

**Minutes  
State Board of Investment  
December 2, 2014**

The State Board of Investment (SBI) met at 10:00 A. M. Tuesday, December 2, 2014 in Room 112, 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 9, 2014 meeting were approved.

**Executive Director's Report**

Mr. Perry 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, 2014 (Combined Funds 8.3% vs. Composite 8.0%) and had provided a real rate of return of 6.5% above inflation over the latest 20 year period (Combined Funds 8.9% vs. CPI 2.4%).

Mr. Perry said that assets decreased slightly over the quarter (Combined Funds ending value of \$58.9 versus a beginning value of \$59.5 billion), primarily due to negative cash flow, but a small decrease in investment return also affected ending market value. He said that the asset allocation was on target and he stated that the Combined Funds returns were slightly below benchmark for the quarter (Combined Funds -0.1% vs. Composite 0.0%), but above benchmark for the year (Combined Funds 12.7% vs. Composite 12.5%) as well as all succeeding time periods.

Mr. Perry reported that the domestic stock manager group performed in-line with its target for the quarter (Domestic Stocks 0.0% vs. Domestic Equity Asset Class Target 0.0%), slightly underperformed for the year (Domestic Stocks 17.6% vs. Domestic Equity Asset Class Target 17.8%), and outperformed in longer time periods. He said the international stock manager group underperformed its target for the quarter (International Stocks -5.4% vs. International Equity Asset Class Target -5.3%) and for the year (International Stocks 4.7% vs. International Equity Asset Class Target 4.8%), but outperformed over longer time periods. Mr. Perry stated that the bond segment performed in-line with its target for the quarter (Bonds 0.2% vs. Fixed Income Asset Class Target 0.2%) and outperformed its target in all other time periods. He stated that the alternative investments continue to be a strong contributor to performance (5.8% for the quarter and 23.2% for the year). He concluded his report noting that, as of September 30, 2014, the SBI was responsible for managing close to \$80 billion of assets.

Mr. Perry referred members to Tab B of the meeting materials for the administrative report. He reported that the SBI budget and travel were in line with expectations. Next, he stated that the report documenting the findings of the legislative audit would be available in the first quarter of 2015. He also noted that a draft copy of the annual report would be distributed in December to Board and IAC members for review and that the final version is expected to be published in January. Mr. Perry stated that Sudan and Iran holdings updates were provided.

Mr. Perry provided an update to the Minnesota 529 College Savings Plan, stating that Morningstar had raised the rating for the State's 529 Plan from negative to neutral. He reminded everyone that, due to the lack of a state tax incentive, further rating increases should not be expected.

Next, Mr. Perry provided an update on the Duluth Teachers Retirement Fund Association (DTRFA) assets. He reported that the Duluth Teachers membership had voted in favor of the merger and the SBI and Duluth had been working to transfer their assets to the SBI. The DTRFA assets will be invested in the SBI Combined Funds allocation but accounted for in a separate account until the merger with the Teacher's Retirement Assets (TRA) takes place as of July 1, 2015.

Mr. Perry informed Board members that, going forward, Staff will streamline and improve the manager reports. The goal is to focus on longer term manager performance and summary manager information.

Mr. Perry concluded his administrative report noting that there is currently no litigation involving the SBI.

Mr. Bailey referred members to Tab C and Tab D for the manager results and noted that there were no manager action items at this time. Mr. Bailey then updated the Board on the transition management services RFI process, which was a follow-up item from the September board meeting. He stated that based on the analysis of the RFI responses received from the eleven transition managers, the staff had narrowed the field to five very large and experienced transition managers. Mr. Ritchie moved approval of the recommendation, which reads: **"The Investment Advisory Council concurs with Staff's recommendation that the State Board of Investment authorize the Executive Director to retain the following five firms to provide transition management services: BlackRock, Inc., Citigroup Global Markets Inc., Northern Trust Investments, Inc., Russell Implementation Services Inc., and State Street Bank Global Markets."** The Board approved the recommendation.

Mr. Bailey proceeded to Tab E and discussed the internally managed equity portfolio designed to track the performance of the S&P 500 Index. Mr. Ritchie moved approval of the recommendation, which reads: **"The Investment Advisory Council concurs with Staff's recommendation to authorize the Executive Director to retain an external manager to manage the Internal Stock Fund if Staff is unable to enter into a futures trading agreement to trade S&P 500 futures."** After a brief discussion, the Board approved the measure.

Mr. Bailey updated the Board on Pacific Investment Management Company (PIMCO). A report was included in Tab F. While there was no action item, Staff will continue to monitor PIMCO closely given the key leadership turnover in 2014.

Mr. Bailey then discussed the six alternative investment proposals, included in Tab G. Four managers are existing managers (NGP Energy Capital Management (Resource); Sheridan Production Partners (Resource); Welsh, Carson, Anderson & Stowe (Private Equity); Paine & Partners (Private Equity)) and two are new managers (Oaktree Capital Management (Private Equity); TCW Direct Lending Group (Yield Oriented)). Ms. Otto moved approval of all recommendations in Tab G of the meeting materials, which 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 \$150 million, or 20% of NGP 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 NGP 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 NGP or reduction or termination of the commitment.**

**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 \$100 million, or 20% of Sheridan 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 Sheridan 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 Sheridan or reduction or termination of the commitment.**

**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 \$150 million, or 20% of WCAS XII, 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 WCAS 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 WCAS or reduction or termination of the commitment.**

**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 \$100 million, or 20% of Paine & Partners 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 Paine & Partners 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 Paine & Partners or reduction or termination of the commitment.**

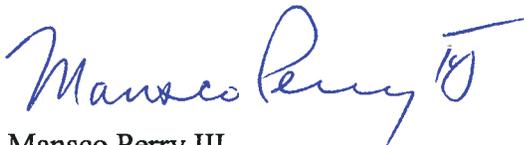
**The Investment Advisory Council concurs with Staff's recommendation that the SBI authorize the Executive Director, with assistance from the SBI's legal counsel, to negotiate and execute a commitment of up to \$100 million, or 20% of Principal Fund VI, whichever is less. Approval by the SBI of this 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 Oaktree 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 Oaktree or reduction or termination of the commitment.**

**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 \$100 million, or 20% of Direct Lending 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 TCW 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 TCW or reduction or termination of the commitment. The motion passed.**

Ms. Rossoff from Minnesota Break the Bonds addressed the Board and a discussion followed. In response to a question from Governor Dayton, Mr. Perry noted that a review of the country guidelines would be presented at the Administrative Committee in May. That review will be presented to the Board at its June 2015 meeting. Governor Dayton requested that the Board discuss its practice and process for security transactions at the March meeting.

The meeting adjourned at 11:00 a.m.

Respectfully submitted,



Mansco Perry III  
Executive Director and  
Chief Investment Officer