Minnesota State Board of Investment

2010 Annual Report

Minnesota
State Board
of Investment

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Table of Contents

Introduction 1
Funds Under Management 2
Combined Funds 4
Investment Pools 11
Supplemental Investment Fund 25
State Deferred Compensation Plan (457b Plan) 35
Assigned Risk Plan 38
Permanent School Fund 40
Environmental Trust Fund 42
Closed Landfill Investment Fund 44
Cash Management and Related Programs 45
Legislative Investment Initiatives 47
Investment Restrictions 49
Proxy Voting 51
Investment Manager Summaries 54
Trading Data 83
Section II 93
Auditor's Report 94
Financial Statements 96
Footnotes to Financial Statements 98
Retirement Plans Statements 104
Non Retirement Funds Statements 122
Manager Fees 124

This annual report can be accessed on our website at www.sbi.state.mn.us

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December, 2010

The Minnesota State Board of Investment (SBI) is pleased to present its report for the fiscal year ending June 30, 2010.

Investment Environment

During fiscal year 2010, the U.S. equity markets returned 15.7% as measured by the Russell 3000 Index. Equity markets rallied during the first three quarters of the year as the economy showed signs of recovery. During the fourth quarter, macroeconomic fears returned with the potential sovereign debt crisis in Europe, fear of a continued economic slowdown in China, continued high unemployment in the U.S. and uncertainty over increased regulation.

The Morgan Stanley Capital International (MSCI) All Country World Index excluding the United States (ACWI ex U.S.), which represents the developed and emerging international markets outside the U.S., returned 10.4% for the fiscal year. The international markets rallied early, but were also affected by the potential sovereign debt crisis and fears of economic slowdown throughout the world.

The U.S. bond market, as measured by the Barclays Capital Aggregate Bond Index, rose 9.5% during the fiscal year. As the economy showed signs of recovery during the first three quarters of the fiscal year, the bond market rallied. The rally ended in the fourth quarter due to the European debt concerns, and uncertainty over financial reforms.

Fiscal Year 2010 Changes and Results

At the end of fiscal year 2010, the operations of the Minneapolis Employees Retirement Fund (MERF) were merged into PERA. For more details on the merger, see page 5.

SBI Results

Within this investment environment, the retirement assets under the Board's control performed as follows:

- The Combined Funds returned 15.2% during fiscal year 2010. Over the latest ten year period, the Funds experienced an annualized return of 2.9%. (See page 8.)

On June 30, 2010, assets under management totaled $52.5 billion. This total is the aggregate of numerous separate pension funds, trust funds and cash accounts, each with different investment objectives. In establishing a comprehensive management program, the Board develops an investment strategy for each fund which reflects its unique requirements. **The primary purpose of this annual report is to communicate the investment goals, policies and performance of each fund managed by the Board.** Through the investment programs presented in this report, the Minnesota State Board of Investment seeks to enhance the management and performance of the assets under its control.

Sincerely,

Howard Bicker

Howard Bicker
Executive Director

State Board of Investment

Governor Tim Pawlenty, Chair
State Auditor Rebecca Otto
Secretary of State Mark Ritchie
State Attorney General Lori Swanson

Investment Advisory Council

The Legislature has established a seventeen member Investment Advisory Council (IAC) to advise the Board and its staff on investment-related matters.

The mission statement of the IAC is: The IAC fulfills its statutory duty to the SBI by providing advice and independent due diligence review of the investment policy and implementation recommendations that guide the SBI's investment of assets.

The Board appoints ten members experienced in finance and investment. These members traditionally have come from the Minneapolis and St. Paul corporate investment community.

The Commissioner of Minnesota Management & Budget and the Executive Directors of the three statewide retirement systems are permanent members of the Council.

Two active employee representatives and one retiree representative are appointed to the Council by the Governor.

All proposed investment policies are reviewed by the IAC before they are presented to the Board for action.

Members of the Council

Jeffery Bailey, Chair
Director, Benefits Finance
Target Corporation

Malcolm W. McDonald
Vice Chair
Director & Corporate Secretary (Retired)
Space Center, Inc.

Frank Ahrens, II
Governor's Appointee
Active Employee Representative

David Bergstrom
Executive Director
Mn. State Retirement System

John E. Bohan
V.P., Pension Investments (Retired)
Grand Metropolitan- Pillsbury

Kerry Brick
Manager, Pension Investments
Cargill, Inc.

Dennis Duerst
Director, Benefits Funds Investment
3M Company

Douglas Gorence
Chief Investment Officer
U of M Foundation Investment Advisors

Laurie Fiori Hacking
Executive Director
Teachers Retirement Association

Tom Hanson
Commissioner
Minnesota Management & Budget

Heather Johnston
Governor's Appointee
Active Employee Representative

P. Jay Kiedrowski
Senior Fellow
Humphrey Institute
University of MN

LeRoy Koppendrayer
Governor's Appointee
Retiree Representative

Judith W. Mares
Chief Investment Officer
ATK

Gary Martin
V.P., Pension Investments
SUPERVALU, Inc.

Gary R. Norstrem
Treasurer, (Retired)
City of St. Paul

Mary Vanek
Executive Director
Public Employees Retirement Association

As of November 2010

Staff, Consultants & Custodians

Howard Bicker
Executive Director

Teresa J. Richardson
Assistant Executive Director

Investment Staff

Public Equities
Tammy Brusehaver
Mgr., Domestic Equity

Patricia Ammann
Portfolio Mgr., Domestic Equity

Stephanie Gleeson
Mgr., International Equity

Fixed Income and Internal Investments
Michael J. Menssen
Mgr., Long-Term Debt

John J. Kirby
Portfolio Mgr., Long-Term Debt

Alternative Assets
John N. Griebenow
Mgr., Alternative Investments

Michael McGirr
Portfolio Mgr., Alternative Investments

Cash Management
Steven Kuettel
Mgr., Short-Term Debt

Terrence Larsen
Analyst, Short-Term Debt

Public Programs
James E. Heidelberg
Mgr., Public Programs

Deborah Griebenow
Analyst, Shareholder Services

Administrative Staff

Finance and Accounting
Steve Schugel
Administrative Director

William J. Nicol
Accounting Director

Kathy Leisz
Information Technology Specialist

Nancy L. Wold
Accounting Officer, Senior

Wendy Murphy
Accounting Officer, Intermediate

Jason White
Accounting Officer, Intermediate

Support Services
Charlene Olson
Administrative Assistant to the Executive Director

Carol Nelson
Office Administrative Specialist, Senior

Melissa Mader
Office Administrative Specialist

Consultants

General Consultant
Nuveen Investment Solutions, Inc.
Chicago, Illinois

Special Projects Consultant
Pension Consulting Alliance
Studio City, California

Custodian Banks

Retirement and Trust Funds
State Street Bank & Trust Co.
Boston, Massachusetts

State Cash Accounts
Wells Fargo & Company
St. Paul, Minnesota

As of November 2010

Introduction

The Minnesota State Board of Investment is responsible for the investment management of various retirement funds, trust funds and cash accounts. On June 30, 2010, the market value of all assets was $52.5 billion.

Constitutional and Statutory Authority

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

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

Prudent Person Rule

The prudent person rule, as codified in *Minnesota Statutes* Section 11A.09, requires all members of the Board, Investment Advisory Council, and SBI staff to *"...act in good faith and ...exercise that degree of judgment and care, under circumstances then prevailing, which persons of prudence, discretion and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the probable safety of their capital as well as the probable income to be derived therefrom." Minnesota Statutes* Section 356A.04 contains similar codification of the prudent person rule applicable to the investment of pension fund assets.

Authorized Investments

In addition to the prudent person rule, *Minnesota Statutes* Section 11A.24 contains a specific list of asset classes available for investment including common stocks, bonds, short term securities, real estate, private equity, and resource funds. The statutes prescribe the maximum percentage of fund assets that may be invested in various asset classes and contain specific restrictions to ensure the quality of the investments.

Investment Policies

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

The Board, its staff, and the Investment Advisory Council have conducted detailed analyses that address investment objectives, asset allocation policy and management structure of each of the funds under the SBI's control. The studies guide the on-going management of these funds and are updated periodically.

Important Notes

Readers should note that the SBI's returns in this report are shown ***after*** transactions costs and fees are deducted. Performance is computed and reported after all applicable charges to assure that the Board's focus is on true net returns.

Due to the large number of individual securities owned by the funds managed by the SBI, this report does not include asset listings. **A complete list of securities is available upon request from the State Board of Investment.**

Funds Under Management

		Market Value June 30, 2010*
Combined Funds		***$40.5 billion***

The Combined Funds represent the assets for both the active and retired public employees in ten statewide retirement plans:

Teachers Retirement Fund	$14.9 billion	
Public Employees Retirement Fund	11.3 billion	
State Employees Retirement Fund	7.7 billion	
Public Employees Police and Fire Fund	4.4 billion	
Correctional Employees Fund	524 million	
Highway Patrol Retirement Fund	488 million	
Public Employees Correctional Fund	209 million	
Judges Retirement Fund	126 million	
Legislative Retirement Fund	20 million	
Public Employees MERF Division	831 million	

Supplemental Investment Fund (SIF) — ***$1.0 billion***

The Supplemental Investment Fund includes assets of the unclassified state employees retirement plan, other defined contribution retirement plans, and various retirement programs for local police and firefighters. Participating plans use one or more of the eight accounts which have different investment objectives designed to meet a wide range of needs and objectives.

Note: Numbers below do not include $1.2 billion of State Deferred Compensation dollars, which are invested in the Supplemental Investment Fund but are included in the $3.4 billion total for the State Deferred Compensation Plan.

Income Share Account	stocks and bonds	$216 million
Common Stock Index Account	passively managed stocks	195 million
Growth Share Account	actively managed stocks	99 million
Bond Market Account	actively managed bonds	128 million
International Share Account	non-U.S. stocks	104 million
Fixed Interest Account	stable value investments	121 million
Money Market Account	short-term debt securities	163 million
Volunteer Firefighter Account	stocks and bonds	0.8 million

State Deferred Compensation Plan — ***$3.4 billion***

The State Deferred Compensation Plan offers eleven mutual funds, a money market fund, and a fixed interest (stable value) fund.

Non-Retirement Funds — ***$2.0 billion***

Assigned Risk Plan — $306 million

The Minnesota Workers Compensation Assigned Risk Plan provides worker compensation insurance for companies unable to obtain coverage through private carriers.

Permanent School Fund — $674 million

The Permanent School Fund is a trust established for the benefit of Minnesota public schools.

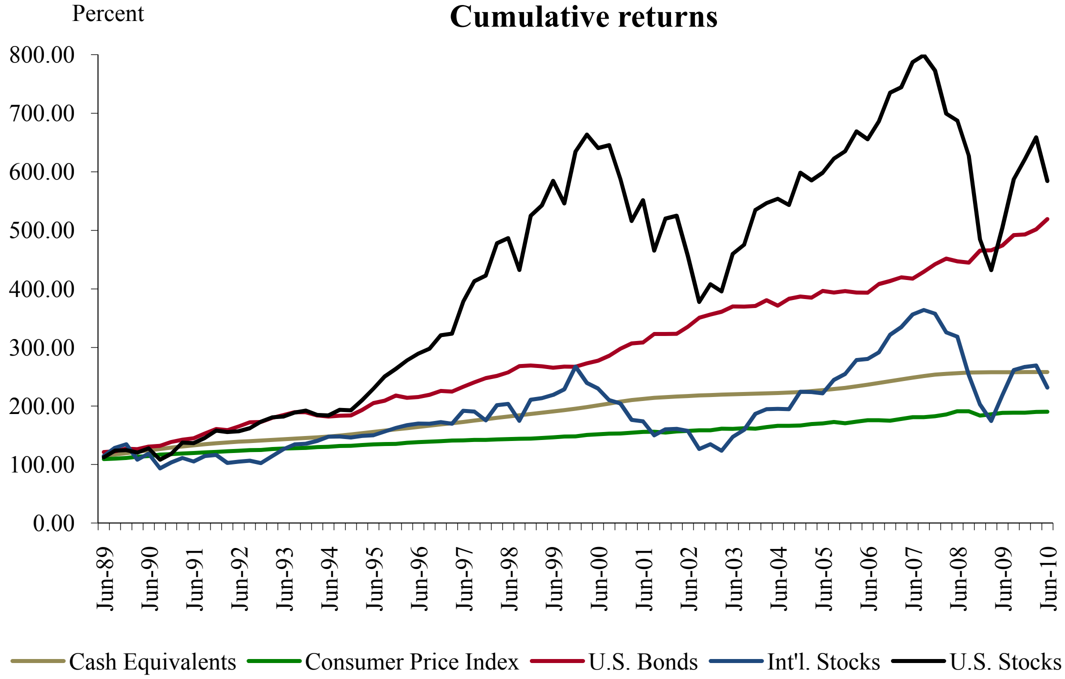
Funds Under Management

		Market Value June 30, 2010*
Environmental Trust Fund The Environmental Trust Fund is a trust established for the protection and enhancement of Minnesota's environment. It is funded with a portion of the proceeds from the state's lottery.	$461 million	
Other Post Employment Benefits Accounts (OPEB'S) These accounts are the assets set aside by local units of government for the payment of retiree benefits trusteed by the Public Employees Retirement Association.	$230 million	
Miscellaneous Accounts	$363 million	
State Cash Accounts These accounts are the cash balances of state government funds, including the Invested Treasurers Cash Fund, transportation funds, and miscellaneous cash accounts. Assets are invested in high quality, liquid, debt securities.		***$5.5 billion***
Total Assets Under SBI Management*		***$52.5 billion***

* Totals may not add due to rounding.

Figure 1.

PERFORMANCE OF CAPITAL MARKETS
Cumulative returns



Period Ending 6/30/2010

	1 Yr.	3 Yr.	5 Yr.	10 Yr.
Domestic Equity				
Russell 3000 Index	15.7%	-9.5%	-0.5%	-0.9%
Domestic Fixed Income				
Barclays Capital Aggregate (1)	9.5	7.5	5.5	6.5
Barclays Capital Gov't./Corp.	9.7	7.4	5.3	6.5
3 month U.S. Treasury Bills	0.1	1.3	2.6	2.5
International				
EAFE (2)	5.9	-13.4	0.9	0.2
Inflation Measure				
Consumer Price Index CPI-U (3)	1.1	1.5	2.2	2.3

(1) Barclays Capital Aggregate Bond index. Includes governments, corporates and mortgages.

(2) Morgan Stanley Capital International index of Europe, Australasia and the Far East (EAFE). (Net index)

(3) Consumer Price Index (CPI) for all urban consumers, also known as CPI-U.

Combined Funds

The Combined Funds represent the assets of both active and retired public employees who participate in the defined benefit plans of three state-wide retirement systems: Teachers Retirement Association (TRA), Public Employees Retirement Association (PERA) and the Minnesota State Retirement System (MSRS). On June 30, 2010, the Combined Funds covered 525,000 active and retired employees and had a market value of $40.5 billion.

Background

Through the end of fiscal year 2009, the retirement assets under the authority of the Minnesota State Board of Investment were managed and accounted for (as specified in statute) as two pools of assets, with distinct asset allocation policies. One pool of assets, the Basic Retirement Funds (Basics), was made up of the assets of active employees, and the other pool of assets, the Post Retirement Fund (Post), was made up of assets of retired employees. The funds previously were "combined" for reporting and comparison purposes only.

The 2008 Legislature enacted legislation that established specific minimum funding levels for the Post Retirement Fund. The legislation mandated that if the funding level of the Post fell below 80 percent, the Post and Basic Funds would merge at the end of the following fiscal year. This event was triggered, and the Post was merged with the Basics on June 30, 2009. In order to effect this transaction on June 30th, as required by the legislation, the Post was transferred using a value as of the close of business on June 29, 2009. As a result, the Post had a market value of $0 as of the last day of the fiscal year, June 30, 2009. Beginning July 1, 2009, the assets are managed and reported on as one pool defined in statute as the Combined Funds.

The 2010 Legislature enacted legislation that merged the Minneapolis Employees Retirement Fund (MERF) operations into the Public Employees Retirement Association (PERA), effective June 30, 2010. The MERF accounts became one account identified as the MERF Division within PERA. MERF's assets were invested in the Combined Funds on June 30, 2010. Figure 2 identifies the ten different retirement funds which comprise the Combined Funds.

Investment Objectives

One overriding responsibility of the State Board of Investment (SBI) with respect to the management of the Combined Funds is to ensure that sufficient funds are available to finance promised benefits.

Actuarial Assumed Return

Employee and employer contribution rates are specified in state law as a percentage of an employee's salary. The rates are set so that contributions plus expected investment earnings will cover the projected cost of promised pension benefits. In order to meet these projected pension costs, the Combined Retirement Funds must generate investment returns of at least 8.5% on an annualized basis, over time.

Time Horizon

Normally, pension assets will accumulate in the Combined Funds for 30 to 40 years during an employee's years of active service. A typical retiree can be expected to draw benefits for an additional 15 to 20 years. This

Figure 2. Composition of Combined Funds as of June 30, 2010

Teachers Retirement Fund	36.8%
Public Employees Retirement Fund	27.9
State Employees Retirement Fund	19.0
Public Employees Police and Fire Fund	11.0
Correctional Employees Fund	1.3
Highway Patrol Retirement Fund	1.2
Legislative Retirement Fund	0.1
Judges Retirement Fund	0.3
Public Employees Correctional Fund	0.5
Public Employees MERF Division	2.1
Total*	100.0%

* Total may not add due to rounding.

provides the Combined Funds with a long investment time horizon and permits the Board to take advantage of the long run return opportunities offered by common stocks and other equity investments in order to meet the actuarial return target.

Benefit Increase

Prior to the merger of the Basic and Post Funds, a benefit increase was calculated based on an inflation component and an investment return component. (See prior annual reports for a complete description.)

The 2010 Legislature enacted legislation that temporarily reduces cost of living adjustments and increases contribution rates for retirement plans covered under Teachers Retirement Association, Public Employees Retirement Association and the Minnesota State Retirement System. These changes vary by plan and the cost of living adjustments are no longer related to investment performance. More information is available through each retirement organization.

Asset Allocation

The allocation of assets among stocks, bonds, alternative investments and cash has a dramatic impact on investment results. In fact, asset allocation decisions overwhelm the impact of individual security selection within a total portfolio. The asset allocation of the Combined Funds is reviewed periodically.

As illustrated in Figure 1, historical evidence indicates that U.S. common stocks will provide the greatest opportunity to maximize investment returns over the long-term. As a result, the Board has chosen to incorporate a large commitment to common stocks in the asset allocation policy for the retirement funds. In order to limit the short run volatility of returns exhibited by common stocks, the Board includes other asset classes such as bonds, real estate, and resource investments in the total portfolio. This diversification is intended to reduce wide fluctuations in investment returns on a year to year basis and should not impair the Funds' ability to meet or exceed the actuarial return target over the long-term.

Long-Term Allocation Policy

The Combined Funds has a policy asset allocation which differs somewhat from the historic policy asset allocation of either the Basics or the Post. It is based on the investment objectives of the Combined Funds and the expected long run performance of the capital markets. The policy asset allocation of the Combined Funds was approved by the Board in December 2008, and is as follows:

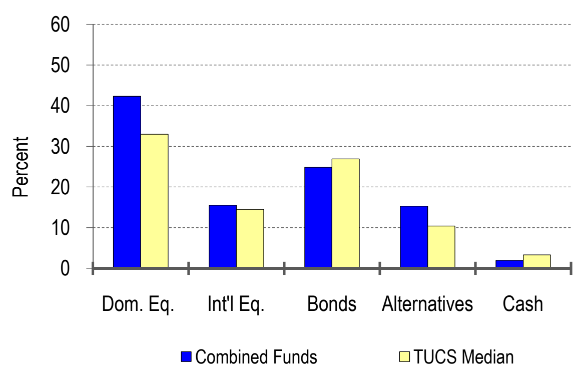
Domestic Stocks	45%
International Stocks	15
Bonds	18
Alternative Assets	20
Unallocated Cash	2

The unfunded allocation to alternative investments is held in bonds until it is needed for investment. As a result, the actual amount invested in bonds at any time can be above the target allocation.

Figure 3 presents the actual asset mix of the Combined Funds at the end of fiscal year 2010. Historical asset mix data are displayed in Figure 4.

Historically, there have been changes to the policy asset allocations of both the Basics

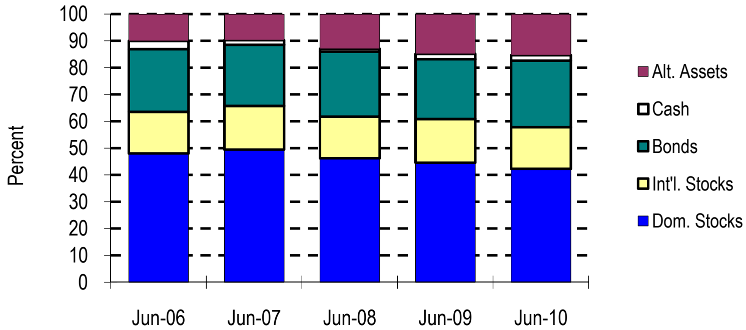
Figure 3. Combined Funds Asset Mix Comparison as of June 30, 2010



	Combined Funds	Median Allocation in TUCS*
Domestic Equity	42.3%	33.0%
International Equity	15.5	14.5
Bonds	24.9	26.9
Alternatives**	15.3	10.4
Cash	2.0	3.3

* Represents the median allocation by asset class, and does not add to 100%.
** TUCS may include assets other than alternatives.

Figure 4. Combined Funds Historical Asset Mix FY 2006-2010



and Post Funds. During fiscal year 2004 the Board revised its long term asset allocation targets for the Post Fund. The allocation target for alternative investments in the Post Fund was increased from 5% to 12%, while decreasing domestic equity from 50% to 45% and decreasing fixed income from 27% to 25%. At that time, the Board also provisionally revised the asset allocation targets for the Basic Funds. Upon the Post Fund achieving its alternative investment target, the Basics Funds' alternative allocation target was authorized to increase from 15% to 20% by decreasing the fixed income target from 24% to 19%. This allocation change to the Basic Funds was triggered and became effective July 1, 2008.

Additionally, in fiscal year 2004, the Basic Funds were authorized to invest in yield-oriented investments in alternative assets and the Post Fund was authorized to invest in private equity, real estate and resource investments, as well as yield-oriented investments, as part of the allocation to alternative investments.

Asset Mix Compared to Other Pension Funds

The Board finds it instructive to review asset mix and performance of the Combined Funds relative to other pension fund investors. The comparison universe used by the SBI is the Master Trust portion of the Trust Universe Comparison Service (TUCS). This universe contains information on public and corporate pension and trust funds with over $1 billion and a diversified asset mix.

It is important to note that the historical data on the Combined Funds presented in this report reflect only the Basic Retirement Funds through fiscal year 1993. Both the Basic and Post Funds are included in the data for the Combined Funds after that date.

This distinction is necessary due to the different asset allocation strategies employed by the two funds in the past. The Basic Funds have always been managed to maximize total rates of return over the long-term and, therefore, the asset allocation has historically included a substantial stock segment. In contrast, until the post retirement benefit increase formula was changed in 1993, the Post Retirement Fund was managed to maximize current income which necessitated a large commitment to bonds. As a result, the investment goals of the two funds were incompatible for analytical purposes until fiscal year 1994.

Comparisons of the Combined Funds' actual asset mix to the median allocation to stocks, bonds and other assets of the funds in TUCS on June 30, 2010 are also displayed in Figure 3. The Combined Funds were overweighted in domestic equities, international equities, and alternative investments relative to the median allocation in TUCS, and were underweighted in bonds and cash.

Total Return Vehicles

The SBI invests the majority of the Combined Funds' assets in ***common stocks*** (both domestic and international.) A large allocation is consistent with the investment time horizon of the Combined Funds and the advantageous long-term risk-return characteristics of common stocks. Including international stocks in the asset mix allows the SBI to diversify holdings across world markets and offers the opportunity to enhance returns and reduce the volatility of the total portfolio. The rationale underlying the inclusion of ***private equity*** (e.g., venture capital and buyouts) is similar.

The Board recognizes that this sizable policy allocation to common stock and private equity likely will produce more volatile portfolio returns than a more conservative policy focused on fixed income securities. It is understood that this policy may result in quarters, or even years, of disappointing results. Nevertheless, the long run return benefits of this policy are expected to compensate for the additional volatility.

Diversification Vehicles

The Board includes other asset classes in the Combined Funds to provide some insulation against highly inflationary or deflationary environments and to diversify the portfolio sufficiently to avoid excessive return volatility.

Real Estate and ***resource*** (oil and gas) investments provide an inflation hedge that other financial assets cannot offer. Under more normal financial conditions, such as low to moderate inflation, the returns on these assets are not highly correlated with common stocks. As a result, inclusion of these assets in the Combined Funds serves to dampen return volatility.

The allocation to ***bonds*** acts as a hedge against a deflationary economic environment. In the event of substantial deflation, high quality fixed income assets are expected to protect principal and generate significant capital gains. Bonds, like real estate and resource funds, under normal financial conditions, help to diversify the Combined Funds, thereby controlling return volatility.

Yield oriented alternative investments provide the opportunity for higher long term returns than those typically available from bonds yet still generate sufficient current income. Typically, these investments (e.g., subordinated debt, mezzanine debt, or resource income investments such as producing properties) are structured more like fixed income securities with the opportunity to participate in the appreciation of the underlying assets. While these investments may have an equity component, they display a return pattern more like a bond. Therefore, they will help reduce the volatility of the total portfolio, but should also generate higher returns relative to more traditional bond investments.

Investment Management

All assets in the Combined Funds are managed externally by investment management firms retained by contract. More information on the structure, management and performance of the various investment pools is included in the **Investment Pool** section of this report.

Return Objectives

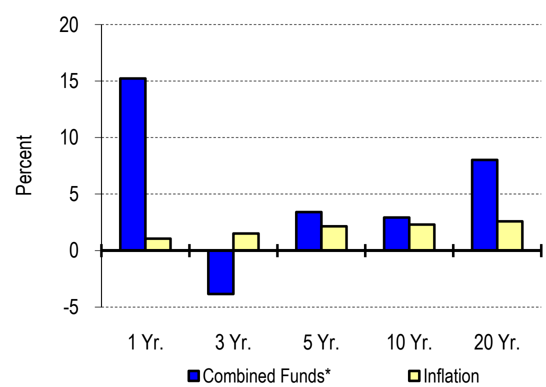
The Board measures the performance of the Combined Funds relative to the following total rate of return objectives:

— ***Provide Real Returns.*** Over a twenty year period, the Combined Funds are expected to produce returns that exceed inflation by 3-5 percentage points on an annualized basis.

— ***Match or Exceed Market Returns.*** Over a ten year period, the Combined Funds are expected to match or exceed a composite of market indices weighted using the asset mix of the Combined Funds.

Performance is reported net of all fees and costs to assure that the Board's focus is on true net return.

Figure 5. Combined Funds Performance vs. Inflation



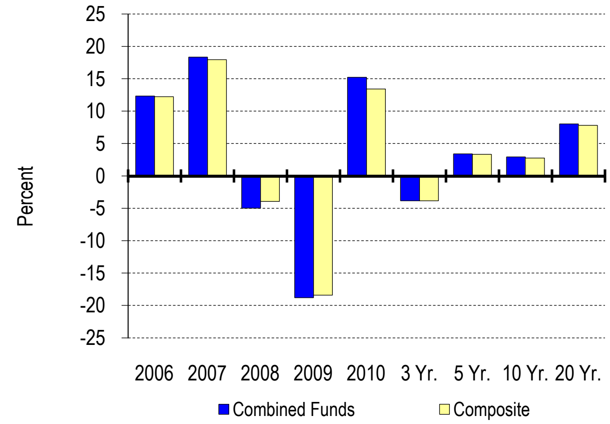
	1 Yr.	3 Yr.	5 Yr.	Annualized 10 Yr.	20 Yr.
Combined Funds*	**15.2%**	**-3.8%**	**3.4%**	**2.9%**	**8.0%**
Inflation	1.1	1.5	2.2	2.3	2.6

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

Combined Funds

Investment Results

Figure 6. Combined Funds Performance vs. Composite Index FY 2006-2010



						Annualized			
	2006	**2007**	**2008**	**2009**	**2010**	**3 Yr.**	**5 Yr.**	**10 Yr.**	**20 Yr.**
Combined Funds*	**12.3%**	**18.3%**	**-5.0%**	**-18.8%**	**15.2%**	**-3.8%**	**3.4%**	**2.9%**	**8.0%**
Composite Index	12.2	18.0	-3.9	-18.4	13.4	-3.9	3.3	2.8	7.8

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

Figure 7. Composite Index for Period Ending on June 30, 2010

Asset Class	**Market Index**	**Composite Index Wts. ***
Domestic Stocks	Russell 3000	45.0%
Int'l Stocks	MSCI ACWI Free ex. U.S.	15.0
Domestic Bonds	Barclays Capital Aggregate	24.1
Alternative Investments	Alternative Investments	14.9
Unallocated Cash	3 Month T-Bills	1.0
Total		100.0%

* Weights are reset in the composite at the start of each month to reflect the combined allocation policies of the Combined Funds.

Comparison to Inflation

Over the last twenty years, the Combined Funds exceeded inflation by 5.4 percentage points. Historical results compared to inflation are shown in Figure 5.

Comparison to Market Returns

The Combined Funds' performance is also evaluated relative to a composite of market indices which is weighted in a manner that reflects the actual asset allocation of the Combined Funds. Performance relative to this standard will measure two effects:

— The ability of the managers selected by the SBI, in aggregate, to add value to the returns available from the broad capital markets.

— The impact of the SBI's re-balancing activity. The SBI rebalances the total fund when market movements take the stock (domestic and international,) bond, or cash segments above or below long term asset allocation targets. This policy imposes a low risk discipline of "buy low-sell high" among asset classes on a total fund basis.

Performance results and a breakdown of the composite index are shown in Figures 6 and 7. The Combined Funds exceeded the composite index over the last ten years by 0.1% and, therefore, met the stated performance goal. The Funds exceeded the composite index by 0.1 percentage points over the last five years and by 1.8 percentage points over the most recent fiscal year. These results are largely a measure of value added or lost from active management after all fees and expenses have been taken into consideration.

Comparison to Other Funds

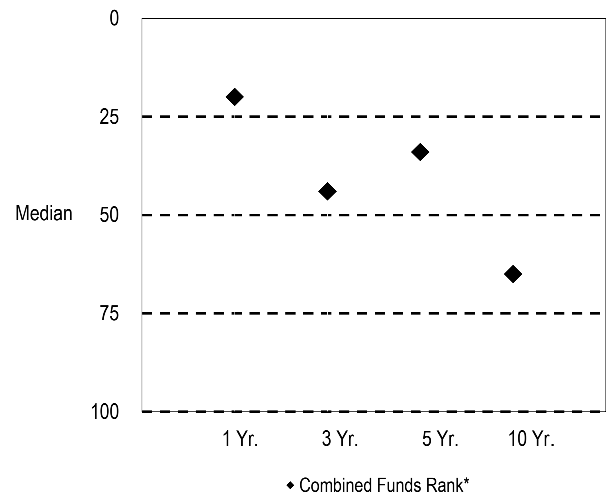
While the SBI is concerned with how its returns compare to other pension investors, universe comparison data should be used with great care. There are two primary reasons why such comparisons will provide an "apples-to-oranges" look at performance:

— ***Differing Allocations.*** Asset allocation has a dominant effect on returns. The allocation to stocks among the funds in TUCS typically ranges from 20-90%, a wide range for meaningful comparison. In addition, it appears that many funds do not include alternative asset holdings in their reports to TUCS. This further distorts comparisons among funds.

— ***Differing Goals/Liabilities.*** Each pension fund structures its portfolio to meet its own liabilities and risk tolerance. This may result in different choices on asset mix. Since asset mix will largely determine investment results, a universe ranking may not be relevant to a discussion of how well a plan sponsor is meeting its long-term liabilities.

With these considerations in mind, the performance of the Combined Funds compared to other public and corporate pension funds with over $1 billion in assets in the Master Trust portion of TUCS is displayed in Figure 8. It shows that the Combined Funds have ranked above the median over the last one, three and five year periods but below the median over the last ten year period.

Figure 8. Combined Funds Performance Compared to Other Pension Funds



	Annualized			
	1 Yr.	**3 Yr.**	**5 Yr.**	**10 Yr.**
Combined Funds Percentile Rank in TUCS*	20th	44th	34th	65th

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

Investment Pools

To gain greater operating efficiency, external managers are grouped into several "Investment Pools" which are segregated by asset class. The various retirement funds participate in one or more of the pools corresponding to their individual asset allocation strategies.

The Combined Funds and Supplemental Investment Fund share many of the same stock and bond managers. This sharing is accomplished by grouping managers by asset class into several Investment Pools. The individual funds participate in the Investment Pools by purchasing "units" which function much like shares of a mutual fund.

This investment management structure allows the State Board of Investment (SBI) to gain greater operating efficiency within asset classes and to keep management costs as low as possible for all participants.

Domestic Stock Pool

The Domestic Stock Pool was established in January 1984. The funds that participate in the pool are the Combined Funds and some of the Supplemental Funds including the Growth Share Account, Common Stock Index Account, and the stock portion of the Income Share Account.

The following are the dollar values as of June 30, 2010 of each fund's participation in the Pool:

Combined Funds (active, passive and semi-passive)	$17.1 billion
Growth Share Account (active and semi-passive)	$99 million
Common Stock Index Account (passive)	$195 million
Stock portion of the Income Share Account (passive)	$126 million

Management Structure

The SBI uses three styles of management to invest the assets of the Domestic Stock Pool:

— ***Active Management.*** At the end of fiscal year 2010, approximately 25% of the Domestic Stock Pool was actively managed by a group of 21 external money managers. The assets allocated to each of the managers ranged from $50 million to $350 million.

— ***Semi-Passive Management.*** At the end of fiscal year 2010, approximately 36% of the Domestic Stock Pool was managed by a group of four semi-passive external money managers with portfolios ranging from $885 million to $2.3 billion.

— ***Passive Management.*** At the end of fiscal year 2010, approximately 39% of the Stock Pool was managed passively by a single manager with a portfolio of $6.8 billion.

The goal of the Domestic Stock Pool is to outperform the asset class target, which is the Russell 3000 Index, over time. The Russell 3000 Index can be segmented into sub-indexes or Russell style indexes.

Assets of the Pool are allocated based on the Russell style indexes in proportion to the style weighting within the Russell 3000. Assets within each style are then allocated to managers within the designated style. This allocation is done to minimize the style bias within the Pool.

Each **active manager** is expected to add value over the long run relative to the Russell style index which reflects its investment approach or style.

The **semi-passive managers** are expected to add incremental value relative to the Russell 1000 Index. However, they employ a strategy that more closely tracks the benchmark than active management and are generally more consistent at generating modest excess returns.

The **passive manager** in the Domestic Stock Pool manages its portfolio to consistently and inexpensively track the Russell 3000 index.

A description of each domestic stock manager's investment approach is included in the **Investment Manager Summaries** section.

FY 2010 Changes

During fiscal year 2010 there were several changes made to the domestic stock manager structure. One actively managed small cap value portfolio was liquidated when the manager, RiverSource Investments LLC/Kenwood Capital, discontinued normal business operations at the end of July 2009. Additionally, Mellon Capital was terminated from managing a portion of the SBI's active large cap core portfolio in December 2009 due to organizational concerns, loss of assets and performance. Mellon continues to manage a semi-passive portfolio. INTECH Investment Management was hired in April 2010 to manage a semi-passive portfolio. The Semi-Passive mandate is a significant portion of the domestic equity program. The addition of a fourth manager will provide additional flexibility and diversification within the semi-passive management structure.

Investment Performance

A comprehensive monitoring system has been established to ensure that the many elements of the Domestic Stock Pool conform to the SBI's investment policies. Published performance benchmarks are used for each domestic stock manager. These benchmarks enable the SBI to evaluate the managers' results, both individually and in aggregate, with respect to risk incurred and returns achieved.

Two primary long-term ***risk objectives*** have been established for the domestic stock managers:

— ***Investment Approach.*** Each manager (active, semi-passive, or passive) is expected to hold a portfolio that is consistent, in terms of risk characteristics, with the manager's stated investment approach. In the short run, market fluctuations may result in a departure from the active manager's risk targets as part of their specific investment strategies.

— ***Diversification.*** The passive and semi-passive managers are expected to hold highly diversified portfolios, while each active domestic stock manager may hold a more concentrated portfolio, appropriate for the particular investment strategy and style.

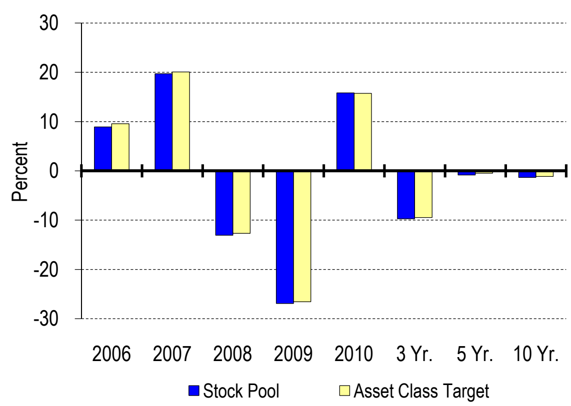
The domestic stock managers successfully fulfilled their long-term risk objectives during fiscal year 2010. In general, the managers constructed portfolios consistent with their stated investment approaches and maintained levels of diversification that were appropriate for their respective active, semi-passive and passive approaches.

The Board's ***return objectives*** for active and semi-passive stock managers are measured against the published Russell style indices that represent the managers' specific investment approaches. These indices take into account the equity market forces that impact certain investment styles. Thus, a Russell style index or benchmark is a more appropriate return target against which to judge a manager's performance than a broad market index.

Active managers are expected to exceed their benchmark by an amount appropriate for their active risk level. This active risk level varies by manager and is influenced by the manager's stated strategy and style.

In aggregate, the Domestic Stock Pool outperformed the Russell 3000 Index by 0.1 percentage point for the fiscal year. The active and passive manager groups outperformed their respective benchmarks.

Figure 9. Domestic Stock Pool Performance FY 2006-2010



	2006	2007	2008	2009	2010	Annualized 3 Yr.	5 Yr.	10 Yr.
Stock Pool	**8.9%**	**19.7%**	**-13.1%**	**-26.9%**	**15.8%**	**-9.7%**	**-0.8%**	**-1.3%**
Asset Class Target*	9.6	20.1	-12.7	-26.6	15.7	-9.5	-0.5	-1.1

* Reflects the Russell 3000 since 10/1/2003; the Wilshire 5000 Investable from 7/1/1999 thru 9/30/03.

Investment Pools

Relative to the aggregate benchmark, the outperformance of the active manager group was a combination of sector allocation and strong stock selection, primarily in Technology and Consumer Discretionary. The semi-passive managers underperformed their respective benchmark, the Russell 1000. The majority of the underperformance came from negative stock selection.

Figure 9 provides more detail on the historical performance of the entire pool. Manager performance relative to the respective benchmarks for the fiscal year end was mixed. Thirteen of 21 active managers outperformed their assigned benchmarks and eight managers underperformed. Of the semi-passive managers that were funded over the full fiscal year, two managers underperformed and one manager outperformed the Russell 1000. The passive manager's tracking error was positive for the year versus its target, the Russell 3000 Index. Individual manager performance is shown in Figure 10. Aggregate portfolio sector information is included in Figure 11.

