

**STATE INVESTMENT BOARD
MINUTES OF THE
May 16, 2008, BOARD MEETING**

BOARD MEMBERS PRESENT: Lt. Governor Jack Dalrymple, Chair
Clarence Corneil, Vice Chair
Mike Gessner, TFFR Board
Ron Leingang, PERS Board
Mike Sandal, PERS Board
Kelly Schmidt, State Treasurer
Cindy Ternes, Workforce Safety & Insurance
Bob Toso, TFFR Board
Tom Trenbeath, PERS Board

MEMBERS ABSENT: Jeff Engleson, Deputy Land Commissioner
Adam Hamm, 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: Weldee Baetsch, former SIB trustee
Jennifer Bridwell, PIMCO
James Clarke, PIMCO
Larry Martin, Insurance Dept.
Tim Porter, Bank of ND
Gary Rath, NDEA
Bryan Reinhardt, PERS
Ed Sather, Bank of ND
Muneer Satter, Goldman Sachs Asset Mgmt.
Michael Walzer, Goldman Sachs Asset Mgmt.
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, May 16, 2008, 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, MR. TOSO, MR. SANDAL, MS. TERNES, MR. TRENBEATH, LT. GOVERNOR DALRYMPLE

MINUTES:

The Board considered the minutes of the April 18, 2008, meeting,

MR. GESSNER MOVED AND MR. LEINGANG SECONDED TO APPROVE THE APRIL 18, 2008, MEETING MINUTES.

AYES: MS. TERNES, MR. GESSNER, MR. LEINGANG, LT. GOVERNOR DALRYMPLE, MR. TRENBEATH, MR. SANDAL, MR. TOSO, AND MR. CORNEIL
 NAYS: NONE

MOTION CARRIED

ABSENT: COMMISSIONER HAMM, TREASURER SCHMIDT, AND MR. ENGLESON

Mr. Steve Cochrane, Executive Director, updated the Board on performance:

BOARD EDUCATION:

Treasurer Schmidt entered the meeting.

Bank of ND (BND) - Mr. Cochrane reviewed the concept of having BND manage a large portion of the short-term cash pool in the Pension Trust which is approximately \$40 mm/1% of the Pension Trust. The BND manages the Insurance Trust's cash allocation which is approximately \$70mm/5% of the portfolio. Currently, the Pension Trust's cash allocation is managed by The Northern Trust in a money market account. Mr. Cochrane recommended BND manage the bulk of the assets in the Pension Trust's cash allocation and for efficiency purposes, maintain with TNT a \$5-10mm cash balance. The transfer would not take place until a final/positive assessment of the BND's operational methods is completed.

TREASURER SCHMIDT MOVED AND MR. CORNEIL SECONDED TO APPROVE STAFF RECOMMENDATION AND MOVE THE PENSION TRUST'S CASH ALLOCATION UNDER THE BND'S MANAGEMENT CONTINGENT UPON A FINAL/POSITIVE ASSESSMENT OF THEIR OPERATIONAL METHODS.

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

MOTION CARRIED

ABSENT: COMMISSIONER HAMM, MR. ENGLESON

Goldman Sachs Asset Mgmt. - Mr. Michael Walzer and Mr. Muneer Satter gave a general overview of "mezzanine debt" and also reviewed their strategy as it relates to the SIB.

A copy of their report is on file at RIO.

The Board recessed at 10:10 am and reconvened at 10:25 am.

PIMCO - Ms. Jennifer Bridwell and Mr. James Clarke presented their views on the status of the mortgage market and also reviewed PIMCO's Fund II/Distressed Senior Credit Opportunities for the Board's consideration. The SIB currently has \$25 million with PIMCO in their Fund I/Distressed Mortgage Fund Product in the Pension Trust's high yield fixed income allocation.

A copy of their report is on file at RIO.

GOVERNANCE:INVESTMENTS

Distressed Mortgage Investment Opportunity - Mr. Cochrane reviewed PIMCO's Fund II/Distressed Senior Credit Opportunities for the Board's consideration and recommended transferring \$30-60mm of the Pension Trust's Domestic Fixed Income allocation to the firm.

