MINNESOTA STATE BOARD OF INVESTMENT MEETING
December 20, 1995
&
INVESTMENT ADVISORY COUNCIL MEETING
December 12, 1995

AGENDA
STATE BOARD OF INVESTMENT
MEETING
Wednesday, December 20, 1995
8:30 A.M. - Room 112
State Capitol - Saint Paul

	TAB
1. Approval of Minutes of October 10, 1995	
2. Report from the Executive Director (H. Bicker)	
A. Quarterly Investment Review (July 1 - September 30, 1995)	**A**
B. Portfolio Statistics (September 30, 1995)	**B**
C. Administrative Report	**C**
1. Reports on budget and travel.	
2. Distribution of FY95 annual report draft.	
3. Report on post retirement benefit increase for FY95.	
3. Report from the SBI Administrative Committee (M. McGrath)	**D**
A. Approval of contract amendment for the Deferred Compensation Plan.	
B. Approval of Securities Repurchase Pilot Program.	
4. Reports from the Investment Advisory Council (J. Yeomans)	
A. Domestic Manager Committee	**E**
1. Review of manager performance.	
2. Review of presentation by active bond managers regarding below investment grade debt.	
3. Update on implementation of revised asset allocation targets.	
4. Approval to terminate a contract with TCW for active bond management.	
C. International Manager Committee	**F**
1. Review of manager performance	
2. Discussion of emerging markets program structure.	
3. Approval of finalists for emerging markets manager search.	
D. Alternative Investment Committee	**G**
1. Results of annual review sessions.	
2. Approval of additional investment for the Basic Retirement Funds with an existing resource manager, First Reserve.	
3. Approval of additional investment for the Basic Retirement Funds with an existing real estate manager, Zell/Merrill Lynch.	
4. Approval of additional investment for the Basic Retirement Funds with an existing private equity manager, ChiCorp Management.	
5. Approval of investment for the Post Retirement Fund with a new real estate manager, Hyperion/Equitable.	
4. Report from the Proxy Committee (P. Sausen)	

NOT OFFICIAL DRAFT

Minutes
State Board of Investment
October 10, 1995

The State Board of Investment (SBI) met at 8:30 A.M. on Tuesday, October 10, 1995 in Room 125, State Capitol, St. Paul, Minnesota. Governor Arne H. Carlson, Chair; State Auditor Judith H. 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 June 28, 1995 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 June 30, 1995 (Combined Funds 11.8% vs. Inflation 3.5%) and matched the median fund (both at 10.6%) for the most recent five years. He added that the Combined Funds also outperformed its composite index (Combined 10.6% vs. Composite 10.5%) over the same five year period. He reported that the Basic Funds had exceeded their composite index (Basics 10.6% vs. Composite 10.5%) over the last five years while the Post Fund had underperformed its composite index for the two year period July 1, 1993 - June 30, 1995 (Post 8.9% vs. Composite 9.2%).

Mr. Bicker reported that the Basic Funds' assets increased 5.9% for the quarter ending June 30, 1995 due to positive investment returns and that the asset mix is basically in-line with policy targets. He said that the Basic Funds had matched its composite index for the quarter (both at 6.7%) and had trailed it for the year (Basics 15.8% vs. Composite 16.6%).

Mr. Bicker stated that the domestic stock manager group underperformed for the quarter (Domestic Stocks 9.0% vs. Wilshire 5000 9.3%) and that the international stock manager group had outperformed its target for the quarter (International Stocks 2.8% vs. EAFE Free 0.8%). He added that the domestic bond manager group matched its target for the quarter (both at 6.1%).

Mr. Bicker reported that the Assigned Risk Plan (ARP) had outperformed its composite index for the quarter (ARP 6.2% vs. Composite 5.5%) and year (ARP 13.8% vs. Composite 13.3%). He said that the equity segment of the Assigned Risk Plan (ARP) had matched its benchmark for the quarter (at 9.5%) and that the bond segment had outperformed for the quarter (Bond Segment 5.3% vs. Benchmark 4.5%). He concluded his report with the comment that as of June 30, 1995 the SBI was responsible for over $26 billion in assets. In response to a question from Mr. McGrath, Mr. Bicker said that preliminary data for performance through August shows that the stock managers had outperformed their benchmark and the market.

Executive Director's Administrative Report
Mr. Bicker referred members to Tab B for the Portfolio Statistics and Tab C of the meeting materials for the current budget and travel reports. He noted that the December Board meeting had been rescheduled for December 20, 1995.

Asset Allocation Committee Report
Ms. Yeomans referred members to Tab D of the meeting materials and stated that the Committee is recommending that the Board approve changes to its asset allocation targets, as outlined in the Committee Report. She said the changes include increasing the allocation to international stocks from 10% to 15%.

In response to a questions from Mr. Carlson, Mr. Bicker stated that when the Board made its initial investments in international stocks in 1992, staff stated that the longer range plan was to expand the allocation after the SBI gained more knowledge and experience in the international markets. He added that the advantages to the expanded allocation are increased diversification and the potential for increased returns. Mr. Humphrey noted that while he is willing to expand the allocation, he feels that a move to around 12% is more appropriate. In response to a question from Ms. Growe, Ms. Yeomans stated that the IAC had not contemplated any allocation than the proposed 15% at this time. Mr. Bicker noted that many funds, both public and corporate, have allocations higher than 15% and that staff advocates increasing the allocation to international stocks over time.

In response to a question from Mr. Carlson, Mr. Bicker said that the international segment has returned 13.2% on an annualized basis since its inception in October 1992. In response to a question from Ms. Growe, Mr. Bicker confirmed that international returns can be expected to be more volatile than other asset classes. Mr. McGrath noted that the Committee's recommendation also includes expanding the exposure to emerging markets. In response to a question from Mr. Carlson, Mr. Bicker explained that investing in smaller countries that are experiencing rapid growth gives the SBI additional opportunities for higher returns. He added that the IAC was unanimous in their support of this recommendation. Mr. Carlson said he believes that the timing of the expansion is important and he noted Mr. Humphrey's concern regarding the amount of increase proposed. He added that the SBI's goal is to make money for the pension funds and not to look traditional in the market place in terms of asset allocation. Mr. McGrath moved approval of the Committee's recommendation, as stated in the Committee Report, which reads: "The Committee recommends that the SBI adopt the asset allocation targets shown in *Attachment A* for the Basic Retirement Funds and the Post Retirement Fund. Further, the Committee recommends that the SBI adopt the staff analysis which begins on *page 9* of this tab section as its policy statement on the rationale for this asset allocation decision." Ms. Dutcher seconded the motion. In response to a question from Ms. Growe, Mr. Bicker clarified that the proposed emerging markets allocation is 2% of the total fund. The motion passed (Mr. Humphrey asked to be recorded as a "no" vote).

Ms. Yeomans stated that the Committee is also recommending rebalancing guidelines that would allow domestic equities and alternative investments in the Basic Funds to be viewed as one combined asset class for rebalancing purposes. She added that the guidelines for the Post Fund would continue to treat bonds and alternative investments as one asset class for rebalancing purposes. In response to a question from Mr. Carlson, Mr. Bicker clarified that the guidelines pertain only to the uninvested portion of the allocation to alternative investments. Mr. Carlson stated that at some point in the future he may approach the Board with a proposal concerning technology transfer and the University of Minnesota. Ms. Growe moved approval of the Committee recommendation, as stated in the Committee Report, which reads "Staff recommends that the SBI adopt the rebalancing guidelines contained in *Attachment B* for the Basic and Post Retirement Funds." Ms. Dutcher seconded the motion. The motion passed.

Domestic Manager Committee Report
Ms. Yeomans referred members to Tab E of the meeting materials and stated that the Committee had reviewed the organizational changes that have taken place at BEA Associates and is recommending that BEA be removed from probation status. Mr. Humphrey moved approval of the Committee's recommendation, as stated in the Committee Report which reads "The Committee recommends that BEA Associates be removed from probation status." Ms. Growe seconded the motion. The motion passed. Ms. Yeomans added that another manager, Miller Anderson Sherrerd, was purchased by Morgan Stanley during the quarter and that staff is monitoring the situation and that no action is needed at this time.

Ms. Yeomans reported that staff and the Committee had reviewed two stock managers, Weiss Peck & Greer and Investment Advisers, due to performance below their respective benchmarks. She said that the Committee believes that staff should continue to monitor both firms and that no further action is necessary at this time. Ms. Dutcher moved approval of the Committee's recommendation to take no action further at this time. Mr. Humphrey seconded the motion. The motion passed.

Ms. Yeomans reported that three managers were re-interviewed during the quarter: Lynch & Mayer, Forstmann Leff and Waddell & Reed. She said the conclusion of the Committee was that the contract with Lynch & Mayer should be terminated. Ms. Growe moved the recommendation as stated in the Committee report which reads "The Committee concurs with the report of the Manager Re-Interview Committee and recommends that the SBI: terminate its contract with Lynch & Mayer, Inc. for active domestic stock management and continue to retain Forstmann-Leff Associates and Waddell & Reed as active domestic stock managers." Mr. Humphrey seconded the motion. The motion passed.

International Manager Committee Report
Ms. Yeomans referred members to Tab F of the meeting materials and stated that the Committee is recommending that Baring Asset Management be removed from probation

status. She explained that Barings had gone through bankruptcy and had since been purchased by ING Group. She added that staff believe the ownership change has had little impact on the investment philosophy and process of the firm. Ms. Dutcher moved approval of the Committee's recommendation, as stated in the Committee Report, which reads: "The Committee recommends that the SBI remove Baring Asset Management from probation status." Ms. Growe seconded the motion. The motion passed.

Ms. Yeomans stated that the Committee and the full IAC devoted a great deal of time to discussions on managing the currency exposure that is inherent to international equity investments. She said that the IAC is divided in its opinion as to what should be done. She said that the IAC looked at three different approaches: a tactical/market timing approach which would focus on certain points in time where the risk of loss is the greatest; constant hedging which would have a program in place at all times; or do nothing and leave the currency exposure unmanaged, as is the present policy. She said that the IAC members who believe the Funds should focus on return maximization feel that any kind of on-going currency management will result in very high costs. She explained that it is similar to buying an insurance policy and paying premiums without collecting on the policy. Ms. Yeomans said that other IAC members believe that by policy, the Board has never been a market timer, and that the Board is not structured in a way to make market timing decisions in a timely fashion. She added, however, that most members were not comfortable continuing the current policy of leaving the currency unmanaged because they feel currency losses could jeopardize the entire international program if the U.S. dollar strengthened dramatically.

Ms. Yeomans reported that a series of votes took place at the IAC meeting before a motion passed to recommend that the SBI adopt the staff position paper, which advocates using a systematic approach to currency management, and retain Record Treasury Management to implement an options-based currency management program for the EAFE index fund.

Mr. Bicker stated that staff believe that it is important to implement a structured approach for currency management. He said he believed that a structured approach would be more in keeping with manner in which the SBI has addressed other asset management issues. He added that the question focuses on how much volatility the Board is willing to accept. Mr. Carlson commented that in the past when the SBI has taken a cautious approach, the strategy has resulted in duplicating the market and indicated that he has had reservations about that type of approach. He said he wondered whether that would be the end result for the international portfolio as well. Mr. Bicker said that the SBI can leave its existing policy in place if the Board is willing to accept the short-term currency volatility inherent in international management. He added that he believes opinions among the IAC members fall into three groups: those who feel comfortable being more aggressive in currency management than the structured approach recommended by staff, those who agree with the structured approach, and those who feel that the existing policy of no currency management is acceptable.

In response to a question from Ms. Growe, Ms. Yeomans said that she believes that some members of the IAC do not believe that the structured approach will produce acceptable results due to high imbedded costs. In response to another question from Ms. Growe, Ms. Yeomans confirmed that those who favor a structured approach do so, at least in part, because they believe the Board will experience a more stable pattern of returns on a quarter-to-quarter basis. Because of the nature of funds and the Board, she said, the structured approach may give some members a higher comfort level. In response to a question from Mr. Carlson, Ms. Yeomans stated that she did not necessarily oppose systematic currency management, however, she said she had not seen reasonable costs for this type of management or reasonable probability of success in achieving its objective.

Mr. Humphrey reminded members that earlier in the meeting the Board had approved a recommendation to expand the SBI's international exposure by 50% and he voiced his concern that the SBI needs to be cautious and take some type of action to protect those assets. Ms. Dutcher moved approval of the Committee's recommendations, as stated in the Committee Report. Mr. McGrath seconded the motion. In response to questions from Mr. McGrath and Mr. Carlson, Mr. Bohan clarified that he estimated that the costs associated with the structured currency management approach would be approximately $24 million to protect assets of $800 million and he added that in his opinion, those costs are unnecessary given the level of risk that something catastrophic will occur over the next 5-10 years. In response to a question from Mr. Carlson, Mr. Bohan said that if the dollar strengthened by 10%, the SBI would have expended $24 million to protect against an $80 million loss and that such protection was not catastrophic within the long investment time horizon of the Funds. Since the Board had just approved an increase in the international allocation, Mr. Bohan and Ms. Yeomans confirmed that the numbers increase accordingly, i.e., a cost of $36 million to protect against a loss of $120 million if the currency were to move 10%.

In response to questions from Mr. Carlson, Mr. Bicker stated that the SBI has three alternatives: engaging in market timing, using a structured approach or leaving the currency exposure unmanaged. He said that staff could support the structured approach or leaving the currency unmanaged, but that staff could not support a market timing approach. In response to a question from Ms. Growe, Mr. Bicker confirmed that the IAC had modified its recommendation regarding Record Treasury Management to include a two year contract term with the firm so that the Board could re-address the currency issue at the end of two years.

Mr. Bicker asked that the two SBI consultants share their views with the Board members. Mr. Emkin, PCA, urged the Board to view this as a question of time horizon. He said the Board does not need insurance over the long term. If the Board's time horizon is shorter, for example two years, then the Board should go forward with the recommendation. Ms. Posey, Richards & Tierney, echoed Mr. Emkin's statement. She said that if Record Treasury is retained for two years, as proposed, the Board would need to decide at that time whether to continue the coverage or to close out the program which would effectively renew this whole discussion.

Mr. Carlson stated that the costs of this program over a 10 year time period would be very high and the SBI needs to figure out how it would recoup those costs. Mr. Humphrey said that he hoped that the SBI would be willing to buy some insurance against fluctuations in the currency markets as the SBI expands its international exposure. Ms. Growe commented that the question really focuses on how comfortable the five Board members are with living with currency fluctuations and explaining the ups and downs it creates on a quarter-to-quarter basis. Mr. Carlson re-stated his opposition to the currency proposal stating that he believes it will be very costly to hedge the SBI's bets with this type of insurance. Mr. McGrath moved approval of the Committee's recommendation, as stated in the Committee Report, which reads: "The Committee recommends that the SBI adopt the staff position paper on currency management which begins on page 15 of this Tab. The paper advocates using a systematic approach to currency management for the EAFE index fund and recommends that the program operate with the following constraints: *Currencies Included.* The program should be limited to currencies that comprise 5% or more of the exposure in the EAFE index. This includes Japanese Yen, British Pound Sterling, German Mark, French Franc and Swiss Franc. Together, these five currencies comprise over 75% of the EAFE index. They are also the most liquid currencies in world markets. *Benchmark.* The benchmark for the program should be the unhedged return of the five currencies. The weights given each currency will be based on the proportionate weight in the underlying EAFE index and rebalanced on a quarterly basis. *Operating Constraints.* Hedging the above exposures back to the US dollar is the only type of hedge that should be authorized. Cross hedging and proxy hedging should not be allowed. Net long or short currency positions should be prohibited. *Authorized Instruments.* Currency positions should be implemented using currency forwards, options or futures. The manager should have the flexibility to use over-the-counter as well as listed/exchange traded instruments." Mr. Humphrey seconded the motion. The motion passed.

Alternative Investment Committee Report
Ms. Yeomans referred members to Tab G of the meeting materials and said that there were no action items from the Committee this quarter. She noted that the results of two manager review sessions were included in the Committee Report.

Currency Manager Search Committee Report
Mr. Sausen referred members to Tab H of the meeting materials and stated that the Committee had interviewed potential managers for the currency overlay program so that if the Board approved the strategy, they would be in a position to also act on a specific manager recommendation. He said that the Committee is recommending that the Board retain Record Treasury Management as the currency overlay manager. Mr. Humphrey moved approval of the Committee's recommendation, as stated in the Committee Report, which reads "If the SBI chooses to proceed with a systematic approach to currency overlay management, the Committee recommends that the SBI authorize the Executive Director, with the assistance of SBI legal counsel, to negotiate and execute a contract for

currency overlay management with Record Treasury Management, Windsor, England." Ms. Dutcher seconded the motion. The motion passed.

Resolution on Futures Trading
Mr. Bicker distributed a resolution to members concerning futures trading agreements (**Attachment A**). He explained that approval of the resolution will give SBI staff the same authority to do futures trading as the outside managers and he noted that it would not be done on a leveraged basis. Ms. Growe moved approval of the resolution, as stated in Attachment A. Ms. Dutcher seconded the motion. The motion passed.

Proxy Committee Report
Mr. Sausen reported that during the quarter, the Committee had met with a several individuals regarding tobacco holdings by the SBI. He said that the Committee had requested more information from staff and that the Committee had taken no other action on the matter. Mr. Sausen also reported that the Board members' individual review of the Executive Director's performance for fiscal year 1995 had been completed.

Mr. Humphrey stated that he would like SBI staff to work with his office on three areas pertaining to tobacco investments. He said he would like them to prepare an updated analysis of the risks associated with recent developments in litigation and regulatory action in the tobacco area. He said he would also like to work with them to develop legislation that would allow participants the flexibility to choose whether or not their assets are invested in the tobacco industry. Lastly, he requested staff to consider additional proxy voting guidelines in this area.

Mr. Carlson voiced his opposition to Mr. Humphrey's request for development of legislation giving participants a choice in how their assets are invested and he stressed that the Board needs to focus on its fiduciary responsibilities and not on social investing issues. He added that the list of issues that people feel violate their sense of morals or health would be endless. Mr. Humphrey stressed that aside from the social investing issues, monitoring the level of risk in tobacco related investments is part of the SBI's fiduciary responsibility and he asked once again for staff's assistance in this area. Mr. Carlson said that staff should be evaluating the risks associated with all stocks, not just those relating to tobacco. Mr. Carlson stated that when he had concerns with the operation of the SBI while he was State Auditor, he used his own staff resources and he urged Mr. Humphrey to do the same and not use the SBI staff for this purpose.

Mr. Humphrey restated his request to have SBI staff assist his office in preparing additional legislative options in this area and he said that if necessary, he would ask the Board to formally vote on his request. Ms. Growe suggested that it might not be a major project for staff to review several "Green Funds" and report on their performance. Mr. Carlson commented that while defined contribution plans are structured to allow the type of flexibility Mr. Humphrey wants, defined benefit plans are not, and he cautioned the Board that a move in that direction would be very complicated. Ms. Growe stated that while she was not prepared to consider a move to defined contribution plans, she would support gathering additional information. Mr. Carlson restated his belief that Board members should use their own staff to accomplish such tasks. Mr. Humphrey said he did not mean for the discussion to become acrimonious and he said he would work with his own staff to present a report to the Board at its December 1995 meeting.

The meeting adjourned at 9:35 A.M.

Sincerely,

Howard Bicker

Howard J. Bicker
Executive Director

ATTACHMENT A

RESOLUTION OF THE MINNESOTA STATE BOARD OF INVESTMENT CONCERNING FUTURES TRADING AGREEMENTS

WHEREAS, the Minnesota State Board of Investment ("SBI") has adopted long term asset allocation policies for each of the funds under its control,

WHEREAS, those policies include the use of domestic and international stocks and bonds,

WHEREAS, futures may be used to obtain exposure to those asset classes in a cost effective manner,

WHEREAS, the SBI has authorized its external stock and bond managers to enter into futures trading agreements in order to facilitate management of their individual portfolios,

WHEREAS, other accounts or pools of assets under the direction SBI staff would also benefit from the flexibility to use stock or bond futures in lieu of transacting in the underlying securities,

NOW, THEREFORE, BE IT RESOLVED THAT:

1. The SBI authorizes the executive director, with assistance from SBI legal counsel, to negotiate and execute one or more futures trading agreements for a) stock and bond portfolios managed internally by SBI staff, and b) stock and bond pools under the supervision of SBI staff which are comprised of groups of portfolios managed by external money managers.

2. Transactions under the agreements established by #1, above, shall be undertaken only on an unleveraged or fully covered basis, in accordance with *Minnesota Statutes* Section 11A.24, as amended.

Adopted this 10th day of October, 1995.

GOVERNOR ARNE CARLSON
Chair, Minnesota State
Board of Investment

AGENDA
INVESTMENT ADVISORY COUNCIL
MEETING
Tuesday, December 12, 1995
2:00 P.M. - SBI Conference Room
Room 105, MEA Building - Saint Paul

		TAB
1.	**Approval of Minutes of September 25 and October 9, 1995**	
2.	**Report from the Executive Director (H. Bicker)**	
	A. Quarterly Investment Review (July 1 - September 30, 1995)	**A**
	B. Portfolio Statistics (September 30, 1995)	**B**
	C. Administrative Report	**C**
	1. Reports on budget and travel.	
	2. Distribution of FY95 annual report draft.	
	3. Report on post retirement benefit increase for FY95.	
3.	**Report from the SBI Administrative Committee**	**D**
	A. Approval of contract amendment for the Deferred Compensation Plan.	
	B. Approval of Securities Repurchase Pilot Program.	
4.	**Reports from the Investment Advisory Council**	
	A. Domestic Manager Committee (J. Bohan)	**E**
	1. Review of manager performance.	
	2. Review of presentation by active bond managers regarding below investment grade debt.	
	3. Update on implementation of revised asset allocation targets.	
	4. Approval to terminate a contract with TCW for active bond management.	
	C. International Manager Committee (D. Veverka)	**F**
	1. Review of manager performance	
	2. Discussion of emerging markets program structure.	
	3. Approval of finalists for emerging markets manager search.	
	D. Alternative Investment Committee (K. Gudorf)	**G**
	1. Results of annual review sessions.	
	2. Approval of additional investment for the Basic Retirement Funds with an existing resource manager, First Reserve.	
	3. Approval of additional investment for the Basic Retirement Funds with an existing real estate manager, Zell/Merrill Lynch.	
	4. Approval of additional investment for the Basic Retirement Funds with an existing private equity manager, ChiCorp Management.	
	5. Approval of investment for the Post Retirement Fund with a new real estate manager, Hyperion/Equitable.	
4.	**Report from the Proxy Committee (P. Sausen)**	

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Minutes
Investment Advisory Council
September 25, 1995

The Investment Advisory Council met on Monday, September 25, 1995 at 2:00 P.M. in the State Board of Investment (SBI) Conference Room, 55 Sherburne Avenue, St. Paul.

MEMBERS PRESENT:	Gary Austin; Dave Bergstrom; John Bohan; Roger Durbahn; Ken Gudorf; Laurie Fiori Hacking; Peter Kiedrowski; Laura King; Han Chin Liu; Judith Mares; Malcolm McDonald; Gary Norstrem; Daralyn Peifer; Debbie Veverka and Jan Yeomans.
MEMBERS ABSENT:	Patrick Sexton and Michael Stutzer.
SBI STAFF:	Howard Bicker; Beth Lehman; Jim Heidelberg, John Griebenow; Mark Regal; Lois Buermann; Mansco Perry; Debbie Griebenow and Charlene Olson.
OTHERS ATTENDING:	Ann Posey, Richards & Tierney; Allan Emkin, PCA Consulting; Judith Dutcher, State Auditor; Christie Eller; Jake Manahan; Carey Moe; Peter Sausen; Elaine Voss; Judy Hunt, PERA; Ed Stuart and John Hagman, REAM.

Ms. Yeomans called the meeting to order and the minutes of the June 6, 1995 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 June 30, 1995 (Combined Funds 11.8% vs. Inflation 3.5%) and matched the median fund (both at 10.6%) for the most recent five years. He added that the Combined Funds also outperformed its composite index (Combined 10.6% vs. Composite 10.5%) over the same five year period. He reported that the Basic Funds had exceeded their composite index (Basics 10.6% vs. Composite 10.5%) over the last five years while the Post Fund had underperformed its composite index for the period July 1, 1993 - June 30, 1995 (Post 8.9% vs. Composite 9.2%).

Mr. Bicker reported that the Basic Funds' assets increased 5.9% for the quarter ending June 30, 1995 due to positive investment returns and that the asset mix is basically in-line with policy targets. He said that the Basic Funds had matched its composite index for the quarter (both at 6.7%) and had trailed it for the year (Basics 15.8% vs. Composite

16.6%). He noted that further discussion of the Fund's asset allocation would take place later in the meeting.

Mr. Bicker reported that the Post Retirement Fund had increased in value by 8.0% during the quarter due to positive investment returns and positive net contributions and that the Fund's asset mix was basically in line with policy weights. He said that total fund had outperformed its composite index for the quarter (Post Fund 7.2% vs. Composite 7.0%) but had underperformed for the year (Post Fund 16.7% vs. Composite 17.2%).

Mr. Bicker stated that the domestic stock manager group underperformed for the quarter (Domestic Stocks 9.0% vs. Wilshire 5000 9.3%). He noted that recommendations regarding individual stock managers would be presented later in the Domestic Manager Committee Report. He said the international stock manager group had outperformed its target for the quarter (International Stocks 2.8% vs. EAFE Free 0.8%) and added that the domestic bond manager group matched its target for the quarter (both at 6.1%).

Mr. Bicker reported that the Assigned Risk Plan (ARP) had outperformed its composite index for the quarter (ARP 6.2% vs. Composite 5.5%) and year (ARP 13.8% vs. Composite 13.3%). He said that the equity segment of the Assigned Risk Plan (ARP) had matched its benchmark for the quarter (at 9.5%) and that the bond segment had outperformed for the quarter (Bond Segment 5.3% vs. Benchmark 4.5%). He concluded his report with the comment that as of June 30, 1995 the SBI was responsible for over $26 billion in assets.

Executive Director's Administrative Report
Mr. Bicker referred members to Tab B for the Portfolio Statistics and Tab C of the meeting materials for the current budget and travel reports. He noted that revised meeting dates for the December 1995 meetings were also listed in Tab C.

Asset Allocation Committee Report
Ms. Yeomans referred members to Tab D of the meeting materials and stated that the Committee had met to review the long-term asset allocation strategy for the Basic and Post Retirement Funds. She said that after much discussion, the Committee endorsed staff's suggestions to increase the allocation in international stocks from 10% to 15% of each fund, to expand exposure of emerging markets within the international stock program to 15% of the international stock segment or up to 2% of the total fund, and to increase the use of non dollar bonds on a tactical basis, up to 20% of the bond segment, or 5% of the total fund. She added that the Committee also agreed that the Basic Funds' uninvested assets in alternative investments should be invested in equities, rather than bonds, until needed and that for the Post Fund, uninvested alternative assets should remain invested in bonds until needed. Mr. Bohan moved approval of the Committee's recommendation, as stated in the Committee Report. Mr. Gudorf seconded the motion.

Mr. Bicker reminded members that an increase in the allocation to international stocks was contemplated by staff when the initial 10% allocation was implemented in 1992. He said that this proposal is in keeping with that long range plan. In response to a question from Ms. Veverka, Mr. Bicker stated that staff believes the decision to allow three of the active bond managers to invest in international bonds on a tactical basis has been a good one. He said it allows managers to have the flexibility to invest internationally without forcing them to have a permanent position in their portfolios. He added that the SBI grants authority to invest internationally on a manager-by-manager basis as they demonstrate their abilities in this area. Ms. Yeomans commented that this would treat international bonds like another sector of the bond market. Mr. Gudorf commented that he strongly supports the asset allocation target recommendation. In response to a question from Mr. Gudorf, Mr. Bicker said that if the addition of emerging markets is done as a separate asset class category, it would likely have a separate benchmark which would result in the total international segment having a blended benchmark. The motion made earlier by Mr. Bohan passed.

Ms. Yeomans stated that the Committee is also recommending updated rebalancing guidelines. Mr. Bicker stated that the guidelines primarily address how cash should be treated. Ms. Lehman added that the change just approved regarding how the uninvested alternative investment allocation for the Basics is handled is also addressed in the updated guidelines. In response to a question from Ms. Posey, Mr. Bicker clarified that deviations of 0-5% from the target require no action, with deviations from 5-10% rebalancings are discretionary and that rebalancing is mandatory if deviations are 10% or more above or below the target. In response to a question from Ms. Veverka, Mr. Bicker stated that if one of the alternative investment categories becomes overweighted, no additional commitments would be made. He added that overweighting would not require the sale of any current holdings. In response to a question from Ms. Peifer, Mr. Bicker said that new cash flow can be allocated to underweighted asset classes whenever it is received. He said that staff believes it is necessary to have between a 5-10% move before its worthwhile to rebalance in order to recoup the transaction costs associated with rebalancings. Mr. Bohan moved approval of the Committee's recommendation, as stated in the Committee Report. Mr. Gudorf seconded the motion. In response to a question from Ms. Veverka regarding the Income Share Account in the Supplemental Fund, Mr. Bicker stated that this policy would apply to all the funds under management. He added that the Income Share Account had received a substantial positive cash flow late in the month which had not yet been invested as of the end of the reporting period. In response to questions from Ms. King, Mr. Bicker said that these rebalancing guidelines and the recommendation on asset allocation targets will need to work in tandem. The motion passed.

Domestic Manager Committee
Mr. Bohan referred members to Tab E of the meeting materials and he reviewed the managers' performance. He stated that during the quarter, two managers were reviewed due to recent organizational changes. He said that BEA Associates had been placed on probation in June 1995 due to a merger with CS First Boston. He said that staff and the Committee believe that the merger will result in some positive changes for the firm and that the Committee is recommending that BEA Associates be removed from probation. Mr. Bohan added that Miller Anderson was purchased by Morgan Stanley during the quarter. He said that staff believes the buyout does not appear to affect how Miller

Anderson manages the SBI's portfolio, so no action is being recommended at this time. Mr. Norstrem moved approval of the Committee's recommendation to remove BEA Associates from probation status, as stated in the Committee Report. Mr. McDonald seconded the motion. The motion passed.

Mr. Bohan stated that during the quarter, two active domestic stock managers, Weiss Peck & Greer and Investment Advisers, were reviewed according to the Manager Continuation Policy because of performance below their benchmarks. He said that Weiss Peck & Greer's investment process and personnel have not changed and that the firm has improved its monitoring process to better understand how the portfolio performs relative to its benchmark. He added that the firm has been retained for a short period of time (since July 1993) and that staff will continue to monitor the firm but that the Committee believes no further action is necessary at this time. Mr. Bohan reported that Investment Advisers recently implemented a revised benchmark that better reflects their discipline and that while staff will continue to monitor the firm, no formal action is warranted at this time.

Mr. Bohan stated that a Manager Re-Interview Committee was convened during the quarter to formally review Lynch & Mayer, Forstmann-Leff Associates and Waddell & Reed. He said that the Domestic Manager Committee concurs with the Re-Interview Committee that Lynch and Mayer should be terminated while Forstmann-Leff and Waddell & Reed should continue to be retained as managers. Mr. McDonald moved approval of the Committee's recommendation, as stated in the Committee Report. Mr. Bergstrom seconded the motion. In response to a question from Ms. Veverka, Mr. Bicker said that Forstmann has always been a volatile manager and that he believes the firm has done a fair job of explaining their recent underperformance. He said that they seem to be at the bottom of a market cycle, and so staff and the Committee hope their performance will start to turn around. Mr. Bicker reported the performance for these three managers for July and August stating that Lynch & Mayer has continued to underperform, Forstmann has matched their benchmark and that Waddell outperformed. In response to questions from Mr. McDonald and Mr. Liu, Mr. Bicker said that Forstmann and Waddell will remain under continuous review. In response to a question from Ms. Mares, Mr. Bicker said that the new valuation process referenced in the Forstmann write-up simply formalizes a process that they already had in place and that it adds another level of discipline in their monitoring process. In response to questions from Mr. Gudorf, Mr. Bicker said that Lynch & Mayer's assets could be a source of funding for the international expansion, if these changes are approved by the Board. He added that guidelines regarding rebalancing among managers within an asset class are less precise than guidelines for rebalancing between asset classes and he noted the potential costs associated with frequent reallocations among existing managers. The motion made earlier by Mr. McDonald passed.

Mr. Bicker distributed a resolution concerning futures trading agreements (see Attachment A). He explained that the external managers already have Board approval to do this type of futures trading and that this resolution simply gives SBI staff the same authority. He added that having this authority would be helpful in transferring funds after managers have been terminated and during the potential funding process to expand the international segment. In response to questions from several members, Mr. Bicker confirmed that these transactions would be done only on an unleveraged or fully covered basis. Mr. McDonald moved approval of the resolution, as stated in Attachment A, and noted that the word "of" needed to be inserted in the fifth paragraph. Ms. Hacking seconded the motion. The motion passed.

Alternative Investment Committee Report
Mr. Gudorf referred members to Tab G of the meeting materials and said that there were no action items from the Committee this quarter. He briefly summarized the results of manager reviews with one private equity manager, Zell/Chilmark and a real estate manager, Zell/Merrill Lynch Real Estate. He noted that Zell/Chilmark had one particular investment that staff and the Committee had been concerned about, but that the overall performance was satisfactory in spite of a poor performance by that one investment. He added that the Zell real estate fund is also beginning to show stronger performance as the real estate market strengthens.

International Manager Committee Report
Ms. Veverka referred members to Tab F of the meeting materials and briefly reviewed the international managers' performance. She stated that during the quarter, staff had met with Baring Asset Management to discuss the impact of the recent ownership change on the operation of the firm. She said that staff believes the change had very little impact on the firm and that the Committee is recommending that Baring Asset Management be removed from probation status. Mr. Kiedrowski moved approval of the Committee's recommendation, as stated in the Committee Report. Mr. McDonald seconded the motion. The motion passed.

Ms. Veverka stated that the Committee had also reviewed the staff's position paper on currency management and she summarized the main points of the paper for members, as presented in the meeting materials. She said that the Committee agreed that the benchmark for the program should be unhedged. She reported that the Committee had also agreed that given the size of the SBI's international portfolio, constant/strategic hedging would not be appropriate. She said that the Committee had a lengthy discussion on the level of tactical management the SBI should use. Ms. Veverka reported that the Committee had reviewed materials from three firms that employ a systematic hedging approach to currency management: Pareto Partners, State Street/Safeport and Record Treasury Management. She reviewed the return expectation versus costs associated with this type of approach under various conditions. She noted that using this type of option based strategy, benefits will be received during strong dollar periods and that costs can outweigh benefits in environments where the dollar is weak or choppy. She said that after much discussion, the Committee agreed to recommend adoption of the position paper which proposes using a systematic approach to currency management. She referred members to Tab F of the meeting materials for details on the constraints to the program which are also included in the Committee's recommendation. Ms. Mares moved approval of the Committee's recommendation, as stated in the Committee Report. Mr. Bergstrom seconded the motion.

Ms. Yeomans opened the floor for discussion and commented that there was not clear agreement among the Committee members on the recommendation that Ms. Veverka had just outlined. She said that there were a variety of viewpoints expressed during the various meetings on this topic and she encouraged everyone to voice their concerns and questions. She asked Ms. Veverka to start the discussion by stating her own view.

Ms. Veverka said that she originally supported looking at currency management because she was concerned that the SBI had a fairly large exposure, particularly in the index fund, at a time when dollar was weak and that the SBI would give back much of the currency gains it had reaped over the last couple of years if the dollar were to strengthen. She said as the discussion evolved, it became clear that not everyone felt that the SBI should enter into a tactical/market timing decision framework. As a result, she said that the Committee considered option-based strategies which were attractive to her because they would allow hedging to occur for a time with an opportunity to decide that at some point it did not need to continue. She said that she believes that putting a hedging program in place on a permanent basis, such as the one embodied in the Record Treasury approach, will be costly over the long run because the strategy will pay off only when the dollar is strengthening and will incur costs without any benefit during periods when the dollar is weak or choppy.

In response to a question from Ms. Mares, Ms. Veverka confirmed that the Committee was unanimous on the recommendation to continue to use an unhedged benchmark at the SBI's current level of exposure to non dollar denominated assets. Mr. Kiedrowski added that if the international exposure were considerably higher, the conclusion might be different. In response to questions from Ms. Mares, Mr. Bicker and Ms. Lehman confirmed that the SBI's active managers utilize an unhedged benchmark and have the opportunity to hedge currency if they so desire while the index fund remains unhedged at all times. Ms. Mares said that she believes that the passive portfolio needs to have a mechanism to address its currency exposure relative to an unhedged benchmark as well. She suggested that he SBI could do that either by constantly hedging 50% of the exposure or by identifying some entity to time the decisions related to hedging.

Various members and staff then discussed the methodology used by Record Treasury to implement a form of dynamic hedging which would increase or decrease the hedge on the portfolio in response to currency movement and how this differed from the concept of portfolio insurance. The discussion concluded with observations about the firm's performance which indicates that they would have added approximately 2% annualized to and EAFE portfolio, net of costs, over a fifteen year period, but noted that there would have been periods of significant outperformance during periods of dollar strength and periods of significant under performance during periods when the dollar is weak or choppy.

Mr. Kiedrowski said that he believed the SBI's fundamental strategy with respect to the entire portfolio is to put in place an asset allocation and structure that has a high likelihood of doing well over a long period of time and to reject active market timing. He noted that while managers retained by the SBI use elements of market timing within their specific investment approaches, market timing has not been advocated or implemented by the Board, staff or consultants. He said that he tried to evaluate this issue within that context. He said he had been persuaded by the position paper that the active managers should continue to express currency views within their portfolios and that the exposure of the EAFE index fund should be managed if the SBI could find a manager that would be able to add value over time. He said that it is clear that there will be periods when Record Treasury will not perform very well, but over time the data suggest that they should do well.

Ms. King suggested another option would be to do nothing and Ms. Yeomans encouraged members to examine that question. Ms. Yeomans said that the academic argument is that doing nothing is perfectly acceptable if you look at a very long time horizon because currency impact can be expected to wash out over periods of 10 years or more. Mr. Kiedrowski commented that that also implied that you could stand the resulting volatility within that time. Mr. Emkin observed that for most people, 10 years is unrealistically long time horizon. Mr. Bergstrom said that he considers the risk associated with doing nothing is painful or scary since his view was that the possibility of the dollar strengthening was much greater than the possibility of further weakness. Mr. Bohan said that the costs of the hedging program suggested by Record Treasury imposed what he considers to be an unacceptably high hurdle.

Ms. Mares asked members to return to the fundamental issue of whether or not the SBI should have a mechanism to express a currency view in the passive portion of the international portfolio. She said that she believes that the SBI must have a currency view if it hopes to meet its long term objectives of providing real return at the total portfolio level. She said once that question is answered, the discussion could proceed to what form the mechanism should take. Mr. Bohan said his view was that no one has been able to demonstrate how to make money in currency over time and that he feels that it is unreasonable to expect that the SBI could add value in excess of the costs. Ms. Yeomans commented that there is a practical reality that doing nothing could result in near term currency losses of sufficient size to persuade a future Board to drop the allocation to international equities at an inopportune time.

Ms. Mares moved that the SBI should have a vehicle in place to modify the currency position of the passive international portfolio. The motion passed. Ms. Mares then suggested that that there is probably not enough information in front of the Council to make a decision on the type of vehicle that should be put in place. She said that she views hedging much like insurance and suggested that the debate should now turn to what kind of losses should be covered, what kind of deductible is desired and how much the coverage will cost. She said she did not believe that it was easy to answer those questions from the information that was presented.

Ms. Yeomans observed that the meeting was running past its scheduled time and asked whether the Council was prepared to take a vote today or to continue the discussion at another time. Mr. Bohan requested that the issue be tabled for now and said that he would be willing to work on a solution at some point in the future. Ms. King suggested that staff should try to get the Council back together before the next SBI meeting and present a set of recommendations that would address the concerns expressed by various members. Mr. Kiedrowski suggested that the recommendation on Record Treasury could be voted up or down now to see where the Council stood on that alternative and it might help define where other areas of disagreement might be. Ms. Mares said she felt strongly that the Council should reconvene as many members as possible before the next SBI meeting because she believes the Council ought to have a recommendation for the Board that is more unified. Ms. Veverka suggested that members who support market timing get together and come up with a suggestion to present as an alternative to the recommendation concerning Record Treasury. Mr. Manahan urged the Council to get a recommendation before Board at its next meeting. He said he felt the Board was aware of this discussion and that at least some Board members have a sense that doing nothing is unacceptable. Mr. Bicker said that staff would try to reconvene the Council after Ms. Veverka and other members had the opportunity to develop an alternate proposal.

The meeting adjourned at 4:30 p.m.

Respectfully submitted,

Howard Bicker

Howard Bicker
Executive Director

NOT OFFICIAL
DRAFT

Minutes
Investment Advisory Council
Special Meeting
October 9, 1995

The Investment Advisory Council met on Monday, October 9, 1995 at 8:00 A.M. in the State Board of Investment (SBI) Conference Room, 55 Sherburne Avenue, St. Paul.

MEMBERS PRESENT:	Gary Austin; Dave Bergstrom; John Bohan; Roger Durbahn; Ken Gudorf; Peter Kiedrowski; Laura King; Han Chin Liu; Judy Mares; Malcolm McDonald; Gary Norstrem; Patrick Sexton; Michael Stutzer; Debbie Veverka and Jan Yeomans.
MEMBERS ABSENT:	Laurie Fiori Hacking and Daralyn Peifer.
SBI STAFF:	Howard Bicker; Jim Heidelberg; Mark Regal; Debbie Griebenow and Charlene Olson.
OTHERS ATTENDING:	Ann Posey, Richards & Tierney; Allan Emkin, PCA Consulting; State Treasurer Michael McGrath; Carey Moe; Christie Eller; Peter Sausen; Jake Manahan.

Ms. Yeomans opened the meeting and thanked everyone for making time in their schedules to be present. Mr. Bicker introduced Pat Sexton, one of the Governor's appointees to the Council.

Ms. Yeomans asked Ms. Veverka to begin the discussion on currency management. Ms. Veverka said that she felt that the Council needed to start at the beginning and ask what is being sought. She suggested that she could present the view of the more tactical members and Mr. Kiedrowski could look at whether the SBI wants to start doing something different with currencies than it does with other asset categories.

Ms. Veverka said that she agreed that over the long term it probably makes sense to leave the benchmark unhedged, but that the pattern has been that currencies go up or down dramatically, or they do not move much at all. As a result, she said, there are times when it makes sense to be hedged but it is very difficult to tell when those times are. She said she felt there is risk at this point in time that the dollar will strengthen relative to the Yen and the D-mark block and she would like to see the SBI hedge away that risk. She said that at Honeywell, they had decided to hedge that risk out and view it as a risk reduction strategy.

Mr. Kiedrowski said he thinks this debate should be framed in terms of "policy" versus "tactical" and that he could argue for either side depending on the environment in which he found himself. He said that at Norwest Investment Management, he does use a tactical approach because that is what clients are paying him to do. He said the environment at the SBI is very different. Because of that difference, he maintained that the SBI has chosen to take a policy approach to running money which does what is theoretically best for the funds on average, over time, and avoids market timing. He said he did not think that the five elected officials who comprise the SBI could ultimately withstand the repercussions of tactical asset decisions.

Ms. Yeomans asked Mr. Bicker to comment. Mr. Bicker said that the SBI had tried to establish a program that is as disciplined as possible with policies that are clearly thought out and deliberated. He said he believed that one of the reasons to consider currency overlay is to keep the international program alive. Ms. Yeomans then asked Mr. McGrath to comment. He said his concern has always been that the international program not be lost because of currency impact and that he was seeking something that would keep volatility down. He also said Mr. Kiedrowski's comments about market timing for the SBI were correct.

Ms. Veverka said that currencies differ from other assets, i.e. an investor will gain return from stocks or bonds over the long term, but that currencies do not offer any such inherent reward. Mr. Kiedrowski stated that there is a divergence of opinion on the direction of the dollar at present so members should not assume that now is obviously a good time to hedge. Ms. Mares said that her feeling was that there are times in the market place when there are persistent imbalances that will inevitably correct. She said she felt it was worthwhile to have a mechanism in place to manage that risk and would endorse a program that does that.

Mr. Kiedrowski moved the staff recommendation on page 4 of Tab F in the Board folder. He said that proposal focused on policy and does not make a specific recommendation as to how that policy is implemented. Mr. Liu seconded the motion. Ms. Veverka asked to refocus the question and moved that the IAC make a recommendation to the Board on when the policy should be started and stopped. Mr. Bohan seconded Ms. Veverka's motion for purposes of discussion. He said he could support a motion that says the SBI should be hedged from time to time but he was not clear in his own mind whether the SBI should be hedged today. After further discussion, Ms. Mares asked Mr. Bicker if he would be comfortable with the IAC making decisions on the timing of hedging certain currencies. Mr. Bicker said he thought that process would be financial and structural suicide for the SBI.

Ms. Yeomans summarized the three options she felt were being discussed: do nothing and leave the index portfolio unhedged; develop a policy and hire someone to implement some form systematic currency management; or take a tactical approach where the IAC or some designated body decides when to pull the trigger. Mr. Kiedrowski said the reason the SBI would reject doing nothing is that the entire international program could be lost during the time the SBI was waiting out currency fluctuations. He said he felt that if the international portfolio had large losses due to currency, there would be pressure on the elected officials to get out of international investing. Ms. Veverka suggested that one way to reduce volatility would be to hedge 50% of the exposure at all times. Ms. Yeomans said another alternative would be to reject passive management and give active managers responsibility to manage the currency exposure as well. Mr. Bergstrom asked that the option to have the IAC or the Board decide when to pull the trigger be taken off the table because he could see no support for that option.

After further discussion, Ms. Veverka said she felt that the discussion was not moving forward. In order to refocus the discussion, she suggested three alternatives that she considered feasible to implement: 1) do nothing and leave the index fund unhedged; 2) adopt a 50% hedge for a period of two years; or 3) hire Record Treasury to do an option related overlay. She said the last option would mean that in choppy markets the SBI would incur costs but in trending markets the portfolio would be protected. Mr. Kiedrowski said he thought the second option would be sliding back into a tactical approach which he could not support.

After further discussion, Ms. Yeomans said she believed she the motion was now to treat currency tactically and to hire an outside manager to make the decision about when to hedge over a time period that would be determined later. She called for a vote. As only two members voted in favor, **the motion did not pass**.

Mr. Kiedrowski moved the staff recommendation on the policy and moved that Record Treasury be retained to implement the systematic currency overlay. Mr. Liu seconded the motion. Mr. Kiedrowski started the discussion on his motion by stating that he understood that the Board wants to try to dampen some of the volatility associated with the international investing in order to avoid losing the whole program and he felt that this motion was consistent with that goal. Mr. Stutzer stated that this would be insurance and the SBI should expect to pay something for it. He said that the average cost would be 3-4% per year but it could vary considerably, perhaps from 0-8%. He said because staff thinks so strongly about the need for insurance, he was prepared to support that part of the motion but that he did not want to be tied to this particular vendor. He asked if Mr. Kiedrowski would be willing to separate the motion. Mr. Kiedrowski then moved to adopt only the staff proposal on page 4 of Tab F which would require a systematic approach but does not specify an implementation method. Ms. Yeomans called for a vote. **The motion passed** with three members dissenting.

Ms. Veverka then asked Mr. Emkin to summarize methods that may be available to the SBI to implement the policy. Mr. Emkin said he had prepared a graphic that attempts to show the degree of predictability as to the results that any method might achieve. He also said he would like to point out both explicit costs and opportunity costs and that the key variable in the process is how much judgment is used in the decision making process. He said that at one end of the spectrum would be a firm like JP Morgan who believes that they have insight into the direction of the currency markets. On the other end, he said, would be firms like Record Treasury or LOR or others who use a disciplined, risk-controlled methodology. He said that those methodologies all have an insurance premium attached to them which the SBI would have to be willing to pay. He added that the 50% hedge option would also fit on that end of the spectrum because its payoff would be predictable in any given market environment.

Mr. Bohan said he felt the concern about risk is overblown. Mr. Bergstrom said that he felt the SBI would be foolish to ignore the risk of dollar appreciation at this time. Ms. King commented that the recommendation to implement a systematic approach would insure against getting hit by a train and would not suggest that those present had some special knowledge. As a result, she said, the question is whether the cost of the insurance is justifiable.

Mr. Kiedrowski moved that Record Treasury be retained for a two year period. Mr. Liu seconded the motion. Ms. Veverka pointed out that Record would put on hedges gradually so the portfolio would not be fully protected for a year. Mr. Stutzer said he supported the idea of using an option replication approach due to staff's insistence on that methodology over some kind of a passive hedge, but that he could not support the recommendation to hire Record. He said he felt the search had not been competitive enough. Ms. Yeomans called for a vote on the motion. With seven members opposed, **the motion failed**.

Ms. Mares moved that the SBI hire an options replicator to implement the policy. She said her motion was trying to respond to the concern that the search had been incomplete so she was focusing on firms similar to Record Treasury. Mr. Kiedrowski seconded the motion. In response to a question from Mr. Bohan, Mr. Bicker said similar firms would include Pareto, Safeport and LOR. Mr. Stutzer said that of those firms, only LOR was an option replicator and that any one who writes options would be qualified to do this. When Mr. Bicker pointed out that LOR currently has no assets under management, Mr. Stutzer suggested contacting large investment banks to provide at least one alternative proposal. Mr. Emkin pointed out that investment banks would be acting as principles in such a transaction, not as fiduciaries or investment managers. Mr. Stutzer said he still disagreed with the few firms that had been presented thus far and that the range of costs with a different approach might be less.

Ms. Yeomans recapped the action of the Council thus far. She said on the first vote all but three members said that they favored a policy, not tactical, approach to managing currency; on the second vote seven members voted against hiring Record Treasury; and that in the current discussion, two members believe that the search should be broadened to include other firms. Ms. King said that the issues that led her to vote against the second motion had been resolved during the subsequent discussion and that she would move to reconsider that motion. Mr. Norstrem seconded and indicated that he had also voted in opposition on the original vote. Ms. Yeomans confirmed that the motion included a two year period and called for a show of hands. She announced eight in favor and five opposed and **the motion passed**.

Ms. Posey asked what criteria would be used to continue or terminate Record in two years. Ms. King said she hoped that Mr. Bicker would be able to come back soon with the answer to that question. She said that what brought her to the recommendation to do it was that what was being sought was insurance that was justifiable in terms of cost rather than something done as a market timing strategy.

Ms. Yeomans and Mr. Bicker thanked all the members for their perseverance. The meeting adjourned at 10:20 a.m.

Sincerely,

Howard Bicker

Howard Bicker
Executive Director

Tab A

RETURN OBJECTIVES
Period Ending 9/30/95

COMBINED FUNDS: $22.6 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.	12.7% (1)	9.2 percentage points above target
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.	14.2% (1)	0.4 percentage points above target Rank: 39th 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.	14.2% (1)	0.4 percentage points above target

BASIC RETIREMENT FUNDS: $11.8 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.	14.2%	0.3 percentage points above target

POST RETIREMENT FUND: $10.9 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.	10.7% (3)	0.1 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

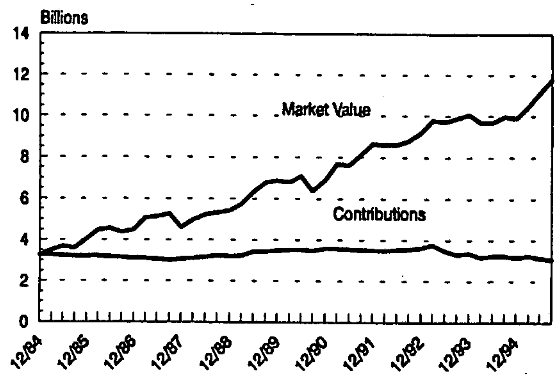
EXECUTIVE SUMMARY

Basic Retirement Funds

Asset Growth

The market value of the Basic Funds increased 5.9% during the third quarter of 1995. Positive investment returns accounted for the increase during the period.

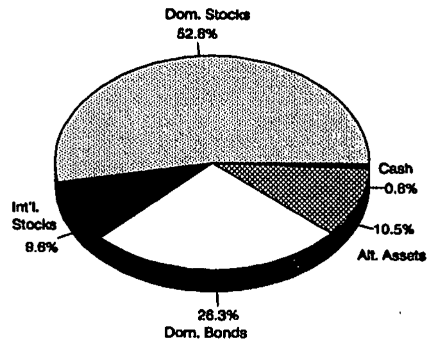
	Asset Growth During Third Quarter 1995 (Millions)
Beginning Value	$11,129
Net Contributions	(60)
Investment Return	719
Ending Value	$11,788



Asset Mix

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

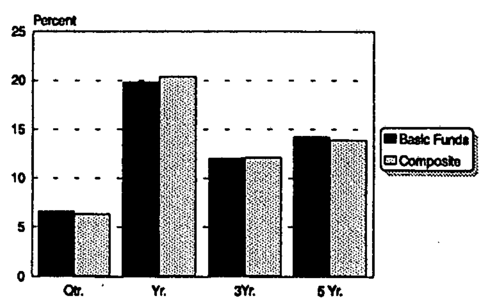
	Policy Asset Mix	Actual Mix 9/30/95	Actual Market Value (Millions)
Domestic Stocks	50.0%	52.8%	$6,228
Int'l. Stocks	10.0	9.6	1,129
Bonds	24.0	26.3	3,093
Alternative Assets	15.0	10.5	1,239
Unallocated Cash	1.0	0.8	99
	100.0%	100.0%	$11,788



Fund Performance

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

	Qtr.	1 Yr.	3 Yr.	5 Yr.
Basics	**6.5%**	**19.8%**	**12.0%**	**14.2%**
Composite	6.3	20.4	12.1	13.9

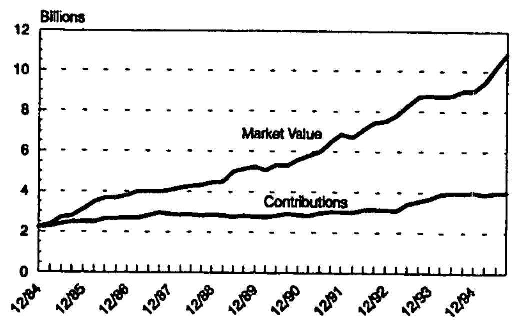


EXECUTIVE SUMMARY
Post Retirement Fund

Asset Growth

The market value of the Post Fund increased 6.3% during the third quarter of 1995. The increase resulted from positive net contributions and investment returns.

