

**Minutes  
Investment Advisory Council  
May 19, 2015**

The Investment Advisory Council (IAC) met at 12:00 P.M. on Tuesday, May 19, 2015 in Room 117, Retirement Systems Building, 60 Empire Drive, St. Paul, Minnesota.

**MEMBERS PRESENT:** Denise Anderson, Jeff Bailey, Dave Bergstrom, John Bohan, Dave DeJonge, Kim Faust, Laurie Hacking, Jay Kiedrowski, Gary Martin, Malcolm McDonald, and Elaine Voss.

**MEMBERS ABSENT:** Kerry Brick, Dennis Duerst, Doug Gorence, Kristin Hanson (for Myron Frans)

**SBI STAFF:** Mansco Perry, LeaAnn Stagg, Patricia Ammann, Paul Anderson, Cassandra Boll, Nate Blumenshine, Tammy Brusehaver, Stephanie Gleeson, Inma Conde Goldman, Aaron Griga, Ryan Hill, Andrew Krech, Mike Menssen, Mercy Ndungu, Jonathan Stacy, Robert Weiler, Charlene Olson, and Melissa Mader.

**OTHERS ATTENDING:** Ann Posey and Rod Bare, Callan Associates Inc.; Bert Black, Celeste Grant, Christie Eller, and Cumah Blake, Office of the Governor; Zachary Yzermans and Carmen Marg-Patton, Office of the Legislative Auditor; Edgar Hernandez, SEIU; Rick Baert, Pensions & Investments; and Gordon Voss, private citizen.

The minutes of the February 17, 2015 meeting were approved.

**Executive Director's Report**

Executive Director Mansco 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 March 31, 2015 (Combined Funds 8.0% vs. Composite 7.7 %) and had provided a real rate of return of 6.5% above inflation over the latest 20 year period (Combined Funds 8.8% vs. CPI 2.3%).

Mr. Perry said that assets increased over the quarter by 0.8% (Combined Funds ending value of \$60.4 versus a beginning value of \$60.0 billion), due to investment returns outweighing net outflows. The Combined Funds return was twenty basis points (bps) above the benchmark for the quarter (Combined Funds 1.6% vs. Composite 1.4%) and 10 bps higher for the year (Combined Funds 8.1% vs. Composite 8.0%). The Combined Funds also outperformed for longer time periods.

Mr. Perry reported that the domestic stock manager group outperformed its target for the quarter (Domestic Stocks 2.2% vs. Domestic Equity Asset Class Target 1.8%), performed in-line for the year (Domestic Stocks 12.4% vs. Domestic Equity Asset Class Target 12.4%), and outperformed

in longer time periods. He said the international stock manager group outperformed its target for the quarter (International Stocks 3.8% vs. International Equity Asset Class Target 3.5%) and outperformed over longer time periods. Mr. Perry then stated that the bond segment surpassed its target for the quarter (Bonds 1.7% vs. Fixed Income Asset Class Target 1.6%) and outperformed its target in all other time periods. He stated that the alternative investments detracted from performance for the quarter (-3.0% for the quarter) due to the downward impact of oil prices on the Resources portfolio. Mr. Perry concluded his report noting that, as of March 31, 2015, the SBI was responsible for managing more than \$80 billion of assets.

Mr. Perry referred members to Tab B of the meeting materials for the administrative report. He reported that fiscal year-to-date, the SBI was running below budget. Next, he noted that the Legislative session had ended and, while there were no bills that specifically impacted the SBI, the SBI did support the Omnibus Retirement Bill brought forth by the Minnesota Public Employees Retirement Association (PERA) and the Minnesota State Retirement System (MSRS) that would lower the assumed actuarial rate of return to 8%. Mr. Perry noted that the Minnesota Teachers Retirement Association (TRA) had decided to stay with the "Select and Ultimate" actuarial rate of return until the experience study has been completed. Mr. Bergstrom followed by commenting that the bill also contained a self-correcting cost-of-living adjustment element for MSRS and TRA that provides downside protection if there is a significant drop in the funded status.

