

Minnesota State Board of Investment

2012 Annual Report

**Minnesota
State Board
of Investment**

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

MINNESOTA
STATE
BOARD OF
INVESTMENT



Board Members

Governor
Mark Dayton

State Auditor
Rebecca Otto

Secretary of State
Mark Ritchie

Attorney General
Lori Swanson

Executive Director

Howard Bicker

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*An Equal Opportunity
Employer*

December, 2012

The Minnesota State Board of Investment (SBI) is pleased to present its report for the fiscal year ending June 30, 2012.

Investment Environment

During FY12, the U.S. equity markets returned 3.8% as measured by the Russell 3000 Index. Within the Russell 3000, larger stocks outpaced smaller companies and growth companies outperformed value companies.

International markets returned -14.6% for the fiscal year as measured by the the Morgan Stanley Capital International (MSCI) All Country World Index excluding the United States net taxes on dividends (ACWI ex U.S.), which represents the developed and emerging international investments outside the U.S. While negative, the returns in the developed markets were somewhat stronger than in the emerging markets. Concerns continued about the euro-zone crisis and economic slowdown in the U.S. and China.

The U.S. bond market, as measured by the Barclays Capital Aggregate Bond Index, rose 7.5% during the fiscal year. Within the bond market corporate bonds and U.S. Treasuries were the best performing sectors.

Fiscal Year 2012

Within this investment environment, the Combined Funds returned 2.4% during fiscal year 2012. Over the latest ten year period, the Funds generated an annualized return of 7.0%. (See page 8).

SBI Results

On June 30, 2012, assets under management totaled \$62.3 billion. This total is the aggregate of numerous pension funds, trust funds and cash accounts, each with different investment objectives. In establishing a comprehensive management program, the Board develops an investment strategy for each fund which reflects its unique requirements. **The primary purpose of this annual report is to communicate the investment goals, policies and performance of each fund managed by the Board.** Through the investment programs presented in this report, the Minnesota State Board of Investment seeks to enhance the management and performance of the assets under its control.

Sincerely,

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

Howard Bicker
Executive Director

State Board of Investment

Governor Mark Dayton, Chair

State Auditor Rebecca Otto

Secretary of State Mark Ritchie

State Attorney General Lori Swanson

Investment Advisory Council

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

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

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

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

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

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

Members of the Council

Jeffery Bailey, Chair
Director, Benefits Finance
Target Corporation

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

Denise Anderson
Governor's Appointee
Active Employee Representative

David Bergstrom
Executive Director
Mn. State Retirement System

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

Kerry Brick
Manager, Pension Investments
Cargill, Inc.

Dennis Duerst
Director, Benefits Funds
Investment
3M Company

Kim Faust
Director, Treasury & Fin'l
Reporting
Allina Health

Douglas Gorence
Chief Investment Officer
U of M Foundation Investment
Advisors

Laurie Fiori Hacking
Executive Director
Teachers Retirement
Association

P. Jay Kiedrowski
Senior Fellow
Humphrey Institute
University of MN

Judith W. Mares Lazar
Chief Investment Officer
ATK

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

Jim Schowalter
Commissioner
Minnesota Management &
Budget

Mary Vanek
Executive Director
Public Employees Retirement
Association

Elaine Voss
Governor's Appointee
Retiree Representative

As of December 2012

Staff, Consultants & Custodians

Howard Bicker
Executive Director

James E. Heidelberg
Assistant Executive Director

Investment Staff

Public Equities
Tammy Brusehaver
Mgr., Domestic Equity

Patricia Ammann
Portfolio Mgr., Domestic Equity

Stephanie Gleeson
Mgr., International Equity

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

Ryan O. Hill
Portfolio Mgr., Long-Term Debt

Alternative Assets
John N. Griebenow
Mgr., Alternative Investments

John J. Kirby
Portfolio Mgr., Alternative
Investments

Cash Management
Steven P. Kuettel
Mgr., Short-Term Debt

Aaron D. Griga
Portfolio Mgr., Short-Term Debt

Public Programs
LeaAnn M. Stagg
Mgr., Public Programs

Deborah Griebenow
Analyst, Shareholder Services

Administrative Staff

Finance and Accounting
Paul T. Anderson
Administrative Director

William J. Nicol
Accounting Director

Kathy Leisz
Information Technology
Specialist 2

Wendy Murphy
Accounting Officer, Senior

Shirley Baribeau
Accounting Officer,
Intermediate

Julie Grill
Accounting Officer,
Intermediate

Support Services
Charlene Olson
Administrative Assistant to the
Executive Director

Melissa Mader
Office Administrative Specialist,
Intermediate

Kailee Kemp
Office Administrative Specialist

Consultants

General Consultant
Callan Associates Inc.
Chicago, Illinois

Special Projects Consultant
Pension Consulting Alliance
Studio City, California

Custodian Banks

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

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

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, 2012, the market value of all assets was \$62.3 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 as specified in the Constitution is comprised of the Governor (who is designated as chair of the Board), State Auditor, Secretary of State and State Attorney General.

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

Prudent Person Rule

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

Authorized Investments

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

Investment Policies

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

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

Important Notes

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

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

Funds Under Management

*Market Value
June 30, 2012**

Retirement Funds

\$52.9 billion

Combined Funds

\$47.5 billion

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

Teachers Retirement Fund	\$ 16.7 billion
Public Employees Retirement Fund	13.6 billion
Public Employees Police and Fire Fund	5.8 billion
Public Employees Correctional Fund	305 million
Public Employees MERF Division	786 million
State Employees Retirement Fund	9.1 billion
Correctional Employees Fund	658 million
Highway Patrol Retirement Fund	549 million
Legislative Retirement Fund	14 million
Judges Retirement Fund	144 million

Supplemental Investment Fund (SIF)

\$1.2 billion

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

Note: Numbers below do not include \$1.4 billion of State Deferred Compensation dollars invested in the Supplemental Investment Fund that are included in the \$4.2 billion total for the State Deferred Compensation Plan.

Income Share Account	stocks and bonds	\$260 million
Common Stock Index Account	passively managed stocks	165 million
Growth Share Account	actively managed stocks	131 million
Bond Market Account	actively managed bonds	133 million
International Share Account	non-U.S. stocks	74 million
Fixed Interest Account	stable value investments	181 million
Money Market Account	short-term debt securities	204 million
Volunteer Firefighter Account	stocks and bonds	7 million

State Deferred Compensation Plan

\$4.2 billion

The State Deferred Compensation Plan offers nine mutual funds, a money market fund, a fixed interest (stable value) fund, and a set of target date commingled funds.

Funds Under Management

*Market Value
June 30, 2012**

Non-Retirement Funds

\$2.4 billion

Assigned Risk Plan

\$283 million

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

Permanent School Fund

\$842 million

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

Environmental Trust Fund

\$615 million

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.

Other Post Employment Benefits Accounts (OPEB'S)

\$309 million

These accounts are the assets set aside by local units of government for the payment of retiree benefits trustee by the Public Employees Retirement Association.

Miscellaneous Accounts

\$380 million

State Cash Accounts

\$7.0 billion

These accounts are the cash balances of state government funds including the General Fund, transportation funds, and miscellaneous cash accounts. Assets are invested through the Invested Treasurers Cash Pool in high quality, liquid, debt securities.

Total Assets Invested by SBI

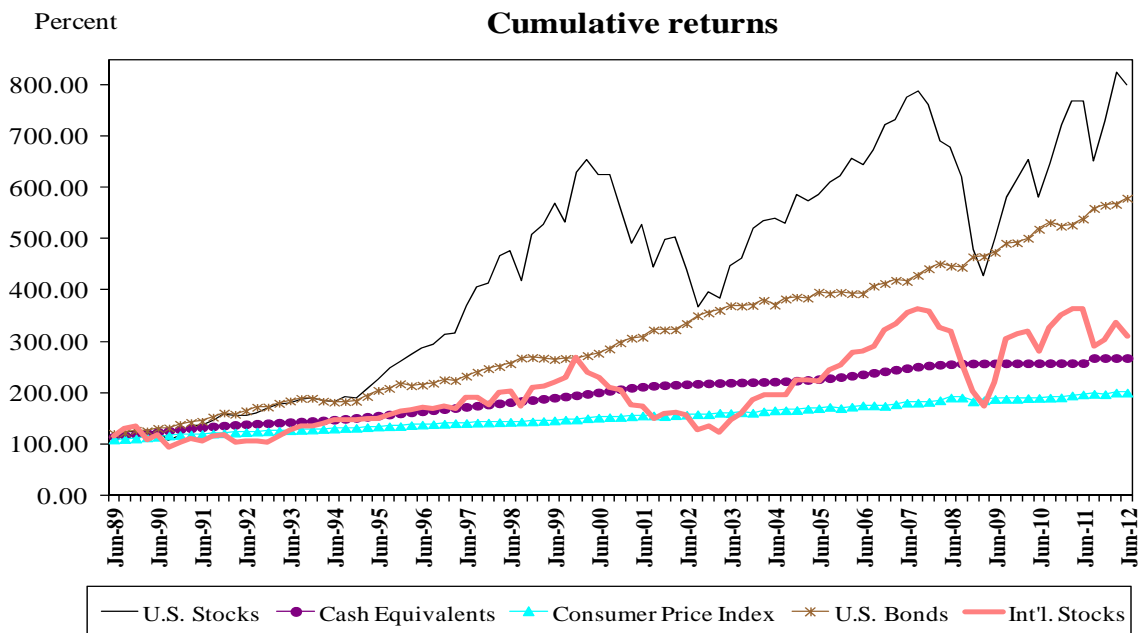
\$62.3billion

* Totals may not add due to rounding.

Combined Funds

Figure 1.

PERFORMANCE OF CAPITAL MARKETS **Cumulative returns**



Period Ending June 30, 2012

	1 Yr.	3 Yr.	5 Yr.	10 Yr.
Domestic Equity				
Russell 3000 Index	3.8%	16.7%	0.4%	5.8%
Domestic Fixed Income				
Barclays Capital Aggregate (1)	7.5	6.9	6.8	5.6
3 month U.S. Treasury Bills	0.04	0.1	0.8	1.8
International				
ACWI (2)	-14.6	7.0	-4.6	6.7
Inflation Measure				
Consumer Price Index CPI-U (3)	1.7	2.1	2.0	2.4

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

(2) Morgan Stanley Capital International index of All World Country Index (ACWI) ex-U.S. (Net index)

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

Combined Funds

The Combined Funds represent the assets of both active and retired public employees who participate in the defined benefit plans of three state-wide retirement systems: Teachers Retirement Association (TRA), Public Employees Retirement Association (PERA) and the Minnesota State Retirement System (MSRS). On June 30, 2012, the Combined Funds had a market value of \$47.5 billion.

Background

The Combined Funds consist of the assets of active employees and retired members of ten different retirement funds. The SBI commingles the assets of these plans into the Combined Funds to capture investment efficiencies. Please refer to the previous Annual Report for an explanation of the legislative changes that led to the present composition of the Combined Funds.

Figure 2 identifies the ten different retirement funds which comprise the Combined Funds.

Investment Objectives

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

Actuarial Assumed Return

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

investment returns of at least 8.5% (the rate set by statute) on an annualized basis, over time. Please note that 2012 legislation changes the actuarial return assumption to 8.0% for five years beginning July 1, 2012.

Time Horizon

In general, pension assets will accumulate in the Combined Funds for 30 to 40 years during an employee's years of active service. A typical retiree can be expected to draw benefits for an additional 15 to 20 years. This provides the Combined Funds with a long investment time horizon and permits the Board to take advantage of the long run

return opportunities offered by common stocks and other equity investments in order to meet the actuarial return target.

Asset Allocation

The allocation of assets among stocks, bonds, alternative investments (alternative investments include real estate, mezzanine debt, and resource) and cash has a dramatic impact on investment results. In fact, asset allocation decisions overwhelm the impact of individual security selection within a total portfolio. The SBI periodically reviews the asset allocation of the Combined

Figure 2. Composition of Combined Funds as of June 30, 2012

Teachers Retirement Fund	35.1%
Public Employees Retirement Association	
Public Employees Retirement Fund	28.5%
Public Employees Police and Fire Fund	12.1
Public Employees Correctional Fund	0.6
Public Employees MERF Division	1.7
Total PERA	42.9
Minnesota State Retirement System	
State Employees Retirement Fund	19.1
Correctional Employees Fund	1.4
Highway Patrol Retirement Fund	1.2
Legislative Retirement Fund	0.0
Judges Retirement Fund	0.3
Total MSRS	22.0
Funds Total*	100.0%

* Total may not add due to rounding.

Combined Funds

Funds. Figure 3 presents the actual asset mix of the Combined Funds as of June 30, 2012.

As illustrated in Figure 1, historical evidence indicates that U.S. common stocks will provide the greatest opportunity to maximize investment returns over the long-term. As a result, the Board has chosen to incorporate a large commitment to common stocks in the asset allocation policy for the retirement funds. In order to limit the short run volatility of returns exhibited by common stocks, the Board includes other asset classes such as bonds, real estate, and resource investments in the total portfolio. This diversification is intended to reduce wide fluctuations in investment returns on a year to

year basis and enhances the Funds' ability to meet or exceed the actuarial return target over the long-term.

Long-Term Allocation Policy

The Combined Funds have a policy asset allocation which is based on the investment objectives of the Combined Funds and the expected long run performance of the capital markets. The policy asset allocation of the Combined Funds that was approved by the Board in December 2008 and reaffirmed during fiscal year 2012 is as follows:

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

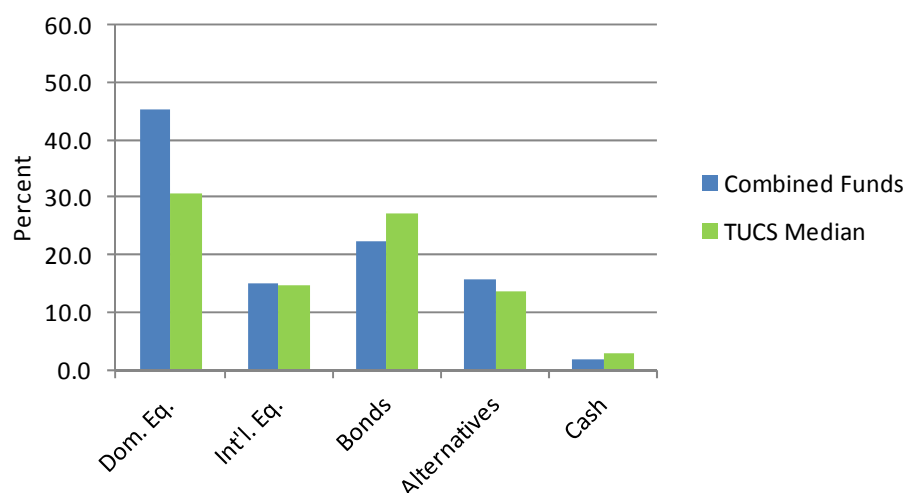
The unfunded allocation to alternative investments is held in bonds until it is needed for investment. As a result, the actual amount invested in bonds at any time can be above the target allocation.

Figure 3 presents the actual asset mix of the Combined Funds at the end of fiscal year 2012. Historical asset mix data are displayed in Figure 4.

Asset Mix Compared to Other Pension Funds

The Board finds it instructive to review asset mix and performance of the Combined Funds relative to other pension fund investors. The comparison universe used by the SBI is the Master Trust portion of the Trust Universe Comparison Service (TUCS). This universe contains

Figure 3. Combined Funds Asset Mix Comparison as of June 30, 2012



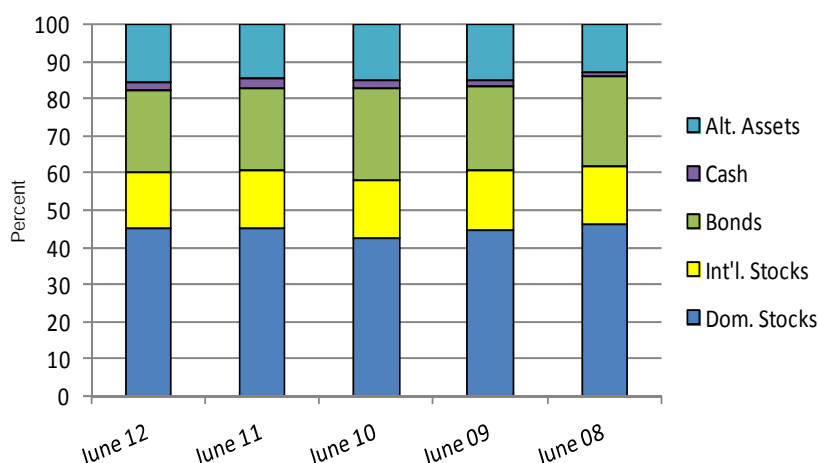
	Combined Funds	Median Allocation in TUCS*
Domestic Equity	45.2%	30.6%
International Equity	14.9	14.7
Bonds	22.3	27.1
Alternatives**	15.7	13.6
Cash	1.9	2.9

* Represents the median allocation by asset class, and does not add to 100%.

** TUCS may include assets other than alternatives.

Combined Funds

Figure 4. Combined Funds Historical Asset Mix FY 2008-2012



information on public and corporate pension and trust funds with over \$1 billion with a diversified asset mix.

Comparisons of the Combined Funds' actual asset mix to the median allocation to stocks, bonds and other assets of the funds in TUCS on June 30, 2012 are also displayed in Figure 3. The Combined Funds were overweighted in domestic equities, international equities, and alternative investments relative to the median allocation in TUCS, and were underweighted in bonds and cash.

Total Return Vehicles

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

of the total portfolio. The rationale underlying the inclusion of **private equity** is similar.

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

Diversification Vehicles

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

Real Estate and **resource** (oil and gas) investments provide an inflation hedge that other financial assets cannot offer. Under normal financial conditions, such as low to

moderate inflation, the returns on these assets are not highly correlated with common stocks. As a result, inclusion of these assets in the Combined Funds serves to dampen return volatility.

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

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

Combined Funds

Investment Management

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

Return Objectives

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

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

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

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

Investment Results

Comparison to Inflation

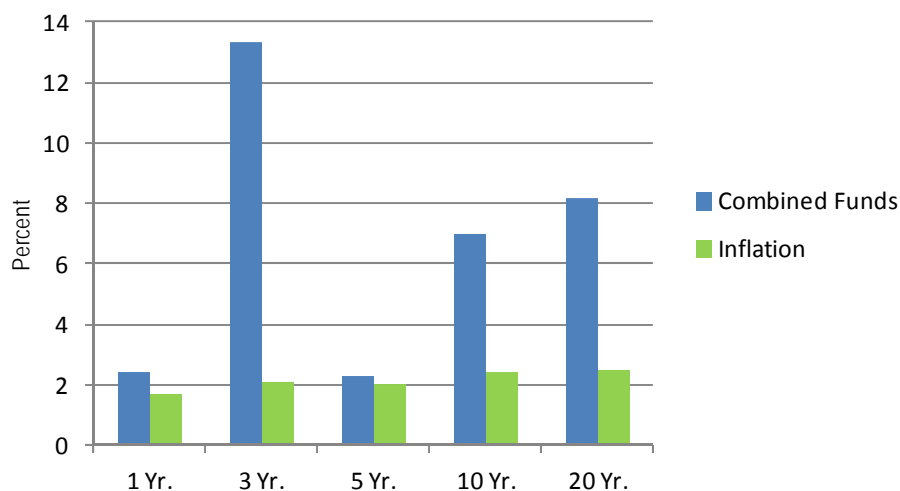
Over the last twenty years, the Combined Funds exceeded inflation by 5.7 percentage points. Historical results compared to inflation are shown in Figure 5.

Comparison to Market Returns

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

- The ability of the managers selected by the SBI, in aggregate, to add value to the returns available from the broad capital markets.
- The impact of the SBI's rebalancing activity. The SBI rebalances the total Fund when market movements take the stock (domestic and international), bond, or cash segments above or below long term asset allocation targets. This policy imposes a low risk discipline of "buy low-sell

Figure 5. Combined Funds Performance vs. Inflation For Period Ending June 30, 2012



	Annualized				
	1 Yr.	3 Yr.	5 Yr.	10 Yr.	20 Yr.
Combined Funds*	2.4%	13.3%	2.3%	7.0%	8.2%
Inflation	1.7	2.1	2.0	2.4	2.5

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

Combined Funds

high” among asset classes on a total fund basis.

Performance results and a breakdown of the composite index are shown in Figures 6 and 7. The Combined Funds exceeded the composite index over the last ten years by 0.1% and, therefore, met the stated performance goal. The Funds matched the composite index over the last five years and underperformed by 0.6 percentage points over the most recent fiscal year. These results are largely a measure of value added or lost from active management after all fees and expenses have been taken into consideration.

Comparison to Other Funds

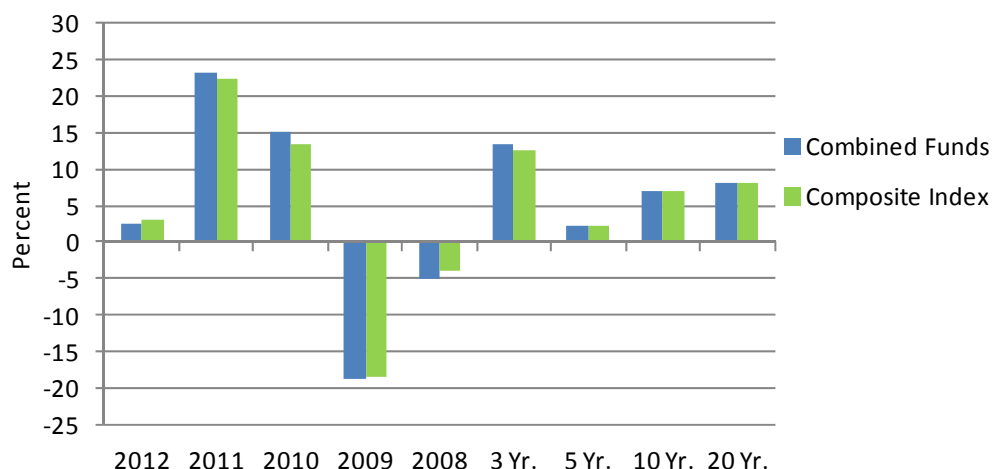
While the SBI is concerned with how its returns compare to other pension investors, universe comparison data should be used with great care. There are two primary reasons why such comparisons will provide an “apples-to-oranges” look at performance:

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

holdings in their reports to TUCS. This further distorts comparisons among funds.

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

Figure 6. Combined Funds Performance For Period Ending June 30, 2012



	2012	2011	2010	2009	2008	3 Yr.	Annualized			
Combined Funds*	2.4%	23.3%	15.2%	-18.8%	-5.0%	13.3%	5 Yr.	10 Yr.	20 Yr.	
Composite Index	3.0	22.4	13.4	-18.4	-3.9	12.6	2.3	6.9	8.0	

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

Combined Funds

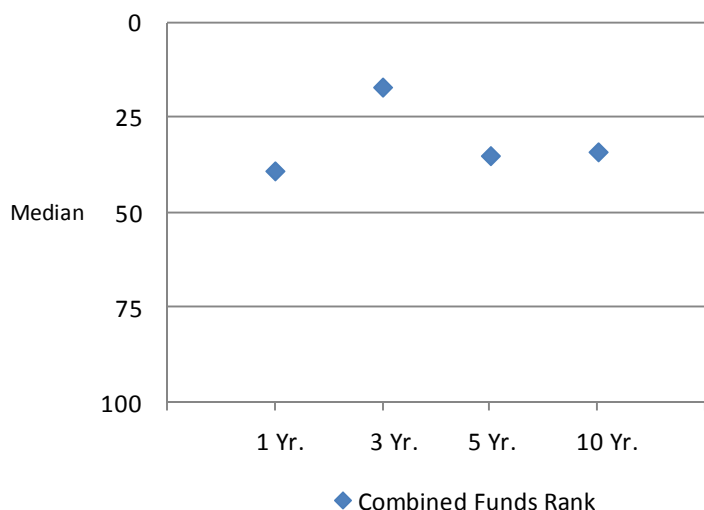
With these considerations in mind, the performance of the Combined Funds compared to other public and corporate pension funds with over \$1 billion in assets in the Master Trust portion of TUCS is displayed in Figure 8. It shows that the Combined Funds have ranked above the median over the last one,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

Figure 7. Composite Index for Period Ending June 30, 2012

Asset Class	Market Index	Composite Index Wts. *
Domestic Stocks	Russell 3000	45.0%
Int'l Stocks	MSCI ACWI Free ex. U.S.	15.0
Domestic Bonds	Barclays Capital Aggregate	22.0
Alternative Investments	Alternative Investments	16.0
Unallocated Cash	3 Month T-Bills	2.0
Total		100.0%

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

Figure 8. Combined Funds Performance Compared to Other Pension Funds



	1 Yr.	3 Yr.	Annualized 5 Yr.	10 Yr.
Combined Funds Percentile Rank in TUCS*	39th	17th	35th	34th

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

Investment Pools

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

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

This investment management structure used by the SBI for over 20 years allows the SBI to gain greater operating efficiency within asset classes and to keep management costs as low as possible for all participants.

Domestic Stock Pool

The Domestic Stock Pool is used by the Combined Funds and the Supplemental Investment Fund Growth Share Account, Common Stock Index Account, and the stock portions of the Income Share Account and Volunteer Firefighter Account.

The following are the dollar values as of June 30, 2012 of each fund’s participation in the Pool:

Combined Funds (active, passive and semi-passive)	\$21.9 billion
---	----------------

Growth Share Account (active and semi-passive)	\$131 million
--	---------------

Common Stock Index Account (passive)	\$165 million
--------------------------------------	---------------

Stock portion of the Income Share Account (passive)	\$156 million
---	---------------

Volunteer Firefighter Account	\$2.5 million
-------------------------------	---------------

Management Structure

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

— **Active Management.** At the end of fiscal year 2012, approximately 24% of the Domestic Stock Pool was actively managed by a group of 19 external investment managers. The assets allocated to each of the managers ranged in size from approximately \$60 million to \$470 million.

— **Semi-Passive Management.** At the end of fiscal year 2012, approximately 39% of the Domestic Stock Pool was managed by a group of four semi-passive external investment managers with portfolios ranging from \$1.7 billion to \$2.8 billion.

— **Passive Management.** At the end of fiscal year 2012, approximately 37% of the Stock Pool was managed passively by a single manager with a portfolio of \$8 billion.

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

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

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

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

Investment Pools

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

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

FY 2012 Changes

During fiscal year 2012, no changes were made to the manager structure.

Investment Performance

A comprehensive monitoring system has been established to ensure that the many elements of the Domestic Stock Pool conform to the SBI's investment policies. Published performance benchmarks are used for each domestic stock manager. These benchmarks enable the SBI to evaluate the managers' results,

both individually and in aggregate, with respect to risk incurred and returns achieved. Two primary long-term **risk objectives** have been established for the domestic stock managers:

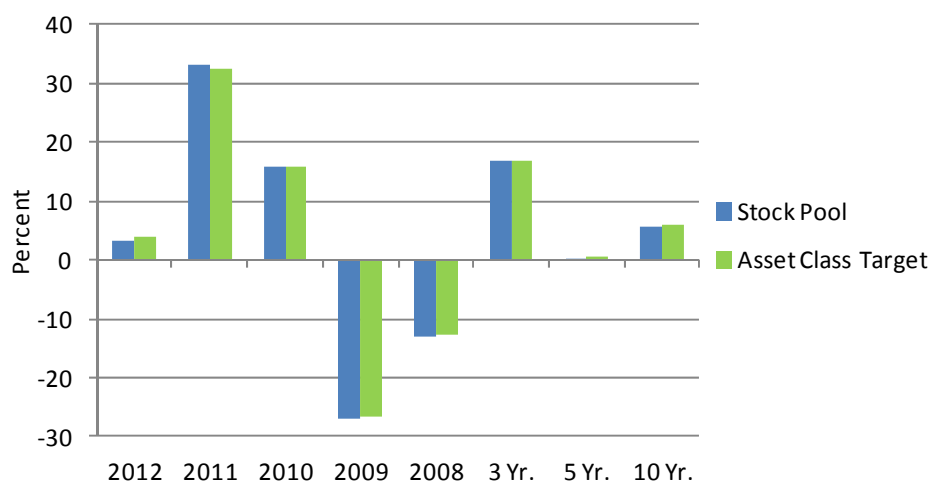
- **Investment Approach.** Each manager (active, semi-passive, or passive) is expected to hold a portfolio that is consistent, in terms of risk characteristics, with the manager's stated investment approach. In the short run, market fluctuations may result in a departure from the active managers' risk targets as part of their specific investment strategies.
- **Diversification.** The passive and semi-passive managers are expected to hold highly diversified portfolios, while each active domestic stock

manager may hold a more concentrated portfolio, appropriate for the particular investment strategy and style.

The domestic stock managers successfully fulfilled their long-term risk objectives during fiscal year 2012. In general, the managers constructed portfolios consistent with their stated investment approaches and maintained levels of diversification that were appropriate for their respective active, semi-passive and passive approaches.

The Board's **return objectives** for active and semi-passive stock managers are measured against the published Russell style indices that represent the managers' specific investment approaches. These indices take into account the equity market forces that impact certain

Figure 9. Domestic Stock Pool Performance For Period Ending June 30, 2012



	2012	2011	2010	2009	2008	3 Yr.	5 Yr.	10 Yr.
Stock Pool	3.1%	33.1%	15.8%	-26.9%	-13.1%	16.7%	0.2%	5.6%
Asset Class Target*	3.8	32.4	15.7	-26.6	-12.7	16.7	0.4	5.8

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

Investment Pools

investment styles. Thus, a Russell style index or benchmark is a more appropriate return target against which to judge a manager's performance than a broad market index.

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

In aggregate, the Domestic Stock Pool trailed the Russell 3000 Index by 0.7 percentage point for the fiscal year. The active manager group trailed its respective benchmark and the semi-passive manager group outperformed its respective benchmark.

