

**NORTH DAKOTA STATE INVESTMENT BOARD
MINUTES OF THE
OCTOBER 26, 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
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: Weldee Baetsch, former SIB trustee
Sparb Collins, PERS
Eric Hardmeyer, BND
Jan Murtha, Attorney General's Office
Jeb Oehlke, Deputy State Treasurer
Tricia Opp, Procurement Office
Tim Porter, BND
Scott Rising, ND Soybean Growers

CALL TO ORDER:

Lt. Governor Wrigley called the State Investment Board (SIB) meeting to order at 8:30 a.m. on Friday, October 26, 2012, at the State Capitol, Peace Garden Room, Bismarck, ND.

A quorum was present for the purpose of conducting business.

AGENDA:

TREASURER SCHMIDT MOVED AND MR. SANDAL SECONDED TO ACCEPT THE OCTOBER 26, 2012, AGENDA AS REVISED.

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

NAYS: NONE

MOTION CARRIED

MINUTES:

The minutes were considered from the September 28, 2012, meeting.

MR. SANDAL MOVED AND TREASURER SCHMIDT SECONDED TO ACCEPT THE SEPTEMBER 28, 2012, MINUTES AS WRITTEN.

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

INVESTMENTS:

Bank of North Dakota (BND) - As part of the SIB's investment grade fixed income restructuring of the Pension Trust, the BND was instructed by staff to transition approximately \$112 million of the Pension Trust's assets from a Barclays Capital Government Index mandate to a Barclays Capital Long Treasury Index mandate. The transition was not completed within a reasonable timeframe which resulted in an underperformance of the assets relative to the Barclays Capital Long Treasury Index. BND representatives reviewed their procedures and timeframe for transitioning the assets and also reviewed their policies and procedures for managing the SIB's index funds.

After discussion,

MR. SANDAL MOVED AND MR. SAGE SECONDED TO PLACE BND ON WATCH FOR ADDITIONAL ASSESSMENT.

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

After further discussion,

MR. SANDAL MOVED AND MR. ERDMANN SECONDED TO DIRECT STAFF, BND REPRESENTATIVES, AND EACH ENTITY'S LEGAL COUNSEL TO WORK TOGETHER TO COME TO AN AGREEMENT ON THE COMMON FACTS; DISCUSS EXPECTATIONS OF TIMELINESS OF TRADES AND ADDRESS ANY DISCREPANCIES OR DISPARITIES BETWEEN THE TWO PARTIES AS TO WHAT THOSE EXPECTATIONS ARE; AND WORK TO IDENTIFY AND DETERMINE THE DOLLAR AMOUNT OF UNDERPERFORMANCE. FINDINGS ARE TO BE BROUGHT BACK TO THE SIB AS SOON AS POSSIBLE OR BY YEAR END. THE LT. GOVERNOR WILL HAVE OVERSITE ON THE PROCESS.

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

The SIB recessed at 10:10 a.m. and reconvened at 10:25 a.m.

FY2012 Performance Review of Pension and Insurance Trusts - Mr. Schulz reviewed returns by asset class and relative performance by asset class composites for the Pension Trust and Insurance Trust for FY2012.

COMMISSIONER HAMM MOVED AND MR. CORNEIL SECONDED TO ACCEPT THE PENSION TRUST AND INSURANCE TRUST FY2012 REPORT.

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

MOTION CARRIED

National Association of State Investment Officers (NASIO) - Mr. Schulz attended the NASIO annual conference September 30 - October 3, 2012, in Denver, Co. and shared his observations and highlights.

Loomis Sayles Update - Mr. Schulz informed the SIB a key member of Loomis Sayles' portfolio team, Ms. Kathleen Gaffney, has resigned effective October 24, 2012. Mr. Schulz stated the SIB's portfolio will continue to be managed by a capable team but recommended the firm be placed on watch. Anytime a senior investment professional departs, it warrants additional monitoring of the firm by staff and Callan Associates.

TREASURER SCHMIDT MOVED AND COMMISSIONER HAMM SECONDED TO ACCEPT STAFF RECOMMENDATION AND PLACE LOOMIS SAYLES ON WATCH.

