

**STATE INVESTMENT BOARD
MINUTES OF THE
AUGUST 17, 2007, BOARD MEETING**

BOARD MEMBERS PRESENT: Lt. Governor Jack Dalrymple, Chair, (teleconference)
Howard Sage, Vice Chair
Clarence Corneil, TFFR Board
Mike Gessner, TFFR Board
Ron Leingang, PERS Board
Jim Poolman, Insurance Commissioner
Gary Preszler, Land Commissioner
Mike Sandal, PERS Board
Wayne Sanstead, TFFR Board
Kelly Schmidt, State Treasurer
Cindy Ternes, Workforce Safety & Insurance

STAFF PRESENT: Steve Cochrane, Executive Director
Fay Kopp, Deputy Executive Director
Connie Flanagan, Fiscal & Investment Officer
Bonnie Heit, Office Manager
Darlene Roppel, Retirement Assistant
Dottie Thorsen, Internal Audit

OTHERS PRESENT: Doug Angstrom, Goldman Sachs
Weldee Baetsch, former SIB trustee
Sparb Collins, PERS
Melina Higgins, Goldman Sachs
Jay Hurley, INVESCO
Tom Johnson, TIR
Bill Kalanek, RTA/AFPE
Gary Rath, NDEA
Bryan Reinhardt, PERS
Mark Seaman, TIR
Max Swango, INVESCO
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, August 17, 2007, in the Ft. Union Room, at the State Capitol, Bismarck, ND.

THE FOLLOWING MEMBERS WERE PRESENT REPRESENTING A QUORUM: COMMISSIONER POOLMAN, MS. TERNES, COMMISSIONER PRESZLER, MR. GESSNER, MR. LEINGANG, LT. GOVERNOR DALRYMPLE, MR. SAGE, MR. SANDAL, DR. SANSTEAD, MR. CORNEIL, AND TREASURER SCHMIDT

MINUTES:

The Board considered the minutes of the July 20, 2007, meeting,

TREASURER SCHMIDT MOVED AND DR. SANSTEAD SECONDED TO APPROVE THE JULY 20, 2007, MEETING MINUTES.

Commissioner Preszler questioned staff recommendation of \$35 million on page 3, emerging market equity, line 4. He recalled the recommendation was \$35-\$55 million:

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.

The Board approved the minutes with the exception of Commissioner Preszler's question. Vice Chair Sage instructed staff to review notes/recording for clarification.

AYES: COMMISSIONER POOLMAN, MS. TERNES, COMMISSIONER PRESZLER, MR. GESSNER, MR. LEINGANG, LT. GOVERNOR DALRYMPLE, MR. SAGE, MR. SANDAL, DR. SANSTEAD, MR. CORNEIL, AND TREASURER SCHMIDT
NAYS: NONE

MOTION CARRIED

After reviewing notes/recording from the July 20, 2007, meeting, Mr. Cochrane had explained that if the SIB had a preference for \$35 million to be invested on average at any point and time of the life cycle of the Fund, then he suggested a commitment of up to \$55 million would accomplish that objective, however, Mr. Cochrane's recommendation of \$35 million as noted in his presentation was the intent.

BOARD EDUCATION:

Fiscal Year 2007 Investment Review - Mr. Steve Cochrane, Executive Director, reviewed performance for the period ending June 30, 2007: Pension Trust 19.90%, Insurance Trust 10.61%, PERS (Gross) 19.53%, and TFFR (Gross) 20.86%.

Goldman Sachs - Goldman Sachs representatives Ms. Melina Higgins and Mr. Doug Angstrom reviewed the firm's Mezzanine Partners Fund V investment opportunity for the Board's consideration.

A copy of their presentation is on file at the Retirement and Investment Office.

INVESCO - INVESCO representatives Mr. Jay Hurley and Mr. Max Swango reviewed the firm's Value Added Fund investment opportunity for the Board's consideration.

A copy of their presentation is on file at the Retirement and Investment Office.

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

Timberland Investment Resources - Timberland Investment Resources (TIR) representatives Mr. Mark Seaman and Mr. Tom Johnson reviewed an investment opportunity using timberland as an inflation hedge in the Insurance Trust portfolio.

A copy of their presentation is on file at the Retirement and Investment Office.

GOVERNANCE:

INVESTMENTS

High Yield/Pension Trust - Mr. Cochrane reviewed Goldman Sachs Mezzanine Partners Fund V investment opportunity. Mr. Cochrane suggested a range of \$20 - \$40 million and recommended \$20 million.

COMMISSIONER POOLMAN MOVED AND TREASURER SCHMIDT SECONDED TO COMMIT \$30 MILLION TO GOLDMAN SACHS MEZZANINE PARTNERS FUND V.

Roll call:

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

NAYS: NONE

MOTION CARRIED.

