

**Minutes  
State Board of Investment  
June 3, 2015**

The State Board of Investment (SBI) met at 10:00 A.M. Wednesday, June 3, 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 March 4, 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 March 31, 2015 (Combined Funds 8.0% vs. Composite 7.7 %) and had provided a real rate of return of 6.5% above inflation over the latest 20 year period (Combined Funds 8.8% vs. CPI 2.3%).

Mr. Perry said that assets increased over the quarter by 0.8% (Combined Funds ending value of \$60.4 versus a beginning value of \$60.0 billion), due to investment returns outweighing net outflows. The Combined Funds return was twenty basis points (bps) above the benchmark for the quarter (Combined Funds 1.6% vs. Composite 1.4%) and 10 bps higher for the year (Combined Funds 8.1% vs. Composite 8.0%). The Combined Funds also outperformed for longer time periods.

Mr. Perry reported that the domestic stock manager group outperformed its target for the quarter (Domestic Stocks 2.2% vs. Domestic Equity Asset Class Target 1.8%), performed in-line for the year (Domestic Stocks 12.4% vs. Domestic Equity Asset Class Target 12.4%), and outperformed in longer time periods. He said the international stock manager group outperformed its target for the quarter (International Stocks 3.8% vs. International Equity Asset Class Target 3.5%) and outperformed over longer time periods. Mr. Perry then stated that the bond segment surpassed its target for the quarter (Bonds 1.7% vs. Fixed Income Asset Class Target 1.6%) and outperformed its target in all other time periods. He stated that the alternative investments detracted from performance for the quarter (-3.0% for the quarter) due to the downward impact of oil prices on the Resources portfolio. Mr. Perry concluded his report noting that, as of March 31, 2015, the SBI was responsible for managing more than \$80 billion of assets.

Mr. Perry referred members to Tab B of the meeting materials for the administrative report. He reported that fiscal year to date, the SBI was running below budget. Mr. Perry then described the three items of legislation that impacted the SBI that were signed during the concluded legislative session – the Omnibus Retirement Bill, the Omnibus State Government Finance Bill, and the Achieving a Better Life Experience Program. Next, Mr. Perry stated that Sudan and Iran holdings updates were provided. Mr. Perry stated that there was currently no litigation involving the SBI.

Mr. Perry referred members to Tab C and discussed the Administrative Committee Report. He provided background on the first action item, which was a review of the Executive Director's Proposed Workplan for FY16. State Auditor Otto moved approval of the recommendation, which

reads, **“The Committee recommends that the SBI approve the FY16 Executive Director’s Workplan. Further, the Committee recommends that the Workplan serve as the basis for the Executive Director’s performance evaluation for FY16.”** The motion passed.

Mr. Perry detailed the second action item in the Administrative Committee Report, which was a review of the Budget Plan for FY16 and FY17. State Auditor Otto moved approval of the recommendation, which reads, **“The Committee recommends that the SBI approve the FY16 and FY17 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 motion passed.

Mr. Perry proceeded to the third action item in the Administrative Committee Report, which was a review of the Continuing Fiduciary Education Plan. He explained the importance of the Plan in ensuring that Board members are kept apprised on fiduciary matters. State Auditor Otto moved approval of the recommendation, which reads, **“The Committee recommends that the SBI adopt the attached Continuing Fiduciary Education Plan.”** The motion passed.

Mr. Perry discussed the fourth action item in the Administrative Committee Report, which was a review of the International Equity Manager Country Guidelines Report and Process. He provided the background of the process and the reasoning behind the proposal to discontinue the process. Secretary of State Simon moved approval of the recommendation, which reads, **“The SBI Administrative Committee concurs with Staff’s recommendation that the SBI authorize the Executive Director to discontinue the International Equity Manager Country Guidelines Process, effective upon approval. Further, if the SBI approves the discontinuance of the International Equity Manager Country Guidelines Process, the SBI Administrative Committee recommends that the SBI authorize the Executive Director to make the appropriate revisions to the International Equity Investment Manager Guidelines to reflect that the provisions of the International Equity Manager Country Guidelines are no longer in effect.”** The motion received two votes in favor and two votes against the proposal. A brief discussion followed whereby Mr. Perry explained how investing in international financial markets has evolved and that the International Equity Manager Country Guidelines Report and Process adds no value to the investment process. In response to a question from the Board, he clarified that renewing these guidelines would have no impact on the investment managers’ ability to carry out their fiduciary duty. Another vote was called and the motion passed.

Mr. Perry discussed the fifth action item in the Administrative Committee Report, which was a review of the Executive Director’s Evaluation and Salary Process. He provided background on the item. State Auditor Otto moved approval of the recommendation, which reads, **“The Committee recommends that the SBI delegate the review of the current evaluation process and timeline to the Administrative Committee. The Administrative Committee will determine if any changes to the evaluation and salary process and/or timeline for the Executive Director’s FY15 performance evaluation should be recommended. In addition, the Administrative Committee recommends that the following procedures should continue until the Committee recommends any changes to the process.**

- **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.**
- **Governor’s office 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 motion passed.**

Mr. Perry informed the Board of the update to the SBI’s Business Continuity Plan.

The Chair of the Investment Advisory Council (IAC), Jeff Bailey reported on the agenda items covered in the May 19<sup>th</sup> IAC meeting. Mr. Bailey reviewed the four alternative investment proposals brought to the IAC. Three managers were existing managers (TA Realty (Real Estate); CarVal Investors (Private Equity); and Blackstone (Private Equity)) and one was a new manager (EnerVest (Resources)). Secretary of State Simon moved approval of all recommendations in Tab D of the meeting materials, which read, **“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 Fund 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 TA Realty 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 TA Realty 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 CVI 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 CarVal 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 CarVal 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 BCP 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 Blackstone 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 Blackstone 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 EnerVest XIV, 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 EnerVest 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 EnerVest or reduction or termination of the commitment."**

The motion passed.

The meeting adjourned at 11:03 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, stylized initial "M".

Mansco Perry III  
Executive Director and  
Chief Investment Officer