

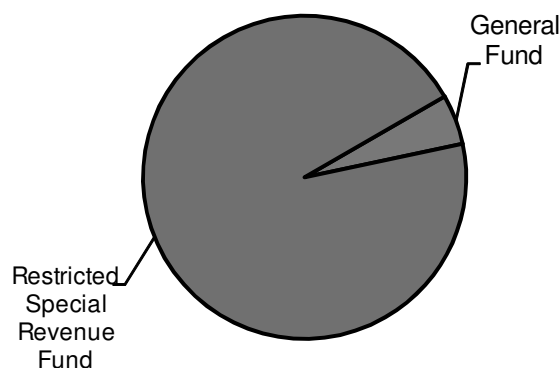
Agency Purpose

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 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. Section 11A.01).

At a Glance

- The State Board of Investment is composed of the state's four constitutional officers.
- SBI provides investment management for the Combined Retirement Funds, Permanent School Fund, Environmental Trust Fund, Assigned Risk Plan, Supplemental Investment Fund, Closed Landfill Investment Fund, Invested Treasurer's Cash, and approximately 50 other accounts.
- On 06-30-2010, assets managed by the board totaled \$52.5 billion.
- The majority of the board's activity relates to investment of retirement funds (86%). 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 Management and Budget.

Est. FY 2010-11 Expenditures by Fund*



*Expenditures by fund show agency operations only.
Source: Consolidated Fund Statement.

Strategies

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.

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:

- recommend (with assistance from the IAC) strategic planning alternatives to the board and council and executes board decisions;
- provide internal management for the Permanent School Fund, Environmental Trust Fund, and state cash accounts;
- monitor the performance of all external managers retained by the board; and
- review 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 combined retirement funds, supplemental investment fund, and assigned risk plan are externally management.

- **The combined retirement funds** invest the contributions of public employees and employers. The combined funds invest the assets of approximately 525,000 active and retired employees who are members in ten retirement plans of the statewide retirement funds. The goal is to invest contributions to provide sufficient funds to finance promised benefits.
- **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. 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 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 Trends Section

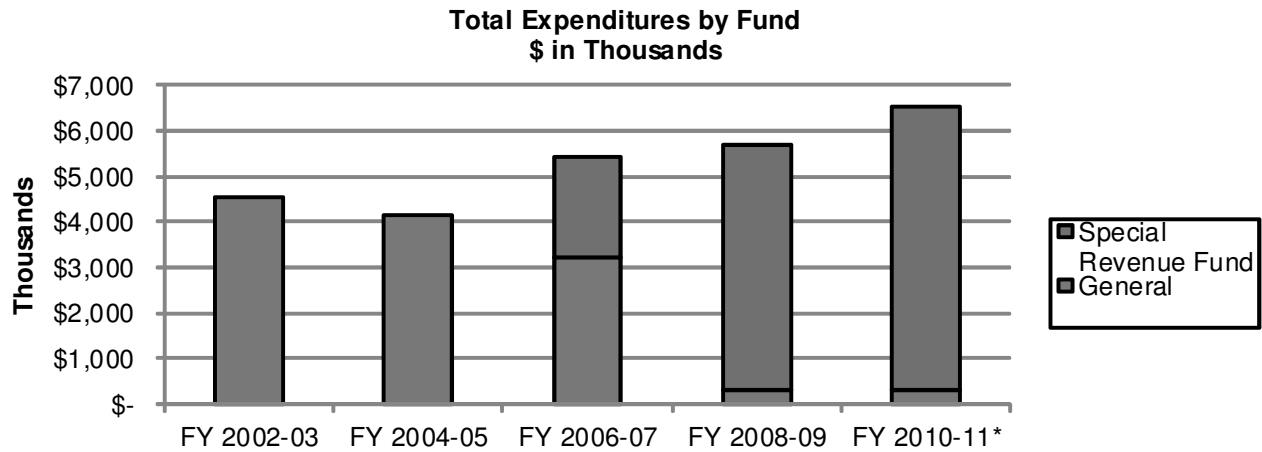
Most of SBI's appropriated budget is funded by fees assessed against the assets of the funds that SBI invests. Approximately five percent of the budget is received as a general fund appropriation associated with the investment of the general fund's portion of invested treasure's cash.

