

**NORTH DAKOTA STATE INVESTMENT BOARD
MINUTES OF THE
APRIL 22, 2016, BOARD MEETING**

MEMBERS PRESENT:

Drew Wrigley, Lt. Governor, Chair
Mike Sandal, Vice Chair
Lance Gaebe, Commissioner of Trust Lands
Adam Hamm, Insurance Commissioner
Mike Gessner, TFFR Board
Rob Lech, TFFR Board
Mel Olson, TFFR Board
Kelly Schmidt, State Treasurer (TLCF)
Yvonne Smith, PERS Board
Cindy Ternes, WSI designee
Tom Trenbeath, PERS Board

STAFF PRESENT:

Connie Flanagan, Fiscal & Invt Ops Mgr
Bonnie Heit, Assist to the SIB
David Hunter, ED/CIO
Fay Kopp, Dep ED/CRA
Terra Miller Bowley, Supvr Audit Services
Cody Schmidt, Compliance Officer
Darren Schulz, Dep CIO
Susan Walcker, Invt Acct

GUESTS PRESENT:

Larysa Bemko, Ballie Gifford
Gerard Callahan, Baillie Gifford
Jeff Eisenhofer, Grant & Eisenhofer, P.A. (TLCF)
Levi Erdmann, Dept. of Trust Lands
Wally Fikiri, William Blair
Chris Huckle, Ballie Gifford
Kent McAtamney, William Blair
Jan Murtha, Attorney General's Office
Bryan Reinhardt, PERS
Marc Weinberg, Grant & Eisenhofer, P.A. (TLCF)

CALL TO ORDER:

Lt. Governor Wrigley called the State Investment Board (SIB) meeting to order at 8:30 a.m. on Friday, April 22, 2016, at the State Capitol, Peace Garden Room, Bismarck, ND.

AGENDA:

IT WAS MOVED BY MS. TERNES AND SECONDED BY MR. LECH AND CARRIED ON A VOICE VOTE TO ACCEPT THE REVISED AGENDA FOR THE APRIL 22, 2016, MEETING AS DISTRIBUTED.

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

NAYS: NONE

MOTION CARRIED

MINUTES:

IT WAS MOVED BY MR. TRENBEATH AND SECONDED BY MR. GESSNER AND CARRIED ON A VOICE VOTE TO ACCEPT THE MARCH 18, 2016, MINUTES AS DISTRIBUTED.

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

NAYS: NONE

MOTION CARRIED

INVESTMENTS:

Annual Board Planning Cycle/Strategic Investment Plan - Mr. Hunter reviewed the SIB's Annual Board Planning Cycle and Strategic Investment Plan. Mr. Hunter requested the SIB accept the revised Biennial Agenda for April to include the annual review of the "Ends" policies and "RIO's Budget Guidelines."

IT WAS MOVED BY MR. LECH AND SECONDED BY MS. TERNES AND CARRIED BY A ROLL CALL VOTE TO ACCEPT THE REVISED BIENNIAL AGENDA.

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

NAYS: NONE

MOTION CARRIED

International Equity - Mr. Hunter briefed the board on the course of action that took place on the search for a firm to replace the existing Capital Group International Equity strategy within the Pension, Insurance, and Legacy Trusts.

IT WAS MOVED BY MR. SANDAL AND SECONDED BY MR. LECH AND CARRIED BY A VOICE VOTE TO SEQUESTER THE INTERNATIONAL EQUITY SEMI FINALISTS PER NDCC 44.04.19.2 SUBDIVISION 6.

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

NAYS: NONE

MOTION CARRIED

The SIB heard presentations from Ballie Gifford followed by William Blair.

The Board recessed at 10:31 a.m. and reconvened at 10:40 a.m.

Discussion took place on the two semi-finalists. RIO personnel, following an international equity search in collaboration with Callan Associates, recommended that the SIB award the mandate to William Blair Asset Management's International Leaders strategy. RIO felt the long history of growth equity investing dating back to the company's formation in 1935, offered a compelling high conviction, high quality international growth strategy that represents an attractive complement to the three Trusts existing global and international equity mandates. RIO also felt that introducing a true growth-oriented strategy to the existing investment programs provides diversification benefits and should be rewarded when quality growth is in favor. RIO's favorable view of the strategy is also attributable to a combination of the depth and experience of the portfolio management team, research, risk management, the firm, and investment process. The

current level of assets under management is reasonable and the firm has a history of closing strategies prior to liquidity and execution becoming problematic. Lastly, RIO felt the firm offered a competitive fee schedule for larger mandates.

IT WAS MOVED BY COMMISSIONER GAEBE AND SECONDED BY COMMISSIONER HAMM AND CARRIED BY A ROLL CALL VOTE TO ACCEPT STAFF RECOMMENDATION AND ALLOCATE \$445 MILLION TO WILLIAM BLAIR.

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

Lt. Governor Wrigley left the meeting and Mr. Sandal presided over the remainder of the meeting.

Bank of North Dakota (BND) Match Loan CD Program - Mr. Hunter stated staff is exploring funding alternatives for the BND Match Loan Certificate of Deposit Program given the state budget shortfalls which may require a portion of the Budget Stabilization Fund to help offset possible budget deficits. The BND CD Program accounts for \$90 million of the \$577 million Budget Stabilization Fund as of February 29, 2016. RIO personnel are considering the Legacy Fund as an alternative. Mr. Hunter stated the funding amount allocated to the BND CD Program would not change only the funding source would permanently change.

