

**NORTH DAKOTA STATE INVESTMENT BOARD
MINUTES OF THE
MAY 27, 2016, BOARD MEETING**

MEMBERS PRESENT:

Drew Wrigley, Lt. Governor, Chair
Mike Sandal, Vice Chair
Lance Gaebe, Commissioner of Trust Lands
Mike Gessner, TFFR Board
Adam Hamm, Insurance Commissioner
Rob Lech, TFFR Board
Mel Olson, TFFR Board
Yvonne Smith, PERS Board
Cindy Ternes, WSI designee

MEMBERS ABSENT:

Kelly Schmidt, State Treasurer
Tom Trenbeath, PERS Board

STAFF PRESENT:

Eric Chin, Investment Analyst
Connie Flanagan, Fiscal & Invt Ops Mgr
Bonnie Heit, Assist to the SIB
David Hunter, ED/CIO
Bradley Kasper, Intern
Fay Kopp, Dep ED/CRA
Terra Miller Bowley, Supvr Audit Services
Cody Schmidt, Compliance Officer
Darren Schulz, Dep CIO

GUESTS PRESENT:

Alex Browning, Callan Associates
Jeff Engleson, Dept. of Trust Lands
Paul Erlendson, Callan Associates
Andrew Goldberg, JP Morgan
Eric Hardmeyer, Bank of North Dakota
Jan Murtha, Attorney General's Office (TLCF)
Tim Porter, Bank of North Dakota
Bryan Reinhardt, PERS
Jim Sakelaris, JP Morgan

CALL TO ORDER:

Lt. Governor Wrigley called the State Investment Board (SIB) meeting to order at 8:30 a.m. on Friday, May 27, 2016, at the State Capitol, Peace Garden Room, Bismarck, ND.

AGENDA:

IT WAS MOVED BY MS. TERNES AND SECONDED BY MR. GESSNER AND CARRIED ON A VOICE VOTE TO ACCEPT THE AGENDA FOR THE MAY 27, 2016, MEETING AS DISTRIBUTED.

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

NAYS: NONE

MOTION CARRIED

ABSENT: TREASURER SCHMIDT, MR. TRENBEATH

MINUTES:

IT WAS MOVED BY MR. LECH AND SECONDED BY MR. OLSON AND CARRIED ON A VOICE VOTE TO ACCEPT THE APRIL 22, 2016, MINUTES AS DISTRIBUTED.

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

NAYS: NONE

MOTION CARRIED

ABSENT: TREASURER SCHMIDT, MR. TRENBEATH

INVESTMENTS:

Asset/Investment Performance Overview - Mr. Hunter reviewed SIB clients assets under management as of March 31, 2016. Assets under management grew by approximately 4.9 percent or \$513 million in the last year. Assets totaled \$11,078,966,753 based on unaudited valuations as of March 31, 2016. The Pension Trust posted a net return of -0.41 percent (down \$20 million) in the last year. During the last 5 years, the Pension Trust generated a net annualized return of 6.27% exceeding the performance benchmark of 5.87%. The Insurance Trust generated a net return of 0.79 percent (up \$20 million) in the last year. During the last 5 years, the Insurance Trust generated a net annualized return of 4.8% exceeding the performance benchmark of 3.9%. The Legacy Fund generated a net investment loss of -0.33 percent for the year ended March 31, 2016. Since inception, the Legacy Fund has generated a net annualized return of 2.5% (over the last 4.5 years) exceeding the performance benchmark of 1.8%.

Every Pension Trust client generated positive excess returns for the 5 years ended March 31, 2016, with PERS and TFFR generating net investment returns of approximately 6.3% for the 5 years ended 3/31/16.

Every Non-Pension Trust client generated positive excess returns and positive risk adjusted excess returns for the 5 years ending March 31, 2016, if applicable, with one exception for the PERS Retiree Health Insurance Credit Fund.

Mr. Hunter also highlighted the investment work plan as of May 20, 2016.

JP Morgan Capital Markets - Mr. Andrew Goldberg presented his perspective on the current status of capital markets. Mr. Goldberg is a co-developer and oversees the development of JP Morgan's quarterly "Markets Insights - Guides to the Markets" publication.

Callan Associates - Mr. Erlendson and Mr. Browning reviewed the performance of the Pension Trust, Legacy Fund, and Insurance Trust for the period ending March 31, 2016.

