annuity Period will be applied as though there were separate Contracts.

4.07 **Minimum Annuity Payments** - The Participant may not choose any Annuity Income Option if the resulting initial payment would be less than $25 under either a Fixed or Variable Annuity. We reserve the right to convert monthly payments to quarterly, semi-annual or annual payments so the initial payment will be at least $25.

4.08 **Misstatement of Age** - If annuity payments depend upon an individual's survival and the date of birth of any individual was misstated, We will adjust the remaining payments. The amount remaining to be paid will be the amount that should have been paid with the correct information. We will credit or charge the amount of any underpayment or overpayment against the next succeeding payment or payments, if any remain. We reserve the right to collect any overpayment directly from the payee.

4.09 **Annuity Income (Payment) Options** - The Participant may choose to receive payments under any of the Annuity Income Options below or any other option agreed to by VALIC. Any option chosen must comply with applicable state and federal laws and regulations.

FIRST OPTION - Life Annuity With No Guarantee Period - An income payable during the Participant's life. All payments cease at the Participant's death with no further amounts payable.

SECOND OPTION - Life Annuity With Guarantee Period of 5, 10, 15, or 20 Years - An income payable during the Participant's life. If, at the Participant's death, We have made payments for fewer than the number of years selected, We will continue payments to the Beneficiary for the remainder of the guarantee period.

THIRD OPTION - Life Annuity With Cash or Unit Refund Option - An income payable during the Participant's life. Payments cease at the Participant's death. However, the Beneficiary may receive an additional payment.

For payments on a Fixed Annuity basis, the additional payment, if any, will be the Accumulation Value applied to this option less the total of all prior payments.

For payments on a Variable Annuity basis, the additional payment, if any, will be the current value of the number of Annuity Units credited at the Annuity Date less the number of Annuity Units that have been paid. For this purpose, the number of Annuity Units credited equals the Accumulation Value applied to this option divided by the Annuity Unit Value at the date used to calculate the first annuity payment.

FOURTH OPTION - Joint and Survivor Life Annuity - An income payable during the joint lives of the Participant and a second person and thereafter during the life of the survivor.

FIFTH OPTION - Payments for a Designated Period - An income payable for a selected number of years between five and thirty. This option is available for Fixed Annuities only.

4.10 **Fixed or Variable Annuity Basis** - A Fixed Annuity provides benefit payments of a fixed dollar amount. A Variable Annuity provides benefit payments which vary with the investment return of the chosen Variable Investment Options.

The Participant may elect to receive payments under any annuity option as a Fixed Annuity, a Variable Annuity, or a combination Fixed and Variable Annuity. If the Participant makes no election, amounts in Fixed Interest Options will provide a Fixed Annuity and amounts in Variable Investment Options will provide a Variable Annuity.

4.11 **Variable Annuity Payments** - We will determine the amount of each Variable Annuity payment by multiplying the number of Annuity Units payable by the Annuity Unit Value on the tenth day (or the preceding business day if the tenth day is not a business day) prior to the payment due date.

We will determine the number of Annuity Units payable at the beginning of the Annuity Period. We will divide the dollar amount of the first payment by the Annuity Unit Value for that Variable Investment Option on the tenth day before the Annuity Date. The number of Annuity Units payable from each Variable Investment Option remains constant unless the Participant transfers a portion of the annuity benefit between the Variable Investment Options or from a Variable Annuity to a Fixed Annuity. However, the dollar amount payable is not fixed and may change from month to month.

4.12 **Assumed Investment Rate (AIR)** - Since the future rate of return on Variable Options is unknown, the Participant must choose an Assumed Investment Rate (AIR). The AIR is the assumed rate of return used to determine the first annuity payment for a Variable Annuity Option. Rates of 3%, 3 1/2%, 4 1/2%, 5% or a higher rate may be chosen if permitted by state law and regulations. If no AIR is chosen, the AIR will be 3 1/2%. A higher AIR will result in a higher initial payment. Choice of a lower AIR will result in a lower initial payment. Payments will increase whenever the actual return exceeds the chosen AIR. Payments will decrease whenever the actual return is less than the chosen AIR.

4.13 **Annuity Units and Annuity Unit Value** - An Annuity Unit is a measuring unit We use to determine the amount of the annuity payments to be made. All or a portion of the Accumulation Value is used to purchase a stream of annuity payments represented by a number of Annuity Units payable each period. The value of these Annuity Units represents the benefit amount paid each period.

For Fixed Annuity options the number of Annuity Units equals the dollar amount of each payment since the Annuity Unit Value is fixed at $1.00.

For Variable Annuity options, the Annuity Unit Value varies with the investment rate each period. The Annuity Unit Value is the value of one Annuity Unit of an Investment Option.

The value of a Variable Annuity Unit is A multiplied by B multiplied by C (AxBxC).

A = the Annuity Unit Value for the Variable Investment Option at the immediately preceding computation date

B = 1 + the investment rate for the variable fund for the period

C = the applicable AIR Factor from the following table raised to the power of the number of days in the period.

AIR	AIR Factor
3%	0.999919
3 1/2%	0.999906
4 1/2%	0.999879
5%	0.999866

4.14 **Betterment of Rates** - Fixed Annuity - We will use the applicable current settlement option rates if these will provide higher fixed annuity payments to the Participant. If a commutation (cash out of remaining annuity payments) is allowed, the rates previously used to calculate the annuity payments will be used for the commutation request.

4.15 **Annuity Rate Tables** - The value We use to determine annuity payments will be the applied portion of the Accumulation Value on the tenth day (or the preceding business day if the tenth day is not a business day) preceding the date of the first annuity payment. less any applicable premium taxes.

The following tables are based on the 1983a mortality table and assume births in the year 1900. The tables show the amount required to purchase a first monthly payment of $1.00. Quarterly, semiannual. and annual payments may also be selected.

The amount of each payment will depend upon the Annuitant's adjusted age at the time the first payment is due. Adjusted age will be determined in accordance with the following:

Calendar Year of Birth	Adjusted Age is Actual Age Minus
Before 1916	0
1916 - 1935	1
1936 - 1955	2
1956 - 1975	3
After 1975	4

Actual age, as used above, means the Annuitant's age at the birthday nearest to the Annuity Date.

Table A is the Table to use for Variable Annuities with a 3% AIR (see Section 4.12) and to determine the minimum guarantees for Fixed Annuities. Tables B, C, and D are to be used for Variable Annuities with 3 1/2%, 4 1/2% and 5% AIRs respectively.

TABLE A
DOLLAR AMOUNT REQUIRED TO PURCHASE AN ANNUITY WITH A FIRST MONTHLY PAYMENT OF $1.00 AT AN ASSUMED INVESTMENT RATE OF 3%

Options 1, 2 and 3 -- Single Life Annuities

	Monthly Payments Guaranteed					
Age	None	60	120	180	240	Unit Refund
50	$250.48	$250.83	$251.98	$254.04	$257.21	$259.24
51	246.41	246.79	248.04	250.27	253.72	255.69
52	242.26	242.68	244.03	246.45	250.21	252.09
53	238.03	238.49	239.95	242.58	246.69	248.43
54	233.73	234.23	235.81	238.67	243.15	244.71
55	229.35	229.88	231.60	234.72	239.60	240.94
56	224.89	225.46	227.32	230.73	236.05	237.12
57	220.34	220.96	222.98	226.71	232.52	233.24
58	215.71	216.38	218.59	222.65	229.01	229.31
59	210.99	211.72	214.14	218.58	225.54	225.33
60	206.19	206.99	209.63	214.50	222.12	221.29
61	201.30	202.18	205.08	210.42	218.75	217.19
62	196.35	197.31	200.50	206.34	215.47	213.04
63	191.32	192.39	195.88	202.30	212.28	208.83
64	186.24	187.41	191.25	198.29	209.20	204.54
65	181.11	182.40	186.61	194.34	206.25	200.18
66	175.92	177.34	181.97	190.46	203.44	195.73
67	170.70	172.26	177.35	186.66	200.79	191.41
68	165.43	167.15	172.75	182.97	198.31	186.93
69	160.13	162.01	168.18	179.39	196.00	182.35
70	154.78	156.86	163.66	175.95	193.89	178.01
71	149.41	151.71	159.21	172.66	191.97	173.43
72	144.01	146.56	154.85	169.54	190.26	169.01
73	138.61	141.44	150.59	166.61	188.73	164.46
74	133.21	136.35	146.45	163.88	187.41	159.83
75	127.84	131.33	142.46	161.36	186.26	155.48

Option 4 -- Joint and Survivor Life Annuity

Younger Annuitant: Age of Older Annuitant	Number of Years Younger Than Older Annuitant										
	0	1	2	3	4	5	6	7	8	9	10
50	$280.54	$282.36	$284.24	$286.16	$288.12	$290.13	$292.17	$294.25	$296.35	$298.47	$300.61
51	276.91	278.78	280.70	282.67	284.69	286.75	288.85	290.98	293.13	295.31	297.51
52	273.19	275.10	277.07	279.10	281.17	283.28	285.43	287.62	289.83	292.07	294.33
53	269.37	271.34	273.36	275.43	277.55	279.72	281.93	284.17	286.45	288.74	291.06
54	265.46	267.47	269.54	271.67	273.85	276.07	278.33	280.64	282.97	285.33	287.71
55	261.45	263.51	265.64	267.81	270.05	272.33	274.65	277.01	279.40	281.83	284.27
56	257.34	259.46	261.63	263.86	266.15	268.49	270.87	273.29	275.75	278.23	280.74
57	253.13	255.30	257.53	259.82	262.16	264.56	267.00	269.48	272.00	274.55	277.12
58	248.82	251.04	253.32	255.67	258.07	260.53	263.03	265.58	268.16	270.77	273.40
59	244.40	246.67	249.01	251.42	253.88	256.40	258.97	261.57	264.22	266.90	269.60
60	239.88	242.21	244.60	247.07	249.59	252.17	254.80	257.48	260.19	262.93	265.70
61	235.26	237.64	240.09	242.61	245.20	247.84	250.54	253.28	256.06	258.87	261.71
62	230.54	232.97	235.47	238.06	240.70	243.41	246.17	248.98	251.83	254.71	257.62
63	225.71	228.19	230.76	233.40	236.11	238.88	241.71	244.58	247.50	250.46	253.44
64	220.79	223.32	225.94	228.64	231.41	234.25	237.14	240.09	243.08	246.10	249.16
65	215.78	218.35	221.02	223.78	226.61	229.51	232.47	235.49	238.55	241.65	244.78
66	210.67	213.30	216.02	218.82	221.71	224.68	227.71	230.79	233.93	237.10	240.31
67	205.48	208.15	210.92	213.78	216.72	219.75	222.84	226.00	229.21	232.45	235.74
68	200.20	202.91	205.73	208.64	211.64	214.73	217.88	221.11	224.38	227.71	231.06
69	194.83	197.59	200.45	203.41	206.47	209.61	212.83	216.12	219.46	222.86	226.30
70	189.39	192.19	195.09	198.10	201.21	204.41	207.68	211.03	214.45	217.92	221.43
71	183.87	186.70	189.66	192.71	195.87	199.12	202.45	205.86	209.34	212.88	216.47
72	178.28	181.15	184.14	187.24	190.45	193.75	197.14	200.61	204.15	207.76	211.41
73	172.63	175.53	178.56	181.70	184.96	188.31	191.75	195.28	198.88	202.55	206.27
74	166.94	169.86	172.92	176.10	179.40	182.80	186.29	189.87	193.53	197.26	201.05
75	161.21	164.15	167.23	170.44	173.78	177.22	180.77	184.40	188.11	191.90	195.75

TABLE B
DOLLAR AMOUNT REQUIRED TO PURCHASE AN ANNUITY WITH A FIRST MONTHLY PAYMENT OF $1.00 AT AN ASSUMED INVESTMENT RATE OF 3 1/2%

Options 1, 2 and 3 -- Single Life Annuities

Age	Monthly Payments Guaranteed: None	60	120	180	240	Unit Refund
50	$233.36	$233.71	$234.82	$236.75	$239.66	$240.70
51	229.87	230.25	231.45	233.54	236.72	237.65
52	226.30	226.72	228.01	230.29	233.74	234.54
53	222.65	223.10	224.51	226.98	230.75	231.36
54	218.93	219.41	220.93	223.62	227.73	228.12
55	215.11	215.64	217.28	220.22	224.70	224.82
56	211.21	211.78	213.57	216.77	221.66	221.45
57	207.23	207.84	209.79	213.28	218.62	218.02
58	203.15	203.81	205.94	209.76	215.60	214.53
59	198.98	199.70	202.03	206.21	212.60	210.96
60	194.73	195.51	198.06	202.64	209.63	207.33
61	190.38	191.24	194.04	199.05	206.70	203.63
62	185.95	186.90	189.97	195.47	203.84	199.85
63	181.45	182.50	185.86	191.89	201.06	195.99
64	176.88	178.03	181.73	188.35	198.37	192.18
65	172.25	173.52	177.57	184.84	195.78	188.25
66	167.56	168.95	173.41	181.39	193.31	184.24
67	162.81	164.34	169.24	178.00	190.97	180.31
68	158.01	159.70	165.09	174.70	188.78	176.25
69	153.16	155.01	160.95	171.49	186.75	172.11
70	148.26	150.30	156.85	168.40	184.88	168.10
71	143.31	145.57	152.79	165.44	183.18	163.94
72	138.33	140.83	148.81	162.62	181.65	159.70
73	133.32	136.10	144.91	159.98	180.30	155.66
74	128.31	131.39	141.11	157.51	179.12	151.45
75	123.30	126.73	137.44	155.22	178.10	147.15

Option 4 -- Joint and Survivor Life Annuity

Younger Annuitant: Age of Older Annuitant	Number of Years Younger Than Older Annuitant: 0	1	2	3	4	5	6	7	8	9	10
50	$259.51	$261.02	$262.56	$264.14	$265.75	$267.38	$269.05	$270.72	$272.42	$274.13	$275.84
51	256.50	258.05	259.64	261.26	262.92	264.61	266.32	268.06	269.80	271.57	273.33
52	253.39	254.99	256.63	258.30	260.01	261.75	263.52	265.30	267.11	268.92	270.75
53	250.19	251.84	253.53	255.25	257.01	258.80	260.62	262.47	264.33	266.20	268.08
54	246.90	248.59	250.33	252.11	253.92	255.77	257.64	259.54	261.46	263.39	265.33
55	243.51	245.25	247.04	248.87	250.74	252.64	254.57	256.53	258.51	260.50	262.50
56	240.02	241.82	243.66	245.54	247.47	249.42	251.41	253.43	255.46	257.52	259.58
57	236.43	238.28	240.17	242.11	244.09	246.11	248.16	250.23	252.33	254.44	256.57
58	232.74	234.64	236.59	238.58	240.62	242.70	244.81	246.94	249.10	251.28	253.47
59	228.94	230.89	232.90	234.95	237.05	239.19	241.36	243.56	245.78	248.03	250.28
60	225.03	227.04	229.10	231.22	233.38	235.58	237.81	240.08	242.37	244.68	247.00
61	221.02	223.08	225.20	227.38	229.60	231.87	234.17	236.50	238.85	241.23	243.62
62	216.90	219.02	221.20	223.43	225.72	228.05	230.42	232.82	235.24	237.69	240.15
63	212.68	214.85	217.09	219.38	221.73	224.13	226.56	229.03	231.53	234.05	236.58
64	208.35	210.58	212.87	215.23	217.64	220.10	222.61	225.15	227.71	230.31	232.91
65	203.92	206.20	208.55	210.97	213.44	215.97	218.55	221.16	223.80	226.46	229.15
66	199.40	201.73	204.13	206.60	209.14	211.74	214.38	217.06	219.78	222.52	225.28
67	194.78	197.16	199.61	202.14	204.74	207.40	210.11	212.87	215.66	218.48	221.31
68	190.06	192.49	195.00	197.58	200.24	202.96	205.74	208.57	211.43	214.33	217.24
69	185.25	187.72	190.28	192.92	195.64	198.42	201.27	204.16	207.10	210.07	213.07
70	180.35	182.87	185.48	188.17	190.95	193.79	196.70	199.66	202.67	205.72	208.79
71	175.35	177.92	180.58	183.33	186.16	189.06	192.03	195.06	198.14	201.26	204.41
72	170.28	172.89	175.60	178.40	181.28	184.24	187.27	190.37	193.51	196.70	199.93
73	165.14	167.78	170.53	173.38	176.32	179.34	182.43	185.58	188.80	192.06	195.36
74	159.93	162.60	165.39	168.29	171.28	174.35	177.50	180.72	183.99	187.32	190.69
75	154.67	157.37	160.19	163.13	166.16	169.29	172.49	175.77	179.11	182.51	185.95

