

**NORTH DAKOTA STATE INVESTMENT BOARD  
MINUTES OF THE  
FEBRUARY 25, 2011 BOARD MEETING**

**BOARD MEMBERS PRESENT:** Mike Sandal, Vice Chair  
Levi Erdmann, PERS Board  
Lance Gaebe, Land Commissioner  
Mike Gessner, TFFR Board  
Adam Hamm, Insurance Commissioner  
Howard Sage, PERS Board  
Kelly Schmidt, State Treasurer  
Cindy Ternes, Workforce Safety & Insurance  
Bob Toso, TFFR Board  
Drew Wrigley, Lt. Governor

**BOARD MEMBER ABSENT:** Clarence Corneil, TFFR Board

**STAFF PRESENT:** Connie Flanagan, Fiscal & Investment Officer  
John Geissinger, Executive Director/CIO  
Bonnie Heit, Office Manager  
Fay Kopp, Deputy Executive Director  
Leslie Moszer, Compliance Officer  
Susan Walcker, Investment Accountant

**OTHERS PRESENT:** William Callan, Declaration  
Greg Casey, Declaration  
Jeff Engleson, Land Dept.  
Paul Erlendson, Callan Associates  
Bryan Klipfel, Workforce Safety & Insurance  
Ron Leingang, former SIB/PERS trustee  
Jan Murtha, Attorney General's Office  
John Pluta, Declaration  
Bryan Reinhardt, PERS  
Matt Sagsveen, Attorney General's Office

**CALL TO ORDER:**

Mr. Mike Sandal, Vice Chair, called the State Investment Board (SIB) meeting to order at 8:30 a.m. on Friday, February 25, 2011, at Workforce Safety & Insurance, 1600 E Century Ave, Bismarck, ND.

A quorum was present for the purpose of conducting business.

**AGENDA:**

**COMMISSIONER HAMM MOVED AND MR. ERDMANN SECONDED TO APPROVE THE AGENDA.**

**AYES: COMMISSIONER HAMM, MS. TERNES, MR. GAEBE, MR. GESSNER, MR. SAGE, LT. GOVERNOR WRIGLEY, MR. ERDMANN, MR. SANDAL, MR. TOSO, AND TREASURER SCHMIDT**

**NAYS: NONE**

**ABSENT: MR. CORNEIL**

**MOTION CARRIED**

MINUTES:

TREASURER SCHMIDT MOVED AND LT. GOVERNOR WRIGLEY SECONDED TO APPROVE THE JANUARY 28, 2011 MINUTES.

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

NAYS: NONE

ABSENT: MR. CORNEIL

MOTION CARRIED

ELECTION OF CHAIR:

TREASURER SCHMIDT MOVED AND MR. SAGE SECONDED TO NOMINATE LT. GOVERNOR WRIGLEY AS CHAIR OF THE SIB FOR THE PERIOD OF FEBRUARY 25, 2011 - JUNE 30, 2011.

TREASURER SCHMIDT MOVED AND MS. TERNES SECONDED TO CEASE NOMINATIONS AND CAST A UNANIMOUS BALLOT FOR LT. GOVERNOR WRIGLEY

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

NAYS: NONE

ABSENT: MR. CORNEIL

MOTION CARRIED

Lt. Governor Wrigley presided over the meeting.

GOVERNANCE:

Legislation - Mr. Geissinger reviewed the current format of the following bills that affect the SIB.

SB 2302 - creates a second SIB consisting of the Governor, the State Treasurer, the Insurance Commissioner, two nonvoting members of the Senate, and two nonvoting members of the House of Representatives to manage the legacy fund and budget stabilization fund.

SB 2344 - removes one Teachers' Fund for Retirement (TFFR) and one Public Employees Retirement System (PERS) representative, and the Commissioner of University and School Lands and adds three members selected by the Governor. Of the three members selected by the Governor, one must be a member of the North Dakota Bankers Association or the independent community banks of North Dakota and two must hold either a financial industry regulatory authority series 7 registration or a North American securities administrators association series 65 registration.

