

**STATE INVESTMENT BOARD
MINUTES OF THE
MAY 19, 2006, BOARD MEETING**

BOARD MEMBERS PRESENT: Lt. Governor Jack Dalrymple
Howard Sage, Vice Chair
Sandy Blunt, Workforce Safety & Insurance
Clarence Corneil, TFFR Board
Barb Evanson, TFFR Board
Ron Leingang, PERS Board
Gary Preszler, Land Commissioner
Rosey Sand, PERS Board
Mark Sanford, TFFR Board
Kelly Schmidt, State Treasurer

MEMBERS ABSENT: Jim Poolman, Insurance Commissioner

STAFF PRESENT: Steve Cochrane, Executive Director
Fay Kopp, Deputy Executive Director
Connie Flanagan, Fiscal & Investment Officer
Susan Gefroh, Investment Accountant
Bonnie Heit, Office Manager
Les Mason, Supervisor Internal Audit

OTHERS PRESENT: Weldee Baetsch, former SIB trustee
Lowell Latimer, TFFR/NDRTA
Chuck Martin, State Street Global Advisors
Scott Miller, Attorney General's Office
Bryan Reinhardt, PERS
Ken Rood, Insurance Dept.
David Sandy, Workforce Safety & Insurance
Joe Westby, NDEA
LaDonna Whitmore, NDRTA
George Primm, out-of-state visitor

CALL TO ORDER:

Lt. Governor Dalrymple, Chair of the State Investment Board (SIB), called the meeting to order at 8:30 a.m. on Friday, May 19, 2006, at the State Capitol, Ft. Union Room, Bismarck, ND.

THE FOLLOWING MEMBERS WERE PRESENT REPRESENTING A QUORUM: MR. BLUNT, MRS. EVANSON, MR. LEINGANG, MR. SAGE, TREASURER SCHMIDT, MS. SAND, MR. CORNEIL, DR. SANFORD, AND LT. GOVERNOR DALRYMPLE.

ABSENT: COMMISSIONER POOLMAN, COMMISSIONER PRESZLER

MINUTES:

The Board considered the minutes of the April 21, 2006, meeting,

TREASURER SCHMIDT MOVED AND DR. SANFORD SECONDED TO APPROVE THE APRIL 21, 2006, MEETING.

AYES: MR. BLUNT, MRS. EVANSON, MR. LEINGANG, LT. GOVERNOR DALRYMPLE, MR. SAGE, MS. SAND, DR. SANFORD, MR. CORNEIL, AND TREASURER SCHMIDT

NAYS: NONE

MOTION CARRIED

ABSENT: COMMISSIONER POOLMAN, COMMISSIONER PRESZLER

BOARD EDUCATION:

Enhanced Fixed Income - Mr. Ben Lazarus and Mr. Rick Ballsrud, The Clifton Group, Minneapolis, MN, reviewed the firm's Enhanced Fixed Income product with the Board.

A copy of their presentation is on file at the Retirement and Investment Office (RIO).

The Board recessed at 9:20 a.m. and reconvened at 9:43 a.m.

GOVERNANCE:

INVESTMENTS

Work on Fixed Income - Mr. Steve Cochrane, Executive Director, reviewed the concept of incorporating The Clifton Group's Enhanced Fixed Income product into the Insurance Trust. He recommended allocating \$50 million of the Insurance Trust's fixed income assets into The Clifton Group's Enhanced Fixed Income product.

MR. BLUNT MOVED AND MRS. EVANSON SECONDED TO ACCEPT STAFF RECOMMENDATION AND INVEST \$50 MILLION OF THE INSURANCE TRUST'S FIXED INCOME PORTFOLIO INTO THE CLIFTON GROUP'S ENHANCED FIXED INCOME PRODUCT. A ROLL CALL VOTE WAS TAKEN AS FOLLOWS:

AYES: DR. SANFORD, TREASURER SCHMIDT, MR. BLUNT, MR. LEINGANG, COMMISSIONER PRESZLER, MRS. EVANSON, MR. CORNEIL, MR. SAGE, LT. GOVERNOR DALRYMPLE, AND MS. SAND

NAYS: NONE

MOTION CARRIED

ABSENT: COMMISSIONER POOLMAN

ADMINISTRATION

Appointment of Compensation Committee - Mr. Cochrane updated the Board on contracting with the Hay Group. He has been in contact with Mr. Neville Kenning of the Hay Group who will be analyzing the ED/CIO position. The Board felt it important to get a true independent market value of the position because one has never been done and also it is important to have good sound data to justify any decisions the Board should make regarding compensation.

