

# Minnesota State Board of Investment

## Supplemental Investment Fund



Prospectus • July 1, 2015

## Participating Plans

### Reporting Agency

#### Minnesota State Retirement System (MSRS)

60 Empire Drive, Suite 300  
St. Paul, MN 55103-3000  
(651) 296-2761  
1-800-657-5757

### Participating Plans

- Unclassified Employees Retirement Plan
- Health Care Savings Plan
- Deferred Compensation 457(b) Plan
- Hennepin County Supplemental Retirement Plan

#### Public Employees Retirement Association (PERA)

60 Empire Drive, Suite 200  
St. Paul, MN 55103-2088  
(651) 296-7460

- Public Employees Defined Contribution Plan
- Voluntary Statewide Volunteer Firefighter Plan

#### Minnesota State Board of Investment (SBI)

60 Empire Drive, Suite 355  
St. Paul, MN 55103  
(651) 296-3328

- Local Volunteer Firefighter Relief Associations Not Participating in the Voluntary Statewide Volunteer Firefighter Plan

## Risk Spectrum

Fund Name <sup>1</sup>	Assets	Management Approach <sup>2</sup>
<b>Higher Risk</b>		
<b>Broad International Stock Fund</b> (Previously, International Share Acct.)	non U.S. stocks	-at least one-third active management -no more than one third semi-passive management -at least one quarter passive management
<b>U.S. Stock Actively Managed Fund</b> (Previously, Growth Share Acct.)	U.S. stocks	active management
<b>U.S. Stock Index Fund</b> (Previously, Common Stock Index Acct.)	U.S. stocks	passive management
<b>Balanced Fund</b> (Previously, Income Share Acct.)	U.S. stocks U.S. bonds & cash	passive management (U.S. Stock Index Fund) active management (Bond and Money Market Fund)
<b>Bond Fund</b> (Previously, Bond Market Acct.)	bonds	active management
<b>Stable Value Fund</b> (Previously, Fixed Interest Acct.)	intermediate bond fund with stable value instruments	active management
<b>Money Market Fund</b> (Previously, Money Market Acct.)	short-term securities with 30 to 60 day average maturity	Commingled Investment Trust (CIT)
<b>Lower Risk</b>		

**Over the long run, higher-risk assets are expected to provide higher investment returns than lower-risk assets. However, there is no guarantee that any investment will not suffer a loss of principal.**

<sup>1</sup> Effective July 1, 2015, the SIF fund names changed to reflect a more descriptive title of the investment. The change is in name only and does not affect the investment guidelines or operations of the fund.

<sup>2</sup> The list of investment firms that manage these assets are provided on page 3 of this prospectus.

# Chief Investment Officer's Letter

---

July 1, 2015

I am pleased to present to you the Minnesota Supplemental Investment Fund (SIF) Prospectus for fiscal year 2015. This prospectus provides you with general information including performance, fees, and general descriptions for each of the SIF investment options managed by the State Board of Investment (SBI).

During the 2015 fiscal year there were two notable changes that impacted the SIFs. First, the names of the funds under the SIF program were changed to reflect more descriptive titles of the underlying investment options, effective July 1, 2015. The name changes do not affect the investment guidelines or operations of the funds. Second, as of July 1, 2014, the investment management of the bond segment of the Balanced Fund was transferred from internal managers to the external bond managers retained by the SBI to manage the Bond Fund.

Performance ending June 30, 2015, for each of the SIF investment options on a one and five year basis either tracked or outperformed its respective benchmark. During fiscal year 2015, U.S. equity and bond markets exhibited positive performance while international equity market returns were negative. The U.S. equity markets returned 7.3% as measured by the Russell 3000 Index. Within the Russell 3000, growth companies led value companies. International equity markets returned -5.3% for the year in U.S. dollar terms, as measured by the Morgan Stanley Capital International All Country World Index excluding the United States net of taxes on dividends (MSCI ACWI ex USA Index net), which represents the developed and emerging international markets outside the U.S. The returns in the emerging markets were negative but slightly better than in the developed markets. The U.S. bond market, as measured by the Barclays Capital U.S. Aggregate Bond Index, returned 1.9% for the fiscal year. Within the bond market, U.S. Treasuries and agency mortgage-backed securities were the best performing sectors followed by commercial mortgage-backed securities and asset-backed securities.

**It is important to note that, sector returns vary on a year over year basis. In general, economic and market conditions have a dominant influence on the returns available to any investor. As an investor in the Minnesota Supplemental Investment Fund, or any other investment program, you should be prepared for periods in which the returns on financial investments may be low, or even negative. You should be aware that this possibility is much greater for accounts that emphasize relatively risky, higher return assets such as common stocks, than it is for more conservative investments such as money market-type accounts.**

With these considerations in mind, the State Board of Investment is confident that the Supplemental Investment Fund will provide competitive long term returns. I encourage you to carefully review each of the accounts available to you and to choose those options that meet your own investment needs and objectives.

On behalf of the Board Members, members of the Investment Advisory Council and the SBI staff, I would like to express our gratitude to you for your continued support and participation in the investment funds presented in this prospectus. The Minnesota State Board of Investment seeks to enhance the management and performance of the assets under its control. If you have any questions regarding the Board's investment policies and procedures, please contact the Minnesota State Board of Investment at 60 Empire Drive, Suite 355, St. Paul, MN 55103-3555, (651) 296-3328, or via e-mail at [minn.sbi@state.mn.us](mailto:minn.sbi@state.mn.us). We welcome your inquiries.

Respectfully submitted,



Mansco Perry III  
Executive Director and Chief Investment Officer  
State Board of Investment

# Supplemental Investment Fund Summary

## What Is The Minnesota Supplemental Investment Fund?

The Minnesota Supplemental Investment Fund is a multi-purpose investment program that offers a range of investment options to state and other public employee groups. The participating groups use the Fund for a variety of retirement-related purposes. Six plans and numerous local relief associations currently participate in the Fund. As of June 30, 2015, the market value of the Fund was approximately \$3.2 billion.

## What Investment Options Are Offered?

There are eight investment options. Below are the fund names as of July 1, 2015, along with the previous fund investment option names.

<u>Current SIF Name</u>	<u>Previous SIF Name</u>
Broad International Stock Fund	International Share Acct.
U.S. Stock Actively Managed Fund	Growth Share Acct.
U.S. Stock Index Fund	Common Stock Index Acct.
Balanced Fund	Income Share Acct.
Bond Fund	Bond Market Acct.
Stable Value Fund	Fixed Interest Acct.
Money Market Fund	Money Market Acct.

