ALASKA PERMANENT FUND CORPORATION
Special Meeting of the Board of Trustees
October 10, 2002

Location of Meeting
Sheraton Hotel
Kuskokwim Room
401 East 6th Avenue
Anchorage, Alaska

SUMMARY MINUTES
Thursday, October 10, 2002

Trustees Present:	Trustee Wohlforth, Chair Trustee Gruening, Vice Chair Trustee Sampson Trustee Botelho Trustee Leask
Trustees Absent:	Trustee Condon
Staff Present:	Robert Storer Michael Bell Allan Moore Sandra Firestack
Invited Participants Present:	Michael O'Leary, Callan Associates
Others Present:	Theresa Obermeyer Charles McKee Steve Conn Ellen Lockyer Bill Bredeson Allen Ropker

CALL TO ORDER

CHAIR WOHLFORTH called the meeting to order at 8:35 AM.

ROLL CALL

All Trustees were present at the time of roll call, with the exception of Trustee Condon who arrived at 8:57 AM.

APPROVAL OF AGENDA

CHAIR WOHLFORTH asked to add an agenda item addressing rebalancing, which could be heard following lunch. He also asked to agenda discussion of the inflation-proofing amendment prior to the Review of Growth Managers.

TRUSTEE BOTELHO moved to approve the agenda as amended. TRUSTEE LEASK seconded.

There being no objection, the motion passed unanimously.

SCHEDULED APPEARANCES AND PUBLIC PARTICIPATION

STEVE CONN, Executive Director of the Alaska Public Interest Research Group, spoke to what degree the Fund has been the victim of corporate crime, and the confusing press about the future of the Fund as it relates to the issue of tapping the Fund for reasons other than the dividend. He stated regarding the first issue that indeed the Fund suffered millions of dollars of losses as a result of corporate machinations and the corporate crime that has been in the media. The Fund has potentially $56 million in equity and bond losses associated with WorldCom. He suggested that the Fund conduct a complete audit and disclose that audit to the public of the likely losses attributable not to the actions in the market, but to the things contained in the media that pertain to dozens of corporations. He felt this would be helpful at some point in the future if judicial relief is sought against these corporations. Secondly, he had learned that the Fund had retained the help of several law firms, some of which are discussing various approaches, including using state rather than federal legal remedies and going after the issuers of corporate bonds rather than corporate executives and the corporations themselves. He felt this information should be shared with the Alaska public. MR. CONN next addressed the endowment proposal that has been forwarded by the Board. He explained he understood the concept of trustees to be that all residents of Alaska are beneficiaries of the Trustees' trusteeship. The Trustees are held to a high duty of care in their oversight of the Permanent Fund. He stated there is in the press a fair amount of alarmist publicity related to the future of Permanent Fund dividends. The endowment proposal has been offered as a remedy. He stated the ultimate debate is the unspoken desire of those who are wealthy not to pay income tax and to use the Permanent Fund resources as a way to maintain Alaska's status as a premier tax shelter and tax haven. He believed it is incumbent on the Trustees to explain that the endowment, in addition to its potential to offer a guaranteed payout of dividends, opens the door to use by public officials of Permanent Fund money to a capped degree, and could be interpreted as a back door approach of reaching into the Fund to pay for public services. He stated the Trustees have an affirmative duty to make it clear to Alaskan residents that, in essence, the endowment approach will allow a way for the public sector to use resources from the Fund. He noted that 83 percent of Alaskans, when asked whether the Fund should be used for expenditure on public resources and meeting the fiscal gap, said it should not.

CHARLES McKEE explained that "fraud does not create process." He asked that this testimony be a record of all his previous comments to the Municipality, the School Board, and comments made at all other public meetings he has attended. At those meetings he has spoken against a fraternal organization controlling the monetary system. He spoke against the structure of the monetary system. He spoke to a paper entitled "The Beginning and the End of the American Bar Association," two copies of which he supplied to the Board. He quoted from this document that no state issues a license, only the Bar Association issues a license. He indicated the Bar was responsible for passing the Federal Reserve Act, income tax, and for two very costly wars. Their intent was to supersede the Declaration of Independence and the Constitution by their secret activities. He indicated that this information could be found in the Bar journals.

THERESA OBERMEYER distributed a document to the Board. She stated that "power corrupts and absolute power corrupts absolutely." She gave her opinion that what the Board is doing is not American and is not fair and is not a good example. She stated that, in her life, she could never have imagined what could have been possible. She stated she has record of the money trail of Mary Hughes collecting $37 million. She stated that elections are manipulated. She stated that, as Americans, the election process is valued most. The nation allows fair elections and there is not bloodshed when there are elections. She stated that distribution of the Treasury is un-American. She asked Mr. Wohlforth to ensure that her husband on October 24th gets something that does not have a cost. She stated she would always assume decency, common courtesy, and respect. She stated she intends to set a better example. She cited her husband's lead case in the Summary of American Law published since April 18, 1986. She suggested that Trustees log on to her website at www.tobermeyer.info.

WILSONCONDON arrived at 8:57 AM.

REVIEW VALUE MANGERS

MICHAEL O'LEARY stated the Board scheduled three finalists out of a group of 7 firms previously considered by the Selection Committee for interviews today. He stated that any of the three is a valid potential candidate. He stated the small cap arena is a challenge for both value and growth because the amount of assets any of the firms can manage is limited. Therefore, many managers periodically close to new business. Each of the candidates appearing today is comparatively small and has an issue that might influence the Trustee as to their viability as the best candidate. He summarized each firm as follows.

Martingale: This firm is employee-owned. They have less than $100 million in their small cap product. They use a quantitative approach and have a comparatively high portfolio turnover rate. The Board should feel comfortable that this firm can use their process and apply it successfully to a larger asset base.

TCW/Cowen: This firm was a finalist at the last small cap value search by the Fund. This is a different product than was reviewed in that search, however. This product was managed by Cowen, which was owned by Societe General. TCW has merged with Societe and Cowen, as a North American operation, and has become part of TCW. This product has an excellent record. There tends to be a fairly significant commitment to resource type companies, as the portfolio is viewed over time.

Boston Partners: This firm has just sold a 60 percent interest to Robeco. This firm lost the lead portfolio manager for this product over a year ago. Another individual assumed responsibility for this product. He had developed a good track record managing small cap stocks for Boston Partners and now has assumed responsibility for this product. The Fund must feel comfortable that this individual has the expertise necessary to be successful in the future.

MR. O'LEARY noted that staff has conducted on-site visits with all the managers.

TRUSTEE LEASK asked if the manager who was formerly with Boston Partners left the firm to join another firm or to establish a firm. MR. O'LEARY replied that he joined BlackRock to establish a small and mid cap value capability. He explained this was a tremendous career opportunity for him.

ALLAN MOORE added that he visited five of the total of six candidates and Mr. Bell visited two. After site visits, staff feels that all six candidates are viable.

MICHAEL BELL stated regarding the manager who left Boston Partners that the new lead manager has now been managing that product for five quarters and previous to that he had been managing another small cap product, so this was not a large change.

TRUSTEE GRUENING asked for comment on the performance of the other product that had been managed by the new manager of the small cap product at Boston Partners. MR. BELL indicated that it was a similar product. MR. MOORE noted the previous product was a smaller cap size. MR. O'LEARY stated the product was micro-cap. The performance record was not as long, but it is better than the product the Fund is considering.

CHAIR WOHLFORTH asked who was the $402 million sub-advisory relationship Boston Partners lost in August 2001 and why was it lost. MR. O'LEARY replied that this was a mutual fund for which they were sub-advising. It was lost because of the change in personnel. MR. MOORE stated this was an SEI fund and, when the former manager left to join BlackRock, the client terminated the mandate.

TRUSTEE GRUENING noted that this Boston Partners experienced a drop in assets in their product in 2001. MR. O'LEARY stated that was entirely attributable to the loss of the manager.

Martingale Asset Management

BRUCE GEORGE and WILLIAM JACQUES presented to the Board. MR. GEORGE stated the firm was founded in 1987. There are 16 employees, 12 of whom are partners, and the firm is 100 percent employee owned. MR. JACQUES stated Martingale is hired to achieve better than average returns, which means they must be better than average. The portfolios are based on insight from investment professionals consistently looking at market opportunities and adding them to the portfolio. Oftentimes money managers deliver based on oversight, not insight. As an example of an insight Martingale offers to clients he explained that many times people find REITS difficult to value, so they do not own any, although they constitute 12 percent of the index. That is often the biggest active bet in those portfolios. If Martingale has no "opinion" regarding a particular asset type, the portfolio is neutral in that type.

MR. JACQUES stated that all of Martingale's research is generated in-house. He stated he began his career as a Wall Street analyst and he is aware that it is rare for a Wall Street analyst to have an insight. He stated Martingale offers interesting diversification opportunities. The firm is an asset manager, not an asset gatherer. The focus has been on creating a firm of excellent managers. The firm has a world-class process. The firm's performance has been excellent. MR. JACQUES noted this is the first time that a consultant has brought the firm to a potential client. He stated the firm has a disciplined team approach.

MR. JACQUES briefly reviewed a representative client list. He then reviewed the firm's investment process. The firm gathers information on all 1,300 stocks in the small cap universe. The firm pays as much as 20 percent of its revenues to gather as much information as possible on stocks. The research staff is 4,000 analysts. Information from Wall Street analysts making an investment in a company comes to the firm through real-time data feeds. That covers 5,000 stocks in total. He stated that, although information from many analysts is being received, the analysts' estimates are not very telling. He stated a firm needs to have the insight that can be garnered from the Wall Street analytical community. The investment process funnels down from 1,300 available opportunities to a portfolio of 150-160 names based on the process of opinions on the stocks. The firm cannot market time and it cannot time economic sectors or industry groups. The firm tends to own stocks in all sectors. The firm can find undervalued stocks across sectors and industries. Sometimes the high ranked stocks achieve price targets and they are sold. Sometimes the fundamentals are not what were thought, so the stocks are replaced.

