

MINNESOTA STATE BOARD  
OF INVESTMENT  
MEETING

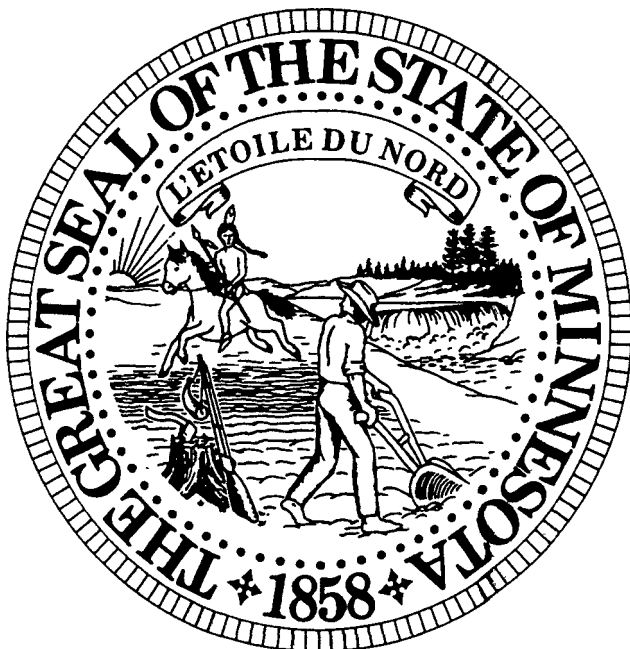
March 7, 1984

&

INVESTMENT ADVISORY COUNCIL  
MEETING

March 6, 1984

# MINNESOTA STATE BOARD OF INVESTMENT



## **MEMBERS:**

GOVERNOR  
Rudy Perpich

STATE AUDITOR  
Arne H. Carlson

STATE TREASURER  
Robert W. Mattson

SECRETARY OF STATE  
Joan Anderson Growe

ATTORNEY GENERAL  
Hubert H. Humphrey III

AGENDA

STATE BOARD OF INVESTMENT

MEETING

Wednesday, March 7, 1984

9:00 A.M.

Room 118

State Capitol  
Saint Paul

TAB

1. Approval of minutes of January 11, 1984 meeting
2. Executive Director's Report - H. Bicker
  - A. Quarterly Investment Review
    - 1) Basic Retirement Funds A
    - 2) Post Retirement Fund and Other Investment Funds B
  - B. Portfolio Statistics C
3. Bond Manager Search Committee Update - C. McCann  
H. Bicker D
4. Appointment of new IAC members - H. Bicker E
5. Real Estate Proposals - H. Bicker F
6. Venture Capital Proposal - H. Bicker G
7. Report of Winklevoss and Associates' Study - G. Donhowe
8. Seminar - H. Bicker H
9. Legislation - H. Bicker
10. Manager Update Interview - H. Bicker I

MEMBERS OF THE BOARD:

GOVERNOR RUDY PERPICH  
STATE AUDITOR ARNE H. CARLSON  
STATE TREASURER ROBERT W. MATTSON  
SECRETARY OF STATE JOAN ANDERSON GROWE  
ATTORNEY GENERAL HUBERT H. HUMPHREY III



EXECUTIVE DIRECTOR  
HOWARD J. BICKER

STATE OF MINNESOTA  
STATE BOARD OF INVESTMENT

Room 105, MEA Building  
55 Sherburne Avenue  
Saint Paul 55155  
296-3328

MINUTES  
STATE BOARD OF INVESTMENT

January 11, 1984

The State Board of Investment met on Wednesday, January 11, 1984 at 9:00 A.M. in Room 118 of the State Capitol. Governor Rudy Perpich, Chair, State Auditor Arne H. Carlson, State Treasurer Robert Mattson, Secretary of State Joan Anderson Growe and Attorney General Hubert H. Humphrey III were present.

The minutes of the October 26, 1983 meeting were unanimously approved.

Executive Director's Report

Howard Bicker, Executive Director, reviewed the investment performance of the Basic Retirement Funds for the year ending September 30, 1983. He reviewed a new proposed format for reporting Board performance, noting that in the future performance for the external managers would utilize an April 1, 1983 starting date. Mr. Bicker stated that the equity performance had lagged in the 3rd quarter and the performance ranked 18 below the Merrill Lynch Bond Index due to the longer maturity structure of the Board's portfolio. He noted that the average maturity had been decreased in the last few years. Mr. Bicker also reviewed the portfolio asset mix, the external equity managers, and performance relative to various bogeys including the CPI, the Merrill Lynch tax-exempt fund universe, and TUCS, a tool to evaluate the performance of the aggressive equity managers.

Mr. Bicker reported on the legislative proposal for a constitutional amendment to change the investment restrictions of the Permanent School Fund in order to increase the yield. The Board will be informed of the bill's progress.

Mr. Carlson commended the new performance format. In response to a question from Mr. Humphrey, Mr. Bicker responded that the poor 3rd quarter performance of the stock market was due in part to investor expectation of continued high interest rates.

#### Investment Advisory Council Report

Malcolm McDonald, representing the Investment Advisory Council, summarized the recommendation of the Council's Supplemental Report on Performance Measurement. He noted that stock, bond, and cash management performance are readily measurable, whereas alternative investments such as real estate venture capital are difficult to evaluate, except on a decade-by-decade basis. He reviewed the evaluation of external equity managers, and stated it will be difficult to judge when to sever and when to build relationships with the active external managers. In response to a question from Mr. Carlson, Mr. McDonald stated that the duration of the bond portfolio would not exceed seven years under the current proposal.

Mr. McDonald stated that the performance goal for the active managers is to exceed passive management by 2%. In response to a question from Mr. Carlson, Mr. McDonald stated that if the active managers cannot exceed passive management, the Board should consider placing the remaining assets in the passive portfolio. Mr. Carlson concurred. In response to a question from Mr. Humphrey, Mr. Bicker stated that the phrase "above average risk posture" means that the Board's higher equity exposure has historically meant both a higher total rate of return and higher portfolio volatility. He also stated that through the use of conservative guidelines for the bond managers and the addition of real estate as an inflation hedge, the total portfolio volatility will be within acceptable limits for the Basic Retirement Funds.

Mr. Donhowe stated that the asset mix adopted by the Board is more risky in terms of the year to year variation of returns. He stated that the Council recommends that the Board accept the higher year to year volatility because the liabilities of the retirement funds are long term, and over a full market cycle this asset mix will result in higher total returns. He stated that some years will be very disappointing, while others will be very rewarding. Mr. Donhowe, the Commissioner of Finance, stated that the Board cannot beat its bogeys every year, but over the long term the evidence is overwhelming that this is the way to meet the State's obligation to the retirement funds. Mr. Humphrey expressed concern in view of a 1973-1974 scenario.

#### Guidelines For External Active Equity Managers

Mr. Bicker reviewed the proposed guidelines for reviewing the external active equity managers.

### Venture Capital

Mr. Bicker reviewed the staff position paper on venture capital. He stated that the Council had reviewed and approved the report. In response to a question from Mr. Carlson, Mr. Bicker reviewed the selection process for venture capital managers. In response to a question from Ms. Growe, Mr. Bicker stated he anticipates the Board will invest in five to six venture capital funds at approximately \$10 million each, and two leveraged buyout funds at \$15-20 million each in order to diversify among partnerships while at the same time keeping the total number manageable.

### Northwest Venture Partners

Mr. Bicker recommended that the Board invest \$10 million in Northwest Venture Partners, a venture capital fund. Mr. McDonald stated that the Council was impressed by the management of Northwest and their extensive investment experience. He stated the Council supports staff's recommendation. Mr. Carlson moved approval. The motion passed unanimously.

### Bond Manager Guidelines

Mr. Bicker outlined the proposed guidelines for the retention of external bond managers. The guidelines were approved by the Council. Mr. Bicker reviewed the search schedule, and anticipated managers would be recommended to the Board in the Spring. Ms. Growe moved approval. In response to a question from Mr. Carlson, Mr. Bicker stated that the search process would not be as time consuming as the equity manager search due to the smaller number of managers. The motion was unanimously approved.

### External Managers Contracts

Ms. Growe moved extension of contracts for the active external equity managers for a one year period. The motion passed unanimously.

### Legislation

Mr. Bicker reviewed the Revisor's Draft of the Board's 1984 legislative proposal. Ms. Growe moved approval. The motion passed unanimously.

### Investment Seminar

Mr. Bicker stated that the Third Annual Investment Seminar will be held in late February/early March.

Manager Updates

Mr. Bicker reviewed the updated reports on the active external equity managers based on recent interviews.

The meeting adjourned at 9:45 A.M.

Respectfully submitted,

*Howard Bicker*

Howard J. Bicker  
Executive Director

## AGENDA

## INVESTMENT ADVISORY COUNCIL

MEETING

Tuesday, March 6, 1984

7:30 A.M.

MEA Building Conference Room  
41 Sherburne Avenue  
Saint Paul

TAB

- |     |   |   |
|-----|---|---|
| 1.  | Approval of minutes of January 10, 1984 meeting               |   |
| 2.  | Executive Director's Report - H. Bicker                       |   |
|     | A. Quarterly Investment Review                                | A |
|     | 1) Basic Retirement Funds                                     | B |
|     | 2) Post Retirement Fund and Other Investment Funds            |   |
|     | B. Portfolio Statistics                                       | C |
| 3.  | Bond Manager Search Committee Update - C. McCann<br>H. Bicker | D |
| 4.  | Appointment of new IAC members - H. Bicker                    | E |
| 5.  | Real Estate Proposals - H. Bicker                             | F |
| 6.  | Venture Capital Proposal - H. Bicker                          | G |
| 7.  | Report of Winklevoss and Associates'<br>Study - G. Donhowe    |   |
| 8.  | Seminar - H. Bicker   | H |
| 9.  | Legislation - H. Bicker                                       |   |
| 10. | Manager Update Interview - H. Bicker                          | I |



MEMBERS OF THE BOARD:  
GOVERNOR RUDY PERPICH  
STATE AUDITOR ARNE H. CARLSON  
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EXECUTIVE DIRECTOR  
HOWARD J. BICKER

STATE OF MINNESOTA  
STATE BOARD OF INVESTMENT

Room 105, MEA Building  
55 Sherburne Avenue  
Saint Paul 55155  
296-3328

MINUTES  
INVESTMENT ADVISORY COUNCIL

January 10, 1984

The Investment Advisory Council met on January 10, 1984 at 7:30 A.M. in the MEA Conference Room at 41 Sherburne Avenue, St. Paul.

Members Present: Mitzi Malevich, Chair, Gordon Donhowe, Paul Groschen, Kenneth Gudorf, Richard Hume, Malcolm McDonald, Mike McLaren, Michael Rosen, Joseph Rukavina, Harvey Schmidt and Ray Vecellio.

Members Absent: Phyllis Jones, Judith Mares.

Investment Staff: Howard Bicker, Jeff Bailey, Teresa Myers.

Others Attending: Jeff Allers, John Allers, Richard Ennis, Elton Erdahl, Debbie Feist, Paul Hayne, Cliff McCann, Stan Peskar, Mike Troutman for Judith Mares, and Elaine Voss.

The minutes of the October 25, 1983 meeting were unanimously approved.

Executive Director's Report

Howard Bicker reviewed the new format for reporting investment performance. Mr. Donhowe requested that quarterly performance data be distributed to Council members as soon as it is available. Mr. Bicker reviewed the performance of the external equity managers and outlined the role of the TUCS universe in evaluating the performance of aggressive equity managers.

## Venture Capital

Mr. Bicker reviewed the staff paper on venture capital and proposed that the Board invest \$10 million in Northwest Venture Partners. Mr. Donhowe supported the proposal, stating that Northwest is one of the most experienced venture capital partnerships in the market. In response to a question from Mr. McLaren, Mr. Bicker stated that he anticipates a total of \$50-70 million will be invested in five to seven venture capital partnerships and \$35-50 million in two leveraged buyout funds. Mr. McLaren stated he had problems with the selection process. He requested information on the other venture capital funds reviewed by the staff and comparative information among funds. Ms. Malevich stated that attractive venture capital funds are not available on a regular basis, and the Board will have to examine each one separately as it comes to market. Mr. Bicker stated that in analyzing the funds, the staff will adhere to the criteria and process outlined in the paper. In response to a question from Mr. Ennis, Ms. Malevich stated the purpose of the Council's review is to examine whether the staff has followed the criteria and recommend on that basis that the Board accept or reject the proposal. She stated that the Council cannot judge each individual investment on its merits. Mr. Donhowe stated the Council's role is to examine the staff's due diligence process, provide additional information pertaining to a proposed investment, and/or determine whether the investment met the criteria. Mr. McLaren stated that the Council's recommendation should be clearly stated to the Board. Mr. Donhowe stated that approval of the venture capital paper is the fundamental question, and staff's role is to perform the due diligence. At the request of Mr. McDonald, Mr. Bicker reviewed the venture capital selection process and criteria outlined in the staff paper.

Mr. Donhowe moved that the Council report to the Board that the Council interrogated the staff as to the due diligence performed on the proposed venture capital investment and is satisfied that staff did a thorough job. The motion passed unanimously, with the exception of Mr. McLaren who abstained. Mr. McDonald noted that there are only a limited number of firms with the extensive experience and successful track record of Northwest. Mr. Rosen concurred. Mr. McDonald moved the Council support the subcommittee recommendation to accept the venture capital paper. The motion passed unanimously.

## Supplemental Report of Asset Mix Committee

Ms. Malevich outlined the subcommittee report on performance objectives entitled "Supplemental Report of the Asset Mix Committee: Performance Objectives. Mr. Rosen expressed concern that the performance bogeys for the alternative investments were too low. Mr. Bicker stated that the lack of good historical return data on these investment classes makes

performance evaluation difficult. Ms. Malevich noted there are reasons other than anticipated rate of return, such as long term growth potential or inflation hedge characteristics, for including a particular asset class in the portfolio. Mr. McDonald warned against unrealistic expectations. Mr. Gudorf recommended that staff specify in the paper what measure will be used for inflation. Mr. Troutman recommended that staff focus on the total volatility of the bond portfolio. Mr. Vecellio moved acceptance of the report. The motion passed unanimously.

Ms. Malevich announced that, as a result of her move to IDS Advisory, she will leave the Council at the end of March. She invited recommendations for new members to fill the current vacancies.

#### Guidelines To Review External Money Manager Performance

Mr. Bicker outlined proposed decision rules for altering the allocation of assets to the external managers. Mr. Schmidt moved approval. Mr. McCann recommended the title be changed from "Decision Rules" to "Guidelines". The Council concurred. The motion passed unanimously.

#### Guidelines For Bond Managers

Mr. Bicker reviewed the proposed guidelines for the selection of external bond managers. Mr. Troutman stated that the guidelines would lead to managers who are valuation oriented as opposed to interest rate forecasters. Mr. Bicker agreed. Mr. Bicker stated the committee would also look for significant degrees of call protection.

#### External Equity Managers Contracts

Mr. Bicker reported that the contracts of the external equity managers are up for renewal. He asked the Council's opinion of manager requests to utilize options. The Council concurred with the proposal. Mr. Bicker noted that the managers will be closely monitored as to the impact of the use of options on the portfolio beta. He stated that the equity managers were hired to be aggressive, and must maintain their portfolio with certain beta ranges in order to meet the Board's overall investment strategy.

#### Legislation

Mr. Bicker reviewed the proposed legislation for the 1984 session. In response to a question from Ms. Malevich, he stated that the retirement funds were in concurrence with the proposal to commingle the bond portfolio.

Investment Seminar

Mr. Bicker reported that the Third Annual Investment Seminar will be held in late February/early March.

The meeting adjourned at 9:15 A.M.

Respectfully submitted,

*Howard Bicker*

Howard J. Bicker  
Executive Director

# **Tab A**

# **MINNESOTA STATE BOARD OF INVESTMENT**

## **QUARTERLY INVESTMENT REVIEW**

### **BASIC RETIREMENT FUNDS**

**December 31, 1983**

# MINNESOTA STATE BOARD OF INVESTMENT

## BASIC RETIREMENT FUNDS

### Fourth Quarter 1983 Summary

#### ASSETS

The Basic Retirement Funds rose 1.0% in market value during the fourth quarter. This increase occurred despite the weak total fund investment return earned on the Basic Funds' assets. The rise was attributable primarily to the strong cash inflows, in the form of contributions, which took place during the quarter. The end-of-period market values of the Basic Funds' assets over the past five years are displayed below:

	<u>Market Value</u> (millions)	<u>Percent Change from Previous Period</u>
1979	\$1,627	+ 16.5%
1980	1,962	+ 20.6
1981	2,148	+ 9.5
1982	2,806	+ 30.6
1983 1Q	2,944	+ 4.9
2Q	3,145	+ 6.8
3Q	3,098	- 1.5
4Q	3,129	+ 1.0

## INVESTMENT RETURNS

The Basic Retirement Funds' assets produced an investment total rate of return of 0.3% during the fourth quarter. For the second consecutive quarter, total fund returns were negatively impacted by the continuing retreat of common stock prices. However, unlike the third quarter, when bond prices declined along with stock prices, the Basic Funds benefited from a strong fourth quarter bond market. Segment returns are presented below along with end-of-quarter asset mix. The asset allocation numbers indicate a sizable increase in cash holdings during the fourth quarter. However, this situation was a short-lived occurrence caused primarily by a temporary increase in the index fund's cash position as it completed a year-end sale program.

	<u>Asset Mix</u>		<u>Total Return</u>
	<u>9/30/83</u>	<u>12/31/83</u>	<u>Fourth Quarter</u>
Common Stocks	60.4%	56.7%	- 0.9%
Bonds	30.2	28.5	2.3
Cash	5.6	10.9	2.5
Alternative Equity Assets	3.8	3.9	2.5

## EQUITY PERFORMANCE

Despite a second consecutive negative quarter, the fourth quarter was a far less inhospitable period for the Basic Retirement Funds' active equity managers than was the third quarter. In aggregate, the managers performed roughly in line with the market during a period of continued declining share prices. Over half of the managers outperformed the market, led once again by Beutel Goodman and its low P/E, value oriented investment style. Two managers, Herbert R. Smith and Trustee & Investors, continued to significantly underperform in the falling equity market. The aggregate external manager portfolio changed little from the third quarter. Overweightings continue in the Financial, Technology and Transportation sectors, while Energy and Utilities remain underweighted. During the fourth quarter, the SBI's passive manager, Wilshire Associates, began its index fund construction process, with completion expected by early February.



	Total Portfolio Returns	
	Fourth Quarter 1983	Since Inception 3/1/83
Fred Alger	- 0.8%	11.6%
Alliance Capital	- 0.3	5.7
Beutel Goodman	3.4	14.8
Forstmann Leff	- 0.5	11.1
Hellman Jordan	- 0.8	0.8
IDS	- 0.5	8.3
Investment Advisers	1.3	8.3
Loomis Sayles	- 1.8	- 1.2
Siebel Capital	- 1.7	7.1
Herbert R. Smith	- 5.0	- 6.9
Trustee & Investors	- 3.8	2.1
Total - External Active Managers	- 1.0	5.5
Wilshire Associates*	- 0.7	NA
Wilshire 5000	- 1.1	15.0
S&P 500	0.4	15.5

\*Index fund under construction

## BOND PERFORMANCE

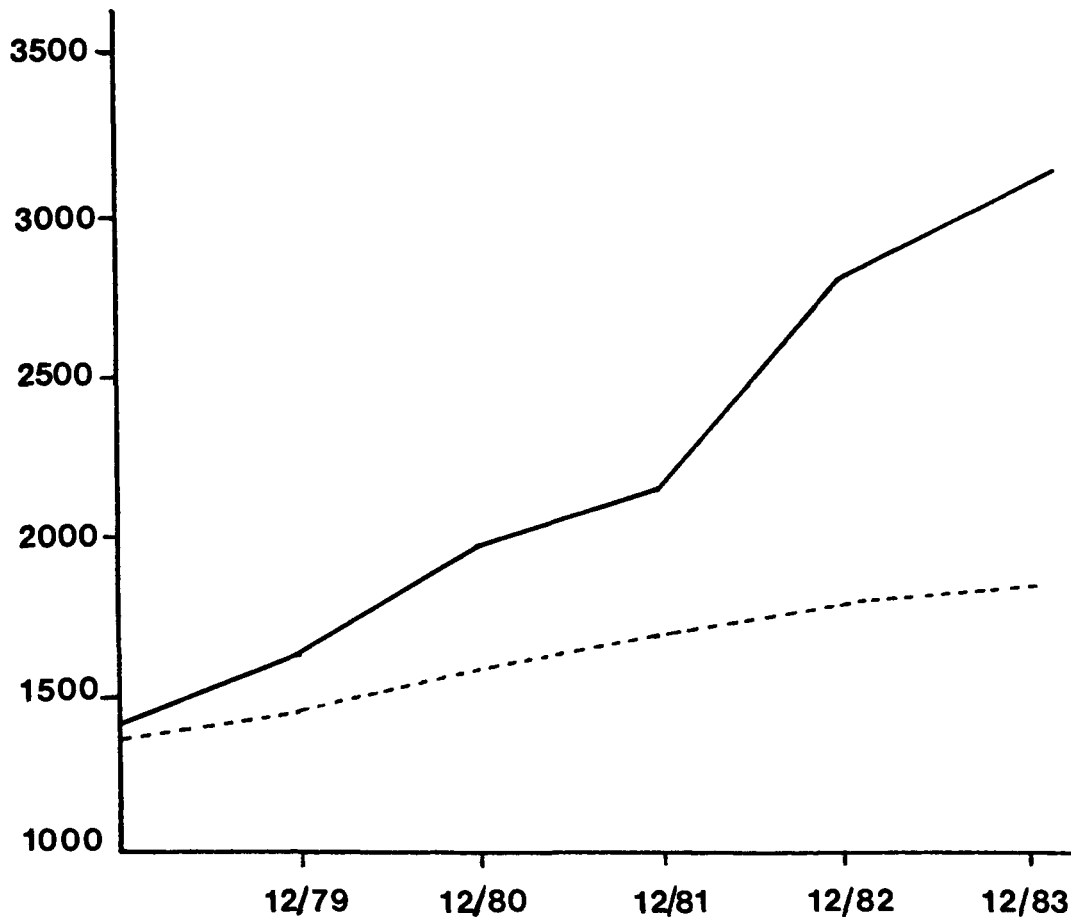
The Basic Retirement Funds' fixed income portfolio outperformed the Merrill Lynch Master Bond Index during the fourth quarter primarily due to its longer maturity structure. The Basic Funds' portfolio benefited from the improvement in bond prices to a greater degree than did the market as a whole. The bond portfolio remains concentrated in U.S. Government and utility issues. Its maturity at year-end was 14.4 years versus 9.9 years for the Merrill Lynch Master Bond Index.

	Total Portfolio Returns	
	Fourth Quarter 1983	Year Ending Fourth Quarter 1983
Basic Retirement Funds Bond Return	2.3%	9.3%
Merrill Lynch Master Bond Index	1.5	7.8

# FIGURE 1

## BASIC RETIREMENT FUNDS

### ASSET GROWTH



BEGINNING VALUE PLUS NET CONTRIBUTIONS ---

TOTAL PORTFOLIO MARKET VALUE —

	PERIOD ENDING				
	12/79	12/80	12/81	12/82	12/31/83
BEGINNING VALUE	1397.0	1627.1	1962.0	2148.8	2806.2
NET CONTRIBUTIONS	103.5	122.7	114.9	91.0	40.0
INVESTMENT RETURN	126.6	212.2	71.9	566.4	282.8
ENDING VALUE	1627.1	1962.0	2148.8	2806.2	3129.0
(MILLIONS OF DOLLARS)					

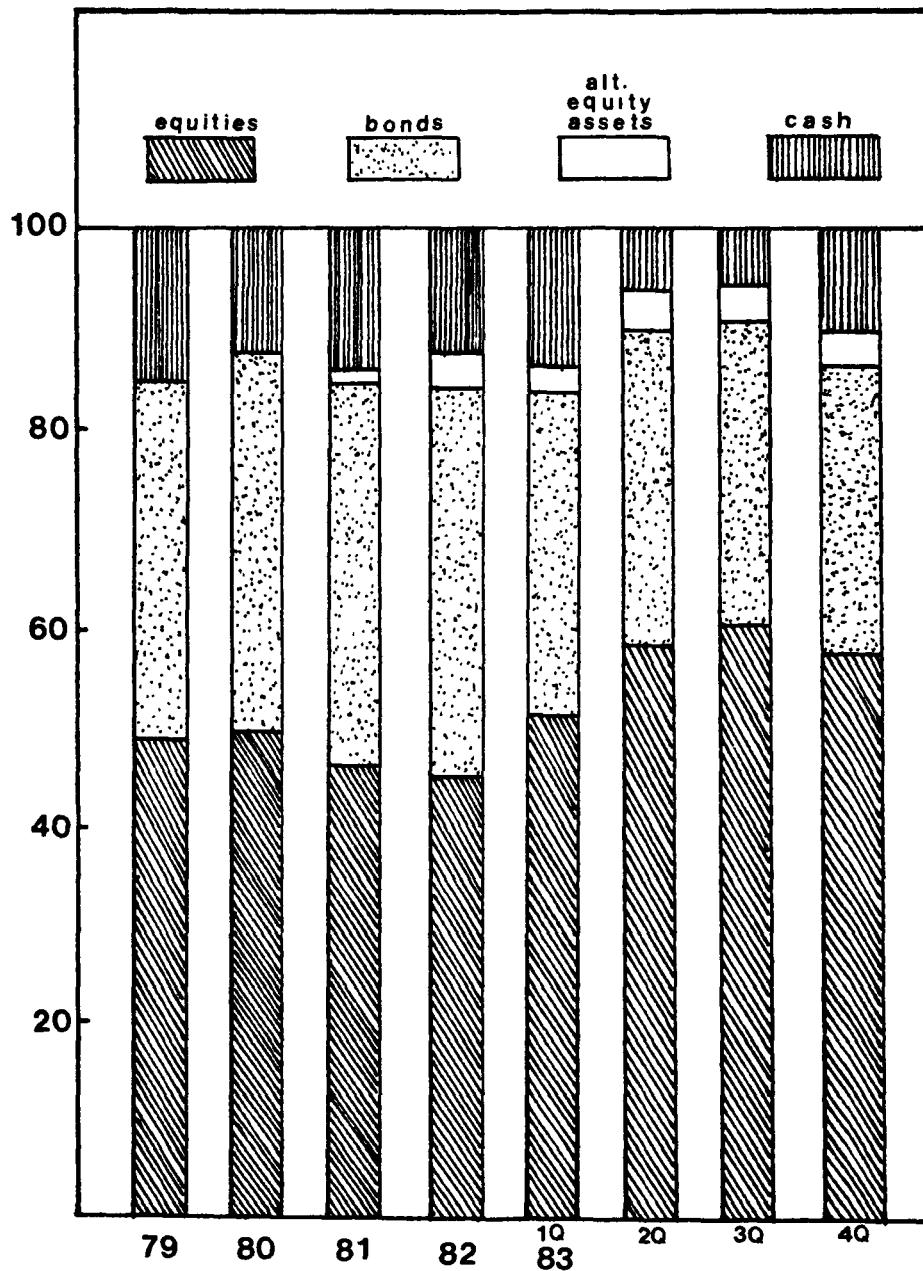
**FIGURE 2**

**BASIC RETIREMENT FUNDS**

**ASSET MIX**

PERCENT OF MARKET VALUE

(End of Period Allocations)



# TABLE 1

## BASIC RETIREMENT FUNDS

### ASSET MIX MARKET VALUE

(End of Period Allocations)

	Common Stocks \$Million	Percent	Bonds \$Million	Percent	Cash* \$Million	Percent	Real Estate \$Million	Percent	Resource Funds \$Million	Percent	Venture Capital \$Million	Percent
979	799	49.1	604	37.1	224	13.8	-	-	-	-	-	-
980	964	49.1	767	39.1	231	11.8	-	-	-	-	-	-
981	959	44.6	865	40.3	297	13.8	20	0.9	8	0.3	-	-
982	1,212	43.2	1,165	41.5	317	11.3	93	3.3	17	0.7	-	-
983 1Q	1,526	51.8	920	31.3	385	13.1	94	3.2	19	0.6	-	-
2Q	1,860	59.1	985	31.3	188	6.0	95	3.0	19	0.6	-	-
3Q	1,871	60.4	934	30.2	174	5.6	99	3.2	19	0.6	-	-
4Q	1,773	56.7	892	28.5	342	10.9	101	3.2	21	0.7	-	-

\* Includes cash held by external managers

TABLE 2

## BASIC RETIREMENT FUNDS

ASSET MIX — ACTUAL VS. POLICY  
PERCENT OF MARKET VALUE  
(End of Period Allocations)

		Common Stocks*			Fixed Income		Real Estate		Resource Funds Venture Capital							
		Passive Management		Active Management												
		<u>Actual Policy Diff.</u>		<u>Actual Policy Diff.</u>		<u>Actual Policy Diff.</u>		<u>Actual Policy Diff.</u>		<u>Actual Policy Diff.</u>						
1983	1Q	0	40	-40	57.9	20	+37.9	38.3	25	+13.3	3.2	10	-6.8	0.6	5.0	-4.4
	2Q	0	40	-40	61.9	20	+41.9	34.5	25	+ 9.5	3.0	10	-7.0	0.6	5.0	-4.4
	3Q	0	40	-40	63.4	20	+43.4	32.8	25	+ 7.8	3.2	10	-6.8	0.6	5.0	-4.4
	4Q	43.5	40	+ 3.5	18.5	20	- 1.5	34.1	25	+ 9.1	3.2	10	-6.8	0.7	5.0	-4.3

\*Includes cash held by external managers.

