

2Q2019 IAC Meeting Materials

IAC Meeting – August 12, 2019

SBI Investment Programs Presentation

SBI Investment Programs

IAC PRESENTATION • AUGUST 12, 2019

Presented By: Patricia Ammann, Erol Sonderegger, Andrew Krech,
and John Mulé

AGENDA

- ❖ Participant Directed Investment Program
- ❖ State Cash Program
- ❖ Non-Retirement Program
- ❖ Combined Funds Public Markets Program
- ❖ Combined Funds Private Markets Program
- ❖ Environmental, Social and Governance-related (ESG) issues and Proxy Voting

Participant Directed Investment Program (PDIP)

MUTUAL FUND INVESTMENT OPTIONS AND STABLE VALUE FUND/MONEY
MARKET (SVF/MM)

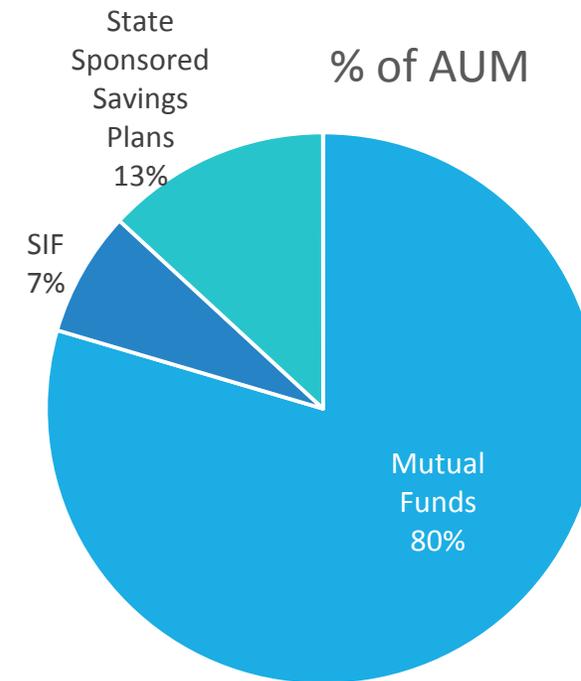
SUPPLEMENTAL INVESTMENT FUND AND SVF/MM

STATE SPONSORED SAVINGS PLANS

PROGRAM UPDATE AND REVIEW

Participant Directed Investment Program Assets

Investment Platform as of July 1, 2019	Market Value as of June 30, 2019
Participant Directed Investment Program	
Mutual Fund Investment ¹	\$9,156,931,360
Supplemental Investment Fund ¹	840,820,001
State Sponsored Savings Plans	<u>1,509,088,193</u>
Total Participant Directed Investment Program	\$11,506,839,554
¹ Includes Stable Value Fund and Money Market	



PDIP Investment Options



Mutual Fund Investment Options • Stable Value Fund

As of July 1, 2019	Domestic Equity					International Equity	Fixed Income	Conservative	Managed Allocation Options				
	Vanguard Instl Index (S&P)	Vanguard Total US Stock	Vanguard Dividend Growth	Vanguard Midcap	T. Rowe Price Small Cap	Vanguard Broad Intl Index	Fidelity Diversified Intl Equity	Vanguard Bond Fund	Dodge & Cox Income Fund	Stable Value	Money Market	Target Date Funds	Vanguard Balanced Fund
Deferred Compensation	x		x	x	x	x	x	x	x	x	x	x	x
Unclassified Plan		x	x	x	x	x		x	x	x	x	x	x
Health Care Savings Plan		x	x	x	x	x		x	x	x	x		x
Hennepin County Retirement Plan		x	x	x	x	x		x	x		x		x

- Assets: \$9.1 Billion in assets
- Plan Administrator: Minnesota State Retirement System
- Provides investment options for a variety of retirement and other tax-advantaged savings plans
- Investment Offerings: 11 Core Investment Options, 2 Managed Allocation Options, and a Brokerage Window
- Stable Value is separately managed portfolio

PDIP Investment Options

Supplemental Investment Funds • Stable Value • Money Market

- Assets: \$840.8 million
- Structured much like a mutual fund, participating entities own units of the Defined Benefit pool
- Offers a range of investment options to state and local public employees.
 - Public Employees Retirement Association DC Plan; Plan Administrator: PERA
 - Statewide Volunteer Firefighter Retirement Plan; Plan Administrator: PERA
 - Local Fire Relief Plans; Plan Administrator: Local fire relief plan
 - Other Public Plan
- Seven investment options and a Volunteer Firefighter Account
- Stable Value Fund and Money Market Fund are legacy SIF options

PDIP Investment Options

State Sponsored Savings Plans

Minnesota College Savings Plan

- Assets: over \$1.5 Billion
- Administered by Office of Higher Education
- Plan Manager is TIAA and the Investment Funds are managed by TIAA-CREF
- Investment Options:
 - Age-Based Managed Allocation (similar to TDF glide path)
 - Three Risk Based Allocation Options
 - Seven Static Options and a guaranteed investment option

Minnesota ABLI Plan

- Assets: over \$6 million
- Administered by Department of Human Services; Record keeper: Ascensus
- Investment Options
 - Six Risk Based Allocations using 10 investment funds
 - Checking Option

State Cash Program

STATE CASH MANAGEMENT PROGRAM

INVESTED TREASURER'S CASH POOL (ITC)

Portfolio Characteristics as of 6/30/2019

	Mkt Val	# of	Current	WtdAvg
	(\$MM)	Issues	Yield	Maturity
ITC Pool	\$ 14,630	333	2.5%	167 days

- The Invested Treasurer's Cash Pool (ITC) represents the balances of more than 400 separate accounts that flow through the Minnesota State Treasury.
- Managed internally by SBI Staff with the following investment objectives:
 - **Safety of Principal**
 - **Liquidity**
 - **Competitive Rate of Return**
- Invested in high quality, liquid short-term investments, including U.S. Treasury and Agency issues, repurchase agreements, commercial paper and certificates of deposit.
- Successfully met its objectives while consistently outperforming its benchmark over the last 1, 3, 5, and 10-year periods.

