

**Minutes  
State Board of Investment  
December 11, 2013**

The State Board of Investment (SBI) met at 9:00 A.M. Wednesday, December 11, 2013 in Room 123, State Capitol, St. Paul, Minnesota. Governor Mark Dayton, State Auditor Rebecca Otto, Secretary of State Mark Ritchie and Attorney General Lori Swanson were present. The minutes of the September 11, 2013 meeting were approved.

**Executive Director's Report**

Mr. Perry, 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 September 30, 2013 (Combined Funds 8.4% vs. Composite 8.1%) and had provided a real rate of return over the latest 20 year period (Combined Funds 8.3% vs. CPI 2.4%).

Mr. Perry said that the Combined Funds' assets increased 4.0% for the quarter ending September 30, 2013 due to positive market performance. He said that the asset mix is on target, and he stated that the Combined Funds outperformed its Composite Index for the quarter (Combined Funds 5.1% vs. Composite 4.8%), for the year (Combined Funds 14.9% vs. Composite 13.5%) and over longer periods.

Mr. Perry reported that the domestic stock manager group outperformed its target for the quarter (Domestic Stocks 7.1% vs. Domestic Equity Asset Class Target 6.3%), for the year (Domestic Stock 23.0% vs. Domestic Equity Asset Class Target 21.6%) and over longer periods. He said the international stock manager group underperformed its target for the quarter (International Stock 9.7% vs. International Equity Asset Class Target 10.1%) but outperformed for the year (International Stock 18.2% vs. International Equity Asset Class Target 16.5%) and over longer periods. Mr. Perry stated that the bond segment outperformed its target for the quarter (Bonds 0.7% vs. Fixed Income Asset Class Target 0.6%) and for the year (Bonds -0.8% vs. Fixed Income Asset Class Target -1.7%). He stated that the alternative investments returned 2.1% for the quarter and 13.3% for the year. He concluded his report with the comment that, as of September 30, 2013, the SBI was responsible for over \$69 billion in assets.

Mr. Perry referred members to Tab B of the meeting materials for an update on the budget and travel for the quarter. He stated that the Legislative Auditor is working on the financial audit of SBI operations and that members will receive a copy as soon as it is available. He added that members will be receiving a draft copy of the annual report and that the final report should be available by early January. Mr. Perry noted the tentative meeting dates for calendar year 2014. He stated that Tab B contains updated information on Sudan and Iran.

Mr. Perry stated that SBI staff and the Minnesota State Retirement System staff are recommending that legislation be pursued which will give greater flexibility for the investment options in the Supplemental Investment Fund. A discussion followed regarding the need for members to see more specific language regarding the legislation. Mr. Ritchie moved approval of

the recommendation, as stated in Tab B of the meeting materials, which reads: **“The Investment Advisory Council and SBI Staff recommend that legislation be pursued which will enable greater flexibility to provide appropriate investment options through the SIF, mutual funds, or other appropriate investment alternatives.”** The motion passed. Governor Dayton made a motion to have staff pursue the legislation but to have the Board approve the final language for the legislation at the March 5, 2014 Board meeting. The motion passed.

Mr. Perry briefly reviewed several enhancements staff is recommending for the State’s 529 College Savings Plan. Mr. Ritchie moved approval of staff’s recommendation, as stated in Tab B of the meeting materials, which read: **“Staff requests that the Board approve the recommendations from TIAA-CREF to enhance the Minnesota College Savings Plan. These changes are:**

- **Increase the number of age bands in the Managed Allocation Option to nine from six.**
- **Increase the allocation to the TIAA-CREF Short-term Bond Fund and decrease the weights of the Bond Index Fund, Inflation-Linked Bond Fund and the Money Market Fund in the Managed Allocation Option.**
- **Add an allocation to the TIAA-CREF High Yield Fund and reduce the allocations to the Bond Index Fund and the Inflation-linked Bond Fund in the Managed Allocation Option, the Balanced Option and the 100% Fixed Income Option.**
- **Increase the allocation to the TIAA-CREF Emerging Markets Equity Index Fund and decrease the International Equity Index Fund in the Managed Allocation Option, the Balanced Option and the 100% Equity Option.”** The motion passed.

Mr. Perry noted that there is currently no litigation involving the SBI.

Mr. Bailey referred members to Tab C of the meeting materials for updated information on the SBI’s equity and fixed income managers. He stated that staff is recommending the termination of Knelman Asset Management Group, a domestic equity manager due to staff turnover and underperformance. Mr. Ritchie moved approval of the recommendation, as stated in Tab B of the meeting materials, which reads: **“Due to the Securities and Exchange Commission sanction, the turnover in investment staff, and underperformance the IAC and staff recommend that the SBI terminate the relationship with Knelman Asset Management Group LLC.”** In response to a question from Governor Dayton, Mr. Perry confirmed that the assets under management by the firm is approximately \$90 million. The motion passed.

Mr. Bailey reported that the IAC had an initial discussion about the IAC’s role in working with staff and Board members. Members agreed that input was needed from staff, IAC members and Board members, and members agreed to continue the discussion in the coming months.

Mr. Bailey referred members to Tab D of the meeting materials and briefly reviewed new investments with one existing resource manager, Energy Capital Partners and one new private equity manager, Permira. Ms. Otto moved approval of both recommendations, as stated in Tab D of the meeting materials, which reads: **“The Investment Advisory Council recommends that the SBI authorize the Executive Director, with assistance from the SBI’s legal counsel,**

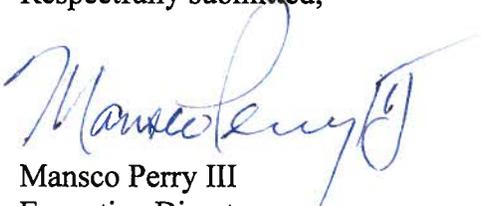
**to negotiate and execute a commitment of up to \$200 million, or 20% of ECP III, whichever is less. Approval by the SBI of this potential commitment is not intended to be, and does not constitute in any way, a binding or legal agreement or impose any legal obligations on the State Board of Investment 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 ECP 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 ECP or reduction or termination of the commitment.**

**The Investment Advisory Council recommends that the SBI authorize the Executive Director, with assistance from the SBI's legal counsel, to negotiate and execute a commitment of up to €150 million (approximately \$200 million), or 20% of Permira V, whichever is less. 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 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 Permira 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 Permira or reduction or termination of the commitment.”** The motion passed.

Mr. Perry reminded members that at the September 2013 Board meeting, the Board was approached by representatives of Unite Here Union regarding the SBI's investment with Wayzata Investment Partners. He noted that the union is in collective bargaining negotiations with Wayzata Partners regarding the Majestic Star Casino in Gary, Indiana. Mr. Perry reminded members that the SBI's participation in limited partnerships does not allow the Board to participate in any activity which creates a general liability. He stated that if the Board desires to take action, staff believes that the best course of action would be for the Board to authorize staff to send a letter to Wayzata Partners requesting that the organization continue to negotiate in good faith. Governor Dayton offered to draft a letter for members to review and Ms. Otto noted the importance of having the Attorney General's Office review the letter to ensure the SBI is not moving into a position of liability. Members agreed.

The meeting adjourned at 10:55 A.M.

Respectfully submitted,



Mansco Perry III  
Executive Director