

**Minutes  
State Board of Investment  
February 26, 2020**

The State Board of Investment (SBI) met at 12:16 p.m. Wednesday, February 26, 2020 in G23 Senate Committee Room of the State Capitol, St. Paul, Minnesota. Governor Tim Walz, State Auditor Julie Blaha, Secretary of State Steve Simon, and Attorney General Keith Ellison were present. The minutes of the December 2, 2019 and January 21, 2020 meeting were approved.

**Executive Director's Report**

Mr. Perry referred members to Tab A of the meeting materials and stated that as of December 31, 2019 the SBI was responsible for managing in excess of \$104 billion of assets. Mr. Perry reported that the Combined Funds had outperformed its Composite Index over the ten-year period ending December 31, 2019 (Combined Funds 9.8% vs. Combined Funds-Composite Index 9.6%) and had provided a real rate of return of 4.3% above inflation over the latest 20 year period (Combined Funds 6.5% vs. 2.2%).

Mr. Perry stated that the Combined Funds assets increased over the quarter (Combined Funds ending value of \$74.2 billion versus a beginning value of \$70.7 billion). The Combined Funds matched the benchmark for the quarter (Combined Funds 5.8% vs. Combined Funds-Composite Index 5.8%) and slightly outperformed for the year (Combined Funds 20.1% vs. Combined Funds-Composite Index 20.0%). The Combined Funds outperformed the benchmark return for the three year, matched it for the five year, and outperformed other time periods reported.

Mr. Perry stated that the combined public equity performance outperformed the benchmark for the year end (Public Equity 28.0% vs. Public Equity Benchmark 27.7%). Breaking it down between domestic and international equities, domestic equities slightly underperformed its benchmark for the year (Domestic Equity 30.7% vs. Domestic Equity Benchmark 30.8%), matched the benchmark for the three-year period, and underperformed for all other time periods reported. The international equity manager group outperformed its target for the one-year (International Equity 22.4% vs. International Equity Benchmark 21.5%), outperformed the benchmark for the three-year period, and outperformed for all other time periods reported. Mr. Perry continued with the fixed income segment, which outperformed for the year (Fixed Income 9.7% vs. Fixed Income Benchmark 8.7%) and all other time periods reported. Treasuries also outperformed its target for the year (Treasuries 10.5% vs. Treasuries Benchmark 10.4%). Lastly, Mr. Perry stated that for the last year the Private Markets return was impacted by the Resources investments, which were adversely impacted by fluctuations in commodity prices (Private Markets 2.4% and 6.6% for the quarter and the year, respectively).

Mr. Perry then referred members to the Strategic Allocation Category Framework, the Volatility Equivalent Benchmark and a comparison of the Combined Funds return and allocation versus the Trust Universe Comparison Service (TUCS) universe. Mr. Perry stated that the Combined Funds one-year return was in the top quartile for the calendar year compared to other public funds with assets over \$1 billion. Using the same comparison universe, over the last thirty years the Combined

Funds has mostly been in the first quartile and always in the top half. The Board Members recognized Mr. Perry, his staff, and the consultants for such a great achievement.

Mr. Perry referred members to Tab B of the meeting materials for the Administrative Report, which included the administrative budget and travel report for the fiscal year to date through December 31, 2019. He stated that the Office of the Legislative Auditor had no written findings or recommendations for the SBI and that the 2019 Annual Report was distributed in January and is also available on the SBI's website. Mr. Perry also referenced the Iran and Sudan summary that is included in the Administrative Report and indicated there was no litigation during the quarter. State Auditor Blaha provided positive feedback to staff on the FY2019 Office of the Legislative Auditor letter and for Mr. Perry's thoughts of potentially adding an internal audit position to staff.

Mr. Perry referred members to Tab C of the meeting materials for the Stable Value Fund Program Review. Mr. Perry stated that the SBI staff did a very thorough review of the current manager, Galliard, and the universe of stable value firms. He also noted that while many of Galliard's senior members retired during 2019, the investment team remains intact and staff continues to believe that Galliard remains one of the premier managers in the asset class. However, there is some concern with the reliance on a single stable value manager that could limit the SBI's ability to replace the manager quickly and efficiently if there is cause to terminate the current manager. To help resolve this issue, Staff developed a Bench List of potential stable value managers, which includes T. Rowe Price and Invesco, and recommend that the Executive Director be authorized to execute a contract with one of the managers on the Bench List. Attorney General moved approval of the recommendation which reads: **"The Investment Advisory Council concurs with Staff's recommendation that the Board approve to create a Bench List of approved stable value managers consisting of two firms, Invesco and T. Rowe Price; and to grant authority to the Executive Director to hire a stable value manager from the Bench List if at any time in the future the current stable value manager is given notice of termination."** The motion passed unanimously.