STATE CASH MANAGEMENT PROGRAM

OTHER PORTFOLIOS

Summary as of 6/30/2019

	Mkt Val (\$MM)	Primary Investments
Debt Service	\$ 100	High quality tax-exempt municipal General Obligation bonds
Housing Finance	\$ 111	U.S. Treasury and Agency Issues
Public Facilities Authority	\$ 61	High quality tax-exempt municipal General Obligation bonds, high quality corporate bonds

- Each dedicated portfolio has unique investment objectives, time horizon and customized investment strategy.
- State agencies may direct the specific investments, or may provide SBI Staff with portfolio investment guidelines which Staff then utilize to manage the portfolio on the agencies' behalf.

Non Retirement Program

TRUST AND OTHER PARTICIPATING ENTITIES

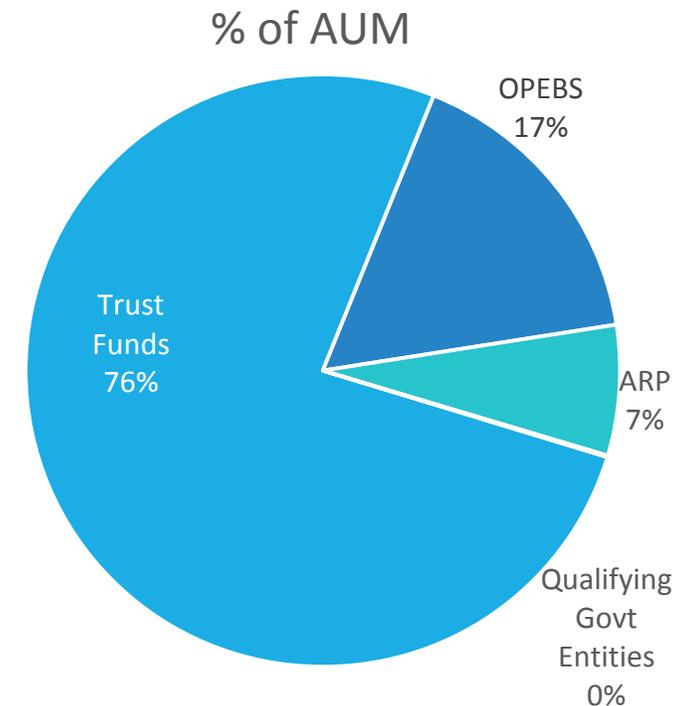
QUALIFYING GOVERNMENTAL ENTITIES

OTHER POSTEMPLOYMENT BENEFITS (OPEBs)

PROGRAM UPDATE AND REVIEW

Non-Retirement Program Assets

Non Retirement	As of June 30, 2019
Trust Funds	\$ 3,079,500,482
Other Postemployment Benefit Accounts	662,466,968
Assigned Risk Plan	287,321,163
Qualifying Governmental Entities	<u>3,435,107</u>
Total Non-Retirement Accounts	\$4,032,723,720



Non-Retirement Program

Trust Funds, Assigned Risk Plan, OPEBs and Qualifying Governmental Entities

Non-Retirement Investment Options:

- Equity Fund
- Bond Fund
- Money Market Fund



Trust Funds

- Assets: \$3.1 Billion
- Administered by respective state agencies

Other Postemployment Benefit Accounts (OPEBs)

- Assets: \$662 Million
- Administered by PERA

Qualifying Governmental Entities

- Assets: \$3.4 Million
- Administered by PERA

Assigned Risk Plan

- Assets: \$287 Million
- Administered by Department of Commerce

Participant Directed Investment Program State Cash Program and Non-Retirement Program

Servicing Clients Across Various State Agencies



Public Markets Program

COMBINED FUNDS

PUBLIC MARKETS PROGRAM

PROGRAM UPDATE AS OF 6/30/2019

	Mkt Value (\$MM) 6/30/19	% of Combined Funds	Policy Weight
PUBLIC EQUITY PROGRAM	\$43,953	62.2%	63.4%
DOMESTIC EQUITY PORTFOLIO	\$29,430	41.7%	42.5%
INTERNATIONAL EQUITY PORTFOLIO	\$14,523	20.6%	20.9%
FIXED INCOME PROGRAM	\$14,376	20.3%	20.0%
CORE FIXED INCOME	\$7,208	10.2%	10.0%
TREASURY PROTECTION PORTFOLIO	\$7,169	10.1%	10.0%
CASH PORTFOLIO (COMBINED FUNDS)	\$2,048	2.9%	2.0%