Relative to the aggregate benchmark, the underperformance of the active manager group was due to poor stock selection, primarily in technology and consumer discretionary sectors. The semi-passive managers benefited from stock selection. The passive manager had positive tracking error for the year.

Figure 9 provides details of the historical performance of the entire pool. Manager performance relative to the respective benchmarks for the fiscal year end was challenging. Seventeen of 19 active managers underperformed their assigned benchmarks and two managers outperformed. Three semi-passive managers outperformed the Russell 1000, while one matched the benchmark. Individual manager performance for fiscal year 2012 is shown in Figure 10.

Investment Pools

Figure 10. Domestic Stock Manager Performance For Period Ending June 30, 2012

	1 Year		3 Years		5 Years		Market Value
	Actual	Bmk	Actual	Bmk	Actual	Bmk	(in millions)
	%	%	%	%	%	%	
Active Managers							
Large Cap Core (Russell 1000)							
New Amsterdam Partners	-5.1	4.4	11.5	16.6	-1.6	0.4	381.4
UBS Global Asset Management	-0.6	4.4	13.6	16.6	-2.2	0.4	372.2
Large Cap Growth (Russell 1000 Growth)							
INTECH	4.0	5.8	18.4	17.5	1.8	2.9	373.5
Jacobs Levy Equity Mgmt.	4.6	5.8	19.5	17.5	1.7	2.9	340.0
Knelman Asset Mgmt.	0.6	5.8	15.4	17.5	1.2	2.9	67.6
Sands Capital Mgmt.	10.0	5.8	26.5	17.5	8.2	2.9	331.4
Winslow Capital Mgmt.	0.8	5.8	16.4	17.5	3.7	2.9	148.9
Zevenbergen Capital	-11.7	5.8	14.7	17.5	2.4	2.9	312.7
Large Cap Value (Russell 1000 Value)							
Barrow, Hanley	0.5	3.0	14.6	15.8	-1.9	-2.2	467.9
Earnest Partners	0.2	3.0	14.2	15.8	-1.2	-2.2	193.3
LSV Asset Mgmt.	-0.7	3.0	14.8	15.8	-3.3	-2.2	428.3
Systematic Financial Mgmt.	-5.1	3.0	14.5	15.8	-2.9	-2.2	308.9
Small Cap Growth (Russell 2000 Growth)							
McKinley Capital	-4.9	-2.7	17.6	18.1	-3.0	2.0	223.6
Next Century Growth	-6.8	-2.7	18.3	18.1	0.8	2.0	280.7
Turner Investment Partners	-8.3	-2.7	16.8	18.1	1.3	2.0	279.3
Small Cap Value (Russell 2000 Value)							
Goldman Sachs	1.2	-1.4	20.3	17.4	2.9	-1.0	168.1
Hotchkis & Wiley	-4.1	-1.4	25.8	17.4	-0.5	-1.0	143.5
Martingale Asset Mgmt.	-2.1	-1.4	17.0	17.4	-3.3	-1.0	127.7
Peregrine Capital Mgmt.	-1.5	-1.4	20.9	17.4	-0.7	-1.0	227.9
Semi-Passive Managers (Russell 1000)							
BlackRock Institutional	6.3	4.4	16.6	16.6	-0.1	0.4	2,384.4
INTECH	4.4	4.4					1,715.2
J.P. Morgan Investment Mgmt.	4.8	4.4	17.3	16.6	1.1	0.4	2,827.7
Mellon Capital Mgmt.	7.3	4.4	17.3	16.6	0.1	0.4	1,795.2
Passive Manager (Russell 3000)							
BlackRock Institutional	3.9	3.8	16.8	16.7	0.5	0.4	8,064.0
Aggregate Domestic Stock Pool (1)							
	3.1	3.8	16.7	16.7	0.2	0.4	21,963.4
Asset Class Target							
Russell 3000		3.8		16.7		0.4	

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

Figure 11.

**Domestic Stock Pool Allocations
Russell Global (US) Sector Weights
As of June 30, 2012**

Russell Sector	Active Managers %	Semi-Passive Managers %	Passive Manager %	Aggregate Domestic Stock Pool %	Benchmarks Russell 1000 %	Russell 3000 %
Consumer Discretionary	16.0	13.4	13.2	14.0	13.4	13.5
Consumer Staples	3.8	8.5	8.2	7.2	8.8	8.4
Energy	9.7	11.4	10.7	10.7	11.3	10.9
Financial Services	16.0	16.1	16.1	16.0	15.9	16.4
Health Care	13.3	11.4	11.2	11.8	11.4	11.5
Materials and Processing	4.4	4.2	4.5	4.4	4.4	4.7
Producer Durables	11.3	10.4	11.3	11.0	11.3	11.5
Technology	18.2	17.3	16.5	17.2	17.1	16.9
Utilities	3.1	6.4	6.1	5.5	6.4	6.2
Cash	1.8	0.5	1.0	1.0	N/A	N/A
Unassigned*	2.4	0.4	1.2	1.3	N/A	N/A
Assigned Benchmark:	Russell 3000	Russell 1000	Russell 3000	Russell 3000		

* Holdings not included in benchmark.

Note: Totals may not add due to rounding.

Investment Pools

Bond Pool

The Bond Pool is used by the Combined Funds, the Supplemental Investment Fund Bond Market Account and the bond portion of the Volunteer Firefighter Account.

The following are the dollar values as of June 30, 2012 of each fund's participation in the Pool:

Combined Funds \$10.6 billion (active and semi-passive)

Bond Market Account \$133 million (active and semi-passive)

Volunteer Firefighter Account \$3 million (bond portion)

Investment Management

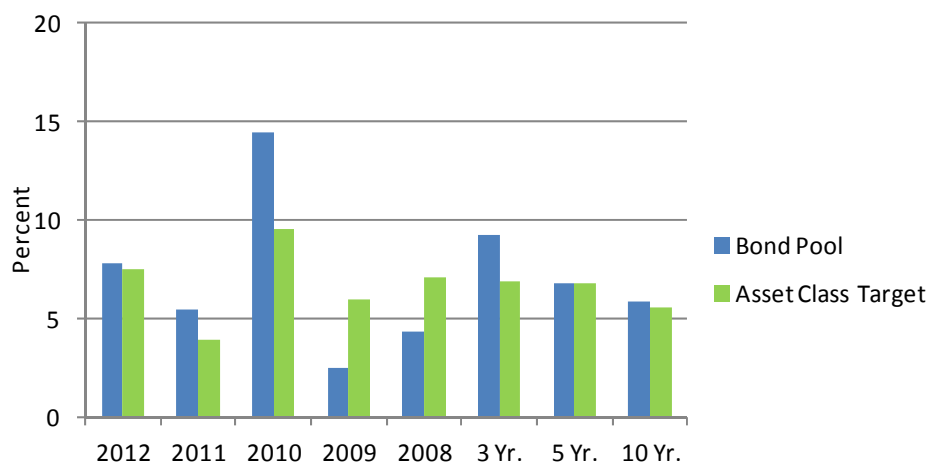
The SBI uses a two part approach for the management of the Bond Pool:

— **Active Management.** The target is to have no more than half of the Bond Pool managed actively. At the end of fiscal year 2012, approximately 50% of the Bond Pool was actively managed by five external investment managers with portfolios ranging in size from \$833 million to more than \$1.2 billion.

— **Semi-Passive Management.** The target is to have at least half of the assets of the Bond Pool managed semi-passively. At the end of fiscal year 2012, approximately 50% of the bond segment was invested by three managers with portfolios of \$1.7 to \$1.8 billion each.

The group of **active** bond managers is retained for its blend of investment styles. Each active manager has the goal of outperforming the Barclays Capital Aggregate Bond Index by focusing on high quality fixed income securities across all sectors of the market. The managers vary, however, in the emphasis they place on interest rate anticipation (duration) and in the manner in which they approach security selection and sector weighting decisions. In keeping with the objective of utilizing the Bond Pool as a deflation hedge, the active managers are restricted regarding the duration of their portfolios. This requirement is designed to prevent the dilution of the deflation hedge of the total pool due to an excessively short duration position. In addition, the duration restriction helps to avoid extreme variability in total returns relative to the benchmark. The

Figure 12. Bond Pool Performance For Period Ending June 30, 2012



	2012	2011	2010	2009	2008	Annualized		
Bond Pool	7.8%	5.5%	14.5%	2.5%	4.3%	3 Yr.	5 Yr.	10 Yr.
Asset Class Target*	7.5	3.9	9.5	6.0	7.1	6.9	6.8	5.6

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

Investment Pools

SBI constrains the duration range of the active managers' portfolios to a band of plus or minus two years around the duration of the Barclays Capital Aggregate. The active bond managers focus on high quality (BBB or better) rated bonds. Four managers have been granted authority to invest a limited portion of their portfolios in BB and B rated dollar denominated debt and three have been given authority to invest in investment grade non-dollar denominated issues. The managers use this additional authority on a tactical basis.

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

a limited portion of its portfolio in BB and B rated dollar denominated debt or in investment grade non-dollar denominated issues. The manager uses this additional authority on a tactical basis.

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

FY 2012 Changes

There were no changes to the bond program in fiscal year 2012.

Investment Performance

The SBI constrains the *risk* of the active bond managers' portfolios to ensure that they fulfill their deflation hedge and total fund diversification roles. As noted earlier, the managers are restricted in terms of the duration of their portfolios and the quality of their fixed income investments. The active and semi-passive bond managers successfully fulfilled their long-term risk objectives during fiscal

year 2012. The managers constructed portfolios consistent with stated investment approaches and maintained appropriate levels of quality and duration.

The *returns* of each of the bond managers are compared to the Barclays Capital Aggregate. Individual managers are expected to exceed the target, net of fees, on an annualized basis. In total, the pool outperformed the Barclays Capital Aggregate by 0.3 percentage point for the recent fiscal year. Relative to the benchmark, the pool benefited from an overweight position in corporate bonds and security selection in the spread sectors (corporate and mortgage securities). Performance over the long-term is satisfactory. The pool outperformed the asset class target by 0.3 percentage point over the ten year period ending June 30, 2012. For fiscal year 2012 three active managers exceeded the benchmark's performance, while two active

Figure 13. Bond Manager Performance For Period Ending June 30, 2012

	1 Year		3 Years		5 Years		Market
	Actual	Bmk	Actual	Bmk	Actual	Bmk	Value
	%	%	%	%	%	%	(in millions)
Active Managers							
Aberdeen Asset Mgmt.	8.7	7.5	10.9	6.9	5.6	6.8	833.5
Columbia Mgmt.	8.7	7.5	8.9	6.9	6.7	6.8	947.8
Dodge & Cox Investment Mgmt.	6.2	7.5	8.6	6.9	7.5	6.8	1,109.3
PIMCO	6.5	7.5	10.0	6.9			1,216.0
Western Asset Mgmt.	8.2	7.5	10.4	6.9	7.2	6.8	1,263.1
Semi-Passive Managers							
BlackRock Financial Mgmt.	7.9	7.5	7.8	6.9	6.3	6.8	1,707.0
Goldman Sachs Asset Mgmt.	8.3	7.5	8.6	6.9	7.1	6.8	1,835.3
Neuberger Investment Mgmt.	7.8	7.5	9.4	6.9	7.4	6.8	1,821.3
Aggregate Bond Pool (1)	7.8	7.5	9.2	6.9	6.8	6.8	10,733.3
Asset Class Target							
Barclays Capital Aggregate		7.5		6.9		6.8	

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

Investment Pools

managers underperformed the benchmark. All three semi-passive managers outperformed the benchmark.

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

Figure 14.

Bond Pool Sector Weights* As of June 30, 2012

	Active Managers %	Semi-Passive Managers %	Aggregate Bond Pool %	Barclays Capital Benchmark %
Treasury	15.2	30.9	23.0	36.0
Government-Related	6.9	8.1	7.4	10.7
Corporate	24.0	22.0	23.0	20.6
U.S. Mortgage	36.2	30.5	34.0	30.6
Commercial Mortgage	4.0	5.1	4.5	1.9
Asset Backed	2.7	2.9	2.8	0.2
Municipal	2.9	0.2	1.6	0.0
High-Yield	6.7	0.5	3.6	0.0
Other	1.4	0.0	0.6	0.0

* May not equal 100% due to rounding.

Portfolio Characteristics As of June 30, 2012

	Active Managers %	Semi-Passive Managers %	Aggregate Bond Pool %	Barclays Capital Benchmark %
Average Quality	A+	AA-	AA-	AA
Average Coupon	4.24	3.52	3.90	3.78
Average Yield to Maturity	3.34	2.10	2.73	1.98
Effective Duration**	4.55	4.94	4.74	5.07
Weighted Average Life***	7.3 Yrs.	6.8 Yrs.	7.1 Yrs.	7.0 Yrs.

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

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

Investment Pools

International Stock Pool

The International Stock Pool is used by the Combined Funds, the International Share Account and the international portion of the Volunteer Firefighter Account in the Supplemental Investment Fund.

The following are the dollar values as of June 30, 2012 of each fund's participation in the International Stock Pool:

Combined Funds \$7.1 billion
(active, passive and semi-passive)

International Share Account \$74 million
(active, passive and semi-passive)

Volunteer Firefighter Account \$1 million
(international portion)

Management Structure

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

- **Active Management.** The target is to have at least one-third of the International Stock Pool managed actively. At the end of fiscal year 2012, approximately 46% of the Pool was actively managed by a group of 9 external managers with portfolios ranging in size from \$202 million to over \$697 million. Seven of these managers manage portfolios in the developed markets and two manage portfolios in the emerging markets.
- **Semi-Passive Management.** The target is to have no

more than 33% of the International Stock Pool managed semi-passively. At the end of fiscal year 2012, 11% of the Pool was semi-passively managed by a group of three external managers with portfolios ranging from \$218 million to \$370 in size million.

- **Passive Management.** The target is to have at least 25% of the International Stock Pool managed passively. At the end of fiscal year 2012, approximately 43% of the International Stock Pool was passively managed by a single manager in two separate portfolios, one a developed markets equity index account and the other an emerging markets equity index account, with \$2.9 billion and \$150 million respectively.

The goal of the International Stock Pool is to outperform the asset class target, which is the Morgan Stanley Capital International All Country World ex United States (MSCI ACWI ex US) Standard index net of taxes on dividends. The SBI uses the market capitalization weights of the developed and emerging markets as they are represented in the pool's benchmark index as target weights for the developed and emerging markets within the International Stock Pool. At the end of fiscal year 2012, 79% of the International Stock Pool was invested in the developed markets and 21% was invested in the emerging markets.

Seven of the nine **active** managers and the three **semi-passive** managers invest entirely in developed markets and use a variety of investment

approaches in an effort to maximize value added to the MSCI World ex U.S. Standard index net of taxes on dividends, over time. These managers address currency management as part of their investment process. Their views on currency may be factored into their country and security selection, or they may explicitly hedge currency exposure on an opportunistic basis, or they may seek to add value by actively managing currency positions. Managers are not required to hedge currency risk.

Two of the nine **active** managers invest entirely in emerging markets. They are expected to add incremental value, over time, relative to the MSCI Emerging Markets Standard index net of taxes on dividends which is made up of markets in developing countries throughout the world.

The **passive** manager in the International Stock Pool designs one of its portfolios to consistently and inexpensively track the MSCI World ex U.S. Standard index (developed markets) and the other to track the MSCI Emerging Markets Standard index.

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

FY 2012 Changes

During fiscal year 2012, the Board terminated one active emerging markets equity manager, AllianceBernstein, and hired one passive emerging markets equity manager, State Street Global Advisors.

Investment Pools

Investment Performance

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

- **Investment Approach.** Each manager (active, semi-passive or passive) is expected to hold a portfolio that is consistent with the manager's stated investment approach.
- **Diversification.** While the index manager is expected to hold a well diversified portfolio which closely tracks its target index and the semi-passive managers are expected to hold risk-adjusted portfolios which modestly outperform the index, each active manager is expected to hold a portfolio which represents its best ideas for outperforming the index.

The international stock managers successfully fulfilled their long-term risk objectives during fiscal year 2012. In general, the managers constructed portfolios consistent with their stated investment approaches and maintained appropriate levels of diversification.

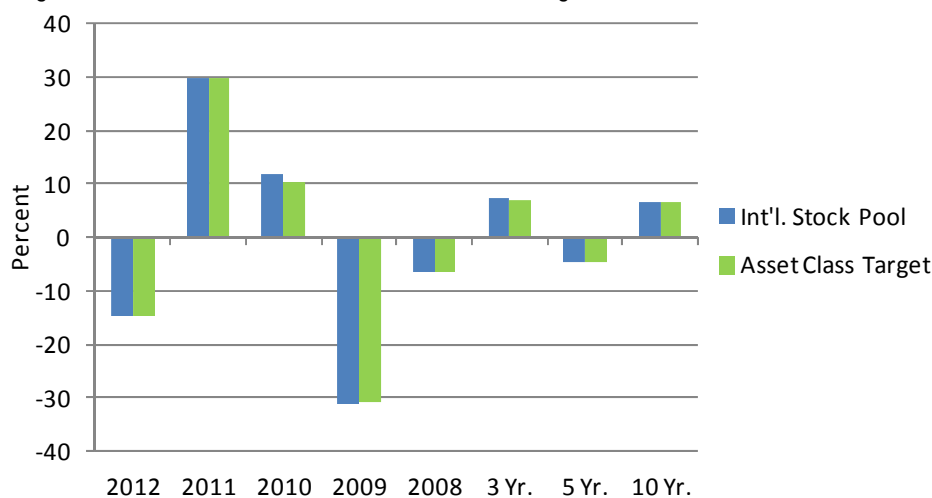
The Board's **return objectives** for the International Stock Program are stated relative to the Morgan Stanley Capital International (MSCI) Standard indices.

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

Performance results for the International Stock Pool are shown in Figure 15. In aggregate, performance over the last ten year period trailed the benchmark by 0.1 percentage point and performance over the last five year period exceeded the benchmark by 0.1 percentage point. The Pool underperformed the target by 0.1 percentage point for the fiscal year.

Individual manager performance during fiscal year 2012 is shown in Figure 16. The relative performance of the active managers was mixed. Five of the seven active developed markets managers outperformed their respective benchmarks for the year. Of the two active emerging markets managers, one outperformed and one underperformed the MSCI Emerging Markets Standard index. One semi-passive developed markets manager

Figure 15. Int'l. Stock Pool Performance For Period Ending June 30, 2012



	2012	2011	2010	2009	2008	Annualized		
Int'l. Stock Pool	-14.7%	29.6%	11.7%	-31.0%	-6.6%	3 Yr.	5 Yr.	10 Yr.
Asset Class Target*	-14.6	29.7	10.4	-30.9	-6.4	7.3%	-4.5%	6.6%
						7.0	-4.6	6.7

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

Investment Pools

outperformed and two underperformed for the year. Finally, the developed markets passively managed portion of the program had positive tracking error of 0.2 percentage point for the year relative to the MSCI World ex U.S. Standard index. The emerging markets passively managed portion of the program was a new addition midway through the fiscal year and performance will be reported in next year's Annual Report.

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

Investment Pools

Figure 16. International Manager Performance For Period Ending June 30, 2012

	1 Year		3 Years		5 Years		Market
	Actual	Bmk	Actual	Bmk	Actual	Bmk	Value
	%	%	%	%	%	%	(in millions)
Active Managers							
Developed Mkts (MSCI World ex U.S. net) (1)							
Acadian Asset Mgmt.	-15.2	-14.1	7.3	6.2	-9.0	-5.6	256.2
Columbia Mgmt. Investment Advisers, LLC	-11.6	-14.1	8.7	6.2	-3.5	-5.6	256.7
Invesco Global Asset Mgmt.	-16.9	-14.1	3.5	6.2	-6.2	-5.6	202.6
J.P. Morgan Investment Mgmt. Co.	-12.7	-14.1	7.7	6.2	-4.4	-5.6	223.6
Marathon Asset Management	-10.2	-14.1	8.8	6.2	-2.3	-5.6	521.2
McKinley Capital Management	-13.6	-14.1	7.1	6.2	-8.0	-5.6	214.9
Pyramis Global Advisors Trust Co.	-12.3	-14.1	8.2	6.2	-3.5	-5.6	249.1
Semi-Passive Managers							
Developed Mkts (MSCI World ex U.S. net) (1)							
AQR Capital Management	-16.8	-14.1	6.7	6.2	-6.1	-5.6	238.8
Pyramis Global Advisors Trust Co.	-13.2	-14.1	7.2	6.2	-4.8	-5.6	370.6
State Street Global Advisors	-19.1	-14.1	4.2	6.2	-7.7	-5.6	218.7
Active Managers							
Emerging Mkts (MSCI Emerging Markets Net) (2)							
Capital International, Inc.	-22.7	-16.0	5.5	9.8	-0.7	0.0	650.4
Morgan Stanley Investment Mgmt.	-11.7	-16.0	10.3	9.8	-0.3	0.0	697.5
Passive Managers							
Developed Mkts (MSCI World ex U.S. net) (1)							
State Street Global Advisors	-13.9	-14.1	6.7	6.2	-5.2	-5.6	2,899.2
Emerging Mkts (MSCI Emerging Markets Net) (2)							
State Street Global Advisors	N/A	N/A	N/A	N/A	N/A	N/A	150.0
Aggregate International Stock Pool (3) (4)	-14.7*	-14.6	7.3	7.0	-4.5	-4.6	7,149.8
Asset Class Target							
MSCI ACWI ex U.S. (net)		-14.6		7.0		-4.6	

* Includes six months of performance beginning 7/1/11 of terminated active emerging markets manager, AllianceBernstein, and six months of performance beginning 1/1/11 of newly hired passive emerging markets manager, State Street Global Advisors.

(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.

Figure 17.

**International Stock Pool
Aggregate Country Weights
As of June 30, 2012**

Country	Pool Weights* %	Benchmark Weights** %
Australia	5.5	5.9
Austria	0.2	0.2
Belgium	0.9	0.8
Brazil	2.0	3.1
Canada	7.6	8.1
Chile	0.3	0.5
China	1.6	4.3
Colombia	0.0	0.3
Czech Republic	0.1	0.1
Denmark	1.1	0.8
Egypt	0.0	0.1
Finland	0.5	0.5
France	5.5	6.2
Germany	5.8	5.4
Greece	0.0	0.0
Hong Kong	2.3	2.0
Hungary	0.1	0.1
India	1.7	1.5
Indonesia	0.8	0.6
Ireland	0.2	0.2
Israel	0.3	0.4
Italy	1.4	1.5
Japan	16.2	14.8
Korea	2.9	3.6
Malaysia	0.6	0.8
Mexico	0.9	1.2
Morocco	0.0	0.0
Netherlands	2.1	1.6
New Zealand	0.1	0.1
Norway	0.6	0.6
Peru	0.1	0.2
Philippines	0.6	0.2
Poland	0.4	0.3
Portugal	0.2	0.1
Russia	0.9	1.4
Singapore	1.1	1.3
South Africa	0.8	1.9
Spain	1.6	1.8
Sweden	1.7	2.1
Switzerland	5.8	5.8
Taiwan	1.2	2.6
Thailand	0.6	0.5
Turkey	0.5	0.4
United Kingdom	16.5	15.8
USA	2.2	0.0
Non-Benchmark Countries	3.9	N.A.
Miscellaneous Accounting Entries	0.6	N.A.
Total***	100.0	100.0

* Grouped by country of incorporation. Source State Street Bank.

** Benchmark is the MSCI ACWI ex U.S. Standard (net) index. Source Factset.

*** Totals may not add due to rounding.

Investment Pools

Alternative Investment Pool

Like the stock and bond segments, alternative assets (real estate, private equity, resource funds and yield-oriented investments) are managed on a pooled basis.

Statutory Constraints

The statutory constraints for any alternative assets investment for the Combined Funds are as follows:

- Each investment must involve at least four other investors.
- SBI's participation in an investment may not exceed 20% of the total investment.

Management Structure

Given their long investment time horizon, the Combined Funds are especially well suited for alternative investments. Up to 20% of the market value of the Combined Funds is targeted for alternative investments. Market value plus unfunded commitments may be 1.5 times the market value allocation. A breakdown of the Pool by segment is shown in Figure 18. The SBI does not establish an allocation target for each segment. As of June 30, 2012, the market value of current alternative investments was \$7.4 billion, or 15.7% of the Combined Funds.

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

Real Estate

The real estate investment strategy calls for the establishment and maintenance

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

Prospective real estate managers are reviewed and selected based on the manager's experience, investment strategy and performance history. During fiscal year 2012, the SBI closed on commitments with the Blackstone Group and TA Associates Realty. The SBI will continue to review real estate managers for possible inclusion in the pool.

Private Equity

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

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 2012, the SBI approved and closed on commitments with Court Square; Credit Suisse; Goldner, Hawn, Johnson and Morrison; Leonard Green; Vestar; and Wayzata Partners. The SBI will continue to review and add new private equity investments as attractive opportunities are identified.

Resource Funds

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

Resource investments are selected based on the manager's experience, investment strategy and performance history. During fiscal year 2012, the SBI approved and closed on commitments with The Energy and Minerals Group and Natural Gas Partners. The SBI will continue to review resource investments for possible inclusion in the pool.

Yield-Oriented

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

Two new investments were approved and closed on during fiscal year 2012 with Prudential and Windjammer Capital Investors. The SBI will continue to review yield-oriented investment opportunities for inclusion in the pool.

Investment Performance

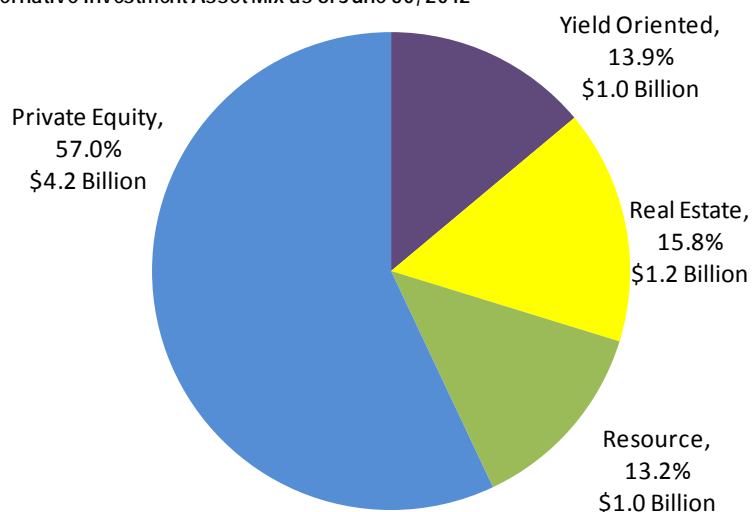
The SBI reviews performance of its alternative investments relative to inflation, as measured by changes in the Consumer Price Index (CPI). For the fiscal year ending June 30, 2012, the

Investment Pools

Alternative Investment Pool provided a positive contribution to overall fund performance for the Combined Funds. The Pool provided a 9.8% return in fiscal year 2012 and has provided a 14.2% return annualized over the past ten years. Performance of the Alternative Investment Pool is shown in Figure 19 for the period ending June 30, 2012.

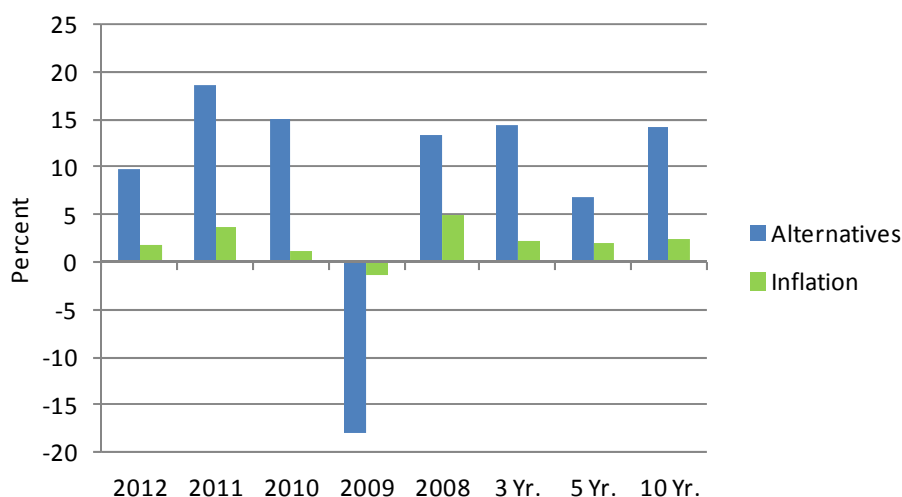
At this time, benchmarks have not been established for the alternative investment fund managers. The long-term nature of these investments and the lack of comprehensive data on the returns provided by the alternative investment markets preclude comprehensive performance evaluation. In the future, as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

Figure 18. Alternative Investment Asset Mix as of June 30, 2012*



* Totals may not add due to rounding.

Figure 19. Alternative Investment Performance For Period Ending June 30, 2012



	Annualized							
Alt. Investments	2012	2011	2010	2009	2008	3 Yr.	5 Yr.	10 Yr.
	9.8%	18.6%	15.0%	-18.0%	13.4%	14.4%	6.8%	14.2%
Inflation	1.7	3.6	1.1	-1.4	5.0	2.1	2.0	2.4

Supplemental Investment Fund

The Supplemental Investment Fund is an investment program that offers a range of investment options to state and local public employees. The Fund serves individuals who participate in defined contribution or supplemental retirement savings plans and many local volunteer fire relief associations. On June 30, 2012, the market value of the entire Fund was \$1.2 billion.

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

The Volunteer Firefighter Account is available only for those local firefighting entities that participate in the Voluntary Statewide Volunteer Firefighter Plan. Local entities that participate in this Plan must have all their assets invested in the Volunteer Firefighter Account.

Fund Structure

Investment goals among the SIF's many participants are varied. In order to meet the variety of goals, the Supplemental Investment Fund is structured much like a family of mutual funds. Participants may allocate their investments among one or more accounts that are appropriate for their needs within statutory requirements and rules established by the participating organizations. Participation in the SIF is accomplished through the purchase or sale of shares in each Account.

