NORTH DAKOTA TEACHERS' FUND FOR RETIREMENT
MINUTES OF THE
JUNE 16, 2005, BOARD MEETING

BOARD MEMBERS PRESENT:	Mark Sanford, President Barb Evanson, Vice President Clarence Corneil, Trustee Michael Gessner, Trustee Lowell Latimer, Trustee Kelly Schmidt, State Treasurer
BOARD MEMBER ABSENT:	Wayne Sanstead, State Superintendent
STAFF PRESENT:	Steve Cochrane, Executive Director Fay Kopp, Deputy Executive Director Vida Keller, Administrative Assistant Les Mason, Internal Audit Supervisor Dottie Thorsen, Internal Auditor
OTHERS PRESENT:	Mike Carter, GRS Chris Conradi, GRS Flick Fornia, GRS Gloria Lokken, NDEA Scott Miller, Attorney General's Office Howard Snortland, NDRTA Tami Wahl, NDRTA Joe Westby, NDEA

CALL TO ORDER:

Dr. Mark Sanford, President of the Teachers' Fund for Retirement (TFFR) Board of Trustees, called the meeting to order at 8:30 a.m. on Thursday, June 16, 2005, at the State Capitol, Fort Union Room, Bismarck, North Dakota.

THE FOLLOWING MEMBERS WERE PRESENT REPRESENTING A QUORUM: TREASURER SCHMIDT, MRS. EVANSON, PRESIDENT SANFORD, MR. GESSNER, MR. CORNEIL, AND DR. LATIMER.

WELCOME NEW BOARD MEMBER:

Dr. Sanford welcomed the new TFFR Board member, Michael Gessner, an active teacher from Minot. Mr. Gessner was appointed by Governor Hoeven to complete Paul Lofthus' term on the board (effective June 1, 2005 through June 30, 2006).

MINUTES:

The Board considered the minutes of the March 10, 2005, meeting.

TREASURER SCHMIDT MOVED AND DR. LATIMER SECONDED TO APPROVE THE MINUTES OF THE MARCH 10, 2005, MEETING AS PRESENTED.

AYES: TREASURER SCHMIDT, MRS. EVANSON, PRESIDENT SANFORD, MR. GESSNER, MR. CORNEIL, AND DR. LATIMER.
NAYS: NONE

MOTION PASSED

ASSET/LIABILITY MODELING STUDY RESULTS:

Mr. Mike Carter, Gabriel, Roeder, Smith, and Company (GRS), presented the results of TFFR's 2005 Asset/Liability Modeling Study (ALM). A copy of the report is on file at the Retirement and Investment Office (RIO).

Mr. Carter outlined the purpose of the ALM Study. He stated that an ALM Study predicts the range of probable investment results and liability values for 5,000 economic simulations over the next 20 years for four proposed portfolios. The ALM Study:

- quantifies "risk" in terms of TFFR's margin, funded ratio, and external cash flow requirements;
- determines if asset allocation can help TFFR return to a positive margin and achieve a fully funded status;
- assesses the likelihood of a significant degeneration in TFFR's funded status;
- provides information about the impact of a declining active membership;
- compares projected results under four alternative asset allocations;
- compares results under a single alternative for measuring the margin;
- determines the likelihood that TFFR will become fully funded;
- investigates whether negative cash flow will become large enough to impact investment allocation and strategy.

Mr. Carter also reviewed the key demographic and benefit assumptions previously approved by the Board for this study, as well as the asset classes and portfolios to be modeled. Portfolios A and B are more conservative than the current allocation, Portfolio C is the current target allocation, and Portfolio D is more aggressive than the current allocation. The asset mix of each portfolio, expected return and expected risk is outlined below:

	Portfolios A	B	C (current)	D
Large Cap Equities	30	28	30	30
Small Cap Equities	10	10	10	13
International Equities	10	18	20	20
Real Estate - Direct	5	9	9	10
Alternative Investments (General)	5	5	5	5
Emerging Markets Equities	5	5	5	7
Domestic Fixed Income	24	12	7	9
International Fixed Income	5	5	5	0
High Yield Bonds	5	7	7	5
Cash	1	1	2	1
Total	100	100	100	100
Subtotal Traditional Equity	55	61	65	70
Subtotal Traditional Equity + Alternatives	60	66	70	75
Total Cash + Fixed Income + Real Estate	40	34	30	25
Expected Return (20-year)	8.48%	8.93%	9.07%	9.36%
Expected Risk (Standard Deviation)	12.06%	13.52%	14.10%	15.02%

The ALM Study results were discussed in terms of the impact over short term (five years - 2008), intermediate term (ten years - 2013) and long term (20 years - 2023). The results are compared for market value of assets, annualized return for market values, unfunded liability, funded ratio, calculated contribution rates and margins, and funding period. The returns are not reduced for TFFR administrative and investment expenses which are assumed to average 0.45% of the beginning-of-year market value in all of the model's calculations.

