

**Minutes
State Board of Investment Meeting
May 26, 2021**

Notice of Meeting

The State Board of Investment (SBI) met at 10:12 a.m. Wednesday, May 26, 2021. It was determined that an in-person meeting was not practical due to the current health pandemic and ongoing peacetime emergency declared under Chapter 12 of the Minnesota Statutes. As is permitted under the Open Meeting Law in these conditions, the meeting of the State Board of Investment was conducted via Microsoft Teams video conferencing and over the phone. The meeting was also live streamed on You Tube. Attendance and all votes were 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 February 24, 2021 SBI meeting were approved by roll call vote.

State Board of Investment Public Engagement Policy

Attorney General Ellison moved to approve the Public Engagement Policy included in the meeting material for the SBI. This policy ensures that members of the public have the opportunity to speak and the Board has the opportunity to allocate a fair amount of time to each speaker. The motion passed by roll call vote.

Executive Director's Report

Executive Director Mr. Perry referred members to the March 31, 2021 Performance Summary provided in Tab A of the meeting materials. Mr. Perry informed the Board that as of March 31, 2021 the SBI was responsible for just under \$117 billion in assets; and that the Combined Funds represent \$84.5 billion of those assets and as of today, the pension funds were at \$88 billion in assets. Mr. Perry notified members that the SBI is in the process of investing \$1.4 billion of Federal Stimulus money received by Minnesota Management and Budget on May 25, 2021.

Mr. Perry reported that the Combined Funds were ahead of 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 for the year, the Combined Funds returned 35.7% vs. Combined Funds-Composite Index 33.6%). Mr. Perry noted that the asset mix is in-line with the target asset allocation. Mr. Perry then referred members to the Combined Funds Asset Class Performance Summary. He noted the one-year return ending March 31, 2021 for each asset group: the Public Equity Program returned 60.4%, the Total Fixed Income Program reported a -0.8% return, and the Private Markets Program generated a return of

14.1%. Mr. Perry referred members the Volatility Equivalent Benchmark Comparison showing the Combined Funds value added for all time periods listed were positive compared to a benchmark composed of stocks and bonds weighted to represent a portfolio of similar risk. Lastly, Mr. Perry stated that the SBI continues to be in the top quartile for most periods and against most comparisons in the TUCS universe.

State Auditor Blaha asked about the SBI's strategy given rising inflation expectations and long-term and short-term impacts to the portfolio. Mr. Perry stated that as a long-term investor, the SBI has a strong growth portfolio and believes that the SBI's portfolio is well positioned to address inflation risk. In the short-term, Mr. Perry is not convinced that given historical low interest rates that inflation would necessarily be bad. Governor Walz noted the strong performance during a turbulent year and that the pension funds and State accounts are in their strongest position under Mr. Perry's leadership. Attorney General Ellison commended Mr. Perry and Staff for a good job.

Executive Director's Administrative Report

Mr. Perry referred members to Tab B of the meeting materials for the Executive Director's Administrative Report. The administrative budget was provided in Attachment A, to which Mr. Perry noted that the SBI continues to be under budget for the fiscal year. The surplus is mainly from vacant staff positions and not traveling. The SBI anticipates returning money back to the retirement systems who provide the initial funding for the SBI's administrative budget. Next, Mr. Perry noted Attachment B of the meeting materials that provides the status of the legislative bills of interest to the SBI. State Auditor Blaha commented on the work her office is doing with a working group on Volunteer Firefighters and discussions with legislators on how the SBI can invest or help volunteer fire associations more while at the same time preserving some local control. Mr. Perry stated that the Administrative Report included the Iran and Sudan summary and that there was no litigation during the quarter.

