

**Minutes
State Board of Investment Meeting
December 2, 2020**

Notice of Meeting

The State Board of Investment (SBI) met at 12:03 p.m. Wednesday, December 2, 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 August 26, 2020 SBI meeting were approved unanimously by roll call vote.

Executive Director's Report

Executive Director Mr. Perry referred members to the September 30, 2020 Performance Summary in Tab A of the meeting materials. Mr. Perry informed the Board that as of September 30, 2020 the SBI was responsible for \$105.1 billion of assets under management and that the Combined Funds represented \$75 billion of those assets. As of today, Mr. Perry reported that the Combined Funds assets have grown to \$80 billion. Mr. Perry reported that the Combined Funds returned 6.2% for fiscal year to-date, which exceeded the Composite Index and that the Combined Funds has exceeded the Composite Index for all other time-periods listed. Mr. Perry reported that the Combined Funds had met its long-term objectives of 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 noted that the Combined Funds asset mix is in line with the strategic asset allocation target approved by the Board at the May 29, 2020 meeting.

Mr. Perry stated that the Combined Funds Public Equity Program performance, primarily buoyed by domestic equity, was a positive contributor to performance during the quarter (Public Equity reported an 8.4% return and 11.3% return for the quarter and year, respectively). Mr. Perry continued that the Combined Funds Fixed Income Program also exceeded its benchmark for the quarter and the year ending September 30, 2020 (Fixed Income reported a 0.8% and 10.2% return for the quarter and year, respectively). Lastly, Mr. Perry stated that the Private Markets Program had a quarter-end return of 6.1% and a one-year return of 1.5%. The impact of the Russia-Saudi Arabia price conflict as well as less demand for oil and gas during the pandemic has had a negative impact on the Resources subgroup within Private Markets. Over the long-term, however, Mr. Perry noted that the Private Markets returns have been strong.

Mr. Perry noted that the Combined Funds is close to the category ranges in the Strategic Allocation Category Framework and continues to be ahead of the Volatility Equivalent Benchmark. Board 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 period ending September 30, 2020.

Executive Director's Administrative Report

Mr. Perry referred members to Tab B of the meeting materials for the Executive Director's Administrative Report and noted that the SBI continues to be under budget. He provided an update on the SBI's legislative audit and the 2020 Fiscal Year Annual Report. Mr. Perry stated that over 95 percent of the strategic allocation changes to the Combined Funds have been implemented as the result of the resolution passed at the May 29, 2020, Board meeting. Mr. Perry noted the 2021 calendar year Investment Advisory Council and Board meeting dates were listed in the material in addition to the Iran and Sudan updates. Lastly, Mr. Perry stated that the SBI was not involved in any litigation.

Update on Investments Associated with Thermal Coal Production

Mr. Perry referred members to Tab C of the meeting materials to provide an update 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). Mr. Perry also instructed staff to apply these restrictions to the SBI's Non-Retirement Portfolio. The Unauthorized Thermal Coal Holdings List consists of more than 40 publicly traded securities that derive more than 25% of their revenues from the production/exploration of thermal coal. The SBI held ten of the 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.

Board members recognized the SBI staff for their job performance while working remotely. SBI's staff has produced results that have held up during unprecedented times and provided long-term results with top quartile performance compared to its peers.

Private Markets Commitments for Consideration

Mr. Martin, Chairperson of the Investment Advisory Council, delivered the Private Markets Commitments for Consideration Report and reviewed five private markets proposals listed in Tab D of the meeting materials. He stated that all the recommendations are with existing managers with whom the SBI has had a long relationship: 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. Attorney General Ellison moved approval of the five 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 an additional**

\$100 million to Oaktree Real Estate Debt Fund III, such that the MSBI's total commitment will be up to \$200 million in the aggregate, or 20% of the Fund in the aggregate, 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 an additional \$100 million to Oaktree Real Estate Opportunities Fund VIII, such that the MSBI's total commitment will be up to \$200 million in the aggregate, or 20% of the Fund in the aggregate, 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 \$250 million, or 20% of Blackstone Growth, whichever is less, plus an additional amount not to exceed one percent of the total commitment for the payment of required charges at closing. Additionally, 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 in a co-investment partnership created for the SBI, plus an additional amount not to exceed one percent of the total commitment for the payment of required charges at closing. Approval of these potential commitments 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 Blackstone 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 Blackstone or reduction or termination of these commitments.

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 KKR Core Investments Partnership, 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 motion passed unanimously by roll call vote.

Reports

Mr. Perry referred members to Tab E and F that included the Public Markets Investment Program Report, the Participant Directed Investment Program and Non-Retirement Program Reports. Mr. Perry noted the material includes an updated SBI Environmental, Social, and Governance (ESG) Report, which is also available on the SBI’s website. Lastly, he stated the Market Environment Report prepared by Aon and the Capital Markets Outlook & Risk Metrics Report prepared by Meketa gives a good sense of how the overall markets have performed in the prior quarter; and the Comprehensive Performance Report details the performance of all of the managers under the SBI’s responsibility.

Public Testimony

Governor Walz recognized individuals of the public who requested to speak before the Board: Adam Rahim with Minnesota Break the Bonds Campaign and Minnesota BDS Community; Evan Jones with Park Place at Petworth Tenants Association (in Washington D.C.); and Eileen O’Grady with Private Equity Stakeholder Project (PESP).

Adjournment of Meeting

Secretary of State Simon moved approval to adjourn the meeting. The motion passed by roll call vote. The meeting adjourned at 12:37 p.m.

Respectfully submitted,



Mansco Perry III
Executive Director and
Chief Investment Officer