

**Minutes  
Investment Advisory Council  
August 20, 2013**

The Investment Advisory Council (IAC) met at 12:00 P.M. Tuesday, August 20, 2013 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, Kristin Hanson (for Jim Schowalter), Jay Kiedrowski, Gary Martin, Malcolm McDonald and Elaine Voss.

**MEMBERS ABSENT:** Doug Gorence, Judy Mares Lazar and Mary Vanek.

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

**OTHERS ATTENDING:** Ann Posey, Callan Associates Inc.; Micah Hines, Bert Black, Celeste Grant, Christie Eller, Edgar Hernandez, SEIU; Margaret Martin, Center of the American Experiment; and Don Leathers, Curt Hutchens, John Fisher, REAM.

The minutes of the May 16, 2013 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, 2013 (Combined Funds 8.2% vs. Composite 7.9%) and had provided a real rate of return over the latest 20 year period (Combined Funds 8.2% vs. CPI 2.4%).

Mr. Bicker said that the Combined Funds' assets increased 0.3% for the quarter ending June 30, 2013 due to positive market performance. He said that the asset mix is on target, and he stated that the Combined Funds outperformed its Composite Index for the quarter (Combined Funds 1.3% vs. Composite 0.9%) and for the year (Combined Funds 14.2% vs. Composite 12.9%). Mr. Bailey complemented staff on the Combined Fund's outperformance over all time periods.

Mr. Bicker reported that the domestic stock manager group outperformed its target for the quarter (Domestic Stocks 3.1% vs. Domestic Equity Asset Class Target 2.7%) and for the year (Domestic Stock 21.9% vs. Domestic Equity Asset Class Target 21.5%). He said the international stock manager group outperformed its target for the quarter (International Stock -2.2% vs. International Equity Asset Class Target -3.1%) and for the year (International Stock 16.1% vs. International Equity Asset Class Target 13.7%). Mr. Bicker stated that the bond

segment matched its target for the quarter (Bonds -2.3% vs. Fixed Income Asset Class Target -2.3%) and outperformed for the year (Bonds 0.8% vs. Fixed Income Asset Class Target -0.7%). He stated that the alternative investments returned 4.6% for the quarter and 11.3% for the year. He concluded his report with the comment that, as of June 30, 2013, the SBI was responsible for over \$68 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 Tab B contains updated information on Sudan and Iran. Ms. Eller of the Attorney General's Office confirmed that there is currently no litigation involving the SBI.

Mr. Bicker stated that the College Savings 529 Plan's contract will expire in August 2014 and that staff is working on getting an RFP ready and is also discussing with the Higher Education Services Organization (HESO) the possibility of making some changes to the plan to make it more competitive. He noted that the plan does not currently include any tax benefits for contributions, which results in higher fees charged by the vendors. Mr. Bohan and Mr. Bailey both agreed. Mr. Bicker stated that the plan could stay the same, or it could be disbanded and merged with another similar but more competitive plan, or changes could be made to the existing plan to add tax benefits and the potential to negotiate lower fees.

Mr. Bailey stated that the Executive Director Search Process is still proceeding on schedule. He noted that interviews are taking place and that the goal is to have the Board consider the search committee's recommendation at the September 2013 Board meeting.

Mr. Bicker referred members to Tab C of the meeting materials and noted that there were no action items regarding the stock and bond managers. In response to an equity related question from Mr. Duerst, Mr. Bicker briefly reviewed Zevenbergen's investment strategy and noted that the manager often has more volatile returns. In response to a question from Ms. Faust, Mr. Bicker acknowledged the turnover at Knelman Asset Management, and he stated that the firm is in the process of replacing the portfolio manager and that staff will continue to monitor the firm.

Mr. Bicker referred members to Tab D of the meeting materials and stated that staff has five alternative investment recommendations for consideration, three investments with existing managers and two investments with new private equity managers. Mr. Griebenow briefly reviewed the alternative investments with GTCR, an existing private equity manager, and EIG and First Reserve, two existing resource managers. In response to a question from Ms. Hacking, Mr. Kirby stated that the performance of the GTCR Fund VI was impacted by the poor performance of the technology sector in the late 1990's. In response to a question from Mr. Brick, Mr. Bicker stated that the SBI does not have allocation targets for the sub-strategies within the alternative asset area. In response to several questions, Mr. Bicker and Mr. Griebenow discussed the resource sector in general and the performance of two recent First Reserve Funds. Ms. Hacking moved approval of staff's recommendations for GTCR, First Reserve and EIG, as stated in Tab D of the meeting materials. Mr. McDonald seconded the motion. The motion passed.

Presentations from the two new private equity managers followed. Christopher Masek, Managing Director, and Mads Ryan Larsen, Partner, presented for IK Investment Partners and Kristopher Melinder, Managing Partner, and Janine Peak, Head of Investor Relations, presented for Nordic Capital. A discussion followed. Mr. Bergstrom moved approval of staff's recommendation to invest with IK Investment Partners, as stated in Tab D of the meeting materials. Mr. McDonald seconded the motion. The motion passed. Ms. Hacking moved approval of staff's recommendation to invest with Nordic Capital, as stated in Tab D of the meeting materials. Mr. McDonald seconded the motion. The motion passed with Mr. Bohan requesting that the minutes reflect his vote against the motion.

Mr. Kirby and Mr. Griebenow presented a review of the alternative investment asset allocation and more details on the alternative investment commitment model. A discussion followed. Mr. Kiedrowski moved approval of staff's recommendation, as stated in Tab D of the meeting materials. Ms. Voss seconded the motion. After further discussion, the motion was amended to reflect two changes and the amended motion and recommendation was as follows:

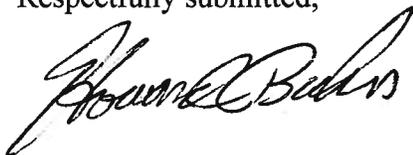
1. Increase the Market Value plus Unfunded Commitment cap of 30% of Combined Funds for alternative investments. **Specifically, the Investment Advisory Council recommends lifting this cap to 35% of Combined Funds, with a further 3% buffer in the event of market anomalies.**
2. Adopt a target allocation range above the current target market value allocation of 20% for alternative investments. **Specifically, the Investment Advisory Council recommends that the alternative investment target market value allocation be a range between 20% and 24%.**
3. **The Investment Advisory Council recommends annual alternative investment commitment levels of \$2 to \$3 billion, depending on the availability of attractive investment opportunities.**
4. **The Investment Advisory Council recommends reviewing the alternative investment commitment levels annually at the end of each fiscal year.**

The amended motion passed.

On behalf of the IAC, Mr. McDonald thanked Mr. Bicker for his outstanding years of service and read a resolution honoring him. The IAC unanimously endorsed the resolution (as shown in **Attachment A**).

The meeting adjourned at 2:18 P.M.

Respectfully submitted,



Howard Bicker  
Executive Director



**Resolution in Honor of Howard Bicker**

Mr. Chairman,

I hereby move the following resolution:

We, the members of the Investment Advisory Council of the Minnesota State Board of Investment, on this the Twentieth day of August 2013,

That Howard Bicker, Executive Director of the Minnesota State Board of Investment, is hereby recognized and given highest honors for his service to this state for his thirty-two years of leadership and forty-two years of service. Under his leadership the assets for which he and his staff have responsibility have grown from under \$6 billion to over \$68 billion with returns exceeding objectives and all of this done for the benefit of all Minnesotans in a manner most outstanding.