**FIGURE 3**  
**PERFORMANCE OF CAPITAL MARKETS**  
**CUMULATIVE RETURNS**

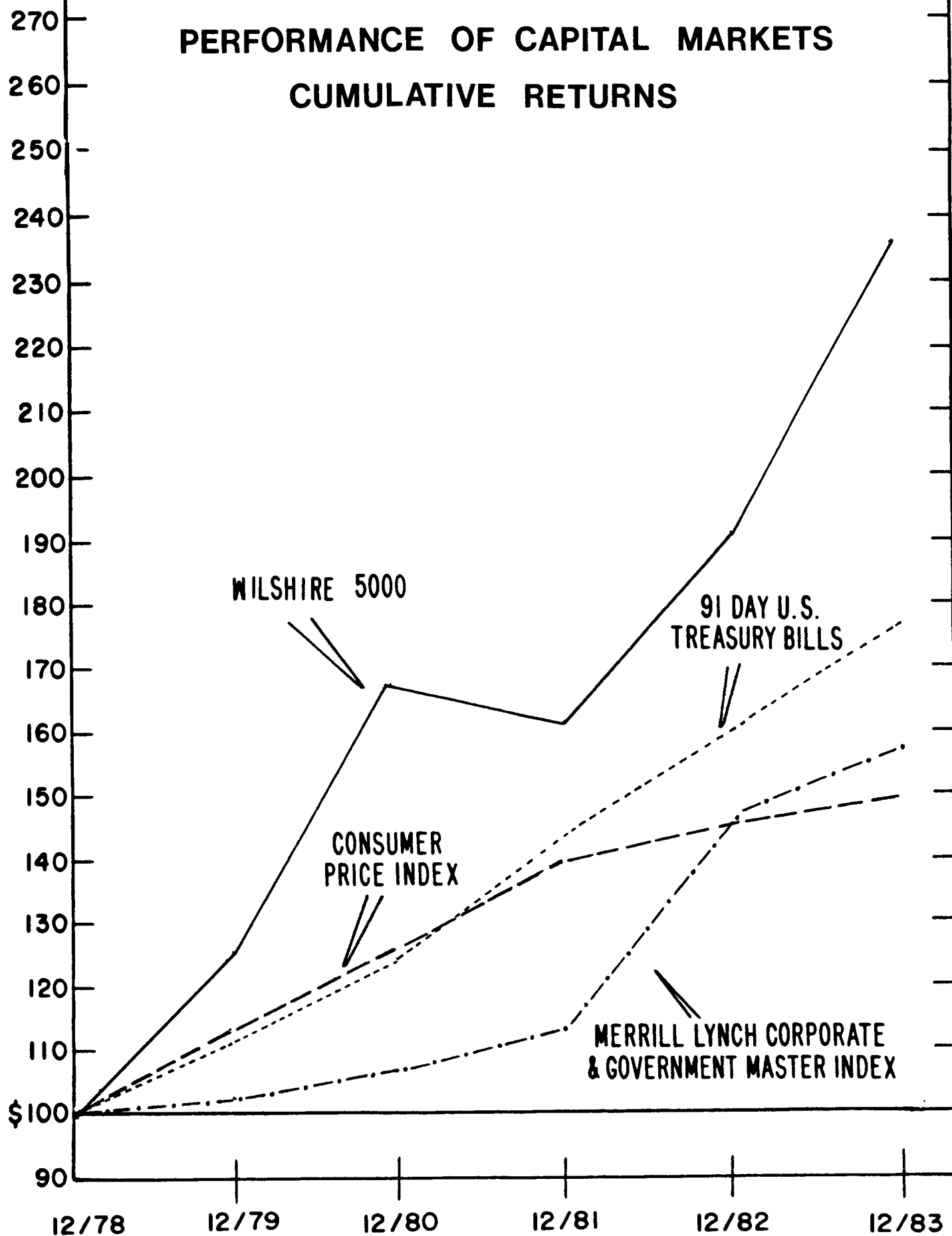
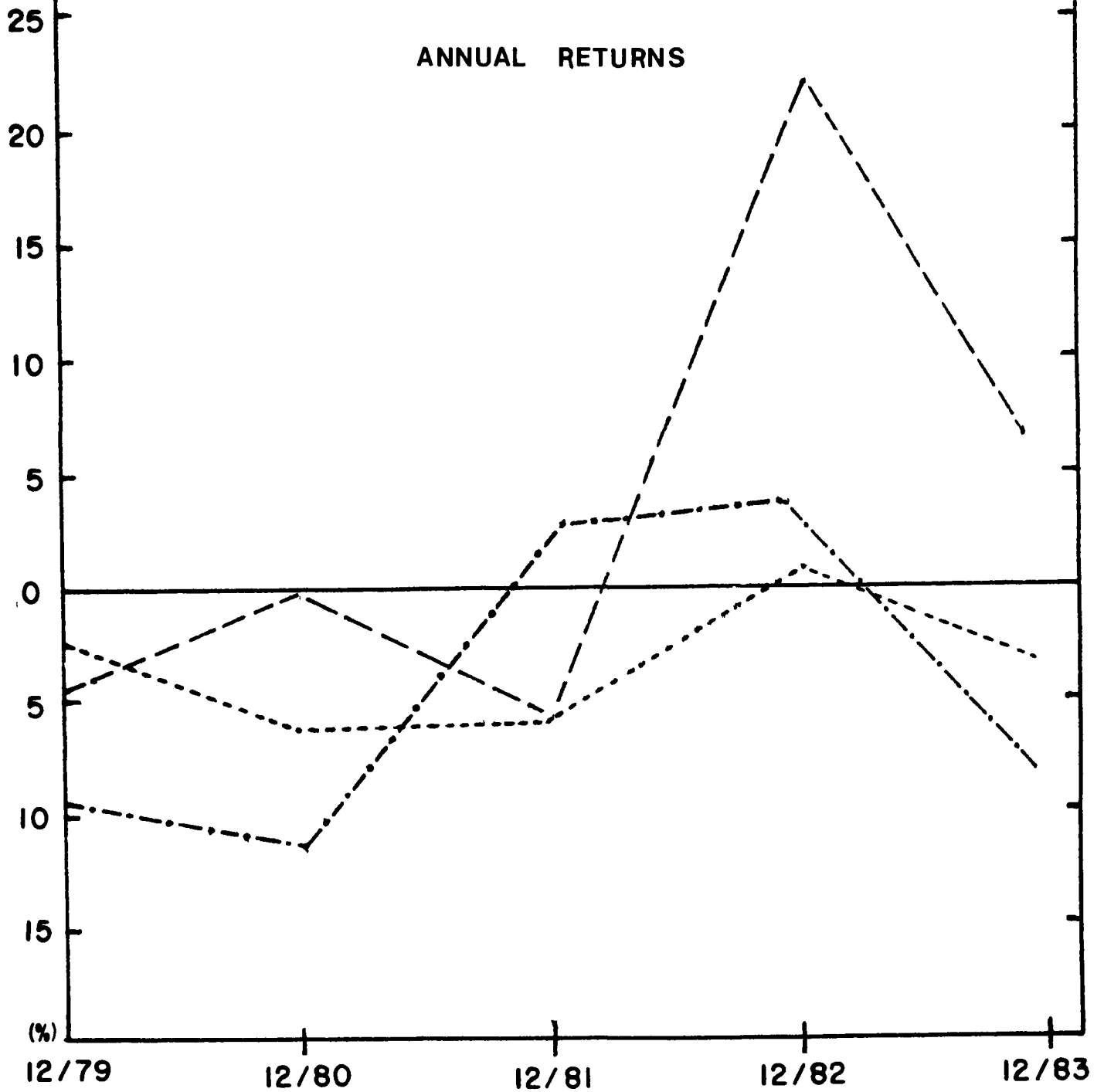


FIGURE 4

BASIC RETIREMENT FUNDS

FUNDS' RETURNS LESS PERFORMANCE STANDARDS



- TOTAL FUND RETURN
- - - MEDIAN TAX-EXEMPT TOTAL FUND
- . - CONSUMER PRICE INDEX
- . . . STOCK/BOND COMPOSITE

TABLE 3

## BASIC RETIREMENT FUNDS

## INVESTMENT RETURNS RELATIVE TO PERFORMANCE STANDARDS

	<u>Total Fund Return (exc. alt. assets)</u>	<u>Median Tax-Exempt Fund</u>	<u>70/30 Stock/Bond Composite</u>	<u>Inflation</u>	<u>Total Fund Return (inc. alt. assets)</u>
1979	8.8%	11.3%	18.2%	13.3%	8.8%
1980	12.4	19.2	24.5	12.5	12.4
1981	3.5	10.0	- 0.6	8.9	3.5
1982	26.4	24.3	22.4	3.8	25.7
1983 1Q	4.8	6.6	8.9	0.3	4.7
2Q	7.1	6.6	9.6	1.6	6.9
3Q	- 2.0	- 0.2	- 0.2	1.2	- 1.8
4Q	0.3	0.8	- 0.3	0.6	0.3
1 Year Through 12-31-83	10.3	14.1	18.8	3.8	10.2
3 Years Annualized Through 12-31-83	13.0	13.5	13.0	5.5	12.8
5 Years Annualized Through 12-31-83	12.0	13.7	16.3	8.4	11.9



TABLE 4

## BASIC RETIREMENT FUNDS

## INVESTMENT RETURNS—DETAIL

	Total Fund Return (exc. alt. assets)	Common Stocks		Bonds		Alternative Equity Assets	Total Fund Return (inc. alt. assets)
		Basics	Wilshire 5000	Basics	ML Bond Index		
1979	8.8	17.4	25.6	- 1.7	2.3	-	8.8
1980	12.4	26.2	33.7	- 0.1	3.3	-	12.4
1981	3.5	0.0	- 3.7	2.0	7.0	-	3.5
1982	26.4	21.6	18.7	38.1	29.8	11.9	25.7
1983	4.8	6.5	11.4	4.1	3.2	0.5	4.7
2Q	7.1	10.2	13.0	2.3	1.6	1.7	6.9
3Q	- 2.0	- 3.2	- 0.9	0.3	1.3	2.7	- 1.8
4Q	0.3	- 0.9	- 1.1	2.3	1.5	2.5	0.3
1 Year Through 12-31-83	10.3	12.6	23.4	9.3	7.8	7.5	10.2
3 Years Annualized Through 12-31-83	13.0	11.0	12.1	15.5	14.4	NA	12.8
5 Years Annualized Through 12-31-83	12.0	15.2	18.8	8.6	9.6	NA	11.9

TABLE 5

## EQUITY MANAGER PERFORMANCE

12/31/83

Managers	Total Portfolio Returns		
	Last Quarter	Last Three Quarters	Since Inception (3-1-83)
Fred Alger	- 0.8%	8.6%	11.6%
Alliance Capital	- 0.3	3.5	5.7
Beutel Goodman	3.4	13.8	14.8
Forstmann Leff	- 0.5	8.1	11.1
Hellman Jordan	- 0.8	1.7	0.8
IDS	- 0.5	6.8	8.3
Investment Advisers	1.3	7.6	9.2
Loomis Sayles	- 1.8	- 1.4	- 1.2
Siebel Capital	- 1.7	3.8	7.1
Herbert R. Smith	- 5.0	- 7.3	- 6.9
Trustee & Investors	- 3.8	1.8	2.1
Total - External			
Active Managers	- 1.0	4.0	5.5
Wilshire Associates*	-0.7	NA	NA

\*Index Fund under construction

Performance Standards

Wilshire 5000	- 1.1%	10.8%	15.0%
S&P 500	0.4	11.4	15.5
TUCS Median	- 3.1	6.7	NA
Inflation	0.6	3.4	3.5

## EQUITY MANAGER PORTFOLIO STATISTICS GLOSSARY

In the following pages, summary descriptions of the individual equity managers' investment philosophy, risk characteristics and performance data, are presented. Some of the risk statistics are technical in nature. This glossary is designed to aid in understanding the terms that are introduced.

- |                   |   |
|-------------------|---|
| # of Stocks       | - number of different issues held in the manager's stock portfolio.   |
| % of Equity       | - percent of the manager's total portfolio invested in common and preferred stocks and convertible securities.  |
| Yield             | - indicated annual dividend of the manager's stock portfolio divided by the market value of the manager's stock portfolio.  |
| P/E               | - weighted average price per share of the managers' common stock portfolio divided by the weighted average trailing four quarter earnings per share of the manager's common stock portfolio.  |
| Market Volatility | - degree to which the returns on the manager's stock portfolio are sensitive to movements in the stock market's return. By definition the market has a market volatility measure (referred to as beta) of 1.0. Portfolios with values greater (less) than 1.0 have above (below) average sensitivity to market moves. The SBI's managers are required, over the long-term to hold portfolios with market volatility levels above 1.10. This measure does not include the impact of cash holdings on total portfolio volatility. |
| Diversification   | - extent to which a manager's equity holdings statistically resemble the stock market. Low (high) diversification portfolios will experience returns which are not well (are well) correlated with those of the market. By definition, the market has a diversification measure of 1.0. The less a portfolio is diversified, the lower will be its diversification measure (referred to as R-squared). The SBI's managers are required, over the long-term, to hold portfolios with diversification levels less than .85.       |

Portfolio Risk  
Orientation

- the riskiness of a portfolio can be expressed in terms of its market volatility and diversification. A complementary approach is to break down a portfolio's risk into sensitivity to various fundamental factors. These factors, six of which are used in this analysis, are related to various balance sheet, income statement and securities data on the stocks which make up a manager's portfolio. The sensitivity of a manager's portfolio to these factors is rated relative to the the stock market's sensitivity. Thus, the term ++ (--) indicates that a portfolio has a relatively very high (low) exposure to the factor. A + (-) indicates an above (below) average exposure. A 0 indicates no exposure.

Price Variability

- risk related to the historical variability of the prices of stocks in the portfolio. The more variable are the portfolio's securities' prices, the more risky is the portfolio. Items such as current stock price, twelve month price range, trading volume, and beta make up this measure.

Earnings Variability

- risk related to the variability of the earnings of those companies owned in the manager's portfolio. The more variable are the companies' earnings, the more risky is the portfolio. Items such as variance of accounting earnings, variance of cash flow, occurrence of extraordinary accounting items, and the correlation of companies' earnings with U.S. corporate earnings make up this measure.

Firm Success

- risk related to the extent to which the earnings of companies owned by the portfolio have been recently low or negative. The poorer have been companies' earnings, the riskier is the portfolio. Items including return on equity, earnings growth, book/price ratio, dividend cuts, and tax rate make up this measure.

Size

- risk related to the size and maturity of the companies held in the portfolio. The smaller and younger the companies, the more risky is the portfolio. Items such as total assets, market capitalization, gross plant/book value ratio, and company age make up this measure.

- Growth
- risk related to the growth orientation of companies owned by the manager. The more growth-oriented are the companies, the riskier is the portfolio. Items such as dividend yield, E/P ratio, and growth in total assets make up this measure.
- Financial Leverage
- risk related to the extent to which companies held in the portfolio have used debt to finance their operations. The more leveraged are the companies, the riskier is the portfolio. Items such as debt/asset ratio, current asset/current liability ratio, and uncovered fixed charges make up this ratio.
- Industry Sector Overweightings
- those sectors of the economy in which the manager has invested a significantly larger percentage of the portfolio than is represented by the stock market.
- Industry Sector Underweightings
- those sectors of the economy in which the manager has invested a significantly smaller percentage of the portfolio than is represented by the stock market.
- TUCS Median
- the median fund within a subsample of the TUCS universe restricted to aggressive equity managers. The TUCS universe is a universe of over 4000 portfolios custodied by over 30 major banks. For purposes of the SBI's analysis out of the universe have been selected a subsample which includes only those equity managers with risk characteristics (market volatility and diversification) similar to those of the SBI's managers. This provides a group of funds against which valid performance comparisons can be made.

# BASIC RETIREMENT FUNDS COMPOSITE EQUITY MANAGER DATA

12 / 31 / 83

## SECTOR WEIGHTINGS

SECTORS	WEIGHTING EXTERNAL MANAGER COMPOSITE	WEIGHTING INDEX FUND	WEIGHTING ALL BASIC MANAGERS COMPOSITE	WEIGHTING WILSHIRE 5000
Capital Goods	6.0%	7.1%	6.8%	5.6%
Consumer Durables	6.3	4.6	7.1	4.2
Consumer Nondurables	23.3	24.5	24.1	24.0
Energy	3.1	18.4	14.1	14.6
Financial	12.2	8.1	9.2	9.4
Materials & Services	15.2	10.1	11.5	12.1
Technology	23.8	15.4	17.8	16.3
Transportation	6.6	1.7	3.0	2.8
Utilities	3.6	10.2	8.3	11.1
	-----	-----	-----	-----
	100.0%	100.0%	100.0%	100.0%

## CURRENT PORTFOLIO STATISTICS

	# OF STOCKS	% EQUITY	YIELD	P/F	MKT UNITY	DIVERSFN	PORTFOLIO RISK ORIENTATION					
							Price Var.	Earn. Var.	Firm Success	Size	Growth	Fin. Lever.
Composite External Managers	269	86%	2.9%	16.2	1.21	.91	+	+	0	+	+	0
Index Fund Manager	556	100%	4.2%	NA	1.00	.98	-	-	0	--	-	0
Composite All Basic Managers	668	95%	3.8%	NA	1.06	.97	0	0	0	-	0	0

## STAFF COMMENTS:

The equity market produced a -1.1% total rate of return during the fourth quarter, as measured by the Wilshire 5000. The fourth quarter saw a continuation of the decline in common stock prices which began in the third quarter and which brought the Wilshire 5000's total return over the last half of 1983 to -2.0%. For all of 1983, the index's total return was 23.4%, a figure that serves to highlight the strong first half 1983 equity market relative to the weak second half.

For the second consecutive quarter, large capitalization, low growth, low beta stocks outperformed smaller capitalization, high growth, high beta issues. The market continued its shift in performance toward deep cyclical, basic industry companies and away from consumer and technology firms. This trend is evidenced by the continued underperformance of the NASDAQ index (down 6.1% during the quarter) versus the Dow Jones Industrial Average (up 3.3% over the quarter). As would be expected under such circumstances, the impact on aggressive equity managers, who tend to concentrate in smaller capitalization, growth oriented stocks, was negative. The median aggressive manager, as measured by a subsample of the TUCS universe, generated a -3.1% total return in the fourth quarter. Also of interest is the fact that even the first quartile aggressive manager was able to muster only a -0.2% return. Over the last two quarters, the median aggressive manager has produced a -8.1% total return. Clearly, it has been a difficult second half for active equity management.

In aggregate, the Basic Retirement Funds' active equity managers' results compare favorably with those of the TUCS aggressive sample, -1.0% versus -3.1%. Further, the Basic Funds' managers roughly matched the return on the market during the quarter, a difficult feat for aggressive managers in a down market. On an individual basis, the Basic Funds' managers' returns were mixed and widely dispersed. Beutel Goodman again produced the best results, as its low P/E, value oriented investment approach led it to focus on the strongly performing industrial cyclical stocks. Managers with a sizable growth bias, particularly in the Technology sector, such as Herbert R. Smith and Trustee & Investors, continued to perform poorly.

During the fourth quarter, in aggregate, the Basic Retirement Funds' active managers attempted to take advantage of the economic cycle's maturation. The managers reduced their Consumer Nondurables and Financial sector positions slightly and increased their holdings in Capital Goods, Materials & Services (particularly, basic industries), and Utilities. However, the managers remain overweighted in Financial, Technology, and Transportation stocks and underweighted in Energy and Utilities. Portfolio market volatility (beta) was decreased during the quarter. Asset mix remained essentially unchanged.

The fourth quarter witnessed the initial construction of the Basic Retirement Funds' passive portfolio, managed by Wilshire Associates. Trading for the index fund began in December and by the end of the month over half of the portfolio was in place. As designed, the impact of the index fund on the Basic Funds' total equity portfolio was to increase its diversification. Completion of trading in the index fund is expected by early February.

## EXTERNAL EQUITY MANAGER INFORMATION

December 31, 1983

FIRM NAME: Fred Alger Management

PORTFOLIO MANAGER(S): Portfolio decisions are made by the firm's analysts.

ACCOUNT HISTORY: Start-up 3/1/83 \$50.0 million

INVESTMENT PHILOSOPHY: Fred Alger utilizes a microeconomic investment approach, emphasizing individual stock selection rather than industry selection and/or market timing. The firm focuses primarily on two types of companies: Those currently undergoing a positive life cycle change, and those creative companies whose products have high unit volume growth rates. Fred Alger expects these two types of companies to be characterized by substantially above-consensus earnings gains and thus, strong stock price performance. The firm's decision-making structure is relatively unique in that portfolio selections are made by the firm's highly motivated group of analysts. Except on rare occasions, the firm maintains a fully invested posture.

## CURRENT PORTFOLIO STATISTICS

	# OF STOCKS	% EQUITY	YIELD	P/E	MKT VOLTY	DIVERSFN	PORTFOLIO RISK ORIENTATION					
							Price Var.	Earn. Var.	Firm Success	Size	Growth	Fin. Lever.
Fred Alger Mgmt	32	95%	2.6%	15.9	1.18	.89	+	+	0	-	0	0
SRI MGRS (Avg.)	34	86	2.8	16.2	1.23	.83	+	+	0	+	+	0
TUCS MEDIAN	NA	92	NA	NA	1.27	.79	++	+	-	++	+	0

INDUSTRY SECTOR OVERWEIGHTINGS: Capital Goods, Consumer Durables, Materials &amp; Services, Technology

INDUSTRY SECTOR UNDERWEIGHTINGS: Financial, Energy, Transportation, Utilities

## PERFORMANCE

	LATEST QUARTER	LAST THREE QUARTERS	SINCE INCEPTION
Fred Alger Mgmt	-0.8%	8.6%	11.6%
SRI MGR AGGREGATE	-1.1	4.6	6.0
TUCS MEDIAN	-3.1	6.7	NA
WILSHIRE 5000	-1.1	10.8	15.0
CPI (Inflation)	0.6	3.4	3.5

STAFF COMMENTS: Fred Alger's fourth quarter returns slightly exceeded those of the equity market and outperformed samples of other aggressive equity managers (as represented by the aggregate SRI manager pool and the TUCS subsample median). Positive stock selection and an overweighting in the Capital Goods sector and the strong performance of its Technology holdings were offset by negative selection in the Consumer Nondurables (in particular, health care) sector. During the quarter, Alger reduced its market risk exposure by decreasing the equity portfolio's relative market volatility (beta). Alger also brought its fundamental factor risk exposure more in line with that of the market. In terms of sector weightings, Alger increased its Capital Goods position to a significant overweighting. Cash reserves were reduced returning the portfolio to its usual fully invested position. Over the last three quarters, Alger has outperformed both the aggregate SRI manager pool and the TUCS subsample median, but has lagged the equity market.



**EXTERNAL EQUITY MANAGER INFORMATION**  
December 31, 1983

**FIRM NAME:** Alliance Capital Management (Minneapolis)

**PORTFOLIO MANAGER(S):** Alfred Harrison  
John Koltes

**ACCOUNT HISTORY:** Start-up: 3/1/83 \$50.0 million

**INVESTMENT PHILOSOPHY:** The Alliance Capital office system employs a macroeconomic investment approach. Investment strategy is developed on two levels. Macroeconomic considerations are analyzed on a centralized basis at the New York headquarters. Committees, composed of members from the regional and New York offices, develop economic forecasts, set asset allocation and industry weightings, and formulate an eligible list of attractive securities. Specific stock selection is conducted at the regional office level. The Minneapolis office tends to focus on companies with favorable ratios of P/F to forecasted earnings growth.

**CURRENT PORTFOLIO STATISTICS**

	# OF STOCKS	% EQUITY	YIELD	P/E	MKT VOLTY	DIVERSFN	PORTFOLIO RISK ORIENTATION				
							Price Var.	Earn. Var.	Firm Success	Fin. Size Growth	Fin. Lever.
Alliance Capital (Mpls)	33	92%	1.5%	19.7	1.37	.81	++	+	-	0	++ 0
SRI MGRS (Avg.)	34	86	2.8	16.2	1.23	.83	+	+	0	+	+
TUCS MEDIAN	NA	92	NA	NA	1.27	.79	++	+	-	++	+

**INDUSTRY SECTOR OVERWEIGHTINGS:** Consumer Durables, Consumer Nondurables, Technology, Transportation

**INDUSTRY SECTOR UNDERWEIGHTINGS:** Capital Goods, Energy, Financial, Materials & Services, Utilities

**PERFORMANCE**

	LATEST QUARTER	LAST THREE QUARTERS	SINCE INCEPTION
Alliance Capital (Mpls)	-0.3%	3.5%	5.7%
SRI MGR AGGREGATE	-1.1	4.6	6.0
TUCS MEDIAN	-3.1	6.7	NA
MIT SHIRE 5000	-1.1	10.8	15.0
CPI (Inflation)	0.6	3.4	3.5

**STAFF COMMENTS:** Alliance Capital (Mpls.) outperformed both the equity market and samples of other aggressive equity managers in the fourth quarter based primarily on its successful stock selection and significant overweighting in the Transportation sector (in particular, airlines). Less successful stock selection and overweightings in the Consumer Nondurables and Technology sector diluted the benefits of the Transportation holdings for the portfolio. Within its equity portfolio, Alliance was relatively inactive, essentially maintaining positions which were severely battered in the second quarter. The firm slightly reduced its relative market volatility (beta). Fundamental factor risk was moved more in line with that of the market. It also trimmed its Financial and Capital Goods positions and increased its Consumer Durables holdings. Over the last three quarters the firm has trailed the equity market and samples of other aggressive equity managers, due largely to its very poor third quarter performance.

# EXTERNAL EQUITY MANAGER INFORMATION

December 31, 1983

FIRM NAME: Beutel Goodman Capital Management

PORTFOLIO MANAGER(S): Robert McFarland  
Richard Andrews

ACCOUNT HISTORY: Start-up: 3/1/83 \$50.0 million

INVESTMENT PHILOSOPHY: Beutel Goodman utilizes a modified, microeconomic investment style. The firm concentrates on stock selection but is sensitive to the impact of macroeconomic factors on the attractiveness of specific industries and companies. Stocks purchased by Beutel Goodman tend to be either companies whose stock prices are too low in comparison to their tangible book value (as estimated by Beutel Goodman analysts) or companies whose stocks possess low relative P/F's given their investment characteristics and forecasted earnings growth. The firm generally remains fully invested, with cash positions usually resulting from an immediate lack of attractive investment opportunities.

## CURRENT PORTFOLIO STATISTICS

	# OF STOCKS	% EQUITY	YTD %	P/F	MKT UNIT	DIFFEREN	Price Var.	PORTFOLIO RISK ORIENTATION				
								Earn. Var.	Firm Success	Size	Growth	Fin. Lever.
Beutel Goodman	16	95%	3.8%	10.3	1.08	.78	+	+	0	++	0	+
S&P 500 (Avg.)	34	86	2.8	16.2	1.23	.83	+	+	0	+	+	0
TUCS MEDIAN	NA	92	NA	NA	1.27	.79	++	+	-	++	+	0

INDUSTRY SECTOR OVERWEIGHTINGS: Capital Goods, Materials & Services, Transportation

INDUSTRY SECTOR UNDERWEIGHTINGS: Consumer Durables, Energy, Technology, Utilities

## PERFORMANCE

	LATEST QUARTER	LAST THREE QUARTERS	SINCE INCEPTION
Beutel Goodman	3.4%	13.8%	14.8%
S&P 500 AGGREGATE	-1.1	4.6	6.0
TUCS MEDIAN	-3.1	6.7	NA
WILSHIRE 5000	-1.1	10.8	13500
CPI (Inflation)	0.6	3.4	3.5

STAFF COMMENTS: For the second consecutive quarter, Beutel Goodman turned in an impressive performance, despite its fully invested position in a down market. The firm significantly outperformed both the equity market and samples of other aggressive managers. Beutel's low P/F, value oriented investment style has led the firm to focus on industrial cyclical stocks within the strong performing Capital Goods and Materials & Services sectors. The composition of Beutel's portfolio changed little over the quarter, although its overweighting in the Financial sector was eliminated. Over the last three quarters, Beutel has ranked as the S&P's top performing manager. The firm's returns have outpaced the equity market and placed well within the first quartile of the TUCS subsample.

