NORTH DAKOTA STATE INVESTMENT BOARD
MINUTES OF THE
JUNE 25, 2010 BOARD MEETING

BOARD MEMBERS PRESENT:
Lt. Governor Jack Dalrymple, Chair
Clarence Corneil, Vice Chair
Jeff Engleson, Land Dept.
Mike Gessner, TFFR Board
Adam Hamm, Insurance Commissioner (teleconference)
Howard Sage, PERS Board
Mike Sandal, PERS Board
Cindy Ternes, Workforce Safety & Insurance
Tom Trenbeath, PERS Board
Bob Toso, TFFR Board

MEMBER'S ABSENT:
Kelly Schmidt, State Treasurer

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

OTHERS PRESENT:
Weldee Baetsch, former SIB trustee
Becky Dorwart, MDU
Mike Hardy, State Bank & Trust
Bryan Klipfel, Workforce Safety & Insurance
Ben Lazarus, Clifton
Sherry Neas, State Procurement
Bryan Reinhardt, PERS
Jim Sakelaris, JP Morgan
Stu Schweitzer, JP Morgan
Todd Ternes, State Procurement

CALL TO ORDER:

Lt. Governor Dalrymple called the State Investment Board (SIB) meeting to order at 8:30 a.m. on Friday, June 25, 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. GESSNER, COMMISSIONER HAMM, MR. SAGE, MR. SANDAL, MS. TERNES, MR. TRENBEATH, MR. TOSO

AGENDA:

MS. TERNES MOVED AND MR. GESSNER SECONDED TO APPROVE THE JUNE 25, 2010 AGENDA AS AMENDED.

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

MOTION CARRIED.
ABSENT: TREASURER SCHMIDT

MINUTES:

The Board considered the minutes of the May 21, 2010, meeting.

MR. CORNEIL MOVED AND MR. GESSNER SECONDED TO APPROVE THE MAY 21, 2010 MINUTES.

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

MOTION CARRIED
ABSENT: TREASURER SCHMIDT

EDUCATION:

JP Morgan representatives Mr. Jim Sakelaris, SIB client relationship, and Mr. Stuart Schweitzer, global strategist, presented their views on the global markets.

GOVERNANCE:

Search Committee - Mr. Bryan Klipfel, Chairman, SIB Search Committee, updated the board on the Committee's Executive Recruitment activities.

The Search Committee received three proposals through the Request for Proposal (RFP) process; EFL Associates, Denver, Co., and Alliance Resource Consulting, Palo Alto, CA. A third firm did not meet requirements. The initial proposals were reviewed and scored. Interviews were conducted by interactive video network. After consideration of the initial scores, completion of the interviews, and final points, the Search Committee selected EFL Associates.

The Search Committee was not aware of costs throughout the evaluation process. State Procurement separately evaluated costs utilizing a formula to compare the costs of each of the proposals. EFL's fixed fee is $63,000 with the total cost not to exceed $86,500. Expenses are capped at $23,500. EFL Associates is a management consulting firm specializing solely and exclusively in executive searches. EFL has been ranked in the top 2% of the 2,500 national, retainer-based search firms. Ms. Mary Hobson will be the primary contact and team leader for the search. Ms. Hobson has over 35 years of business experience in the general management, legal, and financial arenas.

Mr. Klipfel extended appreciation to Ms. Sherry Neas and Mr. Todd Ternes, State Procurement, Mr. Aaron Webb, SIB legal counsel, and the RIO staff.

Lt. Governor Dalrymple thanked Mr. Klipfel for chairing the committee and also thanked the other members of the committee; Treasurer Schmidt, Mr. Sandal, Mr. Toso, and Mr. Hardmeyer. He also extended appreciation to those who assisted the

committee. He stated the Committee worked diligently, very promptly and efficiently.

Mr. Gilbertson will be the project coordinator for the SIB.

MR. GESSNER MOVED AND MS. TERNES SECONDED TO HIRE EFL ASSOCIATES TO CONDUCT THE SEARCH FOR A CHIEF INVESTMENT OFFICER/EXECUTIVE DIRECTOR FOR THE RETIREMENT AND INVESTMENT OFFICE (RIO).

