MAKE SURE YOU ARE USING THE CORRECT PROSPECTUS FOR NON-RETIREMENT FUNDS

The State Board of Investment (SBI) has established various Non-Retirement Funds to provide certain Minnesota public sector entities the opportunity to invest in a U.S. equity index fund, a U.S. bond fund, and a money market fund to facilitate the achievement of its investment objectives. The funds are available to those non-retirement entities that are authorized to invest in these asset classes with the SBI.

The SBI Staff has developed three fund prospectuses for our non-retirement investors. Given the broad array of organizations who are authorized to invest in these funds, each prospectus is tailored to a specific group based on their statutory authorization and specific operational procedures which govern their use.

The three fund prospectuses are described below:

- **Non-Retirement Fund for Qualifying Governmental Entities**
  - This prospectus provides information and procedures specific to those participating non-retirement entities authorized to invest with the State Board of Investment pursuant to the provisions of *Minnesota Statutes*, Section 118A.09. These entities are primarily counties and cities who meet the criteria provided within the statute. The statute also authorizes certain self-insurance pools to invest with the SBI as prescribed in the statute.

- **Non-Retirement Funds for Other Postemployment Benefit Trusts (OPEBs)**
  - This prospectus provides information and procedures specific to those participating non-retirement entities authorized to invest with the State Board of Investment pursuant to the provisions of *Minnesota Statutes*, Section 471.6175. These entities are those political subdivisions or other public entities authorized to establish a trust for the payment of postemployment benefits that meet the criteria provided within the statute.

- **Non-Retirement Funds for Trust and Other Participating Entities**
  - This prospectus provides information and procedures to all non-retirement participating entities authorized to invest with the State Board of Investment that are not covered by *Minnesota Statutes*, Sections 118A.09 or 471.6175. These entities generally include designated trusts or funds and other state and public sector entities.

Please ensure that you refer to the appropriate prospectus for your organization. In some cases, your organization may have more than one type of non-retirement account with the State Board of Investment. If you have any questions regarding which prospectus is appropriate for your organization’s needs, please contact Shirley Baribeau, in our office, at (651) 296-3328 or via e-mail at shirley.baribeau@state.mn.us.
Non-Retirement Fund – Qualifying Governmental Entities

Executive Director’s Letter

October 2017

I am pleased to present to you the Prospectus and Annual Report for the qualifying governments utilizing the Non-Retirement Equity Fund for the fiscal year ended June 30, 2017. This information provides you with the performance, fees, and general description for the investment options managed by the State Board of Investment (SBI).

For the fiscal year ending June 30, 2017 the Standard and Poor’s 500 Index returned 17.9%. The U.S. equity market performance was buoyed by a positive economic climate. The U.S. economy (real GDP) grew at an annualized rate of 2.6% and the U.S. labor markets reached its lowest unemployment rate since August 2007 of 4.4%. During fiscal 2017, the Federal Reserve increased the federal funds target rate from 0.25% to 1.25%. The Chair of the Federal Reserve stated that while policy remains accommodative, steady progress towards the Federal Reserve’s dual mandate of maximum employment and stable prices has been achieved, and rate increases were appropriate. Markets reacted positively to the anticipation of pro-growth policies. While these prospects have softened, the U.S. economic expansion enters its eighth year with high consumer confidence and stock prices at all time highs.

The U.S. and international equity markets posted positive performance while the bond markets were negative for the fiscal year ending June 30, 2017. The S&P 500 Index, a proxy for the U.S. equity markets, returned 17.9% and the U.S. bond market, as measured by the Bloomberg Barclays U.S. Aggregate Bond Index, returned -0.3%. International equity markets, as represented by MSCI ACWI ex USA Index (net), outperformed domestic markets with a 20.5% return for the year.

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

With these considerations in mind, the State Board of Investment manages the Non-Retirement Equity Fund to provide competitive long-term returns. I encourage you to carefully review each of the accounts available to you and to choose those options that meet your own investment needs and risk and return objectives.

