

**Minutes
Investment Advisory Council
November 15, 2021**

Call to Order

The Investment Advisory Council (IAC) met at 12:00 p.m. on Monday, November 15, 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: Denise Anderson, Doug Anderson, Dennis Duerst, Kim Faust, Susanna Gibbons, Morris Goodwin Jr., Jennifer Hassemer (for Jim Schowalter), Peggy Ingison, Erin Leonard, Gary Martin, Dan McConnell, Carol Peterfeso, Jim Schowalter, Martha Severson Rush, Jay Stoffel and Shawn Wischmeier and Public Member Emeritus Malcolm McDonald.

MEMBERS ABSENT: Nancy Orr.

SBI STAFF: Mansco Perry, Patricia Ammann, Paul Anderson, 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, Narmada Ramaswami, 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; Sean Crawford, 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.

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 August 16, 2021 IAC meeting were approved unanimously by roll call vote. Shawn Wischmeier was not present for the vote.

Performance Summary

Mr. Perry, Executive Director, referred members to the September 30, 2021 Performance Summary provided in Tab A of the meeting materials. Mr. Perry stated that as of September 30, 2021, the SBI was responsible for over \$128 billion of assets and that the Combined Funds represent approximately \$90 billion, which currently is nearing \$94 billion as of November 14, 2021. Mr. Perry reported that the Combined Funds continue to exceed 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%). The Combined Funds also exceeded the composite index for all time-periods reported as of September 30, 2021.

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 ending September 30, 2021. Mr. Perry stated the performance for the Public Equity Program was negative for the quarter primarily due to the International Equity Program return, but reported a positive relative return to the composite benchmark. He noted the Total Fixed Income Program earned the same return as its benchmark and the Private Markets invested allocation returned 9.4% for the quarter. Next, Mr. Perry stated the Volatility Benchmark Comparison shows the Combined Fund portfolio added value for all time-periods listed on a risk adjusted basis. Lastly, Mr. Perry stated the Combined Funds ranked in the second quartile for the quarter and in the first quartile for all other time-periods ending September 30, 2021 in the Trust Universe Comparison Service (TUCS) for all public plans over \$20 billion.

Executive Director's Administrative Report

Mr. Perry referred members to Tab B of the meeting materials for the Executive Director's Administrative Report, which includes the SBI's Administrative Budget for three months ending September 30, 2021. Mr. Perry stated that the legislative auditors continue to work on the SBI's audit and he will report back when finished. He stated that the FY2021 Annual Report will be available shortly after the audit is completed. Meeting dates for the 2022 calendar year were also included in the Administrative Report. Mr. Perry noted the remainder of the Administrative Report has the Iran and Sudan updates and that there was no litigation against the SBI. Lastly, Mr. Perry stated that the SBI may need to seek approval from the Legislature to correct some technical difficulties encountered with a section of the SBI's Investment Salary Plan.

Private Markets Investment Program Report

Mr. Perry referred members to Tab C of the meeting materials for the Private Markets Investment Program Report and asked Mr. Krech to provide a brief summary of the funds recommended for an investment. Mr. Krech stated that staff is recommending investments in the following four funds with existing private market firms: Arsenal Capital Partners VI, Permira VIII, Warburg Pincus Global Growth 14, and Marathon Secured Private Strategies Fund III.

Mr. Goodwin asked how commitment amounts are determined given the dollars available in the unfunded allocation. Mr. Krech answered that staff's objective is to be consistent with the pacing schedule by being disciplined over a period of several years. To fund the private market strategic target of 25% the goal is to avoid concentration in any particular vintage year, make sure there are cash reserves available to take advantage of fundraising opportunities when they arise, and be strategic with recommendations to ensure the program is diversified. Mr. Krech answered

Mr. Stoffel's question regarding the fluctuation with the number of recommended investments each quarter. Staff will identify the fundraising opportunities over the course of the year and beyond. Once Staff has the IAC endorsement and the Board's approval, Staff has more control over the pacing schedule and when to fund the investment.

Mr. Duerst asked how Staff measures the Diversity, Equity and Inclusion (DEI) and Environmental, Social and Governance (ESG) efforts of a private markets firm when considering whether to make an investment with the fund. Mr. Krech and Mr. Blumenshine answered that Staff is still in the early stages of developing the measurement tools when evaluating firms based on ESG and DEI criteria. The time may come when Staff will not bring a recommendation for an investment once metrics have been determined in evaluating a firm's DEI data. Mr. Perry commented that the DEI Task Force he created is focusing on questions like these and others. This will be discussed further later in the meeting.

In response to questions from Ms. Gibbons, Mr. Stacy and Mr. Krech addressed how Staff became comfortable with Arsenal Fund VI given DEI concerns and addressed the timeline between Fund V and Fund VI fundraisings. They commented that Staff met with Arsenal and discussed the lack of diversity within their investment team compared to their peers; and at this time, Staff does not have DEI standards in place by which to disqualify a manager. Regarding Arsenal's two-year deployment turnaround, Staff noted the SBI was a late investor in Fund V and that Fund VI is early in its fundraising efforts. Arsenal will not be able to make an investment on behalf of Fund VI until terms of Fund V have been met.