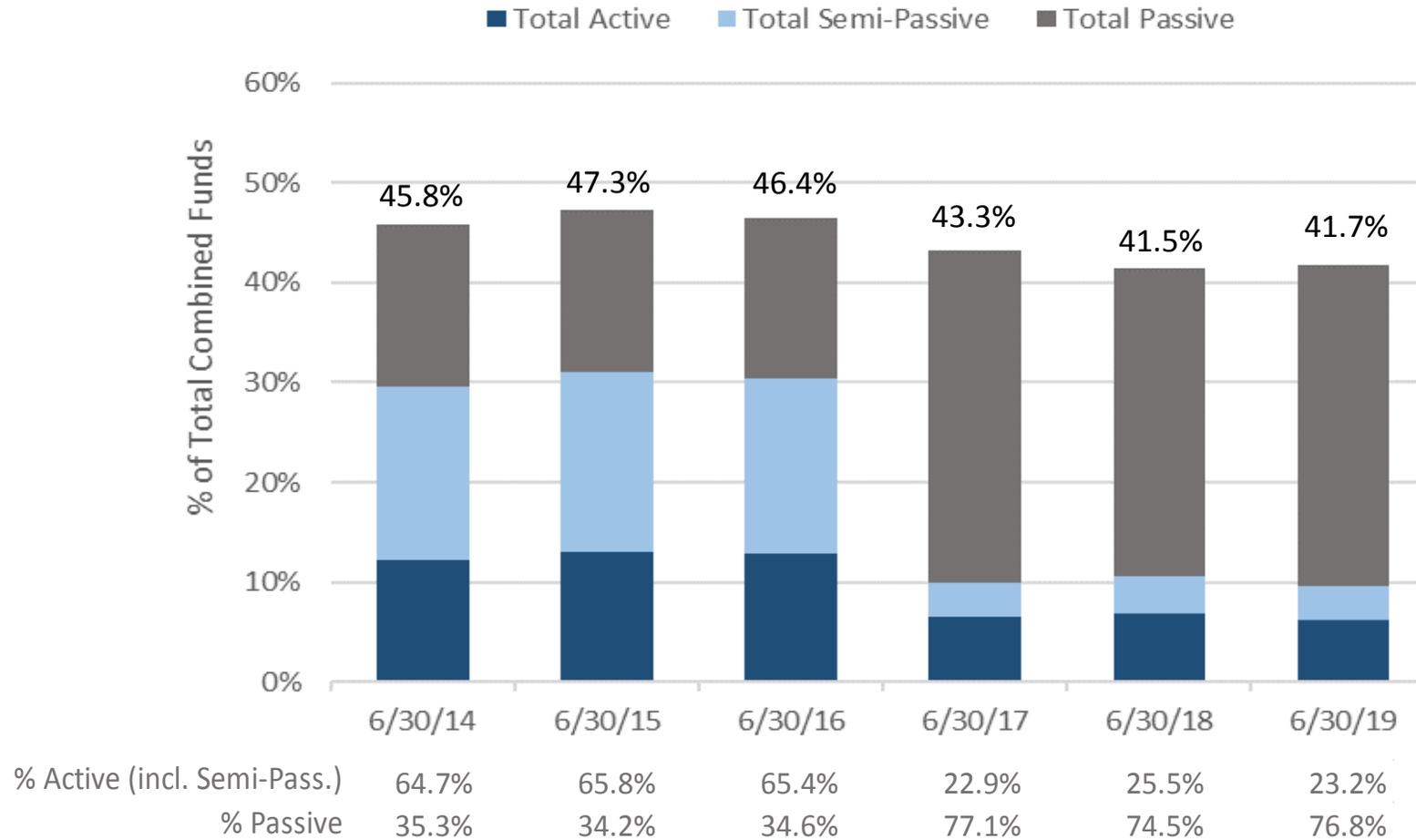
PUBLIC MARKETS PROGRAM

SUMMARY OF KEY CHANGES FY15-FY19

Policy Change	Timeline
Increased allocation to passive management from active management across all public equity segments	FY 2017
Increased policy allocation to International Equities to 33% of public equities from 25%	FY 2017
Shifted uninvested portion of Private Markets allocation to equities from fixed income	Jan 2017
Funded Treasury Protection portfolio	Feb 2018
Adjusted International Equity policy benchmark to 75% MSCI World ex U.S. (Net)/25% MSCI Emerging Markets from 100% MSCI ACWI ex U.S. (Net)	Jan 2019
Adjusted Domestic Equity Policy Benchmark to 90% Russell 1000/10% Russell 2000 from 100% Russell 3000	Jan 2019