## EXTERNAL MANAGER INFORMATION

December 31, 1983

FIRM NAME: Forstmann Leff

PORTFOLIO MANAGERS(S): Steve Reynolds  
Richard Walton

ACCOUNT HISTORY: Start-up: 3/1/83 \$50.0 million

INVESTMENT PHILOSOPHY: Forstmann Leff uses a macroeconomic investment approach, focusing on industry selection and market timing. The firm attempts to identify social and economic factors impacting the marketplace on a cyclical and secular basis. From this analysis the firm focuses on those sectors that will be positively and negatively affected by these forces. Stock selection is of secondary importance to the firm. Holdings tend to be concentrated in larger capitalization institutional favorites. Forstmann Leff is an active market timer willing to make sizable asset mix shifts at any point in the market cycle.

## CURRENT PORTFOLIO STATISTICS

	# OF STOCKS	% EQUITY	YIELD	P/F	MKT VOLTY	DIVERSFN	PORTFOLIO RISK ORIENTATION					
							Price Var.	Earn. Var.	Firm Success	Size	Growth	Fin. Lever.
Forstmann Leff	39	81%	3.2%	15.7	1.10	.86	0	+	+	--	0	0
SBI MGRS (Avg.)	34	86	2.8	16.2	1.23	.83	+	+	0	+	+	0
TUCS MEDIAN	NA	92	NA	NA	1.27	.79	++	+	-	++	+	0

INDUSTRY SECTOR OVERWEIGHTINGS: Consumer Durables, Consumer Nondurables, Transportation

INDUSTRY SECTOR UNDERWEIGHTINGS: Energy, Financial, Materials &amp; Services, Utilities

## PERFORMANCE

	LATEST QUARTER	LAST THREE QUARTERS	SINCE INCEPTION
Forstmann Leff	-0.5%	8.1%	11.1%
SBI MGR AGGREGATE	-1.1	4.6	6.0
TUCS MEDIAN	-3.1	6.7	NA
WILSHIRE 5000	-1.1	10.8	15.0
CPI (Inflation)	0.6	3.4	3.5

STAFF COMMENTS: In the fourth quarter, Forstmann Leff's returns slightly exceeded those of the equity market and samples of other aggressive equity managers. The firm benefited from an overweighting of the Consumer Durables sector and from positive stock selection and an overweighting in the Transportation sector (in particular, airlines), but was hampered by the poor performance of its Consumer Nondurables holdings (in particular, health care). During the quarter, Forstmann Leff added value by becoming more defensive. The firm was a net liquidator of stocks, increasing its cash reserves slightly. At the same time the firm lowered the relative market volatility (beta) and P/E of the equity portfolio and increased its yield and market capitalization. Further, Forstmann Leff initiated a position in Utilities and increased its Energy holdings, while reducing its Consumer Nondurables position dramatically. Since the second quarter, Forstmann Leff's relative performance has continued to improve. While its returns still trail those of the market, its performance now exceeds that of the aggregate SBI manager pool and the TUCS subcategory median.

**EXTERNAL MANAGER INFORMATION**  
December 31, 1983

**FIRM NAME:** Hellman Jordan Management

**PORTFOLIO MANAGER(S):** Gerald Jordan  
Edward Heubner

**ACCOUNT HISTORY:** Start-up: 3/1/83 \$50.0 million

**INVESTMENT PHILOSOPHY:** Hellman Jordan employs a modified, macroeconomic investment approach, focusing on long-term proprietary, high growth companies that it believes will be positively impacted by the firm's forecasted economic scenarios. The firm attempts to identify long-term trends in the economy and develop investment concepts related to these trends. Stock selection is considered to be of secondary importance to successful asset mix and sector rotation decisions. Holdings tend to be concentrated in large capitalization, high P/E, high growth, low yield issues. While not an active market timer, the firm does make significant asset mix moves gradually over the course of the market cycle.

**CURRENT PORTFOLIO STATISTICS**

	# OF STOCKS	% EQUITY	YIELD	P/E	MKT VOLUME	DIVERSFN	PORTFOLIO RISK ORIENTATION					
							Price Var.	Earn. Var.	Firm Success	Size	Growth	Fin. lever.
Hellman Jordan	23	51%	5.3%	12.5	1.23	.84	0	++	+	-	0	+
SBI MGRS (Avg.)	34	86	2.8	16.2	1.23	.83	+	+	0	+	+	0
TUCS MEDIAN	NA	92	NA	NA	1.27	.79	++	+	-	++	+	0

**INDUSTRY SECTOR OVERWEIGHTINGS:** Consumer Durables, Consumer Nondurables, Financial, Utilities

**INDUSTRY SECTOR UNDERWEIGHTINGS:** Capital Goods, Energy, Technology

**PERFORMANCE**

	LATEST QUARTER	LAST THREE QUARTERS	SINCE INCEPTION
Hellman Jordan	-0.8%	1.7%	0.8%
SBI MGR AGGREGATE	-1.1	4.6	6.0
TUCS MEDIAN	-3.1	6.7	NA
WILSHIRE 5000	-1.1	10.8	15.0
CPI (Inflation)	0.6	3.4	3.5

**STAFF COMMENTS:** Hellman Jordan maintained its defensive posture during the fourth quarter, retaining its significantly underinvested position in stocks and its sizable bond holdings. As a result, the firm outperformed the TUCS subsample median and the aggregate SBI manager pool and matched the equity market's return. An overweighted position in the Consumer Durables sector and selections within the Energy and Transportation sectors added positively to performance. On the other hand, overweightings in the Consumer Nondurables and Financial sectors continued to negatively impact portfolio results. Over the quarter, Hellman reduced its cash reserves slightly, but significantly increased the yield and lowered the P/E of the equity portfolio. Hellman also reduced its holdings in the Consumer Nondurables and Transportation sectors and initiated a position in the Energy sector. The firm also added significantly to its Utilities holdings, buying several of the new Bell issues. For the latest three quarters,

## EXTERNAL EQUITY MANAGER INFORMATION

December 31, 1983

FIRM NAME: IDS Advisory

PORTFOLIO MANAGER(S): Peter Anderson

ACCOUNT HISTORY: Start-up: 3/1/83 \$50.0 million

INVESTMENT PHILOSOPHY: IDS employs a macroeconomic investment approach, focusing on industry selection and limited market timing. The firm attempts to identify industries that will be positively and negatively impacted by forecasted broad economic trends. The firm actively rotates among these affected industries. IDS refers to its asset management approach as the Dual Investment Objectives, which are composed of an annual income and total return targets. IDS believes that this approach provides a built-in purchase and sale discipline that reduces portfolio volatility and enhances total returns. The Dual Objectives force a more defensive posture as market prices rise (and yields fall) and allows for a more aggressive stance as prices fall (and yields rise). The firm tends to make moderate asset allocation moves gradually over a market cycle.

## CURRENT PORTFOLIO STATISTICS

	# OF STOCKS	% EQUITY	YIELD	P/E	MKT VOLUME	DIVERSFN	PORTFOLIO RISK ORIENTATION					
							Price Var.	Earn. Var.	Firm Success	Size	Growth	Fin. lever.
IDS Advisory	36	89%	3.1%	18.8	1.17	.85	+	+	-	0	0	+
SBI MGRS (Avg.)	34	86	2.8	16.2	1.23	.83	+	+	0	+	+	0
TUCS MEDIAN	NA	92	NA	NA	1.27	.79	++	+	-	++	+	0

INDUSTRY SECTOR OVERWEIGHTINGS: Consumer Durables, Materials &amp; Services, Technology, Transportation

INDUSTRY SECTOR UNDERWEIGHTINGS: Consumer Nondurables, Energy

## PERFORMANCE

	LATEST QUARTER	LAST THREE QUARTERS	SINCE INCEPTION
IDS Advisory	-0.5%	6.8%	8.3%
SBI MGR AGGREGATE	-1.1	4.6	6.0
TUCS MEDIAN	-3.1	6.7	NA
WILSHIRE 5000	-1.1	10.8	15.0
CPI (Inflation)	0.6	3.4	3.5

STAFF COMMENTS: IDS slightly outperformed the equity market in the fourth quarter as well as exceeded the returns produced by the aggregate SBI manager pool and the TUCS subsample median. While on a sector basis IDS's performance generally matched that of the market, stock selection within the Financial sector and overweighted Transportation sector did add marginally to results. On the other hand, the firm's Consumer Nondurables and Energy selections detracted slightly from performance. Over the quarter, IDS reduced its cash reserves modestly, but at the same time significantly reduced the relative market volatility (beta) and P/E and increased the yield of the equity portfolio. A major commitment was made to Utilities, positions were added to in the Capital Bonds and Consumer Durables sectors, and holdings in the Consumer Nondurables and Technology sectors were significantly scaled back. During the last three quarters, IDS has outperformed the aggregate SBI manager pool and has roughly matched TUCS

EXTERNAL EQUITY MANAGER INFORMATION  
December 31, 1983

FIRM NAME: Investment Advisers

PORTFOLIO MANAGER(S): Kenneth Thorsen

ACCOUNT HISTORY: Start-up: 3/1/83 \$50.0 million

INVESTMENT PHILOSOPHY: Investment Advisers utilizes a macroeconomic investment style, with a relatively equal emphasis placed on asset allocation, industry weighting, and stock selection. Through a committee structure, the firm attempts to identify the economy's position within the real economy and credit cycles. Based upon this analysis, Investment Advisers rotates its portfolios among industries and investment characteristics. Stock selection focuses on the recommendations of fundamental valuation and earnings momentum models. Holdings tend to be concentrated in large capitalization institutional favorites. The firm actively conducts market timing to take advantage of cyclical moves in the market.

CURRENT PORTFOLIO STATISTICS

	# OF STOCKS	% EQUITY	YIELD	P/E	MKT VOLUME	DIVERSFN	Price Var.	PORTFOLIO RISK ORIENTATION				
								Earn. Var.	Firm Success	Size	Growth	Fin. lever.
Investment Advisers	39	89%	3.1%	13.5	1.13	.90	0	+	+	-	0	0
SBI MGRS (Avg.)	34	86	2.8	16.2	1.23	.83	+	+	0	+	+	0
TUCS MEDIAN	NA	92	NA	NA	1.27	.79	++	+	-	++	+	0

INDUSTRY SECTOR OVERWEIGHTINGS: Consumer Durables, Financial, Transportation

INDUSTRY SECTOR UNDERWEIGHTINGS: Energy, Utilities

PERFORMANCE

	LATEST QUARTER	LAST THREE QUARTERS	SINCE INCEPTION
Investment Advisers	1.3%	7.6%	9.2%
SRI MGR AGGREGATE	-1.1	4.6	6.0
TUCS MEDIAN	-3.1	6.7	NA
WILSHIRE 5000	-1.1	10.8	15.0
CPI (Inflation)	0.6	3.4	3.5

STAFF COMMENTS: In the fourth quarter, Investment Advisers significantly outperformed both the equity market and samples of other aggressive equity managers. The firm's strong performance was largely attributable to positive stock selection within two overweighted sectors, Materials & Services (in particular, paper and metals) and Transportation (in particular, airlines). The firm's relatively larger capitalization, lower growth bias again was beneficial to performance in a down market. During the quarter, Investment Advisers increased its Financial holdings considerably and trimmed its positions in the Consumer Nondurables, Technology, and Transportation sectors. For the latest three quarters, the firm's returns have trailed the equity market, but exceeded those of the TUCS subsample median and the aggregate SRI manager pool. The firm continues to maintain portfolio diversification levels in excess of SRI guidelines.

## EXTERNAL EQUITY MANAGER INFORMATION

December 31, 1983

FIRM NAME: Loomis Sayles &amp; Co.

PORTFOLIO MANAGER(S): Kenneth Heehner  
Dennis Comer  
Henry Cook

ACCOUNT HISTORY: Start-up: 3/1/83 \$50.0 million

INVESTMENT PHILOSOPHY: The Loomis organization employs a macroeconomic investment approach which focuses on asset allocation and industry weightings. Based upon its economic analysis, the firm identifies those industries and companies which are expected to experience significant cyclical or secular earnings gains. Loomis tends to own companies with high historical earnings growth, high ROE, and medium capitalization. The firm's aggressive funds' portfolio selections follow those of the parent organization, but the aggressive funds will take much more concentrated positions in industries and companies. The firm is not an active market timer, but it will make moderate asset mix moves gradually over the market cycle.

## CURRENT PORTFOLIO STATISTICS

	# OF STOCKS	% EQUITY	YIELD	P/F	MKT VOLATILITY	DIVERSIFN	Price Var.	PORTFOLIO RISK ORIENTATION				
								Earn. Var.	Firm Success	Size	Growth	Fir. Lever.
Loomis Sayles	19	81%	1.8%	18.0	1.38	.76	++	++	0	0	+	0
SRI MGRS (Avg.)	34	86	2.8	16.2	1.23	.83	+	+	0	+	+	0
TICS MEDIAN	NA	92	NA	NA	1.27	.79	++	+	-	++	+	0

INDUSTRY SECTOR OVERWEIGHTINGS: Capital Goods, Consumer Durables, Technology, Transportation

INDUSTRY SECTOR UNDERWEIGHTINGS: Consumer Nondurables, Energy, Financial, Materials &amp; Services, Utilities

## PERFORMANCE

	LATEST QUARTER	LAST THREE QUARTERS	SINCE INCEPTION
Loomis Sayles	-1.8%	-1.4%	-1.2%
SRI MGR AGGREGATE	-1.1	4.6	6.0
TICS MEDIAN	-3.1	6.7	NA
WILSHIRE 5000	-1.1	10.8	15.0
CPI (Inflation)	0.6	3.4	3.5

STAFF COMMENTS: Loomis Sayles made several significant portfolio adjustments during the third quarter. Equity exposure was reduced from a fully invested position to 81%. Equity portfolio relative market volatility (beta) and P/E were reduced from their previously far-above average levels. The portfolio's exposure to small-growth oriented companies was also decreased. Loomis scaled back its positions in the Consumer Nondurables, Financial, and Technology sectors and added to its Capital Goods, Materials & Services (in particular, basic industries), and Transportation holdings. However, many of these changes occurred late in the quarter and were insufficient to protect against the market's decline. For both the most recent quarter and the last three quarters, Loomis has underperformed the equity market and the aggregate SRI manager pool, although the firm did exceed the performance of the TICS subsample median in the fourth quarter.

EXTERNAL EQUITY MANAGER INFORMATION  
December 31, 1983

FIRM NAME: Siebel Capital Management

PORTFOLIO MANAGER(S): Kenneth Siebel  
Ronald Sloan  
Walter Harrison

ACCOUNT HISTORY: Start-up: 3/1/83 \$50.0 million

INVESTMENT PHILOSOPHY: Siebel employs a modified, microeconomic investment style, concentrating on stock selection, but also considering the effect of macroeconomic factors on the prospects for specific industries and companies. The firm tends to purchase stocks of two principle types of companies: First, seasoned growth companies devising new products or creating new markets for old products which will significantly raise earnings growth. Second, low P/E companies undergoing a potentially profitable redeployment of assets. Siebel is a moderate market timer, willing to alter asset mix at any point in the market cycle.

CURRENT PORTFOLIO STATISTICS

	# OF STOCKS	% EQUITY	YIELD	P/F	MKT. VOLUME	DIVERSIFN	PORTFOLIO RISK ORIENTATION				
							Price Var.	Earn. Var.	Firm Success	Size	Fin. Growth lever.
Siebel Capital	37	90%	3.1%	12.4	1.16	.88	+	0	0	+	0
SRI MGRS (Avg.)	34	86	2.8	16.2	1.23	.83	+	+	0	+	0
TUCS MEDIAN	NA	92	NA	NA	1.27	.79	++	+	-	++	+

INDUSTRY SECTOR OVERWEIGHTINGS: Financial, Technology

INDUSTRY SECTOR UNDERWEIGHTINGS: Capital Goods, Consumer Durables, Energy, Utilities

PERFORMANCE

	LATEST QUARTER	LAST THREE QUARTERS	SINCE INCEPTION
Siebel Capital	-1.7%	3.8%	7.1%
SRI MGR AGGREGATE	-1.1	4.6	6.0
TUCS MEDIAN	-3.1	6.7	NA
WILSHIRE 5000	-1.1	10.8	15.0
CPI (Inflation)	0.6	3.4	3.5

STAFF COMMENTS: Siebel Capital underperformed both the equity market and the aggregate SRI manager pool, but outperformed the TUCS subsample median in the fourth quarter. Poor stock selection in the Consumer Nondurables, Consumer Durables and Transportation sectors hampered returns. During the quarter, Siebel trimmed positions in the Consumer Nondurables and Transportation sectors and eliminated its small Energy holding. On the other hand, positions in the Materials & Services and Technology sectors were increased. Over the last three quarters, Siebel's portfolio has underperformed both the equity market and samples of other aggressive equity managers. Siebel continues to fail to satisfy the SRI's risk guidelines by maintaining diversification levels in excess of maximum specified levels.



## EXTERNAL EQUITY MANAGER INFORMATION

December 31, 1983

FIRM NAME: Herbert R. Smith

PORTFOLIO MANAGER(S): Herbert Smith  
David Rashee

ACCOUNT HISTORY: Start-up: 3/1/83 \$50.0 million

INVESTMENT PHILOSOPHY: Herbert R. Smith utilizes a modified, macroeconomic investment approach. The firm uses its economic and political outlook and its technical analysis of the marketplace to establish the asset mix for its portfolios. The firm is an aggressive market timer, willing to make sizable asset allocation moves at any point in the market cycle. Although asset allocation receives the firm's primary attention, the firm also emphasizes stock selection. Its stock selection is predicated upon both fundamental and technical analysis of individual securities. Herbert Smith searches for stocks with attractive relative P/F's and positive technical patterns.

## CURRENT PORTFOLIO STATISTICS

	# OF STOCKS	Z EQUITY	YIELD	P/E	MKT VOLTY	DIVERSFN	Price Var.	PORTFOLIO RISK ORIENTATION				
								Earn. Var.	Firm Success	Size	Growth	Fin. lever.
Herbert R. Smith	60	80%	2.1%	18.9	1.33	.84	++	+	-	++	+	0
SBI MGRS (Avg.)	34	86	2.8	16.2	1.23	.83	+	+	0	+	+	0
TUCS MEDIAN	NA	92	NA	NA	1.27	.79	++	+	-	++	+	0

INDUSTRY SECTOR OVERWEIGHTINGS: Financial, Technology, Transportation

INDUSTRY SECTOR UNDERWEIGHTINGS: Consumer Durables, Consumer Nondurables, Energy, Materials &amp; Services, Utilities

## PERFORMANCE

	LATEST QUARTER	LAST THREE QUARTERS	SINCE INCEPTION
Herbert R. Smith	-5.0%	- 7.3%	- 6.9%
SBI MGR AGGREGATE	-1.1	4.6	6.0
TUCS MEDIAN	-3.1	6.7	NA
WILSHIRE 5000	-1.1	10.8	15.0
CPI (Inflation)	0.6	3.4	3.5

STAFF COMMENTS: For the third consecutive quarter, Herbert R. Smith significantly underperformed both the equity market and samples of other aggressive equity managers. Smith's underperformance was broad-based and was primarily a function of poor stock selection rather than sector choices, although the firm's overweightings in Technology also continued to adversely affect results. Holdings in the overweighted Financial and Transportation sectors performed well, however. The portfolio's continued small capitalization, high growth orientation was a contributing factor to poor relative performance. Market timing also detracted from results as the firm increased its equity exposure over the quarter to 80% from 65%. During the last three quarters, Smith's returns continued to be far below those of the market and samples of other aggressive equity managers.

**EXTERNAL EQUITY MANAGER INFORMATION**  
December 31, 1983

**FIRM NAME:** Trustee & Investors

**PORTFOLIO MANAGER(S):** Mason Klinck  
Richard Welch  
David Cook

**ACCOUNT HISTORY:** Start-up: 3/1/83 \$50.0 million

**INVESTMENT PHILOSOPHY:** Trustee & Investors employs a highly disciplined, microeconomic investment approach, emphasizing stock selection rather than industry selection and/or market timing. The firm analyzes potential purchase and sale candidates through the use of computerized data bases which screen such fundamental valuation parameters as price, earnings, and balance sheet and income statement data. Trustee & Investors searches for companies with unrecognized assets or earnings, or companies undergoing cyclical or operational turnarounds. The firm maintains a fully invested position at all times.

**CURRENT PORTFOLIO STATISTICS**

	# OF STOCKS	% EQUITY	YIELD	P/E	MKT VOLTY	DIVERSFN	PORTFOLIO RISK ORIENTATION					
							Price Var.	Earn. Var.	Firm Success	Size	Growth	Fin. Lever.
Trustee & Investors	44	99%	2.8%	18.0	1.25	.89	++	0	0	0	+	+
SBI MGRS (Avg.)	34	86	2.8	16.2	1.23	.83	+	+	0	+	+	0
TUCS MEDIAN	NA	92	NA	NA	1.27	.79	++	+	-	++	+	0

**INDUSTRY SECTOR OVERWEIGHTINGS:** Financial, Technology

**INDUSTRY SECTOR UNDERWEIGHTINGS:** Capital Goods, Consumer Durables, Consumer Nondurables, Energy, Transportation, Utilities

**PERFORMANCE**

	LATEST QUARTER	LAST THREE QUARTERS	SINCE INCEPTION
Trustee & Investors	-3.8%	1.8%	2.1%
SBI MGR AGGREGATE	-1.1	4.6	6.0
TUCS MEDIAN	-3.1	6.7	NA
WILSHIRE 5000	-1.1	10.8	15.0
CPI (Inflation)	0.6	3.4	3.5

**STAFF COMMENTS:** Trustee & Investors' very sizable overweighting in Technology, a less dramatic overweighting in the Financial sector, and its fully invested position continued to be the primary factors underlying the firm's underperformance relative to the market and other aggressive equity managers. The firm's Utilities holdings also performed poorly. Trustee's portfolio was little changed over the quarter, as the firm generally preferred to hold positions that had suffered significant declines in the previous quarter. Holdings in the Consumer Nondurables sector were trimmed and Technology positions were increased slightly, however. Over the last three quarters, the firm's performance has trailed that of the equity market and other aggressive equity managers. Trustee continues to fail to meet the SBI's diversification risk guidelines.

# **Tab B**

# **MINNESOTA STATE BOARD OF INVESTMENT**

## **QUARTERLY INVESTMENT REVIEW**

- **POST RETIREMENT FUND**
- **SUPPLEMENTAL RETIREMENT FUND**  
**(Income Share Account)**
- **SUPPLEMENTAL RETIREMENT FUND**  
**(Growth Share Account)**
- **MINNESOTA VARIABLE ANNUITY FUND**
- **PERMANENT SCHOOL FUND**

**December 31, 1983**

FIGURE 5

POST RETIREMENT FUND

ASSET MIX  
MARKET VALUE

(End of Period Allocations)

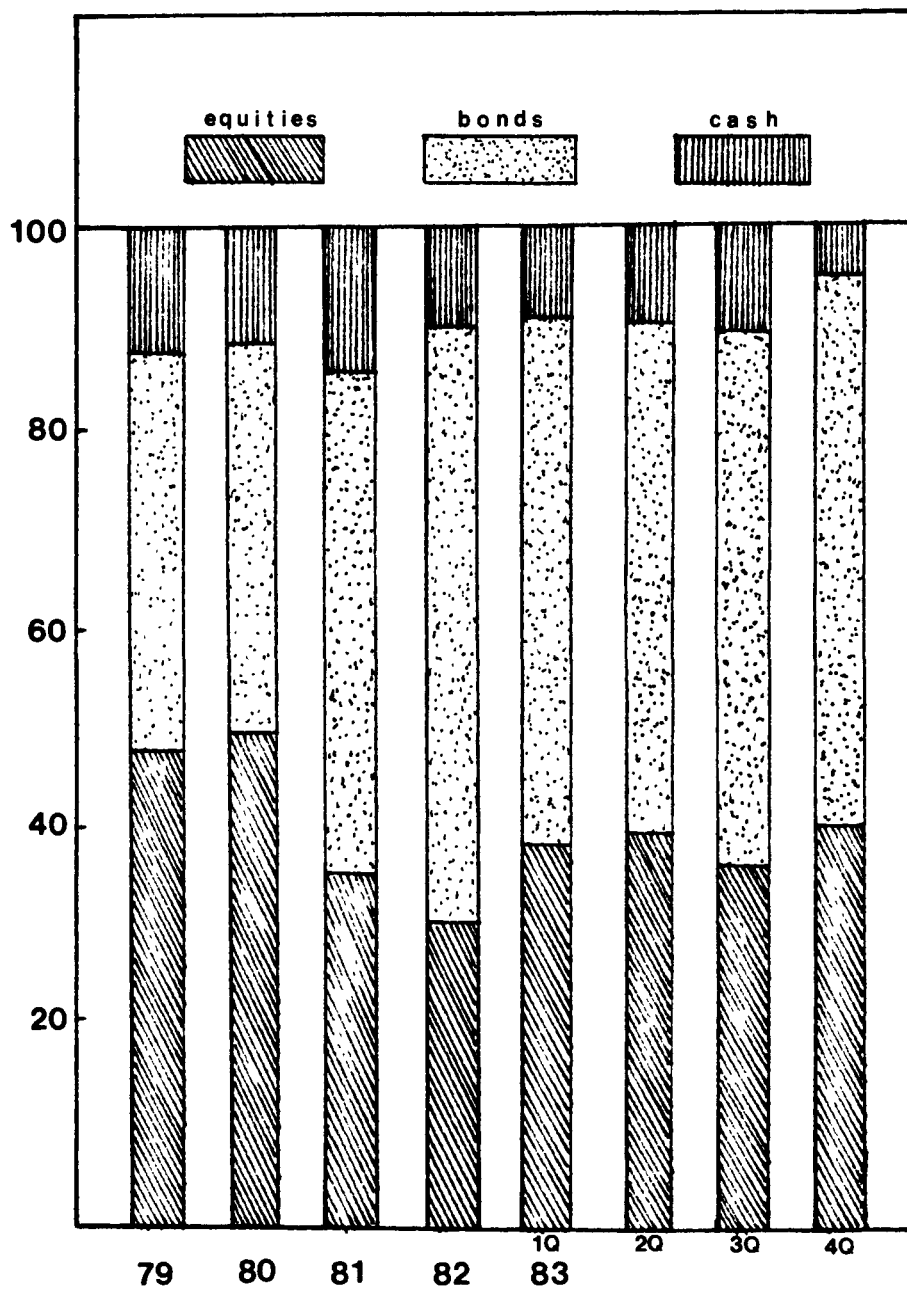


TABLE 6

## POST RETIREMENT FUND

## ASSET MIX

 MARKET VALUE  
 (End of Period Allocations)

	Common Stocks		Bonds		Cash	
	<u>\$Million</u>	<u>Percent</u>	<u>\$Million</u>	<u>Percent</u>	<u>\$Million</u>	<u>Percent</u>
1979	457.2	47.3	391.1	40.5	117.4	12.2
1980	568.4	48.9	453.0	39.0	140.3	12.1
1981	376.0	34.2	545.5	49.5	179.4	16.3
1982	465.0	30.5	919.9	60.4	138.1	9.1
1983 1Q	620.5	38.7	864.8	53.9	118.3	7.4
2Q	693.1	39.5	903.0	51.5	156.9	8.9
3Q	642.0	36.1	964.2	54.2	174.0	9.8
4Q	730.3	40.5	1,002.1	55.6	69.8	3.9

FIGURE 6

**SUPPLEMENTAL RETIREMENT FUND**  
**(Income Share Account)**

**ASSET MIX**  
**MARKET VALUE**

(End of Period Allocations)