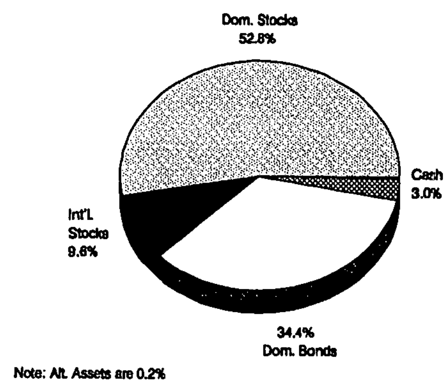
	Asset Growth During Third Quarter 1995 (Millions)
Beginning Value	$10,216
Net Contributions	26
Investment Return	615
Ending Value	$10,857



Asset Mix

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

	Policy Asset Mix	Actual Mix 9/30/95	Actual Market Value (Millions)
Domestic Stocks	50.0%	52.8%	$5,739
Int'l. Stocks	10.0	9.6	1,041
Bonds	32.0	34.4	3,731
Alternative Assets	5.0	0.2	19
Unallocated Cash	3.0	3.0	327
	100.0%	100.0%	$10,857

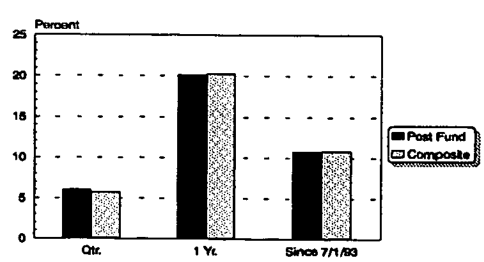


Fund Performance

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

	Qtr.	1 Yr.	Since 7/1/93*
Post Fund	6.0%	20.1%	10.7%
Composite	5.7	20.3	10.8

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

	Qtr.	1 Yr.	3 Yr.	5 Yr.
Dom. Stocks	**9.2%**	**27.8%**	**15.3%**	**17.5%**
Wilshire 5000*	9.1	29.1	15.6	18.0

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

	Qtr.	1 Yr.	Since Incept.*
Int'l. Stocks	**5.2%**	**6.3%**	**13.9%**
EAFE-Free	4.2	5.8	13.7

* since 10/1/92.

Bonds

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

	Qtr.	1 Yr.	3 Yr.	5 Yr.
Bonds	**2.1%**	**14.0%**	**7.2%**	**10.3%**
Lehman Agg.*	2.0	14.1	6.8	9.7

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

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. EAFE-Free includes only those securities foreign investors are allowed to hold.

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 Objectives
The Assigned Risk Plan has two investment objectives: to minimize the mismatch between assets and liabilities and to provide sufficient liquidity for the payment of on-going claims and operating expenses.

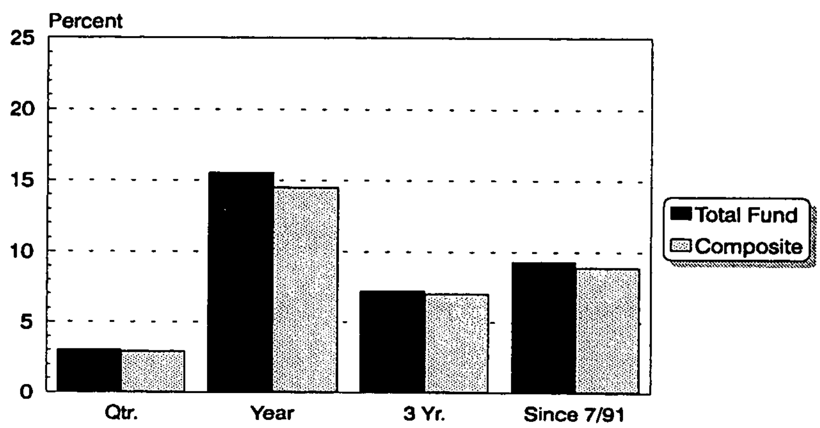
Asset Mix
The Assigned Risk Plan is invested in a balanced portfolio of common stocks and bonds. The actual asset mix will fluctuate in response to changes in the Plan's liability stream.

	9/30/95 Target	9/30/95 Actual
Stocks	20.0%	23.3%
Bonds	80.0	76.6
Unallocated Cash	0.0	0.1
Total	100.0%	100.0%

Investment Management
Voyageur Asset Management has managed the bond segment of the Fund since inception while GE Investment Management has managed the equity segment since 1/95. The entire 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 date, the segment used a custom benchmark. The total fund benchmark is a combination of the fixed income and equity benchmarks, weighted according to the asset allocation target.

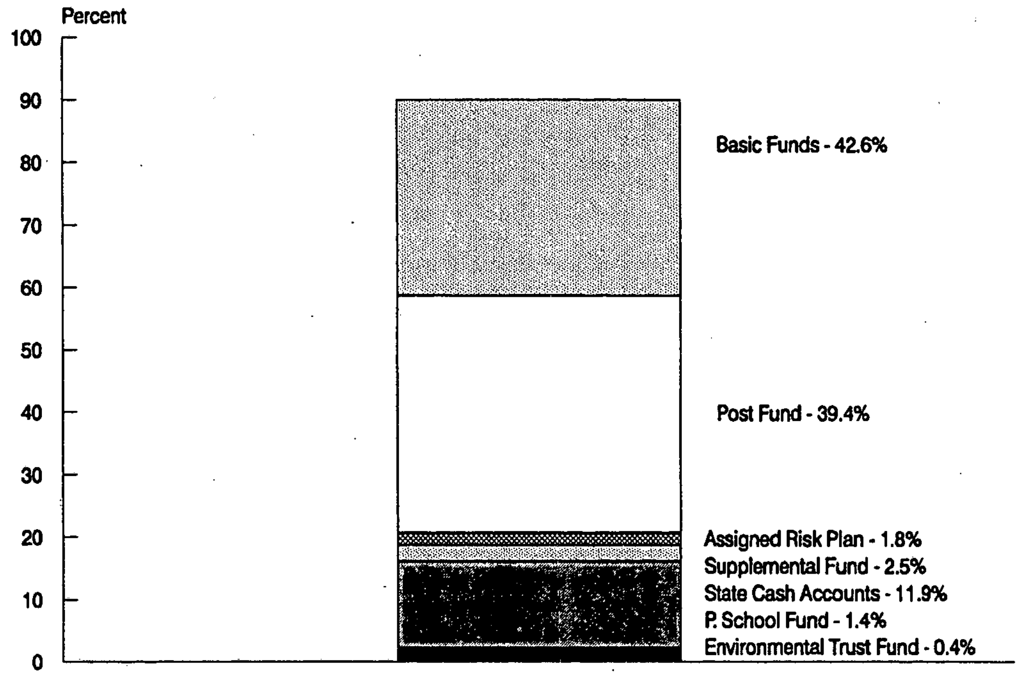
Market Value
On September 30, 1995 the market value of the Assigned Risk Plan was $526 million.



Period Ending 9/30/95

	Qtr.	Yr.	3 Yr.	Since 7/1/91
Total Fund	**3.0%**	**15.5%**	**7.2%**	**9.3%**
Composite Index	2.9	14.5	7.0	8.9
Equity Segment	**7.7**	**29.2**	**10.7**	**11.5**
Benchmark	8.0	29.8	11.3	12.3
Bond Segment	**1.7**	**11.9**	**6.1**	**8.7**
Benchmark	1.7	11.0	5.9	8.0

EXECUTIVE SUMMARY
Funds Under Management



	9/30/95 Market Value (Billions)
Basic Retirement Funds	$11.8
Post Retirement Fund	10.9
Assigned Risk Plan	0.5
Supplemental Investment Fund	0.7
State Cash Accounts	3.3
Permanent School Fund	0.4
Environmental Trust Fund	0.1
Total	$27.7

MINNESOTA STATE BOARD OF INVESTMENT

QUARTERLY INVESTMENT REPORT

Third Quarter 1995

(July 1, 1995 — September 30, 1995)

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VARIOUS CAPITAL MARKET INDICES

	Period Ending 9/30/95				
	Qtr.	**Yr.**	**3 Yr.**	**5 Yr.**	**10 Yr.**
Domestic Equity					
Wilshire 5000	9.1%	29.1%	15.8%	18.1%	15.4%
Dow Jones Industrials	5.8	28.0	16.8	17.8	17.6
S&P 500	8.0	29.8	15.0	17.3	16.0
Russell 2000	9.9	23.4	19.0	21.7	12.8
Domestic Fixed Income					
Lehman Aggregate	2.0	14.3	6.7	9.7	10.0
Lehman Gov't./Corp.	1.9	14.4	6.9	9.9	10.0
90 Day U.S. Treasury Bills	1.4	5.7	4.1	4.6	5.9
International					
EAFE**	4.2	5.8	13.7	10.7	14.9
Salomon Non U.S. Gov't. Bond	-2.4	17.8	10.2	13.7	14.6
Inflation Measure					
Consumer Price Index***	0.5	2.5	2.7	2.9	3.5

* 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 a number of factors: 1) the Federal Reserve reducing interest rates in July; 2) continuing low inflation; 3) good earning reports; 4) positive cashflows into equity mutual funds; and 5) strong merger and acquisition activity. All these factors created a strong overall equity market causing all sectors of the market to record positive returns. The top performing sector was financial (15%) and the weakest sector was energy (3%).

The Wilshire 5000 provided a 9.1% return for the quarter. Performance among the different Wilshire Style Indexes for the quarter are shown below:

Large Value	11.2%
Small Value	9.3
Large Growth	9.0
Small Growth	11.8

The Wilshire 5000 increased 29.1% during the latest year.

DOMESTIC BONDS

Returns for the quarter were due primarily to coupon payments as interest rates remained essentially unchanged. Higher coupon paying corporate and mortgage securities outperformed Treasuries in this environment. Interest rates remained low as investors believe inflation will remain benign and that a deficit reduction plan will be passed. The yield curve flattened slightly with two year rates increasing 0.06% and long rates and long rates declining 0.11%.

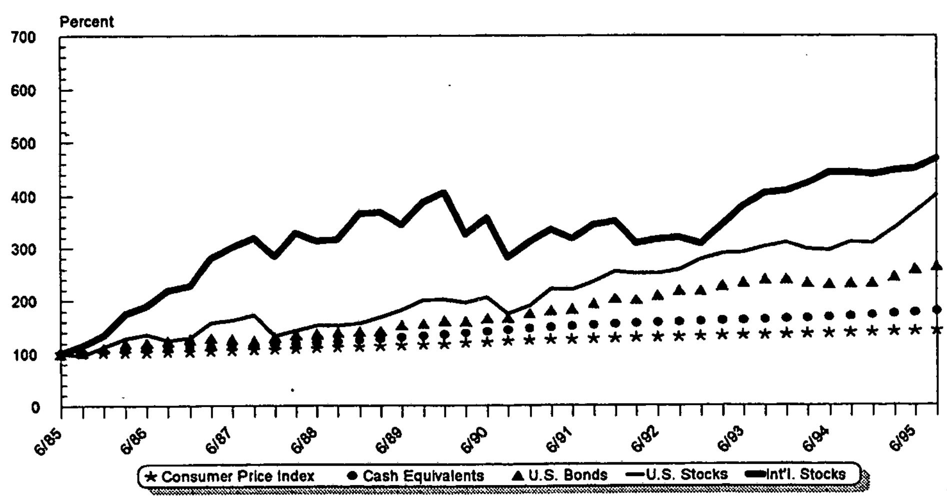
Overall, the Lehman Brothers Aggregate Bond Index increased 2.0% for the quarter. The Lehman Aggregate sector returns for the quarter were:

Treasury/Agency	1.9%
Corporates	2.4
Mortgages	2.1

The Lehman Aggregate increased 14.1% 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 4.2% for the quarter. As shown below, performance varied widely among the major markets:

Japan	4.5%
United Kingdom	6.3
Germany	1.8
France	-3.6

The EAFE index increased by 5.8% 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 the international markets in the index.

REAL ESTATE

Nationally, many real estate markets are improving. Property types most favored by buyers at the present time 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 $26.75 per barrel during the quarter compared to $17.67 per barrel a year earlier. Natural gas prices were weak during the quarter averaging $1.54 per thousand cubic feet versus $1.70 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.

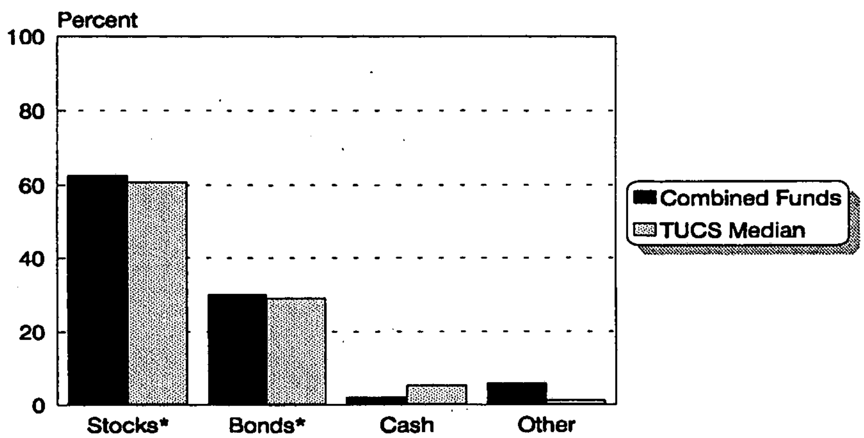
The comparison universe used by the SBI is the Master Trust portion of the Trust Universe Comparison Service (TUCS). This universe contains information on more than 200 public and corporate pension and trust funds with a balanced asset mix.

Asset Mix Compared to Other Pension Funds

On September 30, 1995, the actual asset mix of the Combined Funds was:

	$ Millions	%
Domestic Stocks	$11,967	52.8%
International Stocks	2,170	9.6
Bonds	6,824	30.1
Alternative Assets	1,258	5.6
Unallocated Cash	425	1.9
Total	$22,644	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 September 30, 1995 are shown below:



	Stocks*	Bonds*	Cash	Other
Combined Funds	**62.4%**	**30.1%**	**1.9%**	**5.6%**
Median Allocation in TUCS	60.7	29.0	5.1	1.0

* 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:

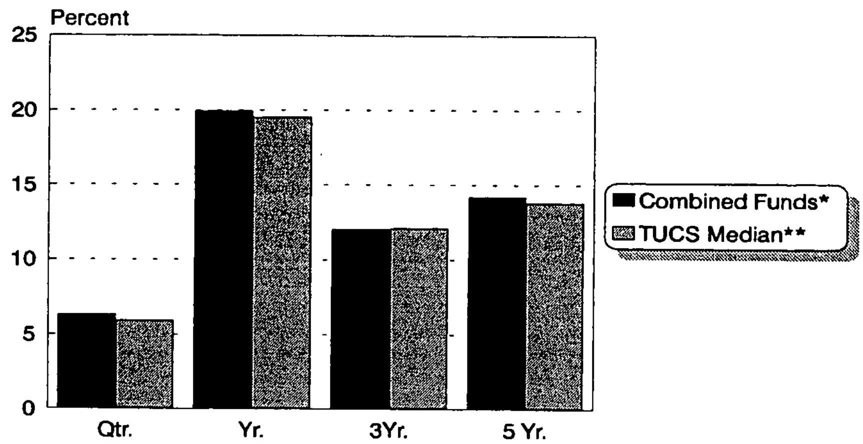
— **Differing Treatment of Fees.** All SBI returns in this report are shown *after* all management fees while TUCS data is reported *before* fees. If the SBI reported returns before fees, its returns and rankings would be *higher* than those shown in this report.

— **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 9/30/95

	Qtr.	Yr.	Annualized 3 Yr.	Annualized 5 Yr.
Combined Funds Return*	**6.3%**	**19.9%**	**12.0%**	**14.2%**
TUCS Median Fund Return**	5.9	19.5	12.1	13.8
Percentile Rank in TUCS	34th	44th	51st	39th

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

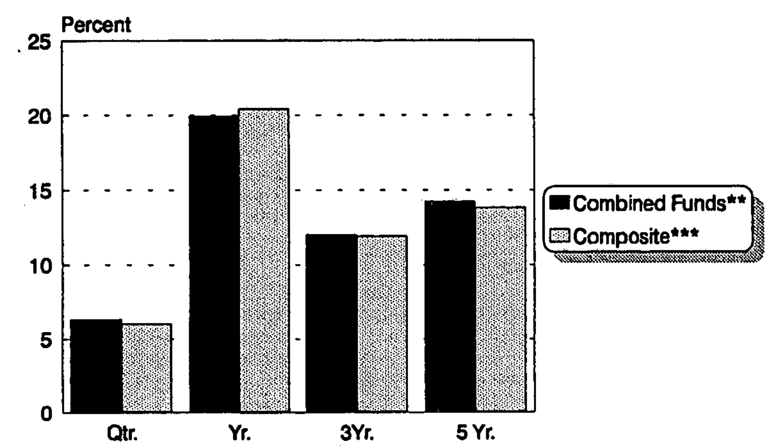
The SBI's stated performance objective is that the Combined Funds will rank in the top half of the universe (above the 50th percentile) over the most recent five year period. The SBI will strive to achieve performance which ranks in the top third (above the 33rd percentile).

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 3Q95
Domestic Stocks	Wilshire 5000	50.0%
Int'l. Stocks	EAFE-Free	10.0
Domestic Bonds	Lehman Aggregate	32.5*
Alternative Assets	Wilshire Real Estate	2.2*
	Venture Capital Funds	2.9*
	Resource Funds	0.4*
Unallocated Cash	91 Day T-Bills	2.0
		100.0%

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



Period Ending 9/30/95

	Qtr.	Yr.	3 Yr. (Annualized)	5 Yr. (Annualized)
Combined Funds**	**6.3%**	**19.9%**	**12.0%**	**14.2%**
Composite Index***	6.0	20.4	11.9	13.8

**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

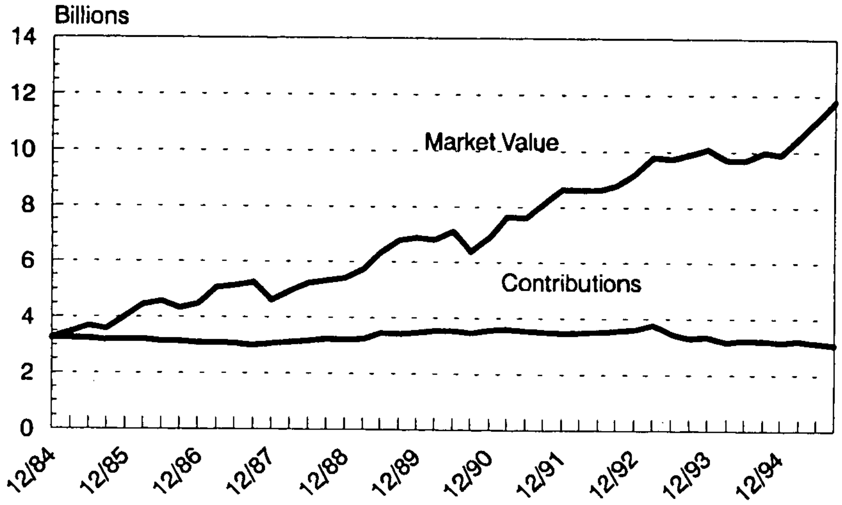
The Basic Retirement Funds are composed of the retirement assets for currently working participants in eight statewide retirement funds. The Funds serve as accumulation pools for the pension contributions of public employees and their employers during the employees' years of active service. Approximately 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 5.9% during the third quarter of 1995. Positive investment returns accounted for the increase.



Last Five Years
In Millions

	12/90	12/91	12/92	12/93	12/94	3/95	6/95	Latest Qtr. 9/95
Beginning Value	$6,875	$6,919	$8,639	$9,191	$10,086	$9,890	$10,508	$11,129
Net Contributions	91	-92	-34	-239	-206	63	-84	-60
Investment Return	-47	1,812	586	1,134	-10	555	705	719
Ending Value	$6,919	$8,639	$9,191	$10,086	$9,890	$10,508	$11,129	$11,788

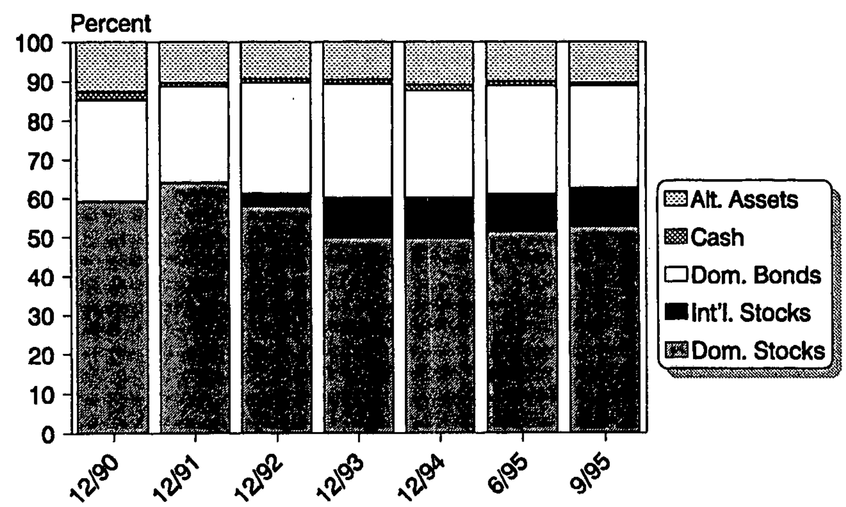
BASIC RETIREMENT FUNDS
Asset Mix

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 slightly from the prior quarter due to market movements.



	Last Five Years							Latest Qtr.
	12/90	12/91	12/92	12/93	12/94	3/95	6/95	9/95
Domestic Stocks	59.1%	63.9%	57.9%	49.9%	49.7%	49.0%	51.4%	52.8%
Int'l. Stocks	0.0	0.0	3.2	10.0	10.3	9.4	9.6	9.6
Domestic Bonds	26.2	24.7	28.5	29.4	27.5	30.3	27.7	26.3
Real Estate	7.0	4.8	4.2	4.1	4.6	4.3	4.2	4.2
Private Equity	4.2	4.7	4.2	4.6	5.6	5.6	5.1	5.5
Resource Funds	1.5	1.1	1.2	1.1	0.9	0.8	0.9	0.8
Unallocated Cash	2.0	0.8	0.8	0.9	1.4	0.6	1.1	0.8
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

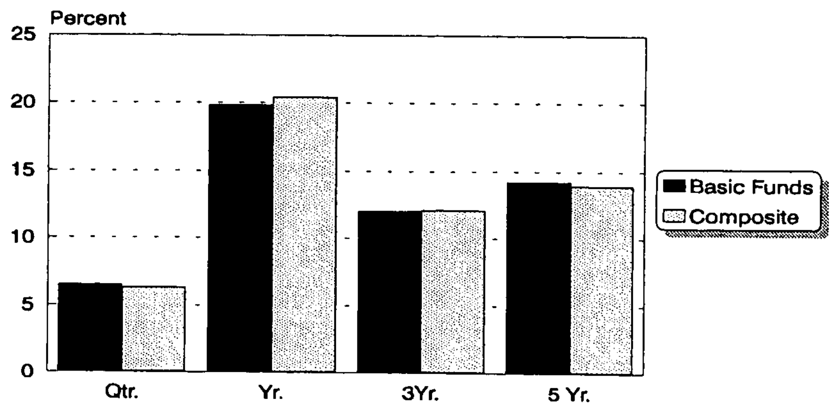
BASIC RETIREMENT FUNDS

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 3Q95
Domestic Stocks	50.0%	Wilshire 5000	50.0%
Int'l. Stocks	10.0	EAFE-Free	10.0
Domestic Bonds	24.0	Lehman Aggregate	28.5*
Alternative Assets	15.0	Wilshire Real Estate	4.2*
		Private Equity Funds	5.5*
		Resource Funds	0.8*
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 9/30/95

	Qtr.	Yr.	Annualized 3 Yr.	Annualized 5 Yr.
Basic Funds	**6.5%**	**19.8%**	**12.0%**	**14.2%**
Composite Index**	6.3	20.4	12.1	13.9

**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.

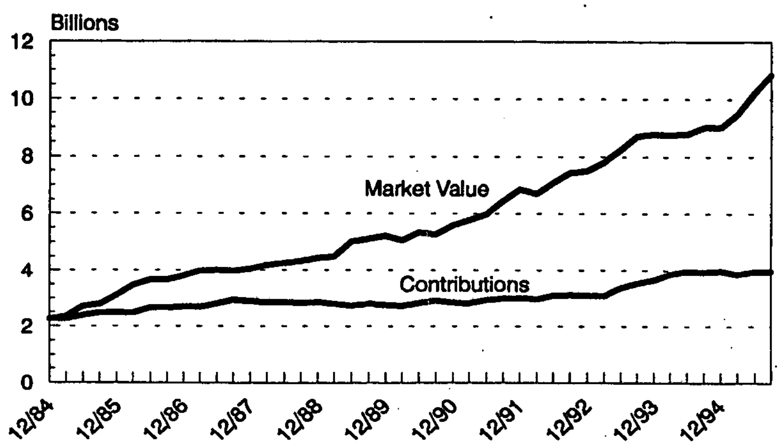
Through fiscal year 1992, unrealized capital gains (or losses) were excluded from the statutory definition of earnings. For this reason the Post Fund previously was not designed to maximize long-term total rates of return. Rather, the SBI attempted to generate a high, consistent stream of realized earnings 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 6.3% during the third quarter of 1995.

The increase was due to positive net contributions and investment returns.



	In Millions							Latest Qtr.
	12/90	12/91	12/92	12/93	12/94	3/95	6/95	9/95
Beginning Value	$5,238	$5,590	$6,855	$7,500	$8,766	$9,001	$9,460	$10,216
Net Contributions	88	162	95	386	314	-100	79	26
Investment Return	264	1,103	550	880	-79	559	677	615
Ending Value	$5,590	$6,855	$7,500	$8,766	$9,001	$9,460	$10,216	$10,857

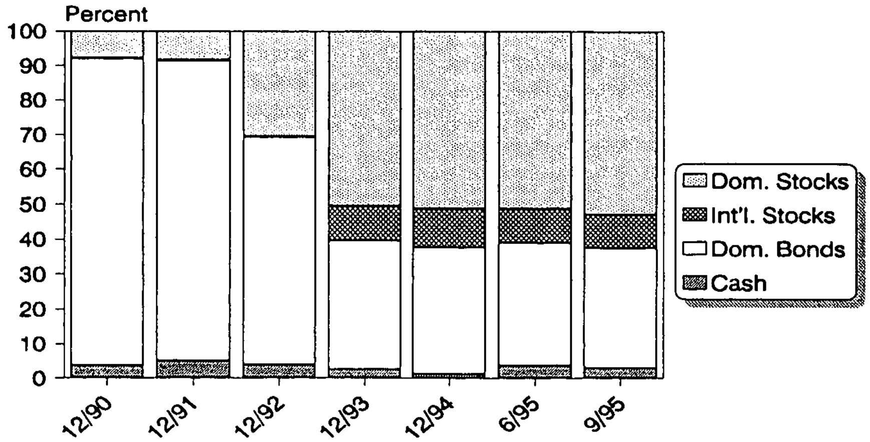
POST RETIREMENT FUND
Asset Mix

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. The allocation in domestic stocks, international stocks and domestic bonds changed from the prior quarter due to market movements.



Note: Alt. Investments are 0.2% beginning 12/94.

	Last Five years							Latest Qtr.
	12/90	12/91	12/92	12/93	12/94	3/95	6/95	9/95
Dom. Stocks	7.9%	8.5%	30.6%	50.5%	51.2%	54.9%	51.3%	52.8%
Int'l. Stocks	0.0	0.0	0.0	10.0	11.0	10.6	9.7	9.6
Dom. Bonds	88.5	80.0	65.6	36.9	36.5	33.0	35.3	34.4
Alt. Assets	0.0	0.0	0.0	0.0	0.1	0.1	0.1	0.2
Unallocated Cash	3.6	5.0	3.8	2.6	1.2	1.4	3.6	3.0
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

POST RETIREMENT FUND

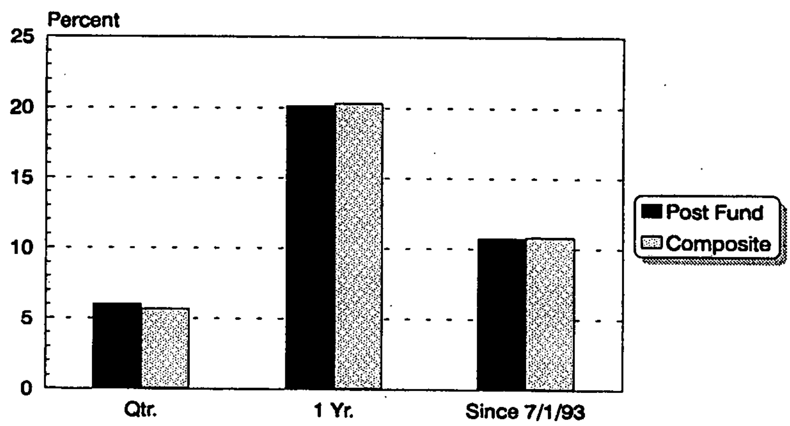
Total Fund Performance

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 3Q95
Domestic Stocks	50%	Wilshire 5000	50.0%
Int'l. Stocks	10	EAFE-Free	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 7/1/93 is shown below.



	Qtr.	1 Yr.	Since 7/1/93
Post Fund	**6.0%**	**20.1%**	**10.7%**
Composite Index	5.7	20.3	10.8

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

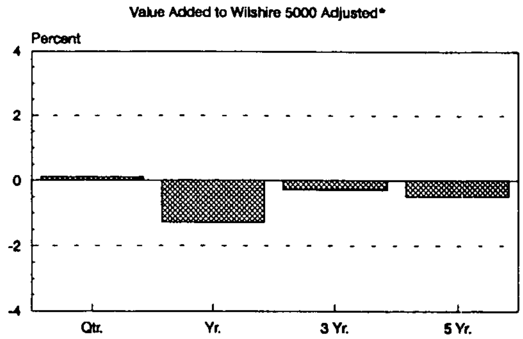
Domestic Stock Pool

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.

	Qtr.	Yr.	Annualized 3 Yrs.	Annualized 5 Yrs.
Stock Pool	**9.2%**	**27.8%**	**15.3%**	**17.5%**
Wilshire 5000*	9.1	29.1	15.6	18.0

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



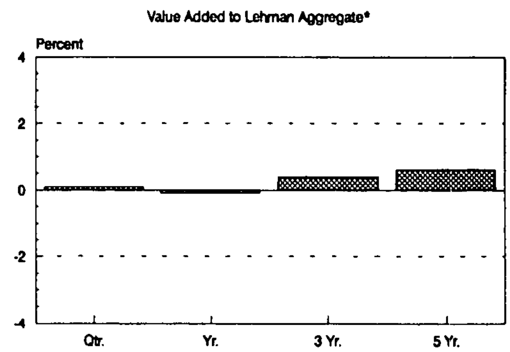
Domestic Bond Pool

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.

	Qtr.	Yr.	Annualized 3 Yrs.	Annualized 5 Yrs.
Bond Pool	**2.1%**	**14.0%**	**7.2%**	**10.3%**
Lehman Aggregate*	2.0	14.1	6.8	9.7

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

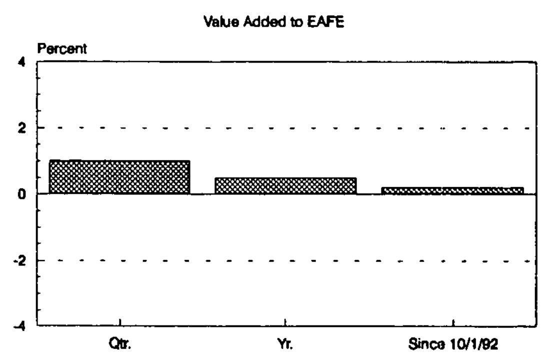


International Stock Pool

Target: EAFE-Free

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	**5.2%**	**6.3%**	**13.9%**
EAFE-Free	4.2	5.8	13.7



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	**5.4%**	**10.6%**	**1.9%**	**-2.2%**
Real Estate Index	5.4	9.4	1.3	-3.0
Inflation	0.5	2.5	2.7	2.9

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	**8.3%**	**15.8%**	**11.0%**	**17.6%**

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	**0.7%**	**16.8%**	**8.4%**	**12.4%**

ASSIGNED RISK PLAN

Investment Objectives
The Assigned Risk Plan has two investment objectives: to minimize the mismatch between assets and liabilities and to provide sufficient liquidity for the payment of on-going claims and operating expenses.

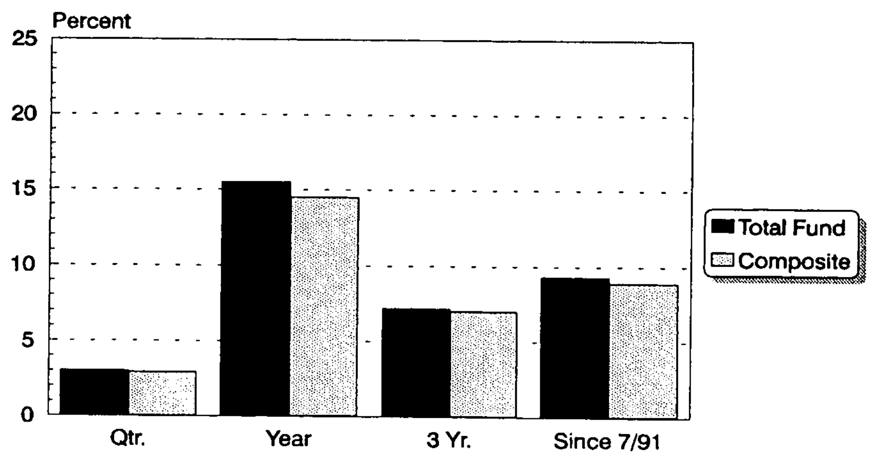
Asset Mix
The Assigned Risk Plan is invested in a balanced portfolio of common stocks and bonds. The actual asset mix will fluctuate in response to changes in the Plan's liability stream.

	9/30/95 Target	9/30/95 Actual
Stocks	20.0%	23.3%
Bonds	80.0	76.6
Unallocated Cash	0.0	0.1
	100.0%	100.0%

Investment Management
Voyageur Asset Management has managed the bond segment of the Fund since inception while GE Investment Management 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 date, the segment used 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 September 30, 1995 the market value of the Assigned Risk Plan was $526 million.



	Period Ending 9/30/95			
	Qtr.	Yr.	3 Yr.	Since 7/1/91
Total Account	**3.0%**	**15.5%**	**7.2%**	**9.3%**
Composite	2.9	14.5	7.0	8.9
Equity Segment	**7.7**	**29.2**	**10.7**	**11.5**
Benchmark	8.0	29.8	11.3	12.3
Bond Segment	**1.7**	**11.9**	**6.1**	**8.7**
Benchmark	1.7	11.0	5.9	8.0

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 September 30, 1995 the market value of the entire fund was $724 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

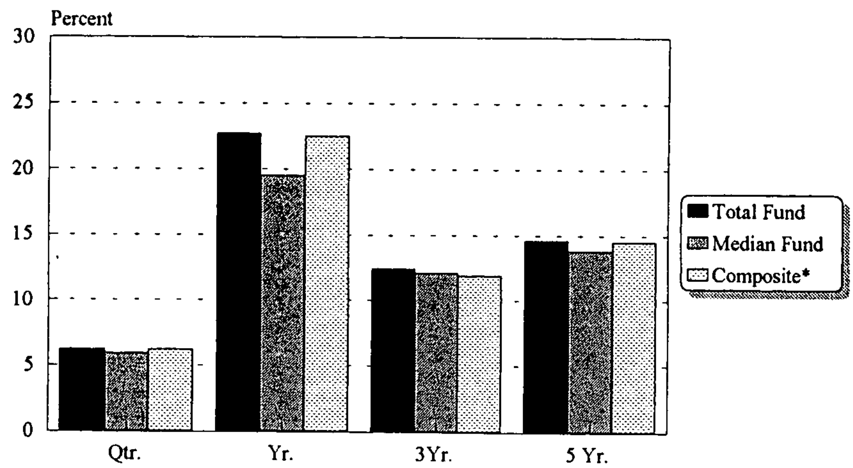
Investment Objective
The primary investment objective of the Income Share Account is similar to that of the Combined Funds. The Account seeks to maximize long-term real rates of return, while limiting short-run portfolio return volatility.

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.

	Target	Actual
Stocks	60.0%	64.8%
Bonds	35.0	32.2
Unallocated Cash	5.0	3.0
	100.0%	100.0%

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 September 30, 1995 the market value of the Income Share Account was $352 million.



	Period Ending 9/30/95			
			Annualized	
	Qtr.	Yr.	3 Yr.	5 Yr.
Total Account	**6.2%**	**22.7%**	**12.4%**	**14.6%**
Median Fund*	5.9	19.5	12.1	13.8
Composite**	6.2	22.5	11.9	14.5
Equity Segment	**8.5**	**28.1**	**15.9**	**18.1**
Wilshire 5000***	9.1	29.1	15.6	18.0
Bond Segment	**2.2**	**14.8**	**7.2**	**10.0**
Lehman Aggregrate	2.0	14.1	6.8	9.7

*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

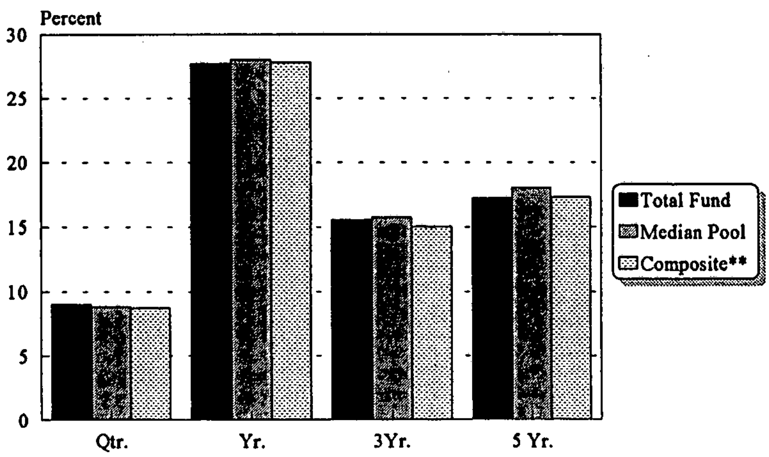
Investment Objective
The Growth Share Account's investment objective is to generate above-average returns from capital appreciation on common stocks.

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%	95.4%
Unallocated Cash	5.0	4.6
	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 September 30, 1995 the market value of the Growth Share Account was $136 million.



Period Ending 9/30/95

	Qtr.	Yr.	3 Yr. (Annualized)	5 Yr. (Annualized)
Total Account	**9.0%**	**27.7%**	**15.5%**	**17.2%**
Median Pool*	8.8	28.0	15.7	18.0
Composite**	8.7	27.8	15.0	17.3

* 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

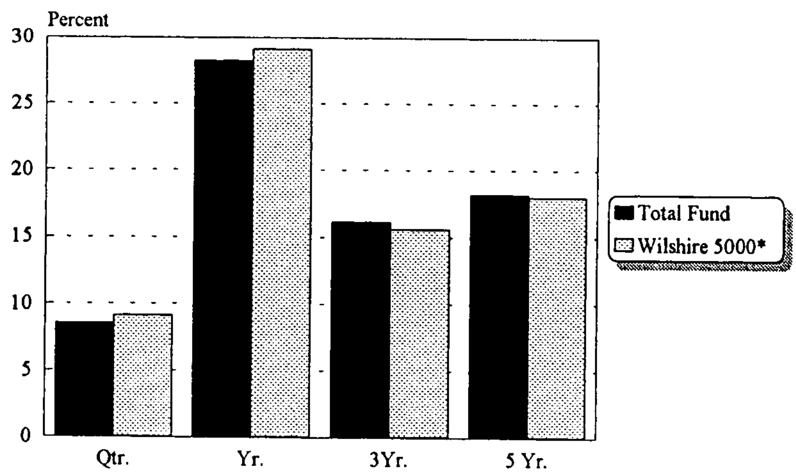
Common Stock Index Account

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
Until July 1995, the entire Account was managed by Wilshire Associates as part of a passively managed index fund. Since July 1995, the Account is managed by Wells Fargo Nikko Investment Advisors.

Market Value
On September 30, 1995 the market value of the Common Stock Index Account was $74 million.



Period Ending 9/30/95

	Qtr.	Yr.	3 Yr.	5 Yr.
			Annualized	
Total Account	**8.5%**	**28.2%**	**16.1%**	**18.2%**
Wilshire 5000*	9.1	29.1	15.6	18.0

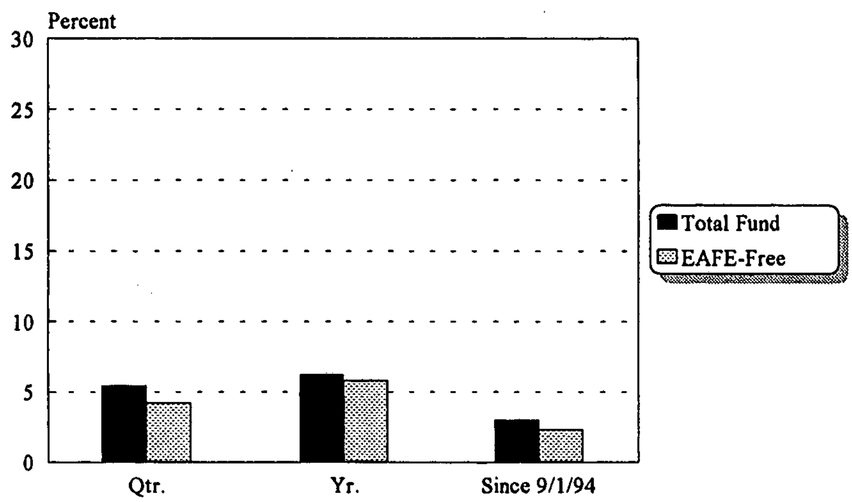
*Buy/hold index adjusted for liquor and tobacco restrictions through 3/31/93 and AHP restriction through 10/31/93.

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-Free). 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 in September 1994. Beginning October 1994, the Account uses the same group of international active and passive international stock managers as the Basic and Post Retirement Funds.

Market Value
On September 30, 1995 the market value of the International Share Account was $10 million.



Period Ending 9/30/95

	Qtr.	Yr.	Since 9/1/94
Total Account	5.4%	6.2%	3.0%
EAFE Free	4.2	5.8	2.3

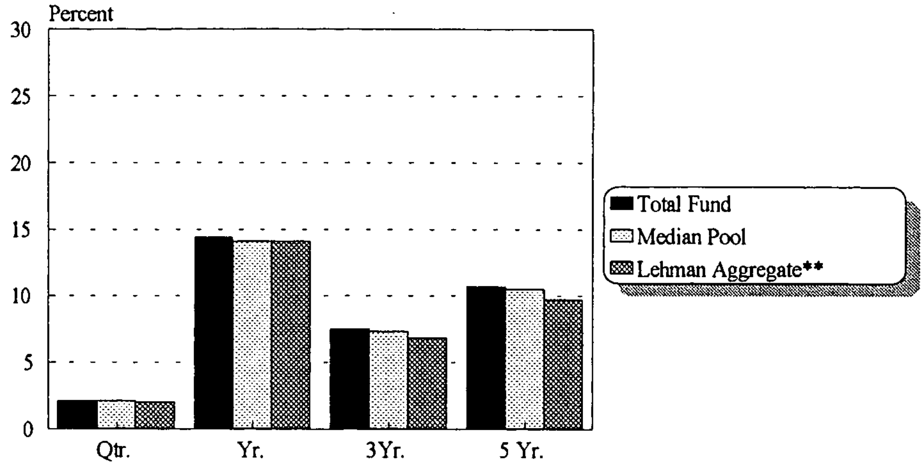
SUPPLEMENTAL INVESTMENT FUND
Bond Market Account

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 September 30, 1995 the market value of the Bond Market Account was $23 million.



Period Ending 9/30/95

	Qtr.	Yr.	Annualized 3 Yr.	5 Yr.
Total Account	**2.1%**	**14.4%**	**7.5%**	**10.7%**
Median Pool*	2.1	14.1	7.3	10.5
Lehman Aggregate**	2.0	14.1	6.8	9.7

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

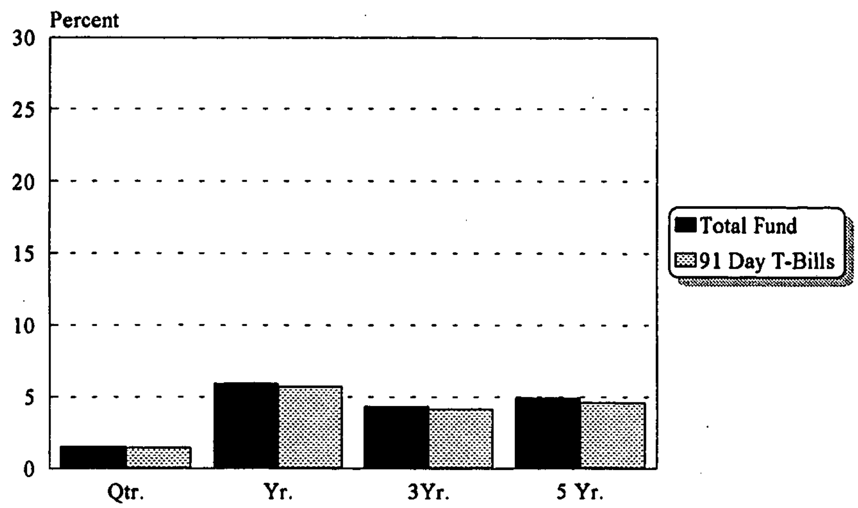
SUPPLEMENTAL INVESTMENT FUND
Money Market Account

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 September 30, 1995 the market value of the Money Market Account was $55 million.



Period Ending 9/30/95

	Qtr.	Yr.	3 Yr. (Annualized)	5 Yr. (Annualized)
Total Account	**1.5%**	**5.9%**	**4.3%**	**4.9%**
91 Day T-Bills	1.4	5.7	4.1	4.6

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 October 1995 and October 1996, respectively.

Investment Management
Since November 1, 1994, the new portfolio of GIC's and GIC-type investments has been managed by Norwest Investment Management.

Market Value
On September 30, 1995 the market value of the Fixed Interest Account was $74 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
Nov. 94	5.750%
Dec.	6.790
Jan. 95	6.790
Feb.	7.310
Mar.	6.910
Apr.	6.900
May	6.690
Jun.	7.012
Jul.	6.822
Aug.	7.001
Sep.	6.983

PERMANENT SCHOOL FUND

Investment Objectives
The objective of the Permanent School Fund is to provide a high, consistent stream of income to assist in offsetting state expenditures on school aid while maintaining adequate portfolio quality.

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.

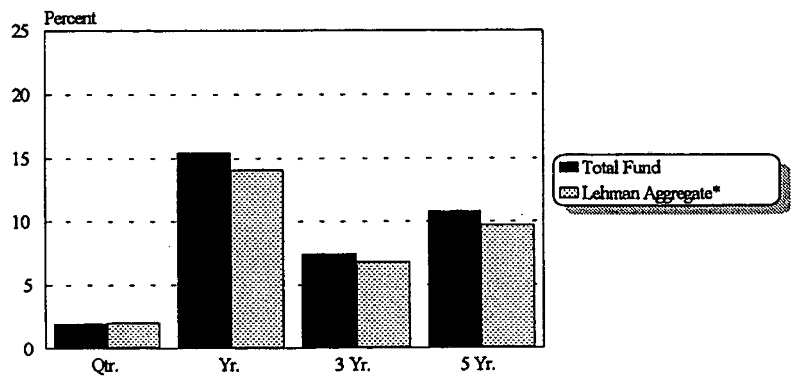
These legal provisions have limited the investment time horizon over which the Permanent School Fund is managed. Long-run growth in its assets is difficult to achieve without seriously reducing current spendable income and exposing the spendable income stream to unacceptable volatility. The SBI, therefore, 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 is invested entirely in a portfolio of fixed income securities to maximize current income.

Investment Management
The Permanent School Fund is managed internally by SBI staff. The investment approach utilizes sector trading and relative spread analysis of both sectors and individual issues. The portfolio weightings in mortgage and corporate securities are consistently equal to or greater than the market weightings. The portfolio duration remains close to the benchmark duration but may be slightly shorter or longer depending on the economic outlook. (Prior to July 1993 the fund used a buy and hold, laddered maturity structure).

Performance Benchmarks
Since July 1993 the Lehman Aggregate Index has been the benchmark for the Permanent School Fund.

Market Value
On September 30, 1995, the market value of the Permanent School Fund was $449 million.



Period Ending 9/30/95

	Qtr.	Yr.	3 Yr.	5 Yr.
Total Fund	1.9%	15.4%	7.4%	10.8%
Lehman Agg.*	2.0	14.1	6.8	9.7

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

ENVIRONMENTAL TRUST FUND

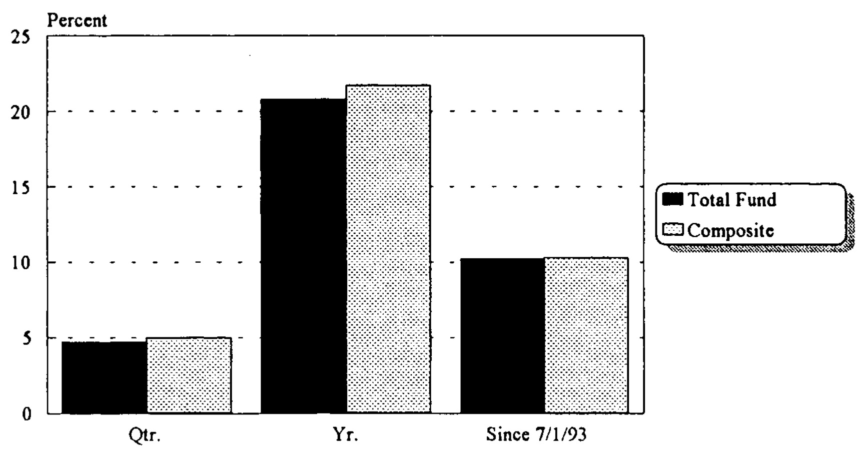
Investment Objective
The Environmental Trust Fund's objective is to produce a growing level of spendable income, within the constraints of maintaining adequate portfolio quality and liquidity.

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%	47.2%
Bonds	50.0	46.0
Unallocated Cash	0.0	6.8
	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 September 30, 1995 the market value of the Environmental Trust Fund was $119 million.