Mr. Carter outlined the ALM study findings and provided the following conclusions:

- There is a greater than 50% probability the Fund will not be able to develop a positive margin over the long term, regardless of the portfolio. This is driven by the long term impact of the 2000-2003 bear market and accentuated by the assumption that the active membership will decline from 9,800 to under 8,900 over the period. The number of actives per retiree is projected to fall from 1.8 to 1.0. Covered payroll is expected to grow an average of 2.3% per year, despite the membership decline.
- Cash flow should not be a problem as long as the system generates cash equal to 6% of its assets.
- Portfolio D performs best in the best, near best, and expected cases on all measures.
- There are only small differences among the portfolios in the near worst case.

- Portfolio A does best in the worst case.
- It will take a sustained market recovery for the Fund to invest itself back into positive margins.
- There is little additional risk in moving to a more aggressive portfolio, given the upside potential.

The Board recessed at 10:35 a.m. and reconvened at 10:46 a.m.

Mr. Steve Cochrane, Executive Director, presented additional information relating to the ALM Study results, and recommended Portfolio B as the first choice, and Portfolio C as the second choice. Mr. Cochrane indicated that the Sharpe Ratio declines from Portfolio B to Portfolio C, and again from Portfolio C to Portfolio D. This indicates that investment risk increases more rapidly than does expected return as the observation is moved from B to C to D. Mr. Cochrane also outlined the composition of the Pension Trust Domestic Fixed Income and compared it with the Lehman Aggregate Index. Due to the significant exposure to timber investments, BBB bonds and convertible bonds, our allocation has a higher expected return profile than the Index. The Wilshire Report regarding funding levels and asset allocation for 123 public funds had an average allocation of 60%/40% in 2004 and 63%/37% in 2005. Mr. Cochrane stated that only two out of 123 public funds in 2004 had an equity exposure of 75% or over.

Mr. Carter stated a five-year time horizon would be well suited to TFFR, however, he cautioned the Fund to consider the long term horizon as well. He also noted that while Portfolio D offers more upside potential, Portfolio B doesn't give up much on the upside and offers more flexibility regarding timber and fixed income. Mr. Flick Fornia and Mr. Chris Conradi, GRS, agreed that Portfolio D is one of the more aggressive asset allocations in the country, and acknowledged differences relating to timber, BBB bonds, and emerging market investments. Mr. Carter stated GRS is comfortable with Portfolio B, C, or D over a five-year period of time, with D being the choice over the long term.

The Board recessed at 11:35 a.m. and reconvened at 12:20 p.m.

As requested by the Board, Mrs. Fay Kopp, Deputy Executive Director, reviewed 2004 projections done by GRS. These projections compared the impact on TFFR of two different investment scenarios (constant 8% and 8.45% over 20 years). The projections compared the existing TFFR benefit and contribution schedule and an alternative TFFR benefit and contribution schedule (increase contributions, reduce benefits to Rule of 90, 5 year vesting, and 5 year final average salary for future hires). The projections will be updated after the 2005 valuation report (including Experience Study changes) is completed in November. Board discussion followed. Since it appears that investment earnings alone may not be able to achieve the desired funding results over the next 20 years, the Board plans to continue discussing possible contribution increases and/or benefit changes for new hires.

Mrs. Kopp provided historical information about TFFR asset mixes approved by the TFFR Board in 1995 and 2000. She summarized the 2005 ALM Study findings, and reiterated that in the next 20 years, investment returns alone are not expected to provide TFFR with a positive margin regardless of the portfolio selected; the funded ratio is not expected to improve much; the unfunded actuarial accrued liability (UAAL) is expected to increase; and the negative margin is expected to worsen.

Mrs. Kopp outlined concerns with Portfolio D (approximately 75% equity/25% fixed income): Portfolio D assumes too much risk for only a slight increase in expected return; Portfolio D is one of the most aggressive when compared to other public pension systems; Portfolio D does not include any international fixed income so loses some diversification aspects; Portfolio D only slightly increases domestic fixed income, which includes timber and BBB bonds, and reduces high yield bonds. She also outlined advantages to Portfolio B (approximately 66% equity/34% fixed income): Portfolio B offers a similar return for less risk which may be more defensible and appropriate for a public pension plan; Portfolio B takes advantage of more timber and the BBB bonds within the domestic fixed income portfolio which should provide a greater rate of return than a normal fixed income portfolio; and Portfolio B includes international fixed income for diversification. Mrs. Kopp indicated both she and Mr. Cochrane prefer the risk and return characteristics of Portfolio B over the others.

