

**NORTH DAKOTA STATE INVESTMENT BOARD
MINUTES OF THE
OCTOBER 24, 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
Adam Hamm, Insurance Commissioner (TLCF)
Rob Lech, TFFR Board
Kelly Schmidt, State Treasurer
Yvonne Smith, PERS Board
Cindy Ternes, WSI designee
Tom Trenbeath, PERS Board

STAFF PRESENT:

Terra Miller-Bowley, Supvr Audit Services
Connie Flanagan, Fiscal & Invt Op Mgr
Bonnie Heit, Assist to the SIB
David Hunter, ED/CIO
Cody Schmidt, Compliance Officer
Susan Walcker, Invt Acct

OTHERS PRESENT:

Bo Abesamis III, Callan
Eric Hardmeyer, BND
Mark Kinoshita, Callan
Bryan Klipfel, WSI
Jan Murtha, Attorney General's Office
Tim Porter, BND
Bill Priest, Epoch
Jeff Ulness, Epoch

CALL TO ORDER:

Lt. Governor Wrigley called the State Investment Board (SIB) meeting to order at 8:30 a.m. on Friday, October 24, 2014, at the Peace Garden Room, State Capitol, Bismarck, ND.

AGENDA:

IT WAS MOVED BY MR. LECH AND SECONDED BY MR. GESSNER AND CARRIED ON A VOICE VOTE TO ACCEPT THE AGENDA FOR THE OCTOBER 24, 2014, MEETING AS DISTRIBUTED.

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

NAYS: NONE

MOTION CARRIED

ABSENT: COMMISSIONER GAEBE

MINUTES:

IT WAS MOVED BY TREASURER SCHMIDT AND SECONDED BY MR. CORNEIL AND CARRIED ON A VOICE VOTE TO APPROVE THE SEPTEMBER 26, 2014, MINUTES AS DISTRIBUTED.

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

NAYS: NONE

MOTION CARRIED

ABSENT: COMMISSIONER GAEBE

EPOCH:

Mr. Priest provided an update on Epoch Investment Partners, the firm's investment philosophy/process, capital markets, and also reviewed the SIB's global equity strategy mandate.

BANK OF ND (BND):

Mr. Hunter and Mr. Hardmeyer reviewed a revised Match Loan CD Program (Program) proposal from the BND. The BND is amending their request for an increase in commitment from \$300 million to \$250 million (currently at \$200 million on a revolving basis) and eliminating the fixed rate term extension request. The BND initially proposed lengthening the fixed interest rate term from 5 years to 10 years.

Staff recommended and the SIB concurred to not increase the Program's size at this time given the interest rate earned on the investment is based on fixed rate U.S. treasury notes which have declined significantly in 2014. Staff will continue to monitor the Program because it has been successful since it was first implemented in 1992. In the event interest rates were to change significantly in the future, staff will reassess the Program size and its risk, return, and liquidity profile within the overall Budget Stabilization Fund investment portfolio.

Discussion was held on other options for funding the Program besides the Budget Stabilization Fund. At this time, the SIB does not have an existing client that would work with the Program's overall minimum expected return of less than 2 percent.

Discussion was also held on whether the Legacy Fund would be a better option to fund a long term investment for the Program. Mr. Hunter will be meeting with the Legacy and Budget Stabilization Fund Advisory Board on October 28, 2014, and will address this issue with them and will follow-up with the SIB.

The SIB recessed at 9:58 a.m. and reconvened at 10:11 a.m.

CALLAN CUSTODY REVIEW:

Callan representatives reviewed the results of the custody and fee study of The Northern Trust Company (TNT). The results indicate the services provided by TNT are sufficient and responsive to RIO and the SIB's trust requirements. Results also indicated the fee structure is comparable to other custody providers. Callan compared TNT to the top four custody providers and recommended the SIB maintain the current service structure and fee arrangement.

IT WAS MOVED BY TREASURER SCHMIDT AND SECONDED BY MR. SANDAL AND CARRIED ON A VOICE VOTE TO ACCEPT THE CALLAN CUSTODY AND FEE REVIEW.