Report from the SBI Administrative Committee

Mr. Perry referred members to Tab C of the meeting materials for the SBI Administrative Committee Report. He stated that the Committee met on April 15, 2021 and May 17, 2021 to review the Executive Director's Proposed Work Plan for FY22, the Budget Plan for FY22 and FY23, the Continuing Fiduciary Education Plan, and the Review of the Executive Director's FY21 Evaluation and Salary process. Mr. Perry stated that the Administrative Committee consists of a designee of each Board member, the Pension Fund Directors, and two representatives of the Investment Advisory Council. Attorney General Ellison moved approval of the following recommendations, which reads: **"The Committee recommends that the SBI approve the FY22 Executive Director's Work Plan. Further, the Committee recommends that the Work Plan serve as the basis for the Executive Director's performance evaluation for FY22.**

The Committee recommends that the SBI approve the FY22, and FY23 Administrative Budget Plan, as presented to the Committee, and that the Executive Director have the flexibility to reallocate funds between budget categories if the Executive Director deems necessary.

The Committee recommends that the SBI adopt the attached Continuing Fiduciary Education Plan.

The Committee recommends that the SBI adopt the following performance evaluation and salary process for the SBI Executive Director:

- Evaluations by each Board member should be completed by October 1.
- The evaluations will be primarily based on the results of the Executive Director's Work Plan for the fiscal year ending the previous June 30.
- The SBI Deputies/Board designees will develop an appropriate evaluation form for use by each member.
- The Governor's Board designee will coordinate distribution of the evaluation forms. Board members will forward completed evaluations to the Executive Director. Board members will also send a copy of the Overall Evaluation (summary page 1) to the Governor's designee. Board members are encouraged to meet individually with the Executive Director to review their own evaluation.
- Upon satisfactory performance evaluations from a majority of responding Board Members, the Executive Director's annual salary will be adjusted to include any Cost-of-Living Adjustment (COLA)/Across the Board (ATB)/General Salary Increases and/or any Performance-Based Salary Increases contained in the FY22-23 Managerial Plan, to the extent that the resulting salary is within the Executive Director's salary range. The adjustments shall be effective on the relevant dates set forth in the FY22-23 Managerial Plan (anticipated to be July 1, 2021 for COLA/ATB/General Salary Increases and January 1, 2022 for Performance-Based Increases).
- The Governor's Board designee will provide a letter to the Executive Director confirming the status of the Executive Director's evaluation results by November 1." The motion passed by roll call vote.

Recommendation for New Private Markets Commitments

Mr. Martin, Chairperson of the Investment Advisory Council, delivered the Private Markets Program Report and reviewed six private markets proposals listed in Tab D of the meeting materials. Mr. Martin stated that the following six recommendations are with existing managers with whom the SBI has done extensive due diligence: 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). Secretary of State Simon moved approval of the six 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 \$300 million, or 20% of Blackstone Capital Partners Asia II, 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 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 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 to KKR MN Partnership, 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 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 TPG Growth 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 TPG 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 TPG 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 TPG Tech Adjacencies II, 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 TPG 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 TPG 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 \$300 million, or 20% of Carlyle Realty Partners IX, 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 Carlyle 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 Carlyle 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 \$300 million, or 20% of Brookfield Strategic Real Estate 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 Brookfield 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 Brookfield or reduction or termination of the commitment.” The motion passed by roll call vote.

Other Items and Reports

Mr. Perry directed members to the remainder of the reports in the meeting materials that included: the Public Markets Investment Program Report in Tab E; the Participant Directed Investment Program and Non-Retirement Program Report in Tab F; the SBI Environmental, Social and Governance (ESG) Report; the Market Environmental Report prepared by AON; the Capital Markets Outlook & Risk Metrics Reports prepared by Meketa; and the SBI Comprehensive Performance Report.

Public Testimony

Governor Walz recognized members of the public who requested to speak before the Board: Ms. Jina Penn-Tracy from the Minnesota Divestment Coalition, who was not present to speak, and Ms. Cristina Erickson with Minnesota Youth for Climate Justice.

Adjournment of Meeting

Attorney General Ellison moved approval to adjourn the meeting. The motion passed by roll call vote. The meeting adjourned at 11:17 a.m.

Respectfully Submitted,



Mansco Perry III
Executive Director and
Chief Investment Officer