

**NORTH DAKOTA TEACHERS' FUND FOR RETIREMENT
MINUTES OF THE
MARCH 17, 2011, BOARD MEETING**

BOARD MEMBERS PRESENT: Mike Gessner, President
Kim Franz, Trustee
Lowell Latimer, Vice President
Wayne Sanstead, State Superintendent
Kelly Schmidt, State Treasurer
Bob Toso, Trustee

TELECONFERENCE: Clarence Corneil, Trustee
Jay Kloepfer, Callan Associates

STAFF PRESENT: Connie Flanagan, Fiscal & Investment Officer
John Geissinger, Executive Director/CIO
Fay Kopp, Deputy Executive Director
Darlene Roppel, Retirement Assistant
Shelly Schumacher, Retirement Program Manager

OTHERS PRESENT: Greg Burns, NDEA
Rolland Larson, NDRTA
Gloria Lokken, NDEA
Janilyn Murtha, Attorney General's Office

CALL TO ORDER:

Mr. Mike Gessner, President of the Teachers' Fund for Retirement (TFFR) Board of Trustees, called the meeting to order at 1:00 p.m. on Thursday, March 17, 2011, in the Conference Room at the Workforce Safety & Insurance Building (WSI), 1600 E Century Ave, Bismarck, ND.

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

APPROVAL OF AGENDA:

The Board considered the meeting agenda.

MRS. FRANZ MOVED AND DR. LATIMER SECONDED TO APPROVE THE AGENDA AS PRESENTED.

AYES: MR. CORNEIL, MRS. FRANZ, MR. TOSO, PRESIDENT GESSNER, TREASURER SCHMIDT AND DR. LATIMER.

NAYS: NONE

MOTION CARRIED.

MINUTES:

The Board considered the minutes of the February 24, 2011, board meeting.

MRS. FRANZ MOVED AND TREASURER SCHMIDT SECONDED TO APPROVE THE MINUTES OF THE FEBRUARY 24, 2011, BOARD MEETING AS PRESENTED.

AYES: PRESIDENT GESSNER, MR. TOSO, DR. LATIMER, TREASURER SCHMIDT, MR. CORNEIL, AND MRS. FRANZ.

NAYS: NONE

MOTION CARRIED.

Dr. Sanstead arrived at 1:05 p.m.

TFFR ASSET LIABILITY STUDY:

Mr. John Geissinger, Executive Director/CIO, welcomed Mr. Jay Kloepfer, Executive Vice President, Callan Associates, who joined the meeting via teleconference. Mr. Kloepfer reviewed the proposed framework for considering the plan's asset allocation, and presented the proposed new policy target and rebalancing ranges. The proposed asset allocation framework defines the broad asset classes that capture the opportunity set, with clearly defined components that are specific enough to enable clear accounting of market exposures. At the same time, the framework is flexible enough to allow for innovation and the inclusion of new strategies as they arise and are appropriately vetted. The proposed new target asset allocation includes Global Equity (57%), Global Fixed Income (22%), Global Real Assets (20%), Global Alternatives (0%), and Cash Equivalents (1%). The proposed new target mix contains meaningful allocations to each of the broad economic factor categories: equity (growth and capital preservation); fixed income (income, low risk, flight to quality, deflation); and real assets (inflation, income, diversification). Mr. Kloepfer compared the proposed new target and ranges with the current target, and described risk and return components.

Mr. Kloepfer explained that in the absence of stellar investment performance, the asset/liability analysis suggested that the financial state of the Fund cannot be meaningfully improved through investment policy alone. Other key policies - benefit and funding - need to be modified to improve the financial health. He also noted the Fund's liquidity needs must be factored into the allocation decision regarding the size of the illiquid investments. While current liquidity needs are manageable, the asset/liability study suggests liquidity will become an issue within 10 years, under current funding policy. He also stated that expected risk is reduced under the proposed target policy in comparison to the current target and effective exposure.

Mr. Kloepfer also noted that the expected return for the proposed new policy mix was about 8.1% using the 2010 capital market projections. However, using the 2011 capital market expectations, the expected return is about 7.5%, which is below the 8% return assumed in the actuarial

valuation. Mr. Kloepfer and Mr. Geissinger described three important points to consider with regard to this expectation:

1. Callan's return expectations are for a 5-10 year outlook, compared to the actuary's return expectation which is usually for 30-plus years. Over the very long run, Callan believes it is reasonable to expect that returns may revert toward their long-term average which is higher than Callan's 5-10 year outlook.
2. Callan uses a 2.5% inflation assumption which implies a real return of 5%. The actuary uses a 3% inflation assumption, which also implies a real return of 5%. The two sets of expectations are consistent with regard to real return. If the Fund achieves a 7.5% return with 2.5% inflation, it will make the same progress toward funding as if it achieved 8.0% return with 3.0% inflation.
3. Callan's expectations reflect passive exposure to the broad, liquid capital markets with no accommodation for potential active management value-added. To the extent active management adds value, the Fund can expect an incremental return on top of the return projection of the proposed asset mix.

