

**NORTH DAKOTA STATE INVESTMENT BOARD
MINUTES OF THE
April 23, 2021, BOARD MEETING**

MEMBERS PRESENT:

Brent Sanford, Lt. Governor, Chair
 Rob Lech, TFFR Board, Vice Chair
 Troy Seibel, PERS Board, Parliamentarian
 Thomas Beadle, State Treasurer
 Jon Godfread, Insurance Commissioner
 Toni Gumeringer, TFFR Board
 Keith Kempenich, Legacy/Budget Stab. Adv. Board
 Bryan Klipfel, Director of WSI
 Adam Miller, PERS Board
 Mel Olson, TFFR Board
 Jodi Smith, Commissioner of Trust Lands
 Yvonne Smith, PERS Board

STAFF PRESENT:

Eric Chin, Chief Risk Officer/Senior CIO
 Bonnie Heit, Admin SVS Spur
 David Hunter, Exec Dir/CIO
 Jan Murtha, Dep Exec Dir/CRO
 Ann Nagel, Investment Accountant
 Sara Sauter, Spur of Internal Audit
 Darren Schulz, Dep CIO
 Susan Walcker, Senior Financial Accountant
 Denise Weeks, Retirement Program Manager

GUESTS:

Alex Browning, Callan LLC
 Tamara Doi Beck, Northern Trust/50 South
 Brian Bark, Sun Mountain
 Jodi Bjornson, WSI
 Dan Brooks, Sun Mountain
 Sally Corning, Sun Mountain
 Jessica Davis, Insurance Dept.
 Dean DePountis, Attorney General's Office
 Paul Erlendson, Callan LLC
 Trey Hart, Northern Trust/50 South
 Perry Hopper, Callan LLC
 Candace Johnson, Securities Dept.
 Pete Keliuotis, Callan LLC
 Jerry Klein, LBSFAB
 Rachel Kriege, Insurance Dept.
 Scott Litman, GCM Grosvenor
 Adam Mathiak, Legislative Council
 Bob Morgan, Northern Trust/50 South
 Lee Rand, Sun Mountain
 Bryan Reinhardt, PERS
 Todd Steinwand, BND
 Max Sango, Invesco
 Greg Tevin, Emerging Prairie
 Karen Tyler, Securities Dept. Commissioner
 Jared Ungar, Callan LLC

CALL TO ORDER:

Dr. Rob Lech, Vice Chair, called the State Investment Board (SIB) regular meeting to order at 8:31 a.m. on Friday, April 23, 2021. The meeting was held at Workforce Safety & Insurance, 1600 E Century Ave., Bismarck, ND.

A roll call vote taken and a quorum of the SIB was present.

AGENDA:

The Board considered the agenda for the April 23, 2021, meeting,

IT WAS MOVED BY MR. OLSON AND SECONDED BY MS. GUMERINGER AND CARRIED BY A VOICE VOTE TO ACCEPT THE AGENDA FOR THE APRIL 23, 2021, MEETING.

AYES: MR. KLIPFEL, COMMISSIONER GODFREAD, MR. OLSON, MR. MILLER, TREASURER BEADLE. MS. GUMERINGER, MS. SMITH, COMMISSIONER SMITH, DR. LECH, AND MR. SEIBEL

NAYS: NONE

MOTION CARRIED

ABSENT: LT. GOVERNOR SANFORD

MINUTES:

IT WAS MOVED BY MS. SMITH AND SECONDED BY MS. GUMERINGER AND CARRIED BY A VOICE VOTE TO APPROVE THE MARCH 26, 2021, MINUTES AS DISTRIBUTED.

AYES: DR. LECH, TREASURER BEADLE, MR. OLSON, MR. SEIBEL, MR. MILLER, COMMISSIONER GODFREAD, MS. GUMERINGER, MS. SMITH, COMMISSIONER SMITH, AND MR. KLIPFEL

NAYS: NONE

MOTION CARRIED

ABSENT: LT. GOVERNOR SANFORD

Lt. Governor assumed the role of Chair.

INVESTMENTS:

In-State Investment Program Due Diligence Overview - Mr. Hunter provided an update on the In-State Investment Program. SIB Investment Staff and Callan LLC completed additional due diligence on the top three candidates advanced by the SIB at their March 26, 2021, meeting; GCM Grosvenor, 50 South Capital, and Sun Mountain Capital. SIB Investment Staff and Callan identified 50 South Capital and Sun Mountain Capital as the top two finalists. All three firms were deemed to be strong candidates to expand the Legacy Fund In-State Investment Program by providing needed capital to drive economic development in North Dakota. However, SIB Investment Staff and Callan ranked 50 South and Sun Mountain higher than GCM Grosvenor largely due to their proposals being more closely aligned with the desire to promote new capital formation for both new and existing entrepreneurs in North Dakota in order to further diversify the economy and create jobs. Sun Mountain and 50 South Capital also committed to establishing physical presence in North Dakota.

