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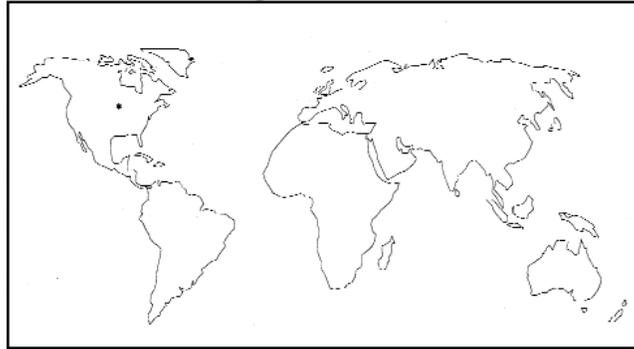
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PROSPECTUS JULY 1, 2003

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\* **Minnesota Supplemental  
Investment Fund**



**Investment Options**

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MANAGED BY THE MINNESOTA STATE BOARD OF INVESTMENT

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# Participating Retirement Plans

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**Deferred Compensation Plan  
Unclassified Employees Retirement Plan  
Post Retirement Health Care Savings Plan**  
Minnesota State Retirement System (MSRS)  
60 Empire Drive, Suite 300  
St. Paul, MN 55103-1855  
(651) 296-2761  
1-800-657-5757

**Hennepin County Supplemental Retirement Plan**  
Hennepin Co. Human Resources Dept., Benefits Unit  
A-700 Government Center  
300 South Sixth Street  
Minneapolis, MN 55487-0070  
(612) 348-3281

**Mn. State Colleges & Universities (MnSCU)  
Defined Contribution Retirement Plan  
(IRAP & SRP)**  
Board of Trustees of the Mn. State Colleges & Universities  
500 World Trade Center  
30 E. 7th St.  
St. Paul, MN 55101  
1-888-319-9451

**Public Employees Defined Contribution Plan**  
Public Employees Retirement Association (PERA)  
60 Empire Drive, Suite 200  
St. Paul, MN 55103-1855  
(651) 296-7460

**Various Volunteer Firefighter Relief Associations**

# Risk Spectrum

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Higher Risk	Assets	Management Approach
↑	<b>International Share</b>	non U.S. stocks two-thirds "active" management one third "passive" management
	<b>Growth Share</b>	U.S. stocks "active" management
	<b>Common Stock Index</b>	U.S. stocks "passive" management (reflects broad U.S. market)
	<b>Income Share</b>	U.S. stocks/bonds balanced asset mix
	<b>Bond Market</b>	bonds "active" management
	<b>Fixed Interest</b>	stable value instruments 3 yr. to 5 yr. maturities
↓	<b>Money Market</b>	short-term securities 30 to 60 day average maturity
Lower Risk		

Over time, higher-risk assets should provide higher investment returns than lower-risk assets.

# ***Letter to Participants***

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July 1, 2003

This brochure outlines the investment options available to participants in the Minnesota Supplemental Investment Fund and provides some basic information that will assist you in making your investment decisions.

**Remember that general economic and market conditions have a dominant influence on the returns available to any investor. As an investor in the Minnesota Supplemental Investment Fund, or any other investment program, you should be prepared for periods in which the returns on financial investments may be low, or even negative. You should be aware that this possibility is much greater for accounts that emphasize relatively risky, higher return assets, such as common stocks, than it is for more conservative investments, such as money market-type accounts.**

With these considerations in mind, the State Board of Investment is confident that the Supplemental Investment Fund will provide competitive long run returns. I encourage you to carefully review each of the accounts available to you and to choose those options that meet your own investment needs and objectives.

**Any questions about your individual account should be directed to your retirement organization or program at the office shown on the inside cover of this brochure.** Your retirement organization handles all changes in the way you invest your contributions and maintains records on the status of your account. Your retirement organization has the authority to deduct a fee for administrative expenses after account share values have been calculated. Participants in all plans should contact their retirement organization for more information regarding plan administrative expenses.

Historical monthly share values are available from the Minnesota State Board of Investment upon request and can be accessed on our website at [www.sbi.state.mn.us](http://www.sbi.state.mn.us). Listings of securities held in the various accounts are available upon request. If you have any questions regarding the Board's investment policies and procedures, please contact the office of the Minnesota State Board of Investment at 60 Empire Drive, Suite 355, St. Paul, MN 55103-3555, (651)296-3328, or via e-mail at [minn.sbi@state.mn.us](mailto:minn.sbi@state.mn.us). We welcome your inquiries.

Respectfully submitted,



Howard J. Bicker  
Executive Director  
State Board of Investment

# General Information

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## What Is The Minnesota Supplemental Investment Fund?

The Minnesota Supplemental Investment Fund is a multi-purpose investment program that offers a range of investment options to state and other public employee groups. The different participating groups use the Fund for a variety of retirement-related purposes. Approximately 55,000 individuals currently participate in the Fund. As of June 30, 2003, the market value of the Fund was approximately \$1.50 billion.

## What Investment Options Does The Fund Offer?

The Fund has seven accounts, or investment options:

Income Share	stocks and bonds
Growth Share	actively managed stocks
Common Stock Index	passively managed stocks
International Share	international stocks
Bond Market	actively managed bonds
Money Market	short-term securities
Fixed Interest	stable value investments

Each account has different investment objectives and uses different types of assets and investment management styles. These accounts are described in greater detail on the following pages.

## Are All These Options Available To Me?

The choices you have depend on the retirement plan in which you participate. All seven accounts are available to participants in the following plans:

- Deferred Compensation Plan
- Unclassified Employees Retirement Plan
- Post Retirement Health Care Savings Plan
- Public Employees Defined Contribution Plan
- MnSCU Defined Contribution Retirement Plan

All accounts, **except** the Fixed Interest Account, are currently available to participants in the Hennepin County Supplemental Retirement Plan and to local volunteer firefighter plans.

