

**MINNESOTA  
STATE  
BOARD OF  
INVESTMENT**



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**Executive Director:**

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DATE: January 31, 2012

TO: The Honorable Mark Dayton  
Members of the Minnesota Legislature

FROM: Howard J. Bicker, Executive Director 

**SUBJECT: External Money Manager Report Pursuant to Minnesota  
Statutes Section 11A.04, clause (12)**

*Minnesota Statutes*, Section 11A.04, clause (12) requires the State Board of Investment (SBI) to report annually to the Governor and Legislature the cost and investment performance of external investment managers employed by the Board.

On June 30, 2011, the SBI utilized 24 domestic stock managers, 14 international stock managers and 8 bond managers for the retirement assets under its control. As a matter of policy, the SBI allocates approximately one third of domestic stock to active management, one third to semi-passive management and one third to passive management; and approximately one half of all bonds to active management and one half to semi-passive management. As a matter of policy, the SBI allocated approximately half of international stock assets to active management, over one-third to passive management, and about 13 percent to semi-passive management.

The investment performance of each manager, as well as the fees paid to each, are reported in the charts on the following pages. This information is also included in the Board's annual report for FY11. Please note that the SBI stopped using the services of two domestic stock managers during the fiscal year.

It is important to note that all performance data reported by the SBI is *net* of fees and transactions costs associated with the various portfolios. The SBI's FY 2011 Annual Report contains additional detail on manager performance and may be accessed online at [www.sbi.state.mn.us](http://www.sbi.state.mn.us).

**Domestic Stock Managers**

The SBI evaluates domestic stock manager returns against the performance of Russell style indices which reflect the managers' specific investment approaches. The benchmark portfolios take into account the market forces that at times favorably or unfavorably impact certain investment styles. The aggregate domestic stock program is designed to outperform the Russell 3000 Index. Assets are allocated to managers within each Russell style index in the same proportion as in the Russell 3000 Index.

As a group, the managers outperformed the broad market by 0.7 percentage point for the fiscal year. The active and semi-passive components outperformed their respective benchmarks. Thirteen of twenty-one active managers outperformed. Of the semi-passive managers that were funded over the full fiscal year, two outperformed and one underperformed. The passive manager had negative tracking error to the Russell 3000 benchmark.

**Bond Managers**

The SBI evaluates the performance of its bond managers against the Barclays Capital Aggregate bond index. As a group, the bond managers outperformed the broad bond market by 1.6 percentage points for the year. All five active managers and all three semi-passive managers outperformed the benchmark.

**International Stock Managers**

The SBI evaluates international stock managers against market indices published by Morgan Stanley Capital International (MSCI). Two indices are used: the World ex U.S. (net) and the Emerging Markets Free (EMF). As a group, the international stock managers underperformed the MSCI Country World Index (ACWI) ex U.S. (net) index by 0.1 percentage point for the fiscal year. Five of the seven EAFE managers outperformed the index; all three emerging markets managers underperformed the EMF. All three semi-passive EAFE managers outperformed the benchmark. The passive manager had positive tracking error of 0.8 percentage point to the MSCI World ex U.S. index.

**Figure 10. Domestic Stock Manager Performance For Period Ending June 30, 2011**

	1 Year		3 Years		5 Years		Market
	Actual	Bmk	Actual	Bmk	Actual	Bmk	Value
	%	%	%	%	%	%	(in millions)
<b>Active Managers</b>							
<b>Large Cap Core (Russell 1000)</b>							
New Amsterdam Partners	36.3	31.9	3.6	3.7	2.3	3.3	401.8
UBS Global Asset Management	27.5	31.9	3.5	3.7	1.9	3.3	374.6
<b>Large Cap Growth (Russell 1000 Growth)</b>							
INTECH	37.2	35.0	4.1	5.0	3.8	5.3	359.1
Jacobs Levy Equity Mgmt.	40.8	35.0	4.8	5.0	3.7	5.3	325.2
Knelman Asset Mgmt.	38.1	35.0	3.4	5.0	5.0	5.3	67.2
Sands Capital Mgmt.	46.2	35.0	10.8	5.0	8.5	5.3	301.4
Winslow Capital Mgmt.	40.1	35.0	4.8	5.0	7.3	5.3	147.8
Zevenbergen Capital	41.8	35.0	10.3	5.0	9.1	5.3	354.1
<b>Large Cap Value (Russell 1000 Value)</b>							
Barrow, Hanley	33.6	28.9	3.9	2.3	1.9	1.2	465.5
Earnest Partners	29.0	28.9	4.4	2.3	2.2	1.2	193.0
LSV Asset Mgmt.	29.5	28.9	3.0	2.3	0.9	1.2	431.4
Systematic Financial Mgmt.	34.7	28.9	2.1	2.3	2.2	1.2	325.4
<b>Small Cap Growth (Russell 2000 Growth)</b>							
McKinley Capital	42.4	43.5	1.7	8.4	1.0	5.8	235.2
Next Century Growth	49.0	43.5	4.2	8.4	5.6	5.8	301.0
Turner Investment Partners	46.6	43.5	7.5	8.4	6.6	5.8	304.5
<b>Small Cap Value (Russell 2000 Value)</b>							
Goldman Sachs	35.9	31.4	10.5	7.1	6.0	2.2	166.1
Hotchkis & Wiley	41.3	31.4	12.8	7.1	3.0	2.2	149.7
Martingale Asset Mgmt.	35.6	31.4	4.5	7.1	-1.2	2.2	130.5
Peregrine Capital Mgmt.	35.0	31.4	11.8	7.1	2.3	2.2	231.4
<b>Semi-Passive Managers (Russell 1000)</b>							
BlackRock Institutional	31.8	31.9	2.6	3.7	2.2	3.3	2,243.9
INTECH	32.3	31.9					1,423.9
J.P. Morgan Investment Mgmt.	32.2	31.9	5.2	3.7	4.3	3.3	2,699.0
Mellon Capital Mgmt.	32.2	31.9	2.8	3.7	2.2	3.3	1,455.2
<b>Passive Manager (Russell 3000)</b>							
BlackRock Institutional	32.1	32.4	4.1	4.0	3.4	3.4	8,935.4
<b>Aggregate Domestic Stock Pool (1)</b>	<b>33.1</b>	<b>32.4</b>	<b>4.0</b>	<b>4.0</b>	<b>3.2</b>	<b>3.4</b>	<b>22,022.3</b>
<b>Asset Class Target</b>							
Russell 3000		32.4		4.0		3.4	