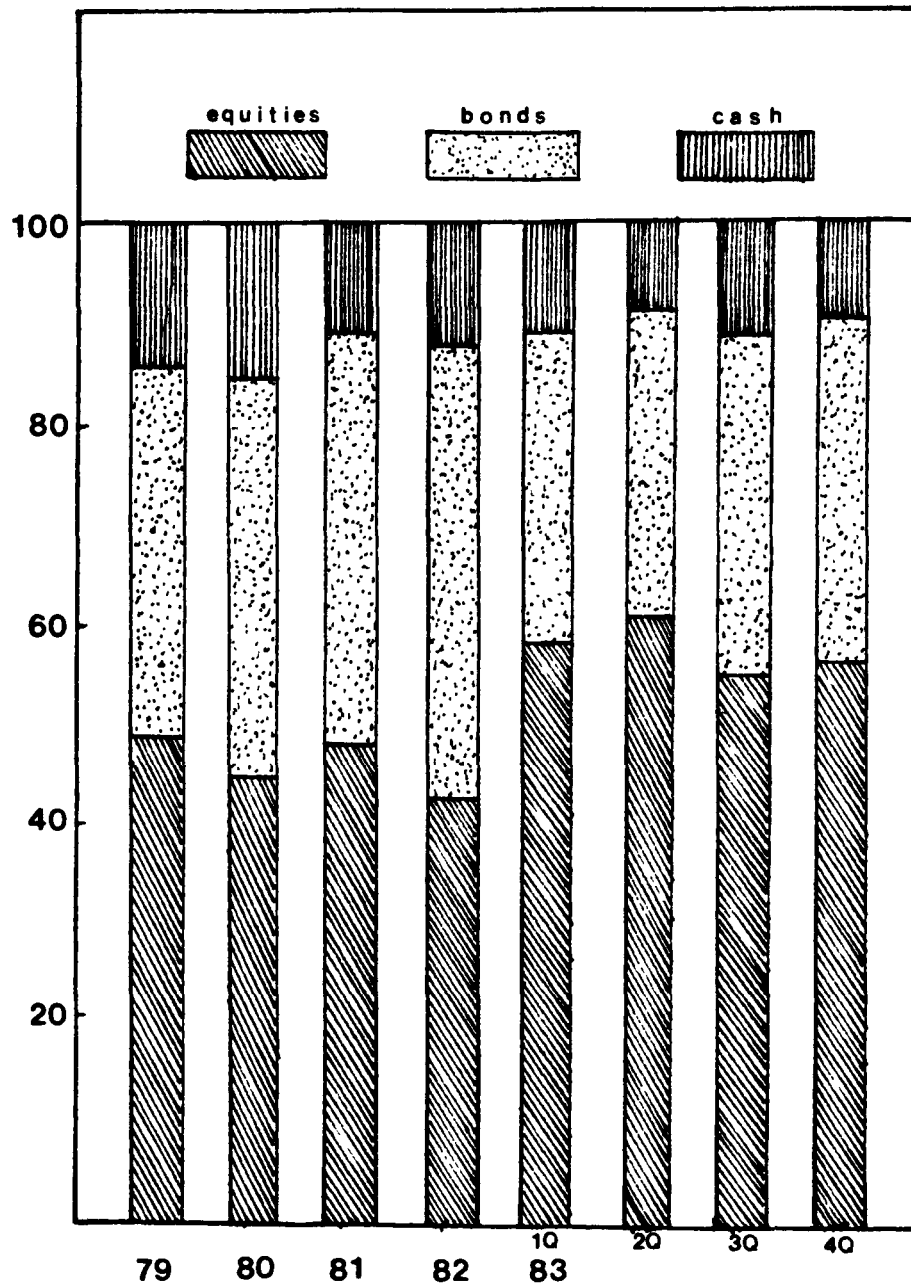


TABLE 7

# **SUPPLEMENTAL RETIREMENT FUND** **(Income Share Account)**

## **ASSET MIX** **MARKET VALUE**

(End of Period Allocations)

	Common Stocks		Bonds		Cash*	
	<u>\$Million</u>	<u>Percent</u>	<u>\$Million</u>	<u>Percent</u>	<u>\$Million</u>	<u>Percent</u>
1979	30.3	48.6	23.5	37.3	8.8	14.1
1980	33.5	44.5	30.5	40.4	11.3	15.1
1981	35.9	47.1	33.4	43.8	7.0	9.1
1982	42.7	42.5	46.2	46.0	11.5	11.5
1983 1Q	60.6	57.2	34.7	32.8	10.6	10.0
2Q	69.4	61.1	36.7	32.3	7.5	6.6
3Q	61.5	55.4	37.9	34.2	11.5	10.4
4Q	63.5	56.2	39.6	35.0	9.9	8.8

\* Includes cash held by the external manager



FIGURE 7

**SUPPLEMENTAL RETIREMENT FUND**  
**(Growth Share Account)**

**ASSET MIX**  
**MARKET VALUE**  
(End of Period Allocations)

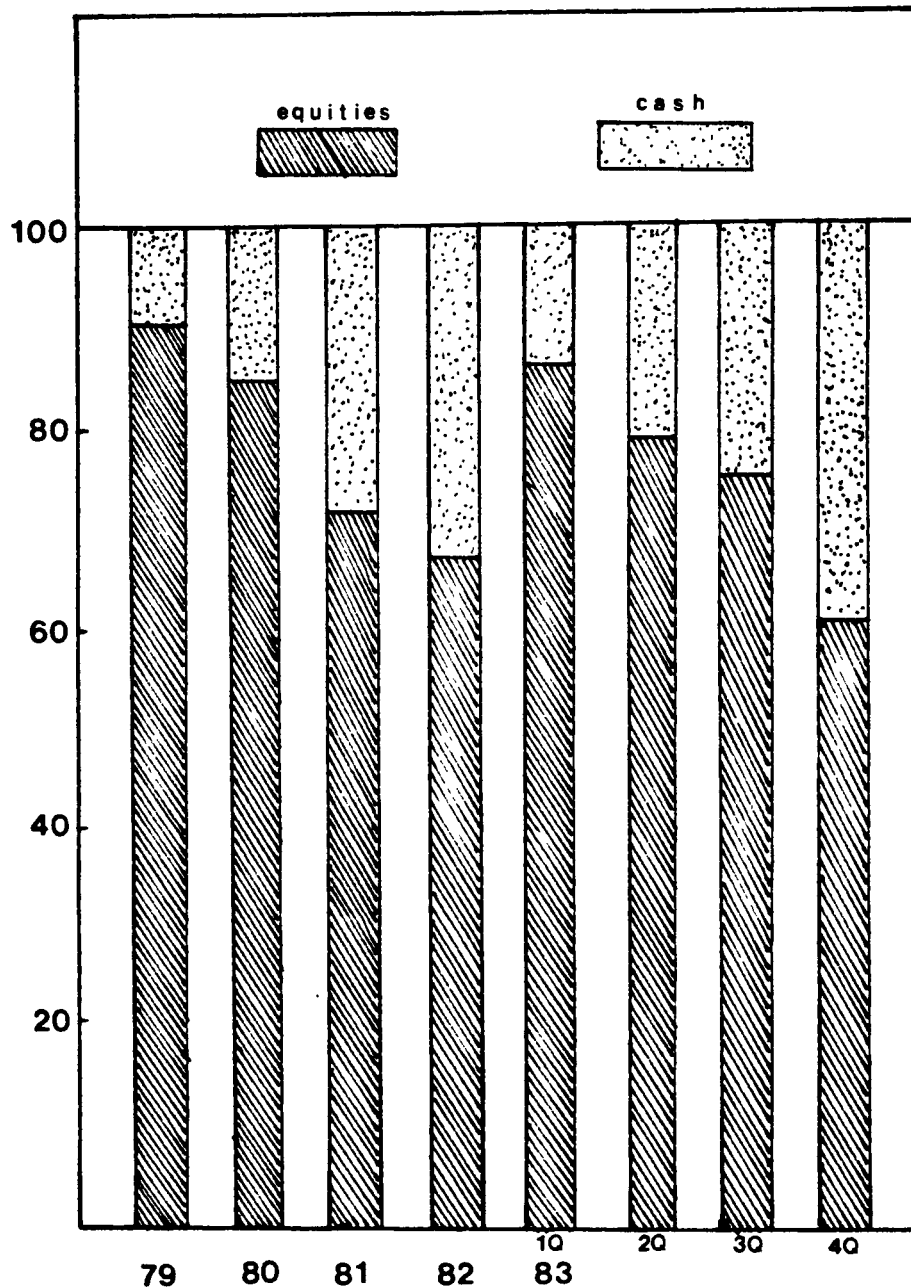


TABLE 8

# SUPPLEMENTAL RETIREMENT FUND

## (Growth Share Account)

### ASSET MIX

### MARKET VALUE

(End of Period Allocations)

	Common Stocks		Bonds		Cash*	
	<u>\$Million</u>	<u>Percent</u>	<u>\$Million</u>	<u>Percent</u>	<u>\$Million</u>	<u>Percent</u>
1979	25.3	91.1	-----	-----	2.5	8.9
1980	29.8	83.0	-----	-----	6.1	17.0
1981	28.8	71.4	0.5	1.1	11.1	27.4
1982	32.5	65.6	-----	-----	17.0	34.4
1983 1Q	43.9	84.4	-----	-----	8.1	15.6
2Q	46.1	79.0	-----	-----	12.3	21.0
3Q	42.8	76.0	-----	-----	13.5	24.0
4Q	33.7	60.3	-----	-----	22.2	39.7

\*Includes cash held by the external manager

FIGURE 8

MINNESOTA VARIABLE ANNUITY FUND

ASSET MIX  
MARKET VALUE

(End of Period Allocations)

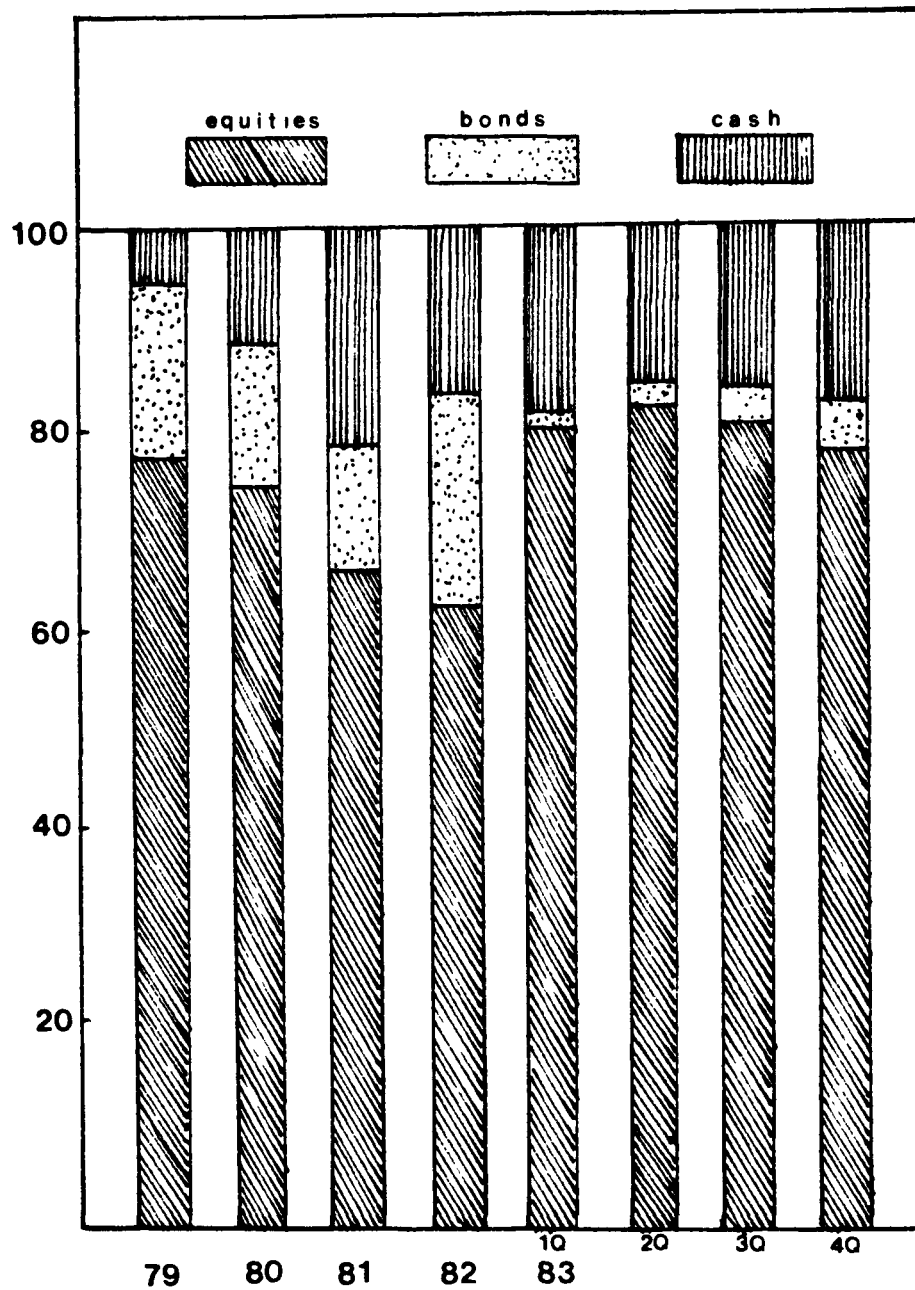


TABLE 9

## MINNESOTA VARIABLE ANNUITY FUND

ASSET MIX  
MARKET VALUE

(End of Period Allocations)

	Common Stocks		Bonds		Cash*	
	<u>\$Million</u>	<u>Percent</u>	<u>\$Million</u>	<u>Percent</u>	<u>\$Million</u>	<u>Percent</u>
1979	48.6	77.1	11.1	17.7	3.3	5.2
1980	55.2	74.1	9.8	13.2	9.4	12.7
1981	49.6	64.8	9.7	12.7	17.2	22.5
1982	56.7	62.0	19.8	21.6	15.0	16.4
1983 1Q	77.8	80.3	0.5	0.6	18.5	19.1
2Q	86.7	81.1	5.0	4.6	15.2	14.2
3Q	83.8	80.7	5.0	4.8	15.1	14.5
4Q	78.9	77.0	5.0	4.8	18.7	18.2

\*Includes cash held by external managers

FIGURE 9

# PERMANENT SCHOOL FUND

## ASSET MIX

### BOOK VALUE

(End of Period Allocations)

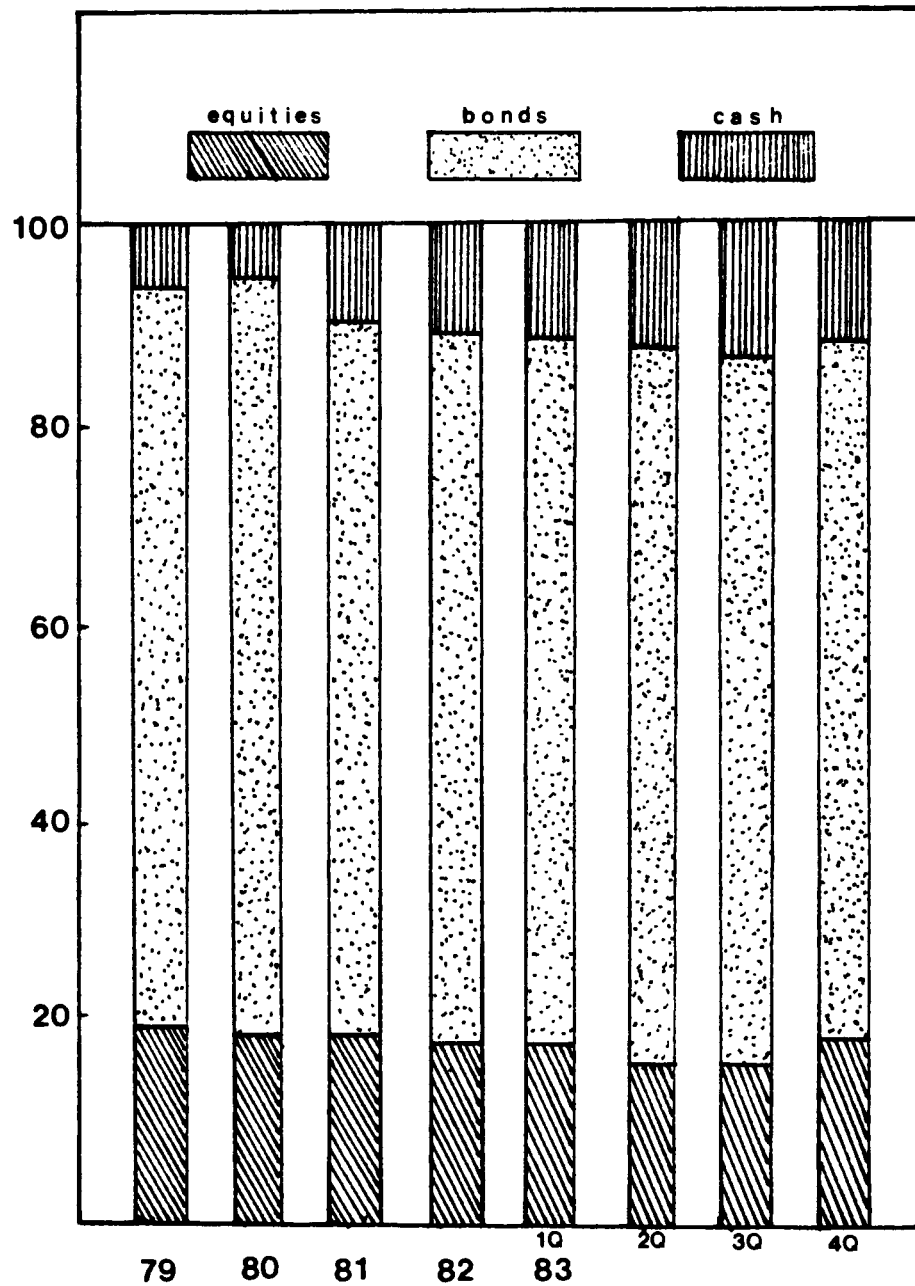


TABLE 10

**PERMANENT SCHOOL FUND**  
**ASSET MIX**  
**BOOK VALUE**  
 (End of Period Allocations)

	Common Stocks		Bonds		Cash	
	<u>\$ Million</u>	<u>Percent</u>	<u>\$ Million</u>	<u>Percent</u>	<u>\$ Million</u>	<u>Percent</u>
1979	50.9	18.7	207.1	76.0	14.3	5.3
1980	49.2	17.2	225.4	78.5	12.2	4.3
1981	52.5	17.4	221.2	73.4	27.8	9.2
1982	48.1	15.6	226.6	73.3	34.2	11.1
1983 1Q	47.7	15.5	224.9	72.8	36.1	11.7
2Q	46.5	14.7	226.8	71.5	43.7	13.8
3Q	47.1	14.5	228.1	70.4	48.8	15.1
4Q	53.4	16.6	229.5	71.3	38.8	12.1

# TABLE 11

## EQUITY MANAGER PERFORMANCE

12/31/83

	<u>Total Portfolio Returns</u>		
	<u>Last Quarter</u>	<u>Last Two Quarters</u>	<u>Since Inception</u>
Income Share Account			
BMI Capital	- 5.9%	- 2.4%	- 1.6%
Internal Manager	- 0.2	8.0	9.5
Growth Share Account			
Waddell & Reed	- 5.0	14.6	14.7
Internal Manager	- 2.0	5.3	7.8
Variable Annuity Fund			
Norwest Bank	- 4.9	8.2	12.7
Lieber & Company	1.8	11.5	12.2
Internal Manager	- 1.9	6.3	9.3
Performance Standards			
Wilshire 5000	- 1.1	10.8	15.0
S&P 500	0.4	11.4	15.5
TUCS Median	- 3.1	6.7	NA
Inflation	0.6	3.4	3.5

**EXTERNAL EQUITY MANAGER INFORMATION**  
December 31, 1983

**FIRM NAME:** BMI Capital

**PORTFOLIO MANAGER(S):** James Awad  
Jerome Barone

**ACCOUNT HISTORY:** Start-up: 3/1/83 \$10.0 million

**INVESTMENT PHILOSOPHY:** BMI employs a microeconomic investment approach, emphasizing individual stock selection rather than industry selection and/or market timing. The firm focuses on two types of companies: First, misperceived companies that are in the process of undergoing dynamic change that will cause them to produce materially higher earnings over the near-term, but whose prospects are as yet unrecognized by the market; Second, small-to-medium sized companies that exhibit the potential for rapid future earnings growth. This second type of company dominates the BMI portfolios. The firm tends to take sizable positions in a relatively few stocks. BMI generally maintains a fully invested posture, with any cash positions a result of a lack of attractive investment opportunities.

**CURRENT PORTFOLIO STATISTICS**

	# OF STOCKS	% EQUITY	YIELD	P/E	MKT VOLTY	DIVERSFN	Price Var.	PORTFOLIO RISK ORIENTATION				
								Earn. Var.	Firm Success	Size	Growth	Fin. Lever.
BMI Capital	21	98%	2.2%	20.4	1.29	.80	++	++	-	++	+	0
SBI MGRS (Avg.)	34	86	2.8	16.2	1.23	.83	+	+	0	+	+	0
TUCS MEDIAN	NA	92	NA	NA	1.27	.79	++	+	-	++	+	0

**INDUSTRY SECTOR OVERWEIGHTINGS:** Capital Goods, Consumer Durables, Materials & Services, Technology

**INDUSTRY SECTOR UNDERWEIGHTINGS:** Energy, Financial, Transportation, Utilities

**PERFORMANCE**

	LATEST QUARTER	LAST THREE QUARTERS	SINCE INCEPTION
BMI Capital	-5.9%	-2.4%	-1.6%
SBI MGR AGGREGATE	-1.1	4.6	6.0
TUCS MEDIAN	-3.1	6.7	NA
WILSHIRE 5000	-1.1	10.8	15.0
CPI (Inflation)	0.6	3.4	3.5

**STAFF COMMENTS:** BMI's fully invested position and broadly-based poor stock selection, particularly in the Consumer Nondurables and Capital Goods sectors, were primary contributors to the firm's poor fourth quarter performance. An overweighting in the Consumer Durables sector did add positively to performance. During the quarter, BMI underperformed both the equity market and samples of other aggressive equity managers. Over this period, the firm reduced its Consumer Nondurables position and increased its holdings of Technology stocks. For the last three quarters, BMI's performance has consistently trailed that of the equity market and other aggressive equity managers by considerable margins.



# EXTERNAL EQUITY MANAGER INFORMATION

December 31, 1983

FIRM NAME: Waddell & Reed Asset Management

PORTFOLIO MANAGER(S): Henry Herrmann

ACCOUNT HISTORY: Start-up: 3/1/83 \$10.0 million

INVESTMENT PHILOSOPHY: Waddell & Reed, in its aggressively managed funds, employs a microeconomic investment approach. While asset mix decisions are made for all Waddell & Reed funds at a committee level, the aggressive funds focus on stock selection almost entirely. Holdings are concentrated in small capitalization stocks with an orientation toward cyclical companies and immature growth companies, particularly technology companies. The Waddell & Reed organization is an active market timer willing to make significant asset mix shifts at any point in the market cycle.

## CURRENT PORTFOLIO STATISTICS

	# OF STOCKS	% EQUITY	YIELD	P/F	MKT VOLTY	DIVERSFN	Price Var.	PORTFOLIO RISK ORIENTATION				
								Earn. Var.	Firm Success	Size	Growth	Fin. Lever.
Waddell & Reed	10	31%	2.5%	17.2	1.36	.71	++	0	0	++	0	0
SBI MGRS (Avg.)	34	86	2.8	16.2	1.23	.83	+	+	0	+	+	0
TUCS MEDIAN	NA	92	NA	NA	1.27	.79	++	+	-	++	+	0

INDUSTRY SECTOR OVERWEIGHTINGS: Capital Goods, Consumer Durables, Financial, Technology

INDUSTRY SECTOR UNDERWEIGHTINGS: Consumer Nondurables, Energy, Materials & Services, Transportation, Utilities

## PERFORMANCE

	LATEST QUARTER	LAST THREFF QUARTERS	SINCE INCEPTION
Waddell & Reed	-5.0%	14.6%	14.7%
SBI MGR AGGREGATE	-1.1	4.6	6.0
TUCS MEDIAN	-3.1	6.7	NA
WILSHIRE 5000	-1.1	10.8	15.0
CPI (Inflation)	0.6	3.4	3.5

Staff Comments: During the fourth quarter, Waddell & Reed assumed a defensive posture by dramatically increasing its cash reserves from 27% of the portfolio at the end of the third quarter to 69% at year-end. The firm simultaneously reduced the relative market volatility (beta) and P/F of its equity portfolio and increased its yield. However, these major portfolio adjustments occurred too late in the quarter to prevent the firm from underperforming both the equity market and samples of other aggressive equity managers. Positive stock selection within the overweighted Financial sector was more than offset by the poor performance of Waddell & Reed's holdings in the overweighted Technology and Capital Goods sectors. During the quarter, the firm increased its weightings in the Capital Goods, Consumer Durables, and Financial sectors, assuming overweighted positions in each. Concomitantly, the firm eliminated its positions in the Consumer Nondurables and Transportation sectors. Despite the firm's poor fourth quarter performance, over the last three quarters, Waddell & Reed has ranked as one of the SRI's top

**EXTERNAL EQUITY MANAGER INFORMATION**  
December 31, 1983

**FIRM NAME:** Norwest Bank, Minneapolis

**PORTFOLIO MANAGER(S):** Ronald Hoffman

**ACCOUNT HISTORY:** Start-up: 3/1/83 \$10.0 million

**INVESTMENT PHILOSOPHY:** Norwest utilizes a modified, microeconomic investment style. The bank emphasizes stock selection in its aggressively managed funds, although asset mix is set for all bank funds by a strategy committee. The aggressive funds tend to focus on industries and companies experiencing a growing share of GNP, developing new, high growth products, and which are positively influenced by cyclical economic change. This approach leads to a concentration in small capitalization, emerging growth, and technology companies. The bank is a moderate market timer, willing to shift asset mix at any point in the market cycle.

**CURRENT PORTFOLIO STATISTICS**

	# OF STOCKS	% EQUITY	YIELD	P/E	MKT VOLTY	DIVERSFN	Price Var.	PORTFOLIO RISK ORIENTATION				
								Earn. Var.	Firm Success	Size	Growth	Fin. Lever.
Norwest Bank	51	83%	1.9%	19.0	1.23	.78	+	+	-	++	++	0
SBI MGRS (Avg.)	34	86	2.8	16.2	1.23	.83	+	+	0	+	+	0
TUCS MEDIAN	NA	92	NA	NA	1.27	.79	++	+	-	++	+	0

**INDUSTRY SECTOR OVERWEIGHTINGS:** Technology

**INDUSTRY SECTOR UNDERWEIGHTINGS:** Capital Goods, Consumer Durables, Energy, Financial, Materials & Services, Transportation, Utilities

**PERFORMANCE**

	LATEST QUARTER	LAST THREE QUARTERS	SINCE INCEPTION
Norwest Bank	-4.9%	8.2%	12.7%
SBI MGR AGGREGATE	-1.1	4.6	6.0
TUCS MEDIAN	-3.1	6.7	NA
WILSHIRE 5000	-1.1	10.8	15.0
CPI (Inflation)	0.6	3.4	3.5

**Staff Comments:** Norwest's fourth quarter underperformance relative to the equity market and other aggressive equity managers was largely attributable to the poor performance of the bank's holdings in the Consumer Nondurables sector and its massive overweighting of the Technology sector. Partially offsetting these negative factors were positive returns from the bank's relatively minor holdings in the Energy and Transportation sectors. During the quarter, Norwest significantly reduced its positions in both the Financial and Materials & Services sectors, assuming an underweighted position in each. Currently, Norwest's single overweighted sector is Technology, where over half of the equity portfolio's market value is invested. Over the last three quarters, the bank has outperformed both the aggregate SBI manager pool and the TUCS subsample median. However, its weak second half 1983 returns have brought Norwest's three quarter performance below that of the Wilshire 5000.

## EXTERNAL EQUITY MANAGER INFORMATION

December 31, 1983

FIRM NAME: Lieber &amp; Co.

PORTFOLIO MANAGER(S): Nola Falcone  
Stephen Lieber

ACCOUNT HISTORY: Start-up: 3/1/83 \$10.0 million

**INVESTMENT PHILOSOPHY:** Lieber & Co. seeks to identify investment concepts that are either currently profitable or likely to become so in the near future, yet whose prospects are not reflected in the stock prices of the companies associated with the concepts. The investment concepts upon which the firm focuses are related to both macroeconomic trends and specific product developments within particular industries or companies. Stocks purchased by Lieber tend to be those of well-managed, high growth and high ROE, small-to-medium sized companies. The stocks may be undervalued due to the failure of investors to fully recognize either the value of new products or a successful turnaround situation. Particularly attractive to Lieber are small-to-medium sized takeover candidates. The firm generally is fully invested, with any cash positions the result of a lack of attractive investment concepts.

## CURRENT PORTFOLIO STATISTICS

	# OF STOCKS	% EQUITY	YIELD	P/E	MKT VOLTY	DIVERSFN	Price Var.	PORTFOLIO RISK ORIENTATION				
								Earn. Var.	Firm Success	Size	Growth	Fin. lever.
Lieber & Co.	60	100%	2.8%	12.9	1.24	.82	+	0	-	++	+	-
SBI MGRS (Avg.)	34	86	2.8	16.2	1.23	.83	+	+	0	+	+	0
TUCS MEDIAN	NA	92	NA	NA	1.27	.79	++	+	-	++	+	0

INDUSTRY SECTOR OVERWEIGHTINGS: Capital Goods, Consumer Nondurables, Financial, Materials &amp; Services, Transportation

INDUSTRY SECTOR UNDERWEIGHTINGS: Energy, Technology, Utilities

## PERFORMANCE

	LATEST QUARTER	LAST THREE QUARTERS	SINCE INCEPTION
Lieber & Co.	1.8%	11.5%	12.2%
SBI MGR AGGREGATE	-1.1	4.6	6.0
TUCS MEDIAN	-3.1	6.7	NA
WILSHIRE 5000	-1.1	10.8	15.0
CPI (Inflation)	0.6	3.4	3.5

**Staff Comments:** Lieber's fourth quarter returns exceeded both those of the equity market and samples of other aggressive equity managers, despite the firm's fully invested position. Lieber's positive performance was broad-based, but not particularly extraordinary in any one sector. Successful individual stock selection, rather than sector weightings, was the key to Lieber's superior fourth quarter results. During the quarter, Lieber made relatively few portfolio adjustments and none of major significance. Cumulatively over the last three quarters, Lieber has outperformed the aggregate SBI manager pool and the median of the TUCS subsample and roughly matched the equity market's return, thus retaining its ranking as one of the SBI's top performing managers.