## Which Options Are Best For Me?

Only you can answer that question. The variety of options has been designed to give you flexibility to use one or more accounts in designing a portfolio that reflects your personal investment needs and objectives. The material on the following pages should assist you in making the decision.

Each of the accounts has separate advantages and risks, and the performance of each will differ according to business and economic conditions.

**It is not the intent of the State Board of Investment to advise participants regarding their choice among accounts. This information is provided solely as an aid to participants in selecting the most appropriate types of investments for their particular circumstances.**

## May I Change The Way I Invest My Contributions?

Yes, but the guidelines vary among plans. You should contact your retirement organization for more specific information. **Please note that special restrictions apply to transfers out of the Fixed Interest Account (see page 12).**

## What Securities Are Owned By The Fund?

Due to the large number of stocks, bonds and cash equivalents owned by the Fund, the holdings are not listed in this brochure. If you would like a complete list of all securities in the Fund, please contact the office of the State Board of Investment. A list will be sent to you, at your request.

## How Were Past Returns Affected By The Asset-Based Charge?

From July 1992 through June 1999, an asset-based charge was deducted from the share values or credited rates in each Account. From July 1992 through June 1994, the deduction was 0.1% per year. From July 1994 through June 1999, the deduction was 0.4% per year.

Information on how the asset-based charge affected the historical returns in your plan is available from the Minnesota State Board of Investment and can be accessed on our website at [www.sbi.state.mn.us](http://www.sbi.state.mn.us).

# General Information

## Money Managers for the Fund\*

### Income Share Account:

- Barclays Global Investors, San Francisco, CA (stocks)
- Investment Board Staff (bonds)

### Growth Share Account:

- Alliance Capital Management Corporation, Minneapolis, MN
- Artemis Investment Management, New York, NY
- Barclays Global Investors, San Francisco, CA
- Bay Isle Financial Corporation, San Francisco, CA
- Cohen Klingenstein & Marks, Inc., New York, NY
- Earnest Partners LLC, Atlanta, GA
- Forstmann-Leff Associates Asset Mgmt., Inc., New York, NY
- Franklin Portfolio Associates, Boston, MA
- GeoCapital LLC, New York, NY
- Holt-Smith & Yates Advisors, Madison, WI
- J.P. Morgan Fleming Asset Management, Inc., New York, NY
- Lincoln Equity Management, Chicago, IL
- New Amsterdam Partners LLC, New York, NY
- Next Century Growth Investors LLC, Minneapolis, MN
- Oppenheimer Capital, New York, NY
- Peregrine Capital Management, Minneapolis, MN
- UBS Global Asset Management, Inc., Chicago, IL
- Valenzuela Capital Partners, Inc., New York, NY
- Voyageur Asset-Chicago Equity Division, Chicago, IL
- Winslow Capital Management, Inc., Minneapolis, MN
- Zevenbergen Capital, Inc., Seattle, WA

### Common Stock Index Account:

- Barclays Global Investors, San Francisco, CA

\*The Minnesota State Board of Investment may add or delete managers from this list at its discretion.

### International Share Account:

- Alliance Capital Management Int'l, London, England
- American Express Asset Mgmt. Int'l, Inc., London, England
- Britannic Asset Management Int'l, Glasgow, Scotland
- Capital International, Inc., Los Angeles, CA
- INVESCO Global Asset Management, Atlanta, GA
- Marathon Asset Management, London, England
- Morgan Stanley Investment Management, New York, NY
- Schroder Investment Mgmt. No. Am., Inc., London, England
- State Street Global Advisors, Boston, MA
- T. Rowe Price-Int'l. Inc., London, England
- UBS Global Asset Management, Inc., Chicago, IL

### Bond Market Account:

- American Express Asset Mgmt. Group, Inc., Minneapolis, MN
- BlackRock Financial Management, New York, NY
- Deutsche Asset Management, Inc., Philadelphia, PA
- Dodge & Cox Investment Managers, San Francisco, CA
- Goldman Sachs Asset Management, LP, New York, NY
- Lincoln Capital Fixed Income Mgmt. Company, Chicago, IL
- Morgan Stanley Investment Mgmt., West Conshohocken, PA
- Western Asset Management Company, Pasadena, CA

### Money Market Account:

- State Street Global Advisors, Boston, MA

### Fixed Interest Account:

- Galliard Capital Management, Minneapolis, MN

## Investment Board Personnel

Howard J. Bicker                      Executive Director  
Mansco Perry III                      Assistant Executive Director

