Executive Summary - Informational

TO: **State Investment Board**

FROM: Dave Hunter

DATE: October 18, 2019

SUBJECT: **SIB Meeting Materials – October 25, 2019**

Our October board meeting will focus on expanding strategic partnerships with two top tier managers in U.S. Small Cap Equity and U.S. Direct Lending in order to improve expected downside risk protection and optimize investment structures across our major investment pools. In accordance with our approved biennial agenda, we will also focus on our annual evaluation of RIO's results versus our "Ends" policies. This will include a review of actual investment returns and risk levels versus approved policy benchmarks, the annual review of fees and expenses, and a review of 2019 SIB client satisfaction survey results.

The October SIB meeting agenda will address the following topics:

1. **Public Equity Update** – **RIO recommends the SIB expand our existing $160 million relationship with Atlanta Capital in U.S. Small Cap Equity by over $250 million.** This recommendation seeks to improve risk adjusted returns while significantly enhancing downside risk protection. Since inception, Atlanta Capital has outperformed the U.S. Small Cap Equity indices by approximately 3% (14% actual vs 11% index) for our SIB pension pool clients. Atlanta Capital seeks to participate in rising markets by capturing 85% of upside market returns, while seeking to preserve capital in down markets by only capturing 56% of declining market returns (over the past 27 years). This approach has reduced the volatility typically associated with small cap investing while outperforming the Russell 2000 (U.S. Small Cap) Index by 3% the last 27 years. Atlanta Capital currently only manages funds for our pension pool clients, while this recommendation seeks to expand the strategy to the Legacy Fund and insurance pool.

2. **Fixed Income Update** - **RIO recommends the SIB expand an existing $200 million commitment to our Cerberus Direct Lending strategy by up to $100 million.** The SIB originally approved a $200 million commitment with Cerberus in early 2017 in order to improve risk adjusted returns in the pension pool and Legacy Fund. Since 12/31/16, the Legacy Fund has increased by 50% (from $4.2 billion to $6.3 billion) while the pension pool has increased by 20% (from $4.9 billion to $5.9 billion). In order to maintain our desired percentage allocations to direct lending sectors, RIO recommends a commitment increase of up to $100 million. Since closing in July of 2017, our Cerberus direct lending strategy has generated a Net IRR of 10.4% (through August 31, 2019) which has outperformed the S&P Leverage Loan Index by 5% and JPMorgan Long-Term Capital Market Expectations by 3%. RIO notes our decision to invest in direct lending back in 2017 coincided with our desire to improve risk adjusted returns by

eliminating dedicated allocations to international debt given an unfavorable outlook and low (or negative) interest rates in this sector which continues to persist today.

3. **Annual Evaluation of RIO versus Ends** – **RIO notes that 99% of our SIB clients generated positive excess returns and positive risk adjusted excess returns for the 5-years ended June 30, 2019, while adhering to approved risk levels and reducing investment expenses to less than 0.50% per annum the last five years.** The SIB and RIO's continued focus on fee reductions has resulted in investment expenses declining from 0.66% in fiscal 2013 to 0.46% in fiscal 2019. Based on $10 billion in average AUM, this 0.20% decline in investment fees translates into $20 million of annual fee savings. **RIO's Internal Audit Supervisor will also seek Board acceptance of our SIB client satisfaction survey results (of 3.6 on a 4.0 scale).**

4. **Annual Governance Manual Review** – The SIB and RIO are conducting their annual Governance Manual Review over four months (from August to November) this year. A second reading of Sections A and B was completed and approved by the Board last month (on Executive Limitations and Governance Process). A second reading of Sections C and D (on Board Staff Relationship and Ends) will be completed this month in addition to a first reading of Section E (on Investments). The latter will include a discussion of our existing Proxy Voting policies. *The investment teams of RIO and Department of Trust Lands (DTL) are in the process of jointly reviewing our existing Securities Litigation and Proxy Voting policies so as to harmonize the collaborative oversight of these policies by the SIB and Land Board and their aggregate impact to the State of North Dakota.* **At the conclusion of our monthly board discussions, the SIB may make a motion to accept recommended changes, if any, to our Governance**.

5. **Legacy Fund Earnings Committee** – In response to a ND Legislative Council request to obtain a recent RVK U.S. Sovereign Wealth Fund Survey report for the Legacy Fund Earnings Committee, RIO intends to present the survey results to the Earnings Committee meeting at their next meeting in Fargo on November 13. This presentation will be based on materials previously shared with the SIB and include a one-page example of the Percent of Market Value approach endorsed by the SIB in support of a predictable, transparent and sustainable "earnings" formula for the Legacy Fund.

6. **Quarterly Monitoring** – **RIO will request the Board to accept quarterly monitoring reports for June 30, 2019, and September 30, 2019**, noting the prior quarter end reports were postponed due to competing priorities (including the July Board retreat). RIO will also provide updates on agency succession planning, actual versus budgeted financial conditions, introduce our new Investment Accountant, share general observations on our Investment and Compliance Officer candidates, provide an update on recent TFFR pension administration system discussions and confirm our Watch List.

North Dakota State Investment Board

ND STATE INVESTMENT BOARD MEETING

Friday, October 25, 2019, 8:30 a.m.
Fort Union Room, State Capitol
Bismarck, ND

I. APPROVAL OF AGENDA

II. APPROVAL OF MINUTES (September 27, 2019)

III. INVESTMENTS (Enclosed)

A. Public Equity Update (45 minutes)
  1. U.S. Small Cap Equity Background – Mr. Darren Schulz
  2. Atlanta Capital Presentation – Mr. Michael Jaje,and Mr. Chip Reed
  3. Staff Recommendation* – Mr. Darren Schulz **Board Action**

B. Fixed Income (45 minutes)
  1. Direct Lending Background & Overview – Mr. Eric Chin
  2. Cerberus Presentation – Mr. Daniel Wolf and Mr. Keith Read
  3. Staff Recommendation* – Mr. Eric Chin **Board Action**

========================= Break from 10:15 to 10:30 a.m. =============================

IV. GOVERNANCE & EDUCATION (enclosed) (1 hour)

A. Annual Evaluation of RIO vs Ends - Mr. Hunter **Board Action**
B. Annual Review of Investment Fees and Expenses - Mr. Hunter **Board Action**
C. SIB Client Satisfaction Survey - Ms. Sara Sauter **Board Acceptance**
D. SIB Audit Committee Report - Ms. Sara Sauter **Board Acceptance**
E. SIB Governance Manual Review (Proxy Voting Guidelines) - Mr. Hunter **Board Action**
F. Legacy Fund Earnings Committee Update - Mr. Hunter *Informational*

V. QUARTERLY MONITORING – 6/30/19 and 9/30/19 (enclosed) **Board Acceptance** (15 minutes)

A. Executive Limitations/Staff Relations (including RIO Succession Planning) - Mr. Hunter
B. Budget/Financial Conditions - Ms. Flanagan
C. Investment Program (including new Quarterly Monitoring Report) - Mr. Chin
D. Retirement Program (including TFFR PAS Update) - Ms. Kopp
E. Watch List - Mr. Schulz (LSV)

VI. OTHER

Next Meetings: Securities Litigation Committee - November 7, 3:00 p.m. RIO Conference Room
Audit Committee - November 13, 2:00 p.m. RIO Conference Room
SIB Meeting - November 22, 8:30 a.m., State Capitol, Fort Union Room

** **Possible** Executive Session pursuant to NDCC §44-04-18.4(1), §44-04-19.1(9), & §44-04-19.2- to discuss confidential commercial and financial information and provide contract negotiating instructions to its attorney or negotiator.*

VII. 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
SEPTEMBER 27, 2019, BOARD MEETING

MEMBERS PRESENT:	Brent Sanford, Lt. Governor, Chair Rob Lech, TFFR Board, Vice Chair Jon Godfread, Insurance Commissioner Toni Gumeringer, TFFR Board Bryan Klipfel, Director of WSI Adam Miller, PERS Board (tlcf) Mel Olson, TFFR Board Kelly Schmidt, State Treasurer Jodi Smith, Commissioner of Trust Lands Yvonne Smith, PERS Board
MEMBERS ABSENT:	Keith Kempenich, Legacy/Budget Stab. Adv. Board Troy Seibel, PERS Board, Parliamentarian
STAFF PRESENT:	Eric Chin, Senior Investment Officer Connie Flanagan, Chief Financial Officer Bonnie Heit, Admin Svs Suprv David Hunter, Exec Dir/CIO Fay Kopp, Dep Exec Dir/CRO Sara Sauter, Suprv of Internal Audit Darren Schulz, Dep CIO Susan Walcker, Senior Investment Acct
GUESTS:	Alex Browning, Callan Associates LLC Paul Erlendson, Callan Associates LLC Adam Mathiak, Legislative Council Anders Odegaard, Attorney General Counsel 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, September 27, 2019, at the State Capitol, Ft. Union Room, Bismarck, ND.

AGENDA:

The Board considered the agenda for the September 27, 2019, meeting,

IT WAS MOVED BY DR. LECH AND SECONDED BY MS. SMITH AND CARRIED BY A VOICE VOTE TO ACCEPT THE AGENDA FOR THE SEPTEMBER 27, 2019, MEETING.

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

MINUTES:

IT WAS MOVED BY MS. SMITH AND SECONDED BY MR. OLSON AND CARRIED BY A VOICE VOTE TO APPROVE THE AUGUST 23, 2019 MINUTES AS DISTRIBUTED.

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

INVESTMENTS:

Asset and Performance Overview – Mr. Hunter highlighted investment performance of the SIB client assets under management for the period ending June 30, 2019.

The SIB client assets under management totaled approximately $15.1 billion – Pension Trust $5.95 billion, Insurance Trust approximately $2.3 billion, and the Legacy Fund exceeding $6.5 billion.

The Pension Trust posted a net return of 5.5% in the last year. The Pension Trust generated a net annualized return of 6.2%, exceeding the performance benchmark of 5.7% during the last 5-years.

The Insurance Trust posted a net return of 6.4% in the last year. The Insurance Trust posted a net annualized return of 5.0%, exceeding the performance benchmark of 4.0% during the last 5-years.

The Legacy Fund generated a net return of 5.0% last year. The Legacy Fund earned a net annualized return of 5.7%, exceeding the performance benchmark of 5.2% during the last 5-years.

Every Pension Pool client posted positive excess returns of at least 0.38% per annum over the last 5-years (including 0.53% for Public Employees Retirement System (PERS) and Teachers' Fund for Retirement (TFFR)) while adhering to approved risk levels and generating positive risk adjusted excess return.

Every Non-Pension client generated positive excess returns of at least 0.43% per annum and positive risk adjusted excess returns for the 5-years ended June 30, 2019 (two exceptions PERS Retiree Health Insurance Credit Fund and PERS Group Insurance).

Risk, as measured by standard deviation, was within approved levels for all SIB clients for the 5-years ended June 30, 2019.

Callan Associates LLC – Mr. Erlendson and Mr. Browning highlighted the performance of the Pension Trust, Insurance Trust, and the Legacy Fund for the period ending June 30, 2019. Mr. Erlendson and Mr. Browning also provided commentary on economic and market environments for the period ending August 31, 2019.

IT WAS MOVED BY MR. OLSON AND SECONDED BY COMMISSIONER GODFREAD AND CARRIED BY A ROLL CALL VOTE TO ACCEPT THE PERFORMANCE REVIEWS FOR THE PENSION TRUST, INSURANCE TRUST, AND THE LEGACY FUND FOR THE PERIOD ENDING JUNE 30, 2019.

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

Legacy Fund – RIO participated in a survey conducted by RVK which surveyed 10 US Sovereign Wealth Funds to gain additional insight and perspective on the governance structures, constraints, and spending models of US based funds. Mr. Hunter stated the survey focused on Objectives, Asset Allocation and Performance, Governance and Decision

Making Structures, and Constraints and Spending. Mr. Hunter noted 6 of the 10 Sovereign Wealth Funds utilized the Percent of Market Value (POMV) approach for determining the level of distributions or spending (5 respondents used 5 percent and one used 4 percent of "Trailing Market Value.") The SIB voted in favor of supporting a Legacy Fund earnings estimate formula using the POMV approach noting it is used by the ND Common Schools Trust Fund.

Legacy Fund Earnings Committee – Mr. Hunter will share the RVK report with the Legacy Fund Earnings Committee at their next meeting as well as discussions he has had with other US sovereign wealth fund representatives; Alaska, Wyoming, New Mexico, and others. Mr. Hunter also shared prior discussions he has had with the Legacy Fund Earnings Committee.

Press Releases – Mr. Hunter distributed a press release which was included in the Bismarck Tribune Business Digest regarding the SIB expanding their role in the Bank of North Dakota's Match Loan Certificate of Deposit Program.

The Board recessed at 10:08 a.m. and reconvened at 10:34 a.m.

GOVERNANCE:

Governance Review - Mr. Hunter reviewed SIB Governance Manual Section A – Executive Limitations, Section B – Governance Process, Section C – Board/Staff Relationship, and Section D – Ends. After discussion,

IT WAS MOVED BY TREASURER SCHMIDT AND SECONDED BY DR. LECH AND CARRIED BY A ROLL CALL VOTE TO ACCEPT THE SECOND READING OF SECTIONS A (EXECUTIVE LIMITATIONS) AND SECTION B (GOVERNANCE PROCESS) WHICH ALSO ESTABLISHES THE EXECUTIVE REVIEW COMMITTEE AS A STANDING COMMITTEE OF THE SIB.

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

IT WAS MOVED BY COMMISSIONER SMITH AND SECONDED BY DR. LECH AND CARRIED BY A VOICE VOTE TO ACCEPT THE FIRST READING OF ENDS (EXHIBIT D-1/ACCEPTING THE ND OFFICE OF THE ATTORNEY GENERAL AS A CLIENT).

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

Securities Litigation Committee – Mr. Hunter updated the SIB on the Securities Litigation Committee's activity as of their September 20, 2019, meeting. The Securities Litigation Committee reviewed their Charter including the jurisdictional, risk and dollar based policy thresholds for pursuing securities litigation as approved by the SIB in 2019; reviewed the SIB approved securities litigation firms including Bernstein Litowitz Berger & Grossmann, Grant & Eisenhofer, and Labaton Sucharow; reviewed and approved the Recovery and Monitoring Reports noting that recoveries increased to $344,684 in fiscal 2019 versus $189,006 in fiscal 2018 (and $424,362 in fiscal 2017); received securities litigation case updates on Volkswagen and Danske Bank from Grant & Eisenhofer in addition to a potential 3M Company case with FRT.

