

**NORTH DAKOTA STATE INVESTMENT BOARD
MINUTES OF THE
JANUARY 25, 2013, BOARD MEETING**

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

BOARD MEMBER ABSENT: Adam Hamm, Insurance Commissioner

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

OTHERS PRESENT: Jan Murtha, Attorney General's Office
Thomas Pernice, Epoch
William Priest, Epoch
Bryan Reinhardt, PERS
Glen Ternes, Public Citizen
Jessica Torok, Public Citizen
Jeffrey Ulness, Epoch

CALL TO ORDER:

Lt. Governor Wrigley called the State Investment Board (SIB) meeting to order at 8:30 a.m. on Friday, January 25, 2013, at Workforce Safety & Insurance, 1600 E Century, Bismarck, ND.

A quorum was present for the purpose of conducting business.

AGENDA:

MS. TERNES MOVED AND MR. GESSNER SECONDED TO ACCEPT THE JANUARY 25, 2013, AGENDA.

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

NAYS: NONE

MOTION CARRIED

ABSENT: COMMISSIONER HAMM

MINUTES:

The minutes were considered from the November 16, 2012, meeting,

TREASURER SCHMIDT MOVED AND MR. SAGE SECONDED TO ACCEPT THE NOVEMBER 16, 2012, MINUTES AS WRITTEN.

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

NAYS: NONE

MOTION CARRIED

ABSENT: COMMISSIONER HAMM

The minutes were considered from the December 13, 2012, meeting,

MS. TERNES MOVED AND MR. SANDAL SECONDED TO ACCEPT THE DECEMBER 13, 2012, MINUTES AS WRITTEN.

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

NAYS: NONE

MOTION CARRIED

ABSENT: COMMISSIONER HAMM

INVESTMENTS:

Epoch - Representatives reviewed the acquisition of the firm's parent Epoch Holdings Corp. by Toronto-Dominion (TD) Bank Group. The acquisition is expected to close in the first half of 2013. Representatives also reviewed the firm's capital markets outlook, and the SIB's portfolio performance as of December 31, 2012.

The SIB recessed at 10:00 a.m. and reconvened at 10:20 a.m.

Bank of North Dakota (BND) - Lt. Governor Wrigley informed the SIB there have been continued discussions with BND representatives to review the transition of the Pension Trust assets from a Barclays Capital Government Index mandate to a Barclays Capital Long Treasury Index. The SIB and BND representatives have come to an agreement on the expected transition date of May 1, 2012. Both entities are in favor of a third party calculation of the dollar amount in question.

Lt. Governor Wrigley complimented staff and the SIB for their professionalism as everyone worked through the process.

RV Kuhns - Mr. Schulz stated RV Kuhns is expected to have a draft of the asset allocation study on the Legacy Fund completed by the end of January or the first week in February 2013. RV Kuhns and staff are hoping to have a final draft of the study to the Legacy and Budget Stabilization Fund Advisory Board before the Legislative crossover in February 2013.

EIG - Mr. Schulz informed the SIB, the TCW Group, EIG Global Energy Partners, and The Carlyle Group have come to an agreement under which EIG is now supportive of the acquisition of the TCW Group by investment funds affiliated with The Carlyle Group and TCW management. The acquisition is to close in the near future and was contingent on the Societe Generale's sale of the TCW Group to The Carlyle Group and TCW employees. Mr. Schulz had no concerns on the acquisition.

Social Investing - The SIB discussed HB1304 which relates to the divestiture of State investment funds in certain companies liable to sanctions under the Iran Sanctions Act of 1996. Each of the SIB client's investment policy statements includes the following language, "Social investing is prohibited unless it meets the Exclusive Benefit Rule and it can be substantiated that the investment must provide an equivalent or superior rate of return for a similar investment with a

similar time horizon and similar risk." The SIB discussed the costs and administrative time involved to implement and monitor the divestiture.

After discussion,

MR. SAGE MOVED AND COMMISSIONER GAEBE SECONDED THAT A NEUTRAL STANCE BE TAKEN BY THE SIB ON HB1304 AND THAT TESTIMONY TO THE LEGISLATIVE COMMITTEES INCLUDES FACTUAL INFORMATION, ADMINISTRATIVE TIME, AND COSTS OF IMPLEMENTATION.