TABLE C
DOLLAR AMOUNT REQUIRED TO PURCHASE AN ANNUITY WITH A FIRST MONTHLY PAYMENT OF $1.00 AT AN ASSUMED INVESTMENT RATE OF 4 1/2%

Options 1, 2 and 3 -- Single Life Annuities

	Monthly Payments Guaranteed					
Age	None	60	120	180	240	Unit Refund
50	$204.42	$204.75	$205.77	$207.48	$209.94	$209.57
51	201.83	202.19	203.30	205.15	207.83	207.29
52	199.16	199.55	200.75	202.77	205.68	204.94
53	196.41	196.84	198.14	200.33	203.51	202.52
54	193.58	194.05	195.45	197.84	201.30	200.04
55	190.67	191.17	192.70	195.30	199.07	197.48
56	187.67	188.21	189.87	192.70	196.83	194.84
57	184.58	185.17	186.97	190.07	194.57	192.18
58	181.40	182.04	184.00	187.39	192.31	189.42
59	178.12	178.82	180.97	184.67	190.06	186.59
60	174.75	175.51	177.87	181.92	187.82	183.68
61	171.28	172.12	174.70	179.14	185.60	180.76
62	167.73	168.64	171.48	176.35	183.42	177.73
63	164.09	165.09	168.21	173.55	181.29	174.63
64	160.36	161.48	164.90	170.76	179.22	171.46
65	156.57	157.79	161.55	167.99	177.22	168.31
66	152.70	154.05	158.18	165.24	175.31	165.04
67	148.76	150.24	154.78	162.54	173.49	161.70
68	144.75	146.38	151.38	159.88	171.78	158.28
69	140.67	142.46	147.97	157.30	170.19	154.96
70	136.53	138.50	144.57	154.80	168.72	151.48
71	132.31	134.50	141.20	152.39	167.38	147.92
72	128.04	130.46	137.87	150.10	166.17	144.48
73	123.73	126.41	134.59	147.93	165.10	140.90
74	119.38	122.37	131.39	145.90	164.16	137.25
75	115.01	118.33	128.27	144.02	163.35	133.53

Option 4 -- Joint and Survivor Life Annuity

Younger Annuitant:	Number of Years Younger Than Older Annuitant										
Age of Older Annuitant	0	1	2	3	4	5	6	7	8	9	10
50	$224.40	$225.44	$226.49	$227.57	$228.65	$229.75	$230.86	$231.97	$233.08	$234.19	$235.30
51	222.31	223.38	224.48	225.60	226.73	227.87	229.02	230.17	231.33	232.49	233.65
52	220.13	221.25	222.39	223.55	224.72	225.91	227.11	228.31	229.52	230.72	231.93
53	217.87	219.03	220.22	221.42	222.64	223.88	225.12	226.37	227.63	228.88	230.14
54	215.52	216.73	217.96	219.21	220.48	221.76	223.06	224.36	225.66	226.97	228.27
55	213.08	214.34	215.61	216.91	218.23	219.56	220.91	222.26	223.62	224.98	226.33
56	210.55	211.85	213.18	214.53	215.90	217.28	218.68	220.08	221.49	222.91	224.32
57	207.92	209.27	210.65	212.05	213.47	214.91	216.36	217.82	219.29	220.76	222.22
58	205.19	206.59	208.03	209.48	210.96	212.45	213.96	215.48	217.00	218.52	220.05
59	202.36	203.82	205.30	206.81	208.35	209.90	211.46	213.04	214.62	216.20	217.79
60	199.43	200.94	202.48	204.05	205.64	207.25	208.87	210.51	212.15	213.80	215.44
61	196.39	197.95	199.55	201.18	202.83	204.50	206.19	207.89	209.59	211.30	213.01
62	193.24	194.86	196.51	198.20	199.91	201.65	203.40	205.16	206.94	208.71	210.48
63	189.98	191.66	193.37	195.12	196.90	198.70	200.51	202.34	204.18	206.03	207.87
64	186.62	188.35	190.13	191.93	193.77	195.64	197.53	199.42	201.33	203.24	205.16
65	183.16	184.94	186.77	188.64	190.55	192.48	194.43	196.40	198.38	200.36	202.35
66	179.59	181.42	183.31	185.24	187.21	189.21	191.23	193.27	195.32	197.38	199.44
67	175.91	177.80	179.75	181.74	183.77	185.83	187.93	190.04	192.16	194.30	196.43
68	172.13	174.07	176.07	178.12	180.22	182.35	184.51	186.70	188.90	191.11	193.32
69	168.24	170.24	172.30	174.41	176.56	178.76	180.99	183.25	185.52	187.81	190.10
70	164.24	166.30	168.41	170.58	172.80	175.06	177.36	179.69	182.04	184.41	186.78
71	160.14	162.25	164.42	166.65	168.94	171.26	173.63	176.03	178.46	180.90	183.35
72	155.95	158.10	160.33	162.62	164.97	167.36	169.80	172.27	174.77	177.28	179.82
73	151.66	153.86	156.15	158.49	160.90	163.36	165.86	168.40	170.97	173.57	176.18
74	147.29	149.54	151.87	154.27	156.74	159.26	161.83	164.44	167.08	169.75	172.44
75	142.84	145.13	147.50	149.96	152.48	155.07	157.70	160.38	163.10	165.84	168.60

TABLE D
DOLLAR AMOUNT REQUIRED TO PURCHASE AN ANNUITY WITH A FIRST MONTHLY PAYMENT OF $1.00 AT AN ASSUMED INVESTMENT RATE OF 5%

Options 1, 2 and 3 -- Single Life Annuities

Age	Monthly Payments Guaranteed: None	60	120	180	240	Unit Refund
50	$192.14	$192.47	$193.45	$195.06	$209.94	$196.46
51	189.89	190.25	191.32	193.06	195.52	194.47
52	187.57	187.96	189.12	191.01	193.69	192.45
53	185.18	185.60	186.85	188.91	191.83	190.34
54	182.70	183.16	184.51	186.76	189.94	188.17
55	180.14	180.64	182.11	184.55	188.03	185.92
56	177.50	178.04	179.63	182.30	186.09	183.60
57	174.77	175.35	177.09	180.00	184.14	181.21
58	171.95	172.58	174.47	177.65	182.18	178.81
59	169.03	169.71	171.79	175.27	180.22	176.29
60	166.02	166.77	169.04	172.85	178.27	173.70
61	162.91	163.73	166.22	170.40	176.34	171.03
62	159.72	160.62	163.35	167.93	174.43	168.35
63	156.43	157.42	160.43	165.45	172.56	165.57
64	153.06	154.16	157.45	162.97	170.74	162.71
65	149.62	150.82	154.44	160.50	168.98	159.78
66	146.09	147.42	151.40	158.04	167.30	156.86
67	142.49	143.95	148.32	155.62	165.69	153.83
68	138.82	140.42	145.24	153.24	164.18	150.73
69	135.07	136.83	142.14	150.92	162.77	147.55
70	131.25	133.19	139.04	148.66	161.46	144.44
71	127.35	129.50	135.96	146.49	160.27	141.20
72	123.39	125.77	132.90	144.42	159.20	137.89
73	119.38	122.02	129.89	142.45	158.24	134.51
74	115.32	118.25	126.94	140.61	157.41	131.31
75	111.23	114.50	124.08	138.90	156.68	127.92

Option 4 -- Joint and Survivor Life Annuity

Younger Annuitant: Age of Older Annuitant	Number of Years Younger Than Older Annuitant: 0	1	2	3	4	5	6	7	8	9	10
50	$209.69	$210.56	$211.44	$212.32	$213.22	$214.12	$215.03	$215.93	$216.84	$217.74	$218.64
51	207.94	208.84	209.76	210.69	211.62	212.56	213.51	214.46	215.41	216.35	217.29
52	206.11	207.05	208.01	208.98	209.96	210.94	211.93	212.92	213.91	214.90	215.88
53	204.21	205.19	206.18	207.19	208.21	209.24	210.28	211.31	212.35	213.38	214.40
54	202.21	203.24	204.28	205.33	206.40	207.47	208.55	209.63	210.71	211.79	212.86
55	200.14	201.21	202.29	203.39	204.50	205.62	206.75	207.88	209.01	210.13	211.25
56	197.97	199.09	200.22	201.37	202.53	203.69	204.87	206.05	207.22	208.40	209.57
57	195.72	196.88	198.06	199.26	200.46	201.68	202.91	204.14	205.37	206.60	207.82
58	193.37	194.58	195.81	197.05	198.32	199.59	200.86	202.15	203.43	204.71	205.99
59	190.92	192.18	193.46	194.76	196.07	197.40	198.73	200.07	201.41	202.75	204.08
60	188.36	189.68	191.01	192.37	193.74	195.12	196.51	197.91	199.30	200.70	202.09
61	185.71	187.08	188.47	189.88	191.31	192.75	194.20	195.65	197.11	198.56	200.01
62	182.95	184.37	185.82	187.29	188.78	190.28	191.79	193.31	194.83	196.34	197.85
63	180.09	181.56	183.07	184.60	186.15	187.71	189.28	190.87	192.45	194.03	195.61
64	177.12	178.65	180.21	181.80	183.41	185.04	186.68	188.33	189.98	191.62	193.27
65	174.04	175.63	177.25	178.90	180.57	182.26	183.97	185.69	187.40	189.12	190.83
66	170.86	172.50	174.18	175.89	177.62	179.38	181.16	182.94	184.73	186.52	188.30
67	167.57	169.27	171.00	172.77	174.57	176.40	178.24	180.10	181.96	183.82	185.68
68	164.18	165.93	167.72	169.55	171.41	173.30	175.21	177.14	179.08	181.01	182.95
69	160.67	162.48	164.33	166.22	168.14	170.10	172.08	174.08	176.09	178.10	180.11
70	157.06	158.92	160.83	162.78	164.77	166.79	168.84	170.91	173.00	175.09	177.18
71	153.34	155.25	157.22	159.23	161.29	163.38	165.50	167.64	169.80	171.96	174.13
72	149.51	151.48	153.51	155.58	157.70	159.86	162.05	164.26	166.49	168.74	170.98
73	145.59	147.61	149.69	151.83	154.01	156.24	158.49	160.78	163.08	165.40	167.73
74	141.58	143.65	145.78	147.97	150.22	152.51	154.84	157.19	159.57	161.97	164.37
75	137.49	139.59	141.77	144.02	146.33	148.68	151.08	153.51	155.96	158.43	160.91

DOLLAR AMOUNT REQUIRED TO PURCHASE AN ANNUITY WITH A FIRST MONTHLY PAYMENT OF $1.00

Option 5 -- Payment for a Designated Period

Years of Payment		Years of Payment	
5	$ 55.83	18	$167.79
6	66.05	19	174.52
7	75.99	20	181.49
8	85.62	21	187.97
9	94.97	22	194.17
10	104.06	23	200.40
11	112.87	24	206.61
12	121.36	25	212.31
13	129.70	26	217.86
14	137.74	27	223.71
15	145.56	28	228.83
16	153.14	29	234.19
17	160.51	30	239.23

Frequency of Payments. Annuity payments under this Contract will be made monthly. If such payments would amount to less than $25 each, We reserve the right to make less frequent payments. If at any time the annual rate of payment to any payee is less than $100, We may make a lump sum payment of the remaining annuity value.

4.16 Beneficiaries

(a) Definition of Beneficiary. A Beneficiary is the person or entity the Participant designates to receive any benefits payable upon the Participant's death.

(b) Designation of Beneficiary. During the Participant's lifetime, he or she has the right to designate a Beneficiary and to change the designation. The change may be made by sending a written request to Our Home Office. The change will take effect when We have recorded the change. However, after the change is recorded, the change will be deemed effective as of the date of the written request for change. The change will be subject to any payment made or action taken by Us before the request is recorded.

(c) Payments to Beneficiary. Unless otherwise provided in the Beneficiary designation:

(1) If any Beneficiary dies prior to the Participant, that Beneficiary's interest will pass to any other Beneficiary according to the surviving Beneficiary's respective interest.

(2) If no Beneficiary survives the Participant, death benefits will be paid to the Participant's estate.

(3) If any Beneficiary dies after the Participant, that Beneficiary's interest will pass to his or her Beneficiary or, if none, to his or her estate.

(d) Simultaneous Death Provision. If We cannot determine whether the Participant or a Beneficiary died first in a common disaster. We will assume that the Beneficiary died first and make payments on that basis.

(e) Multiple Beneficiaries. The Participant may designate two or more Beneficiaries to receive separate percentage interests in the death benefits payable under this Contract. Each such Beneficiary may separately exercise the rights that a Beneficiary has under this Contract.

(f) Trust or Estate as Beneficiary. Payments to a beneficiary that is a trust or estate will be made only in a lump sum or in installments over a period not to exceed five years.

4.17 Death Payment Provisions

(a) Death During Accumulation Period. If the Participant dies during the Accumulation Period, a death benefit described in (1) or (2) below is payable.

(1) If the Participant dies on or after age 70, the death benefit is the greater of (a) the Accumulation Value of the Participant's Account on the date We receive proof of death, or (b) 100% of Purchase Payments reduced by the amount of any prior withdrawals and further reduced by any portion of the Accumulation Value that has been applied under an Annuity Income Option.

(2) If the Participant dies before age 70, the death benefit is the sum of the benefits under the Fixed Interest Options and the Variable Investment Options, as follows:

The benefit under the Fixed Interest Options is the greater of:

(a) the Fixed Interest Option Values on the date We receive proof of death; or

(b) 100% of Purchase Payments allocated to the Fixed Interest Options, reduced by the amount of any prior withdrawals or transfers from Fixed Interest Options and further reduced by any portion of the Accumulation Value that has been applied under an Annuity Income Option.

The benefit under the Variable Investment Options is the greater of:

(a) the Variable Investment Option Values on the date We receive proof of death, or

(b) 100% of Purchase Payments allocated to Variable Investment Options reduced by the amount of any prior withdrawals or transfers from the Variable Investment Options, plus interest at an annual rate of 3%. For this purpose, all amounts transferred into Variable Investment Options are considered Purchase Payments allocated to Variable Investment Options.

Subject to Section 5.03, the death benefit is payable at any time the Participant's Beneficiary selects and in any form the Participant could have selected under this Contract.

(b) Death During Annuity Period. If the Participant dies during the Annuity Period, the amount of the death benefit, if any, will be based on the terms of the Annuity Income Option. Unless the Participant elected the Fourth Option, the Beneficiary may elect to receive the death benefit in one of the following forms:

(1) Continuing annuity payments under the terms of the Participant's Annuity Income Option with the right, for Variable Annuities only, to receive the remaining payments in a lump sum at any time thereafter;

(2) A lump sum; or

(3) Annuity payments under another Annuity Income Option, based on the available lump sum and subject to the limitations of Section 5.03.

The lump sum available under these alternatives is the present value of remaining payments, discounted at the Assumed Investment Rate, and based on the current Annuity Unit Value for (2) and (3), or the value next determined after receipt of the request at VALIC's Home Office for (1).

(c) Investment Options and Other Rights. Until the death benefits have been fully paid, the Participant's Beneficiary will be entitled to exercise all the Investment Options and other rights the Participant can exercise under this Contract. Unpaid death benefits that have not been applied under an Annuity Income Option will have an Accumulation Value determined in the same manner as the Participant's Accumulation Value.

(d) Proof of Death. Proof of death may be made by sending VALIC a certified copy of the death certificate, a certified copy of a decree of a court of competent jurisdiction as to death, a written statement by an attending physician, or any other proof satisfactory to VALIC .

Section 5 - CODE REQUIREMENTS AND RETIREMENT PLAN PROVISIONS

5.01 **Salary Reduction Purchase Payments** - If the Participant's Purchase Payments are made under a voluntary salary reduction agreement as part of a Tax-Deferred Annuity arrangement under Section 403(b) of the Code, i) there may not be a separate Plan document, in which case the Contract is the Plan, and ii) in either case the following restrictions apply:

(a) Limit on Purchase Payments. A Participant's salary reduction Purchase Payments may not exceed the limits of Section 402(g) of the Code. We reserve the right to refund excess Purchase Payments.

