

**Minutes  
Investment Advisory Council  
November 17, 2015**

The Investment Advisory Council (IAC) met at 12:00 P.M. on Tuesday, November 17, 2015 in the Board Room – First Floor, 60 Empire Drive, St. Paul, Minnesota.

**MEMBERS PRESENT:** Denise Anderson, Doug Anderson, Jeff Bailey, Dave Bergstrom, John Bohan, Kerry Brick, Kim Faust, Laurie Hacking, Kristin Hanson (for Myron Frans), Jay Kiedrowski, Gary Martin, Malcolm McDonald and Elaine Voss.

**MEMBERS ABSENT:** Dennis Duerst and Doug Gorence.

**SBI STAFF:** Mansco Perry, LeaAnn Stagg, Paul Anderson, Patricia Ammann, Cassandra Boll, Nate Blumenshine, Tammy Brusehaver, Stephanie Gleeson, Inma Conde Goldman, Aaron Griga, Andrew Krech, Steve Kuettel, 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; Cumah Blake, Office of the Governor; John Mule, Attorney General's Office; Dave DeJonge, PERA; Jay Stoffel, TRA; Jim Mulrooney, Wells Fargo; Rick Baert, Pensions & Investments; and Henry Carbone, Don Leathers, REAM.

The minutes of the August 18, 2015 meeting were approved.

**Executive Director's Report**

The new executive director of the Public Employees Retirement Association (PERA), Doug Anderson, was introduced to the Committee.

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 September 30, 2015 (Combined Funds 6.8% vs. Composite 6.5%) and had provided a real rate of return of 5.6% above inflation over the latest 20 year period (Combined Funds 7.8% vs. CPI 2.2%).

Mr. Perry said that assets decreased over the quarter by 5.7% (Combined Funds ending value of \$56.7 versus a beginning value of \$60.1 billion), due to the negative investment returns and net outflows. The Combined Funds return was 20 basis points (bps) below the benchmark for the quarter (Combined Funds -4.7% vs. Composite -4.5%) and 20 bps higher for the year (Combined Funds -0.5% vs. Composite -0.7%). The Combined Funds also outperformed for longer time periods.

Mr. Perry reported that the domestic stock manager group underperformed its target for the quarter (Domestic Stocks -7.5% vs. Domestic Equity Asset Class Target -7.2%), outperformed for the year (Domestic Stocks -0.4% vs. Domestic Equity Asset Class Target -0.5%), and outperformed in longer time periods. He said the international stock manager group outperformed its target for the quarter (International Stocks -11.1% vs. International Equity Asset Class Target -12.2%) and outperformed over longer time periods. Mr. Perry then stated that the bond segment lagged its target for the quarter (Bonds 0.8% vs. Fixed Income Asset Class Target 1.2%) and for the year (Bonds 2.8% vs. Fixed Income Asset Class Target 2.9%) but outperformed its target in longer time periods. He stated that the alternative investments contributed to performance for the quarter and the year (total return of 2.8% and 4.6%, respectively). Mr. Perry concluded his report noting that, as of September 30, 2015, the SBI was responsible for managing slightly under \$77 billion of assets.

Mr. Perry referred members to Tab B of the meeting materials for the administrative report. Mr. Perry commented that the Fiscal Year 2015 audit should be completed in December and draft copies of the annual report should be distributed shortly thereafter. Next, he noted that although the legislature is not in session, staff continues to work on initiatives from the 2015 legislative session. These initiatives include creating the Achieving a Better Life Experience (ABLE) plan that allows individuals with disabilities and their families to save money in tax-preferred accounts in order to pay for qualified disability expenses. Another initiative is the State Administered Private Sector Employee Retirement Savings Study which Deloitte was hired to complete and present to the legislature. This is also known as Secure Choice by other states that have conducted this study. Lastly, the escrow accounts for Department of Natural Resources (DNR) and Board of Water and Soil Resources (BOWSR) have been created. Mr. Perry stated that Tab B contains the updated information for Sudan and Iran. Mr. Perry noted that there is currently no litigation involving the SBI.

The Retirement Plan Directors provided an update on the statewide systems' recent experience study results. Typically, an experience study is completed every four years, but this study covered the past six years. The actuary reviews the system's actual experience and looks forward to predict future experience using both economic and demographic assumptions. Recommended economic assumption changes made by the actuaries include: lower price inflation assumption from 3.0% to 2.75%; lower general wage inflation assumption from 3.75% to 3.5%; lower the long-term investment return assumption to 8.0%. All of these changes were enacted by the Public Employees Retirement Association (PERA) and the Minnesota State Retirement System (MSRS) during the 2015 legislative session. Teachers Retirement Association (TRA) will pursue legislation during the 2016 session to enact these recommendations. The key findings from the demographic assumptions are that members are working longer and retiring later. All three statewide systems will move from older mortality actuarial tables to new tables (RP2014). The new tables assume mortality will continue to improve for future generations. The impact of these changes on the market value funded ratio of the plans will be the following: MSRS 83.9% from 92.4% funded; PERA 76.4% from 81.8% funded; and TRA 75.9% from 82.7% funded.

Mr. Perry referred members to Tab C and announced that Ryan Hill has left the State Board of Investment to be a member of the North Carolina Retirement System. Andrew Krech will lead the Alternative Investments team going forward. Jon Stacy and Andrew Krech described the five

deals which were Kohlberg Kravis Roberts & Co. (Private Equity), Advent International (Private Equity), Merit Capital Partners (Yield-Oriented), The Energy & Minerals Group (Resource), and Madison Dearborn (Private Equity). The Investment Officers answered IAC member questions. Mr. McDonald moved approval of the five recommendations and Mr. Kiedrowski seconded the motion. The motion passed.

Mr. Perry introduced staff members Rob Weiler, Inma Conde Goldman, and Aaron Griga who provided an overview of the domestic equity, international equity, and fixed income markets during the third quarter.

Mr. Perry handed out a presentation on the SBI Combined Funds Policy Review and Portfolio Considerations. The presentation included current objectives, investment principles, risk tolerance and time horizon for the Combined Funds. In addition to the current structure of the plan, Mr. Perry outlined his vision which includes expanding the types of managers utilized, potentially using sub asset groups within an asset class, and re-categorizing assets. Mr. Perry believes these changes would offer additional flexibility, liquidity, and diversification. Mr. Perry's intent is to bring forth this effort in future meetings with Callan's asset allocation proposal.

The meeting adjourned at 2:32 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 initial "M" and a stylized "P".

Mansco Perry III  
Executive Director and  
Chief Investment Officer