The eighth investment option is the Volunteer Firefighter Account which is only available to participants in the **Voluntary Statewide Volunteer Firefighter Plan**. This option is described in a separate Prospectus.

Each investment option has different investment objectives and uses different types of assets and investment management styles. These funds are described in greater detail on the following pages.

## Are All These Options Available To Me?

The choices you have depend on the retirement plan in which you participate.

The following three plans may choose from any of the seven investment options listed above:

- **Unclassified Employees Retirement Plan**
- **Health Care Savings Plan**
- **Public Employees Defined Contribution Plan**

The following three plans may choose from the investment options listed above except for the Stable Value Fund:

- **Hennepin County Supplemental Retirement Plan**
- **Local Volunteer Firefighter Relief Associations** (that are not in the Voluntarily Voluntary Statewide Volunteer Firefighter)

Two of the SIF investment options, the Stable Value Fund and the Money Market Fund, are also available in the **MN Deferred Compensation (MNDCP) 457(b) Plan**.

Information about available investment options in the MNDCP can be obtained by contacting the Minnesota State Retirement System or go to [www.msrs.state.mn.us](http://www.msrs.state.mn.us).

## Which Options Are Best For Me?

Only you can answer that question. The variety of options has been designed to give you flexibility to use one or more accounts in designing a portfolio that reflects your personal investment needs and objectives. The material on the following pages should assist you in making your decision.

Each investment option has separate advantages and risks, and the performance of each will differ according to business and economic conditions.

It is not the intent of the State Board of Investment to advise participants regarding their choice among funds. This information is provided solely as an aid to participants in selecting the most appropriate types of investments for their particular circumstances.

## May I Change The Way I Invest My Contributions?

Yes, but the guidelines vary among plans. You should contact your retirement organization for more specific information. *Please note that special restrictions apply to transfers out of the Stable Value Fund (see page 11).*

## What Securities Are Owned By The Fund?

Due to the large number of stocks, bonds and cash equivalents owned by the Fund, the holdings are not listed in this Prospectus. If you would like a complete list of all securities in the Fund, please contact the office of the State Board of Investment. A list will be sent to you, at your request, or you can access the list on our website at [www.sbi.state.mn.us](http://www.sbi.state.mn.us), in the "Publications" section.

## How often are the SIFs Priced?

Each Fund in the Minnesota Supplemental Investment Fund has share values that are determined on a daily basis. You may transfer assets among Funds on any business day during the month. Historical share values are available from the Minnesota State Board of Investment upon request and can be accessed on the website at [www.sbi.state.mn.us](http://www.sbi.state.mn.us) in the "Publications" section.

## What If I Have An Account Or Administrative Fee Inquiry?

Any questions about your account should be directed to the reporting agency shown on the inside cover. Each reporting agency handles all changes in the way you invest your contributions and maintains records on the status of your account. Your reporting agency has the authority to deduct a fee for administrative expenses after Fund share values have been calculated. Participants in all plans should contact their reporting agency for more information regarding plan administrative expenses.

# Management of the Supplemental Investment Fund

---

## Investment Management

The State Board of Investment is responsible for the management of the Supplemental Investment Fund and determines the investments to be made available to plan participants. The SBI offers a variety of options to help participants reach their financial goals. The investment managers hired by the SBI are listed under the respective investment option.

---

### Broad International Stock Fund

AQR Capital Management, LLC, Greenwich, CT  
Acadian Asset Management LLC, Boston, MA  
Capital International, Inc., Los Angeles, CA  
Columbia Threadneedle Investments, Minneapolis, MN  
J.P. Morgan Investment Management Inc., London, England  
Marathon Asset Management LLP, London, England  
McKinley Capital Management, LLC, Anchorage, AK  
Morgan Stanley Investment Management Inc., New York, NY  
Pyramis Global Advisors, LLC, Boston, MA  
State Street Global Advisors, Boston, MA

---

### U.S. Stock Actively Managed Fund

BlackRock Institutional Trust Company, N.A., San Francisco, CA  
Barrow, Hanley, Mewhinney & Strauss, LLC, Dallas, TX  
Earnest Partners, LLC, Atlanta, GA  
Goldman Sachs Asset Management, L.P., New York, NY  
Hotchkis and Wiley Capital Management, LLC, Los Angeles, CA  
INTECH Investment Management, LLC, West Palm Beach, FL  
J.P. Morgan Investment Management Inc., New York, NY  
Jacobs Levy Equity Management, Inc., Florham Park, NJ  
LSV Asset Management, Chicago, IL  
Martingale Asset Management, L.P., Boston, MA  
McKinley Capital Management, LLC, Anchorage, AK  
Mellon Capital Management Corporation, Boston, MA  
Next Century Growth Investors, LLC, Minneapolis, MN  
Peregrine Capital Management, Minneapolis, MN  
Sands Capital Management, LLC, Arlington, VA  
Systematic Financial Management, L.P., Teaneck, NJ  
Winslow Capital Management, LLC, Minneapolis, MN  
Zevenbergen Capital Investments LLC, Seattle, WA

---

### U.S. Stock Index Fund

BlackRock Institutional Trust Company, N.A., San Francisco, CA

---

### Balanced Fund

BlackRock Institutional Trust Company, N.A., San Francisco, CA (stocks)  
State Street Global Advisors, Boston, MA (cash)  
Bond Fund managers (see below list of investment managers)

---

### Bond Fund

Aberdeen Asset Management Inc., Philadelphia, PA  
BlackRock Financial Management, Inc., New York, NY  
Columbia Threadneedle Investments, Minneapolis, MN  
Dodge & Cox, San Francisco, CA  
Goldman Sachs Asset Management, New York, NY  
Neuberger Berman Fixed Income LLC, Chicago, IL  
Pacific Investment Mgmt. Co. LLC, (PIMCO), Newport Beach, CA  
Western Asset Management Company, Pasadena, CA

---

### Money Market Fund

State Street Global Advisors, Boston, MA

---

### Stable Value Fund

Galliard Capital Management, Inc., Minneapolis, MN

## SBI Executive Board Personnel

Mansco Perry III  
LeaAnn M. Stagg

Executive Director and Chief Investment Officer  
Assistant Executive Director and Chief Operating Officer

