

**NORTH DAKOTA STATE INVESTMENT BOARD  
MINUTES OF THE  
APRIL 26, 2013, 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 PERS & SIB Trustee  
Chanakya Chakravarti, JP Morgan  
Hrushikesh Kar, JP Morgan  
Jan Murtha, Attorney General's Office  
George Ochs, JP Morgan  
Jim Sakelaris, JP Morgan  
Dave Thompson, Prairie Public

**CALL TO ORDER:**

Lt. Governor Wrigley called the State Investment Board (SIB) meeting to order at 8:30 a.m. on Friday, April 26, 2013, at Workforce Safety & Insurance, 1600 E Century, Bismarck, ND.

A quorum was present for the purpose of conducting business.

**AGENDA:**

**IT WAS MOVED BY TREASURER SCHMIDT AND SECONDED BY MR. CORNEIL AND CARRIED ON A VOICE VOTE TO ACCEPT THE APRIL 26, 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 March 22, 2013, meeting,

IT WAS MOVED BY MR. CORNEIL AND SECONDED BY COMMISSIONER GAEBE AND CARRIED ON A VOICE VOTE TO ACCEPT THE MARCH 22, 2013, 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

**EDUCATION:**

JP Morgan representatives presented an educational segment on India real estate. The Board took no action on the subject matter.

**INVESTMENTS:**

Legacy Fund - Mr. Schulz, Ms. Flanagan, Commissioner Gaebe, Mr. Sage, Ms. Ternes, and Treasurer Schmidt attended the Legacy and Budget Stabilization Fund Advisory Board (Advisory Board) meeting on April 2, 2013. R.V. Kuhns & Associates, who were contracted by the SIB at their September 28, 2012, meeting to conduct a comprehensive asset allocation and spending policy analysis on the Legacy Fund, presented their findings. After reviewing their options, the Advisory Board adopted the following asset allocation mix for the Legacy Fund:

Broad US Equity 30%

Broad International Equity 20%

Fixed Income 35%

Core Real Estate 5%

Diversified Real Assets 10%

Mr. Schulz and Ms. Flanagan also attended the Advisory Board's April 25, 2013, meeting. Mr. Schulz, at the request of Advisory Board, presented an educational segment on investment pooling. R.V. Kuhns recommended the Legacy Fund be pooled for cost-savings/efficiencies. The Advisory Board revised their investment policy statement to allow pooling of the Legacy Fund with other SIB funds.

The SIB discussed the revisions to the investment policy statement and after discussion,

IT WAS MOVED BY TREASURER SCHMIDT AND SECONDED BY MR. SANDAL AND CARRIED ON A ROLL CALL VOTE TO ACCEPT THE REVISED INVESTMENT POLICY STATEMENT FOR THE LEGACY FUND.

AYES: MR. CORNEIL, 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

Mr. Schulz will be working with R.V. Kuhns and Callan Associates to develop a work plan to implement the new asset allocation policy and will report back to the board.

The SIB thanked Mr. Schulz and Ms. Flanagan for working with their client, the Advisory Board, to assist them in implementing an investment plan for the Legacy Fund.

Bank of North Dakota (BND) - Mr. Schulz stated on April 5, 2013, he requested the BND provide information by April 18, 2013, on whether the BND could offer a lower investment management fee and also alter their current investment process as a result of the discussions that occurred at the March 22, 2013, SIB meeting concerning the two passive fixed income mandates currently managed by the BND.

Lt. Governor Wrigley stated he received a letter on April 25, 2013, from the BND declining to provide its services under terms that are materially different from those it presently offers. BND also proposed the SIB mutually agree to terminate their investment management agreement which has been in effect since July 1, 1989.

