

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

**BOARD MEMBERS PRESENT:** Mike Sandal, Vice Chair  
Clarence Corneil, TFFR Board  
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 MEMBERS ABSENT:** Drew Wrigley, Lt. Governor, Chair  
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  
Susan Walcker, Investment Accountant

**OTHERS PRESENT:** Jeff Engleson, Land Dept.  
Eric Hardmeyer, Bank of ND  
Bob Humann, Bank of ND  
Ron Leingang, former PERS & SIB trustee  
Jan Murtha, Attorney General's Office  
Tim Porter, Bank of ND  
Dave Thompson, Prairie Public  
Al Weisbeck, Bank of ND

**CALL TO ORDER:**

Mr. Sandal called the State Investment Board (SIB) meeting to order at 8:30 a.m. on Friday, March 22, 2013, at Workforce Safety & Insurance, 1600 E Century, Bismarck, ND.

A quorum was present for the purpose of conducting business.

**AGENDA:**

**MR. ERDMANN MOVED AND MR. GESSNER SECONDED TO ACCEPT THE REVISED MARCH 22, 2013, AGENDA.**

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

**NAYS: NONE**

**MOTION CARRIED**

**ABSENT: COMMISSIONER HAMM, LT. GOVERNOR WRIGLEY**

**MINUTES:**

The minutes were considered from the February 22, 2013, meeting,

MR. ERDMANN MOVED AND MS. TERNES SECONDED TO ACCEPT THE FEBRUARY 22, 2013, MINUTES AS WRITTEN.

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

NAYS: NONE

MOTION CARRIED

ABSENT: COMMISSIONER HAMM, LT. GOVERNOR WRIGLEY

#### EDUCATION:

Mr. Schulz presented an educational segment on risk factors and asset allocations which included a review of past and current trends as it relates to asset allocation for institutional investors and risk factor classification and analysis.

Discussion took place on the subject matter. Mr. Schulz will continue to follow up with the SIB on this issue.

#### GOVERNANCE:

Search Committee - Mr. Sandal updated the SIB on the Executive Director/Chief Investment Officer search. Human Resource Management Services (HRMS) received 200 applications and completed their review and scoring of the applications for both minimum qualifications and attributes above and beyond the minimums. The top 30 applications were then evaluated by Mr. Sandal, Treasurer Schmidt, Mr. Schulz, and Ms. Flanagan. Evaluation results indicated that of the 30 applications reviewed none brought all of the necessary skills needed for the position.

The Search Committee met on March 4, 2013, to discuss the evaluation results and instructed staff to work with State Procurement to issue a Request for Proposal (RFP) for Executive Recruitment Services the week of March 4, 2013.

The Search Committee also met on March 12, 2013, to discuss their recruitment efforts and evaluation process to date and concurred that changing the course of the search was needed in order to move forward and find the best possible candidate based on the attributes that are needed for the position.

The RFP for Executive Recruitment Services was issued on March 6, 2013. The deadline for receipt of proposals is March 27, 2013. Mr. Sandal, Commissioner Gaebe, and Treasurer Schmidt will work with State Procurement to evaluate the proposals received. The Search Committee is hoping to have a consultant in place by the end of April 2013.

The Search Committee, at their March 12, 2013, meeting, instructed staff to draft a letter notifying the existing applicants that if they wished to continue to be considered for the position they could do so by applying directly to the executive recruitment service selected by State Procurement and the Search Committee. The applicants were also notified that updates and information will be made available on the SIB's web site. The Search Committee also instructed staff to draft a letter notifying the SIB clients on the status of the recruitment process. Both letters were distributed on March 15, 2013.

Interim Executive Director & Interim Chief Investment Officer Annual Review Committee - SIB Governance Policy C-4, Monitoring Executive Performance, states each March the SIB will conduct a formal evaluation of the Executive

Director/Investment Officer and also appoint a three member committee to review the SIB's evaluation and submit a recommendation to the SIB regarding compensation.

The SIB discussed the Interim Executive Director and Interim Chief Investment Officer appointments with Ms. Kopp and Mr. Schulz and both were willing to continue to serve. The SIB thanked staff for their willingness to serve and also for their additional responsibilities and support during the interim.

The following SIB members volunteered to serve on the committee; Ms. Ternes, Chair, Treasurer Schmidt, and Mr. Erdmann.