MR. JACQUES explained that the firm weights components of a stock as follows: 10 percent quality of management, 45 percent value (25 percent P/E, 15 percent cash earnings to price, and 5 percent one-month price reversal), and 45 percent momentum (25 percent earnings estimate revisions, 10 percent 12-month price momentum, and 10 percent sustainable growth). He noted that the firm saw in the market a divergence between reported earnings and underlying cash flows that they believed would have to be brought back to equilibrium at some point. This occurred, to some degree, with the recent corporate scandals. In terms of the value components of the model, Martingale looks for a higher P/E and higher cash earnings. They are also looking for a company with earnings that will go up and a stock price that has been rising over a 12-month period. The firm does not want a company with external financing because that dilutes earnings.

MR. JACQUES reviewed relative characteristics of holdings in the SmallCap Value portfolio. He stated the P/E of the portfolio's holdings is less than the Russell 2000 Value Index and they have greater growth characteristics.

MR. STORER asked if these are a product of in-house or street research. MR. JACQUES replied this is the firm's assessment of what they believe will be earnings of the company over the next 12 months. Part of that is based on the firm's analysis of the 4,000 analysts discussed earlier.

CHAIR WOHLFORTH asked if the firm would agree that it has a disciplined quantitative approach to valuation and it is a fairly deep value portfolio. MR. JACQUES concurred with this characterization, but noted that Martingale likes lower P/E stocks than the benchmark.

MR. O'LEARY asked for an explanation of the other products the firm manages. MR. JACQUES stated the firm also manages against an index that has both growth and value. In that case, the portfolio also has lower P/E than the index. MR. O'LEARY asked if the firm would characterize itself as an index-aware manager. MR. JACQUES replied the firm is an "informed risk taker." They care about the benchmark position, but no position in the portfolio is there strictly for risk purposes.

TRUSTEE LEASK asked how long clients have been with the firm. MR. JACQUES replied that some clients have been with the firm for over 10 years and the most recent client of the firm has been with them for just over one month.

MR. MOORE recalled that he heard on his site visit that the firm might get a Russell 2500 value assignment from the Frank Russell Fund of Funds. MR. JACQUES replied that this assignment was received and $200 million was invested in less than two weeks. He stated the firm is geared up to be larger than its assets indicate. He noted that he and each of his partners have managed $3 and $4 billion at other firms.

MR. JACQUES quickly referenced the 10 largest holdings in the portfolio, each of which comprise less than 2 percent of the total portfolio. He discussed the reasons for investing in one of these stocks, UGI Corporation, which is a small utility in Pennsylvania. That utility did not vary from their stated mission. He noted that this is what Martingale does. The firm is more than 99 percent pure small cap value.

MR. MOORE noted the portfolio holds more stocks than average and has a relatively high turnover rate. He asked for comment on trading and control of those costs. MR. JACQUES stated that trading costs are taken seriously. The firm can put a lot of money to work because it owns many stocks. He noted that when Martingale acquires a stock most brokers that trade with Martingale take the trade into their inventory. He stated the firm has lowered trading costs by 50 percent by simply packaging together trades. When the firm makes a purchase, it makes sure that stock purchase is not more than 25 percent or 30 percent of the trade volume for the day. The firm trades a list of stocks, not an individual name, which is more efficient.

MR. O'LEARY stated that, in a conversation with a Martingale partner recently, he asked when this product would be closed. He asked for discussion in this regard. MR. JACQUES stated the firm believes it can manage $500 million in the product targeting the Russell 2000 Index. The firm also manages against the Russell 2500.

TRUSTEE CONDON asked how the firm sifts through the analysts' information it reviews and finds the stocks in which it invests. MR. JACQUES explained that the firm looks for the estimate where there is an insight, that is, someone's analysis that is different from the consensus; and in particular when an estimate is changing. This happens less than 1 percent of the time. Martingale sorts through 4,000 analysts and comes up with 400 data points that contain the stocks in which it invests.

MR. O'LEARY stated the firm's approach seems to be a straightforward quantitative one, but other discussions he has had led him to believe they are practitioners of behavioral finance. MR. JACQUES stated the firm is a practitioner of behavioral finance. The firm used to be called a contrarian. He stated it is terrific when one can find conventional wisdom that is wrong. That is now labeled behavioral finance. This is used to find systematic errors that investors make. Now people are making the error of being too confident in their estimates. For example, on Wall Street, the over confidence comes from management being confident that they can keep growing their company more rapidly than their competitors.

MR. BELL stated it sounds as though a technology stock would not be in this portfolio. He asked when a technology stock might be in the portfolio and how that decision would be made vis-à-vis the valuation components used by the firm. He asked how the valuation components and their weightings might have changed and what has triggered a change. MR. JACQUES stated that more technology stocks would likely come into the value index as time goes on. At that time, the firm will own them. In terms of changes in the valuation components, quality has changed. There is no dividend yield in the components; that was removed 5 or 6 years ago because it is an inefficient way of paying investors. In the future, dividends might be more relevant, so that may be put back into the valuation components. He stated the firm has to be adaptive to the changing environment and consider things that will bring value in the future. In terms of analysts, now the firm is trying to focus on analysts that are better or smarter than others.

TRUSTEE GRUENING asked for comment on the proposed fee of 1 percent of the first $100 million. MR. JACQUES replied that the proposed fee is negotiable. The average manager fee is 80 to 85 basis points. He indicated the firm could not go below the fees they are currently charging to their clients.

MR. MOORE stated that Jerry Mitchell, a member of the IAC, told him that Mr. Jacques is a friend and neighbor of his.

BREAK 9:45 a.m. to 9:55 a.m.

Boston Partners

JACK COAN and DAVID DABORA presented to the Board. MR. COAN explained that he, Mr. Dabora, and Mr. Gowan, all of whom are based in San Francisco, would be the Fund's primary contacts, should their firm be selected for this small cap mandate. He introduced the firm and explained that he would discuss the size and focus of the firm, the people at the firm, and the ownership structure of the firm. There are 89 employees in total in three offices located in San Francisco, Los Angeles, and Boston. The firm focuses exclusively on managing value style portfolios for institutional clients. The firm manages just under $9 billion on behalf of 146 clients. Assets under management in the small cap portfolio are $600 million for 18 institutional clients. The clients ranges in size from $10 million to $108 million. The firm believes in managing manageable products and plans to close the Small Cap I product to new investment at $700 million in contributed capital. That number today is $400 million. The majority of senior professionals at the firm have worked together, in some cases, their entire career. The firm is 60 percent owned by Robeco Asset Management, which is based in the Netherlands. The long-time CEO is the class A general partner of the subsidiary and Boston Partners is autonomous in the Robeco structure. The remaining 40 percent of the company is employee owned, particularly with senior professionals.

CHAIR WOHLFORTH noted that Robeco could purchase the entire interest in Boston Partners. MR. COAN explained that in 2006 they have the option to purchase the remaining 40 percent of the interest in the firm. MR. O'LEARY noted that, at the time of the transaction, some people who were not shareholders or who were small shareholders became either new or larger shareholders in the firm. He thought presumably the incentive for those who are currently adding value is great. MR. COAN indicated this is correct. This will continue on an ongoing basis into the future.

MR. COAN reviewed Mr. Dabora's 11-year background as an investment professional. He spends all of his time managing Boston Partners' two small cap products and all of his non-dividend/non-dividend compensation is based on performance, client retention, and new business.

MR. O'LEARY stated an issue for the Board is that much of the performance record for this product was attributable to Wayne Archambo and Mr. Dabora is here because he has been part of the firm's record, but also because of his demonstrated ability in small cap management. MR. DABORA stated Boston Partners' culture is set up to work as a team. As portfolio manager of the product, he has the overall decision-making ability, but the is directly supported by three individuals. There are also 12 analysts that support the strategy. All trading is done centrally out of the Boston office.

MR. DABORA explained that Boston Partners' style lies between a deep value contrarian and "growth at a reasonable price" management styles, but tends toward the former. The firm does bottom-up selection. The cap range goes to $1.5 billion. There is an automatic sell at $2.5 billion. The portfolio is well diversified with 97 stocks. The portfolio he managed previously overlaps this strategy in 65 stocks. In 95 percent of the cases where stocks are held in both portfolios, the higher weighting is in the Small Cap Value 1 strategy in which the Fund is interested.

MR. DABORA reviewed the firm's investment philosophy, which is commitment to value investing. The firm purchases stocks that are selling at a discount to their intrinsic value. They are looking for a catalyst that helps with consistency of returns and avoids stocks with no hope for improvement. They do not rely on Wall Street research, but rather they have in-house analysts. The portfolio is very risk averse in terms of diversification. The stock selection criteria used by Boston Partners are valuation, business fundamentals, and whether there is a catalyst for change. There is a focus on particular characteristics that are pertinent to a particular sector. A great deal of analytical time and professional judgment is applied to the area of business fundamentals. A company's competitive position, management strategies, its profitability, and its growth are examined. Boston Partners is also looking for companies that have appropriate or improving capital structures. Catalysts for change are things such as positive business momentum, earnings surprise, and revised estimates. They also look at various corporate actions such as restructuring, divestiture of businesses, strategic acquisitions, and share buy back. They also look at the short-term financial management of the business, in particular accounts receivable, inventory turnover, cash flow generation and re-use of cash. They also look at industry- or stock-specific catalysts such as improvement of same store sales in the retail sector.

MR. DABORA reviewed the sell discipline used by Boston Partners. Target prices are set for the each stock and stocks are sold when they reach that price or when the fundamentals or catalyst that was felt to be in place is no longer in place. The firm uses a weekly research process that involves a quantitative analysis using a variety of screens, followed by meetings to conduct an initial review of the screens and then a focused review of the screens. This is followed by fundamental analysis and then a meeting at the end of the week at which decisions are made to sell, buy, hold, or pass on a stock. The firm meets with approximately 1,000 companies per year. Between 1 and 3 stocks are sold or bought in the portfolio per week. A stock is put into the portfolio based on: percentage upside, conviction level in the stock attaining its target price, and liquidity.

