

**NORTH DAKOTA STATE INVESTMENT BOARD
MINUTES OF THE
FEBRUARY 27, 2015, BOARD MEETING**

MEMBERS PRESENT:

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

MEMBERS ABSENT:

Mike Gessner, TFFR Board
Rob Lech, TFFR 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

OTHERS PRESENT:

Paul Erlendson, Callan Associates Inc.
Tom Johnson, Timberland Investment Resources
Chris Mathis, Timberland Investment Resources
Jan Murtha, Attorney General's Office
Mark Seaman, Timberland Investment Resources

CALL TO ORDER:

Lt. Governor Wrigley called the State Investment Board (SIB) meeting to order at 8:30 a.m. on Friday, February 27, 2015, at Workforce Safety & Insurance, 1600 E Century Ave., Bismarck, ND.

AGENDA:

IT WAS MOVED BY MS. TERNES AND SECONDED BY MS. SMITH AND CARRIED ON A VOICE VOTE TO ACCEPT THE AGENDA FOR THE FEBRUARY 27, 2015, MEETING AS DISTRIBUTED.

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

NAYS: NONE

MOTION CARRIED

ABSENT: MR. GESSNER, MR. LECH

MINUTES:

IT WAS MOVED BY MR. TRENBEATH AND SECONDED BY MR. OLSON AND CARRIED ON A VOICE VOTE TO APPROVE THE JANUARY 23, 2015, MINUTES AS DISTRIBUTED.

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

NAYS: NONE

MOTION CARRIED

ABSENT: MR. GESSNER, MR. LECH

INVESTMENTS:

Asset/Performance Overview - Mr. Hunter updated the SIB on the status of the portfolios they manage on behalf of their clients. Highlights included - as of December 31, 2014, assets under management grew by approximately 18 percent or \$1.53 billion in the last year. The Pension Trust posted a net return of approximately 6.0 percent with gains of \$265 million. All Pension Trust clients generated positive excess returns for the 1, 3, and 5 year periods ended December 31, 2014. The Insurance Trust generated a net return of 5.1 percent with gains of \$204 million. Twelve out of 14 of the Insurance Trust's clients generated positive excess returns for the 1, 3, and 5 year periods ended December 31, 2014.

The Legacy Fund's net return was 4.2 percent and assets increased by 71 percent or \$1.2 billion for the year ended December 31, 2014. SIB client assets, based on unaudited valuations, approximated \$10.1 billion as of December 31, 2014. Mr. Hunter also informed the board the Legacy Fund's asset allocation has been fully implemented as of January 31, 2015. The asset allocation was approved by the Legacy and Budget Stabilization Fund Advisory Board on April 2, 2013, and accepted by the SIB for implementation on April 26, 2013.

Timberland Investment Resources (TIR) - TIR representatives reviewed the Springbank, Teredo, and Eastern Timber Opportunities timber portfolios they are currently managing on behalf of the SIB.

Additional discussion was held on the Springbank property. The management agreement for the property expires on June 30, 2015.

Callan Report - Mr. Erlendson reviewed the Pension and Insurance Trust's performance for the quarter ending December 31, 2014. Mr. Erlendson also provided Callan's economic outlook for both foreign and domestic markets for the same quarter.

IT WAS MOVED BY MR. TRENBEATH AND SECONDED BY TREASURER SCHMIDT AND CARRIED ON A VOICE VOTE TO ACCEPT THE CALLAN REPORTS FOR THE QUARTER ENDING DECEMBER 31, 2014.

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

NAYS: NONE

MOTION CARRIED

ABSENT: MR. GESSNER, MR. LECH

The Board recessed at 10:18 a.m. and reconvened at 10:33 a.m.

ADMINISTRATION:

Audit Committee Report - Ms. Miller Bowley reported on the SIB Audit Committee meeting held on February 26, 2015. Ms. Miller Bowley stated year to date a total of ten school district audits have been completed and one not in compliance follow up review has been completed for a total of eleven audits.

