NORTH DAKOTA STATE INVESTMENT BOARD
MINUTES OF THE
OCTOBER 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:

Connie Flanagan, Fiscal & Invt Op Mgr
Bonnie Heit, Assist to the SIB
David Hunter, ED/CIO
Terra Miller Bowley, Supvr Audit Services
Darren Schulz, Dep CIO
Susan Walcker, Invt Acct

GUESTS PRESENT:

Tony Crescenzi, PIMCO
Jeff Engleson, Land Dept.
Levi Erdmann, Land Dept.
Stephanie King, PIMCO
Jan Murtha, Attorney General's Office
Dave Thompson, Prairie Public
Yinyin Wu, PIMCO

CALL TO ORDER:

Lt. Governor Wrigley called the State Investment Board (SIB) meeting to order at 8:30 a.m. on Friday, October 23, 2015, at the State Capitol, Peace Garden 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 OCTOBER 23, 2015, MEETING AS DISTRIBUTED.

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

MINUTES:

IT WAS MOVED BY MR. TRENBEATH AND SECONDED BY MR. OLSON AND CARRIED ON A VOICE VOTE TO APPROVE THE SEPTEMBER 25, 2015, MINUTES AS DISTRIBUTED.

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

ABSENT: COMMISSIONER GAEBE

INVESTMENTS:

PIMCO - Mr. Crescenzi highlighted PIMCO's economic, market, and cyclical outlooks.

Board Education - Mr. Hunter provided an overview on how to review SIB clients' monthly/quarterly investment performance reports, which are on the Retirement and Investment Office's website.

The board requested a hyperlink be added to the reports, which would provide information on a manager's specific strategy.

Mr. Hunter also reviewed educational opportunities the SIB trustees and RIO personnel have attended in the past as a reference to the current trustees of the board.

Mr. Hunter also re-distributed "A Primer for Investment Trustees" and will be highlighting key takeaways from each section over the next several board meetings.

Litigation Updates - Ms. Flanagan informed the board the SIB's external counsel, K&L Gates, has been notified that the receiver in the WG Trading fraud case has filed a motion and supporting papers to request authorization to make a third distribution of receivership assets to investors. The distribution would include a total of $5,944,067.48 related to the SIB's investment with Westridge/WG Trading and increases the total recovery from the receivership assets to $73,012,495.33 or approximately 97% of the original cost basis of the investment.

The Board recessed at 10:00 a.m. and reconvened at 10:17 a.m.

At the July 24, 2015, meeting Ms. Murtha reviewed a lawsuit, which was filed by unsecured creditors against the holders of a General Motors (GM) term loan that was repaid after GM filed for bankruptcy in 2009. The SIB's Pension Trust was a holder of the GM term loan via a Wells Capital Management (WCM) investment. The lawsuit claims that the holders of the GM term loan should not have been fully repaid and are seeking repayment of certain amounts paid to such holders. The SIB's repayment portion was $700,000.

Ms. Murtha reviewed several firms, which the board could consider for external counsel. After discussion,

IT WAS MOVED BY TREASURER SCHMIDT AND SECONDED BY MS. SMITH AND CARRIED BY A ROLL CALL VOTE TO GRANT AUTHORITY TO THE ATTORNEY GENERAL'S OFFICE TO OVERSEE THE GENERAL MOTORS BANKRUPTCY CASE ON BEHALF OF THE SIB. SECONDLY, TO RETAIN EXTERNAL COUNSEL WHO WOULD BEST REPRESENT THE FINANCIAL INTERESTS AND OPPORTUNITIES TO MINIMIZE ANY LOSSES ON BEHALF OF THE SIB.

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

Litigation Monitoring - Mr. Hunter reviewed a Securities Monitoring and Litigation Policy, which will be inserted into Section E, Investments, of the Governance Manual. After the SIB completed a review of their Governance Manual during the past fiscal year, RIO personnel and Ms. Murtha determined that additional clarification on "securities monitoring and litigation" practices followed by RIO and the SIB could be enhanced.

The policy will be on the November 20, 2015, agenda for a second reading.

GOVERNANCE:

Client Survey - The Audit Division surveyed each of the SIB clients on services received from the SIB and RIO personnel for the period of July 1, 2014, through June 30, 2015. Survey responses were received from all of the clients with the exception of one. Overall, SIB clients assigned a 3.7 rating based on a 4.0 scale.

IT WAS MOVED BY MR. GESSNER AND SECONDED BY MS. SMITH AND CARRIED BY A VOICE VOTE TO ACCEPT THE CLIENT SURVEY REPORT.

AYES: COMMISSIONER GAEBE, 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

Audit Committee - Ms. Miller Bowley reviewed the Audit Committees activities for the period of July 1, 2014 - June 30, 2015. Members of the Audit Committee are Ms. Rebecca Dorwart, Chair, Ms. Karol Riedman, Health Dept., Mr. Gessner, Vice Chair/SIB Liaison representing the Teachers' Fund for Retirement (TFFR), Mr. Sandal, representing the Public Employees Retirement System (PERS), and Ms. Ternes, designee from Workforce Safety & Insurance representing elected and appointed officials.

IT WAS MOVED BY MR. GESSNER AND SECONDED BY MR. LECH AND CARRIED BY A VOICE VOTE TO ACCEPT THE AUDIT COMMITTEE REPORT.

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

Ms. Ternes commented as a member of the Audit Committee her comfort level has changed. With the change in leadership in the Internal Audit Division, employer audits are being completed in a timely manner. Across the board, everything is so much more professional and complete. She thanked Ms. Miller Bowley for her excellent leadership.

RIO/Policy Ends - Mr. Hunter reviewed annual evaluation results of RIO vs policy "Ends." Mr. Hunter stated the SIB and RIO are achieving its stated goals and mission based on SIB and TFFR client survey results and noting that every SIB client with a three-year track is generating positive excess returns for the 3 and 5 year periods ended June 30, 2015, while adhering to prescribed risk metrics.

IT WAS MOVED BY MR. TRENBEATH AND SECONDED BY MR. SANDAL AND CARRIED BY A VOICE VOTE TO ACCEPT THE ANNUAL EVALUATION OF RIO VS GOVERNANCE POLICY ENDS.

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

MONITORING REPORTS:

Per Governance Policy, Board/Staff Relationship/Monitoring Executive Performance C-4, the following monitoring reports for the quarter ending September 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 for the same period was also provided.

IT WAS MOVED BY MR. SANDAL AND SECONDED BY MS. SMITH AND CARRIED BY A VOICE VOTE TO ACCEPT THE SEPTEMBER 30, 2015, QUARTERLY MONITORING REPORTS.

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

OTHER:

The next meeting of the SIB Audit Committee is scheduled for November 19, 2015, at 3:00 p.m. in the Peace Garden Room. The Audit Committee will be hearing the results of RIO's financial audit as of June 30, 2015, by CliftonLarsonAllen.

The next meeting of the SIB is scheduled for November 20, 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 11:16 a.m.

Lt. Governor Wrigley, Chair
State Investment Board

Bonnie Heit
Assistant to the Board