

Minnesota State Board of Investment

Statewide Volunteer Firefighter Retirement Plan



July 1, 2020 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 55103-3555

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Letter from the SBI Executive Director / Chief Investment Officer

MINNESOTA STATE BOARD OF INVESTMENT



Board Members

Governor
Tim Walz

State Auditor
Julie Blaha

Secretary of State
Steve Simon

Attorney General
Keith Ellison

Executive Director

Mansco Perry

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Employer

July 1, 2020

I am pleased to present this investment prospectus, 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 Minnesota 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 (SVF Plan) which is administered by the Minnesota Public Employees Retirement Association (PERA).

Assets in the SVF Plan totaled over \$118 million and represents the assets of 187 local fire relief associations. This amount is a 10.3% increase from the previous year of \$107 million in assets. The SVF Plan return of 7.1% outperformed its custom benchmark return of 6.1% for the one year time period ending June 30, 2020. The custom benchmark represents the performance for each benchmark weighted by the targeted allocation.

The SVF Plan 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. **In 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 SVF Plan may be low or even negative.**

In 2020, the Board adopted two separate resolutions that recognize the importance of Environmental, Social, and Governance (ESG) issues with investment managers and companies in the SBI's investment portfolios. As of December 31, 2020 all publicly traded companies in the portfolio that derive more than 25% of their revenue from thermal coal production (exploration and mining) will be removed.

The global economic fallout caused by the COVID-19 pandemic drove significant volatility within the investment portfolio during the fiscal year. In the latter half of first quarter 2020, as governments worldwide imposed tough lockdown measures aimed at containing the coronavirus outbreak, global economic activity fell sharply. In the U.S., second quarter Gross Domestic Product (GDP) declined by -31.7% on an annualized basis and the unemployment rate spiked to 14.7% in April. Global equity markets experienced their steepest drop in decades, marking the end of a decade-long bull market in the U.S. Interest rates declined globally and the dollar rose sharply as investors sought the relative safety of U.S. dollars and government bonds. Despite worsening economic data, financial markets rebounded sharply in second quarter 2020. Markets were buoyed by the significant monetary and fiscal stimulus offered by policymakers across the globe and the prospect of a vaccine or treatment breakthrough leading to a quick rebound in economic activity. U.S. stocks ended the quarter near record levels, led by technology shares whose businesses proved especially resilient to the COVID-19 lockdown. Bonds held their gains from the decline in interest rates to finish the fiscal year strongly in positive territory.

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 prospectus. If you have any questions regarding the investment policies and procedures presented herein, 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.

Respectfully submitted,

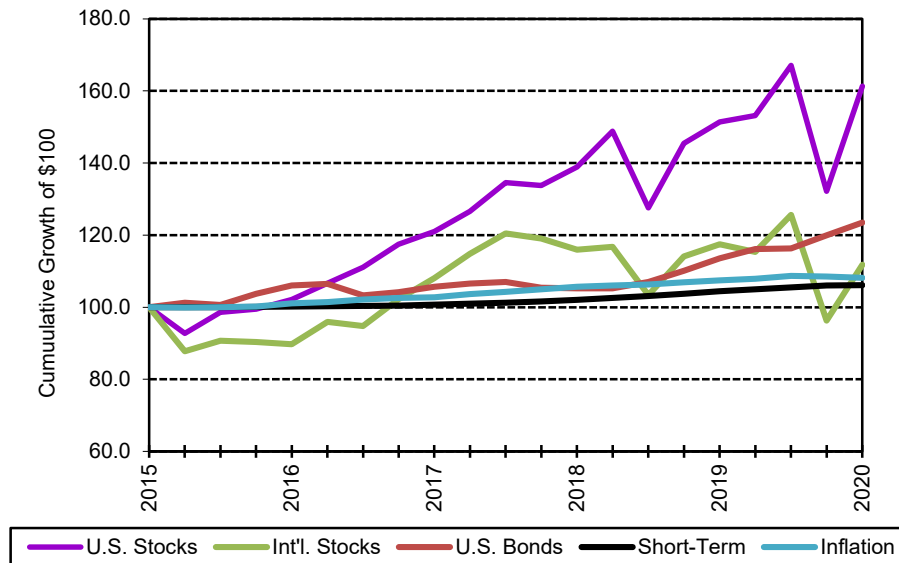
A handwritten signature in dark ink, appearing to read "Mansco Perry III".

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

The Capital Market Year in Review

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					Ending 6/30/2020	
	2020	2019	2018	2017	2016	3 Years	5 Years
U.S. Stocks							
Russell 3000	6.5%	9.0%	14.8%	18.5%	2.1%	10.0%	10.0%
U.S. Bonds							
BB Barclays U.S. Aggregate	8.7	7.9	-0.4	-0.3	6.0	5.3	4.3
International Stocks							
MSCI ACWI ex USA (net)	-4.8	1.3	7.3	20.5	-10.2	1.1	2.3
Short Term Investments							
3 Month U.S. Treasury Bill	1.6	2.3	1.4	0.5	0.2	1.8	1.2
Inflation Rate							
Consumer Price Index CPI-U	0.7	1.7	2.8	1.7	1.0	1.8	1.6

Fiscal Year 2020 in Review

Commentary and Relative Performance

Market Summary and Performance

The U.S. stock market, as measured by the Russell 3000 index, increased 6.5% for the year ending June 30, 2020. Within the Russell 3000, growth companies outperformed value companies. The Technology sector was the best performing sector in the Russell 3000 with a 36.3% return, while the Energy sector was the worst performing sector with a -37.0% return.

