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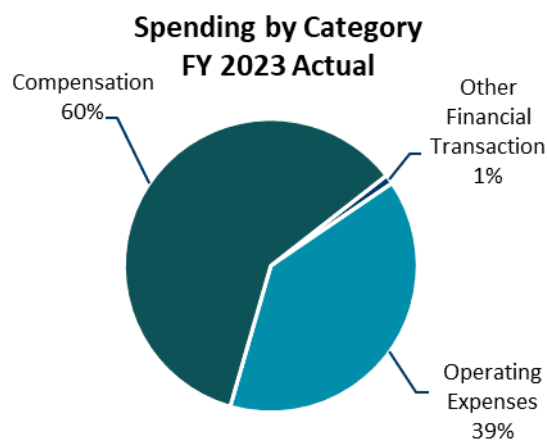
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**AT A GLANCE**

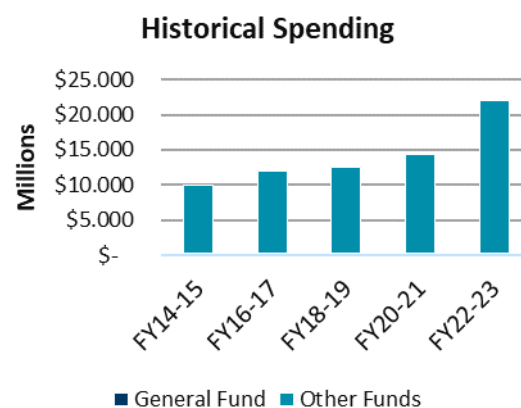
- The Minnesota State Board of Investment (SBI) is a fiduciary entrusted with investing approximately \$146.2 billion in total assets as of June 30, 2024.
- Assets under management have grown by 83% in the ten-year period since June 30, 2014.
- The SBI manages cash for 400+ state agency accounts, totaling \$30.1 billion as of June 30, 2024.
- The SBI manages funds for 399 volunteer firefighter accounts.
- The SBI manages funds for 456 different plans. These plans include retirement plans, tax-advantaged savings plans, non-retirement plans, and state-sponsored savings plans.
- The three largest plans are the Statewide Retirement Systems: Public Employees Retirement System (PERA), Teachers Retirement Association (TRA), and Minnesota State Retirement System (MSRS). Together they account for \$93.7 billion in pension assets under management and are invested in the Combined Funds.
- The Combined Funds achieved an investment return of 12.34%, net of all fees, for the fiscal year ending June 30, 2024, outperforming its composite benchmark over the ten-year period, and provided a real return exceeding 3-5 percent over 20 years (see investment performance table included below)..

**PURPOSE**

The primary mission of the Minnesota State Board of Investment (SBI) is to provide investment returns to PERA, MSRS, and TRA to support the retirement security of over 840,000 Minnesota public employees and their families. The SBI was established by Article XI of the Minnesota Constitution to invest all state funds. The Board, as specified in the Constitution, is comprised of the Governor (Chair), State Auditor, Secretary of State, and the State Attorney General. All investments undertaken by the SBI are governed by the prudent person rule and other standards codified in Minnesota Statutes, Chapter 11A and Chapter 356A. The statutory mission of the SBI is “to ensure that state and pension assets subject to this legislation will be responsibly invested to maximize the total rate of return without incurring undue risk” (M.S. 11A.01).

**BUDGET**

Source: Budget Planning & Analysis System (BPAS)



Source: Consolidated Fund Statement

### Funding:

The SBI's budget is funded primarily through dedicated receipts by billing its customers for the services provided. In addition to customer receipts, the SBI receives a small general fund appropriation. For Fiscal Year 2024, the SBI's billing was split 99% (\$14,420,000) in receipts and 1% (\$139,000) from the general fund.

## STRATEGIES

The SBI strives for excellence as a steward of the assets under its management by providing investment options that leverage the SBI's expertise and scale to build high quality investment programs at a low cost. The SBI manages each investment program according to its unique requirements, allowing for a diversified set of investment solutions to aid participating plans and agencies in achieving their goals. The SBI develops and implements investment policies and strategies for the following investment programs:

- The **Combined Funds** represent the assets of both active and retired public employees who participate in the defined benefit plans of the three Statewide Retirement Systems: PERA, MSRS, and TRA. The Combined Funds have a strategic asset allocation based on their investment objectives and the expected long-term performance of the capital markets. Plan members contribute a meaningful portion of their salaries in return for their retirement security. The SBI is responsible for prudently managing the Combined Funds to provide sufficient funds to finance the promised benefits to participants. The annual actuarial investment return assumption of 7.0% for the three Statewide Retirement Systems was approved by the legislature and signed into law in 2023. As of June 30, 2024, the total market value of the Combined Funds was \$93.7 billion.
- **Other Retirement Funds** benefit from investing in the same asset class pools as the Combined Funds. These include volunteer fire relief associations, the St. Paul Teachers Retirement Fund Association, and the PERA Defined Contribution Plan. The SBI also provides investment options to the Unclassified Retirement Plan, which is administered by MSRS. As of June 30, 2024, the total market value of Other Retirement Funds was \$1.5 billion.
- **Tax-Advantaged Savings Plans** provide members with a diversified, low-cost, efficient investment menu to help them select their own investment options. These plans include Minnesota Deferred Compensation Plan, Health Care Savings Plan, and Hennepin County Supplemental Retirement Plan, which are administered by MSRS. As of June 30, 2024, the total market value of Tax-Advantaged Savings Plans was \$12.4 billion.
- The investment lineup offered to **State-Sponsored Savings Plans**, which include the MN College Savings Plan and MN ABLE Plan, encourages and assists individuals and families to save for higher education and eligible disability expenses in the respective tax-advantaged state-sponsored plans. As of June 30, 2024, the total market value of State-Sponsored Savings Plans was \$2.1 billion.
- **Non-Retirement Accounts**, which include assets of trust funds, Other Post Employment Benefit (OPEB) Plans, and Qualifying Cities and Counties, are offered broad asset class options and benefit from low institutional investment management fees managed in separately managed accounts. As of June 30, 2024, the total market value of Non-Retirement Accounts was \$6.3 billion.
- **State Cash Accounts:** The SBI manages the cash balances in state agency accounts to preserve capital, meet state agency liquidity needs, and provide competitive money market rates of return. The SBI invests the cash accounts in short-term, liquid, high-quality debt securities. As of June 30, 2024, the total market value of the State Cash Accounts was \$30.1 billion.

To carry out its mission, the Board retains an Executive Director/Chief Investment Officer, who is responsible for implementing, administering, and reviewing the investment policies established by the Board or mandated by statute. The Executive Director/CIO employs investment and administrative staff to assist in meeting the SBI's objectives. In performing its duties, the SBI is assisted by the Investment Advisory Council (IAC), which comprises 17 individuals with investment and retirement fund expertise.

**Responsibilities of the SBI staff include the following:**

- Execute decisions made by the Board or required by state statute, or other applicable laws.
- Day-to-day management of the SBI's investment program.
- Assess developments in the broad financial markets and evaluate their potential impacts on SBI operations and policies.
- Recommend strategic planning alternatives to the IAC and Board.
- Conduct research for the recommendation and selection of institutional investment managers.
- Perform rigorous due diligence on investment strategies by continuously monitoring and evaluating investment firms and investment performance to ensure long-term investment objectives are met.
- Provide internal investment management for the state agency cash accounts.
- Establish and periodically update the investment objectives, asset allocation, and investment management structure for each of the programs.

**RESULTS**

Measure name	Measure type	Measure data source	Historical trend	Most recent data
<b>1) Meet or Exceed 10-Year Composite Index Total Return</b>				
Combined Funds 10-Year Annualized Return – Net of All Fees	Result	FY 2024 unaudited results	NA	8.26%
Benchmark 10-Year Composite Annualized Return	Result	FY 2024 unaudited results	NA	8.03%
Difference from Composite Benchmark	Result	FY 2024 unaudited results	NA	+ .23%
<b>2) Provide 20-year Real Return of 3-5 percentage points above inflation (CPI)</b>				
Combined Funds 20-Year Annualized Return – Net of All Fees	Result	FY 2024 unaudited results	NA	8.26%
Benchmark 20-Year CPI-U	Result	FY 2024 unaudited results	NA	2.6%
Difference from CPI Benchmark	Result	FY 2024 unaudited results	NA	+5.66%

*\*Differentials within column amounts occur due to rounding.*

## SBI FY24 Combined Funds Investment Performance

<div><div>\$93.7 Billion</div><div>As of 6/30/2024</div><div>Performance Net of Fees:</div></div>		1Yr	3Yr	5Yr	10Yr	20Yr	30Yr
	Combined Funds – Net	12.3%	4.6%	9.2%	8.3%	8.3%	8.8%
	Composite Index	11.9%	4.4%	8.8%	8.0%	8.1%	8.5%

Note: The SBI's outperformance relative to the broad capital markets over the long term is evidence of SBI's ability to add value to returns through asset allocation and manager selection decisions.