Figure 10. Domestic Stock Manager Performance For Period Ending June 30, 2010

	1 Year Actual %	1 Year Bmk %	3 Years Actual %	3 Years Bmk %	5 Years Actual %	5 Years Bmk %	Market Value (in millions)
Active Managers							
Large Cap Core (Russell 1000)							
New Amsterdam Partners	7.2	15.2	-10.7	-9.5	-2.6	-0.6	294.8
UBS Global Asset Management	15.8	15.2	-11.0	-9.5	-1.1	-0.6	293.7
Large Cap Growth (Russell 1000 Growth)							
AllianceBernstein L.P.	10.3	13.6	-7.8	-6.9	-0.8	0.4	229.2
INTECH	16.3	13.6	-8.6	-6.9	-1.3	0.4	261.7
Jacobs Levy Equity Mgmt.	16.0	13.6	-9.6	-6.9	-2.4	0.4	230.9
Knelman Asset Mgmt.	10.5	13.6	-8.6	-6.9	-0.1	0.4	48.7
Sands Capital Mgmt.	25.9	13.6	-2.6	-6.9	1.1	0.4	206.1
Winslow Capital Mgmt.	11.8	13.6	-5.3	-6.9	2.3	0.4	105.5
Zevenbergen Capital	20.4	13.6	-3.5	-6.9	4.3	0.4	249.7
Large Cap Value (Russell 1000 Value)							
Barrow, Hanley	12.2	16.9	-12.2	-12.3	-2.6	-1.6	348.5
Earnest Partners	15.3	16.9	-10.0	-12.3	-0.6	-1.6	149.5
Lord Abbett & Co.	13.9	16.9	-10.4	-12.3	-0.8	-1.6	255.6
LSV Asset Mgmt.	17.6	16.9	-13.0	-12.3	-1.4	-1.6	333.2
Systematic Financial Mgmt.	17.2	16.9	-12.3	-12.3	-1.4	-1.6	241.5
Small Cap Growth (Russell 2000 Growth)							
McKinley Capital	20.1	18.0	-14.0	-7.5	-2.7	1.1	165.2
Next Century Growth	19.2	18.0	-9.2	-7.5	2.9	1.1	202.0
Turner Investment Partners	18.5	18.0	-7.4	-7.5	2.1	1.1	207.7
Small Cap Value (Russell 2000 Value)							
Goldman Sachs	26.7	25.1	-5.7	-9.8	2.1	-0.5	122.2
Hotchkis & Wiley	47.1	25.1	-10.4	-9.8	-2.9	-0.5	106.0
Martingale Asset Mgmt.	20.7	25.1	-14.0	-9.8	-5.4	-0.5	96.2
Peregrine Capital Mgmt.	32.9	25.1	-10.2	-9.8	-1.5	-0.5	171.5
Semi-Passive Managers (Russell 1000)							
BlackRock Institutional	13.1	15.2	-10.8	-9.5	-1.4	-0.6	2,086.4
INTECH							885.9
J.P. Morgan Investment Mgmt.	16.6	15.2	-8.6	-9.5	0.0	-0.6	2,349.0
Mellon Capital Mgmt.	13.8	15.2	-10.8	-9.5	-1.6	-0.6	1,101.1
Passive Manager (Russell 3000)							
BlackRock Institutional	16.1	15.7	-9.3	-9.5	-0.4	-0.5	6,803.3
Aggregate Domestic Stock Pool (1)	**15.8**	**15.7**	**-9.7**	**-9.5**	**-0.8**	**-0.5**	**17,545.2**
Asset Class Target							
Russell 3000		15.7		-9.5		-0.5	

(1) Aggregate represents Combined Funds performance and includes the performance of terminated managers.

Figure 11.

Domestic Stock Pool Allocations
Russell Global (US) Sector Weights
As of June 30, 2010

Russell Sector	Active Managers %	Semi-Passive Managers %	Passive Manager %	Aggregate Domestic Stock Pool %	Benchmarks Russell 3000 %	Benchmarks Russell 1000 %
Consumer Discretionary	15.7	12.3	12.3	13.1	12.6	12.3
Consumer Staples	3.6	8.8	8.6	7.4	8.7	9.2
Energy	9.0	11.1	10.6	10.4	10.8	11.3
Financial Services	15.7	15.6	16.1	15.8	16.4	16.0
Health Care	13.6	12.8	12.4	12.8	12.7	12.6
Materials and Processing	3.9	4.2	4.3	4.2	4.4	4.2
Producer Durables	10.8	10.2	10.7	10.6	11.0	10.7
Technology	18.7	17.6	16.7	17.5	17.1	17.1
Utilities	4.8	6.7	6.2	6.0	6.4	6.5
Cash	1.6	0.3	0.9	0.9	N/A	N/A
Unassigned*	2.6	0.5	1.1	1.2	N/A	N/A
Assigned Benchmark:	Varies	Russell 1000	Russell 3000	Russell 3000		

* Holding outside of benchmark.

Note: Totals may not add due to rounding.

Bond Pool

The Basic Retirement Funds have participated in the Bond Pool since its inception in July 1984. The Post Retirement Fund has participated in the Pool since July 1993. The funds merged to become the Combined Funds on June 30, 2009. In addition, the Bond Market Account in the Supplemental Investment Fund has utilized portions of the Pool since July 1986.

The following are the dollar values as of June 30, 2010 of each fund's participation in the Pool:

Combined Funds $10.1 billion
(active and semi-passive)

Bond Market Account $128 million
(active and semi-passive)

Investment Management
The SBI uses a two part approach for the management of the Bond Pool:

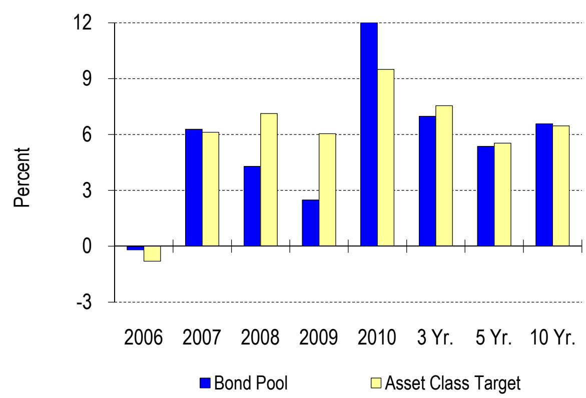
— ***Active Management.*** The target is to have no more than half of the Bond Pool managed actively. At the end of fiscal year 2010, approximately 49% of the Bond Pool was actively managed by five external investment managers with portfolios of $850 million to $1.2 billion each.

— ***Semi-Passive Management.*** The target is to have at least half of the assets of the Bond Pool managed semi-passively. At the end of fiscal year 2010, approximately 51% of the bond segment was invested by three managers with portfolios of approximately $1.7 billion each.

The group of ***active*** bond managers is retained for its blend of investment styles. Each active manager has the goal of outperforming the Barclays Capital Aggregate Bond Index by focusing on high quality fixed income securities across all sectors of the market. The managers vary, however, in the emphasis they place on interest rate anticipation (duration) and in the manner in which they approach security selection and sector weighting decisions. In keeping with the objective of utilizing the Bond Pool as a deflation hedge, the active managers are restricted regarding the duration of their portfolios. This requirement is designed to prevent the dilution of the deflation hedge of the total pool due to an excessively short duration position. In addition, the duration restriction helps to avoid extreme variability in total returns relative to the benchmark. The SBI constrains the duration range of the active managers' portfolios to a band of plus or minus two years around the duration of the Barclays Capital Aggregate. The active bond managers focus on high quality (BBB or better) rated bonds. Four managers have been granted authority to invest a limited portion of their portfolios in BB and B rated dollar denominated debt or in investment grade non-dollar denominated issues. The managers use this additional authority on a tactical basis.

The goal of the ***semi-passive*** managers is to add incremental value relative to the Barclays Capital Aggregate Bond Index through superior bond selection and sector allocation rather than through interest rate exposure. Semi-passive managers' portfolios are constrained to plus or minus 0.2 years around the

Figure 12. Bond Pool Performance FY 2006-2010



						Annualized		
	2006	**2007**	**2008**	**2009**	**2010**	**3 Yr.**	**5 Yr.**	**10 Yr.**
Bond Pool	**-0.2%**	**6.3%**	**4.3%**	**2.5%**	**14.5%**	**7.0%**	**5.4%**	**6.6%**
Asset Class Target*	-0.8	6.1	7.1	6.0	9.5	7.5	5.5	6.5

* The Bond Pool asset class target has been the Barclays Capital Aggregate Bond Index since July 1994.

duration of the Barclays Capital Aggregate. One manager has been granted authority to invest a limited portion of their portfolio in BB and B rated dollar denominated debt or in investment grade non-dollar denominated issues. The manager uses this additional authority on a tactical basis.

A description of each bond manager's investment approach is included in the **Investment Manager Summaries** section.

FY 2010 Changes
There were no changes to the bond program in fiscal year 2010.

Investment Performance
The SBI constrains the ***risk*** of the active bond managers' portfolios to ensure that they fulfill their deflation hedge and total fund diversification roles. As noted earlier, the managers are restricted in terms of the duration of their portfolios and the quality of their fixed income investments. The active and semi-passive bond managers successfully fulfilled their long-term risk objectives during fiscal year 2010. The managers constructed portfolios consistent with stated investment approaches and maintained appropriate levels of quality and duration.

The ***returns*** of each of the bond managers are compared to the Barclays Capital Aggregate. Individual active managers are expected to exceed the target net of fees by 0.25 percentage point annualized, over time, and each semi-passive manager is expected to exceed the target net of fees by 0.10 percentage point annualized, over time. In total, the pool outperformed the Barclays Capital Aggregate by 5.0% for the recent fiscal year. Relative to the benchmark, the pool benefited from underweighting Treasuries, overweighting mortgage-backed securities and overweighting the corporate bond sector. Performance over the long-term is satisfactory. The pool outperformed the asset class target by 0.10 percentage point over the ten year period ending June 30, 2010. In general, the managers had performed well over the long-term until the 2008 and 2009 fiscal years. The underperformance during this period was severe enough to drag long-term performance below the benchmark. However, the bond market rallied strongly in FY10, and the 5.0% outperformance that the Bond Pool generated pulled long-term performance back into positive territory. All active managers outperformed the benchmark for the fiscal year. The three semi-passive managers outperformed as well.

Figure 12 shows historical performance for the entire pool. Individual manager performance is shown in Figure 13. Aggregate portfolio sector and portfolio characteristics are shown in Figure 14.

Figure 13. Bond Manager Performance For Period Ending June 30, 2010

	1 Year		3 Years		5 Years		Market
	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Value (in millions)
Active Managers							
Aberdeen Asset Mgmt.	17.8	9.5	4.3	7.5	3.7	5.5	858.1
Columbia Mgmt.	12.4	9.5	6.4	7.5	5.1	5.5	917.9
Dodge & Cox Investment Mgmt.	13.5	9.5	8.2	7.5	6.4	5.5	1,029.3
PIMCO	17.1	9.5					1,025.4
Western Asset Mgmt.	16.7	9.5	7.0	7.5	5.5	5.5	1,193.2
Semi-Passive Managers							
BlackRock Financial Mgmt.	11.5	9.5	6.6	7.5	5.0	5.5	1,716.8
Goldman Sachs Asset Mgmt.	12.9	9.5	7.5	7.5	5.6	5.5	1,752.3
Neuberger Investment Mgmt.	15.4	9.5	8.0	7.5	5.8	5.5	1,696.3
Aggregate Bond Pool (1)	**14.5**	**9.5**	**7.0**	**7.5**	**5.4**	**5.5**	**10,189.4**
Asset Class Target							
Barclays Capital Aggregate		9.5		7.5		5.5	

(1) Aggregate represents Combined Funds performance and includes the performance of terminated managers.

Figure 14.

Bond Pool Sector Weights*
As of June 30, 2010

	Active Managers %	Semi-Passive Managers %	Aggregate Bond Pool %	Barclays Capital Benchmark %
Governments	23.1	28.8	25.9	42.3
Corporates	29.9	20.0	24.6	20.1
Mortgages	33.0	39.4	36.2	37.2
ABS	2.5	2.4	2.5	0.3
Miscellaneous	0.9	1.8	1.3	0.4
International**	6.9	6.4	6.6	5.6
High Yield	5.4	0.2	2.8	0.0
Cash	5.6	4.0	4.8	0.0

* May not equal 100% due to rounding and some bonds being included in more than one category.
** Includes Non-dollar denominated bonds as well as dollar-denominated Yankee bonds.

Portfolio Characteristics
As of June 30, 2010

	Active Managers %	Semi-Passive Managers %	Aggregate Bond Pool %	Barclays Capital Benchmark %
Average Quality	AA+	AAA	AA+	AAA
Average Coupon	4.55	4.21	4.38	4.46
Average Yield to Maturity	3.77	3.17	3.47	2.75
Effective Duration***	4.62	4.62	4.62	4.32
Weighted Average Life****	6.8 Yrs.	6.4 Yrs.	6.6 Yrs.	6.0 Yrs.

*** Measures the interest rate sensitivity of a bond. It is the approximation of the percentage price change of the bond per 100 bp increase or decrease in prevailing market interest rates. Effective duration takes into consideration how the cash flows of the bonds change when interest rates change. This measure is most appropriate for bonds (and portfolios) with optionality, such as callable bonds and mortgage bonds.

**** The weighted average life (WAL) of a bond is the average number of years for which each dollar of unpaid principal of a bond remains outstanding. Once calculated, WAL tells how many years it will take to pay half of the outstanding principal.

International Stock Pool

The SBI began its international stock program in October 1992. Historically, the Basic Retirement Funds participated in the International Stock Pool since its inception. The Post Retirement Fund began utilizing the Pool in October 1993. The funds merged to become the Combined Funds on June 30, 2009. The International Share Account in the Supplemental Investment Fund has participated in the Pool since September 1994.

The following are the dollar values as of June 30, 2010 of each fund's participation in the International Stock Pool:

Combined Funds	$6.3 billion
(active, passive and semi-passive)	
International Share Account	$104 million
(active, passive and semi-passive)	

Management Structure

Currently, the SBI uses three styles of management to invest the assets of the International Stock Pool:

— ***Active Management.*** The target is to have at least one-third of the International Stock Pool managed actively. At the end of fiscal year 2010, approximately 51% of the Pool was actively managed by a group of 10 external managers with portfolios ranging from $150 million to over $600 million each. Seven of these managers manage portfolios in the developed markets and three manage portfolios in the emerging markets.

— ***Semi-Passive Management.*** The target is to have no more than 33% of the International Stock Pool managed semi-passively. At the end of fiscal year 2010, 12% of the Pool was semi-passively managed by a group of three external managers with portfolios ranging from $206 million to $323 million each.

— ***Passive Management.*** The target is to have at least 25% of the International Stock Pool managed passively. At the end of fiscal year 2010, approximately 37% of the International Stock Pool was passively managed by a single manager with a portfolio of $2.4 billion.

The SBI began using the combined market capitalization weights of the Morgan Stanley Capital International (MSCI) developed and emerging markets indices as target weights for the developed versus emerging markets within the International Stock Portfolio. Seven of the ten ***active*** managers and the three ***semi-passive*** managers invest entirely in developed markets, and use a variety of investment approaches in an effort to maximize value added to the MSCI World ex U.S. index, over time. These managers address currency management as part of their investment process. Their views on currency may be factored into their country and security selection, or they may explicitly hedge currency exposure on an opportunistic basis, or seek to add value by actively managing currency positions.

Three of the ten ***active*** managers invest entirely in emerging markets. They are expected to add incremental value, over time, relative to the MCSI Emerging Markets Free index of markets in developing countries throughout the world.

The ***passive*** manager in the International Stock Pool designs its portfolio to consistently and inexpensively track the developed markets MSCI World ex U.S. index.

A description of each international stock manager's investment approach is included in the **Investment Manager Summaries** section.

FY 2010 Changes

There were no changes to the international stock program in fiscal year 2010.

Investment Performance

Similar to the Domestic Stock Pool, two long-term ***risk objectives*** have been established for the international equity managers:

— ***Investment Approach***. Each manager (active or passive) is expected to hold a portfolio that is consistent with the manager's stated investment approach.

— ***Diversification***. While the index manager is expected to hold a well diversified portfolio which closely tracks its target index and the semi-passive managers are expected to hold risk-adjusted portfolios which modestly outperform the index, each active manager is expected to hold a portfolio which represents their best ideas through active bets.

The international stock managers successfully fulfilled their long-term risk objectives during fiscal year 2010. In general, the managers constructed portfolios consistent with their stated investment approaches and maintained appropriate levels of diversification.

The Board's ***return objectives*** for the International Stock Program are stated relative to the Morgan Stanley Capital International (MSCI) indices.

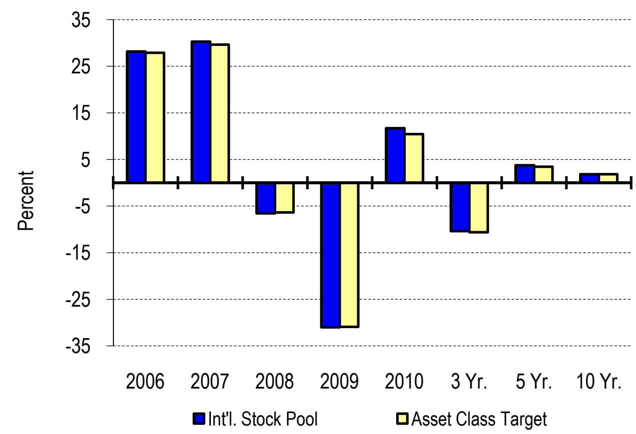
The indices are capitalization weighted and measured in U.S. dollar terms, with currencies unhedged. Individual active managers are expected to exceed their benchmark by an amount appropriate for their level of active risk. The active risk level varies by manager and is influenced by the manager's stated strategy and style.

Performance results for the International Stock Pool are shown in Figure 15. In aggregate, performance over the last ten year period exceeded the benchmark by 0.3 percentage point and performance over the last five year period exceeded the benchmark by 0.4 percentage point. The Pool outperformed the target by 1.3 percent for the fiscal year.

Individual manager performance during fiscal year 2010 is shown in Figure 16. The relative performance of the active managers was mixed. Five of the seven active developed markets managers outperformed their respective benchmarks for the year. Two of the three active emerging markets managers outperformed the MSCI Emerging Markets Free index. Two of the three semi-passive developed markets managers outperformed for the year. Finally, the passively managed portion of the program exceeded its benchmark by 0.8 percentage point for the year relative to the MSCI World ex U.S. index.

The International Stock Pool's country weights are displayed in Figure 17.

Figure 15. International Stock Pool Performance FY 2006-2010



	2006	2007	2008	2009	2010	Annualized 3 Yr.	5 Yr.	10 Yr.
Int'l. Stock Pool	**28.2%**	**30.3%**	**-6.6%**	**-31.0%**	**11.7%**	**-10.4%**	**3.8%**	**2.1%**
Asset Class Target*	27.9	29.6	-6.4	-30.9	10.4	-10.6	3.4	1.8

* MSCI All Country World Index (ACWI) ex U.S. since 10/1/03. Composite of EAFE-Free and Emerging Markets Free from 5/1/96 through 9/30/03.

Figure 16. International Manager Performance For Period Ending June 30, 2010

	1 Year Actual %	1 Year Bmk %	3 Years Actual %	3 Years Bmk %	5 Years Actual %	5 Years Bmk %	Market Value (in millions)
Active Managers							
Developed Mkts (MSCI World ex U.S. net) (1)							
Acadian Asset Mgmt.	9.7	7.0	-17.8	-12.5	0.4	1.5	275.3
Columbia Mgmt. Investment Advisers, LLC	6.9	7.0	-11.4	-12.5	1.9	1.5	213.4
Invesco Global Asset Mgmt.	5.0	7.0	-11.8	-12.5	1.4	1.5	238.0
J.P. Morgan Investment Mgmt. Co.	8.2	7.0	-11.6	-12.5	1.2	1.5	193.7
Marathon Asset Management	11.2	7.0	-8.4	-12.5	5.0	1.5	449.4
McKinley Capital Management	8.6	7.0	-16.5	-12.5	-0.1	1.5	190.1
Pyramis Global Advisors Trust Co.	9.5	7.0	-10.2	-12.5	3.0	1.5	215.4
Semi-Passive Managers							
Developed Mkts (MSCI World ex U.S. net) (1)							
AQR Capital Management	8.9	7.0	-13.2	-12.5	1.4	1.5	214.1
Pyramis Global Advisors Trust Co.	7.4	7.0	-12.1	-12.5	2.4	1.5	323.2
State Street Global Advisors	6.7	7.0	-14.2	-12.5	0.7	1.5	206.5
Active Managers							
Emerging Mkts (MSCI Emerging Markets Net) (2)							
AllianceBernstein L.P.	24.5	23.1	-5.1	-2.3	10.5	12.9	149.7
Capital International, Inc.	24.0	23.1	0.6	-2.3	16.3	12.9	696.6
Morgan Stanley Investment Mgmt.	21.4	23.1	-3.8	-2.3	12.9	12.9	647.2
Passive Manager							
Developed Mkts (MSCI World ex U.S. net) (1)							
State Street Global Advisors	7.8	7.0	-12.2	-12.5	1.8	1.5	2,376.9
Aggregate International Stock Pool (3) (4)	**11.7**	**10.4**	**-10.4**	**-10.6**	**3.8**	**3.4**	**6,389.7**
Asset Class Target							
MSCI ACWI ex U.S. (net)		10.4		-10.7		3.4	

(1) Since 6/1/08 the developed markets manager's benchmark is the Standard (large + mid) MSCI World ex U.S. (net) unhedged. From 10/1/07 through 5/31/08 the benchmark was the Provisional Standard MSCI World ex U.S. (net) unhedged. From 10/1/03 to 9/30/07 the benchmark was MSCI World ex U.S. (net). Prior to that date, it was MSCI EAFE Free (net) unhedged.

(2) Since 6/1/08 the emerging markets manager's benchmark is the Standard (large + mid) MSCI Emerging Markets Free (net) unhedged. From 10/1/07 through 5/31/08 the benchmark was the Provisional Standard MSCI Emerging Markets Free (net) unhedged. From 1/1/01 to 9/30/07 the benchmark was MSCI Emerging Markets Free (net) unhedged. Prior to that date, it was MSCI Emerging Markets Free (gross) unhedged.

(3) Aggregate represents Combined Funds performance and includes the performance of terminated managers.

(4) Since 6/1/08 the International Equity asset class target is the Standard (large + mid) MSCI ACWI ex U.S. (net) unhedged. From 10/1/07 through 5/31/08 the benchmark was the Provisional Standard MSCI ACWI ex U.S. (net) unhedged. From 10/1/03 to 9/30/07 the target was MSCI ACWI ex U.S. (net) unhedged.

Figure 17.

International Stock Pool
Aggregate Country Weights
As of June 30, 2010

Country	**Pool Weights*** %	**Benchmark Weights**** %
Australia	4.9	5.6
Austria	0.2	0.2
Belgium	0.7	0.7
Brazil	2.8	3.6
Canada	7.2	7.9
Chile	0.2	0.4
China	2.1	4.4
Colombia	0.0	0.2
Czech Republic	0.2	0.1
Denmark	0.9	0.7
Egypt	0.3	0.1
Finland	0.8	0.7
France	6.1	6.7
Germany	5.1	5.4
Greece	0.2	0.2
Hong Kong	2.1	1.8
Hungary	0.2	0.1
India	2.5	1.9
Indonesia	0.9	0.6
Ireland	0.2	0.2
Israel	0.4	0.6
Italy	1.8	2.0
Japan	16.5	16.0
Korea	2.8	3.2
Malaysia	0.5	0.7
Mexico	1.4	1.0
Morocco	0.0	0.0
Netherlands	2.1	1.8
New Zealand	0.1	0.1
Norway	0.4	0.5
Peru	0.0	0.1
Philippines	0.3	0.1
Poland	0.4	0.3
Portugal	0.2	0.2
Russia	0.7	1.5
Singapore	1.1	1.2
South Africa	1.2	1.7
Spain	2.1	2.4
Sweden	1.6	2.0
Switzerland	5.5	5.5
Taiwan	1.7	2.5
Thailand	0.5	0.4
Turkey	0.6	0.4
United Kingdom	14.6	14.5
USA	1.9	0.0
Non-Benchmark Countries	3.8	N.A.
Miscellaneous Accounting Entries	0.4	N.A.
Total***	**100.0**	**100.0**

* Grouped by country of incorporation. Source State Street Bank.
** Benchmark is the MSCI ACWI ex U.S. (net) index. Source Factset.
*** Totals may not add due to rounding.

Alternative Investment Pool

Like the stock and bond segments, alternative assets (real estate, private equity, resource funds and yield-oriented investments) are also managed on a pooled basis. In July 2003, separate pools that had been established for the Basic and Post Retirement Funds were combined to create one alternative investment pool. In June 2009, the Basic and Post Retirement Funds were combined to create the Combined Funds.

Statutory Constraints

The statutory constraints for the Combined Funds are as follows: Each investment must involve at least four other investors and the SBI's participation in an investment may not exceed 20% of the total investment.

Management Structure

Given their long investment time horizon, the Combined Funds are especially well suited for alternative investments. Up to 20% of the market value of the Combined Funds is targeted for alternative investments. Market value plus unfunded commitments can be 1.5 times the market value allocation. A breakdown of the Combined Funds segment is shown in Figure 18. As of June 30, 2010, the market value of current alternative investments was $6.2 billion, or 15.3% of the Combined Funds.

Descriptions of each of the Funds' alternative investments are included in the **Investment Manager Summaries** section.

Real Estate

The real estate investment strategy calls for the establishment and maintenance of a broadly diversified real estate portfolio comprised of investments that provide overall diversification by property type and location. The main components of this portfolio consist of investments in open-end commingled funds and closed-end commingled funds. The remaining portion of the portfolio may include investments in less diversified, more focused (specialty) commingled funds and REITs.

Prospective real estate managers are reviewed and selected based on the manager's experience, investment strategy and performance history. During fiscal year 2010, the SBI did not make any new real estate commitments. The SBI will continue to review real estate managers for possible inclusion in the pool.

Private Equity

The private equity investment strategy, which includes buyouts and venture capital, is to establish and maintain a broadly diversified private equity portfolio comprised of investments that provide diversification by industry type, stage of corporate development and location.

Prospective private equity managers are reviewed and selected based, primarily, on the manager's experience, investment strategy, diversification potential and performance history.

During fiscal year 2010, the SBI approved and closed on commitments with EBF & Associates and Varde Partners. The SBI will continue to review and add new private equity investments as attractive opportunities are identified.

Resource Funds

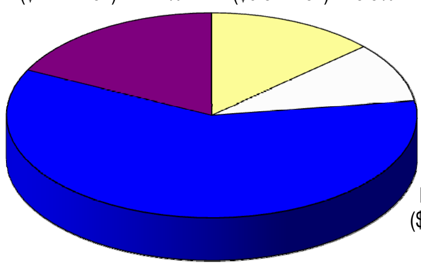
The strategy for resource investments is to establish and maintain a portfolio of resource investment vehicles that provide an inflation hedge and additional diversification. Resource investments will include oil and gas investments and energy service industry investments that are diversified by geographic area as well as by type.

Resource investments are selected based on the manager's experience, investment strategy and performance history. During fiscal year 2010, the SBI approved and closed on commitments with TCW Asset Management Company. The SBI will continue to review resource investments for possible inclusion in the pool.

Yield-Oriented

The strategy for yield-oriented investments will target funds that typically provide a current return and may have an equity component. Structures such as subordinated debt investments and mezzanine investments are typical yield-oriented investments. Managers are selected based on the manager's performance, experience and investment strategy.

Figure 18. Alternative Investment Asset Mix as of June 30, 2010



Note: Percentages may differ slightly due to rounding of values.

New investments were approved and closed on during fiscal year 2010 with Merit Capital Partners and Audax. The SBI will continue to review yield-oriented investment opportunities for inclusion in the pool.

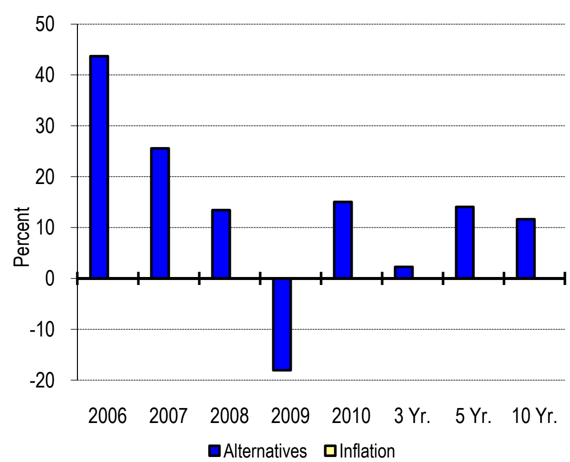
Investment Performance

The SBI reviews performance of its alternative investments relative to inflation, as measured by changes in the Consumer Price Index (CPI). For the fiscal year ending June 30, 2010, the Alternative Investment Pool provided a positive contribution to overall fund performance for the Combined Funds. The Pool provided a 15.0% return in fiscal year 2010 and has provided a 11.7% return annualized over the past ten years. Performance of the Alternative Investment Pool is shown in Figure 19 for the period ending June 30, 2010.

At this time, benchmarks have not been established for the alternative investment fund managers. The long-term nature of these investments and the lack of comprehensive data on the returns provided by the alternative investment markets preclude comprehensive performance evaluation. In the future, as markets for these asset classes become more institutionalized, the SBI hopes to integrate appropriate performance standards for these assets into its performance analysis.

A listing of individual investment funds can be found in the **Investment Manager Summaries** Section.

Figure 19. Alternative Investments FY 2006-2010



	2006	2007	2008	2009	2010	Annualized 3 Yr.	5 Yr.	10 Yr.
Alt. Investments	**43.7%**	**25.6%**	**13.4%**	**-18.0%**	**15.0%**	**2.3%**	**14.1%**	**11.7%**
Inflation	3.5	2.7	5.0	-1.4	1.1	1.5	2.2	2.3

Supplemental Investment Fund

The Supplemental Investment Fund is an investment program that offers a range of investment options to state and local public employees. The Fund serves approximately 157,000 individuals who participate in defined contribution or supplemental retirement savings plans. On June 30, 2010, the market value of the entire Fund was $1.0 billion.

The Supplemental Investment Fund (SIF) provides investment vehicles for a variety of retirement plans. It functions as the sole investment manager for all assets of the Unclassified Employees Retirement Plan, Public Employees Defined Contribution Plan, Hennepin County Supplemental Retirement Plan, and the Health Care Savings Plan. The State Deferred Compensation Plan uses the Fixed Interest Account and the Money Market Account as investment options for its participants. The value of the State Deferred Compensation Plan's SIF investments are included only in the Deferred Compensation Plan market values. All accounts in the SIF, except the Fixed Interest Account, are available to local volunteer fire relief associations who invest their assets with the SBI. The Volunteer Firefighter Account is the investment vehicle available only for those local firefighting entities that participate in the Voluntary Statewide Volunteer Firefighter Plan.

Fund Structure

A wide diversity of investment goals exists among the SIF's participants. In order to meet those needs, the Supplemental Investment Fund is structured much like a family of mutual funds. Participants may allocate their investments among one or more accounts that are appropriate for their needs within statutory requirements and rules established by the participating organizations. Participation in the SIF is accomplished through the purchase or sale of shares in each Account. (Local entities that participate in the Voluntary Statewide Volunteer Firefighter Plan must have their assets invested only in the Volunteer Firefighter Account.)

Fund Management

The Supplemental Investment Fund offers eight investment options which are shown in Figure 20. The objectives, asset allocation, management and performance of each account in the Fund are explained in the following sections.

Share Values

A share value is established for each account in the SIF, and participants buy or sell shares, based on the most recent share value.

In the Income Share Account, the Growth Share Account, the Common Stock Index Account, the International Share Account, the Bond Market Account and Volunteer Firefighter Account, shares are priced based on the market value of each Account. Performance of these accounts are a function of the income and capital appreciation (or depreciation) generated by the securities in the Accounts.

Figure 20. Accounts in the Supplemental Fund

Income Share	a balanced portfolio of U.S. common stocks, fixed income and cash.
Growth Share	an actively managed portfolio of U.S. common stocks.
Common Stock Index	a passively managed portfolio of U.S. common stocks.
International Share	a portfolio of actively, semi-passively, and passively managed non-U.S. stocks.
Bond Market	a portfolio of both actively and semi-passively managed fixed income securities.
Money Market	a portfolio of short-term, liquid debt securities.
Fixed Interest	a portfolio of stable value instruments, including security backed contracts, insurance company investment contracts and bank investment contracts.
Volunteer Firefighter	a balanced portfolio of U.S. and international common stocks, fixed income and cash.

Supplemental Investment Fund

In the Money Market Account, share values remain constant and the accrued interest income is credited to the Account through the purchase of additional shares.

In the Fixed Interest Account, shares are priced based on the blended crediting rate of the investments in the Account. Performance is calculated based on changes in these share values. As of July 1, 2009, shares in the SIF Accounts are priced daily for all plans.

The investment returns shown in this report are calculated using a time-weighted rate of return formula. *These returns are net of investment management fees and transaction costs. They do not, however, reflect administrative expenses that may be deducted by the retirement systems to defray administrative costs.*

The distribution of assets in the Supplemental Investment Fund as of June 30, 2010 is shown by Account in Figure 21 and by Plan in Figure 22.

Figure 21. Composition by Account as of June 30, 2010

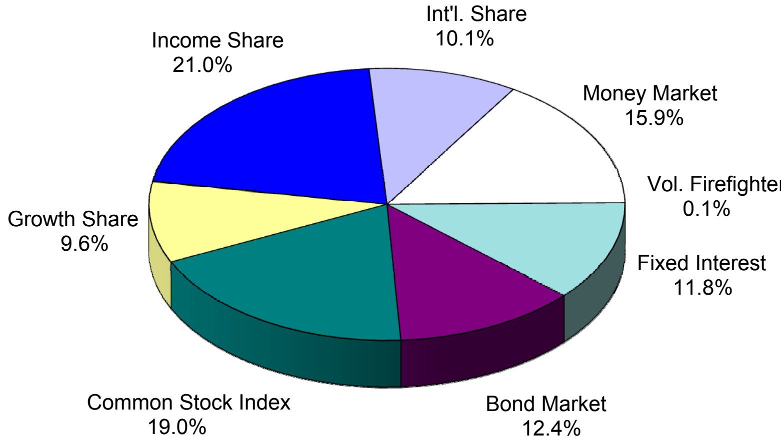
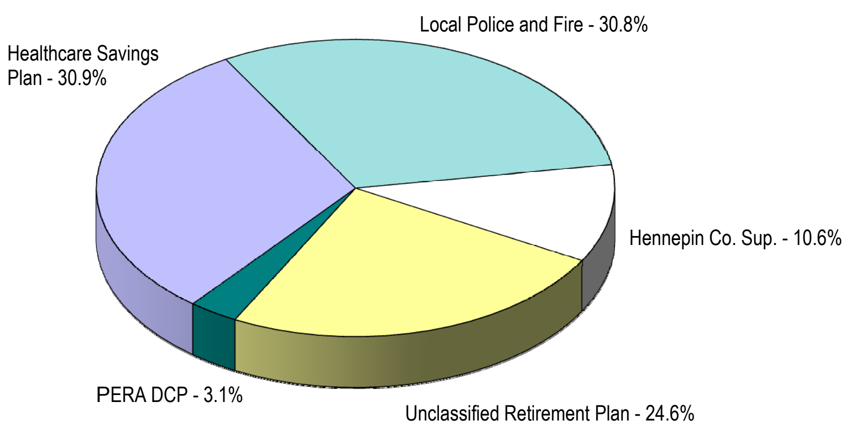


Figure 22. Participation by Plan as of June 30, 2010



Note: Percentages may differ slightly due to rounding of values.
Does not include Deferred Compensation Plan assets in the SIF Fixed Interest and Money Market accounts which are reported elsewhere in the Annual Report.

Income Share Account

Objective

The investment objectives of the Income Share Account resemble those of the Combined Funds. The Account seeks to earn a high rate of return both from capital appreciation (increases in market value) and current yield (dividends from stock and interest on bonds). The Income Share Account pursues this objective within the constraints of protecting against adverse financial environments and limiting short-run portfolio return volatility.

The SBI invests the Income Share Account in a balanced portfolio of common stocks and fixed income securities with the following long-term asset mix: 60% domestic common stocks, 35% bonds, 5% cash equivalents.

Domestic common stocks provide the potential for significant long-term capital appreciation, while bonds provide both a hedge against deflation and the diversification needed to limit excessive portfolio return volatility.

At the close of fiscal year 2010, the value of the Income Share Account was $216 million.

Management

The Income Share Account's investment management structure combines internal and external management. SBI staff manage the fixed income segment. The common stock segment is managed externally as part of a passively managed index fund designed to track the returns of the Russell 3000 Index. The manager for this portion of the Account is BlackRock Institutional Trust Co.

Performance

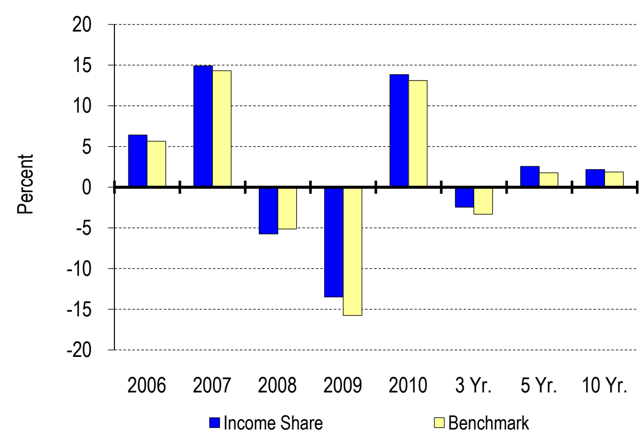
As with the other SBI funds which utilize a multi-manager investment structure, the Board evaluates the performance of the Income Share Account on two levels:

— ***Total Account.*** The Income Share Account is expected to exceed the returns of a composite of market indices weighted in the same proportion as its long-term asset allocation.

— ***Individual Manager.*** The passive stock manager is expected to closely track the performance of the Russell 3000. The internal bond manager for the Account is expected to exceed the performance of the Barclays Capital Aggregate Bond Index.

The Income Share Account provided a return of 13.8% for fiscal year 2010, exceeding its benchmark by 0.7 percentage point. Over the most recent ten years, the Income Share Account exceeded its benchmark. Figure 23 shows a ten year history of performance results.

Figure 23. Income Share Account FY 2006-2010



	2006	2007	2008	2009	2010	Annualized 3 Yr.	5 Yr.	10 Yr.
Income Share	**6.4%**	**14.9%**	**-5.8%**	**-13.5%**	**13.8%**	**-2.5%**	**2.6%**	**2.2%**
Benchmark*	5.6	14.3	-5.1	-15.8	13.1	-3.3	1.8	1.9

* 60% Russell 3000/35% Barclays Capital Aggregate Bond Index/5% T-Bills Composite since 10/1/03. 60% Wilshire 5000/35% Barclays Capital Aggregate Bond Index/5% T-Bills composite through 9/30/03.

Growth Share Account

Objective
The investment objective of the Growth Share Account is to generate high returns from capital appreciation. To achieve this objective, the Account is invested primarily in U.S common stock.

At the close of fiscal year 2010, the value of the Growth Share Account was $99 million.

Management
The assets of the Growth Share Account are invested by the external active and semi-passive domestic equity managers. This allocation reflects a more aggressive investment than is available through passive management. The Account may hold a small amount of cash that represents new contributions received prior to their investment in the market and cash that may be held by the individual managers in the Account.

