

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

MEMBERS PRESENT:

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

MEMBERS ABSENT:

Adam Hamm, Insurance Commissioner

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:

Sarah Angus, Callan Associates Inc.
Jeff Engleson, Dept. Trust Lands
Levi Erdmann, Dept. Trust Lands
Paul Erlendson, Callan Associates Inc.
Jan Murtha, Attorney General's Office
Bryan Reinhardt, PERS

CALL TO ORDER:

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

Commissioner Hamm was absent attending a National Association of Insurance Commissioners meeting.

AGENDA:

IT WAS MOVED BY MR. TRENBEATH AND SECONDED BY MR. GESSNER AND CARRIED ON A VOICE VOTE TO ACCEPT THE AGENDA FOR THE MARCH 27, 2015, MEETING AS DISTRIBUTED.

AYES: COMMISSIONER GAEBE, TREASURER SCHMIDT, MR. OLSON, MS. TERNES, MR. GESSNER, MR. TRENBEATH, MR. LECH, AND MR. SANDAL

NAYS: NONE

MOTION CARRIED

ABSENT: COMMISSIONER HAMM, MS. SMITH, LT. GOVERNOR WRIGLEY

MINUTES:

IT WAS MOVED BY MR. LECH AND SECONDED BY MR. OLSON AND CARRIED ON A VOICE VOTE TO APPROVE THE FEBRUARY 27, 2015, MINUTES AS DISTRIBUTED.

AYES: MR. GESSNER, COMMISSIONER GAEBE, MS. TERNES, TREASURER SCHMIDT, MR. LECH, MR. OLSON, MR. TRENBEATH, AND MR. SANDAL

NAYS: NONE

MOTION CARRIED

ABSENT: COMMISSIONER HAMM, MS. SMITH, LT. GOVERNOR WRIGLEY

INVESTMENTS

Strategic Mission - Mr. Hunter highlighted strategic initiatives as of March 31, 2015.

Mr. Hunter also requested the SIB confirm the Retirement and Investment Office's (RIO) mission statement as defined in SIB Governance Policy, Ends/Mission, D-1.

The SIB reaffirmed the existing mission of RIO.

Callan Timber Consulting Capabilities - Ms. Sarah Angus, Callan Associates, reviewed Callan's timber consulting capabilities.

Timber Survey & Staff Recommendation - Staff surveyed 72 state public funds in an effort to solicit feedback concerning best in class consultants in the timberland asset class. Of the responses received, Callan Associates was the most often cited general consultant. Pension & Investments February 9, 2015 edition cited Callan as being the most often cited general investment consultant and the second most often cited overall consultant. Aon Hewitt was cited as the second most often general consultant and the most often cited overall consultant in this survey.

Staff recommended the SIB contract with Callan to assess the Springbank properties whose existing management agreement expires on June 30, 2015. The negotiated price for this search will range between \$34,000 to \$50,000 which is reasonable based on peer discussion and potential future fee savings. Callan will report their findings to the SIB at their May 22, 2015, meeting.

IT WAS MOVED BY TREASURER SCHMIDT AND SECONDED BY MR. TRENBEATH AND CARRIED BY A ROLL CALL VOTE TO ACCEPT STAFF RECOMMENDATION AND ENGAGE CALLAN TO CONDUCT A SEARCH FOR AN ALTERNATIVE TIMBER MANAGER WHICH COULD POTENTIALLY REPLACE TIMBERLAND INVESTMENT RESOURCES IN THE EVENT CONTRACT NEGOTIATIONS DO NOT MEET EXPECTATIONS.

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

NAYS: NONE

MOTION CARRIED

ABSENT: COMMISSIONER HAMM, LT. GOVERNOR WRIGLEY

Tobacco Prevention/Control Trust Fund - At the SIB meeting on January 23, 2015, RIO staff presented the request of the Tobacco Prevention and Control Trust Fund (TPC) to have the SIB provide investment management services as allowed under NDCC 21-10-06 and as recommended in a recent audit. During this presentation it

was noted that TPC has a non-tobacco investment requirement and that this requirement does not fit within the existing Insurance Trust structure. As a result, board members expressed a concern regarding the SIB's ability to provide investment management services to TPC because of this restriction. Ms. Murtha provided comments and also referenced statute whereby the SIB may not decline to provide investment management services to the TPC.

Staff will work with the TPC representatives to develop a formal investment policy statement and asset allocation recommendation for final approval by the SIB and TPC Board. The SIB would manage the assets in a separate trust and the TPC would absorb all costs associated with a separately managed entity.

IT WAS MOVED BY MR. GESSNER AND SECONDED BY MR. LECH AND CARRIED BY A ROLL CALL VOTE TO ACCEPT STAFF RECOMMENDATION AND MOVE FORWARD WITH SECURING A CONTRACT WITH THE TOBACCO CONTROL AND PREVENTION TRUST FUND FOR INVESTMENT SERVICES.

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

NAYS: MR. TRENBEATH

MOTION CARRIED

ABSENT: COMMISSIONER HAMM, LT. GOVERNOR WRIGLEY

Private Equity Update - Mr. Schulz reviewed a summary of the performance of the private equity portfolios in the Pension Trust. The Adams Street Partnerships have performed in line with expectations with a net internal rate of return of 16.6 percent in the last five years and 11.1 percent since inception.

The other SIB partnerships have generally performed below expectations with a net internal rate of return of 3.8 percent in the last five years and 1.2 percent since inception with a few positive exceptions noted. Staff will be researching the development of strategic partnerships to leverage a best ideas approach while increasing pricing leverage.

