ND STATE INVESTMENT BOARD MEETING

Friday, April 26, 2019, 8:30 a.m.
Workforce Safety & Insurance
1600 East Century Avenue, Bismarck, ND

AGENDA

I. CALL TO ORDER AND ACCEPTANCE OF AGENDA

II. ACCEPTANCE OF MINUTES (March 22, 2019)

III. INVESTMENTS

A. Fixed Income Update - Mr. Hunter (10 minutes) *Informational*
B. PIMCO Update - Mr. Scott Mather, Mr. Matt Clark & Mr. Ed Sasinowski (45 minutes) **Board Action**
C. Legacy Fund Update - Mr. Hunter (10 minutes) *Informational*
D. Investment Services Update - Mr. Hunter (10 minutes) *Informational*

========================= Break from 9:45 to 10:00 a.m. ============================

IV. GOVERNANCE

A. Annual Board Planning Cycle - Mr. Hunter (15 minutes) **Board Action**
B. Board Self-Assessment Update – Ms. Yvonne Smith (10 minutes) *Informational*
C. Board Governance Education - Mr. Hunter (10 minutes) **Board Action**
D. SIB Audit & Securities Litigation Committee Updates - Mr. Hunter (10 minutes) **Board Action**

V. ADMINISTRATION *(Informational)*

A. Executive Review Committee Update - Ms. Yvonne Smith (10 minutes)
B. Legislative Update (RIO Budget) - Mr. Hunter (10 minutes)

VI. QUARTERLY MONITORING (10 min) **Board Acceptance**

A. Budget and Financial Condition - Ms. Flanagan
B. Executive Limitations / Staff Relations - Mr. Hunter
C. Investment Program - Mr. Schulz
D. Retirement Program - Ms. Kopp
E. Watch List Update - None

VII. OTHER (Outstanding Service Recognition)

Next Meetings: SIB - May 24, 2019, 8:30 a.m. - Peace Garden Room (State Capitol)
SIB Securities Litigation Committee - May 20, 2019, 3:00 p.m. - RIO Conference Room
SIB Audit Committee - May 23, 2019, 3:00 p.m. - RIO Conference Room

VIII. ADJOURNMENT

Any individual requiring an auxiliary aid or service, please contact the Retirement and Investment Office (701) 328-9885 at least three (3) days prior to the scheduled meeting.

NORTH DAKOTA STATE INVESTMENT BOARD
MINUTES OF THE
MARCH 22, 2019, BOARD MEETING

MEMBERS PRESENT: Brent Sanford, Lt. Governor, Chair
Rob Lech, TFFR Board, Vice Chair
Troy Seibel, PERS Board, Parliamentarian
Jon Godfread, Insurance Commissioner
Toni Gumeringer, TFFR Board
Adam Miller, PERS Board
Mel Olson, TFFR Board
Kelly Schmidt, State Treasurer
Jodi Smith, Commissioner of Trust Lands
Yvonne Smith, PERS Board
Cindy Ternes, WSI Designee

STAFF PRESENT: Eric Chin, Senior Investment Officer
Connie Flanagan, Chief Financial Officer
Bonnie Heit, Admin Svs Suprv
David Hunter, ED/CIO
Sara Sauter, Audit Svs Suprv
Cody Schmidt, Compliance Officer
Susan Walcker, Investment Accountant

OTHERS PRESENT: Jeff Engleson, Dept. of Trust Lands
Bryan Klipfel, WSI
Anders Odegaard, Attorney General's Office
Bryan Reinhardt, PERS

CALL TO ORDER:

Lt. Governor Sanford, Chair, called the State Investment Board (SIB) regular meeting to order at 8:30 a.m. on Friday, March 22, 2019, at Workforce Safety & Insurance, 1600 East Century Avenue, Bismarck, ND.

AGENDA:

IT WAS MOVED BY DR. LECH AND SECONDED BY COMMISSIONER GODFREAD AND CARRIED BY A VOICE VOTE TO ACCEPT THE AGENDA FOR THE MARCH 22, 2019, MEETING.

AYES: TREASURER SCHMIDT, MR. MILLER, COMMISSIONER GODFREAD, MR. OLSON, MS. TERNES, MS. GUMERINGER, MR. SEIBEL, DR. LECH, MS. SMITH, AND LT. GOVERNOR SANFORD
NAYS: NONE
MOTION CARRIED
ABSENT: COMMISSIONER SMITH

MINUTES:

IT WAS MOVED BY MS. TERNES AND SECONDED BY COMMISSIONER GODFREAD AND CARRIED BY A VOICE VOTE TO APPROVE THE MINUTES OF THE FEBRUARY 22, 2019, MEETING AS DISTRIBUTED.

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

NAYS: NONE
MOTION CARRIED
ABSENT: COMMISSIONER SMITH

INVESTMENTS:

Prudential – Mr. Hunter provided a portfolio update on Prudential Global Investment Management (PGIM). PGIM manages core plus and core bond mandates for the SIB. PGIM has been under contract with the SIB since 2006 and is one of the largest relationships. Staff will be allocating additional assets to PGIM to reduce risk across the portfolios within the BBB bond space.

PGIM representatives reviewed the portfolios they currently manage on behalf of the SIB.

Investment Policy Statement (IPS) – Mr. Hunter reviewed a revised IPS for the Public Employees Retirement System (PERS) for the Board's consideration.

IT WAS MOVED BY TREASURER SCHMIDT AND SECONDED BY MS. SMITH TO ACCEPT THE REVISED IPS FOR PERS.

AYES: MR. OLSON, MR. SEIBEL, COMMISSIONER SMITH, MS. GUMERINGER, COMMISSIONER GODFREAD, MS. SMITH, MR. MILLER, TREASURER SCHMIDT, MS. TERNES, DR. LECH, AND LT. GOVERNOR SANFORD
NAYS: NONE
MOTION CARRIED

Legacy and Budget Stabilization Fund Advisory Board – Mr. Hunter provided an update on the asset allocation, basis points charged, and the balance and returns of the Budget Stabilization Fund and the Legacy Fund. Mr. Hunter presented the information to the Legacy and Budget Stabilization Advisory Board (LBSFAB) at their March 20, 2019, meeting.

Legacy Fund Fees/Returns – Mr. Hunter had received a number of legislative requests relating to SIB client investment fees and returns in comparison to the Permanent Trust Funds of the Dept. of Trust Lands. Mr. Hunter utilized the Legacy Fund to compare as the portfolios are similar but stated comparing the two entities is challenging since the two Fund's asset allocations are different. Mr. Hunter shared the results with the Board.

Callan LLC Contract – RIO personnel are working on a review of the investment consultant industry focusing on firms with a strong presence in US public pension plan and US sovereign wealth funds. RIO personnel are working towards renewing the SIB's existing two-year retainer contract with Callan LLC before July 1, 2019. Callan LLC has served as the SIB's primary general consultant since April 1984.

GOVERNANCE/EDUCATION:

Executive Review Comm. – Ms. Smith informed the Board the Committee will be following basically the same timeline and evaluation process of the Executive Director/CIO as the prior year. The Committee reviewed the evaluation itself based on feedback from the prior year's process. The Committee felt the evaluation meets the needs of the Board as well as the Governance requirements. The Board will receive the evaluation on April 1, 2019, with a deadline of April 12, 2019. The Committee will review the results of the evaluation and will provide a preliminary update to the Board at their April 26, 2019, meeting. A final report will be given at the May 24, 2019, meeting along with a compensation recommendation.

<u>BOARD SELF-ASSESSMENT</u>:

Ms. Sauter reviewed a proposed timeline for the board's 2019 self-assessment. Ms. Sauter suggested the board self-assessment process be overseen by the current Executive Review Committee or elect a new Committee. If the Board elects to have the Executive Review Committee oversee future assessments, the Executive Review Committee could be appointed at the Board's July meeting when the Board appoints its officers for the fiscal year. This would allow the Executive Review Committee additional time to oversee the board self-assessment process.

IT WAS MOVED BY DR. LECH AND SECONDED BY COMMISSIONER GODFREAD TO COMBINE THE EXECUTIVE REVIEW COMMITTEE AND THE BOARD SELF-ASSESSMENT PROCESS IN THE TIME LINE PRESENTED BY MS. SAUTER.

AYES: TREASURER SCHMIDT, MR. GUMERINGER, COMMISSIONER GODFREAD, MS. TERNES, COMMISSIONER SMITH, MS. SMITH, DR. LECH, MR. MILLER, MR. SEIBEL, MR. OLSON, AND LT. GOVERNOR SANFORD
NAYS: NONE
MOTION CARRIED

<u>Legislative Update</u> – Ms. Flanagan attended the March 22, 2019, Senate Government and Veterans Affair (GVA) Committee hearing on HB 1368 SIB Membership. Ms. Flanagan stated Representative Kempenich provided background information on the request to add a member of the LBSFAB as a nonvoting member to the SIB. As a statutory member of the SIB, compensation would be provided to the LBSFAB member for attending the SIB meetings. No action was taken by the Senate GVA.

Discussion followed.

Mr. Hunter will notify the Senate GVA regarding the SIB's position on HB 1368 SIB Membership.

Mr. Hunter reviewed legislation that RIO is currently monitoring - HB 1013 Land Agency Budget and Investments, HB 1368 SIB Membership, SB 2022 RIO Budget, SB 2276 Infrastructure Revolving Loan Fund, SB 2293 Game and Fish – Special Fund, SB 2017 – Game and Fish Dept. Budget, HCR 3055 Legacy Fund – Principal & Earnings.

<u>Education</u> – Mr. Hunter informed the Board that the July 26, 2019, meeting will focus on board education. Potential topics for consideration include best practices and current trends in board governance (with an outside speaker), establishing appropriate performance benchmarks (based on long-term capital market expectations which serve as the framework for the SIB's asset allocation policies) and evaluating overall investment performance (based on comparing actual net investment returns versus agreed upon policy benchmarks over an appropriate time horizon). Board members are to notify Mr. Hunter if they have additional topics for consideration.

<u>Asset Class Definitions</u> – Mr. Hunter provided the Board with an updated version of Asset Class Definitions for their reference.

<u>Vested Interest</u> – Included in the Board member's packet was a preview of the Vested Interest newsletter which RIO personnel are currently working on and plan to mail within the next week.

OTHER:

The next meeting of the SIB for regular business has been scheduled for April 26, 2019, at 8:30 a.m. at Workforce Safety & Insurance, 1600 E Century Ave.

The next meeting of the Securities Litigation Committee is scheduled for May 16, 2019, at 3:00 p.m. at the Retirement and Investment Office.

The next meeting of the SIB Audit Committee is scheduled for May 23, 2019, at 3:00 p.m. at the Retirement and Investment Office.

ADJOURNMENT:

With no further business to come before the SIB, Lt. Governor Sanford adjourned the meeting at 10:07 a.m.

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Lt. Governor Sanford
State Investment Board

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Bonnie Heit
Recorder

Agenda Item III.A.

Informational

TO: State Investment Board
FROM: Dave Hunter, Darren Schulz and Eric Chin
DATE: April 26, 2019
SUBJECT: PIMCO Fixed Income Overview, Presentation and Recommendation

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Background:

PIMCO has been invited to provide the following three presentations to the SIB today:

1. A portfolio review of PIMCO's "Core Plus Constrained" strategy which represents an approximate $319 million investment within the Pension Pool. At the end of their entire presentation, RIO will seek SIB approval for a new $150 million investment in PIMCO's "Core Plus Constrained" fixed income strategy for the Insurance Pool.

2. PIMCO will share their views on current economic conditions and their potential impact on the capital markets.

3. PIMCO will preview the Private Income Fund which is under review by RIO staff.

Overview:

PIMCO currently manages $550 million of fixed income investments for the SIB including $319.3 million in a core plus constrained fixed income mandate for the Pension Pool. The SIB approved this mandate in August of 2017. PIMCO has been managing money for the SIB since 2008. The SIB's current investments with PIMCO are as follows:

	Strategy		NAV (As of 3/31/19)	% of Fund
Insurance Pool	DISCO II	$	42,159,598	1.9%
Insurance Pool	BRAVO II	$	14,419,817	0.6%
Legacy Fund	DISCO II	$	40,361,058	0.7%
Legacy Fund	BRAVO II	$	13,804,663	0.2%
Pension Pool	Core Plus Constrained	$	319,313,446	5.6%
Pension Pool	DISCO II	$	91,791,247	1.6%
Pension Pool	BRAVO II	$	28,224,480	0.5%
Total		$	550,074,309	

PIMCO's Core Plus Constrained strategy employs an actively managed, top-down, diversified approach to investing across investment grade fixed income. PIMCO's investment process begins with identifying major long-term themes that will impact markets. The firm focuses on longer term secular trends such as demographics, politics, and structural economic changes. Changes to PIMCO's secular and cyclical views drive major shifts in the portfolio.

As of 2/28/19	Last Year	Last 5 Years	Last 10 Years	Since Inception (12/89)
PIMCO Core Plus Constrained (Gross)	3.76%	2.83%	5.15%	7.04%
Blmbg:Aggregate	3.17%	2.32%	3.71%	5.81%
Excess Return	0.59%	0.51%	1.44%	1.23%

As shown above, PIMCO has been able to consistently generate excess returns against the Bloomberg Aggregate.

BOARD ACTION
(Post Presentation)

RIO Recommendation:

Staff recommends that the NDSIB approve a $150 million investment in PIMCO's Core Plus Constrained strategy for the Insurance Pool. The SIB approved a similar mandate for the Pension Pool in August 2017.

At the last board meeting, Staff described its plan to reduce risk in the Insurance Pool and the Legacy Fund by decreasing exposure to the Wells Capital Medium Quality Credit (Wells) strategy and increasing exposure to core bond strategies. These changes will result in increased diversification across the investment grade space and improve the overall credit quality of the Legacy Fund's and Insurance Pool's fixed income allocations. In the Legacy Fund, Staff is reducing Wells and increasing exposure to PGIM's Core Plus Fixed Income (PGIM) strategy.

In the Insurance Pool the two existing core bond mandates are Western Asset U.S. Core Fixed Income (Western) and PGIM. These are large positions in the Insurance Pool representing 16.5% and 13.1% of the portfolio respectively. Thus, Staff believes it prudent to add a third core bond manager to ensure proper diversification and avoid overconcentration in any one manager.

Staff believes that PIMCO's Core Plus Constrained strategy is an attractive investment for the Insurance Pool because:

1. PIMCO's top-down strategy and diverse alpha drivers differentiates it from both Western's and PGIM's bottom-up investment strategies

2. PIMCO's size offers unique advantages
    a. Deep team with over 300 investment professionals focused on evaluating fixed income
    b. 11-person risk management team
    c. Global Advisory Board retains members that include Dr. Ben Bernanke and Dr. Gordon Brown
    d. With $1.76 trillion assets under management PIMCO has access to senior management across industries

3. PIMCO manages an existing core bond mandate for the Pension Pool

4. PIMCO continues to outperform its benchmark the Bloomberg Aggregate (see chart below)

PIMCO

PIMCO's Approach to Core Bond Management

April 2019

North Dakota State Investment Board

For institutional investor use only

A company of Allianz

Disclosures

Investors should consider the investment objectives, risks, charges and expenses of the funds carefully before investing. This and other information are contained in the fund's prospectus and summary prospectus, if available, which may be obtained by contacting your investment professional or PIMCO representative or by visiting www.pimco.com. Please read them carefully before you invest or send money.

PIMCO Investments LLC

CMR2019-0415-391234

Biographical information

R. Matthew Clark, CFA, CAIA

Mr. Clark is a senior vice president and account manager in the Newport Beach office with a focus on institutional client servicing. Prior to joining PIMCO in 2002, he served as an officer in the U.S. Army for eight years, achieving the rank of captain. Mr. Clark currently serves on the board of directors of Working Wardrobes, an Orange County-based charity that helps individuals with employment barriers find meaningful work. He has 17 years of investment experience and holds an MBA from Harvard Business School. He received an undergraduate degree from Trinity University, San Antonio.

Scott A. Mather

Mr. Mather is CIO U.S. Core Strategies and a managing director in the Newport Beach office. He is a member of the Investment Committee and a generalist portfolio manager. Mr. Mather also oversees ESG portfolio integration in the U.S. Previously he was head of global portfolio management. Before that, he led portfolio management in Europe, managed euro and pan-European portfolios and worked closely with many Allianz-related companies. He also served as a managing director of Allianz Global Investors KAG. Prior to these roles, Mr. Mather co-headed PIMCO's mortgage- and asset-backed securities team. Prior to joining PIMCO in 1998, he was a fixed income trader specializing in mortgage-backed securities at Goldman Sachs in New York. He has 24 years of investment experience and holds a master's degree in engineering, as well as undergraduate degrees, from the University of Pennsylvania.

Edward Sasinowski, CFA

Mr. Sasinowski is a senior vice president and account manager in the New York office, focusing on institutional client servicing. Prior to joining PIMCO in 2011, he structured and originated asset-backed securitizations at Barclays Capital and Bear Stearns. He has 12 years of investment experience and holds an MBA from the Anderson School of Management at the University of California, Los Angeles. He earned an undergraduate degree in economics from Yale University.

PIMCO's Approach to Core Bond Management

Why invest in core bonds…with PIMCO?

Why invest in core bonds?

- Income and capital appreciation
- Capital preservation
- Portfolio diversification, specifically to equities
- Liquidity*

Why PIMCO?

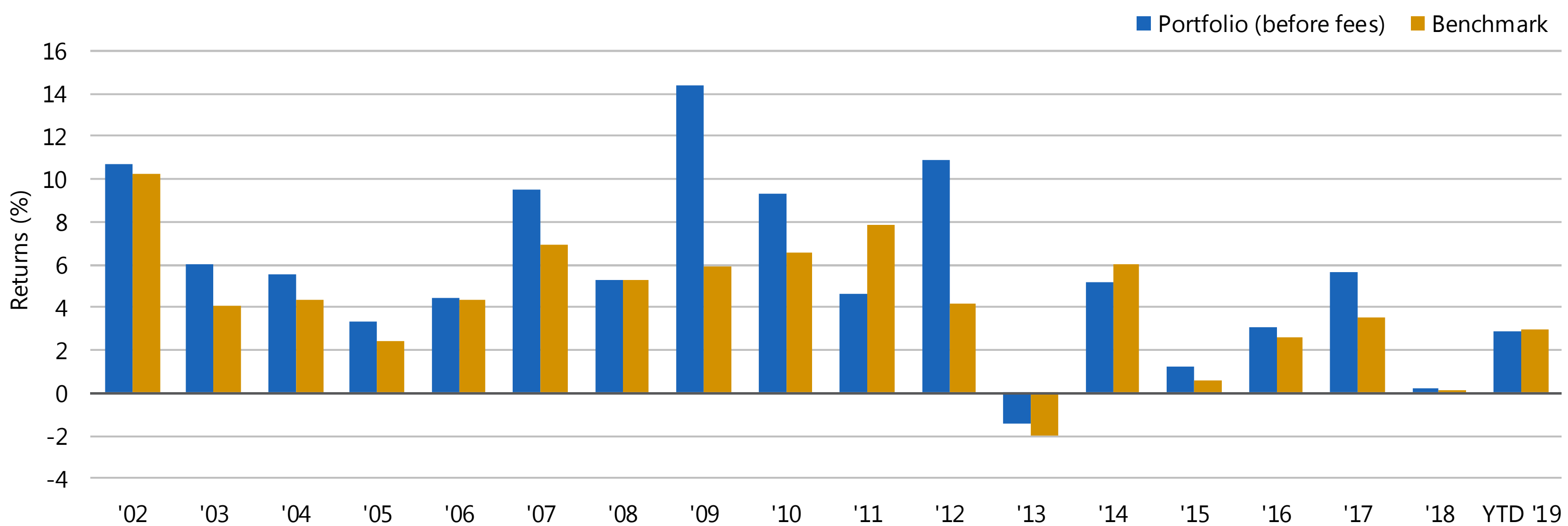
- **Time-tested investment process** that has led to a strong long-term track record
- **Breadth and depth of PM resources** that has allowed effective usage of a broad investment opportunity set
- **Diverse alpha strategies** that have provided consistency in adding value across various market environments
- **Focus on risk management** that has enabled robust risk-adjusted returns

* Core bonds accessed through a U.S. mutual fund can be liquidated daily at NAV.
Refer to Appendix for additional investment strategy and risk information.

PIMCO Total Return Fund performance review

PIMCO Total Return Fund	
Market value as of Mar '19	$ 65,374,025,567

Performance



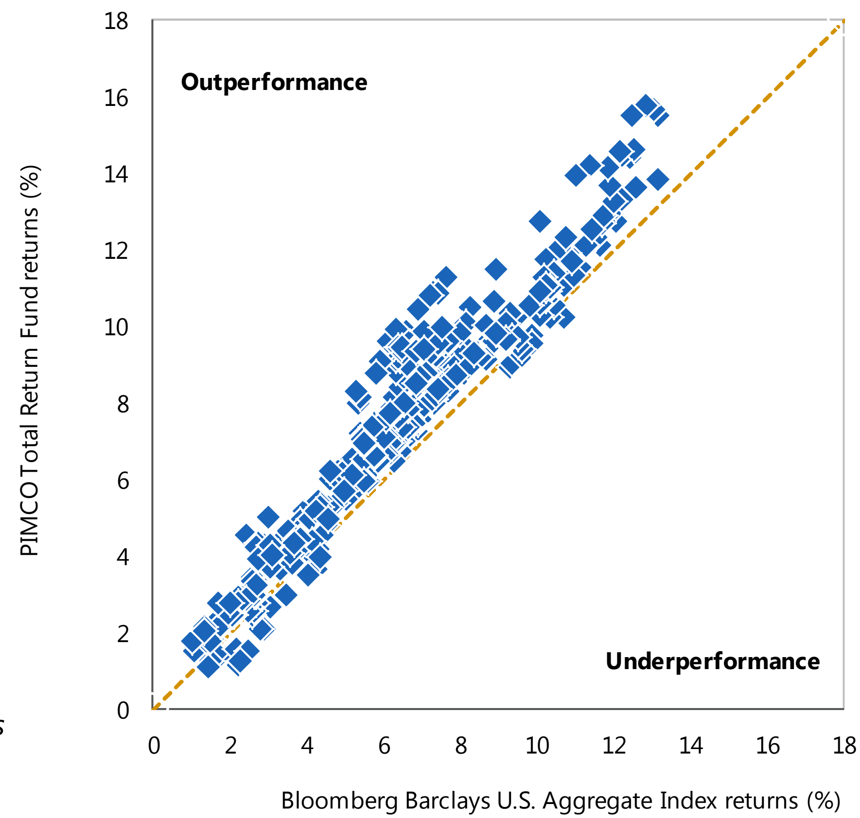
	S.I. 11 May '87	10 yrs.	5 yrs.	3 yrs.	1 yr.	6 mos.	3 mos.	YTD 31 Mar '19
Before fees (%)	7.6	5.3	3.3	3.3	4.3	4.4	2.9	2.9
After fees (%)	7.1	4.8	2.9	2.8	3.8	4.2	2.8	2.8
Benchmark (%)	6.2	3.8	2.7	2.0	4.5	4.6	2.9	2.9

As of 31 March 2019
Performance shown is for the institutional share class.
All periods longer than one year are annualized
Benchmark: Bloomberg Barclays U.S. Aggregate Index
Refer to Appendix for additional performance and fee, index and risk information.

PIMCO's record of performance – Total Return Fund

Fund outperformed benchmark 319 out of 347 rolling monthly 3-year periods after fees

PIMCO Total Return Fund (after fees) versus Bloomberg Barclays U.S. Aggregate Index rolling monthly 3-year returns from 31 May 1990 through 31 March 2019



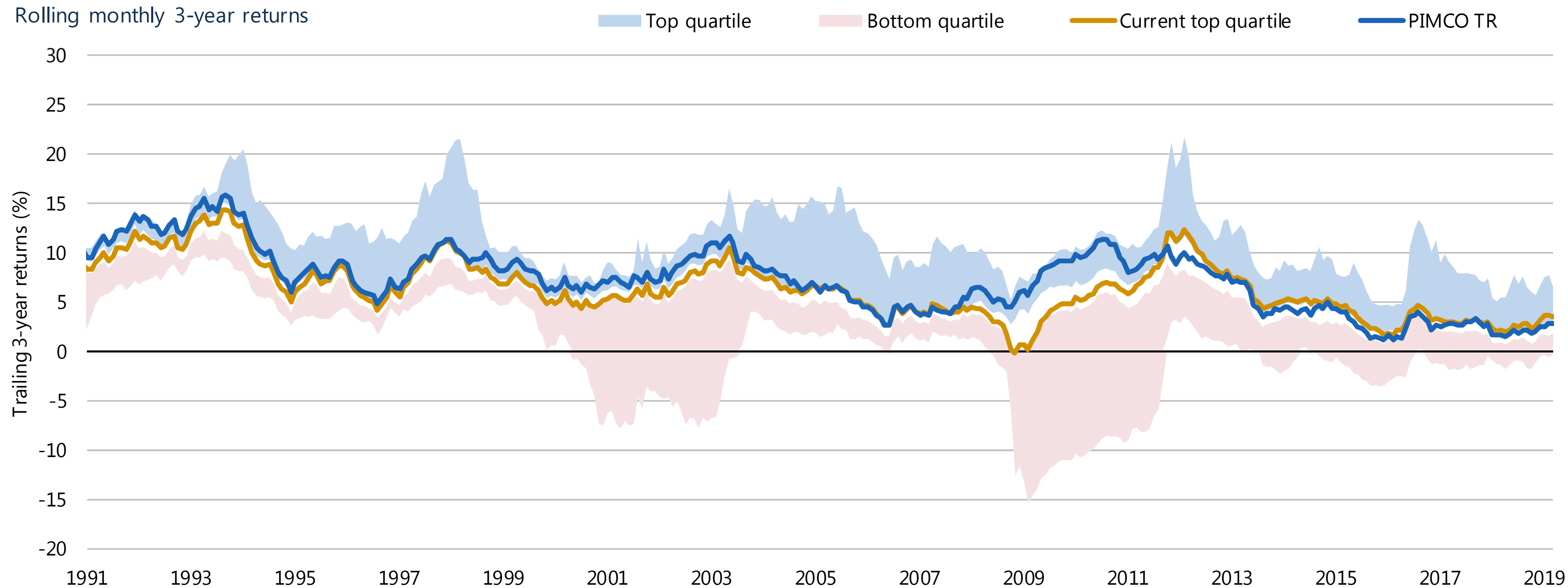
Contributing factors

- Conservative investment philosophy
- Long-term orientation
- Diversified sources of return
- Top-down and bottom-up insights
- Risk management emphasis

Performance quoted represents past performance. Past performance is not a guarantee or a reliable indicator of future results. Investment return and the principal value of an investment will fluctuate. Shares may be worth more or less than original cost when redeemed. Current performance may be lower or higher than performance shown. For performance current to the most recent month-end, visit www.PIMCO.com or call (888) 87-PIMCO.

As of 31 March 2019
The 45-degree line in the performance graph(s) represents the point at which the fund performance is equal to the index.
Performance shown is for the institutional share class.
Refer to Appendix for additional performance and fee, chart, index and risk information.

Delivering on our commitment to investors:
PIMCO has provided strong performance relative to its peers



History of returns

- PIMCO TR has been in the top quartile approximately 75% of its history on a trailing three-year basis
- TR has spent ~94% of its history above the median

Category	Number of investments in category	Average rolling 3yr periods	Percent of time spent in quartile: Top	Second	Third	Bottom
Current top quartile	225	129	61.6%	18.8%	10.1%	9.5%
PIMCO TR	1	347	76.4%	17.3%	6.1%	0.3%

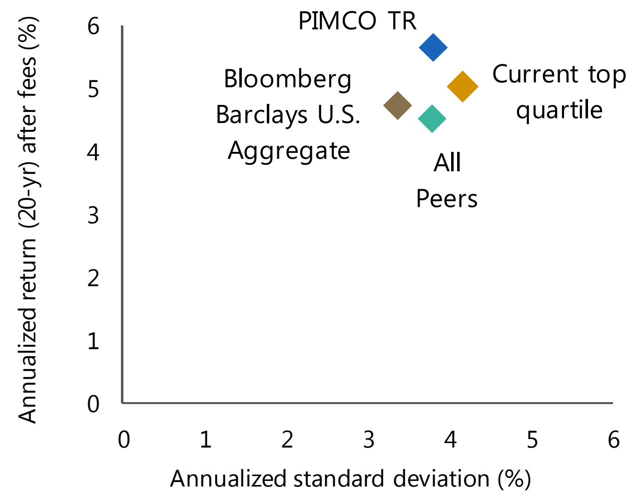
As of 31 March 2019
SOURCE: Morningstar, PIMCO. Peer group in rankings are based on all share classes of funds in Morningstar's OE Intermediate-Term Bond Category with at least three years of performance history. PIMCO Total Return (TR) ranking is based on performance for the institutional share class (PTTRX). Returns are calculated over trailing three-year periods. Performance rankings are calculated since inception of PIMCO TR (11 May 1987).
'All Peers' and 'Current Top Quartile' performance reflects performance excluding the PIMCO Total Return Fund. Fund absolute rankings: 1 Yr. 348 (1019 investments ranked); 3 Yrs. 274 (876 investments ranked) 5 Yrs. 229 (767 investments ranked); 10 Yrs. 200 (560 investments ranked).

