

Minnesota State Board of Investment

Statewide Volunteer Firefighter Retirement Plan



July 1, 2017 Investment Prospectus

Managed by the Minnesota State Board of Investment

Available Through the Minnesota Supplemental Investment Fund



Minnesota State Board of Investment | 60 Empire Drive | Suite 355 | St. Paul, Minnesota 55103

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Statewide Volunteer Firefighter Retirement Plan

Executive Director's Letter

July 1, 2017

I am pleased to present this investment brochure which provides information on the assets, performance, and general descriptions of each of the asset groups that make up the Volunteer Firefighter Account managed by the State Board of Investment (SBI). To invest in the Volunteer Firefighter Account your local fire relief association must join the Statewide Volunteer Firefighter Retirement Plan (SVFRP) which is administered by the Minnesota Public Employees Retirement Plan (PERA).

Assets in the SVFRP totaled over \$75 million and represents the assets of 123 local fire relief associations. This amount is a 39% increase from the previous year of \$54 million in assets. The SVFRP outperformed its custom benchmark for one, three and five year time periods ending June 30, 2017. The custom benchmark represents the performance for each benchmark weighted by the targeted allocation.

The SVFRP uses a balanced asset mix investment approach to provide long-term returns by investing in a diversified mix of domestic stocks, international stocks, fixed income, and money market securities. **Remember that general economic and market conditions have a dominant influence on the returns available to any investor. There may be periods in which the returns for the SVFRP may be low or even negative.**

For the fiscal year ending June 30, 2017 the Standard and Poor's 500 Index returned 17.9%. The U.S. equity market performance was buoyed by a positive economic climate. The U.S. economy (real GDP) grew at an annualized rate of 2.6% and the U.S. labor markets reached its lowest unemployment rate since August 2007 of 4.4%. During fiscal 2017, the Federal Reserve increased the federal funds target rate from 0.25% to 1.25%. The Chair of the Federal Reserve stated that while policy remains accommodative, steady progress towards the Federal Reserve's dual mandate of maximum employment and stable prices has been achieved, and rate increases were appropriate. Markets reacted positively to the anticipation of pro-growth policies. While these prospects have softened, the U.S. economic expansion enters its eighth year with high consumer confidence and stock prices at all time highs.

The U.S. and international equity markets posted positive performance while the bond markets were negative for the fiscal year ending June 30, 2017. The S&P 500 Index, a proxy for the U.S. equity markets, returned 17.9% and the U.S. bond market, as measured by the Bloomberg Barclays U.S. Aggregate Bond Index, returned -0.3%. International equity markets, as represented by MSCI ACWI ex USA Index (net), outperformed the domestic markets with a 20.5% return for the year.

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 Volunteer Firefighter Account presented in this brochure. 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. We welcome your inquiries.

Respectfully submitted,



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

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Statewide Volunteer Firefighter Retirement Plan

General Information

What Is The Minnesota Supplemental Investment Fund?

The Minnesota Supplemental Investment Fund (SIF) is a multi-purpose investment program that offers a range of investment options to state and other public employee groups. Participants, who are not in the Volunteer Firefighter Account, may allocate their investments among one or more funds that are appropriate for their needs and are within the rules and eligibility established by the participating plans. When a local fire relief joins the Statewide Volunteer Firefighter Retirement Plan (SVFRP), the assets are transferred into the Volunteer Firefighter Account which is a balanced fund composed of several SIF options.

What Options Are Available To The Statewide Volunteer Firefighter Retirement Plan?

The Volunteer Firefighter Account is the **only** investment option available to local firefighter entities participating in the SVFRP. By state law, the Volunteer Firefighter Account is established for the sole purpose of investing the assets of local firefighter entities participating in the SVFRP.

What Asset Classes Are In The Volunteer Firefighter Account?