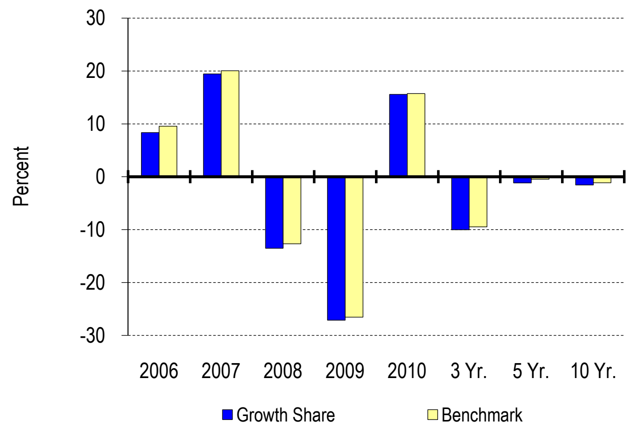
Performance
As with the Income Share Account, the Board evaluates the performance of the Growth Share Account on two levels:

— ***Total Account.*** The Growth Share Account is expected to exceed the returns of the Russell 3000 Index.

— ***Individual Manager.*** Performance objectives for the individual managers are described in the **Investment Pools** section of this report.

The Growth Share Account provided a return of 15.6% for the fiscal year, trailing its benchmark by 0.1 percentage point. See the discussion in the Investment Pools section concerning the Domestic Stock Pool for performance information on the managers utilized by this Account. Over the last ten year period, the Account trailed its benchmark by 0.5 percentage point. A ten year history of performance results is shown in Figure 24.

Figure 24. Growth Share Account FY 2006-2010



	2006	2007	2008	2009	2010	Annualized 3 Yr.	5 Yr.	10 Yr.
Growth Share	**8.3%**	**19.5%**	**-13.5%**	**-27.1%**	**15.6%**	**-10.0%**	**-1.2%**	**-1.6%**
Benchmark*	9.6	20.1	-12.7	-26.6	15.7	-9.5	-0.5	-1.1

* Russell 3000 since 10/1/03. 100% Wilshire 5000 Investable from July 1999 to September 2003.

Common Stock Index Account

Objective
The investment objective of the Common Stock Index Account is to generate returns that track the performance of the broad U.S. common stock market as represented by the Russell 3000 Index. To accomplish this objective, the SBI allocates all the assets of the Account to passively managed domestic stocks.

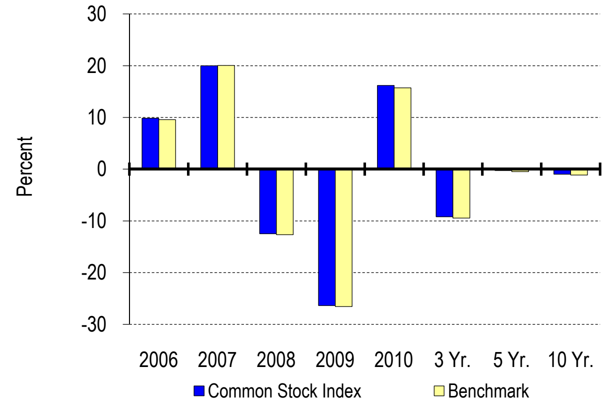
At the end of fiscal year 2010, the Account had a market value of $195 million.

Management
The Account participates in the passive portfolio of the Domestic Stock Pool, which is managed by BlackRock Institutional Trust Co.

Performance
The performance objective of the Common Stock Index Account is to track the performance of the Russell 3000. The SBI recognizes that the Account's returns may deviate slightly from those of the Russell 3000 due to the effects of management fees, trading costs and cash flows.

As expected, the Common Stock Index Account closely tracked the Russell 3000 Index for the fiscal year and over longer periods as shown in Figure 25.

Figure 25. Common Stock Index Account FY 2006-2010



						Annualized		
	2006	2007	2008	2009	2010	3 Yr.	5 Yr.	10 Yr.
Stock Index	**9.9%**	**20.0%**	**-12.5%**	**-26.4%**	**16.2%**	**-9.2%**	**-0.3%**	**-1.0%**
Benchmark*	9.6	20.1	-12.7	-26.6	15.7	-9.5	-0.5	-1.1

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

International Share Account

Objective

The investment objective of the International Share Account is to earn a high rate of return by investing in the stock of companies outside the U.S.

Typically, a majority of the Account is invested in the five largest international markets (Japan, United Kingdom, Canada, France, and Australia). Most of the remainder is invested in other well established markets in Europe and the Pacific region. In addition, approximately twenty percent of the Account is invested in developing countries or "emerging markets" around the world, including those in Latin America, Asia, Eastern Europe, the Middle East and Africa.

At the end of fiscal year 2010, the Account had a market value of $104 million.

Management

The structure of the International Share Account combines active, semi-passive, and passive management. Approximately half of the Account is actively managed by several developed and emerging markets stock managers that use a variety of investment styles and approaches. These managers buy and sell stocks in an attempt to maximize market value. The remainder of the Account is passively and semi-passively managed and is designed to consistently track the return of 22 markets included in the Morgan Stanley Capital International Index of the World ex United States, a developed markets index. The Account uses the same managers used by the Combined Funds in the International Stock Pool.

Performance

The Board evaluates the performance of the International Share Account on two levels:

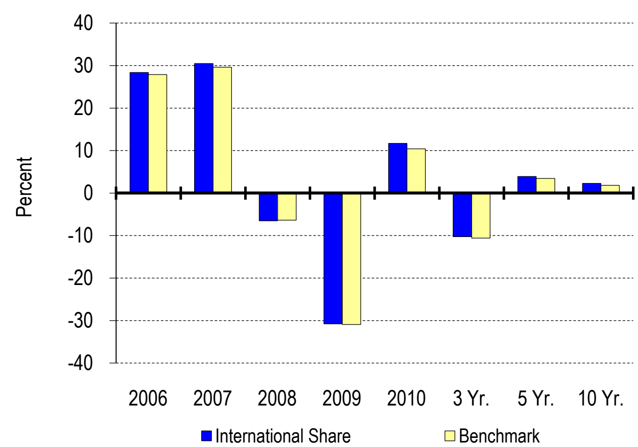
— ***Total Account.*** The International Share Account is expected to exceed the returns of its index, which is the Morgan Stanley Capital International (MSCI) All Country World Index ex-USA (ACWI Free ex-U.S.).

— ***Individual Manager.*** Performance objectives for the individual managers are described in the **Investment Pools** section of this report.

The International Share Account is expected to exceed the performance of MSCI ACWI Free ex-U.S index, which includes both developed and emerging markets. During fiscal year 2010, the International Share Account produced a return of 11.7%, which was 1.3 percentage points above the MSCI ACWI ex-U.S. index. Over the most recent ten year period, the International Share Account exceeded its benchmark by 0.5 percentage point.

See the discussion on performance of the international managers in the Investment Pools section of this report. Total Account results for the last ten years are shown in Figure 26.

Figure 26. International Share Account FY 2006-2010



	2006	2007	2008	2009	2010	Annualized 3 Yr.	5 Yr.	10 Yr.
Int'l. Share	**28.4%**	**30.5%**	**-6.5%**	**-30.8%**	**11.7%**	**-10.3%**	**3.9%**	**2.3%**
Benchmark*	27.9	29.6	-6.4	-30.9	10.4	-10.6	3.4	1.8

* The International Equity Asset Class Target is MSCI ACWI ex-U.S. (net) since 10/1/03.

Bond Market Account

Objective

The objective of the Bond Market Account is to earn high rates of return from fixed income securities. The Account is invested primarily in investment-grade government bonds, corporate bonds and mortgage securities with intermediate to long maturities. A small portion of the Account, not to exceed ten percent, is invested in below investment grade and non-U.S. securities. The Account is a more conservative investment alternative than the Accounts described in the previous sections.

At the end of fiscal year 2010, the market value of the Account was $128 million.

The Account earns investment returns through interest income and capital appreciation. Because bond prices move inversely with interest rates, the Account entails some risk for investors. However, historically it represents a lower risk alternative than the investment options that include common stocks.

Management

The Bond Market Account invests in the Bond Pool used by the Combined Funds. The Bond Pool retains both active and semi-passive managers.

Performance

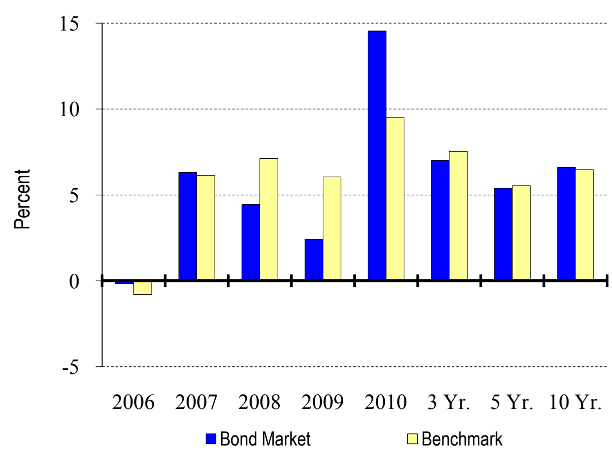
The Board evaluates the performance of the Bond Market Account on two levels:

— ***Total Account.*** The Account is expected to exceed the returns of the Barclays Capital Aggregate Bond Index.

— ***Individual Manager***. Performance objectives for the individual managers are described in the **Investment Pools** section of this report.

The Bond Market Account is expected to exceed the performance of the bond market, as represented by the Barclays Capital Aggregate Bond Index. For fiscal year 2010, the Account outperformed by 5.0 percentage points. For the most recent ten year period, the Account exceeded its benchmark by 0.1 percentage point. See the discussion regarding bond manager performance in the Investment Pools section. Total Account results for the last ten years are shown in Figure 27.

Figure 27. Bond Market Account FY 2006-2010



	2006	2007	2008	2009	2010	Annualized 3 Yr.	5 Yr.	10 Yr.
Bond Market	**-0.2%**	**6.3%**	**4.4%**	**2.4%**	**14.5%**	**7.0%**	**5.4%**	**6.6%**
Barclays Cap. Agg.	-0.8	6.1	7.1	6.0	9.5	7.5	5.5	6.5

Money Market Account

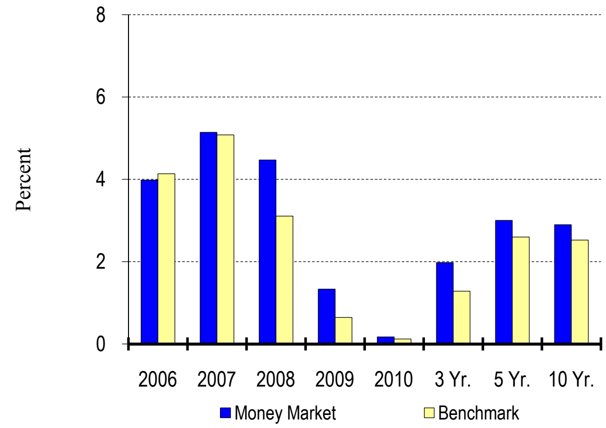
Objective
The Money Market Account invests solely in short-term, liquid debt securities backed by the U.S. Treasury. The Account's investment objectives are to preserve capital and offer competitive money market returns.

At the end of fiscal year 2010, the Money Market Account had a market value of $163 million.

Management
The Account uses the same cash manager as the Combined Funds, which is State Street Bank & Trust Company.

Performance
The Account is expected to produce returns competitive with those available from short-term debt securities. The Money Market Account exceeded that target in fiscal year 2010 by 0.1 percentage point. Over the most recent ten year period, the Account exceeded its target by 0.4 percentage point. Total Account results for the last ten years are shown in Figure 28.

Figure 28. Money Market Account FY 2006-2010



						Annualized		
	2006	**2007**	**2008**	**2009**	**2010**	**3 Yr.**	**5 Yr.**	**10 Yr.**
Money Market	**4.0%**	**5.1%**	**4.5%**	**1.3%**	**0.2%**	**2.0%**	**3.0%**	**2.9%**
3 Month T-Bills	4.1	5.1	3.1	0.6	0.1	1.3	2.6	2.5

Fixed Interest Account

Objective
The investment objectives of the Fixed Interest Account are to protect investors from loss of their original investment and to provide competitive interest rates using somewhat longer-term investments than typically found in a money market account.

At the end of fiscal year 2010, the Account totaled $121 million.

Management
The assets in the Account are invested primarily in well-diversified portfolios of high-quality investment grade fixed income securities. The Account also invests in investment contracts issued by banks and insurance companies, including non-U.S. financial institutions that provide principal protection for the diversified bond portfolios regardless of daily market changes. Instruments in the Account typically have maturities of 2 to 4 years. Performance reflects the blended interest rate available from all investments in the pool along with any cash held for liquidity purposes.

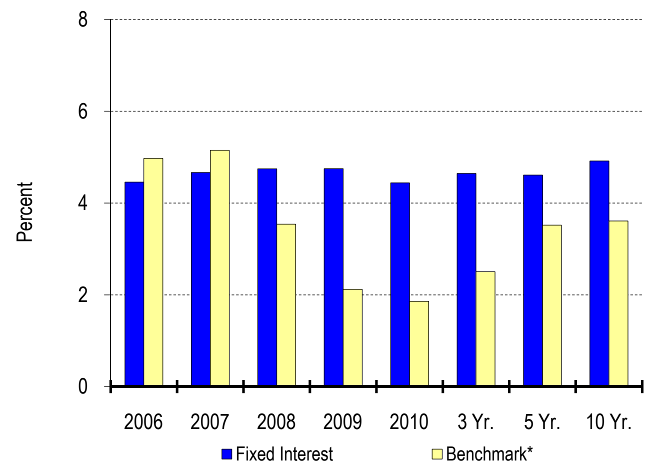
The manager for the Account is Galliard Capital Management, a unit of Wells Fargo Bank.

Figure 29 shows a ten year history of the Account's performance results.

Performance
The Fixed Interest Account is expected to exceed the returns of its custom benchmark, the 3-year Constant Maturity Treasury plus 45 basis points (0.45%).

During fiscal year 2010, the Fixed Interest Account provided a return of 4.4%, which was 2.5 percentage points above its benchmark. Over the most recent ten year period, the Fixed Interest Account exceeded its benchmark by 1.3 percentage points.

Figure 29. Fixed Interest Account FY 2006-2010



	2006	2007	2008	2009	2010	Annualized 3 Yr.	5 Yr.	10 Yr.
Fixed Interest	**4.5%**	**4.7%**	**4.7%**	**4.7%**	**4.4%**	**4.6%**	**4.6%**	**4.9%**
Benchmark*	5.0	5.1	3.5	2.1	1.9	2.5	3.5	3.6

* 3 Year Constant Maturity Treasury plus 45 basis points.

Volunteer Firefighter Account

Objective
The investment objective of the Volunteer Firefighter Account is to earn a high rate of return both from capital appreciation (increases in market value) and current yield (dividends from stock and interest on bonds). The Account pursues this objective within the constraints of protecting against adverse financial environments and limiting short-run portfolio return volatility.

The SBI invests the Account in a balanced portfolio of domestic common stocks, international stocks and fixed income securities with the following long-term asset mix: 35% domestic stocks, 15% international stocks, 45% fixed income, 5% cash equivalents.

Stocks provide the potential for significant long-term capital appreciation, international stocks provide a measure of diversification, and bonds provide both a hedge against deflation and the diversification needed to limit excessive portfolio return volatility.

At the close of fiscal year 2010, the value of the Account was $758 thousand.

Management
The Account's investment management structure combines active and passive management. The domestic stock segment is managed as part of a passively managed index fund designed to track the returns of the Russell 3000 Index. The international stock segment invests in the International Stock Pool which uses a combination of active, semi-passive and passive management to invest across a broad range of developed and emerging markets. The bond segment invests in the Bond Pool used by the Combined Funds. The Bond Pool retains both active and semi-passive managers.

Performance
As with other SBI funds which utilize a multi-manager investment structure, the Board evaluates the performance of the Volunteer Firefighter Account on two levels:

— ***Total Account.*** The Volunteer Firefighter Account is expected to exceed the returns of a composite of market indices weighted in the same proportion as its long-term asset allocation.

— ***Individual Manager.*** The passive domestic stock and international stock managers are expected to closely track the performance of their respective benchmarks. The performance objectives of individual bond managers in the Bond Pool are described in the **Investment Pools** section of this report.

The Volunteer Firefighter was established on January 1, 2010. The Account provided a return of -0.7 for the six months ending June 30, 2010 and exceeded its composite benchmark by 0.6 percentage point.

State Deferred Compensation Plan (457b Plan)

The State Deferred Compensation Plan (Plan) provides public employees with a tax-sheltered retirement savings program that is a supplemental plan to their primary retirement plan. (In most cases, the primary plan is TRA, PERA, or MSRS.) On June 30, 2010 the market value of the State Deferred Compensation Plan was $3.4 billion.

Program Structure

The State Deferred Compensation Plan offers plan participants three sets of investment options. The first is a set of actively managed options that includes six mutual funds, a money market account, and a fixed interest account option. The second is a set of five passively managed mutual funds. The third is a mutual fund window which offers hundreds of funds. The SBI has no direct management responsibilities for funds within the mutual fund window.

Actively Managed Options

The Plan offers a range of actively managed options that allows participants the flexibility to create an investment program that satisfies their needs.

- ***Large-Cap Equity***
  One option is a concentrated fund of large cap stocks. The fund is expected to outperform the S&P 500 over time. Currently, Janus Twenty is the mutual fund offered.

  Another option is a diversified portfolio of large cap stocks that is expected to outperform the S&P 500 over time. Currently, Legg Mason Partners Appreciation I is the mutual fund offered.

- ***Small-Cap Equity***
  This option invests primarily in companies with small market capitalizations. The fund is expected to outperform the Russell 2000 over time. T. Rowe Price Small-Cap Stock Fund is the fund currently offered.

- ***Balanced Fund***
  This option is a mix of stocks and bonds in the same fund. The fund invests in mid to large-cap stocks and in high quality bonds. The fund is expected to outperform a weighted benchmark of 60% S&P 500 and 40% Barclays Capital Aggregate. The fund currently offered is the Dodge & Cox Balanced Fund.

- ***Bond Fund***
  This option invests primarily in investment grade securities in the U.S. bond market. The fund is expected to outperform the Barclays Capital Aggregate over time. The fund currently offered is the Dodge & Cox Income Fund.

- ***International Equity***
  This option invests primarily in stocks of companies in developed countries located outside the United States. The fund is expected to outperform the Morgan Stanley Capital International (MSCI) Index of Europe, Australasia and the Far East (EAFE) over time. The fund currently offered is the Fidelity Diversified International Fund.

- ***Money Market***
  This option invests in short-term U.S. Treasury and agency debt instruments and is expected to outperform the return on three month U.S. Treasury bills. This option is the SIF Money Market Account invested by State Street Bank & Trust.

- ***Fixed Interest***
  This option is invested in the SIF Fixed Interest Account which is a well-diversified portfolio of high-quality fixed income securities with strong credit ratings. The option also invests in contracts issued by highly rated insurance companies and banks which are structured to provide principal protection for the option's diversified bond portfolios, regardless of daily market changes.

  In March 2008 the SBI merged the Minnesota Fixed Fund into this option. The investment contracts with Great-West Life, Minnesota Life and Principal Life were absorbed into the Fixed Interest portfolio. The option is expected to outperform the return of the three year Constant Maturity Treasury plus 45 basis points (0.45%), over time. Currently, Galliard Capital Management, Inc. manages the option.

Passively Managed Options

The plan offers a range of passively managed options that allows participants the flexibility to create an investment program that satisfies their needs.

- ***Large-Cap Equity***
  This option is a passive domestic stock portfolio that tracks the S&P 500. The fund currently offered is the Vanguard Institutional Index Plus Fund.

- ***Mid-Cap Equity***
  This option invests in companies with medium market capitalizations that track the MSCI U.S. Midcap 450 index. The fund currently offered is the Vanguard Mid Capitalization Index Institutional Fund.

- ***Balanced Fund***
  This option is a mix of stocks and bonds. The fund is expected to track a weighted benchmark of 60% MSCI U.S. Broad Market Index and 40% Barclays Capital Aggregate Bond Index. The fund currently offered is the Vanguard Balanced Index Fund.

- ***Bond Fund***
  This option invests in a broad range of U.S. fixed income securities. The fund is expected to track the performance of the Barclays Capital Aggregate Bond Index. The fund currently offered is the Vanguard Total Bond Market Index Fund.

- ***International Equity***
  This option invests in international equities and is expected to track the MSCI index of Europe, Australasia and the Far East (EAFE). The fund currently offered is the Vanguard Institutional Developed Market Fund.

Performance results for the mutual fund investment options for fiscal year 2010 are shown in Figure 30.

State Deferred Compensation Plan (457b Plan)

Figure 30. State Deferred Compensation Plan (457b Plan) For Fiscal Year Ending June 30, 2010 (1) (2)

	1 Year Actual %	1 Year Bmk %	3 Years Actual %	3 Years Bmk %	5 Years Actual %	5 Years Bmk %	10 Years Actual %	10 Years Bmk %	Market Value (in millions)
Janus Twenty (S&P 500)	5.3	14.4	-3.8	-9.8	4.4	-0.8	-2.9	-1.6	368.0
Legg Mason Partners Appreciation I (S&P 500)	11.7	14.4	-5.8	-9.8	1.4	-0.8	N/A	N/A	105.4
T. Rowe Price Small-Cap Stock (Russell 2000)	26.3	21.5	-5.5	-8.6	2.3	0.4	5.3	3.0	326.2
Fidelity Diversified International (MSCI EAFE)	5.6	5.9	-13.2	-13.4	0.8	0.9	2.9	0.2	199.6
Dodge & Cox Balanced Fund (60% S&P 500/40% Barclays Capital Aggregate)	14.9	12.8	-7.7	-2.9	-0.1	2.0	N/A	N/A	241.1
Dodge & Cox Income Fund (Barclays Capital Aggregate)	12.3	9.5	7.7	7.5	5.9	5.5	6.9	6.5	136.2
SIF Money Market (3) (3 Month T-Bills)	0.2	0.1	2.0	1.3	3.0	2.6	2.9	2.5	83.1
SIF Fixed Interest Account (4) (3 year Constant Maturity Treasury +45 basis points)	4.4	1.9	4.6	2.5	4.6	3.5	4.9	3.6	1,130.4
Passively Managed									
Vanguard Institutional Index (S&P 500)	14.5	14.4	-9.7	-9.8	-0.7	-0.8	-1.5	-1.6	350.1
Vanguard Mid Cap Index (MSCI US Midcap 450)	27.0	27.0	-8.5	-8.5	1.2	1.2	N/A	N/A	152.8
Vanguard Institutional Dev. Mkts. (MSCI EAFE)	5.0	5.9	-13.4	-13.4	1.0	0.9	N/A	N/A	73.1
Vanguard Balanced Fund (60% MSCI U.S. Broad Market/ 40% Barclays Capital Aggregate)	13.8	13.8	-2.1	-2.4	2.5	2.4	N/A	N/A	159.9
Vanguard Total Bond Market Fund (Barclays Capital Aggregate)	9.4	9.5	7.7	7.5	5.6	5.5	N/A	N/A	117.2

(1) Benchmarks for the Funds are noted in parentheses below the Fund names. The dates the Funds were retained by the SBI differ.
(2) Returns do not include the MSRS administrative fee.
(3) The SIF Money Market account for the State Deferred Compensation Plan (457 Plan) was daily valued beginning July 1999. The SIF Money Market account for other plans was daily valued beginning July 2009. Prior to those dates, the accounts were monthly valued.
(4) The SIF Fixed Interest account for the State Deferred Compensation Plan (457 Plan) was daily valued beginning March 2004. The SIF Fixed Interest account for other plans was daily valued beginning July 2009. Prior to those dates, the accounts were monthly valued.

Assigned Risk Plan

The Minnesota Workers Compensation Assigned Risk Plan was established in 1983 to provide workers' compensation coverage to Minnesota employers rejected by a private insurance carrier. On June 30, 2010, the market value of the Plan's portfolio was $306 million.

The Assigned Risk Plan operates as a non-profit, tax-exempt entity and is administered by the Department of Commerce. The Plan provides disability income, medical expenses, retraining expenses and death benefits, with payments being made either periodically or in lump sum.

Investment Objectives

The SBI recognizes that the Assigned Risk Plan has limited tolerance for risk due to erratic cash flows, no allowance for surplus, and generally short duration liabilities.

Therefore, the SBI has established two investment objectives for the Plan:

— to minimize mismatch between assets and liabilities

— to provide sufficient liquidity (cash) for payment of on-going claims and operating expenses

Performance relative to these objectives is measured against a composite index that reflects the asset allocation of the portfolio.

Asset Allocation

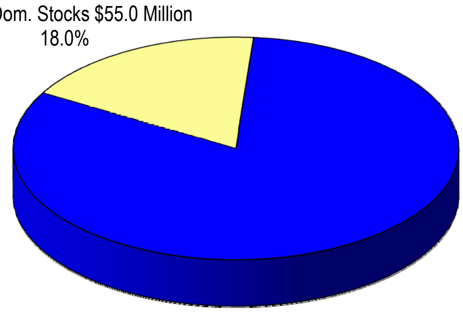
The SBI believes that due to the uncertainty of premium and liability cash flows, the Plan should be invested very conservatively.

The ***bond*** segment is invested to fund the shorter-term liabilities (less than 10 years) and the common stock segment is invested to fund the longer-term liabilities. The result is a high fixed income allocation which minimizes the possibility of a future fund deficit. The smaller ***stock*** exposure provides higher expected returns and hedges some of the inflation risk associated with the liability stream.

The asset allocation may fluctuate in response to changes in the liability stream projected by the Plan's actuary and further analysis by the SBI staff. Figure 31 presents the actual asset mix of the Assigned Risk Plan at the end of fiscal year 2010. The current long term asset allocation targets for the Plan are as follows:

Domestic Stocks	20%
Domestic Bonds	80

Figure 31. Assigned Risk Plan Asset Mix as of June 30, 2010



Note: Percentages may differ slightly due to rounding of values.

Investment Management

RBC Global Asset Management (U.S.) manages the bond segment of the Assigned Risk Plan, and GE Asset Management manages the equity segment of the Plan.

Assigned Risk Plan

Bond Segment
The bond segment is designed to fund the shorter-term liabilities of the Plan with a target duration of about three years. The segment is actively managed to add incremental value through sector, security, and yield curve decisions.

Stock Segment
The stock segment is structured to fund the longer-term liabilities of the Plan. Currently, the equity segment is managed with a broadly diversified portfolio of high quality, large capitalization companies.

Investment Performance

Due to the focus on liability matching, the Assigned Risk Plan's investment portfolio is conservatively structured. While active management is utilized, return enhancement plays a secondary role.

The Assigned Risk Plan is measured against a composite index which is weighted to reflect the asset allocation of the Plan:

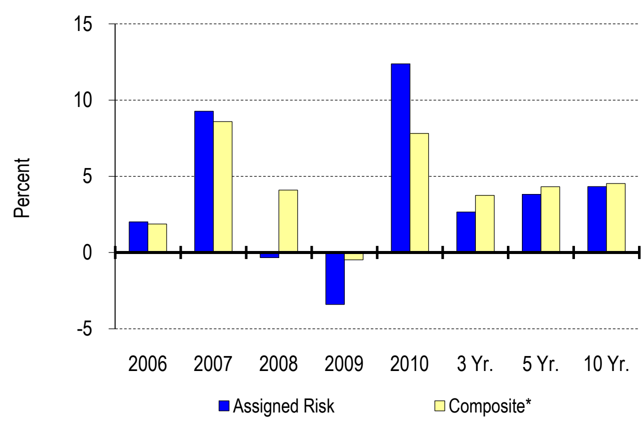
— the target for the fixed income component is a custom benchmark which reflects the duration target established for the bond segment (approximately 3 years).
— the target for the equity component is the S&P 500.

During fiscal year 2010, the ***bond*** segment outperformed its benchmark by 7.5 percentage points. Overweight positions in the mortgage-backed securities sector and taxable municipal bond sector were the primary contributors to the fiscal year outperformance. The ***stock*** segment underperformed its benchmark by 5.9 percentage points. Stock selection in the technology and financial sectors was the primary contributor to the fiscal year underperformance.

Overall, the Assigned Risk Plan provided a return of 12.4% for fiscal year 2010, exceeding its composite index by 4.6 percentage points. For the most recent ten year period, the Account underperformed its composite index by 0.2 percentage point.

Historical performance results are presented in Figure 32.

Figure 32 Assigned Risk Plan Performance FY 2006-2010



	2006	2007	2008	2009	2010	Annualized 3 Yr.	5 Yr.	10 Yr.
Assigned Risk	**2.0%**	**9.3%**	**-0.3%**	**-3.4%**	**12.4%**	**2.7%**	**3.8%**	**4.3%**
Composite Index*	1.9	8.6	4.1	-0.5	7.8	3.8	4.3	4.5
Stock Segment	**7.0**	**20.9**	**-8.2**	**-21.5**	**8.5**	**-7.8**	**0.2**	**-0.3**
S&P 500	8.6	20.6	-13.1	-26.2	14.4	-9.8	-0.8	-1.6
Bond Segment	**0.6**	**5.9**	**2.3**	**1.1**	**13.4**	**5.5**	**4.6**	**5.2**
Benchmark	0.2	5.7	8.6	6.7	5.9	7.1	5.4	5.8

* Weighted 20% stocks, 80% bonds.

Permanent School Fund

The Permanent School Fund is a trust fund created by the Minnesota State Constitution and designated as a long-term source of revenue for public schools. Proceeds from land sales, mining royalties, timber sales, lake shore and other leases are invested in the Fund. Income generated by the Fund's assets is appropriated directly to school districts. On June 30, 2010, the market value of the Fund was $674 million.

Investment Objective

The State Board of Investment invests the Permanent School Fund to produce a growing level of spendable income, within the constraints of maintaining adequate portfolio quality and liquidity, that will assist school districts.

Investment Constraints

The Fund's investment objectives are influenced by the legal provisions under which its investments must be managed. These provisions require that the Fund's principal remain inviolate. Any net realized capital gains from stock or bond investments must be added to the principal. Moreover, if the Fund realizes net capital losses, these losses must be offset against interest and dividend income before such income can be distributed. Finally, all interest and dividend income must be distributed in the year in which it is earned.

Asset Allocation

In order to produce a growing level of spendable income, the Fund is invested to grow over time, and, therefore, has exposure to equities. The current asset allocation is 50% stock/48% fixed income/2% cash.

Prior to FY 1998, the Permanent School Fund had been invested entirely in fixed income securities for more than a decade. While this asset allocation maximized current income, it limited the long term growth of the Fund and caused the income stream to lose value in inflation adjusted terms, over time.

To solve both issues, a proposal to introduce equities to the Fund's asset mix was discussed. Since this modification would reduce short term income and have budgetary implications for the state, the consent of the executive and legislative branches was necessary.

A proposal to introduce equities was presented during fiscal year 1997. It was favorably received by the Legislature and incorporated into the K-12 education finance bill. As a result, the Fund allocation was shifted to a 50% stock/48% fixed income/2% cash allocation during July 1997.

Figure 33 presents the actual asset mix of the Permanent School Fund at the end of fiscal year 2010.

Investment Management

SBI staff internally manages all assets of the Permanent School Fund. Given the unique constraints of the Fund, management by SBI staff is considered to be the most cost effective at this time.

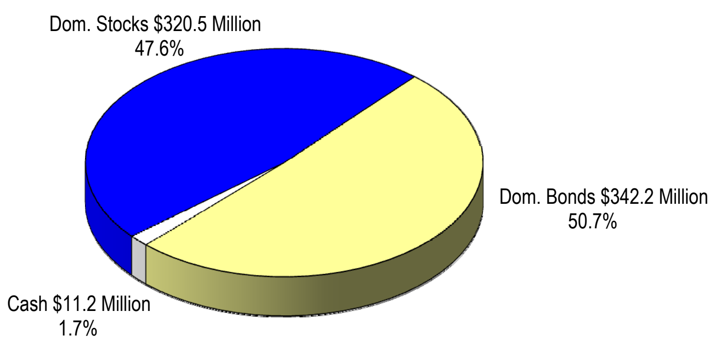
Stock Segment

The stock segment of the Fund is passively managed to track the performance of the S&P 500.

Bond Segment

The bond segment is actively managed to add incremental value through sector, security and yield curve decisions and its performance is measured against the Barclays Capital Aggregate Bond Index.

Figure 33. Permanent School Fund Asset Mix as of June 30, 2010



Note: Percentages may differ slightly due to rounding of values.

Permanent School Fund

Investment Performance

The ***stock*** segment of the Permanent School Fund slightly underperformed its benchmark, the S&P 500, by 0.2 percentage point during the fiscal year. By investing in all of the stocks in the benchmark at their index weighting, the segment attempts to track the benchmark return on a monthly and annual basis. The portfolio is periodically rebalanced to maintain an acceptable tracking error relative to the benchmark.

The ***bond*** segment outperformed its benchmark by 0.2 percentage point during the current fiscal year, primarily due to an overweight to the commercial mortgage backed securities sector.

Overall, the Permanent School Fund provided a return of 12.3% for fiscal year 2010, outperforming its composite index by 0.2 percentage point. The Fund outperformed its composite index over the last three, five and ten year periods due to the incremental value added by both the stock and bond segments.

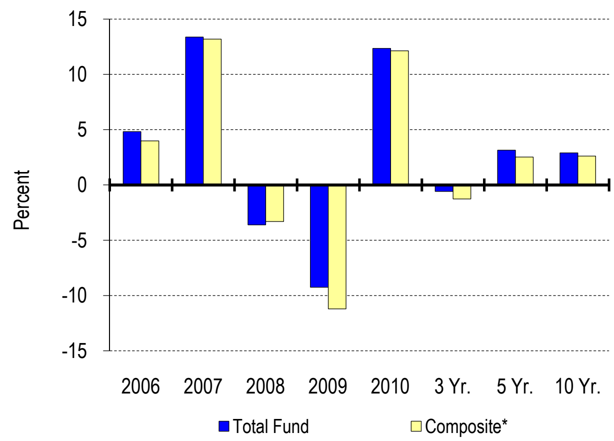
Total account results for the last three, five and ten years are shown in Figure 34.

Spendable Income

Spendable income generated by the portfolio over the last five fiscal years is shown below:

Fiscal Year	Millions
2006	$22
2007	$25
2008	$28
2009	$27
2010	$23

Figure 34. Permanent School Performance FY 2006-2010



	2006	2007	2008	2009	2010	Annualized 3 Yr.	5 Yr.	10 Yr.
Total Fund	**4.8%**	**13.4%**	**-3.6%**	**-9.3%**	**12.3%**	**-0.6%**	**3.2%**	**2.9%**
Composite*	4.0	13.2	-3.3	-11.2	12.1	-1.3	2.5	2.6
Stock Segment	**8.7**	**20.6**	**-13.1**	**-25.9**	**14.2**	**-9.7**	**-0.7**	**-1.5**
S&P 500	8.6	20.6	-13.1	-26.2	14.4	-9.8	-0.8	-1.6
Bond Segment	**0.5**	**6.2**	**7.0**	**8.5**	**9.7**	**8.4**	**6.3**	**7.0**
Barclays Agg.	-0.8	6.1	7.1	6.0	9.5	7.5	5.5	6.5

* 50% S&P 500/ 48% Barclays Capital Aggregate/ 2% 3 Month T-Bills. Prior to July 1, 1997, the Fund's benchmark was 100% Barclays Capital Aggregate.

Environmental Trust Fund

The Environmental Trust Fund was established in 1988 by the Minnesota Legislature to provide a long-term, consistent and stable source of funding for activities that protect and enhance the environment. On June 30, 2010, the market value of the Fund was $461 million.

By statute, the State Board of Investment invests the assets of the Environmental Trust Fund. The Legislature funds environmental projects from a portion of the market value of the Fund.

Investment Objective

The Environmental Trust Fund's investment objective is long-term growth in order to produce a growing level of spending within the constraints of maintaining adequate portfolio quality and liquidity.

Investment Constraints

A constitutional amendment passed in November 1998 continues the mandate that 40 percent of the net proceeds from the state lottery be credited to the Fund through 2025.

The amendment provides for spending 5.5 percent of the Fund's market value annually. The amendment eliminated accounting restrictions on capital gains and losses and the provision that the principal must remain inviolate.

Asset Allocation

After the constitutional amendment was adopted in November 1998, SBI staff worked with the Legislative Citizen Commission on Minnesota Resources to establish an asset allocation policy that is consistent with the Commission's goals for spending and growth of the Fund. The SBI uses a 70% stock, 28% fixed income and 2% cash asset allocation for the Fund. The allocation positions the Fund for the best long-term growth potential while meeting the objective of the Fund to produce a growing level of spending.

Figure 35 presents the actual asset mix of the Fund at the end of fiscal year 2010. The current long term asset allocation targets for the Fund are:

Domestic Stocks	70%
Domestic Bonds	28
Cash	2

Investment Management

SBI staff internally manages all assets of the Environmental Trust Fund. Given the unique constraints of the Fund, management by SBI staff is considered to be the most cost effective at this time.

Stock Segment

The stock segment of the Fund is passively managed to track the performance of the S&P 500.

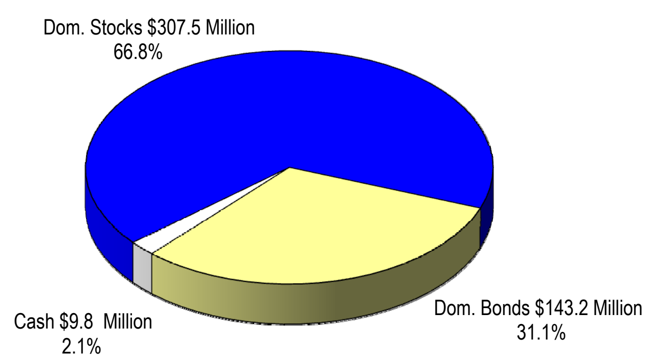
Bond Segment

The bond segment is actively managed to add incremental value through sector, security and yield curve decisions, and its performance is measured against the Barclays Capital Aggregate Bond Index.

Investment Performance

During the fiscal year, the ***stock*** segment underperformed its S&P 500 benchmark by 0.2 percentage point. By investing in all of the stocks in the benchmark at their index weighting, the segment attempts to track the benchmark return on a monthly and annual basis. The portfolio is periodically rebalanced to maintain an acceptable tracking error relative

Figure 35. Environmental Trust Fund Asset Mix as of June 30, 2010



Note: Percentages may differ slightly due to rounding of values.

to the benchmark subject to keeping trading costs at a minimum.

The ***bond*** segment outperformed its benchmark by 0.2 percentage points during the fiscal year; primarily due to an overweight to the commercial mortgage backed securities sector.

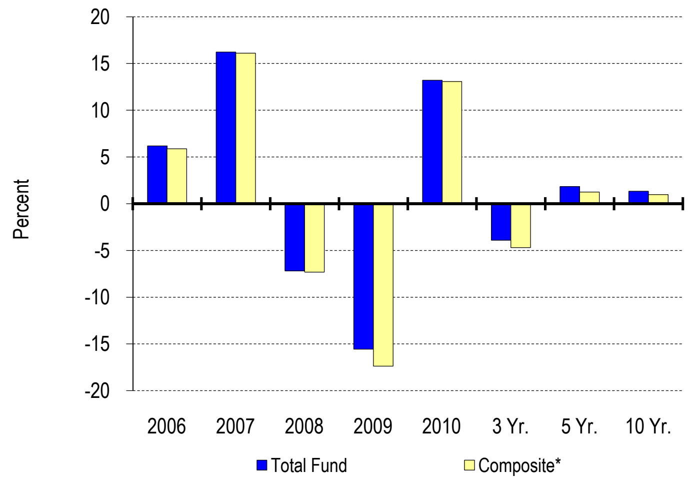
Overall, the Environmental Trust Fund provided a return of 13.2% for fiscal year 2010, outperforming its composite index by 0.1 percentage point. For the most recent three-year period, the Fund trailed its composite benchmark by 0.8 percentage point. The Fund experienced modest outperformance over the last five and ten years due to the incremental value added by both the stock and bond segments.

