

**STATE INVESTMENT BOARD
MINUTES OF THE
OCTOBER 23, 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
Howard Sage, 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
Bonnie Heit, Office Manager
Leslie Moszer, Compliance Officer

OTHERS PRESENT: Weldee Baetsch, former SIB trustee
Joseph Carieri, Western Asset Management
Chris Conradi, Gabriel, Roeder & Smith
Kim Franz, TFFR Trustee
Bryan Klipfel, WSI
Michael O'Brien, JP Morgan
Bryan Reinhardt, PERS
Jim Sakelaris, JP Morgan
Peter Stutz, Western Asset Management
Steven Weddle, JP Morgan

CALL TO ORDER:

Lt. Governor Dalrymple called the State Investment Board (SIB) meeting to order at 8:30 a.m. on Friday, October 23, 2009, at the State Capitol, Brynhild Haugland Room, Bismarck, ND.

THE FOLLOWING MEMBERS WERE PRESENT REPRESENTING A QUORUM: MR. CORNEIL, LT. GOVERNOR DALRYMPLE, MR. ENGLESON, MR. ERDMANN, MR. GESSNER, MR. SAGE, MR. SANDAL, TREASURER SCHMIDT, MS. TERNES, AND MR. TOSO

AGENDA:

The Board considered the October 23, 2009, agenda.

MR. GESSNER MOVED AND TREASURER SCHMIDT SECONDED TO ACCEPT THE OCTOBER 23, 2009 AGENDA.

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

MOTION CARRIED

ABSENT: COMMISSIONER HAMM

MINUTES:

The Board considered the minutes of the September 25, 2009, meeting.

TREASURER SCHMIDT MOVED AND MR. CORNEIL SECONDED TO APPROVE THE SEPTEMBER 25, 2009 MINUTES.

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

NAYS: NONE

MOTION CARRIED

ABSENT: COMMISSIONER HAMM

COMMISSIONER HAMM ENTERED THE MEETING.

BOARD EDUCATION:

JP Morgan - JP Morgan representatives, Mr. Jim Sakelaris, Mr. Michael O'Brien, and Mr. Steven Weddle, reviewed the accounts they currently manage for the SIB: Strategic Property Fund, Special Situation Property Fund, US Real Estate Income and Growth Fund, Alternative Property Fund, Infrastructure Investments Fund, Asian Infrastructure and Related Resources Opportunity Fund, Greater China Property Fund, and Greater Europe Opportunistic Property Fund. They also provided their outlook on the US and Global Real Estate markets.

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

The Board recessed at 10:40 am and reconvened at 10:55 am.
Treasurer Schmidt was absent.

Western Asset Management (WAM) - Mr. Cochrane informed the Board Workforce Safety & Insurance (WSI) recently completed an asset/liability study conducted by Callan & Associates which resulted in an adjustment to the Treasury Inflation Protected Securities (TIPs) portion of the portfolio. Callan suggested moving the assignment to a global TIPs mandate as opposed to the current portfolio. Mr. Cochrane stated WAM can manage the assignment, is already doing the US version in this account and already has a large pool of assets in this type of mandate with many other clients.

WAM representatives, Mr. Joseph Carieri and Mr. Peter Stutz, reviewed their firm's Global TIPs Plus product.

A copy of their report is on file at RIO.

GOVERNANCE :**INVESTMENTS**

TIPS - Mr. Cochrane reviewed the current WSI total fund and TIPS allocations and also reviewed what the TIPS allocation would look like within the total fund if the Board were to transition from a US to a global TIPS allocation.

Mr. Cochrane recommended the Board retain the relationship with WAM and change their mandate from a US TIPS to a global TIPS and use The Northern Trust (TNT) TIPS portion to fund out the rest of the WAM asset allocation as described by the Callan asset liability study because TNT does not have the ability to move into global TIPS without creating a new product.

MS. TERNES MOVED AND MR. ENGLESON SECONDED TO TRANSFER THE WAM US TIPS AND TNT US TIPS TO THE WAM GLOBAL TIPS ALLOCATION.

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

NAYS: NONE

MOTION CARRIED

ABSENT: TREASURER SCHMIDT

Clifton Update - Ms. Connie Flanagan, Fiscal & Investment Officer, updated the Board on the Clifton overlay relationship. She reviewed how much money has gone into the program since November 2008, how much has been disbursed, and the current balance of the accounts.