The Volunteer Firefighter Account invests in both active and passively managed portfolios. As of June 30, 2017, the Volunteer Firefighter Account had over \$75 million in assets invested in the Volunteer Firefighter Account made up of the following four Investment options.

| Asset Class ¹ | Assets as of 6/30/2017 |
|--------------------------------------|------------------------|
| U.S. Equities | \$26,597,025 |
| International Equities | \$11,335,143 |
| Bonds | \$34,052,308 |
| Cash | \$3,447,513 |
| Volunteer Firefighter Account | \$75,432,019 |

¹ All investment options are managed by external investment firms identified below.

What Securities Are Owned By The Plan?

A listing is not provided in the Prospectus due to the large number of holdings owned in each of the funds. Please contact the SBI if you would like a complete list of holdings or you can access the list on our website at <http://mn.gov/sbi>.

Who Is Responsible For Managing The Assets?

The Minnesota State Board of Investment is responsible for managing the assets of the Volunteer Firefighter Account and determines the investments to be made available to plan participants.

What Is The SBI's Relationship To PERA?

In broad terms, the SBI acts as an investment manager for PERA while PERA provides a variety of administrative functions with respect to your Plan.

What Are The Administrative Fees And Who Should I Contact With Questions?

For the upcoming fiscal year, SBI's administrative fees are expected to be approximately \$0.07 per \$1,000 invested, which are deducted after the fund share value has been calculated. PERA's administrative costs are covered by a deduction of \$30 per participant, per year. Any questions about your account or administrative fees should be directed to PERA or the SBI as appropriate.

External Portfolio Management

The SBI hires external investment managers to invest the assets for the respective investment options listed below.

International Equities

AQR Capital Management, LLC, Greenwich, CT
Acadian Asset Management LLC, Boston, MA
Columbia Management Investment Advisers LLC, Minneapolis, MN
Earnest Partners LLC, Atlanta, GA
Fidelity Institutional Asset Management LLC, Smithfield, RI
J.P. Morgan Investment Management Inc., London, England
Macquarie Investment Management Advisers, Philadelphia, PA
Marathon Asset Management LLP, London, England
Martin Currie Inc., Edinburgh, UK
McKinley Capital Management, LLC, Anchorage, AK
Morgan Stanley Investment Management Inc., New York, NY
Neuberger Berman Investment Advisers LLC, Chicago, IL
Pzena Investment Management, LLC, New York, NY
The Rock Creek Group, LP, New York, NY
State Street Global Advisors, Boston, MA

U.S. Equities

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

Bonds

BlackRock Financial Management, Inc., New York, NY
Columbia Management Investment Advisers LLC, 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

Cash

State Street Global Advisors, Boston, MA

Statewide Volunteer Firefighter Retirement Plan

Summary

The Volunteer Firefighter Account (Account) provides a balanced investment program. The objectives of the Account are to provide high returns from capital appreciation and current yield while reducing the chance for large temporary decreases in value. To achieve these objectives, the Account is invested in a mix of domestic equities, international equities, bonds and cash. As of June 30, 2017, the market value of the Account was over \$75 million.

What Assets And Allocations Are In The Account?

The account uses four underlying investment options. The assets are listed below with the respective asset allocation targets for each fund:

| | |
|--|-------------|
| U.S. Equities | 35% |
| International Equities | 15% |
| Bonds | 45% |
| Cash | 5% |
| Total Volunteer Firefighter Account | 100% |

The **domestic stock segment** is passively managed with the objective to generate high returns that closely approximate the returns of the U.S. stock market as a whole. The fund invests in over 2,700 domestic stocks and is designed to replicate the returns produced by the Russell 3000.

The **international stock segment** is managed in a variety of styles: active, semi-passive and passive management. The objective of the fund is to earn a high rate of return by investing in stocks outside of the U.S. The Fund's benchmark is the MSCI ACWI ex USA Index (net). The majority of the fund is invested in large, developed international markets such as Japan, the United Kingdom, Canada, France, Germany and Australia, with a portion invested in developing countries, or emerging markets, which include Asia, Latin America, Eastern Europe, the Middle East and Africa.