Fund Management

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

Share Values

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

Figure 20. Accounts in the Supplemental Investment Fund

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

Supplemental Investment Fund

In the Income Share Account, the Growth Share Account, the Common Stock Index Account, the International Share Account, the Bond Market Account and Volunteer Firefighter Account, shares are priced based on the market value of each Account. Performance of these accounts are a function of the income and capital appreciation (or depreciation) generated by the securities in the Accounts. In the Money Market Account, share values remain constant and the accrued interest income is credited to the Account through the purchase of additional shares.

In the Fixed Interest Account, shares are priced based on the blended crediting rate of the investments in the Account. Performance is calculated based on changes in these share values.

All shares in the SIF accounts are priced daily.

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

The distribution of assets in the Supplemental Investment Fund as of June 30, 2012 is shown by Account in Figure 21 and by Plan in Figure 22.

Figure 21. Composition by Account as of June 30, 2012

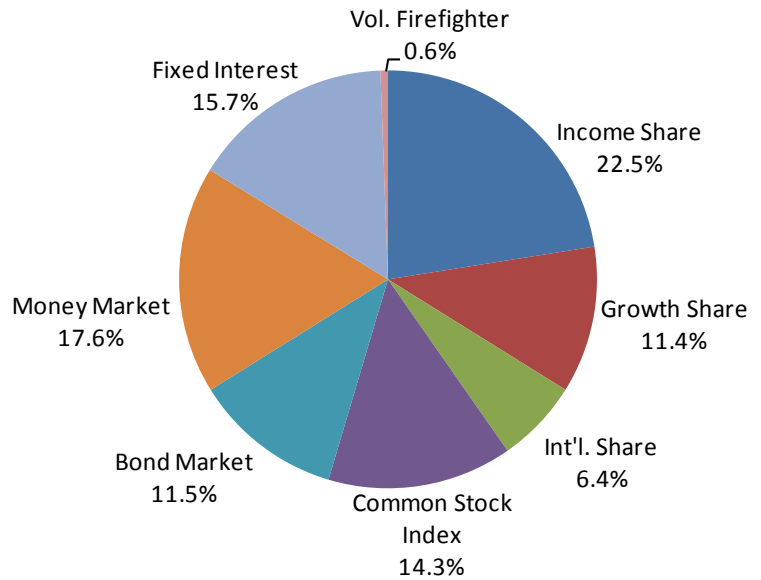
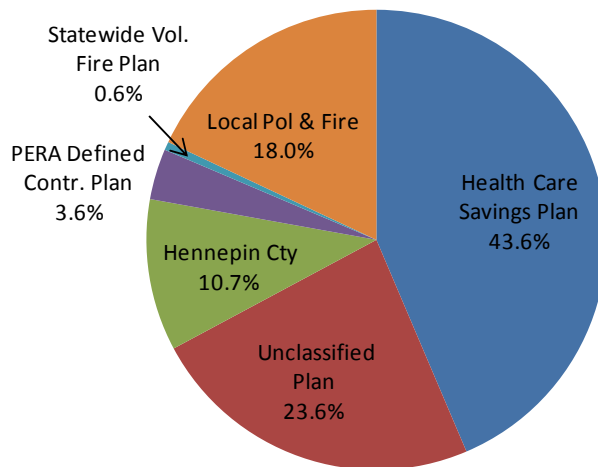


Figure 22. Participation by Plan as of June 30, 2012



Note: Does not include Deferred Compensation Plan assets in the SIF Fixed Interest and Money Market accounts which are reported elsewhere in the Annual Report.

Supplemental Investment Fund

Income Share Account

Objective

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

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

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

At the close of fiscal year 2012, the value of the Income Share Account was \$260 million.

Management

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

BlackRock Institutional Trust Co.

Performance

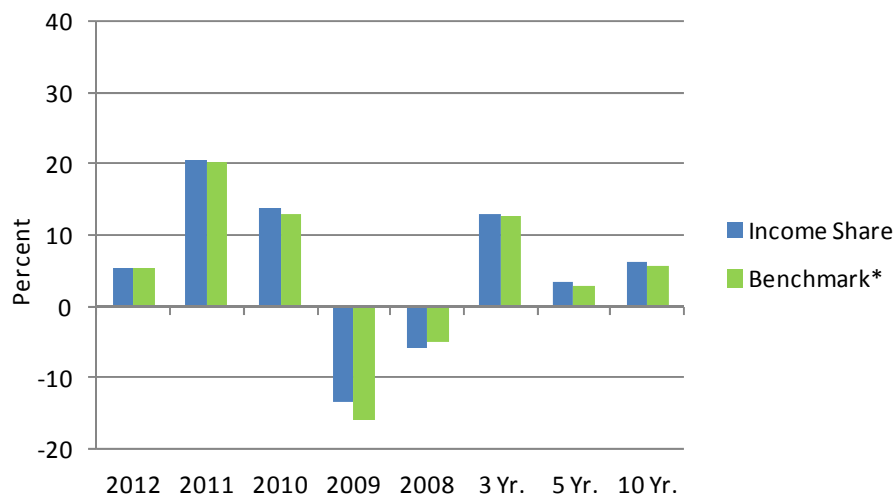
As with the other SBI funds which use a multi-manager investment structure, the Board evaluates the performance of the Income Share Account on two levels:

- **Total Account.** The Income Share Account is expected to exceed the returns of a composite of market indices weighted in the same proportion as its long-term asset allocation.
- **Individual Manager.** The passive stock manager is expected to closely track the performance of the Russell 3000. The internal bond manager for the Account is expected to exceed the

performance of the Barclays Capital Aggregate Bond Index.

The Income Share Account provided a return of 5.3% for fiscal year 2012, trailing its benchmark by 0.1 percentage point. Over the most recent ten years, the Income Share Account exceeded its benchmark. Figure 23 shows a history of performance results.

Figure 23. Income Share Account Performance For Period Ending June 30, 2012



	2012	2011	2010	2009	2008	3 Yr.	5 Yr.	10 Yr.
Income Share	5.3%	20.6%	13.8%	-13.5%	-5.8%	13.1%	3.3%	6.2%
Benchmark*	5.4	20.3	13.1	-15.8	-5.1	12.8	2.8	5.7

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

Supplemental Investment Fund

Growth Share Account

Objective

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

At the close of fiscal year 2012, the value of the Growth Share Account was \$131 million.

Management

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

Performance

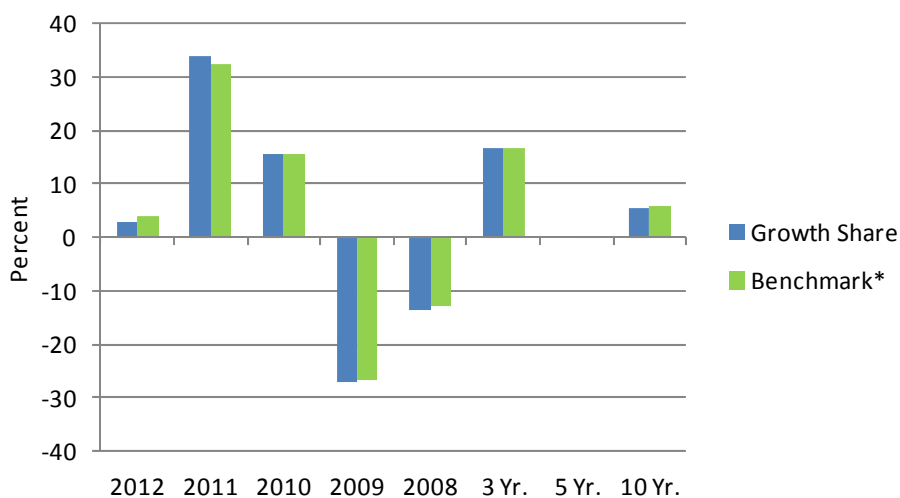
As with the Income Share Account, the Board evaluates the performance of the Growth Share Account on two levels:

- **Total Account.** The Growth Share Account is expected to exceed the returns of the Russell 3000 Index.
- **Individual Manager.** Performance objectives for the individual managers are described in the **Investment Pools** section of this report.

The Growth Share Account provided a return of 2.7% for the fiscal year, underperforming its benchmark by 1.1 percentage

points. Over the last ten year period, the Account trailed its benchmark by 0.4 percentage point. See the discussion in the Investment Pools section concerning the Domestic Stock Pool for performance information on the managers used by this Account. A history of performance results is shown in Figure 24.

Figure 24. Growth Share Account Performance For Period Ending June 30, 2012



	Annualized							
	2012	2011	2010	2009	2008	3 Yr.	5 Yr.	10 Yr.
Growth Share	2.7%	33.8%	15.6%	-27.1%	-13.5%	16.7%	0.0%	5.4%
Benchmark*	3.8	32.4	15.7	-26.6	-12.7	16.7	0.4	5.8

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

Supplemental Investment Fund

Common Stock Index Account

Objective

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

At the end of fiscal year 2012, the Account had a market value of \$165 million.

Management

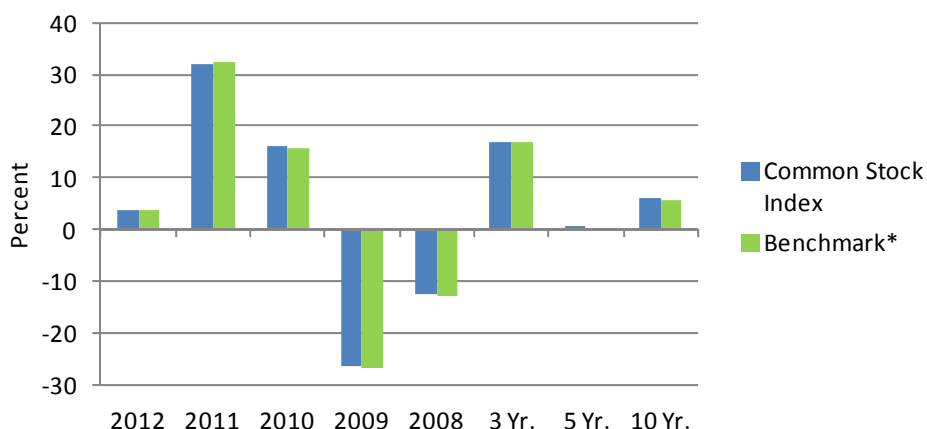
The Account participates in the passive portfolio of the Domestic Stock Pool which is managed by BlackRock Institutional Trust Co.

Performance

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

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

Figure 25. Common Stock Index Account Performance For Period Ending June 30, 2012



	2012	2011	2010	2009	2008	Annualized		
Stock Index	3.8%	32.0%	16.2%	-26.4%	-12.5%	3 Yr.	5 Yr.	10 Yr.
Benchmark*	3.8	32.4	15.7	-26.6	-12.7	16.7	0.4	5.8

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

Supplemental Investment Fund

International Share Account

Objective

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

Typically, a majority of the Account is invested in the largest international markets (United Kingdom, Japan, Canada, France, Australia, and Switzerland). A large share is invested in other well established markets in Europe and the Pacific region. In addition, at the end of fiscal year 2012, approximately twenty-three percent of the Account was invested in developing countries or emerging markets around the world, including those in Latin America, Asia, Eastern Europe, the Middle East and Africa.

At the end of fiscal year 2012, the Account had a market value of \$74 million.

Management

The structure of the International Share Account combines active, semi-passive, and passive management. At least thirty-three percent of the Account is actively managed by several developed and emerging markets stock managers that use a variety of investment styles and approaches. These managers buy and sell stocks in an attempt to maximize market value. At least twenty-five percent of the Account is passively managed and no more than thirty-three percent of the Account is semi-passively managed. Overall, the account is designed to consistently track the return of the Morgan Stanley Capital International All Country World ex United States

(MSCI ACWI ex US) Standard index net of taxes on dividends, a developed and emerging markets index. The Account uses the same managers used by the Combined Funds in the International Stock Pool.

Performance

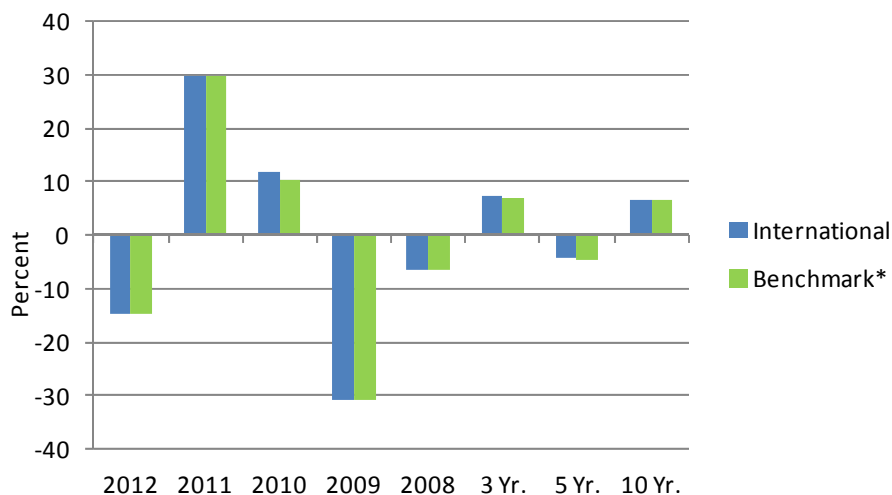
The Board evaluates the performance of the International Share Account on two levels:

- **Total Account.** The International Share Account is expected to exceed the returns of the Morgan Stanley Capital International All Country World Index ex-USA (MSCI ACWI ex-U.S.) Standard index (net.)
- **Individual Manager.** Performance objectives for the individual managers are described in the **Investment Pools** section of this report.

During fiscal year 2012, the International Share Account produced a return of -14.7%, which was 0.1 percentage point below the MSCI ACWI ex-U.S. Standard index. Over the most recent ten year period, the International Share Account matched its benchmark.

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

Figure 26. Int'l. Share Account Performance For Period Ending June 30, 2012



	2012	2011	2010	2009	2008	Annualized		
Int'l. Share	-14.7%	29.6%	11.7%	-30.8%	-6.5%	3 Yr.	5 Yr.	10 Yr.
Benchmark*	-14.6	29.7	10.4	-30.9	-6.4	7.0	-4.6	6.7

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

Supplemental Investment Fund

Bond Market Account

Objective

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

At the end of fiscal year 2012, the market value of the Account was \$133 million.

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

Management

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

Performance

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

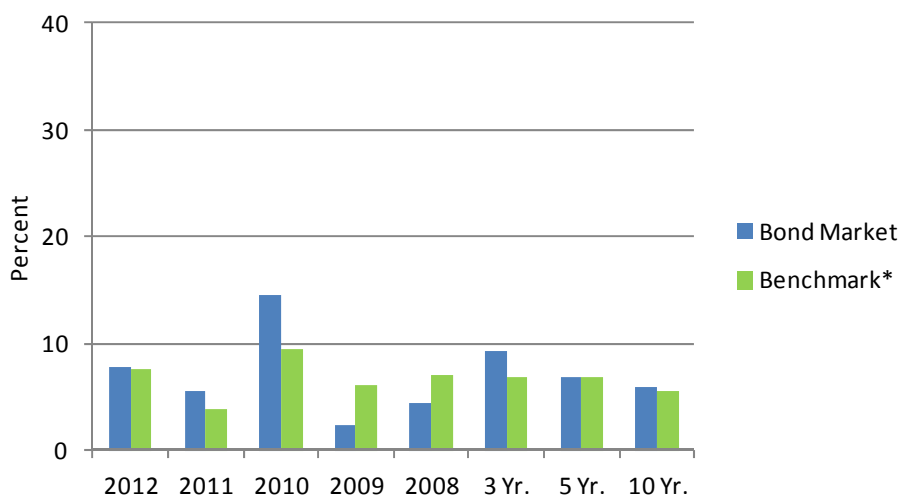
- **Total Account.** The Account is expected to exceed the returns of the Barclays Capital Aggregate Bond Index.

— Individual Manager.

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

For fiscal year 2012, the Account outperformed by 0.3 percentage point. For the most recent ten year period, the Account exceeded its benchmark by 0.3 percentage point. See the discussion regarding bond manager performance in the Investment Pools section. Total Account results for the last ten years are shown in Figure 27.

Figure 27. Bond Market Account Performance For Period Ending June 30, 2012



						Annualized		
	2012	2011	2010	2009	2008	3 Yr.	5 Yr.	10 Yr.
Bond Market	7.8%	5.5%	14.5%	2.4%	4.4%	9.2%	6.9%	5.9%
Barclays Cap. Agg.	7.5	3.9	9.5	6.0	7.1	6.9	6.8	5.6

Supplemental Investment Fund

Money Market Account

Objective

The Money Market Account invests in high quality, short term debt instruments. The Account's investment objectives are to preserve capital and offer competitive money market returns.

At the end of fiscal year 2012, the Money Market Account had a market value of \$204 million.

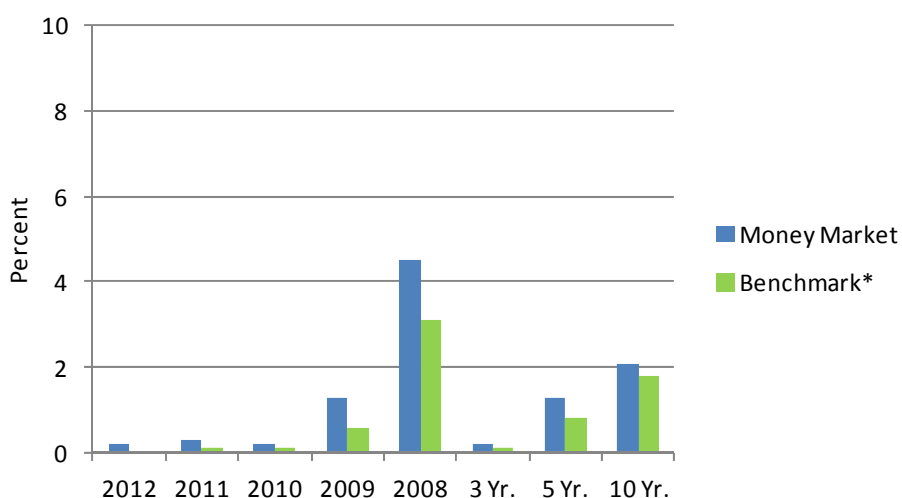
Management

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

Performance

The Account is expected to produce returns competitive with those available from short-term debt securities. The Money Market Account exceeded that target in fiscal year 2012 by 0.2 percentage point. Over the most recent ten year period, the Account exceeded its target by 0.3 percentage point. Total Account results for the last ten years are shown in Figure 28.

Figure 28. Money Market Account Performance For Period Ending June 30, 2012



	Annualized							
	2012	2011	2010	2009	2008	3 Yr.	5 Yr.	10 Yr.
Money Market	0.2%	0.3%	0.2%	1.3%	4.5%	0.2%	1.3%	2.1%
3 Month T-Bills	0.0	0.1	0.1	0.6	3.1	0.1	0.8	1.8

Supplemental Investment Fund

Fixed Interest Account

Objective

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

At the end of fiscal year 2012, the Account totaled \$181 million, excluding Deferred Compensation Plan participation.

Management

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

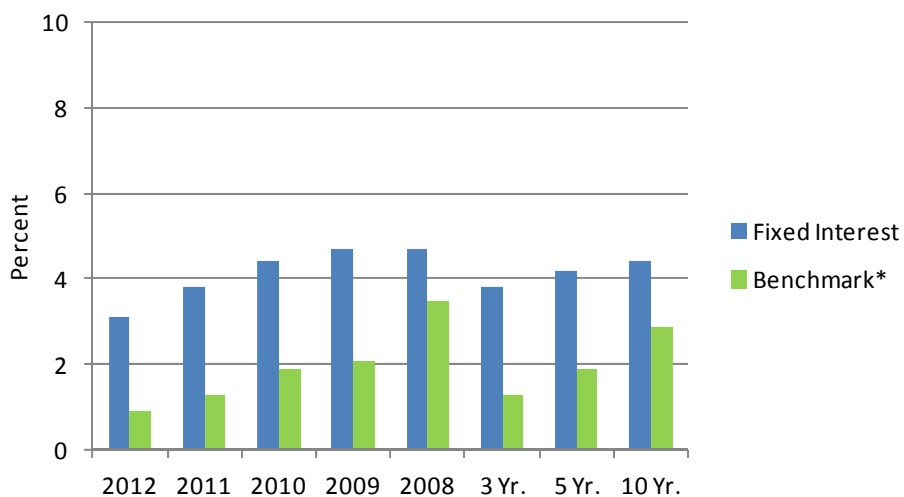
The manager for the Account is Galliard Capital Management, a unit of Wells Fargo Bank.

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

Performance

The Fixed Interest Account is expected to exceed the returns of its custom benchmark, the 3-year Constant Maturity Treasury plus 45 basis points (0.45%). During fiscal year 2012, the Fixed Interest Account provided a return of 3.1%, which was 2.2 percentage points above its benchmark. Over the most recent ten year period, the Fixed Interest Account exceeded its benchmark by 1.5 percentage point.

Figure 29. Fixed Interest Account Performance For Period Ending June 30, 2012



	2012	2011	2010	2009	2008	Annualized		
Fixed Interest	3.1%	3.8%	4.4%	4.7%	4.7%	3.8%	4.2%	4.4%
Benchmark*	0.9	1.3	1.9	2.1	3.5	1.3	1.9	2.9

* 3 Year Constant Maturity Treasury plus 45 basis points.

Supplemental Investment Fund

Volunteer Firefighter Account

Objective

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

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

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

At the close of fiscal year 2012, the value of the Account was \$7 million.

Management

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

Performance

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

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

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

The Volunteer Firefighter Account was established January 1, 2010. The Account provided a return of 2.6% for the year ending June 30, 2012 and trailed its composite benchmark by 0.3 percentage point.

	2012	2011
Vol. FF	2.6%	17.5%
Benchmark*	2.9	17.1

* The benchmark for this account is 35% Russell 3000, 15% MSCI ACWI Free ex U.S. (net), 45% Barclays Capital Aggregate, 5% 3 month T-Bills.

State Deferred Compensation 457b Plan

The State Deferred Compensation Plan (Plan) provides public employees with a tax-sheltered retirement savings program that is a supplemental plan to their primary retirement plan. (In most cases, the primary plan is TRA, PERA, or MSRS.) On June 30, 2012 the market value of the State Deferred Compensation Plan was \$4.2 billion.

Program Structure

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

Actively Managed Options

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

- ***Large-Cap Equity***

This option is a concentrated portfolio of large cap stocks. The fund is expected to outperform the S&P 500 over time. Currently, Janus Twenty is the mutual fund offered.

- ***Small-Cap Equity***

This option invests primarily in companies with small market capitalizations. The fund is expected to outperform the Russell 2000

over time. T. Rowe Price Small-Cap Stock Fund is the fund currently offered.

- ***Bond Fund***

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

- ***International Equity***

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

- ***Money Market***

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

- ***Fixed Interest***

This option is invested in the SIF Fixed Interest Account which is a well-diversified

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

The option is expected to outperform the return of the three year Constant Maturity Treasury plus 45 basis points (0.45%), over time. Currently, Galliard Capital Management, Inc. manages the option.

Passively Managed Options

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

- ***Large-Cap Equity***

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

- ***Mid-Cap Equity***

This option invests in companies with medium market capitalizations that track the MSCI U.S. Midcap 450 index. The fund currently offered is the Vanguard Mid

State Deferred Compensation 457b Plan

Capitalization Index
Institutional Fund.

- ***Balanced Fund***

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

- ***Bond Fund***

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

- ***International Equity***

This option invests in international equities and is expected to track the MSCI All Country World ex U.S. Investable market index, an index designed to measure equity market performance in developed and emerging markets, excluding the United States. The fund currently offered is the Vanguard Total International Stock Index Fund.

Target Date Funds

The plan offers a range of target date funds, which are diversified options with allocations that change over time to reduce risk and become more conservative as the target retirement date approaches. The funds are currently offered by State Street Global Advisors.

Performance results for the mutual fund investment options for fiscal year 2012 are shown in Figures 30 and 31.

State Deferred Compensation 457b Plan

Figure 30. State Deferred Compensation Plan (457b Plan) For Fiscal Year Ending June 30, 2012 (1) (2)

	1 Year		3 Years		5 Years		10 Years		Market Value (3)
	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	(in millions)
Actively Managed									
Janus Twenty (S&P 500)	3.4	5.4	10.1	16.4	2.5	0.2	8.2	5.3	391.2
T. Rowe Price Small-Cap Stock (Russell 2000)	1.7	-2.1	22.7	17.8	4.3	0.5	8.5	7.0	433.0
Fidelity Diversified International (MSCI EAFE)	-11.6	-13.8	6.8	6.0	-5.5	-6.1	6.1	5.1	206.4
Dodge & Cox Income Fund (Barclays Capital Aggregate)	5.9	7.5	8.1	6.9	7.0	6.8	6.0	5.6	181.3
SIF Money Market (3 Month T-Bills)	0.2	0.0	0.2	0.1	1.3	0.8	2.1	1.8	67.2
SIF Fixed Interest Account (3 year Constant Maturity Treasury +45 basis points)	3.1	0.9	3.8	1.3	4.2	1.9	4.4	2.9	1,285.0
Passively Managed									
Vanguard Institutional Index (S&P 500)	5.4	5.4	16.4	16.4	0.3	0.2	5.4	5.3	593.4
Vanguard Mid Cap Index (MSCI US Midcap 450)	-2.8	-2.7	19.6	19.7	0.7	0.7			224.0
Vanguard Total International Stock Index (MSCI EAFE)	-14.6	-14.8							95.0
Vanguard Balanced Fund (60% MSCI U.S. Broad Market/ 40% Barclays Capital Aggregate)	6.0	5.8	13.3	13.3	3.7	3.5			492.9
Vanguard Total Bond Market Fund (Barclays Capital Aggregate)	7.6	7.5	6.9	6.9	6.9	6.8			180.8

- (1) Benchmarks for the Funds are noted in parentheses below the Fund names. The dates the Funds were retained by the SBI differ.
- (2) Returns do not include the MSRS administrative fee.
- (3) Market value of SBI participation in fund.

State Deferred Compensation 457b Plan

Figure 31. State Deferred Compensation Plan (457b Plan) For Fiscal Year Ending June 30, 2012

	1 Year		Market
	Actual	Bmk	Value (2)
	%	%	(in millions)
SSgA Target Retirement Funds (1)			
Income Fund	5.6	5.7	10.6
2015 Fund	8.4	8.5	16.0
2020 Fund	9.4	9.6	16.9
2025 Fund	8.1	8.2	9.8
2030 Fund	7.1	7.2	6.9
2035 Fund	5.8	5.8	3.8
2040 Fund	3.5	3.6	2.3
2045 Fund	1.9	1.9	1.5
2050 Fund	2.0	1.9	0.6
2055 Fund	2.0	1.9	0.3
2060 Fund	2.0	1.9	0.4

Note: Each Fund benchmark is the aggregate of the returns of the Fund's underlying index funds weighted by the Fund's asset allocation. The underlying index funds are listed below.

	1 Year	
	Actual	Bmk
	%	%
SSgA Index Funds		
S&P 500 Index Fund (S&P 500)	5.5	5.4
S&P Mid Cap Index Fund (S&P 400)	-2.3	-2.3
Russell Small Cap Index Fund (Russell 2000)	-2.1	-2.1
Global All Cap Equity ex US Index Fund (MSCI ACWI ex U.S. IMI)	-14.1	-14.8
Global Real Estate Securities Index Fund (FTSE EPRA/NAREIT Dev Liquid)	3.1	1.9
Long Government Bond Index Fund (Barclays Capital Long Government)	31.3	31.4
Bond Index Fund (Barclays Capital Aggregate)	7.5	7.5
Inflation Protection Bond Index Fund (Barclays Capital U.S. TIPS)	11.6	11.7
High Yield Bond Index Fund (Barclays Capital U.S. High Yield Very Liquid)	7.5	8.0
U.S. Short-Term Govt/Credit Index Fund (Barclays Capital 1-3 Yr Govt/Credit)	3.8	1.1

(1) Target Retirement Funds inception date is July 2011.

(2) Market value of SBI participation in fund.

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, 2012, the market value of the Plan's portfolio was \$283 million.

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

Investment Objectives

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

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

- to minimize mismatch between assets and liabilities
- to provide sufficient liquidity (cash) for payment of on-going claims and operating expenses

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

Asset Allocation

The SBI believes that due to the uncertainty of premium and liability cash flows, the Plan

should be invested very conservatively.

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

The asset allocation may fluctuate in response to changes in the liability stream projected by the Plan's actuary and further analysis by the SBI staff. Figure 32 presents the actual asset mix of the Assigned Risk Plan at the

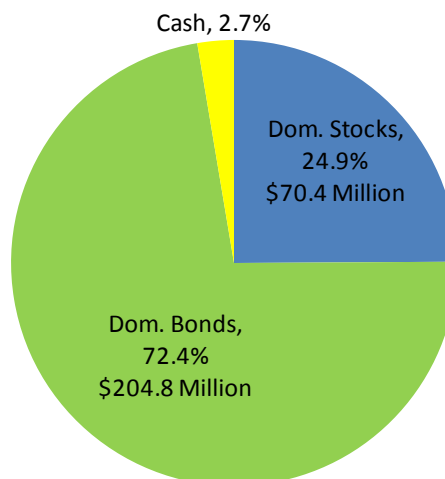
end of fiscal year 2012. The current long term asset allocation targets for the Plan are as follows:

Domestic Stocks	20%
Domestic Bonds	80

Investment Management

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

Figure 32. Assigned Risk Plan Asset Mix as of June 30, 2012



Assigned Risk Plan

Bond Segment

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

Stock Segment

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

Investment Performance

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

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

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

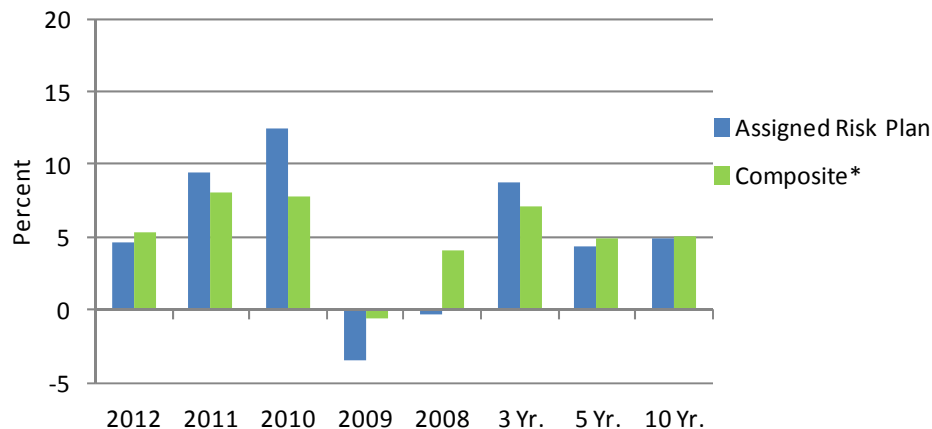
During fiscal year 2012, the **bond** segment underperformed its benchmark by 0.4 percentage point. The underperformance resulted from an underweight to U.S. Treasuries and the transition to a more conservative benchmark. The **stock** segment underperformed its benchmark by 3.1 percentage points. Stock selection in several sectors was

the primary contributor to the fiscal year underperformance.

