

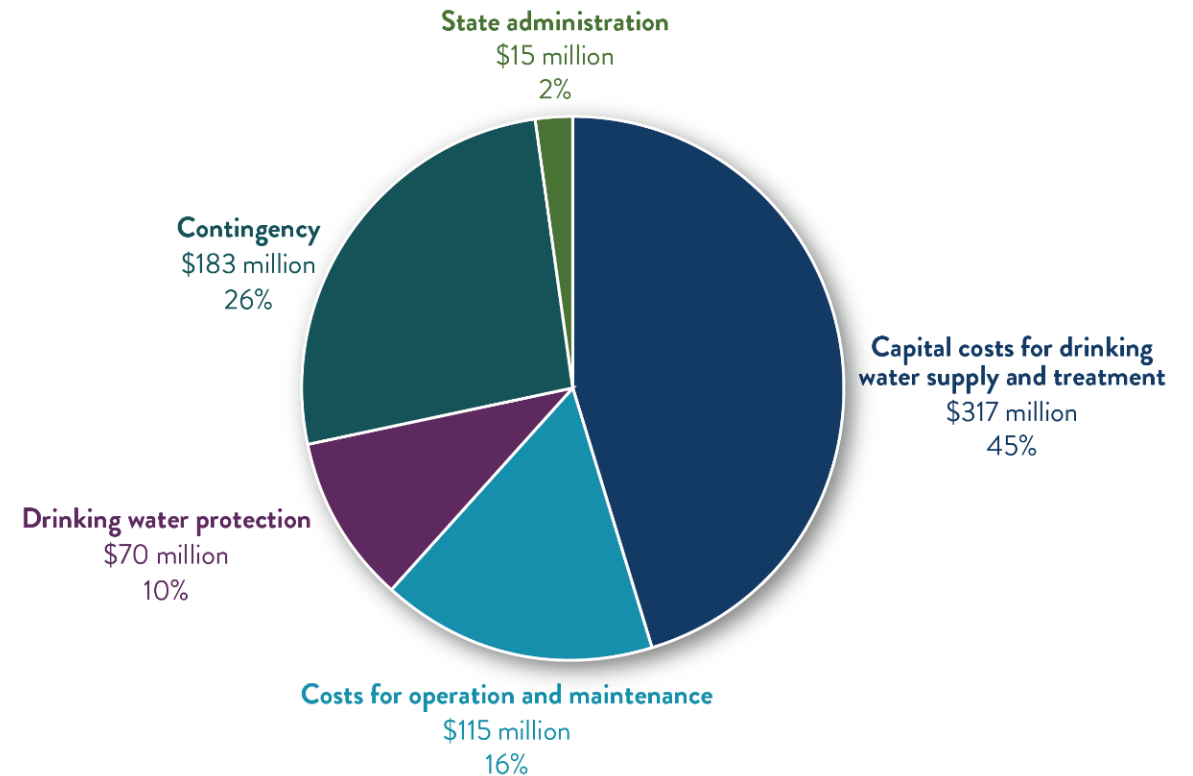
Final Investment Planning for the 3M Settlement and Conceptual Plan

3M PFAS Settlement Work Group Meetings

Heather Hosterman, Abt Associates; May 17 & 18, 2022

- Settlement funds currently in cash account earning roughly 1% annual interest
- For fund allocations in the Conceptual Plan, Co-Trustees assumed that some funds would be invested to achieve higher returns while managing risk; this will help support O&M and other funding goals
- Co-Trustees worked with the State Board of Investment (SBI) to evaluate investment options; SBI provided analyses to help inform Co-Trustee recommendations
- Co-Trustees made recommendations on fund allocations during January work group meetings; Co-Trustees later revised the recommendations based on work group feedback

Fund Allocations in the Conceptual Plan



- Future performance of any investment is uncertain
- The analysis prepared by SBI are best estimates, but do not represent any guarantee about how investments will perform
- The returns could be higher or lower than what is presented here

Capital funds

- **Initial funding amount: \$387M**
 - Includes \$300M for drinking water infrastructure, \$70M for drinking water protection projects and additional \$17M to cover anticipated inflation
- **Investment goals:**
 - Covers expenses based on Co-Trustees expected capital spending schedule over 10 years
 - Adaptable to cover costs sooner or later than anticipated
 - Covers potential inflation at an assumed rate of at least 3% as estimated in the Plan
- **Asset allocation:**
 - Co-Trustees recommended, and work group members agreed to investing 100% of capital funds in laddered Treasury bonds and cash

Operations and maintenance (O&M) funds

- **Initial funding amount: \$115M**
 - Includes \$28M for O&M on POETSs (30 years) and \$87M for O&M on public water systems (20 years)
- **Investment goals:**
 - Increases annual returns and lowers the probability of shortfalls in most market conditions to cover and exceed (if possible) the 20- and 30-year O&M projects estimated in the Conceptual Plan, net of potential inflation
- **Asset allocation:**
 - Co-Trustees recommended, and work group members agreed to invest O&M funds with 40% in equities, 30% in fixed income, and 30% in cash

Contingency funds

- **Initial funding amount: \$183M**
 - Addresses various sources of future uncertainty, including future treatment needs, alternative sources of drinking water (if needed), and cost overruns
- **Investment goals:**
 - Allows for funds to grow to meet future uncertain needs while focusing more on capital preservation and liquidity than O&M given the potential for short-term capital spending needs
- **Asset allocation:**
 - Co-Trustees originally recommended most funds (87.5%) be invested in cash, with a small portion (12.5%) invested in equities; work group members suggested this was too conservative
 - Co-Trustees revised recommendation to invest contingency funds with 25% in equities, 25% in fixed income, and 50% in cash

State administration funds

- **Initial funding amount: \$15M**
 - Covers annual state administration costs over the next 20 years
- **Investment goals:**
 - Invest in a low-risk strategy that ensures funds are available, as needed, to fund on-going agency expenses
- **Asset allocation:**
 - Co-Trustees recommend keeping the \$15 million in the current cash account
 - Although work group members expressed concern that this is too conservative, Co-Trustees think this option provides a competitive rate of return in line with the goal of preserving capital and maximizing liquidity

Implementation and management of investments

- Co-Trustees will present the account structure of the investment plan to the SBI Board meeting for final approval on May 25th
- The SBI monitors investments regularly and will communicate with Co-Trustees about performance and changing market conditions
- Co-Trustees and the SBI will conduct annual or more frequent (as needed) meetings to go over investment performance; surpluses or shortages will be managed according to the reallocation process described in Chapter 10 of the final plan