

**Minutes
Investment Advisory Council
August 21, 2012**

The Investment Advisory Council (IAC) met at 12:00 Noon Tuesday, August 21, 2012 in the Board Room – First Floor, 60 Empire Drive, St. Paul, Minnesota.

MEMBERS PRESENT: Denise Anderson, Jeff Bailey, Dave Bergstrom, John Bohan, Kerry Brick, Dennis Duerst, Kim Faust, Laurie Hacking, Jay Kiedrowski, Judy Mares Lazar, Gary Martin, Malcolm McDonald, Mary Vanek and Elaine Voss.

MEMBERS ABSENT: Doug Gorence and Kristin Hanson (for Jim Schowalter).

SBI STAFF: Howard Bicker, Jim Heidelberg, LeaAnn Stagg, Paul Anderson, Tammy Brusehaver, Patricia Ammann, Stephanie Gleeson, Mike Menssen, Ryan Hill, John Griebenow, J.J. Kirby, Aaron Griga, Debbie Griebenow, Charlene Olson and Melissa Mader.

OTHERS ATTENDING: Ann Posey, Callan Associates Inc.; Micah Hines, Celeste Grant; Christie Eller; Edgar Hernandez, SEIU; Margaret Martin, House Majority Research; Curt Hutchens, Don Leathers, and John Fisher, REAM.

The minutes of the May 22, 2012 meeting were approved.

Executive Director's Report

Mr. Bicker, Executive Director, 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, 2012 (Combined Funds 7.0% vs. Composite 6.9%) and had provided a real rate of return over the latest 20 year period (Combined Funds 8.2% vs. CPI 2.5%).

Mr. Bicker reported that the Combined Funds' assets decreased 2.5% for the quarter ending June 30, 2012 due to negative market performance and negative net contributions. He said that the asset mix is essentially on target, and he stated that the Combined Funds underperformed its Composite Index for the quarter (Combined Funds -1.5% vs. Composite -1.3%) and for the year (Combined Funds 2.4% vs. Composite 3.0%).

Mr. Bicker reported that the domestic stock manager group underperformed its target for the quarter (Domestic Stocks -3.5% vs. Domestic Equity Asset Class Target -3.1%) and for the year (Domestic Stock 3.1% vs. Domestic Equity Asset Class Target 3.8%). He said the international stock manager group outperformed for the quarter (International Stock -7.4% vs. International Equity Asset Class Target -7.6%) and slightly underperformed its target for the year (International Stock -14.7% vs. International Equity Asset Class Target -14.6%). Mr. Bicker

stated that the bond segment matched its target for the quarter (Bonds 2.1% vs. Fixed Income Asset Class Target 2.1%) and outperformed its target for the year (Bonds 7.8% vs. Fixed Income Asset Class Target 7.5%). He stated that the alternative investments returned 5.0% for the quarter. He concluded his report with the comment that, as of June 30, 2012, the SBI was responsible for over \$62 billion in assets.

Mr. Bicker referred members to Tab B of the meeting materials for an update on the budget and travel for the quarter. He stated that updated information on Sudan and Iran is also included in Tab B.

Mr. Bicker asked Ms. Eller, Deputy Attorney General for an update on litigation. Ms. Eller reported that the judge dismissed the lawsuit brought by the Break the Bonds group, which challenged the SBI's investment in Israeli bonds. She stated that the plaintiffs have filed an appeal and that no date has been set by the Court of Appeals. She stated that the SBI has received some distributions from the Lehman bankruptcy.

Mr. Bicker updated members on the status of the initial phase of the transition and search process for a new Executive Director. He noted that LeaAnn Stagg is now on staff of the SBI, filling Jim Heidelberg's previous position of Manager, Public Programs. He stated that the Board's designees had met and has recommendations as to membership of the Search Committee, use of an executive search firm and timeline for the process. He stated that the Committee's proposed recommendations would be presented to the Board at the September 2012 Board meeting.

Mr. Bicker referred members to Tab C of the meeting materials and discussed the process staff uses when evaluating individual manager performance. In response to a question and comments from Ms. Mares regarding McKinley's performance, Mr. Bicker confirmed that staff will include comments, where appropriate, on the individual manager write up sheets included in Tab C. In response to a question from Mr. Duerst, Mr. Bicker stated that tracking error expectations vary from manager to manager. Ms. Posey added that staff had worked with Callan to find managers who added value through a variety of investment strategies. Ms. Hacking requested that staff comment on Martingale's performance next quarter also.

Mr. Griebenow referred members to Tab D of the meeting materials and briefly reviewed the new investments being recommended with three existing private equity managers, Silver Lake, CarVal and Advent. Mr. McDonald moved approval of all three of staff's recommendations. In response to a request from Mr. Bohan, Mr. McDonald amended his motion to approve the recommendations for Silver Lake and Advent, as stated in Tab D of the meeting materials. Mr. Duerst seconded the motion. In response to a question from Ms. Mares, Mr. Griebenow discussed the advantages associated with the larger fund sizes of Silver Lake and Advent. The motion passed.

Mr. McDonald moved approval of staff's recommendation with CarVal as stated in Tab D of the meeting materials, and Ms. Voss seconded the motion. In response to questions from Mr. Bohan and other members, Mr. Griebenow and Mr. Bicker reviewed the process staff uses to analyze new investments and the SBI's due diligence process. Mr. Griebenow clarified some of the terms and disclaimers of the CarVal investment. The motion passed.

A presentation was made by Chris Pariseault, a Pryamis Institutional Portfolio Manager regarding the economic outlook on Europe, the emerging markets and the U.S.

The meeting adjourned at 1:38 P.M.

Respectfully submitted,

A handwritten signature in blue ink, appearing to read "Howard Bicker". The signature is fluid and cursive, with a prominent initial "H".

Howard Bicker
Executive Director