

Minutes
Investment Advisory Council
February 16, 2021

Call to Order

The Investment Advisory Council (IAC) met at 10:00 a.m. on Tuesday, February 16, 2021. The Chair of the Minnesota State Board of Investment's (SBI) Investment Advisory Council (IAC) has determined that an in person meeting was not practical or prudent because of the current COVID-19 pandemic and on-going peacetime emergency declared under Chapter 12 of Minnesota Statutes. As is permitted under the Open Meeting Law in these conditions, this IAC meeting was conducted via Zoom for Government video conferencing software and over the phone. Attendance and all votes were conducted by roll call.

Members Present: Doug Anderson, Ellen Brownell, Dennis Duerst, Kim Faust, Susanna Gibbons, Jennifer Hassemmer (for Jim Schowalter), Peggy Ingison, Erin Leonard, Gary Martin, Dan McConnell, Malcolm McDonald, Nancy Orr, Carol Peterfeso, Martha Severson Rush, Jay Stoffel, Shawn Wischmeier, and Public Member Emeritus, Malcolm McDonald.

Members Absent: Denise Anderson and Morris Goodwin, Jr.

SBI Staff: Mansco Perry, Patricia Ammann, Paul Anderson, Shirley Baribeau, Nate Blumenshine, Cassie Boll, Tammy Brusehaver, Andy Christensen, Stephanie Gleeson, Aaron Griga, Andrew Krech, Steve Kuettel, John Mulé, Iryna Shafir, Erol Sonderegger, Jonathan Stacy, Charlene Olson, and Melissa Mader.

Others Attending: Kristen Doyle and Katie Comstock, Aon Investments; Allan Emkin, Neil Rue and Gordon Latter, Meketa Investment Group; Christie Eller, Luz Frias, and J. Adam Sorenson, Attorney General's Office; Karl Procaccini, Governor's Office; Bibi Black, Secretary of State's Office; and Ramona Advani, State Auditor's Office.

Members of the public attended the meeting; however due to the meeting being held via virtual teleconference the SBI was unable to track the information.

Approval of Minutes

The minutes of the November 16, 2020, IAC meeting were approved unanimously by roll call vote.

Executive Director's Report

Mr. Perry, Executive Director, referred members to the December 31, 2020 Performance Summary provided in Tab A of the meeting materials. Mr. Perry stated that as of December 31, 2020, the SBI was responsible for over \$114 billion of assets and that the Combined Funds represent

\$82 billion of those assets. As of today, the Combined Funds assets exceeded \$85 billion in assets. Mr. Perry reported that the Combined Funds had met its long-term objectives by outperforming its Composite Index over the ten-year period ending December 31, 2020 (Combined Funds 9.9% vs. Combined Fund Composite Index 9.6%) and providing a real rate of return above inflation over the latest 20 year time-period (Combined Funds 7.3% vs CPI-U 2.0%). The Combined Funds also exceeded the composite index for all time-periods reported (Combined Funds returned 10.8% vs. Combined Funds-Composite Index 10.4% for the quarter and Combined Funds returned 14.7% vs. Combined Funds-Composite Index 13.7% for the year).

Mr. Perry referred members to the Combined Funds asset mix and noted that with the changes to the Combined Funds allocation during the quarter the actual allocation is in line with the target allocation. Mr. Perry then referred members to the Combined Funds Asset Class Performance Summary. The Public Equity Program outperformed for the quarter (Public Equity 15.9% vs. Public Equity Benchmark 15.8%) and for the year (Public Equity 18.3% vs. Public Equity Benchmark 17.4%). The Total Fixed Income Program outperformed the composite benchmark return for the quarter (Total Fixed Income 0.1% vs. Total Fixed Income Benchmark -0.5%) and outperformed for the year (Total Fixed Income 11.2% vs. Total Fixed Income Benchmark 10.3%). Private Markets returned 8.7% for the quarter and 7.7% for one year ending December 31, 2020.

Mr. Perry noted that the Combined Funds Strategic Allocation Category Framework will undergo some revisions to accommodate changes made in the portfolio. He then referred members to the Volatility Equivalent Benchmark Comparison, which shows that on a risk-adjusted return basis the Combined Funds resembles a portfolio close to a 60/40 stock/bond weight. Next, Mr. Perry reviewed the Trust Universe Comparison Service (TUCS) summary. The Combined Funds performance ranked in the top quartile for six of the eight time-periods reported against other public and corporate pension plans over \$1 billion in assets. Mr. Perry stated that further in the material is the comparison of the Combined Funds returns to public plans greater than \$50 billion in assets, where the Combined Funds ranked in the top decile for all time-periods reported except for the one year ending December 31, 2020.