Overall, the Assigned Risk Plan provided a return of 4.6% for fiscal year 2012, trailing its composite index by 0.8 percentage point. For the most recent three year period, the Plan outperformed its composite index by 1.7 percentage points, but underperformed for the five and ten year periods.

Historical performance results are presented in Figure 33.

Figure 33. Assigned Risk Plan Performance For Period Ending June 30, 2012



	2012	2011	2010	2009	2008	Annualized		
Total Fund	4.6%	9.4%	12.4%	-3.4%	-0.3%	8.8%	4.4%	4.9%
Composite Index*	5.4	8.1	7.8	-0.5	4.1	7.1	4.9	5.1
Stock Segment	2.3	27.6	8.5	-21.5	-8.2	12.3	0.4	4.7
S&P 500	5.4	30.7	14.4	-26.2	-13.1	16.4	0.2	5.3
Bond Segment	4.6	5.3	13.4	1.1	2.3	7.7	5.3	4.6
Benchmark	5.0	2.9	5.9	6.7	8.6	4.6	5.8	4.8

* Weighted 20% stocks, 80% bonds.

Permanent School Fund

The Permanent School Fund is a trust fund created by the Minnesota State Constitution and designated as a long-term source of revenue for public schools. Proceeds from land sales, mining royalties, timber sales, lake shore and other leases are invested in the Fund. Income generated by the Fund's assets is appropriated directly to school districts. On June 30, 2012, the market value of the Fund was \$842 million.

Investment Objective

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

Investment Constraints

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

Asset Allocation

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

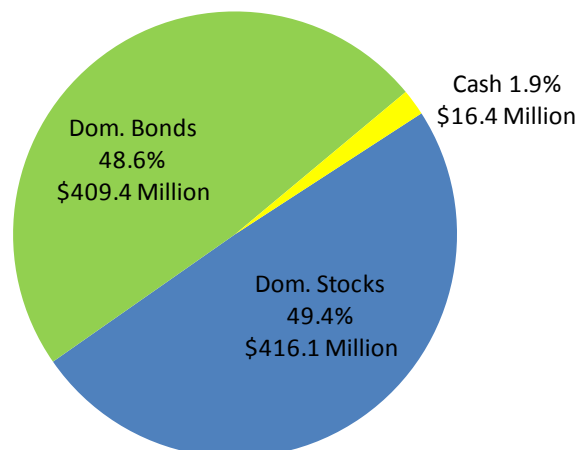
Prior to fiscal year 1998, the Permanent School Fund had been invested entirely in fixed income securities for more than a decade. While this asset allocation maximized current income, it limited the long term growth of the Fund and caused the income stream to lose value in inflation adjusted terms,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

To solve both issues, a proposal to introduce equities to the Fund's asset mix was presented during fiscal year 1997. Since this modification would reduce short term income and have budgetary implications for the state, the consent of the executive and legislative branches was necessary.

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

Figure 34 presents the actual asset mix of the Permanent School Fund at the end of fiscal year 2012.

Figure 34. Permanent School Fund Asset Mix as of June 30, 2012



Permanent School Fund

Investment Management

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

Stock Segment

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

Bond Segment

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

Investment Performance

The **stock** segment of the Permanent School Fund had a positive tracking error of 0.1 percentage point for the year compared to its benchmark of the S&P 500.

The **bond** segment underperformed its benchmark by 1.0 percentage point during the current fiscal year, primarily due to a short duration position compared to the benchmark.

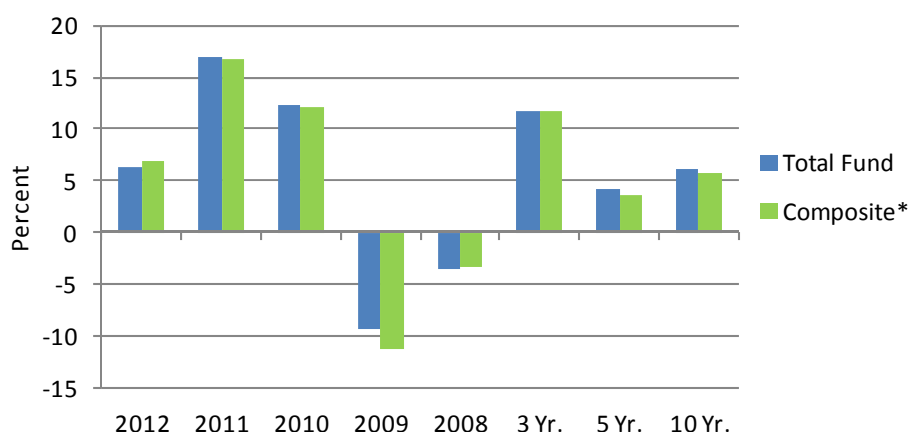
Overall, the Permanent School Fund provided a return of 6.4% for fiscal year 2012, underperforming its composite index by 0.4 percentage point. The Fund outperformed its composite index over the most recent five and ten year periods due to the incremental value added by both the stock and bond segments.

Total account results for the last three, five and ten years are shown in Figure 35.

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

Fiscal Year	Millions
2008	\$28
2009	\$27
2010	\$23
2011	\$23
2012	\$24

Figure 35. Permanent School Fund Performance for Period Ending June 30, 2012



	2012	2011	2010	2009	2008	Annualized		
Total Fund	6.4%	17.0%	12.3%	-9.3%	-3.6%	11.8%	4.1%	6.1%
Composite*	6.8	16.8	12.1	-11.2	-3.3	11.8	3.7	5.7
Stock Segment	5.5	30.8	14.2	-25.9	-13.1	16.4	0.3	5.4
S&P 500	5.4	30.7	14.4	-26.2	-13.1	16.4	0.2	5.3
Bond Segment	6.5	4.3	9.7	8.5	7.0	6.8	7.2	6.2
Barclays Agg.	7.5	3.9	9.5	6.0	7.1	6.9	6.8	5.6

* 50% S&P 500/ 48% Barclays Capital Aggregate/ 2% 3 Month T-Bills.

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, 2012, the market value of the Fund was \$615 million.

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

Investment Objective

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

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

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

Asset Allocation

After the constitutional amendment was adopted in November 1998, SBI staff worked with the Legislative Citizen Commission on Minnesota Resources to establish an asset allocation policy that is consistent with the Commission's goals for spending and growth of the

Fund. The allocation positions the Fund for the best long-term growth potential while meeting the objective of the Fund to produce a growing level of spending.

The current long term asset allocation targets for the Fund are:

Domestic Stocks	70%
Domestic Bonds	28
Cash	2

Figure 36 presents the actual asset mix of the Fund at the end of fiscal year 2012.

Investment Management

SBI staff internally manages all assets of the Environmental Trust Fund. The SBI staff is considered to be the most cost effective at this time.

Stock Segment

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

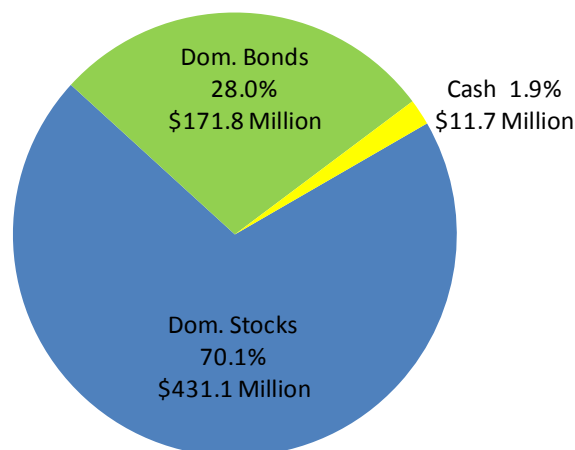
Bond Segment

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

Investment Performance

During the fiscal year, the *stock* segment had a positive tracking error of 0.1 percentage point compared to the benchmark, the S&P 500.

Figure 36. Environmental Trust Fund Asset Mix as of June 30, 2012



Environmental Trust Fund

The **bond** segment underperformed its benchmark by 1.0 percentage point during the fiscal year, primarily due to a short duration position compared to the benchmark.

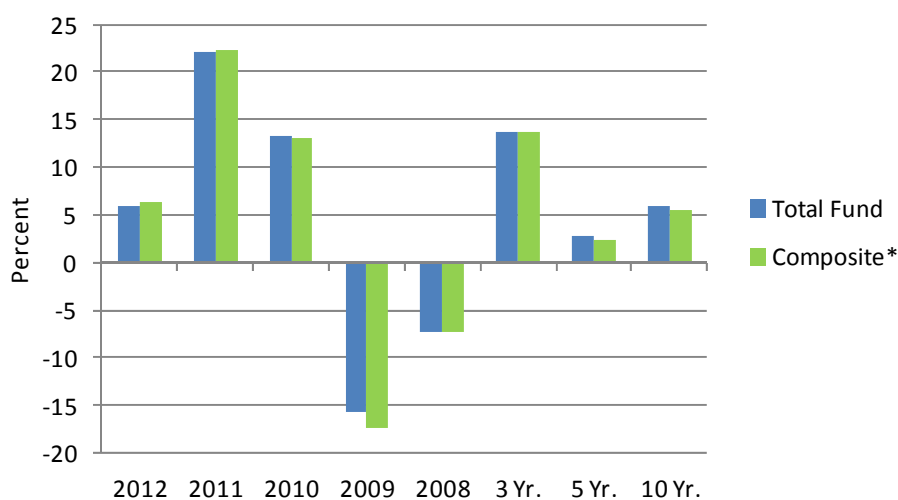
Overall, the Environmental Trust Fund provided a return of 6.0% for fiscal year 2012, but underperformed its composite index by 0.3 percentage point. The Fund outperformed its composite index over the most recent five and ten years due to the incremental value added by both the stock and bond segments.

Performance results are presented in Figure 37.

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

Fiscal Year	Millions
2008	\$23
2009	\$23
2010	\$26
2011	\$26
2012	\$25

Figure 37. Environmental Trust Fund Performance For Period Ending June 30, 2012



	2012	2011	2010	2009	2008	Annualized		
Total Fund	6.0%	22.1%	13.2%	-15.6%	-7.2%	13.6%	2.8%	6.0%
Composite*	6.3	22.2	13.1	-17.4	-7.3	13.7	2.4	5.6
Stock Segment	5.5	30.8	14.2	-25.8	-13.1	16.4	0.3	5.5
S&P 500	5.4	30.7	14.4	-26.2	-13.1	16.4	0.2	5.3
Bond Segment	6.5	4.3	9.7	8.3	7.0	6.8	7.1	6.2
Barclays Agg.	7.5	3.9	9.5	6.0	7.1	6.9	6.8	5.6

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

Cash Management and Related Programs

The State Board of Investment manages the cash balances of more than 400 state agency accounts with the objectives of preserving capital and providing competitive money market returns. On June 30, 2012, the total value of these accounts was \$7.0 billion.

Most of the cash accounts are invested through a short-term pooled fund referred to as the Invested Treasurer's Cash Pool. The Pool has an average daily balance of about \$5.0 billion. It contains the cash balances of special or dedicated accounts necessary for the operation of certain State agencies and non-dedicated cash in the State Treasury. In prior years, SBI staff also managed the Trust Fund Pool, which invested temporary cash balances of retirement related accounts. With the adoption of daily transfers to the SBI's custodian bank, this pool was no longer needed and was dissolved in early March 2012.

Investment Objectives

The investment objectives for investing the state cash accounts are to preserve capital, to meet the state's cash needs without the forced sale of securities at a loss, and to provide a high level of current income.

Asset Allocation

The SBI maximizes current income while preserving capital by investing all cash accounts in high quality, liquid, short-term investments. These include U.S. Treasury and Agency issues, repurchase agreements, bankers acceptances, commercial paper, short term corporates, and certificates of deposit. The composition of the Pool as of

June 30, 2012 is shown in Figure 38. At the end of the fiscal year, the Pool had a current yield of 0.47% and a weighted average maturity of 260 days.

Investment Management

All state cash accounts are managed by SBI investment staff. As noted above, most of the assets of the cash accounts are invested through the Invested Treasurer's Cash Pool.

Investment Performance

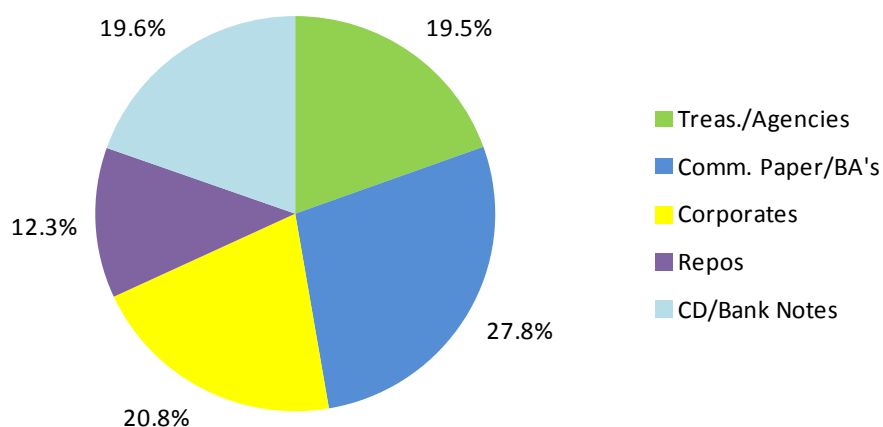
The SBI measures the performance of the Invested Treasurer's Cash Pool against a benchmark which reflects the maturity structure of the pool.

For fiscal year 2012, the Treasurer's Cash Pool outperformed its benchmark which is the IMoneyNet's All Taxable Money Fund Index by 0.6%. Performance results are shown in Figure 39.

Performance for the Trust Fund Pool for the period July 1, 2011 through February 29, 2012 prior to its dissolution was 0.1% compared to its benchmark of 0.0%.

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

Figure 38. Invested Treasurer's Cash Fund Distribution as of June 30, 2012



Cash Management and Related Programs

Figure 39. Invested Treasurer's Cash Pool Performance

	Period Ending 6/30/12			
	1 Yr.	3 Yr.	5 Yr.	10 Yr.
Invested Treasurer's Cash Pool*	0.6%	0.8%	2.0%	2.5%
Custom Benchmark**	0.0	0.0	0.9	1.6
3 month T-Bills	0.0	0.1	0.8	1.8

* Actual returns are calculated net of fees.

** Beginning in January 2003, the Treasurer's Cash Pool is measured against the IMoneyNet, All Taxable Money Fund Report Average. From January 1997 to December 2002 the fund was measured against a blended benchmark consisting of the Barclays Capital 1-3 year Government Index and the IMoneyNet, All Taxable Money Fund Report Average. The proportion of each component of the blended benchmark is adjusted periodically as the asset allocation of the Cash Pool is modified.

Securities Lending Program

The SBI participates in securities lending programs in which securities held by the SBI are loaned to banks and security dealers for a daily fee. These loans are fully collateralized. Currently, the SBI's securities lending activity is undertaken by the SBI's master custodian bank, State Street Bank and Trust. State Street Bank generated additional income of approximately \$22 million during fiscal year 2012.

Certificate of Deposit Program

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

The SBI's Certificate of Deposit program provides a reliable source of capital to Minnesota

financial institutions, regardless of size, many of which do not have access to the national CD market. The Board designed the program so that no single institution is favored in the allocation of assets. Only the cash reserves of the retirement funds are used in the program.

During fiscal year 2012, the SBI purchased \$109.3 million of CD's from Minnesota financial institutions. Since it began the program in 1980, the SBI has purchased over \$5 billion of CD's from approximately 500 financial institutions throughout the state.

Securities Repurchase Program

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

meet the increased needs of banks throughout the state.

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

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

During fiscal year 2012, the SBI purchased \$4.3 million in repos from Minnesota financial institutions.

Legislative Investment Initiatives

Legislative Update

Laws of Minnesota 2012, Chapter 286, Article 10 is the legislative result of the state auditor's work group on revising local plan investment authority. The Article made certain changes to *M.S.* Chapter 11A, the chapter that sets forth SBI authorities and duties. The most important change for the SBI was the removal of the requirement that the SBI must provide financial statements for other agencies whose funds the SBI invests. Article 11 covers the consolidation of Fairmont Police and Virginia Fire Relief Associations into PERA P&F. Assets of the relief associations were transferred to the SBI for investment in PERA Police & Fire Plan. The provisions mean that the SBI does not have to maintain separate accounts for the consolidated plans.

Police and Fire Fund Activity

Mergers with PERA

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

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

Between 1987 and 2010, 44 plans with total assets of \$603 million merged with PERA.

Minneapolis Police, Minneapolis Fire and Virginia Fire merged at the end of calendar 2011 and transferred \$466 million. Fairmont Police, the last plan of this type, merged at the end of fiscal year 2012 with a transfer of \$6.9 million.

Volunteer Fire Plans Investment

Volunteer firefighter retirement plans are not eligible to be consolidated with PERA. They may invest their assets with the SBI through the Supplemental Investment Fund. There are more than 700 local volunteer firefighter plans with investment authority. As of the end of fiscal year 2012, there were 207 plans participating in the SIF.

Local Plan Performance Reports

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

Voluntary Statewide Volunteer Firefighter Retirement Plan

Minnesota Statutes, Chapter 353G creates a statewide voluntary plan for local relief associations. Local entities may choose to join the statewide plan which is trustee by PERA. Investments of the plan are invested in the Supplemental Investment Fund Volunteer Firefighter Account. Participation in the plan is effective on December 31 of a given year. The SBI must evaluate the assets of each local entity that seeks to join the plan. On December 31, 2011 eighteen

local entities joined the plan, transferring \$3.3 million to the SBI for investment.

Other Post Employment Health Benefits

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

As of June 30, 2012, there were 24 entities that have these investment accounts with the SBI. In total, these accounts invest \$309 million. Staff anticipates that the number of these accounts will increase in the future.

The SBI is required to report annually the returns provided on assets invested by the City of Duluth for this purpose. Duluth made its first investment with the SBI July 2007. As of June 30, 2012, returns for Duluth were as follows:

	1 Yr.	3 Yr.	5 Yr.
Equities	5.5%	16.4%	0.3%
Fixed Income	6.5	6.8	7.1
Total	6.0	11.7	4.5

Minnesota College Savings Plan (529 Plan)

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

Legislative Investment Initiatives

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

Investment Restrictions

Tobacco Issues

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

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

Shareholder Resolutions

In previous years, the SBI cosponsored a number of tobacco related shareholder resolutions. The SBI did not cosponsor a tobacco related resolution for the 2012 proxy season.

Sudan Issues

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

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

Iran Issues

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

The SBI retains the firm IW Financial to provide a list of companies to implement the law. Staff periodically sends a list of restricted Iran companies to managers and has required divestment of holdings in compliance with the law. Staff reports to the Board each quarter on its actions to implement the law.

Guidelines on International Investing

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

The United Kingdom, Japan, Canada and France comprise 45 percent of the value of the international markets. Together with other countries in Europe and the Pacific Basin, these countries comprise the developed international stock markets. Many of the emerging markets in Latin America, Eastern Europe, the Middle East, Africa and Asia may require special investment considerations and/or limitations

on investment based upon worker and human rights.

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

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

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

Investment Restrictions

one or more of these markets, the manager must notify the SBI in writing.

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

Review Process

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

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

- Staff will review reports from the US State Department regarding worker and human rights issues and designate countries “Group I, II or III” using the existing

policy guidelines adopted by the Board.

Staff will report on the countries included in the International Program asset class target which will be reviewed by the SBI Administrative Committee. Figure 40 displays the country groupings. There were no changes to the SBI’s country groupings in fiscal year 2012.

Figure 40. Current International Investing Guidelines Country Groupings

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

* Developed Markets index

** MSCI Emerging Markets index (MSCI EM).

Proxy Voting

As a stockholder the State Board of Investment (SBI) is entitled to participate in corporate annual meetings through direct attendance or by 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 issues involving the election of corporate directors and ratification of auditors to matters such as merger proposals and corporate social responsibility issues. In effect, as a shareholder the SBI can participate in shaping corporate policies and practices.

Voting Process

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

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

Voting Guidelines

The Committee has formulated guidelines by which it votes on a wide range of corporate

governance and social responsibility issues. Each year the Proxy Committee reviews existing guidelines and determines which issues it will review on a case-by-case basis.

Corporate Governance Issues

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

Routine Matters

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

Shareholder Rights Issues

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

In general, the SBI supports proposals that preserve or enhance shareholder rights to effect change. Such proposals include requiring shareholder approval of poison pill plans, repealing classified boards, adopting secret balloting 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 elections of directors, and re-capitalization plans on a case-by-case basis.

Social Responsibility Issues

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

Northern Ireland

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

Tobacco and Liquor

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

Environmental Protection

In general, the SBI supports resolutions that require a corporation to report or disclose to shareholders company efforts in the environmental arena.

Proxy Voting

Other Social Responsibility Issues

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

Summary of FY 2012 Proposals

During fiscal year 2012 the SBI voted proxies for approximately 1,900 U.S. corporations.

As in past years, the issues on corporate ballots included a broad range of proposals in the corporate governance area, according to information provided by the proxy adviser firm Glass Lewis.

During the second year of advisory votes on executive compensation under the Dodd-Frank Act, investors endorsed companies' pay programs, providing 89% support on average. Investors continued to support having such votes take place on an annual basis in the future. Other major corporate governance issues addressed by shareholder proposals included proxy access, majority vote requirement for election of directors, repeal of classified boards and independent chairman proposals.

In the social responsibility area, increased disclosure on companies' lobbying activities and political contributions, environmental related proposals, sustainability reporting, and human rights were the major

issues according to information provided by Glass Lewis.

Mandate on Northern Ireland

Requirements

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

- Annually compile a list of U.S. corporations with operations in Northern Ireland in which the SBI invests.
- Annually determine whether those corporations have taken affirmative action to eliminate religious or ethnic discrimination. The statute lists nine goals modeled after the MacBride Principles.
- Sponsor, co-sponsor and support resolutions that encourage U.S. companies to pursue affirmative action in Northern Ireland, where feasible.

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

Implementation

The SBI uses the services of IW Financial to monitor corporate activity in Northern Ireland. In January 2012, the SBI held stocks or bonds in 132 of 140 corporations identified by IW Financial as having operations in Northern Ireland.

Shareholder Resolutions

The SBI did not file any shareholder resolutions for the 2012 proxy season regarding the MacBride Principles.

Investment Manager Summaries

Domestic Equity Program Managers

Active Managers

Large Cap Core (Russell 1000)

New Amsterdam Partners LLC

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

UBS Global Asset Management Inc. (formerly Brinson Partners)

UBS focuses on price to value as the cornerstone of their investment process. They discount all future cash flows of a company to calculate the intrinsic value from an owner's perspective, and then compare that value estimate to the current stock price. The resulting price to value differences, applied over a broad range of companies, become the building blocks of the security selection process. Portfolio construction focuses on individual stock selection, industry weightings, market sensitivity and common

factor exposures. UBS was retained by the SBI in July 1993.

Large Cap Growth (Russell 1000 Growth)

INTECH Investment Management LLC (INTECH)

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

Jacobs Levy Equity Management, Inc.

Jacobs Levy believes that the market is a complex system and that intensive quantitative

modeling can identify market inefficiencies that offer opportunities for profitable active investment. Recognizing that good judgment is critical, the firm has developed a multidimensional investment approach that combines human insight and intuition, finance and behavioral theory, and sophisticated statistical methods. The Jacobs Levy investment system is designed to be dynamic and forward-looking, continually adjusting to the market's changing environments and opportunities, and it relies on proprietary research for "disentangling" the market's complexity. The firm's proprietary systems have been engineered to be integrated across all investment functions from security selection through portfolio construction, trading, performance attribution, and guideline compliance. Expected returns for each security in the investment universe are generated from numerous models and become the inputs for the proprietary portfolio optimizer. The optimizer is run daily with the objective of constructing portfolios that can provide consistent outperformance relative to the underlying benchmark, with strict control of known portfolio risks. Extensive automated data scrubbing and human fact checking are conducted daily. Liquidity, trading costs, and investor guidelines are incorporated into the optimization process. Jacobs Levy was retained by the SBI as an active manager in January 2005.

Knelman Asset Management Group LLC

Knelman's approach identifies relative growth opportunities across all sectors of the market.

Investment Manager Summaries

They believe earnings growth is the primary driver of stocks, and invest in companies in which growth is attractive relative to peers and/or history. The investment process includes fundamental, qualitative and valuation analysis. The fundamental component identifies the underlying growth drivers, the sustainability of that growth, and analyzes key operating trends. Qualitative analysis involves confirmation of the firm's fundamental research through discussions with their broad network of contacts. Finally, the firm's valuation work determines the appropriate metric(s) with which to value companies and ultimately drives portfolio construction decisions. Knelman was retained by the SBI as an active manager in January 2005.

Sands Capital Management, LLC

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

6) rational valuation relative to the overall market and the company's business prospects. Sands was retained by the SBI as an active manager in January 2005.

Winslow Capital Management, Inc.

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

retained by the SBI as an active manager in January 2005.

Zevenbergen Capital Investments LLC

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

Large Cap Value (Russell 1000 Value)

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

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

Investment Manager Summaries

process. BHMS was retained by the SBI in April 2004.

Earnest Partners, LLC

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

LSV Asset Management

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

portfolio's industry and sector concentrations. LSV was retained by the SBI in April 2004.

Systematic Financial Management, L.P.

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

Small Cap Growth (Russell 2000 Growth)

McKinley Capital Management, LLC

McKinley uses a quantitatively driven investment process to systematically search for and identify signs of accelerating growth. The primary model includes a risk-adjusted relative return measurement designed to identify inefficiently priced common stocks relative to the market while adjusting for risk. The candidates are then filtered and scrutinized for liquidity factors and earnings acceleration. The earnings model identifies securities with strong earnings acceleration. The qualitative review begins after the quantitative process has

identified candidates for possible inclusion in the portfolio. The purpose of the qualitative analysis is to confirm that the earnings picture revealed through the quantitative analysis is both reasonable and sustainable. New ideas are taken from the quantitative screening process and confirmed through the qualitative review. McKinley was retained by the SBI in January 2004.

Next Century Growth Investors, LLC

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

Turner Investment Partners, Inc.

Turner manages a small cap growth portfolio with the philosophy that earnings drive stock prices. They seek to buy companies with strong earnings prospects. As such, the portfolio is designed to add value strictly through superior stock selection based on the output of extensive, industry-focused fundamental research which is undertaken by

Investment Manager Summaries

their industry experts to identify and quantify the critical factors driving growth. The goal of their investment process is to identify candidates for investment that are growth companies with above-average earnings prospects. The Fund is fully invested and maintains sector weightings that resemble the Russell 2000 Growth Index. The SBI retained Turner in January 2004.

Small Cap Value (Russell 2000 Value)

Goldman Sachs Asset Management, L.P.

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

Hotchkis and Wiley Capital Management

Hotchkis and Wiley seeks to exploit mispriced securities in the small cap market by investing in "undiscovered" and "out of favor" companies. They invest in stocks of which the present value of the company's future cash flows exceeds the current market price. Industry

analysts determine a company's normal earnings power, or sustainable earnings level under equilibrium economic and competitive market conditions, which becomes the basis for security valuation. Hotchkis and Wiley was retained by the SBI in January 2004.

Martingale Asset Management, L.P.

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

Peregrine Capital Management

Peregrine's small cap value investment process begins with their proprietary valuation analysis, which is designed to identify the small cap value stocks most likely to outperform. The valuation analysis identifies the most underpriced securities on a sector-by-sector basis. The firm analyzes over sixty fundamental factors to identify

the most relevant factors in each sector. The focus of the team's fundamental research is to determine if one or more of the style's "Value Buy Criteria" are present. These include resolvable short-term problems, unrecognized assets, take-over potential, fundamental undervaluation and catalysts for change. The portfolio is diversified and sector weights are aligned closely to the benchmark allowing stock selection to drive performance. Peregrine was retained by the SBI in July 2000.

Semi-Passive Managers

Semi-Passive Managers (Russell 1000)

BlackRock Institutional Trust Co., N.A. (formerly Barclays Global Investors)

BlackRock uses a systematic investment process which includes four areas of insights: relative value, earnings quality, sentiment and the influences from thematic drivers. The relative value criteria assesses intrinsic value relative to market price. Earnings quality criteria help identify companies likely to sustain earnings growth and avoid negative surprises. Sentiment criteria help identify market participants' beliefs regarding valuation. The thematic criteria seeks to exploit opportunities from a collection of stocks that move together because they share a common exposure which is currently less obvious to the market. The strategy seeks to minimize investment and operational risks not associated with adding value. Implementation costs are also considered when balancing return potential with risk profile of trades. The firm was retained

Investment Manager Summaries

by the SBI for semi-passive management in January 1995.

INTECH Investment Management LLC (INTECH)

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

J.P. Morgan Investment Management, Inc.