Performance results are presented in Figure 36.

Spendable income generated by the Fund over the last five fiscal years is shown below:

Fiscal Year	**Millions**
2006	$19
2007	$19
2008	$23
2009	$23
2010	$26

Figure 36. Environmental Trust Fund Performance FY 2006-2010



						Annualized		
	2006	**2007**	**2008**	**2009**	**2010**	**3 Yr.**	**5 Yr.**	**10 Yr.**
Total Fund	**6.2%**	**16.2%**	**-7.2%**	**-15.6%**	**13.2%**	**-3.9%**	**1.8%**	**1.3%**
Composite*	5.9	16.1	-7.3	-17.4	13.1	-4.7	1.3	1.0
Stock Segment	**8.7**	**20.6**	**-13.1**	**-25.8**	**14.2**	**-9.7**	**-0.7**	**-1.5**
S&P 500	8.6	20.6	-13.1	-26.2	14.4	-9.8	-0.8	-1.6
Bond Segment	**0.5**	**6.2**	**7.0**	**8.3**	**9.7**	**8.3**	**6.3**	**7.0**
Barclays Agg.	-0.8	6.1	7.1	6.0	9.5	7.5	5.5	6.5

* Weighted 70% S&P 500/ 28% Barclays Capital Aggregate/ and 2% 3 month T-Bill.

Closed Landfill Investment Fund

The Closed Landfill Investment Fund is a trust fund created by the Legislature to invest money to pay for the long-term costs of maintaining the integrity of landfills in Minnesota once they are closed. As a result of legislation enacted in 2010, $48 million was withdrawn from the Fund for state general fund budget balancing purposes. On June 30, 2010 the market value of the Fund was $593 thousand.

Investment Objective

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

Asset Allocation

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

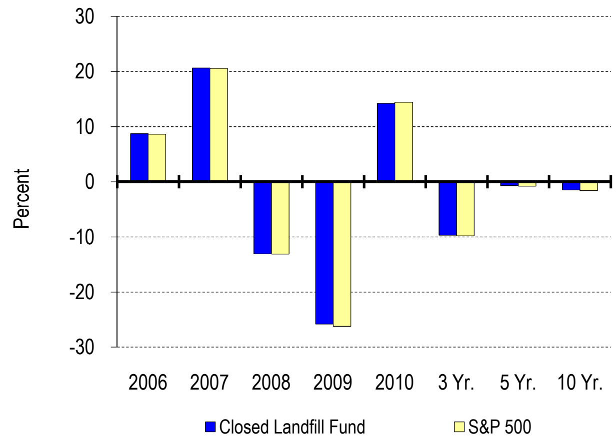
Investment Management

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

Investment Performance

The Closed Landfill Investment Fund underperformed its benchmark, the S&P 500, by 0.2 percentage point during the fiscal year. By investing in all the stocks in the benchmark at their index weighting, the segment attempts to track the benchmark return on a monthly and annual basis. Performance results are shown in Figure 37.

Figure 37. Closed Landfill Fund FY 2006-2010



						Annualized		
	2006	**2007**	**2008**	**2009**	**2010**	**3 Yr.**	**5 Yr.**	**10 Yr.**
Total Fund	**8.7%**	**20.6%**	**-13.1%**	**-25.8%**	**14.2%**	**-9.7%**	**-0.7%**	**-1.5%**
S&P 500	8.6	20.6	-13.1	-26.2	14.4	-9.8	-0.8	-1.6

Cash Management and Related Programs

The State Board of Investment manages the cash balances in more than 400 state agency accounts with the objectives of preserving capital and providing competitive money market returns. On June 30, 2010, the total value of these accounts was $5.5 billion.

Internal Cash Pools

The SBI invests these cash accounts in short-term, liquid, high quality debt securities on a non-leveraged basis. These investments may include U.S. Treasury and Agency issues, repurchase agreements, bankers acceptances, high grade corporates, and commercial paper. On June 30, 2010, the combined value of all agency cash balances was $5.5 billion.

Pool Structure

Most of the cash accounts are managed by SBI staff through two pooled investment vehicles, which operate much like money market mutual funds:

— ***Treasurer's Cash Pool.*** This pool contains cash balances from the Invested Treasurer's Cash and other accounts necessary for the operation of state agencies. The Treasurer's Cash Pool had an average daily balance of $4.37 billion during the year.

— ***Trust Fund Pool.*** This pool contains cash balances of trust fund and retirement-related accounts that are managed internally. The Trust Fund Pool had an average daily balance of $75.8 million during the year.

Staff also manages approximately $300 million of assets in separately managed dedicated accounts because of special legal restrictions. The vast majority of these assets are related to state or state agency debt issuance including debt service reserves and proceeds.

Investment Performance

The SBI measures the performance of both pools against customized benchmarks which reflect the maturity structure of each pool.

For fiscal year 2010, the Trust Fund Pool exceeded its benchmark and the Treasurer's Cash Pool outperformed its benchmark. Both pools outperformed the total return on 3 Month Treasury Bills.

Trust Fund Pool	**0.6%**
Benchmark	0.0*
Treasurer's Cash Pool	**1.2**
Benchmark	0.0*
3 Month Treasury Bills	0.1

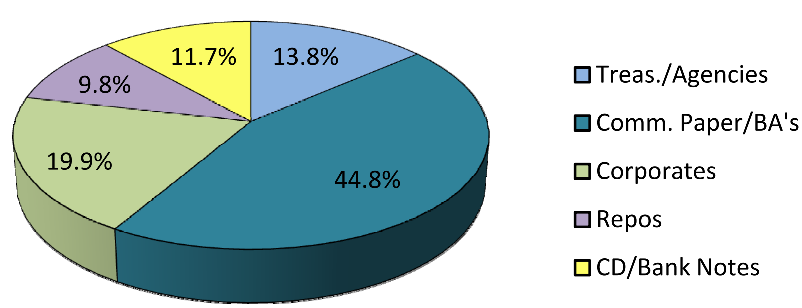
* Actual Benchmark return was 0.03%.

Since January 1997, the Trust Fund Pool is measured against the iMoneyNet's All Taxable Money Fund Index.

Treasurer's Cash Pool

On June 30, 2010 the Treasurer's Cash Pool was dominated by high quality corporate commercial paper holdings. The composition of the pool is shown in Figure 38. At the end of the fiscal year, the pool had a current yield of 0.59% and an average maturity of 153 days.

Figure 38. Invested Treasurer's Cash Fund Distribution as of June 30, 2010



Cash Management and Related Programs

Securities Lending Program

The SBI participates in securities lending programs in which securities held by the SBI are loaned to banks and security dealers for a daily fee. These loans are fully collateralized. Currently, the SBI's securities lending activity is undertaken by the SBI's master custodian bank, State Street Bank and Trust. State Street Bank generated additional income of approximately $23.8 million during fiscal year 2010.

An additional lending program began during fiscal year 2000 with Wells Fargo (custodian for the Treasurer's Cash Pool.) This program was inactive in FY10.

Certificate of Deposit Program

The SBI manages a certificate of deposit (CD) program in which it purchases CD's from Minnesota financial institutions. The SBI receives a market rate of return on these investments, using the average secondary CD market rate quoted by the New York Federal Reserve Bank.

The SBI's Certificate of Deposit program provides a reliable source of capital to Minnesota financial institutions, regardless of size, many of which do not have access to the national CD market. The Board designed the program so that no single institution is favored in the allocation of assets. Only the cash reserves of the retirement funds are used in the program.

During fiscal year 2010, the SBI purchased over $184.1 million of CD's from Minnesota financial institutions. Since it began the program in 1980, the SBI has purchased over $5 billion of CD's from approximately 500 financial institutions throughout the state.

Securities Repurchase Program

In recent years, community banks throughout Minnesota have experienced an increased need for funds due to a reduction in local deposits and a reduced ability to sell investments held in bank portfolios due to changes in federal accounting requirements. The SBI created the Securities Repurchase Program to help meet the increased needs of banks throughout the state.

Under the program, the SBI temporarily buys securities such as Treasuries and Governments from banks under a repurchase agreement (repo). At the end of the agreement period, the securities are returned to the selling banks (i.e. "repurchased") and the bank pays the SBI principal and interest.

The transactions are fully collateralized and range in size from $100,000 to $2 million per institution. For ease of administration, the program uses the same rates, offering dates and maturity dates as the SBI's CD program.

During fiscal year 2010, the SBI purchased $21.1 million in repos from Minnesota financial institutions.

Legislative Investment Initiatives

Legislative Update

Several bills of interest to the SBI were adopted during the 2010 legislative session.

Laws of Minnesota 2010, Chapter 359, Article 8 removed the SBI from the task of choosing investment options for the Minnesota State Colleges and Universities (MnSCU) defined contribution plans and gave that responsibility to the MnSCU board. The SBI was provided with new authority in Chapter 11A to contract with MnSCU (and collect any payment) to perform the function if MnSCU chooses the SBI for the work.

Laws of Minnesota 2010 Chapter 359, Article 11 merged Minneapolis Employees Retirement Fund (MERF) operations into PERA. The MERF accounts became one account identified as the MERF division within PERA. MERF assets were then invested in the SBI's Combined Funds in the same manner as other PERA assets. Therefore, a portion of MERF assets were invested for the first time in the alternative investment pool.

Laws of Minnesota 2010 First Special Session, Chapter 1, Section 6 requires $48 million be transferred from the Closed Landfill Investment Fund (CLIF) to the general fund. The transfer must be made no later than FY2011. Additional contributions of $12 million into the Fund are required in FY's 2014 through 2017. The $48 million withdrawal will leave the Fund with a small balance. Any discussion of changing the Fund's asset allocation must wait until the FY 2014 contribution.

Laws of Minnesota 2010, Chapter 215, Article 4, Section 7 required a withdrawal of $14 million from the Assigned Risk Plan (ARP) to be sent to the general fund by June 30, 2010.

Laws of Minnesota 2010, Chapter 359, Article 1, Section 85 directs the state auditor to convene a study group of local pension plans to study investment authorities for these plans. The study group must report its findings by January 15, 2011 to the legislature. The executive director of the SBI is a member of the study group.

Police and Fire Fund Activity

Mergers with PERA

Under state law, local police and salaried firefighter plans may consolidate with the Public Employees Retirement Association (PERA). When a merger is approved, assets are transferred from the local plan to the State Board of Investment (SBI).

By statute, the Executive Director of the SBI has authority to accept assets in-kind or to require that individual holdings be converted to cash prior to the transfer. Since the investments made by local plans are similar to those made by the SBI, most assets can be transferred at their stated market value.

Since 1987, 44 plans with total assets of $603 million have merged with PERA. After consolidation, these assets are managed as part of the Basic and Post Retirement Funds. (Please note that there remain several local police salaried firefighter plans that have not merged with PERA. These plans also have the statutory authority to invest in the Supplemental Investment Fund.)

Volunteer Fire Plans Investment

Volunteer firefighter retirement plans are not eligible to be consolidated with PERA. They may invest their assets with the SBI through the Supplemental Investment Fund. There are more than 700 local volunteer firefighter plans with investment authority. As of the end of fiscal year 2010, there were 228 plans participating in the SIF.

The number of volunteer firefighter plans that may select the SBI in the future will be affected by the creation of the new voluntary statewide plan.

Local Plan Performance Reports

The SBI provides the local plans that participate in the SIF reports displaying their annual returns and market values from the SIF in compliance with *Minnesota Statutes*, Chapter 356. The local plans are responsible for providing their specific data to the Office of the State Auditor.

Voluntary Statewide Volunteer Firefighter Retirement Plan

Laws of Minnesota 2009, Chapter 169, Section 9 created a statewide voluntary plan for local relief associations. Local entities may choose to join the statewide plan which is trusteed by PERA. Investments of the plan are invested in the Supplemental Investment Fund Volunteer Firefighter Account. Participation in the plan is effective on December 31 of a given year. The SBI must evaluate the assets of each local entity that seeks to join the plan. As of December 31, 2009, six local entities joined the plan, and the Volunteer Firefighter Account received $758 thousand for investment.

Legislative Investment Initiatives

Other Post Employment Health Benefits

Under the provisions of *Minnesota Statutes*, Section 471.6175, local units of government including school districts may choose PERA as trustee to administer post employment health benefits. Assets of these accounts are invested by the SBI in the same internally managed investment pools in which the Permanent School Fund and Environmental Trust Fund are invested.

As of June 30, 2010, there were 26 entities that have these investment accounts with the SBI. In total, these accounts invest $230 million. Staff anticipate that the number of these accounts will increase in the future. See the financial statements in Section II of this report for a list of entities and their respective investment balances.

The SBI is required to report annually the returns provided on assets invested by the City of Duluth for this purpose. Duluth made its first investment with the SBI July 2007. As of June 30, 2010, returns for Duluth were as follows:

	1 Yr.	**3 Yr.**
Equities	14.2%	-9.7%
Fixed Income	9.7	8.3
Total	11.4	0.0

Minnesota College Savings Plan (529 Plan)

The SBI is responsible for selecting the investment provider for the Minnesota College Savings Plan. The Minnesota Office of Higher Education (MOHE) is responsible for the overall administration of the 529 Plan.

The SBI and MOHE jointly contract with one firm to provide administrative services, which includes recordkeeping; marketing, communication and education efforts; and investment management services. The investment product provider currently used by the 529 Plan is Teachers Insurance & Annuity Association-College Retirement Equities Fund (TIAA-CREF).

Investment Restrictions

Tobacco Issues

At its September 1998 meeting, the Board adopted a resolution that required each active and semi-passive equity manager to divest by September 2001 shares of any company which obtained more than 15 percent of its revenues from the manufacture of consumer tobacco products. Staff notified each active and semi-passive equity manager of the policy.

At the close of fiscal year 2001, the SBI had divested from its active portfolios all shares of companies covered by its divestment resolution.

Directives to Stock Managers

At its December 1997 meeting, the Board adopted a resolution requiring the SBI's stock managers to provide written justification to SBI staff if a manager made new or additional purchases of stock in companies which obtained more than 50% of their revenues from the sale of tobacco.

At its June 1998 meeting, the Board took further action regarding SBI investment in tobacco-related stocks.

The first resolution required the SBI active and semi-passive equity managers to discontinue purchases of shares of any company that generated more than 15 percent of its revenue from the manufacture of consumer tobacco products. The second resolution required the SBI staff to prepare and submit to the Board a plan for divestiture of shares of any company that generated more than 15 percent of its revenue from the manufacture of consumer tobacco products held in the SBI's actively and semi-passively managed equity portfolios. The policy requiring divestment follows directly from the latter resolution.

Shareholder Resolutions

In previous years, the SBI cosponsored a number of tobacco related shareholder resolutions. The SBI chose not to cosponsor any tobacco related resolutions for the 2010 proxy season.

Sudan Issues

Minnesota Statutes, section 11A.243 concerns the SBI's investment in companies with operations in Sudan. The law requires the SBI to make its best efforts to identify all "scrutinized companies" in which the SBI has direct or indirect holdings or could possibly have holdings in the future.

The SBI receives a list of companies from the Conflict Risk Network. Staff periodically sends a list of restricted Sudan companies to managers and has required divestment of holdings in compliance with the law. Staff reports to the Board each quarter on its actions to implement the law.

Iran Issues

Laws of Minnesota 2009, Chapter 90, codified as *Minnesota Statutes*, section 11A.244, requires the SBI to take a series of steps to identify companies that do business in Iran, communicate with those companies, and divest stock and bonds over a specified period of time if the companies continue their business activities in Iran.

The SBI retains Risk Metrics to provide a list of companies to implement the law. Staff periodically sends a list of restricted Iran companies to managers. No divestment was required in fiscal year 2010. Staff reports to the Board each quarter on its actions to implement the law.

Guidelines on International Investing

As noted in prior sections of this report, the State Board of Investment (SBI) made its first international stock investments in 1992. The benefits of international investing include: increased investment opportunity, greater diversification and potential for higher return. Over one-half of the world's markets, by market capitalization, lie outside the U.S.

Japan, the United Kingdom, Canada, France and Australia comprise more than half of the value of the international markets. Together with nineteen (19) other countries in Europe, and the Pacific Basin, these countries comprise the developed international stock markets. Many of the emerging markets in Latin America, Eastern Europe, the Middle East, Africa and Asia may require special investment considerations and/or limitations on investment.

Based on information compiled from U.S. State Department reports, countries are grouped into three broad categories as indicated below by groups I, II and III. *It is important to note that the guidelines listed below do not prohibit an active stock manager from purchasing the stock of any country*. Rather, they require additional notification by the manager regarding the firm's investment strategy for investments to countries in Groups II and III.

Group I. These countries have legal structures that generally respect the rights of workers and human rights. Because these countries have strong protections for workers and human rights, there is little concern that economic and social disruptions may occur which would have an adverse effect on financial markets. As a result, active stock managers are authorized to invest in companies domiciled in these countries without additional notification to the SBI.

Group II. These countries have legal protections for workers and human rights, but violations have been cited in the State Department reports. It is thought that violations of this type may lead to economic and social disruption in these countries, which may have an adverse effect on their financial markets. An active stock manager may, however, invest in companies domiciled in the countries shown under "Group II" if the manager believes that it would be a breach of fiduciary responsibility not to do so. If a manager chooses to invest in one or more of these markets, the manager must notify the SBI in writing.

Group III. These countries lack basic protections for workers and human rights and do not appear to be making progress in establishing an appropriate legal structure to address these issues. The potential for economic, political and social unrest is seen to be greater in these countries, which may adversely affect the stability of these financial markets. An active stock manager may, however, invest in companies domiciled in countries shown under "Group III" if the manager believes that it would be a breach of fiduciary responsibility not to do so. If a manager chooses to invest in one or more of these markets, the manager must notify the SBI in writing of its reasons for the decision to do so.

Review Process

The Board established an International Investing Guidelines Task Force to recommend guidelines that address these limitations as well as other concerns related to international investing.

When the Task Force made its original report to the Board in December 1992, they expected that the country groupings would be updated periodically to reflect changes in the world markets. The Board has adopted the following review process regarding the country guidelines:

— Staff will review reports from the US State Department regarding worker and human rights issues and designate countries "Group I, II or III" using the existing policy guidelines adopted by the Board.

Staff will report on the countries included in the International Program asset class target which will be reviewed by the SBI Administrative Committee. Figure 39 displays the country groupings. There were no changes to the SBI's country groupings in fiscal year 2010.

Figure 39. Current International Investing Guidelines Country Groupings

Group I World ex U.S. Countries	Group I EMF Countries	Group II EMF Countries	Group III EMF Countries
Australia	Argentina	Brazil	China
Austria	Chile	Colombia	Egypt
Belgium	Czech Republic	India	Jordan
Canada	Hungary	Indonesia	Pakistan
Denmark	Poland	Israel	Russia
Finland	Taiwan	Korea, Republic of	
France		Malaysia	
Germany		Mexico	
Greece		Morocco	
Hong Kong		Peru	
Ireland		Philippines	
Italy		South Africa	
Japan		Thailand	
Netherlands		Turkey	
New Zealand		Venezuela	
Norway			
Portugal			
Singapore			
Spain			
Sweden			
Switzerland			
United Kingdom			

Proxy Voting

As a stockholder, the State Board of Investment (SBI) is entitled to participate in corporate annual meetings through direct attendance or casting its votes by proxy. Through proxy voting, the Board directs company representatives to vote its shares in a particular way on resolutions under consideration at annual meetings. These resolutions range from routine issues, such as those involving the election of corporate directors and ratification of auditors, to matters such as merger proposals and corporate social responsibility issues. In effect, as a shareholder the SBI can participate in shaping corporate policies and practices.

Voting Process

The Board recognizes its fiduciary responsibility to cast votes on proxy issues. Except for the shares held by the international managers, the SBI does not delegate the duty to its external investment managers. Rather, the SBI actively votes all shares according to guidelines established by its Proxy Committee.

The Board delegates proxy voting responsibilities to its Proxy Committee which is comprised of a designee of each Board member. The four member Committee meets only if it has a quorum and casts votes on proxy issues based on a majority vote of those present. In the unusual event that it reaches a tie vote or a quorum is not present, the Committee will cast a vote to abstain.

Voting Guidelines

The Committee has formulated guidelines by which it votes on a wide range of corporate governance and social responsibility issues. Each year the Proxy Committee reviews existing guidelines and determines which issues it will review on a case-by-case basis.

Corporate Governance Issues

The voting guidelines for major corporate governance issues are summarized below:

Routine Matters

In general, the SBI supports management on routine matters such as uncontested election of directors; selection of auditors; and limits on director and officer liability or increases in director and officer indemnification permitted under the laws of the state of incorporation.

Shareholder Rights Issues

In general, the SBI opposes proposals that would restrict shareholder ability to effect change. Such proposals include instituting super-majority requirements to ratify certain actions or events; creating classified boards; barring shareholders from participating in the determination of the rules governing the board's actions (e.g. quorum requirements and the duties of directors); prohibiting or limiting shareholder action by written consent; and granting certain stockholders superior voting rights over other stockholders.

In general, the SBI supports proposals that preserve or enhance shareholder rights to effect change. Such proposals include requiring shareholder approval of poison pill plans; repealing classified boards; adopting secret ballot of proxy votes; reinstating cumulative voting; and adopting anti-greenmail provisions.

Executive Compensation

In general, the SBI supports efforts to have boards of directors comprised of a majority of independent directors, to have compensation committees made up entirely of independent directors, and to have executive compensation linked to a company's long-term performance.

Buyout Proposals

In general, the SBI supports friendly takeovers and management buyouts.

Special Cases

The Proxy Committee evaluates hostile takeovers, contested election of directors, and re-capitalization plans on a case-by-case basis.

Social Responsibility Issues

The voting guidelines for major social responsibility issues are shown below:

Northern Ireland

The SBI supports resolutions that call for the adoption of the MacBride Principles as a means to encourage equal employment opportunities in Northern Ireland.

Tobacco and Liquor

In general, the SBI supports a variety of tobacco and liquor related resolutions including those that call for corporations to limit their promotion of tobacco and liquor products and to report on their involvement in tobacco issues.

Environmental Protection

In general, the SBI supports resolutions that require a corporation to report or disclose to shareholders company efforts in the environmental arena. In addition, the SBI supports resolutions that request a corporation to report on progress toward achieving the objectives of the Ceres Principles (formerly known as the Valdez Principles,) an environmental code of conduct for corporations.

Other Social Responsibility Issues

In general, the SBI supports proposals that require a company to report or disclose to shareholders company efforts concerning a variety of social responsibility issues. In the past, these reporting resolutions have included issues such as affirmative action programs, animal testing procedures and nuclear plant safety procedures.

Summary of FY 2010 Proposals

During fiscal year 2010 the SBI voted proxies for approximately 1,600 U.S. corporations.

As in past years, the issues on corporate ballots included a broad range of proposals in the *corporate governance* area, as reflected in information provided by Institutional Shareholder Services, Inc. (ISS):

— Shareholders submitted 30 proposals requesting majority vote to elect directors. This proposal received an average support of 57.6%.

— Shareholders submitted 39 proposals requesting that companies have an independent board chairman. The proposal received average support of 29.0%.

— Resolutions requesting an advisory vote on executive pay were on 53 ballots with an average support of 44.6%.

— Other proposals included the repeal of classified boards which were supported by an average of 58.7% of shares voted; proposals to require retention period for stock awards received support from an average of 24.5% of shares voted; cumulative voting which was supported by an average of 26.5% of shares voted; proposals to rescind supermajority approval requirements received average support of 71.1% of shares voted.

In the *social responsibility* area, environmental, political contributions, sustainability reporting, and fair employment were the major issues, as reflected in information provided by ISS:

— A variety of environmental issues received 55 resolutions and received average support ranging from 5.0% to 19.2%.

— Reporting on political contributions received 52 proposals with an average support level of 26%.

— Equal employment issues received 27 resolutions with an average support of 33.6%.

— Human rights issues received 29 resolutions with on average support level of 17.6%.

— Global Labor Standards received 4 proposals this year with an average support of 17.7%.

— Sustainability issues received 43 proposals with an average support of 28.6%.

Mandate on Northern Ireland

Requirements

The SBI is responsible for implementing certain statutory provisions concerning its investments in U.S. companies with operations in Northern Ireland. The statute requires the State Board of Investment (SBI) to:

— Annually compile a list of U.S. corporations with operations in Northern Ireland in which the SBI invests.

— Annually determine whether those corporations have taken affirmative action to eliminate religious or ethnic discrimination. The statute lists nine goals modeled after the MacBride Principles.

— Sponsor, co-sponsor and support resolutions that encourage U.S. companies to pursue affirmative action in Northern Ireland, where feasible.

The statute does not require the SBI to divest existing holdings in any companies and does not restrict future investments by the SBI.

Implementation

The SBI uses the services of ISS to monitor corporate activity in Northern Ireland. In January 2010, the SBI held stocks or bonds in 64 of 69 corporations identified by ISS as having operations in Northern Ireland.

Proxy Voting

Shareholder Resolutions

The SBI filed shareholder resolutions at two companies for the 2010 proxy season. The resolutions asked the corporations to sign the MacBride Principles and to implement affirmative action programs. The proposal filed at Raytheon Company was withdrawn after the company disclosed it no longer has any operations in Northern Ireland. The resolution filed with Yum Brands was withdrawn due to re-filing ineligibility.

Domestic Equity Program Managers

Active Managers

Large Cap Core (Russell 1000)

New Amsterdam Partners
New Amsterdam Partners believes that investment results are evaluated by actual return, and therefore, investment opportunities should be evaluated by expected return. The investment process combines quantitative analysis with a fundamental overlay. The firm describes its style as growth at a reasonable price (GARP). The strategy seeks to identify and capitalize on mispriced securities. A proprietary quantitative model generates expected returns for stocks. The 100 stocks with the highest expected returns are subjected to further examination and fundamental analysis. New Amsterdam was retained by the SBI in April 1994.

UBS Global Asset Management (formerly Brinson Partners)
UBS focuses on price to value as the cornerstone of their investment process. They discount all future cash flows of a company to calculate the intrinsic value from an owner's perspective, and then compare that value estimate to the current stock price. The resulting price to value differences, applied over a broad range of companies, become the building blocks of the security selection process. Portfolio construction focuses on individual stock selection, industry weightings, market sensitivity and common factor exposures. UBS was retained by the SBI in July 1993.

Large Cap Growth (Russell 1000 Growth)

AllianceBernstein L.P.
Alliance manages a concentrated portfolio of approximately 50 to 70 stocks that seeks to generate its premium through superior stock selection - a function of research insight and investment action. Using the research predominantly produced by Alliance's analysts, Alliance strives to buy companies with growth potential likely to outpace market expectations, usually due to a combination of a unique product or service offering, high barriers to entry and managements' ability to execute corporate strategies. They focus on maintaining portfolio characteristics consistent with the large-cap-growth style. This approach has allowed them to deliver strong performance to clients over time. The firm was retained by the SBI in March 1983.

INTECH Investment Management LLC (INTECH)
Using a proprietary mathematical process, the investment strategy is designed to determine more efficient weightings of the securities within the Russell 1000 Growth Index, while reducing the risk of significant relative underperformance. INTECH does not forecast individual stock alphas, but uses natural relative stock price volatility and correlation characteristics to build a portfolio. Essentially, the firm adjusts the capitalization weights of the Russell 1000 Growth Index to potentially more efficient combinations. The investment process only uses securities in the Russell 1000 Growth Index and utilizes embedded risk controls aimed at mitigating portfolio risk, which include active-weight range limits around the benchmark holdings, a constraint on beta, and maximizing the information ratio. Once the target weights are determined, the portfolio is then rebalanced to those target proportions and re-optimized on a regular basis. The portfolio is continually evaluated to ensure that diversification and return characteristics are consistent with the investment objectives and underlying mathematical theorem. INTECH was retained by SBI as an active manager in January 2005.

Jacobs Levy Equity Management
Jacobs Levy believes that the market is a complex system and that intensive quantitative modeling is needed to identify and benefit from market inefficiencies offering opportunities for profitable active investment. Recognizing that good judgment is critical, the firm has developed a multidimensional investment approach that combines human insight and intuition, finance and behavioral theory, and sophisticated statistical methods. The firm's proprietary systems have been engineered to be integrated across all investment functions, from security selection, portfolio construction, and trading, through performance attribution and guideline compliance. Expected returns for each security in the investment universe are generated from numerous models and become the inputs for the proprietary portfolio optimizer. The optimizer is run daily with the objective of constructing portfolios that can provide consistent

outperformance relative to the underlying benchmark, with strict control of portfolio risk. Extensive automated data scrubbing and human fact checking are conducted daily. Liquidity, trading costs, and investor guidelines are incorporated into the optimization process. Jacobs Levy was retained by the SBI as an active manager in January 2005.

Knelman Asset Management, LLC

Knelman's approach emphasizes earnings growth as the fundamental driver of stock prices over time. Knelman invests in companies exhibiting substantial growth opportunities, strong business models, solid management teams, and the probability for positive earnings surprises. The investment process combines quantitative, qualitative and valuation criteria. The quantitative component addresses fundamentals and is focused on operating trends. Qualitative analysis involves confirmation of company fundamentals through discussions with company contacts and related parties. Valuation models focus on relative rankings of the fundamentals within the industry, the market overall and the company itself. Knelman was retained by the SBI as an active manager in January 2005.

Sands Capital Management, LLC

Sands invests in concentrated portfolios of high-quality, seasoned, growing businesses. Bottom-up, company-focused and long-term oriented research is the cornerstone of the investment process. To be considered as a potential holding, companies must demonstrate superior historical and projected sales and earnings growth; have the potential for wealth creation; and reside in growing sectors. The team then narrows the opportunity set by identifying potential leaders in attractive business spaces. The strategy focuses on six (6) key investment criteria: 1) sustainable above average earnings growth; 2) leadership position in a promising business space; 3) significant competitive advantages or unique business franchise; 4) management with a clear mission and value added focus; 5) financial strength; and 6) rational valuation relative to the overall market and the company's business prospects. Sands was retained by the SBI as an active manager in January 2005.

Winslow Capital Management, Inc.

Winslow believes that investing in companies with above-average earnings growth (in a normal economy; cash flow growth in recession) provides the best opportunity for achieving superior portfolio returns over the long term. The investment philosophy is founded on bottom up, fundamental research. The strategy identifies companies that can grow earnings above consensus expectations to build portfolios with forward weighted earnings growth in the range of 15-20% annually. A quantitative screen is employed for factors such as revenue and earnings growth, return on invested capital, earnings consistency, earnings revisions, low financial leverage and high free cash flow rates relative to net income. Resulting companies are subjected to a qualitative assessment within the context of industry sectors. Detailed examination of income statements, cash flow and balance sheet projections is conducted, along with a judgment on the quality of management. Attractively valued stocks are chosen based on P/E relative to the benchmark, sector peers, the company's sustainable future growth rate and return on invested capital. Final portfolio construction includes diversification by economic sectors, earnings growth rates, price/earnings ratios and market capitalizations. Winslow was retained by the SBI as an active manager in January 2005.

Zevenbergen Capital Inc.

Zevenbergen's investment philosophy is founded on the principles that superior fundamentals drive stock price appreciation and exceptional management combined with balance sheet strength provides capital protection. The firm employs a forward looking, bottom-up investment process designed for long-term results. Portfolios are constructed with companies presenting established and prospective revenue, cash flow and earnings growth, while diversification and risk control are accomplished through a blend of company size, expected growth rates, and appropriate portfolio weightings. The firm remains fully invested to ensure market participation. Zevenbergen was retained by the SBI in April 1994.

Large Cap Value (Russell 1000 Value)

Barrow, Hanley, Mewhinney & Strauss, Inc. (BHMS)

BHMS believes that markets are inefficient, and can best be exploited through adherence to a value-oriented investment process dedicated to the selection of securities on a bottom-up basis. The overall portfolio will always reflect all three value characteristics: price/earnings and price/book ratios below the market and dividend yields above the market. The stocks must also be attractive according to the firm's dividend discount and relative return models. Analysts provide fundamental analysis in the final step of their investment process. BHMS was retained by the SBI in April 2004.

Earnest Partners, LLC

Earnest Partners utilizes a proprietary valuation and performance model, and rigorous fundamental review to identify stocks with the most attractive relative returns. They have identified six performance drivers – valuation measures, operating trends, market trends, growth measures, profitability measures and macroeconomic measures – and have done extensive research to determine which combination of performance drivers, or return patterns, precede outperformance for stocks in each sector. The firm's fundamental review generally includes conversations with the company's management team and industry specialists, a review of the company's financial reports, analysis of industry and company-specific studies, as well as independent field research. They control risk using a statistical approach designed to measure and control the prospects of substantially underperforming the benchmark. The portfolio is diversified across industry groups. Earnest Partners was retained by the SBI in July 2000.

Lord Abbett & Co.

Lord Abbett's strategy is based on a relative value approach and utilizes bottom-up, fundamental research as its alpha driver. They apply formal valuation analysis, with emphasis on normalized earnings, to narrow the universe of candidate securities and focus their fundamental research effort. Research analysts and portfolio managers conduct research independently on compelling stocks in their assigned industries, in an effort to identify those with the strongest fundamentals together with the most attractive valuations. The analysts' primary focus is on the timely recognition of change, or a catalyst, that might cause fundamentals and financial performance to improve over a 12-18 month time horizon. Lord Abbett was retained by the SBI in April 2004.

LSV Asset Management

LSV's philosophy is that superior long-term results can be achieved by systematically exploiting the judgmental biases and behavioral weaknesses that influence the decisions of many investors. They use quantitative techniques to rank securities based on fundamental measures of value, past performance, and indicators of near-term appreciation potential. Their risk control discipline limits the portfolio's industry and sector concentrations. LSV was retained by the SBI in April 2004.

Systematic Financial Management, L.P.

Systematic believes that stock prices follow earnings cycles. Superior portfolio returns are achievable by purchasing attractively valued stocks exhibiting positive earnings catalysts that are reflective of improving fundamentals. Systematic seeks to invest in companies trading at compelling valuations that are exceeding investor expectations, have increasing sales and improving margins, and are generating strong levels of free-cash flow. Their investment process involves a strong blend of quantitative screening and fundamental security analysis coupled with a rigorous monitoring of all holdings. Systematic was retained by the SBI in April 2004.

Small Cap Growth (Russell 2000 Growth)

McKinley Capital Management, LLC

McKinley uses a quantitatively driven investment process to systematically search for and identify signs of accelerating growth. The primary model includes linear regression to identify common stocks that are inefficiently priced relative to the market while adjusting each security for standard deviation. The candidates are then filtered and scrutinized for liquidity factors and earnings acceleration. The earnings model identifies securities with strong earnings acceleration. The qualitative review begins after the quantitative process has identified candidates for possible inclusion in the portfolio. The purpose of the qualitative analysis is to confirm that the earnings picture revealed through the quantitative analysis is both reasonable and sustainable. New ideas are taken from the quantitative screening process and confirmed through the qualitative review. McKinley was retained by the SBI in January 2004.

Next Century Growth Investors, LLC
Next Century Growth's (NCG) goal is to invest in the highest quality and fastest growing companies in America. They believe that growth opportunities exist regardless of the economic cycle. NCG uses fundamental analysis to identify companies that will surpass consensus earnings estimates. Their investment process focuses on growth companies that have superior top line revenue growth (15% or greater) an expanding market opportunity, strong management, and are well poised to outperform the market. NCG believes in broad industry diversification; sector exposures are limited to twice the benchmark weighting and individual positions to five percent. NCG was retained by the SBI in July 2000.

Turner Investment Partners, Inc.
Turner manages a small cap growth portfolio with the philosophy that earnings expectations drive stock prices. They pursue a bottom-up strategy that blends quantitative, fundamental, and technical analysis. They screen securities within sector and market capitalization groups using factors appropriate for each specific group. Companies are ranked within sectors based on multiple earnings growth and valuation factors. The goal of fundamental analysis is to evaluate how a company's future earnings will compare with consensus earnings expectations. Technical analysis is used to evaluate trends in trading volume and price, and to identify attractive entry and exit points. The SBI retained Turner in January 2004.

Small Cap Value (Russell 2000 Value)

Goldman Sachs Asset Management, L.P.
Goldman Sachs manages a small cap value portfolio using a strong valuation discipline to purchase well-positioned, cash generating businesses run by shareholder-oriented management teams. Portfolio managers are organized by industry, and use industry-specific valuation measures to evaluate companies within their area. They decompose the historical financial reports, meet with management to evaluate their competitive position within the industry, and evaluate each company's valuation attractiveness relative to other comparable companies within the sector. Goldman Sachs was retained by the SBI in January 2004.

Hotchkis and Wiley Capital Management
Hotchkis and Wiley manages a small cap value portfolio, in which they seek to exploit mispriced securities in the small cap market by investing in "undiscovered" and "out of favor" companies. They invest in stocks of which the present value of the company's future cash flows exceeds the current market price. Industry analysts determine a company's normal earnings power, or sustainable earnings level under equilibrium economic and competitive market conditions, which becomes the basis for security valuation. Hotchkis and Wiley was retained by the SBI in January 2004.

Martingale Asset Management, L.P.
Martingale manages a small cap value portfolio with the philosophy that they can exploit the long-term link between undervalued company fundamentals and current market prices to achieve superior investment returns. They use a quantitative process to identify stocks with low price/earnings ratios and high cash flow to price versus peers. The process examines multiple characteristics of quality, value and momentum. Value traps are avoided by favoring stocks with positive relative strength and earnings estimate revisions versus peers. Each stock is given a score or ranking. Martingale builds a portfolio of the highest ranked stocks while controlling industry and sector weights, and ensuring the average company size resembles the benchmark. Martingale was retained by the SBI in January 2004.

Peregrine Capital Management
Peregrine's small cap value investment process begins with their proprietary valuation analysis, which is designed to identify the small cap value stocks most likely to outperform. The valuation analysis identifies the most underpriced securities on a sector-by-sector basis. The firm analyzes over sixty fundamental factors to identify the most relevant factors in each sector. The focus of the team's fundamental research is to determine if one or more of the style's "Value Buy Criteria" are present – these include resolvable short-term problems, unrecognized assets, take-over potential, fundamental undervaluation and catalysts for change. The portfolio is

diversified and sector weights are aligned closely to the benchmark. This allows stock selection to drive performance. Peregrine was retained by the SBI in July 2000.

Semi-Passive Managers

Semi-Passive Managers (Russell 1000)

BlackRock Institutional Trust Co. (formerly Barclays Global Investors)

BlackRock uses a Core Alpha Model which disaggregates individual equity returns for each of the stocks in their universe into three inputs: relative value, earnings quality and sentiment. The relative value criteria assesses intrinsic value relative to market price. Earnings quality criteria help identify companies likely to sustain earnings growth and avoid negative surprises. Sentiment criteria help identify market participants' beliefs regarding valuation. The strategy seeks to minimize investment and operational risks not associated with adding value. Implementation costs are also considered when rebalancing return potential with risk profile of trades. The firm was retained by the SBI for semi-passive management in January 1995.

INTECH Investment Management LLC (INTECH)

Using a proprietary mathematical process, the investment strategy is designed to determine more efficient weightings of the securities within the Russell 1000 benchmark. No specific sector or security selection decisions based on fundamentals are utilized. Risk parameters include: 1) maximize information ratio, 2) security positions limited to lesser of 1.0% or 8 times maximum index security weight, and 3) beta equal to or less than benchmark beta, and 4) constraining the weighted average capital distribution to be roughly equal to the capital distribution of the benchmark. Target security positions are established using a weekly optimization routine designed to build a portfolio that will outperform a passive benchmark over the long term. Rebalancing to target proportions occurs every six (6) business days. INTECH was retained by SBI as a semi-passive manager in April 2010.

J.P. Morgan Investment Management, Inc.