MR. STORER noted that meeting with 1,000 firms a year is a large number. He asked who meets with them and how is information from those firms discerned. MR. DABORA explained that managements come through the three Boston Partners offices, management is met at conferences, and Boston Partners also meets at their offices. Contacts might be brief or up to 1 to 2 hours. These meetings allow Boston Partners to get a feeling for the direction the business is headed and the earning power of the business over some period of time. He stated the firm typically has good access to the CIO and the CFO of companies. MR. STORER asked if Boston Partners typically meets with the CIO or CFO of these firms. MR. DABORA stated that this would depend on the nature of the meeting. If an under valued company is looking for sponsorship from the buy side. The firm has access to all of the management team.

MR. BELL asked how Boston Partners corroborates what management is telling them. MR. DABORA stated a good amount of skepticism is necessary. He indicated that those in the industry who have met with management teams compare notes.

MR. DABORA next reviewed risk, the most important definition of which is the loss of principal. The firm does not stray from its philosophy and is dedicated to its research. There are specific risk controls on the portfolio and on this strategy. Investment in a single stock is 5 percent at market. There is limited exposure to any one sector of no more than 30 percent or 15 percent if the sector is less than 5 percent of the index. There is also no market timing in the portfolio. There is also management supervision to ensure that clients are getting the strategy they hired.

TRUSTEE BOTELHO asked if the 5 percent investment is of the stock or of the portfolio. MR. DABORA replied that no stock is more than 5 percent of the portfolio.

MR. DABORA reviewed the valuation, fundamentals, and catalyst characteristics of the portfolio as of September 30, 2002. He briefly reviewed the top 10 stocks in the portfolio, which comprise 26 percent of the total portfolio. He stated the average upside on the top stocks is at 40 percent today.

CHAIR WOHLFORTH noted the CAI performance numbers for Boston Partners are good for most periods until last year, particularly the last quarter through June 30, 2002. He asked what happened during that period. MR. DABORA stated the June quarter was difficult. In the finance and utility area there were five stocks that had a difficult time due to risks that were unique to those stocks. The firm was aware of the risks when those stocks were bought. Three of the stocks were sold and the firm added to the position of two. He noted that Boston Partners outperformed the Russell 2000 Value Index in the September quarter. He remarked that this has been a difficult market environment. He explained that Boston Partners tends to do well when small cap value is in favor. He noted this strategy is high on the small cap value side and provides diversification. For the period March 1, 2000 through August 31, 2002, the product has significantly out performed the Russell 2000 Value Index.

CHAIR WOHLFORTH asked for information on the sub-advisory relationship that was lost in August 2001. MR. COAN stated the firm for which Boston Partners sub-advised left with the change in portfolio manager. MR. O'LEARY asked for comment on the Small Cap Value II product. MR. DABORA stated he was the manager on that strategy since inception. Since March 2000, small cap value has been in favor. The performance of that portfolio was obtained by out performing in 13 of the 13 sectors in 2000 and outperforming in 11 of the 13 sectors in 2001. More recently, as the markets have become more difficult, performance of that product has been more in line with the benchmark, but it beats the benchmark on a one-year basis.

MR. MOORE noted that Boston Partners also runs a long/short product where stocks can be held long and others sold short. He asked if it is possible to be short a stock in that portfolio that is being held long in one of the small cap products. MR. DABORA replied that there is an internal policy that does not allow a stock to be shorted if it is held long in any portfolio. He stated this has not been an issue, in any case.

MR. COAN stated that the firm is deep and stable, the process has been in place over 20 years, and all employees are highly incented in ways that align their interests with those of the Fund.

TRUSTEE LEASK asked what kind of changes are anticipated if Robeco exercises its option to purchase in 2006. MR. COAN stated that an equity-type incentive program is being put into place and it will be in place by 2006. He stated that acquisition by Robeco would not result in any type of investment style change. A international and global value capability would be developed, but there would be no merging of the organizations with the exception of institutional sales.

MR. STORER asked if Robeco not exercising its option would be a negative indicator. MR. COAN stated either that or things will have gone so well that the price they would have to pay would be exorbitant. MR. STORER confirmed through Mr. Coan that the firm would be repriced in 2006. MR. COAN indicated that, because this is the case, if the firm does not do well over the next four years the sale of interest to Robeco would not be as profitable.

BREAK 10:35 a.m. to 10:45 a.m.

Trust Company of the West

WILLIAM CHURCH and DIANE JAFFEE presented to the Board. MR. CHURCH thanked the Board and Mr. O'Leary for the invitation to present to the Fund. He began his presentation with information on the strategy used by TCW, which is to "search for value poised for growth." The firm begins with identifying attractively valued companies, either companies that have a catalyst for growth or fast growing companies selling at attractive valuations due to temporary conditions. He noted that the firm's strategy developed in 1973-1974 with the thought of how to capture the growth of small companies without the volatility of large losses in value.

MS. JAFFEE stated she began with TCW in 1982. She explained that the search for valuation is the first step in the strategy of the "search for value poised for growth." To be in the portfolio, a stock must meet one of five valuation criteria: price/book, price/cash or price/sales that is less than the market, a P/E less than the company's growth rate, or a discount to private market value. The last criteria involves finding basic business value by conducting a discounted cash flow analysis or looking at transactions that have occurred in the market by smart people who know the value of an asset or a technology.

TRUSTEE GRUENING asked who does this valuation work. MS. JAFFEE replied that these are public transactions. For instance, a company in difficult market conditions doing a cash transaction, such as eBay buying PayPal. MR. CHURCH gave another example and explained that TCW looked at historical earnings and compared that to the company's peers to determine that the company was attractively valued compared to other companies. He stated TCW is looking at public market companies and how a company might fit into another company's portfolio of companies.

TRUSTEE GRUENING asked if the philosophy of TCW is biased toward basic materials. MS. JAFFEE replied this is a relatively new weighting for the portfolio over the past two years. She reviewed a graph of sector weightings in the portfolio since 1989. She noted that basic materials had little presence in the early 1990s, it started to emerge as a theme in 1995, and now it is 24 percent of the portfolio. MR. CHURCH stated the firm does not come in with a top-down bias in terms of sector selection. The firm's screens lead to companies selling at attractive valuations. The firm then does research into those companies and, to the extent there are more than a couple of companies in an industry that are attractive, the firm looks to a dynamic in the industry that requires deeper focus to see if particular companies can benefit from that dynamic.

MR. O'LEARY asked how the firm diversifies in terms of the energy sector. MS. JAFFEE stated there is normally a portfolio of 130 names and currently it is 110. Normally, the portfolio diversifies across a broad number of companies that have specific catalysts. The firm also never lets one name grow to more than 5 percent of the portfolio. As companies aggregate to an over weighting, TCW will cap the sector at 40 percent. MR. CHURCH stated that companies in the energy sector are viewed as having different dynamics than a sector such as basic materials. In the mid-1990s companies began to earn better rates of return while oil and natural gas prices were flat. This was because of consolidation. This led to the portfolio's build-up in energy stocks. MS. JAFFEE stated that investors are fortunate in this country that there is not a national oil company, instead there are entrepreneurial companies that want to grow. This presents wonderful opportunities for increased valuations.

MR. CHURCH discussed the sell process employed by TCW. He stated he began filtering through technology companies in Silicon Valley last year. He found some fringe technology companies, but none that excited him at this time. MS. JAFFEE stated TCW's portfolio remains under weighted in technology vis-à-vis the index.

TRUSTEE BOTELHO wished to hear more about the firm's sell discipline. MS. JAFFEE replied there are six senior analysts working with this portfolio. Both she and Mr. Church began as analysts. Procedurally, each analyst is targeted within a sector. When a name meets one of TCW's valuation criteria, the upside is based on that measure. When it meets the 50 percent upside target, either all or a portion of the stock will be sold. In order to hold a piece of the stock, the prospects must be good for another 50 percent upside. TRUSTEE BOTELHO asked if TCW relies solely on analysts to make that decision. MS. JAFFEE stated the portfolio is monitored daily. She and Mr. Church make the final buy or sell decision, but the analysts' performance is based on the performance of the portfolio. TRUSTEE BOTELHO noted there is annual turnover of 70 percent to 100 percent in the portfolio. He asked if sells are made daily, weekly or is there a systemic review that is occurring periodically. MS. JAFFEE replied the group meets formally twice weekly and meets informally all the time. A stock might meet its earnings expectation on a particular day and it is then sold. MR. CHURCH replied there are typically not surprises in the portfolio. When the portfolio is structured, it is deliberate. Certain milestones are set for a particular stock and those are monitored. There is a greater focus on how the company is doing to meet these milestones rather than whether they have met their valuation on a certain day. Managers buy taking small positions in a stock in the portfolio, and gradually build the position as confidence in it grows.

CHAIR WOHLFORTH asked whether the firm would agree that major issues, larger sector bets, and others have led to bigger up and down swings in relative performance. He noted that the firm's performance was not in the top half of their peers according to the CAI figures for the June 2002 quarter. MS. JAFFEE stated that when attribution analysis has been done by outside sources, the primary component of the firm’s alpha over time is stock selection. The build-up in sectors has stemmed from a bottom-up approach. MR. O’LEARY asked if they would agree with the statement that they are very un-index like. MS. JAFFEE and MR. CHURCH replied in the affirmative. MS. JAFFEE referred to page 14 of the presentation and noted that standard deviation for the portfolio and the index are both in the 20s, but when the market goes in one direction, TCW goes in the other. The portfolio does not own a lot of index-like stocks. She stated if TCW is going to err, it is probably by getting in early and getting out early. The firm tries to think differently. Companies brought into the portfolio have low valuations. They are “unpolished gems.”

MR. O’LEARY asked if the sector weights in the portfolio are a residual of buying stocks. He noted that, even though the energy weighting today is lower than it has been, it is large relative to the index. Conversely, in financials where many managers have over weights and it is a significant part of the index, TCW has a low weight. MR. CHURCH stated the firm is striving to find companies that are “poised for growth.”

MS. JAFFEE stated that performance of this portfolio has been lower than some peers because people either want to be out of the market or they want yield. Financial services are typically yield, so TCW’s relative performance in the short-term has not been great. MR. O’LEARY noted that clients of the firm should be aware that short-term performance could be much different than the benchmark.