The Audit Committee also met separately with staff and RIO management. The Audit Committee is satisfied that the Audit Division and RIO Management are working cohesively within the organization.

The Audit Committee also reviewed and accepted the final results of the Executive Limitations Audit for the period of January 1, 2014 - December 31, 2014.

IT WAS MOVED BY MR. TRENBEATH AND SECONDED BY MR. OLSON AND CARRIED ON A VOICE VOTE TO ACCEPT THE AUDIT REPORT AS PRESENTED.

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

NAYS: NONE

MOTION CARRIED

ABSENT: MR. GESSNER, MR. LECH

Executive Limitations Audit - Ms. Miller Bowley stated the Executive Limitations Audit for the period of January 1, 2014 through December 31, 2014 has been completed. The audit examines the Executive Director/CIO's level of compliance with SIB Governance Manual Executive Limitation policies A-1 through A-11. The Audit Division and the Audit Committee is of the opinion that the Executive Director/CIO is in compliance with the policies.

IT WAS MOVED BY MS. SMITH AND SECONDED BY MR. TRENBEATH AND CARRIED ON A VOICE VOTE TO ACCEPT THE EXECUTIVE LIMITATIONS AUDIT REPORT.

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

NAYS: NONE

MOTION CARRIED

ABSENT: MR. GESSNER, MR. LECH

Executive Review Appointment - Per Governance Policy Board-Staff Relationship/Monitoring Executive Performance C-4, the Chairperson of the SIB will appoint a three member committee to review the board's evaluation of the Executive Director/CIO as well as the Executive Limitations Audit (both completed in February 2015) and bring back a recommendation to the full board regarding compensation. Lt. Governor Wrigley appointed Mr. Lech, Chair, Mr. Sandal, and Ms. Ternes.

Staff Update - Mr. Hunter stated RIO will be fully staffed March 3, 2015, with the appointment of Ms. Denise Osmond as Retirement Programs Specialist.

Callan Conference - Mr. Sandal attended Callan's annual conference January 26-28, 2015, in San Francisco, CA. Mr. Sandal stated the agenda was timely and appropriate given the issues the SIB is facing as well as pension boards across the country. Mr. Sandal stated the conference was very valuable educationally and recommended other trustees attend the conference if they have the opportunity.

Periodicals - Per Governance Policy, Governance Process/Governing Style 1.F., the Executive Director will provide the SIB with a list of periodicals available which would provide current information on pension issues. The board members will review and request subscriptions to appropriate periodicals.

Mr. Hunter provided a listing of pension and investment-related periodicals. Trustees are to let staff know if they are interested in any of the periodicals or any other educational materials and they will be provided to them.

GOVERNANCE :

Timberland Investment Resources Recommendation - Mr. Hunter stated TIR is requesting the SIB extend the term of the Springbank, LLC management agreement by seven years to June 30, 2022, in order to maximize future earnings. The current contract will expire on June 30, 2015, with the option for a one year extension. The agreement includes a 60-day termination notice.

The SIB owns 76 percent of the Springbank properties and the other 24 percent is owned by the Houston Firefighters Relief and Retirement Fund. TIR has managed the property since October 1, 2004. As of December 31, 2014, the market value was \$116 million.

TIR's recent returns have underperformed largely due to the slower economic recovery in the southeastern U.S. in which Springbank is located (along the I-75 corridor between Atlanta, GA and Chattanooga, TN). TIR has performed well over the long-term with an Inception to Date Net Internal Rate of Return of 12.3 percent. Springbank's net time weighted return since inception is approximately 7 percent.

Staff requested authorization to continue to move forward to negotiate market terms and fees along with the Houston Firefighters Relief and Retirement Fund. Staff is hoping to conclude negotiations within the next two to three months.