(b) Withdrawal Restrictions. The Participant's Accumulation Value attributable to salary reduction Purchase Payments cannot be withdrawn or otherwise distributed before the Participant is 59 1/2 years old, unless the Participant (1) has separated from service with the employer maintaining the Plan, (2) dies, (3) becomes disabled (see Section 5.01(c) below), or (4) has incurred a hardship (hardship withdrawals are not available for earnings on salary reduction purchase payments). This limitation will be applied in a manner consistent with the requirements of Section 403(b)(11) of the Code. Equivalent withdrawal restrictions apply to any portion of the Accumulation Value that is attributable to Purchase Payments representing amounts directly transferred from a custodial account under Section 403(b)(7) of the Code.

(c) Total and Permanent Disability. This means that the Participant is unable, because of physical or mental impairment, to perform the material and substantial duties of any occupation for which the Participant is suited by means of education, training or experience. The impairment must have been in existence for more than 180 days to qualify for this benefit.

Such impairment must be expected to result in death or be long-standing and indefinite.

We require proof of disability. We will accept a certified Social Security finding of disability or a doctor's verification.

5.02 **Minimum Distributions After Age 70 1/2**

(a) General Rules. The Participant's benefits under the Contract must satisfy minimum distribution rules of the applicable section of the Code and regulations issued by the Secretary of the Treasury under the applicable section. These minimum distribution rules generally require that benefits begin after the Participant is 70 1/2 years old and that the minimum amount is paid each year. Payments may be made in the form of annual withdrawals or under an Annuity Income Option.

Code Sections which apply are: (i) Section 401(a)(9) for contracts issued for a Plan intended to meet Sections 401(a) and/or 403(a), (ii) Section 403(b)(10) for Section 403(b) contracts, and (iii) Section 457(d) for deferred compensation plans under Section 457.

(b) Minimum Annual Withdrawals. The minimum withdrawal is set each year based on the Accumulation Value and the life expectancy of the Participant and the Participant's Beneficiary. The Participant may elect to have life expectancies computed for each year's distribution, or to use the life expectancies computed at the first distribution (reduced by one year for each annual withdrawal) for all later distributions. If the Participant's Beneficiary is not the Participant's spouse, the annual withdrawal must meet the minimum distribution incidental benefit requirements.

(c) Annuity Income Option. If the Participant elects payments under an Annuity Income Option, the guaranteed or expected period of payments under the Annuity Income Option may not exceed the Participant's life expectancy and that of the Participant's Beneficiary at the Annuity Date, or a shorter period if the Participant's Beneficiary is not the Participant's spouse.

(d) 403(b) Exception to General Rule. Any amount added to the Contract which was initially within a Section 403(b) contract prior to January 1, 1987 and continually since then, may either be paid in a manner which meets these rules or must (1) begin to be paid when the Participant is age 75; and (2) the present value of payments expected to be made to the Participant, over life, under the option chosen must exceed 50% of the present value of all payments expected to be made ("the 50% rule"). Notwithstanding, the Participant's entire Section 403(b) Contract balance must meet the minimum distribution incidental benefit requirement of Section 403(b)(10).

5.03 **Minimum Death Benefit Distributions**

(a) General Rules. The death benefit, if any, payable to the Participant's Beneficiary must also satisfy the rules of Section 401(a)(9)(B), Section 403(b)(10) or Section 457(d), whichever may be applicable, and the regulations issued under such sections by the Secretary of the Treasury. The post-death rules of these sections limit the extent to which a Beneficiary may delay payment of death benefits. The Participant's Beneficiary may satisfy these rules by receiving a lump sum, annual withdrawals, or payments under an Annuity Income Option.

(b) Death Before Distributions Begin. If the Participant dies before payments under an Annuity Income Option (or post-age 70 1/2 withdrawals) have begun, the Participant's Beneficiary must either receive the whole benefit by the end of the fifth year following the year of the Participant's death or receive the benefit in installment payments over his or her life or life expectancy if payments begin by the calendar year following the year of the Participant's death. The Participant's spouse beneficiary may delay distributions until the Participant would have reached age 70 1/2.

(c) Death After Distributions Begin. If the Participant dies after payments under an Annuity Income Option (or post-age 70 1/2 withdrawals) have begun, the death benefit must be paid at least as fast as under the method the Participant selected.

5.04 **Direct Rollovers** - If any benefit payable under this Contract constitutes an "eligible rollover distribution" within the meaning of Section 402 of the Code, the Participant has the right to elect to have such distribution paid directly to an "eligible retirement plan" in a transaction designated under the Code as a "direct rollover." Before any eligible rollover distribution is made to the Participant, we will provide the Participant with a written explanation of the Participant's right to make a direct rollover and the tax consequences of making or not making a direct rollover. No surrender, withdrawal, or other benefit distribution that constitutes an eligible rollover distribution will be made to the Participant under this Contract, unless the Code's requirements applicable to eligible rollover distributions have been satisfied. Except for eligible rollover distributions, We reserve the right to make payments only to the Participant or the Participant's Beneficiary.

5.05 **Plan Provisions** - The Plan, including certain Plan provisions required by the Employee Retirement Income Security Act of 1974 (ERISA) or other applicable law, may limit the Participant's rights under this Contract. The Plan provisions may:

(a) Limit the Participant's right to make Purchase Payments;

(b) Restrict the time when the Participant may elect to receive payments under this Contract;

(c) Require the consent of the Participant's spouse before the Participant may elect to receive payments under this Contract;

(d) Require that all distributions be made in the form of a joint and survivor annuity for the Participant and the Participant's spouse, unless both consent to a different form of distribution;

(e) Require that the Participant's spouse be designated as Beneficiary;

(f) Require that the Participant remain employed with the Contract Owner for a specified period of time before the Participant's rights under the Contract become fully vested; or

(g) Otherwise restrict the Participant's exercise of rights under the Contract or give the Contract Owner (or a Plan representative) the right to exercise certain rights on the Participant's behalf.

No such Plan provision shall limit a Participant's rights under this Contract, unless the Contract Owner has provided VALIC with written notification of such provision. In no event shall any such Plan provision enlarge VALIC's obligations under this Contract.

5.06 **Nonqualified Deferred Compensation Plans** - If the Contract has been issued for a nonqualified and unfunded deferred compensation plan, the Contract Owner possesses all rights under the Contract. No Participant or Beneficiary will have any enforceable right to make elections under this Contract or to receive benefits from VALIC. The Contract Owner may direct that all benefit payments be made to the Contract Owner, or the Contract Owner may authorize VALIC to make benefit payments directly to Participants and Beneficiaries as the Contract Owner's payment agent under the Plan. The Contract Owner may also authorize VALIC to follow Participant requests with regard to the allocation of Purchase Payments among Investment Options, transfers among Investment Options, and other elective rights provided by this Contract. If the Contract Owner authorizes VALIC to act as payment agent under the Plan or to follow Participant requests, the Contract Owner may revoke or modify that authorization at any time without prior notice to Participants.

Section 6 - GENERAL PROVISIONS

6.01 **Participant Certificates** - We will issue certificates to each Participant unless this Contract is issued with respect to a nonqualified and unfunded deferred compensation plan. Each certificate will set forth the benefits to which the Participant is entitled under the Contract. Certificates are not a part of this Contract.

6.02 **Assignment** - This Contract cannot be sold, assigned, discounted, or pledged as collateral for a loan or as security for the performance of an obligation. The benefits, values, and rights under this Contract are not subject to any creditor claims to the fullest extent permitted by law. This Contract and its rights cannot be transferred to anyone other than Us, except as provided under the Plan or under a domestic relations order properly issued by a court of competent jurisdiction and that complies with ERISA, if applicable. To the extent permitted by the Code and applicable law, We will make a Cash Surrender or Withdrawal payable to a third party upon the Participant's request.

6.03 **Vesting** - Except as may be provided in the Plan, the Participant's rights under this Contract are fully vested and nonforfeitable. Separate Account A holds all assets for Variable Investment Options for the exclusive benefit of Participants, Beneficiaries, and other holders of annuity contracts.

6.04 **Written Notices to Us** - Except as specifically provided otherwise, any Notice of change, election, choice, option or other exercise of right given under the Contract must be in writing on a form provided by Us, or on a form and in a manner acceptable to Us. Such Notice will be effective when it is received in Our Home Office.

6.05 **Change of Contract** - We may change this Contract to the extent it is required or deemed advisable to do so in order to conform the Contract to applicable law. In addition, upon at least 30 days written notice to the Contract Owner, we may make other changes to this Contract that will apply only to individuals who become Participants after the effective date of such change. All changes We make will be subject to any applicable regulatory requirements.

6.06 **Future Participants** - We may at our discretion curtail or prohibit new Participants under this Contract upon written notice to the Contract Owner.

6.07 **Reports** - We will send the Participant a Separate Account financial report twice each year if the Participant has values in any Variable Investment Option.

We will send to the Participant, at least annually, a statement showing the dollar value of all investment options, investment performance since the prior statement, and as applicable, the number and value of any Variable Accumulation Units credited to the Participant's Account. All statements will be mailed within two months of the date of the information.

6.08 **Voting Rights** - We will hold the voting rights on all shares held in the Separate Account. To the extent of this Contract's participation in the Separate Account through one or more Variable Investment Options, We will vote those shares as instructed. The Participant, or the Beneficiary, if the Participant has died, will have the voting instruction rights prior to the Annuity Date. The annuity payee will have the voting instruction rights on and after the Annuity Date.

6.09 **Suspension of Payments** - VALIC reserves the right to suspend payments under the Separate Account for any period when: (a) the New York Stock Exchange is closed (other than customary weekend and holiday closings); (b) when trading on the Exchange is restricted; (c) when an emergency prevents disposal of securities held in the Separate Account or it is not reasonably practicable to determine the value of the Separate Account's net assets; or (d) during any other period when the Securities and Exchange Commission, by order, so permits for the protection of security holders.

6.10 **Deferral of Cash Surrender or Withdrawal** - VALIC may defer payment of any surrender of amounts accumulated in Fixed Interest Options. Deferral shall not exceed six months from the receipt of written notice at the Home Office. Interest shall be paid if payment is deferred for thirty days or more at a rate as determined by VALIC.

6.11 **Proof of Survival** - We reserve the right to require satisfactory proof that the Participant and any payee is alive on the date any benefit payment is due. If this proof is not received after requested in writing, VALIC will have the right to make reduced payments or to withhold payments entirely until such proof is received.

6.12 **Substitution of Investment Fund Shares** - If shares of a particular Investment Fund are not available or if, in the judgment of VALIC, such shares are no longer appropriate for a Variable Investment Option, shares of another Investment Fund may be substituted for the Investment Fund shares already held under the Variable Investment Option and for those to be purchased by future Purchase Payments or transfers under this Contract. In the event any substitution occurs, VALIC will notify the Contract Owner within five days.

6.13 **Minimum Benefit** - The paid up annuity, cash surrender or death payment available under this Contract will not be less than the minimum benefits required by any statute of the state in which the Contract is delivered.

6.14 **Separate Account** - That portion of the assets of the Separate Account equal to the reserves and other contract liabilities with respect to the Separate Account shall not be chargeable with liabilities arising out of any other business We may conduct. Income, gains and losses, whether or not realized, from assets allocable to the Separate Account are credited to or charged against such account without regard to Our other income, gains or losses.

VALIC

★An American General Company

The Variable Annuity Life Insurance Company
2929 Allen Parkway
Houston, Texas 77019

GROUP FIXED AND VARIABLE DEFERRED ANNUITY CONTRACT
NON-PARTICIPATING

ANNUITY PAYMENTS AND SURRENDER VALUES PROVIDED BY THIS CONTRACT WHEN BASED ON INVESTMENT EXPERIENCE OF THE SEPARATE ACCOUNT ARE VARIABLE AND ARE NOT GUARANTEED AS TO FIXED DOLLAR AMOUNT.

AGREEMENT FOR 401(a) ANNUITY AND CUSTODIAL ACCOUNT SERVICES

This Agreement is entered into by and between the Minnesota Higher Education Board and The Variable Annuity Life Insurance Company (hereinafter referred to as "VALIC" or "Provider").

WHEREAS, pursuant to Minnesota Statutes §136E.04 the Higher Education Board is responsible for the individual retirement account plans established pursuant to Minnesota Statutes chapter 354B;

WHEREAS, pursuant to Minnesota Laws 1995, Chapter 212 the name of the Minnesota Higher Education Board is changed to the Board of Trustees of the Minnesota State Colleges and Universities effective July 1, 1995;

WHEREAS, VALIC has been approved by the Minnesota State Board of Investment as a financial institution which may provide annuity products to the Higher Education Board:

WHEREAS, the Minnesota State Board of Investment has approved the terms of this Agreement; and

WHEREAS, VALIC agrees to issue to the Minnesota Higher Education Board a Group Fixed and Variable Annuity policy on Form TRMC, a specimen copy of which has been provided to the Minnesota Higher Education Board under the terms and conditions as further stated herein (such policy when issued is hereinafter referred to as "the Contract") (hereinafter the Contract and this Agreement are collectively referred to as the "contract").

NOW, THEREFORE, the Minnesota Higher Education Board and Minnesota Mutual in consideration of the promises and mutual agreements contained in this Agreement agree as follows:

1. For the term of the contract, there will be no contract maintenance charge, contingent deferred sales charges, or transfer fees. Participants may transfer their fixed annuity option balances and variable annuity option balances without charge in accordance with the following provisions:

   Transfers among VALIC options in the Higher Education Plans:

   Each contract year, participants may transfer up to 20 percent of their Fixed Account Plus balances to any other VALIC option in the Plan without charge.

   Participants may transfer all or a portion of their VALIC variable account balances from the variable accounts to the other VALIC variable accounts or to the VALIC Fixed Account Plus at any time without charge or limitation. VALIC specifically agrees to waive and does waive its right to limit the frequency of change in investment options by Participants.

After commencement of annuity payments, an annuitant may transfer all or a portion of VALIC variable account balances to the other VALIC variable accounts in the Plan or to the VALIC fixed account in the Plan once each calendar year without charge.

Transfers from VALIC options to options of other Plan product providers:

Each contract year, participants may transfer up to 20 percent of their Fixed Account Plus balances to options of other Plan product providers.

Participants may transfer all or a portion of their variable account balances to options of other Plan product providers at any time without charge or limitation.

2. Upon termination, the product providers may not introduce transfer fees affecting the portability of Plan assets. The Provider agrees that Plan portability, contract maintenance charges and contingent deferred sales charges will not be less favorable after the termination of the contract than the provisions contained in the contract.

3. The Provider agrees that it will charge no front-end load on contributions in addition to any assessed by the Plans' Administrative Services Agent (ASA.) .

4. The Provider agrees that it will disclose all fees, expenses and charges (whether direct or indirect) to participants, to the Plans' ASA, to the Higher Education Board and to the State Board of Investment (SBI). The Provider agrees to disclose all investment option rates of return to the ASA within seven business days of the close of each calendar quarter in the manner specified by the SBI, unless by a reasoned written opinion of counsel to do otherwise would violate any restriction of the Securities and Exchange Commission (SEC), the Minnesota Department of Commerce, or of any other governing regulatory body.

5. The following investment options have been selected by the Provider for deposits received after July 1, 1995:

Core Products

Fixed/Guaranteed account	VALIC Fixed Account Plus
Money Market account	VALIC Money Market Fund
Bond account	VALIC Capital Conservation Fund
Balanced account	Templeton Asset Allocation Fund
Equity account	Dreyfus Small Cap Fund
International/Global account	Templeton International Fund

Additional Products

VALIC Stock Index Fund
VALIC Mid-Cap Index Fund
VALIC Science & Technology Fund
VALIC International Government Bond Fund

The Provider may add or substitute investment options only upon written agreement of the SBI and only 60 days after written notice to the SBI of such intention to add or substitute.

6. The Provider agrees to furnish data about itself (including, but not limited to, financial data permitting an assessment of its credit worthiness) and/or its annuity contracts when requested by the SBI, the ASA or the Higher Education Board. In addition, the books, records, documents and accounting procedures and practices of the Provider relevant to the contract shall be subject to examination by the SBI, the Higher Education Board and the Minnesota Legislative Auditor of the State of Minnesota.

7. The Provider agrees to provide product information, forms, and communication materials to the Plans' ASA for distribution to participants. The Provider agrees to make presentations to participant groups at the times, places, and frequency as arranged by the Plans' ASA.

8. To the extent permitted by law, the Provider will reimburse the SBI for the Provider's pro-rata share (determined by dividing the total cost by the number of product providers) of costs incurred by SBI, including consultant fees, for its review of the Plans, up to a maximum of $50,000 for the life of the contract, without prior consent of the Provider. Payment shall be made based on an invoice prepared and submitted by the SBI. The invoice schedule will be determined by the SBI but the Provider will be invoiced no more often than quarterly. Payments are due 30 days from the date of receipt of the invoice by the Provider.