On behalf of the Board Members, members of the Investment Advisory Council and the SBI staff, I would like to express our gratitude to you for your continued support and participation in the investment funds presented in this prospectus. The Minnesota State Board of Investment seeks to enhance the management and performance of the assets under its control. If you have any questions regarding the Board’s investment policies and procedures, please contact the Minnesota State Board of Investment at 60 Empire Drive, Suite 355, St. Paul, MN 55103-3555, (651) 296-3328, or via e-mail at minn.sbi@state.mn.us. We welcome your inquiries.

Respectfully submitted,

Mansco Perry III
Executive Director and Chief Investment Officer
State Board of Investment
Non-Retirement Fund – Qualifying Governmental Entities

Account Administrator

Public Employees Retirement Association (PERA)
www.mnpera.org
60 Empire Drive, Suite 200
St. Paul, MN 55103-2088
(651) 296-7460

Reporting Agency

Minnesota State Board of Investment (SBI)
http://mn.gov/sbi
60 Empire Drive, Suite 355
St. Paul, MN 55103
(651) 296-3328

Investment Option

<table>
<thead>
<tr>
<th>Fund Name</th>
<th>Asset Type</th>
<th>Management Approach</th>
</tr>
</thead>
<tbody>
<tr>
<td>Non-Retirement Equity Fund</td>
<td>U.S. stocks</td>
<td>Passive</td>
</tr>
</tbody>
</table>

External Portfolio Management

The SBI offers the Non-Retirement Equity Fund to help entities reach their financial goals. The external investment manager of the fund is shown below.

**Non-Retirement Equity Fund**
Mellon Capital Management Corporation,
Boston, MA

Fees

**Administrative Fees:**
The Administrative Fees that will appear on your statement are deducted annually by the account administrator and quarterly by the SBI at the account level, not at the investment option level. The account administrator charges a one-time fee of $2,500 when the account is opened and $500 per plan per year, and the current SBI administrative fee approximates $0.07 per $1,000 annually.

**Investment Fees:**
See fund description on page 8 for specific investment fees.
Summary

What Is The Non-Retirement Equity Fund?
The State Board of Investment established the Non-Retirement Equity Fund to provide certain Minnesota Public sector entities an opportunity to invest in a U.S. equity investment fund to facilitate the achievement of its investment objectives. The fund is available to those non-retirement entities that are authorized to invest in U.S. equities with the SBI. Currently, the option is available to designated trust funds, local Other Postemployment Benefit (OPEB) trusts, Qualifying Governmental Entities, and other state and public sector entities.

How Often Is The Non-Retirement Fund Priced?
Share values in the Non-Retirement Fund are priced on a daily basis. Contributions, withdrawals or transfers of any funds may occur on any business day during the month. (See procedures, page 9.)

What Securities Are Owned By The Fund?
The securities owned by this account represent the equities which constitute the Standard and Poor’s 500 Index (S&P 500). A listing is not provided in the Prospectus due to the large number of holdings owned in the fund. Please contact the SBI if you would like a complete list of holdings or you can access the list on our website at http://mn.gov/sbi.

What If An Entity Has An Account Or Administrative Fee Inquiry?
Any questions about your account should be directed to the appropriate account administrator or reporting agency identified on the page 4. Your account administrator handles all changes in the way you invest your contributions and maintains your records on the status of your fund. Your account administrator or reporting agency has the authority to deduct a fee for administrative expenses after fund share values have been calculated. Participants should contact their account administrator or reporting agency for more information regarding account administrative expenses.
The Capital Market Year in Review

Cumulative Growth and Performance

Cumulative Growth of $100
Last Five Fiscal Years ending June 30

<table>
<thead>
<tr>
<th>Fiscal Year Ending</th>
<th>U.S. Stocks</th>
<th>Short-Term</th>
<th>Inflation</th>
</tr>
</thead>
<tbody>
<tr>
<td>2017</td>
<td>17.9%</td>
<td>0.5%</td>
<td>1.7%</td>
</tr>
<tr>
<td>2016</td>
<td>4.0%</td>
<td>0.2%</td>
<td>1.0%</td>
</tr>
<tr>
<td>2015</td>
<td>7.4%</td>
<td>0.0%</td>
<td>0.1%</td>
</tr>
<tr>
<td>2014</td>
<td>24.6%</td>
<td>0.1%</td>
<td>2.1%</td>
</tr>
<tr>
<td>2013</td>
<td>20.6%</td>
<td>0.1%</td>
<td>1.8%</td>
</tr>
</tbody>
</table>