Period Ending 9/30/95

	Qtr.	1 Yr.	Since 7/1/93
Total Fund	**4.7%**	**20.8%**	**10.2%**
Composite	5.0	21.7	10.3
Equity Segment	**7.9**	**29.6**	**15.4**
Benchmark	8.0	29.8	15.5
Bond Segment	**1.8**	**14.0**	**6.5**
Benchmark	2.0	14.1	5.8

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 9/30/95

	Market Value (Millions)	Qtr.	Yr.	3 Yrs. Annualized
Treasurer's Cash Pool	**$2,809**	**1.5%**	**6.2%**	**4.6%**
Trust Fund Cash Pool	**109**	**1.5**	**6.0**	**4.8**
Benchmark*		1.5	6.6	NA
91-Day T-Bills		1.4	5.7	4.1

* 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 believes that 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 September 30, 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	$39,937 0.79%	-0-	$1,324,811 26.25%	-0-	$2,667,341 52.86%	$483,681 9.59%	$530,461 10.51%	$5,046,231 100%
Public Employees Retirement Fund	$25,074 1.00%	-0-	$654,103 26.20%	-0-	$1,316,956 52.74%	$238,810 9.56%	$261,922 10.50%	$2,496,865 100%
State Employees Retirement Fund	$17,835 0.74%	-0-	$629,842 26.27%	-0-	$1,268,110 52.89%	$229,952 9.59%	$252,027 10.51%	$2,397,766 100%
Public Employees Police & Fire Fund	$12,436 1.06%	-0-	$308,085 26.18%	-0-	$620,291 52.72%	$112,480 9.56%	$123,328 10.48%	$1,176,620 100%
Highway Patrol Retirement Fund	$426 0.24%	-0-	$46,524 26.40%	-0-	$93,670 53.15%	$16,986 9.64%	$18,624 10.57%	$176,230 100%
Judges Retirement Fund	$113 0.89%	-0-	$3,336 26.23%	-0-	$6,716 52.81%	$1,218 9.58%	$1,335 10.49%	$12,718 100%
Public Employees P.F. Consolidated	$2,460 0.70%	-0-	$92,722 26.26%	$19 0.01%	$186,874 52.92%	$33,887 9.59%	$37,161 10.52%	$353,123 100%
Correctional Employees Retirement	$236 0.18%	-0-	$33,836 26.42%	-0-	$68,124 53.18%	$12,353 9.64%	$13,545 10.58%	$128,094 100%
POST RETIREMENT FUND	$326,773 3.01%	-0-	$3,730,836 34.36%	$19,559 0.18%	$5,739,469 52.86%	$1,040,662 9.59%	-0-	$10,857,299 100%
TOTAL BASIC & POST	$425,290 1.88%	-0-	$6,824,095 30.14%	$19,578 0.09%	$11,967,551 52.85%	$2,170,029 9.58%	$1,238,403 5.46%	$22,644,946 100%

	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	$10,567 3.00%	$113,304 32.22%	-0-	-0-	$227,842 64.78%	-0-	-0-	$351,713 100%
Growth Share Account	$6,210 4.56%	-0-	-0-	-0-	$129,830 95.44%	-0-	-0-	$136,040 100%
Money Market Account	$54,711 100%	-0-	-0-	-0-	-0-	-0-	-0-	$54,711 100%
Common Stock Index Account	-0-	-0-	-0-	-0-	$74,304 100%	-0-	-0-	$74,304 100%
Bond Market Account	-0-	-0-	$22,888 100%	-0-	-0-	-0-	-0-	$22,888 100%
International Share Account	-0-	-0-	-0-	-0-	-0-	$10,372 100%	-0-	$10,372 100%
Fixed Interest Account	-0-	-0-	$73,480 100%	-0-	-0-	-0-	-0-	$73,480 100%
TOTAL SUPPLEMENTAL FUNDS	$71,488 9.88%	$113,304 15.66%	$96,368 13.32%	-0-	$431,976 59.71%	$10,372 1.43%	-0-	$723,508 100%
TOTAL RETIREMENT FUNDS	$496,778 2.13%	$113,304 0.48%	$6,920,463 29.62%	$19,578 0.08%	$12,399,527 53.06%	$2,180,401 9.33%	$1,238,403 5.30%	$23,368,454 100%

	Cash And Short Term Securities	Bonds Internal	Bonds External	Stocks Internal	Stocks External	External Int'l.	Alternative Assets	Total
ASSIGNED RISK PLAN	\$9,377 1.78%	-0-	\$402,362 76.50%	-0-	\$114,207 21.72%	-0-	-0-	\$525,946 100%
ENVIRONMENTAL FUND	\$8,083 6.79%	\$54,740 45.99%	-0-	\$56,202 47.22%	-0-	-0-	-0-	\$119,025 100%
PERMANENT SCHOOL FUND	\$74,677 16.63%	\$374,416 83.37%	-0-	-0-	-0-	-0-	-0-	\$449,093 100%
TREASURERS CASH	\$2,812,160 100%	-0-	-0-	-0-	-0-	-0-	-0-	\$2,812,160 100%
HOUSING FINANCE AGENCY	\$64,245 29.78%	\$151,476 70.22%	-0-	-0-	-0-	-0-	-0-	\$215,721 100%
MINNESOTA DEBT SERVICE FUND	\$2,851 13.40%	\$18,430 86.60%	-0-	-0-	-0-	-0-	-0-	\$21,281 100%
MISCELLANEOUS ACCOUNTS	\$56,414 26.16%	\$159,262 73.84%	-0-	-0-	-0-	-0-	-0-	\$215,676 100%
GRAND TOTAL	\$3,524,585 12.71%	\$871,628 3.14%	\$7,322,825 26.41%	\$75,780 0.27%	\$12,513,734 45.13%	\$2,180,401 7.87%	\$1,238,403 4.47%	\$27,727,356 100%

STATE OF MINNESOTA
STATE BOARD OF INVESTMENT

Net Cash Flow Available For Investment
July 1, 1995 - September 30, 1995

Teachers Retirement Fund	($41,400,000.00)
Public Employees Retirement Fund	(12,000,000.00)
State Employees Retirement Fund	(3,600,000.00)
Public Employees Police & Fire	500,000.00
Highway Patrol Retirement Fund	(1,148,000.00)
Judges Retirement Fund	(27,000.00)
Public Employees P&F Consolidated	(4,250,000.00)
Correctional Employees Retirement Fund	(910,000.00)
Post Retirement Fund	25,816,925.65
Supplemental Retirement Fund - Income	(60,782.14)
Supplemental Retirement Fund - Growth	(62,979.06)
Supplemental Retirement Fund - Money Market	(1,438,145.85)
Supplemental Retirement Fund - Index	1,394,249.61
Supplemental Retirement Fund - Bond Market	221,037.83
Supplemental Retirement Fund - Fixed Interest,	(436,364.35)
Supplemental Retirement Fund - International	389,939.81
Total Retirement Funds Net Cash Flow	**(37,011,118.50)**
Assigned Risk Plan	6,855,387.02
Permanent School Fund	2,086,788.47
Total Net Cash Flow	**($28,068,943.01)**

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 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
April	1	-305	-304	-6	2.7	31.2	66.1	21,049
May	0	13	13	14	2.6	31.5	65.9	21,681
June	8	-12	-4	-3	2.6	31.3	66.1	22,028
July	1	13	14	19	2.5	30.4	67.1	22,646
August	(1)	14	13	(25)	2.3	30.5	67.2	22,814
September	0	13	13	(21)	2.1	30.1	67.8	23,369

Tab C

EXECUTIVE DIRECTOR'S ADMINISTRATIVE COMMITTEE

DATE: December 5, 1995

TO: Members, State Board of Investment

FROM: Howard Bicker

1. Budget and Travel Reports

A report on the SBI's administrative budget for period ending October 31, 1995 is included as **Attachment A**.

A travel report for the period from August 16 - November 15, 1995 is included as **Attachment B**.

2. Draft of FY95 Annual Report

A draft of the SBI's annual report for FY95 was sent to Board members/designees and IAC members in late November. The final report will be distributed by January 1996.

3. Post Retirement Benefit Increase for FY95

The Post Retirement Fund generated a benefit increase of 6.395% for FY95. This increase will be payable to eligible retirees beginning January 1, 1996.

The increase is comprised of two parts:

- an inflation component of 3.1%
- an investment component of 3.295%

This is the third benefit increase granted under the new formula enacted by the 1992 Legislature.

4. Tentative Meeting Dates for Calendar 1996

The quarterly meetings of the IAC/SBI are normally held on the first consecutive Tuesday and Wednesday of March, June, September and December. Those dates for Calendar 1996 are:

IAC	SBI
Tuesday, March 5, 1996	Wednesday, March 6, 1996
Tuesday, June 4, 1996	Wednesday, June 5, 1996
Tuesday, September 3, 1996	Wednesday, September 4, 1996
Tuesday, December 3, 1996	Wednesday, December 4, 1996

SBI staff will be confirming the availability of Board members for the above dates over the next month.

ATTACHMENT A

STATE BOARD OF INVESTMENT
FISCAL YEAR 1996 ADMINISTRATIVE BUDGET REPORT
GENERAL FUND APPROPRIATION
FISCAL YEAR TO DATE THROUGH OCTOBER 31, 1995

ITEM	FISCAL YEAR 1996 BUDGET	FISCAL YEAR 1996 EXPENDITURES
PERSONAL SERVICES		
FULL TIME EMPLOYEES	$ 1,519,000	$ 429,401
SEVERENCE PAYOFF	0	3,827
WORKERS COMPENSATION INSURANCE	0	0
MISCELLANEOUS PAYROLL	0	0
SUBTOTAL	**$ 1,519,000**	**$ 433,228**
STATE OPERATIONS		
RENTS & LEASES	88,550	29,517
REPAIRS/ALTERATIONS/MAINTENANCE	13,000	3,403
BONDS AND INSURANCE	0	0
PRINTING & BINDING	15,950	10,514
PROFESSIONAL/TECHNICAL SERVICES	50,000	1,195
COMPUTER SYSTEMS SERVICES	202,500	50,645
COMMUNICATIONS	27,000	5,695
TRAVEL, IN-STATE	3,000	2,611
TRAVEL, OUT-STATE	50,000	7,522
SUPPLIES	48,000	7,174
EQUIPMENT	30,000	0
EMPLOYEE DEVELOPMENT	5,000	2,210
OTHER OPERATING COSTS	40,000	9,879
SUBTOTAL	**$ 573,000**	**$ 130,365**
TOTAL GENERAL FUND	**$ 2,092,000**	**$ 563,593**

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ATTACHMENT B

STATE BOARD OF INVESTMENT

Travel Summary by Date
August 16, 1995 - November 15, 1995

Purpose	Name(s)	Destination and Date	Total Cost
Manager Monitoring **Domestic Equity Manager** Lincoln Capital Mgmt., Brinson Partners **Consultant Meeting** Richards & Tierney	M. Menssen L. Buermann	Chicago, IL 9/18-9/20	$864.71
Staff Conference "Real Estate Investing" Sponsored by Elkind Economics, Inc.	B. Lehman	Dallas/Ft. Worth, TX 9/20/95	$314.00
Manager Search **Emerging Markets** Capital International, Dimensional Funds Advisors, G.T. Capital, Hotchkis & Wiley, Montgomery Asset Mgmt., TCW, Wells Fargo Nikko	K. Vnuk	San Francisco, CA 9/23-9/28	$1,752.82
Staff Conference National Association of State Teachers Annual Conference	H. Bicker	Reno, NV 10/15-10/18	$1,466.31
Manager Monitoring **Alternative Investments** Zell Real Estate, Zell/Chilmark Annual Mtg., National Association of State Investment Officers Limited Partners Mtg.	J. Griebenow M. Regal	Chicago, IL 10/18-10/22	$1,430.00
Staff Conference National Association of State Investment Officers Annual Meeting	H. Bicker B. Lehman	Baltimore, MD 10/20-10/25	$2,013.64

Purpose	**Name(s)**	**Destination and Date**	**Total Cost**
Manager Search **Domestic Equity Manager** Baring Asset Management **Manager Monitoring** **Domestic Equity Managers** Franklin Portfolio Associates, Independence Investment Assoc. **Manager Monitoring** **Assigned Risk Plan Manager** GE Investments	M. Menssen L. Buermann	Boston, MA New York, NY 10/24-10/27	$2,305.10
Manager Search **Alternative Investments** Hyperion/Equitable, First Reserve	J. Griebenow M. Regal	New York, NY 10/25-10/26	$2,264.38

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: December 5, 1995

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

FROM: Michael A. McGrath

The SBI Administrative Committee met on November 22, 1995 to discuss the following agenda items:

- approval of contract amendment for the Deferred Compensation Plan
- approval of a Securities Repurchase Pilot Program

Action by the SBI is requested on both items.

1. Contract Amendment for the Deferred Compensation Plan

The two insurance company providers in the State's Deferred Compensation Plan offer a variety of payout options. These multiple pay out options increase a participant's flexibility in designing a program that best meets their retirement needs.

Currently, both Great West and Minnesota Mutual offer a payout option called "Payments of a Specified Amount" where the amount is fixed and the length of the payout period varies. Minnesota Mutual also offers an option called "Payment for a Specified Period" where the length of the payout period is fixed and the amount received fluctuates. Great West is now proposing to add "Payments for a Specified Period" to their set of payout options.

The SBI Administrative Committee believes that it is in the best interest of participants in the Plan to add the option requested by Great West since it will increase payout flexibility for participants at no additional expense. The addition will require an amendment to the Great-West product contract with the SBI.

RECOMMENDATION:

The SBI Administrative Committee recommends that the SBI authorize the Executive Director, with assistance from SBI legal counsel, to negotiate and execute an amendment to the Great-West contract for the State Deferred Compensation Plan to add "Payments for a Specified Period" as a payout option for participants in the Plan.

2. Securities Repurchase Pilot Program

Since 1980, the State Board of Investment (SBI) has invested in banks throughout Minnesota through the SBI's Certificate of Deposit (CD) program.

Recently, community banks in Minnesota have had an increased need for funds due to a reduction in local deposits and a reduced ability to sell investments held in bank portfolios due to changes in Federal Accounting Standards Board (FASB) 115 regulations. Earlier this year, one of the clearinghouse banks for the CD program, United Bankers' Bank, approached staff with a proposal to establish a Securities Repurchase Program to help meet the increased liquidity needs of the banks. A draft copy of the proposal is attached for your review.

Under the program, the SBI will temporarily buy securities such as Treasuries and Governments from banks under a repurchase agreement. At the end of the contract period, the securities will be returned to the selling banks (i.e. "repurchased") and the bank will pay the SBI principal and interest. The market value of the securities (collateral) must be at least 110% of the total purchase price. For ease of administration, the pricing rate, subscription, settlement, and repurchase dates will be the same as those used for the CD program.

A financial institution must be well capitalized and hold in deposit the maximum of $800,000 in SBI Certificate of Deposit funds in order to be eligible to participate in the securities repurchase program. Transaction amounts will range from $100,000 to $2,000,000. Amounts above $500,000 will be based on availability of funds and other factors such as a bank's preferred lending ranking by the Small Business Administration (SBA).

Staff believe that the addition of this program would benefit banks throughout Minnesota while permitting the SBI to earn the same market yields as would be available through other sources. Staff, therefore, recommends that the SBI approve a "pilot" securities repurchase program, initially using United Bankers' Bank as the custodian/safekeeping bank for the securities. If the program is successful, it could be expanded and offered through the remaining clearinghouse banks used in the CD program. If approved, the pilot Securities Repurchase Program would be offered to banks throughout the state in April 1996.

RECOMMENDATION:

The SBI Administrative Committee recommends that the SBI authorize the SBI Executive Director, with assistance from SBI legal counsel, to establish a Securities Repurchase Program as described in Attachment A. Under the program, United Bankers' Bank, Bloomington, MN will act as custodian/safekeeping bank for the securities in the program.

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Attachment A

Minnesota State Board of Investment
Securities Repurchase Program

Purpose
The Securities Repurchase Program is designed to help meet the liquidity needs of Minnesota financial institutions. Under the program, the Minnesota State Board of Investment (MSBI) will buy securities from banks under a repurchase agreement. At the end of the contract period, securities will be returned to the selling bank against payment of principal and interest.

Offering, Initiation and Termination
The MSBI's Securities Repurchase Program will be similar to the Certificate of Deposit Program. Subscription periods will occur quarterly, coinciding with the expiration of previous security repurchase agreements. The pricing rate, subscription, settlement and repurchase dates will be the same as the Certificate of Deposit Program for ease of administration.

A financial institution must be well capitalized and hold on deposit the maximum of $800,000 in MSBI Certificate of Deposit funds in order to be eligible to participate in the Securities Repurchase Program. After maximum deposit levels have been reached, the bank may enter into a securities repurchase transaction in an amount ranging from $100,000 to $2,000,000 depending on available funds.

The MSBI expects to be able to fill all securities repurchase transaction amounts up to $500,000 on an ongoing basis. However, the MSBI cannot guarantee that a bank will be able to "rollover" repurchase transactions at maturity. Amounts above $500,000 will be based on the availability of funds and other factors such as a bank's preferred lender ranking by the Small Business Administration (SBA).

Before a bank may sell securities to the MSBI with the intention of repurchase, a Master Repurchase Agreement and Custodial Agreement must be executed.

An agreement to enter into a transaction will be made orally between the MSBI and the financial institution with (a Custodian Bank) acting as agent for the financial institutions. A formal written Repurchase Agreement between the MSBI and the financial institution will be executed before the transaction will settle.

Upon agreeing to enter into a repurchase transaction, (a Custodian Bank) will deliver a written confirmation to the financial institution and the MSBI. The confirmation will describe the purchased securities (including cusip numbers), identification of the buyer and seller, and set forth purchase price, repurchase date and repurchase price.

The confirmation, together with the repurchase agreement, will constitute evidence of the terms of the agreement. In the event of any conflict between the terms stated in the confirmation and the repurchase agreement, the agreement will prevail.

On the expiration date, termination of the transaction will occur by transfer to the financial institution's agent, (a Custodian Bank), purchased securities against the transfer of the repurchase price to the account of the MSBI.

Margin Maintenance
At settlement date, the market value of the purchased securities will equal 110% of the purchase price of the transaction. If during the term of the transaction, the market value falls below 105% of the purchase price, then the MSBI through (a Custodian Bank) will require the financial institution to transfer cash or additional securities in an amount to eliminate the margin deficit.

Security Interest
All transaction between the MSBI and the financial institutions are intended to be purchases and sales.

Payment, Transfer, and Eligibility
All transfer of funds will be in immediately available funds. All securities delivered will be in book entry form for delivery at the Federal Reserve. A list of Securities eligible for sale under agreement to repurchase are listed below.

- Direct obligations of the United States: Government securities including Treasury Bills, Treasury Notes and Treasury Bonds.

- Federal agency obligations: Agency securities issued by the Federal National Mortgage Association, the Federal Home Loan Bank, the Federal Farm Credit Bank, and the Federal Home Loan Mortgage Corporation.

- Other government or agency obligation that may be delivered in book entry form at the Federal Reserve Bank.

Segregation of Purchased Securities
All securities sold under agreement to repurchase will be segregated from the financial institution's safekeeping account at (a Custodian Bank) and placed in a separate Federal Reserve account for the benefit of the MSBI. Title to all purchased securities will pass to the State Board of Investment.

Defaults
A default will occur if the financial institution fails to repurchase securities or the MSBI fails to transfer purchased securities at the repurchase date. A default will also occur when additional collateral is demanded to meet margin requirement, and the bank fails to deliver.

If the defaulting party is the financial institution, the MSBI may sell all purchased securities immediately and apply the proceeds to the aggregate unpaid purchase price. If the defaulting party in the MSBI, the financial institution may require the MSBI to provide the bank with "replacement securities" of the same class and amount as any of the purchased securities that are not delivered.

Custody
(A Custodian Bank) will act as the third party custodian for purchased securities under the MSBI's Securities Repurchase Program. Purchased securities will be held in safekeeping at the Minneapolis Federal Reserve Bank. The MSBI will be provided with a monthly accounting of securities held in the account.

(A Custodian Bank) will provide safekeeping verification on request between monthly reporting cycles.

Securities Pricing and Reporting
(A Custodian Bank) will price the purchased securities portfolio daily by 12:00 Central Standard Time. A listing and pricing of securities in each bank account name held by (a Custodian Bank) will be transmitted to the MSBI through the Bloomberg Financial Network.

The source for pricing will be provided through Bloomberg Financial Systems. Other sources will be used if necessary to determine portfolio pricing.

Substitution
Security substitution will not be permitted.

Tab E

COMMITTEE REPORT

DATE: December 5, 1995

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

FROM: Domestic Manager Committee

The Domestic Manager Committee met on November 20, 1995 to consider the following agenda items:

- review of manager performance for the period ending September 30, 1995
- presentation by five active bond managers regarding authority to invest in below investment grade fixed income
- update on implementation of revised asset allocation targets
- recommendation to terminate the fixed income contract with Trust Company of the West (TCW)

Board action is requested on the final item.

INFORMATION ITEMS:

1. Review of Manager Performance

- *Stock Managers*

For the quarter ending September 30, 1995, the domestic stock manager program exceeded the aggregate benchmark and the Wilshire 5000. For the latest year and three years, the **current** managers under performed the benchmark and the Wilshire 5000. For the latest five years, the **current** managers matched the Wilshire 5000 but under performed the benchmark.

Time Period	Actual	Wilshire 5000*	Aggregate Benchmark
Quarter	9.2%	9.1%	8.9%
1 Year	28.0	29.1	28.6
3 Years	15.5	15.6	15.9
5 Years	18.0	18.0	18.1

* Adjusted for SBI's restrictions, as appropriate.

A majority of the managers outperformed or matched their benchmark for the quarter. In general, the managers who outperformed for the quarter had good stock selection and/or were over weighted in financial stocks. The managers who under performed generally had either poor stock selection in consumer non-durables or technology and / or an over weighted cash position.

The performance evaluation reports for the stock managers start on **page 5** of this Tab. Manager Commentaries are in **Tab H**.

- *Bond Managers*

For the period ending September 30, 1995 bond program exceeded the Lehman Aggregate returns by 0.1 percent for the quarter but under performed by 0.1 percentage point for the year. The **current** manager group outperformed the benchmark by 0.5 and 0.6 percentage point over the last three and five years, respectively.

Time Period	**Actual**	**Lehman Aggregate***
Quarter	2.1%	2.0%
1 Year	14.0	14.1
3 Years	7.3	6.8
5 Years	10.4	9.7

* Reflects Salomon BIG index prior to 7/94.

The performance evaluation reports for the bond managers start on **page 35** of this Tab. Manager Commentaries are in **Tab H**.

2. Presentation by Active Bond Managers Regarding Investment in Below Investment Grade Debt.

At the June 1995 meeting of the State Board of Investment, the Board approved a proposal to grant limited authority to existing bond managers to invest up to 10% of their bond portfolios in BB and B rated debt. The primary rationale for allowing the managers to utilize BB and B rated debt is to enhance the yield potential of the bond program. The new authority is to be granted to individual managers based on the recommendation of staff and after concurrence by the Domestic Manager Committee.

Five of the active bond managers gave brief presentations to the Committee outlining their capability and yield enhancement expectations. The managers were:

- BEA Associates
- IDS Advisory Group
- Miller, Anderson & Sherrerd
- Standish Ayer & Wood
- Western Asset Management

Staff proposed that each of the managers be given the authority to invest up to 10% of their bond portfolios in BB and B rated debt. After discussion, the Committee concurred. The Committee and staff agreed that use of the new authority will be monitored closely.

3. Update on Implementation of Revised Asset Allocation Targets for the Basic and Post Retirement Funds

At the October 10, 1995 meeting of the State Board of Investment, the Board changed the asset allocation targets of the Basic and Post Retirement Funds by increasing the allocation to international stocks from 10% to 15%. This change requires that the Basic Funds allocation to domestic stocks be reduced from 50% to 45% and the Post Fund allocation to bonds be reduced from 35% to 30%. Implementing this change will require a shift of in excess of $1 billion:

- approximately $500 million from Domestic Stocks to International Stocks
- approximately $500 million from Bonds to International Stocks

The domestic equity program will raise approximately $500 million from active managers. To date, approximately $300 million has been identified from the termination of Lynch & Mayer's contract in October 1995. The remaining approximately $200 million will be raised from existing active managers before the end of the current fiscal year.

The fixed income program will fund the change by withdrawing amounts from both active and semi-passive managers. Staff proposes that the portion from the active manager segment come from the termination of TCW (see the next item). The remaining funds would be raised by withdrawing proportional amounts from each of the semi-passive managers, as needed, through the end of the fiscal year.

After discussion, the Committee concurred with Staff's proposals and agreed that staff should retain flexibility regarding the specific timing of the transfers.

ACTION ITEM:

1. Recommendation to Terminate the Contract of TCW and Change the IDS benchmark to the Lehman Aggregate

In order to implement the change in asset allocation targets (as discussed above), Staff proposes to terminate the contract of TCW. TCW is the only specialty manager within the fixed income program. The area of the mortgage market that TCW has concentrated its efforts in, Collateralized Mortgage Obligations (CMO's has declined significantly during the past couple of years. This raises questions about TCW's future ability to add value in this sector of the bond market. As a result, staff believes that the termination of TCW's contract would be the most appropriate approach to raise funds from the active manager segment at this time. Additionally, there have been a series of organizational changes within TCW. While these changes have had no direct impact on the mortgage department at the firm, staff is somewhat concerned about the stability of TCW over the longer term. Staff pointed out that the recommendation to terminate TCW is reflective of a change in strategy and is not performance related. Staff believes that TCW is a good manager who is concentrating in an out of favor area of the fixed income market.

Concomitant with a termination of TCW's contract, staff proposed that the benchmark for IDS Advisory Group be changed to the Lehman Aggregate. Currently, IDS's efforts are focused on the Government and Corporate segments of the bond market. This Corporate and Government exposure has been "paired" with TCW's, Mortgage specialty to provide broad market coverage between the two managers. If TCW's services are not retained, staff believes that the IDS mandate should be brought into line with the SBI's other active fixed income managers and the IDS benchmark should be changed accordingly.

RECOMMENDATIONS:

The Committee recommends that the SBI:

- **terminate its contract with Trust Company of the West for active domestic bond management.**

- **change the benchmark for the IDS bond portfolio from the government and corporate sectors of the Lehman Aggregate to the Lehman Aggregate as a whole.**

STATE BOARD OF INVESTMENT

Stock Manager Evaluation Reports

Third Quarter, 1995

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DOMESTIC STOCK MANAGERS
Period Ending 9/30/95

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	9.7	8.6	37.3	31.1	17.4	13.9	20.7	17.0	17.8	12.5	$955.77	7.7%
Brinson	9.5	8.0	26.8	27.6					15.8	14.9	$345.59	2.8%
Forstmann-Leff	8.2	9.0	23.2	26.7	13.8	14.9	14.3	16.7	12.7	12.4	$363.04	2.9%
Franklin Portfolio	11.3	8.7	31.6	28.5	19.3	16.7	20.7	19.7	14.8	13.9	$491.14	4.0%
GeoCapital	12.2	16.8	27.0	35.8	18.5	26.9	25.9	25.7	16.7	18.9	$330.17	2.7%
IAI	7.3	8.8	25.0	28.5					15.1	16.5	$143.40	1.2%
IDS	8.2	8.2	27.5	30.6	16.3	17.2	18.2	18.8	14.8	14.7	$471.67	3.8%
Independence	9.8	8.1	30.6	30.0	16.1	15.4			14.4	14.1	$479.79	3.9%
Jundt Associates	10.8	9.1	20.7	33.7					13.1	18.8	$269.10	2.2%
Lincoln	7.8	7.8	34.5	31.3					17.2	16.3	$345.81	2.8%
Lynch & Mayer	4.4	9.2	21.6	38.0	11.5	19.8			9.7	16.1	$314.03	2.5%
Oppenheimer	9.5	8.0	34.5	26.8					17.6	14.1	$357.32	2.9%
Waddell & Reed	9.9	8.9	25.9	27.6	17.1	19.1	17.1	19.5	12.7	12.7	$494.22	4.0%
Weiss Peck & Greer	13.4	13.6	27.7	37.9					12.5	20.0	$262.86	2.1%
Emerging Managers (2)	8.5	10.2	27.1	30.8					20.2	36.5	$328.76	2.7%
Semi-Passive												
Franklin Portfolio (3)	9.1	8.6							28.4	28.1	$997.01	8.1%
JP Morgan (3)	8.7	8.6							28.7	28.1	$1,021.55	8.3%
Wells Fargo(3)	10.3	8.6							31.5	28.1	$1,022.33	8.3%
Passive												
Wells Fargo	8.5	8.5							8.5	8.5	$3,378.17	27.3%
											$12,371.72	100.0%
									Since 1/1/84			
Current Aggregate (5)	9.2	8.9	28.0	28.6	15.5	15.9	18.0	18.1	14.5	14.2		
Historical Aggregate (6)	**9.2**	**9.0**	**27.8**	**28.8**	**15.3**	**15.9**	**17.5**	**18.2**	**13.9**	**14.2**		
Wilshire Adjusted (7)		9.1		29.1		15.6		18.0		14.2		
Wilshire 5000		9.1		29.1		15.8		18.1		14.5		

(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 and Emerging 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 9/30/95

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)	9.7	8.7	28.6	30.0					19.4	23.4	$39.13	11.0%
Cohen, Klingenstein, & Marks (2)	6.1	8.0	25.2	29.8					23.0	23.2	40.94	11.5%
Compass Capital (3)	4.2	6.7	27.4	25.0					20.4	20.1	39.64	11.1%
Kennedy Capital (4)	11.7	9.9	20.9	23.4					16.5	17.1	37.70	10.6%
New Amsterdam (5)	7.9	7.2	25.1	26.3					15.3	20.5	37.16	10.4%
Valenzuela Capital (2)	7.5	8.0	20.2	29.8					16.5	23.2	37.73	10.6%
Wilke/Thompson (5)	11.7	11.4	41.4	26.5					30.0	19.4	44.44	12.5%
Winslow Capital (6)	8.8	9.1	25.8	32.2					22.4	25.7	40.61	11.4%
Zevenbergen Capital (6)	8.8	9.1	29.3	32.2					19.6	25.7	39.22	11.0%
Historical Aggregate	**8.5**	**8.7 ***	**27.1**	**28.6 ***					**20.2**	**22.3 ***	**$356.57**	**100.0%**
Current Aggregate	**8.5**	**8.7 ***	**27.2**	**28.5 ***					**20.6**	**22.2 ***		

Benchmarks currently used are:

(1) S&P 500 from 4/94 thru 3/95 and Russell 1000 Value since 4/95
(2) S&P 500
(3) S&P (Equal-Weight)
(4) Russell 2000
(5) Custom Benchmark
(6) Russell 1000 Growth
(7) Inception date for all managers is 4/1/94

* weighted average of above benchmarks

ALLIANCE CAPITAL MANAGEMENT
Period Ending 9/30/95

Portfolio Manager: Jack Koltes **Assets Under Management: $955,765,940**

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.

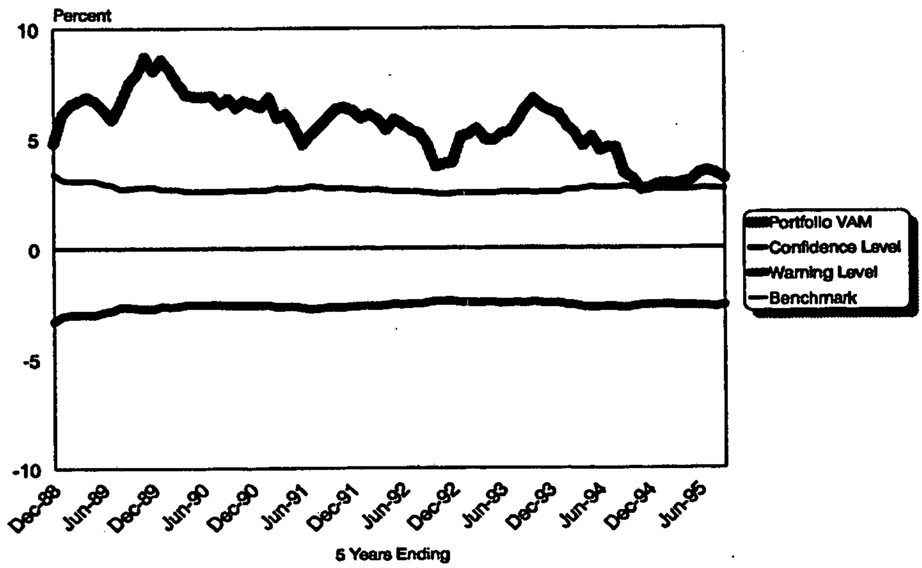
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	9.7%	8.6%
Last 1 year	37.3	31.1
Last 2 years	16.7	17.0
Last 3 years	17.4	13.9
Last 4 years	17.3	12.7
Last 5 years	20.7	17.0
Since Inception (1/84)	17.8	12.5

Recommendation

No action recommended.

ALLIANCE CAPITAL MANAGEMENT
Rolling Five Year Time Periods



Note: Graph uses 80/20 confidence interval.

BRINSON PARTNERS
Period Ending 9/30/95

Portfolio Manager: Jeff Diermeier — **Assets Under Management: $345,589,494**

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.

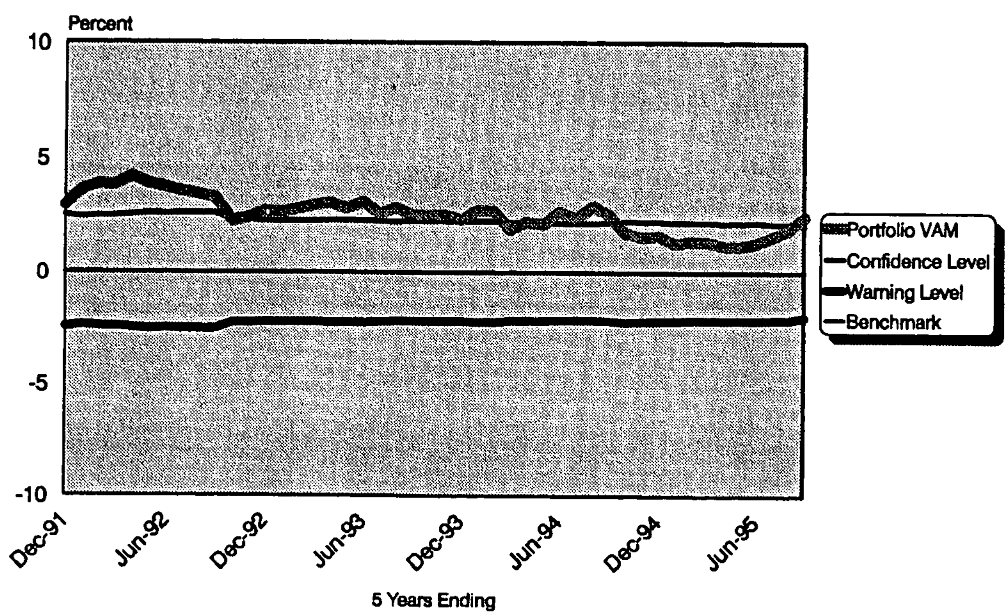
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	9.5%	8.0%
Last 1 year	26.8	27.6
Last 2 years	16.5	14.6
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)	15.8	14.9

Recommendation

No action recommended.

BRINSON PARTNERS
Rolling Five Year Time Periods



Note: Shaded area includes performance prior to managing the SBI account. Graph uses 80/20 confidence interval.

FORSTMANN LEFF ASSOCIATES
Period Ending 9/30/95

Portfolio Manager: Joel Leff **Assets Under Management: $363,037,293**

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.

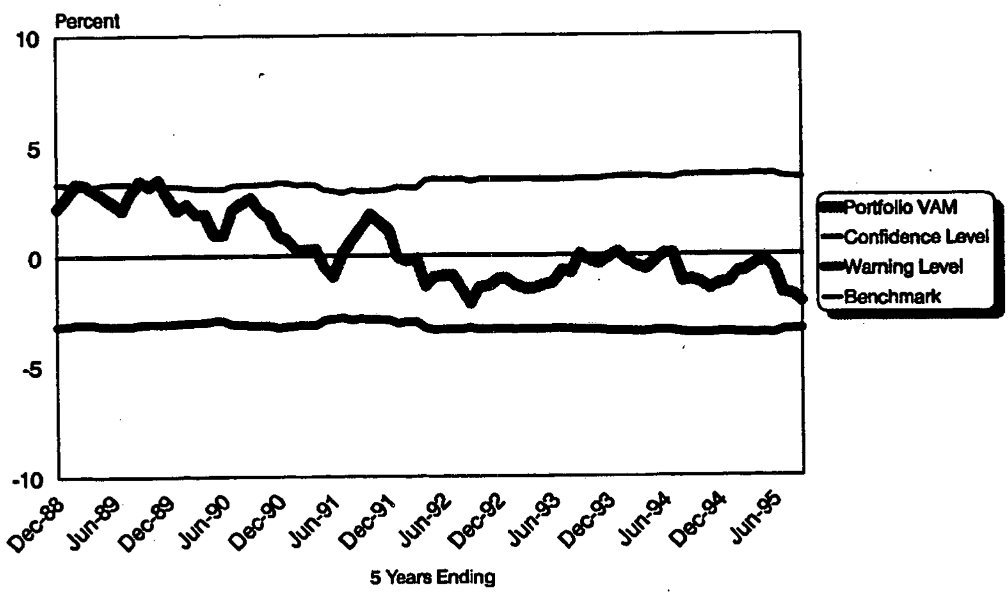
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	8.2%	9.0%
Last 1 year	23.2	26.7
Last 2 years	10.8	15.3
Last 3 years	13.8	14.9
Last 4 years	9.8	13.4
Last 5 years	14.3	16.7
Since Inception (1/84)	12.7	12.4

Recommendation

No action recommended at this time. Last quarter Forstmann Leff was re-interviewed by a special Committee. The Committee voted to retain them as a manager and the Board concurred with the Committee's recommendation.

FORSTMANN-LEFF ASSOCIATES
Rolling Five Year Time Periods



Note: Graph uses 80/20 confidence interval.

FRANKLIN PORTFOLIO ASSOCIATES
Period Ending 9/30/95

Portfolio Manager: John Nagorniak **Assets Under Management: $491,138,769**

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.

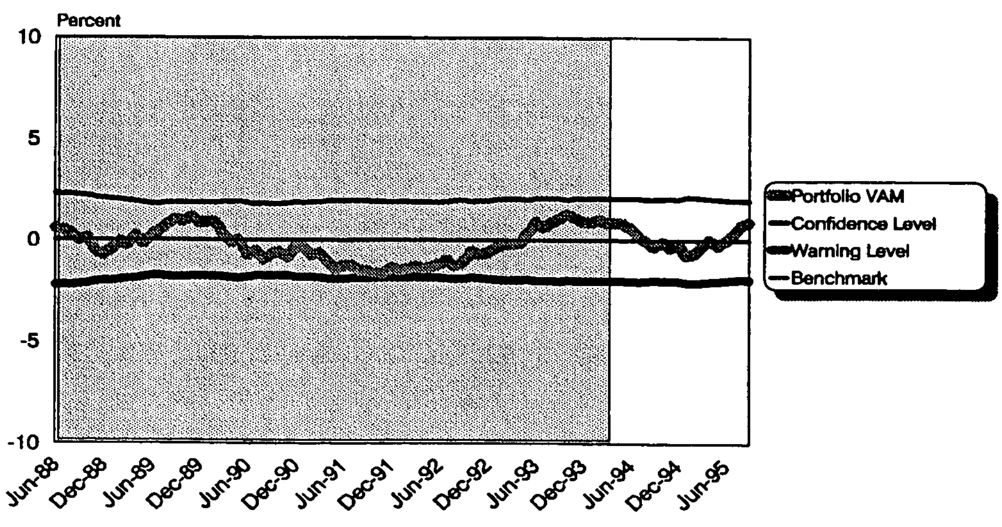
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	11.3%	8.7%
Last 1 year	31.6	28.5
Last 2 years	14.5	14.9
Last 3 years	19.3	16.7
Last 4 years	17.4	15.5
Last 5 years	20.7	19.7
Since Inception (4/89)	14.8	13.9

Recommendation

No action recommended.

FRANKLIN PORTFOLIO
Rolling Five Year Time Periods



Note: Shaded area includes performance prior to managing SBI account. Graph uses 80/20 confidence interval.

GEOCAPITAL CORP.
Period Ending 9/30/95

Portfolio Manager: Barry Fingerhut | **Assets Under Management: $330,166,197**

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.

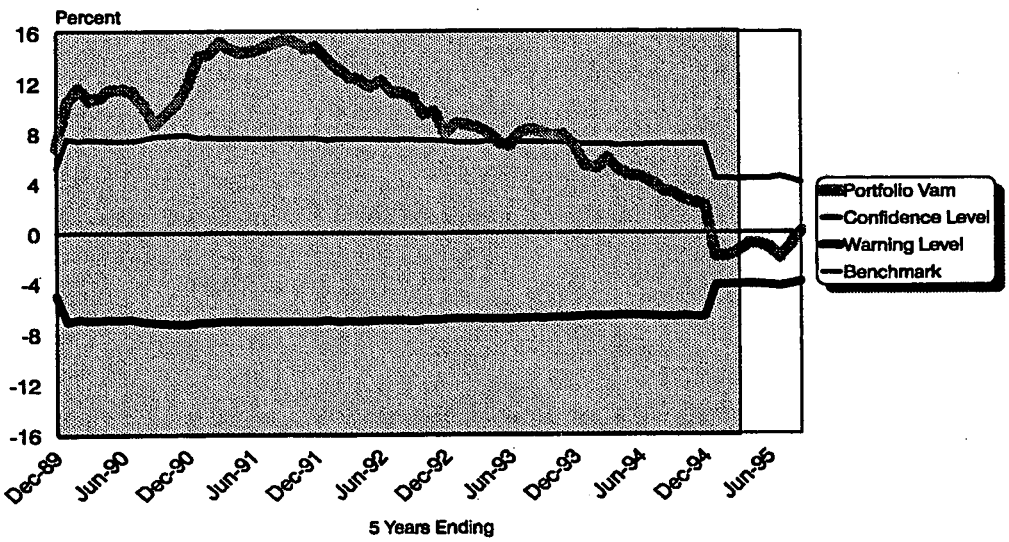
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	12.2%	16.8%
Last 1 year	27.0	35.8
Last 2 years	13.8	21.0
Last 3 years	18.5	26.9
Last 4 years	14.2	20.5
Last 5 years	25.9	25.7
Since Inception (4/90)	16.7	18.9

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 9/30/95

Portfolio Manager: Julian (Bing) Carlin **Assets Under Management: $143,398,679**

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.

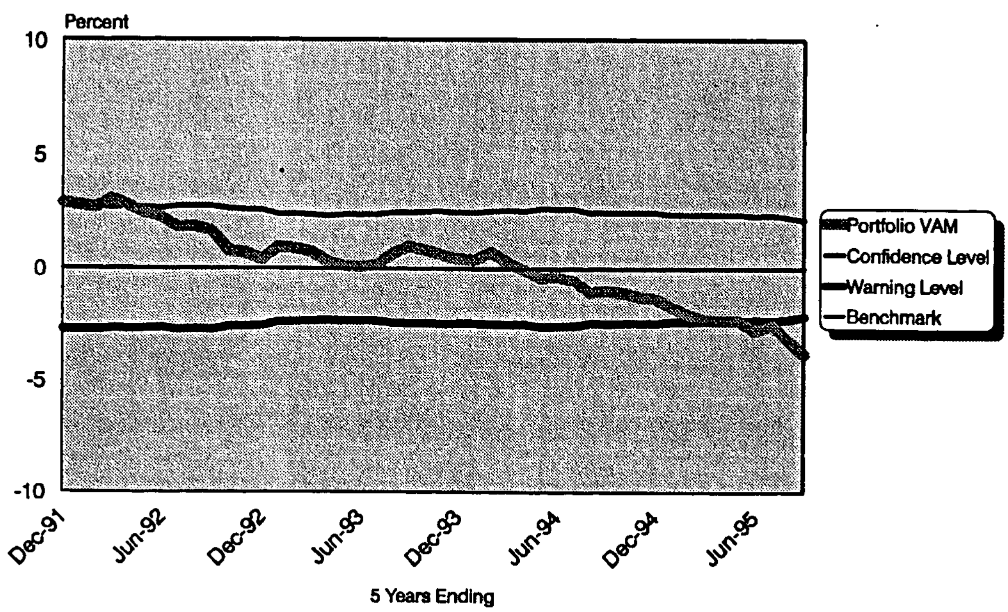
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	7.3%	8.8%
Last 1 year	25.0	28.5
Last 2 years	11.9	15.5
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)	15.1	16.5

Recommendation

No action necessary at this time. Per the guidelines of the Manager Continuation Policy, IAI was reviewed by the Domestic Manager Committee in August 1995. The firm will be closely monitored over the next year.

INVESTMENT ADVISERS
Rolling Five Year Time Periods



Note: Shaded area includes performance prior to managing the SBI account. Graph uses 80/20 confidence interval.

IDS ADVISORY
Period Ending 9/30/95

Portfolio Manager: Pete Anderson | **Assets Under Management: $471,667,740**

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.

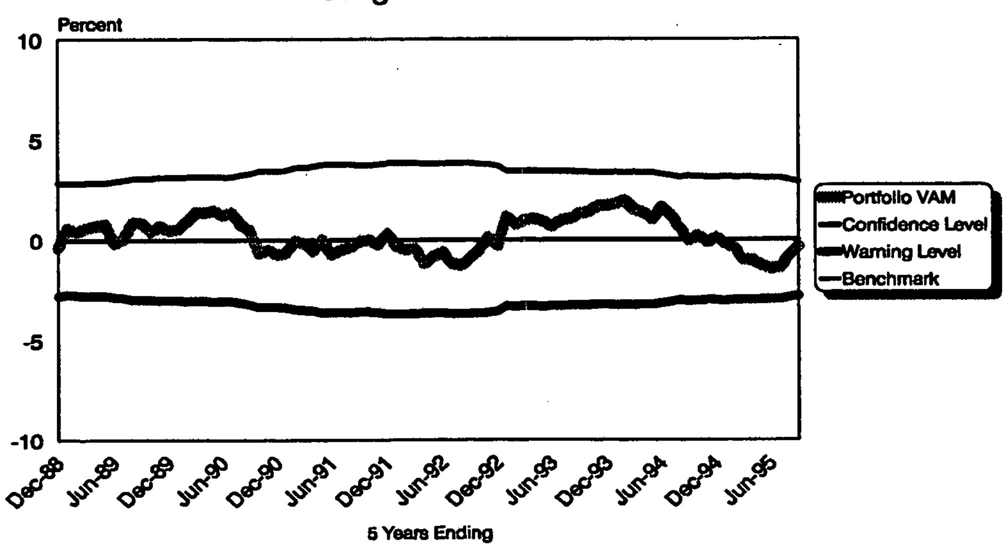
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	8.2%	8.2%
Last 1 year	27.5	30.6
Last 2 years	14.5	16.4
Last 3 years	16.3	17.2
Last 4 years	15.3	16.5
Last 5 years	18.2	18.8
Since Inception (1/84)	14.8	14.7

Recommendation

No action recommended.

IDS ADVISORY
Rolling Five Year Time Periods



Note: Graph uses 80/20 confidence interval.

INDEPENDENCE INVESTMENT ASSOCIATES
Period Ending 9/30/95

Portfolio Manager: Bill Fletcher **Assets Under Management: $479,786,023**

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:

—Attractive, unique investment approach.

—Highly successful and experienced professionals.

—Attractive, unique investment approach.

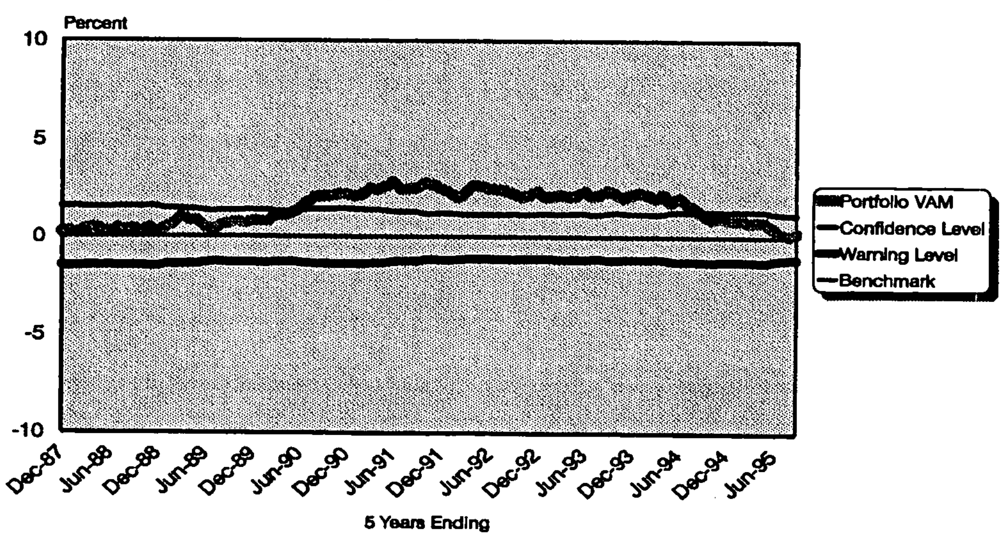
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	9.8%	8.1%
Last 1 year	30.6	30.0
Last 2 years	15.0	15.9
Last 3 years	16.1	15.4
Last 4 years	N/A	N/A
Last 5 years	N/A	N/A
Since Inception (2/92)	14.4	14.1

Recommendation

No action recommended.

INDEPENDENCE INVESTMENT ASSOCIATES
Rolling Five Year Time Periods



Note: Shaded area includes performance prior to managing SBI account. Graph uses 80/20 confidence interval.

JUNDT ASSOCIATES
Period Ending 9/30/95

Portfolio Manager: James Jundt | **Assets Under Management: $269,097,728**

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.

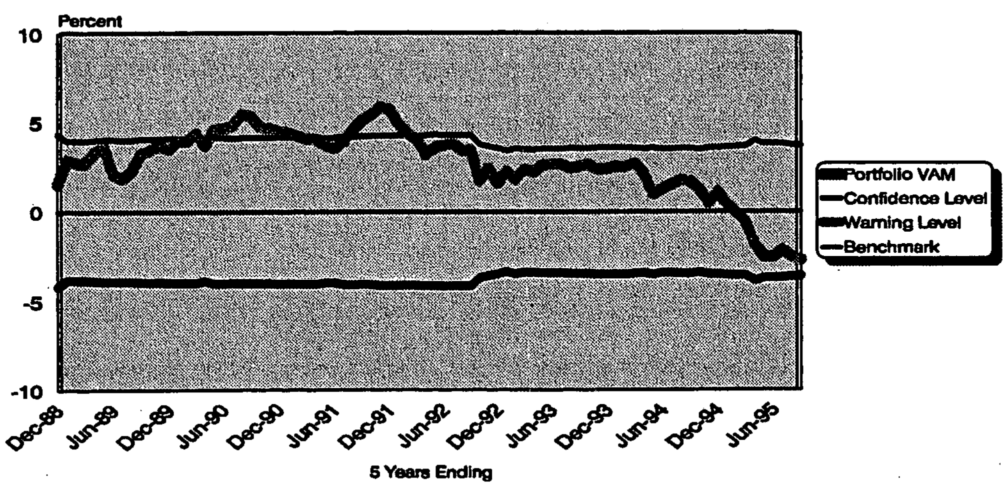
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	10.8%	9.1%
Last 1 year	20.7	33.7
Last 2 years	13.4	18.9
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)	13.1	18.8

Recommendation

No action recommended.

JUNDT ASSOCIATES
Rolling Five Year Time Periods



Note: Shaded area includes performance prior to managing the SBI account. Graph uses 80/20 confidence interval.

LINCOLN CAPITAL MANAGEMENT
Period Ending 9/30/95

Portfolio Manager: Parker Hall **Assets Under Management: $345,809,663**

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.

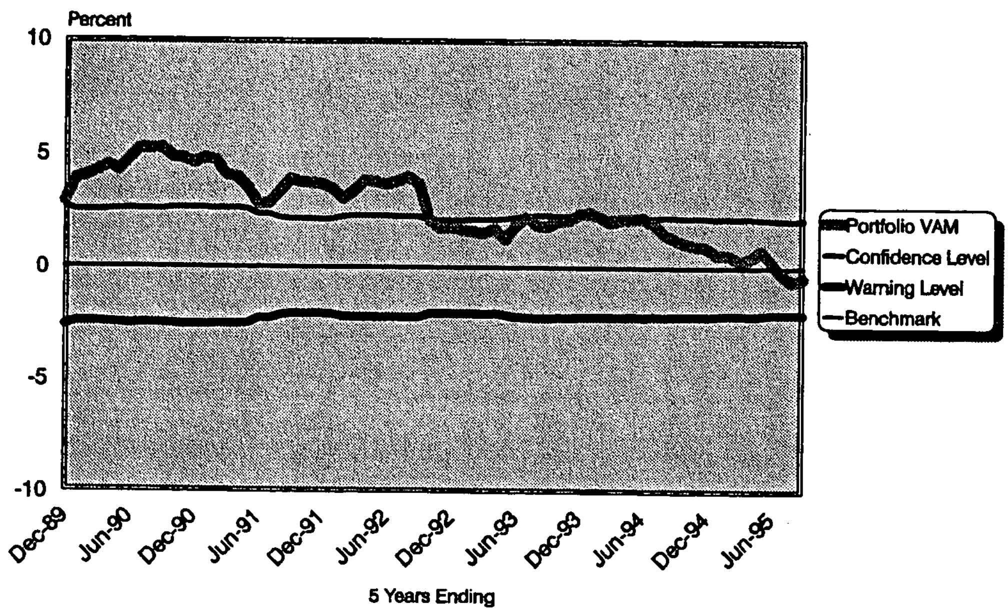
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	7.8%	7.8%
Last 1 year	34.5	31.3
Last 2 years	19.1	18.2
Last 3 years	N/A	N/A
Last 4 years	N/A	N/A
Last 5 years	N/A	N/A
Since Inception (7/93)	17.2	16.3

Recommendation

No action recommended.

LINCOLN CAPITAL MANAGEMENT
Rolling Five Year Time Periods



Note: Shaded area includes performance prior to managing the SBI account. Graph uses 80/20 confidence interval.

LYNCH & MAYER
Period Ending 9/30/95

Portfolio Manager: Dennis Lynch, Ed Petner **Assets Under Management: $314,029,454**

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.

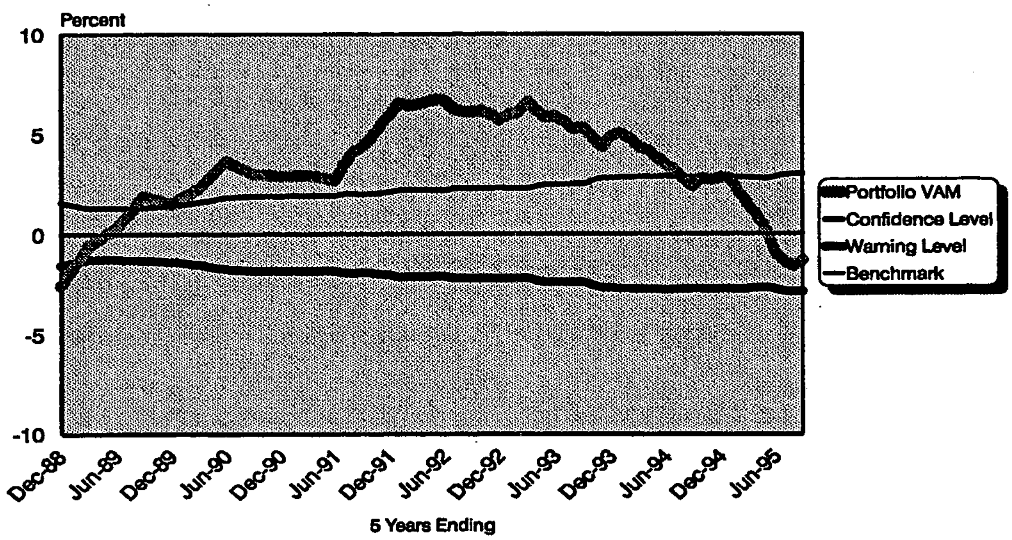
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	4.4%	9.2%
Last 1 year	21.6	38.0
Last 2 years	8.4	19.5
Last 3 years	11.5	19.8
Last 4 years	N/A	N/A
Last 5 years	N/A	N/A
Since Inception (2/92)	9.7	16.1

Recommendation

Lynch & Mayer was terminated at the October 10, 1995 Board Meeting.

