

**NORTH DAKOTA STATE INVESTMENT BOARD
MINUTES OF THE
JANUARY 24, 2014, BOARD MEETING**

BOARD MEMBERS PRESENT: Drew Wrigley, Lt. Governor, Chair
Mike Sandal, Vice Chair
Clarence Corneil, TFFR (Parliamentarian, Telecon)
Lance Gaebe, Land Commissioner
Mike Gessner, TFFR Board
Adam Hamm, Insurance Commissioner
Rob Lech, TFFR Board
Howard Sage, PERS Board
Kelly Schmidt, State Treasurer
Cindy Ternes, Workforce Safety & Insurance
Tom Trenbeath, PERS Board

STAFF PRESENT: Connie Flanagan, Fiscal & Investment Op Mgr
Bonnie Heit, Assistant to the SIB
David Hunter, ED/CIO
Fay Kopp, Deputy ED/CRO
Cody Schmidt, Compliance Officer
Darren Schulz, Deputy CIO

OTHERS PRESENT: Ron Leingang, former PERS & SIB trustee
Jan Murtha, Attorney General's Office

CALL TO ORDER:

Lt. Governor Wrigley called the State Investment Board (SIB) meeting to order at 8:30 a.m. on Friday, January 24, 2014, at the State Capitol, Peace Garden Room, 600 E Boulevard, Bismarck, ND.

A quorum was present for the purpose of conducting business.

The SIB welcomed Mr. David Hunter, ED/CIO, Mr. Cody Schmidt, Compliance Officer, and also welcomed back Ms. Connie Flanagan, Fiscal & Investment Operations Manager.

AGENDA:

IT WAS MOVED BY MR. GESSNER AND SECONDED BY MS. TERNES AND CARRIED ON A VOICE VOTE TO ACCEPT THE AGENDA FOR THE JANUARY 24, 2014, MEETING.

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

NAYS: NONE

MOTION CARRIED

MINUTES:

The minutes were considered from the November 22, 2013, meeting.

IT WAS MOVED BY MR. SANDAL AND SECONDED BY MR. LECH AND CARRIED ON A VOICE VOTE TO ACCEPT THE NOVEMBER 22, 2013, MINUTES AS WRITTEN.

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

**NAYS: NONE
MOTION CARRIED**

INVESTMENTS:

Public Pension Peer Performance Summary - Mr. Hunter provided an update on the SIB's Pension Fund's investment returns. For the 12 months ended September 30, 2013, the Pension Fund's investment returns were in the first quartile of all public pension plans and also ranked in the top third during the last three years. The Pension Funds were also in the 37th percentile of the Callan Associates Public Fund Sponsor Database for the 10 year period ended September 30, 2013.

Investment Manager Rankings - Mr. Hunter reviewed the SIB investment managers by assets under management and fees paid in FY 2013 for the Pension Fund and Insurance Funds. Mr. Hunter and Mr. Schulz will be ranking the SIB investment managers by assets and fees and conducting relationship reviews to confirm the reasonableness of investment management fees and pursuing fee reductions wherever possible. In addition, they will also confirm overall adherence to investment guidelines and risk/return expectations.

Global Equity Transition - Mr. Schulz reported the first phase of restructuring the Pension Global Equity asset class has been completed. The transition took place in December 2013 and will generate an estimated \$750,000 in annual fee savings going forward.

IT WAS MOVED BY MR. TRENBEATH AND SECONDED BY MR. SANDAL AND CARRIED ON A VOICE VOTE TO ACCEPT THE FOLLOWING INVESTMENT REPORTS; PUBLIC PENSION PEER PERFORMANCE SUMMARY, INVESTMENT MANAGER RANKINGS, AND THE GLOBAL EQUITY TRANSITION UPDATE.

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

**NAYS: NONE
MOTION CARRIED**

Westridge/WG Trading - Ms. Murtha updated the SIB on the Westridge/WG Trading litigation. The cost basis of this investment was \$75 million. To date, two distributions have been made to the SIB by the court appointed receiver and a proposed third distribution is expected which will result in a total return of approximately \$71 million or 94.4% of the original cost basis of the investment to the SIB.

Ms. Murtha requested the SIB enter into Executive Session to discuss the tolling agreement with Deloitte.

IT WAS MOVED BY COMMISSIONER GAEBE AND SECONDED BY MR. TRENBEATH AND CARRIED ON A ROLL CALL VOTE TO ENTER INTO EXECUTIVE SESSION PER NDCC §44-04-19.1(5) AND NDCC §44-04-19.2 FOR ATTORNEY CONSULTATION REGARDING THE WESTRIDGE/WG TRADING LITIGATION.

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

**NAYS: NONE
MOTION CARRIED**

The SIB entered into Executive Session at 9:05 a.m. and exited at 9:26 a.m. The SIB, RIO staff, and Ms. Murtha were in attendance.

The SIB provided guidance to Ms. Murtha regarding the Westridge/WG Trading litigation strategy but did not find it necessary to take any formal action at this time after consulting with Ms. Murtha. Ms. Murtha will continue to provide updates as warranted.