Delivering on our commitment to investors: *Risk management and capital preservation*

Risk management

- PIMCO TR is in the top decile[1] of all the share classes in the category based on 20-year returns
- PIMCO TR has delivered a higher average return with lower volatility over the past 20 years than the average peer[2] currently in the top quartile

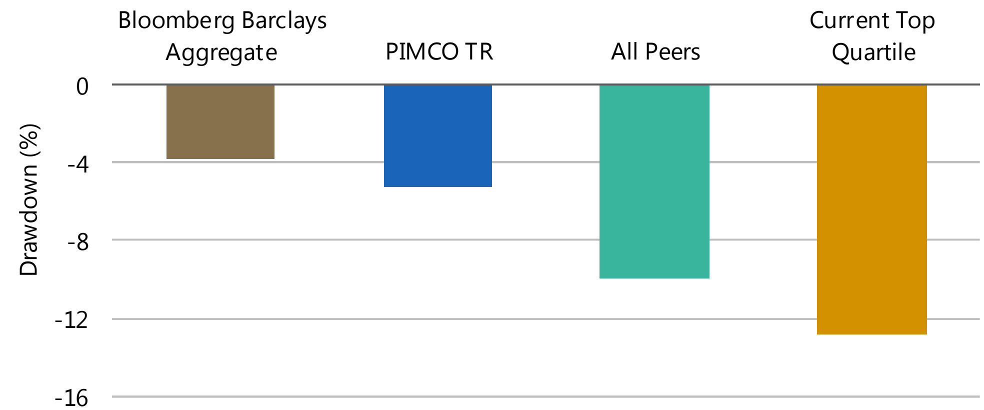
Risk versus return



Capital preservation

- Our rigorous risk management has helped the fund navigate a variety of market events and climates
- PIMCO TR's maximum drawdown[3] over the last 20 years is lower than its average peer

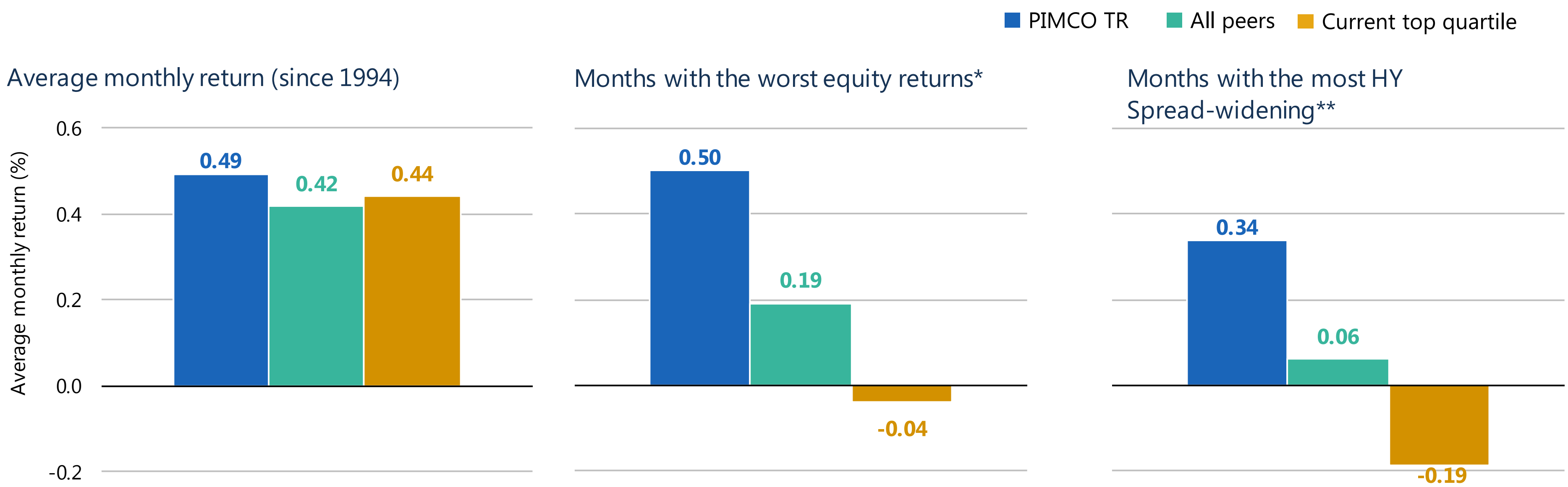
Maximum drawdown over the last 20 years



As of 31 March 2019. SOURCE: Morningstar, PIMCO.
Performance and rankings shown are for the institutional share class.
[1] PIMCO Total Return (TR) ranking is based on performance for the institutional share class (PTTRX). [2] Peer group in rankings are based on all share classes of funds in Morningstar's OE Intermediate-Term Bond Category with at least 20 years of performance history. The Current top quartile reflects those share classes in the top quartile based on 3-year returns. [3] Maximum drawdowns are calculated as the change from peak to trough in the specified period (10 years) using monthly returns.
Fund absolute rankings: 1 Yr. 348 (1019 investments ranked); 3 Yrs. 274 (876 investments ranked) 5 Yrs. 229 (767 investments ranked); 10 Yrs. 200 (560 investments ranked).
Refer to Appendix for additional performance and fee, chart, index, Morningstar Ranking and risk information.

Delivering on our commitment to investors:
Diversification in periods of market stress

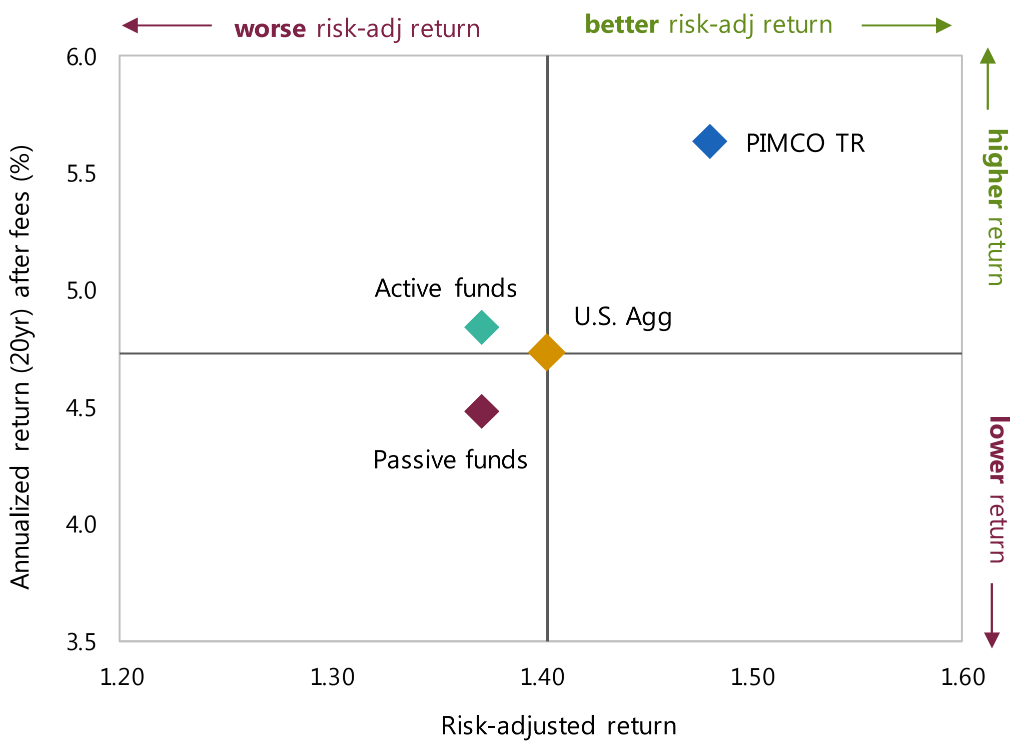
- PIMCO TR seeks a diverse set of alpha strategies, resulting in:
  - A higher average monthly return than its peer group
  - Stronger performance through times of market stress, when investors especially seek diversification to other elements in their own portfolios
- In months where equities sold-off* or high yield spreads widened the most,** PIMCO TR had the highest average return relative to peers.



As of 31 March 2019. SOURCE: Morningstar, Bloomberg, PIMCO. Performance shown is for the institutional share class after-fees.
Equities are represented by the S&P 500 Total Return Index. High Yield is represented by the Bloomberg Barclays U.S. Corporate High Yield Index. Peer group based on all share classes of funds in Morningstar's OE Intermediate-Term Bond Category. PIMCO Total Return (TR) performance reflects the institutional share class (PTTRX). The current top quartile reflects those share classes currently in the top quartile based on three-year returns. Monthly returns are calculated from January 1994, the earliest available date for the HY index
*The worst equity returns are identified as the worst 25% of months with negative S&P 500 returns
**The most HY spread-widening months are identified as the widest 25% of months with spread widening
Fund absolute rankings: 1 Yr. 348 (1019 investments ranked); 3 Yrs. 274 (876 investments ranked) 5 Yrs. 229 (767 investments ranked); 10 Yrs. 200 (560 investments ranked).
Refer to Appendix for additional performance and fee, chart, index, Morningstar Ranking and risk information.

PIMCO Total Return: Performance

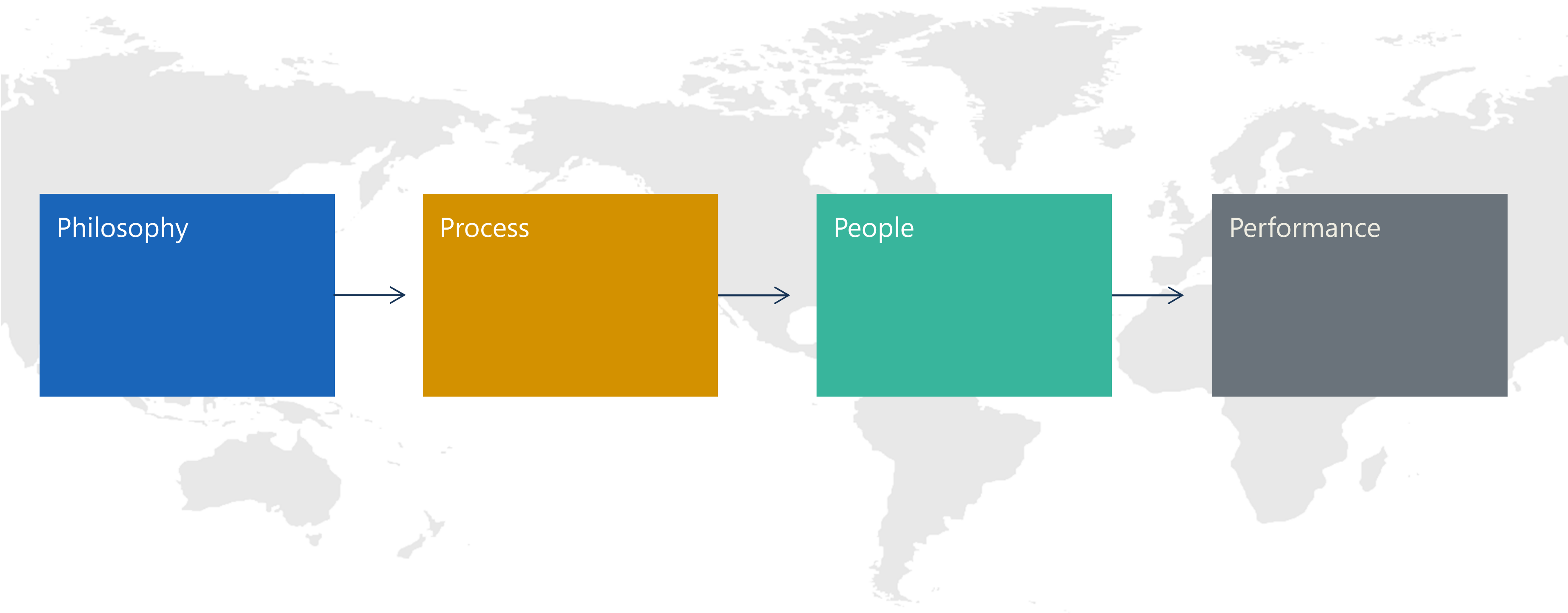
The Fund has delivered not only a higher return than the benchmark, but also a better **risk adjusted return** – a profile true not just for the past 10 years, but for the 30yrs since TR's inception.



Performance quoted represents past performance. Past performance is not a guarantee or a reliable indicator of future results. Investment return and the principal value of an investment will fluctuate. Shares may be worth more or less than original cost when redeemed. Current performance may be lower or higher than performance shown. For performance current to the most recent month-end, visit www.PIMCO.com or call (888) 87-PIMCO.

As of 31 March 2019. SOURCE: PIMCO, Bloomberg, Morningstar
PIMCO Total Return (TR) after fees performance reflects for the institutional share class (PTTRX)
Active and passive funds represent the active and passive funds in the Morningstar intermediate-term bond category based on Morningstar's classifications. Benchmark is the Bloomberg Barclay's U.S. Aggregate Index.
Refer to Appendix for additional performance and fee, chart, index, and risk information.

Total Return: positioning for long-term success



PIMCO's investment philosophy

- Long-term orientation
- Diverse strategies
- Broad universe
- Risk management

Refer to Appendix for additional investment strategy and risk information.

Positioned for long-term success:
Total Return leverages PIMCO's top-down and bottom-up expertise

TOP-DOWN

Macroeconomic forum

Market strategy sessions (ongoing)

Asia Portfolio Committee (APC)	Americas Portfolio Committee (AmPC)	European Portfolio Committee (EPC)	Emerging Market Portfolio Committee (EMPC)

Investment Committee

TR PORTFOLIO MANAGEMENT TEAM

Investment Committee

Mortgages	Credit IG/HY	Short-Term	Municipals	Treasuries	TIPS	Global	Currencies

Sector and regional specialty desks

Macroeconomic forum

BOTTOM-UP

Refer to Appendix for additional investment strategy and risk information.

Positioning for long-term success:
Investment process – from themes to holdings

THEMES

- Secular outlook
- Cyclical outlook

MARKET VIEWS

- Interest rates
- Volatility
- Yield curve shape
- Credit trends
- Country outlooks

PORTFOLIO TARGETS

- Duration
- Yield curve position
- Sector (index and plus)
- Quality
- Country weights

PORTFOLIO CONSTRUCTION

Buy and sell bonds based on:

- Consistency with targets
- Portfolio guidelines
- Valuation (rich/cheap)
- Instrument selection
- Credit selection
- Risk controls
- Liquidity

All investment professionals and outside experts

Investment committee / Global portfolio managers

Generalist portfolio managers and specialist teams

Refer to Appendix for additional investment strategy and risk information.

Positioning for long-term success:
The Total Return management team

Scott Mather, CIO U.S. Core Strategies, Portfolio Manager

- Member of the Investment Committee
- Previously head of Global Portfolio Management
- Joined PIMCO in 1998
- Masters degree in engineering from University of Pennsylvania
- Finalist for Morningstar Fixed-Income Manager of the Year (2011, 2017)

Mark Kiesel, CIO Global Credit, Portfolio Manager

- Member of the Investment Committee
- Joined PIMCO in 1996
- Morningstar Fixed-Income Fund Manager of the Year (U.S.) for 2012 and finalist in 2017
- MBA from University of Chicago

Mihir Worah, CIO Real Return and Asset Allocation, Portfolio Manager

- Member of the Investment Committee
- Joined PIMCO in 2001
- Previously a postdoctoral research associate at the University of California, Berkeley and the Stanford Linear Accelerator Center
- Ph.D. in theoretical physics from University of Chicago
- Finalist for Morningstar Fixed-Income Manager of the Year (2017)

The following individuals were nominated for the US Morningstar Fixed-Income Fund Manager of the Year award: Scott Mather, Mark Kiesel, and Mihir Worah (2017); Scott Mather (2011); Mark Kiesel (2010).
The following individuals were awarded the US Morningstar Fixed-Income Fund Manager of the Year award: Mark Kiesel (2012).
The Morningstar Fixed-Income Fund Manager of the Year award is based on the strength of the manager, performance, strategy and firm's stewardship.

PIMCO's people and teams

The depth and breadth of PIMCO's resources are exceptional

Our People

255
Portfolio managers with 16 years average investment experience

66
Analysts[4] on our industry-leading credit research team

10
Nominees[1] for Morningstar Fixed-Income Manager of the Year

3
Winners[2] of Morningstar Fixed-Income Manager of the Year

Portfolio Management Structure

Active Equities John Devir 1 PMs	**Asset Allocation** Mihir Worah 7 PMs	**Bank Loan** Elizabeth MacLean 5 PMs	**Emerging Markets** Michael Gomez 23 PMs
Enhanced Equities Mohsen Fahmi/Jing Yang/Brian Tsu 9 PMs	**Global** Andrew Balls 14 PMs*	**Global Mortgage Credit** Dan Ivascyn 66 PMs	**Govts/Futures/ Options/Swaps** Mihir Worah 9 PMs
High Yield Jon Horne/Andrew Jessop 12 PMs	**Investment Committee**** Americas Portfolio Committee European Portfolio Committee Asia-Pacific Portfolio Committee Emerging Markets Portfolio Committee		**Investment Grade Credit** Mark Kiesel 26 PMs
Long Duration/ LDI Mike Cudzil/Mohit Mittal 10 PMs	**Municipals** Dave Hammer 7 PMs	**Real Return** Mihir Worah 10 PMs	**Short-Term** Jerome Schneider 11 PMs
Credit Research Christian Stracke 66 analysts[4]	**Portfolio Analytics[3]** Ravi Mattu 74 analysts	**Quantitative Portfolios** Nic Johnson 12 PMs	**Risk Management** Sudi Mariappa 10 portfolio risk managers

As of 31 March 2019
* Effective August 31, 2017, PIMCO revised the membership of the Global strategy team to include Portfolio Managers and Product Strategists dedicated to Global strategy accounts. Previously, the membership also included Portfolio Managers dedicated to other PIMCO strategies, which contributed occasionally to off-benchmark alpha positions in Global strategies. This revised team better represents the individuals who either directly manage or significantly influence the Global strategy portfolios.
** Investment Committee Chair rotates between the Group CIO and CIOs
[1] The following individuals were nominated for the US Morningstar Fixed-Income Fund Manager of the Year award: Daniel Ivascyn and Alfred Murata (2017); Scott Mather, Mark Kiesel, and Mihir Worah (2017); Jerome Schneider (2015); Dan Ivascyn and Alfred Murata (2013); Scott Mather (2011); Mark Kiesel (2010)
[2] The following individuals were awarded the US Morningstar Fixed-Income Fund Manager of the Year award: Jerome Schneider (2015); Dan Ivascyn and Alfred Murata (2013); Mark Kiesel (2012). The Morningstar Fixed-Income Fund Manager of the Year award is based on the strength of the manager, performance, strategy and firm's stewardship.
[3] Effective October 31, 2017, PIMCO began reporting the Client Solutions and Analytics teams separately. Previously, these professionals were members of the PM Analytics team. Please note that certain PMs contribute to multiple strategies and may be included in more than one strategy team PM headcount.
[4] The Credit Analyst Team includes Distressed Credit team members whose function serves a dual role as Credit Analyst and Portfolio Manager

Appendix

PERFORMANCE AND FEE

Past performance is not a guarantee or a reliable indicator of future results. The performance figures presented reflect the total return performance for Institutional Class shares (after fees) and reflect changes in share price and reinvestment of dividend and capital gain distributions. All periods longer than one year are annualized. The minimum initial investment for iclass shares is $1 million; however, it may be modified for certain financial intermediaries who submit trades on behalf of eligible investors.

Investments made by a Fund and the results achieved by a Fund are not expected to be the same as those made by any other PIMCO-advised Fund, including those with a similar name, investment objective or policies. A new or smaller Fund's performance may not represent how the Fund is expected to or may perform in the long-term. New Funds have limited operating histories for investors to evaluate and new and smaller Funds may not attract sufficient assets to achieve investment and trading efficiencies. A Fund may be forced to sell a comparatively large portion of its portfolio to meet significant shareholder redemptions for cash, or hold a comparatively large portion of its portfolio in cash due to significant share purchases for cash, in each case when the Fund otherwise would not seek to do so, which may adversely affect performance.

Differences in the Fund's performance versus the index and related attribution information with respect to particular categories of securities or individual positions may be attributable, in part, to differences in the pricing methodologies used by the Fund and the index.

There is no assurance that any fund, including any fund that has experienced **high or unusual** performance for one or more periods, will experience similar levels of performance in the future. High performance is defined as a significant increase in either 1) a fund’s total return in excess of that of the fund’s benchmark between reporting periods or 2) a fund’s total return in excess of the fund’s historical returns between reporting periods. Unusual performance is defined as a significant change in a fund’s performance as compared to one or more previous reporting periods.

CHART

Performance results for certain charts and graphs may be limited by date ranges specified on those charts and graphs; different time periods may produce different results.

FORECAST

Forecasts, estimates and certain information contained herein are based upon proprietary research and should not be considered as investment advice or a recommendation of any particular security, strategy or investment product. There is no guarantee that results will be achieved.

INVESTMENT STRATEGY

There is no guarantee that these investment strategies will work under all market conditions or are suitable for all investors and each investor should evaluate their ability to invest long-term, especially during periods of downturn in the market.

MORNINGSTAR RANKING

Past rankings are no guarantee of future rankings. Morningstar Ranking estimates for the Morningstar Intermediate-Term Bond Category as of 31 March 2019 for the Institutional class shares; other classes may have different performance characteristics. The Morningstar Rankings are calculated by Morningstar and are based on the total return performance, with distributions reinvested and operating expenses deducted. Morningstar does not take into account sales charges.

OUTLOOK

Statements concerning financial market trends or portfolio strategies are based on current market conditions, which will fluctuate. There is no guarantee that these investment strategies will work under all market conditions, and each investor should evaluate their ability to invest for the long-term, especially during periods of downturn in the market. Outlook and strategies are subject to change without notice.

PORTFOLIO STRUCTURE

Portfolio structure is subject to change without notice and may not be representative of current or future allocations.

Appendix

RISK
Investing in the **bond market** is subject to risks, including market, interest rate, issuer, credit, inflation risk, and liquidity risk. The value of most bonds and bond strategies are impacted by changes in interest rates. Bonds and bond strategies with longer durations tend to be more sensitive and volatile than those with shorter durations; bond prices generally fall as interest rates rise, and the current low interest rate environment increases this risk. Current reductions in bond counterparty capacity may contribute to decreased market liquidity and increased price volatility. Bond investments may be worth more or less than the original cost when redeemed. Investing in **foreign denominated and/or domiciled securities** may involve heightened risk due to currency fluctuations, and economic and political risks, which may be enhanced in emerging markets. **Mortgage and asset-backed securities** may be sensitive to changes in interest rates, subject to early repayment risk, and their value may fluctuate in response to the market's perception of issuer creditworthiness; while generally supported by some form of government or private guarantee there is no assurance that private guarantors will meet their obligations. **High-yield**, lower-rated, securities involve greater risk than higher-rated securities; portfolios that invest in them may be subject to greater levels of credit and liquidity risk than portfolios that do not. **Derivatives** may involve certain costs and risks such as liquidity, interest rate, market, credit, management and the risk that a position could not be closed when most advantageous. Investing in derivatives could lose more than the amount invested. **Diversification** does not ensure against loss.

STANDARD DEVIATION
Standard deviation is a statistical measure of dispersion about an average which, for a mutual fund, depicts how widely the returns varied over a certain period of time. The greater the dispersion, the greater the risk.

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INDEX DESCRIPTIONS
Bloomberg Barclays U.S. Aggregate Index represents securities that are SEC-registered, taxable, and dollar denominated. The index covers the U.S. investment grade fixed rate bond market, with index components for government and corporate securities, mortgage pass-through securities, and asset-backed securities. These major sectors are subdivided into more specific indices that are calculated and reported on a regular basis.

It is not possible to invest directly in an unmanaged index.

Appendix

These materials are being provided on the express basis that they and any related communications (whether written or oral) will not cause Pacific Investment Management Company LLC (or any affiliate) (collectively, "PIMCO") to become an investment advice fiduciary under ERISA or the Internal Revenue Code, as the recipients are fully aware that PIMCO (i) is not undertaking to provide impartial investment advice, make a recommendation regarding the acquisition, holding or disposal of an investment, act as an impartial adviser, or give advice in a fiduciary capacity, and (ii) has a financial interest in the offering and sale of one or more products and services, which may depend on a number of factors relating to PIMCO (and its affiliates') internal business objectives, and which has been disclosed to the recipient. These materials are also being provided on PIMCO's understanding that the recipients they are directed to are all financially sophisticated, capable of evaluating investment risks independently, both in general and with regard to particular transactions and investment strategies. If this is not the case, we ask that you inform us immediately. You should consult your own separate advisors before making any investment decisions.

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PIMCO

Market review & economic outlook
26 April 2019

North Dakota State Investment Board

GREENWICH ASSOCIATES
Greenwich Quality Leader 2017

Winner of a 2017 Greenwich Quality Leader Award for Overall U.S. Institutional Investment Management Service Quality

MORNINGSTAR Awards 2015

Morningstar's U.S. Fixed-Income Fund Manager of the Year three of the last seven years:
2012 | 2013 | 2015

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The Morningstar Fixed-Income Fund Manager of the Year award [PIMCO Short-Duration (2015) awarded to Jerome Schneider and Team; PIMCO Income (2013) awarded to Dan Ivascyn and Alfred Murata; PIMCO Investment Grade Corporate (2012) awarded to Mark Kiesel] is based on the strength of the manager, performance, strategy and firm's stewardship. Morningstar Awards 2016©. Morningstar, Inc. All Rights Reserved.

Greenwich Associates accolade is based on interviews conducted by Greenwich Associates, between July and October 2017, with 1,059 senior professionals at 884 of the largest tax-exempt funds in the United States, including corporate and union funds, public funds, endowments and foundations, insurance general accounts, and healthcare organizations with either pension or investment pool assets greater than $150 million. Study participants were asked to provide quantitative and qualitative evaluations of their asset management and investment consulting providers, including qualitative assessments of those firms soliciting their business and detailed information on important market trends. The Greenwich Quality Leader℠ is determined entirely by the results of the interviews described above and do not represent opinions or endorsements by Greenwich Associates or its staff. Such designations are a product of numerical scores in Greenwich Associates' proprietary studies that are generated from the study interviews and are based on a statistical significance confidence level of at least 80%. © 2019 Greenwich Associates, LLC.

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Biographical information

R. Matthew Clark, CFA, CAIA

Mr. Clark is a senior vice president and account manager in the Newport Beach office with a focus on institutional client servicing. Prior to joining PIMCO in 2002, he served as an officer in the U.S. Army for eight years, achieving the rank of captain. Mr. Clark currently serves on the board of directors of Working Wardrobes, an Orange County-based charity that helps individuals with employment barriers find meaningful work. He has 17 years of investment experience and holds an MBA from Harvard Business School. He received an undergraduate degree from Trinity University, San Antonio.

Scott A. Mather

Mr. Mather is CIO U.S. Core Strategies and a managing director in the Newport Beach office. He is a member of the Investment Committee and a generalist portfolio manager. Mr. Mather also oversees ESG portfolio integration in the U.S. Previously he was head of global portfolio management. Before that, he led portfolio management in Europe, managed euro and pan-European portfolios and worked closely with many Allianz-related companies. He also served as a managing director of Allianz Global Investors KAG. Prior to these roles, Mr. Mather co-headed PIMCO's mortgage- and asset-backed securities team. Prior to joining PIMCO in 1998, he was a fixed income trader specializing in mortgage-backed securities at Goldman Sachs in New York. He has 24 years of investment experience and holds a master's degree in engineering, as well as undergraduate degrees, from the University of Pennsylvania.

Edward Sasinowski, CFA

Mr. Sasinowski is a senior vice president and account manager in the New York office, focusing on institutional client servicing. Prior to joining PIMCO in 2011, he structured and originated asset-backed securitizations at Barclays Capital and Bear Stearns. He has 12 years of investment experience and holds an MBA from the Anderson School of Management at the University of California, Los Angeles. He earned an undergraduate degree in economics from Yale University.

Agenda

1/Market review & economic outlook

2/PIMCO update

3/Appendix

Market review & economic outlook

Risk assets recovered and financial conditions eased

Mixed messages?