STATE OF MINNESOTA  
STATE BOARD OF INVESTMENT

PERFORMANCE REVIEW FOR  
CALENDAR YEAR ENDING December 31, 1983

PERFORMANCE GOALS  
YEAR ENDING December 31, 1983

FUND PERFORMANCE FOR YEAR ENDING December 31, 1983

		POST	INCOME*	GROWTH*	VARIABLE*	PERM. SCHOOL
STOCKS	- Wilshire 5000	23.4%	13.6%	13.4%	14.6%	14.7%
	- S & P 500	22.6				
BONDS	- Merrill Lynch Index:	7.8	9.2	-	14.6	7.3
<u>TOTAL FUNDS</u>						
POST	- 40% stock/60% bond:	11.0				
INCOME	- 50% stock/50% bond:		11.1			
GROWTH	-100% stock/0% bond:	23.4		12.5		
VARIABLE	-100% stock/0% bond:	23.4			13.3	
P. SCHOOL	- 20% stock/80% bond:	10.9				8.8
<u>INCOME</u>						
Actuarial requirement		5.0	8.4			8.5
Post benefit increase at least 50% of inflation rate: (Effective January 1984)		1.9	7.5			-

\*Includes performance of both internal and external managers.

# **Tab C**

## PORTFOLIO STATISTICS

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STATE OF MINNESOTA  
STATE BOARD OF INVESTMENT  
COMPOSITION OF STATE INVESTMENT PORTFOLIO BY TYPE OF INVESTMENT  
December 31, 1983

	Cash and U.S. Gov't. Short-term	Bank and Corporate Short-term	(1) U.S. Gov't. and Agency Guarantees	(1) Canadian Governmental Obligation	(1) Corporate Bonds	(2) Common Stocks	Outside Money Managers	Alternative Investments	Total
Basic Retirement Funds									
Teachers Retirement Fund	\$ 26,509,576 2.06%	\$ 75,536,926 5.86%	\$ 182,550,297 14.17%	\$ 34,753,618 2.70%	\$ 154,871,221 12.02%	\$ 545,240,103 42.32%	\$ 225,729,070 17.52%	\$ 43,220,773 3.35%	\$ 1,288,411,584 100%
Public Employees Ret. Fund	\$ 13,598,737 1.36%	\$ 37,842,865 3.77%	\$ 130,897,572 13.05%	\$ 30,761,485 3.07%	\$ 135,465,250 13.50%	\$ 431,362,359 43.00%	\$ 181,038,220 18.05%	\$ 42,168,998 4.20%	\$ 1,003,135,486 100%
State Employees Ret. Fund	\$ 16,991,130 2.69%	\$ 37,550,532 5.95%	\$ 81,145,033 12.86%	\$ 17,740,741 2.81%	\$ 83,455,027 13.22%	\$ 261,730,774 41.46%	\$ 108,536,064 17.19%	\$ 24,086,153 3.82%	\$ 631,235,454 100%
Public Employees Police & Fire Fund	\$ 5,821,570 2.70%	\$ 12,888,530 5.98%	\$ 22,414,723 10.40%	\$ 6,422,789 2.98%	\$ 33,974,291 15.77%	\$ 88,216,647 40.95%	\$ 36,677,303 17.02%	\$ 9,040,456 4.20%	\$ 215,456,309 100%
Highway Patrol Ret. Fund	\$ -0-	\$ 3,344,204 6.83%	\$ 4,220,849 8.63%	\$ 1,480,553 3.03%	\$ 9,207,730 18.82%	\$ 20,476,246 41.85%	\$ 8,273,554 16.91%	\$ 1,921,970 3.93%	\$ 48,925,106 100%
Judges Retirement Fund	\$ -0-	\$ 249,795 7.86%	\$ 229,291 7.21%	\$ 98,749 3.11%	\$ 561,067 17.65%	\$ 1,478,512 46.52%	\$ 560,815 17.65%	\$ -0-	\$ 3,178,229 100%
Post Retirement Fund	\$ 53,498,592 3.02%	\$ 50,150,000 2.83%	\$ 546,661,123 30.88%	\$ 41,771,062 2.36%	\$ 408,059,346 23.05%	\$ 670,242,625 37.86%	\$ -0-	\$ -0-	\$ 1,770,382,748 100%
Minnesota Supplemental Funds									
Income Share Account	\$ 9,500,636 8.47%	\$ 200,000 0.18%	\$ 16,232,982 14.48%	\$ 4,019,253 3.59%	\$ 22,910,921 20.44%	\$ 49,262,606 43.94%	\$ 9,979,545 8.90%	\$ -0-	\$ 112,105,943 100%
Growth Share Account	\$ 14,091,809 26.46%	\$ 250,000 0.47%	\$ -0-	\$ -0-	\$ -0-	\$ 27,608,877 51.84%	\$ 11,305,737 21.23%	\$ -0-	\$ 53,256,423 100%
Fixed Return Account	\$ 11,309,901 21.46%	\$ 311,000 0.59%	\$ 24,965,778 47.38%	\$ 3,272,927 6.21%	\$ 12,837,107 24.36%	\$ -0-	\$ -0-	\$ -0-	\$ 52,696,713 100%
Bond Fund	\$ 159,120 6.25%	\$ -0-	\$ 1,178,557 46.25%	\$ -0-	\$ 1,210,434 47.50%	\$ -0-	\$ -0-	\$ -0-	\$ 2,548,111 100%
Minnesota Variable Annuity	\$ 21,576,127 22.09%	\$ 150,000 0.15%	\$ -0-	\$ -0-	\$ -0-	\$ 53,882,451 55.17%	\$ 22,064,673 22.59%	\$ -0-	\$ 97,673,251 100%
Total Retirement Funds	\$ 173,057,198 3.28%	\$ 218,473,852 4.14%	\$ 1,010,496,205 19.14%	\$ 140,321,177 2.66%	\$ 862,552,394 16.34%	\$ 2,149,501,200 40.72%	\$ 604,164,981 11.44%	\$ 120,438,350 2.28%	\$ 5,279,005,357 100%
Permanent School Fund	\$ 38,777,301 12.05%	\$ -0-	\$ 180,574,714 56.14%	\$ -0-	\$ 48,886,045 15.20%	\$ 53,443,780 16.61%	\$ -0-	\$ -0-	\$ 321,681,840 100%
Treasurer's Cash	\$ 589,313,948 96.72%	\$ 20,000,000 3.28%	\$ -0-	\$ -0-	\$ -0-	\$ -0-	\$ -0-	\$ -0-	\$ 609,313,948 100%
Transportation Funds	\$ 237,286,945 74.40%	\$ 81,655,971 25.60%	\$ -0-	\$ -0-	\$ -0-	\$ -0-	\$ -0-	\$ -0-	\$ 318,942,916 100%
State Building Funds	\$ 41,851,666 91.43%	\$ 3,924,633 8.57%	\$ -0-	\$ -0-	\$ -0-	\$ -0-	\$ -0-	\$ -0-	\$ 45,776,299 100%
Housing Finance Agency	\$ 142,477,559 93.75%	\$ 9,502,030 6.25%	\$ -0-	\$ -0-	\$ -0-	\$ -0-	\$ -0-	\$ -0-	\$ 151,979,589 100%
Minnesota Debt Service Fund	\$ 154,291,548 73.84%	\$ 54,661,468 26.16%	\$ -0-	\$ -0-	\$ -0-	\$ -0-	\$ -0-	\$ -0-	\$ 208,953,016 100%
Miscellaneous Accounts	\$ 50,565,481 93.89%	\$ 1,191,000 2.21%	\$ 2,102,181 3.90%	\$ -0-	\$ -0-	\$ -0-	\$ -0-	\$ -0-	\$ 53,858,662 100%
Taconite Area Env. Protection	\$ 10,850,000 100%	\$ -0-	\$ -0-	\$ -0-	\$ -0-	\$ -0-	\$ -0-	\$ -0-	\$ 10,850,000 100%
N.E. Minnesota Protection	\$ 47,945,353 100%	\$ -0-	\$ -0-	\$ -0-	\$ -0-	\$ -0-	\$ -0-	\$ -0-	\$ 47,945,353 100%
	\$1,486,416,999 21.09%	\$389,408,954 5.52%	\$1,193,173,100 16.93%	\$140,321,177 1.99%	\$911,438,439 12.93%	\$2,202,944,980 31.26%	\$604,164,981 8.57%	\$120,438,350 1.71%	\$7,048,306,980 100%

(1) All bonds are shown at amortized cost.  
(2) All stocks are shown at cost.

STATE OF MINNESOTA  
STATE BOARD OF INVESTMENT

NET CHANGE IN COMPOSITION OF FUNDS  
For period of  
December 1, 1983 - December 31, 1983

Teachers Retirement Fund	\$ 1,855,145
Public Employees Retirement Fund	73,526
State Employees Retirement Fund	2,946,170
Public Employees Police and Fire	1,585,590
Highway Patrolmans Retirement Fund	40,835
Judges Retirement Fund	6,584
Post Retirement Fund	14,556,495
Supplemental Retirement Fund - Income	1,443,950
Supplemental Retirement Fund - Growth	494,899
Supplemental Retirement Fund - Fixed	609,876
Supplemental Retirement Fund - Bond	65,227
Minnesota Variable Annuity Fund	416,910
Total Retirement Funds	\$ 24,095,207
Deferred Compensation	\$ 286,000
Trunk Highway Fund	7,506,950
County State Aid Highway Fund	12,205,502
Municipal State Aid Street Fund	1,719,827
Invested Treasurers Cash Fund	139,673,962
Aeronautics Fund - 22	(100,000)
Taconite Area Environmental Protection Funds	415,000
State Building Funds	(4,637,600)
Housing Finance Agency	14,286,143
Minnesota Debt Service Fund	(5,057,396)
N.F. Minnesota Protection	(365,000)
Miscellaneous Accounts	\$(22,376,655)
Total State Cash Accounts	<u>143,556,733</u>
Total	<u>\$167,651,940</u>



**TRANSACTION AND ASSET SUMMARY  
RETIREMENT FUNDS**

	<u>Net Transactions</u>			<u>Asset Summary (at market)</u>				<u>Total (000,000) (at market)</u>
	<u>Bonds (000,000)</u>	<u>Stocks (000,000)</u>	<u>Total</u>	<u>Cash Flow</u>	<u>Short-term % of Fund</u>	<u>Bonds % of Fund</u>	<u>Equity % of Fund</u>	
December 1981	(1)	18	17	56	14.7	42.5	42.8	3456
January 1982	47	65	112	42	12.7	43.2	44.1	3462
February	64	50	114	30	10.3	46.1	43.6	3433
March	25	38	63	47	9.7	46.3	44.0	3482
April	(47)	30	(17)	39	11.0	44.4	44.6	3609
May	(49)	48	1	28	11.8	43.7	44.5	3577
June	13	73	86	93	12.0	42.6	45.4	3576
July	(15)	(5)	(20)	59	13.9	42.8	43.3	3665
August	(14)	(86)	(100)	37	16.3	41.2	42.5	3951
September	58	(10)	48	64	16.2	42.7	41.1	4088
October	124	(17)	107	48	13.6	44.9	41.5	4413
November	137	9	146	41	11.0	47.0	42.0	4537
December	(2)	6	4	45	11.7	46.6	41.7	4605
January 1983	(20)	2	(18)	41	12.8	45.0	42.2	4667
February	(76)	(502)	(578)	26	25.2	43.6	31.2	4770
March	(270)	1098	828	47	8.7	37.2	54.1	4841
April	(6)	(7)	(13)	40	9.3	36.3	54.4	5086
May	52	59	111	34	7.9	36.8	55.3	4996
June	(15)	31	16	83	9.0	34.9	56.1	5177
July	47	154	201	47	6.1	35.2	58.7	5053
August	19	7	26	39	6.3	35.4	58.3	5077
September	22	(103)	(81)	29	8.3	35.9	55.8	5202
October	2	93	95	51	7.5	35.8	56.7	5158
November	18	(20)	(2)	40	6.3	37.4	56.3	5275
December	(1)	22	21	47	5.7	37.9	56.4	5262

STATE OF MINNESOTA  
STATE BOARD OF INVESTMENT

Total Transactions

For Periods of

December 1, 1983 - December 31, 1983

	<u>Purchases</u>	<u>Sales</u>
SHORT TERM	\$4,989,738,360.58	\$28,622,218.57
BONDS	\$ 33,620,767.00	-0-
EQUITY	\$ 68,684,246.00	\$47,266,812.67

STATE OF MINNESOTA  
STATE BOARD OF INVESTMENT

Short-Term Purchases and Sales Summary  
For Period  
December 1, 1983 Through December 31, 1983

SHORT-TERM PURCHASES

FUND

Teachers Retirement Fund	\$ 12,512,637.00
Public Employees Retirement Fund	4,876,375.00
State Employees Retirement Fund	9,116,533.00
Public Employees Police & Fire Fund	5,391,661.00
Highway Patrolmen's Retirement Fund	209,334.00
Judges Retirement Fund	15,282.00
POST Retirement Fund	303,827,000.00
MN Suppl. Ret. Fund-Income Share Account	53,458,000.00
MN Suppl. Ret. Fund-Growth Share Account	96,253,000.00
MN Suppl. Ret. Fund-Fixed Return Account	57,949,000.00
MN Variable Annuity Fund	134,766,000.00
Permanent School Fund	112,337,000.00
Invested Treasurer's Cash Fund	3,380,754,205.56
Municipal State Aid Street Fund	47,369,496.67
County State Aid Highway Fund	79,515,222.22
Trunk Highway Fund	86,606,950.00
Aeronautics Fund	700,000.00
MN State Building Fund	156,076,602.78
MN Debt Service Fund	136,991,437.50
Deferred Compensation Fund	3,167,000.00
Rural Rehabilitation Fund	900,000.00
N.E. MN Protection	51,745,000.00
Housing Finance Agency	49,324,767.28
Special Compensation	50,940,000.00
Taconite Area Environmental Protection	23,990,000.00
Housing Finance Special Fund	18,484,000.00
Housing Finance Construction Loan	4,250,000.00
MN Supplemental Retirement Bond Fund	282,000.00
Housing Finance Developers Escrow	42,461,375.00
Environmental Fund	2,250,000.00
Emergency Interest Repayment Fund	260,490.11
TRAF - To Be Returned	19,520,996.67
PERA - To Be Returned	13,494,000.00
SERA - To Be Returned	15,591,000.00
PEPF - To Be Returned	1,867,000.00
HPAT - To Be Returned	1,367,000.00
JRET - To Be Returned	1,071,000.00
Miscellaneous Funds	<u>10,046,994.79</u>

TOTAL PURCHASES

\$4,989,738,360.58

SHORT-TERM SALES

FUND

Invested Treasurer's Cash Fund

\$28,598,347.22

Miscellaneous Funds

23,871.35

TOTAL SALES

\$28,622,218.57

STATE OF MINNESOTA - STATE BOARD OF INVESTMENT  
SUMMARY ANALYSIS OF COMMON STOCK PURCHASES AND SALES  
FROM 12/01/83 THROUGH 12/31/83

	<u>PURCHASES</u>	<u>SALES</u>
TRAF TEACHERS RETIREMENT FUND \$	762,247.20	\$ -0-
PERA PUBLIC EMPLOYEES RET FUND	641,369.20	-0-
SERA STATE EMPLOYEES RET FUND	390,695.70	-0-
PEPF PUB-EMP POLICE-FIRE FUND	132,037.40	-0-
HPAT HGWY PATROLMENS RET FUND	24,249.30	-0-
JRET JUDGES RETIREMENT FUND	201.20	-0-
POST POST RET INVESTMENT	51,367,509.47	38,784,393.25
SRIN SUPPLEMENTAL RET-INCOME	3,187,329.13	3,746,041.19
SRGR SUPPLEMENTAL RET-GROWTH	2,149,549.90	118,879.87
MVAR MINN VARIABLE ANNUITY	6,326,024.06	205,346.21
PSCH PERMANENT SCHOOL FUND	<u>3,703,033.44</u>	<u>4,412,152.15</u>
TOTALS	<u>\$68,684,246.00</u>	<u>\$47,266,812.67</u>

STATE OF MINNESOTA  
 EQUITY SECURITIES TRANSACTION SUMMARY  
 12/01/1983 THROUGH 12/31/1983

	PURCHASES			SALES						
	SHARES	COST	COST/SHR	SHARES	PROCEEDS	PCDS/SHR	ORIG COST	COST/SHR	GAIN OR LOSS	SPLITS
ALLIED BANKSHARES INC. ( 27.375 )										
POST	25850	717,337.50	27.750	0	0.00	0.000	0.00	0.000	0.00	0
INCO	700	19,425.00	27.750	0	0.00	0.000	0.00	0.000	0.00	0
BROW	450	12,487.50	27.750	0	0.00	0.000	0.00	0.000	0.00	0
VARI	3900	108,225.00	27.750	0	0.00	0.000	0.00	0.000	0.00	0
PSCH	750	20,812.50	27.750	0	0.00	0.000	0.00	0.000	0.00	0
ALL FUNDS	31650	878,287.50	27.750	0	0.00	0.000	0.00	0.000	0.00	0
AMERADA HESS CORP. ( 29 )										
POST	10300	288,142.50	27.975	0	0.00	0.000	0.00	0.000	0.00	0
INCO	150	4,196.25	27.975	0	0.00	0.000	0.00	0.000	0.00	0
BROW	200	5,595.00	27.975	0	0.00	0.000	0.00	0.000	0.00	0
VARI	2550	71,336.25	27.975	0	0.00	0.000	0.00	0.000	0.00	0
PSCH	4500	125,887.50	27.975	0	0.00	0.000	0.00	0.000	0.00	0
ALL FUNDS	17700	495,157.50	27.975	0	0.00	0.000	0.00	0.000	0.00	0
AMERICAN TEL. & TEL. ( 61.5 )										
POST	0	0.00	0.000	70000	4,431,902.02	63.313	4,218,740.06	60.268	213,161.96	0
ALL FUNDS	0	0.00	0.000	70000	4,431,902.02	63.313	4,218,740.06	60.268	213,161.96	0
BELL & HOWELL CO. ( 24 )										
POST	0	0.00	0.000	106200	2,532,792.16	23.849	2,474,991.00	23.305	57,801.16	0
INCO	0	0.00	0.000	8400	200,328.30	23.849	195,762.00	23.305	4,566.30	0
PSCH	0	0.00	0.000	8800	209,893.55	23.852	205,084.00	23.305	4,809.55	0
ALL FUNDS	0	0.00	0.000	123400	2,943,014.01	23.849	2,875,837.00	23.305	67,177.01	0
BISTOL-MYERS COMPANY ( 42.25 )										
POST	0	0.00	0.000	42000	1,754,802.62	41.781	1,858,500.00	44.250	-103,697.38	0
INCO	0	0.00	0.000	17900	747,880.17	41.781	715,904.50	39.995	31,975.67	0
PSCH	0	0.00	0.000	27000	1,128,087.40	41.781	1,025,293.75	37.974	102,793.65	0
ALL FUNDS	0	0.00	0.000	86900	3,630,770.19	41.781	3,599,698.25	41.423	31,071.94	0
BROWN GROUP ( 31.875 )										
POST	30400	853,632.00	28.080	18400	595,956.06	32.389	602,560.80	32.748	-6,604.74	0
INCO	2150	60,372.00	28.080	0	0.00	0.000	0.00	0.000	0.00	0
BROW	650	18,252.00	28.080	0	0.00	0.000	0.00	0.000	0.00	0
VARI	1600	44,928.00	28.080	0	0.00	0.000	0.00	0.000	0.00	0
PSCH	2000	56,160.00	28.080	0	0.00	0.000	0.00	0.000	0.00	0
ALL FUNDS	36800	1,033,344.00	28.080	18400	595,956.06	32.389	602,560.80	32.748	-6,604.74	0
BURCHS FRIED CHICKEN ( 24.5 )										
POST	0	0.00	0.000	84700	1,999,332.15	23.605	2,228,880.50	26.315	-229,548.35	0
INCO	0	0.00	0.000	3950	93,183.42	23.591	103,944.25	26.315	-10,760.83	0
PSCH	0	0.00	0.000	4150	97,901.34	23.591	109,207.25	26.315	-11,305.91	0
ALL FUNDS	0	0.00	0.000	92800	2,190,416.91	23.604	2,442,032.00	26.315	-251,615.00	0
CLEVELAND ELEC. ILLUM. ( 18.625 )										
BROW	10000	181,800.00	18.180	0	0.00	0.000	0.00	0.000	0.00	0
VARI	25600	465,408.00	18.180	0	0.00	0.000	0.00	0.000	0.00	0
ALL FUNDS	35600	647,208.00	18.180	0	0.00	0.000	0.00	0.000	0.00	0
COMDISCO INC. ( 19 )										
BROW	4900	92,542.49	18.886	0	0.00	0.000	0.00	0.000	0.00	0

STATE OF MINNESOTA  
EQUITY SECURITIES TRANSACTION SUMMARY  
12/01/1983 THROUGH 12/31/1983

	PURCHASES		SALES							
	SHARES	COST	COST/SHR	SHARES	PROCEEDS	PCDS/SHR	ORIG COST	COST/SHR	GAIN OR LOSS	SPLITS

VARI	13600	256,897.51	18.890	0	0.00	0.000	0.00	0.000	0.00	0
ALL FUNDS	18500	349,440.00	18.889	0	0.00	0.000	0.00	0.000	0.00	0

CONTINENTAL GROUP INC. ( 54 )

POST	18250	971,237.11	53.218	0	0.00	0.000	0.00	0.000	0.00	0
INCO	600	31,750.06	52.917	0	0.00	0.000	0.00	0.000	0.00	0
GROW	300	15,875.03	52.917	0	0.00	0.000	0.00	0.000	0.00	0
VARI	1800	95,250.19	52.917	0	0.00	0.000	0.00	0.000	0.00	0
PSCH	1050	55,562.61	52.917	0	0.00	0.000	0.00	0.000	0.00	0
ALL FUNDS	22000	1,169,675.00	53.167	0	0.00	0.000	0.00	0.000	0.00	0

CONTINENTAL TELECOM. INC. ( 21.375 )

POST	0	0.00	0.000	40000	852,571.50	21.314	933,849.73	23.346	-81,278.23	0
INCO	0	0.00	0.000	15000	319,714.31	21.314	361,360.27	24.091	-41,645.96	0
PSCH	0	0.00	0.000	20000	426,285.75	21.314	485,166.02	24.258	-58,880.27	0
ALL FUNDS	0	0.00	0.000	75000	1,598,571.56	21.314	1,780,376.02	23.738	-181,804.46	0

COOPER TIRE & RUBBER ( 15.875 )

POST	1500	23,991.91	15.995	0	0.00	0.000	0.00	0.000	0.00	0
VARI	3600	57,580.59	15.995	0	0.00	0.000	0.00	0.000	0.00	0
ALL FUNDS	5100	81,572.50	15.995	0	0.00	0.000	0.00	0.000	0.00	0

CROWN CORK & SEAL ( 37.375 )

POST	0	0.00	0.000	43200	1,591,616.69	36.843	1,595,524.74	36.933	-3,908.05	0
INCO	0	0.00	0.000	3300	121,572.54	36.840	121,764.16	36.898	-191.62	0
ALL FUNDS	0	0.00	0.000	46500	1,713,189.23	36.843	1,717,288.90	36.931	-4,099.67	0

CSX CORPORATION ( 24.75 )

POST	0	0.00	0.000	141900	3,751,629.70	26.439	3,622,994.32	25.532	128,635.38	0
INCO	0	0.00	0.000	11100	293,585.19	26.449	283,407.24	25.532	10,177.95	0
PSCH	0	0.00	0.000	11700	309,454.66	26.449	298,614.44	25.523	10,840.22	0
ALL FUNDS	0	0.00	0.000	164700	4,354,669.55	26.440	4,205,016.00	25.531	149,653.55	0

DETROIT EDISON CO. ( 13.75 )

GROW	13000	182,780.00	14.060	0	0.00	0.000	0.00	0.000	0.00	0
VARI	33000	463,980.00	14.060	0	0.00	0.000	0.00	0.000	0.00	0
ALL FUNDS	46000	646,760.00	14.060	0	0.00	0.000	0.00	0.000	0.00	0

DOMINION RESOURCES ( 22.125 )

POST	163000	3,634,220.39	22.296	0	0.00	0.000	0.00	0.000	0.00	0
INCO	11450	255,303.01	22.297	0	0.00	0.000	0.00	0.000	0.00	0
GROW	3450	76,904.31	22.291	0	0.00	0.000	0.00	0.000	0.00	0
VARI	8700	194,016.45	22.301	0	0.00	0.000	0.00	0.000	0.00	0
PSCH	12200	272,021.34	22.297	0	0.00	0.000	0.00	0.000	0.00	0
ALL FUNDS	198800	4,432,465.50	22.296	0	0.00	0.000	0.00	0.000	0.00	0

DU PONT EI DENEMOURS ( 52 )

POST	15950	813,210.75	50.985	0	0.00	0.000	0.00	0.000	0.00	0
INCO	4850	247,277.25	50.985	0	0.00	0.000	0.00	0.000	0.00	0
GROW	1500	76,477.50	50.985	0	0.00	0.000	0.00	0.000	0.00	0
VARI	3750	191,193.75	50.985	0	0.00	0.000	0.00	0.000	0.00	0
PSCH	5150	262,572.75	50.985	0	0.00	0.000	0.00	0.000	0.00	0
ALL FUNDS	31200	1,590,732.00	50.985	0	0.00	0.000	0.00	0.000	0.00	0

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SHARES	COST	COST/SHR	SHARES	PROCEEDS	PCDS/SHR	ORIG COST	COST/SHR	GAIN OR LOSS	SPLITS	

SEARCH CORP. ( 22.25 )

POST	8800	188,741.66	21.448	0	0.00	0.000	0.00	0.000	0.00	0
BROW	150	3,217.19	21.448	0	0.00	0.000	0.00	0.000	0.00	0
VARI	3050	65,416.15	21.448	0	0.00	0.000	0.00	0.000	0.00	0
ALL FUNDS	12000	257,375.00	21.448	0	0.00	0.000	0.00	0.000	0.00	0

MODERATED DEPT. STORES ( 53.625 )

POST	15250	781,656.53	51.256	0	0.00	0.000	0.00	0.000	0.00	0
INCO	450	23,065.27	51.256	0	0.00	0.000	0.00	0.000	0.00	0
BROW	200	10,251.23	51.256	0	0.00	0.000	0.00	0.000	0.00	0
VARI	2050	105,075.14	51.256	0	0.00	0.000	0.00	0.000	0.00	0
PSCH	500	25,628.08	51.256	0	0.00	0.000	0.00	0.000	0.00	0
ALL FUNDS	18450	945,676.25	51.256	0	0.00	0.000	0.00	0.000	0.00	0

PEGGIE INTL. INC. (26.50)

BROW	2900	78,849.03	27.189	0	0.00	0.000	0.00	0.000	0.00	0
VARI	7400	201,200.97	27.189	0	0.00	0.000	0.00	0.000	0.00	0
ALL FUNDS	10300	280,050.00	27.189	0	0.00	0.000	0.00	0.000	0.00	0

FIRST CITY BANKCORP TEXAS ( 18.875 )

POST	19900	358,866.42	18.033	0	0.00	0.000	0.00	0.000	0.00	0
VARI	5900	106,397.58	18.033	0	0.00	0.000	0.00	0.000	0.00	0
ALL FUNDS	25800	465,264.00	18.033	0	0.00	0.000	0.00	0.000	0.00	0

LENNING COS. ( 28.875 )

POST	0	0.00	0.000	29600	856,204.04	28.926	851,564.88	28.769	4,639.16	0
INCO	0	0.00	0.000	2200	63,713.39	28.961	63,197.06	28.726	516.33	0
BROW	1400	40,250.00	28.750	550	15,928.35	28.961	15,776.79	28.685	151.56	0
VARI	2400	69,000.00	28.750	850	24,647.25	28.997	24,432.41	28.744	214.84	0
PSCH	0	0.00	0.000	2300	66,563.39	28.941	66,065.98	28.724	497.41	0
ALL FUNDS	3800	109,250.00	28.750	35500	1,027,056.42	28.931	1,021,037.12	28.762	6,019.30	0

GENERAL FOODS CORP. ( 51.375 )

POST	95150	4,982,054.00	52.360	0	0.00	0.000	0.00	0.000	0.00	0
INCO	6700	350,812.00	52.360	0	0.00	0.000	0.00	0.000	0.00	0
BROW	2000	104,720.00	52.360	0	0.00	0.000	0.00	0.000	0.00	0
VARI	5050	264,418.00	52.360	0	0.00	0.000	0.00	0.000	0.00	0
PSCH	7000	366,520.00	52.360	0	0.00	0.000	0.00	0.000	0.00	0
ALL FUNDS	115900	6,048,524.00	52.360	0	0.00	0.000	0.00	0.000	0.00	0

KEYHOUND CORP. ( 25.375 )

POST	0	0.00	0.000	2000	52,598.24	26.299	48,284.21	24.142	4,314.03	0
ALL FUNDS	0	0.00	0.000	2000	52,598.24	26.299	48,284.21	24.142	4,314.03	0

