Minutes
State Board of Investment
June 5, 2013

The State Board of Investment (SBI) met at 9:00 A.M. Wednesday, June 5, 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 March 6, 2013 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, 2013 (Combined Funds 9.2% vs. Composite 9.0%) and had provided a real rate of return over the latest 20 year period (Combined Funds 8.2% vs. CPI 2.4%).

Mr. Bicker reported that a correction to Tab A needed to be noted. He said that the Combined Funds' assets increased 4.9% (and not 0.7% as reported) for the quarter ending March 31, 2013 due to positive market performance. He said that staff is in the process of rebalancing the asset mix back to targets, and he stated that the Combined Funds outperformed its Composite Index for the quarter (Combined Funds 6.1% vs. Composite 5.8%) and for the year (Combined Funds 11.0% vs. Composite 10.6%).

Mr. Bicker reported that the domestic stock manager group matched its target for the quarter (Domestic Stocks 11.1% vs. Domestic Equity Asset Class Target 11.1%) and underperformed for the year (Domestic Stock 14.1% vs. Domestic Equity Asset Class Target 14.6%). He said the international stock manager group outperformed its target for the quarter (International Stock 4.1% vs. International Equity Asset Class Target 3.2%) and for the year (International Stock 9.9% vs. International Equity Asset Class Target 8.4%). Mr. Bicker stated that the bond segment outperformed its target for the quarter (Bonds 0.1% vs. Fixed Income Asset Class Target -0.1%) and for the year (Bonds 5.4% vs. Fixed Income Asset Class Target 3.8%). He stated that the alternative investments returned 2.7% for the quarter and 11.7% for the year. He concluded his report with the comment that, as of March 31, 2013, the SBI was responsible for over $65 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 said that the SBI had submitted legislation authorizing the SBI to invest in swaps, and he reported that the bill had passed. He stated that Tab B contains updated information on Sudan and Iran. He noted that there is currently no litigation involving the SBI. Mr. Bicker also noted that members had received an SBI Policy Book for their reference.

Mr. Bicker gave members a brief update on the search process for a new Executive Director. He stated that the Search Committee had recommended the retention of Korn/Ferry as a search firm, and he noted that he will keep members informed as the process continues. In response to a question from Governor Dayton, Mr. Bicker stated that the updated actuarial data will be available later in the calendar year. Mr. Bicker also briefly reviewed international markets performance in response to a question from Governor Dayton.

SBI Administrative Committee Report

Mr. Bicker referred members to Tab C of the meeting materials for a report from the Administrative Committee. Mr. Bicker stated that the Committee is recommending approval of the Executive Director's Proposed Workplan for FY14, the Administrative Budget Plan for FY13-FY15, the Continuing Education Plan, and the Executive Director's Evaluation and Salary Process. He also noted that staff had updated the Disaster Recovery Plan. Mr. Ritchie moved approval of all four recommendations from the Administrative Committee, as stated in Tab C of the meeting materials, which reads: "**The Committee recommends that the SBI approve the FY14 Executive Director's Workplan with the additional item recommended by the IAC. Further, the Committee recommends that the Workplan serve as the basis for the Executive Director's performance evaluation for FY14.**

The Committee recommends that the SBI approve the FY13, FY14, and FY15 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 FY13 performance evaluation:

- **The evaluation will be completed prior to the September 2013 meeting of the SBI and will be based on the results of the Executive Director's workplan for FY13.**

- **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.**

- **The Office of Minnesota Management and Budget has approved a new compensation plan for managerial employees. If approved by the Administrative Committee and the Board, the adjustments in the plan can be awarded to the SBI's executive director. The plan calls for a three percent performance merit increase effective January 1, 2012, two percent general increase effective January 1, 2013, and performance merit increase of three percent effective January 1, 2013."** The motion passed.

Mr. Bailey referred members to Tab D of the meeting materials and reported that staff and the IAC are recommending the termination of three managers due to issues related to performance and staff turnover. Ms. Otto moved approval of the three recommendations, as stated in Tab D of the meeting materials, which read: **"The Committee recommends that the Board terminate INVESCO from the International Equity Program due to organizational change of key investment personnel, continued underperformance and asset loss.**

Due to the turnover in senior management, the significant reduction in the analyst team, loss of institutional assets, and underperformance staff and the IAC recommend that the SBI terminate the relationship with UBS Global Asset Management Inc. Staff also recommends eliminating the large cap core allocation in domestic equity.

Due to the continued loss of institutional assets, the long-term performance issues, and the recommendation to eliminate the large core mandate, staff and the IAC recommend that the SBI terminate the relationship with New Amsterdam Partners, LLC." The motion passed.

Mr. Bailey referred members to Tab E of the meeting materials and stated that staff and the IAC are recommending new investments with three existing private equity mangers: CVC Capital Partners, EBF & Associates and Varde Partners. He also said that staff and the IAC are recommending to extend the fundraising time deadline for the SBI's commitment to Public Pension Capital (PPC). He noted that the original investment was approved at the December 2012 Board meeting. Mr. Ritchie moved approval of the four recommendations, as stated in Tab E of the meeting materials, which read: **"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 €250 million, or 20% of CVC VI, 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 CVC 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 CVC 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 $125 million, or 20% of Merced IV, 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 EBF 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 EBF 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 $200 million, or 20% of Varde XI, 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 Varde 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 Varde 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 $100 million, or 20% of the PPC Fund, whichever is less. Additionally, the commitment is contingent on PPC obtaining at least $500 million in signed and finalized Limited Partner commitments to the Fund from at least four (4) other Limited Partner investors in the Fund by June 30, 2014. 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 PPC 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 PPC or reduction or termination of the commitment." The motion passed.

Mr. Bailey reported that staff and the IAC had discussed the SBI's allocation to alternative investments and examined how different market and investment scenarios impact the SBI's alternative investment allocation. He said that staff and the IAC will discuss this issue again in August 2013 and if action is needed, recommendations would be presented to the Board at the September 2013 meeting.

The meeting adjourned at 9:35 A.M.

Respectfully submitted,

Howard Bicker
Executive Director