9. The Higher Education Board will have an unconditional ability to terminate the contract on June 30, 2000.

10. Subject to the Provider's right to cure, the contract may be terminated by the Higher Education Board for cause at any time during the contract term upon sixty (60) days written notice to the Provider. "Cause" is defined as:

- Malfeasance, Misfeasance or Fraud.

- Failure to perform any provision of the contract, subject to the Provider having 90 days to cure any failure of contract performance.

- A material change in the Provider's financial position, defined as the occurrence of two or more of the following:

  Standard & Poor's rating falls to A+ or lower,

  Moody's rating falls to A3 or lower,

  Duff & Phelps rating falls to A+ or lower.

However, in the event of any drop in ratings that is a result of a recalibration of the life insurance industry by any of the aforementioned rating agencies, the parties will use best efforts to cause this provision to be amended consistent with any such recalibration.

11. Participants who have begun receiving an annuity will not be affected by termination of the contract. In the event that the contract is terminated, either on the contract expiration date or before, the contract will include the following termination options:

    a) The Provider will pay the sum of the variable account balances of participants to a new investment company designated in writing by the SBI as the successor provider of the Plans or to the SBI within seven (7) business days after the date deposits are no longer submitted to the Provider.

    b) No new contributions will be accepted by the Provider, but participants will continue to direct the investment of their existing balances under the program.

12. The Provider agrees that:

    a) When making any benefit payments in accordance with the Plan, the Provider shall report to the Internal Revenue Service the amounts of such payments in accordance with Internal Revenue Service requirements.

    b) The Provider agrees to withhold federal and state income taxes from benefit payments in accordance with instructions from the Plan participant as to the amounts to be withheld, or as is otherwise required by the Internal Revenue Service or by appropriate state tax authorities.

13. The Provider agrees that, with respect to matters relating to the Plan, The Provider will make information from its participant account records and aggregate level information from its participant account records available to the SBI, the Higher Education Board, and the ASA upon request. The Provider shall provide, at its expense, software to allow the Higher Education Board and the ASA access to The Provider's system of Plan participation information relating to the contract. All parties agree that Plan participant records are private and that only the product

provider, the SBI, the Higher Education Board, and the ASA, where necessary, shall have access to such records.

14. The Provider agrees to comply in all areas with:

    a) Rules of the Plans;

    b) *Minnesota Statutes* Chapter 354B and Section 356.24, subd. 1 and any amendments thereto, provided such amendments do not impair a material provision of the Group Annuity Contract and this Agreement; and

    c) 401(a) of the Internal Revenue Code of 1986, as amended, or any rules and regulations thereunder.

15. No amendments to the contract shall be effective unless such amendment shall be in writing and signed by all of the parties thereto.

16. Any notice under the contract must be in writing and may be given by or on behalf of the Provider by delivering the same to the Higher Education Board or by mailing it to the Higher Education Board at its address of record with the Provider, and any notice to the Provider given by the Higher Education Board shall be in writing and mailed to the Provider at its Home Office. Any such notice shall be effective on the date of receipt unless the terms of the contract dictate otherwise.

17. The contract shall be construed according to the laws of Minnesota.

18. The Provider hereby agrees to indemnify and hold harmless the State of Minnesota, the Minnesota State Board of Investment, the Higher Education Board (herein collectively the "Boards"), each member of the Boards individually, the officers, and employees of each and every of the above, their successors, and any combination thereof, from all claims, demands, or causes of action arising out of an act or omission of the Provider related to the contract.

    The Provider shall reimburse the SBI or the Higher Education Board for all reasonable expenses incurred to defend and legal proceedings that may be brought against the State of Minnesota, the SBI, the Higher Education Board, each member of the Boards individually, the officers, and employees of each and every of the above, their successors, and any combination thereof, on any claim or demand arising out of an act or omission of the Provider related to the contract, and shall satisfy any judgment that may be rendered against such party or parties in respect to any such claim or demand. The SBI or the Higher Education Board shall notify The Provider upon receipt of any such claim or demand which it receives. Pursuant to *Minnesota Statutes* Section 8.06, the Minnesota Attorney General (or its designee) shall be the legal counsel for the State of Minnesota, the Boards, the members of the Boards individually, and the officers, agents and employees of the Boards or the State of Minnesota.

19. The Provider certifies that it has received a certificate of compliance from the Commissioner of Human Rights pursuant to *Minnesota Statutes* section 363.073.

20. To the extent the Provider has access to data of the State entities which is classified as private, nonpublic or confidential pursuant to the Minnesota Government Data Practices Act, *Minnesota Statutes* Chapter 13, the Provider agrees to comply with the requirements of *Minnesota Statutes* Chapter 13 in providing services under the contract. The Provider agrees to indemnify, save and hold harmless the State of Minnesota, the Minnesota State Board of Investment, the Higher Education Board, each member of the Boards individually, the officers, agents and employees of each and every of the above, from all claims, demands, or causes of action arising out of, resulting from any act or omission of the Provider or in any violation by the Provider of any provision of the Minnesota Government Data Practices Act, *Minnesota Statutes* Chapter 13, including legal fees and disbursements paid or incurred to enforce this provision of the contract. In the event the Provider subcontracts any or all of the work to be performed under contract, the Provider shall retain responsibility under this paragraph for compliance with the Minnesota Government Data Practices Act.

21. Any waiver at any time by either party hereto of any right with respect to any matter arising in connection with the contract shall not be deemed to be a waiver with respect to any subsequent matter.

22. The Provider shall assign to the State of Minnesota any and all claims for overcharges as goods and/or services provided in connection with the contract resulting from antitrust violations which arise under the antitrust laws of the United States and the antitrust laws of the State of Minnesota.

23. The provisions relating to portability, fees, and responsibilities of the Provider shall survive any termination of the contract.

24. This Agreement shall be effective beginning July 1, 1995. Effective July 1, 1995 all references in this contract to the Minnesota Higher Education Board shall refer to the Board of Trustees of the Minnesota State Colleges and Universities.

IN WITNESS WHEREOF, the parties hereto do hereby sign and execute this Agreement intending to be bound thereby

Higher Education Board

By: ______________________ ______________________Date

Name: ______________________

Title: ______________________

The Variable Annuity Life Insurance Company

By: ______________________ ______________________Date

Name: ______________________

Title: ______________________

By: ______________________ ______________________Date

Name: ______________________

Title: ______________________

STATE OF MINNESOTA
THE OFFICE OF THE ATTORNEY GENERAL

By: ______________________

Name: ______________________

Title: ______________________

STATE OF MINNESOTA
DEPARTMENT OF ADMINISTRATION

By: ______________________

Name: ______________________

Title: ______________________

STATE OF MINNESOTA
DEPARTMENT OF FINANCE

By: ______________________

Name: ______________________

Title: ______________________

Specimen Group Annuity Certificates and Agreement with TIAA-CREF

Teachers Insurance and Annuity Association

NEW YORK, N. Y.

TIAA

GROUP RETIREMENT ANNUITY CERTIFICATE

Certificate Number	Date of Issue Mo. Day Yr.	Date of Birth Mo. Day Yr.	Annuity Starting Date Mo. Day Yr.

Annuitant

This certificate states the rights that you, the Annuitant, have under a Group Retirement Annuity Contract ("the Contract") issued by TEACHERS INSURANCE AND ANNUITY ASSOCIATION ("TIAA") to the United States Trust Company of New York ("the Contract Holder") under a trust agreement.

This page refers briefly to some of the Contract's features described in your certificate. The next pages set forth in detail the rights and obligations between TIAA and you under the Contract. PLEASE READ YOUR CERTIFICATE. IT IS IMPORTANT.

GENERAL DESCRIPTION

All premiums on your behalf must be remitted by your Employer under the terms of its Retirement Plan.

Each premium paid to TIAA for your annuity buys a definite amount of lifetime income for you. If you die before starting to receive this income, the accumulated funds will provide a benefit for your beneficiary under one of the methods described in your certificate. The benefit amounts purchased by each premium are determined by the Rate Schedule in effect for the Contract at the time the premium is paid. Benefits over and above those guaranteed under the Contract are bought by Additional Amounts, which may be credited to you under the Contract by TIAA from time to time.

Once each year we will report to you on the amount of premiums paid and the current value of your Accumulation.

When you are ready to start receiving your income, you choose the income option you want from among those described in your certificate. All options provide an income for you, and all but one also have some provision for another person to be named by you.

You may also be permitted to choose a Lump-sum Benefit payment in accordance with your Employer's Retirement Plan, but only within sixty days of Termination of Employment with your Employer.

This certificate cannot be assigned nor does it provide for loans.

Chairman and
Chief Executive Officer

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INDEX OF PROVISIONS

TEACHERS INSURANCE AND ANNUITY ASSOCIATION
730 Third Avenue, New York, New York 10017

ENDORSEMENT ATTACHED TO GROUP RETIREMENT ANNUITY CERTIFICATE

In order to conform to the requirements of the Tax Reform Act of 1984 and the Retirement Equity Act of 1984, this TIAA certificate is subject to the following conditions notwithstanding any statements to the contrary which may appear within the certificate:

(1) CHOICE OF INCOME OPTIONS AND METHODS OF PAYMENT OF THE DEATH BENEFIT

The availability of the Income Options and Methods of Payment of the Death Benefit set forth in the certificate is subject to the applicable restrictions and distribution requirements of the Internal Revenue Code of 1954 ("IRC"), as amended, and the rulings and regulations issued thereunder, and the Employee Retirement Income Security Act of 1974 ("ERISA"), as amended, and the rulings and regulations issued thereunder.

(2) ANNUITY STARTING DATE

Your Annuity Starting Date may not be deferred beyond April 1 of the calendar year following the calendar year in which you attain age 70½.

(3) SPOUSE'S RIGHT TO BENEFITS

If all or part of your Accumulation is attributable to contributions made under a retirement plan or tax deferred annuity plan subject to ERISA; then, only to the extent required by the IRC or ERISA, your rights to receive a Lump-Sum Benefit, choose an Income Option, and to name a beneficiary for the Death Benefit are subject to your spouse's right, if any, to benefits as follows:

Spouse's Survivor Annuity Income. If you are married on the Annuity Starting Date, your Income Benefit must be paid under a Survivor Annuity Option with your spouse as Second Annuitant unless we receive, in form satisfactory to TIAA, a waiver of your spouse's right to a Survivor Annuity Income with your spouse's written consent or verification that your spouse cannot be located.

Spouse's Survivor Death Benefit. If you die before the Annuity Starting Date and you are then married, the payment of the Death Benefit to your named beneficiary is subject to your spouse's right to receive a Death Benefit of an annuity which is the actuarial equivalent of one-half of the portion of the Accumulation, if any, attributable to contributions made under a plan subject to ERISA. Your spouse's right to a Survivor Death Benefit may be waived, in form satisfactory to TIAA, with your spouse's written consent or verification that your spouse cannot be located. A waiver of the Survivor Death Benefit may not be made prior to the year in which you attain age 35, or, if earlier, your termination of employment with the institution then remitting premiums for this certificate.

Your Lump-Sum Benefit. If you are married on the date you request a Lump-Sum Benefit, in addition to the requirements specified in the certificate for payment of the Lump-Sum Benefit we must also receive, in form satisfactory to TIAA, your spouse's written consent to the payment of Lump-Sum Benefit or verification that your spouse cannot be located.

Verification of your marital status may be required, in form satisfactory to TIAA, for purposes of establishing your spouse's right to benefits or a waiver of these rights. You may revoke a waiver of your spouse's right to benefits at any time during your lifetime and before the Annuity Starting Date. Your spouse may not revoke a consent after the consent has been given.

(4) AUTOMATIC BENEFICIARY DESIGNATION

If you die before the Annuity Starting Date never having named a beneficiary, your estate and your surviving spouse become the beneficiaries as follows:

(a) if you leave no surviving spouse, the Death Benefit will be paid to your estate in one sum;

(b) if you leave a surviving spouse, your spouse will receive a Death Benefit, payable under one of the Methods of Payment of the Death Benefit, which is the actuarial equivalent of one-half of the Accumulation with the remainder of the Accumulation being paid to your estate in one sum.

(5) METHOD OF PAYMENT OF THE DEATH BENEFIT

The distribution of the Death Benefit under any Method of Payment must be made over the lifetime of your beneficiary or over a period not exceeding your beneficiary's life expectancy. The Death Benefit must be applied under a chosen Method of Payment within one year of the date of your death; otherwise payments will be made to your beneficiary beginning on the first day of the month in which the first anniversary of your date of death occurs under the Payments for a Fixed Period Method for a period of five years with payments made annually.

(6) LIABILITY OF TIAA

Any action taken by TIAA in good faith before receiving written notice of a waiver of rights included in this amendment, or of revocation of such waiver, will not subject TIAA to liability because our acts were contrary to what was stated in such waiver or revocation.

The provisions of this amendment are effective January 1, 1985.

Chairman and
Chief Executive Officer

PART A: TERMS USED IN THIS CERTIFICATE

1. The **Accumulation** is the sum of:
   A) all premiums paid on your behalf by your Employer, including any required contributions made by you, under the terms of its Retirement Plan; plus
   B) any Additional Amounts credited to you under the Contract before the Annuity Starting Date or your prior death; less
   C) any charge for expenses and contingencies set forth in the Rate Schedule; less
   D) the amount of any Lump-sum Benefit paid, including any surrender charge; plus
   E) interest credited under the terms of the Contract.

Your Accumulation will provide the benefits described in this certificate.

2. **Additional Amounts** may be credited to you under the Contract by TIAA. Those credited before the Annuity Starting Date or your prior death buy benefits for you, above the benefits bought by premiums, based on the Rate Schedule in effect when the Additional Amount is credited. Any Additional Amounts credited after the Annuity Starting Date or your death will be paid in addition to the Income or Death Benefit then payable. TIAA does not guarantee that there will be Additional Amounts.

3. The **Annuity Starting Date** shown on Page 3 is the date your income is to begin. The Date may be changed as explained in Sections 15 and 16.

4. The **Income Benefit** is the monthly amount payable to you under one of the options set forth in Part C. These payments will first be payable on the Annuity Starting Date.

5. The **Second Annuitant** is the person you name, when starting to receive your income under a Survivor Annuity Option, to receive a life income if he or she survives you. You may name your spouse, or any other person eligible under TIAA's practices then in effect, to be a Second Annuitant.

6. The **Death Benefit** is the current value of your Accumulation. It will be used to pay your beneficiary an income under one of the methods set forth in Part D if you die before the Annuity Starting Date.

7. A **Lump-Sum Benefit** may be available to you before the Annuity Starting Date and within sixty days of Termination of Employment. The provisions concerning this benefit are detailed in Part E and may be limited as shown on Page 3.

8. The **Rate Schedule** is the part of the Contract that sets forth the bases for computing the Accumulation, the Income and Death Benefits and Lump-sum Benefits. TIAA may change the Rate Schedule, after three months' notice to your Employer, for premiums paid and Additional Amounts credited after the change. No change of Rate Schedule will affect benefits bought by premiums paid or Additional Amounts credited prior to the change.

9. **Commuted Value.** The commuted (discounted) value is a one-sum payment made in lieu of a series of payments. It is less than the total of those payments, because future interest, included when computing the series of payments, will not be earned if payment is to be made in one sum.

The commuted value of future payments is therefore the sum of those payments less the interest from the date of commutation to the date each payment would have been made. The same interest rate or rates used in computing the benefit payments will be used to determine the commuted value.

10. Your **Employer** is the organization named on Page 3.

11. **Termination of Employment** for the purpose of determining the availability of the Lump-sum Benefit is a bona fide cessation of an employment relationship with your Employer, including retirement. Dissolution or modification of the Retirement Plan; changes in the name or affiliation of your Employer; leaves of absence, with or without pay; vacations or other events not in fact a termination of employment will not make you eligible to choose the Lump-sum Benefit. Your Employer must provide written certification of Termination of Employment and of your eligibility for a Lump-sum Benefit.

PART B: CONTRACT AND PREMIUMS

12. **The Contract.** The Contract is the entire contract between the parties and its provisions alone will govern with respect to the rights and obligations of TIAA. The sole responsibility of the Contract Holder is to serve as a party to the Contract. Any Employer paying premiums under the Contract shall be deemed to accept its terms and those of the trust agreement under which it has been issued.

The payment of premiums is the consideration for the Contract. The Contract may be amended by agreement of TIAA and the Contract Holder without the consent of any other person, provided that such change does not reduce any benefit purchased under the Contract up to that time. Any endorsement or amendment of this certificate, waiver of any of its provisions, or change in the Contract Rate Schedule will be valid only if in writing and signed by an Executive Officer or Registrar of TIAA.