Discussion followed on the process and HB 1425.

The Board recessed at 8:55 a.m. and reconvened at 9:11 a.m. due to technical issues.

Discussion continued on the process and HB 1425. After discussion, 50 South Capital and Sun Mountain Capital presented additional information on their proposals for the North Dakota In-State Investment Program.

The Board recessed at 10:41 a.m. and reconvened at 10:54 a.m.

SIB Investment Staff reviewed their recommendation and ranked 50 South Capital over Sun Mountain Capital based on the following:

- 1) Institutional Presence - 50 South Capital is a subsidiary of Northern Trust, which is a leading global financial services firm with vast financial resources, strong "AA" credit rating, robust compliance department, and a trusted advisor to thousands of large, institutional investors in the U.S. and abroad. Northern Trust has \$1.4 trillion in assets under management and over \$11 trillion in assets under custody as of Dec. 31, 2020.
- 2) Investment Performance - Although it is difficult to compare track records for in-state programs given differing investment objectives and opportunities in varied geographic locations, 50 South Capital returns were generally stronger and more in-line with RIO's return expectations on a sector by sector basis in the last 5-years.
- 3) Trusted and Proven Relationship - The SIB and ND Department of Trust Lands have long-term, valued relationships with the corporate parent of 50 South Capital as Northern Trust has served as SIB's primary custodian and record keeper for 30 years.
- 4) Competitive Pricing - All in pricing is competitive between 50 South Capital and Sun Mountain. In addition, 50 South is offering a 10% Northern Trust custodial fee credit based on 50 South Management Fees (e.g. \$1 million fee savings over 15 years).

SIB oversight has effectively fostered the development of a top-performing sovereign wealth fund over the last five years. Net investment returns of the Legacy Fund generally compare favorably versus larger sovereign wealth funds in the last 5-years including the \$1.3 trillion Norway Global Government Fund, and the \$74 billion Alaska Permanent Fund in 2020, while generally having a materially lower allocation to equity investments. These above benchmark returns have been achieved while striving to maintain the highest fiduciary standards without compromise and in accordance with all state and federal laws without exception. SIB Investment Staff strongly believe 50 South Capital is well aligned with the SIB and RIO to continue to strive to attain the best risk adjusted returns for its clients in accordance with the intent of recent legislatively mandated investment targets set for the Legacy Fund.

SIB Investment Staff recommended the SIB engage 50 South Capital, a subsidiary of Northern Trust, to expand the Legacy Fund in-state investment program with a new \$250 million Private Capital commitment including sector allocations to private equity, venture capital, and private credit. This recommendation is consistent with a Legacy and Budget Stabilization Fund Advisory Board approved mandate for a 3% target allocation to Private Capital with a preference for in-state investments at a competitive rate of return. Legacy Fund is estimated at \$8.4 billion at March 31, 2021, such that a 3% allocation would approximate \$250 million. In order to minimize the impact of commitment fees on returns, the initial commitment to 50 South Capital is recommended to be \$100 million at inception. The commitment size may be increased by RIO on an "as needed basis" in the upcoming years as compelling investment opportunities are identified, subject to appropriate due diligence, negotiated and funded by 50 South Capital on behalf of the Legacy Fund and SIB.

IT WAS MOVED BY MR. OLSON AND SECONDED BY MS. GUMERINGER AND CARRIED BY A ROLL CALL VOTE TO ACCEPT STAFF RECOMMENDATION AND ENGAGE 50 SOUTH CAPITAL TO EXPAND THE LEGACY FUND IN-STATE INVESTMENT PROGRAM WITH A NEW \$250 MILLION PRIVATE CAPITAL COMMITMENT INCLUDING SECTOR ALLOCATIONS TO PRIVATE EQUITY VENTURE CAPITAL AND PRIVATE CREDIT.

AYES: TREASURER BEADLE, MR. GUMERINGER, COMMISSIONER GODFREAD, MR. KLIPFEL, COMMISSIONER SMITH, MS. SMITH, DR. LECH, MR. MILLER, MR. SEIBEL, MR. OLSON, AND LT. GOVERNOR SANFORD.