J.P. Morgan believes that superior stock selection is necessary to achieve excellent investment results. To accomplish this objective, they use fundamental research and a systematic valuation model. Analysts forecast earnings and dividends for the stock universe and enter these into a stock valuation model that calculates a dividend discount rate for each security. The stocks are ranked according to this valuation measure within their economic

sectors. Stocks most undervalued are placed in the first quintile. The portfolio takes overweight positions in stocks in the first and second quintiles, while underweighting stocks in the fourth and fifth quintiles. In addition, the portfolio will closely approximate the sectors and style of the benchmark. The portfolio remains fully invested at all times. The firm was retained by the SBI in January 1995.

Mellon Capital Management Corp. (formerly Franklin Portfolio)

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

with less exposure to illiquid stocks. The firm was retained by the SBI for passive management in July 1995.

Passive Manager

Passive Manager (R3000)

BlackRock Institutional Trust Co., N.A. (formerly Barclays Global Investors)

For the passive account, BlackRock seeks to minimize tracking error, transaction costs and investment and operational risks. The portfolio is managed against the asset class target (Russell 3000 index) using a proprietary optimization process that integrates a transaction cost model. The resulting portfolio closely matches the characteristics of the benchmark

Investment Manager Summaries

International Program Managers

Active Developed Markets Managers

Acadian Asset Management, LLC

Acadian uses stock factors in an effort to predict how well each security in its universe of over 40,000 stocks will perform relative to its region/industry peer group and then ranks all securities by their relative attractiveness. Acadian also applies separate models to forecast peer group returns, in an effort to predict how well each stock's region/industry peer group will perform relative to world equities. The two forecasts are then combined to determine a world-relative return forecast for each stock in the allowable universe. The stock and peer group valuation models are customized to each market. At the individual stock level, Acadian uses a wide range of quantitative factors including valuation, earnings, size and price movements. At the peer group level, Acadian utilizes valuation, risk, growth and economic indicators. Acadian then uses a sophisticated portfolio optimization system to trade off the expected return of the stocks with such considerations as the client's benchmark index, desired level of risk, transaction cost estimates, available liquidity, and other requirements. Portfolios are normally fully invested, with a minimal amount of cash. Country and sector weights fall out of the bottom-up stock selection process, with overall portfolio risk control ensuring the desired level of diversification. The last step of the process is a careful review of optimized portfolios by the

investment team before trading, in an effort to ensure the portfolio meets the client's investment goals. Acadian was retained by the SBI in July 2005.

Columbia Management Investment Advisers, LLC

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

INVESCO Global Asset Management (N.A.), Inc.

Invesco employs a bottom-up investment process combining a disciplined valuation analysis with a fundamental assessment of a company to determine the most attractive investment opportunities globally. They select individual companies rather than countries, themes, or industry groups. Invesco

managers believe that over the long term, a company's stock price will reflect the profitability generated by the underlying business. However, short term volatility creates times in which the share price does not fully reflect the company's fundamentals. They believe this creates both purchase and sale opportunities that can be exploited through a disciplined valuation driven investment approach. Invesco manages risk within the portfolio to provide diversification across international markets while focusing on a limited number of companies that demonstrate above average return on equity and attractive valuations. Invesco was retained by the SBI in February 2000.

J.P. Morgan Investment Management Inc.

J.P.Morgan's international equity process focuses on stock selection as the primary source of added value, seeking to build a portfolio diversified by both sector and region. Approximately 200 investors are based locally in regional markets, providing insights on 1300 companies. These regional teams manage regional equity portfolios, generating local market insights and conducting research on companies in an effort to identify the highest conviction stocks within their region. The highest conviction regional stocks are further analyzed by a team of London-based Global Sector Specialists who seek to identify global "industry winners", pinpointing well-managed, profitable companies that possess solid financial positions, whose earnings are growing faster than their competitors yet whose stocks are trading at or below market multiples. Each global

Investment Manager Summaries

sector specialist ranks each of the stocks within his or her sector on a scale from A to D. These rankings will be based on a variety of factors including: the information gathered from the regional investment professionals and the global sector specialists own knowledge of industry dynamics and relative valuations. The final stage of the investment process rests with a team of senior portfolio managers, who are responsible for constructing risk controlled portfolios, capturing the best thinking of both the local and global teams. The emphasis is on delivering alpha through bottom-up stock picking. J.P. Morgan was retained by the SBI in July 2005.

Marathon Asset Management LLP

At the heart of Marathon's investment philosophy is the "capital cycle" approach to investment. This approach is based on the idea that the prospect of high returns will attract excessive capital (and hence competition), and vice versa. In addition, the assessment of how management responds to the forces of the capital cycle, particularly whether they curtail investment when returns have been poor - and how they are incentivized, are critical to the investment outcome. Given the contrarian and long-term nature of the capital cycle, the approach results in strong views versus the market and long holding periods (5 years plus). The investment philosophy guides a focused team of investment generalists who seek investment opportunities in the growth and value universes and across the capitalization spectrum. Marathon was retained by the SBI in November 1993.

McKinley Capital Management, LLC

Using proprietary quantitative models, McKinley's investment process searches for and identifies signs of accelerating growth. The initial universe consists of all publicly traded non-U.S. stocks, from all capitalization categories in more than 60 countries. The primary model includes a risk-adjusted relative return measurement designed to identify inefficiently priced common stocks in US dollars relative to the market while adjusting for risk. The remaining candidates then pass through liquidity and strength of earnings tests. The earnings tests identify securities with strong earnings acceleration. In the final portfolio construction process, McKinley examines a variety of qualitative factors which could ultimately impact earnings. These factors include a qualitative data check and street research analysis of economic factors, specific industry themes and company fundamentals. The final portfolio will hold between 50-75 stocks, providing diversification and risk control by issue, industry, sector and country. McKinley was retained by the SBI in July 2005.

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

Pyramis' International Growth strategy is a core, growth-oriented strategy that provides diversified exposure to the developed international markets benchmark. The investment process combines active stock selection and regional asset allocation. Four portfolio managers in London, Hong Kong, Smithfield, Rhode Island; and Toronto construct regional sub-portfolios, selecting stocks based on Pyramis analysts'

bottom-up research and their own judgment and expertise. The four regional portfolios are combined according to the policy determined by Pyramis' Asset Allocation Group (AAG). The AAG is comprised of senior investment professionals who base their decisions from micro-economic data derived from portfolio manager inputs, analysts' field research, and proprietary data on liquidity, market activity, and fund flows. Portfolio guidelines seek to ensure risk is commensurate with the performance target and to focus active risk on stock selection. Resulting portfolios typically contain between 200 to 250 holdings. Pyramis was retained by the SBI in July 2005.

Semi-Passive Developed Markets Managers

AQR Capital Management, LLC

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

Investment Manager Summaries

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

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

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

State Street Global Advisors

The International Alpha Strategy seeks to create value through superior security selection. Stocks are quantitatively ranked by region according to those factors which have been shown to identify mispricing over a long term investment horizon:

value, sentiment, earnings quality, and earnings growth. The strategy also incorporates an element to evaluate the macro environment for a portion of the model determined by prevailing market conditions in forming an intermediate term view of factors that will be successful. This element allows a disciplined approach seeking to be adaptive to the macroeconomic environment and respond to changing conditions. The stock scores derived from the combination of these viewpoints are translated into forecasts of stock outperformance. The regional portfolio managers review all suggestions in terms of selections and weightings. A separate process projects transaction costs for each stock. Proprietary portfolio construction software is then used to generate a recommended buy/sell list based on the tradeoff between expected outperformance and the trading costs. State Street Global Advisor's risk management process permits multiple and simultaneous risk penalties and implies that, as industry, country and capitalization deviations become greater and greater, the incremental expected return from a stock must increase in order to compensate for the greater benchmark relative risk. The managers also impose country, sector, industry, and security specific bands relative to the benchmark as an additional risk management tool and manage other exposures such as capitalization, beta and yield to be similar to that of the underlying benchmark. The investment process creates core portfolios that provide clients with stringent risk control, the return of the asset class, and the benefit of active management.

SSgA was retained by the SBI in July 2005.

Passive Developed Markets Managers

State Street Global Advisors

State Street uses a full replication strategy to construct the portfolio. Exchange-traded stock index futures, approved by the Commodity Futures Trading Commission, are also used to minimize tracking error and trade cash flows in order to minimize transactions costs. State Street Global Advisors was retained by the SBI in October 1992.

Active Emerging Markets Managers

Capital International, Inc.

Capital International, Inc. has a long history of investing in emerging markets for its affiliate, Capital Guardian Trust Company, one of the Capital Group Companies. Capital is distinguished by its extensive commitment to fundamental research, with a large team of experienced analysts focused on gathering in-depth information first-hand on markets and companies around the globe. This extensive research is applied using a security-by-security approach to portfolio construction and a unique method of portfolio management that has been in place for more than 40 years. Capital emphasizes long-term investments in companies and goes to great lengths to determine the difference between the fundamental value of a company and its price in the marketplace. This basic,

Investment Manager Summaries

fundamental approach is blended with macroeconomic and political judgments on the outlook for economies, industries, currencies and markets. A critical ingredient in this blending process is the recognition that the relative importance of each factor will vary from time to time, and none can be treated as being of paramount importance at all times. The account is divided among six portfolio managers and a research portfolio. The research portfolio is managed by a team of research analysts who select stocks within the sectors they cover. All portfolio managers are free to make their own decisions (within risk control limits) as to sector, quality emphasis, cash reserves, and issue selection. The SBI retained Capital International, Inc., in January 2001.

Morgan Stanley Investment Management Inc.

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

that growth-oriented companies trading at attractive valuations offer the best return prospects in the emerging markets. Morgan Stanley Investment Management was retained by the SBI for emerging market management in January 2001.

Passive Emerging Markets Managers

State Street Global Advisors

State Street manages an emerging markets index portfolio designed to track the Morgan Stanley Capital International Standard Index of the Emerging Markets. State Street uses an optimized strategy to construct the portfolio. Exchange traded stock index futures, approved by the Commodity Futures Trading Commission, are also used to minimize tracking error, obtain exposure where local access is inaccessible, and trade cash flows in order to minimize transactions costs. State Street was retained by the SBI in December 2011 for this mandate.

Investment Manager Summaries

Fixed Income Program Managers

Active Managers

Aberdeen Asset Management, Inc.

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

Columbia Management Investment Advisers, LLC

Columbia manages portfolios using a bottom-up, relative value approach in combination with a top-down, macro outlook that guides the firm's relative value decisions. The firm employs in-depth fundamental research and credit analysis combined with proprietary valuation disciplines to identify individual relative value opportunities across market sectors. The duration and maturity structure of the portfolio are managed using a rigorous quantitative approach centered on the firm's proprietary interest rate

forecasting models. Columbia is committed to diversification of sources of active risk in the portfolios it manages, and believes that proper diversification combined with consistent evaluation of risk-reward trade-offs leads to competitive risk-adjusted performance. Columbia was retained by the SBI in July 1993.

Dodge & Cox, Inc.

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

Pacific Investment Management Co. LLC (PIMCO)

PIMCO's investment approach seeks to provide consistent excess returns with similar or lower risk relative to the benchmark over a business cycle. PIMCO's approach to investing has three key principles: the utilization of multiple strategies, a long-term orientation and bond selection from a broad universe.

PIMCO's investment process starts with an annual Secular Forum. The goal of this Forum is to look beyond the current business cycle and determine how secular forces will play out over the next three to five years. Quarterly, PIMCO holds Economic Forums to evaluate growth and inflation over the next six to nine months. Following PIMCO's Secular and Economic Forums, the PIMCO Investment Committee (IC) develops key portfolio strategies. They consider both the top-down conclusions emanating from PIMCO's Forum, as well as the bottom-up market intelligence provided by PIMCO's teams of sector specialist portfolio managers. Through an interactive series of meetings, the IC defines a set of consistent strategies that are then implemented by sector specialists who perform in-depth research and recommend individual securities to the portfolio manager to be included in the portfolio. PIMCO was retained by the SBI in September 2008.

Western Asset Management Co.

Western emphasizes the use of multiple strategies and active sector rotation and issue selection, while constraining overall interest rate risk relative to the benchmark. Multiple strategies are proportioned so that results do not depend on one or two opportunities, and no single adverse market event would have an overwhelming effect. This approach adds consistent value over time and can reduce volatility. Long term value investing is Western Asset's fundamental approach. In making their sector decision, the firm seeks out the greatest long-term value by analyzing all fixed income market sectors and

Investment Manager Summaries

their economic expectations. Individual issues are identified based on relative credit strength, liquidity, issue structure, event risk, covenant protection, and market valuation. Western believes that successful interest rate forecasting is extremely difficult to accomplish consistently and consequently keeps portfolio duration within a narrow band around the benchmark. Western was retained by the SBI in July 1984.

Semi-Passive Managers

BlackRock Financial Management

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

Goldman Sachs Asset Management

Goldman manages a semi-passive portfolio that closely

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

Neuberger Berman Fixed Income LLC

Neuberger manages a semi-passive portfolio that closely tracks the Barclays Capital Aggregate. Neuberger's process relies on a combination of quantitative tools and active management judgment. Explicit quantification and management of risks are at the heart of their investment process.

Neuberger's proprietary risk exposure analysis includes all relevant systemic factors, interest rate and spread-related, that determine a bond's expected return with respect to changes in interest rates and spreads. Neuberger analyzes every bond in the index for all relevant factors, and capitalization weights the results to calculate index level risk

exposures. For each interest rate factor, the portfolio is very closely matched to the index to ensure that the portfolio earns the same return as the index for any change in interest rates. For each spread factor, the portfolio can deviate slightly from the index as a means of seeking value-added. Risk is controlled by setting target active risk exposures that must fall within pre-established maximums. To control credit risk, corporate holdings are diversified across a large number of issues. Neuberger was retained by the SBI in July 1988.

Investment Manager Summaries

Assigned Risk Plan Managers

GE Asset Management, Inc.

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

RBC Global Asset Management

RBC manages the fixed income portfolio for the Assigned Risk Plan. The main objective for the portfolio is to provide cash for the payment of workers compensation claims on the required dates. Because of the uncertainty of premium and liability cash flows, the fund is invested conservatively and is benchmarked to the Barclays Intermediate Government Index. RBC uses a top-down approach to bond selection. They focus on sector analysis and security selection and position the portfolio to achieve returns just above benchmark. RBC has managed the bond portfolio since July 1991.

Stable Value Manager

Galliard Capital Management, Inc.

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

State Deferred Compensation Plan Mutual Fund Managers

Janus Twenty Fund

The fund is an actively managed large cap equity option. The investment objective of this fund is long-term growth of capital from increases in the market value of the stocks it owns. The fund will concentrate its investments in holdings of about thirty common stocks. This

non-diversified fund seeks to invest in companies that the portfolio manager believes have strong current financial positions and offer growth potential. The fund was retained by the SBI in July 1999.

T. Rowe Price Small Cap Stock Fund

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

Dodge & Cox Income Fund

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

Investment Manager Summaries

Fidelity Diversified International Fund

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

Vanguard Institutional Index Plus Fund

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

Vanguard Mid Capitalization Index Institutional Fund

The fund is passively managed to track the performance of the MSCI US Mid Cap 450 index, an index of stocks of medium-size U.S. companies. The manager holds positions in all

companies in the index and uses futures and options for handling cash needs. The fund was retained by the SBI in January 2004.

Vanguard Balanced Index Fund Institutional

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

Vanguard Total Bond Market Index Fund Institutional

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

Vanguard Total International Stock Index Fund

The fund is passively managed to track the returns of the MSCI All Country World ex US Index, an index designed to measure equity market performance in developed markets and

emerging markets, excluding the US. The fund invests in small, mid and large cap stocks in the market index. Fund assets are allocated based on each regions weighting in the index. The fund was retained by the SBI in December 2003.

Investment Manager Summaries

Alternative Investment Managers

Private Equity Managers

Adams Street Partners

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

Fund	Market Value (\$)	Unfunded Commitment (\$)	Period (Years)
Venture Partnership Acquisition Fund I	25,485	0	24.14
Venture Partnership Acquisition Fund II	31,689	0	21.59

Advent International

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

Fund	Market Value (\$)	Unfunded Commitment (\$)	Period (Years)
Advent International GPE VI	46,809,157	10,375,000	4.25

Affinity Capital

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

Fund	Market Value (\$)	Unfunded Commitment (\$)	Period (Years)
Affinity Ventures IV	2,548,709	0	8.00
Affinity Ventures V	3,124,404	1,450,000	3.99

The Banc Funds Co.

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

Fund	Market Value (\$)	Unfunded Commitment (\$)	Period (Years)
Banc Fund VII	27,314,235	0	7.25
Banc Fund VIII	55,581,845	48,142,500	4.18

Blackstone Group

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

Fund	Market Value (\$)	Unfunded Commitment (\$)	Period (Years)
Blackstone Capital Partners Fund IV	50,612,865	2,818,134	9.97
Blackstone Capital Partners Fund V	125,383,788	13,177,906	6.41
Blackstone Capital Partners Fund VI	11,509,341	88,155,654	3.93

Investment Manager Summaries

Blum Capital

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

Fund	Market Value (\$)	Unfunded Commitment (\$)	Period (Years)
Blum Strategic Partners	302,179	2,009,928	13.52
Blum Strategic Partners II	8,919,330	2,127,584	10.95
Blum Strategic Partners III	23,735,849	193,515	7.08
Blum Strategic Partners IV	98,562,522	6,597,114	4.61

CarVal Investors

CVI Global Value Fund and Credit Value Fund were formed in 2007 and 2010, respectively. The funds are based in Minneapolis with offices in Beijing, Buenos Aires, London, Copenhagen, Delhi, Luxembourg, Paris, Singapore, Shanghai and Tokyo. The Funds will make investments in loan portfolios, corporate securities, international real estate and real estate loans and special opportunities.

Fund	Market Value (\$)	Unfunded Commitment (\$)	Period (Years)
CVI Global Value Fund	183,470,519	10,000,000	5.46
CarVal Credit Value Fund I	106,727,845	5,000,000	1.75

Chicago Growth Partners (formerly William Blair)

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

Fund	Market Value (\$)	Unfunded Commitment (\$)	Period (Years)
William Blair Capital Partners VII	7,148,943	1,650,000	11.31
Chicago Growth Partners I	33,109,831	1,950,000	6.93
Chicago Growth Partners II	37,271,562	21,307,399	4.30

Coral Group

Coral Partners V is a Minnesota-based venture capital limited partnerships managed by the Coral Group. This fund makes technology and healthcare venture capital investments. It was formed in 1998.

Fund	Market Value (\$)	Unfunded Commitment (\$)	Period (Years)
Coral Partners V	65,663	0	14.04

Court Square Capital

Court Square Capital Partners I, II and III were formed in 2001, 2006 and 2012, respectively, to make private equity investments in a diversified, global portfolio of companies. Court Square Capital is based in New York.

Fund	Market Value (\$)	Unfunded Commitment (\$)	Period (Years)
Court Square Capital Partners I	22,759,194	10,552,581	10.55
Court Square Capital Partners II	185,757,111	21,231,443	5.82
Court Square Capital Partners III	0	175,000,000	0.22

Investment Manager Summaries

Credit Suisse

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

Fund	Market Value (\$)	Unfunded Commitment (\$)	Period (Years)
DLJ Merchant Banking Partners III	29,366,586	3,468,720	11.75

Credit Suisse

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

Fund	Market Value (\$)	Unfunded Commitment (\$)	Period (Years)
DLJ Strategic Partners Fund I	8,596,622	3,772,092	11.44
CSFB Strategic Partners Fund II B	10,437,096	10,360,958	8.95
CSFB Strategic Partners Fund III B	75,911,399	16,815,119	7.08
CSFB Strategic Partners Fund III VC	14,473,099	1,424,431	7.08
CS Strategic Partners Fund IV B	80,591,457	18,632,941	4.26
CS Strategic Partners Fund IV VC	38,137,823	3,837,033	4.03
CS Strategic Partners Fund V	20,131,144	83,906,239	0.87

Crescendo Ventures

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

Fund	Market Value (\$)	Unfunded Commitment (\$)	Period (Years)
Crescendo Venture Fund III	756,843	0	13.65
Crescendo Venture Fund IV	23,544,501	0	12.31

CVC Capital Partners

CVC European Equity Partners V is based in London and was formed in 2008 for the purpose of investing primarily in the European mid and large buyout markets, with investment opportunities available from a broad range of sectors and geographies.

Fund	Market Value (\$)	Unfunded Commitment (\$)	Period (Years)
CVC European Equity Partners V	88,839,655	18,192,033	4.26

Diamond Castle Partners

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

Fund	Market Value (\$)	Unfunded Commitment (\$)	Period (Years)
Diamond Castle Partners IV	86,717,488	11,981,445	5.81

Investment Manager Summaries

DSV Management

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

Fund	Market Value (\$)	Unfunded Commitment (\$)	Period (Years)
DSV Partners IV	32,187	0	27.22

EBF & Associates

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

Fund	Market Value (\$)	Unfunded Commitment (\$)	Period (Years)
Merced Partners II	21,085,770	0	5.25
Merced Partners III	80,430,150	25,000,000	2.15

Elevation Partners

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

Fund	Market Value (\$)	Unfunded Commitment (\$)	Period (Years)
Elevation Partners	61,693,391	12,695,006	7.12

Fox Paine and Company

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

Fund	Market Value (\$)	Unfunded Commitment (\$)	Period (Years)
Fox Paine Capital Fund II	42,948,862	12,567,424	12.00

Golder, Thoma, Cressey and Rauner

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

Fund	Market Value (\$)	Unfunded Commitment (\$)	Period (Years)
Golder, Thoma and Cressey Fund IV	77,624	0	18.41
Golder, Thoma and Cressey Fund V	719,011	0	16.00

Investment Manager Summaries

GTCR Golder Rauner

GTCR Golder Rauner Funds VI, VII, IX and X were formed in 1998, 2000, 2006, and 2010 are funds of a successor firm to the private equity firm of Golder, Thoma, Cressey and Rauner. The SBI has several investments with Golder, Thoma, Cressey and Rauner. Based in Chicago, IL the funds focus primarily on a wide variety of private equity investments in consolidating and fragmented industries.

Fund	Market Value (\$)	Unfunded Commitment (\$)	Period (Years)
GTCR Golder Rauner Fund VI	770,942	0	14.00
GTCR Golder Rauner Fund VII	721,964	15,750,001	12.39
GTCR Golder Rauner Fund IX	71,072,626	6,997,841	6.00
GTCR Golder Rauner Fund X	34,914,546	63,051,396	1.55

Goldman Sachs Capital Partners

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

Fund	Market Value (\$)	Unfunded Commitment (\$)	Period (Years)
GS Capital Partners 2000	8,375,529	0	11.83
GS Capital Partners V	51,055,093	26,041,099	7.25
GS Capital Partners VI	53,598,575	24,700,612	5.41

Goldner Hawn Johnson and Morrison

GHJM Marathon Fund IV and GHJM Marathon Fund V were organized in 1998 and 2004, respectively. Trailhead Fund was formed by this group in 2012. Based in Minneapolis, MN the funds will pursue primarily middle market private equity investments located in the Midwest and other parts of the U.S.

Fund	Market Value (\$)	Unfunded Commitment (\$)	Period (Years)
GHJM Marathon Fund IV	478,561	949,000	13.21
GHJM Marathon Fund V	54,088,859	1,035,251	7.74
GHJM Trailhead Fund	4,071,611	15,928,389	0.35

Hellman and Friedman

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

Fund	Market Value (\$)	Unfunded Commitment (\$)	Period (Years)
Hellman and Friedman IV	230,640	15,365,585	12.49
Hellman and Friedman V	119,632,489	16,762,099	7.58
Hellman and Friedman VI	136,281,734	8,737,576	5.25
Hellman and Friedman VII	10,080,732	39,109,046	3.19

Investment Manager Summaries

Kohlberg, Kravis, Roberts & Co. (KKR)

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

Fund	Market Value (\$)	Unfunded Commitment (\$)	Period (Years)
KKR 1996 Fund	2,308,227	0	15.83
KKR Millennium Fund (2001)	147,168,796	0	9.56
KKR 2006 Fund	164,254,239	14,529,787	5.76

Leonard Green & Partners (LGP)

LGP invests in middle-market companies in a variety of structured transactions. LGP typically makes investments in the retail, consumer & business services, healthcare and distribution sectors. Green Equity Investors VI was formed in 2012 to continue this investment philosophy. LGP is based in Los Angeles, CA.

Fund	Market Value (\$)	Unfunded Commitment (\$)	Period (Years)
Green Equity Investors VI	0	200,000,000	0.29

Lexington Capital Partners

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

Fund	Market Value (\$)	Unfunded Commitment (\$)	Period (Years)
Lexington Capital Partners VI	68,752,766	5,705,690	6.51
Lexington Capital Partners VII	94,545,225	108,031,472	3.05

RWI Ventures

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

Fund	Market Value (\$)	Unfunded Commitment (\$)	Period (Years)
RWI Ventures I	566,708	0	6.00
RWI Group III	34,868	0	6.00

Sightline Healthcare (Piper Jaffray)

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

Fund	Market Value (\$)	Unfunded Commitment (\$)	Period (Years)
Sightline Healthcare Fund II	305,445	0	15.33
Sightline Healthcare Fund III	2,208,571	0	13.44
Sightline Healthcare Fund IV	1,836,127	0	8.76

Investment Manager Summaries

Silver Lake Partners

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

Fund	Market Value (\$)	Unfunded Commitment (\$)	Period (Years)
Silver Lake Partners II	65,099,919	11,687,487	8.00
Silver Lake Partners III	59,385,782	33,361,867	5.25

Split Rock Partners

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

Fund	Market Value (\$)	Unfunded Commitment (\$)	Period (Years)
Split Rock Partners	34,133,085	6,490,910	7.16
Split Rock Partners II	17,467,254	37,300,000	4.17

Summit Partners

Summit Ventures V and VIII are limited partnerships formed in 1998 and 2011. Summit Partners focuses on profitable, expansion stage firms that have not yet received any venture backing. The majority of the partnership investments are in high tech firms. Investments are diversified by location and industry type. Summit Partners is based in Boston, MA.

Fund	Market Value (\$)	Unfunded Commitment (\$)	Period (Years)
Summit Ventures V	282,640	875,000	14.25
Summit Ventures VIII	4,500,000	95,500,000	1.16

Thoma Cressey Bravo Equity Partners

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

Fund	Market Value (\$)	Unfunded Commitment (\$)	Period (Years)
Thoma Cressey Fund VI	3,955,781	1,085,000	13.86
Thoma Cressey Fund VII	20,478,507	0	11.85
Thoma Cressey Fund VIII	75,642,575	770,000	6.16

Thomas, McNerney & Partners

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

Fund	Market Value (\$)	Unfunded Commitment (\$)	Period (Years)
Thomas, McNerney & Partners Fund I	13,360,402	1,650,000	9.65
Thomas, McNerney & Partners Fund II	33,615,167	9,625,000	6.00

Investment Manager Summaries

T. Rowe Price

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

Fund	Market Value (\$)	Unfunded Commitment (\$)	Period (Years)
T. Rowe Price	17,667,503	0	N/A

Varde Partners

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

Fund	Market Value (\$)	Unfunded Commitment (\$)	Period (Years)
Varde Fund IX	151,380,500	0	4.02
Varde Fund X	137,195,228	22,500,000	2.19

Vestar Capital Partners

Vestar Capital Partners IV, V and VI are limited partnerships that were formed in 1999, 2006, and 2011, respectively. Based in New York, the funds invest primarily in a number of private middle market companies.

Fund	Market Value (\$)	Unfunded Commitment (\$)	Period (Years)
Vestar Capital Partners IV	14,213,676	777,403	12.54
Vestar Capital Partners V	58,064,324	1,738,950	6.53
Vestar Capital Partners VI	551,630	99,448,370	0.77

Warburg Pincus & Co.

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

Fund	Market Value (\$)	Unfunded Commitment (\$)	Period (Years)
Warburg Pincus Equity Partners	4,986,101	0	14.01
Warburg Pincus Private Equity Partners VIII	88,440,561	0	10.21
Warburg Pincus Private Equity Partners IX	105,622,218	0	6.93
Warburg Pincus Private Equity Partners X	145,521,832	6,150,000	4.68

Wayzata Investment Partners

Wayzata Opportunities Funds I, II, and III were formed in 2005, 2007 and 2012, respectively, for the purpose of making investments in distressed securities where it can expect to exert significant influence on the restructuring process and potentially control the reorganized company. The Funds are based in Wayzata, MN.

Fund	Market Value (\$)	Unfunded Commitment (\$)	Period (Years)
Wayzata Opportunities Fund I	107,469,932	6,820,000	6.53
Wayzata Opportunities Fund II	144,452,166	89,550,000	4.69
Wayzata Opportunities Fund III	0	150,000,000	0.04

Investment Manager Summaries

Welsh, Carson, Anderson and Stowe

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

Fund	Market Value (\$)	Unfunded Commitment (\$)	Period (Years)
Welsh, Carson, Anderson and Stowe Fund VIII	844,549	0	13.93
Welsh, Carson, Anderson and Stowe Fund IX	35,694,079	2,500,000	12.01
Welsh, Carson, Anderson and Stowe Fund X	83,979,001	4,000,000	6.54
Welsh, Carson, Anderson and Stowe Fund XI	63,606,955	41,912,783	3.94

Real Estate Managers

Blackstone Real Estate Partners

Based in New York, Blackstone Real Estate Partners V, VI and VII were formed in 2006, 2007 and 2011 to make real estate investments in a variety of sectors, geographic locations and business climates. Blackstone will consider investments in major urban office buildings, the lodging sector, distribution and warehousing centers, retail, and a variety of real estate operating companies.

Fund	Market Value (\$)	Unfunded Commitment (\$)	Period (Years)
Blackstone Real Estate Partners V	110,655,592	4,417,812	6.17
Blackstone Real Estate Partners VI	115,359,652	9,120,939	5.25
Blackstone Real Estate Partners VII	21,350,773	78,798,491	0.68

Colony Advisors

Colony Investors II and III are closed-end commingled real estate funds managed by Colony Capital Inc. of Los Angeles, CA. The fund's strategy is to invest in undervalued equity and debt real estate-related assets. The SBI committed to Fund II in 1995 and Fund III in 1997.