Comments followed on the 3M Company case. Commissioner Smith informed the SIB the Dept. of Trust Land Board discussed this case and their current policy and if there is a combined State loss of a minimum of $5 million, the State would consider becoming lead plaintiff versus each Board taking losses of $5 million.

The Dept. of Trust Land Board and SIB will both incur losses in the 3M Company case but the current estimated amount of losses is below the SIB’s approved threshold. Commissioner Smith will be working with RIO investment personnel to revise the Dept. of Trust Land’s investment policy to address losses in the event both entities incur losses in future cases so the State of North Dakota is represented appropriately.

IT WAS MOVED BY MS. GUMERINGER AND SECONDED BY MR. OLSON AND CARRIED BY A VOICE VOTE TO ACCEPT THE SIB SECURITIES LITIGATION COMMITTEE REPORT.

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

Education – Mr. Hunter reminded the SIB to attend approved investment education conferences in the upcoming year to include Callan’s annual conference and the Callan College.

Treasurer Schmidt recently sat on a panel for a conference in Utah and proxy voting was an area that was discussed. Treasurer Schmidt is concerned about the State of North Dakota diverting their authority of proxy voting to a third party and does not believe the voting is being done in the best interests of North Dakota. Treasurer Schmidt requested the Dept. of Trust Land and the SIB’s proxy voting policies be reviewed and revisions made so the proxies are being voted in a collaborative effort by both entities for the good of North Dakota.

Agency Update – Mr. Hunter provided a brief update on RIO. The Investment Accountant position has been filled and the applicant is expected to begin October 1, 2019. RIO personnel are scheduled to begin interviewing for the Investment/Compliance Officer position in October.

RIO and the State Information Technology Dept. are working to develop a project charter for the Teachers’ Fund for Retirement Pension Administration System project.

OTHER:

The next meeting of the SIB for regular business has been scheduled for October 25, 2019, at 8:30 a.m., at the State Capitol, Ft. Union Room.

The next meeting of the Securities Litigation Committee is scheduled for November 7, 2019, at 3:00 p.m. at the Retirement and Investment Office.

The next meeting of the SIB Audit Committee is scheduled for November 13, 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 10:52 a.m.

Lt. Governor Sanford, Chair
State Investment Board

Bonnie Heit
Recorder

North Dakota State Investment Board

High Quality Small Cap

October 25, 2019

1969 - 2019
50 YEARS
ANNIVERSARY

1075 Peachtree Street NE | Suite 2100 | Atlanta | GA | 30309

Your Atlanta Capital Team

Chip Reed, CFA
Managing Director, Principal
(404) 682-2504
chip.reed@atlcap.com

Michael Jaje, CFA
Investment Specialist & Principal
(404) 682-2498
michael.jaje@atlcap.com

ATLANTA CAPITAL

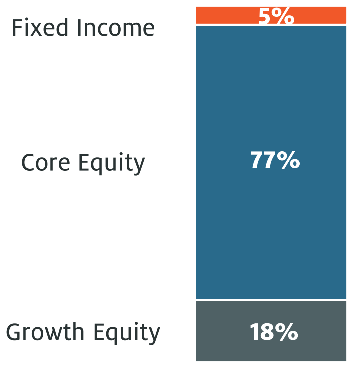
Atlanta Capital Management Co., LLC

As of September 30, 2019

- Founded in 1969 in Atlanta, Georgia
- Singular focus on High Quality stocks and bonds
- Owned by employees & Eaton Vance Corporation
- Employ 38 professionals (17 are equity partners)

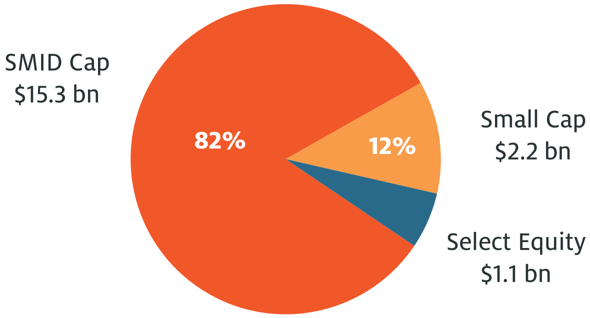
Investment Franchises

($24.0 Billion)



Core Equity Management

($18.5 Billion)



Assets under management

Atlanta Capital

Celebrating Our 50th Anniversary and Volunteering in Community Outreach

Ringing of the NYSE Opening Bell in celebration of Atlanta Capital's 50-Year Anniversary

Books for Africa

Open Hands Atlanta

Toys for Tots

Seasoned & Stable Investment Team

A focused team that combines the benefit of conducting independent fundamental research with the ability to make timely investment decisions.

Portfolio Managers

Chip Reed, CFA
30 Yrs | 1998

Matt Hereford, CFA
24 Yrs | 2002

Bill Bell, CFA
24 Yrs | 1999

Investment Specialist

Michael Jaje, CFA
25 Yrs | 2014

- Portfolio managers are generalists and serve as both research analyst and portfolio manager
- Our team does not rely on a research staff to generate ideas or perform fundamental research
- Each portfolio manager conducts his own research while decisions are made on a consensus basis

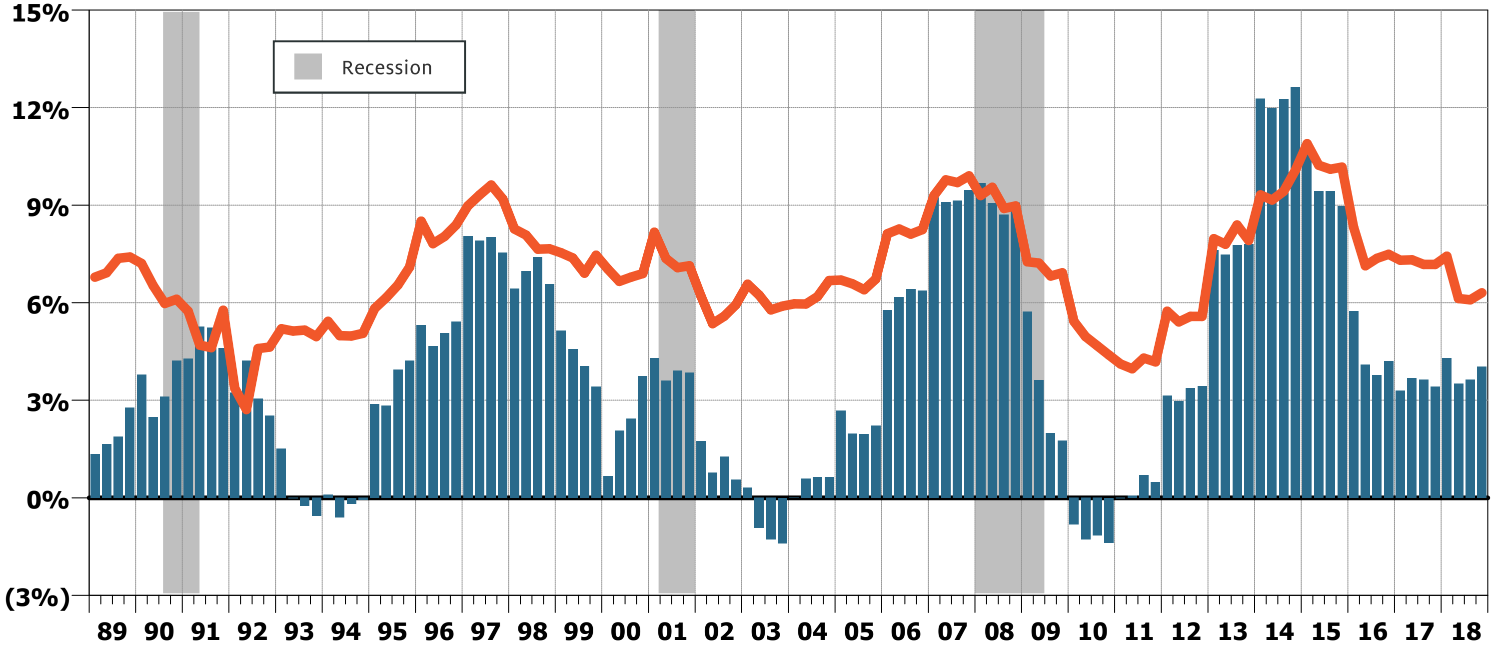
Years industry experience as of September 30, 2019 | year joined Atlanta Capital.

ATLANTA CAPITAL

Consistent Growth & Stability in Earnings

Key Tenet of Our Investment Philosophy

Five-Year Rolling CAGR of As Reported Earnings
Russell 2000® Index by Earnings Stability



Earnings Stability	Avg. 5-Year CAGR	Earnings Variability	# Positive Periods	# Negative Periods
🟧 High Quality Portfolio	6.9%	1.7%	120 or 100%	0 or 0%
🟦 Low Quality Portfolio	4.1%	3.4%	106 or 88%	14 or 12%

Time period: January 1, 1989 – December 31, 2018. This information is provided for general illustrative purposes only. The High Quality and Low Quality Research portfolios are provided to compare the aggregate earnings stability of all companies in the index with High Quality SPGMI Quality Rankings (B+ or Better) to those with Low Quality SPGMI Quality Rankings (B or Below). The High Quality Research and Low Quality Research portfolios are model portfolios formed and rebalanced monthly by Atlanta Capital. The universe includes all Russell 2000® Index constituents with SPGMI Quality Rankings and prices greater than $1. Five-year historical earnings growth rates are calculated using a market capitalization-weighted methodology. The Russell 2000® Index is an unmanaged index of 2,000 US small-cap stocks. Historical performance of the index and Research portfolios illustrates market trends and does not represent past or future performance of the strategy. The material is based upon information that Atlanta Capital considers to be reliable, however no assurances are provided. The material should not be considered investment advice or a recommendation to invest in a particular strategy. Reproduction or redistribution of this page in any form without express permission from Atlanta Capital is prohibited. Past performance is not a reliable indicator of future results. Sources: FTSE Russell, S&P Global, Wilshire Atlas, Atlanta Capital as of December 31, 2018.

Small Cap Investment Objective

April 1, 1992 – September 30, 2019

Our objective is to participate in rising markets, protect capital during declining markets, and outperform over the long term…

RISING MARKETS
(74 Positive Quarters)
Net of Fees

Upside Reward

+

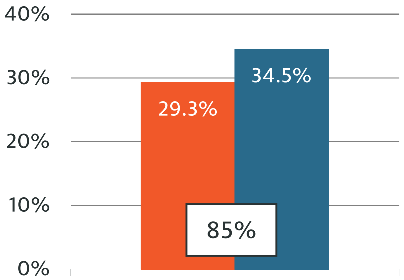
DECLINING MARKETS
(36 Negative Quarters)
Net of Fees

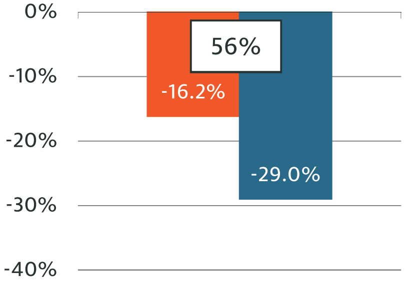
Downside Protection

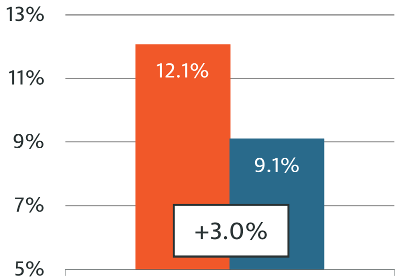
=

SINCE INCEPTION*
(110 Total Quarters)
Net of Fees

Long-Term Results







Beta
🟥 HQ Small | R2000® 🟦
0.71 | 1.00

Standard Deviation
🟥 HQ Small | R2000® 🟦
15.0% | 19.4%

…without the volatility typically associated with small cap investing.

*The inception date of the High Quality Small Capitalization Composite is April 1, 1992. For illustrative purposes only. The charts above illustrate the average (annualized) return of the High Quality Small Capitalization Composite during both rising and declining markets since inception. Results for other time periods may differ from the long-term trend shown above. Rising markets are defined as quarters where the return of the Russell 2000® index was positive. Declining markets are defined as quarters where the return of the Russell 2000® index was negative. These positive and negative quarters are separated out from the intervening quarters, cumulated across the period, and annualized. Long-term investment returns include both rising and declining periods. Composite performance is shown in US dollars and reflects reinvestment of all income and capital gains. Composite performance is shown net of investment advisory fees using a maximum annual investment management fee of 0.80% applied monthly; client results will be reduced by custody fees and other client expenses. Performance during certain periods reflects strong stock market performance that is not typical and may not be repeated. Individual client returns will vary due to fees, client-imposed investment constraints and client inception date. Beta measures the historical sensitivity of portfolio excess returns to movements in the excess return of the market index. Standard Deviation is a measure of absolute volatility of returns. The Russell 2000® index is unmanaged and does not incur management fees or other expenses associated with managed accounts. It is not possible to directly invest in an index. Please see the Composite's GIPS® compliant presentation at the end of this presentation for important additional information and disclosure. **Past performance does not predict future results. Source: eVestment and Atlanta Capital.**

Disciplined Investment Process

High Quality Small Cap Equity

Step 1

Create a 'Focus List' of High Quality Companies

Equity Universe

$200 mm – $4 bn Market Cap
(at initial purchase)

→

Exclude companies with:

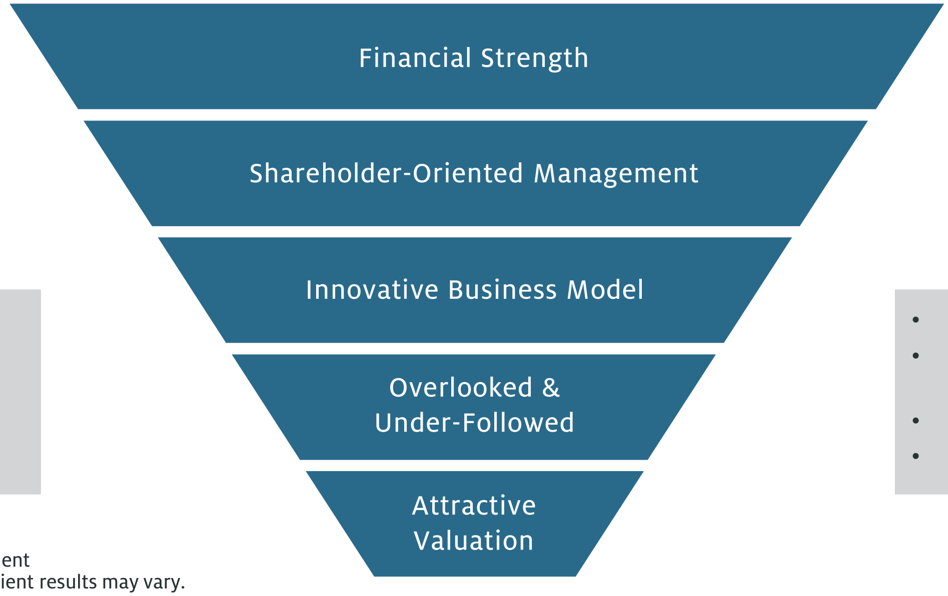
- Volatile earnings streams
- Short operating histories
- High levels of debt
- Weak cash flow generation
- Low returns on capital

→

Focus List
150 – 200

Step 2

Conduct 'Onsite' Fundamental Research



Step 3

Construct a Focused Yet Well-Diversified Portfolio

- Generally 60 – 70 holdings
- 5% max position sizes
- 30% absolute sector weights
- 16% 3-year average turnover*
- Russell 2000® Index

Step 4

Monitor Holdings & Review Focus List

- Prudent profit taking
- Change in management or business strategy
- Deterioration of financial quality
- Excessive valuation

* Turnover based on a single representative client portfolio and subject to change; individual client results may vary.