TRUSTEE GRUENING noted that REITs are a large part of the index. He asked if they are typically a part of the financial sector. MR. O’LEARY replied in the affirmative. MS. JAFFEE stated that one of the things that has protected the portfolio over time is the fact that TCW looks for traditional values and REITs are complex. She stated TCW avoids investing in things with murky accounting.

MR. STORER stated, if the Fund hires TCW, they are successful, and they are measured in various ways, would it be reasonable to assume that the firm will appear more growth in terms of style as stocks appreciate in value. MS. JAFFEE stated the attribution analysis done on the firm puts them in the value quadrant, but successful names are being sold to growth managers. MR. CHURCH stated that from time to time a snapshot of the firm at a particular quarter could show them to be more toward core, but typically they are between value and core.

MS. JAFFEE reviewed the characteristics of the portfolio as of September 30, 2002. The price to book is between the Russell 2000 and Russell 2000 Value. Future earnings to growth rate is higher in TCW’s portfolio than in the index.

Price to earnings might indicate the portfolio is in technology or growth companies, but this comes from over weighting in basic materials. The firm wants to buy a company when they are in the trough of their earnings cycle.

MR. CHURCH noted that typically 25 percent to 30 percent of the portfolio would be held in the top 10 stocks. These are companies that TCW is comfortable with and in some cases they have appreciated to a larger size. Several of the current top 10 holdings would benefit from the pharmaceutical cycle. Finally, as consolidation has occurred, these companies are poised to grow. This situation is similar to what occurred in the energy business some years ago. MS. JAFFEE explained that, in order for a stock to be in the top 10 or 15 names, TCW has met with the company 3 or 4 times to be sure they have met the milestones they have set for themselves. As the company meets their own self-imposed milestones, TCW will increase the holding of that company in the portfolio.

MS. JAFFEE stated the firm is proud to be considered by the Fund and would work hard for the Fund, if selected.

MR. O'LEARY asked for TCW's perspective on the combination of Cowen with TCW. MS. JAFFEE stated that TCW is run the way an investment company should be run. She explained that many choices were available to Cowen when this transaction occurred. She and Mr. Church examined all of those options. Three points about TCW were compelling: Cowen's autonomy and the integrity of their investment process, that the success as a team depends on the success for clients, and the administration/back office/client service/and marketing done by TCW so that he and Ms. Jaffee can manage the portfolio. He stated that he and Ms. Jaffee felt good about the way TCW runs its business and how Cowen would fit into that. MR. O'LEARY stated the other small cap value candidates had narrowly defined market cap areas where they would be willing to buy a stock. Cowen seems to have bigger companies in the product from time to time. MS. JAFFEE stated that the market caps in the portfolio range between $100,000 to $2 billion in initial screens. Some companies appreciate into the mid-cap area. A stock is not automatically sold from the portfolio so long as the company meets fundamental catalysts, unless it meets the sell discipline. MR. CHURCH added that, as he and Ms. Jaffee do a screen, a particular but larger company might be more poised to do well in an industry. MS. JAFFEE stated that always the characteristics are right around the Russell 2000 Value Index.

BREAK 11:27 a.m. to 11:33 a.m.

VALUE MANAGER SELECTION

MR. MOORE stated he and Mr. Bell both met with Boston Partners. His conversation was mostly about the ownership change and long-term plans and how Mr. Dabora was first hired, as well as why he was chosen to take over this small cap product. Mr. Dabora was first hired as a research analyst and then was promoted to run the micro-cap product. There were good answers to all of his questions. The firm thinks very highly of him. His performance on the smaller cap product had been very good. MR. MOORE had also asked if changes were made in the portfolio after Wayne Archambo left and he was told there was no change in the underlying philosophy, but in terms of implementation Mr. Dabora moved the size of the portfolio from 60 to 65 stocks to 80 to 85 stocks.

MR. MOORE stated his meeting with Martingale in Boston also went well. Their investment approach is a team approach. There is a portfolio manager, but the real portfolio manager is the system that was described in the presentation. He liked the fact that their director of research explained they start with a fundamental idea and see whether it can either be verified or disproved through analysis and whether it is something that is consistently quantifiable. So, when Mr. Jacques said they were beginning to pay attention to whether they could distinguish good from average Wall Street analysts, he did not say they have a big effort where they are taking years of data from thousands of analysts and comparing earnings forecasts, which analysts were above below or on the consensus, and which ones were closer to "right." MR. MOORE also talked with them about earnings surprise and how that is analyzed to see if it is a useful tool. This is done more by this firm than by the other two candidates. MR. MOORE thought all three candidates were good choices.

CHAIR WOHLFORTH asked what would be the initial allocation to this manager. MR. MOORE replied that the allocation could be as low as $100 million, but as high as $200 million. He stated he would fund Martingale with $100 million and the other two with between $100 and $200 million. He stated he would be happy giving any of the three candidates $100 million.

TRUSTEE GRUENING noted that the third candidate seemed to have a bias toward larger cap stocks in comparison to the other two and more of a bias toward growth. He asked why, if there is the intent to diversify by hiring both a value and a growth manager, the Fund does not hire someone with a style that is between the two. MR. MOORE agreed that TCW fits less neatly into the description of a small cap value manager, but he thought the occasional use of some larger companies and, in some market conditions, moving more toward the core are not so extreme as to take them out of that description. MR. O'LEARY stated that Martingale is the most value-oriented of the three candidates, principally because their approach is benchmark-sensitive. He characterized Boston Partners as between core and value and TCW the same and the least benchmark aware of any of the three. He noted that, if the Fund had only three managers and dependability is important, TCW might not be an optimal choice, but with five managers, there is more flexibility.

MR. BELL indicated in the current manager structure the Fund has T. Rowe Price, which exhibits more of a value bias and is smaller cap. Capital Guardian is more core-like and they currently have a more growth bias, but they could occasionally have a value bias. He believed that any of the three candidates would fit into the current manager structure.

TRUSTEE LEASK asked to have her discomfort allayed with regard to TCW's weightings in certain sectors. MR. MOORE stated they do have larger swings in sector weightings than the other two candidates. They allow up to 40 percent to be in any sector. This is a residual of their stock selection. CHAIR WOHLFORTH shared Trustee Leask's concern. TRUSTEE GRUENING commented that he would not be concerned in this regard if the manager was significantly out performing the benchmark, however, among these three candidates the one that is most benchmark aware is beating the benchmark by the most. He stated he did not see performance figures that convinced him the sector bets taken by TCW have resulted in out performance. CHAIR WOHLFORTH shared this view to some extent. In terms of performance, Martingale is superior, but they have a smaller amount under management. MR. O'LEARY stated there would be more comfort with Martingale had they achieved these returns with more under management. He noted that their REITs have done exceptionally well and they are the most likely to have a meaningful position in REITs, given their benchmark sensitivity. Without question, any of the three is a great small cap value manager. He noted that, if growth does better in the future, the order of returns would be the opposite of what has been presented to the Board.

CHAIR WOHLFORTH remarked that he was impressed with Mr. Jacques' presentation.

TRUSTEE CONDON stated he did not understand how Martingale's quantitative approach works. MR. MOORE stated they did not discuss specifically what are the inputs, but there are specific measurable things that define the valuation components they use. They rank stocks from one to 1,400 according to those components. They then run an optimizer to see how far down the list to go in order to get the best balance of risk and return given the historical performance data of those stocks. They monitor the portfolio continuously and review the rankings weekly. MR. O'LEARY stated there are some similarities between Martingale and McKinley in that they use quantitative tools to identify companies they want to put in the portfolio. In Martingale's case, they are more sector neutral; they are ranking stocks within each sector and investing in those that are more attractively ranked. One of the appeals of this manager is that they focus on quantifying a fundamental principle and determining if it works. Many quantitative managers use screens that have worked in the past and then they discover they no longer work. Martingale looks to see what is working in the future and attempts to quantify it. He stated they were forthcoming with him about the specific mechanics of how they do this.

TRUSTEE SAMPSON noted that, in his review of CAI's information on the assets managed by each candidate, Boston Partners had an almost 50 percent drop in their small cap assets. He asked what has contributed to that drop in small cap assets for Boston Partners. MR. O'LEARY replied that, in the case of Boston Partners, the manager of the small cap value product left, the big mutual fund sub-advisory contract left as a result, and they lost some other clients as well. He indicated regarding the asset size for Martingale that this firm has great professionals, but they have had no asset growth. They did not have much marketing support and they preferred to be working on investments rather than selling their business. They have a limited number of relationships. TRUSTEE SAMPSON asked why there was a drop in Martingale's total asset growth from 1998 to 2001. MR. O'LEARY stated he did not have specifics, but part of the drop in total asset growth is attributable to the departure from their old parent company where they had opportunities to manage money that went away. He explained Martingale recently bought themselves from Commerce Bank. Part of the reduction in assets is also due to a change on the part of existing clients as they have rebalanced. He also thought there were some account losses. However, in small cap value product, there has been asset growth, but that has primarily been additions to existing accounts. TRUSTEE SAMPSON indicated he leaned toward selecting Martingale, but he was concerned that the Fund would be too large a portion of their total assets under management. He noted that they mentioned this is the first time they have been invited by a consultant to interview for a mandate. MR. O'LEARY stated that 60 percent to 70 percent of searches for institutional investors are done by consultants. TRUSTEE SAMPSON asked why this is the case. MR. O'LEARY explained that managers have to fill out the database forms, come and talk to people, etc., which is time consuming. CHAIR WOHLFORTH felt Mr. O'Leary's remarks indicate that marketing makes a difference. MR. O'LEARY stated that the president of Martingale came to Denver to see him and that individual piqued his interest. MR. O'LEARY then suggested that the next time one of CAI's people went to Boston they visit the firm. He noted that, even at this point in time, the size of the firm is of concern.

MR. BELL stated one of the reasons Martingale sold their business to Commerce Bank was because they did not want to do marketing; they thought Commerce would do it for them. Their recent re-purchase of their business indicates that did not work and they discovered they have to sell themselves.

Trustees initially indicated the order of their candidate selection as follows:

TRUSTEE BOTELHO selected Martingale, TCW, and Boston Partners.

TRUSTEE SAMPSON selected Martingale, with the question of assets under management, Boston Partners, and TCW.