SBI Legal Authority is outlined in the following state statutes: M.S. 11A and M.S. 356A

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SBI Legal Authority is outlined in the following state statutes:

M.S. 11A

M.S. 356A

(Dollars in Thousands)

	Actual FY22	Actual FY23	Actual FY24	Estimate FY25	Forecast Base FY26 FY27		Governor's Recommendation FY26 FY27	
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**Expenditures by Fund**

1000 - General	139	139	139	139	139	139	0	0
2000 - Restrict Misc Special Revenue	6,820	8,866	11,530	17,897	17,046	17,551	17,185	17,690
7504 - Invest Ext Money Managers #2	2,776	2,914	2,890	4,000	5,000	5,000	5,000	5,000
<b>Total</b>	<b>9,735</b>	<b>11,919</b>	<b>14,559</b>	<b>22,036</b>	<b>22,185</b>	<b>22,690</b>	<b>22,185</b>	<b>22,690</b>
Biennial Change				14,941		8,280		8,280
Biennial % Change				69		23		23
Governor's Change from Base								0
Governor's % Change from Base								0

**Expenditures by Program**

Investment of Funds	6,959	9,005	11,669	18,036	17,185	17,690	17,185	17,690
Refunds/Retirement Funds	2,776	2,914	2,890	4,000	5,000	5,000	5,000	5,000
<b>Total</b>	<b>9,735</b>	<b>11,919</b>	<b>14,559</b>	<b>22,036</b>	<b>22,185</b>	<b>22,690</b>	<b>22,185</b>	<b>22,690</b>

**Expenditures by Category**

Compensation	5,701	7,257	8,588	12,750	13,580	13,982	13,580	13,982
Operating Expenses	3,995	4,537	4,662	9,186	8,505	8,606	8,505	8,606
Capital Outlay-Real Property			700					
Other Financial Transaction	39	124	609	100	100	102	100	102
<b>Total</b>	<b>9,735</b>	<b>11,919</b>	<b>14,559</b>	<b>22,036</b>	<b>22,185</b>	<b>22,690</b>	<b>22,185</b>	<b>22,690</b>

**Full-Time Equivalents**

<b>28.07</b>	<b>36.81</b>	<b>40.40</b>	<b>57.75</b>	<b>57.75</b>	<b>57.75</b>	<b>57.75</b>	<b>57.75</b>
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## Investment Board

## Agency Financing by Fund

(Dollars in Thousands)

	Actual	Actual	Actual	Estimate	Forecast Base		Governor's Recommendation	
	FY22	FY23	FY24	FY25	FY26	FY27	FY26	FY27
1000 - General								
Direct Appropriation	139	139	139	139	139	139	0	0
Expenditures	139	139	139	139	139	139	0	0
Biennial Change in Expenditures				0		0		(278)
Biennial % Change in Expenditures				0		0		(100)
Governor's Change from Base								(278)
Governor's % Change from Base								(100)

**2000 - Restrict Misc Special Revenue**

Balance Forward In	19	19						
Receipts	6,820	8,847	11,530	17,897	17,046	17,551	17,185	17,690
Balance Forward Out	19							
<b>Expenditures</b>	<b>6,820</b>	<b>8,866</b>	<b>11,530</b>	<b>17,897</b>	<b>17,046</b>	<b>17,551</b>	<b>17,185</b>	<b>17,690</b>
Biennial Change in Expenditures				13,740		5,170		5,448
Biennial % Change in Expenditures				88		18		19
Governor's Change from Base								278
Governor's % Change from Base								1
Full-Time Equivalents	28.07	36.81	40.40	57.75	57.75	57.75	57.75	57.75

**7504 - Invest Ext Money Managers #2**

Open Appropriation	2,776	2,914	2,890	4,000	5,000	5,000	5,000	5,000
<b>Expenditures</b>	<b>2,776</b>	<b>2,914</b>	<b>2,890</b>	<b>4,000</b>	<b>5,000</b>	<b>5,000</b>	<b>5,000</b>	<b>5,000</b>
Biennial Change in Expenditures				1,201		3,110		3,110
Biennial % Change in Expenditures				21		45		45
Governor's Change from Base								0
Governor's % Change from Base								0

(Dollars in Thousands)

