

**NORTH DAKOTA STATE INVESTMENT BOARD  
MINUTES OF THE  
NOVEMBER 20, 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:**

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

**GUESTS PRESENT:**

Alex Browning, Callan Associates  
Levi Erdmann, Land Dept.  
Paul Erlendson, Callan Associates  
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, November 20, 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 NOVEMBER 20, 2015, MEETING AS DISTRIBUTED.

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

NAYS: NONE

MOTION CARRIED

**MINUTES:**

IT WAS MOVED BY MR. GESSNER AND SECONDED BY MR. OLSON AND CARRIED ON A VOICE VOTE TO ACCEPT THE OCTOBER 23, 2015, MINUTES AS DISTRIBUTED.

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

NAYS: NONE

MOTION CARRIED

INVESTMENTS:

Assets/Performance Overview - Mr. Hunter updated the SIB on the status of the portfolios they manage on behalf of their clients as of September 30, 2015. Assets under management grew by approximately 8.6 percent or \$828 million in the last year. Assets exceeded \$10.4 billion based on unaudited valuations as of September 30, 2015. The Pension Trust posted a net return of -0.52 percent with losses of \$24 million. The Insurance Trust generated a net return of 1.98 percent with gains of \$48 million. The Legacy Fund's net return was 0.52 percent and assets increased by 32 percent or \$812 million.

Every Pension Trust client generated positive excess returns for the 1, 3, and 5 year periods ended September 30, 2015. Every Pension Trust client also generated positive risk adjusted excess return for the 5-years ended September 30, 2015, with the exception of the Grand Forks Park District portfolio. The Grand Forks Park District portfolio generated a net return of over 8 percent along with 0.51 percent of excess return in the last five years.

Every Non-Pension Trust client generated positive excess returns for the 3 and 5-year periods ended September 30, 2015, if applicable. During the past year, five Non-Pension Trust clients experienced negative excess returns due to fixed income and diversified real asset results.

Epoch - Representatives provided a capital markets update and reviewed the Global Equity mandate of approximately \$300 million the firm manages on behalf of the SIB.

GM Bankruptcy - At the October 23, 2015, SIB meeting, the SIB authorized the Attorney General's office and RIO to pursue appointment of external counsel, on behalf of the SIB. Ms. Murtha stated RIO has retained Kasowitz Benson Torres & Friedman. Ms. Murtha stated the fees would be prorated amongst the participants. Ms. Murtha also stated a Motion to Dismiss was filed due to inadequate notice. Ms. Murtha also discussed the potential of legal action against JP Morgan Chase, related to the Term Loan litigation, and advised the SIB to expand representation by external counsel to include analysis of any potential action.

IT WAS MOVED BY COMMISSIONER GAEBE AND SECONDED BY MS. TERNES TO EXPAND THE SCOPE OF EXTERNAL COUNSEL, KASOWITZ BENSON TORRES & FRIEDMAN LLP, TO INCLUDE OVERSITE OF ANY LEGAL ACTION AGAINST JP MORGAN CHASE.

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

Securities Monitoring/Litigation Policy - Mr. Hunter reviewed a second reading of a proposed policy for Securities Monitoring and Litigation. The policy will formally document securities monitoring and litigation policies and procedures followed by the SIB and will more clearly define future roles and responsibilities of the Retirement and Investment Office (RIO) and the SIB.

**IT WAS MOVED BY TREASURER SCHMIDT AND SECONDED BY MS. TERNES TO ACCEPT THE SECURITIES MONITORING AND LITIGATION POLICY.**

**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**

The Board recessed at 10:22 a.m. and reconvened at 10:37 a.m.

International Equity - RIO personnel recommended the SIB engage Callan to assist RIO in conducting a search to potentially replace the Capital Group International Equity mandate. The recommendation is the result of changes to the portfolio management team, which were reviewed at the SIB August 28, 2015, meeting, and numerous requests, by RIO personnel and Callan Associates, for individual portfolio manager performance given the multi-manager approach and the need to appraise the effect of the personnel changes, which Capital Group has been unwilling to release.

**IT WAS MOVED BY TREASURER SCHMIDT AND SECONDED BY MR. SANDAL TO AUTHORIZE CALLAN ASSOCIATES TO BEGIN THE SEARCH FOR AN ENTITY TO POTENTIALLY REPLACE THE CAPITAL GROUP INTERNATIONAL EQUITY STRATEGY IN THE PENSION, INSURANCE, AND LEGACY FUND PORTFOLIOS.**

**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**

Fiduciary Duty - Mr. Hunter reviewed Section 2, Investment Policy, and Section 3, The Fund's Mission, of "A Primer for Investment Trustees" to expand awareness of the important role played by the SIB members in acting as trustees.

