

**NORTH DAKOTA STATE INVESTMENT BOARD
MINUTES OF THE
OCTOBER 25, 2013, BOARD MEETING**

BOARD MEMBERS PRESENT: Drew Wrigley, Lt. Governor, Chair
Mike Sandal, Vice Chair
Clarence Corneil, TFFR Board
Jeff Engleson, Deputy Land Commissioner
Mike Gessner, TFFR Board
Adam Hamm, Insurance Commissioner (teleconference)
Rob Lech, TFFR Board
Howard Sage, PERS Board
Kelly Schmidt, State Treasurer
Cindy Ternes, Workforce Safety & Insurance
Tom Trenbeath, PERS Board

STAFF PRESENT: Bonnie Heit, Assistant to the SIB
Fay Kopp, Interim Executive Director
Darren Schulz, Interim CIO
Susan Walcker, Investment Accountant

OTHERS PRESENT: Greg Casey, Declaration
Pete Farley, Declaration
Bond Griffin, Declaration
David Hunter, ED/CIO Candidate
Michael Kennedy, Korn/Ferry (teleconference)
Bruce Klootwyk, Raymond James
Karen Huang, Korn/Ferry (teleconference)
Jan Murtha, Attorney General's Office
John Pluta, Declaration

CALL TO ORDER:

Lt. Governor Wrigley called the State Investment Board (SIB) meeting to order at 8:00 a.m. on Friday, October 25, 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 MS. TERNES AND SECONDED BY MR. LECH AND CARRIED ON A VOICE VOTE TO ACCEPT THE AGENDA FOR THE OCTOBER 25, 2013, MEETING.

AYES: MS. TERNES, COMMISSIONER HAMM, TREASURER SCHMIDT, MR. ENGLESON, MR. TRENBEATH, MR. LECH, MR. SANDAL, MR. SAGE, MR. GESSNER, AND LT. GOVERNOR WRIGLEY

NAYS: NONE

MOTION CARRIED

ABSENT: MR. CORNEIL

MINUTES:

The minutes were considered from the September 27, 2013, October 1, 2013, October 8, 2013, and October 9, 2013, meetings,

IT WAS MOVED BY TREASURER SCHMIDT AND SECONDED BY MR. GESSNER AND CARRIED ON A VOICE VOTE TO ACCEPT THE SEPTEMBER 27, 2013, MINUTES AS WRITTEN.

AYES: COMMISSIONER HAMM, MS. TERNES, MR. SANDAL, TREASURER SCHMIDT, MR. GESSNER, MR. SAGE, MR. ENGLESON, MR. LECH, MR. TRENBEATH, AND LT. GOVERNOR WRIGLEY

NAYS: NONE

MOTION CARRIED

ABSENT: MR. CORNEIL

IT WAS MOVED BY TREASURER SCHMIDT AND SECONDED BY MR. SANDAL AND CARRIED ON A VOICE VOTE TO ACCEPT THE OCTOBER 1, 2013, MINUTES AS WRITTEN.

AYES: MR. LECH, TREASURER SCHMIDT, MR. ENGLESON, MR. TRENBEATH, MR. SANDAL, COMMISSIONER HAMM, MR. GESSNER, MR. SAGE, MS. TERNES, AND LT. GOVERNOR WRIGLEY

NAYS: NONE

MOTION CARRIED

ABSENT: MR. CORNEIL

IT WAS MOVED BY TREASURER SCHMIDT AND SECONDED BY MR. GESSNER AND CARRIED ON A VOICE VOTE TO ACCEPT THE OCTOBER 8, 2013, MINUTES AS WRITTEN.

AYES: TREASURER SCHMIDT, MR. GESSNER, COMMISSIONER HAMM, MS. TERNES, MR. ENGLESON, MR. SAGE, MR. LECH, MR. SANDAL, MR. TRENBEATH, AND LT. GOVERNOR WRIGLEY

NAYS: NONE

MOTION CARRIED

ABSENT: MR. CORNEIL

IT WAS MOVED BY TREASURER SCHMIDT AND SECONDED BY MR. SANDAL AND CARRIED ON A VOICE VOTE TO ACCEPT THE OCTOBER 9, 2013, MINUTES AS WRITTEN.

AYES: MR. SAGE, MR. SANDAL, MR. GESSNER, MR. LECH, MR. TRENBEATH, MS. TERNES, COMMISSIONER HAMM, MR. ENGLESON, TREASURER SCHMIDT, AND LT. GOVERNOR WRIGLEY

NAYS: NONE

MOTION CARRIED

ABSENT: MR. CORNEIL

INVESTMENTS:

Declaration - Representatives reviewed the firm's current SIB mandates; Distressed Debt Fund, Short Tenor Commercial Mortgage Backed Securities Fund, Insurance Trust Separate Account, and Total Return Bond Fund.

