

**Minutes
State Board of Investment Meeting
December 1, 2021**

Notice of Meeting

The State Board of Investment (SBI) met at 10:15 a.m. Wednesday, December 1, 2021. It was determined that an in-person meeting was not practical due to the current COVID-19 health pandemic. 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 August 25, 2021 SBI meeting were approved by roll call vote.

Performance Summary

Executive Director Mr. Perry referred members to the September 30, 2021 Performance Summary provided in Tab A of the meeting materials. Mr. Perry informed the Board that as of September 30, 2021 the SBI was responsible for just under \$128 billion in assets, of which the Combined Funds represented \$90 billion of those assets.

Mr. Perry reported that the Combined Funds continue to meet its long-term objectives by outperforming its Composite Index over the ten-year period ending September 30, 2021 (Combined Funds 11.6% vs. Combined Fund Composite Index 11.2%) and providing a real rate of return above inflation over the latest 20 year time-period (Combined Funds 8.7% vs CPI-U 2.2%). For all time-periods reported ending September 30, 2021, the Combined Funds either matched or exceeded its Composite Index.

Mr. Perry noted that the asset mix is in-line with the target asset allocation. Mr. Perry referred members to the Combined Funds Asset Class Performance Summary ending September 30, 2021. He stated the performance for the Public Equity Program was less robust for the quarter primarily due to the International Equity Program return but the one-year Public Equity return of 30.2% had positive relative return to its benchmark. Mr. Perry noted the Fixed Income Program matched its benchmark return and Private Markets returned 9.4% for the quarter. Next, Mr. Perry stated the Strategic Allocation Category Framework provides a picture of the amount of risk in the portfolio, which can be considered high given the large equity orientation. Mr. Perry noted the Volatility Equivalent Benchmark Comparison provides the value added from the Combined Funds compared to a composite benchmark with similar risk. Lastly, Mr. Perry noted that the Trust Universe Comparison Service (TUCS) report of public funds over \$20 billion in assets ranks the Combined Funds in the second quartile for the quarter and in the first quartile for other time-periods listed ending September 30, 2021.

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 provided in Attachment A shows the SBI is below budget for the quarter primarily due to vacancies in personnel services and no travel. Mr. Perry stated that the Legislative Auditors are working on the financial audit for FY21 and he will inform the Board and others once the audit is complete, at which time the annual report will be ready for distribution. He stated that the annual report will also include a Stewardship Report that discusses the SBI’s Environmental, Social, and Governance (ESG) activities over the past year.

Mr. Perry stated that the meeting dates for calendar year 2022 were included in the report. Lastly, he stated the Administrative Report included the Iran and Sudan summary and that there was no significant litigation during the quarter.

State Auditor Blaha asked if Mr. Perry and Mr. Martin could comment on the work of the recently created Diversity Equity and Inclusion (DEI) Task Force. Mr. Perry noted that the Task Force had its first meeting and believes this is a very robust task force in the early stages of outlining the information necessary to get a better profile of DEI at the Staff and manager level. Mr. Martin noted that they are working on collecting the data so they can assess where the SBI is before making any determination as to what are the objectives and options for the SBI going forward.

Proposed Legislation

Governor Walz recognized Mr. Mulé, who referred members to an updated memo in Tab C of the meeting materials. Mr. Mulé stated that Staff is asking the Board to allow them to pursue proposed legislative language that will fully implement the SBI’s Investment Salary Plan. The goal is to create a path of advancement in the organization by creating three classifications for Investment Analysts that wasn’t included in prior plans. Mr. Mulé stated the language will also clarify language regarding the threshold issue of the types of roles which qualify for SBI Salary Plan coverage.

Attorney General Ellison moved for approval the resolution which reads: **“The Minnesota State Board of Investment authorizes the Executive Director to pursue legislation to allow the hiring of unclassified investment analysts under the SBI salary plan and clarify the terms under which an employee qualifies for SBI Investment Salary Plan coverage.”** The motion passed by roll call vote.