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

NAYS: NONE

MOTION CARRIED

GOVERNANCE:

Audit Committee Report - Mr. Gessner updated the SIB on the SIB Audit Committee activities for FY2012. The Audit Committee reviewed school district audits, compliance audits, follow-up on the Retirement and Investment Office (RIO) performance audit, results of FY2011 RIO audit conducted by EideBailly, and reviewed RIO's FY2012 audit plan by CliftonLarsonAllen. The Audit Committee is also working on their FY2013 work plan which will be reviewed and finalized at their November 16, 2012, meeting.

MR. CORNEIL MOVED AND TREASURER SCHMIDT SECONDED TO ACCEPT THE SIB AUDIT COMMITTEE ACTIVITIES REPORT FOR FY2012.

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

RIO Structure - At the September 28, 2012, SIB meeting, the SIB directed staff to develop some possible revised organizational structures for RIO. Staff worked through a variety of potential scenarios and included four organizational charts for the SIB's review. The organizational structures are intended to serve as a starting point for more in depth board discussions. The scenarios range from keeping RIO intact to dissolving RIO and dividing the SIB and Teachers' Fund for Retirement (TFFR) programs into two separate agencies.

After review and discussion, the SIB instructed staff to provide an organizational chart which would keep RIO intact, and assign the Executive Director duties to a separate new position. In addition, the SIB asked staff to estimate costs, and outline potential job duties and responsibilities for a separate Executive Director position. Staff is to provide the information to the SIB prior to the November 16, 2012, meeting.

Tribune Company - Ms. Murtha reported the first wave of the motion to dismiss will deal with state claims only followed by the stockholders claims of which the

SIB would be involved. The stockholder's motion to dismiss will be heard in the spring or possibly summer.

Ms. Murtha requested the SIB enter into Executive Session pursuant to NDCC 44-04-19.1 Subsections (2), (5), and (9) and NDCC 44-04-19.2 for attorney consultation and/or negotiating strategy and instruction relating to the Tribune Company litigation.

MR. SAGE MOVED AND MR. SANDAL SECONDED THAT THE SIB ENTER INTO EXECUTIVE SESSION TO DISCUSS THE TRIBUNE COMPANY LITIGATION.

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

NAYS: NONE

MOTION CARRIED

The SIB entered into Executive Session at 12:13 p.m.

Individuals present during Executive Session - Mr. Toso, Treasurer Schmidt, Mr. Corneil, Commissioner Gaebe, Mr. Erdmann, Mr. Sandal, Commissioner Hamm, Mr. Gessner, Mr. Sage, Ms. Ternes, Lt. Governor Wrigley, Ms. Flanagan, Mr. Schulz, Ms. Kopp, Ms. Heit, Ms. Murtha, Ms. Moszer, and Ms. Walcker.

The SIB exited Executive Session and entered into Open Session at 12:18 p.m.

The Attorney General's Office requested and the SIB provided guidance on how to proceed with the Tribune matter.

MONITORING:

The following monitoring reports for the quarter ending September 30, 2012, were provided to the SIB for acceptance; Executive Limitations/Staff Relations, Budget/Financial Conditions, Investment Program, and Retirement Program.

TREASURER SCHMIDT MOVED AND MR. SAGE SECONDED TO ACCEPT THE MONITORING REPORTS FOR THE QUARTER ENDING SEPTEMBER 30, 2012.

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

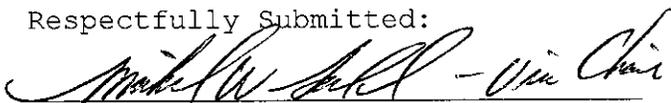
NAYS: NONE

MOTION CARRIED

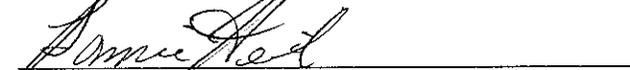
ADJOURNMENT:

Lt. Governor Wrigley adjourned the meeting at 12:20 p.m.

Respectfully Submitted:



Lt. Governor Wrigley, Chair
State Investment Board



Bonnie Heit
Assistant to the Board