

**MINNESOTA  
STATE  
BOARD OF  
INVESTMENT**



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**Executive Director:**

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DATE: January 15, 2014

TO: The Honorable Mark Dayton  
Members of the Minnesota Legislature

FROM: Mansco Perry III, Executive Director *MP3*

**SUBJECT: External Money Manager Report Pursuant to Minnesota  
Statutes Section 11A.04, clause (12)**

*Minnesota Statutes*, Section 11A.04, clause (12) requires the State Board of Investment (SBI) to report annually to the Governor and Legislature the cost and investment performance of external investment managers employed by the Board.

On June 30, 2013, the SBI utilized 22 domestic stock managers, 13 international stock managers and 8 bond managers for the retirement assets under its control.

The investment performances of each manager, as well as the fees paid to each, are reported in the charts on the following pages. This information is also included in the Board's annual report for FY13. Please note that the SBI stopped using the services of two domestic stock managers and one international stock manager during the fiscal year.

It is important to note that all performance data reported by the SBI is *net* of fees and transactions costs associated with the various portfolios. The SBI's FY 2013 Annual Report contains additional detail on manager performance and may be accessed online at [www.sbi.state.mn.us](http://www.sbi.state.mn.us).

**Domestic Stock Managers**

The SBI evaluates domestic stock manager returns against the performance of Russell style indices which reflect the managers' specific investment approaches. The benchmark portfolios take into account the market forces that at times favorably or unfavorably impact certain investment styles. The aggregate domestic stock program is designed to outperform the Russell 3000 Index. Assets are allocated to managers within each Russell style index in the same proportion as in the Russell 3000 Index.

As a group, the managers outperformed the broad market by 0.4 percentage point for the fiscal year. The active and semi-passive manager groups outperformed their respective benchmarks. Nine of 17 active managers outperformed and eight managers underperformed their benchmarks. Two semi-passive managers

outperformed the Russell 1000 benchmark, one underperformed, and one matched the benchmark. The passive manager had a slight negative tracking error for the year.

### **Bond Managers**

The SBI evaluates the performance of its bond managers against the Barclays Capital Aggregate bond index. As a group, the bond managers outperformed the broad bond market by 1.5 percentage points for the year. For FY 2013, all active managers and all semi-passive managers outperformed the benchmark return.

### **International Stock Managers**

The SBI evaluates individual international stock managers against market indices published by Morgan Stanley Capital International (MSCI). Two indices are used: the World ex U.S. (net) and the Emerging Markets Net. As a group, the international stock managers outperformed the MSCI Country World Index (ACWI) ex U.S. (net) index by 2.4 percentage points for the fiscal year. All six active developed markets managers outperformed their respective benchmarks for the year. Both active emerging market managers outperformed the MSCI Emerging Markets benchmark for the year. All three semi-passive developed markets managers outperformed the benchmark for the year. The developed markets passive manager had positive tracking error of 0.3 percentage point to the MSCI World ex U.S. index, and the emerging markets passive manager had positive tracking error of 0.2 percentage point.