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 9/30/95

Portfolio Manager: John Lindenthal | **Assets Under Management: $357,318,174**

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.

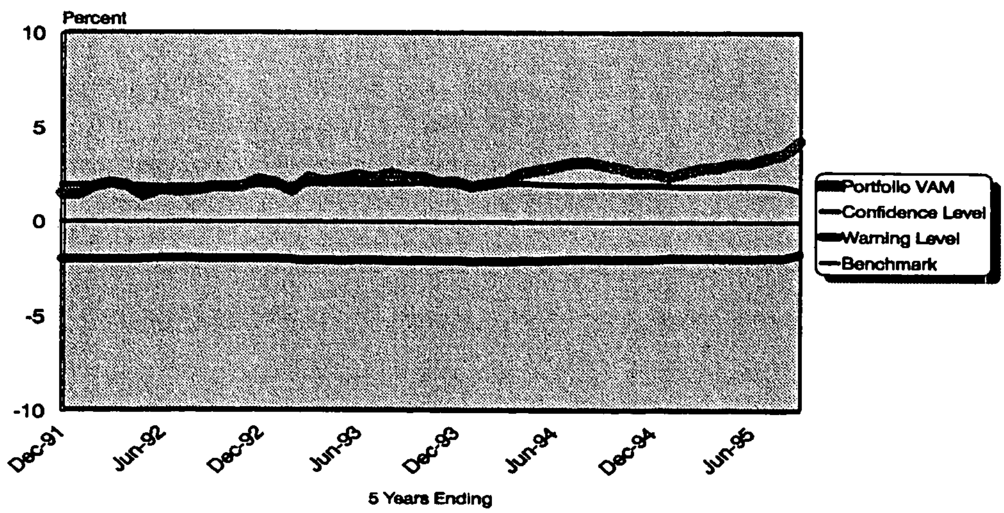
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	9.5%	8.0%
Last 1 year	34.5	26.8
Last 2 years	17.5	14.1
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)	17.6	14.1

Recommendation

No action recommended.

OPPENHEIMER CAPITAL
Rolling Five Year Time Periods



Note: Shaded area includes performance prior to managing the SBI account. Graph uses 80/20 confidence interval.

WADDELL & REED ASSET MANAGEMENT
Period Ending 9/30/95

Portfolio Manager: Henry Herrmann **Assets Under Management: $494,221,588**

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.

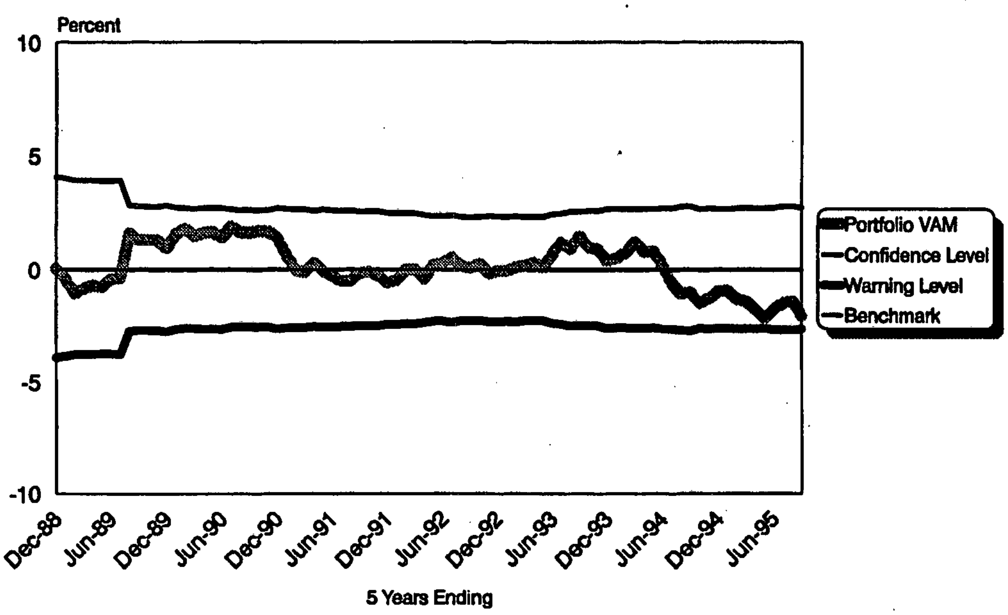
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	9.9%	8.9%
Last 1 year	25.9	27.6
Last 2 years	13.0	17.0
Last 3 years	17.1	19.1
Last 4 years	15.4	16.2
Last 5 years	17.1	19.5
Since Inception (1/84) (1/84)	12.7	12.7

Recommendation

Last quarter Waddell & Reed was re-interviewed by a special Committee. The Committee voted to retain them as a manager and the Board concurred with the Committee's recommendation.

WADDELL & REED
Rolling Five Year Time Periods



Note: Graph uses 80/20 confidence interval.

WEISS, PECK & GREER
Period Ending 9/30/95

Portfolio Manager: Melville Straus — Assets Under Management: $262,861,163

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.

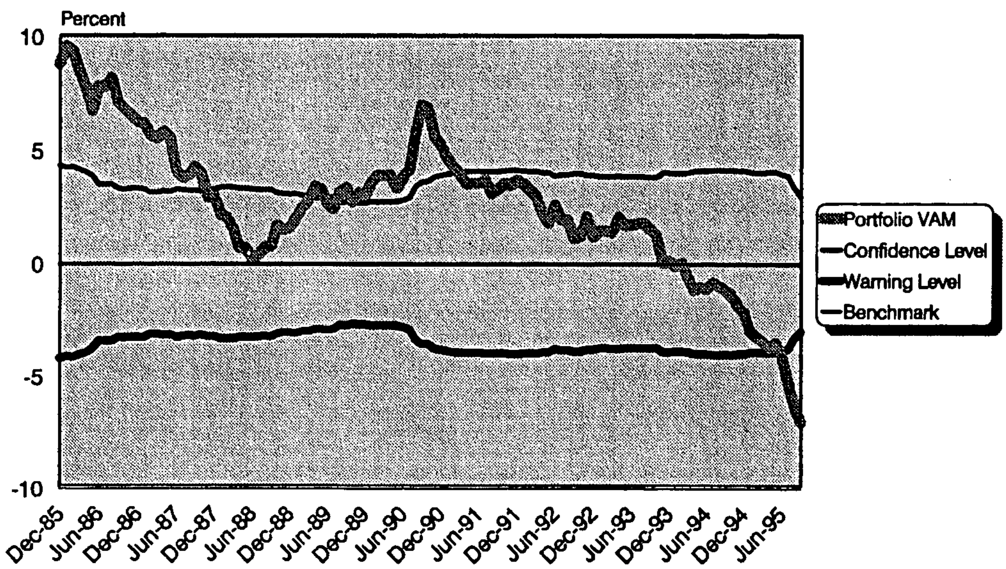
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	13.4%	13.6%
Last 1 year	27.7	37.9
Last 2 years	9.5	18.1
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)	12.5	20.0

Recommendation

No action necessary at this time. Per the guidelines of the Manager Continuation Policy, Weiss Peck & Greer was reviewed by the Domestic Manager Committee in August 1995. The firm will be closely monitored over the next year.

WEISS, PECK & GREER
Rolling Five Year Time Periods



Note: Shaded area includes performance prior to managing SBI account. Graph uses 80/20 confidence interval.

FRANKLIN PORTFOLIO ASSOCIATES
Period Ending 9/30/95

Portfolio Manager: John Nagorniak | Assets Under Management: $997,012,098

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.

Quantitative Evaluation

	Actual	Benchmark*
Last Quarter	9.1%	8.6%
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)	28.4	28.1

* Completeness Fund

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.

Recommendation

No action required.

VAM graph will be created for period ending 12/31/96.

J.P. MORGAN INVESTMENT MANAGEMENT, INC.
Period Ending 9/30/95

Portfolio Manager: Rick Nelson — **Assets Under Management: $1,021,550,208**

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	8.7%	8.6%
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)	28.7	28.1

* 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 9/30/95

Portfolio Manager: Nancy Feldkircher — **Assets Under Management: $1,022,333,483**

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	10.3%	8.6%
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)	31.5	28.1

* 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 9/30/95

Portfolio Manager: Andrew R. Olma — Assets Under Management: $3,378,171,304

Investment Philosophy
Passive

Wells Fargo's investment philosophy to passively managing a portfolio to the Wilshire 5000 consists of minimizing tracking error and trading costs, and maximizing control over all ivnestment and operational risks. Their strategy is to fully replicate the larger capitalization segments of the market and to use an optimization approach for the smaller capitalization segments. The optimizer weighs the cost of a trade against its contribution to expected tracking error to determine which trades should be executed.

Qualitative Evaluation
(reported by exception)

Exceptional strengths are:

—Familiar with the needs of large institutional clients.

—Highly successful and experienced professionals.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	8.5%	8.5%
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 (7/95)	8.5	8.5

Recommendation

No action required.

Tracking graph will be created for period ending 7/31/97.

GE INVESTMENT MANAGEMENT

Period Ending 9/30/95

Portfolio Manager: Gene Bolton | **Assets Under Management: $122,355,721**

Investment Philosophy
Assigned Risk Plan

GE Investment's Multi-Style Equity program attempts to outperform the S&P 500 consistently while controlling overall portfolio risk through a multiple manager approach. Five portfolio managers with different styles ranging from growth to value are supported by 10 industry analysts. The five portfolios are combined to create a well diversified equity portfolio while maintaining low relative volatility and a style-neutral position between growth and value. All GE managers focus on stock selection from a bottom-up prospective.

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	7.7%	8.0%
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)	29.2	29.8

Recommendation

No action recommended.

VAM graph will be created for period ending 12/31/96.

VOYAGEUR ASSET MANAGEMENT
Period Ending 9/30/95

Portfolio Manager: Jane Wyatt **Assets Under Management: $402,850,390**

Investment Philosophy
Assigned Risk Plan

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

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.

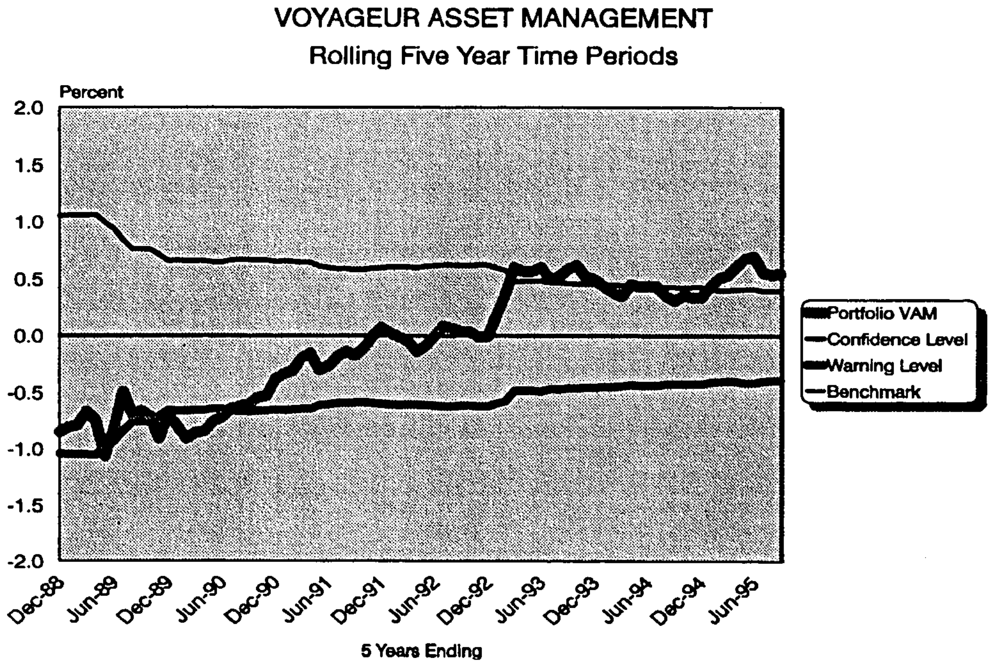
—Organizational continuity and strong leadership.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	1.7%	1.7%
Last 1 year	11.9	11.0
Last 2 years	5.6	5.4
Last 3 years	6.1	5.9
Last 4 years	10.9	10.0
Last 5 years	N/A	N/A
Since Inception (5/91)	8.5	8.0

Recommendation

No action recommended.



Note: Graph uses 80/20 confidence interval.

INTERNAL STOCK POOL
Period Ending 9/30/95

Portfolio Manager: Mike Menssen | **Assets Under Management: $56,201,738**

Investment Philosophy
Environmental Trust Fund

The Internal Equity Pool is managed to closely track the S&P 500 Index. The strategy used replicates the S&P 500 by owning all of the names in the index at the weightings of the index. The optimization model's estimate of tracking error with this strategy is 4 to 6 basis points.

Qualitative Evaluation
(reported by exception)

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	7.9%	8.0%
Last 1 year	29.7	29.8
Last 2 years	16.1	16.1
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)	15.4	15.4

Recommendation

No action recommended.

Tracking graph will be created for period ending 12/31/95.

CIC ASSET MANAGEMENT
Period Ending 9/30/95

Portfolio Manager: Jorge Castro | **Assets Under Management: $39,125,645**

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	9.7%	8.7%
Last 1 Year	28.6	30.0
Since Inception (4/94)	19.4	23.4

* S&P 500 from 4/94 thru 3/95 and Russell 1000 Value since 4/95

COHEN KLINGENSTEIN & MARKS INCORPORATED
Period Ending 9/30/95

Portfolio Manager: George Cohen | **Assets Under Management: $40,936,463**

Investment Philosophy

Cohen Klingenstein & Marks Inc. (CKM) seeks to outperform the market by focusing on two variables: 1) economic cycles; and 2) security valuation. Within economic cycles, they believe that stocks exhibit predictable patterns that reflect changing expectations on corporate profits and interest rates. Similarly, they believe that stock prices normally reflect earnings expectations. CKM exploits short run inefficiencies through an unbiased process that relates the price of a stock to the consensus earnings expectations.

Quantitative Evaluation

	Actual	Benchmark*
Last Quarter	6.1%	8.0%
Last 1 Year	25.2	29.8
Since Inception (4/94)	23.0	23.2

* S&P 500

COMPASS CAPITAL MANAGEMENT
Period Ending 9/30/95

Portfolio Manager: Charles Kelley | **Assets Under Management: $39,644,967**

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	4.2%	6.7%
Last 1 Year	27.4	25.0
Since Inception (4/94)	20.4	20.1

* S&P 500 (Equal Weight)

KENNEDY CAPITAL MANAGEMENT
Period Ending 9/30/95

Portfolio Manager: Richard Sinise | **Assets Under Management: $37,699,272**

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	11.7%	9.9%
Last 1 Year	20.9	23.4
Since Inception (4/94)	16.5	17.1

* Russell 2000

NEW AMSTERDAM PARTNERS
Period Ending 9/30/95

Portfolio Manager: Michelle Clayman — **Assets Under Management:** $37,162,126

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	7.9%	7.2%
Last 1 Year	25.1	26.3
Since Inception (4/94)	15.3	20.5

* 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 9/30/95

Portfolio Manager: Peter McCarthy — **Assets Under Management:** $37,730,799

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	7.5%	8.0%
Last 1 Year	20.2	29.8
Since Inception (4/94)	16.5	23.2

* S&P 500

WILKE/THOMPSON CAPITAL MANAGEMENT INC.
Period Ending 9/30/95

Portfolio Manager: Mark Thompson **Assets Under Management: $44,438,634**

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	11.7%	11.4%
Last 1 Year	41.4	26.5
Since Inception (4/94)	30.0	19.4

* 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 9/30/95

Portfolio Manager: Clark Winslow **Assets Under Management: $40,610,085**

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	8.8%	9.1%
Last 1 Year	25.8	32.2
Since Inception (4/94)	22.4	25.7

* Russell 1000 Growth

ZEVENBERGEN CAPITAL INC
Period Ending 9/30/95

Portfolio Manager: Nancy Zevenbergen | **Assets Under Management: $39,224,431**

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	8.8%	9.1%
Last 1 Year	29.3	32.2
Since Inception (4/94)	19.6	25.7

* Russell 1000 Growth

STATE BOARD OF INVESTMENT

Bond Manager Evaluation Reports

Third Quarter, 1995

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DOMESTIC BOND MANAGERS
Period Ending 9/30/95

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	0.8	2.0	14.7	14.1					5.6	5.8	$315.41	4.6%
IAI	2.0	2.0	12.6	14.1	6.6	6.8	10.4	9.8	11.8	11.6	510.20	7.5%
Miller	2.3	2.0	14.5	14.1	7.5	6.8	11.0	9.7	11.8	11.6	574.85	8.4%
Standish	2.2	2.0	13.5	14.1					5.2	5.8	515.16	7.5%
Western	2.4	2.0	16.4	14.1	8.6	6.8	11.4	9.8	12.8	11.6	984.06	14.4%
IDS(2)	2.0	1.9	15.4	14.3					6.1	5.7	272.86	4.0%
TCW (3)	2.5	2.1	10.8	13.5					4.8	5.8	265.12	3.9%
Semi-Passive												
Fidelity (4)	2.1	2.0	12.3	14.1	6.9	6.8	10.0	9.7	9.7	9.6	1,128.60	16.5%
Goldman (4)	2.1	2.0	14.5	14.1					6.2	5.8	1,147.97	16.8%
Lincoln (4)	1.9	2.0	14.2	14.1	6.9	6.8	9.8	9.7	9.6	9.6	1,132.48	16.5%
											$6,846.70	100.0%
									Since 7/1/84			
Current Aggregate	2.1	2.0	14.0	14.1	7.3	6.8	10.4	9.8	12.1	11.6		
Historical Aggregate (5)	**2.1**	**2.0**	**14.0**	**14.1**	**7.2**	**6.8**	**10.3**	**9.8**	**11.5**	**11.5**		
Lehman Aggregate (6)		2.0		14.1		6.8		9.7		11.0		

(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 9/30/95

Portfolio Manager: Bob Moore **Assets Under Management: $315,406,973**

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.

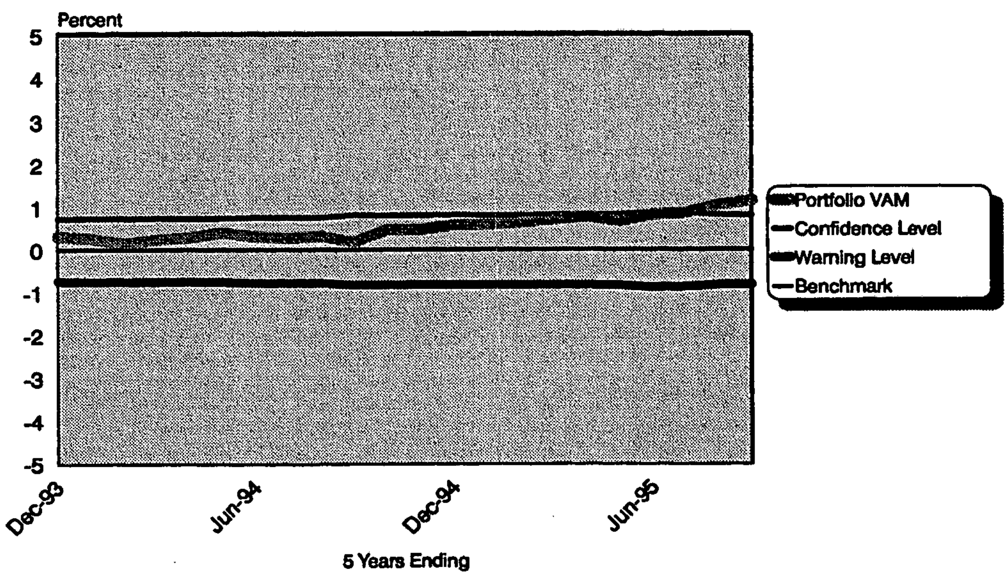
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	0.8%	2.0%
Last 1 year	14.7	14.1
Last 2 years	4.8	5.1
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)	5.6	5.8

Recommendations

No action recommended.

BEA ASSOCIATES
Rolling Five Year Time Periods



Notes: Shaded area includes performance prior to managing the SBI account. Graph uses 80/20 confidence interval.

INVESTMENT ADVISERS
Period Ending 9/30/95

Portfolio Manager: Larry Hill **Assets Under Management: $510,195,095**

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)

The current evaluation notes the following:

—The manager's duration decisions have added value over the long term. Recently, this strategy has not been as successful.

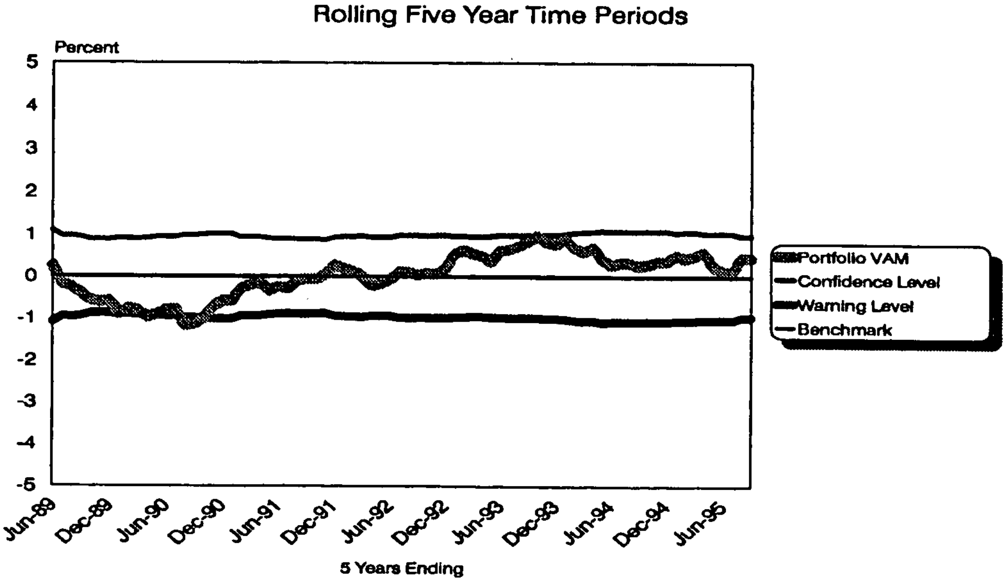
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	2.0%	2.0%
Last 1 year	12.6	14.1
Last 2 years	3.3	5.1
Last 3 years	6.6	6.8
Last 4 years	8.4	8.2
Last 5 years	10.4	9.8
Since Inception (7/84)	11.8	11.6

Recommendations

No action recommended.

INVESTMENT ADVISERS
Rolling Five Year Time Periods



Note: Graph uses 80/20 confidence interval.

MILLER ANDERSON & SHERRERD
Period Ending 9/30/95

Portfolio Manager: Tom Bennett **Assets Under Management: $574,850,904**

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.

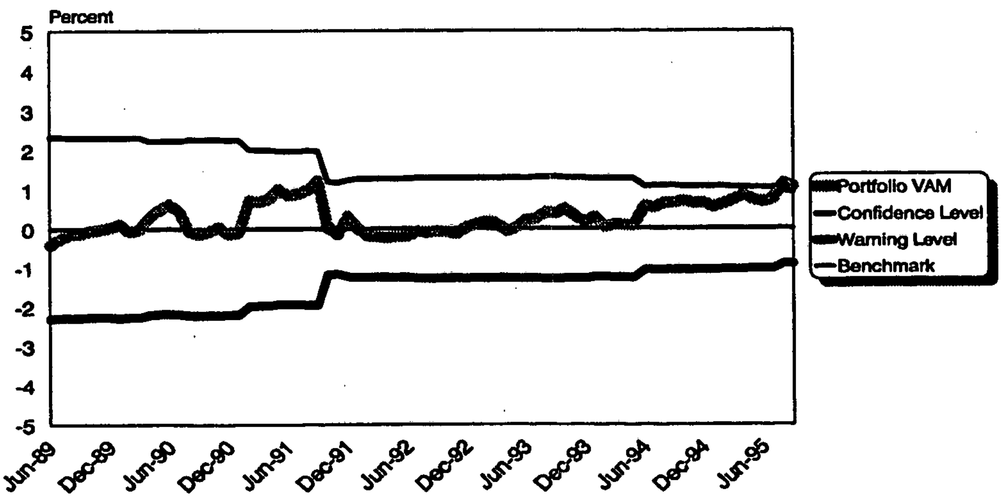
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	2.3%	2.0%
Last 1 year	14.5	14.1
Last 2 years	4.5	5.1
Last 3 years	7.5	6.8
Last 4 years	9.0	8.2
Last 5 years	11.0	9.7
Since Inception (7/84)	11.8	11.6

Recommendations

No action recommended.

MILLER ANDERSON
Rolling Five Year Time Periods



Note: Graph uses 80/20 confidence interval.

STANDISH, AYER & WOOD
Period Ending 9/30/95

Portfolio Manager: Austin Smith | **Assets Under Management:** $515,159,200

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.

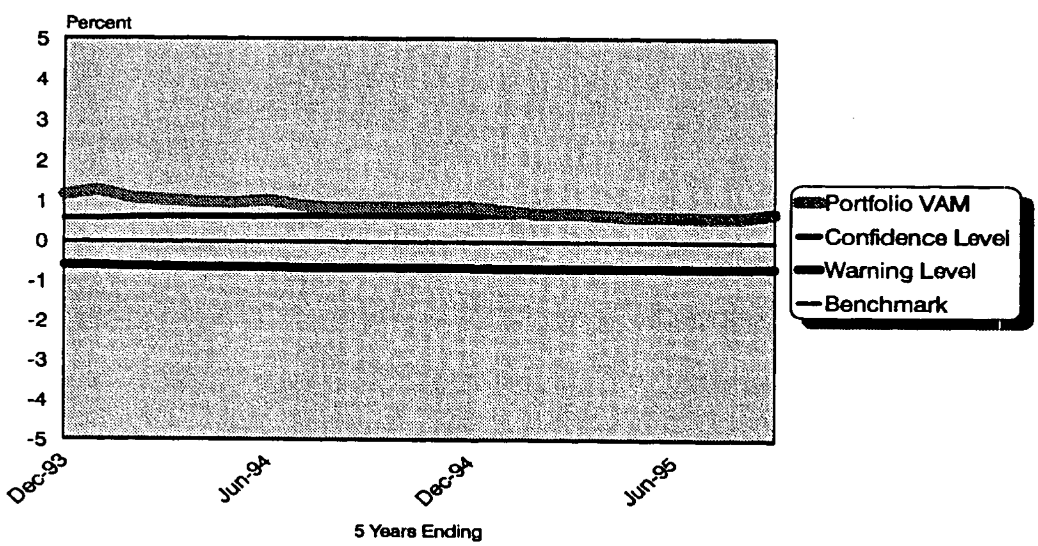
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	2.2%	2.0%
Last 1 year	13.5	14.1
Last 2 years	4.3	5.1
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)	5.2	5.8

Recommendations

No action recommended.

STANDISH, AYER & WOOD
Rolling Five Year Time Periods



Note: Shaded area includes performance prior to managing the SBI account. Graph uses 80/20 confidence interval.

WESTERN ASSET MANAGEMENT
Period Ending 9/30/95

Portfolio Manager: Kent Engel | **Assets Under Management: $984,060,837**

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.

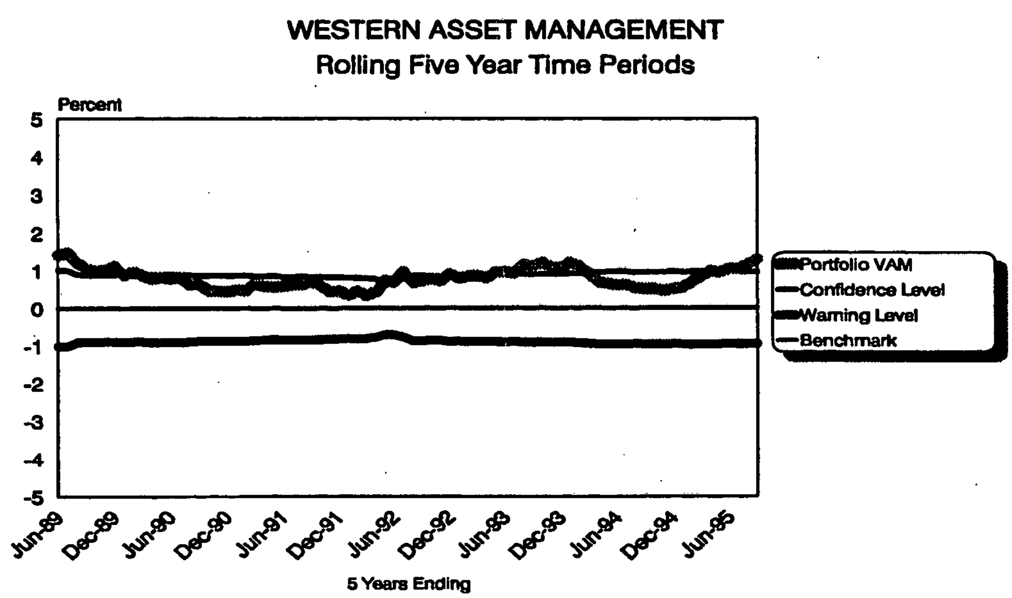
—Extensive securities research process.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	2.4%	2.0%
Last 1 year	16.4	14.1
Last 2 years	5.7	5.1
Last 3 years	8.6	6.8
Last 4 years	9.7	8.2
Last 5 years	11.4	9.8
Since Inception (7/84)	12.8	11.6

Recommendations

No action recommended.



Note: Graph uses 80/20 confidence interval.

IDS ADVISORY GROUP
Period Ending 9/30/95

Portfolio Manager: Ed Labenski | **Assets Under Management: $272,855,626**

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.

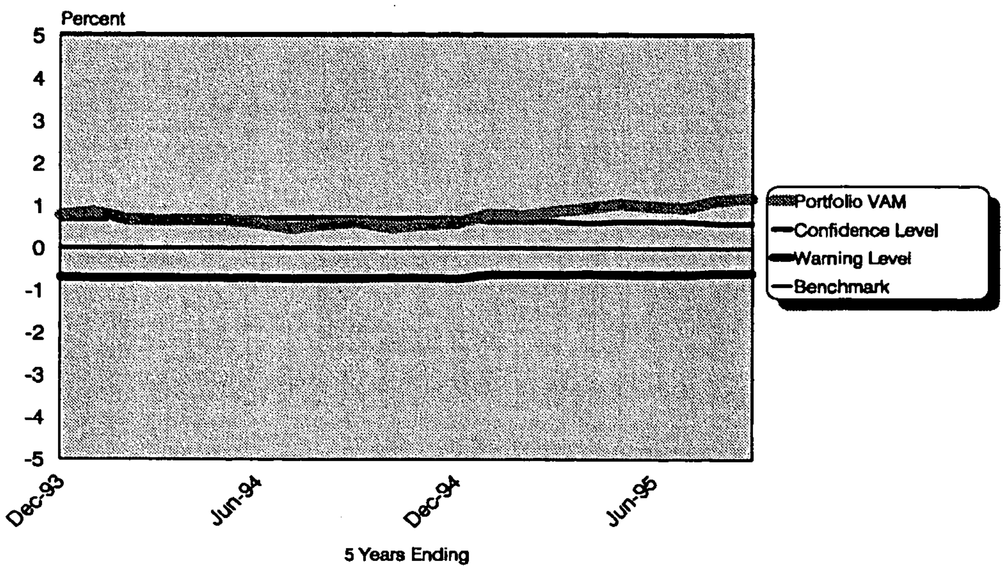
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	2.0%	1.9%
Last 1 year	15.4	14.3
Last 2 years	4.7	4.7
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)	6.1	5.7

Recommendations

No action recommended.

IDS ADVISORY GROUP
Rolling Five Year Time Periods



Note: Shaded area includes performance prior to managing the SBI account. Graph uses 80/20 confidence interval.

TCW
Period Ending 9/30/95

Portfolio Manager: Philip Barach **Assets Under Management:** $265,119,814

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.

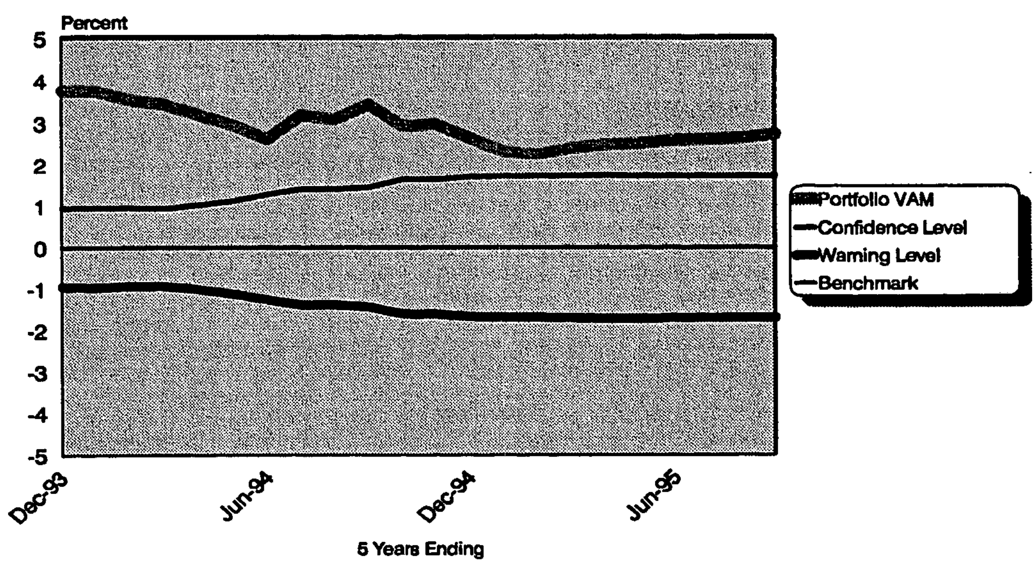
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	2.5%	2.1%
Last 1 year	10.8	13.5
Last 2 years	4.0	6.1
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)	4.8	5.8

Recommendations

Due to asset allocation changes in the Combined Funds, staff is recommending that the SBI's relationship with TCW be terminated. See staff memo for further details.

TCW
Rolling Five Year Time Periods



Note: Shaded area includes performance prior to managing the SBI account. Graph uses 80/20 confidence interval.

FIDELITY MANAGEMENT TRUST
Period Ending 9/30/95

Portfolio Manager: Charles Morrison **Assets Under Management: $1,128,601,718**

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.

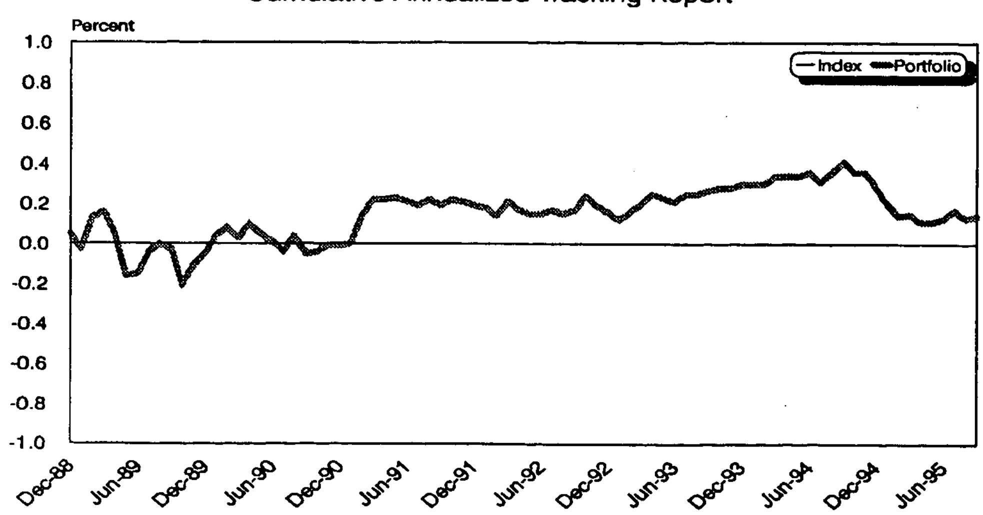
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	2.1%	2.0%
Last 1 year	12.3	14.1
Last 2 years	4.9	5.1
Last 3 years	6.9	6.8
Last 4 years	8.3	8.2
Last 5 years	10.0	9.7
Since Inception (7/88)	9.7	9.6

Recommendations

No action recommended.

FIDELITY MANAGEMENT TRUST
Cumulative Annualized Tracking Report



GOLDMAN SACHS
Period Ending 9/30/95

Portfolio Manager: Sharmin Mossavar Rahmani **Assets Under Management: $1,147,965,622**

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.

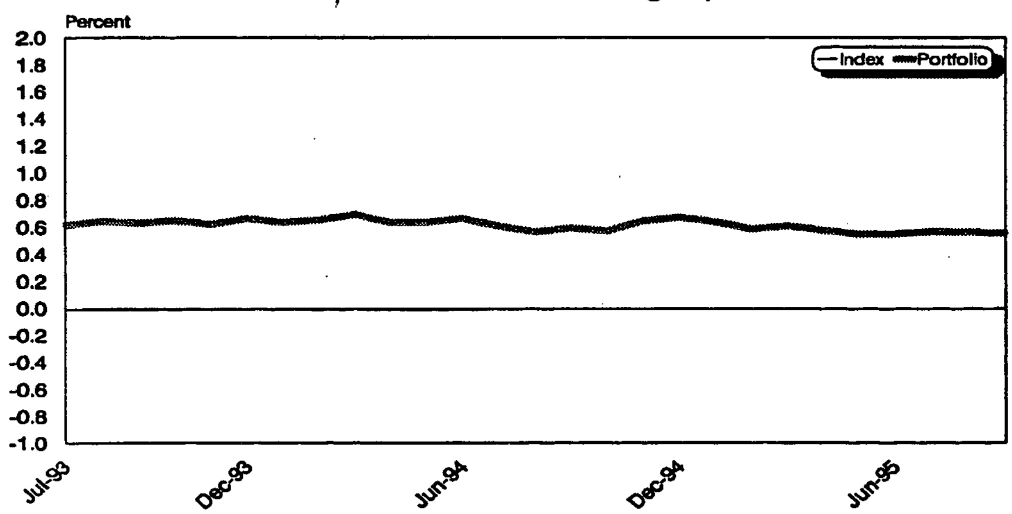
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	2.1%	2.0%
Last 1 year	14.5	14.1
Last 2 years	5.5	5.1
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)	6.2	5.8

Recommendations

No action recommended.

GOLDMAN SACHS
Cumulative Annualized Tracking Report



LINCOLN CAPITAL MANAGEMENT
Period Ending 9/30/95

Portfolio Manager: Brian Johnson | **Assets Under Management: $1,132,482,594**

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.

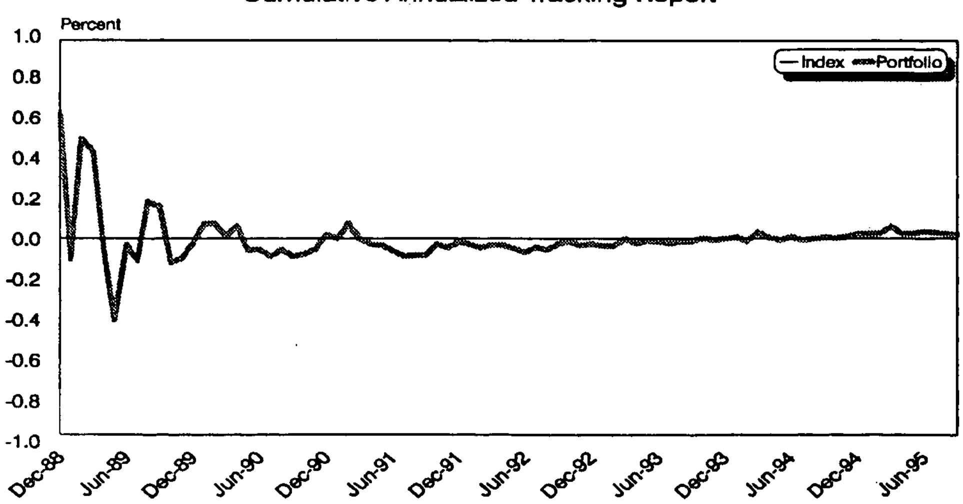
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	1.9%	2.0%
Last 1 year	14.2	14.1
Last 2 years	5.2	5.1
Last 3 years	6.9	6.8
Last 4 years	8.3	8.2
Last 5 years	9.8	9.7
Since Inception (7/88)	9.6	9.6

Recommendations

No action recommended.

LINCOLN CAPITAL MANAGEMENT
Cumulative Annualized Tracking Report



INTERNAL BOND POOL - Trust
Period Ending 9/30/95

Portfolio Manager: Jim Lukens | **Assets Under Management: $503.8 Million**

Investment Philosophy
Environmental Trust Fund
and Permanent School Trust Fund

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

Qualitative Evaluation
(reported by exception)

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	1.9%	2.0%
Last 1 year	15.3	14.1
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 (7/94)*	12.7	11.6

Recommendation

No action recommended.

* Date started managing the Permanent School Fund against the Lehman Aggregate.

Tracking graph will be created for period ending 6/30/96.

INTERNAL BOND POOL - Income Share
Period Ending 9/30/95

Portfolio Manager: Jim Lukens **Assets Under Management: $113.3 Million**

Investment Philosophy
Income Share Account

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

Qualitative Evaluation
(reported by exception)

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	2.2%	2.0%
Last 1 year	14.8	14.1
Last 2 years	5.1	5.1
Last 3 years	7.2	6.8
Last 4 years	8.7	8.2
Last 5 years	10.0	9.8

Recommendation

No action recommended.

Tracking graph will be created for period ending 12/31/95.

Tab F

COMMITTEE REPORT

DATE: December 5, 1995

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

FROM: International Manager Committee

The Committee met on December 5, 1995 to discuss the following agenda items:

- review of manager performance for the period ending September 30, 1995
- discussion on performance standard for the emerging markets allocation
- approval of finalists for emerging markets manager search

Action is requested on the last two items.

INFORMATION ITEM:

1. Review of Manager Performance

For the period ending September 30, 1995, the international stock manager program outperformed the EAFE index by 1.0 percentage point for the quarter and by 0.5 percentage point for the year. Since the inception of the program in October 1992 (3.0 years) the program has outperformed by 0.2 percentage point annualized.

Time Period	Actual	EAFE
Quarter	5.2	4.2
1 Year	6.3	5.8
3 Years	13.9	13.7

Performance attribution for the quarter shows the following for the entire program:

	Actual	EAFE	Value Added	
Local Currency	**10.46**	**11.19**	**-0.73**	
Country Selection				-0.99
Security Selection				+0.26
Currency Impact	**-4.70**	**-6.31**	**+1.61**	
Currency Effect				0.60
Hedging Activity				1.01
US Dollar Return	**5.26**	**4.17**	**1.09**	

Source: State Street Analytics

Each of the active managers outperformed during the quarter. Those that outperformed by the widest margins (Barings, Brinson, Marathon and Scudder) all benefited by hedging a portion of their exposure to the Japanese Yen.

Performance evaluation reports begin on **page 47** and Manager Commentaries are in **Tab H**.

While no action is recommended at this time, the Committee and staff made note of organizational issues at several of the firms that warrant scrutiny over the coming quarters. The Committee also discussed the number of managers in the international program and questioned whether the SBI should continue to retain six active managers. The Committee expects staff to review the configuration of the international stock program over the next year.

ACTION ITEMS:

1. Performance Standard for the Emerging Markets Allocation

At its meeting on October 10, 1995, the SBI approved an allocation of up to 2% of the Combined Funds to emerging markets. At this level, approximately 15% of the entire international stock allocation would be targeted to emerging markets.

The rationale for emerging markets was presented as part of the asset allocation review during the last quarter. At the present time, staff are preparing a position paper that will present additional background information on emerging markets investing and provide an implementation plan for the new allocation. The entire paper should be ready for review by the Committee before the March 1996 meetings of the SBI/IAC.

One of the issues that will be addressed in the paper is the selection of an asset class target or performance standard for the SBI's emerging markets program. Comparative information on the following capitalization weighted indices is in **Attachment A:**

- Barings Securities Emerging Markets Index (BEMI)
- International Finance Corporation Investable (IFCI)
- Morgan Stanley Capital International Emerging Markets Free (MSCI EMF)

Barings/BEMI
Barings attempts to identify the free float available to foreign ownership in each company. The available free float is the value used to weight each security in the benchmark. This gives greater weight to larger and very liquid issues and generates a more concentrated index in terms of stocks.

International Financial Corporation/IFCI
IFC identifies the amount of an issue that can be legally owned by foreign investors. Within that universe, the index in comprised of approximately 60% of the market capitalization of each market. This limits the weight given to markets such as Korea where foreigners are not allowed full access. If a stock is included, it is given its full capitalization weight; IFC does not adjust for cross holdings or low trading volumes.

Morgan Stanley Capital International/MSCI EMF
MSCI first identifies which countries are open ("free") to foreign investors. After excluding shares not eligible for purchase in Mexico, Philippines and Venezuela, it aims to represent about 60% of the market cap and industry exposure in each country. MSCI adjusts for cross holdings. After adjustments, MSCI uses the remaining market capitalizations to generate index weightings in all countries except Korea, where 20% of the market capitalization is used to reflect the higher limits on foreign ownership in that particular market.

After discussing the three alternatives, the Committee agreed that MSCI EMF would be an acceptable choice for the SBI's emerging markets program at the present time.

RECOMMENDATION:

The Committee recommends that the SBI adopt the Morgan Stanley Capital International Emerging Markets Free (MSCI EMF) as the performance standard for the emerging markets allocation.

2. **Finalists for Emerging Markets Manager Search**

The 2% allocation to emerging markets approved by the SBI at the October 10, 1995 meeting translates to approximately $450 million (2% of $22.6 billion in the Combined Funds).

At present, the emerging markets exposure among the SBI's existing manager group is minimal:

	Emerging Markets* % 9/30/95	**Emerging Markets* $Millons 9/30/95**
Barings	6.4	12.6
Brinson	--	--
Marathon	5.4	9.7
Rowe Price Fleming	7.2	12.6
Scudder Stevens	3.8	6.8
Templeton	11.5	21.3
State Street-EAFE index	--	--
Total International Pool	2.9	63.0
Total Combined Funds	0.3	63.0

* does not include Malaysia

As a matter of policy, the SBI's active managers do not expect to include more than 10-15% exposure to emerging markets within their existing portfolios. Even at this maximum level, total emerging markets exposure would be less than 0.4% on a Combined Fund level, far less than the long term 2% target. In addition, the exposure among the existing manager group is likely to be concentrated in a relatively small number of markets and issues.

In order to gain broad diversification to emerging markets, staff believes that the SBI should retain one or more emerging markets specialists. Staff suggested that the size of the SBI's allocation would warrant retention of 2-4 firms with portfolios of $75-200 million each. Staff believes that a multiple manager approach would also provide some style diversification:

- *Active approaches*: top down, bottom up, combination top down/bottom up
- *Structured approaches*: passive, quantitative, limited bets around an index

Over the past year, staff have been actively reviewing available emerging markets specialists.

- Staff worked with the SBI's international consultant, PCA/InterSec, and other sources to identify potential candidates. Screening questionnaires were sent to 45 firms.

- After reviewing the responses, staff met with 34 of those firms at SBI offices and/or their place of business to discuss their investment process in greater depth. The results of these meetings were then reviewed with PCA to narrow the list to a small group of finalists.

Staff considered the following criteria to be of primary importance in screening candidates:

- *Quality and depth of resources.* Staff sought firms that are committed to researching and evaluating all aspects of emerging markets investing. Given the large number of markets and their unique characteristics, this generally requires building and maintaining a staff team of sufficient size to support a complex investment process. In addition to country and security analysis, attention to trading costs and custodial issues are particularly important in these markets.

- *Stability of the management team.* Staff looked for firms where the current team was responsible for the track record and the prospects for that team staying together appear high.

- *Assets under management.* Generally, the SBI does not want to be more than one-third of a firm's assets in the discipline under consideration. This means that a firm would need to have at least $200 million in its global emerging markets product in order to be considered.

- *Length of track record.* Generally, firms with records of less than three years were not considered. Firms with longer histories were preferred.

Based on the above, staff narrowed the list of candidates to nine (9) firms representing a variety of approaches.

More active:

Capital International	Bottom up emphasis
City of London	Combination, use of closed end funds
Emerging Markets Investors	Combination, emphasis on top down
Foreign & Colonial	Combination, emphasis on top down
Genesis Asset Managers	Combination, emphasis on bottom up
Montgomery Asset Mgmt.	Combination, emphasis on risk control

More structured:

Boston International	Equal country weights, systematic rebalancing
JP Morgan	Limited bets around index, emphasis on top down
Morgan Grenfell	Limited bets around index, emphasis on bottom up

Short summaries of each firm are attached beginning on **page 11**.

After discussion, the Committee chose to forward five (5) of the firms as finalists:

More active:	Foreign & Colonial, Genesis, Montgomery
More structured:	Boston International, JP Morgan

The Committee suggested that organizational issues with two firms (City of London and Capital International) should be answered before those firms could be considered finalists. Staff expects to report back on the remaining issues with those firms at the IAC meeting on December 12.

RECOMMENDATION:

The Committee recommends that a Manager Search Committee be convened to make recommendations to the SBI concerning the retention of emerging markets specialists for the SBI's emerging markets allocation. The Search Committee should consider the firms cited above as finalists for the search.

Emerging Markets Indices
Return Histories

Year	BEMI	IFCI	MSCI EMF
1989	47.70	55.47	59.19
1990	-27.39	-5.20	-13.74
1991	66.59	36.06	55.94
1992	5.69	1.18	9.05
1993	66.64	75.26	71.26
1994	-6.16	-13.55	-8.67
1995 1Q	-13.47	-14.70	-12.40
1995 2Q	8.79	8.70	10.37
1989-1994			
Cumulative	195.29	207.42	265.22
Annualized	19.8	20.6	24.1
1989-1994			
Monthly St. Dev.	7.40	6.06	6.73
Av. Monthly Return	1.79	1.75	2.04
Return/St. Dev.	0.24	0.29	0.30

Sources: 1989-1994 data from Genesis Investment Management. Based on price indices. 1995 data from J.P. Morgan Investment Management. BEMI data for 1995 is BEMI-extended.

Concentration of Indices

% of Index in:	BEMI	IFCI	MSCI EMF
Top 2 countries	28.4	45.2	31.7
Top 4 countries	51.4	64.8	53.8
Top 2 sectors	43.2	32.8	36.2
Top 5 issues	15.6	8.7	9.1
Top 10 issues	24.1	14.8	15.6

Source: JP Morgan Investment Management

Correlations
July 1993-June 1995

	BEMI	IFCI	MSCI EMF
BEMI	1.00		
IFCI	0.97	1.00	
MSCI EMF	0.96	0.98	1.00

Source: JP Morgan Investment Management

Emerging Markets
Capitalization Weighted Indices
As of June 30, 1995

	BEMI	IFCI	MSCI EMF
Latin America	**36.3**	**28.1**	**30.4**
Argentina	4.7	3.1	3.2
Brazil	13.5	10.5	11.2
Chile	5.6	2.2	6.3
Colombia	1.1	1.7	1.0
Mexico	9.3	9.1	7.2
Peru	2.1	1.1	1.1
Venezuela	--	0.4	0.4
East Asia	**14.1**	**7.5**	**6.6**
China	1.4	0.4	--
Korea	4.0	2.3	3.3
Philippines	3.6	3.1	3.3
Taiwan	5.1	1.7	--
South Asia	**30.2**	**32.5**	**40.3**
India	4.1	2.7	6.8
Indonesia	3.0	2.2	4.5
Malaysia	14.4	21.4	17.2
Pakistan	0.5	0.9	0.8
Sri Lanka	--	0.1	0.1
Thailand	8.2	5.2	10.9
Europe/Mideast/Africa	**19.4**	**30.9**	**22.5**
Greece	1.5	1.6	1.3
Hungary	--	0.1	--
Israel	--	--	2.6
Jordan	0.2	0.1	0.2
Poland	0.7	0.3	0.3
Portugal	1.6	1.5	1.7
South Africa	14.0	23.8	14.5
Turkey	1.4	3.5	1.9
Zimbabwe	--	0.0	--
Number of Countries	**21**	**25**	**22**
Number of Stocks	**605**	**1120**	**881**
Market Capitalization	**$241 billion**	**$593 billion**	**$680 billion**

Source: JP Morgan Investment Management

Index Methodology

	BEMI	IFCI	MSCI EMF
Country Selection	Market must have minimum of 100 listed companies and $2 billion trading volume. Minimum of $400 per capita GDP.	Follows World Bank criteria, i.e. GNP per capita is less than $8600.	Generally follows World Bank criteria as shown for IFCI. Also considers liquidity, regulatory environment and perceived risk.
Stock Selection	Each stock must represent at least 1% of total market cap.	Includes top 60% of each market.	Aims to capture 60% of total market cap and industry groups.
Minimum Average Daily Trading Volume	$100 million in one of last three years.	$10 million in last year.	Determined on country by country basis.
Adjustments Made for Market Restrictions	No	Yes	Taiwan excluded. Korea held at 20%of market cap.
Adjustments for Float	Minimum 10% free float.	No.	Very low float may exclude a stock.
Adjustments for Cross Holdings	Depends on country.	No	Yes
Market Cap and Price History*	Since 1987 for price. Since 1992 for total return.	Since 1989.	Since 1988.
Data Availability on Individual Companies	Since mid 1993 for earnings, book value and dividends	Since 1989 for earnings, book value, dividends	Since 1993 for earnings, cash earnings, book value, dividends.
Pricing	Daily	Weekly	Daily
Updates	Quarterly	As necessary	Annually

* Data histories will vary depending on when each country was included in the index.