MR. BLUNT MOVED AND MR. SAGE SECONDED TO HIRE THE HAY GROUP TO DO A STUDY ON THE ED/CIO POSITION AND TO CAP THE COST AT \$5,000. A ROLL CALL VOTE WAS TAKEN AS FOLLOWS:

AYES: MR. SAGE, LT. GOVERNOR DALRYMPLE, COMMISSIONER PRESZLER, TREASURER SCHMIDT, MR. BLUNT, MR. LEINGANG, MRS. EVANSON, AND MR. CORNEIL
 NAYS: MS. SAND

MOTION CARRIED.

ABSENT: COMMISSIONER POOLMAN, DR. SANFORD

Lt. Governor Dalrymple will appoint a Compensation Committee after he receives nominations from the PERS/TFFR representatives.

MONITORING:

Included in the board member's packets were the following quarterly monitoring reports: Manager Review Status Report, Pension Trust Investment Report, and Insurance Trust Investment Report.

Trust Company of the West (TCW) and Bank of Ireland are currently on the review list. Mr. Cochrane will be bringing recommendations before the Board on TCW. Bank of Ireland's guidelines have been adjusted and they are responding well and staff will continue to monitor that firm.

OTHER:

Mr. Cochrane informed the Board the NDSIB has requested the appointment of a special assistant attorney general to represent it in an adversary proceeding in the United States Bankruptcy Court for the District of New Jersey. The Official Committee of Asbestos Claimants of G-1 Holdings commenced the proceeding against Building Materials Corporation of America and holders of notes issued by BMCA including the NDSIB. The Committee alleges that after G-1 Holdings' predecessor transferred all of its operating assets to its wholly owned subsidiary, BMCA, in order to reduce financial losses resulting from asbestos-related personal industry suits, BMCA granted liens on the acquired assets in favor of the noteholders through the issuance of notes. The Committee seeks to recover from the noteholders the property transferred or the value of such property. The NDSIB must file an answer to the complaint by June 1, 2006.

The New Jersey bankruptcy court rules require that all pleadings, briefs and other papers filed with the court be signed by local counsel of record who are members in good standing of the New Jersey Bar and who shall be responsible for the conduct of the case, therefore, the Board is unable to utilize North Dakota counsel.

The ND Attorney General's office has identified the law firm of Kaplan Fox & Kilsheimer, LLP, New York, NY as an appropriate counsel to represent it in the proceeding. Mr. Cochrane requested a consensus from the Board to proceed with representation.

TREASURER SCHMIDT MOVED AND MS. SAND SECONDED TO ALLOW STAFF TO WORK WITH THE OFFICE OF ATTORNEY GENERAL FOR PROPER REPRESENTATION.

AYES: TREASURER SCHMIDT, LT. GOVERNOR DALRYMPLE, MR. BLUNT, COMMISSIONER PRESZLER, MR. LEINGANG, MS. SAND, MR. SAGE, MR. CORNEIL, AND MRS. EVANSON

NAYS: NONE

MOTION CARRIED

ABSENT: COMMISSIONER POOLMAN, DR. SANFORD

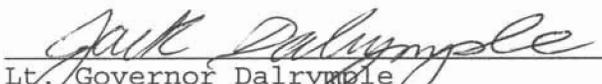
Mrs. Evanson will be retiring effective June 1, 2006. Lt. Governor Dalrymple on behalf of the Board, teachers, and the legislators thanked Mrs. Evanson for her service, time, support, and accomplishments for the State of North Dakota.

Lt. Governor Dalrymple also recognized Mr. Howard Snortland and his wife Adeline. Lt. Governor Dalrymple thanked Mr. Snortland for his support of the state education system and the teachers and his many interests in promoting North Dakota. He noted Mr. Snortland is truly one of the giants of North Dakota's history.

ADJOURNMENT:

With no further business to come before the Board, Lt. Governor Dalrymple adjourned the meeting at 11:00 a.m.

Respectfully Submitted:


 Lt. Governor Dalrymple
 Chair, State Investment Board


 Bonnie Heit
 Reporting Secretary