

**STATE INVESTMENT BOARD  
MINUTES OF THE  
OCTOBER 19, 2007, BOARD MEETING**

**BOARD MEMBERS PRESENT:** Lt. Governor Jack Dalrymple, Chair,  
Howard Sage, Vice Chair  
Clarence Corneil, TFFR Board  
Mike Gessner, TFFR Board  
Ron Leingang, PERS Board  
Gary Preszler, Land Commissioner  
Mike Sandal, PERS Board  
Kelly Schmidt, State Treasurer  
Cindy Ternes, Workforce Safety & Insurance  
Bob Toso, TFFR Board

**BOARD MEMBERS ABSENT:** Insurance Commissioner

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

**OTHERS PRESENT:** Akbar Ali, Dimensional Fund Advisors  
Eve Atchison, European Credit Management  
Weldee Baetsch, former SIB trustee  
Jennifer Bridwell, PIMCO  
Paul Erlendson, Callan Associates, Inc.  
Bill Kalanek, RTA/AFPE  
Robert Morena, PIMCO  
John Reese, European Credit Management  
Carol Wardlaw, Dimensional Fund Advisors  
Aaron Webb, Attorney General's Office

**CALL TO ORDER:**

Lt. Governor Dalrymple, called the State Investment Board (SIB) meeting to order at 8:30 a.m. on Friday, October 19, 2007, in the Ft. Union Room, at the State Capitol, Bismarck, ND.

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

**ABSENT: INSURANCE COMMISSIONER**

Lt. Governor Dalrymple welcomed the new board members. He reminded old/new board members that the SIB's job is not to manage the investments of the retirees. The Board's job is to find people to manage the investments for the retirees and the Board uses the Executive Director as the point person to do that. It is very important that the SIB as a Board of Directors oversees the evaluation and selection of those managers but really the Board is not relying

on themselves so much to make that decision, but rather depending on qualified staff.

He also reminded the Board the selection of the allocation of the investments is really not up to the SIB either. The SIB's clients choose the allocations and it is the Board's job to implement them.

**MINUTES:**

The Board considered the minutes of the September 21, 2007, meeting,

**TREASURER SCHMIDT MOVED AND MR. SAGE SECONDED TO APPROVE THE SEPTEMBER 21, 2007, MEETING MINUTES.**

**AYES: MS. TERNES, COMMISSIONER PRESZLER, MR. GESSNER, MR. LEINGANG, LT. GOVERNOR DALRYMPLE, MR. SAGE, MR. SANDAL, MR. TOSO, MR. CORNEIL, AND TREASURER SCHMIDT**

**NAYS: NONE**

**MOTION CARRIED**

**ABSENT: INSURANCE COMMISSIONER**

**BOARD EDUCATION:**

European Credit Management (ECM) - Representatives Mr. John Reese and Ms. Eve Atchison reviewed the European bond market and portfolio construction and the firm's product European Credit Luxemburg (ECL). A copy of their presentation is on file at the Retirement and Investment Office.

The Board recessed at 9:50 a.m. and reconvened at 10:00 a.m.

Dimensional Fund Advisors (DFA) - Ms. Carol Wardlaw and Mr. Akbar Ali reviewed the firm's International Small Cap Value product. A copy of their presentation is on file at the Retirement and Investment Office.

The Board recessed at 10:45 a.m. and reconvened at 10:50 a.m.

PIMCO - Ms. Jennifer Bridwell and Mr. Robert Morena reviewed the firm's Distressed Mortgage Fund product. A copy of their presentation is on file at the Retirement and Investment Office.

**GOVERNANCE:**

**INVESTMENTS**

Large Cap Domestic Equity - Pension Trust - Mr. Steve Cochrane, Executive Director, reviewed ECM's ECL product and recommended allocating \$50 million of the Pension Trust's Large Cap Domestic Equity allocation to the firm. After discussion,

**MR. GESSNER MOVED AND MR. CORNEIL SECONDED TO ALLOCATE \$50 MILLION TO ECM TO MANAGE AN ECL PRODUCT.**

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

MOTION CARRIED

ABSENT: INSURANCE COMMISSIONER, MR. SAGE

International Equity - Pension/Insurance Trust - Mr. Cochrane reviewed DFA's International Small Cap Value product and recommended the firm as a replacement for Lazard Asset Management. DFA would manage \$50 million of the Pension Trust and \$11 million of the Insurance Trust. After discussion,

TREASURER SCHMIDT MOVED AND MS. TERNES SECONDED TO HIRE DFA AS A REPLACEMENT FOR LAZARD ASSET MANAGEMENT TO INITIALLY MANAGE AN INTERNATIONAL SMALL CAP VALUE PRODUCT OF \$50 MILLION FOR THE PENSION TRUST AND \$11 MILLION FOR THE INSURANCE TRUST.

AYES: TREASURER SCHMIDT, MS. TERNES, MR. LEINGANG, MR. SANDAL, MR. GESSNER, MR. CORNEIL, COMMISSIONER PRESZLER, MR. TOSO, AND Lt. GOVERNOR DALRYMPLE  
 NAYS: NONE

MOTION CARRIED

ABSENT: INSURANCE COMMISSIONER, MR. SAGE

High Yield Fixed Income - Pension Trust - Mr. Cochrane reviewed PIMCO's Distressed Mortgage Fund product and recommended hiring PIMCO to manage a \$25 million account in the Pension Trust's High Yield Fixed Income allocation. After discussion,

MR. GESSNER MOVED AND TREASURER SCHMIDT SECONDED TO HIRE PIMCO TO MANAGE UP TO \$25 MILLION IN THEIR DISTRESSED MORTGAGE FUND PRODUCT IN THE PENSION TRUST'S HIGH YIELD FIXED INCOME ALLOCATION.

