

Minnesota State Board of Investment

Voluntary Statewide Volunteer Firefighter Plan



Investment Information • July 1, 2015

Available Through the Minnesota
Supplemental Investment Fund
Managed by the State Board of Investment

60 Empire Drive, Suite 355 St. Paul, MN 55103
Phone # 651-296-3328, Fax 651-296-9572
Website: www.sbi.state.mn.us

Chief Investment Officer's Letter

July 1, 2015

I am pleased to present to you this brochure which provides information on the investment of assets of local firefighter entities that participate in the Voluntary Statewide Volunteer Firefighter Plan.

Performance ending June 30, 2015 for the Voluntary Statewide Volunteer Firefighter account on a one and five year basis outperformed its custom index. During fiscal year 2015, U.S. equity and bond markets exhibited positive performance while international equity market returns were negative. The U.S. equity markets returned 7.3% as measured by the Russell 3000 Index. Within the Russell 3000, growth companies led value companies. International equity markets returned -5.3% for the year in U.S. dollar terms, as measured by the Morgan Stanley Capital International All Country World Index excluding the United States net of taxes on dividends (MSCI ACWI ex USA Index net), which represents the developed and emerging international markets outside the U.S. The returns in the emerging markets were negative but slightly better than in the developed markets. The U.S. bond market, as measured by the Barclays Capital U.S. Aggregate Bond Index, returned 1.9% for the fiscal year. Within the bond market, U.S. Treasuries and agency mortgage-backed securities were the best performing sectors followed by commercial mortgage-backed securities and asset-backed securities.

The Volunteer Firefighter Account uses a balanced asset mix investment approach to provide long-term returns by investing in a diversified mix of domestic stock, international stock, bonds and money market securities. **It is important to note that, sector returns vary on a year over year basis. Remember that general economic and market conditions have a dominant influence on the returns available to any investor. There may be periods in which the returns for the Volunteer Firefighter Account may be low, or even negative.**

On behalf of the Board Members, members of the Investment Advisory Council and the State Board of Investment (SBI) staff, I would like to express our gratitude to you for your continued support and participation in the Volunteer Firefighter Account presented in this brochure. 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

General Information

What Is The Minnesota Supplemental Investment Fund?

The Minnesota Supplemental Investment Fund is a multi-purpose investment program that offers a range of investment options to state and other public employee groups. The participating groups use the investment options for a variety of retirement-related purposes. Six plans and numerous local fire relief associations currently participate in the Fund. As of June 30, 2015, the market value of the Fund was approximately \$3.2 billion.

What Options Are Available To The Voluntary Statewide Volunteer Firefighter Plan?

The Volunteer Firefighter Account is the **only** investment option available to local firefighter entities participating in the Voluntary Statewide Volunteer Firefighter Plan. By state law, the Volunteer Firefighter Account is established for the sole purpose of investing the assets of local firefighter entities participating in the Voluntary Statewide Volunteer Firefighter Plan.

What Securities Are Owned By The Fund?

Due to the large number of stocks, bonds and cash equivalents in the Account, the holdings are not listed in this brochure. If you would like a complete list of all securities in the Account, please contact the office of the State Board of Investment. A list will be sent to you, at your request, or you can access the list on our website at www.sbi.state.mn.us.

Which entity is Responsible for Managing the Assets?

The Minnesota State Board of Investment is responsible for the managing the assets of the Volunteer Firefighter Account and determines the investments to be made available to plan participants. The SBI offers a variety of options to help participants reach their financial goals. The investment managers hired by the SBI are listed under the respective investment option.

SBI Executive Board Personnel

Mansco Perry III
LeaAnn M. Stagg

Executive Director and Chief Investment Officer
Assistant Executive Director and Chief Operating Officer