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

NAYS: TREASURER SCHMIDT, MR. TOSO

MOTION CARRIED

ABSENT: COMMISSIONER HAMM

GOVERNANCE:

Search Committee - Mr. Sandal updated the SIB on the ED/CIO search. Currently, 171 applications have been received from 28 states and six countries. Mr. Sandal stated the backgrounds and educational levels are diverse and of a high caliber. The job posting closes on January 31, 2013. Mr. Sandal is working on the evaluation criteria for the attributes above and beyond the minimums and requested the SIB if they have suggestions or comments, to provide those to him. Mr. Sandal also stated the Search Committee established the following tentative schedule; review applications received by mid February, decide how many applicants to interview by the end of February, and conduct interviews in March. The Search Committee is hoping to have an offer on the table by May 1, 2013.

Lt. Governor Wrigley stated Mr. Schulz has elected to not pursue the position and that he is doing a nice job in the interim. Lt Governor Wrigley also stated the SIB will do their best to select an individual that is a good fit with the staff.

Lt. Governor Wrigley thanked the individuals involved thus far for the progress made on the search process.

Audit Committee - Mr. Gessner reported on the SIB Audit Committee's November 16, 2012, meeting. The Audit Committee received CliftonLarsonAllen's audit report of the Retirement and Investment Office (RIO) for Fiscal Year 2012. CliftonLarsonAllen issued an unqualified opinion of the financial statements.

Mr. Gessner also noted RIO has been awarded the Certificate of Achievement for Excellence in Financial Reporting by the Governmental Financial Officer's Association (GFOA) for the past 14 consecutive years. Its 2011 Comprehensive Annual Financial Report (CAFR) was recognized for achieving the highest standards in state and local government accounting and financial reporting.

TREASURER SCHMIDT MOVED AND MR. TOSO SECONDED TO ACCEPT THE CLIFTONLARSONALLEN FINANCIAL AUDIT REPORT OF RIO FOR THE FISCAL YEAR ENDING 2012.

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

NAYS: NONE

MOTION CARRIED

ABSENT: COMMISSIONER HAMM

LEGISLATIVE UPDATE -

Ms. Flanagan and Mr. Schulz reviewed the following bills with the SIB; HB 1022 - RIO Budget Bill, HB1143 - Relating to investment of the Legacy and Budget Stabilization Funds; HB 1167 - relating to the definition of earnings of the Legacy Fund, HB 1249 - relating to the membership of the State Investment Board, HB1304 - relating to the divestiture of state investment funds in certain companies liable to sanctions under the Iran Sanctions Act of 1996; and to provide an expiration date, HB1395 - relating to membership of the Legacy and Budget Stabilization Fund Advisory Board, SB2124 - provides for the legislative management to study methods to assure that the Legacy Fund provides the lasting benefits intended by the voters, and SB2150 - relating to restriction of per diem compensation for members of boards and commissions established by statute.

The SIB took no formal action on the bills, with the exception of HB1304 which they addressed earlier in the meeting, but will continue to monitor the bills.

MONITORING:

MR. GESSNER MOVED AND MR. SAGE SECONDED TO ACCEPT THE FOLLOWING MONITORING REPORTS FOR THE QUARTER ENDING DECEMBER 31, 2012; BUDGET AND FINANCIAL CONDITIONS, EXECUTIVE LIMITATIONS/STAFF RELATIONS, INVESTMENT PROGRAM, AND RETIREMENT PROGRAM.

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

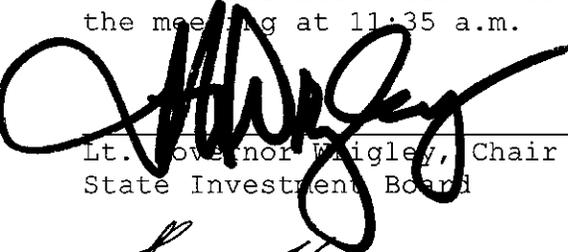
NAYS: NONE

MOTION CARRIED

ABSENT: COMMISSIONER HAMM

ADJOURNMENT:

With no further business to come before the SIB, Lt. Governor Wrigley adjourned the meeting at 11:35 a.m.



Lt. Governor Wrigley, Chair
State Investment Board



Bonnie Heit
Assistant to the Board