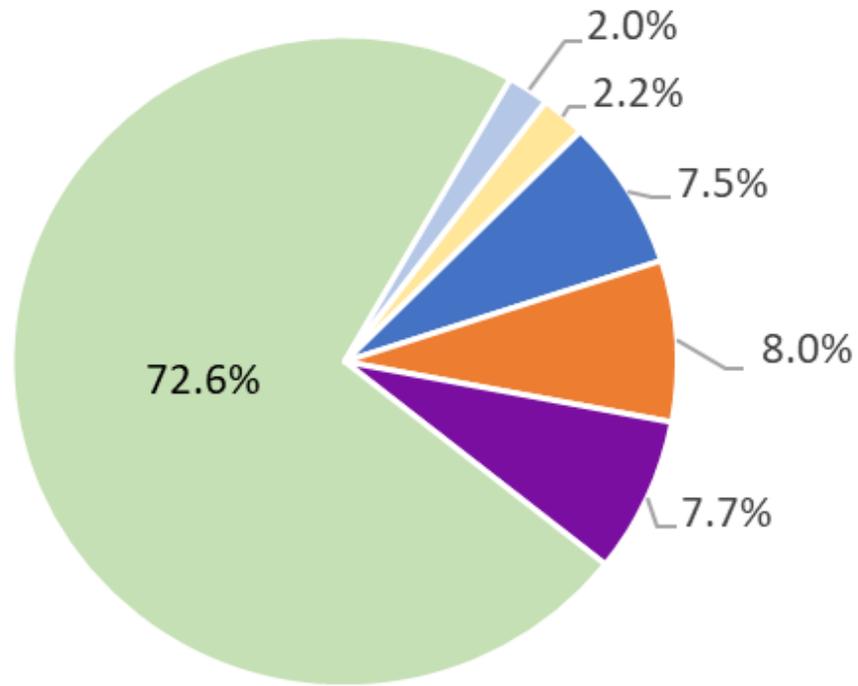
DOMESTIC EQUITY PORTFOLIO

HISTORICAL ALLOCATION SUMMARY FY14-FY19



DOMESTIC EQUITY PORTFOLIO

ALLOCATION SUMMARY AS OF 6/30/19



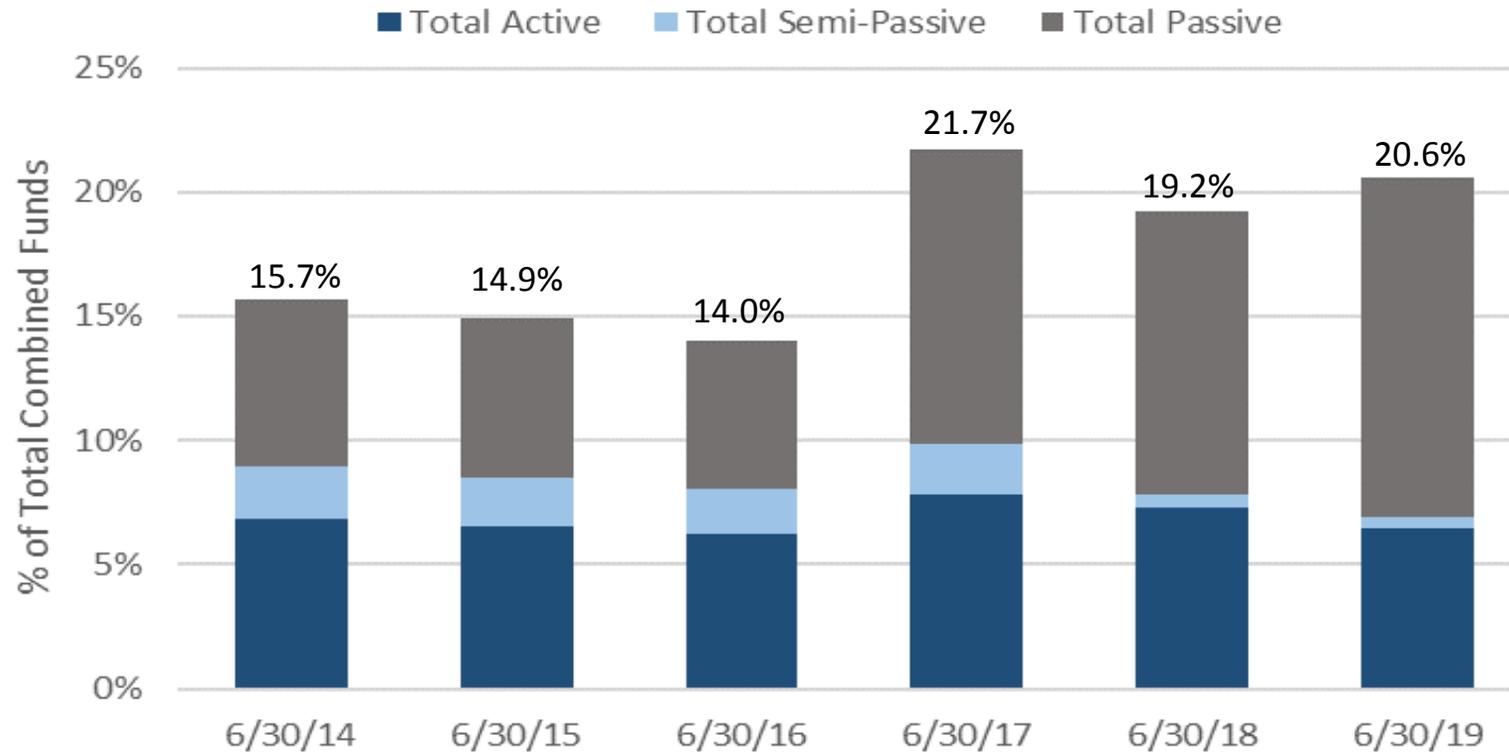
- Active Large Cap
- Semi-Pass. Large Cap
- Active Small Cap
- Passive Large Cap
- Passive Small Cap
- Passive All Cap

	Dom. Eq. Port*	Policy Weight
Large Cap (R1000)	90.1%	90.0%
Small Cap (R2000)	9.9%	10.0%
	100.0%	100.0%

* Passive Russell 3000 portfolio allocated between Large Cap and Small Cap based on index weightings as of 6/30/19.