Executive Director's Administrative Report

Mr. Perry referred members to Tab B of the meeting materials, which included the SBI's Administrative Budget as of fiscal year to date ending December 31, 2020. Mr. Perry also noted the Office of the Legislative Auditor (OLA) letter that was included in the meeting materials regarding the SBI's financial audit. The OLA had no written findings or recommendations for the 2020 Fiscal Year. He also stated that the Fiscal Year 2020 Annual Report had been distributed to members and is available on the SBI's website. Lastly, Mr. Perry stated that there was no litigation against the SBI.

Private Markets Program Report and Commitments for Consideration

Mr. Perry introduced Mr. Krech, who reviewed the Private Markets investment portfolio information provided in the meeting material. Mr. Krech commented on Tab D, Status of SBI Current Private Markets Commitments and reviewed Tab E, Recommendations for New Private Markets Commitments. Mr. Krech stated that Staff is recommending the following seven investment funds with existing private markets managers for investment: Brookfield Real Estate Finance Fund VI (Private Credit), Adams Street Global Secondary Fund 7 (Private Equity), Hellman & Friedman Capital Partners Fund X (Private Equity), KKR North America Fund XIII

(Private Equity), PPC Enterprise LLC (Private Equity), Thomas H. Lee Equity Fund IX (Private Equity), and Lubert-Adler Recovery and Enhancement Capital Fund (Real Estate). Mr. Krech, Ms. Boll, and Mr. Stacy responded to questions from members. After discussion, a motion was made that the IAC endorse the seven private markets investments. The motion was seconded and approved by roll call vote.

Private Markets Investment Consultant Recommendation

Mr. Perry referred members to the memo listed in Tab F, Recommendation for a Private Markets Investment Consultant. Mr. Perry reminded members that the IAC endorsed Staff's recommendation to hire one or more private markets consultant(s), which was approved by the Board at their February 20, 2018 Board Meeting. Mr. Perry stated that since then, Staff has done a large amount of work in determining the scope of the project, issuance of a Request For Proposal (RFP), due diligence on the ten private markets consulting firms that responded, and interviews with the three finalists. Mr. Perry stated that Staff selected Albourne Partners from the list of finalists as the private markets consultant to retain and to recommend to the Board. Mr. Perry introduced Mr. Christensen and Mr. Krech, who provided additional comments on the due diligence process. They stated that Staff believes Albourne Partners can provide the bandwidth in operational due diligence, breadth of coverage outside the U.S., technological and data resources, and strategic capabilities in allocating assets and in Environmental, Social and Governance (ESG) and Diversity and Inclusion (D&I) work. Mr. Christensen also commented that Albourne's independence and potential lack of conflicts were also an important parts of the decision.

A motion was made that the IAC endorse Staff's recommendation to authorize the Executive Director, with assistance from legal counsel, to negotiate and execute a contract with Albourne Partners for private markets consulting services. The motion was seconded and approved by roll call vote.

Public Markets Investment Program

Mr. Perry referred members to Tab H, Review of Recent Changes to the Combined Funds Portfolio. Mr. Perry introduced Mr. Sonderegger, who provided additional information on the changes in the Combined Funds that occurred over the last eight months and answered questions from members. Mr. Sonderegger commented that the final piece is an evaluation of benchmarks and that Staff will continue discussions with the IAC regarding policy benchmark concepts. In response to Mr. Stoffel's question, Mr. Sonderegger walked through the transition process and the resources used to execute the Combined Funds portfolio allocation changes. Mr. Sonderegger stated that market impact was minimized by using a transition manager that crossed at least 50% or more of the trades by transitioning from one portfolio to another and was able to stay out of the market. The remaining trades were managed by the transition manager through a robust trading platform to minimize the time out of the market and impact to the portfolio. IAC members commended Staff on the successful execution and implementation of the large rebalance in the Combined Funds outlined in Tab H.

