

**NORTH DAKOTA STATE INVESTMENT BOARD  
MINUTES OF THE  
FEBRUARY 22, 2013, BOARD MEETING**

**BOARD MEMBERS PRESENT:** Drew Wrigley, Lt. Governor, Chair  
Mike Sandal, Vice Chair  
Levi Erdmann, PERS Board  
Kim Franz, TFFR 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:** Paul Erlendson, Callan  
Jan Murtha, Attorney General's 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, February 22, 2013, at Workforce Safety & Insurance, 1600 E Century, Bismarck, ND.

A quorum was present for the purpose of conducting business.

**AGENDA:**

**MR. SANDAL MOVED AND MR. GESSNER SECONDED TO ACCEPT THE FEBRUARY 22, 2013, AGENDA.**

**AYES: COMMISSIONER GAEBE, TREASURER SCHMIDT, MR. SANDAL, COMMISSIONER HAMM, MS. FRANZ, 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 January 25, 2013, meeting,

**MR. ERDMANN MOVED AND MR. SAGE SECONDED TO ACCEPT THE JANUARY 25, 2013, MINUTES AS WRITTEN.**

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

**NAYS: NONE**

**MOTION CARRIED**

**INVESTMENTS:**

Bank of North Dakota (BND) - Mr. Schulz informed the SIB staff and Ms. Murtha have had ongoing discussions with BND representatives on the transition of the Pension Trust assets from a Barclays Capital Government Index mandate to a Barclays Capital Long Treasury Index. Both entities are in favor of a third party review to analyze the loss incurred as a result of the implementation delay. Staff had reached out to Brady Martz and EideBailly of which both firms declined.

After discussion, the SIB directed staff to contact the State Auditor's Office and if that is not a viable option, continue searching for a party preferably in state.

**COMMISSIONER GAEBE MOVED AND TREASURER SCHMIDT SECONDED TO DIRECT STAFF AND COUNSEL TO CONTINUE TO SEARCH FOR A QUALIFIED THIRD PARTY AND AUTHORIZED THE SIB CHAIR, ON BEHALF OF THE SIB, TO ENTER INTO A CONTRACT BASED ON STAFF RECOMMENDATION.**

**AYES: MS. FRANZ, 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**

Callan Associates - Mr. Erlendson provided an update on the economy, capital markets and expectations, and asset class performance for the quarter ending December 31, 2012. Mr. Erlendson followed up with performance reviews of the Pension Trust and Insurance Trusts for the quarter ending December 31, 2012.

Discussion took place on Calamos. Calamos manages a global opportunity equity product in the Pension Trust global equities asset class. Performance concerns and personnel changes have occurred in the firm which warrants additional due diligence.

**TREASURER SCHMIDT MOVED AND MR. GESSNER SECONDED TO PLACE CALAMOS ON WATCH FOR ADDITIONAL DUE DILIGENCE AND DIRECTED STAFF TO PLACE CALAMOS ON THE AGENDA TO REVIEW PERFORMANCE CONCERNS AND PERSONNEL CHANGES.**

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

**NAYS: NONE**

**MOTION CARRIED**

Discussion took place on Governance Policy E-11, Investments/Performance Related Investment Manager Review and to place review of the policy on the agenda at a future meeting.

Mr. Erlendson reviewed an analysis of management fees paid by the SIB for the period of July 2011 - June 2012. The analysis determined fees paid during this time period are in line with industry standards.

The SIB recessed at 10:35 a.m. and reconvened at 10:50 a.m.

**GOVERNANCE:**

Search Committee - Mr. Sandal updated the SIB on the ED/CIO search. The closing date for receipt of applications was January 31, 2013. HRMS received 200 applications and is in the process of completing their evaluation of the applications received based on the evaluation criteria established for minimum qualifications. The Search Committee received input from the SIB, Callan, staff, and Mr. Geissinger on the evaluation criteria for minimums and attributes above and beyond minimums. After HRMS completes their screening, the top 30 will be evaluated for their qualifications above and beyond the minimums. After completing telephone interviews and background checks, the Search Committee is hoping to narrow the field and bring candidates before the SIB in April.

Mr. Sandal also stated HRMS did a very good job. They were timely and thorough.

**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, and HCR3018 - relating to transfer of a portion of the earnings of the Legacy Fund to the Legacy Scholarship Fund.

The SIB discussed HB1304 and their actions at their January 25, 2013, meeting where they voted in favor of a neutral stance and directed staff that testimony to the Legislative committees, on behalf of the SIB, be neutral and include factual information, administrative time, and costs of implementation. HB1304 passed the House 84-9 on February 21, 2013.

After taking into consideration the timeframe stated in the bill for divestment of the funds, costs that would be allocated to all of the SIB client's funds, implications, and staff time,

**MS. TERNES MOVED AND TREASURER SCHMIDT SECONDED THAT THE SIB OPPOSE HB1304 AND DIRECTED STAFF TO PROVIDE TESTIMONY IN OPPOSITION OF THE BILL.**

**AYES: MR. SANDAL, MS. FRANZ, MR. GESSNER, MR. TOSO, MR. ERDMANN, MS. TERNES, COMMISSIONER HAMM, AND TREASURER SCHMIDT**

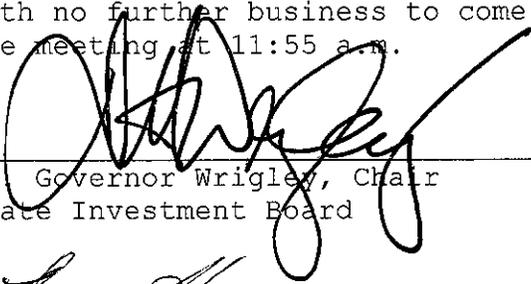
**NAYS: MR. SAGE, COMMISSIONER GAEBE, AND LT. GOVERNOR WRIGLEY**

**MOTION CARRIED**

Mr. Schulz informed the SIB RV Kuhns is nearing completion of the asset allocation study and spending policy of the Legacy Fund and is expecting a draft in the next couple of weeks.

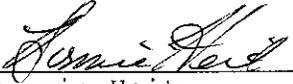
ADJOURNMENT:

With no further business to come before the SIB, Lt. Governor Wrigley adjourned the meeting at 11:55 a.m.



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Lt. Governor Wrigley, Chair  
State Investment Board



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Bonnie Heit  
Assistant to the Board