

**NORTH DAKOTA STATE INVESTMENT BOARD  
MINUTES OF THE  
FEBRUARY 26, 2016, 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 (TLCF)  
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  
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:**

Alex Browning, Callan Associates  
Paul Erlendson, Callan Associates  
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, February 26, 2016, at the State Capitol, Peace Garden Room, Bismarck, ND.

**AGENDA:**

IT WAS MOVED BY TREASURER SCHMIDT AND SECONDED BY MR. SANDAL AND CARRIED ON A VOICE VOTE TO ACCEPT THE REVISED AGENDA FOR THE FEBRUARY 26, 2016, MEETING AS DISTRIBUTED.

AYES: MS. TERNES, COMMISSIONER HAMM, TREASURER SCHMIDT, COMMISSIONER GAEBE, MR. TRENBEATH, MR. LECH, MR. SANDAL, MS. SMITH, MR. GESSNER, 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 ACCEPT THE JANUARY 22, 2016, MINUTES AS DISTRIBUTED.

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

INVESTMENTS:

Asset/Performance Overview - Mr. Hunter updated the SIB on the status of the portfolios they manage on behalf of their clients as of December 31, 2015. Assets under management grew by approximately 6.9 percent or \$692 million in the last year. Assets totaled \$10.8 billion based on unaudited valuations as of December 31, 2015. The Pension Trust posted a net return of 0.56 percent with gains of \$26 million. The Insurance Trust generated a net return of 1.03 percent with gains of \$25 million. The Legacy Fund's net return was 0.91 percent and assets increased by 21 percent or \$622 million.

Every Pension Trust client generated positive excess returns for the 1, 3, and 5 year periods ended December 31, 2015.

Every Non-Pension Trust client generated positive excess returns for the 5-years ending December 31, 2015, if applicable, with one exception, PERS Retiree Health Insurance Credit Fund.

Mr. Hunter also reviewed the investment work plan as of February 19, 2016. Mr. Hunter also reviewed the SIB's private equity allocation specifically Adams Street Partners mandate. Adams Street Partners is the SIB's largest private equity manager and has consistently generated the strongest returns within private equity over the past 26 years.

Adams Street Partners - Mr. Gonzalo provided an overview of the firm, review of the SIB's mandates, and also reviewed a new opportunity for the board's consideration, the 2016 Global Fund Program.

Private Equity - Mr. Schulz reviewed the SIB's opportunity to invest in Adams Street Partners 2016 Global Fund. RIO personnel is recommending the SIB invest up to \$30 million to further reduce an underweight in the private equity in the pension trust which as of 9/30/15 stands at approximately 1.2% or \$55 million below the target weight of 5% within the Pension Trust.

Mr. Schulz also stated RIO personnel are currently conducting due diligence on identifying another strategic private equity partner to compliment Adams Street Partners. Staff will bring forth two finalists at the SIB's March 18, 2016, meeting.

IT WAS MOVED BY COMMISSIONER GAEBE AND SECONDED BY MR. SANDAL AND CARRIED BY A ROLL CALL VOTE TO ACCEPT STAFF'S RECOMMENDATION TO COMMIT \$30 MILLION TO THE ADAMS STREET PARTNERS 2016 GLOBAL FUND.

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

Callan Associates - Mr. Erlendson and Mr. Browning reviewed economic and market conditions for the period ending December 31, 2015. Callan reps also reviewed investment measurement results for the Pension Trust, Insurance Trust, and Legacy Trust for the same time period. Callan also distributed a 10-year forward looking capital market assumptions charticle.

**IT WAS MOVED BY MR. GESSNER AND SECONDED BY TREASURER SCHMIDT AND CARRIED BY A VOICE VOTE TO ACCEPT CALLAN'S REPORT.**

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

The Board recessed at 10:25 a.m. and reconvened at 10:40 a.m.

Investment Policy Statements - Mr. Hunter reviewed Investment Policy Statements (IPS) revised by the Teachers' Fund for Retirement (TFFR), City of Grand Forks Employee Pension Plan, and Park District of the City of Grand Forks Pension Plan. All three entities have approved the revisions and Mr. Hunter requested the SIB accept the following changes:

The TFFR IPS was revised to reflect a reduction of the investment return assumption from 8.0% to 7.75% effective July 1, 2015, based on the 2015 actuarial Experience Study conducted by Segal Consultants. Changes were also made to the asset allocation based on the results of an Asset Allocation Study completed by Callan Associates. The broad asset class changes reflect a 1% increase to global equity, a 1% increase to global fixed income, and a 2% decrease to global real assets.

The Boards for the City of Grand Forks Employee Pension Plan and Park District of the City of Grand Forks Pension Plan adopted revised investment performance objectives that conform to performance metrics adopted by TFFR and the Public Employees Retirement System (PERS). These changes are formative in nature and do not include any asset allocation changes.