IT WAS MOVED BY TREASURER SCHMIDT AND SECONDED BY MR. SANDAL AND CARRIED BY A ROLL CALL VOTE TO ACCEPT STAFF RECOMMENDATION TO CONTINUE CONTRACT NEGOTIATIONS WITH TIR.

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

NAYS: NONE

MOTION CARRIED

AYES: MR. GESSNER, MR. LECH

Legislative Update - Mr. Hunter provided an update on legislative bills staff is tracking that could possibly affect the SIB and RIO. Lt. Governor Wrigley requested he be notified when hearings are scheduled for HCR3041 - a Legislative Management study which would consist of a comprehensive review and analysis of the investment practices by the state and SIB.

Budget Stabilization IPS - Acceptance of the Budget Stabilization Fund Investment Policy Statement by the SIB was tabled for further clarification. The SIB requested the Bank of North Dakota's (BND) confirm its understanding of the Budget Stabilization Fund's short-term liquidity requirements per NDCC Chapter 54.27.2 in writing. Mr. Hunter indicated Babson and JP Morgan stated they estimate their investment could be liquidated within 5 to 10 trading days. BND noted that its liquidity is strong and they have access to overnight funds in excess of \$600 million.

Governance Process Review -

IT WAS MOVED BY MR. SANDAL AND SECONDED BY TREASURER SCHMIDT AND CARRIED BY A ROLL CALL VOTE TO ACCEPT THE SECOND READING OF THE GOVERNANCE PROCESS SECTION OF THE GOVERNANCE POLICIES.

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

NAYS: NONE

MOTION CARRIED

ABSENT: MR. ENGLESON, MR. GESSNER, MR. LECH

The Board received the first reading of the Executive Limitations policies. The policies will be presented for a second reading and possible acceptance at the next meeting.

OTHER:

Next scheduled meetings:

SIB Meeting - March 27, 2015, 8:30 a.m. - Workforce Safety & Insurance
SIB Audit Committee Meeting - May 22, 2015, 1:00 p.m. - State Capitol, Peace Garden Room

ADJOURNMENT:

IT WAS MOVED MR. TRENBEATH AND SECONDED BY MS. SMITH AND CARRIED ON A VOICE VOTE TO ADJOURN THE MEETING.

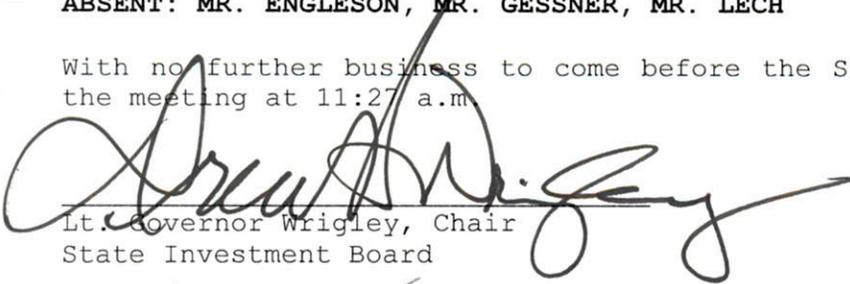
AYES: MR. OLSON, MR. TRENBEATH, COMMISSIONER HAMM, MS. SMITH, MR. SANDAL, TREASURER SCHMIDT, MS. TERNES, AND LT. GOVERNOR WRIGLEY

NAYS: NONE

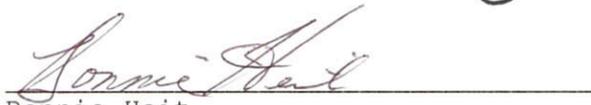
MOTION CARRIED

ABSENT: MR. ENGLESON, MR. GESSNER, MR. LECH

With no further business to come before the SIB, Lt. Governor Wrigley adjourned the meeting at 11:27 a.m.



Lt. Governor Wrigley, Chair
State Investment Board



Bonnie Heit
Assistant to the Board