GOVERNANCE:

Legislative Update

Mr. Hunter provided an update on legislative bills staff is tracking that could possibly affect the SIB and RIO.

Lt. Governor Wrigley presided over the remainder of the meeting.

Discussion was held on HB 1033 which relates to definitions for the Legacy Fund, the Legacy Fund principal balance, and a transfer of Legacy Fund earnings. The bill has been amended which would require at least 10 percent of the Legacy Fund to be placed with one or more financial institutions chartered in and located in North Dakota and which are experienced in and hold considerable knowledge in the field of investments. A Senate Appropriations Committee hearing was held on March 17, 2015, and Lt. Governor Wrigley, Treasurer Schmidt, and Mr. Hunter provided testimony on the legal conflicts raised with the amendment which states the 10 percent investment should be made notwithstanding the prudent investor rule.

Staff has held discussions with sponsors of the bill and intend to meet with a group of North Dakota related investment firms along with Callan Associates. The entities are hoping to better understand the investment capabilities of the North Dakota firms and to also share the screening criteria utilized by Callan to

identify eligible investment managers. Staff will report back to the SIB at their April 24, 2015, meeting.

Governance Process Review - The Board received the second reading of the Executive Limitations policies. There were no modifications made to the policies. No action was taken.

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

The Board recessed at 10:02 a.m. and reconvened at 10:18 a.m.

Mr. Engleson represented Commissioner Gaebe for the remainder of the meeting.

ADMINISTRATION:

Executive Review - Mr. Lech reviewed the annual evaluation process of Mr. Hunter. The SIB was provided a formal summative evaluation of Mr. Hunter. The evaluation results were reviewed with Mr. Hunter on March 26, 2015.

IT WAS MOVED BY MR. LECH AND SECONDED BY MR. SANDAL AND CARRIED BY A ROLL CALL VOTE TO APPROVE THE FORMAL SUMMATIVE EVALUATION OF MR. HUNTER.

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

NAYS: NONE

MOTION CARRIED

ABSENT: COMMISSIONER HAMM

The Executive Review Committee recommended a salary increase of 5-7 percent be considered for Mr. Hunter. A formal recommendation will be made at the May or June 2015 meetings once the legislative session has concluded.

IT WAS MOVED BY MR. LECH AND SECONDED BY MS. TERNES AND CARRIED BY A ROLL CALL VOTE TO APPROVE THE SALARY RANGE OF 5-7 PERCENT WITH A FINAL RECOMMENDATION TO BE MADE UPON CONCLUSION OF THE LEGISLATIVE SESSION.

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

NAYS: NONE

MOTION CARRIED

ABSENT: COMMISSIONER HAMM

Mr. Hunter thanked the Executive Review Committee and the SIB for going through the process and noted it has been very helpful. Included in the board's meeting materials was a strategic investment plan developed by Mr. Hunter. Mr. Hunter reviewed the plan with the Executive Review Committee on March 26, 2015, and will review the plan at the April 24, 2015, with the full board.

The Board thanked the Executive Review Committee: Mr. Lech, Chair, Ms. Ternes, and Mr. Sandal for all of their work on the annual evaluation of Mr. Hunter. Special recognition was given to Mr. Lech for his outstanding job of spearheading the survey and compiling the results.

Government Finance Officers Association (GFOA) Certificate - The Retirement and Investment Office (RIO) received a Certificate of Achievement for Excellence in Financial Reporting from the Government Finance Officers Association for its Comprehensive Annual Financial Report for the year ended June 30, 2014. This marks the 17th consecutive year that RIO has been awarded this honor. RIO's report was judged by an impartial panel to meet the high standards of the program including demonstrating a constructive "spirit of full disclosure" to clearly communicate its financial story. The Certificate of Achievement is the highest form of recognition in the area of governmental accounting and financial reporting, and its attainment represents a significant accomplishment by a government and its management. The SIB directed staff to issue a press release on the certification.

Callan Manager Search Process - Mr. Erlendson reviewed Callan's manager search process. Mr. Erlendson and colleagues will be meeting with sponsors of HB 1033 to increase their awareness and understanding of the SIB's investment manager search process. The meeting will be scheduled sometime in April.

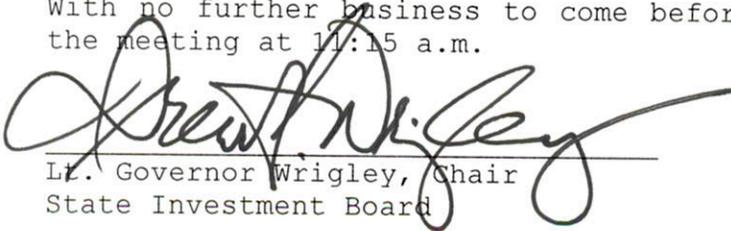
OTHER:

Next scheduled meetings:

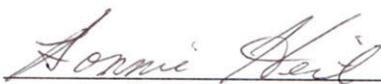
SIB Meeting - April 24, 2015, 8:30 a.m. - Workforce Safety & Insurance
SIB Audit Committee Meeting - May 21, 2015, 3:00 p.m. - State Capitol, Peace Garden Room

ADJOURNMENT:

With no further business to come before the SIB, Lt. Governor Wrigley adjourned the meeting at 11:15 a.m.



Lt. Governor Wrigley, Chair
State Investment Board



Bonnie Heit
Assistant to the Board