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MANAGER FACT SHEET
Emerging Markets Specialists

Manager: ***Boston International***

General Style: Structured
Orientation: Quantitative/Value

Philosophy:
Boston International believes that research and portfolio management are best accomplished through a highly disciplined, well defined process. They also believe that quantitative techniques provide the most efficient method to accomplish security analysis, research and portfolio management. Their approach is driven toward a portfolio of stable and uniform investments in a wide universe of qualified emerging markets.

Portfolio Management:
Research is an intensive, ongoing process accomplished in-house. They do not use traditional fundamental or technical analysis. Their emerging markets product invests in three regions: Latin America, Asia and Europe/Africa. Latin America and Asia are equal weighted at 40% each, Europe/Africa is half weight at 20%.

Within each region, countries are included based on accessibility to foreign investors, attractive economic environments, adequate market liquidity, appropriate regional representation, and diversification. Each country included within a region is then equal weighted, with small capitalization countries receiving a half weight. They currently invest in 20 countries.

The firm believes that systematic rebalancing earns returns by taking advantage of country volatility. They rebalance back to their pre-determined country weights periodically (usually within 9-18 months) as a matter of policy. They will also rebalance when a country moves more than 50% above or below its target weight, or when they have cash flows into the fund.

Stocks are selected to be more or less representative of the country index. They may use a liquidity tilt with some larger stocks, but this is not overemphasized. They will use ADR's and GDR's if appropriate. They currently have about 750 stocks in the portfolio. Lyle Davis is the emerging markets portfolio manager.

Ownership:
Boston International is owned by its key employees. It was established in 1986 and employs 4 investment professionals in the emerging markets product. Investments are managed out of Boston.

Investment Manager: Boston International
Information as of October 31, 1995

Statistics

Total Equity Assets in Emerging Markets:	$250 million
Total Equity Assets in Global Emerging Markets:	$250 million
Number of Global Emerging Markets Accounts:	6
Largest Global Emerging Markets Accounts:	
A major investment fiduciary (separate account)	$200 million
The One Group (separate account)	$22 million
Global Emerging Markets Fund (3 participants)	$15 million
Foreign Frontier Fund (participants unavailable)	$6 million
FG&I (separate account)	$3 million

Fees:	Commingled:	First $10 million	0.50% of assets annually
		Next $15 million	0.45% of assets annually
		Next $25 million	0.40% of assets annually
		Next $50 million	0.35% of assets annually
		Over $100 million	0.25% of assets annually
	Separate:	First $50 million	0.5% of assets annually
		Next $50 million	0.4% of assets annually
		Over $100 million	0.3% of assets annually

Investment Manager: Boston International
Benchmark: MSCI Emerging Markets Free, IFC Emerging Markets Investable

	----PORTFOLIO----		MSCI ----BENCHMARK----		IFC ----BENCHMARK----	
	Qrtly Return	Annual Return	Qrtly Return	Annual Return	Qrtly Return	Annual Return
92 Q2	-5.66%		-10.87%		-10.30%	
Q3	-5.96%		-3.30%		-6.40%	
Q4	-1.55%	NA	7.28%	11.40%	7.19%	3.36%
93 Q1	7.73%		5.55%		5.46%	
Q2	9.65%		8.27%		8.84%	
Q3	14.33%		15.38%		15.91%	
Q4	37.61%	85.85%	32.60%	74.84%	34.93%	79.52%
94 Q1	-12.18%		-9.04%		-11.82%	
Q2	-4.41%		-1.44%		-3.16%	
Q3	20.48%		20.76%		24.05%	
Q4	-12.44%	-11.44%	-14.39%	-7.32%	-16.84%	-11.95%
95 Q1	-11.40%		-12.37%		-14.70%	
Q2	11.16%		10.37%		8.70%	

	----PORTFOLIO----	MSCI ----BENCHMARK----	IFC ----BENCHMARK----
	Annualized Return	Annualized Return	Annualized Return
1 year	3.90%	-0.01%	-4.35%
2 year	17.14%	17.11%	13.02%
3 year	14.49%	17.59%	13.73%

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MANAGER FACT SHEET
Emerging Markets Specialists

Manager: *Capital International*

General Style: Bottom-Up Emphasis
Orientation: Value

Philosophy:
Capital International describes their philosophy as value-oriented. They focus their efforts on trying to identify the difference between the underlying value of a company and the price of its securities in its home market. They employ a multiple portfolio manager system because they believe this process allows each manager to use only their "highest conviction ideas".

Portfolio Management:
The portfolio is divided into eight portions. Seven of these portions are managed by eight portfolio managers. Six of the managers consider global opportunities and have their own portion. One portion is shared by two managers; one manager considers only Latin America and one considers only Asia. The final portion is allocated to the investment analysts, who are able to purchase their strongest company convictions within this portion.

Within guidelines established for the total portfolio, each manager is free to make his or her own decisions as to company selection, country and industry selection, timing, and stock and country percents to be invested for their portion of the assets. Individual manager compensation is tied directly to the results they achieve within their portion of the total portfolio.

Stock valuations are compiled by 23 investment analysts. Valuations and recommendations are based on extensive field research and direct company visits. The analysts determine company valuation for a 3-5 year time horizon and present their findings to the portfolio managers, other analysts, and Investment Administration. In order to be placed on the selected stock list, an individual stock must be recommended by an analyst and approved by the portfolio managers as well as Investment Administration. While it remains on the selected stock list, any portfolio manager may purchase the stock whenever they chose, as long as the new purchase remains within the limits established for the total portfolio. The portfolio averages 300 stocks.

The total portfolio is monitored by Investment Administration. The total holdings of a stock will not normally exceed 10% of the stock's free float. Investment Administration will not allow the portfolio managers to exceed these guidelines without approval. guidelines.

Country allocations at the total portfolio level are a product of the stock selection process; no attempt is made to allocate the total portfolio on a country basis or to control portfolio country concentrations. They suggest that country concentrations will not become extreme because each manager has a different investment style and outlook.

Ownership:
Capital International is owned by The Capital Group Companies, Inc., which is employee owned. The Capital Group Companies, Inc. was established in the 1930's. There are 35 investment professionals employed for the emerging markets product. Portfolio managers are located in four cities: London, Los Angeles, New York and Singapore.

Investment Manager: Capital International
Information as of October 31, 1995

Statistics

Total Equity Assets in Emerging Markets: $8.2 billion

Total Equity Assets in Global Emerging Markets: $7.7 billion

Number of Global Emerging Markets Accounts: 11

Largest Global Emerging Markets Accounts:

Emerging Markets Growth Fund (153 participants)	$5.6 billion
Capital International Emerging Markets Fund (88 participants)	$842 million
Australian Client Pooled Vehicle (participants unavailable)	$305 million
Emerging Markets Trust (11 participants)	$293 million
Emerging Markets Investment Fund (5 participants)	$256 million

Fees: Commingled only:

First $400 million aggregate net assets				0.90% annually
Next $600 million	"	"	"	0.80% annually
Next $1 billion	"	"	"	0.70% annually
Next $2 billion	"	"	"	0.65% annually
Next $2 billion	"	"	"	0.625% annually
Next $2 billion	"	"	"	0.60% annually
Next $3 billion	"	"	"	0.58% annually

No Separate Accounts

Investment Manager: Capital International
Benchmark: MSCI Emerging Markets Free, IFC Emerging Markets Investable

	----PORTFOLIO----		MSCI ----BENCHMARK----		IFC ----BENCHMARK----	
	Qrtly Return	Annual Return	Qrtly Return	Annual Return	Qrtly Return	Annual Return
86 Q3	4.15%					
Q4	6.71%					
87 Q1	11.32%					
Q2	25.30%					
Q3	8.70%					
Q4	-18.14%	24.12%				
88 Q1	19.34%		22.05%		18.85%	
Q2	15.68%		12.18%		11.27%	
Q3	5.07%		0.99%		1.25%	
Q4	-2.12%	41.98%	1.56%	40.43%	2.26%	36.92%
89 Q1	16.44%		16.88%		10.63%	
Q2	23.16%		5.95%		12.89%	
Q3	21.72%		22.80%		23.31%	
Q4	11.29%	94.26%	8.48%	64.96%	5.01%	61.72%
90 Q1	-5.68%		-7.18%		-2.41%	
Q2	13.89%		20.03%		19.92%	
Q3	-16.73%		-17.19%		-14.28%	
Q4	1.67%	-9.05%	-3.05%	-10.55%	-2.61%	-2.30%
91 Q1	23.75%		29.17%		15.23%	
Q2	12.71%		5.09%		1.57%	
Q3	1.95%		3.28%		0.97%	
Q4	14.90%	63.39%	14.05%	59.91%	18.14%	39.61%
92 Q1	20.17%		20.48%		14.85%	
Q2	-7.85%		-10.87%		-10.30%	
Q3	-0.54%		-3.30%		-6.40%	
Q4	1.98%	12.32%	7.28%	11.40%	7.19%	3.36%
93 Q1	9.64%		5.55%		5.46%	
Q2	9.31%		8.27%		8.84%	
Q3	12.61%		15.38%		15.91%	
Q4	27.95%	72.69%	32.60%	74.84%	34.93%	79.52%
94 Q1	-2.04%		-9.04%		-11.82%	
Q2	-4.83%		-1.44%		-3.16%	
Q3	24.02%		20.76%		24.05%	
Q4	-14.82%	-1.52%	-14.39%	-7.32%	-16.84%	-11.95%
95 Q1	-16.54%		-12.37%		-14.70%	
Q2	12.04%		10.37%		8.70%	

Investment Manager: Capital International
Benchmark: MSCI Emerging Markets Free, IFC Emerging Markets Investable

	----PORTFOLIO----	MSCI ----BENCHMARK----	IFC ----BENCHMARK----
	Annualized Return	Annualized Return	Annualized Return
1 year	-1.22%	-0.01%	-4.35%
2 year	15.19%	17.11%	13.02%
3 year	17.28%	17.59%	13.73%

MANAGER FACT SHEET
Emerging Markets Specialists

Manager: *City of London*

General Style: Top-down/Bottom-Up
Orientation: Value

Philosophy:
City of London has several objectives within their philosophy. First, they try to achieve long-term capital growth. Second, they make their investments through closed-end country and regional funds to assure broad diversification within markets, to participate in the performance of high quality fund managers, to enhance performance when discounts to net asset value (NAV) narrow. Finally, they identify and capitalize on inefficiencies in the emerging markets.

Portfolio Management:
Research is carried out by Olliff & Partners. They look at two levels of analysis. The first level compiles macro-economic data for each country in their universe and is used to determine country weightings. The second level is research on the closed-end country and regional funds.

Barry Olliff manages the research and investment process. Country selection is based on 11 key macro economic criteria. Countries are then nominally ranked according to the relative strength of their fundamentals and the expected upward potential of their stock markets.

They analyze country and regional funds for corporate activity, liquidation dates, and discounts to NAV. Analyzing the quality and expertise of the closed-end fund managers is also an important part of their research.

Ownership:
City of London is a wholly owned subsidiary of London based independent stockbrokers Olliff & Partners PLC. It was established in 1991 and employs 9 investment professionals for the emerging product. Investments are managed out of London.

Investment Manager: City of London
Information as of October 31, 1995

Statistics

Total Equity Assets in Emerging Markets:	$220 million
Total Equity Assets in Global Emerging Markets:	$220 million
Number of Global Emerging Markets Accounts:	6
Largest Global Emerging Markets Accounts:	
Delaware Business Trust (9 participants)	$68.1 million
Unit Trust million (3816 participants)	$62.5 million
Investment Trust (2406 participants)	$55.5 million
GFM Institutional (3 participants)	$22.2 million
GFAM Fund (503 participants)	$5.9 million

Fees:	Commingled:	For all assets under management	1.5% annually
	Separate:	For all assets under management	1.5% annually

Investment Manager: City of London
Benchmark: MSCI Emerging Markets Free, IFC Emerging Markets Investable

	----PORTFOLIO----		MSCI ----BENCHMARK----		IFC ----BENCHMARK----	
	Qrtly Return	Annual Return	Qrtly Return	Annual Return	Qrtly Return	Annual Return
91 Q4	0.82%	NA	14.05%	59.91%	18.14%	39.61%
92 Q1	14.71%		20.48%		14.85%	
Q2	1.11%		-10.87%		-10.30%	
Q3	-1.86%		-3.30%		-6.40%	
Q4	15.60%	31.58%	7.28%	11.40%	7.19%	3.36%
93 Q1	20.17%		5.55%		5.46%	
Q2	14.51%		8.27%		8.84%	
Q3	17.65%		15.38%		15.91%	
Q4	42.60%	130.87%	32.60%	74.84%	34.93%	79.52%
94 Q1	-14.68%		-9.04%		-11.82%	
Q2	2.17%		-1.44%		-3.16%	
Q3	13.13%		20.76%		24.05%	
Q4	-7.00%	-8.29%	-14.39%	-7.32%	-16.84%	-11.95%
95 Q1	-5.84%		-12.37%		-14.70%	
Q2	7.26%		10.37%		8.70%	

	----PORTFOLIO----	MSCI ----BENCHMARK----	IFC ----BENCHMARK----
	Annualized Return	Annualized Return	Annualized Return
1 year	6.26%	-0.01%	-4.35%
2 year	24.66%	17.11%	13.02%
3 year	34.37%	17.59%	13.73%

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MANAGER FACT SHEET
Emerging Markets Specialists

Manager: ***Emerging Markets Investors Corporation***

General Style: Emphasis on Top-down
Orientation: Value Oriented/Quantitative

Philosophy:
Emerging Markets Investors Corporation/Emerging Markets Management is strongly committed to being at the frontier of emerging markets by researching new markets and undiscovered stocks. They focus on maximizing long-term return by finding hidden value in inefficient markets, and on minimizing volatility through broad diversification.

Portfolio Management:
Country selection is based on the results from a proprietary, quantitative asset allocation model. This model utilizes valuation elements, correlations and standard deviations. A new model is being tested which factors in such elements as major economic policy changes, etc. Currently, these judgments are a subjective overlay made by Antoine W. van Agimael, a founder of the firm and Chief Portfolio Strategist for Emerging Markets. Mike Duffy assists with the subjective country overlay. They have an emerging markets universe of over 50 countries.

Stocks within a market are screened for attractiveness based on earnings growth, asset backing and quality. They monitor over 1800 stocks. From the screening, appropriate stocks are selected for further analysis. They focus on international competitiveness, expansion plans, management, financial condition, undervalued assets, and turnaround potential. Company visits are an important part of the research process.

The final portfolio will include 60-80% of liquid stocks. The remainder will be smaller cap stocks which are not widely followed by the investment community. They have a 3-5 year horizon. Approximately 420 stocks are currently in the portfolio, but they plan to scale back the number of stocks (so the analysts can follow individual stocks more closely). Each country portfolio is reviewed at least twice a year, except for countries with less than a 3% allocation. These countries are formally reviewed once a year.

Ownership:
Emerging Markets Investors Corporation/Emerging Markets Management are owned by six managing directors who founded the companies. The companies were established in 1987 and employ 18 investment professionals for their emerging markets products. Investments are managed out of Arlington, Virginia.

Investment Manager: Emerging Markets Investors
Information as of October 31, 1995

Statistics

Total Equity Assets in Emerging Markets:	$3.1 billion
Total Equity Assets in Global Emerging Markets:	$3.0 billion
Number of Global Emerging Markets Accounts:	18
Largest Global Emerging Markets Accounts:	
The Emerging Markets Investor Fund (70 participants)	$531.4 million
The Emerging Markets Strategic Fund (100 participants)	$376.1 million
Pension Fund of Major U.S. Corporation (separate)	$370.4 million
Dutch Pension Fund (separate account)	$228.4 million
Pension Fund of Major U.S. Corporation (separate)	$217.1 million

Fees:	Commingled:	1.25% annual management fees	
	Separate:	First $50 million	1.25% of assets annually
		Next $100 million	0.90% of assets annually
		Next $100 million	0.75% of assets annually

Investment Manager: Emerging Markets Investors
Benchmark: MSCI Emerging Markets Free, IFC Emerging Markets Investable

	----PORTFOLIO----		MSCI ----BENCHMARK----		IFC ----BENCHMARK----	
	Qrtly Return	Annual Return	Qrtly Return	Annual Return	Qrtly Return	Annual Return
88 Q2	3.20%		12.18%		11.27%	
Q3	1.50%		0.99%		1.25%	
Q4	2.40%	NA	1.56%	40.43%	2.26%	36.92%
89 Q1	18.30%		16.88%		10.63%	
Q2	19.70%		5.95%		12.89%	
Q3	19.60%		22.80%		23.31%	
Q4	4.00%	76.20%	8.48%	64.96%	5.01%	61.72%
90 Q1	4.20%		-7.18%		-2.41%	
Q2	11.60%		20.03%		19.92%	
Q3	-11.70%		-17.19%		-14.28%	
Q4	-0.30%	2.40%	-3.05%	-10.55%	-2.61%	-2.30%
91 Q1	18.50%		29.17%		15.23%	
Q2	5.60%		5.09%		1.57%	
Q3	8.90%		3.28%		0.97%	
Q4	9.50%	49.20%	14.05%	59.91%	18.14%	39.61%
92 Q1	14.80%		20.48%		14.85%	
Q2	-2.40%		-10.87%		-10.30%	
Q3	-7.60%		-3.30%		-6.40%	
Q4	4.50%	8.10%	7.28%	11.40%	7.19%	3.36%
93 Q1	5.90%		5.55%		5.46%	
Q2	5.90%		8.27%		8.84%	
Q3	7.50%		15.38%		15.91%	
Q4	33.60%	61.00%	32.60%	74.84%	34.93%	79.52%
94 Q1	-6.90%		-9.04%		-11.82%	
Q2	-0.40%		-1.44%		-3.16%	
Q3	13.90%		20.76%		24.05%	
Q4	-13.10%	-8.10%	-14.39%	-7.32%	-16.84%	-11.95%
95 Q1	-13.20%		-12.37%		-14.70%	
Q2	7.10%		10.37%		8.70%	

	----PORTFOLIO----	MSCI ----BENCHMARK----	IFC ----BENCHMARK----
	Annualized Return	Annualized Return	Annualized Return
1 year	-7.99%	-0.01%	-4.35%
2 year	10.70%	17.11%	13.02%
3 year	9.89%	17.59%	13.73%

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MANAGER FACT SHEET
Emerging Markets Specialists

Manager: *Foreign & Colonial*

General Style: Top-down/Bottom-Up, Emphasis on Top-Down
Orientation: Growth at a reasonable price

Philosophy:
Foreign & Colonial believe that superior economic growth is taking place in the emerging markets which, in turn, will lead to superior investment opportunities. They intend to capture that return by focusing on earnings growth, valuation, risk control, political stability and liquidity/capital flow.

Portfolio Management:
Economic research is conducted by the chief investment officer and a senior economist. The 11 largest markets are considered "core" countries and are always included in the portfolio. They comprise 85% of the portfolio. The remaining 15% of the portfolio consists of "satellite" countries which are included based on an assessment of their return potential.

Securities are selected by the portfolio managers based on current valuation. From this selected security list, the portfolio managers, in conjunction with the regional team head and chief investment officer, develop model portfolios for each country followed. These portfolios broadly reflect the local market with respect to market capitalization and sector weightings. Model portfolios are adjusted when the portfolio manager has a firm conviction, whether positive or negative. Up to 5 security weightings within the model portfolio may be adjusted. Arnab Banerji is the Chief Investment Officer and has the final decision on country weightings.

Ownership:
Foreign & Colonial Emerging Markets Limited (FCEM) is a subsidiary of Foreign & Colonial Group. Foreign & Colonial Group was established in 1968. FCEM employs 23 investment professionals. Investments are managed out of London.

Investment Manager: Foreign & Colonial
Information as of October 31, 1995

Statistics

Total Equity Assets in Emerging Markets:	$2.8 billion
Total Equity Assets in Global Emerging Markets:	$774 million
Number of Global Emerging Markets Accounts:	6

Largest Global Emerging Markets Accounts:

Foreign & Colonial Emerging Markets Investment Trust (16,313 participants)	$374.1 million
Ohio State Teachers Retirement Fund (separate account)	$175.7 million
Hypo New Horizon (4216 participants)	$106.5 million
European Corporate (Dutch separate account)	$56.0 million
Foreign & Colonial Global Emerging Markets Exempt Fund (18 participants)	$39.4 million

Fees:

	Commingled:	First $10 million	1.15% annually
		Next $40 million	1.00% annually
		Next $50 million	0.80 % annually
		Next $50 million	0.75% annually
		Next $50 million	0.70% annually

Separate: same as commingled

Investment Manager: Foreign & Colonial
Benchmark: MSCI Emerging Markets Free, IFC Emerging Markets Investable

	----PORTFOLIO----		MSCI ----BENCHMARK----		IFC ----BENCHMARK----	
	Qrtly Return	Annual Return	Qrtly Return	Annual Return	Qrtly Return	Annual Return
93 Q4	29.00%	NA	32.60%	74.84%	34.93%	79.52%
94 Q1	-4.90%		-9.04%		-11.82%	
Q2	0.10%		-1.44%		-3.16%	
Q3	19.20%		20.76%		24.05%	
Q4	-13.60%	-1.96%	-14.39%	-7.32%	-16.84%	-11.95%
95 Q1	-13.60%		-12.37%		-14.70%	
Q2	11.20%		10.37%		8.70%	

	----PORTFOLIO----	MSCI ----BENCHMARK----	IFC ----BENCHMARK----
	Annualized Return	Annualized Return	Annualized Return
1 year	-1.05%	-0.01%	-4.35%
2 year	NA	17.11%	13.02%
3 year	NA	17.59%	13.73%
93Q4-95Q2	11.78%	10.38%	5.71%

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MANAGER FACT SHEET
Emerging Markets Specialists

Manager: *Genesis Assets Managers Limited*

General Style: Top-Down/Bottom-Up, Emphasis on Bottom-Up
Orientation: Growth Opportunities

Philosophy:
Genesis believes that the critical factor for successful investment performance in emerging markets is stock selection They also believe that challenges brought by structural changes in emerging markets will continue to create both winners and losers in the corporate sector. Finally, they believe that following index stocks will not necessarily expose an investor to the highest returns since those stocks are typically concentrated in larger issues with companies that have already attained a certain level of recognition.

Portfolio Management:
They first identify those countries in which structural change will most likely generate growth opportunities for businesses and/or where the environment is supportive of a flourishing private sector.

They use fundamental analysis to determine which companies are the most attractive. They feel meeting a company's management is very important and will also make a plant visit, if practicable. They want to learn if management is capable, entrepreneurial and honest. They look for a well thought long-term corporate strategy, and the financial and human resources to implement it. Their time horizon is 3-5 years.

They select stocks based on the analysis of the management team and their estimate of the value of a company's future real earnings stream relative to its current price. Their portfolio consists of 70-80 of the most undervalued stocks. Their are ten investment professionals that make the portfolio stock selections.

Ownership:
Genesis is owned by 9 non-management shareholders from Europe, the United States, the Middle East and Far East, as well as the investment professionals from the company. It was established in 1989 and employs 10 investment professionals for the emerging markets product. Investments are managed out of London.

Investment Manager: Genesis
Information as of October 31, 1995

Statistics

Total Equity Assets in Emerging Markets:	$2.8 billion
Total Equity Assets in Global Emerging Markets:	$2.2 billion
Number of Global Emerging Markets Accounts:	18
Largest Global Emerging Markets Accounts:	
Genesis Emerging Markets Commingled Fund (11 participants)	$543.8 million
Gulliver (separate account)	$367.3 million
Genesis Emerging Markets Fund Ltd. (more than 800 participants)	$363.2 million
Genesis Emerging Markets Trust (8 participants)	$124.4 million
The Common Fund (separate account)	$110.8 million

Fees:	Commingled:	First $100 million	0.90% annually
		Next $25 million	0.75% annually
		Thereafter	0.60% annually
	Separate:	First $50 million	1.10% annually
		Next $50 million	0.90% annually
		Next $25 million	0.75% annually
		Thereafter	0.60% annually

Investment Manager: Genesis
Benchmark: MSCI Emerging Markets Free, IFC Emerging Markets Investable

	----PORTFOLIO----		MSCI ----BENCHMARK----		IFC ----BENCHMARK----	
	Qrtly Return	Annual Return	Qrtly Return	Annual Return	Qrtly Return	Annual Return
89 Q4	4.21%	NA	8.48%	64.96%	5.01%	61.72%
90 Q1	10.82%		-7.18%		-2.41%	
Q2	19.97%		20.03%		19.92%	
Q3	-14.20%		-17.19%		-14.28%	
Q4	2.04%	16.40%	-3.05%	-10.55%	-2.61%	-2.30%
91 Q1	18.18%		29.17%		15.23%	
Q2	6.12%		5.09%		1.57%	
Q3	10.73%		3.28%		0.97%	
Q4	9.26%	51.73%	14.05%	59.91%	18.14%	39.61%
92 Q1	14.39%		20.48%		14.85%	
Q2	0.23%		-10.87%		-10.30%	
Q3	-6.76%		-3.30%		-6.40%	
Q4	-0.24%	6.65%	7.28%	11.40%	7.19%	3.36%
93 Q1	12.14%		5.55%		5.46%	
Q2	4.02%		8.27%		8.84%	
Q3	12.24%		15.38%		15.91%	
Q4	28.10%	67.71%	32.60%	74.84%	34.93%	79.52%
94 Q1	-3.36%		-9.04%		-11.82%	
Q2	-4.95%		-1.44%		-3.16%	
Q3	21.29%		20.76%		24.05%	
Q4	-11.89%	-2.18%	-14.39%	-7.32%	-16.84%	-11.95%
95 Q1	-13.12%		-12.37%		-14.70%	
Q2	4.47%		10.37%		8.70%	

	----PORTFOLIO----	MSCI ----BENCHMARK----	IFC ----BENCHMARK----
	Annualized Return	Annualized Return	Annualized Return
1 year	-3.00%	-0.01%	-4.35%
2 year	13.19%	17.11%	13.02%
3 year	11.67%	17.59%	13.73%

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MANAGER FACT SHEET
Emerging Markets Specialists

Manager: ***J.P. Morgan Investment Management, Inc.***

General Style: Emphasis on Top-Down, Managed Around Index
Orientation: Value

Philosophy:
J.P. Morgan believes that superior long-term returns can be achieved on a consistent basis by utilizing fundamental company/capital market research to gain an information advantage. They systematically exploit that information advantage to capture mispricings. They will neutralize areas where the advantage does not exist and actively control risk against the client's benchmark through broad diversification.

Portfolio Management:
They first calculate each market's real expected return. They find attractive those countries which have a high real expected return relative to other countries and relative to their own histories. Secondly, they calculate a "local hurdle rate" which uses the country's inflation rate minus the combined value of the U.S. inflation rate plus the U.S. three month deposit rate. A country's real expected return and average expected return must be able to beat this hurdle rate. Countries which are attractive according to either of these measures are overweighted. As a matter of policy, their over or underweightings will not vary from the index weights by more than 25 percentage points, in aggregate.

Stock selection focuses on the blue chips in each market. They also include small companies in which they have strong conviction. Analysts research a company to determine its long term prospects to grow earnings and dividends. On-site visits are an important part of the research process. Since the firm believes that markets are segmented, companies are compared within their markets and not across countries. Typically, stock selection is neutral to the client's benchmark with respect to industry and sector exposure.

Two portfolio managers jointly decide the country allocations and final portfolio stock selections. They are currently invested in about 30 countries.

Ownership:
J.P. Morgan Investment Management is a wholly owned subsidiary of J.P. Morgan & Co. Incorporated. J.P. Morgan Investment was established in 1984. They employ 15 investment professionals in the emerging markets product. Investments are managed out of New York.

Investment Manager: J.P. Morgan
Information as of September 30, 1995 (Information at J.P. Morgan is collected on a quarterly basis.)

Statistics

Total Equity Assets in Emerging Markets:	$2.2 billion
Total Equity Assets in Global Emerging Markets:	$2.2 billion
Number of Global Emerging Markets Accounts:	25
Largest Global Emerging Markets Accounts:	
Mutual Fund (1372 participants)	$631 million
Commingled Fund (27 participants)	$509 million
Employee Benefit Pension Plan (separate account)	$367 million
Employee Benefit Pension Plan (separate account)	$82 million
Religious Organization Employee Benefit Plan (separate account)	$53 million

Fees:	Commingled:	First $25 million	1.25% annually
		Next $25 million	1.00% annually
		Thereafter	0.80% annually
	Separate:	First $25 million	1.25% annually
		Next $25 million	1.00% annually
		Thereafter	0.80% annually

Investment Manager: J.P. Morgan
Benchmark: MSCI Emerging Markets Free, IFC Emerging Markets Investable

	----PORTFOLIO----		MSCI ----BENCHMARK----		IFC ----BENCHMARK----	
	Qrtly Return	Annual Return	Qrtly Return	Annual Return	Qrtly Return	Annual Return
90 Q4	0.54%	NA	-3.05%	-10.55	-2.61%	-2.30%
91 Q1	15.58%		29.17%		15.23%	
Q2	0.78%		5.09%		1.57%	
Q3	-0.65%		3.28%		0.97%	
Q4	2.68%	18.83%	14.05%	59.91%	18.14%	39.61%
92 Q1	13.35%		20.48%		14.85%	
Q2	-2.77%		-10.87%		-10.30%	
Q3	-1.70%		-3.30%		-6.40%	
Q4	1.25%	9.69%	7.28%	11.40%	7.19%	3.36%
93 Q1	12.37%		5.55%		5.46%	
Q2	15.01%		8.27%		8.84%	
Q3	12.79%		15.38%		15.91%	
Q4	31.79%	92.11%	32.60%	74.84%	34.93%	79.52%
94 Q1	-7.60%		-9.04%		-11.82%	
Q2	-1.71%		-1.44%		-3.16%	
Q3	17.60%		20.76%		24.05%	
Q4	-14.36%	-8.53%	-14.39%	-7.32%	-16.84%	-11.95%
95 Q1	-12.43%		-12.37%		-14.70%	
Q2	8.49%		10.37%		8.70%	

	----PORTFOLIO----	MSCI ----BENCHMARK----	IFC ----BENCHMARK----
	Annualized Return	Annualized Return	Annualized Return
1 year	-4.32%	-0.01%	-4.35%
2 year	13.65%	17.11%	13.02%
3 year	18.44%	17.59%	13.73%

MANAGER FACT SHEET
Emerging Markets Specialists

Manager: *Montgomery Asset Management*

General Style: Top-down/Bottom-Up, Emphasis on Risk Control
Orientation: Quantitative

Philosophy:
Montgomery combines quantitative investment techniques and fundamental stock selection to take advantage of market inefficiencies and low correlations within the emerging markets. They believe that investing across the spectrum of emerging market countries and capitalization ranges provides the greatest return potential within the context of risk control.

Portfolio Management:
Their top-down analysis begins with a quantitative approach which evaluates historical volatility and correlations between the markets in which they invest. Several other factors go into the model, such as average transaction costs for each country. The model identifies attractive countries which are then qualitatively analyzed for "event risk" which the model cannot take into account. Target weights are determined through the combination of the model outputs and the portfolio managers' subjective overlay. They follow minimum and maximum exposure guidelines to assure broad diversification across markets.

Industry and sector analysis is conducted to identify important policy or regulatory issues which may impact a sector within the countries they have selected. They have a maximum allocation of 25% of the portfolio in any one sector.

Fundamental analysis is used to evaluate the financial condition, quality of management, and competitive position of each stock. Stocks will come from two tiers. Tier 1 will be 60-100 blue chip stocks. Tier 2 will be 100-150 small cap stocks with substantial growth potential. They have a maximum allocation of 5% to any one stock. The final portfolio contains 175-250 securities in 20-40 countries.

Two lead portfolio managers started this emerging markets product. They have added two more portfolio managers. While each has special expertise (e.g. modeling, stock selection, country analysis) they make portfolio decisions on a team basis.

Ownership:
Montgomery Asset Management is 78% owned by Montgomery Securities. The remainder is owned by employees. It was established in 1990 and employs 10 investment professionals for the emerging markets product. Investments are managed out of San Francisco.

Investment Manager: Montgomery Asset Management
Information as of October 31, 1995

Statistics

Total Equity Assets in Emerging Markets:	$1.5 billion
Total Equity Assets in Global Emerging Markets:	$1.5 billion
Number of Global Emerging Markets Accounts:	15
Largest Global Emerging Markets Accounts:	
Montgomery Emerging Markets Fund (more than 51,000 participants)	$900 million
Montgomery Institutional Series (19 participants)	$196 million
Montgomery Emerging Markets Fund Limited (11 participants)	$115 million
Frank Russell Trust (separate account)	$84 million
Frank Russell Limited (separate account)	$54 million

Fees:	Commingled:	First $50 million	1.25% annually
		Next $50 million	1.00% annually
		Thereafter	0.90% annually
	Separate:	First $25 million	1.25% annually
		Next $25 million	1.00% annually
		Thereafter	0.90% annually

Investment Manager: Montgomery Asset Management
Benchmark: MSCI Emerging Markets Free, IFC Emerging Markets Investable

	----PORTFOLIO----		MSCI ----BENCHMARK----		IFC ----BENCHMARK----	
	Qrtly Return	Annual Return	Qrtly Return	Annual Return	Qrtly Return	Annual Return
92 Q2	-1.36%		-10.87%		-10.30%	
Q3	-4.11%		-3.30%		-6.40%	
Q4	4.98%	NA	7.28%	11.40%	7.19%	3.36%
93 Q1	4.95%		5.55%		5.46%	
Q2	6.36%		8.27%		8.84%	
Q3	12.03%		15.38%		15.91%	
Q4	32.73%	65.98%	32.60%	74.84%	34.93%	79.52%
94 Q1	-9.63%		-9.04%		-11.82%	
Q2	-3.12%		-1.44%		-3.16%	
Q3	19.15%		20.76%		24.05%	
Q4	-11.26%	-7.43%	-14.39%	-7.32%	-16.84%	-11.95%
95 Q1	-10.79%		-12.37%		-14.70%	
Q2	9.70%		10.37%		8.70%	

	----PORTFOLIO----	MSCI ----BENCHMARK----	IFC ----BENCHMARK----
	Annualized Return	Annualized Return	Annualized Return
1 year	3.48%	-0.01%	-4.35%
2 year	16.06%	17.11%	13.02%
3 year	14.82%	17.59%	13.73%

MANAGER FACT SHEET
Emerging Markets Specialists

Manager: *Morgan Grenfell Asset Management*

General Style: Emphasis on Bottom-Up, Managed Around Index
Orientation: Growth

Philosophy:
Morgan Grenfell believes that fundamental company research adds value. They favor a broadly diversified portfolio at the country level, with a lower level of country divergence against the index than typical for other active managers.

Portfolio Management:
Regional allocations are targeted to the regional weightings of the client's chosen benchmark index. Individual countries may deviate from a neutral position as a result of stock selection. Industry and sector weightings are a result of stock selection, but are monitored to ensure that over concentrations do not occur.

Stock selection is conducted by regional teams. Selection is based on price appreciation potential. They look for above average earnings growth, below average P/E, and a P/E relative below historical norm and they analyze enterprise value and free cash flow due to accounting standard variations. Detailed contact with senior management is part of their research process. Richard Lamb heads the team of four regional portfolio managers.

Equity portfolios are normally fully invested, but if they believe the markets are likely to undergo a severe downward correction, they will raise cash to as much as 25% of the portfolio.

Ownership:
Morgan Grenfell Asset Management was purchased by Deutsche Bank in 1990. It was established in 1958 and employs 20 investment professionals in the emerging markets product. Investments are managed out of London.

Investment Manager: Morgan Grenfell Asset Management
Information as of October 31, 1995

Statistics

Total Equity Assets in Emerging Markets:	$2.7 billion
Total Equity Assets in Global Emerging Markets:	$314 million
Number of Global Emerging Markets Accounts:	7
Largest Global Emerging Markets Accounts:	
Morgan Grenfell Emerging Markets Equity Fund (12 participants)	$93.7 million
Commonwealth Funds Management (separate acct)	$60.0 million
U.S. Public Retirement Fund (separate account)	$55.4 million
U.S. Public Retirement Fund (separate account)	$40.1 million
U.S. Public Retirement Fund (separate account)	$28.1 million

Fees:	Commingled:	For all assets under management	1.25% annually
	Separate:	For all assets under management	1.00% annually

Investment Manager: Morgan Grenfell Asset Management
Benchmark: MSCI Emerging Markets Free, IFC Emerging Markets Investable

	----PORTFOLIO----		MSCI ----BENCHMARK----		IFC ----BENCHMARK----	
	Qrtly Return	Annual Return	Qrtly Return	Annual Return	Qrtly Return	Annual Return
93 Q1	3.71%		5.55%		5.46%	
Q2	6.32%		8.27%		8.84%	
Q3	20.30%		15.38%		15.91%	
Q4	30.17%	72.67%	32.60%	74.84%	34.93%	79.52%
94 Q1	-1.20%		-9.04%		-11.82%	
Q2	-3.27%		-1.44%		-3.16%	
Q3	24.29%		20.76%		24.05%	
Q4	-12.02%	4.51%	-14.39%	-7.32%	-16.84%	-11.95%
95 Q1	-16.36%		-12.37%		-14.70%	
Q2	9.61%		10.37%		8.70%	

	----PORTFOLIO----	MSCI ----BENCHMARK----	IFC ----BENCHMARK----
	Annualized Return	Annualized Return	Annualized Return
1 year	0.25%	-0.01%	-4.35%
2 year	22.49%	17.11%	13.02%
3 year	NA	17.59%	13.73%

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STATE BOARD OF INVESTMENT

International Manager Evaluation Reports

Third Quarter, 1995

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INTERNATIONAL STOCK MANAGERS
Period Ending 9/30/95

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)	6.8	4.2	2.6	5.8					13.1	13.3	$196.96	9.0%
Brinson (1)	10.3	4.2	9.1	5.8					9.8	13.3	184.96	8.5%
Marathon (2)	6.9	4.2	2.6	5.8					10.1	6.5	180.23	8.3%
Rowe Price (2)	4.8	4.2	5.3	5.8					8.6	6.5	175.30	8.0%
Scudder (2)	6.7	4.2	10.3	5.8					8.2	6.5	178.30	8.2%
Templeton (2)	4.6	4.2	11.4	5.8					10.5	6.5	185.29	8.5%
State Street (3)	3.8	4.2	5.8	5.8	13.8	13.7			13.8	13.7	1,079.37	49.5%
Current Aggregate	**5.2**	**4.2**	**6.3**	**5.8**	**13.9**	**13.7**			**13.9**	**13.7**	**$2,180.41**	**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 9/30/95

Portfolio Manager: Philip Bullen | **Assets Under Management: $196,955,630**

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.

Current concerns are:

—New ownership by ING effective February 1995.

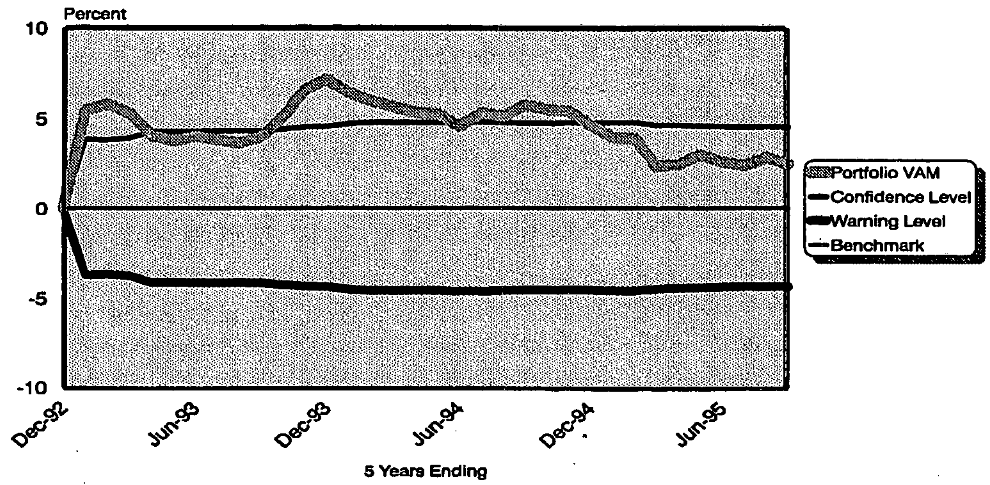
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	6.8%	4.2%
Last 1 year	2.6	5.8
Last 2 years	10.3	7.8
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)	13.1%	13.3%

Recommendations

Barings was taken off probation by the Board at the October 1995 meeting. To date, the ownership change has not appeared to have had an adverse impact on the investment philosophy or staffing at the firm. Staff will continue to monitor for adverse changes.

BARING INT'L. INVESTMENT LTD.
Rolling Five Year Time Periods



Note: Shaded area includes performance prior to managing SBI account. Graph uses 80/20 confidence interval.

BRINSON PARTNERS
Period Ending 9/30/95

Portfolio Manager: Richard Carr | **Assets Under Management: $184,957,207**

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.

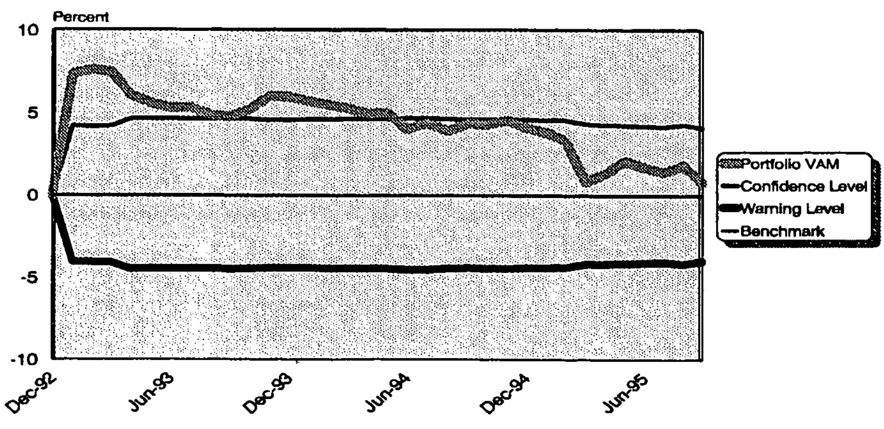
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	10.3%	4.2%
Last 1 year	9.1	5.8
Last 2 years	8.4	7.8
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)	9.8%	13.3%

Recommendations

No action recommended.

BRINSON PARTNERS, INC. (INT'L.)
Rolling Five Year Time Periods



Note: Shaded area includes performance prior to managing SBI account. Graph uses 80/20 confidence interval.

MARATHON ASSET MANAGEMENT
Period Ending 9/30/95

Portfolio Manager: William Arah — **Assets Under Management: $180,226,506**

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	6.9%	4.2%
Last 1 year	2.6	5.8
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 (11/93)	10.1%	6.5%

Recommendations

No action recommended.

VAM graph will be drawn for period ending 3/31/96.

ROWE PRICE-FLEMING INTERNATIONAL, INC.
Period Ending 9/30/95

Portfolio Manager: Martin Wade | **Assets Under Management: $175,297,348**

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)

Exceptional strengths are:

- 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	4.8%	4.2%
Last 1 year	5.3	5.8
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 (11/93)	8.6%	6.5%

Recommendations

No action recommended.

VAM graph will be created for period ending 3/31/96.

SCUDDER, STEVEN & CLARK
Period Ending 9/30/95

Portfolio Manager: Nicholas Bratt **Assets Under Management: $178,298,533**

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	6.7%	4.2%
Last 1 year	10.3	5.8
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 (11/93)	8.2%	6.5%

Recommendations

No action recommended.

VAM graph will be drawn for period ending 3/31/96.

TEMPLETON INVESTMENT COUNSEL, INC.
Period Ending 9/30/95

Portfolio Manager: Jim Chaney **Assets Under Management: $185,292,105**

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	4.6%	4.2%
Last 1 year	11.4	5.8
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 (11/93)	10.5%	6.5%

Recommendations

No action recommended.

VAM graph will be drawn for period ending 3/31/96.

Tab G

COMMITTEE REPORT

DATE: December 5, 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 and action items:

- Review of current strategy.
- Results of a review session with an existing real estate manager, RREEF.
- Additional investment for the Basic Retirement Funds with an existing resource manager, First Reserve.
- Additional investment for the Basic Retirement Funds with an existing real estate manager, Zell/Merrill Lynch.
- Additional investment for the Basic Retirement Funds with an existing private equity manager, ChiCorp Management.
- Investment for the Post Retirement Fund with a new real estate manager, Hyperion/Equitable.

Board action is requested on the investments with First Reserve, Zell/Merrill Lynch, ChiCorp Management and Hyperion/Equitable.

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 **Attachments 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 $566 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 $838 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 $138 million to eight (8) commingled oil and gas funds.

Post Fund

- The Post Fund assets 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. (This is in contrast to the Basic Funds where the emphasis is on equity participation.) Since 1994, the SBI has committed $135 million to five (5) yield oriented private equity funds for the Post Fund.

2) Results of Review Session with an Existing Manager.

During the quarter, staff held a review session with one of the SBI's real estate managers, RREEF.

The meeting went well and produced no major surprises.

A summary of the review session is included as **Attachment C** of this Committee Report.

ACTION ITEMS:

1) **Additional investment for the Basic Retirement Funds with an existing resource manager, First Reserve, in First Reserve Fund VII.**

First Reserve is seeking investors in a new $250 million resource fund, First Reserve Fund VII . The fund will be a follow-on fund to eight previous funds which raised a total of $562 million in investor commitments between 1981 and 1992. The Minnesota State Board of Investment invested a total of $51 million in funds I, II, IV, and V. Like the prior funds, fund VII will make investments in the energy and energy-related industries.

More information on First Reserve is included as **Attachment D**.

RECOMMENDATION:

The Committee recommends that the SBI authorize the Executive Director, with assistance from the SBI's legal counsel, to negotiate and execute a commitment of up to $40 million or 20%, whichever is less, in First Reserve Fund VII . 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 First Reserve 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 First Reserve or reduction or termination of the commitment.

2) **Additional investment for the Basic Retirement Funds with an existing private equity manager, ChiCorp Management, in Banc Fund IV.**

ChiCorp Management is seeking investors in a new $125 million private equity fund, Banc Fund IV . The fund will be a follow-on fund to three previous funds which raised a total of $236 million in investor commitments between 1986 and 1992. The Minnesota State Board of Investment invested $20 million in Fund III. Like the prior funds, Fund IV will make investments in subregional financial companies such as banks and thrifts.

More information on Banc Fund IV is included as **Attachment E.**

RECOMMENDATION:

The Committee recommends that the SBI authorize the Executive Director, with assistance from the SBI's legal counsel, to negotiate and execute a commitment of up to $25 million or 20%, whichever is less, in Banc Fund IV. 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 ChiCorp Management 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 ChiCorp Management or reduction or termination of the commitment.

3) **Additional investment for the Basic Retirement Funds with an existing real estate manager, Zell/Merrill Lynch, in Zell/Merrill Lynch Real Estate Opportunity Partners IV.**

Zell/Merrill Lynch is seeking investors in a new $600 million real estate fund, Zell/Merrill Lynch Real Estate Opportunity Partners IV. The fund will be a follow-on fund to three previous funds which raised a total of $1.52 billion in investor commitments between 1988 and 1994. The Minnesota State Board of Investment invested a total of $100 million in funds II and III. Like the prior funds, Fund IV will make investments in opportunistic real estate situations.

More information on Zell/Merrill Lynch Real Estate Opportunity Partners IV is included as **Attachment F.**

RECOMMENDATION:

The Committee recommends that the SBI authorize the Executive Director, with assistance from the SBI's legal counsel, to negotiate and execute a commitment of up to $50 million or 20%, whichever is less, in Zell/Merrill Lynch Real Estate Opportunity Partners IV . 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 Zell/Merrill Lynch 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 Zell/Merrill Lynch or reduction or termination of the commitment.

4) **Investment for the Post Retirement Fund with a new real estate manager, Hyperion/Equitable, in Equitable Real Estate Hyperion High Yield Commercial Mortgage Fund.**

Hyperion/Equitable is seeking investors in a new $100 million real estate fund, Equitable Real Estate Hyperion High Yield Commercial Mortgage Fund . This Fund is the first in a series of Commercial Mortgage-Backed Securities Fund's to be offered by the newly formed joint venture between Equitable Real Estate and Hyperion Capital. While the SBI has no previous investments with Hyperion, the SBI has a $40 million investment with Equitable in a large commingled real estate fund. The Equitable Real Estate Hyperion High Yield Commercial Mortgage Fund will make investments in primarily in "high-yielding" Commercial Mortgage-Backed Securities that are rated "BB" or below by a nationally recognized statistical rating organization or are unrated.

More information on Equitable Real Estate Hyperion High Yield Commercial Mortgage Fund is included as **Attachment G**.

RECOMMENDATION:

The Committee recommends that the SBI authorize the Executive Director, with assistance from the SBI's legal counsel, to negotiate and execute a commitment of up to $20 million or 20%, whichever is less, in Equitable Real Estate Hyperion High Yield Commercial Mortgage Fund . This commitment will be allocated to the Post Retirement Fund.

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 Hyperion/Equitable 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 Hyperion/Equitable or reduction or termination of the commitment.

