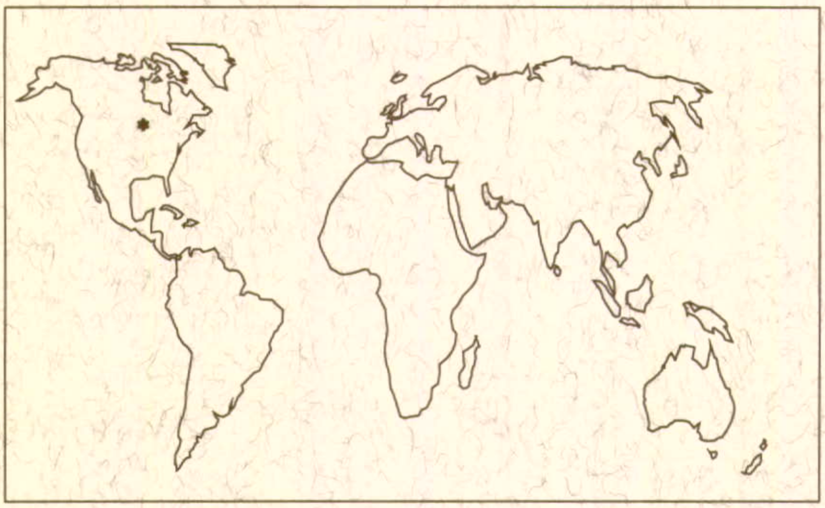
1994 ANNUAL REPORT



MINNESOTA STATE BOARD OF INVESTMENT

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MINNESOTA STATE BOARD OF INVESTMENT

Board Members:

Governor
Arne H. Carlson

State Auditor
Mark B. Dayton

State Treasurer
Michael A. McGrath

Secretary of State
Joan Anderson Growe

Attorney General
Hubert H. Humphrey III

Executive Director:

Howard J. Bicker

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An Equal Opportunity Employer

The Minnesota State Board of Investment is pleased to present its report for the fiscal year ending June 30, 1994.

Investment Environment

The performance of the U.S. stock and bond markets was disappointing when compared to historical averages. Responding to sharp rises in interest rates during the second half of the period, the bond market dropped significantly and produced a negative rate of return for the first time in several years (Salomon Broad Investment Grade bond index -1.2%). Rising interest rates, along with reports that the U.S. economy was growing faster than expected, fueled fears that inflation would increase significantly and produced only marginally positive returns in the stock market for the year (Wilshire 5000 stock index +0.9%).

By contrast, international stock markets produced very strong gains during the year (index of Europe, Australia and Far East, EAFE, +17.0%). As the above data suggests, a policy of broad diversification across world markets was particularly beneficial within this environment.

SBI Results

Several events should be highlighted for the year:

— The Basic Retirement Funds, the largest group of funds managed by the Board, produced a total rate of return of 2.1% for fiscal year 1994. (Refer to page 8.)

— The Post Retirement Fund will provide a life-time benefit increase of 4.0% for eligible retirees beginning January 1, 1995. This is the second post retirement benefit increase generated under the new formula enacted by the 1992 Legislature. (Refer to page 11.)

— The State Board of Investment and the Minnesota State Retirement System worked together to enhance the products and services offered under the State's Deferred Compensation Plan. Participants will benefit from expanded investment options, a new marketing structure and lower marketing costs. (Refer to page 41.)

— The Board retained ten active stock managers for its new Emerging Manager Program. This initiative seeks out newer or younger firms with limited assets under management to develop as potential candidates for the SBI's domestic stock program. (Refer to page 40.)

— The Board made several modifications to its asset allocation policies for the retirement funds. Most notable were the addition of a 10% allocation to international stocks and a new 5% target to alternative assets in the Post Retirement Fund. (See page 42.)

On June 30, 1994, assets under management totaled $23.3 billion. This total is the aggregate of several separate pension funds, trust funds and cash accounts, each with differing investment objectives. In establishing a comprehensive management program, the Board develops an investment strategy for each fund which reflects its unique needs. **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 will continue to enhance the management and investment performance of the funds under its control.

Sincerely,

Howard Bicker

Howard Bicker
Executive Director

State Board of Investment

Governor Arne H. Carlson, Chair
State Auditor Mark B. Dayton
State Treasurer Michael A. McGrath
Secretary of State Joan Anderson Growe
State Attorney General Hubert H. Humphrey III

Investment Advisory Council

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

— 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 Finance 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.

The Council has formed three committees organized around broad investment subjects relevant to the Board's decision-making process: Asset Allocation, Stock and Bond Managers and Alternative Investments.

All proposed investment policies are reviewed by the appropriate Committee and the full Council before they are presented to the Board for action.

Members of the Council

Gary Austin
Executive Director
Teachers Retirement Association

David Bergstrom
Executive Director
Mn. State Retirement System

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

Kenneth F. Gudorf
President
Gage Investments

John M. Gunyou
Commissioner
Mn. Dept. of Finance

Laurie Fiori Hacking
Executive Director
Public Employees Retirement Assoc.

Keith Johnson
Governor's Appointee
Retiree Representative

P. Jay Kiedrowski
Executive V.P.
Norwest Bank Minnesota

Han Chin Liu
Governor's Appointee
Active Employee Representative

Malcolm W. McDonald, Vice Chair
Director & Corp. Secretary
Space Center, Inc.

Gary R. Norstrem
Sr. Vice Pres., Institutional Mktg.
Piper Capital Management

Barbara Schnoor
Governor's Appointee
Active Employee Representative

Deborah Veverka
V.P., Pension Investments
Honeywell, Inc.

Jan Yeomans, Chair
Dir., Benefit Funds & Fin'l. Mkts.
3M Co.

There are three vacancies among the Board Appointees to the Council that will be filled by early calendar year 1995.

Staff, Consultants & Custodians

Howard Bicker
Executive Director

Beth Lehman
Assistant Executive Director

Investment Staff

Equities
Michael J. Menssen
Mgr., Domestic Equities

Lois E. Buermann
Analyst, External Equities

A. Arthur Kaese
Analyst, Internal Equities

Karen Vnuk
Analyst, International Equities

Fixed Income
James H. Lukens
Mgr., Fixed Income Investments

Mansco Perry III
Analyst, External Fixed Income

N. Robert Barman
Analyst, Internal Fixed Income

Alternative Assets
John N. Griebenow
Mgr., Alternative Investments

Daniel L. Egeland
Analyst, Alternative Investments

Cash Management
John T. Kinne
Mgr., Short Term Accounts

Harold L. Syverson
Security Trader, Short Term

Public Programs
James E. Heidelberg
Mgr., Public Programs

Arthur M. Blauzda
Analyst, Shareholder Services

Deborah Griebenow
Analyst, Management Reporting

Administrative Staff

Finance and Accounting
L. Michael Schmitt
Administrative Director

Mable E. Patrick
Accounting Supervisor

Thomas L. Delmont
Accounting Officer, Intermediate

Nancy L. Wold
Accounting Officer

Kathy Sears
Computer Operator

Support Services
Charlene Olson
Secretary to the Executive Director

Lin Nadeau
Secretary

Carol Nelson
Secretary

Lavern Jagg
Receptionist

Consultants

General Consultant
Richards & Tierney, Inc.
Chicago, Illinois

International Consultant
Pension Consulting Alliance
Studio City, California

Deferred Compensation Consultant
The Wyatt Company-PRIMCO
Portland, Oregon

Custodian Banks

Retirement Assets
State Street Bank & Trust Co.
Boston, Massachusetts

Non-Retirement Assets
Norwest Bank
Minneapolis, Minnesota

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, 1994 the market value of all assets was $23.3 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 is also specified in the Constitution and is comprised of the Governor (who is named as chair of the Board), State Auditor, State Treasurer, 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 each asset class 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 management. 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.

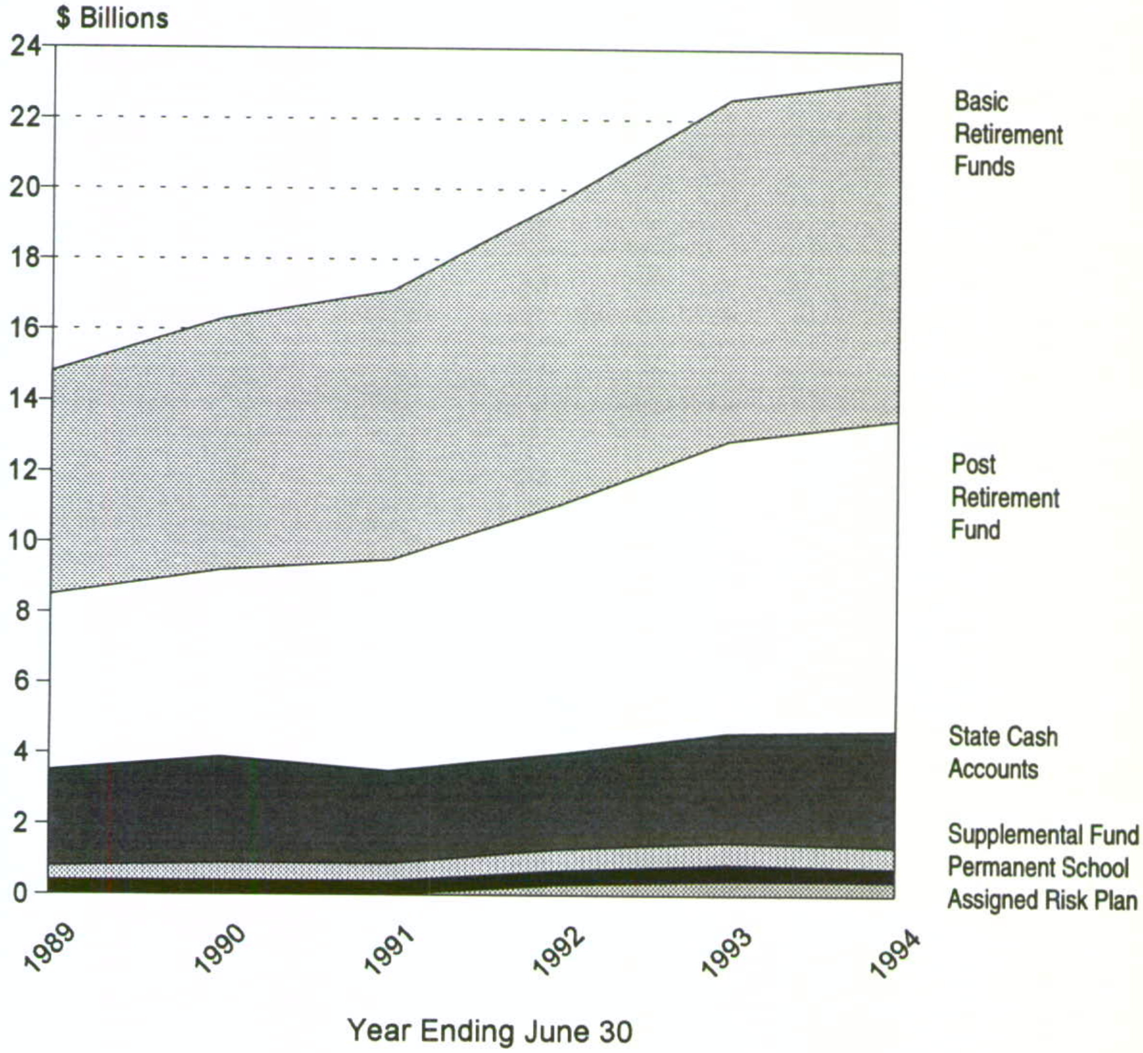
The Board's policy concerning investment in companies with direct investment in South Africa was rescinded during fiscal year 1994, along with its prohibition on investing in the stock of American Home Products (refer to page 47 for more information on this change).

The Board has also adopted guidelines concerning investments in stock markets outside the U.S. The guidelines do not prohibit investment in any market, but do require that additional notification/presentation be provided to SBI staff or the SBI Administrative Committee in certain cases.

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

Important Notes
Readers should note that the SBI's returns in this report are shown ***after*** transactions costs and fees are deducted. Relevant indices to not reflect transaction costs and fees. Performance is computed 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 contains only summarized asset listings. **A complete list of securities is available upon request from the State Board of Investment.**

Growth in Assets
Fiscal Years 1990 - 1994



Funds Under Management

	Market Value June 30, 1994
Basic Retirement Funds	***$9.7 billion***

The Basic Retirement Funds contain the pension assets of the currently working participants in eight major statewide retirement plans:

Teachers Retirement Fund	$4,179 million
Public Employees Retirement Fund	2,091 million
State Employees Retirement Fund	1,917 million
Public Employees Police and Fire Fund	946 million
Police and Fire Consolidation Fund	296 million
Highway Patrol Retirement Fund	146 million
Correctional Employees Fund	104 million
Judges Retirement Fund	9 million

Post Retirement Fund — ***8.8 billion***

The Post Retirement Investment Fund is composed of the reserves for retirement benefits to be paid to retired employees. Life-time retirement benefit increases are permitted based on both inflation and investment performance.

Supplemental Investment Fund — ***0.6 billion***

The Supplemental Investment Fund includes assets of the state deferred compensation plan, supplemental benefit arrangements, various retirement programs for local police and firefighters, and the unclassified employees of the state. Participants may choose among six separate accounts with different investment emphases designed to meet a wide range of investment needs and objectives.

Income Share Account	stocks and bonds	$480 million
Growth Share Account	actively managed stocks	101 million
Common Stock Index Account	passively managed stocks	47 million
Bond Market Account	actively managed bonds	21 million
Money Market Account	short-term debt securities	60 million
Fixed Interest Account	guaranteed investment contracts	68 million

Assigned Risk Plan — ***$0.4 billion***

The Minnesota Workers Compensation Assigned Risk Plan is the insurance company of last resort for companies unable to obtain worker compensation insurance through private carriers. The SBI is the investment manager for the Plan's portfolio.

Permanent School Trust Fund — ***$0.4 billion***

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

Environmental Trust Fund — ***(less than 0.1 billion)***

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. The fund was $73 million on June 30, 1994.

State Cash Accounts — ***$3.3 billion***

These accounts are the cash balances of state government funds, including the Invested Treasurers Cash Fund, transportation funds, and other miscellaneous cash accounts. All assets are invested in high quality, liquid short-term debt securities.

Total Assets — ***$23.3 billion***

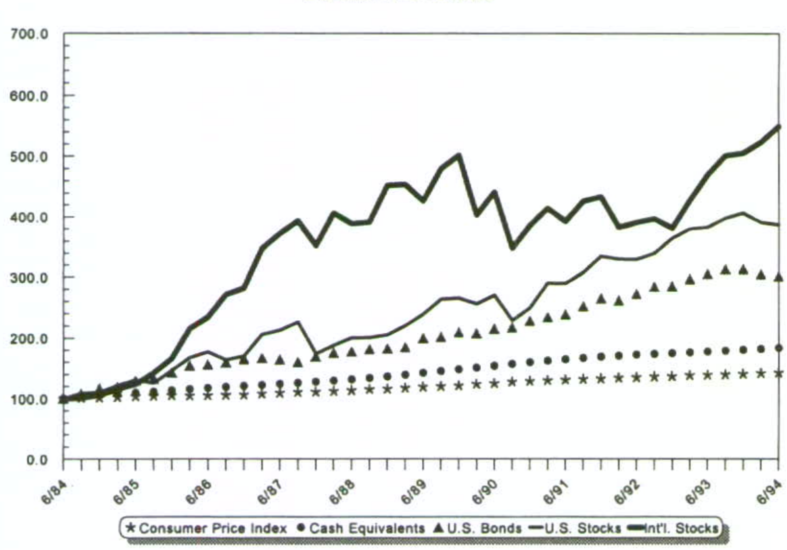
Combined Funds

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, 1994, the Combined Funds had a market value of $18.5 billion.

The Combined Funds are so named because they represent the combined assets of both the Basic Retirement Funds (the fund for active employees) and Post Retirement Fund (the fund for retired employees). Unlike most other public and corporate pension plans, the assets of active and retired employees are separated under statute and therefore managed and accounted for separately. More information on the structure and performance of the Basic and Post Funds are contained in the following chapters.

While the Combined Funds do not exist under statute, the Board finds it instructive to review asset mix and performance of all defined benefit pension assets under its control. This more closely parallels the structure of other public and corporate pension plan assets and therefore allows for more meaningful comparison with other pension fund investors. The comparison universe used by the SBI is the Master Trust portion of the Trust Universe Comparison Service (TUCS). This universe contains information on more than 200 public and corporate pension and trust funds with a balanced asset mix.

Figure 1. Performance of Capital Markets FY 1985-1994



It is important to note that the historical data on the Combined Funds presented in this report reflect the Basic Retirement Funds only through fiscal year 1993. Both the Basic and Post Funds are included beginning in fiscal year 1994.

This distinction is necessary due to the very 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 its 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.

(Please refer to the chapter on the Post Retirement Fund for more information on the change in the benefit increase formula and its impact on the asset allocation strategy for that Fund).

Combined Funds

Asset Allocation

As illustrated in Figure 1, historical evidence strongly indicates that common stocks (both domestic and international) 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 its asset allocation policy for 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 and real estate in the total portfolio. These assets diversify the Funds and reduce wide fluctuations in investment returns on a year to year basis. This diversification should not impair the Funds' ability to meet or exceed their actuarial return target over the long-term.

As of 6/30/94

	Combined Funds	Median Allocation in TUCS
Stocks*	60.5%	56.0%
Bonds*	32.2	30.5
Alt. Assets	5.5	0.1
Cash	1.8	6.5
Total	100.0%	100.0%

* Both international and domestic

Figure 2. Asset Mix Comparison as of June 30, 1994

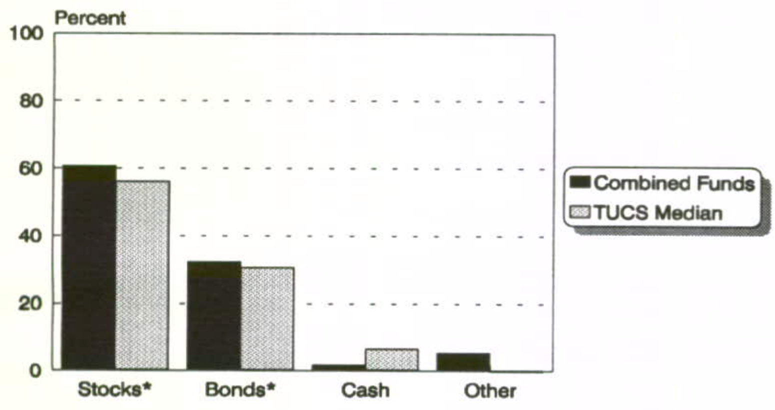
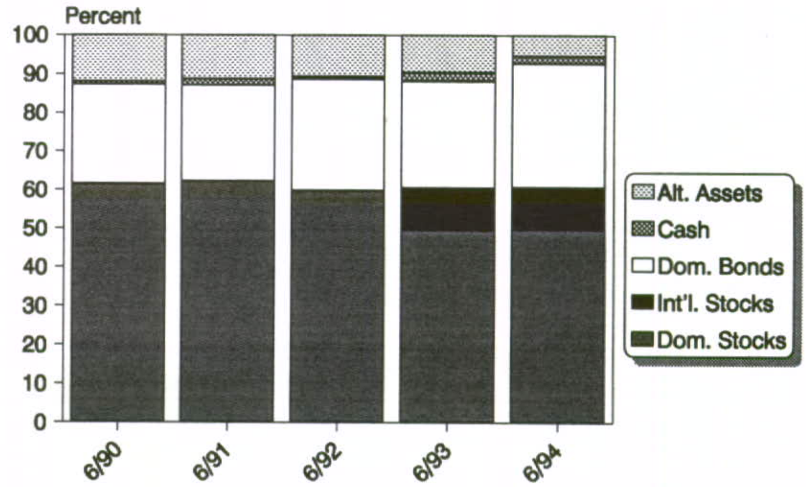


Figure 3. Historical Asset Mix FY1990-1994



Note: Data for fiscal years prior to 1994 represents the Basic Funds only.

Asset Mix Compared to Other Pension Funds

Comparisons of the Combined Funds' actual asset mix to the median allocation to stocks, bond and other assets of the funds in TUCS on June 30, 1994 are displayed in Figure 2. It shows that the Combined Funds were overweighted in stocks, bonds and alternative investments relative to the median allocation in TUCS and underweighted in their allocation to cash. Historical data on the Combined Funds' asset mix is shown in Figure 3.

Return Objectives

The Combined Funds are evaluated relative to three total rate of return objectives:

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

— ***Exceed Median Fund Returns.*** Over a five year period, the Combined Funds are expected to outperform the return of the median fund in a representative universe of other public and corporate pension and trust funds with a balanced asset mix of stocks and bonds. As noted earlier, the universe used by the SBI is the Master Trust portion of the Trust Universe Comparison Service (TUCS).

— ***Exceed Market Returns.*** Over a five year period, the Combined Funds are expected to outperform a composite of market indices weighted in a manner that reflects the asset mix of the Combined Funds.

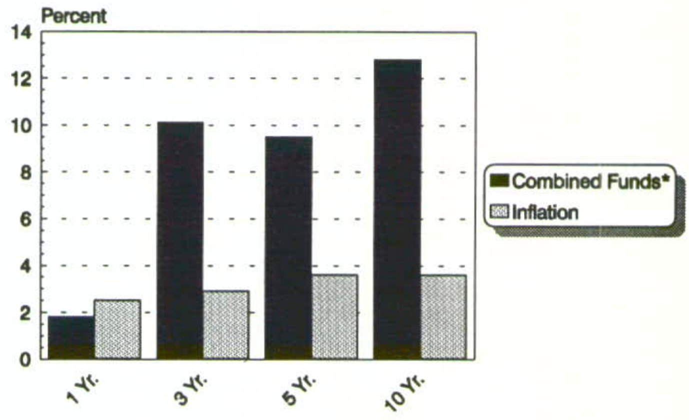
Combined Funds

Investment Results

Comparison to Inflation

Over the last ten years, the Combined Funds exceeded inflation by 9.2 percentage points, an amount well in excess of the return objective cited above. It should be noted however, that performance for the most recent year lagged inflation by 0.7 percentage point. While such a lag relative to inflation would not be acceptable on a long-term basis, the SBI is not overly concerned with this short-term result. Historical results compared to inflation are shown in Figure 4.

Figure 4. Combined Funds Performance vs. Inflation



	Annualized			
	1 Yr.	3 Yr.	5 Yr.	10Yr.
Combined Funds*	**1.8%**	**10.1%**	**9.5%**	**12.8%**
Inflation	2.5	2.9	3.6	3.6

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

Comparison to Other Funds

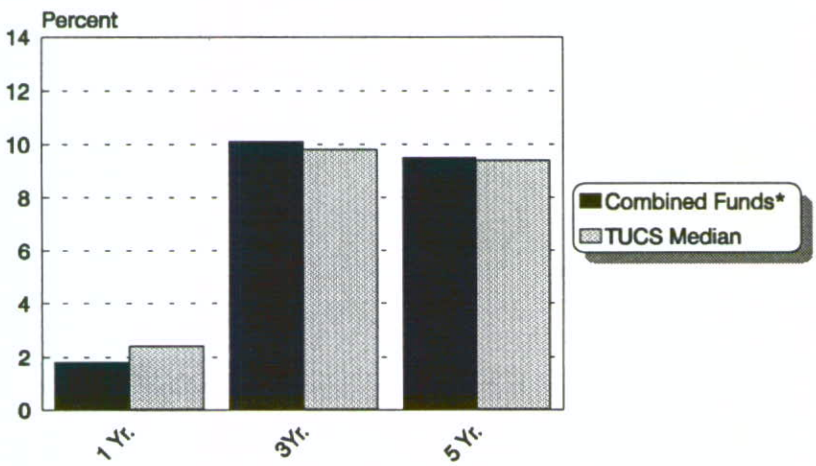
While the SBI is naturally concerned with how its returns compare to other pension investors, universe comparison data should be used with great care. There are several reasons why such comparisons will provide an "apples to oranges" look at performance:

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

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

— ***Differing Goals/Liabilities.*** Each pension fund structures its portfolio to meet its own liabilities and risk tolerance. This may result in different choices on asset mix. Since asset mix will largely determine

Figure 5. Combined Funds Performance vs. Median Fund



	Annualized		
	1 Yr.	3 Yr.	5 Yr.
Combined Funds*	**1.8%**	**10.1%**	**9.5%**
TUCS Median	2.4	9.8	9.4

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

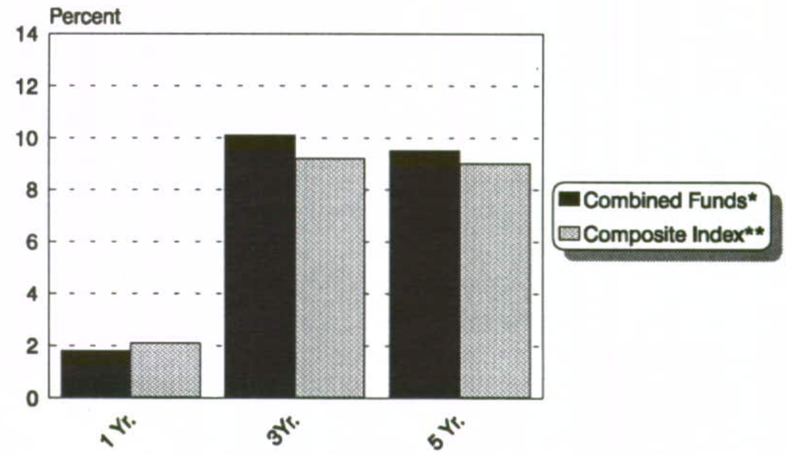
investment results, a universe ranking may not be relevant to a discussion of how well a plan sponsor is meeting its long-term liabilities.

With these considerations in mind, the performance of the Combined Funds compared to other public and corporate pension funds in the Master Trust portion of TUCS is displayed in Figure 5. It shows that the Combined Funds outperformed the median fund by 0.1 percentage point over the last five years and therefore met their stated performance objective in this category. This placed the Combined Funds in the top half (45th percentile) for the period. Returns against the median fund were also favorable for the most recent three year period but lagged the median fund over the latest fiscal year.

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 results and a breakdown of the composite index are shown in Figure 6. The Combined Funds exceeded the composite index by 0.5 percentage point over the last five years and therefore met their stated performance goal. The Funds exceeded the composite index by 0.9 percentage points over the last three years and under performed the index by 0.3 percentage point over the most recent fiscal year. These results are largely a measure of value added, net of fees and expenses, from active management.

Figure 6. Combined Funds Performance vs. Composite Index



	Annualized		
	1 Yr.	3 Yr.	5 Yr.
Combined Funds*	**1.8%**	**10.1%**	**9.5%**
Composite Index**	2.1	9.2	9.0

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

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

Composite Index on June 30, 1994.

Asset Class	**Market Index**	**Composite Index Wts.**
Domestic Stocks	Wilshire 5000	50.0%
Int'l. Stocks	EAFE	10.0
Domestic Bonds	Salomon BIG	32.8***
Alternative Assets	Wilshire Real Estate	2.1***
	Venture Capital Funds	2.6***
	Resource Funds	0.5***
Unallocated Cash	91 Day T-Bills	2.0
Total		100.0%

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

The Basic Retirement Funds accumulate the retirement assets of public employees during their working years. On June 30, 1994, the Funds covered more than 250,000 active employees and had a market value of $9.7 billion.

Figure 7 identifies the eight different retirement funds which comprise the Basic Funds. The Basic Funds invest the pension contributions that employees and employers make to defined benefit pension plans during the employees' years of active service.

Investment Objectives

The State Board of Investment (SBI) has one overriding responsibility with respect to its management of the Basic Funds: to ensure that sufficient funds are available to finance promised benefits at the time of retirement.

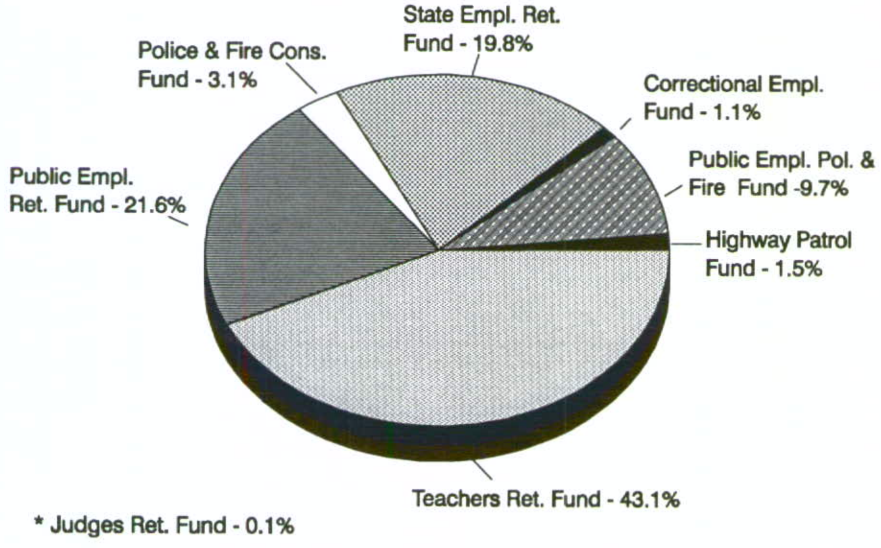
Actuarial Assumed Return

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 Basic 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 Basic Retirement Funds for thirty to forty years during an employee's years of active service. This provides the Basic Funds with a long investment time horizon and permits the Board to take advantage of the long run return opportunities offered by common stocks and other equity investments in order to meet its actuarial return target.

Figure 7. Composition of Basic Funds



Return Objective

The Board measures the performance of the Basic Retirement Funds relative to a composite of market indices that is weighted in a manner that reflects their long-term asset allocation policy. The Basic Funds are expected to exceed the composite index over a five year period. *Performance is measured net of all fees and costs* to assure that the Board's focus is on its true net return.

Asset Allocation

The allocation of assets among common stocks, bonds, and alternative investments can have a dramatic impact on investment results. In fact, asset allocation decisions overwhelm the impact of individual security selection within a total portfolio. Consequently, the Board has focused considerable attention on the selection of an appropriate long-term asset allocation policy for the Basic Funds.

Long-Term Allocation Policy

Based on the Basic Funds' investment objectives and the expected long run performance of the capital markets, the Board has adopted the following long-term asset allocation policy for the Basic Funds:

Domestic Stocks	50%
International Stocks	10
Domestic Bonds	24
Alternative Assets	15
Unallocated Cash	1

Figure 8. Asset Mix as of June 30, 1994

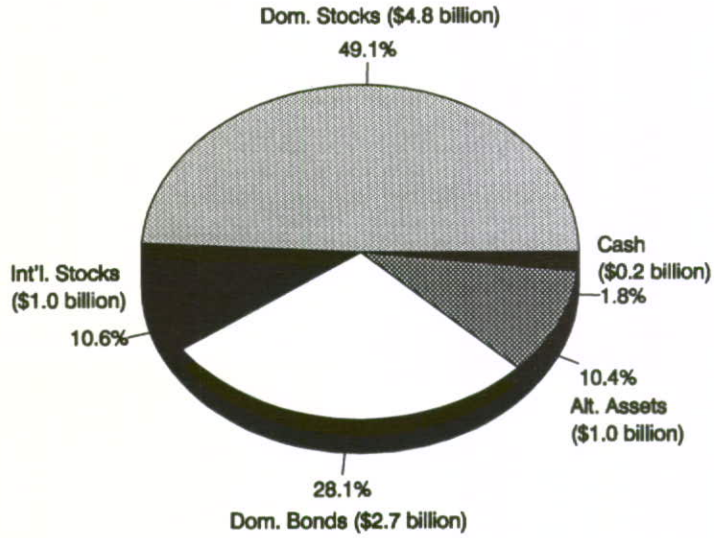


Figure 8 presents the actual asset mix of the Basic Funds at the end of fiscal year 1994. Historical asset mix data are displayed in Figure 9.

Total Return Vehicles

The SBI invests the majority of the Basic Funds' assets in ***common stocks*** (both domestic and international). A large allocation is consistent with the investment time horizon of the Basic Funds and the advantageous long-term risk-return characteristics of common stocks. Including international stocks in the asset mix allows the SBI to diversify its holdings across world markets and offers the opportunity to enhance returns and reduce the risk/volatility of the total portfolio. The rationale underlying the inclusion of ***private equity*** (e.g. venture capital) is similar. However, the relatively small size of the private equity market presents a practical limit to the amount that may be invested in this asset class.

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.

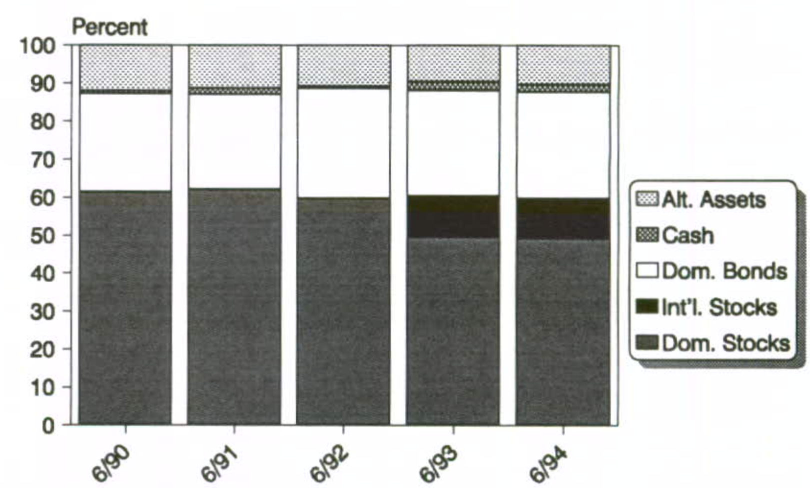
Diversification Vehicles

The Board includes other asset classes in the Basic Funds both 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. In periods of rapidly rising prices, these "hard" assets have appreciated in value at a rate at least equal to the inflation rate. Further, even 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, their inclusion in the Basic Funds serves to dampen return volatility.

The allocation to ***bonds*** acts as a hedge against a deflationary economic environment. In the event of a major deflation, high quality fixed income assets, particularly long-term bonds, are expected to protect principal and generate

Figure 9. Historical Asset Mix FY1990-1994



significant capital gains. And, like real estate and resource funds, under normal financial conditions, bonds help to diversify the Basic Funds, thereby controlling return volatility.

Investment Management

All assets in the Basic Retirement Funds are managed externally by private money management firms retained by contract with the SBI. In order to gain greater operating efficiency, the Basic Funds now share the same domestic stock, international stock and bond managers with the Post Fund. The performance of the stock and bond segments of both the Basic and Post Fund are therefore the same effective for fiscal year 1994.

More information on the structure, management and performance of these pools of managers is included in the **Investment Pool** section of this report.

Investment Performance

As stated earlier, the Basic Funds are expected to exceed the return of a composite of market indices over a five year period. Performance relative to this standard will measure two effects:

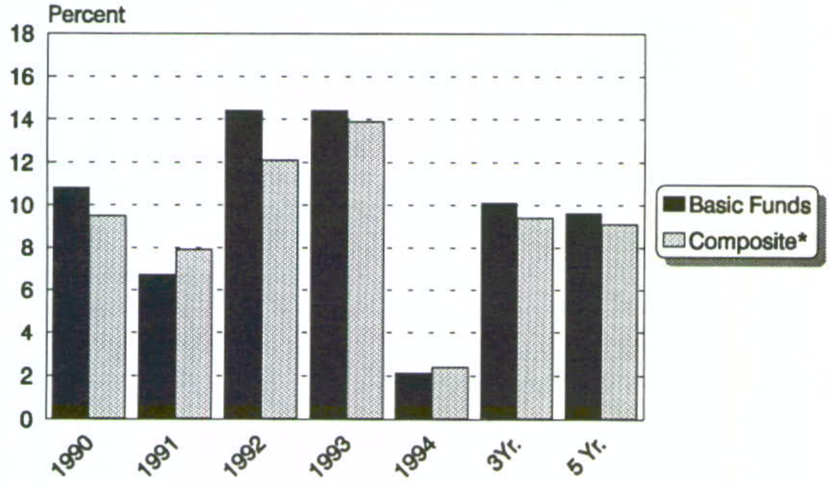
- The ability of the managers selected by the SBI, in aggregate, to add value to the returns available from the broad capital markets.

- The impact of the SBI's re balancing activity. The SBI rebalances the total fund when market movements take the stock or bond segments above or below their long term asset allocation targets. This policy imposes a low risk discipline of "buy low-sell high" on a total fund basis.

For the five year period ending June 30,1994, the Basic Funds out-performed the composite index by 0.5 percentage point annualized. The primary contributors to the value added came from above index performance during the last five years by the bond and real estate segments of the portfolio. Value added by these groups of managers was sufficient to counterbalance below index performance by both the domestic and international stock segments during the period. More information on the performance of each asset class is included in the Investment Pool section of this report. The SBI's policy of periodically rebalancing back to asset allocation targets also contributed importantly to the overall value added during the last five years.

Actual returns relative to the total fund composite index over the last five years are shown in Figure 10.

Figure 10. Basic Funds' Performance vs. Composite Index



						Annualized	
	1990	1991	1992	1993	1994	3 Yr.	5 Yr.
Basic Funds	**10.8%**	**6.7%**	**14.4%**	**14.4%**	**2.1%**	**10.1%**	**9.6%**
Composite Index*	9.5	7.9	12.1	13.9	2.4	9.4	9.1

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

The assets of the Post Retirement Fund are used to finance monthly annuities to retired public employees. These annuities may be adjusted upwards over the life of a retiree based on a formula that reflects both inflation and investment performance. On June 30, 1994, the Post Fund had a market value of $8.8 billion and more than 71,000 retiree participants.

The Post Retirement Fund includes the assets of retired public employees covered by nine state-wide retirement plans; the eight plans which participate in the Basic Retirement Funds as well as the Legislative and Survivors Retirement Fund.

Benefit Increase Formula

The retirement benefit increase formula applicable to the Post Retirement Fund was changed through legislation enacted by the 1992 Legislature. The new formula was effective beginning in fiscal year 1993 and is based on a combination of two components:

— ***Inflation Component.*** Each year, retirees will receive an inflation-based adjustment equal to 100% of inflation, up to a maximum of 3.5% specified in statute. The inflation component will be granted regardless of investment performance. The 3.5% cap will maintain the actuarial soundness of the entire plan and is the difference between the 8.5% return assumption for the Basic Funds, and the 5.0% return assumption for the Post Fund.

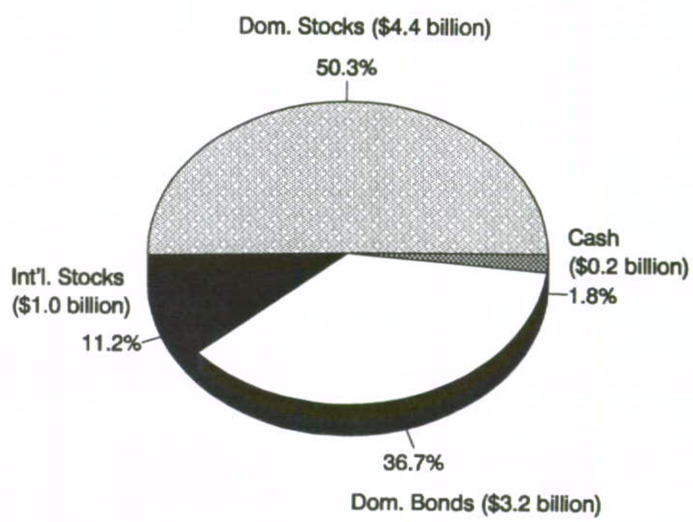
— ***Investment Component.*** Each year, retirees will also receive an investment-based adjustment, *provided* net investment gains are above the amount needed to finance the Post Fund's actuarial assumption of 5% and the inflation adjustment. Investment gains and losses will be spread over five years to smooth out the volatility of returns. In addition, all accumulated investment losses must be recovered before an investment-based adjustment is granted.

Because the investment-based component of the new formula will not be implemented fully during the initial years, a temporary transition adjustment may be paid during a phase-in period. The transition adjustment provided in law is:

FY 1993	1.00%
FY 1994	0.75
FY 1995	0.50
FY 1996	0.25

By statute, retirees will receive *either* the investment-based component or the transition adjustment, whichever is higher, for the respective year.

Figure 11. Asset Mix as of June 30, 1994



Note: Alt. Assets were $ 3 million which is less than 0.1%

Advantages
The new formula has two primary advantages:

— It provides benefit increases that are more sensitive to inflation than those granted under the old formula.

— It allows the Post Fund to maximize the long-term earning power of its assets. Without the need to generate the higher levels of current income required under the old formula, the Post Fund can increase its stock exposure and thereby enhance its prospects for higher total rates of return over the long run.

More information on the new benefit increase formula is included in the **Statistical Data** section.

Investment Objective

Time Horizon
The time horizon of the Post Fund is 15-20 years and corresponds to the length of time a typical retiree can be expected to draw benefits. While this is shorter than the time horizon of the Basic Funds, it is still sufficiently long to allow the Board to take advantage of the long run return opportunities offered by common stocks in order to meet its actuarial return target as well as to finance retirement benefit increases.

Return Objective
The Board measures the performance of the Post Retirement Fund relative to a composite of market indices that is weighted in a manner that reflects its long-term asset allocation policy. The Post Fund is expected to exceed the composite index over a five year period. *Performance is measured net of all fees and costs* to assure that the Board's focus is on true net return.

Asset Allocation

The Board revised its asset allocation strategy for the Post Fund in fiscal year 1993 in order to reflect the goals associated with the new post retirement benefit increase formula. Throughout fiscal year 1993, the actual asset mix of the Post Fund moved gradually toward a 50% allocation to common stocks. During fiscal year 1994, the Board added allocations to international stocks and alternative investments. The current long-term asset allocation for the Post Fund is as follows:

Domestic Stocks	50%
Int'l. Stocks	10
Domestic Bonds	32
Alternative Assets	5
Unallocated Cash	3

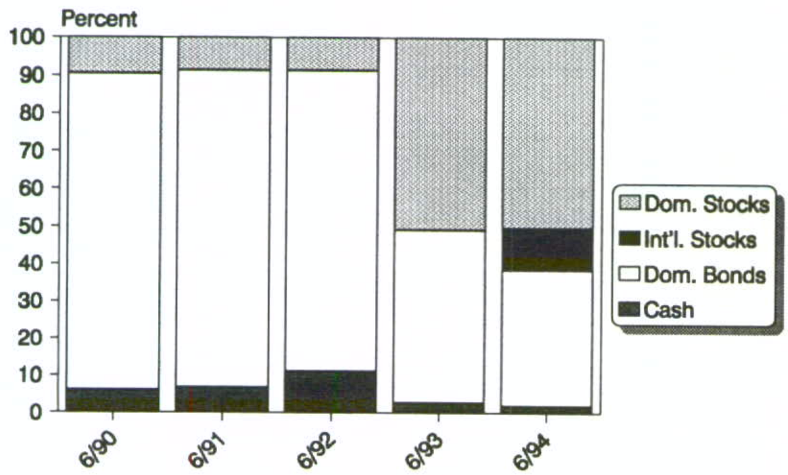
The Post Funds' year-end asset mix is presented in Figure 11. Historical asset mix data are shown in Figure 12.