INZ H.J. & CO. ( 38 )

POST	0	0.00	0.000	44000	1,615,841.34	36.724	1,554,011.99	35.318	61,829.35	0
INCO	0	0.00	0.000	4500	165,199.49	36.711	158,947.76	35.322	6,251.73	0
PSCH	0	0.00	0.000	4550	167,038.30	36.712	160,720.87	35.323	6,317.43	0
ALL FUNDS	0	0.00	0.000	53050	1,948,079.13	36.722	1,873,680.62	35.319	74,398.51	0

ILLINOIS POWER CO. ( 20 )

BROW	9200	182,528.00	19.840	0	0.00	0.000	0.00	0.000	0.00	0
VARI	23600	468,224.00	19.840	0	0.00	0.000	0.00	0.000	0.00	0
ALL FUNDS	32800	650,752.00	19.840	0	0.00	0.000	0.00	0.000	0.00	0



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	SHARES	COST	COST/SHR	SHARES	PROCEEDS	PCDS/SHR	ORIG COST	COST/SHR	GAIN OR LOSS	SPLITS

JEWEL COMPANIES ( 47.375 )

POST	106900	5,059,952.50	47.334	0	0.00	0.000	0.00	0.000	0.00	0
INCO	7000	333,700.00	47.671	0	0.00	0.000	0.00	0.000	0.00	0
BROW	2350	112,785.00	47.994	0	0.00	0.000	0.00	0.000	0.00	0
VARI	7050	336,055.00	47.667	0	0.00	0.000	0.00	0.000	0.00	0
PSCH	7450	354,895.00	47.637	0	0.00	0.000	0.00	0.000	0.00	0
ALL FUNDS	130750	6,197,387.50	47.399	0	0.00	0.000	0.00	0.000	0.00	0

JOHNSON & JOHNSON ( 40.875 )

POST	0	0.00	0.000	32900	1,353,296.26	41.134	1,493,263.87	45.388	-139,967.61	0
ALL FUNDS	0	0.00	0.000	32900	1,353,296.26	41.134	1,493,263.87	45.388	-139,967.61	0

3M CO INC. ( 31.875 )

POST	25800	724,206.00	28.070	0	0.00	0.000	0.00	0.000	0.00	0
INCO	1800	50,526.00	28.070	0	0.00	0.000	0.00	0.000	0.00	0
BROW	400	11,728.00	28.070	0	0.00	0.000	0.00	0.000	0.00	0
VARI	900	25,263.00	28.070	0	0.00	0.000	0.00	0.000	0.00	0
PSCH	2000	56,140.00	28.070	0	0.00	0.000	0.00	0.000	0.00	0
ALL FUNDS	30900	867,363.00	28.070	0	0.00	0.000	0.00	0.000	0.00	0

KROGER COMPANY ( 37 )

POST	6050	212,261.63	35.085	0	0.00	0.000	0.00	0.000	0.00	0
BROW	100	3,508.46	35.085	0	0.00	0.000	0.00	0.000	0.00	0
VARI	1950	68,414.91	35.085	0	0.00	0.000	0.00	0.000	0.00	0
ALL FUNDS	8100	284,185.00	35.085	0	0.00	0.000	0.00	0.000	0.00	0

WALMART STORES ( 18.875 )

POST	199200	3,767,488.33	18.913	0	0.00	0.000	0.00	0.000	0.00	0
INCO	14000	264,328.32	18.881	0	0.00	0.000	0.00	0.000	0.00	0
PSCH	14900	281,320.85	18.881	0	0.00	0.000	0.00	0.000	0.00	0
ALL FUNDS	228100	4,313,137.50	18.909	0	0.00	0.000	0.00	0.000	0.00	0

DONNELL DOUGLAS CORP. ( 59.25 )

POST	45750	2,701,562.21	59.051	0	0.00	0.000	0.00	0.000	0.00	0
INCO	800	47,156.74	58.946	0	0.00	0.000	0.00	0.000	0.00	0
BROW	300	17,683.78	58.946	0	0.00	0.000	0.00	0.000	0.00	0
VARI	900	53,051.34	58.946	0	0.00	0.000	0.00	0.000	0.00	0
PSCH	1000	58,945.93	58.946	0	0.00	0.000	0.00	0.000	0.00	0
ALL FUNDS	48750	2,878,400.00	59.044	0	0.00	0.000	0.00	0.000	0.00	0

WELLSVILLE CORPORATION ( 34.875 )

POST	19450	638,937.50	32.850	0	0.00	0.000	0.00	0.000	0.00	0
INCO	350	11,497.50	32.850	0	0.00	0.000	0.00	0.000	0.00	0
BROW	300	9,855.00	32.850	0	0.00	0.000	0.00	0.000	0.00	0
VARI	3100	101,835.00	32.850	0	0.00	0.000	0.00	0.000	0.00	0
PSCH	450	14,782.50	32.850	0	0.00	0.000	0.00	0.000	0.00	0
ALL FUNDS	23650	776,902.50	32.850	0	0.00	0.000	0.00	0.000	0.00	0

MITCHELL ENERGY ( 23.5 )

POST	28950	642,876.90	22.206	0	0.00	0.000	0.00	0.000	0.00	0
INCO	1000	21,970.86	21.971	0	0.00	0.000	0.00	0.000	0.00	0
BROW	450	9,886.89	21.971	0	0.00	0.000	0.00	0.000	0.00	0
VARI	3700	81,292.19	21.971	0	0.00	0.000	0.00	0.000	0.00	0

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	SHARES	COST	COST/SHR	SHARES	PROCEEDS	PCDS/SHR	ORIG COST	COST/SHR	GAIN OR LOSS	SPLITS

SCH	1050	23,069.41	21.971	0	0.00	0.000	0.00	0.000	0.00	0
ALL FUNDS	35150	779,096.25	22.165	0	0.00	0.000	0.00	0.000	0.00	0

INTERNAL EQUITIES FUND ( 1012.8618004088 )

TRAF	88	88,497.20	1000.000	0	0.00	0.000	0.00	0.000	0.00	0
PERA	55	55,119.20	1000.000	0	0.00	0.000	0.00	0.000	0.00	0
SERA	41	40,695.70	1000.000	0	0.00	0.000	0.00	0.000	0.00	0
PEPF	14	13,912.40	1000.000	0	0.00	0.000	0.00	0.000	0.00	0
HPAT	2	2,374.30	1000.000	0	0.00	0.000	0.00	0.000	0.00	0
JUDG	0	201.20	1000.000	0	0.00	0.000	0.00	0.000	0.00	0
ALL FUNDS	201	200,800.00	1000.000	0	0.00	0.000	0.00	0.000	0.00	0

IN RESOURCES FUND ( 999.84448931857 )

TRAF	674	673,750.00	999.844	0	0.00	0.000	0.00	0.000	0.00	0
PERA	586	586,250.00	999.844	0	0.00	0.000	0.00	0.000	0.00	0
SERA	350	350,000.00	999.844	0	0.00	0.000	0.00	0.000	0.00	0
PEPF	118	118,125.00	999.845	0	0.00	0.000	0.00	0.000	0.00	0
HPAT	22	21,875.00	999.845	0	0.00	0.000	0.00	0.000	0.00	0
ALL FUNDS	1750	1,750,000.00	999.844	0	0.00	0.000	0.00	0.000	0.00	0

ORIL CORPORATION ( 28.75 )

POST	143900	4,165,878.00	28.950	0	0.00	0.000	0.00	0.000	0.00	0
INCD	8950	259,317.75	28.974	0	0.00	0.000	0.00	0.000	0.00	0
GROW	3100	89,833.50	28.979	0	0.00	0.000	0.00	0.000	0.00	0
VARI	1100	31,891.50	28.992	0	0.00	0.000	0.00	0.000	0.00	0
PSCH	12850	372,320.25	28.974	0	0.00	0.000	0.00	0.000	0.00	0
ALL FUNDS	169900	4,919,241.00	28.954	0	0.00	0.000	0.00	0.000	0.00	0

MORGAN J P & COMPANY INC. ( 67.375 )

POST	0	0.00	0.000	20900	1,429,094.34	68.378	1,404,987.61	67.224	24,104.73	0
INCD	0	0.00	0.000	2400	164,106.53	68.378	175,022.83	72.926	-10,916.30	0
PSCH	0	0.00	0.000	1700	116,742.12	68.378	124,950.00	73.500	-8,707.88	0
ALL FUNDS	0	0.00	0.000	25000	1,709,442.99	68.378	1,704,940.44	68.198	4,482.55	0

NORTHEAST UTILITIES ( 12.25 )

GROW	14700	184,485.00	12.550	0	0.00	0.000	0.00	0.000	0.00	0
VARI	37500	470,625.00	12.550	0	0.00	0.000	0.00	0.000	0.00	0
ALL FUNDS	52200	655,110.00	12.550	0	0.00	0.000	0.00	0.000	0.00	0

OMENS ILLINOIS INC. ( 37.375 )

POST	0	0.00	0.000	10400	386,243.08	37.139	344,508.08	33.126	41,735.00	0
INCD	0	0.00	0.000	1700	63,135.89	37.139	56,273.97	33.102	6,861.92	0
PSCH	0	0.00	0.000	6250	232,117.24	37.139	206,649.43	33.064	25,467.81	0
ALL FUNDS	0	0.00	0.000	18350	681,496.21	37.139	607,431.48	33.103	74,064.73	0

PARSONS CORPORATION ( 24.625 )

POST	65600	1,637,994.50	24.969	0	0.00	0.000	0.00	0.000	0.00	0
INCD	4300	107,403.54	24.978	0	0.00	0.000	0.00	0.000	0.00	0
PSCH	4600	114,896.96	24.978	0	0.00	0.000	0.00	0.000	0.00	0
ALL FUNDS	74500	1,860,295.00	24.970	0	0.00	0.000	0.00	0.000	0.00	0

PNWZOL CO. ( 34 )

POST	10250	336,712.50	32.850	0	0.00	0.000	0.00	0.000	0.00	0
GROW	100	3,285.00	32.850	0	0.00	0.000	0.00	0.000	0.00	0

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SHARES	COST	COST/SHR	SHARES	PROCEEDS	PCDS/SHR	ORIG COST	COST/SHR	GAIN OR LOSS	SPLITS	

ART	2200	72,270.00	32.850	0	0.00	0.000	0.00	0.000	0.00	0
ALL FUNDS	12550	412,267.50	32.850	0	0.00	0.000	0.00	0.000	0.00	0

PHILADELPHIA ELEC. CO. ( 14.375 )

POST	245800	3,528,868.67	14.357	0	0.00	0.000	0.00	0.000	0.00	0
INCO	17300	248,370.33	14.357	0	0.00	0.000	0.00	0.000	0.00	0
ROW	5250	75,372.50	14.357	0	0.00	0.000	0.00	0.000	0.00	0
VARI	13300	190,943.67	14.357	0	0.00	0.000	0.00	0.000	0.00	0
SCH	18350	263,444.83	14.357	0	0.00	0.000	0.00	0.000	0.00	0
ALL FUNDS	300000	4,307,000.00	14.357	0	0.00	0.000	0.00	0.000	0.00	0

REPUBLIC BANK CORP ( 30.875 )

POST	114850	3,581,195.56	31.182	0	0.00	0.000	0.00	0.000	0.00	0
INCO	8050	251,476.92	31.239	0	0.00	0.000	0.00	0.000	0.00	0
ROW	2450	76,452.20	31.205	0	0.00	0.000	0.00	0.000	0.00	0
VARI	6200	193,712.17	31.244	0	0.00	0.000	0.00	0.000	0.00	0
SCH	8550	267,094.15	31.239	0	0.00	0.000	0.00	0.000	0.00	0
ALL FUNDS	140100	4,369,931.00	31.192	0	0.00	0.000	0.00	0.000	0.00	0

BEVCO D.S. ( 34.625 )

POST	0	0.00	0.000	84650	2,813,808.96	33.241	3,047,400.00	34.000	-233,591.04	0
INCO	0	0.00	0.000	10750	364,957.84	33.950	369,531.25	34.375	-4,573.41	0
ROW	0	0.00	0.000	3000	102,951.52	34.317	103,125.00	34.375	-173.48	0
VARI	0	0.00	0.000	5250	180,698.96	34.419	180,468.75	34.375	230.21	0
SCH	0	0.00	0.000	11350	391,278.92	34.474	390,156.25	34.375	1,122.67	0
ALL FUNDS	0	0.00	0.000	115000	3,853,696.20	33.510	4,090,681.25	35.571	-236,985.05	0

KLUMBERGER LTD ( 50 )

POST	17500	816,260.06	46.643	0	0.00	0.000	0.00	0.000	0.00	0
ROW	350	16,375.20	46.643	0	0.00	0.000	0.00	0.000	0.00	0
VARI	3700	172,580.70	46.643	0	0.00	0.000	0.00	0.000	0.00	0
SCH	2050	95,619.04	46.643	0	0.00	0.000	0.00	0.000	0.00	0
ALL FUNDS	23600	1,100,785.00	46.643	0	0.00	0.000	0.00	0.000	0.00	0

OTT & FETZER COMPANY ( 42.75 )

POST	0	0.00	0.000	74750	3,209,174.40	42.932	3,280,671.81	43.889	-71,497.41	0
INCO	0	0.00	0.000	5350	229,665.98	42.928	234,887.49	43.904	-5,221.51	0
SCH	0	0.00	0.000	5600	240,397.69	42.928	245,851.39	43.907	-5,453.70	0
ALL FUNDS	0	0.00	0.000	85700	3,679,238.07	42.932	3,761,410.69	43.890	-82,172.62	0

SECURITY PACIFIC CORP. ( 51 )

POST	0	0.00	0.000	17400	868,057.00	49.888	449,456.98	25.831	418,600.02	0
INCO	0	0.00	0.000	9150	456,478.25	49.888	456,286.39	49.867	191.86	0
SCH	0	0.00	0.000	7680	383,142.40	49.888	319,071.21	41.546	64,071.19	0
ALL FUNDS	0	0.00	0.000	34230	1,707,677.65	49.888	1,224,814.58	35.782	482,863.07	0

STANADYNE INC. ( 39.5 )

ROW	1500	56,625.00	37.750	0	0.00	0.000	0.00	0.000	0.00	0
VARI	500	18,875.00	37.750	0	0.00	0.000	0.00	0.000	0.00	0
ALL FUNDS	2000	75,500.00	37.750	0	0.00	0.000	0.00	0.000	0.00	0

STANDARD OIL OF INDIANA ( 50.75 )

VARI	1300	62,367.50	47.975	0	0.00	0.000	0.00	0.000	0.00	0
SCH	2350	112,741.25	47.975	0	0.00	0.000	0.00	0.000	0.00	0

STATE OF MINNESOTA  
EQUITY SECURITIES TRANSACTION SUMMARY  
12/01/1983 THROUGH 12/31/1983

	----- PURCHASES -----		----- SALES -----							
SHARES	COST	COST/SHR	SHARES	PROCEEDS	PCDS/SHR	ORIG COST	COST/SHR	GAIN OR LOSS	SPLITS	

ALL FUNDS	3650	175,108.75	47.975	0	0.00	0.000	0.00	0.000	0.00	0
-----------	------	------------	--------	---	------	-------	------	-------	------	---

TAMPAX INC. ( 58.25 )

POST	18600	1,062,000.00	57.097	0	0.00	0.000	0.00	0.000	0.00	0
INCD	2100	120,750.00	57.500	0	0.00	0.000	0.00	0.000	0.00	0
GROW	500	28,750.00	57.500	0	0.00	0.000	0.00	0.000	0.00	0
VARI	1800	103,500.00	57.500	0	0.00	0.000	0.00	0.000	0.00	0
SCH	2000	115,000.00	57.500	0	0.00	0.000	0.00	0.000	0.00	0
ALL FUNDS	25000	1,430,000.00	57.200	0	0.00	0.000	0.00	0.000	0.00	0

TEXAS COMMERCE BANKSHARES ( 41.375 )

POST	108500	4,399,373.00	40.547	0	0.00	0.000	0.00	0.000	0.00	0
INCD	8600	349,744.00	40.668	0	0.00	0.000	0.00	0.000	0.00	0
GROW	2300	93,292.00	40.562	0	0.00	0.000	0.00	0.000	0.00	0
VARI	5500	222,966.00	40.539	0	0.00	0.000	0.00	0.000	0.00	0
PSCH	7700	312,121.00	40.535	0	0.00	0.000	0.00	0.000	0.00	0
ALL FUNDS	132600	5,377,496.00	40.554	0	0.00	0.000	0.00	0.000	0.00	0

TEXAS EASTERN CORP. ( 58.25 )

POST	5650	309,255.59	54.736	0	0.00	0.000	0.00	0.000	0.00	0
INCD	100	5,422.33	54.223	0	0.00	0.000	0.00	0.000	0.00	0
GROW	150	8,133.49	54.223	0	0.00	0.000	0.00	0.000	0.00	0
VARI	1400	75,912.60	54.223	0	0.00	0.000	0.00	0.000	0.00	0
SCH	150	8,133.49	54.223	0	0.00	0.000	0.00	0.000	0.00	0
ALL FUNDS	7450	406,857.50	54.612	0	0.00	0.000	0.00	0.000	0.00	0

TEXAS INDUSTRIES ( 35 )

GROW	2300	78,656.35	34.198	0	0.00	0.000	0.00	0.000	0.00	0
VARI	5750	196,697.65	34.208	0	0.00	0.000	0.00	0.000	0.00	0
ALL FUNDS	8050	275,354.00	34.205	0	0.00	0.000	0.00	0.000	0.00	0

TEXAS UTILITIES CO. ( 23.25 )

POST	6150	156,671.25	25.475	0	0.00	0.000	0.00	0.000	0.00	0
GROW	7250	183,593.25	25.323	0	0.00	0.000	0.00	0.000	0.00	0
VARI	20850	528,348.25	25.340	0	0.00	0.000	0.00	0.000	0.00	0
ALL FUNDS	34250	868,612.75	25.361	0	0.00	0.000	0.00	0.000	0.00	0

TRANSAMERICA CORP ( 31.125 )

POST	0	0.00	0.000	92750	2,842,100.03	30.643	2,741,734.46	29.560	100,365.57	0
ALL FUNDS	0	0.00	0.000	92750	2,842,100.03	30.643	2,741,734.46	29.560	100,365.57	0

TRANSO ENERGY CO. ( 37.75 )

POST	30000	1,067,400.00	35.580	0	0.00	0.000	0.00	0.000	0.00	0
ALL FUNDS	30000	1,067,400.00	35.580	0	0.00	0.000	0.00	0.000	0.00	0

US FINELITY & GUAR. CO. ( 55.375 )

POST	33600	1,885,632.00	56.120	0	0.00	0.000	0.00	0.000	0.00	0
INCD	2700	123,464.00	56.120	0	0.00	0.000	0.00	0.000	0.00	0
SCH	1200	67,344.00	56.120	0	0.00	0.000	0.00	0.000	0.00	0
ALL FUNDS	37000	2,076,440.00	56.120	0	0.00	0.000	0.00	0.000	0.00	0

WELLEY NATIONAL CORP. ( 24.875 )

POST	20000	483,750.00	24.188	0	0.00	0.000	0.00	0.000	0.00	0
ALL FUNDS	20000	483,750.00	24.187	0	0.00	0.000	0.00	0.000	0.00	0

STATE OF MINNESOTA  
EQUITY SECURITIES TRANSACTION SUMMARY  
12/01/1983 THROUGH 12/31/1983

	PURCHASES			SALES					
SHARES	COST	COST/SHR	SHARES	PROCEEDS	PCDS/SHR	ORIG COST	COST/SHR	GAIN OR LOSS	SPLITS

WAL-MART STORES INC. ( 39 )

POST	15850	576,147.50	36.350	0	0.00	0.000	0.00	0.000	0.00	0
BROW	200	7,270.00	36.350	0	0.00	0.000	0.00	0.000	0.00	0
VARI	2500	90,875.00	36.350	0	0.00	0.000	0.00	0.000	0.00	0
ALL FUNDS	18550	674,292.50	36.350	0	0.00	0.000	0.00	0.000	0.00	0

WESTINGHOUSE ELEC. CO. ( 54.75 )

POST	0	0.00	0.000	50000	2,669,160.83	53.383	1,261,547.35	25.231	1,407,613.48	0
INCO	0	0.00	0.000	8000	427,065.73	53.383	208,005.33	26.001	219,060.40	0
PSCH	0	0.00	0.000	11300	603,230.35	53.383	313,743.68	27.765	289,486.67	0
ALL FUNDS	0	0.00	0.000	69300	3,699,456.91	53.383	1,783,296.36	25.733	1,916,160.55	0

PROX CORP ( 49.5 )

POST	0	0.00	0.000	62750	3,178,211.83	50.649	2,947,872.64	46.978	230,339.19	0
INCO	0	0.00	0.000	700	35,454.16	50.649	32,025.00	45.750	3,429.16	0
PSCH	0	0.00	0.000	800	40,519.04	50.649	36,600.00	45.750	3,919.04	0
ALL FUNDS	0	0.00	0.000	64250	3,254,185.03	50.649	3,016,497.64	46.949	237,687.39	0

GRAND TOTALS		TOTAL PURCHASES	TOTAL SALES
TRAF		762,247.20	0.00
PERA		641,369.20	0.00
PERA		390,695.70	0.00
PEPF		132,037.40	0.00
HPAT		24,249.30	0.00
AUDG		201.20	0.00
POST		51,367,509.47	38,784,393.25
INCO		3,187,329.13	3,746,041.19
BROW		2,149,549.90	118,879.87
VARI		6,326,024.06	205,746.21
PSCH		3,703,033.44	4,412,152.15
ALL FUNDS		68,684,246.00	47,266,812.67

STATE OF MINNESOTA - STATE BOARD OF INVESTMENT

SUMMARY ANALYSIS OF BOND PURCHASES AND SALES FROM 12/01/83 THROUGH 12/31/83

\*\*\*\*\* PURCHASES \*\*\*\*\*

\*\*\*\*\* SALES \*\*\*\*\*

<u>SYMBOL</u>	<u>FUND NAME</u>	<u>PRIN. FACE</u>	<u>PRIN. COST</u>	<u>WEIGHTED YLD-MAT</u>	<u>PRIN. FACE</u>	<u>PRIN. PROC.</u>	<u>WEIGHTED YLD-MAT</u>
POST	POST RET INVESTMENT	\$ 33,500,000	\$ 33,154,027	12.08%	----	----	----
FRET	FIXED RETURN	<u>500,000</u>	<u>466,740</u>	<u>12.61</u>	----	----	----
	TOTALS	\$ 34,000,000	\$ 33,620,767	12.09%			

STATE OF MINNESOTA  
STATE BOARD OF INVESTMENT

FUND : POST RETIREMENT FUND  
REPORT : FIXED INCOME SECURITY PURCHASES  
PERIOD : DECEMBER 1, 1983 THROUGH DECEMBER 31, 1983

PAR VALUE	SECURITY	TRADE DATE	COST
10,000,000.000	FEDERAL FARM CREDIT BANK 11.800 % DUE 10/20/93 (YTM 11.825 %)	12/01/83	9,985,937.50
5,000,000.000	ASSOCIATES CORP. NORTH AMERICA 11.450 % DUE 11/15/92 (YTM 12.253 %)	12/06/83	4,785,400.00
7,000,000.000	NORWEST FINANCIAL, INC. 12.125 % DUE 01/01/94 (YTM 12.201 %)	12/01/83	6,969,690.00
1,500,000.000	NORWEST FINANCIAL, INC. 11.250 % DUE 07/01/93 (YTM 12.299 %)	12/15/83	1,413,000.00
2,000,000.000	FEDERAL HOME LOAN BANKS 12.150 % DUE 12/27/93 (YTM 12.150 %)	12/13/83	2,000,000.00
2,000,000.000	FEDERAL HOME LOAN BANKS 12.150 % DUE 12/27/93 (YTM 12.150 %)	12/13/83	2,000,000.00
2,000,000.000	FEDERAL HOME LOAN BANKS 12.150 % DUE 12/27/93 (YTM 12.150 %)	12/13/83	2,000,000.00
2,000,000.000	FEDERAL HOME LOAN BANKS 12.150 % DUE 12/27/93 (YTM 12.150 %)	12/13/83	2,000,000.00
2,000,000.000	FEDERAL HOME LOAN BANKS 12.150 % DUE 12/27/93 (YTM 12.150 %)	12/13/83	2,000,000.00
.....			
TOTAL		( YTM 12.084 )	33,154,027.50
.....			

FIXED INCOME SECURITY PURCHASES - 1 - POST RETIREMENT FUND

STATE OF MINNESOTA  
STATE BOARD OF INVESTMENT

FUND : SUPPLEMENTAL FIXED RETURN FUND  
REPORT : FIXED INCOME SECURITY PURCHASES  
PERIOD : DECEMBER 1, 1983 THROUGH DECEMBER 31, 1983

PAR VALUE	SECURITY	TRADE DATE	COST
500,000.00	WILLAMETTE INDUSTRIES INC.		
11.375 %	DUE 04/15/93 (YTM 12.606 %)	12/09/83	466,740.00

.....			
TOTAL	( YTM 12.606 )		466,740.00
.....			

FIXED INCOME SECURITY PURCHASES - 1 - SUPPLEMENTAL FIXED RETURN FUND



STATE OF MINNESOTA - STATE BOARD OF INVESTMENT - INVESTMENT ADVISORY COUNCIL

BOOK AND MARKET VALUES FOR

BASICS, POST RETIREMENT AND PERMANENT SCHOOL PORTFOLIOS - 12/31/83

BASIC RETIREMENT FUNDS	<u>Cost</u>	<u>%</u>	<u>Market</u>	<u>%</u>
Short-term	\$ 174,666,500	5.64%	\$ 174,670,762	5.67%
Bonds & Mortgages	922,571,396	29.79	837,039,913	27.16
Equity	<u>1,999,755,017</u>	<u>64.57</u>	<u>2,070,299,307</u>	<u>67.17</u>
Total	\$3,096,992,913	100.00%	\$3,082,009,982	100.00%
POST-RETIREMENT FUND				
Short-term	\$ 113,148,000	6.38%	\$ 113,148,000	6.25%
Bonds & Mortgages	1,001,822,281	56.46	976,869,999	53.93
Common Stocks	<u>659,203,058</u>	<u>37.16</u>	<u>721,153,228</u>	<u>39.82</u>
Total	\$1,774,173,339	100.00%	\$1,811,171,227	100.00%
PERMANENT SCHOOL FUND				
Short-term	\$ 39,810,000	12.41%	\$ 39,810,000	13.70%
Bonds & Mortgages	228,156,571	71.11	190,556,825	65.56
Common Stocks	<u>52,868,030</u>	<u>16.48</u>	<u>60,271,047</u>	<u>20.74</u>
Total	\$ 320,834,601	100.00%	\$ 290,637,872	100.00%

# Tab D

February 24, 1984

TO:           Members, State Board of Investment  
              Governor Rudy Perpich  
              State Auditor Arne H. Carlson  
              State Treasurer Robert W. Mattson  
              Secretary of State Joan Anderson Growe  
              Attorney General Hubert H. Humphrey III

FROM:         Clifford McCann, Chairman  
              *C. McCann*

SUBJECT:      Bond Managers Search Committee Update

The Bond Manager Search Committee, comprised of a representative from each board member and the Executive Directors of the Retirement Systems, is in the process of interviewing potential bond managers for the State Investment Board. The attached list of potential managers, submitted by Evaluation Associates and committee members, will be reviewed in accordance with the investment criteria established by the Board at its January 11, 1984 meeting.

The committee anticipates having a final report for the Board by early April.

If you have any questions, please contact me.

Attachment

Alliance Capital Management Corporation (Minneapolis)

Discount Corporation of NY Advisers

Investment Advisers, Inc.

Lehman Management Company

Loomis-Sayles & Company

Miller, Anderson & Sherrerd

Morgan Stanley Asset Management

Norwest Bank Minneapolis N.A.

Pacific Investment Management Company (PIMCO)

T. Rowe Price Associates

Rosenberg Capital Management

Wentworth, Hauser & Violich

Western Asset Management

# **Tab E**

# MINNESOTA OPEN APPOINTMENTS ACT

## APPLICATION FOR SERVICE ON STATE AGENCY

Name of Agency: State Board of Investments Advisory Board  
(enter on this line the name of the agency for which applicant seeks appointment; complete a separate application for each agency)

Name of applicant: Deborah W. Veverka

Address of applicant: 1131 Wills Place, Golden Valley, MN 55422  
(street) (city) (state) (zip)

Phone: Home (612) 521-9293 Work (612) 870-6670  
(include area code) (include area code)

County: Hennepin Legislative district 45B Congressional district 3

Minnesota Statutes 15.0597, state that the application shall include a "statement that the nominee satisfies any legally prescribed qualifications and any other information the nominating person feels would be helpful to the appointing authority." (May include employment, community service, education)

Employment: 6/81 - Present. Manager Pension Financial Planning & Control, Honeywell, Inc.

9/76 - 5/81. Trust Investment Officer & Investment Systems Analyst,

American National Bank & Trust Company of Chicago.

