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State Board of Investment

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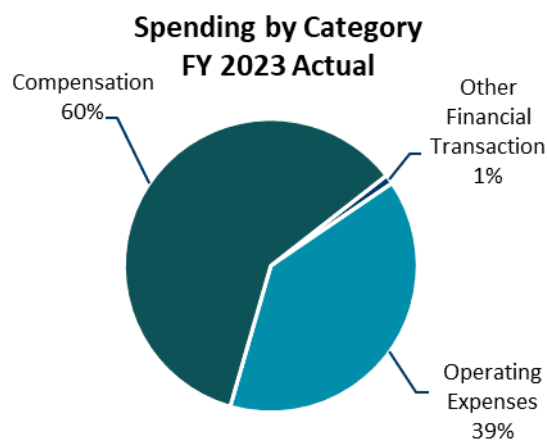
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AT A GLANCE

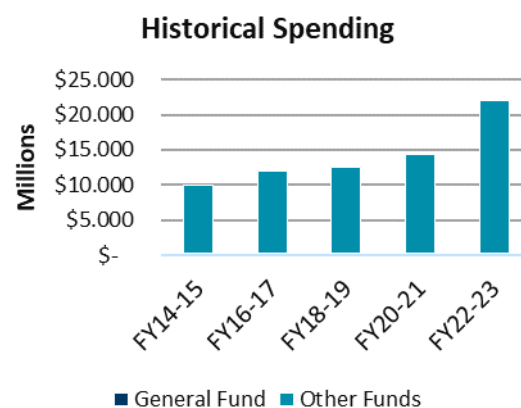
- The Minnesota State Board of Investment (SBI) is a fiduciary entrusted with investing approximately \$146.2 billion in total assets as of June 30, 2024.
- Assets under management have grown by 83% in the ten-year period since June 30, 2014.
- The SBI manages cash for 400+ state agency accounts, totaling \$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
1) Meet or Exceed 10-Year Composite Index Total Return				
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%
2) Provide 20-year Real Return of 3-5 percentage points above inflation (CPI)				
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

SBI Legal Authority is outlined in the following state statutes:

M.S. 11A

M.S. 356A

(Dollars in Thousands)

	Actual	Actual	Actual	Estimate	Forecast Base		Governor's Recommendation	
	FY22	FY23	FY24	FY25	FY26	FY27	FY26	FY27
<u>Expenditures by Fund</u>								
1000 - General	139	139	139	139	139	139	139	139
2000 - Restrict Misc Special Revenue	6,820	8,866	11,530	17,897	17,046	17,551	17,046	17,551
7504 - Invest Ext Money Managers #2	2,776	2,914	2,890	4,000	5,000	5,000	5,000	5,000
Total	9,735	11,919	14,559	22,036	22,185	22,690	22,185	22,690
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
Total	9,735	11,919	14,559	22,036	22,185	22,690	22,185	22,690

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
Total	9,735	11,919	14,559	22,036	22,185	22,690	22,185	22,690

Full-Time Equivalents

28.07	36.81	40.40	57.75	57.75	57.75	57.75	57.75
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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	139	139
Expenditures	139	139	139	139	139	139	139	139
Biennial Change in Expenditures				0		0		0
Biennial % Change in Expenditures				0		0		0
Governor's Change from Base								0
Governor's % Change from Base								0

2000 - Restrict Misc Special Revenue

Balance Forward In	19	19						
Receipts	6,820	8,847	11,530	17,897	17,046	17,551	17,046	17,551
Balance Forward Out	19							
Expenditures	6,820	8,866	11,530	17,897	17,046	17,551	17,046	17,551
Biennial Change in Expenditures				13,740		5,170		5,170
Biennial % Change in Expenditures				88		18		18
Governor's Change from Base								0
Governor's % Change from Base								0
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
Expenditures	2,776	2,914	2,890	4,000	5,000	5,000	5,000	5,000
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
Direct				
Fund: 1000 - General				
FY2025 Appropriations	139	139	139	278
Forecast Base	139	139	139	278
Total Governor's Recommendations	139	139	139	278
Open				
Fund: 7504 - Invest Ext Money Managers #2				
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
Total Governor's Recommendations	4,000	5,000	5,000	10,000
Dedicated				
Fund: 2000 - Restrict Misc Special Revenue				
Planned Spending	17,897	17,046	17,551	34,597
Forecast Base	17,897	17,046	17,551	34,597
Total Governor's Recommendations	17,897	17,046	17,551	34,597
Revenue Change Summary				
Dedicated				
Fund: 2000 - Restrict Misc Special Revenue				
Forecast Revenues	17,897	17,046	17,551	34,597
Total Governor's Recommendations	17,897	17,046	17,551	34,597
Non-Dedicated				
Fund: 2051 - Environmental Trust				
Forecast Revenues	79,645	131,506	131,506	263,012
Total Governor's Recommendations	79,645	131,506	131,506	263,012
Fund: 7504 - Invest Ext Money Managers #2				
Forecast Revenues	4,000	5,000	5,000	10,000
Total Governor's Recommendations	4,000	5,000	5,000	10,000