Risk assets reversed course from Q4'18 even as rates continued to fall given more dovish central bank stances and slower growth

Easy does it

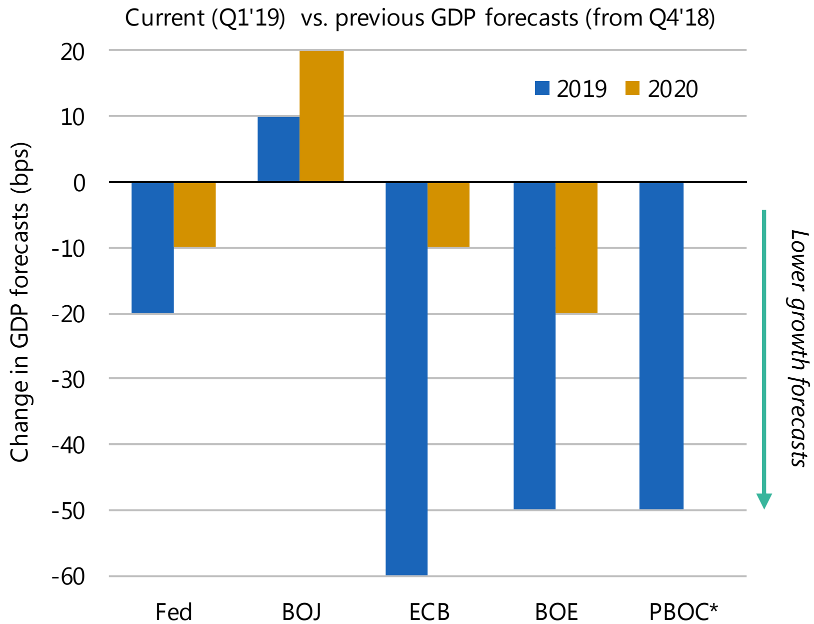
The rally across the spectrum of risk assets – from equities to credit – along with low yields helped ease financial conditions

In stark contrast to the end of last year, the start of 2019 has featured renewed risk appetites even as growth concerns lingered

As of 31 March 2019
SOURCE: PIMCO, Bloomberg

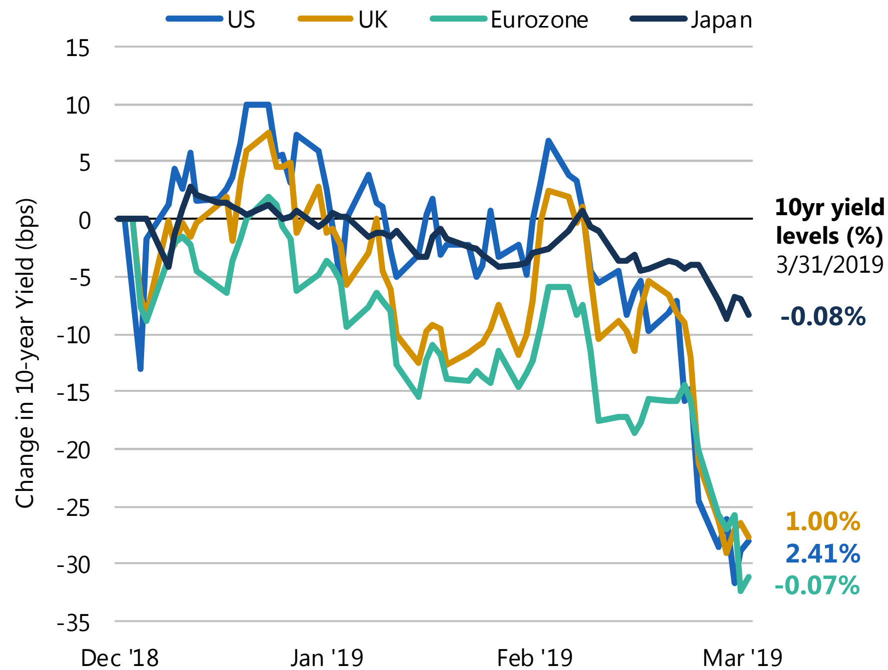
A dovish pivot from central banks spurred a sharp decline in global yields

When doves cry



Most major central banks shifted toward softer stances alongside downgrades to growth expectations

Nose dive



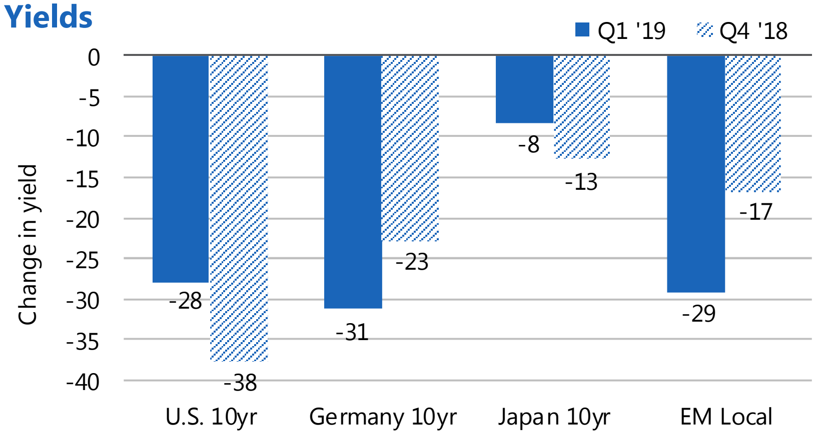
Yields remained low and then fell further as most central banks adopted dovish stances and growth concerns swirled

More accommodative monetary stances contributed to both lower yields and generally robust risk appetites

As of 31 March 2019
*PBOC 2019 growth forecasts reflect the lower end of the projected 6-6.5% range; 2020 growth forecasts reflect IMF projections, given that PBOC did not release official data projections (note no change from Q4'18 to Q1'19).
SOURCE: PIMCO, Bloomberg

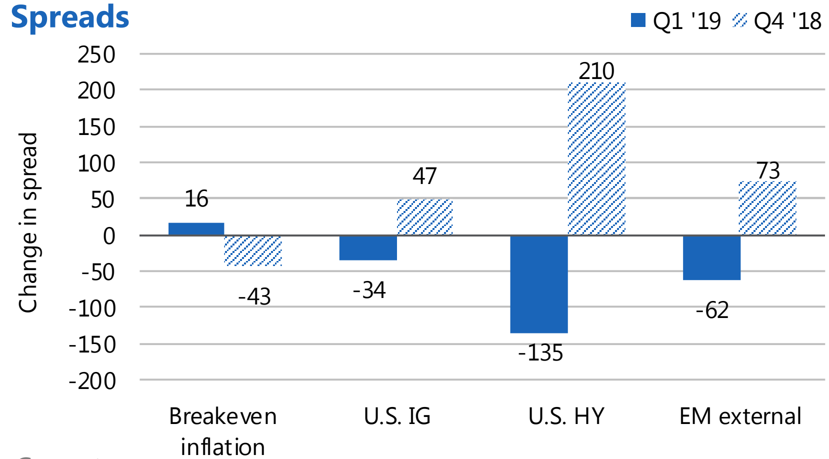
Q1’19: Global yields continued to decline even as risk assets rebounded

Yields



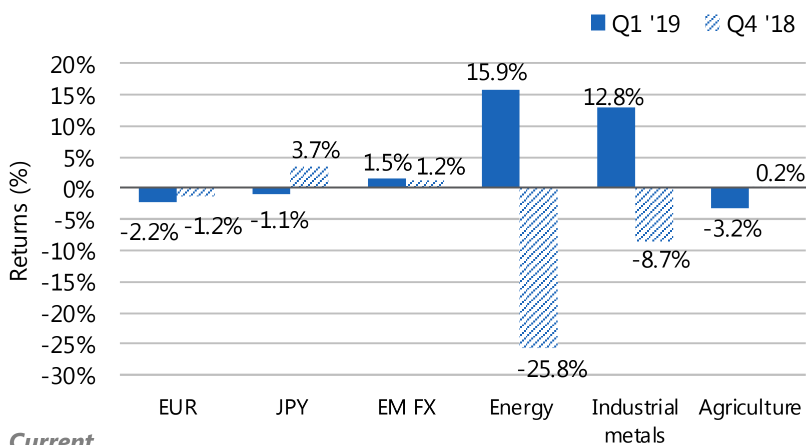
Current levels (%)	U.S. 10yr	Germany 10yr	Japan 10yr	EM Local
	2.41	*-0.07*	*-0.08*	*6.16*

Spreads



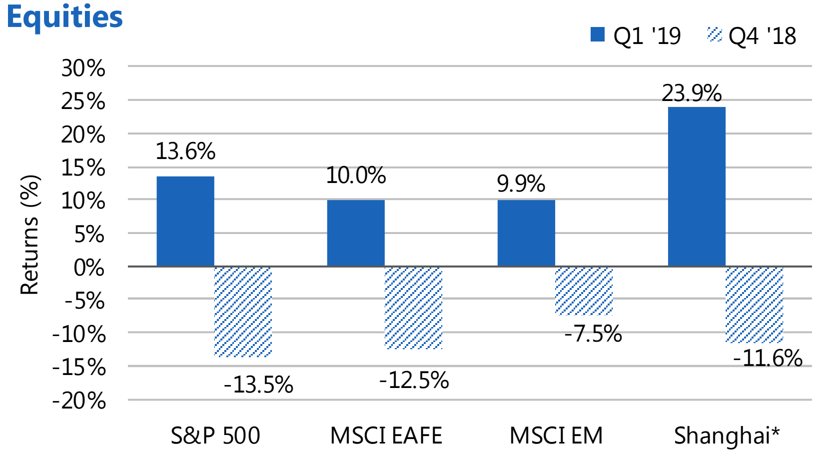
Current levels (bps)	Breakeven inflation	U.S. IG	U.S. HY	EM external
	187	*119*	*391*	*373*

Currencies and commodities



Current levels	EUR	JPY	EM FX	Energy	Industrial metals	Agriculture
	1.12	*110.86*	*370.14*	*78.54*	*256.94*	*83.77*

Equities



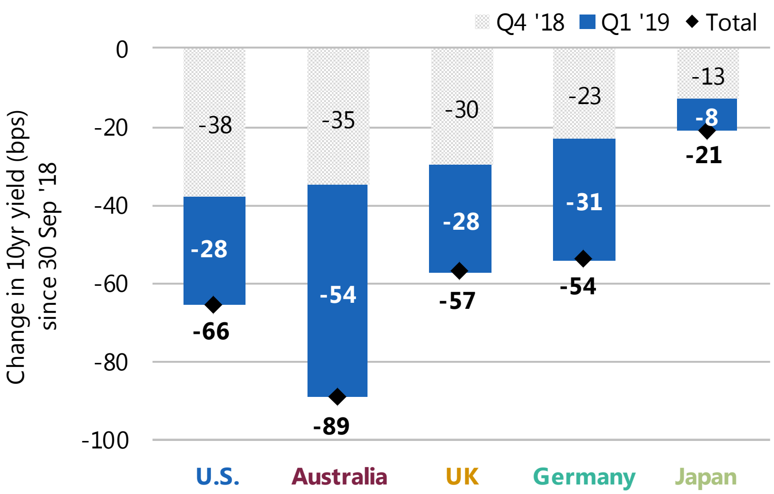
Current levels	S&P 500	MSCI EAFE	MSCI EM	Shanghai*
	2,834	*1,875*	*1,058*	*3,091*

As of 31 March 2019; SOURCE: PIMCO, Bloomberg. *price levels

Sovereign yields reflect the generic 10yr benchmarks for each country. EM Local is represented by JPMorgan GBI-EM Global Diversified Composite YTM. U.S. TIPS: generic 10yr breakeven rate. U.S. IG: Barclays U.S. Agg Corporate Avg. OAS; U.S. HY: Barclays U.S. Corporate High Yield Average OAS. EM External: JPMorgan EMBI Global Sovereign Spread. EUR and JPY reflect spot returns against the U.S. dollar. EM FX: JPMorgan Emerging Local Markets ELMI+ Composite Total Return. Energy, Industrial Metals, and Agriculture reflect total return sub-indices of the Bloomberg Commodity Index. Equity percent changes capture total returns for S&P 500; MSCI EAFE; MSCI EM; Shanghai Composite Index

Q1’19: Developed market yields fell even as risk appetites were robust

A steep fall

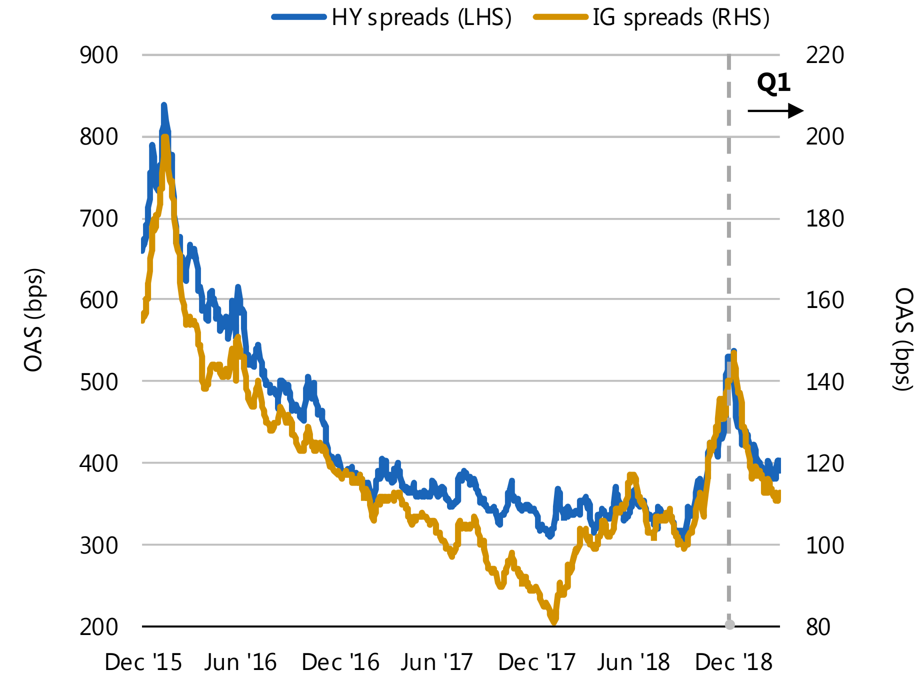


Q1 '19: 10yr yield levels (%)

	U.S.	Australia	UK	Germany	Japan
Start	2.68	2.32	1.28	0.24	0.00
End	2.41	1.78	1.00	-0.07	-0.08

- Developed market yields continued to fall in Q1 amid a pivot toward more accommodative stances from central banks and lingering growth concerns
- 10yr yields in Germany and Japan ended in negative territory, while part of the U.S. yield curve inverted

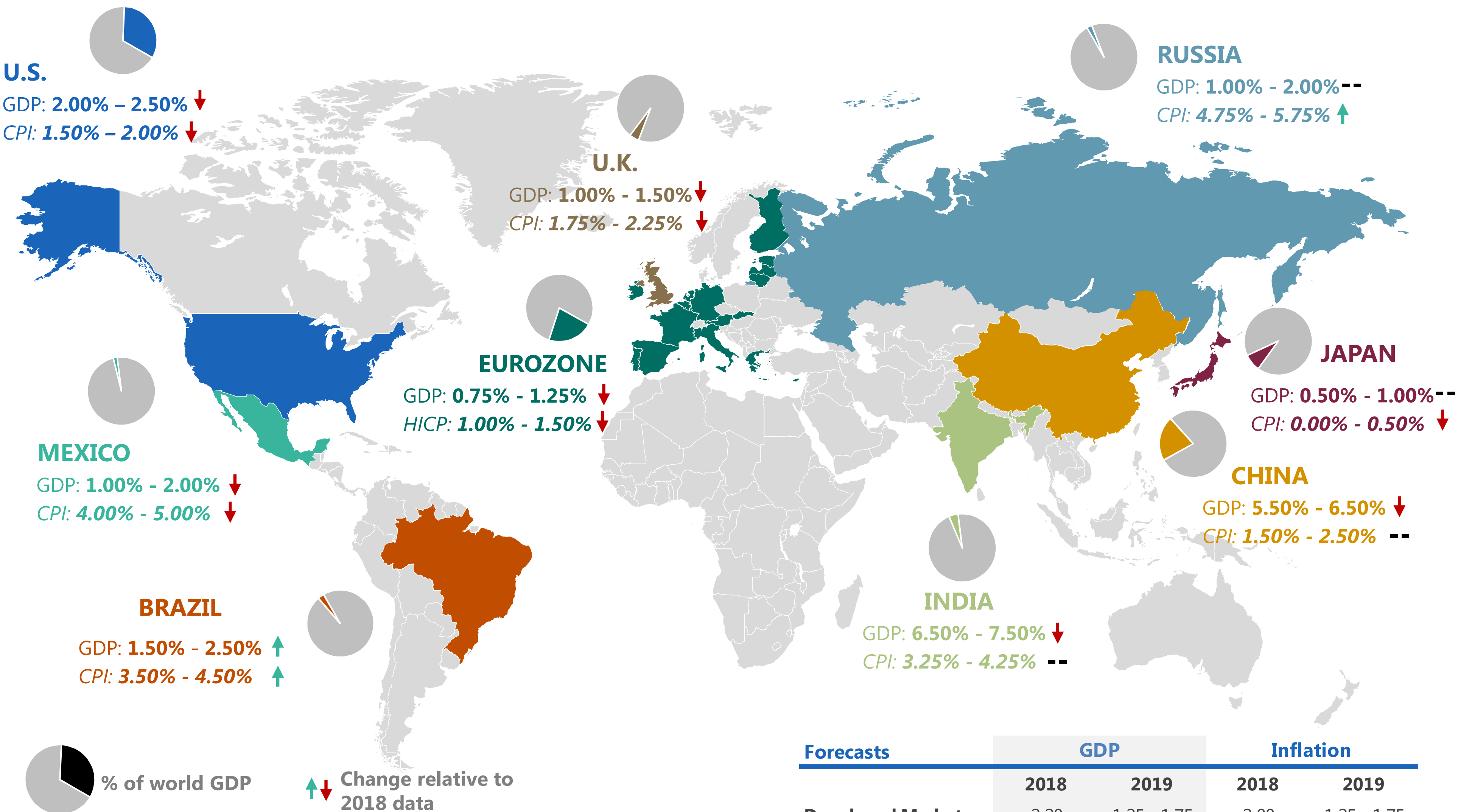
Spreads tighten



- Credit spreads, both investment-grade and high yield, tightened in Q1 alongside the broader recovery in risk assets
- Banking-related credits also performed well as fundamentals in the financials sector remained solid

As of 31 March 2019
SOURCE: Bloomberg. “HY spreads” are represented by Bloomberg Barclays US High Yield Avg OAS index. “IG spreads” are represented by Bloomberg Barclays US Agg Credit Avg OAS index.

PIMCO's 2019 Cyclical Outlook

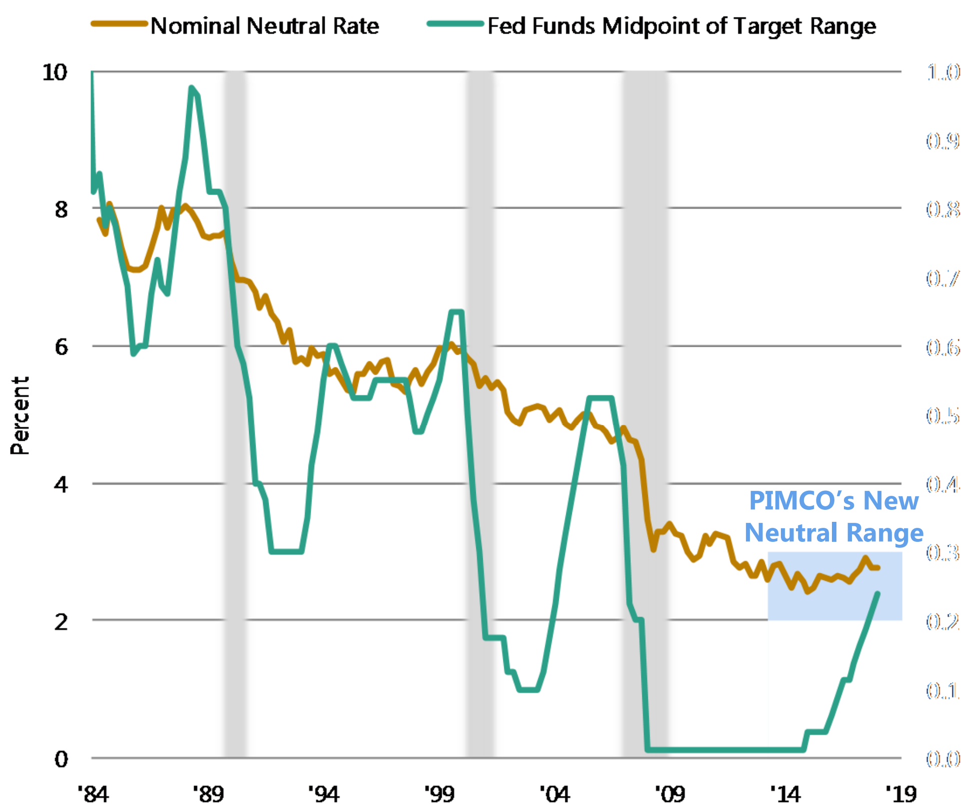


Forecasts	GDP		Inflation	
	2018	2019	2018	2019
Developed Markets	2.20	1.25 - 1.75	2.00	1.25 - 1.75
Emerging Markets	5.10	4.50 - 5.50	2.80	2.25 - 3.25
World	3.30	2.50 - 3.00	2.20	1.50 - 2.00

For illustrative purposes only.
PIMCO forecast ranges as of March 2019
Real GDP and inflation projections reflect the midpoints of PIMCO's forecast ranges.

2019 Cyclical Outlook: *Flatlining at The New Neutral*

The Fed Funds rate is now within PIMCO's New Neutral range



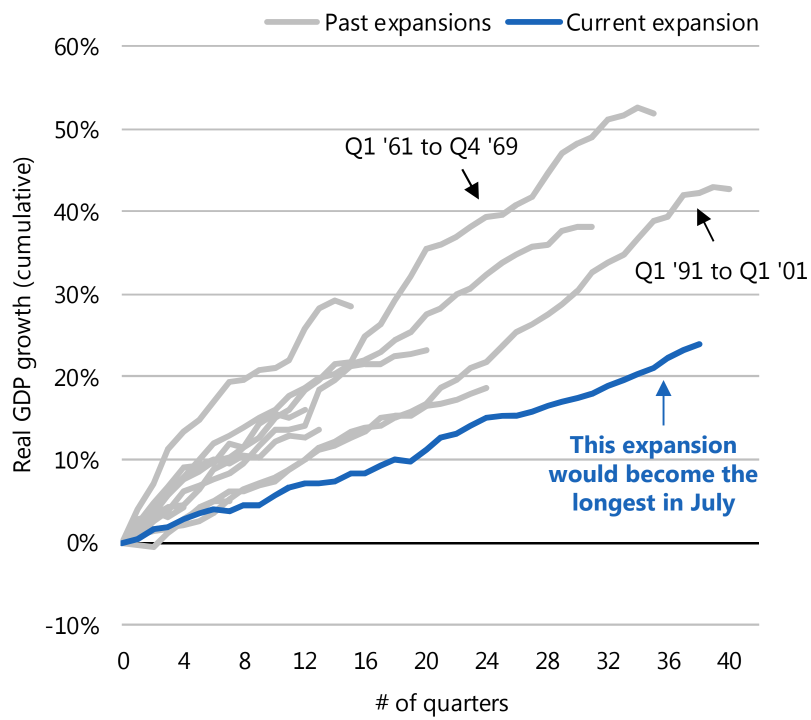
Themes shaping the outlook for 2019:

- The Fed's pivot to patience suggests short-term rates will flatline at PIMCO's "New Neutral" range of 2-3%
- Global growth still "synching lower" and political risks abundant
- China's stimulus measures can help provide growth stability – for the country and the global economy – later this year
- Trade conflicts to continue to simmer, with a U.S.-China trade deal likely but potential for flare-ups elsewhere (USMCA, auto tariffs, etc.)

As of 31 March 2019
SOURCE: Bloomberg, Federal Reserve Bank of New York, Holston, Laubach, and Williams, 2017, "Measuring the Natural Rate of Interest: International Trends and Determinants," PIMCO calculations.

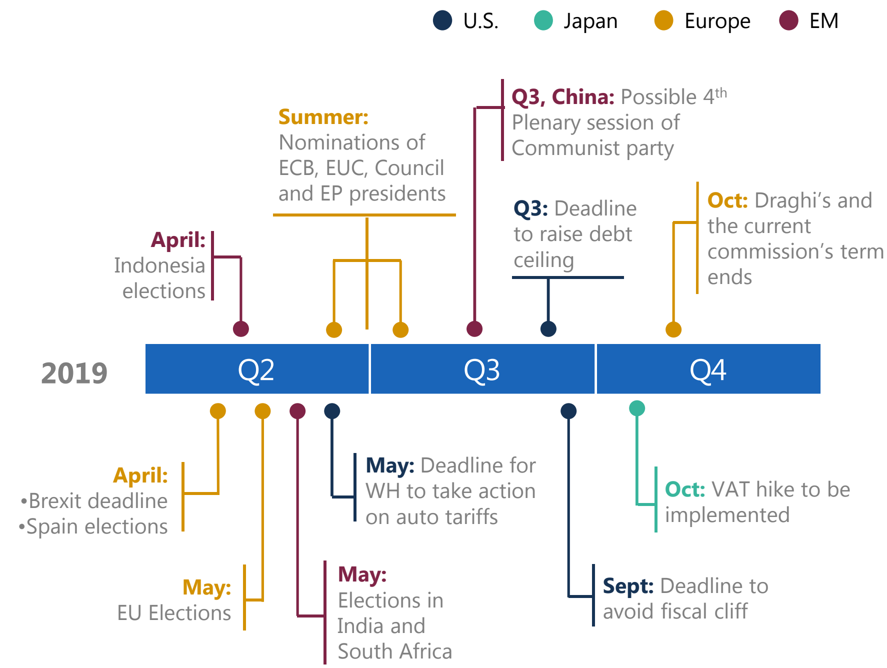
Developed Markets: The expansion continues, though geopolitical uncertainties remain a risk factor

Slow and steady



Despite a lackluster recovery compared to past expansions, a lack of traditional imbalances suggests this cycle can continue

Uncertainty ahead



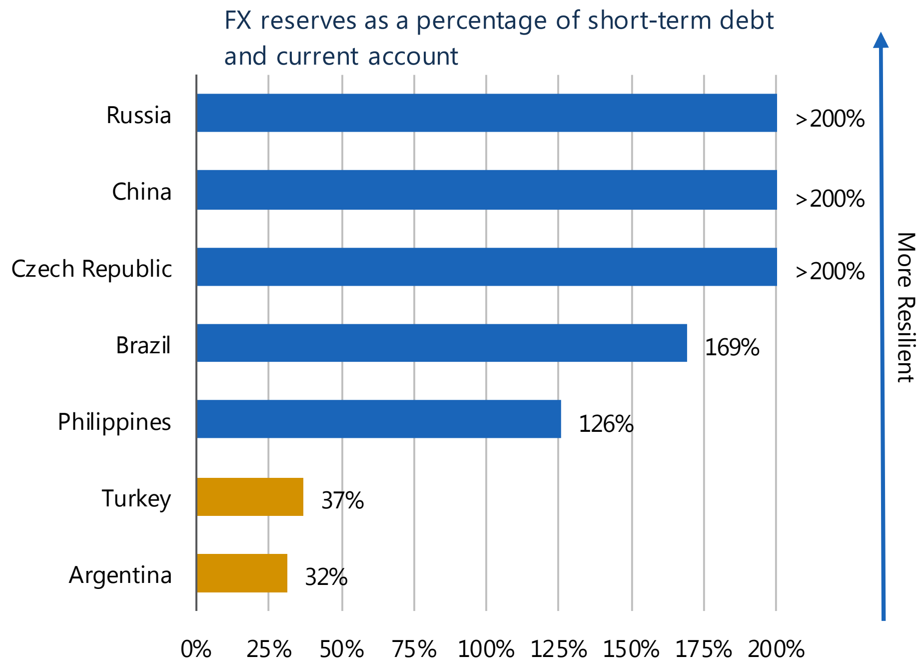
Geopolitics – from simmering trade tensions to national elections – continue to define a possible left tail

Growth outlook remains positive, though room for shocks (from factors like geopolitics) is limited

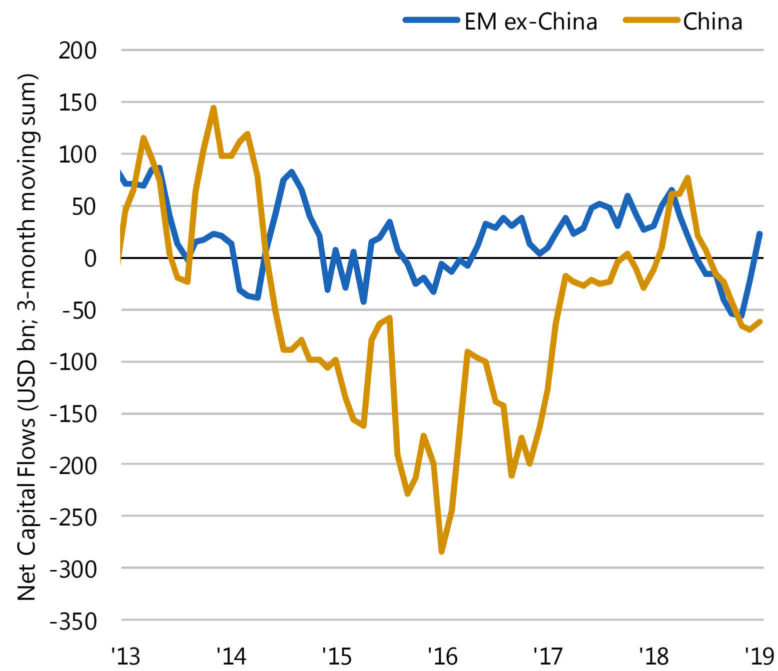
As of 31 March 2019
SOURCE: Haver, NBER

Emerging Markets: Improved fundamentals and a more supportive external backdrop

Keeping in reserve



The comeback kid?