INTERNATIONAL EQUITY PORTFOLIO

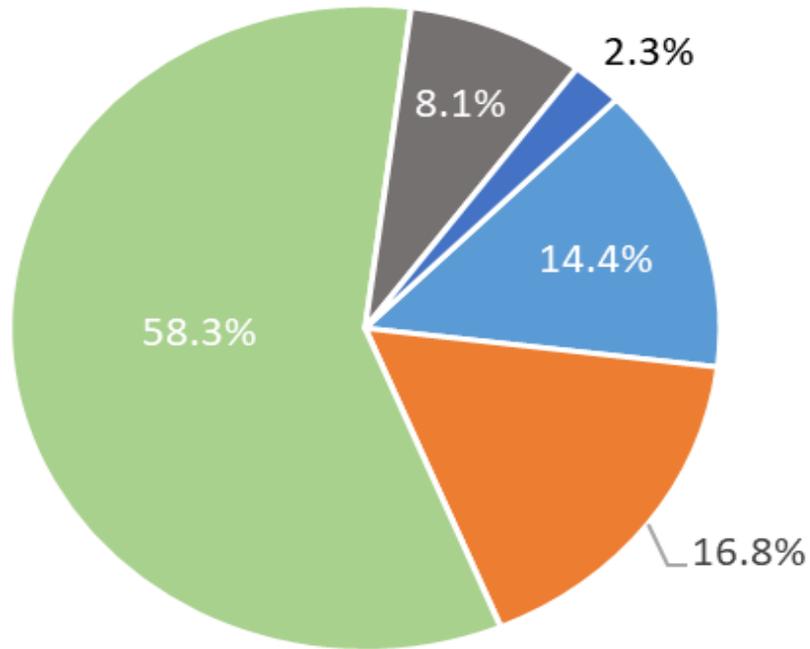
HISTORICAL ALLOCATION SUMMARY FY14-FY19



% Active (incl. Semi-Pass.)	57.0%	57.2%	57.4%	45.3%	40.9%	33.6%
% Passive	43.0%	42.8%	42.6%	54.7%	59.1%	66.4%

INTERNATIONAL EQUITY PORTFOLIO

ALLOCATION SUMMARY AS OF 6/30/19

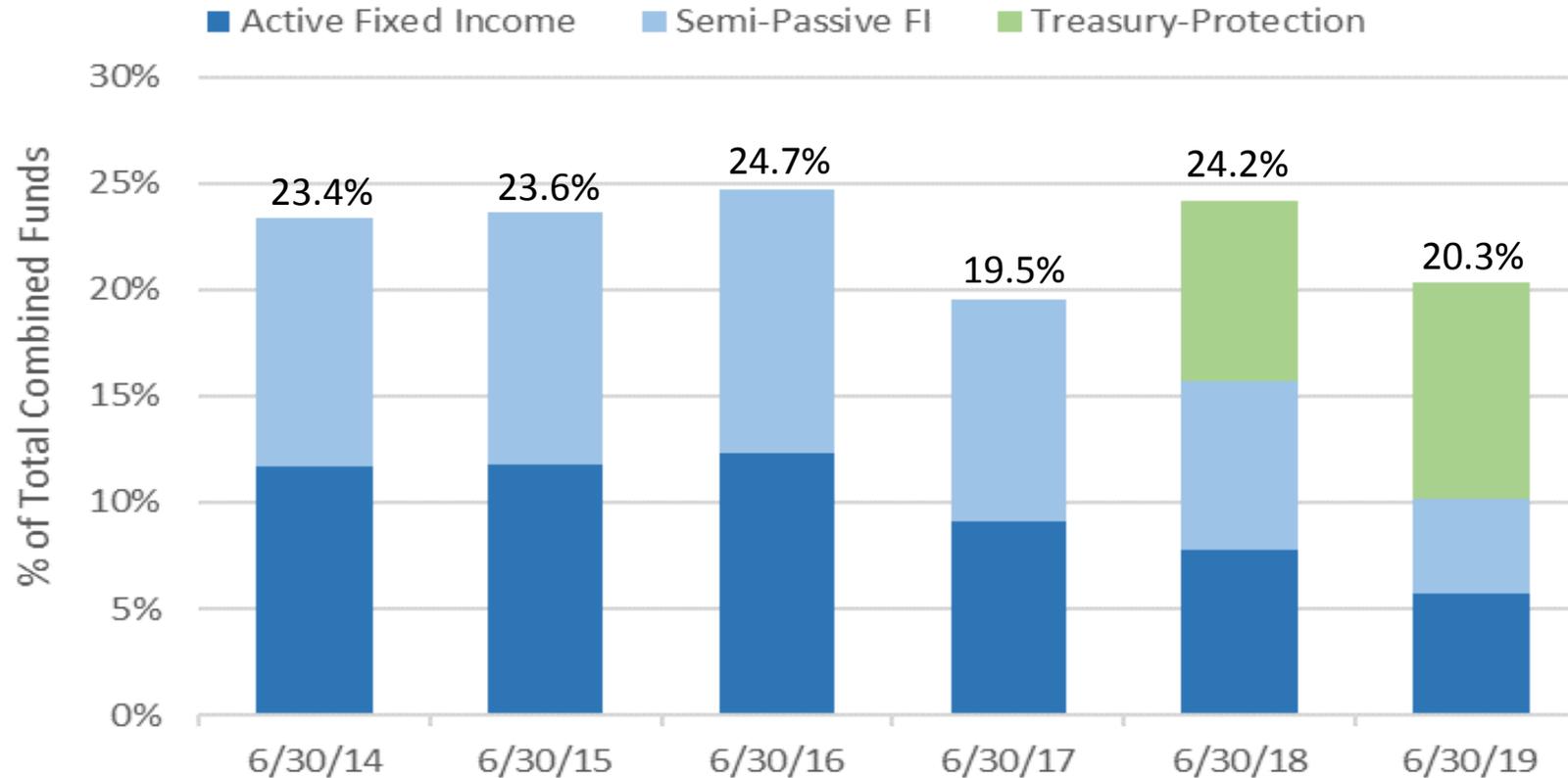


- Active Develop. Mkts
- Active Emerging Mkts
- Passive Develop. Mkts
- Passive Emerging Mkts
- Semi-Passive Develop. Mkts

