

**Minutes  
Investment Advisory Council  
May 22, 2012**

The Investment Advisory Council (IAC) met at 12:00 Noon Tuesday, May 22, 2012 in the Board Room – First Floor, 60 Empire Drive, St. Paul, Minnesota.

**MEMBERS PRESENT:** Jeff Bailey, Dave Bergstrom, John Bohan, Kerry Brick, Dennis Duerst, Kim Faust, Doug Gorence, Laurie Hacking, Kristin Hanson (for Jim Schowalter), Jay Kiedrowski, Gary Martin, Denise Anderson, LeaAnn Stagg, Mary Vanek and Elaine Voss.

**MEMBERS ABSENT:** Judy Mares Lazar and Malcolm McDonald.

**SBI STAFF:** Howard Bicker, Jim Heidelberg, 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.; Celeste Grant; Christie Eller; Edgar Hernandez, SEIU; and Bob Myers, private citizen.

Mr. Bicker introduced Kim Faust as a new member of the Investment Advisory Council.

Mr. Bicker announced that he will be retiring in late 2013 and he added that Jim Heidelberg is also planning to retire around the same time frame. He explained that Mr. Heidelberg is now filling the Assistant Director's position in order to maintain better continuity in handling the administrative functions of the SBI during the transition process. Mr. Bicker stated that he believes that it makes sense to hire the Executive Director position first and then the new Director can fill the Assistant Director position. He stated that staff will be filling Mr. Heidelberg's previous position of Manager, Public Programs in the coming weeks, and he briefly described some of the responsibilities for that position. He said that the plan is to bring a recommendation to the Board at its September 2012 meeting regarding the search process, such as the composition and responsibilities of the Search Committee, the RFP process to select a search firm, and a budget for the various aspects related to the search.

The minutes of the February 21, 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 March 31, 2012 (Combined Funds 6.5% vs. Composite 6.4%) and had provided a real rate of return over the latest 20 year period (Combined Funds 8.3% vs. CPI 2.5%).

Mr. Bicker reported that the Combined Funds' assets increased 7.8% for the quarter ending March 31, 2012 due to positive market performance. He said that the asset mix is essentially on target and he stated that the Combined Funds outperformed its Composite Index for the quarter (Combined Funds 8.7% vs. Composite 8.0%) but underperformed for the year (Combined Funds 5.7% vs. Composite 5.9%).

Mr. Bicker reported that the domestic stock manager group outperformed its target for the quarter (Domestic Stocks 13.6% vs. Domestic Equity Asset Class Target 12.9%) but slightly underperformed the year (Domestic Stock 7.1% vs. Domestic Equity Asset Class Target 7.2%). He said the international stock manager group outperformed for the quarter (International Stock 11.3% vs. International Equity Asset Class Target 11.2%) and matched its target for the year (International Stock -7.2% vs. International Equity Asset Class Target -7.2%). Mr. Bicker stated that the bond segment outperformed for the quarter (Bonds 1.4% vs. Fixed Income Asset Class Target 0.3%) and matched its target for the year (Bonds 7.7% vs. Fixed Income Asset Class Target 7.7%). He stated that the alternative investments returned 3.7% for the quarter. He concluded his report with the comment that, as of March 31 2012, the SBI was responsible for over \$61 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 the Omnibus Pension bill passed, and he briefly discussed the changes regarding accounting and alternative investment language in the bill and the changes in the pension plans' assumed rate of return to a "select and ultimate" option. He added that the bill also contained some changes that make it more attractive for volunteer relief associations to merge with the Public Employees Retirement Association (PERA). Mr. Bicker also noted that the only remaining salaried fire and police group, the Fairmont Police, will also be merging with PERA in the coming months. In response to a question from Mr. Bailey, Mr. Bergstrom confirmed that the discount rate change will be reflected in the next valuation available in December 2012.

Mr. Bicker stated that updated information on Sudan and Iran is also included in Tab B.

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 noted that the plaintiffs have indicated that they will appeal, but that they have not filed yet. She stated that the Lehman bankruptcy plan was confirmed and that the SBI received the first distribution.

In response to a question from Mr. Bohan regarding a recent article in the Minneapolis Star Tribune, Mr. Bicker said that staff provided some information to some House staffers on venture capital investments made in Minnesota since 1982. Ms. Hacking noted that her office had received some phone calls from members concerned about the article.

### **SBI Administrative Committee Report**

Mr. Bicker referred members to Tab C of the meeting materials and briefly reviewed the Executive Director's Proposed Workplan for FY13, the Budget Plan for FY13 and the Continuing Fiduciary Education Plan. In response to a question from Mr. Brick, Mr. Bicker stated that the goal of the investment commitment modeling project this year is to review how

close the projections came to actual numbers in moving the SBI to a 20% alternative investment target over a five year period. In response to a question from Ms. Hacking, Mr. Bicker suggested that any further discussions regarding potential hedge fund investing be postponed until the new director is in place. Members agreed.

Mr. Bergstrom moved approval of the Committee's four recommendations, as stated in Tab C of the meeting materials. Ms. Stagg seconded the motion. The motion passed.

Mr. Bicker referred members to Tab D of the meeting materials and noted that there were no action items for the stock and bond areas. In response to questions from Ms. Stagg, Mr. Bicker acknowledged that the performance of McKinley and INTECH has suffered lately, but that staff does not have any serious concerns about the firms or their investment processes at this time. He noted the transition costs associated with hiring and firing managers too quickly.

Mr. Bicker referred members to Tab E of the materials and noted that there were no action items for alternative investments this quarter.

Mr. Menssen presented a report on staff's evaluation of the current fixed income asset class target, the Barclays Capital U.S. Aggregate Bond Index, and various alternative fixed income indices to determine which index is best suited to reflect the Fixed Income Program's objectives going forward. A discussion followed and no action was taken at this time. Staff will keep the IAC apprised of any future developments.

Mr. Bicker referred members to Tab F of the meeting materials and discussed issues related to the management of emerging markets equity using separate accounts. He noted that for the SBI's non-U.S. equity investments, the SBI is required to register as a foreign investor and comply with each country's local tax laws and registration requirements. He said that in certain emerging market countries those requirements have become increasingly difficult to meet. A discussion followed with various members giving input regarding their own experiences. Mr. Bicker said that staff will continue to research options for gaining investment exposure to emerging markets equities, while minimizing operational issues and will report back to the IAC at the next meeting on actions taken.

The meeting adjourned at 1:47 p.m.

Respectfully submitted,



Howard Bicker  
Executive Director