

**Minutes  
Investment Advisory Council  
November 16, 2020**

**Call to Order**

The Investment Advisory Council (IAC) met at 12:00 P.M. on Monday, November 16, 2020. Chair of the Minnesota State Board of Investment, Investment Advisory Council 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 meeting of the Investment Advisory Council 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, Morris Goodwin Jr., Jennifer Hassemer (for Jim Schowalter), Peggy Ingison, Erin Leonard, Gary Martin, Dan McConnell, Malcolm McDonald, Nancy Orr, Carol Peterfeso, Martha Sevetsen Rush, Jay Stoffel and Shawn Wischmeier.

**MEMBERS ABSENT:** Denise Anderson.

**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; Ramona Advani, State Auditor's Office.

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

**Approval of Minutes**

The minutes of the August 17, 2020, IAC meeting were approved unanimously by roll call vote.

**Executive Director's Report**

Mr. Perry, Executive Director, referred members to the September 30, 2020 Quarterly Performance Summary provided in Tab A of the meeting materials. Mr. Perry stated that as of September 30, 2020, the SBI was responsible for managing approximately \$105.1 billion of assets. He reported that as of September 30, 2020 the Combined Funds was just under \$75 billion in assets but as of today was over \$78 billion in assets. Mr. Perry reported that the Combined Funds had met its long-term objectives with outperforming its Composite Index over the ten-year period

ending September 30, 2020 (Combined Funds 9.5% vs. Combined Fund Composite Index 9.2%) and providing a real rate of return above inflation over the latest 20 year time-period (Combined Funds 6.6% vs CPI-U 2.0%).

Mr. Perry stated that the Combined Funds assets increased over the quarter (Combined Funds ending value of \$74.8 billion versus a beginning value of \$71.1 billion) primarily from net investment results. The Combined Funds outperformed the benchmark for the quarter (Combined Funds 6.2% vs. Combined Funds-Composite Index 5.9%) and outperformed for the year (Combined Funds 9.6% vs. Combined Funds-Composite Index 8.9%). The Combined Funds outperformed the benchmark in all other time-periods reported.

Mr. Perry referred members to the Combined Funds asset mix and noted that the asset mix is in line with the strategic asset allocation policy target approved at the May 29, 2020 Board meeting. Mr. Perry then referred members to the Combined Funds Asset Class Performance Summary. The Public Equity Program outperformed for the quarter (Public Equity 8.4% vs. Public Equity Benchmark 8.1%) and for the year (Public Equity 11.3% vs. Public Equity Benchmark 10.5%). The Total Fixed Income Program outperformed for the quarter (Total Fixed Income 0.8% vs. Total Fixed Income Benchmark 0.4%) and outperformed the benchmark return for the year (Total Fixed Income 10.2% vs. Total Fixed Income Benchmark 9.6%). Private Markets returned 6.1% for the quarter and 1.5% for the one-year time period ending September 30, 2020. Mr. Perry noted that Private Markets continues to be a strong contributor to long-term overall performance.

Mr. Perry noted that the Combined Funds is in line with the category ranges in the Strategic Allocation Category Framework and continues to be ahead of the Volatility Equivalent Benchmark. The members also reviewed the Trust Universe Comparison Service (TUCS) summary, which provides a comparison of the SBI's asset allocation and returns to public and corporate plans over \$1 billion in assets. The Combined Funds September 30, 2020 return was above the median return for all time-periods listed. 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 quartile for the one, three, five and ten year time periods ending September 30, 2020.

#### **Executive Director's Administrative Report**

Mr. Perry referred members to Tab B of the meeting materials for the Administrative Report. He stated that the SBI continues to be under budget but is working towards filling a few staff vacancies. Mr. Perry noted that the 2020 Fiscal Year Annual Report will be issued shortly after the SBI's legislative audit is completed, which is expected in December or January. Mr. Perry also referred members to the Calendar 2021 dates for the Investment Advisory Council and State Board of Investment meetings. Lastly, Mr. Perry provided updates on restrictions for Sudan and Iran and stated that the SBI was not involved in any litigation.