### Investment Management Staff

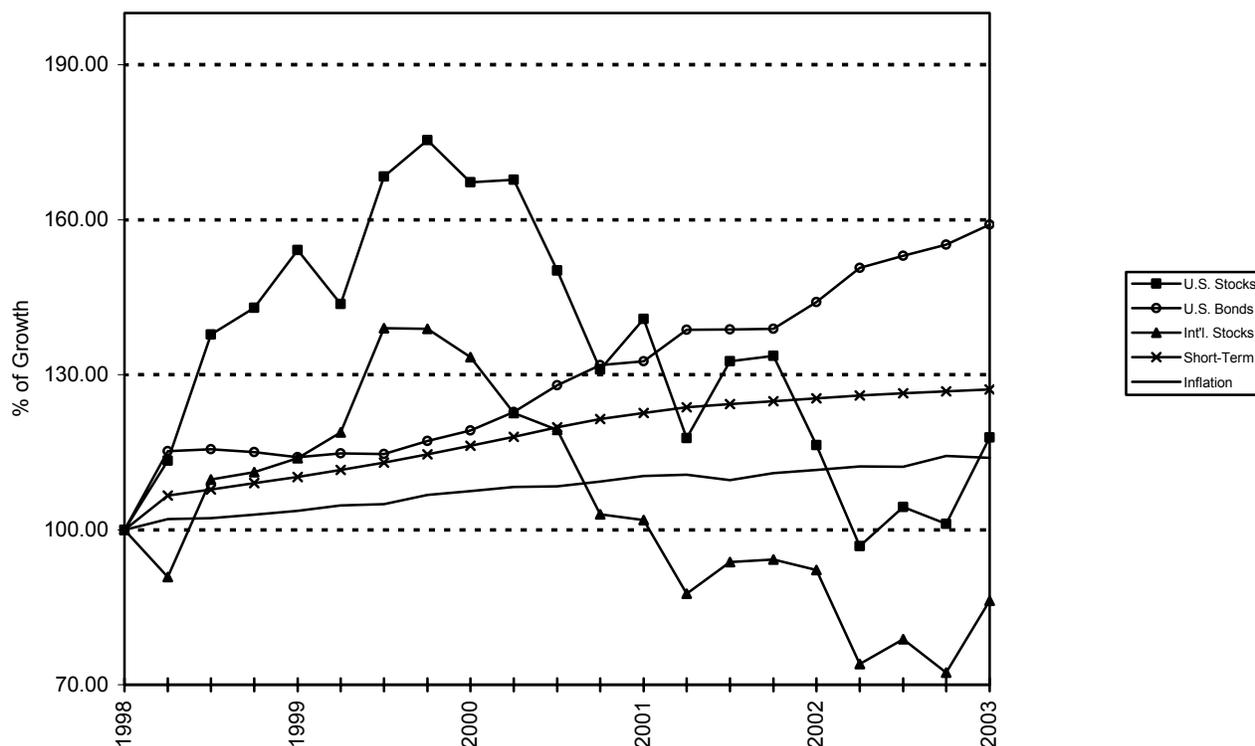
Lois Buermann	Manager, Public Equities
Stephanie Gleeson	Analyst, International Equities
Michael J. Menssen	Manager, Internal Investments
Erol Sonderegger	Analyst, Fixed Income
John N. Griebenow	Manager, Alternative Investments
Andrew Christensen	Analyst, Alternative Investments
Steven Kuettel	Manager, Short-Term Accounts
James E. Heidelberg	Manager, Public Programs
Tammy Brusehaver-Derby	Analyst, Public Programs
Deborah Griebenow	Analyst, Shareholder Services

### Administrative Staff

L. Michael Schmitt	Administrative Director
William J. Nicol	Accounting Supervisor, Senior
David Nkwonta	Accounting Officer, Intermediate
Nancy L. Wold	Accounting Officer, Intermediate
Kathy Leisz	Accounting Officer, Intermediate
John Bottomley	Accounting Technician
Charlene Olson	Admin. Assistant to the Executive Director
Carol Nelson	Office Administrative Specialist, Intermed.
Sondra Wagner	Customer Services Specialist
Pat Koshenina	Office Administrative Specialist

# The Year in Review

## Cumulative Growth of Capital Markets Fiscal Years 1999 - 2003



	1999	Year Ending June 30, 2000	2001	2002	2003	Annualized* 1999 - 2003
<b>U.S. Stocks</b> Wilshire 5000**	19.6%	8.6%	-15.8%	-17.3%	0.8%	-1.9%
<b>U.S. Bonds</b> Lehman Brothers Aggregate Bond Index	3.1%	4.6%	11.2%	8.6%	10.4%	7.5%
<b>International Stocks</b> Index of Europe, Australasia and the Far East (EAFE)	7.6%	17.1%	-23.6%	-9.5%	-6.5%	-4.0%
<b>Short-Term Investments</b> 90 Day U.S. Treasury Bills	4.7%	5.4%	5.5%	2.3%	1.4%	3.8%
<b>Inflation Rate</b> Change in Consumer Price Index (CPI)	2.0%	3.7%	3.2%	1.0%	2.1%	2.4%

\* Annualized return is the annual compounded rate of return.

\*\* Wilshire 5000 Investable since July 1, 2000. Wilshire 5000 from 7/1/98 to 6/30/99.

## The Year in Review

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### How Have Stocks, Bonds And Other Investments Performed?

The U.S. stock market increased 0.8% as measured by the Wilshire 5000 Investable index for the year ended June 30, 2003. During much of the year, the stock market remained cautious due to a weak economy, the war in Iraq, and corporate earnings disappointments. As the year ended, market sentiment improved when results of the war in Iraq became clear and the Federal Reserve discussed the possibility of further interest rate cuts. Industries generating the best returns for the year included wireless telecommunications up 72%, pharmaceuticals up 58%, and biotechnology up 50%.

The U.S. bond market returned 10.4% for the twelve months ended June 30, 2003. With the backdrop of massive corporate scandals, increasing geopolitical risk and a stagnating economy, the Fed acted aggressively during the year, lowering the target Fed funds rate twice – by a total of 75 basis points – to end the year at 1%. The market responded in a likewise fashion, with yields on U.S. Treasuries falling significantly across the range of maturities to reflect both the weak economic picture and the increased demand for risk-free assets amid the uncertainty. As a result of the dramatic decline in interest rates, government bonds performed well, returning 11.3% and outperforming the broader market. Corporate bonds suffered tremendous volatility over the year, but finished the year up 15.6% on the heels of an historic rally in credit spreads over the last six months as investors turned less risk-averse and sought the higher yields offered in corporate bonds. Mortgages underperformed the market, gaining only 5.7%, as a huge wave of mortgage refinancing activity spurred by record low interest rates helped borrowers at the expense of mortgage investors.