The SBI invests the majority of the Post Fund's assets in ***common stocks*** (both domestic and international). A large allocation is consistent with the moderately long time horizon of the Post Fund and the advantageous long term risk-return characteristics of common stocks. Including international stocks in the asset mix allows the SBI to diversify its holdings across world markets and offers the opportunity to enhance returns and reduce the risk/volatility of the total portfolio.

As with the Basic Funds, the Board recognizes that this sizable allocation will be likely to 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 Post Fund both to provide some insulation against highly deflationary environments and to diversify the portfolio sufficiently to avoid excessive return volatility.

Figure 12. Historical Asset Mix FY1990-1994



The ***bonds*** in the Post Fund act as a hedge against a deflationary economic environment. In the event of a major deflation, high quality fixed income assets, particularly long term bonds, are expected to protect principal and generate significant gains. And, under more normal financial conditions, bonds diversify the Post Fund, thereby controlling return volatility on a year-to-year basis.

Yield oriented alternative investments provide the opportunity for higher long term returns than those typically available from bonds yet still generate sufficient current income to be compatible with the objectives of the Post Fund. Typically, these investments (e.g. business loan participations, mortgage loan participations and income producing private placements) 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. As such they will help reduce the volatility of the total portfolio, but should also generate higher returns relative to more traditional bond investments.

Investment Management

Effective July 1, 1993, assets of the Post Fund were transferred to external managers. As a result, the Basic and Post Funds now share the same domestic stock, domestic bond and international stock managers. The performance of the stock and bond segments of both the Basic and Post Funds will therefore be the same effective fiscal year 1994.

More information on the structure, management and performance of these pools of managers is included in the **Investment Pool** section of this report.

Investment Performance

Total Fund Performance

As stated earlier, the Post Fund is expected to exceed the return of a composite of market indices over a five year period. Since the asset allocation changed dramatically during fiscal year 1993, performance relative to this standard is available only for fiscal year 1994. During this period, the Post Fund matched its composite index with a return of 1.6%.

Benefit Increase

The Post Fund will provide a benefit increase of 4.0% for fiscal year 1994 payable beginning January 1, 1995. As noted earlier, this increase is comprised of two components:

— ***Inflation adjustment*** of 2.4% which is equal to 100% of the reported Consumer Price Index for wage earners (CPI-W) increase for the twelve months ending June 30, 1994. (This is the same inflation index used to calculate increases in Social Security payments).

— ***Investment adjustment*** of 1.6%. This represents one-fifth of the market value in excess of the amount needed to cover the actuarial assumed rate of return (5.0%) and the inflation adjustment (2.4%).

Benefit increases granted for the past ten years are shown in Figure 13. Prior to fiscal year 1993, the benefit increase formula was dependent on the level of excess realized income generated by the Post Fund. The 4.0% increase granted for fiscal year 1994 represents the second post retirement adjustment provided under the new benefit increase formula described above.

Figure 13. Historical Benefit Increases Granted

Fiscal Year*	Benefit Increase
1985	7.9%
1986	9.8
1987	8.1
1988	6.9
1989	4.0
1990	5.1
1991	4.3
1992	4.6
1993**	6.0
1994**	4.0

* Payable beginning January 1, of the following calendar year.

** Benefit increase granted under the new formula.

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 Basic Retirement Funds, Post Retirement Funds and Supplemental Investment Fund share many of the same stock and bond managers. This is accomplished by grouping managers together, 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 Basic Retirement Funds have participated in the Domestic Stock Pool since its inception in January 1984. The Post Retirement Fund has participated in the Pool since July 1993. In addition, the Growth Share Account in the Supplemental Investment Fund has utilized the actively managed portion of the Pool since April 1988. As of June 30, 1994, the dollar value of each fund's participation in the pool was:

Basic Funds (active and passive)	$4.8 billion
Post Fund (active and passive)	$4.4 billion
Growth Share Account (active only)	$95 million

Management Structure

The SBI uses a two-part approach to the management of the domestic stock pool:

— ***Active Management.*** No more than one-half of the stock pool will be actively managed. At the end of fiscal year 1994, approximately 49% of the stock pool was actively managed by a group of 14 external money managers each with portfolios usually ranging from $250-700 million.

In addition, the actively managed segment of the pool includes 10 managers in the SBI's Emerging Manager Program. Each Emerging Manager has a portfolio of approximately $30 million which gives the entire Emerging Manager Program about the same weight as a single manager in the rest of the active manager program, i.e. approximately $300 million.

— ***Passive Management.*** On an ongoing basis, at least one-half of the stock pool will be passively managed, i.e. invested in an index fund. At the end of fiscal year 1994, approximately 51% of the stock pool was indexed. The passive segment of the pool is managed by a single manager, Wilshire Asset Management.

The ***actively managed segment*** of the domestic stock pool is designed to add value. Each active manager is expected to add incremental value over the long run relative to a customized benchmark which reflects its unique investment approach or style.

This type of active manager structure can result in misfit or style bias. "Misfit" can be defined as the difference between the aggregate benchmarks of the active managers and the asset class target (i.e., the Wilshire 5000). Historically, the SBI experienced three major areas of misfit in its active manager group:

— persistent over-exposure to small capitalization stocks

— persistent over-exposure to growth oriented stocks

— persistent under-exposure to yield oriented stocks

The SBI uses the ***passively managed segment*** of the domestic stock pool to compensate for misfit. Because of its large size, the index fund can be a powerful lever in managing the characteristics of the entire domestic stock pool. By making relatively minor changes in its holdings, the index fund is modified or "tilted" to compensate for the existing misfit in the active manager group. This strategy should result in a decrease in the volatility of total returns and allow the value added to individual benchmarks to benefit the total domestic stock pool.

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. Customized performance benchmarks have been developed 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.

FY 1994 Changes

One domestic stock manager, Lieber & Co., was deleted from the active manager group during the fiscal year.

Six new active domestic stock managers were funded as of July 1, 1993: Brinson Partners, Inc.; Investment Advisors Inc.,-Regional Fund; Jundt Associates; Lincoln Capital Management; Oppenheimer Capital; and Weiss, Peck & Greer. These new managers were added to the Domestic Stock Pool when the Post Retirement Fund began to utilize an external manager structure.

As noted earlier, the Domestic Stock Pool includes the SBI's newly created Emerging Manager Program. During fiscal year 1994, the SBI conducted a formal search for the program, selected 10 firms and funded them with portfolios of $30 million each on April 1, 1994. The firms selected were: CIC Asset Management; Cohen Davis & Marks; Compass Capital; First Capital Advisors; Kennedy Capital; New Amsterdam Partners; Valenzuela Capital; Wilke/Thompson Capital; Winslow Capital; and Zevenbergen Capital.

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

Investment Performance

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

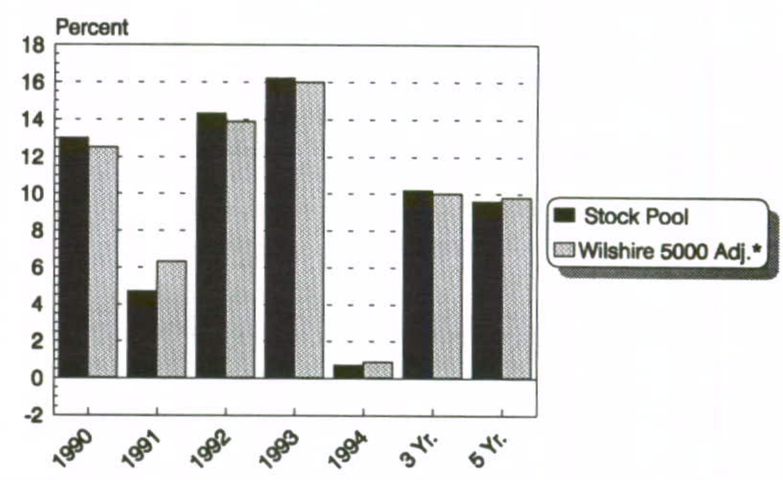
— ***Investment Approach.*** Each manager (active or passive) is expected to hold a portfolio that is consistent, in terms of risk characteristics, with the manager's stated investment approach.

— ***Diversification.*** Each active domestic stock manager is expected to hold a highly non-diversified portfolio, while the index fund manager is expected to hold a well diversified portfolio which tracks its stated target. In the short run, the active stock managers may depart from their risk targets as part of their specific investment strategies.

The domestic stock managers successfully fulfilled their long-term risk objectives during fiscal year 1994. In general, the managers constructed portfolios consistent with their stated investment approaches and maintained appropriate levels of diversification.

The Board's ***return objectives*** for its active domestic stock managers are measured against the performance of customized indices constructed to represent a manager's specific investment approach. This type of custom index is commonly referred to as a "benchmark portfolio." A benchmark portfolio takes into account the equity market forces that at times favorably or unfavorably impact certain investment styles. Thus, an individual benchmark is a more appropriate return target against which to judge a manager's performance than is a broad market index.

Figure 14. Domestic Stock Pool Performance FY 1990-1994



	1990	1991	1992	1993	1994	Annualized 3 Yr.	Annualized 5 Yr.
Stock Pool	**13.0%**	**4.7%**	**14.3%**	**16.2%**	**0.7%**	**10.2%**	**9.6%**
Wilshire 5000 Adj.*	12.5	6.4	13.9	16.0	0.9	10.0	9.8

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

If half of the Domestic Stock Pool is actively managed and half is passively managed, the entire Pool is expected to exceed its target, the Wilshire 5000, by 0.20-0.45 percentage point annualized, over time. Individual active managers are expected to exceed their custom benchmark by 0.50-1.00 percentage point annualized, over time, and the passive manager is expected to track its benchmark within ± 0.6 percentage point annually.

In aggregate, the Domestic Stock Pool trailed the Wilshire 5000 for the fiscal year by 0.2 percentage point. Relative performance was positive by the same amount over three years and negative by the same amount over five years. See Figure 14 for more detail on the historical performance of the entire pool.

Individual manager performance for fiscal year 1994 is shown in Figures 15 and 16. As can be seen in the charts, performance was quite mixed. In aggregate, the managers' investment judgments in the utility and basic material sectors added to performance while their decisions in the energy, technology and finance sectors hindered performance. The primary cause of under performance for the year was the negative tracking error incurred by the passive manager. This was due, in large measure, to the turnover that was necessitated when the assets of the Post Fund were merged with the Pool at the start of the fiscal year.

Performance data for the individual managers in the Emerging Manager Program are presented in Figure 16. Since these managers were funded April 1, 1994, performance figures include only one quarter of the fiscal year. During fiscal year 1995, staff will be working closely with each of the emerging managers to develop more appropriate benchmarks against which to measure their performance.

Figure 15. Domestic Stock Manager Performance FY1994

	Actual Return	**Benchmark Return**
Active Managers		
Alliance Capital	0.5%	1.5%
Brinson Partners	4.2	1.4
Forstmann Leff	0.9	-1.6
Franklin Portfolio	0.2	1.6
GeoCapital	4.6	3.5
Investment Advisors	2.6	3.3
IDS Advisory	3.2	2.8
Independence Associates	2.6	1.1
Jundt Associates	-5.7	1.6
Lincoln Capital	1.3	0.6
Lynch & Mayer	-2.7	3.0
Oppenheimer	2.9	1.9
Waddell & Reed	2.2	5.9
Weiss Peck & Greer	-9.0	-1.2
Passive Manager		
Wilshire Associates	0.8	1.1
Stock Pool*	**0.7**	
Performance Standard		
Wilshire 5000 Adj.**	0.9	

* Includes emerging managers, see below.
** Adjusted for the SBI's restriction on liquor and tobacco through 3/31/93 and American Home Product restriction through 10/31/93.

Figure 16. Emerging Manager Performance FY1994

	Actual Return	**Benchmark Return**
CIC Asset Management	-0.1%	0.5%
Cohen Davis & Marks	2.0	0.5
Compass Capital	-1.7	-0.5
First Capital Advisors	-0.5	0.5
Kennedy Capital	-3.1	-3.9
New Amsterdam	-4.6	-0.2
Valenzuela Capital	1.3	0.5
Wilke/Thompson	-6.6	-3.5
Winslow Capital	-2.8	-1.0
Zevenbergen Capital	-5.1	-1.0

Note: These managers were funded on April 1, 1994, therefore the return figures include data for only one quarter.

Historical information on individual manager performance and portfolio characteristics is included in the **Statistical Data** section. Section II of the Annual Report provides **Summarized Asset Listings** for each manager and the Pool in aggregate.

Domestic Bond Pool

The Basic Retirement Funds have participated in the Domestic Bond Pool since its inception in July 1984. The Post Retirement Fund has participated in the Pool since July 1993. In addition, the Bond Market Account in the Supplemental Investment Fund has utilized the actively managed portion of the Pool since July 1986. As of June 30, 1994, the dollar value of each fund's participation in the pool was:

Basic Funds $2.7 billion
(active and semi-passive)

Post Fund $3.2 billion
(active and semi-passive)

Bond Market $21 million
(active only)

Investment Management

Like the Domestic Stock Pool, the SBI uses a two-part approach to the management of the Domestic Bond Pool:

— ***Active Management.*** No more than one-half of the bond pool will be actively managed. At the end of fiscal year 1994, approximately 50% of the bond pool was actively managed by a group of seven external money managers with portfolios of $200-800 million each

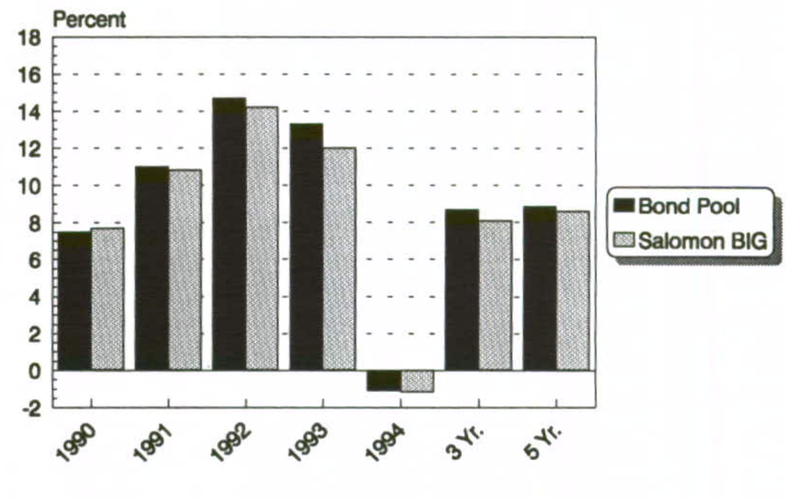
— ***Semi-Passive Management.*** At least one-half of the assets allocated to the domestic bond pool will be managed by semi-passive or enhanced index managers. At the end of fiscal year 1994, approximately 50% of the bond segment was invested by three external money managers with portfolios of approximately $1 billion each.

The group of ***active*** bond managers was selected for its blend of investment styles. Each of the managers invests in high quality fixed income securities. The managers vary, however, in the emphasis they place on interest rate anticipation and in the manner in which they approach issue 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 minimum average life of their portfolios. This requirement is designed to prevent the total Pool from assuming an excessively short-lived position and thus, severely diluting its deflation hedge capacity. In addition, to avoid extreme variability in total returns, the SBI constrains the maximum duration (a measure of average life) of the managers' portfolios to a band a three to seven years. The bond managers are permitted to purchase only high quality (BAA or better) fixed income assets.

The goal of the ***enhanced index*** managers is to add incremental value to the Salomon Broad Investment Grade (BIG) Index through the superior selection of bonds for the portfolios. The enhanced index managers adhere very closely to characteristics of the Salomon BIG and essentially match its duration and maturity structure. The managers seek to add value by exploiting perceived mispricings among individual securities or by making minor alterations in the sector weightings within the portfolio. Although the enhanced index managers seek to exceed the performance of the index, the

Figure 17. Bond Pool Performance FY1990-1994



	1990	1991	1992	1993	1994	Annualized 3 Yr.	Annualized 5 Yr.
Bond Pool	**7.5%**	**11.0%**	**14.7%**	**13.3%**	**-1.1%**	**8.7%**	**8.9%**
Salomon BIG*	7.7	10.8	14.2	12.0	-1.2	8.1	8.6

* Salomon Broad Investment Grade Bond Index

possibility exists that the semi-passive approach may slightly under perform the target index during some periods.

FY 1994 Changes

Four new active bond mangers were added to the Domestic Bond Pool and funded on July 1, 1993: BEA Associates, IDS Advisory Group, Standish Ayer & Wood and TCW Asset Management. These new managers were retained when the Post Retirement Fund began to utilize external managers.

BEA and Standish manage portfolios that include the entire market (i.e. governments, corporates and mortgages). IDS was retained to manage a portfolio of government and corporate securities and TCW was hired to manage a mortgage-only portfolio.

One new semi-passive manager, Goldman Sachs Asset Management, was added to the Domestic Bond Pool on July 1, 1993 as well. As with the new active managers, the addition of the new enhanced index manager coincided with the date that the Post Fund began to utilize external managers.

In September 1993, the Board approved a pilot program for global bond management and authorized three of the current active bond managers (BEA, Miller and Standish) to invest up to 10% of their portfolios in non U.S. bonds. The three managers began implementing this additional investment authority in January 1994. This pilot program is considered an interim approach to global bond investing and during the next two years staff will conduct additional research in this area.

At the close of fiscal year 1994, the SBI elected to change its asset class target from the Salomon BIG to the Lehman Aggregate. Since the two indices are virtually identical in composition, the move will have no impact on a policy or programmatic level. Staff recommended the change to improve the SBI's ability to analyze and evaluate portfolio results. The change will be effective July 1, 1994.

Figure 18. Bond Manager Performance FY1994

	Actual Return	Benchmark Return
Active Managers		
BEA Associates	-1.2%	-1.2%
Investment Advisors	-2.2	-1.2
IDS Advisory	-1.2	-1.3
Miller, Anderson & Sherrerd	-1.7	-1.2
Standish, Ayer & Wood	-1.5	-1.2
TCW	-4.6	-0.9
Western Asset Management	-1.2	-1.2
Semi-Passive Managers		
Fidelity Management	-0.1	-1.2
Goldman Sachs	-0.4	-1.2
Lincoln Capital	-1.1	-1.2
Bond Pool	**-1.1**	
Performance Standard		
Salomon BIG	-1.2	

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

Investment Performance

As noted above, the SBI constrains the ***risk*** of the domestic active bond manager's portfolios to ensure that they fulfill their deflation hedge and total fund diversification roles. As noted earlier, the managers are also 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 1994. In general, the managers constructed portfolios consistent with their stated investment approaches and maintained appropriate levels of quality and duration.

As with the stock segment, the ***returns*** of each of the Board's bond managers are compared to an appropriate benchmark. All the domestic bond managers, both active and semi-passive, use the Salomon Broad Investment Grade Bond (BIG) Index (or segments thereof in the case of IDS and TCW) as their performance index. Due to the broad diversification of each manager, customized benchmarks are not deemed necessary for the bond managers at this time.

If half of the Domestic Bond Pool is actively managed and half is semi-passively managed, the entire Pool is expected to exceed its target, the Salomon BIG index, by 0.20-0.35 percentage point annualized, over time. Individual active managers are expected to exceed the target by 0.25-0.50 percentage point annualized, over time, and each semi-passive manager is expected to exceed the target by 0.15-0.25 percentage point annualized, over time.

In aggregate, the Pool trailed the Salomon BIG by 0.1 percentage point for the year. Performance over three and five years has been significantly positive, exceeding the index by 0.6 and 0.3 percentage point annualized, respectively. In general, the decision to hold portfolios with a modestly longer duration than the market accounted for both the under performance in the most recent period and for the out performance over the longer term. See Figure 17 for more detail on historical performance of the entire pool.

Individual manager performance for fiscal year 1994 is shown in Figure 18. In general, the active bond managers under performed their benchmarks due to the managers' decision to have portfolios with a longer duration than their benchmark.

The semi-passive managers outperformed their benchmarks in large part because they overweighted their portfolios in corporates and mortgages, both of which outperformed the Treasury sector.

Historical information on individual manager performance and portfolio characteristics is included in the **Statistical Data** section. Section II of the Annual Report provides **Summarized Asset Listings** for each manager and the Pool in aggregate.

International Stock Pool

The SBI began its international stock program in October 1992. The Basic Retirement Funds have participated in the International Stock Pool since its inception. The Post Retirement Fund began utilizing the Pool in October 1993. On June 30, 1994 the dollar value of each fund's participation in the International Stock Pool was:

Basic Funds (active and passive)	$1.0 billion
Post Fund (active and passive)	$985 million

Management Structure

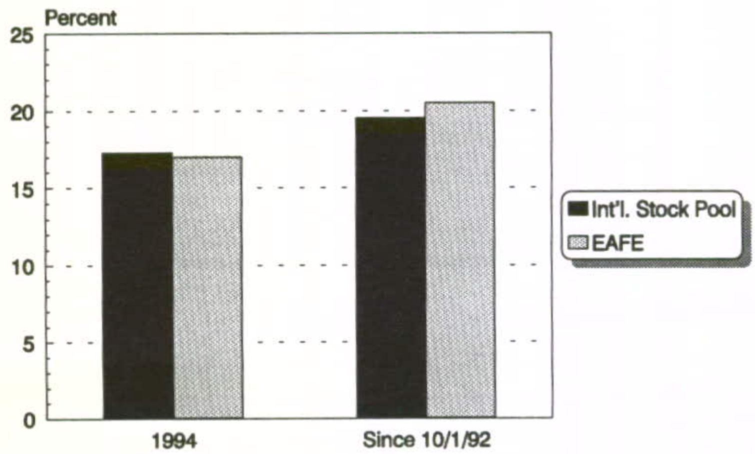
As with the Domestic Stock and Bond Pools, the SBI uses a two part approach to the management structure of the International Stock Pool:

— ***Active Management.*** At least one-half of the international stock pool will be actively managed. At the end of fiscal year 1994, approximately 50% of the pool was actively managed by a group of 6 external money managers.

— ***Passive Management.*** No more than one-half of the international stock pool will be passively managed. At the end of fiscal year 1994, approximately 50% of the international stock pool was passively managed by a single external money manager.

The ***actively managed*** segment of the international stock pool is designed to add value to the asset class target. Each active manager is expected to add incremental value over the long run relative to the Morgan Stanley Capital International Index of Europe, Australia and the Far East (EAFE). Two of the Board's active managers (Baring and Brinson) follow an active country/passive stock approach where the primary focus is on country selection and currency management rather than stock selection. The remaining four active international managers (Marathon, Rowe Price-Fleming, Scudder and Templeton) use a

Figure 19. International Stock Pool Performance



	1994	Annualized Since 10/1/92
Int'l. Stock Pool	**17.3%**	**19.5%**
EAFE*	17.0	20.5

* Morgan Stanley Capital International Index of Europe, Australia and the Far East, including dividends and net taxes.

variety of investment approaches in an attempt to maximize market value and outperform the EAFE index, over time.

The ***passively managed*** portion of the international stock pool is managed by State Street Global Advisors and is designed to consistently and inexpensively track the EAFE index.

FY 1994 Changes

By the start of fiscal year 1994 the passive component and the active country/passive stock component of the international program were already in place. Four fully active managers were retained early in fiscal year 1994 and funded in November and December 1993: Marathon Asset Management, Rowe Price Fleming International, Scudder Stevens & Clark and Templeton Investment Counsel.

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

Investment Performance

Similar to the Domestic Stock Pool, two primary long run ***risk objectives*** have been established for the international stock 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***. Each active international stock manager is expected to hold a highly non-diversified portfolio, while the index manager is expected to hold a well diversified portfolio which tracks its target index.

The international stock managers successfully fulfilled their long-term risk objectives during fiscal year 1994. In general, the managers constructed portfolios consistent with their stated investment approaches and maintained appropriate levels of diversification.

At the present time, the Board's ***return objectives*** for the international stock program are stated relative to the Morgan Stanley Capital International Index of Europe, Australia and the Far East (EAFE). This index is capitalization weighted and is measured in U.S. dollar terms, unhedged. While the Board would prefer to measure performance relative to customized benchmarks similar to those used for domestic stock managers, such customized benchmarks are not yet available for international assets. In the future, SBI staff, in conjunction with the SBI's consultants and managers, intend to continue research and develop more appropriate benchmarks for the international managers within the pool.

If half of the International Stock Pool is actively managed and half is passively managed, the entire Pool is expected to exceed the EAFE index by 0.25-0.75 percentage point annualized, over time. Individual active managers are expected to exceed the index by at least 1 percentage point annualized, over time, and the index manager is expected to track the index ±0.5 percentage point, annually.

Performance results for the international stock pool are shown in Figure 19. In aggregate, the pool outperformed the target for the year by 0.3 percentage point. Performance since inception (1.75 years) has trailed the index by 1.0 percentage point annualized.

Individual manager performance during fiscal year 1994 is shown in Figure 20. Performance relative to the index is explained in large part by the managers' country weighting decisions. Japan and other markets in the Pacific Basin were strong performers relative to the EAFE index during the fiscal year. As a result, the active managers who had significant exposure to these markets turned in strong performance during the period as well.

Figure 20. International Manager Performance FY1994

	Actual Return	Benchmark Return
Active Managers		
Baring International	21.1%	17.0%
Brinson Partners	10.4	17.0
Marathon Asset Mgmt.	15.4*	6.4*
Rowe Price-Fleming	5.7*	6.4*
Scudder, Stevens & Clark	3.1*	6.4*
Templeton Investment Counsel	3.2*	6.4*
Passive Manager		
State Street Global Advisors	17.7	17.0
International Pool	**17.3**	
Performance Standard		
EAFE	17.0	

* Manager retained on November 1, 1993. Actual and benchmark returns include data since retention date, which is less than the full fiscal year.

Investment Pools

More information on the performance and portfolio composition of individual managers is included in the **Statistical Data** section. Section II of the Annual Report provides **Summarized Asset Listings** for each manager and the Pool in aggregate.

Alternative Investment Pools

Like the stock and bond segments, alternative assets such as private equity, real estate and resource fund investments are also managed on a pooled basis. However, due to the nature of these investments, separate pools have been established for the Basic and Post Retirement Funds and each fund owns 100% of the assets in its respective pool.

Statutory Constraints

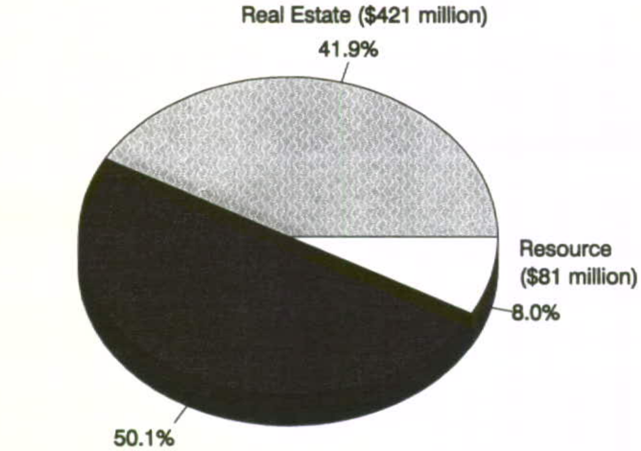
The statutory constraints regarding the SBI's investments to alternative assets are the same for both the Basic and Post Funds:

— ***Real Estate.*** State statute authorizes investments in real estate through commingled funds, limited partnerships and trusts, including real estate investment trusts (REIT's). Regardless of its form, each investment must involve at least four other participants and the SBI's investment may not exceed 20% of a given investment. State law does not permit the SBI to invest in real estate through direct investment, separate account or individual transactions.

— ***Private Equity.*** Under state statute, the SBI is authorized to invest in private equity through limited partnerships and corporations. As with real estate investments, each private equity investment must involve at least four other investors, and the Board's investment may not exceed 20% of a particular partnership or corporation.

— ***Resource Funds.*** The SBI invests in oil and gas partnerships specifically structured for pension funds and other tax-exempt investors. As with real estate and private equity investment, there must be four other investors and the Board may invest no more than 20% of a partnership's total capital.

Figure 21. Basic Funds Alternative Investments as of June 30, 1994



Alternative Investments Basic Funds

The Basic Retirement Funds began making investments in alternative asset classes such as real estate, private equity and resource funds in the early to mid 1980's. Given their long investment time horizon, the Basic Retirement Funds are especially well suited for alternative investments that focus on long-term capital gains. As a result, up to 15% of the Basic Retirement Funds are targeted for alternative investments. A breakdown of the segment is shown in Figure 21. As of June 30, 1994 the market value of current alternative investments was $1.0 billion, or 10.4% of the Basic Funds.

Real Estate

By investing in several open-end and closed-end commingled funds, the Basic Funds have created a large core portfolio of real estate that is broadly diversified by property type, location and financing structure. The core portfolio is designed to reflect the composition of the aggregate US real estate market and, as such, is expected to earn at least market returns.

The broad diversification of the core portfolio enables the SBI to select less diversified, special orientation managers for the remaining portion of the real estate segment. With their more focused approach to real estate management, these funds offer the ability to enhance the return earned by the core portfolio.

Prospective real estate managers are reviewed and selected based on the manager's experience, investment strategy and performance history.

During fiscal year 1994, the SBI approved new commitments to two real estate funds: Zell/Merrill Lynch Opportunity Partners III and TA Associates Realty Fund III. The SBI will continue to review and add new real estate investments as attractive opportunities are identified.

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

Private Equity Pool

The Basic Funds maintain a private equity portfolio that is broadly diversified across three dimensions: location, industry type and stage of development of individual portfolio companies. 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 1994, the Board approved commitments to three private equity funds: Blackstone Capital Partners II, Coral Partners IV, and Hellman & Friedman Capital Partners III). In addition to these new investments, the SBI withdrew a commitment it made in fiscal year 1993 to Great Northern Capital Partners after the general partner notified the SBI that the fund had been terminated. The SBI will continue to review and add new private equity investments, as attractive opportunities are identified, to replenish commitments that will expire in the mid-1990's.

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

Resource Fund Pool

The oil and gas partnerships in the Basic Retirement Funds concentrate their investments in producing properties and royalty interest that are diversified geographically and/or geologically. Resource investments are selected based on the manager's experience, investment strategy and performance history.

During fiscal year 1994, the SBI transferred its holding in BP Royalty Trust due to expected returns that would be considerably below the annualized return experienced by the SBI to date. The securities are not managed by T. Rowe Price who is retained by the SBI to manage stock distributions in the alternative investment portfolio. While no new resource investments were made during the year, the SBI plans to continue to review resource investments for possible inclusion in the pool.

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

Investment Performance

The SBI reviews performance of its ***real estate*** investments relative to two standards:

— The Wilshire Associates Real Estate Index, an index of commingled real estate funds.

— Inflation, as measured by changes in the Consumer Price Index (CPI).

During fiscal year 1994, the SBI's real estate pool under performed the index and trailed the rate of inflation (SBI real estate -0.8%, Wilshire Real Estate Index -0.2%, CPI 2.5%). Comparisons over the last five years show that the real estate pool outperformed the real estate index but trailed the rate of inflation (SBI real estate -3.2% annualized, Wilshire index -4.3% annualized, CPI 3.6% annualized). As the above numbers illustrate, the real estate market as a whole remains in the midst of a significant downturn.

The SBI's ***private equity*** pool provided a 11.3% return in fiscal year 1994 and 15.9% annualized over the last five years. The ***resource*** (oil and gas) pool returns 4.8% for the year and 6.2% annualized over the last five years.

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

Alternative Investments Post Retirement Fund

The Post Retirement Fund made its first commitment to alternative assets during fiscal year 1994. In comparison to the Basic Funds, the Post Fund has a somewhat shorter investment time horizon and therefore is best suited to investments that can be expected to generate a fairly high level of current income. In September 1993, the Board allocated up to 5% of the Post Retirement Fund to yield-oriented alternative investments. One commitment under the new allocation (Summit Subordinated Debt) was funded during fiscal year 1994. As of June 30, 1994, the market value of this investment was $3 million, significantly less than 0.1% of the Fund.

Yield-oriented investments (e.g. business loan participations, mortgage loan participations, and income producing private placements) provide additional vehicles to obtain both higher yield and long-term capital appreciation. Typically, these investments are/will be structured more like fixed income securities with an 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. As such, they will help to reduce the volatility of the total portfolio, but should also provide the opportunity to generate higher returns relative to bonds.

During fiscal year 1994, the Board approved two yield oriented commitments for the Post Retirement Fund: Summit Subordinated Debt and CB Commercial Mortgage Fund II. During fiscal year 1995, the SBI will continue to review additional investments for the Post Fund in order to move closer to the 5% allocation target.

A description of each of the Post Fund's alternative investments is included in the **Investment Manager Summaries** section.

Supplemental Investment Fund

The Supplemental Investment Fund is a multi-purpose investment program that offers a range of investment options to state and local public employees. The Fund serves more than 25,000 individuals who participate in defined contribution or supplemental retirement savings plans. On June 30, 1994, the market value of the entire fund was $578 million.

The different participating groups use the Supplemental Fund for a variety of purposes:

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

— It is one investment vehicle offered to public employees as part of the state's Deferred Compensation Plan, the Individual Retirement Account Plan and College Supplemental Retirement Plan.

— It serves as an external money manager for a portion of some local police and firefighter retirement plans.

Fund Structure

A wide diversity of investment goals exists among the Supplemental Fund's participants. In order to meet those needs, the Supplemental Fund has been structured much like a "family of mutual funds." Participants may allocate their investments among one or more accounts that are appropriate for their needs, within statutory requirements and rules established by the participating organizations. Participation in the Supplemental Fund is accomplished through the purchase or sale of shares in each account.

Fund Management

Participants in the Supplemental Fund have six different investment options. (See Figure 22.) The objectives, asset allocation, management and performance of each account in the Supplemental Fund are explained in the following sections.

Share Values

Each account in the Supplemental Fund establishes a share value and participants may buy or sell shares monthly, based on the most recent unit value.

In the Income Share Account, the Growth Share Account, the Common Stock Index Account and the Bond Market Account, shares are priced monthly based on the market value of the entire account. Individuals measure the performance of these accounts by changes in share values, which in turn are a function of the income and capital appreciation (or depreciation) generated by the securities in the accounts.

In the Money Market Account and the Fixed Interest Account, share values remain constant and the accrued interest income is credited to the accounts through the purchase of additional shares at predetermined intervals.

Figure 22. Range of Investment Options

Income Share Account	a balanced portfolio of stocks and bonds
Growth Share Account	a portfolio of actively managed common stocks
Common Stock Index Account	a passively managed common stock portfolio
Bond Market Account	an actively managed fixed income portfolio
Money Market Account	a portfolio of liquid, short-term debt securities
Fixed Interest Account	an investment option utilizing guaranteed investment contracts (GIC's)

Supplemental Investment Fund

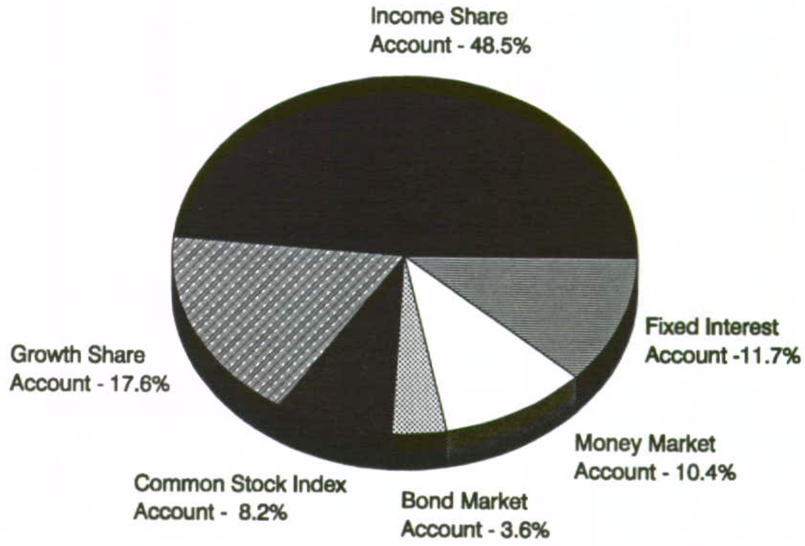
The investment returns shown in this report are calculated using a time-weighted rate of return formula. These returns may differ from calculations based on share values, due to the movement of cash flows in and out of the accounts. *While the returns are net of investment management fees and transaction costs, they do not reflect any asset-based charge imposed by the retirement systems to defray their own administrative costs.*

FY 1994 Changes

During fiscal year 1994, the SBI was given legislative authority to add an International Share Account to the Supplemental Investment Fund. This Account will be established during fiscal year 1995.

The SBI also received legislative authority to change the structure of the Fixed Interest Account. Beginning November 1, 1994, the Account will be managed by an external money manager as a pool of GIC's. The current GIC contracts in the Account will not be affected by the change and will mature as scheduled.

Figure 23. Composition of Supplemental Investment Fund



Income Share Account

Objective
The $280 million Income Share Account resembles the Basic and Post Retirement Funds in terms of investment objectives. The Account seeks to maximize long-term inflation-adjusted rates of return. The Income Share Account pursues this objective within the constraints of protecting against disastrous 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. The Account's policy calls for the following long-term asset mix: 60% domestic common stocks, 35% bonds, 5% cash equivalents.

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.

Management
The Income Share Account's investment management structure combines internal and external management. SBI staff manage the entire fixed income segment. Currently, the entire common stock segment is managed by Wilshire Associates as part of a passively managed index fund designed to track the Wilshire 5000. Prior to April 1988, a significant portion of the stock segment was actively managed.

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

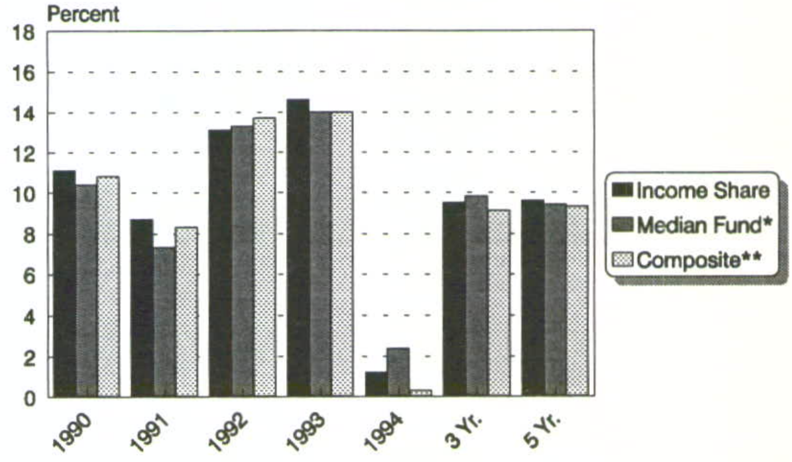
— ***Total Account.*** The Income Share Account is expected to exceed the returns of a composite of market indices weighted in the same proportion as its long term asset allocation. In addition, the Income Share Account's performance is expected to exceed the performance of the median fund from a universe of other balanced funds over the long-term.

— ***Individual Manager.*** The passive stock manager is expected to track closely the performance of the Wilshire 5000 (adjusted for the SBI's liquor and tobacco restrictions through 3/31/93 and American Home Products through 10/31/93). The internal bond manager for the Account is expected to exceed the performance of the Salomon Broad Investment Grade Bond Index.

The Income Share Account provided a return of 1.2% for fiscal year 1994, outperforming its composite index but trailing the median fund. Over the most recent five years, the Income Share Account has exceeded both its composite and the median fund.

A five year history of performance results is presented in Figure 24.

Figure 24. Income Share Account FY1990-1994.



	1990	1991	1992	1993	1994	Annualized 3 Yr.	5 Yr.
Income Share	**11.1%**	**8.7%**	**13.1%**	**14.6%**	**1.2%**	**9.5%**	**9.6%**
Median Fund*	10.4	7.3	13.3	14.0	2.4	9.8	9.4
Composite**	10.8	8.3	13.7	14.0	0.3	9.1	9.3

* TUCS Median Master Trust

** 60% Wilshire 5000 Adj./35% Salomon Broad Investment Grade Bond Index/ 5% T-Bill Composite. The Wilshire 5000 has been adjusted to reflect the SBI's restrictions on liquor and tobacco stocks through 3/31/93 and American Home Product restriction through 10/31/93.

Supplemental Investment Fund

Growth Share Account

Objective

The Board has established above-average capital appreciation as the primary investment objective of the $102 million Growth Share Account. To achieve this objective, the Account maintains a large equity exposure with the following long-term asset allocation: 95% domestic commons stocks, 5% cash equivalents.

The small cash equivalents component represents the normal cash reserves held by the Growth Share Account as a result of new contributions not yet allocated to common stocks.

Because of its focus on common stock, the Growth Share Account's returns are more variable than those of the balanced Income Share Account. The Board expects higher long run returns to compensate for the additional variability of returns.

Management

The SBI has assigned the entire common stock portfolio of the Growth Share Account to external active managers. The allocation to active management, rather than to an index fund, reflects the more aggressive investment policy of the Growth Share Account. Currently, these assets are managed by the same active managers utilized by the Basic and Post Retirement Funds in the Domestic Stock Pool.

Performance

Like the Income Share Account, the Board evaluates the performance of the Growth Share Account on two levels:

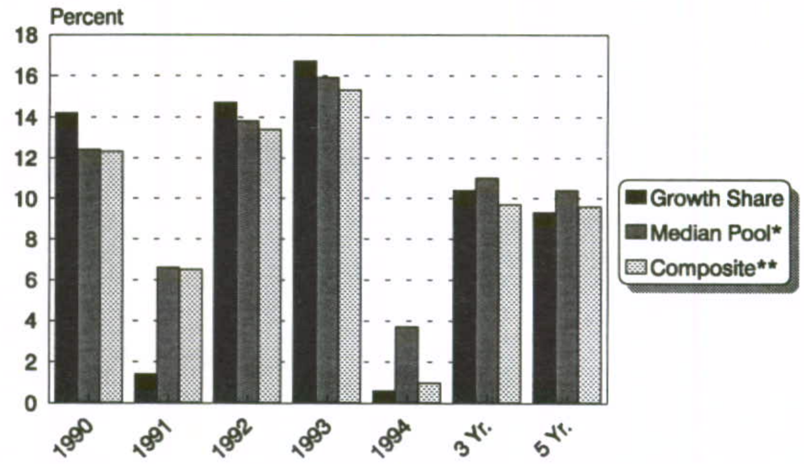
— ***Total Account.*** The Growth Share Account is expected to exceed the returns of a composite of market indices weighted in the same proportion as its long term asset allocation. The Account's performance is also expected to surpass the performance of the median fund from a universe of managed equity portfolios.

— ***Individual Manager.*** Performance objectives for the individual managers are described in the **Investment Pool** section.