The **fixed income segment** is actively managed and seeks to earn returns over the Barclay's Aggregate Bond Index. The fund invests in high quality corporate bonds, mortgage securities and U.S. Government issues.

The **cash segment** is invested in a short term fund of high-quality money market instruments. The fund's performance is measured against the 90-Day Treasury Bill.

How Will This Account Perform Over Time?

The Volunteer Firefighter Account is a balanced or diversified investment program in one account. As with any investment program that includes stocks and bonds, the Account will provide returns that vary with changes in the market. Market value growth and dividend income from the domestic and international stock holdings can provide higher returns than bonds and cash investments. The international stock holdings add a measure of diversification to the domestic stock holdings as various international markets

can perform differently. While returns on bonds are often lower than returns on stocks, the bond returns tend to be more stable and can provide some protection against wide swings in stock market returns.

Who Manages The Account?

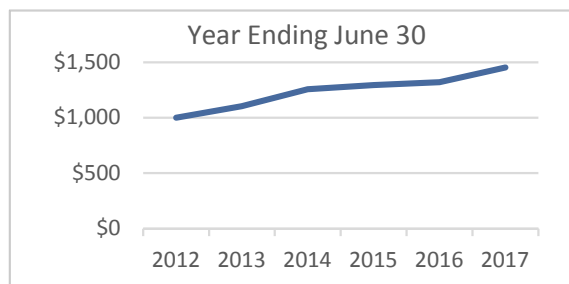
See page 3 for a listing of the investment managers.

How Is The Value Of This Account Determined?

Participating entities own shares in the Account, much like you would in a mutual fund. The share value is determined daily and is based on the market value of the entire account. Any dividend or interest income is reinvested in the Account at the time it is earned. Investment returns reflect all realized and unrealized gains and losses generated by the Account.

What Is The Past Investment Performance Of This Account?

The graph below shows how \$1,000 would have grown over the past five years had it been invested in the Volunteer Firefighter Account. Cumulatively, \$1,000 would have grown to \$1,453.



The table below 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 7.7%.

| Fiscal Year Ending June 30 | Share Value | Rate of Return |
|----------------------------|-------------|----------------|
| 2013 | \$13.17 | 10.4% |
| 2014 | 15.01 | 13.9 |
| 2015 | 15.45 | 3.0 |
| 2016 | 15.75 | 1.9 |
| 2017 | 17.34 | 10.1 |

