

Table of Contents

2016-17 Governor's Budget, Investment, Board of

Agency Profile - Investment, Board of.....	1
Expenditures Overview.....	3
Financing by Fund.....	4

AT A GLANCE

The State Board of Investment (SBI)

- Comprised of the state's four constitutional officers.
- Over \$79.8 billion in assets under management as of 6/30/14.
- Provides investment management for three retirement systems – 10 retirement plans (combined funds), 191 fire relief associations, 76 statewide volunteer fire departments, 22 other post employee benefit accounts (OPEB), 11 trust accounts, two deferred compensation systems, Minnesota 529 plan, and 24 State of Minnesota accounts.

- *Combined Fund Return for the periods ending 6/30/14:*

<u>1 YR</u>	<u>3 YR</u>	<u>5 YR</u>	<u>10 YR</u>
18.6%	11.5%	14.5%	8.4%

PURPOSE

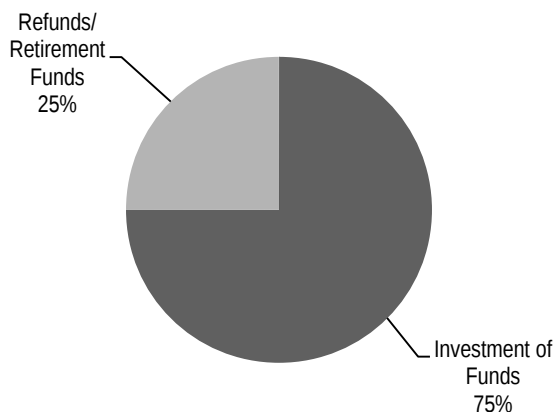
The State Board of Investment (SBI) develops and implements investment policies and strategies for the state's retirement funds, trust funds, cash accounts, and other accounts. The statutory mission of the SBI is "to ensure that state and pension assets subject to this legislation will be responsibly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

The SBI supports the following statewide outcomes:

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

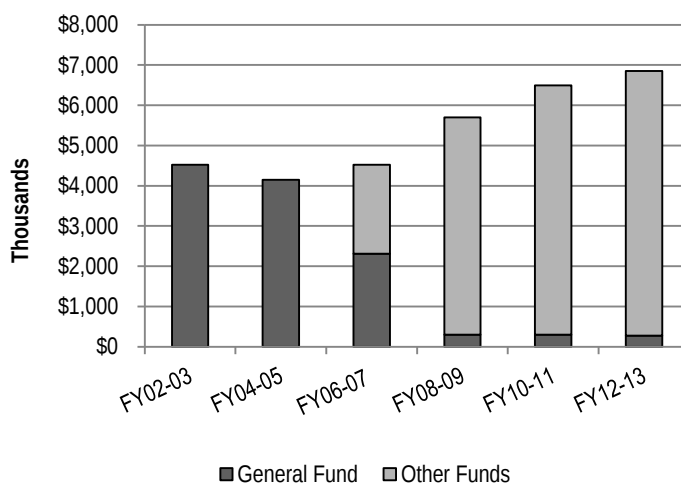
BUDGET

**Spending by Program
FY 13 Actual**



Source: SWIFT

Historical Spending



Source: Consolidated Fund Statement

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 96.5% (\$3,878,600) dedicated receipts and 3.5% (\$139,000) general fund for Fiscal Year 2014.

STRATEGIES

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 Closed Landfill Investment Fund, Invested Treasurer's Cash, OPEB's, 529 college savings plan, deferred compensation plan, and approximately 300 other accounts.

- **Combined Funds (Market Value June 30, 2014, \$59.5 billion)** In order to ensure that sufficient funds are available to finance promised benefits to participants in the retirement plans, SBI takes advantage of the long run nature of the pension liabilities and invests in return opportunities offered by common stocks and other equity investments to meet or exceed 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, 2014, \$9.0 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, 2014 \$11.3 billion)** The SBI also manages assets and/or contracts for the funds listed above with varying investment strategies as well as 191 volunteer firefighter accounts, the 529 Minnesota College Savings Plan, and deferred compensation plans.

To carry out its mission, SBI retains an executive director, an internal investment staff, external investment managers to execute its policies, and accounting and administrative staff. 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, Environmental Trust Fund; Closed Landfill Investment Fund, OPEB's, and various other trust accounts.
 - 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

Achieving an investment earnings benchmarks plays a critical role in ensuring sufficient funds are available to finance promised benefits to retirement plan participants. The SBI has met or exceeded its market composite benchmarks over the 10 year period and has exceeded its target return of 3-5 percentage points above inflation over a 20 year period. Performance results are shown in the table below.