### Investment Staff

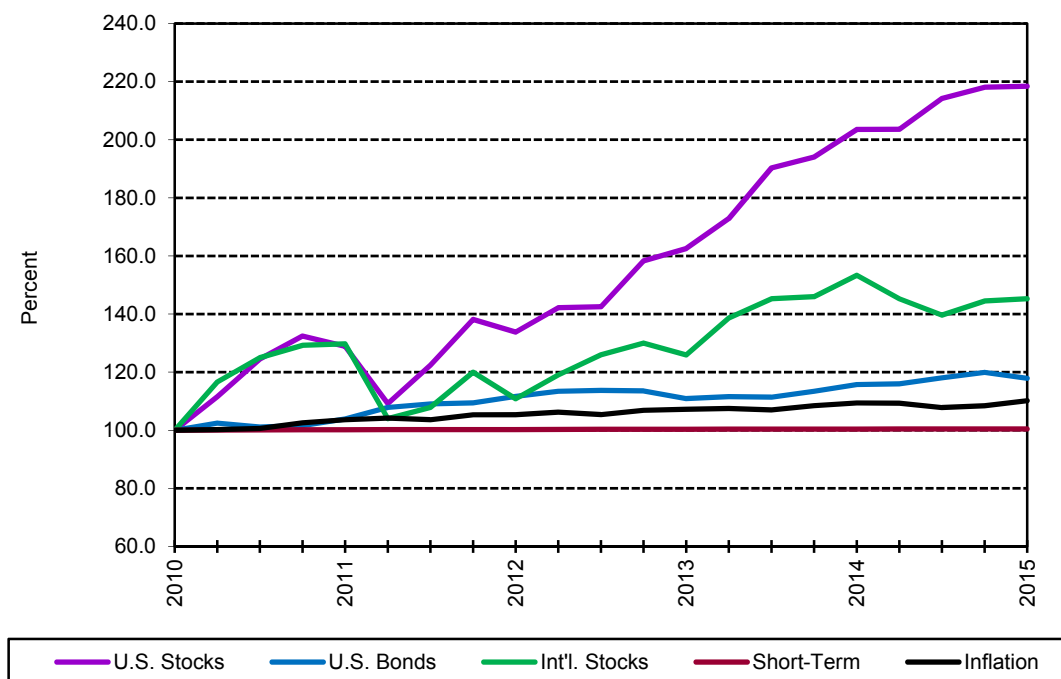
Michael J. Menssen, Director	Public Markets
Patricia Ammann, Investment Officer	DC & Trust Services
Nathan Blumenshine, Investment Analyst	
Cassandra Boll, Investment Officer	Cash Mgmt. Services
Tammy Brusehaver, Investment Officer	Public Markets
Inma Conde Goldman, Investment Officer	Public Markets
Stephanie Gleeson, Investment Officer	Public Markets
Aaron D. Griga, Investment Officer	Public Markets
Ryan O. Hill, Investment Officer	Alternative Investments
Andrew Krech, Investment Officer	Alternative Investments
Steven P. Kuettel, Investment Officer	Cash Mgmt. Services
Mercy Ndungu, Investment Officer	DC & Trust Services
Jonathan Stacy, Investment Officer	Alternative Investments
Robert Weiler, Investment Officer	Public Markets

### Administrative Staff

Paul T. Anderson	Chief Financial Officer
Charlene Olson	Executive Assistant
Shirley Baribeau	Project Team Leader
Julie Grill	Accounting Officer, Intermediate
Kailee Kemp	Office Administrative Specialist
Kathy Leisz	Information Technology Specialist 2
Melissa Mader	Office Admin. Specialist, Intermediate
Wendy Murphy	Accounting Officer, Senior
William J. Nicol	Accounting Director
Iryna Shafir	Accounting Officer, Senior

# The Year in Review

## Cumulative Growth of Capital Markets Last Five Fiscal Years (2011 – 2015)



	2011	Fiscal Year Ending June 30			2015	5 Yr Annualized <sup>1</sup> 2011 - 2015
<b>U.S. Stocks</b> Russell 3000	32.4%	3.8%	21.5%	25.2%	7.3%	17.5%
<b>U.S. Bonds</b> Barclays Capital Aggregate Bond Index	3.9%	7.5%	-0.7%	4.4%	1.9%	3.3%
<b>International Stocks</b> MSCI All Country World Index ex USA (MSCI ACWI ex USA Index Net)	29.7%	-14.6%	13.7%	21.7%	-5.3%	7.8%
<b>Short-Term Investments</b> 90 Day U.S. Treasury Bills	0.1%	0.0% <sup>2</sup>	0.1%	0.1%	0.0%	0.1%
<b>Inflation Rate</b> Change in Consumer Price Index (CPI)	3.6%	1.7%	1.8%	2.1%	0.1%	1.8%

<sup>1</sup>Annualized return is the annual compounded rate of return.

<sup>2</sup>Actual return is 0.04%

# The Year in Review

## How Have Stocks, Bonds And Other Investments Performed?

The U.S. stock market, as measured by the Russell 3000 index, increased 7.3% for the year ending June 30, 2015. Within the Russell 3000, growth companies led value companies. Health Care was the best performing sector in the Russell 3000 with a 26.6% return, while the Energy sector was the worst performing sector with a -24.6% return.

The U.S. bond market, as measured by the Barclays Capital U.S. Aggregate Bond Index, returned 1.9% for the twelve months ending June 30, 2015. Within the bond market, U.S. Treasuries returned 2.3%, corporate bonds returned 0.8%, agency mortgage-backed securities returned 2.3%, commercial mortgage-backed securities returned 1.9%, asset-backed securities returned 1.6% and agency bonds returned 1.5%.

International equity markets returned -5.3% for the year in U.S. dollar terms, as measured by the Morgan Stanley Capital International All Country World Index excluding the United States net of taxes on dividends (MSCI ACWI ex USA Index net), which represents the developed and emerging international markets outside the U.S. The MSCI World ex USA Index (net), which represents developed international markets had the same return with a -5.3% for the year. Japan, the United Kingdom, and France, which together comprise over 48% of the index returned of 8.3%, -8.2% and -9.6%, respectively. The emerging markets, as measured by the MSCI Emerging Markets Index (net), returned -5.1% for the year in U.S. dollar terms. China, Korea and Taiwan were the largest countries in the index at the end of the fiscal year with a combined weight of 51%. They returned 24.6%, -14.2% and 3.0%, respectively.