The Growth Share Account provided a return of 0.6% for the fiscal year, under performing both the composite index and median fund. While the Account benefited from large holdings in the consumer non-durable sector, these gains were offset by holdings in the financial services sector of the market which performed poorly.

A five year history of performance results is shown in Figure 25.

Figure 25. Growth Share Account FY1990-1994



	1990	1991	1992	1993	1994	Annualized 3 Yr.	Annualized 5 Yr.
Growth Share	**14.2%**	**1.4%**	**14.7%**	**16.7%**	**0.6%**	**10.4%**	**9.3%**
Median Pool*	13.6	6.0	13.8	16.0	3.7	11.0	10.4
Composite**	12.3	6.5	13.4	15.3	1.0	9.7	9.6

* TUCS Median Equity Pool

** 60% Wilshire 5000 Adj./35% Salomon Broad Investment Grade Bond Index/ 5% T-Bill Composite. The Wilshire 5000 has been adjusted to reflect the SBI's restrictions on liquor and tobacco stocks through 3/31/93 and American Home Product restriction through 10/31/93.

Common Stock Index Account

The Common Stock Index Account began accepting contributions at the end of July 1986. At the end of fiscal year 1994, it had a market value of $47 million.

Objective

The investment objective of the Common Stock Index Account is to generate returns that track the performance of the U.S. common stock market, as represented by the Wilshire 5000. To accomplish this objective, the SBI allocates all of the Common Stock Index Account's assets to passively managed domestic common stocks.

This 100% common stock allocation means that the Common Stock Index Account's returns, like those of the Growth Share Account, are more variable than the returns produced by the balanced portfolio in the Income Share Account. The Board expects that this greater variability in returns will be compensated over the long run by higher returns.

Management

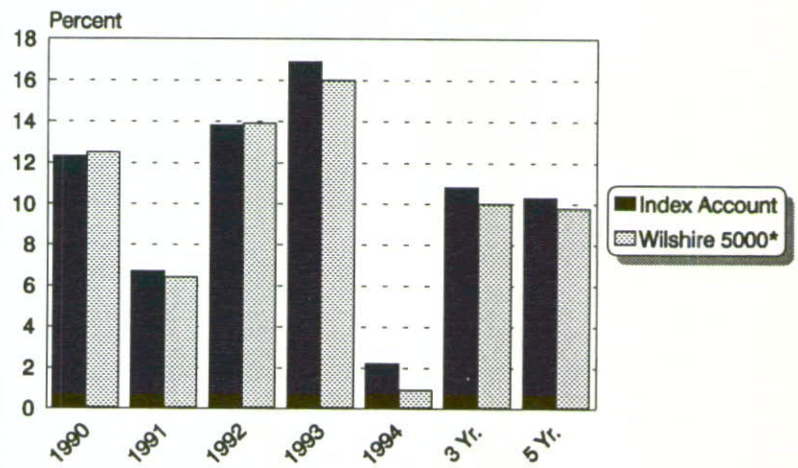
The Common Stock Index Account is invested entirely by Wilshire Asset Management, the SBI's passive stock manager.

Performance

The performance objective of the Common Stock Index Account is straightforward. The Account is expected to track closely the performance of the Wilshire 5000 (adjusted for the SBI's restrictions on liquor and tobacco through 3/31/93 and American Home Products through 10/31/93). The SBI recognizes that the Account's returns may deviate slightly from those of the Wilshire 5000 due to the effects of management fees, timing of new contributions and tracking error.

During fiscal year 1994, the Common Stock Index Account produced a return of 2.2%, which was 2.1 percentage points above the Wilshire 5000 Adjusted. This is significantly greater than the expected tracking error for this Account. Total account results for the last five years are shown in Figure 26.

Figure 26. Common Stock Index Account FY1990-1994



	1990	1991	1992	1993	1994	Annualized 3 Yr.	Annualized 5 Yr.
Index Account	**12.3%**	**6.7%**	**13.8%**	**16.9%**	**2.2%**	**10.8%**	**10.3%**
Wilshire 5000*	12.5	6.4	13.9	16.0	0.9	10.0	9.8

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

Bond Market Account

The Bond Market Account began accepting contributions at the end of July 1986. At the end of fiscal year 1994, the market value of the Account was $21 million.

Objective

The Bond Market Account is invested entirely in investment-grade government bonds, corporate bonds and mortgage securities with intermediate to long maturities. As such, it is a more conservative investment alternative than either the Income Share, Growth Share or Common Stock Index Accounts.

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 SBI has assigned the entire bond portfolio to external active managers. These assets are managed by the same active managers utilized by the Basic and Post Retirement Funds in the Domestic Bond Pool. A discussion of the SBI's active bond managers is presented in the Investment Pool section of this report.

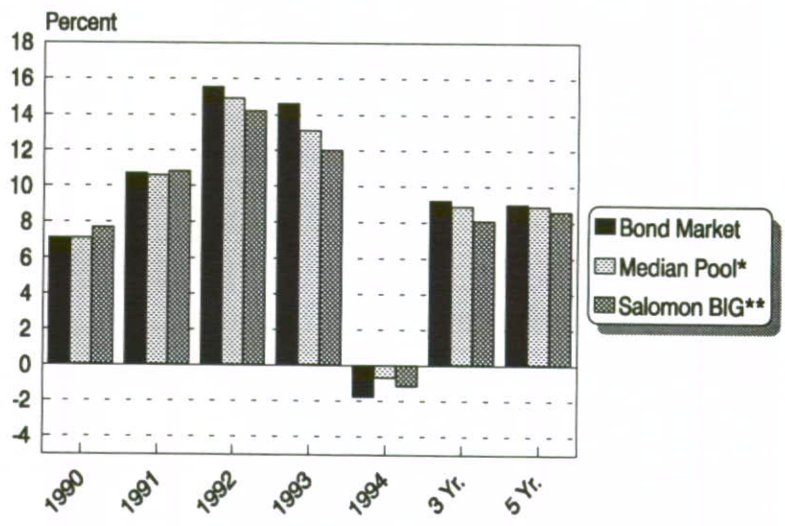
Performance

The Bond Market Account is expected to exceed the performance of the bond market, as represented by the Salomon Broad Investment Grade Bond Index. For fiscal year 1994, the Bond Market Account under performed this target with a -1.8% return compared to the Salomon index return of -1.2%.

During the year, much of the Account was invested in bonds with longer maturities than the broad bond market. Increases in interest rates during the last six months of the fiscal year affected bonds with long maturities more negatively than those with shorter maturities.

Total account results for the last five years are shown in Figure 27.

Figure 27. Bond Market Acocunt FY1990-1994



	1990	1991	1992	1993	1994	Annualized 3 Yr.	Annualized 5 Yr.
Bond Market	**7.1%**	**10.7%**	**15.5%**	**14.6%**	**-1.8%**	**9.2%**	**9.0%**
Median Pool*	7.1	10.6	14.9	13.1	-0.7	8.9	8.9
Salomon BIG**	7.7	10.8	14.2	12.0	-1.2	8.1	8.6

* TUCS Median Fixed Income Pool

** Salomon Broad Investment Grade Index

Money Market Account

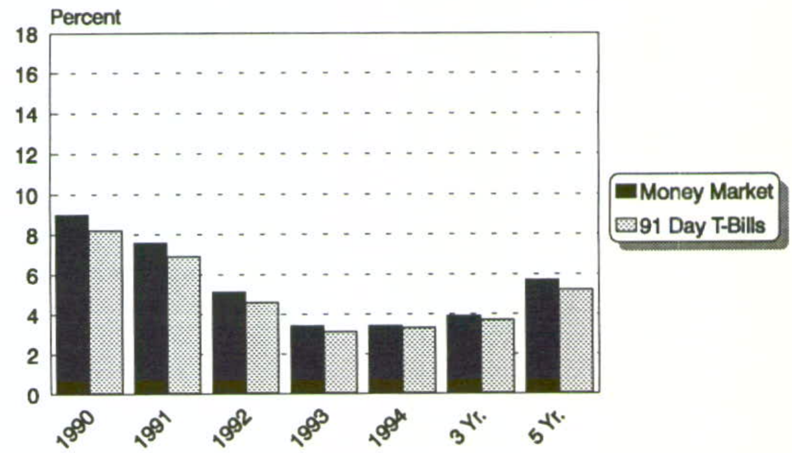
Objective
The Money Market Account invests solely in short-term, liquid debt securities. The Account's investment objectives are to preserve capital and offer competitive money market returns. At the end of fiscal year 1994, the Money Market Account had a market value of $60 million.

Management
The Account utilizes the same cash manager as the Basic and Post Retirement 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 1994 with a 3.4% return versus a return on 91 Day Treasury Bills of 3.3%.

Total account results for prior years are shown in Figure 28.

Figure 28. Money Market Account FY1990-1994



	1990	1991	1992	1993	1994	Annualized 3 Yr.	Annualized 5 Yr.
Money Market	**9.0%**	**7.6%**	**5.1%**	**3.4%**	**3.4%**	**3.9%**	**5.7%**
91 Day T-Bills	8.2	6.9	4.6	3.1	3.3	3.7	5.2

Fixed Interest Account

Objective
The Fixed Interest Account opened for subscription in November 1986. The Fixed Interest Account is designed to offer participants a fixed rate of return for a specified period of time with negligible risk. At the end of fiscal year 1994, the account totaled $68 million.

Management
The SBI invests the Fixed Interest Account in three-year guaranteed investment contracts (GIC's) offered by major U.S. insurance companies and banks. Annually, the SBI accepts bids from banks and insurance companies that meet financial quality criteria defined by State statute. Generally, the insurance company or bank bidding the highest three-year GIC interest rate will be awarded the contract for the three-year period. Participants making contributions over the following twelve months receive the fixed rate for the remainder of the three year contract period.

Within the constraints of permitting only top-rated U.S. insurance companies and banks to bid on GIC contracts, the SBI desires to maximize the three-year interest rate offered to Fixed Interest Account participants. The Board believes the competitive bidding presents the most effective method of achieving this goal.

Performance
The Board was satisfied with the winning bid of 4.625% on the 1993-1996 GIC, which was 35 basis points over prevailing interest rates on three-year Treasury Notes at the time of the bid. Figure 29 displays the rates in effect for the current contract periods.

The 1991-1994 contract was awarded to Continental Assurance, New York NY and Provident National, Chattanooga, TN.

The 1992-1995 contract was awarded to Norwest Bank, Minneapolis, MN.

The 1993-1996 contract was awarded to Principal Mutual, Des Moines, IA and Hartford Life, Hartford, CT.

Figure 29. Current Contract Interest Rates

Contract Period	Annual Effective Interest Rate
Nov. 1, 1991 - Oct. 31, 1994	6.634%
Nov. 1, 1992 - Oct. 31, 1995	5.280
Nov. 1, 1993 - Oct. 31, 1996	4.625

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, 1994 the market value of the Plan's portfolio was $445 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 management responsibility for the Assigned Risk Plan was transferred from the Department of Commerce to the State Board of Investment (SBI) effective May 1991.

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.

The SBI has therefore 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 invested to fund the longer-term liabilities. This creates 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.

In the future, the actual asset mix will fluctuate in response to changes in the liability stream projected by the Plan's actuary and further analysis by the investment manager and the SBI staff.

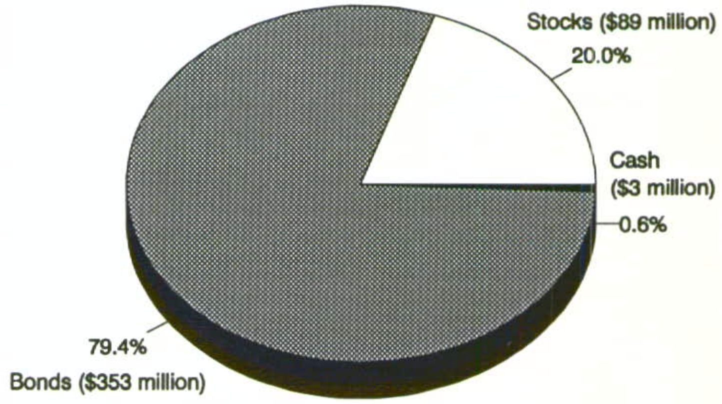
Figure 30 presents actual asset mix of the Assigned Risk Plan at the end of fiscal year 1994. The current long term asset allocation targets for the Fund are as follows:

Domestic Stocks	20%
Domestic Bonds	80
Unallocated Cash	0

Investment Management

During fiscal year 1994, all assets in the Assigned Risk Plan were managed externally by a single manager. Voyageur Asset Management, Minneapolis, MN, has managed the portfolio since the SBI assumed investment responsibility for the Plan in May 1991.

Figure 30. Asset Mix as of June 30, 1994



Assigned Risk Plan

Bond Segment

During fiscal year 1994, the Board allocated 80% of the Assigned Risk Plan to bonds to fund the shorter-term liabilities of the Plan. The duration of the bond segment was approximately 3 years and is actively managed to add incremental value through sector, security and yield curve decisions.

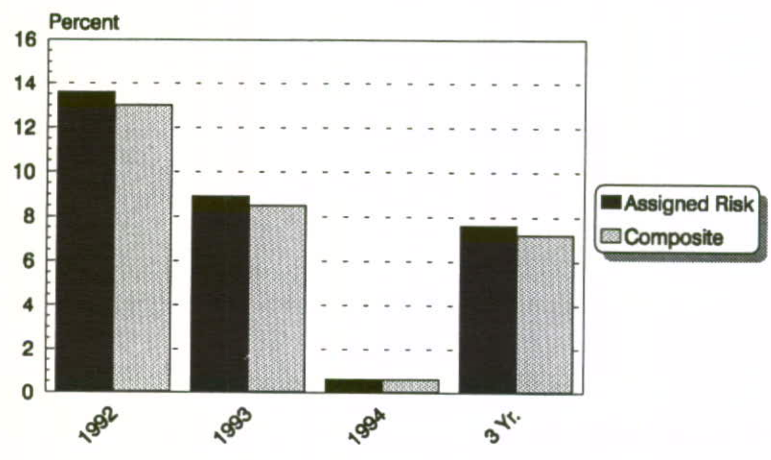
Stock Segment

During fiscal year 1994, the Board allocated 20% of the Assigned Risk Plan to common stocks to fund the longer-term liabilities of the Plan. The equity segment is actively managed with an investment process that focuses on large cap growth companies at low historical price/earnings values.

FY 1994 Changes

During the fiscal year, the Board approved a staff recommendation to change the equity segment from active management to passive or semi-passive management, effective July 1, 1994. This revised structure will aid in avoiding style bias risk and assure market exposure for the Plan's small stock segment. Initially, the stock segment will be managed through an internally managed index pool designed to track the performance of the S&P 500. The SBI expects to move the segment to semi-passive management later in fiscal year 1995.

Figure 31 Assigned Risk Plan Performance



	1992	1993	1994	Annualized 3 Yrs.
Assigned Risk	**13.6%**	**8.9%**	**0.6%**	**7.6%**
Composite Index	13.0	8.5	0.6	7.2
Equity Segment	**11.9**	**6.0**	**-1.2**	**5.4**
Benchmark	13.3	5.9	0.4	6.4
Bond Segment	**14.2**	**9.6**	**0.9**	**8.1**
Benchmark	12.8	8.9	0.8	7.4

Investment Performance

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

During fiscal year 1994, the Assigned Risk Plan (ARP) utilized a customized benchmark which was weighted to reflect the asset allocation targets of the Plan:

— The equity component consisted of stocks rate "A" or greater by Standard & Poors. It did not include utility stocks or stocks that are restricted by the SBI's investment guidelines.

— The fixed income component reflected the duration target established for the bond segment (approximately 3 years) as well as the manager's suggested sector allocation.

During fiscal year 1994, the ***bond*** segment slightly outperformed its benchmark (0.9% ARP vs. 0.8% benchmark). The ***common stock*** segment under performed its benchmark (-1.2% ARP vs. 0.4% benchmark) due to under weighting in the financial sector which performed well and an over weighting in the poor performing consumer cyclical sector.

Overall, the Assigned Risk Plan provided a return of 0.6% for fiscal year 1994, matching its composite index. Historical performance results are presented in Figure 31.

Permanent School Trust Fund

The Permanent School Trust 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 used to offset state school aid payments. On June 30, 1994 the market value of the Fund was $416 million.

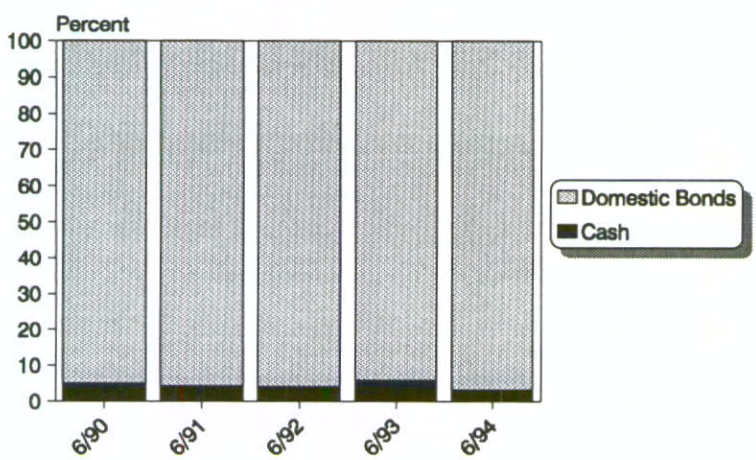
Investment Objective

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

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 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.

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

Figure 32. Historical Assix Mix FY1990-1994



Asset Allocation

The SBI maximizes current income by investing all of the Permanent School Trust Fund's assets in fixed income securities.

The SBI has a strong incentive not to invest in equity assets for several reasons:

— Common stock yields are considerably lower than bond yields. Thus, common stocks generate less current income than bonds.

— Stock prices are highly volatile and at times may produce realized capital losses that will reduce spendable income.

— Net capital gains become part of the Permanent School Trust Fund's principal. Therefore, the effect of the volatility of common stock prices on the Permanent School Fund's spendable income cannot be smoothed out by including past realized capital gains in spendable income.

Considering these constraints, the Board completely eliminated the Fund's small common stock component in fiscal year 1986, investing the proceeds in fixed income securities. Historical asset mix data for the Fund are shown in Figure 32.

Permanent School Trust Fund

Legislation was enacted during fiscal year 1992 to change the amortization period for realized gains and losses from five to ten years. This change will make equities a more attractive investment for the Fund. The SBI hopes to re-introduce equities to the portfolio in future years in order to grow the principal over time. However, since this change would reduce spendable income over the near term, the transition should not occur without the knowledge and agreement of the Legislature.

Investment Management

SBI staff manage 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.

Prior to fiscal year 1994, staff used a "buy-and-hold" laddered maturity approach to manage the portfolio. As such, the portfolio was dominated by long duration Treasury issues to minimize reinvestment risk and reduce the chance of realizing any losses which would negatively impact spendable income.

Due to the statutory changes regarding amortization of gains and losses, staff moved the portfolio to a more traditional active bond management approach during fiscal year 1994. This approach includes more corporate and mortgage securities as well as a shorter overall duration but should maintain or increase the yield for the Fund. At the same time, the structural change is compatible with the long range goal of reintroducing equities into the total portfolio.

Investment Performance

Corresponding to the change in investment management structure, the Permanent School Fund may now appropriately be measured against market indices which reflect total rates of return.

For fiscal year 1994, the Fund produced a total rate of return of -3.1% which was lower than the return of -1.2% provided by the Salomon Broad Investment Grade (BIG) Index. Overall, the Fund's bond portfolio had a duration (a measure of average life) of 6.8 years which was considerably longer than the duration of the Salomon BIG. This caused the portfolio to under perform the index as interest rates rose during the last half of the fiscal year.

While total rate of return was not an appropriate measure of the buy-and-hold strategy prior to fiscal year 1994, the total return for the Fund for the most recent five year period was calculated at 8.7% annualized.

On June 30, 1994, the Fund had the following characteristics:

Duration	6.8 years
Current Yield	7.9%
Average Quality	AAA

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

Fiscal Year	Millions
1990	$33
1991	$34
1992	$35
1993	$34
1994	$33

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, 1994 the market value of the Fund was $73 million.

In 1990, a constitutional amendment was approved which mandates that 40 percent of the net proceeds from the state lottery be credited to the Fund until the year 2001. The Legislature may fund projects from a portion of revenue deposited in the Fund through 1997 and, thereafter, from earnings on the principal of the Fund. By statute, the State Board of Investment (SBI) invests the assets of the Environmental Trust Fund.

Investment Objective

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

Investment Constraints

The Fund's investment objectives are influenced by the legal provisions under which its investments must be managed. As with the Permanent School Fund, these provisions require that the Fund's principal remain inviolate. Any net realized capital gains from stock or bond investments must be added to 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

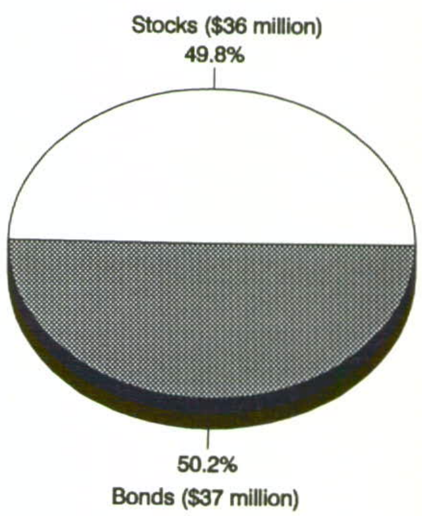
By the start of fiscal year 1993, the Fund had received sufficient contributions to warrant an investment policy that incorporated allocations to longer-term assets such as stocks and bonds. SBI staff worked with the Legislative Commission on Minnesota Resources to establish an asset allocation policy that is consistent with the Commission's goals for spendable income and growth of the Fund.

Over the long-term, the principal of the Fund will be invested in a balanced portfolio of 50% common stocks and 50% bonds. The Commission endorsed this approach in a resolution passed on February 6, 1992. However, prior to this resolution, the Legislature enacted spending plans for fiscal year 1993 that required a higher level of income than could be generated by a balanced portfolio of stocks and bonds. As a result, the Commission agreed with the SBI staff's recommendation to invest the portfolio entirely in fixed income securities throughout fiscal year 1993.

FY 1994 Changes

During fiscal year 1994, the SBI introduced equities into the portfolio and moved to the targeted 50% allocation to domestic common stocks.

Figure 33. Asset Mix as of June 30, 1994



Environmental Trust Fund

Figure 33 presents actual asset mix of the Environmental Trust Fund at the end of fiscal year 1994. The current long term asset allocation targets for the Fund are:

Domestic Stocks	50%
Domestic Bonds	50
Unallocated Cash	0

Investment Management

SBI staff manage all assets of the Environmental Trust Fund (ETF). Given the unique constraints of the Fund, along with its relatively small size, management by SBI staff is considered to be the most cost effective at this time.

Bond Segment

During fiscal year 1994, the bond segment of the Fund was reduced to 50% in order to increase the allocation to common stocks. The bond segment is now actively managed to add incremental value through sector, security and yield curve decisions and its performance is measured against the Salomon Broad Investment Grade (BIG) index.

Stock Segment

During fiscal year 1994, the stock segment increased to 50% of the Fund and was passively managed to track the performance of the S&P 500.

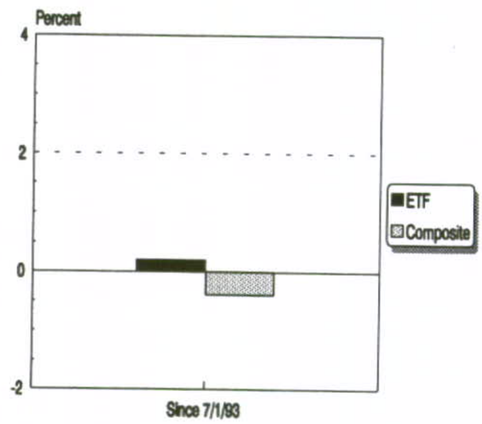
Investment Performance

The ***bond*** segment performed well during the fiscal year compared to its benchmark (0.4% ETF vs. -1.2% Salomon BIG) due to staff's decision to hold a duration slightly shorter than the benchmark as interest rates increased. The segment was also over weighted in mortgage bonds and under weighted in Treasury bonds which provided a better coupon with only nominal changes in quality.

The ***stock*** segment accomplished its objective of closely matching the return of the benchmark (S&P500) as the actual return for both was 1.5%. By investing in most of the stocks in the benchmark at their index weighting, the index fund was able to closely match the benchmark return on a monthly and annual basis. In addition, rebalancing the index fund for cash flows was accomplished using an optimization model to minimize trading costs while still maintaining an acceptable tracking error relative to the benchmark.

Overall, the Environmental Trust Fund provided a return of 0.2% for fiscal year 1994, outperforming its composite by 0.6 percentage point.

Figure 34. Environmental Trust Fund Performance



	Since July 1, 1993
ETF	**0.2%**
Composite	-0.4
Equity Segment	**1.5**
Benchmark	1.5
Bond Segment	**0.4**
Benchmark	-1.2

Performance results are presented in Figure 34.

Spendable Income

The projected spendable income for the Fund was $3.4 million for fiscal year 1994. The actual yield was $3.9 million, or $0.5 billion above projection. The positive variance was due, primarily, to better than expected returns on bonds due to sector weightings.

The State Board of Investment (SBI) 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, 1994, the total value of these accounts was $3.3 billion.

Internal Cash Pools

The SBI invests these cash accounts in short-term, liquid, high quality debt securities. These investments include U.S. Treasury and Agency issues, repurchase agreements, bankers acceptances, and commercial paper. On June 30, 1994 the combined value of all agency cash balances was $3.3 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:

— ***Trust Fund Pool.*** This pool contains cash balances of retirement-related accounts managed internally as well as the cash in the Permanent School fund. The Trust Fund Pool had an average daily balance of $79 million during the year.

— ***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 $2.2 billion during the year.

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

Performance

For fiscal year 1994, the Trust Fund Pool outperformed the total return on 91 Day Treasury Bills while the Treasurer's Cash Pool matched its benchmark.

Trust Fund Pool	**3.6%**
91 Day Treasury Bills	3.3
Treasurer's Cash Pool	**3.0**
Benchmark	3.0

The Board approved a new benchmark for the Treasurer's Cash Pool during fiscal year 1993. The benchmark reflects fluctuating cash needs, while also more appropriately capturing the yield advantage present from the maturity structure typically employed for the pooled fund. For the benchmark, 75% of the return is tied to the SBI's custodian bank's Short Term Investment Fund and 25% is tied to the return of the Merrill Lynch 1 to 3 year bond index.

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 majority of the SBI's securities lending activity is undertaken by the SBI's master custodian bank, State Street Bank and Trust. Securities lending generated additional income of approximately $4.8 million during fiscal year 1994 for all portfolios controlled by the SBI.

Certificate of Deposit Program

The SBI also 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. Only the cash reserves of the Basic Retirement Funds are used in the program. The Federal Deposit Insurance Corporation (FDIC) provides $100,000 in insurance coverage for each retirement plan in the Basic Funds in each of the financial institutions participating in the program. Therefore, the maximum CD investment in any financial institution is $800,000. Within these limits, all CD's purchased by the SBI are fully insured by the FDIC.

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.

During fiscal year 1994, the SBI purchased over $93 million of CD's from Minnesota financial institutions. Since it began the program in 1980, the SBI has purchased over $1.8 billion of CD's from over 485 financial institutions throughout the state.

Legislative Update

Legislation Proposed by the SBI

At the request of the State Board of Investment (SBI), the 1994 Legislature enacted several measures that are important to the on-going management of the funds under the control of the Board. All changes included in the proposal are contained in *Laws of Minnesota for 1994,* Chapter 604:

Additional Investment Authority Regarding Debt Securities. The new law re-establishes the SBI's authority to invest in unrated and below investment grade debt, with the following restrictions: such investments may not exceed five percent of a fund; the SBI may purchase not more than 50 percent of a single debt issue, and the SBI may purchase no more than 25% of the outstanding debt of a given company.

Additional Investment Authority Regarding International Securities. The new law removed international securities from the 35% cap placed on alternative investments. This legislation will give the SBI greater flexibility in its future asset allocation decisions.

Clarification Regarding Various Securities. The legislation clarifies the SBI's authority to invest in mortgage securities, asset-backed securities, bank collective funds, and real estate investment trusts (REIT's).

Increase in Asset Based Charge for Supplemental Fund. The SBI received authority to increase the asset based charge in the Supplemental Investment Fund to 0.4% for the Deferred Compensation Plan and other participating plans, except the Unclassified Plan. This provision was central to efforts by the SBI and the Minnesota State Retirement System to restructure the Deferred Compensation Plan. (See following section.)

New International Share Account for Supplemental Fund. The SBI was given authority to add an international stock account to the Supplemental Investment Fund. This change will provide Fund participants with greater investment flexibility to tailor an investment portfolio which meets their own needs.

Other Legislation

Legislation was also passed in two other areas that affect the SBI:

Pension Fund Reporting. *Laws of Minnesota for 1994,* Chapter 565 requires the SBI, as well as other public employee pension plans across the state, to report cash flow and return information to the State Auditor on a monthly basis from fiscal year 1988 forward.

Higher Education Plans. *Laws of Minnesota for 1994,* Chapter 508 allows the SBI to select up to five financial institutions to provide annuity products for the Individual Retirement Account Plan (IRAP) and the College Supplemental Retirement Plan. These defined contribution plans will be administered by the Higher Education Board beginning July 1, 1995 and will serve faculty and administrators of the State University, Community College and Technical College Systems.

Emerging Manager Program

During fiscal year 1994, the State Board of Investment (SBI) retained 10 active stock managers for its new Emerging Manager Program. The program seeks out newer or younger firms with limited assets under management to develop as potential candidates for the SBI's domestic equity program.

Background

Like most other large pension plan sponsors, the SBI's manager search process has traditionally focused on firms with significant assets under management (typically more than $300 million) and long performance records (preferably 5-10 years or more). Throughout numerous manager searches conducted over the last decade, SBI staff have observed that these criteria exclude many active stock managers that achieve excellent returns during their early years when they have fewer assets under management. Based on this observation, staff recommended that the SBI allocate a small portion of its domestic equity program to an "Emerging Manager Program." The goals of the program are to capture the potential for enhanced performance during a firm's early years and to develop candidates that could be added to the SBI's traditional manager program.

Program Structure

The Board approved the Emerging Manager program in December 1992 and authorized a Manager Search Committee to recommend specific candidates. The basic structure of the program is straightforward:

Assets. Total assets allocated to the Emerging Manager Program would be approximately equal to the average size of one of the SBI's traditional active stock portfolios (currently $300 million).

Number of Managers and Portfolio Size. The Board expected to retain 6 to 10 firms for the program. Given the asset constraint noted above, this would provide each manager with an initial portfolio of $30-50 million.

On-Going Review of Participation. While a firm can be terminated at any time if conditions warrant, it is expected that each manager will participate in the Emerging Manager Program for a period of three years. At that time, the manager may be moved to the SBI's existing domestic manager program and funded with a considerably larger portfolio. Alternatively, the manager could be continued in the Emerging Manager Program for an additional period of time or be terminated.

Since the goal of the program is to identify candidates for the SBI's larger active manager program, it is not anticipated that a firm will remain in the Emerging Manager Program on an indefinite basis.

Selection Process. Firms were screened for the Emerging Manager Program based on the following criteria:

— The firm is registered as an Investment Advisor with the Securities and Exchange Commission (SEC).

— The firm has total assets under management of not less than $50 million but not more than $300 million.

— The firm has a track record of at least three years. While performance data produced by the existing management team was preferred, a portfolio manager's track record with a previous firm could be considered.

Staff sent questionnaires to 126 firms nationwide. From the 54 responses received, the Search Committee selected 16 firms as finalists for the search.

Firms Retained. Based on interviews, questionnaire responses from the managers and supporting analysis by staff and the SBI's consultant, Richards & Tierney, the Committee recommended the following 10 firms to the Board for the SBI's Emerging Manger Program:

CIC Asset Management
Cohen Davis & Marks, Inc.
Compass Capital Management
First Capital Advisors
Kennedy Capital Management
New Amsterdam Partners
Valenzuela Capital Management
Wilke/Thompson Capital Mgmt.
Winslow Capital Management
Zevenbergen Capital, Inc.

The Board adopted the Committee's recommendation at its meeting in December 1993 and the new managers were funded with portfolios of $30 million each on April 1, 1994.

Major Policy Initiatives

Deferred Compensation Plan Review

During fiscal year 1994, the State Board of Investment (SBI) and the Minnesota State Retirement System (MSRS) worked together to enhance the products and services offered under the State's Deferred Compensation Plan (DCP).

Administrative Responsibilities

The State of Minnesota has provided the DCP to all public employees (state, country and city employees as well as teachers in all school districts across the state) since 1971. Under the statewide plan, the SBI is responsible for selecting and evaluating the product providers and MSRS provides administration and marketing. In addition, the Board is obligated, by statute, to approve the terms of contracts entered into by MSRS regarding the DCP.

Since 1980, three product providers have been available to employees who choose to participate in the DCP: the SBI (through its Supplemental Investment Fund) and two insurance company vendors (Great-West Life & Annuity Insurance Company and Minnesota Mutual Life Insurance Company).

When the insurance companies were first retained, they each provided their own service organization: Great West selected National Benefits, Inc. and Minnesota Mutual selected the Ochs Services. Under an agreement with MSRS, both National Benefits and Ochs Services provided services for the Supplemental Investment Fund in addition to the insurance company products.

Review Process

While the DCP had been successful, attracting a high level of participation among eligible employees, the program was re-evaluated to make sure it will serve the needs of employees in the future. Early in fiscal year 1994, the MSRS Board received a report from its own consultant which highlighted concerns about the marketing aspects of the State's Deferred Compensation Plan. Based on that information, the Executive Directors of the SBI and MSRS worked together to re-negotiate more favorable terms in the existing contracts with both the insurance companies and the service organizations for the DCP.

In March 1994, the Executive Directors of the SBI and MSRS provided the Board with letters of intent from the insurance companies and the service organizations which contained proposed terms that would lower service costs and substantially improve the operation of the DCP. At that time, the Board requested that the negotiations continue in order to attempt to obtain further improvements in the proposed terms.

New Provisions

The final contract proposals were presented in June 1994 and contained significant enhancements over the existing contracts:

- new investment options for participants including the provision of several well-known mutual fund products
- new provisions for portability between vendors
- equal marketing of all products
- equal compensation to marketers
- lower overall marketing costs
- more flexible termination provisions.

The new contracts were approved by the Board at its June 1994 meeting and will be effective September 1, 1994.

Review of Fund Constraints

At the close of fiscal year 1993, the State Board of Investment (SBI) directed SBI staff and the Investment Advisory Council (IAC) to undertake a review of any existing constraints that may hinder the SBI in achieving higher rates of return. The Board asked that staff and the IAC discuss the ramification of sustaining, modifying or lifting those constraints so that the Board could affirm its current position or adopt new policies. In addition, the Board asked that special attention be paid to how the funds under the control of the SBI compare to other public and corporate pension funds.

The resulting report was presented to the Board in September 1993 and made several recommendations concerning legislative authority and asset allocation. These recommendations were subsequently adopted by the Board and implemented during the remainder of the year.

Summary of Findings

In order to fulfill the directive, staff and the IAC addressed five issue areas: statutory limits, asset allocation policy, active/passive mix, investment restrictions and operating environment. A full report was developed over a series of meetings during the summer months and presented to the Board in September 1993.

While the SBI's recent returns compare favorably with other corporate and public pension investors, the report concluded that the SBI can increase the potential for attaining higher returns if the Board is willing to take on higher risk and more volatility in returns.

Since asset allocation determines 90% or more of a fund's return, recommendations focused on changes to the SBI's asset allocation targets for each fund and the statutory limits that affect the Board's ability to determine appropriate asset allocation policies.

Summary of Recommendations

Statutory Constraints. While the SBI has fairly broad investment authority in statute, the report identified several issues that should be addressed that would allow the Board additional flexibility in its asset allocation decisions. The specific suggestions were:

— To re-establish the authority to invest in unrated and below investment grade debt (this authority had been eliminated by the legislature in 1992).

— To remove international securities from the 35% cap placed on alternative investments.

Asset Allocation. The report recommended several enhancements regarding the Board's asset allocation policy for retirement assets:

— With respect to the ***Post Retirement Fund,*** the report suggested that the Board add a 10% allocation to international stock and a 5% allocation to yield oriented alternative investments (real estate and private equity investments) and reduce the allocation to bonds by corresponding amounts.

— With respect to the ***Basic Retirement Funds,*** the report suggested that the 15% cap on alternative investments (real estate, private equity and resource funds) be measured against the market value of existing investments rather than the level of outstanding commitments.

— With respect to the SBI's ***bond program*** for both the Basic and Post Funds, the report recommended that the SBI allow several of its existing managers to invest a portion of their portfolios in non-dollar denominated fixed income securities on an opportunistic basis. The report specified that this move should be considered a pilot program and that staff should be directed to make a formal recommendation on international/global bond management within two years.

Active/Passive Mix. Under existing policy, approximately half of the SBI's stock and bond portfolios are actively managed by external managers. The remainder is allocated to passive or semi-passive management.

The report did not recommend any change to this basic structure. This half active/half passive approach was deemed appropriate given the size of the SBI's total portfolio and the difficulty associated with selecting and monitoring large numbers of active managers.

Action Taken on Recommendations

The recommendations cited above were all adopted by the Board at its September 1993 meeting.

Subsequently:

— The SBI's legislative proposal for the 1994 Legislative Session incorporated the recommended statutory changes.

— The international stock allocation in the Post Fund was fully funded during the quarter ending December 1993 and four of the SBI's bond managers were given authority to invest up to 10% of their portfolios in non-US bonds beginning in January 1994.

— The Board approved the first commitment to yield oriented alternative investments for the Post Fund in March 1994.

Manager Continuation Policy

In 1988, the State Board of Investment (SBI) formally adopted written guidelines concerning the evaluation of its stock and bond managers. The resulting Manager Continuation Policy (MCP) specifies both qualitative and quantitative criteria that are used to monitor the performance of the SBI's managers.

While the guidelines have been implemented since that time, the MCP, like all other polices of the SBI, is subject to periodic review and revision. Based on continuing discussions between the Board, The Investment Advisory Council (IAC) and SBI staff during fiscal year 1993, the quantitative guidelines in the policy were formally revised in early fiscal year 1994.

The entire MCP, including the most recent revisions, is summarized below.

Purpose and Goals

The Board believes its Manager Continuation Policy offers three primary benefits:

— It encourages a comprehensive and consistently applied analysis.

— It fosters a long-term attitude toward performance evaluation.

— It communicates investment objectives between the Board, its managers and its staff.

The ability of a manger to provide value added results *in the future* is difficult, if not impossible, to determine by relying solely on past performance data. Both qualitative and quantitative criteria must be addressed to provide an assessment of a firm's investment skill.

Qualitative Criteria

Qualitative performance evaluation criteria relate to those aspects of a money manager's investment operation that cannot be expressed as measurable targets. Investors such as the SBI must attempt to deduce the skills of money managers by searching for the presence or absence of basic building blocks of sound investment management within a manager's firm:

Efficient Organization:
— Experienced and talented staff
— Organizational stability
— Clear leadership
— Planned growth
— Adequate client support

Well-Defined Investment Approach:
— Clearly specified investment style
— Well-conceived decision-making process
— Adequate feed-back and control mechanisms

Review Guidelines

Failure to meet one or more of these criteria is not sufficient reason to terminate a manager. As a general rule, qualitative evaluation is applied in conjunction with quantitative evaluation to determine whether a manager is meeting the Board's expectations. However, it is important to specify exceptions to this general rule. Certain changes in a manager's organization or investment approach will dictate re-evaluation of the Board's relationship with the firm:

— A change in the firm's ownership or in important members of its management team.

— A significant gain or loss of accounts within the preceding year.

— A change in the manager's investment style.

— An inability to create or maintain an appropriate benchmark portfolio.

Any of the above events will place the affected manager in "probationary status." If the issue is not satisfactorily resolved within six months, the manager should be terminated.

Quantitative Criteria

Quantitative performance evaluation criteria relate to those aspects of a money manager's operation that can be analyzed relative to measurable targets. A manager's return relative to an appropriate benchmark represents "the bottom line" for a plan sponsor. However, the Board recognizes that investment performance of superior and inferior managers exhibits a large amount of variability, even when returns are measured relative to a customized benchmark.

Quantitative performance criteria must take this variability into account. A poorly designed measure could lead a plan sponsor to erroneously classify mangers as inferior. This, in turn, could create costly and excessive manager turnover.

Confidence Interval

Figure 35 depicts a statistically valid method of assessing the variability of manager performance relative to a benchmark. The horizontal line represents the return on the manager's benchmark over moving five year periods.

Performance over the preceding five years exceeding the benchmark will plot above the horizontal line and performance over the preceding five years falling below the benchmark will plot below the line. The area between the two outer lines represents a confidence internal based on the manager's actual return relative to its benchmark.

Returns plotting *within* the confidence interval represent performance due either to skill or to chance. Returns falling *outside* the confidence interval represent superior or inferior performance significant enough that the odds of it being due to chance are low.

The SBI uses this confidence interval approach to highlight quantitative performance concerns by drawing a value of active management (VAM) graph (see Figure 35) for each active stock and bond manager. The VAM graph plots performance relative to the agreed upon benchmark, net of fees, and includes the performance history that led the SBI to retain the firm. Including a longer time period in the graph puts manager evaluation into a larger context and should assist the SBI in distinguishing unusual, deteriorating performance from recurring patterns in an active manager's returns.

The confidence interval will be wider or narrower depending on the level of active risk that an individual manager takes. As a result, the confidence interval approach tailors the analysis to the manager's own investment approach and establishes/defines expectations regarding a manager's return volatility over time.

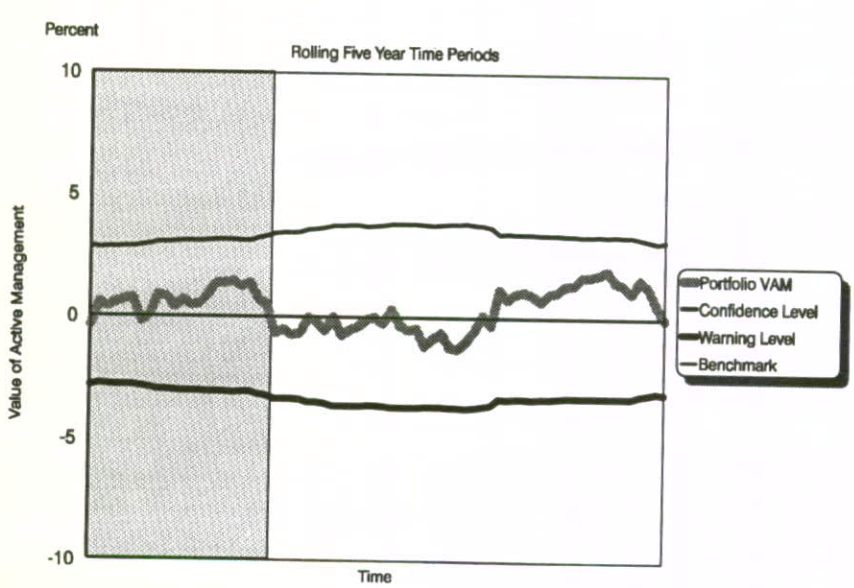
Review Guidelines

The SBI believes that it is unwise to mandate termination for lagging performance at any specific point. Instead, the following guidelines will be used to trigger appropriate review:

— The manager will be reviewed by the Stock and Bond Manger Committee of the IAC if performance over rolling five year periods plots ***below the benchmark line*** for four consecutive quarters. This review could result in a recommendation to watch performance closely over the next year, to meet with the manager to discuss the issue to call for a formal re-interview of the manager.

