

**NORTH DAKOTA STATE INVESTMENT BOARD
MINUTES OF THE
JANUARY 23, 2015, BOARD MEETING**

MEMBERS PRESENT:

Drew Wrigley, Lt. Governor, Chair
Mike Sandal, Vice Chair
Lance Gaebe, Land Commissioner
Mike Gessner, TFFR Board
Adam Hamm, Insurance Commissioner
Rob Lech, TFFR Board
Mel Olson, TFFR Board
Kelly Schmidt, State Treasurer
Yvonne Smith, PERS Board
Cindy Ternes, WSI designee
Tom Trenbeath, PERS Board

STAFF PRESENT:

Eric Chin, Investment Analyst
Connie Flanagan, Fiscal & Invt Op Mgr
Bonnie Heit, Assist to the SIB
David Hunter, ED/CIO
Fay Kopp, Deputy ED/CRO
Terra Miller-Bowley, Supvr Audit Services
Cody Schmidt, Compliance Officer
Darren Schulz, Deputy CIO
Susan Walcker, Invt Acct

OTHERS PRESENT:

Bryan Klipfel, WSI
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, January 23, 2015, at Workforce Safety & Insurance, 1600 E Century Ave., Bismarck, ND.

The SIB welcomed Mr. Mel Olson. Mr. Olson will be representing the Teachers' Fund for Retirement (TFFR) on the SIB.

AGENDA:

IT WAS MOVED BY MR. TRENBEATH AND SECONDED BY MR. GESSNER AND CARRIED ON A VOICE VOTE TO ACCEPT THE AGENDA FOR THE JANUARY 23, 2015, MEETING AS DISTRIBUTED.

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

NAYS: NONE

MOTION CARRIED

MINUTES:

IT WAS MOVED BY MS. TERNES AND SECONDED BY MS. SMITH AND CARRIED ON A VOICE VOTE TO APPROVE THE NOVEMBER 21, 2014, MINUTES AS DISTRIBUTED.

AYES: MR. LECH, TREASURER SCHMIDT, MS. TERNES, MS. SMITH, COMMISSIONER GAEBE, MR. GESSNER, COMMISSIONER HAMM, MR. OLSON, MR. TRENBEATH, MR. SANDAL, AND LT. GOVERNOR WRIGLEY
NAYS: NONE
MOTION CARRIED

APPOINTMENT OF PARLIAMENTARIAN:

Lt. Governor Wrigley asked for a volunteer to serve as Parliamentarian for the period of January 23, 2015 through June 30, 2015. Mr. Lech volunteered to serve for the remainder of the term vacated by Mr. Corneil.

INVESTMENTS:

Asset/Performance Review - Mr. Hunter updated the SIB on the status of the portfolios they manage on behalf of their clients. As of November 30, 2014, assets under management grew by approximately 18.5 percent or \$1.56 billion in the last year. The Pension Trust posted a net return of over 7.9 percent with gains of \$349 million. The Insurance Trust generated a net return of 5.6 percent with gains of \$222 million. The Legacy Fund's net return was 4.8 percent and increased by 73 percent or \$1.2 billion for the year ended November 30, 2014. SIB client assets approximated \$10 billion as of November 30, 2014, based on unaudited valuations.

Novarca and Callan Fee Study Update - Mr. Hunter stated Callan provided the results of its comprehensive review of the SIB investment manager fee structures for the fiscal year ending June 30, 2014, at the SIB's November 21, 2014, meeting. After further review and discussion with Novarca, staff recommended the scope of the Novarca fee study be expanded to also include other higher cost investment strategies such as World Equity.

IT WAS MOVED BY MR. SANDAL AND SECONDED BY MR. TRENBEATH AND CARRIED BY A ROLL CALL VOTE TO ACCEPT STAFF RECOMMENDATION TO EXPAND THE SCOPE OF NOVARCA'S FEE STUDY TO ALSO INCLUDE WORLD EQUITY.

AYES: MR. GESSNER, COMMISSIONER HAMM, MS. SMITH, MR. OLSON, MR. TRENBEATH, COMMISSIONER GAEBE, MR. SANDAL, TREASURER SCHMIDT, MS. TERNES, MR. LECH, AND LT. GOVERNOR WRIGLEY
NAYS: NONE
MOTION CARRIED

Infrastructure Update - Mr. Schulz provided an update on the infrastructure strategies. The SIB at their November 21, 2014, meeting committed up to \$30 million on behalf of the Pension Trust and up to \$75 million on behalf of the Legacy Fund to GCM Grosvenor Customized Infrastructure Strategies Fund II. Legal counsel completed their review of the contract which resulted in a lower management fee of .6 percent to .5 percent. The first close occurred on January 21, 2015.

Mr. Schulz also stated additional subscriptions were submitted in the fourth quarter for the Pension Trust and Insurance Trust of \$30 million and \$75 million respectively for the JP Morgan Infrastructure Investments Fund. The capital call will be made on February 3, 2015.

ADMINISTRATION:

Meeting Schedule 2015-16 - The 2015-16 SIB meeting schedule was presented for acceptance. The July 2015 meeting will be a governance day retreat.

IT WAS MOVED BY MR. GESSNER AND SECONDED BY MS. TERNES AND CARRIED BY A ROLL CALL VOTE TO ACCEPT THE 2015-16 SIB MEETING SCHEDULE.