#### **Update on Investments Associated with Thermal Coal Production**

Mr. Perry updated the members on the Resolution Concerning Reduction of Investments Associated with Thermal Coal Production, which was included as Tab C of the meeting materials. The Unauthorized Thermal Coal Holdings List consists of more than 40 publicly traded securities that derive more than 25% of their revenues from thermal coal production. The SBI held ten of the 40 securities on the Unauthorized Holdings List. Staff notified investment managers that they

could no longer purchase securities from the Unauthorized Thermal Coal Holdings List and were directed to remove any holdings from the portfolio by December 31, 2020.

### **Update on Implementation of Combined Funds Asset Allocation and Liquidity**

Mr. Perry referred members to the Update of Implementation of Combined Funds Asset Allocation and Liquidity section in Tab D of the meeting materials. The strategic allocation changes approved at the May 29, 2020 Board meeting became effective at the start of the fiscal year. The allocations are now 50% Public Equity, 25% Fixed Income, and 25% Private Markets. Mr. Perry updated members of the following restructuring items in the respective asset groups since approval of the resolution:

#### **Fixed Income**

- Funded the short duration treasury ladder allocation in October;
- Migrated the semi-passive fixed income managers to either a Core/Core Plus mandate or a Return Seeking Fixed Income mandate;
- Increased the fixed income asset mix from 20% to 25%; and
- Anticipate bringing a recommendation for a fixed income program benchmark prior to the end of the fiscal year.

#### **Public Equity**

- In the process of on-boarding three global equity managers;
- In October, funded the currency overlay manager;
- By calendar year-end will have transitioned some of the public equity strategies to slightly different mandates;
- Reduced the public equity asset mix from 53% to 50%; and
- Anticipate bringing a recommendation for a public equity program benchmark prior to the end of the fiscal year. The recommendation will include a global equity mandate.

#### **Private Markets**

- By calendar year end will have segregated out the uninvested portion of the Private Markets allocation previously dedicated to public equities into a cash overlay program managed to the S&P 500.

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

Mr. Perry referred members to Tab E for the Private Markets Commitments for Consideration section of meeting materials. Mr. Krech reviewed the following five private markets investments with existing managers: Oaktree Real Estate Debt Fund III; Oaktree Real Estate Opportunities Fund VIII; Blackstone Growth; Blackstone Co-Investment Partnership; and Kohlberg Kravis Roberts (KKR) Core Investments Partnership. After discussion, a motion was made that the IAC endorse staff's recommendation to make an investment in the five private market funds brought before the IAC. The motion was seconded and approved by roll call vote.

The private markets discussion included the following topics: the SBI's investment into a new and unique co-investment limited partnership structure compared to the existing commingled vehicle structure; on-going pacing schedule and strategy for future commitments; impact the

capital on the general partners subscription line has to the overall private markets allocation; and how diversity and inclusion is being incorporated into the due diligence process.

**Reports**

Mr. Perry referenced the other reports included in the meeting materials and strongly recommended that members review them. The reports included the Public Markets Report; the Participant Directed Investment and Non-Retirement Report; the SBI's Environmental, Social, and Governance (ESG) Report; the Market Environment Report prepared by Aon; the Capital Markets Outlook & Risk Metrics Report prepared by Meketa; and the SBI's Comprehensive Performance Report.

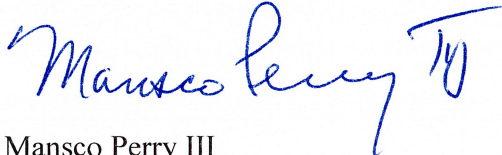
**Recognition of Retirement**

Mr. Perry recognized Christie Eller, Board Member Designee, and congratulated her on her retirement. Mr. Perry expressed his appreciation for her contribution to the success of the State Board of Investment throughout her years of service with the state. IAC members also thanked Christie Eller for her service and congratulated her on her retirement.

**Adjournment of Meeting**

A motion to adjourn the meeting was made, seconded, and approved by roll call vote. The meeting adjourned at 1:19 p.m.

Respectfully submitted,

A handwritten signature in blue ink that reads "Mansco Perry III". The signature is written in a cursive style with a large, sweeping initial "M".

Mansco Perry III  
Executive Director and  
Chief Investment Officer