Sovereign balance sheets across emerging markets look healthy, barring a few exceptions (most notably Argentina and Turkey)

A more benign external backdrop, with reduced trade tensions and more dovish central banks, have supported flows into EM

Generally supportive domestic fundamentals and a better global backdrop should provide more resiliency for EM

As of 31 March 2019 or latest available
SOURCE: IIF, Haver, IMF, Bloomberg, PIMCO

PIMCO update

PIMCO: Focused on preserving and enhancing assets

PIMCO Today

Assets under management

- $1.66 trillion[1]

Deep global resources and expertise

- Over 2,500 total employees
  - 797 investment professionals
  - 255 portfolio managers with 16 years average investment experience
  - 50+ countries in which clients are based*
- PIMCO Global Advisory Board

Time-tested investment philosophy

- Diversified set of alpha engines
  - Top Down
  - Bottom Up
  - Structural tilts

Looking Ahead

What We Stand For

- PIMCO is committed to being the world's premier fixed income investment manager

Client objectives driving focus

- Expanding expertise and growing our capabilities across fixed income, quantitative investing and alternative strategies
  - Acquisition of Gurtin Municipal Bond Management to offer clients a more extensive and enhanced suite of municipal strategies and services
- Investing in technology to bolster capabilities
  - Announced partnership with The Center for Decision Research at the University of Chicago Booth School

Industry leading and community minded

- Greenwich Quality Leader 2017 in Overall U.S. Investment Management Service Quality
- In 2018, PIMCO employees, friends and family volunteered more than 14,000 hours across 262 events and projects globally
- UNPRI Assessment Report 2018 recently upgraded PIMCO from A to A+ rating across all categories

December Cyclical Forum – Synching Lower

- While the expansion has been aging gracefully, we believe the global economy is past peak growth in the cycle.
- In this environment, we see substantial option value in leaving room in our risk budget to respond either to specific opportunities or to a broad spread widening and rise in volatility.

As of 31 December 2018. *Based on client account tax domicile
[1] Effective 31 March 2012, PIMCO began reporting the assets managed on behalf of its parent's affiliated companies as part of its assets under management.
Greenwich Associates accolade is based on interviews conducted by Greenwich Associates, between July and October 2017, with 1,059 senior professionals at 884 of the largest tax-exempt funds in the United States, including corporate and union funds, public funds, endowments and foundations, insurance general accounts, and healthcare organizations with either pension or investment pool assets greater than $150 million. Study participants were asked to provide quantitative and qualitative evaluations of their asset management and investment consulting providers, including qualitative assessments of those firms soliciting their business and detailed information on important market trends. The Greenwich Quality LeaderSM is determined entirely by the results of the interviews described above and do not represent opinions or endorsements by Greenwich Associates or its staff. Such designations are a product of numerical scores in Greenwich Associates' proprietary studies that are generated from the study interviews and are based on a statistical significance confidence level of at least 80%. © 2018 Greenwich Associates, LLC.
UNPRI assessment report limited to asset managers signed up to the Principles for Responsible Investment (PRI) and based on how well ESG metrics are incorporated into their investment processes. UNPRI Transparency Reports 2018 are available at https://www.unpri.org/signatories/transparency-reports-2018/3350.article. For methodology, please refer to About PRI Assessment: https://www.unpri.org/signatories/about-pri-assessment.

Assets under management by strategy

PIMCO manages $1.66 trillion in assets, including $1.28 trillion in third-party client assets

		Billions ($)
Alternatives		
Hedge Funds	Global macro, long/short credit, multi-asset volatility arbitrage strategies, relative value commodities	20.12
Liquid Absolute Return	Dynamic Bond strategies, Credit Opportunities Bond, other absolute return strategies	19.34
Opportunistic/Distressed	Opportunistic strategies focusing on real estate related assets (residential, commercial), corporate credit	10.54
Asset Allocation		
Asset Allocation Strategies	Global Multi Asset, All Asset, EM Multi Asset, RealPath, Inflation-Response Multi Asset, DRA	32.17
Equities		
Equity Strategies	Enhanced equities and active equities	25.66
Real Return		
Real Return Strategies	Inflation linked strategies, actively managed commodities, and real-estate linked exposure	53.88
Fixed Income		
Total Return[1-2]	Total Return	82.15
Intermediate[2]	Core Strategies, Moderate Duration	101.41
Credit	Investment Grade Credits, Bank Loans, High Yield	192.07
Long Duration	Focus on long-term bonds; asset liability management	162.79
Income	Income-oriented, insurance income	234.73
Global	International and global multiple currency formats	107.50
Cash Management[2]	Money Market, Short-Term, Low Duration	119.44
Emerging Markets	Local debt, external debt, currency	33.94
Mortgages	Agency MBS, structured credit (non-Agency MBS, CMBS, and ABS)	35.91
Diversified Income	Global credit combining corporate and emerging markets debt	19.58
Municipals	Tax-efficient total return management	16.11
Other	Custom mandates	9.56
Total assets under management		**$ 1,276.89 B**
Stable Value[2]	Stable income with emphasis on principal stability	21.24
Tail-Risk Hedging[3]	Pooled and customized portfolios of actively managed tail-risk hedges	29.27

As of 31 December 2018. SOURCE: PIMCO. **Past performance is not a guarantee or a reliable indicator of future results.**
Assets reflect those managed on behalf of third-party clients and exclude affiliated assets. Fund of funds assets have been netted from each strategy Potential differences in asset totals are due to rounding.
[1] Total Return has been segregated to isolate the assets of PIMCO sponsored U.S. Total Return 1940-act fund and foreign pool fund accounts. All other U.S. Total Return portfolios are included in the Intermediate category
[2] Stable value assets have not been netted from U.S. Total Return, U.S. Moderate Duration and U.S. Low Duration assets
[3] Tail-risk hedging assets reflect total notional value of dedicated mandates and are not counted towards PIMCO total assets under management

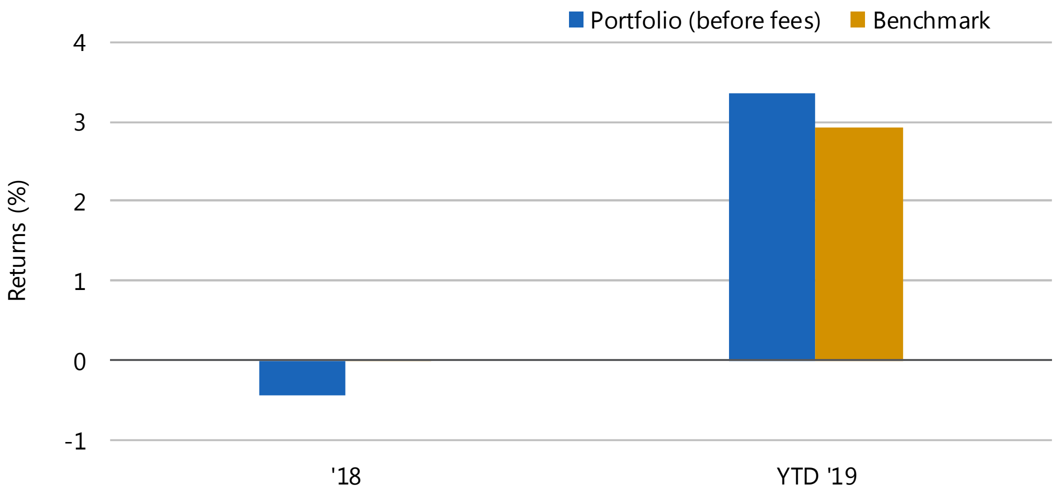
Appendix

North Dakota State Investment Board – Core Plus performance review

North Dakota State Investment Board - Core Plus

Market value as of Mar '19	$	319,645,824

Performance



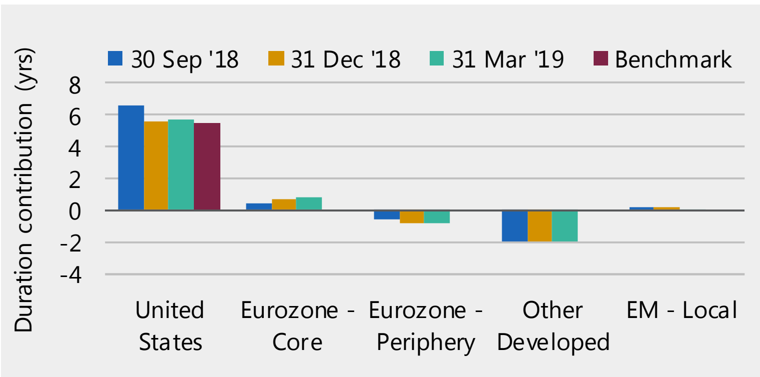
	S.I. 31 Oct '17	1 yr.	6 mos.	3 mos.
Before fees (%)	2.2	4.3	4.5	3.4
After fees (%)	2.1	4.2	4.4	3.3
Benchmark (%)	2.2	4.5	4.6	2.9

As of 31 March 2019
All periods longer than one year are annualized
Benchmark: Bloomberg Barclays U.S. Aggregate Index

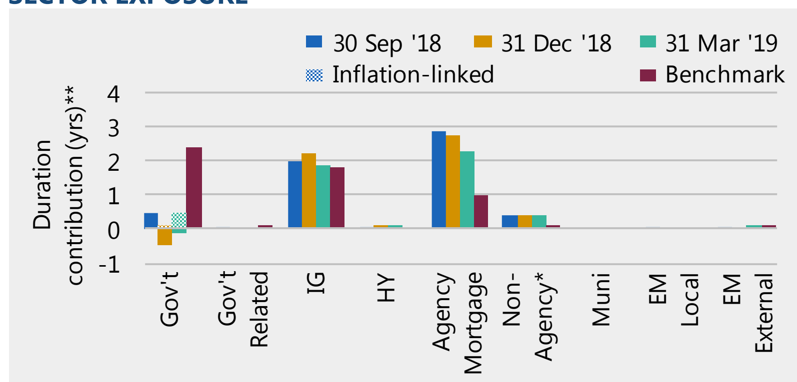
North Dakota State Investment Board – Core Plus positioning

North Dakota State Investment Board - Core Plus		30 Sep '18	31 Dec '18	31 Mar '19
Effective duration (yrs.)	Portfolio	4.6	3.6	3.7
	Index	5.7	5.5	5.5
Total Carry (bps)		493	429	348

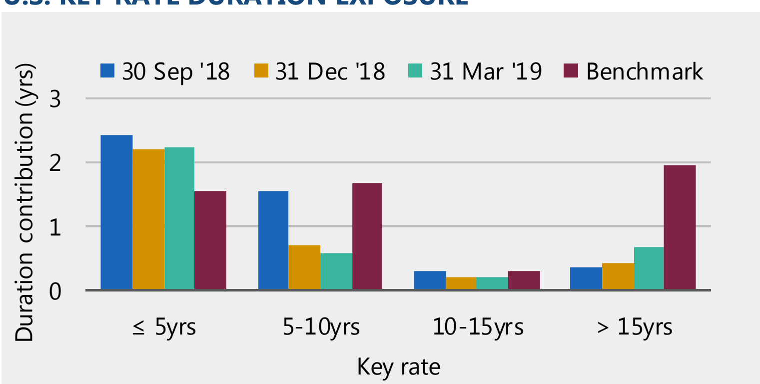
REGIONAL EXPOSURE



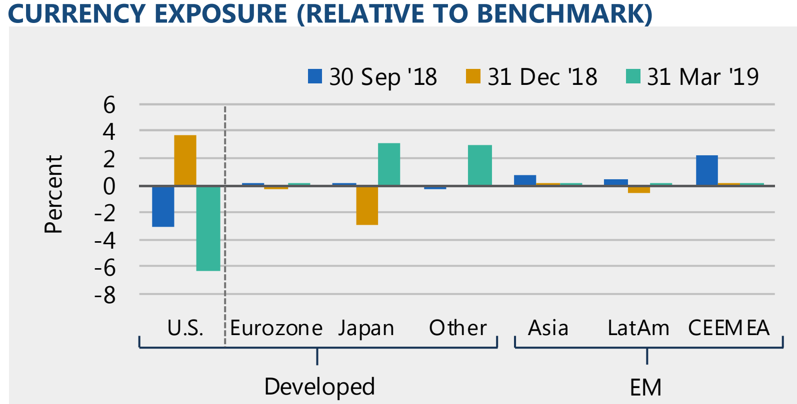
SECTOR EXPOSURE



U.S. KEY RATE DURATION EXPOSURE



CURRENCY EXPOSURE (RELATIVE TO BENCHMARK)



As of 31 March 2019
Benchmark: Bloomberg Barclays U.S. Aggregate Index
Benchmark interest rate and spread durations calculated using PIMCO proprietary analytics and risk models
*Non-agency may include non-agency mortgage backed securities, asset backed securities, and commercial mortgage backed securities
**For spread sectors, the relevant spread duration contribution is used

PIMCO

North Dakota State Investment Board
April 2019

An Introduction to PIMCO's Private Income Fund

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Disclosures

This material (the "Material") is being furnished at the request of client ("Recipient"). The Material is being provided to give the Recipient an introduction to PIMCO's Private Income Fund (the "Fund" or "PIF"). The Material does not constitute an offer to sell or a solicitation of an offer to buy interests in a fund or any other PIMCO trading strategy or investment product. The Materials do not relate to PIMCO's proposed Private Income Vintage Opportunities Fund. While the strategy and investment opportunity set is similar, the terms and structure of the Private Income Vintage Opportunities Fund differs in material respects from those of the Fund. Materials relating to such fund may be requested from PIMCO.

Offers of fund interests are made solely pursuant to a fund's Private Placement Memorandum (the "PPM"). The information contained herein is qualified in its entirety by reference to the relevant PPM, which contains additional information about the investment objective, terms and conditions of an investment in a fund and certain disclosures that are important to consider when making an investment decision regarding a fund, as well as by reference to the limited partnership (or similar) agreement, subscription agreement, and other definitive fund documents (together with the PPM, the "Documents"). Prior to investing in a fund, investors should read the PPM, paying particular attention to the risk factors contained therein, and the other Documents. In the case of any inconsistency between the terms contained herein and the Documents, the terms set forth in the Documents shall control.

In the event that an offer were to be made in a fund, any such offer would be made only after a prospective purchaser has had the opportunity to conduct its own independent evaluation of the fund and has received all information required to make its own investment decision, including a copy of Documents. No person has been authorized to give any information or to make any representation with respect to a fund other than those contained in this summary and, if given or made, such information or representations must not be relied upon as having been authorized.

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The Material is not intended to provide, and should not be relied on for, accounting, legal, tax, investment or other advice. Recipient should consult its own counsel, accountant, investment, tax, business and any other advisers as to legal, accounting, regulatory, investment, tax and any other matters, including economic risks and merits, related to making an investment in the fund.

For qualified investor use only.

Disclosures

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Fees and expenses charged in connection with an investment in a fund may be higher than the fees and expenses of other investment alternatives and may offset investment profits.

It should not be assumed, and no representation is made, that past investment performance is reflective of future results. Nothing herein should be deemed to be a prediction or projection of future performance.

None of the information contained herein has been filed with the U.S. Securities and Exchange Commission (the "SEC"), any securities administrator under any securities laws of any U.S. or non-U.S. jurisdiction or any other U.S. or non-U.S. governmental or self-regulatory authority. No such governmental or self-regulatory authority will pass on the merits of any offering of interests by the fund or the adequacy of the information contained herein. Any representation to the contrary is unlawful. The interests in the fund have not been and will not be registered under the U.S. Securities Act of 1933, as amended, or qualified or registered under any applicable state, local, provincial or other statutes, rules or regulations. The fund has not been and will not be registered as an investment company under the U.S. Investment Company Act of 1940, as amended.

Disclosures

The Material contains statements of opinion and belief. Any views expressed herein are those of PIMCO as of the date indicated, are based on information available to PIMCO as of such date, and are subject to change, without notice, based on market and other conditions. No representation is made or assurance given that such views are correct. PIMCO has no duty or obligation to update the information contained herein.

Certain information contained herein concerning economic trends and/or data is based on or derived from information provided by independent third-party sources. PIMCO believes that the sources from which such information has been obtained are reliable; however, it cannot guarantee the accuracy of such information and has not independently verified the accuracy or completeness of such information or the assumptions on which such information is based.

Certain information contained in this presentation constitutes "forward-looking statements," which can be identified by the use of forward-looking terminology such as "may," "will," "should," "expect," "anticipate," "target," "project," "estimate," "intend," "continue," or "believe," or the negatives thereof or other variations thereon or comparable terminology. Due to various risks and uncertainties, actual events or results or the actual performance of any investment may differ from those reflected or contemplated in such forward-looking statements. Prospective investors should not rely on these forward-looking statements when making an investment decision.

See Appendix for additional disclosures.

Executive Summary: Private Income Fund

Fund	▪ Seeking 8-12% target income-driven net returns through an opportunistic private credit strategy that spans global private residential, commercial, corporate and specialty finance markets
Experience	▪ Capitalize on PIMCO's long-standing experience managing income and opportunistic credit investment strategies ▪ Apply asset allocation and risk management principles of PIMCO's income-focused strategies with the origination and underwriting capabilities of our private investment platform
Opportunity	▪ **Ongoing regulatory restrictions** have created compelling potential opportunities for non-bank investors in areas of secondary credit, private lending, and structured finance that historically were dominated by commercial and investment banks. ▪ **Credit recovery has been uneven** post-crisis, with the corporate middle market displaying top of cycle behavior while other areas of the economy (consumer, residential, and commercial RE lending) remain more rational ▪ **Return compression** across global markets has outpaced private fund fees and structures – we believe the world has plenty of capital for 1-5% returns and 15-20% returns, but we believe there is an abundance of opportunities with very attractive risk / reward potential in the 8-12% range. ▪ **Navigate credit cycles** by allocating to less crowded, more insulated private credit markets today with mandate flexibility to react to future dislocation in areas that are currently flush with capital and fully valued
Structure & Terms	▪ Flexible asset allocation across a range of private credit categories, seeking the strongest relative value at various points in the cycle. ▪ Fees and evergreen structure designed to help ensure a robust investment and operational infrastructure • Founder's class discount offered for series A and B interests. • Management fee: 1.25% of net asset value of the fund. • Admin fee: 0.25% of net asset value of the fund. • Incentive fee: 12.5% over 5% soft hurdle.

Source: PIMCO. **For Illustrative Purposes Only and Subject to Change. Note: The views and expectations expressed are those of PIMCO. There can be no guarantee that the trends mentioned about will continue.**
The Target Return is not a guarantee, projection or prediction of future results of the Fund. Actual results may vary significantly from the Target Return. This information is summary in nature and is no way complete, and these terms have been simplified for illustrative purposes and may change materially at any time without notice. In particular, this information omits certain important details about the stated terms, and does not address certain other key Fund terms or represent a complete list of all Fund terms. If you express an interest in investing in the proposed Fund you will be provided with a private placement memorandum, limited partnership agreement, subscription agreement, and other documents ("Fund Documents"), which shall govern in the event of any conflict with the general terms listed herein. You must rely only on the information contained in the Fund Documents in making any decision to invest.
Refer to Appendix for additional investment strategy, target return and risk information.

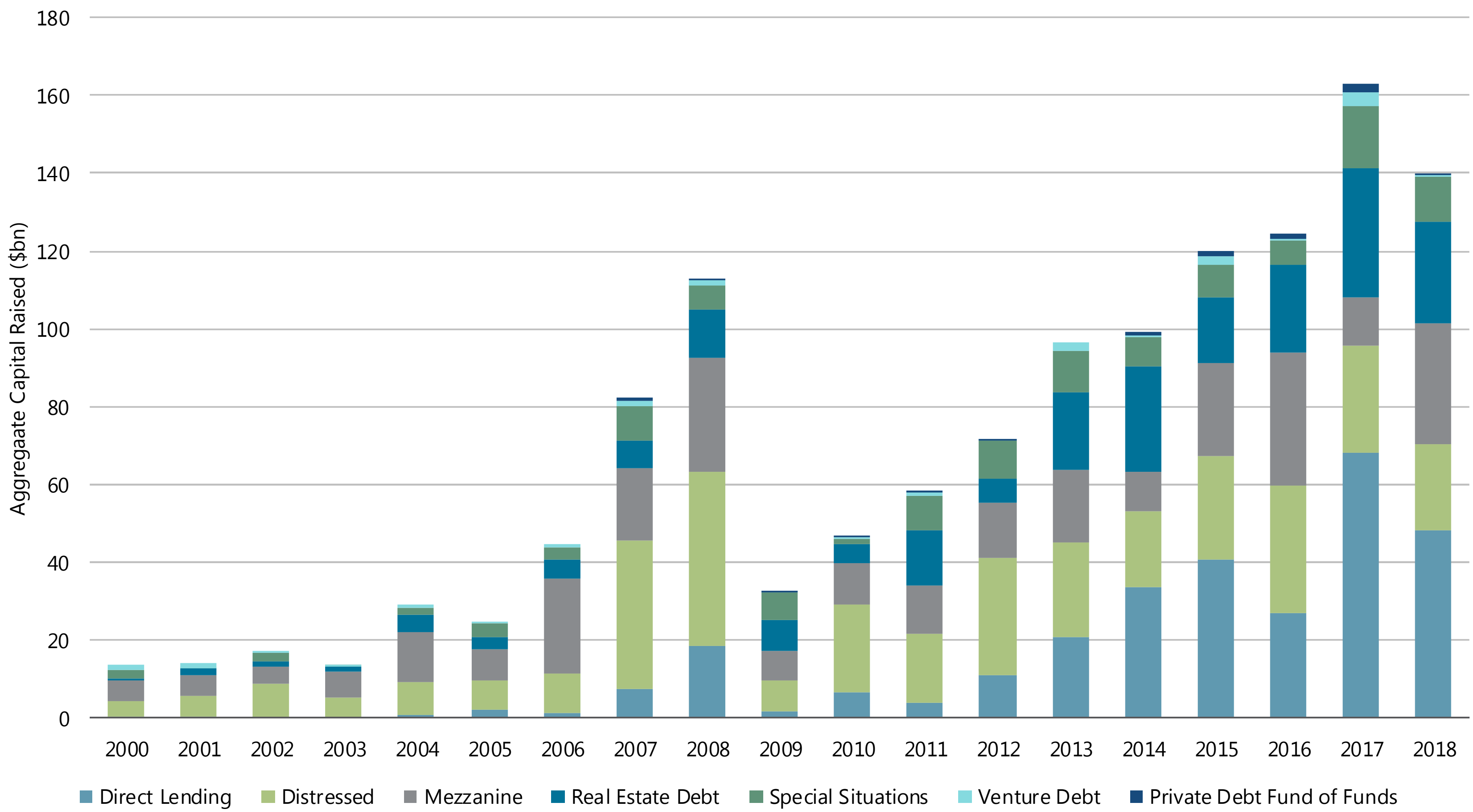
A Broad Approach vs Narrow Approach to Private Credit

Broad Mandates	Narrow Mandates
▪ Performance fees netted at fund level	▪ Performance fees paid per fund
▪ Relative value-oriented investment approach	▪ Seeks opportunities within a given sub-sector
▪ Flexibility to react to dislocation across credit markets	▪ Inability to move outside of target assets
▪ Seeks to optimize funding across the portfolio	▪ Dependent on the availability of financing in a given sector
▪ Greater scale to compete for large deals	▪ Narrow mandates often are highly constrained by size
▪ Efficient reinvestment of cash flows	▪ Distributions and re-investment may create cash drag
▪ Cohesive investment team and risk management	▪ Completely separate investment and risk management teams per mandate

An integrated and broad approach to private credit may lead to attractive outcomes across market cycles

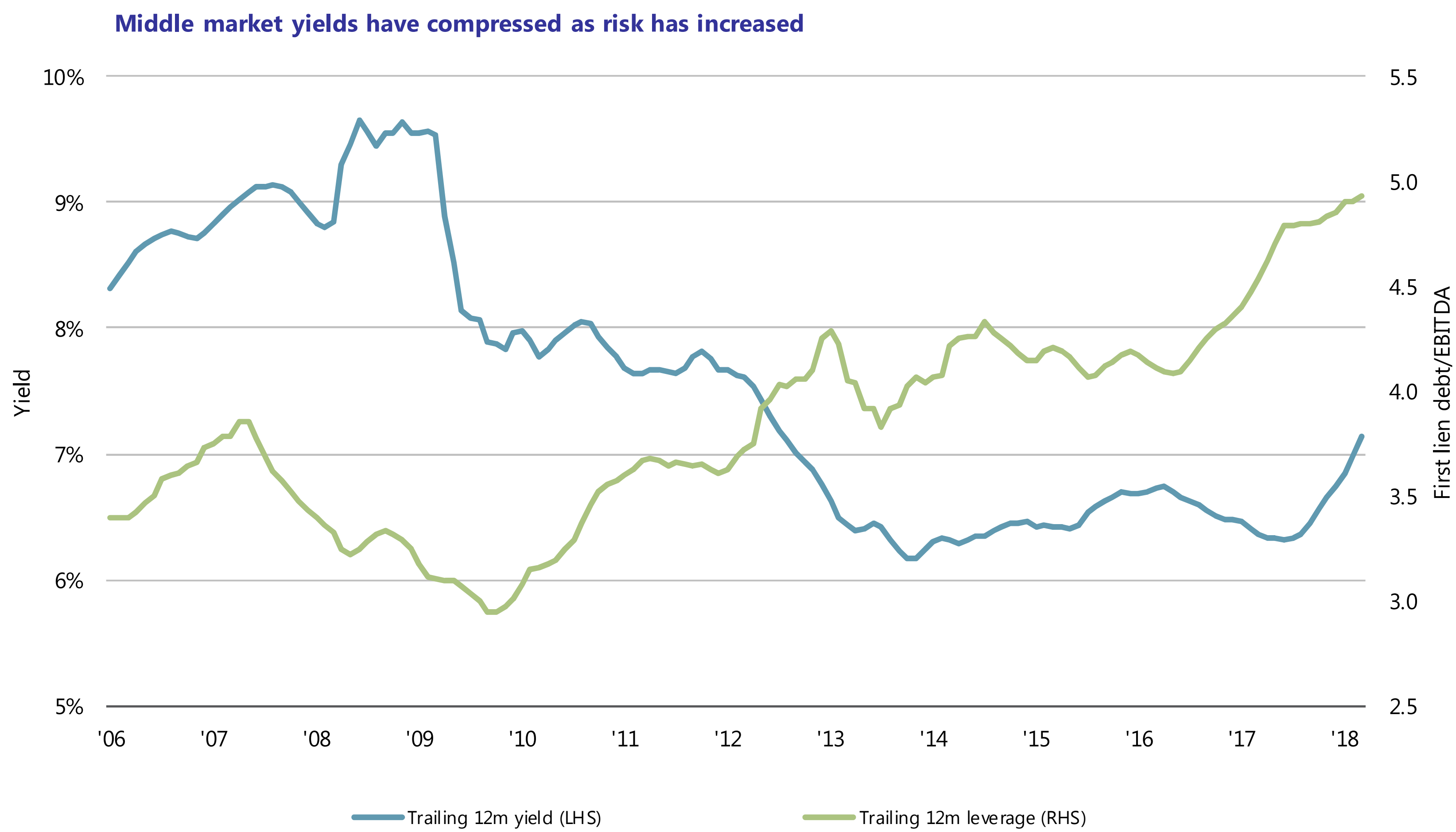
As of 31 December 2018
SOURCE: PIMCO
The views expressed herein are opinions of PIMCO as of the date hereof and PIMCO is under no obligation to update for changes in market. There can be no assurance that the proposed Fund will be able to implement its investment strategy. An investment in any PIMCO managed fund entails a high degree of risk and investors could lose all or a portion of their investment.
Refer to Appendix for additional outlook, investment strategy and risk information.

Investors' Allocations to Private Credit Remain High



As of 31 December 2018 for global private credit.
Source: Preqin
For illustrative purposes only. There can be no guarantee that the trends above will continue.
Refer to Appendix for investment strategy and risk information.

Robust Capital Formation has Created Froth in the Middle Market



As of 31 December 2018
Source: LCD
For illustrative purposes to show capital formation across the middle market since 2006. There can be no guarantee that the trends above will continue.
Refer to Appendix for investment strategy, outlook and risk information.

As Credit Provision has Evolved, Some Global Credit Sectors have Re-Levered Faster than Others

Corporate

- Imbalanced demand / supply in middle market direct lending has compressed pricing and terms
- Robust corporate credit and CLO issuance
- Opportunities to leverage the PIMCO platform for large, direct corporate loans

Residential

- Significant reduction in leverage since housing bottomed in 2012
- Continued disposition of seasoned legacy loans and servicing rights
- Potential opportunities to responsibly extend credit

Commercial real estate

- CRE equity valuations fully valued in major markets CBDs
- CMBS issuance a fraction of pre-crisis norms
- We believe lending opportunities in moderate LTV and transitional assets remain attractive

Specialty finance

- U.S. consumer benefitting from low unemployment and strength in housing market and solid lending standards
- Complexity in global trade receivables creating potential opportunities in trade finance

As of 31 December 2018.
There can be no guarantee that the trends above will continue. The views expressed herein are opinions of PIMCO as of the date hereof and PIMCO is under no obligation to update for changes in market conditions or other factors.
Refer to Appendix for investment strategy, outlook and risk information.

