NORTH DAKOTA STATE INVESTMENT BOARD
MINUTES OF THE
JULY 22, 2011 BOARD MEETING

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

STAFF PRESENT:
Connie Flanagan, Fiscal & Investment Officer
John Geissinger, Executive Director/CIO
Bonnie Heit, Office Manager
Fay Kopp, Dep. Executive Director
Leslie Moszer, Compliance Officer

OTHERS PRESENT:
Paul Erlendson, Callan Associates
Jay Kloepfer, Callan Associates
Ron Leingang, former SIB trustee
Jan Murtha, Attorney General's Office
Gene Podkaminer, Callan Associates
Bryan Reinhardt, PERS
Matt Sagsveen, Attorney General's Office

CALL TO ORDER:

Lt. Governor Wrigley, called the State Investment Board (SIB) meeting to order at 8:30 a.m. on Friday, July 22, 2011, at Workforce Safety & Insurance, 1600 E Century, Bismarck, ND.

A quorum was present for the purpose of conducting business.

AGENDA:

MR. GESSNER MOVED AND COMMISSIONER HAMM SECONDED TO APPROVE THE AGENDA.

AYES: COMMISSIONER HAMM, MS. TERNES, MR. GAEBE, MR. GESSNER, MR. SAGE, MR. ERDMANN, MR. SANDAL, DR. SANSTEAD, MR. CORNEIL, TREASURER SCHMIDT, AND LT. GOVERNOR WRIGLEY
NAYS: NONE
MOTION CARRIED

MINUTES:

TREASURER SCHMIDT MOVED AND MR. SANDAL SECONDED TO APPROVE THE JUNE 24, 2011 MINUTES.

AYES: MR. GESSNER, COMMISSIONER GAEBE, MR. SAGE, MS. TERNES, TREASURER SCHMIDT, DR. SANSTEAD, COMMISSIONER HAMM, MR. CORNEIL, MR. ERDMANN, MR. SANDAL, AND LT. GOVERNOR WRIGLEY
NAYS: NONE
MOTION CARRIED

ELECTION OF OFFICERS:

The Board addressed officer and committee appointments for the period of July 1, 2011- June 30, 2012.

TREASURER SCHMIDT MOVED AND MR. SANDAL SECONDED TO ELECT LT. GOVERNOR WRIGLEY AS CHAIR OF THE SIB.

AYES: MR. CORNEIL, MR. GESSNER, MR. SANDAL, MR. SAGE, MS. TERNES, TREASURER SCHMIDT, COMMISSIONER HAMM, COMMISSIONER GAEBE, DR. SANSTEAD, MR. ERDMANN, AND LT. GOVERNOR WRIGLEY
NAYS: NONE
MOTION CARRIED.

COMMISSIONER GAEBE MOVED AND MR. SAGE SECONDED TO ELECT MR. SANDAL AS VICE CHAIR OF THE SIB.

AYES: TREASURER SCHMIDT, MR. GESSNER, COMMISSIONER HAMM, MS. TERNES, MR. GAEBE, MR. SAGE, DR. SANSTEAD, MR. SANDAL, MR. ERDMANN, MR. CORNEIL, AND LT. GOVERNOR WRIGLEY
NAYS: NONE
MOTION CARRIED

Lt. Governor Wrigley appointed Mr. Corneil as Parliamentarian.

TREASURER SCHMIDT MOVED AND MR. ERDMANN SECONDED TO REAPPOINT THE SIB AUDIT COMMITTEE - MR. SANDAL, MR. GESSNER, MS. TERNES, MS. BECKY DORWART, AND MR. LONNY MERTZ.

AYES: MR. SAGE, MR. SANDAL, MR. CORNEIL, MR. GESSNER, DR.SANSTEAD, MR. ERDMANN, MS. TERNES, COMMISSONER HAMM, COMMISSIONER GAEBE, TREASURER SCHMIDT, AND LT. GOVERNOR WRIGLEY
NAYS: NONE
MOTION CARRIED

GOVERNANCE:

By-Laws - The Board reviewed amendments to sections 2-1, 4-2, and 4-8 of their by-laws. The amendments were a result of legislation passed during the 2011 Legislative Session. The amendments require a 30 day notice of intent to revise. The by-laws were previously reviewed at the board's June 24, 2011 meeting.

MR. GESSNER MOVED AND COMMISSIONER HAMM SECONDED TO ACCEPT THE BY-LAWS AS AMENDED.

AYES: MR. ERDMANN, TREASURER SCHMIDT, MR. CORNEIL, COMMISSIONER GAEBE, DR. SANSTEAD, MR. SANDAL, COMMISSIONER HAMM, MR. GESSNER, MR. SAGE, MS. TERNES, AND LT. GOVERNOR WRIGLEY
NAYS: NONE
MOTION CARRIED

Code of Conduct Annual Affirmation - The Board reviewed their Governance Policy - *Governance Process/Board Members Code of Conduct*. Board members are required to affirm their understanding of this policy annually and in writing and must disclose any conflicts of interest that may arise. Board members are to return affirmation to RIO by August 1, 2011.

Administration:

Deputy Chief Investment Officer - Mr. Geissinger informed the board he has concluded his initial screenings of the applications received and is currently conducting telephone interviews. Mr. Geissinger stated he is pleased with the quality of the candidates and is hoping to bring in three for a final interview. Mr. Geissinger is hoping to have someone on board by the end of September/October.