TRUSTEE GRUENING selected Martingale, Boston Partners, and TCW. He noted that he understood funding could begin with $100 million. MR. MOORE indicated that was his recommendation. TRUSTEE GRUENING stated that he initially ranked Boston Partners and Martingale after his review of the written material, but he felt that, if company visits are an important piece of stock selection, Boston Partners could have done a better job of explaining how that works. TCW had a better answer to that question.

CHAIR WOHLFORTH selected Martingale, TCW, and Boston Partners.

TRUSTEE LEASK selected Martingale, TCW, and Boston Partners.

TRUSTEE CONDON selected Boston Partners, Martingale, and TCW. He indicated he was skeptical about quantitative models just in terms of how he thinks things ought to work.

CHAIR WOHLFORTH noted he heard Boston Partners talk about different ratios for industries. He was not sure how the theory of ratios plays into Martingale's quantitative model. He stated he would not feel reluctant funding Martingale with $50 million initially. MR. O'LEARY stated with regard to industry specific valuation tools that it is common among quantitative and qualitative practitioners to use different valuation matrixes for different industries. For example, in the aerospace business, order backlog is a more important factor than are current sales. In the natural resource business, there is always consideration to reserve strength and cost of accessing them. He stated it is common when looking at industry specific rankings to substitute one valuation metric for another and to revert it increasingly to free cash flow to price instead of P/E as a more consistent way of dealing with different reporting standards for earnings.

TRUSTEE SAMPSON changed his selection to Boston Partners, Martingale, and TCW.

TRUSTEE CONDON moved that Martingale be awarded the small cap value mandate and be funded with $100 million. TRUSTEE SAMPSON seconded.

MR. O'LEARY suggested that the award be contingent on successful fee negotiations. TRUSTEE CONDON so amended his motion.

CHAIR WOHLFORTH suggested that the amount of funding be between $75 and $100 million, at the discretion of staff. This was accepted as a friendly amendment.

By roll call, the motion was approved unanimously.

LUNCH 12:17 p.m. to 12:50 p.m.

DISCUSSION ON REBALANCING

MR. MOORE explained that, at the end of September, the asset mix of the Fund was outside of the policy bands as a result of movements in the capital markets. He noted that in rebalancing, it is often the case that moving half toward the target seems to be the best approach. The underlying concept is that there are costs associated with the sale and purchase of an asset and the benefit from rebalancing should either offset or more than offset those cost. The rebalancing being recommended by staff would bring assets back into line with policy, with as few movements of assets as possible. He stated this recommendation would bring large and small cap back to the 80/20 mix and growth and value to the 50/50 mix. The recommendation is to liquidate $750 million from the in-house bond portfolio and re-allocating that amount to equities.

TRUSTEE BOTELHO asked for an explanation of the discipline behind the decision to rebalance. MR. MOORE replied that the need to find a systematic way to deal with the daily volatility of the markets has led staff to the process that has been used for the last 1.5 years. In that process, month-end values are considered. There was a month or two around July when the daily valuations dipped below the policy bands, but by the end of the month, the allocation was within the control bands. He noted that one could say that using month-end values is arbitrary, but it is a mechanistic approach and that is preferable. MR. STORER noted that there are purchases and sales outstanding on mid-month numbers that cloud where the allocations are vis-à-vis the bands. A mechanistic process with accurate numbers is a preferable approach. MR. BELL noted that Trustees Wohlforth, Gruening and Condon might recall that during the period 1996 through 1998 the situation was the reverse and, at that time, month-end market values were used. During one year, rebalancing occurred three times. Because of extreme market conditions, those rebalancings were merited. CHAIR WOHLFORTH commented that substantial market gains were experienced as well. MR. MOORE stated that the recommended rebalancing could be viewed as taking gains in bonds because they have gotten high. TRUSTEE LEASK asked if that would not be the view of the "man on the street." MR. MOORE hoped this was the case. He indicated that this rebalancing is an opportunity to sell those assets that have done well and to buy assets that have done poorly at good prices.

TRUSTEE LEASK asked how the international market is performing. MR. MOORE indicated that it is beginning to de-couple, but it must be viewed month by month in order to be accurate.

TRUSTEE BOTELHO moved that the Executive Director be authorized and instructed to liquidate $750 million from the internally managed fixed income portfolio and reallocate it as set forth in the recommendation dated October 10, 2002. TRUSTEE CONDON seconded.

- $100 million to UBS Global Asset Management
- $100 million to Lazard Asset Management
- $100 million to Dresdner RCM large cap growth
- $50 million to Alliance Capital Management large cap growth
- $50 million to McKinley Capital Management large cap growth
- $290 million to the S&P 500 Index fund
- $60 million to a new small cap manager

There being no objection, the motion passed unanimously.

DISCUSSION OF INFLATION-PROOFING AMENDMENT

CHAIR WOHLFORTH noted that the inflation-proofing amendment that has been discussed by the Board for some time would not have addressed the recent situation where the market value of the Fund fell below principal. He suggested that the Board might wish to think about recommending that legislation be crafted based on a permitted payout of 5 percent of market value over a period of years.

TRUSTEE CONDON supported the Board giving this consideration.

TRUSTEE GRUENING supported this proposal, with the caveat that, with whatever suggested change might be made, the Fund's policies are clear in terms of what is important. He noted that, to all Fund Boards, inflation-proofing has been of primary importance. In examining other endowments, it has become clear that a payout of market value is prudent. He felt the primary interest should remain protecting the Fund from inflation. He felt that the issue of principal, which may or may not be a problem in the future, should be addressed. He stated he would look forward to a draft that did not in any way compromise the Board's stated views.

CHAIR WOHLFORTH felt an amendment proposing a pure payout based on rate of return is consistent with the rationale that has been given to legislative committees; that is, the main interest is to constitutionally inflation-proof the Fund. The endowment vehicle seems to be most effective in that regard.

TRUSTEE GRUENING noted that the Fund is a tremendous resource that no other state has available. He felt it was the desire of the public that the Fund remain permanent.

CHAIR WOHLFORTH asked that Mr. Lorensen provide a draft of this amendment in advance of the next Board meeting.

REVIEW GROWTH MANAGERS

MICHAEL O'LEARY stated it is very unusual to be looking at managers whose absolute performance is abysmal. He noted that the managers appearing before the Board have very strong performance in comparison with their peers, however.

TRUSTEE GRUENING noted that it has been said that managers who have out performed over time are likely to under perform in the future. He asked if this is the case with managers who have out performed their peers. MR. O'LEARY stated the work CAI has done on performance persistence is not as strong as CAI would like. There is some statistical evidence that people who do well relative to their peers have a better than even probability of doing well relative to their peers in the future. The key challenge is to distinguish what is the true peer set. Small cap value managers who have been more toward the middle have not done as well as those who were stylistically extreme. With growth managers, the converse is the case. He noted that Dresdner RCM used to be more growth, but they have moved more toward the middle. This has helped their performance in the recent 1+ years. Arguably, an appropriate strategy might be for the Fund to consider someone even more aggressive than Dresdner RCM as a good potential candidate. He did not feel it was necessary for the Fund to have a very growth-oriented manager, but there is the flexibility to do this, if the Board is persuaded that it is a viable approach among the candidates today.

MR. O'LEARY stated the figures for TimesSquare are from the managers' time with that firm, as well as their time with Fiduciary Trust. The manager with Turner is only managing a couple of million dollars, but he managed a fund of well over $.5 billion until the end of last year. CHAIR WOHLFORTH asked why this manager moved to Turner. MR. O'LEARY stated that clients of the previous firm liked him. The real issue for the Board's consideration is whether this manager is sufficiently growth oriented. Turner has some aggressive growth products and this individual was hired to manage a core product. He felt the product being managed is the same as the one this individual managed at his previous firm. MR. O'LEARY stated Cordillera was an Hispanic-owned firm whose initial business success was achieved, in large measure, where there was almost an affirmative action toward selecting minority-owned firms. He has followed this firm since its inception and it has gotten to the point that the staff is reasonably deep and it has generated good performance numbers. They are the most aggressive of the three firms.

TRUSTEE CONDON asked if Cordillera is disadvantaged by their location in Denver. MR. O'LEARY replied that Denver is home to a lot of growth oriented mutual funds. The staff depth has benefited from that as several accomplished investment professionals in Denver have joined the firm over recent years.

CHAIR WOHLFORTH stated he visited TimesSquare in New York recently and he was impressed by their approach. CAI had clients with Fiduciary Trust and, when the group of managers left them to go to TimesSquare, CAI looked at Fiduciary Trust. Some clients stayed with Fiduciary Trust and others went to TimesSquare, while others did not hire either firm.

MR. BELL stated he visited Cordillera. One of their first clients was the University of Texas Endowment. Five firms were hired and Texas had decided that, after five years, the one with the best performance would stay and the rest would leave. Cordillera was the firm that stayed. Clients have liked their relative performance so they have seen significant contributions from existing clients. They are being considered by Coca-Cola and the State of Delaware for assignments similar to the Fund's. MR. STORER asked whether they are talking about closing this product. MR. BELL replied in the affirmative, but noted that they currently have $300 to $400 million more capacity.

TRUSTEE LEASK asked if firms become less growth oriented and then begin to get more growth oriented. MR. O'LEARY responded that the Dresdner small cap product is a great case study in the potential conflict between a client interest and the business interest of a manager. He stated that, during the period of hyper growth, the manager who had been at Dresdner for a long time became personally very concerned with the price people were paying for growth. He became conservative in the portfolio structure and, as a result, incurred management's wrath. He left and a new team came in that was very aware of the growth style benchmark at a time when that benchmark was very growth oriented. The portfolio became very growth oriented just in time for the burst of the bubble. As a result of these two actions, the portfolio suffered twice. The most recent change has been a manager who looks at each of the client's objectives. The Fund has had an objective of out performing the broad small cap market and that has made the portfolio less growth oriented. MR. STORER agreed with Mr. O'Leary's assessment of what has occurred at Dresdner.