Private Income Fund (PIF): Opportunistic, Integrated and Evergreen

OPPORTUNISTIC
Approach to Private Credit

- Relative value-oriented approach
- Spans key credit verticals
- Ability to capitalize on new origination and secondary opportunities[1]
- Seek to scale risk with opportunity set
- Focused on navigating credit cycles

INTEGRATED
Investment Team

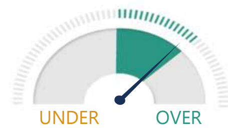
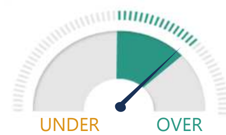
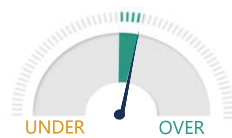
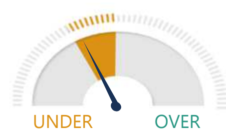
- Leverages PIMCO's Income and Opportunistic platforms
- Asset allocation informed by macroeconomic framework
- Robust analytics capabilities may bolster credit underwriting
- PIMCO platform may provide sourcing and financing advantages

EVERGREEN
Vehicle Structure

- Evergreen vehicle may provide structural solution to private credit allocations
- Seeks to provide efficient exposure to private credit by limiting cash drag both initially and over time
- Withdrawal capital account structure may reduce asset/liability mismatching

Source: PIMCO. **For illustrative purposes only.**
An investment in any PIMCO managed fund entails a high degree of risk and investors could lose all or a portion of their investment.
[1] There can be no guarantee that PIMCO will successfully identify or capitalize on these opportunities.
Refer to Appendix for additional investment strategy and risk information.

PIF Model Portfolio

Investment categories	*Near-term outlook*	*Near-term % target allocation*	*Illustrative examples*
Residential lending		**25-45%**	• New origination loans • Seasoned, sub-performing loans • Mortgage servicing rights • Transitional loans
Specialty finance		**25-45%**	• Consumer loans • Small business loans • Student / auto loans • Commercial finance (aircraft, rail car) • Trade finance • Insurance finance
Commercial real estate lending		**10-30%**	• Senior loans • Small balance loans • Seasoned loans • Mezzanine loans • Credit tenant leases • Land banking / development lending
Corporate lending		**10-30%**	• Direct corporate loans • Asset-based loans • Stressed / distressed loans • Rescue / DIP financing • Special situations

Source: PIMCO. **For Illustrative Purposes Only and Subject to Change.**
"Investment categories" represents various private credit strategies that comprise the mandate of PIF. "Near-term outlook" represents PIMCO's current views of opportunities in the categories identified over the next 12-18 months, and are subject to change. There can be no guarantee that the estimated allocations will reflect actual allocations. In addition, such outlook may be materially different over different time periods. "Near-term % target allocation" represents PIMCO's views on a current model portfolio.
Refer to Appendix for additional investment strategy, outlook and risk information.

PIMCO's Guide to Late Cycle Private Credit Investing

Seek compensation for risk

Strong asset coverage

Structural seniority and lender protections

Complexity & illiquidity premia

Financing as a source of alpha

Caution in areas with robust capital formation

Understand interplay between public and private markets

Source: PIMCO. **For Illustrative Purposes Only.**
An investment in any PIMCO managed fund entails a high degree of risk and investors could lose all or a portion of their investment.
The views expressed herein reflect PIMCO's opinions and are subject to change.
Refer to Appendix for additional investment strategy and risk information.

3. Team and Process

PIF's Integrated Investment Structure

Corporate
Adam Gubner & Lionel Laurant

Global Macro
Views across rates, FX, commodities, & volatility

Business Leadership
Gregory Hall*
Rick LeBrun*

Commercial RE
Devin Chen & Jeff Thompson

Investment Committee

Portfolio Management

- **Dan Ivascyn** *Group CIO*
- **Alfred Murata** *Opportunistic Credit*
- **Christian Stracke** *Opportunistic Credit*
- **Russell Gannaway** *Tactical Opportunities*
- **Harin de Silva** *Specialty Finance*

Alternatives Finance
Finance, tax & accounting

Residential RE
Jason Steiner

Alternatives Legal & Compliance
Deal & fund lawyers

Specialty Finance
Kris Kraus

Alternatives Strategists
Product development

Structured Credit
Josh Anderson

Portfolio Analytics
Marco Van Akkeren

Risk Management
Alternatives platform & firm-wide

As of 31 December 2018
For illustrative purposes only.
The composition, structure and/or operations of the investment committee may change from time to time (or the fund may cease to have an investment committee), each without the consent of or notice to investors. In addition, the individuals listed above may not continue to be employed by PIMCO during the fund's entire term, and the resources described above may change materially during the fund's term.
*Non-PM Investment Committee members advise IC on business strategy, resource development, legal and regulatory matters

Summary of Private Income Fund Key Terms

Summary terms	
Minimum investment	$15mm
Target fund size	$1bn initially
Term	Evergreen
Lock-up	2-year hard lock-up
Subscriptions & withdrawals	• $15mn initial subscription; quarterly subscriptions in the form of binding capital commitments in which PIMCO will have sole discretion to accept, reject, or limit subscriptions in a given quarter • $5mn minimum withdrawal; annual creation of withdrawal capital account on December 31st of each calendar year with 90 days prior notice)
Leverage	Target 1.5x direct borrowing (max 2x)
Management and administrative fees	1.25% / 0.25%
Preferred return	5%, crystallized annually
Performance fee	12.5%

Founder's class discount *(management fee applies irrespective of size; performance discount applies to commitments greater than or equal to $100mm)*	
Series A	Capped at $500mn; 0.75% management, 10% incentive over 5% soft hurdle, crystallized annually
Series B	Capped at $500mn; 1.00% management, 10% incentive over 5% soft hurdle, crystallized annually

Service providers		*Investor Reporting*	
Legal counsel	Ropes & Gray	**Quarterly**	Investor conference call Detailed investor report (portfolio construction and positioning, market commentary) Capital account statement
Auditor	PricewaterhouseCoopers	**Annual**	Annual audited financials Tax estimates for onshore investors

This information is summary in nature and is no way complete, and these terms have been simplified for illustrative purposes and may change materially at any time without notice. In particular, this information omits certain important details about the stated terms, and does not address certain other key Fund terms or represent a complete list of all Fund terms. If you express an interest in investing in the Private Income Fund, you will be provided with a private placement memorandum, limited partnership agreement, subscription agreement, and other documents ("Fund Documents"), which shall govern in the event of any conflict with the general terms listed herein. The private placement memorandum is not currently available. **You must rely only on the information contained in the Fund Documents in making any decision to invest. Refer to Appendix for additional performance and fee, investment strategy and risk information.**

Appendix

PERFORMANCE AND FEE

Past performance is not a guarantee or a reliable indicator of future results. The fees and expenses of the fund described herein (the “Fund”) are discussed within its Documents (defined below).

Any investment decision must be based only on the Fund’s private placement memorandum, limited partnership agreement, and other definitive legal documents (the “Documents”), which shall govern in the event of any conflict with the information contained herein. You must rely only on the information in the Documents in making any decision to invest.

The information contained herein is being furnished to you solely for the purpose of giving you a preliminary indication of the strategy and structure of the Fund and is not to be used for any other purpose or made available to anyone not directly concerned with your evaluation of the possibility of requesting further information regarding an investment in such Fund. The Fund information set forth herein is not and does not purport to be complete, and is qualified by and subject to the relevant Fund’s Documents. If you express an interest in investing in a Fund, any offer will be made by, and you will be provided with, the Documents.

This summary is for informational purposes only, and does not constitute an offer to sell, or a solicitation of an offer to buy, interests in a Fund or to participate in any trading strategy. Any such offer would be made only after a prospective purchaser has had the opportunity to conduct its own independent evaluation of such Fund and has received all information required to make its own investment decision, including a copy of Documents, which will contain material information not included herein and to which prospective purchasers are referred. No person has been authorized to give any information or to make any representation other than those contained in this summary and, if given or made, such information or representations must not be relied upon as having been authorized. Each prospective investor should consult its own counsel, accountant, or tax or business adviser as to legal, accounting, regulatory, tax and related matters, as well as economic risks and merits, concerning the possibility of making an investment in any Fund.

RISK

The Fund is not subject to the same regulatory requirements as mutual funds. The Fund is expected to be leveraged and to engage in speculative investment practices that will increase the risk of investment loss. The Fund’s performance could be volatile; an investor could lose all or a substantial amount of its investment. A Fund’s manager will have broad trading authority over such Fund. The use of a single adviser applying generally similar trading programs could mean lack of diversification and, consequently, higher risk. There is no secondary market for a Fund’s interest and none is expected to develop. There will be restrictions on transferring interests in a Fund and limited liquidity provisions. A Fund’s fees and expenses may offset its trading profits. The Fund will not be required to provide periodic pricing or valuation information to investors. The Fund will involve complex tax structures and there may be delays in distributing important tax information. A substantial portion of the trades executed for certain Funds are in non-U.S. securities and take place on non-U.S. exchanges.

The Fund's investments are expected to give rise to numerous risks. Investments in residential/commercial mortgage, consumer loans and other loans are subject to risks that include (but are not limited to) prepayment, delinquency, workout/restructuring, foreclosure, under collateralization, bankruptcy, risks of loss, servicing risks, adverse regulatory developments and changes in economic and/or market conditions. Such risks may be heightened in respect of loans that are or become **non-performing or re-performing,** which are generally subject to higher delinquency, foreclosure and loss rates than performing loans. **Investing in foreign denominated and/or domiciled securities** may involve heightened risk due to currency fluctuations, and economic and political risks, which may be enhanced in emerging markets. **Collateralized Loan Obligations (CLOs)** may involve a high degree of risk and are intended for sale to qualified investors only. Investors may lose some or all of the investment and there may be periods where no cash flow distributions are received. CLOs are exposed to risks such as credit, default, liquidity, management, volatility, interest rate and credit risk. Structured products such as **collateralized debt obligations** are also highly complex instruments, typically involving a high degree of risk; use of these instruments may involve derivative instruments that could lose more than the principal amount invested. **Derivatives** may involve certain costs and risks such as liquidity, interest rate, market, credit, management and the risk that a position could not be closed when most advantageous. **Equity investments** may decline in value due to both real and perceived general market, economic and industry conditions, while debt investments are subject to credit, interest rate and other risks.

The foregoing is only a description of certain key risks, and is not a complete enumeration of all risks to which the Fund will be subject. The Fund will be subject to numerous other risks not described herein. Prospective investors must carefully review the Documents (including, without limitation, the risk factors contained in the Fund’s private placement memorandum) prior to making any investment decision.

A purchase of interests in the Fund involves a high degree of risk that each prospective investor must carefully consider prior to making such an investment. Investors should thoroughly review the investment considerations and risk factors section of the Fund’s private placement memorandum for a more complete description of these risks. Prospective investors are advised that investment in the Fund is suitable only for persons of adequate financial means who have no need for liquidity with respect to their investment and who can bear the economic risk, including the possible complete loss, of their investment.

Appendix

CHART
Performance results for certain charts and graphs may be limited by date ranges specified on those charts and graphs; different time periods may produce different results.

SERVICE PROVIDERS
Service providers referenced in this document are current as of 3/31/2019 but may be subject to change over the Fund's term.

INVESTMENT STRATEGY
There is no guarantee that these investment strategies will work under all market conditions or are suitable for all investors and each investor should evaluate their ability to invest long-term, especially during periods of downturn in the market.

MANAGEMENT TEAM
The individuals referred to herein may not continue to be employed by PIMCO during the entire term of the respective Fund. Furthermore, the composition, structure and/or operations of the Fund investment committee may change from time to time (or the Fund may cease to have an investment committee), each without the consent of or notice to limited partners. It is also expected that the investment committee will be able delegate any decisions (including diligence decisions, decisions relating to smaller transactions, decisions relating to transactions involving material non-public information, decisions relating to transactions involving public issuers and decisions relating to the engagement of service providers) and/or recommendations relating thereto to a subset of the committee and/or other PIMCO investment professionals in its discretion. In addition, a number of members of the professional staff of PIMCO are investors in other funds advised by PIMCO and are actively involved in managing the investment decisions of these funds, as well as investment decisions of other clients of PIMCO. Accordingly, the members of the professional staff of PIMCO will have demands on their time for the investment, monitoring and other functions of other funds and other clients advised by PIMCO. In addition, competition in the financial services, private equity and alternative asset management industries for qualified investment professionals is intense. PIMCO's continued ability to effectively manage the Fund's investments depends on its ability to retain and motivate its existing investment professionals and to attract new investment professionals.

OUTLOOK
Statements concerning financial market trends are based on current market conditions, which will fluctuate. There is no guarantee that these investment strategies will work under all market conditions or are suitable for all investors and each investor should evaluate their ability to invest for the long-term, especially during periods of downturn in the market. Outlook and strategies are subject to change without notice.

Appendix

TARGET RETURN

The Target Return stated herein is not a guarantee, projection or prediction of future results of the Fund. There can be no assurance that the Fund will achieve the Target Return or any particular level of return; an investor may lose all of its money by investing in the Fund. Actual results may vary significantly from the Target Return.

Actual gross returns in any given year may be lower than the Target Return. Even if the Target Return is met, actual returns to investors will be lower due to expenses, taxes, structuring considerations and other factors. In addition, the Target Return may be adjusted at PIMCO's discretion without notice to investors in light of available investment opportunities and/or changing market conditions. PIMCO believes that the Target Return for the Fund is reasonable based on a combination of factors, including the Fund's investment team's general experience, the availability of leverage and financing at expected times, amounts, costs and other terms and assessment of prevailing market conditions and investment opportunities. There are, however, numerous assumptions that factor into the Target Return that may not be consistent with future market conditions and that may significantly affect actual investment results. Such assumptions include (i) the ability to source and acquire attractively priced assets; (ii) the expected response of specific investments to market conditions; (iii) the availability of leverage for certain investments at expected terms; and (iv) PIMCO's outlook for certain global and local economies and markets as it relates to potential changes to the regulatory environment, interest rates, growth expectations, residential and commercial real estate or consumer fundamentals and the health of the economy. No representation or warranty is made as to the reasonableness of the assumptions made or that all assumptions used in calculating the Target Return have been stated or fully considered. Prospective investors reviewing the Target Return must make their own determination as to the reasonableness of the assumptions and the reliability of the Target Return. Actual results and events may differ significantly from the assumptions and estimates on which the Target Return is based.

Important information for U.S. Investors

These materials are being provided on the express basis that they and any related communications (whether written or oral) will not cause Pacific Investment Management Company LLC (or any affiliate) (collectively, "PIMCO") to become an investment advice fiduciary under ERISA or the Internal Revenue Code, as the recipients are fully aware that PIMCO (i) is not undertaking to provide impartial investment advice, make a recommendation regarding the acquisition, holding or disposal of an investment, act as an impartial adviser, or give advice in a fiduciary capacity, and (ii) has a financial interest in the offering and sale of one or more products and services, which may depend on a number of factors relating to PIMCO (and its affiliates') internal business objectives, and which has been disclosed to the recipient. These materials are also being provided on PIMCO's understanding that the recipients they are directed to are all financially sophisticated, capable of evaluating investment risks independently, both in general and with regard to particular transactions and investment strategies. If this is not the case, we ask that you inform us immediately. You should consult your own separate advisors before making any investment decisions.

These materials are also being provided on the express basis that they and any related communications will not cause PIMCO (or any affiliate) to become an investment advice fiduciary under ERISA or the Internal Revenue Code with respect to any recipient or any employee benefit plan or IRA.

The information provided herein is intended to be used solely by the recipient in considering the products or services described herein and may not be used for any other reason, personal or otherwise.

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CMR2019-0415-391280

Legacy Fund Update
As of February 28, 2019

April 18, 2019

Dave Hunter, Executive Director/CIO
Connie Flanagan, Chief Financial Officer
ND Retirement & Investment Office (RIO)
State Investment Board (SIB)

LEGACY FUND
Statement of Net Position
As of 2/28/2019

Legacy Fund balances and returns are posted on RIO's website at each month-end.

	As of 2-28-19	As of 6-30-18
ASSETS:		
INVESTMENTS (AT FAIR VALUE)		
GLOBAL EQUITIES	$ 3,098,791,596	$ 2,766,036,036
GLOBAL FIXED INCOME	2,046,156,495	1,929,981,907
GLOBAL REAL ASSETS	883,298,673	805,149,765
INVESTED CASH (NOTE 1)	54,529,228	54,793,877
TOTAL INVESTMENTS	6,082,775,992	5,555,961,585
RECEIVABLES		
DIVIDEND/INTEREST RECEIVABLE	21,425,473	21,357,528
MISCELLANEOUS RECEIVABLE	13,523	14,495
TOTAL RECEIVABLES	21,438,996	21,372,023
OTHER ASSETS		
INVESTED SECURITIES LENDING COLLATERAL (NOTE 2)	19,610,979	24,284,177
OPERATING CASH	164,633	208,349
TOTAL ASSETS	6,123,990,600	5,601,826,134
DEFERRED OUTFLOWS OF RESOURCES		
DEFERRED OUTFLOWS RELATED TO PENSIONS	244,618	271,634
LIABILITIES:		
SECURITIES LENDING COLLATERAL (NOTE 2)	19,610,979	24,284,177
ACCOUNTS PAYABLE	-	71,703
ACCRUED EXPENSES	472,352	497,792
INVESTMENT EXPENSE PAYABLE	1,150,895	1,150,895
TOTAL LIABILITIES	21,234,226	26,004,567
DEFERRED INFLOWS OF RESOURCES		
DEFERRED INFLOWS RELATED TO PENSIONS	9,183	9,183
NET POSITION:		
HELD IN TRUST	6,102,991,809	5,576,084,018
TOTAL NET POSITION	$ 6,102,991,809	$ 5,576,084,018

LEGACY FUND
Statement of Changes in Net Position
For the Month Ended 2/28/2019

	Month Ended 2-28-19	Year-to-Date
ADDITIONS:		
INVESTMENT INCOME		
GAIN ON SALE OF INVESTMENTS	$ 64,287,492	$ 643,207,061
LOSS ON SALE OF INVESTMENTS	41,161,450	549,430,571
NET GAINS (LOSSES) INVESTMENTS	23,126,042	93,776,490
NET APPREC (DEPREC) MARKET VALUE	68,501,970	(121,862,458)
NET CHANGE IN FAIR VALUE OF INVESTMENTS	91,628,012	(28,085,968)
INTEREST, DIVIDEND & OTHER INVESTMENT INCOME	12,412,686	86,635,460
	104,040,698	58,549,492
LESS INVESTMENT EXPENSES	1,592,545	8,019,894
NET INCOME FROM INVESTING ACTIVITIES	102,448,153	50,529,598
SECURITIES LENDING INCOME	40,799	462,380
SECURITIES LENDING EXPENSES	8,150	92,397
NET SECURITIES LENDING INCOME	32,649	369,983
NET INVESTMENT INCOME	102,480,802	50,899,581

EARNINGS AVAILABLE

Section 26 of Article X of the Constitution of North Dakota dictates that earnings of the Legacy Fund accruing after June 30, 2017, shall be transferred to the general fund at the end of each biennium. Earnings accrued prior to June 30, 2017, become part of the principal of the fund.

NDCC 21-10-12 defines "earnings" for the purposes of Section 26, Article X as "net income in accordance with generally accepted accounting principles, excluding any unrealized gains or losses."

As of the date of these financial statements, the principal balance of the Legacy Fund is $ 5,383,787,889

As of the date of these financial statements, earnings of the Legacy Fund eligible for transfer to General Fund at the end of the biennium is $ 415,177,859

These financial statements are preliminary, unaudited and subject to change. 3/26/2019

ND Legacy Fund
Summary of Deposits, Earnings and Net Position
As of February 28, 2019

	Deposits	Total Net Earnings	Net Increase/ (Decrease)	Ending Net Position	Earnings as defined in NDCC 21-10-12
FY2012	**396,585,658**	2,300,225	398,885,883	398,885,883	**2,571,475**
FY2013	**791,126,479**	4,216,026	795,342,505	1,194,228,388	**15,949,089**
FY2014	**907,214,971**	113,153,662	1,020,368,633	2,214,597,021	**50,033,655**
FY2015	**1,011,343,040**	99,895,650	1,111,238,690	3,325,835,711	**95,143,905**
FY2016	**434,853,950**	45,851,680	480,705,630	3,806,541,341	**65,326,673**
FY2017	**399,501,134**	479,595,256	879,096,390	4,685,637,731	**207,814,875**
Totals	**3,940,625,232**	745,012,499	4,685,637,731	4,685,637,731	**436,839,672**
					Transferrable Earnings
FY2018	**529,870,755**	**360,575,532**	**890,446,287**	**5,576,084,018**	**242,859,840**
FY2019 *	***476,452,230***	***50,455,561***	***526,907,791***	***6,102,991,809***	***172,318,019***
		411,031,093			***415,177,859***
Life-to-date Totals	**4,946,948,217**	**1,156,043,592**	**6,102,991,809**	**6,102,991,809**	**852,017,531**

** FY2019 amounts are preliminary and unaudited.*

All earnings prior through 6/30/17 became part of principal.

The Legacy Fund exceeded $6.1 billion at Feb. 28, 2019. Net Investment Income exceeds $1.1 billion since inception including $411 million in Fiscal 2018-19. Earnings as defined by NDCC 21-10-12, which exclude net unrealized gains and losses, exceed $415 million for the 20 months ended Feb. 28, 2019.

NDCC 21-10-12 defines "earnings" as net income in accordance with generally accepted accounting principles excluding any unrealized gains or losses.

Discussion of "Transferrable Earnings" on June 30, 2019

Based on preliminary results, Legacy Fund will have total net earnings of approximately $56 million for March of which $44 million represents net unrealized gains. As a result, RIO is estimating "earnings" as defined by NDCC 21-10-12 (which includes interest and dividend income +/- net realized gains or losses) at $12 million for March in the table below.

Legacy Fund
NDCC 21-10-12 "Earnings"
As reported by NDRIO

	Biennium to Date "Earnings"	Monthly Change
Sep 30, 3018	$306,513,586	$13,497,153
Oct. 31, 2018	$285,954,498	($20,559,088)
Nov. 30, 2018	$342,727,153	$56,772,655
Dec. 31, 2018	$336,774,290	($5,952,863)
Jan. 31, 2019	$381,246,278	$44,471,988
Feb. 28, 2019	$415,177,859	$33,931,581
Mar. 31, 2019 ESTIMATE	$427,177,859	$12,000,000

Note: RIO's CFO, Connie Flanagan, to provide an update based on a prior OMB meeting regarding the transfer of Legacy Fund "Earnings" as defined by NDCC 21-10-12.

Agenda Item III.D.

INFORMATIONAL

TO: State Investment Board

FROM: Dave Hunter

DATE: April 18, 2019

SUBJECT: **Investment Services Update**

RIO regularly receives offers from a wide variety of financial service firms interested in sharing their investment expertise with our SIB clients. In early-2019, RIO began to receive an increased level of solicitation largely due to the continued growth of the Legacy Fund and potentially due to the current legislative session. RIO attempts to respond to all inquiries in a timely manner if they are deemed relevant to current SIB investment initiatives or from local banks or investment management firms.

During the past two months, RIO met with two local firms interested in offering their services to the SIB including Mr. Perry Hillman, First State Bank Vice President, and Ms. Alexis Larson, Edward Jones Financial Advisor. In my opinion, these investment meetings were mutually informative while helping to broaden community awareness of the institutional investment program overseen by the SIB. Although RIO does not believe any immediate SIB related investment opportunities will result from these discussions, I found the meetings to both positive and productive. RIO notes the Office of the State Treasurer was very helpful throughout the process and we may have shared in increasing awareness of the Bid ND program whereby North Dakota Banks and Credit Unions are encouraged to participate in bidding on certificates of deposit for approximately 15 North Dakota investment groups.

If you would like any additional information or background on any of the above related matters, please let me know.

AGENDA ITEM IV. A.

Board Acceptance Requested

Annual Board Planning Cycle
Biennial Agenda and Strategic Investment Plan

April 26, 2019

Dave Hunter, Executive Director / CIO
ND Retirement & Investment Office (RIO)
State Investment Board (SIB)

Overview

Each April, the SIB reviews our Biennial Agenda for the upcoming year to ensure it is aligned with our Mission Statement and Strategic Investment Plan. Ends policies are also reviewed to confirm the SIB and RIO are meeting, if not exceeding, client expectations while adhering to approved budget guidelines. **In general, RIO believes we are meeting client expectations based on our stated Ends and noting favorable SIB & TFFR client satisfaction scores, above benchmark returns, favorable peer performance rankings (27th percentile the last 5-years) and a keen awareness to the importance of strong board governance principles and practices.**

Given a desire to further enhance our overall performance, the SIB conducted its' first board self-evaluation process in early-2018 and incorporated its' second board self-evaluation process into the proposed Biennial Agenda for 2019 and 2020 (noting the following four themes as stated in Aon Hewitt's summary memo last year).

1) **Committees -** The SIB will remain mindful of its ability to create committees (when needed), ensuring that each permanent committee has its own charter which outlines its scope of authority and responsibilities in reporting to the full Board.
2) **Education -** Maintain a steadfast commitment to continuing board education including new board member orientation/mentoring, fiduciary responsibility and the benchmark selection process. The ED/CIO may provide a recommended list of educational conferences for member consideration.
3) **Staff -** The ED/CIO evaluation process has been thoroughly reviewed and materially enhanced in recent years. The SIB can always discuss if any further revisions should be proposed in the future.
4) **Attendance -** RIO is able to prepare annual reports for SIB member attendance, professional education, and/or new board member orientation, upon request.

Annual Board Planning Cycle – Biennial Agenda

RIO Recommendation (Board Acceptance Requested)

Annual Board Planning Cycle from July 1, 2018 to June 30, 2019

July 2018	August	September	October	November	January 2019	February	March	April	May
Board Education Investment Beliefs & Benchmarking - Elect Officers - Appoint Committees - Confirm Annual Plan and Agenda	**Annual Investment Performance Review** - Establish Investment Work Plan - Add Invest. Education	**Annual Review of Gov. Manual** - New Board Member Orientation	**Annual Evaluation of RIO vs. *Ends* policies** - Annual Board Evaluation	**Report on Investment Work Plan** **Board Education Real Estate** **Review of Investment Fees and Expenses**	**Board Education Investment Due Diligence** Legislative Update	**Report on Investment Work Plan** Executive Limitations Review Legislative Update	**Confirm Budget Guidelines** Legislative Update **Commence Board Self-Assessment**	**Review Biennial Agenda** Legislative Update **Conduct Board Self-Assessment**	**Report on Investment Work Plan** Review ED/CIO **Review Budget Guidelines** **Accept Board Self-Assessment**

Annual Board Planning Cycle from July 1, 2019 to June 30, 2020

July 2019	August	September	October	November	January 2020	February	March	April	May
Board Education Governance & Best Practices - Elect Officers - Appoint Committees - Confirm Annual Plan and Agenda Agenda	**Annual Investment Performance Review** - Establish Investment Work Plan - Add Invest. Education	**Annual Review of Gov. Manual** - New Board Member Orientation (Reserved)	**Annual Evaluation of RIO vs. *Ends* policies** - Annual Board Evaluation	**Report on Investment Work Plan** **Board Education Private Markets** **Review of Investment Fees and Expenses**	**Board Education Risk Management** **Commence Board Self-Assessment**	**Report on Investment Work Plan** - Executive Limitations **Review ED/CIO Assessment Tool & Board Self-Assessment**	**Accept Board Self-Assessment** (Reserved)	**Review Biennial Agenda, End Policies, Strategic Investment Plan and Budget Guidelines**	**Report on Investment Work Plan** Review ED/CIO **Review RIO 2021-23 Budget** **Review RIO U.S. Peer Group Compensation**

Date: April 18, 2019

<u>Call to Action</u>: If the SIB concurs, a motion should be made to accept the Biennial Agenda including the revisions highlighted in blue text relating to the proposed timing for the "Board Self Assessment" (moved up to January in 2020 versus March in 2019) and "Review (of the) ED/CIO Assessment Tool" (added in February of 2020) per the Executive Review Committee.

RIO’s Mission Statement

RIO’s “Mission” is defined in SIB Governance Policy D-1 on “Ends”.

The Retirement and Investment Office serves the SIB and exists in order that:

1) SIB clients receive investment returns, consistent with their written investment policies and market variables, in a cost effective investment manner and under the Prudent Investor Rule. **D-3**
2) Potential SIB clients have access to information regarding SIB’s investment services. **D-4**
3) TFFR benefit recipients receive their retirement benefits in a cost effective and timely manner. **D-5**
4) TFFR members have access to information which will allow them to become knowledgeable about the issues and process of retirement. **D-6**
5) SIB clients and TFFR benefit recipients receive satisfactory services from the boards and staff. **D-7**

Mission Accomplishments:

1) The vast majority of SIB clients generated positive excess returns for the 5-years ended 12/31/2018 while adhering to approved investment guidelines for risk and reducing investment management fees (as a % of assets under management) from 0.65% to 0.43% over the last five fiscal years.
2) The Legacy Fund was awarded the highest transparency rating (of 10 out of 10) by the Sovereign Wealth Fund Institute in 2019 and RIO is working to significantly enhance its website in mid-2019 (noting all board meeting materials and governance manuals are already posted on our website).
3) RIO’s internal audit team routinely conducts reviews which provide reasonable assurance that TFFR benefit recipients receive their retirement benefits in a cost effective and timely manner.
4) TFFR member surveys support management’s belief that members have access to information which will allow them to become knowledgeable about retirement issues and processes.
5) SIB and TFFR client surveys confirm that the boards and staff provide satisfactory services.