## How Did Returns In The Minnesota Supplemental Investment Fund Compare For Fiscal Year 2015?

The **Broad International Stock Fund** provided a return of -3.8% for the fiscal year, outperforming the international composite index by 1.5%. The composite index, is comprised of approximately 78% developed markets and 22% emerging markets. Overall, the developed markets managers outperformed their index and the emerging markets managers underperformed their index.

Performance Ending 6/30/15	1 Yr
Broad International Stock Fund	-3.8%
MSCI ACWI ex USA Index (net)	-5.3%

The **U.S. Stock Actively Managed Fund** returned 7.9% during the fiscal year, outperforming the Russell 3000 index by 0.6%. Overall, the semi-passive managers matched their index, the large cap growth, large cap value and small cap value active managers outperformed their benchmarks, and the small cap growth aggregate underperformed its benchmark.

Performance Ending 6/30/15	1 Yr
U.S. Stock Actively Managed Fund	7.9%
Russell 3000	7.3%

The **U.S. Stock Index Fund** was up 7.3% during the year, which matched its benchmark, the Russell 3000.

Performance Ending 6/30/15	1 Yr
U.S. Stock Index Fund	7.3%
Russell 3000	7.3%

The mix of stocks, bonds and cash in the **Balanced Fund** provided a return of 5.1%, which matched the composite index. The composite index consists of 60% stocks, 35% bonds and 5% cash.

Performance Ending 6/30/15	1 Yr
Balanced Fund	5.1%
Balanced Fund Custom Index	5.1%

The **Bond Fund** posted a return of 2.1% for the year ending June 30, 2015, outperformed its benchmark, the Barclays Capital U.S. Aggregate Bond Index, by 0.2%. An overweight position in corporate bonds and a short duration position in addition to higher yielding securities relative to the benchmark contributed to the outperformance.

Performance Ending 6/30/15	1 Yr
Bond Fund	2.1%
Barclays Capital U.S. Aggregate	1.9%

The **Stable Value Fund** provided a return of 1.9% during the fiscal year, which outperformed its benchmark by 0.5%.

Performance Ending 6/30/15	1 Yr
Stable Value Fund	1.9%
3 Yr Constant Maturity Treasury Bill + 0.45%	1.4%

The **Money Market Fund** earned 0.1% for the year. This gain is similar to the returns for money market accounts offered by mutual funds and banks.

Performance Ending 6/30/15	1 Yr
Money Market Fund	0.1%
3 Month U.S. T-Bill	0.0%

## Special Note Regarding Your Individual Account Performance.

Your reporting agency accumulates your contributions and transfers these contributions to various accounts in the Fund. The actual performance of your investments in the Supplemental Investment Fund may be somewhat higher or lower than these figures due to the timing of those transfers. Note that performance calculations may also differ due to rounding.

# Broad International Stock Fund

The Broad International Stock Fund has a market value of approximately \$191 million. The objective of this Fund is to earn a high rate of return by investing in the **stock of companies outside the U.S.** The Fund's benchmark is the Morgan Stanley Capital International All Country World Index excluding the United States net of taxes on dividends (MSCI ACWI ex USA Index net).

Typically, a majority of the Fund is invested in the largest international stock markets (Japan, United Kingdom, France, Canada, Switzerland and Germany). Most of the remainder is invested in other well established markets in Europe and the Pacific region. Approximately twenty-two percent of the Fund is invested in developing countries, or "emerging markets", around the world including those in Asia, Latin America, Eastern Europe, the Middle East and Africa.

## Why Would I Choose This Fund?

This option will be attractive if you believe that, over time, international stocks will provide higher returns than other types of investments. Over 44% of the Fund is actively managed by several international stock managers that use a variety of investment styles and approaches. These managers buy and sell stocks in an attempt to maximize market value. The remainder of the Fund is passively managed to closely approximate the returns of the international markets and semi-passively managed to add incremental value over the index return by investing in broadly diversified portfolios of stocks in the developed and emerging markets.

The returns from the Fund will rise and fall with movements in the international stock markets. As with all options that use common stocks, you must be willing to accept returns that vary widely in the short term. While this investment strategy has the potential to produce returns that exceed those of a combined index comprised of both the developed markets and emerging markets, there also may be periods when the returns fall below the index return.

## Who Manages The Fund?

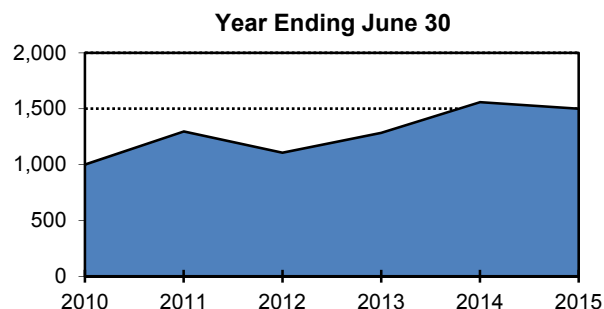
The Broad International Stock Fund uses a group of international stock investment managers retained by the State Board of Investment. (See page 3 for a listing of these managers).

## How Is The Value Of This Fund Determined?

You own shares in the Fund, much like you would in a mutual fund. The share value is determined daily and is based on the market value of the entire Fund. Any dividend income is reinvested in the Fund at the time it is earned. Your investment returns are measured by changes in the share value and reflect all realized and unrealized gains (or losses) generated by the Fund.

## What Is The Past Investment Performance Of This Fund?

The graph shows how \$1,000 invested in the Fund on June 30, 2010, has grown.



The table displays the Fund's actual share values and returns for the last five years. The annualized (annual compounded) return during this five year period was 8.4%.

**Year Ending June 30**

	Share Value	Rate of Return
2011	\$6.95	29.6%
2012	5.93	-14.7
2013	6.88	16.1
2014	8.35	21.4
2015	8.03	-3.8

## Fees and Expenses

The rate of return for this Fund is calculated after operating expenses are deducted. Operating expenses include both investment management and administrative fees. For the 12 month period ending March 31, 2015, the annual fund operating expense was 0.29% or approximately \$2.90 per \$1,000 invested.

## Comparison to Other Mutual Fund Fees

The example below is intended to help you compare the cost of investing in the Broad International Stock Fund to the cost of investing in other international stock mutual Funds.

Example assumes you:

- Invest \$1,000 at the beginning of the period;
- Earn a 5% return each year;
- Are charged an annual operating expense of 0.29% for investing in the Fund.