**Figure 10. Domestic Stock Manager Performance For Period Ending June 30, 2013**

	1 Year		3 Years		5 Years		Market Value (\$ in millions)
	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	
<b>Active Managers</b>							
<b>Large Cap Growth (Russell 1000 Growth)</b>							
INTECH	16.0	17.1	18.3	18.7	6.3	7.5	433.2
Jacobs Levy Equity Mgmt.	16.0	17.1	19.5	18.7	6.9	7.5	496.5
Knelman Asset Mgmt.	12.7	17.1	16.1	18.7	4.6	7.5	76.2
Sands Capital Mgmt.	16.8	17.1	23.4	18.7	11.8	7.5	487.6
Winslow Capital Mgmt.	16.5	17.1	18.0	18.7	6.2	7.5	224.0
Zevenbergen Capital	27.1	17.1	16.7	18.7	8.5	7.5	450.6
<b>Large Cap Value (Russell 1000 Value)</b>							
Barrow, Hanley	25.6	25.3	19.0	18.5	7.2	6.7	639.2
Earnest Partners	17.3	25.3	14.9	18.5	6.0	6.7	430.1
LSV Asset Mgmt.	33.9	25.3	19.9	18.5	7.8	6.7	625.5
Systematic Financial Mgmt.	25.4	25.3	17.0	18.5	4.8	6.7	592.7
<b>Small Cap Growth (Russell 2000 Growth)</b>							
McKinley Capital	31.6	23.7	21.2	20.0	5.6	8.9	294.2
Next Century Growth	16.3	23.7	17.4	20.0	4.2	8.9	326.5
Turner Investment Partners	20.8	23.7	17.5	20.0	6.6	8.9	337.3
<b>Small Cap Value (Russell 2000 Value)</b>							
Goldman Sachs	26.7	24.8	20.3	17.3	11.6	8.6	212.9
Hotchkis & Wiley	32.0	24.8	21.4	17.3	12.7	8.6	189.4
Martingale Asset Mgmt.	31.0	24.8	20.2	17.3	7.9	8.6	167.3
Peregrine Capital Mgmt.	27.1	24.8	19.1	17.3	11.9	8.6	289.7
<b>Semi-Passive Managers (Russell 1000)</b>							
BlackRock Institutional	21.9	21.2	19.5	18.6	6.9	7.1	2,511.5
INTECH	21.0	21.2	18.7	18.6			2,075.3
J.P. Morgan Investment Mgmt.	22.4	21.2	19.2	18.6	8.4	7.1	3,062.4
Mellon Capital Mgmt.	21.2	21.2	19.8	18.6	7.2	7.1	2,175.5
<b>Passive Manager (Russell 3000)</b>							
BlackRock Institutional	21.4	21.5	18.5	18.6	7.3	7.2	7,921.1
<b>Aggregate Domestic Stock Pool (1)</b>	<b>21.9</b>	<b>21.5</b>	<b>18.7</b>	<b>18.6</b>	<b>7.2</b>	<b>7.2</b>	<b>24,025.9</b>
<b>Asset Class Target</b>							
Russell 3000		21.5		18.6		7.2	

(1) Aggregate includes the performance of terminated managers.

**Figure 13. Bond Manager Performance For Period Ending June 30, 2013**

	1 Year		3 Years		5 Years		Market Value (\$ in millions)
	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	
<b>Active Managers</b>							
Aberdeen Asset Mgmt.	1.3	-0.7	5.4	3.5	5.2	5.2	912.9
Columbia Mgmt.	1.0	-0.7	5.1	3.5	5.8	5.2	1,085.5
Dodge & Cox Investment Mgmt.	2.6	-0.7	5.1	3.5	7.1	5.2	1,266.5
PIMCO	2.9	-0.7	5.3	3.5			1,379.3
Western Asset Mgmt.	1.3	-0.7	5.3	3.5	6.8	5.2	1,407.4
<b>Semi-Passive Managers</b>							
BlackRock Financial Mgmt.	-0.3	-0.7	3.8	3.5	4.9	5.2	1,702.2
Goldman Sachs Asset Mgmt.	0.0	-0.7	4.3	3.5	5.9	5.2	2,184.9
Neuberger Investment Mgmt.	-0.3	-0.7	4.2	3.5	6.3	5.2	2,166.7
<b>Aggregate Bond Pool (1)</b>	<b>0.8</b>	<b>-0.7</b>	<b>4.7</b>	<b>3.5</b>	<b>6.1</b>	<b>5.2</b>	<b>12,105.5</b>
<b>Asset Class Target</b>							
Barclays Capital Aggregate		-0.7		3.5		5.2	

(1) Aggregate represents Combined Funds performance and includes the performance of terminated managers.

**Figure 16. International Manager Performance For Period Ending June 30, 2013**

	1 Year		3 Years		5 Years		Market Value (\$ in millions)
	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	
<b>Active Managers</b>							
<b>Developed Mkts (MSCI World ex U.S. net)</b>							
Acadian Asset Mgmt.	21.5	17.1	11.0	9.4	-2.6	-0.8	311.4
Columbia Mgmt. Investment Advisers, LLC	19.1	17.1	12.7	9.4	1.4	-0.8	305.8
J.P. Morgan Investment Mgmt. Co.	17.2	17.1	10.6	9.4	0.9	-0.8	262.0
Marathon Asset Management	22.3	17.1	12.4	9.4	3.0	-0.8	637.6
McKinley Capital Management	20.7	17.1	10.9	9.4	-3.4	-0.8	259.4
Pyramis Global Advisors Trust Co.	23.2	17.1	12.5	9.4	1.2	-0.8	306.9
<b>Semi-Passive Managers</b>							
<b>Developed Mkts (MSCI World ex U.S. net)</b>							
AQR Capital Management	24.2	17.1	11.5	9.4	0.4	-0.8	296.7
Pyramis Global Advisors Trust Co.	18.6	17.1	10.8	9.4	-0.9	-0.8	439.6
State Street Global Advisors	21.4	17.1	8.7	9.4	-1.8	-0.8	265.6
<b>Active Managers</b>							
<b>Emerging Mkts (MSCI Emerging Markets Net)</b>							
Capital International, Inc.	4.4	2.8	-0.4	3.4	-0.5	-0.4	678.7
Morgan Stanley Investment Mgmt.	8.4	2.8	6.2	3.4	0.8	-0.4	756.2
<b>Passive Managers</b>							
<b>Developed Mkts (MSCI World ex U.S. net)</b>							
State Street Global Advisors	17.4	17.1	9.8	9.4	-0.5	-0.8	3,042.0
<b>Passive Managers</b>							
<b>Emerging Mkts (MSCI Emerging Markets Net)</b>							
State Street Global Advisors	3.0	2.8					277.5
<b>Aggregate International Stock Pool (1)</b>	<b>16.1</b>	<b>13.7</b>	<b>8.7</b>	<b>8.0</b>	<b>-0.2</b>	<b>-0.8</b>	<b>7,840.4</b>
<b>Asset Class Target</b>							
MSCI ACWI ex U.S. (net)		13.7		8.0		-0.8	

