

**NORTH DAKOTA STATE INVESTMENT BOARD
MINUTES OF THE
MAY 21, 2010 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 (teleconference)
Howard Sage, PERS Board
Mike Sandal, PERS Board
Kelly Schmidt, State Treasurer
Cindy Ternes, Workforce Safety & Insurance
Bob Toso, TFFR Board

STAFF PRESENT: LeRoy Gilbertson, Interim Executive Director/CIO
Connie Flanagan, Fiscal & Investment Officer
Bonnie Heit, Office Manager
Fay Kopp, Deputy Executive Director
Les Mason, Audit Supervisor
Leslie Moszer, Compliance Officer
Susan Walcker, Accountant

OTHERS PRESENT: Weldee Baetsch, former SIB trustee
Aaron Birst, NDACo
Renee Cooper, ND Democratic - NPL
Genny Dienstmann, NDACo
Paul Erlendson, Callan Associates, Inc.
Madeline Heer, former TFFR trustee
Jay Koepfler, Callan Associates, Inc.
Bryan Klipfel, Workforce Safety & Insurance
Francine Larson, State Auditor's Office
Lonny Mertz, SIB Audit Committee
Sherry Neas, State Procurement
Sophia Preszler, Public Citizen
Bryan Reinhardt, PERS
Todd Ternes, State Procurement
Dave Thompson, Prairie Public
Dale Wetzel, Associated Press
Bob Willer, State Bank & Trust

CALL TO ORDER:

Lt. Governor Dalrymple called the State Investment Board (SIB) meeting to order at 8:30 a.m. on Friday, May 21, 2010, at the State Capitol, Peace Garden Room, Bismarck, ND.

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

AGENDA:

MR. CORNEIL MOVED AND MS. TERNES SECONDED TO APPROVE THE MAY 21, 2010 AGENDA.

AYES: COMMISSIONER HAMM, 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.

MINUTES:

The Board considered the minutes of the April 23, 2010, meeting.

TREASURER SCHMIDT MOVED AND MR. CORNEIL SECONDED TO APPROVE THE APRIL 23, 2010 MINUTES.

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

NAYS: NONE

MOTION CARRIED

GOVERNANCE:

ADMINISTRATION

Interim Executive Director (ED)/Chief Investment Officer (CIO) - Lt. Governor Dalrymple introduced and welcomed Mr. LeRoy (Gil) Gilbertson as the interim ED/CIO. Mr. Gilbertson was offered the position by the SIB Executive Committee and began his duties on May 10, 2010. Members of the Executive Committee are Lt. Governor Dalrymple, Treasurer Schmidt, Mr. Erdmann, Mr. Gessner, and Mr. Bryan Klipfel.

Search Committee Report - Mr. Klipfel, Chair of the SIB Search Committee updated the Board on the Committee's activities. The Committee has been working with State Procurement to issue a Request for Proposal (RFP) for Executive Recruitment Services for the Retirement and Investment Office (RIO). The Search Committee would be seeking a company with expertise in executive recruitment services, specifically, with previous experience with the recruitment of public fund executives and public fund investment professionals responsible for the management of funds in excess of \$4 billion, to identify and evaluate qualified candidates to fill the position of CIO with executive leadership experience.

The SIB reaffirmed their directive from their April 23, 2010 meeting which authorizes the Search Committee to interview the leading candidates, determine the finalist, and issue a notice of intent to award a contract. Mr. Klipfel reviewed the timeframe for the RFP. The RFP was issued May 11, 2010. The Search Committee's timeline is to issue a notice of intent to award a contract

approximately June 17, 2010 with the State issuing a contract approximately June 25, 2010, contingent upon the SIB's approval at their June 25, 2010 board meeting.

Audit Committee Report - Mr. Gessner updated the Board on the RFP process for the special purpose audit of RIO. Upon consultation and recommendation from the State Auditor's Office, the RFP will be reissued as a performance audit. Performance audits are engagements that provide assurance or conclusions based on an evaluation of sufficient appropriate evidence against stated criteria. The objective of the performance audit is to investigate procedures as required to determine whether the actions of the former ED/CIO complied with the policies in the SIB Governance Policy Manual.

