

Minutes
State Board of Investment Meeting
May 25, 2022

Notice of Meeting

The State Board of Investment (SBI) met at 10:15 a.m. Wednesday, May 25, 2022 in G23 Senate Committee Room, State Capitol, St. Paul Minnesota and over the phone. 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 February 24, 2022 SBI meeting were approved by roll call vote.

Performance Summary

Executive Director Mansco Perry 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 \$131 billion in assets, of which the Combined Funds represent \$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 March 31, 2022 (Combined Funds 10.2% vs. Combined Funds Composite Index 9.9%) and providing 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 underperformed the Composite Index for the quarter (Combined Funds -3.8% vs. Composite Index -3.7%) primarily from relative underperformance in public equities. For the year, the Combined Funds matched the Composite Index with a 9.5% return. Mr. Perry noted that the asset mix is in-line with the target allocation. He then referred members to the Volatility Equivalent Benchmark Comparison report, which shows that the Combined Funds earned a higher return versus a portfolio with an equity and bond allocation equivalent to the same risk. Lastly, Mr. Perry referred members to the Trust Universe Comparison Service (TUCS) report that compares the performance of the Combined Funds to other public funds with over \$20 billion in assets. He stated that the Combined Funds performed in the 70th percentile for the quarter and the 42nd percentile for the year and in the first quartile for all other time-periods listed.

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 highlighted the fact that the Administrative Budget included as Attachment A in the meeting material provides the total expenses for nine months ending March 31, 2022 and noted that Staff has started to travel again after taking a pause for a few years. Mr. Perry then introduced Mr. Mulé, Director of Legal and Policy Services to present the Legislative Update. Mr. Mulé referred Members to the legislative tracker included as Attachment C in the meeting material and noted that Staff has already implemented the Russia and

Belarus divestment requirements into its unauthorized holdings listing due to the legislation being signed into law. Mr. Mulé noted that the Omnibus Pension Policy and Technical Bill was signed into law and includes language to allow the SBI to fully implement the salary plan approved in 2019 with regard to classification of the investment analyst position. Mr. Perry continued with the Administrative Report by providing an update on the unauthorized holdings restrictions for Russia/Belarus, Sudan and Iran. Lastly, Mr. Perry noted that there is no litigation against the SBI.

Report from the SBI Administrative Committee

Mr. Perry referred members to Tab C of the meeting materials for the SBI Administrative Committee Report. He stated that the Administrative Committee met in May and reviewed the Executive Director's Work Plan for the 2023 fiscal year, the Administrative Budget for the 2023 and 2024 fiscal years, and the Continuing Fiduciary Education Plan. Mr. Perry noted that the Administrative Committee would reconvene a few months after his successor has been in the role to reassess the work plan and other items. Work plan items that Mr. Perry highlighted include the completion of the Meketa Climate Risk Analysis, the Diversity, Equity and Inclusion (DEI) Policy, and a number of Request for Proposals (RFPs) issued as various contracts are scheduled to expire. In response to Auditor Blaha's question, Mr. Perry noted that the Combined Funds strategic allocation focuses on a long-term time-period and Staff does not react to short-term turbulence in the market.

State Auditor Blaha moved approval of the following recommendations, which reads: **"The Committee recommends that the SBI approve the FY23 Executive Director's Work Plan. Further, the Committee recommends that the Work Plan serve as the basis for the Executive Director's performance evaluation for FY23.**

The Committee recommends that the SBI approve the FY23, and FY24 Administrative Budget Plan, as presented to the Committee, and that the Executive Director have the flexibility to reallocate funds between budget categories if the Executive Director deems necessary.

The Committee recommends that the SBI adopt the attached Continuing Fiduciary Education Plan." The motion passed by roll call vote.

