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AT A GLANCE

- The MN SBI has a total of \$80.9 billion under management as of June 30, 2016.
- Assets under management have grown by 71% since June 30, 2004.
- The MN SBI manages money for 327 plans.
- The three largest plans (Combined Funds) are the retirement organizations of PERA, TRA and MSRS. Together they account for \$57.8 billion in pension assets under management.
- The Combined Funds have exceeded the benchmark for the 5, 10, 20 and 30 year time periods.
- The SBI manages the State's cash account which totaled \$11.0 billion on June 30, 2016.
- The MN SBI manages funds for 277 volunteer fire fighter accounts.

PURPOSE

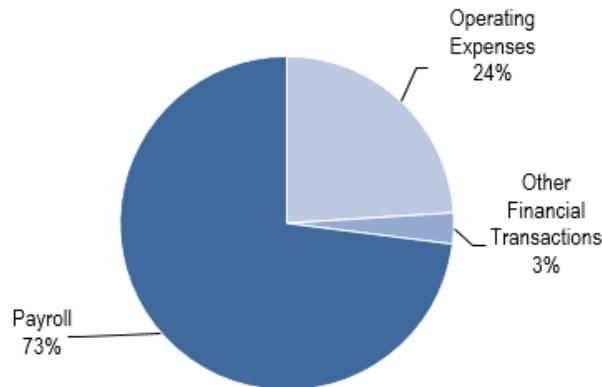
The State Board of Investment (SBI) develops and implements investment policies and strategies for the state's retirement funds, trust funds, and cash accounts. The statutory mission of the SBI is "to ensure that state and pension assets subject to this legislation will be responsibly invested to maximize the total rate of return without incurring undue risk" (M.S. 11A.01).

The SBI supports the following statewide outcome(s).

- **A thriving economy that encourages business growth and employment opportunities**
- **Strong and stable families and communities**
- **Efficient and accountable government services**

BUDGET

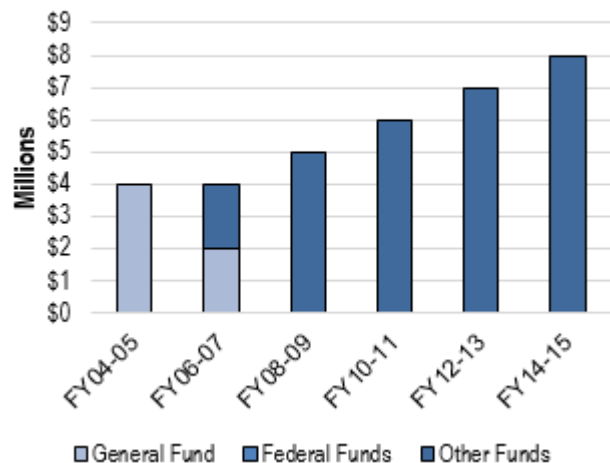
**Spending by Category
FY 15 Actual**



Other Financial Transactions represents the SBI's payment of indirect expenses.

Source: BPAS

Historical Spending



In FY2007 the MN SBI began invoicing plans for actual SBI expenditures.

Source: Consolidated Fund Statement

Funding:

The SBI is primarily funded through dedicated receipts by billing our customers for the services provided. In addition to dedicated receipts, the SBI receives a small general fund appropriation. The split between dedicated receipts and general fund is 97% (\$3,939,000) dedicated receipts and 3% (\$139,000) general fund for Fiscal Year 2015.

STRATEGIES

The Minnesota State Board of Investment (SBI) is established by Article XI of the Minnesota Constitution to invest all state funds. Its membership, as specified in the Constitution, is comprised of the Governor (Chair), State Auditor, Secretary of State and the State Attorney General. All investments undertaken by the SBI are governed by the prudent person rule and other standards codified in Minnesota Statutes, Chapter 11A and Chapter 356A.

Areas of Responsibility:

- Combined Funds (MSRS, TRA and PERA): The overriding responsibility of the SBI with respect to the three retirement plans pension assets, is to achieve a maximum total rate of return given an appropriate level of risk such that sufficient funds are available to finance promised benefits to plan participants.
- Cash Accounts: The SBI manages the cash balances in state agency accounts with the objectives of preserving capital and providing competitive money market rates of return.
- Additional Funds: The SBI also manages assets for a number of additional funds, including the Environmental Trust Fund and Permanent School Fund, which have varying risk tolerances and investment objectives.

The SBI provides investment management services to the three statewide retirement plans (Combined Retirement Funds), the Permanent School Fund, the Environmental Trust Fund, the Assigned Risk Plan, the Supplemental Investment Funds, the Closed Landfill Investment Funds, Invested Treasurer's Cash and over 300 other plans.

- Combined Funds (Market Value June 30, 2016, \$57.8 billion) The SBI manages the retirement assets with the objective of providing sufficient funds to finance the promised benefits to participants. Our strategy is to take advantage of the long term nature of the pension liabilities and invest in appropriate return opportunities that will enhance the probability of meeting or exceeding the actuarial return target over the long-term. Pensions provide a positive contribution to strong and stable families, communities and the economy overall.
- Cash Accounts (Market Value June 30, 2016, \$11.0 billion) In order to ensure that state agency cash is available as needed and is earning competitive money market rates of return, SBI invests the cash accounts in short-term, liquid, high-quality debt securities.
- Additional Funds (Market Value June 30, 2016 \$12.1 billion) The SBI also manages assets for the funds listed above with varying investment strategies as well as approximately 277 volunteer firefighter accounts.