IT WAS MOVED BY MS. TERNES AND SECONDED BY MR. GESSNER AND CARRIED BY A VOICE VOTE TO ACCEPT CALLAN'S PERFORMANCE REVIEW AND REPORTS FOR THE PERIOD ENDING MARCH 31, 2016.

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

NAYS: NONE

MOTION CARRIED

ABSENT: TREASURER SCHMIDT, MR. TRENBEATH

The Board recessed at 10:33 a.m. and reconvened at 10:45 a.m.

Commissioner Hamm was absent.

Bank of North Dakota (BND) Match Loan CD Program - Mr. Hunter stated staff is recommending that the BND CD Program be transferred from the Budget Stabilization Fund to the Legacy Fund prior to a portion of the Budget Stabilization Fund being used to offset expected budget shortfalls. Mr. Hunter stated the transfer is contingent upon BND guaranteeing a minimum 1.75% return noting that current 5-year Treasury rates, which the CD rates are based, were 1.37% as of May 23, 2016. The minimum return requirement will be reviewed at least annually if not more to ensure the Legacy Fund will be able to maintain its' long-term expected rate of return of approximately 6.4% per annum. Mr. Hunter stated if the investment is not transferred to the Legacy Fund, the future of the Program is uncertain from an SIB perspective.

Discussion followed on the funding protocol for the Bank of ND Match Loan CD Program. After discussion,

IT WAS MOVED BY MR. OLSON AND SECONDED BY MR. LECH AND CARRIED BY A ROLL CALL VOTE TO UPHOLD SIB GOVERNANCE POLICY E-12 INVESTMENTS/BANK OF NORTH DAKOTA MATCH LOAN PROGRAM WHICH STATES THE SOURCE OF FUNDING FOR THE CD'S SHALL BE DETERMINED BY THE INVESTMENT DIRECTOR; THAT FUNDING TO BE FROM THE MOST APPROPRIATE SOURCE CONSISTENT WITH LIQUIDITY AND RELATIVE YIELD AND RETURN OBJECTIVES AND CONSTRAINTS.

AYES: COMMISSIONER GAEBE, MS. SMITH, MR. LECH, MR. OLSON, MR. SANDAL, AND LT. GOVERNOR WRIGLEY

NAYS: MR. GESSNER, MS. TERNES

MOTION CARRIED

ABSENT: TREASURER SCHMIDT, COMMISSIONER HAMM, MR. TRENBEATH

Mr. Hunter will be reviewing this transaction with the Legacy and Budget Stabilization Fund Advisory Board at their June 15, 2016, meeting and will report back to the SIB.

Executive Session VW Litigation - 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 COMMISSIONER GAEBE AND SECONDED BY MS. SMITH AND CARRIED BY A VOICE 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, COMMISSIONER GAEBE, MR. GESSNER, MS. SMITH, MR. SANDAL, MS. TERNES, MR. LECH, AND LT. GOVERNOR WRIGLEY

NAYS: NONE

MOTION CARRIED

ABSENT: MR. TRENBEATH, COMMISSIONER HAMM, TREASURER SCHMIDT

The SIB, RIO staff, Ms. Murtha (TLCF), were present during Executive Session. Executive Session began at 11:39 am and concluded at 11:57 am.

IT WAS MOVED BY MR. SANDAL AND SECONDED BY MR. OLSON AND CARRIED BY A ROLL CALL VOTE TO ACCEPT STAFF RECOMMENDATION AND DESIGNATE GRANT & EISENHOFER TO ACT AS LIAISON COUNSEL WITH REGARDS TO THE VW LITIGATION MATTER AND TO AUTHORIZE RIO'S EXECUTIVE DIRECTOR TO EXECUTE NECESSARY FUNDING AND PARTICIPATION DOCUMENTS AND PROCEED WITH THE STEPS REQUIRED UNDER NDCC 54-12-08 AND 54-12-08.1.

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

NAYS: NONE

MOTION CARRIED

ABSENT: TREASURER SCHMIDT, COMMISSIONER HAMM, MR. TRENBEATH

ADMINISTRATION:

Audit Committee Report - Ms. Miller Bowley reported on the May 19, 2016, SIB Audit Committee meeting. Mr. Thomas Rey, CliftonLarsonAllen, reviewed the financial audit scope and approach for RIO for the period of July 1, 2015 - June 30, 2016. The GASB 68 audit report for the period of July 1, 2014 - June 30, 2015, was also approved as well as the Audit Committee's work plan for the period of July 1, 2016 - June 30, 2017. The Audit Committee also received an update on the internal audit division's activities for the third quarter. Included in the SIB packet was a revised charter of the Audit Committee. Ms. Miller Bowley stated the Audit Committee has updated and revised their charter and will present it to the SIB for their review and acceptance on an annual basis going forward. SIB Governance Policy B-6, *Governance Process/Standing Committees*, references the Audit Committee and that the Audit Committee shall operate under the terms of a charter approved by the SIB. Ms. Miller Bowley requested the SIB's acceptance of the revised charter as presented.