Private Markets Investment Program Report and Public Speakers

Mr. Martin, Chairperson of the Investment Advisory Council, delivered the Private Markets Investment Program Report and reviewed eight private markets proposals listed in Tab D of the meeting materials. Mr. Martin stated that the following eight recommendations are with existing managers with whom the SBI has done extensive due diligence: Arsenal Capital Partners IV (Private Equity), Premira VIII (Private Equity), Warburg Pincus Global Growth 14 (Private Equity), Marathon Secured Private Strategies Fund III (Private Credit), Blackstone Strategic Partners Fund IX (Private Equity), Lexington Partners X (Private Equity), Whitehorse Fund V (Private Equity), and Landmark Real Estate Partners IX (Real Estate).

Prior to taking a vote on the recommended private markets investments, Governor Walz recognized members of the public. Representatives from Renters United for Justice, Shanika

Henderson, Arianna Anderson, Angela Bonfiglio, and Chloe Jackson, each spoke on concerns they have with the SBI making an investment with Landmark Real Estate Partners because of its connection with residential real estate manager Pretium Partners, which is a minority shareholder in Front Yard Residential and its subsidiary HavenBrook Homes. Governor Walz recognized Mr. Frank Borges, Partner and Co-Head of Secondary Solutions with Ares Management, parent of Landmark Partners and Paul Mehlman, Sr. Real Estate personnel. Mr. Borges and Mr. Mehlman replied to concerns the speakers voiced with HavenBrook Homes property management. Mr. Borges stated that in August when they were made aware of the repair issues they immediately took steps to have Pretium Partners implement a plan. First, they needed additional resources and made new hires, brought on maintenance technicians from Pretium's staff, and retained outside contractors. Next, work orders were prioritized to first address life and safety issues. Ultimately, the number of work orders were reduced from 217 to eight tickets currently outstanding. Most importantly, staff remains in place to address any ongoing maintenance needs. Mr. Borges noted that although Landmark does not manage the properties, they are an investor and take concerns like these very seriously.

Attorney General Ellison noted his office has responsibility to enforce Minnesota State statute regarding lease provisions and other habitable items and to protect consumers including tenants. Secretary of State Simon noted the importance of vetting a reputable property management team and State Auditor Blaha requested a follow up to ensure someone has met with the representatives from Renters United for Justice to address whatever outstanding repairs are needed. Governor Walz noted how an investment in Landmark gives the SBI leverage to make change, whereas Mr. Borges most likely wouldn't have been present to hear the concerns and provide his assurance to resolve these issues without the SBI's relationship with Landmark.

Mr. Perry answered a question from Governor Walz, clarifying that Landmark, as a secondaries firm is a fund of funds strategy and Landmark does not have a direct investment with Pretium Partners. Pretium Partners represents a very small weight within the various portfolios that Landmark owns within the Fund.

After hearing from the public speakers, Governor Walz called for a motion on the eight private markets commitment recommendations.

State Auditor Blaha moved approval of the eight 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 \$100 million, or 20% to Arsenal Capital Partners VI, 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 Arsenal Capital Partners 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 Arsenal Capital Partners 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 Permira VIII, 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 Permira 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 Permira 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 Warburg Pincus Global Growth 14, 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 Warburg Pincus 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 Warburg Pincus 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 \$100 million, or 20% of Marathon Secured Private Strategies Fund III, 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 Marathon Asset Management 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 Marathon Asset Management 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 \$100 million, or 20% to Strategic Partners Fund IX, 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 The Blackstone Group 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 The Blackstone Group 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 \$100 million, or 20% of Lexington Partners X, 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 Lexington Partners 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 Lexington Partners 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 \$100 million, or 20% of Whitehorse Liquidity Partners 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 Whitehorse Liquidity Partners 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 Whitehorse Liquidity Partners 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 \$100 million, or 20% of Landmark Real Estate 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 Landmark Partners 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 Landmark Partners or reduction or termination of the commitment.” The motion passed by a majority vote by roll call vote. Attorney General Ellison recused himself from voting to ensure no conflicts given his responsibility as both a civil law enforcement person and Board member.

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 ESG Report, which notes the Stewardship Report included in the SBI's 2021 Annual Report and posted to the SBI website; the Market Environmental Report prepared by Aon; the Capital Markets Outlook & Risk Metrics Reports prepared by Meketa; and the SBI Comprehensive Performance Report.

