

**NORTH DAKOTA STATE INVESTMENT BOARD  
MINUTES OF THE  
JANUARY 22, 2010 BOARD MEETING**

**BOARD MEMBERS PRESENT:** Lt. Governor Jack Dalrymple, Chair  
Clarence Corneil, Vice Chair (teleconference)  
Jeff Engleson, Land Dept.  
Levi Erdmann, PERS Board  
Mike Gessner, TFFR Board  
Adam Hamm, Insurance Commissioner  
Howard Sage, PERS Board  
Mike Sandal, PERS Board  
Kelly Schmidt, State Treasurer  
Cindy Ternes, Workforce Safety & Insurance  
Bob Toso, TFFR Board

**STAFF PRESENT:** Steve Cochrane, Executive Director  
Connie Flanagan, Fiscal & Investment Officer  
Bonnie Heit, Office Manager  
Leslie Moszer, Compliance Officer  
Susan Walcker, Accountant

**OTHERS PRESENT:** Doug Beath, Wells Capital Management  
Ben Lazarus, The Clifton Group  
Tom Lee, The Clifton Group  
Ron Leingang, former SIB trustee  
Jeff Mellas, Wells Capital Management  
Bryan Reinhardt, PERS

**CALL TO ORDER:**

Lt. Governor Dalrymple called the State Investment Board (SIB) meeting to order at 8:30 a.m. on Friday, January 22, 2010, at the State Capitol, Peace Garden Room, Bismarck, ND.

**THE FOLLOWING MEMBERS WERE PRESENT REPRESENTING A QUORUM: MR. CORNEIL, LT. GOVERNOR DALRYMPLE, MR. ENGLESON, MR. ERDMANN, MR. GESSNER, COMMISSIONER HAMM, MR. SANDAL, TREASURER SCHMIDT, MS. TERNES, AND MR. TOSO**

**AGENDA:**

The Board considered the January 22, 2010, agenda.

**TREASURER SCHMIDT MOVED AND MS. TERNES SECONDED TO ACCEPT THE JANUARY 22, 2010 AGENDA.**

**AYES: COMMISSIONER HAMM, MS. TERNES, MR. ENGLESON, MR. GESSNER, LT. GOVERNOR DALRYMPLE, MR. ERDMANN, MR. SANDAL, MR. TOSO, AND TREASURER SCHMIDT**

**NAYS: NONE**

**MOTION CARRIED**

**ABSENT: MR. CORNEIL, MR. SAGE**

**MINUTES:**

The Board considered the minutes of the November 20, 2009, meeting.

**COMMISSIONER HAMM MOVED AND MR. SANDAL SECONDED TO APPROVE THE NOVEMBER 20, 2009 MINUTES.**

**AYES: MR. GESSNER, MR. ENGLERSON, MS. TERNES, TREASURER SCHMIDT, MR. TOSO, COMMISSIONER HAMM, MR. ERDMANN, LT. GOVERNOR DALRYMPLE, AND MR. SANDAL**

**NAYS: NONE**

**MOTION CARRIED**

**ABSENT: MR. CORNEIL, MR. SAGE**

Mr. Corneil was reconnected to teleconference and Mr. Sage entered the meeting.

Mr. Steve Cochrane, Executive Director, informed the Board the Pension Trust was up 16.5 percent fiscal year to date and for the first quarter, the Fund was in the top third of Public Pension Funds as measured by the Callan universe of funds.

**BOARD EDUCATION:**

Wells Capital Management - Representatives Mr. Jeff Mellas and Mr. Doug Beath, reviewed the performance of the Alpha Capture Portfolio they manage within the Pension Trust's Domestic Large Cap Equity portfolio and their perspective on the market conditions and how those conditions have affected their model.

A copy of their report is on file at the Retirement and Investment Office (RIO).

Clifton Group - Representatives Mr. Ben Lazarus and Mr. Tom Lee updated the Board on the overlay program and also provided an educational segment on understanding risk management strategies.

A copy of their report is on file at RIO.

Lt. Governor Dalrymple left the meeting and Mr. Corneil assumed chair responsibilities.