NAYS: NONE

MOTION CARRIED

BANK OF NORTH DAKOTA (BND) IN-STATE INVESTMENT PROGRAM:

BND approached SIB Investment Personnel to determine if a portion of the existing \$400 million BND Match Loan CD Program could be used to fund a private debt placement backed by a highly rated public entity at a competitive risk adjusted rate of return. SIB Investment Staff engaged in market due diligence to provide indicative market pricing and terms for this proposed \$100 million, fixed rate, 20-year loan. Upon sharing these indicative terms and pricing with BND, SIB Investment Staff was requested to seek SIB approval to move forward with the in-state investment opportunity subject to further negotiation of final legal terms including a requirement that at least one major rating agency formally issue a ratings letter indicating the private debt instrument is rated no less than "A" at inception/funding by the Legacy Fund.

The SIB elected to enter into Executive Session for additional details on the potential in-state investment opportunity including terms which are subject to a non-disclosure agreement.

IT WAS MOVED BY DR. LECH AND SECONDED BY MS. SMITH AND CARRIED BY A ROLL CALL VOTE TO ENTER INTO EXECUTIVE SESSION PURSUANT TO N.D.C.C. 44-04-19.2 AND N.D.C.C. 44-04-18.4 TO REVIEW AND DISCUSS A CONFIDENTIAL PRIVATE MARKET INVESTMENT OPPORTUNITY.

AYES: MR. SMITH, MR. MILLER, MR. OLSON, MS. GUMERINGER, DR. LECH, MR. SEIBEL, MR. KLIPFEL, COMMISSIONER GODFREAD, COMMISSIONER SMITH, TREASURER BEADLE, AND LT. GOVERNOR SANFORD

NAYS: NONE

MOTION CARRIED

The Board entered into Executive Session at 11:21 a.m.

The SIB, Ms. Sauter, Mr. Chin, Mr. Hunter, Mr. Schulz, Mr. Steinwand, Mr. DePountis, and Ms. Heit were in attendance.

SIB exited Executive Session at 11:36 a.m.

IT WAS MOVED BY DR. LECH AND SECONDED BY COMMISSIONER GODFREAD AND CARRIED BY A ROLL CALL VOTE TO AUTHORIZE SIB INVESTMENT STAFF TO MOVE FORWARD WITH ADVANCING THE DIRECT PURCHASE OF FIXED RATE BONDS BY THE SIB FOR THE LEGACY FUND FROM THE NORTH DAKOTA TRANSMISSION AUTHORITY.

Commissioner Smith, citing a conflict of interest, felt she should abstain from the vote.

IT WAS MOVED BY MR. SEIBEL AND SECONDED BY TREASURER BEADLE AND CARRIED BY A ROLL CALL VOTE TO ALLOW COMMISSIONER SMITH TO VOTE.

AYES: MR. GUMERINGER, MS. SMITH, MR. KLIPFEL, TREASURER BEADLE, DR. LECH, COMMISSIONER GODFREAD, MR. OLSON, MR. SEIBEL, MR. MILLER, AND LT. GOVERNOR SANFORD

NAYS: NONE

MOTION CARRIED

ABSTAIN: COMMISSIONER SMITH

A roll call was taken on the initial motion.

AYES: COMMISSIONER SMITH, TREASURER BEADLE, MR. MILLER, COMMISSIONER GODFREAD, MR. OLSON, MR. KLIPFEL, MS. GUMERINGER, MR. SEIBEL, DR. LECH, MS. SMITH, AND LT. GOVERNOR SANFORD

NAYS: NONE

MOTION CARRIED

INVESCO:

Mr. Schulz reviewed Invesco's Real Estate U.S. Fund VI opportunity. Because of future expected distributions of capital in the Pension Trust U.S. value-add private real estate commitments, new follow-on commitments are necessary to maintain strategic target exposures to non-core real estate. SIB Investment Staff recommended a target allocation to non-core private real estate for the Legacy Fund with the goal of further diversifying existing core private real estate mandates within the Fund. Based upon current capacity to commit, the market opportunity set, the relative attractiveness of core versus non-core strategies, and the pace of capital deployment from existing managers, SIB Investment Staff recommended an additional commitment.

Mr. Max Sango reviewed Invesco's Real Estate U.S. Fund VI opportunity.

SIB Investment Staff recommended a commitment of \$200 million in total to Invesco's Value Added Fund VI for the Pension Trust and Legacy Fund (\$100 million each).

IT WAS MOVED BY COMMISSIONER SMITH AND SECONDED BY TREASURER BEADLE AND CARRIED BY A ROLL CALL VOTE TO ACCEPT STAFF RECOMMENDATION AND COMMIT \$200 MILLION TO INVESCO'S VALUE ADDED FUND VI FOR BOTH THE PENSION TRUST AND LEGACY FUND (\$100 MILLION EACH) SUBJECT TO SATISFACTORY LEGAL REVIEW AND NEGOTIATION.