(A more detailed employment history in attached)

Education: Currently studying for C.F.A. Level II Exam.

M.B.A. with Finance Concentration, University of Chicago. (1981)

B.A. with French & English Literature Major, Denison University. (1976)

Community Service: Member of the Junior League of Minneapolis. Currently involved

in the Community Training Project.

(may continue on back)

I, the undersigned, hereby state that I satisfy, to the best of my knowledge, all legally prescribed qualifications for the position sought.

Deborah W. Veverka  
Signature of applicant

11/12/83  
Date

If applicant is being nominated by another person or group, the above signature indicates consent to nomination.

Is this application submitted by appointing authority? yes\_\_\_no\_X

Is this application submitted at the suggestion of appointing authority? yes\_\_\_no\_X

### STATISTICAL IDENTIFICATION

The following information is optional and is sought solely for the purpose of compiling the annual report to the governor and legislature on the open appointments process which is required by Minnesota Statutes 15.0597, subd. 7.

Sex	Political Party Preference	Race/National Origin
<u>X</u> Female	___ American Party of Minnesota	___ American Indian or Alaska Native
___ Male	___ Democratic-Farmer-Labor Party	___ Asian or Pacific Islander
	<u>X</u> Independent-Republican Party of Minnesota	___ Black
	___ Other; _____ name of party	___ Hispanic
	___ None	<u>X</u> Caucasian
		___ Other; _____ specify

Your application will not be acknowledged, but you will be notified if the appointing authority wishes to interview you. In any event, your application will be kept for one year or until you are appointed, whichever comes first.

RETURN TO: JOAN ANDERSON GROWE, SECRETARY OF STATE  
Open Appointments Section  
180 State Office Building  
St. Paul, MN. 55155

TELEPHONE: (612) 296-2805

SC-00133-03 10/79

STATE OF MINNESOTA  
DEPARTMENT OF STATE

FILED

NOV 16 1983

Joan Anderson Grove  
Secretary of State

Office Use Only	
AA	<u>Investment</u>
Res	<u>✓</u>
Date	<u>NOV. 22 1983</u>

## MINNESOTA OPEN APPOINTMENTS ACT

## APPLICATION FOR SERVICE ON STATE AGENCY

Name of Agency: Investment Advisory Council, State Board of Investments  
 (enter on this line the name of the agency for which applicant seeks appointment; complete a separate application for each agency)

Name of applicant: Janet Yeomans Staehle

Address of applicant: 228 Exchange Street St. Paul, Minnesota 55102  
 (street) (city) (state) (zip)

Phone: Home (612) 224-9437 Work (612) 733-7377  
 (include area code) (include area code)

County: Ramsey Legislative district 2 Congressional district 65B

Minnesota Statutes 15.0597, state that the application shall include a "statement that the nominee satisfies any legally prescribed qualifications and any other information the nominating person feels would be helpful to the appointing authority." (May include employment, community service, education)

Employment: Minnesota Mining & Manufacturing  
Manager, Pension Fund

Education: MBA with concentration in Finance and Econometrics  
University of Chicago, Chicago, IL

M.A. Mathematics  
Illinois Institute of Technology, Chicago, IL

M.A. with majors in Mathematics & Physics (Phi Beta Kappa)  
Connecticut College, New London, CT *may continue on back*

I, the undersigned, hereby state that I satisfy, to the best of my knowledge, all legally prescribed qualifications for the position sought. *CONTINUED ON BACK*

Janet Yeomans Staehle 24 October 1983  
 Signature of applicant Date

If applicant is being nominated by another person or group, the above signature indicates consent to nomination.

Is this application submitted by appointing authority? yes \_\_\_ no X

Is this application submitted at the suggestion of appointing authority? yes X no \_\_\_

## STATISTICAL IDENTIFICATION

The following information is optional and is sought solely for the purpose of compiling the annual report to the governor and legislature on the open appointments process which is required by Minnesota Statutes 15.0597, subd. 7

<b>Sex</b>	<b>Political Party Preference</b>	<b>Race/National Origin</b>
<u>X</u> Female	<u>   </u> American Party of Minnesota	<u>   </u> American Indian or Alaska Native
<u>   </u> Male	<u>   </u> Democratic-Farmer-Labor Party	<u>   </u> Asian or Pacific Islander
	<u>   </u> Independent-Republican Party of Minnesota	<u>   </u> Black
	<u>   </u> Other, _____ name of party	<u>   </u> Hispanic
		<u>X</u> Caucasian
	<u>X</u> None	<u>   </u> Other; _____ specify

Your application will not be acknowledged, but you will be notified if the appointing authority wishes to interview you. In any event, your application will be kept for one year or until you are appointed, whichever comes first.

RETURN TO: JOAN ANDERSON GROWE, SECRETARY OF STATE  
 Open Appointments Section  
 180 State Office Building  
 St. Paul, MN. 55155

TELEPHONE: (612) 296-2805

SC-00133-03 10/79

STATE OF MINNESOTA  
 DEPARTMENT OF STATE  
 FILED  
 OCT 26 1983  
 Secretary of State

Office Use Only	
AA	<u>Adm. Investment</u>
Res	
Date	<u>NOV. 1 1983</u>

# MINNESOTA OPEN APPOINTMENTS ACT

## APPLICATION FOR SERVICE ON STATE AGENCY

Name of Agency: Investment Advisory Council to the State Board of Investment  
(enter on this line the name of the agency for which applicant seeks appointment; complete a separate application for each agency)

Name of applicant: Gary R. Norstrom

Address of applicant: 2080 North Western Avenue St. Paul Minnesota 55113  
(street) (city) (state) (zip)

Phone: Home (612) 489-0319 Work (612) 292-7016  
(include area code) (include area code)

County: Ramsey Legislative district 54A Congressional district 4

Minnesota Statutes 15.0597, state that the application shall include a "statement that the nominee satisfies any legally prescribed qualifications and any other information the nominating person feels would be helpful to the appointing authority." (May include employment, community service, education)

Age: 48 Position: City Treasurer Employment: City of Saint Paul,

Dept. of Finance since 1960

Experience: A) Has been responsible for investment of City funds since 1963. Portfolio  
\$100,000,000.

B) Advisor on investments to the Saint Paul Police Relief Assn. since 1963.  
Present assets \$44,000,000.

References: Mayor George Latimer, Rep. Thomas Osthoff  
Will also furnish references from the Investment Community upon request.

Memberships: Municipal Treasurers Assn. of U. S. - Canada L  
Municipal Finance Officers Assn. of U. S. - Canada  
Minnesota Municipal Finance Officers Assn.

I have been the State Chairman for the Municipal Finance Officers Assn. and presently  
serve on the Investment Management Committee. Locally, I am a Past President of Minn.  
MFOA and presently serve as their Legislative Co-Chair.

(may continue on back)

I, the undersigned, hereby state that I satisfy, to the best of my knowledge, all legally prescribed qualifications for the position sought.

Signature of applicant *G. R. Norstrom* Date Jan 13, 1984

If applicant is being nominated by another person or group, the above signature indicates consent to nomination.

Is this application submitted by appointing authority? yes ☐ no ☒

Is this application submitted at the suggestion of appointing authority? yes ☐ no ☒

STATE OF MINNESOTA  
DEPARTMENT OF STATE  
FILED

JAN 17 1984

### STATISTICAL IDENTIFICATION

The following information is optional and is sought solely for the purpose of compiling the annual report to the governor and legislature on the open appointments process which is required by Minnesota Statutes 15.0597, subd. 7.

Sex	Political Party Preference	Race/National Origin
<input type="checkbox"/> Female	<input type="checkbox"/> American Party of Minnesota	<input type="checkbox"/> American Indian or Alaska Native
<input checked="" type="checkbox"/> Male	<input checked="" type="checkbox"/> Democratic-Farmer-Labor Party	<input type="checkbox"/> Asian or Pacific Islander
	<input type="checkbox"/> Independent-Republican Party of Minnesota	<input type="checkbox"/> Black
	<input type="checkbox"/> Other; _____ name of party	<input type="checkbox"/> Hispanic
	<input type="checkbox"/> None	<input checked="" type="checkbox"/> Caucasian
		<input type="checkbox"/> Other; _____ specify

Your application will not be acknowledged, but you will be notified if the appointing authority wishes to interview you. In any event, your application will be kept for one year or until you are appointed, whichever comes first.

RETURN TO: JOAN ANDERSON GROWE, SECRETARY OF STATE  
Open Appointments Section  
180 State Office Building  
St. Paul, MN. 55155

TELEPHONE: (612) 296-2805

Office Use Only	
AA	<i>Grand of</i>
Res	
Date	JAN 17 1984



# **Tab F**

MEMBERS OF THE BOARD:  
GOVERNOR RUDY PERPICH  
STATE AUDITOR ARNE H. CARLSON  
STATE TREASURER ROBERT W. MATTSON  
SECRETARY OF STATE JOAN ANDERSON GROWE  
ATTORNEY GENERAL HUBERT H. HUMPHREY III



EXECUTIVE DIRECTOR  
HOWARD J. BICKER

STATE OF MINNESOTA  
STATE BOARD OF INVESTMENT

Room 105, MEA Building  
55 Sherburne Avenue  
Saint Paul 55155  
296-3328

February 27, 1984

TO: Members, State Board of Investment  
Governor Rudy Perpich  
State Auditor Arne H. Carlson  
State Treasurer Robert W. Mattson  
Secretary of State Joan Anderson Growe  
Attorney General Hubert H. Humphrey III  
*Howard Bicker*  
FROM: Howard Bicker, Executive Director  
RE: Real Estate Investment

At its August 17, 1983 meeting, the State Board of Investment adopted a comprehensive strategy for the allocation of the Basic Retirement Fund assets among various investment classes. This plan includes a 10% allocation to real estate. At the August 17, 1983 meeting, the Board further adopted a specific strategy for the implementation of the allocation to real estate. The purpose of this memo is to recommend implementation of the second stage of the Board's strategy: investments in diversified closed-end commingled funds.

The Role of Real Estate in the Basic Retirement Funds' Portfolio

In brief, real estate is considered a desirable investment for the Basic Retirement Funds because it provides

- 1) a hedge against inflation, and
- 2) additional diversification which reduces the volatility of total portfolio returns with no required sacrifice in the level of returns.

Investment Strategy for the Real Estate Portfolio

Based on the Board's proposed real estate allocation, the statutory requirement to utilize commingled funds and limited partnerships, and long-term risk and return considerations, the Board adopted the following real estate investment strategy, to be implemented over a two to three year period:

- 1) Invest 30-40% of the real estate portfolio in diversified open-end commingled funds. These funds provide a degree of liquidity in the event that the Board alters its real estate asset allocation in the future.
- 2) Invest 30-40% of the real estate portfolio in diversified closed end commingled funds. These funds provide access to a large number of managers who do not offer the open end vehicle.
- 3) Invest 20-30% of the real estate portfolio in less diversified, more focused commingled funds. These funds offer the ability to enhance the return earned by the total real estate portfolio, the majority of which will be invested in diversified style and earn market returns.

Currently, \$95.7 million, or approximately 3% of the Basic Retirement Funds' Portfolio, is invested in the following three large open end commingled funds: The Aetna Life Insurance Company's Real Estate Separate Account, Equity Life Assurance Society's Separate Account 8, and the Prudential Insurance Company's PRISA Account.

Closed End Fund Manager Candidates

In conjunction with Evaluation Associates, staff has screened diversified closed end real estate managers, and selected the following six managers for further review based on the investment criteria previously adopted by the Board:

- 1) Heitman Advisory Corporation
- 2) Karsten Institutional Realty Advisors
- 3) JMB Institutional Realty
- 4) LaSalle Advisors
- 5) RREEF
- 6) Trust Company of the West

Staff has conducted extensive reviews of each manager, including day-long interviews with the managers at their places of business. A comprehensive profile of each manager relative to the Board's real estate investment criteria is attached. These reviews include discussions of organizational structure, personnel, proposed investments, the property

acquisitions process, property management, sell philosophy, the use of leverage and administrative issues.

#### Funding of Diversified Closed End Commingled Managers

Staff recommends that the Board approve the Rosenberg Real Estate Equity Funds (RREEF) and Heitman Advisory Corporation as its first diversified closed end commingled fund managers. RREEF offers extensive experience in providing closed-end commingled funds to tax-exempt investors, has a strong in-house property management function and is distinguished from other funds under consideration in that it does not utilize participating/convertible mortgages or leverage. The Heitman Advisory Corporation also has a strong in-house property management role, extensive experience managing a real estate separate account for the AT&T pension fund, and exhibits a close-knit entrepreneurial working environment. Staff will continue to review the activities of other closed-end diversified fund managers, and make recommendations to the Board accordingly.

#### Evaluation of Real Estate Managers

##### Heitman Advisory Corporation

The Heitman Advisory Corporation offers extensive experience in managing real estate assets in a fiduciary capacity, primarily as the manager of an \$800 million real estate separate account for the AT&T pension fund. In addition to Heitman's experience of an asset manager, the fund's management will draw on the resources and expertise of the parent firm, Heitman Financial, which provides an array of real estate services including brokerage, financing, construction management and leasing for institutional and private investors. Heitman emphasizes the role of property management in generating superior investment performance. All fund property management will be conducted by Heitman's affiliate, Centre Properties, Inc., which also participates in analyzing and approving all potential acquisitions. Based on staff review, Heitman has successfully fostered a close-knit entrepreneurial working environment.

The HAC Group Trust is the first commingled fund sponsored by Heitman. Though they lack the experience managing a commingled fund, staff believes their long experience managing the large AT&T pension fund separate account and as a property advisor to two British pension funds is more important than prior commingled fund experience.

##### Karsten Institutional Realty Advisors

Karsten Institutional Realty Advisors currently invests over \$300 million in real estate separate accounts for five pension fund clients. The proposed fund will be the first commingled fund undertaken by Karsten. Karsten offers a management background not shared by the managers under consideration: from 1976-1979, Karsten represented five

banks in evaluating and "working out" over \$1.5 billion in distressed properties held in the banks' Real Estate Investment Trusts (REITS). Karsten's experience in this endeavor provides them with special insight into the identification and avoidance of problem investments.

Although Karsten has extensive experience as a real estate advisor, the firm is currently undergoing significant internal and external organizational changes. Two key principals are reducing their day-to-day involvement in the firm, and the responsibilities of other staff professionals are changing accordingly. The firm also recently was acquired by the First Interstate Bankcorporation. In addition, based on staff's review, Karsten did not exhibit the strong property/asset management capability evidenced by the other managers. Finally, Karsten has had difficulty raising subscriptions for the fund. After a year, commitments have been made for only 15% of the proposed \$200 million target. Further, these are verbal commitments and no contracts have yet been signed.

#### JMB Institutional Realty

JMB is one of the largest real estate organizations in the country, managing over \$3.8 billion in tax-sheltered limited partnerships, and \$600 million in closed-end commingled funds for tax-exempt investors. Because JMB invests sizable assets for both taxable or tax-exempt investors, the firm has the opportunity to review a wide variety of properties through continuous contacts with brokers, developers and owners and gain insight into many aspects of the real estate market. JMB also has extensive sales experience; since 1979, over 75 properties have been sold from the tax-shelter limited partnerships.

With over 1300 employees, JMB is the largest organization of the managers included in this review. Despite the fact that many of these employees are involved in property management, staff is concerned that JMB may not be able to maintain an effective degree of control over the acquisitions and property management processes. The initial property review, data gathering, and on site inspections are currently delegated to lower level staff members who have less experience than the senior professionals who make the investment decisions. This bureaucratic structure, combined with the fact that the senior professionals devote half their time to the tax-shelter limited partnerships, conceivably could hamper the investment decision-making process.

#### LaSalle Advisors

LaSalle Advisors commenced real estate assets management services to pension funds in 1981 with a \$300 million closed end commingled fund. Similar to Heitman, LaSalle will draw on the wide array of real estate expertise present in LaSalle Partners, the parent firm, including financing, corporate relocation, leasing, development, and property management. LaSalle's aggressive property management capabilities rank as its greatest strength. The firm has developed comprehensive training programs for its on-site managers, and strong supervisory procedures and policies that provide consistency and control over property management.

LaSalle aggressively utilizes leverage, and has the highest allowable maximum rate (2/3 debt to 1/3 equity) of the fund managers under review. The first closed end fund was comprised of 47% debt to 57% equity. LaSalle has only limited experience as an asset manager for institutional clients prior to 1981. Further, LaSalle's defensive attitude in their interviews with staff raises questions as to their ability to conduct a smooth working relationship with plan sponsors.

#### RREEF

The Rosenberg Real Estate Equity Funds (RREEF) have invested over \$2 billion in ten separate closed end commingled funds for pension investors since 1975. As a result, RREEF is among the most experienced of the real estate managers providing investment services to tax-exempt investors. RREEF utilizes a non-hierarchical organization structure in which each of the sixteen general partners, all of whom have extensive backgrounds in real estate, is directly involved in all phases of the investment decision-making process. Over 80% of the properties in the RREEF portfolios are managed on-site by RREEF employees under the full-time direction of regional supervisors and three general partners. Because RREEF does not assume leasing or development risk, or utilize participating convertible mortgages or leverage, it is sometimes characterized as conservative in nature. However, staff views RREEF's investment orientation as a positive factor. Staff believes that the firm's approach is very compatible with the Board's strategy for the inclusion of real estate in the Basic Retirement Funds' portfolio by providing a hedge against inflation and increasing portfolio diversification.

In keeping with RREEF's long-term investment strategy, the firm has a limited sales experience, and thus is relatively untested in this area. The growing size of assets under RREEF's management raises the issue of whether the sixteen partners will be able to retain direct control over all phases of property acquisition, management, and dispositions. However, the pace of RREEF's growth has been controlled, and the amount of new assets in a given year has been comparable to other investors. At the same time, in recent years new partners have joined the firm and brought additional expertise and depth to the investment process.

#### Trust Company of the West/Westmark Real Estate Investment Services

The general partners of Westmark Real Estate Services, the fund manager of TCW Realty Fund II, have extensive experience managing real estate assets for pension fund investors. The five general managers of Westmark were formerly the senior executives of Coldwell Banker Capital Management Services, where they were responsible for over \$800 million in real estate commingled funds and separate account investment for ten years. Several other former Coldwell employees comprise the Westmark professional staff.

TCW Realty Fund II offers an investment strategy driven by a computer based statistical market research discipline identifying potentially attractive geographic areas, submarkets, property types and financial structures for fund investment. Further, TCW provides well-defined close supervision of their independently contracted on site property managers.

Over half of TCW Realty Fund II will be invested in a debt instrument designed by Westmark called "Equity Equivalent Loans", a form of convertible/participating mortgages designed to trade the tax benefits of a property investment to the seller in exchange for a lower purchase price. Although the mechanism has been used by Coldwell Banker and TCW Realty Fund I, staff is concerned that the legal ownership of the properties acquired under this structure could be challenged. There has been no court test of this issue. In addition, up to 25% of the fund may assume leasing risk on development projects subject to completion and other contractual conditions. Due to the legal concerns about the Equity Equivalent Loans and the assumption of leasing risk, staff recommends that TCW Realty Funds be included in the Board's review of specialty funds in the implementation of the third stage of the investment program.

**Tab G**



STATE OF MINNESOTA  
VENTURE CAPITAL INVESTMENT MANAGER INFORMATION

I. BACKGROUND DATA

- A. DATE OF FINAL INTERVIEW: February 16, 1984
- B. NAME OF FIRM: Kohlberg, Kravis, Roberts & Co.
- C. NAME OF FUND: 1983 Investment Partnership (Fund III)
- D. ADDRESS: 645 Madison Avenue  
New York, NY 10022
- F. TELEPHONE: (212) 750-8300
- G. CONTACT: George Roberts
- H. TYPE OF FUND: Leveraged Buyout.
- H. PROPOSED FUND SIZE:  
Minimum: \$500 Million  
Maximum: \$1 Billion

## II. ORGANIZATION

### A. OWNERSHIP STRUCTURE OF THE FIRM AND ITS AFFILIATION WITH OTHER FIRMS.

The firm is wholly owned by the general partners: Jerome Kohlberg, Jr., Henry Kravis, George Roberts, and Robert MacDonnell. The organization is not affiliated with any other firms.

### B. RELATIVE PROMINENCE AND RELATIONSHIP OF VENTURE CAPITAL INVESTMENT TO OTHER ACTIVITIES CONDUCTED BY THE FIRM.

Leveraged buyout investing is the sole activity conducted by Kohlberg, Kravis & Roberts (KKR). The general partners and associates will spend approximately 75% to 90% of their time managing the new Fund III. The balance of their time will be spent monitoring Fund I and Fund II investments.

### C. BACKGROUND AND PERFORMANCE OF THE FIRM IN MANAGING VENTURE CAPITAL INVESTMENTS.

KKR was founded May 1, 1976, by Jerome Kohlberg, Jr., Henry R. Kravis, and George Roberts. Since its formation, KKR has invested over \$325 million in sixteen buyouts. Prior to the formation of KKR, the founding partners invested their own capital in 13 buyouts dating back to 1965. Kohlberg, Kravis and Roberts are the most experienced buyout specialists in the leveraged buyout community.

See Exhibit I: Biographical Data  
Exhibit II: Performance Data

### III. STAFF

#### A. NUMBER OF PROFESSIONAL VENTURE CAPITALISTS AND SUPPORT PERSONNEL.

Currently, there are four general partners in KKR and four associates. KKR will add an additional associate in 1984. Jerome Kohlberg and Henry Kravis manage the New York office, aided by Paul Raether, Don Herdrich, and Gary Gladstein. George Roberts and Robert MacDonnell operate the San Francisco office with the assistance of associate Michael Michelson. In addition, the firm employs eight office support personnel.

#### B. NUMBER OF INVESTMENT PROFESSIONALS ADDED/SUBTRACTED IN THE PAST TWO YEARS.

One person has been added and one subtracted in the past two years.

#### C. ELABORATION ON ANSWER TO QUESTION #2.

In 1983, Gary Gladstein joined the firm as an associate to replace Lloyd Nintzel, who retired during the year. As a CPA, Gladstein's initial responsibility is to manage the firm's accounting systems. During 1984, he will begin to assist Kohlberg and Kravis in the evaluation and monitoring of portfolio companies.

#### D. ALLOCATION OF RESPONSIBILITIES AMONG EMPLOYEES OF THE FIRM.

The four general partners will assume full responsibility for the selection of portfolio companies. Two members of the team of general partners and associates will be assigned to investigate each potential portfolio company and present their findings to the team. If the general partners elect to proceed with a buyout, the initial pair will assume responsibility for negotiating and managing the investment. The pair will continue to hold responsibility for actively monitoring the portfolio company until the investment is liquidated.

E. AFFILIATIONS WITH RESEARCH ORGANIZATIONS AND/OR CONSULTANTS.

Infrequently, KKR employs consultants such as Arthur D. Little to assist in the evaluation and/or management of portfolio companies. KKR prefers to use a 'cross fertilization' approach. That is, the general partners foster a team spirit on the part of their portfolio company management by enlisting current and past company executives to serve as advisors or Board members for the firm's other portfolio companies. In structuring each buyout transaction, KKR retains Deloitte Haskins & Sells to allocate the buyout purchase price to company assets.

F. FIRM'S CO-INVESTMENT NETWORK OF PROFESSIONAL VENTURE CAPITALISTS.

KKR does not co-invest with other management buyout specialists or venture capitalists. Due to the large size of the Funds KKR raises, the firm does not need to syndicate its buyout transactions. KKR minimizes potential disagreements among co-investors by limiting the number of participants in each transaction.

KKR's access to attractive deals is not limited by the firm's co-investment policy. Through the firm's network of business contacts, KKR generates numerous buyout proposals. (See U-A)

G. WHAT COMPENSATION AND INCENTIVE SYSTEMS DOES THE FIRM HAVE FOR ITS EMPLOYEES?

Each of the general partners and associates will receive a share in the profits of the firm in addition to his base salary.

H. BIOGRAPHICAL DATA ON KEY PERSONNEL, INCLUDING AGE, EDUCATION AND CHRONOLOGICAL EMPLOYMENT HISTORY/EXPERIENCE (ATTACHED TO THIS REPORT).

See Exhibit J: Biographical Data

#### IV. PARTNERSHIP INVESTMENT STRATEGY

##### A. AUTHORIZED FORMS OF INVESTMENT:

100% of the existing funds is invested in common stock and convertible securities.

##### B. LOCATION

The existing funds are well diversified geographically. Most of KKR's current portfolio companies are conglomerates with nation-wide operations.

##### C. INDUSTRY GROUPS:

Approximately 95% of KKR's existing portfolio companies are stable and mature, low growth manufacturing firms. The remaining 5% of the existing funds is invested in the communications area.

##### D. CORPORATE STAGE OF DEVELOPMENT:

100% of the existing funds is invested in leveraged buyouts.

##### E. INVESTMENT ORGANIZATION:

KKR was lead investor in 100% of the firm's buyouts. KKR does not co-invest with other leveraged buyout or venture capital firms. (See III-F)

##### F. DIFFERENCES IN FUND COMPOSITION BETWEEN EXISTING FUNDS AND PROPOSED FUND.

There will be no appreciable differences between the composition of the existing funds and that of the proposed fund.

G. MAXIMUM PROPORTION OF CAPITAL COMMITTED TO A SINGLE INDUSTRY, LOCATION, FIRM OR DEVELOPMENT STAGE.

No more than 25% of the Fund will be committed to a single investment. In the event that a specific investment exceeds this limitation, Fund participants will be given the opportunity to invest additional funds on a discretionary basis.

Although KKR has not set specific limits on the amount of capital that may be committed to a single industry or location, the firm will not only diversify the total Fund III portfolio but will also pursue diversification within individual portfolio companies. Most of KKR's current portfolio companies are conglomerates which are diversified by both industry and location. KKR will select similar companies for Fund III.

## U. PORTFOLIO COMPANY SELECTION/ACQUISITION PROCESS.

### A. PROCESSES AND SCREENING CRITERIA UTILIZED IN THE GENERATION, INVESTIGATION AND ACCEPTANCE OF FUNDING APPLICATIONS.

#### GENERATION PROCESS:

Over the past fifteen years, Kohlberg, Kravis and Roberts have cultivated an extensive network of corporate executives, lawyers, accountants, and investment bankers from whom numerous funding applications flow. In addition, the firm actively seeks out funding ideas by examining annual reports and financial journals and by contacting company CEOs.

#### INVESTIGATION AND ACCEPTANCE PROCESSES:

As discussed in III-D, a two member team is assigned to investigate each potential portfolio company. The team visits the company, investigates management, examines financial records and conducts a market study. This investigation may take several months to complete. The team then presents its findings to the general partners and associates, who discuss and debate the team's findings. The general partners consider the team's recommendations and vote whether or not to proceed with the buyout. For acceptance of a portfolio company, the three founding general partners must unanimously agree to undertake the buyout transaction. Of the approximately 300 funding ideas the firm generates each year, KKR actively investigates 25 to 50 companies. It accepts only 1 to 2 firms for buyout each year.

#### SCREENING CRITERIA:

It is KKR's policy to invest in a limited number of situations on a timely basis. Each prospective investment is selected carefully on the basis of the investment principles and criteria described below, which KKR feels are particularly important for the success of the management buyout.

## BUSINESS CHARACTERISTICS

1. Companies with strong, proven operating management in place at most key levels and a management which understands cash flow, asset management, and return on investment.
2. Companies which manufacture and sell products which are not subject to rapid technological changes.
3. Companies which manufacture or distribute proprietary products and enjoy a strong market position either locally or nationally.
4. Companies whose manufacturing efficiencies establish them as "low cost producers" within an industry, thereby enjoying a competitive edge over others in the same industry.

## FINANCIAL CHARACTERISTICS

1. A company should have revenues of at least \$50 million with net income of at least \$2.5 million. KKR prefers to acquire companies with higher historical levels of sales and earnings due to the ability to attract and maintain a higher caliber of management.
2. There should be a fairly low debt-to-equity ratio, thereby permitting leverage in the new capital structure.
3. The company should have a strong history of demonstrated profitability and cash flow and the ability to maintain above average profit margins. KKR is not interested in turnaround situations.
4. There should not be any funding liabilities or unfunded pension costs.

KKR believes that by concentrating its investments in companies with the foregoing business and financial characteristics, the risk of loss can be significantly limited.



**B. ROLE OF GENERAL PARTNERS, OUTSIDE ADVISORS AND INVESTORS  
IN THE DECISION-MAKING PROCESS.**

The general partners will have the sole authority and responsibility for any decisions regarding portfolio company investments. As discussed in III-C, KKR considers its current and past portfolio company CEOs to be valuable advisors.

**C. SCHEDULE FOR INVESTING FUND ASSETS.**

Fund assets will be invested over a three to six year period. For individual buyout transactions, several months to a year may be required for the firm to negotiate and fund an investment.

**D. SYSTEM FOR ALLOCATING VENTURE CAPITAL INVESTMENTS AMONG  
FUNDS/ACCOUNTS.**

KKR's Fund I and Fund II are fully invested. The equity in all non-tax oriented buyouts consummated by KKR will be financed solely through the new Fund III until it is fully invested. However, KKR may organize several tax-oriented buyout transactions during the term of the new Fund III. Therefore, limited partners who are tax-oriented will be given the opportunity to participate in these buyouts on a discretionary basis.