Pension Clients – December 31, 2018 Performance

	1 Yr Ended 12/31/2018	3 Yrs Ended 12/31/2018	5 Yrs Ended 12/31/2018	Risk 5 Yrs Ended 12/31/2018	Risk Adj Excess Return 5 Yrs Ended 12/31/2018
PERS $2.85 billion					
Total Fund Return - Net	-4.09%	6.39%	5.11%	6.0%	0.21%
Policy Benchmark Return	-3.18%	5.83%	4.52%	5.5%	
Excess Return	-0.91%	0.56%	0.59%	109%	
TFFR $2.33 billion					
Total Fund Return - Net	-4.05%	6.29%	5.06%	6.0%	0.28%
Policy Benchmark Return	-3.31%	5.71%	4.46%	5.5%	
Excess Return	-0.74%	0.58%	0.60%	108%	
Bismarck Employee $95 million					
Total Fund Return - Net	-2.81%	6.06%	4.97%	5.0%	0.45%
Policy Benchmark Return	-2.57%	5.34%	4.26%	4.6%	
Excess Return	-0.24%	0.72%	0.71%	107%	
Bismarck Police $38 million					
Total Fund Return - Net	-3.21%	6.21%	4.97%	5.3%	0.42%
Policy Benchmark Return	-2.95%	5.57%	4.32%	5.1%	
Excess Return	-0.25%	0.64%	0.65%	106%	
Job Service - $94 million					
Total Fund Return - Net	0.44%	4.94%	4.69%	3.5%	0.42%
Policy Benchmark Return	0.19%	4.85%	4.10%	3.3%	
Excess Return	0.25%	0.09%	0.59%	104%	
Grand Forks $61 million					
Total Fund Return - Net	-3.61%	6.47%	5.08%	6.0%	0.37%
Policy Benchmark Return	-3.46%	6.00%	4.57%	5.9%	
Excess Return	-0.14%	0.47%	0.51%	103%	
Grand Forks Park $6.5 million					
Total Fund Return - Net	-3.44%	6.35%	5.29%	6.0%	0.13%
Policy Benchmark Return	-2.68%	6.04%	4.86%	5.6%	
Excess Return	-0.77%	0.31%	0.44%	107%	

1) **Every Pension client generated positive "Excess Return" for the 3- and 5-years ended 12/31/18.**

2) **"Excess Return"** is defined as actual investment return (after deducting fees) over the expected return of the underlying investment policy or benchmark (i.e. a passive index).

3) **SIB's use of active management generated over $300 million of net incremental income** (after fees) **in the last 5-years for our SIB clients**. This is based on $10 billion of managed assets and **Excess Return of over 0.60%** ($10 billion x 0.60% = $60 million per year x 5 years = $300 million).

4) **Strong returns have been achieved while adhering to approved risk levels, as measured by standard deviation and risk adjusted excess return over the last 5-years.**

Data as of 12/31/2018 is unaudited and subject to change, but deemed to be materially accurate.

Non-Pension Clients – December 31, 2018 Performance

	1 Yr Ended 12/31/2018	3 Yrs Ended 12/31/2018	5 Yrs Ended 12/31/2018	Risk 5 Yrs Ended 12/31/2018	Risk Adj Excess Return 5 Yrs Ended 12/31/2018
WSI					
Total Fund Return - Net	-1.47%	5.35%	4.85%	3.52%	0.35%
Policy Benchmark Return	-1.14%	3.92%	3.79%	2.93%	
Excess Return	-0.33%	1.43%	1.06%	OK	
Legacy Fund					
Total Fund Return - Net	-5.29%	5.49%	4.31%	5.80%	0.31%
Policy Benchmark Return	-4.42%	4.68%	3.61%	5.19%	
Excess Return	-0.87%	0.81%	0.70%	OK	

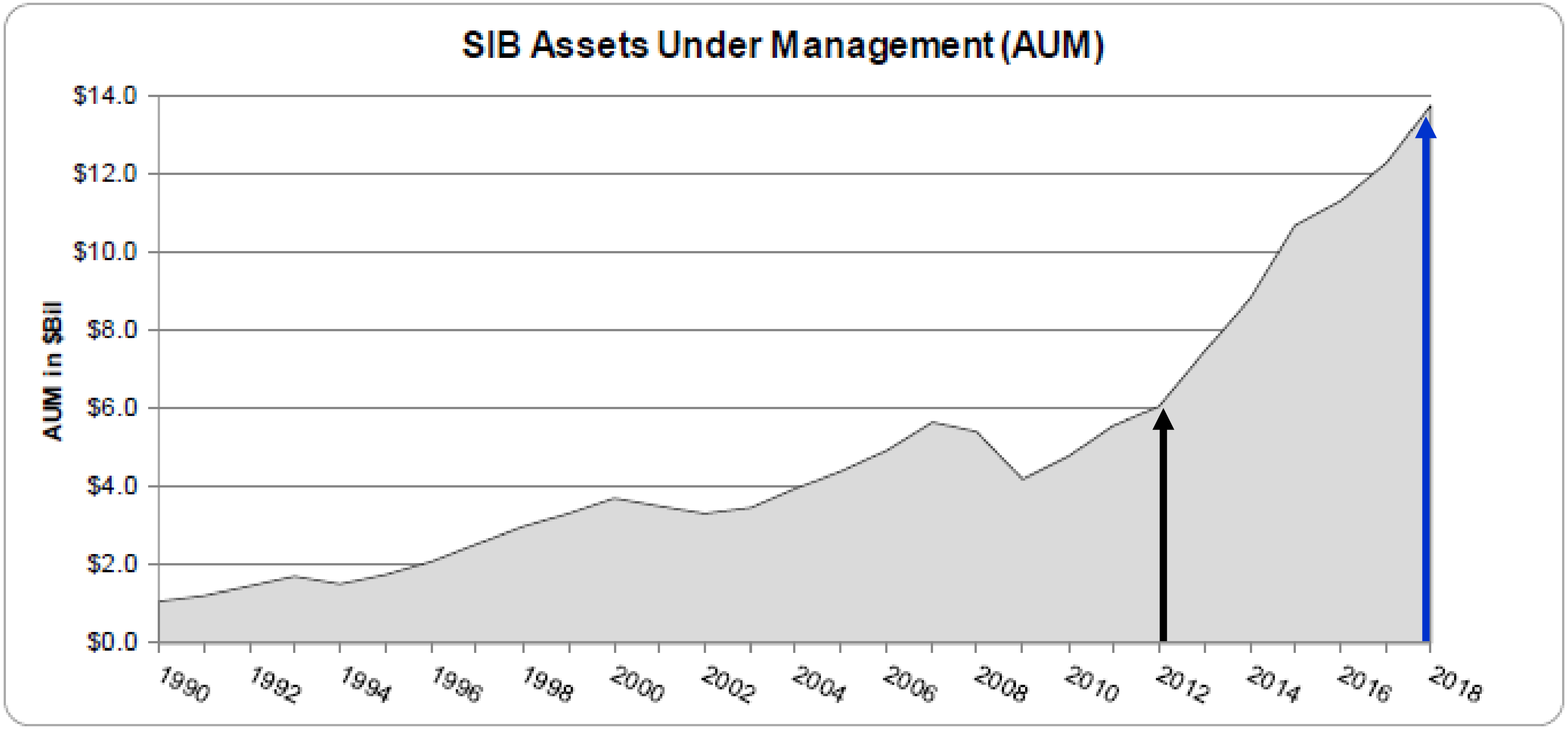
Non-Pension Clients:

- **Every Non-Pension Client generated positive "Excess Return" for the 5-years ended December 31, 2018, with two exceptions for PERS Retiree Health Insurance ($120 million) and Group Insurance ($33 million).**
- Returns were achieved in a risk controlled framework as over 98% of SIB clients (based on average assets under management) generated positive "**Risk Adjusted Excess Return**" for the 5-years ended 12/31/2018.

Risk Adjusted Excess Return measures a portfolio's excess return adjusted by its risk relative to a benchmark portfolio. This metric is positive if returns are due to smart investment decisions or negative if driven by excess risk.

Data as of 12/31/2018 is unaudited and subject to change, but deemed to be materially accurate.

SIB Client Investments Have Doubled since 2012

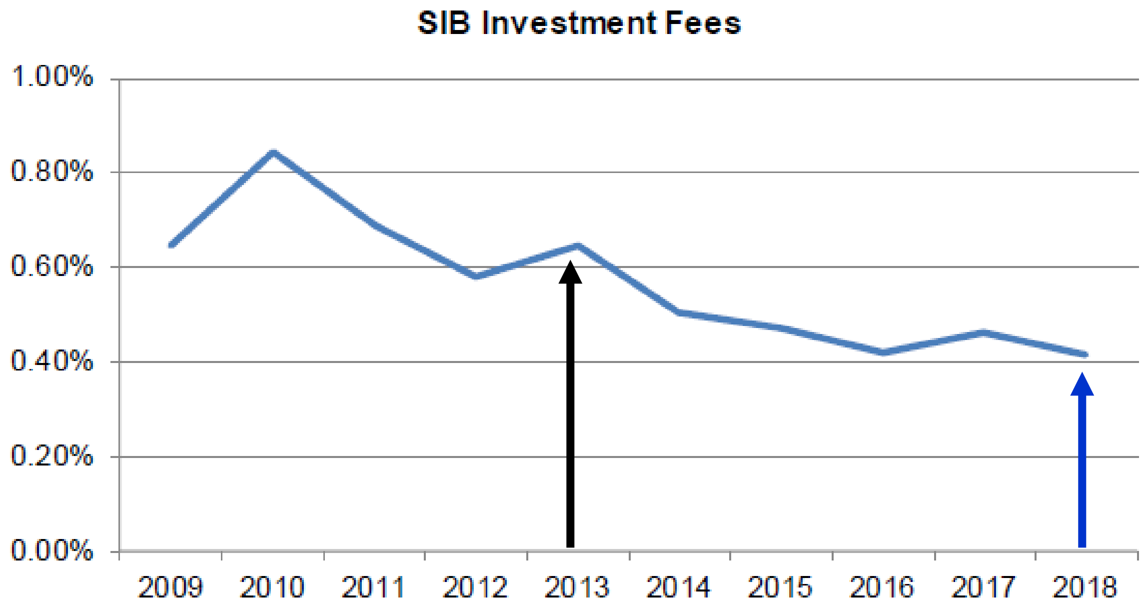


SIB clients Assets Under Management (AUM) have grown from $6 billion in 2012 to over $14 billion in 2019 largely as a result of deposits into the Legacy Fund in addition to reasonable investment earnings growth.

Despite significant growth in client services offered by both the SIB and TFFR programs, SIB and TFFR client satisfaction ratings remain solid at 3.7 for the SIB and 3.8 for TFFR (on a 4.0 grading scale).

Return on SIB Investment Fees & Expenses

Investment fees have declined by 0.23% from 0.65% in fiscal 2013 to 0.42% in fiscal 2018 (as a % of AUM).



Note: If SIB client investments averaged $10 billion the last 5 fiscal years, the 0.23% decline in investment expenses translates into $23 million of annual fee savings.

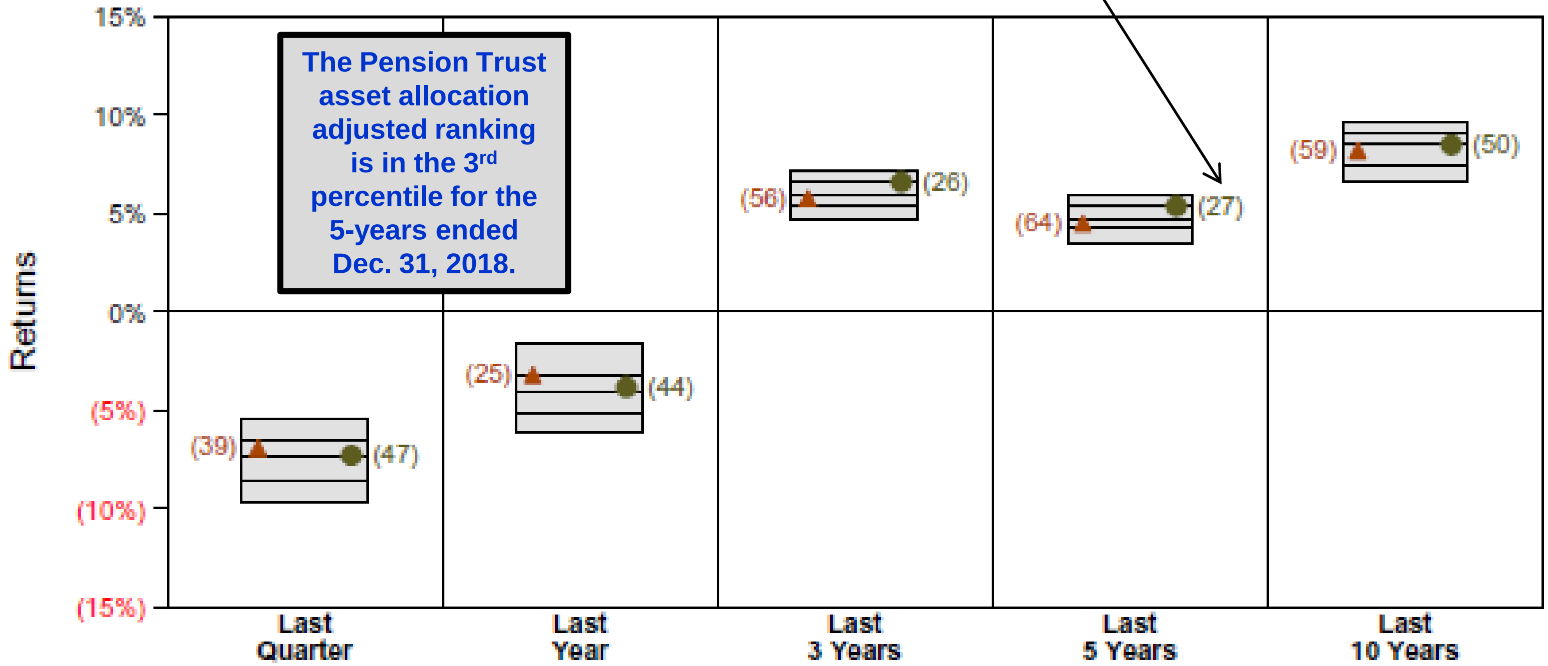
The SIB and RIO work to keep investment fees at or below 0.50% per year, while seeking to identify investment firms which beat their performance benchmarks by 0.50% or more (after all expenses) over the long-term.

If the SIB and RIO are successful in attaining both of the above goals, our SIB clients are effectively earning a minimum 2-for-1 return on their investment fee dollars (in the form of better returns over stated benchmarks).

The SIB and RIO were successful in attaining the above goals for nearly all of our clients in fiscal 2018 such that the use of active management generated $100 million of incremental income for our clients (in fiscal 2018).

Pension Trust "gross" returns were ranked in the 27th percentile for the 5-years ended December 31, 2018, based on Callan's "Public Fund Sponsor Database".

Callan Public Fund Sponsor Database



	Last Quarter	Last Year	Last 3 Years	Last 5 Years	Last 10 Years
10th Percentile	(5.50)	(1.54)	7.21	5.90	9.61
25th Percentile	(6.55)	(3.21)	6.65	5.45	9.10
Median	(7.42)	(4.11)	5.97	4.76	8.49
75th Percentile	(8.62)	(5.22)	5.43	4.26	7.43
90th Percentile	(9.66)	(6.19)	4.78	3.53	6.58
Total Fund ●	(7.31)	(3.84)	6.60	5.38	8.50
Policy Target ▲	(6.92)	(3.21)	5.78	4.49	8.21

* Current Quarter Target = 16.2% Blmbg Aggregate, 16.1% Russell 1000 Index, 16.0% MSCI World, 11.2% MSCI World ex US, 10.5% NCREIF Total Index, 7.0% Blmbg HY 2% Iss Cap, 6.5% NDSIB PEN - Private Equity, 4.9% Russell 2000 Index, 3.1% MSCI EM, 2.8% NCREIF NFI-ODCE Eq Wt Net, 2.8% CPI All Urban Cons lagged 3 months, 2.4% NCREIF Timberland Index and 0.4% 3-month Treasury Bill.

SIB Client Satisfaction Scores Remain Strong in 2018

RIO's Internal Audit Supervisor, Sara Sauter, conducts Customer Satisfaction Surveys of SIB and TFFR clients on an annual basis.

SIB clients assigned a 3.67 rating in 2018, which is comparable to prior years.

The numerical score was based on a 4.0 rating scale as follows:

Excellent	**4.0**
Above Average	**3.0**
Average	**2.0**
Poor	**1.0**
Not Applicable	**-**

SIB client satisfaction survey results for the last three years are summarized on the following page for reference purposes.

SIB Client Boards:

1. PERS Pension
2. TFFR Pension
3. Bismarck Employee Pension
4. Bismarck Police Pension
5. Grand Forks Employee Pension
6. Grand Forks Park District Pension
7. Workforce Safety & Insurance
8. Insurance Commissioner
9. State Risk Management
10. ND Association of Counties
11. Council on the Arts
12. Board of Medical Examiners
13. City of Fargo (Fargo Dome)
14. Legacy & BSF Advisory Board
15. Office of Management & Budget
16. Parks & Rec (Lewis & Clark)

RIO generally attends 40 board/committee meetings per year (e.g. SIB 10, TFFR/PERS 12, Audit/Securities 8, Legacy 2, WSI 2, Other 6).

CUSTOMER SATISFACTION SURVEY
NORTH DAKOTA STATE INVESTMENT BOARD
2018

Evaluation Forms Sent: 14
Evaluation Forms Returned: 11

1. Availability/Responsiveness to Requests (via calls and/or emails)

Excellent	Above Average	Average	Poor	N/A
9	1	1	0	0

2. Clarity and Effectiveness of Communications, Reports, and Presentations

Excellent	Above Average	Average	Poor	N/A
8	2	1	0	0

3. Frequency of Communications/Reporting

Excellent	Above Average	Average	Poor	N/A
8	2	1	0	0

4. Knowledge of Investments

Excellent	Above Average	Average	Poor	N/A
8	2	1	0	0

5. Overall value of services provided

Excellent	Above Average	Average	Poor	N/A
9	1	1	0	0

2018 Summary of SIB Client Satisfaction Survey Ratings:

	Excellent	Above Average	Average	Poor	N/A
Totals	42	8	5	0	0
Weight	4	3	2	1	0
Percent	76%	15%	9%	0%	0%
Average	**3.67**				

*11 of 14 clients responded to survey

2017 Summary of SIB Client Satisfaction Survey Ratings:

	Excellent	Above Average	Average	Poor	N/A
Totals	74	16	14	0	0
Weight	4	3	2	1	0
Percent	71%	15%	13%	0%	0%
Average	**3.58**				

2016 Summary of SIB Client Satisfaction Survey Ratings:

	Excellent	Above Average	Average	Poor	N/A
Totals	67	30	6	0	1
Grade	4	3	2	1	0
Percent	64%	29%	6%	0%	1%
Average	**3.59**				

*N/A responses removed from calculation of average score.

*13 of 14 clients responded to survey

RIO 2019-21 Strategic Investment Plan

Fundamental Investment Beliefs

Asset allocation decisions are the primary driver of investment returns, but the prudent use of active investment management is an important contributor towards ensuring our clients attain their stated investment objectives. All investment decisions are driven by our desire to maximize risk adjusted returns based on our clients stated risk appetite and liquidity profile. SIB clients generated over **$300 million** of incremental income via the prudent use of active management the last 5 years.

Strategic Investment Plan

1. Reaffirm our organizational commitment to the importance of **continuing board education and strong board governance**.
2. **Enhance understanding of our core goals and beliefs while enhancing overall transparency.**
    a. **Remain steadfast in our commitment to the prudent use of active investment management.**
    b. Expand awareness to downside risk management which is essential to achieving our long term investment goals.
    c. Given actual and projected growth of SIB client assets and the heightened public awareness of the Legacy Fund, align our investment platforms to promote greater clarity and efficiency in reporting and implementing client investment policies.
3. Expand RIO's influence and ability to create positive and sustainable change by building deeper relationships with existing clients, organizations and legislative leaders.
    a. Enhance community outreach to build upon public awareness and confidence.
    b. Develop concise presentations which highlight our overall risk, return and cost control framework including our progress towards attaining our long-term goals.
4. Heighten employee engagement by promoting an open and collaborative work environment while encouraging employee participation in staff meetings, offer team members more opportunities to impact RIO's change initiatives **and improve the office environment for staff and clients**.
    a. RIO's ability to continue to deliver strong results is dependent on the combined efforts of our highly valuable team members.
5. **Enhance our internal control environment by improving use of proven risk management solutions relating to fraud risk assessments, investment risk management and overall enterprise risk management.**
    a. **A robust risk management framework serves as a foundation to support a sound internal control environment and lessen downside risks.**
    b. **Broaden stakeholder awareness of the challenges faced in estimating Legacy Fund earnings for any given period.**
6. Evaluate and expand the efficient use of technology in our investment program activities including risk management, compliance monitoring, client satisfaction surveys, website design and communications in order to increase overall efficiency and effectiveness.

Fundamental Investment Beliefs

- ❑ **Asset allocation is the # 1 driver of investment returns.**

- ❑ **The prudent use of active investment management is an important contributor towards ensuring our clients attain their stated investment objectives.**

  - **SIB clients generated over $300 million of incremental income via the prudent use of active investment management since 2014.**

SIB Governance Policy D-3 on the "Ends" for Investment Services are based on the following:

1. **Comparison of client fund's rate of return net of fees and expenses, to that of the client's policy benchmark over a <u>minimum evaluation period of 5 years</u>.**
2. **Comparison of the client fund's risk, measured by standard deviation of net returns, to that of the client's policy benchmark <u>over a minimum period of 5 years</u>.**
3. **Comparison of the risk adjusted performance of the client fund, net of fees and expenses, to that of the client's policy benchmark <u>over a minimum period of 5 years</u>.**

Affirm Commitment to Board Governance and Education

- **Reaffirm organizational commitment to our current governance structure.**
  - **Annual board review of SIB governance manual including the fourth board education / governance day offsite in July of 2019.**

- **Maintain a persistent awareness to the importance of continuing board education.**
  - **Emphasize continuing board education at SIB meetings and promote the attendance of educationally focused industry conferences.**
  - **Given current budget pressures in the current biennium, the SIB engaged our consultant to offer “Callan College” in Bismarck in order improve accessibility for board members and clients while seeking to reduce costs in mid-2018.**

Enhance Understanding of Core Goals and Beliefs

- **Enhance transparency and understanding of our core goals and beliefs.**
  - **Remain steadfast in our commitment to the prudent use of active investment management.**
  - **Expand awareness to downside risk management which is essential to achieving our long term investment goals.**
  - **Given actual and projected growth of SIB client assets and the heightened public awareness of the Legacy Fund, align our investment platforms to promote greater clarity and efficiency in reporting and implementing client investment policies.**

Expand Influence and Ability to Create Positive Change

- **Expand RIO's influence and ability to create positive and sustainable change by developing relationships with existing clients, organizations and legislative leaders.**
  - **Enhance community outreach to build upon public awareness and confidence.**
  - **Develop concise presentations which highlight our overall risk, return and cost control framework including our progress towards attaining our long-term goals.**
  - **Build relationships with our legislative leaders to ensure the proper alignment of interests for our SIB clients and constituents.**

Example of "Expanding Influence with Legislative Leaders":

Review of Investment Returns, Fees, and Excess Returns with Legacy Fund Advisory Board

Review of SIB Client Investment Fees, Returns & Excess Returns for the 5 Fiscal Years Ended June 30, 2018

SIB Overview:

- For the fiscal year ended June 30, 2018, the SIB paid $56 million in investment related expenses (including investment manager fees, custodial expenses and consultant expenses), which represents a 3% increase over $54.5 million paid in fiscal 2017. The 3% increase in fees is deemed to be reasonable when noting average assets under management increased by 13.5% between years from $11.8 billion in fiscal 2017 to $13.4 billion in fiscal 2018.
- Investment fees and expenses as a percentage of average assets under management declined from 0.46% in fiscal 2017 to 0.42% in fiscal 2018 due to a decline in performance fees between years and the SIB's continuing ability to obtain lower fees with its managers largely as a result of significant asset growth the last five years (primarily attributable to the Legacy Fund).
- If internal salaries, benefits and operating expenses of RIO personnel and resources allocated to support the SIB are included, investment fees and expenses as a percentage of average assets under management were 0.43% in fiscal 2018 (versus 0.42% when excluding internal RIO investment management expenses).
- Although the SIB and RIO are keenly focused on reducing investment fees, we are most concerned with obtaining a reasonable rate of return on our investment expenses. In broad terms, RIO attempts to keep investment fees at or below 0.50% per annum, while striving to generate 0.50% of more of excess return over a five-year period. RIO is pleased and fortunate to be able to report that this goal has been achieved for the vast majority (98%) of our SIB clients for the 5 years ended June 30, 2018.
- The following table summarizes the SIB's ability to attain this goal for the Legacy Fund in four of the last 5 years (with fiscal 2016 being an exception). In fiscal 2018, the Legacy Fund paid $16.7 million of investment fees to outperform the agreed upon policy benchmark return by **$56 million**. In fiscal 2017, the Legacy Fund paid $14.6 million of investment fees to outperform the policy benchmark return by **$92 million**. In 2016, however, the Legacy Fund paid $12.8 million of investment fees to outperform the policy benchmark return by less than **$1.8 million**.

See next page.

Example of "Expanding Influence with Legislative Leaders":
Response to Legacy Fund Advisory Board Fee Questions

Legacy Fund Overview:

Legacy Fund - Table 1		2014	2015	2016	2017	2018
Manager Fees		$ 4,575,468	$ 9,581,934	$ 12,282,031	$ 13,986,877	$ 15,909,882
Custodial Fees		216,970	313,311	355,571	355,376	430,805
Consultant Fees		68,830	152,627	198,884	222,477	294,600
Total Fees ($)	a	$ 4,861,268	$ 10,047,872	$ 12,836,486	$ 14,564,731	$ 16,635,287
Average AUM ($ in billions)	b	$1.82	$3.04	$3.58	$4.34	$5.29
Total Fees (%)	a/b	0.267%	0.330%	0.358%	0.335%	0.314%
Total Fee (in basis points)		26.7	33.0	35.8	33.5	31.4
Actual Net Return		6.64%	3.31%	1.06%	12.03%	7.57%
Policy Benchmark Return		5.54%	2.37%	1.01%	9.91%	6.51%
Net Excess Return (%)	c	1.10%	0.94%	0.05%	2.12%	1.06%
Net Excess Return ($)	b x c	$ 20,027,599	$ 28,584,144	$ 1,791,789	$ 92,101,728	$ 56,088,294

	2014	2015	2016	2017	2018
Supplementary Data (included above):					
Incentive / Performance Fees	$558,086	$1,754,510	$1,988,561	$2,167,158	$190,922
Incentive Fees (in basis points)	3.1	5.8	5.5	5.0	0.4
Non-Incentive Fees	$4,303,182	$8,293,362	$10,847,925	$12,397,572	$16,444,365
Non-Incentive Fees (in basis points)	23.6	27.3	30.3	28.5	31.1
Average AUM ($ in billions)	$1.82	$3.04	$3.58	$4.34	$5.29

AUM = Assets Under Management

Key Point: Legacy Fund generated positive Net Excess Return, whereby actual investment returns exceeded the agreed performance benchmark after deducting fees and expenses, each of the last five fiscal years and achieved our goal of delivering at least 0.50% of excess return, after all fees & expenses, for the 5-years ended June 30, 2018.

Enhance Existing Risk Management Framework and Evaluate and Expand the Efficient Use of Technology

- **Enhance RIO's internal control environment by improving use of proven risk management solutions relating to investment risk, fraud risk awareness and overall enterprise risk management.**
  - **A robust risk management framework provides a foundation to understand downside risks and our ability to withstand market corrections in varying stress test scenarios.**
  - **Investment risk management should focus on portfolio construction while seeking to enhance risk management reporting for board members and clients.**
  - **RIO continues to broaden stakeholder awareness of the challenges faced in estimating Legacy Fund earnings for any given period.**

- **Evaluate and expand the efficient use of technology in our investment and retirement program activities including risk management, compliance monitoring, client satisfaction surveys, website design and communications in order to increase overall efficiency and effectiveness.**

Heighten Employee Engagement and Impact

- **Heighten employee engagement by promoting an open and collaborative work environment while encouraging employee participation in staff meetings, offer more opportunities to impact RIO's change initiatives and either improve total compensation or significantly enhance our physical work environment.**
  - **RIO's ability to continue to deliver strong results is dependent on the combined efforts of our highly valuable team members.**
  - **Although SIB and TFFR client satisfaction remain strong (at 3.67 to 3.8 on a 4.0 scale), we always attempt to find ways enhance client services by improving customer access and exploring better office space alternatives. This opportunity was realized in 2017 noting that our new office space offers improved client access, a better physical working environment and enhanced employee and customer safety while remaining within RIO's approved budget.**

Agenda Item IV.C.

