

**NORTH DAKOTA STATE INVESTMENT BOARD  
MINUTES OF THE  
JULY 25, 2014, BOARD MEETING**

**MEMBERS PRESENT:** Mike Sandal, Vice Chair  
Clarence Corneil, Parliamentarian, TFFR Board  
Lance Gaebe, Land Commissioner  
Mike Gessner, TFFR Board  
Rob Lech, TFFR Board  
Kelly Schmidt, State Treasurer  
Yvonne Smith, PERS Board  
Cindy Ternes, WSI designee

**BOARD MEMBERS ABSENT:** Drew Wrigley, Lt. Governor, Chair  
Adam Hamm, Insurance Commissioner  
Tom Trenbeath, PERS Board

**STAFF PRESENT:** Bonnie Heit, Assist to the SIB  
David Hunter, ED/CIO  
Fay Kopp, Dep. ED/CRO  
Cody Schmidt, Compliance Officer  
Darren Schulz, Deputy CIO

**OTHERS PRESENT:** Weldee Baetsch, former PERS/SIB trustee  
Jeff Engleson, Land Dept.  
Paul Erlendson, Callan Associates  
Jan Murtha, Attorney General's Office  
Bryan Reinhardt, PERS  
James Van Heuit, Callan Associates

**CALL TO ORDER:**

Mr. Sandal called the State Investment Board (SIB) meeting to order at 8:30 a.m. on Friday, July 25, 2014, at the Peace Garden Room, State Capitol, Bismarck, ND.

The SIB welcomed Ms. Yvonne Smith. Ms. Smith will be representing the Public Employees Retirement System (PERS) on the SIB.

**AGENDA:**

IT WAS MOVED BY MR. LECH AND SECONDED BY MR. CORNEIL AND CARRIED ON A VOICE VOTE TO ACCEPT THE REVISED AGENDA FOR THE JULY 25, 2014, MEETING AS DISTRIBUTED.

AYES: MS. TERNES, MR. CORNEIL, TREASURER SCHMIDT, COMMISSIONER GAEBE, MR. LECH, MS. SMITH, MR. GESSNER, AND MR. SANDAL

NAYS: NONE

MOTION CARRIED

ABSENT: LT. GOVERNOR WRIGLEY, COMMISSIONER HAMM, MR. TRENBEATH

**MINUTES:**

IT WAS MOVED BY MR. GESSNER AND SECONDED BY MS. TERNES AND CARRIED ON A VOICE VOTE TO APPROVE THE JUNE 27, 2014, MINUTES AS DISTRIBUTED.

AYES: MS. TERNES, MR. CORNEIL, TREASURER SCHMIDT, MR. GESSNER, MS. SMITH, COMMISSIONER GAEBE, MR. LECH, AND MR. SANDAL

NAYS: NONE

MOTION CARRIED

ABSENT: LT. GOVERNOR WRIGLEY, COMMISSIONER HAMM, MR. TRENBEATH

ELECTION OF OFFICERS:

IT WAS MOVED BY COMMISSIONER GAEBE AND SECONDED BY MR. GESSNER TO CONTINUE WITH THE PRESENT SLATE OF OFFICERS FOR THE PERIOD OF JULY 1, 2014 - JUNE 30, 2015 WITH LT. GOVERNOR WRIGLEY SERVING AS CHAIR AND MR. SANDAL SERVING AS VICE CHAIR.

A ROLL CALL VOTE WAS HELD FOR THE POSITION OF CHAIR:

AYES: MR. LECH, MR. CORNEIL, COMMISSIONER GAEBE, MR. GESSNER, MS. SMITH, MS. TERNES, AND MR. SANDAL

NAYS: TREASURER SCHMIDT

MOTION CARRIED

ABSENT: LT. GOVERNOR WRIGLEY, COMMISSIONER HAMM, MR. TRENBEATH

A ROLL CALL VOTE WAS HELD FOR THE POSITION OF VICE CHAIR:

AYES: MS. TERNES, COMMISSIONER GAEBE, MR. GESSNER, MS. SMITH, MR. SANDAL, MR. LECH, MR. CORNEIL, AND TREASURER SCHMIDT

NAYS: NONE

MOTION CARRIED

ABSENT: LT. GOVERNOR WRIGLEY, COMMISSIONER HAMM, MR. TRENBEATH

Mr. Sandal reappointed Mr. Corneil as parliamentarian for Fiscal Year 2014-15.

SIB AUDIT COMMITTEE MEMBERSHIP:

The members of the Audit Committee, Ms. Becky Dorwart, Mr. Gessner, Mr. Sandal, and Ms. Ternes, are willing to serve for the period of July 1, 2014 - June 30, 2015 with the exception of Mr. Lonny Mertz. Staff intends to make a recommendation in the next two months.

IT WAS MOVED BY TREASURER SCHMIDT AND SECONDED BY MR. LECH AND CARRIED ON A ROLL CALL VOTE TO CONTINUE WITH THE CURRENT MEMBERSHIP OF THE SIB AUDIT COMMITTEE FOR THE PERIOD OF JULY 1, 2014 - JUNE 30, 2015.

AYES: MR. GESSNER, COMMISSIONER GAEBE, MS. SMITH, TREASURER SCHMIDT, MR. LECH, MR. CORNEIL, MS. TERNES, AND MR. SANDAL

NAYS: NONE

MOTION CARRIED

ABSENT: LT. GOVERNOR WRIGLEY, COMMISSIONER HAMM, MR. TRENBEATH

INVESTMENTS:

Private Capital/Timber Review - Mr. Hunter provided an update on Private Capital. As of March 31, 2014, every investment in the asset class with a net asset value of \$30 million or more generated excess returns ranging from 0.7% to 15.1% during the past 1 and 3 year periods excluding Timber. During the last 1 and 3 year periods, Timber investments have lagged the NCREIF Timber benchmark (whether measured on a Time Weighted Return or Internal Rate of Return basis), however Timber has generated positive excess returns on a Net Internal Rate of Return basis since inception.

