

July 18, 2002

Senator Dean Johnson  
State Capitol 124B  
75 Constitution Avenue  
St. Paul, MN 55155

Dear Senator Johnson:

As Chairman of the Legislative Commission on Pensions and Retirement, the Minneapolis Teachers' Retirement Fund Association (MTRFA) felt that you should be aware of a situation that has recently been identified by the MTRFA involving one of our professional investment managers.

I am enclosing a copy of a letter that was sent to State Auditor Judy Dutcher that provides the information as we know it today.

Please call me if you need anything further or if you have any other questions.

Sincerely,



Karen Kilberg  
Executive Director

Cc: MTRFA Board of Trustees  
Lawrence Martin, LCPR Executive Director

July 18, 2002

State Auditor Judith H. Dutcher  
525 Park Street Suite 400  
St. Paul, Mn 55103

BY FAX AND US MAIL

Dear State Auditor Dutcher:

The purpose of this letter is to notify you per Chapter 609.456 that on Monday, July 15 the Minneapolis Teachers' Retirement Fund Association (MTRFA) discovered that Advanced Investment Management, a professional investment management firm hired by the MTRFA, had violated our investment policy restrictions and over exposed the MTRFA to the futures' market. By doing so the fund became leveraged and as a result has lost upon initial analysis somewhere around \$11 million. As soon as this was discovered, the MTRFA Board of Trustees was informed of the situation and they authorized me to take the following steps. As of this writing, the MTRFA has:

1. Notified AIM to cease trading the account and terminated them on Tuesday, July 16. The MTRFA attorney was notified to begin reviewing the legal implications of the violations. The Clifton Group, another manager of the MTRFA who has expertise in this kind of investment, received authorization to trade in the terminated AIM portfolio. Trading, however could not take place until The Clifton Group received a certified listing of the assets from Mellon Capital, the MTRFA custodial bank, for the terminated AIM portfolio.
2. The Clifton Group received a copy of the certified listing of assets on Wednesday, July 17 and has re-positioned the portfolio so that the MTRFA is no longer leveraged. Attorney Barry Lazarus has been given copies of the agreements with AIM and is working on possible means for us to recover losses.
3. Attached is an unaudited estimate of the losses created by AIM over the losses in the S&P 500. (Their mandate was to take market risk plus 70 basis points.)

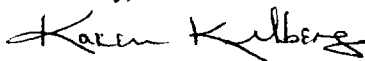
I have enclosed a copy of our investment management agreement, the MTRFA investment guidelines, and the latest signed acknowledgment of Investment Restrictions and Policy that states that they will manage the account according to the above documents and Minnesota State Statutes that may apply.

We are in the process of having an analysis done on past investment practices of the firm and when we get a final accounting of the impact to the MTRFA, I will send it to you. The MTRFA attorney will continue to pursue this matter.

I am stunned that a professional firm that had \$4 billion in assets under management and an impressive list of corporate and public clients throughout the United States would expose themselves to the possibility of criminal and civil complaints and SEC sanctions. I assure you that the MTRFA will diligently pursue all avenues available in order to recover all assets lost.

Please let me know if there is something else I should be doing for you, if you need any other information or have any further questions.

Sincerely,



Karen Kilberg  
Executive Director

Cc: MTRFA Board of Trustees