The U.S. bond market, as measured by the Bloomberg Barclays U.S. Aggregate Bond Index, returned 8.7% for the fiscal year. Within the bond market, U.S. Treasuries were the best performers with a 10.4% return and Corporates were strong as well with a 9.5% return for the year.

International equity markets returned -4.8% for the year, 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 only developed international markets had a return of -5.4% for the year. Japan, the United Kingdom, and France were the largest countries in the index at the end of the fiscal year with a combined weight of 46%. They returned 3.1%, -17.7% and -10.3%, respectively. The emerging markets, as measured by the MSCI Emerging Markets Index (net), returned -3.4% for the year in U.S. dollar terms. China, Taiwan and Korea were the largest countries in the index at the end of the fiscal year with a combined weight of 65%, of which China's weight was 41%. They returned 13.1%, 21.9% and 0.4%, respectively.

Volunteer Firefighter Account Performance

The **Volunteer Firefighter Account** provided a return of 7.1% for the fiscal year, outperforming the composite index by 1.0% percentage point. The composite index, is comprised of approximately 35% U.S. common equities, 15% international equities, 45% fixed income, and 5% cash. The actual performance of the account may be impacted by the size and timing of cash flows.

Performance Ending 6/30/20	1 Yr
Volunteer Firefighter Account	7.1%
Composite Index	6.1%

Asset Group Returns within the Volunteer Firefighter Account

The **U.S. Stock Index Fund** slightly outperformed its benchmark, the Russell 3000, by 0.2 percentage point for the year.

Performance Ending 6/30/20	1 Yr
U.S. Stock Index Fund	6.7%
Russell 3000	6.5%

The **Broad International Stock Fund** outperformed the international composite index by 0.6 percentage point for the fiscal year. The composite index is comprised of approximately 71% developed markets and 29% emerging markets. Overall, the developed and emerging markets managers outperformed their respective indices.

Performance Ending 6/30/20	1 Yr
Broad International Stock Fund	-4.2%
MSCI ACWI ex USA Index (net)	-4.8%

The **Bond Fund** outperformed its benchmark, the Bloomberg Barclays U.S. Aggregate Bond Index, by 0.5 percentage point for the fiscal year.

Performance Ending 6/30/20	1 Yr
Bond Fund	9.2%
BB Barclays U.S. Aggregate	8.7%

The **Money Market Fund** yield was greater than its benchmark. This gain is similar to the returns for money market accounts offered by mutual funds and banks.

Performance Ending 6/30/20	1 Yr
Money Market Fund	1.7%
3-Month U.S. T-Bill	1.6%

Statewide Volunteer Firefighter Retirement Plan

Overview

Investment Platform

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 (SVF Plan), the assets are transferred into the Volunteer Firefighter Account, which is a balanced fund, composed of several SIF options.

Investment Options 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 SVF Plan. State law establishes the Volunteer Firefighter Account for the sole purpose of investing the assets of local firefighter entities participating in the SVF Plan.

Assets in the Volunteer Firefighter Account

The Volunteer Firefighter Account invests in both active and passively managed portfolios. As of June 30, 2020, the Volunteer Firefighter Account had over \$118 million in assets invested in the Volunteer Firefighter Account made up of the following four Investment options.

Asset Class ¹	Assets as of 6/30/2020
U.S. Equities	\$ 41,434,591
International Equities	\$ 17,585,708
Bonds	\$ 53,229,488
Cash	\$ 5,774,131
Volunteer Firefighter Account	\$ 118,023,918

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

Securities Owned by the Plan

A listing is not provided in this 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>.

Management of Assets

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

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.

Administrative Fees

SBI's administrative fees were 0.006% or approximately \$0.06 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 Investment Management of Funds

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., New York, NY
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, New York, NY
Pzena Investment Management, LLC, New York, NY
The Rock Creek Group, LP, New York, NY
State Street Global Advisors, Boston, MA

U.S. Stock Index Fund

BlackRock Institutional Trust Company, N.A., New York, NY

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 Investment Advisers 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

Volunteer Firefighter Account

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, 2020, the market value of the Account was over \$118 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%
Fixed Income	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). Typically, a majority of the fund is invested in the largest international stock markets (Japan, United Kingdom, France, Switzerland and Canada). Most of the remainder is invested in other well-established markets in Europe and the Pacific region.

The **fixed income segment** is actively managed and seeks to earn returns over the Bloomberg Barclays 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?