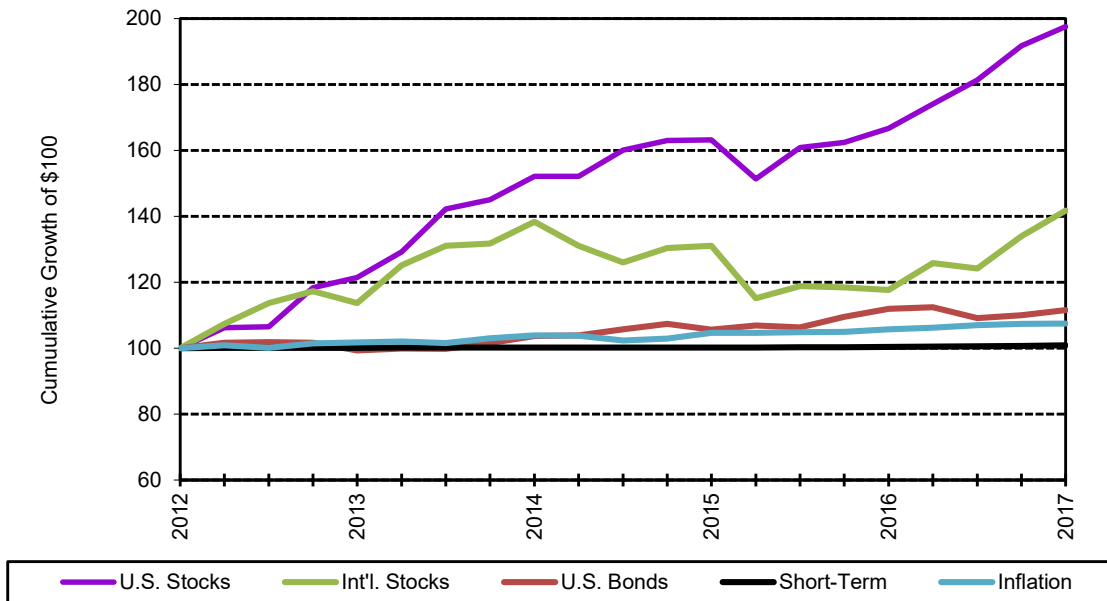
Investment Management Fees

The rate of return for this fund is calculated after investment management fees are deducted. For the upcoming fiscal year, the annual fund investment management fees are expected to be approximately \$0.83 per \$1,000 invested.

Statewide Volunteer Firefighter Retirement Plan

Capital Markets Cumulative Growth and Performance

Cumulative Growth of \$100
Last Five Fiscal Years ending June 30



Performance of Capital Markets
Last Five Fiscal Years Ending June 30

| | Fiscal Year Ending | | | | | Annualized Returns Ending June 30, 2017 | |
|-------------------------------|--------------------|--------|-------|-------|-------|--|-------|
| | 2017 | 2016 | 2015 | 2014 | 2013 | 3 Yrs | 5 Yrs |
| U.S. Stocks | | | | | | | |
| Russell 3000 Index | 18.5% | 2.1% | 7.3% | 25.2% | 21.5% | 9.1% | 14.6% |
| U.S. Bonds | | | | | | | |
| BB Barclays Aggregate | -0.3% | 6.0% | 1.9% | 4.4% | -0.7% | 2.5% | 2.2% |
| International Stocks | | | | | | | |
| MSCI ACWI ex USA | 20.5% | -10.2% | -5.3% | 21.8% | 13.6% | 0.8% | 7.2% |
| Short-Term Investments | | | | | | | |
| 90-Day Treasury Bill | 0.5% | 0.2% | 0.0% | 0.1% | 0.1% | 0.1% | 0.1% |
| Inflation Rate | | | | | | | |
| Consumer Price Index-Urban | 1.7% | 1.0% | 0.1% | 2.1% | 1.8% | 1.0% | 1.3% |

Fiscal Year 2017 in Review

Commentary and Relative Performance

How Have Stocks, Bonds And Other Investments Performed?

The U.S. stock market, as measured by the Russell 3000 index, increased 18.5% for the year ending June 30, 2017. Within the Russell 3000, small capitalization companies outperformed large capitalization companies. The Financials sector was the best performing sector in the Russell 3000 with a 37.1% return, while the Telecom sector was the worst performing sector with a -9.7% return.

The U.S. bond market, as measured by the Bloomberg Barclays U.S. Aggregate Bond Index, returned -0.3% for the fiscal year. Within the bond market, Corporates were the highest performers with a 2.3% return for the year. Asset Backed Securities (ABS) had a 0.6% return, Agency bonds had a 0.2% return, Agency Mortgage-Backed Securities (MBS) had a -0.1% return, Commercial Mortgage Backed Securities (CMBS) had a -0.3% return, and U.S. Treasuries had a -2.3% return for the year.

International equity markets returned 20.5% 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 a return of 20.5% for the year. Japan and the United Kingdom, which together comprise over 28% of the index returned 17% and 8.9%, respectively. The emerging markets, as measured by the MSCI Emerging Markets Index (net), returned 24.2% 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 56%. They returned 30.4%, 32.2% and 29.2%, respectively.

How Did The Total Volunteer Firefighter Account Compare For Fiscal Year 2017?

