

**NORTH DAKOTA STATE INVESTMENT BOARD
MINUTES OF THE
AUGUST 26, 2011 BOARD MEETING**

BOARD MEMBERS PRESENT: 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
Kelly Schmidt, State Treasurer
Cindy Ternes, Workforce Safety & Insurance
Bob Toso, TFFR Board

MEMBERS ABSENT: Drew Wrigley, Lt. Governor, Chair

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

OTHERS PRESENT: Weldee Baetsch, former SIB trustee
Ari Barkan, Credit Suisse
Vikram Bhaskar, Credit Suisse
Jim Cavanaugh, JP Morgan
Michael Chandra, PIMCO
Mike Collins, Prudential
Ron Desautels, Babson
Jeff Engleson, Land Dept.
Paul Erlendson, Callan Associates
Bryan Klipfel, Workforce Safety & Insurance
Julie Meggers, PIMCO
Jan Murtha, Attorney General's Office
David Nagle, Babson
Paul Reisz, PIMCO
Jim Sakelaris, JP Morgan
Charles Schalliol, Credit Suisse
Anthony Sciacca, Babson
Scott Sweitzer, Prudential

CALL TO ORDER:

Mr. Mike Sandal, Vice Chair, called the State Investment Board (SIB) meeting to order at 8:15 a.m. on Friday, August 26, 2011, at the State Capitol, Peace Garden Room, Bismarck, ND.

A quorum was present for the purpose of conducting business.

AGENDA:

The agenda was reviewed and amended.

TREASURER SCHMIDT MOVED AND MR. ERDMANN SECONDED TO APPROVE THE AMENDED AGENDA.

AYES: COMMISSIONER HAMM, MR. GAEBE, MR. GESSNER, MR. ERDMANN, MR. CORNEIL, TREASURER SCHMIDT, AND MR. SANDAL

NAYS: NONE

MOTION CARRIED

ABSENT: MS. TERNES, MR. SAGE, MR. TOSO, AND LT. GOVERNOR WRIGLEY

MINUTES:

MR. GESSNER MOVED AND COMMISSIONER HAMM SECONDED TO APPROVE THE JULY 22, 2011 MINUTES.

AYES: MR. GESSNER, COMMISSIONER GAEBE, TREASURER SCHMIDT, COMMISSIONER HAMM, MR. CORNEIL, MR. ERDMANN, AND MR. SANDAL

NAYS: NONE

MOTION CARRIED

ABSENT: MR. SAGE, MS. TERNES, AND LT. GOVERNOR WRIGLEY

EDUCATION:

Prudential representatives reviewed the firm's short term bond portfolio which they currently manage within the Budget Stabilization Fund.

Babson representatives reviewed the firm's short-term bond product.

JP Morgan representatives reviewed the firm's short-term bond product.

The Board recessed at 10:15 a.m. and reconvened at 10:30 a.m.

PIMCO representatives reviewed the firm's short-term bond product.

PIMCO representatives also reviewed the firm's Distressed Senior Credit Opportunities (DISCO) Funds I and II.

Credit Suisse representatives reviewed an infrastructure opportunity for the SIB's consideration.

The Board recessed at 12:20 p.m. and reconvened at 12:35 p.m.

INVESTMENTS:

PIMCO DISCO Fund II - Mr. Geissinger reviewed the PIMCO investment opportunity. PIMCO is starting up DISCO Fund II and is giving investors of DISCO Fund I an opportunity to rollover their investment in DISCO Fund I to DISCO Fund II. DISCO Fund I will be liquidated at 2011 calendar year end with all proceeds returned to the investors. Mr. Geissinger recommended rolling over the DISCO Fund I investment in the Pension Trust, which is approximately \$75 million, into DISCO Fund II.

He also recommended investing between \$25-\$60 million of the Insurance Trust portfolio into DISCO Fund II. To fund the new mandate, Mr. Geissinger recommended taking assets from Western Asset Management's core plus portfolio.

MS. TERNES MOVED AND MR. CORNEIL SECONDED TO ACCEPT STAFF RECOMMENDATION AND ROLLOVER THE PENSION TRUST INVESTMENT FROM PIMCO'S DISCO FUND I TO DISCO FUND II.

THE BOARD ALSO ACCEPTED STAFF RECOMMENDATION TO INVEST UP TO \$60 MILLION, IF POSSIBLE, FROM THE INSURANCE TRUST PORTFOLIO INTO DISCO FUND II. THE INVESTMENT FOR THE INSURANCE TRUST PORTFOLIO WILL BE TAKEN FROM WESTERN ASSET MANAGEMENT'S CORE PLUS ACCOUNT.

