

**NORTH DAKOTA STATE INVESTMENT BOARD
MINUTES OF THE
JUNE 27, 2014, BOARD MEETING**

MEMBERS PRESENT:

Drew Wrigley, Lt. Governor, Chair (TLCF)
Mike Sandal, Vice Chair
Clarence Corneil, Parliamentarian, TFFR Board
Lance Gaebe, Land Commissioner
Mike Gessner, TFFR Board
Adam Hamm, Insurance Commissioner (TLCF)
Rob Lech, TFFR Board
Kelly Schmidt, State Treasurer
Cindy Ternes, WSI designee
Tom Trenbeath, PERS Board

STAFF PRESENT:

Connie Flanagan, Fiscal & Invt Op Mgr
Bonnie Heit, Assist to the SIB
David Hunter, ED/CIO
Cody Schmidt, Compliance Officer
Darren Schulz, Deputy CIO

OTHERS PRESENT:

Matthew Chilewich, AQR Capital Mgmt
Donald Elefson, Axiom Intl Investors
Jeff Engleson, Land Dept.
Jacques Friedman, AQR Capital Mgmt
Bill Howard, Callan Associates
Mary Kay Kelsch, Attorney General's Office
Shane McMahon, Axiom Intl Investors
Bryan Reinhardt, PERS

CALL TO ORDER:

Mr. Sandal called the State Investment Board (SIB) meeting to order at 8:30 a.m. on Friday, June 27, 2014, at the Peace Garden Room, State Capitol, Bismarck, ND.

AGENDA:

IT WAS MOVED BY MS. TERNES AND SECONDED BY MR. TRENBEATH AND CARRIED ON A VOICE VOTE TO ACCEPT THE AGENDA FOR THE JUNE 27, 2014, MEETING AS DISTRIBUTED.

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

NAYS: NONE

MOTION CARRIED

MINUTES:

IT WAS MOVED BY MR. LECH AND SECONDED BY MR. GESSNER AND CARRIED ON A VOICE VOTE TO APPROVE THE MAY 23, 2014, MINUTES AS DISTRIBUTED.

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

CALLAN MANAGER SEARCH PROCESS - Mr. Howard reviewed Callan's process, involvement, and assistance to staff in the SIB's search for an emerging market equity manager.

Staff also reviewed the components of their due diligence.

EMERGING MARKET EQUITY INTERVIEWS - The SIB heard presentations from two firms; Axiom International Investors and AQR Capital Management for the emerging market equity mandate.

Mr. Hunter and Mr. Schulz provided their insights on the search and after their extensive due diligence, along with Callan's investment consulting team, recommended Axiom International Investors to manage approximately \$110 million in the Pension Trust's emerging market equity pool.

IT WAS MOVED BY MR. TRENBEATH AND SECONDED BY COMMISSIONER GAEBE AND CARRIED BY A ROLL CALL VOTE TO ACCEPT STAFF RECOMMENDATION AND CONTRACT WITH AXIOM INTERNATIONAL INVESTORS SUBJECT TO SATISFACTORY NEGOTIATION OF LEGAL DOCUMENTATION INCLUDING REVIEW AND APPROVAL BY COUNSEL.

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

NAYS: TREASURER SCHMIDT

MOTION CARRIED

The Board recessed at 9:50 a.m. and reconvened at 10:00 a.m.

WESTRIDGE/WG TRADING

IT WAS MOVED BY MR. GESSNER AND SECONDED BY MS. TERNES AND CARRIED BY A ROLL CALL VOTE TO ENTER INTO EXECUTIVE SESSION FOR ATTORNEY CONSULTATION PER NDCC §44-04-19.1(5) AND NDCC §44-04-19.2.

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

NAYS: NONE

MOTION CARRIED

The SIB entered into executive session at 10:02 a.m. and exited at 10:10 a.m. The SIB, Ms. Kelsch, and staff were present.

The SIB took no action from the Executive Session discussion and thus any pending legal action will be null and void.

MANAGER CATALOG - Ms. Flanagan reviewed an updated catalog that is provided to the SIB on an annual basis. The catalog lists each money manager and their mandates for the Pension Trust and Insurance Trust.

ASSET AND INVESTMENT PERFORMANCE UPDATE - Mr. Hunter provided an update on SIB assets under management. Client assets grew by \$1.56 billion (or 20.9%) between June 30, 2013, and April 30, 2014. The Pension Trust had net investment growth of 12.6% (or \$515 million) and the Insurance Trust had 6.2% (or \$204 million). The Legacy Fund assets increased by over 68% (or \$815 million) primarily due to tax collections. Based on preliminary valuations, the market value of the SIB clients' assets was approximately \$9 billion as of April 30, 2014.

