

**NORTH DAKOTA STATE INVESTMENT BOARD
MINUTES OF THE
FEBRUARY 28, 2014, BOARD MEETING**

BOARD MEMBERS PRESENT: Drew Wrigley, Lt. Governor, Chair
Mike Sandal, Vice Chair
Clarence Corneil, TFFR (Parliamentarian, telecon)
Lance Gaebe, Land Commissioner
Mike Gessner, TFFR Board
Adam Hamm, Insurance Commissioner
Rob Lech, TFFR Board
Howard Sage, PERS Board
Kelly Schmidt, State Treasurer
Cindy Ternes, Workforce Safety & Insurance designee
Kim Wassim, PERS Board

STAFF PRESENT: Connie Flanagan, Fiscal & Investment Op Mgr
Bonnie Heit, Assistant to the SIB
David Hunter, ED/CIO
Fay Kopp, Deputy ED/CRO
Cody Schmidt, Compliance Officer
Darren Schulz, Deputy CIO
Susan Walcker, Investment Accountant

OTHERS PRESENT: Jeff Engleson, Deputy Land Commissioner
Levi Erdmann, former SIB & PERS trustee
Paul Erlendson, Callan Associates
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, February 28, 2014, at the State Capitol, Peace Garden Room, 600 E Boulevard, Bismarck, ND.

A quorum was present for the purpose of conducting business.

AGENDA:

IT WAS MOVED BY COMMISSIONER GAEBE AND SECONDED BY MR. LECH AND CARRIED ON A VOICE VOTE TO ACCEPT THE AGENDA FOR THE FEBRUARY 28, 2014, MEETING.

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

NAYS: NONE

MOTION CARRIED

MINUTES:

The minutes were considered from the January 24, 2014, meeting.

IT WAS MOVED BY TREASURER SCHMIDT AND SECONDED BY COMMISSIONER HAMM AND CARRIED ON A VOICE VOTE TO ACCEPT THE JANUARY 24, 2014, MINUTES AS WRITTEN.

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

NAYS: NONE
MOTION CARRIED

INVESTMENTS:

Callan - Mr. Erlendson provided commentary on the status of the markets and performance of the Pension and Insurance Trusts for the quarter ending December 31, 2013.

IT WAS MOVED BY TREASURER SCHMIDT AND SECONDED BY MR. SAGE AND CARRIED ON A VOICE VOTE TO ACCEPT THE REPORTS GIVEN BY CALLAN.

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

The SIB recessed at 10:00 a.m. and reconvened at 10:15 a.m.

Peer Performance - Mr. Hunter stated for the 1 and 3 year periods ended December 31, 2013, the Pension Funds generated gross returns of 17.1% and 9.9% respectively which rank in the 2nd quartile of Callan's public fund sponsor database. For the 5 years ending December 31, 2013, the Funds generated a 11.7% return which ranked in the 3rd quartile.

The Insurance Funds generated gross returns of 5.2% and 8.1% for the 1 and 5 year periods ended December 31, 2013, respectively. These returns were approximately 2% higher than the policy benchmark and benefitted from strong manager selection.

Fee & Custody Review - Mr. Hunter informed the SIB staff would like to conduct an in-depth custodial review of The Northern Trust to confirm service standards and fee levels in conjunction with an outside consultant. Mr. Hunter requested authorization to move forth on the review.

IT WAS MOVED BY TREASURER SCHMIDT AND SECONDED BY MR. SANDAL AND CARRIED ON A VOICE VOTE TO ACCEPT STAFF RECOMMENDATION TO CONDUCT A CUSTODIAL REVIEW OF THE NORTHERN TRUST.

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

Mr. Hunter also reviewed fee activity. Staff's restructuring of the Pension Global Equity mandate in December 2013 will generate cost savings. Staff has also been conducting relationship reviews to confirm the reasonableness of investment management fees and pursuing fee reductions wherever possible which has generated positive results thus far with a number of managers.

A targeted fee study will also be completed. Staff will be looking at independent third parties to complete the study and will bring back a recommendation to the SIB.

Risk Review & Attribution Analysis - Mr. Schulz reviewed the Pension Trust's risk as measured by standard deviation. During the last 5 years, the Pension Trust's risk has declined by 67% from 11.8% to 3.9%. As a result, the Pension Trust peer risk rating improved to the lowest, 10% or 93rd percentile, in the last year. A low volatility environment for equities contributed to the reduction as well as the restructuring of the fixed income portfolio. Staff will continue to monitor the risk/return profiles of the investment portfolios.

IT WAS MOVED BY TREASURER SCHMIDT AND SECONDED BY MS. WASSIM AND CARRIED ON A VOICE VOTE TO ACCEPT THE PERFORMANCE, FEE, AND SERVICE REVIEW REPORTS.

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

NAYS: NONE

MOTION CARRIED

Watch List - Along with Callan's recommendations, staff also concurs to place PIMCO and Western Asset Management (WAMCO) on the Watch List due to recent management changes and securities litigation, respectively. Staff will be conducting on-site due diligence meetings with the firms and will provide updates to the SIB.

