

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

**BOARD MEMBERS PRESENT:** Lt. Governor Jack Dalrymple, Chair  
Clarence Corneil, Vice Chair (teleconference)  
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 (teleconference)

**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:** Bryan Klipfel, Workforce Safety & Insurance  
Arthur "Mac" MacBride, Prudential Financial  
Jamie Newton, Wells Capital  
Bryan Reinhardt, PERS  
Janet Rilling, Wells Capital  
Pam Sharp, Office of Mgmt. & Budget  
Peter Taggart, Prudential Financial  
Sara Trachte, Wells Capital  
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, March 27, 2009, in Room 301, at the Bank of North Dakota, Bismarck, ND.

**THE FOLLOWING MEMBERS WERE PRESENT REPRESENTING A QUORUM: MR. CORNEIL, LT. GOVERNOR DALRYMPLE, MR. ENGLERSON, MR. ERDMANN, COMMISSIONER HAMM, MR. SANDAL, TREASURER SCHMIDT, CINDY TERNES, BOB TOSO**

**AGENDA:**

A revised agenda was distributed to the Board.

**MINUTES:**

The Board considered the minutes of the February 27, 2009, meeting.

MR. ERDMANN MOVED AND MS. TERNES SECONDED TO ACCEPT THE FEBRUARY 27, 2009, MEETING MINUTES.

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

NAYS: NONE

MOTION CARRIED

ABSENT: MR. GESSNER, MR. LEINGANG

BOARD EDUCATION:

Prudential Financial - Mr. Arthur "Mac" MacBride and Mr. Peter Taggart reviewed the firm's Pru Alpha product.

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

Currently, the SIB has allocated 4.6% or \$25 million of the Pension Trust's Large Cap Equity portfolio and 3% or \$5.4 million of the Budget Stabilization's portfolio with Prudential in their Pru Alpha product. Mr. Cochrane stated the SIB needs to determine if they want to remain with Prudential in this product. Staff requested full redemption several months ago because of the freeze up in the credit markets. It is a commingled investment with a number of investors. A number of factors can contribute to some of the investors wanting to withdraw from the fund. If some of the investors want to stay and some want to leave then the SIB would need to modify their agreements with Prudential to accommodate the investors that desire to stay. Prudential has had the assets on hold and have not been redeeming clients until the credit markets loosen up.

Prudential representatives indicated all Pru Alpha investors have submitted redemption requests. Several investors have expressed a desire to remain invested in Pru Alpha including some Prudential entities. Prudential also indicated redemption could take place in approximately two months.

After discussion, the Board determined that leaving the funds where they are and waiting for the credit markets to get back to a somewhat more normal state would be the prudent thing to do. For a short term investment, the returns would be far better and would be in excess of the money market at this time. After discussion,

TREASURER SCHMIDT MOVED AND MR. SANDAL SECONDED TO SUSPEND THE REDEMPTION REQUEST FOR BOTH THE PENSION TRUST AND BUDGET STABILIZATION FUNDS AND KEEP THE ASSETS IN PRUDENTIAL'S PRU ALPHA PRODUCT FOR AN ADDITIONAL THREE YEARS.

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

ABSTAIN: MR. CORNEIL, MR. TOSO

NAYS: NONE

MOTION CARRIED

Wells Capital - Representatives Ms. Janet Rilling, Mr. James Newton, and Ms. Sara Trachte presented an educational segment on the credit environment and also updated the Board on the BBB mandate they have been managing within the Pension and Insurance Trusts.

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

Lt. Governor Dalrymple introduced Mr. Bryan Klipfel. Mr. Klipfel has been appointed the Executive Director of Workforce Safety & Insurance, effective March 16, 2009.

## GOVERNANCE :

### MONITORING

Westridge/WG Trading - Mr. Cochrane updated the Board on the Westridge/WG Trading fraud investigation. Many regulatory parties are now involved and Robb Evans & Associates LLC has been court appointed as the Receiver. All entities involved in the scandal are anxiously awaiting the Receiver's assessment of recoverable assets and how and when they will be distributed. He is planning to get in touch with the Receiver to determine exactly what of the remaining \$137 million of the SIB's assets will be recovered and what losses will incur from the WG Trading portion.

Mr. Aaron Webb, SIB legal counsel, updated the Board on his activities. He has been monitoring the legal actions of the entities involved in the scandal. He has been in contact with other pension plans that are in the same position as the SIB and more so with the ones that have the same investment strategy. Sacramento County and San Diego County have similar positions. At the SIB's February 27, 2009 meeting, the Board authorized the Attorney General's Office to seek specialized counsel and if possible, to retain this service in the most cost effective manner. Mr. Webb researched five firms, contacted four firms, and received two proposals. Proposals were received from Saxena White and K&L Gates. Sacramento County has retained K&L Gates. K&L Gates, if retained by the State of North Dakota, would be willing to work out an arrangement whereby Sacramento County and the State of North Dakota could share the costs. The Attorney General's Office has determined that K&L Gates would be the better of the two firms to represent the State's interest. The Attorney General's Office is in the process of finalizing the agreement and hope to retain the firm. Mr. Webb handed out an informational packet on K& L Gates for the Board's reference.

Audit Committee Liaison Report - Mr. Gessner updated the Board on the February 27, 2009 Audit Committee meeting activities. He indicated the State Auditor's Office is in the process of finalizing an external auditor for RIO for fiscal years 2009, 2010, and 2011. Brady Martz has completed the audits for the past 12 years. Request for Proposals (RFP) were sent out on November 15, 2008. Proposals were received from Eide Bailly and Brady Martz. Eide Bailly was awarded the contract. The State Auditor's Office will finalize the contract sometime in the month of March 2009 with a contract start date of April 2009.

CEO Performance Evaluation - Mr. Les Mason, Supervisor of Internal Audit, reviewed a governance policy monitoring summary which he prepares each calendar year as one of the tools the Board utilizes when reviewing the Executive Director's annual performance and compensation. As stated in Governance Policy, at the March board meeting, the chairperson will appoint a three-member committee

to review the board's evaluation and make a recommendation to the full board concerning salary for the Executive Director/Investment Officer.

Legislative Update - Mr. Cochran updated the Board on legislation affecting the SIB.

**OTHER:**

The next SIB meeting is scheduled for April 24, 2009, at 8:30 a.m. at the Bank of North Dakota, 1200 Memorial Hwy, Room 301, Bismarck, ND.

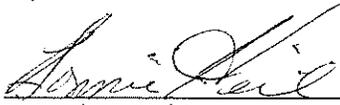
The next SIB Audit Committee meeting is scheduled for May 15, 2009, at 1:00 p.m. at the State Capitol, Ft. Union Room.

**ADJOURNMENT:**

Lt. Governor Dalrymple adjourned the meeting at 11:55 a.m.

Respectfully Submitted:

  
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Lt. Governor Dalrymple, Chair  
State Investment Board

  
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Bonnie Heit  
Reporting Secretary