ATLANTA CAPITAL

Annualized Performance

As of September 30, 2019

North Dakota State Investment Board

	QTD (%)	YTD (%)	1 Yr (%)	3 Yrs* (%)	5 Yrs* (%)	7 Yrs* (%)	10 Yrs* (%)	Since Inception* (%)
High Quality Small Cap	**2.58**	**21.39**	**4.68**	**14.98**	**--**	**--**	**--**	**14.68**
S&P 600® Index	-0.20	13.46	-9.34	9.33	--	--	--	11.14

Account Summary

Performance Inception Date:	April 01, 2016
Net Investment Contributions:	$93,952,396
Investment Dollars Earned:	$66,242,554
Market Value (09/30/19):	**$160,194,950**

*Time periods greater than one year are annualized.
Performance reflects reinvestment of all income and capital gains (realized and unrealized).
Results are based on the accrual method of accounting as well as trade date valuation.
Returns are gross of fees unless otherwise noted.
Gross of fee returns do not reflect the deduction of management and custodial fees. Net of fee returns reflect the deduction of the management fee accrued on a monthly basis.
Returns are based on the total assets of the client's account, calculated on a daily basis, and geometrically linked to calculate returns for longer periods of time.
The unmanaged indexes shown for comparative purposes do not reflect the subtraction of any fees or transaction costs. It is not possible to directly invest in an index.
Past performance does not guarantee or predict future results.

Portfolio Transactions

Last 3-Months Ending September 30, 2019

North Dakota State Investment Board
High Quality Small Cap

New Purchases

Industrials

CBIZ Inc.	Provides an array of critical professional services to small and mid-sized businesses nationally. Strong client retention along with a focus on margin and sales productivity should drive earnings.

Complete Sales

Consumer Discretionary

Pool Corp.	Is a large distributor of swimming pool and irrigation products. We sold the position as the company's market capitalization had appreciated to the high end of our range.

Portfolio Characteristics

As of September 30, 2019

North Dakota State Investment Board
High Quality Small Cap

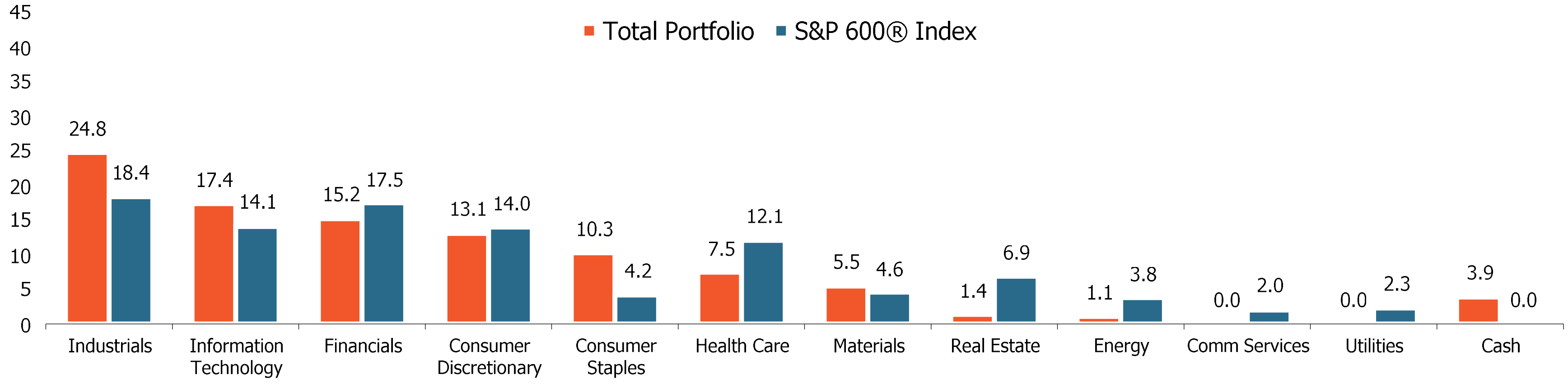
Top Ten Equity Holdings

Top Ten Equity Holdings	%
Manhattan Associates	4.0
Casey's General Stores	3.5
Choice Hotels Int'l	3.1
CoreLogic	3.1
Blackbaud	2.9
Dorman Products	2.8
J&J Snack Foods Corp.	2.7
Beacon Roofing Supply	2.3
Kirby Corp.	2.1
Moog	2.1

Portfolio Metrics

Metrics	S&P 600® Index	Total Portfolio
# of Holdings	601	63
Wtd. Avg. Mkt. Cap (billions)	$1.9	$3.4
Historical Earnings Growth	8%	9%
Forecasted Earnings Growth	11%	9%
Return on Equity	10%	16%
P/E (NTM, Excl. Neg. Earn.)	14.7x	19.1x
Dividend Yield	1.6%	0.9%

Sector Exposure



	Total Portfolio	S&P 600® Index
Industrials	24.8	18.4
Information Technology	17.4	14.1
Financials	15.2	17.5
Consumer Discretionary	13.1	14.0
Consumer Staples	10.3	4.2
Health Care	7.5	12.1
Materials	5.5	4.6
Real Estate	1.4	6.9
Energy	1.1	3.8
Comm Services	0.0	2.0
Utilities	0.0	2.3
Cash	3.9	0.0

Source: FactSet.

High Quality Small Cap Risk Management Results

As of September 30, 2019

Definitions of Risk

	Not Important	Important	Most Important
Loss of Capital			▨
Volatility of Return		▨	
Deviation from Benchmark	▨		

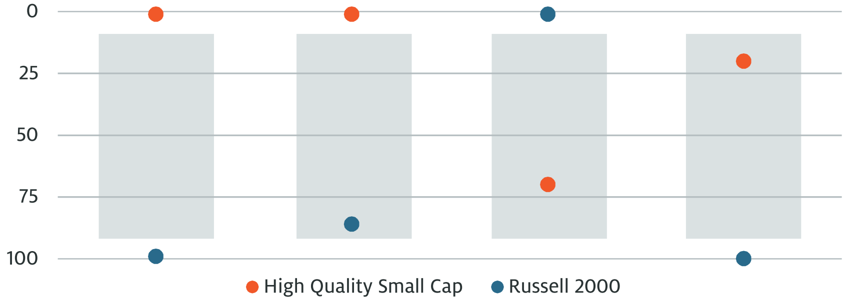
Strong Financial Condition

(% of Holdings)

	Positive Earnings	Positive Free Cash Flow	Net Debt Free
High Quality Small Cap	98%	92%	36%

eVestment US Small Cap Core Equity

Gross of Fees – 11 Managers in Peer Group
4/1/1992 through 9/30/2019



	Downside Market Capture	Rk	Standard Deviation	Rk	Tracking Error	Rk	Alpha	Rk
High Quality Small Cap	54.33	1	15.00	1	7.96	70	5.96	20
Russell 2000®	100.00	99	19.40	86	0.00	1	0.00	100

For illustrative purposes only. Financial condition statistics are based on holdings in a representative client portfolio. The percentile chart shows the relative ranking of select risk statistics for the High Quality Small Capitalization Composite in a select peer group of products compiled by eVestment. eVestment calculates risk statistics based on manager-reported gross of fee returns. The US Small Cap Core Equity universe includes US equity products that invest primarily in small cap stocks with fundamental characteristics between growth and value or products that invest in a relatively even mix of growth and value stocks/sectors. Expected benchmarks for the products in the universe include the Russell 2000 ®; investment strategies in this universe will differ. Downside Market Capture is determined by the index which has a Down-Capture ratio of 100% when the index is performing negatively; if a manager captures less than 100% of the declining market it is said to be "defensive". Standard Deviation is a measure of absolute volatility of returns. Tracking Error measures the volatility of return differences between a composite and its benchmark over time. Alpha measures the product's value-added relative to the benchmark index. Inception date for the High Quality Small Capitalization Composite is April 1, 1992. Composite performance is gross of investment advisory and custody fees, and a client's return will be reduced by these and other expenses. The Russell 2000® Index includes the smallest 2000 companies in the Russell 3000® and is a widely accepted measure of the small cap segment of the U.S. equity universe. The index is unmanaged and does not incur management fees or other expenses associated with managed accounts. It is not possible to directly invest in an index. The material is based upon information that Atlanta Capital considers to be reliable, but Atlanta Capital does not warrant its completeness, accuracy or adequacy. There is no guarantee that the products in the universe provide the most appropriate comparison for the High Quality Small Cap strategy. Please see the Composite's GIPS® compliant presentation included at the end of this presentation for important additional information and disclosure. Past performance does not predict future results. Source: eVestment and FactSet.

Current Portfolio Holdings

As of September 30, 2019

North Dakota State Investment Board
High Quality Small Cap

🟧 **High Quality Small Cap**

⬛ **S&P 600® Index**

Sector	**Ending Weight**	
Consumer Discretionary	13.1%	14.0%
Choice Hotels Int'l (CHH)	3.1%	
Columbia Sportswear (COLM)	1.2%	
Dorman Products (DORM)	2.8%	
Frontdoor Inc. (FTDR)	1.9%	
Monro (MNRO)	1.5%	
Sally Beauty Hldgs. (SBH)	1.1%	
Wolverine World Wide (WWW)	1.7%	
Consumer Staples	10.3%	4.2%
Casey's General Stores (CASY)	3.5%	
Central Garden & Pet Co. (CENT)	1.1%	
Inter Parfums (IPAR)	2.0%	
J&J Snack Foods Corp. (JJSF)	2.7%	
Lancaster Colony Corp. (LANC)	0.9%	
Energy	1.1%	3.8%
Dril-Quip (DRQ)	1.1%	
Financials	15.2%	17.5%
Artisan Partners (APAM)	1.0%	
Cadence BanCorporation (CADE)	0.9%	
IBERIABANK Corp. (IBKC)	1.4%	
Kinsale Capital Group Inc. (KNSL)	1.9%	
Morningstar (MORN)	1.8%	
Pinnacle Fin'l Partners (PNFP)	1.2%	
Prosperity Bancshares (PB)	1.6%	
RLI Corp. (RLI)	1.4%	
South State Corp. (SSB)	1.9%	
Umpqua Holdings Corp. (UMPQ)	0.9%	
Westamerica Bancorp. (WABC)	1.1%	
Health Care	7.5%	12.1%
Covetrus Inc (CVET)	0.4%	
Emergent BioSolutions Inc. (EBS)	1.5%	
ICU Medical (ICUI)	1.7%	
Integra LifeSciences (IART)	2.0%	
Mesa Laboratories Inc. (MLAB)	1.2%	
Patterson Companies (PDCO)	0.6%	
Industrials	24.8%	18.4%
AAON (AAON)	0.9%	
Alamo Group Inc (ALG)	1.2%	
Beacon Roofing Supply (BECN)	2.3%	
CBIZ Inc. (CBZ)	0.5%	
Exponent (EXPO)	2.0%	
Forward Air (FWRD)	1.7%	
FTI Consulting (FCN)	1.1%	
Generac Holdings (GNRC)	1.4%	
Huron Consulting Group (HURN)	1.5%	
Kirby Corp. (KEX)	2.1%	
Landstar System (LSTR)	1.8%	
Moog (MOG.A)	2.1%	
Raven Industries (RAVN)	0.9%	
Simpson Manufacturing Co Inc (SSD)	1.3%	
UniFirst Corp. (UNF)	2.0%	
US Ecology (ECOL)	1.1%	
Welbilt Inc (WBT)	1.0%	
Communication Services	0.0%	2.0%
Information Technology	17.4%	14.1%
ACI Worldwide Inc. (ACIW)	0.9%	
Blackbaud (BLKB)	2.9%	
Cass Information Sys (CASS)	1.1%	
CoreLogic (CLGX)	3.1%	
Envestnet (ENV)	1.2%	
ePlus (PLUS)	1.3%	
Manhattan Associates (MANH)	4.0%	
National Instruments (NATI)	1.2%	
Power Integrations (POWI)	1.1%	
ScanSource (SCSC)	0.6%	
Materials	5.5%	4.6%
AptarGroup (ATR)	1.0%	
Balchem Corp. (BCPC)	1.1%	
Sensient Technologies Corp. (SXT)	1.2%	
Silgan Holdings (SLGN)	1.3%	
Stepan Co. (SCL)	1.0%	
Real Estate	1.4%	6.9%
Universal Health Realty (UHT)	1.4%	
Utilities	0.0%	2.3%
Cash	3.9%	0.0%

Source: FactSet.

Investment Outlook & Strategy

As of September 30, 2019

High Quality Small Cap

Outlook

- U.S. small cap equity markets have certainly “climbed a wall of worry” so far in 2019, with the Russell 2000® index gaining over +14% YTD.
- However, in the 3rd quarter, the Russell 2000® declined -2.4% as the market considered the impact of a potential economic slowdown driven by factors like unresolved global trade/tariff disputes, renewed Middle Eastern tensions and an attack on critical Saudi oil infrastructure, a still pending Brexit decision in the UK, and escalating political discord in the U.S.
- While total returns for small cap stocks remain solid year-to-date, we have and continue to expect increased periods of heightened market volatility. We continue to focus on investing in high quality companies that we believe should participate if markets move higher, and help to minimize downside risk if markets decline.