— The manager will be formally re-interviewed by the Search Committee if performance over rolling five year periods plots ***below the lower band of the confidence interval*** for four consecutive quarters. Performance that plots below the lower bank of the confidence interval will be considered a signal of serious under performance.

Figure 35. Value of Active Management (VAM) Graph



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

Major Policy Initiatives

Police and Fire Fund Consolidation

Consolidations With PERA

In 1987, legislation was enacted that establishes procedures for voluntary consolidation of local police and firefighter plans 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.

During fiscal year 1994, 10 plans with assets totaling $243 million merged with PERA under the procedures established by *Minnesota Statutes* Chapter 353A:

	Millions
Albert Lea Fire	$5.9
Austin Police	7.8
Bloomington Police	33.8
Columbia Hts. Fire	1.7
Columbia Hts. Police	3.4
Fridley Police	7.1
New Ulm Police	4.1
South St. Paul Fire	5.0
St. Paul Police	168.9
West St. Paul Police	5.5

Since 1987, 35 plans with total assets of $538 million have merged with PERA. After consolidation, these assets are managed as part of the Basic and Post Retirement Funds.

Supplemental Investment Fund

Police and fire plans that are not consolidated with PERA may also invest their assets with the SBI through the Supplemental Investment Fund.

During fiscal year 1994, 21 additional plans selected the SBI to manage all or a portion of their retirement related assets. This brought the total number of police and fire plans participating in the Supplemental Investment Fund to 76 by the end of the fiscal year.

The SBI expects this growth trend to continue as plans become more familiar with the SBI and its ability to offer a variety of investment options at a low administrative cost.

Major Policy Initiatives

Investment Restrictions

Rescission of South Africa Resolution

The State Board of Investment (SBI) first adopted a resolution regarding investments in companies doing business in South Africa in 1986. The resolution called for the SBI's active stock managers to refrain from purchasing the stock of any company with direct investment in the country unless the manager believed that not purchasing the stock would be a breach of its fiduciary duty.

During fiscal year 1994, the Board amended its resolution to provide for its recission if events transpired which would support the establishment of a multi-racial democracy in South Africa and would serve to increase the safety and stability of investments in companies that do business in that country.

On September 24, 1993, Nelson Mandela, then President of the African National Congress (ANC), called for an end to economic sanctions. This action followed the establishment of a Transitional Executive Council which was to guide the government of South Africa until free and open multi-racial elections were held.

The Board determined that these events fulfilled the conditions for discontinuing implementation of its resolution. At a special meeting of the SBI on October 27, 1993, the Board officially rescinded all provisions of its resolution on South Africa and discontinued the Advisory Task Force on Divestment.

Withdrawal of American Home Products Restriction

In a policy which the Board last reaffirmed in October 1979, the SBI has prohibited investment in the stock of American Home Products due to concerns about its infant formula marketing practices in developing nations.

Due to the company's documented efforts to eliminate the policies and procedures in question, the Board also acted to lift this investment restriction at the October 27, 1993 meeting cited above.

Mandate on Northern Ireland

Requirements

In 1988, the Legislature enacted statutory provisions concerning the Board's 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 the Investor Responsibility Research Center (IRRC), Washington D.C., to monitor corporate activity in Northern Ireland. In January 1994, the SBI held stocks or bonds in 41 out of 44 corporations identified by IRRC as having operations in Northern Ireland.

The SBI filed shareholder resolutions with 16 of these corporations during the 1994 proxy season. The resolutions asked corporations to sign the MacBride Principles, to implement affirmative action programs or to report on the steps they have taken to alleviate religious or ethnic discrimination.

Seven (7) resolutions were withdrawn when the targeted companies agreed to provide information on their employment activity in Northern Ireland and 4 resolutions were rejected by the companies on a legal basis under SEC rules.

The voting results on the remaining 5 resolutions are shown below:

Company	Affirmative Vote
Baker Hughes	15.0%
Dun & Bradstreet	16.0
James River	18.9
United Technologies	6.0
Xerox	13.6

Major Policy Initiatives

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 active 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 five 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, such as 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 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, compensation agreements that are contingent upon corporate change in control, and re capitalization plans on a case-by-case basis. In addition, the Committee reviews all corporate governance issues affecting companies incorporated or headquartered in Minnesota 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. Also, the SBI supports resolutions that request companies to submit reports to shareholders concerning their labor practices or their sub-contractors' labor practices in Northern Ireland.

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, nuclear plant safety procedures and criteria used to evaluate military contract proposals.

In general, the SBI opposes proposals that require a company to institute a specific business action in response to such issues. For example, the SBI voted against a shareholder proposal which would have required a utility to phase out operations of a nuclear power plant.

Summary of FY 1994 Proposals

During fiscal year 1994, the SBI voted proxies for more than 1,600 corporations.

As in past years, the issues on corporate ballots included a broad range of proposals in the *corporate governance* area:

— Shareholder proposals regarding executive compensation were supported by an average of 14.0% of the shares voted. Shareholders submitted 33 proposals on various compensation issues.

— Shareholders submitted 11 proposals to redeem "poison pills" (an anti-takeover device) or submit them to shareholder vote. These proposals received average support of 54.8%.

— More than 12 proposals were submitted concerning confidential voting. These proposals received average support of 40.6%.

— Other proposals included the repeal of classified boards which were supported by an average of 35.7% of shares voted; limitations of severance packages to top executives ("golden parachutes") which received support from an average of 36% of shares voted; cumulative voting which was supported by an average of 25.9% of shares voted; and requirements for directors to hold a specified minimum number of shares which received support from an average of 12.6% of shares voted.

In the *social responsibility* area, Ceres Principles, Mexican operations and tobacco resolutions dominated.

— Resolutions asking corporations to abide by the Ceres Principles were on 26 ballots with an average support of 9.4%.

— Resolutions asking corporations to support Mexican Operations/Maquiladoras, were on 6 ballots with an average support level of 7%.

— Two (2) resolutions asking for reports regarding the North American Free Trade Agreement (NAFTA) received 14.8% and 5.2% of shares voted, respectively. On 6 resolutions asking for reports on overall operations in Mexico, support ranged from 2.7% to 14.8%.

— Tobacco related issues received 16 resolutions. The highest support of 9.4% of votes cast favored proposals to put health warning labels on all forms of marketing relating to cigarettes.

— Military issues received 10 resolutions on various proposals, with an average support level of 10%.

— Northern Ireland issues received 7 proposals this year with an average support of 12.9%.

— South Africa issues received 5 resolutions with an average support level of 7.1%.

Domestic Common Stock Managers

Alliance Capital Management

Alliance searches for companies likely to experience high rates of earnings growth on either a cyclical or secular basis. Alliance invests in a wide range of medium to large growth companies and the firm does not tend to concentrate on one particular type of growth company over another. However, the firm's decision-making process appears to be much more oriented toward macroeconomic considerations than is the case with most other growth managers. Accordingly, cyclical earnings prospects, rather than secular, appear to play a larger role in terms of stock selection. Alliance is not an active market timer, rarely raising cash above minimal levels. The firm was retained by the SBI in March 1983.

Brinson Partners

Brinson Partners uses a relative value approach to equity investing. They believe that the market price will ultimately reflect the present value of the cash flows that the security will generate for the investor. They also believe both a macroeconomic theme approach and the bottom-up stock selection process can provide insight into finding opportunistic investments. Brinson uses their own discounted free cash flow model as their primary analytical tool for estimating the intrinsic value of a company. Brinson was retained by the SBI in July 1993.

CIC Asset Management (Emerging Manager Program)

CIC Asset Management uses a disciplined relative value approach to managing equities. The firm believes that purchasing companies at attractive prices provides superior long-term performance with lower volatility. This investment process is designed for clients who desire equity market exposure with both incremental value added and downside protection due to reasonable dividend yields, moderate price to book values and low normalized price to earning ratios. Finally, the process provides a synergy between quantitative valuation techniques and "Graham & Dodd" fundamental analyses. CIC was retained by the SBI in April 1994.

Cohen Davis & Marks Inc. (Emerging Manager Program)

Cohen Davis & Marks Inc., seeks to outperform the market by focusing on two variables: 1) economic cycles; and 2) security valuation. Within economic cycles, they believe that stocks exhibit predictable patterns that reflect changing expectations on corporate profits and interest rates. Similarly, they believe that stock prices normally reflect earnings expectations. The firm exploits short run inefficiencies through an unbiased process that relates the price of a stock to consensus earnings expectations. The firm was retained by the SBI in April 1994.

Compass Capital Management (Emerging Manager Program)

Compass Capital Management combines aspects of growth and value investing to achieve the proper blend of return (growth) and risk (value). They use a computer based data network to screen for large, well established companies whose earnings grow in spite of a weak economy. In addition, they look for companies whose earnings have grown well over long time periods, but which may experience earnings pressure with downturns in the economy. Particular focus is given to growth in sales, earnings, dividends, book value and the underlying industry. Due to their "growing company" orientation, their portfolios generally hold no utility, bank, deep cyclical, or oil and gas stocks. Compass was retained by the SBI in April 1994.

First Capital Advisors, Inc. (Emerging Manager Program)

First Capital Advisers believes that cash flow, "true" earnings, tangible asset values, and inherent growth are measures of potential relative performance that are often superior to measures based simply on "reported earnings". The firm bases its valuations primarily on these "value-related" factors. They employ a sector-rotational equity strategy, which combines elements of both top-down and bottom-up analysis. Their primary investment focus is on large capitalization companies with strong balance sheets that are highly liquid. First Capital combines fundamental and technical analyses to identify superior longer-term investment opportunities and to endeavor to maximize short-term trading strategies. First Capital Advisers was retained by the SBI in April 1994.

Forstmann Leff Associates

Forstmann Leff is a classic example of a "rotational" manager. The firm focuses almost exclusively on sector weighting decisions. Based upon its macroeconomic outlook, the firm will move aggressively into and out of equity sectors over the course of a market cycle. The firm tends to purchase liquid, large capitalization stocks that will benefit the most during the current phase of the market cycle. The firm was retained by the SBI in March 1983.

Franklin Portfolio Associates

Franklin Portfolio Associate's investment decisions are quantitatively driven and controlled.

The firm believes that consistent application of integrated multiple valuation models produces superior investment results. The firm's stock selection model is a composite model comprised of 30 valuation measures each of which falls into one of the following groups: fundamental momentum, relative value, future cash flow, and economic cycle analysis. The firm believes that a multi-dimensional approach to stock selection provides greater consistency than reliance on a limited number of valuation criteria. Franklin's portfolio management process adds value by focusing on buying and selling the right stock rather than attempting to time the market or pick the right sector or industry groups. The firm always remains fully invested. Franklin was retained by the SBI in April 1989.

GeoCapital Corp.

GeoCapital invests primarily in small capitalization equities with the intent to hold them as they grow into medium and large capitalization companies. The firm uses a theme approach and individual stock selection analysis to invest in the growth/technology and intrinsic value areas of the market. In the growth/technology area, GeoCapital looks for companies that will have above average growth due to a good product development program and limited competition. In the intrinsic value area, the key factors are corporate assets, free cash flow, and an unrecognized catalyst that will cause a positive change in the company. The firm generally stays fully invested, with any cash positions due to the lack of attractive investment opportunities. GeoCapital was retained by the SBI in April 1990.

Investment Advisers, Inc.-Regional

Investment Adviser's (IAI's) investment philosophy is to own the highest quality companies which demonstrate sustainable growth and the objective of this discipline is capital appreciation. IAI tries to achieve this objective by investing at least 80% of the portfolio in companies which have their headquarters in Minnesota, Wisconsin, Illinois, Iowa, Nebraska, Montana, North Dakota and South Dakota. Twenty percent of the portfolio can be used to purchase large capitalization stocks that display the same quality and growth characteristics but have headquarters outside this region. The portfolio uses the same discipline as the IAI, Inc.-Regional Fund. IAI was retained by the SBI in July 1993.

IDS Advisory

IDS employs a "rotational" style of management, shifting among industry sectors based upon its outlook for the economy and the financial markets. The firm emphasizes both sector weighting and stock selection decisions. Over a market cycle IDS invests in a wide range of industries. The firm tends to buy liquid, large capitalization stocks. Based on their internal research, they purchase stocks that will incur the highest growth rates within the sectors they favor. The firm was retained by the SBI in March 1983.

Independence Associates

Independence believes that individual stocks which outperform the market always have two characteristics: 1) they are intrinsically cheap; and 2) their business is in the process of improving. Independence ranks their universe using a multifactor model. Using input primarily generated by their internal analysts, the model ranks each stock based on ten discreet criteria. Independence constrains their portfolio by using the top 60% of their ranked universe and optimizing it relative to the benchmark selected by the client to minimize the market and industry risks. Independence maintains a fully invested portfolio and rarely holds more than a 1% cash position. The firm was retained by the SBI in February 1992.

Jundt Associates

Jundt Associates' investment philosophy is growth oriented with a focus on companies generating significant revenue increases. They concentrate on larger-capitalization companies, with at least half the equity securities consisting of companies with annual revenues over $750 million. Within these parameters, the firm aims to establish equity positions in 30 to 50 of the fastest growing corporations in America. Particular emphasis is placed on companies the firm believes will achieve annual revenue growth of 15% or greater. Jundt utilizes a bottom-up stock selection process combined with a top-down theme overlay. The firm attempts to identify five to seven investment themes and typically invests three to five stocks within each theme. The firm was retained by the SBI in July 1993.

Kennedy Capital Management (Emerging Manager Program)

Kennedy Capital Management is dedicated to exploiting pricing inefficiencies in under-followed and misunderstood small capitalization stocks. They believe that stocks are efficiently priced where there is a proper distribution of information. However, many emerging growth companies suffer from lack of analytical coverage and information flow, and therefore, are "invisible" to institutional investors. The firm believes it is this lack of information which creates pricing inefficiencies. They anticipate that by closing this information gap they can transform these holdings into attractive institutional candidates. This, in turn, should increase the price of the stock. Kennedy was retained by the SBI in April 1994.

Lincoln Capital Management
Lincoln Capital concentrates on established, medium to large capitalization companies that have demonstrated historically strong growth and will continue to grow. The firm uses traditional fundamental company analysis and relative price/earnings valuation disciplines in its stock selection process. In addition, companies held by Lincoln generally exhibit premium price/book ratios, high return on equity, strong balance sheets and moderate earnings variability. Lincoln was retained by the SBI in July 1993.

Lynch & Mayer
Lynch & Mayer invests primarily in high-quality, large capitalization growth stocks. They believe that outstanding investments are a function of corporate earnings growth that is considerably above historical trends or consensus expectations. Lynch & Mayer is a bottom-up stock picker and relies on very little economic analysis in its selection process. Lynch & Mayer screens out stocks based on market capitalization and various fundamental criteria. After the screening process they look for at least one of the following four factors: 1) acceleration of growth; 2) improving industry environment; 3) corporate restructuring; or 4) turnaround. The firm generally stays fully invested, with any cash due to lack of attractive investment opportunities. Lynch & Mayer was retained by the SBI in February 1992.

New Amsterdam Partners (Emerging Manager Program)
New Amsterdam Partners believe that investment results are evaluated by actual return, and therefore, investment opportunities should be evaluated by expected return. They believe that all valid techniques depend of forecasts of the amounts and timing of future cash flows. Thus, the firm focuses on forecasted earnings growth, yield, price-to-book ratio, and forecasted return on equity. They believe that the disciplined application of their valuation techniques in conjunction with sound financial analysis of companies, is the key to understanding and maximizing investment returns. New Amsterdam was retained by the SBI in April 1994.

Oppenheimer Capital
Oppenheimer's objectives are to:
1) preserve capital in falling markets;
2) manage risk in order to achieve less volatility than the market; and
3) produce returns greater than the market indices, the inflation rate and a universe of comparable portfolios with similar objectives. The firm achieves its objectives by purchasing securities considered to be undervalued on the basis of known data and strict financial standards. In addition, Oppenheimer will make moderate shifts between cash and equities based on its outlook on the market and the economy, The firm focuses on five key variables when evaluating companies: management, financial strength, profitability, industry position and valuation. Oppenheimer was retained by the SBI in July 1993.

Valenzuela Capital Management (Emerging Manager Program)
Valenzuela Capital Management believes that stock selection and adherence to valuation analysis make up the backbone of superior performance. Their investment philosophy is one of risk averse growth. The firm seeks companies undergoing strong rates of change in earnings, cash flow and returns. These companies are experiencing positive changes in revenues, gross and operating margins and financial structure. To be considered for investment, these stocks must sell at or below market valuations. The firm believes that below market valuations provide downside protection during weak market periods. In strong markets the portfolios will be driven by both earnings growth and multiple expansion. Valenzuela was retained by the SBI in April 1994.

Waddell & Reed
Waddell & Reed focuses primarily on small to medium capitalization aggressive growth stocks. However, the firm has demonstrated a willingness to make significant bets against this investment approach for extended periods of time. The firm is an active market timer and will raise levels of cash at various points in the market cycle. Waddell & Reed was retained by the SBI in March 1983.

Weiss, Peck & Greer
Weiss, Peck & Greer's dynamic growth process concentrates on small to medium size growth companies that have demonstrated consistent superior earnings growth rates. The process emphasizes companies in new or dynamic, rapidly growing industries where there is a potential for a major acceleration in earnings growth. The firm also believes that superior stock selection can be achieved through in-depth fundamental company research. The firm was retained by the SBI in July 1993.

Wilke/Thompson Capital Management Inc. (Emerging Manager Program)
The investment philosophy of Wilke/Thompson is to invest in high quality growth companies that demonstrate the ability to sustain strong secular earnings growth, notwithstanding overall economic conditions. The firm's investment approach involves a bottom-up

fundamental process. The stock selection process favors companies with strong earnings, high unit growth, a proprietary market niche, minimum debt, conservative accounting and strong management practices. They formulate investment ideas by networking with the corporate managers of their current and prospective holdings, as well as with regional brokers, venture capitalists, and other buy-side portfolio managers. Wilke/Thompson was retained by the SBI in April 1994.

Winslow Capital Management (Emerging Manager Program)

Winslow Capital Management believes that investment in companies with above average earnings growth provide the best opportunities for superior portfolio returns over time. The firm believes that a high rate of earnings growth is often found in medium capitalization growth companies of $1 to $10 billion market capitalization. Thus, to seek superior portfolio returns while maintaining good liquidity, Winslow emphasizes a growth strategy buying securities of both medium and large capitalization companies. The objective is to achieve a weighted average annual earnings growth rate of 15-20% over a 2-3 year time horizon. Winslow was retained by the SBI in April 1994.

Zevenbergen Capital Inc. (Emerging Manager Program)

Zevenbergen Capital is a growth manager. Its investment philosophy is based on the belief that earnings drive stock prices while quality provides capital protection. Hence, portfolios are constructed with companies showing above-average earnings growth prospects and strong financial characteristics. They consider diversification for company size, expected growth rates and industry weightings to be important risk control factors. The firm uses a bottom-up fundamental approach to security analysis. Research efforts focus on finding companies with superior products or services showing consistent profitability. Attractive buy candidates are reviewed for sufficient liquidity and to potential for diversification. The firm does not believe in market timing. Zevenbergen was retained by the SBI in April 1994.

Wilshire Asset Management

The index fund managed by Wilshire Asset Management is designed to track a custom index which has been modified or "tilted" to compensate for style bias or "misfit" in the aggregate benchmark of all the active stock managers. The tilting process was initiated during fiscal year 1991. Prior to that time, the Wilshire portfolio was indexed to the Wilshire 5000. The Wilshire 5000 is a broad-based market indicator and is composed of the common stock of all U.S. domiciled corporations for which daily prices are available. Wilshire was retained by the SBI in December 1983.

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

International Stock Managers

Baring International Investment Ltd.

Barings manages an active country/passive stock portfolio for the SBI. Baring's strategic policy team is responsible for country and currency decisions. Country decisions are based on a macroeconomic framework to identify growing economies as evidenced by positive changes in gross domestic product and interest rates. Barings uses State Street Global Advisors to manage the passive stock portion of the portfolio. Barings advises State Street of the allocation decisions and State Street invests accordingly in their various country index funds. State Street also implements any hedging activity at the direction of Barings. Barings was retained by the SBI in April 1993.

Brinson Partners, Inc.

Brinson manages an active country/passive stock portfolio for the SBI. Brinson uses a proprietary valuation model to rank the relative attractiveness of individual markets based on fundamental considerations. Inputs include forecasts for growth, inflation, risk premiums and foreign exchange movements. Quantitative tools are used to monitor and control portfolio risk, while qualitative judgments from the firm's professionals are used to determine final country allocations. The passive stock portion of the portfolio is managed internally. Brinson constructs its country index funds using a proprietary optimization system. Brinson was retained by the SBI in April 1993.

Marathon Asset Management

Marathon uses a blend of flexible, qualitative disciplines to construct portfolios which exhibit a value bias. Style and emphasis will vary over time and by market, depending on Marathon's perception of lowest risk opportunity. Since the firm believes that competition determines profitability, Marathon is attracted to industries where the level of competition is declining and they will hold a sector position as long as the level of competition does not increase. At the stock level, Marathon tracks a company's competitive position versus the attractiveness of their products or services and attempts to determine whether the company is following an appropriate reinvestment strategy for their current competitive position. Marathon was retained by the SBI in November 1993.

Rowe Price-Fleming International, Inc.
Rowe Price-Fleming believes that world stock markets are segmented. The firm attempts to add value by identifying and exploiting the resulting pricing inefficiencies. In addition, they believe that growth is frequently under priced in the world markets. The firm establishes its economic outlook based largely on interest rate trends and earnings momentum. The portfolio management team then assesses the country, industry and currency profile for the portfolio. Within this framework, stock selection is the responsibility of regional portfolio managers. Stocks are selected using fundamental analysis that emphasizes companies with above-market earnings growth at reasonable valuations. Information derived from the stock selection process is a key factor in country allocation as well. Rowe Price-Fleming was retained by the SBI in November 1993.

Scudder, Stevens & Clark
Scudder believes that successful international investing requires knowledge of each country's economy, political environment and financial market obtained through continuous and thorough research of individual markets and securities. The investment process focuses on three areas: country analysis, global themes and unique situations. Ideas from all three areas are integrated into Scudder's research universe. Using their own internal research, the firm seeks companies with potential for earnings and dividend growth, strong or improving balance sheets, superior management, conservative accounting practices and dominant position in growing industries. Scudder was retained by the SBI in November 1993.

Templeton Investment Counsel, Inc.
Templeton's goal is to identify those companies selling at the greatest discount to future intrinsic value. The firm takes a long-term approach to investing and believes that, over time, markets are efficient and patience will reward those who have identified undervalued stocks. Stock selection dominates Templeton's investment approach; country, sector and industry weightings are a residual of the stock selection process. Stock ideas are obtained from a worldwide network of research sources and screens of their own global database. From this preliminary list, analysts conduct fundamental analysis to distinguish a "cheap" stock from a "bargain." The firm seeks stocks that are cheap relative to their own price history, their global industry and their domestic market. Each stock on the resulting "bargain list" has established buy and sell price targets and is purchased and sold accordingly. Templeton was retained by the SBI in November 1993.

State Street Global Advisors
State Street manages an international index portfolio designed to track the Morgan Stanley Capital International Index of Europe, Australia and the Far East (EAFE index). State Street uses a full replication strategy to construct index modules on a country by country basis. These modules are then combined to form a portfolio which will track the entire index. State Street was retained by the SBI in October 1992.

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

Bond Managers

BEA Associates
BEA Associates' investment approach focuses on security and sector selection rather than forecasts of short term interest rates. BEA keeps the duration close to the benchmark but may be slightly longer or shorter depending on its long-term economic outlook. The firm's approach is distinguished by 1) a quantitative approach which avoids market timing; 2) contrarian weighting of bond sectors; and 3) rigorous call and credit analysis rather than yield driven management. The firm was retained by the SBI in July 1993.

IDS Advisory Group
IDS Advisory Group manages a corporate and treasury portfolio for the SBI. The firm uses duration management combined with in-depth fundamental analysis of the corporate sector to add value to the portfolio. Active duration management begins with an economic overview and interest rate outlook. These factors help IDS determine the direction of both short and long-term interest rates which leads to the portfolio duration decision. After IDS determines duration, they use their extensive corporate research capabilities to determine corporate sector allocation and to select individual issues. The firm was retained by the SBI in July 1993.

Investment Advisers Inc.
Investment Advisers is a traditional top-down bond manger. The firm's approach is oriented toward correct identification of the economy's position in the credit cycle. This analysis leads the firm to its interest rate forecast and maturity decisions, from which the firm derives most of its value-added. Investment Advisers

is an active asset allocator, willing to make rapid, significant moves between cash and long maturity investments over the course of an interest rate cycle. Quality, sector and issue selection are secondary decisions. Quality and sector choices are made through yield spread analyses consistent with interest rate forecasts. Individual security selection receives very limited emphasis and focuses largely on specific bond characteristics such as call provisions. Investment Advisers was retained by the SBI in July 1984.

Miller, Anderson & Sherrerd
Miller Anderson focuses its investments in misunderstood or under-researched classes of securities. Over the years this approach has led the firm to emphasize mortgage-backed securities in its portfolios. Based on its economic and interest rate outlook, the firm establishes a desired maturity level for its portfolios. This decision is instituted primarily through the selection of specific types of mortgage securities that have prepayment expectations consistent with the portfolio's desired maturity. In addition, the firm will move in and out of cash gradually over an interest rate cycle. The firm never takes extremely high cash positions and keeps total portfolio maturity within an intermediate three-to-seven year duration band. Unlike other firms that also invest in mortgage securities, Miller Anderson intensively researches and, in some cases, manages the mortgage pools in which it invests. Miller was retained by the SBI in July 1984.

Standish, Ayer & Wood
Standish, Ayer & Wood adds value by capitalizing on market inefficiencies and trading actively through intra and inter-sector swapping. The firm does not forecast interest rates but adds value to the portfolio by buying non-Treasury issues. Key to the approach is active sector trading and relative spread analysis of both sectors and individual issues. In addition to sector spreads, the firm also analyzes how secular trends affect bond pricing. The firm believes that 65% of its value added comes from inter-sector swapping in non-government sectors. Standish was retained by the SBI in July 1993.

Trust Company of the West (TCW)
TCW manages a portfolio consisting of mortgages only for the SBI. The firm focuses on security selection and it invests a significant portion of the portfolio in collateralized mortgage obligations (CMO's). TCW staff analyze various Wall Street models used to evaluate CMO's and determine the validity of their underlying assumptions. Historically, the firm has added significant value by understanding the strengths and weaknesses of these models. This helps them to purchase undervalued securities and avoid those that are overpriced. TCW was retained by the SBI in July 1993.

Western Asset Management
Western recognizes the importance of interest rates changes on fixed income portfolio returns. However, the firm believes that successful interest rate forecasting, particularly short-run forecasting is extremely difficult to accomplish consistently. Thus, the firm attempts to keep portfolio maturity in a narrow band near that of the market, making only relatively small, gradual shifts over an interest rate cycle. It prefers to add value primarily through appropriate sector decisions. Based on its economic analysis, Western will significantly overweight particular sectors, shifting these weights as economic expectations warrant. Issue selection, like its maturity decisions, are of secondary importance to the firm. Western was retained by the SBI in July 1984.

Fidelity Management Trust
Fidelity Management Trust manages a semi-passive bond portfolio designed to track the characteristics of the Salomon Broad Investment Grade (BIG) index. While matching the risk profile of the BIG index, Fidelity seeks to enhance returns by actively managing yield curve, sector, and issue exposure. The objective is to provide modest increments to the BIG index return on a consistent basis. Fidelity was retained by the SBI in July 1988.

Goldman Sachs Asset Management
Goldman Sachs manages a semi-passive bond portfolio designed to track the Salomon BIG index. When analyzing treasuries, the firm models Treasury coupons with an arbitrage based pricing model. This model determines the spread between actual and intrinsic market yields and determines whether the security is rich or cheap. Goldman takes a highly quantitative and analytical approach to value mortgage securities as well. The firm uncovers undervalued securities using proprietary research and internally developed models. In the corporate sector, Goldman performs its own credit review of each issue. The firm adds value to the corporate sector with extensive research, market knowledge and trading skill. Goldman was retained by the SBI in July 1993.

Lincoln Capital Management
Lincoln Capital manages a diversified semi-passive bond portfolio designed to track the Salomon BIG index. Lincoln employs quantitative disciplines that model the BIG index according to a variety of risk variables. Lincoln seeks to enhance returns relative to

the index by modest alterations to sector weightings, with the use of undervalued securities, and through an aggressive trading strategy in mortgage securities. The objective is to provide modest increments to the index return on a consistent basis. Lincoln 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.

Alternative Investment Managers

Basic Retirement Funds

Real Estate

Aetna Life & Casualty
Fund: RESA

Real Estate Separate Account (RESA) is an open-end commingled real estate fund managed by the Aetna Life and Casualty Company of Hartford, Conn. The fund was formed in January 1978 and the SBI's commitment was made in April 1982. The fund has no termination date; investors have the option to withdraw all or a portion of their investments. RESA invests primarily in existing equity real estate. Investments are diversified by location and type of property. On-site management of properties is contracted to outside firms or conducted by a joint venture partner.

Equitable Real Estate Group
Fund: Prime Property Fund

Prime Property Fund was formed in August 1973 by the New York-based Equitable Real Estate Group., Inc. The account is an open-end commingled real estate fund and the SBI's commitment was made in October 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. Management of the fund's properties is contracted to outside firms or is conducted by joint venture partners.

Heitman Advisory Corp. (HAC)
Funds: HAC Group Trust I
HAC Group Trust II
HAC Group Trust III
HAC Group Trust V

HAC Group Trusts are closed-end commingled funds managed by the Heitman Advisory Group. The majority of the trust investments are equity real estate. The real estate portfolios are diversified by the type and location of the properties. Centre Properties, Ltd., an affiliate of Heitman, manages the trusts' wholly-owned properties. Properties that are partially owned by the trusts may be managed by joint venture partners. Heitman Advisory is based in Chicago. The SBI committed to the Group Trusts in August 1984, November 1985, February 1987 and December 1991. The funds are expected to terminate in 1999, 2001,2002, and 2005.

LaSalle Advisors
Fund: LaSalle Income Parking Fund

The Income Parking Fund is a closed-end commingled fund managed by LaSalle Advisors of Chicago, Illinois. The fund's strategy is to acquire unleveraged parking facilities to maximize current return to the investors. In special situations, the fund may develop new parking facilities, but only when yield requirements can be maintained. LaSalle has considerable expertise in this area, with close to 100,000 parking spaces under management in the U.S. The SBI committed to the Fund in September 1991. The fund is expected to terminate in 2005.

Paine Webber
Funds: Paine Webber Qualified Plan Property Funds I-IV and Mortgage Partners Five, L.P.'s.

The Managing General Partner of Funds I-V is based on Boston, Mass. and is a wholly owned subsidiary of Paine Webber Group, Inc. The Funds have real estate investments which are diversified by location and property type. The SBI received these investments through Police and Fire Plan consolidations.

Rosenberg Real Estate Equity Funds (RREEF)
Fund: RREEF USA III

RREEF USA III is a closed-end commingled fund managed by the Rosenberg Real Estate Equity Funds. Typically, the trust purchases 100% of the equity of its properties with cash. The trust generally does not utilize leverage or participating mortgages. Properties are diversified by location and type. RREEF's in-house staff manages the trust's real estate properties. The firm's primary office is located in San Francisco. The SBI committed to the fund in May 1984. The Fund is expected to terminate in 1996.

State Street Bank & Trust
Funds: AEW - State Street Real Estate Fund III
AEW - State Street Real Estate Fund IV
AEW - State Street Real Estate Fund V

State Street Real Estate Funds are closed-end commingled funds managed by the State Street Bank and Trust Company of Boston. State Street Bank has retained Aldrich, Eastman and Waltch (AEW) as the funds' advisor. The funds' special orientation is the use of creative investment vehicles such as convertible and participating mortgages to maximize real estate returns. The real estate portfolios are diversified by location and property type. On-site property management typically is contracted to outside firms or conducted by joint venture partners. The SBI committed to the funds in September 1985, September 1986 and December 1987. The funds are expected to terminate in 1999, 2001, and 2002.

TA Associates Realty
Fund: TA Realty Associates Fund III

TA Realty Associates Fund III is a closed-end, commingled real estate fund formed in June 1994 and managed by TA Associates Realty of Boston, MA. The fund will 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 fund in June 1994. The fund has a ten year term.

Trust Company of the West (TCW)
Funds: TCW Realty Fund III
TCW Realty Fund IV

TCW Realty Funds are closed-end commingled funds. The funds are managed as joint ventures between Trust Company of the West and Westmark Real Estate Investment Services of Los Angeles. These managers utilize specialty investment vehicles such as convertible and participating mortgages to enhance real estate returns. Investments are diversified by location and type. Portfolio properties are typically managed by local property management firms. The SBI committed to the funds in August 1985 and November 1986. The funds are expected to terminate in 1995 and 1996.

Zell/Merrill Lynch
Funds: Zell/Merrill Lynch Real Estate II
Zell/Merrill Lynch Real Estate III

Zell/Merrill Lynch Real Estate Fund II and III are based in Chicago, Illinois. The funds will make equity or equity-related investments in opportunistic real estate situations. The partnerships will acquire office, retail, and residential properties and may also invest in mixed-use and industrial properties. The funds have the authority to acquire convertible or participating mortgages. The SBI committed to the funds in November 1991 and January 1994. The funds are expected to terminate in 2010 and 2015.

Private Equity

Allied Capital
Fund: Allied Venture Partnership

Allied Venture Partnership was formed in September 1985 and has a ten-year term. Based in Washington D.C., the fund focuses on later-stage, low technology companies located in the Southeastern and Eastern U.S. Most investments will be made in syndication with Allied Capital, a large, publicly owned venture capital corporation which was formed in 1958.

Blackstone Group
Fund: Blackstone Capital Partners Fund II

The Blackstone Capital Partners Fund II is a limited partnership which was formed in November 1993 and has a ten year term. Based in New York, the fund will invest in a diverse number and type of private equity transactions. Up to 25% of the fund may be invested outside of the United States and Canada.

Brinson Partners
Funds: Venture Partnership Acquisition Fund I
Venture Partnership Acquisition Fund II

Brinson Partners Venture Partnership Acquisition Funds I and II were formed in 1988 and 1990, respectively. The limited partnerships have ten year terms. 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. Brinson Partners is based in Chicago, Illinois.

ChiCorp Management, Inc.
Fund: Midwest Bank Fund III

Midwest Bank Fund III was formed in October 1992 and has a nine year term. Based in Chicago, Illinois, the fund will invest in sub-regional banks, located primarily in the Midwest, which have demonstrated above average growth and are likely acquisition targets.

Churchill Capital, Inc.
Fund: Churchill Capital Partners II

Churchill Capital Partners II was formed in October 1992 and has a twelve year term. Based in Minneapolis, Minnesota, the fund provides subordinated debt to established small and medium-sized companies. Fund investments will not be restricted to any particular region, although it is anticipated that a substantial portion will be in the Midwest.

DSV Management Ltd.
Fund: DSV Partners IV

DSV Partners IV limited partnership was formed in April 1985. It has a twelve-year term. DSV Partners IV is the fourth venture fund to be managed by DSV Management Ltd. since the firm's inception in 1968. The firm has offices in Princeton, New Jersey, and California. DSV Partners' investment emphasis is on portfolio companies in the start-up and early stages of corporate development. The geographic focus of the partnership is on East and West Coast firms. Investments are diversified by industry type.

Golder, Thoma and Cressey
Funds: Golder, Thoma and Cressey Fund III
Golder, Thoma and Cressey Fund IV

Golder, Thoma and Cressey Funds III and IV are venture capital limited partnerships and were formed in October 1987 and April 1993, respectively. The funds are based in Chicago, Illinois and have ten year terms. The funds will invest in growing private businesses, find and build companies in fragmented industries and invest in small leveraged buyouts. In addition, the portfolio will be diversified geographically and by industry.

Inman & Bowman Management
Fund: Inman & Bowman

The Inman & Bowman limited partnership was formed in June, 1985. Its investment focus is early-stage, high-technology firms. The fund will emphasize investments in California, where the general partner, Inman & Bowman Management, is based. However, the fund will consider investments in the Pacific-Northwest as well. The partnership has a ten-year term.

Coral Group Inc.
Funds: IAI Venture Partners
Coral Partners I
Coral Partners II

The Coral Group Inc. comprised the professional staff of IAI Venture Capital Group prior to the spinout of that group from Investment Advisers, Inc. in the fall of 1993.

Coral Partners I (formerly Superior Ventures) is a Minnesota-based venture capital limited partnership. It was formed in June 1986 and has an eleven-year term. Up to 15% of the fund will be invested in other Minnesota-based venture capital limited partnerships. The remainder of the fund will be invested in operating companies located within the state.

IAI Venture Partners and Coral Partners II (formerly IAI Ventures II) are also Minnesota-based venture capital limited partnerships managed by the Coral Group. These funds have venture capital investment strategies similar to Coral I's but are more diversified geographically. They were formed in 1984 and 1991, respectively and have eleven year terms.

Kohlberg, Kravis, Roberts & Co. (KKR)
Funds: KKR 1984 LBO Fund
KKR 1986 LBO Fund
KKR 1987 LBO Fund
KKR 1991 LBO Fund

KKR's Leveraged Buyout 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 very diversified operations. Kohlberg, Kravis, Roberts and Co. operates offices in New York and San Francisco. The funds were formed in the years cited above and have terms of twelve years.

Matrix Partners
Funds: Matrix Partners II
Matrix Partners III

Matrix Partners II and III are venture capital limited partnerships that were formed in 1985 and 1990, respectively, with terms of ten years. Investment emphasis is on high-technology firms in the early and expansion stages of corporate development. However, for diversification the portfolios will include a sizable component of non-technology firms. The portfolios may include several small leveraged buyout investments as well. The funds are managed by five general partners with offices in Boston, San Jose, and San Francisco.

Norwest Venture Capital Management
Fund: Northwest Venture Partners I

Northwest Venture Partners I was formed in January 1984 and is expected to terminate in 2013. Norwest Venture Capital Management, a wholly owned subsidiary of Norwest Corp., is the general partner and manager of the partnership. Norwest Venture Capital also manages the Northwest Growth Fund, a small business investment company (SBIC), and Northwest Equity Capital, a leveraged buyout fund. Northwest Venture Partners' investment focus is on high technology companies in the early stages of corporate development. However, the partnership's portfolio also includes investments in expansion stage firms and is diversified by the location and industry type of its portfolio companies.

Smith Barney Venture Corp.
Fund: First Century III

First Century III was formed in December 1984. It is structured as a limited partnership with a term of twelve years. The general partner and manager of the partnership is Smith Barney Venture Corp., a subsidiary of Smith Barney Harris Upham and Co. Smith Barney Venture has offices in New York and San Francisco. This is the third fund formed by the firm since 1972. The partnership invests primarily in early stage, high technology companies. Investments are diversified by location and industry group.

Stamps, Woodsum and Co.
Funds: Summit Ventures I
Summit Ventures II

Summit Ventures I and II are limited partnerships formed in 1984 and 1988 with ten-year terms. Fund I is in a two year extension. The funds were formed by Stamps, Woodsum & Co., the managing general partners of the fund. Stamps and Woodsum focus on profitable, expansion stage firms that have not yet received any venture backing. The majority of the partnerships investments are in high tech firms. Investments are diversified by location and industry type.

Investment Manager Summaries

The Jacobs Group
Fund: IMR Fund, L.P.
The IMR Fund was formed in May 1992 and has a ten year term. The Fund will invest in established operating companies with assets and/or business segments offering opportunities for significantly enhanced appreciation. Investments in financially troubled or excessively leveraged companies, particularly bankrupt or poorly managed companies with high asset bases, will be a focus of the Fund.

T. Rowe Price
T. Rowe Price, a Baltimore-based money management firm, was selected to manage stock distributions from the Board's venture capital 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.

Zell/Chilmark
Fund: Zell/Chilmark
Zell/Chilmark was formed in July 1990 with a 10 year term. Based in Chicago, Illinois, the Fund focuses on corporate restructuring and rejuvenation situations. The partnership will invest primarily in the assets, debt and/or common and preferred stock of companies with a fair market value of at least $100 million.

Resource Funds

Apache Corporation
Fund: Apache Acquisition Net Profits Interest
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. Investors will receive a 85% net profits interest in the financed share of producing properties until the cumulative total of such payments equals the investment cost plus 8% per year return on investment (the "Payout"). However, if the cumulative net profit discounted at 10% should fail to exceed a defined cumulative cash flow comparably discounted, investors will receive a 90% net profits interest until Payout. After Payout, investors will receive a 75% net profits interest for the life of the producing properties.

First Reserve Corp.
Funds: AMGO I
AMGO II
AMGO IV
AMGO V
American Gas and Oil (AMGO) funds were formed in 1981, 1983, 1988 and 1990, respectively, and are structured as limited partnerships. The funds are expected to terminate in 2001, 2001, 1998 and 2000, respectively. The general partner and manager of the funds is First Reserve Corp. The general partner's long-term investment strategy is to create diversified portfolios of oil and gas investments. The portfolios are diversified across four dimensions: location, geological structure, investment type, and operating company.

J.P. Morgan Investment Management
Fund: Morgan Petroleum Fund II
Morgan Petroleum Fund II was formed in July 1988 and is managed by J.P. Morgan Investment Management, Inc. The fund managers have an office in Houston, Texas. Fund investments will be diversified geographically and by company. Most investments will take the form of an overriding royalty interest and will include, primarily, property acquisitions and development drilling. The fund has a 15 year term.

Simmons & Company
Fund: OFS Investments, L.P.
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 and will endeavor to negotiate transactions that display strong fundamentals, value-added opportunities, reasonable pricing and appropriate financial structuring possibilities. The fund was formed in 1992 with a 10 year term.

Alternative Investment Managers

Post Retirement Fund

Private Equity

Stamps, Woodsum & Co.
Fund: Summit Subordinated Debt Fund

Summit Subordinated Debt Fund is a limited partnership formed in 1994 with a ten year term. The fund was formed by Stamps, Woodsum & Co., the managing general partners of the fund. The fund will invest in many of the same companies as the Summit Venture funds. Investments by this partnership 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.