After discussion by the Board,

MRS. EVANSON MOVED AND MR. CORNEIL SECONDED TO SELECT PORTFOLIO B OF THE ASSET ALLOCATION ALTERNATIVES FROM THE 2005 ALM STUDY.

A ROLL CALL VOTE WAS TAKEN AS FOLLOWS: AYES - MR. GESSNER, DR. LATIMER, TREASURER SCHMIDT, MRS. EVANSON, MR. CORNEIL, AND PRESIDENT SANFORD.
NAYS: NONE

MOTION PASSED

TFFR INVESTMENT UPDATE:

Mr. Cochrane stated TFFR's estimated investment return through June 16, 2005, was 11.6%. He also noted that of the 115 funds in the Callan Fund Sponsor Data Base, the TFFR/Public Employee Retirement System (PERS)/Pension Trust total Fund ranked #1 for the year ended March 31, 2005. Mr. Cochrane also reviewed the June 17, 2005, SIB Board meeting agenda with the Board.

2005 LEGISLATIVE SUMMARY:

Mrs. Kopp provided a summary of TFFR-related legislation that passed and failed during the 2005 legislative session. She also mentioned possible legislative proposals for the 2007 session. She noted that the make-up of the Legislative Council Employee Benefits Programs Committee will be announced on June 22. The Committee will likely set April 1, 2006 as the date for agencies and boards to submit 2007 legislative proposals for study.

NCTR AND FEDERAL LEGISLATIVE ISSUES:

Mrs. Kopp stated she recently attended an NCTR Legislative Committee meeting in Washington, DC. While there, she also met with legislative staff members from the offices of Senator Dorgan, Senator Conrad, and Congressman Pomeroy about issues affecting state and local government pension plans.

CPAS PENSION SOFTWARE IMPLEMENTATION UPDATE:

Mrs. Kopp reviewed the June 10, 2005, CPAS/NDRIO Executive Steering Committee Report and Summary with the Board. She stated the project schedule has been extended by one month, and an additional 100 hours of report development work has been approved, for a net cost increase of $10,000. This additional cost remains within the approved $2 million budget. The project continues to be under budget, but is slightly behind schedule in data conversion, reports, system performance, backup, restore, and disaster recovery plans. Mrs. Kopp stated that user acceptance testing is now underway with plans to go live by August 31, 2005.

RETIREMENT OFFICER'S REPORT:

Mrs. Kopp noted the Retirement and Investment Office (RIO) has been awarded the 2004 Certificate of Achievement for Excellence in Financial Reporting for the seventh consecutive year.

Mrs. Kopp stated the total number of new retirees during the July 1, 2004-June 30, 2005 fiscal year was 357. At the close of the year, there were 5,589 retirees and beneficiaries receiving an average of $1,309 per month. Mrs. Evanson noted the excellent service members receive from the TFFR staff.

BOARD CALENDAR AND EDUCATION PLAN:

Mrs. Kopp presented the Board with a draft of the TFFR and SIB meeting schedule along with the TFFR board education plan for 2005-06. Board members suggested a presentation of what other states are doing in response to market downturns and a presentation of the PERS health insurance study.

DR. LATIMER MOVED AND TREASURER SCHMIDT SECONDED TO AUTHORIZE MRS. KOPP TO ORGANIZE THE BOARD CALENDAR AND EDUCATION PLAN FOR THE 2005-06 YEAR.

AYES: MR. CORNEIL, MRS. EVANSON, DR. LATIMER, TREASURER SCHMIDT, PRESIDENT SANFORD, AND MR. GESSNER.
NAYS: NONE

MOTION PASSED

CONSENT AGENDA:

TREASURER SCHMIDT MOVED AND MRS. EVANSON SECONDED TO APPROVE THE CONSENT AGENDA AND APPROVE A QUALIFIED DOMESTIC RELATIONS ORDER (QDRO).

AYES: MRS. EVANSON, TREASURER SCHMIDT, PRESIDENT SANFORD, DR. LATIMER, MR. GESSNER, AND MR. CORNEIL.
NAYS: NONE

MOTION PASSED

ADJOURNMENT:

With no further business to come before the Board, President Sanford adjourned the meeting at 1:35 p.m.

Respectfully Submitted:

Mark Sanford

Dr. Mark Sanford, President
Teachers' Fund for Retirement Board

Vida Keller

Vida Keller, Reporting ~~Secretary~~