TimesSquare Capital Management

GRANT BABYAK and KENNETH DUCA presented to the Board. MR. BABYAK introduced the firm, which manages $43 billion across a variety of products and $1.5 billion for 28 institutional clients in the small cap growth product. He briefly reviewed a representative client list. He stated TimesSquare was begun in 2000 and his team joined shortly after it was formed. Approximately 75 percent of the clients at the team's former employer, Fiduciary Trust Company, followed them to TimesSquare. He stated the firm has not lost a single institutional client due to performance reasons since they have been in business.

The team that manages the small cap growth assets consists of seven professionals, six of which are investment professionals and one client servicing professional. All seven investment and client servicing professionals are owners in the firm. Compensation of these individuals is tied heavily to performance. The product is managed by two portfolio managers, Yvette Bockstein and himself. Ms. Bockstein is generally regarded as one of the pioneers in the small cap growth asset class. She began managing money in the early 1980s in this discipline. MR. BABYAK stated he joined her 6.5 years ago to help manage the growing number of institutional clients and to help her build out the research pool. He explained it is important for the firm to have its own analysts focused on finding good investment ideas. He indicated that employees of the firm meet with company management teams and pick apart their financials. The firm uses a team management approach.

MR. BABYAK reviewed the research-driven, bottoms-up discipline used by the firm. Small cap companies range in size from $50,000 to $1.5 billion. The firm looks for companies with earnings growth of over 15 percent on an annualized basis over a three-year period. The firm looks at whether the business has a strong management team, which is a qualitative measure, but it also takes a quantitative approach. The firm controls risk through a variety of disciplines that are in place.

MR. BABYAK explained how the firm identifies superior growth businesses. They look for a track record of success, something unique about the company (a product with strong patent protection, a company operating in an industry with high regulatory barriers, industries where there are few competitors), and for strong, consistent growth. They also look for a strong financial position, not only from a financial sheet perspective, but also in terms of cash flow that allows the company to fund their growth internally.

MR. DUCA stated the second step in the investment process involves due diligence; that is, meeting management, talking to customers, and talking to industry sources. TimesSquare talks to the company about their business model, not just their earnings for the quarter. They then do financial modeling using models based on internally generated growth forecasts. Targets are then established for each stock, including a 25 percent to 50 percent price appreciation potential over 12 to 18 months. The targets are re-evaluated based on evolving fundamentals and current market conditions. All the firm's analysts have been in the business for quite some time, so they know the market well and know the valuations for industries and sectors well. Each investment must be approved by both portfolio managers. Analysts are charged with convincing the portfolio managers that a stock is a good investment. MR. DUCA stated there is no formal investment committee, rather there is open communication between portfolio managers and analysts. Analysts are actively involved in the buy and sell process.

MR. O'LEARY noted that, in some large money management firms, analysts are evaluated and compensated on the basis of their recommendations relative to the universe they are charged with covering. He asked whether, in the situation of TimesSquare, where analysts have to convince portfolio managers of an investment, there is compensation if the analyst is right and the manager is wrong in excluding a stock from the portfolio. MR. DUCA replied this is not the case. There is no specific calculation that translates to compensation. MR. O'LEARY asked if analysts are essentially competing with their peers for space in the portfolio. MR. DUCA did not feel there was any incentive to have as many names in the portfolio as possible. The process is bottoms-up and fundamental. MR. BABYAK stated analysts do get credit for contributing information on their concerns, such as with technology. Analysts are compensated on how well the team performs. There is the ability to analyze how much an analyst's contribution helped the portfolio. MR. O'LEARY asked if the time frame for evaluation is annual. MR. BABYAK replied that, for compensation reasons, it is annual, but the objective is to be top in the peer group on a 3- and 5-year period. The firm is not short-term speculators in stocks, it is an investor.

TRUSTEE GRUENING noted there are 1,500 management visits a year. MR. DUCA indicated these are repeat visits, particularly of companies that are owned in the portfolio. Not all visits are at the company itself, some are conducted at conferences. TRUSTEE GRUENING asked how a half-hour visit, at a conference for instance, is effective. MR. DUCA explained the firm does work before it meets with a company and typically asks detailed questions about their business model and growth prospects.

MR. STORER asked with whom the meetings are held. MR. BABYAK replied that meetings are with key people, including the CIO, CFO, head of sales, etc. It is important to have perspective on a company and the fact the firm's analysts have been following the companies for years helps in that regard. MR. DUCA stated the analysts try to pull portfolio managers into meetings as much as possible. MR. BABYAK stated the team approach works well as creative conflict can be generated in the meetings with a company's management.

TRUSTEE BOTELHO asked how TimesSquare could be differentiated from the other two candidates appearing before the Board. MR. BABYAK stated that TimesSquare can be judged on the caliber and quality of the people doing the research. The firm approaches research in a very directed way and tries to find questions to ask of management that are not the questions focused on by everyone else. He indicated he has offered for the Fund to contact companies in which TimesSquare is invested in order to understand their perception of TimesSquare as an investor.

TRUSTEE LEASK asked how much time goes into the investment process described on page 7 of the firm's presentation package. MR. DUCA replied that it varies depending on the firm's familiarity with a company. TRUSTEE LEASK asked what is the firm's annual turnover rate. MR. BABYAK replied that the turnover is 100 percent on a dollar-weighted basis. Excluding technology and bio-tech, it would be 70 percent. Turnover in terms of names in the portfolio is 60 percent. The firm typically initiates a position at a one percent level and increases it over time as conviction in the name increases.

TRUSTEE GRUENING asked how the firm sells a stock without impacting the market. MR. BABYAK stated the firm tries to scale out of positions over the course of a few days, but no longer than 10 days, because that would impact the movement of the stock price. Focusing on valuation targets is helpful because that is a key part of the sell decision. MR. DUCA stated the firm has two traders that each have 15 years of experience.

MR. MOORE asked how close the firm is to filling this product. MR. BABYAK replied that the firm has $1.5 billion assets under management and it believes it could successfully manage $2.5 billion, which was the level the team was at when they left Fiduciary Trust. The product would close sooner if the market dries up and it is harder to find investment ideas. MR. O'LEARY noted that the market is down 50 percent, so if $2.5 billion was the point two years ago when the product would close, should that number now be lower. MR. BABYAK stated that many clients moved over from Fiduciary Trust with the team, so the firm has not had to deal with the growth that has been experienced by other managers. He felt the firm's ability to out perform is tied to their ability to find good investments. They have not experienced illiquidity issues. He noted this firm discloses all assets it manages.

MR. BABYAK continued the presentation with a review of portfolio construction and risk management. Risk is controlled primarily through diversification. The firm will not commit more than 45 percent of the portfolio to a single sector. They employ a strong sell discipline, which has contributed to out performance. He briefly reviewed a summary of representative portfolio characteristics. He explained that, when a company reaches a $5 billion market cap, it is sold. The portfolio looks different from the index. The management team pays attention to the benchmark, but is not driven by the benchmark.

MR. BABYAK referred to a list of the top 15 holdings in the portfolio and encouraged the Fund to contact any of those holdings to inquire about TimesSquare. He indicated these holdings are typically held for many years. The performance of the product has been negative year to date, but good on a relative basis. He noted that in only one year since 1992 has the firm under performed the benchmark and it was by a negligible amount.

MR. BABYAK summarized that the firm offers experience, a strong dedication to research, and a strong product and a commitment to generating the best returns for its clients.

CHAIR WOHLFORTH asked if Mr. Babyak and Ms. Bockstein are equal in terms of their input into the firm's investment process. MR. BABYAK replied in the affirmative and noted that this is a commitment on Ms. Bockstein's part, having started this product in the 1980s. This is a partnership between them, as well as the analysts.

MR. O'LEARY asked if the philosophy of the product is to beat the Russell 2000 Growth or to beat the broad small cap market. MR. BABYAK replied that the philosophy is to generate significant positive returns, whether measured against the Russell 2000 Growth or the Russell 2000. They have chosen the Russell 2000 Growth index primarily because clients have requested that. He stated the firm is a growth manager. MR. O'LEARY asked whether, if a client said the only reason for using an active manager is to beat the broad index, that would be a statement with which TimesSquare agrees. MR. BABYAK replied in the affirmative. He stated that the proof of a good manager is to out perform the broader benchmark.

BREAK 2:15 p.m. to 2:20 p.m.

Turner Investment Management
THOMAS DiBELLA and SCOTT EVERSOLE presented to the Board. MR EVERSOLE stated the firm has a commitment to client service. Bob Turner, who founded the firm in 1990, made it his mission to have highest returns and also the highest level of client service. The team is pro-active in communicating what is happening in a client's portfolio. Turner has a reputation for closing its products early in the best interest of its clients and to protect performance. None of the products are more than three trading days in the future in terms of selling a holding. This product has a capacity constraint of $1 billion.

MR. EVERSOLE reviewed a list of the firm's clients. He remarked that 2001 was a bad year for growth, yet 25 of the existing clients gave Turner an additional $1 billion to manage. The firm also has a strong and stable business structure. The firm is independent and has the ability to attract and retain key employees. He felt Turner could best be characterized as having consistent, proven investment processes in place implemented by talented managers.

MR. EVERSOLE stated Tom DiBella joined the firm in March 2002. Tom DiBella and Ken Gainey have developed a process that has been very successful over time on a consistent, risk-adjusted basis. They have developed a process to look at companies from both a growth and a value perspective. Tom and Ken are running their product without interference from Turner, just support.

TOM DiBELLA stated the investment philosophy of the firm is straightforward, the investment process combines the best quantitative tools and research to produce risk-adjusted portfolio with a good balance of growth and value stocks, and the firm has a strong record and a repeatable investment process.

MR. DiBELLA stated the firm's investment process has three stages: quantitative analysis, fundamental research, and technical analysis. A universe of over 2,000 small cap stocks is reduced to 300 names that the firm feels are the most likely to out perform the market. There is a separate approach for identifying growth versus value stocks. All 2,000 stocks are run through each process. The firm uses a quantitative model on the growth side, the objective of which is to identify companies with the strongest business momentum selling at the most reasonable price. On the value side, the firm has devised a series of screens that are designed to find investment opportunities where the growth model does not look, namely the balance sheet and the flow of funds. He reviewed an example of one of the screens, which analyzes net cash. If the net cash is one-third or more of the market cap of the company, the company is considered for further research. The capital expenditure screen has also been successful. If the capital expenditure of the company is more than the market capital of the company, the company is considered. Investment of more money into a company than it is worth means either there is poor management or the company started building when the industry was coming down, which will free cash flow in the future. The growth screen analyzes whether stock has doubled over the last year, 6 months, or 3 months. This means something dramatic is happening at the company. Companies must have a market capitalization of less than $750 million as well. This means the stock could double again.

