

# **3Q14 Investment Results for the Management Committee**

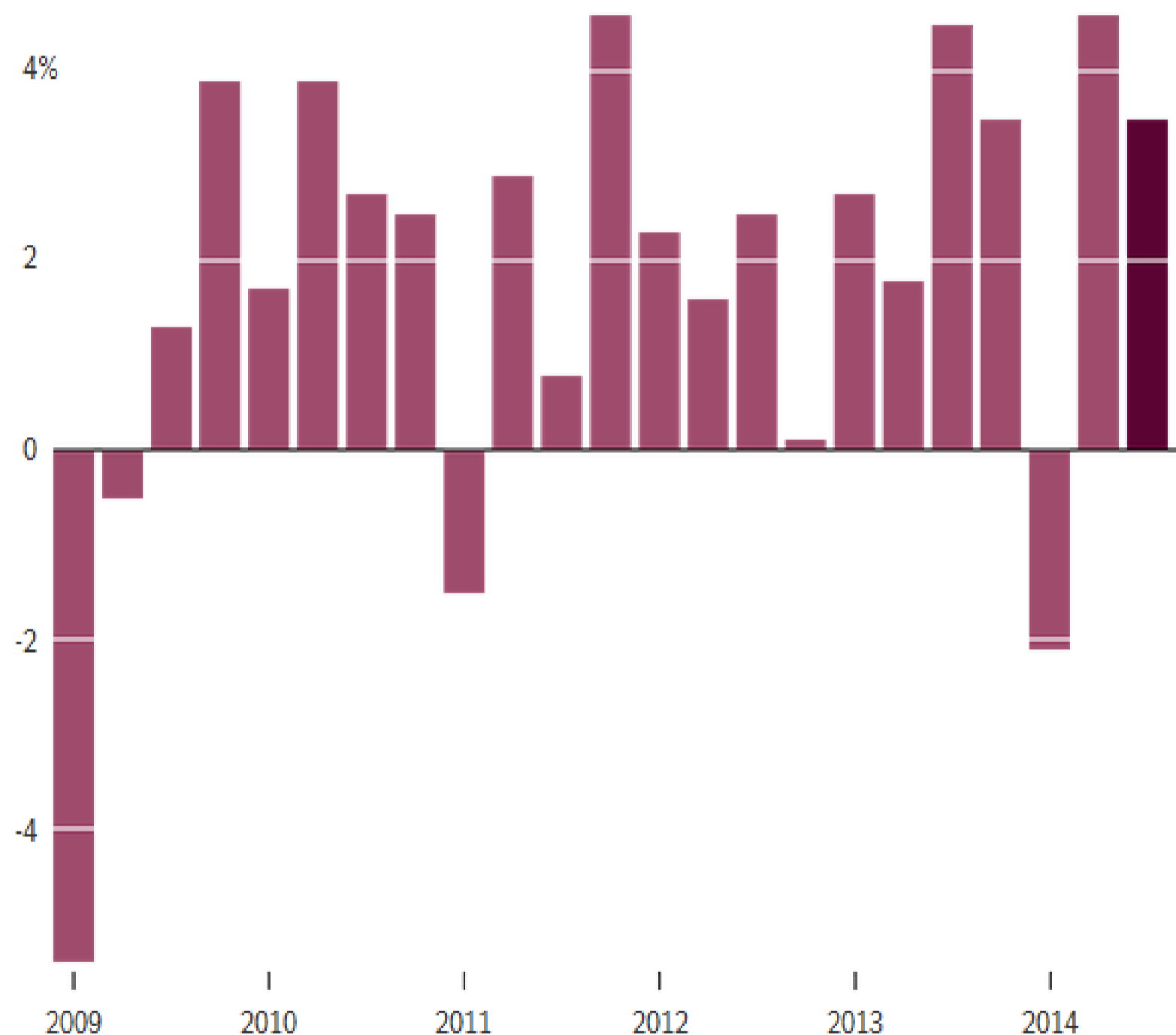
**11-12-14**

# Economic Review: Real GDP

**4Q13, 3.5%; 1Q14, -2.1%; 2Q14, 4.6%; 3Q14, 3.5%**

Economic Growth Was Solid in the Spring and Summer

