

**Minutes
State Board of Investment Meeting
May 29, 2020**

Notice of Meeting

The State Board of Investment (SBI) met at 5:14 p.m. Friday, May 29, 2020 via Teleconference. It was determined that an in-person meeting was not practical due to the current health pandemic and on-going peace time emergency declared under Chapter 12 of the Minnesota Statutes. As is permitted under the Open Meeting Law in these conditions, this meeting of the State Board of Investment is being conducted over the phone and attendance and all votes conducted with a roll call.

Call to Order

Governor Tim Walz, Chairperson of the SBI, called the meeting to order. Governor Tim Walz, State Auditor Julie Blaha, Secretary of State Steve Simon, and Attorney General Keith Ellison were present.

Approval of Minutes

The minutes of the February 26, 2020 SBI meeting were approved unanimously by roll call vote.

Executive Director's Report

Mr. Perry referred members to the March 31, 2020 Performance Report in Tab A of the meeting materials. Mr. Perry informed the Board that the Combined Funds fiscal year to date return as of today (5/29/2020) was flat versus the -6.2% fiscal year to date return as of March 31, 2020. The meeting materials show that as of March 31, 2020, the SBI was responsible for managing \$91.5 billion of assets. On a ten-year period ending March 31, 2020, the Combined Funds outperformed its Composite Index (Combined Funds 8.0% vs Combined Funds-Composite Index 7.8%) and had provided a real rate of return of 3.6% above inflation over the last 20 year period (Combined Funds 5.6% vs CPI-U 2.1%).

Mr. Perry referred members to Tab B of the meeting materials for the Administrative Report, which included the administrative budget, the travel report for the fiscal year to date through March 31, 2020 and the Iran and Sudan summary. Mr. Perry thanked the Governor for signing the 2020 Pension Bill, which included language for additional flexibility in the private markets allocation.

SBI Administrative Committee Report

Mr. Perry referred members to Tab C of the meeting materials for the SBI Administrative Committee Report. The Committee met on May 8 and May 15, 2020, to review the Executive Director's FY21 Work Plan, the Budget Plan for FY21 and FY22, the Continuing Fiduciary Education Plan, and the Review of the Executive Director's FY20 Evaluation and Salary process as presented in the Administrative Committee Report. The Administrative Committee recommends, and the Investment Advisory Council (IAC) concurs, that the Board approve the following recommendations. Attorney General Ellison moved approval of the recommendation, which reads: **"The Committee recommends that the SBI adopt the Continuing Fiduciary Education Plan."** The motion passed unanimously by roll call vote.

State Auditor Blaha moved approval of the following recommendations as listed in the Administrative Report, which reads: **“The Committee recommends that the SBI approve the FY21 Executive Director’s Work Plan. Further, the Committee recommends that the Work Plan serve as a basis for the Executive Director’s performance evaluation for FY21.**

The Committee recommends that the SBI approve the FY21, and FY22 Administrative Budget Plan, as presented to the Committee and subject to any legislative appropriation changes; and that the Executive Director have the flexibility to reallocate funds between budget categories if the Executive Director deems necessary.

The Committee recommends that the SBI adopt the following performance evaluation and salary process for the SBI Executive Director:

- **Evaluations by each Board member should be completed by October 1.**
- **The evaluations will be primarily based on the results of the Executive Director’s Work Plan for the fiscal year ending the previous June 30.**
- **The SBI Deputies/Board designees will develop an appropriate evaluation form for use by each member.**
- **As Chair of the Board, the Governor (or his/her Board designee) will coordinate distribution of the evaluation forms. Board members will forward completed evaluations to the Executive Director. Board members should also send a copy of the Overall Evaluation (summary page 1) to the Governor or the Governor’s designee. Board members are encouraged to meet individually with the Executive Director to review their own evaluation.**
- **Upon satisfactory performance evaluations from a majority of responding Board Members, the Executive Director’s annual salary adjustment will be determined with consideration of any Cost-of-Living Adjustment (COLA)/Across the Board (ATB)/General Salary Increases and/or any Performance-Based Salary Increases contained in the Managerial Plan for a Fiscal Year as approved by the Legislature to the extent that it is within the Executive Director’s salary range, as indicated on the Evaluation Form by a majority of evaluations. The adjustment shall be effective January 1 of the next calendar year.**
- **The Governor (or his/her Board designee) will provide a letter to the Executive Director confirming the status of the Executive Director’s evaluation results by November 1.”** The motion passed unanimously by roll call vote.