AYES: MR. OLSON, MR. SEIBEL, COMMISSIONER SMITH, MS. GUMERINGER, COMMISSIONER GODFREAD, MS. SMITH, MR. MILLER, TREASURER BEADLE, MR. KLIPFEL, DR. LECH, AND LT. GOVERNOR SANFORD

NAYS: NONE

MOTION CARRIED

Dr. Lech assumed the role of Chair.

PUBLIC EMPLOYEES RETIREMENT SYSTEM (PERS):

Mr. Hunter reviewed a revised Investment Policy Statement (IPS) for Job Service North Dakota. The IPS was approved by the PERS board at their April 13, 2021, meeting.

IT WAS MOVED BY TREASURER BEADLE AND SECONDED BY MR. OLSON AND CARRIED BY A ROLL CALL VOTE TO ACCEPT THE REVISED IPS FOR JOB SERVICE NORTH DAKOTA.

AYES: MR. KLIPFEL, MR. OLSON, COMMISSIONER GODFREAD, TREASURER BEADLE, COMMISSIONER SMITH, MR. SEIBEL, DR. LECH, MR. MILLER, MS. SMITH, AND MS. GUMERINGER

NAYS: NONE

MOTION CARRIED

ABSENT: LT. GOVERNOR SANFORD

LEGISLATIVE UPDATE:

Mr. Hunter reviewed Legislation affecting RIO and the SIB particularly RIO's budget bill HB 1022. The Senate Appropriations Committee gave a unanimous Do Pass recommendation to RIO's amended budget bill to include funding for one additional full-time employee for the Investment Division, ND Information Technology unification, and office relocation to Workforce Safety & Insurance.

TEACHERS' FUND FOR RETIREMENT (TFFR) :

Included in the SIB meeting materials was the Teachers' Fund for Retirement (TFFR) June 30, 2020, annual review report. The information provided validates that the TFFR Ends policies formally adopted by the TFFR Board and accepted by the SIB are being implemented.

EXECUTIVE REVIEW COMMITTEE :

SIB Assessment - The 2021 SIB assessment conducted by the SIB Executive Review Committee was reviewed and discussed. Overall, the self-assessment and the board-assessment had positive results and comments.

In comparing the assessment results over the years, the following trends have emerged:

1. Fiduciary attendance continues to have one of the lowest scores for multiple years.
2. An issue is understanding what authority has been retained by the SIB and what has been delegated to staff.
3. All fiduciaries need to be vocal and make sure their voice is heard during meetings.

IT WAS MOVED BY MR. OLSON AND SECONDED BY MS. GUMERINGER AND CARRIED BY A VOICE VOTE TO ACCEPT THE 2021 SIB ASSESSMENT.

AYES: MR. KLIPFEL, COMMISSIONER GODFREED, MR. OLSON, MR. MILLER, TREASURER BEADLE, MS. GUMERINGER, MS. SMITH, COMMISSIONER SMITH, DR. LECH, AND MR. SEIBEL

NAYS: NONE

MOTION CARRIED

ABSENT: LT. GOVERNOR SANFORD

Annual Compensation Survey - Ms. Smith referenced results of an annual compensation survey in which RIO participates in. The survey is conducted by a leading investment consulting firm along with 50 other U.S. public funds (the SIB was previously sent the results). Survey results indicate the Executive Director/CIO of RIO is compensated near the lowest quartile given the size of the SIB program. The Executive Review Committee (ERC) is working on a plan to move towards compensating the Executive Director/CIO in the median range or slightly above that range. The goal would be to stay in the median range from year to year. The ERC will be bringing a recommendation to the SIB at their May 21, 2021, meeting.

OTHER:

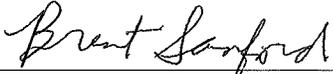
The next meeting of the Executive Review Committee has been scheduled for May 12, 2021, at 1:00 p.m. at RIO.

The next regular meeting of the Audit Committee has been scheduled for May 20, 2021, at 2:30 p.m. at Workforce Safety & Insurance.

The next regular meeting of the SIB has been scheduled for May 21, 2021, at 8:30 a.m. at Workforce Safety & Insurance.

ADJOURNMENT:

With no further business to come before the SIB, Dr. Lech adjourned the meeting at 12:37 p.m.



Lt. Governor Sanford, Chair
State Investment Board



Bonnie Heit
Recorder

