

**NORTH DAKOTA STATE INVESTMENT BOARD
MINUTES OF THE
AUGUST 28, 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
Kelly Schmidt, State Treasurer
Yvonne Smith, PERS Board
Cindy Ternes, WSI designee
Tom Trenbeath, PERS Board

MEMBERS ABSENT: Mel Olson, TFFR Board

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

GUESTS PRESENT: Bill Howard, Callan Associates Inc.
Jan Murtha, Attorney General's Office

CALL TO ORDER:

Lt. Governor Wrigley called the State Investment Board (SIB) meeting to order at 8:30 a.m. on Friday, August 28, 2015, at the State Capitol, Peace Garden Room, Bismarck, ND.

AGENDA:

IT WAS MOVED BY MR. LECH AND SECONDED BY MS. SMITH AND CARRIED ON A VOICE VOTE TO ACCEPT THE AGENDA FOR THE AUGUST 28, 2015, MEETING AS DISTRIBUTED.

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

MINUTES:

IT WAS MOVED BY MR. TRENBEATH AND SECONDED BY MR. GESSNER AND CARRIED ON A VOICE VOTE TO APPROVE THE JULY 24, 2015, MINUTES AS DISTRIBUTED.

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

INVESTMENTS:

Asset and Performance Overview - Mr. Hunter updated the SIB on the status of the portfolios they manage on behalf of their clients as of June 30, 2015. Assets under management grew by approximately 14 percent or \$1.3 billion. The SIB's client assets, based on unaudited valuations, currently exceed \$10.7 billion. The Pension Trust posted a net return of 3.5 percent with gains of \$164 million. The Insurance Trust generated a net return of 2.3 percent with gains of \$58 million. The Legacy Fund's net return was 3.3 percent and assets increased by \$1.1 billion.

Capital Group Watch List - RIO investment personnel recommended the SIB place the Capital Group International Equity mandate on the Watchlist. In May of 2015 the firm announced three of the seven portfolio managers would be relinquishing their responsibilities. Staff will continue to closely monitor the organizational changes.

IT WAS MOVED BY TREASURER SCHMIDT AND SECONDED BY MR. SANDAL AND CARRIED BY A ROLL CALL VOTE TO PLACE CAPITAL GROUP'S INTERNATIONAL EQUITY MANDATE ON THE WATCH LIST.

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

NAYS: NONE

MOTION CARRIED

ABSENT: MR. OLSON

US Small Cap Equity - RIO investment personnel recommended the SIB approve a manager search to potentially replace Callan's US small cap equity mandate within the Pension Trust. Staff also requested authorization to contract with Aon Hewitt to conduct a manager search given the relationship with Callan Associates. Staff is recommending the search given the recent reduction in assets under management within this strategy, the recent change in the number of managers used in the investment process, combined with the sharp decline in returns during the last year.

IT WAS MOVED BY MR. GESSNER AND SECONDED BY MS. SMITH AND CARRIED BY A ROLL CALL VOTE TO ACCEPT STAFF RECOMMENDATION REGARDING CALLAN'S US SMALL CAP EQUITY MANDATE.

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

NAYS: NONE

MOTION CARRIED

ABSENT: MR. OLSON

Job Service De-Risking Strategy - RIO investment personnel recommended the transition of the Job Service pension plan assets to SEI Investments as part of a strategic plan to develop and manage a dynamic de-risking program on behalf of the Plan. Staff also requested authorization to implement a multi-manager structure utilizing SEI's multi-manager investment platform.

IT WAS MOVED BY COMMISSIONER GAEBE AND SECONDED BY MR. TRENBEATH AND CARRIED BY A ROLL CALL VOTE TO ACCEPT STAFF RECOMMENDATION REGARDING THE JOB SERVICE PENSION DE-RISKING STRATEGY.

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

NAYS: NONE

MOTION CARRIED

ABSENT: MR. OLSON

North Dakota Bankers Association - Mr. Hunter updated the SIB on the North Dakota Bankers Association meetings. Interested banks were supplied the SIB due diligence questionnaire which is required to be completed by all SIB managers on an annual basis. Five firms completed and returned the questionnaire and results indicated two firms were better suited to provide investment services to SIB clients based on current client investment guidelines and practices at this time. Mr. Hunter will share the findings with Callan Associates and these firms may be considered in future manager due diligence and selection processes in the event there is a mutual alignment of the investment needs of the SIB clients with the investment services offered by these firms.