13. **Premiums.** All premiums on your behalf must be remitted by your Employer under the terms of its Retirement Plan. We have issued this certificate as evidence of premiums paid on your behalf. All premiums and benefits are payable at TIAA's home office in New York, NY. Premiums may be paid in any amount and at any frequency, in accordance with your Employer's Retirement Plan. TIAA will accept premiums on your behalf if they are remitted before the Annuity Starting Date or your prior death. Premiums will no longer be accepted for you under the Contract after Termination of Employment. TIAA reserves the right to stop accepting premiums under the Contract at any time.

14. **Unconditional Protection Against Lapse or Forfeiture.** The benefits described in your certificate will not lapse after the first premium has been paid. If premiums cease, you continue to own all benefits bought by premiums paid and by any Additional Amounts credited.

PART C: YOUR INCOME BENEFIT

15. **Changing Your Annuity Starting Date.** Any time before you start to receive your Income Benefit, you may change the Annuity Starting Date to the first of any month after the change, but not to a month later than the one following your seventy-first birthday. If prior to your sixty-fifth birthday you have not chosen an Annuity Starting Date, you will be deemed to have chosen the first of the month following that birthday.

16. **Starting Your Income Benefit.** Payment of your Income Benefit will begin as of the Annuity Starting Date you have chosen, if you are then living and:

A) you have sent us this certificate;
B) you have chosen, as provided in Section 34, one of the Income Options set forth in Section 17; and
C) we have received due proof of your age and, if you choose a Survivor Annuity Option, the age of your Second Annuitant.

If A, B and C of this Section have not been completed by the Annuity Starting Date you have chosen, the Annuity Starting Date will be deferred to the first of the month after A, B and C have been completed or to the first of the month following your attainment of age seventy-one, whichever comes first.

17. **Income Options** are the ways in which you may have your Income Benefit paid to you. Any time before the Annuity Starting Date, you may choose the Option you want. You may change your choice any time before payments begin, but once they have begun no change can be made. The value of your Accumulation will be the consideration for a TIAA individual pay-out annuity contract providing for the Income Option you choose.

These are the Income Options from which you will choose. All of them provide an income for you, some provide that payments will continue for the lifetime of a Second Annuitant and some provide that payments will continue in any event during a guaranteed or fixed period as explained in Section 18:

Single Life Annuity. A payment will be made to you each month as long as you live. All payments cease at your death. This Option provides nothing for anyone after your death.

Life Annuity with 10-, 15- or 20-Year Guaranteed Period. A payment will be made to you each month as long as you live. If you die before the end of the guaranteed period you have chosen, the monthly payments will continue to the end of that period.

Payments for a Fixed Period. A payment of principal and interest will be made to you each month for a fixed period of not less than five nor more than thirty years, as chosen. At the end of the period chosen, all the principal and interest credited will have been paid out. If you die before the end of the period chosen, the monthly payments will continue to the end of that period.

Survivor Annuity Options. Under each of these Options, a payment will be made to you each month as long as you live, and will be continued for life to the Second Annuitant you have named if he or she survives you. After payments begin, you cannot change your choice of Second Annuitant. The monthly amount paid to you or a surviving Second Annuitant depends on which of these Options you choose.

Full Benefit to Survivor with or without a 10-, 15- or 20-Year Guaranteed Period. At the death of either you or your Second Annuitant, the monthly benefits that continue to the survivor will be the full amount that would have been paid if both had lived. If you choose a guaranteed period and you and your Second Annuitant both die before the end of the period chosen, the Full Benefit monthly payments will continue to the end of that period; otherwise, all payments will cease at the death of the last survivor of you and the Second Annuitant.

Two-thirds Benefit to Survivor with or without a 10-, 15- or 20-Year Guaranteed Period. At the death of either you or your Second Annuitant, the monthly payments that continue to the survivor will be two-thirds of the amount that would have been paid if both had lived. If you choose a guaranteed period and you and your Second Annuitant both die before the end of the period chosen, the Two-thirds Benefit monthly payments will continue to the end of that period; otherwise, all payments will cease at the death of the last survivor of you and the Second Annuitant.

Half Benefit to Second Annuitant with or without a 10-, 15- or 20-Year Guaranteed Period. The full monthly income will continue as long as you live. If your Second Annuitant survives you, he or she will receive payments each month of one-half the amount you would have received if you had lived. If you choose a guaranteed period and you and your Second Annuitant both die before the end of the period chosen, the Half Benefit monthly payments will continue to the end of that period; otherwise, all payments will cease at the death of the last survivor of you and the Second Annuitant.

Automatic Election Provision. If on the Annuity Starting Date determined in accordance with Sections 15 and 16, you have not chosen an Income Option, you will be deemed to have chosen the "Life Annuity with 10-Year Guaranteed Period" Option if you are then not married, or the "Half Benefit to Second Annuitant with 10-Year Guaranteed Period" Option if you are then married.

18. **Payments to the End of a Guaranteed or Fixed Period.** At the time you choose an Income Option, you name the person or persons to receive these payments. You may later change the named persons and, if you choose a Survivor Annuity, after your death your surviving Second Annuitant may change the named persons unless you direct otherwise.

Any monthly payments due after your death and, if you have chosen a Survivor Annuity Option, the death of your Second Annuitant, will continue to the surviving person or persons named to receive them for the remainder of the guaranteed or fixed period you have chosen. The Commuted Value of these payments may be paid in one sum unless we are directed otherwise.

If no one has been named to receive these payments, or if no one so named is then living, the Commuted Value will be paid in one sum to your estate or, if you chose a Survivor Annuity Option, to the estate of the last survivor of you and your Second Annuitant.

If a person receiving these payments dies before the end of the guaranteed or fixed period, the Commuted Value of any payments still due that person will be paid to any other surviving person or persons named to receive it. If no one so named is then living, the Commuted Value will be paid to the estate of the last person who was receiving these payments.

19. **The Amount of Your Monthly Income Benefit** will be determined as of the Annuity Starting Date by: A) the amount of your Accumulation at that time; B) the Rate Schedule or Schedules under which premiums, any Additional Amounts and any Transfers from CREF have been credited; C) the Income Option you choose; D) your age; and E) if you choose one of the Survivor Annuity Options, your Second Annuitant's age.

If your Income Benefit would be less than $25 a month, TIAA will have the right to change to quarterly, semi-annual or annual payments, whichever will result in payments of $25 or more and the shortest interval between payments.

PART D: DEATH BENEFIT

20. **Payment of the Death Benefit.** If you die before the Annuity Starting Date, TIAA will pay the Death Benefit to your beneficiary under one of the Methods of Payment set forth in Section 24. You may choose the Method during your lifetime as explained in Section 34. If you do not so choose, your beneficiary will make the choice when he or she becomes entitled to payments. You may change the Method at any time before payments begin. After your death, your beneficiary may change the Method chosen by you, if you so provide. Any choice of Method or change of such choice must be made in writing as explained in Section 34.

21. **Naming Your Beneficiary.** Beneficiaries are persons you name, in form satisfactory to TIAA, to receive the Death Benefit if you die before the Annuity Starting Date. You may designate different classes of beneficiaries, such as primary (first) and contingent (secondary). These classes set the order of payment. If a class contains more than one person, the Death Benefit will be paid to the then living persons in the class in equal shares, unless you provide otherwise. For example, if you die before the Annuity Starting Date, having named your spouse as primary beneficiary and "children" as equal contingent beneficiaries, your spouse would receive the Death Benefit if he or she survived you. But if your spouse did not survive you, then your surviving children would receive the Death Benefit in equal shares.

The terms "children" or "my children" may be used to name a class of beneficiaries, either primary or contingent. Unless you specify otherwise, these terms will mean all children born of your marriage or marriages and any children legally adopted by you. The term "children" also has the same inclusive meaning when used to name as beneficiaries the children of your spouse, your child, your brother or your sister.

If you name your estate as beneficiary, or if none of the beneficiaries you have named is alive at the time of your death, the Death Benefit will be paid to your estate in one sum.

If you die prior to the Annuity Starting Date never having named a beneficiary, your estate and your surviving spouse, if any, become the beneficiaries as follows:

A) if you leave no surviving spouse, the Death Benefit will be paid to your estate in one sum;
B) if you leave a surviving spouse, your spouse will receive lifetime monthly payments of the amount he or she would have received as Second Annuitant if you had started to receive your Income Benefit as of the first day of the month in which you die, having chosen the "Half Benefit to Second Annuitant with 10-Year Guaranteed Period" Option. The part of the Death Benefit not needed to provide this income to your spouse will be paid to your estate in one sum.

22. **Changing Your Beneficiary.** At any time before the Annuity Starting Date you may change your beneficiary or add or delete beneficiaries, as explained in Section 34.

23. **Starting Payment of the Death Benefit.** Payment of the Death Benefit under one of the Methods set forth in Section 24 will start as of the first day of the month after we have received:

A) this certificate;
B) due proof of your death;
C) the choice, as provided in Section 34, of a Method of Payment set forth in Section 24; and
D) due proof of the beneficiary's age, if the Method chosen pays a lifetime income.

24. **Methods of Payment.** The Death Benefit will be paid to your beneficiary under one of the Methods shown below. For all Methods except Single-sum, the Death Benefit will be the consideration for a TIAA individual pay-out contract providing for the Method of Payment chosen.

Single-sum. The Death Benefit will be paid to your beneficiary in one sum.

Single Life Annuity. A payment will be made to your beneficiary each month for life. All payments will cease at his or her death. This Method provides nothing for anyone after the death of your beneficiary.

Life Annuity with 10-, 15- or 20-Year Guaranteed Period. A payment will be made to your beneficiary each month for life. If he or she dies before the end of the guaranteed period chosen, the monthly payments will continue to the end of that period as explained in Section 25.

Payments for a Fixed Period. A payment of principal and interest will be made to your beneficiary each month for a fixed period of not less than two nor more than thirty years, as chosen. At the end of the period chosen, all the principal and interest credited will have been paid out. If your beneficiary dies before the end of the period chosen, the monthly payments will continue to the end of that period as explained in Section 25.

Interest Payments. A payment of interest on the Death Benefit will be made to your beneficiary each month for a chosen period of not less than two nor more than thirty years. At the end of the period chosen, TIAA will pay the Death Benefit to your beneficiary. If your beneficiary dies while any part of the Death Benefit is held by TIAA, that amount will be payable as explained in Section 25. Instead of a chosen period, interest payments may be made for "the lifetime of the beneficiary," with payment of the Death Benefit made after the death of your beneficiary as explained in Section 25. The value of the Death Benefit placed under this Method must be at least $5,000.

If any Method chosen, except Interest payments, would result in payments of less than $25 a month, TIAA will have the right to require a change in choice that will result in payments of not less than $25 a month.

25. **Payments after the Death of a Beneficiary.** Any monthly payments still due at the death of your beneficiary during a guaranteed or fixed period be continued to the person or persons named by you or your beneficiary to receive them. The Commuted Value of these payments may be paid in one sum unless we are directed otherwise.

If no one has been named to receive these payments, or if no one so named is living at the death of your beneficiary, the Commuted Value will be paid in one sum to your beneficiary's estate.

If a person receiving these payments dies before the end of the guaranteed or fixed period, the Commuted Value of any payments still due that person will be paid to any other surviving person or persons named to receive it. If no one so named is then living, the Commuted Value will be paid to the estate of the last person who was receiving these payments.

If your beneficiary dies while all or part of the Death Benefit is held by TIAA under the Interest Payments Method, that amount will be paid in one sum to the person or persons you or your beneficiary have named to receive it. If no such person survives your beneficiary, the Death Benefit will be paid in one sum to your beneficiary's estate.

26. **The Amount of Death Benefit Payments** will be determined by: A) the amount of your Accumulation as of the date of your death; B) the Rate Schedule or Schedules under which your premiums, any Additional Amounts and any Transfers from CREF were credited; C) the Method of Payment chosen for the Death Benefit; and D) if the Method chosen pays a lifetime income, the age of your beneficiary.

PART E: LUMP-SUM BENEFITS

27. **Availability of Lump-sum Benefit.** Within sixty days of Termination of Employment and before the Annuity Starting Date, you may choose to receive a Lump-sum Benefit if provided for in your Employer's Retirement plan. After the sixty-day period expires, the election of a Lump-sum Benefit will never again be available. The portion of the Accumulation available to you as a Lump-sum Benefit may be limited by your Employer's Retirement Plan. Any such limitation is described on Page 3.

28. **Payment of the Lump-sum Benefit.** If you choose the Lump-sum Benefit, we will pay the portion of the Accumulation available to you, or any part thereof not less than $1000, less any surrender charge in accordance with the applicable Rate Schedule or Schedules. Payment will be made as of the day we receive: A) your request for a Lump-sum Benefit; B) an authorization for such benefit payment from your Employer; and C) all premium payments to be made for your benefit under your Employer's Retirement Plan. You may choose to defer the effective date of the Lump-sum Benefit until the first day of the month following the month in which we receive (A), (B) and (C) above. In no event, however, will payment of the Lump-sum Benefit be made prior to the date of Termination of Employment. The Accumulation will be reduced by the amount of a Lump-sum Benefit paid,

including any surrender charge. When different Rate Schedules apply to different parts of the Accumulation, the reduction will be allocated among the parts. The reduction made to each part will be in proportion to that part's share of the available Accumulation. If the entire Accumulation is paid as a Lump-sum Benefit, all obligations of TIAA to you under the Contract are fulfilled.

PART F: GENERAL PROVISIONS

29. **Report of Premiums and Accumulation.** Once each year until the Annuity Starting Date, we will mail you a report for the calendar year just ended. It will show the amount of premiums paid during the year and the value of your Accumulation (Death Benefit) as of the end of the year.

30. **No Assignment.** Neither you nor any other person may assign, pledge, or transfer ownership of this certificate or any benefits under the terms of the Contract. Any such action will be void and of no effect.

31. **No Loans.** The Contract does not provide for loans.

32. **Limited Cash Surrender Benefits.** The only provision for cash surrender under the Contract is the Lump-sum Benefit. There is no other cash surrender available under the terms of the Contract.

33. **Protection Against Claims of Creditors.** The benefits and rights accruing to you or any other person under the Contract are exempt from the claims of creditors or legal process to the fullest extent permitted by law.

34. **Procedure for Elections and Changes.** You, or your Second Annuitant or beneficiary having the right to do so, may elect or change, in accordance with the terms of your certificate, any of the following by written notice satisfactory to TIAA, sent to its home office in New York, NY:

A) the Annuity Starting Date;
B) an Income Option;
C) a Lump-sum Benefit;
D) a Method of Payment for the Death Benefit; or
E) a beneficiary or any person named to receive payments remaining due.

No such notice will take effect unless it is received by TIAA. When received, it will take effect as of the date it was signed, whether or not the signer is living at the time we receive it. Any action taken by TIAA in good faith before receiving such notice will not subject TIAA to liability because our acts were contrary to what was stated in the notice.

35. **Payment to an Estate, Guardian, Trustee, etc.** TIAA reserves the right to pay in one sum, the Commuted Value of any benefits due an estate, corporation, partnership, trustee, or other entity not a natural person. TIAA will not be responsible for the acts or neglects of any executor, trustee, guardian, or other third party to whom payment is made.

36. **Service of Process upon TIAA.** We will accept service of process in any action or suit against us on the Contract in any court of competent jurisdiction in the United States, Puerto Rico or Canada, provided such process is properly made. We will also accept such process sent to us by registered mail if the plaintiff is a resident of the state, district, territory, or province in which the action or suit is brought. This Section does not waive any of our rights, including the right to remove such action or suit to another court.

37. **Benefits Based on Incorrect Data.** If the amount of benefits is determined by data as to a person's age and if that data is incorrect, benefits will be recalculated on the basis of the correct data. Any amounts underpaid by TIAA on the basis of the incorrect data will be paid at the time the correction is made. Any amounts overpaid by TIAA on the basis of the incorrect data will be charged against the payments due after correction is made. Any amounts so paid or charged will include compound interest at the effective rate of 6% per year.

38. **Proof of Survival.** TIAA reserves the right to require satisfactory proof that anyone named to receive benefits under the terms of the Contract is alive on the date any benefit payment is due. If this proof is not received after requested in writing, TIAA will have the right to make reduced payments or to withhold payments entirely until such proof is received. If under a Survivor Annuity Option, TIAA has overpaid benefits because of a death, subsequent payments will be reduced or withheld until the amount of the overpayment has been recovered.