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

NAYS: NONE

MOTION CARRIED

ABSENT: MR. LECH

CALLAN SECURITIES LENDING REVIEW:

Mr. Abesamis reviewed the components of securities lending in today's economy and how it is deployed around the world.

Callan also completed a study of TNT securities lending options and Mr. Abesamis reviewed the proposals available to the SIB if they would choose to implement a securities lending program. Callan recommended the SIB implement the common industry approach which is an 80/20 split as long as the program structure is an overnight intrinsic indemnified US Treasury REPO with the commensurate indemnity for operational and borrower default risk. TNT representatives will be at the SIB's November 21, 2014, meeting to review the proposal.

GOVERNANCE POLICY AMENDMENT:

The SIB received a second reading of the Governance Policy amendments previously reviewed at the September 26, 2014, meeting. Staff requested board acceptance.

IT WAS MOVED MS. TERNES AND SECONDED BY MR. CORNEIL AND CARRIED BY A ROLL CALL VOTE TO ACCEPT THE GOVERNANCE POLICY REVISIONS.

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

NAYS: NONE

MOTION CARRIED

ABSENT: MR. LECH, TREASURER SCHMIDT

ED/CIO ANNUAL GOALS:

Mr. Hunter distributed a summary of his annual goals. These goals were previously reviewed by the Executive Review Committee and are aligned with Governance Policy.

The SIB also received a summary of the responses to the SIB client satisfaction survey for the period of July 1, 2013 through June 30, 2014. The SIB's clients rated the SIB's service as excellent or above average in all categories.

QUARTERLY MONITORING:

The following Executive Director/CIO governance policy monitoring reports for the quarter ending September 30, 2014, were presented for consideration; Executive Limitations/Staff Relations, Budget/Financial Conditions, Investment Program, and Retirement Program.

Mr. Hunter introduced Ms. Terra Miller-Bowley. Ms. Miller-Bowley began her duties as RIO's Supervisor of Audit Services effective October 13, 2014.

IT WAS MOVED BY MR. SANDAL AND SECONDED BY MS. SMITH AND CARRIED ON A VOICE VOTE TO ADOPT THE SEPTEMBER 30, 2014, GOVERNANCE POLICY MONITORING REPORTS.

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

NAYS: NONE

MOTION CARRIED

ABSENT: MR. LECH, TREASURER SCHMIDT

Mr. Hunter commented on PIMCO who is currently on the Watch List due to the recent departure of Mr. Gross and other senior personnel. Staff continues to closely monitor the SIB's mandates with PIMCO. Mr. Hunter indicated he and Mr. Schulz will be conducting an on-site visit with the SIB's PIMCO team on November 6, 2014, and will follow-up with the board.

OTHER:

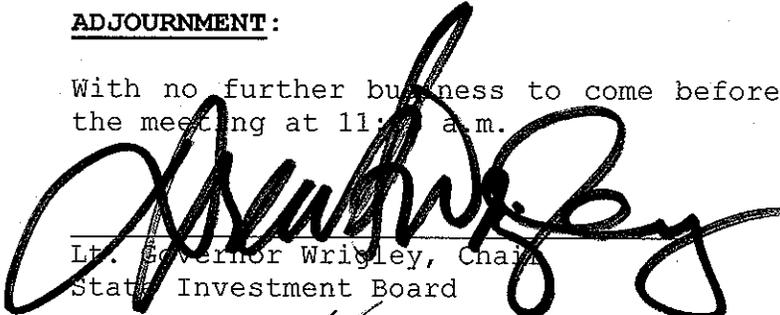
Next scheduled meetings:

SIB Meeting - November 21, 2014, 8:30 a.m. - State Capitol, Brynhild Haugland Room

SIB Audit Committee meeting - October 24, 2014, 1:00 p.m. - State Capitol, Brynhild Haugland Room

ADJOURNMENT:

With no further business to come before the SIB, Lt. Governor Wrigley adjourned the meeting at 11:00 a.m.


 Lt. Governor Wrigley, Chair
 State Investment Board


 Bonnie Heit
 Assistant to the Board