

**STATE INVESTMENT BOARD  
MINUTES OF THE  
AUGUST 28, 2009 BOARD MEETING**

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

**BOARD MEMBERS ABSENT:** Lt. Governor Jack Dalrymple, Chair

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

**OTHERS PRESENT:** Greg Burns, NDEA  
 Greg Casey, Declaration  
 Ben Lazarus, The Clifton Group  
 Bonnie Miller, DPI  
 Jeffrey Phlegar, Alliance  
 John Pluta, Declaration  
 Bryan Reinhardt, PERS  
 Wayne Sanstead, DPI  
 Dean Sotter, Alliance  
 James Thyne, Alliance  
 Aaron Webb, Attorney General's Office

**CALL TO ORDER:**

Mr. Clarence Corneil, Vice Chair, called the State Investment Board (SIB) meeting to order at 8:30 a.m. on Friday, August 28, 2009, at the State Capitol, Peace Garden Room, Bismarck, ND.

**THE FOLLOWING MEMBERS WERE PRESENT REPRESENTING A QUORUM: MR. CORNEIL, MR. ENGLESON, MR. ERDMANN, MR. GESSNER, COMMISSIONER HAMM, MR. SANDAL, TREASURER SCHMIDT, MS. TERNES, MR. TOSO, AND MR. TRENBEATH**

**AGENDA:**

The Board considered the August 28, 2009, agenda.

**COMMISSIONER HAMM MOVED AND MR. SANDAL SECONDED TO APPROVE THE AUGUST 28, 2009, AGENDA.**

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

MOTION CARRIED

ABSENT: LT. GOVERNOR DALRYMPLE

MINUTES:

The Board considered the minutes of the July 24, 2009, meeting.

COMMISSIONER HAMM MOVED AND MR. ENGLESON SECONDED TO APPROVE THE JULY 24, 2009, MINUTES.

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

MOTION CARRIED

ABSENT: LT. GOVERNOR DALRYMPLE

BOARD EDUCATION:

DPI Fund - Dr. Wayne Sanstead, Superintendent of Public Instruction reviewed the National Board Certification Fund which was created by the Sixty-first Legislative Assembly of North Dakota. The purpose of the Fund is to allow the Education Standards and Practices Board (ESPB) to award grants to teachers pursuing National Board Certification. The Superintendent of Public Instruction was appropriated \$500,000 for the purpose of creating the Fund. The SIB has been directed in accordance with Chapter 21-10 to invest the Fund.

AllianceBernstein - AllianceBernstein representatives Mr. Jeffrey Phlegar, Mr. James Thyne, and Mr. Dean Sotter reviewed the US Government's Public Private Investment Program (PPIP) program and the firm's implementation policies and procedures if they were selected by the SIB.

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

Declaration - Declaration representatives Mr. John Pluta and Mr. Greg Casey reviewed the firm's views on government programs.

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

The board recessed at 10:25 am and reconvened at 10:35 am

GOVERNANCE:

INVESTMENTS

DPI Fund - Ms. Connie Flanagan, Fiscal and Investment Officer, reviewed a draft of the investment guidelines for the National Board Certification Fund. The Funds will be invested in the Bank of North Dakota's (BND) Insurance Trust cash pool.

TREASURER SCHMIDT MOVED AND MR. SANDAL SECONDED TO ACCEPT THE INVESTMENT POLICY STATEMENT FOR THE NATIONAL BOARD CERTIFICATION FUND.

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

MOTION CARRIED

ABSENT: LT. GOVERNOR DALRYMPLE, MR. TRENBEATH

Alliance PPIP - Mr. Cochrane and the Board discussed the advantages/disadvantages of investing in PPIP with Alliance. After discussion,

MR. TRENBEATH MOVED AND COMMISSIONER HAMM SECONDED TO TABLE THE ALLIANCE ISSUE.

AYES: COMMISSIONER HAMM, MR. TRENBEATH, MR. ENGLESON  
 NAYS: MR. SANDAL, MR. GESSNER, MS. TERNES, MR. ERDMANN, TREASURER SCHMIDT, MR. CORNEIL, MR. TOSO

MOTION DEFEATED.