Performance of Capital Markets
Last Five Fiscal Years Ending June 30

<table>
<thead>
<tr>
<th>Fiscal Year Ending</th>
<th>Annualized Returns Ending June 30, 2017</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>3 Yrs</td>
</tr>
<tr>
<td>U.S. Stocks</td>
<td>9.6%</td>
</tr>
<tr>
<td>S&amp;P 500</td>
<td>4.0%</td>
</tr>
<tr>
<td>Short-Term</td>
<td>0.5%</td>
</tr>
<tr>
<td>Inflation Rate</td>
<td>0.1%</td>
</tr>
<tr>
<td>Consumer Price Index-Urban</td>
<td>1.7%</td>
</tr>
</tbody>
</table>
Fiscal Year 2017 in Review

Commentary and Relative Performance

How Have Stocks Performed?
The U.S. stock market, as measured by the S&P 500 index, increased 17.9% for fiscal year ending June 30, 2017. Within the S&P 500, the relatively smaller capitalization companies outperformed the larger capitalization companies. The Information Technology sector was the best performing sector in the S&P 500 with a 33.8% return, while the Telecommunication sector was the worst performing sector with a -11.8% return.

How Did Returns In The Non-Retirement Equity Fund Compare For Fiscal Year 2017?
The Non-Retirement Equity Fund was up 17.9% during the year, which met its benchmark, the S&P 500.

<table>
<thead>
<tr>
<th>Performance Ending 6/30/17</th>
<th>1 Yr</th>
</tr>
</thead>
<tbody>
<tr>
<td>Non-Retirement Equity Fund</td>
<td>17.9%</td>
</tr>
<tr>
<td>S&amp;P 500 Index</td>
<td>17.9%</td>
</tr>
</tbody>
</table>

Special Note Regarding Your Individual Account Performance.
The actual performance of your investment in the Non-Retirement Equity Fund may be somewhat higher or lower than the reported fund performance due to the timing of contributions and withdrawals within your account. Note that performance calculations may also differ due to rounding.
The Non-Retirement Equity Fund has a market value over $2.1 billion. The objective of the fund is to generate returns that track the returns of the S&P 500 Index. The fund invests in 500 large-cap stocks and is designed to replicate the returns produced by the S&P 500. The S&P 500 is a stock market index that reflects U.S. large-cap stocks. The fund is invested primarily in U.S. stocks.

Why Would An Entity Choose This Fund?
This option will be attractive to you if you believe that, over time, stocks will provide higher returns than other investments. You should note, however, that the Non-Retirement Equity Fund is passively managed. This means that no attempt is made to identify specific stocks that will perform better than others. Instead, the fund is designed to perform in line with the U.S. large-cap stocks.

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

Who Manages The Fund?
The Non-Retirement Equity Fund is managed by SBI staff and will be transitioned to Mellon Capital Management Corporation during the fourth quarter 2017.

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

What Is The Past Investment Performance Of This Fund?
The graph below shows how $1,000 invested in the fund on June 30, 2012 has grown. Cumulatively, $1,000 would have grown to $1,978.

The table below displays the fund’s returns for the last five fiscal years. The annualized (annual compounded) return during this five year period was 14.6%.

<table>
<thead>
<tr>
<th>Fiscal Year Ending June 30</th>
<th>Share Value</th>
<th>Rate of Return</th>
</tr>
</thead>
<tbody>
<tr>
<td>2013</td>
<td>$34.00</td>
<td>20.5%</td>
</tr>
<tr>
<td>2014</td>
<td>41.50</td>
<td>24.5</td>
</tr>
<tr>
<td>2015</td>
<td>43.70</td>
<td>7.5</td>
</tr>
<tr>
<td>2016</td>
<td>44.49</td>
<td>4.0</td>
</tr>
<tr>
<td>2017</td>
<td>51.37</td>
<td>17.9</td>
</tr>
</tbody>
</table>

Investment Fees
The rate of return for this fund is calculated after investment manager fees but before administrative fees are deducted. With the transition to Mellon Capital, the annual fund investment manager fee will be approximately $0.05 per $1,000 invested.

