

**Minutes  
Investment Advisory Council  
August 15, 2022**

**Notice of Meeting and Call to Order**

The Investment Advisory Council (IAC) met at 12:00 p.m. on Monday, August 15, 2022. The meeting was conducted in person and via Zoom for Government video conferencing software and over the phone. Attendance and all votes were conducted by roll call.

**MEMBERS PRESENT:** Doug Anderson, Dennis Duerst, Kim Faust, Susanna Gibbons, Morris Goodwin Jr., Jennifer Hassemer (for Jim Schowalter), Peggy Ingison, Erin Leonard, Gary Martin, Dan McConnell, Nancy Orr, Jay Stoffel, Shawn Wischmeier, and Public Member Emeritus Malcolm McDonald.

**MEMBERS ABSENT:** Denise Anderson, Carol Peterfeso, and Martha Sevetson Rush.

**SBI STAFF:** Mansco Perry, Patricia Ammann, Paul Anderson, Shirley Baribeau, Nate Blumenshine, Tammy Brusehaver, Andy Christensen, Mike Clancey, Dan Covich, Stephanie Gleeson, Aaron Griga, Ben Harris, Cathy Hua, Keletso Kgari, Andrew Krech, Todd Lauf, Melissa Mader, Sumaya Mohamed, Mercy Ndungu, Kelly Nordstrom, Charlene Olson, S. Emily Pechacek, Iryna Shafir, Erol Sonderegger, Jonathan Stacy, Reece Tolkinen, David Velasquez, and Samir Zahar.

**OTHERS ATTENDING:** Kristen Doyle, Aon Investments; Sarah Bernstein, Gordon Latter, and Ghiane Jones, Meketa Investment Group; Sean Crawford, Albourne America; Luz Frias and J. Adam Sorenson, Attorney General's Office; Karl Procaccini and Jake Smith, Governor's Office; Ramona Advani, State Auditor's Office; Bibi Black, Secretary of State's Office; Edger Hernandez, SEIU; Calvin Bahr and Margaret Martin, Minnesota House of Representatives; and Janet Anderson, Emily Moore, and Steve Smith, Minnesota Divestment Coalition.

Additional members of the public attended the meeting; however due to the meeting being held via virtual teleconference the SBI was unable to track the information.

**Approval of IAC Minutes**

The minutes of the May 16, 2022 meeting were approved by roll call vote. Gary Martin, Chair of the IAC, noted that the minutes approved by the IAC reflect Bibi Black in attendance and that Kim Faust served as Chair of the meeting.

### **Performance Summary**

Executive Director Mansco Perry referred members to the June 30, 2022 Performance Summary provided in Tab A of the meeting materials. Mr. Perry informed the Board that as of June 30, 2022, the SBI was responsible for just under \$125 billion in assets, of which the Combined Funds represent \$81.3 billion. Mr. Perry reported that the Combined Funds continue to exceed its long-term objectives by outperforming its Composite Index for the ten year period ending June 30, 2022 (Combined Funds 9.4% vs. Combined Fund Composite Index 9.0%) and provided a real rate of return above inflation over a 20 year time-period (Combined Funds 8.2% vs CPI-U 2.5%). The Combined Funds slightly underperformed the composite index for the year and matched or exceeded the composite index for all other reporting periods. Mr. Perry noted that the Combined Funds actual asset mix is in-line with the asset allocation targets. He commented that the negative performance for the year is primarily due to public equities in each of the three equity asset groups and from each of the fixed income sub-asset groups. Private markets, which has a quarterly lag, continues to be the strongest asset class in the Combined Funds. The Combined Funds, relative to the Volatility Equivalent Benchmark, has provided additional value for the time-periods listed. Lastly, given the large equity weight in the Combined Funds portfolio, the return ranked in the bottom quartile for the quarter and bottom half for the year relative to peers.

### **Executive Director's Administrative Report**

Mr. Perry referred members to Tab B of the meeting materials for the Executive Director's Administrative Report. He stated that the Administrative Budget is included in the meeting materials as Attachment A and the summary of staff's travel is provided in Attachment B. Mr. Perry also stated that Staff continues to make progress in the liquidation of Russia and Belarus holdings, as outlined in statute; and noted the Sudan and Iran updates. Lastly, Mr. Perry commented that he is unaware of any significant litigation against the SBI.

In response to questions from council members on the performance of the private markets asset group, Mr. Perry and Andrew Krech, Director of Private Markets, noted the private markets returns lag a quarter given the reporting requirements for this asset group. Mr. Krech stated that the disparity in returns between the public and private holdings should lessen as future markdowns are anticipated in private markets.

