

**STATE INVESTMENT BOARD
MINUTES OF THE
JULY 20, 2007, BOARD MEETING**

BOARD MEMBERS PRESENT: Howard Sage, Vice Chair
Clarence Corneil, TFFR Board
Mike Gessner, TFFR Board
Ron Leingang, PERS Board
Jim Long, Workforce Safety & Insurance
Jim Poolman, Insurance Commissioner
Gary Preszler, Land Commissioner
Mike Sandal, PERS Board
Wayne Sanstead, TFFR Board
Kelly Schmidt, State Treasurer

MEMBERS ABSENT: Sandy Blunt, Workforce Safety & Insurance
Lt. Governor Jack Dalrymple, Chair

STAFF PRESENT: Steve Cochrane, Executive Director
Fay Kopp, Deputy Executive Director
Connie Flanagan, Fiscal & Investment Officer
Susan Gefroh, Investment Accountant
Bonnie Heit, Office Manager
Dottie Thorsen, Internal Audit

OTHERS PRESENT: Weldee Baetsch, former SIB trustee
John Dewey, Capital Guardian
Bill Kalanek, RTA/AFPE
James McGuigan, Capital Guardian
Bryan Reinhardt, PERS
Cindy Ternes, Workforce Safety & Insurance
Aaron Webb, Attorney General's Office

CALL TO ORDER:

Mr. Howard Sage, Vice Chair, called the State Investment Board (SIB) meeting to order at 8:30 a.m. on Friday, July 20, 2007, in the Ft. Totten Room, at the State Capitol, Bismarck, ND.

THE FOLLOWING MEMBERS WERE PRESENT REPRESENTING A QUORUM: MR. GESSNER, MR. LEINGANG, MR. CORNEIL, TREASURER SCHMIDT, COMMISSIONER POOLMAN, DR. LONG, MR. SAGE, DR. SANSTEAD, MR. SANDAL

ABSENT: LT. GOVERNOR DALRYMPLE, COMMISSIONER PRESZLER

Mr. Sage introduced Mr. Mike Sandal. Mr. Sandal will be one of three trustees who will represent the Public Employees Retirement System (PERS) on the SIB for the term of 7/1/07 - 6/30/12. Mr. Sandal has been employed by the State for over 22 years and is currently employed by the State Supreme Court as Human Resource Director. The Board welcomed Mr. Sandal.

MINUTES:

The Board considered the minutes of the June 15, 2007, meeting,

COMMISSIONER POOLMAN MOVED AND TREASURER SCHMIDT SECONDED TO APPROVE THE JUNE 15, 2007, MEETING MINUTES.

AYES: COMMISSIONER POOLMAN, DR. LONG, MR. GESSNER, MR. LEINGANG, MR. SAGE, MR. SANDAL, DR. SANSTEAD, MR. CORNEIL, AND TREASURER SCHMIDT

NAYS: NONE

MOTION CARRIED

ABSENT: LT. GOVERNOR DALRYMPLE, COMMISSIONER PRESZLER

ELECTION OF OFFICERS:Chair

COMMISSIONER POOLMAN MOVED AND TREASURER SCHMIDT SECONDED TO NOMINATE LT. GOVERNOR DALRYMPLE AS CHAIR OF THE SIB FOR THE PERIOD OF JULY 1, 2007 - JUNE 30, 2008.

TREASURER SCHMIDT MOVED AND COMMISSIONER POOLMAN SECONDED TO CEASE NOMINATIONS AND CAST A UNANIMOUS BALLOT FOR LT. GOVERNOR DALRYMPLE

AYES: MR. GESSNER, MR. LEINGANG, DR. LONG, TREASURER SCHMIDT, DR. SANSTEAD, COMMISSIONER POOLMAN, MR. CORNEIL, MR. SAGE, AND MR. SANDAL

NAYS: NONE

MOTION CARRIED

ABSENT: LT. GOVERNOR DALRYMPLE, COMMISSIONER PRESZLER

Vice Chair

COMMISSIONER POOLMAN MOVED AND MR. LEINGANG SECONDED TO NOMINATE MR. SAGE AS VICE CHAIR OF THE SIB FOR THE PERIOD OF JULY 1, 2007 - JUNE 30, 2008.