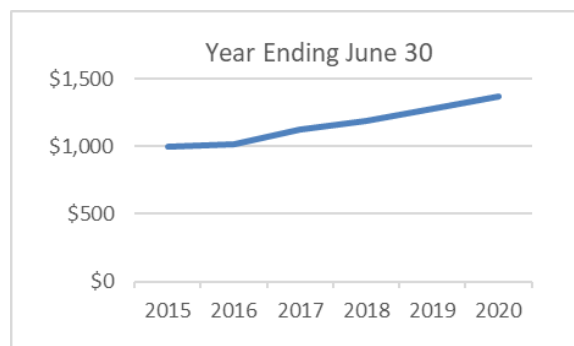
See page 4 for a listing of the investment managers.

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 \$1,370.



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 6.5%.

Fiscal Year Ending June 30		
Year	Share Value	Rate of Return
2016	\$15.75	1.9%
2017	17.34	10.1
2018	18.43	6.3
2019	19.79	7.3
2020	21.18	7.1

Total SBI Fund Expenses

The rate of return for this fund is calculated after investment management fees are deducted. As of June 30, 2020 the annual fund Investment Management Fee was 0.078%. With the 0.006% Administrative Fee, the Total Fund Expense for FY20 was 0.084% or approximately \$0.84 per \$1,000 invested. This does not include any fees charged by PERA to administer the SVF Plan.

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 Firefighter plans 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.

PERA Contact Information:

Sharyn North
Public Employees Retirement Association
60 Empire Drive, Suite 200
St. Paul, MN 55103-2088
TEL (651) 201-2666
FAX (651) 297-2547
Email: sharyn.north@mnpera.org

SBI Contact Information:

Shirley Baribeau
Minnesota State Board of Investment
60 Empire Drive, Suite 355
St. Paul, MN 55103-3555
TEL (651) 296-3328
FAX (651) 296-9572
Email: shirley.baribeau@state.mn.us

About the State Board of Investment

Board Members

The Minnesota 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 Tim Walz
State Auditor Julie Blaha
Secretary of State Steve Simon
Attorney General Keith Ellison

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 and Budget and the Executive Directors of the three statewide retirement systems are permanent members of the IAC. Two active employee representatives and one retiree representative are appointed to the IAC by the Governor.

Gary Martin, Chair	Chief Investment Officer	Macalester College
Kim Faust, Vice Chair	Vice President and Treasurer	Fairview Health Services
Malcolm W. McDonald (Emeritus)	Director & Corporate Secretary, Retired	Space Center, Inc.
Denise Anderson	Governor's Appointee	Active Employee Representative
Doug Anderson	Executive Director	Public Employees Retirement Association
Ellen Brownell	Senior Investment Advisor	Pohlad Investment Management, LLC
Dennis Duerst	President, 3M Investment Management Corp	3M Company
Jim Schowalter	Commissioner	Minnesota Management and Budget
Susanna Gibbons	Managing Director, Carlson Funds Enterprise	Carlson School of Management, UMN
Morris Goodwin, Jr.	Sr. Vice President and CFO	American Public Media Group
Peggy Ingison	Governor's Appointee	Retiree Member Representative
Erin Leonard	Executive Director	Minnesota State Retirement System
Dan McConnell	Business Manager	Building & Construction Trades/Counsel of Mpls.
Nancy Orr	Chief Investment Officer	Fiduciary Counselling, Inc.
Carol Peterfeso	Chief Treasury and Investment Officer	University of St. Thomas
Martha Severson Rush	Governor's Appointee	Active Employee Representative
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.

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

Directors

Andy Christensen, *Assistant Executive Director, Investment Strategy and Administration*
Erol Sonderegger, *Assistant Executive Director, Portfolio Management and Risk Analysis*
Patricia Ammann, *Director, Investment Services and Operations*
Paul T. Anderson, *Director, Financial Services and Operations*
Andrew Krech, *Director, Private Markets and Asset Allocation*
John Mulé, *Director, Legal, Legislative Policy and Shareholder Services*

Investment Staff

Nathan Blumenshine, *Investment Officer*
Cassandra Boll, *Investment Officer*
Tammy Brusehaver, *Investment Officer*
Stephanie Gleeson, *Investment Officer*
Aaron D. Griga, *Investment Officer*
Steven P. Kuettel, *Investment Officer*
Jonathan Stacy, *Investment Officer*
Jeffrey Weber, *Investment Officer*

Administrative Staff

Kailee Anderson, *Accounting Officer*
Shirley Baribeau, *Controller*
Todd Lauf, *Information Technology Manager*
Melissa Mader, *Office Admin. Specialist, Senior*
William J. Nicol, *Investment Accounting Specialist*
Kelly Nordstrom, *Office Admin. Specialist, Intermediate*
Narmada Ramaswami, *Accounting Officer, Senior*
Iryna Shafir, *Compliance Analyst*

As of September 1, 2020

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



Board Members:

Governor Tim Walz
State Auditor Julie Blaha
Secretary of State Steve Simon
Attorney General Keith Ellison

Executive Director and Chief Investment Officer:

Mansco Perry III