ABSENT: LT. GOVERNOR DALRYMPLE

Mr. Cochrane reviewed investing with Declaration in their Term Asset-Backed Loan Facility (TALF) Fund II product. Declaration has offered to drop the fee in half for an additional investment over the original \$25 million. Mr. Cochrane recommended investing an additional \$0-\$25 million with Declaration. The Board discussed the advantages/disadvantages of allocating more money with Declaration. After discussion,

MR. SANDAL MOVED AND TREASURER SCHMIDT SECONDED TO INVEST AN ADDITIONAL \$25 MILLION WITH DECLARATION IN THEIR TALF FUND II PROGRAM.

AYES: COMMISSIONER HAMM, MR. SANDAL, MR. CORNEIL, MR. GESSNER, MR. TOSO, MR. ERDMANN, MR. ENGLESON, TREASURER SCHMIDT  
 NAYS: MS. TERNES, MR. TRENBEATH

MOTION CARRIED.

ABSENT: LT. GOVERNOR DALRYMPLE

Corsair Fund IV - Mr. Cochrane reviewed Corsair and the SIB's current relationship with them. Mr. Cochrane recommended committing an additional amount to Corsair IV up to \$25 million and assigning the allocation to small cap domestic equity.

TREASURER SCHMIDT MOVED AND MS. TERNES SECONDED TO ACCEPT STAFF RECOMMENDATION AND COMMIT AN ADDITIONAL AMOUNT TO CORSAIR IV SO THAT, INCLUDING ANY LEFTOVER PORTION THERE MAY BE OF CORSAIR III, THE TOTAL COMMITMENT IS \$25 MILLION.

AYES: MR. TOSO, TREASURER SCHMIDT, MR. CORNEIL, MR. ENGLESON, MR. ERDMANN, MR. SANDAL, COMMISSIONER HAMM, MS. TERNES  
 NAYS: MR. GESSNER, MR. TRENBEATH

MOTION CARRIED.

ABSENT: LT. GOVERNOR DALRYMPLE

**ADMINISTRATION**

Clifton Update - Mr. Ben Lazarus updated the Board on the overlay program. He informed the Board the decision they made in October 2008 to proceed with the program was a prudent one and has definitely paid off. The Funds are in compliance with their asset allocation and the program has generated excess cash.

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

Manager Review - Mr. Cochrane reviewed his performance concerns with Mellon Capital Management (formerly Franklin). Mellon has been on board since September 2006. He has been in contact with Mr. Mike Dunn, portfolio manager, and Mr. Dunn has expressed concerns about the quality of his model. Mr. Cochrane met with Mellon representatives on August 5, 2009 and is not confident with the model or relationship at this point. He recommended terminating Mellon and transferring the assets to Epoch.

**MR. ENGLESON MOVED AND MR. ERDMANN SECONDED TO TERMINATE MELLON (FRANKLIN) AND MOVE THE PROCEEDS TO EPOCH INVESTMENT PARTNERS.**

**AYES: TREASURER SCHMIDT, MR. CORNEIL, MR. TOSO, MR. SANDAL, MR. ERDMANN, MR. TRENBEATH, MR. ENGLESON, MS. TERNES, AND COMMISSIONER HAMM**

**NAYS: MR. GESSNER**

**MOTION CARRIED.**

**ABSENT: LT. GOVERNOR DALRYMPLE**

The Board is of the understanding that Mr. Cochrane will work with Epoch Investment Advisers on possibly negotiating lower fees.

WG Trading Update - Mr. Aaron Webb, SIB legal counsel, updated the Board on recent activities. He has been working with K&L Gates, the Limited Partners, WG Trading Company, the Receiver, and federal regulators to achieve two goals: 1) To stay included in the federal arena. The Attorney General's Office made a special appearance as an interested party in federal action for both the CFTC and SEC actions so the court is aware of the SIB's position and legal counsel is able to make some arguments; 2) Secure a distribution plan that will maximize the SIB's recovery of assets.

The Attorney General's Office has also been communicating with the judge and the judge has granted the Attorney General's Office an opportunity to make their arguments along with the other Limited Partners. The exact date has not been set. The Attorney General's Office and the other Limited Partners have each acquired the assistance of an accounting firm who will work with the Receiver and go through the records of each of the Limited Partners and give an assessment as to what each Partner should present as an argument to the judge.

Mr. Webb and Mr. Cochrane will continue to keep the SIB informed as well as their constituents as affirmative action is made.