MR. LEINGANG MOVED AND MR. TRENBEATH SECONDED TO MOVE \$50 MILLION IN THE PENSION TRUST'S DOMESTIC FIXED INCOME ALLOCATION TO PIMCO'S FUND II/DISTRESSED SENIOR CREDIT OPPORTUNITY.

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

MOTION CARRIED.

ABSENT: COMMISSIONER HAMM, MR. ENGLESON

ADMINISTRATION

FY 2008 Meeting Dates - The Board reviewed a draft of scheduled meeting dates for the SIB for the 2008-09 year. The Board, in the past, had been meeting the third Friday of the month but to try and accommodate trustees' schedules better, the meetings for the upcoming year were generally scheduled for the fourth Friday of the month. Treasurer Schmidt noted if the SIB decides to meet the fourth Friday of the month that she will have to choose between the Land Board meetings and the Teachers' Fund for Retirement (TFFR) Board meetings. Both Boards are now scheduled to meet the fourth Thursday of the month. The TFFR Board meets in the afternoon and the Land Board meets morning/afternoon depending on the Governor's schedule. The TFFR Board meetings are generally scheduled the Thursday before the SIB meetings to accommodate the trustees who serve on both the TFFR Board and the SIB. The general consensus was to go with the fourth Friday of the month. Treasurer Schmidt will send a memo to the Governor and Commissioner Preszler requesting the Land Board meetings be held Thursday mornings if at all possible.

Compensation Committee Report - The Compensation Committee consisting of Mr. Leingang as Chair, Mr. Toso, and Ms. Ternes reviewed the process they went through in determining compensation for the Executive Director for the period of July 1, 2008 through June 30, 2009. The Committee recommended an increase of 8.17% for an annual salary of \$180,000. After discussion,

MR. TRENBEATH MOVED AND MR. TOSO SECONDED TO ACCEPT THE COMPENSATION COMMITTEE'S RECOMMENDATION AND INCREASE THE EXECUTIVE DIRECTOR'S SALARY BY 8.17% FOR AN ANNUAL SALARY OF \$180,000 FOR THE PERIOD OF JULY 1, 2008 - JUNE 30, 2009. THE COMMITTEE IS ALSO TO RESEARCH THE POSSIBILITY OF INCLUDING A BONUS PLAN FOR FISCAL YEAR 2009.

AYES: MR. TOSO, MR. SANDAL, MR. TRENBEATH, MR. CORNEIL, MR. GESSNER, LT. GOVERNOR DALRYMPLE,, MS. TERNES, AND MR. LEINGANG
NAYS: TREASURER SCHMIDT

MOTION CARRIED.

ABSENT: COMMISSIONER HAMM, MR. ENGLESON

MONITORING:

The following monitoring reports for the quarter ending March 31, 2008 were distributed at the meeting: Insurance Trust and Pension Trust Investment Measurement Reports. The Board was also given a Manager Review Status Report as of May 8, 2008.

TREASURER SCHMIDT MOVED AND MR. CORNEIL SECONDED TO APPROVE THE MONITORING REPORTS AS PRESENTED.

AYES: MR. TRENBEATH, TREASURER SCHMIDT, MR. CORNEIL, MR. TOSO, LT. GOVERNOR DALRYMPLE, MR. SANDAL, MR. GESSNER, MR. LEINGANG, AND MS. TERNES

NAYS: NONE

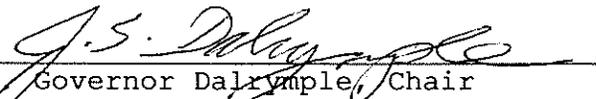
MOTION CARRIED.

ABSENT: COMMISSIONER HAMM, MR. ENGLESON

ADJOURNMENT:

With no further business to come before the Board, Treasurer Schmidt moved and Mr. Trenbeath seconded to adjourn the meeting at 12:45 p.m.

Respectfully Submitted:


Lt. Governor Dalrymple, Chair
State Investment Board


Bonnie Heit
Reporting Secretary