Portfolio Positioning

- During the quarter, we added one new holding and sold one position entirely.
- At quarter end, the portfolio held 63 stocks representing nine of the eleven economic sectors in the Russell 2000®.
- Relative to the benchmark, the portfolio remains overweight Industrials, Consumer Staples, Technology, Materials, and Consumer Discretionary.
- The portfolio was underweight Health Care, Real Estate, Energy, and Financials. There were no positions in Utilities or Communication Services.

GIPS® Performance Information and Disclosure

High Quality Small Capitalization Composite

As of December 31, 2018

Period	Composite Gross Return (%)	Composite Net Return (%)	Russell 2000® Return (%)	Composite 3-yr Std. Dev. (%)	Russell 2000® 3-yr Std. Dev. (%)	Number of Portfolios	Internal Dispersion (%)	Composite Assets ($mil)	Firm Assets ($mil)
2018[1]	1.66	0.85	-11.01	11.99	15.79	46	0.29	1,490	19,188
2017	14.77	13.87	14.65	10.95	13.91	49	0.21	1,551	20,606
2016	19.00	18.07	21.31	12.69	15.76	53	0.19	1,544	17,646
2015	5.12	4.29	-4.41	12.68	13.96	54	0.16	1,259	16,054
2014	3.60	2.78	4.89	10.52	13.12	56	0.24	1,235	16,707
2013	42.34	41.24	38.82	12.80	16.45	57	0.51	1,294	18,082
2012	12.24	11.36	16.35	16.63	20.20	60	0.22	996	14,235
2011	10.31	9.44	-4.18	21.88	24.99	60	0.25	1,023	11,964
2010	25.98	24.99	26.86	24.41	27.69	49	0.19	737	9,845
2009	27.17	26.18	27.17	21.69	24.83	36	0.34	639	7,748
2008	-19.41	-20.06	-33.79	16.62	19.85	38	0.34	494	6,199

[1] Period 01/01/2018 through 12/31/2018. Past performance does not predict or guarantee future results.

Atlanta Capital Management Company, LLC claims compliance with the Global Investment Performance Standards (GIPS®) and has prepared and presented this report in compliance with the GIPS Standards. Atlanta Capital Management has been independently verified for the periods January 1, 1999 through December 31, 2018.

Verification assesses whether (1) the firm has complied with all the composite construction requirements of the GIPS standards on a firm-wide basis and (2) the firm's policies and procedures are designed to calculate and present performance in compliance with the GIPS standards. The High Quality Small Capitalization Composite has been examined for the periods January 1,1999 through December 31, 2018. The verification and performance examination reports are available upon request.

Firm Definition: Atlanta Capital Management Company, LLC (Atlanta Capital or the Firm) is an SEC-registered investment adviser located in Atlanta, Georgia. The Firm became a majority-owned subsidiary of Eaton Vance Corp. in 2001. Atlanta Capital operates as an independent subsidiary of Eaton Vance and provides professional investment advisory services to a broad range of institutional and individual clients, and sub-advisory investment management to mutual funds and separately managed sub-advisory account programs. Atlanta Capital includes all discretionary accounts under management in its composites; total firm assets include discretionary and nondiscretionary accounts for which the firm has investment responsibility.

Composite Description: The investment objective of this style is to seek long-term capital growth. Accounts in this composite invest in common stocks of companies having market capitalizations within the range of companies comprising the Russell 2000®. Management seeks to invest in quality companies in strong financial condition whose equities are priced below their estimate of fair value. Characteristics of high quality companies include a history of sustained growth in earnings and operating cash flow, high returns on capital, attractive profit margins and leading industry positions. Investments are determined based primarily on fundamental analysis of a company's financial trends, products and services, and other factors. Financial quality rankings provided by nationally-recognized rating services may be utilized as part of the investment analysis but are not solely relied upon. The portfolios are broadly diversified. All fully discretionary accounts that are managed in this style and do not pay a bundled or SMA wrap fee are eligible for inclusion in the composite.

Benchmark: The composite's benchmark is the Russell 2000® Index, a widely accepted measure of the small-cap segment of the U.S. equity universe. The index includes the smallest 2000 companies in the Russell 3000®. Prior to July 1, 2005, the composite was also compared to the Russell 2000® Value Index as the portfolio construction process produced both core and value characteristics. Our high quality investment philosophy tends to be defensive in nature and does consider valuation metrics, but it is more consistent with the philosophy and process of a core manager than a value manager. As of July 1, 2015, to clarify our process for potential clients, we determined that it was most appropriate to benchmark our performance results against the Russell 2000® Index only. The investment process for this strategy is not limited by the relative weights of a benchmark. Strategy deviations from the benchmark may include but are not limited to such factors as active management, exclusion/inclusion of securities held/not held in the index, over/underweighting specific sectors or securities, limitations in market cap, and/or client constraints. Indexes include the reinvestment of dividends and earnings, are unmanaged, and do not incur management fees, transaction costs or other expenses associated with separately managed accounts. It is not possible to directly invest in an index.

ATLANTA CAPITAL

Gross and Net Returns: Performance reflects reinvestment of all income and capital gains. Composite returns and market values are reported in U.S. dollars. Gross-of-fees performance returns are presented before management and custodial fees but after all trading expenses. Returns are presented net of withholding taxes. Net-of-fees performance returns are calculated by deducting the highest management fee of 0.80% from the monthly gross-of-fees returns. Other expenses will reduce a client's returns. The annual fee schedule for this composite is as follows: 0.80% on the first $50 million in assets; 0.70% on the next $50 million in assets; 0.60% on the next $150 million. Actual management fees incurred by clients may vary.

Composite Dispersion: The annual internal composite dispersion is calculated using the asset-weighted standard deviation of annual gross returns of those portfolios that were included in the composite for the entire year. Internal dispersion is shown only for composites that held at least six accounts for the entire year. The three-year annualized standard deviation measures the variability of the composite and the benchmark returns over the preceding 36-month period.

Notes to Composite: The creation date of this composite is July 1992. Effective July 1, 2010, the composite was redefined to include both taxable and tax-exempt institutional accounts. The composite up to that time included only tax-exempt institutional accounts. The change provides increased transparency to prospective clients by reducing the number of separate composites maintained for this strategy. There has been no change in investment objective or management style. Clients or prospective clients should not assume that they will have an investment experience similar to that indicated by past performance results, as shown on the Schedule. Returns may vary based upon differences in account size, timing of transactions and market conditions at the time of investment. Performance during certain time periods reflects the strong stock market performance and/or the strong performance of stocks held during those periods. This performance is not typical and may not be repeated. Investing entails risks and there is always the possibility of loss.

Other Matters: The Firm's list of composite descriptions and policies for valuing portfolios, calculating performance and preparing compliant presentations are available upon request. To request any additional information, please contact the Atlanta Capital Management Performance Department at 404-876-9411 or write to Atlanta Capital Management Company, LLC, 1075 Peachtree Street NE, Suite 2100, Atlanta, Georgia 30309, Attention Performance Department. Past performance does not predict future results.

	Annualized Returns (%) for Periods Ending December 31, 2018						Cumulative (%)
Atlanta Capital High Quality Small Capitalization Composite	1 Year	3 Years	5 Years	7 Years	10 Years	Since Inception*	Since Inception*
Composite Gross of Fees	1.66	11.56	8.62	13.43	15.62	12.51	2242.85
Composite Net of Fees	0.85	10.68	7.77	12.54	14.71	11.62	1793.36
Russell 2000® Index	-11.01	7.36	4.41	10.44	11.97	8.81	857.48

*Inception date is April 1, 1992.
E7 01.09.19; 05.30.19

AGENDA ITEM III.A.1. and 3.

BOARD ACTION REQUESTED

TO: State Investment Board

FROM: Dave Hunter, Darren Schulz and Eric Chin

DATE: October 25, 2019

SUBJECT: U.S. Small Cap Equity Recommendation: Expand Atlanta Capital Management's High Quality Small Cap Strategy

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RIO Recommendation:

As part of an effort to replicate mandates across all three investment pools when appropriate, Staff recommends that the SIB expand the existing Pension Trust mandate with Atlanta Capital Management Co., LLC's (Atlanta) High Quality Small Cap vehicle to include the Insurance and Legacy pools. Specifically, Staff is recommending a transition of the PIMCO Enhanced RAFI U.S. Small Strategy to Atlanta Capital Management.

Background:

In January 2016, the State Investment Board approved the selection of Atlanta Capital management to manage a U.S. small cap equity mandate within the Pension Trust. As of September 30, 2019, the firm manages $160 million in a U.S. small cap equity strategy on behalf of the Pension Trust.

Since Atlanta Capital began managing the mandate, the firm has fulfilled its role as a fundamental active U.S. small cap equity manager with a defensive portfolio comprised of quality small cap companies that tend to exhibit lower drawdowns during periods of market stress. For example, in the one-year period ending June 30, 2019, in which the S&P 600 Small Cap Index returned approximately -5%, Atlanta Capital generated a positive return of 10.3%. While the strategy's downside protection may come at the expense of some upside participation in strong equity market environments, Staff believes that the strategy is ideally suited across all three investment pools for U.S. small cap equity.

Atlanta Capital Management High Quality Small Cap Strategy:

1. **Organizational Overview:** Atlanta was founded in 1969 as an institutional investment manager. The firm employs an investment process that focusses on identifying high quality stocks and bonds. In 2001, Atlanta sold a majority interest to Eaton Vance Corporation. Today, Atlanta operates as an autonomous subsidiary of Eaton Vance Corporation. Atlanta employs 38 professionals, 17 of which are equity partners. As of September 30, 2019 the firm manages approximately $24B in AUM divided across Fixed Income (5%), Core Equity (77%), and Growth Equity (18%). Within the Core Equity strategy Atlanta manages SMID Cap ($15.3B), Small Cap Equity ($2.2B) and Select Equity strategies ($1.1B).

2. **Atlanta Capital High Quality Small Cap Strategy:**

   a. **Overview:** The High Quality Small Cap Strategy was incepted on April 1, 1992. It is currently managed by Chip Reed, Bill Bell, and Matt Hereford who have collectively managed the strategy since 2002. These three serve as both fundamental analysts and portfolio managers for the strategy. New additions to the portfolio must be unanimous, while a sell can be triggered by one dissenting voice. These three manage the entirety of Atlanta's Core Equity Strategy, and oversee risk management and trading for this group.

   b. **Strategy:** The High Quality Small Cap Strategy seeks to invest in *Quality* companies—companies with a demonstrated history of consistent growth and stability in earnings. The strategy invests in companies with market caps between $200M - $3.0B and the portfolio typically holds 60-70 positions. The maximum position size is 5%, with sector weights limited to 30%.

      The portfolio managers begin by developing a focus list of high quality companies. They screen all U.S. companies within the $200M – $3B market cap range and exclude companies with volatile earnings, short operating histories, high levels of debt, weak cash flow generation, and low returns on capital. This results in an investible universe of about 200 companies. The portfolio managers seek companies with a high return on capital, low debt, high free cash flow generation, and consistent growth.

      The portfolio managers analyze each of the companies in this universe, and seek to determine which companies are best positioned to be successful going forward. The portfolio managers employ rigorous fundamental research that includes meetings with management, onsite facility visits, channel checks with competitors, suppliers and buyers, and reviews of annual reports and SEC filings. The portfolio managers place significant weight on their evaluation of management. They believe that compared to large cap companies, management at small cap companies are often less polished and more willing to share valuable pieces of information that offer insight into the future earnings of the company. Furthermore, Atlanta believes it is critical to determine if management is honest, intelligent, and can strategically allocate capital.

      If the portfolio managers identify an attractive business, the next step is to determine if it is properly valued by the market. Atlanta employs a number of valuation metrics including P/E, P/FCF, P/B, and EV/EBITDA. If the market valuation is below Atlanta's internal assessment and offers attractive risk/reward potential (both absolute and relative to other positions in the portfolio) Atlanta will invest in the firm. Ultimately, Atlanta seeks to be long term owners of the businesses it invests in.

c. Comparative Performance Overview:

Returns
for Periods Ended June 30, 2019

	Last Quarter	Last Year	Last 3 Years	Last 5 Years	Last 7 Years	Last 10 Years
Atlanta:Hi Qlty Sm Cap	6.05	10.45	14.98	12.56	15.37	16.99
PIMCO:RAE US Small	0.74	(6.43)	9.95	6.06	11.80	14.15
ND Pen-Atlanta Capital	5.98	10.30	14.93	--	--	--
ND IT-Research Affiliates	0.83	(6.64)	9.96	6.16	11.89	14.26
Russell:2000 Index	2.10	(3.31)	12.30	7.06	11.63	13.45
S&P:600 Small Cap	1.87	(4.88)	11.97	8.41	13.00	14.99

Conclusion:

Staff recommends transitioning $35 million of Insurance and $242 million of Legacy U.S. small cap assets currently managed by PIMCO RAFI to Atlanta Capital to be managed as part of the firm's High Quality Small Cap strategy.

Agenda Item III.B.1

Informational

TO: State Investment Board

FROM: Dave Hunter, Darren Schulz and Eric Chin

DATE: October 25, 2019

SUBJECT: Direct Lending Background & Overview

Background:

In early 2017, in an effort to improve risk adjusted returns, the SIB approved two direct lending mandates—a $200 million commitment to the Ares ND Credit Strategies Fund, LLC (Ares) and a $200 million commitment to the Cerberus ND Private Credit Fund, LLC (Cerberus). $120 million of the Cerberus and Ares mandates were allocated to the Pension Pool (total $240 million) with the remaining $80 million of each mandate allocated to the Legacy Fund (total $160 million). As of September 30, 2019, the Ares and Cerberus direct lending commitments are nearly fully drawn with over $300 million of the $400 million called.

As a result of the growth in assets in the Pension Pool and the Legacy Fund, Staff is recommending an increase in the commitment to direct lending strategies to maintain target % allocations in the Pension Pool and the Legacy Fund. Since Jan. 2017, when the SIB approved the first direct lending mandate, the Pension Pool has grown from $4.969 billion in assets under management (AUM) to $5.889 billion (as of August 31, 2019)—an 18.5% increase in AUM. Over the same time period, the Legacy Fund has grown from $4.278 billion to $6.236 billion—a 45.8% increase in AUM. Given this growth in AUM, in order to meet the original target % allocations the SIB would need to increase the allocation to direct lending strategies in the Pension Pool by $44 million and the Legacy Fund by $73 million—totaling $117 million. Since direct lending strategies take time to fully invest, Staff has evaluated forward looking asset growth scenarios. Projecting a conservative 10% growth in the assets of the Pension Pool and the Legacy Fund, to meet target %s, the SIB would need to increase the allocation to direct lending strategies in the Pension Pool by $73 million and the Legacy Fund by $97 million—totaling $170 million.