Investment Staff

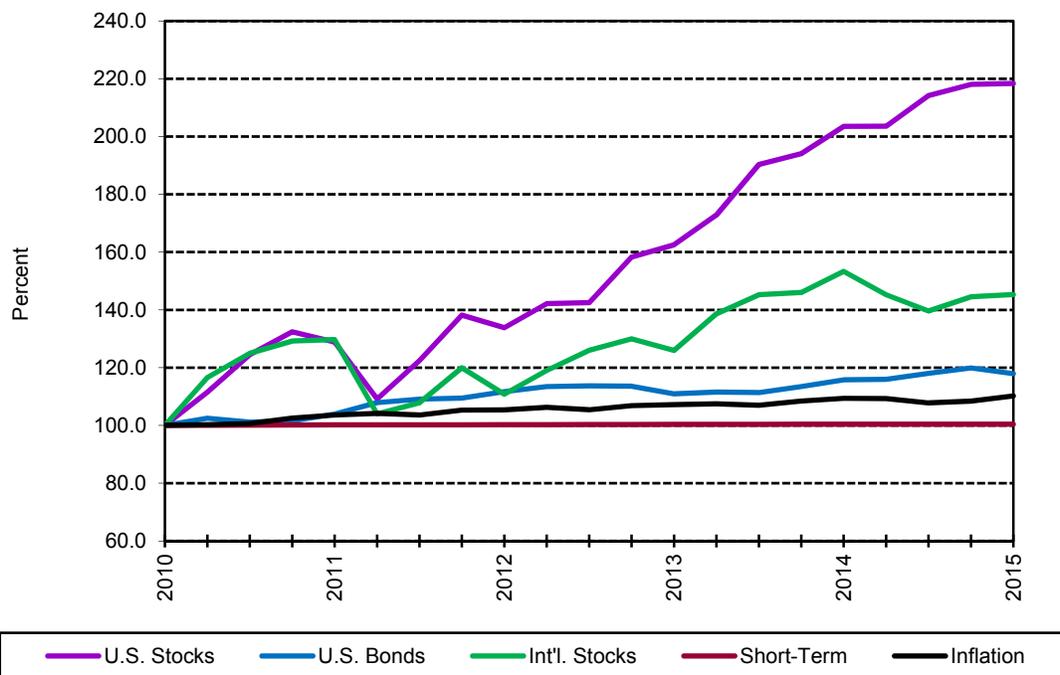
Michael J. Menssen, Director	Public Markets
Patricia Ammann, Investment Officer	DC & Trust Services
Nathan Blumenshine, Investment Analyst	
Cassandra Boll, Investment Officer	Cash Mgmt. Services
Tammy Brusehaver, Investment Officer	Public Markets
Inma Conde Goldman, Investment Officer	Public Markets
Stephanie Gleeson, Investment Officer	Public Markets
Aaron D. Griga, Investment Officer	Public Markets
Ryan O. Hill, Investment Officer	Alternative Investments
Andrew Krech, Investment Officer	Alternative Investments
Steven P. Kuettel, Investment Officer	Cash Mgmt. Services
Mercy Ndungu, Investment Officer	DC & Trust Services
Jonathan Stacy, Investment Officer	Alternative Investments
Robert Weiler, Investment Officer	Public Markets

Administrative Staff

Paul T. Anderson	Chief Financial Officer
Charlene Olson	Executive Assistant
Shirley Baribeau	Project Team Leader
Julie Grill	Accounting Officer, Intermediate
Kailee Kemp	Office Administrative Specialist
Kathy Leisz	Information Technology Specialist 2
Melissa Mader	Office Admin. Specialist, Intermediate
Wendy Murphy	Accounting Officer, Senior
William J. Nicol	Accounting Director
Iryna Shafir	Accounting Officer, Senior

The Year in Review

Cumulative Growth of Capital Markets Last Five Fiscal Years (2011 – 2015)



	2011	Year Ending June 30				5 Yr Annualized ¹ 2011 - 2015
	2011	2012	2013	2014	2015	
U.S. Stocks Russell 3000	32.4%	3.8%	21.5%	25.2%	7.3%	17.5%
U.S. Bonds Barclays Capital Aggregate Bond Index	3.9%	7.5%	-0.7%	4.4%	1.9%	3.3%
International Stocks MSCI All Country World Index ex USA (MSCI ACWI ex USA Index Net)	29.7%	-14.6%	13.7%	21.7%	-5.3%	7.8%
Short-Term Investments 90 Day U.S. Treasury Bills	0.1%	0.0% ²	0.1%	0.1%	0.0%	0.1%
Inflation Rate Change in Consumer Price Index (CPI)	3.6%	1.7%	1.8%	2.1%	0.1%	1.8%

¹Annualized return is the annual compounded rate of return.

²Actual return is 0.04%

The Year in Review

How Have Stocks, Bonds And Other Investments Performed?

The U.S. stock market, as measured by the Russell 3000 index, increased 7.3% for the year ending June 30, 2015. Within the Russell 3000, growth companies led value companies. Health Care was the best performing sector in the Russell 3000 with a 26.6% return, while the Energy sector was the worst performing sector with a -24.6% return.