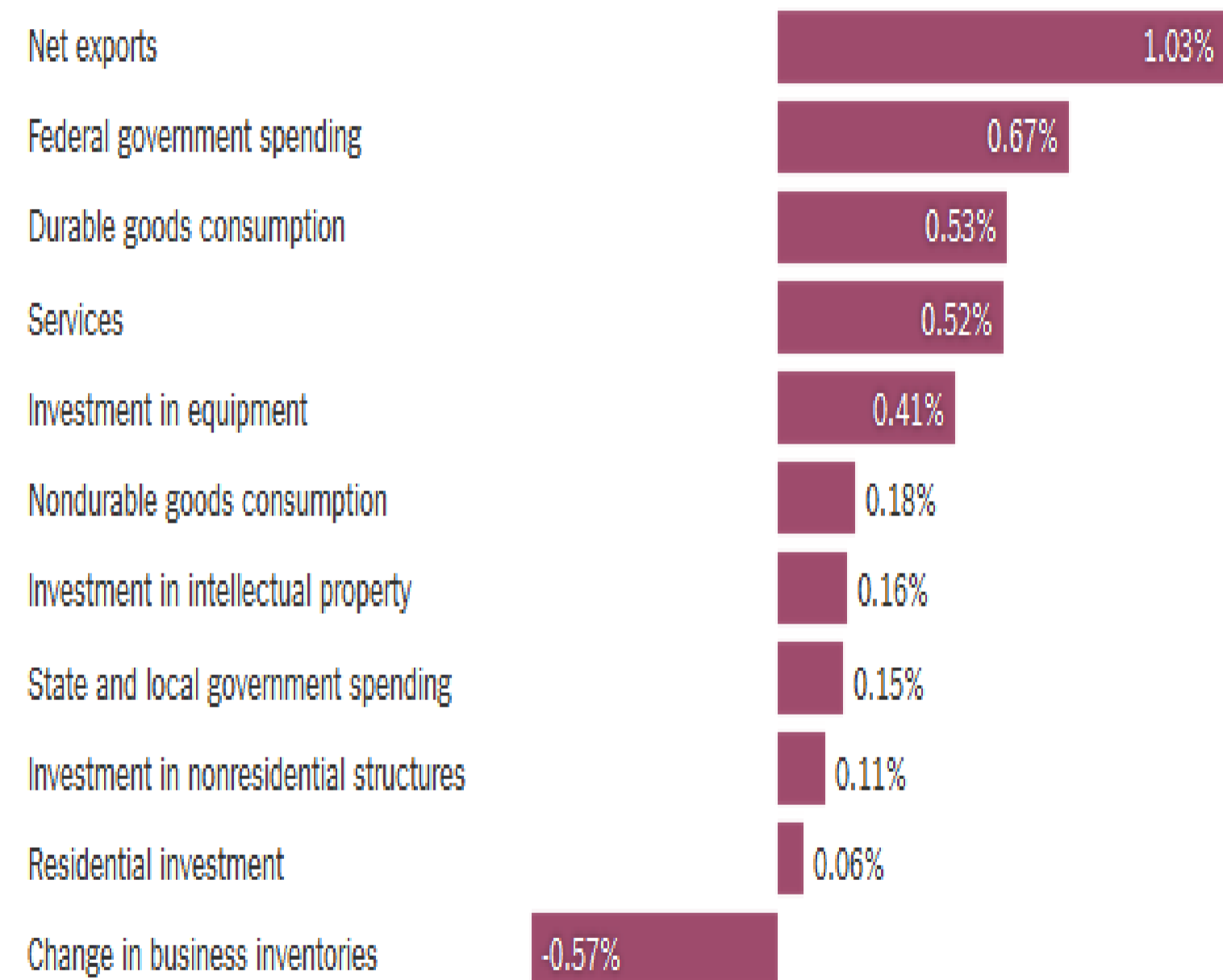
Percent change in gross domestic product, seasonally adjusted annual rate



Source: Bureau of Economic Analysis

## Contribution to Third-Quarter G.D.P. Growth

The third-quarter growth of 3.5 percent included these components.

