

**Minutes  
State Board of Investment  
June 6, 2012**

The State Board of Investment (SBI) met at 9:00 A.M. Wednesday, June 6, 2012 in Room 123, State Capitol, St. Paul, Minnesota. Governor Mark Dayton, State Auditor Rebecca Otto, and Attorney General Lori Swanson were present. The minutes of the March 8, 2012 meeting were approved.

**Executive Director's Report**

Mr. Bicker, Executive Director, referred members to Tab A of the meeting materials and he reported that the Combined Funds had outperformed its Composite Index over the ten year period ending March 31, 2012 (Combined Funds 6.5% vs. Composite 6.4%) and had provided a real rate of return over the latest 20 year period (Combined Funds 8.3% vs. CPI 2.5%).

Mr. Bicker reported that the Combined Funds' assets increased 7.8% for the quarter ending March 31, 2012 due to positive market performance. He said that the asset mix is essentially on target and he stated that the Combined Funds outperformed its Composite Index for the quarter (Combined Funds 8.7% vs. Composite 8.0%) but underperformed for the year (Combined Funds 5.7% vs. Composite 5.9%).

Mr. Bicker reported that the domestic stock manager group outperformed its target for the quarter (Domestic Stocks 13.6% vs. Domestic Equity Asset Class Target 12.9%) but slightly underperformed the year (Domestic Stock 7.1% vs. Domestic Equity Asset Class Target 7.2%). He said the international stock manager group outperformed for the quarter (International Stock 11.3% vs. International Equity Asset Class Target 11.2%) and matched its target for the year (International Stock -7.2% vs. International Equity Asset Class Target -7.2%). Mr. Bicker stated that the bond segment outperformed for the quarter (Bonds 1.4% vs. Fixed Income Asset Class Target 0.3%) and matched its target for the year (Bonds 7.7% vs. Fixed Income Asset Class Target 7.7%). He stated that the alternative investments returned 3.7% for the quarter. He concluded his report with the comment that, as of March 31 2012, the SBI was responsible for over \$61 billion in assets.

Mr. Bicker referred members to Tab B of the meeting materials for an update on the budget and travel for the quarter. He stated that the Omnibus Pension bill passed, and he briefly discussed the changes regarding accounting and alternative investment language in the bill. He said that the bill also contained some changes that make it more attractive for volunteer relief associations to merge with the Public Employees Retirement Association (PERA). Mr. Bicker also noted that the only remaining salaried fire and police group, the Fairmont Police, will also be merging with PERA in the coming months. He added that the legislation also included changes in the pension plans' assumed rate of return from 8.5% to 8% using a "select and ultimate" policy.

Mr. Bicker stated that updated information on Sudan and Iran is also included in Tab B.

Ms. Eller reported that the judge dismissed the lawsuit brought by the Break the Bonds group, which challenged the SBI's investment in Israeli bonds, and she noted that the plaintiffs have appealed.

### **SBI Administrative Committee Report**

Mr. Bicker referred members to Tab C of the meeting materials and briefly reviewed the Executive Director's Proposed Workplan for FY13, the Budget Plan for FY13, the Continuing Fiduciary Education Plan and approval of the process used to evaluate the Executive Director. Ms. Swanson moved approval of the Committee's four recommendations, as stated in Tab C of the meeting materials which reads: **"The Committee recommends that the SBI approve the FY13 Executive Director's Workplan. Further, the Committee recommends that the workplan serve as the basis for the Executive Director's performance evaluation for FY13.**

**The Committee recommends that the SBI approve the FY12, FY13, and FY14 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 Committee recommends that the SBI adopt the following process for the Executive Director's FY12 performance evaluation:**

- **The evaluation will be completed prior to the September 2012 meeting of the SBI and will be based on the results of the Executive Director's workplan for FY12.**
- **The SBI deputies/designees will develop an appropriate evaluation form for use by each member, which will reflect the categories in the Executive Director's position description and workplan.**
- **Minnesota Management and Budget will coordinate distribution and collection of the evaluation forms and will forward the completed forms to the Executive Director. Board members are encouraged to meet individually with the Executive Director to review their own evaluation."** Ms. Otto seconded the motion. The motion passed.

Mr. Bicker referred members to Tab D of the meeting materials and briefly discussed the recommendation from the Local Custody Review Committee to retain Wells Fargo as the local custodian for the investment related transactions for the state's general revenue funds. In response to questions from Governor Dayton and Ms. Swanson, Mr. Bicker clarified that the SBI and Minnesota Management and Budget (MMB) each bid out their contracts for services separately. Ms. Swanson moved approval of the Committee's recommendation, as stated in the meeting materials, which reads: **"Based on the results of the RFP, the Committee recommends that the Board authorize the Executive Director, with the assistance of SBI Counsel, to negotiate and execute a contract with Wells Fargo for local custodial services for a five year period ending December 31, 2017.**

**Approval by the SBI 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 obligation on the State Board of Investment and neither the State of Minnesota, the State Board of Investment or its Executive Director have any liability for reliance by Wells Fargo upon this approval. Until a formal agreement is executed by the Executive Director on behalf of**

**the SBI, further due diligence and negotiations may result in the imposition of additional terms and conditions on Wells Fargo or reduction or termination of the commitment.”** The motion passed.

Mr. Bailey referred members to Tab E of the meeting materials and noted that there were no action items for the stock and bond areas. He said that staff presented a report evaluating the current fixed income asset class target, the Barclays Capital U.S. Aggregate Bond Index, and various alternative fixed income indices to determine which index is best suited to reflect the Fixed Income Program’s objectives going forward. He reported that no action is needed at this time.

Mr. Bailey discussed issues related to the management of emerging markets equity using separate accounts. He noted that for the SBI’s non-U.S. equity investments, the SBI is required to register as a foreign investor and comply with each country’s local tax laws and registration requirements. He said that in certain emerging market countries those requirements have become increasingly difficult to meet. Mr. Bailey said that staff will continue to research options for gaining investment exposure to emerging markets equities, while minimizing these operational issues and that staff and the IAC are recommending that the Board authorize staff to make modifications to the Emerging Markets Program. In response to questions from Governor Dayton and Ms. Swanson, Mr. Bailey stated that commingled accounts would likely be less risky than separately managed accounts. Ms. Swanson moved approval of the recommendation, as state in the meeting materials, which reads: **“The Staff and IAC recommend that the Board authorize staff to make necessary modifications to the Emerging Markets Program to ensure that it can operate effectively.”** The motion passed.

Mr. Bailey referred members to Tab F of the materials and noted that there were no action items for alternative investments this quarter.

Mr. Bicker stated that he will be retiring in late 2013 and he said that staff plan to bring a recommendation to the Board at its September 2012 meeting regarding the search process, the composition and responsibilities of the Search Committee, selection of a search firm, and a budget for the various aspects related to the search.

The meeting adjourned at 9:32 A.M.

Respectfully submitted,



Howard Bicker  
Executive Director