Fund	Market Value (\$)	Unfunded Commitment (\$)	Period (Years)
Colony Investors II	2,600	1,517,672	17.25
Colony Investors III	4,418,500	0	14.50

Credit Suisse

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

Fund	Market Value (\$)	Unfunded Commitment (\$)	Period (Years)
CSFB Strategic Partners III RE	11,927,510	398,070	7.00
CS Strategic Partners IV RE	31,666,839	2,909,633	4.03

Investment Manager Summaries

Lehman Brothers

Lehman Brothers Real Estate Partners II and Lehman Brothers Real Estate Partners III were formed in 2005 and 2007, respectively, to invest in properties, real estate companies and service businesses ancillary to the real estate industry on a global basis. The funds' worldwide headquarters are in New York, with regional headquarters in London and Tokyo. In 2010, the funds were renamed Silverpeak Legacy Pension Partners II and III to reflect the General Partner ownership change after the Lehman Brothers bankruptcy in 2008.

Fund	Market Value (\$)	Unfunded Commitment (\$)	Period (Years)
Silverpeak Legacy Pension Partners II	36,593,903	9,857,501	7.00
Silverpeak Legacy Pension Partners III	30,178,071	83,274,488	4.11

Morgan Stanley (Lend Lease)

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

Fund	Market Value (\$)	Unfunded Commitment (\$)	Period (Years)
Prime Property Fund	258,744,100	0	30.72

Prudential Real Estate Investors (PREI)

PREI launched the first open-end, commingled core real estate fund in 1970, called PRISA. The fund makes equity investments in existing real estate and is diversified by location and property type. The SBI originally committed to this fund in 1981, and then sold its investment in 1989. The SBI inherited a share of PRISA on December 31, 2011 when the Minneapolis Police Retirement Fund merged with PERA. PREI is based in Parsippany, NJ.

Fund	Market Value (\$)	Unfunded Commitment (\$)	Period (Years)
PRISA	9,382,881	0	0.50

TA Associates Realty

TA Realty Associates Funds V, VI, VII, VIII, IX and X are closed-end, commingled real estate funds managed by TA Associates Realty of Boston, MA. The funds invest in small to medium sized properties generally diversified by location and type. On-site management of properties is contracted to outside firms. The SBI committed to the funds in 1999, 2002, 2004, 2006, 2008 and 2012, respectively.

Fund	Market Value (\$)	Unfunded Commitment (\$)	Period (Years)
TA Realty Associates Fund V	295,748	0	13.10
TA Realty Associates Fund VI	26,824,544	0	10.01
TA Realty Associates Fund VII	52,505,731	0	7.62
TA Realty Associates Fund VIII	67,809,400	0	6.00
TA Realty Associates Fund IX	102,846,600	4,000,000	3.85
TA Realty Associates Fund X	0	100,000,000	0.33

Investment Manager Summaries

UBS Realty Investors

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

Fund	Market Value (\$)	Unfunded Commitment (\$)	Period (Years)
UBS Trumbull Property Fund	297,306,098	0	30.17

Resource Funds Managers

Apache Corporation

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

Fund	Market Value (\$)	Unfunded Commitment (\$)	Period (Years)
Apache Acquisition Net Profits Interest	5,821,860	0	25.50

EnCap Investments

EnCap Energy Capital Funds VII and VIII were formed in 2007 and 2010 for the purpose of making privately negotiated equity and equity-linked investments in the independent sector of the oil and gas industry. EnCap Investments is based in Houston, TX.

Fund	Market Value (\$)	Unfunded Commitment (\$)	Period (Years)
EnCap Energy Capital Fund VII	72,899,535	18,195,873	5.00
EnCap Energy Capital Fund VIII	35,652,642	70,016,820	1.75

Energy & Minerals Group

Based in Houston, TX, Energy & Minerals Group (formerly known as NGP Midstream & Resources) will make direct investments in selected areas of the energy infrastructure and natural resources sectors, primarily targeting the midstream energy sector and all facets of the mining, minerals and related power sectors.

Fund	Market Value (\$)	Unfunded Commitment (\$)	Period (Years)
Energy & Minerals Group I	95,108,559	7,290,136	5.25
Energy & Minerals Group II	2,905,648	95,540,379	0.77

Energy Capital Partners

Energy Capital specializes in building and managing energy assets to achieve capital appreciation. Energy capital is based in Short Hills, NJ. Fund II was closed in 2010.

Fund	Market Value (\$)	Unfunded Commitment (\$)	Period (Years)
Energy Capital Partners II	49,826,777	56,622,959	1.95

Investment Manager Summaries

First Reserve

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

Fund	Market Value (\$)	Unfunded Commitment (\$)	Period (Years)
First Reserve X	42,510,156	0	7.66
First Reserve XI	123,716,508	8,481,285	5.52
First Reserve XII	111,768,664	37,766,613	3.66

Natural Gas Partners

Natural Gas Partners is based in Irving TX, and will focus primarily on the sectors of the energy industry that are related to the production and development of crude oil and natural gas in North America. Fund IX was formed in 2007, and Fund X was formed in 2011.

Fund	Market Value (\$)	Unfunded Commitment (\$)	Period (Years)
Natural Gas Partners IX	146,558,130	25,876,179	4.69
NGP Natural Resources X	10,348,336	139,031,912	0.72

Sheridan Production Partners

Sheridan Production Partners I and II were formed in 2007 and 2010 respectively to pursue a strategy of acquiring a portfolio of currently producing oil and gas properties and optimizing the operations of those properties through production acceleration and recovery enhancement, appropriate use of capital reinvestment and aggressive cost control. The Funds are headquartered in Houston, TX.

Fund	Market Value (\$)	Unfunded Commitment (\$)	Period (Years)
Sheridan Production Partners I	116,376,016	0	5.25
Sheridan Production Partners II	11,218,007	86,750,000	1.75

EIG Global Energy Partners

(TCW Asset Management Company)

TCW Energy XIV and Energy Partners XV were formed in 2007 and 2010, respectively, for the purpose of making mezzanine and equity investments in energy and energy-related infrastructure projects and companies on a global basis. The funds operate from offices in Washington D.C., Los Angeles, Houston, New York and London. EIG was formally spun out of TCW in 2011.

Fund	Market Value (\$)	Unfunded Commitment (\$)	Period (Years)
TCW Energy XIV	79,111,921	16,919,846	5.20
Energy Partners XV	80,679,011	78,750,000	2.06

Yield-Oriented Managers

Audax

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

Fund	Market Value (\$)	Unfunded Commitment (\$)	Period (Years)
Audax Mezzanine III	18,728,356	81,040,924	2.24

Investment Manager Summaries

Citicorp Capital Investors

Citicorp Mezzanine Partners III is a limited partnership formed in 1999 by Citicorp Capital Investors Ltd. of New York. The Fund will invest in a broad range of transactions utilizing subordinated debt and equity securities.

Fund	Market Value (\$)	Unfunded Commitment (\$)	Period (Years)
Citicorp Mezzanine Partners III	511,384	0	12.66

Credit Suisse

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

Fund	Market Value (\$)	Unfunded Commitment (\$)	Period (Years)
DLJ Investment Partners II	453,139	4,955,172	12.49
DLJ Investment Partners III	21,248,425	54,472,704	6.02

Gold Hill Venture Lending Partners

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

Fund	Market Value (\$)	Unfunded Commitment (\$)	Period (Years)
Gold Hill Venture Lending	9,805,065	0	7.75
Gold Hill 2008	25,264,789	3,619,362	4.00

Goldman Sachs Mezzanine Partners

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

Fund	Market Value (\$)	Unfunded Commitment (\$)	Period (Years)
GS Mezzanine Partners II	3,783,562	0	12.33
GS Mezzanine Partners III	10,468,989	0	8.97
GS Mezzanine Partners 2006	33,901,538	25,000,112	6.23
GS Mezzanine Partners V	50,608,727	82,518,217	4.69

Merit Capital Partners (formerly William Blair Mezzanine Partners)

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

Fund	Market Value (\$)	Unfunded Commitment (\$)	Period (Years)
William Blair Mezzanine Capital Partners III	5,705,817	2,366,759	12.49
Merit Capital Partners IV	36,956,208	5,192,308	7.54
Merit Capital Partners V	23,258,482	48,306,122	2.53

Investment Manager Summaries

Merit Energy Company

Merit Energy Partners B, C, D, E, F and H were formed in 1996, 1998, 2000, 2003, 2005, and 2011, respectively. Based in Dallas, TX, the funds focus on resource investments in producing oil and gas properties.

Fund	Market Value (\$)	Unfunded Commitment (\$)	Period (Years)
Merit Energy Partners B	63,680,039	0	16.00
Merit Energy Partners C	158,628,353	0	13.67
Merit Energy Partners D	116,307,766	0	11.10
Merit Energy Partners E	65,532,327	0	7.71
Merit Energy Partners F	62,586,736	42,158,394	6.27
Merit Energy Partners H	20,577,312	81,151,207	1.41

Prudential Capital Group

Prudential Capital Partners I, II, III, and IV were formed in 2001, 2005, 2009 and 2012, respectively. Based in Chicago, IL the Funds make mezzanine investments, typically including convertible debt, preferred stock and warrants, with a specific focus on middle market companies.

Fund	Market Value (\$)	Unfunded Commitment (\$)	Period (Years)
Prudential Capital Partners I	30,980,517	7,498,997	11.20
Prudential Capital Partners II	43,718,603	7,094,842	7.00
Prudential Capital Partners III	82,961,278	19,890,792	3.20
Prudential Capital Partners IV	0	100,000,000	0.45

Summit Partners

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

Fund	Market Value (\$)	Unfunded Commitment (\$)	Period (Years)
Summit Subordinated Debt Fund I	79,359	2,000,000	18.25
Summit Subordinated Debt Fund II	3,380,754	4,500,000	14.91
Summit Subordinated Debt Fund III	20,502,555	2,850,000	8.37
Summit Subordinated Debt Fund IV	30,706,281	22,250,001	4.26

TCW/Crescent Mezzanine

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

Fund	Market Value (\$)	Unfunded Commitment (\$)	Period (Years)
TCW/Crescent Mezzanine Partners III	5,535,072	29,701,079	11.25

Investment Manager Summaries

Windjammer Capital Investors

Windjammer Funds II, III and IV are limited partnerships formed in 2000, 2005 and 2012, respectively. Based in Newport Beach, CA the Funds provide subordinated debt and/or preferred stock accompanied by warrants or other forms of equity participation and, in certain instances, common stock to middle market companies. The Funds seek to generate both current income and substantial capital gains while limiting risk.

Fund	Market Value (\$)	Unfunded Commitment (\$)	Period (Years)
Windjammer Mezzanine & Equity Fund II	9,904,700	14,391,081	12.25
Windjammer Senior Equity Fund III	58,841,514	12,750,271	6.50
Windjammer Senior Equity Fund IV	711,849	99,288,151	0.35

Trading Data

Commissions and Trading Volume By Broker for Fiscal Year 2012

Broker	Stock \$ Volume	Stock Commission	Bond \$ Volume	Bond \$ Commission	Short Term \$ Volume
A L WILLIAMSON & CO	-	-	8,277,556	-	-
ABG SECURITIES	8,317,486	12,201	-	-	-
ABN AMRO BANK NV	-	-	351,699	-	-
ABN AMRO, HOARE, GOVETTE	2,318,007	4,655	-	-	-
ABN-AMRO BANK	2,698,088	4,845	-	-	-
AMADON CORPORATION	3,995,284	6,979	-	-	-
AMBIT CAPITAL PRIVATE LIM	202,255	507	-	-	-
AMERICAN TECHNOLOGY RES. INC.	1,610,457	2,144	-	-	-
AMHERST SECURITIES GROUP INC.	-	-	5,258,008	-	-
ANCORA SECURITIES	664,047	1,115	-	-	-
ARDEN PARTNERS LTD	1,330,304	1,722	-	-	-
ASIAN MARKETS	306,978	770	-	-	-
ASSENT LLC	25,030,281	6,156	-	-	-
ATLANTIS RESEARCH	585,834	-	-	-	-
AUTRANET	8,584,393	8,648	-	-	-
AVONDALE PARTNERS LLC	6,092,723	12,852	-	-	-
B RILEY AND CO. INC.	13,506,008	29,815	-	-	-
BA SECURITIES INC	-	-	1,175,794,776	-	2,433,405,395
BA SECURITIES, INC.	-	-	1,509,387,621	-	-
BACNO ITAU SA	9,264,283	26,676	-	-	-
BANC OF AMSTERDAM	-	-	4,822,227	-	-
BANCHILE	726,371	2,173	-	-	-
BANCO BILBAO VISCAYA	-	-	693,945	-	-
BANCO EXTERIOR DE ESPANA	1,029,904	1,031	121,781	-	-
BANCO INBURSA	5,269,766	1,054	-	-	-
BANCO PACTUAL S.A.	6,498,902	15,298	-	-	-
BANCO SANT	4,805,195	11,424	-	-	-
BANCO SANTANDER CENTRAL HISPANA	-	-	243,818	-	-
BANK J. VONTOBEL, ZURICH	796,430	1,191	-	-	-
BANK OF AMERICA	191,198	143	668,180	-	-
BANK OF NE	116,646	41	-	-	-
BANK OF NOVA SCOTIA NEW YORK	-	-	5,675,923	-	-
BANK OF NY SECURITIES INC	-	-	1,391,955	-	-
BANK OF NY/BARCLAY LONDON	-	-	6,059,015	-	-
BANQUE COMMERCIALE DU MAROC	226,169	1,347	-	-	-
BANQUE NATIONALE DE PARIS	-	-	111,320	-	-
BARCLAY FINANCIAL CORP	978,275	1,080	-	-	-
BARCLAYS AMERICAN CORP	1,977,410	1,116	88,318,328	-	-
BARCLAYS BANK	33,524	72	-	-	-
BARCLAYS CAPITAL INC	1,515,618,612	739,112	1,603,976,620	-	2,446,811,846
BARING SECURITIES	101,107,981	100,993	-	-	-
BARNARD JACOBS AND CO (PTY) LTD	67,445	135	-	-	-
BATLIVALA+KARANI SECS INDIA PV	746,141	1,852	-	-	-
BAYERISCHE HYPO- UND VEREINSBA	4,931,443	9,264	-	-	-
BAYPOINT TRADING LLC	10,825,425	11,122	-	-	-
BEAL M. R. & CO	1,348,839	604	1,494,375	-	-
BEAR STEARNS SECS	837,045,488	352,511	6,616,297	-	-
BEAR STEARNS SECURITIES	1,747,323	1,023	-	-	-
BEAR, STEARNS & CO.	83,537,057	74,496	144,895,634	-	-
BERNSTEIN SANFORD	358,364,046	155,820	-	-	-
BIDS TRADING	891,690	587	-	-	-
BLAIR & COMPANY	47,628,127	70,134	6,598,146	-	-
BLAYLOCK & PARTNERS	3,109,502	2,035	-	-	-
BLOOMBERG	34,503,430	33,499	-	-	-
BMO CAPITAL MARKETS	161,719	-	12,846,579	-	49,994,167
BNP FINANCE, PARIS FRANCE	17,233,276	9,416	-	-	-
BNP PARIBAS	26,745	27	459,406,358	-	-
BNP PARIBAS PEREGRINE SEC., ASIA	23,909,104	42,566	-	-	-
BNP SECURITIES	41,366	52	99,959	-	-
BNP-BANQUE NATIONALE DE PARIS	-	-	10,199,557	-	-
BNY CAPITAL MARKETS INC	-	-	3,085,304	-	-
BNY/ITC DEALERS	-	-	91,886,090	-	-
BNY/SUNTRUST CAPITAL MARKETS	-	-	63,231,630	-	-
BOCI SECURITIES LTD	62,921	57	-	-	-
BONY MELLON	-	-	3,164,408	-	-

Trading Data

Commissions and Trading Volume By Broker for Fiscal Year 2012

Broker	Stock \$ Volume	Stock Commission	Bond \$ Volume	Bond \$ Commission	Short Term \$ Volume
BOSTON INST. SERVICES	-	-	431,570	-	-
BREAN MURRAY, CARRET & CO., LLC	1,457,783	2,780	-	-	-
BROADCORT CAPITAL	1,569,565	1,880	-	-	-
BROADPOINT CAPITAL	-	-	14,325,811	-	-
BROCKHOUSE & COOPER	2,846,257	1,516	-	-	-
BROWN (ALEX) & SONS INC.	1,844,589,715	937,953	14,991,978,148	-	315,817,859
BROWN BROS. HARRIMAN	-	-	13,564,320	-	-
BTIG	1,306,750	1,772	-	-	-
BUCKINGHAM RESEARCH GRP	4,573,921	8,992	-	-	-
BUNTING WARBURGER SEC	30,653,202	27,108	-	-	-
BURNS FRY & TIMMINS	7,951,291	10,168	-	-	-
C.L. KING & ASSOC.	5,665,931	9,065	349,518	-	-
CABOTO SIM SPA	2,892	4	-	-	-
CABRERA CA	30,998,937	16,867	-	-	-
CAISSE CENTRALE DESJARDINS	-	-	731,510	-	-
CALYON JAPAN	514,738	621	-	-	-
CANACCORD CAPITAL CORP	4,780,967	5,968	-	-	-
CANACCORO	9,991,530	23,127	-	-	-
CANTOR FITZGERALD	96,013,136	103,798	440,745,228	-	-
CAPITAL INST. SERVICES	382,865,782	352,191	-	-	-
CARIS & CO	304,073	63	-	-	-
CARLIN EQUITIES	7,102,633	21,235	-	-	-
CARNEGIE	9,212,325	11,108	-	-	-
CASTLE OAK	137,351	186	-	-	-
CDS RBC DO	-	-	29,515,114	-	293,698,872
CELFIN CAPITAL SA CORREDORES	4,245,013	12,473	-	-	-
CENTURY SECS	-	-	246,276,483	-	3,999,666
CHARLES RIVER BROKERAGE	1,310,185	1,197	-	-	-
CHARLES SCHWAB & CO.,INC.	-	-	52,164	-	-
CHASE MANHATTAN BANK	334,980	335	-	-	-
CHASE SECURITIES INC	-	-	3,802,082,692	148	69,868,927
CHEMICAL BANK	-	-	952,915,847	-	-
CHEUVREUX	22,252,123	32,307	-	-	-
CHINA INTERNATIONAL CAP CORP	6,208,994	9,170	-	-	-
CI NORDIC	1,475,503	2,216	-	-	-
CIBC WORLD	57,608,377	15,705	1,466,269	-	-
CIBC/WOOD GUNDY	-	-	83,000,000	-	99,999,611
CISCO OF AMERICA INC	-	-	2,181,474	-	-
CITADEL SECURITIES LLC	8,578	8	10,261,044	-	-
CITATION GROUP	614,867,586	376,256	-	-	-
CITI LAVA ALGO	534,522	325	-	-	-
CITIBANK	519,649	288	228,732,339	-	-
CITIBANK BUDAPEST RT(HUNGARY)	153,390	107	-	-	-
CITIBANK INTERNATIONAL PLC	436,179	871	-	-	-
CITIBANK MEXICO	5,025,859	9,137	-	-	-
CITIBANK NA TOKYO	2,641,151	5,293	-	-	-
CITIGROUP	226,849	121	-	-	-
CITIGROUP GLOBAL MARKETS INC	82,973,970	94,122	390,078,063	-	2,121,552,969
CITIGROUP INC	717,697	729	-	-	-
CL GLAZER INC.	43,776,170	92,702	-	-	-
CLSA LTD TRUST	2,224,513	3,186	-	-	-
COLLINS STEWART	10,616,983	14,727	-	-	-
COMMERZBANK AG	6,471,374	7,460	4,320,431	-	-
COMPANHIA BRASILEIRA DE LIQUID	25,170,318	30,195	-	-	-
CORE PACIFIC SECURITIES INTL	112,876	101	-	-	-
COWEN&CO	111,341,372	61,854	180,027,533	-	2,698,455
CRAIG-HALLUM INC	11,277,804	40,169	-	-	-
CREDIT AGRICOLE INDOSUEZ	1,335,760	1,679	676,587	-	-
CREDIT LYONNAIS	44,816,298	75,278	25,583	-	-
CREDIT LYONNAIS SECURITIES	11,270,921	23,996	-	-	-
CREDIT RESEARCH & TRADING	1,409,135	1,819	23,220,861	-	-
CREDIT SUISSE	66,017,704	96,257	414,731	-	-
CREDIT SUISSE FIRST BOSTON LTD	159,320,203	185,806	475,364	-	-
CRONIN & CO INC	-	-	93,466,812	-	-
CRT CAPITAL GROUP	2,629,679	2,926	108,694,421	-	-

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Broker	Stock \$ Volume	Stock Commission	Bond \$ Volume	Bond \$ Commission	Short Term \$ Volume
CRUTTEDEN GUST & MERH	8,582,731	13,397	-	-	-
CS FIRST BOSTON	78,630,803	110,033	210,173,714	-	9,922,437,666
CS SECURITIES EUROPE LTD	46,456	35	-	-	-
CSFB	6,661,332	8,005	-	-	-
CSI US INTERNATIONAL	9,235,719	6,566	-	-	-
CUTTONE & CO	599,986	1,365	-	-	-
D CARNEGIE AG STOCKHOLM, SWEDEN	5,803,322	7,847	-	-	-
D.A. DAVIDSON	25,608,755	51,109	-	-	-
DAEWOOD SECURITIES CO., LTD	8,844,836	17,330	-	-	-
DAIN RAUSCHER INC	56,379,473	76,892	425,159,793	-	-
DAIWA SBCM	11,642,762	13,784	-	-	-
DAIWA SEC	276,766	417	-	-	-
DAIWA SEC. AMERICA	25,163,637	18,945	47,764,345	-	-
DALAL & BROACHA	155,976	392	-	-	-
DAVENPORT & CO	25,026	291	-	-	-
DAVY (J+E)	8,095,011	3,190	-	-	-
DAVY STOCKBROKERS	100,891	151	-	-	-
DEN DANSKE BANK	585,054	702	-	-	-
DESJARDIN SECURITIES	132,973	409	-	-	-
DEUTSCHE BANK	243,456,504	187,367	177,349,717	-	-
DEUTSCHE BANK AG NEW YORK	-	-	66,763,420	-	-
DEUTSCHE BANK SECS	-	-	376,998,791	-	24,315,636,156
DEUTSCHE EQ. PVT., LTD.	2,587,225	5,657	-	-	-
DEUTSCHE M	2,533,149	2,124	-	-	-
DEUTSCHE S	13,930,988	27,863	-	-	-
DEUTSCHE SECURITIES	6,889,956	13,279	-	-	-
DEUTSCHE SECURITIES ASIA	13,845,605	29,378	-	-	-
DHANKI SECURITIES PVT LTD.	795,525	1,850	-	-	-
DOLAT CAPITAL MARKETS	345,483	866	-	-	-
DONGWON SECURITY	1,911,745	3,335	-	-	-
DOUGHERTY CO	21,881,899	31,017	-	-	-
DOWLING & PARTNERS SEC LLC	450,869	284	-	-	-
DSP MERRILL LYNCH	2,853,732	7,662	-	-	-
DSP MERRILL LYNCH BOMBAY INDIA	3,986,409	8,406	-	-	-
DUNCAN WILLIAMS GOVT SEC	-	-	529,434	-	-
DUNDEE SECURITIES	100,332	115	-	-	-
DWM SECURITIES LTD	16,578	21	-	-	-
E D & F MAN INTERNATIONAL SEC	-	-	2,529,295	-	-
EDELWEISS SECURITIES	2,908,324	7,263	-	-	-
EMKAY GLOBAL FINANCIAL SVCS	33,291	83	-	-	-
ENAM SECURITIES PVT LTD	775,749	1,938	-	-	-
EQUITY PLANNING CORP	-	-	6,872,699	-	-
EQUITY-ONE CORPORATION	8,593,960	-	1,863,027	-	-
ERIK PENSE	335,109	503	-	-	-
EUROMOBILIARE	5,448,800	8,183	-	-	-
EVERN EVEREN CLEARING HOUSE	172,612	257	-	-	-
EVOLUTION BEESON GREGORY	303,334	364	-	-	-
EVOLUTION SECURITIES LTD	373,969	448	-	-	-
EXANE, PARIS	14,692,346	18,363	-	-	-
EXECUTION LTD	1,304,408	1,305	-	-	-
EXECUTION SERVICES INC	163,692,745	146,099	-	-	-
FIDELITY C	32,907,236	24,085	-	-	-
FINANCIAL BROKERAGE	687,051	2,058	-	-	-
FIRST BOSTON - LONDON	83,203	-	-	-	-
FIRST BOSTON CORPORATION	3,371,091,131	1,409,740	20,707,304,674	-	424,753,438
FIRST CLEARING, LLC	265,718	381	-	-	-
FIRST ENERGY CAPITAL	27,794	-	-	-	-
FIRST MARATHON SEC., LTD	-	-	5,112,150	-	-
FIRST PACIFIC	12,493,535	11,252	-	-	-
FIRST TENN BANK, NA	-	-	42,640,199	-	99,994,583
FIRST UNION CAP MKTS	39,813,132	51,074	1,753,633,642	-	-
FLEMING (ROBERT) INC	9,769,497	8,824	-	-	-
FOKUS BANK	22,839	27	-	-	-
FORD FINANCIAL SERVICES	-	-	-	-	179,894,324
FORTIS BANK	-	-	14,092,649	-	-

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Broker	Stock \$ Volume	Stock Commission	Bond \$ Volume	Bond \$ Commission	Short Term \$ Volume
FOX RIVER EXECUTION TECHNOLOGY	565,135	85	-	-	-
FRIEDMAN, BILLINGS & RAMSEY	18,350,521	28,885	-	-	-
FUJI SECURITIES	16,034,689	18,292	2,683,155	-	-
G-TRADE SEC	5,677,194	3,131	-	-	-
G.K. GOH	2,493,927	6,128	-	-	-
GARDNER RICH & COLE	1,093,233	456	5,887,535	-	-
GENERAL ELEC CAPITAL CORP	-	-	-	-	753,948,495
GLEACHER NATWEST, INC.	-	-	2,566,960	-	-
GLOBAL HUNTER SECURITIES LLC	2,253,696	3,845	-	-	-
GMP SECURITIES LTD.	1,581,347	5,458	-	-	-
GOLDMAN SACHS & COMPANY	878,003,690	696,077	11,163,558,389	98,594	1,726,644,964
GOLDMAN SACHS INTL.	355,975	160	-	-	-
GOODBODY STOCKBROKERS	131,346	131	-	-	-
GREEN STREET	1,550,512	3,552	-	-	-
GREENFIELD ARBITRAGE PARTNERS	475,110	28,074	11,759,009,252	-	439,560,671
GREENWICH CAPITAL MARKETS INC	-	-	1,522,134,796	12,204	19,644,991,278
GRIFFIN KUBIK STEPHENS & THOMPSON	-	-	3,276,635	-	-
GROSS & CO. INC.	-	-	2,580,370	-	-
GRUPO BURSATIL	2,440,922	6,090	-	-	-
GUGGENHEIM CAPITAL MARKETS	1,303,758	1,251	-	-	-
GUZMAN & CO.	130,935,514	66,902	-	-	-
HBSC SECURITIES	-	-	38,677,663	-	-
HC ISTANBU	1,260,888	2,517	-	-	-
HEEERS & CO INC.	14,810,696	10,978	-	-	-
HIBERNIA SOUTH COAST CAP INC	8,212,192	27,051	-	-	-
HOARE GOVETT	1,054,375	2,636	-	-	-
HOLT & COL	-	-	163,376	-	-
HONG KONG & SHANG HIGH BANKING COR	6,478,404	9,261	-	-	-
HOWARD WEIL LABOUISSIE FRIEDRIC	200,896	191	-	-	-
HSBC ASSET MANAGEMENT	3,431,727	3,387	4,760,379	-	-
HSBC BANK	26,831,417	33,974	5,440,923	-	-
HSBC INVESTMENT BANK	8,717,059	7,620	-	-	-
HSBC JAMES CAPEL	3,458,822	6,943	-	-	-
HSBC SECURITIES INC	19,027	428	39,111,273	-	26,533,288,197
HUNTER SECURITIES	-	-	369,870	-	-
IBJ INTL LTD	2,406,521	2,874	-	-	-
ICAP SECURITIES	29,208	15	-	-	-
ICHIYOSHI SECURITIES	175,266	175	-	-	-
IM TRUST S.A.	640,397	1,915	-	-	-
INDIA INFOLINE LTD	26,442,576	67,347	-	-	-
INDUSTRIAL	-	-	200,300	-	-
INFINITY.COM FINANCIAL SEC.	471,308	1,174	-	-	-
ING BANK	913,931	1,721	-	-	-
ING BARING	13,491,669	23,758	-	-	-
INSTINET	749,755,574	327,356	-	-	-
INTERBOLSA S.A. COMISIONISTA	1,394,145	4,861	-	-	-
INTERMONTE	6,493,417	9,749	-	-	-
INVESTEC SECURITIES	11,330,119	13,986	-	-	-
INVESTMENT TECHNOLOGY CORP	1,053,932,122	222,663	-	-	-
INVESTMENT TECHNOLOGY GRP INC	70,151	21	-	-	-
IPS BROKERAGE INC	20,165,946	30,845	-	-	-
ISI GROUP	42,177,227	42,963	-	-	-
ISLAND TRADER SECURITIES INC.	8,612,784	7,205	-	-	-
ITAU USA SECURITIES INC	29,804	75	-	-	-
ITG AUSTRALIA LTD	4,279,578	2,140	-	-	-
ITG CANADA	84,105,010	39,050	-	-	-
ITG SECURITIES (HK) LTD	6,585,958	3,233	-	-	-
ITGI INVEST TECH MFN INTL	744,205	189	-	-	-
ITGL	1,149,128	385	-	-	-
IVY SECURITIES INC.	9,285,962	7,293	-	-	-
J P MORGAN & CO	90,069,654	126,778	11,565,000	-	-
J P MORGAN SECURITIES INC	178,157,686	297,952	1,135,893,007	1,863	1,980,479,913
JACKSON PARTNERS & ASSOCIATES INC	987,158	681	-	-	-
JANNEY MONTGOMERY SCOTT	4,751,459	11,631	244,645	-	-
JEFFERIES & CO	1,129,723,393	552,908	435,625,706	-	144,251,721

