

**STATE INVESTMENT BOARD  
MINUTES OF THE  
JULY 24, 2009 BOARD MEETING**

**BOARD MEMBERS PRESENT:** Lt. Governor Jack Dalrymple, Chair  
Jeff Engleson, Land Dept.  
Levi Erdmann, PERS Board  
Mike Gessner, TFFR Board  
Adam Hamm, Insurance Commissioner  
Howard Sage, PERS Board  
Mike Sandal, PERS Board  
Wayne Sanstead, TFFR Board  
Kelly Schmidt, State Treasurer  
Cindy Ternes, Workforce Safety & Insurance

**BOARD MEMBERS ABSENT:** Clarence Corneil, Vice Chair

**STAFF PRESENT:** Steve Cochrane, Executive Director  
Connie Flanagan, Fiscal & Investment Officer  
Susan Gefroh, Investment Accountant  
Bonnie Heit, Office Manager  
Leslie Moszer, Compliance Officer

**OTHERS PRESENT:** Clifford Brokaw, Corsair  
Lara Lundstrom, Los Angeles Capital Management  
Michael Poe, Corsair  
Bryan Reinhardt, PERS  
Tom Stevens, Los Angeles Capital Management  
Aaron Webb, Attorney General's Office

**CALL TO ORDER:**

Lt. Governor Dalrymple, Chair, called the State Investment Board (SIB) meeting to order at 8:30 a.m. on Friday, July 24, 2009, at the State Capitol, Peace Garden Room, Bismarck, ND.

**THE FOLLOWING MEMBERS WERE PRESENT REPRESENTING A QUORUM: LT. GOVERNOR DALRYMPLE, MR. ENGLERSON, MR. ERDMANN, MR. GESSNER, COMMISSIONER HAMM, MR. SAGE, MR. SANDAL, MR. SANSTEAD, TREASURER SCHMIDT, AND MS. TERNES**

Lt. Governor Dalrymple welcomed Mr. Howard Sage back to the SIB. Mr. Sage will be representing the Public Employees Retirement System Board (PERS) on the SIB. His term is July 1, 2009 - June 30, 2014.

**AGENDA:**

A revised agenda was distributed to the Board. The Board considered the July 24, 2009, agenda.

**TREASURER SCHMIDT MOVED AND COMMISSIONER HAMM SECONDED TO APPROVE THE JULY 24, 2009, REVISED AGENDA.**

AYES: COMMISSIONER HAMM, MS. TERNES, MR. ENGLESON, MR. GESSNER, MR. SAGE, LT. GOVERNOR DALRYMPLE, MR. ERDMANN, MR. SANDAL, DR. SANSTEAD, AND TREASURER SCHMIDT  
NAYS: NONE

MOTION CARRIED  
ABSENT: MR. CORNEIL

MINUTES:

The Board considered the minutes of the June 26, 2009, meeting.

The June 26, 2009 minutes were amended as follows:

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

MR. GESSNER MOVED AND COMMISSIONER HAMM SECONDED TO APPROVE THE AMENDED JUNE 26, 2009, MINUTES.

AYES: MR. GESSNER, MR. ENGLESON, MR. SAGE, MS. TERNES, TREASURER SCHMIDT, DR. SANSTEAD, COMMISSIONER HAMM, MR. ERDMANN, LT. GOVERNOR DALRYMPLE, AND MR. SANDAL  
NAYS: NONE

MOTION CARRIED  
ABSENT: MR. CORNEIL

ELECTION OF OFFICERS:

TREASURER SCHMIDT MOVED AND MS. TERNES SECONDED TO RETAIN LT. GOVERNOR DALRYMPLE AS CHAIR OF THE SIB FOR THE PERIOD OF JULY 1, 2009 - JUNE 30, 2010.

AYES: MR. GESSNER, MR. SANDAL, MR. SAGE, MS. TERNES, TREASURER SCHMIDT, COMMISSIONER HAMM, MR. ENGLESON, DR. SANSTEAD, LT. GOVERNOR DALRYMPLE, AND MR. ERDMANN  
NAYS: NONE

MOTIN CARRIED  
ABSENT: MR. CORNEIL

MR. GESSNER MOVED AND MR. SANDAL SECONDED TO RETAIN MR. CORNEIL AS VICE CHAIR OF THE SIB FOR THE PERIOD OF JULY 1, 2009 - JUNE 30, 2010.

