

**NORTH DAKOTA STATE INVESTMENT BOARD
MINUTES OF THE
JUNE 28, 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
Howard Sage, PERS Board
Kelly Schmidt, State Treasurer
Cindy Ternes, Workforce Safety & Insurance
Bob Toso, TFFR Board

BOARD MEMBERS ABSENT: Adam Hamm, Insurance Commissioner

STAFF PRESENT: Connie Flanagan, Fiscal & Investment Officer
Bonnie Heit, Office Manager
Fay Kopp, Interim Executive Director
Darren Schulz, Interim CIO
Susan Walcker, Investment Accountant

OTHERS PRESENT: TJ Jerke, Forum News Services
Mary Kay Kelsch, 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, June 28, 2013, at the State Capitol, Peace Garden Room, Bismarck, ND.

A quorum was present for the purpose of conducting business.

AGENDA:

IT WAS MOVED BY MS. TERNES AND SECONDED BY MR. ERDMANN AND CARRIED ON A VOICE VOTE TO ACCEPT THE REVISED JUNE 28, 2013, AGENDA.

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

NAYS: NONE

MOTION CARRIED

ABSENT: COMMISSIONER HAMM

MINUTES:

The minutes were considered from the May 17, 2013, meeting,

IT WAS MOVED BY COMMISSIONER GAEBE AND SECONDED BY MR. CORNEIL AND CARRIED ON A VOICE VOTE TO ACCEPT THE MAY 17, 2013, MINUTES AS WRITTEN AND AMENDED.

AYES: 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
ABSENT: COMMISSIONER HAMM

INVESTMENTS:

Legacy Fund - Mr. Schulz reviewed his recommendation and timeframe to transition the Legacy Fund into a new strategic asset allocation plan that was adopted by the Legacy and Budget Stabilization Fund Advisory Board (Advisory Board) on April 2, 2013, and accepted by the SIB on April 26, 2013. After discussion,

IT WAS MOVED BY COMMISSIONER GAEBE AND SECONDED BY MS. TERNES AND CARRIED ON A ROLL CALL VOTE TO ACCEPT STAFF'S TRANSITION PLAN AND TIMEFRAME TO IMPLEMENT A NEW STRATEGIC ASSET ALLOCATION PLAN FOR THE LEGACY FUND.

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

Manager Catalog - Ms. Flanagan reviewed an updated manager catalog for the SIB's reference which lists each manager, its mandate, and date of inception.

IT WAS MOVED BY MR. CORNEIL AND SECONDED BY MR. GESSNER AND CARRIED ON A VOICE VOTE TO ACCEPT THE MANAGER CATALOG.

AYES: 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
ABSENT: COMMISSIONER HAMM

Westridge/WG Trading - Ms. Kelsch requested the SIB enter into Executive Session pursuant to NDCC 44-04-19.1(2), NDCC 44-04-19.1(5), and NDCC 44-04-19.2 for the purposes of attorney consultation regarding the Westridge/WG Trading litigation.

IT WAS MOVED BY MR. ERDMANN AND SECONDED BY TREASURER SCHMIDT AND CARRIED ON A ROLL CALL VOTE TO ENTER INTO EXECUTIVE SESSION FOR ATTORNEY CONSULTATION REGARDING THE WESTRIDGE/WG TRADING LITIGATION.

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

The board entered into Executive Session at 9:05 a.m.

The following were present - SIB with the exception of Commissioner Hamm, Mr. Schulz, Ms. Flanagan, Ms. Heit, Ms. Kelsch, Ms. Kopp, and Ms. Walcker.

The Board exited the Executive Session at 9:09 a.m.

IT WAS MOVED BY TREASURER SCHMIDT AND SECONDED BY MR. SANDAL AND CARRIED ON A ROLL CALL VOTE TO AUTHORIZE THE INTERIM CIO TO EXTEND THE TOLLING AGREEMENT WITH DELOITTE.