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

NAYS: NONE

MOTION CARRIED

ABSENT: LT. GOVERNOR WRIGLEY

Credit Suisse Infrastructure - Mr. Geissinger reviewed the Credit Suisse infrastructure opportunity and recommended committing \$50 million of the Pension Trust portfolio and \$25 million of the Insurance Trust portfolio.

MR. SAGE MOVED AND MR. ERDMANN SECONDED TO INVEST \$50 MILLION OF THE PENSION TRUST PORTFOLIO INTO CREDIT SUISSE'S INFRASTRUCTURE OPPORTUNITY. THE INVESTMENT WOULD BE CONTINGENT UPON FINALIZATION OF THE PUBLIC EMPLOYEES RETIREMENT SYSTEM (PERS) AND THE TEACHERS' FUND FOR RETIREMENT (TFFR) ASSET ALLOCATION STUDIES.

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

NAYS: MS. TERNES

MOTION CARRIED

ABSENT: LT. GOVERNOR WRIGLEY

Discussion was held on the Insurance Trust recommendation. The recommendation will be tabled until the September 23, 2011 meeting to allow staff time to review the proper classification of infrastructure into the Insurance Trust's asset allocation.

The Board questioned if there were exceptions to the open meetings laws they could utilize when the Board is hearing presentations from more than one entity vying for the same mandate with the SIB. Ms. Jan Murtha, counsel to the Board, advised the Board there are exceptions and she will provide the provisions to them.

Budget Stabilization Fund - Mr. Geissinger reviewed the future growth and investment status of the Budget Stabilization Fund. Mr. Geissinger also reviewed the short term bond portfolio management of Babson, PIMCO, JP Morgan, and Prudential. Given the growth in the Budget Stabilization Fund, Mr. Geissinger recommended transitioning from the short term bond management of Prudential to Babson and JP Morgan.

MR. SAGE MOVED AND TREASURER SCHMIDT SECONDED TO ACCEPT STAFF RECOMMENDATION AND TRANSITION OUT OF PRUDENTIAL AND ALLOCATE THE ASSETS, NOT MANAGED BY THE BANK OF NORTH DAKOTA, TO A 50/50 RATIO BETWEEN BABSON AND JP MORGAN.

AYES: MR. ERDMANN, TREASURER SCHMIDT, MR. CORNEIL, MR. GAEBE, MR. TOSO, COMMISSIONER HAMM, MR. GESSNER, MR. SAGE, MS. TERNES, AND MR. SANDAL
NAYS: NONE

MOTION CARRIED

ABSENT: LT. GOVERNOR WRIGLEY

Performance Summary FY 2011 - Mr. Geissinger reviewed performance of the Pension and Insurance Trusts for the period ending June 30, 2011.

MR. SAGE MOVED AND TREASURER SCHMIDT SECONDED TO ACCEPT THE PERFORMANCE REPORT.

AYES: MS. TERNES, MR. CORNEIL, COMMISSIONER HAMM, TREASURER SCHMIDT, MR. GAEBE, MR. ERDMANN, MR. TOSO, MR. SAGE, MR. GESSNER, AND MR. SANDAL
NAYS: NONE

MOTION CARRIED

ABSENT: LT. GOVERNOR WRIGLEY

GOVERNANCE:

Deputy CIO. - Mr. Geissinger reported he has narrowed the field down and is finalizing arrangements to have the lead candidate come in for an interview. Mr. Geissinger is optimistic and hopes to get a good candidate.

Board Per Diem - Agenda item was tabled.

Compliance Reports - Ms. Leslie Moszer reviewed compliance reports which were a recommendation resulting from the performance audit of RIO. Ms. Moszer will be presenting the reports on an annual basis.

Ms. Moszer also stated RIO's Disaster Recovery Plan has been updated and tested.

TREASURER SCHMIDT MOVED AND COMMISSIONER HAMM SECONDED TO ACCEPT THE COMPLIANCE REPORTS AS PRESENTED.

AYES: COMMISSIONER HAMM, MS. TERNES, MR. CORNEIL, TREASURER SCHMIDT, MR. GESSNER, MR. SAGE, MR. GAEBE, MR. TOSO, MR. ERDMANN, AND MR. SANDAL
NAYS: NONE

MOTION CARRIED

LT. GOVERNOR WRIGLEY

OTHER:

The Board discussed their annual meeting schedule and taking into consideration everyone's schedule and cost factors, the schedule that is presented and accepted by the Board in July of each fiscal year is the schedule that will be followed, in most cases, for the regular meetings of the SIB.

The next SIB meeting is scheduled for September 23, 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 2:30 p.m.

Respectfully Submitted:



Mike Sandal, Vice Chair
State Investment Board



Bonnie Heit
Secretary to the Board