Governance Policy Revisions - Mr. Cochrane reviewed the first reading of a policy change to the Governance Manual. He recommended the following language be added to *Governance Process/Chairperson's Role, 2.E.* - *The chairperson is authorized, in consultation with the RIO Executive Director, to grant approval for domestic due diligence visits by SIB members and it shall be the responsibility of the*

traveling board member to report to the SIB on the results of the due diligence visit.

Mr. Cochrane also reviewed an Office of Management and Budget policy which references NDCC 54-05.1 Legislative Lobbying which staff initially thought applied to the SIB and office staff but after further investigation it applies only to the Governor, Legislators, and Lobbyists. The policy references giving and receiving of gifts/money and is therefore withdrawn from inclusion to additions to Governance.

Grand Forks Park District - Ms. Flanagan informed the board the Grand Forks Park District has contacted staff to possibly have their pension fund managed by the SIB. The SIB has had previous discussions on adding political subdivisions to the mix and Ms. Flanagan wanted the Board to be informed before she proceeded any further. After discussion,

**TREASURER SCHMIDT MOVED AND MR. TOSO SECONDED TO DIRECT STAFF AND LEGAL COUNSEL TO ESTABLISH A PRELIMINARY POLICY AND A MORE FORMALIZED PROCESS ON CONTRACTING WITH POLITICAL SUBDIVISIONS.**

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

**MOTION CARRIED.**

**ABSENT: LT. GOVERNOR DALRYMPLE**

Mr. Corneil asked the question if the Board is in favor of proceeding with the Grand Forks Park District,

**TREASURER SCHMIDT MOVED AND MS. TERNES SECONDED TO ACCEPT THE GRAND FORKS PARK DISTRICT'S REQUEST TO BE PART OF THE SIB'S POOL IN LIGHT OF THE FACT THAT THE SIB DOES NOT HAVE A POLICY OR PROCEDURE ESTABLISHED TO DENY REQUESTS AT THIS TIME.**

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

**MOTION CARRIED**

**ABSENT: LT. GOVERNOR DALRYMPLE**

The Board is of the understanding that staff will move forward with Grand Forks Park District but the final outcome will be brought before the Board for their review and approval.

Workforce Safety and Insurance (WSI) Investment Guidelines - Ms. Ternes reviewed a revised version of WSI's investment guidelines. WSI recently hired Callan & Associates to conduct an asset allocation study.

**MS. TERNES MOVED AND MR. ENGLERSON SECONDED TO ACCEPT THE REVISED GUIDELINES AS PRESENTED.**

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

**MOTION CARRIED.**

**ABSENT: LT. GOVERNOR DALRYMPLE**

**MONITORING:**

Included in the board member's packets were quarterly monitoring reports for the period ending June 30, 2009, and the manager annual review report for the month of August.

**TREASURER SCHMIDT MOVED AND MS. TERNES SECONDED TO APPROVE THE MONITORING REPORTS.**

**AYES: MR. CORNEIL, MR. GESSNER, MR. SANDAL, MR. TRENBEATH, MS. TERNES, TREASURER SCHMIDT, COMMISSIONER HAMM, MR. ENGLERSON, MR. TOSO, AND MR. ERDMANN**

**NAYS: NONE**

**MOTION CARRIED.**

**ABSENT: LT. GOVERNOR DALRYMPLE**

**OTHER:**

Mr. Cochrane reiterated to the Board that he hears from managers who come in that they think the SIB is an exemplary board. The communication, questions, and involvement from the SIB as the managers make their presentations stands out in comparison with similar boards.

Mr. Sandal recognized Mr. Cochrane and his staff. Over the Legislative interim, there have been Employee Benefits Programs Committee hearings where Mr. Cochrane and his staff have made presentations on the current state of affairs. Mr. Sandal noted obviously it is not the best news in the world but wanted to comment as a member who was at the committee hearings, that Mr. Cochrane and staff's presentations although difficult were well received and well done.

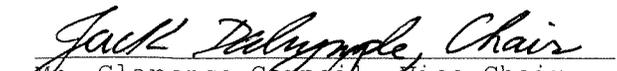
The next SIB meeting is scheduled for September 25, 2009, at 8:30 a.m. at the State Capitol, Peace Garden Room, Bismarck, ND.

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:**

Mr. Corneil adjourned the meeting at 12:40 p.m.

Respectfully Submitted:

  
Mr. Clarence Corneil, Vice Chair  
State Investment Board

  
Bonnie Heit  
Reporting Secretary