Your actual costs may be higher or lower depending on your reporting agency, however, based only on the above assumptions your costs would be:

1 year	3 years	5 years	10 years
\$3	\$9	\$16	\$34



# U.S. Stock Actively Managed Fund

The U.S. Stock Actively Managed Fund has approximately \$219 million in assets. The primary objective is to generate high returns from capital appreciation (increases in the market value of the assets it owns) as measured by the Russell 3000 Index.

The Fund is composed **almost exclusively of stocks of U.S. companies**. The small amount of cash in the Fund represents the new contributions prior to investment in the market as well as any cash held by the individual managers within the Fund.

The Fund is managed by a group of investment managers retained by the State Board of Investment to manage other retirement assets. As a result, the Fund encompasses a range of investment styles and approaches. One set of managers actively manages portfolios in specific segments of the U.S. stock market. Another set of managers attempts to add incremental value by investing in a broadly diversified portfolio of stocks across a wide range of industries. This structure assures that the Fund covers all areas of the broad stock market.

The U.S. Stock Actively Managed Fund differs from the U.S. Stock Index Fund because it is actively managed to buy and sell stocks that, in total, may do better than the broad stock market.

## Why Would I Choose This Fund?

The U.S. Stock Actively Managed Fund is an actively managed aggressive investment program focused on U.S. stocks. You would choose this Fund if you believe that, over time, the stock market will provide higher returns than other types of investments and the managers of the Fund will buy and sell stocks that, in total, do better than the broad stock market.

The returns from the Fund will rise and fall with movement in the stock market. As with all options that use common stocks, you must be willing to accept returns that vary widely in the short term. The returns from the Fund are likely to fluctuate more widely than returns from the U.S. Stock Index Fund, Balanced Fund or Bond Fund. The potential for higher gains over the long run may compensate for higher short term volatility of returns.

## Who Manages The Fund?

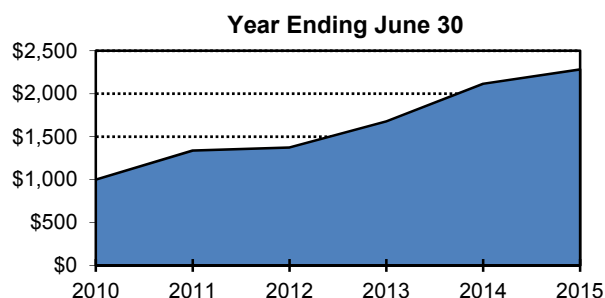
Assets in the U.S. Stock Actively Managed Fund are managed by a group of investment managers retained by the State Board of Investment (see page 3 for a listing of these managers).

## How Is The Value Of This Fund Determined?

You own shares in the Fund, much like you would in a mutual fund. The share value is determined daily and is based on the market value of the entire Fund. Any dividend income is reinvested in the Fund at the time it is earned. Your investment returns are measured by changes in the share value and reflect all realized and unrealized gains (or losses) generated by the Fund.

## What Is The Past Investment Performance Of This Fund?

The graph shows how \$1,000 invested in the Fund on June 30, 2010 has grown.



The table displays the Fund's actual share values and returns for the last five years. The annualized (annual compounded) return during this five year period was 18.0%.

	Share Value	Rate of Return
2011	\$29.88	33.8%
2012	30.69	2.7
2013	37.47	22.1
2014	47.27	26.1
2015	51.02	7.9

## Fees and Expenses

The rate of return for this Fund is calculated after operating expenses are deducted. Operating expenses include both investment management and administrative fees. For the 12 month period ending March 31, 2015, the annual fund operating expense was 0.22% or approximately \$2.20 per \$1,000 invested.

## Comparison to Other Mutual Fund Fees

The example below is intended to help you compare the cost of investing in the U.S. Stock Actively Managed Fund to the cost of investing in other actively managed U.S. stock mutual funds.

Example assumes you:

- Invest \$1,000 at the beginning of the period;
- Earn a 5% return each year;
- Are charged an annual operating expense of 0.22% for investing in the Fund.

Your actual costs may be higher or lower depending on your reporting agency, however, based only on the above assumptions your costs would be:

1 year	3 years	5 years	10 years
\$2	\$7	\$12	\$28

# U.S. Stock Index Fund

The U.S. Stock Index Fund has a market value of approximately \$473 million. The objective of the Fund is to generate high returns that closely approximate the returns of the U.S. stock market as a whole. The Fund is **invested primarily in U.S. stocks**.

The Fund invests in over 2,000 domestic stocks and is designed to replicate the returns produced by the Russell 3000. The Russell 3000 is a stock market index like the Dow Jones Industrial Average. In effect, the diversity of stock holdings in the U.S. Stock Index Fund represents the broad domestic stock market.

## Why Would I Choose This Fund?

This option will be attractive to you if you believe that, over time, stocks will provide higher returns than other investments. You should note, however, that the U.S. Stock Index Fund is passively managed. This means that no attempt is made to identify specific stocks that will perform better than others. Instead, the Fund is designed to perform in line with the broad stock market.

In actively managed Funds such as the U.S. Stock Actively Managed Fund (see page 7), stocks are bought and sold in an attempt to maximize market value. While it has the potential to produce returns that exceed those of the broad stock market, an active investment strategy may also experience periods when its returns fall below the market. By contrast, the passive approach used in the U.S. Stock Index Fund should provide returns that consistently and inexpensively replicate the market.

The returns from the Fund will rise and fall directly with movement in the stock market. As with all options that use common stocks, you must be willing to accept returns that vary widely in the short term. In the long term, the Fund should average higher returns than you could obtain by placing your contributions in a fixed income or money market type Fund.

## Who Manages The Fund?

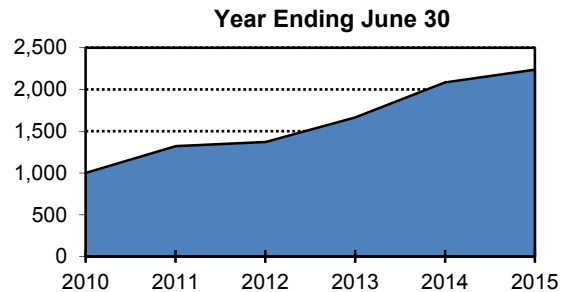
The U.S. Stock Index Fund is managed by BlackRock Institutional Trust Company, N.A.