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

MOTION CARRIED
ABSENT: TREASURER SCHMIDT

Audit Committee - Ms. Becky Dorwart, Chair, SIB Audit Committee, updated the board on the Committee's activities to select an audit firm to conduct the performance audit of RIO.

The Audit Committee received two proposals through the RFP process; Clifton Gunderson and Deloitte and Touche. The Committee consisting of Mr. Lonny Mertz, Ms. Ternes, Mr. Gessner, and Mr. Sandal evaluated the firms based on their performance audit work plan and experience/qualifications of the engagement team and the firm. Ms. Dorwart recused herself from the evaluation process as she had previously worked with one of the firms. State Procurement separately evaluated costs utilizing a formula to compare the costs of each of the proposals. After scoring and considering costs, the Search Committee selected Clifton Gunderson. Clifton Gunderson's cost proposals are based on 430 estimated project hours, at a blended rate of approximately $171 per hour, or $73,450 for the engagement plus estimated costs of $5,000. Clifton Gunderson is currently ranked as the 14th largest certified public accounting and consulting firm in the nation. The firm provides a wide range of assurance, tax and consulting services to clients in a variety of industries. Mr. Thomas Rey, Jr. will oversee all engagement responsibilities for the performance audit. Mr. Rey specializes in pensions and investments and has more than 14 years experience in governmental auditing.

Ms. Dorwart thanked the Audit Committee for their hard work and diligence. She also appreciated the efforts and guidance of Ms. Neas and Mr. Ternes and thanked RIO staff for their assistance.

Lt. Governor Dalrymple expressed sincere gratitude to Ms. Dorwart for her efforts and leadership. He stated Ms. Dorwart has done an unbelievable job on something that is very complex.

Lt. Governor Dalrymple stated he and Ms. Dorwart have met with the State Auditor and the State Auditor's Office is providing guidance throughout the process.

Lt. Governor Dalrymple stated some areas that Clifton Gunderson will be focusing on are the fee structures of the SIB managers and asset class categorization and the consistency of those classifications. He stated even though Clifton Gunderson's initial proposal was 430 hours, it has been made clear to them that if they or the SIB see any other areas of interest emerging as the audit proceeds that the SIB is open to adding hours and costs to complete additional work.

MR. TRENBEATH MOVED AND MR. SAGE SECONDED TO APPROVE THE SIB AUDIT COMMITTEE'S RECOMMENDATION TO ENGAGE CLIFTON GUNDERSON TO PERFORM THE PERFORMANCE AUDIT OF RIO.

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

MOTION CARRIED
ABSENT: TREASURER SCHMIDT

Mr. Gessner stated Ms. Dorwart will be the primary point of contact to Clifton Gunderson and Mr. Gilbertson will be Clifton Gunderson's contact for RIO. He also mentioned Eide Bailly has begun their field work for RIO's 2009-10 financial audit.

Lt. Governor Dalrymple thanked the Audit Committee for a job well done. He also recognized and thanked Ms. Neas and Mr. Ternes for their attention on the timeliness of the work. This project was given special consideration and prioritization by them.

RIO Budget - Ms. Flanagan reviewed RIO's budget guidelines for the 2011-13 biennium.

Ms. Flanagan also addressed the costs associated with the Executive Recruitment search and the Performance Audit. The Performance Audit fees will be paid under RIO's continuing appropriation. The Executive Recruitment search fees will be paid partly through RIO's normal operating line item and the remainder under RIO's contingency line item. Ms. Flanagan stated there are not enough funds in RIO's operating line to pay the entire contract and Ms. Flanagan requested the board's approval to utilize contingency line item funds to pay for the remaining balance.

MR. TOSO MOVED AND MR. SANDAL SECONDED TO APPROVE THE USE OF RIO'S CONTINGENCY LINE ITEM TO COMPLETE EXECUTIVE RECRUITMENT CONTRACT OBLIGATIONS.

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

MOTION CARRIED
ABSENT: TREASURER SCHMIDT

FargoDome Investment Guidelines - Ms. Flanagan reviewed revised investment guidelines for the City of Fargo - FargoDome Permanent Fund and requested board approval.

MR. CORNEIL MOVED AND MR. ENGLESON SECONDED TO APPROVE THE REVISED CITY OF FARGO-FARGODOME PERMANENT FUND INVESTMENT GUIDELINES AS RECOMMENDED BY STAFF.