PERS Group Insurance - RIO personnel presented a revised asset allocation policy for the Public Employees Retirement System (PERS) Group Insurance Fund for the board's consideration. The revised asset allocation reflects 95% (not to exceed \$36 million) in short term fixed income vs 100% in cash equivalents in order to generate incremental income without taking on undue risk.

**IT WAS MOVED BY MR. LECH AND SECONDED BY MR. SANDAL TO ACCEPT THE REVISED ASSET ALLOCATION FOR THE PERS GROUP INSURANCE ACCOUNT.**

**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**

**GOVERNANCE:**

Audit Committee - Ms. Miller Bowley reviewed activities of the SIB Audit Committee as of their November 19, 2015, meeting. The Audit Committee received the June 30, 2015, financial audit results of the Retirement and Investment Office (RIO). An update on internal audit activities for the first quarter of 2015-16 was given. Ms. Miller Bowley also stated the Audit Committee is reviewing and revising their charter.

IT WAS MOVED BY TREASURER SCHMIDT AND SECONDED BY MR. OLSON AND CARRIED BY A VOICE VOTE TO ACCEPT THE AUDIT COMMITTEE REPORT.

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

Financial Audit Report - Mr. Hunter stated CliftonLarsonAllen has released their June 30, 2015, financial audit of RIO. The firm has issued an unmodified "clean" opinion that the financial statements are presented fairly, in all material respects, and in conformity with U.S. Generally Accepted Accounting Principles (GAAP).

IT WAS MOVED BY COMMISSIONER GAEBE AND SECONDED BY MR. OLSON AND CARRIED BY A VOICE VOTE TO ACCEPT THE CLIFTONLARSONALLEN JUNE 30, 2015, FINANCIAL AUDIT REPORT FOR THE RETIREMENT AND INVESTMENT OFFICE.

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

NAYS: NONE

MOTION CARRIED

Employee Benefits Programs Committee - Mr. Hunter stated he met with the Employee Benefits Programs Committee (EBPC) on October 27, 2015, and also followed up with requests for additional information on November 3, 2015. Mr. Hunter had provided an overview of the state's investment program and current investment climate. The SIB was provided a copy of the presentation and additional information requested by the EBPC.

**MONITORING:**

Callan Associates - Representatives reviewed investment performance of the Pension Trust, Insurance Trust, and Legacy Fund for the period ending September 30, 2015. Representatives stated because of disciplined rebalancing of the portfolios by RIO personnel, the actual asset allocations are close to their target asset allocations with risk factors close to zero.

The following managers remain on the "Watch List": PIMCO Mortgage Backed Securities, PIMCO Unconstrained, UBS Global Fixed Income, and Capital Group International Equity.

IT WAS MOVED BY MR. GESSNER AND SECONDED BY MS. SMITH AND CARRIED BY A VOICE VOTE TO ACCEPT CALLAN'S PORTFOLIO PERFORMANCE REVIEW REPORTS FOR THE PENSION, INSURANCE, AND LEGACY FUNDS.

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

NAYS: NONE

MOTION CARRIED

ABSENT: MR. LECH

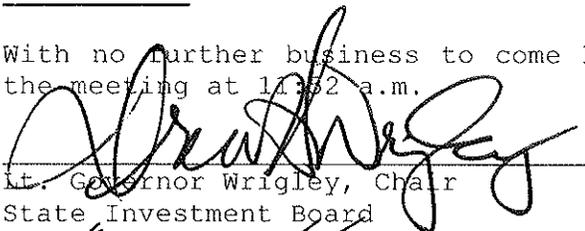
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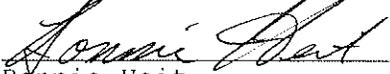
The next meeting of the SIB is scheduled for January 22, 2016, at 8:30 a.m. in the Peace Garden Room.

The next meeting of the SIB Audit Committee is scheduled for February 25, 2016, at 3:00 p.m. in the Peace Garden Room.

ADJOURNMENT:

With no further business to come before the SIB, Lt. Governor Wrigley adjourned the meeting at 11:52 a.m.

  
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Lt. Governor Wrigley, Chair  
State Investment Board

  
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Bonnie Heit  
Assistant to the Board