## How Is The Value Of This Fund Determined?

You own shares in the Fund, much like you would in a mutual fund. The share value is determined daily and is based on the market value of the entire Fund. Any dividend income is reinvested in the Fund at the time it is earned. Your investment returns are measured by changes in the share value and reflect all realized and unrealized gains (or losses) generated by the Fund.

## What Is The Past Investment Performance Of This Fund?

The graph shows how \$1,000 invested in the Fund on June 30, 2010 has grown.



The table displays the Fund's actual share values and returns for the last five years. The annualized (annual compounded) return during this five year period was 17.5%.

	Share Value	Rate of Return
2011	\$23.61	32.0%
2012	24.51	3.8
2013	29.77	21.5
2014	37.28	25.2
2015	40.00	7.3

## Fees and Expenses

The rate of return for this Fund is calculated after operating expenses are deducted. Operating expenses include both investment management and administrative fees. For the 12 month period ending March 31, 2015, the annual fund operating expense was 0.02% or approximately \$0.20 per \$1,000 invested.

## Comparison to Other Mutual Fund Fees

The example below is intended to help you compare the cost of investing in the U.S. Stock Index Fund to the cost of investing in other passively managed U.S. stock mutual funds.

Example assumes you:

- Invest \$1,000 at the beginning of the period;
- Earn a 5% return each year;
- Are charged an annual operating expense of 0.02% for investing in the Fund.

Your actual costs may be higher or lower depending on your reporting agency, however, based only on the above assumptions your costs would be:

1 year	3 years	5 years	10 years
\$0.20	\$0.70	\$1	\$3

## Balanced Fund

The Balanced Fund has a market value of approximately \$369 million in assets. The objective of this Fund is to earn a return from both capital appreciation (increases in market value) and current yield (dividends from stock and interest on bonds). To attain that goal, the Fund uses a **mix of stocks and bonds**. While holdings may vary on a day-to-day basis, the following is the targeted asset mix:

- 60% common stocks
- 35% bonds
- 5% cash

The stock segment of the Fund is indexed to the Russell 3000, a market index that reflects the broad U.S. stock market. The bond segment is actively managed and includes high-quality corporate bonds and mortgage securities as well as U.S. Government issues.

### Why Would I Choose This Fund?

You would choose the Balanced Fund if you want a balanced or diversified investment program in one Fund. You must be willing to assume some risk with your investment, since returns will vary with changes in market conditions. Over the long run, the Fund is expected to average higher returns than you could obtain by placing your contributions in a fixed income or money market-type Fund.

Market value growth and dividend income from the stock holdings can give you higher returns than are usually available from bonds and short-term (cash) investments. Conversely, while returns on bonds are often lower than returns on stocks, the bond holdings in the Fund add stability and offer you some protection against wide swings in the general stock market.

### Who Manages The Fund?

The Balanced Fund uses external investment managers to invest all of the assets in this Fund. The bond assets are invested in the the Bond Fund, which includes a group of bond managers retained by the State Board of Investment (see page 3 for a listing of these managers).

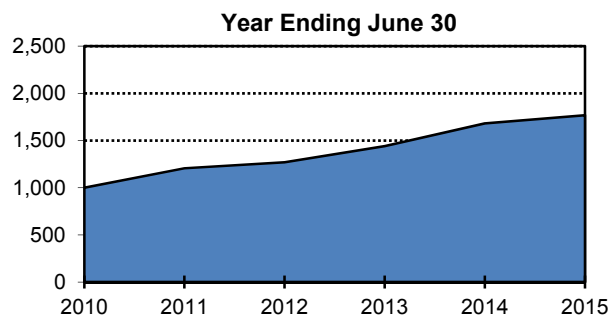
The stock holdings are invested through the same stock index fund used for the U.S. Stock Index Fund (see page 8 for a description of this passively managed index fund). The cash portion of the Fund is managed by State Street Global Advisors.

### How Is The Value Of This Fund Determined?

You own shares in the Fund, much like you would in a mutual fund. The share value is determined daily and is based on the market value of the entire Fund. Any interest and dividend income is reinvested in the Fund at the time it is earned. Your investment returns are measured by changes in the share value and reflect all realized and unrealized gains (or losses) generated by the Fund.

### What Is The Past Investment Performance of This Fund?

The graph shows how \$1,000 invested in the Income Share Fund on June 30, 2010 has grown.



The table displays the Fund's actual share values and returns for the last five years. The annualized (annual compounded) return during this five year period was 12.1%.

Year Ending June 30		
	Share Value	Rate of Return
2011	\$45.01	20.6%
2012	47.40	5.3
2013	53.77	13.5
2014	62.73	16.7
2015	65.95	5.1

### Fees and Expenses

The rate of return for this Fund is calculated after operating expenses are deducted. Operating expenses include both investment management and administrative fees. For the 12 month period ending March 31, 2015, the annual fund operating expense was 0.04% or approximately \$0.40 per \$1,000 invested.

### Comparison to Other Mutual Fund Fees

The example below is intended to help you compare the cost of investing in the Balanced Fund to the cost of investing in other balanced mutual funds.

Example assumes you:

- Invest \$1,000 at the beginning of the period;
- Earn a 5% return each year;
- Are charged an annual operating expense of 0.04% for investing in the Fund.

Your actual costs may be higher or lower depending on your reporting agency, however, based only on the above assumptions your costs would be:

1 year	3 years	5 years	10 years
\$0.40	\$1	\$2	\$5

# Bond Fund

The Bond Fund has a market value of over \$126 million. The objective of this Fund is to earn returns by investing in **fixed income securities** (bonds).

Interest income and capital appreciation (increases in the market value of the assets) are the sources of returns for the Fund. The Fund invests the large majority of its assets in high quality government and corporate bonds and mortgage securities that have intermediate to long-term maturities, usually 3 to 20 years. The managers of the Fund also may attempt to earn returns by anticipating changes in interest rates and adjusting bond holdings accordingly. While the managers invest primarily in the U.S. bond market, some are authorized to invest a small portion of their portfolios in non-U.S. bonds. Similarly, while the large majority of holdings in the Fund will be top rated investment grade issues, some managers are authorized to hold a small portion in higher yielding, or below investment grade, debt issues. The aggregate holdings in non-U.S. and below investment grade debt are limited to no more than ten percent of the Fund at any time.

The Fund is invested entirely in fixed income securities. No stocks are held in the Fund. At times, cash reserves may be raised if the investment managers forecast an increase in interest rates.