Performance Indicators

Statutes establish investment goals for the combined 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 6/30/10			
	<u>Millions</u>	<u>1 Year</u>	<u>3 Years</u>	<u>5 Years</u>
		(%)	(%)	(%)
Combined Funds:	\$40,466	15.2	-3.8	3.4
Benchmark		13.5	-3.8	3.3
Supplemental Fund:	\$1,027			
Income Share	\$216	13.8	-2.5	2.6
Benchmark		13.1	-3.3	1.8
Growth Share	\$99	15.6	-10.0	-1.2
Benchmark		15.7	-9.5	-0.5
Stock index	\$195	16.2	-9.2	-0.3
Benchmark		15.7	-9.5	-0.5
International	\$104	11.7	-10.3	3.9
Benchmark		10.4	-10.6	3.4
Bond market	\$128	14.5	7.0	5.4
Benchmark		9.5	7.5	5.5
Fixed Interest	\$121	4.4	4.6	4.6
Benchmark		1.9	2.5	3.5
Money Market	\$163	0.2	2.0	3.0
3 month T bills		0.1	1.3	2.6
Volunteer Firefighter	\$1	N/A	N/A	N/A
Benchmark		N/A	N/A	N/A
Assigned Risk Plan	\$306	12.4	2.7	3.8
Benchmark		7.8	3.8	4.3
State Cash Accounts				
Treasurer's Pool	\$5,358	1.2	2.9	3.7
Trust Pool	\$135	0.6	1.8	3.0
90 day T-bill		0.1	1.3	2.6
Permanent School	\$674	12.3	-0.6	3.2
Benchmark		12.1	-1.3	2.5
Closed Landfill	\$1	14.2	-9.7	-0.7
Benchmark		14.4	-9.8	-0.8
Environmental				
Trust Fund	\$461	13.2	-3.9	1.8
Benchmark		13.1	-4.7	1.3



* Expenditures by fund show agency operations only. FY 2010-11 is estimated, not actual. Source data for the previous chart is the Minnesota Accounting and Procurement System (MAPS) as of 09/21/10.

Contact

State Board of Investment
60 Empire Drive
Suite 355
Saint Paul, Minnesota 55103-3555

<http://www.minnsbi.state.mn.us>
Howard Bicker, Executive Director
Phone (651) 296-3328 Fax (651) 296-9572

Dollars in Thousands

	Current		Forecast Base		Biennium 2012-13
	FY2010	FY2011	FY2012	FY2013	
<u>Direct Appropriations by Fund</u>					
General					
Current Appropriation	149	146	146	146	292
Forecast Base	149	146	146	146	292
Change		0	0	0	0
% Biennial Change from 2010-11					-1%
<u>Expenditures by Fund</u>					
Direct Appropriations					
General	149	146	146	146	292
Miscellaneous Special Revenue	3,110	3,127	3,127	3,127	6,254
Open Appropriations					
Other Post Employment Benefit	1,656	500	500	500	1,000
Invest Ext Money Managers #2	836	1,000	1,000	1,000	2,000
Total	5,751	4,773	4,773	4,773	9,546
<u>Expenditures by Category</u>					
Total Compensation	2,895	2,915	2,915	2,915	5,830
Other Operating Expenses	1,200	1,358	1,358	1,358	2,716
Other Financial Transactions	1,656	500	500	500	1,000
Total	5,751	4,773	4,773	4,773	9,546
<u>Expenditures by Program</u>					
Investment Of Funds	3,259	3,273	3,273	3,273	6,546
Refunds/Retire Funds	2,492	1,500	1,500	1,500	3,000
Total	5,751	4,773	4,773	4,773	9,546
Full-Time Equivalent (FTE)	21.9	21.9	21.9	21.9	

INVESTMENT BOARD

Agency Revenue Summary

Dollars in Thousands

	Actual FY2010	Budgeted FY2011	Current Law		Biennium 2012-13
			FY2012	FY2013	
<u>Non Dedicated Revenue:</u>					
Other Revenues:					
Invest Ext Money Managers #2	834	1,000	1,000	1,000	2,000
Total Non-Dedicated Receipts	834	1,000	1,000	1,000	2,000
<u>Dedicated Receipts:</u>					
Other Revenues:					
Miscellaneous Special Revenue	3,110	3,127	3,127	3,127	6,254
Other Post Employment Benefit	1,656	500	500	500	1,000
Total Dedicated Receipts	4,766	3,627	3,627	3,627	7,254
Agency Total Revenue	5,600	4,627	4,627	4,627	9,254