**IT WAS MOVED BY TREASURER SCHMIDT AND SECONDED BY MS. SMITH AND CARRIED BY A ROLL CALL VOTE TO ACCEPT THE REVISED INVESTMENT POLICY STATEMENTS FOR THE TEACHERS' FUND FOR RETIREMENT, CITY OF GRAND FORKS EMPLOYEE PENSION PLAN, AND THE PARK DISTRICT OF THE CITY OF GRAND FORKS PENSION PLAN.**

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

Budget Stabilization Fund - Ms. Flanagan updated the board on the Budget Stabilization Fund. The State's revenue forecast predicts there will be a revenue shortfall and as a result, the Office of Management & Budget (OMB) is calling for a 4.05 percent reduction in General Fund spending. OMB has notified RIO they may also need to transfer assets from the Budget Stabilization Fund to the General Fund near the end of the 2015-17 biennium. The Budget Stabilization Fund's balance as of January 31, 2016, is \$576,783,419. OMB is tentatively projecting a transfer of \$497,591,654.

The Budget Stabilization Fund is comprised of short-term bonds, cash, and Certificate of Deposits. Treasurer Schmidt stated she does not feel that the Budget Stabilization Fund will need to be withdrawn down unless there is a cash flow issue but in the event the funds would be needed, she requested the assets be equally drawn down amongst the current investment managers of the Budget Stabilization Fund, JP Morgan, Babson, and Bank of North Dakota.

Mr. Hunter will reach out to the Legacy and Budget Stabilization Fund Advisory Board for their input.

**ADMINISTRATION:**

SIB Audit Committee - Ms. Miller Bowley briefed the board on the February 25, 2016, meeting of the SIB Audit Committee.

Mr. Gessner, SIB Audit Committee liaison to the SIB, stated the Audit Committee is extremely pleased with the progress of Audit Services. The work plan of the division has been streamlined and as a result, efficiencies have been realized and staff is able to focus their time on the areas at RIO, which are of greatest concern to the SIB Audit Committee, RIO Management, and the external auditors. The Board congratulated Ms. Miller Bowley and her team for their great work.

Ms. Miller Bowley stated Audit Services has completed the annual review of the Executive Director/CIO's level of compliance with SIB Governance Manual Executive Limitation policies A-1 through A-11 for the calendar year beginning January 1, 2015 and ending December 31, 2015. Audit Services is sufficiently satisfied that the Executive Director/CIO is in compliance with the policies.

**IT WAS MOVED BY TREASURER SCHMIDT AND SECONDED BY MR. LECH AND CARRIED BY A VOICE VOTE TO ACCEPT THE EXECUTIVE LIMITATIONS AUDIT REPORT.**

**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**

**MOTION CARRIED**

**ABSENT: MR. OLSON**

Ms. Miller Bowley also informed the Board Ms. Karol Riedman, external member of the SIB Audit Committee, has accepted a position with the ND University System and is willing to continue to serve on the Committee. The Audit Committee membership has a term of one year. Ms. Miller Bowley also stated Ms. Laura Schratt, wife of the current ED/CIO of RIO, is also employed at the ND University System. Both Ms. Riedman and Ms. Schratt report administratively to the agency Interim Chief of Staff and organizationally to the agency Audit Committee. Legal counsel was sought to determine if there was a conflict of interest and Ms. Murtha has advised RIO that a conflict of interest does not exist.

Executive Review Committee - SIB Governance Manual C-4, Monitoring Executive Performance, states that "at the February board meeting, the chairperson will appoint a three member committee to review the board's evaluation and make a recommendation to the full board concerning compensation for the Executive Director/CIO."

Executive Review Committee members are Mr. Sandal, Chair, Mr. Lech, and Lt. Governor Wrigley. The Committee is to report to the board by the May meeting with final action by the board no later than the June board meeting.

Staff Update - Mr. Hunter informed the board Mr. Len Wall has accepted the Data Processing Coordinator position with RIO effective February 16, 2016. The office is now fully staffed and thanked Mr. Richard Nagel, Supervisor of Information Systems, for expanding his duties and responsibilities in the interim.

Callan Annual Conference - Treasurer Schmidt, Mr. Lech, Ms. Smith, and Mr. Trenbeath attended Callan's Annual Conference, January 25-27, 2016, in San Francisco, CA. Attendees stated the conference was very beneficial, timely, organized, and encouraged other trustees to attend the conference.

**BOARD EDUCATION:**

The Board continued their review of "A Primer for Investment Trustees." Mr. Hunter reviewed Section 5, Investment Risk Tolerance.

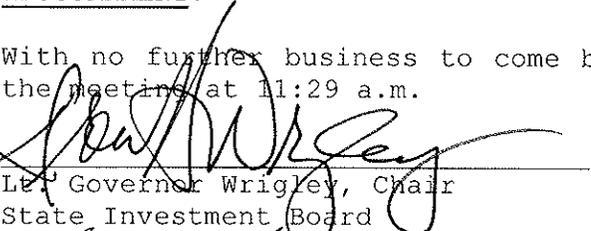
**OTHER:**

The next meeting of the SIB is scheduled for March 18, 2016, at 8:30 a.m. in the Peace Garden Room.

The next meeting of the SIB Audit Committee is scheduled for May 26, 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 11:29 a.m.

  
Lt. Governor Wrigley, Chair  
State Investment Board

  
Bonnie Heit  
Assistant to the Board