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2014-15 Governors Budget - Investment Board

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Mission:

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" (Minnesota Statute (M.S.) 11A.01).

Statewide Outcome(s):

The SBI supports the following statewide outcome(s).

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

Context:

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 M.S., Chapter 11A and Chapter 356A.

Issues and Priorities:

- **Combined Funds (MSRS, TRA and PERA):** The overriding responsibility of the SBI with respect to the three retirement plans 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.

Key Customers:

- **Combined Plans:** The majority of SBI's activity relates to the current and retired members of the three statewide retirement systems - PERA, TRA and MSRS.
- **Cash Accounts:** For the cash accounts, SBI's largest client is Minnesota Management and Budget.

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 96 percent (\$3,123,500) dedicated receipts and four percent (\$139,000) general fund for Fiscal Year 2012.

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 Supplemental Investment Funds, the Closed Landfill Investment Funds, Invested Treasurer's Cash and approximately 250 other accounts.

- **Combined Funds (Market Value June 30, 2012, \$47.5 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, 2012, \$7.3 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, 2012 \$7.5 billion)** The SBI also manages assets for the funds listed above with varying investment strategies as well as approximately 220 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.

Key Partners

In performing its duties, the SBI is assisted by the IAC. The SBI works closely with the three statewide retirement systems, Minnesota Management and Budget and various outside service providers.

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 ten year period and has exceeded its target return of three to five percentage points above inflation over a 20 year period. Performance results are shown in the table below.

Performance Measures	Previous FY 2011	Current FY 2012	Trend
1) Meet or Exceed ten Year Composite Index Total Return			
Combined Funds ten Year Annualized Return*	5.9%	7.0%	
<i>Benchmark ten Year Composite Annualized Return</i>	5.8%	6.9%	
Difference from Composite Index Benchmark	+0.1%	+0.1%	Stable
2) Provide 20 year Real Return of 3-5 percentage points above inflation (CPI)			
Combined Funds 20 Year Annualized Return*	8.8%	8.2%	
<i>Benchmark 20 Year annualized CPI</i>	2.5%	2.5%	
Difference from CPI Benchmark	+6.3	+ 5.7	Stable

Performance Measures Notes:

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.

Investment Board**Current, Base and Governor's Recommended Expenditures**

(Dollars in Thousands, Biennial Totals)

	General Funds	Other State Funds	Federal Funds	All Funds
Current Biennium Expenditures (FY 2012-13)	\$278	\$8,232		\$8,510
Current Law Expenditures (FY 2014-15)	\$278	\$8,634		\$8,912
Governor's Recommended Expenditures (FY2014-15)	\$278	\$8,634		\$8,912
\$ Change from FY 2014-15 Current Law to Governor's Rec	\$0	\$0		\$0
% Change from FY 2014-15 Current Law to Governor's Rec	0%	0%		0%

Investment Board
Sources and Uses
(Dollars in Thousands)

	Biennium FY14-FY15			
	General Funds	Other State Funds	Federal Funds	Total Funds
REVENUE		\$6,634		\$6,634
APPROPRIATION	\$278	\$2,000		\$2,278
SOURCES OF FUNDS	\$278	\$8,634		\$8,912
EXPENDITURES	\$278	\$8,634		\$8,912
PAYROLL EXPENSE		\$6,162		\$6,162
OPERATING EXPENSES	\$278	\$2,448		\$2,726
CAPITAL OUTLAY-REAL PROPERTY		\$24		\$24
USES OF FUNDS	\$278	\$8,634		\$8,912

Investment Board
All Funds FTE by Program

	Current	Forecast Base	Governor's Recommendation
Program	FY 2013	FY 2015	FY 2015
Program: Investment Of Funds	21.0	21.0	21.0
Investment Board	21.0	21.0	21.0

Investment Board
Revenue Summary
(Dollars in Thousands)

		Biennium FY14-15			
		General Fund	Other State Funds	Federal Funds	All Funds
Non Dedicated	INVESTMENT INCOME		72,554		72,554
	Subtotal		72,554		72,554
Dedicated	ALL OTHER		6,634		6,634
	Subtotal		6,634		6,634
Total			79,188		79,188