The **Volunteer Firefighter Account** provided a return of 10.1% for the fiscal year, outperforming the composite index by 1.0 percentage points. The composite Index, is comprised of approximately 35% U.S. common equities, 15% international equities, 45% bonds, and 5% cash. The actual performance of the account may be impacted by the size and timing of cash flows.

| Performance Ending 6/30/17 | 1 Yr |
|-------------------------------|-------|
| Volunteer Firefighter Account | 10.1% |
| Composite Index | 9.1% |

How Did Each Asset Group Within The Volunteer Firefighter Account Perform For Fiscal Year 2017?

The **U.S. Stock Index Fund** was up 18.5% during the year, which met its benchmark, the Russell 3000.

| Performance Ending 6/30/17 | 1 Yr |
|----------------------------|-------|
| U.S. Stock Index Fund | 18.5% |
| Russell 3000 | 18.5% |

The **Broad International Stock Fund** provided a return of 20.3% for the fiscal year, underperforming the international composite index by 0.2 percentage points. The composite index, is comprised of approximately 77% developed markets and 23% emerging markets. Overall, the developed markets managers met and the emerging markets managers slightly underperformed their respective indices.

| Performance Ending 6/30/17 | 1 Yr |
|--------------------------------|-------|
| Broad International Stock Fund | 20.3% |
| MSCI ACWI ex USA Index | 20.5% |

The **Bond Fund** posted a return of 0.9% for the fiscal year, outperforming its benchmark, the Bloomberg Barclays U.S. Aggregate Bond Index.

| Performance Ending 6/30/17 | 1 Yr |
|----------------------------|-------|
| Bond Fund | 0.9% |
| BB Barclays U.S. Aggregate | -0.3% |

The **Money Market Fund** earned 0.8% for the fiscal year outperforming its benchmark. This gain is similar to the returns for money market accounts offered by mutual funds and banks.

| Performance Ending 6/30/17 | 1 Yr |
|----------------------------|------|
| Money Market Fund | 0.8% |
| 3 Month U.S. T-Bill | 0.5% |

Procedures - Statewide Volunteer Firefighter Retirement Plan

Volunteer Firefighter plans must follow the appropriate individual statutes in determining the amount invested in any eligible fund(s). (See *Minnesota Statutes*, Chapter 353G.)

How To Open A Plan Account (Plan)

All Volunteer Firefighters will need to contact PERA to open a Plan. PERA will then forward the Plan information to SBI. Once the Plan is setup, the SBI will send the credentials and instructions for accessing and using the Plan website. The website will give the Plan online access to your Plan's current balance, posted/pending transactions, and statements.

Contribution, Withdrawal And Transfers

All contributions, withdrawals, and transfers must be requested through PERA, the plan administrator. Please contact PERA for the required forms.

Investment Option

Volunteer Firefighter Account

Administrative Fees

PERA's Administrative Fees are deducted directly from the Plan's funds on an annual basis. SBI's Administrative fees are deducted directly from the Plan's funds on a quarterly basis.

Investment Management Fees

There are no "front-end" or "back-end" loads charged on contributions, withdrawals or transfers in Funds. All transactions are made using the daily share value established for each Fund.

Investment Management Fees are deducted from the investment earnings in each Fund before the share value for the Fund is computed. These deductions will vary from Fund to Fund and from year to year depending on the actual management costs incurred.

Please refer to page 4 of this prospectus for investment management fee information for the Volunteer Firefighter Account.

Reporting

Monthly reports and other correspondence from the SBI will be emailed to the contact person at the e-mailed address provided to PERA at time of account setup. Monthly reports display current balances, performance and transaction detail that occurred during the month.