J.P. Morgan believes that superior stock selection is necessary to achieve excellent investment results. To accomplish this objective, they use fundamental research and a systematic valuation model. Analysts forecast earnings and dividends for the stock universe and enter these into a stock valuation model that calculates a dividend discount rate for each security. The stocks are ranked according to this valuation measure within their economic sectors. Stocks most undervalued are placed in the first quintile. The portfolio takes overweight positions in stocks in the first and second quintiles, while underweighting stocks in the fourth and fifth quintiles. In addition, the portfolio will closely approximate the sectors and style of the benchmark. The portfolio remains fully invested at all times. The firm was retained by the SBI in January 1995.

Mellon Capital Management (formerly Franklin Portfolio)

Mellon adds incremental value to a benchmark by buying stocks quantitatively ranked the highest and selling stocks ranked the lowest, while maintaining the portfolio's systematic risk and industry weightings at levels similar to the benchmark. Mellon attempts to allocate most of the total risk level set by the client specifically to stock selection. The firm always remains fully invested. The SBI retained the firm as a semi-passive manager in January 1995.

Passive Manager

Passive Manager (R3000)

BlackRock Institutional Trust Co. (formerly Barclays Global Investors)

For the passive account, BlackRock seeks to minimize tracking error, transaction costs and investment and operational risks. The portfolio is managed against the asset class target (Russell 3000 index) using a proprietary optimization process that integrates a transaction cost model. The resulting portfolio closely matches the characteristics of the benchmark with less exposure to illiquid stocks. The firm was retained by the SBI for passive management in July 1995.

Portfolio statistics for each of the domestic equity managers can be found in the Statistical Data section of this report.

International Program Managers

Active Developed Markets Managers

Acadian Asset Management

Acadian employs structured stock and region/industry valuation models that are customized to each region. These models are designed to capture a broad range of characteristics associated with outperforming stocks. Acadian uses stock factors to predict how well each stock in the 25,000-stock universe will perform relative to its region/industry zone. These factors are based on valuation, earnings, quality and price data. Acadian also applies separate models to forecast region/industry level returns, in order to predict how well each stock's region/industry zone will perform relative to others, and then add that forecast to each stock's forecast. The investment process combines and weights the values of all the factors, utilizing a proprietary method to determine a return forecast for each stock. The end result is a ranking of the entire 25,000-stock universe from most to least attractive.

Acadian then uses a sophisticated portfolio optimization system to trade off the expected return of the stocks with such considerations as the client's benchmark index, desired level of risk, transaction cost estimates and other requirements. Portfolios are normally fully invested, with a minimal amount of cash. Country and sector weights fall out of the bottom-up stock selection process, with overall portfolio risk control ensuring the desired level of diversification. The last step of the process is a careful review of optimized portfolios by the investment team before trading, to ensure the portfolio meets the client's investment goals. Acadian was retained by the SBI in July 2005.

INVESCO Global Asset Management

INVESCO employs a systematic process that identifies undervalued- companies, combined with a consistently applied portfolio design process to control the predictability and consistency of returns. INVESCO managers believe they can add value by identifying and investing in stocks which are attractively priced relative to the sustainable growth potential of the company. This is the first of four cornerstones of their investment approach. Portfolios are constructed on a bottom-up basis. They select individual companies rather than countries, themes, or industry groups. Secondly, they conduct financial analysis on a broad universe of non-U.S. companies, with key financial data adjusted to be comparable across countries and currencies. Third, INVESCO believes that using the firm's own local investment professionals enhances fundamental company research. Finally, they manage risk and ensure broad diversification relative to the clients' benchmark utilizing a statistics-based portfolio construction approach instead of utilizing country or industry constraints. INVESCO was retained by the SBI in February 2000.

J.P. Morgan Investment Management Company

J.P. Morgan's international equity process focuses on stock selection as the primary source of added value, seeking to build a portfolio diversified by both sector and region. Approximately 150 investors are based locally in regional markets, providing insights on 1300 companies. Each regional team ranks companies within local markets, 1(best) to 5(worst). Local teams both undertake research and manage local portfolios. The most attractive names on a regional basis, primarily those ranked 1 and 2, are then further analyzed by a team of London-based Global Sector Specialists. They seek to provide global industry insights and build on the local market analysis already undertaken. The team seeks to identify the most attractive names within each sector, ranking companies A (best) to D (worst). The final stage of the investment process rests with a team of senior portfolio managers, who are responsible for constructing risk controlled portfolios, capturing the best thinking of both the local and global teams. The emphasis is on delivering alpha through bottom-up stock picking. J.P. Morgan was retained by the SBI in July 2005.

Marathon Asset Management

Marathon uses a blend of qualitative disciplines to construct portfolios. The resulting style and emphasis of the portfolio may vary over time and by market, depending on Marathon's perception of what represents the best value opportunity. Since the firm believes that profitability is inversely proportional to competition, Marathon is attracted to industries where the level of competition is declining. They will hold a sector position as long as the level of competition does not increase. At the stock level, Marathon tracks a company's competitive position relative to the attractiveness of their products or services and determines whether the company is following an appropriate capital reinvestment strategy for their current competitive position. Marathon was retained by the SBI in November 1993.

McKinley Capital Management

Using proprietary quantitative models, McKinley's investment process searches for and identifies signs of accelerating growth. The initial universe consists of 30,000 publicly traded non-U.S. stocks, from all capitalization categories in more than 60 countries. The primary model includes a linear regression model to identify stocks that are inefficiently priced in US dollars relative to the market while adjusting each security for standard deviation. The ratio of alpha to standard deviation (risk adjusted relative return) is the primary screening value. The remaining candidates then pass through liquidity and strength of earnings tests. The earnings tests identify securities with strong earnings acceleration.

In the final portfolio construction process, McKinley examines a variety of qualitative factors which could ultimately impact earnings. These include a qualitative data check and street research analysis of economic factors, specific industry themes and company fundamentals. The final portfolio will hold between 35-50 stocks, providing diversification and risk control by issue, industry, sector and country. McKinley was retained by the SBI in July 2005.

Pyramis Global Advisors Trust Company (formerly Fidelity Mgmt. Trust Co.)

Pyramis' International Growth strategy is a core, growth-oriented strategy that provides diversified exposure to the developed international markets benchmark. The investment process combines active stock selection and regional asset allocation. Four portfolio managers in London, Tokyo, Hong Kong, and Boston construct regional sub-portfolios, selecting stocks based on Pyramis analysts' bottom-up research and their own judgment and expertise. The four regional portfolios are combined according to the policy determined by Pyramis' Asset Allocation Group (AAG). The AAG, is comprised of senior investment professionals who base their decision from micro-economic data derived from portfolio manager inputs, analysts' field research, and proprietary data on liquidity, market activity, and fund flows. Portfolio guidelines seek to ensure risk is commensurate with the performance target and to focus active risk on stock selection. Resulting portfolios typically contain between 200-250 holdings. Pyramis was retained by the SBI in July 2005.

Columbia Management Investment Advisers, LLC (formerly RiverSource Investments, LLC)

Columbia's objective is to focus on key forces of change in the markets and the companies that will benefit. They believe that a good understanding of the likely impact of these changes at a company level, complemented with an appreciation of the ability of management to exploit these changes, creates significant opportunities to pick winners and avoid losers. Companies are analyzed within a macroeconomic and global sector/thematic framework. "Top down" views on macroeconomics and trends in global sectors combine with "bottom-up" company analysis along regional and global sector lines. Analysts propose a rating of A through to E for approximately 150-200 stocks in each region reflecting the expected performance on a 12-month view. Columbia was retained by the SBI in February 2000. In December 2003, the Threadneedle team replaced the original investment team.

Semi-Passive Developed Markets Managers

AQR Capital Management

AQR employs a disciplined quantitative approach emphasizing both top-down country/currency allocation and bottom-up security selection decisions to generate excess returns. AQR's investment philosophy is based on the fundamental concepts of value and momentum. AQR's international equity product incorporates stock selection, country selection, and currency selection models as the primary alpha sources. Dynamic strategy allocation (between the three primary alpha sources) and style weighting are employed as secondary alpha sources. AQR was retained by the SBI in July 2005.

Pyramis Global Advisors Trust Company (formerly Fidelity Mgmt. Trust Co.)
Pyramis' Select International strategy combines active stock selection with quantitative risk control to provide consistent excess returns above the benchmark index while minimizing relative volatility and risk. Pyramis' investment philosophy is based on the premise that international markets are semi-efficient and pricing anomalies exist. Research conducted by the firm's international equity analysts and portfolio managers provides the basis for stock selection and portfolio construction.

By combining five regional sub-portfolios in the U.K., Canada, Continental Europe, Japan, and the Pacific Basin ex Japan, the portfolio manager produces a portfolio made up of the best ideas of the firm's research analysts located throughout the world. Each regional portfolio is created so that stock selection is the largest contributor to active return while systematic, sector, and factor risks are minimized. The portfolio manager uses a combination of proprietary and third-party optimization models to monitor and control risk within each regional module. Resulting portfolios typically contain between 275-325 holdings. Pyramis was retained by the SBI in July 2005.

State Street Global Advisors
The International Alpha Strategy seeks to create value through superior security selection. Stocks are quantitatively ranked by region according to those factors which have been shown to identify mispricing: value, sentiment and earnings growth. The stock scores derived in this fashion are translated into forecasts of stock outperformance. The regional portfolio managers review all suggestions in terms of selections and weightings. A separate process projects transaction costs for each stock. Proprietary portfolio construction software is then used to generate a recommended buy/sell list based on the trade off between expected outperformance and the trading costs.

State Street Global Advisor's risk management process permits multiple and simultaneous risk penalties and implies that, as industry, country and capitalization deviations become greater and greater, the incremental expected return from a stock must increase in order to compensate for the greater benchmark relative risk. They also impose country, sector, industry, and security specific bands relative to the benchmark as an additional risk management tool and manage other exposures such as capitalization, beta and yield to be similar to that of the underlying benchmark. The investment process creates core portfolios that provide clients with stringent risk control, the return of the asset class, and the benefit of active management. SSgA was retained by the SBI in July 2005.

Passive Developed Markets Managers

State Street Global Advisors
State Street manages an international index portfolio designed to track the Morgan Stanley Capital International Index of the World ex. United States. State Street uses a full replication strategy to construct the index by country. Stock index and country futures, approved by the Commodity Futures Trading Commission, are also used to minimize tracking error and allow for cash in flow and out flow. State Street was retained by the SBI in October 1992.

Active Emerging Markets Managers

AllianceBernstein L.P.
AllianceBernstein's emerging markets equity process focuses on fundamental research-driven stock selection, which is structured by industry within the emerging markets regions. AllianceBernstein's three regional portfolio management and research teams, focused on Asia, Eastern Europe/Middle East/Africa and Latin America, construct portfolios within their respective regions. These regional portfolios are aggregated to establish AllianceBernstein's total emerging markets exposure in the portfolio. AllianceBernstein believes that investment success in the emerging markets stems from investing in those companies in each region with quality managements in growth businesses, with superior fundamentals and improving corporate governance. AllianceBernstein further believes that these companies can best be identified through rigorous fundamental research, conducted by internal, on-the-ground analysts. Although the investment philosophy emphasizes bottom-up stock selection, parameters are established at the portfolio level to manage risk. Exposures by region are maintained close to the benchmark weights, and

deviations are made when an excess or a lack of opportunities exist within a particular region. Maximum position constraints are imposed at the stock and country level, and industry exposures are generally a by-product of stock selection. The SBI retained AllianceBernstein in January 2001.

Capital International, Inc.

Capital International, Inc. has a long history of investing in emerging markets for its affiliate, Capital Guardian Trust Company, one of the Capital Group Companies. Capital is distinguished by its extensive commitment to fundamental research, with a large team of experienced analysts focused on gathering in-depth information first-hand on companies throughout the world. Their philosophy can best be described as value-oriented with research efforts focused on trying to identify the difference between the underlying value of a company and the price of its securities in its home market. This basic, fundamental approach is blended with macroeconomic and political judgments on the outlook for economies, industries, currencies and markets. A critical ingredient in this blending process is the recognition that the relative importance of each factor will vary from time to time, and none can be treated as being of paramount importance at all times. The account is divided among six portfolio managers and a research portfolio. The research portfolio is managed by a team of research analysts who select stocks within the sectors they cover. All portfolio managers are free to make their own decisions (within risk control limits) as to sector, quality emphasis, cash reserves, and issue selection. The SBI retained Capital International, Inc. in January 2001.

Morgan Stanley Investment Management

Morgan Stanley Investment Management is an emerging markets specialist. Their belief is that the emerging markets are a distinct asset class offering a diverse set of investment opportunities. As both macroeconomic and stock-specific factors drive the emerging markets, Morgan Stanley integrates both top-down country allocation and bottom-up stock selection in order to produce superior performance over the medium to long term. Effective investment management requires a dedicated manager who utilizes a set of investment tools tailored to the return and risk potential of this asset class. Morgan Stanley's core investment style combines growth and value as both are potential drivers of performance in emerging markets investing. They believe that growth-oriented companies trading at attractive valuations offer the best return prospects in the emerging markets. Morgan Stanley Investment Management was retained by the SBI for emerging market management in January 2001.

Portfolio statistics for each of the international managers can be found in the Statistical Data section of this report.

Fixed Income Program Managers

Active Managers

Aberdeen Asset Management, Inc. (formerly Deutsche Asset Management)

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

Dodge & Cox Investment Management

Dodge & Cox manages a high quality (typically AA or better weighted average quality,) diversified portfolio of securities that are selected through fundamental analysis. The firm believes that by combining fundamental research with a long-term investment horizon it is possible to uncover and act upon inefficiencies in the valuation of market sectors and individual securities. When this fundamental research effort is combined with a disciplined program of risk analysis, attractive returns are possible over the long-term. In seeking above average returns, Dodge & Cox emphasizes individual security selection, strives to build portfolios that have a higher yield than the broad bond market, and analyzes portfolio and individual security risk. Dodge & Cox was retained by the SBI in February 2000.

Pacific Investment Management Co. LLC (PIMCO)

PIMCO's investment approach seeks to outperform a client's benchmark on a consistent basis, while maintaining overall risk similar to the index. PIMCO's approach to investing has three key principles: the utilization of multiple strategies, a long-term orientation and bond selection from a broad universe. PIMCO's investment process starts with an annual Secular Forum. The goal of this Forum is to look beyond the current business cycle and determine how secular forces will play out over the next 3 to 5 years. Quarterly, PIMCO holds Economic Forums to evaluate growth and inflation over the next 6 to 9 months. Following PIMCO's Secular and Economic Forums, the PIMCO Investment Committee (IC) develops key portfolio strategies. They consider both the "top-down" conclusions emanating from PIMCO's Forum, as well as the "bottom-up" market intelligence provided by PIMCO's teams of sector specialist portfolio managers. Through an interactive series of meetings, the IC defines a set of consistent strategies that are then implemented by sector specialists who do in-depth research and recommend individual securities to the portfolio manager to be included in the portfolio. PIMCO was retained by the SBI in September 2008.

Columbia Management Investment Advisers, LLC (formerly RiverSource Investments, LLC)

Columbia manages portfolios using a bottom-up, relative value approach in combination with a top-down, macro outlook that guides the firm's relative value decisions. The firm employs in-depth fundamental research and credit analysis combined with proprietary valuation disciplines to identify individual relative value opportunities across market sectors. The duration and maturity structure of the portfolio are managed using a rigorous quantitative approach centered on the firm's proprietary interest rate forecasting models. Columbia is committed to diversification of sources of active risk in the portfolios it manages, and believes that proper diversification combined with consistent evaluation of risk-reward trade-offs leads to superior risk-adjusted performance. Columbia was retained by the SBI in July 1993.

Western Asset Management

Western emphasizes the use of multiple strategies and active sector and issue selection, while constraining overall interest rate risk relative to the benchmark. Multiple strategies are proportioned so that results do not depend on one or two opportunities, and no single adverse market event would have an overwhelming effect. This approach adds consistent value over time and can reduce volatility. Long term value investing is Western Asset's fundamental approach. In making their sector decision, the firm seeks out the greatest long-term value by analyzing all fixed income market sectors and their economic expectations. Individual issues are identified based on relative credit strength, liquidity, issue structure, event risk, covenant protection, and market valuation. Western believes that successful interest rate forecasting is extremely difficult to accomplish consistently and consequently keeps portfolio duration within a narrow band around the benchmark. Western was retained by the SBI in July 1984.

Semi-Passive Managers

BlackRock Financial Management

BlackRock manages a semi-passive index portfolio that closely tracks the Barclays Capital Aggregate. BlackRock's strategy is a controlled-duration, sector rotation style, which can be described as active management with tighter duration, sector, and quality constraints. BlackRock seeks to add value through: 1) controlling portfolio duration within a narrow band relative to the benchmark, 2) relative value sector/sub-sector rotation and security selection, 3) rigorous quantitative analysis of the valuation of each security and of the portfolio as a whole, 4) intense credit analysis and review, and 5) the judgment of experienced portfolio managers. Advanced risk analytics measure the potential impact of various sector and security strategies to ensure consistent value added and controlled volatility. BlackRock was retained by the SBI in April 1996.

Goldman Sachs Asset Management

Goldman manages a semi-passive portfolio that closely tracks the Barclays Capital Aggregate. Goldman manages the portfolio within a risk-controlled framework. The firm relies primarily on sector allocation and security selection strategies to generate incremental return relative to the benchmark. To a lesser degree, term structure and highly controlled interest rate anticipation strategies are also implemented. Portfolios are diversified among various sectors and individual securities. Goldman combines long-term strategic investments with short-term tactical trading opportunities. Strategic investments are based on fundamental and quantitative sector research and seek to optimize the long-term risk/return profile of portfolios. Tactical trades between sectors and securities within sectors are implemented to take advantage of short-term market anomalies. Goldman was retained by the SBI in July 1993.

Neuberger Berman Fixed Income LLC (formerly Lincoln Capital and Lehman Brothers Asset Management, LLC)

Neuberger manages a semi-passive portfolio that closely tracks the Barclays Capital Aggregate. Neuberger's process relies on a combination of quantitative tools and active management judgment. Explicit quantification and management of risks are at the heart of their investment process. Neuberger uses proprietary risk exposure analysis to analyze 25 interest rate factors, and over 43 spread-related factors, including those relating to credit quality, sector classification and sub-sector representations. Neuberger analyzes every bond in the index for all relevant factors, and capitalization weights the results to calculate index level risk exposures. For each interest rate factor, the portfolio is very closely matched to the index such that the expected return for the portfolio matches that of the index for any change in interest rates. For each spread factor, the portfolio can deviate slightly from the index as a means of seeking value-added. Setting active risk exposures that must fall within pre-established limits controls risk. To manage credit risk, corporate holdings are diversified across a large number of issues. Neuberger was retained by the SBI in July 1988.

Portfolio statistics for each of the bond managers can be found in the Statistical Data section of this report.

Assigned Risk Plan Managers

GE Asset Management
GE Asset Management manages the stock portfolio for the Assigned Risk Plan. Their strategy is to maintain a style-neutral position between value and growth stocks and focus on fundamental, bottom-up stock selection to add value. This strategy is accomplished by combining the expertise of three portfolio managers, each with different styles ranging from value to growth, supported by a staff of industry analysts. Each analyst is responsible for one or more industries and together provide analytical coverage across the full spectrum of industries. The three portfolios are combined to create a well-diversified portfolio while neutralizing the style bet. GE Asset Management was retained by the SBI in January 1995.

RBC Global Asset Management
RBC manages the fixed income portfolio for the Assigned Risk Plan. The main objective for the portfolio is to provide cash for the payment of workers compensation claims on the required dates. Because of the uncertainty of premium and liability cash flows, the fund is invested conservatively. RBC uses a top-down approach to bond selection. They focus on sector analysis and security selection and position the portfolio to provide a yield greater than that of the benchmark. Yield curve and duration analysis are secondary considerations. RBC has managed the bond portfolio since July 1991.

Stable Value Manager

Galliard Capital Management, Inc.
Galliard Capital Management manages the Fixed Interest Account in the Supplemental Investment Fund. The stable value fund is managed to protect principal and provide competitive interest rates using instruments somewhat longer than typically found in money market-type accounts. The manager invests the Account in well diversified portfolios of high quality investment grade fixed income securities. The manager invests cash flows to optimize yields. The manager also invests in investment contracts with U.S. and non-U.S. financial institutions that provide principal protection for the diversified bond portfolios regardless of daily market changes. To maintain necessary liquidity, the manager invests a portion of the portfolio in its Stable Return Fund and in cash equivalents. The Stable Return Fund is a large, daily priced fund consisting of a wide range of stable value instruments that is available to retirement plans of all sizes. The firm was retained by the SBI in November 1994.

State Deferred Compensation Plan Non-SIF Mutual Fund Managers

Janus Twenty Fund
The fund is an actively managed large cap equity option. The investment objective of this fund is long-term growth of capital from increases in the market value of the stocks it owns. The fund will concentrate its investments in holdings of about thirty common stocks. This non-diversified fund seeks to invest in companies that the portfolio manager believes have strong current financial positions and offer growth potential. The fund was retained by the SBI in July 1999.

Legg Mason Partners Appreciation I Fund
The fund is an actively managed large cap equity option. The manager seeks to build a portfolio providing low volatility and consistent returns by investing in a blend of value and growth stocks. The manager selects dividend-paying blue chip stocks at reasonable valuations and growth stocks that have been discounted by the market. The manager will hold significant cash positions if the market is judged to be too pricey. The fund was retained by the SBI in December 2003.

T. Rowe Price Small Cap Stock Fund
The strategy of this fund is to invest primarily in stocks of small to medium-sized companies that are believed to offer either superior earnings growth or appear undervalued. The fund normally invests at least 80% of assets in equities traded in the U.S. over-the-counter market. The manager does not favor making big bets on any particular sector or any particular stock. The fund's combination of growth and value stocks offers investors relatively more stable performance compared to other small cap stock funds. The fund was retained by the SBI in July 1999.

Dodge & Cox Balanced Fund
The fund offers a mix of stocks and bonds to investors seeking diversification in one investment

option. The manager typically has a mix of 60 percent to 65 percent stocks and 30 percent to 35 percent bonds, and changes the mix between stocks and bonds slowly. The manager follows a disciplined value approach for the equity portfolio and has a larger exposure to mid-cap stocks than other balanced mutual funds. The manager emphasizes mid-quality corporate bonds and attractively priced mortgage-backed securities in the bond portfolio. The duration of the bond portfolio is kept close to that of the overall bond market. The fund was retained by the SBI in October 2003.

Dodge & Cox Income Fund
The objective of this fund is a high and stable rate of current income with capital appreciation being a secondary consideration. This portfolio invests primarily in intermediate term, investment-grade quality corporate and mortgage bonds and, to a lesser extent, government issues. While it invests primarily in the U. S. bond market, the fund may invest a small portion of assets in dollar-denominated foreign securities. The duration of the portfolio is kept near that of the bond market as a whole. The fund was retained by the SBI in July 1999.

Fidelity Diversified International Fund
The goal of this fund is capital appreciation by investing in securities of companies located outside the United States. While the fund invests primarily in stocks, investments are made in larger companies located in developed countries. The manager uses a bottom-up stock selection process based on the extensive fundamental research available from the company's many security analysts. Sector and country weightings are reviewed for risk control. The manager also uses a rigorous computer-aided quantitative analysis supplemented by relevant economic and regulatory factors. The manager rarely invests in currency to protect the account from exchange fluctuations. The fund was retained by the SBI in July 1999.

Vanguard Institutional Index Plus Fund
The passively managed fund tracks the S&P 500 index. This fund attempts to provide investment results, before fund expenses, that parallel the performance of the Standard & Poor's 500 index. The fund invests in all 500 stocks in the S&P 500 index in approximately the same proportions as they are represented in the index. The fund may use futures and options for temporary purposes, but generally remains fully invested in common stocks. The fund was retained by the SBI in July 1999.

Vanguard Mid Capitalization Index Institutional Fund
The fund is passively managed to track the performance of the MSCI US Mid Cap 450 index, an index of stocks of medium-size U.S. companies. The manager holds positions in all companies in the index and uses futures and options for handling cash needs. The fund was retained by the SBI in January 2004.

Vanguard Balanced Index Fund Institutional
The fund portfolio provides a diversified portfolio of stocks and bonds by investing in a mix of 60 percent stocks and 40 percent bonds. The manager does not change the asset mix. The fund is passively managed with the equity portfolio invested to track the returns of the MSCI US Broad Market index, which encompasses stocks of companies of all sizes and the bond portfolio invested to track the returns of the Barclays Capital Aggregate Bond index. The fund was retained by the SBI in December 2003.

Vanguard Total Bond Market Index Fund Institutional
The fund is passively managed to track the performance of the Barclays Capital Aggregate Bond index. The manager uses an index sampling technique to invest in investment-grade corporate, U.S. Treasury, mortgage-backed and asset-backed securities of varying maturities in order to create a portfolio of intermediate duration like the Barclays Capital Aggregate. The fund was retained by the SBI in December 2003.

Vanguard Institutional Developed Markets Index Fund
The fund is passively managed to track the returns of the MSCI EAFE index. The fund is invested in the Vanguard European Stock Index Fund and the Vanguard Pacific Stock Index Fund. The fund has minimal exposure to emerging markets. The European Stock Index Fund tracks the MSCI Europe index, a capitalization weighted benchmark of the region's largest stocks and

markets. The Pacific Stock Index Fund tracks the MSCI Pacific index, which includes mostly large companies from Japan, Australia, Hong Kong, Singapore and New Zealand. The fund was retained by the SBI in December 2003.

State Deferred Compensation Plan Insurance Company Investment Contract Managers

In March 2008, the SBI merged the Deferred Compensation Plan's Minnesota Fixed Fund into the Supplemental Investment Fund Fixed Interest Account. Galliard, the manager of the Fixed Interest Account (see "Stable Value Manager"), absorbed into its portfolio the investment contracts of the three insurance companies that invested the assets of the now defunct Minnesota Fixed Fund. These companies are Principal Life, Des Moines, Iowa; Minnesota Life, St. Paul, Minnesota; and Great-West Life, Denver, Colorado. As these insurance contracts mature on a quarterly basis, Galliard reinvests the proceeds in the Fixed Interest Account fixed income portfolios.

Investment Manager Summaries

Alternative Investment Managers

Private Equity Managers

Adams Street Partners

Adams Street (formerly Brinson Partners) Venture Partnership Acquisition Funds I and II were formed in 1988 and 1990, respectively. Fund I and II invest exclusively in secondary venture capital limited partnership interests which are sold by investors who, for a variety of reasons, have decided to sell some or all of their venture capital holdings. Adams Street Partners is based in Chicago, Illinois.

Fund	Market Value ($)	Unfunded Commitment ($)	Period (Years)
Venture Partnership Acquisition Fund I	41,880	0	22.14
Venture Partnership Acquisition Fund II	54,629	0	19.59

Advent International

Advent International GPE VI was formed for the purpose of investing primarily in buyout and recapitalization opportunities in upper middle-market companies in Europe and North America. Advent has regional headquarters in Boston and London.

Fund	Market Value ($)	Unfunded Commitment ($)	Period (Years)
Advent International GPE VI	17,415,255	32,625,000	2.25

Affinity Capital

Affinity Ventures Funds IV and V were formed to make venture capital investments exclusively in the health care industry, with a focus on companies in the medical device, health care service, health care information technology, and biotechnology sectors. Affinity Capital is based in Minneapolis, MN.

Fund	Market Value ($)	Unfunded Commitment ($)	Period (Years)
Affinity Ventures IV	1,467,511	968,153	6.00
Affinity Ventures V	2,076,533	2,600,000	1.99

Banc Funds Co., L.L.C.

Based in Chicago, Illinois, Banc Fund VII and Banc Fund VIII will invest primarily in sub-regional banks, located primarily in the Midwest, which have demonstrated above average growth and are likely acquisition targets.

Fund	Market Value ($)	Unfunded Commitment ($)	Period (Years)
Banc Fund VII	24,820,740	0	5.25
Banc Fund VIII	19,403,765	79,582,500	2.18

Blackstone Group

Blackstone Capital Partners Funds II, IV, V and VI are limited partnerships which were formed in 1993, 2002, 2006, and 2008, respectively, and have ten year terms. Based in New York, the funds will invest in a variety of private equity transactions.

Fund	Market Value ($)	Unfunded Commitment ($)	Period (Years)
Blackstone Capital Partners Fund II	4,381,169	0	16.60
Blackstone Capital Partners Fund IV	52,357,303	1,138,041	7.97
Blackstone Capital Partners Fund V	100,330,072	24,443,221	4.41
Blackstone Capital Partners Fund VI	0	100,000,000	1.93

Investment Manager Summaries

Blum Capital

Blum Strategic Partners, L.P., Blum Strategic Partners II, Blum Strategic Partners III, and Blum Strategic Partners IV were organized in 1998, 2001, 2005 and 2007, respectively, and have ten year terms. Based in San Francisco, the funds will focus on value-oriented private and public equity investments located primarily in the U.S.

Fund	Market Value ($)	Unfunded Commitment ($)	Period (Years)
Blum Strategic Partners	460,695	841,693	11.52
Blum Strategic Partners II	12,132,437	9,814,111	8.95
Blum Strategic Partners III	41,150,131	408,903	5.08
Blum Strategic Partners IV	130,792,936	12,969,797	2.61

CarVal Investors

CVI Global Value Fund was formed in 2007 and is based in Minneapolis with offices in Beijing, Buenos Aires, Cobham, Copenhagen, Delhi, Luxembourg, Paris, Singapore, Shanghai and Tokyo. The Fund will make investments in loan portfolios, corporate securities, international real estate and real estate loans and special opportunities.

Fund	Market Value ($)	Unfunded Commitment ($)	Period (Years)
CVI Global Value Fund	205,681,193	10,000,000	3.46

Chicago Growth Partners (formerly William Blair)

Formed in 2001, 2005 and 2008 with ten-year terms, the funds are based in Chicago and seek investments in a broad spectrum of private companies at various stages of development.

Fund	Market Value ($)	Unfunded Commitment ($)	Period (Years)
William Blair Capital Partners VII	9,364,232	1,850,000	9.31
Chicago Growth Partners I	40,399,632	708,002	4.93
Chicago Growth Partners II	14,870,075	44,746,936	2.30

Coral Group Inc.

Coral Partners IV and V are Minnesota-based venture capital limited partnerships managed by the Coral Group. These funds make technology and healthcare venture capital investments. They were formed in 1994 and 1998, respectively.

Fund	Market Value ($)	Unfunded Commitment ($)	Period (Years)
Coral Partners IV	1,173,591	0	15.94
Coral Partners V	1,373,932	0	12.04

Court Square Capital

Court Square Capital Partners I and Court Square Capital Partners II were formed in 2001 and 2006, respectively, to make private equity investments in a diversified, global portfolio of companies. Court Square Capital is based in New York.

Fund	Market Value ($)	Unfunded Commitment ($)	Period (Years)
Court Square Capital Partners I	29,130,848	19,915,163	8.55
Court Square Capital Partners II	75,592,975	91,779,553	3.82

Investment Manager Summaries

Credit Suisse

DLJ Merchant Banking Partners III was formed in 2000. Based in New York with offices worldwide, the Fund's investments will involve a variety of transactions, including leveraged and unleveraged acquisitions, recapitalizations, restructurings, workouts, expansion financings and other, similar situations.

Fund	Market Value ($)	Unfunded Commitment ($)	Period (Years)
DLJ Merchant Banking Partners III	71,032,233	4,347,806	9.75

Credit Suisse

Strategic Partners I, II B, III B, III VC, IV B, and IV VC were formed to invest in secondary leveraged buyout, venture capital, and mezzanine debt limited partnership interests which are sold by investors who, for a variety of reasons have decided to liquidate all or a portion of their private equity holdings. All of the funds are based in New York.

Fund	Market Value ($)	Unfunded Commitment ($)	Period (Years)
DLJ Strategic Partners Fund I	17,802,879	6,575,552	9.44
CSFB Strategic Partners Fund II B	36,821,947	11,277,070	6.95
CSFB Strategic Partners Fund III B	81,780,804	21,481,334	5.08
CSFB Strategic Partners Fund III VC	16,960,667	2,717,494	5.08
CS Strategic Partners Fund IV B	66,492,209	37,442,884	2.26
CS Strategic Partners Fund IV VC	22,413,221	18,697,303	2.03

Crescendo Ventures

Crescendo Venture Funds III and IV were organized in 1999 and 2000, respectively. They have offices in Minneapolis, Minnesota, and Palo Alto, California. The funds will pursue opportunistic venture capital investments throughout the U.S.

Fund	Market Value ($)	Unfunded Commitment ($)	Period (Years)
Crescendo Venture Fund III	1,416,952	0	11.65
Crescendo Venture Fund IV	36,874,377	0	10.31

CVC Capital Partners

CVC European Equity Partners V was formed for the purpose of investing primarily in the European mid and large buyout markets, with investment opportunities available from a broad range of sectors and geographies.

Fund	Market Value ($)	Unfunded Commitment ($)	Period (Years)
CVC European Equity Partners V	26,676,040	88,252,914	2.26

Diamond Castle Partners

Diamond Castle Partners IV, based in New York, was established in 2006 to make private equity investments primarily in the following sectors: energy and power, healthcare, media and telecom, and financial services.

Fund	Market Value ($)	Unfunded Commitment ($)	Period (Years)
Diamond Castle Partners IV	56,353,089	23,758,441	3.81

Investment Manager Summaries

DSV Management Ltd.

DSV Partners IV limited partnership was formed in 1985. The firm has offices in Princeton, New Jersey and California. DSV focuses on start-up and early stage investments.

Fund	Market Value ($)	Unfunded Commitment ($)	Period (Years)
DSV Partners IV	32,782	0	25.22

EBF & Associates

Based in Minneapolis, Merced Partners II and Merced Partners III expect to invest in securities with strong downside protection from identifiable asset value and compelling return potential from some combination of current income, asset value appreciation, secondary market instrument appreciation, and enterprise value creation or appreciation. Merced Partners II was formed in 2006 and Merced Partners III was formed in 2010.

Fund	Market Value ($)	Unfunded Commitment ($)	Period (Years)
Merced Partners II	70,750,591	11,231,120	3.25
Merced Partners III	2,800,000	97,200,000	0.15

Elevation Partners

Elevation Partners was formed in 2005 for the purpose of making private equity investments targeting the media and entertainment sectors, with a focus on content and intellectual property. Elevation has offices in Menlo Park and New York.

Fund	Market Value ($)	Unfunded Commitment ($)	Period (Years)
Elevation Partners	37,715,106	11,166,654	5.12

Fox Paine and Company

Fox Paine Capital Fund II was formed in 2000. Based in Foster City, CA, the fund focuses on private equity investments in middle market operating businesses in a wide variety of industries.

Fund	Market Value ($)	Unfunded Commitment ($)	Period (Years)
Fox Paine Capital Fund II	23,176,350	4,591,867	10.00

Golder, Thoma, Cressey and Rauner

Based in Chicago, Golder, Thoma and Cressey Funds IV and V are venture capital limited partnerships and were formed in 1993 and 1996, respectively. The funds invest in growing private businesses, find and build companies in fragmented industries and invest in small leveraged buyouts. In addition, each fund is diversified geographically and by industry.

Fund	Market Value ($)	Unfunded Commitment ($)	Period (Years)
Golder, Thoma and Cressey Fund IV	196,478	0	16.41
Golder, Thoma and Cressey Fund V	697,836	0	14.00

Investment Manager Summaries

GTCR Golder Rauner

GTCR Golder Rauner Funds VI, VII and IX formed in 1998, 2000, and 2006 are funds of a successor firm to the private equity firm of Golder, Thoma, Cressey and Rauner. The SBI has several investments with Golder, Thoma, Cressey and Rauner. Based in Chicago, the funds focus primarily on a wide variety of private equity investments in consolidating and fragmented industries.

Fund	Market Value ($)	Unfunded Commitment ($)	Period (Years)
GTCR Golder Rauner Fund VI	7,621,735	0	12.00
GTCR Golder Rauner Fund VII	905,561	15,750,011	10.39
GTCR Golder Rauner Fund IX	43,459,992	22,567,394	4.00

Goldman Sachs Capital Partners

GS Capital Partners 2000, GS Capital Partners V, and GS Capital Partners VI were formed in 2000, 2005 and 2007, respectively, by Goldman Sachs. Based in New York, the funds will focus on domestic and international investments in four areas: merchant banking, telecommunications, broadband, and technology.

Fund	Market Value ($)	Unfunded Commitment ($)	Period (Years)
GS Capital Partners 2000	22,023,373	0	9.83
GS Capital Partners V	84,110,359	33,609,636	5.25
GS Capital Partners VI	29,571,785	60,833,006	3.41

Goldner Hawn Johnson and Morrison

GHJM Marathon Fund IV and GHJM Marathon Fund V were organized in 1998 and 2004, respectively. Based in Minneapolis, the funds will pursue primarily middle market private equity investments located in the Midwest and other parts of the U.S.

Fund	Market Value ($)	Unfunded Commitment ($)	Period (Years)
GHJM Marathon Fund IV	6,916,476	949,000	11.21
GHJM Marathon Fund V	49,883,434	2,114,484	5.74

Hellman and Friedman

Hellman and Friedman IV, V, VI and VII were organized in 2000, 2004, 2007 and 2009. Based in San Francisco, the funds will pursue opportunistic private equity investments located in the U.S. and internationally.

Fund	Market Value ($)	Unfunded Commitment ($)	Period (Years)
Hellman and Friedman IV	25,469,967	16,032,506	10.49
Hellman and Friedman V	145,902,943	16,269,372	5.58
Hellman and Friedman VI	135,715,839	44,103,451	3.25
Hellman and Friedman VII	0	50,000,000	1.19

Investment Manager Summaries

Kohlberg, Kravis, Roberts & Co. (KKR)

KKR's Funds are structured as limited partnerships. The funds invest in large leveraged buyouts but may include other types of investments as well. The partnerships' portfolio companies are often mature, low technology companies with diversified operations. Kohlberg, Kravis, Roberts and Co. is based in New York.

Fund	Market Value ($)	Unfunded Commitment ($)	Period (Years)
KKR 1987 Fund	1,399,979	0	22.60
KKR 1993 Fund	563,968	0	16.53
KKR 1996 Fund	21,888,935	0	13.83
KKR Millennium Fund (2001)	175,325,593	0	7.56
KKR 2006 Fund	148,243,407	36,920,472	3.76

Lexington Capital Partners

Lexington Capital Partners VI and Lexington Capital Partners VII were formed in 2006 and 2009, respectively, for the purpose of making investments in established buyout, mezzanine and venture capital funds, primarily through secondary transactions. The funds are based in New York.

Fund	Market Value ($)	Unfunded Commitment ($)	Period (Years)
Lexington Capital Partners VI	60,485,251	17,252,417	4.51
Lexington Capital Partners VII	457,416	98,531,295	1.05

RWI Ventures

RWI Group III and RWI Ventures I were formed in 1998 and 2000, respectively, to make venture capital investments. The Funds are based in California and have expected terms of ten years. The RWI Funds were transferred to the SBI from the Minneapolis Teachers Retirement Fund Association (MTRFA) on June 30, 2006 pursuant to the merger of MTRFA into TRA.

Fund	Market Value ($)	Unfunded Commitment ($)	Period (Years)
RWI Ventures I	1,558,651	0	4.00
RWI Group III	122,230	0	4.00

Sightline Healthcare (Piper Jaffray)

Sightline Healthcare Funds II, III, and IV were organized in 1997, 1999 and 2003, respectively. Based in Minneapolis, Minnesota, the funds will focus on a geographically diverse portfolio of healthcare venture capital investments.