	Int'l Eq. Port.	Policy Weight
Developed Markets	75.1%	75.0%
Emerging Markets	24.9%	25.0%
	100.0%	100.0%

FIXED INCOME AND PROTECTION PORTFOLIOS

HISTORICAL ALLOCATION SUMMARY FY14-FY19



FIXED INCOME PORTFOLIO

PORTFOLIO SUMMARY AS OF 6/30/19

		% of					
	Mkt Val	Comb.	Market	Effective	Policy		
	(\$MM)	Funds	Yield	Duration	Weight		Policy Benchmark
Active Fixed Income	\$ 4,046	5.7%	3.0%	5.2 yrs	--		BB Barc. Aggregate Index
Semi-Pass. Fixed Inc.	\$ 3,161	4.5%	2.6%	5.6 yrs	--		BB Barc. Aggregate Index
	\$ 7,208	10.2%	2.8%	5.4 yrs	10.0%		
Treasury-Protection	\$ 7,169	10.1%	2.1%	11.0 yrs	10.0%		BB Barc. U.S. Tsy 5+ Year Idx
Cash	\$ 1,967	2.8%	2.5%	17 days	2.0%		90-Day T-Bill
State Cert. of Dep. Program	\$ 81	0.1%	2.7%	48 days	<i>n/a</i>		<i>n/a</i>

Private Markets Program

COMBINED FUNDS

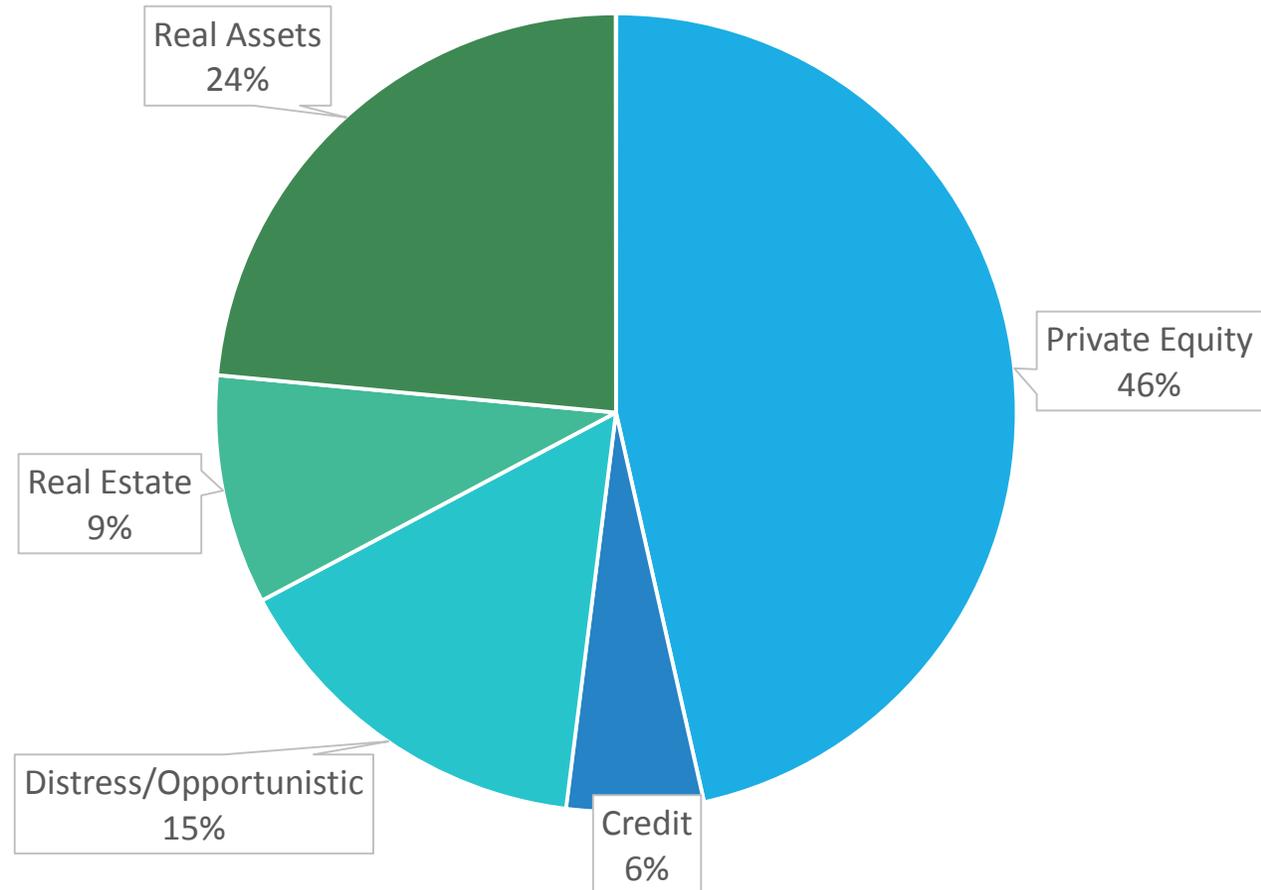
Private Markets Portfolio

As of September 30, 2014

Combined Funds Market Values (MV)	\$58,897,205,416	
Alts % of Combined Funds	12.94%	
	Current Level	Target Level
Market Value	\$7,623,508,703	\$11,779,441,083
MV +Unfunded	\$12,044,050,333	\$20,614,021,896
Asset Class	Market Value	Unfunded Commitment
Private Equity	\$3,542,173,948	\$2,567,056,626
Private Credit	\$421,467,984	\$327,233,131
Real Assets	\$1,790,808,736	\$1,038,483,844
Real Estate	\$708,418,991	\$140,883,027
Distressed/Opportunistic	\$1,160,639,045	\$346,885,000
Total	\$7,623,508,703	\$4,420,541,629

