

**NORTH DAKOTA STATE INVESTMENT BOARD
MINUTES OF THE
SEPTEMBER 23, 2011 BOARD MEETING**

BOARD MEMBERS PRESENT: Drew Wrigley, Lt. Governor, Chair (teleconference)
Mike Sandal, Vice Chair
Clarence Corneil, TFFR Board
Levi Erdmann, PERS Board
Lance Gaebe, Land Commissioner
Mike Gessner, TFFR Board
Adam Hamm, Insurance Commissioner
Howard Sage, PERS Board
Kelly Schmidt, State Treasurer
Cindy Ternes, Workforce Safety & Insurance
Bob Toso, TFFR Board

STAFF PRESENT: Connie Flanagan, Fiscal & Investment Officer
John Geissinger, Executive Director/CIO
Bonnie Heit, Office Manager
Fay Kopp, Dep. Executive Director
Leslie Moszer, Compliance Officer

OTHERS PRESENT: Jean Anderson, JP Morgan
Weldee Baetsch, former SIB trustee
Hilary Bullard, JP Morgan
Jeff Engleson, Land Dept.
Bryan Klipfel, Workforce Safety & Insurance
Paul Michaels, Invesco
Jan Murtha, Attorney General's Office
George Ochs, JP Morgan
Bryan Reinhardt, PERS
Jim Sakelaris, JP Morgan
Rick Sheppard, JP Morgan
Max Swango, Invesco

CALL TO ORDER:

Lt. Governor Wrigley, Chair, called the State Investment Board (SIB) meeting to order at 8:30 a.m. on Friday, September 23, 2011, at the State Capitol, Peace Garden Room, Bismarck, ND.

A quorum was present for the purpose of conducting business.

AGENDA:

The Board considered a revised agenda.

MS. TERNES MOVED AND MR. SAGE SECONDED TO APPROVE THE REVISED AGENDA.

AYES: COMMISSIONER HAMM, MS. TERNES, COMMISSIONER GAEBE, MR. GESSNER, MR. SAGE, MR. ERDMANN, MR. SANDAL, MR. TOSO, MR. CORNEIL, TREASURER SCHMIDT, AND LT. GOVERNOR WRIGLEY

NAYS: NONE

MOTION CARRIED

MINUTES:

MR. GESSNER MOVED AND COMMISSIONER HAMM SECONDED TO APPROVE THE AUGUST 26, 2011 MINUTES.

AYES: MR. GESSNER, COMMISSIONER GAEBE, MR. SAGE, MS. TERNES, TREASURER SCHMIDT, MR. TOSO, COMMISSIONER HAMM, MR. CORNEIL, MR. ERDMANN, MR. SANDAL, AND LT. GOVERNOR WRIGLEY

NAYS: NONE

MOTION CARRIED

EDUCATION:

Invesco representatives reviewed the firm's current real estate relationships with the SIB and also introduced a new real estate opportunity for the board's consideration, Real Estate Fund III.

The Board recessed at 9:40 a.m. and reconvened at 9:50 a.m.

JP Morgan representatives reviewed the firm's current real estate relationships with the SIB and also introduced a new senior housing property fund opportunity for the board's consideration.

The Board recessed at 11:35 a.m. and reconvened at 11:45 a.m.

INVESTMENTS:

The Board tabled the Annual Performance Review and Attribution report.

Teachers' Fund for Retirement (TFFR), Public Employees Retirement System (PERS), and North Dakota Association of Counties (NDACo) Asset Allocation Structure - Mr. Geissinger reviewed the recently revised asset allocations for TFFR, PERS, and NDACo and requested board acceptance.

COMMISSIONER GAEBE MOVED AND TREASURER SCHMIDT SECONDED TO ACCEPT STAFF RECOMMENDATION AND ACCEPT THE REVISED ASSET ALLOCATIONS FOR TFFR, PERS, AND NDACO AND IMPLEMENT AS SOON AS PRUDENTLY POSSIBLE.

