Non-Retirement Program
Permanent School Fund

The Permanent School Fund is a trust fund created by the Minnesota State Constitution and is designated as a long-term source of revenue for public schools. Proceeds from land sales, mining royalties, timber sales, lake shore and other leases are invested in the Fund. Income generated by the Fund’s assets is appropriated directly to school districts. On June 30, 2017, the market value of the Fund was $1.3 billion.

Investment Objective

The State Board of Investment invests the Permanent School Fund to produce a growing level of spendable income for school districts, within the constraints of maintaining adequate portfolio quality and liquidity.

Investment Constraints

The Fund’s investment objectives are influenced by the legal provisions under which its investments must be managed. These provisions require that the Fund’s principal remain inviolate. Any net realized capital gains from stock or bond investments must be added to the principal. Moreover, if the Fund realizes net capital losses, these losses must be offset against interest and dividend income before such income can be distributed. Finally, all interest and dividend income must be distributed in the year in which it is earned.

Asset Allocation

In order to produce a growing level of spendable income, the Fund is invested to grow over time, and, therefore, has exposure to equities. The current asset allocation is 50% stock/48% fixed income/2% cash.

Prior to fiscal year 1998, the Permanent School Fund had been invested entirely in fixed income securities for more than a decade. While this asset allocation maximized current income, it limited the long term growth of the Fund and caused the income stream to lose value in inflation adjusted terms, over time.

To solve both issues, a proposal to introduce equities to the Fund’s asset mix was presented during fiscal year 1997. Since this modification would reduce short term income and have budgetary implications for the state, the consent of the executive and legislative branches was necessary. It was favorably received by the Legislature and incorporated into the K-12 education finance bill. As a result, the Fund allocation was shifted to a 50% stock/48% fixed income/2% cash allocation during July 1997.

Figure 35 presents the actual asset mix of the Permanent School Fund at the end of fiscal year 2017.

Investment Management

Assets of the Permanent School Fund are invested in the Non-Retirement Equity, Bond and Money Market Funds.
**Investment Performance**

During the fiscal year, the *stock* segment of the Permanent School Fund tracked its benchmark, the S&P 500.

The *bond* segment outperformed its benchmark by 1.1 percentage points during the current fiscal year, primarily due to an overweight to the corporate sector and a short duration position relative to the benchmark.

**Overall**, the Permanent School Fund provided a return of 9.3% for fiscal year 2017, outperforming its composite index by 0.8 percentage point. The Fund outperformed its composite index over the ten year periods.

Total account performance results for the last three, five and ten years are shown in Figure 36.

Spendable income generated by the portfolio over the last five fiscal years is shown below:

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>Millions</th>
</tr>
</thead>
<tbody>
<tr>
<td>2013</td>
<td>$25</td>
</tr>
<tr>
<td>2014</td>
<td>$24</td>
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<tr>
<td>2015</td>
<td>$26</td>
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<tr>
<td>2016</td>
<td>$28</td>
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<tr>
<td>2017</td>
<td>$30</td>
</tr>
</tbody>
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*50% S&P 500/ 48% Bloomberg Barclays U.S. Aggregate/ 2% 3 Month T-Bills.*