To carry out its mission, SBI retains an executive director, an internal investment staff and external investment managers to execute its policies. In performing its duties, the SBI is assisted by the Investment Advisory Council (IAC) which is comprised of 17 individuals with investment and retirement fund expertise.

SBI staff:

- 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;
- Provide internal investment management for the state agency cash accounts, the Permanent School Fund and the Environmental Trust Fund;
- Seek and retain superior external money managers by monitoring the performance of all external managers retained by the board;
- Establish and periodically update the investment objectives, asset allocation and investment management structure for each of the funds;
- Assess developments in the broad financial markets and evaluate their potential impact on SBI operations and policies;
- Review prospective investment vehicles for legislative consideration.

RESULTS

<i>Type of Measure</i>	<i>Name of Measure</i>	<i>Previous</i>	<i>Current</i>	<i>Dates</i>
Results	1) Meet or Exceed 10 Year Composite Index Total Return	FY15	FY16	6/30
	Combined Funds 10 Year Annualized Return	7.8%	6.5%	
	Benchmark 10 Year Composite Annualized Return	7.5%	6.3%	
	Difference from Composite Benchmark	+.3%	+.2%	
Results	2) Provide 20 year Real Return of 3-5 percentage points above inflation (CPI)			6/30
	Combined Funds 20 Year Annualized Return	8.4%	7.5%	
	Benchmark 20 Year Annualized Return	2.3%	2.2%	
	Difference from CPI Benchmark	+6.1%	+5.3%	

Note: The outperformance of SBI relative to the broad capital markets over the long-term is evidence of SBI's ability to add value to returns through asset allocation and manager selection decisions. Additionally, SBI's strict adherence to re-balancing activity enhances returns by imposing a low risk discipline of "buy low-sell high" among asset classes on a total fund basis.

SBI Legal Authority:

M.S. 11A - <https://www.revisor.leg.state.mn.us/statutes/?id=11A>

M.S. 356A - <https://www.revisor.mn.gov/statutes/?id=356A.06>

(Dollars in Thousands)

Expenditures By Fund

	Actual FY14	Actual FY15	Actual FY16	Estimate FY17	Forecasted Base		Governor's Recommendation	
					FY18	FY19	FY18	FY19
1000 - General	139	139	139	139	139	139	139	139
2000 - Restrict Misc Special Revenue	3,879	3,939	5,136	5,829	6,049	6,236	6,049	6,236
7504 - Invest Ext Money Managers #2	762	794	803	1,000	2,000	2,000	2,000	2,000
Total	4,780	4,872	6,078	6,968	8,188	8,375	8,188	8,375
Biennial Change				3,395		3,517		3,517
Biennial % Change				35		27		27
Governor's Change from Base								0
Governor's % Change from Base								0

Expenditures by Program

Program: Investment Of Funds	4,018	4,078	5,275	5,968	6,188	6,375	6,188	6,375
Program: Refunds/Retirement Funds	762	794	803	1,000	2,000	2,000	2,000	2,000
Total	4,780	4,872	6,078	6,968	8,188	8,375	8,188	8,375

Expenditures by Category

Compensation	3,406	3,573	3,873	4,813	5,053	5,205	5,053	5,205
Operating Expenses	1,301	1,297	2,179	2,120	3,100	3,134	3,100	3,134
Other Financial Transactions	53	2	1					
Capital Outlay-Real Property	19	1	25	35	35	36	35	36
Total	4,780	4,872	6,078	6,968	8,188	8,375	8,188	8,375
Full-Time Equivalents	21.4	23.1	25.3	30.0	30.0	30.0	30.0	30.0

1000 - General

	Actual	Actual	Actual	Estimate	Forecast Base		Governor's Recommendation	
	FY14	FY15	FY16	FY17	FY18	FY19	FY18	FY19
Direct Appropriation	139	139	139	139	139	139	139	139
Expenditures	139	139	139	139	139	139	139	139
Biennial Change in Expenditures				0		0		0
Biennial % Change in Expenditures				0		0		0
Gov's Exp Change from Base								0
Gov's Exp % Change from Base								0

2000 - Restrict Misc Special Revenue

	Actual	Actual	Actual	Estimate	Forecast Base		Governor's Recommendation	
	FY14	FY15	FY16	FY17	FY18	FY19	FY18	FY19
Balance Forward In	1	3	220	8	0	0	0	0
Receipts	3,881	4,156	4,924	5,821	6,049	6,236	6,049	6,236
Expenditures	3,879	3,939	5,136	5,829	6,049	6,236	6,049	6,236
Balance Forward Out	3	220	8	0	0	0	0	0
Biennial Change in Expenditures				3,147		1,320		1,320
Biennial % Change in Expenditures				40		12		12
Gov's Exp Change from Base								0
Gov's Exp % Change from Base								0
Full-Time Equivalents	21.4	23.1	25.3	30.0	30.0	30.0	30.0	30.0

7504 - Invest Ext Money Managers #2

	Actual	Actual	Actual	Estimate	Forecast Base		Governor's Recommendation	
	FY14	FY15	FY16	FY17	FY18	FY19	FY18	FY19
Open Appropriation	762	794	803	1,000	2,000	2,000	2,000	2,000
Expenditures	762	794	803	1,000	2,000	2,000	2,000	2,000
Biennial Change in Expenditures				247		2,197		2,197
Biennial % Change in Expenditures				16		122		122
Gov's Exp Change from Base								0
Gov's Exp % Change from Base								0