Mr. Hunter also updated the SIB on strategic initiatives as of June 27, 2014.

LEGISLATIVE UPDATE - Staff presented to the Employee Benefits Programs Committee on June 5, 2014, and reviewed a draft of Bill 135 which modifies investment policies for and funds under the management of the SIB.

Staff also presented to the Legacy and Budget Stabilization Fund Advisory Board on June 16, 2014. Staff reviewed status, asset allocation, fees (in basis points) charged by investment advisers, and returns of the Legacy Fund and Budget Stabilization Fund.

AUDIT COMMITTEE UPDATE - Mr. Gessner updated the SIB on the Audit Committee activities from their May 23, 2014, meeting. The Committee heard from Clifton/Larson/Allen on their audit approach of the Retirement and Investment Office (RIO) financial statements for the period of July 1, 2013 thru June 30, 2014. The critical areas Clifton/Larson/Allen will be focusing on are investments, contributions, benefit payments, and actuarial data. The final audit report is scheduled to be completed September/October 2014.

Clifton/Larson/Allen and staff reviewed, discussed, and shared implementation plans of GASB Statement 67 financial reporting for pension plans which goes into effect fiscal year end June 30, 2014, Statement 68 accounting and financial reporting for pensions which goes into effect fiscal year end June 30, 2015, and Statement 71 which provides additional transition guidance.

Mr. Gessner also stated staff continues to make progress on internal audit activities i.e., school district audits and miscellaneous audits.

IT WAS MOVED BY MR. CORNEIL AND SECONDED MR. LECH AND CARRIED BY A ROLL CALL VOTE TO ACCEPT THE AUDIT COMMITTEE REPORT.

AYES: 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

Executive Survey Discussion - The SIB discussed the Executive Limitations process and compensation review of the Executive Director.

IT WAS MOVED BY COMMISSIONER GAEBE AND SECONDED BY MR. TRENBEATH AND CARRIED BY A ROLL CALL VOTE THAT IN RECOGNITION OF A SUCCESSFUL COMPLETION OF A SIX MONTH APPOINTMENT THE SIB AUTHORIZE A 5 PERCENT SALARY INCREASE FOR THE ED/CIO AND ALSO ASK THE CHAIRMAN TO APPOINT A COMMITTEE TO REVIEW THE EVALUATION SYSTEM PROCESS AND TO PUT IN PLACE RECOMMENDATIONS FOR ONGOING COACHING AND EVALUATION OF THE ED/CIO.

AYES: COMMISSIONER GAEBE

NAYS: MR. TRENBEATH, TREASURER SCHMIDT, MR. CORNEIL, MR. LECH, MR. SANDAL, COMMISSIONER HAMM, MR. GESSNER, MR. TERNES, AND LT. GOVERNOR WRIGLEY

MOTION FAILED

IT WAS MOVED BY MR. LECH AND SECONDED BY MR. CORNEIL AND CARRIED BY A ROLL CALL VOTE TO CREATE A COMMITTEE WHOSE TASK WOULD BE TO RECOMMEND AN EVALUATION SYSTEM FOR THE ED/CIO INCLUDING COMPENSATION AND A TIMELINE FOR EVALUATIONS AND COMPENSATION.

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

NAYS: NONE
MOTION CARRIED

SIB members volunteering to serve on the Executive Review Committee are Mr. Lech, Chair, Ms. Ternes, and Mr. Sandal.

FY2015 Agenda - Mr. Hunter reviewed a tentative annual agenda and strategic initiatives for Fiscal Year 2015 for staff and SIB planning purposes.

Staff Update - Mr. Hunter stated the Supervisor of Audit Services was posted on June 24, 2014, and the Investment Analyst position will be posted on June 27, 2014. Mr. Hunter thanked HRMS staff, Mr. Lynn Hart and Ms. Becky Sicble, for their guidance, support, and their analysis of the positions to expedite the process of classification and posting.

OTHER:

Next SIB Meeting - July 25, 2014, 8:30 a.m. - State Capitol, Peace Garden Room
Next SIB Audit Committee meeting - September 26, 2014, 1:00 p.m. - State Capitol, Peace Garden Room

ADJOURNMENT:

With no further business to come before the SIB, Mr. Sandal adjourned the meeting at 11:50 a.m.



Mr. Sandal, Vice Chair
State Investment Board



Bonnie Heit
Assistant to the Board