Fund	Market Value ($)	Unfunded Commitment ($)	Period (Years)
Sightline Healthcare Fund II	1,244,684	0	13.33
Sightline Healthcare Fund III	6,207,188	0	11.44
Sightline Healthcare Fund IV	3,126,970	178,939	6.76

Silver Lake Partners

Silver Lake Partners II and III were formed in 2003, and 2007. With offices in New York and Menlo Park, the funds will focus primarily on large-scale private equity investing in technology companies.

Fund	Market Value ($)	Unfunded Commitment ($)	Period (Years)
Silver Lake Partners II	81,909,314	11,259,243	6.00
Silver Lake Partners III	41,194,416	59,649,395	3.25

Investment Manager Summaries

Split Rock Partners

Split Rock Partners and Split Rock Partners II were formed in 2005 and 2008, respectively, by Split Rock Partners Management (formerly part of St. Paul Venture Capital). With offices in Minneapolis and Menlo Park, the funds will focus on private equity investments in seed and early-stage healthcare and software companies.

Fund	Market Value ($)	Unfunded Commitment ($)	Period (Years)
Split Rock Partners	29,474,166	15,036,364	5.16
Split Rock Partners II	7,411,584	50,800,000	2.17

Summit Partners

Summit Ventures II and V are limited partnerships formed in 1988 and 1998. Summit Partners focuses on profitable, expansion stage firms that have not yet received any venture backing. The majority of the partnership investments are in high tech firms. Investments are diversified by location and industry type.

Fund	Market Value ($)	Unfunded Commitment ($)	Period (Years)
Summit Ventures II	166,096	1,500,000	22.13
Summit Ventures V	559,106	875,000	12.25

Thoma Cressey Bravo Equity Partners

Thoma Cressey Bravo is one of two successor firms to the private equity firm of Golder, Thoma, Cressey and Rauner. The SBI has several investments with Golder, Thoma, Cressey and Rauner. Thoma Cressey VI, VII and VIII were formed in 1998, 2000, and 2006. Based in Chicago, the funds focus primarily on a wide variety of private equity investments in consolidating and fragmented industries.

Fund	Market Value ($)	Unfunded Commitment ($)	Period (Years)
Thoma Cressey Fund VI	11,445,528	1,085,000	11.86
Thoma Cressey Fund VII	22,032,968	0	9.85
Thoma Cressey Fund VIII	78,015,745	2,117,426	4.16

Thomas, McNerney & Partners

Thomas, McNerney & Partners is based in Minneapolis, with additional offices in New York and San Francisco. The Thomas, McNerney & Partners Fund I and Fund II were formed in 2005 and 2006 to make venture capital investments in all stages of development and across all sectors of the health care industry.

Fund	Market Value ($)	Unfunded Commitment ($)	Period (Years)
Thomas, McNerney & Partners Fund I	14,977,858	3,075,000	7.65
Thomas, McNerney & Partners Fund II	17,674,058	25,375,000	4.00

T. Rowe Price

T. Rowe Price, a Baltimore-based money management firm, was selected to manage stock distributions from the SBI's alternative investment limited partnerships. T. Rowe Price has extensive research capabilities in the small capitalization company area. In addition, the firm has a large trading staff with particular expertise in the trading of small capitalization and illiquid stocks.

Fund	Market Value ($)	Unfunded Commitment ($)	Period (Years)
T. Rowe Price	51,625,024	0	N/A

Investment Manager Summaries

Varde Partners

Varde Fund IX and Varde Fund X are limited partnership formed in 2008 and 2010 respectively. Based in Minneapolis, the funds will invest in distressed and/or mispriced private and public investments.

Fund	Market Value ($)	Unfunded Commitment ($)	Period (Years)
Varde Fund IX	130,547,800	0	2.02
Varde Fund X	44,494,515	105,000,000	0.19

Vestar Capital Partners

Vestar Capital Partners IV and V are limited partnerships that were formed in 1999 and 2006. Based in New York, the funds invest primarily in a number of private middle market companies.

Fund	Market Value ($)	Unfunded Commitment ($)	Period (Years)
Vestar Capital Partners IV	24,844,611	2,621,922	10.54
Vestar Capital Partners V	64,506,597	17,613,211	4.53

Warburg Pincus & Co., Inc.

Warburg Pincus is based in New York, New York. These funds will invest private equity in a wide variety of businesses located domestically and abroad. The SBI committed to the first fund in 1994, the second fund in 1998, the third fund in 2002, the fourth fund in 2005, and the fifth fund in 2007.

Fund	Market Value ($)	Unfunded Commitment ($)	Period (Years)
Warburg Pincus Ventures	449,773	0	15.50
Warburg Pincus Equity Partners	23,581,268	0	12.01
Warburg Pincus Private Equity Partners VIII	86,327,761	0	8.21
Warburg Pincus Private Equity Partners IX	98,439,466	0	4.93
Warburg Pincus Private Equity Partners X	67,674,121	71,564,086	2.68

Wayzata Investment Partners

Wayzata Opportunities Fund I and Wayzata Opportunities Fund II were formed in 2006 and 2007, respectively, for the purpose of making investments in distressed securities where it can expect to exert significant influence on the restructuring process and potentially control the reorganized company. The Funds are based in Wayzata, Minnesota.

Fund	Market Value ($)	Unfunded Commitment ($)	Period (Years)
Wayzata Opportunities Fund I	131,159,294	19,500,000	4.53
Wayzata Opportunities Fund II	138,169,785	52,500,000	2.69

Welsh, Carson, Anderson and Stowe

Welsh, Carson, Anderson and Stowe Funds VIII, IX, X and XI were formed in 1998, 2000, 2005, and 2008. Based in New York, N.Y., the funds focus on private equity investments in the healthcare and information services industries.

Fund	Market Value ($)	Unfunded Commitment ($)	Period (Years)
Welsh, Carson, Anderson and Stowe Fund VIII	31,924,895	0	11.93
Welsh, Carson, Anderson and Stowe Fund IX	62,718,768	5,000,000	10.01
Welsh, Carson, Anderson and Stowe Fund X	85,172,752	12,421,534	4.54
Welsh, Carson, Anderson and Stowe Fund XI	13,409,239	83,761,258	1.94

Investment Manager Summaries

Zell/Chilmark
Zell/Chilmark was formed in 1990 and is substantially liquidated. Based in Chicago, Illinois, the Fund focused on corporate restructuring and rejuvenation situations.

Fund	Market Value ($)	Unfunded Commitment ($)	Period (Years)
Zell/Chilmark	36,254	0	19.97

Real Estate Managers

Blackstone Real Estate Associates
Based in New York, Blackstone Real Estate Partners V and VI formed in 2006 and 2007 to make real estate investments in a variety of sectors, geographic locations and business climates. Blackstone will consider investments in major urban office buildings, the lodging sector, distribution and warehousing centers, retail, and a variety of real estate operating companies.

Fund	Market Value ($)	Unfunded Commitment ($)	Period (Years)
Blackstone Real Estate Partners V	55,064,331	13,555,638	4.17
Blackstone Real Estate Partners VI	30,978,383	13,555,638	3.25

Colony Advisors
Colony Investors III is a closed-end commingled real estate fund managed by Colony Capital Inc. of Los Angeles, CA. The funds' strategy is to invest in undervalued equity and debt real estate-related assets. The SBI committed to Fund III in 1998.

Fund	Market Value ($)	Unfunded Commitment ($)	Period (Years)
Colony Investors III	5,204,200	0	12.50

Credit Suisse
CSFB Strategic Partners III RE and CS Strategic Partners IV RE were formed in 2005 and 2008, respectively, for the purpose of purchasing secondary interests of real estate funds. The funds will follow a strategy similar to that of the CSFB Strategic Partners private equity funds, in which the SBI is also an investor. Credit Suisse is based in New York.

Fund	Market Value ($)	Unfunded Commitment ($)	Period (Years)
CSFB Strategic Partners III RE	10,691,148	208,353	5.00
CS Strategic Partners IV RE	26,553,599	6,931,088	2.03

Lehman Brothers
Lehman Brothers Real Estate Partners II and Lehman Brothers Real Estate Partners III were formed in 2005 and 2007, respectively, and expect to invest in properties, real estate companies and service businesses ancillary to the real estate industry on a global basis. The funds' worldwide headquarters are in New York, with regional headquarters in London and Tokyo.

Fund	Market Value ($)	Unfunded Commitment ($)	Period (Years)
Lehman Brothers Real Estate Partners II	37,366,525	4,743,952	5.00
Lehman Brothers Real Estate Partners III	29,486,024	88,245,672	2.11

Investment Manager Summaries

Morgan Stanley (Lend Lease)

Prime Property Fund was formed in 1973 by the New York-based Lend Lease Real Estate Group, Inc. Morgan Stanley acquired the management rights in 2003. The account is an open-end commingled real estate fund and the SBI's commitment was made in 1981. The fund has no termination date and investors retain the option to withdraw all or a portion of their investment. The fund makes equity investments in existing real estate and is diversified by location and property type.

Fund	Market Value ($)	Unfunded Commitment ($)	Period (Years)
Prime Property Fund	190,886,305	0	28.72

TA Associates Realty

TA Realty Associates Funds V, VI, VII, VIII, and IX are closed-end, commingled real estate funds managed by TA Associates Realty of Boston, MA. The funds invest in small to medium sized properties generally diversified by location and type. On-site management of properties is contracted to outside firms. The SBI committed to the funds in 1999, 2002, 2004, 2006, and 2008, respectively.

Fund	Market Value ($)	Unfunded Commitment ($)	Period (Years)
TA Realty Associates Fund V	17,074,168	0	11.10
TA Realty Associates Fund VI	37,776,635	0	8.01
TA Realty Associates Fund VII	52,791,192	0	5.62
TA Realty Associates TA Realty VIII	66,114,300	0	4.00
TA Realty Associates TA Realty IX	40,000,000	60,000,000	1.85

UBS Realty Investors

UBS Trumbull Property Fund is an open-end commingled real estate fund managed by UBS Realty, acquired from Aetna Life Insurance Company. The fund was formed in 1978 and the SBI's commitment was made in 1982. The fund has no termination date; investors have the option to withdraw all or a portion of their investments. UBS Trumbull Property Fund invests primarily in existing equity real estate. Investments are diversified by location and type of property.

Fund	Market Value ($)	Unfunded Commitment ($)	Period (Years)
UBS Trumbull Property Fund	226,136,080	0	28.17

Resource Funds Managers

Apache Corporation

Apache Corporation is a Houston based oil and gas company. Apache Acquisition Net Profits Interest is a private placement that was formed in 1986 to acquire a non-operating interest in the net profit generated by oil and gas properties acquired in 1986 from Occidental Petroleum Company. The fund will remain in effect throughout the producing life of the properties.

Fund	Market Value ($)	Unfunded Commitment ($)	Period (Years)
Apache Acquisition Net Profits Interest	3,705,570	0	23.50

Investment Manager Summaries

EnCap Investments

EnCap Energy Capital Fund VII was formed for the purpose of making privately negotiated equity and equity-linked investments in the independent sector of the oil and gas industry. EnCap Investments is based in Houston, Texas.

Fund	Market Value ($)	Unfunded Commitment ($)	Period (Years)
EnCap Energy Capital Fund VII	38,008,513	53,994,912	3.00

First Reserve Corp.

First Reserve funds were formed in 1998, 2001, 2003, 2006, and 2008, respectively, and are structured as limited partnerships. The general partner's long-term investment strategy is to create diversified portfolios of oil and gas investments.

Fund	Market Value ($)	Unfunded Commitment ($)	Period (Years)
First Reserve VIII	662,003	0	12.17
First Reserve IX	338,000	0	9.22
First Reserve X	67,491,988	0	5.66
First Reserve XI	118,290,169	31,933,703	3.52
First Reserve XII	47,358,146	84,545,036	1.66

Natural Gas Partners

Based in Irving Texas, NGP Midstream & Resources will make direct investments in selected areas of the energy infrastructure and natural resources sectors, primarily targeting the midstream energy sector and all facets of the mining, minerals and related power sectors. Natural Gas Partners IX is also based in Irving Texas, and will focus primarily on these sectors of the energy industry that are related to the production and development of crude oil and natural gas in North America.

Fund	Market Value ($)	Unfunded Commitment ($)	Period (Years)
NGP Midstream & Resources	73,446,225	32,950,118	3.25
Natural Gas Partners IX	65,788,963	80,328,027	2.69

Sheridan Production Partners

Sheridan Production Partners was formed in 2007 to pursue a strategy of acquiring a portfolio of currently producing oil and gas properties and optimizing the operations of those properties through production acceleration and recovery enhancement, appropriate use of capital reinvestment and aggressive cost control. The Fund is headquartered in Houston Texas.

Fund	Market Value ($)	Unfunded Commitment ($)	Period (Years)
Sheridan Production Partners I	98,927,998	18,997,740	3.25

Simmons & Company

The Fund serves as a vehicle for investment in the oil field service (OFS) and equipment industry. The General Partner is located in Houston, Texas. Fund IV was formed in 1998.

Fund	Market Value ($)	Unfunded Commitment ($)	Period (Years)
SCF - IV	6,192	0	12.25

Investment Manager Summaries

T. Rowe Price

T. Rowe Price, a Baltimore-based money management firm, was selected to manage stock distributions from the SBI's alternative investment limited partnerships. T. Rowe Price has extensive research capabilities in the small capitalization company area. In addition, the firm has a large trading staff with particular expertise in the trading of small capitalization and illiquid stocks.

Fund	Market Value ($)	Unfunded Commitment ($)	Period (Years)
T. Rowe Price	0	0	N/A

TCW Asset Management Company

TCW Energy XIV and TCW Energy XV were formed in 2007 and 2010, respectively, for the purpose of making mezzanine and equity investments in energy and energy-related infrastructure projects and companies on a global basis. The funds operate from offices in Washington D.C., Los Angeles, Houston, New York and London.

Fund	Market Value ($)	Unfunded Commitment ($)	Period (Years)
TCW Energy XIV	60,957,579	26,642,089	3.20
TCW Energy XV	2,073,575	101,605,175	0.06

Yield-Oriented Managers

Audax

Audax Mezzanine Fund III was formed in 2010 and has a ten year term. Based in New York, the fund expects to invest in a diversified portfolio of mezzanine securities, with a specific focus on the middle market.

Fund	Market Value ($)	Unfunded Commitment ($)	Period (Years)
Audax Mezzanine III	0	100,000,000	0.24

BlackRock Financial Management

Carbon Capital was formed in 2001. Based in New York, the fund will focus on mezzanine real estate loans secured by commercial property assets, primarily in the U.S.

Fund	Market Value ($)	Unfunded Commitment ($)	Period (Years)
Carbon Capital	5,222	0	8.13

Citicorp Capital Investors, Ltd.

Citicorp Mezzanine Partners and Citicorp Mezzanine Partners III are limited partnerships formed in 1995 and 1999, respectively, by Citicorp Capital Investors Ltd. of New York, New York. The Funds will invest in a broad range of transactions utilizing subordinated debt and equity securities.

Fund	Market Value ($)	Unfunded Commitment ($)	Period (Years)
Citicorp Mezzanine Partners	115,818	0	15.50
Citicorp Mezzanine Partners III	5,780,181	0	10.66

Investment Manager Summaries

Credit Suisse

DLJ Investment Partners II and III are limited partnerships formed in 1999 and 2006. Based in New York, the Funds will invest in a variety of securities, including subordinated debt with warrants, preferred stock with warrants, common stock or other securities, including interests in joint ventures.

Fund	Market Value ($)	Unfunded Commitment ($)	Period (Years)
DLJ Investment Partners II	1,114,962	4,210,995	10.49
DLJ Investment Partners III	11,690,462	74,572,199	4.02

Equinox Investment Partners

KB Mezzanine Fund II is a limited partnership formed in 1994 by Kleinwort Benson Group, a leading London-based merchant banking firm. In 1996, the fund manager reorganized and changed its name to Equinox Investment Partners. Fund II invests in a broad range of transactions including utilizing subordinated debt and equity securities. The SBI committed to the fund in 1994.

Fund	Market Value ($)	Unfunded Commitment ($)	Period (Years)
KB Mezzanine Fund II	31,363	0	14.75

Gold Hill Venture Lending Partners

Gold Hill Venture Lending and Gold Hill 2008 were formed in 2004 and 2008, respectively. The funds are expected to generate returns through secured loans, gains on the sales of securities acquired upon the exercise of warrants, and through the disposition of direct equity investments. Prior to forming Gold Hill, the partners executed a similar mandate for Silicon Valley Bank, and they expect to continue a close relationship for purposes of deal-sourcing. Gold Hill has offices in Santa Clara and Boston.

Fund	Market Value ($)	Unfunded Commitment ($)	Period (Years)
Gold Hill Venture Lending	28,082,952	0	5.75
Gold Hill 2008	9,165,013	17,062,705	2.00

Goldman Sachs Mezzanine Partners

GS Mezzanine Partners II, III, 2006 and V are limited partnerships formed in 2000, 2003, 2006 and 2007 respectively. Based in New York, the Funds' investment objectives are to achieve long-term capital appreciation and current returns through investments in mezzanine securities. These securities will principally include fixed income securities such as debt and preferred stock, often with an equity component, such as warrants, options, a convertible feature, or common stock associated with the debt or preferred stock purchase.

Fund	Market Value ($)	Unfunded Commitment ($)	Period (Years)
GS Mezzanine Partners II	19,823,586	0	10.33
GS Mezzanine Partners III	26,980,555	0	6.97
GS Mezzanine Partners 2006	51,965,749	26,000,112	4.23
GS Mezzanine Partners V	57,540,874	91,516,013	2.69

GTCR Golder Rauner

GTCR Capital Partners is a limited partnership formed in 1999. Based in Chicago, the Fund will make mezzanine investments primarily in companies in which a GTCR Equity Fund invests or has invested. GTCR invests in consolidating, fragmented industries by teaming with top executives to build companies through acquisition and internal growth.

Fund	Market Value ($)	Unfunded Commitment ($)	Period (Years)
GTCR Capital Partners	357,298	10,410,578	10.63

Investment Manager Summaries

Merit Capital Partners (formerly William Blair Mezzanine Partners)

William Blair Mezzanine Capital Partners III, Merit Capital Partners IV, and Merit Capital Partners V are limited partnerships formed in 1999, 2004, and 2009. Based in Chicago, the Funds will invest primarily in fixed rate subordinated debt securities. These securities generally will be purchased with a significant equity component in the form of warrants, common stock or contingent interest.

Fund	Market Value ($)	Unfunded Commitment ($)	Period (Years)
William Blair Mezzanine Capital Partners III	12,503,592	3,042,000	10.49
Merit Capital Partners IV	58,646,356	9,383,242	5.54
Merit Capital Partners V	0	75,000,000	0.53

Merit Energy Company

Merit Energy Partners B, C, D, E, and F were formed in 1996, 1998, 2000, 2003 and 2005, respectively. Based in Dallas, TX, the funds will focus on resource investments in producing oil and gas properties.

Fund	Market Value ($)	Unfunded Commitment ($)	Period (Years)
Merit Energy Partners B	61,690,304	0	14.00
Merit Energy Partners C	178,092,650	0	11.67
Merit Energy Partners D	153,765,794	17,061,697	9.10
Merit Energy Partners E	60,338,149	60,016,803	5.71
Merit Energy Partners F	33,106,168	61,040,169	4.27

Prudential Capital Group

Prudential Capital Partners I, II, and III were formed in 2001, 2005, and 2009, respectively. Based in Chicago, the Funds will make mezzanine investments, typically including convertible debt, preferred stock and warrants, with a specific focus on middle market companies.

Fund	Market Value ($)	Unfunded Commitment ($)	Period (Years)
Prudential Capital Partners I	35,450,727	3,173,850	9.20
Prudential Capital Partners II	83,089,720	8,097,556	5.00
Prudential Capital Partners III	31,904,299	65,010,479	1.20

Quadrant

Institutional Commercial Mortgage Fund V was formed in 1997. Based in Atlanta, GA, the fund focus on mortgage investment in real estate located throughout the U.S.

Fund	Market Value ($)	Unfunded Commitment ($)	Period (Years)
Institutional Commercial Mortgage Fund V	12,181,028	0	10.91

Summit Partners

Summit Subordinated Debt Funds I, II, III and IV are limited partnerships formed in 1994, 1996, 2004 and 2007, respectively. The funds will invest in many of the same companies as the Summit Venture funds. Investments by those partnerships will principally take the form of subordinated debt with equity features. These yield-oriented investments will provide current income over the life of the investment with the potential for additional returns.

Fund	Market Value ($)	Unfunded Commitment ($)	Period (Years)
Summit Subordinated Debt Fund I	81,810	2,000,000	16.25
Summit Subordinated Debt Fund II	3,128,209	4,500,000	12.91
Summit Subordinated Debt Fund III	29,577,164	2,309,035	6.37
Summit Subordinated Debt Fund IV	5,718,433	44,250,000	2.26

Investment Manager Summaries

T. Rowe Price

T. Rowe Price, a Baltimore-based money management firm, was selected to manage stock distributions from the Board's alternative investment limited partnerships. T. Rowe Price has extensive research capabilities in the small capitalization company area. In addition, the firm has a large trading staff with particular expertise in the trading of small capitalization and illiquid stocks.

Fund	Market Value ($)	Unfunded Commitment ($)	Period (Years)
T. Rowe Price	283,200	0	N/A

TCW/Crescent Mezzanine

TCW/Crescent Mezzanine Partners III is a Los Angeles based limited partnership formed in 2001. The Fund will make mezzanine investments including subordinated debt with equity participations primarily in profitable, middle market companies.

Fund	Market Value ($)	Unfunded Commitment ($)	Period (Years)
TCW/Crescent Mezzanine Partners III	13,316,380	6,164,736	9.25

Windjammer Capital Investors

Windjammer Funds II and III are limited partnerships formed in 2000 and 2005. The Funds will provide subordinated debt and/or preferred stock accompanied by warrants or other forms of equity participation and, in certain instances, common stock to middle market companies. The Funds will seek to generate both current income and substantial capital gains while limiting risk.

Fund	Market Value ($)	Unfunded Commitment ($)	Period (Years)
Windjammer Mezzanine & Equity Fund II	34,206,195	14,873,976	10.25
Windjammer Senior Equity Fund III	49,677,454	33,184,147	4.49

Commissions and Trading Volume By Broker for Fiscal Year 2010

Broker	Stock $ Volume	Stock Commission	Bond $ Volume	Bond $ Commission	Short Term $ Volume
A & C BROKERAGE	-	-	86,428,020	-	-
ABBEY NATIONAL	-	-	-	-	49,998,833
ABG SECURITIES	3,047,634	4,565	-	-	-
ABG SUNDAL COLLIER NORGE ASA	63,672	95	-	-	-
ABN AMRO ASIA SECS LTD	144,044	289	-	-	-
ABN AMRO EQUITIES AUSTRALIA LT	1,142,605	2,286	-	-	-
ABN AMRO SECURITIES	68,313,477	54,908	-	-	-
ABN AMRO, HOARE, GOVETTE	6,989,978	12,084	-	-	-
ABN-AMRO BANK	16,512,070	28,942	-	-	-
ACCESS SECURITIES	163,172,219	105,778	-	-	-
AGORA	629,302	1,025	-	-	-
AK CAPITAL	-	-	293,550	-	-
ALCHEMY SHARE & STOCK BROKER	679,008	1,705	-	-	-
AMADON CORPORATION	5,615,596	9,797	-	-	-
AMBIT CAPITAL PRIVATE LIM	257,218	646	-	-	-
AMERICAN EXPRESS CREDIT	-	-	-	-	58,987,671
AMERICAN TECHNOLOGY RES. INC.	10,499,857	25,551	-	-	-
ANDERSON & STRUDWICK, IND.	-	-	627,144	-	-
ANTIQUE STOCK BROKING LTD	949,235	2,366	-	-	-
AQUA SECURITIES	455,317	753	-	-	-
ARDEN PARTNERS LTD	689,117	1,066	-	-	-
ARNHOLD	246,325	615	-	-	-
ASIAN MARKETS	118,385	301	-	-	-
ATA SECURITIES INC.	317,421	634	-	-	-
AUERBACH GRAYSON	1,375,780	11,128	-	-	-
AUTRANET	5,076,315	4,994	-	-	-
AVONDALE PARTNERS LLC	4,702,672	11,947	-	-	-
B RILEY AND CO. INC.	653,765	2,577	-	-	-
BA SECURITIES INC	-	-	3,427,432,536	-	4,806,370,688
BACNO ITAU SA	1,235,249	1,318	-	-	-
BANCHILE	224,909	393	-	-	-
BANCO BILBAO VISCAYA	114,957	115	-	-	-
BANCO ESPIRITO SANTO	5,950	9	-	-	-
BANCO EXTERIOR DE ESPANA	580,796	581	-	-	-
BANCO INBURSA	821,618	1,647	-	-	-
BANCO PACTUAL S.A.	430,526	1,295	-	-	-
BANCO PORTUGUES DE INVESTIMENT	789,944	1,186	-	-	-
BANCO SANT	7,949,123	19,258	-	-	-
BANCO SANTANDER DE NEGOCIOS	3,690,249	9,458	-	-	-
BANK AM BELLEVUE ZURICH	92,962	139	-	-	-
BANK J. VONTOBEL, ZURICH	3,786,492	5,688	-	-	-
BANK OF AMERICA	-	-	-	-	184,904
BANK OF MONTREAL NEW	-	-	142,668	-	-
BANK OF MONTREAL, LONDON	69,644	104	-	-	-
BANK OF NE	3,466,761	5,300	-	-	-
BANK OF NY SECURITIES INC	-	-	35,315,654	-	-
BANK OF NY/BARCLAY LONDON	-	-	95,644,155	-	-
BANK ONE KENTUCKY N.A.	-	-	298,773	-	-
BANQUE NATIONALE DE PARIS	1,032,871	2,037	5,581,299	-	-
BANQUE PARIBAS	25,533	38	-	-	-
BARCLAY FINANCIAL CORP	618,714	709	-	-	-
BARCLAYS CAPITAL INC	905,795,868	821,411	4,239,251,372	-	2,459,830,245
BARCLAYS GLOBAL INVESTORS	81,643	2	-	-	-
BARING SECURITIES	104,867,380	131,267	-	-	-
BARNARD JACOBS AND CO (PTY) LTD	3,118,964	5,828	-	-	-
BATLIVALA+KARANI SECS INDIA PV	2,345,269	5,839	-	-	-
BAY CREST PARTNERS	84,519,329	57,520	-	-	-
BAYERISCHE HYPO- UND VEREINSBA	138,545	208	-	-	-
BAYPOINT TRADING LLC	2,481,933	3,441	-	-	-
BEAR STEARNS SECS	924,393,042	512,308	-	-	-
BEAR STEARNS SECURITIES	1,482,634,108	432,861	-	-	-
BEAR, STEARNS & CO.	171,066,668	136,150	256,376,873	-	-
BELTONE SECURITIES BROKERAGE	2,040,092	6,099	-	-	-
BERNSTEIN SANFORD	338,253,190	204,274	-	-	-

Commissions and Trading Volume
By Broker for Fiscal Year 2010

Broker	Stock $ Volume	Stock Commission	Bond $ Volume	Bond $ Commission	Short Term $ Volume
BLACKMONT CAPITAL INC	20,529	15	-	-	-
BLAIR & COMPANY	41,695,881	57,797	26,053,540	-	-
BLAYLOCK & PARTNERS	22,031,066	18,398	-	-	-
BLOOMBERG	46,591,037	68,543	-	-	-
BLUEFIN RESEARCH	1,047,793	229	-	-	-
BMO CAPITAL MARKETS	71,898	130	-	-	-
BNP FINANCE, PARIS FRANCE	3,667,684	1,835	-	-	-
BNP PARIBAS	-	-	96,978,465	-	-
BNP PARIBAS PEREGRINE SEC., ASIA	11,222,625	21,327	-	-	-
BNP-BANQUE NATIONALE DE PARIS	440,000	-	-	-	-
BNY/ITC DEALERS	-	-	26,477,523	-	-
BNY/SUNTRUST CAPITAL MARKETS	-	-	16,197,443	-	-
BOE SECURITIES LTD	521,745	1,046	-	-	-
BOLGER & CO INC	323,863	485	-	-	-
BONY MELLON	-	-	218,223	-	-
BRADESCO SECURITIES	380,836	1,146	-	-	-
BREAN MURRAY, CARRET & CO., LLC	352,056	537	-	-	-
BROADCORT CAPITAL	306,607,981	362,276	-	-	-
BROADPOINT CAPITAL	-	-	1,401,675	-	-
BROCKHOUSE & COOPER	20,209,569	10,382	-	-	-
BROOKVIEW CAPITAL LLC	1,288,913	1,851	-	-	-
BROWN (ALEX) & SONS INC.	1,613,134,655	709,244	8,492,435,424	-	64,541,203
BROWN BROS. HARRIMAN	3,304,405	7,582	-	-	-
BTIG	11,216,916	10,114	4,148,438	-	-
BUCKINGHAM RESEARCH GRP	11,832,348	12,395	-	-	-
BUNTING WARBURGER SEC	23,965,946	24,445	-	-	-
BURNS FRY & TIMMINS	20,014,339	18,734	-	-	-
C.L. KING & ASSOC.	9,100,885	9,612	2,319,075	-	-
CA IB INVESTMENT	16,944,090	34,466	-	-	-
CABRERA CA	17,579,263	8,788	-	-	-
CALYON JAPAN	824,997	678	-	-	-
CALYON SECURITIES USA INC	25,756	21	-	-	49,999,861
CANACCORD CAPITAL CORP	1,829,434	3,145	-	-	-
CANACCORO	5,241,238	7,776	-	-	-
CANNON BRIDGE	8,139,587	11,736	-	-	-
CANNON SEC., INC.	221,988	945	-	-	-
CANTOR FITZGERALD	231,359,960	188,620	381,076,107	-	-
CAPITAL INST. SERVICES	108,540,834	127,119	-	-	-
CARIS & CO	234,569	667	-	-	-
CARLIN EQUITIES	1,596,791	2,971	-	-	-
CARNEGIE	4,939,254	7,124	-	-	-
CASTLE OAK	26,318	22	-	-	-
CAZENOVE & CO.	19,498,621	26,629	-	-	-
CDS RBC DO	-	-	201,149,192	-	-
CELFIN CAPITAL SA CORREDORES	551,612	1,650	-	-	-
CENTURY SECS	-	-	60,831,545	-	-
CHAPDELAINE & CO	-	-	2,711,472	-	-
CHASE MANHATTAN BANK	149,539	97	1,576,751,754	-	-
CHASE SECURITIES INC	-	-	1,089,687,018	-	8,399,439
CHEMICAL BANK	-	-	984,438,069	-	-
CHEUVREUX	96,334,807	103,488	-	-	-
CHEVRON OIL FIN. CO.	-	-	-	-	27,998,367
CHINA INTERNATIONAL CAP CORP	6,967,755	11,913	-	-	-
CI NORDIC	7,709,650	4,083	-	-	-
CIBC WORLD	6,574,838	8,113	94,247	-	-
CIBC WORLD MARKETS	124,573	149	-	-	-
CISCO OF AMERICA INC	-	-	501,055	-	-
CITADEL SECURITIES LLC	-	-	18,773,988	-	-
CITATION GROUP	66,691,919	45,308	-	-	-
CITI LAVA ALGO	33,662	19	-	-	-
CITIBANK	5,815,463	16,994	6,300,477	-	-
CITIBANK CANADA	427,261	609	-	-	-
CITIBANK MEXICO	24,873,769	43,937	-	-	-
CITIBANK NA TOKYO	467,138	100	-	-	-

Commissions and Trading Volume By Broker for Fiscal Year 2010

Broker	Stock $ Volume	Stock Commission	Bond $ Volume	Bond $ Commission	Short Term $ Volume
CITICORP	199,967	248	-	-	-
CITIGROUP	500,116	225	-	-	-
CITIGROUP GLOBAL MARKETS INC	98,081,294	139,213	37,460,777	798	2,022,065,840
CITIGROUP INC	-	-	-	-	1,105,344,313
CJS SECURITIES	642,479	557	-	-	-
CL GLAZER INC.	56,773,830	121,307	-	-	-
CLARKE & CO	-	-	20,077,344	-	-
COLLINS STEWART	15,622,211	18,683	-	-	-
COMMERCE INTL MERCHANT BANKERS	121,564	305	-	-	-
COMMERZBAN	53,587	54	-	-	-
COMMERZBANK AG	1,359,548	1,360	-	-	-
CORE PACIFIC SECURITIES INTL	60,632	61	-	-	-
COWEN&CO	234,305,297	130,318	670,623	-	-
CRAIG-HALLUM INC	5,969,758	24,980	-	-	-
CREDIT AGR	1,827,939	914	-	-	-
CREDIT AGRICOLE INDOSUEZ	9,352,056	13,922	-	-	-
CREDIT LYONNAIS	40,594,266	92,283	-	-	-
CREDIT LYONNAIS SECURITIES	10,711,672	25,562	-	-	-
CREDIT RESEARCH & TRADING	3,183,310	3,151	124,125,648	-	-
CREDIT SUISSE	46,935,952	66,279	-	-	-
CREDIT SUISSE FIRST BOSTON LTD	146,948,172	173,586	390,614	-	-
CRONIN & CO INC	-	-	7,460,343	-	-
CRUTTEDEN GUST & MERH	9,088,808	17,969	-	-	-
CS FIRST BOSTON	123,479,725	177,760	40,153,750	-	19,426,997,965
CS SECURITIES EUROPE LTD	17,315	10	-	-	-
CSFB	4,425,682	6,222	-	-	-
CSI US INTERNATIONL	7,023,268	4,525	-	-	-
CUTTONE & CO	137,819,504	99,845	-	-	-
D CARNEGIE AG STOCKHOLM, SWEDEN	2,134,163	3,103	-	-	-
D.A. DAVIDSON	16,864,489	29,427	-	-	-
DAEWOOD SECURITIES CO., LTD	11,920,769	22,277	-	-	-
DAIN RAUSCHER INC	83,400,204	117,976	888,029,769	-	3,399,384
DAISHIN SECS	2,972,617	2,679	-	-	-
DAIWA SBCM	4,325,235	4,763	-	-	-
DAIWA SEC. AMERICA	45,080,346	36,799	2,996,250	-	-
DALAL & BROACHA	468,840	1,166	-	-	-
DAVENPORT & CO	470,219	1,195	-	-	-
DAVY (J+E)	3,947,267	3,640	-	-	-
DBS VICKER	6,642	13	-	-	-
DEMOOR DUNDEE SECS	68,427	93	-	-	-
DEN DANSKE BANK	757,536	675	-	-	-
DESJARDIN SECURITIES	128,006	107	-	-	-
DESTINY CAPITAL SECURITIES	-	-	23,393,467	-	-
DEUTSCHE BANK	272,810,320	211,299	102,439,796	-	-
DEUTSCHE BANK AG NEW YORK	1,933,208	1,068	-	-	-
DEUTSCHE BANK SECS	-	-	31,514,577	-	10,463,507,011
DEUTSCHE EQ. PVT., LTD.	13,275,210	16,571	-	-	-
DEUTSCHE M	7,145,486	10,019	-	-	-
DEUTSCHE S	1,221,013	1,792	-	-	-
DEUTSCHE SECURITIES	16,042,961	19,546	-	-	-
DEUTSCHE SECURITIES ASIA	32,319,932	65,762	-	-	-
DHANKI SECURITIES PVT LTD.	2,879,559	5,338	-	-	-
DIRECT FROM ISSUER	3,219,561	-	-	-	-
DIRECT TRADING INSTITUTIONAL	18,264,885	14,003	-	-	-
DIVINE CAPITAL MARKETS LLC	1,456,055	1,626	-	-	-
DNB NOR MARKETS CUSTODY	9,008	13	-	-	-
DOLAT CAPITAL MARKETS	461,481	1,153	-	-	-
DONALDSON	73,332	15	-	-	-
DONGWON SECURITY	1,345,957	3,105	-	-	-
DOUGHERTY CO	3,061,701	6,778	-	-	-
DOWLING & PARTNERS SEC LLC	1,412,315	6,644	-	-	-
DSP MERRILL LYNCH	2,418,123	7,226	-	-	-
DSP MERRILL LYNCH BOMBAY INDIA	13,408,515	29,615	-	-	-
DUNCAN WILLIAMS GOVT SEC	-	-	4,710,806	-	-

Commissions and Trading Volume
By Broker for Fiscal Year 2010

Broker	Stock $ Volume	Stock Commission	Bond $ Volume	Bond $ Commission	Short Term $ Volume
DUNDEE SECURITIES	410,531	619	-	-	-
DUNDOE SECURITY CORP	5,098	11	-	-	-
E D & F MAN INTERNATIONAL SEC	-	-	353,441	-	-
E. OHMAN JOB FONDKOMMISSION AB	53,633	80	-	-	-
ECZACIBASI MENKUL DEGERLER	338,297	844	-	-	-
EDELWEISS SECURITIES	1,453,892	3,624	-	-	-
ENAM SECURITIES PVT LTD	1,455,452	3,200	-	-	-
EQUINITI CORPORATE	70,787	-	-	-	-
EQUITY PLANNING CORP	240,848	372	-	-	-
EQUITY-ONE CORPORATION	1,322,710	210	4,405,550	-	-
EVOLUTION BEESON GREGORY	1,959,318	2,917	-	-	-
EXANE, PARIS	25,674,009	31,178	-	-	-
EXECUTION SERVICES INC	99,424,607	117,528	-	-	-
F M MAYER & CO	-	-	710,156	-	-
FEDERAL RESERVE BANK OF BOSTON	-	-	988,486	-	-
FIDELITY C	64,044,725	39,617	-	-	-
FIDENTIIS	2,916,632	4,368	-	-	-
FINANCIAL BROKERAGE	10,661,132	26,333	-	-	-
FINANCIERA SAN PEDRO	215,445	188	-	-	-
FIRST BOSTON CORPORATION	2,639,458,274	1,465,115	8,763,639,464	-	-
FIRST MARATHON SEC., LTD	-	-	3,942,489	-	-
FIRST PACIFIC	9,137,029	12,175	-	-	-
FIRST SECURITIES	26,043	112	-	-	-
FIRST TENN BANK, NA	-	-	2,185,865	-	-
FIRST UNION CAP MKTS	204,645,389	215,768	220,164,740	-	-
FLEMING (ROBERT) INC	8,096,564	8,752	-	-	-
FONDSFINIAN	48,884	59	-	-	-
FORD FINANCIAL SERVICES	-	-	-	-	729,789,345
FORTIS BANK	-	-	52,575,035	-	-
FOX PITT KELTON INC	2,493,297	9,798	-	-	-
FOX RIVER EXECUTION TECHNOLOGY	21,263,233	7,118	-	-	-
FRANK CHAP	-	-	10,569,959	-	-
FRANK RUSSEL	948,448	1,218	-	-	-
FRIEDMAN, BILLINGS & RAMSEY	55,734,277	54,393	-	-	-
FUJI SECURITIES	6,034,318	6,934	-	-	-
G-TRADE SEC	10,666,098	8,847	-	-	-
G.K. GOH	2,254,746	5,290	-	-	-
GARDNER RICH & COLE	995,581	1,197	-	-	-
GENERAL ELEC CAPITAL CORP	-	-	-	-	916,923,474
GEOJIT BNP PARIBAS FINANCIAL	552,979	1,388	-	-	-
GLOBAL SECURITIES	7,009,648	3,505	-	-	-
GMP SECURITIES LTD.	1,800,505	5,635	-	-	-
GOLDMAN SACHS & COMPANY	1,038,456,997	871,048	7,675,030,896	90,316	1,772,545,524
GOLDMAN SACHS INTL.	278,392	354	-	-	-
GOODBODY STOCKBROKERS	2,431,837	3,297	-	-	-
GREEN STREET	7,956,801	12,221	-	-	-
GREENFIELD ARBITRAGE PARTNERS	-	-	5,516,440,812	-	138,851,089
GREENLINE INVESTORS SVCS. INC.	516,113	135	-	-	-
GREENWICH CAPITAL MARKETS INC	-	-	526,464,709	4,453	25,413,941,634
GROSS & CO. INC.	-	-	5,969,191	-	-
GUGGENHEIM CAPITAL MARKETS	1,112,281	574	-	-	-
GUZMAN & CO.	79,317,897	42,951	-	-	-
HBSC SECURITIES	-	-	509,792,408	-	-
HC ISTANBU	8,751,082	20,264	-	-	-
HEDGING GRIFFO COR DE VAL	362,359	560	-	-	-
HEEERS & CO INC.	14,901,338	12,440	-	-	-
HEXAGON SECURITIES LLC	-	-	7,618,451	-	-
HIBERNIA SOUTH COAST CAP INC	14,949,846	12,380	-	-	-
HOARE GOVETT	6,425,140	17,234	-	-	-
HONG KONG & SHANG HIGH BANKING COR	22,690,970	41,676	-	-	-
HOWARD WEIL LABOUISSE FRIEDRIC	420,369	276	-	-	-
HSBC ASSET MANAGEMENT	4,334,053	3,561	-	-	-
HSBC BANK	33,367,380	53,745	-	-	-
HSBC INVESTMENT BANK	67,700	160	-	-	-