The U.S. bond market, as measured by the Barclays Capital U.S. Aggregate Bond Index, returned 1.9% for the twelve months ending June 30, 2015. Within the bond market, U.S. Treasuries returned 2.3%, corporate bonds returned 0.8%, agency mortgage-backed securities returned 2.3%, commercial mortgage-backed securities returned 1.9%, asset-backed securities returned 1.6% and agency bonds returned 1.5%.

International equity markets returned -5.3% for the year in U.S. dollar terms, as measured by the Morgan Stanley Capital International All Country World Index excluding the United States net of taxes on dividends (MSCI ACWI ex USA Index net), which represents the developed and emerging international markets outside the U.S. The MSCI World ex USA Index (net), which represents developed international markets had the same return with a -5.3% for the year.

Japan, the United Kingdom, and France, which together comprise over 48% of the index returned of 8.3%, -8.2% and -9.6%, respectively. The emerging markets, as measured by the MSCI Emerging Markets Index (net), returned -5.1% for the year in U.S. dollar terms. China, Korea and Taiwan were the largest countries in the index at the end of the fiscal year with a combined weight of 51%. They returned 24.6%, -14.2% and 3.0%, respectively.

How Did Returns In The Voluntary Statewide Volunteer Firefighter Plan Compare For Fiscal Year 2015?

The Voluntary Statewide Volunteer Firefighter Account provided a return of 3.0% for the fiscal year, outperforming the composite index by 0.3%. The composite index, is comprised of approximately 35% U.S. common equities, 15% international equities, 45% bonds, and 5% cash.

Performance Ending 6/30/15	1Yr
Voluntary Statewide Volunteer Firefighter Plan	3.0%
Composite Index	2.7%

Investment Managers for the Account

U.S. Stock Index Fund

(Previously, Common Stock Index)

BlackRock Institutional Trust Company, N.A., San Francisco, CA

Broad International Stock Fund

(Previously, International Share Account)

AQR Capital Management, LLC, Greenwich, CT
Acadian Asset Management LLC, Boston, MA
Capital International, Inc., Los Angeles, CA
Columbia Threadneedle Investments, Minneapolis, MN
J.P. Morgan Investment Management Inc., London, England
Marathon Asset Management LLP, London, England
McKinley Capital Management, LLC, Anchorage, AK
Morgan Stanley Investment Management Inc., New York, NY
Pyramis Global Advisors, LLC, Boston, MA
State Street Global Advisors, Boston, MA

Bond Fund

(Previously, Bond Market Account)

Aberdeen Asset Management Inc., Philadelphia, PA
BlackRock Financial Management, Inc., New York, NY
Columbia Threadneedle Investments, Minneapolis, MN
Dodge & Cox, San Francisco, CA
Goldman Sachs Asset Management, New York, NY
Neuberger Berman Fixed Income LLC, Chicago, IL
Pacific Investment Mgmt. Co. LLC, (PIMCO), Newport Beach, CA
Western Asset Management Company, Pasadena, CA

Money Market Fund

(Previously, Money Market Account)

State Street Global Advisors, Boston, MA

Volunteer Firefighter Account

The Volunteer Firefighter Account provides a balanced investment program. The objectives of the Account are to provide high returns from capital appreciation and current yield while reducing the chance for large temporary decreases in value. To achieve these objectives, the Account is invested in a mix of domestic equities, international equities, bonds and cash. As of June 30, 2015, the market value of the Account was approximately \$32.2 million.

What Investment Options Are Included in the Account?

The Account uses four of the underlying SIF investment options. On July 1, 2015, the names of the funds were changed to reflect more descriptive titles of the underlying investment options. Below are the fund names, along with the previous fund investment option names.

Current SIF Name	Previous SIF Name
Broad International Stock Fund	International Share Acct.
U.S. Stock Index Fund	Common Stock Index Acct.
Bond Fund	Bond Market Acct.
Money Market Fund	Money Market Acct.

What is the Asset Allocation of the Account?

While holdings vary day to day, the following is the targeted asset mix:

- 35% domestic stocks
- 15% international stocks
- 45% fixed income
- 5% cash

The domestic stock segment is passively managed to closely approximate the returns of the U.S. stock market as a whole as measured by the Russell 3000 index. The international stock segment is managed in a variety of styles and is invested primarily in large, developed international markets such as Japan, the United Kingdom, Canada, France, Germany and Australia, with a portion invested in developing countries, or emerging markets, in Asia, Latin America, Eastern Europe, the Middle East and Africa.