IT WAS MOVED BY MS. SMITH AND SECONDED BY COMMISSIONER GAEBE AND CARRIED BY A ROLL CALL VOTE TO ACCEPT THE SIB AUDIT COMMITTEE CHARTER AS PRESENTED.

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

NAYS: NONE

MOTION CARRIED

ABSENT: TREASURER SCHMIDT, COMMISSIONER HAMM, MR. TRENBEATH

IT WAS MOVED BY MR. GESSNER AND SECONDED BY MR. OLSON AND CARRIED BY A VOICE VOTE TO ACCEPT THE AUDIT COMMITTEE REPORT AS PRESENTED.

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

NAYS: NONE

MOTION CARRIED

ABSENT: COMMISSIONER HAMM, TREASURER SCHMIDT, MR. TRENBEATH

Executive Review Committee - Mr. Sandal, Chair of the Executive Review Committee, Mr. Lech, and Lt. Governor Wrigley reviewed their final report on the evaluation of the ED/CIO of RIO for the period of January 1, 2015 - December 31, 2015. The Committee felt that the ED/CIO continues to provide the SIB with strong and trusted leadership and vision. The ED/CIO has proven his ability to evaluate the needs of the SIB, board clients, and the RIO team, and the ED/CIO strives for continuous improvement in all areas. The ED/CIO has the respect of his team, SIB, board clients, and the legislature. As importantly, the ED/CIO continues to represent the SIB with unquestionable integrity. The Committee felt the SIB is very fortunate to have Mr. Hunter in the role of Executive Director/CIO. The Committee also recommended a 3 percent salary increase for the ED/CIO effective July 1, 2016.

IT WAS MOVED BY MR. SANDAL AND SECONDED BY COMMISSIONER GAEBE AND CARRIED BY A VOICE VOTE TO ACCEPT THE EXECUTIVE REVIEW COMMITTEE REPORT AND THEIR RECOMMENDATION OF A 3 PERCENT SALARY INCREASE FOR THE ED/CIO EFFECTIVE JULY 1, 2016.

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

NAYS: NONE

MOTION CARRIED

ABSENT: COMMISSIONER HAMM, TREASURER SCHMIDT, MR. TRENBEATH

Employee Benefits Programs Committee - Included in the SIB meeting materials was the presentation given to the Employee Benefits Programs Committee on April 28, 2016, by Mr. Schulz. The report was for informational purposes only.

RIO Code of Conduct and Ethics Policy - Mr. Hunter reviewed RIO's current Code of Conduct and Ethics Policy and Travel Policy. Mr. Hunter also highlighted areas that had been enhanced to specifically clarify business expenses and fraud reporting.

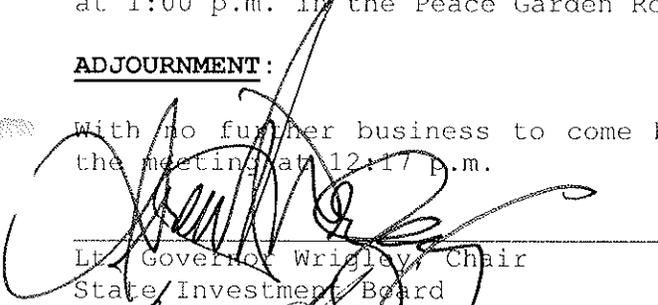
OTHER:

The next meeting of the SIB is scheduled for July 22, 2016, at 8:30 a.m. at Bismarck State College, National Energy Center of Excellence, Energy Generation Conf Rm #335, 1500 Edwards Avenue, Bismarck, ND.

The next meeting of the SIB Audit Committee is scheduled for September 23, 2016, at 1:00 p.m. in the Peace Garden Room at the State Capitol.

ADJOURNMENT:

With no further business to come before the SIB, Lt. Governor Wrigley adjourned the meeting at 12:17 p.m.



Lt. Governor Wrigley, Chair
State Investment Board



Bonnie Heit
Assistant to the Board