Copies of the Callan presentation and March 11, 2011 letter are on file at the Retirement and Investment Office (RIO).

After discussion, the Board decided to wait until after the legislative session to make the final decision at which time the results of legislative proposals relating to funding will be known. Additionally, Mr. Geissinger and Mrs. Fay Kopp, Deputy Executive Director, will review and update TFFR investment guidelines, and present for Board approval. This topic will be put on the May board meeting agenda.

SIB UPDATE:

Mr. Geissinger gave an overview of the State Investment Board (SIB) meeting that was held February 25, 2011, and previewed the agenda for the March 18 meeting.

Estimated fiscal year performance from July 1, 2010 to March 16, 2011, is 17.4%.

Mr. Geissinger updated the Board on proposed legislation relating to the SIB. SB 2344 removes one TFFR representative, one Public Employees Retirement System (PERS) representative, and the Land Commissioner from the SIB, and replaces them with one banker and two investment professionals. Mr. Geissinger and Mrs. Kopp testified before the House Industry, Business and Labor (IBL) Committee. No action was taken.

A hearing was also held on SB 2302, which creates a second SIB to manage the Legacy Fund and Budget Stabilization Fund. Mr. Geissinger testified on the bill. Lt. Governor Wrigley proposed an amendment to create an investment policy committee or governing body for the Legacy Fund. No action was taken.

The board recessed at 1:55 p.m. and reconvened at 2:10 p.m.

Mr. Corneil left the meeting at 1:55 p.m.

LEGISLATIVE UPDATE:

Mrs. Kopp updated the board on legislation relating to TFFR.

Hearings were held March 17, 2011, on HB 1133 and HB 1134 before the Senate Government and Veterans Affairs (GVA) Committee. Mrs. Kopp testified on both bills. HB 1133 was given a do pass recommendation by the committee. Mrs. Kopp requested an amendment to HB 1134 which would address certain tax related issues. North Dakota Education Association (NDEA), North Dakota Council of Educational Leaders (NDCEL), North Dakota School Board Association (NDSBA), and North Dakota Retired Teachers Association (NDRTA) also testified in support of HB 1134. No action was taken by the Committee.

ACTUARIAL RFP UPDATE:

Mrs. Kopp reported that five proposals were received from actuarial consulting firms by the due date. One firm has since withdrawn its proposal. The proposal evaluation committee (Mrs. Kopp, Mr. Geissinger and Mrs. Schumacher) independently reviewed the proposals, awarding points for the technical proposals. Mrs. Flanagan awarded points to each cost proposal separately from the technical proposal. After discussion, the Board decided to interview all four respondents due to the close combined rankings of the consulting firms. They will be asked to give a 20-30 minute presentation summarizing their proposal, followed by a question and answer session. Tentative date for the oral presentations is Wednesday, April 27, 2011, with interviews starting at 8:30 a.m.

CONSENT AGENDA:

MR. TOSO MOVED AND TREASURER SCHMIDT SECONDED TO APPROVE THE CONSENT AGENDA WHICH INCLUDED ONE DISABILITY APPLICATION #2011-4D.

AYES: TREASURER SCHMIDT, DR. SANSTEAD, PRESIDENT GESSNER, MRS. FRANZ, DR. LATIMER, AND MR. TOSO.

NAYS: NONE

MOTION CARRIED.

OTHER BUSINESS:

President Gessner stated the next regular meeting will be held April 14, 2011, and the next special board meeting will be on April 27, 2011 at WSI. Special board meetings may be called if there are legislative issues that need to be discussed and acted on by the board.

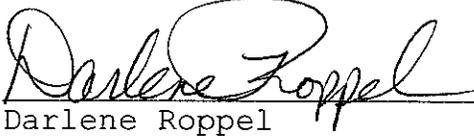
ADJOURNMENT:

With no further business to come before the Board, President Gessner adjourned the meeting at 2:45 p.m.

Respectfully Submitted:



Mr. Mike Gessner, President
Teachers' Fund for Retirement Board



Darlene Roppel
Reporting Secretary