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

**Figure 13. Bond Manager Performance For Period Ending June 30, 2011**

	1 Year		3 Years		5 Years		Market Value
	Actual	Bmk	Actual	Bmk	Actual	Bmk	(in millions)
	%	%	%	%	%	%	
<b>Active Managers</b>							
Aberdeen Asset Mgmt.	6.4	3.9	5.4	6.5	5.1	6.5	913.3
Columbia Mgmt.	5.7	3.9	6.6	6.5	6.3	6.5	970.5
Dodge & Cox Investment Mgmt.	6.4	3.9	8.9	6.5	7.6	6.5	1,143.6
PIMCO	6.6	3.9					1,141.3
Western Asset Mgmt.	6.6	3.9	8.3	6.5	6.9	6.5	1,167.2
<b>Semi-Passive Managers</b>							
BlackRock Financial Mgmt.	4.0	3.9	5.7	6.5	5.9	6.5	1,581.6
Goldman Sachs Asset Mgmt.	4.7	3.9	7.1	6.5	6.7	6.5	1,937.2
Neuberger Investment Mgmt.	5.2	3.9	8.1	6.5	7.0	6.5	1,885.1
<b>Aggregate Bond Pool (1)</b>	<b>5.5</b>	<b>3.9</b>	<b>7.4</b>	<b>6.5</b>	<b>6.5</b>	<b>6.5</b>	<b>10,739.8</b>
<b>Asset Class Target</b>							
Barclays Capital Aggregate		3.9		6.5		6.5	

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

**Figure 16. International Manager Performance For Period Ending June 30, 2011**

	1 Year		3 Years		5 Years		Market
	Actual	Bmk	Actual	Bmk	Actual	Bmk	Value
	%	%	%	%	%	%	(in millions)
<b>Active Managers</b>							
<b>Developed Mkts (MSCI World ex U.S. net) (1)</b>							
Acadian Asset Mgmt.	32.7	30.3	-5.2	-1.6	-0.3	2.1	302.3
Columbia Mgmt. Investment Advisers, LLC	36.1	30.3	0.6	-1.6	3.1	2.1	290.6
Invesco Global Asset Mgmt.	26.8	30.3	0.4	-1.6	1.7	2.1	243.8
J.P. Morgan Investment Mgmt. Co.	32.2	30.3	0.8	-1.6	2.3	2.1	256.1
Marathon Asset Management	29.2	30.3	1.8	-1.6	5.2	2.1	580.5
McKinley Capital Management	30.8	30.3	-6.9	-1.6	-0.1	2.1	248.7
Pyramis Global Advisors Trust Co.	31.8	30.3	-0.6	-1.6	3.7	2.1	283.9
<b>Semi-Passive Managers</b>							
<b>Developed Mkts (MSCI World ex U.S. net) (1)</b>							
AQR Capital Management	34.0	30.3	-0.4	-1.6	2.4	2.1	286.9
Pyramis Global Advisors Trust Co.	32.1	30.3	-2.4	-1.6	3.1	2.1	427.1
State Street Global Advisors	30.9	30.3	-2.4	-1.6	1.1	2.1	270.4
<b>Active Managers</b>							
<b>Emerging Mkts (MSCI Emerging Markets Net) (2)</b>							
AllianceBernstein L.P.	24.9	27.8	0.5	4.2	9.1	11.6	186.9
Capital International, Inc.	22.5	27.8	6.4	4.2	13.6	11.6	790.8
Morgan Stanley Investment Mgmt.	25.2	27.8	2.9	4.2	10.6	11.6	741.2
<b>Passive Manager</b>							
<b>Developed Mkts (MSCI World ex U.S. net) (1)</b>							
State Street Global Advisors	31.1	30.3	-1.1	-1.6	2.5	2.1	2,770.4
<b>Aggregate International Stock Pool (3) (4)</b>	<b>29.6</b>	<b>29.7</b>	<b>-0.1</b>	<b>-0.3</b>	<b>4.0</b>	<b>3.7</b>	<b>7,679.8</b>
<b>Asset Class Target</b>							
MSCI ACWI ex U.S. (net)		29.7		-0.3		3.7	