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Broker	Stock \$ Volume	Stock Commission	Bond \$ Volume	Bond \$ Commission	Short Term \$ Volume
JEFFERIES INTERNATIONAL LTD	1,184,598	2,968	-	-	-
JM FINANCIAL	601,028	1,512	-	-	-
JNK SECURITIES INC	242,602	279	-	-	-
JOH BERENBERG GOSSLER AND CO	6,146,744	8,960	-	-	-
JOHNSON RICE & CO	4,556,609	6,216	-	-	-
JONES & ASSOCIATES	506,797	2,981	-	-	-
JONESTRADING INSTITUTIONAL	29,464,731	36,389	-	-	-
JP MORGAN	7,897,285	8,791	20,644,995	-	-
JPAE	133,877	52	-	-	-
JULIUS BAER	7,759,136	10,235	-	-	-
KB SECURITIES NV	186,370	187	-	-	-
KBC PEEL	911,615	1,822	-	-	-
KEB SMITH BARNEY SECS	12,476,737	24,005	-	-	-
KEEFE BRUYETTE & WOOD	24,050,759	48,516	-	-	-
KEMPEN & CO	1,552,005	1,650	-	-	-
KEPLER EQUITIES ZURICH	64,505	97	-	-	-
KEYBANC CAPITAL MARKETS	-	-	3,233,400	-	-
KINNARD (JOHN G.) & CO	12,538,307	19,160	-	-	-
KNIGHT DIRECT	21,513,684	5,217	-	-	-
KNIGHT SECURITIES	616,870,215	363,343	325,000	-	-
KOTAK SECURITIES	4,294,147	8,996	-	-	-
L'ARGENT E	-	-	-	-	-
LANDESBANK BADEN WUERTTEMBERG	2,080,757	3,126	-	-	-
LARRAIN VIAL	41,480	146	-	-	-
LASKER STONE AND STERN	38,250	67	-	-	-
LAZARD FRERES & CO	18,228,655	21,342	1,708,230	-	-
LEERINK SW	17,818,740	35,841	-	-	-
LIBERTAS	-	-	4,658,824	-	-
LIBERUM CAPITAL LIMITED	6,822,167	8,758	-	-	-
LIQUIDNETI	692,040,051	531,326	-	-	-
LOMBARD, ODIER & CIE	81,456	81	-	-	-
Longbow Securities LLC	10,100,105	16,097	-	-	-
LOOP CAPITAL	124,127,688	76,098	109,287	-	-
LOURDES MAN	84,371	127	-	-	-
LYNCH, JONES & RYAN	607,324,717	507,639	-	-	-
MACQUARIE CAP MKTS	8,256,596	4,024	-	-	-
MACQUARIE EQUITIES	50,043,073	50,399	-	-	-
MACQUARIE SECURITIES	20,895,361	16,460	-	-	-
MAINFIRST	169,767	204	-	-	-
MALONEY & CO	6,423,789	4,277	-	-	-
MAN SECURITIES INC	1,070,604	1,716	5,936,331	-	-
MARTIN LYN	-	-	330,969,082	-	-
MCDANIEL LEWIS & CO	738,851	1,107	-	-	-
MCDONALD & COMPANY	46,321,390	57,926	36,304,905	-	-
MEDIOBANCA SPA	30,697	-	-	-	-
MELLON BANK	94,486	195	-	-	-
MELVIN SECURITIES (CLARK & CO)	1,109,354	2,620	-	-	-
MERRIL-PERFORMANCE MEASURE	780,462,983	358,763	85,790,048	-	800,000
MERRILL LYNCH	651,955,061	466,277	5,612,873	-	-
MERRILL LYNCH P F & S	19,194	7	6,788,499	65,646	-
MERRILL LYNCH PIERCE	264,112	396	-	-	-
MESIROW AND COMPANY	-	-	8,278,388	-	-
MF GLOBAL FXA SECURITIES LTD	199,173	199	-	-	-
MIAE MERRILL LYNCH ALGOR	907,518	443	-	-	-
MIDLAND MANAGEMENT CORP	1,618,001	2,386	-	-	-
MILLER TABAK HIRCH	-	-	470,018	-	-
MITSUBISHI	-	-	16,360	-	-
MITSUBISHI FINL. LONDON	-	-	14,482,570	-	-
MITSUBISHI UFJ SECURITIES	2,190,484	2,328	-	-	-
MIZUHO SECURITIES	434,973	822	35,484,656	-	445,139,714
MKM PARTNER	2,993,012	6,277	-	-	-
MND PARTNERS	915,752	385	-	-	-
MONTGOMERY SECURITIES	-	-	6,064,003,493	-	428,156,735
MONTROSE SECURITIES EQUITY	2,997,865	874	-	-	-
MONUMENT SECURITIES LIMITED	7,492,739	9,695	-	-	-

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MORGAN GRENFELL	884,180	494	-	-	-
MORGAN KEEGAN INC.	12,775,287	27,443	17,559,812	-	-
MORGAN STANLEY	75,294,104	104,586	283,845	-	-
MORGAN STANLEY & CO	2,435,597,929	1,080,732	10,332,098,023	-	1,652,917,608
MORGAN STANLEY INDIA SEC PRVT	1,662,917	4,218	-	-	-
MOTILAL OSWAL SEC. LTD. BOMBAY	1,773,927	4,430	-	-	-
MR BEAL & COMPANY	2,719,101	6,212	-	-	-
MURPHY, MARSEILLES, SMITH & NA	-	-	87,307,254	-	-
NATIONAL BANK OF CANADA	-	-	5,830,395	-	-
NATIONAL FINANCIAL	20,617,333	11,330	16,083,317	-	-
NATIXIS SECURITIES	75,749	113	476,619	-	-
NBC LEVESQUE	4,660,546	5,875	-	-	-
NCB STOCKBROKERS	717,375	767	-	-	-
NESBITT BURNS	8,931,652	27,076	31,493,815	-	-
NEWBRIDGE SECURITIES	927,088	860	-	-	-
NOMURA CAPITAL SERVICES	1,109,566	1,993	-	-	-
NOMURA SEC	929,461	1,342	-	-	-
NOMURA SECURITIES INTL	260,928,092	207,031	3,453,423,562	-	45,508,390
NORMAN HUDSON & CO.	285,472,297	184,514	-	-	-
NORTHLAND	679,253	1,192	-	-	-
NOTZ, STUC	-	-	40,797	-	-
NUMIS SECURITIES LTD	4,115,302	6,141	-	-	-
ODDO FINANCE	3,212,985	4,471	-	-	-
OPPENHEIMER & CO	608,129	850	9,148,638	-	-
ORIEL SECURITIES LTD	941,023	1,216	-	-	-
PACIFIC CR	16,867,390	17,630	-	-	-
PACIFIC CREST SECURITIES	10,378,387	10,464	-	-	-
PAINE WEBBER INC	-	-	97,007,101	-	-
PAINE WEBBER J & C	9,542,246	14,244	25,922,093	-	-
PALISADE	1,250,000	-	-	-	-
PANMURE GORDON	2,104,558	2,737	-	-	-
PAREL	144,375	216	-	-	-
PARIBAS	13,642,619	19,051	-	-	-
PARIBAS CO	-	-	23,102,405	-	-
PENSION FINANCIAL SERVICES INC.	83,671	117	-	-	-
PENSON FINANCIAL	13,384,693	12,621	-	-	-
PEREIRE TOD LIMITED	2,601,238	3,378	-	-	-
PERSH PERSHING DIV OF DLJ	54,859,224	71,310	11,330,559	-	-
PERSHING SECURITIES LTD	37,897,156	58,735	197,354,035	-	72,373,061
PETERBROECK	-	-	-	-	-
PETERS & CO.	2,213,536	2,887	-	-	-
PFORZHEIMER CARL H.	-	-	43,233,079	-	-
PICKERING	6,024,661	9,213	-	-	-
PIERPONT SECURITIES	-	-	-	-	124,833,123
PIONEER SECURITIES INC.	16,188	-	5,742,719,509	-	523,928,267
PIPELINE TRADING SYSTEMS LLC	4,023,902	5,581	-	-	-
PIPER JAFFRAY INC	-	-	247,920,330	-	-
PIPER JAFFRAY & HOP S	55,934,856	67,598	6,147,806	-	-
PREBON YAMANE (USA) INC	-	-	408,090,991	-	1,488,000,000
PREVISION INVESTMENT CO	-	-	75,714,535	-	-
PRIMASIA S	1,386,462	1,386	-	-	-
PULSE TRADE	24,288,889	18,360	-	-	-
Q&R CLEARING CORP	56,508	97	-	-	-
R W PRESSPRICH & CO. INC.	-	-	461,143	-	-
RABOBANK NETHERLANDS	1,465,134	1,630	-	-	-
RAMIREZ	7,623	172	-	-	-
RAYMOND JAMES	-	-	5,039,050	-	-
RAYMOND JAMES & ASSOCIATES	72,376,840	120,726	35,908,676	-	-
RBC CAPITAL MARKETS	212,694	94	311,101,710	-	273,083,568
RBC DOMINION SECURITIES	41,732,897	39,581	9,267,966	-	-
RBS SECURITIES	6,329,573	4,237	-	-	-
REDBURN PARTNERS LLP	25,969,657	36,417	-	-	-
RENAISSANCE CAPITAL	11,554,915	24,281	-	-	-
RENCAP SECURITIES INC	1,278,156	1,828	-	-	-
REUBEN ALSTEAD & CO INC.	-	-	1,073,989,405	-	192,428,921

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ROBERT M NEWMAN JR & CO	-	-	748,309,928	-	-
ROBERT VAN SECURITIES	-	-	273,578	-	-
ROBERT W. BAIRD & CO	90,916,580	149,464	28,562,127	-	-
ROCHDALE SECURITIES CORP	16,536,852	19,302	-	-	-
RODMAN & RENSHAW	1,477,475	6,132	-	-	-
ROSENBLATT SECURITIES INC	277,775,104	140,173	-	-	-
ROYAL BANK OF CANADA	434,458	412	-	-	-
ROYAL BANK OF SCOTLAND PLC	17,526,551	19,467	-	-	195,986,306
SALOMON BROTHERS	110,809,446	158,976	10,466,369,487	2,769	147,125,734
SALOMON BROTHERS INC NY	59,827	90	-	-	-
SALOMON SM	17,337,340	12,060	-	-	-
SALOMON SMITH BARNEY HOLDINGS	6,762,811	11,600	-	-	-
SALOMON	2,050,850	2,337	-	-	-
SAMSUNG SECURITIES	7,914,327	15,258	-	-	-
SAMUEL A R	282,907	472	-	-	-
SANDLER O NEIL	7,281,142	13,512	-	-	-
SANFORD C.	10,690,240	8,334	-	-	-
SCOTIA CAPITAL INC	-	-	49,987,500	-	149,997,161
SCOTIA CAPITAL MARKET	6,534,156	6,207	-	-	-
SCOTIA MCLEOD	489,147	27	637,447	-	-
SCOTT & STRINGFELLOW	15,892,324	25,275	5,004,280	-	-
SEAPORT SECURITIES	-	-	26,325	-	-
SG SECURITIES	10,872,752	7,746	-	-	-
SIDOTI	29,255,158	63,221	-	-	-
SIGNAL HILL CAPITAL GROUP LLC	889,690	789	-	-	-
SIMMONS +	459,976	270	-	-	-
SJ LEVINSON & SONS LLC	738,301,991	451,423	-	-	-
SKANDINAVISKA ENSKILDA	833,410	1,250	-	-	-
SOCIETE GE	17,716,686	19,368	-	-	-
SOCIETE GENERAL	2,066,682	3,095	9,340,340	-	-
SOCIETE GENERALE NA	-	-	45,311,196	-	37,954,827
SOLEIL SEC.	287,227	581	-	-	-
SPEAR,LEEDS & KELLOGG	1,521,050,647	704,403	14,736,079	-	-
SPROTT SECURITIES	2,545,971	2,638	-	-	-
SS KANTILAL ISHWARLAL	2,715,042	4,014	-	-	-
STANDARD CHARTERED BANK	1,589,236	2,496	-	-	-
STANDARD CHARTERED BK	3,698,642	5,412	-	-	-
STANLEY (CHARLES) & CO LTD	50,504	61	-	-	-
STATE ST BK & TRUST	2,366,082	2,324	68,437,179	-	22,696,253,388
STATE STREET GLOBAL MKTS/BOS	-	173,412	-	-	-
STATE STREET SECURITIES	1,069,285,684	490,081	-	-	-
STEPHENS, INC.	34,414,364	76,721	12,925,979	-	-
STERNE, AGEE & LEACH	30,206,398	45,782	163,861,233	-	14,450,474
STIFEL NICOLAUS & COMPANY	84,415,503	81,952	270,408,455	-	-
STONECAP SECURITIES	9,566	52	-	-	-
STRATEGAS SECURITIES	1,798,628	1,001	-	-	-
STUART FRANKLE	23,302,236	11,699	-	-	-
SUNTRUST CAPITAL MARKETS INC	15,893,435	24,838	-	-	-
SUSQUEHANNA FINANCIAL GROUP	172,272	184	-	-	-
SVENSKA HANDELSBANKEN	9,421,219	13,879	-	-	-
SWISS BANK	1,704,235,345	870,714	2,194,265,465	-	27,623,336
TACHIBANA SECURITIES	108,864	109	-	-	-
TD WATERHOUSE CDA	22,164,891	23,421	-	-	-
THE BANK OF NEW YORK/MIZUHO	-	-	408,918,923	-	-
THE BENCHMARK COMPANY, LLC	1,668,033	4,860	-	-	-
THOMAS C BOWLES & CO.	-	-	3,023,904	-	-
THOMAS WEISEL PARTNERS	101,050	42	-	-	-
TOKYO MITSUBISHI	8,321,477	9,837	-	-	-
TORONTO DOMINION SEC INC	1,697,260	1,949	152,351,844	-	644,937,006
TOYOTA MOTOR CREDIT CORP	-	-	-	-	334,751,010
TRADITION	-	-	116,210,073	-	100,000,000
TROIKA DIALOG UK LIMITED	731,190	1,095	-	-	-
U.S. BANCORP INVESTMENT	-	-	12,460,078	-	394,799,988
U.S. CLEARING	9,290,531	18,388	1,982,196	-	-
UBS AG	17,379,400	31,656	66,688,008	-	-

Trading Data

Commissions and Trading Volume By Broker for Fiscal Year 2012

Broker	Stock \$ Volume	Stock Commission	Bond \$ Volume	Bond \$ Commission	Short Term \$ Volume
UBS ALGO	144,088	218	-	-	-
UBS SECURITIES	160,594,604	171,402	45,077,935	-	378,316,904
UBS WARBUR	3,885,308	9,630	339,562	-	-
UBS WARBURG	11,372,475	15,363	-	-	-
UNITED SERVICES PLANNING ASSOC	-	-	2,028,186,626	-	105,707,670
US BANCORP	-	-	27,691,513	-	-
UTI SECURITIES EXCHANGE LTD	699,240	1,744	-	-	-
VALEURS MOBILIERES DESJARDINS	62,815	44	-	-	-
VTB BANK EUROPE PLC	3,772,833	6,565	-	-	-
WACHOVIA	73,101	1,067	6,310,484	-	-
WAGNER STOTT & CO.	22,726,215	23,910	1,146,338	-	-
WALL STREET PLANNING INC.	-	-	2,049,119	-	-
WARBURG DI	22,937,706	36,517	-	-	-
WARBURG S.G.	3,481	10	-	-	-
WARBURG SECURITIES	269,724	237	-	-	-
WARBURG, DILLON READ	89,059,291	124,681	-	-	-
WDAE WEEDEN	87,436	44	-	-	-
WEDBUSH SECURITIES	6,121,701	8,978	7,035,991	-	-
WEEDEN & COMPANY	833,617,393	388,403	-	-	-
WEISS	2,316,062	5,189	-	-	-
WELLS FARGO BANK	4,246,488	986	-	-	-
WELLS FARGO FINANCIAL INC	-	-	20,000,888	-	59,992,075
WELLS FARGO INSTITUTL BROK & SALES	-	-	-	-	31,994,453
WELLS FARGO SECURITIES LLC	-	-	90,058,868	-	211,135,406
WHEATON FIRST SECURITIES INC	21,561,205	28,633	-	-	-
WILLIAM BLAIR & CO.	-	-	12,136,541	-	-
WILLIAMS CAP GRP LP	-	-	30,000,000	-	653,766,940
WILLIAMS CAPITAL GROUP LP NY	26,621,778	19,229	-	-	-
WINTERFLOOD SECURITIES	153,394	230	-	-	-
WOOD & CO.	1,510,839	4,544	-	-	-
WOORI INVESTMENT SEC	4,925,489	9,308	-	-	-
WUNDERLICH SECURITIES INC.	2,023,813	4,435	-	-	-
YOUNG SMITH & PEACOCK	-	-	23,615,495	-	-
YUANTA SECURITIES CO LTD	5,351,452	10,700	-	-	-
ZIMMERMAN ADAMS INTERNATIONAL	4,774	10	-	-	-
BROKER NOT AVAILABLE*	9,027,849,281	132,770	2,453,127,533	-	32,687,257,976
GRAND TOTAL	\$ 39,279,668,048	\$ 19,324,336	\$ 125,286,965,753	\$ 181,223	\$ 158,122,949,214

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

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NOTES TO THE FINANCIAL SCHEDULES

JUNE 30, 2012

Financial Report Background:

The State Board of Investment (SBI) is the investment management vehicle for numerous retirement and non-retirement funds. The funds are separated by legal requirements and grouped into four major investment types: the Retirement Funds, the Non-Retirement Funds, the Assigned Risk Plan, and Other Funds Under Management. The SBI's goal is to maximize returns for each investment type given the appropriate level of risk. For each investment type, the funds are further broken down and reported by the entity responsible for the financial accounting and presentation of the funds. The information provided by the SBI is audited in conjunction with the audit of the reporting entities.

Retirement Funds: The Retirement Funds consist of funds administered by Teachers Retirement Association (TRA), Public Employees Retirement Association (PERA), Minnesota State Retirement System (MSRS), and Local Volunteer Fire Relief Associations. A list of plan participants is provided in a schedule beginning on page 98. Comprehensive Financial Reports are prepared by the respective agencies. These reports can be obtained by contacting TRA at (800) 657-3669, PERA at (800) 652-9026, MSRS at (800) 657-5757.

The Supplemental Investment Fund (SIF) is an investment option within the retirement fund that is available to various groups of participants according to state statute. SBI provides a financial schedule on the SIF as required by statute.

Non-Retirement Funds: The Non-Retirement Funds represent investment vehicles for Trusts and OPEBs. A listing of the Trusts and OPEBs is provided in the participation schedule on page 114. The Comprehensive Financial Reports for the OPEBs are prepared by PERA and are available by calling (800) 652-9026. The Comprehensive Financial Reports for the Trusts are prepared by Minnesota Management and Budget and are available by calling (800) 627-3529.

Assigned Risk Plan: The Assigned Risk Plan is a dedicated governmental fund for which the SBI is the investment vehicle for the assets made available for investment. The Comprehensive Financial Reports can be obtained from Minnesota Management and Budget by calling (800) 627-3529.

Other Funds Under Management: The Other Funds Under Management are the assets the State has made available for investment with SBI. The financial statement presented for the Other Funds represent the investment information at the State Board of Investment. The SBI grouped the financial information for the Other Funds into five major categories: Invested Treasurer's Cash, Debt Service, State Employee Group Insurance, Housing Finance, and Public Facilities. The detailed financial statements, supporting schedules, and further breakdown of Debt Service, State Employee Group Insurance, Housing Finance, and Public Facilities can be found in the State's Comprehensive Annual Financial Report available from Minnesota Management and Budget at (800) 627-3529.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Financial Reporting: The SBI reporting requirements changed under the legislation passed during the 2012 legislative session. References in MS 11A.07, subdivision 4 and 11A.14, subdivision 14 to fund and participant annual statements prepared in accordance with generally accepted accounting principles were deleted. These requirements were deemed redundant to statements prepared for the State of Minnesota's Comprehensive Financial Statements and those of PERA, MSRS, and TRA retirement systems.

As required by state statute the SBI has prepared schedules for the SIF, a schedule of participation for all pooled investments, and a schedule of external manager fees.

Authorized Investments: *Minnesota Statutes, Section 11A.24* authorizes 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; participation as a limited partner in venture capital, real estate or resource equity investments; and participation in registered mutual funds.

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

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

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

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

State Board of Investment
Retirement Fund - Supplemental Investment Accounts
Schedule of Net Assets
As of June 30, 2012
Amounts in (000)'s

	<u>Fixed Interest</u> <u>Account</u>	<u>Money Market</u> <u>Account</u>	<u>Bond Market</u> <u>Account</u>
Assets			
Security Lending Collateral			\$ 13,744
Short Term Investments			
Stable Value Fixed Interest	\$ 1,465,835		
Money Fund		\$ 270,892	
Fixed Income Investments			
Bond Pool			133,311
Income Share Fixed Pool			
Equity Investments			
Domestic Stock Pool			
International Stock Pool			
Total Investments	\$ 1,465,835	\$ 270,892	\$ 133,311
Total Assets	\$ 1,465,835	\$ 270,892	\$ 147,055
Liabilities			
Accrued Investment Expense	\$ 778		\$ 33
Security Lending Collateral			13,744
Total Liabilities	\$ 778		\$ 13,777
Net Investment Assets Held in Trust	\$ 1,465,057	\$ 270,892	\$ 133,278

<u>Income Share</u> <u>Account</u>	<u>Common</u> <u>Stock Index</u> <u>Account</u>	<u>Growth Share</u> <u>Account</u>	<u>International</u> <u>Share Account</u>	<u>Volunteer</u> <u>Fire Fighter</u> <u>Account</u>	<u>Total</u> <u>Supplemental</u> <u>Investment</u> <u>Fund</u>
\$ 19,150	\$ 20,255	\$ 16,313	\$ 5,745	\$ 693	\$75,900
					1,465,835
12,100				243	283,235
				3,018	136,329
91,734					91,734
156,063	165,062	131,384		2,457	454,966
			74,441	1,045	75,486
<u>\$259,897</u>	<u>\$ 165,062</u>	<u>\$ 131,384</u>	<u>\$ 74,441</u>	<u>\$ 6,763</u>	<u>\$ 2,507,585</u>
<u>\$ 279,047</u>	<u>\$ 185,317</u>	<u>\$ 147,697</u>	<u>\$ 80,186</u>	<u>\$ 7,456</u>	<u>\$ 2,583,485</u>
\$ 4	\$ 4	\$ 60	\$ 56	\$ 2	\$ 937
19,150	20,255	16,313	5,745	693	75,900
<u>\$ 19,154</u>	<u>\$ 20,259</u>	<u>\$ 16,373</u>	<u>\$ 5,801</u>	<u>\$ 695</u>	<u>\$ 76,837</u>
<u>\$ 259,893</u>	<u>\$ 165,058</u>	<u>\$ 131,324</u>	<u>\$ 74,385</u>	<u>\$ 6,761</u>	<u>\$ 2,506,648</u>

State Board of Investment
Retirement Fund - Supplemental Investment Accounts
Schedule of Changes in Net Assets
For the Fiscal Year Ended June 30, 2012
Amounts in (000)'s

	<u>Fixed Interest</u> <u>Account</u>	<u>Money Market</u> <u>Account</u>	<u>Bond Market</u> <u>Account</u>
Investment Income			
Interest, Dividends and Other	\$2,703	\$734	\$8,322
Security Lending Gross Earnings			\$127
Less Borrower Rebates			(\$6)
Less Fees Paid to Agents			(\$45)
Security Lending Net Earnings			76
Net Increase in Fair Value of Investments	44,511		3,098
Total Investment Income	\$ 47,214	\$ 734	\$ 11,496
Expenses			
Administrative Expenses		\$ (18)	\$ (8)
Investment Expenses	\$ (2,915)	(17)	(129)
Total Expenses	\$ (2,915)	\$ (35)	\$ (137)
Net Income	\$ 44,299	\$ 699	\$ 11,359
Participant Transactions			
Additions	\$ 114,977	\$ 79,154	\$ 242,638
Withdrawals	(66,272)	(64,899)	(269,149)
Net Participant Transactions	\$ 48,705	\$ 14,255	\$ (26,511)
Total Change in Assets	\$ 93,004	\$ 14,954	\$ (15,152)
Net Investment Assets Held in Trust:			
Beginning of Year	1,372,053	255,938	148,430
End of Year	\$ 1,465,057	\$ 270,892	\$ 133,278

<u>Income Share</u> <u>Account</u>	<u>Common</u> <u>Stock Index</u> <u>Account</u>	<u>Growth Share</u> <u>Account</u>	<u>International</u> <u>Share Account</u>	<u>Volunteer</u> <u>Fire Fighter</u> <u>Account</u>	<u>Total</u> <u>Supplemental</u> <u>Investment</u> <u>Fund</u>
\$12,605	\$13,671	\$6,003	\$584	\$322	\$ 44,944
\$152	\$160	\$105	\$95	\$7	646
(\$4)	(\$4)	(\$3)			(\$17)
<u>(\$58)</u>	<u>(\$61)</u>	<u>(\$40)</u>	<u>(\$42)</u>	<u>(\$3)</u>	<u>(249)</u>
90	95	62	53	4	\$380
140	(11,155)	(2,445)	(21,492)	(66)	12,591
<u>\$ 12,835</u>	<u>\$ 2,611</u>	<u>\$ 3,620</u>	<u>\$ (20,855)</u>	<u>\$ 260</u>	<u>\$ 57,915</u>
\$ (16)	\$ (11)	\$ (8)	\$ (5)	\$ (12)	\$ (78)
<u>(16)</u>	<u>(18)</u>	<u>(268)</u>	<u>(231)</u>	<u>(6)</u>	<u>(3,600)</u>
<u>\$ (32)</u>	<u>\$ (29)</u>	<u>\$ (276)</u>	<u>\$ (236)</u>	<u>\$ (18)</u>	<u>\$ (3,678)</u>
<u>\$ 12,803</u>	<u>\$ 2,582</u>	<u>\$ 3,344</u>	<u>\$ (21,091)</u>	<u>\$ 242</u>	<u>\$ 54,237</u>
\$ 15,652	\$ 79,111	\$ 9,274	\$ 25,904	\$ 3,494	\$ 570,204
<u>(26,874)</u>	<u>(170,728)</u>	<u>(12,677)</u>	<u>(63,043)</u>	<u>(387)</u>	<u>(674,029)</u>
<u>\$ (11,222)</u>	<u>\$ (91,617)</u>	<u>\$ (3,403)</u>	<u>\$ (37,139)</u>	<u>\$ 3,107</u>	<u>\$ (103,825)</u>
\$ 1,581	\$ (89,035)	\$ (59)	\$ (58,230)	\$ 3,349	\$ (49,588)
<u>258,312</u>	<u>254,093</u>	<u>131,383</u>	<u>132,615</u>	<u>3,412</u>	<u>2,556,236</u>
<u><u>\$ 259,893</u></u>	<u><u>\$ 165,058</u></u>	<u><u>\$ 131,324</u></u>	<u><u>\$ 74,385</u></u>	<u><u>\$ 6,761</u></u>	<u><u>\$ 2,506,648</u></u>

**State Board of Investment
Retirement Plans Participation
As of June 30, 2012**

	<u>Stable Value</u> <u>Fixed Interest</u>	<u>Money Fund</u>	<u>Bond Pool</u>
Combined Retirement Funds			
Correctional Employees Retirement Fund		\$13,651,483	\$146,438,954
Highway Patrolmen's Retirement Fund		\$10,337,374	\$122,481,721
Judges Retirement Fund		\$3,137,700	\$31,977,219
Legislative Retirement Fund		\$229,448	\$3,207,455
State Employees Retirement Fund		\$166,848,328	\$2,026,806,630
Public Employee Corrections		\$6,722,945	\$67,796,095
PERA Minneapolis Employee Retirement		\$12,674,819	\$175,809,877
Public Employee Police & Fire Fund		\$113,088,420	\$1,284,984,517
Public Employees Retirement Fund		\$266,039,545	\$3,020,636,549
Teachers Retirement Fund		\$280,080,179	\$3,716,921,966
		<u>\$872,810,239</u>	<u>\$10,597,060,983</u>
Fire Relief Funds			
MSRS ING	\$1,462,204,476	\$275,607,893	\$76,864,367
Pera DCP	\$3,630,529	\$2,219,658	\$2,958,818
Alaska		\$1,029	
Albertville			\$39,838
Almelund		\$85,603	
Amboy			\$29,152
Argyle		\$1,568	
Arrowhead		\$874	\$17,283
Audubon		\$9,588	\$84,519
Aurora		\$73,410	\$83,677
Austin Part-Time		\$12,706	
Avon			
Babbitt		\$2,667	\$56,363
Backus			
Bagley		\$5,157	\$28,795
Balsam		\$13,671	
Barnum		\$989	\$9,958
Beardsly		\$158	\$51,382
Beaver Creek			\$19,322
Benson		\$1,829	\$31,157
Bertha		\$2,242	
Bigfork		\$702	
Bird Island		\$2,662	