BOARD ACTION

TO: State Investment Board

FROM: Dave Hunter

DATE: April 18, 2019

SUBJECT: **Board Governance Education Offsite – July 26, 2019**

As consistent with prior years, RIO intends to schedule a board education offsite in connection with our regularly scheduled SIB meeting in July. Potential topics for consideration include best practices and current trends in board governance (with an outside speaker), establishing appropriate performance benchmarks (based on long-term capital market expectations which serve as the framework for our asset allocation policies) and evaluating overall investment performance (based on comparing actual net investment returns versus agreed upon policy benchmarks over an appropriate time horizon).

RIO invites and encourages attendees to share their thoughts on additional topics for consideration and/or advise if the previously referenced topics would be well received by our SIB members, SIB client board members and staff, and legislative leaders.

RIO recommends the SIB approve Mosaic Governance Advisors, LLC to provide board governance education at our July 26, 2019 SIB meeting. Please see the attached presentation which highlights the impressive background, focus and experience of Mosaic Governance Advisors, including Amy McDuffee (Founder and CEO) and Saba Hashmi (Analyst). RIO will work with Amy and Saba to tailor an interactive board governance education session focused on U.S. public funds and best practices in board governance. Professional references have included public pension plans in California, Colorado, Maine, Missouri, North Dakota and Texas.

MOSAIC
Governance Advisors

Introducing Mosaic Governance Advisors, LLC

A Presentation to the North Dakota Retirement & Investment Office and State Investment Board

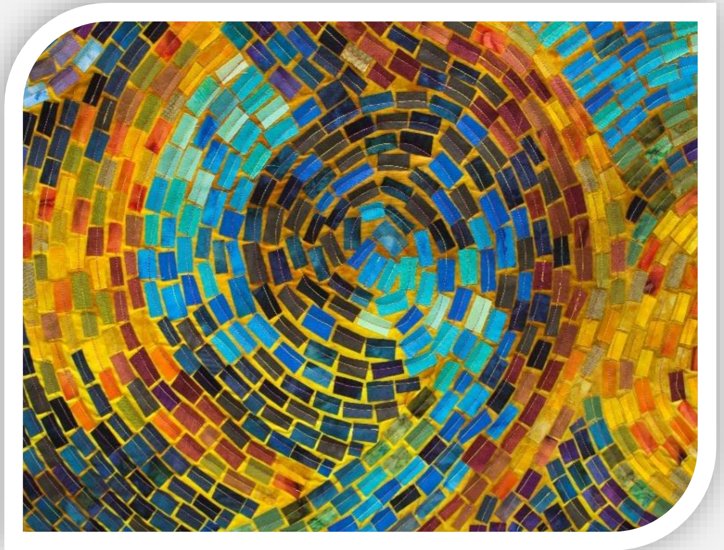
April 18, 2019

Presentation Topics

- Firm Overview
- Proposed Team
- Our Approach
- Our Services
- Why Mosaic?

Firm Overview
Mosaic Governance Advisors, LLC

- Colorado-based woman-owned independent firm with a nationwide presence
- Sole focus on serving public fund governance needs through creative, customized solutions and ongoing client relationships
- Solid and growing base of clients ranging in asset size from $2B to $200B+
- Highly experienced team of industry specialists



An organization's governance is a ***mosaic*** *of laws, policies, processes and procedures -- and the people who oversee and manage it.*

MOSAIC Governance Advisors

Proposed Team
Highlights

Amy McDuffee, Founder and CEO, Proposed Education Session Speaker

Specialties: Trustee education, strategic planning, board self-assessments, executive and consultant performance evaluations, succession planning, policy development, fiduciary audits, and other governance matters

Career Highlights: Former lead governance consultant in Aon Hewitt Investment Consulting (AHIC) Fiduciary Services Practice; statewide retirement system executive staff; senior leader of top 5 DC plan recordkeeper's investment advisor subsidiary company; worked with over 40 public funds in 20+ states; currently serve on GFOA CORBA Committee and IFEBP Public Employees Committee

Industry Experience: 20+ Years

Saba Hashmi, Analyst, Supporting Team Member

Specialties: Trustee education, strategic planning, executive performance evaluations, research, policy development, board self-evaluations, project management, and fiduciary audits.

Career Highlights: Analyst in the Fiduciary Services Practice of EnnisKnupp + Associates (AHIC predecessor firm); worked with over 10 state and local public sector clients in 10+ states

Industry Experience: 5+ Years

MOSAIC Governance Advisors

Our Approach

Key Outcomes We Seek for Our Clients

Increased board effectiveness and performance

Strengthened board, staff, and consultant relationships through alignment and accountability

Mitigated governance risk

The value of good governance is real. It directly benefits a public fund's members, beneficiaries, and constituents.

Our Services
Serving the Needs of the Public Fund Community

Effectiveness	Board and Committee Meeting Attendance	Consulting on Board Leadership and Dynamics	Trustee Onboarding and Continuing Education
Alignment / Accountability	Strategic Planning	Board, CEO, CIO, and Consultant Evaluations	Working with Staff and Consultants
Risk Mitigation	Succession Planning	Policy Review and Development	Custom Research and Advice

MOSAIC Governance Advisors

Why Mosaic?

- Experienced team with a unique, well-rounded perspective
- Comprehensive understanding of the history and operating environment of U.S. public funds
- Significant knowledge of peer practices; skilled at distilling and translating for boards
- Interactive and customized approach to developing and delivering education to address a board's unique topics of interest
- Solid industry reputation as a long-term, trusted governance advisor

MOSAIC
Governance Advisors

Thank You for Your Consideration

Contact:

Amy McDuffee, Founder and CEO

O: 720.316.1919

E: Amy.McDuffee@MosaicGovernance.com

Agenda Item IV.D.

BOARD ACTION
(Appointment by Board Chair)

TO: State Investment Board

FROM: Dave Hunter

DATE: April 18, 2019

SUBJECT: **SIB Audit & Securities Litigation Committee Updates**

The SIB Audit committee currently consists of Ms. Yvonne Smith (Chair), Ms. Cindy Ternes, Dr. Rob Lech (Vice Chair), Mr. Josh Wiens and Mr. Jon Griffin.

Ms. Cindy Ternes will be retiring on April 30, 2019, after serving nearly 12 years on the SIB and SIB Audit Committee. As such, the SIB Chairman should consider appointing a new board member to serve on this standing committee noting the SIB annually appoints members to serve on the Audit Committee each July.

If the SIB Chairman so desires, he can invite board member discussion on potential candidates noting that WSI Director Bryan Klipfel, has previously indicated a willingness to serve on the Audit Committee on an interim basis. There is one audit committee meeting on (Thursday) May 23rd prior to the July 26, 2019, SIB meeting in which committee members are appointed by the board chair (and officer elections are held for the board).

INFORMATIONAL

State Treasurer Kelly Schmidt has previously indicated that she no longer desires to serve on the SIB Securities Litigation Committee after the next committee meeting on May 20th. If any board member is interested in serving on the Securities Litigation Committee, please contact the Executive Director and/or the SIB Chairman prior to July 15, 2019.

SIB Legislative Update
April 17, 2019

Bill No.	Description	Sponsor/Introducer
HB 1013	**Land Agency Budget & Investments**	**House Appropriations Committee/Rep. Kempenich**

https://www.legis.nd.gov/assembly/66-2019/bill-index/bi1013.html

HB 1013 (which is the Department of Trust Lands Budget bill) includes a proposal to change NDCC so as to require the SIB to supervise investment implementation oversight of the "Common schools trust fund and other investments under the control of the board of university and school lands". Legacy Fund Advisory Board Chair Keith Kempenich indicated legislators are seeking to gain efficiencies and reduce fees by consolidating management of state funds. Sections 6 and 7 of this Act, relating to the transfer of investment oversight authority to the SIB, becomes effective on July 1, 2021, or earlier if the Land Board approves transferring these investments to the SIB. **The House passed HB 1013 by a vote of 67-26 on February 19. On April 8, the Senate voted (43-1) to pass amended HB 1013 noting the revised bill eliminates transfer of investment oversight authority to the SIB. A conference committee hearing for HB 1013 was scheduled for April 15th including Representatives Kempenich, Bellew and Mock and Senators Wanzek, Hogue and Grabinger.**

HB 1368	**SIB Membership**	**Rep. Kempenich, Brandenburg, Kreidt and Pollert** **Senators Dotzenrod, Klein and Wardner**

https://www.legis.nd.gov/assembly/66-2019/bill-index/bi1368.html

HB 1368 makes changes to SIB membership. HB 1368 adds one member from the Legacy and Budget Stabilization Fund Advisory Board to serve as a non-voting member on the SIB. HB 1368 passed in the House on January 31 (91-0-3). **The Senate passed HB 1368, as amended, by a vote of 45-1 on March 26, with a technical correction to refer to the advisory body as a "board". The House refused to concur with HB 1368 as amended. After brief clarification by legislative counsel (at the conference hearing) that the reference to "board" is appropriate, the committee recommended that the House accede to the Senate amendments. On April 16, the House voted (91-0) to accede to the Senate amendments on HB 1368 which was signed by the President of the Senate on April 17.**

SB 2022	**RIO Budget**	**Appropriations Committee**

https://www.legis.nd.gov/assembly/66-2019/bill-index/bi2022.html

SB 2022 contains the 2019-21 budget authority and continuing appropriations for RIO to administer the TFFR retirement program and SIB investment program which are special funds. RIO's budget request includes maintaining current staffing levels (19 FTE), adding one new investment professional, and approval to spend up to $9.13 million to upgrade or replace TFFR's outdated pension administration system.

SB 2022 was assigned to the Senate Appropriations Committee. A sub-committee was appointed to review our budget details, with a particular focus on the TFFR pension software project. The sub-committee, consisting of Senators Poolman (Chair), Wanzek and Robinson, met with RIO. Discussion focused on: 1) why the TFFR pension system upgrade project wasn't included in the Governor's Recommendation; 2) PERS system comparisons; 3) state procurement process; and 4) whether the project could be done for less than $9 million. After a positive discussion, the sub-committee unanimously voted to substantially approve RIO's proposed budget, including up to $9 million for the TFFR Pension Administration System project.

On February 15, the Senate Appropriations Committee gave a do pass recommendation to amended SB 2022 by a vote of 14-0. RIO's amended budget includes pay raises in both years along with increased ongoing funding for health insurance, operating expenses, contingencies and one investment FTE and up to $9 million of "one-time" funding for the TFFR Pension Administration System project. **On February 18, the Senate approved SB 2022, as amended, by a vote of 46-1.**

Engrossed SB 2022 was assigned to the House Appropriations – Government Operations Division. Fay, Darren and Connie met with them on March 6, 2019 to provide background information and responded to questions on the TFFR benefits program, SIB investment program, and RIO Budget. There were also many questions related to the Legacy Fund, investment fees and performance, prudent investor rule and investment due diligence efforts. TFFR questions related to plan funding and the $9 million pension administration project. The House Appropriations Committee amended SB 2022, and removed $9 million for the TFFR pension administration system upgrade (noting the Governor's budget did not include the TFFR pension system project). The House Appropriations Committee also reduced our contingency line by $30,000 to $52,000 (noting the Governor's budget included $82,000 in contingencies). **On April 10, the House approved engrossed SB 2022, with amendments, by a vote of 81-12. The Senate did not concur with the amendments.**

On April 17, RIO attended the SB 2022 conference committee hearing chaired by Senator Poolman and included Senators Wanzek and Robinson and Representatives Kempenich, Bellew and Howe. By a vote of 6-0, the conference committee agreed to restore $9 million of one-time funding for TFFR's pension administration system. The committee did not restore a $30,000 contingency line item (thereby reducing it to $52,000).

SB 2017 Game and Fish Department Budget Senators Oehlke, Kruen and J.Roers
Representatives Jones, Mock and Porter

https://www.legis.nd.gov/assembly/66-2019/bill-index/bi2293.html

On February 13, the Senate Appropriations Committee, recommended do pass (14-0) to amended SB 2017, which allows for the "Investment of up to $15 million of the game and fish fund **may** be made under the supervision of the SIB." **SB 2017, as amended, was approved by the Senate (44-1) on February 14.** On April 8, the House Appropriations Committee recommended Do Pass to amended SB 2017 (14-3-4). On April 11, the House passed SB 2017, as amended, (85-8-1), which includes a provision for the "Investment of $15 million of this fund may be made under the supervision of the state investment board". **On April 16, the Senate refused to concur and a conference committee was appointed including Senators Oehlke, Wanzek and Grabinger and Representatives Howe, Brandenburg and Mock.**

SB 2293 Game and Fish - Special Fund Senators Oehlke, Kruen and J.Roers
Representatives Jones, Mock and Porter

https://www.legis.nd.gov/assembly/66-2019/bill-index/bi2293.html

SB 2293 creates "a special fund known as the aquatic species nuisance program fund." "All moneys in the fund are appropriated to the game and fish department for use in aquatic nuisance species education, inspection, and monitoring programs under chapter 20.1-17." "Investment of the $15 million balance in this section **may** be made under the supervision of the state investment board."

SB 2293 was referred to the Energy and Natural Resources Committee. RIO attended the first committee hearing on January 25, for informational purposes, but offered no testimony. The Committee recommended do pass (6-0) to amended SB 2293. **SB 2293, as amended, was passed by the Senate (45-2) on February 18.** The House Energy & Natural Resources (HENR) Committee held a committee hearing on March 8. **On March 21, the HENR Committee recommended Do Pass (14-0) to SB 2293, as amended, and referred to the House Appropriations Committee on March 22.**

On April 12, the House passed SB 2293, as amended, by a vote of 71-20-3 the House. SB 2292, as amended no longer allows for the "investment of $15 million of this fund to be made under the supervision of the state investment board". (Please note the "SIB investment option" remains in SB 2017 as stated above.) **On April 16, the Senate refused to concur and a conference committee was appointed including Senators Cook, Oehlke, and Piepkorn and Representatives Howe, D. Anderson and Zubke.**

HCR 3055 Legacy Fund "Earnings" Transfer Rep. Mock, Boe, Boschee, Delzer, Kempenich, Kreidt, Nathe, J. Nelson and Senator Heckaman, Klein, Unruh and Warner

https://www.legis.nd.gov/assembly/66-2019/bill-index/bi3055.html

HCR 3055 seeks to amend the State Constitution relating to the transfer of earnings from the Legacy Fund. As originally drafted, this measure would require a vote of at least two-thirds of the members of each house of the legislative assembly to expend the principal and earnings of the Legacy Fund. On March 6, the House and Finance Taxation Committee voted (9 Yeas and 5 Nays) to recommend DO NOT PASS on HCR 3055. **On March 7, the House voted (69 Yeas, 23 Nays and 2 Absent and Not Voting) to approve HCR 3055. On April 18, the Senate voted (45-1) to approve HCR 3055, as amended, whereby the Senate Finance and Taxation Committee turned HCR 3055 into a study on the best ways to spend Legacy Fund earnings in the future.**

Legislative Links:

https://www.legis.nd.gov/assembly/66-2019/regular

OTHER BILLS OF INTEREST:

SB 2046, SB 2047, SB 2048	PERS Retirement Bills	PERS Board	Monitor

There are three funding recovery bills submitted by the PERS Board.

https://www.legis.nd.gov/assembly/66-2019/bill-index/bi2046.html

SB 2046 redirects the PERS Retiree Health Insurance Credit Fund employee contribution of 1.14% to the PERS retirement fund for PERS employees hired after 12/31/2018. SB 2046 passed in the Senate 39-8 and passed in the House 64-27. **The Speaker of the House and President of the Senate signed SB 2046 on April 8. The Governor signed SB 2046 on April 11.**

https://www.legis.nd.gov/assembly/66-2019/bill-index/bi2047.html

SB 2047 reduces the benefit multiplier from 2.00% to 1.75% for PERS employees hired after 12/31/2019. SB 2047 passed in the Senate 37-10 and passed in the House 71-20. **The Speaker of the House and President of the Senate signed SB 2047 on April 8. The Governor signed SB 2047 on April 11.**

https://www.legis.nd.gov/assembly/66-2019/bill-index/bi2048.html

SB 2048 increased PERS employee and employer contributions by 1% each beginning January 1, 2021, for all PERS employees. SB 2048 passed in the Senate 45-2. However, the House amended SB 2048 to remove the employee and employer contribution increases, and provide for a legislative management study regarding state employee retirement plans (similar to HB 1419 which failed in the House). The study must include a review of the current defined benefit pension plan and a defined contribution plan for new hires only, including contracting the organization that administers the retirement plan for higher education (TIAA-CREF). **This study must also consider options to adequately fund the defined benefit pension plan as a closed plan. Amended SB 2048 passed in the House 76-15 on April 4, 2019. On April 18, the Senate voted unanimously against SB 2048, as amended by the House.**

BUDGETING / FINANCIAL CONDITION

AS OF MARCH 31, 2019

	2017-2019 BUDGET	ADJUSTED APPROPRIATION	EXPENDITURES BIENNIUM TO DATE ACTUAL	BUDGET AVAILABLE	% BUDGET AVAILABLE	% OF BIENNIUM REMAINING
SALARIES AND BENEFITS	$ 4,425,570.00	$ 4,425,570.00	$ 3,772,565.43	$ 653,004.57	14.76%	12.50%
OPERATING EXPENDITURES	862,484.00	862,484.00	540,622.24	321,861.76	37.32%	12.50%
CONTINGENCY	52,000.00	52,000.00	0.00	52,000.00	100.00%	12.50%
TOTAL	$ 5,340,054.00	$ 5,340,054.00	$ 4,313,187.67	1,026,866.33	19.23%	12.50%

EXPENDITURE REPORT

QUARTER ENDED MARCH 31, 2019

	INVESTMENT	RETIREMENT	QUARTERLY TOTALS	FISCAL YEAR TO - DATE	BIENNIUM TO - DATE
CONTINUING APPROPRIATIONS					
INVESTMENT EXPENDITURES (SEE ATTACHED DETAIL)	$ 7,464,665.50	$ 0.00	$ 7,464,665.50	$ 20,876,026.79	$ 52,124,330.67
MEMBER CLAIMS					
1. ANNUITY PAYMENTS	0.00	53,328,427.46	53,328,427.46	160,461,178.81	362,185,470.44
2. REFUND PAYMENTS	0.00	1,820,000.86	1,820,000.86	6,078,491.35	12,408,986.02
TOTAL MEMBER CLAIMS	0.00	55,148,428.32	55,148,428.32	166,539,670.16	374,594,456.46
OTHER CONTINUING APPROPRIATIONS	267,050.54	125,674.76	392,725.30	569,741.44	1,680,905.98
TOTAL CONTINUING APPROPRIATIONS	7,731,716.04	55,274,103.08	63,005,819.12	187,985,438.39	428,399,693.11
BUDGETED EXPENDITURES					
1. SALARIES & BENEFITS					
SALARIES	197,504.95	202,601.05	400,106.00	1,200,513.77	2,785,101.16
OVERTIME/TEMPORARY	0.00	0.00	0.00	0.00	0.00
TERMINATION SALARY & BENEFITS	0.00	0.00	0.00	0.00	0.00
FRINGE BENEFITS	64,435.06	78,326.93	142,761.99	423,696.52	987,464.27
TOTAL SALARY & BENEFITS	261,940.01	280,927.98	542,867.99	1,624,210.29	3,772,565.43
2. OPERATING EXPENDITURES					
DATA PROCESSING	3,376.60	15,372.34	18,748.94	51,235.72	130,903.30
TELECOMMUNICATIONS - ISD	1,043.07	1,504.07	2,547.14	6,335.59	15,531.25
TRAVEL	2,806.87	743.54	3,550.41	21,847.49	45,362.34
IT - SOFTWARE/SUPPLIES	0.00	0.00	0.00	0.00	394.15
POSTAGE SERVICES	661.69	13,001.26	13,662.95	28,963.88	63,759.12
IT - CONTRACTUAL SERVICES	844.36	1,852.97	2,697.33	4,172.08	7,999.60
BUILDING/LAND RENT & LEASES	10,705.08	18,018.64	28,723.72	73,179.30	160,945.46
DUES & PROF. DEVELOPMENT	1,745.00	1,510.00	3,255.00	13,206.00	24,268.50
OPERATING FEES & SERVICES	677.82	960.50	1,638.32	3,386.45	23,905.39
REPAIR SERVICE	0.00	0.00	0.00	0.00	229.39
PROFESSIONAL SERVICES	1,073.52	(621.02)	452.50	9,737.00	25,170.86
INSURANCE	0.00	0.00	0.00	627.17	1,236.97
OFFICE SUPPLIES	103.02	240.30	343.32	775.60	2,072.73
PRINTING	429.59	5,493.38	5,922.97	10,883.81	26,182.36
PROFESSIONAL SUPPLIES & MATERIALS	382.38	285.00	667.38	1,123.98	1,848.78
MISCELLANEOUS SUPPLIES	73.05	96.28	169.33	594.76	1,376.05
IT EQUIPMENT UNDER $5000	10.95	109.03	119.98	2,632.00	3,363.47
OTHER EQUIP. UNDER $5000	0.00	0.00	0.00	1,381.44	3,703.24
OFFICE EQUIP. & FURNITURE UNDER $5000	261.00	214.10	475.10	1,175.10	2,369.28
TOTAL OPERATING EXPENDITURES	24,194.00	58,780.39	82,974.39	231,257.37	540,622.24
3. CONTINGENCY	0.00	0.00	0.00	0.00	0.00
TOTAL BUDGETED EXPENDITURES	286,134.01	339,708.37	625,842.38	1,855,467.66	4,313,187.67
TOTAL EXPENDITURES	$ 7,750,799.51	$ 55,488,136.69	$ 63,631,661.50	$ 189,840,906.05	$ 432,712,880.78

INVESTMENT EXPENDITURE DETAIL

FEES PAID DURING THE QUARTER ENDED MARCH 31, 2019

FOR QUARTER ENDED 9/30/18

PENSION INVESTMENT GRADE FIXED INCOME POOL		
Prudential		135,364.29
PENSION REAL ESTATE		
JP Morgan (Special & Strategic)		576,078.78
INSURANCE FIXED INCOME POOL		
Prudential		112,324.95
INSURANCE SHORT TERM FIXED		
JP Morgan		46,578.84
LEGACY FIXED INCOME		
Prudential		186,374.63
TOTAL FOR QUARTER ENDED 9/30/18		**1,056,721.49**

FOR QUARTER ENDED 12/31/18

PENSION DEVELOPED INTERNATIONAL EQUITY POOL		
Wellington	154,645.10	
William Blair	155,926.27	
TOTAL PENSION INTERNATIONAL EQUITY		310,571.37
PENSION GLOBAL EQUITY POOL		
Epoch	597,804.50	
LSV	114,483.00	
TOTAL PENSION GLOBAL EQUITY		712,287.50
PENSION BELOW INVESTMENT GRADE FIXED		
Loomis Sayles		250,587.18
PENSION INVESTMENT GRADE FIXED INCOME POOL		
PIMCO		
Prudential	134,047.04	
State Street	4,874.17	
TOTAL PENSION INVESTMENT GRADE FIXED INCOME		138,921.21
PENSION INFRASTRUCTURE POOL		
JP Morgan		310,343.12
PENSION LARGE CAP EQUITY POOL		
LA Capital		248,452.60
PENSION SMALL CAP EQUITY POOL		
Atlanta Capital		263,648.00
PENSION REAL ESTATE		
Invesco		272,569.54
INSURANCE FIXED INCOME POOL		
Prudential	145,732.60	
State Street	8,182.58	

INVESTMENT EXPENDITURE DETAIL

FEES PAID DURING THE QUARTER ENDED MARCH 31, 2019

Wells	99,648.08	
Western Asset	106,566.26	
TOTAL INSURANCE FIXED INCOME		360,129.52
INSURANCE LARGE CAP EQUITY POOL		
LA Capital	46,545.85	
LSV	45,046.00	
TOTAL INSURANCE LARGE CAP		91,591.85
INSURANCE SMALL CAP EQUITY POOL		
PIMCO RAE		18,184.75
INSURANCE INT'L EQUITY		
LSV	55,690.00	
William Blair	58,951.97	
TOTAL INSURANCE INT'L EQUITY		114,641.97
INSURANCE DIVERSIFIED REAL ASSETS		
JP Morgan	73,282.01	
Western Asset	34,458.95	
TOTAL INSURANCE DIVERSIFIED REAL ASSETS		107,740.96
INSURANCE REAL ESTATE		
Invesco	45,004.48	
JP Morgan	91,552.44	
TOTAL INSURANCE REAL ESTATE		136,556.92
LEGACY FIXED INCOME		
Prudential	202,080.90	
State Street	14,071.25	
Wells	206,437.62	
Western Asset	172,216.74	
TOTAL INSURANCE FIXED INCOME		594,806.51
LEGACY LARGE CAP EQUITY		
LA Capital	268,062.14	
LSV	241,949.00	
TOTAL INSURANCE LARGE CAP		510,011.14
LEGACY SMALL CAP EQUITY		
PIMCO RAE		124,840.30
LEGACY INT'L EQUITY		
LSV	401,852.00	
William Blair	412,687.59	
TOTAL INSURANCE INT'L EQUITY		814,539.59
LEGACY DIVERSIFIED REAL ASSETS		
JP Morgan	196,217.21	
Western Asset	120,151.54	
TOTAL INSURANCE DIVERSIFIED REAL ASSETS		316,368.75
LEGACY REAL ESTATE		
Invesco	123,221.83	
JP Morgan	278,683.29	
TOTAL INSURANCE REAL ESTATE		401,905.12

INVESTMENT EXPENDITURE DETAIL

FEES PAID DURING THE QUARTER ENDED MARCH 31, 2019

PERS RETIREE HEALTH INSURANCE CREDIT FUND		
SEI		89,386.89
JOB SERVICE FUND		
SEI		71,409.88
TOBACCO PREVENTION & CONTROL TRUST FUND		
STATE STREET		2,219.13
CONSULTANT		
Adams Street	13,954.00	
Callan	103,898.24	
Novarca	20,086.29	
TOTAL CONSULTANT		137,938.53
TOTAL FOR QUARTER ENDED 12/31/18		**6,399,652.33**
FOR QUARTER ENDED 3/31/19		
PENSION CASH		
Northern Trust		8,291.68
TOTAL FOR QUARTER ENDED 3/31/19		**8,291.68**
TOTAL FEES PAID DURING QUARTER ENDED 3/31/2019		**7,464,665.50**

NORTH DAKOTA RETIREMENT AND INVESTMENT OFFICE

QUARTERLY MONITORING REPORT

Quarter Ended March 31, 2019

EXECUTIVE LIMITATIONS / STAFF RELATIONS

The Executive Limitation "Staff Relations" deals with the treatment of staff at RIO. The executive director "shall not cause or allow any condition or any communication which is unfair, undignified, or disrespectful." This Executive Limitation lists six specific limitations that range from personnel policies to exit interviews. All the limitations are intended to protect staff from unfair, undignified, or disrespectful treatment by management.

During the past quarter, there were no exceptions to this Executive Limitation.

The Executive Director/CIO held three full office meetings and three manager meetings during the first calendar quarter of 2019 in order to promote an open and collaborative work environment while enhancing team member communication, awareness and engagement. The agency also held three Communication and Teamwork (CAT) committee meetings during the first three months of 2019 to continue to find ways to improve overall office communication and teamwork noting that these two areas were most often cited as needing improvement (other than improving employee compensation).

As noted in the prior quarterly updates, RIO offered a Voluntary Separation Incentive Program (VSIP) to eligible employees on July 30, 2018. One retirement benefit counselor submitted her VSIP application which was approved with a termination date of April 30, 2019. Based on current and forecasted budget availability, we intend to fill this vacant position as soon as possible.

RIO was fully staffed as of March 31, 2019.

Quarterly Report on Ends
Q3:FY19

Investment Program

Ongoing due diligence conducted on the following organizations:

Ares (direct lending)
Atlanta Capital (US small cap equity)
Blackrock (private equity)
Cerberus (direct lending, distressed)
Goldman Sachs (quant equity)
Invesco (real estate)
JPMorgan (real estate)
LSV (domestic, international and global equity)
Macquarie (infrastructure)
PIMCO (fixed income)
Prudential (fixed income)
Wells (fixed income)
Western (fixed income)

Preliminary due diligence conducted on the following organizations:

Bain (distressed debt)
Carlyle (private real estate)
Marathon (distressed debt)
THL Credit (direct lending)

At the January SIB meeting, Staff presented an Ongoing Investment Due Diligence Policy, outlining internal processes with respect to monitoring existing investment managers within SIB pools.

In February, Staff provided the Board an Investment Work Plan Update as it relates to investment activity in the remaining fiscal year.

At the March SIB meeting, Prudential Global Investment Management (PGIM) provided the Board an update on the Core Plus accounts managed on behalf of the Insurance and Legacy pools, including a market review and outlook. Staff plans to reduce exposure to Wells Capital Medium Quality Credit in both pools and increase exposure to the PGIM Core Plus mandates.