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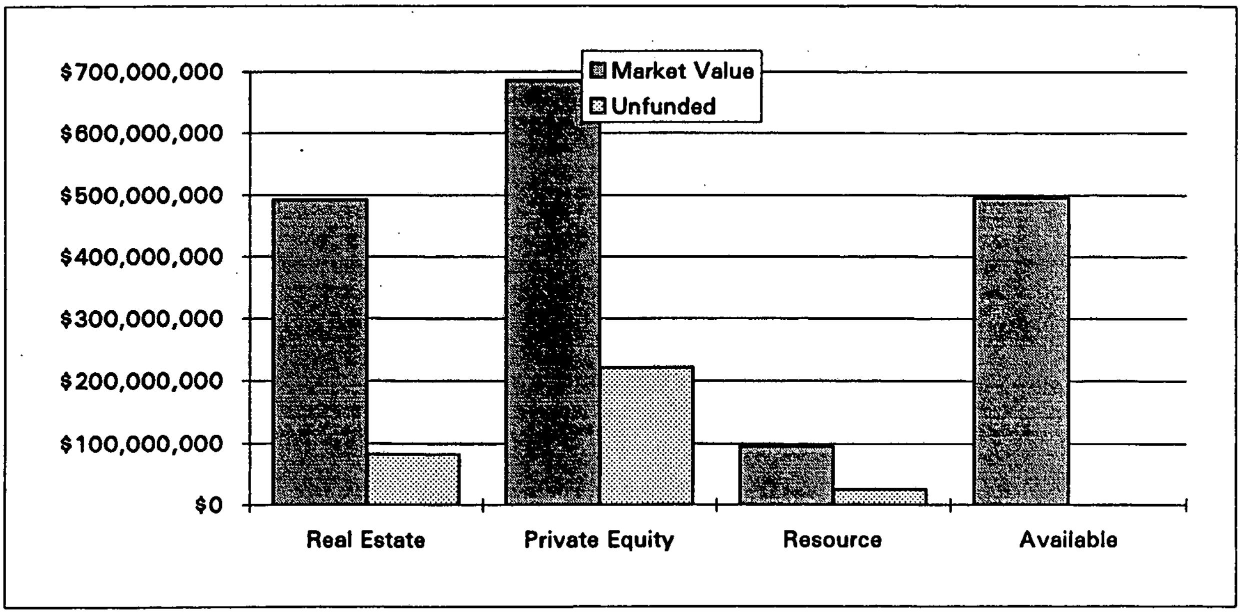
ATTACHMENT A
Minnesota State Board of Investment
Alternative Investments Basic Retirement Funds
September 30, 1995

Market Value of Basic Retirement Fund (Basic)	$11,787,645,602
Amount Available For Investment	$495,088,712

	Current Level	*Target Level*	*Difference*
Market Value	$1,273,058,128	$1,768,146,840	$495,088,712
MV + Unfunded	$1,602,188,462	$2,357,529,120	$755,340,658

Asset Class	Market Value	Unfunded Commitment	Total
Real estate	$492,334,287 *4.2%*	$83,346,355 *0.7%*	$575,680,642 *4.9%*
Private Equity	$685,066,745 *5.8%*	$220,972,286 *1.9%*	$906,039,031 *7.7%*
Resource	$95,657,096 *0.8%*	$24,811,693 *0.2%*	$120,468,789 *1.0%*
Total	$1,273,058,128 *10.8%*	$329,130,334 *2.8%*	$1,602,188,462 *13.6%*



ATTACHMENT A (con't)

STATE OF MINNESOTA
ALTERNATIVE INVESTMENTS - BASIC FUNDS
September 30, 1995

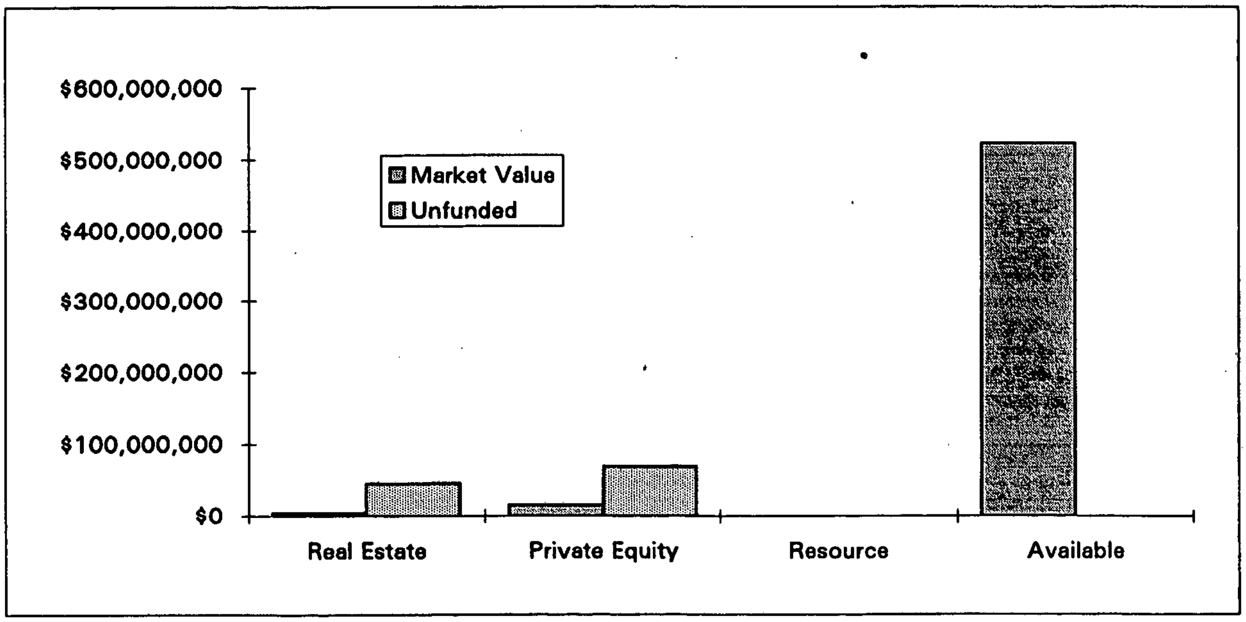
	INCEPTION DATE	TOTAL COMMITMENT	FUNDED COMMITMENT	MARKET VALUE	DISTRIBUTIONS	UNFUNDED COMMITMENT	IRR (%)	PERIOD (YEARS)
REAL ESTATE								
AETNA 013420	Sep-94	2,591,431	2,591,431	2,855,415	0	0	8.49	1.0
AETNA 007367	Apr-82	40,000,000	40,000,000	67,284,481	0	0	4.33	13.4
AEW III	Sep-85	20,000,000	20,000,000	16,305,226	4,613,384	0	0.47	10.1
AEW IV	Sep-86	17,400,000	15,000,000	3,747,596	829	2,400,000	-14.57	9.0
AEW V	Dec-87	15,000,000	15,000,000	9,721,161	1,542,518	0	-3.82	7.8
AMERICAN REPUBLIC	Feb-90	1	1	1	0	0	0.00	5.7
COLONY INVESTORS II	Apr-95	40,000,000	2,997,436	2,710,600	65,540	37,002,564	-29.15	0.5
EQUITABLE	Oct-81	40,000,000	40,000,000	75,172,981	0	0	5.02	14.0
FIRST ASSET REALTY	Apr-94	907,097	907,097	874,015	34,681	0	-0.55	1.4
HEITMAN I	Aug-84	20,000,000	20,000,000	11,698,003	12,137,102	0	2.62	11.1
HEITMAN II	Nov-85	30,000,000	30,000,000	25,211,508	14,056,625	0	3.68	9.9
HEITMAN III	Jan-87	20,000,000	20,000,000	11,699,849	8,499,046	0	0.15	8.7
HEITMAN V	Dec-91	20,000,000	20,000,000	21,641,735	2,637,453	0	6.65	3.8
LASALLE	Sep-91	15,000,000	10,141,355	10,684,467	938,366	4,858,645	6.16	4.0
PAINE WEBBER	Feb-90	500,000	500,000	162,475	139,297	0	-10.03	5.7
REALTY ASSOCIATES FUND III	Jun-94	40,000,000	36,200,000	30,961,686	7,747,592	3,800,000	8.74	1.3
RREEF	May-84	75,000,000	75,000,000	67,501,137	28,330,462	0	3.00	11.4
TCW III	Aug-85	40,000,000	40,000,000	30,572,173	10,900,073	0	0.45	10.2
TCW IV	Nov-86	30,000,000	30,000,000	22,481,278	2,912,009	0	-2.20	8.9
ZELL/MERRILL LYNCH II	Nov-91	50,000,000	40,388,854	56,445,700	1,713,084	9,611,146	15.95	3.8
ZELL/MERRILL LYNCH III	Jan-94	50,000,000	24,326,000	24,602,800	388,406	25,674,000	2.97	1.7
TOTAL REAL ESTATE		***566,398,529***	***483,052,174***	***492,334,287***	***96,656,467***	***83,346,355***		
PRIVATE EQUITY								
ALLIED	Sep-85	5,000,000	5,000,000	2,403,763	3,795,349	0	3.83	10.0
BANK FUND III TRUST	Oct-92	20,000,000	17,000,000	19,023,303	1,150,369	3,000,000	11.45	2.9
BLACKSTONE PARTNERS II	Nov-93	50,000,000	14,549,808	27,285,188	1,243,188	35,450,192	92.16	1.9
BRINSON	May-88	5,000,000	5,000,000	2,453,654	5,007,922	0	10.30	7.4
BRINSON II	Nov-90	20,000,000	15,800,000	9,423,934	15,037,143	4,200,000	22.47	4.8
CHURCHILL CAPITAL PARTNERS II	Oct-92	20,000,000	11,400,000	7,966,062	4,947,831	8,600,000	7.81	2.9
CORAL PARTNERS I SUPERIOR	Jun-86	7,011,923	7,011,923	4,175,132	4,685,814	0	4.60	9.3
CORAL PARTNERS II	Jul-90	10,000,000	8,000,000	10,737,514	1,579,857	2,000,000	8.56	5.2
CORAL PARTNERS IV	Jul-94	15,000,000	3,769,110	3,886,022	0	11,230,890	3.83	1.2
DSV	Apr-85	10,000,000	10,000,000	10,685,403	3,571,961	0	3.89	10.5
FIRST CENTURY	Dec-84	10,000,000	10,000,000	8,090,964	6,731,888	0	8.25	10.8
GOLDER THOMA III	Oct-87	14,000,000	13,375,000	10,818,783	14,486,100	625,000	17.97	7.9
GOLDER THOMA IV	Jan-94	20,000,000	12,200,000	12,332,738	463,026	7,800,000	6.00	1.7
HELLMAN & FRIEDMAN III	Sep-94	40,000,000	9,528,606	9,290,050	0	30,471,394	-16.36	1.0
IAI VENTURES I	Mar-91	1,057,744	1,057,744	553,145	1,041,050	0	13.05	4.6
IMR PARTNERSHIP	Aug-92	15,000,000	1,374,900	994,924	38,997	13,625,100	-13.06	3.2
INMAN BOWMAN	Jun-85	7,500,000	7,500,000	4,284,609	5,023,534	0	3.14	10.3
KKR I	Jun-84	25,000,000	25,000,000	41,122,546	76,233,050	0	28.71	11.3
KKR II	Apr-86	18,365,339	18,365,339	69,113,186	44,259,293	0	24.96	9.5
KKR III	Nov-87	145,950,000	145,950,000	221,242,459	126,329,983	0	10.21	7.9
KKR IV	Dec-93	150,000,000	94,454,868	94,454,868	58,795,780	55,545,132	-1.67	1.8
MATRIX II	Aug-85	10,000,000	10,000,000	2,188,788	18,693,726	0	13.74	10.1
MATRIX III	May-90	10,000,000	10,000,000	29,310,957	20,819,850	0	69.42	5.4
NORTHWEST	Jan-84	10,000,000	10,000,000	1,175,721	12,793,949	0	4.57	11.7
SUMMIT I	Dec-84	10,000,000	10,000,000	993,082	18,833,650	0	12.96	10.8
SUMMIT II	May-88	30,000,000	28,500,000	8,352,194	53,299,716	1,500,000	27.42	7.4
T. ROWE PRICE	Nov-87	78,953,726	78,953,726	31,508,506	63,220,086	0	10.70	7.9
WARBURG PINCUS	Dec-94	50,000,000	7,250,000	6,276,687	59,750	42,750,000	-17.80	0.7
ZELL/CHILMARK	Jul-90	30,000,000	25,825,422	34,922,563	4,110,233	4,174,578	8.98	5.2
TOTAL VENTURE CAPITAL		***837,838,732***	***616,866,446***	***685,066,745***	***566,253,095***	***220,972,286***		
RESOURCES								
AMGO I	Sep-81	15,000,000	15,000,000	7,378,249	3,614,536	0	-2.83	14.0
AMGO II	Feb-83	7,000,000	7,000,000	8,560,265	2,325,453	0	4.67	12.7
AMGO IV (SEA)	May-88	12,300,000	12,300,000	16,765,839	7,571,921	0	12.23	7.4
FIRST RESERVE FUND V	May-90	16,800,000	15,925,203	26,964,754	8,729,562	874,797	18.20	5.4
APACHE III	Dec-86	30,000,000	30,000,000	5,961,790	37,305,628	0	10.40	8.8
MORGAN OIL & GAS	Aug-88	15,000,000	14,999,972	14,350,990	1,664,933	28	1.33	7.1
SIMMONS OFS II	Aug-91	17,000,000	14,977,766	12,498,359	838,169	2,022,234	-5.85	4.2
SIMMONS OFS III	Jul-95	25,000,000	3,085,366	3,176,850	0	21,914,634	17.75	0.2
TOTAL RESOURCES		***138,100,000***	***113,288,307***	***95,657,096***	***62,050,202***	***24,811,693***		
TOTAL PORTFOLIO		**1,542,337,261**	**1,213,206,927**	**1,273,058,128**	**724,959,764**	**329,130,334**		

ATTACHMENT B
Minnesota State Board of Investment
Alternative Investments Post Retirement Fund
September 30, 1995

Market Value of Post Retirement Fund (Post)	$10,857,298,884
Amount Available For Investment	$522,650,670

	Current Level	*Target Level*	*Difference*
Market Value	$20,214,274	$542,864,944	$522,650,670
MV + Unfunded	$134,945,535	$1,085,729,888	$950,784,353

Asset Class	Market Value	Unfunded Commitment	Total
Real estate	$4,288,947 *0.0%*	$45,531,064 *0.4%*	$49,820,011 *0.4%*
Private Equity	$15,925,327 *0.1%*	$69,200,197 *0.6%*	$85,125,524 *0.7%*
Resource	$0 *0.0%*	$0 *0.0%*	$0 *0.0%*
Total	$20,214,274 *0.2%*	$114,731,261 *1.0%*	$134,945,535 *1.1%*



ATTACHMENT B (con't)

STATE OF MINNESOTA
ALTERNATIVE INVESTMENTS - POST FUND
September 30, 1995

	INCEPTION DATE	TOTAL COMMITMENT	FUNDED COMMITMENT	MARKET VALUE	DISTRIBUTIONS	UNFUNDED COMMITMENT	IRR (%)	PERIOD (YEARS)
REAL ESTATE								
CB COMMERCIAL MTG FUND II	Jul-95	10,000,000	1,571,500	1,578,347	5,668	8,428,500	N/M	0.2
COLONY INVESTORS II	Apr-95	40,000,000	2,897,436	2,710,600	65,540	37,102,564	-16.96	0.5
TOTAL REAL ESTATE		***50,000,000***	***4,468,936***	***4,288,947***	***71,208***	***45,531,064***		
PRIVATE EQUITY								
CITICORP MEZZANINE	Dec-94	40,000,000	8,799,803	9,242,113	214,258	31,200,197	12.81	0.7
KLEINWORT BENSON	Oct-95	25,000,000	0	0	0	25,000,000	N/M	0.0
SUMMIT SUB-DEBT FUND	Mar-94	20,000,000	7,000,000	6,683,214	2,462,820	13,000,000	38.11	1.5
TOTAL VENTURE CAPITAL		***85,000,000***	***15,799,803***	***15,925,327***	***2,677,078***	***69,200,197***		
RESOURCES								
TOTAL RESOURCES		***0***	***0***	***0***	***0***	***0***		
TOTAL PORTFOLIO		**135,000,000**	**20,268,739**	**20,214,274**	**2,748,286**	**114,731,261**		

REVIEW SUMMARY

RREEF USA Fund III
November 8, 1995

MANAGER REPRESENTATIVES:	Jay Jehle, Webb Sowden
SBI ASSETS UNDER MANAGEMENT:	$67,501,137 (9/30/95)

BACKGROUND AND DESCRIPTION

RREEF USA Fund III is managed by the Rosenberg Real Estate Equity Funds. The SBI's $75 million commitment was made to the Fund in May 1984. As of December 1988 the entire commitment had been funded. The Fund investment policy is to purchase 100% of the equity of a property with no leverage or mortgages utilized. Properties are diversified by type and geographic area. RREEF's in-house staff manages the real estate properties; the Firm's primary offices are located in San Francisco and Chicago.

QUALITATIVE EVALUATION

Fund performance suffered during the early 1990's due to the real estate recession. However, performance has picked up in line with the recovery in real estate within the last 2-3 years. Total returns for the Fund have approached 8.0-8.5% over the last two years on an annualized basis, compared to negative returns during the 1990-1992 period.

In early 1995, RREEF proposed a spin-off of the Fund's retail properties into a perpetual-life real estate investment trust (REIT). The proposal was withdrawn in November 1995 due to lack of investor support for the idea.

Currently, RREEF is preparing the portfolio real estate properties for sale over the next several years. This coincides with the Fund's scheduled termination date, December 31, 1996, after which a 2-5 year period of orderly liquidation will occur. RREEF is currently reviewing the disposition schedule and a detailed property sale strategy will be formulated by year-end 1995.

QUANTITATIVE EVALUATION

COMMITMENT:	$75,000,000
FUNDED COMMITMENT:	$75,000,000
MARKET VALUE OF FUNDED COMMITMENT:	$67,501,137
CASH DISTRIBUTIONS:	$28,984,386
INCEPTION DATE:	May 1984
INTERNAL RATE OF RETURN (IRR): (annualized, since inception)	3.00%

DIVERSIFICATION PROFILE
(Market Values 9/30/95)

Property Diversification by Type:

Retail	75%
Industrial	13%
Office	12%

Property Diversification by Geographic Area:

Southwest	36%
West	32%
East	24%
Midwest	8%

ATTACHMENT D

RESOURCE MANAGER SUMMARY PROFILE

I. Background Data

Name of Fund:	First Reserve Fund VII
Type of Fund:	Resource Limited Partnership
Total Fund Size:	$250 million
Fund Manager:	First Reserve Corporation 475 Steamboat Road Greenwich, CT 06830 Phone (203) 661-6601 Fax (203) 661-6729
Manager Contact:	John Hill or Cathleen Ellsworth

II. Organization & Staff

First Reserve Corporation was established in 1980 to manage private investments for public and corporate retirement funds, insurance companies and other institutional investors. First Reserve's primary investment focus is on the energy and energy-related sectors of the economy. The firm manages approximately $575 million in long-lived partnerships for 41 clients.

The firm has 12 employees (seven professionals and five support staff). Senior staff at First Reserve have over 80 years of combined experience in energy and investment management. The management of institutional funds in energy and private business is the firm's only business. Principals of the employee-owned firm have owned, created and financed a number of successful energy and nonenergy companies, developed or adapted a variety of financing techniques for the energy industry, and been responsible for large asset management operations.

First Reserve Fund VII is the eighth energy fund raised and managed by First Reserve Corporation. Previous funds are listed on the following page:

Fund Name	Date Formed	Equity Capitalization
AmGO I	9/81	$144.3 million
AmGO II	2/83	$36.4 million
AmGO III	7/86	$16.7 million
First Reserve SEA Fund	5/88	$62.5 million
First Reserve Fund V	5/90	$84.2 million
First Reserve Fund V-2	10/90	$33.7 million
First Reserve Fund VI *	1/92	$184.2 million

* Fund VI is expected to fully invested by Spring 1996.

III. Investment Strategy

The investment strategy of the Fund is long term capital appreciation through significant or controlling interests in companies engaged in various energy or energy related activities. Acquisitions are privately negotiated using equity, equity-linked and debt securities. The Partnership may also invest up to 20% of its available capital commitments in the securities of publicly traded energy and energy related companies in connection with restructurings, reorganizations and other special situations.

The Partnership's investment orientation will be mainly in the United States and Canada, but up to 20% of the total capital commitments for the Partnership may be invested outside of the these areas without a majority in interest of the Limited Partners.

IV. Investment Performance

Previous fund performance as of June 30, 1995 is shown below. An asterisk (*) indicates a fund in which the SBI has invested capital.

Fund Name	Inception Date	Total Equity Commitments	IRR from Inception
*AmGO I	9/81	$144.3 million	(3.23%)
*AmGO II	2/83	$36.4 million	4.39%
AmGO III	7/86	$16.7 million	6.70%
*AmGO IV (SEA)	5/88	$62.5 million	10.35%
*First Reserve Fund V	5/90	$84.2 million	16.82%
First Reserve Fund V-2	10/90	$33.7 million	5.80%
First Reserve Fund VI	1/92	$184.2 million	(4.90%)

V. *General Partners Investment*

A total of 1% of the Partnership's total contributed capital will be provided by the General Partner.

VI. *Takedown Schedule*

Each Partner will fund a pro rata portion of its total commitment based on unfunded commitments at the time the Partnership makes an investment. The General Partner will give at least 10 business days prior written notice of each takedown of funds.

VII. *Management Fees*

Years 1-4	1% per annum of the Limited Partners' aggregate capital commitments.
Years 4-7	1% per annum of the Limited Partners' capital contribution.
Years 8-10	0.75% per annum of the Limited Partners' capital contribution.

VIII. *Term*

The Fund terminates ten years from the initial closing date. The General Partner may extend the term of the Partnership for up to three one year periods with the consent of a majority in interest of the Limited Partners.

IX. *Distributions*

Current cash distributions from dividends, interest, temporary investments and portfolio investments net of current expenses ("current income") will be distributed at least quarterly. Net cash proceeds from the sale of investments or any portion of an investment (other than temporary investments but including repayments in respect of debt instruments) will be distributed as soon as practicable after their receipt. The General Partner will be entitled to withhold from any distribution amounts necessary to create, in its discretion, appropriate reserves for expenses and liabilities of the Partnership, as well as for any required tax withholdings.

The General Partner will use its best efforts to distribute cash, but may distribute any securities that would be freely tradable in the public securities markets in lieu of cash.

Limited Partners will elect upon subscription whether to receive (i) distributions of 80% of their pro rata share of profits on portfolio investments following return of their capital contributions plus a cumulative annual preferred return on their capital contributions at a rate equal to the average ten-year treasury rate for the three months prior to the closing date of the Partnership or (ii) distributions of 88% of their pro rata share of profits on portfolio investments following the return of their capital.

X. Leverage

First Reserve is primarily an equity investor and generally holds the use of leverage in structuring acquisitions at moderate levels. Occasionally, First Reserve may use debt in a company as part of a structure that provides a tax-efficient means of recovering an investment.

XI. Miscellaneous

Affiliated Partnerships may share in investments made by the Partnership. Each partnership participating in shared investments will acquire the same interests according to a pro rata formula generally based on available capital. Shared investments will be made by the Partnership and the Affiliated Partnerships on the same terms and conditions (other than the amount of securities being acquired), at the same time and in the identical securities of the issuer.

The Partnership, including the Limited Partners, the General Partners, the Principals and officers of First Reserve Corporation, shall have a right of first refusal to co-invest alongside the Partnership in the event the Partnership and the Affiliated Partnerships are unable to purchase the full amount of an investment opportunity offered to them.

ATTACHMENT E

PRIVATE EQUITY MANAGER SUMMARY PROFILE

I. Background Data

Name of Fund: Banc Fund IV

Type of Fund: Private Equity Limited Partnership

Total Fund Size: $125 million

Fund Manager: ChiCorp Management IV
208 South LaSalle Street
Suite 200
Chicago, IL 60604-1003
Phone (312) 855-6202
Fax (312) 855-8910

Manager Contact: Charles J. Moore

II. Organization & Staff

ChiCorp Management IV, Inc. is an affiliate of The Chicago Corporation, a regional investment banking firm. The operations of the General Partner are separate from those of The Chicago Corporation.

The Fund management has worked together since the inception of Fund I in 1986. ChiCorp Management IV employs eight individuals, six of which are investment professionals.

Banc Fund IV has significant prior banking operations, professional accounting and banking regulatory experience. Fund management will be responsible for the day-to-day operations of Banc Fund IV, including researching, negotiating and making investments, and managing the Fund's portfolio. The Fund will have an Advisory Committee and a Valuation Committee composed of experienced investors with expertise in investment management and banking.

Banc Fund IV is the fourth fund raised and managed by the General Partner. Previous funds are listed on the following page:

Fund Name	Date Formed	Equity Capitalization
Midwest Bank Fund *	7/86	$51.0 million
Midwest Bank Fund II	8/89	$60.2 million
Banc Fund III	10/92	$124.7 million

* Fund I completed its term as of December 31, 1994 and is fully liquidated.

III. Investment Strategy

Banc Fund IV is being organized to take advantage of the consolidation occurring in the banking industry. The Fund's goal is to generate superior returns by investing in well-managed banks, thrifts and other companies which will be acquisition targets in this consolidation process. These subregional companies form a sub-niche of the financial services industry and typically have the following characteristics: less than $5 billion in assets; operations in one or more states but not throughout an entire region; and engagement in a limited number of business and retail banking services. Ultimately, fewer non-rural U.S. banks are expected to survive as independent entities.

Fund IV intends to make private placement investments and purchase small, illiquid blocks of shares in the best operated companies at favorable book values and price/earnings multiples. The Fund will hold the investments while the companies earn a competitive return on equity, and then expects to sell the holdings to acquiring companies at higher book values and price/earnings multiples. This process is intended to generate substantial returns with relatively low risk.

In the consolidation now underway, some banks are positioning themselves as independent survivors for the immediate future. As such, they may need additional capital to make acquisitions and support future growth. Moreover, most regions have a number of banks with lower valuations and overage operating results, but good market and geographic positions. The Fund will exploit these market inefficiencies by arranging negotiated placements of private equity capital with both types of banks.

A typical investment is $2-6 million per company. The Fund will invest only in U.S.-based institutions, generally with assets under $5 billion, and will benefit from: a seasoned management team that is a leader in subregional financial services investing, consolidation in the banking industry, diversification and favorable regulatory trends.

IV. Investment Performance

Previous fund performance as of September 30, 1995 is shown below. An asterisk (*) indicates a fund in which the SBI has invested capital.

Fund Name	Inception Date	Total Equity Commitments	IRR from Inception #
Midwest Bank Fund ##	7/86	$51.0 million	15.13%
Midwest Bank Fund II	8/89	$60.2 million	17.03%
*Midwest Bank Fund III	10/92	$124.7 million ###	11.76%

\# IRR's are net of management fee, carried interest and operating expenses, and include organizational costs and liquidity discounts.
\## Fund I has completed its term as of December 31, 1994 and is fully liquidated.
\### Fund III was 83% invested as of September 30, 1995

V. *General Partners Investment*

A total of 1% of the Partnership's total contributed capital will be provided by the General Partner.

VI. *Takedown Schedule*

5% of committed capital at closing with the balance called as needed on 14 days' notice in amounts equal to at least 5% of committed capital.

VII. *Management Fee*

The management fee will be based on capital taken down. The Fund will pay the Fund Manager 5% of the first $35 million and 0.84% of the next $90 million of capital that is taken down. The fee will be set in the Partnership Agreement so that, on average, when all capital is taken down, it will not exceed 2% of committed capital.

VIII. *Term*

The Fund will be established with an eight year life. The first six years will be devoted to building the portfolio and the last two years will concentrate on maximizing value and liquidating the portfolio.

IX. *Distributions*

Fund IV will annually distribute all current income, net of expenses and management fee, to investors. Dividends of invested companies are 100% distributed and have a current yield of 1.5-3.0%, net of fund management fees.

Net capital gains will be distributed as such gains are realized. The Fund will make liquidating distributions of capital and profits in years seven and eight. The General Partner will receive 20% of net capital gains. It will not receive its carried interest until it has returned 100% of the Limited Partners' capital contributions.

(Blank)

ATTACHMENT F

REAL ESTATE MANAGER SUMMARY PROFILE

I. Background Data

Name of Fund:	Zell/Merrill Lynch Real Estate Opportunity Partners IV Trust
Type of Fund:	Opportunistic and Financially Distressed Situation Real Estate Investment Trust
Total Fund Size:	$500-600 million
Fund Manager:	Equity Institutional Investors, Inc. Two North Riverside Plaza Chicago, IL 60606 Phone: (312) 454-0100 Fax (312) 454-0157
Manager Contact:	Sam Zell or Don Phillips

II. Organization & Staff

Sam Zell and his affiliate, Equity and Financial Management Company, ("Zell/Equity") will have primary investment responsibility for the Fund. Merrill Lynch will have an oversight role and is the Fund's lead placement agent.

Sam Zell is the Chairman of the Board of Zell/Equity. Through this entity, founded in 1968, and other affiliated entities, Zell is involved in numerous real estate and corporate investments typically in countercyclical, financially distressed and undervalued situations. Acquisition decisions are made on a centralized basis in Chicago by a group of 25 people with support from approximately 125 professionals. Property development, management and leasing functions are organized on a more decentralized basis from 25 regional offices, and includes over 3000 employees. Zell currently has controlling interests in more than 375 real estate projects nationwide which are valued at over $5 billion.

Merrill Lynch is a global securities firm with a strong focus in real estate investment banking. Since 1988, Merrill Lynch has completed 89 REIT equity offerings, raising $10.4 billion in capital which represents a 46% market share.

The Fund's Investment Committee will be comprised of four individuals, two representatives from Zell Equity and two representatives from Merrill Lynch. A majority vote from the Investment Committee is required to approve Fund acquisitions. The Fund's Managing General Partner of the Operating Partnership will be affiliates of Zell/Equity and Merrill Lynch.

Opportunity Partners IV is the fourth real estate fund for Zell/Equity and Merrill Lynch. Previous funds are outlined below:

Fund Name	Date Formed	Equity Capitalization	Number of Properties	Gross Investment
Opportunity Partners I	8/88	$408.7 million	35	$942 million
Opportunity Partners II	12/91	$430.1 million	29	$1,028 million
Opportunity Partners III	3/94	$682.1 million	18	$909 million*

* As of September 30 1995, there was approximately $275.5 million in equity capital remaining in Fund III. It is anticipated that Opportunity Partners III will be fully committed by year end 1995.

III. *Investment Strategy*

The partnership is being created to take advantage of current economic and real estate conditions by making equity investments in real estate assets which are either underperforming, or owned by entities either seeking to redeploy capital or experiencing financial difficulties.

The investment strategy of the Fund is to make equity or equity-related investments in opportunistic real estate situations. The partnership will acquire mainly office properties and may also invest in mixed-use and industrial properties. Although the focus will be on equity acquisitions, the partnership may acquire convertible or participating mortgages or deeds of trust. The partnership may also invest in real estate assets indirectly through the acquisition of controlling interests in partnerships, joint ventures, or corporations whose assets are primarily composed of real estate.

An exit opportunity that will be considered by Opportunity Partners IV is to pursue a public market alternative. If this option proves to be attractive, the Managing General Partner may elect to contribute its interest in the Operating Partnership to the REIT, in exchange for shares in the REIT. In the event that the public market exit strategy is not attractive or appropriate, the Managing General Partner will actively pursue opportunities to sell the properties owned by the Fund no later than in the tenth year of the Operating Partnership.

IV. *Investment Performance*

Previous fund performance as of June 30, 1995 is shown below. An asterisk (*) indicates a fund in which the SBI has invested funds.

Fund Name	Inception Date	Total Equity Commitments	IRR from Inception
Opportunity Partners I	8/88	$408.7 million	0.17%
*Opportunity Partners II	12/91	$430.1 million	16.86%
*Opportunity Partners III	3/94	$682.1 million	4.44%

V. General Partners Investment

Zell/Merrill Lynch will commit a minimum of $25 million to Opportunity Partners IV.

VI. Takedown Schedule

The Investment Period will be five years. It is anticipated that the commitments will be drawn down over this period on an "as needed" basis. During the first three years of the Investment Period, payments will be requested to purchase properties, fund operating expenses and operating improvements, and to establish capital reserves for the future needs of previously purchased properties. In the fourth and fifth years of the Investment Period, payments will be requested only to fund operating expenses and capital improvements, and to establish capital reserves for future needs.

VII. Management Fees

Affiliates of Zell/Equity will receive an asset management fee equal to the lesser of 0.75% of total assets (based on historical cost) or 1.5% of equity capital contributed, with an adjustment in the event that inflation exceeds 3%.

Affiliates of the Managing General Partner will receive an acquisition fee equal to 1.5% of the gross purchase price of each property.

VIII. Term

The Managing General Partner will actively pursue opportunities to sell the properties as appropriate no later than the tenth year of the Partnership. In any event, the Managing General Partner will use its best efforts to sell the properties within 15 years of the closing date.

IX. Distributions

Net operating revenues will be distributed periodically (but not less frequently than annually) and capital proceeds will be distributed within a reasonable time after the sale or refinancing of a property.

Distributions from Operations:
Net operating revenues will generally be distributed , first, pro rata to the Capital Partners, until each has received a cumulative return equal to the annual CPI percentage increase (minimum 3%) plus 5% per annum; next, 85% pro rata to the Capital Partners and 15% to the Managing General Partner, until the Capital Partners have received a cumulative return

equal to the annual CPI percentage increase (minimum 3%) plus 9% per annum; next, 80% pro rata to the Capital Partners and 20% to the Managing General Partner, until the Capital Partners have received a cumulative return equal to the annual CPI percentage increase (minimum 3%) plus 12% per annum; thereafter 75% pro rata to the Capital Partners and 25% to the Managing General Partner.

Distributions from Sales or Refinancings:
During the Investment Period, net proceeds from a sale or refinancing of the Fund's assets will either be reinvested in the portfolio or distributed, as discussed below, at the discretion of the Managing General Partner. Except as provided below, after the close of the Investment Period, net proceeds from a sale or refinancing of the Fund's assets will be distributed at the time of the sale or refinancing as follows:

- First, pro rata to the Capital Partners, until each has received, on a cumulative compounded basis, a return equal to the annual CPI percentage increase (minimum 3%) plus 5% per annum;

- Second, pro rata to the Capital Partners, until each has received a cumulative amount equal to its net adjusted capital contribution;

- Third, 85% pro rata to the Capital Partners and 15% to the Managing General Partner, until the Capital Partners have received a cumulative return equal to the annual CPI percentage increase (minimum 3%) plus 9% per annum; thereafter, 70% pro rata to the Capital Partners and 30% to the Managing General Partner.

Notwithstanding the above, the net proceeds of a sale or refinancing of a property may be reinvested or reserved at any time if, in the sole discretion of the Managing General Partner, such reinvestment or reserve is necessary to protect the Fund's existing investments.

X. Leverage

It is initially expected that the Fund's aggregate leverage will be approximately 50-60% of total consideration paid for the properties. Thereafter, aggregate leverage will be permitted so long as it does not exceed 80% of the appraised value of the portfolio.

ATTACHMENT G

REAL ESTATE MANAGER SUMMARY PROFILE

I. *Background Data*

Name of Fund:	Equitable Real Estate Hyperion High-Yield Commercial Mortgage Fund
Type of Fund:	Closed End Management Investment Company
Total Fund Size:	\$50-\$250 million
Fund Manager:	Hyperion Capital Management 520 Madison Ave. New York, New York 10022 212-980-8400
Manager Contact:	John Dunlevy

II. *Organization & Staff*

The Fund's Board of Directors, comprised primarily of Equitable Real Estate Investment Management, Inc. and Hyperion Capital Management, Inc. executives, is responsible for the overall management and supervision of the Fund and has employed Equitable Real Estate Hyperion Capital Advisors, L.L.C., a new joint venture, incepted in June 1995, to serve as the Investment Advisor for the Fund. The Advisor is owned equally by Equitable Real Estate Investment Management, Inc. and Hyperion Capital Management, Inc.

Equitable Life Assurance Society of the United States through its subsidiary, Equitable Real Estate Investment Management, Inc., is a full service investment Adviser with experience in investing and managing commercial real estate assets for institutional lenders and owners. As of December 31, 1994, Equitable Real Estate Investment Management, Inc. managed approximately \$35 billion in real estate and mortgage investments for its clients, which include pension funds, international investors, insurance companies and other financial institutions. Equitable Real Estate Investment Management, Inc. has over 500 employees in 14 regional offices located throughout the United States.

Hyperion Capital Management, Inc., located in New York City, is a wholly owned subsidiary of Hyperion Partners. Hyperion Capital Management, Inc. as of April 30, 1995 acts as a fixed income investment manager for clients with assets in excess of \$4 billion. Hyperion Capital's staff includes 48 employees of which 21 are professionals.

Equitable Real Estate Investment Management, Inc.'s personnel provide the Advisor with investment research, acquisition and asset management services to assist the Adviser in underwriting, due diligence and portfolio activities with respect to the commercial real estate collateral underlying the Fund's investments. Equitable also provides the Adviser with personnel to perform real estate evaluation services used in developing credit evaluation and pricing models.

Hyperion Capital Management, Inc. provides personnel to the Adviser to provide quantitative research trading portfolio management, administration, compliance and finance services to the Adviser in connection with its underwriting, due diligence and portfolio management activities with respect to the securities in which the Fund may invest. Further, Hyperion Capital Management, Inc. personnel provide quantitative modeling services to the Adviser to assist in developing credit evaluation and pricing models.

III. Investment Strategy

The Fund's investment objective is to provide high total return primarily from current income.

Specifically, the Fund expects to achieve, based on current market conditions, yields of 350 - 500 basis points over yields on ten year Treasury Securities. Ten year Treasury Securities currently yield approximately 6.0%. Capital gains, if any, are expected to add another 200 basis points to the Fund's total rate of return.

The Fund will seek to achieve its objective by investing, under normal circumstances, primarily in "high-yielding" Commercial Mortgage-Backed Securities that are rated "BB" or below by a nationally recognized statistical rating organization or are unrated. Investments will represent interests in or will be secured by mortgage loans on commercial real property. Under current market conditions, at least 65% of the Fund's assets will be invested in such Commercial Mortgage-Backed Securities. The Fund's portfolio is expected to consist primarily of securities with stated maturities of 2-20 years.

The Fund may also invest in other mortgage-related securities or assets, including commercial mortgage loans, mezzanine capital in real estate financed transactions, collateralized mortgage obligations, mortgage pass-through certificates and debt securities of real estate investment trusts, as well as securities issued by the U. S. Government or its agencies and instrumentality's. Additionally, the Fund reserves the right to invest without limitation in investment-grade mortgage-related securities and money market instruments for temporary defensive purposes.

The Fund may use various other investment management techniques that also involve special considerations including engaging in hedging transactions, calls and puts, options, futures contracts, when-issued purchases and making forward commitments, entering into repurchase agreements, reverse repurchase agreements and dollar rolls and may engage in other hedging transactions.

IV. Investment Performance

This Fund is the first in a series of Commercial Mortgage-Backed Securities Fund's to be offered by the newly formed joint venture (June 1995) between Equitable Real Estate and Hyperion Capital. Therefore, no subsequent Fund investment performance is available. However, separately, each firm has investment experience with non-investment grade Commercial Mortgage-Backed Securities.

Equitable has acquired two below investment grade tranches of Commercial Mortgage Backed Securities totaling approximately $28 million for the Equitable Prime Property Fund, a large commingled real estate fund. The current yield of these investments is a combined 13.4%.
Also, Equitable has reviewed for potential bid approximately $150 million of non investment grade Commercial Mortgage-Backed Securities and resolved over $2.5 billion of third party non-performing real estate loans in the last four years.

Hyperion Capital Management has acquired Approximately $42 million of below investment grade tranches of Commercial Mortgage Backed Securities since 1993. These investments returned 14.35% over the past 12 months.

V. Managers Investment

Equitable/ Hyperion will provide startup capital to the fund of $100,000.

VI. Takedown Schedule

Capital contributions by the investors will be on a transaction-by-transaction basis on not less than 10 days notice.

VII. Management Fees

Total annual Fund operating expenses are expected to be 1.00% of the net assets of the Fund.

VIII. Organizational Costs

Offering and organizational costs and expenses are expected to be $100,000.

IX. Term

The Fund expects to terminate on or shortly before December 31, 2005. The Board of Directors, however, may extend such date two years until December 31, 2007 if it determines that such extension is in the best interests of the Fund and its shareholders.

X. *Distributions*

The Fund intends to distribute monthly all or substantially all of its net investment income to holders of the Fund's common stock.

Tab H

STATE BOARD OF INVESTMENT

Manager Commentaries

Period Ending September 30, 1995

Manager Commentary
Alliance Capital Management L.P.

Period Ending:	**9/30/95**	**Returns**	**Qtr.**	**1 Yr.**
Total Firm Assets Under Management	$142.1 Billion	Actual	9.7%	37.3%
Total Firm Assets Managed in this Discipline	$ 14.4 Billion	Benchmark	8.6%	31.1%

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?*

   For the quarter, the portfolio outperformed the benchmark. Our overweight in airlines was a significant factor as both UAL and Northwest were up +20%. Yields have strengthened and capacity has shrunk in the industry thus making for strong fundamentals. Our financial overweight was a positive as bank and brokerage stocks benefited from declining interest rates and a strong stock market. Healthcare, a small overweight versus the benchmark, also performed well as investors sensed a slowing economy making the relative earnings of these companies more attractive. The technology sector, a significant overweight, was mixed as Cisco +36% and Texas Instruments +19% was offset by Intel -5% and Microsoft flat. Our overweight in the cable industry was a negative as the delay in passage of the telecommunications bill began to concern investors. Our underweighting in consumer staples was a negative as many of these stocks were strong in a slowing economic environment.

   For the year, we outperformed our benchmark by about 600 basis points. One of the major reasons was our overweight in technology and particularly the largest holdings as Intel was +95%, Hewlett Packard +90% and Microsoft +61%. The continued strong growth of PC unit demand was the primary reason for the performance. Also we were substantially overweighted in financials and most of these stocks were strong performers. For the year, our overweight in airlines was a positive and while the broadcast/cable sector was a neutral, the takeover of Multimedia +45% helped considerably. Our underweight in consumer staples was a negative as was our slight overweight in retail. However the weighting in the latter industry has been steadily reduced during 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.*

   Our future policy will continue to overweight the technology and financial sectors as the fundamentals remain very positive and valuation levels reasonable. While we have increased our weightings in consumer staples, we want to be very specific and emphasize companies that have strong international unit volume growth, i.e. Coca Cola and Gillette. We are now underweighted to the benchmark in retail because of the very competitive environment and sluggish consumer spending patterns. Our overweight in cable continues as we expect the telecommunication bill to pass sometime this year and fundamentals continue to improve.

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.*

   Steven Reynolds left Alliance - Minneapolis to join Kemper Financial Services as its Chief Investment Officer. Timothy Pettee, Alliance - New York, transferred to Minneapolis as a Portfolio Manager.

4. ***Other Comments.*** *Highlight any other issues/events that are pertinent to the management of the SBI account at your firm.*

   None.

Staff Comments

The departure of Steve Reynolds has minimal impact on the SBI portfolio. The portfolio manager for the SBI account continues to be Jack Koltes.

Manager Commentary
Brinson Partners, Inc.

Period Ending:	**9/30/95**	**Returns**	**Qtr.**	**1 Yr.**
Total Firm Assets Under Management	$43.5 Billion	Actual	9.5%	26.8%
Total Firm Assets Managed in this Discipline	$11.4 Billion	Benchmark	8.0%	27.6%

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?*

Corporate profits and cash flows have remained strong through the third quarter of 1995 in spite of a slowdown in real GDP during the first half of the year. Combined with declining long-term interest rates, these elements have helped to support U.S. equity prices at record high levels during the first nine months of 1995. Active factor exposures detracted slightly from portfolio performance during the third quarter but added to portfolio returns for the twelve months ending September 30, 1995. During both the third quarter and twelve months ending in September, the portfolio benefited from an overweight with respect to stocks with high earnings/price and book/price measures and an underweight with respect to stocks with a high degree of foreign earnings. Positive returns to these exposures were more than offset during the third quarter by a negative contribution from an underweight with respect to relative strength and an overweight in stocks with higher than average financial leverage.

Industry weightings added the largest increment to portfolio performance during both the third quarter and year ending in September. During the third quarter of 1995, positive returns from relative overweights in the aerospace, drug, insurance, and railroad sectors and from underweights in producer goods and chemical companies more than offset negative contributions to performance from our relative overweights in steel and paper issues and underweights in electric utilities and miscellaneous finance. For the twelve months ending in September, portfolio performance benefited from overweights in aerospace, drugs, electronics, and insurance and from underweights in autos and chemicals. Positive returns to these exposures more than offset negative returns to overweights in the steel, tire and rubber and media sectors. Basic industry and other economically sensitive sectors remain among the worst performing industry groups year-to-date while strong performers have included aerospace, technology and interest sensitive issues. Stock selection has added to portfolio performance during the third quarter although it has detracted from performance for the year ending in September. Holdings which contributed to positive stock selection during the third quarter included Cigna, Citicorp, Kimberly Clark and Transamerica.

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 remained focused on identifying those stocks that are most attractive in price/value through intensive individual company analysis, which incorporates strategic themes and industry research. We have an important positive exposure to the traditional value measures of earnings/price and book/price. In addition, the portfolio currently possesses a modest underweight with respect to size relative to the benchmark. The portfolio continues to carry a positive relative exposure to stocks that possess a high degree of economic sensitivity and financial leverage. Finally, the portfolio possesses an important underweight in companies with high foreign earnings exposure, driven by our belief in an undervalued dollar.

From an industry perspective we continue to possess an overweight in financial/interest sensitive stocks, which comprises a neutral weight in banks and an overweight in non-bank financials (primarily property/casualty insurance). A common thread through our holdings in the insurance industry is conservative, focused management.

The portfolio is underweighted in utilities, including both electric utilities and the traditional telephones as we see increasing competition from deregulation in both industries. Deregulation of power generation is accelerating competitive pressure from lower cost utility and non-utility generators and will increase the purchasing power of larger power uses. Competition will also intensify in the telecommunications industry as regulatory barriers between traditional business lines are blurred and protection diminishes for the traditional regional telephone companies.

We are underweighted in the non-health 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. We are modestly overweight in tobacco stocks, believing the discount applied by the market to these shares to be too large. The portfolio also remains overweighted in selected health care and drug stocks. Since we see power of health care consumers growing, all of our health care selections are companies which we believe can maintain profitability in a more competitive environment. This position is further supported by the demographics of an aging population and technological advances in previously underserved areas of health care.

We are overweighted in transportation due to an overweight in railroads. In general, we believe that secular improvement in railroad industry profitability will continue as regulatory barriers continue to fall. The portfolio is market weighted in the basic industries comprised of modest overweights in iron, steel and paper stocks and an underweight in chemicals. We find market prices for most commodities above our estimate of the equilibrium level, which is not unusual during the mature phase of an economic recovery. Finally, the portfolio is overweight with respect to aerospace and defense and underweight in producer goods.

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.

   Brinson Partners has gained one U.S. equity client with $100 million and lost 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

Staff met with Brinson Partners in mid-September at their Chicago office. During the full review, staff discussed a number of topics with Brinson Partners. Information that staff collected in the meeting coincides with Brinson's comments above.

Manager Commentary
Forstmann-Leff Associates Inc.

Period Ending:	9/30/95	Returns	Qtr.	1 Yr.
Total Firm Assets Under Management	$2.7 billion	Actual	8.2%	23.2%
Total Firm Assets Managed in this Discipline	$1.3 billion	Benchmark	9.0%	26.7%

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?***

   Over the quarter: Performance for the third quarter was slightly below the benchmark. Stock selection in general was very productive, including good relative returns in the consumer and cyclical areas, with particular strength in the medical names, where the aggregate return exceeded 33%, compared to 21% in the benchmark. The few opportunistic holdings in this area did well, led by HEALTHSOUTH Rehabilitation Corp., which rebounded as investors realized that the company would not be affected by less attractive Medicare reimbursement programs.

   A reorganization of the holdings in the technology sector was well timed. At mid-year we had reallocated most of the gains generated in the software and semiconductor areas into the communications equipment manufacturers group, which moved up some 18% in the aggregate in our portfolios. As widely noted in the press, investors have more recently taken a punitive attitude toward the technology sector, on fears that the slower economy will trim profits. Although the technology area in general continues to look positive, the future should see a more selective market for these stocks. Nevertheless, we see continued growth in this group fueled by strong global trends and deregulation of the industry.

   The continuing overweight in the transportation sector added value, as Burlington Northern Inc., Federal Express Corp. and related holdings made attractive gains over the quarter. The portfolio's one area of weakness was in the energy sector, where an overweight in this underperforming segment cost us in missed opportunities elsewhere.

   For the year ending September 30, 1995: The effect of 1994's loss, discussed at length during our meeting with the Committee in August and in previous letters, continues to pull down longer term comparisons. During the period, our equity strategy weathered a market rotation away from economically sensitive names, following several interest rate increases by the Fed. Our view that 1994 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 investors 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. 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. However, more recently we are regaining ground to the Index, and hope to reestablish momentum with the resurgence of names selected in our current strategic emphasis on mid-cap companies, as well as the attractive premiums to the Index seen in almost all multi-year comparisons at the end of 1993, prior to 1994's significant negative impact.

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 expect GDP to advance in the area of 2.5% in 1995, and 1% to 2% in 1996. Following the slowdown in the first half, economic activity has shown signs of modest but choppy reacceleration. In effect, we believe that we are seeing a "touch and go" landing, rather than the soft landing now so widely expected. As anticipated, corporate profit results have been mixed, with overall gains expected to be in the area of 10% this year. As noted in our last letter, CPI for the first half reflected movement of last year's commodity price increases through the system, but prices have stabilized thus far in the second half. With wage inflation low and steady, we expect CPI for the year to fall in the range of 2.5% to 3.0%.

   You may recall from our June 30th strategy letter that we had recently moved to concentrate more of the portfolio in mid-cap companies. Within this area, our strategy has focused upon domestic growth names, particularly dominant companies with solid fundamentals and prospects for growth. In an environment of moderate economic activity and relatively stable interest rates, the market should reward such companies with higher price earnings multiples. Current valuation comparisons indicate that the smaller names in this area, which have not participated fully in this year's rally, continue to trade at more attractive levels than the larger segment of the market. These names began to make a strong move in the third quarter, but have recently retreated somewhat; understandable in light of the size and speed of their recent advances. They should begin to outperform again as the market perceives the relative valuation opportunities in this area. Holdings representative of the quarter's leaders in this area include CompUSA, Inc., HEALTHSOUTH Rehabilitation Corp., General Nutrition Companies, Inc., and Staples Inc.

   Our outlook for 1996 is a favorable one, particularly for the area in which we are investing. Overall market performance will be constrained by the limited prospects for profit growth in the aggregate and less potential from interest rate declines in the bond market. On the other hand, we are seeing the most severe underpricing of high growth and mid-cap names in many years and expect this segment to present significant gains relative to the market. We've already seen positive results from this area, and are utilizing current market weakness to position the portfolio for 1996.

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 third quarter one account was lost. The client decided to terminate its active equity program, replacing all managers with an S&P 500 Index. There have been no significant ownership or personnel changes to report during the period.

4. ***Other Comments.*** *Highlight any other issues/events that are pertinent to the management of the SBI account at your firm.*

   None.

Staff Comments

Due to poor performance in prior periods, Forstmann-Leff Associates was put through a re-interview process in the third quarter before a special Manager Review Committee. The Committee voted to maintain Forstmann-leff Associates as an active equity manager at this time. The Board concurred with the Committee's recommendation.

Manager Commentary
Franklin Portfolio Associates Trust
Active Account

Period Ending:	**9/30/95**	**Returns**	**Qtr.**	**1 Yr.**
Total Firm Assets Under Management	$8.2 Billion	Actual	11.4%	31.6%
Total Firm Assets Managed in this Discipline	$490 Million	Benchmark	8.7%	28.5%

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?*

Last Quarter's Performance:
For the quarter, the account outperformed the benchmark with a total return of 11.4% compared to 8.7%. According to our performance attribution analysis, stock selection, industry exposures and risk factor tilts all contributed to active return in the quarter. Note, factor and industry contributions represent the combination of the average bets made relative to the benchmark and the performance of these factors/industries. Stocks which aided performance during the period were Micron Technology, First USA Inc., Kroger Co., Service Corp International, and Federal Express. Some of the account holdings which did not perform well during the period were EMC Corp. (a specialty computer data-storage manufacturer), Scientific Atlanta (communications and cable products), Archer Daniels, and Silicon Graphics (computer graphics systems). A deterioration in the earnings outlook for these issues was the primary reason for the declines. Archer Daniels, however, was specifically hurt by Government investigations into alleged price fixing.

Some of the risk factor bets which helped performance were positive tilts on the Success (a measure of past relative strength) and Growth factors which performed well during the period. The E/P factor which, because of our process, is generally a positive bet underperformed during the third quarter. Another factor that had a negative contribution to active return was Yield (negative bet, positive performance).

Industry contributors to active return were Food, Gas Utilities, Publishing, and Drugs. All groups were positive bets and experienced positive returns. Industry bets that hurt performance were Services, Miscellaneous Finance, Railroads, and Telephones. These groups performed well and our average bets were negative. It should be pointed out that our investment process does not specifically identify industry groups for over and under weighting but rather these bets transpire out of our selection of individual stocks.

Twelve Month Performance:
For the past twelve months, the portfolio has generated a positive relative return. The account return of 31.6% compares favorably with the 28.5% benchmark return. The data from our performance attribution analysis point to risk factors and industry bets as significant contributors to active performance. Stock selection made a positive but smaller contribution in the period. Stocks that aided performance were Micron Technology, Texas Instruments, MBNA Corp., Merck & Co., and Computer Associates. These winners generally reflect the fact that Technology and Financials were winners during this period. The two risk factors with the largest contribution to performance were E/P and Variability-in-Markets (positive bets, positive returns). Other risk factors had a minor impact on performance. Industry bets that helped performance were Food, Food Stores, Gas Utilities and Publishing. In all cases, the account had positive active bets in these groups and they did well. Underweighting of Services, Misc. Finance, Food Stores, Railroads, and Aerospace, all strong performers in the period, hurt 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 September 30, 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 = 0.17 **Earnings/Price = 0.24** **Variaiblity-in-Markets = 0.12**
      Earnings Variability = 0.14

   B. Industry bets (bets stated as percentage deviation from benchmark weight):

5 Most Positive Bets:		**5 Most Negative Bets:**	
Food	3.30%	Services	-3.63%
Gas Utilities	3.07	Electric Utilities	-2.30
Paper	2.41	Retail	-2.14
Business Machines	2.29	Hotel, Restaurants	-2.08
Chemicals	1.85	Telephones	-1.82

   C. Ten largest Stock bets (bets stated as percentage deviation from benchmark weight):

IBP Inc.	2.62%	**Merck & Co.**	2.16%
Unicom Corp.	2.31	**Analog Devices**	2.16
Textron Inc.	2.31	**Capital Cities ABC**	1.98
Halliburton Co.	2.21	**Travelers Inc.**	1.96
American General	2.17	**Union Camp Corp.**	1.95

   All active bets in the portfolio are based on two factors--(a) the rank of individual issues as computed 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% to 3.5% relative to the benchmark with the tracking error resulting from stock bets being better than 70%. As a result of the stock selections 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 3.31% with 85% 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.*

   There were no significant personnel or organizational changes at the firm since the last quarter. We lost and gained one account during the period.

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 Franklin Portfolio in late October at their office in Boston. During the full day review, staff discussed a number of topics with Franklin Portfolio. Information that staff collected in the meeting coincides with Franklin Portfolio's comments above.

Manager Commentary
GeoCapital Corporation

Period Ending:	9/30/95	Returns	Qtr.	1 Yr.
Total Firm Assets Under Management	$1.848 Billion	Actual	12.2%	27.0%
Total Firm Assets Managed in this Discipline	$1.848 Billion	Benchmark	16.8%	35.8%

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?*

   GeoCapital had continuing good absolute performance in the last quarter, but underperformed the benchmark. The month of July was particularly strong for the benchmark portfolio as the very small cap illiquid stocks in the semiconductor and biotechnology sectors continued to perform well. We will be reviewing the benchmark portfolio at the end of October. During the recent quarter, we added value in the technology sector through good stock selection, while the consumer non-durables, financial and cash position hurt us. Our big winners in the quarter were P-COM, Chipcom, Networth, Learning Co. and Peoplesoft. Stocks that were negative were Map Info, Quantum Health, Compuware and Nashua Corp. The stocks that did well were up because of good earnings outlooks and takeovers while the poor performers reported disappointing earnings.

   For the 12 months ended 9/30/95, we continue to underperform the benchmark. The economic sectors with the most significant negative impact were the consumer non-durables and cash. The technology sector continued to be our highest value added as our stock selection was favorable.

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. The financial, health care services area and computer software area continue to consolidate and represent attractive investment industries. 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.

   No accounts were gained or lost.

4. ***Other Comments.*** *Highlight any other issues/events that are pertinent to the management of the SBI account at your firm.*

   October has been as volatile as in the past. Technology stocks, in particular, have been extremely erratic with shifting short term sentiment among institutional investors. We continue to focus on the fact that business trends at our software holdings remain fundamentally sound. Despite the swings in stock prices, demand for technology-oriented products continues to accelerate as both domestic and foreign companies focus on reducing costs through the use of computers, networks, and software.

   It appears that the growth of the consumer market is continuing to accelerate as costs and functionality improve. Illustrations of this trend include the growing presence of personal computers in the home and cellular phones in the retail market. These markets will grow more rapidly as Windows 95, internet access, and digital cellular phone service become more important. Also, emerging overseas markets are particularly fertile ground for new technology as these economies look for strategies to compete effectively in a global market.

   We continue to be optimistic about our companies underlying strengths and value. In view of the strengthening U.S. dollar, stable or low interest rate environment, and possible tax reform, we feel we are well positioned for the future growth of your assets.

Staff Comments

No comments at this time.

Manager Commentary
Investment Advisers, Inc.