<u>Income</u>				
<u>Share Fixed</u>	<u>Alternative</u>	<u>Domestic Stock</u>	<u>International</u>	
<u>Pool</u>	<u>Investment Pool</u>	<u>Pool</u>	<u>Stock Pool</u>	<u>Total</u>
	\$102,822,257	\$297,220,896	\$97,758,660	\$657,892,250
	\$86,000,652	\$248,595,949	\$81,765,467	549,181,163
	\$22,452,832	\$64,902,804	\$21,347,122	143,817,677
	\$2,252,115	\$6,510,035	\$2,141,209	14,340,263
	\$1,423,124,247	\$4,113,723,134	\$1,353,040,974	9,083,543,313
	\$47,603,103	\$137,602,825	\$45,258,825	304,983,793
	\$123,446,187	\$356,837,267	\$117,367,008	786,135,158
	\$902,253,104	\$2,608,078,410	\$857,820,718	5,766,225,169
	\$2,120,942,920	\$6,130,857,338	\$2,016,494,782	13,554,971,133
	<u>\$2,609,840,204</u>	<u>\$7,544,078,672</u>	<u>\$2,481,316,060</u>	<u>16,632,237,082</u>
	<u>\$7,440,737,621</u>	<u>\$21,508,407,331</u>	<u>\$7,074,310,826</u>	<u>\$47,493,327,000</u>
\$73,728,177		\$311,019,028	\$52,026,277	\$2,251,450,218
\$6,760,518		\$23,470,920	\$2,220,536	41,260,980
\$7,803		\$40,159	\$5,243	54,234
		\$24,847	\$20,215	84,899
\$61,000		\$206,462		353,066
		\$69,083		98,235
\$11,889		\$30,763		44,221
\$6,624		\$47,438		72,219
\$72,694		\$123,671		290,473
		\$18,537	\$5,250	180,874
\$96,332		\$362,300		471,338
		\$41,883		41,883
\$20,217		\$242,758		322,005
		\$73,153		73,153
\$37,541		\$83,146		154,640
\$47,637		\$140,990		202,298
\$7,495		\$103,936		122,377
\$1,195		\$84,349	\$31,845	168,927
		\$19,570		38,892
\$13,870		\$85,245		132,101
\$17,000		\$59,212		78,454
\$5,323		\$141,199	\$14,950	162,174
\$20,184		\$80,133		102,979

**State Board of Investment
Retirement Plans Participation
As of June 30, 2012**

	<u>Stable Value</u> <u>Fixed Interest</u>	<u>Money Fund</u>	<u>Bond Pool</u>
Blackduck			
Blooming		\$58,352	\$26,030
Bloomington			\$37,013,648
Boyd		\$722	
Bricelyn		\$10,925	
Brimson		\$3,804	\$9,201
Brooklyn Park		\$151,043	
Brooten			
Brownsville		\$5,096	\$20,590
Buffalo Lake		\$5,607	
Caledonia		\$2,038	
Canby		\$6,218	
Carlton		\$1,234	\$34,678
Center City		\$5,350	\$14,303
Ceylon		\$2,920	
Chatfield		\$4,501	
Cherry		\$2,463	
Chisago City		\$17,939	\$110,286
Chokio		\$6,413	
Clarissa			\$34,033
Clarkfield		\$6,987	\$38,688
Clear Lake		\$9,970	\$46,587
Columbia Heights			\$382,732
Coon Rapids		\$47,505	\$1,141,595
Cotton		\$757	\$24,531
Cyrus			\$27,427
Dakota		\$1,741	\$39,338
Dawson		\$8,451	
Dayton Fire		\$109,874	
Deer Creek		\$2,788	
Delano			\$53,657
Dover		\$23,791	\$45,237
East Grand Forks		\$38,425	
Edgerton		\$8,277	
Edina		\$1,359,511	\$857,752
Elbow Lake		\$5,689	

<u>Income</u>				
<u>Share Fixed</u>	<u>Alternative</u>	<u>Domestic Stock</u>	<u>International</u>	
<u>Pool</u>	<u>Investment Pool</u>	<u>Pool</u>	<u>Stock Pool</u>	<u>Total</u>
		\$7,937	\$22,959	30,896
\$11,056		\$52,434		\$147,871
		\$54,730,264	\$12,178,165	103,922,078
\$5,472		\$21,006		27,200
\$82,829		\$140,913		234,668
\$21,415		\$42,592	\$8,447	85,459
\$1,145,140		\$5,505,335	\$229,194	7,030,712
		\$163,415		163,415
\$3,938		\$58,704	\$10,551	98,878
\$42,511		\$215,358		263,476
\$15,450		\$34,126	\$10,995	62,609
\$47,142		\$266,177	\$36,021	355,558
\$9,357		\$91,917	\$17,422	154,609
\$40,563		\$131,293	\$13,345	204,854
\$22,137		\$142,819		167,877
\$34,121		\$178,717	\$46,559	263,898
\$18,676		\$98,877		120,016
\$136,002		\$342,675	\$88,080	694,981
\$48,621		\$82,717		137,751
		\$35,306		69,339
\$52,969		\$109,317		207,960
\$75,587		\$400,829		532,973
		\$1,010,366		1,393,098
\$360,163		\$612,726		2,161,990
\$5,737		\$106,794	\$22,731	160,550
		\$33,593	\$10,311	71,331
\$13,199		\$47,614		101,892
\$64,068		\$138,682		211,200
\$52,855		\$201,713		364,443
\$21,139		\$133,036		156,963
				53,657
\$17,085		\$112,244	\$31,560	229,917
\$291,322		\$495,611		825,358
\$62,756		\$200,445		271,478
		\$3,869,830	\$1,086,313	7,173,406
\$43,134		\$140,188		189,011

**State Board of Investment
Retirement Plans Participation
As of June 30, 2012**

	<u>Stable Value</u> <u>Fixed Interest</u>	<u>Money Fund</u>	<u>Bond Pool</u>
Elmore			
Excelsior		\$30,036	\$1,106,962
Eyota		\$79,387	\$68,881
Fergus Falls		\$22,009	\$815,107
Forest Lake		\$11,235	
Franklin			
Fredenberg		\$50,957	\$105,805
Frost		\$1,002	
Ghent			\$7,047
Glencoe			
Glenville		\$12,572	\$35,148
Glenwood		\$5,421	\$101,030
Golden Valley		\$63,355	\$365,528
Gonvick		\$2,101	
Good Thunder		\$4,988	
Grand Meadow		\$2,872	
Greenwood		\$5,110	\$57,557
Grey Eagle		\$6,610	
Hackensack		\$4,251	\$52,359
Hanska			
Hardwick		\$3,819	
Harmony		\$817	
Hawley		\$185	
Hayward		\$1,512	
Hector		\$20,909	
Henning		\$2,884	\$49,543
Herman			\$31,022
Hewitt			
Hills		\$217	
Holdingford		\$548	
Holland		\$2,481	\$46,190
Houston		\$604	
Hovland		\$1,017	
Industrial		\$2,819	
Isanti			
Jacobson		\$8,322	

<u>Income</u>				
<u>Share Fixed</u>	<u>Alternative</u>	<u>Domestic Stock</u>	<u>International</u>	
<u>Pool</u>	<u>Investment Pool</u>	<u>Pool</u>	<u>Stock Pool</u>	<u>Total</u>
		\$53,678		53,678
		\$1,746,597	\$907,309	3,790,905
\$30,123		\$95,529		\$273,919
\$146,769		\$860,418	\$87,029	1,931,332
\$85,177		\$162,779		259,190
		\$128,813		128,813
\$7,423		\$19,783	\$5,056	189,024
\$7,593		\$50,734		59,328
		\$18,245	\$4,503	29,796
		\$148,198		148,198
\$12,515		\$81,781	\$27,652	169,668
\$41,100		\$214,472		362,024
\$480,326		\$1,563,881	\$298,369	2,771,458
\$15,927		\$65,768		83,796
\$37,818		\$152,019		194,826
\$21,771		\$147,354		171,997
\$38,738		\$217,888		319,293
\$50,110		\$85,250	\$28,421	170,392
\$32,229		\$54,829	\$53,394	197,061
		\$13,713	\$8,324	22,037
				3,819
\$6,193		\$44,369	\$28,376	79,755
		\$65,459		65,644
\$11,464		\$268,372		281,348
\$158,520		\$269,683		449,112
\$21,869		\$117,627		191,924
		\$57,315	\$17,592	105,929
		\$34,626		34,626
\$1,648		\$11,033	\$3,045	15,944
\$4,156		\$27,235		31,940
\$9,445		\$59,002	\$59,742	176,860
\$4,576		\$28,217	\$12,197	45,594
\$7,709		\$105,205	\$13,983	127,914
\$21,370		\$90,818		115,006
		\$803,935	\$361,758	1,165,693
\$11,650		\$55,395	\$25,568	100,935

**State Board of Investment
Retirement Plans Participation
As of June 30, 2012**

	<u>Stable Value</u> <u>Fixed Interest</u>	<u>Money Fund</u>	<u>Bond Pool</u>
Kabetogama			
Kandiyohi		\$2,911	\$53,206
Kelsey			\$14,061
Kerkhoven		\$2,214	\$52,816
Kettle River		\$1,962	
Kiester			
Kilkenny		\$3,769	\$5,177
Kimball		\$3,392	
La Crescent		\$4,242	\$73,545
La Salle		\$480	
Lafayette		\$7,024	\$70,792
Lake City		\$29,942	\$10,786
Leroy		\$3,150	\$20,025
Lewiston		\$4,431	
Linwood		\$23,092	
Littlefork		\$5,053	
Lowry			
Lyle		\$2,397	
Madison		\$3,304	
Madison Lake		\$971	
Mahtomedi		\$49,468	
Maple Hill		\$6,442	\$33,552
Mapleton		\$1,535	
Mapleview		\$1,758	\$59,953
Maplewood			\$952,694
Marietta		\$2,079	
Marine St. Croix		\$2,815	\$31,841
Mayer		\$8,438	\$69,040
Maynard		\$3,969	
McDavitt		\$1,818	\$8,242
McGrath		\$693	\$10,444
McIntosh		\$1,238	
Medford		\$891	
Medicine Lake			\$216,878
Menahga		\$3,204	\$75,859
Mendota Heights		\$11,058	\$661,374

<u>Income</u>				
<u>Share Fixed</u>	<u>Alternative</u>	<u>Domestic Stock</u>	<u>International</u>	
<u>Pool</u>	<u>Investment Pool</u>	<u>Pool</u>	<u>Stock Pool</u>	<u>Total</u>
		\$151,405		151,405
\$22,071		\$137,906		216,094
		\$13,054	\$10,889	38,004
\$16,783		\$109,905		\$181,718
\$14,874		\$71,266		88,102
		\$31,708	\$17,393	49,101
\$28,578		\$203,970	\$10,286	251,780
\$25,720		\$139,968		169,081
\$32,160		\$252,868		362,814
\$3,642		\$26,743		30,866
\$53,253		\$165,510	\$15,349	311,928
\$227,006		\$398,023		665,757
\$23,884		\$40,632		87,691
\$33,594		\$141,494		179,519
\$175,073		\$297,843		496,008
\$38,313		\$191,532		234,898
		\$61,431		61,431
\$18,175		\$79,502	\$7,778	107,852
\$17,441		\$97,583		118,329
\$7,364		\$27,926	\$13,492	49,754
\$298,736		\$508,225		856,430
\$48,844		\$83,096		171,934
\$11,639		\$53,768		66,942
\$13,327		\$78,123	\$22,527	175,687
		\$2,514,945	\$336,386	3,804,025
\$15,761		\$74,136		91,976
\$21,342		\$206,331	\$74,730	337,060
\$63,974		\$344,961		486,413
\$30,093		\$51,196		85,258
\$13,786		\$55,970	\$10,286	90,103
\$5,257		\$16,176		32,570
\$9,385		\$87,317		97,940
\$6,755		\$184,883	\$27,178	219,708
		\$326,039	\$174,912	717,829
\$24,289		\$41,322		144,675
\$83,834		\$1,004,282	\$278,619	2,039,167

**State Board of Investment
Retirement Plans Participation
As of June 30, 2012**

	<u>Stable Value</u> <u>Fixed Interest</u>	<u>Money Fund</u>	<u>Bond Pool</u>
Milan		\$2,173	
Minneota		\$1,810	\$23,809
Minnetonka		\$237,003	\$548,752
Montrose		\$401	
Morris		\$2	
Morristown		\$10,602	
Morse-Fall Lake		\$3,154	
Murdock		\$1,641	
Myrtle		\$53,879	
Nassau		\$789	\$17,817
New Brighton			\$1,154,521
New Germany		\$5,606	
New Ulm			
New York Mills		\$4,257	
Nicollet		\$12,125	
Nodine		\$64,477	
North Branch		\$1,706	
Northfield		\$64,234	\$34,293
Northrop		\$2,680	
Norwood Young America		\$65,830	\$165,848
Oronoco		\$20,051	
Osakis		\$186	\$37,141
Owatonna		\$102,871	
Pequot Lakes		\$11,632	
Perch Lake		\$396	\$8,004
Pine Island		\$8,532	\$31,263
Pipestone		\$6,552	
Porter		\$17,396	\$39,747
Prior Lake			
Randolph		\$10,023	
Red Lake		\$3,705	
Redwood			\$46,185
Renville		\$2,999	\$60,269
Robbinsdale		\$98,935	
Rose Creek		\$49,078	
Roseau			

<u>Income</u>				
<u>Share Fixed</u>	<u>Alternative</u>	<u>Domestic Stock</u>	<u>International</u>	
<u>Pool</u>	<u>Investment Pool</u>	<u>Pool</u>	<u>Stock Pool</u>	<u>Total</u>
\$16,472		\$110,257		128,902
\$13,723		\$53,563	\$9,568	102,472
\$1,796,844		\$3,056,878	\$599,337	6,238,813
\$3,037		\$28,951		32,389
		\$21,646	\$20,189	\$41,837
\$80,381		\$401,791	\$14,709	507,483
\$14,914		\$40,138		58,206
\$12,438		\$80,644	\$20,282	115,005
\$31,351		\$53,336		138,566
\$5,983		\$106,266	\$24,847	155,702
		\$1,894,663		3,049,184
\$42,503		\$72,308		120,417
		\$233,579		233,579
\$32,277		\$54,911		91,446
\$39,259		\$174,864	\$49,861	276,110
\$17,216		\$77,792	\$9,875	169,360
\$12,935		\$92,523	\$19,492	126,656
\$486,990		\$2,947,787		3,533,304
\$20,316		\$93,376		116,372
\$39,054		\$178,123		448,854
\$10,788		\$49,920	\$19,812	100,571
\$1,407		\$317,882	\$27,603	384,218
\$210,158		\$1,567,877	\$106,403	1,987,308
\$88,187		\$268,688		368,507
\$3,003		\$19,982		31,384
\$64,685		\$208,450		312,929
\$49,672		\$213,304		269,527
\$8,381		\$262,420		327,943
		\$107,783	\$39,897	147,680
\$75,986		\$331,600	\$38,159	455,768
\$28,088		\$47,784		79,577
				46,185
\$22,738		\$118,940		204,945
\$240,980		\$957,001	\$125,415	1,422,331
				49,078
		\$1,124		1,124

**State Board of Investment
Retirement Plans Participation
As of June 30, 2012**

	<u>Stable Value</u> <u>Fixed Interest</u>	<u>Money Fund</u>	<u>Bond Pool</u>
Rosemount		\$846,964	
Roseville			\$2,760,570
Ruthton		\$23,482	
Sacred Heart			
Saint Clair		\$7,240	\$18,324
Saint Peter		\$1,358	\$744
Sandstone		\$338	
Savage		\$61,719	
Schroeder			
Shakopee			
Sherburn		\$14,191	
Shevlin		\$1,950	\$17,866
Silver Bay		\$9,031	
Solway (* Main)		\$285	
Solway(Cloquet)		\$3,403	\$115,735
Spring Grove		\$2,587	
Spring Lake Park		\$46,550	
Starbuck		\$1,522	
Stephen		\$1,508	
Stewart		\$4,011	
Stillwater		\$354,069	\$5,788
Sturgeon Lake			\$7,857
Tofte		\$3,119	
Truman		\$2,884	\$36,392
Two Harbors		\$7,034	\$170,964
Tyler		\$6,990	
Underwood			
Vadnais Heights		\$4,010	
Vermilion Lake		\$9,664	
Verndale			
Waconia		\$8,613	
Warroad Area		\$10,890	\$102,390
Williams		\$5,655	
Willow River			\$7,168
Winnebago		\$854	
Woodbury		\$172,178	\$2,340,390

<u>Income</u>				
<u>Share Fixed</u>	<u>Alternative</u>	<u>Domestic Stock</u>	<u>International</u>	
<u>Pool</u>	<u>Investment Pool</u>	<u>Pool</u>	<u>Stock Pool</u>	<u>Total</u>
\$164,463		\$876,607		1,888,034
		\$4,404,129	\$623,808	7,788,507
\$8,875		\$59,297		91,654
		\$41,782		41,782
\$45,339		\$331,037		401,939
\$10,294		\$222,090	\$82,582	\$317,067
\$2,564		\$4,363		7,265
\$467,922		\$796,052		1,325,693
		\$122,708		122,708
		\$2,048,860	\$234,975	2,283,835
\$107,589		\$183,035		304,814
\$14,785		\$25,154		59,755
\$68,472		\$304,836	\$62,928	445,267
\$2,160		\$14,220		16,665
\$25,804		\$43,898		188,841
\$3,438		\$23,028	\$5,339	34,393
\$352,919		\$600,402		999,871
\$11,541		\$69,717	\$6,989	89,769
\$11,434		\$93,586		106,528
\$30,408		\$91,230		125,648
				359,857
		\$35,489		43,346
\$23,647		\$107,055		133,821
\$21,863		\$145,365		206,504
\$53,327		\$226,346	\$111,732	569,403
\$52,998		\$90,162		150,150
		\$12,322	\$3,794	16,117
\$30,404		\$51,724		86,138
\$73,272		\$124,653		207,590
		\$19,755		19,755
\$65,300		\$512,178	\$95,945	682,036
\$82,562		\$140,459		336,301
\$42,872		\$130,659		179,186
		\$64,193		71,361
\$6,477		\$11,019		18,350
		\$3,043,513	\$998,871	6,554,952

**State Board of Investment
Retirement Plans Participation
As of June 30, 2012**

	<u>Stable Value</u> <u>Fixed Interest</u>	<u>Money Fund</u>	<u>Bond Pool</u>
Woodstock		\$1,647	\$9,006
Wrenshall			
Wright		\$4,379	
Wykoff		\$3,428	
Wyoming		\$6,657	\$86,975
Zumbro Falls		\$6,646	\$5,514
	<u>\$1,465,835,005</u>	<u>\$282,992,156</u>	<u>\$133,310,739</u>
PERA Voluntary Share			
Alborn		\$4,400	\$54,743
Alden		\$4,747	\$59,055
Biwabik		\$6,045	\$75,203
Brandon		\$6,147	\$76,470
Breitung		\$10,514	\$130,806
Buyck		\$1,616	\$20,098
Carsonville		\$4,343	\$54,028
Colvill		\$2,360	\$29,357
Crane Lake		\$2,705	\$33,648
De Graff		\$133	\$1,657
Elbow Tulaby		\$2,325	\$28,919
Ellsburg		\$2,657	\$33,053
Embarrass		\$5,290	\$65,816
Emmons		\$9,230	\$114,830
Grand Marais		\$11,564	\$143,860
Hardwick		\$3,361	\$41,808
Lakeland		\$7,516	\$93,500
Lester Prairie		\$10,428	\$129,736
Lexington		\$14,614	\$181,806
Lutsen		\$5,740	\$71,406
Manchester		\$3,332	\$41,449
McKinley		\$2,817	\$35,049
Normanna		\$1,173	\$14,597
North Star		\$1,765	\$21,960
Ottertail		\$15,267	\$189,935
Palo		\$9,122	\$113,479
Pennock		\$7,832	\$97,440
Pequaywan L.		\$2,293	\$28,527

<u>Income</u>				
<u>Share Fixed</u>	<u>Alternative</u>	<u>Domestic Stock</u>	<u>International</u>	
<u>Pool</u>	<u>Investment Pool</u>	<u>Pool</u>	<u>Stock Pool</u>	<u>Total</u>
\$12,488		\$74,450		97,591
		\$64,748		64,748
\$33,197		\$56,476		94,051
\$25,992		\$44,218		73,638
\$50,470		\$85,862		229,965
\$50,388		\$150,239	\$9,866	222,653
<u>\$91,734,142</u>		<u>\$452,508,483</u>	<u>\$74,441,391</u>	<u>\$2,500,821,916</u>
		\$44,551	\$18,960	\$122,655
		\$48,060	\$20,454	132,316
		\$61,202	\$26,047	168,498
		\$62,233	\$26,486	171,336
		\$106,454	\$45,305	293,080
		\$16,356	\$6,961	45,031
		\$43,969	\$18,713	121,053
		\$23,892	\$10,168	65,777
		\$27,383	\$11,654	75,389
		\$1,348	\$574	3,712
		\$23,535	\$10,016	64,796
		\$26,899	\$11,448	74,056
		\$53,563	\$22,796	147,465
		\$93,452	\$39,772	257,284
		\$117,077	\$49,826	322,327
		\$34,024	\$14,480	93,673
		\$76,093	\$32,384	209,493
		\$105,582	\$44,934	290,680
		\$147,959	\$62,969	407,347
		\$58,112	\$24,732	159,990
		\$33,732	\$14,356	92,869
		\$28,524	\$12,139	78,530
		\$11,879	\$5,056	32,705
		\$17,872	\$7,606	49,202
		\$154,574	\$65,785	425,561
		\$92,353	\$39,304	254,258
		\$79,300	\$33,749	218,321
		\$23,216	\$9,880	63,917

**State Board of Investment
Retirement Plans Participation
As of June 30, 2012**

	<u>Stable Value</u>		
	<u>Fixed Interest</u>	<u>Money Fund</u>	<u>Bond Pool</u>
Scandia		\$21,316	\$265,189
Scandia Valley		\$8,670	\$107,860
Sunburg		\$4,885	\$60,770
Tower		\$3,437	\$42,763
Twin Valley		\$9,278	\$115,419
Warba - Feeley - Sago		\$5,257	\$65,405
Willmar		\$30,452	\$378,846
		<u>\$242,630</u>	<u>\$3,018,485</u>
Total Pool Participation	<u>\$1,465,835,005</u>	<u>\$1,156,045,026</u>	<u>\$10,733,390,207</u>

<u>Income</u>				
<u>Share Fixed</u>	<u>Alternative</u>	<u>Domestic Stock</u>	<u>International</u>	
<u>Pool</u>	<u>Investment Pool</u>	<u>Pool</u>	<u>Stock Pool</u>	<u>Total</u>
		\$215,818	\$91,849	594,172
		\$87,779	\$37,358	241,666
		\$49,456	\$21,048	136,158
		\$34,801	\$14,811	95,812
		\$93,931	\$39,976	258,604
		\$53,228	\$22,653	146,543
		\$308,315	\$131,214	848,828
		<u>\$2,456,528</u>	<u>\$1,045,461</u>	<u>\$6,763,105</u>
<u>\$91,734,142</u>	<u>\$7,440,737,621</u>	<u>\$21,963,372,342</u>	<u>\$7,149,797,679</u>	<u>\$50,000,912,022</u>

State Board of Investment
Non Retirement Funds Participation Schedule
As of June 30, 2012

	<u>Non Retirement</u> <u>Cash Pool</u>	<u>Internal Bond</u> <u>Pool</u>	<u>Internal Equity</u> <u>Pool</u>	<u>Total Non</u> <u>Retirement Pools</u>
Permanent School	\$ 16,363,814	\$ 409,405,115	\$ 416,137,238	\$ 841,906,167
Environmental Trust	\$ <u>11,744,990</u>	\$ <u>171,843,785</u>	\$ <u>431,148,220</u>	\$ <u>614,736,995</u>
Other Trusts:				
Closed Landfill			\$ 818,106	\$ 818,106
Emergency Med SVC	79,094	539,231	926,266	1,544,591
Ethel Currey		493,738	639,192	1,132,929
Iron Range Resources	-	46,068,790	39,690,022	85,758,812
Life Time Fish & Wild Life	\$185,011	\$2,944,750	\$7,623,205	10,752,966
Saint Louis County Environmental		2,708,240	3,451,394	6,159,634
Winona State		<u>2,482,587</u>	<u>1,568,114</u>	<u>4,050,701</u>
	\$ <u>264,105</u>	\$ <u>55,237,336</u>	\$ <u>54,716,298</u>	\$ <u>110,217,739</u>
PERA OPEB:				
Anoka County Irrevocable	\$ -	\$ -	\$ 32,040,927	\$ 32,040,927
Anoka County Revocable	\$ -	\$ -	\$ 271,902	271,902
Carver County Financial Services	\$ -	\$ 186,571	\$ 816,738	1,003,309
City of Eagan	\$ -	\$ -	\$ 8,336,974	8,336,974
City of Virginia	\$ -	\$ -	\$ 69,336	69,336
Crosby-Ironton Schools IDS #182	\$ 284,611	\$ 196,309	\$ 3,092,765	3,573,685
Duluth	\$ -	\$ 12,265,512	\$ 18,519,877	30,785,389
Elk River District #728	\$ -	\$ 6,222,557	\$ -	6,222,557
Fillmore Central Schools ISD #2198	\$ 773,412	\$ -	\$ -	773,412
Hastings ISD#200	\$ 885,027	\$ -	\$ -	885,027
Mendota Hts., Egan, W. St. Paul ISD#	\$ 1,207,411	\$ 8,519,347	\$ -	9,726,758
Roseville District ISD#623	\$ -	\$ 14,905,930	\$ -	14,905,930
Kingsland Public Schools ISD #213	\$ 49,019	\$ -	\$ 221,020	270,039
MTC OPEB	\$ 4,883	\$ -	\$ 119,741,038	119,745,921
Metropolitan Mosquito Control Dist	\$ -	\$ 373,893	\$ 1,377,426	1,751,319
Mounds View Public Schools ISD #	\$ 13,372,296	\$ -	\$ 9,945,823	23,318,119
Mt. Iron-Buhl District #712	\$ -	\$ 2,182,555	\$ -	2,182,555
Ogilvie ISD#333	\$ 829,186	\$ -	\$ -	829,186
Robbinsdale Area Schools ISD #281	\$ 9,396,802	\$ 9,189,145	\$ -	18,585,947
Scott Count OPEB Account	\$ -	\$ -	\$ 4,184,780	4,184,780
Staples Motley ISD #2170	\$ 368,347	\$ 751,342	\$ 124,913	1,244,602
Washington County	\$ -	\$ 4,225,741	\$ 14,379,819	18,605,560
Winona Area Public Schools ISD 86	\$ -	\$ 7,800,356	\$ -	7,800,356
Yellow Medicine ISD#2190	\$ <u>1,585,632</u>	\$ -	\$ -	<u>1,585,632</u>
	\$ 28,756,626	\$ 66,819,258	\$ 213,123,338	\$ 308,699,222
Total Pool Participation	\$ <u>57,129,535</u>	\$ <u>703,305,494</u>	\$ <u>1,115,125,094</u>	\$ <u>1,875,560,123</u>

External Stock and Bond Managers' Fees

Total Payments for Fiscal Year 2012

Domestic Equity Active Managers

Barrow, Hanley, Mewhinney & Strauss, LLC	\$ 892,401
Earnest Partners LLC	444,847
Goldman Sachs Asset Management, L.P.	1,305,908
Hotchkis and Wiley Capital Management	1,318,515
INTECH Investment Management LLC	1,112,698
Jacobs Levy Equity Management, Inc.	1,061,697
Knelman Asset Management Group LLC	344,612
LSV Asset Management	749,846
Martingale Asset Management L.P.	647,027
McKinley Capital Management LLC	962,248
New Amsterdam Partners LLC	570,324
Next Century Growth Investors LLC	2,182,575
Peregrine Capital Management	1,560,872
Sands Capital Management LLC	1,716,890
Systematic Financial Management, L.P.	905,508
Turner Investment Partners, Inc.	1,529,688
UBS Global Asset Management, Inc.	648,024
Winslow Capital Management, Inc.	613,280
Zevenbergen Capital Investments LLC	1,409,151

Domestic Equity Semi-Passive Managers (2)

BlackRock Institutional Trust Co., N.A.	2,469,978
INTECH Investment Management LLC	1,688,423
J.P. Morgan Investment Management, Inc.	2,648,579
Mellon Capital Management Corp.	1,595,719

Domestic Equity Passive Manager (2)

BlackRock Institutional Trust Co. N.A.	862,405
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Fixed Income Active Managers

Aberdeen Asset Management, Inc.	1,364,046
Columbia Management Investment Advisers LLC	957,123
Dodge & Cox, Inc.	1,183,508
Pacific Investment Management Co. (PIMCO)	2,661,063
Western Asset Management Co.	1,289,026

Fixed Income Semi-Passive Managers (2)

BlackRock Financial Management	967,617
Goldman Sachs Asset Management	1,353,746
Neuberger Berman Fixed Income LLC	597,448

cont.

External Stock and Bond Managers' Fees

Total Payments for Fiscal Year 2012

International Active Developed Markets Managers (2)		
Acadian Asset Management LLC	\$	1,165,501
Columbia Management Investment Advisers LLC		816,466
INVESCO Global Asset Management (N.A.), Inc.		717,080
JP Morgan Investment Management Inc.		995,896
Marathon Asset Management LLP		1,690,636
McKinley Capital Management LLC		945,037
Pyramis Global Advisors Trust Company		1,263,828
International Semi Passive Developed Markets Managers (2)		
AQR Capital Management LLC		1,292,078
Pyramis Global Advisors Trust Company		771,506
State Street Global Advisors		1,062,016
International Passive Developed Markets Manager (2)		
State Street Global Advisors		441,585
International Active Emerging Markets Managers (2)		
AllianceBernstein, L.P.*		441,770
Capital International, Inc.		4,950,210
Morgan Stanley Investment Management Inc.		5,528,045
International Passive Emerging Markets Manager		
State Street Global Advisors		83,510
Supplemental Fixed Interest Account(2)		
Galliard Capital Management, Inc.		2,914,908
Assigned Risk Plan (2)		
GE Asset Management, Inc.		190,430
RBC Global Asset Management		209,422

* Manager Terminated in Fiscal '12

(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.

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