The Morgan Stanley Capital International (MSCI) Europe, Australasia and the Far East (EAFE) index, which represents developed international markets, returned –6.5% over the year in US dollar terms. The major European markets had negative performance overall. The United Kingdom, France, and Germany, which together make up 43.8% of the index, had returns of –2.9%, –8.2%, and –14.9%, respectively. Japan, the second largest market weight in the EAFE index at 19.2%, had a return of –14.6% for the year. Emerging markets returned 6.7% as measured by the MSCI's Emerging Markets Free Index (EMF Free). Emerging Asian markets, which had a 47.8% index weight, were weak, being heavily influenced by Taiwan and South Korea, which returned –9.6% and –6.7% respectively. The two countries combined have more than a 32% index weighting. The Latin American region, with an index weight of 19.3%, was helped by Mexico's 5.0%, and Brazil's 13.6% returns for the year. Emerging European, Middle Eastern and African countries were very strong. South Africa and Russia, with a combined index weight of 23.9% returned 11.3% and 42.7%, respectively. Turkey, Israel, and the eastern European countries all had strong double digit gains.

### How Did Returns In The Minnesota Supplemental Investment Fund Compare For Fiscal Year 2003?

- The **Common Stock Index Account** was up 0.8% during the year, matching the Wilshire 5000 Investable index it is designed to track.
- The **Growth Share Account** increased 0.1% during the last fiscal year, underperforming the Wilshire 5000 Investable index. The underperformance was due to poor stock selection.
- The mix of stocks, bonds and cash in the **Income Share Account** provided a return of 4.6% and trailed its composite index by 0.1%. The composite index consists of 60% stocks, 35% bonds and 5% cash.
- The **International Share Account** provided a return of –6.1% for the last fiscal year, underperforming the international composite index by 0.7 percentage point. The composite index, which returned –5.4%, is comprised of approximately 90% developed markets and 10% emerging markets. Both the emerging and developed markets managers did not add value over their respective benchmarks during the period. The overall underperformance was attributable to the developed markets managers who, while adding value through good country weighting decisions, did not add value through stock selection.
- The **Bond Market Account** posted a gain of 10.7% for the year ended June 30, 2003, outperforming the broad fixed income market by 0.3%. The fund outperformed primarily due to an overweight position in the spread sectors of the market, such as corporate bonds and mortgage- and asset-backed securities, which generally offer higher yields. Corporate bonds, in particular, performed well following a disappointing showing in the first half of 2002. The managers' duration positioning also added modest value, with several managers benefiting from a longer-than benchmark duration as rates fell during the year.
- The **Money Market Account** earned 1.6% for the year. This gain is similar to the returns for money market accounts offered by mutual funds and banks.
- The **Fixed Interest Account** provided a return of 5.2% during the last fiscal year.

Your retirement organization accumulates your contributions on an ongoing basis, and transfers these contributions to various accounts in the Fund only once each month. As a result, the actual performance of your investments in the Supplement Fund accounts may be somewhat higher or lower than these figures due to the timing of those transfers.

## Common Stock Index Account

The Common Stock Index Account has a current market value of approximately \$281 million. Its objective is to generate returns that track the returns of the U.S. stock market as a whole.

The Account invests in approximately 2,500 domestic stocks and is designed to match the return produced by the Wilshire 5000 Investable. The Wilshire 5000 Investable is a stock market index, like the Dow Jones Industrial Average. In effect, the diversity of stock holdings in the Common Stock Index Account represents the broad domestic stock market. Prior to July 1, 2000 the benchmark for the account was the Wilshire 5000. The Wilshire 5000 Investable is a modified index that eliminates low volume and low capitalization stocks from the Wilshire 5000. With only minor deviations, the Account is **invested entirely in US stocks**.

### Why Would I Choose This Account?

This option will be attractive to you if you believe that, over time, stocks will provide higher returns than other investments. You should note, however, that the Common Stock Index Account is "passively managed." This means that no attempt is made to identify specific stocks that will perform better than others. Instead, the Account is designed to perform in line with the broad stock market.

In "actively managed" accounts, such as the Growth Share Account, stocks are bought and sold in an attempt to maximize market value. While it has the potential to produce returns that exceed those of the broad stock market, this investment strategy may also experience periods when its returns fall below the market. By contrast, the passive approach used in the Common Stock Index Account should provide returns that consistently and inexpensively track the market.

The returns from the Account will rise and fall directly with movement in the stock market. As with all options that use common stocks, you must be willing to accept returns that vary widely in the short term. In the long term, the Account should average higher returns than you could obtain by placing your contributions in a fixed income or money market-type account.

### Who Manages The Account?

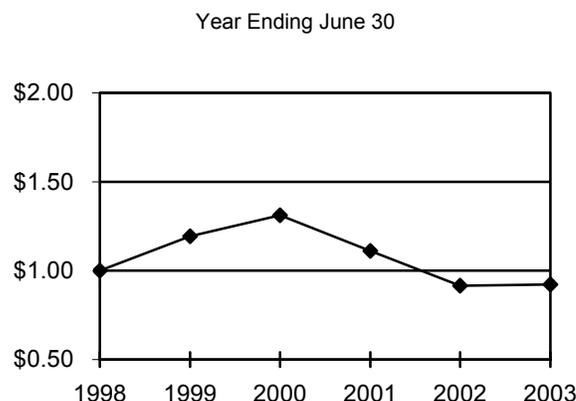
The Common Stock Index Account is managed by Barclays Global Investors.

### How Is The Value Of This Account Determined?

You own shares in the Account, much like you would in a mutual fund. The share value is determined monthly and is based on the market value of the entire Account. Any dividend income is reinvested in the Account at the time it is earned. Your investment returns are measured by changes in the share value and reflect all realized and unrealized gains (or losses) generated by the Account.