Meketa Climate Change Investment Analysis: Phase II

Governor Walz referred members to Tab D of the meeting materials for an update on the Climate Change Investment Analysis and introduced Mr. Emkin from Meketa Investment Group who discussed Phase II of the analysis. Mr. Emkin reminded the Board that there are three phases to this analysis: Phase I was presented at the March Board meeting and provided a high-level review of global trends in climate change and related developments in financial markets across asset classes, policy and regulatory frameworks. Phase II, provided in the meeting material, highlights the survey responses from 20 public pension plans that are leaders in their efforts to manage climate-related investment risks and opportunities. Meketa found there is a broad range of policies with no best practice recognized from its peers on how to address this issue. Phase III of the analysis will be presented at the August Board meeting and will focus on the SBI's current exposure to climate risks and opportunities throughout the Combined Funds and provide options for the SBI to implement a successful climate transition strategy.

Members recognized the intentional and thoughtful approach Meketa has taken with this analysis and Staff for managing the process to bring the SBI closer towards net zero as fiduciaries of the retirement assets.

Recommendation to add Diversity, Equity and Inclusion (DEI) Statement to the SBI's Investment Beliefs

Mr. Perry referred members to Tab E of the meeting materials with a recommendation from the DEI Committee to amend the SBI Investments Beliefs to include a statement that reflects the belief that diversity adds value and should be valued by the investment industry. Mr. Perry stated that Meketa assisted in developing the following statement:

“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.”

State Auditor Blaha moved approval of the recommendation which reads: **“The Investment Advisory Council endorsed the Executive Director’s recommendation to the SBI Board that the aforementioned language be added to the SBI’s Investment Beliefs at the May 25, 2022 SBI Meeting.”** The motion passed by roll call vote.

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

Mr. Perry referred members to Tab F of the meeting materials that provides information for the creation of the Water Quality and Sustainability sub-accounts for Minnesota Pollution Control Agency (MPCA) and Department of Natural Resources (DNR), as co-trustees. Each sub-account has a specific asset allocation to address the risk tolerance and return objectives based on required cash flow needs and time horizon. Mr. Perry stated that if approved by the Board, he would sign the Letter of Understanding that MPCA and DNR Commissioners have already executed in order to proceed with the working of this account. Secretary of State Simon moved approval of the recommendation that reads: **“The Investment Advisory Council endorsed the SBI Staff’s recommendation that the Board approve the establishment of the Water Quality and Sustainability Account and required sub-accounts. Once approved, it is the intent of all parties to implement the new separate account structure by July 1, 2022 or later if determined appropriate by the Co-Trustees.”** The motion passed by roll call vote.

Investment Accounting System Review

Mr. Perry referred members to Tab G of the meeting materials that provided information on the review of investment accounting system for the internally managed portfolios. Mr. Perry stated that Staff initiated the Request for Proposal (RFP) process in February of 2022 since the contract for the current provider expires in December of 2022. After a review of the responses from ten firms, Staff recommends to continue with Broadridge Financial Solutions as the investment accounting system provider for the internally managed portfolios. State Auditor Blaha moved approval of the recommendation that reads: **“The Executive Director concurs with Staff’s recommendation and requests the Board authorize the Executive Director, with assistance**

from SBI's legal counsel, to negotiate and execute a contract with Broadridge Financial Solutions, Inc. for the Investment Accounting System services for a five year period ending no later than December 31, 2027." The motion passed by roll call vote.

Private Markets Commitment for Consideration

Mr. Martin, Chairperson of the Investment Advisory Council (IAC), delivered the report on the Private Market commitment for consideration listed in Tab H of the meeting materials. Mr. Martin stated that Blackstone is a long-time general partner with the SBI. He highlighted some of the IAC discussion for this investment included the opportunistic value add type of properties in this strategy and Blackstone's Environmental, Social and Governance (ESG) efforts as a firm and in the management of its properties.

State Auditor Blaha moved approval of the recommendation that 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 \$200 million, or 20% of Blackstone Real Estate 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 Blackstone Inc. 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 Blackstone Inc. or reduction or termination of the commitment."** The motion passed by roll call vote.

Update from Executive Director Search Committee

Mr. Martin provided members with an update from the Executive Director Search Committee. He stated that the committee selected Korn/Ferry to assist in the executive director search process and outlined the anticipated timeline for candidate interviews and a recommendation to the Board.