- (1) Since 6/1/08 the developed markets manager's benchmark is the MSCI World ex U.S. Standard (large + mid) (net) unhedged. From 10/1/07 through 5/31/08 the benchmark was the Provisional MSCI World ex U.S. Standard (net) unhedged. From 10/1/03 to 9/30/07 the benchmark was MSCI World ex U.S. (net). Prior to that date, it was MSCI EAFE Free (net) unhedged.
- (2) Since 6/1/08 the emerging markets manager's benchmark is the MSCI Emerging Markets Standard (large + mid) (net) unhedged. From 10/1/07 through 5/31/08 the benchmark was the Provisional MSCI Emerging Markets Free Standard (net) unhedged. From 1/1/01 to 9/30/07 the benchmark was MSCI Emerging Markets Free (net) unhedged. Prior to that date, it was MSCI Emerging Markets Free (gross) unhedged.
- (3) Aggregate represents Combined Funds performance and includes the performance of terminated managers.
- (4) Since 6/1/08 the International Equity asset class target is the MSCI ACWI ex U.S. Standard (large + mid) (net) unhedged. From 10/1/07 through 5/31/08 the benchmark was the Provisional MSCI ACWI ex U.S. Standard (net) unhedged. From 10/1/03 to 9/30/07 the target was MSCI ACWI ex U.S. (net) unhedged.

## External Stock and Bond Managers' Fees

Total Payments for Fiscal Year 2011

### Active Domestic Stock Managers (1)

Alliance Bernstein L.P.	* \$ (551,807)
Barrow, Hanley, Mewhinney & Stauss, Inc.	875,373
EARNEST Partners, LLC	474,580
INTECH Investment Management, LLC	1,072,555
Goldman Sachs Asset Management, LP	1,233,519
Hotchkis and Wiley Capital Management, LLC	1,424,317
Jacobs Levy Equity Management, Inc.	997,546
Knelman Asset Management Group, LLC	339,402
Lord, Abbett & Co., LLC	* (99,727)
LSV Asset Management	893,612
Martingale Asset Management L.P.	668,267
McKinley Capital Management Inc.	1,033,583
New Amsterdam Partners, LLC	526,104
Next Century Growth Investors, LLC	2,373,510
Peregrine Capital Management	1,515,416
Sands Capital Management, LLC	1,241,220
Systematic Financial Management, LP	993,488
Turner Investment Partners, Inc.	1,732,023
UBS Global Asset Management (Americas) Inc.	647,730
Winslow Capital Management, Inc.	630,047
Zevenbergen Capital Investments, LLC	1,591,213

### Passive Domestic Stock Managers (2)

Black Rock Institutional Trust Co. N.A.	890,480
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### Semi-Passive Domestic Stock Managers (2)

Black Rock Institutional Trust Co. N.A. (BGI)	2,575,887
INTECH Investment Management, LLC	1,471,280
Mellon Capital Management Corp.	1,358,018
JPMorgan Investment Management, Inc.	2,714,053

### Active Domestic Bond Managers (2)

Aberdeen Asset Management (Deutsche)	1,492,614
Dodge & Cox	1,094,167
PIMCO	2,402,250
Western Asset Management	1,223,404
Columbia Management Investment Advisers, LLC	980,965

### Semi-Passive Domestic Bond Managers (2)

BlackRock Inc. (BGI)	922,342
Goldman Sachs Asset Management, LP	1,302,183
Neuberger (Lehman)	574,133

cont.

## External Stock and Bond Managers' Fees

Total Payments for Fiscal Year 2011

Developed-International Active Stock Managers (2)	
Acadian Asset Management	\$ 1,258,132
Invesco Global Asset Management	788,074
JP Morgan Investment Management Co.	1,097,267
Marathon Asset Management	1,807,291
McKinley Capital Management	1,075,553
Pyramis Global Advisors Trust Co.- Activie (Fidelity)	1,368,464
Columbia Management Investment Advisers, LLC	898,257
Developed-International Semi-Passive Stock Managers (2)	
AQR Capital Management	1,464,936
Pyramis Global Advisors Trust Co.- Semi Passive (Fidelity)	821,290
State Street Global Advisors - Semi Passive	1,210,820
Developed-International Passive Stock Managers (2)	
State Street Global Advisors - Passive	464,504
Emerging-International Active Stock Managers (2)	
Alliance Bernstein L.P.	1,171,146
Capital International	5,822,253
Morgan Stanley Investment Management	6,224,674
Supplemental Fixed (2)	
Galliard	1,942,283
Assigned Risk Plan (2)	
GE Investment Management	189,055
RBC Global Asset Management	241,610

\* Manager Terminated in Fiscal '11

(1) Compensation is based 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) Compensation is based on a specified percentage of assets under management.