Period Ending:	**9/30/95**	**Returns**	**Qtr.**	**1 Yr.**
Total Firm Assets Under Management	$14.6 Billion	Actual	7.3%	25.0%
Total Firm Assets Managed in this Discipline	$ 795 Million	Benchmark	8.8%	28.5%

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?***

   For the quarter ended September 30, 1995, the Portfolio returned 7.3% versus 8.8% for our Index. On a sector basis, our underperformance was due to two factors. First, a July sell off in electronic technology provided us excellent relative performance for that month, but as the quarter matured, investors reversed their thinking and returned to their favorite technology names, eliminating our early gains. Second, our overweighted position in capital goods also hurt our relative performance. The lingering effects of the summer slowdown in the economy held up performance of the entire capital goods sector. Our cash position also negatively impacted the September quarter's relative performance.

   For the year ended September 30, 1995, the Portfolio has outperformed the benchmark two of the four quarters. The net underperformance has been a result of a cash position in excess of the benchmark.

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 are no shifts in the basic weightings in the Portfolio nor the basic strategies from the last quarter. We continue to overweight selected capital goods stocks where we can see growth over the next twelve months along with attractive valuations. We are also taking opportunities the market offers to add to positions or initiate positions when the stocks come into our price range.

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 last quarter, we hired Jim Steiner as an analyst in the Regional area. He joins us from Dain Bosworth where he was an analyst publishing in the medical field. Jim is a native of St. Paul. He will focus on researching regional companies for all accounts managed under the regional discipline.

   The parent company of IAI, Trustee Savings Bank, announced it will merge with Lloyd's Bank. The merger is expected to close by year end. The merger is not expected to result in any significant changes at IAI.

   No accounts were gained or lost under 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.*

   None.

Staff Comments

IAI has just recently announced that Bing Carlin will retire at the end of the year. Mark Hoonsbeen, who has been a co-portfolio manager with Bing for the last year and a half, will be the sole portfolio manager for the SBI account going forward. They also plan to hire a second analyst in the next year, in addition to Jim Steiner mentioned above, to add to their research capabilities.

In light of the parent merger with Floyd's and Bing's retirement, staff plans to meet with IAI in the near future.

Manager Commentary
IDS Advisory Group, Inc.

Period Ending:	9/30/95	Returns	Qtr.	1 Yr.
Total Firm Assets Under Management	$24.9 Billion	Actual	8.2%	27.5%
Total Firm Assets Managed in this Discipline	$ 6.3 Billion	Benchmark	8.2%	30.6%

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?*

   As the table below indicates, the State of Minnesota account performed in line with its benchmark. Over the latest 12 months, the portfolio has underperformed the benchmark.

   Underperformance during the last 12 months relative to the S&P 500 is attributable to the fund's cash position. Over the latest 12 months the average cash position within the account was a little over 10% and cost the fund relative to the index approximately 250 basis points. We were also negatively impacted by our decision to reduce our technology weightings. Technology holdings were reduced commencing relatively early in 1995 and this decision was premature. Most of the impact from this underweighting in this sector took place in the first and second quarters. On the positive side, our decision to sharply increase weightings in the consumer stable area benefited the portfolio as did our decision to slash holdings in the consumer cyclical sector. Finally, industrial basics have been extraordinarily poor performers, and our decision to sell 85% of our holdings in this sector was clearly appropriate.

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:

	09/30/94	09/30/95	Normal Portfolio 09/30/95
Technology	14.3	9.5	11.7
Consumer Stable	9.9	20.9	22.4
Consumer Cyclical	21.7	10.3	14.1
Utilities (non Electric)	1.9	5.8	9.0
Financial Services	12.8	12.4	13.2
Energy	7.5	9.0	7.5
Industrial Basic	15.9	2.8	5.1
Industrial Growth	4.3	8.8	5.0
Industrial Cyclical	9.0	6.6	7.1
Equity Cash	2.8	14.0	5.0
	100.0	100.0	100.0

We continue to anticipate a correction in the equity market. While the economic framework remains positive, we continue to feel that market valuations are generous. The S&P 500 is selling at 16x 1996 earnings, is yielding 2.35%, and is selling at more than 4x book value. Yield is at a record low, book value is at a record high, and the P/E ratio is modestly above the average of 14 which has prevailed over the latest 45 years. We would also note that cash in the hands of the domestic mutual funds is at the lowest level since 1978, the IPO calendar is building rapidly, and speculation is becoming more evident. Finally, the market has not had a single correction of more than 3% during the current advance. This lack of volatility is unusual, and we would be surprised if it continues. Reflecting our belief that a correction is likely, cash at the end of September was 14%. It is our belief that earnings growth will slow significantly in 1996 and 1997. If this proves to be the case, a premium will be paid for earnings certainty. In our attempt to protect the portfolio against earnings declines, we have reduced the cyclical exposure of the portfolio. As a result, we have sharply reduced our consumer cyclical and industrial basic holdings. At the same time, we have increased our consumer stable weightings with emphasis on the drug, food, and tobacco areas. Should the market decline, it is our intention to redeploy cash in the technology sector. While we are uneasy about the huge price advance of many technology issues, we are secular bulls on the sector. Therefore, as valuations become more reasonable, we have every intention of re-entering the 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.*

In July of 1995 James M. Weiss assumed the position of President of IDS Equity Advisors. Peter Anderson continues as the Chairman and Chief Investment Officer of IDS Advisory Group.

Third Quarter 1995

	Gains		**Losses**	
Product	**# of Accounts**	**Assets ($MM)**	**# of Accounts**	**Assets ($MM)**
Large Cap Equities	3	33.8	0	0
Fixed income	1	76.6	0	0
Balanced	0	0.0	0	0
International	1	16.1	0	0
Regional - Pacific	0	0.0	0	0
Global Ex-Australia	0	0.0	0	0
Latin America	0	0.0	0	0
Small Cap Equities	1	8.3	0	0
Mid Cap Equities	0	0.0	0	0
Research Core	3	45.9	0	0
Research Aggressive	4	40.8	0	0
Global Bonds	0	0.0	0	0
Structured Fixed Income	1	20.6	0	0

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
Independence Investment Associates

Period Ending:	9/30/95	Returns	Qtr.	1 Yr.
Total Firm Assets Under Management	$20.4 Billion	Actual	9.8%	30.6%
Total Firm Assets Managed in this Discipline	$10.6 Billion	Benchmark	8.1%	30.0%

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 third quarter of 1995 was a strong one for both the financial markets and Independence. Up over 20% for the first half of 1995, the stock market continued its climb in the third quarter. Your portfolio outperformed the stock market's third quarter advance, had a good absolute gain and is ahead of the S&P 500 return year to date.

Continuing modest economic growth combined with low inflationary pressures and good earnings reports created a positive market environment. Banks and financial stocks did very well in response to lower interest rates and news of industry wide consolidation and cost cutting. There was also considerable strength in the utilities sector due to outperformance in telephone stocks led by the AT&T breakup. Other industries posting good returns were healthcare and biotechnology, while retail and energy stocks underperformed the market. For the third quarter of 1995, telephone and financial stocks which performed well in your portfolio included such issues as AT&T, Nationsbank, and American Express. Other large holdings which also outperformed your benchmark included General Electric, Xerox, and Philip Morris. Stocks which underperformed the market included Phillips Petroleum, Eastman Kodak and IBM.

Major new purchases during the quarter included CPC International, Kimberly Clark and AMP, Inc. While stocks such as Sears and Walt Disney were eliminated. In general, holdings in the basic materials, consumer cyclical and technology sectors were reduced during the quarter while positions in capital goods and consumer non-cyclical industries were increased as a result of our individual stock selection decisions.

In recent months, the US economy showed signs of further recovery, helped by the lowering of federal funds rate in July and by low inflation numbers. GDP rose at an annual rate of 1.3% in the second quarter with the upward adjustment from July's advance estimate of 0.6% driven by revisions to consumer spending and inventory accumulation. Other economic data reports during the quarter were somewhat mixed. New construction and single family home sales as well as personal income were up, while consumer and manufacturing sentiment indicators weakened. The current general outlook is for moderate growth with little inflationary pressure and a little fear of recession.

While absolute returns have been wonderful, 1995 continues to be a challenging investment environment. Although neither growth nor value styles have dominated, growth stocks have been somewhat stronger as investors moved towards stocks that will continue to grow earnings in the face of moderate economic growth. Lower quality stocks have continued to perform better than high quality issues. Smaller capitalization stocks, which performed poorly through May of this year, outperformed for 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.*

   Independence will continue to adhere to an investment philosophy of combining cheapness with improving fundamentals and follow a disciplined investment process. Your portfolio remains fully invested, with a current cash position of 0.6%. Consistent with our investment philosophy, your portfolio's P/E of 12.5X is lower than the market P/E of 15.8x and the long term EPS growth rate of your portfolio is 9.5%, higher than the market's long term growth rate of 7.0%. The P/E ratio and growth rate are based on analysts projections. The amount of risk in your portfolio will continue to be designed to closely resemble that of the market. At the end of September, your portfolio's beta was 1.00, its R-squared was .981 and its tracking error was 1.98%. As you may recall, the tracking error indicates that two-thirds of the time your portfolio's return is expected to be within 1.98% of the market return, exclusive of any investment skill layered on top of this. Approximately 86% of the risk associated with this tracking error is attributable to specific stock selection, where Independence has proven skill. All account characteristics and risk variables are consistent with your policy guidelines.

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 end of the third quarter is a busy time of year for our in-house research staff. September is when our research projections are "rolled over". Our analysts must look ahead as 1997 becomes "next year" for earnings and five year projections are extended to 2001. The value of an in-house research staff is enhanced by the consistency of the underlying assumptions which are confirmed by what the analysts are seeing in their individual industries and by the uniformity of the time period assumptions and valuation definitions. Independence now has 14 fundamental research analysts and 485 stocks in our investment universe.

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 Independence in late October at their office in Boston. Staff discussed a number of topics with Independence. Information that staff collected in the meeting agree with Independence's comments above. In addition, Independence is planning to expand the number of principals (partnerships) in the firm to include younger talented individuals.

Manager Commentary
Jundt Associates, Inc.

Period Ending:	**9/30/95**	**Returns**	**Qtr.**	**1 Yr.**
Total Firm Assets Under Management	$3,541 Million	Actual	10.8%	20.7%
Total Firm Assets Managed in this Discipline	$2,936 Million	Benchmark	9.1%	33.7%

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?*

   Quarter: The quarter showed a positive absolute and relative return compared to the benchmark. All of the positive return came through stock selection primarily in the consumer non-durable area that accounted for nearly 40% of total assets. The technology area was also positive and was the second largest weighting at nearly 33% of total assets. Cash equivalents that average nearly 22% negatively affected performance. The average benchmark cash equaled 8% during the quarter. Top performing stocks in the quarter were: Oxford Health, Paging Network, Medtronic, Coventry, and Healthsource. Underperforming issues included Intel, H&R Block, Officemax, Pyxis, and General Instrument.

   Twelve Months: The twelve month return, while strongly positive, was still well below the benchmark return. Hurting relative performance was the higher than normal cash holdings and stock selection primarily in the technology areas. Specifically, the benchmark return from the technology area was nearly 72% versus the portfolio return of about 43%. This primarily reflects the heavy semiconductor and related company emphasis in the benchmark. We view this area as inherently cyclical, and we do not have direct representation in that area. Additionally, stock selection in the consumer non-durable area was marginally below that of the benchmark. Top performing stocks during the period included Informix, DSC Communications, Intel, Oxford Health, and Starbucks. Underperforming stocks over the last twelve months were Lowes, Pyxis, H&R Block, Coventry, and Rogers Cantel.

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 the end of September 1995, our cash position was nearly 22% verses 8% for the benchmark. Since that time, we have begun to use pullbacks in extended stocks to add to positions that we already own or to establish new positions in previously non-owned securities. Our relative weighting in the consumer non-durable and technology areas approximates that of the benchmark, roughly 40% and 33% respectively.

   The first four months of 1995 were especially difficult in terms of our absolute and relative performance. Cyclical companies reflecting the strong economy showed huge earnings increases, and the stocks reacted accordingly. Corporate profits in total rose an astounding 40% during the first quarter. During the month of April, companies that benefited from dollar weakness also did well, namely those that are slower growing consumer non-durable stocks. Since that period of time, however, it has become apparent that the economy is slowing and that the dollar has stabilized. Second quarter corporate profits rose by only 16%, and future growth looks to be in a more normal range of 6 to 8%. Our performance has shown a strong rebound both in absolute and relative returns. Specifically, since the month of April, the period May through September, the portfolio's return has approximated 22.8% versus 18.3% return for the benchmark. We feel that the outlook for our management style is extremely positive at this point in time, especially given the fact that the economy is slowing and that we think that those companies that can show 25-30% top and bottom line growth will fare extremely well over the next twelve to eighteen months.

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 personnel changes during this quarter. We lost the Pacific Gas & Electric core account.

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
Lincoln Capital Management Company

Period Ending:	9/30/95	Returns	Qtr.	1 Yr.
Total Firm Assets Under Management	$32.7 Billion	Actual	7.8%	34.5%
Total Firm Assets Managed in this Discipline	$10.9 Billion	Benchmark	7.8%	31.3%

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?*

   The active portfolio matched the benchmark in the latest quarter. Sector allocation was negative by roughly 70 basis points while stock selection was positive. Stock selection was superior in consumer non-durables, technology and capital goods. The negative sector influence resulted from underweightings in health care and pure technology.

   Over the last twelve months, the portfolio outperformed the benchmark by roughly 320 basis points. Sector allocation was negative by roughly 80 basis points, while stock selection was very positive. Superior selection in consumer non-durables, technology, and financial stocks was the major reason for the outperformance.

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.*

   Portfolio weightings in most sectors approximate that of the benchmark. The key overweighting is in consumer non-durables, mostly global franchise companies (Coke, P&G, Gillette, etc.). The main underweighting is in media (valuations too rich). It seems likely that the weighting in technology will rise (strong secular trends) and retail decline (too "overstored" for even the best companies).

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 accounts gained or lost in the equity area in the September quarter.

   On the personnel front, Jonas Krumplys joined Lincoln from Alliance Capital in New York. Jonas takes Ted Bosler's place and will research chemicals, electrical equipment and other light manufacturing companies.

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 Lincoln in mid-September at their office in Chicago. During the full day review, staff discussed a number of topics with Lincoln. Information that staff collected in the meeting coincides with their comments above.

Manager Commentary
Oppenheimer Capital

Period Ending:	9/30/95	Returns	Qtr.	1 Yr.
Total Firm Assets Under Management	$37.5 Billion	Actual	9.5%	34.5%
Total Firm Assets Managed in this Discipline	$16.8 Billion	Benchmark	8.0%	26.8%

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 SEPTEMBER 30, 1995

The portfolio outperformed the benchmark by 150 basis points for the quarter. Stock selection within the basic industry sector had the greatest positive impact on performance during the period. Freeport McMoRan (+50%), Hercules (+19%), and Monsanto (+12%) all registered impressive gains resulting from restructuring activities that have been underway at these companies for some time. As has been the case for much of the year, investments in the financial sector, particularly banks and financial services companies, also boosted performance. The top ten contributors to performance during the quarter were as follows:

Freeport McMoRan	50%	Morgan Stanley	18%
First Interstate Bancorp	26%	Nokia	16%
Hercules	19%	Transamerica	22%
Citicorp	22%	Tyco International	17%
Travelers	21%	Exel Ltd.	12%

FOR THE YEAR ENDED SEPTEMBER 30, 1995

The portfolio outpaced the benchmark by 800 points for the twelve months ended September. The major forces in the portfolio's outperformance were the investments in the capital goods and financial sectors. The top ten contributors to performance during the year are listed below:

McDonnell Douglas	117%	Travelers	64%
Intel	88	Exel Ltd.	54
Nokia	88	Morgan Stanley	58
Hercules	72	American International Group	44
Citicorp	70	First Interstate Bancorp	29

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 aim to produce strong returns with below-average risk through good stock selection. We view discretionary cash flow--cash that remains after a company spends what is needed to sustain its competitive position--as a primary determinant of a firm's potential to add economic value. The key is that companies create more capital than they need to reinvest in the business and use this free cash flow to enhance shareholder value. This approach has resulted in the portfolio having twice the exposure to companies in the financial sector as the benchmark and significant underweightings in energy and consumer non-durables.

While various market valuations are at historic highs, we continue to generate new ideas to replace those stocks which we have sold and are maintaining an average cash position of approximately 5%.

We have begun to build a position in AMR Corp. in the portfolio. AMR possesses many of the attributes that we look for in companies and we believe the rewards of ownership could be substantial over the next several years. It has a strong industrial position with one of the most modern and efficient fleets in the U.S., strong market share in many important markets and a wide reaching route structure which extends to Europe and Latin America. There is a proven management team whose financial interests are aligned with the shareholders, this team has lead the industry in innovations such as a computerized travel reservation network, complex yield management systems and the "Aadvantage" program. Further, key AMR executives have substantial personal holdings in the company and own 50,000 to 80,000 shares each. AMR exhibits financial strength as we expect capital expenditures to be minimal in the foreseeable future as AMR harvests previously made investments and continues aggressive cost cutting moves. The free cash of $12/share will be used to deleverage and repurchase stock. Finally, AMR is selling at reasonable valuations at 11X Price/Earnings, and 3X Price/Cash Flow and 5X Free Cash Flow.

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.*

Francis A. LeCates, Jr. has joined Oppenheimer Capital as Director of Research. He brings twenty-five years of investment experience to this current position. Formerly with Donaldson, Lufkin & Jenrette for eighteen years, Frank served in several capacities: head of institutional equity sales, director of research and securities analyst. His previous eight years were also spent as an analyst, with Faulkner, Dawkins & Sullivan, Anchor Corporation and Blyth & Co. Frank is a graduate of Princeton and earned his MBA in finance from Harvard Business School.

Director of Research is a new position at Oppenheimer Capital. Frank will be responsible for more closely integrating all sectors of our equity business--small cap, mid cap, core and international to leverage expertise across market segments. Frank will also manage the research-in-process effort.

CORE EQUITY ACCOUNTS GAINED/LOST:

Accounts Gained:	4 accounts with $72.3 million in assets.
Accounts Lost:	2 accounts with $28.6 million in assets.

In one case our client was acquired by another firm and the assets were merged into the pension fund of the acquirer. The second situation was similar, in that the parent entity of our client took over responsibility for managing the 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
Waddell & Reed

Period Ending:	**9/30/95**	**Returns**	**Qtr.**	**1 Yr.**
Total Firm Assets Under Management	$23.3 Billion	Actual	9.9%	25.9%
Total Firm Assets Managed in this Discipline	$ 0.7 Billion	Benchmark	8.9%	27.6%

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 portfolio outperformed the benchmark by 1.0% for the quarter ending 9/30/95. Our 12-month performance was up 25.9%, 1.7% below the benchmark's result. As we have discussed, our underperformance for the 12-month period resulted from 1) the use of cash in late 1994 and early 1995, and 2) a slow move to overweight technology stocks.

Changes to the portfolio in the quarter included:

<u>Positions Increased</u>	<u>New Stocks</u>	<u>Stocks Sold</u>
Applied Materials	ADC Telecommunications	Borders Group
Borderbund	Compaq	Browning Ferris
CUC International	Micron Technology	C.R. Bard
GME	Parametric Technology	Forest Labs
Integrated Device Tech.	Seagate Technology	Mattel
Intel		Southwest Airlines

Our recent stock selection has placed substantial overweighted positions in the biotechnology, telecommunications, computer services/software, semiconductor and semiconductor equipment sectors. Following very strong performance in the prior six months, these sectors have come under selling pressure in recent weeks. However, we think slowing earnings growth for the U.S. economy in 1996 will focus investor attention on specific holdings in the capital goods and technology industries, areas which we expect to have superlative earnings relative to the overall market.

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 heavily concentrated in those areas where we expect earnings growth for year-end, and in 1996, to be superior to the overall U.S. stock market. Technology stocks (broadly defined to include stocks in the biotechnology, computer services, computer software, semiconductors, semiconductor equipment, telecommunications, and telecommunication equipment industries) represent a heavily-overweighted position in the State's portfolio. We believe the long-term growth potential for these industries is excellent. Capital spending, both in the U.S. and abroad, will continue to emphasize huge expenditures in these areas where the U.S. holds market leadership. Despite recent pullbacks in some of these stocks, we remain confident that technology will provide superior relative and absolute earnings results in the months ahead.

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 firm has had no significant ownership changes occur. Personnel changes include:

   Staff Additions:
   Ms. Kristen Richards, Compliance Officer

   Staff Resignations:
   None.

   There was no turnover of any accounts in the aggressive equity style in the third quarter of 1995.

4. ***Other Comments.*** *Highlight any other issues/events that are pertinent to the management of the SBI account at your firm.*

   We have had no significant issues or events occur in the last quarter that would affect the management of the SBI account.

Staff Comments

Due to poor performance in prior periods, Waddell & Reed was put through a re-interview process in the third quarter before a special Manager Review Committee. The Committee recommended that Waddell & Reed be retained as an active equity manager at this time. The Board concurred with the Committee's recommendation.

Manager Commentary
Weiss Peck and Greer

Period Ending:	9/30/95	Returns	Qtr.	1 Yr.
Total Firm Assets Under Management	$12.5 Billion	Actual	13.4%	27.7%
Total Firm Assets Managed in this Discipline	$ 1.4 Billion	Benchmark	13.6%	37.9%

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?***

During the last twelve months, we have been plagued by our underperformance in technology and healthcare relative to the benchmark. Stock selection contributed heavily to the underperformance.

Within technology we underweighted semi-conductors earlier in the period. This decision, combined with our holdings in Sybase, Wall Data and Storage Technology, cost us performance against the benchmark, which had substantial semi-conductor holdings. We worked with Richards & Tierney to establish a realistic weighting in semi's and opportunistically added them to the portfolio's technology holdings, but have chosen to maintain an underweighted position against the benchmark. All of this considered, our technology holdings still returned over 51% during the twelve month period. For the quarter, our technology holdings surpassed the benchmark by more than 400 basis points returning 21.3%. Two stocks, Informix and Xylogics, contributed over 12.5 basis points to performance. Gratifyingly, our technology stock selection has begun to pay off in portfolio returns.

Our healthcare performance was hurt primarily by two stocks, Sun Healthcare Group and Quantum Health Resources, both of which suffered as reimbursement challenges surfaced. Quantum provides home healthcare for the chronically ill and Sun Healthcare is a nursing home chain which provides sub acute care and rehabilitation services. If the reimbursement by Medicare for these services is threatened, the market share and profit margins erode so business viability becomes an issue. Both stocks performed badly, as a result, accounting for most of the healthcare underperformance. At the end of the second quarter, we were expecting a turn-around in performance for healthcare. The third quarter has proven us correct with healthcare surpassing the benchmark by over 200 basis points and returning over 20% for the quarter. For the most part, we believe our healthcare stock selection to be strong, as demonstrated by the significant success of our biotech stocks this quarter.

Our selection of financial issues has negatively impacted our relative performance over the past year and also during the third quarter. Our focus on industry fundamentals and bottom up stock selection led to a concentration of our holdings in insurance stocks. The financial stocks which performed best during this period were those with interest rate sensitivity. We believe, however, that the names we hold are the fundamentally solid ones which over time will add value to the portfolio. Stock selection for long-term results is the hallmark of our investment management philosophy. Therefore, our performance may not correlate well with the benchmark over shorter periods. The same is true in the area of intermediate goods, where we are anticipating a general turn in the performance of several of our holdings.

For the third quarter as well as during the last twelve months we continue to outperform the areas of retail, services, and transportation, which we have consistently overweighted relative to the benchmark.

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 maintaining on overweighted position in healthcare, believing that the economy will begin to slow. In a slower economy, we believe that the stability in earnings for healthcare companies will come through on a sector basis. They still remain undervalued at this point in time.

   We have maintained a slight underweighting in technology expecting a correction in this sector since they have had such a strong move this year; with a slowing economy, there could be some disappointments in earnings.

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.*

   None.

Staff Comments

No comments at this time.

Manager Commentary
Franklin Portfolio Associates Trust
Semi-Passive Account

Period Ending:	9/30/95	Returns	Qtr.	YTD
Total Firm Assets Under Management	$8.2 Billion	Actual	9.1%	28.4%
Total Firm Assets Managed in this Discipline	$995 Million	Benchmark	8.6%	28.1%

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?*

   Last Quarter's Performance:
   For the quarter, the account was ahead of its benchmark's total return--gaining 9.1% compared to 8.6%. According to our performance attribution analysis, stock specific bets and risk factor exposures were strong positive contributors to active return. Industry bets were a minor positive. Stocks which aided account performance were AT&T Capital Corp., Cigna Corp., Olin Corp. OfficeMax Inc., Texas Industries. Positive earnings and a good interest rate environment were the primary reasons for the strong performance of these issues. Stocks which underperformed for the account were Navistar International, Sun Healthcare, Browning Ferris, and Union Texas Petroleum. A deteriorating earnings outlook was the primary reasons for the declines.

   Positive tilts on the Success risk factor made a positive contribution to performance. Our bet on the E/P factor made a negative contribution. Other risk factor had a small effect on performance. Positive bets in Other Insurance, Food, Media, and Electric Utilities helped the account. Underweighting Banks, Consumer Durables, Railroads, and Telephones cost the account during the period.

   Year-to-Date Performance:
   Since the account started at the beginning of the year, data for a twelve month period is not available. Comments on year-to-date performance follow. Year-to-date, the account was ahead of the benchmark, 28.4% versus 28.1%. Risk factor and industry bets helped performance. Stock specific bets were a slight drag. Specifically, positive tilts on the E/P, Success, and Variability-in-Markets risk factors made positive contributions to performance. Other risk factors had a minor effect on performance. Overweighting Chemicals, Electric Utilities, Food, and Other Insurance helped the account for the period. We were underweighted relative to the benchmark in Aerospace, Banks, Railroads, and Telephones. These industry bets cost the account some 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 September 30, 1995, the following significant active bets existed in the account relative to the benchmark:

   A. Factor bets (bets stated as standard deviations from benchmark):
      Earnings/Price = 0.13

B. Industry bets (bets stated as percentage deviations from benchmark weight):

5 Most Positive Bets:		**5 Most Negative Bets:**	
Other Insurance	1.47%	Telephones	-1.47%
Gas Utilities	1.04	Banks	-0.98
Tobacco	0.88	Services	-0.68
Health, Non-Drugs	0.66	Electronics	-0.64
Paper	0.59	Consumer Durable	-0.57

C. Ten largest Stock bets (bets stated as percentage deviation from benchmark weight):

Ford Motor	-0.72%	Microsoft Corp.	-0.62%
U.S. West	-0.60	IBP Inc.	0.54
Ahmanson H F	0.52	Motorola	-0.52
Allstate Corp.	0.52	Coca Coca Enterp.	0.50
Cigna Corp.	0.50	General Motors	-0.46

All active bets in the portfolio are based on two factors--(a) the rank of individual issues as computed 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 the tracking error resulting from stock bets being better than 70%. 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 1.16% with 76% of the tracking error 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.*

There were no significant personnel or organizational changes at the firm since the last quarter. We lost and gained one account during the period.

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 Franklin Portfolio in late October at their office in Boston. During the full day review, staff discussed a number of topics with Franklin Portfolio. Information that staff collected in the meeting coincides with Franklin Portfolio's comments above.

Manager Commentary
J.P. Morgan Investment Management, Inc.

Period Ending:	9/30/95	Returns	Qtr.	YTD
Total Firm Assets Under Management	$134 Billion	Actual	8.7%	28.7%
Total Firm Assets Managed in this Discipline	$5.64 Billion	Benchmark	8.6%	28.1%

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 Research Enhanced Index (REI) portfolio outperformed its custom benchmark by 0.1% in the third quarter as the majority of sectors surpassed their custom benchmark counterparts. Since the inception of the account in January, 1995, the portfolio has outperformed by 0.6% including initial setup costs.

   The REI strategy seeks to make bets only where Morgan's research can provide a competitive advantage. Since our strength is fundamental company research, we make stock selection bets relative to the index, while we virtually eliminate style and sector bets.

   The portfolio is positively impacted when overweighted positions outperform other stocks within their sectors, and when underweighted positions trail behind stocks within their respective sectors. Negative impacts occur when underweighted positions outperform other stocks within their sectors, and when overweighted positions trail behind stocks within their respective sectors.

   In the third quarter, the portfolio's performance was enhanced by corporate restructuring and management actions to make the market aware of their stock's inherent value. AT&T surged when the company announced its plans to a split into three entities, and Union Pacific outperformed when they announced the spin-off of their energy division and railroad acquisition. Service Corporation outperformed as analysts revised growth rates upward based on guidance from management.

   Relative weakness in finance was the result of underweighted positions in American Express which announced better than expected earnings, and Chase Manhattan Corporation which rallied as it was acquired by Chemical Banking Corporation. Additional stocks which detracted from REI's performance included overweighted positions in Allied Signal and Coltec Industries which were hurt by declining profit margins in their automotive businesses, and Crown Cork & Seal which experienced an earnings shortfall as a result of margin pressures in their beverage can business.

   Year to date, the portfolio remains ahead of its benchmark due to relative strength in the consumer stable, finance, service, and utility sectors. Modest underperformance was experienced in the health service, and capital goods sectors.

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.*

   Since the overweighted stocks are still listed in the model's top quintiles, and the underweighted stocks are still in the model's fifth quintile, the active bets described above are still in place. Within each sector, the stocks are ranked by DDR into quintiles. The first quintile or the top 20% consist of the most undervalued stocks, while those in the fifth quintile contain the most overvalued stocks. The REI strategy eliminates fifth quintile stocks, and underweights fourth quintile 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 during the last quarter. Two accounts in the discipline were lost during the quarter because of asset allocation changes. We were awarded one new account during the quarter.

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
Wells Fargo Nikko Investment Advisors
Semi-Passive Account

Period Ending:	**9/30/95**	**Returns**	**Qtr.**	**YTD**
Total Firm Assets Under Management	$205.6 Billion	Actual	10.3%	31.5%
Total Firm Assets Managed in this Discipline	$ 4.6 Billion	Benchmark	8.6%	28.1%

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?*

Wells Fargo Nikko Investment Advisors' Alpha Tilts Strategy, customized for the Minnesota SBI, outperformed the Minnesota Custom Benchmark by 1.7% in the third quarter of 1995, and outperformed by 3.4% on a year-to-date basis (inception date 12/31/94). 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 third quarter (and year-to-date) the realized active risk was well within this range.

The attribution of added returns in the third quarter is shown in the table below. The portfolio's use of analyst information to identify companies experiencing positive changes in earnings expectations added 0.87% during the quarter. The use of valuation measures to identify stocks trading at attractive prices relative to their underlying economic value contributed 0.11% during the this period. The use of signaling measures, which include corporate financing activity and informed insider trading contributed 0.10% in the third quarter. As expected, industry weighting differences made only a small contribution to the portfolio's active return (0.12%), due to the tight risk controls we use in this area. Finally, the portfolio experienced positive security-specific returns in the third 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 diversify toward zero over longer holding periods. The Alpha Tilts portfolio minimizes this risk through broad diversification (approximately 700 stocks) and by limiting the active positions taken in individual companies.

Active Return Attribution:

	Quarters	**YTD**
Analyst inputs:	0.87%	2.14%
Fundamental value:	0.11	0.42
Technical inputs:	0.10	-0.68
Other common factors:	0.03	-0.18
Industry weights:	0.12	0.69
Stock-specific	0.50	1.00
Total active return:	**1.71%**	**3.40%**

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 second 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 not 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.

   We added a new input to the Alpha Tilts Strategy during the third quarter. This input, which is based on observing corporate financing activities, is the result of an extensive research project begun at WFNIA in 1994. The research demonstrates that firms tend to issue seasoned equity offerings (SEOs) when they believe their stock price to be fairly- or over-valued, and to repurchase shares when they are fairly- or under-valued. We have found that corporate financing signals can be used to complement the Expectational inputs currently used in our process. This did 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 strategy. As you know, the Alpha Tilts Strategy is supported by an extensive, ongoing research and development effort, which reflects our philosophy of continuous improvement.

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 proposed acquisition by Barclays PLC (UK) is proceeding smoothly with an expected closing date of December 31, 1995. The new firm will continue to be based in San Francisco and Fred Grauer continuing in his role as Chairman and CEO. The acquisition should not impact your business with us or the relationship you have with WFNIA's key people, who are very supportive of this development.

   We added three additional new clients in our Alpha Tilts strategies during the third quarter, with a total funding of approximately $300 million.

4. ***Other Comments.*** *Highlight any other issues/events that are pertinent to the management of the SBI account at your firm.*

   At this time, there are no special issues pertinent to the management of the SBI account.

Staff Comments

No comments at this time.

Manager Commentary
Wells Fargo Nikko Investment Advisors
Passive Account

Period Ending:	**9/30/95**	**Returns**	**Qtr.**	**YTD**
Total Firm Assets Under Management	$205.6 Billion	Actual	8.5%	8.5%
Total Firm Assets Managed in this Discipline	$ 11.0 Billion	Benchmark	8.5%	8.5%

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.*

   Wells Fargo Nikko Investment Advisors' Wilshire 5000 Strategy underperformed the Wilshire 5000 by 0.63% during the third quarter of 1995. 0.42% of the underperformance occurred during the month of July which was essentially a restructuring period during which the portfolio was converted from a Richards & Tierney Completion Strategy to a Wilshire 5000 Strategy. Although some rebalancing continued beyond July 31, the portfolio had an expected tracking error of 0.30% by July month-end and could be considered to be a Wilshire 5000 tracking portfolio as of that date. For both August and September, specific asset selection was the principal cause of tracking error, generating -6 bps in August and -5 bps in September. Also during September, modest underexposures to the BARRA factors success and growth and an overexposure to banks all contributed negatively to tracking. In an indexed portfolio, specific security selection should properly account for the greatest source of tracking error.

2. ***Future Strategy.*** *Going forward, what strategies, if any, do you plan to implement to control tracking error within expectations.*

   We continue to look for opportunities to rebalance the Wilshire 5000 Strategy. We seek to rebalance on a cross only basis over time to minimize tracking error.

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 proposed acquisition by Barclays PLC (UK) is proceeding smoothly with an expected closing date of December 31, 1995. The new firm will continue to be based in San Francisco and Fred Grauer continuing in his role as Chairman and CEO. The acquisition should not impact your business with us or the relationship you have with WFNIA's key people, who are very supportive of this development.

   Two existing clients added $162 million to US Equity Market strategies during the third quarter.

4. ***Other Comments.*** *Highlight any other issues/events that are pertinent to the management of the SBI account at your firm.*

   During the third quarter, WFNIA traded $1.752 billion (based on 9/30 prices) in rebalancing the Wilshire 5000 portfolio. Of this amount $1.663 billion was crossed either with other WFNIA clients/funds, through Instinet/Posit, or with brokers. Less than $90 million was traded in the open market. Assuming that these cross transactions saved Minnesota just one half of the bid/offer spread, the amount saved was $6.1 million (37 bps times the amount crossed). I should point out that in previous crossing estimates provided, certain cross trades were incorrectly categorized as market trades. Thus, the third quarter crossing statistics are actually better than what was shown during August.

Staff Comments

No comments at this time.

Manager Commentary
CIC Asset Management, Inc.

Period Ending:	**9/30/95**	**Returns**	**Qtr.**	**Year**
Total Firm Assets Under Management	$200 Million	Actual	9.7%	28.6%
Total Firm Assets Managed in this Discipline	$200 Million	Benchmark	8.7%	30.0%

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?*

CIC's performance in the third quarter was 9.73% versus 8.74% for the Russell Value index. For the last one year CIC returned 28.69% versus 27.69% for the Russell Value Index. CIC's strong performance in the 3rd quarter came primarily from our underweighting in technology stocks which were up 2.11% in the quarter along with strong performance from our heavy weighting in financial stocks (up 15.87%). We had especially strong performance from American Express (+26.68%), Household International (+25.97%), AT&T (+24.68%), Conrail (+24.39%), and SunAmerica (+23.61%).

During the third quarter we increased our sector weights in consumer cyclicals, utilities, and financials while we decreased our weights in basic industries and capital goods. We established new stock positions in Echlin, Pacificare Health Systems, US Healthcare, IBM, Wellman, FPL Group, Allstate Insurance, And Dean Witter Discovery. We significantly increased existing positions in AT&T, Beneficial Corporation, Campbell Soup, Ford, PPG Industries, and Sears. We eliminated positions in Dana Corporation, Whirlpool, Merck, Motorola, National City Corporation and reduced positions in Allied Signal, Caterpillar, John Deere & Co., Dow Chemical, General Electric, Household International, Union Pacific and Wachovia Corp. We slightly increased the number of stocks in the portfolio from 47 to 50 while cash increased from 4.56% to 5.77% at quarter end.

Portfolio Construction Table: Industry exposure and cash holdings changed as follows:

Sector	**Russell Value 9/30/95**	**Portfolio 6/30/95**	**Portfolio 9/30/95**
Consumer Durables	8.08%	5.27%	6.21%
Consumer Non-Durables	7.89	21.50	21.00
Technology	4.33	5.16	5.54
Energy	12.42	6.47	6.53
Basic Industries	12.40	15.42	12.67
Cap. Goods Industries	8.10	12.22	6.62
Utilities & Telephones	21.76	10.35	13.91
Financial Services	25.05	19.04	21.75
Cash	0.00	4.56	5.77
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 modestly underweighted in financial stocks (82% of the Russell 1000 Value Index). We are heavily underweighted in energy (41% of Russell weight) and modestly underweighted in utility stocks (62% of Russell), although we substantially increased our exposure to utilities as they looked increasingly cheap on a relative yield basis to the S&P Industrials. We are also underweight in capital goods (82% of Russell) and Basic Industries (92% or Russell) as we are concerned about decelerating earnings outlooks and relative valuations. We are heavily overweighted in consumer nondurables (200% of Russell) and consumer cyclicals (168% of Russell) where we see good value.

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

4. ***Other Comments.*** *Highlight any other issues/events that are pertinent to the management of the SBI account at your firm.*

   None.

Staff Comments

CIC has submitted its customized benchmark for review and evaluation by staff and Richards & Tierney.

Manager Commentary
Cohen, Klingenstein & Marks Incorporated

Period Ending:	**9/30/95**	**Returns**	**Qtr.**	**Year**
Total Firm Assets Under Management	$227.5 Million	Actual	6.1%	25.2%
Total Firm Assets Managed in this Discipline	$217.0 Million	Benchmark	8.0%	29.8%

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?*

   The account increased by 6.2% during the second quarter of 1995 which compares to a 7.9% increase for the benchmark (S&P 500). Broadly speaking, the account remained aggressive (in the context of the generally conservative large capitalization stocks that we purchase) with overweighting in Growth, Interest-rate sensitive, and Cyclical stocks. Again, broadly speaking, the overweighting in the Cyclicals (stocks such as Ford, Allied Signal, USX-U.S. Steel) hurt relative performance (as it has for the past 12 months) while the overweighting in the interest rate sensitive helped (also true for past 12 months). While the overweighting in the Growth sectors has generally aided performance over the past year, last quarter its impact was mixed as the Technology stocks gave up market leadership. Particular stocks had an impact too. Two technology stocks, EMC and General Instrument, declined sharply in price after signaling weaker than expected results.

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), still lower interest rates, good corporate profits and market volatility. As a result, the portfolio is moderately cyclical, growth oriented and interest rate sensitive. We made a few changes to the portfolio last quarter. We sold four stocks which no longer appeared attractively valued according to our primary valuation measure (dividend discount model): Albertson's, Allied Signal, Phelps Dodge and Quaker Oats. These were replaced with stocks of a similar--but slightly more pronounced--Growth/Cyclical character: Advanced Micro Devices, Delta Air Lines (a cyclical play), Digital Equipment and Georgia Gulf (a commodity chemical company, also a cyclical play).

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
Five (approximately $13 Million)	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

Cohen, Klingenstein & Marks submitted its customized benchmark for review and evaluation by staff and Richards & Tierney.

Manager Commentary
Compass Capital Management, Inc.

Period Ending:	**9/30/95**	**Returns**	**Qtr.**	**Year**
Total Firm Assets Under Management	$200 Million	Actual	4.2%	27.4%
Total Firm Assets Managed in this Discipline	$101 Million	Benchmark	6.7%	25.0%

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?*

Again, the primary driver of investment performance during the past three and twelve month periods, was being fully invested. Since the inception of the relation, a very small cash position has been held. This has added to investment performance greatly.

Sectors	(Active Bets) Relative to S&P 500	Qtr.	Year
Technology	Overweighted	Did Not Work	Worked
Consumer Staples	Overweighted	Work	Worked
Capital Goods	Overweighted	Did Not Work	Did Not Work
Financial	Underweighted	Did Not Work	Did Not Work
Energy	No Position	Worked	Worked
Transportation	No Position	Did Not Work	Flat
Utilities	No Position	Did Not Work	Worked
Basic Industries	Equal	Did Not Work	Did Not Work
Consumer Cyclicals	Overweighted	Did Not Work	Did Not Work

With the decline in interest rates in the third quarter, interest rate sensitive securities outperformed the market. Compass' portfolio structure and investment disciplines, however, do not rely on interest rate forecasting. The weightings in the portfolio are based upon relative valuations and growth prospects of individual securities. Consumer staple stocks continue to do well with the expectation of higher growth rates in the drug sector. Valuations of many drug and medical securities are moving from fair to fully valued.

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 (28.86%) and Consumer Cyclicals (22.33%) sectors of the portfolio. The largest underweighted active bets are within the Energy (0%), Utilities (0%) and Financial (4.34%) sectors of the portfolio.

The active bets that were in place during the third quarter are the same today. The retail segment of the consumer cyclical sectors has become very attractive based upon valuations to historical norms. Profits have been taken in medical and drug sectors as stocks have become fair to fully valued. Technology stocks continue to perform well as earnings expectations have increased. Recently reported earnings of the portfolio holdings continue to be strong with few exceptions.

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.

   No accounts lost.

   One pension plan gained.
   One foundation 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 is having its customized benchmark developed by Richards & Tierney. It is expected to be completed during the next quarter.

Manager Commentary
Kennedy Capital Management

Period Ending:	**9/30/95**	**Returns**	**Qtr.**	**Year**
Total Firm Assets Under Management	$1,347 Million	Actual	11.7%	20.9%
Total Firm Assets Managed in this Discipline	$ 748 Million	Benchmark	9.9%	23.4%

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?*

   Kennedy Capital, after mixed performance against the Russell 2000 in the first half of 1995, outperformed for the third quarter. Our investment style of picking stocks that are under-institutionally owned with long-term investment appeal began to help us in the third quarter as many managers became more value conscious. During the third quarter, our segment of the equity market continued its recovery as the strong dollar and high valuation of technology stocks highlighted its relative attractiveness.

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 remain fully invested in equities that are under-owned by institutions with goods earnings potential, but low market valuations. We have expanded our analyst network to over 30 firms to increase the coverage of our issues. The relative valuation between our universe and that of the S&P 500 is still at a three year high in favor of our market universe. Our biggest problem at the moment is screening the large number of potential buys forgotten by the large institutions.

Kennedy 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.*

   There have been no significant changes in ownership since the last update. We have, however, significantly added to our staff by hiring Dr. Richard Anderson as Executive Vice President and Chief Operating Officer and Linn Arbogast as Research Associate. Dick will have general administrative responsibilities while Linn will strengthen our internal research staff. This gives us a full-time staff of 23 employees including seven in portfolio management and trading, seven in security research and analysis and nine in client services and operations.

   One account was lost ($10 M) and four switched to a different product with a larger market cap ($243 M).

4. ***Other Comments.*** *Highlight any other issues/events that are pertinent to the management of the SBI account at your firm.*

   Our custom normal benchmark construction continues on schedule as we are now waiting for analytics on the benchmark from Richards & Tierney.

Staff Comments

Kennedy Capital has submitted its customized benchmark for review and evaluation by staff and Richards & Tierney.

Manager Commentary
New Amsterdam Partners L.P.

Period Ending:	**9/30/95**	**Returns**	**Qtr.**	**Year**
Total Firm Assets Under Management	$254 Million	Actual	7.9%	25.1%
Total Firm Assets Managed in this Discipline	$236 Million	Benchmark	7.2%	26.3%

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?*

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. Characteristics as of September 30, 1995:

	Minnesota	**S&P MidCap**	**S&P 500**
Expected Return	14.1%	9.5%	9.0%
P/E	19.0x	20.8x	16.9x
Price to Book	3.5x	3.7x	3.7x
Yield	1.5%	1.9%	2.3%
Growth	11.1%	10.7%	8.2%
Return on Equity	19.6%	12.5%	16.0%
Wtd Avg Mkt Cap	$9.1bn	$2.3bn	$28.4bn

This quarter both our stock picking ability and sector selection skills were fair to neutral. The best performing sectors of the S&P 500 were Health Technology and Health Services, Transportation, Finance and Utilities. We were overweighted in Health Services, Transportation and Finance but underweighted in Health Technology and Utilities. The worst performing sectors of the S&P 500 were Energy Minerals, Industrial Services Non Energy Minerals, Commercial Services and Technology Services. We were underweighted in the first two, overweighted in the last two and market weighted in Transportation. Despite the overweighting in Commercial and Technology Services, our stock picks in those sectors did better than their peers. As far as stock selection was concerned, with the exception of our Energy Minerals, Producer Manufacturing, Process Industries, Health Services, Retail Trade, and Consumer Services picks, our stocks matched or comfortably beat their peers. Our Finance stocks did well (+22.2%), led by Green Tree Financial (+40.8%) and Travelers Group (+22.0%). Within Consumer Durables (+26.4%), Clayton Homes rose +45.2%. Other stocks performing particularly well were Cabletron Systems (+23.7%), MCI Communications (+18.5%), Schering Plough (+17.2%), Solectron (+15.8%), Merck (+14.7%), BankAmerica (+14.7%), Pepsico (+12.5%), and Marshall Industries (+11.9%).

Retail stocks continued to disappoint with CML down (-9.2%) Musicland down (-17.1%). Superior Industries fell (-13.5%) as did Advanced Micro Devices (-20.2%), both upon downward earnings revisions by the companies. Union Texas Petroleum (-14.0%) fell upon news of dry holes being drilled in their Vietnamese fields. All three of these holdings look to be good value at these levels and continued to be held.

New Amsterdam Partners (con't)

Over the past year, our performance was close to that of the S&P MidCap but behind that of the S&P 500. Our Finance picks were very strong led by Green Tree (+128.9%), Countrywide Credit (+67.6%) and Travelers (+64.7%). Other stocks performing particularly well included Clayton Homes (+57.0%), Pepsico (+56.8%), Solectron (+49.8%), Marshall Industries (+49.3%), Cabletron Systems (+38.3%), Central Hudson Gas and Electric (+37.8%), Mattel (+36.6%), First Brands (+36.6%) and Pier I Imports (+34.7%). Retail and apparel stocks were hard hit over the past year with Musicland (-41.9%), CML (-27.1%), Lands' End (-21.3%), Fruit of the Loom (-19.5%) and Stride Rite (-18.0%). Our Health Services pick (Health Management Associates, up 30.5%) outperformed its S&P sector.

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.*

   At the moment, we still continue to maintain an overweighting in the consumer stock area, where a number of high expected return candidates present themselves. We also have a slight tilt towards the finance sector. We are underweighted in the utility area (particularly in telephone stocks), in the energy sector and in producer manufacturing stocks. We remain fully invested in the account and continue to stick to our investment discipline.

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.*

   On December 31, 1995, the firm's name will change to New Amsterdam Partners LLC. The active principals in the firm, Michelle Clayman and Keith Graham, will remain the same. Michelle Clayman's ownership at that point will be 80% of the company, and Keith Graham will own 20%. There were no significant personnel changes. No accounts were gained or 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.

   We currently have a cautious stance on the stock market near term but continue to be modestly bullish long term. Our near term caution arises from the run-up in prices this year and the opportunity for earnings disappointments over the coming quarter. We continue to forecast a benign economic environment with GDP growth in the 2.5 to 3% range and inflation continuing in the 3 to 3.5% range. We believe that interest rates will stay around current levels or decline slightly, and that long run corporate profit growth will be around 6.5 to 7% per year. In this type of environment, we believe that stocks with stable, above average earnings growth and modest multiples will do the best - a good backdrop for a "GARP" strategy.

Staff Comments

No comments at this time.

Manager Commentary
Valenzuela Capital Management, Inc.

Period Ending:	**9/30/95**	**Returns**	**Qtr.**	**Year**
Total Firm Assets Under Management	$1.1 Billion	Actual	7.5%	20.2%
Total Firm Assets Managed in this Discipline	$1.1 Billion	Benchmark	8.0%	29.8%

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*

Under our "bottom up" style, each stock pick is an active bet. Gains were made throughout the portfolio, with the largest contribution to performance from James River and Student Loan Marketing (adding +0.95% and +0.60%, respectfully, as a result of shareholder-oriented restructuring), and Eckerd (+0.63% aided by earnings acceleration). Performance was adversely affected by Air Products & Chemicals (costing -0.15% as a result of an expected earnings weakness due to the soft economy), H&R Block (-0.20% from controversy over the growth potential of its CompuServe subsidiary), and Colgate-Palmolive (-0.26% because of disappointment in Mexico operations). For the twelve-month period, the most significant gains stem from McDonnell Douglas (contributing +2.44% as a result of the restructuring and an improved commercial aircraft market), Student Loan Marketing (+1.56% aided by the restructuring and a more favorable political environment governing student loan programs), and James River (+1.38% due to the restructuring and improved paper prices). The poorest performers were Olsten (costing -0.45% from a price correction in the fourth quarter of 1994), MCI (-0.51% due to an increasingly competitive long distance environment), and TJX Companies (-0.62% as a result of disappointing earnings in a deteriorating retail environment). While Olsten had a negative effect for the latest twelve-month period, the position was actually sold at a realized gain in 1994. Valenzuela's basic stock selection was good; the shortfall from the benchmark stems from the strength of large-cap drug and technology stocks which drove the S&P 500 for the past year.

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 quarter. We added to positions we felt still represented good value and trimmed others, largely for reasons of valuation. New investments were initiated in Loctite, Pep Boys, Sensormatic, Temple-Inland, UNUM and Washington Mutual. Realized gains were taken in Banta, DENTSPLY, Echlin, Houghton-Mifflin, Polaroid and Raychem. The position in MCI was also sold.

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.*

   Valenzuela Capital Management was funded with a new account from an existing client. In addition to its pension assets, Pacific Gas & Electric gave the firm a second account for its Collectively Bargained VEBA assets.

4. ***Other Comments.*** *Highlight any other issues/events that are pertinent to the management of the SBI account at your firm.*

   The economy is exhibiting signs of weakness as consumers seem to have lost confidence and cuts back on spending in most key areas of consumption. This compression has caused inventories to pile up and is threatening employment in many goods-producing industries. Investors who embraced this slowing as a "soft landing" for the economy only a short while ago are now showing concerns that corporate earnings might come in shy of expectations. Overall, the equity markets have not yet paid much heed to this changing dynamic. Valuations continue near record levels. Yet, when companies report earnings shy of expectation, the penalty is swift and severe. Investors are anxiously waiting for the Federal Reserve to lower interest rates, hoping that such an action will put a floor under the sagging economy. If corporate earnings continue to be disappointing the economy remains lackluster, the equity markets could become unsettled. In this environment, we believe that our portfolios should be built around companies that have low relative valuations and confidence that earnings expectations will be met.

Staff Comments

Valenzuela is having its customized benchmark developed by Richards & Tierney. It is expected to be completed during the next quarter.

Manager Commentary
Wilke/Thompson Capital Management

Period Ending:	**9/30/95**	**Returns**	**Qtr.**	**Year**
Total Firm Assets Under Management	$1.034 Billion	Actual	11.7%	41.4%
Total Firm Assets Managed in this Discipline	$663 Million	Benchmark	11.4%	26.5%

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 strong performance experienced by the Minnesota State Board of Investment portfolio was driven by a rebound in health care issues, continued strength in the computer software holdings, and solid returns in the business services sector. Weakness in the quarter was most apparent in the restaurant and retailing groups. Year-to-date returns have benefited from large gains posted by issues in the computer software sector, electronics issues, business services, and selected miscellaneous issues. Restaurants and retailing issues have been weak, reflecting an apparent slowdown in spending by consumers. Two themes seem to be driving the market this year. First, strength in companies that help businesses become more efficient and productive is seen in technology issues and the business services sector. The second theme is weakness, in the consumer areas particularly as it relates to discretionary spending, and in restaurant and retailing stocks. Personal computer sales have been strong, and it is possible that with more households stepping up to make that big ticket purchase, there is a natural cut-back in other areas, such as dining out, spending on apparel, and the consumer electronics.

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 has been much attention paid by the media to the strong gains in stock prices this year, with the implication that what goes up must necessarily come back down. Selling an individual stock simply because it has gone up is never a good reason to sell. Similarly, getting out of the market because it is up is not a good strategy. Sound investment decisions are based on solid fundamental analysis. The investment environment remains positive. The big gains in stock prices this year have been driven by strong gains in earnings; stocks in general are not overvalued. Reasonable valuation levels coupled with continued moderate economic growth, low inflation and steady-to-declining interest rates all point to an optimistic outlook. While stock prices could go through a correction at any time, there is no fundamental reason why they should decline severely or erase a major part of the gains made this year. Companies that continue to post strong earnings gains will continue to be rewarded with higher stock valuations. The environment for growth stocks remains positive, and the outlook is bright for those companies delivering value-added products to businesses and consumers.

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.*

   Wilke/Thompson Capital Management had no ownership or personnel changes last quarter.

   Wilke/Thompson Capital Management added eight accounts in this style during the quarter that total $22.4 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 performance relative to its benchmark since the inception of the account in April of 1994 and thus far in 1995. We look forward to continuing to serve the SBI.

Staff Comments

No comments at this time.

Manager Commentary
Winslow Capital Management, Inc.