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

MOTION CARRIED

ABSENT: INSURANCE COMMISSIONER, MR. SAGE

Lt. Governor Dalrymple left the meeting and Treasurer Schmidt presided over the remainder of the meeting.

ADMINISTRATION

Teachers' Fund for Retirement (TFFR) Investment Guidelines - Mrs. Connie Flanagan, Fiscal and Investment Officer, presented revised TFFR investment guidelines for the Board's consideration.

MR. CORNEIL MOVED AND MR. GESSNER SECONDED TO APPROVE THE TFFR INVESTMENT GUIDELINES AS PRESENTED.

AYES: MR. TOSO, MR. GESSNER, MR. CORNEIL, MR. SANDAL, MS. TERNES, MR. LEINGANG, AND TREASURER SCHMIDT

**NAYS: NONE**

**MOTION CARRIED**

**ABSENT: INSURANCE COMMISSIONER, MR. SAGE, LT. GOVERNOR DALRYMPLE, COMMISSIONER PRESZLER**

Workplan Update - Mr. Cochrane presented a revised work plan for the Board's consideration.

**MR. LEINGANG MOVED AND MR. GESSNER SECONDED TO APPROVE THE REVISED WORKPLAN AS PRESENTED.**

**AYES: MR. TOSO, TREASURER SCHMIDT, MR. CORNEIL, MR. SANDAL, MR. GESSNER, MR. LEINGANG, MS. TERNES**

**NAYS: NONE**

**MOTION CARRIED**

**ABSENT: INSURANCE COMMISSIONER, MR. SAGE, LT. GOVERNOR DALRYMPLE, COMMISSIONER PRESZLER**

Callan/Securities Exchange Commission (SEC) Settlement - Mr. Paul Erlendson, Callan Associates, Inc., informed the Board that the SEC examination of Callan, which began in late 2003 as part of a larger examination of the consulting industry, was officially concluded on September 19, 2007. The SEC's issue with Callan related to their opinion that some of Callan's past disclosures describing their 1998 sale of Alpha Management to the Bank of New York was incomplete or misleading. The SEC is now formally requiring Callan, via an order, to cease-and-desist from providing any incomplete disclosures in the future. When Callan was informed in 2005 by the SEC staff that they believed the disclosures relating to the sale of Alpha Management were incomplete, Callan voluntarily updated Form ADV Part II to provide more detail. Additionally, as noted in Callan's ADV Part II, as of January 9, 2007 the transaction between Callan and the Bank of New York has been concluded and Callan has no further relationship with the Bank of New York relating to the sale. The matter is now closed.

City of Fargo - Mr. Cochrane informed the Board the City of Fargo Employees Pension Board approved moving all of the City Employee Pension Fund assets to the SIB effective January 1, 2008. The market value of assets in this account as of September 30, 2007 is approximately \$32 million and will be closed. The City of Fargo will also be joining the Public Employees Retirement System (PERS) effective January 1, 2008 on a prospective basis and the City of Fargo Pension Board would like to have all funds managed in a similar manner for all new City of Fargo plan participants. So there will be an old and a new plan administered through the SIB. After discussion,

**MS. TERNES MOVED AND MR. TOSO SECONDED TO APPROVE THE SIB'S MANAGEMENT OF APPROXIMATELY \$32 MILLION OF THE CITY OF FARGO EMPLOYEES' PENSION FUND IN THE SIB'S PENSION TRUST POOL PENDING ANY APPROVAL NEEDED FROM THE INDUSTRIAL COMMISSION.**

**AYES: MR. TOSO, MR. SANDAL, MR. CORNEIL, MR. GESSNER, TREASURER SCHMIDT, MS. TERNES, AND MR. LEINGANG**

**NAYS: NONE**

**MOTION CARRIED**

**ABSENT: INSURANCE COMMISSIONER, MR. SAGE, LT. GOVERNOR DALRYMPLE, COMMISSIONER PRESZLER**

**QUARTERLY MONITORING:**

Included in the board member's packets were the following quarterly monitoring reports; Executive Limitation/Staff Relations, Budget/Financial Conditions, Investment Program, and Retirement Program.

**MR. CORNEIL MOVED AND MR. SANDAL SECONDED TO APPROVE THE QUARTERLY MONITORING REPORTS.**

**AYES: MR. LEINGANG, MR. SANDAL, MR. CORNEIL, MR. GESSNER, MR. TOSO, MS. TERNES, AND TREASURER SCHMIDT**

**NAYS: NONE**

**MOTION CARRIED**

**ABSENT: INSURANCE COMMISSIONER, MR. SAGE, LT. GOVERNOR DALRYMPLE, COMMISSIONER PRESZLER**

**OTHER:**

Mr. Cochrane informed the Board Mr. Rick Larson, Deputy Land Commissioner and alternate on the SIB, has accepted employment with Marathon Oil. He will be missed.

**ADJOURNMENT:**

With no further business to come before the Board, Treasurer Schmidt adjourned the meeting at 12:30 p.m.

Respectfully Submitted:

  
 Lt. Governor Dalrymple, Chair  
 State Investment Board

  
 Bonnie Heit  
 Reporting Secretary