The SIB recessed at 9:20 am and reconvened at 9:28 am

Mr. Schulz reviewed his recommendation to transition the Insurance Trust Separate Account to Declaration's Total Return Bond Fund. The Total Return Bond Fund allows more implementation flexibility as far as the overall portfolio duration.

IT WAS MOVED BY MS. TERNES AND SECONDED BY MR. ENGLESON AND CARRIED ON A ROLL CALL VOTE TO ACCEPT STAFF RECOMMENDATION AND TRANSITION THE EXISTING INSURANCE TRUST SEPARATE ACCOUNT TO DECLARATION'S TOTAL RETURN BOND FUND.

AYES: MR. TRENBEATH, TREASURER SCHMIDT, MR. CORNEIL, MR. ENGLESON, MR. LECH, MR. SANDAL, COMMISSIONER HAMM, MR. GESSNER, MR. SAGE, MS. TERNES, AND LT. GOVERNOR WRIGLEY

NAYS: NONE

MOTION CARRIED

Global Equity Portfolio - Mr. Schulz reviewed the first phase of restructuring the global public equity portfolio within the Pension Trust. Mr. Schulz recommended reducing the number of non-US manager mandates which would lower management fees, reduce tracking error and complexity, and realize investment and administrative efficiencies.

Mr. Schulz's recommendations are as follows:

Transition State Street Global Advisers International Alpha and Clifton EAFE Index mandates to a Pure Passive MSCI World ex-US mandate.

Transition the UBS Emerging Market Equity and PanAgora Diversified Risk Emerging Markets Equity Plus mandates to passive mandates in advance of the completion of a new mandate search.

Transition the assets currently managed by Calamos to the existing Epoch Global Choice mandate due to poor performance and organizational changes at Calamos.

The SIB congratulated Mr. Schulz for all of his due diligence, research, and excellent work on the first phase of a well thought out restructuring proposal of the portfolio.

After discussion,

IT WAS MOVED BY MR. SAGE AND SECONDED BY TREASURER SCHMIDT AND CARRIED ON A ROLL CALL VOTE TO ACCEPT STAFF'S RECOMMENDATIONS ON THE FIRST PHASE OF RESTRUCTURING THE GLOBAL PUBLIC EQUITY PORTFOLIO WITHIN THE PENSION TRUST.

AYES: MS. TERNES, MR. CORNEIL, COMMISSIONER HAMM, MR. SANDAL, TREASURER SCHMIDT, MR. ENGLESON, MR. GESSNER, MR. TRENBEATH, MR. LECH, MR. SAGE, AND LT. GOVERNOR WRIGLEY

NAYS: NONE

MOTION CARRIED

The SIB recessed at 10:15 am and reconvened at 10:30 am

GOVERNANCE:

Audit Committee Report - Mr. Gessner updated the SIB on the Audit Committee's activities for fiscal year July 1, 2012 - June 30, 2013. Forty-five TFFR school district audits were completed with four follow up reviews of not-in-compliance audits. The TFFR Benefits Payment, File Maintenance, and SIB Executive Limitations audits were also completed.

The Audit Committee received results of the financial audit of RIO for fiscal year ended June 30, 2012, from independent auditors, CliftonLarsonAllen. An unqualified opinion was issued on RIO's financial statements.

Ms. Kopp also informed the SIB, CliftonLarsonAllen has submitted a draft audit report of RIO's financial audit for fiscal year ended June 30, 2013, to the State Auditor's Office. There were no exceptions, recommendations, or findings. CliftonLarsonAllen will review the results of the report with the Audit Committee at their November 22, 2013, regular meeting.

Ms. Kopp also noted TFFR is celebrating its 100 year centennial, 1913 - 2013. The TFFR Board at their October 24, 2013, meeting recognized TFFR for its many years of service to ND educators.

Ms. Kopp also mentioned this year the SIB is 50 years old. The SIB was created by the 1963 Legislative Assembly.

IT WAS MOVED BY TREASURER SCHMIDT AND SECONDED BY MR. CORNEIL AND CARRIED ON A VOICE VOTE TO ACCEPT THE ANNUAL AUDIT COMMITTEE ACTIVITIES REPORT.

AYES: MR. GESSNER, MR. ENGLESON, MR. SAGE, MS. TERNES, TREASURER SCHMIDT, MR. LECH, COMMISSIONER HAMM, MR. CORNEIL, MR. TRENBEATH, MR. SANDAL, AND LT. GOVERNOR WRIGLEY

NAYS: NONE

MOTION CARRIED

EXECUTIVE DIRECTOR/CHIEF INVESTMENT OFFICER CANDIDATE INTERVIEW:

Mr. Kennedy reviewed with the SIB the subject matter Mr. David Hunter has been preparing to present to the SIB.

The SIB began their interview of Mr. Hunter at 10:30 am.

Mr. Hunter presented his recommendations for structuring a fixed income asset class for an income oriented investor and also examples of leadership successes that he has had with current and past employers.