Private Markets by Asset Class

As of September 30, 2014



Summary of Commitments

4Q 2014-2Q 2019

- 111 Approved Commitments
- \$14.2 Billion total committed capital
- Average commitment size \$130 Million

Asset Class	%
Private Equity	58.2
Private Credit	8.6
Real Estate	13.1
Real Assets	10.1
Distress/Opportunistic	10.0

Commitment Type	%
Follow-on to existing investment	65.6
New strategy with existing manager	15.2
New Manager	19.2

Geographic Mandate	%	% (adj)
United States	48.9	69.8
Global	41.9	--
Europe	5.6	20.3
Asia	3.6	4.2

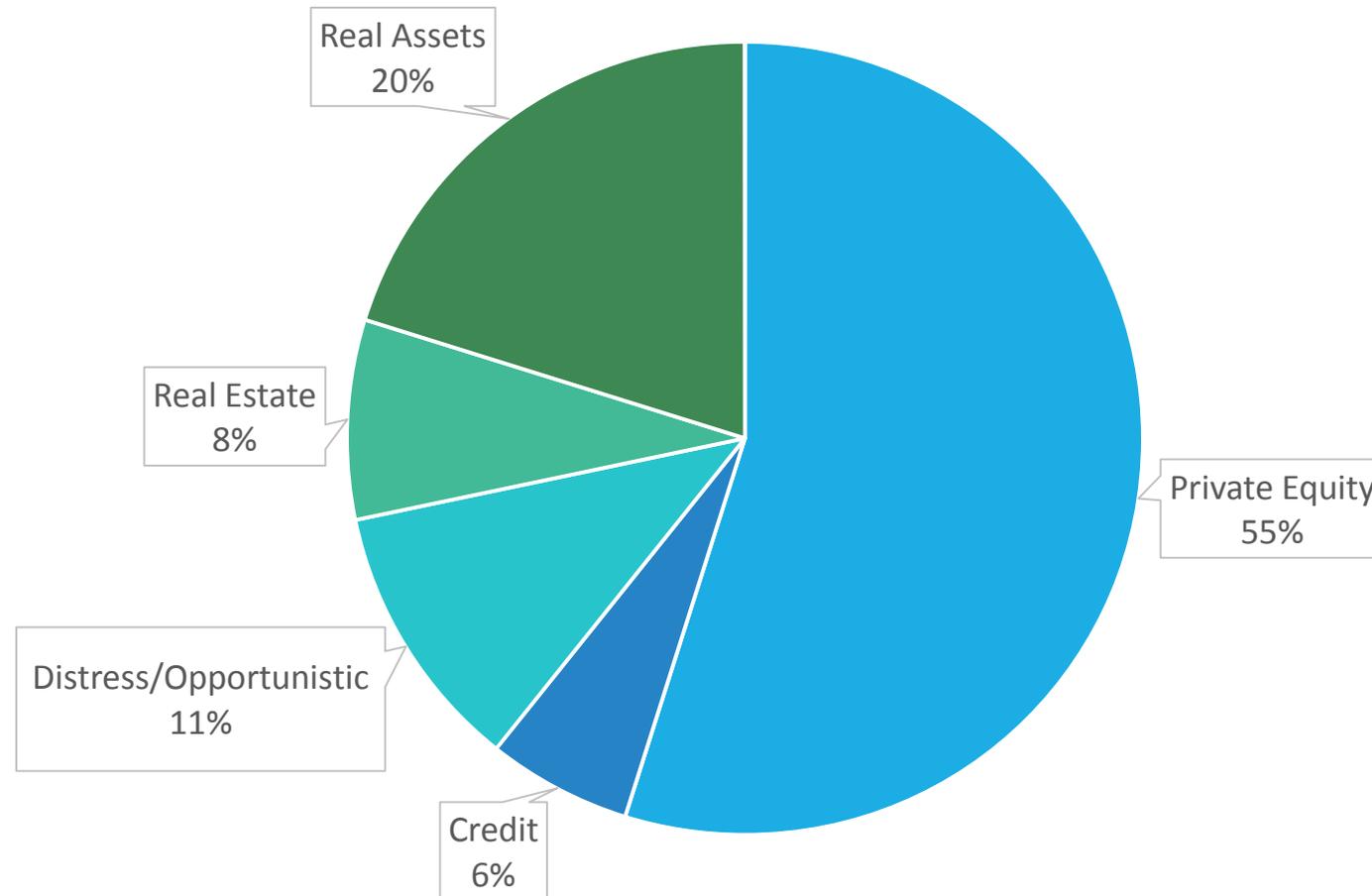
Private Markets Portfolio

As of June 30, 2019

Combined Funds Market Value (MV)	\$70,658,283,361	
Alts % of Combined Funds	14.5%	
	Current Level	Target Level
Market Value	\$10,247,531,068	\$17,664,570,840
MV +Unfunded	\$20,476,017,779	\$24,730,399,176
		Unfunded
Asset Class	Market Value	Commitment
Private Equity	\$5,621,288,944	\$6,390,929,913
Private Credit	\$600,827,651	\$751,919,870
Real Assets	\$2,067,086,242	\$929,111,823
Real Estate	\$834,422,455	\$1,343,867,010
Distressed/Opportunistic	\$1,123,905,776	\$812,658,095
Total	\$10,247,531,068	\$10,228,486,711