After reviewing, Mr. Geissinger recommended an Attorney General's Opinion be sought for the following:

1. Does the SIB have the authority to charge its administrative costs to the Legacy Fund in accordance with NDCC 21-10-06.2<sup>4</sup> when Subsection 2 of Article

X, Section 26, prohibits the principal and earnings of the Fund from being expended until 2017.

2. Does the SIB have the authority to invest the Legacy Fund's principal according to the SIB's management and allocation decision making. NDCC 21-10-02.1(2) requires that a Fund's asset allocation be approved by its governing body and NDCC, Article X, Section 26 lacks an explicit governing body to administer the Fund.

**TREASURER SCHMIDT MOVED AND MR. GAEBE SECONDED TO ACCEPT STAFF RECOMMENDATION TO OBTAIN AN ATTORNEY GENERAL'S OPINION.**

**AYES: MS. TERNES, LT. GOVERNOR WRIGLEY, COMMISSIONER HAMM, TREASURER SCHMIDT, MR. GAEBE, MR. ERDMANN, MR. TOSO, MR. SANDAL, MR. SAGE, AND MR. GESSNER**

**NAYS: NONE**

**ABSENT: MR. CORNEIL**

**MOTION CARRIED**

The Board discussed SB 2344 and after discussion felt it important to form a Legislative subcommittee on behalf of the SIB and its clients. The subcommittee would act as a liaison to the Legislative body and would keep the SIB and its clients informed of legislation that affects them and would also solicit and receive feedback. As issues arise, this will enable the board to be able to act quickly and have its point of views and position communicated effectively and efficiently.

Westridge/WG Trading - Mr. Matt Sagsveen, Attorney General's Office, briefed the board on the litigation. The Receiver has completed his analysis and provided a report and motion to the judge to accept/object the report and the judge has granted the limited partners the same opportunity. The State of North Dakota's legal counsel has recommended the State object the report which would put the State and the other limited partners in a better position to acquire as much of the assets back as possible. The State has taken their legal counsel's advice. The board took no action and Mr. Sagsveen will continue to represent the SIB in this matter and provide updates.

Mr. Sagsveen also introduced Ms. Jan Murtha. Effective immediately, Ms. Murtha will provide legal counsel to the SIB, PERS, TFFR, and the Retirement and Investment Office (RIO).

**BOARD EDUCATION:**

Declaration representatives Mr. Greg Casey, Mr. John Pluta, and Mr. William Callan provided an update on the accounts they currently manage for the SIB, their general market views, and also an educational segment on their Total Return Bond Strategy.

The Board recessed at 10:30 am and reconvened at 10:40 am

The Board continued their discussion of assembling an SIB subcommittee to address legislative issues.

Lt. Governor Wrigley left the meeting and Mr. Sandal presided over the meeting.

The following individuals will serve contingent on the Lt. Governor's approval; Lt. Governor Wrigley, Mr. Sandal, Ms. Ternes, Mr. Geissinger, Mr. Sparb Collins, and Ms. Fay Kopp.

The Board added an additional role to the subcommittee which is to give them the authority, when appropriate, to support legislation that works for the SIB by offering an alternative rather than opposing the legislation.

**INVESTMENTS:**

Formulation of Approved List - Mr. Geissinger reviewed a "manager approved list" process that the board could consider implementing. The list would minimize transition costs and keep the process under the SIB's control and timeframe when a manager needs to be replaced. The transition time would be reduced by investing time up front to approve managers before the need arises. The board will address this issue again at their March 18, 2011 meeting.

Benchmark for Non US Equity Managers - Mr. Geissinger reviewed the benchmark for non-US equity mandates which are currently measured against a 50% hedged EAFE benchmark which the SIB has been practicing. Mr. Geissinger recommended all non-US equity managers and non-US allocations be compared to unhedged benchmarks.