Commissions and Trading Volume
By Broker for Fiscal Year 2010

Broker	Stock $ Volume	Stock Commission	Bond $ Volume	Bond $ Commission	Short Term $ Volume
HSBC JAMES CAPEL	4,785,990	9,569	-	-	-
HSBC SECURITIES INC	1,846,613	3,492	32,292,897	-	32,859,389,299
HUNTER SECURITIES	-	-	1,767,275	-	-
HVB CAPITAL MARKETS, INC.	2,088,459	6,262	-	-	-
IBJ INTL LTD	1,857,801	2,146	-	-	-
ICAP SECURITIES	63,098,165	71,311	-	-	-
ICHIYOSHI SECURITIES	12,161	12	-	-	-
ICICI BROKERAGE SERVICES LTD	842,499	2,110	-	-	-
INDIA INFOLINE LTD	24,671,547	63,847	-	-	-
ING BANK	11,651,022	31,229	-	-	-
ING BARING	10,790,494	16,224	-	-	-
INSTINET	836,194,358	507,877	-	-	-
INTERMONTE	2,504,852	3,758	-	-	-
INVESTEC SECURITIES	8,518,491	9,815	-	-	-
INVESTMENT TECHNOLOGY CORP	2,279,228,689	985,899	-	-	-
ISI GROUP	47,442,099	54,861	-	-	-
ISLAND TRADER SECURITIES INC.	4,595,218	4,350	-	-	-
ITG AUSTRALIA LTD	1,428,775	714	-	-	-
ITG CANADA	12,591,067	7,246	-	-	-
ITG POSIT	1,416,077	874	-	-	-
ITG SECURITIES (HK) LTD	57,408,081	25,828	-	-	-
ITGL	58,110,837	29,124	-	-	-
IVY SECURITIES INC.	12,392,833	7,381	-	-	-
J P MORGAN & CO	97,150,846	129,065	3,049,684	-	-
J P MORGAN SECURITIES INC	351,741,978	356,660	257,272,980	5,460	3,032,267,832
JACKSON PARTNERS & ASSOCIATES INC	2,268,791	888	-	-	-
JACKSON SECURITIES	2,240,489	1,616	-	-	-
JANNEY MONTGOMERY SCOTT	5,214,183	7,007	-	-	-
JEFFERIES & CO	935,067,965	543,711	207,170,279	-	184,413,809
JEFFRIES PROGRAM	1,353,341	611	-	-	-
JM FINANCIAL	2,926,584	7,309	-	-	-
JNK SECURITIES INC	18,663,356	23,108	-	-	-
JOH BERENBERG GOSSLER AND CO	1,514,850	2,143	-	-	-
JOHNSON RICE & CO	2,543,080	6,754	-	-	-
JONES & ASSOCIATES	40,413	154	-	-	-
JONESTRADING INSTITUTIONAL	154,409,234	150,499	-	-	-
JP MORGAN	12,489,691	21,444	4,111,751	-	600,000
JULIUS BAER	4,414,698	6,504	-	-	-
KAUFMAN BROTHERS	2,297,333	2,565	-	-	-
KB SECURITIES NV	96,851	97	-	-	-
KBC FINANCE	837,680	988	-	-	-
KBC PEEL	950,447	1,223	-	-	-
KEB SMITH BARNEY SECS	3,573,514	5,615	-	-	-
KEEFE BRUYETTE & WOOD	48,115,957	78,519	203,000	-	-
KELLY & CHRISTENSEN INC.	11,730,260	11,552	-	-	-
KEMPEN & CO	1,221,374	1,023	-	-	-
KEPLER CAPITAL MARKETS	125,458	150	-	-	-
KEPLER EQUITIES FRAKFURT BRAN	1,125,775	1,521	-	-	-
KEPLER EQUITIES ZURICH	2,715,968	3,938	-	-	-
KINNARD (JOHN G.) & CO	13,468,331	24,829	-	-	-
KNIGHT SECURITIES	293,512,924	357,646	-	-	-
KOTAK SECURITIES	4,323,125	10,528	-	-	-
LABRANCHE FINANCIAL SVCS	156,673,861	141,464	-	-	-
LADENBURG THALMAN & CO.	5,357,723	4,734	-	-	-
LANDESBANK BADEN WUERTTEMBERG	100,312	150	-	-	-
LARRAIN VIAL	514,890	880	-	-	-
LASKER STONE AND STERN	1,012,819	702	145,040	-	-
LAZARD FRERES & CO	26,677,174	29,047	320,668	-	-
LEERINK SW	15,472,688	29,301	-	-	-
LEHMAN BROS INC	1,106,645,184	678,544	22,702,165	-	-
LIBERTAS	-	-	11,144,980	-	-
LIBERUM CAPITAL LIMITED	669,772	486	-	-	-
LIGHTHOUSE FINANCIAL GROUP	1,026,155	937	-	-	-
LIQUIDNETI	805,865,787	658,371	-	-	-

Commissions and Trading Volume
By Broker for Fiscal Year 2010

Broker	Stock $ Volume	Stock Commission	Bond $ Volume	Bond $ Commission	Short Term $ Volume
LKP SECURITIES	1,236,987	2,165	-	-	-
LONGBOW SECURITIES LLC	1,384,080	4,435	-	-	-
LOOP CAPITAL	23,967,302	19,407	-	-	-
LYNCH, JONES & RYAN	231,526,534	181,266	-	-	-
M M WARBURG	46,685	70	-	-	-
MACQUARIE BANK LIMITED, LONDON	1,218,603	1,828	-	-	-
MACQUARIE CAP MKTS	210,143	226	-	-	-
MACQUARIE EQUITIES	32,063,620	49,946	-	-	-
MACQUARIE SECURITIES	22,577,958	32,434	-	-	-
MAGNA SECURITIES CORP	2,172,582	2,680	-	-	-
MAINFIRST	2,572,249	3,836	-	-	-
MALONEY & CO	7,529,558	8,022	-	-	-
MAN FINANCIAL SIFY SECURITIES	1,124,933	1,683	-	-	-
MAN SECURITIES INC	-	-	46,335,289	-	-
MARTIN LYN	-	-	61,078,941	-	-
MATRIX CAPITAL GROUP INC	1,660,795	1,092	-	-	-
MCDANIEL LEWIS & CO	-	-	7,550,263	-	-
MCDONALD & COMPANY	24,129,386	32,463	19,692,361	-	-
MELLON BANK	30,425	15	-	-	-
MERRILL	643,263,301	483,828	59,192,996	47,381	-
MERRILL LYNCH	446,697,929	439,598	4,741,700	-	-
MERRILL LYNCH INTERNATIONAL	3,835,741	6,484	-	-	-
MERRILL LYNCH P F & S	-	-	90,085	582	-
MERRIMAN	2,739,222	6,108	-	-	-
MERRION CAPITAL GROUP	191,201	287	-	-	-
MESIROW AND COMPANY	-	-	4,695,431	-	-
MFAI ASSOC	-	-	130,500	-	-
MIAE MERRILL LYNCH ALGOR	1,466,204	576	-	-	-
MIDLAND MANAGEMENT CORP	1,077,776	1,614	-	-	-
MIDWEST RESEARCH	7,381,000	8,618	-	-	-
MILLER TABAK HIRCH	2,510,933	1,265	-	-	-
MINN STATE BLDG FUND	-	-	811	-	-
MITSUBISHI	-	-	1,873,579	-	-
MITSUBISHI FINL. LONDON	-	-	1,050,399	-	-
MITSUBISHI UFJ SECURITIES	2,815,283	3,017	-	-	-
MIZUHO SECURITIES	-	-	8,736,279	-	230,340,782
MKM PARTNER	5,207,137	7,570	-	-	-
MONNESS CRESPI HARDT	360,713	1,810	-	-	-
MONTGOMERY SECURITIES	33,683	-	5,415,969,626	-	4,657,529
MONTROSE SECURITIES EQUITY	47,806,352	84,712	-	-	-
MONUMENT DERIVATIVES LTD	170,379	136	-	-	-
MONUMENT SECURITIES LIMITED	1,037,158	914	-	-	-
MOORE LEON	8,047,623	8,116	-	-	-
MOORE MODERN PLANNING CO	-	-	3,436,857	-	-
MORGAN GRENFELL	841,280	2,521	-	-	-
MORGAN KEEGAN INC.	21,920,095	33,965	47,942,562	-	-
MORGAN STANLEY	78,416,105	105,881	27,792,540	-	5,697,230
MORGAN STANLEY & CO	1,992,561,518	1,148,429	8,140,341,039	-	7,056,339,480
MORGAN STANLEY INDIA SEC PRVT	8,763,481	9,286	-	-	-
MOTILAL OSWAL SEC. LTD. BOMBAY	7,074,613	17,736	-	-	-
MSDWOR MORGAN ST CO INTL PLC	10,505	11	-	-	-
MURARILAL SARAF	113,982	283	-	-	-
MURPHY, MARSEILLES, SMITH & NA	-	-	31,528,812	-	-
NAGARMAL SARAF	323,357	812	-	-	-
NATIONAL BANK OF CANADA	-	-	1,251,514	-	-
NATIONAL FINANCIAL	23,771,504	19,483	18,487,012	-	-
NATIXIS SECURITIES	466,233	682	-	-	-
NBC LEVESQUE	4,957,726	9,646	-	-	-
NCB STOCKBROKERS	348,826	445	-	-	-
NEONET SEC	7,962,953	3,983	-	-	-
NESBITT BURNS	11,561,324	23,778	231,750	-	-
NEWBRIDGE SECURITIES	3,644,636	3,791	-	-	-
NIKKO SALO	3,422,943	1,369	-	-	-
NOMURA CAPITAL SERVICES	95,808	29	-	-	-

Commissions and Trading Volume
By Broker for Fiscal Year 2010

Broker	Stock $ Volume	Stock Commission	Bond $ Volume	Bond $ Commission	Short Term $ Volume
NOMURA INTL LONDON-SECS	564,973	340	-	-	-
NOMURA SEC	292,685	293	-	-	-
NOMURA SECURITIES INTL	139,509,491	149,151	1,264,163,094	-	19,299,741
NORMAN HUDSON & CO.	81,609,001	109,840	5,344,096	-	-
NORTHLAND	2,544,414	3,774	-	-	-
NUMIS SECURITIES LTD	1,579,135	2,370	-	-	-
NYFIX TRANSACTION SVCS # 2	1,672,236	944	-	-	-
NZB NEUE ZUERCHER BANK	786,991	1,180	-	-	-
ODDO FINANCE	2,352,946	3,533	-	-	-
OKASAN SEC CO.	84,118	91	-	-	-
OPPENHEIMER & CO	1,884,917	3,451	-	-	-
OPSTOCK SECURITIES	8,774	13	-	-	-
ORIEL SECURITIES LTD	2,486,375	2,430	-	-	-
P F FOX	100,647	-	-	-	-
PACIFIC CR	19,640,694	18,453	-	-	-
PACIFIC SECURITIES INC.	223,624	80	-	-	-
PAINE WEBBER INC	-	-	492,207,918	-	-
PAINE WEBBER J & C	4,833,040	4,916	17,783,935	-	-
PALI CAPITAL LLC	10,194,758	9,722	-	-	-
PANMURE GORDON	327,858	326	-	-	-
PARADIGN CAPITAL INC	84,004	269	-	-	-
PAREL	554,274	277	-	-	-
PARIBAS	2,324,684	2,349	-	-	-
PCS SECURITIES INC.	45,936	255	-	-	-
PENSION FINANCIAL SERVICES INC.	963,601	1,328	731,902	-	-
PENSON FINANCIAL	23,812,165	18,346	-	-	-
PEREIRE TOD LIMITED	3,053,366	3,668	-	-	-
PERSH PERSHING DIV OF DLJ	260,912,474	255,667	-	-	-
PERSHING SECURITIES LTD	128,430,649	158,556	499,375,848	-	-
PETERS & CO.	1,368,956	1,437	-	-	-
PFORZHEIMER CARL H.	-	-	140,742,966	-	-
PICKERING	56,007	28	-	-	-
PIONEER SECURITIES INC.	225,307	35	6,396,971,985	-	223,869,754
PIPELINE TRADING SYSTEMS LLC	1,993,512,333	1,335,411	-	-	-
PIPER JAFFRAY INC	-	-	6,187,348	-	-
PIPER,JAFFRAY & HOP S	84,326,191	117,469	13,968,253	-	-
PORTALES P	1,257,156	1,128	-	-	-
PRABHUDAS	475,859	707	-	-	-
PREBON YAMANE (USA) INC	-	-	300,025,201	-	3,005,000,000
PREVISION INVESTMENT CO	-	-	25,086,065	-	-
PULSE TRADE	5,335,530	7,679	-	-	-
Q&R CLEARING CORP	260,110	348	-	-	-
RAYMOND JAMES & ASSOCIATES	81,853,163	113,513	28,472,905	-	-
RBC CAPITAL MARKETS	-	-	24,948,647	-	152,885,815
RBC DOMINION SECURITIES	23,338,995	28,846	1,690,897	-	-
RBS SECURITIES	5,819,377	2,966	-	-	100,000,000
REBOOK TRANSACTION	377,461	-	-	-	-
REDBURN PARTNERS LLP	11,841,844	16,805	-	-	-
RENAISSANCE CAPITAL	5,444,590	5,114	-	-	-
REUBEN ALSTEAD & CO INC.	-	-	178,129,409	-	164,122,035
ROBERT M NEWMAN JR & CO	-	-	518,849	-	-
ROBERT W. BAIRD & CO	61,231,340	73,361	30,957,787	-	-
ROCHDALE SECURITIES CORP	79,861,295	44,725	-	-	-
ROSENBLATT SECURITIES INC	140,746,690	70,399	-	-	-
ROYAL BANK OF CANADA	5,455,420	195	-	-	-
ROYAL BANK OF SCOTLAND PLC	122,817	123	780,161	-	24,934,357
SAL OPPENHEIM ET CIE	75,218	113	-	-	-
SALOMON BROTHERS	102,627,176	141,098	7,007,306,542	10,917	115,389,614
SALOMON BROTHERS INC NY	18,782	33	-	-	-
SALOMON SM	11,085,638	13,396	-	-	-
SALOMON SMITH BARNEY HOLDINGS	24,609,414	30,821	-	-	-
SALOMON	753,583	941	-	-	-
SAMSUNG SECURITIES	4,686,140	8,488	-	-	-
SAMUEL A R	27,698,597	23,075	-	-	-

Commissions and Trading Volume By Broker for Fiscal Year 2010

Broker	Stock $ Volume	Stock Commission	Bond $ Volume	Bond $ Commission	Short Term $ Volume
SANDERS MORRIS HARRIS	47,124	470	-	-	-
SANDLER O NEIL	2,767,504	4,480	1,302,111	-	-
SANFORD C.	23,132,935	31,238	-	-	-
SANTANDER CENTRAL HISPANO BOLS	456,538	633	-	-	-
SBAE BERNSTEIN ALGORITHMIC	196,516	41	-	-	-
SCOTIA CAPITAL MARKET	5,875,259	8,362	-	-	-
SCOTIA MCLEOD	58,419	37	-	-	-
SCOTT & STRINGFELLOW	8,217,428	10,020	4,743,509	-	-
SEAPORT SECURITIES	-	-	3,141,826	-	-
SERVICE ASSET MANAGEMENT COMPA	1,541,427	1,378	-	-	-
SG SECURITIES	43,696,503	25,372	-	-	-
SIDOTI	13,968,106	26,154	-	-	-
SIMMONS +	390,349	590	-	-	-
SIX SIS AG	400,923	602	-	-	-
SJ LEVINSON & SONS LLC	321,062,074	211,266	-	-	-
SK INTERNATIONAL SECURITIES	10,271,509	11,886	-	-	-
SKANDINAVISKA ENSKILDA	5,408,797	8,056	-	-	-
SOCIETE GE	97,947,671	98,753	-	-	-
SOCIETE GENERAL	2,056,945	1,295	-	-	-
SOCIETE GENERALE NA	-	-	-	-	100,000,000
SOLEIL SEC.	6,602,286	9,440	-	-	-
SOUND SECURITIES LLC	7,738,249	6,029	-	-	-
SOUTHWEST SECURITIES	-	-	3,576,083	-	-
SPEAR,LEEDS & KELLOGG	1,374,847,014	747,248	42,312,403	-	-
SPROTT SECURITIES	1,014,936	1,492	-	-	-
SS KANTILAL ISHWARLAL	2,357,798	5,883	-	-	-
STANDARD CHARTERED BANK	56,780	85	-	-	-
STATE ST BK & TRUST	85,538,761	51,181	11,354,941	-	23,061,467,365
STATE STREET GLOBAL MKTS/BOS	941	53	-	-	-
STATE STREET SECURITIES	1,791,479,860	686,391	-	-	-
STEPHENS, INC.	8,102,419	18,312	8,263,295	-	-
STERNE, AGEE & LEACH	32,169,520	29,537	17,607,916	-	-
STIFEL NICOLAUS & COMPANY	46,608,430	62,767	175,303,320	-	-
STONE & YOUNGBLOOD	-	-	33,424,835	-	-
STUART FRANKLE	60,229,916	29,267	-	-	-
SUNTRUST CAPITAL MARKETS INC	10,664,995	15,026	-	-	-
SUSQUEHANNA FINANCIAL GROUP	112,034	140	-	-	-
SVENSKA HANDELSBANKEN	23,329,887	30,512	-	-	-
SWISS BANK	1,354,689,937	838,112	1,077,752,216	-	163,897,392
T. HOARE & CO., LTD.	632,388	7	-	-	-
TACHIBANA SECURITIES	86,965	87	-	-	-
TD SECURITIES (USA) LLC	-	-	14,571,858	-	-
TD WATERHOUSE CDA	37,784,828	20,014	-	-	-
THE BANK OF NEW YORK/MIZUHO	-	-	30,034,233	-	-
THE BENCHMARK COMPANY, LLC	2,031,384	4,468	-	-	-
THOMAS C BOWLES & CO.	8,429,691	2,365	5,787,967	-	-
THOMAS WEISEL PARTNERS	128,827,452	149,651	-	-	-
TOKYO MITSUBISHI	6,565,109	7,642	-	-	-
TORONTO DOMINION SEC INC	32,732,481	26,932	14,478,251	-	425,813,934
TOYOTA MOTOR CREDIT CORP	-	-	-	-	732,875,816
TRADITION	-	-	20,280,396	-	-
TROIKA - NEW YORK	1,896,305	3,037	-	-	-
U.S. BANCORP INVESTMENT	-	-	8,019,259	-	459,951,576
U.S. CLEARING	1,970,831	2,795	27,898,380	-	-
UBS AG	30,868,796	44,122	32,820,844	-	-
UBS LIMITED	389,285	116	-	-	-
UBS SECURITIES	250,916,779	307,573	-	-	611,386,694
UBS WARBURG	4,969,114	2,159	-	-	-
UNITED SERVICES PLANNING ASSOC	-	-	1,988,242,542	-	10,796,737
UOB KAY HIAM PVT LTD, SINGAPORE	3,828,820	8,593	-	-	-
US BANCORP	-	-	2,441,356	-	-
VALEURS MOBILIERES DESJARDINS	349,670	637	-	-	-
VTB BANK EUROPE PLC	3,297,743	4,456	-	-	-
W.J. BONFANTI INC	576,033	534	-	-	-

Trading Data

Commissions and Trading Volume
By Broker for Fiscal Year 2010

Broker	Stock $ Volume	Stock Commission	Bond $ Volume	Bond $ Commission	Short Term $ Volume
WACHOVIA	182,043	137	-	-	-
WACHOVIA BANK	-	-	6,734,584	-	-
WAGNER STOTT & CO.	162,514,945	124,484	-	-	-
WALL STREET CLEARING	-	-	6,055,149	-	-
WALL STREET PLANNING INC.	-	-	113,425	-	-
WARBURG DI	14,534,415	14,706	-	-	-
WARBURG S.G.	4,709,889	2,267	-	-	-
WARBURG SECURITIES	441,664	266	-	-	-
WARBURG, DILLON READ	126,158,507	179,602	-	-	-
WAVE SECURITIES	84,709,964	19,212	-	-	-
WDAE WEEDEN ALGORITHMIC	565,671	409	-	-	-
WEDBUSH SECURITIES	4,565,888	10,579	1,291,320	-	-
WEEDEN & COMPANY	398,110,757	251,073	-	-	-
WEISS	6,766,990	10,800	-	-	-
WELLS FARGO SECURITIES LLC	-	-	-	-	35,996,920
WESTDEUTSCHE LANDESBANK	33,724	51	-	-	-
WHEATON FIRST SECURITIES INC	10,758,615	18,021	1,016,671	-	-
WILIAM R. HOUGH & CO	-	-	7,510,144	-	-
WILLIAM JENNINGS & CO INC.	1,424,597	1,693	-	-	-
WILLIAMS CAP GROWTH	66,058	101	-	-	-
WILLIAMS CAPITAL GROUP LP NY	25,111,121	15,281	-	-	-
WOOD & CO.	1,688,216	5,070	-	-	-
WOORI INVESTMENT SEC	2,291,768	5,731	-	-	-
YAMNER & CO INC (CLS THRU 443)	3,841,187	1,440	-	-	-
YUANTA SECURITIES CO LTD	12,039,785	25,281	-	-	-
BROKER NOT AVAILABLE*	15,119,831,273	131,432	4,645,525,647	-	32,234,172,641
Grand Total	**49,498,106,030**	**24,611,289**	**84,789,541,535**	**159,906**	**174,535,243,141**

* Includes transactions where broker data was incomplete, income reinvestment transactions, and transfers and adjustments between funds.

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Table of Contents

Auditor's Report……………………………………………….….. 94

Financial Statements…………………………………………..… 96

Footnotes to Financial Statements………………………………… 98

Retirement Plans Statements……...………………………………104

Non Retirement Funds Statements...………………………………122

Manager Fees……………………………..………………………124

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

Independent Auditor's Report

Members of the Minnesota State Board of Investment

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

We have audited the accompanying statement of net assets as of June 30, 2010, presented on page 96, in relation to the State of Minnesota's basic financial statements taken as a whole. The statement of changes in net assets presented on page 97 and the supporting schedules on pages 104-125 have not been subjected to the auditing procedures applied to the statement of net assets and, accordingly, we express no opinion on that information.

The statement of net assets was derived from and relates directly to the underlying accounting and other records used to prepare the State of Minnesota's basic financial statements but is not a required part of those financial statements. It is presented by the State Board of Investment for the purpose of additional analysis of its investment assets and liabilities and has been subjected to the procedures applied to the audit of the State of Minnesota's financial statements and certain additional procedures. The statement of net assets is the responsibility of the Minnesota State Board of Investment's management. Our responsibility is to express an opinion on this financial statement in relation to the State of Minnesota's basic financial statements as of and for the year ended June 30, 2010, which included our unqualified audit opinion dated December 20, 2010.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit of the statement of net assets provides a reasonable basis for our opinion.

In our opinion, the statement of net assets referred to above is fairly presented in all material respects, in relation to the State of Minnesota's basic financial statements taken as a whole.

As disclosed in Note 1 on page 98, the financial statements for the year ended June 30, 2010, include retirement and nonretirement funds administered by the Minnesota State Board of Investment in accordance with *Minnesota Statutes*. In prior years the financial statements included the Supplemental Investment Fund and the Post Retirement Investment Fund. As a

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E-mail: auditor@state.mn.us • Web Site: www.auditor.leg.state.mn.us • Through Minnesota Relay: 1-800-627-3529 or 7-1-1

result, the Minnesota State Board of Investment's statement of net assets and statement of changes in net assets for fiscal year 2010 are not comparative with its 2009 statements. Also, as disclosed in Note 1, for the year ended June 30, 2010, the Minnesota State Board of Investment adopted Governmental Accounting Standards Board Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*.

In accordance with *Government Auditing Standards*, we will issue a report on our consideration of the Minnesota State Board of Investment's internal control over financial reporting; on our tests of its compliance with certain provisions of laws, regulations, and contracts; and on other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

James R. Nobles
Legislative Auditor

Cecile M. Ferkul, CPA
Deputy Legislative Auditor

March 4, 2011

State Board of Investment
Statement of Net Assets
As of June 30, 2010
Amounts in (000)'s

	Total Retirement	Total Non Retirement	Assigned Risk
Assets			
Investments (at fair value) :			
Short Term Investments			
Internal Cash Trust Pool	$ 135,232		
Stable Value Fixed Interest	1,251,696		
Money Fund	1,050,691		
Non Retirement Money Fund		$ 56,422	$ 13,885
Fixed Investments			
Bond Pool	10,185,317		
Income Share Fixed Pool	84,234		
Internal Bond Pool		604,614	
Fixed Income			238,122
Equity Investments			
Alternative Investment Pool	6,196,169		
Domestic Stock Pool	17,545,316		
International Stock Pool	6,389,886		
Internal Equity Pool		794,183	
Equity Income			53,445
Less Pool Earnings Accrual		(3,614)	
Total Investments	$42,838,541	$ 1,451,605	$ 305,452
Cash	$ 15,950	$ 405	
Security Sales Receivable	216,658	6,784	$ 94
Accrued Earnings	12	3,614	1,808
Security Lending Collateral	3,736,571	72,832	35,610
Total Assets	$46,807,732	$ 1,535,240	$ 342,964
Liabilities			
Accrued Administrative Expense	$ 12		$ 5
Accrued Investment Expense	11,627		59
Accounts Payable	198,770	$ 3,308	920
Security Purchases Payable	33,838	3,882	
Security Lending Collateral	3,736,571	72,832	35,610
Total Liabilities	$ 3,980,818	$ 80,022	$ 36,594
Net Assets as of June 30, 2010	$42,826,914	$ 1,455,218	$ 306,370

State Board of Investment
Statement of Change in Assets
Year Ended June 30, 2010
Amounts in (000)'s

	Total Retirement	Total Non Retirement	Assigned Risk
Investment Income			
Interest, Dividends and Other	$ 2,928,323	$ 43,762	$ 12,782
Security Lending Income	33,595	506	229
Less Borrower Rebates	(6,161)	(95)	(75)
Less Fees Paid to Agents	(4,115)	(60)	(23)
Realized Gains (Losses)	251,881	1,603	(519)
Unrealized Gains (Losses)	2,436,988	114,498	25,104
Expenses			
Administrative Expenses	(3,721)	(83)	(453)
Investment Expenses	(55,630)	(32)	(372)
Net Income	$ 5,581,160	$ 160,099	$ 36,673
Participant Transactions			
Additions	$ 1,619,215	$ 85,076	
Withdrawals	(2,148,396)	(86,225)	$ (32,966)
Income Distributions		(22,148)	
PERA-MERF Transfers from MERF	835,431		
Net Participant Transactions	$ 306,250	$ (23,297)	$ (32,966)
Total Change in Assets	$ 5,887,410	$ 136,802	$ 3,707
Net Assets at June 30, 2009	36,939,504	1,318,416	302,663
Net Assets at June 30, 2010	$42,826,914	$ 1,455,218	$ 306,370

Notes are an integral part of the Financial Statements

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2010

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial Reporting Entity and Basis of Presentation: This report includes financial statements in aggregate for the retirement plans and nonretirement funds that participate in the combined investment funds administered by the State Board of Investment (SBI) under authority of ***Minnesota Statutes*** **Chapter 11A.14.**

Statements are prepared according to the financial reporting standards of the Governmental Accounting Standards Board (GASB). Under these standards, earned revenues and recognizable expenses are reported on a full accrual basis in the period when they become measurable consistent with the flow of economic resources measurement focus.

Authorized Investments: ***Minnesota Statutes*****, Section 11A.24** broadly restricts investments to obligations and stocks of the U.S. and Canadian governments, their agencies and their registered corporations; short term obligations of specified high quality, international securities; restricted participation as a limited partner in venture capital, real estate or resource equity investments; and restricted participation in registered mutual funds.

GASB 40: **Deposit and Investment Risk Disclosures** was issued in March 2003. This standard establishes and modifies disclosure requirements for deposit and investment risks including credit risk, interest rate risk, and foreign currency risk.

GASB 53: **Accounting and Financial Reporting for Derivative Instruments** was issued in April 2009. This standard applies to the accounting and financial reporting of derivative instruments. SBI implemented this statement during the fiscal year ended June 30, 2010.

Security Valuation: All securities are valued at fair value except for U.S. Government short-term securities and commercial paper, which are valued at fair value less accrued interest. Accrued short-term interest is recognized as income as part of "Short-Term Gain". For long-term fixed income securities, SBI uses the Financial Times Interactive Data Services valuation system. This pricing service has prices for both actively traded and privately placed bonds. For equity securities, the State Board uses a valuation service provided by Reuters. The basis for determining the fair value of investments that are not based on market quotations includes audited financial statements, analysis of future cash flows, and independent appraisals.

Recognition of Security Transactions: Security transactions are accounted for on the date the securities are purchased or sold.

Income Recognition: Pool dividend income is recorded on the ex-dividend date. Pool interest and dividend income are accrued monthly. Short-term interest is accrued monthly and is presented as "Accrued Short-Term Gain".

Amortization of Fixed Income Securities: Premiums and discounts on fixed income purchases are amortized over the remaining life of the security using the "Effective Interest Method".

2. COST OF INVESTMENTS

At June 30, 2010, the cost of investments for the Trust Funds, excluding security lending collateral, was:

Retirement Plans	$ 39,918,008,660
Nonretirement Funds	1,411,212,494
Assigned Risk	311,288,223

3. LOANED SECURITIES

Loaning Securities: State Statutes do not prohibit the SBI from participating in security lending. As such, domestic and international corporate securities as well as certain US Government and Government Agency securities are loaned by the State Board to banks and brokers for additional income. Collateral in the amount of at least 100% of the fair value of the security loaned is required.

The SBI utilizes State Street Bank (SSB) to manage its Securities Lending program. SSB provides the SBI indemnification in the event a security defaults in the collateral pool.

During the Fiscal Year, SBI and the borrowers maintained the right to terminate all securities lending transactions on demand. The cash collateral received on each loan was invested in a separate investment pool. As of June 30, 2010, the investments of cash collateral had an average duration of 8.03 days and a weighted average maturity of 43.22 days. Since the loans are terminable at will, duration of the loan is not matched to the duration of investments made with cash collateral. On June 30, 2010 Minnesota had no credit risk exposure to borrowers.

4(a) The retirement plans held $3,736,571,519 in collateral covering loaned securities with a fair value of $3,614,286,430. The nonretirement funds held $72,832,121 in collateral covering loaned securities with a fair value of $70,912,263. The Assigned Risk plan held $35,610,742 in collateral covering loaned securities with a fair value of $34,883,843.

4(b) In accordance with GASB 28, Accounting and Financial Reporting for Security Lending Transactions, the amount of cash collateral is concurrently an asset and a liability at the balance sheet date.

Non-cash collateral is considered an asset and a liability only if the lender has the right to sell collateral absent of borrower default. There is no such right in our case.

4(c) In accordance with GASB 28, Accounting and Financial Reporting for Security Lending Transactions, gross lending income, borrower rebate and agent fees must be reported on the face of the Statement of Operations.

4. DERIVATIVE INSTRUMENTS

Table 1 shows the changes in the fair value of derivative instruments for the year as well as the June 30, 2010, fair value and notional positions of derivatives classified by type.

Table 1
Derivative Instruments Disclosure
For Fiscal Year End 6/30/2010
(In Thousands)

Investment Derivatives	Change in Fair Value Classification	Change in Fair Value	Fair Value Classification	Year End Value	Year End Notional
Retirement					
Fixed Income Futures Long	Investment Revenue	$16,447	Futures	$0	$150,450
Fixed Income Futures Short	Investment Revenue	(20,435)	Futures	0	(192,700)
Futures Options Bought	Investment Revenue	(5)	Options	420	164
Futures Options Written	Investment Revenue	3,820	Options	(2,433)	(4,338)
FX Forwards	Investment Revenue	4,633	Long Term Instruments	641	0
Index Futures Long	Investment Revenue	19,779	Futures	0	183
Index Futures Short	Investment Revenue	(2,332)	Futures	0	(339)
Rights	Investment Revenue	1,676	Common Stock	343	1,216
TBA Transactions Long*	Investment Revenue	55,490	Long Term Instruments	7,442	927,200
TBA Transactions Short*	Investment Revenue	552	Long Term Instruments	(110)	(20,300)
Warrants	Investment Revenue	698	Common Stock	1,904	1,398
Non Retirement					
Fixed Income Futures Short	Investment Revenue	(1,290)	Futures	0	0
Index Futures Long	Investment Revenue	26,473	Futures	0	122
	*TBA values are net purchases payable			.	

Minnesota Statutes Section 11A.24 provides that any agreement for put and call options and futures contracts may only be entered into with a fully offsetting amount of cash or securities. This provision applies to foreign currency forward contracts used to offset the currency risk of a security. All other deriviatives are exchange traded. SBI's derivative activities seek to equitize cash in the portfolio, to adjust the duration of the portfolio, to hedge against foreign currency exposure and to off-set current futures positions.

SBI maintains a fully benefit-responsive synthetic and guaranteed investment contract for the Supplemental Investment Fund -Fixed Interest Account. The investment objective of the Fixed Interest Account is to protect investors from loss of their original investment and to provide a competive interest rate. On June 30, 2010, the Fixed Interest Account portfolio of well diversified high quality investment grade fixed income securities had a fair value of $747,886,618 that is $37,691,873 in excess of the value protected by the wrap contract. The Fixed Income Account also includes a liquid investment pool and a guaranteed investment contract with fair values of $214,955,000 and $326,545,000 respectively.

Currency Forward Contracts
Foreign currency forward contracts are used to manage portfolio foreign currency risk. The provisions of the contract vary based on what is negotiated between the two parties to the contract.

Warrants
A warrant is an option issued by a company that gives the holder the right to buy stock from the company at a specified price within a certain designated time period. Generally speaking, warrants are issued by the company whose stock underlies the warrant and the warrant itself derives its value from the underlying stock. In some cases the warrants remain embedded in the equity. In other cases, the warrants will trade in the public market.

Rights
Similar to Warrants, a Right is a security giving stockholders entitlement to purchase new shares issued by the corporation at a predetermined price in proportion to the number of shares already owned. Rights are issued only for a short period of time, after which they expire.

TBAs
To-Be-Announced (TBA) is a term used to describe a forward mortgage-backed security trade and is so-called because the actual mortgage-backed security that will be delivered to fulfill a TBA trade is not designated at the time the trade is made. However, the collateral to be delivered must fall within a specified range and is then announced 48 hours prior to delivery. Mortgage pass-through securities issued by Freddie Mac, Fannie Mae and Ginnie Mae trade in the TBA market. The vast majority of TBA trades are one month forward contracts, though in some cases the contract can be for settlement in excess of one month.

Futures and Options Contracts
A future contract is a financial contract obligating the buyer to purchase an asset (or the seller to sell an asset), such as a physical commodity or a financial instrument, at a predetermined future date and price. Futures contracts detail the quality and quantity of the underlying asset; they are standardized to facilitate trading on a futures exchange.

An option represents the right to buy or sell an asset—not an obligation as with futures contracts—at a specified price and date in time.

Futures and options can offer lower-cost and more efficient alternatives to buying the underlying securities or currency. Futures and options can also serve to minimize certain unwanted risks within the portfolio. The market exposure, currency, and credit risk of the future are the same as if the investor had owned the underlying security or currency outright.

Risks Associated With Derivatives

-Interest Rate Risk
SBI controls interest rate risk through a comprehensive set of guidelines developed for each portfolio. Derivative instruments may be used by the managers to manage the interest rate risk within the guidelines set for their portfolio.

-Credit Risk
SBI is exposed to credit risk through the counter parties in foreign currency forward contracts used to offset the currency risk of a security. See Table 2 on the page 101.

-Foreign Currency Risk
SBI controls the exposure associated with currency forwards through a comprehensive set of guidelines developed for each portfolio. Currency forwards may be used to adjust effective non-US currency exposure of the portfolio. The total non-US currency exposure of all securities and currency forwards may not exceed the total market value of any manager's portfolio.

Table 2 on page 101 shows the credit rating and maximum exposure to each counter party.

Table 2
Counter Party Risk Disclosure
For Fiscal Year End 6/30/2010
(In Thousands)

Counterparty Name	Non Exchange Traded Investment Derivatives	Max Loss before Netting	S&P Rating	Fitch Rating	Moody's Rating
Retirement					
Bank Of America N.A.	Foreign Exchange Forwards	$ 49	A+	A+	Aa3
Citibank N.A.	Foreign Exchange Forwards	105	A+	A+	A1
Credit Suisse London Branch (GFX)	Foreign Exchange Forwards	287	A+	AA-	Aa1
Mellon Bank N.A	Foreign Exchange Forwards	27	AA-	AA-	Aa2
Royal Bank of Scotland PLC	Foreign Exchange Forwards	1,526	A+	AA-	Aa3
UBS AG	Foreign Exchange Forwards	87	A+	A+	Aa3
UBS AG London	Foreign Exchange Forwards	218	A+	A+	Aa3
Non Retirement					
None					

5. POOLED INVESTMENT ACCOUNTS

The State Board of Investment manages eleven pooled investment accounts for the Investment Trust Funds, the Supplemental Investment Funds and the Defined Benefit Pension Funds, and the NonRetirement Funds of the State of Minnesota. SBI's master custodian, State Street Bank and Trust holds the assets of the pooled accounts.

SBI considers the pools to be the owners of the investments and that the participants, such as the Supplemental fund, own a proportionate share of the pool. Policies relating to the management of the investments apply to the pools with the participants invested based on objectives of the pools.

Deposit and investment risk disclosures are abbreviated in this note. For expanded discussion of the Statutory, Board, and contractual guidelines followed to limit investment risk by external and internal managers of the pooled investments see the Introduction and Investment Pools sections of this 2010 Annual Report.

Interest Rate Risk – Investments

Interest rate risk is the risk that changes in interest rates of debt instruments could adversely affect the fair value of an investment. Per its constitutional authority and governance by elected State officials that comprise the Board, the Board issues investment guidelines and limitations regarding interest rate risk that are incorporated into the contracts between investment managers and SBI. Interest rate risk information is presented using the weighted average maturity method which expresses investment time horizons, the period when investments become due and payable, in years or months, weighted to reflect the dollar size of individual investments within investment types.

