Minutes
State Board of Investment
December 2, 2015

The State Board of Investment (SBI) met at 10:29 A.M. Wednesday, December 2, 2015 in Room 106, Retirement Systems Building, St. Paul, Minnesota. Governor Mark Dayton, State Auditor Rebecca Otto, Secretary of State Steve Simon, and Attorney General Lori Swanson were present. The minutes of the September 9, 2015, meeting were approved.

Executive Director's Report
Executive Director Mansco 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, 2015 (Combined Funds 6.8% vs. Composite 6.5%) and had provided a real rate of return of 5.6% above inflation over the latest 20 year period (Combined Funds 7.8% vs. CPI 2.2%).

Mr. Perry said that assets decreased over the quarter by 5.7% (Combined Funds ending value of $56.7 versus a beginning value of $60.1 billion), due to the negative investment returns and net outflows. The Combined Funds return was 20 basis points (bps) below the benchmark for the quarter (Combined Funds -4.7% vs. Composite -4.5%) and 20 bps higher for the year (Combined Funds -0.5% vs. Composite -0.7%). The Combined Funds also outperformed for longer time periods.

Mr. Perry reported that the domestic stock manager group underperformed its target for the quarter (Domestic Stocks -7.5% vs. Domestic Equity Asset Class Target -7.2%), outperformed for the year (Domestic Stocks -0.4% vs. Domestic Equity Asset Class Target -0.5%), and outperformed in longer time periods. He said the international stock manager group outperformed its target for the quarter (International Stocks -11.1% vs. International Equity Asset Class Target -12.2%) and outperformed over longer time periods. Mr. Perry then stated that the bond segment lagged its target for the quarter (Bonds 0.8% vs. Fixed Income Asset Class Target 1.2%) and for the year (Bonds 2.8% vs. Fixed Income Asset Class Target 2.9%) but outperformed its target in longer time periods. He stated that the alternative investments contributed to performance for the quarter and the year (total return of 2.8% and 4.6%, respectively). Mr. Perry concluded his report noting that, as of September 30, 2015, the SBI was responsible for managing slightly under $77 billion of assets.

Mr. Perry referred members to Tab B of the meeting materials for the administrative report. Mr. Perry commented that the Fiscal Year 2015 audit should be completed in December and draft copies of the annual report should be distributed shortly thereafter. He noted that the updated information for Sudan and Iran was included in Tab B. Mr. Perry stated there was currently no litigation involving the SBI.

The Chair of the Investment Advisory Council (IAC), Jeff Bailey gave an overview of two agenda items from the IAC meeting that were informative and did not require action. The first was a presentation by the Retirement Plan Directors on the statewide systems' recent experience study

results. The statewide systems provided an overview of the key economic and demographic assumptions that drive the liability of those plans. The second item was a presentation by Mr. Perry that outlined the current investment objectives for the Combined Funds and highlighted investment strategies where there may be potential opportunity for future investment. This project will provide additional research opportunities for staff in the fixed income, domestic and international equities, and private equity areas.

Mr. Bailey referred Board members to the Investment Advisory Council report, found under Tab C. He discussed the agenda items covered in the November 17, 2015, IAC meeting. Mr. Bailey reviewed the five alternative investment proposals brought to the IAC. Four managers were existing managers: Kohlberg Kravis Roberts & Co. (Private Equity); Advent International (Private Equity); Merit Capital Partners (Yield-Oriented); and The Energy & Minerals Group (Resources); and one was a new manager, Madison Dearborn (Private Equity). Mr. Dayton moved approval of all recommendations in Tab D 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 KKR Americas Fund XII L.P., 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 KKR 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 KKR 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 Advent International GPE VIII, L.P., 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 Advent 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 Advent 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 Merit Mezzanine Fund VI, L.P., 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 Merit Capital 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 Merit Capital 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 The Energy & Minerals Group Fund IV, LP, 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 The Energy & Minerals Group 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 The Energy & Minerals Group 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 Madison Dearborn Capital Partners 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 Madison Dearborn 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 Madison Dearborn or reduction or termination of the commitment." The motion passed unanimously.

The meeting adjourned at 10:50 a.m.

Respectfully submitted,

Mansco Perry III
Executive Director and
Chief Investment Officer