IAC Membership Review Committee Report

Mr. Perry delivered the IAC Membership Review Committee Report outlined in Tab D of the meeting materials. Secretary of State Simon moved approval of the recommendation which reads: **“The Committee recommends that the Board reappoint the following as members of the Investment Advisory Council, with terms expiring in January 2024: Ms. Kim Faust, Ms. Susanna Gibbons, Mr. Morris Goodwin Jr., Ms. Carol Peterfeso, and Mr. Shawn**

Wischmeier. The Committee also recommends that the Board appoint the following applicant to the Investment Advisory Council, with a term expiring in January 2023: **Ms. Ellen Brownell.** The motion passed unanimously by roll call vote.

Private Markets Program Report and Commitments for Consideration

Mr. Martin, Chairperson of the Investment Advisory Council, delivered the Private Markets Program Report and reviewed two private markets proposals listed in Tab E of the meeting materials. Mr. Martin stated that the following two recommendations are with existing managers with whom the SBI has done extensive due diligence: Oaktree Opportunities Fund XI and TCW TALF Opportunities Fund. State Auditor Blaha moved approval of the two recommendations which reads: **“The Investment Advisory Council concurs with Staff’s recommendation that the SBI authorize the Executive Director, with assistance from the SBI’s legal counsel, to negotiate and execute a commitment of up to \$300 million, or 20% of Oaktree Opportunities Fund XI, whichever is less, plus an additional amount not to exceed one percent of the total commitment for the payment of required charges at closing. Approval of this potential commitment is not intended to be, and does not constitute in any way, a binding or legal agreement or impose any legal obligations on the State Board of Investment and neither the State of Minnesota, the Investment Advisory Council, the State Board of Investment nor its Executive Director have any liability for reliance by Oaktree upon this approval. Until the Executive Director on behalf of the SBI executes a formal agreement, further due diligence and negotiations may result in the imposition of additional terms and conditions on Oaktree or reduction or termination of the commitment.**

The Investment Advisory Council concurs with Staff’s recommendation that the SBI authorize the Executive Director, with assistance from the SBI’s legal counsel, to negotiate and execute a commitment of up to \$100 million, or 20% of TCW TALF Opportunities Fund, whichever is less, plus an additional amount not to exceed one percent of the total commitment for the payment of required charges at closing. Approval of this potential commitment is not intended to be, and does not constitute in any way, a binding or legal agreement or impose any legal obligations on the State Board of Investment and neither the State of Minnesota, the Investment Advisory Council, the State Board of Investment nor its Executive Director have any liability for reliance by TCW upon this approval. Until the Executive Director on behalf of the SBI executes a formal agreement, further due diligence and negotiations may result in the imposition of additional terms and conditions on TCW or reduction or termination of the commitment.” The motion passed unanimously by roll call vote.

SBI Executive Director Comments and Discussion Report

Mr. Perry referred members to Tab F of the meeting materials for the SBI Executive Director Comments and Discussion Report. With the support of the IAC and SBI consultants, Mr. Perry requested that the Board approve two resolutions.

The first resolution addresses the Board’s ESG initiatives to evaluate options that will reduce the SBI’s investments to long-term carbon risk exposure. Mr. Perry worked with Meketa Investment Group to review the risk associated with removing publicly traded investments in thermal coal extraction and production companies from the Combined Funds public market portfolio. The results showed that removal of such companies as authorized investments created manageable

tracking error with respect to the benchmarks and would be prudent under the circumstances applicable to the thermal coal industry. Mr. Perry requested approval of the resolution concerning the reduction of investments associated with thermal coal production, and authorizing the Executive Director to implement a procedure and process consistent with the state's fiduciary duties to remove companies deriving 25% or more revenue from the Combined Funds public markets portfolio. Attorney General Ellison moved approval of the resolution concerning reduction of investments with thermal coal production. The motion passed unanimously by roll call vote. (See **Attachment A** – SBI Resolution Concerning Reduction of Investments Associated with Thermal Coal Production.) As part of this effort, Mr. Perry also informed the Board that he has directed his staff to transform the State Cash accounts portfolio to a fossil fuel free portfolio within the next year.