Participant Directed Investment Program Recommendations

Addition of Vanguard Total Stock Market Index Fund to the Minnesota Deferred Compensation Plan

Mr. Perry introduced Ms. Ammann, who reviewed the Participant Directed Investment Program (PDIP) recommendations in the meeting material. Ms. Ammann referred members to the memo

in Tab K, Recommendation to add Vanguard Total Stock Market Index Fund to the Minnesota Deferred Compensation Plan. She stated that the Vanguard Total Stock Market Index Fund was added to the Mutual Fund platform in July of 2019, but was not made available to the Minnesota Deferred Compensation Plan (MNDCP). Both SBI Staff and Minnesota State Retirement System (MSRS), the Plan Administrator, recommend that the Vanguard Total Stock Market Index Fund be added to the to the MNDCP investment menu. A motion to endorse Staff's recommendation was combined with the next recommendation, which also involves an investment program in PDIP.

Addition of TIAA-CREF Social Choice Equity Fund to the Minnesota 529 College Savings Plan

Ms. Ammann referred members to Tab L, Recommendation to add TIAA-CREF Social Choice Equity Fund to the Minnesota 529 College Savings Plan. She stated that the TIAA-CREF Social Choice Equity Institutional Fund is an all-cap equity investment option that incorporates defined ESG performance criteria. Staff is asking the IAC to endorse Staff's recommendation to add the TIAA-CREF Social Choice Equity Institutional Fund to the Minnesota College Savings Plan.

A motion was made that the IAC endorse Staff's recommendation to add the Vanguard Total Stock Market Index Fund as an investment option in the Minnesota Deferred Compensation Plan and to add the TIAA-CREF Social Choice Equity Institutional Fund to the Minnesota 529 College Savings Plan. The motion was seconded and approved by roll call vote.

ESG Report

Mr. Perry introduced Mr. Mulé, who reviewed the SBI's Environmental, Social, and Governance (ESG) Report that was included in the meeting materials. Mr. Mulé informed members of the engagement Staff has had with a number of companies on diversity issues, mostly related to corporate boards, as well as with respect to some environmental issues.

IAC Discussion:

Diversity & Inclusion

Mr. Perry introduced Ms. Comstock with Aon, who provided observations from a survey Aon conducted of their client base of how organizations are thinking about and incorporating Diversity and Inclusion (D&I) into their investment program. Aon learned that most of the public funds that responded to the survey do not have a formal diversity policy or program in place, but a little over a quarter of the funds are either setting up a formal program or plan to do so within the next year. Many are supporting D&I in other ways by taking meetings, encouraging investments with diverse firms, or including at least one emerging or diverse manager to be included in an active manager search. Managers are also promoting diversity through other channels such as enhancing the pipeline of diverse individuals. The survey also asked respondents how they define diversity. The most common definition given of a diverse firm is one with a majority of ownership, by either a person of color, a women, and often times veterans and disabled individuals are included in that definition. Ms. Comstock mentioned that this definition is consistent with what the majority of organizations are tracking and recording from their investment firms. Most of the respondents indicated that they invest in diverse managers because they believe it will better their portfolio results by earning either excess return or differentiated returns. Ms. Comstock stated that the most common response provided in terms of what would enhance the appeal of having a formal policy or would increase an organization's ability to invest in more diverse firms was for more compelling research on the return profiles and more research on the impact on beneficiaries.

ESG

Mr. Perry introduced Mr. Emkin with Meketa and asked for his perspective on what action, if any, organizations are taking with ESG initiatives. Mr. Emkin noted the focus on carbon issues by the investment management community and the consensus that stranded assets is an investment issue that will impact energy change and the economy at large. Mr. Emkin noted that even though all of Meketa's clients have been discussing ESG or D&I events with them, there is no clear definition of best practice. Almost everyone is doing something different. Mr. Emkin believes that over the next year or two there will be more of a collective approach to developing best practices among the investment management organizations on these issues.

Reports

Also enclosed in the Reports section were the Market Environment Report prepared by Aon; the Capital Markets Outlook & Risk Metrics Report prepared by Meketa; and the SBI's Comprehensive Performance Report.

Adjournment of Meeting

A motion to adjourn the meeting was made, seconded, and approved by roll call vote. The meeting adjourned at 11:51 a.m.

Respectfully submitted,

A handwritten signature in cursive script that reads "Mansco Perry III".

Mansco Perry III
Executive Director and
Chief Investment Officer