Staff is continuing the live phase of the implementation of the BlackRock Solutions Aladdin system and is currently developing reporting packages.

Staff attended meetings with the following entities: TFFR Board, NDPERS Investment Subcommittee, and the Legacy and Budget Stabilization Fund Advisory Board.

Staff continues to conduct preliminary due diligence on possible managers/products for future consideration.

Staff continues to monitor each client’s asset allocation monthly and makes rebalancing decisions based on rebalancing policy and cash flow requirements.

No managers were on the Watch List during the quarter.

Quarterly Monitoring Report on TFFR Ends
Quarter Ended March 31, 2019

Retirement Program

This report highlights exceptions to normal operating conditions.

- TFFR Board approved an actuarial proposal from Segal to conduct a comprehensive risk assessment, create stochastic projections, and develop a plan management policy. Staff working with actuary on Phase 1 of project.

- Developed an electronic registration form for members to register for retirement education workshops.

- Continued to implement electronic retirement application process (limited due to current pension software).

- Conducted member salary reviews, account reconciliations, counseling sessions, and claims processing activities for spring retirees.

- Prepared testimony, presented information, and monitored 2019 legislative proposals for potential impact.

    - TFFR technical corrections bill (HB 1044) was approved by the 2019 Legislature to update plan language to maintain compliance with federal IRC requirements related to qualified governmental pension plans.

    - RIO agency budget request (SB 2022) is still pending 2019 legislative approval of a potential upgrade or replacement of TFFR's current pension administration software to a more technologically advanced and secure web based system. A new system would provide improved functionality for TFFR members, employers, and RIO staff by transforming TFFR pension administration processes, reporting capabilities, communications and services.

- Posted and interviewed prospective candidates for Employee Benefit Program Specialist position which will become vacant April 30 due to employee's upcoming retirement.

BOARD LEADERSHIP
INNOVATIVE APPROACHES TO GOVERNANCE

NUMBER 162, MAR.–APR. 2019

www.wileyonlinelibrary.com/journal/bl

Organizational Governance for the 21st Century: Arriving at a Global View

By Dr. Victoria Hurth and Dr. Axel Kravatzky

The world needs excellent standards of organizational governance. Here Dr. Victoria Hurth and Dr. Axel Kravatzky, conveners of the first global standard in governance of organizations (ISO 37000), discuss why the time is right for asking the world what it thinks good governance means and how it can be achieved.

Governance in context

As the late, great Caroline Oliver once summarized, organizational governance is actually a new discipline, in terms of being a specific branch of knowledge or field of study. Of course, the roots of governance as a concept are long—even back to Plato in 380 BC, when he made reference to an aspect of governance by talking about the king steering the state in *The Republic*. The topic has continued to evolve since and moved specifically into the organizational realm. However, compared to organizational management, organizational governance is still in its infancy. It has only really gathered steam in literature since the 1960s, with the term *corporate governance* only properly entering the English language in the 1970s.[1] It is worth noting that the term *corporate governance* nominally relates to any incorporated organization but in general is taken to be about shareholding companies, and often large listed companies because of the focus of many corporate governance legislation and codes. In this article, we will focus on *organizational governance*, which relates to all organizations.

The surge in interest in governance, particularly in the United Kingdom, can be traced back to the 1980s with Bob Ticker's seminal book on the topic, with the first major corporate governance code released by Cadbury in 1992.[2] In the short time that has passed since then, a huge flurry of activity has taken place. The heightened attention to governance can be seen to match the rise in relative wealth and power of companies vis à vis government, the transparency that the digital world has brought to organizational actions and the spectacular misdemeanors of companies that have rocked nations and even the globe. At a more detailed level of analysis, others relate the increase in organizational governance activity to the perceived regulatory impotence of government and a decreased global appetite for

(continued on page 2)

ALSO IN THIS ISSUE

Why Directors Should Embrace a Merger Mindset 5

Food for Thought 8

NEWS

California law to have big impact on boards

Last year, when California Gov. Jerry Brown signed Senate Bill 826, California became the first state in the country to require public companies headquartered there to have women on their boards. As the law takes effect over the next few years, the requirements for female representation will increase, too — companies with larger boards will have to have more women on them.

While the law has yet to be challenged in court, that could change as companies come up against the first deadline, Dec. 31, 2019, at which point any company headquartered in the state and publicly traded on a major stock exchange must have at least one female director. The fines for failure are substantial—$100,000 for the first offense and $300,000 for a second offense, if applicable. Also substantial is the number of companies likely to be impacted by the new requirements.

That's because California's public companies—like boardrooms elsewhere—tend to trend male.

According to research conducted by San Diego–based Board Governance Research, about 85 percent of the roughly 5,000 board seats in the state are filled by men.

When analyzing the current makeup of boards across the state, BGR found that nearly a third—29 percent—of California's public companies will have to make changes to their boards or face fines. In raw

(continued on page 4

Governance

(continued from front page)

interference by government in corporate decision-making.[3] Together, these created a perfect storm through which governance emerges as the savior.

In addition to the wide-ranging legislation that now exists across the globe, setting a minimum standard of practice, there are now a minimum of various iterations of 500 codes and guidance of various iterations and flavors across the world.[4] In addition, a range of sector-level guidance exists. Figure 1 is an adaptation of a figure from one of the few national standard-type documents to exist on organizational governance,[5] namely, from Germany (the others being the Australian[6] and British[7] standards). It sets out the relationship between the various areas of the governance landscape. Each has their role to play, although the result can be a confusing challenge for any organization.

An opportunity to harmonize

In addition to advancing practice, these publications have been useful at bringing the significance of governance to the attention of the world—both in helping governing body post holders realize the profound responsibilities they hold and what competencies they need, as well as alerting other stakeholders to the importance of this function so that they can help hold them to account. The material produced has also helped a range of sectors and organizational types realize that good governance is not just for large corporations but is foundationally important for the success of all organizations and their stakeholders.

However, we have reached a point of maturity where the sheer volume of material available to boards starts to be more of a hindrance than a help. This is a sign that consolidation is needed. The current approach of tailored guidance, while very useful for those sectors and countries lucky enough to be targeted, also leaves obvious gaps: the small startup in most countries still may not understand what governance is or how it relates to them: medium-sized enterprises in certain countries or sectors won't have foundational guidance they can turn to, and even larger organizations in certain countries will not have guidance that is written to relate to them, especially those that fall outside of being publicly listed.

Even where codes do exist, these are often not very helpful in outlining how good governance practice might be achieved or even clearly spell out why certain governance principles are actually important. Additionally, in developing countries, the resources available and institutional infrastructure are known to be much less plentiful, while the need is often greater. The World Bank's annual Ease of Doing Business reports consistently show that institutional frameworks in developing countries are weaker in the areas of governance and compliance, and this restricts their ability to trade, attract investment, and recover from economic shocks.

Figure 1 outlines the hierarchy of the governance landscape for organizations. While directives, laws, and codes exist in one form or another for many countries, good practice national standards are missing for everywhere except for the United Kingdom, Australia, and partially in Germany

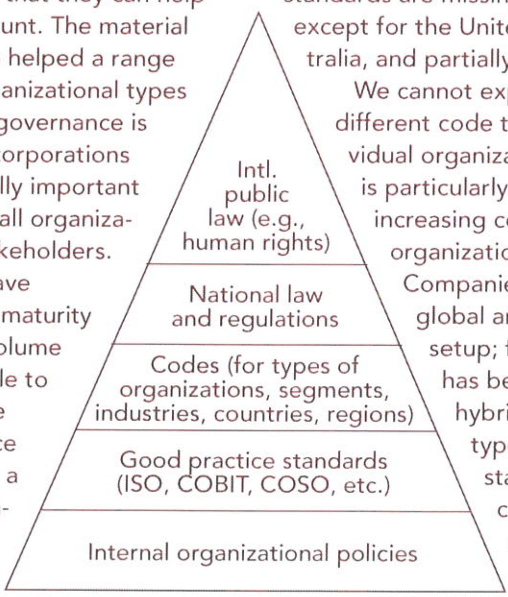


Figure 1. Hierarchy of obligation impacting governance of organizations

We cannot expect, or desire, a different code to cover every individual organizational type. This is particularly true given the increasing complexity of the organizational environment. Companies are ever more global and diverse in their setup; for example, there has been a surge in hybrid organizational types as charities start companies and companies start social enterprises. Furthermore, the maturing of the digital marketplace makes trade across national boundaries accessible to even the smallest home business, and the demands on governance become heightened as national governments and regulators begin to demand adherence to national standards in international contexts.

Alongside fragmentation, which makes the development of a governance code for each context impractical, there continues to be a simultaneous convergence of organizations. Together, these trends provide a fertile ground for communal guidance. There is an increasingly fuzzy boundary between the commercial and social organization sector that leads to a growing perceived redundancy of the terms *for-profit* and *not-for-profit*.[8] In recent years, we have seen *purpose* become a core language and mechanism for a deep integration of the different organizational types as commercial organizations start to put an external social goal as their raison d'etre.[9, 10] This shift is set in the context of a general movement to integration of once-separated cultural and social domains as the world globalizes.[11]

We are also seeing a convergence of views across the leading governance thinkers and institutions about what type of governance we need for the 21st century that complements and enhances previous thinking around shareholder rights and governance. For example, the notion that businesses are ultimately accountable to the global societies of which they are a part is a sentiment that increasingly runs through a range of thought leadership on governance. The Association of Chartered Certified Accountants, for example, recently outlined its five tenets of good governance, which placed a shifting relationship between companies and society at the top of its list with the premise that "[a]ligning the vision of a company with that of society will help that company to prosper in the long term"[12] and that "[c]urrent corporate governance issues, both individually and taken together, demonstrate that the long-term prosperity of society relies on businesses and vice versa."[13]

ISO 26000 on corporate responsibility made clear that organizational governance is key for organizations to be able to address their social responsibility. The reality of the interdependency of society and organizations can also be seen as a risk that needs competent and active governance. This forms the base rationale for the recent IFC Toolkit for Disclosure and Transparency. Unintended as well as intended consequences of actions by either reverberate and affect the other party through both short and long chains. This fact leads to a heightened recognition that stakeholder trust, communication, and engagement increase the strength of relationship between an organization and its broad range of stakeholders and are vital tasks of governing bodies. Not only do these build a company's social license to operate but, most important, they provide an effective means of understanding how real value can be created and of integrating these insights into the direction and oversight environment of an organization by a governing body.

Toward an ISO standard to guide governance of organizations globally

It is in the above context the first international standard in governance of organizations has been approved for global development. Work to build ISO 37000, "Guidance for the Governance of Organizations," was started in September 2017 and will continue until at least the end of 2020.[14] It is being developed for all types of organizations in all sectors and countries globally. There are currently 64 countries involved, with more of the 164 that make up the International Organization for Standardization joining all the time. By comparison, the Organisation for Economic Co-operation and Development represents 35 countries and the G20 is around 48 if all European Union countries are considered.

The ISO is perhaps one of the only organizations set up to achieve such a unique task. The ISO was formed in 1947 by delegates from 25 countries as one of the many postwar institutions to aid global harmony and increase global trade. It now comprises 168 national standards bodies that work together in a voluntary consensus approach to establish global agreement on pertinent topics that support innovation and global challenges, mostly in a business and trade context. Hence, its motto: "when the world agrees." A very interesting overview of the history of the ISO can be read on its website.[15] So far, over 22,000 international standards have been published. Some of these take the form of prescriptive "management systems standards" (e.g., ISO 9001:2015 on quality management), whereas others are more descriptive guidance (e.g., ISO 26000:2010 on social responsibility).

Although the ISO started off mainly considering technical aspects of harmonization, such as weights, measures, and the field of electronics, it has moved incrementally into the strategic level of an organization. This has led to standards necessarily brushing up against the concept of organizational governance. However, there is, as yet, no consistency in the way in which governance is defined and described (it is most commonly included in the description of the work of top management). While a very small number of standards have directly addressed aspects of governance (such as "Governance of IT," ISO 38500:2015 and "Guidelines on Human Governance," ISO 30408:2016), there is no accepted baseline understanding of corporate or, more widely, organizational governance at the ISO level. This is why creating an ISO standard on organizational governance is not just an opportunity to represent what the world agrees on on this vital topic, but also an opportunity to help standardize existing, new and revised ISO standards in terms of how they represent governance and how they reference the interface between organizational management and organizational governance.

ISO 37000 and the way forward

Organizational governance has reached a point of maturity, complexity, unification, and future ambition that there is sufficient need for a global view of what good governance looks like—and in a way that is relevant to all organizational forms and all sectors. That common base can then complement the many other types of governance advice, regulation, and legislation that already exist, along with existing management-focused ISOs. The ISO is the natural organization to create such a standard given its perhaps unique position to create global consensus on organizational matters. ISO standards are created using a highly developed process based to create international consensus via global expert opinion, national stakeholder engagements, and a systematic review and update process.

Although ISO 37000 will be applicable to all organizations in all countries, we expect its publication will result in a proliferation of highly tailored guidance, by enabling organizations to create tailored frameworks that work best for them in their specific type of organizational, legislative, and regulatory contexts; value creation models; and stages of development. The City of Wanadoo, for example, has created a comprehensive corporate governance framework, informed by its understanding of good governance. This framework details how the city sees good governance and is explicit about

(continued on page 4)

the relationship between administration and key parts of the broader system, such as the elected officials and broader stakeholders. Significantly, this framework is freely available and so allows for the city to be held to account to its governance by a range of stakeholders. Perhaps it is the fact that Australia created the first national standard in corporate governance that has helped spur such action. It is this kind of outcome we see resulting from ISO 37000.

Of course, a global standard in organizational governance will not represent all possible views, and naturally the situation is still emerging, but there are some clear themes already surfacing globally that give a starting point. The highly diverse group involved in its development and future revision will ensure it maintains its relevancy both as representing common positions and also the leading edge of global consensus. If you would like to be involved in developing this standard, then please contact your national standardization body. ❑

Victoria Hurth is an associate professor in marketing and sustainable business at the University of Plymouth and a senior associate of Cambridge University's Institute of Sustainability Leadership. She is committed to helping business become a driving force of long-term well-being for all.

Axel Kravatzky, founder of Tailored Governance, helps governance leaders tailor their governance approach to be consistent with the highest standards and to suit their role, organizational type, and context.

NOTES

1. Pargendler, M. 2016. "The Corporate Governance Obsession." *SSRN Electronic Journal.* doi: 10.2139/ssrn.2491088.

2. Gee and Committee on Financial Aspects of Corporate Governance. 1992. *Report of the Committee on the Financial Aspects of Corporate Governance* (Chaired by Sir Adrian Cadbury). Retrieved from http://www.ecgi.org/codes/documents/cadbury.pdf.

3. See note 1.

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5. Deutsches Institute fuer Normen eV. 2015. *DIN SPEC 33456—Leitlinien für Geschäftsprozesse in Aufsichtsgremien—Business Process Guidelines for Supervisory Boards and Independent Directors.* Retrieved from http://www.beuth.de.

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9. Ebert, C., V. Hurth, and J. Prabhu. 2018. *The what, the why and the how of purpose-driven organisations.* London, UK: Chartered Management Institute and Blueprint for Better Business.

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13. Ibid.

14. https://committee.iso.org/sites/tc309/home/projects/ongoing/ongoing-1.html.

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News

(continued from page 1)

numbers, that means some 184 California companies will have to find a female director by the end of this year.

The second deadline of Dec. 31, 2021, will impact an even greater number of firms. Per the law:

- Boards with six or more directors must have at least three female directors.
- Boards with five directors must have at least two female directors.
- Boards with four or fewer directors must have at least one female director.

According to BGR's study, just 12 percent of companies covered under the rule currently comply with these more stringent requirements. Some 550 or so companies will have to add at least one more woman to their boards.

BGR's data also show the law will impact smaller companies much more than larger ones. So-called micro-cap companies—those with a market capitalization of between $50 million and $300 million—would be hit the most, as fewer than half—47 percent—currently have at least one woman on their boards. In contrast, nearly all California companies included on the Fortune 1000—an index of the 1,000 largest American companies— have at least one woman on their boards.

For more information, visit http://www.boardgovernanceresearch.com.

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Why Directors Should Embrace a Merger Mindset

Dr. Linda Henman

Dr. Linda Henman is the author of six books, including Tough Calls: How to Move Beyond Indecision and Good Intentions*. She has more than 35 years of experience working with executives and boards in Fortune 500 companies and small businesses to help them exceed their strategic objectives by maximizing talent. In this article, Dr. Henman explores the key psychological forces that come into play when board members seek to shepherd their organizations through mergers and acquisitions.*

In today's fast-paced, volatile, global economy, serving on a corporate board just isn't what it used to be. Arguably, effective corporate governance requires what it has always demanded: advanced skills in problem-solving and decision-making, crisis management, leadership development, and financial oversight. But now businesses need more as the role of directors has become more complicated, and companies are considering more mergers and acquisitions (M&As), as these businesses did in 2018:

- Amazon picked up Whole Foods.
- Arby's nabbed Buffalo Wild Wings.
- Burger King bought Popeyes.
- Campbell's acquired Snyder's.
- Dr Pepper Snapple merged with Keurig Green Mountain.
- General Mills purchased Blue Buffalo.
- Hershey picked up SkinnyPop.
- Cigna secured Express Scripts.
- CVS is buying Aetna.
- AOL and Yahoo became Oath.
- Disney is attempting to buy part of 21st Century Fox.
- Albertsons agreed to buy Rite Aid.
- Coach acquired Kate Spade.
- Michael Kors purchased Jimmy Choo.

Now more than ever, directors recognize that what got them here won't get them to the next level of success. The companies they serve may not stay the same, and certainly the companies that compete with them won't. Active, compliant boards and executives no longer offer organizations enough. To remain competitive, savvy directors realize they also need to understand the high-stakes world of mergers, acquisitions, and divestiture. In short, they need to develop a Merger Mindset.

What is a Merger Mindset?

I have found that five psychological forces influence directors involved in mergers, acquisitions, and divestitures.

Beliefs

When facing any kind of high-stakes situation, we base our decisions on what we know to be true—what we believe. Sometimes, however, we believe something that isn't true. Both intellectual and emotional, beliefs influence our behavior when facts and reason alone don't.

"What you are speaks so loudly I can't hear what you say," noted Ralph Waldo Emerson, capturing the essence of what separates espoused beliefs (what we say we believe) from operating beliefs (the way we do things around here). But Emerson's observation omitted other factors that influence beliefs, such as habits, mental models, and traditions—or the way we've *always* done things around here. Then, we begin to talk about corporate culture.

We use the word *culture* arbitrarily, citing it to explain why things don't change, won't change, or can't change. We talk about a country's culture, school cultures, business cultures, culture clashes, and emerging cultures. A powerful force, culture anchors strategy and creates the environment where the best people can do their best work. It's that subtle yet powerful driver that leaders strive—often futilely—to influence. Directors who

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aspire to challenge the ordinary realize they need to pay more attention to the culture they help create so they can understand it, guide it, and tie it to their strategies for growth.

"Culture" represents that set of beliefs that generally governs behavior, but it also takes the blame when an M&A deal fails. We create culture as we go along—sometimes consciously, often unconsciously. When companies embark on a deal, however, directors deliberately pull culture from the wings and start to talk about whether the cultures of the deal partners will be compatible.

Directors tend to underestimate the importance of corporate culture when they should see it as among the top governance imperatives for every board. Culture should inextricably link strategy and risk, because it can be an organization's biggest asset or its greatest liability. Yet, recent studies indicate that more than 80% of directors don't have a firm grasp of the culture that exists in the organizations they serve. However, when decision-makers understand that they really need to examine the *beliefs* that drive the two cultures to see if they are compatible, they quickly understand how to think about the success of the deal.

Cognition

We think of cognition as the mental action or aptitude we have for acquiring knowledge, thinking, and learning through experience and our senses. Cognition, therefore, involves three salient abilities: verbal capabilities, facility with numbers, and strategic thinking skills.

Directors with a Merger Mindset evidence an advanced vocabulary, well-developed writing and speaking skills, and a quickness for learning. These directors understand that to control the outcome of a deal, they must start by having a strong command of language. Language controls conversations, and conversations drive outcomes.

At the most basic level, a facility with numbers involves the capacity to manage a budget and to make decisions about profit and loss. The skills needed to evaluate a deal also require that directors make sense of complicated numerically presented data and to use these data to solve problems they've never seen before.

Finally, directors with a Merger Mindset demonstrate the advanced critical thinking abilities that equip them to understand how to separate the significant few considerations from the vast number of nonessential ones. These directors maintain a global perspective as they quickly get to the core of complex problems, even when they haven't encountered the problem before. They typically multitask effectively and keep the priorities clearly in focus. Most see the future as open and malleable, so they paint credible pictures of the future for others to understand. In addition, they usually handle ambiguity and change well.

Directors who have the right mindset for successful deals reduce the risk of cognitive biases and decision traps. As systemic thinkers, they are discerning and curious. They remain open to new ideas without being naïve, and they avoid the trap of hubris.

The decision-making process required in the M&A world involves more than evaluating what we see and hear: it's a biological process. Cognition—part physiological, part psychological, and part contextual—is not always rational, however. Emotions stand ready to cloud even the best of judgment.

Emotion

Uncertainty about changes in ownership and structure creates one of the biggest obstacles directors face in making the tough calls in an M&A situation. These changes trigger negative emotional reactions, and the speed at which things happen can also raise anxiety—even in normally confident people. Trepidation worsens when people don't understand what will change or when the changes will occur. During these critical times, indecision will be the enemy, especially if decision-makers try to cover up indecision with platitudes such as "Don't worry" or "Nothing will change." When directors fail to set priorities and make the tough calls, a what-shoe-will-fall-next phobia begins to compromise morale and productivity and takes the corporate eye off the customer.

Companies that weather all the stages of a deal successfully do so because they recognize that the deal will impact employees, customers, and shareholders, and that everyone will be anxious. No one can answer all questions quickly, but the sooner decision-makers address the high-priority ones, the better.

The investment thesis should provide the foundation for both critical decisions and general communication. Grounding what you say in a solid rationale for the deal helps calm people. If calming people does not show up on your list of objectives, it should. Distracted employees do not care for or about customers. Worried suppliers won't extend themselves, and the most talented people will look around to escape a chaotic environment. However, notable exceptions exist. *Trusted* leaders will see far less distraction caused by negative reactions. The less clear your plan, the more trusted you'd better be.

Directors who possess the Merger Mindset have a positive emotional response to new and different information. They allow emotions like excitement, curiosity, passion, and achievement-drive to guide their decisions and actions. Most important, they control their own fears and try to mitigate the negative emotions of others.

In high-stakes environments, leaders realize they have personal risk—often significant peril that can cause unease. A deal that goes badly can take leaders and directors with it—literally causing failure or tarnishing an individual's previously stellar reputation.

Directors with a Merger Mindset don't ignore, diminish, or deny fear; they accept it. They realize *focusing* on fear, even while trying to reduce it, won't prove productive. Instead, they allow themselves and others to experience fear but then take actions that provide a sense of accomplishment and momentum—the antidotes to the immobility fear can cause. They also refuse to second-guess their tough calls, ask for help from trusted advisors, and eschew unsolicited feedback. Most of all, they trust their abilities to sail in uncharted seas.

Motivation

In most deals, directors will see a kind of gap—the one between what science knows and what business leaders do. Science has carried out extensive experiments on mice, monkeys, and humans to reach conclusions about what makes us tick. Psychologists, too, jumping on the motivational bandwagon, offer reasonable explanations about why humans behave the way we do. These theorists often overlap and build on one another's ideas, but just as frequently, they *disagree*. We expect more from science! We want someone to develop a blood test or diagnostic scan that allows us to "have a look" at how much motivation a person has. We want to measure it, so we can control it. Neither option exists, however.

Motivation moves us to action, but it does more. A kick will cause a dog to move, but we shouldn't infer the canine acted because of any kind of intrinsic motivation. Rather, the poor dog wanted to avoid further pain. Human motivation tends to be more complex. Humans act because we have evolved natures and myriad social, cultural, religious, and family influences.

Why do people behave the way they do? Why do wide variations in behavior exist? I consistently and conscientiously strive to answer these questions when I help clients make high-stakes decisions. I also examine how once-motivated people can lose the desire to learn and change in a climate that doesn't nurture those behaviors.

A non-nurturing climate can cause the once-motivated people to join forces with the never-motivated—as much as inertia can be described as a force. In the threatening environment of an M&A deal, they then quit making tough calls because they don't see the point. What good does it do? Feeling like victims trapped in a mental hospital, they often flee the asylum, taking their expensive training, experience, and expertise to the competition—one of the worst things that can happen when a company is considering a major M&A deal.

The surest way to have a board of motivated people is to start by selecting motivated directors. Look for people who have set goals and worked to achieve them. You'll find these results-oriented go-getters also display fortitude and tenacity. Their achievements yield benefits for a team, a larger group, the organization, or their communities—not just themselves.

Resilience

Ordinarily, the definition of a term states what it *is* rather than what it *is not*. However, trying to find agreement among researchers about the definition of "resilience" is akin to asking poets to share one opinion about the word "love." Researchers do agree, however, about what resilience *is not*. It is not sickness. It is not pessimism. It is not failure to adapt. For this discussion, therefore, I define resilience as "the capacity to cope with and recover from adversity." It implies an ability to "bounce back."

What constitutes resilience? It all starts with how we communicate within ourselves. My original research on the Vietnam POWs confirms what others who have studied trauma victims tell us—that believing in something "bigger" helps an individual survive. For directors, believing in something bigger involves their dedication to the strength and success of the organization they serve.

This form of loyalty creates a sort of unifying pattern that organizes people's deepest convictions about themselves and others, and it involves the firmest core understanding of truth. It is the canvas upon which the artist paints, the unseen order that the artist "envisions," and that which others see as evidence.

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WHEN WE SAY...

Board Leadership's mission is "to discover, explain and discuss innovative approaches to board governance with the goal of helping organizations achieve effective, meaningful and successful leadership to fulfill their missions."

Board Leadership aims to fulfill this mission by engaging its readers in a lively and illuminating inquiry into how board governance can be made more effective. This inquiry is based on three key assumptions:

- Boards exist to lead organizations, not merely monitor them.
- Effective board governance is not about either systems, structures, processes, theories, practices, culture, or behaviors—it is about all of them.
- Significant improvements are likely to come only through challenging the status quo and trying out new ideas in theory and in practice.

Uniquely among regular publications on board governance, *Board Leadership* primarily focuses on the job of board leadership as a whole, rather than on individual elements of practice within the overall job.

Over time, *Board Leadership* will provide a repository of different approaches to governance created through its regular "One Way to Govern" feature.

Here's what a few of the key terms we use mean to us:

- **Innovative:** Creating significant positive change
- **Approaches:** Principles, theories, ideas, methodologies and practices.
- **Board governance:** The job of governing whole organizations. ❑

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Why can some people bounce back from adversity while others languish? Why can some leaders help those around them find the path through the crisis when others can't? Research tells us that we want power and authority over our futures. When we perceive control in our lives, we feel optimistic and secure. When we don't, we feel persecuted. We start to feel undermined, overwhelmed, and immobilized—powerless.

Psychologist Martin Seligman introduced the term "learned helplessness," which impairs adaptation and coping. Learned helplessness refers to a generalized expectancy that events are *independent* of one's own responses. Consequently, individuals believe their coping behaviors futile. When this happens, people start to perceive that factors beyond their control will determine their destiny. Instead of searching for ways to overcome adversity, they simply accept it. Since, in their minds, they are powerless to overcome the problem, they simply give up. This, of course, reinforces the idea that they never had control in the first place, and their perceptions of helplessness and pessimism increase. Directors with a Merger Mindset don't allow these kinds of self-defeating behaviors to interfere with their own skills for combating uncertainty, and they prevent others from slipping into a victimization mindset, too.

When doing deals, we can't accurately calculate the number of things that can go wrong, and acquirers never know as much as they wish they could before they do a deal. Similarly, sellers never know for sure what life will be like post-deal. Divestitures can feel like failure and cause an unhealthy sense of regret.

A Merger Mindset—one that shapes resilience—recognizes that challenges aren't permanent, talented people can figure things out, and even failure isn't fatal. The Merger Mindset allows directors to learn from past missteps and helps them move past them, so people and organizations can thrive.

FOOD FOR THOUGHT

"Power isn't control at all — power is strength, and giving that strength to others. A leader isn't someone who forces others to make him stronger; a leader is someone willing to give his strength to others that they may have the strength to stand on their own."

Beth Revis

Conclusion

Each year, new regulations surface to protect consumers and hold boards and executives accountable to shareholders. Corporate governance is on the move. We have come to demand that executives and directors tolerate more ambiguity than they ever have before, and people are holding one another accountable for taking the prudent risks that lead to a successful M&A deal. No longer can directors languish in a role and expect to keep it for life—not even in privately held companies. A volatile economy—which has become the new norm—has shown us not to rest on our laurels too long or we won't have any glory to rest on.

We venerate our sacred cows, traditions, and conventional approaches because they make us feel secure. But like all emotional security blankets, they unravel, and their usefulness fades. When we replace negative emotional responses with new attitudes and cognitive skills, and we challenge ourselves to take risks, reframe, and live well-thought-out beliefs instead of clinging to what we've always done, we embrace a Merger Mindset and open doors for new opportunities and optimism. ❑

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