The SIB followed up with questions and the interview concluded at 12:00 pm.

Ms. Karen Huang, Korn/Ferry, joined the meeting by teleconference and reviewed the results and also shared her insights of an on-line self assessment Mr. Hunter had completed on behalf of Korn/Ferry. The assessment was completed to identify Mr. Hunter's individual strengths and potential areas for development. After Ms. Huang's summary of the assessment, the SIB discussed Mr. Hunter's background, qualifications, and overall impressions.

Mr. Kennedy also shared with the SIB information Korn/Ferry had obtained from additional reference checks completed on Mr. Hunter and all were favorable.

After discussion,

IT WAS MOVED BY MR. SAGE AND SECONDED BY MR. CORNEIL AND CARRIED ON A ROLL CALL VOTE TO OFFER MR. DAVID HUNTER THE POSITION OF ED/CIO OF THE RETIREMENT AND INVESTMENT OFFICE.

AYES: MR. SANDAL, TREASURER SCHMIDT, MS. TERNES, MR. LECH, MR. CORNEIL, MR. TRENBEATH, MR. ENGLESON, MR. GESSNER, COMMISSIONER HAMM, MR. SAGE, AND LT. GOVERNOR WRIGLEY

NAYS: NONE

MOTION CARRIED

MR. SANDAL MOVED AND MR. LECH SECONDED TO OFFER THE SAME COMPENSATION PACKAGE AS WAS PREVIOUSLY OFFERED: AN ANNUAL SALARY OF \$210,000, RELOCATION EXPENSES UP TO \$8,000 (VERIFIABLE BY RECEIPTS), 20 DAYS OF VACATION, AND OTHER STANDARD STATE BENEFITS. THE OFFER IS CONTINGENT UPON ADDITIONAL REFERENCE CHECKS BY KORN/FERRY AND A BACKGROUND CHECK BY THE STATE OF ND.

AYES: MR. TRENBEATH, MR. SAGE, MR. GESSNER, MR. ENGLESON, MS. TERNES, COMMISSIONER HAMM, MR. SANDAL, MR. LECH, MR. CORNEIL, TREASURER SCHMIDT, AND LT. GOVERNOR WRIGLEY

NAYS: NONE
MOTION CARRIED

Mr. Kennedy will contact Mr. Hunter on the offer as soon as possible. The SIB requested a response from Mr. Hunter on the offer by 5:00 pm, Tuesday, October 29, 2013.

Commissioner Hamm and Mr. Kennedy were disconnected from the teleconference call at 1:00 pm. Ms. Heit had scheduled the call from 8:00 am - 1:00 pm.

Staff will contact Mr. Kennedy to coordinate a background check with Mr. Hunter prior to him departing Bismarck.

OTHER:

IT WAS MOVED BY TREASURER SCHMIDT AND SECONDED BY MR. SAGE AND CARRIED ON A VOICE VOTE TO ACCEPT THE SEPTEMBER 30, 2013, QUARTERLY MONITORING REPORTS.

AYES: MR. GESSNER, MR. ENGLESON, MR. SAGE, TREASURER SCHMIDT, MR. LECH, MR. CORNEIL, MR. TRENBEATH, MR. SANDAL, MS. TERNES, AND LT. GOVERNOR WRIGLEY

NAYS: NONE

MOTION CARRIED

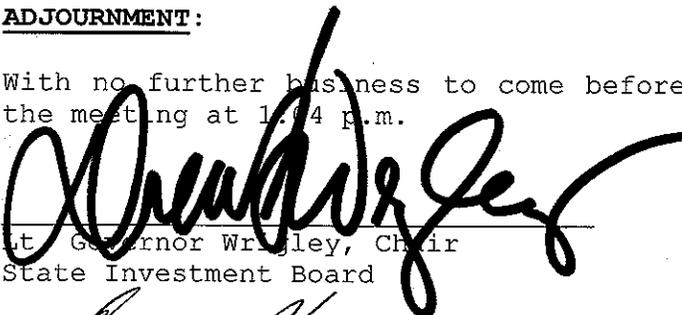
ABSENT: COMMISSIONER HAMM

The next SIB meeting is scheduled for November 22, 2013, at 8:30 am at the Peace Garden Room, State Capitol, Bismarck, ND.

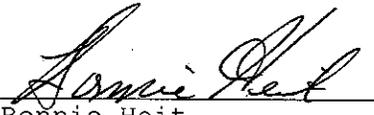
The next SIB Audit Committee meeting is scheduled for November 22, 2013, at 1:00 pm at the Peace Garden Room, State Capitol, Bismarck, ND.

ADJOURNMENT:

With no further business to come before the SIB, Lt. Governor Wrigley adjourned the meeting at 1:04 p.m.



Lt. Governor Wrigley, Chair
State Investment Board



Bonnie Heit
Assistant to the Board