The second resolution, Mr. Perry stated, would incorporate portfolio modifications to improve the management of the Combined Funds portfolio. The first adjustment is to increase the fixed income allocation to better manage the liquidity and protection of the portfolio. The second adjustment is to provide greater flexibility in the management of the private markets portfolio by using risk management vehicles with the use of cash and currency overlay strategies within the unallocated portion of the portfolio. State Auditor Blaha moved approval of the resolution concerning management of the Combined Fund asset allocation. The motion passed unanimously by roll call vote. (See **Attachment B** – SBI Resolution Concerning Management of Combined Funds Asset Allocation and Liquidity.)

Reports

Mr. Perry directed members to the remainder of the reports that included the Public Markets, Non-Retirement and Participant Directed Investment Programs Report in Tab G; the Market Environment Report prepared by AON in Tab H; the Capital Markets Outlook & Risk Metrics Report prepared by Meketa in Tab I; and the SBI's Comprehensive Performance Report in Tab J.

Other Items

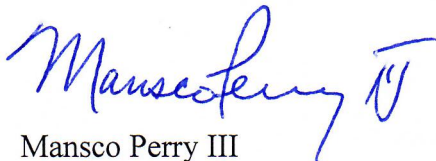
Governor Walz recognized a member of the public who requested to speak before the Board: Ms. Eileen O'Grady with the Private Equity Stakeholder Project.

Adjournment of Meeting

State Auditor Blaha moved approval to adjourn the meeting. The motion passed by roll call vote.

The meeting adjourned at 5:38 p.m.

Respectfully submitted,



Mansco Perry III
Executive Director and
Chief Investment Officer

ATTACHMENT A

MINNESOTA STATE BOARD OF INVESTMENT



Board Members:

Governor
Tim Walz

State Auditor
Julie Blaha

Secretary of State
Steve Simon

Attorney General
Keith Ellison

Executive Director
& Chief Investment
Officer

Mansco Perry

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RESOLUTION OF THE MINNESOTA STATE BOARD OF INVESTMENT CONCERNING REDUCTION OF INVESTMENTS ASSOCIATED WITH THERMAL COAL PRODUCTION

WHEREAS, on February 26, 2020, the State Board of Investment ("MSBI") adopted a resolution regarding Environmental, Social, and Governance ("ESG") initiatives to advance the MSBI's consideration of ESG risks and opportunities in its investment portfolio;

WHEREAS, the resolution called upon the MSBI Executive Director to, among other things, evaluate options for reducing the MSBI's long-term carbon risk exposure;

WHEREAS, the MSBI Executive Director has, with the assistance of MSBI staff and the Board's investment consultant, Meketa Investment Group, reviewed the risks associated with publicly traded investments in thermal coal extraction and production companies;

WHEREAS, such review demonstrates that companies which derive a substantial portion of revenue from thermal coal extraction and production face material declining market values and risks of stranded assets due to demand for more cost effective and efficient forms of energy production;

WHEREAS, the MSBI Executive Director has determined that removing such companies as authorized investments creates a manageable tracking error with respect to the MSBI's benchmark indices and would be prudent under the circumstances applicable to the thermal coal industry; and

WHEREAS, a number of other institutional public pension plans such as the California State Teachers Retirement System, California Public Employees Retirement System, New York City Pension System, and San Francisco Employees' Retirement System have previously removed such companies from their lists of authorized investments;

THEREFORE, the MSBI Executive Director requests that the Board authorize the MSBI Executive Director to take appropriate action.

NOW THEREFORE BE IT RESOLVED THAT the MSBI Executive Director be authorized to take the following actions:

1. The MSBI Executive Director shall implement a procedure, consistent with all applicable fiduciary duties, to remove publicly traded companies which derive 25% or more of their revenue from the extraction and/or production of thermal coal as authorized investments in the MSBI's Combined Funds investment

portfolio. By the next regularly scheduled Board meeting, the MSBI Executive Director shall identify such companies in the Combined Funds portfolio and provide instruction to the MSBI's investment managers to remove identified companies. MSBI's investment managers must remove identified companies from the Combined Funds investment portfolio in a prudent and expeditious manner, but no later than December 31, 2020;

2. The MSBI Executive Director shall, beginning with the Board's regularly scheduled third-quarter 2020 meeting and continuing each quarter thereafter, report to the Board on the status of any action authorized by this resolution; and
3. The MSBI Executive Director is authorized to make contractual or investment guideline changes, and take such further action he deems necessary to implement the resolution.