Tobacco Free Trust Fund - RIO investment personnel conducted a search for managers that offer tobacco-free fixed income and equity strategies on behalf of the Tobacco Prevention and Control Trust Fund. Proposals were received from four firms; BlackRock iShares, Calvert Investments, Northern Trust Asset Management, and State Street Global Advisors. Staff requested authorization from the SIB to select State Street Global Advisors to manage a 90 percent total fund allocation in the State Street Global Advisors Barclays US Treasury 1-3 year index strategy and a 10 percent allocation in the State Street Global Advisors S&P 500 ex-tobacco strategy.

IT WAS MOVED BY TREASURER SCHMIDT AND SECONDED BY MR. SANDAL AND CARRIED BY A ROLL CALL VOTE TO ACCEPT STAFF RECOMMENDATION REGARDING THE TOBACCO PREVENTION AND CONTROL TRUST FUND.

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

NAYS: NONE

MOTION CARRIED

ABSENT: MR. OLSON

BOARD EDUCATION - Mr. Hunter reviewed board educational opportunities for the SIB's consideration and provided the board with a current version of Asset Class Definitions and Callan's Glossary of Investment Terms. The SIB requested staff put together a listing of educational events trustees have attended.

MONITORING REPORTS -

Trust Performance Measurement - Mr. Howard reviewed the Pension Trust and Insurance Trust performance measurement results by Callan Associates for the period ending June 30, 2015. Mr. Howard also provided an economic and market environment overview for the same time period.

The board recessed at 10:05 a.m. and reconvened at 10:15 a.m.

Budget Stabilization Fund - Mr. Hunter requested approval of the revised Investment Policy Statement (IPS) for the Budget Stabilization Fund. The IPS had been revised to reflect performance standards along with enhanced documentation standards and risk control factors for the Bank of North Dakota Match Loan CD Program.

IT WAS MOVED BY MS. TERNES AND SECONDED BY MR. GESSNER AND CARRIED BY A ROLL CALL VOTE TO ACCEPT STAFF RECOMMENDATION REGARDING THE BUDGET STABILIZATION FUND INVESTMENT POLICY STATEMENT.

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

QUARTERLY MONITORING:

Per Governance Policy, Board/Staff Relationship/Monitoring Executive Performance C-4, the following monitoring reports for the quarter ending June 30, 2015, were provided to the SIB for their consideration: Budget/Financial Conditions, Executive Limitations/Staff Relations, Investment Program, and Retirement Program. An updated Watch List was also included.

Mr. Hunter updated the SIB on the Information Technology Department's investigation of a cyber-attack against a state-run server earlier this summer. Final forensic testing recently determined that certain Teachers' Fund for Retirement member information was also affected. RIO retirement personnel will be contacting those individuals whose personal information was accessible although there is no evidence that cyber-attackers moved or duplicated any data.

RIO personnel continue to work through the process of finding a qualified candidate for the Data Processing Coordinator III position, which has been vacant since May 29, 2015.

IT WAS MOVED BY MS. TERNES AND SECONDED BY MS. SMITH AND CARRIED BY A VOICE VOTE TO ACCEPT THE MONITORING REPORTS FOR THE PERIOD ENDING JUNE 30, 2015.

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

Mr. Hunter updated the SIB on RIO's enhanced website transparency. RIO will strive to enhance its overall level of transparency in order to expand public awareness and understanding, while instilling greater levels of trust and support with the community. The goal is to complete the website enhancements by December 2015.

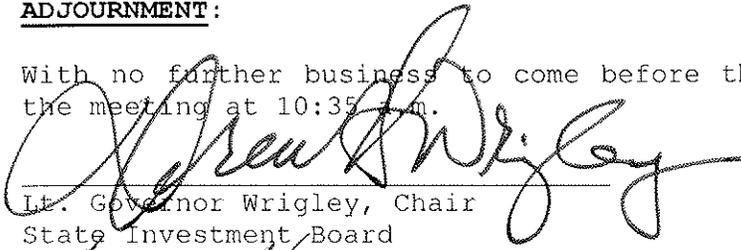
Mr. Hunter also reviewed the Strategic Investment Plan for 2015-17.

OTHER:

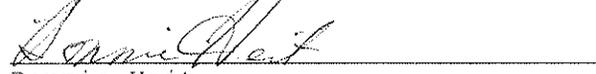
The next scheduled SIB meeting is September 25, 2015, at 8:30 a.m. in the Ft. Union Room. The next scheduled SIB Audit Committee meeting is September 25, 2015, at 1:00 p.m. in the Ft. Union Room.

ADJOURNMENT:

With no further business to come before the SIB, Lt. Governor Wrigley adjourned the meeting at 10:35 a.m.



Lt. Governor Wrigley, Chair
State Investment Board



Bonnie Heit
Assistant to the Board

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