ABSENT: LT. GOVERNOR DALRYMPLE

Real Estate/Pension Trust - Mr. Cochrane reviewed INVESCO's Value-Added Fund II additional investment opportunity for the Board's consideration. Mr. Cochrane recommended allocating \$50 million of which the assets would come from the SIB's existing INVESCO relationship.

MR. GESSNER MOVED AND MR. CORNEIL SECONDED TO ALLOCATE \$50 MILLION FROM INVESCO'S CORE PROPERTY FUND INTO INVESCO'S VALUE ADDED FUND II.

Roll call:

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

NAYES: NONE

MOTION CARRIED

ABSENT: LT. GOVERNOR DALRYMPLE

Treasury Inflation Protected (TIPS) Allocation/Insurance Trust - Mr. Cochrane reviewed the investment opportunity with TIR. Currently, 22% of the Insurance Trust's portfolio is in TIPS which is driven by Workforce Safety & Insurance (WSI). WSI has conducted liability sensitive asset allocation studies with Callan Associates, Inc. in January 2004 and May 2005. Their investment goal is to supplement premiums through various investments to accomplish its statutory obligations. WSI used to have large deficits in terms of a funded position.

They now have a surplus and are trying to control risk by looking into other options for inflation protected assets. Expanding the TIPs allocation is also a means to further diversify the portfolio and to possibly hedge for medical inflation. Mr. Cochrane recommended utilizing 20%/\$60 million of the TIPs portfolio or 4.5% of the total Insurance Trust portfolio and allocating that into timber as another means of passing inflation through the portfolio.

The Board discussed that they would need direction from WSI before they could act. WSI would have to make changes to their investment policy and then the SIB would have to approve those changes before the SIB could take any action on diversifying the portfolio.

COMMISSIONER PRESZLER MOVED AND COMMISSIONER POOLMAN SECONDED TO TABLE THE TIR INVESTMENT OPPORTUNITY UNTIL WSI BOARD OF DIRECTORS HAS ACTED ON THEIR INVESTMENT POLICY.

Roll call:

**AYES: COMMISSIONER POOLMAN, MS. TERNES, TREASURER SCHMIDT, COMMISSIONER PRESZLER, MR. SAGE, DR. SANSTEAD, MR. SANDAL, MR. LEINGANG, MR. CORNEIL
NAYS: MR. GESSNER**

MOTION CARRIED

ABSENT: LT. GOVERNOR DALRYMPLE

ADMINISTRATION

Manager Review Status Report - Mr. Cochrane reported currently Bank of Ireland has been on "manager review status" since February 17, 2006, and are scheduled for an overall review in February 2008. He also recommended placing Lazard Asset Management on review for performance issues and turnover in key personnel. He will be bringing a recommendation for replacing this mandate to the Board at a future date.

TREASURER SCHMIDT MOVED AND COMMISSIONER POOLMAN SECONDED TO ACCEPT STAFF RECOMMENDATION AND PLACE LAZARD ASSET MANAGEMENT ON MANAGER REVIEW STATUS.

Roll call:

**AYES: MR. SAGE, DR. SANSTEAD, MR. GESSNER, MR. CORNEIL, MR. SANDAL, COMMISSIONER POOLMAN, MS. TERNES, COMMISSIONER PRESZLER, MR. LEINGANG, AND TREASURER SCHMIDT
NAYS: NONE**

MOTION CARRIED

ABSENT: LT. GOVERNOR DALRYMPLE

MONITORING:

Included in the Board members' packets were the June 30, 2007, Callan Investment Measurement quarterly reviews for the Pension and Insurance Trusts. Mr. Paul Erlendson, Callan Associates, Inc., provided comments.

OTHER:

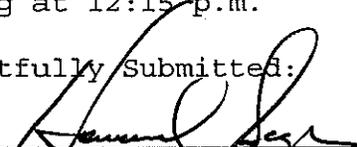
The next SIB meeting is scheduled for September 21, 2007, at 8:30 a.m. at the State Capitol, Ft. Union Room, 600 E. Boulevard, Bismarck. The SIB Audit Committee meeting scheduled for August 17, 2007, at 1:00 pm had been cancelled and will be rescheduled.

Mr. Cochrane informed the Board the ND Secretary of State had contacted him inquiring if the SIB would be interested in joining the Council of Institutional Investors (CII). During the last ND legislative session, a law was passed encouraging corporations to incorporate in ND for the purpose of expanding shareholder rights. CII promotes shareholder rights and changing corporate structure. The annual fee is based on asset size and currently would be approximately \$7,300 per year. The Board tabled this issue until the Board has had a chance to do some research on CII.

ADJOURNMENT:

With no further business to come before the Board, Mr. Sage adjourned the meeting at 12:15 p.m.

Respectfully Submitted:



 Mr. Howard Sage, Vice Chair
 State Investment Board



 Bonnie Heit
 Reporting Secretary