

**Minutes
State Board of Investment
September 9, 2014**

The State Board of Investment (SBI) met at 9:00 A. M. Tuesday, September 9, 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 May 29, 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 June 30, 2014 (Combined Funds 8.4% vs. Composite 8.1%) and had provided a real rate of return of 6.6% above inflation over the latest 20 year period (Combined Funds 9.0% vs. CPI 2.4%).

Mr. Perry said that the Combined Funds' assets now stand at about \$59.5 billion which represents an increase of 2.9% for the quarter ending June 30, 2014. He said that the asset allocation is on target and he stated that the Combined Funds returns were slightly below benchmark for the quarter (Combined Funds 3.9% vs. Composite 4.1%), but above benchmark for the year (Combined Funds 18.6% vs. Composite 18.0%) as well as all succeeding time periods.

Mr. Perry reported that the domestic stock manager group underperformed its target for the quarter (Domestic Stocks 4.5% vs. Domestic Equity Asset Class Target 4.9%) and outperformed for the year (Domestic Stocks 25.9% vs. Domestic Equity Asset Class Target 25.2%). He said the international stock manager group underperformed its target for the quarter (International Stocks 4.7% vs. International Equity Asset Class Target 5.0%) and for the year (International Stocks 21.4% vs. International Equity Asset Class Target 21.7%). Mr. Perry stated that the bond segment outperformed its target for all time periods, including the quarter (Bonds 2.1% vs. Fixed Income Asset Class Target 2.0%) and the year (Bonds 5.0% vs. Fixed Income Asset Class Target 4.4%). He stated that the alternative investments continue to be a strong contributor to performance (4.8% for the quarter and 18.9% for the year). He concluded his report noting that, as of June 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. He noted that Tab B contains the updated information for Sudan and Iran. Mr. Perry reported that staff had successfully negotiated the contract with TIAA-CREF for the Minnesota College Savings Plan. He said that plan improvements, made up of both lower fees and improved investment options, would benefit participants in the Minnesota College Savings Plan.

Mr. Perry gave a brief history of the Closed Landfill Investment Fund (CLIF) saying that the fund had been established during the 1999 legislative session to invest assets to pay the long-term costs of maintaining the integrity of closed landfills in Minnesota. The asset allocation originally approved by the SBI at that time was 100% equities based on the long time horizon of the CLIF and a lack of any withdrawals needed from the fund until after fiscal year 2020.

Mr. Perry noted that in 2009, \$ 48 million was transferred out of the CLIF fund as a result of legislation associated with the state's budget balancing plan; the CLIF ended fiscal year 2010 with less than \$1 million in assets. Given the significant reduction in the CLIF assets, discussions about moving the fund to a more balanced asset were put on hold until such time as assets were transferred back into the fund per state statutes. Mr. Perry stated that in August of 2014, the Commissioner of the Pollution Control Agency and the Commissioner of Minnesota Management and Budget notified the Executive Director of the SBI that assets that had been transferred out of the fund in 2009 and any lost investment earnings since then were expected to be transferred back into the CLIF beginning July 1, 2014. At the same time both Commissioners requested that the asset allocation for the CLIF be modified from 100% equities to a more balanced asset allocation of 70% equities and 30% bonds.

Mr. Perry noted that the CLIF's objective is to produce spendable income beginning in 2020 and to grow the fund in order to maintain the real purchasing power of the fund. With assets expected to be transferred back into the CLIF and the shorter time period horizon until withdrawals from the fund, Mr. Perry believes that a 70% equity and 30% bond asset allocation would be more appropriate for the CLIF going forward. Mr. Ritchie moved approval of the recommendation to change the asset allocation for the CLIF to a 70% equities and a 30% bond allocation. After a brief discussion the motion passed.

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 noted that SBI staff made a presentation on transition management services to the IAC. He stated that transition managers are used to help transition assets from one investment manager to another in a cost effective manner. Mr. Bailey said the presentation generated a good discussion about how other IAC members handle transition management. He noted that the SBI staff would come back to the IAC in November with a specific recommendation for transition management services going forward.

Mr. Bailey also noted that the SBI staff presented an overview of the current SBI Alternatives portfolio and summarized the future program goals which included the goal of expanding the types of investments that might be made in the Alternatives portfolio. Mr. Bailey noted that there were no alternative investment recommendations at this time and therefore no action required by the Board.

Governor Dayton said that a letter with a request to address the Board had just been received from Minnesota Break the Bonds. Mr. Dayton said that the Board would allow three speakers to address the Board with each having no more than 4 minutes to speak. Governor Dayton additionally made a motion that, going forward, the Board must receive a 5 business day prior written notice of a request to appear before the Board. The motion passed.

Ms. Rossoff, Ms. Halimah and Mr. Wazwaz from Minnesota Break the Bonds each briefly addressed the Board.

Ms. Rossoff asked about a bond in the portfolio that would be up for renewal in the near future. Mr. Perry noted that there would be a bond maturing on June 30, 2015. In response to a question from Governor Dayton, Mr. Perry noted that a reconsideration of the bond would take place in the first quarter of 2015. Governor Dayton suggested that this topic be put on the Board's agenda for March.

The meeting adjourned at 9:45 a.m.

Respectfully submitted,

A handwritten signature in blue ink that reads "Mansco Perry III". The signature is written in a cursive style with a large initial "M" and a stylized "P".

Mansco Perry III
Executive Director and
Chief Investment Officer