<i>Type of Measure</i>	<i>Performance Measures</i>	<i>Previous FY 2013</i>	<i>Current FY 2014</i>
Quantity	1) Meet or Exceed 10 Year Composite Index Total Return		
	Combined Funds 10 Year Annualized Return*	8.2%	8.4%
	Benchmark 10 Year Composite Annualized Return	7.9%	8.1%
	Difference from Composite Index Benchmark	+0.3%	+0.3%
Quantity	2) Provide 20 year Real Return of 3-5 percentage points above inflation (CPI)		
	Combined Funds 20 Year Annualized Return*	8.2%	9.0%
	Benchmark 20 Year annualized CPI	2.4%	2.4%
	Difference from CPI Benchmark	+5.8	+ 6.6

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.

Statutory reference: M.S. 11A.01 <https://www.revisor.mn.gov/statutes/?id=11A>

Expenditures By Fund

	Actual		Actual	Estimate	Forecast Base		Governor's Recommendation	
	FY12	FY13	FY14	FY15	FY16	FY17	FY16	FY17
1000 - General	139	139	139	139	139	139	139	139
2000 - Restricted Misc Special Rev	3,112	3,461	3,879	4,962	5,112	5,404	5,112	5,404
7460 - Other Post Employment Benefits	-6			0	0	0	0	0
7504 - Invest Ext Money Managers	832	1,222	762	1,000	1,000	1,000	1,000	1,000
Total	4,078	4,823	4,780	6,101	6,251	6,543	6,251	6,543
Biennial Change				1,980		1,913		1,913
Biennial % Change				22		18		18
Governor's Change from Base								0
Governor's % Change from Base								0

Expenditures by Program

Program: Investment Of Funds	3,251	3,600	4,018	5,101	5,251	5,543	5,251	5,543
Program: Refunds/Retirement Funds	827	1,222	762	1,000	1,000	1,000	1,000	1,000
Total	4,078	4,823	4,780	6,101	6,251	6,543	6,251	6,543

Expenditures by Category

Compensation	2,895	3,096	3,406	4,251	4,498	4,773	4,498	4,773
Operating Expenses	1,176	1,672	1,301	1,817	1,729	1,745	1,729	1,745
Other Financial Transactions	7	9	53	0	0	0	0	0
Grants, Aids and Subsidies	0							
Capital Outlay-Real Property	0	46	19	33	24	25	24	25
Total	4,078	4,823	4,780	6,101	6,251	6,543	6,251	6,543

Full-Time Equivalents

20.9	21.6	21.4	23.0	28.0	29.0	28.0	29.0
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1000 - General

	Actual		Actual	Estimate	Forecast Base		Governor's Recommendation	
	FY12	FY 13	FY 14	FY15	FY16	FY17	FY16	FY17
Direct Appropriation	139	139	139	139	139	139	139	139
Expenditures	139	139	139	139	139	139	139	139
<i>Biennial Change in Expenditures</i>				0		0		0
<i>Biennial % Change in Expenditures</i>				0		0		0
<i>Gov's Exp Change from Base</i>								0
<i>Gov's Exp % Change from Base</i>								0

2000 - Restricted Misc Special Rev

	Actual		Actual	Estimate	Forecast Base		Governor's Recommendation	
	FY12	FY 13	FY 14	FY15	FY16	FY17	FY16	FY17
Balance Forward In	1	39	1	3				
Receipts	3,141	3,424	3,881	4,959	5,112	5,404	5,112	5,404
Net Transfers		(2)						
Expenditures	3,112	3,461	3,879	4,962	5,112	5,404	5,112	5,404
Balance Forward Out	30	1	3					
<i>Biennial Change in Expenditures</i>				2,267		1,675		1,675
<i>Biennial % Change in Expenditures</i>				34		19		19
<i>Gov's Exp Change from Base</i>								0
<i>Gov's Exp % Change from Base</i>								0
FTEs	20.9	21.6	21.4	23.0	28.0	29.0	28.0	29.0

7460 - Other Post Employment Benefits

	Actual		Actual	Estimate	Forecast Base		Governor's Recommendation	
	FY12	FY 13	FY 14	FY15	FY16	FY17	FY16	FY17
Balance Forward In		555	555	555	555	555	555	555
Receipts	550			0	0	0	0	0
Expenditures	(6)			0	0	0	0	0
Balance Forward Out	555	555	555	555	555	555	555	555
<i>Biennial Change in Expenditures</i>				6		0		0
<i>Biennial % Change in Expenditures</i>				100		0		0
<i>Gov's Exp Change from Base</i>								0
<i>Gov's Exp % Change from Base</i>								0

7504 - Invest Ext Money Managers

(Dollars in Thousands)

7504 - Invest Ext Money Managers

	Actual		Actual	Estimate	Forecast Base		Governor's Recommendation	
	FY12	FY 13	FY 14	FY15	FY16	FY17	FY16	FY17
Open Appropriation	832	1,222	762	1,000	1,000	1,000	1,000	1,000
Expenditures	832	1,222	762	1,000	1,000	1,000	1,000	1,000
<i>Biennial Change in Expenditures</i>				(293)		238		238
<i>Biennial % Change in Expenditures</i>				(14)		14		14
<i>Gov's Exp Change from Base</i>								0
<i>Gov's Exp % Change from Base</i>								0