The Audit Committee's timeline is to reissue the RFP on May 21, 2010, issue a notice of intent to award a contract approximately June 15, 2010 with the State issuing a contract approximately June 25, 2010, contingent upon the SIB's approval at their June 25, 2010 board meeting.

MR. ERDMANN MOVED AND MR. ENGLESON SECONDED TO AUTHORIZE THE SIB AUDIT COMMITTEE TO REISSUE THE AUDIT OF RIO AS A PERFORMANCE AUDIT AND TO FINALIZE THE RFP PROCESS.

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

NAYS: NONE

MOTION CARRIED.

TREASURER SCHMIDT MOVED AND MR. CORNEIL SECONDED THAT THE SIB AUDIT COMMITTEE AND SIB SEARCH COMMITTEE RFP'S BE AWARDED AFTER RATIFICATION BY THE SIB.

AYES: MR. CORNEIL, 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.

Mr. Sandal, as a member of the Search Committee and Audit Committee, acknowledged Ms. Sherry Neas and Mr. Todd Ternes, State Procurement, for their service, expertise, and willingness to assist. Their roles have been instrumental in the process and progress to this point. Mr. Sandal thanked them for their hard work and great effort.

Lt. Governor Dalrymple thanked the Search Committee and SIB Audit Committee members for their hard work, especially Ms. Dorwart and Mr. Mertz.

Trustees concurred.

Legislative Audit and Fiscal Review Committee Update - Ms. Fay Kopp, Deputy Executive Director, reported on the Legislative Audit and Fiscal Review Committee (LAFRC) meeting on May 12, 2010. Ms. Connie Flanagan, Fiscal and Investment Officer, Ms. Ternes, and Ms. Kopp updated the LAFRC on the funding of the Teachers' Fund for Retirement (TFFR) plan, TFFR legislative proposals, the hiring

of Mr. Gilbertson as interim ED/CIO and the search for a permanent replacement, performance of investments, status of the WG Trading issue, and the performance audit of RIO.

Fiscal Year 2011 Meeting Schedule - Ms. Kopp reviewed a draft of the TFFR/SIB 2010-11 meeting dates. The SIB will be provided a final version at their June 25, 2010 meeting.

The Board also reviewed a draft of a press release compiled by Ms. Dorwart that would be released by RIO on May 21, 2010. The press release would announce that two independent external audits, financial and performance, would be conducted this summer on RIO. Contact person on the press release would be Mr. Gilbertson with any specific questions on the audits referred to Ms. Dorwart.

MONITORING:

Mr. Paul Erlendson, Callan Associates, reviewed the March 31, 2010 Insurance and Pension Fund investment measurement reports.

Lt. Governor Dalrymple verified with Mr. Erlendson the performance of the Pension Trust's domestic and international equity asset class rankings relative to Callan's universe of asset managers. Domestic equity performance for the quarter ending March 31, 2010 was in the top 3 percent of all comparable managers; and international equity, for the same time period, was in the top 1 percent of all comparable managers. Mr. Erlendson confirmed the facts.

Copies of the reports are retained at RIO.

MR. ERDMANN MOVED AND TREASURER SCHMIDT SECONDED TO ACCEPT THE CALLAN INVESTMENT MEASUREMENT REPORTS FOR THE PERIOD ENDING MARCH 31, 2010.

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

NAYS: NONE

MOTION CARRIED.

MS. TERNES MOVED AND MR. SANDAL SECONDED TO RATIFY THE DECISION OF THE EXECUTIVE COMMITTEE TO HIRE MR. GILBERTSON AS THE INTERIM ED/CIO.

AYES: MR. SAGE, 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.

OTHER:

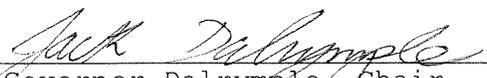
The next SIB meeting is scheduled for June 25, 2010, at 8:30 a.m. at the State Capitol, Peace Garden Room, Bismarck, ND.

The next SIB Audit Committee meeting is scheduled for May 21, 2010, at 2:00 p.m. at the State Capitol, Peace Garden Room, Bismarck, ND.

ADJOURNMENT:

Lt. Governor Dalrymple adjourned the meeting at 10:35 a.m.

Respectfully Submitted:



Lt. Governor Dalrymple, Chair
State Investment Board



Bonnie Heit
Reporting Secretary