

**NORTH DAKOTA STATE INVESTMENT BOARD
MINUTES OF THE
FEBRUARY 26, 2010 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
 Kelly Schmidt, State Treasurer
 Cindy Ternes, Workforce Safety & Insurance
 Bob Toso, TFFR Board

BOARD MEMBER ABSENT: Clarence Corneil, Vice Chair

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

OTHERS PRESENT: Weldee Baetsch, former SIB trustee
 Greg Casey, Declaration
 Paul Erlendson, Callan Associates, Inc.
 James Frigstad, Thrivent Financial
 Miguel Gonzalo, Adams Street
 David Gunkel, former SIB trustee
 Jon Haugen, Thrivent Financial
 Bill Howard, Callan Associates, Inc.
 Ron Leingang, former SIB trustee
 Deepak Narula, Declaration
 John Pluta, Declaration
 Bryan Reinhardt, PERS
 James Shallcross, Declaration
 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, February 26, 2010, at the State Capitol, Peace Garden Room, Bismarck, ND.

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

AGENDA:

The Board reviewed and accepted the February 26, 2010, agenda.

MINUTES:

The Board considered the minutes of the January 22, 2010, meeting.

TREASURER SCHMIDT MOVED AND COMMISSIONER HAMM SECONDED TO APPROVE THE JANUARY 22, 2010 MINUTES.

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

MOTION CARRIED

ABSENT: MR. CORNEIL

Mr. Steve Cochrane, Executive Director, provided returns for the period ending December 31, 2009. The Callan database reflects the Teachers' Fund for Retirement (TFFR), Public Employees Retirement System (PERS), and the consolidated Pension Trust as being in the top 5 percentile for the quarter. Reported Fiscal Year-to-Date Returns for the Funds were: Pension Trust 17.22%, TFFR 17.7%, PERS 16.8%, and Workforce Safety and Insurance (WSI) 10.93%.

BOARD EDUCATION:

Adams Street - Representative Mr. Miguel Gonzalo reviewed the private equity portfolio Adams Street Partners manages for the SIB.

He also reviewed a new fund opportunity Adams Street is launching for the Board's consideration. Adams Street Partners has opened up new fund opportunities since 1996.

Adams Street's presentation is on file at the Retirement and Investment Office (RIO).

Declaration - Representatives, Mr. James Shallcross, Mr. John Pluta, and Mr. Greg Casey reviewed the distressed mortgages and the Term Asset-Backed Loan Facility (TALF) I and II portfolios Declaration manages for the SIB.

Declaration representatives along with Mr. Deepak Narula, Metacapital Management, reviewed a new opportunistic fixed income fund the two firms are bringing to market for the Board's consideration.

Declaration's presentation is on file at RIO.

Rebalancing Project - Ms. Connie Flanagan, Fiscal and Investment Officer, reviewed the progress, to date, on reducing the overlay program for the Pension Trust. The fund continues to successfully unwind the overlay and increase the "physicals" exposure.

Capital Market Expectations/Callan Update - Mr. Paul Erlendson, Callan Associates, Inc., presented Callan's capital market projections.

Mr. Erlendson indicated to the Board that Callan is moving forward on the cost analysis/study effective for FY2010. Callan had been designated to assume this duty as an improvement to the free and blunt service previously utilized. The

Board, at their September 25, 2009, meeting requested Mr. Cochrane and Mr. Erlendson, on an occasional basis, provide an analysis of fees so the Board can utilize the information for comparative purposes.

Callan's report is on file at RIO.

Manager Review Status Report - Mr. Cochrane reviewed the status of three managers:

1. Sutter/Wells \$65 million High Yield account in the Pension Trust. Mr. Cochrane recommended termination of the account because of performance and over funding issues and reallocate the monies to the equity portfolio to help to wind down the overlay program.

TREASURER SCHMIDT MOVED AND MR. TOSO SECONDED TO ACCEPT STAFF RECOMMENDATION AND TERMINATE THE SUTTER/WELLS HIGH YIELD ACCOUNT.

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

NAYS: NONE

MOTION CARRIED

ABSENT: MR. CORNEIL

2. Wells \$28 million Alpha Capture Portfolio in the Domestic Large Cap Equity allocation in the Pension Trust. Mr. Cochrane recommended termination of the account because of performance issues or reconsider in three months. The monies would stay within the equity allocation.

MR. ENGLESON MOVED AND MR. SAGE SECONDED TO TERMINATE THE WELLS ALPHA CAPTURE PORTFOLIO IMMEDIATELY.

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

NAYS: NONE

MOTION CARRIED.

ABSENT: MR. CORNEIL

3. Hyperion mortgage account in the Insurance Trust. Mr. Cochrane recommended terminating the account and transferring the assets in kind to Declaration for continued management.

MS. TERNES MOVED AND COMMISSIONER HAMM SECONDED TO TERMINATE HYPERION AND TRANSFER THE ASSETS TO DECLARATION FOR MANAGEMENT.

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

NAYS: NONE

MOTION CARRIED.

ABSENT: MR. CORNEIL

INVESTMENTS:

Adams Street - Mr. Cochrane recommended committing \$15 million to Adams Street new Global Private Equity Fund in the Pension Trust and also recognize the principal that a steady non binding contribution into the Adams Street private equity program over the long term on a regular annualized basis is a good idea.

MR. GESSNER MOVED AND MR. ERDMANN SECONDED TO COMMIT \$15 MILLION TO ADAMS STREET NEW GLOBAL PRIVATE EQUITY FUND WITH A STATEMENT OF INTENT TO CONTINUE THIS PATTERN ON AN ANNUAL BASIS.

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

MOTION CARRIED

ABSENT: MR. CORNEIL

Fixed Income Investment Proposal - Mr. Cochrane reviewed the new fixed income strategy Declaration/Metacapital Fund opportunity and recommended committing \$50 million. The commitment would come from Clifton's futures and would be integrated into Declaration's international equity with a beta exposure.

MR. GESSNER MOVED AND MR. TOSO SECONDED TO ACCEPT STAFF RECOMMENDATION AND COMMIT \$50 MILLION INTO THE DECLARATION/METACAPITAL FUND OPPORTUNITY.

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

MOTION CARRIED.

ABSENT: MR. CORNEIL

GOVERNANCE:ADMINISTRATION

Callan Conference - Ms. Ternes and Mr. Toso reported on Callan's annual conference that they attended February 1-3, 2010, in San Francisco, CA. Their reports were very positive relative to the value of the experience as fiduciaries.

QUARTERLY MONITORING:

The following monitoring reports were provided to the Board for their approval: Investment measurement reports for the Pension and Insurance Trusts for the quarter ending December 31, 2009 and the money manager annual review report for the month of February 2010.

TREASURER SCHMIDT MOVED AND MR. GESSNER SECONDED TO ACCEPT THE REPORTS.

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

NAYS: NONE

MOTION CARRIED

ABSENT: MR. CORNEIL

OTHER:

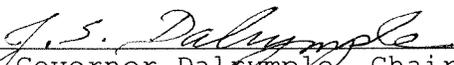
The next SIB meeting is scheduled for March 26, 2010, at 8:30 a.m. at the State Capitol, Peace Garden Room, Bismarck, ND.

The next SIB Audit Committee meeting is scheduled for May 21, 2010, at 1:00 p.m. at the State Capitol, Peace Garden Room, Bismarck, ND.

ADJOURNMENT:

Lt. Governor Dalrymple adjourned the meeting at 12:30 p.m.

Respectfully Submitted:



Lt. Governor Dalrymple, Chair
State Investment Board



Bonnie Heit
Reporting Secretary