AYES: TREASURER SCHMIDT, LT. GOVERNOR DALRYMPLE, COMMISSIONER HAMM, MS. TERNES, MR. ENGLESON, MR. SAGE, DR. SANSTEAD, MR. SANDAL, MR. ERDMANN, AND MR. GESSNER  
NAYS: NONE

MOTION CARRIED  
ABSENT: MR. CORNEIL

Lt. Governor Dalrymple reappointed Mr. Corneil as parliamentarian of the SIB for the period of July 1, 2009 - June 30, 2010.

**AUDIT COMMITTEE SELECTION:**

Mr. Cochrane reviewed the individuals who have volunteered to serve on the SIB Audit Committee for the period of July 1, 2009 - June 30, 2010: Ms. Cindy Ternes, delegated by the Executive Director of Workforce Safety & Insurance, representing elected and appointed officials; Mr. Mike Sandal, representing the Public Employees Retirement System (PERS); Mr. Mike Gessner, representing Teachers' Fund for Retirement (TFFR); Ms. Rebecca Dorwart and Mr. Lonny Mertz, external representatives.

Lt. Governor Dalrymple appointed the individuals to serve on the SIB Audit Committee.

**BOARD EDUCATION:**

Corsair - Corsair representatives Mr. Clifford Brokaw and Mr. Michael Poe reviewed the SIB's existing investment in the firm's Fund III and reviewed Fund IV which they are currently in the midst of raising capital for.

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

Los Angeles Capital Management - Los Angeles Capital Management (LACM) representatives Mr. Tom Stevens and Lara Lundstrom reviewed the firm's active extension strategy which is similar to State Street's 130/30 product.

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

**GOVERNANCE:****INVESTMENTS**

Corsair/Small Cap - The Board discussed what to do with the remaining funds in Corsair III and the Corsair IV opportunity and if the allocation should be defined as alternative or small cap. Staff recommended committing the remaining funds of Corsair III of approximately \$7 million into Corsair IV and commit additional assets as the board felt fit. They also recommended the Corsair IV allocation be redefined as small cap. The Board discussed asset class definitions and how they are allocated.

**MR. SAGE MOVED AND MR. ENGLESON SECONDED TO NOT INVEST IN CORSAIR IV AT THIS TIME.**

**AYES: MR. SAGE, MR. ENGLESON**

**NAYS: MR. ERDMANN, DR. SANSTEAD, MR. GESSNER, MR. SANDAL, MS. TERNES, COMMISSIONER HAMM, TREASURER SCHMIDT, AND LT. GOVERNOR DALRYMPLE**

**MOTION DEFEATED.**

**ABSENT: MR. CORNEIL**

**TREASURER SCHMIDT MOVED AND MS. TERNES SECONDED TO INCLUDE NO. 2 AND NO. 3. THE MOTION WAS AMENDED TO ALSO INCLUDE NO. 1. TREASURER SCHMIDT AND MS. TERNES APPROVED THE AMENDMENT.**

1. DIRECT STAFF TO LOOK AT THE CURRENT ASSET CLASS DEFINITIONS AND DETERMINE WHAT HAS BEEN ASSIGNED TO THE CURRENT ASSET ALLOCATIONS AND BRING THEM BACK TO THE BOARD TO REVIEW AND DETERMINE WHETHER OR NOT THE DEFINITIONS ARE CATEGORIZED APPROPRIATELY AND PRESENT THE DEFINITIONS TO THE SIB'S CLIENTS FOR AFFIRMATION AT A FUTURE DATE.
2. REDIRECT THE REMAINING CORSAIR III INVESTMENTS OF APPROXIMATELY \$7 MILLION INTO CORSAIR IV AND ADD AN ADDITIONAL \$3 MILLION OR WHATEVER IS NECESSARY IN ORDER TO MEET THE MINIMUM REQUIREMENT OF THE INVESTMENT OPPORTUNITY AT THIS TIME. REVISIT FUNDING ISSUE IN AUGUST.
3. ACCEPT STAFF RECOMMENDATION TO CATEGORIZE THE CORSAIR INVESTMENTS AS SMALL CAP.

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

NAYS: MR. SAGE

MOTION CARRIED.

ABSENT: MR. CORNEIL

130/30 Large Cap - Mr. Cochrane reviewed State Street's 130/30 relationship and recommended terminating this mandate in the large cap domestic equity for both the Pension and Insurance Trusts and assign that portion to Los Angeles Capital Management in a similar mandate.