COMMISSIONER POOLMAN MOVED AND TREASURER SCHMIDT SECONDED TO CEASE NOMINATIONS AND CAST A UNANIMOUS BALLOT FOR MR. SAGE

AYES: MR. CORNEIL, MR. GESSNER, MR. SANDAL, MR. LEINGANG, DR. LONG, TREASURER SCHMIDT, COMMISSIONER POOLMAN, DR. SANSTEAD, AND MR. SAGE

NAYS: NONE

MOTION CARRIED

ABSENT: LT. GOVERNOR DALRYMPLE, COMMISSIONER PRESZLER

Parliamentarian

Mr. Sage reappointed Mr. Clarence Corneil as parliamentarian for the period of July 1, 2007 - June 30, 2008.

SELECTION OF AUDIT COMMITTEE MEMBERS:

Mr. Cochrane, Executive Director, stated the current representatives for the SIB Audit Committee are Dr. Jim Long or Ms. Cindy Ternes, delegated by Mr. John Halvorson, Acting Executive Director/CEO, Workforce Safety & Insurance (WSI), representing elected and appointed officials; Mr. Ron Leingang, representing the Public Employees Retirement System (PERS); Mr. Mike Gessner, representing the Teachers' Fund for Retirement (TFFR); and external representatives Ms. Becky Dorwart and Mr. Lonny Mertz. The current representatives have agreed to serve for the period of July 1, 2007 - June 30, 2008 and Vice Chair Sage reaffirmed.

Mr. Steve Cochrane, Executive Director, updated the Board on estimated (net basis) returns for fiscal year ending June 30, 2007; Pension Trust 18.79%, TFFR 19.49%, PERS 18.34%, Insurance 10.17%, and WSI 10.16%.

BOARD EDUCATION:

Carver Governance - Mr. Cochrane reviewed the SIB's Carver Governance Model Section C. Board-Staff Relationship to reiterate the role of each and stated he plans to schedule an educational segment on the model into the work plan in the near future to benefit new trustees as well those who have been serving.

Capital Intl Private Equity Fund V - Capital Guardian International representatives Mr. James McGuigan and Mr. John Dewey reviewed the firm's fifth emerging market private equity fund.

A copy of their presentation is on file at RIO.

The Board recessed at 9:45 a.m. and reconvened at 10:00 a.m.

GOVERNANCE:

INVESTMENTS

Emerging Market Equity - Mr. Cochrane reviewed Capital Guardian's Emerging Market Private Equity Fund V and how the Board could take advantage of the investment opportunity in the Pension Trust's emerging market equity allocation. He recommended allocating \$35 million to Capital Guardian's Emerging Market Private Equity Fund V with the monies coming from UBS' mandate. After discussion,

COMMISSIONER PRESZLER MOVED AND COMMISSIONER POOLMAN SECONDED TO ALLOCATE \$35 MILLION TO CAPITAL GUARDIAN'S EMERGING MARKET PRIVATE EQUITY FUND V AND PUT THIS ALLOCATION IN A SEPARATE SUBCLASS OF EMERGING MARKETS WITH THE FUNDING COMING FROM UBS. A ROLL CALL VOTE WAS TAKEN AS FOLLOWS:

AYES: MR. GESSNER, MR. CORNEIL, MR. LEINGANG, MR. SANDAL, DR. SANSTEAD, DR. LONG, COMMISSIONER POOLMAN, TREASURER SCHMIDT, COMMISSIONER PRESZLER, AND MR. SAGE

NAYS: NONE

MOTION CARRIED

ABSENT: LT. GOVERNOR DALRYMPLE

ADMINISTRATION

Work Plan FY 2007 - Mr. Cochran presented a revised work plan for the Board's consideration.

TREASURER SCHMIDT MOVED AND MR. GESSNER SECONDED TO APPROVE THE REVISED WORK PLAN AND ALSO SCHEDULE INTO THE WORK PLAN REVIEW OF THE CARVER GOVERNANCE MODEL, SARBANES OXLEY ACT AND HOW IT AFFECTS INSURANCE FUNDS, AND ALSO HOLD DISCUSSIONS ON FORMULIZING FUND MANAGER SELECTION.