					Projected 10% Portfolio Growth	
	January-17*	August-19	Amount required to maintain original target %	Projected Allocations	Amount required to maintain original target %	Projected Allocations
Pension Pool AUM	$4,969,054,385	$5,888,943,549		$5,888,943,549		$6,477,837,904
Cerberus Direct Lending AU	$ 120,000,000	$ 120,000,000	$ 22,217,987	$ 142,217,987	$ 36,436,313	$ 156,436,313
Ares Direct Lending AUM	$ 120,000,000	$ 120,000,000	$ 22,217,987	$ 142,217,987	$ 36,436,313	$ 156,436,313
Total Direct Lending AUM	$ 240,000,000	$ 240,000,000	**$ 44,435,973**	$ 284,435,973	**$ 72,872,627**	$ 312,872,627
% of total	4.83%	4.08%		4.83%		4.83%
Legacy Fund AUM	$4,278,092,406	$6,235,525,061		$6,235,525,061		$6,859,077,567
Cerberus Direct Lending AU	$ 80,000,000	$ 80,000,000	$ 36,603,841	$ 116,603,841	$ 48,264,225	$ 128,264,225
Ares Direct Lending AUM	$ 80,000,000	$ 80,000,000	$ 36,603,841	$ 116,603,841	$ 48,264,225	$ 128,264,225
Total Direct Lending AUM	$ 160,000,000	$ 160,000,000	**$ 73,207,681**	$ 233,207,681	**$ 96,528,449**	$ 256,528,449
% of total	3.74%	2.57%		3.74%		3.74%

***Assumes the direct lending mandates are fully invested upon initial commitment**

Lastly, Staff remains positive on both Ares and Cerberus. Ares and Cerberus have both performed well compared to relevant indices. Cerberus has generated a 10.63% net IRR since inception (July 2017 through June 2019). Over the same time frame the Bloomberg Corporate High Yield Index generated a 5.02% annualized return and the S&P Leveraged Loan B Index generated a 4.35% annualized return. Since inception, Ares has generated a 7.9% net IRR (Sep. 2017 through June 2019) with the Bloomberg Corporate High Yield Index generating a 4.88% annualized return and the S&P Leveraged Loan B Index generating a 4.40% annualized return over the same time frame. Staff has brought Cerberus in today to present to the SIB to discuss its direct lending strategy. Staff anticipates asking Ares to present to the board at a future date.

What is Direct Lending?

A quote from Bloomberg sums up direct lending neatly, "What's direct lending? Old-fashioned bank lending -- without the bank." In other words, a direct lending transaction is a transaction where a lending source directly provides a loan to a borrower without the use of an intermediary. Types of direct lending loans include loans to private companies, privately placed debt of public companies, or loans backed by real assets (e.g. real estate, infrastructure). Direct lending is an opportunity for non-bank investors to capitalize on the financing void created by post-crisis regulation. Company-specific terms provide idiosyncratic return drivers and better diversity.

The SIB's existing direct lending mandates primarily target 1st lien senior secured loans of middle market companies. Middle market companies are companies that generate $10 to $250 million of earnings before interest, tax, depreciation and amortization (EBITDA).

cerberus

October 25, 2019

Cerberus ND Private Credit Fund, LLC

Presentation to North Dakota Retirement and Investment Office

Disclosure

Cerberus Capital Management, L.P. Cerberus Capital Management, L.P. (together with its investment management and general partner affiliates, the “Firm” or “Cerberus”) is an investment adviser registered with the Securities and Exchange Commission under the Investment Advisers Act of 1940. The Firm, among other things, provides investment advisory services to and manages private funds and accounts.

Purposes of Presentation. This document has been prepared solely for the purposes of (i) providing summary information regarding the Firm, and (ii) providing summary information with respect to the performance, activities and operating results of Cerberus ND Private Credit Fund, LLC (the “Fund” or the “ND Fund”). Further, the information and data presented do not constitute, and is not intended to constitute, “marketing” as defined in the European Directive of the Alternative Investment Fund Managers (2011/61/EU). Cerberus is exempt from the requirement to hold an Australian financial services license under the Corporations Act 2011 (CTH) in respect of financial services. Cerberus is registered with the U.S. Securities and Exchange Commission under U.S. Law, which differs from Australian laws. 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Fecha de inicio de la oferta: 15 de Octubre de 2018 (i) La presente oferta se acoge a la Norma de Carácter General N° 336 de la Comisión para el Mercado Financiero de Chile; (ii) La presente oferta versa sobre valores no inscritos en el Registro de Valores o en el Registro de Valores Extranjeros que lleva la Comisión de Valores para el Mercado Financiero, por lo que los valores sobre los cuales ésta versa, no están sujetos a su fiscalización; (iii) Que por tratarse de valores no inscritos, no existe la obligación por parte del emisor de entregar en Chile información pública respecto de estos valores; y (iv) Estos valores no podrán ser objeto de oferta pública mientras no sean inscritos en el Registro de Valores correspondiente. The home jurisdiction of Cerberus Offshore Levered Loan Opportunities Fund IV, Ltd. and Cerberus Offshore Unlevered Loan Opportunities Fund IV, Ltd. (each, a “Feeder Fund”) is the Cayman Islands. The Swiss representative of each Feeder Fund in Switzerland is ACOLIN Fund Services AG, succursale Genève”, with its registered office at 6 Cours de Rive, 1204 Geneva. Banque Heritage SA, 61 Route de Chêne, CH-1208 Geneva, Switzerland is the Swiss paying agent of each Feeder Fund. The offering documents and annual or semi-annual reports of each Feeder Fund can be obtained free of charge from the representative. The place of performance and jurisdiction for interests in each Feeder Fund offered of distributed in Switzerland is at the registered office of the Swiss representative. The distribution of interests in each Feeder Fund in Switzerland will be exclusively made to, and directed at, qualified investors (the “Qualified Investors”), as defined in the Swiss Collective Investment Schemes Act of 23 June 2006, as amended and its implementing ordinance. Accordingly, the Feeder Funds have not been and will not be registered with the Swiss Financial Market Supervisory Authority FINMA. This presentation and/or any other offering materials relating to the interests in the Feeder Funds may be made available in Switzerland solely to Qualified Investors. The information contained herein is not, and should not be construed as, an offer to sell or the solicitation of an offer to buy any securities (including, without limitation, an interest in the Cerberus Funds. Such securities may be made available outside Taiwan to Taiwan resident investors for purchase outside Taiwan by such investors, but are not permitted to be marketed, offered or sold in Taiwan. No person or entity in Taiwan has been authorized to offer, sell, give advice regarding or otherwise intermediate the offering and sale of securities in Taiwan.

No Offer or Solicitation. The information contained herein is not, and should not be construed as, an offer to sell or the solicitation of an offer to buy any securities (including, without limitation, an interest in the Fund). Any such offer or solicitation may be made only by means of the final offering documents in respect of the Fund (the “Offering Documents”). The Offering Documents, which will be furnished upon request, contain important information about investing in the Fund, including risk factors associated with making such an investment. The Offering Documents, if requested and furnished, should be read carefully by all investors.

Lending Platform; Other Funds and Accounts. The Firm advises multiple funds and accounts, which have varying investment objectives and strategies and limitations on investment. This document presents summary information with respect to the performance, activities and operating results of the lending related vehicles affiliated with and/or managed by the Firm. The Fund is a part of the Firm’s lending platform. The Firm’s lending platform (the “Cerberus Lending Platform”, “Cerberus Business Finance” or “CBF”)

Disclosure

consists of Cerberus Business Finance, LLC and other Cerberus affiliates, including certain Cerberus managed funds and accounts involved in the direct lending business. CBF currently pursues two strategies, the Cerberus Loan Opportunities Strategy and the Cerberus Senior Credit Strategy, but may in the future pursue additional strategies. The Cerberus Loan Opportunities Strategy generally provides secured financing primarily to leveraged middle-market companies in the form of secured debt assets, which may be senior or junior, and may be collateralized by a variety of assets. The Cerberus Senior Credit Strategy focuses on first priority, senior secured debt assets generally offered at lesser borrower leverage levels and commensurately reduced target yields than those that are the focus of the Cerberus Loan Opportunities Strategy. The Cerberus Senior Credit Strategy is pursued by several SMAs (as defined below). The Cerberus Loan Opportunities Strategy consists of: (i) funds that are actively investing including: Cerberus Levered Loan Opportunities Fund IV, L.P. ("Onshore Fund IV"), Cerberus Offshore Levered Loan Opportunities Fund IV, Ltd. ("Offshore Fund IV"), Cerberus Offshore Unlevered Loan Opportunities Fund IV, Ltd. ("Unlevered Offshore Fund IV"), and several SMAs (together with Onshore Fund IV, Offshore Fund IV, and Unlevered Offshore Fund IV the "Active Loan Funds"); and (ii) entities that are no longer actively investing and are in wind-down including: (a) several separately managed accounts; (b) Cerberus Levered Loan Opportunities Fund III, L.P., a Delaware limited partnership managed by the Firm ("Onshore Fund III"); (c) Cerberus Offshore Levered Loan Opportunities Fund III, L.P., a Cayman Islands exempted limited partnership managed by the Firm ("Offshore Fund III"); (d) Cerberus Levered Loan Opportunities Fund II, L.P., a Delaware limited partnership managed by the Firm ("Onshore Fund II"); (e) Cerberus Offshore Levered Loan Opportunities Fund II, Ltd., a Cayman Islands exempted company managed by the Firm ("Offshore Fund II"); (f) Ableco, L.L.C., a Delaware limited liability company and a stand-alone lending company affiliated with and managed by the Firm ("Ableco"); (g) Cerberus Levered Loan Opportunities Fund I, L.P., a Delaware limited partnership managed by the Firm ("Onshore Fund I"); (h) Cerberus Offshore Levered Loan Opportunities Fund I, Ltd., a Cayman Islands exempted company managed by the Firm ("Offshore Fund I"); (i) Styx International, Ltd., a Commonwealth of the Bahamas company managed by the Firm ("Styx International"); (j) Styx Partners, L.P., a Delaware limited partnership managed by the Firm ("Styx Partners"); (k) 299 Credit Finance Holdings, LLC, a Delaware limited liability company and a stand-alone company affiliated with and managed by the Firm ("299 Credit"); and (l) Cerberus PNC Senior Loan Fund, L.P. , a Delaware limited partnership managed by the Firm ("Cerberus PNC Fund" and together with several separately managed accounts, Onshore Fund III, Offshore Fund III, Onshore Fund II, Offshore Fund II, Ableco, 299 Credit, Onshore Fund I, Offshore Fund I, Styx Partners and Styx International, the "Wind-Down Loan Vehicles," and together with the Active Loan Funds, the "Existing Loan Vehicles"). For purposes hereof, "Separate Managed Accounts" or "SMAs" include managed accounts as well as managed accounts structured as single or multiple investor funds. Long Horizon Fund, L.P. ("Long Horizon") and Long Horizon Overseas Fund, Ltd. ("Long Horizon Overseas") are affiliates of the Existing Loan Vehicles which were previously active and which were merged in 2006 into Styx Partners and Styx International, respectively. Certain other funds and accounts managed by the Firm may participate in lending related investments from time to time.

No Express or Implied Nexus between Cerberus Business Finance, LLC or any other Existing Loan Vehicles. Cerberus Business Finance, LLC and the other participants in the Cerberus Lending Platform may pursue different investment programs from one another. As a result, no conclusion should be drawn with respect to any specific nexus between Cerberus Business Finance, LLC, any Existing Loan Vehicles or any other participant in the Cerberus Lending Platform (including the Fund).

Confidentiality; Use. Any reproduction or distribution of this document or the Offering Documents, as a whole or in part, or the disclosure of the contents hereof or of the Offering Documents, or the use of this document for any other purposes other than those described herein, without the prior written consent of the Firm, is prohibited.

Summary Information Only. The information contained herein does not purport to present a complete picture of the financial position, activities, results, actions and/or plans of the Existing Loan Vehicles, Cerberus Business Finance, LLC, the Fund or any other fund or account managed by the Firm. There are numerous factors related to the markets in general or to the implementation of any specific investment program which cannot be fully accounted for in the preparation of the summaries presented herein. Moreover, the investments described herein do not represent the complete portfolios of any fund or account as of the date of this document or at any other time. No conclusion of any type or kind should be drawn regarding the future performance of any Existing Loan Vehicle and/or the Fund based upon the information presented herein.

Past Performance Not Indicative of Future Results. It should not be assumed that any of the holdings, transactions or strategies discussed herein were or will be profitable, or that the investment decisions the Firm makes in the future will be profitable or will equal the investment performance of the Existing Loan Vehicles or any other fund or account managed by the Firm. Past performance is not indicative of and not a guarantee of future results. The performance information presented is not necessarily comparable to, indicative of, or a guarantee of future results of the Fund. No representation is being made that the Fund has, will or is likely to achieve profits or losses similar to those shown for the Existing Loan Vehicles, any other fund or account managed by the Firm, or any particular investment decision by the Firm.

Performance Information. The investment performance as it relates to the Existing Loan Vehicles summarized herein is historic and reflects an investment for a limited period of time. The performance data reflected in this document includes the

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reinvestment of dividends and other earnings, and the net figures reflect the deduction of all applicable expenses, including management fees and incentive allocations/fees. Results may not have been audited or realized, and should not be relied upon as such. The valuations of unrealized investments are determined on a fair value basis in accordance with the Firm's valuation policies and procedures. There can be no assurance that unrealized investments will be realized at the valuations used to calculate the performance information contained herein, as actual realized returns will depend on, among other factors, future operating results, the value of the assets and market conditions at the time of disposition, any related transaction costs, and the timing and manner of sale, all of which may differ from the assumptions on which the valuations used to calculate the performance information contained herein are based. The actual results of any particular investor will likely materially differ from the net performance figures herein due to a number of factors, including, without limitation, transaction dates of capital activity, individual investment limitations or opt outs, the inclusion of any late interest charges paid to early fund investors by subsequent investors (if any), target fund leverage, whether the investor invests in an onshore or offshore fund, and the actual management fees, performance compensation and other expenses payable in respect of such investor.

Forward-Looking Statements. This document contains certain "forward-looking statements," which may be identified by the use of such words as "believe," "expect," "anticipate," "should," "planned," "estimated," "potential," "outlook," "forecast," "plan" and other similar terms. Examples of forward-looking statements include, but are not limited to, estimates with respect to financial condition, results of operations, and success or lack of success of the Firm's investment strategy. All are subject to various factors, including but not limited to general and local economic conditions, changing levels of competition within certain industries and markets, changes in interest rates, changes in legislation or regulation, and other economic, competitive, governmental, regulatory and technological factors affecting the Firm's operations and the Fund's operations, any or all of which could cause actual results to differ materially from projected results.