### **Climate Risk Project and Discussion**

#### ***Meketa Climate Risk Project Phase III Update***

Mr. Perry introduced Sarah Bernstein, from Meketa Investment Group, who provided a summary of the reports Meketa generated as part of its Climate Change Investment Analysis project. Ms. Bernstein noted that Phase I of the report was a high-level review of global trends in climate change and that Phase II provided survey results from a subset of peers. Ms. Bernstein explained that Phase III, which is included in Tab C of the meeting materials, provided Meketa's analysis of the SBI's potential current exposure to climate risk and opportunities. Ms. Bernstein stated that the three main points from their analysis are that these issues are very complex and will only get more complicated; there are no best practices with asset owners and asset managers; and there are different ways to approach managing climate risk. Lastly, Ms. Bernstein answered questions from council members with regard to how some peers are approaching climate change in the investment portfolio, costs identified in the planning stage, and that the key assumptions were included in the appendix of the report.

### ***Aon Investments Comments***

Mr. Perry asked Kristen Doyle from Aon Investments to comment on Aon's work and what direction their clients are taking with climate risk. Ms. Doyle noted that Aon has not seen clients make major changes to their asset allocation based on climate risk solutions with forecasts producing a wide range of outcomes and not providing a high degree of confidence in the forward-looking simulations. Instead, Ms. Doyle stated that clients have focused on what they can measure, like what is their climate risk exposure and whether simulations can be incorporated into the asset allocation exercise as a path forward in terms of actionable items.

### **SBI Request for Proposals (RFP) Proposal Recommendations**

Mr. Perry noted that contracts with four of the SBI's service providers are up for renewal and a summary of each RFP process with recommendation is included in Tab D through Tab G of the meeting material. Mr. Perry acknowledged that only the two custodial contracts require Board approval, but given the timeline for his retirement will bring all four contracts to the Board for approval to ensure no issues.

### ***Custodian Services for State's Cash Accounts***

Tab G of the meeting materials provides information on the RFP process from the Custodial Services for State Cash Accounts. Mr. Perry commented that this RFP process is conducted in partnership with Minnesota Management and Budget (MMB); and the current banking custodial services contract with Principal Bank for the State's cash account expires on December 31, 2022. Based on staff's review and evaluation of the RFP responses, SBI Staff recommends the selection of Principal Bank to provide banking custodial services for the State's cash accounts.

### ***Master Custodian Services***

Tab D of the meeting materials provides information on the RFP process for the Master Custodian Services that provides settlement and custody services, income collection, reporting, and performance measurement for assets under the SBI management. This does not include state cash accounts or state sponsored savings plans where custody is with a third-party program manager. In response to questions regarding the lack of response to the SBI RFP, Ms. Doyle noted that State Street is one of best and largest in the industry and has the capability to service a plan of the SBI's size and complexity. The SBI's current contract with State Street Bank for master custodian services expires on April 30, 2023. Based on SBI Staff's review and evaluation of the State Street RFP response, SBI Staff is recommending that State Street Corporation be selected as the SBI's master custodian bank.

### ***Foreign Tax Advisory Services***

The current foreign tax advisory services contract with KPMG expires on March 31, 2023. Based on SBI Staff's review and evaluation of the RFP responses, Staff is recommending that Ernst and Young LLP (EY) be selected as the SBI's foreign tax advisor.

### ***Contact and Document Management Database***

The current document management database contract with Dynamo expires on June 14, 2023. Based on SBI Staff's review and evaluation of the RFP responses, SBI Staff is recommending that Dynamo be selected as the contact and document management database provider for the SBI.

A motion was made that the IAC endorse Staff's recommendations for the Master Custodian Services with State Street Corporation; the Contact and Document Database Management Services with Dynamo Software Company; a Foreign Tax Advisory Services with Ernst and Young; and Custodian Services for State's Cash Accounts with Principal Bank, all for a five-year period. The motion was approved by roll call vote.

**Update from Executive Director Search Committee**

Mr. Martin gave a brief update on the Executive Director Committee Search and noted the timeline for the search. He stated the search committee was established in December of 2021 by a Board resolution and after an RFP process, the committee selected Korn/Ferry during the first quarter of 2022 to identify and provide a qualified list of candidates at a national level. The committee had their first round interviews in June and shortened the list for second round of interviews in July. The committee continues to work through the process and plans to bring a candidate recommendation to the Board for approval.

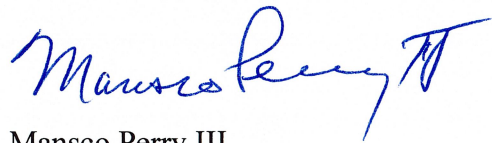
**Message to Executive Director**

Mr. Martin acknowledged that this was Mr. Perry's last IAC meeting due to his planned retirement in October. Mr. Martin and other council members thanked Mr. Perry for his public service and his work that has benefited the State of Minnesota and members and beneficiaries of the retirement systems.

**Adjournment of Meeting**

The motion to adjourn the meeting was seconded and approved by roll call vote. The meeting adjourned at 1:22 p.m.

Respectfully submitted,



Mansco Perry III  
Executive Director and  
Chief Investment Officer