(1) Aggregate represents Combined Funds performance and includes the performance of terminated managers.

## External Stock and Bond Managers' Fees

### Total Payments for Fiscal Year 2013

Domestic Equity Active Managers		
Barrow, Hanley, Mewhinney & Strauss, Inc.	\$	1,095,850
Earnest Partners LLC		568,164
Goldman Sachs Asset Management, L.P.		1,510,923
Hotchkis and Wiley Capital Management		1,978,501
INTECH Investment Management LLC		1,288,921
Jacobs Levy Equity Management, Inc.		1,275,640
Knelman Asset Management Group LLC		381,517
LSV Asset Management		1,202,425
Martingale Asset Management L.P.		857,549
McKinley Capital Management LLC		1,295,613
New Amsterdam Partners LLC*		-244,184
Next Century Growth Investors LLC		2,276,348
Peregrine Capital Management		1,946,484
Sands Capital Management LLC		1,820,480
Systematic Financial Management, L.P.		1,028,121
Turner Investments		1,657,206
UBS Global Asset Management, Inc.*		393,532
Winslow Capital Management LLC		691,431
Zevenbergen Capital Investments LLC		1,420,773
Domestic Equity Semi-Passive Managers (2)		
BlackRock Institutional Trust Co., N.A.		2,810,719
INTECH Investment Management LLC		1,952,838
J.P. Morgan Investment Management, Inc.		3,018,449
Mellon Capital Management Corp.		1,899,259
Domestic Equity Passive Manager (2)		
BlackRock Institutional Trust Co. N.A.		852,725
Fixed Income Active Managers (2)		
Aberdeen Asset Management, Inc.		1,460,600
Columbia Management Investment Advisers LLC		1,022,578
Dodge & Cox		1,277,327
Pacific Investment Management Co.LLC (PIMCO)		2,883,840
Western Asset Management Co.		1,341,104
Fixed Income Semi-Passive Managers (2)		
BlackRock Financial Management, Inc.		992,663
Goldman Sachs Asset Management		1,424,995
Neuberger Berman Fixed Income LLC		619,112

cont.

## External Stock and Bond Managers' Fees

### Total Payments for Fiscal Year 2013

International Active Developed Markets Managers (2)		
Acadian Asset Management LLC	\$	1,294,744
Columbia Management Investment Advisers LLC		958,238
INVESCO Global Asset Management (N.A.), Inc.*		584,635
JP Morgan Investment Management Inc.		1,151,350
Marathon Asset Management LLP		1,960,933
McKinley Capital Management LLC		1,106,911
Pyramis Global Advisors Trust Company		1,415,229
International Semi Passive Developed Markets Managers (2)		
AQR Capital Management LLC		1,519,928
Pyramis Global Advisors Trust Company		863,503
State Street Global Advisors		1,196,094
International Passive Developed Markets Manager (2)		
State Street Global Advisors		522,553
International Active Emerging Markets Managers (2)		
Capital International, Inc.		5,301,448
Morgan Stanley Investment Management Inc.		5,921,447
International Passive Emerging Markets Manager		
State Street Global Advisors		222,462
Supplemental Fixed Interest Account(2)		
Galliard Capital Management, Inc.		3,373,026
Assigned Risk Plan (2)		
GE Asset Management, Inc.		175,410
RBC Global Asset Management		219,609

\* Manager Terminated in Fiscal '13.

(1) Compensation is based on a performance-based fee formula. Four fee options are available and fees earned range from zero to twice the manager's base fee, depending on the manager's performance relative to an established benchmark. Negative amounts represent performance based refunds.

(2) Compensation is based on a specified percentage of assets under management.