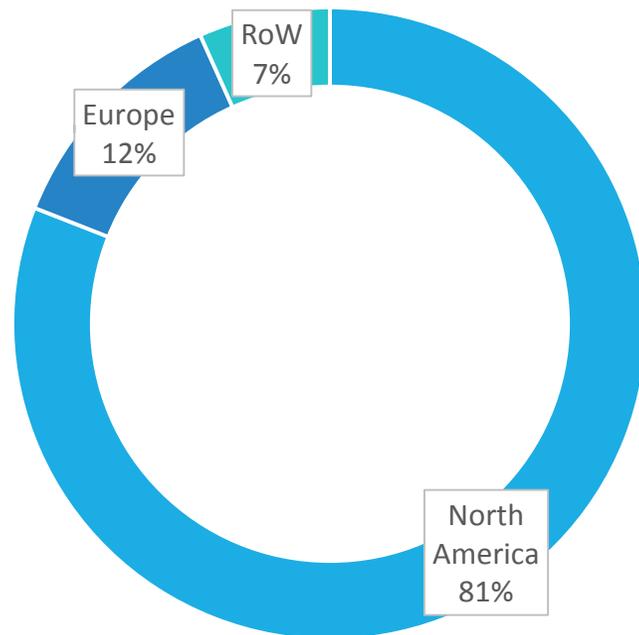
Private Markets by Asset Class

As of June 30, 2019

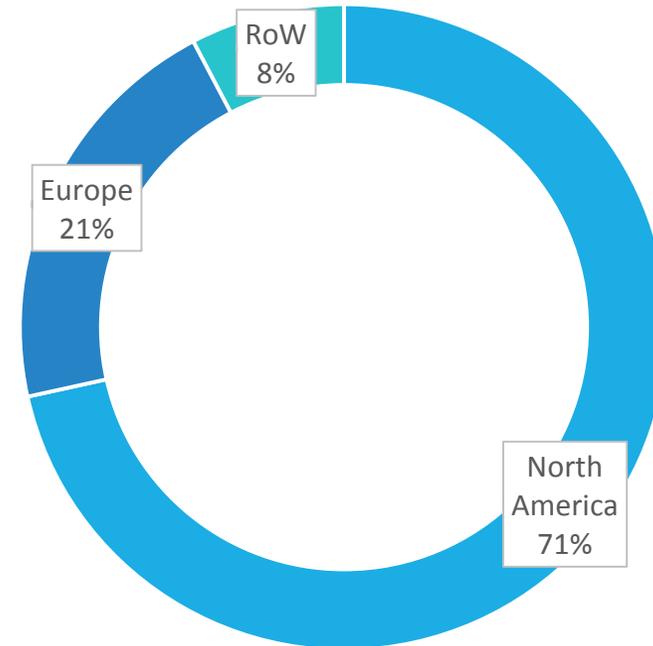


Private Markets by Geography

2014



2019



Proxy Voting and ESG Overview

SBI Investment Belief

Utilizing engagement initiatives to address environmental, social, and governance-related (ESG) issues can lead to positive portfolio and governance outcomes.

Proxy Voting: Procedures

- U.S. securities are voted internally;
- Non-U.S. securities are voted by investment managers;
- The Board authorizes a four person proxy voting committee to execute proxy voting rights for U.S. securities.

Proxy Voting: Committee Meetings

- The proxy committee meetings are scheduled on an as-needed basis to vote resolutions not covered by precedent.
- SBI staff provide applicable materials in advance of the meeting.
- The proxy committee votes by majority and may set precedent with a unanimous vote.

Proxy Voting: Precedent

- Most proxy ballots are voted according to precedent

Example of Proxy Precedent:

Performance Based Stock Options [Executive Compensation]

Vote FOR shareholder proposals to adopt a policy of executive compensation that utilizes performance based stock options.

Environmental, Social and Governance (ESG) Introduction

The SBI engages in Environmental, Social and Governance (ESG) initiatives to address long-term, material risks and opportunities that are expected to lead to positive portfolio outcomes.



ESG Initiatives Include: Proxy voting, Coalitions and Memberships, and Engagement.

ESG: Coalitions and Memberships

- Council of Institutional Investors (CII)
- United Nations Principles of Responsible Investing (PRI)
- Ceres Investor Network
- Institutional Limited Partners Association (ILPA)

ESG: Recent Initiatives

- Signatory to the Investor Agenda Global Investor Statement to Governments on Climate Change (Ceres; Investor Agenda)
- Signatory to Investor Expectations on Deforestation (Ceres)
- Signatory to several letters to regulatory agencies on shareholder and limited partner rights and protections (ILPA; CII)
- Signatory to resolution calling for increased corporate transparency regarding gender diversity (As You Sow)

ESG: Future Development

- Continue to incorporate ESG into investment management process;
- Devote additional SBI resources and expand engagement efforts;
- Continue to conduct research on material ESG issues;
- Continue education efforts.

QUESTIONS?