39. **Non-Forfeiture of Benefits.** Amounts payable under the Contract will not be less than the minimum required as of the Date of Issue by any statute of the State of New York. Any benefits purchased cannot be forfeited under the Contract.

40. **Correspondence and Requests for Benefits.** No notice, application, form, premium payment, or request for benefits will be deemed to be received by us unless it is received at our home office. All benefits are payable at our home office. Any questions about the Contract or this certificate or inquiries about our service should be directed to us at our address:

TIAA
730 Third Avenue
New York, NY 10017.

41. **Change of Rate Schedule.** We may, at any time and from time to time, substitute a new Contract Rate Schedule for the one in Section 42. A new Rate Schedule will apply only to benefits arising from premiums, any Additional Amounts and any Transfers from CREF credited while that Schedule is in effect. A change in the Rate Schedule will be made only after we have given your Employer three months' written notice of the change. If premiums have been paid for you during the twelve-month period before such notice we will also notify you three months in advance. Any such change will not affect the amount of benefits purchased by premiums, Additional Amounts and Transfers from CREF credited prior to the change. Any new Rate Schedule will specify the charges for expenses and contingencies, the interest rates and the mortality bases used for determining benefits, and any applicable surrender charge on Lump-sum Benefits, arising from: A) premiums paid while such Rate Schedule is in effect; B) Additional Amounts credited while such Rate Schedule is in effect; and C) Transfers from CREF made while such Rate Schedule is in effect.

—over—

42. RATE SCHEDULE

The benefits bought by premiums paid while this Rate Schedule is in effect will be computed on this basis:

(1) no deduction for expenses or contingencies;

(2) interest at the effective annual rate of 3% from the first day of the month in which the premium is paid to the Annuity Starting Date or your prior death, and at the effective annual rate of 2½% thereafter; and

(3) mortality according to the 1983 Table *a* (Merged Gender Mod A).

The benefits bought by Additional Amounts credited while this Rate Schedule is in effect will be computed on the same basis as for premiums.

The benefits bought by transfers from CREF made while this Rate Schedule is in effect will be computed on the same basis as for premiums except that interest will be credited from the day TIAA receives the funds transferred.

When payments start to you, or to your beneficiary under an income method involving life contingencies, we will compute any benefits provided by the portion of the Accumulation resulting from premiums paid, Additional Amounts credited and Transfers from CREF made while this Rate Schedule is in effect, on whichever of these bases produces the largest payments:

(1) the applicable interest rate and mortality tables, as stated above; or

(2) the interest rate and mortality table in use by TIAA for any individual single premium immediate annuities being offered when the payments start.

A Surrender Charge of 2½% will be deducted from any Lump-sum Benefit arising from premiums, any Additional Amounts and any Transfers from CREF credited while this Rate Schedule is in effect.

Amount of Yearly Life Annuity with 10-Year Guarantee Purchasable by a Single Premium of $100

One-twelfth of the amount shown is payable each month

Age Attained When Premium is Due	Annuity Beginning at			Age Attained When Premium is Due	Annuity Beginning at			Age Attained When Premium is Due	Annuity Beginning at		
	Age 60	Age 65	Age 70		Age 60	Age 65	Age 70		Age 60	Age 65	Age 70
20	$15.01	$19.17	$24.87	37	$9.08	$11.60	$15.05	54	$5.49	$7.01	$9.10
21	14.58	18.61	24.15	38	8.82	11.26	14.61	55	5.33	6.81	8.84
22	14.15	18.07	23.44	39	8.56	10.93	14.18	56	5.18	6.61	8.58
23	13.74	17.54	22.76	40	8.31	10.61	13.77	57	5.03	6.42	8.33
24	13.34	17.03	22.10	41	8.07	10.30	13.37	58	4.88	6.23	8.09
25	12.95	16.54	21.45	42	7.83	10.00	12.98	59	4.74	6.05	7.85
26	12.57	16.05	20.83	43	7.60	9.71	12.60	60	4.60	5.87	7.62
27	12.21	15.59	20.22	44	7.38	9.43	12.23	61		5.70	7.40
28	11.85	15.13	19.63	45	7.17	9.15	11.88	62		5.54	7.18
29	11.51	14.69	19.06	46	6.96	8.89	11.53	63		5.37	6.97
30	11.17	14.26	18.50	47	6.76	8.63	11.19	64		5.22	6.77
31	10.84	13.85	17.97	48	6.56	8.38	10.87	65		5.07	6.57
32	10.53	13.44	17.44	49	6.37	8.13	10.55	66			6.38
33	10.22	13.05	16.93	50	6.18	7.90	10.24	67			6.20
34	9.92	12.67	16.44	51	6.00	7.67	9.94	68			6.01
35	9.63	12.30	15.96	52	5.83	7.44	9.66	69			5.84
36	9.35	11.95	15.50	53	5.66	7.22	9.37	70			5.67

The yearly payments shown above are those that result from a premium of $100 paid or credited when you have reached an age shown in the "Age Attained" column, but have not passed that birthday by as much as one month. All ages used in computing benefits are calculated in completed years and months. Payments at ages other than those shown, and under other income methods are computed on the basis stated in the Rate Schedule for benefits bought by premiums. For premiums other than $100, payments will be proportionate.

College Retirement Equities Fund

NEW YORK, N. Y.

GROUP RETIREMENT UNIT-ANNUITY II CERTIFICATE

Certificate Number	Date of Issue Mo. Day Yr.	Date of Birth Mo. Day Yr.	Annuity Starting Date Mo. Day Yr.

CREF

Participant

This is to certify that you, the Participant, are entitled to share in the benefits of COLLEGE RETIREMENT EQUITIES FUND ("CREF") under the provisions of a Group Retirement Annuity II Contract ("the Contract") issued to the ABC Trust Company of New York ("the Contract Holder") under a trust agreement.

This page refers briefly to some of the Contract's features described in your certificate. The next pages set forth in detail the rights and obligations between CREF and you under the Contract. PLEASE READ YOUR CERTIFICATE. IT IS IMPORTANT.

GENERAL DESCRIPTION

All premiums on your behalf must be remitted under the terms of your Employer's Retirement Plan.

Each premium paid to CREF purchases a number of Accumulation Units representing your share in CREF. You may convert these into an income of Annuity Units. If you die before starting to receive this income, the Accumulation Units will provide a benefit for your beneficiary under one of the methods described in your certificate.

Once each year we will report to you on the amount of premiums paid and the current value of your Accumulation Units.

When you are ready to start receiving your income, you choose the income option you want from among those described in your certificate and in accordance with your Employer's Retirement Plan. All options provide an income for you, and all but one also have some provision for another person to be named by you.

You, or your beneficiary at your death, may have CREF pay the value of some or all of your Accumulation Units to Teachers Insurance and Annuity Association of America ("TIAA") for the purchase of a fixed dollar contract or certificate, as explained in your certificate.

You may also be permitted to choose a Lump-sum Benefit payment after Termination of Employment in accordance with your Employer's Retirement Plan.

You may also have CREF pay the value of some or all of your Accumulation Units to other funding vehicles offered under your Employer's Retirement Plan. This is permitted only in accordance with restrictions contained in the Internal Revenue Code which will maintain the tax-deferred nature of your accumulations.

Chairman and Chief Executive Officer

This certificate cannot be assigned nor does it provide for loans.
This Certificate does not guarantee any fixed dollar amount of annuity payments.

INDEX OF PROVISIONS

COLLEGE RETIREMENT EQUITIES FUND
730 Third Avenue, New York, New York 10017

ENDORSEMENT ATTACHED TO GROUP RETIREMENT UNIT-ANNUITY CERTIFICATE

In order to conform to the requirements of the Tax Reform Act of 1984 and the Retirement Equity Act of 1984, this CREF certificate is subject to the following conditions notwithstanding any statements to the contrary which may appear within the certificate:

(1) CHOICE OF INCOME OPTIONS AND METHODS OF PAYMENT OF THE DEATH BENEFIT

The availability of the Income Options and Methods of Payment of the Death Benefit set forth in the certificate is subject to the applicable restrictions and distribution requirements of the Internal Revenue Code of 1954 ("IRC"), as amended, and the rulings and regulations issued thereunder, and the Employee Retirement Income Security Act of 1974 ("ERISA"), as amended, and the rulings and regulations issued thereunder.

(2) ANNUITY STARTING DATE

Your Annuity Starting Date may not be deferred beyond April 1 of the calendar year following the calendar year in which you attain age 70½.

(3) SPOUSE'S RIGHT TO BENEFITS

If all or part of your Accumulation is attributable to contributions made under a retirement plan or tax deferred annuity plan subject to ERISA; then, only to the extent required by the IRC or ERISA, your rights to receive a Lump-Sum Benefit, choose an Income Option, and to name a beneficiary for the Death Benefit are subject to your spouse's right, if any, to benefits as follows:

Spouse's Survivor Unit Annuity Income. If you are married on the Annuity Starting Date, your Income Benefit must be paid under a Survivor Unit Annuity Option with your spouse as Second Participant unless we receive, in form satisfactory to CREF, a waiver of your spouse's right to a Survivor Unit Annuity Income with your spouse's written consent or verification that your spouse cannot be located.

Spouse's Survivor Death Benefit. If you die before the Annuity Starting Date and you are then married, the payment of the Death Benefit to your named beneficiary is subject to your spouse's right to receive a Death Benefit of a unit-annuity which is the actuarial equivalent of one-half of the portion of the Accumulation, if any, attributable to contributions made under a plan subject to ERISA. Your spouse's right to a Survivor Death Benefit may be waived, in form satisfactory to CREF, with your spouse's written consent or verification that your spouse cannot be located. A waiver of the Survivor Death Benefit may not be made prior to the year in which you attain age 35, or, if earlier, your termination of employment with the institution then remitting premiums for this certificate.

Your Lump-Sum Benefit. If you are married on the date you request a Lump-Sum Benefit, in addition to the requirements specified in the certificate for payment of the Lump-Sum Benefit, we must also receive, in form satisfactory to CREF, your spouse's written consent to the payment of the Lump-Sum Benefit or verification that your spouse cannot be located.

Verification of your marital status may be required, in form satisfactory to CREF, for purposes of establishing your spouse's right to benefits or a waiver of these rights. You may revoke a waiver of your spouse's right to benefits at any time during your lifetime and before the Annuity Starting Date. Your spouse may not revoke a consent after the consent has been given.

(4) AUTOMATIC BENEFICIARY DESIGNATION

If you die before the Annuity Starting Date never having named a beneficiary, your estate and your surviving spouse become the beneficiaries as follows:

(a) if you leave no surviving spouse, the Death Benefit will be paid to your estate in one sum;

(b) if you leave a surviving spouse, your spouse will receive a Death Benefit, payable under one of the Methods of Payment of the Death Benefit, which is the acturial equivalent of one-half of the Accumulation with the remainder of the Accumulation being paid to your estate in one sum.

(5) METHOD OF PAYMENT OF THE DEATH BENEFIT

The distribution of the Death Benefit under any Method of Payment must be made over the lifetime of your beneficiary or over a period not exceeding your beneficiary's life expectancy. The Death Benefit must be applied under a chosen Method of Payment within one year of the date of your death; otherwise payments will be made to your beneficiary beginning on the first day of the month in which the first anniversary of your date of death occurs under the Unit Annuity for a Fixed Period Method for a period of five years with payments made annually.

(6) LIABILITY OF CREF

Any action taken by CREF in good faith before receiving written notice of a waiver of rights included in this amendment, or of revocation of such waiver, will not subject CREF to liability because our acts were contrary to what was stated in such waiver or revocation.

The provisions of this amendment are effective January 1, 1985.

Chairman and
Chief Executive Officer

PART A: TERMS USED IN THIS CERTIFICATE

1. **Accounts.** CREF maintains these separate Accounts each with distinct investment portfolios: the **Stock Account** investing primarily in a broadly diversified portfolio of common stocks; and the **Money Market Account** investing primarily in money market instruments.

2. **Accumulation Units.** Each premium paid on your behalf by your Employer, including any required contributions made by you, under the terms of its Retirement Plan, will purchase a number of Accumulation Units determined in accordance with the Rules of the Fund. The premiums will be allocated among CREF's Accounts in accordance with your most recent instructions received by CREF, as detailed in Section 18. The current value of each Account's Accumulation Unit is based on the market value of that Account's investments and will be determined in accordance with the Rules of the Fund.

3. Your **Accumulation** is the value of all of your Accumulation Units. It will provide the benefits described in this certificate.

4. The **Annuity Starting Date** shown on page 3 is the date your income is to begin. The Date may be changed as explained in Sections 20 and 21.

5. An **Annuity Unit** is the unit of payment for all periodic benefits. Separate Annuity Units and values will be maintained in the Stock and Money Market Accounts. The current value of an Annuity Unit will change from time to time to reflect changes in that Account's investment, mortality and expense experience. The dollar value of any payment will be the product of the number of Annuity Units to be paid and the then current value of an Annuity Unit.

6. A **Unit Annuity** is a series of payments of the current value of a fixed number of Annuity Units. The number of Annuity Units to be paid and their then current value will be determined in accordance with the Rules of the Fund, using actuarial methods. The Options under which you may receive your Unit Annuity Income are described in Part C.

7. The **Second Participant** is the person you name, when starting to receive your income under a Survivor Unit Annuity Option, to receive a lifetime income if he or she survives you. You may name your spouse, or any other person eligible under CREF's practices then in effect, to be a Second Participant.

8. The **Death Benefit** is the value of your Accumulation. It will be used to pay your beneficiary an income under one of the methods set forth in Part D if you die before the Annuity Starting Date.

9. A **Transfer** is the use of the value of some or all of your Accumulation Units to purchase fixed dollar benefits under a TIAA annuity contract, to purchase Accumulation Units in another CREF Account, or to purchase benefits through another funding vehicle. The conditions applying to transfers are set forth in Part E.

10. A **Lump-Sum Benefit** may be available to you before the Annuity Starting Date and after Termination of Employment. The provisions concerning this benefit are detailed in Part F and may be limited as shown on Page 3.

11. A **Valuation Day** is a day on which values of Accumulation Units in the CREF Accounts are established. The procedure for determining Valuation Days is contained in the Rules of the Fund.

12. A **Business Day** is any day that the New York Stock Exchange is open for trading. A Business Day ends at 4:00 p.m. New York time, or, if earlier, the time trading on the New York Stock Exchange closes for that day.

13. The **Rules of the Fund** govern all matters affecting the interest of anyone in CREF to the extent such matters are not specifically provided in this certificate. The Board of Trustees of CREF may amend the Rules of the Fund from time to time. Amendments to such Rules are effective only when approved by the Superintendent of Insurance of the State of New York as not being unfair, unjust, inequitable or prejudicial to the interest of anyone in CREF. A copy of the Rules was furnished to you when this certificate was issued; you will be notified of all amendments to the Rules.

14. The **Present Value** is a one-sum payment made in lieu of a series of payments. The Present Value of a series of payments of Annuity Units is computed in accordance with the Rules of the Fund.

15. Your **Employer** is the organization named on Page 3.

16. **Termination of Employment** for the purpose of determining the availability of the Lump-sum Benefit is a bona fide cessation of an employment relationship with your Employer, including retirement. Dissolution or modification of the Retirement Plan; changes in the name or affiliation of your Employer; leaves of absence, with or without pay; vacations or other events not in fact a termination of employment will not be considered a Termination of Employment.

PART B: CONTRACT AND PREMIUMS

17. **The Contract.** The Contract is the entire contract between the parties and its provisions alone will govern with respect to the rights and obligations of CREF. The sole responsibility of the Contract Holder is to serve as a party to the Contract. Any Employer paying premiums under the Contract shall be deemed to accept its terms and those of the trust agreement under which it has been issued.

The payment of premiums is the consideration for the Contract. The Contract may be amended by agreement of CREF and the Contract Holder without the consent of any other person, provided that such change does not reduce any benefit purchased under this certificate up to that time. Any endorsement or amendment of this certificate or waiver of any of its provisions will be valid only if in writing and signed by an Executive Officer or Registrar of CREF.

18. **Premiums.** All premiums on your behalf must be remitted under the terms of your Employer's Retirement Plan. Transfers from another CREF certificate or from a TIAA individual contract or group certificate will be accepted as premiums, subject to the provisions of such contract or certificate, only if all funds under that contract or certificate are attributable solely to premiums remitted under this Employer's Retirement Plan.