The Council further discussed the use of the credit facility and potential impact on a Fund's unfunded commitment amount; how total commitment amounts are determined and thoughts on limits in addition to Staff's conviction with a firm given their large asset base; how to create more capacity to more thoroughly evaluate managers on their ESG strategies and DEI approaches; discussion on any impact the disruption in the supply chain has had on private market funds; and other items.

A motion was made that the IAC endorse a commitment with Arsenal Capital Partners VI. The motion was seconded and approved by roll call vote with fourteen Yes votes and one No vote.

A motion was made that the IAC endorse a commitment with Permira Fund VIII. The motion was seconded and approved unanimously by roll call vote.

A motion was made that the IAC endorse a commitment with Warburg Pincus Global Growth 14. The motion was seconded and approved unanimously by roll call vote.

A motion was made that the IAC endorse a commitment with Marathon Secured Private Strategies Fund III. The motion was seconded and approved unanimously by roll call vote.

Public Markets Investment Program Report

Mr. Perry referred members to Tab D of the meeting materials for the Public Markets Investment Program Report. Mr. Perry stated that Mr. Sonderegger would provide an update on the SBI's Small Cap Equity Managers.

Mr. Sonderegger addressed questions the IAC members had from the previous meeting about the active small cap value manager relative underperformance for all time-periods ending June 30, 2021. Mr. Sonderegger noted that Staff is constantly monitoring the program and after thorough review of the managers does not recommend any changes at this time. Mr. Sonderegger noted that the small cap segment shows a tilt to value with a beta of 1.07 or an expected 7% decrease relative to the benchmark when value underperforms. Other factors Mr. Sonderegger noted about the small cap value managers was the diversified pool of assets in the portfolio as the result of having contrarian and deep value managers with quantitative and fundamental investment approaches. Performance did turn around with the small cap value segment reporting positive relative returns for the quarter, one, and ten years ending September 30, 2021.

In response to a question from Mr. Martin, Mr. Sonderegger commented that the small cap allocation went from a 10% allocation to less than 6% as the result of bringing the domestic equity program in-line with the market cap weight of the policy benchmark.

Other Items:

SBI Staff Remote Working Update

In response to a question from Mr. Martin, Mr. Perry informed the IAC that Staff continues to use Zoom and other forms of on-line communication to conduct ongoing due diligence meetings and attend advisory committee meetings. Mr. Sonderegger and Mr. Krech commented on the importance of in-person meetings, but also noted that with the new COVID-19 strains, Staff will continue the policy of not taking in-person meetings or scheduling any business travel until further notice.

Climate Risk Report Update

Mr. Perry asked Mr. Emkin of Meketa to give a brief update on the Climate Risk Project. Mr. Emkin stated that the first draft addresses topics of climate change in the financial markets, regulatory environment, institutional activism, and availability of data and analytical tools. The first draft of the report will be distributed to IAC and Board members before their next meeting.

Diversity, Equity and Inclusion (DEI) Task Force Update

Mr. Perry asked Ms. Gibbons and Mr. Morris to give an update on the DEI Task Force work. Ms. Gibbons and Mr. Morris provided a summary of the goals from the first meeting. The first is to collect the data needed in order to evaluate the amount of DEI in the SBI portfolio. Second, is to understand the DEI work that has been done by staff, IAC members, investment consultants and investment managers. For the next meeting, the goal is to define and understand the SBI's fiduciary obligation and state law when developing policies to help address disparities and inequity in a portfolio the SBI's size. The task force anticipates the investment consultants will help with these tasks in addition to updating language in the SBI's Investment Beliefs. Ms. Gibbons also thanked staff for the excellent work on the ESG Report.

Ms. Comstock, from Aon, commented on guidance recently released by the Department of Labor (DOL) that may help the SBI in updating its Investment Beliefs. She also noted the different questionnaires used in the industry to collect data and how these are evolving to help plan sponsors and investors gather relevant data from their managers.

Consultant Update at Next IAC Meeting

Mr. Perry stated that for the next IAC meeting, he will be asking the SBI consultants to each provide their perspective on the portfolio by highlighting the items the SBI has done well and offer suggestions for improvement.

Acknowledgement/Recognition

Mr. Stoffel congratulated Mr. Perry for the recognition he received as one of the seven finalists of public fund CIO's with assets over \$100 billion for Innovator of Year Award by Chief Investment Officer Magazine. Mr. Stoffel reminded the Council that this magazine awarded Mr. Perry the Lifetime Achievement Award in 2018 and as the result of that award, the Governor Dayton declared the day of the award presentation as Mansco Perry Day.

Mr. Perry offered that Chief Investment Officer Magazine named Meketa's Mr. Emkin, as one of the five finalists for its 2021 Consultant of the Year Award.

Lastly, Mr. Martin congratulated Meketa's Mr. Rue who will retire at the end of December 2021 after nearly 40 years in the industry and thanked him for his service and dedication to the SBI.

Adjournment of Meeting

The motion to adjourn the meeting was seconded and approved by roll call vote. The meeting adjourned at 1:48 p.m.

Respectfully submitted,



Mansco Perry III
Executive Director and
Chief Investment Officer