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

MOTION CARRIED

ABSENT: TREASURER SCHMIDT

INVESTMENT:

Callan Fee Survey Proposal - Mr. Gilbertson reviewed Callan's proposal to conduct a review of the asset management fees paid by the SIB for the Pension and Insurance Trusts. The objective will be to review the fees paid by strategy and asset class within the two trusts. The review will also include fee rates within the context of appropriate and comparable peer groups of similarly managed strategies. Callan's cost to conduct the study is $27,000. Mr. Gilbertson recommended the board enter into a contract with Callan to complete the Pension and Insurance fee analysis.

MR. GESSNER MOVED AND MR. SANDAL SECONDED TO ACCEPT STAFF RECOMMENDATION AND HIRE CALLAN TO CONDUCT A FEE STUDY.

Discussion was held on whether or not the SIB's constituents will see Callan as being independent enough to complete the study because of their association as the SIB's consultant.

Lt. Governor Dalrymple stated Callan has a large database which contains asset management fees paid by approximately 100 funds. Clifton Gunderson will also be conducting a fee analysis as part of the performance audit. Having both Callan and Clifton Gunderson perform a fee analysis will provide the SIB with valuable information from two independent perspectives to determine if the asset management fees paid by the SIB are reasonable.

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

MOTION CARRIED
ABSENT: TREASURER SCHMIDT

International Equity - Mr. Gilbertson reviewed the Declaration/Metacapital Opportunistic Fixed Income Strategy Fund. At the SIB's February 26, 2010 meeting, the Board voted to commit $50 million to the fund utilizing it as an alpha generator over an EAFE beta exposure managed by The Clifton Group. Declaration has informed staff their parent company Manulife has asked Declaration to put a permanent hold on the fund because of concerns with high risk in the future of institutional account litigation in connection with pooled vehicles for alternative investments.

After discussion,

MR. ENGLESON MOVED AND MR. CORNEIL SECONDED TO DISENGAGE THE COMMITMENT TO THE DECLARATION/METACAPITAL OPPORTUNISTIC FIXED INCOME STRATEGY FUND AND PLACE THE COMMITMENT IN HOLDING IN THE INTERNATIONAL EXPOSURE BY MEANS OF FUTURES MANAGED THROUGH THE CLIFTON GROUP.

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

MOTION CARRIED
ABSENT: TREASURER SCHMIDT

Investment Manager Visits - Mr. Gilbertson updated the board on the SIB manager visits he has completed to date. The meetings have been productive and he will be compiling his thoughts, concerns, and recommendations for the new Chief Investment Officer once he has completed reviews with all the managers.

Other Activities - Mr. Gilbertson informed the board RIO has received a certificate of achievement in financial reporting from the Government Finance Officers Association (GFOA). Ms. Flanagan and the accounting staff have received this accommodation for the past 12 years.

Mr. Gilbertson also informed the board he and Lt. Governor Dalrymple have been working on compiling "Frequently Asked Questions (FAQ)." He will be forwarding the questions to the SIB, Public Employees Retirement System (PERS) board, and the Teachers' Fund for Retirement (TFFR) board for their input. Once finalized, the FAQ will be posted on RIO's website.

March 31, 2010 quarterly monitoring reports - Staff Relations, Investment Program, and Retirement Program were provided to the Board for their acceptance.

MR. GESSNER MOVED AND MR. CORNEIL SECONDED TO APPROVE THE MARCH 31, 2010 QUARTERLY MONITORING REPORTS.

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

MOTION CARRIED
ABSENT: TREASURER SCHMIDT

OTHER:

The next SIB meeting is scheduled for July 23, 2010, at 8:30 a.m. at the State Capitol, Peace Garden Room, Bismarck, ND.

The next SIB Audit Committee meeting is scheduled for September 24, 2010, at 1:00 p.m. at the State Capitol, Peace Garden Room, Bismarck, ND.

ADJOURNMENT:

Lt. Governor Dalrymple adjourned the meeting at 11:00 a.m.

Respectfully Submitted:

Jack Dalrymple

Lt. Governor Dalrymple, Chair
State Investment Board

Bonnie Heit

Bonnie Heit
Reporting Secretary