MR. GESSNER MOVED AND TREASURER SCHMIDT SECONDED TO MOVE THE 130/30 ALLOCATION WITH STATE STREET TO LOS ANGELES CAPITAL MANAGEMENT'S ACTIVE EXTENSION.

AYES: MS. TERNES, LT. GOVERNOR DALRYMPLE, COMMISSIONER HAMM, TRESURER SCHMIDT, MR. ENGLESON, MR. ERDMANN, DR. SANSTEAD, MR. SANDAL, MR. SAGE, AND MR. GESSNER

NAYS: NONE

MOTION CARRIED.

ABSENT: MR. CORNEIL

ADMINISTRATION

Proxy Voting - Ms. Leslie Moszer, Compliance Officer, reviewed with the Board the process involved and costs if the Board chose to instruct their investment managers who vote proxies on behalf of the SIB to vote for reincorporation in North Dakota. Ms. Moszer reviewed a draft of a letter that she would send to the managers requesting a specific proxy voting guideline. After discussion,

DR. SANSTEAD MOVED AND COMMISSIONER HAMM SECONDED TO UTILIZE THE RECOMMENDED LETTER FOR THE BENEFIT OF THE STATE AND FUND.

AYES: COMMSSIONER HAMM, MR. SANDAL, MR. GESSNER DR. SANSTEAD, MR. ERDMANN, MS. TERNES, LT. GOVERNOR DALRYMPLE, MR. ENGLESON, MR. SAGE, AND TREASURER SCHMIDT

NAYS: NONE

MOTION CARRIED.

ABSENT: MR. CORNEIL

Budget Stabilization - Mr. Cochrane reviewed revised investment guidelines for the Budget Stabilization Fund. After discussion,

Lt. Governor Dalrymple reiterated the need for stable investment management in this fund.

**TREASURER SCHMIDT MOVED AND MR. ERDMANN SECONDED TO ACCEPT THE PROPOSED ALLOCATION OF THE INVESTMENTS OF THE BUDGET STABILIZATION FUND.**

**AYES: DR. SANSTEAD, TREASURER SCHMIDT, MR. ENGLESON, MR. ERDMANN, LT. GOVERNOR DALRYMPLE, MR. SANDAL, COMMISSIONER HAMM, MR. GESSNER, MR. SAGE, AND MS. TERNES**  
**NAYS: NONE**

**MOTION CARRIED.**

**ABSENT: MR. CORNEIL**

Audit Committee - Mr. Gessner reviewed issues discussed from the SIB Audit Committee's June 26, 2009 meeting. The Retirement and Investment Office (RIO) has entered into a contract with a new external auditor, Eide Bailly LLP, for fiscal years 2009, 2010, and 2011. He also reported that RIO's internal auditor's will soon be completing a 5 year cycle of the North Dakota school districts. He also mentioned that an educational segment on due diligence was presented by Mr. Cochrane.

Monitoring Reports - Included in the Board member's packets were the following June 30, 2009, quarterly monitoring reports as required under Carver Governance Policy *Board/Staff Relationship - Monitoring Executive Performance: Budget/Financial Condition, Executive/Staff Limitations, Investment Program, and Retirement Program.*

Also included was a report on money manager reviews. Staff continuously conducts annual reviews with each of the SIB money managers. Staff felt it was necessary to formalize the process for these types of meetings since the SIB currently oversees 44 managers with approximately 112 mandates. The Board will be provided a monthly report indicating which managers participated in a review during the past month and who attended as well as upcoming meetings to allow trustees ample time for scheduling purposes if they choose to participate.

**TREASURER SCHMIDT MOVED AND COMMISSIONER HAMM SECONDED TO APPROVE THE MONITORING REPORTS.**

**AYES: COMMISSIONER HAMM, MS. TERNES, MR. ENGLESON, MR. GESSNER, MR. SAGE, LT. GOVERNOR DALRYMPLE, MR. ERDMANN, MR. SANDAL, DR. SANSTEAD, AND TREASURER SCHMIDT**  
**NAYS: NONE**

**MOTION CARRIED.**

**ABSENT: MR. CORNEIL**

**OTHER:**

The next SIB meeting is scheduled for August 28, 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 12:50 p.m.

Respectfully Submitted:

Clarence Corniel vice Chair  
Lt. Governor Dalrymple, Chair  
State Investment Board

Bonnie Heit  
Bonnie Heit  
Reporting Secretary