

**STATE INVESTMENT BOARD
MINUTES OF THE
FEBRUARY 27, 2009 BOARD MEETING**

BOARD MEMBERS PRESENT: Lt. Governor Jack Dalrymple, Chair
Levi Erdmann, PERS Board
Mike Gessner, TFFR Board
Adam Hamm, Insurance Commissioner (teleconference)
Ron Leingang, PERS Board
Mike Sandal, PERS Board
Wayne Sanstead, TFFR Board
Kelly Schmidt, State Treasurer
Cindy Ternes, Workforce Safety & Insurance
Bob Toso, TFFR Board (teleconference)

BOARD MEMBERS ABSENT: Clarence Corneil, Vice Chair
Jeff Engleson, Land Dept.

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: Paul Erlendson, Callan Associates
Ben Lazarus, The Clifton Group
Paul Michaels, Invesco
Bryan Reinhardt, PERS
Max Swango, Invesco
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, February 27, 2009, in Room 201, at the Bank of North Dakota, Bismarck, ND.

THE FOLLOWING MEMBERS WERE PRESENT REPRESENTING A QUORUM: LT. GOVERNOR DALRYMPLE, MR. ERDMANN, MR. GESSNER, MR. LEINGANG, MR. SANDAL, DR. SANSTEAD, TREASURER SCHMIDT, AND CINDY TERNES

AGENDA:

The Board considered the February 27, 2009, agenda. After discussion and amending the agenda,

MR. GESSNER MOVED AND MR. LEINGANG SECONDED TO ACCEPT THE AGENDA.

AYES: MS. TERNES, MR. GESSNER, MR. LEINGANG, LT. GOVERNOR DALRYMPLE, MR. ERDMANN, MR. SANDAL, DR. SANSTEAD, AND TREASURER SCHMIDT

NAYS: NONE

MOTION CARRIED

ABSENT: MR. ENGLESON, COMMISSIONER HAMM, MR. TOSO

MINUTES:

The Board considered the minutes of the January 23, 2009, meeting.

TREASURER SCHMIDT MOVED AND DR. SANSTEAD SECONDED TO ACCEPT THE JANUARY 23, 2009, MEETING MINUTES.

AYES: MR. GESSNER, MR. LEINGANG, MS. TERNES, TREASURER SCHMIDT, MR. TOSO, COMMISSIONER HAMM, DR. SANSTEAD, MR. ERDMANN, LT. GOVERNOR DALRYMPLE, AND MR. SANDAL

NAYS: NONE

MOTION CARRIED

ABSENT: MR. ENGLESON

BOARD EDUCATION:

Invesco - Mr. Paul Michaels and Mr. Max Swango presented an overview of Invesco, their outlook on the real estate market, and updated the Board on the three Funds they currently manage for the SIB; Core Real Estate, Real Estate Fund II, and Asia Real Estate Fund I.

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

Treasurer Schmidt left the meeting for a 10:00 a.m. hearing.

Callan - Mr. Paul Erlendson updated the Board on Mercer Investment Consulting Inc.'s acquisition of Callan Associates Inc. RIO staff were notified on February 17, 2009 of the merger which is expected to be finalized on April 1, 2009. Mr. Erlendson stated he will remain as the SIB's consultant. Callan and Mercer have notified their clients that they can expect a seamless transition as they combine the two organizations and the firms' look forward to expanding the relationships they have worked hard to cultivate. As a result of the merger, the existing agreements and arrangements with clients will automatically transfer by operation of law to the combined entity as of the completion of the merger.

Mr. Cochrane stated he received a notice of this arrangement and has been asked by Callan Associates, Inc. to acknowledge receipt of the notice and confirm the SIB's consent and agreement to this merger and also the management of the Diversified Alpha Group Trust and the Diversified Alpha Small Cap Equity Fund by March 20, 2009. Mr. Cochrane stated he is in favor of the merger because over the years there have been situations where Callan has been limited in their research capabilities and taking into account world and investment management changes there have been times when it would have been nice to have a more fully expanded resource capacity such as this. He felt this merger would be a favorable development for the SIB. He requested direction from the Board.

After discussion, and reaffirming with their counsel, Mr. Aaron Webb,

MR. GESSNER MOVED AND MS. TERNES SECONDED TO EXECUTE THE EXTENDED CONTRACT WITH THE NEW CALLAN ASSOCIATES INC/MERCER INVESTMENT CONSULTING ENTITY.