PERA Contact Information:

David Andrews
Public Employees Retirement Association
60 Empire Drive, Suite 200
St. Paul, MN 55103
TEL (651) 201-2648
FAX (651) 297-2547
Email: david.andrews@mnpera.org

SBI Contact Information:

Shirley Baribeau
Minnesota State Board of Investment
60 Empire Drive, Suite 355
St. Paul, MN 55103
TEL (651) 296-3328
FAX (651) 296-9572
Email: shirley.baribeau@state.mn.us

Statewide Volunteer Firefighter Retirement Plan

State Board of Investment

Members

The State Board of Investment (SBI), in conjunction with SBI staff and the Investment Advisory Council (IAC), establishes investment policies for all funds under its control. These investment policies are tailored to the particular needs of each fund and specify investment objectives, risk tolerance, asset allocation, investment management structure and specific performance standards. The Board's membership is specified in the Minnesota Constitution and is composed of the officers listed below. The Board's duties, powers, and investment authority are contained in *Minnesota Statutes*, Chapter 11A.

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

Investment Advisory Council

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 investments. The Commissioner of Minnesota Management & Budget and the Executive Directors of the three statewide retirement systems are permanent members of the council. Two active employee representatives and one retiree representative are appointed to the Council by the Governor.

| | | |
|-----------------------|---|---|
| Gary Martin, Chair | Chief Investment Officer | Macalester College |
| Kim Faust, Vice Chair | Vice President and Treasurer | Fairview Health Services |
| Denise Anderson | Governor's Appointee | Active Employee Representative |
| Doug Anderson | Executive Director | Public Employees Retirement Association |
| Kerry Brick | Manager, Pension Investments | Cargill, Inc. |
| Dennis Duerst | Director, Benefit Funds Investment | 3M Company |
| Myron Frans | Commissioner | Minnesota Management & Budget |
| Susanna Gibbons | Program Director, Carlson Fixed Income Fund | Carlson School of Management |
| Morris Goodwin, Jr. | Sr. Vice President and CFO | American Public Media Group |
| Peggy Ingison | Governor's Appointee | Active Employee Representative |
| Erin Leonard | Executive Director | Minnesota State Retirement System |
| Malcolm W. McDonald | Director & Corporate Secretary, Retired | Space Center, Inc. |
| Carol Peterfeso | Chief Treasury and Investment Officer | University of St. Thomas |
| Jay Stoffel | Executive Director | Teachers Retirement Association |
| Shawn Wischmeier | Chief Investment Officer | Margaret A. Cargill Philanthropies |

Executive Director and Staff

To carry out its mission, SBI retains an executive director, an internal investment staff and external investment managers to execute its policies. Staff is responsible to 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, and provide investment management for the state agency cash and non-retirement fund accounts.

Mansco Perry III, *Executive Director and Chief Investment Officer*
Charlene Olson, *Executive Assistant*

Senior Leadership Team

LeaAnn M. Stagg, *Asst. Exec Director & Chief Operating Officer*
Paul T. Anderson, *Director, Investment Administration*
Andrew Krech, *Director, Private Markets*
Michael J. Menssen, *Director, Debt Management*
John Mulé, *Manager, Legal and Legislative Policy*

Investment Staff

Patricia Ammann, *Investment Officer*
Nathan Blumenshine, *Investment Officer*
Cassandra Boll, *Investment Officer*
Tammy Brusehaver, *Investment Officer*
Stephanie Gleeson, *Investment Officer*
Aaron D. Griga, *Investment Officer*

Investment Staff (continued)

Ryan O. Hill, *Investment Officer*
Steven P. Kuettel, *Investment Officer*
Jonathan Stacy, *Investment Officer*

Administrative Staff

Kailee Anderson, *Account Clerk, Senior*
Shirley Baribeau, *Project Team Leader*
Julie Grill, *Accounting Officer, Intermediate*
Kathy Leisz, *Information Technology Specialist 3*
Melissa Mader, *Office Admin. Specialist, Intermediate*
William J. Nicol, *Accounting Director*
Kelly Nordstrom, *Office Administrative Specialist*
Iryna Shafir, *Investment Compliance Analyst*

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