

Agency 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 establish standards which will insure that state and pension assets will be responsibly invested to maximize the total rate of return without incurring undue risk" (M.S. 1A.01).

Core Functions

All activities of the board are governed by M.S. Chapter 11A and Chapter 356A. To meet the goals established therein, the SBI must:

- ⇒ Establish and periodically update the investment objectives, asset allocation, and investment management structure for each of the funds.
- ⇒ Seek and retain superior money managers to manage the assets of each fund.
- ⇒ Monitor and evaluate investment performance to insure investment objectives are met.
- ⇒ Assess developments in the broad financial markets and evaluate their potential impact on SBI operations and policies.
- ⇒ Communicate its investment policies to clients and constituents.

At A Glance

- ◆ The SBI is composed of the state's four constitutional officers.
- ◆ SBI provides investment management for the Basic Retirement Funds, Post Retirement Fund, Permanent School Fund, Environmental Trust Fund, Assigned Risk Plan, Supplemental Investment Fund, Closed Landfill Investment Fund, Invested Treasurer's Cash, and approximately 50 other state cash accounts.
- ◆ On 1-30-2006, assets managed by the board totaled \$52.5 billion.
- ◆ The majority of the board's activity relates to investment of retirement funds (84%). Clients are the current and retired members of the three statewide retirement systems (PERA, TRA, MSRS).
- ◆ For cash accounts, the board's largest clients are the State Treasurer and the Department of Finance.

The board retains an executive director, an internal investment management staff, and external investment managers to execute its policies. In performing its duties, the board is assisted by the Investment Advisory Council (IAC) which is composed of 17 persons with investment and retirement fund expertise. SBI staff

- ◆ recommends (with assistance from the IAC) strategic planning alternatives to the board and council and executes board decisions;
- ◆ provides internal management for the Permanent School Fund, Environmental Trust Fund, and state cash accounts;
- ◆ closely monitors the performance of all external managers retained by the board; and
- ◆ reviews prospective investment vehicles for legislative consideration.

Operations

Investment activity is divided into two major areas; externally managed and internally managed funds. Each concentration requires different strategies and investment vehicles.

Externally managed funds. Assets of the Basic Retirement, Post Retirement, Supplemental Investment Funds, and Assigned Risk Plan are externally managed.

The Basic Retirement Funds invest the contributions of public employees and employers during the employees' years of public service. Approximately 256,000 employees in eight statewide retirement funds are in the Basic Funds. The goal is to act as a fiduciary, investing contributions to provide sufficient funds to finance promised benefits at retirement.

The Post Retirement Fund contains the assets of over 82,000 retired employees covered by the eight statewide retirement plans. Upon retirement, assets sufficient to finance fixed monthly annuities for the life of the retiree are transferred from the Basic Funds to the Post Fund. The SBI invests these assets to generate returns to maintain promised benefits and to generate additional returns that will provide benefit increases to retired public employees.

The Supplemental Investment Fund is a multi-purpose investment program that offers a range of investment options to state and local employees. It serves a wide range of participants and investment goals, and is, therefore, structured much like a family of mutual funds.

The Assigned Risk Plan is administered by the Department of Commerce to provide workers compensation insurance to companies unable to obtain private insurance. The goal is to match the projected liability stream while also maintaining adequate liquidity.

Internally managed funds. The SBI directly invests about 14% of the assets with which it is entrusted. This includes the assets of the Permanent School Fund, Environmental Trust Fund, and all money in state cash accounts.

The Permanent School Fund is created by the Minnesota State Constitution and designated as a source of revenue for public schools. Income from the fund's assets is used to offset state school aid payments. The Permanent School Fund is invested in a balanced portfolio of common stocks and bonds

The Environmental Trust Fund is created by the Minnesota State Constitution and designed as a source of revenue for funding environmental projects. Currently the fund is invested in a portfolio with 70% common stocks and 30% fixed income.

The Closed Landfill Investment Fund was created to provide the Pollution Control Agency with funds to pay the long-term costs of maintaining the integrity of landfills in Minnesota once they have been closed. The assets of the fund are unavailable for expenditure until after FY 2020. The Closed Landfill Investment Fund is invested entirely in common stock

State Cash Accounts represent the cash balances in more than 400 individual accounts that flow through the Minnesota State Treasury. These accounts range in size from \$5,000 to over \$400 million, and are invested by SBI staff through two commingled short-term investment pools. The objectives of these pooled funds are to preserve capital, to provide a high level of current income, and to meet the cash needs of state government without the forced sale of securities at a loss.

