

**NORTH DAKOTA STATE INVESTMENT BOARD  
MINUTES OF THE  
SEPTEMBER 25, 2015, BOARD MEETING**

**MEMBERS PRESENT:**

Drew Wrigley, Lt. Governor, Chair  
Mike Sandal, Vice Chair  
Jeff Engleson, Deputy Land Commissioner  
Mike Gessner, TFFR Board  
Adam Hamm, Insurance Commissioner (TLCF)  
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, Dep ED/CRA  
Terra Miller Bowley, Supvr Audit Services  
Cody Schmidt, Compliance Officer  
Darren Schulz, Dep CIO  
Susan Walcker, Invt Acct

**GUESTS PRESENT:**

Jeff Diehl, Adams Street Partners  
Levi Erdmann, Land Dept.  
Miguel Gonzalo, Adams Street Partners  
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, September 25, 2015, at the State Capitol, Ft. Union Room, Bismarck, ND.

**AGENDA:**

IT WAS MOVED BY MR. SANDAL AND SECONDED BY MS. TERNES AND CARRIED ON A VOICE VOTE TO ACCEPT THE AGENDA FOR THE SEPTEMBER 25, 2015, MEETING AS DISTRIBUTED.

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

NAYS: NONE

MOTION CARRIED

**MINUTES:**

IT WAS MOVED BY MR. LECH AND SECONDED BY MR. GESSNER AND CARRIED ON A VOICE VOTE TO APPROVE THE AUGUST 28, 2015, MINUTES AS DISTRIBUTED.

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

NAYS: NONE

**MOTION CARRIED****INVESTMENTS:**

Investment Fees/Expenses - Mr. Hunter reviewed investment management fees and expenses for fiscal years 2013, 2014, and 2015. Investment management fees and expenses as a percent of average assets under management declined from 0.65% in fiscal year 2013 to 0.51% in fiscal 2014 to 0.47% in fiscal 2015.

The decline of 14 basis points in fiscal 2014 and 3 basis points in fiscal 2015 realized annual incremental savings of approximately \$17 million based on \$10 billion of average assets under management.

Staff also expects additional savings will be realized in timber management incentive fees, Novarca investment management fee reviews, and securities lending.

**IT WAS MOVED BY MR. GESSNER AND SECONDED BY MR. LECH AND CARRIED ON A VOICE VOTE TO ACCEPT THE INVESTMENT FEES/EXPENSES REPORT FOR FISCAL YEARS ENDING JUNE 30, 2013, 2014, and 2015.**

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

**NAYS: NONE**

**MOTION CARRIED**

Novarca Fee Review - Since February 17, 2015, Novarca's initial overview of the SIB portfolio showed fees already at or among the lowest offered by its managers. Novarca's initial review included the following managers: LSV Asset Management, Epoch Investment Partners, Capital Guardian Trust Company, Wellington Trust Company, and the private equity portfolios. LSV Asset Management's review has been completed and annual savings of \$228,000 or 7 basis points was realized to better align with best in market for the international equity strategy. Epoch Investment Partners review has also been completed and findings show the SIB had best terms for the size of the international equity mandate. An analysis of transaction costs revealed less than efficient trading on a low turnover portfolio realizing market size of the strategy prohibits additional agile executions. Staff will continue to monitor transaction costs.

Lt. Governor Wrigley thanked staff for all of their efforts in managing the process to realize savings for the Pension Trust and Insurance Trust.

Private Equity Update - The Pension Trust's private equity portfolio currently has \$540 million in commitments and returns need to be enhanced by promoting the development of strategic partnerships to leverage a "best ideas" approach while increasing pricing leverage. The Adams Street Partnerships have generally performed in line with expectations while the non-Adams Street Partnerships have not.

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.

Adams Street Partners - Adams Street representatives provided an overview of the firm, history and overview of private markets, and status of the portfolios they currently manage on behalf of the SIB.

Adams Street Partners also reviewed a new fund in which they are currently accepting commitments.

The Board recessed at 10:07 a.m. and reconvened at 10:22 a.m.

Private Equity Recommendation - Staff recommends up to a \$30 million commitment to the new Adams Street 2015 Global Fund and secondly to engage Callan to perform a private equity manager search subject to successful contract negotiations. Staff noted that the SIB clients within the \$4.8 billion Pension Trust currently have a 5 percent (or \$240 million) target allocation to private equity versus an actual allocation of approximately \$180 million. Staff has reviewed the recommendation with Callan who confirms staff's recommendation to rebuild the client's private equity allocation using Adams Street Partners and one or two other strategic partners.

**IT WAS MOVED BY MR. GESSNER AND SECONDED BY MR. SANDAL AND CARRIED ON A ROLL CALL VOTE TO ACCEPT STAFF RECOMMENDATION TO ENHANCE PRIVATE EQUITY.**

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

**NAYS: NONE**

**MOTION CARRIED**

BOARD EDUCATION: - Mr. Hunter reviewed educational opportunities, which board members have attended.

The board requested educational opportunities that staff have attended.

**MONITORING REPORTS:**

Ms. Flanagan reviewed the following compliance reports for Fiscal Year 2015 from the SIB investment managers; Exceptions to Investment Guidelines, Certification of Compliance with Investment Guidelines, Audit and Internal Control (SSAE 16) reports, and Form ADV Part 1, 2A, and 2B.

The Board requested a generic version of an ADV form.

**IT WAS MOVED BY TREASURER SCHMIDT AND SECONDED BY MR. LECH AND CARRIED ON A VOICE VOTE TO ACCEPT THE MONITORING REPORTS.**

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

**NAYS: NONE**

**MOTION CARRIED**

The board also received the final 2013-15 biennium budget report for their reference.

Mr. Hunter also provided a staff update. Efforts are still ongoing to fill the Data Processing Coordinator position, which has been vacant since May 29, 2015. In the interim, suggestions made by the board were to possibly outsource some of the duties or look into the State Government Student Internship Program.

IT WAS MOVED BY TREASURER SCHMIDT AND SECONDED BY MR. SANDAL AND CARRIED ON A VOICE VOTE TO ACCEPT THE 2013-15 BUDGET REPORT AND STAFF REPORT.

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

NAYS: NONE

MOTION CARRIED

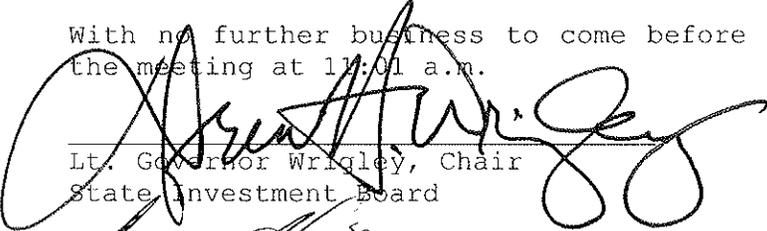
OTHER:

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

The next scheduled SIB meeting is October 23, 2015, at 8:30 a.m. in the Peace Garden Room.

ADJOURNMENT:

With no further business to come before the SIB, Lt. Governor Wrigley adjourned the meeting at 11:01 a.m.



Lt. Governor Wrigley, Chair  
State Investment Board



Bonnie Heit  
Assistant to the Board