

**NORTH DAKOTA STATE INVESTMENT BOARD  
MINUTES OF THE  
SEPTEMBER 26, 2014, BOARD MEETING**

**MEMBERS PRESENT:** Drew Wrigley, Lt. Governor, Chair  
Mike Sandal, Vice Chair  
Clarence Corneil, Parliamentarian, TFFR Board  
Lance Gaebe, Land Commissioner  
Mike Gessner, TFFR Board  
Rob Lech, TFFR Board  
Kelly Schmidt, State Treasurer  
Yvonne Smith, PERS Board  
Cindy Ternes, WSI designee  
Tom Trenbeath, PERS Board

**BOARD MEMBERS ABSENT:** Adam Hamm, Insurance Commissioner

**STAFF PRESENT:** Connie Flanagan, Fiscal & Invt Op Mgr  
Bonnie Heit, Assist to the SIB  
David Hunter, ED/CIO  
Fay Kopp, Dep. ED/CRO  
Cody Schmidt, Compliance Officer  
Darren Schulz, Dep. CIO  
Susan Walcker, Invt Acct

**OTHERS PRESENT:** Jeff Engleson, Land Dept.  
Eric Hardmeyer, BND  
Bob Humann, BND  
Mel Olson, TFFR Board  
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 8:34 a.m. on Friday, September 26, 2014, at the Peace Garden Room, State Capitol, Bismarck, ND.

Commissioner Hamm was absent attending a National Association of Insurance Commissioners meeting where he serves as President.

**AGENDA:**

**IT WAS MOVED BY MR. SANDAL AND SECONDED BY MR. GESSNER AND CARRIED ON A VOICE VOTE TO ACCEPT THE AGENDA FOR THE SEPTEMBER 26, 2014, MEETING AS DISTRIBUTED.**

**AYES: TREASURER SCHMIDT, MR. GESSNER, MS. TERNES, COMMISSIONER GAEBE, MS. SMITH, MR. LECH, MR. SANDAL, MR. TRENBEATH, MR. CORNEIL, AND LT. GOVERNOR WRIGLEY**

**NAYS: NONE**

**MOTION CARRIED**

**ABSENT: COMMISSIONER HAMM**

MINUTES:

IT WAS MOVED BY MR. GESSNER AND SECONDED BY MS. TERNES AND CARRIED ON A VOICE VOTE TO APPROVE THE AUGUST 22, 2014, MINUTES AS DISTRIBUTED.

AYES: MS. SMITH, MR. SANDAL, MR. CORNEIL, MR. GESSNER, MR. LECH, MR. TRENBEATH, MS. TERNES, COMMISSIONER GAEBE, TREASURER SCHMIDT, AND LT. GOVERNOR WRIGLEY

NAYS: NONE

MOTION CARRIED

ABSENT: COMMISSIONER HAMM

INVESTMENT MANAGEMENT FEES AND EXPENSES:

Mr. Hunter provided fee and assets under management (AUM) comparisons for Fiscal Years ending 2013 and 2014. For the Fiscal Years 2013 and 2014, fees/expenses were \$44,703,232 and \$43,233,477 and AUM \$6,905,312,561 and \$8,632,237,726, respectively.

Between Fiscal Years 2013 and 2014 the investment management fees and expenses for the Pension Trust (as a percent of average assets under management) declined by 14% or 11 basis points while the Insurance Trust declined by 31% or 13 basis points.

CALLAN CUSTODY AND FEE REVIEW:

Staff met with Callan representatives on September 22, 2014, and reviewed preliminary results of the custody and fee study of The Northern Trust. Results indicate the services provided by The Northern Trust are adequate and timely and are in line with other major trust providers. Callan representatives will present the results of the study at a future SIB meeting.

On April 1, 2014, The Northern Trust reduced their fees which is estimated to bring over \$600,000 in annual savings; \$340,000 for the Pension Trust and \$260,000 for the Insurance Trust clients.

Mr. Hunter reviewed strategic initiatives as of September 26, 2014. Discussion was held on the Carver Governance Model and if the SIB should continue with the Carver Model or explore other alternatives. Mr. Hunter and several board members felt overall the model has worked well for the SIB and felt the SIB should continue with the model. Mr. Hunter indicated he has made tentative arrangements with Carver representatives to review the Carver Governance Model at the November 21, 2014, board meeting.

The SIB also discussed scheduling an annual retreat preferably after the legislative session. Staff will look into making those arrangements and report back to the board.

BANK OF NORTH DAKOTA (BND):

BND representatives Mr. Hardmeyer and Mr. Humann reviewed the BND and SIB Match Loan Program relationship. To date, the SIB has committed \$200 million (on a revolving basis) to the program. The BND is requesting an additional commitment of \$100 million from the SIB along with a 10 year fixed rate option instead of

the current 5 year fixed rate option. The BND is aware of several large projects that could request a total of \$120 million in funding.

After discussion, the SIB directed staff to conduct an analysis of the SIB's current funding source to the program and report back to the board. The SIB currently funds the program through the Budget Stabilization Fund and staff felt other or better alternatives should be explored.

The Board recessed at 9:50 a.m. and reconvened at 10:03 a.m.

Mr. Trenbeath was absent.

**GOVERNANCE REVIEW:**

Mr. Hunter reviewed the SIB's Carver Governance Policy Manual and also reviewed first readings of suggested amendments to policies.

Lt. Governor Wrigley left the meeting at 11:15 a.m. and Mr. Sandal officiated over the remainder of the meeting.