MR. DiBELLA reviewed the fundamental research conduced by the firm. Turner analyzes the fundamentals of the company and concentrates on valuation. The amount of research done at this level is the same for growth or value, but the focus would be different for each. For growth, the firm is trying to determine that the strong momentum the model has identified will persist. For value, the firm is trying to ascertain that the assets the model has identified are correct. MR. DiBELLA reviewed an example of a stock that was purchased by Turner as explanation of the profile of a stock that Turner likes. He noted that the investment style of the firm is bottoms-up and stocks are chosen not based on their sector, but on the stocks themselves.

TRUSTEE BOTELHO asked for an example of where a stock was chosen and the decision to buy that stock was not correct and what was learned by that. MR. DiBELLA gave the example of Rainforest Café. The stock was bought at $6 and Turner sold it at $4. They learned to not be so stubborn when people on the street saying something. They also learned that operational results matter.

MR. O'LEARY asked how big was the fund at Aeltus. MR. DiBELLA replied that fund reached $1.1 billion. Turner is now approaching managing $590 million. MR. O'LEARY asked why the investment team went to Turner. MR. DiBELLA replied that it was tough to leave Aeltus, but explained that ING acquired Aeltus and some changes began to occur. He was troubled by the strategy that Aeltus was to grow through managing equities, but none of the top five individuals in management had ever managed equities. Also, ING had bought Reliastar that year and then the market started heading down and they were reluctant to add money on the research and fundamental side, where he adds value. MR. O'LEARY asked if the attractiveness of Turner is that it provides marketing. MR. DiBELLA agreed that this was one reason, in addition to trading and databases. He also noted he likes Turner because Mr. Turner is working there, too. MR. O'LEARY asked if the product being run at Turner is the same as the one that was run at Aeltus. MR. DiBELLA replied in the affirmative. He stated he developed the screens and kept those. He is using the Turner database and quantitative model because it was better than the one at Aeltus. Their trading was also more efficient. MR. O'LEARY asked how big the product needs to be at Turner for Mr. DiBella to be as well off financially as he was at Aeltus. MR. DiBELLA estimated the product would need to be between $1 and $1.5 billion.

MR. DiBELLA quickly reviewed the technical analysis used by Turner. He explained the firm tries to get an idea of the long-term volatility of the stock and its historical valuations. He stated that they ask management about shorter-term re-valuations as a form of risk control, but also to see what management thinks about their stock price. The firm favors companies that are concerned about their stock price.

MR. DiBELLA next reviewed the risk controls used by the firm. The weighting in any one sector will not be more than 500 basis points over the sector weight in the index. No individual stock is permitted to be more than 5 percent of the portfolio on a market basis. Cash is usually between 0 percent and 5 percent. The capitalization range in the portfolio is $200 million to $2 billion. The portfolio is 40 percent to 60 percent in either growth or value. The firm also has selling controls which require the sale of a stock when it hits its target and any stock that is up 50 percent or down 25 percent from cost must be re-reviewed to stay in the portfolio.

TRUSTEE BOTELHO stated the Fund is looking for a growth manager, but apparently this portfolio is not described as such. MR. DiBELLA referred to page 9 of the presentation packet and noted that 1999 and 2000 were the most volatile years for value and growth. In 1999, the firm was up almost 31 percent and in 2000 the firm was up 7 percent. He stated that the two-year return for growth was 10 percent and for value was 20 percent, while Turner had a return of over 40 percent. He firmly believed the portfolio would beat almost any market. He stated the growth/value split could go 60/40 or 40/60 based on the bottom-up research of the firm. MR. MOORE asked what is the current composition of the portfolio in this regard. MR. DiBELLA replied that the portfolio is currently 55 percent value and 45 percent growth. He explained that he examines companies to determine the source of their cash. He does not invest in a company that is getting cash through an offering rather than operations, or that is continuing to earn cash but has a court case against them. He explained that a quality earnings projection is where the company has made changes and is cutting costs, or a company that has grown significantly and has another new product or another stream of income. MR. EVERSOLE stated the portfolio has been more growth than value over its history.

CHAIR WOHLFORTH asked what other product Mr. DiBella manages. MR. DiBELLA stated he and Ken Gainey are co-managers on this and a value opportunities fund. CHAIR WOHLFORTH asked if the analysts are working for both funds or those funds and others. MR. DiBELLA stated he and Mr. Gainey run the money.

TRUSTEE SAMPSON asked if the performance shown on page 9 of the presentation packet is a combination of the team's performance at Turner and at Aeltus. MR. DiBELLA replied in the affirmative. He noted that all the performance numbers are AIMR compliant.

TRUSTEE SAMPSON asked what amount is co-managed by Mr. DiBella and Mr. Gainey in the other value product offered by Turner. MR. DiBELLA replied that the value opportunities product is about $1 million and it has just been started. It has only a 6-month record at this time.

BREAK 3:00 p.m. to 3:15 p.m.

Cordillera Asset Management
JIM POLSFUT and MIKE BARELA presented to the Board. MR. POLSFUT stated that, as the firm has thought about the Fund's need to add to growth and value small cap, it has thought about how to assist the Fund in capturing the upside in the market.

MR. POLSFUT reviewed a client list for the firm, noting the good geographic breadth of the clientele, as well as breadth of client type. The firm features several large and carefully selected institutional clients. He briefly reviewed the backgrounds of both he and Mr. Barela. He indicated that the five distinguishing features of the firm are: extensive research coverage, optimal assets under management, strong upside capture performance, strategic risk/return orientation, and a highly motivated team in an employee-owned firm. MR. BARELA reviewed the background of the four analysts working at the firm.

MR. BARELA stated the firm uses a strict, disciplined approach to investment. The firm begins with a fundamental screen of an 8,000+ stock universe, which yields 300 candidates for the portfolio. The analysts focus on the top one-third of the list yielded from a multi-factor model run. A qualitative analysis is then conducted that yields a stock portfolio of 50 to 60 stocks.

MR. BARELA explained that a stock is sold when it appreciates, there is a change in fundamentals, or it has dropped 15 percent or greater, adjusted for volatility.

MR. POLSFUT next reviewed the second distinguishing feature of the firm, assets under management. The firm has grown carefully and deliberately over the years. They ended 2001 with $267 million under management and now have the ability to compete for almost any mandate nationally. The product is far away from the point of needing to close for liquidity reasons, which would be at the level of $750 million under management. He noted that, when a firm grows large in small cap growth, it is likely that there are more names in the portfolio than is optimal, the market cap of the stocks must be increased, or the number of days to initiate or close a position must be increased.

MR. BARELA reviewed the third distinguishing feature of the firm, strong performance. One of the many performance goals of the firm is to generate positive returns and it has done that in 9 out of 10 years. The firm has also out performed the Russell 2000 Growth index in 7 out of 10 years, and has had consistently above average results over a full market cycle. Over the last 5 years, or 20 quarters, there have been 12 quarters of negative returns and 8 quarters of positive returns. In a down market, the firm captures 86 percent of the downside of the market due to its sell discipline and stock picking. In an up market, the portfolio performs best and captures 133.81 percent.

The fourth distinguishing feature of the firm is risk management. This is taken seriously because small cap is a volatile asset class. There are five risk controls in place, including investment exposure equal to 2 percent of the portfolio on average, with trimming beginning at 3 percent exposure. The second control is maintaining sector weightings equal to a maximum of 1.5 times those of the Russell 2000 Growth Index for the three largest sectors of the portfolio (technology, health care and consumer discretionary).

TURSTEE BOTELHO asked if these risk controls have been in place for some time. MR. BARELA replied that they have been in place since 1996. TRUSTEE BOTELHO referenced CAI's analysis of Cordillera's sector allocation. MR. O'LEARY explained that analysis is relative to the Russell 2000 and the figures given by Cordillera are relative to the Russell 2000 Growth. MR. BARELA noted that the firm's current portfolio compares the firm's sector allocations both to the Russell 2000 Growth and to the Russell 2000. Historically, the firm has captured growth in the three largest sectors of the index.

MR. POLSFUT stated the fifth distinguishing feature of the firm is the fact that Cordillera is majority employee-owned. The remaining 22 percent of the firm is owned by an outside shareholder. Stock options and a bonus structure, along with a base salary and benefits are the primary components of compensation for employees. He stated no employees or clients in this product have left the firm.

TRUSTEE BOTELHO asked how the firm would respond to the concern that being focused in a relatively narrow band of the industry (technology, health care and consumer discretionary sectors) works to the client's disadvantage because the manager is limited in depth in terms of its ability to analyze beyond that area. MR. BARELA explained that traditionally growth managers are focused in technology, health care and consumer discretionary. He felt the Fund would be well represented with value managers and core managers in other sectors. In order to be a pure small cap growth manager and be consistent to this style, there will be a higher concentration in the areas that are traditionally growing faster than the rest of the economy. He felt the firm was probably median in terms of their "bets" in these areas. MR. POLSFUT stated that with 10 to 15 names per analyst, there is good coverage. Mr. Barela is responsible for all the other sectors. MR. O'LEARY directed Trustee Botelho to page 6 of the CAI booklet entitled "Alaska Permanent Fund Corporation, Investment Manager Evaluation, Small Cap Growth" and indicated the analysis of sector allocation indicates that Cordillera's diversification is typical of other small cap growth managers.

MR. POLSFUT referred to a style map prepared by CAI, which clearly depicts Cordillera as a small cap growth manager. He also noted a listing of the portfolio holdings, and a peer group analysis.

MR. MOORE noted that small cap is the only focus of this firm. MR. POLSFUT confirmed this is the case.