### Why Would I Choose This Fund?

The Bond Fund is a moderately conservative investment option. It will be attractive if you want an investment option that avoids common stocks, but you also want the potential for greater returns than you can obtain from money market type Funds.

The returns from the Fund generally will move in the opposite direction of interest rate changes. You must be willing to assume some risk with your investment, because the Fund could register losses in periods when interest rates are rising.

### Who Manages The Fund?

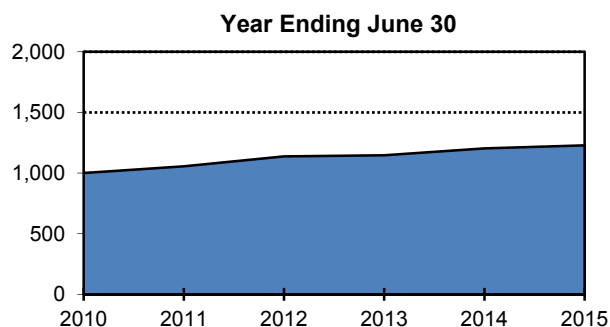
The Bond Fund is invested by a group of bond managers retained by the State Board of Investment (see page 3 for a listing of these managers).

### How Is The Value Of This Fund Determined?

You own shares in the Fund, much like you would in a mutual fund. The share value is determined daily and is based on the market value of the entire Fund. Any interest earnings are reinvested at the time they are received. Your investment returns are measured by changes in the share value and reflect all realized and unrealized gains (or losses) generated by the Fund.

### What Is The Past Investment Performance Of This Fund?

The graph shows how \$1,000 invested in the Fund on June 30, 2010 has grown.



The table displays the Fund's actual share values and returns for the last five years. The annualized (annual compounded) return during this five year period was 4.2%.

	Share Value	Rate of Return
2011	\$15.12	5.5%
2012	16.29	7.8
2013	16.43	0.8
2014	17.25	5.0
2015	17.62	2.1

### Fees and Expenses

The rate of return for this Fund is calculated after operating expenses are deducted. Operating expenses include both investment management and administrative fees. For the 12 month period ending March 31, 2015, the annual fund operating expense was 0.10% or approximately \$1.00 per \$1,000 invested.

### Comparison to Other Mutual Fund Fees

The example below is intended to help you compare the cost of investing in the Bond Fund to the cost of investing in other bond mutual funds.

Example assumes you:

- Invest \$1,000 at the beginning of the period;
- Earn a 5% return each year;
- Are charged an annual operating expense of 0.10% for investing in the Fund.

Your actual costs may be higher or lower depending on your reporting agency, however, based only on the above assumptions your costs would be:

1 year	3 years	5 years	10 years
\$1	\$3	\$6	\$13

# Stable Value Fund

The Stable Value Fund is designed to maintain the value of your original investment and to provide competitive returns using somewhat longer-term investments than typically found in a money market-type Fund. The market value of the Fund is approximately \$1.5 billion.

The Fund is invested in a well-diversified portfolio of high quality fixed income securities with strong credit ratings. The Fund also invests in contracts issued by highly rated insurance companies and banks which are structured to provide principal protection for the Fund's diversified bond portfolios, regardless of daily market changes.

## Why Would I Choose This Fund?

The Stable Value Fund is a conservative investment option. This type of investment option may be attractive to you because the possibility of incurring a loss on your original investment is very low. However, you should be aware that the Fund is unable to offer the potential for more substantial returns that might result from other investments such as common stock. You should also understand that the returns of the Fund may not change as quickly as the credited interest rates associated with a money market-type Fund. This lag will tend to work to your advantage when overall interest rates are falling and will tend to work to your disadvantage when overall rates are rising.

## Who Manages The Fund?

The Fund is managed by Galliard Capital Management, an independently operated subsidiary of Wells Fargo Bank.

## How Is The Value Of This Fund Determined?

You own shares in the Fund, much like you would in a mutual fund. The share value is determined on a daily basis and reflects the blended crediting rate available from all investments in the Fund. Due to the nature of the Fund's investments, returns change only modestly from period to period.

## May I Transfer Money Into This Fund?

Yes. The Fund will accept transfers from other investment options in your plan, provided you follow the guidelines established by your reporting agency.

## May I Transfer Money Out Of This Fund?

Yes, but there are special **withdrawal restrictions** that apply only to the Stable Value Fund. **All or a portion of the amounts deposited in the Fund** may be transferred to the Balanced Fund, U.S. Stock Actively Managed Fund, U.S. Stock Index Fund, Bond Fund or Broad International Stock Fund within the Supplemental Investment Fund. **You may not re-transfer** these amounts to the Money Market Fund for at least three months.

## What are the Risks?

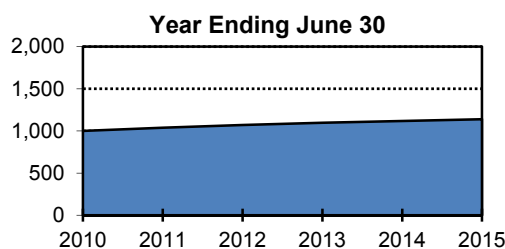
While the Stable Value Fund is a conservative investment option in the Supplemental Investment Fund, it is possible to lose money by investing in this fund.

## Why Are These Restrictions Necessary?

When short-term interest rates rise above the rates available in the Stable Value Fund, transfers from the Stable Value Fund to the Money Market Fund adversely affect the investments in the Stable Value Fund. More flexible withdrawal procedures tend to reduce the interest rates that financial institutions would be willing to offer for investments in this Fund.

## What Is The Past Investment Performance Of This Fund?

The graph shows how \$1,000 invested in the Fund on June 30, 2010 has grown.



The table displays the Fund's actual share values and returns for the last five years. The annualized (annual compounded) return during this five year period was 2.6%.

Year	Rate of Return
2011	3.8%
2012	3.1
2013	2.5
2014	1.9
2015	1.9

## Fees and Expenses

The rate of return for this Fund is calculated after operating expenses are deducted. Operating expenses include both investment management and administrative fees. For the 12 month period ending March 31, 2015, the annual fund operating expense was 0.27% or approximately \$2.70 per \$1,000 invested.

## Comparison to Other Mutual Fund Fees

The example below is intended to help you compare the cost of investing in the Stable Value Fund to the cost of investing in other fixed interest funds.

