

**Minutes  
Investment Advisory Council  
August 16, 2021**

**Call to Order**

The Investment Advisory Council (IAC) met at 12:00 p.m. on Monday, August 16, 2021. The Chair of the IAC determined that an in person meeting was not practical or prudent because of the current COVID-19 health pandemic. 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, Kim Faust, Susanna Gibbons, Morris Goodwin Jr., Jennifer Hassemer (for Jim Schowalter), Peggy Ingison, Gary Martin, Dan McConnell, Nancy Orr, Carol Peterfeso, Martha Severson Rush, Shawn Wischmeier, and Public Member Emeritus Malcolm McDonald.

**MEMBERS ABSENT:** Denise Anderson, Ellen Brownell, Dennis Duerst, Erin Leonard and Jay Stoffel.

**SBI STAFF:** Mansco Perry, Patricia Ammann, Shirley Baribeau, Nate Blumenshine, Cassie Boll, Tammy Bruschaver, 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; Jake Smith, 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 May 17, 2021 IAC meeting were approved unanimously by roll call vote. Ms. Faust was not present for the approval of the minutes.

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

Mr. Perry, Executive Director, referred members to the June 30, 2021 Performance Summary provided in Tab A of the meeting materials. Mr. Perry stated that as of June 30, 2021, the SBI was responsible for over \$129.2 billion of assets and that the Combined Funds represent \$89.5 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 June 30, 2021 (Combined Funds 10.4% vs. Combined Fund Composite Index 10.1%) and providing a real rate of return above inflation over the latest 20 year time-period (Combined Funds 8.1% vs CPI-U 2.1%). The Combined Funds also exceeded the composite index for all time-periods reported (Combined Funds returned 6.7% vs. Combined Funds-Composite Index 6.6% for the quarter and returned 30.3% vs. Combined Funds-Composite Index 28.8% for the year).

Mr. Perry noted that the Combined Funds actual asset mix is in-line with the asset allocation targets. He referred members to the Combined Funds Asset Class Performance Summary. A revised Strategic Allocation Framework will be drafted in conjunction with the Executive Director's management plan for the private markets program, at which time staff will also bring a permanent policy recommendation for the private markets program. Next, Mr. Perry noted the Volatility Benchmark Comparison shows that the Combined Fund portfolio added value for all time-periods listed on a risk adjusted basis. A comparison of the Combined Funds performance to other public funds with assets greater than \$1 billion ranked in the top quartile for most of the time-periods listed. Going forward, the SBI will use the universe of public funds over \$20 billion in assets when comparing its performance to other public funds.

In response to Mr. Goodwin's question on the positioning of the Short Duration Laddered portfolio, Mr. Perry noted that there is no change to the mandate, which is to provide liquidity for the retirement systems pension plans. Mr. Perry also noted in answering a question from Mr. Goodwin that hedge funds would be an investment vehicle within the Opportunity group of the Strategic Allocation Category Framework. Mr. Sonderegger replied to Ms. Peterfeso's question that the duration of the Treasury Protection portfolio is between 10 and 11 years and is partly offset by the Short Duration Laddered Portfolio in addition to the other fixed income sub groups. Mr. Sonderegger continued that the objective of the Treasury Protection portfolio is to act as a defensive hedge during volatile equity markets, but it should be noted that the portfolio's longer duration profile makes it more susceptible to negative performance should intermediate and longer-term interest rates rise significantly.

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

Mr. Perry referred members to Tab B of the meeting materials for the Executive Director's Administrative Report. Mr. Perry noted that at fiscal year end the SBI was under budget. As a result, the SBI will return three million dollars back to the retirement systems who provide the initial funding for the SBI's administrative budget. He stated that the remainder of the Administrative Report has the Iran and Sudan updates and that there was no litigation against the SBI.

### **General Investment Consultant Review Report**

Mr. Perry referred members to Tab C of the meeting materials for the General Investment Consultant Review Report. Mr. Perry stated the SBI issued a Request for Proposal (RFP) during the spring of 2021 for general investment consulting services and received seven responses. The current contracts with Aon Investments and Meketa Investment Group will expire shortly after the

end of the calendar year. After review of the responses, Staff and the Consultant Review Committee made up of IAC and Board member designees, recommended that the SBI retain the services of Aon and Meketa for another five-year time period. A motion was made and seconded that the IAC endorse the recommendation to retain both Aon Investments USA Inc. and Meketa Investment Group, LLC as investment consultants for another five-year contract period. The motion was approved by roll call vote.