**GOVERNANCE:****ADMINISTRATION**

Audit Committee Report - Mr. Gessner updated the Board on the activities of the Audit Committee's November 20, 2009 meeting.

Mr. Gessner reported RIO's Internal Audit Division has completed the second cycle of auditing school districts and have started on the third cycle which hopefully will be completed in five years. He also mentioned the first cycle had 229 school districts, the second 182, and the third will have 181 as Eureka will be closing.

He also reported the Audit Committee has been working with RIO's Internal Audit Division to streamline their time budget so the areas that are at risk get the appropriate audit time needed.

He also informed the Board Eide Bailly reviewed RIO's June 30, 2009 financial audit report and issued an unqualified opinion. The Board was provided a copy of the report.

Ms. Connie Flanagan, Fiscal and Investment Officer, informed the Board Eide Bailly did issue one finding for the valuation of alternative investments. The office does not receive valuations for the investments in a timeframe that allows staff to incorporate them into the financial statements in time for Eide Bailly to audit them. RIO staff has implemented the following steps to accommodate the finding:

1. RIO will contact those managers who have late valuations and ask them to try to accommodate their schedule for year-end accounting.
2. RIO will leave the June accounting open one more week at the custodian bank in order to capture a few more valuations at that level. This will only be an option if the external auditors continue to use the same schedule (last week of August) to begin audit fieldwork. Otherwise, RIO will not be able to generate and reconcile the year-end financial data in time for their work.
3. RIO will keep a list of all valuations not received at the time financial statements are generated until near the end of the audit fieldwork. As valuations are received, staff will calculate the difference between the final valuation and the valuation booked in the financial statements. If the total difference is material (as determined by the external auditors), staff will make an adjusting entry accordingly.

Mr. Cochrane stated this is a universal finding for many public pension funds across the nation.

Mr. Corneil requested Treasurer Schmidt chair the remainder of the meeting.

SIB Investment Manager Catalog - Ms. Flanagan reviewed a draft compilation of the SIB money managers and their relationships. The report is intended to assist the board in keeping track of what managers have been hired and what their mandate is. The report will continually reflect action taken by the Board. Ms. Flanagan requested the Board look over the summarization and provide feedback. The issue will be put on the March agenda for further review. Treasurer Schmidt requested that the name of the client service officer for each firm be provided in the catalog.

**QUARTERLY MONITORING:**

The following monitoring reports were provided to the Board for their approval: Executive Limitations/Staff Relations, Budget/Financial Conditions, Retirement Activities, and Investment Activities for the period ending December 31, 2009; the RIO external audit report for the period ending June 30, 2009, and the money manager annual review report for the month of December 2009.

**COMMISSIONER HAMM MOVED AND MR. SANDAL SECONDED TO ACCEPT THE MONITORING REPORTS AS PRESENTED.**

**AYES: MR. CORNEIL, MR. GESSNER, MR. SANDAL, MR. SAGE, MS. TERNES, TREASURER SCHMIDT, COMMISSIONER HAMM, MR. ENGLESON, MR. TOSO, AND MR. ERDMANN**

**NAYS: NONE**

**MOTION CARRIED**

**ABSENT: LT. GOVERNOR DALRYMPLE**

**OTHER:**

The Board discussed concerns over Wells Capital Management's ACP product performance. Mr. Cochrane stated Mr. Paul Erlendson, Callan Associates, will be at the February 26, 2010 meeting and performance concerns can be discussed in more depth at that time. It was discussed in general that we continue to observe Wells for another quarter or more, depending on performance and market conditions.

The next SIB meeting is scheduled for February 26, 2010, at 8:30 a.m. at the State Capitol, Peace Garden Room, Bismarck, ND.

The next SIB Audit Committee meeting is scheduled for February 26, 2010, at 1:00 p.m. at the State Capitol, Peace Garden Room, Bismarck, ND.

**ADJOURNMENT:**

Treasurer Schmidt adjourned the meeting at 10:55 p.m.

Respectfully Submitted:

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Lt. Governor Dalrymple, Chair  
State Investment Board

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Bonnie Heit  
Reporting Secretary