

**NORTH DAKOTA STATE INVESTMENT BOARD  
MINUTES OF THE  
JULY 26, 2013, BOARD MEETING**

**BOARD MEMBERS PRESENT:** Drew Wrigley, Lt. Governor, Chair  
Mike Sandal, Vice Chair  
Clarence Corneil, TFFR Board  
Lance Gaebe, Land Commissioner  
Mike Gessner, TFFR Board  
Adam Hamm, Insurance Commissioner (teleconference)  
Bryan Klipfel, Workforce Safety & Insurance  
Howard Sage, PERS Board

**BOARD MEMBERS ABSENT:** Rob Lech, TFFR Board  
Kelly Schmidt, State Treasurer

**STAFF PRESENT:** Bonnie Heit, Office Manager  
Fay Kopp, Interim Executive Director  
Darren Schulz, Interim CIO  
Susan Walcker, Investment Accountant

**OTHERS PRESENT:** Jennifer Bridwell, PIMCO  
Devin Chen, PIMCO  
Levi Erdmann, former SIB trustee  
Michael Kennedy, Korn/Ferry  
Stephanie King, PIMCO  
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, July 26, 2013, at Workforce Safety & Insurance, 1600 E Century Ave, Bismarck, ND.

A quorum was present for the purpose of conducting business.

**AGENDA:**

**IT WAS MOVED BY COMMISSIONER GAEBE AND SECONDED BY MR. SANDAL AND CARRIED ON A VOICE VOTE TO ACCEPT THE JULY 26, 2013, AGENDA.**

**AYES: COMMISSIONER GAEBE, MR. SANDAL, COMMISSIONER HAMM, MR. CORNEIL, MR. KLIPFEL, MR. GESSNER, MR. SAGE, AND LT. GOVERNOR WRIGLEY**

**NAYS: NONE**

**MOTION CARRIED**

**ABSENT: TREASURER SCHMIDT, MR. LECH**

**MINUTES:**

The minutes were considered from the June 28, 2013, meeting,

**IT WAS MOVED BY MR. GESSNER AND SECONDED BY MR. SAGE AND CARRIED ON A VOICE VOTE TO ACCEPT THE JUNE 28, 2013, MINUTES AS WRITTEN.**

AYES: MR. GESSNER, COMMISSIONER GAEBE, MR. SAGE, MR. KLIPFEL, COMMISSIONER HAMM,  
MR. CORNEIL, MR. SANDAL, AND LT. GOVERNOR WRIGLEY  
NAYS: NONE

MOTION CARRIED

ABSENT: TREASURER SCHMIDT, MR. LECH

ELECTION OF OFFICERS:

IT WAS MOVED BY COMMISSIONER GAEBE AND SECONDED BY MR. SAGE AND CARRIED ON A ROLL CALL VOTE TO CONTINUE WITH THE PRESENT SLATE OF OFFICERS OF THE SIB FOR FISCAL YEAR 2013-14; LT. GOVERNOR WRIGLEY, CHAIR AND MR. SANDAL, VICE CHAIR.

AYES: MR. CORNEIL, COMMISSIONER GAEBE, MR. GESSNER, COMMISSIONER HAMM, MR. SAGE,  
MR. SANDAL, MR. KLIPFEL, AND LT. GOVERNOR WRIGLEY

NAYS: NONE

MOTION CARRIED

ABSENT: TREASURER SCHMIDT, MR. LECH

Lt. Governor Wrigley reappointed Mr. Corneil as parliamentarian for fiscal year 2013-14.

SIB AUDIT COMMITTEE MEMBERSHIP:

IT WAS MOVED BY MR. SANDAL AND SECONDED BY MR. CORNEIL AND CARRIED ON A ROLL CALL VOTE TO CONTINUE WITH THE CURRENT MEMBERSHIP OF THE SIB AUDIT COMMITTEE FOR FISCAL YEAR 2013-14; MS. BECKY DORWART, MR. GESSNER, MR. LONNY MERTZ, MR. SANDAL, AND MS TERNES.

AYES: MR. GESSNER, COMMISSIONER HAMM, MR. KLIPFEL, COMMISSIONER GAEBE, MR. SAGE,  
MR. SANDAL, MR. CORNEIL, AND LT. GOVERNOR WRIGLEY

NAYS: NONE

MOTION CARRIED

ABSENT: TREASURER SCHMIDT, MR. LECH

PIMCO:

PIMCO representatives reviewed an additional investment opportunity for the SIB's consideration; Bank Recapitalization and Value Opportunities (BRAVO Fund II) which takes advantage of non-economic sales of residential and commercial real estate related assets from the financial sector in the U.S. and Europe.