Board Per Diem - Legislative action taken during the 2011 Legislative session resulted in an increase in pay to SIB board members per N.D.C.C. 21-10-01(*The members of the state investment board, except elected and appointed officials and the director of workforce safety and insurance or the director's designee, are entitled to receive as compensation one hundred forty-eight dollars per day and necessary mileage and travel expenses as provided in sections 44-08-04 and 54-06-09 for attending meetings of the state investment board*).

The Board discussed their options and their policy and procedures of the past and those of other state boards.

After discussion, the Board directed staff to bring back options for further discussion and consideration to address board per diem.

INVESTMENTS:

Westridge/WG Trading - The SIB, at its April 15, 2011 meeting, directed the Attorney General's Office to pursue further legal action on behalf of the SIB and its beneficiaries to obtain as much of the assets that were stolen from the State of North Dakota by Westridge/WG Trading officials as possible. Mr. Matt Sagsveen, Attorney General's Office, updated the board on the Westridge/WG Trading case. On behalf of the State of North Dakota, the law firm of Jenner & Block has filed a brief with the Second Circuit Court of Appeals. The State of North Dakota and the other limited partners are appealing the District Court's initial ruling. The District Court approved a pro rata net investment distribution plan. It is North Dakota's position that the District Court incorrectly determined the amount of North Dakota's distribution, an audited limited partner, in relation to the un-audited noteholders. The appellee has 60 days to respond.

North Dakota has not filed a legal action against Deloitte & Touche, the firm responsible for auditing the financial statements of Westridge/WG Trading at this time. A new tolling agreement has been signed. Mr. Sagsveen will keep the board informed on these proceedings.

Legacy Fund/Budget Stabilization Fund - Mr. Geissinger updated the board on the Legacy Fund and Budget Stabilization Fund Advisory Board meeting he attended on June 28, 2011. Mr. Geissinger provided guidance on the relationship between the Advisory Board and the SIB. He also reviewed implementation of an investment policy statement and asset allocation for the funds. The next meeting is scheduled for August 11, 2011.

Work Plan - Mr. Geissinger reviewed a tentative work plan for the SIB for the August - January 2011-12 meeting dates.

QTRLY MONITORING:

MR. GESSNER MOVED AND MR. CORNEIL SECONDED TO ACCEPT THE QUARTERLY MONITORING ON EXECUTIVE LIMITATIONS/STAFF RELATIONS; BUDGET AND FINANCIAL CONDITIONS; INVESTMENT PROGRAM; AND RETIREMENT PROGRAM FOR THE PERIOD ENDING JUNE 30, 2011.

AYES: COMMISSIONER HAMM, MS. TERNES, MR. CORNEIL, MR. SANDAL, TREASURER SCHMIDT, MR. GESSNER, MR. SAGE, COMMISSIONER GAEBE, DR. SANSTEAD, MR. ERDMANN, AND LT. GOVERNOR WRIGLEY
NAYS: NONE
MOTION CARRIED

Mr. Geissinger stated the average public fund returned around 21 percent for the period ending June 30, 2011. The Teachers' Fund for Retirement (TFFR) and the Public Employees Retirement System (PERS) Funds each outperformed their policy benchmarks.

Lt. Governor Wrigley remembered Senate Majority Leader Mr. Bob Stenehjem. Lt. Governor Wrigley stated he was a personal friend to many. During the 2011 legislative session, Mr. Stenehjem was instrumental and helpful to many in working through some very difficult legislation. Lt. Governor Wrigley stated he was a good person and he enjoyed working with him very much. Mr. Stenehjem's leadership at the state level is going to be missed.

The Board recessed at 9:40 am and reconvened at 9:50 am.

EDUCATION:

Callan Associates - Mr. Paul Erlendson, SIB's fund consultant with Callan Associates, brought one of Callan's two educational programs to the SIB - the "Callan College". The "Callan College" was established in 1994 to provide relevant and practical educational opportunities to all professionals engaged in the investment decision making process.

Mr. Erlendson reviewed the first educational segment entitled "The Role of the Fiduciary".

Mr. Erlendson also reviewed the purpose and distinction between an Investment Policy Statement and an Investment Guideline.

The Board recessed at 12:00 pm and reconvened at 12:45 p.m.

Mr. Jay Kloepfer, Head of Callan's Capital Markets Research Group, reviewed "Manager Structure," specifically fixed income.

Lt. Governor Wrigley left the meeting and Mr. Sandal proceeded over the remainder of the meeting.

The Board recessed at 2:30 pm and reconvened at 2:45 pm.

Mr. Gene Podkaminer, Capital Markets Research Group, continued reviewing manager structure for international equity and real assets.

OTHER:

The next SIB meeting is scheduled for August 26, 2011 at 8:30 a.m., at the State Capitol, Peace Garden Room, Bismarck, ND.

The next SIB Audit Committee meeting is scheduled for September 23, 2011, at 1:00 p.m., at the State Capitol, Peace Garden Room, Bismarck, ND.

ADJOURNMENT:

Mr. Sandal adjourned the meeting at 3:35 p.m.

Respectfully Submitted:

Lt. Governor Wrigley, Chair
State Investment Board

Bonnie Heit
Secretary to the Board