Stock Manager Risk Factor Exposure Glossary

The following definitions describe the risk factors that the State Board of Investment (SBI) uses in monitoring its stock managers. The terms are referred to in the Risk Factor Exposure table that follows this glossary.

SBI analysis of a stock manger's portfolio, in part, utilizes the BARRA E2 risk model. The BARRA model contains a number of risk factors that the SBI has found to correlate highly with a manager's investment style. That is, a manager tends to exhibit consistent exposures to many of these risk factors over time. The benchmark construction process includes identifying these persistent exposures and capturing them in the benchmark portfolio.

Factor exposures are calibrated relative to approximately 1400 of the largest market capitalization (HICAP) companies. An exposure level of 0 for a particular stock to a particular factor indicates that the stock has the same exposure as the capitalization-weighted average of the HICAP stocks. Around that zero exposure, deviations are measured in standard deviation units. Thus, an exposure level of +1 indicates that the stock has a greater exposure to the factor than roughly 68% of the HICAP stocks.

Beta
Forecasts the sensitivity of a stock's return to the return on the market portfolio. The BARRA E2 beta is a forecasted beta, based on a company's exposure to thirteen common risk factors and fifty-five industries.

Book-to Price (B/P)
Measures the book value of a company's common equity divided by market capitalization.

Dividend Yield (Div. Yld.)
Used as a predictor of dividend yield for the coming year.

Earnings-to-Price (E/P)
Incorporates several variants of a company's earnings-price ratio. Includes the current earnings-price ratio, the normalized (5 year) earnings-price ratio, and analyst's forecasted earnings-price ratio as compiled by the Institutional Brokerage Estimate Services (IBES).

Earnings Variability (Earn. Var.)
Indicates the variability of a company's earnings. Comprised of six descriptors: historical earnings variance, cash flow variance, earnings covariability with the economy, the level of concentration of the company's earnings from various sources, the incidence of extraordinary items, and the variability of the company's earnings estimates as compiled by IBES.

Equity Allocation (Eq. Alloc.)
Measures the percent of the manager's total portfolio invested in common stocks, preferred stocks and convertible securities.

Financial Leverage
Measures the extent to which a company utilizes financial leverage to finance its operations. Comprised of three descriptors: debt-to-total assets (at market), debt-to-total assets (at book), and uncovered fixed charges.

Foreign Income (For. Inc.)
Measures the extent to which a company's operating income is generated outside of the U.S.

Growth
Indicates potential growth in a company's earnings over the next five years. Comprised of seven descriptors: most recent five-year dividend payout, most recent five-year dividend yield, most recent five-year earnings-price ratio, change in capital structure, normalized (5 year) earnings-price ratio, recent earnings change, and forecasted earnings growth.

Labor Intensity (Labor Int.)
Measures the degree to which labor, as opposed to capital, is used by a company as a factor of production. Derived from three descriptors: labor expense relative to assets, fixed plant and equipment (inflation adjusted) relative to equity, and depreciated plant value relative to gross plant value.

Monthly Turnover (Mo. T/O)
Measures the total equity asset sales divided by the average value of the equity assets in the manager's portfolio.

Size
Indicates the relative size of the company. It includes three descriptors: market capitalization, total assets, and the length of earnings history.

Success (Suc.)
Describes the extent to which a company has been "successful" in the recent past, in terms of both earnings and stock prices. Composed of six descriptors: most recent five-year earnings growth, most recent one-year earnings growth, forecasted next year's earnings growth, historical alpha, and relative strength. (The last two descriptors are calculated over the most recent year and most recent five years).

Statistical Data

Trading Activity (Trad. Act.)
Measures the trading characteristics of a company's stock. Comprised of six descriptors: most recent five-year share turnover, most recent year share turnover, quarterly share turnover, stock price, trading volume relative to stock price variance, and the number of IBES analysts following the stock.

Variability in Markets (Var. Mkts.)
Measures the volatility of a stock's return related to its past behavior and the behavior of its options. Variants of the factor are calculated for optioned stocks, listed but not optioned stocks, and thinly traded stocks. A partial list of the descriptors that make up this factor include: historical beta, option-implied standard deviation of return, daily standard deviation of return, cumulative price range, stock price, and share turnover.

EXTERNAL ACTIVE STOCK MANAGERS

Risk Factor Exposures
July 1989-June 1994

	Beta	Var. Mkts.	Suc.	Size	Trad. Act.	Growth	E/P	B/P	Earn. Var.	Finl.	For. Inc.	Labor Int.	Div. Yld.	Mo. T/O	Eq. Alloc.
Alliance Capital															
Minimum	1.09	0.13	0.12	0.13	0.17	0.41	-0.24	-0.49	-0.12	0.00	-0.26	0.15	-0.81	0.72	92%
Average	1.17	0.31	0.37	0.28	0.39	0.59	-0.12	-0.38	0.04	0.15	-0.02	0.29	-0.65	3.65	96%
Maximum	1.25	0.54	0.57	0.38	0.57	0.77	0.09	-0.27	0.28	0.28	0.17	0.42	-0.50	7.59	100%
Bmrk. Avg.	1.13	0.28	0.13	-0.19	0.18	0.48	-0.06	-0.31	-0.08	0.01	-0.11	0.40	-0.58	N.A.	95%
Brinson Partners															
Minimum	1.04	0.14	-0.30	-0.50	0.24	0.16	-0.25	0.15	0.41	0.31	-0.09	0.04	-0.32	0.90	94%
Average	1.07	0.23	-0.13	-0.45	0.36	0.22	-0.16	0.19	0.52	0.36	-0.04	0.09	-0.26	4.55	96%
Maximum	1.09	0.31	0.01	-0.37	0.52	0.29	-0.10	0.24	0.60	0.42	0.01	0.13	-0.21	10.44	98%
Bmrk. Avg.	1.02	0.18	-0.07	-0.51	0.15	0.06	-0.03	0.15	0.17	-0.08	-0.26	0.04	-0.07	N.A.	98%
Forstmann Leff															
Minimum	1.04	0.24	-0.16	-1.15	0.23	-0.14	-0.18	-0.26	0.17	-0.19	-0.43	-0.28	-0.81	0.76	64%
Average	1.15	0.63	0.19	-0.78	0.61	0.34	0.05	0.10	0.45	0.06	-0.16	0.00	-0.57	9.25	85%
Maximum	1.25	1.08	0.70	-0.27	1.04	0.70	0.36	0.50	0.63	0.40	0.22	0.24	-0.33	28.60	99%
Bmrk. Avg.	1.16	0.54	0.05	-0.58	0.44	0.38	-0.03	0.00	0.23	0.02	-0.18	0.22	-0.38	N.A.	80%
Franklin Portfolio															
Minimum	1.02	0.12	-0.24	-0.95	0.01	-0.12	0.15	0.06	0.02	-0.23	-0.62	-0.19	-0.27	0.24	94%
Average	1.05	0.23	0.09	-0.52	0.14	0.10	0.35	0.18	0.19	-0.10	-0.44	0.00	-0.11	7.18	98%
Maximum	1.09	0.31	0.32	-0.25	0.32	0.31	0.48	0.34	0.38	0.07	-0.01	0.17	0.12	17.98	100%
Bmrk. Avg.	1.04	0.19	-0.01	-0.50	0.13	0.09	0.01	0.07	0.11	-0.04	-0.32	0.04	-0.10	N.A.	97%
GeoCapital Corp.															
Minimum	1.12	0.90	-0.58	-2.33	0.25	0.90	-0.72	-0.46	0.33	-0.03	-0.71	0.37	-1.03	0.00	85%
Average	1.23	1.13	0.29	-2.13	0.65	1.03	-0.41	-0.30	0.47	0.20	-0.59	0.45	-0.95	1.25	97%
Maximum	1.28	1.38	0.91	-1.95	0.91	1.13	-0.25	-0.15	0.59	0.70	0.00	0.60	-0.85	10.23	100%
Bmrk. Avg.	1.25	1.17	0.61	-1.92	0.78	1.17	-0.40	-0.32	0.48	0.02	-0.42	0.56	-1.04	N.A.	97%

Bmrk. Avg. = Benchmark average.

EXTERNAL ACTIVE STOCK MANAGERS

Risk Factor Exposures Con't.
July 1989-June 1994

	Beta	Var. Mkts.	Suc.	Size	Trad. Act.	Growth	E/P	B/P	Earn. Var.	Finl.	For. Inc.	Labor Int.	Div. Yld.	Mo. T/O	Eq. Alloc.
Investment Advisers															
Minimum	1.05	0.33	0.38	-1.79	0.14	0.27	-0.06	-0.24	-0.08	-0.41	-0.62	0.31	-0.88	6.54	85%
Average	1.07	0.54	0.57	-1.59	0.24	0.55	0.01	-0.16	0.03	-0.33	-0.50	0.53	-0.72	14.18	89%
Maximum	1.10	0.66	0.76	-1.15	0.35	0.72	0.12	-0.09	0.12	-0.23	-0.27	0.67	-0.50	21.48	96%
Bmrk. Avg.	1.00	0.11	0.03	-0.73	-0.04	0.14	-0.02	0.06	0.03	-0.12	-0.38	0.18	-0.19	N.A.	95%
IDS Advisory															
Minimum	1.07	0.08	0.15	-0.27	0.14	0.12	-0.28	-0.30	-0.01	-0.16	-0.33	-0.11	-0.59	0.66	81%
Average	1.12	0.30	0.32	0.02	0.32	0.29	-0.07	-0.11	0.22	0.04	-0.09	0.15	-0.40	5.85	92%
Maximum	1.19	0.61	0.63	0.40	0.64	0.42	0.12	0.09	0.34	0.29	0.07	0.45	-0.18	19.73	100%
Bmrk. Avg.	1.06	0.13	0.04	0.01	0.17	0.12	-0.01	0.01	0.08	0.04	-0.06	0.06	-0.13	N.A.	92%
Independence Investment Associates															
Minimum	0.99	-0.15	-0.09	0.21	-0.04	-0.20	0.04	-0.01	-0.05	0.06	-0.29	-0.14	0.05	0.00	97%
Average	1.01	-0.06	0.01	0.28	0.04	-0.15	0.12	0.04	0.02	0.15	-0.04	-0.05	0.12	4.89	99%
Maximum	1.02	-0.02	0.12	0.34	0.12	-0.11	0.21	0.10	0.07	0.21	0.08	0.04	0.20	14.04	100%
Bmrk. Avg.	1.01	-0.08	-0.06	0.33	-0.01	-0.08	0.00	0.01	-0.01	0.07	0.03	-0.06	0.07	N.A.	100%
Jundt Associates															
Minimum	1.28	1.08	0.66	-1.08	0.76	1.27	-0.58	-0.79	0.27	-0.34	-0.49	0.36	-1.20	0.97	63%
Average	1.31	1.21	1.16	-0.93	1.00	1.32	-0.52	-0.72	0.31	-0.29	-0.31	0.43	-1.14	4.92	84%
Maximum	1.35	1.31	1.40	-0.81	1.13	1.37	-0.44	-0.55	0.35	-0.25	-0.17	0.47	-1.09	19.12	93%
Bmrk. Avg.	1.21	0.68	0.48	-0.54	0.57	0.74	-0.20	-0.39	0.09	-0.09	0.01	0.48	-0.75	N.A.	92%
Lincoln Capital Management															
Minimum	1.08	-0.16	-0.19	0.39	-0.05	0.26	0.01	-0.41	-0.43	0.02	0.05	0.33	-0.51	0.69	84%
Average	1.11	-0.10	-0.07	0.44	0.00	0.30	0.04	-0.36	-0.39	0.06	0.15	0.37	-0.48	2.98	88%
Maximum	1.12	-0.04	0.07	0.51	0.03	0.34	0.11	-0.27	-0.37	0.13	0.27	0.40	-0.44	5.43	93%
Bmrk. Avg.	1.12	0.13	-0.07	0.02	0.07	0.35	0.01	-0.34	-0.26	-0.02	0.04	0.42	-0.39	N.A.	95%

Bmrk. Avg. = Benchmark average.

EXTERNAL ACTIVE STOCK MANAGERS

Risk Factor Exposures Con't.
July 1989-June 1994

	Beta	Var. Mkts.	Suc.	Size	Trad. Act.	Growth	E/P	B/P	Earn. Var.	Finl.	For. Inc.	Labor Int.	Div. Yld.	Mo. T/O	Eq. Alloc.
Lynch & Mayer															
Minimum	1.11	0.25	0.22	-0.28	0.36	0.46	-0.34	-0.36	0.06	-0.01	-0.07	0.20	-0.83	1.98	88%
Average	1.18	0.58	0.70	0.02	0.56	0.61	-0.17	-0.29	0.29	0.10	0.09	0.30	-0.72	9.56	94%
Maximum	1.24	1.00	1.38	0.34	0.94	0.75	0.01	-0.17	0.60	0.23	0.47	0.43	-0.57	22.09	99%
Bmrk. Avg.	1.20	0.58	0.47	-0.05	0.63	0.58	-0.11	-0.18	0.30	0.07	-0.07	0.22	-0.60	N.A.	95%
Oppenheimer Capital															
Minimum	1.03	-0.12	-0.12	0.04	0.04	-0.08	0.27	-0.08	-0.22	0.03	-0.04	0.24	-0.14	0.00	87%
Average	1.05	-0.03	-0.03	0.08	0.07	-0.03	0.34	0.00	-0.21	0.12	0.01	0.29	-0.08	2.99	94%
Maximum	1.07	0.03	0.06	0.15	0.09	0.05	0.39	0.05	-0.20	0.23	0.07	0.35	-0.05	9.11	97%
Bmrk. Avg.	1.00	-0.08	-0.07	-0.03	-0.04	-0.11	0.11	0.03	-0.12	-0.06	-0.17	0.06	0.05	N.A.	95%
Waddell & Reed															
Minimum	1.10	0.28	-0.30	-1.32	0.36	0.32	-0.38	-0.25	0.20	-0.24	-0.50	0.15	-0.95	0.00	51%
Average	1.20	0.77	0.36	-0.98	0.71	0.72	-0.13	-0.06	0.47	0.06	-0.22	0.29	-0.71	12.64	77%
Maximum	1.31	1.25	0.81	-0.64	1.00	1.05	0.35	0.18	0.69	0.34	0.03	0.52	-0.30	38.12	97%
Bmrk. Avg.	1.16	0.75	-0.03	-1.63	0.43	0.58	-0.23	0.14	0.46	0.13	-0.32	0.37	-0.61	N.A.	86%
Weiss Peck & Greer															
Minimum	1.21	1.33	0.06	-2.53	0.91	1.15	-0.50	-0.32	0.65	-0.31	-0.44	0.45	-1.17	4.19	97%
Average	1.25	1.38	0.43	-2.30	1.01	1.23	-0.47	-0.24	0.72	-0.27	-0.38	0.56	-1.11	8.36	98%
Maximum	1.30	1.43	0.65	-1.88	1.11	1.27	-0.41	-0.16	0.84	-0.22	-0.33	0.60	-1.05	11.54	99%
Bmrk. Avg.	1.27	1.32	0.54	-1.90	0.93	1.30	-0.44	-0.25	0.71	-0.05	-0.04	0.48	-1.15	N.A.	97%
Aggregate															
Minimum	1.09	0.26	-0.02	-0.54	0.29	0.31	-0.16	-0.28	0.14	0.00	-0.29	0.16	-0.67	N.A.	N.A.
Average	1.15	0.47	0.29	-0.37	0.45	0.48	-0.07	-0.15	0.23	0.08	-0.14	0.21	-0.54	N.A.	N.A.
Maximum	1.20	0.73	0.60	-0.22	0.67	0.64	0.05	-0.06	0.31	0.15	-0.02	0.33	-0.43	N.A.	N.A.

Bmrk. Avg. = Benchmark average.
Aggregate includes data only for active managers retained on 6/30/94.

EXTERNAL ACTIVE STOCK MANAGERS

Sector Weights
Actual Portfolio Less Benchmark Portfolio
July 1989-June 1994

	Cons. Non Dur.	Cons. Dur.	Basic Mat.	Cap. Goods	Energy	Tech.	Trans.	Util.	Finl.
Alliance Capital									
Minimum	-11.46	-2.21	-9.91	-4.62	-2.39	-12.43	-4.12	-2.56	1.13
Average	0.07	-0.99	-5.07	-1.82	1.16	-2.32	0.46	0.20	8.31
Maximum	10.87	0.55	-2.04	4.22	8.39	2.38	4.48	6.39	16.72
Bmrk. Avg.	51.29	3.75	9.27	6.38	2.21	10.25	2.16	2.92	11.77
Brinson Partners									
Minimum	-6.66	-2.49	-0.51	-2.14	-2.17	-0.26	1.27	-7.48	3.87
Average	-3.31	-0.80	1.91	-0.99	-1.64	1.00	4.34	-6.30	5.79
Maximum	0.85	1.10	3.29	0.00	-0.60	2.58	7.08	-5.48	7.45
Bmrk. Avg.	33.36	3.99	8.50	6.98	6.44	7.42	2.56	13.95	16.80
Forstmann Leff									
Minimum	-19.65	-3.85	-8.31	-5.03	-2.43	-9.77	-3.58	-5.88	-13.20
Average	-1.96	-0.64	0.01	-2.24	10.19	-4.14	-0.51	-0.67	-0.03
Maximum	16.46	9.10	21.83	2.75	28.94	2.89	6.41	8.27	8.93
Bmrk. Avg.	38.53	5.12	11.30	5.88	5.00	8.73	3.19	6.01	16.24
Franklin Portfolio									
Minimum	-8.85	-2.82	-8.15	-4.95	-4.57	-1.50	-2.68	-6.43	-2.46
Average	0.23	0.76	-2.96	-1.84	0.65	1.95	-0.54	0.05	1.70
Maximum	6.57	4.33	2.31	1.63	3.92	5.62	1.85	4.81	5.87
Bmrk. Avg.	31.38	4.39	10.91	6.08	6.01	6.17	2.66	14.52	17.87
GeoCapital Corp.									
Minimum	-6.37	-3.67	-4.63	-7.22	-7.80	-23.15	-3.07	-5.89	7.20
Average	7.10	-1.31	-1.01	-4.68	-3.64	-11.36	-1.55	-0.16	16.61
Maximum	16.17	1.07	1.25	-0.36	-0.05	-5.37	1.30	7.13	25.04
Bmrk. Avg.	55.99	2.27	3.47	5.34	3.65	15.22	1.96	5.41	6.69

Bmrk. Avg. = Benchmark average

EXTERNAL ACTIVE STOCK MANAGERS

Sector Weights Con't.
Actual Portfolio Less Benchmark Portfolio
July 1989-June 1994

	Cons. Non Dur.	Cons. Dur.	Basic Mat.	Cap. Goods	Energy	Tech.	Trans.	Util.	Finl.
Investment Advisers									
Minimum	-9.61	-0.17	-4.98	-2.87	-1.16	1.22	-3.27	-10.01	-2.67
Average	-2.08	2.01	-2.28	0.92	-0.03	7.77	-2.14	-5.94	1.76
Maximum	4.17	3.71	-0.36	9.39	2.32	10.76	-0.92	1.51	5.19
Bmrk. Avg.	38.65	5.01	8.45	7.48	3.00	4.77	2.82	11.53	18.29
IDS Advisory									
Minimum	-22.11	-2.94	-1.88	-1.21	-4.01	-4.47	-2.35	-18.28	-9.95
Average	-6.59	2.84	6.73	3.67	1.79	-0.60	2.65	-10.00	-0.49
Maximum	7.12	8.99	14.81	9.74	7.12	3.40	8.75	-2.47	10.01
Bmrk. Avg.	33.54	4.30	9.15	5.48	6.52	8.04	3.24	13.99	15.74
Independence Investment Associates									
Minimum	-4.66	-0.79	-3.17	-0.72	-2.46	-3.86	-0.38	-5.81	0.90
Average	-2.11	1.45	-1.76	1.57	0.17	-1.11	0.32	-2.09	3.56
Maximum	1.33	3.04	-0.52	4.66	2.77	1.36	1.72	2.07	5.43
Bmrk. Avg.	34.51	4.98	8.21	5.82	8.81	6.14	2.16	15.72	13.63
Jundt Associates									
Minimum	1.26	-3.97	-5.59	-3.37	-1.57	1.65	-3.61	4.12	-8.12
Average	4.68	-2.90	-4.22	-1.07	-1.30	4.82	-3.04	8.69	-5.66
Maximum	7.73	-2.08	-3.24	0.44	-0.90	7.12	-2.03	11.94	-2.42
Bmrk. Avg.	59.78	2.94	4.22	3.76	1.30	12.77	3.04	2.96	9.24
Lincoln Capital Management									
Minimum	-4.22	-0.25	-2.30	0.81	-0.47	-4.70	-0.40	-4.16	2.10
Average	-1.28	-0.10	-0.56	2.47	-0.07	-2.55	-0.23	-2.63	4.96
Maximum	1.33	0.16	1.63	4.36	-0.02	2.05	-0.02	-0.51	6.92
Bmrk. Avg.	60.83	3.05	4.98	4.95	0.07	6.17	0.23	3.83	15.91

Bmrk. Avg. = Benchmark average

EXTERNAL ACTIVE STOCK MANAGERS

Sector Weights Con't.
Actual Portfolio Less Benchmark Portfolio
July 1989-June 1994

	Cons. Non Dur.	Cons. Dur.	Basic Mat.	Cap. Goods	Energy	Tech.	Trans.	Util.	Finl.
Lynch & Mayer									
Minimum	-16.17	-1.26	-7.27	-4.04	-5.92	-7.13	-5.02	-1.57	-1.28
Average	-5.38	3.48	-3.09	3.60	1.38	-2.33	-2.65	2.11	2.88
Maximum	6.56	8.67	1.84	12.74	8.46	3.45	0.49	7.27	6.56
Bmrk. Avg.	42.41	5.16	4.93	5.24	4.12	11.06	3.53	6.90	16.65
Oppenheimer Capital									
Minimum	-0.36	-0.40	-4.53	1.86	-4.07	-3.95	-2.85	-9.11	11.27
Average	1.99	0.58	-3.19	2.39	-3.52	-3.11	-2.67	-7.50	15.03
Maximum	6.75	1.27	-1.47	3.55	-2.74	-2.29	-2.44	-5.78	17.93
Bmrk. Avg.	33.57	4.78	10.11	6.12	7.48	5.13	2.67	12.18	17.95
Waddell & Reed									
Minimum	-20.15	-6.20	-13.53	-6.97	-6.55	-8.62	-3.91	-2.02	2.80
Average	-5.04	-2.07	-4.62	-2.68	-0.09	0.79	1.57	2.58	9.56
Maximum	9.71	3.65	1.17	2.23	7.69	12.22	9.34	18.70	26.73
Bmrk. Avg.	40.44	7.42	15.31	8.79	7.66	11.02	4.69	1.19	3.47
Weiss Peck & Greer									
Minimum	-4.41	-1.41	-2.35	-3.48	-0.71	-5.02	0.15	-1.69	-0.59
Average	-0.56	0.50	-0.93	-2.69	0.95	-0.52	1.94	-0.33	1.64
Maximum	4.88	2.59	0.60	-1.24	3.12	1.96	3.27	0.80	2.65
Bmrk. Avg.	50.42	5.19	4.39	7.34	4.24	12.61	3.83	3.63	8.34
Aggregate									
Minimum	-6.86	-1.93	-3.86	-2.98	-1.11	-5.79	-3.15	-3.93	-2.88
Average	-1.10	-0.34	-1.77	-0.81	2.20	-2.17	0.18	-1.05	4.85
Maximum	6.78	1.63	3.76	2.94	9.31	0.88	2.60	3.23	9.20

Bmrk. Avg. = Benchmark average
Aggregate includes data only for active managers retained on 6/30/94.

EXTERNAL DOMESTIC STOCK MANAGERS

Quarterly Performance
July 1989-June 1994

	Alliance		Brinson		Forstmann		Franklin		GeoCapital	
	Actual	Bmrk	Actual	Bmrk	Actual	Bmrk	Actual	Bmrk	Actual	Bmrk
3Q89	15.2	10.7	Manager retained 3Q93.		9.8	7.8	11.1	7.4	Manager retained 2Q90.	
4Q89	0.3	-3.6			-2.2	-1.0	-2.5	-2.2		
1Q90	-2.6	-0.9			-2.7	-1.3	-3.2	-3.6		
2Q90	9.7	8.5			2.9	5.0	2.6	4.1	6.0	6.1
3Q90	-16.4	-18.3			-8.3	-14.6	-18.8	-17.0	-30.1	-22.3
4Q90	9.7	10.3			2.2	8.0	11.7	10.1	25.8	10.8
1Q91	17.4	17.3			19.3	15.2	17.3	17.9	30.3	24.6
2Q91	-4.3	-0.8			-1.1	0.2	-2.4	0.1	-3.9	-2.1
3Q91	10.0	5.9			11.1	5.1	5.7	6.1	17.9	10.3
4Q91	15.0	10.6			6.6	6.4	9.0	7.9	16.7	12.0
1Q92	-2.0	-3.6			-2.0	1.3	-1.7	-0.3	-3.0	-1.0
2Q92	-0.8	-1.2			-5.1	-0.9	0.3	0.4	-9.4	-9.7
3Q92	4.4	3.6			-0.4	2.1	3.9	3.7	-0.4	3.0
4Q92	9.6	10.0			12.3	7.9	9.3	9.2	16.1	18.8
1Q93	3.9	-1.0			1.0	3.3	8.5	4.9	-0.6	1.2
2Q93	-0.9	-3.1			-0.1	0.4	4.0	0.9	0.5	6.2
3Q93	5.4	2.4	2.6	4.0	6.0	2.0	5.1	4.3	10.8	9.4
4Q93	2.2	3.4	2.2	1.7	3.0	2.7	-1.2	1.8	4.5	3.5
1Q94	-4.5	-2.6	-3.4	-3.3	-3.0	-3.0	-2.2	-3.3	-2.9	-4.2
2Q94	-2.2	-1.5	2.8	-0.8	-4.6	-3.3	-1.3	-1.0	-6.9	-4.6

EXTERNAL DOMESTIC STOCK MANAGERS

Quarterly Performance Con't.
July 1989-June 1994

	IAI		IDS		Independence		Jundt		Lincoln	
	Actual	Bmrk	Actual	Bmrk	Actual	Bmrk	Actual	Bmrk	Actual	Bmrk
3Q89	Manager retained 3Q93.		15.8	8.8	Manager retained 1Q92.		Manager retained 3Q93.		Manager retained 3Q93.	
4Q89			-0.5	-0.3						
1Q90			0.3	-2.7						
2Q90			7.6	5.5						
3Q90			-19.4	-14.7						
4Q90			4.7	7.9						
1Q91			19.7	13.3						
2Q91			-1.4	-0.3						
3Q91			5.6	5.3						
4Q91			10.9	8.1						
1Q92			-0.8	1.3	-0.6*	-0.4*				
2Q92			0.1	1.3	2.9	2.4				
3Q92			2.1	3.1	2.4	3.5				
4Q92			10.1	8.3	7.2	5.7				
1Q93			4.6	4.8	5.4	5.3				
2Q93			0.8	0.7	0.3	0.1				
3Q93	9.7	5.7	3.3	4.1	4.4	2.6	2.6	4.2	0.7	0.5
4Q93	-0.2	0.9	2.9	1.8	1.4	1.9	1.1	3.0	3.3	3.3
1Q94	-2.0	-2.9	-2.6	-3.0	-3.9	-3.7	-1.0	-2.8	-3.1	-2.9
2Q94	-4.3	-0.2	-0.3	0.1	0.9	0.4	-8.2	-2.7	0.5	-0.2

* Manager retained 2/92. Therefore, only 2 months of return data are available for this quarter.

EXTERNAL DOMESTIC STOCK MANAGERS

Quarterly Performance Con't.
July 1989-June 1994

	Lynch & Mayer		Oppenheimer		Waddell & Reed		Weiss Peck & Greer		Emerging	
	Actual	**Bmrk**	**Actual**	**Bmrk**	**Actual**	**Bmrk**	**Actual**	**Bmrk**	**Actual**	**Bmrk**
3Q89	Manager retained 1Q92.		Manager retained 3Q93.		12.1	7.9	Manager retained 3Q93.		Manager group retained 2Q94.	
4Q89					-2.7	-2.5				
1Q90					-0.3	-0.3				
2Q90					5.8	3.9				
3Q90					-15.4	-17.4				
4Q90					3.3	6.9				
1Q91					14.1	18.5				
2Q91					-1.2	0.2				
3Q91					6.6	5.4				
4Q91					5.3	5.4				
1Q92	0.2*	-2.0*			3.4	3.6				
2Q92	-1.9	-2.0			-3.1	-3.4				
3Q92	3.0	4.6			4.7	2.3				
4Q92	8.7	8.6			9.4	9.9				
1Q93	4.2	2.1			1.9	3.6				
2Q93	-2.0	2.3			6.2	1.9				
3Q93	6.2	6.1	4.4	3.5	6.1	6.4	8.7	8.2		
4Q93	-2.4	1.8	0.7	0.8	-0.8	4.5	-1.8	1.7		
1Q94	-2.2	-2.3	-2.8	-2.7	1.7	-1.4	-4.3	-3.4		
2Q94	-4.1	-2.4	0.6	0.4	-4.4	-3.5	-10.8	-7.1	-2.1	-0.8

* Manager retained 2/92. Therefore, only 2 months of return data are available for this quarter.

EXTERNAL DOMESTIC STOCK MANAGERS

Quarterly Performance Con't.
July 1989-June 1994

	Wilshire Actual	Wilshire Bmrk	Aggregate*	Market Index Wilshire 5000	Market Index Wilshire 5000 Adj.**
3Q89	9.7	10.1	10.5%	10.1%	10.0%
4Q89	0.6	0.6	-0.2	0.6	0.6
1Q90	-3.5	-3.5	-3.0	-3.5	-3.4
2Q90	5.4	5.5	5.6	5.5	5.3
3Q90	-15.2	-15.1	-16.0	-15.2	-15.5
4Q90	8.4	8.7	7.9	8.7	8.6
1Q91	15.6	15.6	16.5	16.5	16.3
2Q91	0.2	0.2	-0.8	-0.3	-0.3
3Q91	5.7	5.8	6.7	6.4	6.2
4Q91	8.2	8.0	9.0	8.7	8.5
1Q92	-1.1	-0.9	-1.1	-1.3	-1.1
2Q92	0.9	1.0	-0.6	-0.1	0.0
3Q92	2.5	2.5	2.5	3.1	3.1
4Q92	6.2	6.3	8.0	7.3	7.2
1Q93	5.1	5.1	4.4	4.3	4.1
2Q93	0.7	1.0	0.6	0.9	0.7
3Q93	3.1	3.0	4.1	3.9	3.7
4Q93	1.7	2.2	1.4	2.0	2.1
1Q94	-4.2	-4.2	-3.5	-3.8	-3.8
2Q94	0.3	0.3	-1.1	-0.9	-0.9

* Aggregate performance numbers include returns of any managers retained during the time period shown but subsequently terminated by the Board.

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

EXTERNAL DOMESTIC STOCK MANAGERS

Annualized Performance Summary
Periods Ending June 30, 1994

	1 Year		2 Years		3 Years		5 Years	
	Actual	**Benchmark**	**Actual**	**Benchmark**	**Actual**	**Benchmark**	**Actual**	**Benchmark**
Active Managers								
Alliance	0.5%	1.5%	8.8%	5.3%	13.3%	7.3%	13.1%	8.3%
Brinson	4.2	1.4	Manager retained 7/1/93.					
Forstmann Leff	0.9	-1.6	6.7	6.0	7.8	8.1	8.3	8.2
Franklin	0.2	1.6	13.3	10.3	13.4	11.7	10.3	9.6
GeoCapital	4.6	3.5	10.0	16.6	13.5	14.5	Manager retained 4/1/90.	
IAI	2.6	3.3	Manager retained 7/1/93.					
IDS Advisory	3.2	2.8	10.6	10.1	12.4	12.3	12.0	10.4
Independence	2.6	1.1	9.1	7.9	Manager retained 2/1/92.			
Jundt	-5.7	1.6	Manager retained 7/1/93.					
Lincoln	1.3	0.6	Manager retained 7/1/93.					
Lynch & Mayer	-2.7	3.0	5.4	10.5	Manager retained 2/1/92.			
Oppenheimer	2.9	1.9	Manager retained 7/1/93.					
Waddell & Reed	2.2	5.9	12.6	12.1	12.5	11.8	10.1	9.8
Weiss Peck & Greer	-9.0	-1.2	Manager retained 7/1/93.					
Emerging Managers*	-2.1	1.0	Managers retained 4/1/94.					
Passive Manager								
Wilshire Associates	0.8	1.1	7.8	8.1	9.8	10.2	9.6	10.0
Aggregate**	**0.7%**		**8.2%**		**10.2%**		**9.6%**	
Capital Markets Data								
Wilshire 5000	1.0%	---	8.4%	---	10.2%	---	10.1%	---
Wilshire 5000 Adj.***	0.9	---	8.2	---	10.0	---	9.8	---
91-Day Treasury Bills	3.3	---	3.2	---	3.7	---	5.2	---
Inflation	2.5	---	2.7	---	2.9	---	3.6	---

* Emerging Managers were retained on 4/1/94. Data is for one quarter only.

** Aggregate of all active and passive managers retained during the time period shown.

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

Bond Manager Portfolio Characteristics Glossary

The bond manager portfolio statistics glossary is designed to define terminology the State Board of Investment uses in evaluating a bond manager's investment philosophy, risk characteristics and performance data. The definitions refer to categories shown in the Portfolio Characteristics table that follows this glossary.

Average Quality Weightings (Avg. Qual.)
Refers to the average rating given the total portfolio's securities by Moody's Corp. A security's rating indicates the financial strength of its issuer and other factors related to the likelihood of full and timely payment of interest and principal.

Bond Allocation (Bond Alloc.)
The percent of the manager's total portfolio invested in bonds.

Coupon
The annual interest payment received on the manager's total portfolio stated as a percent of the portfolio's face value.

Current Yield (Cur. Yield)
The annual interest payment produced by the manger's total portfolio stated as a percent of the portfolio's market value.

Duration
A measure of the average life of the total portfolio. Duration is a weighted average maturity where the time in the future that each cash flow is received is weighted by the proportion that the present value of the cash flow contributes to the total present value (or price) of the total portfolio.

Number of Issues (# of Issues)
The number of different bond issues held in the manager's portfolio.

Quarterly Turnover (Qtr. T/O)
The manager's total bond sales during the quarter divided by the average value of the manager's bond portfolio over the quarter.

Term to maturity (Term. to Mat.)
A measure of the average life of the total portfolio. Term to maturity is the number of years remaining until the average bond in the portfolio makes its final cash payment.

Yield to Maturity (Yield to Mat.)
The compounded annualized return that the manager's total portfolio would produce if it were held to maturity and all cash flows were reinvested at an interest rate equal to the yield to maturity.

EXTERNAL ACTIVE BOND MANAGERS
Portfolio Characteristics
July 1989 - June 1994

	Qtr T/O	#Of Issues	Bond Alloc.	Coupon	Yield To Mat.	Avg. Qual.	Dur.	Term To Mat.
BEA Associates*								
Minimum	99	54	90%	2.86%	6.00%	AAA	5.77%	9.30 Yrs.
Average	188	107	95	6.33	6.25	AAA	4.73	8.75
Maximum	367	149	97	7.83	7.00	AAA	5.08	8.84
IDS Advisory*								
Minimum	5	21	76	6.01	6.00	AAA	5.47	9.54
Average	19	22	86	6.61	6.25	AAA	6.56	12.10
Maximum	35	22	96	7.13	7.00	AAA	7.87	14.94
Investment Advisers								
Minimum	2	11	87	5.51	5.57	AAA	5.77	9.30
Average	44	23	98	7.01	7.39	AAA	6.57	13.93
Maximum	185	54	100	8.82	9.00	AAA	7.08	19.77
Miller Anderson								
Minimum	7	55	89	4.70	6.00	AA	5.16	9.40
Average	54	100	97	9.21	8.09	AAA	6.46	10.92
Maximum	96	231	100	21.08	9.70	AAA	7.00	16.10
Standish, Ayer & Wood*								
Minimum	38	96	100	6.14	5.90	AAA	5.15	8.10
Average	107	144	100	8.43	6.94	AAA	5.43	8.51
Maximum	257	180	100	10.68	7.72	AAA	5.70	8.97
TCW*								
Minimum	1	21	6	6.99	7.33	AAA	3.62	7.07
Average	69	31	74	7.31	7.89	AAA	4.42	7.96
Maximum	209	36	100	7.64	9.23	AAA	4.97	8.76
Western								
Minimum	19	46	80	5.25	5.50	AA	4.74	8.74
Average	66	80	94	7.55	7.59	AA	5.43	14.63
Maximum	111	162	100	8.90	9.16	AA	6.10	18.40
Salomon BIG**								
Minimum				7.37	5.48	AAA	4.39	7.32
Average				8.43	7.50	AAA	4.63	8.99
Maximum				9.04	9.19	AAA	5.16	9.84

* Manager retained as of 7/1/93. Data covers period from 7/1/93 - 6/30/94 only.

** Salomon Broad Investment Grade Bond Index

EXTERNAL ACTIVE BOND MANAGERS

Sector Weights

July 1989 - June 1994

(In Percentages)

	Treas	Agcy	Total Govt	Ind	Util	Fin	Tran	Total Corp	Mtgs	Misc	Cash
BEA Associates*											
Minimum	27	2	29	4	0	5	0	27	19	0	3
Average	31	3	33	6	2	7	0	34	30	0	5
Maximum	34	4	36	9	3	8	0	45	38	0	10
IDS Advisory*											
Minimum	51	6	56	4	5	6	0	19	0	0	4
Average	54	11	62	7	6	7	0	21	0	0	14
Maximum	62	14	76	12	7	8	0	25	0	0	24
Investment Advisors											
Minimum	32	9	50	0	0	0	0	0	0	0	0
Average	51	16	67	1	0	6	0	10	19	1	2
Maximum	64	23	18	4	3	15	0	24	28	20	13
Miller Anderson											
Minimum	5	0	5	1	0	5	0	9	34	0	0
Average	25	3	28	6	0	9	1	17	46	4	3
Maximum	40	7	44	10	3	18	2	29	60	11	11
Standish, Ayer & Wood*											
Minimum	4	0	4	11	0	10	0	46	23	0	0
Average	14	2	16	16	0	13	0	58	28	0	0
Maximum	30	3	33	23	0	14	0	66	32	0	0
TCW*											
Minimum	0	0	0	0	0	0	0	0	89	0	0
Average	0	0	0	0	0	0	0	0	96	0	4
Maximum	0	0	0	0	0	0	0	0	100	0	11
Western											
Minimum	6	5	12	10	3	3	0	22	17	3	0
Average	20	8	29	20	8	8	0	36	23	7	6
Maximum	33	13	42	26	19	16	1	49	39	17	20
Salomon BIG*											
Minimum			52					18	26		
Average			53					18	29		
Maximum			55					19	30		

Abbreviations:

Treas	Treasuries	Fin	Financials
Agcy	Government agencies	Tran	Transportation
Ind	Industrials	Mtgs	Mortgages
Util	Utilities	Misc	Miscellaneous or other

* Manager retained as of 7/1/93. Data covers period from 7/1/93 - 6/30/94 only.

** The Salomon Broad Investment Grade (BIG) Bond Index categorizes the index according to Government, Corporate, and Mortgage securities only.

EXTERNAL BOND MANAGERS

Quarterly Performance
July 1989-June 1994

	BEA		IDS		IAI		Miller Anderson		Standish	
	Actual	**Bmrk**	**Actual**	**Bmrk**	**Actual**	**Bmrk**	**Actual**	**Bmrk**	**Actual**	**Bmrk**
3Q89	Manager retained 3Q93.		Manager retained 3Q93.		0.4	0.9	0.4	1.0	Manager retained 3Q93.	
4Q89					4.2	3.9	3.4	3.7		
1Q90					-2.7	-1.2	-0.7	-0.8		
2Q90					4.0	3.6	3.8	3.6		
3Q90					-0.6	0.8	-0.5	1.0		
4Q90					7.0	5.4	6.1	5.1		
1Q91					2.4	2.3	3.2	2.6		
2Q91					1.2	1.6	1.7	1.8		
3Q91					7.0	6.0	7.3	5.7		
4Q91					6.0	5.0	7.2	5.0		
1Q92					-2.7	-1.2	-2.3	-1.2		
2Q92					4.4	4.1	4.1	4.1		
3Q92					5.9	4.3	4.1	4.3		
4Q92					0.2	0.3	1.3	0.3		
1Q93					5.3	4.2	4.5	4.2		
2Q93					3.8	2.8	3.9	2.8		
3Q93	3.0	2.6	4.3	3.4	3.7	2.6	3.5	2.6	3.0	2.6
4Q93	0.2	0.0	-0.9	-0.3	-0.6	0.0	-0.3	0.0	0.1	0.0
1Q94	-3.0	-2.8	-3.4	-3.1	-3.5	-2.8	-2.9	-2.8	-3.3	-2.8
2Q94	-1.4	-1.0	-1.1	-1.2	-1.7	-1.0	-2.0	-1.0	-1.2	-1.0

EXTERNAL BOND MANAGERS

Quarterly Performance Con't.
July 1989-June 1994

	TCW		Western		Fidelity		Goldman		Lincoln	
	Actual	Bmrk	Actual	Bmrk	Actual	Bmrk	Actual	Bmrk	Actual	Bmrk
3Q89	Manager retained 3Q93.		1.8	1.0	1.2	1.0			1.3	1.0
4Q89			3.5	3.6	3.7	3.7			3.5	3.7
1Q90			-1.4	-0.4	-0.6	-0.8			-0.7	-0.8
2Q90			3.7	3.7	3.6	3.6			3.5	3.6
3Q90			0.1	0.8	0.8	1.0			0.9	1.0
4Q90			5.5	4.8	5.2	5.1			5.3	5.1
1Q91			3.4	3.0	3.3	2.6			2.6	2.6
2Q91			1.9	2.0	1.8	1.8			1.6	1.8
3Q91			6.3	5.8	5.7	5.7			5.6	5.7
4Q91			5.4	5.0	5.1	5.0			5.3	5.0
1Q92			-0.6	-1.2	-1.0	-1.2			-1.2	-1.2
2Q92			3.8	4.1	3.8	4.1			3.9	4.1
3Q92			4.0	4.3	4.5	4.3			4.5	4.3
4Q92			0.9	0.3	0.3	0.3			0.3	0.3
1Q93			5.2	4.2	4.4	4.2			4.3	4.2
2Q93			4.0	2.8	2.9	2.8			2.7	2.8
3Q93	2.9	0.9	3.9	2.6	3.0	2.6	2.8	2.6	2.6	2.6
4Q93	0.1	0.9	0.4	0.0	0.3	0.0	0.3	0.0	0.1	0.0
1Q94	-1.7	-2.1	-3.3	-2.8	-2.5	-2.8	-2.6	-2.8	-2.6	-2.8
2Q94	-5.7	-0.5	-2.1	-1.0	-0.8	-1.0	-0.9	-1.0	-1.1	-1.0

EXTERNAL BOND MANAGERS

Quarterly Performance Con't.
July 1989-June 1994

	Aggregate*	Market Index** Salomon BIG
3Q89	1.2	1.0
4Q89	3.5	3.7
1Q90	-1.0	-0.8
2Q90	3.6	3.6
3Q90	0.5	1.0
4Q90	5.4	5.1
1Q91	3.0	2.6
2Q91	1.7	1.8
3Q91	6.0	5.7
4Q91	5.5	5.0
1Q92	-1.3	-1.2
2Q92	3.9	4.1
3Q92	4.4	4.3
4Q92	0.5	0.3
1Q93	4.6	4.2
2Q93	3.2	2.8
3Q93	3.2	2.6
4Q93	0.1	0.0
1Q94	-2.8	-2.8
2Q94	-1.5	-1.0

* Aggregate performance numbers include returns of any managers retained during the time periods shown but subsequently terminated by the Board.