**IT WAS MOVED BY TREASURER SCHMIDT AND SECONDED BY MR. CORNEIL AND CARRIED ON A ROLL CALL VOTE TO BRING BACK TO THE TABLE THE FOLLOWING MOTION FROM THE MARCH 22, 2013, SIB MEETING,**

*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.*

**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**

Discussion followed on the motion. After discussion,

**IT WAS MOVED BY TREASURER SCHMIDT AND SECONDED BY MR. GESSNER TO AMEND THE MOTION THAT IS ON THE TABLE TO MUTUALLY AGREE WITH THE BND TO TERMINATE THEIR RELATIONSHIP OF THE MANAGEMENT OF THE PASSIVE FIXED INCOME MANDATES OF \$160 MILLION AND TRANSITION THE ASSETS TO STATE STREET.**

Discussion followed,

**IT WAS MOVED BY MR. ERDMANN TO CALL THE QUESTION WHICH WAS CARRIED ON A ROLL CALL VOTE.**

**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**

A roll call vote was then taken on the motion to amend the tabled motion,

**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**

A roll call vote was then taken on the following motion,

IT WAS MOVED BY TREASURER SCHMIDT AND SECONDED BY MR. GESSNER THAT THE SIB MUTALLY AGREES WITH THE BND TO TERMINATE THEIR RELATIONSHIP OF THE MANAGEMENT OF THE PASSIVE FIXED INCOME MANDATES OF \$160 MILLION AND TRANSITION THE ASSETS TO STATE STREET.

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

Mr. Schultz reported that Blackrock Solutions, New York, as a professional courtesy, worked with BND and its legal counsel, Mr. Dave Schaibley, Mr. Schulz, Ms. Flanagan, and Ms. Murtha, to conduct an analysis of the losses that occurred as a result of BND's delay in transitioning the assets in the Pension Trust from a Barclays Capital Government Index mandate to a Barclays Capital Long Treasury Index. Blackrock Solutions' analysis concurred with Mr. Schulz's and Ms. Flanagan's analysis that a loss of \$2.542 million had occurred. All of the other entities involved concurred with the analysis and BND will expedite the credit based on the loss calculation as soon as possible.

IT WAS MOVED BY MR. SAGE AND SECONDED BY TREASURER SCHMIDT AND CARRIED ON A ROLL CALL VOTE TO REMOVE BND FROM THE WATCH LIST AS THE WATCH LIST DOES NOT PERTAIN TO THE SIB/BND MATCH LOAN PROGRAM RELATIONSHIP OF \$120 MILLION.

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

Lt. Governor Wrigley thanked Mr. Schulz and Ms. Flanagan for their credibility in making the assessment and also for their leadership and professionalism during the discussions. He also thanked Ms. Murtha for her guidance, assistance, and professionalism at the front end and throughout all of the discussions and also recognized Mr. Dave Schaibley, BND counsel, for his assistance. Lt. Governor Wrigley also thanked the BND representatives for their cooperation in reaching an amicable result and again expressed gratitude to all parties involved.

The SIB recessed at 10:25 am and reconvened at 10:40 am.

Westridge/WG Trading - Ms. Murtha informed the SIB the Second Circuit Court of Appeals affirmed the District Court ruling approving the Receiver's plan for a pro-rata distribution and briefly discussed the court's analysis. Ms. Flanagan indicated that the SIB invested \$75.3 million with Westridge/WG Trading on behalf of the Pension and Insurance Trusts, and thus far two distributions totaling approximately \$67.1 million have been received. Ms. Murtha also stated that it was her understanding the Receiver was still pursuing clawback actions, which if successful, could result in further distributions to the SIB.

#### GOVERNANCE:

Search Committee - Mr. Sandal updated the SIB on the Executive Director/Chief Investment Officer search.

An RFP for Executive Recruitment Services was issued on March 6, 2013. The deadline for receipt of proposals was March 27, 2013. Six proposals were received with three being rejected by State Procurement. Of the three firms reviewed by

the sub-set of the Search Committee and State Procurement, none of them brought forth the required experience.

The sub-set of the Search Committee revised the mandatory requirements to more accurately reflect the criteria needed and instructed State Procurement to reissue the RFP. The RFP was reissued on April 4, with proposals due by April 18, 2013. Six proposals were again received with two being rejected by State Procurement. The sub-set of the Search Committee and State Procurement evaluated the four remaining firms and a decision was made to award the contract. The sub-set of the Search Committee will make their recommendation to the full Search Committee at its next meeting on April 26, 2013.