GOVERNANCE:

Audit Committee Liaison Report - Mr. Gessner updated the SIB on activities of the SIB Audit Committee from their November 22, 2013, meeting. The Committee received the audit results of the Retirement and Investment Office's (RIO) financial statements for the fiscal year ended June 30, 2013, by Mr. Jason Ostroski, CliftonLarsonAllen. The firm issued an unmodified, clean opinion.

Mr. Ostroski also reviewed the new accounting statements the Governmental Accounting Standards Board (GASB) recently approved. GASB 67, Financial Reporting for Pension plans, replaces GASB 25. It provides for accounting with respect to the TFFR plan, effective fiscal year July 1, 2013, to June 30, 2014. GASB 68, Accounting and Financial Reporting for Pensions, replaces GASB 27. It provides for the financial reporting by employers/school districts with respect to TFFR, effective fiscal year July 1, 2014, to June 30, 2015.

Mr. Gessner also stated with the retirement of the Audit Supervisor, current plans are to complete 24 school district audits and four not in compliance reviews. As of November 15, 2013, eight audits were completed, three audits are in progress, and one not in compliance review is in progress. Mr. Gessner also reported the TFFR File Maintenance Audit was completed and changes made to TFFR member account data by RIO employees was tested. No exceptions were noted.

Ms. Kopp provided an update on the status of RIO's Audit Supervisor position. The position was posted on December 31, 2013 and closes January 24, 2014. To date, the State Human Resource Management Services (HRMS) has received one application. Ms. Kopp will be reviewing next steps with HRMS, Mr. Hunter, and Ms. Becky Dorwart, Chair of the SIB Audit Committee.

IT WAS MOVED BY TREASURER SCHMIDT AND SECONDED BY MR. SAGE AND CARRIED ON A VOICE VOTE TO ACCEPT THE SIB AUDIT COMMITTEE REPORT.

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

NAYS: NONE

MOTION CARRIED

Legislative Update - Mr. Hunter updated the SIB on the Legislative Audit & Fiscal Review Committee (LAFRC) meeting he, Mr. Schulz, Ms. Kopp, and Ms. Walcker attended on January 21, 2014. The Committee heard the results of RIO's financial statements for the fiscal years ended June 30, 2013 and June 30, 2012, by Mr. Thomas Rey, CliftonLarsonAllen. Mr. Hunter also stated staff fielded questions from the LAFRC on the SIB's investment management fees and the Teachers' Fund for Retirement (TFFR) funded ratio trends. Staff will be working on putting together the appropriate information to address the LAFRC questions at their next scheduled meeting.

Organizational Chart Update - Mr. Hunter reviewed a revised organizational chart for RIO and also provided an update on staffing. Mr. Cody Schmidt assumed the role of Compliance Officer effective December 9, 2013, and Ms. Connie Flanagan was reinstated as Fiscal & Investment Operations Manager, effective January 22, 2014. Positions left to be filled are the Audit Supervisor and Investment Analyst.

Interim Compensation Update - Mr. Hunter stated interim compensation adjustments were given to staff affected by the vacancies in the Fiscal Division and the adjustments will be discontinued now that the Compliance Officer and Fiscal and Investment Operations Manager positions have been filled.

QUARTERLY MONITORING:

The following monitoring reports were considered for the quarter ending December 31, 2013; Budget/Financial Conditions, Executive Limitations/Staff Relations, Investment Program, Retirement Program, and the Retirement and Investment Office (RIO) June 30, 2013, Financial Audit Report.

IT WAS MOVED BY MR. GESSNER AND SECONDED BY MR. SANDAL AND CARRIED ON A VOICE VOTE TO ACCEPT THE MONITORING REPORTS FOR THE QUARTER ENDING DECEMBER 31, 2013, AND RIO'S FINANCIAL AUDIT REPORT FOR THE PERIOD ENDING JUNE 30, 2013.

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

NAYS: NONE

MOTION CARRIED

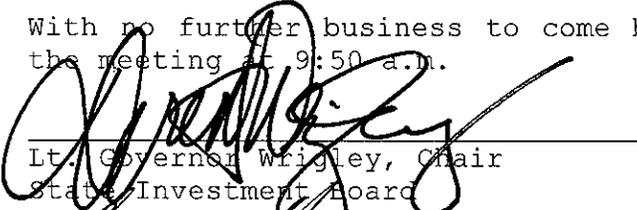
OTHER:

The next SIB meeting is scheduled for February 28, 2014, at 8:30 am at the Peace Garden Room, State Capitol, Bismarck, ND.

The next SIB Audit Committee meeting is scheduled for February 28, 2014, at 1:00 pm at the Peace Garden Room, State Capitol, Bismarck, ND.

ADJOURNMENT:

With no further business to come before the SIB, Lt. Governor Wrigley adjourned the meeting at 9:50 a.m.



Lt. Governor Wrigley, Chair
State Investment Board



Bonnie Heit
Assistant to the Board