** Customized benchmarks were used prior to 10/91 when the benchmark changed to the Salomon Broad Investment Grade Bond Index.

EXTERNAL BOND MANAGERS

Annualized Performance Summary
Periods Ending June 30, 1994

	1 Year		2 Years		3 Years		5 Years	
	Actual	**Benchmark**	**Actual**	**Benchmark**	**Actual**	**Benchmark**	**Actual**	**Benchmark**
Active Managers								
BEA Associates	-1.2%	-1.2%	Manager retained 7/1/93.					
IDS Advisory	-1.2	-1.3	Manager retained 7/1/93.					
Investment Advisers	-2.2	-1.2	6.5	5.2	9.3	8.2	8.8	8.5
Miller Anderson	-1.7	-1.2	6.1	5.2	9.6	8.1	9.3	8.6
Standish Ayer & Wood	-1.5	-1.2	Manager retained 7/1/93.					
TCW	-4.6	-0.9	Manager retained 7/1/93.					
Western	-1.2	-1.2	6.5	5.2	9.5	8.1	9.5	8.7
Semi-Passive Managers								
Fidelity Management	-0.1	-1.2	6.0	5.2	8.6	8.1	9.1	8.6
Goldman Sachs	-0.4	-1.2	Manager retained 7/1/93.					
Lincoln Capital	-1.1	-1.2	5.4	5.2	8.2	8.1	8.6	8.6
Aggregate*	**-1.1%**		**5.9%**		**8.7%**		**8.9%**	
Capital Markets Data								
Salomon BIG Index**	-1.2%	---	5.2%	---	8.1%	---	8.6%	---
91 Day Treasury Bills	3.3	---	3.2	---	3.7	---	5.2	---
Inflation	2.5	---	2.7	---	2.9	---	3.6	---

* Aggregate of all active and semi-passive managers retained during the time period shown.

** Salomon Broad Investment Grade Bond Index.

Statistical Data

External International Stock Managers
Quarterly Performance
October 1992 - June 1994

	Baring	Brinson	Marathon	Rowe	Scudder	Templeton	State Street	Aggregate	EAFE**
4Q92							-3.7	-3.8	-3.9
1Q93							11.9	11.9	12.0
2Q93	5.0	2.7					9.4	8.1	10.1
3Q93	6.6	4.7					7.1	6.8	6.6
4Q93	13.6	2.8	-0.3*	7.5*	4.9*	1.6*	0.9	4.0	0.9
1Q94	-3.6	-0.2	9.8	-2.6	-3.3	1.3	3.3	1.6	3.5
2Q94	3.7	2.9	5.4	0.9	1.6	0.3	5.4	4.0	5.1

* November and December only. Not a full quarter.
** Morgan Stanley Capital International Index of Europe, Australia and the Far East (EAFE)

External International Stock Managers
Annualized Performance
October 1992 - June 1994

	Year Ending 6/30/94		Since Inception		
	Actual	**Benchmark***	**Actual**	**Benchmark***	
Active Managers					
Baring	21.1%	17.0%	21.2%	22.4%	Since 4/1/93
Brinson	10.4	17.0	10.6	22.4	Since 4/1/93
Marathon	15.4	6.4	15.4	6.4	Since 11/1/93
Rowe	5.7	6.4	5.7	6.4	Since 11/1/93
Scudder	3.1	6.4	3.1	6.4	Since 11/1/93
Templeton	3.2	6.4	3.2	6.4	Since 11/1/93
Passive Manager					
State Street	17.7	17.0	20.6	20.5	Since 10/1/92
International Segment	**17.3**	**17.0**	**19.5**	**20.5**	**Since 10/1/92**

* Morgan Stanley Capital International Index of Europe, Australia and the Far East (EAFE) for the corresponding period

ALTERNATIVE ASSETS

Summary of Commitments
As of June 30, 1994

	Total Fund Size (Millions)	SBI Inception Date	SBI Commitment	SBI Funded	SBI To Be Funded	Fund Description
Real Estate						
Aetna 13354*	$1,230	6/93	$ 2,376,529	$ 2,376,529	$ 0	Open End
Aetna	1,230	4/82	40,000,000	40,000,000	0	Open End
AEW III	103	9/85	20,000,000	20,000,000	0	Closed End
AEW IV	100	9/86	17,400,000	15,000,000	2,400,000	Closed End
AEW V	82	12/87	15,000,000	15,000,000	0	Open End
American Republic*	0	1/90	1	1	0	Closed End
Arch Street Corp.**	157	7/93	10,000,000	10,000,000	0	Closed End
Equitable	3,000	10/81	40,000,000	40,000,000	0	Open End
First Asset Realty*	53	4/94	907,097	907,097	0	Closed End
Heitman I	113	8/84	20,000,000	20,000,000	0	Closed End
Heitman II	238	11/85	30,000,000	30,000,000	0	Closed End
Heitman III	200	2/87	20,000,000	20,000,000	0	Closed End
Heitman V	127	12/91	20,000,000	20,000,000	0	Closed End
LaSalle	76	9/91	15,000,000	6,554,461	8,445,539	Closed End
Paine Webber*	124	2/90	500,000	500,000	0	Closed End
Realty Assoc. Fund III	346	6/94	40,000,000	11,800,000	28,200,000	Closed End
RREEF	773	5/84	75,000,000	75,000,000	0	Closed End
TCW III	216	8/85	40,000,000	40,000,000	0	Closed End
TCW IV	250	11/86	30,000,000	30,000,000	0	Closed End
Zell/Merrill Lynch II	430	11/91	50,000,000	37,482,546	12,517,454	Closed End
Zell/Merrill Lynch III	682	1/94	50,000,000	8,800,000	41,200,000	Closed End
Resource						
AMGO I	$144	9/81	15,000,000	15,000,000	0	Debt with Equity
AMGO II	36	2/83	7,000,000	7,000,000	0	Debt with Equity
AMGO IV	75	5/88	12,300,000	12,300,000	0	Debt with Equity
AMGO V	85	5/90	16,800,000	15,925,203	874,797	Debt with Equity
Apache III	190	12/86	30,000,000	30,000,000	0	Net Profits Interest
Morgan Oil & Gas	135	8/88	15,000,000	13,799,697	1,200,303	Debt with Equity
Simmons OFS	100	8/91	17,000,000	9,769,717	7,230,283	Debt with Equity

* Received from Police and Fire Fund consolidations

** Received Post Retirement Fund

ALTERNATIVE ASSETS

Summary of Commitments
As of June 30, 1994

	Total Fund Size (Millions)	SBI Inception Date	SBI Commitment	SBI Funded	SBI To Be Funded	Fund Description
Private Equity						
Allied	$ 40	9/85	$ 5,000,000	$ 5,000,000	$ 0	Later Stage
Bank Fund III	125	10/92	20,000,000	11,000,000	9,000,000	Later Stage
Blackstone II	1,040	11/93	50,000,000	3,521,089	46,478,911	LBO
Brinson	50	5/88	5,000,000	5,000,000	0	Secondary Interests
Brinson II	110	11/90	20,000,000	14,000,000	6,000,000	Secondary Interests
Churchill II	150	10/92	20,000,000	8,200,000	11,800,000	Later Stage
Coral I	36	6/86	6,645,000	6,645,000	0	Early Stage
Coral Partners I*	36	4/94	515,972	515,972	0	Early Stage
Coral II	64	7/90	10,000,000	7,000,000	3,000,000	Early Stage
DSV	60	4/85	10,000,000	10,000,000	0	Early Stage
First Century	100	12/84	10,000,000	10,000,000	0	Early Stage
Golder Thoma III	225	10/87	14,000,000	12,605,000	1,395,000	Later Stage
Golder Thoma IV	300	4/93	20,000,000	2,600,000	17,400,000	Later Stage
IAI Ventures I*	50	3/91	500,000	500,000	0	Early Stage
IAI Ventures I*	50	4/94	722,828	722,828	0	Early Stage
IMR Partnership	500	8/92	30,000,000	1,176,900	28,823,100	LBO
Inman/Bowman	44	6/85	7,500,000	7,500,000	0	Early Stage
KKR 1984 Fund	1,000	6/84	25,000,000	25,000,000	0	LBO
KKR 1986 Fund	2,000	4/86	18,365,339	18,365,339	0	LBO
KKR 1987 Fund	5,600	11/87	145,950,000	145,950,000	0	LBO
KKR 1991 Fund	1,900	5/91	150,000,000	2,534,000	147,466,000	LBO
Matrix II	70	8/85	10,000,000	10,000,000	0	Early Stage
Matrix III	80	5/90	10,000,000	8,750,000	1,250,000	Early Stage
Norwest	60	1/84	10,000,000	10,000,000	0	Later Stage
Summit I	93	12/84	10,000,000	10,000,000	0	Later Stage
Summit II	230	5/88	30,000,000	28,865,455	1,134,545	Later Stage
T. Rowe Price	---	11/87	55,993,313	55,993,313	0	IPO Manager
Zell/Chilmark	1,000	7/90	30,000,000	22,156,573	7,843,427	Restructuring
			SUMMARY			
Real Estate Totals			$ 536,183,627	$ 443,420,634	$92,762,993	
Private Equity Totals			725,192,452	443,601,469	281,590,983	
Resource Totals			113,100,000	103,794,617	9,305,383	
Grand Total			**$1,374,476,079**	**$990,816,720**	**$383,659,359**	

* Received from Police and Fire Fund consolidations

Time-Weighted Rate of Return

In measuring the performance of a manager or fund whose investment objective is to maximize the total value of an investment portfolio, the proper measuring tool is the time-weighted total rate of return. This performance measure includes the effect of income earned as well as realized and unrealized portfolio market value changes. In addition, the time-weighted total rate of return nets out the influence of contributions made to and distributions taken from the manager or fund. These are variables over which the manager or fund generally has no control.

The calculation of a portfolio's true time-weighted return requires that the portfolio be valued every time that there is a capital flow in or out. Because most portfolios are not valued that frequently, it is usually necessary to estimate the time-weighted total rates of return by approximating the required valuations.

In 1968, the Bank Administration Institute (BAI) commissioned a study, conducted by the University of Chicago, which considered desirable methods of estimating time-weighted returns. The BAI report is considered to be the definitive work in the field of performance measurement because of the academic reputations and thorough scientific efforts of its authors.

When monthly data are available, the BAI study recommends employing a technique called the linked internal rate of return (LIRR). State Street Bank, the SBI's performance measurement consultant, calculates the LIRR by solving the following equation for R:

$$VB * (1 + R) + \sum_{i=1}^{n} C_i * (1 + R)^{ti} = VE$$

Where:

VB = Value of the fund at the beginning of the month

VE = Value of the fund at the end of the month

C_i = Net cash flow on the ith day of the month

n = Number of cash flows in the month

R = Internal rate of return

ti = Time from cash flow i to the end of the period, expressed as a percentage of the total number of days in the month

The internal rate of return, R, is a proxy for the true time-weighted return over the month. It approximates the interim valuations by assuming a uniform growth of the invested assets throughout the period.

The IRR's calculated for each month can be linked together to estimate the time-weighted return for a longer period. For example, given three consecutive monthly IRR's (R1, R2, and R3), the quarterly time-weighted return (TWRQ) is:

$$TWRQ = (1 + R1)*(1 + R2)*(1 + R3) - 1$$

State Street's performance methodology is also in compliance with the mandatory requirements of the Association for Investment Management and Research (AIMR).

Calculation of January 1, 1995 Benefit Increase

Actuarially valued required reserves at Jan. 1, 1995	$ 8,109,543,000
Less: Reserves not eligible for increase	438,948,000
Actuarially determined eligible reserves at Jan. 1, 1995	7,670,595,000
FY94 CPI inflation rate capped at 3.5%	2.400%
Dollar cost of inflationary increase	184,094,280
June 30, 1994 total required reserves	8,377,632,000
June 30, 1994 total required reserves adjusted for inflationary increase	8,561,726,280
Market value of Assets at June 30, 1994	8,961,833,533
Less: Inflation adjusted required reserves	8,561,726,280
Current year excess market value	400,107,253
Negative balance carry forward	831,221,056
Excess market value available for investment based benefit increase	-431,113,803
Divided by 5 year pay out period	5
Current year portion of excess market value	-86,222,761
Second year portion	207,805,264
Third year portion	0
Fourth year portion	0
Fifth year portion	0
Total five year excess market value	121,582,503
Cost of transition adjustment	57,529,463
Greater of current year excess market value or cost of transition adjustment	121,582,503
Divided by eligible required reserves at Jan. 1, 1995	7,670,595,000
Investment based increase for FY94	1.5850%
Summary:	
Investment Based Benefit Increase	**1.5850%**
Inflation Based Benefit Increase	**2.4000%**
Total Benefit Increase	**3.9850%**
Total Dollar Value of January 1, 1995 Benefit Increase	**$ 305,676,783**

Commissions and Trading Volume

By Broker for Fiscal Year 1994

Broker	Stock $ Volume	Stock $ Commissions	Bond $ Volume	Bond $ Commissions	Short Term $ Volume
ABN AMRO Securities	$ 1,843,509	$ 5,514	$ 0	$ 0	$ 0
Abner Herrman & Brock	3,029,460	1,800	0	0	0
Adams Harkness & Hill	13,039,655	7,452	0	0	0
Adler, Coleman & Co.	1,105,163	1,440	0	0	0
Advest Co.	811,577	2,490	0	0	0
Aisel & Co.	0	0	0	0	81,345
Alfred Berg	5,905,368	26,892	0	0	0
Allen & Company	591,430	1,050	0	0	0
Alpha Management Inc.	24,856,312	44,104	0	0	0
American Express Credit	0	0	0	0	67,531,169
Ames (A.E.) & Co.	1,612,675	0	0	0	0
Amivest Corp.	105,752	144	0	0	0
Andrew T. Love	0	0	342,589	0	0
Anvil Inst.	5,370,946	5,915	0	0	0
ANZ	668,018	3,228	0	0	0
Arbor Trad.	0	0	60,550,368	0	0
Arbour Securities Inc.	0	0	4,127,500	0	0
Arnhold	12,686,574	12,031	0	0	0
Asia Equity	118,326	0	0	0	0
Asiel & Co.	775,035	0	0	0	0
Assoc Corp of N Amer	0	0	0	0	165,762,875
Atrium Group	0	0	20,966,399	9,947	0
Auerbach Pollak & Rich	1,062,457	1,878	0	0	0
Autranet	31,989,349	49,348	46,374,364	7,636	0
B.V. Capital Markets	2,392,850	7,144	0	0	0
Bacot Allan	7,270,837	1,001	0	0	0
Bafcm B.D.A. Greenwich Cap.	0	0	182,277,060	0	0
Bain Securities	5,994,795	29,762	0	0	0
Bangkok Investment Co.	24,483	0	0	0	0
Bank Mees En Hope	908,505	2,715	0	0	0
Bank of America	0	0	9,963,753	0	0
Bank of NY Securities Inc.	848,750	0	1,428,120	0	0
Bank Sarasin	1,330,724	3,977	0	0	0
Bank Vontobel	310,834	1,083	0	0	0
Bankers Trust	375,284	1,862	0	0	0
Banque Paribas	12,566,638	37,251	0	0	0
Banque Scandinave	5,081,704	7,549	0	0	0
Barclays American Corp.	8,125	0	10,272,148	0	0
Barclays Dezoete Wedd	9,723,638	39,594	0	0	0
Baring Securities	8,182,768	30,975	0	0	0
Barrington Trading Co.	0	0	40,003,906	0	0
Baum George K. & Co.	791,616	1,004	0	0	0
Bayerische Vereinsbk	5,425,582	16,197	0	0	0
Beal M R & Co.	0	0	9,420,593	0	0
Bear Stearns Technical Data	0	0	3,609,375	0	0
Bear, Stearns & Co.	394,739,163	449,185	1,993,542,777	0	0
Bell Securities	0	0	718,732	0	0
Ben Redfield	0	0	19,579,028	0	0
Beneficial Corp.	0	0	0	0	15,900,200
Bergen Bank	1,136,169	4,527	0	0	0
Berliner Bank	698,717	2,089	0	0	0
Bernstein Sanford	88,774,224	126,416	0	0	0
BHF Securities	2,033,364	2,633	0	0	0
Blair & Company	40,506,233	43,462	0	0	0
Blauner Securities	0	0	331,650	0	0
BNP Securities	448,587	895	0	0	0
Brad Perry Inc.	442,921	222	0	0	0
Branch & Co.	0	0	4,996,875	0	0
Brandt (Robert) & Co.	37,988,929	50,146	0	0	0

Commissions and Trading Volume Con't.

By Broker for Fiscal Year 1994

Broker	Stock $ Volume	Stock $ Commissions	Bond $ Volume	Bond $ Commissions	Short Term $ Volume
Bridge Trading Co.	$ 47,287,365	$ 71,696	$ 399,750	$ 500	$ 0
Broadcort Capital	306,633,808	475,507	3,252,299	0	0
Brockhouse & Cooper	111,151	332	0	0	0
Brown (Alex) & Sons Inc.	125,548,946	85,818	100,942,189	12,500	0
Brown Bros. Harriman	15,035,517	21,919	60,089,853	0	0
BT Securities Corp.	162,572,147	40,858	707,321	0	122,454,342
Bunting Warvurger Sec.	3,741,262	11,384	0	0	0
Burns Fry & Timmins	7,499,306	22,143	0	0	0
Bursamex	921,555	3,672	0	0	0
BZW Secs	13,227,357	42,606	16,203,969	0	0
C.L. King & Assoc.	1,877,453	6,170	0	0	0
C.N.C.A.	0	0	258,296	0	0
Canada Trust	0	0	13,276,250	0	0
Cantor Fitzgerald	353,342,164	373,414	23,402,064	0	0
Capel, James	23,303,504	91,312	0	0	0
Capital Inst. Services	14,622,766	19,213	0	0	0
Carnegie	4,408,262	13,872	5,773,239	0	0
Carr & Thomson Inc.	106,313	0	0	0	0
Carroll McEntee & MCG	0	0	11,775,547	0	0
Cazenove & Co.	26,074,499	85,088	41,514	41	0
Cedar Street Consultants	47,190	390	0	0	0
Chapman Company	156,200	200	0	0	0
Charterhouse Tilney	1,980,473	4,914	0	0	0
Chase Govt. Sec. Inc.	0	0	9,957,813	0	83,000,000
Chase Manhattan Bank	0	0	7,780,311	0	0
Chase Securities Inc.	0	0	90,518,070	0	2,524,937,544
Chemical Bank	0	0	359,374,277	0	16,614,479
Chemical Securities Inc.	0	0	54,724,219	0	134,327,351
Cheuvreux	2,593,862	5,789	0	0	0
Chicago Corp.	8,264,903	4,718	0	0	0
Ciatation Financial	662,126	1,129	0	0	0
CIBC/Wood Gundy	0	0	0	0	90,050,368
CIMO Spa Milan	6,420,086	23,763	0	0	0
CIT Group Holdings	0	0	0	0	109,732,158
Citibank	0	0	181,662,106	0	0
Citicorp	0	0	1,025,331	0	0
Citicorp Securities Inc.	0	0	28,453,711	0	152,212,822
CK Wong	0	0	18,864,660	0	0
CL Glazer Inc.	16,477,487	19,123	0	0	0
Clearing Services of America	174,592	192	0	0	0
Cleary Gull Reiland	5,765,853	6,450	0	0	0
Coleman & Co.	0	0	12,452,344	0	0
Commercial Credit Co.	0	0	0	0	29,784,900
Commerzbank Ag	150,828	454	0	0	0
Concorde	722,941	1,574	0	0	0
Conning & Company	2,383,601	4,692	0	0	0
Continental Bank (CHI)	0	0	686,600	0	0
Continental Ill Bank & Trust	0	0	633,440	0	0
County Asia	2,634,650	415	0	0	0
County Natwest Sec. Corp. USA	142,549,402	241,902	24,408,891	0	0
County Securities	354,623	1,759	0	0	0
Covato Lipsitz Inc.	274,050	300	0	0	0
Cowen & Co.	78,698,404	84,329	30,348,743	0	0
Craig-Hallum Inc.	0	0	336,927	250	0
Credit Lyonnais	15,628,658	54,267	0	0	0
Credit Suisse	488,984	2,045	0	0	0
Cronin & Co. Inc.	0	0	1,688,061	0	0
Crosby Securities	4,914,673	30,734	40,502	402	0
CRT Govt. Securities LTD.	0	0	30,905,982	0	0
Crutteden Gust & Merh.	194,175	1,550	0	0	0

Statistical Data

Commissions and Trading Volume Con't.

By Broker for Fiscal Year 1994

Broker	Stock $ Volume	Stock $ Commissions	Bond $ Volume	Bond $ Commissions	Short Term $ Volume
Cyrus J. Lawrence	$ 34,268,202	$ 56,430	$ 1,977,813	$ 0	$ 0
D.A. Campbell	3,925,450	0	0	0	0
DAI ICHI Securities	17,341,670	39,438	0	0	0
Dain Bosworth Inc.	58,831,882	42,961	56,510,679	9,700	0
Daiwa Sec. America	2,787,225	7,401	15,726,869	0	0
Dakin Securities	0	0	1,000,000	0	0
Davis	2,683,221	2,964	0	0	0
DBS Securities	818,434	5,725	0	0	0
Dean Witter Reynolds	30,797,088	39,652	40,773,349	0	2,398,000,000
Deere & Company	0	0	0	0	34,241,000
Deutsche Bank Govt. Sec. Inc.	14,181,810	25,714	4,959,375	0	0
Dillon, Read	24,733,552	43,239	212,561,691	0	575,000,000
Discount Brokerages	0	0	22,505,578	0	0
Discount Corp. (N.Y.)	0	0	390,815,993	0	120,000,000
DLJ Fixed Income	0	0	947,243,908	0	0
Dominick & Dominick	17,230,358	22,199	0	0	0
Dominion Bank	0	0	2,250,000	0	0
Donaldson Lufkin	10,314,928	12,545	235,800,107	7,500	18,140,000,000
Doyle, Paterson, & Brown	6,416,663	19,428	0	0	0
Edwards & Co.	0	0	3,495,587	0	0
Edwards A.G. & Sons	3,926,967	7,526	22,698,427	20,676	0
Enskilda Securities	12,119,009	35,823	0	0	0
Eppler	573,580	1,400	0	0	0
Equitable Securities	4,421,435	3,402	0	0	0
Equity Securities Trading	479,688	0	0	0	0
Eqyptian Financial Corp.	0	0	416,083	0	0
Ernst & Co.	12,103,128	16,398	0	0	0
Euromobiliare	1,223,161	4,174	0	0	0
Execution Services Inc.	6,243,272	9,030	0	0	0
F&G Inversiones Bursatiles	2,143,094	12,382	0	0	0
Factset Data	21,622,888	37,305	0	0	0
FC Financial	7,978,791	13,956	0	0	0
FG Securities	989,191	7,365	0	0	0
FIBA Nordic Sec.	915,324	1,972	0	0	0
Fidelity C	34,642,273	64,862	0	0	0
Financial Clearing	61,629	434	0	0	0
First Albany	1,624,598	1,639	0	0	0
First Bank Capital Mkts.	0	0	4,095,609	0	0
First Bank Nat'l Assn.	0	0	2,210,378	0	0
First Boston Corporation	295,626,583	339,073	2,676,707,081	0	859,086,200
First Chicago Cap. Mkts. Inc.	0	0	6,663,436	0	0
First Chicago Corp.	0	0	3,300,000	0	0
First Manhattan Company	13,262,699	18,337	0	0	0
Five Three Securities Corp.	0	0	3,098,068	0	0
Fledgling Securities	3,988,646	31,640	0	0	0
Fleming (Robert) Inc.	768,000	0	0	0	0
Ford Financial Services	0	0	0	0	160,149,040
Forenede Funds	0	0	11,087	110	0
Fox Pitt Kelton Inc.	10,250,926	11,539	0	0	0
Frank Russel	2,745,705	3,758	0	0	0
Friedman, Billings & Ramsey	5,800,360	0	0	0	0
Friend (L.H.) & Co.	1,879,760	595	0	0	0
Furman Selz Mager	24,354,922	23,405	448,000	0	0
G. K. GOH	406,025	3,077	0	0	0
GBM Grupo	58,903	235	0	0	0
Gena, New	843,959	676	0	0	0
General Elec. Capital Corp.	0	0	0	0	2,707,704,477
General Motors Acceptance	0	0	91,400,000	0	9,649,434,953
Genesis	508,000	0	0	0	0
Gilder Gagnon	2,539,670	3,366	0	0	0

Commissions and Trading Volume Con't.

By Broker for Fiscal Year 1994

Broker	Stock $ Volume	Stock $ Commissions	Bond $ Volume	Bond $ Commissions	Short Term $ Volume
Gold Feedman & Co.	$ 0	$ 0	$ 2,942,578	$ 0	$ 0
Golden Harris	0	0	258,531	0	0
Goldman Sachs & Company	385,689,737	349,652	5,865,162,553	194,387	201,863,630
Goodrich Securities	2,949,546	2,885	0	0	0
Greenwich Capital Markets Inc.	0	0	2,159,705,763	0	2,472,000,000
Grigsby Branford	0	0	1,983,620	0	0
Gruntal & Company	20,369,194	22,627	0	0	0
Grupo Bursatil	4,696	19	0	0	0
Grupo Moneda	37,994	170	0	0	0
GX Clarke	0	0	15,205,363	0	0
H Lunden	2,323,508	9,257	0	0	0
Hall Inter	14,518,106	7,255	0	0	0
Hambrecht & Quist	260,848	0	0	0	0
Hamilton Investments	1,411,937	3,220	0	0	0
Hanifin	436,141	490	0	0	0
Heller Capital Mkts Group Inc.	0	0	0	0	133,744,506
Herbert H. Wigh & Co.	0	0	45,175,000	0	0
Herzog Heine Gedvid	22,154,637	950	0	0	0
Hoare Govett	8,325,378	26,346	0	0	0
Hoenig & Co.	8,166,748	19,375	0	0	0
Household International	0	0	0	0	60,173,847
Huntleigh Securities Corp.	146,250	0	0	0	0
IBES	743,245	580	0	0	0
IMI Securities	3,952,462	0	0	0	0
Imibank AG	769,813	0	0	0	0
Ingalls & Snyder	2,493,043	2,825	0	0	0
Instinet	1,113,140,484	616,018	0	0	0
Internal Swap Broker	0	0	50,131	0	0
Interstate	29,888,048	50,051	1,113,530	0	0
Invemed Associates	2,565,490	4,200	0	0	0
Inverlat Intl.	680,798	3,403	0	0	0
Investment Technology	3,913,514	934	0	0	0
Investment Technology Corp.	2,136,408,387	1,334,207	0	0	0
ISI Group	19,508,823	26,595	12,356,719	0	0
J C Bradford & Co.	6,126,000	0	1,475,000	0	0
J. P. Morgan & Co.	992,338	1,983	22,907,215	0	0
J.P. Morgan Securities Inc.	37,636,461	28,922	734,427,772	0	123,203,361
J. B. Were & Son	3,026,666	13,964	0	0	0
Jackson Securities	502,467	570	0	0	0
Janney Montgomery Scott	5,415,750	6,107	1,030,672	0	0
Jardine Fleming	24,392,434	99,822	0	0	0
Jean Pierre Pinatton	1,486,336	446	0	0	0
Jefferies & Co.	368,338,743	550,587	149,658	0	0
Jensen Securities	190,870	120	0	0	0
John Hancock	25,275	150	6,333,659	0	0
Johnson Rice & Co.	440,652	1,640	0	0	0
Jones & Associates	9,809,328	8,192	0	0	0
Josephthal & Co.	1,826,157	1,705	0	0	0
KALB Voorhis & Co.	1,069,096	9,480	0	0	0
Kankaku Securities	6,419,246	23,359	0	0	0
KAS Associates	130,904	0	0	0	0
Keefe Bruyette & Wood	4,441,353	7,301	18,108,326	0	0
Kempen & Co.	2,654,319	7,922	0	0	0
Kemper Cap.	6,530,506	12,753	0	0	0
Kemper Securities Inc.	0	0	12,858,603	0	0
Kidder Peabody	128,892,061	155,542	1,242,416,141	12,250	2,384,059,057
KIM. Eng. Sec.	1,114,878	1,041	0	0	0
Kimball & Cross	0	0	1,917,759	0	0
Kinnard (John G.) & Co.	4,536,192	13,823	0	0	0
Kleinworth Benson Inc.	35,153,838	112,934	0	0	0

Commissions and Trading Volume (Con't)

By Broker for Fiscal Year 1994

Broker	Stock $ Volume	Stock $ Commissions	Bond $ Volume	Bond $ Commissions	Short Term $ Volume
LA Branche & Co.	$ 0	$ 0	$ 14,736,885	$ 0	$ 0
Laidlaw AD	391,158	558	0	0	0
Lamberson Knight	0	0	3,899,309	0	77,593,951
Lancer Securities	225,416	1,520	0	0	0
Lanston Co.	0	0	84,995,194	0	0
Lazard Freres & Co.	2,261,649	1,885	9,644,165	0	0
Legg Mason	1,301,467	1,972	0	0	0
Lehman Brothers Inc.	488,756,519	548,768	5,133,067,613	15,000	724,198,907
Lehman Govt. Securities	0	0	2,103,318,227	0	2,280,561,238
Lentz Newton & Co.	0	0	160,504	0	0
Lewco Securities Inc.	177,118,232	264,872	32,550	0	0
Lewis	0	0	32,059,340	0	0
Libra Securities	703,631	1,755	0	0	0
Lipper Analytical Dist	4,909,128	9,490	0	0	0
Louis Pauls & Co.	0	0	1,781,796	0	0
Lynch, Jones & Ryan	133,288,013	195,101	124,921,974	0	0
Mabon Nugent & Co.	12,211,224	15,147	5,254,839	0	0
Macquarie Equities	137,673	683	0	0	0
Maxwell Y Espinosa	5,249,767	10,437	0	0	0
Mayer & Schweitzer Inc.	10,357,070	0	0	0	0
McDonald & Company	1,829,221	890	29,854,776	0	0
McIntosh & Co.	10,258,569	50,392	0	0	0
McLeod Scottia	0	0	1,092,493	0	0
Meespierson	618,510	3,113	0	0	0
Merban Corp.	0	0	326,438	0	0
Merrill Lynch P F & S	578,360,213	703,553	4,157,760,567	0	86,817,185
Merrion Group	0	0	6,080,625	0	0
Mesirow and Company	6,426,338	12,872	0	0	0
MGF Securities	0	0	209,487	0	0
MHT Brokers	0	0	3,301,900	0	0
Midland Walwyn	2,228,852	7,453	0	0	0
Model Roland & Company	0	0	132,055	0	0
Montgomery Securities	146,875,211	171,443	1,434,641	0	0
Moran & Co.	151,665	300	0	0	0
Morgan Guaranty	4,751,395	2,220	49,723,554	0	0
Morgan Kegan Inc.	16,050,230	39,237	0	0	0
Morgan Stanley & Co.	576,697,122	944,166	1,229,973,274	0	173,980,708
Murphy & Duriem	0	0	665,722	0	0
Murphy, Marseilles, Smith & NA	4,331,879	6,985	0	0	0
Mutual of Omaha Inv. Corp.	0	0	5,504,401	0	0
National Financial	3,088,916	3,320	0	0	0
Nations Bank	0	0	60,641,188	0	40,000,000
Nationsbanc Capital Mkts Inc.	0	0	38,933,359	0	1,788,486,194
Nationsbank	0	0	4,998,047	0	1,296,000,000
Natwest Securities	3,934,990	11,075	0	0	0
Nesbitt Thomson Sec.	8,452,100	16,891	0	0	0
Neuberger & Berman	32,704,161	40,681	0	0	0
New Japan Securities	2,648,544	8,204	0	0	0
Newbridge Securities	1,479,526	700	0	0	0
Nikko Securities	3,687,988	10,003	28,043,281	0	2,795,219,101
Nippon Kangyo	156,108	294	0	0	0
Nomura Securities Intl	25,720,079	9,784	20,217,293	0	1,850,000,000
Norwest Bank MN	0	0	0	0	10,000,000
Norwest Financial Inc.	0	0	0	0	14,913,586
Norwest Investment Serv. Inc.	0	0	12,987,922	3,188	327,798,640
Not Applicable	273,533,942	0	2,411,207,020	0	15,746,211
Nuntius	872,030	5,128	0	0	0
Oppenheimer & Co.	75,480,407	102,814	0	0	0
ORD Minnett	18,430,310	79,855	0	0	0
ORO Financial	304,192	192	0	0	0

Commissions and Trading Volume Con't.

By Broker for Fiscal Year 1994

Broker	Stock $ Volume	Stock $ Commissions	Bond $ Volume	Bond $ Commissions	Short Term $ Volume
Pacific Brokerage SE	$ 1,006,316	$ 1,572	$ 135,634,375	$ 0	$ 0
Pacific CR	124,992	192	0	0	0
Paine Webber Inc.	1,120,397	1,596	80,995,042	0	10,776,300,000
Paine Webber J & C	327,914,820	476,126	452,708,848	20,100	0
Panmure Gordon	2,332,323	5,794	0	0	0
Paribas Co.	10,822,551	5,130	8,509,298	0	0
Pasfin	2,292,528	9,133	0	0	0
Paul D Speer & Assoc.	0	0	9,190,148	0	0
Pauli & Co.	59,865	0	0	0	0
Paulsen, Dowling	663,263	350	0	0	0
Peregrine Securities	13,296,268	45,716	0	0	0
Pershing	174,810,408	171,382	1,941,420,924	0	0
Peterbroeck	601,370	1,903	0	0	0
Phillips & Drew	5,948,659	19,779	0	0	0
Pictet & Co.	1,055,142	0	0	0	0
Pierson Sal Oppenheim	2,249,308	7,361	0	0	0
Piper Jaffray & Hop B	2,879,072	9,190	13,668,059	6,000	0
Piper Jaffray Inc.	3,727,759	8,270	27,409,720	0	0
Piper, Jaffray & Hop S	67,319,291	43,731	0	0	0
Prudential	3,647,000	7,397	30,973,750	0	0
Prudential Funding Corp.	0	0	0	0	94,429,472
Prudential Securities Inc.	151,526,069	192,571	336,094,017	41,770	5,173,000,000
Pryor McClendon	2,879,632	3,133	14,312,331	0	0
Punk Ziege	8,318,749	4,273	0	0	0
Pyramid Funds Corp.	0	0	43,973,656	17,167	0
R S F Partners	0	0	102,007	0	0
Raffensperger Hughes	512,756	375	0	0	0
RAS Securities	65,000	0	0	0	0
Rashid Hussain	7,519,154	37,353	0	0	0
Rauscher P	1,180,123	1,929	0	0	0
Raymond James & Associates	5,286,807	10,315	8,110,125	0	0
RBC Dominion Securities	2,586,701	3,829	0	0	0
Realty Securities	0	0	5,082,019	0	0
Reinheimer Nordberg	1,145,778	1,176	0	0	0
Republic Natl. Bank N.Y.	464,822	234	0	0	0
Reynders Gray & Co.	1,618,267	7,399	13,204,688	0	0
Richardson Securities	351,827	906	0	0	0
Robert Fleming	8,878,287	23,762	0	0	0
Robert W. Baird & Co.	29,660,860	17,852	0	0	0
Robertson Colman & Stephens	32,504,785	11,968	527,175	0	0
Robinson-Humphrey Co.	17,456,012	20,494	0	0	0
Rochdale Securities Corp.	16,119,864	26,829	0	0	0
Rodman & Renshaw	0	0	14,984,477	0	0
Roulston & Company	915,719	1,750	0	0	0
S B C I	9,529	0	0	0	0
Salomon Brothers	441,970,920	679,364	10,702,946,978	35,000	55,122,488
Sanwa-BGK	0	0	275,192,978	0	3,812,684
Sarasin Securities	4,661,870	2,333	0	0	0
SBL Planning Group	0	0	20,862,405	0	0
Schroder Munchmeyer	6,552,941	26,030	0	0	0
Schroder Securities	1,153,776	3,555	0	0	0
Schroeder BK & TR	690,939	2,056	0	0	0
Scotia McLeod	3,112,476	10,150	0	0	0
Scott & Stringfellow	743,545	670	0	0	0
SEI Funds Evaluation	36,158,918	44,865	0	0	0
Sellier S.A.	745,564	1,562	0	0	0
Shearson Argus Research	1,568,699	3,116	0	0	0
Shearson Lehman (Bondstat)	2,073,372	14,434	9,211,732	0	0
Shearson Lehman Amer. Express	0	0	493,563,059	0	0
Shearson Lehman Hutton Intl	266,910	401	5,397,005	0	0

Commissions and Trading Volume Con't.

By Broker for Fiscal Year 1994

Broker	Stock $ Volume	Stock $ Commissions	Bond $ Volume	Bond $ Commissions	Short Term $ Volume
Sherwood Securities	$ 2,798,508	$ 280	$ 0	$ 0	$ 0
Singer & Friedlander	1,602,208	0	0	0	0
Singleton Mortland & Wellinton	0	0	15,296,984	0	0
Smith Barney & Company	42,946,997	44,584	572,699,975	0	252,998,658
Smith Jacobs & Co.	0	0	66,350,055	0	0
Smith New Court	29,555,445	41,191	0	0	0
Societe General	7,020,397	27,114	0	0	0
Soundview	35,302,184	24,543	0	0	0
Southcoast Capital Corp.	2,567,761	6,393	0	0	0
Spear, Leeds & Kellogg	0	0	105,778	0	0
Speer Rees & Co.	0	0	169,702	0	0
Spencer Swain & Co.	0	0	4,015,798	0	0
Ssangyong Investments	522,900	0	0	0	0
Standard & Poor Securities	70,497,836	105,307	0	0	0
Standard Chatered Bank	200,531	1,984	0	0	0
State ST BK & Trust	436,588,790	372	64,307,477	0	21,059,966,998
Stephens Inc.	382,500	0	0	0	0
Stirling	0	0	0	0	0
Sun Hung Kai	275,750	1,370	0	0	0
Sutro and Company Inc.	12,422,796	19,433	0	0	0
Swift Henke & Co.	0	0	508,090	0	0
Swiss American Securities Inc.	363,202	1,086	0	0	0
Swiss Bank	2,113,122	7,009	560,731	0	0
Systech Real Estate Sec. Corp.	0	0	16,876,913	0	0
Tachibank Securities	165,114	520	0	0	0
Thamesway Secs	2,320,999	4,571	0	0	0
Tiedemann	3,544,069	7,157	0	0	0
Tokyo Securities	1,870,977	4,969	0	0	0
Tonge Co.	0	0	176,086	0	0
Tucker Anthony (L. Bailey)	11,875	0	0	0	0
Tucker Anthony Inc.	0	0	6,153,280	0	0
Tucker, Anthony & R. L. Day, In	7,753,391	10,365	11,585,234	0	0
Tullet & Tokyo Forex Inc.	0	0	0	0	39,448,232
UBS Securities	374,933	1,862	391,190,573	0	0
UBS-DB Corporation	61,000,011	106,851	1,376,247,553	0	0
UBSSC-UBS	0	0	5,962,049	0	0
Unibank	1,717,107	5,136	0	0	0
Unibors	723,330	3,599	0	0	0
United Securities	0	0	11,004,280	0	0
Utendahl	0	0	10,184,269	0	0
Valores Finamex	783,912	3,900	0	0	0
Van Kasper	1,975	0	0	0	0
Vector Securities Inc.	5,096,515	5,771	0	0	0
Vilas & Hickey	0	0	4,229,563	0	0
Volpe Welt	2,253,781	1,250	0	0	0
Vontobel	1,051,426	3,664	0	0	0
W. I. Carr	6,045,379	33,497	0	0	0
Wagner Stott & Co.	1,878,823	3,200	0	0	0
Wainwright Securities	410,576	700	0	0	0
Wako Securities	306,881	1,558	0	0	0
Warburg S. G.	79,080,635	151,635	14,899,373	0	0
Weeden & Company	242,945,464	246,916	0	0	0
Weiss	111,038,385	350,775	0	0	0
Were Capital Markets	79,494	396	0	0	0
Wertheim & Co.	274,801	822	0	0	0
Wertheim Schroder & Co. Inc.	1,910,606	5,013	0	0	0
Wessels, Arnold	41,846,714	21,663	0	0	0
Westcap Securities	0	0	3,330,569	0	0
Western Reserve Fin. Services	0	0	268,391	0	0
Westminster	91,530	900	0	0	0

Statistical Data

Commissions and Trading Volume Con't.

By Broker for Fiscal Year 1994

Broker	Stock $ Volume	Stock $ Commissions	Bond $ Volume	Bond $ Commissions	Short Term $ Volume
Wheaton First Securities Inc.	$ 5,820,031	$ 3,256	$ 0	$ 0	$ 0
William Simon Municiple Securities	0	0	4,390,695	0	0
Wilshire Associates	11,773,351	16,928	0	0	0
Wood Gundy & Company	1,494,393	3,292	0	0	0
Woodmere Securities	367,952	918	0	0	0
Yamaichi	11,052,302	33,852	0	0	0
Yamaichi Intl. (Amer) Inc.	857,296	5,504	0	0	0
Broker not available*	4,355,481,775	278,609	6,356,234,805	0	3,958,417,006
All Brokers Combined	**$16,915,013,719**	**$14,241,923**	**$57,718,745,495**	**$439,311**	**$132,513,082,643**

* Includes transactions where broker data was incomplete.

Note: Totals may not add due to rounding.

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STATE OF MINNESOTA
OFFICE OF THE LEGISLATIVE AUDITOR
CENTENNIAL BUILDING, ST. PAUL, MN 55155 • 612/296-4708
JAMES R. NOBLES, LEGISLATIVE AUDITOR

Independent Auditor's Report

The State Board of Investment
and
Howard J. Bicker, Executive Director

We have audited the accompanying financial statements of the Supplemental Retirement Fund and the Post Retirement Investment Fund which constitute the Investment Trust Funds of the State of Minnesota as of and for the year ended June 30, 1994, as shown on pages 98 to 104. These financial statements are the responsibility of the State Board of Investment's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted government auditing standards. 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 provides a reasonable basis for our opinion.