We have issued this certificate as evidence of premiums paid on your behalf. All premiums and benefits are payable at CREF's home office in New York, NY. Premiums may be paid in any amount and at any frequency, in accordance with your Employer's Retirement Plan. CREF will accept premiums on your behalf if they are remitted before the Annuity Starting Date or your prior death. CREF reserves the right to stop accepting premiums under the Contract at any time. Each premium will be allocated among CREF's Accounts in accordance with your most recent instructions that have been received by CREF prior to or accompanying the premiums. However, since premiums are remitted on your behalf as part of an employer's benefit plan, your right to allocate such premiums may be limited. If no allocation instructions have been received, all premiums will be allocated to the Money Market Account.

19. **Unconditional Protection Against Lapse or Forfeiture.** The benefits described in your certificate will not lapse after the first premium has been paid. If premiums cease, you continue to own all benefits to be derived from the Accumulation Units already purchased.

PART C: YOUR UNIT ANNUITY INCOME

20. **Changing Your Annuity Starting Date.** Any time before you start to receive your Unit Annuity Income, you may change the Annuity Starting Date to the first of any month after the change, but not to a month later than the one following your seventy-first birthday. If prior to your sixty-fifth birthday you have not chosen an Annuity Starting Date, you will be deemed to have chosen the first of the month following that birthday.

21. **Starting Your Unit Annuity Income.** Payment of your Unit Annuity Income will begin as of the Annuity Starting Date you have chosen, if you are then living and:

A) you have sent us this certificate;
B) you have chosen, as provided in Section 42, one of the Income Options set forth in Section 22; and
C) we have received due proof of your age and, if you choose a Survivor Unit Annuity Option, the age of your Second Participant.

If A, B and C of this Section have not been completed by the Annuity Starting Date you have chosen, the Annuity Starting Date will be deferred to the first of the month after A, B and C have been completed or to the first of the month following your attainment of age seventy-one, whichever comes first.

22. **Income Options** are the ways in which you may have your Unit Annuity Income paid to you. Any time before the Annuity Starting Date, you may choose the Option you want, subject to the provisions of your Employer's Retirement Plan. You may change your choice any time before payments begin, but once they have begun no change can be made. The value of your Accumulation will be the consideration for a CREF individual pay-out unit-annuity certificate providing for the Income Option you choose. Each of the Income Options are available in either the Stock Account or the Money Market Account.

These are the Income Options from which you will choose. All of them provide an income for you, some provide that payments will continue for the lifetime of a Second Participant and some provide that payments will continue in any event during a guaranteed or fixed period as explained in Section 23:

Single Life Unit Annuity. A payment will be made to you each month as long as you live. All payments cease at your death. This Option provides nothing for anyone after your death.

Unit-Annuity for a Fixed Period. A payment will be made to you each month for a fixed period of not less than five nor more than thirty years, as chosen. At the end of the period chosen, no further payments will be made. If you die before the end of the period chosen, the monthly payments will continue to the end of that period.

Life Unit Annuity with 10-, 15- or 20-Year Guaranteed Period. A payment will be made to you each month as long as you live. If you die before the end of the guaranteed period you have chosen, monthly payments will continue to the end of that period.

Survivor Unit Annuity Options. Under each of these Options, a payment will be made to you each month as long as you live, and payments will be continued for life to the Second Participant you have named if he or she survives you. After payments begin, you cannot change your choice of Second Participant. The number of Annuity Units paid to you or a surviving Second Participant each month depends on which of these Options you choose:

Full Benefit to Survivor with or without a 10-, 15- or 20-Year Guaranteed Period. At the death of either you or your Second Participant the monthly payments that continue to the survivor will be the full number of Annuity Units that would have been paid if both had lived. If you choose a guaranteed period and you and your Second Participant both die before the end of the period chosen, the same number of Annuity Units will continue to be paid to the end of that period; otherwise, all payments will cease at the death of the last survivor of you and the Second Participant.

Two-thirds Benefit to Survivor with or without a 10-, 15- or 20-Year Guaranteed Period. At the death of either you or your Second Participant the monthly payments that continue to the survivor will be two-thirds the number of Annuity Units that would have been paid if both had lived. If you choose a guaranteed period and you and your Second Participant both die before the end of the period chosen, the two-thirds number of Annuity Units will continue to be paid to the end of that period; otherwise, all payments will cease at the death of the last survivor of you and the Second Participant.

Half Benefit to Second Participant with or without a 10-, 15- or 20-Year Guaranteed Period. The full monthly number of Annuity Units will not change as long as you live. If your Second Participant survives you, he or she will receive payments each month of one-half the number of Annuity Units you would have received if you had lived. If you choose a guaranteed period and you and your Second Participant both die before the end of the period chosen, the one-half number of Annuity Units will continue to be paid to the end of that period; otherwise, all payments will cease at the death of the last survivor of you and the Second Participant.

Automatic Election Provision. If on the Annuity Starting Date determined in accordance with Sections 20 and 21, you have not chosen an Income Option, you will be deemed to have chosen the "Life Unit Annuity with 10-Year Guaranteed Period" Option if you are then not married, or the "Half Benefit to Second Participant with 10-Year Guaranteed Period" Option if you are then married.

23. **Payments to the End of a Guaranteed or Fixed Period.** At the time you choose an Income Option, you name the person or persons to receive these payments. You may later change the named persons and, if you choose a Survivor Unit Annuity, after your death your surviving Second Participant may change the named persons unless you direct otherwise.

Any monthly payments due after your death and, if you have chosen a Survivor Unit Annuity Option, the death of your Second Participant, will continue to the surviving person or persons named to receive them for the remainder of the guaranteed or fixed period you have chosen. The Present Value of these payments may be paid in one sum unless we are directed otherwise.

If no one has been named to receive these payments, or if no one so named is then living, the Present Value will be paid in one sum to your estate or, if you chose a Survivor Unit Annuity Option, to the estate of the last survivor of you and your Second Participant.

If a person receiving these payments dies before the end of the guaranteed or fixed period, the Present Value of any payments still due that person will be paid to any other surviving person or persons named to receive it. If no one has been so named, the Present Value will be paid to the estate of the last person who was receiving these payments.

24. The **Number of Annuity Units** in each Account will be determined as of the Annuity Starting Date, in accordance with the Rules of the Fund, by: A) the value of your Accumulation Units in the Account at that time; B) the Income Option you choose; C) your age; D) if you choose one of the Survivor Unit Annuity Options, your Second Participant's age; and E) the value of the Account's Annuity Unit at that time. If your initial Unit Annuity payment would be less than $25, CREF will have the right to change to quarterly, semi-annual or annual payments, whichever would result in an initial payment of $25 or more and the shortest interval between payments.

PART D: DEATH BENEFIT

25. The **Death Benefit**. If you die before the Annuity Starting Date, CREF will pay the Death Benefit to your beneficiary under one of the Methods of Payment set forth in Section 29. You may choose the Method during your lifetime as explained in Section 42. If you do not so choose, your beneficiary will make the choice when he or she becomes entitled to payments. You may change the Method at any time before payments begin. After your death, your beneficiary may also change the Method chosen by you, if you so provide. Any choice of Method or change of such choice must be made in writing as explained in Section 42.

26. **Naming Your Beneficiary.** Beneficiaries are persons you name, in form satisfactory to CREF, to receive the Death Benefit if you die before the Annuity Starting Date. You may designate different classes of beneficiaries, such as primary (first) and contingent (secondary). These classes set the order of payment. If a class contains more than one person, the Death Benefit will be paid to the then living persons in the class in equal shares, unless you provide otherwise. For example, if you die before the Annuity Starting Date, having named your spouse as primary beneficiary and "children" as equal contingent beneficiaries, your spouse would receive the Death Benefit if he or she survived you. But if your spouse did not survive you, then your surviving children would receive the Death Benefit in equal shares.

The terms "children" or "my children" may be used to name a class of beneficiaries, either primary or contingent. Unless you specify otherwise, these terms will mean all children born of your marriage or marriages and any children legally adopted by you. The term "children" also has the same inclusive meaning when used to name as beneficiaries the children of your spouse, your child, your brother or your sister.

If you name your estate as beneficiary, or if none of the beneficiaries you have named is alive at the time of your death, the Death Benefit will be paid to your estate in one sum.

If you die prior to the Annuity Starting Date never having named a beneficiary, your estate and your surviving spouse, if any, become the beneficiaries as follows:

A) if you leave no surviving spouse, the Death Benefit will be paid to your estate in one sum;

B) if you leave a surviving spouse, your spouse will receive lifetime monthly payments of the number of Annuity Units he or she would have received as Second Participant if you had started to receive your Income Benefit as of the first day of the month in which you die, having chosen the "Half Benefit to Second Participant with 10-Year Guaranteed Period" Option. The part of the Death Benefit not needed to provide this income to your spouse will be paid to your estate in one sum.

27. **Changing Your Beneficiary.** At any time before the Annuity Starting Date, you may change your beneficiary or add or delete beneficiaries as explained in Section 42.

28. **Payment of the Death Benefit**. Payment of the Death Benefit under one of the Methods set forth in Section 29 will start as of the first day of the month after we have received:

A) this certificate;

B) due proof of your death;

C) the choice, as provided in Section 42, of a Method of Payment set forth in Section 29; and

D) due proof of the beneficiary's age, if the Method chosen pays a lifetime income.

The amount to be paid under the Single-sum Method will be determined as of the end of the Business Day in which all the above requirements are met.

29. **Methods of Payment.** The Death Benefit will be paid to your beneficiary under one of the Methods shown below. For all Methods except Single-sum and Transfer to a TIAA Pay-out Annuity, the Death Benefit will be the consideration for a CREF individual pay-out certificate providing for the Method of Payment chosen. Each of the Methods of Payments, other than the Transfer to a TIAA Pay-out Contract, is available in either the Stock Account or the Money Market Account.

Single-sum. The Death Benefit will be paid to your beneficiary in one sum.

Single Life Unit Annuity. A payment will be made to your beneficiary each month for life. All payments will cease at his or her death. This Method provides nothing for anyone after the death of your beneficiary.

Life Unit Annuity with 10-, 15- or 20-Year Guaranteed Period. A payment will be made to your beneficiary each month for life. If he or she dies before the end of the guaranteed period chosen, the monthly payments will continue to the end of that period as explained in Section 30.

Unit Annuity for a Fixed Period. A payment will be made to your beneficiary each month for a fixed period of not less than two nor more than thirty years, as chosen. At the end of the period chosen, the entire Death Benefit will have been paid out and no further payments will be made. If your beneficiary dies before the end of the period chosen, monthly payments will continue to the end of that period as explained in Section 30.

Unit Deposit. CREF will hold your beneficiary's Accumulation Units on deposit for a chosen period of not less than two nor more than thirty years. No periodic payments will be made under this Method. At the end of the period chosen, CREF will make a one-sum payment to your beneficiary. This one-sum payment will be the then current value of all Accumulation Units held by CREF for your beneficiary. If your beneficiary dies while any part of the Death Benefit is held by CREF, that amount will be payable as explained in Section 30. Instead of a chosen period, the Accumulation Units may be held on deposit for "the lifetime of the beneficiary," with the one-sum payment made after the death of your beneficiary as explained in Section 30. The value of the Death Benefit placed under this Method must be at least $5,000.

Transfer to a TIAA Pay-out Contract. CREF will pay to TIAA the Death Benefit for the purchase of a pay-out annuity on the life of the beneficiary, or a pay-out annuity for a fixed period of not less than two nor more than thirty years, or an interest payments contract for A) the lifetime of the beneficiary or B) a chosen period of not less than two nor more than thirty years. The premium and pay-out rates for the TIAA contract will be the rates applying to such transfers at that time; the contract will give the beneficiary the same rights as any person then being issued a similar TIAA contract. The value of a Death Benefit transferred under this Method must be at least $1000; however, if an Interest Payments contract is chosen, the value a Death Benefit transferred must be at least $5,000.

If any Method chosen, except Unit Deposit, would result in an initial payment of less than $25, CREF will have the right to require a change in choice that will result in an initial payment of not less than $25 a month.

30. **Payments after the Death of a Beneficiary.** Any monthly payments still due at the death of your beneficiary during a guaranteed or fixed period will be continued to the person or persons named by you or your beneficiary to receive them. The Present Value of these payments may be paid in one sum unless we are directed otherwise.

If no one has been named to receive these payments, or if no one so named is living at the death of your beneficiary, the Present Value will be paid in one sum to your beneficiary's estate.

If a person receiving these payments dies before the end of the guaranteed or fixed period, the Present Value of any payments still due that person will be paid to any other surviving person or persons named to receive it. If no one has been so named, the Present Value will be paid to the estate of the last person who was receiving these payments.

If your beneficiary dies while any Accumulation Units are held by CREF under the Unit Deposit Method, their then current value will be paid in one sum to the surviving person or persons named to receive it. If no such person survives your beneficiary, the then current value of all Accumulation Units held on deposit will be paid in one sum to your beneficiary's estate.

31. The **Number of Annuity Units for a Beneficiary** in an Account will be determined, in accordance with the Rules of the Fund, by: A) the value of your Accumulation Units in the Account as of the date of your death; B) the Method of Payment chosen for the Death Benefit; C) if the Method chosen pays a lifetime income, the age of your beneficiary; and D) the value of the Account's Annuity Unit.

PART E: TRANSFERS

32. **Transfer to TIAA Dollar Annuity.** You may have CREF pay to TIAA all or a part of your Accumulation to be applied for the purchase of an annuity from TIAA, under the terms of your Employer's Retirement Plan, or a TIAA pay-out annuity contract on your life, provided the request for transfer is made before the Annuity Starting Date, and subject to the following conditions:

A) the premium or pay-out rates for the TIAA annuity will be the rates applying to such Transfers at the time the Transfer is made;
B) you will have the same rights under the TIAA annuity as any person then being issued a similar annuity;
C) the Transfer will take effect and all values will be determined as of the end of the Business Day in which we receive your request for transfer or, if you choose, the last day of the current month or of a specified future month;
D) the request for a Transfer cannot be revoked after the effective date of such Transfer;
E) the amount transferred must be at least $1,000;
F) the TIAA annuity will not provide for assignment or loans or contain cash surrender benefits other than the limited cash surrender described in this certificate; and
G) You must specify the portion of each Transfer to be applied against your Accumulation in each CREF Account.

The number of your Accumulation Units will be reduced by the number of such Units transferred to TIAA.

CREF reserves the right to limit Transfers to TIAA for a 90-day period following any transfer of funds to CREF from a TIAA annuity on your behalf. CREF also reserves the right to limit Transfers from any Account to not more than once in any month or more than twice in any calendar year.

33. **Transfer to Another CREF Account.** You may have CREF use the value of your Accumulation Units to purchase Accumulation Units in any other CREF Account at their then current value. The request for such Transfer must be made before the Annuity Starting Date and is subject to the following conditions:

A) the Transfer will take effect and all values will be determined as of the end of the Business Day in which we receive your request for transfer or, if you choose, the last day of the current month or of a specified future month;
B) the request for a Transfer cannot be revoked after the effective date of such Transfer;
C) the amount transferred must be at least $1,000; and
D) You must specify the portion of each Transfer to be applied against your Accumulation in each CREF Account.

CREF reserves the right to limit Transfers from any Account to not more than once in any month or more than twice in any calendar year.

34. **Transfer to Another Funding Vehicle.** You may have CREF transfer the value of some or all of your Accumulation to your Employer (or a trustee where appropriate) for transfer to another funding vehicle under the Employer's Retirement Plan. At your Employer's request, CREF will transfer the funds directly to another funding vehicle. The request for such Transfer must be made before the Annuity Starting Date and is subject to the following conditions:

A) the Transfer will take effect and all values will be determined as of the end of the Business Day in which we receive your request for transfer or, if you choose, the last day of the current month or of a specified future month;
B) the request for a Transfer cannot be revoked after the effective date of such Transfer;
C) the amount transferred must be at least $1,000; and
D) You must specify the portion of each Transfer to be applied against your Accumulation in each CREF Account.

CREF reserves the right to limit Transfers from any Account to not more than once in any month or more than twice in any calendar year.

PART F: LUMP-SUM BENEFITS

35. **Availability of Lump-sum Benefit.** You may choose to receive a Lump-sum Benefit after Termination of Employment if provided for in your Employer's Retirement Plan. The portion of the Accumulation available to you as a Lump-sum Benefit, as well as the timing and frequency of such payments, may be limited by your Employer's Retirement Plan. Any such limitation is described on Page 3.

36. **Payment of the Lump-sum Benefit.** If you choose the Lump-sum Benefit, we will pay the portion of the Accumulation available to you, or any part thereof not less than $1000. Payment will be made as of the end of the Business Day in which we receive: A) your request for a Lump-sum Benefit; B) an authorization for such benefit payment from your Employer; and C) all premium payments to be made for your benefit under your Employer's Retirement Plan. You may choose to defer the effective date of the Lump-sum Benefit until the last day of the month in which we receive (A), (B) and (C) above. The Accumulation will be reduced by the amount of a Lump-sum Benefit paid. You must specify the portion of each Lump-sum Benefit to be applied against your Accumulation in each CREF Account.

