

**NORTH DAKOTA STATE INVESTMENT BOARD
MINUTES OF THE
AUGUST 24, 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
Cindy Ternes, Workforce Safety & Insurance
Bob Toso, TFFR Board

ABSENT: Kelly Schmidt, State Treasurer

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

OTHERS PRESENT: Greg Burns, NDEA
Paul Erlendson, Callan Associates
Bill Howard, Callan Associates
Jan Murtha, Attorney General's Office
Tricia Opp, Procurement Office
Bryan Reinhardt, PERS

CALL TO ORDER:

Lt. Governor Wrigley called the State Investment Board (SIB) meeting to order at 8:30 a.m. on Friday, August 24, 2012, at the State Capitol, Peace Garden Room, Bismarck, ND.

A quorum was present for the purpose of conducting business.

AGENDA:

MR. CORNEIL MOVED AND MS. TERNES SECONDED TO ACCEPT THE AUGUST 24, 2012, AGENDA AS PRESENTED.

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

NAYS: NONE

MOTION CARRIED

ABSENT: TREASURER SCHMIDT, COMMISSIONER HAMM

MINUTES:

The minutes were considered from the July 27, 2012, meeting.

MR. GESSNER MOVED AND COMMISSIONER GAEBE SECONDED TO ACCEPT THE JULY 27, 2012, MINUTES AS WRITTEN.

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

MONITORING:

Pension Trust and Insurance Trust - Mr. Erlendson and Mr. Howard reviewed the performance of the Pension Trust and the Insurance Trust for the quarter ending June 30, 2012.

MR. CORNEIL MOVED AND MR. ERDMANN SECONDED TO ACCEPT CALLAN'S PERFORMANCE MEASUREMENT REPORTS FOR THE QUARTER ENDING JUNE 30, 2012.

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

Compliance Reports - Ms. Moszer reviewed the following compliance reports for FY2012 for the SIB investment managers; Certification of Compliance with Investment Guidelines, Exceptions to Investment Guidelines, and SSAE 16 Reports.

MS. TERNES MOVED AND COMMISSIONER GAEBE SECONDED TO ACCEPT THE COMPLIANCE REPORTS FOR FY2012.

AYES: 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
ABSENT: TREASURER SCHMIDT

The Board recessed at 10:00 a.m. and reconvened at 10:10 a.m.

INVESTMENTS:

Callan Contract - Mr. Schulz and Mr. Erlendson are in the process of reviewing Callan's contract to expand the scope of services from which is currently being provided. After discussion,

MS. TERNES MOVED AND MR. SAGE SECONDED TO DIRECT STAFF TO CONTINUE WORKING ON BRINGING FORTH A PROPOSAL ON THE CALLAN CONTRACT.

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

Legacy Fund - Mr. Schulz and Ms. Flanagan attended the Budget Stabilization and Legacy Fund Advisory Board (Advisory Board) meeting on August 23, 2012. Mr. Schulz provided an update on the recruitment status of the Chief Investment Officer, provided investment history and returns through June 2012 for the Legacy Fund and Budget Stabilization Fund, reviewed the rationale for conducting an asset allocation and spending study and also provided his recommendations and next steps to move forward on the study.

The Advisory Board took formal action and recommended the SIB arrange to contract with an investment consultant to conduct a study on the appropriate asset class mix for the Legacy Fund.

Staff requested authorization to solicit proposals from investment consulting firms to conduct the asset allocation study and determine expenses to conduct the study. The SIB, as governing body of the Legacy Fund, will interview the finalists and select a firm.

MR. SANDAL MOVED AND MR. GESSNER SECONDED TO AUTHORIZE STAFF TO SOLICIT PROPOSALS AND COSTS FROM INVESTMENT CONSULTING FIRMS TO CONDUCT AN ASSET ALLOCATION STUDY OF THE LEGACY FUND.

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

NAYS: NONE

MOTION CARRIED

ABSENT: TREASURER SCHMDIT

Credit Suisse - Mr. Schulz informed the board Credit Suisse Bank is selling the customized infrastructure investment group of Credit Suisse because of Basel III requirements which regulates assets be raised in excess of \$2 billion. The plan is to sell this entity by the end of the year. The SIB committed \$50 million in the Pension Trust and \$25 million in the Insurance Trust with 50 percent currently drawn from each entity.

Mr. Erlendson also informed the board Trust Company of the West (TCW) is being acquired by The Carlyle Group and existing TCW management from Société Générale. The SIB committed \$45 million in the Pension Trust to their mezzanine debt product. TCW is expecting the transaction to close during the first quarter of 2013.

Mr. Schulz and Callan Associates will continue to monitor the acquisitions and will keep the SIB updated.

GOVERNANCE:

Search Committee - There was no new information to report from the Search Committee.

Retirement and Investment Office (RIO) Structure - Trustees briefly discussed the organizational structure of RIO and the Legislature's intent when the office was created during the 1989 Legislative session. The Teachers' Fund for Retirement (TFFR) board will discuss the structure of RIO at their September 27, 2012 meeting and will report back to the SIB at their September 28, 2012, meeting.

Lt. Governor Wrigley left the meeting during the RIO structure discussion and Mr. Sandal presided over the remainder of the meeting.

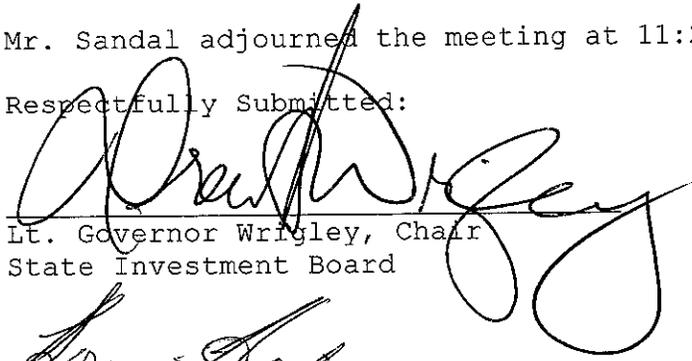
The next SIB meeting is scheduled for September 28, 2012, at 8:30 a.m., at the State Capitol, Peace Garden Room, Bismarck ND.

The next SIB Audit Committee meeting is scheduled for September 28, 2012, at 1:00 p.m., at the State Capitol, Peace Garden Room, Bismarck, ND.

ADJOURNMENT:

Mr. Sandal adjourned the meeting at 11:20 a.m.

Respectfully Submitted:

A large, stylized handwritten signature in black ink, appearing to read "Andrew Wrigley". The signature is written over a horizontal line.

Lt. Governor Wrigley, Chair
State Investment Board

A handwritten signature in black ink, appearing to read "Bonnie Heit". The signature is written over a horizontal line.

Bonnie Heit
Assistant to the Board