The financial statements present only the Investment Trust Funds of the State of Minnesota and are not intended to present fairly the financial position and results of operations of the State Board of Investment or the State of Minnesota in conformity with generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the net assets and participation of the Investment Trust Funds of the State of Minnesota at June 30, 1994, and the results of their operations and changes in their net assets for the year then ended, in conformity with generally accepted accounting principles.

Our audit was made for the purpose of forming an opinion on the financial statements taken as a whole. The combining financial statements and supporting schedules on pages 105 to 144 are presented for the purposes of additional analysis and are not a required part of the Investment Trust Funds of the State of Minnesota. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

James R. Nobles
Legislative Auditor

John Asmussen, CPA
Deputy Legislative Auditor

December 1, 1994

STATE BOARD OF INVESTMENT
INVESTMENT TRUST FUNDS
STATEMENT OF ASSETS AND LIABILITIES
JUNE 30, 1994
AMOUNTS IN (000)'S

	SUPPLEMENTAL INVESTMENT FUND TOTAL(5)	POST RETIREMENT INVESTMENT FUND (6)
ASSETS:		
Investments (at market value) (3)		
Common Stock	$ 311,677	$ 5,397,063
Alternative Equities	0	0
Fixed Income Securities	181,306	3,220,900
Short Term Securities	82,796	153,713
Total Investments (4)	$ 575,779	$ 8,771,676
Cash	0	0
Security Sales Receivable	0	0
Accounts Receivable-Fee Refunds	0	148,350
Accounts Receivable-Mortality	0	35,178
Accounts Receivable-Participants	0	9,913
Accrued Interest	1,761	0
Accrued Dividends	0	0
Accrued Short Term Gain	267	357
TOTAL ASSETS	$ 577,807	$ 8,965,474
LIABILITIES:		
Management Fees Payable	111	3,640
Security Purchases Payable	0	0
Accounts Payable-Participants	0	0
Accounts Payable-Mortality	0	0
TOTAL LIABILITIES	$ 111	$ 3,640
NET ASSETS AT JUNE 30, 1994	$ 577,696	$ 8,961,834

STATE BOARD OF INVESTMENT
INVESTMENT TRUST FUNDS
STATEMENT OF CHANGES IN NET ASSETS
YEAR ENDED JUNE 30, 1994
AMOUNTS IN (000)'S

	SUPPLEMENTAL INVESTMENT FUND TOTAL		POST RETIREMENT INVESTMENT FUND	
FROM INVESTMENT ACTIVITY:				
Net Investment Income	$	40,896	$	616,617
Realized Gains (Losses)		9,672		703,505
Unrealized Gains (Losses)		(39,590)		(1,200,414)
TOTAL INCOME	$	10,978	$	119,708
Less Distribution To Participant Accounts		(10,977)		(366,728)
Undistributed Dedicated Income		0		0
Net Change In Undistributed Income	$	1	($	247,020)
FROM PARTICIPANT TRANSACTIONS:				
Additions To Participant Accounts				
Participant Contributions		42,673		1,298,326
Income Distribution		10,978		366,728
Income To Be Distributed		0		0
Total Additions	$	53,651	$	1,665,054
Deductions From Participant Accounts				
Withdrawals		74,799		725,433
Total Deductions	$	74,799	$	725,433
Net Change In Participation	($	21,148)	$	939,621
TOTAL CHANGE IN ASSETS	($	21,147)	$	692,601
NET ASSETS:				
Beginning Of Period		598,843		8,269,233
End Of Period	$	577,696	$	8,961,834

STATE BOARD OF INVESTMENT
INVESTMENT TRUST FUNDS
STATEMENT OF OPERATIONS
YEAR ENDED JUNE 30, 1994
AMOUNTS IN (000)'S

	SUPPLEMENTAL INVESTMENT FUND TOTAL	POST RETIREMENT INVESTMENT FUND
INVESTMENT INCOME:		
Interest	$ 12,220	$ 191,666
Dividends	25,667	426,975
Short Term Gains	3,158	11,699
Income Before Expenses	$ 41,045	$ 630,340
Management Fees	149	13,723
NET INCOME	$ 40,896	$ 616,617
REALIZED AND UNREALIZED GAIN (LOSS) ON INVESTMENTS		
Realized:		
Proceeds From Sales	$ 81,941	$ 6,948,324
Cost Of Securities Sold	72,269	6,244,819
Net Realized Gain (Loss)	$ 9,672	$ 703,505
Unrealized:		
Beginning Of Period	78,671	689,304
End Of Period	39,082	(511,110)
Increase (Decrease) In Unrealized Appreciation	($ 39,589)	($ 1,200,414)
NET REALIZED AND UNREALIZED GAIN (LOSS) ON INVESTMENTS	($ 29,917)	($ 496,909)

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 1994

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial Reporting Entity and Basis of Presentation: This report includes financial statements for the Investment Trust Funds of the State of Minnesota, which are administered by the State Board of Investment under authority of ***Minnesota Statutes*** **Chapter 11A**. The Investment Trust funds include the Supplemental Retirement Fund and the Post Retirement Investment Fund.

The financial statements presented for these funds are based on the preferred accounting practices described in the **American Institute of Certified Public Accountants** audit guide, **"Audits of Investment Companies"**. These practices, and the significant accounting policies which follow, conform with generally accepted accounting principles.

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.

Risk Categories: At June 30, 1994, all investments of the Investment Trust Funds and pooled investment accounts are insured or registered, or are held by the state or its agent in the state's name. The state's investment risk for repurchase agreements is reduced by a State Board of Investment policy which limits transactions to those with primary government securities dealers whose net excess capital is greater than $200,000,000.

Security Valuation: All securities are valued at market except for U.S. Government short-term securities and commercial paper, which are valued at market less accrued interest. Accrued short-term interest is recognized as income as part of "Short-Term Gain". For long-term fixed income securities the State Board uses the Merrill Lynch valuation system. This pricing service is capable of providing prices for both actively traded and privately placed bonds. For equity securities the State Board uses a valuation service provided by Financial Control Systems, Inc.

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

Income Recognition: Dividend income is recorded on the ex-dividend date. 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".

Loaning Securities: Certain U.S. Government and Government Agency securities are loaned out by the State Board to banks and brokers for additional income. Collateral in the amount of 100% of the market value of the security loaned is required.

2. PORTFOLIO LISTING

Asset listings summarizing the securities held by these funds can be found starting on page 130 of this report. A complete listing is available by contacting the State Board's office. Fixed income and equity securities are presented at market value.

3. COST OF INVESTMENTS

At June 30, 1994, the cost of investments for the Investment Trust Funds was:

Supplemental Investment Fund	$ 536,696,598
Post Retirement Fund	$ 9,282,786,493

4. LOANED SECURITIES

The market value of loaned securities outstanding at June 30, 1994 was:

Supplemental Investment Fund	$	20,972,696
Post Retirement Fund	$	-0-

5. SUPPLEMENTAL INVESTMENT FUND

The Supplemental Investment Fund serves as an investment vehicle for the various state and locally administered pension plans. During Fiscal Year 1994 the fund included six separate accounts with different investment objectives. Financial information on the individual accounts is shown on pages 106 to 117 of this report. Participation in the Supplemental Investment Fund accounts is determined in accordance with various statutory requirements.

6. POST RETIREMENT INVESTMENT FUND

The Post Retirement Fund serves as an investment vehicle for the Defined Benefit Pension Funds of the State of Minnesota. The fund invests amounts certified by the various pension funds as reserves required for the payment of retirement benefits. Assets of the Post Retirement Fund are held in custody at State Street Bank in Boston.

Participation in the Post Retirement Investment Fund is equal to the actuarially determined required reserves for retirement benefits as of June 30, 1994. It includes a 5% assumed income distribution, in accordance with *Minnesota Statutes* Section 11A.18, and any mortality gains or losses as determined by an independent actuary hired by the State Legislature.

***Laws of Minnesota 1992*, Chapter 530** changed the formula used to calculate post retirement benefit increases. The new formula contains both an inflation adjustment and an investment component and became effective for benefit increases granted January 1, 1994.

Pursuant to ***Minnesota Statutes* Section 11A.18, Subdivision 9**, the inflation increase is based on the change during the Fiscal Year in the *Consumer Price Index for urban wage earners and clerical workers all items index published by the Bureau of Labor Statistics of the United States Department of Labor.* In addition to the inflation based increase, a portion of the June 30, 1994 net market value in excess of Required Reserves is available for distribution as an investment based benefit increase to pension fund participants in January 1995.

The benefit increase is stated as a percentage of eligible required reserves. In accordance with statutory provisions, the amount available for the benefit increase is certified to each participating pension fund for distribution to eligible individuals. Annuitants and other individuals receiving benefits at May 31, 1994 are eligible to receive the January 1, 1995 benefit increase.

Inflation Based Benefit Increase	2.400%
Investment Based Benefit Increase	1.585%
Total Benefit Increase	**3.985%**

7. POOLED INVESTMENT ACCOUNTS

The State Board of Investment manages ten pooled investment accounts for the Investment Trust Funds, the Supplemental Investment Fund and the Defined Benefit Pension Funds of the State of Minnesota. The assets of the pooled accounts are held by our master custodian, State Street Bank of Boston. Financial information on these pooled accounts is shown on pages 118 to 129 of this report.

8. SOUTH AFRICA POLICY

At its October 27, 1993 meeting the Minnesota State Board of Investment adopted a resolution rescinding all prior restrictions related to investing in companies doing business in South Africa.

STATE BOARD OF INVESTMENT
MINNESOTA INVESTMENT TRUST FUNDS
SCHEDULE OF PARTICIPATION
JUNE 30, 1994
AMOUNTS IN (000)'S

	SUPPLEMENTAL INVESTMENT FUND TOTAL	POST RETIREMENT INVESTMENT FUND
Teacher's Retirement Fund	$ 0	$ 3,492,525
Public Employees Retirement Fund	0	2,770,552
State Employees Retirement Fund	0	1,265,096
Public Employees Police & Fire Fund	0	301,732
Public Employees Consolidation Fund	0	330,939
Highway Patrolmen's Retirement Fund	0	118,567
Legislators & Survivors Retirement Fund	0	13,181
Correctional Employees Retirement Fund	0	44,186
Judges Retirement Fund	0	40,854
Income Share Account	280,297	0
Growth Share Account	101,710	0
Money Market Account	59,795	0
Common Stock Index Account	47,474	0
Bond Market Account	20,701	0
Fixed Interest Account	67,722	0
TOTAL PARTICIPATION	$ 577,699	$ 8,377,632
Adjustments		
Unrealized Appreciation (Depreciation) of Investments	0	(511,110)
Undistributed Earnings	(3)	1,095,312
NET ASSETS	$ 577,696	$ 8,961,834

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SUPPLEMENTAL FINANCIAL STATEMENTS

STATE BOARD OF INVESTMENT
MINNESOTA SUPPLEMENTAL INVESTMENT FUND
COMBINING STATEMENT OF ASSETS AND LIABILITIES
JUNE 30, 1994
AMOUNTS IN (000)'S

	INCOME SHARE ACCOUNT	GROWTH SHARE ACCOUNT
ASSETS:		
Investments (at market value) (2)		
Common Stock	$ 168,907	$ 95,294
Alternative Equities	0	0
Fixed Income Securities	93,183	0
Short Term Securities	16,714	6,479
Total Investments (3)	$ 278,804	$ 101,773
Cash	0	0
Security Sales Receivable	0	0
Accounts Receivable-Fee Refunds	0	0
Accounts Receivable-Mortality	0	0
Accounts Receivable-Participants	0	0
Accrued Interest	1,451	0
Accrued Dividends	0	0
Accrued Short Term Gain	55	20
TOTAL ASSETS	$ 280,310	$ 101,793
LIABILITIES:		
Management Fees Payable	13	83
Security Purchases Payable	0	0
Accounts Payable-Participants	0	0
Options Premiums Received	0	0
TOTAL LIABILITIES	$ 13	$ 83
NET ASSETS AT JUNE 30, 1994	$ 280,297	$ 101,710

MONEY MARKET ACCOUNT	STOCK INDEX ACCOUNT	BOND MARKET ACCOUNT	FIXED INTEREST ACCOUNT	SUPPLEMENTAL INVESTMENT FUND TOTAL
$ 0	$ 47,476	$ 0	$ 0	$ 311,677
0	0	0	0	0
0	0	20,710	67,413	181,306
59,603	0	0	0	82,796
$ 59,603	$ 47,476	$ 20,710	$ 67,412	$ 575,778
0	0	0	0	0
0	0	0	0	0
0	0	0	0	0
0	0	0	0	0
0	0	0	0	0
0	0	0	310	1,761
0	0	0	0	0
192	0	0	0	267
$ 59,795	$ 47,476	$ 20,710	$ 67,722	$ 577,806
1	3	9	1	110
0	0	0	0	0
0	0	0	0	0
0	0	0	0	0
$ 1	$ 3	$ 9	$ 1	$ 110
$ 59,794	$ 47,473	$ 20,701	$ 67,721	$ 577,696

STATE BOARD OF INVESTMENT
MINNESOTA SUPPLEMENTAL INVESTMENT FUND
COMBINING STATEMENT OF CHANGES IN NET ASSETS
YEAR ENDED JUNE 30, 1994
AMOUNTS IN (000)'S

	INCOME SHARE ACCOUNT	GROWTH SHARE ACCOUNT
FROM INVESTMENT ACTIVITY:		
Net Investment Income	$ 22,773	$ 7,106
Realized Gains (Losses)	9,534	0
Unrealized Gains (Losses)	(28,105)	(6,638)
TOTAL INCOME	$ 4,202	$ 468
Less:		
Distribution To Participant Accounts	(4,202)	(468)
Undistributed Dedicated Income	0	0
Net Change In Undistributed Income	$ 0	$ 0
FROM PARTICIPANT TRANSACTIONS:		
Additions To Participant Accounts		
Participant Contributions	18,536	7,172
Income Distribution	4,202	468
Income To Be Distributed	0	0
Total Additions	$ 22,738	$ 7,640
Deductions From Participant Accounts		
Withdrawals	49,839	3,931
Total Deductions	$ 49,839	$ 3,931
Net Change In Participation	($ 27,101)	$ 3,709
TOTAL CHANGE IN ASSETS	($ 27,101)	$ 3,709
NET ASSETS:		
Beginning Of Period	307,398	98,001
End Of Period	$ 280,297	$ 101,710

MONEY MARKET ACCOUNT	STOCK INDEX ACCOUNT	BOND MARKET ACCOUNT	FIXED INTEREST ACCOUNT	SUPPLEMENTAL INVESTMENT FUND TOTAL
$ 2,093	$ 3,693	$ 1,125	$ 4,106	$ 40,896
0	78	60	0	9,672
0	(3,214)	(1,633)	0	(39,590)
$ 2,093	$ 557	($ 448)	$ 4,106	$ 10,978
(2,093)	(557)	448	(4,105)	(10,977)
0	0	0	0	0
$ 0	$ 0	$ 0	$ 1	$ 1
2,181	11,143	3,482	159	42,673
2,093	558	(448)	4,105	10,978
0	0	0	0	0
$ 4,274	$ 11,701	$ 3,034	$ 4,264	$ 53,651
11,043	486	1,633	7,867	74,799
$ 11,043	$ 486	$ 1,633	$ 7,867	$ 74,799
($ 6,769)	$ 11,215	$ 1,401	($ 3,603)	($ 21,148)
($ 6,769)	$ 11,215	$ 1,401	($ 3,602)	($ 21,147)
66,562	36,259	19,300	71,323	598,843
$ 59,793	$ 47,474	$ 20,701	$ 67,721	$ 577,696

STATE BOARD OF INVESTMENT
MINNESOTA SUPPLEMENTAL INVESTMENT FUND
COMBINING STATEMENT OF OPERATIONS
YEAR ENDED JUNE 30, 1994
AMOUNTS IN (000)'S

	INCOME SHARE ACCOUNT	GROWTH SHARE ACCOUNT
INVESTMENT INCOME:		
Interest	$ 6,973	$ 0
Dividends	15,000	6,969
Short Term Gains	833	226
Income Before Expenses	$ 22,806	$ 7,195
Management Fees	33	89
NET INCOME	$ 22,773	$ 7,106
REALIZED AND UNREALIZED GAIN (LOSS) ON INVESTMENTS		
Realized:		
Proceeds From Sales	$ 51,850	$ 0
Cost Of Securities Sold	42,316	0
Net Realized Gain (Loss)	$ 9,534	$ 0
Unrealized:		
Beginning Of Period	59,581	12,706
End Of Period	31,476	6,068
Increase (Decrease) in Unrealized Appreciation	($ 28,105)	($ 6,638)
NET REALIZED AND UNREALIZED GAIN (LOSS) ON INVESTMENTS	($ 18,571)	($ 6,638)

MONEY MARKET ACCOUNT	STOCK INDEX ACCOUNT	BOND MARKET ACCOUNT	FIXED INTEREST ACCOUNT	SUPPLEMENTAL INVESTMENT FUND TOTAL
$ 0	$ 0	$ 1,135	$ 4,112	$ 12,220
0	3,698	0	0	25,667
2,098	0	0	0	3,157
$ 2,098	$ 3,698	$ 1,135	$ 4,112	$ 41,044
5	5	10	6	148
$ 2,093	$ 3,693	$ 1,125	$ 4,106	$ 40,896
$ 0	$ 490	$ 1,635	$ 27,966	$ 81,941
0	412	1,575	27,966	72,269
$ 0	$ 78	$ 60	$ 0	$ 9,672
0	5,728	657	0	78,672
0	2,514	(976)	0	39,082
$ 0	($ 3,214)	($ 1,633)	$ 0	($ 39,590)
$ 0	($ 3,136)	($ 1,573)	$ 0	($ 29,918)

STATE BOARD OF INVESTMENT
MINNESOTA SUPPLEMENTAL INVESTMENT FUND
SCHEDULE OF PARTICIPATION
JUNE 30, 1994
AMOUNTS IN (000)'S

	INCOME SHARE ACCOUNT	GROWTH SHARE ACCOUNT	MONEY MARKET ACCOUNT
Community College	$ 35,711	$ 14,228	$ 1,939
Community College (IRA)	281	40	49
Fire Relief Associations	14,252	715	178
Hennepin County Supplemental Retirement	32,155	12,905	4,368
Minnesota State Retirement System Deferred Compensation	72,055	36,850	37,739
Minnesota State Retirement System Unclassified Employees	58,059	16,343	12,001
Public Employees Police and Fire Consolidation	0	0	0
Public Employees Retirement Assoc. Deferred Compensation	1,522	597	414
State University	66,262	20,032	3,106
TOTAL PARTICIPATION	$ 280,297	$ 101,710	$ 59,794
Adjustments			
Unrealized Appreciation (Depreciation) of Investments	0	0	0
Undistributed Earnings	0	0	(1)
NET ASSETS	$ 280,297	$ 101,710	$ 59,793

STOCK INDEX ACCOUNT	BOND MARKET ACCOUNT	FIXED INTEREST ACCOUNT	SUPPLEMENTAL INVESTMENT FUND TOTAL
$ 1,432	$ 958	$ 934	$ 55,202
10	14	9	403
984	604	108	16,841
3,284	1,741	0	54,453
31,678	11,253	57,803	247,378
8,563	4,100	7,152	106,218
0	0	1,187	1,187
422	271	529	3,755
1,101	1,760	0	92,261
$ 47,474	$ 20,701	$ 67,722	$ 577,698
0	0	0	0
0	0	(1)	(2)
$ 47,474	$ 20,701	$ 67,721	$ 577,696

STATE BOARD OF INVESTMENT
FIRE RELIEF ASSOCIATIONS
SUPPLEMENTAL INVESTMENT FUND PARTICIPATION
JUNE 30, 1994
AMOUNTS IN (000)'S

	INCOME SHARE ACCOUNT	GROWTH SHARE ACCOUNT	MONEY MARKET ACCOUNT
Adrian Fire Relief	$ 38	$ 0	$ 0
Alborn Fire Relief	11	0	0
Almelund Fire Relief	11	0	0
Audubon Fire Relief	34	0	0
Austin Fire Relief	797	0	0
Bagley Fire Relief	30	0	1
Balsam Fire Relief	25	10	0
Belle Plaine Fire Relief	0	16	0
Benson Fire Relief	3	3	0
Bloomington Fire Relief	9,120	0	0
Buffalo Lake Fire Relief	25	24	0
Canby Fire Relief	20	20	0
Center City Fire Relief	16	1	0
Chaska Fire Relief	45	0	1
Cherry Fire Relief	20	0	0
Chisago City Fire Relief	149	0	0
Chokio Fire Relief	41	0	0
Clarkfield Fire Relief	4	0	0
Clear Lake Fire Relief	0	29	62
Crane Lake Fire Felief	6	3	5
Dawson Fire Relief	69	45	0
Elbow Lake Fire Relief	49	0	0
Excelsior Fire Relief	443	0	0
Forest Lake Fire Relief	207	26	0
Good Thunder Fire Relief	50	0	0
Greenwood Fire Relief	5	10	0
Grey Eagle Fire Relief	23	0	7
Hackensack Fire Relief	13	0	0
Hamel Fire Relief	53	0	11
Hayward Fire Relief	7	25	0
Hector Fire Relief	103	0	0
Houston Fire Relief	13	0	6
Industrial Fire Relief	10	0	0
Jackson Fire Relief	0	0	0
Jordan Fire Relief	22	16	0
Kabetogama Fire Relief	0	11	0
Kandiyohi Fire Relief	3	3	0
Lafayette Fire Relief	44	7	0
Lake City Fire Relief	143	0	0
Leaf Valley Fire Relief	2	2	6
Lewiston Fire Relief	10	9	0
Linwood Fire Relief	82	0	0
Lowry Fire Relief	0	0	0

STOCK INDEX ACCOUNT	BOND MARKET ACCOUNT	FIXED INTEREST ACCOUNT	FIRE RELIEF FUND TOTAL
$ 0	$ 0	$ 0	$ 38
1	10	0	22
0	0	0	11
0	0	0	34
0	0	0	797
0	67	0	98
0	0	0	35
0	0	54	70
3	3	0	12
575	0	0	9,695
0	0	0	49
0	0	0	40
0	10	0	27
0	0	0	46
0	0	0	20
0	86	0	235
0	0	0	41
0	0	0	4
0	0	0	91
0	0	0	14
0	0	0	114
0	0	0	49
0	0	0	443
0	32	0	265
0	0	33	83
0	5	0	20
0	0	0	30
0	0	0	13
0	0	0	64
7	6	0	45
0	0	0	103
0	0	0	19
0	10	0	20
63	0	0	63
0	11	0	49
0	0	0	11
3	3	0	12
9	5	0	65
0	0	0	143
0	0	0	10
0	0	0	19
0	0	0	82
5	0	0	5

STATE BOARD OF INVESTMENT
FIRE RELIEF ASSOCIATIONS
SUPPLEMENTAL INVESTMENT FUND PARTICIPATION
JUNE 30, 1994
AMOUNTS IN (000)'S

	INCOME SHARE ACCOUNT	GROWTH SHARE ACCOUNT	MONEY MARKET ACCOUNT
Mapleton Fire Relief	$ 15	$ 5	$ 0
Mapleview Fire Relief	9	19	0
Marine St Criox Fire Relief	28	35	0
Mayer Fire Relief	18	0	0
Maynard Fire Relief	17	0	0
McDavitt Fire Relief	10	5	0
Medicine Lake Fire Relief	143	0	0
Menahga Fire Relief	18	0	0
Milan Fire Relief	2	3	0
Minneota Fire Relief	7	0	0
Minnetonka Fire Relief	1,091	0	0
Morristown Fire Relief	51	0	0
Nodine Fire Relief	0	0	0
Norwood Fire Relief	9	0	0
Osseo Fire Relief	47	0	0
Plato Fire Relief	12	27	0
Randolp Fire Relief	38	0	0
Redwood Falls Fire Relief	13	0	0
Renville Fire Relief	7	7	0
Roseville Fire Relief	145	95	0
Rush City Fire Relief	0	0	0
Sandstone Fire Relief	41	0	0
Scandia Valley Fire Relief	63	0	0
Sherburne Fire Relief	50	0	0
Silver Bay Fire Relief	8	8	0
Stillwater Fire Relief	64	0	0
Vergas Fire Relief	15	0	0
Vermillion Lake Fire Relief	22	0	0
Willmar Fire Relief	20	19	0
Woodbury Fire Relief	476	232	80
Wykoff Fire Relief	26	0	0
Zumbro Falls Fire Relief	41	0	0
TOTAL PARTICIPATION	$ 14,252	$ 715	$ 179
Adjustments			
Unrealized Appreciation (Depreciation) of Investments	0	0	0
Undistributed Earnings	0	0	(1)
NET ASSETS	$ 14,252	$ 715	$ 178

STOCK INDEX ACCOUNT	BOND MARKET ACCOUNT	FIXED INTEREST ACCOUNT	FIRE RELIEF FUND TOTAL
$ 0	$ 0	$ 0	$ 20
0	35	0	63
0	16	0	79
19	19	0	56
0	0	0	17
0	10	0	25
19	0	0	162
0	16	0	34
2	3	0	10
0	7	0	14
0	0	0	1,091
51	94	0	196
6	9	1	16
0	0	0	9
0	0	0	47
13	0	0	52
38	0	0	76
0	14	0	27
0	7	0	21
0	0	0	240
0	0	21	21
0	0	0	41
0	0	0	63
0	0	0	50
0	0	0	16
0	0	0	64
0	0	0	15
0	0	0	22
20	20	0	79
150	106	0	1,044
0	0	0	26
0	0	0	41
$ 984	$ 604	$ 109	$ 16,843
0	0	0	0
0	0	(1)	(2)
$ 984	$ 604	$ 108	$ 16,841

STATE BOARD OF INVESTMENT
MINNESOTA POOLED INVESTMENT ACCOUNTS
SCHEDULE OF ASSETS AND LIABILITIES
JUNE 30, 1994
AMOUNTS IN (000)'S

	REAL ESTATE ACCOUNT	RESOURCE ACCOUNT	VENTURE CAPITAL ACCOUNT(4)
ASSETS:			
Investments (at market value) (2)			
Common Stock	$ 0	$ 0	$ 0
Alternative Equities	417,992	80,513	501,209
Fixed Income Securities	4,300	0	0
Short Term Securities	654	0	1,404
Total Investments (3)	$ 422,946	$ 80,513	$ 502,613
Cash	0	0	0
Security Sales Receivable	0	0	0
Accounts Receivable-Fee Refunds	0	0	0
Accounts Receivable-Mortality	0	0	0
Accounts Receivable-Participants	0	0	0
Accrued Interest	0	0	0
Accrued Dividends	0	0	2
Accrued Short Term Gain	0	0	2
TOTAL ASSETS	$ 422,946	$ 80,513	$ 502,617
LIABILITIES:			
Management Fees Payable	0	0	0
Security Purchases Payable	0	0	0
Accounts Payable-Participants	0	0	0
Options Premiums Received	0	0	0
TOTAL LIABILITIES	$ 0	$ 0	$ 0
NET ASSETS AT JUNE 30, 1994	$ 422,946	$ 80,513	$ 502,617

	SEMI	DOMESTIC			INTERNATIONAL	
ACTIVE BOND ACCOUNT	PASSIVE BOND ACCOUNT	ACTIVE EQUITY ACCOUNT	TILTED EQUITY ACCOUNT	PASSIVE EQUITY ACCOUNT	ACTIVE EQUITY ACCOUNT	PASSIVE EQUITY ACCOUNT
$ 7,253	$ 0	$4,280,190	$4,677,885	$ 214,048	$ 955,687	$1,011,863
0	0	0	0	0	0	0
2,793,722	2,888,572	13,059	1,227	0	1,575	0
442,689	421,908	214,011	29,949	1,659	30,175	60
$3,243,664	$3,310,480	$4,507,260	$4,709,061	$ 215,707	$ 987,437	$1,011,923
10,500	(243)	1,602	0	0	8,888	2,675
172,367	254,761	71,716	18,501	130	16,734	3,302
0	0	0	0	0	0	0
0	0	0	0	0	0	0
0	0	0	0	0	0	0
37,379	41,358	201	2	0	6	0
0	0	6,099	14,035	543	(1,501)	2,085
1,338	1,526	699	82	3	(572)	36
$3,465,248	$3,607,882	$4,587,577	$4,741,681	$ 216,383	$1,010,992	$1,020,021
1,215	780	3,825	162	8	895	181
481,367	629,387	63,116	3,523	0	13,659	3,689
0	0	0	0	0	0	0
0	0	0	0	0	0	0
$ 482,582	$ 630,167	$ 66,941	$ 3,685	$ 8	$ 14,554	$ 3,870
$2,982,666	$2,977,715	$4,520,636	$4,737,996	$ 216,375	$ 996,438	$1,016,151

STATE BOARD OF INVESTMENT
MINNESOTA POOLED INVESTMENT ACCOUNTS
SCHEDULE OF CHANGES IN NET ASSETS
YEAR ENDED JUNE 30, 1994
AMOUNTS IN (000)'S

	REAL ESTATE ACCOUNT	RESOURCE ACCOUNT	VENTURE CAPITAL ACCOUNT(4)
FROM INVESTMENT ACTIVITY:			
Net Investment Income	$ 6,537	$ 3,416	$ 3,021
Realized Gains (Losses)	0	6,374	37,144
Unrealized Gains (Losses)	(7,637)	(6,487)	9,552
TOTAL INCOME	($ 1,100)	$ 3,303	$ 49,717
Less Distribution To			
Participant Accounts	(8,040)	(10,300)	(40,269)
Undistributed Dedicated Income	1,503	510	104
Net Change In Undistributed Income	($ 7,637)	($ 6,487)	$ 9,552
FROM PARTICIPANT TRANSACTIONS:			
Additional To Participant Accounts			
Participant Contributions	37,600	4,268	32,644
Income Distribution	8,040	10,300	40,269
Income To Be Distributed	(1,503)	(511)	(104)
Total Additions	$ 44,137	$ 14,057	$ 72,809
Deductions From Participant Accounts			
Withdrawals	5,294	37,085	22,119
Total Deductions	$ 5,294	$ 37,085	$ 22,119
Net Change In Participation	$ 38,843	($ 23,028)	$ 50,690
TOTAL CHANGE IN ASSETS	$ 31,206	($ 29,515)	$ 60,242
NET ASSETS:			
Beginning Of Period	391,740	110,028	442,375
End Of Period	$ 422,946	$ 80,513	$ 502,617

ACTIVE BOND ACCOUNT	SEMI PASSIVE BOND ACCOUNT	DOMESTIC ACTIVE EQUITY ACCOUNT	DOMESTIC TILTED EQUITY ACCOUNT	DOMESTIC PASSIVE EQUITY ACCOUNT	INTERNATIONAL ACTIVE EQUITY ACCOUNT	INTERNATIONAL PASSIVE EQUITY ACCOUNT
$ 204,325	$ 194,143	$ 60,973	$ 139,848	$ 5,752	($ 126)	$ 12,509
(32,527)	(38,276)	258,529	411,813	12,937	14,319	3,743
(213,652)	(163,298)	(285,911)	(522,310)	(13,484)	74,657	134,900
($ 41,854)	($ 7,431)	$ 33,591	$ 29,351	$ 5,205	$ 88,850	$ 151,152
(172,966)	(155,942)	(321,701)	(551,775)	(18,690)	(20,936)	(16,229)
1,168	75	2,199	114	1	6,743	(23)
($ 213,652)	($ 163,298)	($ 285,911)	($ 522,310)	($ 13,484)	$ 74,657	$ 134,900
2,158,607	1,703,440	2,098,661	1,797,816	11,143	700,000	15,000
172,966	155,942	321,701	551,775	18,690	20,936	16,229
(1,168)	(75)	(2,199)	(114)	0	(6,743)	23
$ 2,330,405	$ 1,859,307	$ 2,418,163	$ 2,349,477	$ 29,833	$ 714,193	$ 31,252
443,400	300,000	195,297	659,386	27,434	0	0
$ 443,400	$ 300,000	$ 195,297	$ 659,386	$ 27,434	$ 0	$ 0
$ 1,887,005	$ 1,559,307	$ 2,222,866	$ 1,690,091	$ 2,399	$ 714,193	$ 31,252
$ 1,673,353	$ 1,396,009	$ 1,936,955	$ 1,167,781	($ 11,085)	$ 788,850	$ 166,152
1,309,313	1,581,706	2,583,681	3,570,215	227,460	207,588	849,999
$ 2,982,666	$ 2,977,715	$ 4,520,636	$ 4,737,996	$ 216,375	$ 996,438	$ 1,016,151

STATE BOARD OF INVESTMENT

MINNESOTA POOLED INVESTMENT ACCOUNTS

SCHEDULE OF OPERATIONS

YEAR ENDED JUNE 30, 1994

AMOUNTS IN (000)'S

	REAL ESTATE ACCOUNT	RESOURCE ACCOUNT	VENTURE CAPITAL ACCOUNT
INVESTMENT INCOME:			
Interest	$ 377	$ 0	$ 0
Dividends	6,124	3,251	2,796
Short Term Gains	36	165	225
Income Before Expenses	$ 6,537	$ 3,416	$ 3,021
Management Fees	0	0	0
NET INCOME	$ 6,537	$ 3,416	$ 3,021
REALIZED AND UNREALIZED GAIN (LOSS) ON INVESTMENTS			
Realized:			
Proceeds From Sales	$ 0	$ 78,141	$ 123,340
Cost Of Securities Sold	0	71,767	86,196
Net Realized Gain (Loss)	$ 0	$ 6,374	$ 37,144
Unrealized:			
Beginning Of Period	(12,727)	2,367	131,330
End Of Period	(20,364)	(4,120)	140,882
Increase (Decrease) In Unrealized Appreciation	($ 7,637)	($ 6,487)	$ 9,552
NET REALIZED AND UNREALIZED GAIN (LOSS) ON INVESTMENTS	($ 7,637)	($ 113)	$ 46,696

ACTIVE BOND ACCOUNT	SEMI PASSIVE BOND ACCOUNT	DOMESTIC ACTIVE EQUITY ACCOUNT	DOMESTIC TILTED EQUITY ACCOUNT	DOMESTIC PASSIVE EQUITY ACCOUNT	INTERNATIONAL ACTIVE EQUITY ACCOUNT	INTERNATIONAL PASSIVE EQUITY ACCOUNT
$ 197,485	$ 177,091	$ 449	($ 19)	$ 0	$ 10	$ 0
90	0	67,864	139,533	5,717	757	12,202
11,728	19,324	8,561	997	67	1,616	489
$ 209,303	$ 196,415	$ 76,874	$ 140,511	$ 5,784	$ 2,383	$ 12,691
4,978	2,272	15,901	663	32	2,509	182
$ 204,325	$ 194,143	$ 60,973	$ 139,848	$ 5,752	($ 126)	$ 12,509

$ 9,345,986	$11,033,037	$3,464,491	$2,665,264	$ 56,355	$ 169,932	$ 29,003
9,378,513	11,071,313	3,205,962	2,253,451	43,418	155,613	25,260
($ 32,527)	($ 38,276)	$ 258,529	$ 411,813	$ 12,937	$ 14,319	$ 3,743
71,082	61,947	507,318	975,645	64,683	6,086	120,368
(142,570)	(101,351)	221,407	453,335	51,199	80,743	255,268
($ 213,652)	($ 163,298)	($ 285,911)	($ 522,310)	($ 13,484)	$ 74,657	$ 134,900
($ 246,179)	($ 201,574)	($ 27,382)	($ 110,497)	($ 547)	$ 88,976	$ 138,643

STATE BOARD OF INVESTMENT

MINNESOTA POOLED INVESTMENT ACCOUNTS

SCHEDULE OF PARTICIPATION

JUNE 30, 1994

AMOUNTS IN (000)'S

	REAL ESTATE ACCOUNT	RESOURCE ACCOUNT	VENTURE CAPITAL ACCOUNT	ACTIVE BOND ACCOUNT
Teachers Retirement Fund	$ 189,643	$ 36,078	$ 225,446	$ 566,045
Public Employees Retirement Fund	90,113	17,153	107,078	278,571
State Employees Retirement Fund	82,792	15,753	98,296	255,696
Public Employees Police & Fire Fund	40,800	7,766	48,473	126,104
Highway Patrolmen's Retirement Fund	6,285	1,196	7,467	19,427
Judges Retirement Fund	401	77	477	1,242
Police & Fire Consolidation Fund	8,419	1,635	10,042	65,983
Correctional Employees Retire. Fund	4,493	855	5,338	13,885
TOTAL BASIC RETIREMENT FUNDS	$ 422,946	$ 80,513	$ 502,617	$1,326,953
Post Retirement Fund	0	0	0	1,635,011
Supplemental Income Share Account	0	0	0	0
Supplemental Growth Share Account	0	0	0	0
Supplemental Index Share Account	0	0	0	0
Supplemental Bond Market Account	0	0	0	20,702
TOTAL PARTICIPATION	$ 422,946	$ 80,513	$ 502,617	$2,982,666

SEMI	DOMESTIC			INTERNATIONAL		
PASSIVE BOND ACCOUNT	ACTIVE EQUITY ACCOUNT	TILTED INDEX ACCOUNT	PASSIVE EQUITY ACCOUNT	PASSIVE EQUITY ACCOUNT	ACTIVE EQUITY ACCOUNT	TOTAL POOLED ACCOUNT
$ 613,421	$1,032,061	$1,060,049	$ 0	$ 230,861	$ 222,974	$ 4,176,578
301,790	502,729	513,591	0	112,498	109,829	2,033,352
277,008	461,447	471,417	0	103,260	100,811	1,866,480
136,615	227,577	232,493	0	50,926	49,718	920,472
21,046	35,059	35,816	0	7,845	7,660	141,801
1,345	2,241	2,289	0	501	489	9,062
26,639	45,045	83,484	0	9,663	10,249	261,159
15,043	25,059	25,600	0	5,608	5,475	101,356
$1,392,907	$2,331,218	$2,424,739	$ 0	$ 521,162	$ 507,205	$ 9,510,260
1,584,808	2,094,205	2,313,257	0	494,989	489,233	8,611,503
						0
0	0	0	168,901	0	0	168,901
0	95,213	0	0	0	0	95,213
0	0	0	47,474	0	0	47,474
0	0	0	0	0	0	20,702
$2,977,715	$4,520,636	$4,737,996	$ 216,375	$1,016,151	$ 996,438	$18,454,053

NOTES TO THE SUPPLEMENTAL FINANCIAL STATEMENTS
JUNE 30, 1994

1. PORTFOLIO LISTING:
Asset listings summarizing securities held by these funds can be found starting on page 130 of this report. Fixed income and equity securities are presented at market value.

2. COST OF INVESTMENTS:
At June 30, 1994 the cost of investments for the Minnesota Pooled Investment Accounts and the individual accounts of the Minnesota Supplemental Investment Fund was:

DOMESTIC ACCOUNTS	
Active Equity Account	$ 4,285,853,129
Passive Equity Account	$ 164,507,761
Tilted Index Account	$ 4,255,726,029
Active Bond Account	$ 3,434,915,654
Semi-Passive Bond Account	$ 3,392,877,399
Real Estate Account	$ 443,310,037
Resource Account	$ 84,632,613
Venture Capital Account	$ 361,730,426
INTERNATIONAL ACCOUNTS	
Passive Equity Account	$ 756,655,262
Active Equity Account	$ 906,694,915
SUPPLEMENTAL INVESTMENT FUND	
Income Share Account	$ 247,327,993
Growth Share Account	$ 95,705,614
Money Market Account	$ 59,602,528
Stock Index Account	$ 44,962,117
Bond Market Account	$ 21,685,827
Fixed Interest Account	$ 67,412,446

3. LOANED SECURITIES:
The market value of loaned securities outstanding at June 30, 1994 for the Minnesota Pooled Investment Accounts and the individual accounts of the Minnesota Supplemental Investment Fund was:

DOMESTIC ACCOUNTS	
Active Equity Account	$ 399,637,763
Passive Equity Account	$ 19,207,348
Tilted Equity Account	$ 423,793,304
Active Bond Account	$ 557,027,177
Semi-Passive Bond Account	$ 744,704,563
INTERNATIONAL ACCOUNTS	
Passive Equity Account	$ 148,910,271
Active Equity Account	$ 115,062,810

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EXTERNAL STOCK AND BOND MANAGERS FEES

Total Payments for Fiscal Year 1994

Active Domestic Stock Managers (1)		
Alliance Capital	$	1,973,247
Brinson Partners		693,187
Forstmann Leff Associates		1,031,746
Franklin Portfolio Associates		1,121,242
GeoCapital Corp.		1,098,762
IDS Advisory		839,072
Independence Investment Associates		1,014,665
Investment Advisors INc.		532,212
Jundt Associates		1,954,002
Lieber & Company *		489,460
Lincoln Capital		780,131
Lynch & Mayer		1,263,614
Oppenheimer Capital		712,486
Waddell & Reed		885,658
Weiss Peck & Greer		1,046,015
CIC Asset Management		41,216
Cohen, Davis & Marks		38,245
Compass Capital Management		38,590
First Capital Advisors		48,505
Kennedy Capital Management		72,643
New Amsterdam Partners		30,674
Valenzuela Capital		44,249
Wilke Thompson Capital		41,537
Winslow Capital		49,209
Zevenbergen Capital		60,869
Passive Domestic Stock Managers (2)		
Wilshire Associates		695,332
Active Domestic Bond Managers (2)		
BEA Associates		647,673
IDS Advisory		295,916
Investment Advisors		682,390
Miller Anderson		868,280
Standish Ayer Woods		823,454
Trust Company of the West		542,265
Western Asset Mgmt.		1,118,052
Semi-Passive Domestic Bond Managers (3)		
Fidelity Management Trust		1,050,433
Goldman Sachs		791,336
Lincoln Capital Management		430,034

EXTERNAL STOCK AND BOND MANAGERS FEES

Total Payments for Fiscal Year 1994

International Stock Managers (2)		
Baring International	$	276,724
Brinson Partners International		323,860
Marathon		416,588
Rowe Price - Fleming		582,447
Scudder Stevens		451,760
State Street Global Advisors		181,695
Templeton		458,243

* Manager terminated during fiscal year 1994.

(1) Active stock managers 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) The passive stock manager, international stock managers, active bond managers and two semi-passive bond managers are compensated based on a specified percentage of assets under management.

(3) One semi-passive bond manager is compensated on a performance-based fee formula. Fees earned range from 5 to 10 basis points of assets under management, depending on the manager's performance relative to an established benchmark.

