NORTH DAKOTA STATE INVESTMENT BOARD
MINUTES OF THE
JUNE 22, 2012 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 (teleconference)
Kelly Schmidt, State Treasurer
Cindy Ternes, Workforce Safety & Insurance
Bob Toso, TFFR Board

STAFF PRESENT:
Connie Flanagan, Fiscal & Investment Officer
Bonnie Heit, Office Manager
Fay Kopp, Interim Executive Director
Leslie Moszer, Compliance Officer
Darren Schulz, Interim CIO
Susan Walcker, Investment Accountant

OTHERS PRESENT:
Jeff Engleson, Land Dept.
Ben Lazarus, Clifton Group
Tom Lee, Clifton Group
Jan Murtha, Attorney General's Office
Tricia Opp, Procurement Office

CALL TO ORDER:

Lt. Governor Wrigley called the State Investment Board (SIB) meeting to order at 8:30 a.m. on Friday, June 22, 2012, at the Peace Garden Room, State Capitol, Bismarck, ND.

A quorum was present for the purpose of conducting business.

AGENDA:

A revised agenda was provided to the board.

MS. TERNES MOVED AND MR. CORNEIL SECONDED TO ACCEPT THE REVISED AGENDA.

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

MINUTES:

The minutes were considered from the May 18, 2012 meeting.

COMMISSIONER GAEBE MOVED AND MR. SANDAL SECONDED TO APPROVE THE MAY 18, 2012 MINUTES.

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

EDUCATION:

Clifton Group - Representatives provided an over view of the firm, reviewed the firm's mandates with the SIB, and also reviewed their defensive equity strategy.

GOVERNANCE:

Executive Compensation Review Committee - The Executive Compensation Review Committee consisting of Mr. Sandal, Chair, Treasurer Schmidt, and Mr. Toso received direction from the SIB at their May 18, 2012, meeting to review compensation adjustments for the Interim Chief Investment Officer and Interim Executive Director and bring their recommendations back to the SIB. Any adjustments in compensation would be retroactive to June 1, 2012.

The Committee met on June 1, 2012, and recommended Mr. Schulz, Interim Chief Investment Officer, receive a temporary monthly salary increase of 15 percent based on his July 1, 2012, salary retroactive to June 1, 2012. The Committee also recommended Ms. Kopp, Interim Executive Director, receive a temporary monthly salary increase of 7.5 percent based on her July 1, 2012, salary retroactive to June 1, 2012. The Committee is basing their recommendations on the different roles of the two positions in the interim.

After discussion,

COMMISSIONER GAEBE MOVED AND MR. ERDMANN SECONDED TO ACCEPT THE EXECUTIVE COMPENSATION REVIEW COMMITTEE'S RECOMMENDATION AND GRANT THE INTERIM CHIEF INVESTMENT OFFICER A TEMPORARY 15 PERCENT INCREASE, BASED ON HIS JULY 1, 2012, SALARY, RETROACTIVE TO JUNE 1, 2012. THE COMMITTEE ALSO RECOMMENDED THE INTERIM EXECUTIVE DIRECTOR BE GRANTED A TEMPORARY 7.5 PERCENT INCREASE BASED ON HER JULY 1, 2012, SALARY RETROACTIVE TO JUNE 1, 2012.

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

Search Committee - Search Committee members consisting of Lt. Governor Wrigley, Chair, Treasurer Schmidt, Commissioner Gaebe, Mr. Sandal, and Mr. Toso were directed by the SIB at their May 18, 2012, meeting to conduct an exit interview with Mr. Geissinger and to bring back their recommendations which they have derived from the interview to assist the SIB in determining what the next steps will be in replacing the Executive Director/CIO of the Retirement and Investment Office (RIO). Discussions with Mr. Geissinger included the current structure of RIO, replacement process of the Executive Director/CIO, recruitment of an Executive Director/CIO versus a CIO. Mr. Geissinger also stated issues in the investment portfolios to monitor in the interim include the international structure, manager consolidations, and the private equity allocation. He also stated the Callan contract needs to be revised to more accurately reflect the

needs of the SIB and staff. The Committee and Mr. Geissinger both concurred that the SIB and RIO are well positioned in the interim. The SIB, as administrative board to RIO, has the time to study and look at the structure of RIO to determine if changes are warranted. The Search Committee's next meeting is scheduled for June 28, 2012. Minutes from the Search Committee's meetings will be distributed to the SIB, PERS, and TFFR boards to keep the entities aware of the process and the discussions that are taking place to give them the opportunity to provide their input.