Budget

Most of SBI's appropriated budget is funded by fees assessed against the assets of the funds that SBI invests. Approximately 3% of the budget is received as a General Fund appropriation associated with the investment of the General Fund's portion of Invested Treasurer's Cash.

Performance Indicators

Statutes establish investment goals for the Basic and Post Retirement funds. In addition, the board has set more exacting standards for investment returns. Performance has generally exceeded both statutory requirements and the board's investment performance targets at the total fund level. Returns are presented net of management fees and investment expenses.

Summary Of Investment Results

Period Ending 6/30/06	<u>Millions</u>	<u>1Year (%)</u>	<u>Annualized 3Years (%)</u>	<u>Annualized 5Years (%)</u>
Basic Funds:	\$22,033	12.6	13.4	6.4
Market composite		12.6	13.2	6.4
Post Fund:	\$21,912	12.0	12.9	6.4
Market composite		11.8	12.5	6.4
Benefit increase		2.5	2.4	4.1
Supplemental Fund:	\$1,224			
Income Share	\$455	6.4	8.9	4.2
Market composite		5.6	8.4	4.3
Growth Share	\$144	8.3	12.3	3.0
Market composite		9.6	12.6	3.5
Stock index	\$240	9.9	12.7	3.5
Market composite		9.6	12.6	3.5
International	\$111	28.4	24.9	11.3
Market composite		27.9	25.3	11.2
Bond market	\$136	-0.2	2.8	5.4
Market composite		-0.8	2.1	5.0
Fixed Interest	\$73	4.5	4.3	4.9
Market composite		5.0	3.9	3.6
Money Market	\$65	4.0	2.5	2.4
3 month t bills		4.1	2.4	2.2
Assigned Risk Plan	\$9	2.0	3.6	4.0
Market composite		1.9	3.6	4.1
State Cash Accounts				
Treasurer's Pool	\$5,479	4.2	2.5	2.5
Trust Pool	\$60	4.2	2.5	2.3
90 day T-bill		4.1	2.4	2.2
Permanent School	\$635	-6.2	6.3	10.2
Market composite		-5.2	5.7	9.5
Closed Landfill	\$47	8.7	11.3	2.6
Market composite		8.6	11.2	2.5
Environmental				
Trust Fund	\$416	-10.9	4.2	13.7
Market composite		-10.5	3.6	13.3

Contact

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Dollars in Thousands

	Current		Forecast Base		Biennium 2008-09
	FY2006	FY2007	FY2008	FY2009	
<u>Direct Appropriations by Fund</u>					
General					
Current Appropriation	2,167	151	151	151	302
Forecast Base	2,167	151	151	151	302
Change		0	0	0	0
% Biennial Change from 2006-07					-87%
 <u>Expenditures by Fund</u>					
Direct Appropriations					
General	2,161	413	151	151	302
Open Appropriations					
Supplmntl Invest Invest Index	10	25	25	25	50
Supplemental Invest Suppl Bond	5	15	15	15	30
Supplemental Invest Invest Gic	61	150	150	150	300
Supplmntl Invest Moneymarket	5	10	10	10	20
Supplemental Investment Income	16	50	50	50	100
Supplemental Investment Growth	6	50	50	50	100
Post Retirement Investment	892	1,100	1,100	1,100	2,200
Invest Ext Money Managers #2	611	1,000	1,000	1,000	2,000
Supplemental Intl Equity	3	10	10	10	20
Statutory Appropriations					
Misc Special Revenue	0	2,385	2,385	2,385	4,770
Total	3,770	5,208	4,946	4,946	9,892
 <u>Expenditures by Category</u>					
Total Compensation	1,767	2,015	2,015	2,015	4,030
Other Operating Expenses	2,003	3,193	2,931	2,931	5,862
Total	3,770	5,208	4,946	4,946	9,892
 <u>Expenditures by Program</u>					
Investment Of Funds	2,161	2,798	2,536	2,536	5,072
Refunds/Retire Funds	1,609	2,410	2,410	2,410	4,820
Total	3,770	5,208	4,946	4,946	9,892
 Full-Time Equivalent (FTE)	 18.8	 25.0	 25.0	 25.0	