### **Private Markets Investment Program Report**

Mr. Perry referred members to Tab D of the meeting materials for the Private Markets Investment Program Report and asked Mr. Christensen to provide a brief summary of each of the funds recommended for an investment. Mr. Christensen stated that staff recommends an investment in a total of twelve funds all of which are with existing managers. Of the twelve investment funds, seven are private equity funds: MN Asia Investors, Blackstone Strategic Partners Fund IX, Carlyle Partners VIII, Carlyle/MN Co-Invest, Lexington Partners X, Summit Partners Growth Equity Fund XI, Whitehorse Liquidity Partners V; four are real estate private equity funds: KKR Global Infrastructure Investors Fund IV, Blackstone Real Estate Partners Asia III, KKR Real Estate Partners America III, and Landmark Partners Real Estate Fund IX; and one private credit fund: Sixth Street Opportunities Partners V.

Mr. Goodwin inquired as to how the larger number of secondaries and co-investment funds recommended fit into the overall investment strategy. Mr. Christensen responded that although there is no formal target policy within the sub asset groups, staff is cognizant of the exposure when considering new commitments. Other considerations include, but are not limited to: the success of the long standing funds, timing of the fundraising within the pacing schedule, structure of secondaries given their accelerated distributions, and monitoring how close the portfolio is to the policy targets. Currently, approximately 10% of the private market program is allocated to secondary investments. The allocation to co-investment funds is relatively new and staff is working towards building that sub group out. To date, the SBI's exposure in co-investment deals has been with existing manager relationships in a fund versus having staff select the investment opportunities in a direct co-investment structure. Mr. Perry also noted that although secondaries provide a shorter duration and quick turnover into a private market vehicle, the exposure will not increase much beyond the current allocation.

Mr. Perry stated that the SBI's private markets consultant, Albourne, is in the process of downloading historical data from the private markets portfolio as part of the portfolio review outlined in the Executive Director's management plan. Mr. Perry noted that monitoring the amount of uninvested commitment dollars in the portfolio is important and that it is an important consideration to not over-extend the portfolio with obligations just to get dollars invested.

In response to a question from Mr. Martin, Mr. Perry stated that when considering commitment amounts staff considers whether the manager is a long-term partner, performance of prior funds, and asset base for beneficial contract terms.

There was further discussion on specific funds regarding market opportunities, actions around Environmental, Social, and Governance (ESG) and diversity initiatives, and staff's assessment of risk in the portfolio.

After discussion, a motion was made that the IAC endorse the twelve private markets investments. The motion was seconded and approved by roll call vote.

### **Reports**

Mr. Perry referred to the remaining reports, the Public Markets Investment Program, the Participant Directed Investment Program and the Non-Retirement Investment Program in Tab E and F of the meeting materials. Mr. Perry noted the Environmental, Social, and Governance (ESG) Report, which provides activity the SBI is doing with engagement and proxies. He stated other materials included in the book are the Market Environment Report prepared by Aon; the Capital Markets Outlook & Risk Metrics Report prepared by Meketa; and the SBI's Comprehensive Performance Report.

### **Diversity, Equity, and Inclusion (DEI) Task Force**

Lastly, Mr. Perry thanked Mr. Goodwin and Ms. Gibbons for agreeing to co-chair the SBI's Diversity, Equity and Inclusion (DEI) Task Force and Ms. Black, Ms. Ingison, Mr. Martin, and Ms. Peterfeso, who also agreed to be on the committee. Mr. Perry stated that the purpose of the Task Force is to help and give the Executive Director some guidance for items to bring to the IAC and Board. In addition to those members, Mr. Perry will be assigning a staff member and one of the SBI's consultants to the Task Force.

### **Adjournment of Meeting**

The motion to adjourn the meeting was seconded and approved by roll call vote. The meeting adjourned at 1:21 p.m.

Respectfully submitted,



Mansco Perry III  
Executive Director and  
Chief Investment Officer