<table>
<thead>
<tr>
<th>Top 5 Holdings</th>
<th>Portfolio Weight</th>
</tr>
</thead>
<tbody>
<tr>
<td>Apple Inc.</td>
<td>3.62</td>
</tr>
<tr>
<td>Microsoft Corp</td>
<td>2.57</td>
</tr>
<tr>
<td>Amazon</td>
<td>1.84</td>
</tr>
<tr>
<td>Facebook</td>
<td>1.72</td>
</tr>
<tr>
<td>Johnson &amp; Johnson</td>
<td>1.72</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Risk-Return Statistics</th>
<th>Ending June 30, 2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Portfolio Standard Deviation % (1)</td>
<td>14.7 11.5 12.6</td>
</tr>
<tr>
<td>Benchmark Standard Deviation % (1)</td>
<td>14.7 11.5 12.6</td>
</tr>
<tr>
<td>Tracking Error (2)</td>
<td>0.0 0.0 0.0</td>
</tr>
</tbody>
</table>

(1) Standard Deviation is a measure of the portfolio’s rate of return volatility.
(2) Tracking Error is the standard deviation of the portfolio’s excess return.
Qualifying Governmental Entities authorized to invest in the Non-Retirement Equity Fund must follow the appropriate statute in determining the amount invested in the eligible fund. (See Minnesota Statutes, Section 118A.09.)

**How To Open An Account (Plan)**

All Qualifying Governmental Entities will need to contact PERA to open an account. PERA will then forward the account information to SBI. Once the account is setup the SBI will send the credentials and instructions for accessing and using the account website. The website will give the account on-line access to your account’s current balance, posted/pending transactions, and statements. Each account must maintain a Long Term Equity Investment Account Agreement with PERA in order to invest through the SBI.

**Contribution, Withdrawal And Transfers**

All contributions, withdrawals, and transfers must be requested through PERA, the Account Administrator. PERA requires a five business day notice for all transactions. Please contact PERA for the required forms.

**Investment Option**

Non-Retirement Equity Fund

Your investment in the Non-Retirement Equity Fund should be viewed as a long-term investment. Equity investments carry a risk of loss, and all Qualifying Governmental Entities are responsible for determining their risk tolerance for equities and investing accordingly. Funds needed for operations or short term obligations should be kept at your local financial institution in an appropriate account. Your Account with the SBI is not intended for maintaining operating or short term funds.

The SBI’s Executive Director reserves the right to suspend or close an account, or restrict withdrawals or transfers from an account, if the Executive Director determines, in the Executive Director’s sole discretion, that excessive trading has occurred with respect to the account, or that such action is appropriate under the circumstances.

Investments with the State Board of Investment are subject to the policies and procedures established by the State Board of Investment.

**Administrative Fees**

SBI’s Administrative Fees are deducted directly from the Account on a quarterly basis. PERA’s Administrative Fees are deducted from the account on an annual basis.

**Investment Management Fees**

There are no “front-end” or “back-end” loads charged on contributions, withdrawals or transfers in the Fund. All transactions are made using the share value established for the Fund. Investment Management Fees are deducted from the investment earnings in the Fund before the daily share value for the Fund is computed. These deductions will vary from Fund to Fund and from year to year depending on the actual management costs incurred.

Please refer to page 8 of this prospectus for investment management fee information for the Non-Retirement Equity Fund.

**Reporting**

The SBI will e-mail monthly reports and other correspondence to the contact person at the address provided to PERA at time of Account setup. Monthly reports display current balances, performance and transaction detail that occurred during the month.