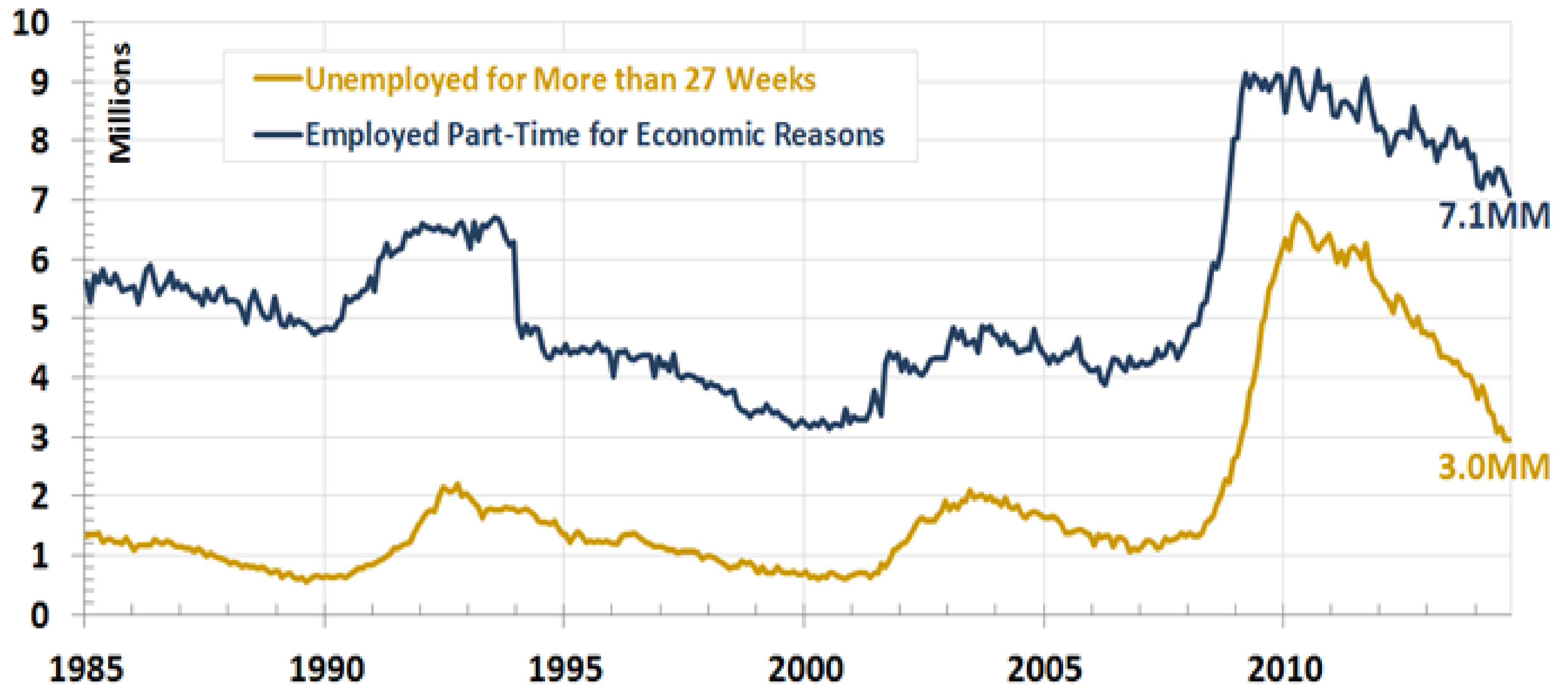


Source: Bureau of Economic Analysis

Source: Bureau of Economic Analysis, Bianco Research

# SLACK IN LABOR MARKET

Some FOMC Members Still See Slack in the Labor Market



Sources: BLS, Vining Sparks



Source: WSJ

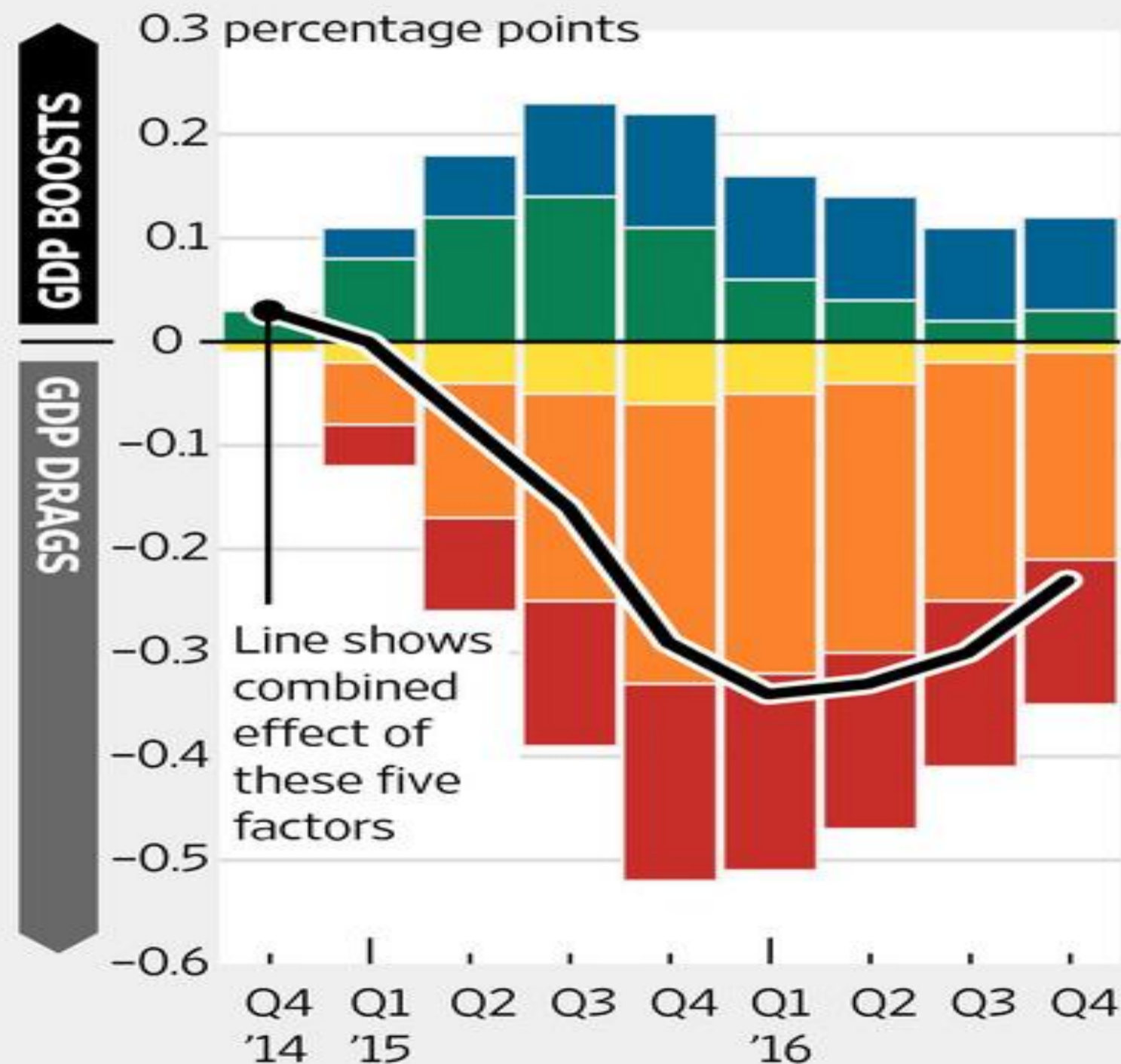


# Growing Pains for US GDP Growth

## Growing Pains

Financial market volatility and weaker foreign demand could weigh down the U.S. economy despite a boost from lower borrowing and energy costs.

Some factors that could impact growth and their effect on U.S. GDP



### POTENTIAL GDP BOOSTS

#### Lower rates

Households and businesses benefit from cheaper borrowing.

#### Lower oil prices

Consumers pay less for energy, boosting consumption.

