

**Minutes
Investment Advisory Council
May 17, 2021**

Call to Order

The Investment Advisory Council (IAC) met at 12:00 p.m. on Monday, May 17, 2021. The Chair of the Minnesota State Board of Investment's (SBI) Investment Advisory Council (IAC) 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, Morris Goodwin Jr., Jennifer Hassemer (for Jim Schowalter), Peggy Ingison, Erin Leonard, Gary Martin, Dan McConnell, Nancy Orr, Martha Sevetson Rush, Jay Stoffel and Shawn Wischmeier and Public Member Emeritus Malcolm McDonald.

MEMBERS ABSENT: Denise Anderson and Carol Peterfeso.

SBI STAFF: Mansco Perry, Patricia Ammann, Shirley Baribeau, Nate Blumenshine, Cassie Boll, Tammy Brusehaver, Andy Christensen, Dan Covich, Stephanie Gleeson, Aaron Griga, Andrew Krech, Steve Kuettel, Melissa Mader, John Mulé, Charlene Olson, S. Emily Pechacek, Iryna Shafir, Erol Sonderegger, Jonathan Stacy, and Jeff Weber.

OTHERS ATTENDING: Kristen Doyle and Katie Comstock, Aon Investments; Allan Emkin, Neil Rue, Gordon Latter, and Ghiane Jones, Meketa Investment Group; Luz Frias, 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 February 16, 2021 IAC meeting were approved unanimously by roll call vote. Ms. Rush was not present for the approval of the minutes.

Introductions

Mr. Perry asked Mr. Sonderegger to introduce the two recent SBI staff hires. Mr. Sonderegger stated that Dan Covich and Emily Pechacek, Investment Officers, joined the Public Markets Team to provide additional coverage to the various manager and asset classes so that the entire team can focus on additional research projects. Mr. Perry also asked Mr. Emkin to introduce the newest member of the Meketa Team, Ms. Ghiane Jones. Ms. Jones, who has been in the industry for 14 years, and stated she has been with the firm for four years and is a Managing Principal based in the Chicago Office.

Executive Director's Report

Mr. Perry, Executive Director, referred members to the March 31, 2021 Performance Summary provided in Tab A of the meeting materials. Mr. Perry stated that as of March 31, 2021, the SBI was responsible for over \$116.9 billion of assets and that the Combined Funds represent \$84 billion of those assets. Mr. Perry reported that the Combined Funds met its long-term objectives by outperforming its Composite Index over the ten-year period ending March 31, 2021 (Combined Funds 9.8% vs. Combined Fund Composite Index 9.5%) and providing a real rate of return above inflation over the latest 20 year time-period (Combined Funds 7.9% vs CPI-U 2.1%). The Combined Funds also exceeded the composite index for all time-periods reported (Combined Funds returned 3.8% vs. Combined Funds-Composite Index 3.4% for the quarter and returned 35.7% vs. Combined Funds-Composite Index 33.6% for the year).

Mr. Perry noted that the Combined Funds actual asset mix is in-line with the asset allocation targets. He continued that the Strategic Allocation Category Framework is roughly in-line with targets and that the Volatility Equivalent Benchmark shows that the portfolio added value for all time-periods. Mr. Perry noted that the remainder of the section has various pages from TUCs, which provide a comparison of the Combined Funds performance and asset allocation to various institutional investor groups.

Executive Director's Administrative Report

Mr. Perry referred members to Tab B of the meeting materials for the Administrative Report. He commented that the Administrative Budget continues to be under budget for the fiscal year and there continues to be no travel during the quarter. Mr. Perry also noted that today is the last day of the regular legislative session and there is little to note on the SBI legislative tracker that is included in the meeting material. He stated that the remainder of the Administrative Report has the Iran and Sudan updates and that there was no litigation against the SBI.

Private Markets Report

Mr. Perry asked Mr. Krech to provide a summary of the discussions the private markets team has with private market firms with regard to Environmental, Social and Governance (ESG) and Diversity, Equity and Inclusion (DEI). Mr. Krech began with the five firms that staff is asking the IAC to endorse for an investment: Blackstone, KKR, TPG, Carlyle and Brookfield. He stated that all of these firms are similar in that they operate on a global basis, employ a large pool of people, have different investment teams for each strategy, and have a client base made up of institutional investors similar to the SBI's size. Mr. Krech noted that these firms have integrated ESG considerations into their investment processes and in their investment memos. Specific to DEI, the firms are all getting similar messages from their clients to identify opportunities where they can make improvements with respect to recruitment, hiring, retention, promotion, and to create a workplace environment that sets people up to succeed from a variety of different backgrounds.

Beyond their own organizations, these firms are also thoughtful in how they interact with the portfolio companies they own.

The private markets team is seeing some significant progress with DEI in the private market firms, primarily at the junior level of the organization and certainly at the associate level. While there is some change happening to recruit and hire diverse professionals in their early to mid-career, there tends to be less change at the senior level given the fewer positions and lower turnover and may take longer to see some change. Another observation is how to measure progress based on the different structures and investment teams of a larger organization. The broader organization that has productive policies and procedure may not appear as though they are progressing in their efforts if the firm has small investment teams with size constraints and low turnover.

Mr. Perry noted the additional resources available to staff in its ESG and DEI efforts with the hiring of Albourne as the Private Markets Consultant.

Mr. Perry also informed members that Nate Blumenshine, Investment Officer on the private markets team will transition his responsibilities to ESG and shareholder engagement activity, some of which he has been doing for the past couple years. In this new role, Nate will engage with some of the SBI's partners and work with the SBI's investment teams to do some in-depth engagement with the SBI's general partners and investment managers.

Mr. Perry and Mr. Blumenshine responded to Mr. Goodwin's question on what empirical evidence they have seen as to whether ESG ratings or a DEI focus has positive or negative impact on long-term outcomes. The evidence they have seen is at the company level mostly and that diversity does drive improved financial performance.

Mr. Perry asked Mr. Krech to review the private markets investment funds listed in Tab D. Mr. Krech stated that Staff is recommending the following six investment funds with existing private markets managers for investment: Blackstone Capital Partners Asia II (Private Equity), KKR MN Partnership (Private Equity), TPG Growth V (Private Equity), TPG Tech Adjacencies II (Private Equity), Carlyle Realty Partners IX (Real Estate), and Brookfield Strategic Real Estate Partners IV (Real Estate). Mr. Krech, and Mr. Stacy responded to questions regarding the size of the commitments, personnel changes at a firm, return expectations, real estate environment, and the process for evaluating the co-investment opportunities. With regard to the co-investment fund, Mr. Krech explained that KKR will retain discretion to effectively invest the capital based on general guidelines established by the SBI to ensure diversification. After discussion, a motion was made that the IAC endorse the six private markets investments. The motion was seconded and approved by roll call vote.

Report from the SBI Administrative Committee

Mr. Perry referred members to the Report from the SBI's Administrative Committee in Tab C of the meeting materials. Mr. Perry asked for the IAC's endorsement after a review of the items listed in the Executive Director's annual work plan and budget. A motion was made that the IAC endorse the Executive Director's Management and Budget Plan for the 2022 Fiscal Year. The motion was seconded and approved by roll call vote.

Reports

Mr. Perry referred to the remaining reports in the meeting materials. He stated that he had no comments on the Public Markets Program other than the fact the performance summary of all the asset classes during the last twelve months have been exceptionally strong and recognized his staff for their extraordinary work. Other materials in the book 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 1:41 p.m.

Respectfully submitted,

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

Mansco Perry III
Executive Director and
Chief Investment Officer