AYES: TREASURER SCHMIDT, MS. TERNES, MR. SAGE, MR. GESSNER, MR. CORNEIL, COMMISSIONER HAMM, COMMISSIONER GAEBE, MR. TOSO, MR. ERDMANN, AND MR. SANDAL

NAYS: NONE

MOTION CARRIED

ABSENT: LT. GOVERNOR WRIGLEY

Real Estate - Mr. Geissinger reviewed Invesco's Real Estate Value Added Fund III opportunity and recommended committing \$50 million to Invesco's Fund III in the Pension Trust to replace Fund II as it is winding down.

TREASURER SCHMIDT MOVED AND MS. TERNES SECONDED TO ACCEPT STAFF RECOMMENDATION AND COMMIT \$50 MILLION TO INVESCO'S REAL ESTATE VALUE ADDED FUND III.

AYES: MR. SAGE, COMMISSIONER GAEBE, MS. TERNES, COMMISSIONER HAMM, MR. GESSNER, TREASURER SCHMIDT, MR. TOSO, MR. ERDMANN, MR. CORNEIL, AND MR. SANDAL
NAYS: NONE

MOTION CARRIED

ABSENT: LT. GOVERNOR WRIGLEY

Mr. Geissinger reviewed the Insurance Trust real estate portfolio and recommended the asset allocation be diversified from 100 to 50 percent in the JP Morgan Growth and Income Fund and 50 percent in Invesco's Core portfolio.

MS. TERNES MOVED AND MR. CORNEIL SECONDED TO ACCEPT STAFF RECOMMENDATION AND DIVERSIFY THE INSURANCE TRUST REAL ESTATE ALLOCATION TO 50 PERCENT IN THE JP MORGAN GROWTH AND INCOME FUND AND 50 PERCENT IN INVESCO'S CORE PORTFOLIO.

AYES: MR. ERDMANN, MR. TOSO, MR. GESSNER, MR. CORNEIL, MR. SAGE, MS. TERNES, COMMISSIONER HAMM, COMMISSIONER GAEBE, TREASURER SCHMIDT, AND MR. SANDAL
NAYS: NONE

MOTION CARRIED

ABSENT: LT. GOVERNOR WRIGLEY

Mr. Geissinger reviewed the JP Morgan senior housing opportunity and proposed no further action be taken by the board at this time and recommended holding the APF/B (Belmont) exposure.

After discussion, the board requested staff bring forth senior housing opportunities from other real estate managers.

MR. SAGE MOVED AND TREASURER SCHMIDT SECONDED TO ACCEPT STAFF RECOMMENDATION AND HOLD THE JP MORGAN APF/B (BELMONT) EXPOSURE.

AYES: MR. ERDMANN, TREASURER SCHMIDT, MR. CORNEIL, COMMISSIONER GAEBE, MR. TOSO, COMMISSIONER HAMM, MR. GESSNER, MR. SAGE, MS. TERNES, AND MR. SANDAL
NAYS: NONE

MOTION CARRIED

ABSENT: LT. GOVERNOR WRIGLEY

Watch List - Mr. Geissinger updated the board on Declaration and UBS' watch list status. Both firms were being monitored more closely due to turnover of key personnel. Mr. Geissinger is satisfied with the steps both firms have taken to replace the individuals and recommended removing both firms.

TREASURER SCHMIDT MOVED AND MR. ERDMANN SECONDED TO ACCEPT STAFF RECOMMENDATION AND REMOVE DECLARATION AND UBS FROM THE WATCH LIST.

AYES: MS. TERNES, MR. CORNEIL, COMMISSIONER HAMM, TREASURER SCHMIDT, COMMISSIONER GAEBE, MR. ERDMANN, MR. TOSO, MR. SAGE, MR. GESSNER, AND MR. SANDAL
NAYS: NONE

MOTION CARRIED

ABSENT: LT. GOVERNOR WRIGLEY

Insurance Trust Infrastructure - Mr. Geissinger reviewed the Credit Suisse infrastructure opportunity for the Insurance Trust and recommended committing \$25 million. The funding would come from Western Asset Management's Global Treasurer Inflation Protected Securities (TIPS) portfolio.