### POTENTIAL GDP DRAGS

#### Foreign demand slowdown

Multinational firms face softer sales abroad.

#### Stronger dollar

Exporters could be at a disadvantage selling goods.

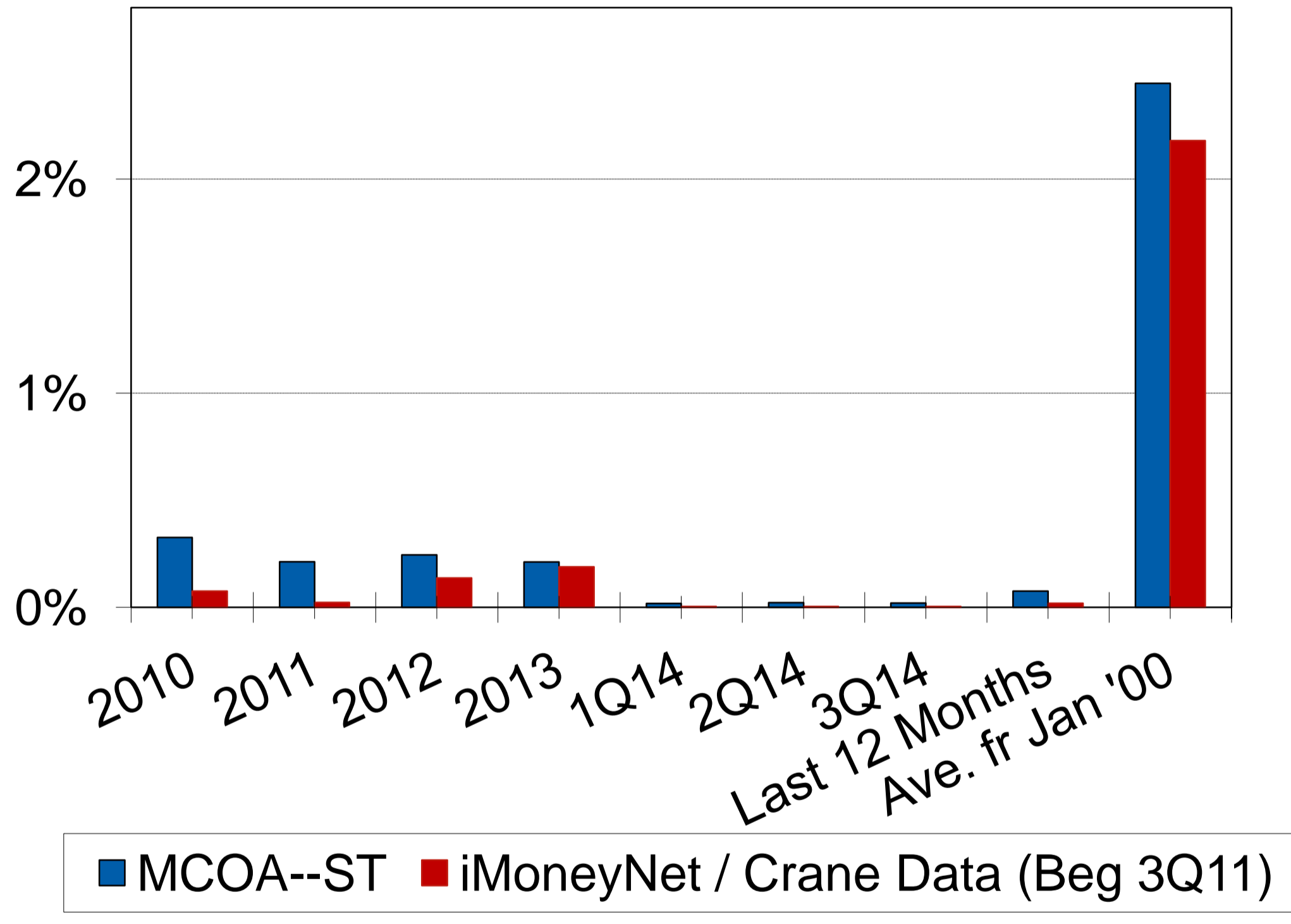
#### Weaker equity/credit

Market volatility slows business investment and hiring.