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

GOVERNANCE:

Search Committee - Mr. Sandal updated the SIB on the Executive Director/Chief Investment Officer search. On May 31, 2013, Mr. Michael Kennedy, KornFerry, met with the majority of the SIB as well as Mr. Schulz, Ms. Flanagan, and Ms. Kopp to determine the needs and to build the position specifications. As of June 27, 2013, KornFerry has reached out to over 60 contacts and has had conversations with more than half. Over the next two weeks, KornFerry will be reaching out to an additional group of approximately 40-50 individuals. At this point, KornFerry has approximately five to six candidates who are interested in the position and appear, initially, to have the appropriate experience and background. KornFerry will be interviewing several of the candidates via skype over the next two weeks. KornFerry will also be placing ads on the following websites - National Council on Teacher Retirement, National Association of Securities Professionals, and will also be placing an ad in Pensions and Investments. KornFerry has also been working with Ms. Jan Murtha on the States open records laws. KornFerry also indicated they are hoping to schedule first round interviews with the Search Committee in late July and that overall feedback has been positive. KornFerry will also be scheduling a conference call with the Search Committee the week of July 8, 2013, to provide an overview of the search, market feedback, and general candidate information, and to also solicit feedback.

The SIB then discussed the initial ED/CIO search through the States Human Resource Management Services (HRMS) and the current search by KornFerry. Candidates who applied through HRMS were informed they could also apply with the Executive Recruitment firm once the firm was in place if they so desired.

Audit Committee Liaison Report - Mr. Gessner updated the SIB on the activities of the SIB Audit Committee. At their May 17, 2013, meeting, CliftonLarsonAllen presented their financial audit scope and approach of the Retirement and Investment Office for FY13. The firm conducted preliminary field work the week of May 13, 2013, and will be back in the fall to finish the audit.

Mr. Gessner also stated, to date, the internal audit division has completed 44 school district audits. Staff and the Audit Committee have been reviewing policies and procedures to streamline the school district audit process. The Audit Committee also received internal audit reports from staff and are also reviewing and revising their charter. Once the charter is finalized, it will be brought back to the SIB for their review and acceptance.

IT WAS MOVED BY MR. CORNEIL AND SECONDED BY MR. TOSO AND CARRIED ON A VOICE VOTE TO ACCEPT THE AUDIT REPORT.

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

ABSENT: COMMISSIONER HAMM

MONITORING REPORTS - Mr. Schulz reviewed managers currently on the "watch list".

IT WAS MOVED BY TREASURER SCHMIDT AND SECONDED BY MR. CORNEIL AND CARRIED ON A VOICE VOTE TO ACCEPT THE "WATCH LIST" REPORT.

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

OTHER:

The SIB recognized and thanked Mr. Toso for his six years of service to the SIB and for his service of 37 years in the education system and congratulated him on his retirement.

Commissioner Gaebe informed the SIB the Board of University and School Lands has hired RV Kuhns to conduct an asset allocation study of the Permanent Trust Funds and Strategic Investment and Improvement Fund. Commissioner Gaebe also mentioned the Board of University and School Lands is in the early stages of determining whether or not to invest the Permanent Trust Funds with the SIB.

Ms. Flanagan reported as of June 27, 2013, the Pension Trust was up about 13.5%, Workforce Safety & Insurance (WSI) 8.2%, and Insurance Trust 5.8%.

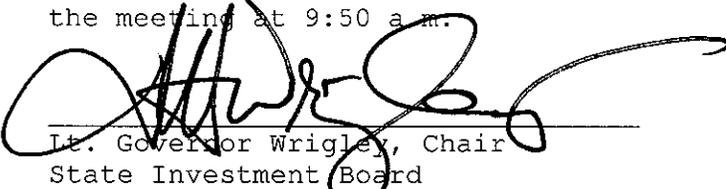
Ms. Ternes recognized Mr. Schulz for all of his work on the Legacy Fund and also for his efforts coordinating the process with Callan and RV Kuhns. Ms. Ternes also mentioned she recently reported to the WSI Board on the SIB process and was able to utilize reports previously given by staff to the SIB and the Advisory Board. Ms. Ternes recognized Mr. Schulz and Ms. Flanagan for all of their work that is done on a daily basis on behalf of the SIB clients.

The next SIB meeting is scheduled for July 26, 2013, at 8:30 am at Workforce Safety & Insurance, 1600 E Century Ave., Bismarck, ND.

The next Audit Committee meeting is scheduled for September 27, 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 9:50 a.m.



Lt. Governor Wrigley, Chair
State Investment Board



Bonnie Heit
Assistant to the Board