Discussion followed on when the SIB could possibly end the relationship. Mr. Cochrane stated the program is market driven and informed the board some of the SIB's portfolios are not in the program anymore. The Board requested staff provide a monthly update to them.

ADMINISTRATION

SIB Start Time - Mr. Cochrane discussed with the Board if they would be interested in starting the meetings at 8:00 a.m. instead of 8:30 a.m. because the meetings due tend to run into the noon hour. The Board preferred to continue with a start time of 8:30 a.m. Mr. Cochrane requested the November 20, 2009 meeting start at 8:00 a.m. because the Board will have a full agenda. The Board concurred.

Lt. Governor Dalrymple requested staff put a time table on the agenda because if the Board is running behind they will know as well as the presenters and guests.

Audit Committee Liaison Report - Mr. Gessner updated the board on SIB Audit Committee activities for the fiscal year ending June 30, 2009 and also activity from their September 25, 2009 meeting. He noted external auditors Eide Bailly will be presenting their first report on RIO at the November 20, 2009 SIB Audit Committee meeting and the SIB will have their copy of that report at their January 22, 2010 meeting.

Governance Policy First Reading - Ms. Flanagan presented a first draft of a governance policy entitled "Accepting New Clients". At the SIB's August 28, 2009 meeting, the Board requested staff and legal counsel establish a preliminary policy and a more formalized process on contracting with political subdivisions. This policy would not affect statutorial entities.

Lt. Governor Dalrymple requested additional language be added that says, "any fees charged by the SIB is intended to recover the SIB's cost of administration or fund management".

At the January 23, 2009, SIB meeting Mr. Cochrane had suggested the Governance Policy Review Committee's role be expanded, after they had finalized the review of the Investment Section, to also include review of the remaining sections of the Governance Manual and at that time the Board had concurred.

Lt. Governor Dalrymple reactivated the Policy Review Committee; Mr. Corneil, Chair, Mr. Sandal, Mr. Gessner, Ms. Ternes, Commissioner Hamm, and Treasurer Schmidt. The Committee will review the policy and once it has been finalized by the members, the policy will be posted on RIO's website in order to give interested parties an opportunity to provide feedback. The policy will then be put on the SIB's November 20, 2009 agenda for the board's review and consideration.

Conference Report - Ms. Leslie Moszer, Compliance Officer, reported on the P2F2 (Public Pension Financial Forum) 2009 6th Annual Conference, October 18-21, 2009, in Sacramento, CA that she attended.

Mr. Cochrane stated one item that Ms. Moszer brought back from the conference is the observation that the issue of valuation of private holdings that the Governmental Accounting Standards Board (GASB) rules changed a couple of years ago has been problematic. RIO will be written up this year by the external auditors on this aspect. Mr. Cochrane stated it is an investment valuation timing issue. GASB's position is funds should be able to report private holdings as quickly as public holdings. Ms. Moszer learned most funds were experiencing the same issue.

QUARTERLY MONITORING:

Included in the board member's packets were the following September 30, 2009 quarterly monitoring reports: Staff Relations, Budget/Financial Condition, Investment Ends, and Retirement Ends. Also included was the monthly money manager annual review report.

MR. SAGE MOVED AND MS. TERNES SECONDED TO ACCEPT THE REPORTS AS PRESENTED.

AYES: LT. GOVERNOR DALRYMPLE, MS. TERNES, MR. SAGE, MR. TOSO, MR. SANDAL, MR. ERDMANN, MR. CORNEIL, AND MR. GESSNER

NAYS: NONE

MOTION CARRIED

ABSENT: TREASURER SCHMIDT, COMMISSIONER HAMM, AND MR. ENGLESON

OTHER:

The next SIB meeting is scheduled for November 20, 2009, at 8:00 a.m. at the State Capitol, Peace Garden Room, Bismarck, ND.

The next SIB Audit Committee meeting is scheduled for November 20, 2009, at 1:00 p.m. at the State Capitol, Peace Garden Room, Bismarck, ND.

ADJOURNMENT:

Lt. Governor Dalrymple adjourned the meeting at 12:35 p.m.

Respectfully Submitted:

Clarence Cornwell Vice Chair
Lt. Governor Dalrymple, Chair
State Investment Board

Bonnie Heit
Bonnie Heit
Reporting Secretary