

STATE INVESTMENT BOARD
MINUTES OF THE
NOVEMBER 21, 2008, BOARD MEETING

BOARD MEMBERS PRESENT: Lt. Governor Jack Dalrymple, Chair
Clarence Corneil, Vice Chair
Jeff Engleson, Land Dept.
Levi Erdmann, PERS Board
Mike Gessner, TFFR Board
Adam Hamm, Insurance Commissioner
Ron Leingang, PERS Board
Mike Sandal, PERS Board
Kelly Schmidt, State Treasurer
Cindy Ternes, Workforce Safety & Insurance
Bob Toso, TFFR Board

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

OTHERS PRESENT: Greg Allen, Callan Associates, Inc.
Weldee Baetsch, former SIB trustee
Richard Ballsrud, The Clifton Group
Sparb Collins, PERS
John Val Emter, Public Citizen
Paul Erlendson, Callan Associates, Inc.
David Gunkel, former SIB trustee
Gary Rath, NDEA
Bryan Reinhardt, PERS

CALL TO ORDER:

Lt. Governor Dalrymple, Chair, called the State Investment Board (SIB) meeting to order at 8:30 a.m. on Friday, November 21, 2008, in the Rough Rider Room, at the State Capitol, Bismarck, ND.

THE FOLLOWING MEMBERS WERE PRESENT REPRESENTING A QUORUM: LT. GOVERNOR DALRYMPLE, MR. CORNEIL, MR. ENGLESON, MR. ERDMANN, MR. GESSNER, COMMISSIONER HAMM, MR. LEINGANG, MR. SANDAL, MS. TERNES, AND MR. TOSO

AGENDA:

The Board considered the November 21, 2008, agenda. After discussion,

MR. GESSNER MOVED AND MR. TOSO SECONDED TO APPROVE THE AGENDA.

AYES: MS. TERNES, MR. ENGLESON, MR. GESSNER, MR. LEINGANG, LT. GOVERNOR DALRYMPLE, MR. ERDMANN, MR. SANDAL, MR. TOSO, MR. CORNEIL, AND COMMISSIONER HAMM

NAYS: NONE

MOTION CARRIED

ABSENT: TREASURER SCHMIDT

MINUTES:

The Board considered the minutes of the October 24, 2008, meeting.

MR. LEINGANG MOVED AND MR. CORNEIL SECONDED TO APPROVE THE OCTOBER 24, 2008, MEETING MINUTES.

AYES: COMMISSIONER HAMM, MS. TERNES, MR. ENGLESON, MR. GESSNER, MR. LEINGANG, LT. GOVERNOR DALRYMPLE, MR. ERDMANN, MR SANDAL, MR. TOSO, AND MR. CORNEIL

NAYS: NONE

MOTION CARRIED

ABSENT: TREASURER SCHMIDT

BOARD EDUCATION:

Treasurer Schmidt entered the meeting.

Mr. Steve Cochrane, Executive Director, updated the Board on action taken from the October 24, 2008, meeting. He stated the volatility in the markets has resulted in the SIB's clients' actual asset allocations becoming very out of alignment with their policy allocations and the Board's mandate is to maintain those policy allocations within a reasonable policy band. He stated the Board has recognized this and took action to correct that and manage it over time as they work their way back into a more stable environment. He also stated in order to do that the Board brought in The Clifton Group and extended their mandate to include their Policy Implementation Overlay Service (PIOS). Before the SIB moved forward to retain this manager to implement this program, staff referred to Callan Associates, Inc. and Callan endorsed the use of this program which uses highly liquid, exchange traded futures contracts to gain or reduce exposure to asset classes and seeks to avoid forcing sales of securities with unrealized losses.

The Board had previously directed staff to send a letter to their client base notifying them that the SIB is aware of the policy variability and that the SIB is working to maintain compliance with their policies. The letter was sent out on November 12, 2008 and also included an invitation to the clients to attend the November 21, 2008 SIB meeting to learn first hand how the PIOS works and also to sit in on a presentation from Mr. Greg Allen, President, Callan Associates, Inc.

Mr. Cochrane also updated the Board on the Pension Trust's rankings in the Callan Public Fund Sponsor Database as of September 30, 2008. The Pension Trust's return was -8.70% for the period and -15.19 for the year ending September 30, 2008, both representing approximately median performance.

The Clifton Group - Mr. Richard Ballsrud, Senior Portfolio Manager and Principal updated the Board on the progress of their PIOS since the SIB's hiring on October 24, 2008.

Mr. Cochrane stated he felt the intention is to ride through this crisis, maintain the monitoring, and make adjustments as necessary and over time return to a normal implementation of the investment policies.

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

GOVERNANCE:

INVESTMENTS

ADMINISTRATION

Governance Policy Review - The Board continued their review of their Governance policies - Investment section. Mr. Cochrane reviewed a draft of his changes and recommendations to the Investment section. After review and discussion, Lt. Governor Dalrymple appointed Mr. Corneil, Mr. Gessner, Mr. Sandal, Treasurer Schmidt, and Ms. Ternes to review the policies and bring their recommendations back to the Board for consideration.

Callan Associates, Inc. - Mr. Greg Allen and Mr. Paul Erlendson presented their views on the state of the markets and asset allocation and also shared how Callan's other clients are handling their asset allocation issues. They recommended maintaining the asset allocation for the long run

Lt. Governor Dalrymple left the meeting and Mr. Corneil presided over the remainder of the meeting.

The Board recessed at 11:00 a.m. and reconvened at 11:10 a.m.

QUARTERLY MONITORING:

The Callan Investment Measurement Reports for the Pension and Insurance portfolios for the period ending September 30, 2008 were provided to the Board. Mr. Erlendson provided his insight.

A copy of the reports are on file at the Retirement and Investment Office.

OTHER:

Mr. Cochrane reviewed a bill that may be submitted to the Legislature for their consideration. The bill cleans up the language in NDCC 21-10-06 which relates to the specific funds under management of the SIB. Mr. Cochrane requested the Board's approval.

TREASURER SCHMIDT MOVED AND MR. SANDAL SECONDED TO APPROVE THE BILL AND ITS SUBMISSION TO THE LEGISLATURE.

AYES: MR. GESSNER, MR. ENGLERSON, MR. LEINGANG, MS. TERNES, TREASURER SCHMIDT, MR. TOSO, COMMISSIONER HAMM, MR. CORNEIL, MR. ERDMANN, AND MR. SANDAL
NAYS: NONE

MOTION CARRIED

ABSENT: LT. GOVERNOR DALRYMPLE

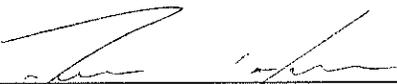
The next SIB meeting is scheduled for January 23, 2009, at 8:30 a.m. at the Bank of North Dakota, Room 201, 1200 Memorial Hwy, Bismarck, ND.

The next SIB Audit Committee meeting is scheduled for February 27, 2009, at 1:00 p.m. at the Bank of North Dakota, Room 201, 1200 Memorial Hwy, Bismarck, ND.

ADJOURNMENT:

With no further business to come before the Board, Mr. Corneil adjourned the meeting at 12:50 p.m.

Respectfully Submitted:



Lt. Governor Dalrymple, Chair For
State Investment Board



Bonnie Heit
Reporting Secretary