

**Minutes  
Investment Advisory Council  
May 16, 2022**

**Call to Order**

The Investment Advisory Council (IAC) met at 12:00 p.m. on Monday, May 16, 2022. The meeting was conducted in person and via Zoom for Government video conferencing software and over the phone. Attendance and all votes were conducted by roll call.

**MEMBERS PRESENT:** Denise Anderson, Doug Anderson, Dennis Duerst, Kim Faust, Susanna Gibbons, Morris Goodwin Jr., Jennifer Hassemer (for Jim Schowalter), Peggy Ingison, Erin Leonard, Dan McConnell, Nancy Orr, Carol Peterfeso, Martha Severson Rush, Jay Stoffel and Shawn Wischmeier and Public Member Emeritus Malcolm McDonald.

**MEMBERS ABSENT:** Gary Martin

**SBI STAFF:** Mansco Perry, Patricia Ammann, Paul Anderson, Shirley Baribeau, Nate Blumenshine, Tammy Brusehaver, Andy Christensen, Dan Covich, Aaron Griga, Cathy Hua, Andrew Krech, Steve Kuettel, Melissa Mader; John Mulé; Charlene Olson, S. Emily Pechacek, Narmada Ramaswami, Erol Sonderegger, Jonathan Stacy, David Velasquez, Jeff Weber, and Samir Zahar.

**OTHERS ATTENDING:** Katie Comstock, Aon Investments; Sarah Bernstein, Gordon Latter, and Ghiane Jones, Meketa Investment Group; Sean Crawford and Arabella Wuchek, Albourne America; J. Adam Sorenson, Attorney General's Office; Karl Procaccini, Governor's Office; Bibi Black, Secretary of State's Office; Ramona Advani, State Auditor's Office; Edgar Hernández, SEIU; and Gary Krueger, Minnesota Pollution Control Agency.

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.

Ms. Faust Chaired the Investment Advisory Council meeting.

**Approval of IAC Minutes**

The minutes of the February 14, 2022 meeting were approved unanimously by roll call vote. Morris Goodwin and Shawn Wischmeier were not present for the vote.

**Public Speaker Request**

Ms. Courtney Alexander, from United Food and Commercial Workers International Union, addressed the IAC regarding information related to a company held in KKR Asian Fund II and urged the SBI to research the company and suspend any further investments with KKR.

### **Performance Summary**

Mr. Perry, Executive Director, referred members to the March 31, 2022 Performance Summary provided in Tab A of the meeting materials. Mr. Perry informed the Board that as of March 31, 2022 the SBI was responsible for almost \$131.4 billion in assets and that the Combined Funds represent \$90 billion of those assets. Mr. Perry reported that the Combined Funds continue to exceed its long-term objectives by outperforming its Composite Index for the ten year period ending March 31, 2022 (Combined Funds 10.2% vs. Combined Fund Composite Index 9.9%) and provided a real rate of return above inflation over a 20 year time-period (Combined Funds 8.3% vs CPI-U 2.4%). The Combined Funds slightly underperformed the composite index for the quarter and matched or exceeded the composite index for all other reporting periods. Mr. Perry noted that the Combined Funds actual asset mix is in-line with the asset allocation targets. He commented that the negative performance for the quarter and fiscal year are primarily due to public equities, most notably international and global equities, and from fixed income. Private markets, which has a quarterly lag, continues to be the strongest asset class in the Combined Funds.

Next, Mr. Perry noted that the Volatility Equivalent Benchmark Comparison shows the Combined Funds portfolio added value for all time-periods compared to a portfolio with a 60/40 equity/fixed income allocation. Lastly, Mr. Perry stated that the Combined Funds performance ranked in the 70<sup>th</sup> percentile for the quarter and the 42<sup>nd</sup> percentile for the year compared to other public plans with over \$20 billion in assets in the Trust Universe Comparison Service (TUCS).

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

Mr. Perry referred members to Tab B of the meeting materials for the Executive Director's Administrative Report. He referred to the budget and travel and stated that staff has begun to travel again. Mr. Perry introduced John Mulé, Director of Legal and Policy Services, who gave an update on the Legislative Bill Tracker. Mr. Mulé stated that a bill that requires divestment of Russian and Belarusian companies within a measured timeline was signed into law and Mr. Perry confirmed that the SBI would be executing the requirements of this law into its unauthorized holdings procedure. Mr. Mulé continued that the Omnibus Pension Policy and Technical Bill provides corrective language to legislation passed in 2019 to allow the SBI to hire certain investment positions under the SBI's Salary Plan. Mr. Mulé noted that in addition to the Omnibus Pension Bill, there is separate legislation in the House Omnibus Government Finance Bill that would lower the assumed rate of return from 7.5% to 7% for the Statewide Retirement Systems.

