

**Minutes
Investment Advisory Council
August 19, 2014**

The Investment Advisory Council (IAC) met at 12:00 P.M. Tuesday, August 19, 2014 in the Board Room – First Floor, 60 Empire Drive, St. Paul, Minnesota.

MEMBERS PRESENT: Denise Anderson, Jeff Bailey, Dave Bergstrom, John Bohan, Dennis Duerst, Kim Faust, Doug Gorence, Laurie Hacking, Kristin Hanson (for Jim Schowalter), Jay Kiedrowski, Gary Martin, Malcolm McDonald, and Elaine Voss.

MEMBERS ABSENT: Kerry Brick.

SBI STAFF: Mansco Perry, LeaAnn Stagg, Paul Anderson, Patricia Ammann, Tammy Bruschaver, Stephanie Gleeson, Aaron Griga, Ryan Hill, Andrew Krech, Steve Kuettel, Cassandra Boll, Mike Menssen, Charlene Olson and Melissa Mader.

OTHERS ATTENDING: Ann Posey and Rod Bare, Callan Associates Inc.; Bert Black, Celeste Grant, Christie Eller; Cumah Blake, Office of the Governor; Don Leathers, REAM; Jay Stoffel, Teachers Retirement Association; Zachary Yzermans and Carmen Marg-Patton, Office of the Legislative Auditor.

The minutes of the May 20, 2014 meeting were approved.

Executive Director's Report

Mr. Perry, Executive Director, asked members of the IAC to introduce themselves with their name and affiliation. Mr. Perry then introduced all of staff that was able to attend the meeting with their name, title, education and role at the SBI.

Mr. 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, 2014 (Combined Funds 8.4% vs. Composite 8.1%) and had provided a real rate of return over the latest 20 year period (Combined Funds 9.0% vs. CPI 2.4%).

Mr. Perry said that the Combined Funds' assets stand at about \$59.5 billion dollars which represents an increase of 2.9% for the quarter ending June 30, 2014. He said that the asset

allocation is on target and he stated that the Combined Funds returns were below the benchmark composite for the quarter (Combined Funds 3.9% vs. Composite 4.1%) but exceeded the benchmark for the year (Combined Funds 18.6% vs. Composite 18.0%) as well as all succeeding time periods. Mr. Perry also pointed out that for the past twenty years, the SBI has achieved a 9.0% annualized return versus a benchmark of 8.8% and for the last thirty years achieved a 10.3% versus a benchmark of 10.0%.

Mr. Perry reported that the domestic stock manager group underperformed its target for the quarter (Domestic Stocks 4.5% vs. Target 4.9%) but outperformed for the year (Domestic Stock 25.9% vs. Target 25.2%). He said the international stock manager group underperformed its target for the quarter (International Stock 4.7% vs. Target 5.0%) and for the year (International Stock 21.4% vs. Target 21.7%). Mr. Perry stated that the bond segment outperformed its target for all time periods, including the quarter (Bonds 2.1% vs. Target 2.0%) and for the year (Bonds 5.0% vs. Target 4.4%). He stated that the alternative investments continue to be a strong contributor to performance (4.8% for the quarter and 18.9% for the year). He concluded his report noting that as of June 30, 2014, the SBI was responsible for assets approaching \$80 billion.

Mr. Perry 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 contained the updated information for Sudan and Iran. He reported that staff had successfully negotiated the contract with TIAA-CREF for the Minnesota College Savings Plan. He noted that plan improvements, made up of both lower fees and improved investment options, would benefit participants in the Minnesota College Savings Plan. Mr. Perry said that staff had successfully transferred assets from the internally managed bond portion of the Income Share Account to the external bond managers that invest the Combined Funds assets. Mr. Perry noted that there is currently no litigation involving the SBI.

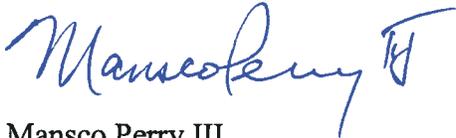
Mr. Perry referred members to Tab C and Tab D for the manager results and noted that there were no action items at this time. Mr. Perry commented on Next Century's volatility and its underperformance for the quarter and pointed out that in the last quarter's report they had exceeded their benchmark for the year by 300 basis points. Ms. Faust stated that she had some concerns with the possibility that Next Century may be tweaking their process and commented that she assumes staff will be monitoring closely.

Mr. Perry introduced the first presentation topic - Transition Management. Ms. Brusehaver, Mr. Menssen and Ms. Stagg provided an overview of transition management services, a history of the use of transition management services and the RFI process being used by the SBI staff. The presentation generated good feedback and a discussion about how other IAC members handle transition management. Staff will incorporate the feedback received and present a short list of transition managers at the November IAC meeting for their consideration and recommendation to the Board in December.

Mr. Perry introduced the second presentation - SBI Alternatives portfolio. Mr. Hill and Mr. Krech presented an overview of the current alternatives portfolio and shared some of the ideas staff has on approaching the alternatives portfolio in the future. Staff intends to explore diversifying and expanding the alternatives investment opportunities set and potentially would include investing in a broader array of asset sub-classes, new geographic regions and smaller funds and commitments.

The meeting adjourned at 2:15 p.m.

Respectfully submitted,

A handwritten signature in blue ink, appearing to read "Mansco Perry III". The signature is fluid and cursive, with a large initial "M" and a distinct "P" at the end.

Mansco Perry III
Executive Director and
Chief Investment Officer