### What Is The Past Investment Performance Of This Account?

The graph shows how \$1.00 invested in the Account on June 30, 1998 has grown.



The table displays the Account's actual share values and returns for the last five years. The annualized (annual compounded) return during this period was -1.6% per year.

	Year Ending June 30,	
	Share Value	Rate of Return
1999	17.98	19.3%
2000	19.76	9.9
2001	16.75	-15.2
2002	13.81	-17.6
2003	13.92	0.8

Note: Investment management fees and asset based charges are deducted before share values and rates of return are calculated.

For the 12 month period ending March 31, 2003, the investment management fees were approximately \$0.02 per \$100 invested.

## Growth Share Account

The Growth Share Account currently has over \$199 million in assets. Its primary objective is to generate high returns from capital appreciation (increases in the market value of the assets it owns).

In order to focus on that goal, the Account is composed **almost exclusively of stocks of US companies**. The small amount of cash in the Account represents the new contributions it receives prior to their investment in the market as well as any cash held by the individual managers within the Account.

The Account uses a group of external stock managers retained by the State Board of Investment to manage other retirement assets. As a result, the Account encompasses a variety of investment styles and approaches. One set of managers actively manages concentrated portfolios in which a limited number of stocks are held.

Another set of managers attempts to add incremental value by investing in the broad stock market across a wide range of industries. These managers balance the more concentrated portfolios held by other active managers in the Account. This structure assures that the entire Account covers all areas of the broad stock market. As a result, the structure reduces the chance that future returns for the Account will be either greatly above or below those of the broad market in any given year.

### Why Would I Choose This Account?

The Growth Share Account is an aggressive investment program focused on U.S. stocks. You would choose this Account if you believe that, over time, the stock market will provide higher returns than other types of investments.

The returns from the Account are likely to fluctuate more widely than returns from balanced portfolios or fixed income accounts. The potential for higher gains over the long run is expected to compensate for the short term volatility of returns.

### Who Manages The Account?

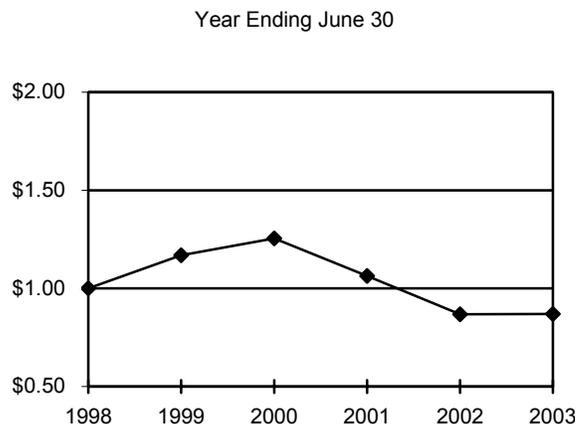
Assets in the Growth Share Account are managed by a group of external managers retained by the State Board of Investment (see page 3 for a listing of these managers).

### How Is The Value Of This Account Determined?

You own shares in the Account, much like you would in a mutual fund. The share value is determined monthly and is based on the market value of the entire Account. Any dividend income is reinvested in the Account at the time it is earned. Your investment returns are measured by changes in the share value and reflect all realized and unrealized gains (or losses) generated by the Account.

### What Is The Past Investment Performance Of This Account?

The graph shows how \$1.00 invested in the Growth Share Account on June 30, 1998 has grown.



The table displays the Account's actual share values and returns for the last five years. The annualized (annual compounded) return during this period was -2.7% per year.

	Year Ending June 30,	
	Share Value	Rate of Return
1999	24.39	16.9%
2000	26.20	7.4
2001	22.20	-15.3
2002	18.14	-18.3
2003	18.16	0.1

Note: Investment management fees and asset based charges are deducted before share values and rates of return are calculated.

For the 12 month period ending March 31, 2003 the investment management fees were approximately \$0.25 per \$100 invested.

## Income Share Account

The Income Share Account is the largest account in the Fund with approximately \$569 million in assets. Its objective 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). To attain that goal, the Account uses a mix of both stocks and bonds. While holdings may vary on a day-to-day basis, the Account uses the following asset mix as a target:

- 60% common stocks
- 35% bonds
- 5% cash

The stock segment of the Account is indexed to the Wilshire 5000 Investable, a market index that reflects the broad U.S. stock market. The bond segment includes high quality corporate bonds and mortgage securities as well as U.S. Government issues.

### Why Would I Choose This Account?

You would choose the Income Share Account if you want a balanced or diversified investment program by investing in one account. You must be willing to assume some risk with your investment, since returns will vary with changes in market conditions. Over time, the Account may average higher returns than you could obtain by placing your contributions in a fixed income or money market-type account.

The dividend income and market value growth from the stock holdings can give you higher returns than are usually available from bonds and short-term (cash) investments. Conversely, while returns on bonds are often lower than returns on stocks, the bond holdings in the Account add stability and offer you some protection against wide swings in the general stock market.

### Who Manages The Account?

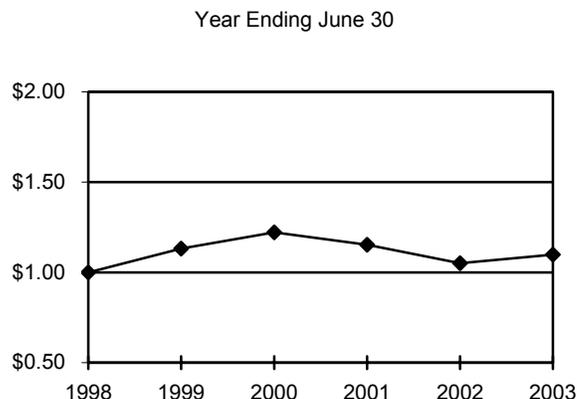
The Income Share Account uses both Investment Board staff and external money managers. Investment Board staff manage all the bond holdings in the Account. The stock holdings are invested through the same stock index fund used for the Common Stock Index Account (see page 6 for a description of this passively managed index fund).