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

NAYS: NONE

MOTION CARRIED

ABSENT: MR. ENGLESON, TREASURER SCHMIDT

Lt. Governor Dalrymple stated we know from experience that little guys like us in North Dakota over time probably can expect less personal attention, even though we do have Mr. Erlendson, but that's the way the world is. He stated he would stay aware now of what the other options are out in the world. The Board has had that attitude for awhile and if the Board decides that it doesn't like what is going on, the Board should try to be ready and aware of what else is out there.

Mr. Erlendson then presented Callan's outlook on the capital market projections.

Treasurer Schmidt returned to the meeting.

A copy of Mr. Erlendson's report is on file at the Retirement and Investment Office.

GOVERNANCE:

ADMINISTRATION

Manager Review Status Report - Mr. Cochrane updated the Board on the Westridge/WG Trading fraud investigation. The Board was provided a binder which outlined the chronology of events and supporting documentation. RIO staff was notified of the situation on February 17, 2009 and took the following action: terminated Westridge's contract, requested the return of all SIB assets, which had an estimated market value of \$161.3 million on January 31, 2009 (approximately \$23.3 million has been recovered), began aiding the Commodity Futures Trading Commission in their investigations, and notified the Office of the North Dakota Attorney General. The SIB and Callan Associates, Inc. were notified on February 19, 2009. On March 20, 2009, WG Trading's futures contracts will expire and at that point the authorities will be able to determine approximately how much money is there. Regulatory actions are ongoing and Mr. Cochrane will keep the Board apprised of any developments.

Mr. Webb updated the Board on his role. He has been gathering information, monitoring the situation, and staying informed on who the key players are. He advised the SIB to seek external counsel that specializes in securities litigation to unravel the situation and make sure the interests of the SIB are protected.

After discussion,

MR. GESSNER MOVED AND MR. ERDMANN SECONDED TO AUTHORIZE THE ATTORNEY GENERAL'S OFFICE TO SEEK SPECIALIZED COUNSEL AND IF POSSIBLE, RETAIN THIS SERVICE IN THE MOST COST EFFECTIVE MANNER.

AYES: TREASURER SCHMIDT, LT. GOVERNOR DALRYMPLE, COMMISSIONER HAMM, MS. TERNES, MR. LEINGANG, MR. TOSO, MR. SANDAL, MR. ERDMANN, DR. SANSTEAD, AND MR. GESSNER

NAYS: NONE

MOTION CARRIED

ABSENT: MR. ENGLESON

The Board discussed and directed staff to post information on RIO's website regarding the Westridge/WG Trading issue and to notify interested parties that the information is available on the website.

The Board discussed a February 24, 2009 notice posted on The Northern Trust's (TNT) website to their shareholders, clients, and staff. The notice referenced their sponsorship of The Northern Trust's Open PGA event. The event raises millions of dollars for charities, along with client-focused events during the Open. TNT indicated they understand the questions of supporting such an event in times of great anxiety and financial stress with the help of federal funds, but they have concluded that no public purpose would be served by canceling the Open and related events. Mr. Cochrane stated this event does not affect the SIB portfolio.

The Clifton Group - Mr. Ben Lazarus updated the Board on the overlay program they have been implementing since October 24, 2008.

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

A copy of Clifton's report is on file at the Retirement and Investment Office.

Governance Policy - Mr. Sandal reported the Investment Section of the Carver Governance Model has been reviewed and revised. At the November 21, 2008 SIB meeting, Lt. Governor Dalrymple appointed the following individuals to review the Investment Section of the Governance Policies and to bring their changes/recommendations back to the Board; Mr. Corneil, Chair, Mr. Sandal, Mr. Gessner, Ms. Ternes, Commissioner Hamm, and Treasurer Schmidt. Mr. Sandal reviewed the Committee's changes/recommendations at the January 23, 2009 meeting and also suggested that before the Board approved the final version at their February 27, 2009 meeting that SIB clients and other interested parties be given notice of these changes and allow them an opportunity for written comment or dialogue. The revised policies were posted on RIO's website and no comments or dialogue were received from clients or interested parties. He requested approval of the policies.

MR. ERDMANN MOVED AND MR. GESSNER SECONDED TO ACCEPT THE CHANGES TO THE INVESTMENTS POLICY SECTION OF THE CARVER GOVERNANCE MODEL.