	FY25	FY26	FY27	Biennium 2026-27
<b>Direct</b>				
<b>Fund: 1000 - General</b>				
FY2025 Appropriations	139	139	139	278
Forecast Base	139	139	139	278
Change Items				
Changes to SBI Cost Apportionment		(139)	(139)	(278)
<b>Total Governor's Recommendations</b>	<b>139</b>			
<b>Open</b>				
<b>Fund: 7504 - Invest Ext Money Managers #2</b>				
FY2025 Appropriations	4,000	4,000	4,000	8,000
Base Adjustments				
Forecast Open Appropriation Adjustment		1,000	1,000	2,000
Forecast Base	4,000	5,000	5,000	10,000
<b>Total Governor's Recommendations</b>	<b>4,000</b>	<b>5,000</b>	<b>5,000</b>	<b>10,000</b>
<b>Dedicated</b>				
<b>Fund: 2000 - Restrict Misc Special Revenue</b>				
Planned Spending	17,897	17,046	17,551	34,597
Forecast Base	17,897	17,046	17,551	34,597
Change Items				
Changes to SBI Cost Apportionment		139	139	278
<b>Total Governor's Recommendations</b>	<b>17,897</b>	<b>17,185</b>	<b>17,690</b>	<b>34,875</b>
<b>Revenue Change Summary</b>				
<b>Dedicated</b>				
<b>Fund: 2000 - Restrict Misc Special Revenue</b>				
Forecast Revenues	17,897	17,046	17,551	34,597
Change Items				
Changes to SBI Cost Apportionment		139	139	278
<b>Total Governor's Recommendations</b>	<b>17,897</b>	<b>17,185</b>	<b>17,690</b>	<b>34,875</b>
<b>Non-Dedicated</b>				
<b>Fund: 2051 - Environmental Trust</b>				
Forecast Revenues	79,645	131,506	131,506	263,012
<b>Total Governor's Recommendations</b>	<b>79,645</b>	<b>131,506</b>	<b>131,506</b>	<b>263,012</b>
<b>Fund: 7504 - Invest Ext Money Managers #2</b>				



*(Dollars in Thousands)*

	FY25	FY26	FY27	Biennium 2026-27
Forecast Revenues	4,000	5,000	5,000	10,000
Total Governor's Recommendations	4,000	5,000	5,000	10,000

## State Board of Investment

### FY 2026-27 Biennial Budget Change Item

#### Change Item Title: Changes to SBI Cost Apportionment

Fiscal Impact (\$000s)	FY 2026	FY 2027	FY 2028	FY 2029
General Fund				
Expenditures	(139)	(139)	(139)	(139)
Revenues	(818)	(818)	(818)	(818)
Other Funds				
Expenditures	139	139	139	139
Revenues	818	818	818	818
Net Fiscal Impact = (Expenditures – Revenues)	0	0	0	0
<b>FTEs</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>

#### Recommendation:

The Governor recommends changes to the apportionment of SBI's expenses to the various funds it manages. This results in the elimination of the SBI's general fund appropriation and instead bills the general fund for its apportioned costs in a manner consistent with the other funds under management.

#### Rationale/Background:

Under current law, SBI receives a direct appropriation from the general fund and apportions its costs across the various funds it manages, less the charge to the general fund, based on each fund's weighted average assets under management. The general fund accounted for approximately 61 percent of invested treasurer's cash (ITC) assets managed by SBI in FY 2024.

The SBI seeks to better align the allocation of costs between general fund and non-general fund assets. This requires evaluating the amount of costs (systems, trading, staff) properly allocable to the general fund and ensuring that the general fund is allocated its proportional share of costs.

#### Proposal:

The SBI seeks to achieve an appropriate allocation of expenses between general fund and non-general fund ITC assets. The SBI provides internal investment management services to the state's general fund and is tasked with prudently investing the assets commensurate with the liquidity needs of the fund. The SBI works closely with Minnesota Management and Budget to ensure proper investment and administration of general fund assets.

This change would ensure that the general fund sufficiently covers its portion of expenses each year in a manner that is responsive to both SBI's costs and the amount of ITC assets in each fund.

The Governor recommends eliminating the \$139 thousand annual general fund appropriation to the SBI and instead bill the general fund for its portion of ITC costs. This would result in reduced investment income in the general fund, as the general fund's share of expenses would be deducted from net investment income earned to the general fund. Investment income in other funds would increase by an equal amount. Spending in the special revenue fund would increase by \$139 thousand to account for the operating expenses SBI would no longer pay from its general fund appropriation. This recommendation is budget neutral across all funds.

**Dollars in Thousands**

Net Impact by Fund	FY 25	FY 26	FY 27	FY 25-27	FY 28	FY 29	FY 28-29
General Fund		679	679	1,358	679	679	1,358
Other Funds		(679)	(679)	(1,358)	(679)	(679)	(1,358)
<b>Total All Funds</b>		0	0	0	0	0	0

Fund	Component Description	FY 25	FY 26	FY 27	FY 25-27	FY 28	FY 29	FY 28-29
1000	SBI Appropriation		(139)	(139)	(278)	(139)	(139)	(278)
1000	Investment Income		(818)	(818)	(1,636)	(818)	(818)	(1,636)
Other	Expenditures		139	139	278	139	139	278
Other	Investment Income		818	818	1,636	818	818	1,636

**Results:**

This change item will better align the allocation of costs between general fund and non-general fund assets.

**Statutory Change(s):**

Minn. Stat. §11A.04

Minn. Stat. §11A.07