Security and Exchange Commission (SEC) Climate Disclosure Rule Report

Mr. Blumenshine, SBI Investment Officer, Stewardship and ESG stated that the SBI would submit a public comment in support of the SEC's proposed rules for the enhancement and standardization of climate related disclosure for investors. Mr. Blumenshine noted that these proposed rules will not necessarily be easy to implement for corporations but are needed in order to create the framework for maintaining the long-term health of the financial markets in which the SBI invests. Mr. Blumenshine informed the Board that they have been given a copy of a resolution to this matter.

State Auditor Blaha moved approval to adopt the Resolution on Climate Change Risk-Related Information Transparency to the SEC (see **Attachment A**). The motion passed by roll call vote.

Other Items and Reports

Mr. Perry stated that the remainder of the reports in the meeting materials include the following: Presentation of Non-Defined Benefit Investment Programs; Public Markets Investment Report;

STATE BOARD OF INVESTMENT

Participant Directed Investment Program and Non-Retirement Investment Program Report; SBI ESG Report; Aon Market Environmental Report; Meketa Capital Markets Outlook & Risk Report; and the SBI Comprehensive Performance Report. Mr. Perry referenced one report in particular, the Presentation of Non-Defined Benefit Investment Program, which covered all the non-pension asset investment programs that the SBI is responsible for and how these assets account for a third of the assets under the SBI's responsibility.

Public Testimony

Governor Walz recognized Bonnie Beckel, representative of the Minnesota Divestment Coalition; Jessica Garraway, a Minneapolis educator; Dr. Barry Cohen, Member of Jewish Voice for Peace and representing the Minnesota BDS Community; and Ilan Sharon, representing the Jewish Community Relations Council (JCRC). Governor Walz thanked the public speakers for their testimony.

Adjournment of Meeting

Secretary of State Simon moved approval to adjourn the meeting. The motion passed by roll call vote. The meeting adjourned at 11:17 a.m.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Mansco Perry III". The signature is fluid and cursive, with a large initial "M" and a stylized "P" at the end.

Mansco Perry III
Executive Director and
Chief Investment Officer

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ATTACHMENT A



Board Members:

Governor Tim Walz, Chair
State Auditor Julie Blaha
Secretary of State Steve Simon
Attorney General Keith Ellison

Executive Director & Chief Investment Officer:

Mansco Perry III

Minnesota State Board of Investment

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RESOLUTION ON CLIMATE CHANGE RISK-RELATED INFORMATION TRANSPARENCY

WHEREAS, the primary mission of Minnesota State Board of Investment (MSBI) is to maintain the long-term viability of various retirement and other state funds for the State of Minnesota;

WHEREAS, the MSBI is a large, diversified, and long-term investor and broad market returns are the primary driver of our long-term returns;

WHEREAS, market returns depend on the long-term health of the economy, which in turn depends on the productivity of social and environmental systems;

WHEREAS, effects from climate change on social and environmental systems represent a material risk to the MSBI maintaining the long-term viability of its funds;

WHEREAS, investors need consistent, reliable and comparable information to manage all market risk, especially material systematic risk such as climate change;

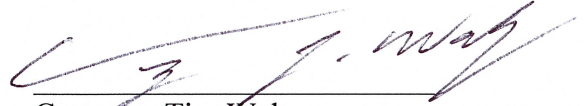
WHEREAS, the Security and Exchange Commission (SEC) has the authority to promulgate disclosure requirements for the protection of investors and has proposed rules for consistent disclosure of material climate-related risks.

NOW, THEREFORE, BE IT RESOLVED that the MSBI supports the Proposed Rules for The Enhancement and Standardization of Climate-Related Disclosures for Investors, File No. S7-10-22:

1. The MSBI believes that implementation of the proposed rules will result in better transparency and enhanced due diligence for investors.

2. The MSBI will submit a comment letter addressing the proposed rule in more detail prior to the comment submission deadline.

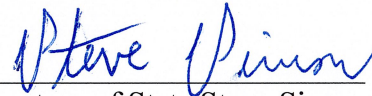
Adopted this 25th day
of May, 2022



Governor Tim Walz
Chair, Minnesota
State Board of Investment



State Auditor Julie Blaha
Minnesota
State Board of Investment



Secretary of State Steve Simon
Minnesota
State Board of Investment



Attorney General Keith Ellison
Minnesota
State Board of Investment