AYES: MR. SANDAL, MR. CORNEIL, MR. GESSNER, DR. SANSTEAD, MR. SAGE, DR. LONG, COMMISSIONER PRESZLER, MR. LEINGANG, AND TREASURER SCHMIDT
NAYS: NONE

MOTION CARRIED

ABSENT: LT. GOVERNOR DALRYMPLE, COMMISSIONER POOLMAN

The Board also discussed holding a lengthier meeting within the next two months to discuss specific items. If Board members have items they would like brought up for discussion, they are to let Mr. Sage know.

CEO/CIO Compensation Committee - The Compensation Committee consisting of Mr. Sage, Chair, Commissioner Poolman, and Mr. Gessner recommended a 4% salary increase for the period of July 1, 2007 through June 30, 2008 for an annual base salary of \$166,400. Mr. Sage also indicated the Compensation Committee would like to extend their role to formulize the CEO/CIO evaluation/compensation process. The Board concurred.

MR. LEINGANG MOVED AND TREASURER SCHMIDT SECONDED TO ACCEPT THE RECOMMENDATION OF THE COMPENSATION COMMITTEE. A ROLL CALL VOTE WAS TAKEN AS FOLLOWS:

AYES: DR. LONG, MR. LEINGANG, MR. GESSNER, MR. SANDAL, MR. SAGE, COMMISSIONER PRESZLER, MR. CORNEIL, TREASURER SCHMIDT, AND DR. SANSTEAD
NAYS: NONE

MOTION CARRIED

ABSENT: LT. GOVERNOR DALRYMPLE, COMMISSIONER POOLMAN

MONITORING:

The Board received the following quarterly monitoring reports for their consideration; Executive Limitations/Staff Relations, Budget/Financial Conditions, Investment Program, and Retirement Program.

TREASURER SCHMIDT MOVED AND DR. LONG SECONDED TO APPROVE THE MONITORING REPORTS AS PRESENTED. A ROLL CALL VOTE WAS TAKEN AS FOLLOWS:

AYES: TREASURER SCHMIDT, DR. LONG, COMMISSIONER PRESZLER, MR. LEINGANG, DR. SANSTEAD, MR. SANDAL, MR. SAGE, MR. CORNEIL, AND MR. GESSNER
NAYS: NONE

MOTION CARRIED.

ABSENT: LT. GOVERNOR DALRYMPLE, COMMISSIONER POOLMAN

OTHER:

The next SIB and SIB Audit Committee meeting is scheduled for August 17, 2007, at 8:30 a.m. and 1:00 p.m. respectively, at the State Capitol, Ft. Union Room, 600 E. Boulevard, Bismarck.

Budget Stabilization Investment Guidelines - Mrs. Connie Flanagan, Fiscal and Investment Officer, presented revised Budget Stabilization investment guidelines for the Board's consideration.

TREASURER SCHMIDT MOVED AND MR. GESSNER SECONDED TO APPROVE THE BUDGET STABILIZATION GUIDELINES AS PRESENTED. A ROLL CALL VOTE WAS TAKEN AS FOLLOWS:

AYES: MR. LEINGANG, MR. SANDAL, MR. CORNEIL, MR. GESSNER, DR. SANSTEAD, MR. SAGE, DR. LONG, COMMISSIONER PRESZLER, AND TREASURER SCHMIDT

NAYS: NONE

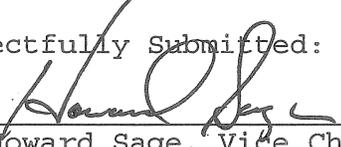
MOTION CARRIED

ABSENT: LT. GOVERNOR DALRYMPLE, COMMISSIONER POOLMAN

ADJOURNMENT:

With no further business to come before the Board, Mr. Sage adjourned the meeting at 11:45 a.m.

Respectfully Submitted:



 Mr. Howard Sage, Vice Chair
 State Investment Board



 Bonnie Heit
 Reporting Secretary