TREASURER SCHMIDT MOVED AND MR. GESSNER SECONDED TO ACCEPT STAFF RECOMMENDATION AND COMMIT \$25 MILLION OF THE INSURANCE TRUST PORTFOLIO WITH CREDIT SUISSE IN THEIR INFRASTRUCTURE PRODUCT WITH THE UNDERSTANDING THE FUNDS WILL BE TRANSFERRED FROM THE WESTERN ASSET MANAGEMENT GLOBAL TIPS ACCOUNT.

**AYES: TREASURER SCHMIDT, MR. CORNEIL, MS. TERNES, COMMISSIONER HAMM, MR. GESSNER, MR. SAGE, COMMISSIONER GAEBE, MR. TOSO, MR. ERDMANN, AND MR. SANDAL
NAYS: NONE**

MOTION CARRIED

ABSENT: LT. GOVERNOR WRIGLEY

Legacy Fund - Mr. Geissinger reviewed the Legacy and Budget Stabilization Fund Advisory Board's September 6, 2011 action on the investment of the Legacy Fund. The Legacy and Budget Stabilization Fund Advisory Board's directive to the SIB is to invest the Legacy Fund with the Bank of North Dakota on a short term basis until an investment policy statement is developed.

Mr. Geissinger recommended up to \$75 million of the Insurance Trust's cash allocation be invested with the Bank of North Dakota, under current pricing, and any excess cash be invested in a AAA rated 2A7 money fund.

TREASURER SCHMIDT MOVED AND MR. CORNEIL SECONDED TO ACCEPT STAFF RECOMMENDATION REGARDING THE SHORT TERM INVESTMENT OF THE LEGACY FUND BY INVESTING UP TO \$75 MILLION OF THE INSURANCE TRUST'S CASH ALLOCATION WITH THE BANK OF NORTH DAKOTA, UNDER CURRENT PRICING, AND ANY EXCESS CASH IN A AAA RATED 2A7 MONEY FUND.

**AYES: MR. ERDMANN, MR. CORNEIL, TREASURER SCHMIDT, MR. TOSO, COMMISSIONER HAMM, MR. GESSNER, MR. SAGE, MS. TERNES, AND MR. SANDAL
NAYS: COMMISSIONER GAEBE**

MOTION CARRIED

MEMBERS ABSENT: LT. GOVERNOR WRIGLEY

GOVERNANCE:

Deputy CIO. - Mr. Geissinger is in the process of interviewing two finalists. One candidate was interviewed at RIO on September 19, 2011 and the second candidate is scheduled to be interviewed on October 5, 2011 at RIO. He is optimistic the position will be filled by one of the candidates and is hoping to report an offer has been extended and accepted by the SIB's next meeting.

Board Per Diem - Mr. Geissinger recommended the SIB follow a similar board per diem rate such as PERS and TFFR which is if a meeting is less than two hours fifty percent of the daily per diem rate is paid and meetings of two hours or more, the full daily per diem rate would apply.

MR. TOSO MOVED AND MR. SAGE SECONDED TO ACCEPT STAFF RECOMMENDATION AND FOLLOW THE SAME BOARD PER DIEM RATE AS THE PERS AND TFFR BOARDS.

AYES: COMMISSIONER HAMM, MS. TERNES, MR. GAEBE, MR. GESSNER, MR. SAGE, MR. ERDMANN, MR. TOSO, MR. CORNEIL, TREASURER SCHMIDT, AND MR. SANDAL

NAYS: NONE

MOTION CARRIED

ABSENT: LT. GOVERNOR WRIGLEY

Open Meeting Exceptions - Ms. Jan Murtha reviewed provisions to the open meetings law which the SIB could utilize when hearing presentations from competitors.

OTHER:

The next SIB meeting is scheduled for October 28, 2011 at 8:30 a.m., at the State Capitol, Peace Garden Room, Bismarck, ND.

The next SIB Audit Committee meeting is scheduled for November 18, 2011, at 1:00 p.m., at the State Capitol, Peace Garden Room, Bismarck, ND.

ADJOURNMENT:

Mr. Sandal adjourned the meeting at 11:50 a.m.

Respectfully Submitted:



Mike Sandal, Vice Chair
State Investment Board



Bonnie Heit
Secretary to the Board