Source: Goldman Sachs Global Investment Research

# Total Return, ST Portfolio

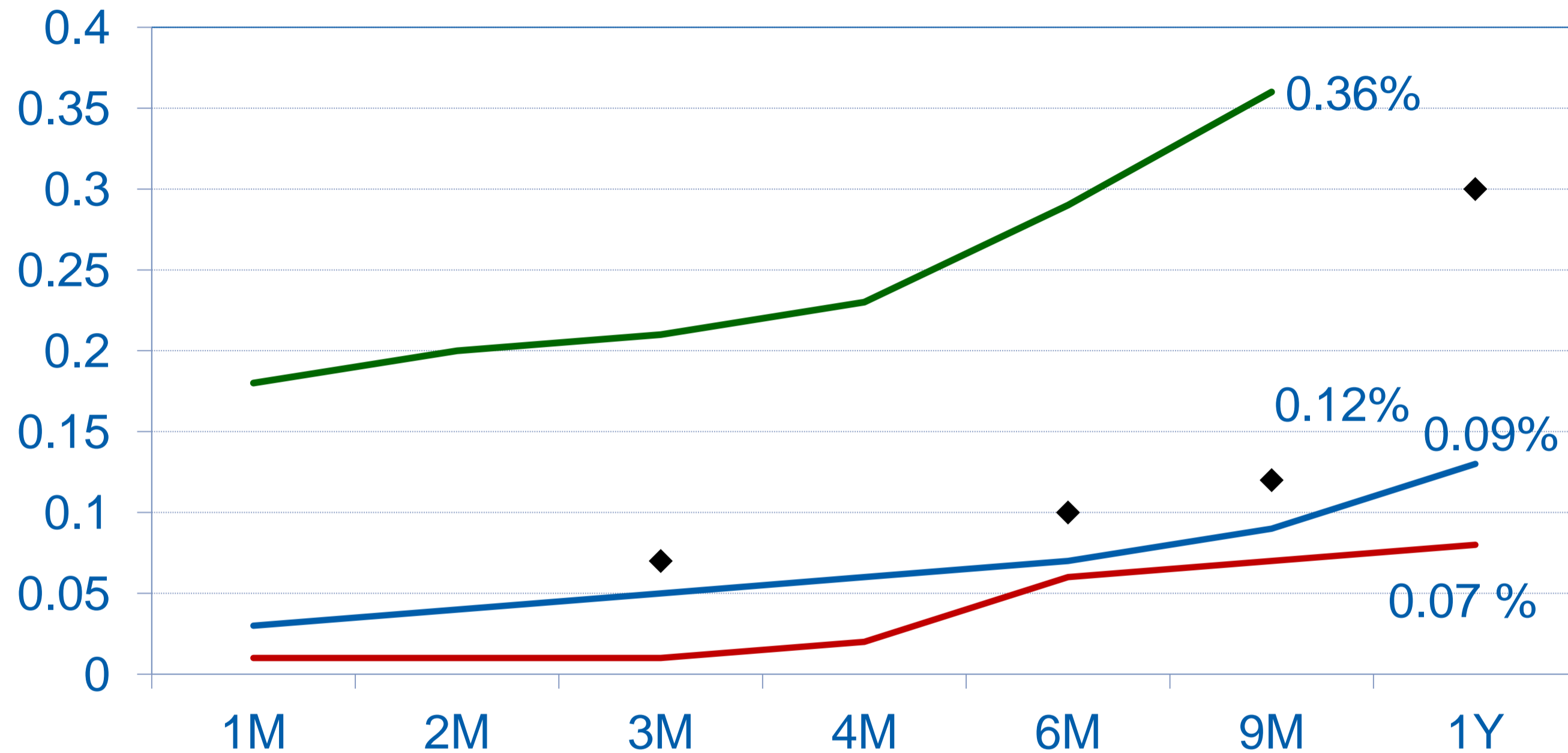
## Total Return (by Periods)



- +2 bps (above) Index in 3Q
- +27 bps/year ave. over index for last 16 yrs

Source: Metropolitan Council, Bloomberg

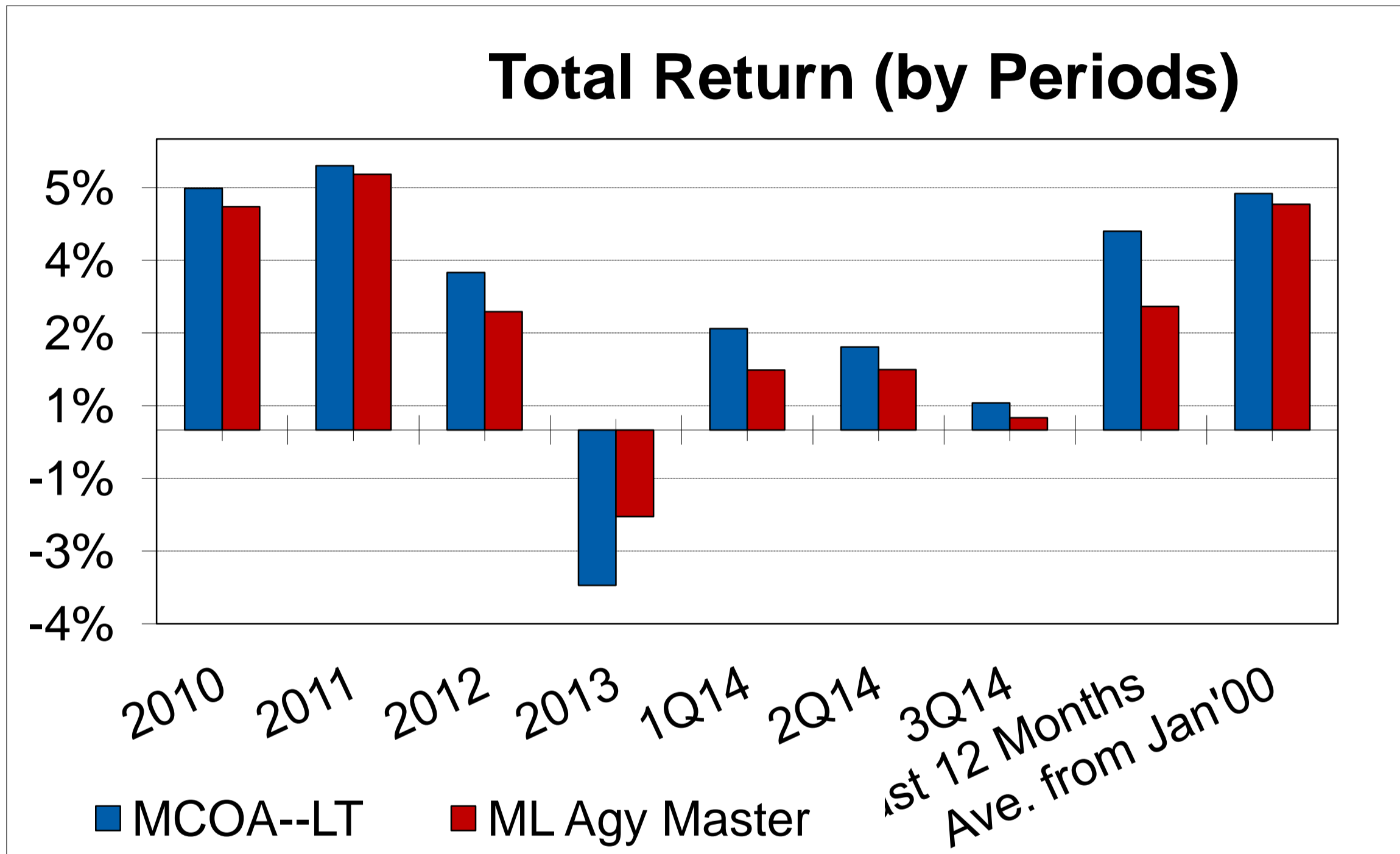
# US Short rates have remained at stable, low levels



