STATE INVESTMENT BOARD
MINUTES OF THE
JUNE 26, 2009 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
Fay Kopp, Deputy Executive Director
Leslie Moszer, Compliance Officer
Darlene Roppel, Retirement Assistant

OTHERS PRESENT:
Weldee Baetsch, former board member
Greg Casey, Declaration
Erica Cermak, RTA
Sparb Collins, PERS
Paul Erlendson, Callan Associates
Ben Lazarus, Clifton Group
William Priest, Epoch
Bryan Reinhardt, PERS
Wayne Sanstead, Supt. Of Public Instruction
James Shallcross, Declaration
Jeff Ulness, Epoch

CALL TO ORDER:

Lt. Governor Dalrymple, Chair, called the State Investment Board (SIB) meeting to order at 8:30 a.m. on Friday, June 26, 2009, at the State Capitol, Peace Garden Room, 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, TREASURER SCHMIDT, AND MR. TOSO

AGENDA:

The Board considered the June 26, 2009, agenda.

TREASURER SCHMIDT MOVED AND MR. GESSNER SECONDED TO APPROVE THE JUNE 26, 2009, AGENDA.

AYES: COMMISSIONER HAMM, MR. ENGLESON, MR. GESSNER, MR. LEINGANG, LT. GOVERNOR DALRYMPLE, MR. ERDMANN, MR. SANDAL, MR. TOSO, MR. CORNEIL, AND TREASURER SCHMIDT
NAYS: NONE

MOTION CARRIED
ABSENT: MS. TERNES

MINUTES:

The Board considered the minutes of the May 15, 2009, meeting.

COMMISSIONER HAMM MOVED AND MR. ENGLESON SECONDED TO APPROVE THE MAY 15, 2009, MINUTES.

AYES: MR. GESSNER, MR. ENGLESON, MR. LEINGANG, TREASURER SCHMIDT, MR. TOSO, COMMISSIONER HAMM, MR. CORNEIL, MR. ERDMANN, LT. GOVERNOR DALRYMPLE, AND MR. SANDAL
NAYS: NONE

MOTION CARRIED
ABSENT: MS. TERNES

BOARD EDUCATION:

Epoch - Mr. Bill Priest and Mr. Jeff Ulness, presented their perspective on the global economy as they see it today.

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

Declaration - Mr. Jim Shallcross and Mr. Greg Casey reviewed their Term Asset-Backed Loan Facility (TALF) program.

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

Clifton Group - Mr. Ben Lazarus updated the board on the overlay program they are currently managing for the SIB.

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

The Board recessed at 11:05 a.m. and reconvened at 11:15 a.m.

GOVERNANCE:

INVESTMENTS

TALF Proposal - Discussion took place on TALF programs. Mr. Cochrane reviewed the Declaration TALF program and had also included his due diligence report on the firm. Mr. Cochrane recommended the board allocate $20 - 25 million from the Pension Trust and assign the mandate to the Large Cap Domestic Equity allocation. Funding would come from accessing a portion of the excess variation margin from The Clifton Group overlay program, which is currently earning cash returns.

MR. GESSNER MOVED AND TREASURER SCHMIDT SECONDED TO HIRE DECLARATION TO MANAGE A $25 MILLION TALF ACCOUNT AT A FEE STRUCTURE OF 50 BASIS POINTS PLUS THE INCENTIVE FEE.

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

MOTION CARRIED.

Lt. Governor Dalrymple stated he does not see the government TALF programs dying anytime soon. Like many government programs they will drag on longer than originally proposed and they will be perpetuated politically and they will become less and less of an opportunity. Because of this, early investors are expected to receive superior yields to those who continue to wait as spreads narrow. The SIB should go into these relationships with the mindset that these are not a permanent investment vehicle.

PERS Retiree Health Credit Fund Guidelines - Ms. Flanagan reviewed revised investment guidelines for the PERS Retiree Health Credit Fund based on a recent asset liability study. She requested the Board's acceptance.

MR. ERDMANN MOVED AND TREASURER SCHMIDT SECONDED TO ACCEPT THE REVISED GUIDELINES FOR THE PERS RETIREE HEALTH FUND.

