



# MINNESOTA OFFICE OF THE STATE AUDITOR

MINNESOTA PUBLIC PENSION FUNDS  
INVESTMENT DISCLOSURE REPORT

For the Fiscal Year 1996

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STATE AUDITOR

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INVESTMENT DISCLOSURE REPORT**

For the Fiscal Year 1996

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**MINNESOTA PUBLIC PENSION FUNDS  
NOTES TO INVESTMENT DISCLOSURE REPORT  
For the Fiscal Year 1996**

**1. BACKGROUND**

In 1997, Minnesota Statute § 356.219<sup>1</sup> required that volunteer fire relief associations with at least \$300,000 in assets and certain other designated public pension funds disclose investment information to the Office of the State Auditor (hereinafter "OSA") within six months after the end of each fund's fiscal year.<sup>2</sup> This information was to include a written statement of the pension fund's investment policy as well as the market value of all investments, contributions to the fund, benefits paid, management fees, administrative expenses, and total return on investments.

**2. SOURCE OF DATA**

The information contained in this report represents a compilation of the pension fund investment disclosure data which was submitted by 174 relief associations to the OSA.

**3. DATA INCLUDED IN THE INVESTMENT DISCLOSURE REPORT**

The investment performance data submitted by each pension fund is presented in alphabetical order and each report contains the following information:

- A synopsis of each pension funds' investment allocation policy in effect during 1996;

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<sup>1</sup> The legislature amended Minn. Stat. § 356.219, in the Laws of Minnesota for 1997, Chapter 241, Article 10. The revised law will require all Minnesota public pension plans to report investment information to the OSA. As a result, all public pension funds, including volunteer firefighter relief associations that have assets with a market value of less than \$300,000, will be required to begin reporting investment information to the OSA in 1998.

<sup>2</sup> The State Board of Investment files a report on behalf of those pension funds for which it is the investment authority and for those public pension funds which are wholly invested in the State Board of Investment.

- The name of each investment account reported by the pension fund or a combination of several accounts reported by the "balanced account" method;
- The type of investment each account represents (i.e., annuities, stocks, bonds, certificates of deposit, money market, etc.);
- The beginning and ending asset value for each investment;
- Net cash flows (net of fees);<sup>3</sup>
- The return for each investment in U.S. dollars; and
- The annual rate of return for each investment account.<sup>4</sup> For accounts which have a zero beginning or ending asset value, the rate of return set forth in this report is calculated for that portion of the year the investment account was held (i.e., 6 months). For reliefs which only have a balanced account, quarterly rates of return are given.

For those pension funds which have submitted investment data utilizing a "balanced account" format, the OSA has included detail regarding the type of investments held in the balanced account as of January 1, 1996, and December 31, 1996.<sup>5</sup>

#### **4. PENSION FUNDS NOT INCLUDED**

A summary of the following pension fund's investment data is not included in this report because the data necessary to conduct an analysis was not provided to the OSA:

- Dawson Fire Department Relief Association
- Hermantown Volunteer Fire Department

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<sup>3</sup> Net cash flows represent contributions to the account such as state fire aid or municipal contributions, benefits paid to pension members, management fees paid and/or incurred, administrative expenses, and inter-account transfers.

<sup>4</sup> The rate of return listed for each investment account is net of fees.

<sup>5</sup> The analysis provided for balanced accounts is given on either a monthly or quarterly basis. In 1997, Minn. Stat. § 356.219 required volunteer firefighters' relief associations to submit their investment information to the OSA on a quarterly basis and required all other public pension plans to submit their information on a monthly basis.

East Grand Forks Fire Department Relief Association's records were destroyed during the Red River Valley flood in the spring of 1997. Therefore, this relief association was unable to supply the required information.

## 5. INDICES

An index is a statistical composite that measures changes in the economy or in financial markets. The OSA has included a select group of indices within this report which may be used as a point of reference when analyzing a particular fund's investment performance for 1996.<sup>6</sup> An explanation of the indices, which are listed on page five of this report, is as follows:

- **Wilshire 5000 Stock Index** - This index is the broadest index for the U.S. Stock Market and includes all stocks traded over the counter and on exchanges, including the S&P 500.
- **Standard and Poor's 500 Index (S&P 500)** - This index is designed to measure performance of the broad domestic economy through changes in the value of 500 stocks representing all major industries. This index is widely considered the benchmark for large-stock investors.
- **Russel 2000** - This index is widely used as a measure of small company stocks in the U.S.
- **Lehman Aggregate** - This index represents high quality, "investment grade" treasury/agency, corporate, and mortgage-backed bonds in the U.S. Throughout this report, mortgage-backed securities are identified as "Mort. Securities".
- **Lehman Government/Corporate** - This index represents a mix of U.S. high quality, "investment grade" government and corporate bonds.
- **Lehman Corporate Bonds** - This index represents a mix of U.S. high quality, "investment grade" corporate bonds.
- **Lehman Government Bonds** - This index represents U.S. government bonds.

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<sup>6</sup> Indices are not provided for certificates of deposit, venture capital, limited partnerships, annuities, or real estate.

- **Morgan Stanley Capital International Index of Europe, Australia and the Far East (EAFE)** - This index represents a measure of 20 international stock markets located in Europe, Australia, and the Far East.
- **Salomon Non U.S. Government Bonds** - This index represents a measure of non U.S. government bonds.
- **91 Day U.S. Treasury Bills** - This index represents a measure for U.S. Treasury bills with an average maturity date of 91 days. The index may be used as a measure for short-term cash accounts, such as cash equivalents, checking, savings, money market accounts, and commercial paper.

The OSA would like to express its appreciation to the trustees of the pension funds who contributed to the preparation of this report.

## NATIONAL INDICES

	Fiscal Year Ending	
	June 30, 1996	December 31, 1996
<b>RATES OF RETURN</b>		
<b>Stocks</b>		
Wilshire 5000 Stock Index (All size U.S. stocks)	26.2%	21.2%
S&P 500 (Large company U.S. stocks)	26.2%	23.2%
Russell 2000 (Small company U.S. stocks)	23.9%	16.5%
<b>Bonds</b>		
Lehman Aggregate (All U.S. bond types)	5.0%	3.6%
Lehman Government/Corporate (U.S. Government and corporate bond mix)	4.7%	2.9%
Lehman Corporate Bonds	5.1%	3.3%
Lehman Government Bonds	4.5%	2.8%
<b>International Securities</b>		
Morgan Stanley Capital International Index of Europe, Australia and the Far East (EAFE) (International Stock)	13.3%	6.0%
Salomon Non U.S. Gov't Bond (International bonds)	-1.7%	4.1%
<b>Short-term Cash Securities</b>		
91 Day U.S. Treasury Bills (Cash, savings, checking, money markets)	5.4%	1.3%
<b>OTHER</b>		
Change in Consumer Price Index (CPI)	2.8%	3.3%