The SIB recessed at 10:30 am and reconvened at 10:45 am

INVESTMENTS:

PIMCO Bravo Fund II - Mr. Schulz reviewed the investment opportunity and recommended a commitment of \$50 million each from the Pension Trust and Insurance Trust. After discussion,

IT WAS MOVED BY MR. GESSNER AND SECONDED BY COMMISSIONER GAEBE AND CARRIED ON A ROLL CALL VOTE TO ACCEPT STAFF RECOMMENDATION AND ALLOCATE \$50 MILLION FROM THE PENSION TRUST AND \$50 MILLION FROM THE INSURANCE TRUST INTO PIMCO'S BRAVO FUND II OPPORTUNITY.

AYES: MR. SAGE, MR. SANDAL, MR. CORNEIL, MR. GESSNER, MR. KLIPFEL, COMMISSIONER HAMM, COMMISSIONER GABE, AND LT. GOVERNOR WRIGLEY

NAYS: NONE

MOTION CARRIED

ABSENT: TREASURER SCHMIDT, MR. LECH

Legacy Fund Transition - Mr. Schulz reviewed the transition plan accepted by the SIB at their April 2013, meeting and recommended transitioning the new strategic asset allocation through the utilization of existing managers within the Insurance Trust. Mr. Schulz stated utilizing existing managers would promptly initiate the transition, gain desired asset class exposures, and recognize efficiencies and economies of scale from pooling with other insurance clients.

The SIB held a discussion on the "watch list" the object of the list, and the implications for managers who have been placed on the list particularly when the assets mandated to them are pooled and when new monies come into the pool each manager receives a pro rata share. Currently, Clifton Group has been placed on the watch list due to their acquisition by Parametric Portfolio Associates which closed approximately December 31, 2012. The firm is on an ongoing review status and a review with staff is scheduled for August 9, 2013. After discussion,

IT WAS MOVED BY MR. SAGE AND SECONDED BY MR. CORNEIL AND CARRIED ON A ROLL CALL VOTE TO GRANT STAFF THE DISCRETION TO REMOVE THE CLIFTON GROUP FROM "WATCH LIST" STATUS FOLLOWING THE AUGUST 9, 2013, REVIEW.

AYES: MR. CORNEIL, COMMISSIONER GAEBE, MR. SANDAL, COMMISSIONER HAMM, MR. GESSNER, MR. SAGE, MR. KLIPFEL, AND LT. GOVERNOR WRIGLEY

NAYS: NONE

MOTION CARRIED

ABSENT: TREASURER SCHMIDT, MR. LECH

The SIB also discussed Credit Suisse who has been on the "watch list" since August 2012 due to the parent companies pending sale of the Customized Infrastructure Investment Group. Mr. Schulz will provide an update on Credit Suisse at the next meeting. After discussion,

IT WAS MOVED BY MR. SAGE AND SECONDED BY MR. CORNEIL AND CARRIED ON A ROLL CALL VOTE TO TRANSITION THE LEGACY FUND INTO THE NEW STRATEGIC ASSET ALLOCATION.

AYES: MR. KLIPFEL, MR. CORNEIL, COMMISSIONER HAMM, COMMISSIONER GAEBE, MR. SANDAL, MR. SAGE, MR. GESSNER, AND LT. GOVERNOR WRIGLEY

NAYS: NONE

MOTION CARRIED

ABSENT: TREASURER SCHMIDT, MR. LECH

The "watch list" will be put on the agenda at a future meeting for further discussion.

Lt. Governor Wrigley exited the meeting and Mr. Sandal presided over the remainder of the meeting.

State Board of Medical Examiners - Mr. Schulz informed the SIB the State Board of Medical Examiners contacted him regarding the possibility of contracting with the SIB for investment services of their \$1.4 million reserve fund. Mr. Schulz requested authorization to proceed with preliminary contractual discussions with the State Board of Medical Examiners.

IT WAS MOVED BY COMMISSIONER GAEBE AND SECONDED BY MR. SAGE AND CARRIED ON A ROLL CALL VOTE TO GIVE STAFF PRELIMINARY APPROVAL TO MOVE FORWARD WITH POTENTIALLY CONTRACTING WITH THE STATE BOARD OF MEDICAL EXAMINERS FOR INVESTMENT SERVICES.

AYES: MR. CORNEIL, COMMISSIONER GAEBE, MR. SANDAL, COMMISSIONER HAMM, MR. GESSNER, MR. SAGE, AND MR. KLIPFEL

NAYS: NONE

MOTION CARRIED

ABSENT: TREASURER SCHMIDT, MR. LECH, LT. GOVERNOR WRIGLEY

Insurance Cash Pool - Mr. Schulz informed the SIB the Bank of ND (BND) has been paying a special rate on the Insurance Trust Cash Account equal to the weekly 3 - month bill auction rate plus 20 basis points since inception. The rate was available on balances of \$50-\$75 million and was established by the market rates at the time. If the balance in the cash account exceeded \$75 million, the rate would revert back to the BND financial institution rate for money markets. The cash account has frequently exceeded the cap of \$75 million and BND informed staff effective June 1, 2013, the pricing formula will be changed to the financial institution's money market rate and the special rate will no longer be available under any circumstances.