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

NAYS: NONE

MOTION CARRIED.

Ms. Flanagan also discussed with the Board an issue with State Street Global Advisors who the SIB is currently contracted with to manage the Public Employees Retirement System (PERS) Retiree Health Credit Fund. State Street informed staff that due to liquidity issues within their securities lending program, the firm has initiated new withdrawal limitations affecting funds participating in this program. Two of the four funds the Retiree Health plan is invested in use securities lending; small cap and fixed income. SIB legal counsel has reviewed the contract that is currently in place with State Street and State Street does have discretion to limit withdrawals to protect the overall fund. PERS has requested the SIB consider another manager to oversee the investments of this fund because of these limitations and other various issues that have occurred. The current limitations will negatively affect the ability to rebalance the fund in accordance with the new asset allocation. Staff recommended considering the utilization of SEI's manager of manager's product to assume the management of these funds. After discussion,

TREASURER SCHMIDT MOVED AND MR. ERDMANN SECONDED TO ACCEPT STAFF'S RECOMMENDATION AND CONTRACT WITH SEI TO MANAGE THE PERS RETIREE HEALTH FUND AND TO TERMINATE STATE STREET'S MANAGEMENT OF THIS FUND. THIS RECOMMENDATION IS CONTINGENT ON APPROVAL FROM PERS.

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

MOTION CARRIED.

Corsair Fund - Mr. Cochrane suggested this agenda item be tabled until the July 24, 2009 meeting. The Board concurred.

Work Plan FY2009 - Included in the Board member's packets was a FY2009 work plan for their review. There were no questions or comments.

Meeting Schedule FY2010 - Included in the Board member's packets was a FY2010 meeting schedule for their reference. There were no questions or comments.

ADMINISTRATION

Proxy Voting Report - Ms. Leslie Moszer, Compliance Officer, informed the Board that Mr. Dale Wetzel, Associated Press, requested information regarding whether the SIB held stock in companies that had recently included a question on their proxy ballots on whether to reincorporate in North Dakota; and if so, how these proxies had been voted. Ms. Moszer reviewed the issue and informed Mr. Wetzel the SIB investment managers have the authority to vote proxies on behalf of the SIB or contract with companies that provide proxy voting services. Research showed companies that the SIB held, as of record date, all shares were voted with management's recommendation against reincorporating in North Dakota with one exception.

Lt. Governor Dalrymple suggested the Board review the information that has been provided to them and the SIB will revisit this issue at a later date.

Treasurer Schmidt had requested Ms. Moszer to research which Troubled Asset Relief Program (TARP) fund recipients the SIB has a relationship with. The SIB has varying relationships with managers associated with the following seven companies along with their repayment status: JP Morgan Chase, $25 billion, Repaid June 17, 2009; Wells Fargo, $25 billion, plan to request repayment/declared dividend; Goldman Sachs, $10 billion, repaid June 17, 2009; Morgan Stanley, $10 billion, repaid June 17, 2009; Bank of New York Mellon, $3 billion, repaid June 17, 2009; State Street, $2 billion, repaid June 9, 2009; and Northern Trust, $1.5 billion, repaid June 17, 2009.

OTHER:

The Board recognized Mr. Ron Leingang. Mr. Leingang has been serving on the SIB representing the PERS Board since July 1, 2004 and has chosen not to seek reelection. He has been serving on the PERS board since July 1, 1999 representing retirees. Mr. Leingang stated it has been an honor to serve with such a fine group of trustees and staff members. Lt. Governor Dalrymple and the rest of the Board thanked Mr. Leingang for his service. He will be missed.

The next SIB meeting is scheduled for July 24, 2009, at 8:30 a.m. at the State Capitol, Peace Garden Room, Bismarck, ND.

The next SIB Audit Committee meeting is scheduled for September 25, 2009, at 1:00 p.m. at the State Capitol, Peace Garden Room, Bismarck, ND.

ADJOURNMENT:

Lt. Governor Dalrymple adjourned the meeting at 12:40 p.m.

Respectfully Submitted:

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Lt. Governor Dalrymple, Chair
State Investment Board

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Bonnie Heit
Reporting Secretary