NORTH DAKOTA STATE INVESTMENT BOARD
MINUTES OF THE
JANUARY 22, 2016, BOARD MEETING

MEMBERS PRESENT:

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

MEMBERS ABSENT:

Drew Wrigley, Lt. Governor, Chair

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:

James Connors, JP Morgan
Levi Erdmann, Land Dept.
J. Michael Jaje, Atlanta Capital
Don San Jose, JP Morgan
Paul Kennedy, Aon Hewitt
Joshua Lieberman, JP Morgan
Jan Murtha, Attorney General's Office
Charles Reed, Atlanta Capital
James Sakelaris, JP Morgan

CALL TO ORDER:

Mr. Sandal called the State Investment Board (SIB) meeting to order at 8:30 a.m. on Friday, January 22, 2016, at the State Capitol, Peace Garden Room, Bismarck, ND.

AGENDA:

IT WAS MOVED BY TREASURER SCHMIDT AND SECONDED BY MS. TERNES AND CARRIED ON A VOICE VOTE TO ACCEPT THE AGENDA FOR THE JANUARY 22, 2016, MEETING AS DISTRIBUTED.

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

MINUTES:

IT WAS MOVED BY COMMISSIONER GAEBE AND SECONDED BY MR. GESSNER AND CARRIED ON A VOICE VOTE TO ACCEPT THE NOVEMBER 20, 2015, MINUTES AS DISTRIBUTED.

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

INVESTMENTS:

US Small Cap Equity Search

IT WAS MOVED BY TREASURER SCHMIDT AND SECONDED BY MS. TERNES AND CARRIED BY A ROLL CALL VOTE TO SEQUESTER THE FIRMS COMING BEFORE THE SIB FOR THE PENSION TRUST'S US SMALL CAP EQUITY MANDATE OPPORTUNITY PER NDCC 44.04.19.2 SUBDIVISION 6.

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

Mr. Hunter provided a brief background on the course of action that took place on the search for a firm to replace Callan Associates in the Pension Trust's US Small Cap Equity mandate of approximately $110 million. RIO personnel, along with Aon Hewitt's guidance, identified four semi-finalists after extensive discussions and due diligence were performed on each firm's strategies. The finalists identified were Atlanta Capital, Champlain, JP Morgan, and Wellington.

RIO personnel narrowed the field to two semi-finalists, Atlanta Capital and JP Morgan based on their demonstrated ability to generate impressive risk adjusted returns, competitive pricing, and a strong portfolio management team within a sound financial organization.

The SIB heard presentations from Atlanta Capital and JP Morgan.

The Board recessed at 10:16 a.m. and reconvened at 10:27 a.m.

The Board and RIO personnel discussed the two finalists. Staff recommended that the SIB replace the Callan Small Cap Equity mandate with Atlanta Capital Management's High Quality Small Cap product based on the following:

RIO personnel believes that Atlanta will produce better risk-adjusted returns, and will continue to generate greater excess returns than the Callan Small Cap Fund over the long term. Atlanta's investment strategy (which focuses on quality) can capture the majority of the upside of small cap performance while providing downside protection in tumultuous markets. Atlanta's small but experienced three person team has been managing the strategy since 2002, and RIO personnel believes that this team can continue to, over the long term, deliver excess returns over the Russell 2000 Index. Across a number of key metrics, Atlanta has generally outperformed Callan's Small Cap Equity vehicle over the seven year period ending

September 30, 2015 (key metrics include annualized returns, risk adjusted returns, excess returns, down market capture, and standard deviation). RIO personnel also believes that the shift to Atlanta's more concentrated strategy with a focus on quality investments is better positioned to meet the SIB's long term risk/return objectives.

IT WAS MOVED BY MR. GESSNER AND SECONDED BY COMMISSIONER HAMM AND CARRIED BY A ROLL CALL VOTE TO ACCEPT STAFF'S RECOMMENDATION AND REPLACE THE CALLAN SMALL CAP EQUITY MANDATE IN THE PENSION TRUST WITH ATLANTA CAPITAL MANAGEMENT'S HIGH QUALITY SMALL CAP PRODUCT.

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

ADMINISTRATION:

Meeting Schedule - Mr. Hunter presented the SIB's meeting schedule for the period of July 1, 2016, through June 30, 2017, for the Board's consideration and acceptance.

IT WAS MOVED BY MS. SMITH AND SECONDED BY MR. OLSON AND CARRIED BY A VOICE VOTE TO ACCEPT THE JULY 1, 2016 - JUNE 30, 2017 MEETING SCHEDULE.

AYES: MR. GESSNER, COMMISSIONER GAEBE, MS. SMITH, MS. TERNES, TREASURER SCHMIDT, MR. LECH, COMMISSIONER HAMM, MR. SANDAL, MR. OLSON, AND MR. TRENBEATH
NAYS: NONE
MOTION CARRIED
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Website Transparency - Mr. Hunter reiterated that the SIB meetings are open to the public and RIO and the SIB are committed to adhering to all applicable open records laws. Mr. Hunter stated the SIB Governance Manual, SIB meeting materials, SIB Audit Committee charter, and SIB Audit Committee meeting materials are now available and accessible to interested parties via the RIO website. RIO believes these actions support the desire to foster trust, understanding, and support within the community.

ED/CIO Survey - Mr. Hunter reviewed the results of the Executive Director/CIO Effectiveness Survey. The survey is completed on an annual basis in conjunction with the Executive Limitations audit. The survey gives employees an opportunity to evaluate the effectiveness of the Executive Director/CIO in the areas of leadership, communication, and valuing employees. Survey results revealed that 91% of survey respondents indicate they "Agree" or "Strongly Agree" with the overall effectiveness of the Executive Director/CIO.

RIO's Supervisor of Audit Services, Ms. Terra Miller-Bowley, is in the process of finalizing the Executive Limitations Audit for 2015 and will present the findings to the SIB Audit Committee and SIB at the next scheduled meetings. Ms. Miller-Bowley is also coordinating the timeline of the SIB's survey of the Executive Director/CIO which occurs on an annual basis in March.

Office Lease - Mr. Hunter informed the board RIO personnel are looking into options for a new office space for RIO. RIO's current lease expires on June 30, 2017. One option under consideration is the Bank of North Dakota's Financial Center. Preliminary discussions are currently taking place with the Bank of North

Dakota officials. A tentative completion date for the building is late summer or fall of 2017.

MONITORING:

Per Governance Policy, Board/Staff Relationship/Monitoring Executive Performance C-4, the following monitoring reports for the quarter ending December 31, 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 time period was also included.

IT WAS MOVED BY MR. TRENBEATH AND SECONDED BY MR. OLSON AND CARRIED BY A VOICE VOTE TO ACCEPT THE MONITORING REPORTS FOR THE QUARTER ENDING DECEMBER 31, 2015.

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

BOARD EDUCATION:

The Board continued their review of "A Primer for Investment Trustees." Mr. Hunter reviewed Section 3, Investment Objectives.

OTHER:

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

The next meeting of the SIB is scheduled for February 26, 2016, at 8:30 a.m. in the Peace Garden Room.

ADJOURNMENT:

With no further business to come before the SIB, Mr. Sandal adjourned the meeting at 11:06 a.m.

Mr. Mike Sandal, Vice Chair
State Investment Board

Bonnie Heit
Assistant to the Board