Compensation Committee - Ms. Ternes, Chair, Treasurer Schmidt, and Mr. Erdmann, serving on the Executive Compensation Review Committee, met on April 23, 2013, and issued the following recommendations for the SIB's consideration:

Issue the Deputy Executive Director a base salary increase of 5% and a temporary Interim Executive Director salary increase of 7.5%, effective July 1, 2013.

**IT WAS MOVED BY TREASURER SCHMIDT AND SECONDED BY MR. SANDAL AND CARRIED ON A ROLL CALL VOTE TO GRANT THE DEPUTY EXECUTIVE DIRECTOR A 5% BASE SALARY INCREASE AND A TEMPORARY INTERIM EXECUTIVE DIRECTOR SALARY INCREASE OF 7.5%, EFFECTIVE JULY 1, 2013.**

**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**

Issue the Deputy Chief Investment Officer a base salary increase of 7%, effective July 1, 2013, and also grant a temporary Interim Chief Investment Officer salary increase of 20%, retroactive to April 1, 2013, and carried forward and applied to the new base salary that is in effect July 1, 2013.

**IT WAS MOVED BY MR. ERDMANN AND SECONDED BY TREASURER SCHMIDT AND CARRIED ON A ROLL CALL VOTE TO GRANT THE DEPUTY CHIEF INVESTMENT OFFICER A BASE SALARY INCREASE OF 7%, EFFECTIVE JULY 1, 2013, AND A TEMPORARY INTERIM CHIEF INVESTMENT OFFICER SALARY INCREASE OF 20%, RETROACTIVE TO APRIL 1, 2013, AND CARRIED FORWARD AND APPLIED TO THE NEW BASE SALARY THAT IS IN EFFECT JULY 1, 2013.**

**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**

2013-14 Meeting Schedule - A tentative meeting schedule was established for the 2013-14 fiscal year for the SIB's consideration.

**IT WAS MOVED BY MR. SANDAL AND SECONDED BY MR. CORNEIL AND CARRIED ON A ROLL CALL VOTE TO ACCEPT THE TENTATIVE MEETING SCHEDULE.**

**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**

**LEGISLATIVE UPDATE:**

Ms. Flanagan 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.

Ms. Flanagan stated all bills affecting the SIB have now been finalized by both the House and Senate.

**MONITORING REPORTS** - The following monitoring reports were presented to the SIB for the quarter ending March 31, 2013; Budget/Financial Conditions, Executive Limitations/Staff Relations, Investment Program Ends, and Retirement Program Ends. A current "Watch List" was also provided for the SIB's consideration.

**IT WAS MOVED BY MR. CORNEIL AND SECONDED BY MS. TERNES AND CARRIED ON A ROLL CALL VOTE TO ACCEPT THE MONITORING REPORTS AS PRESENTED.**

**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**

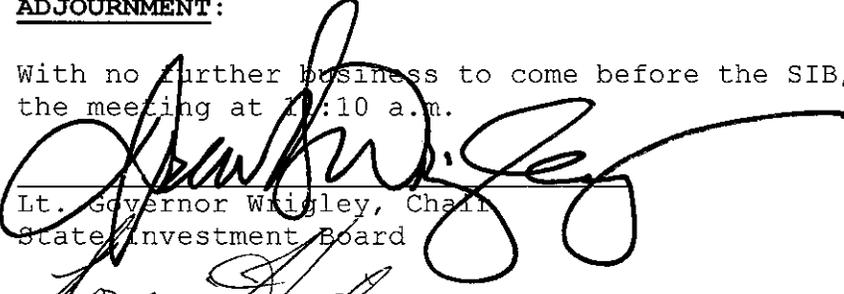
**OTHER:**

The next SIB meeting is scheduled for May 17, 2013, at 8:30 am in the Peace Garden Room at the State Capitol.

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

**ADJOURNMENT:**

With no further business to come before the SIB, Lt. Governor Wrigley adjourned the meeting at 11:10 a.m.

  
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Lt. Governor Wrigley, Chair  
State Investment Board

  
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Bonnie Heit  
Assistant to the Board