— US T-bills — US Disc notes — US Dealer CP Top Tier ◆ CDARS Program

Source: Bloomberg

# Total Return, LT Portfolio



- +31 bps (above) Index in 3Q14
- +22 bps/year ave. over index for last 16 yrs

Source: Metropolitan Council, Bloomberg

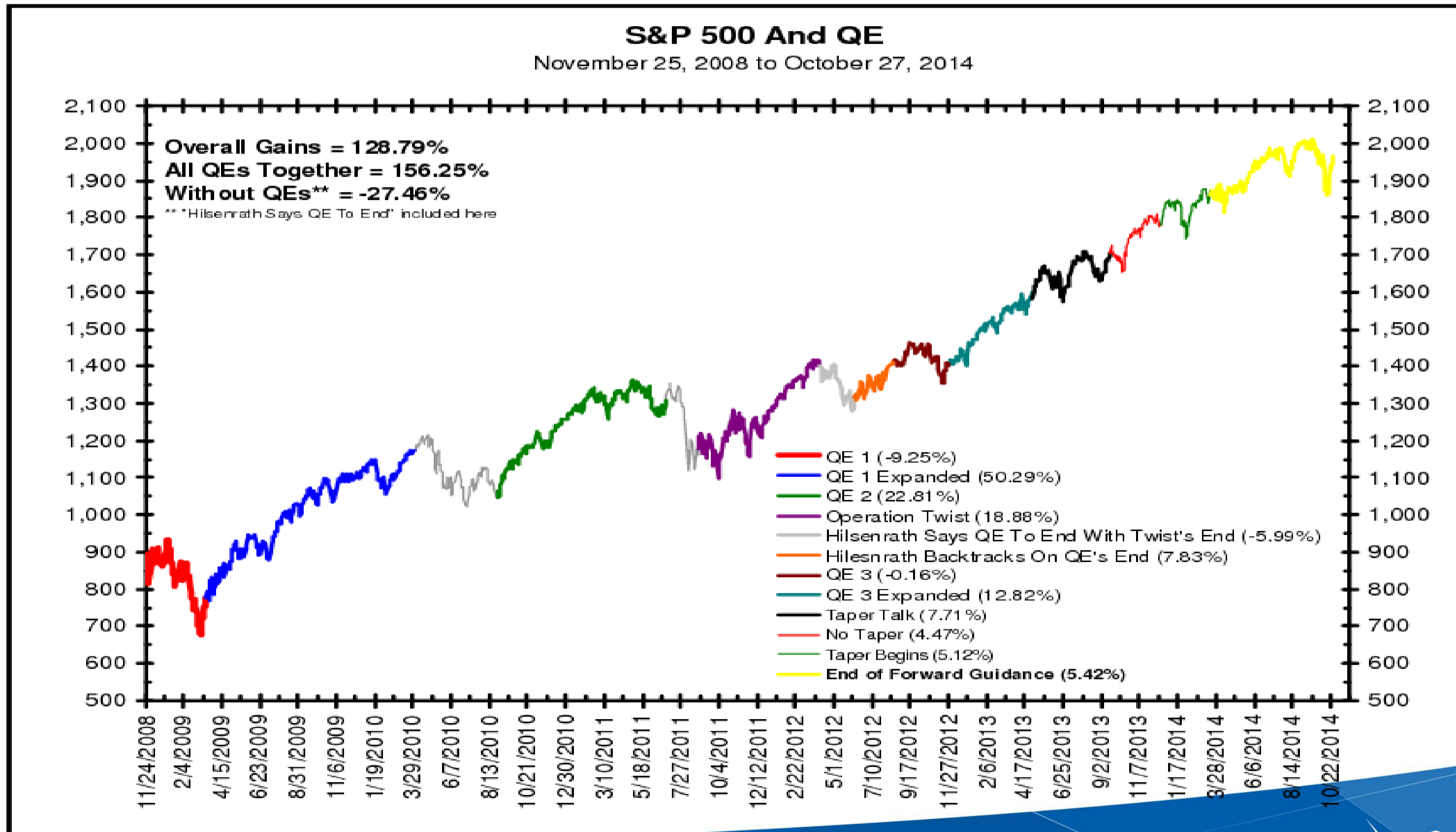
# Investment Plans for Long-term Portfolio

- Maintain high cash balances to maintain effective duration within a range of 2 - 6.
- Cash can be utilized to purchase high yielding securities should rates rise in the near future.
- Minimal activity in 4H14 unless some bonds are called.