Mr. Martin, Chairperson of the Investment Advisory Council, referred members to Tab D for the Private Markets Program Report and reviewed the six private markets proposals listed in the report. He stated that the six commitments for consideration are with existing managers: KKR Asian Fund IV, SCSp; Audax Mezzanine Fund V, L.P.; Oaktree Real Estate Debt Fund III, L.P.; PGIM Capital Partners Fund VI, L.P.; CVI Credit Value Fund V, L.P., and Oaktree Real Estate Opportunities Fund VIII. Mr. Martin highlighted the additional narrative in the Manager Summary Profile from staff's due diligence process that addresses the fund's consideration of Environmental, Social and Governance (ESG) factors. Secretary of State Simon moved approval of the six recommendations that read: **"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 \$150 million, or 20% of KKR Asian Fund IV, 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 KKR 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 KKR 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 \$150 million, or 20% of Audax Mezzanine Fund V, 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 Audax 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 Audax 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 REDF III, 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 \$200 million, or 20% of PGIM Capital Partners Fund VI, 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 PGIM 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 PGIM 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 \$150 million, or 20% of CVI Credit Value Fund V, 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 CarVal 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 CarVal or reduction or termination of the commitment.**

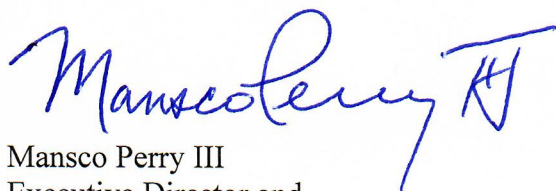
**The Investment Advisory Council concurs with Staff's recommendation that the SBI authorize the Executive Director, with assistance from the SBI's legal counsel, to negotiate and execute a commitment of up to \$100 million, or 20% of ROF VIII, whichever is less, plus an additional amount not to exceed 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 motion passed unanimously.

Mr. Perry referred members to the SBI's Environmental, Social and Governance (ESG) report that was included in Tab F of the meeting materials. He stated that the intent of the report is to provide the public and the Board with some information with regard to the analysis and activities that staff is doing around ESG. This report is also available on the SBI's website. He also stated that the SBI will be periodically updating the report and what the SBI is doing to heighten activities in regards to ESG and the impact of it. Attorney General Ellison expressed his appreciation and stated that he is honored to join with his fellow Board Members to present a resolution to address ESG investment risk enabling the Board to make the most responsible investment decisions possible. The Board expressed their appreciation to Attorney General Ellison for his work on the resolution. Attorney General Ellison moved approval of the resolution concerning Environmental, Social and Governance Initiatives of the State Board of Investment (see **Attachment A**). The motion passed unanimously.

The remainder of the reports included the Public Markets, Non-Retirement and Participant Directed Investment Programs Report was in Tab E; Tab G contained the Market Environment Report prepared by AON; Tab H contained the Capital Markets Outlook & Risk Metrics Report prepared by Meketa; and Tab I included the SBI's Comprehensive Performance Report.

The meeting adjourned at 12:42 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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Employer**

**RESOLUTION OF THE  
MINNESOTA STATE BOARD OF INVESTMENT  
CONCERNING ENVIRONMENTAL, SOCIAL, AND GOVERNANCE  
INITIATIVES**

WHEREAS, fiduciary responsibility is the touchstone of any decision of the Minnesota State Board of Investment (MSBI);

WHEREAS, any investment decision must be made with prudence and consistent with the duty of care to beneficiaries;

WHEREAS, the MSBI recognizes the importance of addressing Environmental, Social and Governance (ESG) risk in its investments;

WHEREAS, the MSBI has a long history of engaging with corporations through proxy voting;

WHEREAS, the MSBI has increased its involvement by participation in coalitions which engage with corporations and governmental organizations to address ESG risks and opportunities;

WHEREAS, the MSBI evaluates whether its investment managers consider ESG risk and encourages managers to enhance their ESG risk analysis; and

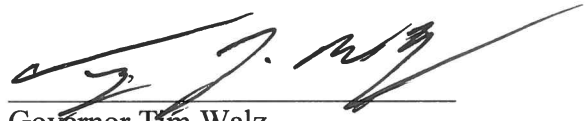
WHEREAS, the MSBI believes that corporations and partnerships that do not take ESG risk into consideration may jeopardize their financial viability and decrease their value.

NOW, THEREFORE, BE IT RESOLVED that consistent with its fiduciary responsibility that the following measures be taken:

1. The MSBI Proxy Committee continue to actively vote proxies in accordance with MSBI proxy guidelines, policies, and precedents as approved from time to time by the Board.
2. The MSBI continue to participate in ESG coalitions and engage with corporations on ESG related issues, including but not limited to participation in the Council of Institutional Investors; the United Nations Principles for Responsible Investment; the Ceres Investor Network; the Institutional Limited Partners Association; the Thirty Percent Coalition; the Midwest Investors Diversity Initiative; the Robert F. Kennedy Compass initiative; and other ESG related organizations the MSBI may join from time to time.

3. The MSBI prepare and periodically update a Stewardship Report and other ESG informational materials provided to stakeholders and posted on the MSBI website.
4. The MSBI Executive Director develop and implement plans for reporting on and addressing ESG investment risks; to evaluate options for reducing the MSBI's investments to long-term carbon risk exposure; and to promote efforts for greater diversity and inclusion on corporate boards and within the investment industry.

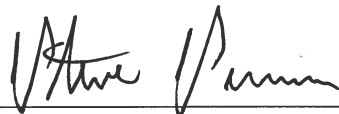
Adopted this 26<sup>th</sup> day  
of February, 2020



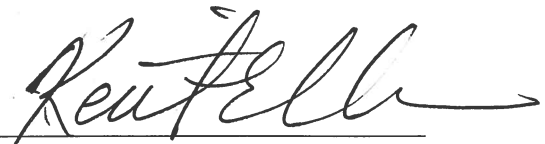
Governor Tim Walz  
Chair, Minnesota  
State Board of Investment



State Auditor Julie Blaha  
Minnesota  
State Board of Investment



Secretary of State Steve Simon  
Minnesota  
State Board of Investment



Attorney General Keith Ellison  
Minnesota  
State Board of Investment