### How Is The Value Of This Account Determined?

You own shares in the Account, much like you would in a mutual fund. The share value is determined monthly and is based on the market value of the entire Account. Any interest and dividend income is reinvested in the Account at the time it is earned. Your investment returns are measured by changes in the share value and reflect all realized and unrealized gains (or losses) generated by the Account.

### What Is The Past Investment Performance of This Account?

The graph shows how \$1.00 invested in the Income Share Account on June 30, 1998 has grown.



The table displays the Account's actual share values and returns for the last five years. The annualized (annual compounded) return during this period was 1.9% per year.

	Year Ending June 30,	
	Share Value	Rate of Return
1999	27.95	13.2%
2000	30.16	7.9
2001	28.48	-5.6
2002	25.96	-8.9
2003	27.14	4.6

Note: Investment management fees and asset based charges are deducted before share values and rates of return are calculated.

For the 12 month period ending March 31, 2003, the investment management fees were approximately \$0.02 per \$100 invested.

## International Share Account

The International Share Account has a current market value of approximately \$49 million. Its objective is to earn a high rate of return by investing in the **stock of companies outside the US**. Typically, a majority of the Account is invested in the five largest international stock markets (United Kingdom, Japan, France, Germany, and Switzerland). Most of the remainder is invested in other well established markets in Europe, the Pacific region, and Canada. Approximately ten percent of the Account is invested in developing countries, or "emerging markets", around the world including those in Asia, Latin America, Eastern Europe, the Middle East and Africa.

### Why Would I Choose This Account?

This option will be attractive if you believe that, over time, international stocks will provide higher returns than other types of investments. About one-third of the Account is "passively managed" and is designed to consistently and inexpensively track the return of 21 markets included in the Morgan Stanley Capital International index of Europe, Australasia and the Far East (EAFE). The remainder of the Account is "actively managed" by several international stock managers that use a variety of investment styles and approaches. These managers buy and sell stocks in an attempt to maximize market value. While this investment strategy has the potential to produce returns that exceed those of a composite index comprised of approximately 90 percent EAFE and 10 percent emerging markets, there may also be periods when the returns fall below the index.

### Who Manages The Account?

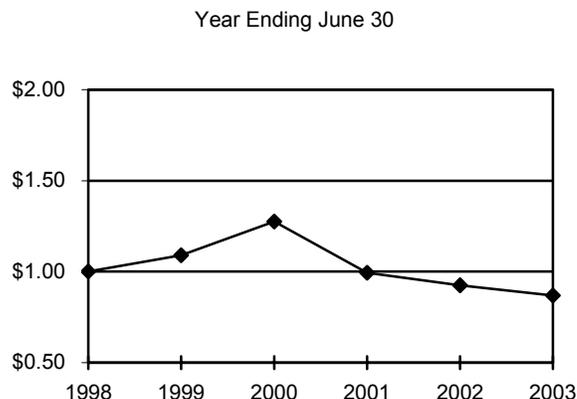
The International Share Account uses a group of external international stock managers retained by the State Board of Investment. (See page 3 for a listing of these managers).

### How Is The Value Of This Account Determined?

You own shares in the Account, much like you would in a mutual fund. The share value is determined monthly and is based on the market value of the entire Account. Any dividend income is reinvested in the Account at the time it is earned. Your investment returns are measured by changes in the share value and reflect all realized and unrealized gains (or losses) generated by the Account.

### What Is The Past Investment Performance Of This Account?

The graph shows how \$1.00 invested in the Account on June 30, 1998 has grown.



The table displays the Account's actual share values and returns for the last five years. The annualized (annual compounded) return during this period was -2.8%.

	Year Ending June 30,	
	Share Value	Rate of Return
1999	3.67	8.9%
2000	4.30	17.2
2001	3.35	-22.1
2002	3.12	-6.9
2003	2.93	-6.1

Note: Investment management fees and asset based charges are deducted before share values and rates of return are calculated.

For the 12 month period ending March 31, 2003 the investment management fees were approximately \$0.27 per \$100 invested.

## Bond Market Account

The Bond Market Account has a current market value of approximately \$162 million. Its objective is to earn a high rate of return by investing in **fixed income securities** (bonds).

Interest income and capital appreciation (increases in the market value of the assets it owns) are the sources of returns for the Account. The Account invests the large majority of its assets in high quality government and corporate bonds and mortgage securities that have intermediate to long-term maturities, usually 3 to 20 years. The managers of the Account also may attempt to earn returns by anticipating changes in interest rates and adjusting bond holdings accordingly. While the managers invest primarily in the US bond market, some are authorized to invest a small portion of their portfolios in non-US bonds. Similarly, while the large majority of holdings in the Account will be top rated "investment grade" issues, some managers are authorized to hold a small proportion of higher yielding, or "below investment grade", debt issues as well. The aggregate holdings in non-US and below investment grade debt are expected to be no more than ten percent of the Account at any point in time.

The Account is invested entirely in fixed income securities. No stocks are held in the Account. At times, cash reserves may be raised if the Account's managers forecast an increase in interest rates.

### Why Would I Choose This Account?

The Bond Market Account is a moderately conservative investment option. It will be attractive if you want an investment option that avoids common stocks, but you also want the potential for greater returns than you can obtain from money market-type accounts.