In response to a question from Ms. Faust, Mr. Sonderegger stated that the Combined Funds exposure to Russian and Belarusian holdings represented about 20 basis points of the overall portfolio. The exposure today after sales and write-downs is less than \$5 million, which results from approximately \$184 million in losses to date.

In response to another question from Ms. Faust, Mr. Mulé stated that the Legislative Commission on Pensions and Retirement (LCPR) website provides information on potential impacts to the retirement systems with a change in the assumed rate of return.

### **SBI Administrative Committee Report**

Mr. Perry referred members to Tab C of the meeting materials that provides a report from the May 2, 2022 SBI Administrative Committee. Mr. Perry highlighted some of the work plans from the material for the 2023 fiscal year including the Climate Change Transition Strategy, the

Diversity, Equity and Inclusion (DEI) Policy, and three Request for Proposals (RFP) that will be executed during the fiscal year: Master Custodian Services, Contract and Document Management Database and the Foreign Tax Advisory Services. Mr. Perry informed the IAC that the Administrative Committee would reconvene 90 days after a new Executive Director has started to reassess the current position description. In response to a question from Mr. Duerst, Mr. Perry stated that the SBI staff has grown during the 2022 fiscal year from 25 to 34 people hired by June 30, 2022.

A motion was made that the IAC endorse the Administrative Committee's recommendation to the Board to approve the Executive Director's Fiscal Year 2023 Management and Budget Plan. The motion was seconded and approved by roll call vote.

### **Meketa Climate Change Investment Analysis, Phase II Update**

Ms. Faust introduced Ms. Bernstein from Meketa to provide an update on Phase II of the Climate Change Investment Analysis provided in Tab D of the meeting material. Ms. Bernstein noted that this phase of the analysis provided insight from survey responses of other public pension plans on how they manage climate-related investment risks and opportunities. Of the 20 public plans that responded to the survey, 18 plans include investment beliefs and/or investment policies that are explicit to climate change. Ms. Bernstein stated that the use of analytic tools for climate scenario analysis is new and that most public pension plans do not address climate-related risks and opportunities explicitly in their investment strategy.

### **DEI Committee Update – Recommendation for DEI Investment Belief Statement**

Mr. Perry referred members to the information in Tab E of the meeting materials, which includes a memo outlining the recommendation by the Diversity, Equity, and Inclusion (DEI) Committee to add a statement to the SBI's Investment Beliefs. Ms. Gibbons commented that the Committee reviewed and endorsed the language as amended and vetted by Meketa. The statement is as follows:

***“Best practices are developed by the best teams.***

*There is no merit-based explanation for the lack of racial and gender diversity in the investment industry. In fact, research indicates that such diversity adds value. The SBI must ensure that non-financial biases do not prevent it from working with the best teams. In this diverse and changing world, organizations that demonstrate a commitment to diversity are more likely to succeed.”*

A motion was made that the IAC endorse the recommendation to the Board to add the statement above to the SBI's Investment Beliefs. The motion was seconded and approved by roll call vote.

### **Recommendation for the Water Quality and Sustainability Account from 3M Settlement**

Mr. Perry referred members to the recommendation for the Water Quality and Sustainability Account from the 3M Settlement in Tab F of the meeting materials. The Account is established under Minnesota Statute 115B.52 and allows the SBI to invest the assets, which is approximately \$720 million. Mr. Perry noted that SBI Staff worked with the co-trustees for this account, Minnesota Pollution Control Agency (PCA) and Department of Natural Resources (DNR), to develop a Statement of Understanding and an Investment Policy for the sub-accounts. Mr. Sonderegger answered questions regarding the allocation of the sub-accounts and investing in

fixed income during the current rising interest rate environment. Mr. Sonderegger noted that the Capital Spending sub-account would be 100% invested in a laddered bond portfolio allocated to shorter maturity instruments and cash to match planned expenditures. The other sub-accounts, Operation and Maintenance (O&M) and Contingency, have smaller allocations to fixed income and a longer time horizon compared to the Capital Spending sub-account. In response to Ms. Orr, Mr. Sonderegger noted that the models were completed 12 months ago using a 3% cost adjustment for inflation.

A motion was made that the IAC endorse the recommendation to the Board to establish the Water Quality and Sustainability Account and required sub-accounts. The motion was seconded and approved by roll call vote.