Ability to Alter Strategies Employed by the Firm. Notwithstanding the information presented in this document, investors should understand that the Firm is not limited with respect to the types of investment strategies it may employ or the markets or instruments in which it may invest (subject to the terms of the offering and governance documents of any given fund or account, including the Fund). Over time, markets change and the Firm seeks to capitalize on attractive opportunities wherever they might exist. Depending on conditions and trends in the capital markets and the economy generally, the Firm may pursue objectives or employ techniques it considers appropriate and in the best interest of each of its funds (including the Fund), which may differ from the objectives, techniques or investments presented in this document. In addition, no strategy (or breadth of available resources) can guarantee future results.

Advisory Services of the Firm. The information contained herein does not constitute a complete description of the Firm's investments or investment strategies and is for informational purposes only. A copy of the Firm's current written disclosure statement regarding its advisory services and fees is available for review.

Risks of Investing. Different types of investments involve varying degrees of risk. Investors should clearly understand the significant degree of risk involved with investing in any alternative investment strategies, such as those employed (or expected to be employed) by the Firm on behalf of the Existing Loan Vehicles and the Fund. Alternative investment strategies are available only to qualified investors who have reviewed detailed information concerning investment terms and risks .

No Accounting, Tax or Legal Advice. The Firm does not provide accounting, tax or legal advice and all investors are strongly urged to consult with their own advisors regarding any investment in the Fund and/or the Existing Loan Vehicles.

Source of Information; No Obligation to Update. The performance and operating information set forth herein is based upon information reasonably available to the Firm as of the date of this presentation. Furthermore, the information set forth herein has been obtained from sources that the Firm believes to be reliable; however, these sources cannot be guaranteed as to their accuracy or completeness. The delivery of this presentation shall not, under any circumstances, create any implication that the information contained herein is correct, including as of any time subsequent to the date of this presentation and the Firm does not undertake an obligation to update such information at any time after such date.

Delineated Categories. The various categories and classifications noted herein were determined in the opinion of the Firm based upon the best information available to the Firm as of the time of this presentation. The categories and classifications represent the opinion of the Firm and could be materially different from other third-party classification systems.

Additional Information. For additional information with respect to performance, investment selection, and the investment objectives and strategies presented herein, please contact the Firm.

Cerberus Presenters

Daniel Wolf, Chief Executive Officer of Cerberus Business Finance and Senior Managing Director of Cerberus Capital Management. Mr. Wolf joined Cerberus in 1997. Prior to joining Cerberus, Mr. Wolf was Senior Vice President for business development and a member of the credit committee at Congress Financial Corporation from 1990 to 1997, where he was active in loan origination. From 1986 to 1988, Mr. Wolf completed the executive training program and worked in the middle-market lending group at Irving Trust Company. From 1985 to 1986, he was an analyst at the Federal Reserve Bank of Boston. Mr. Wolf is a graduate of Drew University and received an MBA from Columbia University. Mr. Wolf is a member of the Cerberus Capital Management Operating/Management Advisory Committee, Private Equity Investment Committee, and Cerberus Business Finance Investment Committee.

Keith Read, President of Cerberus Business Finance and Senior Managing Director of Cerberus Capital Management. Mr. Read joined Cerberus in 2006. Prior to joining Cerberus, Mr. Read was a Managing Director at CIBC World Markets from 1995 to 2005, where he was responsible for the distribution of structured finance products including CLOs and CBOs, mezzanine financings, leveraged finance and direct fund raising. From 1993 to 1995, Mr. Read was an Executive Vice President at The Argosy Securities Group, a boutique high-yield advisory firm. From 1991 to 1993, he was a Managing Director at Barclays Bank. From 1989 to 1991, he served as a Vice President at Bankers Trust. Mr. Read is a graduate of the University of Utah and received a Master's Degree from the University of Utah. Mr. Read is a member of the Cerberus Business Finance Investment Committee.

Selected Biographies

Joseph Naccarato

Chief Operating Officer and Chief Credit Officer of Cerberus Business Finance and Senior Managing Director of Cerberus Capital Management

Mr. Naccarato joined Cerberus in 2000. Prior to joining Cerberus, Mr. Naccarato was a Vice President and Senior Credit Officer at Bank of America Commercial Funding from 1997 to 2000, where he was responsible for managing all aspects of credit relating to a loan portfolio consisting of middle-market asset-backed credit facilities. From 1993 to 1997, he worked as an analyst, field examiner and assistant account executive at The CIT Group. Mr. Naccarato is a graduate of SUNY Oneonta and holds a CPA. Mr. Naccarato is a member of the Cerberus Business Finance Investment Committee.

Kevin McLeod

Head of Fund Development of Cerberus Business Finance and Senior Managing Director of Cerberus Capital Management

Mr. McLeod joined Cerberus in 2006. Prior to joining Cerberus, Mr. McLeod managed the leveraged finance origination and execution activities at CIBC World Markets from 1998 to 2006, where he originated, structured and executed transactions involving high yield debt securities, leveraged loans, privately placed mezzanine securities and merchant banking investments. From 1996 to 1998, Mr. McLeod was a member of the Investment Banking division of PaineWebber Group Inc. From 1986 to 1994, he worked as a mechanical and aerospace engineer for various organizations including the Pratt & Whitney Division of United Technologies Corp. Mr. McLeod is a graduate of Worcester Polytechnic Institute and received an MBA from the University of Chicago.

Gerald Daniello

Vice Chairman and Head of Sponsor Coverage of Cerberus Business Finance and Senior Managing Director of Cerberus Capital Management

Mr. Daniello joined Cerberus in 2003. Prior to joining Cerberus, Mr. Daniello was a Managing Director at GE Capital from 1996 to 2003, where he was responsible for a $2 billion portfolio of equity, distressed debt and leveraged debt. From 1990 to 1996, he ran the New England Corporate Finance Group at Chase Manhattan Bank, where he was responsible for a multi-billion dollar portfolio of leveraged and non-leveraged cash flow and asset-based loans to middle-market companies. Mr. Daniello is a graduate of Lafayette College and received an MBA from Temple University.

Andrew Woolford

Head of Capital Markets of Cerberus Business Finance and Managing Director of Cerberus Capital Management

Mr. Woolford joined Cerberus in 2017. Prior to joining Cerberus, Mr. Woolford was a Managing Director and the Head of Leveraged Loan Sales at Jefferies LLC, where he spent 13 years. Previously, Mr. Woolford worked at CIBC World Markets, Morgan Stanley & Co and BT Securities where he was responsible for originating, structuring and distributing high yield and investment grade private placement securities. Mr. Woolford started his finance career in 1983 at Chemical Bank where he completed the Credit Training Program and subsequently was a banker in the energy industry. Mr. Woolford graduated from Middlebury College with a BA in English literature and The Wharton School, University of Pennsylvania with an MBA.

Table of Contents

Section 1

Cerberus ND Private Credit Fund Update

Executive Summary

» The North Dakota Retirement and Investment Office is in its 3rd year of implementing its investment strategy in U.S. middle-market direct lending through Cerberus Business Finance, LLC ("CBF") and its $200 Million commitment to Cerberus ND Private Credit Fund, LLC (the "ND Fund" or the "Fund")

» The ND Fund has been performing well since closing in July 2017, with a ramped and diversified investment portfolio:

- Portfolio of Loans: $249 Million(2) to 86 Borrowers(2)
- Net IRR Since Inception: 10.4%(3)
- Net Income Since Inception: $22.5 Million(4); $10.2 Million current annual run-rate
- Capital Called: 76.0%(1)
- Current Fund Leverage: 0.4:1.0(1) (Debt:Equity; 0.5:1.0 Cap)

» We are pleased that the North Dakota Retirement and Investment Office is considering a $100 Million increase to the ND Fund commitment, further building on the State's relationship with Cerberus Business Finance

Note: Footnotes on next page.

Executive Summary

Footnotes continued.

1) The equity called and total leverage drawn amounts are as of October 1, 2019. Fund leverage shown excludes the Subscription Line.
2) Represents portfolio’s market value of loan investments and borrowers as of October 1, 2019.
3) Net IRR Since Inception is from inception through August 31, 2019. Net IRR Since Inception is the annualized internal rate of return based upon capital contributions by, and distributions to, fee-paying Limited Partners based on actual dates of each such Limited Partners’ respective capital activity transactions on an aggregate, fund-level basis. An individual investor’s performance will likely materially differ from the Net IRR Since Inception results set forth herein due to a number of factors, including, without limitation, transaction dates of capital activity, individual investment limitations or opt outs, the inclusion of the late charge, if any, into the capital contributions, target fund leverage, whether the investor invests in an onshore or offshore fund, and the actual management fee and performance compensation and other expenses payable in respect of such individual investor. The Net IRR Since Inception includes returns determined on a realized basis, and with respect to unrealized investments, on a mark-to-market basis. The actual realized return on unrealized investments will depend, among other factors, on the value of the investments at the time of disposition, any related transaction costs and manner of disposition. Past performance is not necessarily indicative of future results.
4) Represents aggregate LP earnings from the Fund’s inception through August 31, 2019.

Section 2

Cerberus Capital Management Overview and Update

Cerberus Capital Management, L.P.

A Leading Global Value Oriented Private Investment Firm Founded in 1992

$42+ Billion

~220 Investment Professionals

83 Senior Executives

135+ Operations and Technology Professionals

~790 Employees Worldwide

Approximately $42.4 Billion under management(1) in three complementary strategies:

- **Global Credit Opportunities**, including Direct Lending, Corporate Credit & Distressed Debt, and Mortgage Securities & Assets
  - **Direct Lending: a leading agent and direct secured lending platform for U.S. corporate middle-market companies across broad industry categories**
- **Private Equity**
- **Real Estate and Real Estate Related Debt** (including Non-Performing Loans)

Large dedicated team focused on investing across multiple asset classes

- **Seasoned and experienced** senior executives and investment teams
- **Multidisciplinary skill sets** and deep knowledge of our three complementary strategies
- **83 Senior Executives & Managing Directors** have worked together at Cerberus for at least ten years(2)

Deep Operations and Technology Expertise

- **Cerberus Operations and Advisory Company, LLC ("COAC")(3)** is an exclusive global operations team consisting of over 110 operations professionals with extensive industry and functional expertise(2)
- **Cerberus Technology Solutions, LLC ("CTS")(3)** is a team consisting of over 25 technology professionals with expertise in technology, data, and advanced analytics(2)

Substantial staff to support investment activities across all functional areas

- Accounting/Tax
- Legal and Compliance
- Finance
- Human Resources
- Information Technology
- Risk Management
- Investor Relations
- Operations
- Administrative Support

Note: The data for investment professionals, operations professionals and employees worldwide is as of September 1, 2019.

1) As of June 30, 2019. For purposes of total Cerberus assets under management calculations, the assets under management of the CBF lending platform are calculated as follows: (a) for funds in their investment period, based on equity commitments plus outstanding leverage (excluding subscription facilities) and (b) for funds outside of their investment period, based on net asset value plus outstanding leverage (excluding subscription facilities).

2) As of September 1, 2019.

3) The fees and expenses associated with COAC, CTS, Cerberus US Servicing, LLC ("CUSS"), and other affiliated service providers, as they relate to investments of Cerberus Funds, will be borne by the portfolio companies and/or the Cerberus Funds in accordance with the applicable Cerberus Funds' organizational documents.

Our Global Platform and Executive Leadership

Stephen A. Feinberg
Co-Founder
Co-Chief Executive Officer

Frank W. Bruno
Co-Chief Executive Officer, Senior Managing Director

John W. Snow
Chairman
Cerberus Capital Management

Lenard B. Tessler
Vice Chairman
Cerberus Capital Management

Dan Quayle
Chairman
Cerberus Global Investments

Cerberus Offices Worldwide

Headquartered in New York City with twenty additional affiliate and advisory offices throughout U.S., Europe, South America, Africa and Asia

~790 **Employees Worldwide(2)**

~220 **Investment Professionals globally, leveraging core areas of expertise**

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1) Cerberus established an office in Amsterdam in 2000, which moved to Baarn in 2006. New office opened in Amsterdam in March 2017 to supplement London and Baarn.
2) As of September 1, 2019 and includes Cerberus Capital Management, COAC, CTS, Cerberus European Servicing ("CES"), and CUSS employees.

Cerberus Operations Team[1]

Data as of September 1, 2019

One of the Largest Dedicated, Full-Time Operations Teams in the Industry

- Seasoned Former Industry Executives serve as executives and board members (often as Chairmen or Lead Directors) on an interim or full-time basis in portfolio companies to support and improve operations
  - Functional breadth in Practice Areas such as Commercial, Legal, Finance, Manufacturing and Technology
- Operating Initiatives Group ("OIG") provides operational support and project coordination

Senior Advisors

Debra Crew
Consumer

Tim Donahue
Technology

James Lenehan
Healthcare

Practice Leaders

Pat Allen
Recruiting

Clarence Bastarache
Technology

Thomas Fekete
Diligence

Ira Weisman
Insurance

Karl Bailliez
Finance

Jayne Binzer
Human Resources

Paul Warmus
Environmental, Social, Governance (ESG)

Short Term Operating Executives

168 active in the last 12 months

COAC Leadership

Chan Galbato
Chief Executive Officer

James Geisler Executive Vice Chairman, Private Equity	**Lisa Gray** Vice Chairman, Senior Legal Officer	**Liam Strong** Chairman, European Operations
Christopher Holt General Counsel: PE & M&A	**Travis Kelly** Business Finance	**Olof Persson** Managing Director, European Operations
Jason Ghassemi Communications	**Jeffrey Pritchett** Managing Director, Real Estate & Residential Assets	**Mark Smith** Managing Director, COAC Business System

Senior Operating Executives

Jeffrey Bosland Financial Services	**John LaMancuso** Commercial	**Keith Mitchell** General Management
John Priest Financial Services	**Justin Shaw** Due Diligence	**Peter Sickel** Financial Services

112 Professionals

Senior Executives/GMs (12)
Legal/Risk/Environmental (10)
Supply Chain & Procurement (3)
Finance (13)
Operations & M&A (12)
HR/IT (9)
Operating Initiatives Group (44)
Sales/Market (5)
Business Development (4)

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1) The fees and expenses associated with COAC, CTS, CUSS, and other affiliated service providers, as they relate to investments of Cerberus Funds, will be borne by the portfolio companies and/or the Cerberus Funds in accordance with the applicable Cerberus Funds' organizational documents.