Mr. Schulz informed the SIB the cash was transferred into a Northern Trust money market vehicle offering the same rate as BND's standard money market rate. He also stated that having the account at The Northern Trust simplifies accounting for staff.

#### GOVERNANCE:

Search Committee - Mr. Sandal updated the SIB on the Executive Director/Chief Investment Officer search. The Search Committee will be interviewing three candidates the afternoon of July 26, 2013, and additional candidates in the next couple of weeks.

Mr. Sandal introduced Mr. Michael Kennedy, Korn/Ferry. Mr. Kennedy briefed the SIB on the search and stated the search is going well. He is currently in contact with a second group of candidates for first round interviews which will be scheduled in the next week or two. The firm has reached out to approximately 90 individuals and has had more in depth conversations with 17-18 candidates and of that group has narrowed the field to approximately 10. Mr. Kennedy is hoping to bring finalists before the full SIB in September.

Code of Conduct Recertification - The SIB was provided a copy of their Governance policy, Board Members' Code of Conduct. As outlined in the policy, board members are annually required to affirm their understanding of the policy by signing and dating the acknowledgement.

#### MONITORING REPORTS QTR ENDING JUNE 30, 2013:

The following monitoring reports were presented to the SIB for the quarter ending June 30, 2013; Budget/Financial Conditions, Executive Limitations/Staff Relations, Investment Program Ends, Retirement Program Ends and the "Watch List".

Ms. Kopp referred to the Staff Relations Report and noted Mr. Les Mason retired effective July 12, 2013, and Ms. Leslie Moszer resigned effective June 6, 2013. Ms. Kopp and the Chair of the Audit Committee have determined the position of Supervisor of Internal Audit, previously held by Mr. Mason, would not be

immediately filled in order to allow staff, SIB Audit Committee, SIB, and Teachers' Fund for Retirement Board (TFFR) time to reflect on the structure and purpose of RIO's Internal Audit Division and to also give the Executive Director/CIO of RIO an opportunity to give their input.

IT WAS MOVED BY MR. CORNEIL AND SECONDED BY MR. SAGE AND CARRIED ON A ROLL CALL VOTE TO ACCEPT THE MONITORING REPORTS.

AYES: COMMISSIONER HAMM, MR. KLIPFEL, COMMISSIONER GAEBE, MR. GESSNER, MR. SAGE, MR. SANDAL, AND MR. CORNEIL

NAYS: NONE

MOTION CARRIED

ABSENT: TREASURER SCHMIDT, MR. LECH, LT. GOVERNOR WRIGLEY

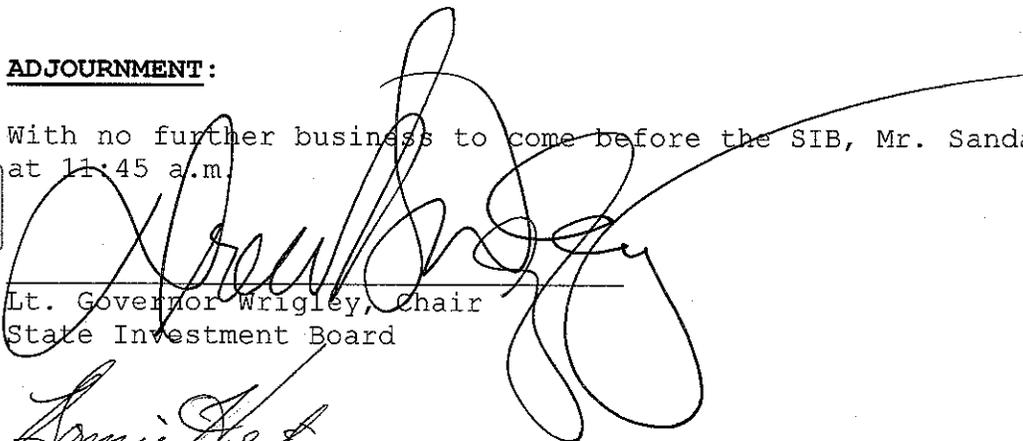
OTHER:

The next SIB meeting is scheduled for August 23, 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, Mr. Sandal adjourned the meeting at 11:45 a.m.

  
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 Lt. Governor Wrigley, Chair  
 State Investment Board

  
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 Bonnie Heit  
 Assistant to the Board