TRUSTEE SAMPSON asked the status of Frederico Pena. MR. POLSFUT stated that Mr. Pena was a co-founder of the firm in 1991 and he worked with the firm for about a year and then was asked to be Secretary of Transportation and then Secretary of Energy. He was in Washington D.C. five years and now he is a principal with another investment firm.

MR. MOORE asked if the first two screens used by Cordillera could be characterized as screens that are likely to yield a list of 100 companies that have healthy momentum. MR. BARELA replied that this could be the result of those screens and in 1999 that was the case. He stated that each stock receives a score for each factor in those screens. He stated the factors that are the most dynamic and change the profile of the stock candidate list are valuation (P/E to growth) and relative strength. In 1999, the weightings were the opposite that they are at this time. Weightings are changed from time to time. At this time, candidates at the top of the list are companies that are growing 20 percent and trading at 17 times next years numbers. At this time, the screens that generates the stock candidate list are more value sensitive. He stated that weightings are adjusted every 1.5 to 2 years. MR. MOORE noted that another factor, earnings surprise, is given a 20 percent weighting. He asked if that is only positive earnings surprises or do negative earnings surprises knock a stock out of the list. MR. BARELA replied that a stock with negative earnings surprise receives a lower score vis-à-vis others in the candidate list. He noted that measure is taken over a four-year period. MR. MOORE remarked that one of the top picks is East West Bancorp, which is a Chinese bank. There is another bank of this type that focuses around the Bay area. He asked why East West was chosen for the portfolio rather than the other one. MR. BARELA replied that he likes both. He stated the portfolio recently purchased stock in UCB Holdings, which is in San Francisco. There are opportunities in both. Both are very profitable and have good paying customers.

MR. O'LEARY noted that, in the early years of the firm, the clients who were most predisposed to give Cordillera consideration were those that were trying to do something with minority-owned firms. He asked whether there is evidence that has now changed. MR. POLSFUT stated there was initial interest in the firm because it is Hispanic-owned. There is only one client relationship today where that is a factor. He and Mr. Barela have been careful about the kind of clients the firm has pursued in order to be sure the firm grows in a way that is deliberate. The firm has recently presented to Coca-Cola, Maryland, and the City of Austin. He stated this relationship with the Fund would be very important to Cordillera. MR. BARELA stated the company is having success; it is a bottom line business, so business might be won, but it will not be kept unless performance is competitive.

TRUSTEE GRUENING asked if the holdings shown in the presentation packet are the total portfolio. MR. BARELA replied in the affirmative. TRUSTEE GRUENING asked if there was a reason for holding 50 stocks in the portfolio. MR. BARELA stated the firm is comprised of good stock pickers. The portfolio he inherited in 1994 had 50 names and he felt there was something to be said for consistency. He compared Cordillera to INVESCO, which has one portfolio manager and two analysts for a 150-stock portfolio. The result is that the portfolio begins to look more and more like the index. He believed that a strict discipline would add value over time. TRUSTEE GRUENING asked if 50 stocks provides sufficient diversification, despite the concentration in the three sectors. MR. BARELA replied in the affirmative. He noted that there is even diversity within industries. MR. MOORE asked what is the size of Cordillera's largest account. MR. BARELA replied that the largest account is $100 million with the University of Texas.

GROWTH MANAGER SELECTION

CHAIR WOHLFORTH reviewed return figures for each of the three candidates for the month of September. as well as for year to date and other periods. In this analysis, Turner has better comparative figures. MR. O'LEARY noted that manager is the least growth-oriented of the three candidates. He noted that, when the search began, the Fund considered the possibility of hiring two growth managers. If the Dresdner RCM situation continues to not improve, the Fund might revisit one of these candidates several months down the road without going through an elaborate search process. He encouraged the Trustees to not put too much weight on performance because there is such a broad range of style.

TRUSTEE BOTELHO stated he would favor Cordillera, TimesSquare, and Turner. He explained his opinion is largely dictated by their style. He also found the Cordillera team to be engaging.

TRUSTEE SAMPSON favored Turner, based on the 20 years of experience of Mr. DiBella, hen Cordillera and TimesSquare.

TRUSTEE GRUENING stated that Cordillera, even in a time period when they should be out performing, did not show him anything that gave him the reassurance that when growth was in favor, they would do better than Turner. MR. MOORE noted that CAI's analysis shows Cordillera doing very well in the period September 1998 to March 2000. TRUSTEE GRUENING noted that as soon as a stock is winning, they sell. MR. MOORE agreed they do not let winners run as long as a typical growth manager. MR. O'LEARY commented that this is in a relative sense. The attitude that is implicit in their view is that they are making a big bet by having only 50 holdings and they do not want to keep doubling up on the size of the bet in something that has already done well.

MR. O'LEARY referred to an analysis of the three candidates' performance during the other rising market, which was June 1994 through June 1998, found in the CAI booklet entitled "Alaska Permanent Fund Corporation, Investment Manager Evaluation, Small Cap Growth". In quarters that small cap did well compared to large cap, all three candidates did well. There is also an analysis of growth did better than value. CHAIR WOHLFORTH thought Turner had outperformed in both rising and falling markets. He stated he had a positive feeling about Mr. DiBella. He remarked that TimesSquare is a solid firm, but he favored Turner.

TRUSTEE GRUENING stated he is more comfortable with Turner, but he is bothered with the fact they are both growth and value investors, although they seem to do it well. MR. O’LEARY stated that even with value people in small cap there is an embedded growth bias. There are few small cap managers that buy small companies on an asset basis thinking they will be liquidated. He stated he views Cordillera and TimesSquare evenly.

TRUSTEE LEASK stated she liked Mr. DiBella and she also liked Cordillera. She stated that, if the objective of this selection exercise is to hire a growth manager, she would favor Cordillera. If another manager is chosen, then she would favor Turner and then TimesSquare.

TRUSTEE CONDON favored Cordillera, followed by TimesSquare, and then Turner. He put Turner last because they are featuring themselves as both growth and value. He recalled Turner said there are two managers and a trader, and those three individuals are managing two portfolios. He was also somewhat uncomfortable with the response that the second product is funded at $100 million.

TRUSTEE SAMPSON asked for information on Aeltus fund, which was managed by Mr. DiBella. MR. O’LEARY stated that was a core growth product. TRUSTEE SAMPSON asked for Trustee Condon's suspicion regarding Turner. TRUSTEE CONDON felt the response to the question about the assets in the second product managed by that team was there is about $1 million in that product seemed evasive. MR. O’LEARY explained that is a seeded portfolio that has about $1 million in company money.

CHAIR WOHLFORTH posed the possibility of hiring two managers. MR. MOORE stated that, if that were the decision of the Board, Cordillera would be funded as the aggressive manager using index fund money and Turner would be funded from Capital Guardian’s small cap portfolio, which is core. This would maintain the style balance at 50/50. Cordillera could be funded between $50 million and $100 million and Turner could be funded at $50 million and perhaps more at a future time. TRUSTEE GRUENING indicated he would support hiring more than one manager if it did not result in higher fees or a strain on staff. MR. MOORE suggested that fees and monitoring workload should not be considerations. TRUSTEE SAMPSON noted that Mr. DiBella’s performance was in part based on running $1 billion in a similar product, and questioned why their allocation would be lower than Cordillera's. MR. MOORE explained his recommendation was based on the current holdings of each manager. He did not like the idea of being more than 50 percent of someone's assets under management. He stated that is just a rule of thumb.

Asked for his opinion, MR. O'LEARY stated that hiring a greater number of managers, rather than fewer managers, presents the risk of ending up with what is essentially a high cost index fund. He thought that in the area of small cap that is less of an issue. Another reason for hiring fewer managers rather than more is that fee schedules tend to be graded. In the area of small cap, however, fees tend to be pretty flat, so there is less of a difference. A third reason for hiring fewer rather than more managers is to keep managers from being constrained by the size of the portfolio, which is not an issue in small cap.

CHAIR WOHLFORTH felt the Fund had already passed the "tipping point" for complexity in terms of number of managers. For this reason, an additional small cap manager was not of concern to him. TRUSTEE SAMPSON recalled a discussion some time ago that the Fund should invest in small cap before the products closed. He stated he would feel comfortable with an allocation to both managers, but at some point he felt the Fund should look at the performance of both. MR. O'LEARY noted that Dresdner is still an open issue and, regardless of how that issue plays out, there would be flexibility in the future if the Fund hires two small cap growth managers. TRUSTEE GRUENING suggested that the Fund should, at some point in the future, look at the performance of both and make a decision to stay with the best performing manager and terminate the worst.

TRUSTEE SAMPSON moved to award the small cap growth mandate to Cordillera and Turner at an allocation of $100 million for Cordillera and $50 million for Turner with the understanding that the staff will watch Turner's asset growth and recommend further allocation to them in the future. TRUSTEE CONDON seconded.

There being no objection, the motion passed unanimously.

OTHER MATTERS
None

TRUSTEE COMMENTS
None

FUTURE AGENDA ITEMS
None

There was a brief discussion of upcoming committee meetings. There was also discussion of the status of work being done by the evaluation firm hired to examine issues of corporate governance. MR. STORER indicated that contracts are being finalized and the first instruction to the evaluation firm is to evaluate the Fund's holdings for anything that has transpired. CHAIR WOHLFORTH also commended to the Corporate Governance Committee a report that came from the Institutional Investors meeting he and Mr. Moore recently attended. MR. STORER indicated that Mike Barnhill and Ron Lorensen also had a recent conference call with Keith Johnson, the chief counsel for the State of Wisconsin regarding corporate governance.

TRUSTEE SAMPSON stated he viewed a good one-hour program on corporate governance hosted by Bill Moyers. A tape of this program could be made available to the Trustees, at their request.

CHAIR WOHLFORTH noted that The Economist this week says that Elliot Spitzer, New York Attorney General, has attorneys general all over the country following investment banking firms and analysts. MR. STORER noted that, in a recent meeting with one of the Fund's commission recapture providers, he learned of the possibility of a complete unbundling of services, which would create distinct activities in terms of paying for research rather than doing that through trading.

ADJOURNMENT
The meeting was adjourned at 4:33 PM.

APPROVAL OF MINUTES

/s/ Eric Wohlforth, Chair

November 13, 2002