

**Minutes
State Board of Investment
September 9, 2015**

The State Board of Investment (SBI) met at 10:00 A. M. Wednesday, September 9, 2015 in Room 106, Retirement Systems Building, St. Paul, Minnesota. State Auditor Rebecca Otto, Secretary of State Steve Simon, and Attorney General Lori Swanson were present. Governor Dayton was absent and Secretary of State Simon Chaired the meeting. The minutes of the June 3, 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 June 30, 2015 (Combined Funds 7.8% vs. Composite 7.5 %) and had provided a real rate of return of 6.1% above inflation over the latest 20 year period (Combined Funds 8.4% vs. CPI 2.3%).

Mr. Perry said that assets decreased slightly over the quarter by 0.5% (Combined Funds ending value of \$60.1 versus a beginning value of \$60.4 billion), due to net outflows outweighing investment returns. The Combined Funds return was ten basis points (bps) above the benchmark for the quarter (Combined Funds 0.3% vs. Composite 0.2%) and 40 bps higher for the year (Combined Funds 4.4% vs. Composite 4.0%). The Combined Funds also outperformed for longer time periods.

Mr. Perry reported that the domestic stock manager group performed in-line with its target for the quarter (Domestic Stocks 0.1% vs. Domestic Equity Asset Class Target 0.1%) and outperformed for the year (Domestic Stocks 7.7% vs. Domestic Equity Asset Class Target 7.3%). He said the international stock manager group outperformed its target for the quarter (International Stocks 1.3% vs. International Equity Asset Class Target 0.5%) and for the year (International Stocks -3.8% vs. International Equity Asset Class Target -5.3%). Mr. Perry then stated that the bond segment surpassed its target for the quarter (Bonds -1.5% vs. Fixed Income Asset Class Target -1.7%) and for the year (Bonds 2.1% vs. Fixed Income Asset Class Target 1.9%). He stated that alternative investments added to total performance for the quarter and the year (3.7% for the quarter and 7.6% for the year). Mr. Perry concluded his report noting that, as of June 30, 2015, the SBI was responsible for managing more than \$82 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 Conservation Easement Accounts, an item of legislation that passed which created three accounts to pool previous and future appropriations to cover the monitoring and enforcement costs associated with conservation easement efforts. Two of the accounts will be administered by the Board of Water and Soil Resources and one will be administered by the Department of Natural Resources. The SBI was asked to manage the funds, which will have an asset allocation of 70% equities and 30% bonds. State Auditor Otto moved approval of the recommendation, which reads: **"The Executive Director of the State Board of Investment recommends that the SBI approve**

the investment of the three Conservation Easement Accounts in the SBI Internal Equity and Bond Pools with an asset allocation of 70% to equities and 30% to bonds.” The motion passed unanimously.

Mr. Perry updated members that the SBI continues to work with the Department of Human Services on the feasibility of the SBI’s involvement with the Minnesota Achieving a Better Life Experience Act. Next, Mr. Perry stated that Sudan and Iran holdings updates were provided.

Mr. Perry stated there was currently no litigation involving the SBI.

Executive Director, Teachers Retirement Association, Laurie Hacking referred members to Tab C and discussed the Administrative Committee Report, related to the SBI Executive Director’s evaluation and salary process. She referenced the evaluation forms that were included in Tab C and noted that the Governor’s office will coordinate the distribution of the forms once completed. Attorney General Swanson moved approval of the proposed evaluation and salary process, which reads: **“The Committee recommends that the SBI adopt the following performance evaluation and salary process for the SBI Executive Director:**

- **The evaluation will be completed by October 1.**
- **The evaluation will be based on the results of the Executive Director’s workplan for the fiscal year ending the previous June 30.**
- **The SBI deputies/designees will develop an appropriate evaluation form for use by each member.**
- **As Chair of the Board, the Governor (or his representative) will coordinate distribution of the evaluation forms. Board members will forward completed evaluations to the Executive Director with a copy to the Governor or the Governor’s designee and are encouraged to meet individually with the Executive Director to review their own evaluation.**
- **Upon satisfactory performance evaluations from a majority of responding Board Members, the Executive Director’s annual salary adjustment will be any Cost-of-Living Adjustment (COLA)/Across the Board (ATB)/General Salary Increase approved by the Managerial Plan for a Fiscal Year as submitted to the Legislature to the extent that it is within the Executive Director’s salary range. The adjustment shall be effective January 1 of the next calendar year. The motion passed unanimously.**

Mr. Perry introduced Ms. Faust and indicated that she would be reporting to the Board on Investment Advisory Council actions since Mr. Bailey, the Chairperson of the Investment Advisory Council, was unable to attend the meeting. Ms. Faust referred Board members to the Investment Advisory Council report, found under Tab D. Ms. Faust reviewed the six alternative investment proposals brought to the IAC. Three managers were existing managers (Warburg Pincus (Private Equity); Summit Partners (Private Equity); and Audax (Private Credit)) and three were new managers (Brookfield Capital Partners (Private Equity); Thomas H. Lee Partners (Private Equity); and TPG Partners (Private Equity)). State Auditor Otto 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 Warburg Pincus Private Equity 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 Warburg Pincus 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 Warburg Pincus 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 Summit Partners Growth Equity Fund IX, 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 Summit 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 Summit 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 Audax Mezzanine Fund IV 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 Audax 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 Audax 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 Brookfield Capital 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 Brookfield 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 Brookfield 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 Thomas H. Lee Equity Fund 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 THL 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 THL 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 TPG 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 TPG 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 TPG or reduction or termination of the commitment.

The motion passed unanimously.

The meeting adjourned at 10:55 a.m.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Mansco Perry III". The signature is written in a cursive, flowing style.

Mansco Perry III
Executive Director and
Chief Investment Officer