

1Q2016 IAC Meeting Materials

IAC Meeting – May 17, 2016

SBI Policy Comparison Presentation

MINNESOTA STATE BOARD OF INVESTMENT

- 2016 Proposed Policy Allocation
- Un-invested Allocation to Private Markets and Adjusted Policy Allocation
- Impact of Change in Un-invested Private Allocation
- \$ Impact of change in adjusted policy allocation
- Transition to New Policy Mix
- Recommendations

May 17, 2016

Comparison of Current and Proposed Policy Allocations

	Current Policy Allocation		Proposed Policy Allocation		Impact of Change
Public Equity	60%		58%		-2.0 pp
Domestic Equity		45%		39%	-6.0 pp
International Equity		15%		19%	+4.0 pp
Domestic Bonds	18%		20%		+2.0 pp
Private Markets	20%		20%		
Cash	2%		2%		
Total	100%		100%		

Role of the Un-invested Allocation to Private Markets: Adjusted Policy Allocation

	Current Policy Allocation		Current Policy Allocation Adjusted (1)		Proposed Policy Allocation		Proposed Policy Allocation Adjusted (2)	
Public Equity	60.0%		60.0%		58.0%		65.4%	
Domestic Equity		45.0%		45.0%		39.0%		44.0%
International Equity		15.0%		15.0%		19.0%		21.4%
Domestic Bonds	18.0%		25.4%		20.0%		20.0%	
Private Markets	20.0%		12.6%		20.0%		12.6%	
Cash	2.0%		2.0%		2.0%		2.0%	
Total	100.0%		100.0%		100.0%		100.0%	
Current Level of Privates = 12.6%								
(1) Un-invested Privates in Bonds								
(2) Un-invested Privates in Public Equity								

Impact of Change in Un-invested Private Allocation

	Current Policy Allocation Adjusted (1)		Proposed Policy Allocation Adjusted (2)		Implementation of Adjusted Proposed Policy
Public Equity	60.0%		65.4%		+5.4 pp
Domestic Equity		45.0%		44.0%	-1.0 pp
International Equity		15.0%		21.4%	+6.4 pp
Domestic Bonds	25.4%		20.0%		-5.4 pp
Private Markets	12.6%		12.6%		
Cash	2.0%		2.0%		
Total	100.0%		100.0%		
(1) Un-invested Privates in Bonds					
(2) Un-invested Privates in Public Equity					

\$ Impact of change in adjusted policy allocation

\$ Billions	Actual Market Value 3/31/16	Current Policy Allocation Adjusted (1)	Proposed Policy Allocation Adjusted (2)	Implementation of Adjusted Proposed Policy
Public Equity	34.5	34.5	37.7	3.2
Domestic Equity	26.3	25.9	25.4	-0.5
International Equity	8.2	8.6	12.3	3.7
Domestic Bonds	14.6	14.7	11.5	-3.2
Private Markets	7.2	7.2	7.2	0.0
Cash	1.2	1.2	1.2	0.0
Total	57.6	57.6	57.6	0.0
(1) Un-invested Privates in Bonds				
(2) Un-invested Privates in Public Equity				

Policy Mix Transition

- ▶ Transition Dollars over course of FY 2017.
- ▶ Will not use a futures overlay.
- ▶ For Performance Measurement - Revise Adjusted Policy Targets at Beginning of Each Quarter.
 - Target to be at New "Adjusted" Policy at Beginning of Year FY 2018.
- ▶ Hiring and termination of managers as part of transition process.
- ▶ Potential additional implementation proposals during the transition period "plus".

Recommendations

1) Adopt the Combined Funds Asset Allocation Policy

	Proposed Policy Allocation for Combined Funds		
Public Equity	58%		
Domestic Equity		39%	
International Equity		19%	
Domestic Bonds	20%		
Private Markets	20%		
Cash	2%		
Total	100%		

- 2) Allocate the un-invested Private Equity to Public Equities.
- 3) U.S. Equity - Russell 3000 and sub-indices.
- 4) Non-U.S. Equity - MSCI ACWI ex U.S.A. (standard) and sub-indices.
 - Opportunistically in Small Cap segments of MSCI ACWI ex U.S.A. and sub-indices
- 5) Global - MSCI ACWI or MSCI World indices.