Section 3

Cerberus Business Finance Overview and Update

Cerberus Business Finance

A Leading Agent, Direct Lender, and Originator of Secured Loans Since 1995

~$17B Total Investment Capacity[1]

$13.7 Billion of Assets under Management ("AUM")[2]

- Diversified portfolio of senior secured loans to over 140 companies
- Available Investment Capacity of ~$3 to $4 Billion

~$4.5B Annual Investment Rate[3]

Strong deal flow of 80+ transactions annually

- Primarily as lead agent for $50 to $500 Million senior credit facilities
- Backfilling banks which have retreated from middle-market lending

73 Dedicated Professionals

Substantial dedicated platform focused on the direct lending business

- Deeply seasoned senior executives managing large AUM through multiple credit cycles
- Direct Origination through broad PE Sponsor relationships
- Investment professionals have worked together at Cerberus for an average of nearly 10 years[4]

135+ Access to Operations and Technology Professionals

The COAC[5] and CTS[5] teams are available to support new loan investment due diligence and potential workout / exit processes

Note: The data for investment professionals and operations professionals is as of September 1, 2019.

1) Total Investment Capacity includes amounts invested and amounts available for investment, including leverage.
2) CBF AUM includes investment assets and cash held at the Existing Loan Vehicles and is as of October 1, 2019.
3) Based on the total amount of loans funded by CBF in 2018 and YTD 2019 in CBF's Loan Opportunities Strategy.
4) As of September 1, 2019.
5) The fees and expenses associated with COAC, CTS, CUSS, and other affiliated service providers, as they relate to investments of Cerberus Funds, will be borne by the portfolio companies and/or the Cerberus Funds in accordance with the applicable Cerberus Funds' organizational documents.

CBF Key Differentiating Factors for Investors

CBF
Key Differentiating Factors

Origination & Control

Annual Investment Rate: ~$4.5B(1)

Scale & Pipeline

AUM: $13.7B(2)

Capacity: ~$17B(3)

Preservation of Capital

Low Loan Principal Loss Rate(4)

Manager History

23+ Years

---

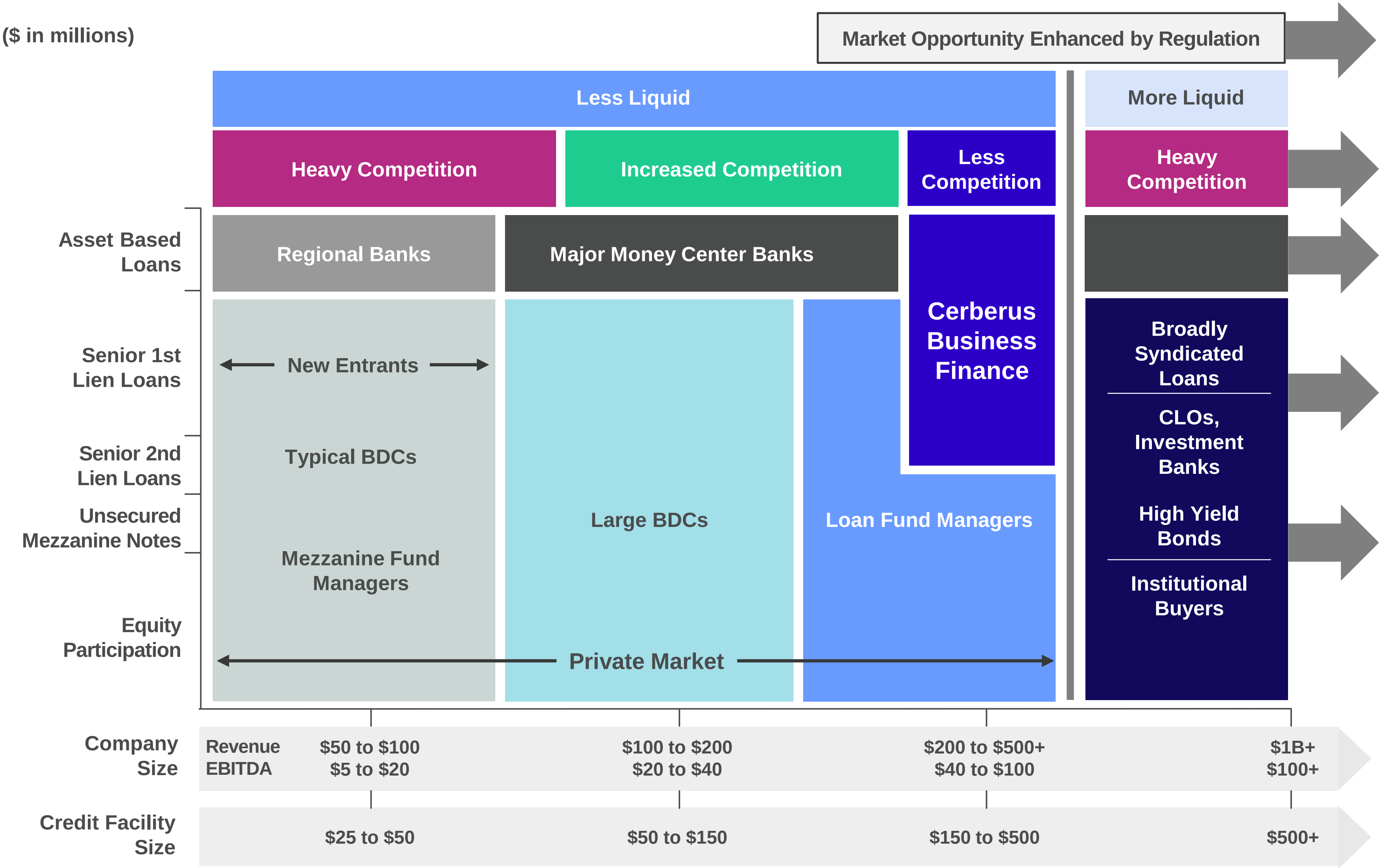
1) Based on the total amount of loans funded by CBF in 2018 and YTD 2019 in CBF's Loan Opportunities Strategy.
2) CBF AUM includes investment assets and cash and is as of October 1, 2019.
3) Total Investment Capacity includes amounts invested and amounts available for investment, including leverage.
4) It should not be assumed that investment decisions will be profitable and there is no guarantee of future results. Investments are subject to risk and may lose value.

Section 4

Market Update – U.S. Middle-Market Direct Lending

The Middle-Market Landscape

($ in millions)

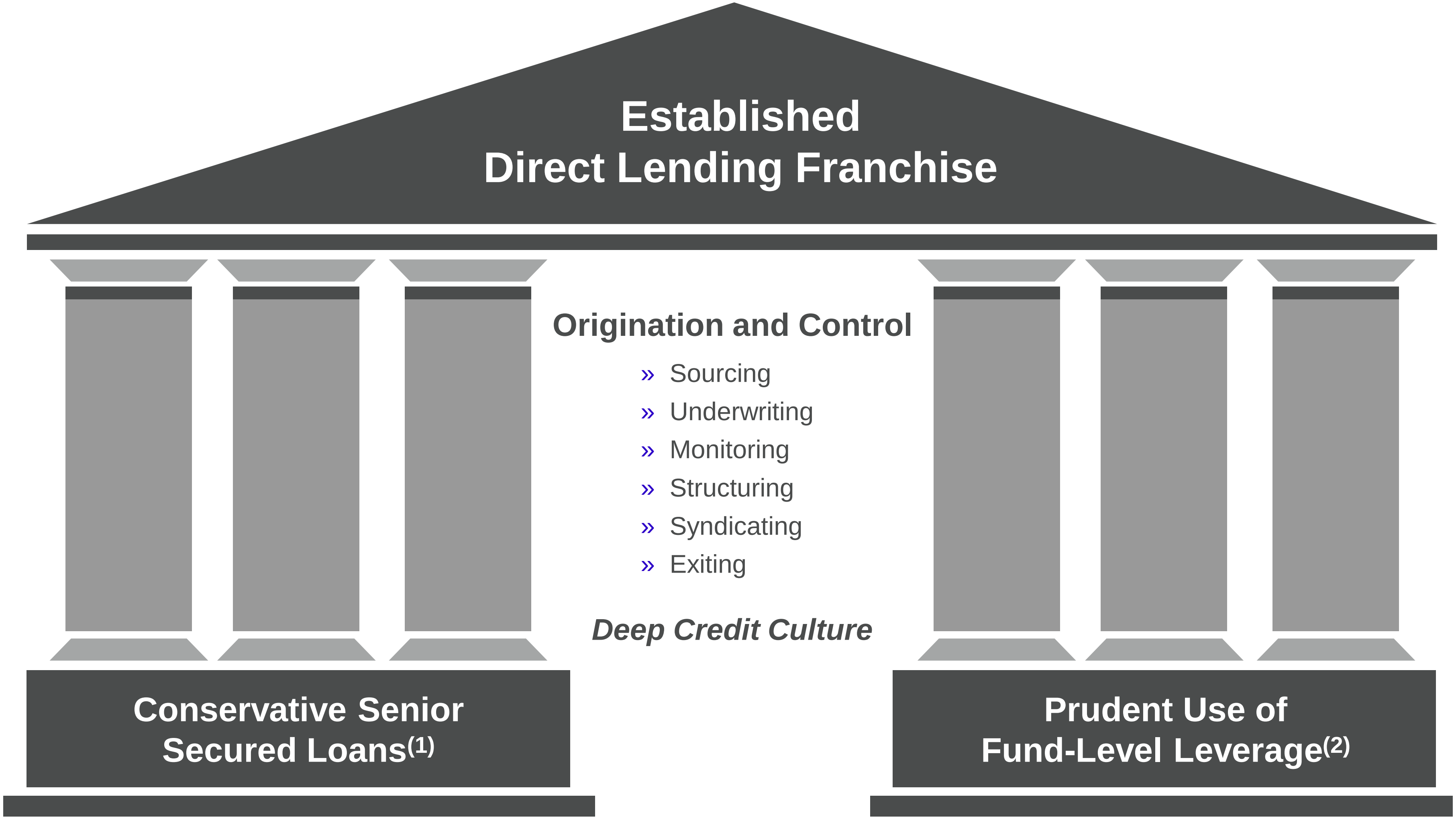


cerberus

Section 5

Fundamentals of Our Direct Lending Business

Fundamentals of Our Direct Lending Business



Established Direct Lending Franchise

Origination and Control

- Sourcing
- Underwriting
- Monitoring
- Structuring
- Syndicating
- Exiting

Deep Credit Culture

Conservative Senior Secured Loans(1)

Prudent Use of Fund-Level Leverage(2)

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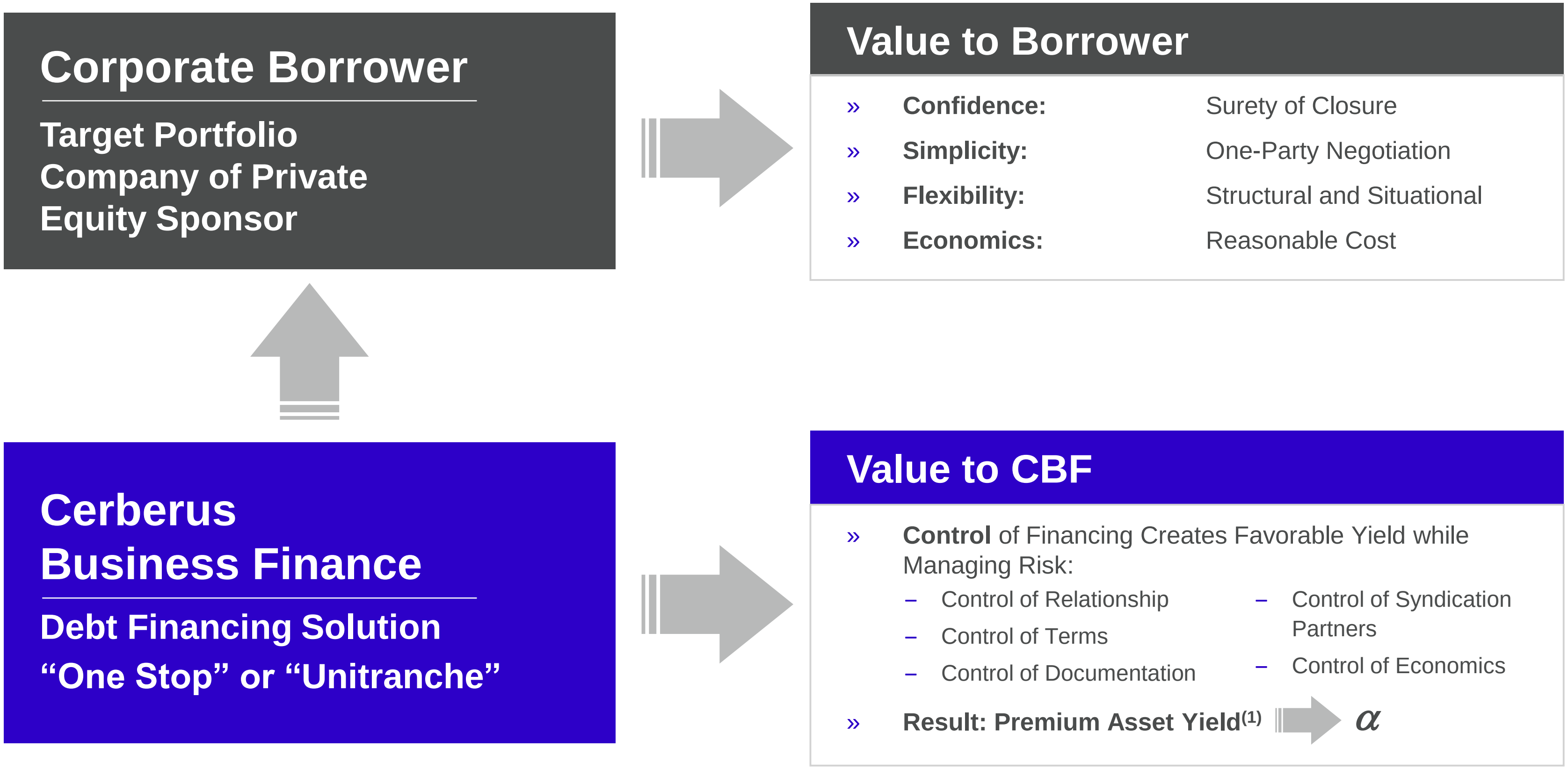
1) Investments are typically less than 60% loan-to-value in the Loan Opportunities Strategy and less than 40% loan-to-value in the Senior Credit Strategy.
2) Target fund-level debt:equity ratio is typically up to 2:1 in the Loan Opportunities Strategy and 2:1 to 3:1 in the Senior Credit Strategy.