**TREASURE SCHMIDT MOVED AND MS. TERNES SECONDED TO ACCEPT STAFF RECOMMENDATION.**

**AYES: COMMISSIONER HAMM, MR. SANDAL, MR. GESSNER, MR. TOSO, MR. ERDMANN, MS. TERNES, MR. GAEBE, MR. SAGE, AND TREASURER SCHMIDT**

**NAYS: NONE**

**ABSENT: MR. CORNEIL, LT. GOVERNOR WRIGLEY**

**MOTION CARRIED**

European Credit Management - Mr. Geissinger recommended termination of European Credit Management in its entirety. Mr. Geissinger is uncomfortable with the SIB's ability to effectively conduct risk management and performance attribution due to the varying degrees of leverage this product has employed.

**MR. GESSNER MOVED AND MR. TOSO SECONDED TO ACCEPT STAFF RECOMMENDATION AND TERMINATE EUROPEAN CREDIT MANAGEMENT AND PROVIDE THEM A 60-DAY NOTICE.**

**AYES: MR. TOSO, TREASURER SCHMIDT, MR. GAEBE, MR. ERDMANN, MR. SANDAL, COMMISSIONER HAMM, MR. GESSNER, MR. SAGE, AND MS. TERNES**

**NAYS: NONE**

**ABSENT: MR. CORNEIL, LT. GOVERNOR WRIGLEY**

**MOTION CARRIED**

Mr. Geissinger will provide a recommendation for the proceeds at the SIB's March 18, 2011 meeting.

Callan Conference - Mr. Sandal attended Callan's annual conference January 31 - February 2, 2011, in San Francisco, CA, and shared his insights from the conference.

**GOVERNANCE:**

Governance Policies - The SIB reviewed the first draft of governance policy changes at their January 28, 2011 meeting as a result of the performance audit of RIO. The SIB policy committee consisting of Mr. Sandal, Vice Chair, Treasurer Schmidt, and Ms. Ternes recommended the SIB accept the policy changes. SIB clients and other interested parties were given notice of these changes and allowed an opportunity for written comment or dialogue. The revised policies were posted on RIO's website and no comments or dialogue were received from clients or interested parties.

**TREASURER SCHMIDT MOVED AND COMMISSIONER HAMM SECONDED TO APPROVE THE GOVERNANCE POLICY CHANGES AS RECOMMENDED BY THE SIB POLICY COMMITTEE.**

**AYES: COMMISSIONER HAMM, MS. TERNES, MR. GAEBE, MR. GESSNER, MR. SAGE, MR. ERDMANN, MR. SANDAL, MR. TOSO, AND TREASURER SCHMIDT**

**NAYS: NONE**

**ABSENT: MR. CORNEIL, LT. GOVERNOR WRIGLEY**

**MOTION CARRIED**

**MONITORING QTR ENDING 12/31/2010:**

Pension and Insurance Trusts - Mr. Paul Erlendson, Callan Associates, provided his insights on the markets for the fourth quarter of 2010.

**COMMISSIONER HAMM MOVED AND MR. GAEBE SECONDED TO APPROVE CALLAN'S REPORT.**

**AYES: MR. GESSNER, MR. GAEBE, MR. SAGE, MS. TERNES, TREASURER SCHMIDT, MR. TOSO, COMMISSIONER HAMM, MR. ERDMANN, AND MR. SANDAL**

**NAYS: NONE**

**ABSENT: MR. CORNEIL, LT. GOVERNOR WRIGLEY**

**MOTION CARRIED**

**OTHER:**

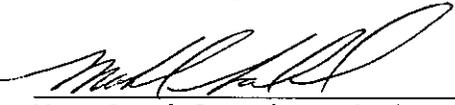
The next SIB meeting is scheduled for March 18, 2011 at 8:30 a.m. at Workforce Safety & Insurance, 1600 E. Century Avenue, Bismarck, ND.

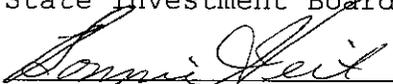
The next SIB Audit Committee meeting is scheduled for February 25, 2011, at 1:00 p.m. at Workforce Safety & Insurance, 1600 E. Century Avenue, Bismarck, ND.

**ADJOURNMENT:**

Mr. Sandal adjourned the meeting at 12:10 p.m.

Respectfully Submitted:

  
 Mr. Sandal, Vice Chair  
 State Investment Board

  
 Bonnie Heit  
 Secretary to the Board