Minutes
State Board of Investment
September 11, 2013

The State Board of Investment (SBI) met at 9:00 A.M. Wednesday, September 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 June 5, 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 June 30, 2013 (Combined Funds 8.2% vs. Composite 7.9%) 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 the Combined Funds' assets increased 0.3% for the quarter ending June 30, 2013 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 1.3% vs. Composite 0.9%) and for the year (Combined Funds 14.2% vs. Composite 12.9%).

Mr. Bicker reported that the domestic stock manager group outperformed its target for the quarter (Domestic Stocks 3.1% vs. Domestic Equity Asset Class Target 2.7%) and for the year (Domestic Stock 21.9% vs. Domestic Equity Asset Class Target 21.5%). He said the international stock manager group outperformed its target for the quarter (International Stock -2.2% vs. International Equity Asset Class Target -3.1%) and for the year (International Stock 16.1% vs. International Equity Asset Class Target 13.7%). Mr. Bicker stated that the bond segment matched its target for the quarter (Bonds -2.3% vs. Fixed Income Asset Class Target -2.3%) and outperformed it for the year (Bonds 0.8% vs. Fixed Income Asset Class Target -0.7%). He stated that the alternative investments returned 4.6% for the quarter and 11.3% for the year. He concluded his report with the comment that, as of June 30, 2013, the SBI was responsible for over $68 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 Tab B contains updated information on Sudan and Iran, and he noted that there is currently no litigation involving the SBI.

Mr. Bicker updated members on the State's 529 College Savings Plan. He stated that the current contract with TIAA-CREF expires in August 2014 and that staff will need to do an RFP for a new provider. He noted that some changes to the plan may be considered which may involve some legislative changes.

Ms. Mares referred members to Tab C and noted that there were no action items at this time. She referred members to Tab D of the meeting materials and stated that staff and the IAC are recommending a new investment with an existing private equity manager, GTCR; two

investments with two new private equity managers, IK and Nordic Capital; and two new investments with two existing resource managers, First Reserve and EIG Global Energy Partners. Mr. Ritchie moved approval of all five new investments, as stated in Tab D, 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 GTCR 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 GTCR 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 GTCR 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 IK VII, 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 IK 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 IK 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 Nordic VIII, 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 Nordic 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 Nordic 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 First Reserve XIII, 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 First Reserve 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 First Reserve 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 EIG XVI, 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 EIG 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 EIG or reduction or termination of the commitment." The motion passed.

Mr. Bicker stated that staff completed a review of the alternative investment asset allocation. He discussed the need to have more flexibility with the unfunded commitment cap and to have a target market value allocation be a range of 20% to 24%. In response to questions from Ms. Swanson, Mr. Bicker stated that staff would provide additional information on how the SBI's alternative asset allocation compares to other large public funds. Mr. Ritchie moved approval of the four recommendations, as stated in Tab D of the meeting materials. In response to questions from Governor Dayton, Mr. Bicker explained the staff's due diligence process and staff's philosophy regarding alternative investments. Members agreed that the motion would be amended to include only recommendations 1 and 2 since the last two items in the recommendation are information items. The amended motion, as stated in Tab D reads as follows:

"1. Increase the Market Value plus Unfunded Commitment cap of 30% of Combined Funds for alternative investments. **Specifically, the Investment Advisory Council recommends lifting this cap to 35% of Combined Funds, with a further 3% buffer in the event of market anomalies.**

2. Adopt a target allocation range above the current target market value allocation of 20% for alternative investments. **Specifically, the Investment Advisory Council recommends that the alternative investment target market value allocation be a range between 20% and 24%.**" The amended motion passed.

Ms. Mares updated members on the progress made by the Executive Director Search Committee in the search for a new Executive Director for the SBI. She stated that Korn/Ferry International had been retained as the SBI's search firm and that 55 candidates from both the public and private sectors had been contacted. She reported that six candidates were screened by the Committee and that three were recommended for a second interview. She stated that the Committee is recommending that Mansco Perry III be appointed as Executive Director of the Minnesota State Board of Investment. A brief interview followed with Mr. Perry providing additional information for members concerning his background, qualifications and overall

investment philosophy. Governor Dayton recommended that the salary for the Executive Director be set at $325,000 per year. Ms. Eller stated that the recommendation for the entire hiring package should be put together by staff with the advice of legal counsel. Ms. Otto moved approval of the employment and recommended compensation for Mr. Perry with the advice of legal counsel. The motion passed. Board members thanked Mr. Bicker for his dedicated service and Mr. Bicker thanked the Board members, staff and the IAC for all of their service also.

Phil Benson, representing the Minnesota Break the Bonds stated that he had provided a report to two of the Board members prior to the meeting and that he hoped to have continued dialogue with the Board in the future.

Jim Baker of Unite Here and Ms. Elliot, a hotel casino union member, briefly addressed the Board regarding labor issues at two out-of-state casinos in which one of the SBI's alternative investment managers, Wayzata Partners, is a majority owner. In response to a question from Ms. Otto, Mr. Bicker explained that the SBI is a limited partner in the Wayzata Partners investment which protects and limits the SBI's risk. He added that if the SBI becomes involved in the specifics of the individual investments, the SBI would become a general partner, which would expose the SBI to unlimited risk. After a short discussion, Governor Dayton requested that staff provide further information on this issue at the December 2013 meeting.

Mr. Ritchie thanked everyone involved with the process of hiring the new Executive Director.

The meeting adjourned at 10:12 A.M.

Respectfully submitted,

Howard Bicker
Executive Director