PART G: GENERAL PROVISIONS

37. **Report of Premiums and Accumulation.** Once each year until the Annuity Starting Date, we will mail you a report for the calendar year just ended. It will show the amount of premiums paid during the year and the value of your Accumulation (Death Benefit) as of the end of the year.

38. **No Assignment.** Neither you nor any other person may assign, pledge, or transfer ownership of this certificate or any benefits under the terms of the Contract. Any such action will be void and of no effect.

39. **No Loans.** The Contract does not provide for loans.

40. **Limited Cash Surrender Benefits.** The only provision for cash surrender under the Contract is the Lump-sum Benefit. There is no other cash surrender available under the terms of the Contract.

41. **Protection Against Claims of Creditors.** The benefits and rights accruing to you or any other person under the Contract are exempt from the claims of creditors or legal process to the fullest extent permitted by law. This protection is contained in the statute of the State of New York establishing CREF.

42. **Procedure for Elections and Changes.** You, or your Second Participant or beneficiary having the right to do so, may elect or change, in accordance with the terms of your certificate, any of the following by written notice satisfactory to CREF sent to its home office in New York, NY:

A) the Annuity Starting Date;
B) an Income Option;
C) a Transfer;
D) a Lump-sum Benefit;
E) a Method of Payment for the Death Benefit; or
F) a beneficiary or any person named to receive payments remaining due.

No such notice will take effect unless it is received by CREF. When received it will be considered operative as of the date it was signed, whether or not the signer is living at the time we receive it. Any action taken by CREF in good faith before receiving the notice will not subject CREF to liability because our acts were contrary to what was stated in the notice.

43. **Payment to an Estate, Guardian, Trustee, etc.** CREF reserves the right to pay in one sum the Present Value of any benefits due an estate, corporation, partnership, trustee or other entity not a natural person. CREF will not be responsible for the acts or neglects of any executor, trustee, guardian, or other third party to whom payment is made.

44. **Service of Process upon CREF.** We will accept service of process in any action or suit against us on the Contract in any court of competent jurisdiction in the United States, Puerto Rico or Canada provided such process is properly made. We will also accept such process sent to us by registered mail if the plaintiff is a resident of the state, district, territory, or province in which the action or suit is brought.

This Section does not waive any of our rights, including the right to remove such action or suit to another court.

45. **Benefits Based on Incorrect Data.** If the amount of benefits is determined by data as to a person's age and if that data is incorrect, benefits will be recalculated on the basis of the correct data. If any overpayments or underpayments have been made by CREF, adjustments will be made in accordance with the Rules of the Fund.

46. **Proof of Survival.** CREF reserves the right to require satisfactory proof that anyone named to receive benefits under the terms of the Contract is alive on the date any benefit payment is due. If this proof is not received after requested in writing, CREF will have the right to make reduced payments or to withhold payments entirely until such proof is received. If under a Survivor Unit Annuity Option, CREF has overpaid benefits because of a death, subsequent payments will be reduced or withheld until the amount of the overpayment has been recovered.

47. **Non-Forfeiture of Benefits.** Benefits payable under the Contract will not be less than the minimum required as of the Date of Issue by any statute of the State of New York. Any benefits purchased cannot be forfeited under the Contract.

48. **Correspondence and Request for Benefits.** No notice, application, form, premium payment, or request for benefits will be deemed to be received by us unless it is received at our home office. All benefits are payable at our home office. Any questions about the Contract or this certificate or inquiries about our service should be directed to us at our address:

CREF
730 Third Avenue
New York, NY 10017.

49. **Overpayments of Premiums.** Any payments of premiums by the Employer in excess of those required by the Retirement Plan made in error, will be refunded to the Employer if requested in writing by the Employer prior to the Annuity Starting Date subject, however, to prior Transfers or Lump-sum Benefits made from such funds. CREF is entitled to rely on information provided by the Employer. The employer shall indemnify CREF and hold CREF harmless for any action taken in reliance on such request.

50. **Internal Revenue Code.** The contract shall be administered to comply with the Internal Revenue Code of 1986, as amended from time to time, and in particular the sections of such Code and regulations pertaining to plans described in Sections 401(a) and 403(b).

AGREEMENT FOR 401(A) ANNUITY AND CUSTODIAL ACCOUNT SERVICES

This Agreement is entered into by and between the Minnesota Higher Education Board and Teachers Insurance and Annuity Association - College Retirement Equities Fund (hereinafter referred to as "TIAA-CREF" or "Provider").

WHEREAS, pursuant to Minnesota Statutes §136E.04 the Higher Education Board is responsible for the individual retirement account plans established pursuant to Minnesota Statutes chapter 354B;

WHEREAS, pursuant to Minnesota Laws 1995, Chapter 212 the name of the Minnesota Higher Education Board is changed to the Board of Trustees of the Minnesota State Colleges and Universities effective July 1, 1995;

WHEREAS, TIAA-CREF has been approved by the Minnesota State Board of Investment as a financial institution which may provide annuity products to the Higher Education Board;

WHEREAS, the Minnesota State Board of Investment has approved the terms of this Agreement;

WHEREAS, the Minnesota Higher Education Board and TIAA-CREF has entered into a group qualified 401(A) annuity policy, TIAA GRA contract and the CREF GRA II certificate (hereinafter referred to as " the Contract") which is attached hereto as Exhibit A and incorporated by reference herein: (hereinafter the Contract and this Agreement are collectively referred to as the "contract").

NOW, THEREFORE, the Minnesota Higher Education Board and TIAA-CREF in consideration of the promises and mutual agreements contained in this Agreement agree as follows:

1. For the term of the contract, there will be no contract maintenance charge, contingent deferred sales charges, or transfer fees beyond those transfer fees described in this paragraph. Participants may transfer their TIAA account balances and CREF account balances without charge in accordance with the following provisions:

   Transfers Among TIAA and CREF:

   Participants may make transfers at any time before receiving annuity income. Participants may transfer accumulations in TIAA to the CREF accounts. Participants may transfer all or a portion of their accumulation in ten substantially equal payments with no transfer charges, but participants must transfer at least $10,000 from TIAA. If the balance is less than $10,000, the full amount must be transferred. Participants may transfer balances among the CREF accounts without fees or frequency limitations, but participants must transfer at least $1,000 from a CREF account. If the balance in a CREF account is less than $1,000, the full amount must be transferred.

Transfers From TIAA and CREF to Other Carriers:

Participants may make transfers at any time before receiving annuity income. Participants may transfer without charge to options of other Plan product providers all or a portion of their accumulations in TIAA in ten substantially equal payments, but participants must transfer at least $10,000 from TIAA. If the balance is less than $10,000 the full amount must be transferred.

Participants may transfer without fees or frequency limitations all or a portion of balances from CREF accounts to options of other Plan product providers at any time before receiving annuity income. Participants must transfer at least $1,000 from a CREF account, but the entire balance must be transferred if less than $1,000.

Upon separation of service or retirement, participants may withdraw all or a portion of balances in CREF accounts with no withdrawals charges, Upon separation of service or retirement, participants may withdraw all or a portion of their accumulations in TIAA within 120 days after termination of employment, subject to a 2.5 percent withdrawal charge. After 120 days after termination of employment, participants may withdraw their TIAA accumulations in fixed periods of from five to thirty years without charge.

2. Upon termination, the product providers may not introduce transfer fees affecting the portability of Plan assets. The Provider agrees that Plan portability, contract maintenance charges and contingent deferred sales charges will not be less favorable after the termination of the contract than the provisions contained in the contract.

3. The Provider agrees that it will charge no front-end load on contributions in addition to any assessed by the Plans' Administrative Services Agent (ASA.)

4. The Provider agrees that it will disclose all fees, expenses and charges (whether direct or indirect) to participants, to the Plans' ASA, to the Higher Education Board and to the State Board of Investment (SBI). The Provider agrees to disclose all investment option rates of return to the ASA within seven business days of the close of each calendar quarter in the manner specified by the SBI, unless by a reasoned written opinion of counsel to do otherwise would violate any restriction of the Securities and Exchange Commission (SEC), the Minnesota Department of Commerce, or of any other governing regulatory body.

5. The following investment options have been selected by the Provider for deposits received after July 1, 1995:

Core Products

Fixed/Guaranteed account	TIAA Traditional Annuity
Money Market account	CREF Money Market Account
Bond account	CREF Bond Market Account
Balanced account	CREF Social Choice Account
Equity Account	CREF Stock Account
International/Global account	CREF Global Equities Account

Additional Products

TIAA-CREF Growth Account
TIAA-CREF Equity Index Account

The Provider may add or substitute investment options only upon written agreement of the SBI and only 60 days after written notice to the SBI of such intention to add or substitute.

6. The Provider agrees to furnish data about itself (including, but not limited to, financial data permitting an assessment of its credit worthiness) and/or its annuity contracts when requested by the SBI, the ASA or the Higher Education Board. In addition, the books, records, documents and accounting procedures and practices of the Provider relevant to the contract shall be subject to examination by the SBI, the Higher Education Board and the Minnesota Legislative Auditor of the State of Minnesota.

7. The Provider agrees to provide product information, forms, and communication materials to the Plans' ASA for distribution to participants. The Provider agrees to make presentations to participant groups at the times, places, and frequency as arranged by the Plans' ASA.

8. To the extent permitted by law, the Provider will reimburse the SBI for the Provider's pro-rata share (determined by dividing the total cost by the number of product providers) of costs incurred by SBI, including consultant fees, for its review of the Plans, up to a maximum of $50,000 for the life of the contract, without prior consent of the Provider. Payment shall be made based on an invoice prepared and submitted by the SBI. The invoice schedule will be determined by the SBI but the Provider will be invoiced no more often than quarterly. Payments are due 30 days from the date of receipt of the invoice by the Provider.

9. The Higher Education Board will have an unconditional ability to terminate the contract on June 30, 2000.

10. Subject to the Provider's right to cure, the contract may be terminated by the Higher Education Board for cause at any time during the contract term upon sixty (60) days written notice to the Provider. "Cause" is defined as:

- Malfeasance, Misfeasance or Fraud.

- Failure to perform any provision of the contract, subject to the Provider having 90 days to cure any failure of contract performance.

- A material change in the Provider's financial position, defined as the occurrence of two or more of the following:

  Standard & Poor's rating falls to A+ or lower,

  Moody's rating falls to A3 or lower,

  Duff & Phelps rating falls to A+ or lower.

However, in the event of any drop in ratings that is a result of a recalibration of the life insurance industry by any of the aforementioned rating agencies, the parties will use best efforts to cause this provision to be amended consistent with any such recalibration.

11. Participants who have begun receiving an annuity will not be affected by termination of the contract. In the event that the contract is terminated, either on the contract expiration date or before, the contract will include the following termination option:

    a) No new contributions will be accepted by the Provider, but participants will continue to direct the investment of their existing balances under the program.

12. the Provider agrees that:

    a) When making any benefit payments in accordance with the Plan, the Provider shall report to the Internal Revenue Service the amounts of such payments in accordance with Internal Revenue Service requirements.

    b) the Provider agrees to withhold federal and state income taxes from benefit payments in accordance with instructions from the Plan participant as to the amounts to be withheld, or as is otherwise required by the Internal Revenue Service or by appropriate state tax authorities.

13. The Provider agrees that, with respect to matters relating to the Plan, the Provider will make information from its participant account records and aggregate level information from its participant account records available to the SBI, the Higher Education Board, and the ASA upon request. The Provider shall provide, at its

expense, software to allow the Higher Education Board and the ASA access to the Provider's system of Plan participation information relating to the contract. All parties agree that Plan participant records are private and that only the product provider, the SBI, the Higher Education Board, and the ASA, where necessary, shall have access to such records.

14. The Provider agrees to comply in all areas with:

    a) Rules of the Plans;

    b) *Minnesota Statutes* Chapter 354B and Section 356.24, subd. 1 and any amendments thereto, provided such amendments do not impair a material provision of the Group Annuity Contract and this Agreement; and

    c) 401(a) of the Internal Revenue Code of 1986, as amended, or any rules and regulations thereunder.

15. No amendments to the contract shall be effective unless such amendment shall be in writing and signed by all of the parties thereto.

16. Any notice under the contract must be in writing and may be given by or on behalf of the Provider by delivering the same to the Higher Education Board or by mailing it to the Higher Education Board at its address of record with the Provider, and any notice to the Provider given by the Higher Education Board shall be in writing and mailed to the Provider at its Home Office. Any such notice shall be effective on the date of receipt unless the terms of the contract dictate otherwise.

17. The contract shall be construed according to the laws of Minnesota.

18. The Provider hereby agrees to indemnify and hold harmless the State of Minnesota, the Minnesota State Board of Investment, the Higher Education Board (herein collectively the "Boards"), each member of the Boards individually, the officers, and employees of each and every of the above, their successors, and any combination thereof, from all claims, demands, or causes of action arising out of an act or omission of the Provider related to the contract.

    The Provider shall reimburse the SBI or the Higher Education Board for all reasonable expenses incurred to defend and legal proceedings that may be brought against the State of Minnesota, the SBI, the Higher Education Board, each member of the Boards individually, the officers, and employees of each and every of the above, their successors, and any combination thereof, on any claim or demand effected by this section, and shall satisfy any judgment that may be rendered against such party or parties in respect to any such claim or demand. The SBI or the Higher Education Board shall notify the Provider upon receipt of any such claim or demand which it receives. Pursuant to *Minnesota Statutes* Section 8.06, the Minnesota Attorney General (or its designee) shall be the legal counsel for the State of

Minnesota, the Boards, the members of the Boards individually, and the officers, agents and employees of the Boards or the State of Minnesota.

19. The Provider certifies that it has received a certificate of compliance from the Commissioner of Human Rights pursuant to *Minnesota Statutes* section 363.073.

20. To the extent the Provider has access to data of the State entities which is classified as private, nonpublic or confidential pursuant to the Minnesota Government Data Practices Act, *Minnesota Statutes* Chapter 13, the Provider agrees to comply with the requirements of *Minnesota Statutes* Chapter 13 in providing services under the contract. The Provider agrees to indemnify, save and hold harmless the State of Minnesota, the Minnesota State Board of Investment, the Higher Education Board, each member of the Boards individually, the officers, ~~agents~~ and employees of each and every of the above, from all claims, demands, or causes of action arising out of, resulting from any act or omission of the Provider or in any violation by the Provider of any provision of the Minnesota Government Data Practices Act, *Minnesota Statutes* Chapter 13, including legal fees and disbursements paid or incurred to enforce this provision of the contract. In the event the Provider subcontracts any or all of the work to be performed under contract, the Provider shall retain responsibility under this paragraph for compliance with the Minnesota Government Data Practices Act.

21. Any waiver at any time by either party hereto of any right with respect to any matter arising in connection with the contract shall not be deemed to be a waiver with respect to any subsequent matter.

22. The Provider shall assign to the State of Minnesota any and all claims for overcharges as goods and/or services provided in connection with the contract resulting from antitrust violations which arise under the antitrust laws of the United States and the antitrust laws of the State of Minnesota.

23. The provisions relating to portability, fees, and responsibilities of the Provider shall survive any termination of the contract.

24. This Agreement shall be effective beginning July 1, 1995. TIAA GRA contract, the CREF GRA II Certificate and this Agreement, supersede and replace any other previous Contracts, Agreements, Riders, or Representations.

25. Effective July 1, 1995, TIAA-CREF will change the name on the existing TIAA GRA contract and the CREF GRA II certificate to the Board of Trustees of Minnesota State Colleges and Universities effective July 1, 1995. Effective July 1, 1995 all references in this contract to the Minnesota Higher Education Board shall refer to the Board of Trustees of the Minnesota State Colleges and Universities.

Higher Education Board

By: ____________________ ____________________Date

Name: ____________________

Title: ____________________

TIAA-CREF

By: ____________________ ____________________Date

Name: ____________________

Title: ____________________

By: ____________________ ____________________Date

Name: ____________________

Title: ____________________

STATE OF MINNESOTA
THE OFFICE OF THE ATTORNEY GENERAL

By: ____________________

Name: ____________________

Title: ____________________

STATE OF MINNESOTA
DEPARTMENT OF ADMINISTRATION

By: ____________________

Name: ____________________

Title: ____________________

STATE OF MINNESOTA
DEPARTMENT OF FINANCE

By: ____________________

Name: ____________________

Title: ____________________