Other Items:

Climate Change Discussion and Public Speakers

Governor Walz recognized members of the public who requested to speak before the Board: Emily Moore from Divest-Invest Minnesota and Minnesota Divestment Coalition; Lisa Franchett from Minnesota Divestment Coalition; and Megan Dayton from Minnesota Association of Professional Employees (MAPE). Governor Walz thanked the members of Minnesota Divestment Coalition for their continued advocacy on climate change and stated that the commitment to moving Minnesota towards a clean energy future has been a top priority of his administration.

Mr. Perry agreed that climate change is probably the most important investment issue over the next three decades, but disagrees that divestment is a responsible investment approach. Mr. Perry noted that the SBI engaged its consultant, Meketa, to conduct a risk assessment to address the impact of climate change in the SBI's portfolio.

Mr. Emkin with Meketa noted that staff has the draft study, which has been organized into three reports to help facilitate the climate risk investment discussion. The study will be available to the Board prior to their next meeting.

Public Engagement –Additional Speakers

Governor Walz recognized members of the public who also requested to speak before the Board: Evelyn Zepeda and Martha Conejo from the Western States Regional Joint Board of Workers, an affiliate of Service Employees International Union (SEIU). The speakers stated they represent the 1,000 healthcare laundry workers employed by Angelica Corporation in California and Arizona recently acquired by Emerald Textiles and are concerned for their jobs and pensions. Some of the accounts managed by BlackRock Private Equity Partners recently provided funding to an investment vehicle with Emerald Textile's owner, Pacific Avenue Capital Partners. The speakers reached out to the SBI because of their long-standing relationship with BlackRock. Mr. Perry noted that the SBI does not have an investment in BlackRock Private Equity Partners.

Governor Walz thanked the speakers and stated he understands that the SBI does not have a fiduciary obligation with this item but is encouraged with the engagement that is happening between Emerald Textiles and the Union for a resolution. Mr. Emkin stated he has a long-standing relationship with the Union and BlackRock and will continue to monitor until this is resolved.

Executive Director Announcement

Mr. Perry formally announced to the Board that he plans to retire from the State Board of Investment during calendar year 2022. The Board members commended Mr. Perry for his extraordinary years of service and dedication to the State Board of Investment.

Lastly, Governor Walz stated that with Mr. Perry's imminent retirement, the Secretary of State's office prepared a resolution (see **Attachment A**) authorizing the establishment of a Search Committee to retain a search firm, evaluate applicants, and formally make a recommendation to the Board to fill the Executive Director position. Secretary of State Simon moved approval and the motion passed by roll call vote.

Adjournment of Meeting

State Auditor Blaha moved approval to adjourn the meeting. The motion passed by roll call vote. The meeting adjourned at 11:47 a.m.

Respectfully Submitted,

A handwritten signature in black ink, appearing to read 'MP3', is positioned below the text 'Respectfully Submitted,'.

Mansco Perry III
Executive Director and
Chief Investment Officer

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ATTACHMENT A

WHEREAS, Mansco Perry, Executive Director and Chief Investment Officer for the State Board of Investment, has expressed his desire to retire in 2022; and

WHEREAS, the State Board of Investment is greatly appreciative of the work of Executive Director Perry since 2013, as well as all his previous work as a staff member of the State Board of Investment; and

WHEREAS, the State Board of Investment has prospered under his leadership, and all Minnesotans have benefited; and

WHEREAS, finding new leadership for the staff of the State Board of Investment will be a rigorous process,

THEREFORE, BE IT RESOLVED THAT:

The State Board of Investment hereby creates a Search Committee consisting of one designee of each Board member, the Executive Directors of the three statewide retirement systems (Public Employees Retirement Association, Teachers Retirement Association, and Minnesota State Retirement System), the Chair of the Investment Advisory Council, and two members of that body to be chosen by the Chair of the Investment Advisory Council; and

The State Board of Investment charges this committee with the following tasks:

Reviewing, and amending if necessary, the scope of the Executive Director's job description in light of the investment portfolio's size and the complexity of the SBI's operations;

Engaging a national executive search firm, following all necessary procurement rules, to assist in conducting a national search, recruiting candidates, and vetting applicants for the Executive Director position;

Interviewing, at its discretion, candidates identified through the national search as suitable for the Executive Director position; and

Making recommendations to the members of the State Board of Investment of candidates to fill the position.