The fixed income segment earns returns by investing in high quality corporate bonds, mortgage securities and U.S. Government issues. The cash segment is invested in a short term fund of high-quality money market instruments.

How Will This Account Perform Over Time?

The Volunteer Firefighter Account is a balanced or diversified investment program in one account. As with any investment program that includes stocks and bonds, the Account will provide returns that vary with changes in the market. Market value growth and dividend income from the domestic and international stock holdings can provide higher returns than bonds and cash investments. The international stock holdings add a measure of diversification to the domestic stock holdings as various international markets can perform differently. While returns on bonds are often lower than returns on stocks, the bond returns tend to be more stable and can provide some protection against wide swings in stock market returns.

Who Manages The Account?

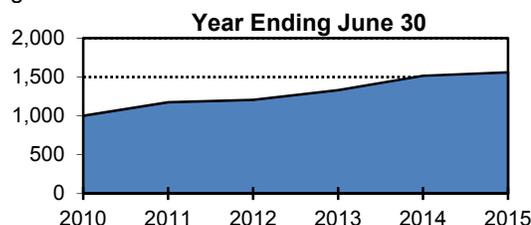
See page 4 for a listing of the investment managers.

How Is The Value Of This Account Determined?

Participating entities own shares in the Account, much like you would in a mutual fund. The share value is determined daily and is based on the market value of the entire Account. Any dividend or interest income is reinvested in the Account at the time it is earned. Investment returns reflect all realized and unrealized gains and losses generated by the Account.

What Is The Past Investment Performance Of This Account?

The graph below shows how \$1,000 would have grown over the past five years had it been invested in the Volunteer Firefighter Account.



The table displays the returns of the account over the past five years. The annualized (annual compounded) return during this five year period was 9.3%.

Year Ending June 30	Share Value	Rate of Return
2011	\$11.63	17.5%
2012	11.93	2.6
2013	13.17	10.4
2014	15.01	13.9
2015	15.45	3.0

Fees and Expenses

The rate of return for this Fund is calculated after operating expenses are deducted. Operating expenses include both investment management and administrative fees. For the 12 month period ending March 31, 2015, the annual fund operating expense was 0.09% or approximately \$0.90 per \$1,000 invested.

Comparison to Other Mutual Fund Fees

The example below is intended to help you compare the cost of investing in the Fund to other balanced mutual funds.

Example assumes you:

- Invest \$1,000 at the beginning of the period;
- Earn a 5% return each year;
- Are charged an annual operating expense of 0.09% for investing in the Fund.

Your actual costs may be higher or lower depending on your reporting agency, however, based only on the above assumptions your costs would be:

1 year	3 years	5 years	10 years
\$1	\$3	\$5	\$12

State Board of Investment

Who Serves On The State Board of Investment?

The Board's membership is specified in the Minnesota Constitution and is composed of the Governor, the State Auditor, the Secretary of State and the Attorney General. The Board's duties, powers, and investment authority are contained in *Minnesota Statutes*, Chapter 11A.

What Is The Board's Relationship To The Public Employees Retirement Association (PERA)?

In broad terms, the Board acts as an investment manager for PERA while PERA provides a variety of administrative functions with respect to your Plan.

Who Advises The Board On Its Investment Decisions?

The Legislature has established an Investment Advisory Council to advise the Board and its staff on investment related matters.

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

Members of the Board

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

Investment Advisory Council

Jeffery Bailey, Chair
Malcolm W. McDonald, Vice Chair
Denise Anderson
David Bergstrom
John E. Bohan
Kerry Brick
David DeJonge
Dennis Duerst
Kim Faust
Myron Frans
Douglas Gorence
Laurie Fiori Hacking
P. Jay Kiedrowski
Gary Martin
Elaine Voss

Sr. Director, Financial Benefits & Analysis
Director & Corporate Secretary, Retired
Governor's Appointee
Executive Director
Vice Pres., Pension Investments, Retired
Manager, Pension Investments
Interim Executive Director
Director, Benefit Funds Investment
Vice President and Treasurer
Commissioner
President & Chief Investment Officer
Executive Director
Senior Fellow
Chief Investment Officer
Governor's Appointee

Target Corporation
Space Center, Inc.
Active Employee Representative
Minnesota State Retirement System
Grand Metropolitan – Pillsbury
Cargill, Inc.
Public Employees Retirement Association
3M Company
Fairview Health Services
Minnesota Management & Budget
UMF Investment Advisors
Teachers Retirement Association
Humphrey Institute University of MN
Macalester College
Retired Employee Representative

The Minnesota Supplemental Investment 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