### **Summary of Non-Defined Benefit Investment Programs**

Mr. Perry referred members to Tab G of the meeting materials for the Non-Defined Benefits Investment Programs presentation by Ms. Ammann, Director of Participant Directed and Non-Retirement Investments and Mr. Sonderegger, Assistant Executive Director, Portfolio Management and Risk Analysis. Ms. Ammann provided a high-level review of the participating plans, investment vehicles, and asset class options offered to the Volunteer Fire Relief Plans and Other Public Retirement Plans, the Participant Directed Investment Program (PDIP), and the Non-Retirement Program. Ms. Ammann also provided a brief summary of the data that is collected on the investment firm's ESG and DEI programs and future work to do in this area. Next, Ms. Ammann reviewed the investment fee summary for the mutual funds platform, SIF asset class pools and non-retirement separate accounts. Lastly, Ms. Ammann highlighted the work Aon completed on the Minnesota Deferred Compensation Plan (MNDCP) Investment Structure Review and the U.S. Target Date Fund Competitive Review. Ms. Ammann noted that some of the items from the review would carry over to the 2023 fiscal year for further analysis.

In response to Mr. Goodwin's question, Ms. Ammann responded that Vanguard's passive funds represent just under 50% of the assets in the mutual fund platform and noted that Staff is in the beginning stages of understanding the Stewardship practices of the passive funds. In response to Mr. Stoffel's question, Ms. Ammann confirmed that if funded the Water Quality and Sustainability Account would be the third largest trust fund invested with the SBI. In response to Ms. Gibbons' question, Ms. Ammann noted that the self-directed brokerage window in the MNDCP provides over 2,000 mutual funds with a specific ESG focus and in 2021 the Minnesota College Savings Plan (MCSP) added the TIAA Social Choice Equity Fund to the core line up to compete with other state college savings plans.

Mr. Sonderegger, reviewed the investment objectives and strategy for the State Cash Account assets managed internally by SBI Staff. Mr. Sonderegger noted that these assets are invested in either the Invested Treasurer's Cash Pool (ITC) with over \$21 billion in assets or in the Excess Debt Service Reserves with \$68 million as of March 31, 2022. The ITC invests in high quality money market instruments and short-term debt securities on behalf of state agencies. Excess Debt Service Reserves invest in high quality tax-exempt municipal or U.S. Treasury securities that require a different account due to tax rules. Mr. Sonderegger noted that the State Cash Assets have a fossil fuel free mandate since the Board Resolution Concerning Reduction of Investments Associated with Thermal Coal Production was passed in 2020.

Mr. Sonderegger clarified that the percentage listed in the key portfolio metrics for floating rate bonds represents the portfolio weight. He also noted, in response to Ms. Gibbon's question, that the portfolio does follow, in general, money market rules with sector diversification and other portfolio metrics. In response to Ms. Orr's question, Mr. Sonderegger estimated that the maximum weight to a non-government holding is 3% but typically is around a 1-2% weight with approximately 100 non-government issuers.

### **Private Markets Commitment for Consideration**

Mr. Christensen, Assistant Executive Director, Investment Strategy and Administration provided background on the fundraising timeline and noted that Blackstone Real Estate Partners is a long-time real estate general partner in the portfolio. Mr. Christensen introduced Mr. Krech, Director Private Markets, who stated that Staff recommends an investment in Blackstone Real Estate Partners Fund X and noted that this is one of the SBI's global flagship opportunistic real estate strategy funds with investments predominantly in North America but also in Europe and Asia. Mr. Krech and Mr. Stacy, Investment Officer, Private Markets addressed questions on portfolio construction. Mr. Stacy addressed Blackstone's efforts to decarbonize their properties by including solar panels and living roofs on some buildings. Mr. Stacy answered Ms. Peterfeso's question on primary property locations. In response to Mr. Goodwin, Mr. Krech noted that there is no set limit in terms of exposure with a general partner and that a core relationship typically has a higher allocation but overall the portfolio is well diversified.

A motion was made that the IAC endorse Staff's recommendation to invest with the Blackstone Real Estate Partners Fund X (Private Real Estate). The motion was seconded and approved by roll call vote.

### **Update from Executive Director Search Committee**

Ms. Faust gave a brief update on the Executive Director Committee Search. She stated that Korn/Ferry was selected from the RFP process to lead the executive director search process and anticipate the first round of interviews in June with a recommendation to the Board sometime in July of this year.

### **Retirement Messages for Executive Director**

Mr. Perry expressed his thanks to the IAC during his nine plus years of service as Executive Director. After adjournment, IAC members acknowledged Mr. Perry for his accomplishments during his tenure at the SBI and thanked Mr. Perry for his service.

### **Adjournment of Meeting**

The motion to adjourn the meeting was seconded and approved by roll call vote. The meeting adjourned at 2:03 p.m.

Respectfully submitted,



Mansco Perry III  
Executive Director and  
Chief Investment Officer

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