

**Minutes  
State Board of Investment Meeting  
August 26, 2020**

**Notice of Meeting**

The State Board of Investment (SBI) met at 10:14 a.m. Wednesday, August 26, 2020 via Teleconference. It was determined that an in-person meeting was not practical due to the current health pandemic and on-going peacetime 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 May 28, 2020 and May 29, 2020 SBI meetings were approved unanimously by roll call vote.

**Executive Director's Administrative Report**

Executive Director Mr. Perry referred members to the June 30, 2020 Performance Report in Tab A of the meeting materials. Mr. Perry informed the Board that at the end of the fiscal year, the SBI was responsible for \$102.4 billion of assets under management and that the Combined Funds represented \$71 billion of those assets. As of today, Mr. Perry reported that the Combined Funds assets have grown to \$75 billion, which is at an all-time high. On a ten-year period ending June 30, 2020, the Combined Funds outperformed its Composite Index (Combined Funds 9.7% vs Combined Funds-Composite Index 9.5%) and had provided a real rate of return of 4.3% above inflation over the last twenty-year period (Combined Funds 6.3% vs CPI-U 2.0%).

Mr. Perry stated that the combined public equity performance outperformed its benchmark for the quarter and fiscal year with a 20.8% return and 2.7% return, respectively. Mr. Perry continued that the combined fixed income portfolio was a strong contributor to performance and that Treasuries reported the highest return in the portfolio with a 16.7% return for the fiscal year. Lastly, Mr. Perry stated that Private Market investments had a one-quarter lag when reporting their financials so the returns reflect March 31, 2020 earnings. The poor performance in Resources is primarily due to the supply shock in the oil markets from the Russia-Saudi Arabia oil war. At the same time, the industry experienced a huge demand shock from the impact of COVID-19 with people using less gasoline to drive cars and the airline industry temporarily shut down.

Mr. Perry noted that as of June 30, 2020, the Combined Funds return ranked in the 26<sup>th</sup> percentile for the quarter and 39<sup>th</sup> percentile for the year compared to other public and corporate pension fund returns with assets over \$1 billion. In a universe of public pension plans over \$50 billion in assets, the Combined Funds return ranked in the first percentile for the quarter and ten-year period and 15<sup>th</sup> percentile for the three and five year time period ending June 30, 2020.

Mr. Perry referred members to Tab B of the meeting materials for the Executive Director's Administrative Report, which included the administrative budget. Mr. Perry noted that the SBI is under budget for the fiscal year and will return over \$1.5 million back to the Statewide Retirement Systems. He also stated that the SBI has executed the responsibilities with the Sudan and Iran restrictions and reported there was no significant litigation the SBI was involved in for the quarter.

### **Update on Resolution Concerning Reduction of Investments Associated with Thermal Coal Production**

Mr. Perry referred members to Tab C of the meeting materials with reference to the resolution adopted at the May 29, 2020 meeting concerning the reduction of investments associated with Thermal Coal production. The resolution requires removal of any publicly traded company deriving more than 25% of its revenue from thermal coal production (exploration/mining). The SBI identified forty such companies in the investable universe that met the criteria, of which ten companies are in the Combined Funds portfolio. Managers have until December 31, 2020 to liquidate out of the position. Mr. Perry stated that this listing will be updated on an annual basis.

### **Response to Resolution Concerning Management of Combined Funds Asset Allocation and Liquidity**

Mr. Perry referred members to Tab D of the meeting materials, which included Staff's response to the resolution adopted at the May 29, 2020 meeting Concerning the Management of the Combined Funds Asset Allocation and Liquidity. Mr. Perry outlined six actionable items for the Board's approval that were endorsed by the Investment Advisory Council and the SBI's consultants.

The first item is the restructuring of the fixed income portfolio into three segments: Cash and Short Duration Treasury Ladder portfolio, Core/Core Plus and Return Seeking Fixed Income portfolio, and the current Treasury portfolio. Mr. Perry stated that the Cash plus Short Duration Ladder Treasury portfolio would provide for better liquidity and mitigate the SBI's portion of the pension benefit payments every month, which is currently a \$200 million shortfall. The additional yield from a Return Seeking Fixed Income mandate will counterbalance the low expected returns given the amount of treasury and cash securities in the fixed income portfolio. Mr. Perry emphasized these changes are for liquidity, protection and return. As part of this restructuring, staff reviewed and recommended hiring six Return Seeking Fixed Income managers for this mandate.

The second item is an increase in the fixed income allocation from 20% to 25%. Mr. Perry stated that three percent would come from the Public Equities allocation (decrease from 53% to 50%) and 2% from transitioning the cash allocation to fixed income. Within public equity, Staff reviewed the domestic equity and foreign equity mandates and recommended hiring three global equity managers. Staff also proposed to add a currency overlay manager to assist in the management of the non-dollar currency exposure in the Combined Fund's portfolio.

The third item pertains to the allocation target for Private Markets. The Board approved a resolution allowing the Combined Funds portfolio to hold private market investments up to the statutory maximum of market value level of 35%, despite retaining a target allocation of a market value level of 25%. In addition, the Board set a temporary policy for Market Value plus Unfunded

Commitments to increase to a maximum of 45% from the current limit of 35%. Staff will present a recommendation for a permanent policy level by the end of the Fiscal Year 2021.

The fourth item is a restructuring of the uninvested portion of the private markets allocation. This will be a separate distinct portfolio with asset management and a cash overlay manager to facilitate cash payments to the private market commitments. Subsequently, the overlay manager will assist in total portfolio rebalancing.