# S&P 500 Index

## The Stock Market And QE



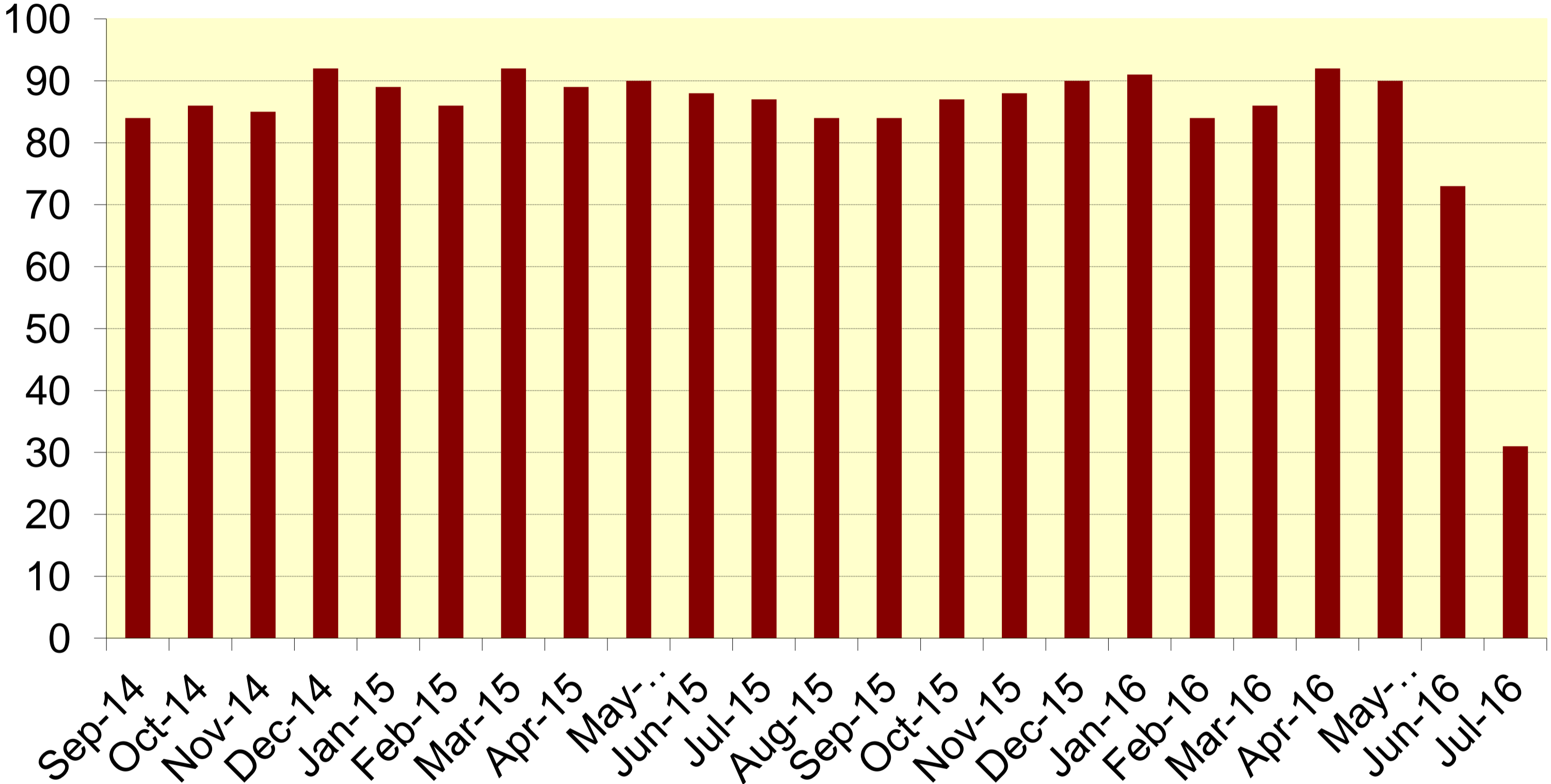
# OPEB 3Q14 Port Results

- OPEB @ 1.18% ; S&P 500 Index @ 1.13%
- 3Q14 unrealized gain is \$ 1.3M
- Value: 06-30-14: \$ 191.9 MM  
09-30-14: \$ 194.2 MM  
10-31-14: \$ 199.2 MM
- Allocation to equities and cash

# Allocation Expectations: OPEB

- A new investment strategy is being developed. Over time, the Minnesota State Board of Investments (SBI) will put into place a laddered bond portfolio which will generate the targeted cash flow to meet future liability payments.
- We expect future growth in the equity markets to be constrained because of all the growth that is behind us. Equity markets will remain volatile due to market uncertainty fueled by geopolitical risks.