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

NAYS: NONE

MOTION CARRIED

Executive Review/Survey Update - Mr. Hunter stated staff completed an employee opinion survey on the Executive Director/CIO during December 2014. There was 100 percent participation and the survey indicated that 78% "agree" or "strongly agree" with the ED/CIO effectiveness.

Mr. Hunter stated Ms. Miller Bowley is in the process of finalizing the Executive Limitations Audit for calendar year 2014. Part of the Executive Limitations audit also includes an evaluation of the ED/CIO by the SIB. The survey will be dispersed next week and the results compiled by Ms. Miller Bowley. The deadline for completion of the evaluation will be February 6, 2015. The Executive Limitation audit results will be presented to the SIB and the SIB Audit Committee at their February 2015, meetings.

QUARTERLY MONITORING:

Monitoring reports for the quarter ending December 31, 2014, were presented for consideration and acceptance: Budget/Financial Condition, Executive Limitations/Staff Relations, Investment Ends, Retirement Ends, and the Watch List.

Mr. Hunter provided comments on Staff Relations. The Employee Benefit Programs Specialist position was vacated on December 19, 2014. The position was posted and interviews were conducted on January 21, 2015. Staff is in the process of reviewing applications and an update will be provided at the next meeting.

Mr. Schulz provided comments on the "Watch List". Staff recommends PIMCO remain on the list due to previous personnel changes that have occurred. Staff recently learned Mr. Saumil Parikh, one of the portfolio managers on the SIB's Unconstrained strategy, recently departed ways with PIMCO. Staff is exploring options for the assets in the event the relationship would need to be terminated.

Staff recommends Timberland Investment Resources (TIR) remain on the list. The Springbank portfolio has a management and incentive fee agreement which will terminate on June 30, 2015. A review meeting was held on December 10, 2014, with staff. Treasurer Schmidt was also in attendance. TIR will be presenting an update on the timber portfolios at the February 27, 2015, SIB meeting.

Mr. Schulz also requested the UBS Global Bond ex-U.S. fixed income strategy with the Pension Trust be added to the list due to underperformance relative to its benchmark.

IT WAS MOVED BY TREASURER SCHMIDT AND SECONDED BY MS. TERNES AND CARRIED BY A VOICE VOTE TO ACCEPT THE QUARTERLY MONITORING REPORTS FOR THE PERIOD ENDING DECEMBER 31, 2014.

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

NAYS: NONE

MOTION CARRIED

GOVERNANCE:

Legislative Update - Mr. Hunter provided an update on legislative bills staff is tracking.

Investment Policy Statements - Mr. Hunter presented the following revised investment policy statements for the board's consideration: Legacy Fund, Budget Stabilization Fund, and Job Service.

IT WAS MOVED BY MS. SMITH AND SECONDED BY MS. TERNES AND CARRIED BY A ROLL CALL VOTE TO ACCEPT THE REVISED INVESTMENT POLICY STATEMENTS FOR THE LEGACY FUND AND THE JOB SERVICE PENSION PLAN.

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

NAYS: NONE

MOTION CARRIED

The Budget Stabilization investment policy statement was tabled for further review and discussion at the February 27, 2015, meeting.

New Clients - Mr. Hunter indicated the Tobacco Prevention & Control Trust representatives contacted him regarding contracting with the SIB for investment services. The Fund has a market value of approximately \$45 million as of December 31, 2014. This Fund would not be pooled with the existing clients' assets because the portfolio cannot be invested in tobacco companies. Staff is exploring options to develop a cost effective alternative with relatively low administrative costs.

Staff was also approached by the Department of Trust Lands to explore options for shared management of the Permanent Trust Investments of approximately \$3.5 billion. Staff and the Department of Trust Lands are looking at options where both RIO and the Department of Trust Lands would share in the oversight of the investment of the funds as well as the managers hired to invest those assets.

The SIB requested staff to continue to explore options for both proposals and report back to the board.

The board recessed at 9:40 am and reconvened at 9:55 a.m.

Governance Process Review - The Board reviewed Section B of the SIB Governance Manual on "Governance Process". Any modifications to the policies will be presented for a second review and possible acceptance at the next meeting.

Open Records/Meetings Review -

Ms. Murtha presented an educational segment on open records and meetings.

OTHER:

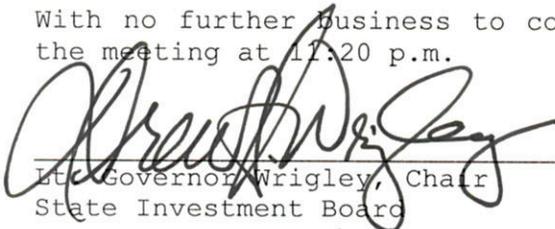
Next scheduled meetings:

SIB Meeting - February 27, 2015, 8:30 a.m. - Workforce Safety & Insurance

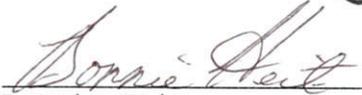
SIB Audit Committee Meeting - February 27, 2015, 1:00 p.m. - Workforce Safety & Insurance

ADJOURNMENT:

With no further business to come before the SIB, Lt. Governor Wrigley adjourned the meeting at 11:20 p.m.



Lt. Governor Wrigley, Chair
State Investment Board



Bonnie Heit
Assistant to the Board