Under review of Board-Staff Relationship/Monitoring Executive Performance, Mr. Hunter distributed a draft of a Summary of Executive Governance Policy Monitoring. The Audit Supervisor, once on board, will be responsible for monitoring the Executive Director's adherence to governance policies and will present those findings to the SIB Audit Committee. Once reviewed by the SIB Audit Committee, the summary will then be made available to the SIB as part of the formal evaluation of the Executive Director in February 2015.

The SIB requested legal council to provide clarification on the following sections of the bylaws and report back to the board:

Chapter 2, Board, Section 2-3; When the statutes allow a Deputy to represent a member of the SIB or an alternate to represent the TFFR or PERS Board, the Chair will recognize the individual for the record, and the individuals (s) will then have the right to vote on matters before the SIB.

Chapter 5, Committees, Section 5-2; No member of the SIB will be paid, other than expenses, for attending seminars, conferences, or other such educational meetings.

**IT WAS MOVED BY TREASURER SCHMIDT AND SECONDED BY MR. LECH AND CARRIED BY A ROLL CALL VOTE TO ACCEPT THE FIRST READING OF AMENDMENTS TO THE GOVERNANCE POLICIES.**

**AYES: TREASURER SCHMIDT, MR. CORNEIL, COMMISSIONER GAEBE, MR. LECH, MR. SANDAL, MR. GESSNER, MS. SMITH, AND MS. TERNES**

**NAYS: NONE**

**MOTION CARRIED**

**ABSENT: COMMISSIONER HAMM, MR. TRENBEATH, LT. GOVERNOR WRIGLEY**

Mr. Hunter will submit the amended policies for a second reading and adoption at the October 24, 2014, meeting. Policy amendments are retained at RIO for 30 years per state guidelines.

**BUDGET REVIEW:**

Ms. Flanagan reviewed the status of RIO's budget as of June 30, 2014, for the 2013-15 biennium and the budget request for the 2015-17 biennium.

**IT WAS MOVED BY MR. GESSNER AND SECONDED BY MR. LECH AND CARRIED ON A VOICE VOTE TO ACCEPT THE BUDGET REPORT.**

**AYES: MS. TERNES, MR. CORNEIL, TREASURER SCHMIDT, COMMISSIONER GAEBE, MR. LECH, MR. SANDAL, MS. SMITH, AND MR. GESSNER**

**NAYS: NONE**

**MOTION CARRIED**

**ABSENT: COMMISSIONER HAMM, MR. TRENBEATH, LT. GOVERNOR WRIGLEY**

**STAFFING UPDATE:**

Mr. Hunter stated the Audit Supervisor position is expected to be filled on October 13, 2014, and the Investment Analyst position is expected to be filled by November 30, 2014.

**EXECUTIVE REVIEW COMMITTEE:**

Mr. Lech stated the Executive Review Committee met on September 18, 2014, with Mr. Hunter and reviewed the evaluation process, governance policies as they relate to the Executive Director's annual evaluation, and a draft of Mr. Hunter's annual goals.

The Executive Review Committee, Mr. Lech, Chair, Mr. Sandal, and Ms. Ternes felt the Committee completed its tasks and unless the SIB determined otherwise, the Committee is considered resolved.

Mr. Lech stated he will however administer the executive assessment survey to the SIB and compile the results at the appropriate timeframes. He would also be willing to serve on the next cycle of the Executive Review Committee when the Chair appoints that Committee.

**GFOA CERTIFICATE:**

Mr. Hunter informed the SIB the Government Finance Officers Association has awarded a Certificate of Achievement for Excellence in Financial Reporting to RIO for the 16<sup>th</sup> consecutive year. Mr. Hunter and the SIB recognized and thanked the fiscal management staff for their outstanding performance.

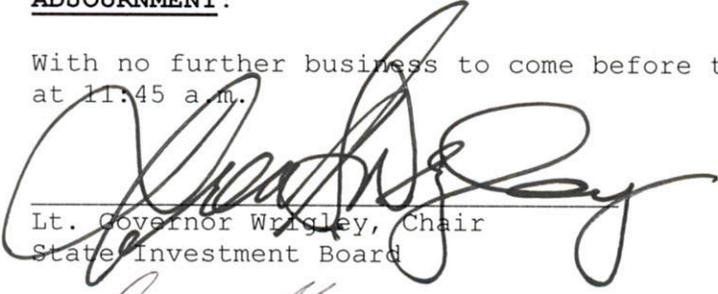
**OTHER:**

Mr. Hunter informed the board PIMCO co-founder and Chief Investment Officer, Mr. Bill Gross, resigned from PIMCO September 26, 2014, and will join Janus Capital Group on September 29, 2014. Mr. Hunter stated a meeting had previously been scheduled with the SIB's PIMCO relationship team to review the SIB's mandates on Thursday, October 2, 2014, at 10:00 am, at RIO and that the departure of Mr. Gross will also be addressed. Mr. Hunter stated all board members are welcome to attend and that he will provide an update at the October 24, 2014, meeting.

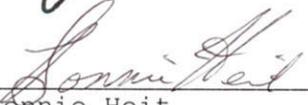
Next SIB Meeting - October 24, 2014, 8:30 a.m. - State Capitol, Peace Garden Room  
Next SIB Audit Committee meeting - October 24, 2014, 1:00 p.m. - State Capitol,  
Peace Garden Room

**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