Credit Risk of Debt Security Investments

Credit risk is the risk that an issuer or counterparty to an investment will be unable to fulfill its obligations. The SBI credit policy is not more stringent than the statutory requirements. Within the contracts between SBI and investment managers are guidelines and limitations regarding credit risk, such as, any debt security with a grade quality rating issued by Moodys, S&P, or Finch or with specific written authorization qualifies for investment. Debt securities are constrained around the quality rating, sector mix and duration of the Lehman Aggregate Bond Index allowing for an average duration of +/- 0.2 years for semi-passive managers and +/- 2.0 years for active managers. The quality ratings in Table 3, Table 5 and Table 6 follow the GASB 40 convention of choosing the lowest investment rating reported by Moodys or S&P.

Concentration Risk – Investments

Concentration risk is the risk of loss attributed to the magnitude of an investment in a single issuer. The investment guidelines issued to investment managers by the State Board require investment across all sectors of the market. Unrated or below investment grade corporate debt obligations are limited to less than five percent of the value of the acquiring fund. In addition, all debt obligations are restricted to 50% of an issue and 25% of the issuer's obligations. Investments in corporate stock may not exceed five percent of the total outstanding of any one corporation.

For the retirement plans and nonretirement funds, none of the issuers produced exposure greater than five percent of the Funds' values.

Foreign Currency Risk – Investments

Foreign currency risk is the risk that changes in exchange rates between the U.S. dollar and foreign currencies could adversely affect the fair value of an investment. Investment managers with authority to invest in foreign securities are given authority to hedge foreign currency through forward contracts in order to avoid currency losses.

The Retirement Plans' exposure to foreign currency risk is presented in Table 4 below.

6. Retirement Plans

The combined retirement fund along with the eight supplemental retirement funds serve as investment vehicles for the various state and locally administered retirement plans in accordance with their investment objectives. Financial information on the individual funds are shown on pages **108 to 121** of this report. Participation in the retirement funds is determined in accordance with various statutory requirements.

The SBI invests the assets of the combined retirement fund and supplemental investment funds as discussed in the Combined Funds and Supplemental Funds sections of this report. Plan participant contributions and withdrawals are reported as net to SBI and invested as net for the day by SBI.

The investment allocation of the supplemental funds is a factor of the investment decisions of the participants and the investment objectives of the funds they select. Debt securities comprise 30% of this allocation. Assets of the Retirement Plans are comprised of shares of the investment pools managed by SBI. Table 3 and Table 4 represent the Retirement Plans' participation in the pooled investment accounts.

Table 3
Debt Securities Credit Quality and Exposure
Retirement Plans as of June 30, 2010
(In Thousands)

Type	Years Average Maturity	Fair Value	US Guarantee	BBB or Better	BB or Lower	Unrated
Asset Backed	8.9	$ 389,912	1.08%	85.43%	5.35%	8.14%
Corporate Bonds	3.98	3,400,623	0.00%	85.63%	12.14%	2.23%
External Cash Equivalent Pools	0.2	2,068,466	0.00%	82.88%	0.00%	17.12%
Mortgage Backed Securities	24.8	2,981,791	3.89%	82.97%	10.19%	2.95%
Mortgage Backed Securities TBA	0	959,437	17.27%	82.73%	0.00%	0.00%
Municipal/Provincial Bonds	13.11	174,613	0.00%	92.31%	0.00%	7.69%
Mutual Funds	0	80,860	0.00%	0.00%	0.00%	0.00%
U.S. Agencies	2.65	640,363	0.00%	98.70%	0.00%	1.30%
U.S. Treasuries	10.38	1,937,815	100.00%	0.00%	0.00%	0.00%
		$12,633,880				

Table 4
Currency Exposure of the
Retirement Plans as of June 30, 2010
(In Thousands)

Trade Currency Name	Cash	Fixed	Equity	Total
Euro Currency	$ 5,502	$ 0	$1,295,668	$1,301,170
Japanese Yen	8,797	0	1,043,484	1,052,281
Pound Sterling	6,448	18,551	905,712	930,711
Canadian Dollar	1,852	2,268	450,337	454,456
Other Less Than 1% Foreigr	10,397	0	2,231,313	2,241,710
Total	$32,996	$20,819	$5,926,513	$5,980,328

7. NonRetirement Funds

The nonretirement funds invest in the cash management, fixed income, and equity accounts internally managaged by SBI. By statute, the assets of these funds may not be comingled with the assets of the retirement plans. Financial information on the individual funds are shown on page **123** of this report. Participation in the nonretirement funds is determined in accordance with various statutory requirements. The SBI invests the assets of the cash management, fixed income, and equity account funds as discussed in the Permanent School, Environmental Trust, Closed Landfill, and Legislative Investment Initiatives sections of this report. The investment allocation is a factor of statutory requirements or the investment decisions of the participants. Debt securities comprise 51% of this allocation. Assets of the nonretirement Plans are comprised of shares of the investment pools managed by SBI. Table 5 represents the Nonretirement Plans' participation in the cash management, fixed income, and equity accounts internally managed by SBI. The nonretirement funds have no foreign currency securities.

Table 5
Debt Securities Credit Quality and Exposure
Nonretirement Funds as of June 30, 2010
(In Thousands)

Type	Years Average Maturity	Fair Value	US Guarantee	BBB or Better	BB or Lower	Unrated
Asset Backed	23.25	$ 221	0.00%	100.00%	0.00%	0.00%
Corporate Bonds	6.1	182,848	0.00%	84.84%	14.88%	0.28%
External Cash Equivalent Pools	0.21	204,038	0.00%	100.00%	0.00%	0.00%
Mortgage Backed Securities	21.46	296,416	2.71%	94.15%	1.85%	1.29%
U.S. Agencies	6.22	47,247	0.00%	100.00%	0.00%	0.00%
U.S. Treasuries	0.25	12,497	0.00%	100.00%	0.00%	0.00%
		$743,267				

8. Assigned Risk Plan

The Assigned Risk Plan participates in the cash management account internally managed by SBI. RBC Global Asset Management manages the bond segment and GE Investment Management manages the equity segment of the Plan. Financial information on the segments is shown on page 38 of this report. The debt securities in Table 7 comprise 82% of the assets of the Plan. Table 6 states Assigned Risk holdings exceeding five percent of the Plan's total holdings. The Plan had no derivative or foreign currency activity.

Table 6 Assigned Risk Holdings In Excess of 5% As of June 30, 2010

Issuer	Fair Value	%
FED HM LN PC POOL	$ 39,832,081	13.00%
FNMA POOL	15,351,769	5.01%
FREDDIE MAC	22,527,920	7.35%
WI TREASURY NB	59,597,305	19.45%
	$137,309,075	44.81%

Table 7
Debt Securities Credit Quality and Exposure
Assigned Risk Plan as of June 30, 2010
(In Thousands)

Type	Years Average Maturity	Fair Value	US Guarantee	BBB or Better	BB or Lower	Unrated
Asset Backed	22.89	$ 12,895	0.11%	44.59%	36.46%	18.84%
Corporate Bonds	6.75	4,231	0.00%	13.70%	0.00%	86.30%
External Cash Equivalent Pools	0.21	11,924	0.00%	100.00%	0.00%	0.00%
Mortgage Backed Securities	25.69	81,111	13.53%	75.73%	9.64%	1.10%
Municipal/Provincial Bonds	11.00	43,719	0.00%	90.05%	5.60%	4.35%
U.S. Agencies	2.34	38,528	0.31%	99.69%	0.00%	0.00%
U.S. Treasuries	5.87	59,597	100.00%	0.00%	0.00%	0.00%
		$252,005				

State Board of Investment
Retirement Plans Combining Schedules
As Of June 30, 2010
Amounts in (000)'s

	Combined Retirement Funds	Supplemental Funds: Fixed Interest Account	Supplemental Funds: Money Market Account
Statement of Net Assets			
Assets			
Short Term Investments			
Internal Cash Trust Pool	$ 135,232		
Stable Value Fixed Interest		$ 1,251,696	
Money Fund	798,529		$ 246,106
Fixed Investments			
Bond Pool	10,057,129		
Income Share Fixed Pool			
Equity Investments			
Alternative Investment Pool	6,196,169		
Domestic Stock Pool	17,125,102		
International Stock Pool	6,285,582		
Total Investments	$ 40,597,743	$ 1,251,696	$ 246,106
Cash		$ 6,064	$ 2,384
Security Sales Receivable	$ 205,555	2,255	4,417
Accrued Earnings	12		
Security Lending Collateral	3,664,019		
Total Assets	$ 44,467,329	$ 1,260,015	$ 252,907
Liabilities			
Accrued Administrative Expense			$ 4
Accrued Investment Expense	$ 11,465		
Accounts Payable	196,820		
Security Purchases Payable	8,734	$ 8,319	6,801
Security Lending Collateral	3,664,019		
Total Liabilities	$ 3,881,038	$ 8,319	$ 6,805
Net Assets as of June 30, 2010	$ 40,586,291	$ 1,251,696	$ 246,102

Bond Market Account	Income Share Account	Common Stock Index Account	Growth Share Account	International Share Account	Volunteer Fire Fighter Account	Total Retirement
						$ 135,232
						1,251,696
	$ 6,042				$ 14	1,050,691
$ 127,810					378	10,185,317
	84,234					84,234
						6,196,169
	125,755	$ 195,468	$ 98,732		259	17,545,316
				$ 104,197	107	6,389,886
$ 127,810	$ 216,031	$ 195,468	$ 98,732	$ 104,197	$ 758	$ 42,838,541
$ 3,526		$ 3,659		$ 311	$ 6	$ 15,950
89	$ 2,027	997	$ 1,030	288		216,658
						12
14,361	18,043	17,814	12,258	10,000	76	3,736,571
$ 145,786	$ 236,101	$ 217,938	$ 112,020	$ 114,796	$ 840	$ 46,807,732
	$ 8					$ 12
$ 31	4	$ 6	$ 31	$ 90		11,627
	1,313		637			198,770
3,615	715	4,656	393	599	$ 6	33,838
14,361	18,043	17,814	12,258	10,000	76	3,736,571
$ 18,007	$ 20,083	$ 22,476	$ 13,319	$ 10,689	$ 82	$ 3,980,818
$ 127,779	$ 216,018	$ 195,462	$ 98,701	$ 104,107	$ 758	$ 42,826,914

State Board of Investment
Retirement Plans Combining Schedules
Year Ended June 30, 2010
Amounts in (000)'s

	Combined Retirement Funds	Supplemental Funds: Fixed Interest Account	Supplemental Funds: Money Market Account	Supplemental Funds: Bond Market Account
Statement of Changes in Assets				
Investment Income				
Interest, Dividends and Other	$ 2,927,589	$ 15	$ 474	$ 69
Security Lending Gross Earnings	32,887			79
Less Borrower Rebates	(6,041)			(30)
Less Fees Paid to Agents	(4,027)			(7)
Realized Gains (Losses)	241,227	3,848		1,087
Unrealized Gains (Losses)	2,296,084	48,342		14,135
Expenses				
Administrative Expenses	(3,661)		(20)	
Investment Expenses	(54,896)			(117)
Net Income	$ 5,429,162	$ 52,205	$ 454	$ 15,216
Participant Transactions				
Additions	$ 232,416	$ 1,155,590	$ 151,410	$ 22,735
Withdrawals	(1,922,760)	(51,110)	(79,859)	(6,624)
PERA-MERF Transfers from MERF	835,431			
Fire Relief to PERA Voluntary transfer				
Net Participant Transactions	$ (854,913)	$ 1,104,480	$ 71,551	$ 16,111
Total Change in Assets	$ 4,574,249	$ 1,156,685	$ 72,005	$ 31,327
Net Assets at June 30, 2009	36,012,042	95,011	174,097	96,452
Net Assets at June 30, 2010	$ 40,586,291	$ 1,251,696	$ 246,102	$ 127,779

Notes are an integral part of the Financial Statements

Income Share Account	Common Stock Index Account	Growth Share Account	International Share Account	Volunteer Fire Fighter Account	Total Retirement
$ (67)	$ (138)	$ 138	$ 243		$ 2,928,323
163	231	98	136	$ 1	33,595
(27)	(34)	(16)	(13)		(6,161)
(21)	(29)	(12)	(19)		(4,115)
2,950	406	836	1,527		251,881
24,088	33,545	11,748	9,054	(8)	2,436,988
(39)	(1)				(3,721)
(16)	(24)	(213)	(363)	(1)	(55,630)
$ 27,031	$ 33,956	$ 12,579	$ 10,565	$ (8)	$ 5,581,160
$ 12,265	$ 14,936	$ 11,563	$ 17,882	$ 418	$ 1,619,215
(16,861)	(50,201)	(6,228)	(14,727)	(26)	(2,148,396)
					835,431
(320)	(43)	(11)		374	$0
$ (4,916)	$ (35,308)	$ 5,324	$ 3,155	$ 766	$ 306,250
$ 22,115	$ (1,352)	$ 17,903	$ 13,720	$ 758	$ 5,887,410
193,903	196,814	80,798	90,387		36,939,504
$ 216,018	$ 195,462	$ 98,701	$ 104,107	$ 758	$ 42,826,914

State Board of Investment
Retirement Plans Participation Schedule
As of Year Ended June 30, 2010

	Internal Cash Trust Fund Pool	Stable Value Fixed Interest	Money Fund
Combined Retirement Funds			
Correctional Employees Retire. Fund	$ 41,800		$ 12,648,259
Highway Patrolment's Retire. Fund	25,908		10,604,882
Judges Retirement Fund	93,159		3,251,034
Legislative Retirement Fund			367,309
PERA_Minneapolis Employee Retire.			27,399,923
Public Employee Corrections	2,558,773		3,923,506
Public Employee Police & Fire Fund	17,600,698		83,505,234
Public Employees Retirement Fund	59,692,721		212,000,225
State Employees Retirement Fund	28,399		164,985,426
Teachers Retirement Fund	55,191,367		279,843,164
	$ 135,232,825		$ 798,528,962
Fire Relief Funds			
Alaska			$ 342
Albertville			
Alden			
Almelund			130,083
Amboy			
Argyle			742
Arrowhead			413
Audubon			4,258
Austin Part-Time			6,010
Avon			
Babbitt			3,201
Backus			
Bagley			4,742
Balsam			2,637
Barnum			522
Beardsly			
Beaver Creek			
Benson			865
Bertha			1,061
Bigfork			332
Bird Island			1,259
Biwabik Township			993
Blackduck			

Bond Pool	Income Share Fixed Pool	Alternative Investment Pool	Domestic Stock Pool	International Stock Pool	Total
$ 128,464,183		$ 81,458,484	$ 220,411,918	$ 80,544,251	$ 523,568,895
120,057,458		76,128,041	205,988,117	75,273,467	488,077,872
30,820,022		19,542,868	52,879,333	19,323,495	125,909,912
4,818,449		3,055,390	8,267,237	3,021,071	19,529,456
285,473,274			359,421,578	158,810,489	831,105,264
51,463,996		32,632,960	88,299,147	32,266,785	211,145,168
1,095,363,465		694,565,583	1,879,365,597	686,769,360	4,457,169,935
2,780,862,390		1,763,332,955	4,771,253,793	1,743,540,806	11,330,682,890
1,888,985,580		1,197,797,959	3,241,019,643	1,184,353,324	7,677,170,332
3,670,820,005		2,327,655,009	6,298,195,195	2,301,679,156	14,933,383,897
$10,057,128,822		$ 6,196,169,248	$ 17,125,101,558	$ 6,285,582,205	$ 40,597,743,620
	$ 4,772		$ 26,720	$ 2,086	$ 33,920
$ 35,035			18,080	18,287	71,402
			78,616		78,616
	43,841		94,452		268,375
25,637			50,407		76,044
	10,340		23,104		34,186
15,199	5,761		34,957		56,330
68,209	59,355		88,613		220,434
	83,779		269,458		359,247
			30,520		30,520
86,726	44,626		104,339	11,776	250,667
			53,377		53,377
34,473	45,156		85,780		170,151
	35,012		80,628		118,278
8,267	7,278		76,109		92,176
39,900			53,442	27,212	120,555
16,992			14,279		31,272
27,400	12,062		62,936		103,264
	14,785		44,114		59,960
	4,630		103,206	13,524	121,692
	17,554		59,530		78,343
	13,839		47,980		62,813
			5,775	38,817	44,592

State Board of Investment
Retirement Plans Participation Schedule
As of Year Ended June 30, 2010

	Internal Cash Trust Fund Pool	Stable Value Fixed Interest	Money Fund
Blooming Prarie			$ 690
Bloomington			
Boyd			341
Bricelyn			5,361
Brimson			1,771
Brooklyn Park			77,224
Brooten			
Brownsville			1,406
Buffalo Lake			2,652
Buyck			3,141
Caledonia			2,904
Canby			5,680
Carlton			584
Center City			2,530
Ceylon			1,359
Chatfield			2,129
Cherry			1,114
Chisago City			8,949
Chokio			3,033
Clarissa			
Clarkfield			3,774
Clear Lake			4,432
Cohasset			383
Columbia Heights			
Colvill Area			2,334
Coon Rapids			30,518
Crane Lake			8,512
Cyrus			
Dakota			823
Dawson			3,997
Deer Creek			1,319
Delano			
Dover			18,356
East Grand Forks			20,517
Edgerton			5,003
Edina			1,000,177

Bond Pool	Income Share Fixed Pool	Alternative Investment Pool	Domestic Stock Pool	International Stock Pool	Total
$ 22,891	$ 9,615		$ 38,890		$ 72,086
32,550,852			37,759,158	$ 11,016,859	81,326,868
	4,759		15,616		20,717
	74,745		111,589		191,696
8,092	16,688		24,914	10,195	61,661
	1,076,592		4,420,151	221,721	5,795,688
			119,237		119,237
15,412	2,722		38,033	6,435	64,008
	36,972		159,280		198,903
3,361	1,106		5,946	2,171	15,725
	40,481		103,323	41,893	188,600
	43,631		200,625	32,586	282,521
30,497	8,138		67,538	15,761	122,517
12,579	35,277		98,052	12,072	160,510
	18,943		103,427		123,728
	29,675		132,110	42,119	206,033
	15,531		68,808		85,453
96,989	124,760		267,249	79,680	577,628
	42,286		63,130		108,449
29,930			25,727		55,656
41,466	52,619		94,148		192,008
31,521	61,793		281,012		378,759
	5,334		35,239		40,956
371,393			867,250		1,238,643
	13,249		19,780	5,788	41,151
493,237	425,453		635,175		1,584,383
	11,191		65,232	8,077	93,012
24,120			24,479	9,328	57,926
27,402	11,479		35,445		75,150
	55,720		104,788		164,504
	18,384		98,084		117,787
			76,966		76,966
36,975	14,859		72,830	23,918	166,937
	286,033		427,029		733,578
	69,747		189,784		264,535
892,947			2,879,734	809,414	5,582,272

State Board of Investment
Retirement Plans Participation Schedule
As of Year Ended June 30, 2010

	Internal Cash Trust Fund Pool	Stable Value Fixed Interest	Money Fund
Elbow Lake			$ 3,137
Ellsburg			
Elmore			
Emmons			6,038
Excelsior			96,442
Eyota			77,999
Fairmount Police			58,931
Farmington Cataract			2,728
Fergus Falls			10,380
Forest Lake			5,314
Franklin			
Frazee			1,912
Fredenberg			1,450
Frost			474
Ghent			
Glencoe			
Glenville			6,542
Glenwood			2,034
Golden Valley			45,380
Gonvick			994
Good Thunder			3,010
Grand Marais			87,461
Grand Meadow			1,358
Greenwood			2,417
Grey Eagle			3,126
Hackensack			1,766
Hanska			
Hardwick			101
Harmony			
Hawley			185
Hayward			
Hector			10,515
Henning			2,164
Herman			
Hewitt			
Hills			103

Bond Pool	Income Share Fixed Pool	Alternative Investment Pool	Domestic Stock Pool	International Stock Pool	Total
	$ 43,728		$ 118,973		$ 165,837
			58,514		58,514
			39,102		39,102
	15,812		85,162	$ 15,396	122,408
	507,957		2,047,977	86,230	2,738,605
$ 76,427	27,945		74,417		256,787
1,032,415	821,559		4,213,796		6,126,701
	38,033		136,651	23,412	200,825
603,513			894,512	65,409	1,573,815
	74,078		151,406		230,798
			70,161		70,161
60,315	26,659		54,609		143,495
14,233	20,214		87,221	26,476	149,594
	6,604		37,416		44,493
6,198			13,313	4,074	23,585
			93,108		93,108
26,193	9,272		50,349	20,979	113,336
69,804	28,352		126,555		226,744
593,604	632,654		2,021,971	573,917	3,867,526
	13,852		48,820		63,665
	41,965		171,609		216,584
106,731	23,379		74,348	20,594	312,512
	18,934		108,655		128,948
50,617	33,690		160,893		247,617
	43,581		65,063	25,711	137,481
	24,624		36,762	38,791	101,943
			9,979	7,530	17,509
730	1,406		4,281	762	7,281
			24,687	25,670	50,357
			47,763		47,948
			207,714		207,714
	146,588		218,846		375,948
34,491	16,221		77,317	22,582	152,775
41,152			41,764	15,915	98,830
			15,375		15,375
	1,433		8,136	2,755	12,427

State Board of Investment
Retirement Plans Participation Schedule
As of Year Ended June 30, 2010

	Internal Cash Trust Fund Pool	Stable Value Fixed Interest	Money Fund
Holdingford			$ 259
Holland			1,818
Houston			285
Hovland			431
Industrial			1,283
Isanti			
Jacobson			7,476
Kabetogama			
Kandiyohi			1,236
Kelliher			562
Kelsey			
Kerkhoven			1,516
Kettle River			928
Kiester			
Kilkenny			34,243
Kimball			1,605
La Crescent			2,006
La Salle			388
Lafayette			3,322
Lake City			14,161
Leroy			1,490
Lewiston			2,096
Lexington			403,200
Linwood			9,400
Littlefork			2,532
Lowry			
Lutsen			261
Lyle			1,134
Madison			744
Madison Lake			459
Mahtomedi			28,649
Maple Hill			3,047
Mapleton			848
Mapleview			831
Maplewood			
Marietta			723

Bond Pool	Income Share Fixed Pool	Alternative Investment Pool	Domestic Stock Pool	International Stock Pool	Total
	$ 3,615		$ 20,091		$ 23,965
$ 40,620	8,214		43,568	$ 54,045	148,266
	3,980		20,831	11,034	36,130
	6,007		66,647	10,848	83,933
	17,884		64,726		83,893
			588,668	330,841	919,509
	10,132		41,014	23,130	81,752
			116,111		116,111
46,791	17,228		89,665		154,920
	7,833		75,211		83,606
8,376			6,315	6,312	21,003
65,707	21,132		121,401		209,756
	12,936		52,811		66,674
			23,106	15,734	38,841
	12,282		72,329		118,854
	22,369		103,479		127,453
46,838	27,969		186,197		263,011
	5,409		32,420		38,218
62,256	46,313		167,759	13,886	293,537
	197,426		294,745		506,333
17,610	20,771		31,010		70,882
	29,216		104,992		136,304
					403,200
	131,044		195,641		336,085
	35,293		147,212		185,036
			44,824		44,824
	3,639		20,431		24,331
	15,807		59,047		75,987
	10,373		42,830		53,947
	6,405		20,766	12,206	39,836
	259,809		387,879		676,337
29,506	42,479		63,419		138,452
	11,827		46,620		59,295
42,297	11,590		57,653	10,681	123,053
1,002,557			2,515,754	364,443	3,882,754
	10,074		38,464		49,261

State Board of Investment
Retirement Plans Participation Schedule
As of Year Ended June 30, 2010

	Internal Cash Trust Fund Pool	Stable Value Fixed Interest	Money Fund
Marine St. Croix			$ 40,830
Mayer			3,506
Maynard			1,877
McDavitt			1,780
McGrath			328
McIntosh			585
MedFord			510
Medicine Lake			
Menahga			2,081
Mendota Heights			
Milan			1,028
Minneapolis			
Minneapolis Police			
Minneapolis(Health)			54,889
Minneota			856
Minnetonka			139,037
Montrose			189
Morris			1,774
Morristown			4,744
MSRS ING		$1,248,512,542	244,255,157
Murdock			776
Myrtle			50,827
Nassau			329
New Brighton			
New Germany			1,950
New Scandia Tsp			3,588
New Ulm			
New York Mills			2,993
Nicollet			2,420
Nodine			12,498
North Branch			1,775
Northfield			29,581
Northrop			1,135
Norwood Young America			413,981
Osakis			
Owatonna			92,995

Bond Pool	Income Share Fixed Pool	Alternative Investment Pool	Domestic Stock Pool	International Stock Pool	Total
$ 28,002	$ 18,561		$ 151,584	$ 67,604	$ 306,582
60,715	48,881		228,615		341,718
	26,172		39,073		67,122
7,248	24,822		62,755	9,305	105,910
9,184	4,572		12,089		26,173
	8,162		64,184		72,931
	7,108		108,275	50,311	166,204
166,494			237,898	136,858	541,249
102,151	29,006		43,304		176,542
485,608			387,946	135,802	1,009,357
	14,326		81,312		96,666
4,656,338			8,428,667		13,085,005
27,363,740			61,461,550	37,949,995	126,775,286
	765,218		1,142,422		1,962,530
20,938	11,935		39,837	8,655	82,221
	1,938,327		2,893,800		4,971,164
	2,641		21,277		24,108
	24,705		71,003	18,264	115,746
	66,137		283,215	13,306	367,402
48,765,338	65,611,605		237,624,492	47,196,526	1,891,965,660
	10,817		59,497	18,348	89,438
	18,731		27,964		97,523
13,982	4,583		67,692	19,141	105,727
963,595			1,297,079		2,260,674
	27,190		40,592		69,732
	50,019		286,816	117,783	458,206
			170,434		170,434
	41,726		62,295		107,014
	33,451		136,002	41,133	213,006
55,492			52,011	24,348	144,348
	24,743		88,335	33,042	147,895
	412,387		2,078,727		2,520,695
	15,822		62,023		78,979
5,302	536		800		420,618
34,505			181,116	25,530	241,151
	196,623		1,177,606	101,669	1,568,893

State Board of Investment
Retirement Plans Participation Schedule
As of Year Ended June 30, 2010

	Internal Cash Trust Fund Pool	Stable Value Fixed Interest	Money Fund
Pennock			$ 9,116
Pequaywan Lake			
Pequot Lakes			5,501
PeraDCP		$ 3,182,983	1,814,543
Perch Lake			187
Pine Island			4,035
Pipestone			3,472
Porter			16,728
Prior Lake			
Randolph			4,569
Red Lake			1,752
Redwood			
Renville			1,418
Robbinsdale			94,348
Rose Creek			48,821
Roseau			
Rosemount			536,285
Roseville			
Rush City			6,122
Ruthton			22,748
Sacred Heart			
Saint Clair			4,193
Saint Michael			
Saint Peter			642
Sandstone			160
Savage			28,763
Scandia Valley			4,434
Schroeder			
Shakopee			
Sherburn			6,712
Shevlin			922
Silver Bay			1,957
Solway (Main)			172
Solway(Cloquet)			1,836
Spring Grove			2,337
Spring Lake Park			22,016

Bond Pool	Income Share Fixed Pool	Alternative Investment Pool	Domestic Stock Pool	International Stock Pool	Total
	$ 55,350		$ 82,634		$ 147,099
			28,403		28,403
	76,696		114,502		196,700
$2,465,852	5,509,424		17,122,896	$1,767,464	31,863,163
7,039	2,611		14,722		24,559
	$56,256		$155,593		215,885
	48,401		179,226		231,099
$34,954	7,289		168,712		227,684
			78,539	$36,092	114,632
	63,703		237,192	31,668	337,132
	24,428		36,469		62,649
40,616					40,616
53,002	19,775		87,965		162,160
	244,672		843,895	133,456	1,316,371
					48,821
			818		818
	218,203		852,446		1,606,934
2,508,009			3,350,883	638,701	6,497,594
	85,341		261,204		352,667
	7,719		43,730		74,197
			30,404		30,404
13,818	40,988		253,684		312,683
			40,871	24,283	65,154
654	8,952		162,374	74,707	247,329
	2,230		3,330		5,720
	400,989		598,651		1,028,402
	61,810		92,279		158,523
			82,376		82,376
			1,268,089	161,887	1,429,976
	93,569		139,693		239,974
52,990	12,859		19,197		85,968
	27,282		98,141	15,324	142,704
	2,397		13,110		15,679
92,096	25,599		38,217		157,749
	2,990		16,982	4,830	27,139
	306,931		458,229		787,177

State Board of Investment
Retirement Plans Participation Schedule
As of Year Ended June 30, 2010

	Internal Cash Trust Fund Pool	Stable Value Fixed Interest	Money Fund
Starbuck			$ 720
Stephen			713
Stewart			1,897
Stewartville			8,560
Stillwater			343,653
Sturgeon Lake			
Tofte			$1,473
Truman			1,543
Two Harbors			3,156
Tyler			3,306
Underwood			
Vadnais Heights			1,897
Vermilion Lake			4,012
Verndale			
Waconia			6,416
Warba-Feeley-Sago			760
Warroad Area			5,151
Williams			2,480
Willow River			
Winnebago			404
Woodbury			1,645,504
Woodstock			726
Wrenshall			
Wright			2,071
Wykoff			1,621
Wyoming			3,148
Zumbro Falls			3,746
		$1,251,695,525	$ 252,148,132
PERA Voluntary Share			
Alborn Fire			$ 1,729
Manchester			1,254
North Star Fire			643
Ottertail Fire			6,348
Twin Valley			3,750
			$ 13,725
Total Pool Participation	$ 135,232,825	$1,251,695,525	$ 1,050,690,819

Bond Pool	Income Share Fixed Pool	Alternative Investment Pool	Domestic Stock Pool	International Stock Pool	Total
	$ 10,037		$ 51,480	$ 6,322	$ 68,560
	9,944		68,791		79,448
	26,445		68,302		96,644
	119,334		439,882	92,648	660,423
$132,961					476,615
6,910			25,865		32,775
	$20,541		$79,352		101,366
$39,297	21,514		122,699		185,053
143,904	43,994		158,506	$94,420	443,980
	46,092		68,812		118,210
			8,979	3,432	12,411
	26,442		39,476		67,815
	55,934		83,506		143,453
			14,395		14,395
	89,451		536,880	99,452	732,200
	10,591		15,812		27,163
	71,804		107,199		184,153
	34,568		93,672		130,720
27,647			46,786		74,433
	5,633		8,409		14,446
236,018			2,514,794	756,656	5,152,973
7,920	10,115		50,371		69,132
			38,853		38,853
	28,871		43,102		74,044
	22,605		33,747		57,974
76,489	43,894		65,530		189,061
4,849	52,219		$124,985	8,925	194,725
$ 127,810,144	$84,233,465		$ 419,954,994	$ 104,196,969	$ 2,240,039,229
$ 47,668			$ 32,577	$ 13,528	$ 95,502
34,583			23,634	9,814	69,286
17,719			12,109	5,029	35,500
175,020			119,612	49,670	350,650
103,398			70,664	29,344	207,156
$ 378,388			$ 258,597	$ 107,384	$ 758,094
$10,185,317,354	$84,233,465	$ 6,196,169,248	$ 17,545,315,149	$ 6,389,886,558	$ 42,838,540,942

State Board of Investment
Non Retirement Fund Combining Schedules
As of Year Ended June 30, 2010
Amounts In (000)'s

	Permanent School	Environmental Trust	PERA OPEB	Trust Funds	Total Non Retirement
Statement of Net Assets					
Assets					
Non Retirement Money Fund	$ 11,222	$ 9,784	$ 35,337	$ 79	$ 56,422
Internal Bond Pool	342,184	143,232	69,201	49,997	604,614
Internal Equity Pool	320,486	307,500	125,543	40,654	794,183
Less Pool Earnings Accrual	(1,843)	(1,043)	(468)	(260)	(3,614)
Total Investments	$ 672,049	$ 459,473	$ 229,613	$ 90,470	$ 1,451,605
Cash			$ 405		$ 405
Security Sales Receivable	$ 3	$ 6,405	376		6,784
Accrued Earnings	1,843	1,043	468	$260	3,614
Security Lending Collateral	34,617	23,364	10,109	4,742	72,832
Total Assets	$ 708,512	$ 490,285	$ 240,971	$ 95,472	$ 1,535,240
Liabilities					
Accounts Payable	$ 3	$ 3,305			$ 3,308
Security Purchases Payable		3,100	$ 782		3,882
Security Lending Collateral	34,617	23,364	10,109	$ 4,742	72,832
Total Liabilities	$34,620	$29,769	$10,891	$4,742	$80,022
Net Assets as of June 30, 2010	$ 673,892	$ 460,516	$ 230,080	$ 90,730	$ 1,455,218
Statement of Changes in Assets	**For the Fiscal Year Ended June 30,2010**				
Investment Income					
Interest, Dividends and Other	$ 22,051	$ 12,255	$ 5,421	$ 4,035	$ 43,762
Security Lending Income	218	183	76	29	506
Less Borrower Rebates	(42)	(33)	(14)	(6)	(95)
Less Fees Paid to Agents	(26)	(22)	(9)	(3)	(60)
Realized Gains (Losses)	3,821	3,413	303	(5,934)	1,603
Unrealized Gains (Losses)	49,406	37,330	9,911	17,851	114,498
Expenses					
Administrative Expenses	(35)	(24)	(17)	(7)	(83)
Investment Expenses	(12)	(8)	(10)	(2)	(32)
Net Income	$ 75,381	$ 53,094	$ 15,661	$ 15,963	$ 160,099
Participant Transactions					
Additions	$ 6,240	$ 31,529	$ 46,779	$ 528	$ 85,076
Withdrawals	(45)	(25,620)	(10,349)	(50,211)	(86,225)
Income Distributions	(22,148)				(22,148)
Net Participant Transactions	$ (15,953)	$ 5,909	$ 36,430	$ (49,683)	$ (23,297)
Total Change in Assets	$ 59,428	$ 59,003	$ 52,091	$ (33,720)	$ 136,802
Net Assets June 30, 2009	614,464	401,513	177,989	124,450	1,318,416
Net Assets June 30, 2010	$ 673,892	$ 460,516	$ 230,080	$ 90,730	$ 1,455,218

Notes are an integral part of the Financial Statements

State Board of Investment
Non Retirement Funds Participation Schedule
As of Year Ended June 30, 2010
Amounts In (000)'s

	Non Retirement Cash Pool	Internal Bond Pool	Internal Equity Pool	Total Non Retirement Pools
Permanent School	$ 11,222	$ 342,184	$ 320,486	$ 673,892
Environmental	$ 9,784	$ 143,232	$ 307,500	$ 460,516
Other Trusts:				
Closed Landfill			$ 594	$ 594
Emergency Med SVC	$ 79	$ 532	808	1,419
Ethel Currey		445	504	949
Iron Range Resources		41,488	28,766	70,254
Life Time Fish &Wild Life		2,138	4,514	6,652
Saint Louis County Environmental		3,011	2,774	5,785
Winona State		2,383	2,694	5,077
	$ 79	$ 49,997	$ 40,654	$ 90,730
PERA OPEB:				
Anoka County (Irrevocable)			$ 19,955	$ 19,955
Anoka County (Revocable)			1,922	1,922
City of Eagan			5,999	5,999
Crosby-Ironton ISD#182	$ 690	$ 3,453		4,143
Duluth		11,046	10,771	21,817
Elk River ISD #728		5,314		5,314
Fillmore Central ISD #2198	899			899
Hastings ISD#200	557			557
Kingsland ISD#2137	201	60	223	484
Mendota Heights Eagan West Saint Paul ISD#197	2,570	7,864		10,434
Metro Mosquito Control District		318	999	1,317
Mounds View ISD #621	17,983		7,207	25,190
Mt. Iron-Buhl ISD #712		1,967		1,967
Metropolitan Council OPEB	8		69,336	69,344
Ogilvie ISD#333	1,124			1,124
Robbinsdale ISD#281	9,343	9,525		18,868
Roseville ISD#623		16,975		16,975
Scott County			1,859	1,859
Staples Motley ISD #2170		1,138		1,138
Washington County		2,632	7,272	9,904
Winona ISD# 861		8,909		8,909
Yellow Medicine ISD#2190	1,962			1,962
	$ 35,337	$ 69,201	$ 125,543	$ 230,081
Total Pool Participation	$ 56,422	$ 604,614	$ 794,183	$ 1,455,219

Notes are an integral part of **the Financial Statements**

External Stock and Bond Managers' Fees

Total Payments for Fiscal Year 2010

Active Domestic Stock Managers (1)		
Alliance Bernstein L.P.	$	246,423
Barrow, Hanley, Mewhinney & Stauss, Inc.		754,427
EARNEST Partners, LLC		440,184
Mellon Capital Management Corp. (Franklin) *		-644,888
Goldman Sachs Asset Management, LP		942,895
Hotchkis and Wiley Capital Management, LLC		760,964
INTECH Investment Management, LLC (Enhanced InvTec)		923,544
Jacobs Levy Equity Management, Inc.		856,660
Knelman Asset Management Group, LLC (Lazard)		294,654
Lord, Abbett & Co., LLC		630,073
LSV Asset Management		887,076
Martingale Asset Management L.P.		520,707
McKinley Capital Management Inc.		838,567
New Amsterdam Partners, LLC		189,434
Next Century Growth Investors, LLC		1,746,464
Peregrine Capital Management		1,120,323
RiverSource Investments *		4,769
Sands Capital Management, LLC		745,434
Systematic Financial Management, LP		831,535
Turner Investment Partners, Inc.		1,330,879
UBS Global Asset Management (Americas) Inc.		585,493
Winslow Capital Management, Inc. (Large Cap.)		509,171
Zevenbergen Capital Investments, LLC		1,373,780
Passive Domestic Stock Managers		
Black Rock Institutional Trust Co. N.A.		840,177
Semi-Passive Domestic Stock Managers		
Black Rock Institutional Trust Co. N.A.		2,780,412
INTECH Investment Management, LLC (Enhanced InvTec)		277,189
Mellon Capital Management Corp. (Franklin)		1,761,441
JPMorgan Investment Management, Inc.		2,492,531
Active Domestic Bond Managers (2)		
Aberdeen Asset Management (Deutsche)		1,482,752
Dodge & Cox		1,019,825
Morgan Stanley		0
PIMCO		2,036,064
Columbia Management Investment Advisers, LLC		858,322
Western Asset Management		1,277,071

cont.

External Stock and Bond Managers' Fees

Total Payments for Fiscal Year 2010

Semi-Passive Domestic Bond Managers (2)		
BlackRock Inc.	$	923,194
Goldman Sachs		1,180,230
Lehman Brothers Asset Management, LLC (Lincoln)		545,115
Developed-International Active Stock Managers		
Acadian Asset Management		1,290,488
Invesco Global Asset Management		863,379
JP Morgan Investment Management Co.		965,874
Marathon Asset Management		1,575,235
McKinley Capital Management		931,024
Pyramis Global Advisors Trust Co.- Active (Fidelity)		860,880
Columbia Management Investment Advisers, LLC		757,440
Developed-International Semi-Passive Stock Managers		
AQR Capital Management		1,278,045
Pyramis Global Advisors Trust Co. - Semi Passive (Fidelity)		911,822
State Street Global Advisors - Semi Passive		1,087,869
Developed-International Passive Stock Managers		
State Street Global Advisors - Passive		436,408
Emerging-International Active Stock Managers		
AllianceBernstein L.P.		1,150,255
Capital International		4,900,560
Morgan Stanley Investment Management		5,257,189
Assigned Risk Plan		
GE Investment Management		171,163
RBC Global Asset Management		255,326

* Manager Terminated in Fiscal '10

(1) Most active stock managers, with the exception of those managing small portfolios, are compensated on a performance-based fee formula. Four fee options are available and fees earned range from zero to twice the manager's base fee, depending on the manager's performance relative to an established benchmark.

(2) Active bond managers and semi-passive bond managers are compensated based on a specified percentage of assets under management.

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