Adopted this 29th day
of May, 2020

DATE: MAY 29, 2020

BY: Mansco Perry III
Mansco Perry III
Executive Director and Chief Investment Officer
Minnesota State Board of Investment

ATTACHMENT B

MINNESOTA STATE BOARD OF INVESTMENT



Board Members:

Governor
Tim Walz

State Auditor
Julie Blaha

Secretary of State
Steve Simon

Attorney General
Keith Ellison

Executive Director & Chief Investment Officer

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RESOLUTION OF THE MINNESOTA STATE BOARD OF INVESTMENT CONCERNING MANAGEMENT OF COMBINED FUNDS ASSET ALLOCATION AND LIQUIDITY

WHEREAS, the Minnesota State Board of Investment (MSBI) places the highest importance on ensuring sufficient portfolio liquidity to meet ongoing benefit payment obligations;

WHEREAS, the MSBI considers the makeup of both the fixed income portfolio and the total portfolio in attempting to achieve attractive rates of return at acceptable levels of risk;

WHEREAS, the MSBI recognizes the importance of monitoring portfolio illiquidity in the form of invested private markets value and unfunded commitments;

WHEREAS, the MSBI recognizes the efficiencies in the form of cost savings and timeliness inherent in utilizing an overlay strategy in lieu of instructing retained investment managers to conduct rebalancing transactions on a regular basis;

WHEREAS, the MSBI recognizes that the unusual financial market conditions stemming from the ongoing COVID-19 crisis have highlighted the need for improved flexibility in terms of investment strategy implementation and liquidity management; and

WHEREAS, the Executive Director has, with the assistance of MSBI staff and its general consultants, determined that changes to the asset allocation policy of the Combined Funds portfolio are prudent in response to financial market conditions;

THEREFORE, the MSBI Executive Director requests that the Board authorize the MSBI Executive Director to take appropriate actions.

NOW THEREFORE BE IT RESOLVED that the MSBI Executive Director be authorized to take the following actions:

1. The Fixed Income Program shall be restructured to include a 20% combined Cash plus Short Duration Treasury Ladder allocation; a 40% Treasury Protection allocation; and a combined 40% Core/Core-plus and Return Seeking Bond allocation and the Executive Director shall develop and implement a Total Fixed Income Program Benchmark comprised of an appropriate benchmark for each of the three segments;
2. The Total Combined Funds allocation to the Fixed Income Program shall be modified to 25%, which will be comprised of the current 20% allocation to Core Bonds and Treasuries, the current 2% allocation to Cash, and a transfer of 3% from Public Equities;

3. The current policy for the upper limit for Private Markets Market Value plus Unfunded Commitments shall be temporarily increased to a maximum of 45% from 35% currently, and MSBI staff must present a proposed new permanent recommendation for the management of Unfunded Commitments by the end of Fiscal Year 2021. The temporary policy also will maintain the current target Market Value level of 25%, but would allow the portfolio to hold private market investments up to the current statutory maximum Market Value level of 35%;
4. The Executive Director is authorized to conduct further study and to take such steps as necessary to implement the policy changes outlined above as well as the following additional investment strategy considerations:
 - a. the segregation of the Unallocated Investment funds associated with the Private Markets/Alternatives Program from the dedicated Public Equities Program, including the development of an investment strategy using physical securities and/or a combination an overlay program fully collateralized by cash;
 - b. the use of cash overlay strategies to facilitate rebalancing and enhance portfolio liquidity; and
 - c. the use of a currency overlay strategy to more effectively manage the portfolio's non-dollar exposure;
5. The MSBI Executive Director is authorized to make contractual or investment guideline changes, and take such further action he deems necessary to implement the resolution; and
6. The Executive Director shall bring to the Investment Advisory Council and Board recommendations for any additional managers and vendors necessary to expeditiously implement these strategies.

Adopted this 29th day
of May, 2020

DATE: May 29, 2020

BY: Mansco Perry III
Mansco Perry III
Executive Director and Chief Investment Officer
Minnesota State Board of Investment