Mr. Perry then commented on a few topics that the SBI would be monitoring over the coming months. Several bills call for the SBI to not only manage money from new agencies, but also oversee the administration. Mr. Perry commented that while the SBI is capable of managing the new money, it does not have the resources to act in an administrative role. Next, he commented that the SBI is monitoring a bill that would direct investment manager brokerage fees to disabled, minority, women-owned or veteran-owned brokers.

Mr. Perry stated that Sudan and Iran holdings updates were provided. Mr. Perry then stated there was currently no litigation involving the SBI.

Mr. Perry referred members to Tab C of the meeting materials for the Administrative Committee Report. He noted that the Committee had reviewed and approved the Executive Director's Proposed Workplan for FY16. Mr. Perry commented that he may call on IAC members for their input on potential new asset classes. Next, Mr. Perry stated that the Administrative Committee approved the proposed Budget Plan for FY16 and FY17 as well as the Continuing Fiduciary Education Plan. He informed the IAC that a Staff and Administrative Committee recommendation to discontinue the International Equity Manager Country Guidelines Process would be brought to the Board. Mr. Perry informed the members that the SBI had updated its Business Continuity Plan. Mr. Perry noted that the Administrative Committee would be recommending that the SBI delegate the review of the current Executive Director Evaluation Process and timeline to the Administrative Committee. Lastly, Mr. Perry asked for the IAC's endorsement of the Proposed Workplan and Budget Plan. A discussion on the topic of the development of investment policies within the Proposed Workplan followed. Mr. McDonald made a motion to endorse the Proposed Workplan and Budget Plan and Ms. Hacking seconded the motion. The motion passed.

Mr. Perry referred members to Tab D and introduced the three Staff members of the Alternative Investments team who would be discussing the four proposed commitments. Prior to discussing the four recommendations, Mr. Hill provided members with an update on the Alternatives portfolio and answered questions. Following, Mr. Stacy and Mr. Hill described the first three recommendations in detail to IAC members and answered questions. Those deals were TA Realty (Real Estate), Blackstone (Private Equity), and CarVal Investors (Private Equity). Mr. McDonald moved approval of the three recommendations for existing General Partners of the SBI and Ms. Faust seconded the motion. A brief discussion followed. The motion passed.

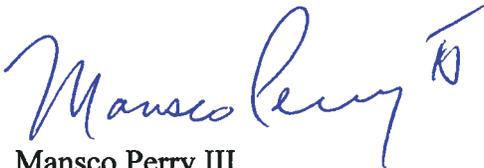
Mr. Krech described EnerVest, the largest upstream oil and gas operating partner in the United States. A brief discussion followed. Mr. McDonald moved approval of the recommendation and Mr. Bergstrom seconded the motion. The motion passed.

Mr. Perry referred members to Tab E where he provided an overview of the Public Markets returns and managers. Mr. Perry discussed certain asset class sub-sets, how certain equity styles had performed, and commented on the overall strength of the managers in the total portfolio.

Mr. Perry then turned the floor back to Mr. Krech to give a presentation on Liquid Real Assets. Mr. Krech introduced the characteristics of Real Assets, their role in a portfolio, and the advantages provided. After a brief discussion, Mr. Krech proceeded to describe Master Limited Partnerships (“MLPs”). He provided the history of MLPs, described the recent growth of the asset class, explained their structure, and detailed the intricacies of how a typical MLP increases its value. Mr. Krech then discussed Real Estate Investment Trusts (“REITs”). He touched on the history of REITs, the requirements necessary to form one, how they differ from other real estate investment options, and their correlation to other asset classes. Mr. Krech answered questions from members.

The meeting adjourned at 2:26 p.m.

Respectfully submitted,

A handwritten signature in blue ink that reads "Mansco Perry III". The signature is written in a cursive style with a large, stylized "M" and "P".

Mansco Perry III  
Executive Director and  
Chief Investment Officer