# Diesel Hedging Program



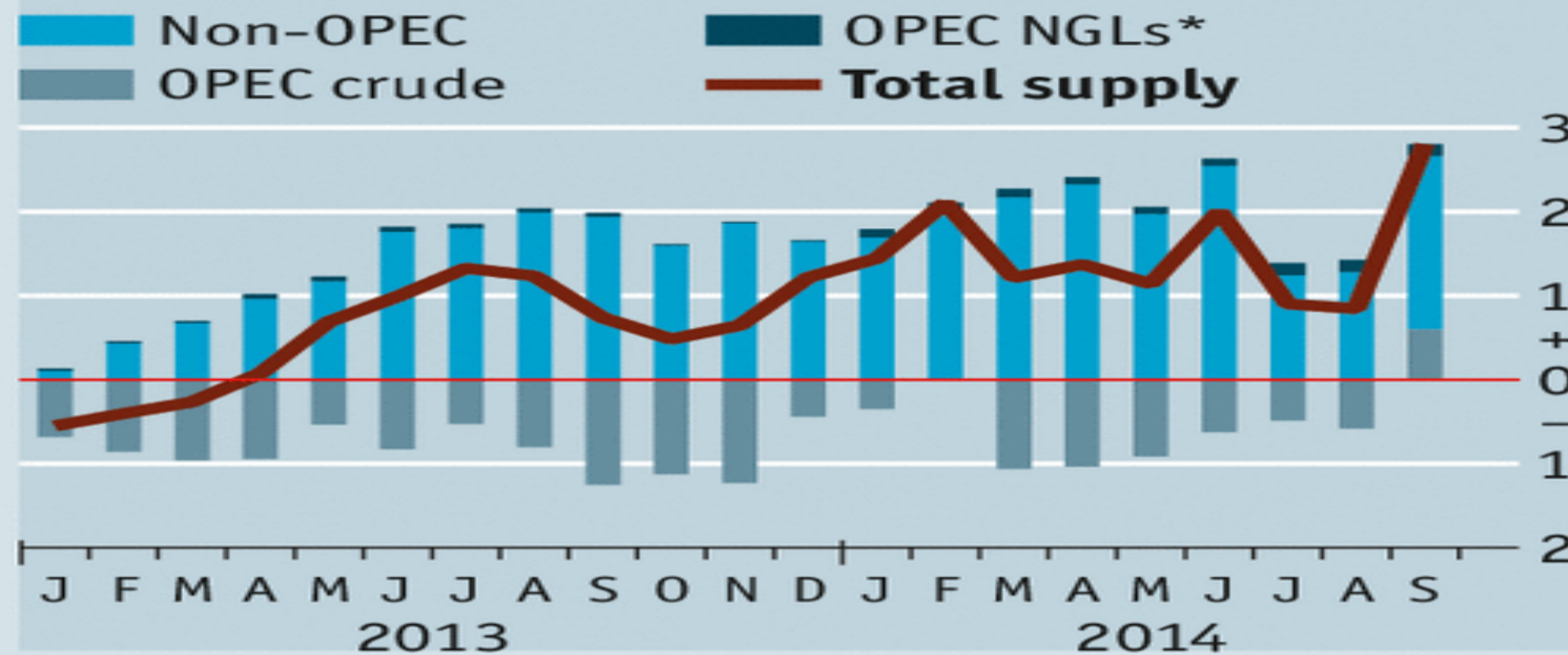
Source: Metropolitan Council



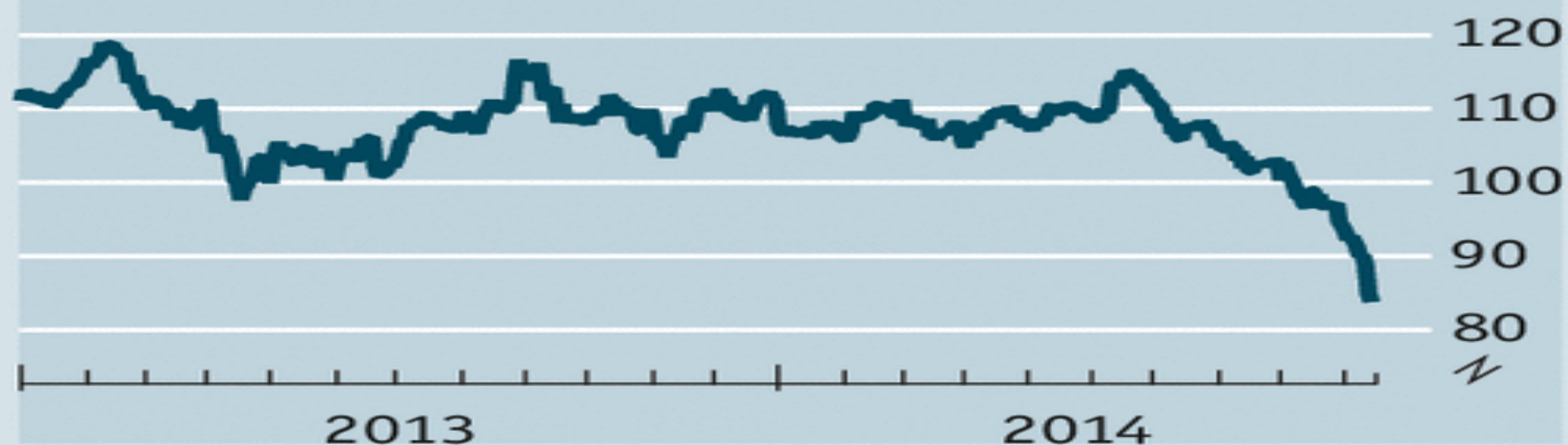
# Brent Crude Oil Price, \$ per Barrel

## Supply shock

Oil supply, barrels a day, m  
Change on a year earlier



Brent crude oil price, \$ per barrel



Sources: Thomson Reuters;  
International Energy Agency

\* Natural gas liquids

# Questions