The returns from the Account generally will move in the opposite direction of interest rate changes. You must be willing to assume some risk with your investment, because the Account could register losses in periods when interest rates are rising.

### Who Manages The Account?

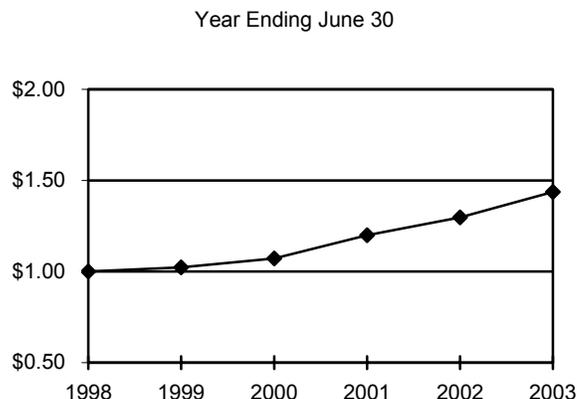
The Bond Market Account is invested by a group of external bond managers retained by the State Board of Investment (see page 3 for a listing of these managers).

### How Is The Value Of This Account Determined?

You own shares in the Account, much like you would in a mutual fund. The share value is determined monthly and is based on the market value of the entire Account. Any interest earnings are reinvested at the time they are received. Your investment returns are measured by changes in the share value and reflect all realized and unrealized gains (or losses) generated by the Account.

### What Is The Past Investment Performance Of This Account?

The graph shows how \$1.00 invested in the Account on June 30, 1998 has grown.



The table displays the Account's actual share values and returns for the last five years. The annualized (annual compounded) return over this period was 7.5% per year.

	Year Ending June 30,	
	Share Value	Rate of Return
1999	7.21	2.3%
2000	7.55	4.7
2001	8.45	11.9
2002	9.15	8.3
2003	10.13	10.7

Note: Investment management fees and asset based charges are deducted before share values and rates of return are calculated.

For the 12 month period ending March 31, 2003, the investment management fees were approximately \$0.09 per \$100 invested.

## Money Market Account

The return in the Money Market Account is based on the interest income produced by the Account's investments. The Accounts' objective is to buy short-term, liquid debt securities that pay interest rates that are competitive with those available in the money markets. The current value of the Account is approximately \$99 million.

Unlike the accounts described earlier, the Money Market Account does not own any stocks or long-term bonds. The Account is **invested in high quality, short-term investments** such as bank certificates of deposit, repurchase agreements, high grade commercial paper, bankers' acceptances and U.S. Treasury Bills. The average maturity of all securities in the Account is generally between 30 and 60 days.

### Why Would I Choose This Account?

The Money Market Account is a conservative investment option. You would choose this Account if you want to maintain the value of your original investment. At the same time, you want your money to earn competitive interest rates.

The returns from the Account will vary much less than investments that include stocks or bonds and should closely follow the rise and fall in short-term interest rates.

### Who Manages The Account?

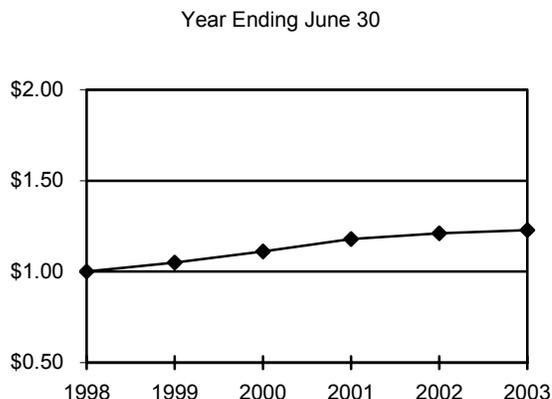
The Money Market Account is managed by State Street Global Advisors, the organization that provides short-term investment management for a substantial portion of the Board's cash reserves.

### How Is The Value Of This Account Determined?

The share value for the Money Market Account is uniformly priced at \$1.00 per share. Interest earnings are credited on a monthly basis by purchasing additional shares on your behalf. The credited interest rate changes monthly and reflects the yield available for all investments in the Account for that month.

### What Is The Past Investment Performance Of This Account?

The graph shows how \$1.00 invested in the Account on June 30, 1998 has grown.



The table displays the investment returns that were generated over the last five years. The annualized (annual compounded) return during this period was 4.2% per year.

### Year Ending June 30, Rate of Return

1999	4.9%
2000	5.9
2001	6.2
2002	2.6
2003	1.6

Note: Investment management fees and asset based charges are deducted before share values and rates of return are calculated.

For the 12 month period ending March 31, 2003 the investment management fees were approximately \$0.01 per \$100 invested.

## Fixed Interest Account

The Fixed Interest Account is designed to maintain the value of your original investment and to provide competitive interest rates using somewhat longer term investments than typically found in a money market-type account. The current market value of the Account is approximately \$135 million.

The assets in the Account are **invested primarily in stable value instruments** such as insurance company investment contracts, bank investment contracts, and security backed contracts. These instruments are issued by highly rated U.S. financial institutions, typically have maturities of 3-6 years and are rated "A" or better at the time of purchase. The interest rate credited will change, reflecting the blended interest rate available from all investments in the Account including cash reserves which are maintained to provide liquidity. Due to the nature of the assets, volatility of investment returns is expected to be minimal.

### Why Would I Choose This Account?

The Fixed Interest Account is a conservative investment option. This type of investment option may be attractive to you because the possibility of incurring a loss on your original investment is very low. However, you should be aware that the Account is unable to offer the potential for more substantial returns that might result from other investments such as common stock. You should also understand that the credited interest rate may not change as quickly as the interest rates associated with a money market-type account. This "lag" will tend to work to your advantage when overall interest rates are falling and will tend to work to your disadvantage when overall rates are rising.