The Board recessed at 10:00 am and reconvened at 10:10 am.

INVESTMENTS:

Blackfriars - Mr. Schulz updated the Board on the Blackfriars transition. At the May 18, 2012, meeting the Board authorized termination of the firm. Mr. Schulz reported a full redemption was entered as of May 31, 2012 based on the value of the assets at the time. The cash proceeds from that liquidation were received on June 8, 2012. Staff is transitioning the assets to The Northern Trust Global Investments who will manage the funds in a passively managed MSCI emerging markets mandate.

Pension Trust Asset Allocation - Ms. Flanagan updated the Board on the Pension Trust asset allocation. All participants in the Pension Trust either have made changes or are in the process of finalizing their asset allocation so all participants have the same format.

Manager Catalog - Ms. Flanagan reviewed a manager catalog which is a reference that lists all of the SIB's current managers and their mandate as well as those that no longer manage funds.

State Street - Mr. Schulz and Treasurer Schmidt conducted a regularly scheduled review with State Street representatives. State Street currently manages an international equity mandate in the Pension Trust. Mr. Schulz and Treasurer Schmidt learned that the current investment process had been changed. State Street's performance has also been a concern and there have been changes in key personnel. Their mandate is to exceed the MSCI EAFE Index by 2-3% which they have failed to do since the inception of the mandate in September 2005. Mr. Schulz recommended State Street be placed under review. State Street will be looked at more closely as Mr. Schulz continues his work on restructuring the international equity portfolio.

TREASURER SCHMIDT MOVED AND COMMISSIONER HAMM SECONDED TO PLACE STATE STREET UNDER REVIEW DUE TO UNCERTAINTY REGARDING RECENT INVESTMENT PROCESS CHANGES, SUBSTANDARD PERFORMANCE, AND CHANGES IN PERSONNEL.

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

Legacy Fund - Mr. Schulz met with the Legacy and Budget Stabilization Fund Advisory Board on June 18, 2012. Mr. Schulz was asked to provide a summary of the investment history and returns of the Legacy Fund and Budget Stabilization Fund. He was also asked to provide specific recommendations to the Advisory Board regarding asset allocations. Both Mr. Geissinger and Callan Associates were

previously assisting the Advisory Board regarding specific asset allocations because the Legacy Fund was first established in 2010. Mr. Schulz reviewed with the Advisory Board the Legacy Fund mission, objectives, and constraints and also the investment process when formatting an investment policy.

The Board discussed the Advisory Board's role and their relationship to the SIB. Staff will meet with Ms. Murtha to discuss and clarify the role of the SIB as it relates to the Legacy and Budget Stabilization Advisory Board. Staff will follow up with Lt. Governor Wrigley.

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

Tribune Company - Ms. Murtha updated the Board on the proceedings of the Tribune Company litigation. North Dakota is part of the adversary proceedings relating to the Tribune Company bankruptcy filing. There were a number of state law claims filed across the country that were not part of the proceedings. The various jurisdictions felt a uniform approach to all of the related proceedings would be beneficial to all of the parties involved. The adversary proceedings as well as all of the state law claims were combined into a multidistrict litigation and are now in New York rather than Delaware for better management. North Dakota is still only involved in the adversary proceedings relating to the bankruptcy. Stock holders who received $50,000 or less from the proceeds of the buyout were dismissed from the action. North Dakota received well in excess of $50,000 so North Dakota is not dismissed. The stay that had been in place until June has been extended until July. Ms. Murtha will continue to keep the SIB informed.

TREASURER SCHMIDT MOVED AND MR. ERDMANN SECONDED TO RECEIVE THE REPORTS ON BLACKFRIARS, PENSION TRUST ASSET ALLOCATION, MANAGER CATALOG, AND THE TRIBUNE COMPANY.

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

The next SIB meeting is scheduled for July 27, 2012, at 8:30 a.m., at Workforce Safety and Insurance, 1600 E. Century, Bismarck ND.

The next SIB Audit Committee meeting is scheduled for June 22, 2012, at 1:00 p.m., at the State Capitol, Peace Garden Room, Bismarck, ND.

ADJOURNMENT:

Mr. Sandal adjourned the meeting at 10:55 a.m.

Respectfully Submitted,

Lt. Governor Wrigley, Chair
State Investment Board

Bonnie Heit
Assistant to the Board