GOVERNANCE:

Securities Monitoring and Litigation Policy - Mr. Hunter reviewed the Securities Monitoring and Litigation Policy accepted by the SIB on November 20, 2015. Because there has been an increase in the number of international securities litigation cases in recent years, RIO personnel have been working with The Northern Trust and the Office of the Attorney General, specifically Ms. Murtha, to implement an international securities litigation monitoring program.

Ms. Murtha provided a recap of the SIB's securities litigation reviews and actions. Ms. Murtha also highlighted the 2010 Morrison case and its impact on securities litigation, which lead the SIB to begin the process of implementing a securities litigation-monitoring program.

Executive Session - Ms. Murtha briefed the board on the Volkswagen (VW) litigation and the SIB's potential representation. Ms. Murtha reached out to Grant & Eisenhofer, one of two US law firms, which is representing US investors in Germany. The SIB does not currently have representation for the litigation. Ms. Murtha requested Grant & Eisenhofer brief the SIB on only the facts of the case and to assist with the analysis.

Mr. Marc Weinberg and Mr. Jeff Eisenhofer, Grant & Eisenhofer, briefed the SIB on the facts. Mr. Weinberg stated for approximately eight years, VW has been engaging in systematic fraud, which started with the highest level of management all the way down through the entire company to install "defeat software" in its diesel engines. VW intentionally installed "defeat device" software in its clean diesel engines that were designed to detect and evade emissions tests. The software would detect when the car's emissions were being tested and would switch the car's engine into a cleaner running mode during the test. The controls were then turned off during actual road use, resulting in better fuel economy and performance, but producing greater pollutants. The fraud has significant ramifications worldwide not only on the owners of the vehicles but also on the stock price.

Ms. Murtha requested the SIB enter into Executive Session for attorney consultation regarding the Volkswagen Securities Fraud Litigation pursuant to NDCC 44-04-19.2 and 44-04-19.1(2) and (5).

IT WAS MOVED BY MR. TRENBEATH AND SECONDED BY MR. OLSON AND CARRIED BY A ROLL CALL VOTE TO ENTER INTO EXECUTIVE SESSION FOR ATTORNEY CONSULTATION PURSUANT TO NDCC 44-04-19.2 AND 44-04-19.1(2) AND (5).

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

NAYS: NONE

ABSENT: LT. GOVERNOR WRIGLEY

The SIB (Treasurer Schmidt via teleconference) RIO staff, Ms. Murtha, and Mr. Eisenhofer and Mr. Weinberg (via teleconference) were present during Executive Session. The Executive Session began at 11:21 am and concluded at 11:55 am.

The SIB took no action other than to continue to seek guidance from Ms. Murtha.

Client Request - Mr. Hunter stated Dr. Aaron Johnson, Bismarck State College Foundation board member, inquired if the Foundation could become a client of the SIB. Mr. Hunter, on the guidance of Ms. Murtha, informed Dr. Johnson that the University Systems takes the position that the Foundation is a separate private entity and therefore not a governmental unit of the State of North Dakota. North Dakota's legal statute would need to be amended to allow a Foundation to utilize the SIB for investment management services.

ADMINISTRATION:

Executive Review Committee - Mr. Sandal, Chair of the Executive Review Committee, updated the board on the Committee's progress. The Committee met on April 13, 2016, and reviewed the results of the SIB's Ends and Executive Limitation Survey, and Mr. Hunter's self-evaluation. The Committee also reviewed salary information. The Committee is in the process of drafting a final report, which will be provided to the SIB at their May 27, 2016, meeting.

Government Finance Officers Association (GFOA) - Mr. Hunter reported RIO has received the Certificate of Achievement for Excellence in Financial Reporting from GFOA for the 18th consecutive year.

Quarterly Monitoring - Per Governance Policy, Board/Staff Relationship/Monitoring Executive Performance C-4, the following monitoring reports for the quarter ending March 31, 2016, were provided to the SIB for their consideration: Budget/Financial Conditions, Executive Limitations/Staff Relations, Investment Program, and Retirement Program.

An updated Watch List for the same period was also included. RIO personnel requested JP Morgan's Mortgage Backed Securities mandate within the Pension Trust be placed on the Watchlist. This recommendation is the result of recent personnel changes within the firm's mortgage portfolio management team.

IT WAS MOVED BY MR. GESSNER AND SECONDED BY MR. LECH AND CARRIED BY A ROLL CALL VOTE TO ACCEPT THE QUARTERLY MONITORING REPORTS AND TO ACCEPT STAFF RECOMMENDATION TO ADD J.P. MORGAN'S MORTGAGE BACKED SECURITIES MANDATE WITHIN THE PENSION TRUST TO THE WATCHLIST.

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

NAYS: NONE

MOTION CARRIED

ABSENT: LT. GOVERNOR WRIGLEY

OTHER:

The next meeting of the SIB is scheduled for May 27, 2016, at 8:30 a.m. in the Peace Garden Room.

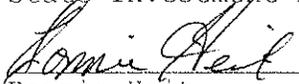
The next meeting of the SIB Audit Committee is scheduled for May 19, 2016, at 3:00 p.m. in the Peace Garden Room.

ADJOURNMENT:

With no further business to come before the SIB, Mr. Sandal adjourned the meeting at 12:05 p.m.



Mr. Mike Sandal, Vice Chair
State Investment Board



Bonnie Heit
Assistant to the Board