IT WAS MOVED BY MS. TERNES AND SECONDED BY COMMISSIONER GAEBE AND CARRIED BY A VOICE VOTE TO ACCEPT STAFF RECOMMENDATION AND PLACE PIMCO AND WAMCO ON THE WATCH LIST.

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

NAYS: NONE

MOTION CARRIED

Emerging Market Equity - Mr. Hunter stated as part of the restructuring of the global public equity portfolio within the Pension Trust staff is currently working with Callan to conduct an emerging market equity search. Staff will be making a recommendation to the SIB at a future meeting.

GOVERNANCE:

Technical Legislation Recommendation - Ms. Flanagan reviewed a bill draft to update sections 21-10-02 and 21-10-06 of the NDCC.

IT WAS MOVED BY TREASURER SCHMIDT AND SECONDED BY MS. TERNES AND CARRIED ON A VOICE VOTE TO ACCEPT STAFF'S DRAFT OF LEGISLATION TO AMEND AND REENACT SECTIONS 21-10-02 AND 21-10-06 OF THE NDCC RELATING TO MODIFICATIONS TO INVESTMENT POLICIES FOR AND FUNDS UNDER MANAGEMENT OF THE SIB.

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

NAYS: NONE

MOTION CARRIED

Public Employees Retirement System (PERS) & Legislative Audit & Fiscal Review Committee(LAFRC) - Mr. Hunter and Mr. Schulz met with the PERS Investment Subcommittee to clarify asset class definitions which will be shared with the SIB once completed.

Mr. Hunter stated at the last LAFRC on January 21, 2014, staff fielded questions from the LAFRC regarding the Teachers' Fund for Retirement (TFFR) funded ratio trends. Ms. Kopp has been working with TFFR's actuary, Segal, to address the LAFRC questions.

Staffing Update - Mr. Hunter provided an update on office staff. Staff has been addressing the following vacancies; Audit Supervisor, Information Technology Coordinator, and Investment Analyst.

Mountain States Investor Agenda - Mr. Hunter stated he and Mr. Schulz will be attending the Mountain States Institutional Investor Forum in Denver, CO on March 6, 2014. Mr. Hunter reviewed the agenda and also stated Mr. Erlendson will also be participating as a panelist.

Legal Update - Ms. Murtha reviewed the Halliburton appeal with the SIB. North Dakota recently joined other states in filing an amicus brief in the Halliburton appeal which is currently pending in The U.S. Supreme Court. The Supreme Court accepted the Halliburton case which has the potential to change securities litigation. The Supreme Court will review a precedent that has served as the foundation for shareholder suits for the past 25 years. The Halliburton appeal is requesting The Supreme Court overturn a 1988 ruling that permitted class-action lawsuits based on investors' belief in market prices that were skewed by misrepresentations or omissions. Ms. Murtha will keep the SIB briefed on the status of the Halliburton appeal.

Litigation Monitoring - Mr. Hunter stated staff will work with Ms. Murtha to draft a securities litigation policy for the SIB's consideration. The Northern Trust currently oversees all domestic class actions for the SIB with limited monitoring of foreign actions. Staff will also work with Ms. Murtha to identify a firm(s) to bring before the SIB to present an educational segment on securities litigation monitoring.

Meeting Dates 2014-15 - Staff reviewed a draft of regularly scheduled meetings of the SIB for the 2014-15 fiscal year and recommended nine meetings be scheduled per year instead of 11 which is what has normally been scheduled.

IT WAS MOVED BY MR. SANDAL AND SECONDED BY MR. SAGE AND CARRIED ON A ROLL CALL VOTE TO SCHEDULE 11 SIB MEETINGS FOR THE 2014-15 FISCAL YEAR.

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

NAYS: NONE

MOTION CARRIED

ABSENT: MR. CORNEIL

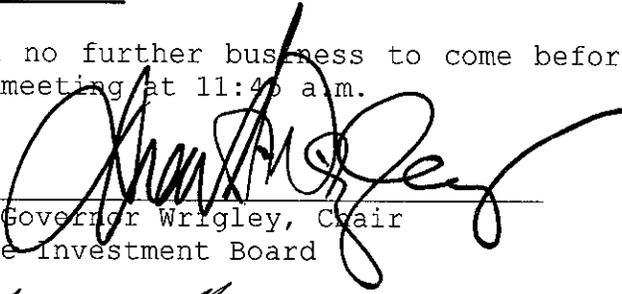
OTHER:

The next SIB meeting is scheduled for March 28, 2014, at 8:30 am at the Peace Garden Room, State Capitol, Bismarck, ND.

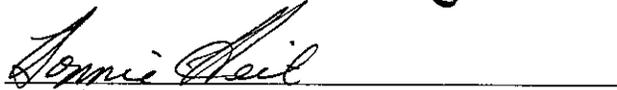
The next SIB Audit Committee meeting is scheduled for February 28, 2014, at 1:00 pm at the Peace Garden Room, State Capitol, Bismarck, ND.

ADJOURNMENT :

With no further business to come before the SIB, Lt. Governor Wrigley adjourned the meeting at 11:40 a.m.



Lt. Governor Wrigley, Chair
State Investment Board



Bonnie Heit
Assistant to the Board