### Who Manages The Account?

The Account is managed by Galliard Capital Management, a unit of Wells Fargo Bank.

### How Is The Value Of This Account Determined?

The share value for the Fixed Interest Account is uniformly priced at \$1.00 per share. Interest earnings are credited on a monthly basis by purchasing additional shares on your behalf. The credited interest rate changes monthly and reflects the yield available for all investments in the Account for that month.

### May I Transfer Money Into This Account?

Yes. The Account will accept lump sum transfers from other investment options in your plan on a monthly basis, provided you follow the guidelines established by your retirement organization.

### May I Transfer Money Out Of This Account?

Yes, but there are special **withdrawal restrictions** that apply only to the Fixed Interest Account. **All or a portion of the amounts deposited in the Account** may be transferred to the Income Share, Growth Share, Common Stock Index, Bond Market or International Share Accounts within the Supplemental Investment Fund. **You may not re-transfer** these amounts to the Money Market Account (or to a money market account or fixed option account of

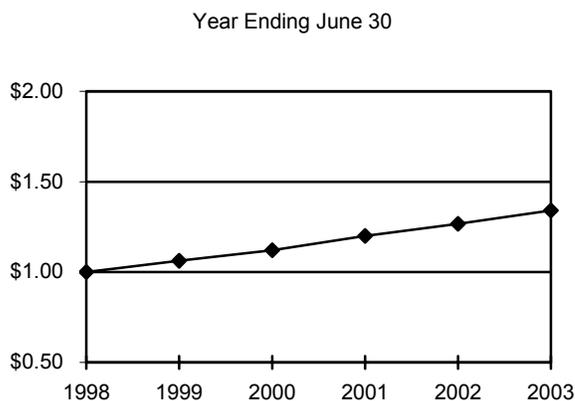
another product provider available to your plan) for at least three months.

### Why Are These Restrictions Necessary?

More flexible withdrawal procedures would tend to reduce the interest rates that financial institutions would be willing to offer for investments in this Account.

### What Is The Past Investment Performance Of This Account?

The graph shows how \$1.00 invested in the Account on June 30, 1998 has grown.



The table displays the investment returns that were generated over the last five years. The annualized (annual compounded) return during this period was 6.0% per year.

### Year Ending June 30, Rate of Return

1999	5.9%
2000	6.2
2001	6.3
2002	6.2
2003	5.2

Note: Investment management fees and asset based charges are deducted before share values and rates of return are calculated.

For the 12 month period ending March 31, 2003, the investment management fees were approximately \$0.10 per \$100 invested.

# State Board of Investment

## Who Serves On The State Board of Investment?

The Board's membership is specified in the Minnesota Constitution and is composed of the Governor, the State Auditor, the Secretary of State and the State Attorney General. As of January 2, 2003, the Office of the State Treasurer was eliminated and the Board now has four members. The Board's duties, powers, and investment guidelines are contained in *Minnesota Statutes*, Chapter 11A.

## What Is The Board's Relationship To The Retirement Plans?

In broad terms, the Board acts as an investment manager for each retirement organization while the retirement system provides a variety of administrative functions with respect to your individual account.

Your retirement organization forwards your contributions to the Board and the Board reports its investment returns back to the system. The retirement organization keeps a record of your individual account status and receives and processes all your requests for changes in the way your contributions are invested.

## Who Advises The Board On Its Investment Decisions?

The Legislature has established a 17-member Investment Advisory Council to advise the Board and its staff on investment-related matters.

- The Board appoints ten members experienced in finance and investment. These members traditionally have come from the Minneapolis and St. Paul investment community.
- The Commissioner of Finance and the Executive Directors of the three statewide retirement organizations are permanent members of the Council.
- Two active employee representatives and one retiree representative are appointed to the Council by the Governor.

## Members of the Board

Governor Tim Pawlenty  
 State Auditor Pat Anderson Awada  
 Secretary of State Mary Kiffmeyer  
 Attorney General Mike Hatch

## Investment Advisory Council

Michael Troutman, Chair	Vice Pres., Investments	Board of Pensions Evangelical Lutheran Church in America
Malcolm W. McDonald, Vice Chair	Director and Corporate Secretary, Retired	Space Center, Inc.
Frank Ahrens, II	Active Employee Representative	State of Minnesota
Gary Austin	Executive Director	Teachers Retirement Association
David Bergstrom	Executive Director	Minnesota State Retirement System
John E. Bohan	Vice Pres., Pension Investments, Retired	Grand Metropolitan – Pillsbury
Kerry Brick	Pension Investment Officer	Cargill, Inc.
Douglas Gorence	Chief Investment Officer	U of M Foundation Investment Advisors
Kenneth F. Gudorf	Chief Executive Officer	Agio Capital Partners
Heather Johnston	Active Employee Representative	State of Minnesota
P. Jay Kiedrowski	Executive Vice President	Wells Fargo & Co.
Honorable Kenneth Maas	Retiree Representative	State of Minnesota
Judith W. Mares	Financial Consultant	Mares Financial Consulting, Inc.
Dan McElroy	Commissioner	Minnesota Department of Finance
Gary Norstrem	Treasurer, Retired	City of St. Paul
Daralyn Peifer	Chief Investment Officer	General Mills, Inc.
Mary Vanek	Executive Director	Public Employees Retirement Assoc.

**The Minnesota Supplemental Investment Fund  
is managed by the Minnesota State Board of Investment**



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**Board Members:**

Governor Tim Pawlenty  
State Auditor Pat Anderson Awada  
Secretary of State Mary Kiffmeyer  
Attorney General Mike Hatch

**Executive Director:**

Howard Bicker

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