The fifth item is to allow for contractual and guideline amendments with respect to SBI's existing investment managers, where appropriate, and benchmark changes that are deemed to be necessary. This effort will enable Staff to better manage the Combined Funds Portfolio, to facilitate risk management, and will provide for improved operational efficiency and overall management effectiveness.

Lastly, Mr. Perry and Staff will bring before the IAC and Board recommendations for any additional managers and vendors necessary to expeditiously implement these strategies.

Governor Walz noted that the recommendations of Staff, as laid out, are in response to the resolution passed by the Board at the May 29, 2020 meeting. State Auditor Blaha moved approval of the recommendations, which reads: **“The Investment Advisory Council concurs with Staff’s Response to the Resolution Concerning Management of Combined Funds Asset Allocation and Liquidity including its proposed implementation plan including the recommendation to retain the managers listed in paragraphs a) through d) below, and that the SBI authorize the Executive Director, with assistance from SBI’s legal counsel, to negotiate fees and execute a contract with each firm.**

a) the following six Return Seeking Fixed Income investment managers for the Fixed Income portfolio:

- *Ashmore Investment Management – Emerging Markets Debt*
- *Kohlberg, Kravis, and Roberts – High Yield Debt*
- *Oaktree Capital – High Yield Debt*
- *Payden & Rygel – Multi-Asset Credit*
- *Prudential Global Investment Management – Multi-Asset Credit*
- *TCW Group – Securitized Credit*

b) the following three Global Equity investment managers for the Public Equity portfolio:

- *Ariel Investments, LLC*
- *Baillie Gifford & Co*
- *Martin Currie Inc.*

- c) **The following Cash Overlay Manager:**
- *NISA Investment Advisors, LLC*
- d) **The following Currency Overlay Manager:**
- *Record Currency Management.*”

The motion passed by roll call vote.

#### **Private Markets Commitments for Consideration**

Mr. Martin, Chairperson of the Investment Advisory Council, delivered the Private Markets Commitments for Consideration Report and reviewed seven private markets proposals listed in Tab E of the meeting materials. He stated that one recommendation is with a new manager and six are with existing managers with whom the SBI has done extensive due diligence: Canyon Distressed Opportunity Fund III; Merit Capital Fund VII, MN Asia Investors, LP; Dyal Capital Partners Fund V; Nordic Capital Fund X; Thoma Bravo Fund XIV; and Whitehorse Liquidity Partners Fund IV. Attorney General Ellison moved approval of the seven 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 \$125 million, or 20% of Canyon Distressed Opportunity Fund 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 Canyon 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 Canyon 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 Merit Capital Fund VII, 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 Merit 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 Merit 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 total commitment of up to \$200 million to MN Asia Investors, LP, 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 Asia Alternatives 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 Asia Alternatives 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 Dyal Capital Partners 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 Dyal 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 Dyal 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 Nordic Capital X, 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 Nordic 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 Nordic 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 Thoma Bravo XIV, 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 Thoma Bravo 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 Thoma Bravo 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 Whitehorse Liquidity Partners 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 Whitehorse 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 Whitehorse or reduction or termination of the commitment."** The motion passed unanimously by roll call vote.

### **Investment Advisory Council Discussion on Diversity and Inclusion**

Mr. Perry referred members to Tab H of the meeting materials regarding the IAC discussion on Diversity and Inclusion and asked Mr. Martin to give a brief update on the discussion. Mr. Martin stated that a memo written by IAC member, Ms. Gibbons, prompted a discussion with members of what actionable items they are taking to support diversity and inclusion more broadly in the investment environment. Staff and Board Designees discussed efforts the SBI has taken to address diversity and inclusion with its investment managers and in the SBI's investment portfolios. IAC members encouraged Staff to continue its efforts and consider expanding its evaluation of managers and investment holdings with respect to diversity and inclusion.

### **Other Items and Reports**

Mr. Perry stated that he wanted to acknowledge his Staff for the exemplary job with the extraordinary amount of work the staff did during the last three months despite working from home. Lastly, Mr. Perry stated the remainder of the reports included the Public Markets Investment Program Report; Participant Directed Investment Program and Non-Retirement Program Report; SBI Environmental, Social, and Governance (ESG) Report; Market Environment Report prepared by AON; the Capital Markets Outlook & Risk Metrics Report prepared by Meketa; and the SBI's Comprehensive Performance Report.

### **Public Testimony**

Governor Walz recognized individuals of the public who requested to speak before the Board: Mari Mansfield with Minnesota Immigration Rights Action Committee; Wade Luneberg with UNITE HERE Local 17; Melissa Wenzel is the Built Environment Sustainability Administrator at the Minnesota Pollution Control Agency; Jina Penn-Tracy is the SRI Investment Advisor and Owner of Centered-Wealth; Geetu Sharma, Founder and Portfolio Manager at AlphasFuture; Juwaria Jama, environmental justice organizer and State Lead of Minnesota Youth for Climate Justice; Edgar Hernandez with Service Employees International Union (SEIU); and Antonio Rodriquez, a former employee of the Terranea Hotel in Ranchos Palos Verdes. Governor Walz and State Auditor Blaha thanked everyone for their availability for the meeting.

**Adjournment of Meeting**

Secretary of State Simon moved approval to adjourn the meeting. The motion passed by roll call vote. The meeting adjourned at 11:23 a.m.

Respectfully submitted,

A handwritten signature in cursive script that reads "Mansco Perry III". The signature is written in black ink and is positioned above the typed name.

Mansco Perry III  
Executive Director and  
Chief Investment Officer