## VI. PORTFOLIO COMPANY INVESTMENT MANAGEMENT

### A. TYPES OF BUSINESS ASSISTANCE TO BE PROVIDED BY GENERAL PARTNERS TO PORTFOLIO COMPANY MANAGEMENT.

KKR will work closely with portfolio company management, providing assistance in all aspects of the business. However, due to the financial risk which leveraged buyouts entail, KKR's top priority is generating cash quickly to reduce debt. Immediately after the buyout, KKR will assist the company with asset management programs, including possible divestitures, to increase cash flow. KKR will also assist each company in its acquisitions and capital investment programs, as well as advising the companies as to the timing and the best alternatives for obtaining additional capital. In addition, KKR places particular emphasis on establishing efficient manufacturing systems and controlling costs. Working capital management is considered critical.

### B. ROLE OF GENERAL PARTNERS IN PORTFOLIO COMPANY DECISION-MAKING.

Jerome Kohlberg, Henry Kravis, and George Roberts will control the Board of Directors of each portfolio company. At least two of the team of general partners and associates will attend each Board meeting and will be actively involved in assisting portfolio company management on an ongoing basis.

### C. PREPARATION FOR TERMINATION OF PORTFOLIO COMPANY INVESTMENTS.

KKR considers the eventual termination of each portfolio company investment at the time the company is first evaluated and will accept for investment only those companies which offer more than one potential exit method.

KKR terminates its portfolio company investments by selling its companies to large corporations, by taking the companies public, or by selling its shares back to management.

During the term of an investment, KKR makes a portfolio company more attractive for public offering or corporate acquisition by paying debt down quickly over the first two to three years to normal industry levels, investing in R&D and capital improvements, and/or acquiring additional companies.

D. PROTECTIVE COVENANTS AND MANAGEMENT INCENTIVE PROVISIONS UTILIZED IN PURCHASE AGREEMENTS.

KKR utilizes a variety of warranties and representations in its purchase agreements. To protect its equity investments, the firm employs two major covenants:

1. Portfolio company management's equity vests over a five year period so that management is motivated to remain with the company.

2. In every purchase agreement, KKR includes a buy-back provision which gives KKR the right to purchase a manager's stock upon his or her departure from the portfolio company.

For management incentives, KKR reserves a pool of common stock for stock options and stock sales to new members of the portfolio company's management team.

## VII. PARTNERSHIP LEGAL AGREEMENT AND FUND ADMINISTRATION

### A. REPORTING AND VALUATION

#### PORTFOLIO VALUATION

##### 1. Frequency/by whom:

Each fund partnership will be valued on an annual basis by the general partners.

##### 2. Valuation Methods Used:

Each fund partnership investment is carried at cost on KKR's internal reports until liquidation.

#### CLIENT COMMUNICATIONS

##### 1. Format/frequency of fund/client communications:

Each fund participant will receive annual audited financial statements for each fund partnership. The fund participants will also receive quarterly financial statements and an annual report from each company whose securities are held by fund participants.

### B. FEES AND EXPENSES.

##### 1. Management Fee Structure:

KKR will receive an investment banking fee from each portfolio company for arranging the acquisition. Further, KKR will charge each company in which the firm invests an annual retainer for management services provided by the firm. In addition, KKR will receive an annual fee from each Fund participant in an amount equal to 1.5% of the initial committed capital. The fee will be increased by 10% per year compounded and will terminate at the earlier of the end of the six-year commitment period or the date on which all the fund are fully invested.

##### 2. Are fees payable from income?

Yes.

3. Revenue sharing and general partners' carried interest:

After the return of the limited partners contributed capital, the net realized profits will be allocated 80% to all limited partners as a group and 20% to the general partners.

4. Additional expenses allocated to limited partners:

No addition expenses will be allocated to limited partners.

5. Distribution of Return Policy (cash vs. in-kind distributions, re-investment of returns):

KKR will promptly distribute all proceeds, dividends or interest income on securities and will not re-invest returns. All distributions will be in cash or in freely tradeable securities.

#### C. TERM OF PARTNERSHIP:

A separate Fund partnership will be established for each buyout. The term of each fund partnership will be twelve years.

The general partners have not included extension provisions in the partnership agreement. At the request of a number of limited partners, however, the general partners are considering incorporating extension provisions in the partnership documents.

#### D. SCHEDULE FOR TAKEDOWN OF INVESTOR COMMITMENTS.

Each Fund participant will enter into a commitment to provide the aggregate amount of his participation in the Fund over a maximum period of six years. A separate limited partnership will be formed for each buyout in which the Fund invests. KKR will call the committed capital as needed over the six year availability period and will provide 20 days notice.

F. CLOSING DATE FOR COMMITMENTS.

March 31, 1984.

F. USE OF LEVERAGE.

Each transaction will be structured so that limited partners will participate in the equity portion of the buyout financing. However, limited partners have the option of participating in the debt financing. The average debt-to-equity ratio for KKR buyouts is 3.5/1.

G. OUTSTANDING CENSURE OF LITIGATION.

At any time, there are normally a number of shareholder lawsuits pending against KKR. Specifically, a shareholder of a portfolio company which is being acquired by KKR may initiate litigation against the firm. Such suits often charge that the share price paid by the firm does not accurately reflect asset values. However, this is not unusual for the buyout community. KKR carefully follows established legal procedures for ensuring the fairness of the buyout transaction. As a consequence, KKR has been very successful in having past lawsuits dismissed.

H. ATTORNEY GENERAL'S FINAL REVIEW.

In progress.

# UNIT. CLIENT BASE

FIRM FUND COMMITMENTS	AMOUNT (MILLIONS)
Oregon Public Employees	\$ 100
Washington Public Employees	100
Michigan Public Employees	35
Metropolitan Life	50
Equitable Life	50
Electra House	5
John Hancock Insurance Co.	5
GTF	50
United Telecommunications	10
Tektronix	10
Hillman Companies	25
First Chicago Bank	75
Security Pacific Bank	40-50
Bank of America	25
U.S. National Bank of Oregon	25
Continental Illinois	25
Bankers Trust + M.T.T.	28
First Bank of Minneapolis	25
Harvard University	35
State of New York Public Employees	50
Samuel Montagu & Co. Ltd.	10
Carnegie Mellon	5
Yale University	10
Hughes Aircraft	25
Alcoa	10
	\$828-838
KKR Associates	10
	\$838-848

## IX. INTERVIEWER COMMENTS

Kohlberg, Kravis & Roberts is the most experienced buyout group operating today. Jerome Kohlberg, Henry Kravis and George Roberts, who have been investing in leveraged buyouts since 1965, are considered leaders in the leveraged buyout field. Together, the members of KKR will invest approximately \$10 million of their own capital in Fund III.

One of the aspects of buyouts in which KKR has consistently led the leveraged buyout community has been in the size of buyouts performed. Although the \$1 billion currently being raised is large, relative to past funds, KKR has designed Fund III to avoid the intense price competition which is taking place among other buyout groups, banks, and brokerage firms at the smaller buyout level. Other buyout groups are, at most, half the size of the KKR Fund. With the \$1 billion pool, KKR's primary competition for its large buyouts will be corporate buyers.

The size and structure of Fund III are designed to enable KKR to compete more effectively with its large corporate competitors. Prior to Fund III, KKR's buyout transactions were accomplished by means of cash tenders, which require up to 120 days to complete. During this 120 day period corporate buyers could enter the negotiations and outbid KKR. Now, however, the size of Fund III and the Fund's 20 day call provision will allow KKR to structure its purchases as friendly tender offers, which require only 20 days to accomplish. KKR anticipates that few corporate buyers will be able to complete an evaluation and submit a rival bid within that short time period.

KKR has structured the Fund so that the firm will have the capital available to dollar average its large leveraged buyout investments, lessening Fund III's vulnerability to economic cycles. The \$1 billion will be invested slowly over a period of three to six years; only one to two companies will be purchased each year.



KKR is conservative in its structuring of individual leverage buyout transactions, using less debt than many of the leveraged buyout groups. The debt/equity ratio for the typical KKR buyout is approximately 3.5/1, comparing favorably with the 4/1 to 10/1 range employed by others. Further, KKR structures its transactions with few layers of debt. In most instances, KKR's debt participants purchase identical vertical strips of subordinated debt with equity kickers. In this way, KKR speeds up the transactions and minimizes any potential disagreements among co-investor groups.

In summary, the experience of the general partners, the size and structure of Fund III, and the design of individual buyouts are all positive factors which should be considered in the evaluation of KKR.

## EXHIBIT I: BIOGRAPHICAL DATA

**JEROME KOHLBERG, JR.** Age 58. B.A., Swarthmore College, 1946. M.B.A., Harvard Business School, 1947. L.L.B., Columbia Law School, 1950. Prior to founding Kohlberg Kravis Roberts & Co. in 1976, he was a Senior Partner and member of the Executive Committee at Bear Stearns & Company. During the last ten years of his career with Bear Stearns & Company, he was in charge of the investment banking and corporate finance activities of the firm, which included public underwritings, private placements, mergers and acquisitions, and management buyout financings.

**HENRY R. KRAVIS** Age 39. B.A., Claremont Men's College, 1967. M.B.A., Columbia Graduate School of Business, January, 1969. Prior to founding Kohlberg Kravis Roberts & Co., he was in the Corporate Finance Department of Bear Stearns & Company from 1970 -1976, having become a Partner in 1975. His experience at Bear Stearns included management buyouts, acquisitions, private placements and public underwritings. Prior to his experience there, he was a Vice President at Faherty & Swartwood, Inc., where he arranged venture capital financings. From 1968-1969 he was a Vice President at Katy Industries, Inc., where he was responsible for corporate planning and mergers and acquisitions.

**GEORGE R. ROBERTS** Age 40. B.A. Cum Laude, Claremont Men's College, 1966. J.D., University of California (Hastings) Law School, 1969. Prior to founding Kohlberg Kravis Roberts & Co., he was in the Corporate Finance Department of Bear Stearns & Company from 1969-1976, having become a Partner in 1973. His experience there included numerous management buyout financings, private placements, and mergers and acquisitions.

**ROBERT L. MacDONNELL** Age 45. B.S., Penn State, 1961. M.B.A., Wharton Graduate School of Business, 1966. Prior to joining Kohlberg Kravis Roberts & Co. in 1976, he was a Partner at MacDonnell, Stephens & Company where he initiated and participated in small management buyouts. From 1966-1970 he was a Senior Consultant at Arthur Anderson & Company where he specialized in consulting and financial reporting for professional, light manufacturing and distribution businesses. On January 1, 1982 he became a general partner of KKR.

**DONALD J. HERDRICH** Age 40. B.E.E., Marquette University, 1966. M.S., Marquette University, 1968. M.B.A., University of Chicago, 1972. Prior to joining Kohlberg Kravis Roberts & Co. in 1978, he was a Vice President with First Chicago Investment Company (1970-1978), an affiliate of the First National Bank of Chicago. His responsibilities included the negotiation, structuring and monitoring of numerous private placements, including venture capital and management buyout investments.

**PAUL E. RAETHER** Age 37. B.A., Trinity College, 1968. M.B.A., Amos Tuck School of Business Administration, Dartmouth College, 1973. Prior to joining Kohlberg Kravis Roberts & Co. in 1980, he was a Vice President at Blyth Eastman Dillon & Company, Incorporated, in the Corporate Finance Department. At Blyth he was involved with numerous financings, both public and private, merger and acquisition activity and financial advisory work.

**MICHAEL W. MICHELSON** Age 32. A.B. Cum Laude, Harvard College, 1973. J.D. Cum Laude, Harvard Law School, 1976. Prior to joining Kohlberg Kravis Roberts & Co. in 1981, he was with the law firm of Latham & Watkins in Los Angeles. At Latham & Watkins he was involved in a broad corporate practice while specializing in management buyouts.

**GARY GLADSTEIN** Age 39. B.A., University of Connecticut, 1966. M.B.A., Columbia University Graduate School of Business, 1968. Prior to joining Kohlberg Kravis Roberts & Co. in September 1983, he was with Arthur Young & Company for 13 years. He was an Audit Principal having responsibility for accounting and auditing services to several multinational public and privately-held clients in diverse industries. From 1968-1970, he was an Operations and Cost Analyst at the Sikorsky Division of United Technologies Corporation. He is a member of the American Institute of Certified Public Accountants and Connecticut Society of Certified Public Accountants.

**EXHIBIT II: PERFORMANCE DATA (A)****MANAGEMENT BUYOUTS COMPLETED BY KKR SINCE ITS FORMATION**

<b><u>Company (Owner Prior to Buyout) - Description of Business</u></b>	<b><u>Date of Invest- ment</u></b>	<b><u>Total Purchase Price and Financing</u></b>
A.J. INDUSTRIES, INC. (NYSE) — Company is a diversified manufacturer of industrial products, including brake drums for truck and trailer suspension systems, and a manufacturer of military aircraft equipment.	1977	26,500,000
L.B. FOSTER COMPANY (Privately-Held)— Company is a leading distributor and manufacturer of oil country tubular goods, pipe, piling, and rail.	1977	106,000,000
U.S. NATURAL RESOURCES, INC. (ASE) — Company produces coal and manufactures lumber milling machinery, and air conditioning and refrigeration units.	1977	22,500,000
HOUDAILLE INDUSTRIES, INC. (NYSE) — Company is a manufacturer of pumps, machine tools, and other industrial products. In 1981, Houdaille acquired Crane Packing Company for \$203 million through leveraged financing.	1979	355,000,000
SARGENT INDUSTRIES, INC. (ASE) — Company manufactures a variety of control devices.	1979	40,000,000
F-B TRUCK LINE COMPANY (OTC) — Company is a regional carrier. This company was acquired by Eagle Motor Lines as a management buyout.	1979	15,000,000
EATON LEONARD CORPORATION (Privately-Held) — Manufactures computer-controlled tube bending machine tools.	1980	12,500,000
THE ROTOR TOOL COMPANY (Cooper Industries, Inc.) — Manufactures highly-engineered heavy duty tools for industrial applications.	1981	26,000,000
THE MARLEY COMPANY (NYSE) — Manufactures water cooling towers, air cooled heat exchangers, hot water and steam heating systems, vertical turbine, submersible, waste water and sewage disposal pumps, also constructs and maintains municipal water wells.	1981	381,000,000

<u>Company (Owner Prior to Buyout) - Description of Business</u>	<u>Date of Investment</u>	<u>Total Purchase Price and Financing</u>
LILY-TULIP, INC. (Owens-Illinois, Inc.) -- Manufactures disposable paper and plastic containers of various types.	1981	170,000,000
PT COMPONENTS, INC. (FMC Corporation) -- Manufactures power transmission products including bearings, industrial chain, industrial motor brakes and clutches, and mechanical variable drives under the "Link Belt" name.	1981	150,000,000
FRED MEYER, INC. (OTC) -- Company is a leading retailer in the Pacific Northwest selling a wide range of general merchandise.	1981	435,000,000
NORRIS INDUSTRIES, INC. (NYSE) -- Company is a diversified manufacturing company with operations in building and remodeling products, industrial and defense products.	1981	420,000,000
PACIFIC REALTY TRUST (ASE) -- Company was a closed end real estate investment trust based in Portland, Oregon with a portfolio consisting primarily of real estate equity investments.	1983	58,000,000
DILLINGHAM CORPORATION (NYSE) -- Company is based in Hawaii and engaged in heavy international construction activities, distribution of propane gas, and barge and towing operations.	1983	440,000,000
GOLDEN WEST BROADCASTERS (Gene Autry & Signal Companies) Company owns KTLA, which is the largest independent television station in Los Angeles.	1983	<u>280,000,000</u>
<u>SUB-TOTAL</u>		<u>\$2,937,500,000</u>

Discretionary Tax Oriented Investments

PACK RIVER TIMBER (Privately-Held) -- Company owned 180,000 acres of timber lands in the Pacific Northwest (Idaho Pine Timber Associates) and operates seven mills (W-I Forest Products, Inc.).	1979	136,000,000
AMERICAN FOREST PRODUCTS COMPANY (Bendix Corporation) -- Company owns 133,000 acres of timber lands in Northern California and operates a number of mills and plants.	1981	<u>425,500,000</u>

GRAND TOTAL

\$3,499,000,000

# EXHIBIT II: PERFORMANCE DATA (B)

## EQUITY INVESTMENTS IN BUYOUTS SINCE THE FORMATION OF KKR

<u>Investment</u>	<u>Year Made</u>	<u>Year Sold/Valued</u>	<u>Amount Invested (\$ 000)</u>	<u>Realized/Value (\$ 000)</u>	<u>Basis (1)</u>	<u>Annual Compounded R.O.I. %</u>
A. J. Industries	77	83	1,700 (3)	40,800	E	69.8
L. B. Foster	77	83	1,740 (3)	16,692	M	45.8
U. S. N. R.	77	83	964 (2)	14,454	E	57.0
Houdaille	79	83	9,087 (2)	9,087	E	0
Sargent	79	83	500 (2)	3,229	M	59.4
F-B Truck Lines	79	83	727 (2)	727	E	0
Eaton Leonard	80	83	1,150 (2)	1,150	E	0
Rotor Tool	81	83	1,650 (2)	1,650	E	0
Marley	81	83	10,184 (2)	10,184	E	0
Lily-Tulip	81	83	30,000 (2)	90,000	E	73.2
PT Components	81	83	6,150 (2)	6,150	E	0
Fred Meyer						
Corporate	81	83	52,243 (3)	191,554	E	91.5
Real Estate	81	83	57,000 (3)	114,000	E	41.4
Norris	81	83	20,350 (2)	129,500	E	150.3
Pac Trust*	83	83	19,300 (2)	19,300	C	N A
Dillingham*	83	83	49,900 (2)	49,900	C	N A
KTLA*	83	83	<u>65,000</u> (2)	<u>115,000</u>	E	153.8
TOTAL			<u>327,645</u>	<u>813,377</u>		

ANNUAL COMPOUNDED RATE OF RETURN ON INVESTED CAPITAL EQUALS 62.7%.

\* Pac Trust, Dillingham and KTLA are not included in composite R.O.I. calculations since the holding period is less than one year. The annual R.O.I. shown on KTLA is based on a six-month holding period.

(1) Basis for determining value:

- M Quoted stock price
- E Estimated by KKR
- C Cost

(2) Equity Investment - KKR and its Limited Partners

(3) Equity Investment - KKR and its Limited Partners Plus Additional Equity

**Tab H**

MEMBERS OF THE BOARD:  
GOVERNOR RUDY PERPICH  
STATE AUDITOR ARNE H. CARLSON  
STATE TREASURER ROBERT W. MATTSON  
SECRETARY OF STATE JOAN ANDERSON GROWE  
ATTORNEY GENERAL HUBERT H. HUMPHREY III



EXECUTIVE DIRECTOR  
HOWARD J. BICKER

STATE OF MINNESOTA  
STATE BOARD OF INVESTMENT

Room 105, MEA Building  
55 Sherburne Avenue  
Saint Paul 55155  
296-3328

February 8, 1984

The State Board of Investment is pleased to invite you to attend its third annual conference on Pension Investments on March 8, 1984 from 8:00 A.M. to 3:30 P.M. at the Minnesota Club (317 Washington Avenue between Fourth and Kellogg in downtown St. Paul).

We are particularly pleased that several prominent experts in the investment field will be on hand to discuss investment issues and answer your questions.

Our speakers include Richard Hoffman, President, R.J. Hoffman & Co. and former Chief Investment Strategist for Merrill Lynch; noted economist Robert Marks; Stan Pratt, a leading authority on venture capital investments, and three of the external equity managers who invest assets for the State Board of Investment: Fred Alger, Fred Alger and Co.; Robert McFarland, Beutel Goodman Capital Management; and Ronald Sloan, Siebel Capital Management. Our luncheon speaker is the former White House Chief of Staff Hamilton Jordan.

Enclosed you will find a schedule of speakers. Please feel free to attend any or all of the day's events. We request that you make a reservation for lunch by returning the enclosed form or by calling our office at 296-3328 by March 3.

Sincerely,

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

Howard J. Bicker  
Executive Director

Enclosure



MEMBERS OF THE BOARD:  
GOVERNOR RUDY PERPICH  
STATE AUDITOR ARNE H. CARLSON  
STATE TREASURER ROBERT W. MATTSON  
SECRETARY OF STATE JOAN ANDERSON GROWE  
ATTORNEY GENERAL HUBERT H. HUMPHREY III



EXECUTIVE DIRECTOR  
HOWARD J. BICKER

STATE OF MINNESOTA  
STATE BOARD OF INVESTMENT

Room 105, MEA Building  
55 Sherburne Avenue  
Saint Paul 55155  
296-3328

STATE BOARD OF INVESTMENT  
INVESTMENT CONFERENCE

March 8, 1984  
8:00 A.M. - 3:30 P.M.

MINNESOTA CLUB  
317 Washington  
(between 4th and Kellogg)  
Downtown St. Paul

8:00	Coffee and rolls	
8:25	Opening remarks	
8:25 - 9:25	<u>Robert L. Marks</u>	<u>Economic Overview</u>

Issues:

---prospects for a continued economic recovery  
---regional economic outlook  
---implications for investment strategy

Robert L. Marks is Executive Vice President, Treasurer, and a Director of Siff, Oakley, Marks, Inc., an independent consulting firm based in New York. The company provides economic research and investment opinions to 80 financial institutions and industrial corporations whose combined assets under management exceed \$175 billion. A business economist by training, Mr. Marks received a BA in economics from Hamline University in 1965 and an MBA in Finance from Indiana University in 1967. Prior to establishing his own firm, Mr. Marks worked for six years as an economist with Lehman Brothers. Mr. Marks is frequently quoted in the financial press and has been the featured guest on Louis Rukeyser's "Wall Street Week" television program.

9:30 - 10:25

Richard Hoffman

Investment Strategy

Issues:

- the risk/reward relationship for stocks, bonds, and other asset classes in 1984
- economic variables to watch during 1984 and their impact on investment strategy

Richard J. Hoffman is an international financial figure who achieved prominence as the Chief Investment Strategist for Merrill Lynch. Mr. Hoffman is now President of his own investment advisory firm. Richard Hoffman received his MBA from Harvard in 1970 and was a member of "Institutional Investor's All Star Research team" for five consecutive years. He has numerous articles to his credit in major magazines and has appeared on "Wall Street Week."

10:30 - 11:25

Stan Pratt

Venture Capital

Issues:

- historical review of venture capital
- future prospects for venture capital
- pension fund investment

Stanley E. Pratt, President of Capital Publishing Corporation, is recognized as a leading authority on the venture capital industry. He is editor and publisher of the "Venture Capital Journal," which has been reporting and analyzing business development investing since 1961, and is editor of the seventh edition of "Guide to Venture Capital Sources." A 1953 graduate of Brown University, Mr. Pratt spent two years in the U.S. Navy as a destroyer officer, seven years in investment banking and brokerage and 14 years with two private venture capital firms prior to purchasing Capital Publishing.

11:30 - 12:45      Lunch      (cash bar available)

12:45 - 1:30      Hamilton Jordan      Political Perspective

As former Assistant to President Jimmy Carter and White House Chief of Staff, Hamilton Jordan is recognized as a preeminent strategist and observer of the American political scene. He was intimately involved in the major foreign and domestic policy decisions of the Carter Administration, most notably the negotiations for the release of the Americans held hostage in Iran. Hamilton Jordan now teaches at Emory University and is the author of CRISIS: THE LAST YEAR OF THE CARTER PRESIDENCY.

1:45 - 3:00      Discussion with External Money Managers

Three of the State Board of Investment's external money managers will discuss:

- the role of external managers in a multi-manager system
- individual investment philosophies and strategies

Robert McFarland      Beutel, Goodman Capital Management

Bob McFarland is President of the U.S. affiliate of Beutel, Goodman, one of Canada's largest investment counseling firms. He plays a major role in the formulation of investment strategy and the selection of individual stocks.

From 1977 through 1981 Mr. McFarland was Vice President and a Director of Vaughan, Nelson & Hargrove Inc., a Houston investment counseling firm. From 1968-1977, he was on Wall Street with Mitchell Hutchins & Co., an institutional brokerage firm.

Mr. McFarland graduated from the University of Oklahoma in 1964 with a B.S. in Engineering Physics and received an MBA in 1966 from Harvard Business School. Following graduate school he spent two years as an officer in the U.S. Army designing computer systems at the Pentagon.

Ronald Sloan

Siebel Capital Management

Ronald Sloan is a partner of Siebel Capital Management. He is a portfolio manager and research analyst.

Before joining Siebel Capital Management, Mr. Sloan was Vice President and Chief Investment Officer of American General Capital Advisors. In addition, he has held investment positions with Stephenson & Co. and State Farm Insurance. Mr. Sloan is a CFA, a member of the Financial Analysts Federation and the Security Analysts of San Francisco. He received his undergraduate and graduate degrees from the University of Missouri.

Fred Alger

Fred Alger & Co.

Fred Alger is the President and Chairman of the Board of Fred Alger & Co. Prior to founding Fred Alger & Co. in 1969, Mr. Alger was a portfolio manager for Winfield & Company. He has also worked as a security analyst for North American Securities and Wells Fargo Bank. Mr. Alger is a graduate of Yale University and received an MBA from the University of Michigan.

Please feel free to attend any one or all of the day's events. We request that you make a reservation for lunch by returning the attached form or calling the State Board of Investment at 296-3328 by March 3, 1984.

**INVESTMENT CONFERENCE**  
**March 8, 1984**

**NAME:** \_\_\_\_\_

**ORGANIZATION:** \_\_\_\_\_

       I plan to join the Investment Conference luncheon.

           I do not plan to join the Investment Conference luncheon.

PLEASE RETURN TO: The State Board of Investment  
55 Sherburne Avenue, Room 105  
St. Paul, MN 55155 (or) call 296-3328

# Tab I

STATE OF MINNESOTA  
EXTERNAL EQUITY MANAGER UPDATE INTERVIEW

I. INTERVIEW DETAILS

1) Name of manager interviewed Herbert R. Smith

2) Date interview conducted January 10, 1984

3) Representing Minnesota State Board of Investment

Howard Bicker	-	Executive Director
Jeff Bailey	-	Assistant Executive Director
Mark Edwards	-	Portfolio Manager
Daralyn Peifer	-	Investment Analyst

4) Representing manager

Herbert Smith	-	Portfolio Manager
David Bagbee	-	Portfolio Manager

## II. PERSONNEL

### 1) Explain any staff departures since last interview

Jerry Sides, the firm's portfolio manager with responsibilities for fundamental analysis, left in early 1983 at the request of the firm. The departure was a result of Herbert Smith's belief that Sides' approach to investments was not compatible with his own.

### 2) Describe any staff additions since last interview

David Bagbee has been hired as portfolio manager to replace Jerry Sides. In addition, George Moody has been hired as an administrative assistant. A block trader and several support personnel have also been added to the staff.

### 3) Describe any changes in the status of the specific manager(s) assigned to the SBI's account

David Bagbee will bear the major responsibility for the firm's fundamental analysis and will assist Herbert Smith with the management of the SBI portfolio.

### 4) Comments

Jerry Sides' departure caused a temporary disruption of the firm's investment operations. However, Herbert Smith believes that David Bagbee will be a much more effective complement to his own investment style. Staff will continue to monitor this situation closely.



### III. CLIENT BASE

#### 1) List

	10/15/82 Prior Interview		1/10/84 Latest Interview	
Account -----	Number -----	Market Value -----	Number -----	Market Value -----
Total	<u>28</u>	<u>\$120</u>	<u>28</u>	<u>\$200</u>

#### 2) Provide list of new large institutional accounts

None

#### 3) List and describe circumstances behind any accounts larger than \$5 million lost since last interview

None

#### 4) Comments

Although the firm has no specific plans to limit its growth, it is no longer actively seeking new clients. For the foreseeable future, Herbert Smith anticipates little growth in the number of clients.

#### IV. INVESTMENT STRATEGY

##### 1) Economic outlook

The growth of the economy is expected to slow throughout 1984, with inflation continuing to moderate due to lower commodity and unit labor costs. The firm believes that secular inflation has been brought under control and anticipates that interest rates will remain at current levels or decline moderately during the year.

##### 2) Financial market outlook

The firm views bonds as attractive relative to stocks on a total return basis and considers a bond market rally to be underway. However, although the firm assesses stocks as fairly valued at present, it anticipates that a decline in interest rates will precipitate a short stock market rally. Thus, the firm believes that stocks may outperform bonds over the short term.

##### 3) Current and near-term projected asset mix

Due to its analysis of technical indicators which suggest a near-term stock rally, the firm has reduced its cash position from 20% to 13%. However, the firm is prepared to raise cash quickly if such a rally should occur believing that stocks are not undervalued at this time.

##### 4) Equity sector emphasis

The firm is retaining its heavy overweighting of the financial stocks, in particular, insurance stocks. In addition, it is cautiously increasing its exposure to cyclical stocks. Although it has increased its energy position, the firm is still underweighted in the energy sector. The firm has decreased its base of small capitalization stocks and is currently emphasizing quality, larger capitalization companies due to liquidity concerns.