Audit Committee Report - Mr. Gessner updated the SIB on the Audit Committee meeting which was held on February 22, 2013. The Retirement and Investment Office's (RIO) Internal Audit Division's work plan states a specific number of school district audits must be completed each fiscal year in order to complete an audit of every school district who is a participant of the Teachers' Fund for Retirement (TFFR) within a five year period. The Audit Committee discussed with staff their concerns on the progress made and also discussed the necessary changes that will need to take place in order to achieve the goals of the work plan. The work plan is established and agreed upon at the beginning of each fiscal year by the Audit Committee and staff. The Audit Committee will be monitoring the situation more diligently and following up with staff.

The Audit Committee is also reviewing and updating their Charter. The Charter will be brought before the SIB for their acceptance once completed.

The Audit Committee also received reports on routine audits and no exceptions were noted.

#### **LEGISLATIVE UPDATE:**

Ms. Flanagan and Mr. Schulz provided an update on legislation and reviewed the following bills with the SIB; HB 1022 - RIO Budget Bill, 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 HCR3018 - relating to transfer of a portion of the earnings of the Legacy Fund to the Legacy Scholarship Fund.

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

#### **INVESTMENTS:**

"Watch List" Discussion - Mr. Schulz reviewed the objective of a "Watch List" and its correlation to the SIB's Governance Policy E-11, "Investments/Performance Related Investment Manager Review." Discussion followed on the policy and if it still meets the needs of the investment program. The SIB Policy Review Committee consisting of Mr. Corneil, Chair, Ms. Ternes, Mr. Gessner, Mr. Sandal, Treasurer Schmidt, and Commissioner Hamm reviewed the SIB Governance policies in 2009 and felt this policy was adequate and no changes were necessary.

Staff was instructed to provide an educational segment on the process and analysis they follow when determining a mandate warrants "watch list" status.

Bank of North Dakota (BND) - Mr. Schulz reviewed the timeline of events since BND was instructed by staff to transition the Pension Trust assets from a Barclays Capital Government Index mandate to a Barclays Capital Long Treasury Index on March 20, 2012, as a result of the SIB's investment grade fixed income restructuring of the Pension Trust.

Mr. Schulz also stated the BND and staff were not able to find a suitable vendor in the State of North Dakota to conduct an analysis of the losses that occurred as a result of the delay in transitioning of the assets. Counsel for both entities are reaching out to out of state vendors.

Mr. Schulz recommended terminating BND's passive fixed income mandates of approximately \$47 million in the Pension Trust (BC Long Treasury) and \$113 million in the Insurance Trust (BC Government/Credit) as a result of the BND's investment process, and the opportunity for lower cost and lower tracking error alternatives. Mr. Schulz also recommended the assets be transitioned to State Street Global Advisors.

After discussion,

**TREASURER SCHMIDT MOVED AND MR. CORNEIL SECONDED TO TERMINATE BND'S PASSIVE FIXED INCOME MANDATES OF \$160 MILLION AND TRANSITION THE ASSETS TO STATE STREET.**

After discussion,

**COMMISSIONER GAEBE MOVED AND MR. SAGE SECONDED TO TABLE THE MOTION FOR ONE MONTH.**

After discussion, a roll call vote was taken,

**AYES: MR. GESSNER, MS. TERNES, COMMISSIONER GAEBE, MR. SAGE, AND MR. ERDMANN**

**NAYS: TREASURER SCHMIDT, MR. TOSO, MR. CORNEIL, AND MR. SANDAL.**

**MOTION CARRIED**

**ABSENT: LT. GOVERNOR WRIGLEY AND COMMISSIONER HAMM**

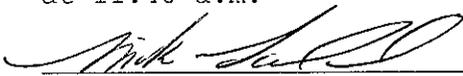
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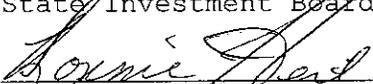
The next SIB meeting is scheduled for April 26, 2013, 8:30 am at Workforce Safety & Insurance.

The next Audit Committee meeting is scheduled for May 17, 2013, 1:00 pm at the State Capitol, Peace Garden Room.

**ADJOURNMENT:**

With no further business to come before the SIB, Mr. Sandal adjourned the meeting at 11:40 a.m.

  
 Mr. Mike Sandal, Vice Chair  
 State Investment Board

  
 Bonnie Heit  
 Assistant to the Board