Period Ending:	**9/30/95**	**Returns**	**Qtr.**	**Year**
Total Firm Assets Under Management	$775 Million	Actual	8.8%	25.8%
Total Firm Assets Managed in this Discipline	$415 Million	Benchmark	9.1%	32.2%

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?*

Winslow Capital began managing assets for the Minnesota State Board of Investment on April 1, 1994. In the quarter ended September 30, 1995 the SBI portfolio appreciated 8.78% on a total return basis net of fees versus the benchmark Russell 1000 Growth increase of 9.08%. The performance for the SBI account over the last twelve months shows an increase of 25.9% net of fees versus 32.2% for the benchmark and 29.8% for the S&P 500.

The market's upward momentum experienced through the first half of 1995 continued through the third quarter. Our Large Cap Growth equity portfolios continued to be overweighted in technology, telecommunications, and consumer services/specialty retail. 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 companies that exhibit strong earnings growth. In the most recent quarter, the average reported earnings gain for the companies in your portfolio was 33%. We continue to believe these companies have outstanding potential because they meet our strict criteria of rapid earnings growth at attractive valuations.

Unlike the first two quarters, the overweighting of technology in the portfolio proved to be a negative influence on relative performance. Even within the technology sector there was a wide dispersion of performance. In general, companies with the largest market capitalizations experienced negative performance, while the medium capitalized companies were additive to the portfolio returns. The biggest winners during the quarter included Cisco Systems and Parametric Technology. The large companies that were a drag on the overall technology weighting included companies that had performed well over the first half of 1995. An example of these companies include Computer Associates, Intel, Microsoft and Silicon Graphics. Our overweighting in telecommunications was positive for the quarter. The factors that led to underperformance for the telecommunications companies in the first quarter were overcome during the second quarter and investors continued to value the companies based on their outstanding growth prospects through the third quarter. Some of the companies that benefited from this move included Motorola, LCI International, Paging Network and Nokia Corporation. The overall performance of consumer services/specialty retail securities continued to underperform in the third quarter because of investors uncertainty about an economic slowdown and a deceleration in consumer spending. The companies that were most effected by these market emotions were Home Depot, Lowes Co., Dollar General and Wal-Mart. We believe that the specialty retailers in our portfolio, including the do-it-yourself improvement centers, are poised to deliver rapid earnings growth in 1996. The dramatic underperformance by healthcare companies throughout the first half of 1995 was reversed during the third quarter of 1995. Our slight overweighting to the sector was a positive to the third quarter's total return. All of the companies held in the portfolio did extremely well with the largest gains coming in Oxford Health Plans, Inc., St. Jude Medical and Amgen Inc.

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. 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. Notwithstanding the strong results so far this year, 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 27% over the next year, while selling at only 18.5 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 third quarter of 1995, Winslow Capital was retained to manage three new accounts. Two current clients, Resource Trust and Allina, hired Winslow Capital to manage additional assets totaling $55 million in our High Growth-Combined Cap style. In addition, RHM Pension Scheme, London, England placed $50 million in our Large Cap Growth equity style.

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 has submitted its customized benchmark for review and evaluation by staff and Richards & Tierney.

Manager Commentary
Zevenbergen Capital, Inc.

Period Ending:	9/30/95	Returns	Qtr.	Year
Total Firm Assets Under Management	$337 Million	Actual	8.8%	29.3%
Total Firm Assets Managed in this Discipline	$337 Million	Benchmark	9.1%	32.2%

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?*

For the quarter, the Minnesota State Board of Investment Account gained 8.8%, while the Russell 1000 Growth Index gained 9.1%. For the year, the account performance reflects the accomplishment of strong stock selection in each sector, gaining 29.3%, while the Russell 1000 Growth Index gained 32.2%. The portfolio's overweighting in the technology and telecommunications sectors, which includes telecommunications service and equipment providers, aided in the continuation of strong performance throughout 1995.

Exposure to the financial services sector was increased from 5.8% of the portfolio's weight during the first quarter of 1995 to 11.9% at the end of third quarter 1995. The performance contribution from this sector for the quarter and year was approximately 19% and 50%, respectively. Combined with superior stock selection, this group, which includes global commercial banking, credit card processing and specialty finance, was by far the market leader. Traditional finance, such as domestic regional banks were disregarded in terms of stock selection in the finance sector due to the inherent lack of long term revenue growth prospects.

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 present sector overweightings in the Minnesota State Board of Investment Portfolio indicate a continuation of our fundamental beliefs that the need for global communications and the transference of voice and data instantaneously will drive future revenues and earnings for companies with superior products and market share.

The portfolio continues to hold diversified and wireless technology companies with strong fundamentals and growth rates in excess of the S&P 500 growth rate. Recognizing the territory in new and quickly changing, the on-line services area is providing new growth opportunities for investment. These new issues are put through the same rigorous fundamental tests for potential investment as all issues.

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.*

   There were no personnel changes during the third quarter of 1995 and Zevenbergen Capital lost one account for the period.

4. ***Other Comments.*** *Highlight any other issues/events that are pertinent to the management of the SBI account at your firm.*

   The internal tracking of Zevenbergen Capital's performance provided by the SBI was reviewed and no discrepancies were found.

Staff Comments

Zevenbergen has submitted its customized benchmark for review and evaluation by staff and Richards & Tierney.

Manager Commentary
BEA Associates

Period Ending:	**9/30/95**	**Returns**	**Qtr.**	**Year**
Total Firm Assets Under Management	$28.5 Billion	Actual	0.8%	14.7%
Total Firm Assets Managed in this Discipline	$ 4.0 Billion	Benchmark	2.0%	14.1%

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 only portfolio exceeded the benchmark by 31 basis points. The outperformance relates to our exposure to perpetual floating rate notes, municipals, selective corporate bonds and our overweighting in mortgage securities. Performance benefited from tighter spreads across most sectors due to improved demand for incremental spread over treasuries. Corporate issues in the Airline and Cable industries performed particularly well. The yield curve trade has been removed from the portfolio because the curve has become very flat. The portfolio structure was enhanced by increasing convexity through the investment in putable bonds and a moderate increase in financial credits. Putable bonds perform well when interest rates change a lot, regardless of direction. Financial credits tend to perform well when the yield curve steepens, which is our expectation.

There were two dominant volatility arbitrage positions in the portfolio during the quarter; one was a long volatility position on the Nikkei and the other a short volatility position on the Yen. These were complementary positions in that fluctuations in the Nikkei have been directly linked to the daily fluctuations in the Yen since March. While the position in the Nikkei option was profitable as day to day fluctuations in the index increased in July and August, the impact of the Yen position was negative as we observed consistently high valuation levels for Yen options in August and September.

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.*

BEA has continued its 10% overweight in the mortgage portion of the portfolio. This strategy has been implemented through the investment in slight premium GNMA and FNMA issues. Market conditions are very positive, because the supply of mortgage securities will decrease as winter approaches and demand is strong from a variety of investors including FHMA and FHLMC. We have started to add exposure to structured Commercial Mortgage Backed Securities (CMBS) because this is a developing market that provides excellent value. Most issues are AAA-rated and provide yield spreads of 30-50 basis points more than AAA-rated corporates. We are also implementing a strategy to replace many of the treasury holdings with maturities under five years with AAA-rated Asset Backed Securities to provide the portfolio with added yield.

Our Investment Grade Corporate strategy continued to be defensive in nature due to historically tight corporate bond spreads. Recently we have been researching credits in the bank and airline industry and will be poised to buy select issues should any price weakness occur. We favor airlines because it is our contention that many cyclical industries have come to the conclusion that the benefits of leverage on their balance sheet do not offset the negative impact seen on their P/E ratios and therefore stock valuations. Many cyclicals have been deleveraging as a means to enhance shareholder value. The debt of the three major airlines

(American, Delta and United) has the room for the greatest spread contraction. As opportunities arise we will be adding to our current airline position. The bank story is based on our belief that the financial well-being of banks is the best it's been in the last twenty-five years and that there "near death" experience in the late eighties - early nineties will provide the resolve to conservatively manage risk. Citicorp and Chemical bank are issuers we are actively monitoring.

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 continue to enhance our fixed income management team. During the third quarter, Robert W. Justich joined BEA as a Senior Vice President and portfolio manager focusing on investment grade corporate bonds. Prior to joining BEA, Bob worked in credit research and trading at Merrill Lynch, where he was responsible for the development of Merrill's first proprietary corporate bond trading desk. He has an MBA in Finance from Rutgers University. Bob contributes additional depth of insight to BEA's understanding of both the domestic and global bond markets, and we are very glad to have him aboard.

4. ***Other Comments.*** *Highlight any other issues/events that are pertinent to the management of the SBI account at your firm.*

None.

Staff Comments

BEA's underperformance in the current quarter reflects a correction in the SBI's custodial accounting records which resulted in BEA's performance being overstated in the prior quarter. (Prior quarter return was reported as 6.9% vs. the benchmark return of 6.1%.)

Manager Commentary
Investment Advisers, Inc.

Period Ending:	**9/30/95**	**Returns**	**Qtr.**	**Year**
Total Firm Assets Under Management	$14.6 Billion	Actual	2.0%	12.6%
Total Firm Assets Managed in this Discipline	$ 4.4 Billion	Benchmark	2.0%	14.1%

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 outperformed the benchmark during the third quarter of 1995. Sector overweightings and issue selection in ABS and MBS enhanced returns. Putable corporate bonds and an overweighting in BAA-rated corporates also added value to the portfolio's return. The duration and yield curve decisions were neutral forces during the quarter. The portfolio underperformed its benchmark for the trailing 12-month period due to a defensive duration stance and an underweighting in corporate bonds.

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.*

   Relative to the benchmark, the portfolio is currently duration-neutral and curve-neutral. With regard to sector weightings, the portfolio is overweighted in ABS and MBS, neutral-weighted in corporates and agencies, and underweighted in U.S. Treasuries. The cash position is minimal. Positive secular forces are currently overwhelming the negative cyclical forces that emerge during this phase of the credit cycle. Corporate profitability and cash flow is excellent, MBS spreads are historically wide, and the Fed is in an easing mode. Liquidity is readily available and financial markets will continue to be supported by this liquidity until it flows into the "real" 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.*

   IAI hired one additional International Equity Portfolio Manager, Jane Alliston who will specialize win Far East Equity and Jim Cecil is an equity analyst.

   IAI lost one investment professional, Greg Fraser who specialized in Far East Equities.

   The ownership of IAI by TSB Group, plc. remains unchanged.

   IAI gained one fixed income account with $30mm in assets and lost two fixed income accounts with $22mm in assets. In this discipline, IAI lost one account which had $14mm 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
Miller, Anderson & Sherrerd

Period Ending:	**9/30/95**	**Returns**	**Qtr.**	**Year**
Total Firm Assets Under Management	$34.0 Billion	Actual	2.3%	14.5%
Total Firm Assets Managed in this Discipline	$20.0 Billion	Benchmark	2.0%	14.1%

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 2.79% return (net of fees) versus a benchmark return of 1.96%. Over the last twelve months, your portfolio has provided a 15.13% return (net of fees) versus a 14.06% return for its benchmark.

Early in the quarter, we enlarged the barbell position within your portfolio by increasing the holdings of long corporates and Treasuries to approximately 25% of the portfolio. Mortgages and corporates in the intermediate part of the curve were reduced to fund these purchases. The interest rate sensitivity in the portfolio was slightly shorter than that of your benchmark, although the duration was somewhat longer due to the barbell configuration. For the quarter, the yield curve and duration decisions added to relative performance. In addition, the corporate, mortgage and foreign strategies also made positive contributions. Year-to-date, the yield curve and duration decisions made significant contributions to performance. The corporate strategy was relatively neutral, while the mortgage and foreign commitments detracted.

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, your portfolio has a duration of about three tenths of a year less than that of the benchmark. We have reduced the barbell position within the portfolio, although the portfolio continues to have a greater barbell position than that of your benchmark. We continue to maintain a relatively neutral interest rate risk profile within the portfolio because of the lower levels of real rates available in the U.S. market and because of the flattening of the yield curve. Mortgage securities have been increased to approximately 65% of the portfolio. Adjustable rate mortgages have been reduced and current coupon securities have been added. Mortgages appear to be cheap on an option-adjusted spread basis and will be defensive holdings should the market sell off. We continue to maintain a 10% position in foreign fixed income securities. Real rates of interest in foreign markets are attractive relative to the U.S. market and, because of relative yield curve shapes, we have hedged the currency risk associated with these holdings. We are modestly underweight corporates 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.*

   Our combination with the Morgan Stanley Group is expected to close in the fourth quarter.

   No investment professionals were hired, nor did any leave the firm during the third quarter.

   During the third quarter we gained four 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.*

   For other fixed income portfolios with similar investment objectives, we currently have 15% in invested in foreign fixed income securities, on a fully currency hedged basis, and have 8% invested in medium quality, below investment grade corporate securities.

Staff Comments

The difference between portfolio returns as reported by staff and the portfolio manager reflect variance in security pricing.

Manager Commentary
Standish, Ayer & Wood

Period Ending:	9/30/95	Returns	Qtr.	Year
Total Firm Assets Under Management	$28.8 Billion	Actual	2.2%	13.5%
Total Firm Assets Managed in this Discipline	$10.8 Billion	Benchmark	2.0%	14.1%

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?*

Third Quarter and YTD Attribution (Rel. to Lehman Aggregate)

	Third Quarter	YTD
• Duration	0	-.21
• Yield Curve	-.10	.05
• Domestic Sectors	.33	.41
• Non-Dollar	.02	-.16
• Fees		

- Corporate spreads have tightened in both the annual and quarter period giving positive contribution.
- Non-dollar a drag early in '95 but good rebound in third quarter.
- Mortgages performed well in the third quarter, reversing the poor performance experienced earlier in the year.
- Duration and curve impacts have not been as strong an influence in 1995 as last 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.*

Sector	Weighting Strategy	Rationale
Mortgages (including asset backed)	Strong overweight	Spreads vs. Treasuries over 100 basis points.
Corporates	Reduced overweight	Event risk in high quality spreads narrow, finance bonds attractive.
International	Modest weighting	Some catch-up from underperformance.
Treasuries	Remain underweight	Treasuries have been focus of strong rally. Extended and not supported by fundamentals.

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.*

Completed acquisition of half of Consolidated Standish not previously owned. (Joint Venture with Trigon [BC/BS of Virginia] in management of short term assets.) James W. Copley, Fixed Income Portfolio Manager and William Lupoletti, Fixed Income Portfolio Manager, joined as Standish employees at that time.

Personnel additions:	James W. Copley	- Fixed Income PM
	William Lupoletti	- Fixed Income PM
	Karen Meyers	- International Quantitative Analyst
	Dongyan Ma	- Fixed Quantitative Analyst
	Marc P. Seidner	- Fixed Derivatives Trader
	Krishnan C. Sakotai	- Equity Quantitative Analyst

Accounts:	Gained 5 Pensions $556.6 million
	Lost 1 Pension $351 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

No comments at this time.

Manager Commentary
Western Asset Management

Period Ending:	9/30/95	Returns	Qtr.	Year
Total Firm Assets Under Management	$17.6 Billion	Actual	2.4%	16.4%
Total Firm Assets Managed in this Discipline	$10.0 Billion	Benchmark	2.0%	14.1%

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 marginally last quarter, as most major strategies proved successful but little occurred on net for the quarter to differentiate returns. The portfolio's long duration posture was a small positive, as interest rates declined modestly. The portfolio's barbell exposure to the yield curve paid off, as the curve flattened marginally. Sector decisions played a supporting role, as overexposure to corporates was rewarded, while underexposure to mortgages aided relative performance also since the mortgage sector trailed somewhat.

   Performance continues to be very strong, both nominally and relatively, over the past 12 months. The portfolio's long duration posture over most of the past year has been a positive factor for performance, since long-term interest are substantially lower than they were a year ago. More importantly, the portfolio has benefited significantly from historically volatile shifts in the yield curve: last year's flattening rewarded the portfolio's barbell exposure to maturities, while a sharply steeper yield curve rewarded the portfolio's concentration in intermediate maturities in the first quarter. With a significant overweighting to corporate bonds throughout most of this period, the portfolio has also been the beneficiary of a general tightening in corporate spreads, particularly at the low end of the investment quality scale. Overweighting of mortgages in the fourth quarter of last year and the first quarter of this year was an important factor as well, since mortgage performance was strong then; mortgages have underperformed in the past six months, but the portfolio's significantly underweight exposure was positive for relative returns.

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 think the economy remains in the grips of tight monetary policy, and that the prospects for continued disinflation are thus excellent. With short-term interest rates substantially above current inflation, economic growth has slowed significantly, and the anticipated rebound in the second half of the year has not yet materialized. Long-term rates have not fully reflected the inflation fundamentals, and the Fed, through its reluctance to ease, has put an effective floor under short-term interest rates. We continue to maintain an above-average duration, in anticipation of further declines in interest rates. Though we expect that long-term rates can fall somewhat more than short-term rates because the Fed will be slow to move, we have recently used call options to buy some insurance against a scenario in which continued weakness in the economy prods the Fed to move more aggressively. Otherwise, the portfolio continues to be structured with a barbell exposure to maturities.

   Since we do not anticipate recessionary conditions, we continue to hold a moderately overweight corporate position. We have moved to reduce our underweighting to mortgages, since spreads have widened to more attractive levels, but are emphasizing securities, such as seasoned mortgages and low-coupon issues, which have low prepayment risk.

Western (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.*

   Western Asset added seven accounts. No accounts 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

No comments at this time.

Manager Commentary
IDS Advisory

Period Ending:	**9/30/95**	**Returns**	**Qtr.**	**Year**
Total Firm Assets Under Management	$24.9 billion	Actual	2.0%	15.4%
Total Firm Assets Managed in this Discipline	$ 4.6 billion	Benchmark	1.9%	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?*

   In the quarter ended September 30, 1995 your portfolio had investment performance of +2.0% compared to the +1.9% return on the Lehman Brothers Government/Corporate Bond Index. For the twelve months ended September 30, 1995, your account returned +15.6% compared with the 14.4% return registered by the Lehman Brothers Government/Corporate Bond Index. During the third calendar quarter the yield curve as measured by the two year to thirty year Treasury, remained essentially unchanged, as did interest rates. Cash in the account was maintained at minimal levels and duration was maintained near the maximum permitted by investment guidelines of seven 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.*

   Yield spreads between Corporates and Treasuries continue to remain stubbornly narrow. As we have said before, our conviction that slower growth in the economy will lead to a widening in yield spreads is being tested. We remain convinced, however, that an opportunity to increase corporate bond positions at more advantageous spreads 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.

Third Quarter 1995

	Gains		Losses	
Product	**# of Accounts**	**Assets ($MM)**	**# of Accounts**	**Assets ($MM)**
Large Cap Equities	3	33.8	0	0
Fixed income	1	76.6	0	0
Balanced	0	0.0	0	0
International	1	16.1	0	0
Regional - Pacific	0	0.0	0	0
Global Ex-Australia	0	0.0	0	0
Latin America	0	0.0	0	0
Small Cap Equities	1	8.3	0	0
Mid Cap Equities	0	00.0	0	0
Research Core	3	45.9	0	0
Research Aggressive	4	40.8	0	0
Global Bonds	0	0.0	0	0
Structured Fixed Income	1	20.6	0	0

4. ***Other Comments.*** *Highlight any other issues/events that are pertinent to the management of the SBI account at your firm.*

At this time we believe that there is a less than 50/50 chance of the FRB reducing short term rates by year end. However, further interest rate reduction by the Fed are expected in 1996.

Staff Comments

No comments at this time.

Manager Commentary
TCW Asset Management

Period Ending:	**9/30/95**	**Returns**	**Qtr.**	**Year**
Total Firm Assets Under Management	$52.4 Billion	Actual	2.5%	10.8%
Total Firm Assets Managed in this Discipline	$10.2 Billion	Benchmark	2.1%	13.5%

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 large gains of the second quarter reflected some fears of refinancings on mortgages and brought discount CMOs to relatively high marginal price levels. The third quarter returns reflected a minor correction in these price values. Year to date performance is 14.3% and compares very favorably to the performance of the Lehman Mortgage Index which has returned 13.05% year to date. The environment remains favorable for the discount CMO sector because unlike the vast majority of mortgage-backed securities, these types of mortgages will benefit from an increase in refinancing activity.

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 CMO sector continues to be an important focus in our mortgage strategy. Approximately 56% of the portfolio is invested in CMOs. As mentioned above, we emphasize discount CMOs and those with call protection that are likely to deliver higher yields and total returns than the underlying pass-throughs, without compromising credit quality. Adjustable rate mortgages comprise slightly over twenty percent of the total gross assets and provide the portfolio with a high yielding short duration assets. The portfolio is currently well positioned to outperform its benchmark in the current environment because it has more call protection, greater convexity and a higher yield than its 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.*

   There were no significant ownership or personnel changes over the last quarter. Three accounts totaling approximately $103 million were lost in this strategy, and one new account for $28 million was added.

4. ***Other Comments.*** *Highlight any other issues/events that are pertinent to the management of the SBI account at your firm.*

   No comments at this time.

Staff Comments

Due to asset allocation changes in the Combined Funds, staff is recommending that the SBI's relationship with TCW be terminated. See staff memo for further details.

Manager Commentary
Fidelity Management Trust Company

Period Ending:	**9/30/95**	**Returns**	**Qtr.**	**Year**
Total Firm Assets Under Management	$26.8 Billion	Actual	2.1%	12.3%
Total Firm Assets Managed in this Discipline	$ 4.7 Billion	Benchmark	2.0%	14.1%

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?*

Performance Analysis--3Q95

- The portfolio performed slightly ahead of the Index during the quarter. The portfolio's collateralized mortgage obligations (CMOs) and commercial mortgage backed security (CMBS) holdings helped performance. Overall, however, the portfolio remains defensively positioned relative to the Index.

- CMOs and CMBS holdings continued to benefit from favorable technical conditions. The CMO market has experienced little to no supply while CMBS continue to attract new investors.

- Although we are overweighted in corporate securities on a market value basis, we remain underweighted on a corporate dollar duration basis. The uncertain economic environment along with historically extreme corporate valuations has increased the potential for wider spreads relative to comparable duration Treasuries. In addition, corporate event risk remains a concern. To protect the portfolio from these risks, we have continued to emphasize shorter duration corporate securities, high-quality asset backed securities, and collateralized mortgage obligations. This defensive positioning has resulted in a loss of some yield as compared to a more aggressive positioning, but protects the portfolio from spread widening risk.

Performance Analysis--12 months

- The portfolio lagged its benchmark over the past year primarily due to the portfolio's Mexican Yankee holdings.

- The Mexican peso's sudden devaluation in December, 1994, resulted in significant spread widening in the short-term dollar-denominated Mexican exposure that existed in the portfolio. A significant lack of investor confidence in the Mexican government's ability to implement economic policies aimed at minimizing the extent of a Mexican recession, and concerns over the satisfactory repayment of debt, led to heightened spread volatility in the Mexican market. As a result of this increased volatility, we worked to significantly reduce the Mexican exposure in the portfolio. Although the portfolio benefited from a rebound in the Mexican market, primarily in the second quarter, we still believe that the new volatility characteristics of this market are not appropriate for the Minnesota portfolio. We have since sold all remaining positions in Mexico.

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
   Maintain corporate dollar duration underweighting. Although fundamentals and technicals remain constructive, high valuation in the corporate sector continues to offset these factors. Emphasis remains on short duration, low quality issues.

   Mortgages
   The mortgage sector remains fairly valued. In response, we continue to maintain a neutral mortgage pass-through allocation relative to the Index.

   The portfolio continues to hold CMOs and CMBS. These sectors still offer attractive values.

   Yield Curve Strategy
   Overall, we are maintaining a neutral yield curve positioning relative to the Index. However, we continue to take advantage of valuation differences within the curve.

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 Changes
   During the third quarter of 1995, Mr. Alexander Webb resigned as President and Director, after five and a half years with Fidelity, to join The Boston Company. The new President and Chairman is Mr. Denis McCarthy who has served as Chief Financial Officer of FMR Corp. for the past six years.

   Targeted Active Management Accounts Gained/Lost
   Below we have provided you with the Targeted Active Management account(s) gained and lost during the third quarter of 1995.

   Lost
   Del Monte

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
Goldman Sachs Asset Management

Period Ending:	**9/30/95**	**Returns**	**Qtr.**	**Year**
Total Firm Assets Under Management	$45.1 Billion	Actual	2.1%	14.5%
Total Firm Assets Managed in this Discipline	$15.3 Billion	Benchmark	2.1%	14.1%

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 third quarter the portfolio outperformed the Lehman Aggregate Index by 8 bps. The portfolio's corporate sector holdings were primarily responsible:

- YTD, the mortgage sector detracted about 6 bps from the portfolio's performance due to prepayment fears caused by the rally in the Treasury market. In the third quarter, the mortgage sector added almost 4 bps to the portfolio's performance, primarily due to collateral security selection as spreads on the portfolio's holdings tightened relative to those in the index.

- YTD, the portfolio's term structure detracted a total of 6 bps from the portfolio's return primarily die to the barbelled portfolio structure in the second quarter; the portfolio's Treasury securities added about 1 bp to its incremental return; Agencies added about 5 bps due to security selection. In the third quarter - the portfolio's Treasury securities detracted less than 1 bp from its incremental return due to security selection; Agencies added about 3 bps as the portfolio's Agencies tightened 10 bps more than those in the index.

- YTD, the portfolio's corporate securities added about 17 bps to its incremental return due largely to the outperformance of the portfolio's industrial and financial securities. In the third quarter, the portfolio's corporate securities added about 6 bps to its incremental return, primarily from the outperfomance of the portfolio's industrials, which tightened 7 bps more than those in the index over the third quarter and from the OAS advantage of the industrial and financial subsectors and securities.

- YTD, the portfolio's emerging market securities added about 3 bps to its incremental return. In the third quarter, the portfolio's EMD securities added about 2 bps to its incremental return, primarily from its holdings of Republic of Columbia 5-year bonds.

Duration/Term Structure Exposure	-2.1	Emerging Markets	1.5
Treasury	-0.5	Mortgage	3.5
Agency	3.0	Municipal	0.0
Asset-Backed	0.9	Index Price Mismatch	-7.2
Corporate	6.1	Residual	2.9
		Total	8.0

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 to the benchmark.

In Agencies, portfolio is 5% underweighted with respect to benchmark in favor of other higher-yielding spread sectors.

32% allocation to the mortgage sector (4% overweighting). Positive outlook on collateral due to recent widening. Overweight GNMAs relative to conventionals due to recent cheapening. Focus on 7% thru 8% securities in the new issue sector and 9% and 9.5% securities in the seasoned sector. Underweight 15-year mortgages due to tight option-adjusted spread levels. Continue to add stable CMOs when attractive relative to Agency pass-throughs.

31% allocation to corporates (14% overweighting). We are slightly optimistic on corporate spreads with the economy showing resilience in the second half of the year. The technical picture is mixed as the recent wave of corporate issuance has slowed, but heavy supply could resume if rates continue to rally. Subsectors; underweighted utilities due to increased competition and a hostile regulatory environment. Continue to favor lower quality industrials with the economy expected to resume near trend-line growth into 1996. Financials spreads have tightened and we have been selectively reducing exposure. Will look to add to Yankee sector if political risk widens spreads in Canada and Italy.

9% allocation to asset-backed sector, which should still continue to benefit from strong investor demand for short-duration paper with incremental yield and low spread volatility.

1.6% allocation to emerging market debt. We have a cautious approach to Republic of Columbia due to near-term political risk. While the economy continues to perform well we are watching for new developments in the recent political crises. As a result of third quarter sales, we have space to increase our allocation should the market present an opportunity. We continue to like CAF for the incremental spread that at 5-year BBB at 150 bps can provide.

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.

There were no changes to our U.S. fixed income portfolio management staff.

U.S. Fixed Income Accounts Gained:	0	U.S. Fixed Income Accounts Lost:	0
- U.S. Clients	- 0	- U.S. Clients	- 0
- Non-U.S. Clients	- 0	- Non-U.S. Clients	- 0

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
Lincoln Capital Management Company

Period Ending:	**9/30/95**	**Returns**	**Qtr.**	**Year**
Total Firm Assets Under Management	$32.7 Billion	Actual	1.9%	14.2%
Total Firm Assets Managed in this Discipline	$ 9.6 Billion	Benchmark	2.0%	14.1%

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?*

	3rd Quarter 1995		12 Months Ended 9/30/95	
	Active Strategy	Value Added	Active Strategy	Value Added
Mortgages	Overweighted	-0.01%	Overweighted	-0.01%
Corporates	Neutral	0.00	Neutral	0.00
BBBs	Neutral	0.00	Neutral	0.00
Asset-Backed	Overweighted	0.00	Overweighted	+0.02
Agencies	Overweighted	0.00	Overweighted	0.00
Miscellaneous				
Rebalancing Transaction Cost	N/A	-0.01%	N/A	-0.04%
Security Selection	N/A	+0.05	N/A	+0.19
Less Fees		-0.01		-0.04
Total		+0.02%		+0.12%

The corporate sector continued to outperform all sectors in the third quarter as corporate spreads narrowed in each month of the quarter, ending the quarter 7 to 10 basis points tighter. Mortgage spreads narrowed early in the quarter while rates were rising, yet gave up their gains as rates fell in August and September. Mortgages were a slight drain on portfolio returns as convexity costs more than offset the modest yield advantage. Security selection continued to positively contribute to excess returns.

Over the last 12 months, mortgages were a slight drain on returns, while the overweighting in asset-backeds contributed positively to returns. Security selection was the largest contributor to value added.

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	1. High Quality 2. Attractive Yield 3. Low Event Risk 4. Low Prepayment Risk
Current Coupon 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	101

Jonas M. Krumplys, Vice President, joined Lincoln in September of 1995 as an equity portfolio manager/research analyst.

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
GE Investment Management, Inc.
Assigned Risk Plan

Period Ending:	**9/30/95**	**Returns**	**Qtr.**	**YTD**
Total Firm Assets Under Management	$9.4 Billion	Actual	7.7%	29.2%
Total Firm Assets Managed in this Discipline	$9.4 Billion	Benchmark	8.0%	29.8%

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?*

   GE Multi-Style lagged the S&P 500 by 0.3% in the third quarter and by 0.6% for the first nine months of 1995. We have been overweighted vs. the S&P 500 all year in Capital Goods and Financials, and underweighted in Consumer Cyclical and Consumer Stable, as well as Technology and Utility stocks. During September, the market rotated into perceived "safe havens" such as consumer stable and utilities, and out of cyclical stocks. This move cost us about 0.6% and accounted for our under performance in the quarter and the nine months. We also were hurt in the quarter and the nine months by our cash holding. While the cash holding is small (3.77% at the end of the third quarter), it hurt in a strongly rising market, and also more than accounted for our under performance. We have been underweighted in Consumer stocks for quite a while and this has helped us year to date despite September's action. We also have been helped by our overweighting in Financial stocks.

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 remain overweighted in Capital Goods and Financial stocks. We believe that capital spending on infrastructure worldwide will continue to be a driving factor in the economy for the rest of the decade, and that good values exist here. We believe that there continues to be good value in financial stocks as well as a favorable interest rate environment for the next number of months. We remain underweighted in Utilities, believing that electric and gas utilities will show low growth and all utilities will face increasing competition which most are not prepared to deal with effectively. We remain underweighted in Consumer stocks, believing that consumers in general have high debt levels and will experience continued slow wage growth, and many consumer goods companies that grew by increasing prices in the past will not be able to do so in the future. We are underweighted in Technology due to concerns about valuation levels, and have been fortunate to have had good stock selection in this area during the past nine months so our underweighting has not hurt us very much.

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.*

   Hired new analyst (starting 10/16/95) to replace Tom Driscoll who is retiring at 12/31/95. Dick Sanderson will follow the machinery, electrical equipment transportation and metals and mining industries. Dick has 23 years of experience and joins us from Alliance Capital where he covered the same industries and was named "Best of the Buy Side" four times by *Institutional Investor* magazine.

4. ***Other Comments.*** *Highlight any other issues/events that are pertinent to the management of the SBI account at your firm.*

   Buy-in costs in January had a negative impact of approximately 21 basis points.

Staff Comments

Staff met with GE Investment in late October at their office in Stamford, Connecticut. Staff discussed a number of topics with GE Investment. Information staff collected coincides with comments made by GE Investments above.

Manager Commentary
Voyageur Asset Management
Assigned Risk Plan

Period Ending:	**9/30/95**	**Returns**	**Qtr.**	**1 Yr.**
Total Firm Assets Under Management	$ 6.6 Billion	Actual	1.7%	11.9%
Total Firm Assets Managed in this Discipline	$ 0.4 Billion	Benchmark	1.7%	11.0%

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?*

   Our performance over the last quarter and last year was consistent with our overall view of the direction of interest rates and sector choices. As detailed in our last quarterly comments, by calendar year end 1994, we became much more constructive on the market and through the first six months of 1995 we became more aggressive in the management of the portfolio. By June, market prices peaked and since that time we have left the same "bets" in place, with slight refinements to take advantage of buying and selling opportunities. For example, in May we increased our allocation to the mortgage sector, and relative to the benchmark we remain overweighted today. We bought and sold different securities to enhance performance, swapping securities through June and being marginal net sellers through quarter end. The same strategy was pursued with corporates and asset-backeds. By quarter end we remained overweighted in all "spread" products (and underweighted in Treasuries), yet to a lesser extent than at June 30. We also modestly shortened the duration of the portfolio in anticipation that the pace of the rally in bond prices would slow. This opportunistic selling has "worked" in that by the end of an otherwise relatively quiet and stable quarter, the portfolio was able to outperform its custom benchmark.

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" in place at this time are the same as those in place at quarter end. We remain modestly overweighted in spread product and underweighted in Treasuries. We still believe (as indicated in the July commentary) the economy will achieve a "soft landing" and can experience moderate growth with low inflation. However, we also believe positive effects for the market are now behind us; that is interest rates will most likely grind lower, but might be subject to more volatility, and that corporate earnings will struggle to maintain their strong pace. In this environment we will be less likely to assume "big bets" but instead remain opportunistic and look to add value by staying somewhat overweighted in spread product and taking advantage of attractive buying and selling opportunities. We also anticipate maintaining a duration for the portfolio at slightly longer than that of the benchmark. Again, it is important to note that it is our intent to add the greatest value through sector rotation and specific security choices rather than by any significant interest rate bet.

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 Changes during third quarter, 1995, are as follows:

   Additions:

   7/95 Steve Eldredge, CFA, Senior Vice President, Tax-Exempt Fixed Income Portfolio Manager - Funds

   7/95 David Lebedoff, Senior Vice President, Client Service/Marketing Representative, Foundations & Endowments

   Losses:

   7/95 Robert S. Hullinghost, Director of Trust Services, Colorado Public Funds Investment Trust - Program restructuring

   There were not any accounts gained or lost in this particular discipline during third quarter, 1995.

4. ***Other Comments.*** *Highlight any other issues/events that are pertinent to the management of the SBI account at your firm.*

   There were no other issues or events which occurred at Voyageur which would be pertinent to the management of the SBI account.

Staff Comments

No comments at this time.

Manager Commentary
Baring Investment Services

Period Ending:	**9/30/95**	**Returns**	**Qtr.**	**Year**
Total Firm Assets Under Management	$12.0 Billion	Actual	6.8%	2.6%
Total Firm Assets Managed in this Discipline	$ 2.0 Billion	Benchmark	4.2%	5.8%

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?*

The following figures show a breakdown of the returns for the last quarter:

	Total Return %	**Currency %**	**Market Weighting %**	**Tracking Error %**
Minnesota State Board	6.8	-2.7	10.2	0.2
MSCI EAFE Index	4.2	-6.3	11.2	---
Relative Return	2.6	3.8	-0.9	0.2

Currency (Relative return +3.8%): For the third quarter in succession, currency movements dominated returns. During this quarter the fall of the yen overshadowed other currency movements. The yen fell 14.0% against the US dollar and 11.5% against the duetschemark. The hedge out of the yen contributed the majority of this relative outperformance.

Market Weighting (Relative return -0.9%): This was a difficult quarter in which to add value through market selection. Only three markets outperformed the index during the period: Japan, Finland and Sweden. Gains from underweighting Germany, Switzerland, Malaysia and the UK were offset by overweighting other underperforming markets, most notably France and Hong Kong. Our overweighting of Japan, at 3% above the index, although a positive, was insufficient to offset these negatives.

Tracking Error (Relative return +0.2%): Over the quarter tracking error was neutral across most country funds, with marginal positives for Japan and the UK.

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 of your portfolio are:
Overweight: Japan, France, Hong Kong and US Dollars
Underweight: Germany, UK, Scandinavia and Yen

Economic growth remains sluggish and inflation benign throughout the development world. Central banks continue to ease monetary policy providing the liquidity for further advances by the financial markets. The easing of monetary policy by the Bank of Japan was the catalyst for the rally in Japanese equities and the fall of the Yen. We are forecasting a mild economic recovery in Japan underpinned by the combination of this easy monetary policy, fiscal stimulus and weak Yen. Modest economic growth will lead to a sharp rebound in corporate profits which in turn will result in the valuation of the market falling to historically attractive levels. We continue to see significant upside for Japanese equities but the yen is forecast to weaken further so we are maintaining our hedge from the Yen to core European currencies and the US Dollar.

The Hong Kong stock market continues to be linked to the US interest rate cycle through the currency peg. An easier US monetary policy combined with attractive market valuation has led us to increase your portfolio's exposure to this high growth economy.

Interest rates are set to decline further in France on the back of slower growth throughout Europe. French corporate profits are forecast to grow by 25% in 1996 and the market is selling at very depressed valuations.

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.*

Joiners	**Leavers**
J. Miller, US Bond Specialist	K. Okamura, Japanese Specialist
S. Cogswell, Japanese Specialist	L. Duke, US Bond Specialist

In the Active/Passive Discipline:
No accounts were gained or lost during the third quarter in this discipline, however, cash flows into the Active/Passive funds for the quarter was $96 million.

4. ***Other Comments.***

None.

Staff Comments

Barings was taken off probation at the October 1995 SBI meeting. Staff will continue to monitor Barings for any signs of adverse changes due to the Barings bankruptcy and subsequent purchase of Barings Asset Management by ING.

Performance attribution relative to EAFE for the quarter is shown below:

	Jun. - Sep. 1995
Country selection*	0.30
Stock selection*	-0.14
Currency effect	-0.64
Hedging activity	2.95
Total Value Added to EAFE	2.72

Source: State Street Analytics * in local currency

Manager Commentary
Brinson Partners, Inc.

Period Ending:	9/30/95	Returns	Qtr.	Year
Total Firm Assets Under Management	$43.5 Billion	Actual	10.3%	9.1%
Total Firm Assets Managed in this Discipline	$ 9.8 Billion	Benchmark	4.2%	5.8%

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?*

   Market allocation was negative in the third quarter, but strongly positive for the year. While third quarter performance was hurt by the underweight (until early August, when the Japan holding was moved to roughly neutral) in the strong Japanese market (up 22.80% in hedged terms in the quarter), the portfolio benefited from this underweight for the year as a whole, when the Japanese market had a dollar-hedged decline of 1.98%. Holding strategic cash also added to returns for the currency year, during which the non-U.S. markets returned 4.75% in dollar-hedged terms. Weakness in Australia and France reduced third quarter returns, but overweighting Australia, the U.K., Canada, the Netherlands and New Zealand added value for this year.

   Currencies added considerable value both during the third quarter and the year, playing a significant part in the portfolio's outperformance. The principal contributor in both periods was the strategy of holding no yen, as the currency lost -14.89% in the third quarter and -3.51% for the year. Other important positives for the quarter have been the overweights of the U.S. and Canadian dollars, which both strengthened against most other currencies, and overweights in the lira and the peseta, which also grew in value.

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.*

   Midway through the third quarter, the cash position was eliminated. Cash, along with a reduction of Australia, were used to reduce the Japan underweight to -2% below the benchmark weight. With the decline of the yen and increased signals of a loosening in Japan's monetary policy, near-term prospects for the Japan equity market may have improved. The currency market allocation is largely neutral and represents a tactical, defensive position, pending further clarification of Japan's economic and political situation. Several changes were also made to currency allocation strategies. The yen exposure was increased 11%, funded by lifting some hedges in the Canadian dollar and the U.S. dollar. We continue to believe that the U.S. and Canadian dollars offer the most attractive return potential, while the yen remains overvalued.

   The current yen holding of 12.64% represents an underweight of 28%. The portfolio also maintains a minimal exposure to the overvalued ERM currencies, which weakened somewhat against the dollar during the third quarter, but strengthened over the course of the year. To offset these underweights, the portfolio maintains overweights in the more attractively priced North American currencies. The quarter-end strategy allocates 8.5% to the Canadian dollar and 40.5% to the U.S. dollar.

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.

   During our thirteen years of managing non-U.S. equity assets, we have lost only four clients, two of which were lost during the first half of 1995. The two clients had total assets of $334 million. We did not gain any non-U.S. equity clients during this period.

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

Performance attribution relative to EAFE for the quarter is shown below:

	Jun. - Sep. 1995
Country selection*	-0.15
Stock selection*	-1.55
Currency effect	1.01
Hedging activity	6.11
Total Value Added to EAFE	6.19

Source: State Street Analytics * in local currency

Manager Commentary
Marathon Asset Management

Period Ending:	9/30/95	Returns	Qtr.	Year
Total Firm Assets Under Management	$3.7 Billion	Actual	6.9%	2.6%
Total Firm Assets Managed in this Discipline	$2.2 Billion	Benchmark	4.2%	5.8%

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?*

   The portfolio outperformed in the third quarter of 1995, rising 6.9% versus a 4.2% rise in the MSCI EAFE Index. Positive stock returns were seen in Japan and Australia, with the later proving to be the best performing market over the quarter. European markets continued to be led by the soft currency bloc, notably Sweden and Finland, and country returns here were supported by positive stock returns in the hard currency bloc. The Fund's yen hedge that expired during the quarter was not renewed reflecting the increased bias that has been adopted within Japan towards the currency sensitive manufacturing and technology sectors.

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.*

   Turnover in the quarter was again dominated by Japan, where the yen's 17% decline against the dollar was a critical component of the Government's further fiscal and monetary policies to reverse the dangerous, and self-reinforcing, deflationary spiral that had developed in the aftermath of the Hanshin earthquake. Holdings in Japan were hence raised in the manufacturing (and particularly selected technology) areas with a clear focus on mid-term growth potential which appear increasingly undervalued versus more asset-related or defensive sectors. Elsewhere in Asia the portfolio remains positioned for late cycle global growth, with increasing pressure on capacity constraints anticipated in a growing range of upstream/capital intensive industries. The regional disruption that has occurred as a result of the ongoing austerity measures in China has to a considerable degree hidden this underlying imbalance, with artificial restraints on Chinese demand in a wide range of products creating temporary price weakness. The positive, interest rate driven movements in the Hong Kong and China Indices indicate however that the desired economic cooling has to a considerable degree been achieved, suggesting that 1996 may see both accelerating Chinese demand and a more buoyant Japanese economy.

   Whilst overall asset allocation changed little over the quarter developments in Europe have accelerated, suggesting that the "Franc Fort" may finally be entering its death throws. Growing domestic alarm over the effect of such a strategy on French competitiveness (i.e. jobs) has been reinforced by a wider sense of disillusionment within Europe over the benefits from, timing of, and underlying support for, full monetary union. As such, whilst Marathon's European sectoral bias away from healthcare, consumer non-durables, financials and oil remains largely unchanged, there is a growing argument for switching away from the soft currency cyclical/manufacturing beneficiaries towards the greatly unloved (and, normalised earnings, in many cases cheaper) hard currency sufferers. Marathon's considerable bias against the latter can then be expected to be gradually reduced over the remainder of 1995.

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: NA

   Accounts Gained: 1
   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.*

   None.

Staff Comments

Performance attribution for the quarter relative to EAFE is shown below:

	Jun. - Sep. 1995
Country selection*	-0.21
Stock selection*	3.40
Currency effect	-1.58
Hedging activity	1.48
Total Value Added to EAFE	2.87

Source: State Street Analytics * in local currency

Manager Commentary
Rowe Price-Fleming International

Period Ending:	**9/30/95**	**Returns**	**Qtr.**	**Year**
Total Firm Assets Under Management	$21.4 Billion	Actual	4.8%	5.3%
Total Firm Assets Managed in this Discipline	$15.2 Billion	Benchmark	4.2%	5.8%

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?*

   Third Quarter:

   Country allocation was slightly negative over the quarter. Positions in Mexico, Brazil and Korea added value as did the underweighting in Germany but this was more than offset by value subtracted through overweighting France and positions in Chile and the smaller markets of the Pacific such as Thailand. Your portfolio's underweighting in Japan had a neutral impact on the portfolio over this period.

   Stock selection added value over the quarter with growth stocks in Europe performing reasonably well as did yen-sensitive areas of the Japanese market. Smaller companies also added value with better performance in Japan and parts of Europe.

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

   The investment outlook remains reasonable with the economic cycle continuing to turn upwards around the world, earnings growth still strong, bond markets supportive and valuations neutral to positive. Japan continues to offer selective opportunity. Favoured growth companies in Europe remain good value while the smaller markets of Asia and Latin America now seem to have recovered from the uncertainties of the last eighteen months. Overall, we believe that international markets should perform well into 1996.

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.

   During the third quarter, RPFI gained three new accounts, all 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:

	Jun. - Sep. 1995
Country selection*	-2.95
Stock selection*	1.64
Currency effect	1.82
Hedging activity	0.00
Total Value Added to EAFE	0.77

Source: State Street Analytics   * in local currency

Manager Commentary
Scudder, Stevens and Clark

Period Ending:	**9/30/95**	**Returns**	**Qtr.**	**Year**
Total Firm Assets Under Management	$101.7 Billion	Actual	6.7%	10.3%
Total Firm Assets Managed in this Discipline	$ 8.9 Billion	Benchmark	4.2%	5.8%

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?*

   Performance for both the year and the recent quarter are well above the benchmark. This is attributable to an underweighting in Japan earlier in the year, good performance from selected European stocks throughout the year, and an increased position (from 18% to 23%) in Japanese stocks from the middle of July. The Japanese portion of the portfolio is about 60% hedged.

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 underweight Japan relative to our benchmark, although we have increased a bit. We believe the Yen will tend to weaken and thus have the Japanese position about 60% hedged. Emerging markets, on a stock-by-stock basis, appear more attractive; when we are able to find a superior company in these markets, we are enthusiastic buyers.

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) Personnel Turnover for the third quarter of 1995:

   Gained:

Valerie Malter, Principal	Quality Growth Portfolio Manager
Steve Bonhglio, Assistant VP	Equity Trader

   Lost:

Robert Chapman, Vice President	Value Equity Portfolio Manager
Robert Bolt, Vice President	Institutional Portfolio Manager

   B) International Accounts Gained/Lost

   Gained:
   One Trust account, $35 Million

   Lost:
   Three Trust accounts, $48 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

Performance attribution relative to EAFE for the quarter is shown below:

	Jun. - Sep. 1995
Country selection*	-3.36
Stock selection*	1.28
Currency effect	2.46
Hedging activity	1.73
Total Value Added to EAFE	2.63

Source: State Street Analytics * in local currency

Manager Commentary
Templeton Investment Counsel, Inc.

Period Ending:	**9/30/95**	**Returns**	**Qtr.**	**Year**
Total Firm Assets Under Management	$52.3 Billion	Actual	4.6%	11.4%
Total Firm Assets Managed in this Discipline	$15.9 Billion	Benchmark	4.2%	5.8%

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?*

   The portfolio marginally outperformed the MSCI EAFE index this quarter and by a wide margin on a one-year rolling basis. Portfolio performance for the recent quarter (relative to the index) continued to benefit from an underweighting in Japan. Performance has also been helped by overweighting markets with good performance that include, for example, Sweden. 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 from 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.

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 ownership changes during last quarter. We have added six global/international equity research analysts this quarter. There has been no significant personnel loss this quarter. There were no clients lost for the quarter ending September 30. New Non-U.S. business relationships showed a gain of 44 accounts and $214.2 million in assets so far this year.

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

Performance attribution relative to EAFE for the quarter is shown below:

	Jun. - Sep. 1995
Country selection*	-5.64
Stock selection*	0.06
Currency effect	5.45
Hedging activity	0.00
Total Value Added to EAFE	0.53

Source: State Street Analytics * in local currency

Manager Commentary
State Street Global Advisors

Period Ending:	**9/30/95**	**Returns**	**Qtr.**	**Year**
Total Firm Assets Under Management	$175.0 Billion	Actual	3.8%	5.8%
Total Firm Assets Managed in this Discipline	$ 32.0 Billion	Benchmark	4.2%	5.8%

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 third quarter, the portfolio closely tracked the benchmark, underperforming by 0.04% (Actual 4.18 vs. Benchmark 4.22) due to dividend yield smoothing. For the year, the portfolio outperformed by 0.19% (Actual 6.20 vs. Benchmark 6.01) due to SBI's lower dividend withholding tax rate than used in the calculation of the MSCI EAFE-Free Index.

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.*

   There were no significant personnel changes at SSGA during the third quarter 1995. We added seven new EAFE index clients with total assets of $75 million. No clients were lost over the last quarter.

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.

The editors of *Plan Sponsor* bestowed their 1995 Defined Benefit Manager of the Year award upon State Street Global Advisors and Nick Lopardo. Nick is described in the issue as being "a world apart from most of his peers in the investment management industry ...He is blunt and straight spoken as his appearance suggests. He knows his product and his customers." Not a glad hander, in Nick's words he was taught to "...hammer the competition, not coddle them." The article, an interview by *Plan Sponsor* Editor-in-Chief Charles Ruffel, is about SSGA's success and Lopardo's aspirations for the firm. Highlights from the interview include SSGA's autonomy from the bank, commitment to become a truly global manager and the spirit and motivation which have guided Lopardo to attain success.

Staff Comments

SSGA and SBI performance calculations differ due to currency pricing differences between the custodian and SSGA. Over time, these pricing differences are expected to "wash out." Staff is continuing discussions with the custodian and SSGA to minimize the differences on a quarter-to-quarter basis.

Performance attribution relative to EAFE for the quarter is shown below:

	Jun. - Sep. 1995
Country selection*	0.15
Stock selection*	0.02
Currency effect	-0.50
Hedging activity	0.00
Total Value Added to EAFE	-0.40

Source: State Street Analytics * in local currency

Manager Commentary
Internal Stock Pool

Period Ending:	**9/30/95**	**Returns**	**Qtr.**	**YTD**
		Actual	7.9%	29.7%
Assets Managed in this Discipline	$56.2 Million	Benchmark	8.0%	29.8%

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.*

   For both the quarter and year, the index fund incurred negative tracking of 10 and 5 basis points respectively. The quarterly underperformance was due to small immaterial weighting differences between the actual holdings and the index. For the year, the major contributor to the 5 basis point tracking error was cash. The index cash holding was kept below 1% for the year but in a strong up market that will still produce a negative tracking error of 2 basis points. The risk model's estimate of tracking error at one standard deviation is 4-6 basis points. Given this, the one year results are within expectations.

2. **Future Strategy**. Going forward, what strategies, if any, do you plan to implement to control tracking error within expectations.

   In late October futures agreements will be in place that will allow us to equitize the cash holdings in the portfolio. This will allow us to minimize tracking error during time periods when the fund receives large cash in-flows, especially during quarters when the market generates large positive or negative returns. The futures will also reduce transaction costs because they will eliminate the urgency to invest the cash into equities.

3. ***Other Comments.*** *Highlight any other issues / events that are pertinent to the management of the SBI account.*

So far during 1995, the increase in the value of the fund is completely due to market appreciation. Because of the strong stock market, all cash in-flows for the Environmental Trust Fund have gone to the bond component to maintain the 50/50 policy asset mix. However, it is expected that during the fourth quarter the index will start to receive new contributions provided that the stock market does not significantly outperform the bond market again.

Staff Comments

No comments at this time.

Manager Commentary
Internal Bond Pool

Period Ending:	**9/30/95**	**Returns**	**Qtr.**	**Year**
		Actual	2.0%	15.2%
Assets Managed in this Discipline	$0.62 billion	Benchmark	2.0%	14.1%

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?*

Performance, Third Quarter '95

The above returns reflect the combined portfolios of the Environmental Trust Fund, the Income Share Account, and the Permanent School Fund. Collectively, the funds matched the index returns.

- A barbelled portfolio increased returns as the yield curve flattened slightly during the quarter.
- An underweighted Treasury position and overweighted mortgage position enhanced returns since mortgage securities performed well during the quarter.
- A neutral to underweighted corporate position detracted from performance since corporate securities performed well as spreads tightened.
- An underweighted mortgage pass-through position and overweighted CMO position within the mortgage sector detracted from performance as pass-through spreads tightened more than CMO spreads.

Performance for the Year

Collectively, the funds outperformed the index.

- A longer duration than the benchmark added to performance as interest rates declined.
- A barbelled structure enhanced performance as the yield curve flattened.
- An overweighted position in positively convex CMO securities increased returns as interest rates fell.
- An underweighted position in negatively convex pass-through mortgages enhanced returns as interest rates fell.
- A neutral to underweighted Corporate position decreased returns since the corporate sector 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.*

   Yield Curve Strategy

   With the substantial decline in interest rates, real U.S. interest rates are much lower than they were nine months ago. If you assume that inflation will be 3% for next year, the real yield on the ten year Treasury is around 3%. At this level, bonds are less attractive investments and therefore the portfolio duration will remain neutral to slightly less than the market.

   We will maintain a slightly barbelled portfolio because we think the two to five year sector of the curve has priced in a Fed easing that may not happen. If the Fed does not ease, we think the yield curve will flatten.

   Corporate Strategy

   Corporate spreads are still tight and we will remain neutral to underweighted in them. We will look to selectively add corporates to the portfolio throughout the quarter if spreads widen.

   Mortgage Strategy

   Mortgage spreads have widened and therefore we will remain overweighted in them. Mortgages could be the best investment going forward because we think rates may not move significantly in either direction making less convex securities more attractive investments.

3. ***Other Comments.*** *Highlight any other issues / events that are pertinent to the management of the SBI account.*

   None.

Staff Comments

No comments at this time.