Alliance Capital Management

Equities	Market Value	%
Basic Industries	$6,656,675.00	1.0%
Capital Goods	19,582,500.00	2.9
Consumer Basics	66,291,125.00	9.9
Consumer Durables	45,235,387.50	6.8
Consumer Non-Dur.	69,649,549.25	10.4
Consumer Services	66,164,900.00	9.9
Energy	0.00	0.0
Finance	155,032,087.50	23.3
General Business	85,540,059.50	12.8
Miscellaneous	0.00	0.0
Shelter	6,313,500.00	1.0
Technology	123,813,400.00	18.6
Transportation	3,241,200.00	0.5
Utilities	12,622,312.50	1.9
All Non U.S.	0.00	0.0
Total Equities	660,142,696.25	99.0
Cash Equivalents	6,764,357.00	1.0
Grand Total	**$666,907,053.25**	**100.0%**

CIC Asset Management Inc.

Equities	Market Value	%
Basic Industries	$1,731,387.50	5.8%
Capital Goods	1,966,587.50	6.5
Consumer Basics	2,298,750.00	7.6
Consumer Durables	3,991,975.00	13.3
Consumer Non-Dur.	1,538,212.50	5.1
Consumer Services	142,500.00	0.5
Energy	1,875,987.50	6.2
Finance	7,060,837.50	23.5
General Business	1,621,637.50	5.4
Miscellaneous	612,187.50	2.0
Shelter	1,130,937.50	3.8
Technology	1,757,350.00	5.9
Transportation	1,244,962.50	4.1
Utilities	1,197,862.50	4.0
All Non U.S.	0.00	0.0
Total Equities	28,171,175.00	93.7
Cash Equivalents	1,881,609.00	6.3
Grand Total	**$30,052,784.00**	**100.0%**

Brinson Partners

Equities	Market Value	%
Basic Industries	$28,315,931.25	10.9%
Capital Goods	10,699,150.00	4.1
Consumer Basics	60,515,456.25	23.3
Consumer Durables	705,962.50	0.3
Consumer Non-Dur.	10,659,312.50	4.1
Consumer Services	7,535,412.50	2.9
Energy	22,828,068.75	8.8
Finance	60,161,700.00	23.2
General Business	13,393,662.50	5.2
Miscellaneous	712,260.50	0.3
Shelter	58,425.00	0.0
Technology	20,248,918.75	7.8
Transportation	1,824,700.00	0.7
Utilities	13,287,712.50	5.1
All Non U.S.	0.00	0.0
Total Equities	250,946,673.00	96.7
Cash Equivalents	8,486,433.00	3.3
Grand Total	**$259,433,106.00**	**100.0%**

Cohen, Davis & Marks, Inc.

Equities	Market Value	%
Basic Industries	$3,740,375.00	12.2%
Capital Goods	1,868,000.00	6.1
Consumer Basics	7,943,250.00	26.0
Consumer Durables	1,859,000.00	6.1
Consumer Non-Dur.	1,889,125.00	6.2
Consumer Services	0.00	0.0
Energy	944,000.00	3.1
Finance	4,671,750.00	15.3
General Business	146,250.00	0.5
Miscellaneous	0.00	0.0
Shelter	0.00	0.0
Technology	5,753,437.50	18.8
Transportation	0.00	0.0
Utilities	1,087,500.00	3.6
All Non U.S.	0.00	0.0
Total Equities	29,902,687.50	97.9
Cash Equivalents	625,875.00	2.1
Grand Total	**$30,528,562.50**	**100.0%**

Compass Capital Management Inc.

Equities	Market Value	%
Basic Industries	$2,124,500.00	7.1%
Capital Goods	1,263,000.00	4.3
Consumer Basics	7,269,950.00	24.5
Consumer Durables	2,587,000.00	8.7
Consumer Non-Dur.	5,838,100.00	19.7
Consumer Services	1,126,125.00	3.8
Energy	0.00	0.0
Finance	0.00	0.0
General Business	4,439,625.00	15.0
Miscellaneous	0.00	0.0
Shelter	0.00	0.0
Technology	3,370,375.00	11.4
Transportation	0.00	0.0
Utilities	0.00	0.0
All Non U.S.	0.00	0.0
Total Equities	28,018,675.00	94.5
Cash Equivalents	$1,650,516.00	5.5
Grand Total	**$29,669,191.00**	**100.0%**

First Capital Advisors, Inc.

Equities	Market Value	%
Basic Industries	$1,297,312.50	4.1%
Capital Goods	1,866,837.50	6.0
Consumer Basics	3,479,100.00	11.1
Consumer Durables	3,885,125.00	12.4
Consumer Non-Dur.	5,465,725.00	17.5
Consumer Services	3,153,325.00	10.1
Energy	502,562.50	1.6
Finance	4,267,387.50	13.7
General Business	562,350.00	1.8
Miscellaneous	64,325.00	0.2
Shelter	1,650,375.00	5.3
Technology	282,500.00	0.9
Transportation	1,537,312.50	5.0
Utilities	793,875.00	2.5
All Non U.S.	0.00	0.0
Total Equities	28,808,112.50	92.2
Cash Equivalents	$2,437,614.00	7.8
Grand Total	**$31,245,726.50**	**100.0%**

Forstmann-Leff Associates

Equities	Market Value	%
Basic Industries	$13,765,703.50	4.4%
Capital Goods	14,365,375.00	4.5
Consumer Basics	22,848,153.63	7.2
Consumer Durables	39,847,835.00	12.6
Consumer Non-Dur.	19,101,247.81	6.1
Consumer Services	31,509,142.51	10.0
Energy	34,175,809.38	10.8
Finance	35,528,396.88	11.3
General Business	9,027,337.50	2.9
Miscellaneous	1,617,750.00	0.5
Shelter	11,276,550.00	3.6
Technology	25,004,825.00	7.9
Transportation	12,829,600.00	4.1
Utilities	12,808,189.25	4.1
All Non-U.S.	1,134,589.43	0.4
Total Equities	284,840,540.89	90.4
Fixed Income	7,672,500.00	2.4
Cash Equivalents	22,598,986.00	7.2
Grand Total	**$315,111,990.89**	**100.0%**

Franklin Portfolio Associates

Equities	Market Value	%
Basic Industries	$13,769,700.00	3.9%
Capital Goods	11,439,687.50	3.2
Consumer Basics	76,022,687.50	21.3
Consumer Durables	21,919,400.00	6.1
Consumer Non-Dur.	6,895,175.00	1.9
Consumer Services	10,007,012.50	2.8
Energy	15,545,150.00	4.4
Finance	67,102,242.50	18.8
General Business	19,494,475.00	5.5
Miscellaneous	0.00	0.0
Shelter	0.00	0.0
Technology	53,004,017.50	14.9
Transportation	14,418,012.50	4.0
Utilities	46,123,825.00	13.0
All Non-U.S.	0.00	0.0
Total Equities	355,741,385.00	99.8
Cash Equivalents	552,869.00	0.2
Grand Total	**$356,294,254.00**	**100.0%**

GeoCapital

Equities	Market Value	%
Basic Industries	$1,976,837.50	0.8%
Capital Goods	582,750.00	0.2
Consumer Basics	46,809,200.25	19.4
Consumer Durables	0.00	0.0
Consumer Non-Dur.	5,915,125.38	2.5
Consumer Services	23,915,955.25	9.9
Energy	1,877,000.00	0.8
Finance	48,359,327.00	20.0
General Business	56,907,875.63	23.6
Miscellaneous	6,549,200.00	2.7
Shelter	2,744,950.00	1.1
Technology	37,502,386.25	15.5
Transportation	848,900.00	0.4
Utilities	1,404,150.00	0.6
All Non-U.S.	0.00	0.0
Total Equities	235,393,657.26	97.5
Cash Equivalents	5,978,005.00	2.5
Grand Total	**$241,371,662.26**	**100.0%**

IDS Advisory

Equities	Market Value	%
Basic Industries	$33,729,200.00	9.3%
Capital Goods	12,458,200.00	3.4
Consumer Basics	22,088,925.00	6.1
Consumer Durables	27,554,900.00	7.6
Consumer Non-Dur.	46,570,950.00	12.9
Consumer Services	13,979,500.00	3.9
Energy	40,316,387.50	11.2
Finance	58,464,312.50	16.2
General Business	5,771,950.00	1.6
Miscellaneous	7,656,425.00	2.1
Shelter	12,020,000.00	3.3
Technology	49,963,075.00	13.8
Transportation	19,490,325.00	5.4
Utilities	8,420,225.00	2.3
All Non-U.S.	0.00	0.0
Total Equities	358,484,375.00	99.1
Cash Equivalents	3,237,583.00	0.9
Grand Total	**$361,721,958.00**	**100.0%**

Investment Advisors Inc.

Equities	Market Value	%
Basic Industries	$8,684,125.00	8.2%
Capital Goods	3,151,987.50	3.0
Consumer Basics	15,458,850.00	14.5
Consumer Durables	9,747,375.00	9.2
Consumer Non-Dur.	8,993,412.50	8.4
Consumer Services	6,236,250.00	5.9
Energy	2,210,000.00	2.1
Finance	14,028,387.50	13.2
General Business	10,899,500.00	10.2
Miscellaneous	3,066,125.00	2.9
Shelter	0.00	0.0
Technology	12,635,625.00	11.9
Transportation	0.00	0.0
Utilities	3,230,000.00	3.0
All Non-U.S.	0.00	0.0
Total Equities	98,341,637.50	92.5
Cash Equivalents	7,941,496.00	7.5
Grand Total	**$106,283,133.50**	**100.0%**

Independence Investment Associates

Equities	Market Value	%
Basic Industries	$24,574,387.50	6.9%
Capital Goods	22,523,737.50	6.3
Consumer Basics	66,092,952.25	18.4
Consumer Durables	25,503,025.00	7.1
Consumer Non-Dur.	37,206,782.63	10.4
Consumer Services	5,209,075.00	1.4
Energy	24,026,150.00	6.7
Finance	52,784,949.38	14.8
General Business	11,275,050.00	3.2
Miscellaneous	1,288,425.00	0.4
Shelter	6,488,050.00	1.8
Technology	26,343,863.75	7.4
Transportation	4,246,862.50	1.2
Utilities	44,645,094.75	12.5
All Non-U.S.	0.00	0.0
Total Equities	352,208,405.26	98.5
Cash Equivalents	5,499,881.00	1.5
Grand Total	**$357,708,286.26**	**100.0%**

Jundt Associates

Equities	Market Value	%
Basic Industries	$0.00	0.0%
Capital Goods	0.00	0.0
Consumer Basics	22,569,450.00	11.8
Consumer Durables	9,461,625.00	4.9
Consumer Non-Dur.	25,357,412.50	13.2
Consumer Services	7,906,376.63	4.1
Energy	0.00	0.0
Finance	0.00	0.0
General Business	22,946,438.00	11.9
Miscellaneous	0.00	0.0
Shelter	0.00	0.0
Technology	65,688,856.25	34.1
Transportation	0.00	0.0
Utilities	18,077,557.50	9.4
All Non-U.S.	0.00	0.0
Total Equities	172,007,715.88	89.4
Cash Equivalents	20,435,187.00	10.6
Grand Total	**$192,442,902.88**	**100.0%**

Kennedy Capital Management

Equities	Market Value	%
Basic Industries	$1,852,062.50	6.2%
Capital Goods	999,762.50	3.3
Consumer Basics	2,835,079.50	9.4
Consumer Durables	2,783,106.25	9.2
Consumer Non-Dur.	2,449,856.25	8.2
Consumer Services	33,250.00	0.1
Energy	1,277,000.00	4.2
Finance	2,345,000.00	7.8
General Business	1,113,425.00	3.7
Miscellaneous	3,404,887.50	11.3
Shelter	644,625.00	2.2
Technology	2,629,937.50	8.9
Transportation	662,862.50	2.2
Utilities	399,337.50	1.3
All Non U.S.	0.00	0.0
Total Equities	23,430,192.00	78.0
Fixed Income	1,405,500.00	4.7
Cash Equivalents	5,204,882.00	17.3
Grand Total	**$30,040,574.00**	**100.0%**

Lincoln Capital Management

Equities	Market Value	%
Basic Industries	$10,256,262.50	4.1
Capital Goods	18,206,112.50	7.3
Consumer Basics	52,458,362.50	21.0
Consumer Durables	0.00	0.0
Consumer Non-Dur.	25,934,862.50	10.4
Consumer Services	19,466,712.50	7.8
Energy	0.00	0.0
Finance	42,433,793.75	17.0
General Business	19,020,050.00	7.6
Miscellaneous	0.00	0.0
Shelter	0.00	0.0
Technology	23,355,812.50	9.3
Transportation	0.00	0.0
Utilities	7,924,012.50	3.2
All Non-U.S.	2,207,055.91	1.0
Total Equities	221,263,037.16	88.7
Cash Equivalents	28,276,851.00	11.3
Grand Total	**$249,539,888.16**	**100.0%**

Lynch & Mayer, Inc.

Equities	Market Value	%
Basic Industries	$11,142,400.00	3.8%
Capital Goods	39,292,812.50	13.4
Consumer Basics	39,880,062.50	13.6
Consumer Durables	20,209,225.00	6.9
Consumer Non-Dur.	0.00	0.0
Consumer Services	14,963,025.00	5.1
Energy	7,024,575.00	2.4
Finance	26,942,525.00	9.2
General Business	10,322,675.00	3.5
Miscellaneous	0.00	0.0
Shelter	4,488,000.00	1.5
Technology	96,696,687.50	32.9
Transportation	0.00	0.0
Utilities	12,711,637.50	4.3
All Non-U.S.	0.00	0.0
Total Equities	283,673,625.00	96.6
Cash Equivalents	10,007,601.00	3.4
Grand Total	**$293,681,226.00**	**100.0%**

New Amsterdam Partners

Equities	Market Value	%
Basic Industries	$2,368,450.00	8.3%
Capital Goods	0.00	0.0
Consumer Basics	4,438,525.00	15.5
Consumer Durables	1,259,187.50	4.4
Consumer Non-Dur.	5,430,675.00	19.0
Consumer Services	670,625.00	2.4
Energy	2,031,450.00	7.1
Finance	3,332,237.50	11.7
General Business	1,309,275.00	4.6
Miscellaneous	0.00	0.0
Shelter	438,700.00	1.5
Technology	3,382,062.50	11.8
Transportation	728,750.00	2.6
Utilities	2,464,725.00	8.6
All Non U.S.	0.00	0.0
Total Equities	27,854,662.50	97.5
Cash Equivalents	728,010.00	2.5
Grand Total	**$28,582,672.50**	**100.0%**

Valenzuela Capital Management

Equities	Market Value	%
Basic Industries	$3,114,787.50	10.2%
Capital Goods	625,500.00	2.1
Consumer Basics	686,750.00	2.3
Consumer Durables	3,015,625.00	9.9
Consumer Non-Dur.	2,733,612.50	9.0
Consumer Services	0.00	0.0
Energy	1,865,600.00	6.1
Finance	3,796,537.50	12.5
General Business	4,654,600.00	15.3
Miscellaneous	1,053,750.00	3.5
Shelter	0.00	0.0
Technology	2,859,900.00	9.4
Transportation	2,609,950.00	8.6
Utilities	774,375.00	2.5
All Non U.S.	0.00	0.0
Total Equities	27,790,987.50	91.4
Cash Equivalents	2,609,943.00	8.6
Grand Total	**$30,400,930.50**	**100.0%**

Oppenheimer & Company

Equities	Market Value	%
Basic Industries	$16,194,812.50	6.3%
Capital Goods	10,663,750.00	4.1
Consumer Basics	40,728,750.00	15.8
Consumer Durables	0.00	0.0
Consumer Non-Dur.	34,964,375.00	13.6
Consumer Services	0.00	0.0
Energy	9,962,500.00	3.9
Finance	71,275,275.00	27.7
General Business	4,970,000.00	1.9
Miscellaneous	0.00	0.0
Shelter	0.00	0.0
Technology	19,835,000.00	7.7
Transportation	0.00	0.0
Utilities	10,846,875.00	4.2
All Non-U.S.	0.00	0.0
Total Equities	219,441,337.50	85.2
Cash Equivalents	38,118,833.00	14.8
Grand Total	**$257,560,170.50**	**100.0%**

Waddell & Reed

Equities	Market Value	%
Basic Industries	$0.00	0.0%
Capital Goods	2,157,937.50	0.6
Consumer Basics	31,145,212.50	8.4
Consumer Durables	0.00	0.0
Consumer Non-Dur.	34,556,821.88	9.4
Consumer Services	46,314,075.00	12.5
Energy	2,303,250.00	0.6
Finance	99,805,206.13	27.0
General Business	20,488,862.50	5.5
Miscellaneous	1,809,722.63	0.5
Shelter	2,335,781.25	0.6
Technology	80,022,962.50	21.6
Transportation	12,171,025.00	3.3
Utilities	0.00	0.0
All Non-U.S.	0.00	0.0
Total Equities	333,110,856.89	90.0
Fixed Income	3,981,437.50	1.1
Cash Equivalents	32,911,423.00	8.9
Grand Total	**$370,003,717.39**	**100.0%**

Weiss Peck & Greer

Equities	Market Value	%
Basic Industries	$4,611,325.00	2.5%
Capital Goods	6,714,425.00	3.7
Consumer Basics	26,237,200.00	14.4
Consumer Durables	7,051,875.00	3.9
Consumer Non-Dur.	16,975,175.00	9.3
Consumer Services	18,868,187.50	10.3
Energy	7,518,087.50	4.1
Finance	10,781,862.50	5.9
General Business	25,553,675.00	14.0
Miscellaneous	11,626,087.50	6.4
Shelter	3,357,775.00	1.8
Technology	35,244,062.50	19.3
Transportation	0.00	0.0
Utilities	283,200.00	0.2
All Non-U.S.	2,275,533.01	1.3
Total Equities	**177,098,470.51**	97.1
Options	729,425.00	0.4
Cash Equivalents	4,482,846.00	2.5
Grand Total	**$182,310,741.51**	**100.0%**

Wilke/Thompson Capital Mgmt.

Equities	Market Value	%
Basic Industries	$1,750,325.00	6.3%
Capital Goods	1,012,250.00	3.6
Consumer Basics	5,380,050.00	19.2
Consumer Durables	750,750.00	2.7
Consumer Non-Dur.	3,720,025.00	13.3
Consumer Services	1,657,525.00	5.9
Energy	0.00	0.0
Finance	283,500.00	1.0
General Business	4,946,050.00	17.6
Miscellaneous	197,181.25	0.7
Shelter	938,250.00	3.3
Technology	6,549,487.50	23.3
Transportation	0.00	0.0
Utilities	0.00	0.0
All Non U.S.	0.00	0.0
Total Equities	27,185,393.75	96.9
Cash Equivalents	876,161.00	3.1
Grand Total	**$28,061,554.75**	**100.0%**

Winslow Capital Management

Equities	Market Value	%
Basic Industries	$0.00	0.0%
Capital Goods	406,025.00	1.4
Consumer Basics	4,550,050.00	15.7
Consumer Durables	1,909,375.00	6.6
Consumer Non-Dur.	4,789,075.00	16.5
Consumer Services	3,296,062.50	11.3
Energy	0.00	0.0
Finance	2,076,600.00	7.2
General Business	1,448,012.50	5.0
Miscellaneous	0.00	0.0
Shelter	0.00	0.0
Technology	8,352,262.50	28.8
Transportation	0.00	0.0
Utilities	2,057,750.00	7.1
All Non U.S.	0.00	0.0
Total Equities	28,885,212.50	99.6
Cash Equivalents	128,914.00	0.4
Grand Total	**$29,014,126.50**	**100.0%**

Zevenbergen Capital Inc.

Equities	Market Value	%
Basic Industries	$0.00	0.0%
Capital Goods	1,954,900.00	6.7
Consumer Basics	3,299,625.00	11.3
Consumer Durables	0.00	0.0
Consumer Non-Dur.	998,218.75	3.4
Consumer Services	1,644,000.00	5.6
Energy	579,250.00	2.0
Finance	1,060,000.00	3.6
General Business	6,157,975.00	21.0
Miscellaneous	0.00	0.0
Shelter	974,500.00	3.3
Technology	6,117,175.00	20.9
Transportation	919,300.00	3.1
Utilities	3,014,162.50	10.3
All Non U.S.	0.00	0.0
Total Equities	26,719,106.25	91.2
Cash Equivalents	2,575,129.00	8.8
Grand Total	**$29,294,235.25**	**100.0%**

Wilshire Asset Management*

Equities	Market Value	%
Basic Industries	$420,746,033.22	8.9%
Capital Goods	263,591,088.94	5.6
Consumer Basics	689,312,664.62	14.6
Consumer Durables	164,842,643.63	3.5
Consumer Non-Dur.	276,424,131.29	5.9
Consumer Services	77,650,537.03	1.7
Energy	397,872,918.31	8.5
Finance	837,876,899.03	17.8
General Business	234,806,402.08	5.0
Miscellaneous	48,406,083.12	1.0
Shelter	58,280,381.38	1.2
Technology	288,648,130.21	6.1
Transportation	101,877,690.75	2.2
Utilities	817,450,130.44	17.4
All Non U.S.	99,425.49	0.0
Total Equities	4,677,885,159.94 99.4	
Fixed Income	1,227,011.61	0.0
Cash Equivalents	29,949,244.00	0.6
Grand Total	**$4,709,061,415.15**	**100.0%**

* Same as Domestic Tilted Equity Account shown in the Financial Statements.

Aggregate Domestic Stock Pool**

Equities	Market Value	%
Basic Industries	$612,402,592.97	6.6%
Capital Goods	447,392,376.44	4.9
Consumer Basics	1,320,640,181.50	14.3
Consumer Durables	394,120,397.38	4.3
Consumer Non Dur.	654,056,958.24	7.1
Consumer Services	361,449,573.92	3.9
Energy	574,735,746.44	6.2
Finance	1,609,470,814.67	17.5
General Business	576,817,212.71	6.3
Miscellaneous	88,064,410.00	1.0
Shelter	113,140,800.13	1.2
Technology	999,062,110.21	10.8
Transportation	178,651,453.25	1.9
Utilities	1,021,624,509.44	11.1
All Non-U.S.	5,716,603.84	0.1
Total Equities	8,957,345,741.14	97.2
Fixed Income	14,286,449.11	0.2
Options	729,425.00	0.0
Cash Equivalents	243,960,248.00	2.6
Grand Total	**$9,216,321,863.25**	**100.0%**

** Aggregate of all managers in the Domestic Stock Pool. Includes both Domestic Active Equity Account and Domestic Tilted Equity Account shown in the Financial Statements.

Supplemental Passive Stock Pool*

Equities	**Market Value**	**%**
Basic Industries	$16,947,303.13	7.8%
Capital Goods	12,051,968.00	5.6
Consumer Basics	35,831,795.02	16.6
Consumer Durables	7,668,421.88	3.5
Consumer Non-Dur.	16,174,523.88	7.5
Consumer Services	6,375,760.50	2.9
Energy	15,753,830.59	7.3
Finance	31,410,004.94	14.6
General Business	14,969,753.50	6.9
Miscellaneous	1,636,588.13	0.8
Shelter	2,099,045.25	1.0
Technology	21,487,428.13	10.0
Transportation	3,704,105.63	1.7
Utilities	27,937,294.95	13.0
Non U.S.	0.0	0.0
Total Equities	214,047,823.53	99.2
Cash Equivalents	1,659,408.00	0.8
Grand Total	**$215,707,231.53**	**100.0%**

* Same as Domestic Passive Equity Account shown in the Financial Statements. This pool is used by the Income Share and Common Stock Index Accounts in the Supplemental Investment Fund. All assets in this pool are managed by Wilshire Asset Management.

Asset listings for the Alternative Asset Pools can be found on pages 82-83 of this report.

Baring International

Exposure by Country	Market Value	%
Australia	$8,991,047.47	4.9%
Canada	2,402,556.87	1.3
France	10,733,739.80	5.8
Germany Rep	9,343,209.71	5.0
Hong Kong	13,910,000.19	7.5
Japan	53,919,330.11	29.1
Korea	13,222,619.68	7.1
Mexico	5,976,822.60	3.2
Netherlands	7,464,856.27	4.0
Singapore	10,863,811.20	5.9
Spain	1,721,315.00	0.9
Switzerland	7,106,415.75	3.8
Thailand	3,352,323.52	1.8
United Kingdom	34,714,998.53	18.7
United States	1,835,675.00	1.0
Grand Total	**$185,558,721.70**	**100.0%**

Brinson Partners

Exposure by Country	Market Value	%
Australia	$10,729,795.95	6.3%
Belgium	3,076,410.39	1.8
Canada	4,530,813.04	2.7
France	10,059,988.86	5.9
Germany Rep.	6,220,190.98	3.7
Hong Kong	5,227,076.14	3.1
Italy	4,005,535.53	2.4
Japan	66,796,792.58	39.4
Netherlands	8,407,411.41	5.0
New Zealand	3,059,463.93	1.8
Spain	5,533,706.80	3.2
Sweden	5,648,291.95	3.3
Switzerland	5,093,642.19	3.0
United Kingdom	27,332,231.73	16.1
United States	3,897,313.08	2.3
Grand Total	**$169,618,664.56**	**100.0%**

Marathon Asset Management

Exposure by Country	Market Value	%
Australia	$13,428,048.54	7.8%
Denmark	1,286,150.13	0.8
Finland	4,787,577.27	2.8
France	4,044,161.22	2.3
Germany Rep.	5,845,639.24	3.4
Hong Kong	6,407,480.79	3.7
Italy	3,640,812.91	2.1
Japan	77,402,075.33	45.1
Malaysia	4,447,702.63	2.6
Netherlands	2,499,597.90	1.5
New Zealand	2,733,589.24	1.6
Norway	2,949,769.26	1.7
Portugal	2,209,511.02	1.3
Singapore	2,147,580.39	1.3
Spain	2,009,594.83	1.2
Sweden	6,959,787.03	4.1
Switzerland	2,007,558.92	1.2
South Africa	744,504.08	0.4
United Kingdom	22,979,918.72	13.4
United States	2,960,563.93	1.7
Grand Total	**$171,491,623.38**	**100.0%**

Rowe Price-Fleming International

Exposure by Country	Market Value	%
Argentina	$142,049.41	0.1%
Australia	4,753,226.00	3.0
Austria	232,073.77	0.2
Belgium	2,759,935.91	1.8
Canada	533,638.22	0.3
Denmark	402,324.81	0.3
Finland	373,246.71	0.3
France	10,573,106.18	6.7
Germany Rep.	6,312,929.62	4.0
Hong Kong	7,427,353.79	4.7
Italy	4,738,433.11	3.0
Japan	35,643,046.98	22.7
Malaysia	6,323,035.04	4.0
Mexico	2,572,493.45	1.6
Netherlands	11,181,020.44	7.1
New Zealand	3,587,104.13	2.3
Norway	1,872,172.72	1.2
Portugal	345,851.15	0.2
Singapore	3,237,402.68	2.1
Spain	3,040,569.13	1.9
Sweden	2,500,181.21	1.6
Switzerland	6,944,310.21	4.4
Thailand	2,717,808.11	1.8
United Kingdom	20,498,063.24	13.1
United States	18,097,527.07	11.6
Grand Total	**$156,808,903.09**	**100.0%**

Scudder, Stevens & Clark

Exposure by Country	Market Value	%
Australia	$6,396,486.27	4.1%
Canada	1,777,914.97	1.1
France	9,181,998.27	5.8
Germany Republic	8,802,401.33	5.6
Hong Kong	9,013,556.32	5.7
Italy	3,637,923.33	2.3
Japan	52,478,880.47	33.3
Malaysia	4,334,449.03	2.7
Mexico	760,295.77	0.5
Netherlands	6,409,352.76	4.1
New Zealand	1,941,522.39	1.2
Norway	3,971,754.55	2.5
Singapore	1,666,185.81	1.1
Spain	3,354,524.30	2.1
Sweden	4,331,715.26	2.8
Switzerland	13,973,537.57	8.9
Thailand	415,348.78	0.3
United Kingdom	17,768,241.07	11.3
United States	7,257,209.32	4.6
Grand Total	**$157,473,298.57**	**100.0%**

Templeton Investment Counsel

Exposure by Country	Market Value	%
Australia	$8,050,247.46	5.2
Belgium	4,271,913.66	2.7
Canada	4,726,264.63	3.0
Finland	5,389,983.97	3.5
France	7,093,816.90	4.5
Germany Rep.	8,311,275.97	5.3
Greece	711,338.08	0.5
Hong Kong	8,985,613.07	5.8
Italy	7,688,732.30	4.9
Japan	8,345,192.31	5.4
Mexico	2,874,888.63	1.8
Netherlands	13,303,039.16	8.5
New Zealand	4,907,837.37	3.2
Norway	5,247,456.51	3.4
Portugal	1,663,945.91	1.1
Spain	13,944,261.03	8.9
Sweden	6,985,011.21	4.5
Switzerland	9,344,772.35	6.0
United Kingdom	19,237,679.05	12.3
United States	14,720,715.75	9.5
Grand Total	**$155,803,985.32**	**100.0%**

* Same as International Passive Equity Account shown in the Financial Statements.

State Street Global Advisors*

Exposure by Country	Market Value	%
Austria	$4,218,962.88	0.4%
Australia	25,735,243.49	2.5
Denmark	8,083,635.76	0.8
France	53,510,058.63	5.3
Germany Rep.	60,219,529.43	5.9
Japan	490,383,564.74	48.3
Netherlands	32,601,836.77	3.2
New Zealand	3,610,115.22	0.4
Singapore	10,455,223.72	1.0
Spain	17,074,863.64	1.7
United Kingdom	148,786,647.42	14.7
United States	159,955,500.42	15.8
Grand Total	**$1,014,635,182.12**	**100.0%**

Aggregate International Stock Pool**

Exposure by Country	Market Value	%
Argentina	$142,049.41	0.0%
Austria	4,451,036.65	0.2
Australia	78,084,095.18	3.9
Belgium	10,108,259.96	0.5
Canada	13,971,187.73	0.7
Denmark	9,772,110.70	0.5
Finland	10,550,807.95	0.5
France	105,196,869.86	5.2
Germany Rep.	105,055,176.28	5.2
Greece	711,338.08	0.0
Hong Kong	50,971,080.30	2.5
Italy	23,711,437.18	1.2
Japan	784,968,882.52	39.0
Korea	13,222,619.68	0.7
Malaysia	15,105,186.71	0.8
Mexico	12,184,500.45	0.6
Netherlands	81,867,114.71	4.1
New Zealand	19,839,632.28	1.0
Norway	14,041,153.04	0.7
Portugal	4,219,308.08	0.2
Singapore	28,370,203.80	1.4
South Africa	744,504.08	0.1
Spain	46,678,834.73	2.3
Sweden	26,424,987.66	1.3
Switzerland	44,470,236.99	2.2
Thailand	6,485,480.41	0.3
United Kingdom	291,317,779.76	14.5
United States	208,724,504.57	10.4
Grand Total	**$2,011,390,378.75**	**100.0%**

** Aggregate of all managers in the International Stock Pool. Includes both International Active Equity and Passive Equity Accounts shown in the Financial Statements.

BEA Associates

Fixed Income	Market Value	%
U.S. Gov't./Sponsored	$99,307,506.08	28.6%
U.S. Corporates	56,036,252.79	16.1
U.S. Finance	0.00	0.0
U.S. Mtg. Rel	93,294,753.84	26.8
U.S. Municipals	7,626,393.30	2.2
Miscellaneous	0.00	0.0
All Non U.S.	19,985,073.64	5.8
Total Fixed Income	276,249,979.65	79.5
Cash Equivalents		
U.S.	70,944,997.36	20.4
All Non U.S.	493,896.09	0.1
Total Cash Equivalents	71,438,893.45	20.5
Grand Total	**$347,688,873.10**	**100.0%**

Investment Advisors, Inc.

Fixed Income	Market Value	%
U.S. Gov't./Sponsored	$226,389,925.70	45.4%
U.S. Corporates	75,522,452.12	15.1
U.S. Finance	0.00	0.0
U.S. Mtg. Rel.	97,415,733.26	19.5
U.S. Municipals	0.00	0.0
Miscellaneous	0.00	0.0
All Non U.S.	4,689,067.50	1.0
Total Fixed Income	404,017,178.58	81.0
Cash Equivalents		
U.S.	94,941,955.00	19.0
All Non U.S.	0.00	0.0
Total Cash Equivalents	94,941,955.00	19.0
Grand Total	**$498,959,133.58**	**100.0%**

IDS Advisory

Fixed Income	Market Value	%
U.S. Gov't./Sponsored	$129,165,130.88	53.2%
U.S. Corporates	49,753,976.25	20.5
U.S. Finance	9,900,000.00	4.1
U.S. Mtg.Rel.	0.00	0.0
U.S. Municipals	0.00	0.0
Miscellaneous	0.00	0.0
All Non U.S.	0.00	0.0
Total Fixed Income	188,819,107.13	77.8
Cash Equivalents		
U.S.	53,800,478.00	22.2
All Non U.S.	0.00	0.0
Total Cash Equivalents	53,800,478.00	22.2
Grand Total	**$242,619,585.13**	**100.0%**

Miller Anderson & Sherrerd

Fixed Income	Market Value	%
U.S. Gov't./Sponsored	$113,623,580.25	19.4%
U.S. Corporates	92,807,019.57	15.8
U.S. Finance	0.00	0.0
U.S. Mtg. Rel.	250,430,511.08	42.6
U.S. Municipals	0.00	0.0
Miscellaneous	0.00	0.0
All Non U.S.	30,578,751.32	5.2
Total Fixed Income	487,439,862.22	83.0
Cash Equivalents		
U.S.	98,186,090.00	16.7
All Non U.S.	1,844,292.09	0.3
Total Cash Equivalents	100,030,382.09	17.0
Grand Total	**$587,470,244.31**	**100.0%**

Standish, Ayer & Wood

Fixed Income	Market Value	%
U.S. Gov't./Sponsored	$83,890,905.15	18.6%
U.S. Corporates	165,147,960.70	36.7
U.S. Finance	0.00	0.0
U.S. Mtg. Rel.	126,191,801.39	28.0
U.S. Municipals	0.00	0.0
Miscellaneous	4,199,412.00	1.0
All Non U.S.	40,312,832.42	9.0
Total Fixed Income	419,742,911.66	93.3
Cash Equivalents		
U.S.	29,804,516.29	6.6
All Non U.S.	593,683.94	0.1
Total Cash Equivalents	30,398,200.23	6.7
Grand Total	**$450,141,111.89**	**100.0%**

Trust Company of the West

Fixed Income	Market Value	%
U.S. Gov't./Sponsored	$ 0.00	0.0
U.S. Corporates	0.00	0.0
U.S. Finance	0.00	0.0
U.S. Mtg. Rel.	212,025,724.96	93.9
U.S. Municipals	0.00	0.0
Miscellaneous	0.00	0.0
All Non U.S.	0.00	0.0
Total Fixed Income	212,025,724.96	93.9
Cash Equivalents		
U.S.	13,839,176.00	6.1
All Non U.S.	0.00	0.0
Total Cash Equivalents	13,839,176.00	6.1
Grand Total	**$225,864,900.96**	**100.0%**

Western Asset Management

Fixed Income	Market Value	%
U.S. Gov't./Sponsored	$154,585,464.99	16.4%
U.S. Corporates	230,609,452.48	24.5
U.S. Finance	0.00	0.0
U.S. Mtg. Rel.	367,722,969.18	39.0
U.S. Municipals	45,149,490.90	4.8
Miscellaneous	870,105.08	0.1
All Non U.S.	54,858,443.55	5.8
Total Fixed Income	$853,795,926.18	90.6
Total Equities	$7,425,996.00	0.8
Cash Equivalents		
U.S.	$81,215,403.00	8.6
All Non U.S.	0.00	0.0
Total Cash Equivalents	$81,215,403.00	8.6
Grand Total	**$942,437,325.18**	**100.0%**

Fidelity Investment

Fixed Income	Market Value	%
U.S. Gov't./Sponsored	$379,599,063.50	36.8%
U.S. Corporates	242,260,073.37	23.5
U.S. Finance	0.00	0.0
U.S. Mtg. Rel.	283,881,710.41	27.5
U.S. Municipals	3,809,812.50	0.4
Miscellaneous	0.00	0.0
All Non U.S.	44,064,285.50	4.3
Total Fixed Income	$953,614,945.28	92.5
Cash Equivalents		
U.S.	$76,936,883.00	7.5
All Non U.S.	0.00	0.0
Total Cash Equivalents	76,936,883.00	7.5
Grand Total	**$1,030,551,828.28**	**100.0%**

Lincoln Capital Management

Fixed Income	Market Value	%
U.S. Gov't./Sponsored	$389,034,891.52	36.8%
U.S. Corporates	218,207,900.84	20.7
U.S. Finance	0.00	0.0
U.S. Mtg. Rel.	328,370,806.19	31.1
U.S. Municipals	0.00	0.0
Miscellaneous	0.00	0.0
All Non U.S.	22,331,887.51	2.1
Total Fixed Income	957,945,486.06	90.7
Cash Equivalents		
U.S.	98,078,920.00	9.3
All Non U.S.	0.00	0.0
Total Cash Equivalents	98,078,920.00	9.3
Grand Total	**$1,056,024,406.06**	**100.0%**

Goldman Sachs Asset Management

Fixed Income	Market Value	%
U.S. Gov't./Sponsored	$169,821,468.10	14.1%
U.S. Corporates	415,241,694.00	34.5
U.S. Finance	0.00	0.0
U.S. Mtg. Rel.	353,012,120.06	29.3
U.S. Municipals	932,343.75	0.1
Miscellaneous	0.00	0.0
All Non U.S.	18,695,594.50	1.5
Total Fixed Income	957,703,220.41	79.5
Cash Equivalents		
U.S.	246,897,960.77	20.5
All Non U.S.	0.00	0.0
Total Cash Equivalents	246,897,960.77	20.5
Grand Total	**$1,204,601,181.18**	**100.0%**

Aggregate Bond Pool*

Fixed Income	Market Value	%
U.S. Gov't./Sponsored	$1,745,417,936.17	26.4%
U.S. Corporates	1,545,586,782.12	23.5
U.S. Finance	9,900,000.00	0.2
U.S. Mtg. Rel.	2,112,346,130.37	32.1
U.S. Municipals	57,518,040.45	0.9
Miscellaneous	5,069,517.08	0.1
All Non U.S.	235,515,935.94	3.6
Total Fixed Income	5,711,354,342.12	86.9
Cash Equivalents		
U.S.	864,646,379.42	13.1
All Non U.S.	2,931,872,12	0.0
Total Cash Equivalents	867,578,251.54	13.1
Grand Total	**$6,586,358,589.67**	**100.0%**

* Aggregate of all managers in the Bond Pool. Includes both Active Bond Account and Semi-Passive Bond Account shown in the Financial Statements.

Summarized Asset Listings - Supplemental Investment Fund *As of June 30, 1994*

Income Share Account

	Market Value	%
Supplemental Passive Stock Pool	$168,906,962.82	60.2%
Bonds	98,587,157.02	35.2
Cash Equivalents	12,775,953.00	4.6
Grand Total	**$280,270,072.84**	**100.0%**

Growth Share Account

	Market Value	%
Domestic Stock Pool	$95,293,043.51	93.6%
Cash Equivalents	6,479,060.00	6.4
Grand Total	**$101,772,103.51**	**100.0%**

Common Stock Index Account

	Market Value	%
Supplemental Passive Stock Pool	$47,476,263.06	100.0%
Cash Equivalents	0.00	0.0
Grand Total	**$47,476,263.06**	**100.0%**

Bond Market Account

	Market Value	%
Bond Pool	$20,709,568.27	100.0%
Cash Equivalents	0.00	0.0
Grand Total	**$20,709,568.27**	**100.0%**

Money Market Account

	Market Value	%
Cash Equivalents	$59,602,528.00	100.0%
Grand Total	**$59,602,528.00**	**100.0%**

Fixed Interest Account

	Market Value	%
1991-1994 Contract	$30,200,484.08	44.8%
1992-1995 Contract	17,509,915.80	26.0
1993-1996 Contract	19,702,118.91	29.2
Grand Total	**$67,412,518.79**	**100.0%**

Supplemental Investment Fund

	Market Value	%
Accounts		
Income Share	$280,270,072.84	48.6%
Growth Share	101,772,103.51	17.6
Common Stock Index	47,476,263.06	8.2
Bond Market	20,709,568.27	3.6
Money Market	59,602,528.00	10.3
Fixed Interest	67,412,518.79	11.7
Total Supplemental Investment Fund	**$577,243,054.47**	**100.0%**

Assigned Risk Plan*

	Market Value	%
Equities		
Basic Industries	$8,392,966	1.9%
Capital Goods	5,312,051	1.2
Consumer Basics	0	0.0
Consumer Durables	4,279,000	1.0
Consumer Non. Dur.	24,755,364	5.6
Consumer Services	3,527,951	0.8
Energy	8,677,363	2.0
Finance	10,720,526	2.4
General Business	0	0.0
Miscellaneous	1,622,456	0.4
Shelter	0	0.0
Technology	7,992,882	1.8
Transportation	1,721,451	0.4
Utilities	11,561,888	2.6
All Non U.S.	0	0.0
Total Equities	88,563,890	20.1
Fixed Income		
U.S. Gov't./Sponsored	114,502,462	26.1
U.S. Corporates	162,458,306	37.0
U.S. Mtg. Rel.	60,641,618	13.8
U.S. Municipals	0	0.0
All Non U.S.	10,450,580	2.4
Total Fixed Income	348,052,966	79.3
Cash Equivalents	2,588,223	0.6
Grand Total	**$439,205,080**	**100.0%**

* All amounts are rounded to the nearest dollar, therefore totals may not add due to rounding.

Permanent School Fund*

Fixed Income	Market Value	%
U.S. Gov't./Sponsored	$220,752,246	53.9%
U.S. Corporates	74,793,302	18.3
U.S. Mtg. Rel.	101,352,257	24.8
U.S. Municipals	0	0.0
All Non U.S.	0	0.0
Total Fixed Income	$396,897,805	97.0
Cash Equivalents	12,303,744	3.0
Grand Total	**$409,201,549**	**100.0%**

Environmental Trust Fund*

	Market Value	%
Equities		
Equity Index Pool	$35,769,364	49.3%
Fixed Income		
U.S. Gov't./Sponsored	$11,670,750	16.1
U.S. Corporates	8,680,645	11.9
U.S. Mtg. Rel.	15,944,870	21.9
U.S. Municipals	0	0.0
All Non U.S.	0	0.0
Total Fixed Income	$36,296,265	49.9
Cash Equivalents	$544,758	0.8
Grand Total	**$72,610,387**	**100.0%**

Notes applicable to all Summarized Asset Listings:

— The data source for Domestic Stock Managers, International Stock Managers, and Bond Managers was State Street Bank & Trust, the SBI's custodian for retirement-related assets.

— The data source for the Assigned Risk Plan, Permanent School fund and the Environmental Trust Fund was Financial Control Systems, the SBI's external accounting vendor.

— Market value figures in the Summarized Asset Listings may not reconcile to the amounts shown for various Accounts in the Financial Statements due to minor pricing differences between Financial Controls and State Street Bank as well as trade adjustments that were reflected in the Financial Statements.

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