AYES: MR. LEINGANG, MR. SANDAL, MR. GESSNER, MR. TOSO, MR. ERDMANN, MS. TERNES, COMMISSIONER HAMM, AND TREASURER SCHMIDT

NAYS: NONE

MOTION CARRIED**ABSENT: MR. ENGLESON, LT. GOVERNOR DALRYMPLE, DR. SANSTEAD**

Mr. Cochrane stated the template for the Due Diligence Executive Summary report presented at the January 23, 2009 meeting is the form that he will be using going forward.

City of Grand Forks - Ms. Flanagan presented a final contract and investment guidelines from the City of Grand Forks to retain the SIB for investment services of their pension fund. The final contract and guidelines were approved at their City Council meeting on February 2, 2009.

MR. SANDAL MOVED AND MR. LEINGANG SECONDED TO ACCEPT THE CONTRACT AND INVESTMENT GUIDELINES FOR THE CITY OF GRAND FORKS PENSION FUND.

AYES: MR. ERDMANN, TREASURER SCHMIDT, MR. TOSO, MR. SANDAL, COMMISSIONER HAMM, MR. GESSNER, MR. LEINGANG, AND MS. TERNES

NAYS: NONE

MOTION CARRIED**ABSENT: MR. ENGLESON, LT. GOVERNOR DALRYMPLE, DR. SANSTEAD**

The Board discussed the following language in the Carver Governance Investment Section/Fiduciary Duties. They questioned if they need to vote on this every time the number's change,

By virtue of the responsibilities assigned to the SIB by North Dakota Century Code Chapter 21-10, the members of the SIB are fiduciaries for twelve - statutory funds. Through contractual obligations, fiduciary responsibility extends to eleven additional funds.

After discussion,

MR. LEINGANG MOVED AND TREASURER SCHMIDT SECONDED TO AUTHORIZE MR. COCHRANE TO MAKE CHANGES TO THE STATUTORY FUNDS AND CONTRACTUAL OBLIGATION'S LISTS.

AYES: MS. TERNES, COMMISSIONER HAMM, TREASURER SCHMIDT, MR. ERDMANN, MR. TOSO, MR. SANDAL, MR. LEINGANG, AND MR. GESSNER

NAYS: NONE

MOTION CARRIED**ABSENT: MR. ENGLESON, LT. GOVERNOR DALRYMPLE, DR. SANSTEAD**

Legislative Update - Mr. Cochrane and Ms. Fay Kopp, Deputy Executive Director, briefed the Board on legislative bills affecting RIO and the SIB.

QUARTERLY MONITORING:

Mr. Erlendson reviewed the December 31, 2008 quarterly investment measurement reports for the Pension and Insurance Trusts.

MS. TERNES MOVED AND MR. GESSNER SECONDED TO APPROVE THE DECEMBER 31, 2008 QUARTERLY MONITORING REPORTS.

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

MOTION CARRIED

ABSENT: MR. ENGLESON, LT. GOVERNOR DALRYMPLE, DR. SANSTEAD

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

OTHER:

Mr. Cochrane indicated the question has come up regarding if an agency, institution, or political subdivision of the State has the right to access the investment program that the SIB provides. Having access to the SIB can be viewed as offering services in competition with the private industry. Secondly, if an agency, institution, or political subdivision approaches the SIB does the SIB have the authority to deny a request even though all such requests are brought before the Industrial Commission prior to the SIB's approval. Mr. Webb has reviewed previous Attorney General Opinions on this issue and the opinions issued were that these entities do have the right,

N.D.C.C. 21-10-06 states "The state investment board may provide investment services to, and manage the money of, any agency, institution, or political subdivision of the state, subject to agreement with the industrial commission. The scope of services to be provided by the state investment board to the agency, institution, or political subdivision must be specified in a written contract. The state investment board may charge a fee for providing investment services and any revenue collected must be deposited in the state retirement and investment fund."

The Board questioned "may provide investment services to" and was not clear if this gives the SIB the authority to deny a request. They directed Mr. Webb to research this issue more fully and report back to them.

The next SIB meeting is scheduled for March 27, 2009, at 8:30 a.m. at the Bank of North Dakota, 1200 Memorial Hwy, Room 301, Bismarck, ND.

The next SIB Audit Committee meeting is scheduled for May 15, 2009, at 1:00 p.m. at the State Capitol, Ft. Union Room.

ADJOURNMENT:

Treasurer Schmidt adjourned the meeting at 12:25 p.m.

Respectfully Submitted:



Lt. Governor Dalrymple, Chair
State Investment Board



Bonnie Heit
Reporting Secretary