

**Minutes
Investment Advisory Council
February 19, 2013**

The Investment Advisory Council (IAC) met at 12:00 Noon Tuesday, February 19, 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, Doug Gorence, Laurie Hacking, Kristin Hanson (for Jim Schowalter), Judy Mares Lazar, Gary Martin, Malcolm McDonald, Mary Vanek and Elaine Voss.

MEMBERS ABSENT: Jay Kiedrowski.

SBI STAFF: Howard Bicker, Jim Heidelberg, LeaAnn Stagg, 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, Bert Black, John Mule; Celeste Grant; Margaret Martin, House Majority Research.

The minutes of the November 20, 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 December 31, 2012 (Combined Funds 8.4% vs. Composite 8.2%) and had provided a real rate of return over the latest 20 year period (Combined Funds 8.2% vs. CPI 2.4%).

Mr. Bicker reported that the Combined Funds' assets increased 0.7% for the quarter ending December 31, 2012 due to positive market performance. He said that staff had completed a rebalancing and that the asset mix is now essentially on target. He stated that the Combined Funds outperformed its Composite Index for the quarter (Combined Funds 1.7% vs. Composite 1.5%) and for the year (Combined Funds 13.7% vs. Composite 12.9%).

Mr. Bicker reported that the domestic stock manager group outperformed its target for the quarter (Domestic Stocks 0.3% vs. Domestic Equity Asset Class Target 0.2%) and for the year (Domestic Stock 16.6% vs. Domestic Equity Asset Class Target 16.4%). He said the international stock manager group matched its target for the quarter (International Stock 5.9% vs. International Equity Asset Class Target 5.9%) and outperformed for the year (International Stock 17.6% vs. International Equity Asset Class Target 16.8%). Mr. Bicker stated that the bond segment outperformed its target for the quarter (Bonds 0.6% vs. Fixed Income Asset Class Target 0.2%) and for the year (Bonds 6.7% vs. Fixed Income Asset Class Target 4.2%). He

stated that the alternative investments returned 3.3% for the quarter and 12.8% for the year. He concluded his report with the comment that, as of December 31, 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 reported that the Legislative Auditor has completed the financial audit of the SBI's operations for FY12 and that members will receive a copy of their report when it becomes available. He added that the report did not have any written findings. Mr. Bicker stated that it is still very early in the legislative process, and he noted that the Pension Commission has several new members. He stated that updated information on Sudan and Iran is also included in Tab B.

Mr. Bicker asked John Mule of the Attorney General's Office for an update on litigation. Mr. Mule reported that the Break the Bonds group had filed a petition with the Minnesota Supreme Court and that the court denied the petition, so the case is concluded.

Mr. Bicker gave a brief update to members on the upcoming search for a new Executive Director. He stated that the Board has established a Search Committee made up of seven members. He stated that the committee is reviewing a potential RFP for the retention of an executive search firm and has reviewed the position description for the Executive Director. He noted that the search will likely take place over the summer with Board approval coming at the September 2013 meeting.

Mr. Bicker referred members to Tab C of the meeting materials for updated performance on the various asset class managers. He noted that staff had no action items this quarter regarding the stock and bond managers.

Mr. Griebenow referred members to Tab D of the meeting materials and stated that staff is recommending a new investment with a new private equity manager, Apax Partners. He noted that the firm would make a brief presentation to members later in the meeting. He also noted that staff would make a presentation later in the meeting regarding the SBI's core open-end real estate fund holdings. Mr. Bicker stated that a discussion on the swap paper and the risk management paper would follow after the alternative presentations.

A presentation was given by Martin Halusa and David Kim of Apax and a brief discussion followed. Mr. McDonald moved approval of staff's recommendation for an investment with Apax Partners, as stated in Tab D of the meeting materials. Ms. Faust seconded the motion. The motion passed.

Mr. Kirby gave a presentation on the proposed divestment of three open-end core real estate holdings and a discussion followed regarding the time frame of the divestment process. Mr. Bergstrom moved approval of staff's recommendation as stated in Tab D of the meeting materials, with the recommendation being amended to state that the divestment should take place over a time period of up to three years. Ms. Mares seconded the motion. The motion passed.

Ms. Stagg and Mr. Menssen referred members to Tab E of the materials and presented a review of the swap market for potential legislative action. Ms. Mares made a motion to have the IAC support staff's efforts to seek additional investment authority to invest in swaps. Mr. McDonald seconded the motion. The motion passed.

Ms. Stagg stated that in response to a request from the IAC, staff had consolidated the discussion of its overall risk management approach in the Risk Management Paper included in Tab F of the meeting materials. She noted that this paper represents an integration of the risk management strategies and procedures that occur in the SBI's entire investment process that had been previously documented in separate policy papers.

Mr. Bicker stated that staff has also been revising the draft of the SBI's operational manual and that a final version will be distributed to members upon completion.

The meeting adjourned at 1:53 P.M.

Respectfully submitted,

A handwritten signature in cursive script, appearing to read "Howard Bicker".

Howard Bicker
Executive Director