Example assumes you:

- Invest \$1,000 at the beginning of the period;
- Earn a 5% return each year;
- Are charged an annual operating expense of 0.27% for investing in the Fund.

Your actual costs may be higher or lower depending on your reporting agency, however, based only on the above assumptions your costs would be:

1 year	3 years	5 years	10 years
\$3	\$9	\$15	\$34

# Money Market Fund

The return in the Money Market Fund is based on the interest income produced by the Fund's investments. The objective of the Fund is to provide safety of principal by investing in high-quality, short-term instruments. The value of the Fund is approximately \$327 million.

Unlike the Funds described earlier, the Money Market Fund does not own stocks or long-term bonds. The Fund is invested in short-term, high-quality money market instruments.

## Why Would I Choose This Fund?

The Money Market Fund is a conservative investment option. You would choose this Fund if you want to maintain the value of your original investment while earning competitive short-term interest rates.

The returns from the Fund will vary much less than investments that include stocks or bonds and should closely follow the rise and fall in short-term interest rates.

## Who Manages The Fund?

The Money Market Fund is managed by State Street Global Advisors, the organization that provides short-term investment management for a substantial portion of the Board's cash reserves.

## How Is The Value Of This Fund Determined?

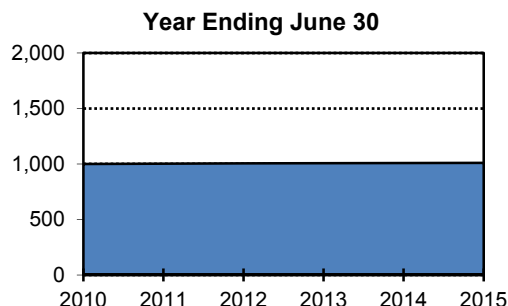
The share value for the Money Market Fund is uniformly priced at \$1.00 per share. There is no assurance that the portfolio will be able to maintain a stable net asset value of \$1.00 per share. Interest earnings are credited on a daily basis by purchasing additional shares on your behalf. The credited interest rate changes only modestly from day to day and reflects the yield available for all investments in the Fund.

## What are the Risks?

While a money market fund's objective generally includes the preservation of capital, it is possible to lose money by investing in the fund.

## What Is The Past Investment Performance Of This Fund?

The graph shows how \$1,000 invested in the Fund on June 30, 2010 has grown.



The table displays the Fund's actual share values and returns for the last five years. The annualized (annual compounded) return during this five year period was 0.2%.

## Year Ending June 30

### Rate of Return

2011	0.3%
2012	0.2
2013	0.2
2014	0.1
2015	0.1

## Fees and Expenses

The rate of return for this Fund is calculated after operating expenses are deducted. Operating expenses include both investment management and administrative fees. For the 12 month period ending March 31, 2015, the annual fund operating expense was 0.01% or approximately \$0.10 per \$1,000 invested.

## Comparison to Other Mutual Fund Fees

The example below is intended to help you compare the cost of investing in the Money Market Fund to the cost of investing in other balanced mutual funds.

Example assumes you:

- Invest \$1,000 at the beginning of the period;
- Earn a 5% return each year;
- Are charged an annual operating expense of 0.01% for investing in the Fund.

Your actual costs may be higher or lower depending on your reporting agency, however, based only on the above assumptions your costs would be:

1 year	3 years	5 years	10 years
\$0.10	\$0.32	\$0.60	\$1

# State Board of Investment

---

## Who Serves On The State Board of Investment?

The Board's membership is specified in the Minnesota Constitution and is composed of the Governor, the State Auditor, the Secretary of State and the Attorney General. The Board's duties, powers, and investment authority are contained in *Minnesota Statutes*, Chapter 11A.

## What Is The Board's Relationship To The Retirement Plans?

In broad terms, the Board acts as an investment manager for each retirement organization while the retirement organization provides a variety of administrative functions with respect to your individual Fund.

Your retirement organization forwards your contributions to the Board and the Board reports investment returns back to the system. The retirement organization keeps a record of your individual Fund status and receives and processes all your requests for changes in the way your contributions are invested.

## Who Advises The Board On Its Investment Decisions?

The Legislature has established an Investment Advisory Council to advise the Board and its staff on investment related matters.

- The Board appoints ten members experienced in finance and investment. These members traditionally have come from the Minneapolis and St. Paul investment community.
- The Commissioner of Minnesota Management & Budget and the Executive Directors of the three statewide retirement organizations are permanent members of the Council.
- Two active employee representatives and one retiree representative are appointed to the Council by the Governor.

## Members of the Board

Governor Mark Dayton  
State Auditor Rebecca Otto  
Secretary of State Steve Simon  
Attorney General Lori Swanson

## Investment Advisory Council

Jeffery Bailey, Chair  
Malcolm W. McDonald, Vice Chair  
Denise Anderson  
David Bergstrom  
John E. Bohan  
Kerry Brick  
David DeJonge  
Dennis Duerst  
Kim Faust  
Myron Frans  
Douglas Gorence  
Laurie Fiori Hacking  
P. Jay Kiedrowski  
Gary Martin  
Elaine Voss

Sr. Director, Financial Benefits & Analysis  
Director & Corporate Secretary, Retired  
Governor's Appointee  
Executive Director  
Vice Pres., Pension Investments, Retired  
Manager, Pension Investments  
Interim Executive Director  
Director, Benefit Funds Investment  
Vice President and Treasurer  
Commissioner  
President & Chief Investment Officer  
Executive Director  
Senior Fellow  
Chief Investment Officer  
Governor's Appointee

Target Corporation  
Space Center, Inc.  
Active Employee Representative  
Minnesota State Retirement System  
Grand Metropolitan – Pillsbury  
Cargill, Inc.  
Public Employees Retirement Association  
3M Company  
Fairview Health Services  
Minnesota Management & Budget  
UMF Investment Advisors  
Teachers Retirement Association  
Humphrey Institute University of MN  
Macalester College  
Retired Employee Representative

**The Minnesota Supplemental Investment Fund  
is managed by the Minnesota State Board of  
Investment**



---

**Board Members:**

Governor Mark Dayton  
State Auditor Rebecca Otto  
Secretary of State Steve Simon  
Attorney General Lori Swanson

**Executive Director and Chief Investment Officer:**

Mansco Perry III

---

Minnesota State Board of Investment  
60 Empire Drive  
Suite 355  
St. Paul, MN 55103-3555