Mr. Hunter reviewed the timber holdings currently managed by Timberland Investment Resources. As of March 31, 2014, the assets were valued at \$254 million.

Mr. Hunter also reviewed secondary markets where pricing is nearing all time highs.

Staff recommended the following action:

- Place Timber Investment Resources on Watch and conduct further due diligence of the SIB timber investments including the requested renewal of the Springbank commitment on June 30, 2015.
- Complete due diligence of smaller Private Capital investments within Global Real Assets.
- Engage Callan to conduct a bi-annual fee study of all asset classes.

**IT WAS MOVED BY MS. TERNES AND SECONDED BY MR. CORNEIL AND CARRIED ON A ROLL CALL VOTE TO ACCEPT STAFF RECOMMENDATION AND PLACE TIR ON "WATCH" AND CONDUCT FURTHER DUE DILIGENCE OF THE TIMBER INVESTMENTS.**

**AYES: MR. CORNEIL, MR. GESSNER, MR. SANDAL, MS. SMITH, MS. TERNES, COMMISSIONER GAEBE, MR. LECH, AND TREASURER SCHMIDT**

**NAYS: NONE**

**MOTION CARRIED**

**ABSENT: LT. GOVERNOR WRIGLEY, COMMISSIONER HAMM, MR. TRENBEATH**

For clarification purposes, the additional due diligence of smaller Private Capital investments and the fee study of all asset classes by Callan did not require action by the SIB.

Fee Update - Staff provided an update on investment management fees. Investment management fees were restructured to generate annual savings of approximately \$2 million during the past six months when compared to the prior fiscal year end.

Callan is analyzing a securities lending proposal from Northern Trust as part of the custody review. One of the options is estimated to generate approximately \$950,000 of annual incremental income based on historical Pension and Insurance Trust asset levels.

Performance fees are expected to decline in Fiscal Year 2014 due to unusually strong returns in the structured debt strategies not being duplicated in the current year. One specific manager currently estimates a \$6 million decline in performance fees between years.

Staff will be making a recommendation to the SIB to complete a "targeted" fee study by an independent third party to compliment Callan's bi-annual fee review.

**GOVERNANCE:**

Executive Review Report - At the SIB's June 27, 2014, meeting, the Chair appointed an Executive Review Committee consisting of Mr. Lech, as Chair, Mr. Sandal, and Ms. Ternes. The Committee met on July 17 and 22, 2014, to review and recommend an evaluation system for the Executive Director/CIO. The Committee was also to bring forward recommendations on compensation terms. Mr. Lech reviewed a draft evaluation plan and timelines for completion of the evaluation and recommendations and timelines for compensation.

**IT WAS MOVED BY TREASURER SCHMIDT AND SECONDED BY MS. SMITH AND CARRIED BY A ROLL CALL VOTE TO ACCEPT THE PROPOSED EVALUATION PLAN AND TIMELINE FOR THE EXECUTIVE REVIEW. THE COMPENSATION REVIEW WILL BE ADDRESSED ONCE THE EVALUATION REVIEW IS IN PLACE.**

AYES: TREASURER SCHMIDT, MR. GESSNER, MS. TERNES, COMMISSIONER GAEBE, MS. SMITH, MR. LECH, MR. SANDAL, AND MR. CORNEIL

NAYS: NONE

MOTION CARRIED

ABSENT: LT. GOVERNOR WRIGLEY, COMMISSIONER HAMM, MR. TRENBEATH

Code of Conduct Recertification - The SIB was provided a copy of their Governance policy, Board Members' Code of Conduct. As outlined in the policy, board members are annually required to affirm their understanding of the policy by signing and dating the acknowledgement.

**MONITORING REPORTS:**

The following monitoring reports were presented to the SIB for the quarter ending June 30, 2014; Budget/Financial Conditions, Executive Limitations/Staff Relations, Investment Program Ends, Retirement Program Ends, and the "Watch List".

IT WAS MOVED BY TREASURER SCHMIDT AND SECONDED BY MR. GESSNER AND CARRIED BY A VOICE VOTE TO ACCEPT THE MONITORING REPORTS.

AYES: MS. SMITH, MR. SANDAL, MR. CORNEIL, MR. GESSNER, MR. LECH, MS. TERNES, COMMISSIONER GAEBE, AND TREASURER SCHMIDT

NAYS: NONE

MOTION CARRIED

ABSENT: LT. GOVERNOR WRIGLEY, COMMISSIONER HAMM, MR. TRENBEATH

The Board recessed at 9:52 a.m. and reconvened at 10:04 a.m.

**EDUCATION:**

Representatives of Callan Associates presented educational sessions on Capital Market Theory, Asset Allocation, and Fiduciary Roles.

**OTHER:**

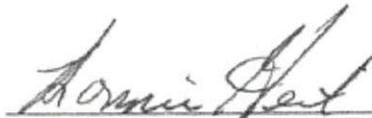
Next SIB Meeting - August 22, 2014, 8:30 a.m. - State Capitol, Peace Garden Room  
Next SIB Audit Committee meeting - September 26, 2014, 1:00 p.m. - State Capitol, Peace Garden Room

**ADJOURNMENT:**

With no further business to come before the SIB, Mr. Sandal adjourned the meeting at 11:59 a.m.



Mr. Sandal, Vice Chair  
State Investment Board



Bonnie Heit  
Assistant to the Board