**PERA Contact Information:**

David Andrews  
Public Employees Retirement Association  
60 Empire Drive, Suite 200  
St. Paul, MN 55103  
TEL (651) 201-2648  
FAX (651) 297-2547  
Email: david.andrews@mnpera.org

**SBI Contact Information:**

Shirley Baribeau  
Minnesota State Board of Investment  
60 Empire Drive, Suite 355  
St. Paul, MN 55103  
TEL (651) 296-3328  
FAX (651) 296-9572  
Email: shirley.baribeau@state.mn.us
**Non-Retirement Fund – Qualifying Governmental Entities**

**State Board of Investment**

**Members**
The State Board of Investment (SBI), with the advice of the Investment Advisory Council (IAC), establishes investment policies for all funds under its control. These investment policies are tailored to the particular needs of each fund and specify investment objectives, risk tolerance, asset allocation, investment management structure and specific performance standards. The Board’s membership is specified in the Minnesota Constitution and is composed of the officers listed below. The Board’s duties, powers, and investment authority are contained in *Minnesota Statutes*, Chapter 11A.

**Governor Mark Dayton**  **State Auditor Rebecca Otto**  **Secretary of State Steve Simon**  **Attorney General Lori Swanson**

**Investment Advisory Council**
The Legislature has established an Investment Advisory Council to advise the Board and its Executive Director on investment related matters. The Board appoints ten members experienced in finance and investments. The Commissioner of Minnesota Management and Budget and the Executive Directors of the three statewide retirement systems are permanent members of the council. Two active employee representatives and one retiree representative are appointed to the Council by the Governor.

Gary Martin, Chair  Macalester College  
Kim Faust, Vice Chair  Fairview Health Services  
Denise Anderson  Governor’s Appointee  
Doug Anderson  Active Employee Representative  
Kerry Brick  Public Employees Retirement Association  
Dennis Duerst  Cargill, Inc.  
Myron Frans  3M Company  
Susanna Gibbons  Minnesota Management and Budget  
Morris Goodwin, Jr.  Carlson School of Management  
Peggy Ingison  American Public Media Group  
Erin Leonard  Active Employee Representative  
Malcolm W. McDonald  Minnesota State Retirement System  
Carol Peterfeso  Space Center, Inc.  
Jay Stoffel  University of St. Thomas  
Shawn Wischmeier  Teachers Retirement Association  

**Executive Director and Staff**
To carry out its mission, SBI retains an Executive Director, an internal investment staff and external investment managers to execute its policies. Executive Director is responsible to execute board decisions, recommend strategic planning alternatives to the IAC and Board, monitor and evaluate investment performance to ensure long-term investment objectives are met, and provide investment management for the state agency cash and non-retirement fund accounts.

Mansco Perry III, *Executive Director and Chief Investment Officer*  
Charlene Olson, *Executive Assistant*  

**Senior Leadership Team**
LeaAnn M. Stagg, Asst. Exec. Director & Chief Operating Officer  
Paul T. Anderson, Director, Investment Administration  
Andrew Krech, Director, Private Markets  
Michael J. Menssen, Director, Debt Management  
John Mulé, Manager, Legal and Legislative Policy  

**Investment Staff**
Patricia Ammann, Investment Officer  
Nathan Blumenshine, Investment Officer  
Cassandra Boll, Investment Officer  
Tammy Brusehaver, Investment Officer  
Stephanie Gleeson, Investment Officer  
Aaron D. Griga, Investment Officer  

**Investment Staff (continued)**
Ryan O. Hill, Investment Officer  
Steven P. Kuettel, Investment Officer  
Jonathan Stacy, Investment Officer  

**Administrative Staff**
Kailee Anderson, Account Clerk, Senior  
Shirley Baribecau, Project Team Leader  
Julie Grill, Accounting Officer, Intermediate  
Kathy Leisz, Information Technology Specialist 3  
Melissa Mader, Office Admin. Specialist, Intermediate  
William J. Nicol, Accounting Director  
Kelly Nordstrom, Office Administrative Specialist  
Iryna Shafir, Investment Compliance Analyst
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The Minnesota Non-Retirement Fund is managed by the Minnesota State Board of Investment

Board Members:
Governor Mark Dayton
State Auditor Rebecca Otto
Secretary of State Steve Simon
Attorney General Lori Swanson

Executive Director and Chief Investment Officer:
Mansco Perry III

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