Origination & Control

CBF Generally Earns a **Yield Premium** Due to Origination, Scale, and Resulting Control of the Transaction



Corporate Borrower

Target Portfolio Company of Private Equity Sponsor

Value to Borrower

»	**Confidence:**	Surety of Closure
»	**Simplicity:**	One-Party Negotiation
»	**Flexibility:**	Structural and Situational
»	**Economics:**	Reasonable Cost

Cerberus Business Finance

Debt Financing Solution

“One Stop” or “Unitranche”

Value to CBF

» **Control** of Financing Creates Favorable Yield while Managing Risk:

- Control of Relationship
- Control of Terms
- Control of Documentation
- Control of Syndication Partners
- Control of Economics

» **Result: Premium Asset Yield(1)** α

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1) It should not be assumed that investment decisions will be profitable and there is no guarantee of future results. Investments are subject to risk and may lose value.

Experienced CBF Team

Senior Leadership

Daniel Wolf*
Chief Executive Officer of CBF
Sr. MD of Cerberus

22 years with Cerberus
32 years of experience

Keith Read*
President of CBF
Sr. MD of Cerberus

13 years with Cerberus
35 years of experience

Joseph Naccarato*
Chief Operating Officer and
Chief Credit Officer of CBF
Sr. MD of Cerberus

18 years with Cerberus
26 years of experience

Kevin McLeod
Head of Fund Development of CBF
Sr. MD of Cerberus

13 years with Cerberus
31 years of experience

Gerald Daniello
Vice Chairman and Head of
Sponsor Coverage of CBF
Sr. MD of Cerberus

16 years with Cerberus
40 years of experience

Andrew Woolford
Head of Capital Markets of CBF
MD of Cerberus

2 years with Cerberus
37 years of experience

Other MDs and Investment Professionals *(Yrs. with Cerberus / Yrs. Experience)*

Eric Miller* (21/33)	**Kevin Cross** (15/29)	**Ken Kohrs** (18/22)
Tim Fording (19/30)	**Paul Lusardi** (18/22)	**Joseph Spano** (5/26)
Seth Fink (17/25)	**Peter Eschmann** (15/26)	**Michael Johnson** (2/18)
Andrew Solomon (12/14)	**Bob Paschalidis** (12/21)	**+ 7 SVP/VPs**
Scott Johnston (1/28)	**David Henneman** (3/26)	**+ 2 Assistant VPs/Associates**

Investment Professionals: Nearly 10-Year Average Tenure at CBF

73 Professionals

28
Investment Professionals

45
Support Professionals

- 6 Legal and Legal Staff
- 7 Loan Servicing/Operations
- 9 Financial Reporting, Accounting & Control
- 7 Fund Leverage Operations
- 4 Technology
- 5 Administrative
- 7 Additional

Offices with CBF Team

Note: Team numbers as of September 1, 2019.
*Denotes Cerberus Business Finance Investment Committee member.

Consistent Senior Management Team

Cerberus Business Finance Investment Committee (20-Year Average Tenure(1))

All loan transactions require approvals of the Cerberus Business Finance Investment Committee

Stephen Feinberg
Co-Founder, Co-Chief Executive Officer, Senior Managing Director (1992)

Mark Neporent
Chief Operating Officer, Senior Legal Officer, Senior Managing Director (1998)

Daniel Wolf
Chief Executive Officer (CBF), Senior Managing Director (1997)

Keith Read
President (CBF), Senior Managing Director (2006)

Joseph Naccarato
Chief Operating Officer & Chief Credit Officer (CBF), Senior Managing Director (2000)

Eric Miller
(CBF), Senior Managing Director (1998)

Philip Lindenbaum
General Counsel (CBF), Managing Director (2006)(2)

Legal / Compliance

Compliance and Risk Management Committee

Oversees relationships and transactions undertaken that presents actual or potential conflicts of interest

Jeffrey Lomasky
Chief Financial Officer, Senior Managing Director (1994)

Mark Neporent
Chief Operating Officer, Senior Legal Officer, Senior Managing Director (1998)

Seth Plattus
Chief Administrative Officer, Senior Legal Officer, Senior Managing Director (1994)

Andrew Kandel
Chief Compliance Officer, Senior Legal Officer, Senior Managing Director (2007)

Alexander Benjamin
General Counsel, Senior Managing Director (2007)

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1) Average tenure of the Cerberus Business Finance Investment Committee voting members as of September 1, 2019.
2) Non-voting member with respect to loan originations and purchases.

Core Emphasis: Preservation of Capital(1)

Consistent and Disciplined Underwriting Principles

- Require multi-year track record of operating performance and successful management: Borrower is proven vs. speculative (e.g. project finance, startups, etc.)
- Strong valuation coverage of loan (avg. over 2:1 TEV coverage of loan)
- "Underwrite to Exit"
- Avoid single-asset credits: (i) Risk is too concentrated and (ii) Too much volatility in downside recovery value
- Avoid industries / jurisdictions where perfection of security is at risk
- Avoid real estate-backed loans
- No Cerberus Private Equity financings

Intensive Loan Monitoring

- Supports timely addressing of issues before enterprise value is diminished or destroyed
- Weekly all-hands credit review meeting for all loans to discuss:
  - Key metrics: liquidity, leverage, covenants, and operating results versus budgets and prior periods
  - Industry trends and potential impact on Borrowers
  - Formulation of strategy to address challenged credits
- Weekly dialogue with Borrowers and their PE Sponsor / Owner
- Attend industry conferences, review industry materials, and contact industry experts to better assess industry trends

Structuring, Execution and Selective Syndication

- Dedicated capital markets team allows Cerberus to commit to and control larger deals
  - Selective syndication to a small group of co-lenders
  - Results in optimal hold size
  - Enhances origination efforts through reciprocal deal flow
- Facilitates control of loan documentation and covenant structure
- Enhances ability to optimize risk-adjusted yields

The control of the structuring, execution and selective syndication of the transaction enables Cerberus to earn enhanced yields versus other transactions of comparable risk

Workout Capabilities

- Senior Management has extensive workout and restructuring experience
- Broad-based knowledge of corporate restructuring, workouts, and the bankruptcy process facilitates best outcomes
- Actively managed, highly-focused workout strategy by experienced senior level credit officers
- COAC team available as valuable resource for initial underwriting and, in the event that CBF must take control, manage an asset
- Significant and long-standing relationships with the restructuring and workout communities:
  - Restructuring firms
  - Legal advisors
  - Consultants
  - Accountants
  - Chief restructuring officers

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1) Notwithstanding the information presented on this slide, investors should understand that the Firm is not limited with respect to the specific principles and structuring and monitoring techniques it may employ in the aggregate or with respect to any one investment except as set forth in the offering and governance documents of any given fund or account. Depending on conditions and trends in the capital markets and the economy generally, the Firm may pursue objectives or employ techniques it considers appropriate and in the best interest of the funds and accounts, which may differ from the techniques presented on this slide. All investments are subject to risk and may lose value. Past performance is not indicative of future returns.

Cerberus Business Finance – Key Differentiating Factors

Large U.S. Middle-Market Lender

CBF provides financing solutions to large U.S. middle-market companies

- » Underwrite loan facilities of up to $500 Million
- » Borrower generates Revenue of ~$300 to $450 Million and EBITDA of ~$50 to $70 Million
- » Typical enterprise value of Borrowers range from $150 Million to $1 Billion

80%+ Origination

CBF originates and serves as lead agent in 80%+ of the transactions closed

- » Provides complete solution (Term Loan and Revolver) to the Borrower
- » Controls relationship, terms, documentation, syndication partners, and economics
- » Large, majority hold levels

~90% PE Sponsors

CBF has provided financings to over 245 PE Sponsors, with the majority repeat clients

- » Institutional junior capital available to support Borrower needs, contributing to more favorable recoveries
- » Relationships developed over many credit cycles, with CBF consistently "in market"
- » Multiple loans outstanding with same Sponsor

~97% 1st Lien

~97% of loans originated by CBF are senior secured 1st lien loans

- » Borrower leverage of ~3.5x(1)
- » Borrower loan-to-value of 40% to 60% (<50% average)(2)

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1) Represents Borrower leverage defined as Debt/EBITDA through loan tranche held by CBF.
2) Represents loan-to-value through loan tranche held by CBF.

Cerberus Business Finance – Key Differentiating Factors

Conservative Structures and Diversification

Over 23 years, CBF has consistently approached lending with conservative structures

- No covenant-lite in originated loans
- Restrictive junior payment baskets
- Minimal EBITDA add-backs
- <1% Average Borrower exposure

Rigorous Portfolio Monitoring

Weekly all-hands credit review meeting for all loans in portfolio

- Near "real time" collection of Borrower financial data
- Early detection of credit issues

Significant Workout Experience

Senior Management and investment team have extensive workout and restructuring experience

- Favorable principal recovery profile
- Capitalize on COAC professionals as valuable operational resource

Seasoned Manager of Fund-Level Leverage

CBF has issued and managed $20.9 Billion of appropriately structured fund-level leverage commitments since 1999

- Never experienced a default, matched asset/liability duration, no mark-to-market default triggers
- Broad lending syndicate comprising ~85 U.S. and foreign institutions led by 8 agents

cerberus

Contact Information

For further information regarding CBF and our Funds, please contact:

Keith Read

President, Cerberus Business Finance
Senior Managing Director, Cerberus Capital Management
(212) 739-1207
kread@cerberus.com

Kevin McLeod

Head of Fund Development, Cerberus Business Finance
Senior Managing Director, Cerberus Capital Management
(212) 739-1213
kmcleod@cerberus.com

Andrew Solomon

Managing Director, Cerberus Capital Management
(212) 739-1215
asolomon@cerberus.com

Peter Zipf

Senior Vice President, Cerberus Capital Management
(212) 739-1211
pzipf@cerberus.com

Joshua Rivlin

Senior Associate, Cerberus Capital Management
(212) 739-1248
jrivlin@cerberus.com

Robin Silver-Merriweather

Analyst, Cerberus Capital Management
(212) 739-1208
rsilver@cerberus.com

For administrative matters, please contact Cerberus Investor Relations at (212) 891-2131 or Investor-Relations@cerberus.com.

Cerberus Capital Management, L.P.
875 Third Avenue
New York, NY 10022
www.cerberus.com

Agenda Item III.B.3

BOARD ACTION REQUESTED

TO: State Investment Board

FROM: Dave Hunter, Darren Schulz and Eric Chin

DATE: October 25, 2019

SUBJECT: Cerberus Commitment Increase Recommendation

Rio Recommendation:

RIO recommends the SIB expand an existing $200 million commitment to the Cerberus ND Private Credit Fund, LLC. (North Dakota's customized direct lending mandate with Cerberus) by up to $100 million. As noted in the Direct Lending Background & Overview memo, this increase in commitment will help to maintain target % allocations for direct lending strategies in both the Pension Pool and the Legacy Fund.

To date, Cerberus has built a well-diversified portfolio of loans for the SIB and as of June 30, 2019 the portfolio has 163 loans across 80 borrowers. The portfolio has performed well as Cerberus has generated a 10.63% net IRR since inception (July 2017 through June 2019). The fund's performance compares favorably to the Bloomberg Corporate High Yield Index and the S&P Leveraged Loan B Index which generated a 5.02% and a 4.35% annualized return respectively.

Cerberus ND Private Credit Fund, LLC Portfolio Characteristics (As of June 30, 2019)	
Fund Level Leverage	41.75%
Net IRR Since Inception	10.63%
Number of Loans	163
Number of Borrowers	80
1st Lien	98.70%
2nd Lien	1.31%

Staff remains positive on Cerberus' direct lending capabilities and believes that the key competitive advantages detailed in the initial Cerberus recommendation dated March 24, 2017 continue to exist. Highlights of the memo are below (with updated data):

1. **Cerberus' direct lending arm, Cerberus Business Finance ("CBF") is one of the oldest private direct lending businesses in the industry.** CBF was incepted in 1995 and has been in the direct lending business for over 23 years. Over the past 23 years, CBF has developed relationships with approximately 245 private equity sponsors and completed loan transactions with over 1000 borrowers. Just as importantly, CBF has generated an impressive track record in the lending space. Its primary direct lending vehicle, Ableco, L.L.C. ("Ableco") generated an 11.3% net internal rate of return ("IRR") from August 1997 through June 2019.

2. **Cerberus' $42 billion investment platform provides unique sourcing, diligence and loan work out capabilities.**
    a. Today, Cerberus employs over 200 investment professionals across its global credit, private equity and real estate investment strategies. Collaboration among the different investment teams, and access to internal investment research leads to unique investment insights and deal sourcing opportunities for CBF.
    b. Cerberus has deep roots as a best-in-class distressed investment platform. Leveraging Cerberus' distressed expertise, CBF is better positioned to evaluate more complex loans and price alternative exits. Furthermore, in the event of a default, CBF can leverage the firm's infrastructure and in-house knowledge to navigate the work-out process—thus achieving better outcomes than would be possible by traditional middle market lenders.
    c. Cerberus employs a team of over 100 operating executives and operations personnel through Cerberus Operation and Advisory Company, LLC ("COAC"). The COAC team assists Cerberus in performing diligence on proposed investments and supports the operations of any portfolio companies. This team includes former C-suite executives who can readily take leadership roles in Cerberus controlled companies. For CBF, this team is an invaluable resource as it:
        i. provides operational insight on potential borrowers
        ii. is a unique source of loan deals
        iii. can be a critical component in work out situations. Leveraging the COAC team, CBF can readily install new management in a defaulted company if necessary.

3. **Cerberus has a deep back office and operations team:** The Cerberus platform is supported by over 500 professionals across operations, legal, compliance and business development. Robust infrastructure is critical to navigating the operational complexities of the direct lending strategy and to support the SIB's existing separate account structure.

Agenda Item IV.A.

Board Approval Requested

State Investment Board

Annual Evaluation of RIO versus Policy Ends

October 25, 2019

Dave Hunter, Executive Director / CIO
Darren Schulz, Deputy Chief Investment Officer
Fay Kopp, Deputy Executive Director / Chief Retirement Officer
Connie Flanagan, Chief Financial Officer
Eric Chin, Chief Risk Officer
ND Retirement & Investment Office (RIO)
State Investment Board (SIB)

Annual Board Planning Cycle – Biennial Agenda

SIB Approved on April 26, 2019

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	**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

Governance Policy B-7 states the SIB will conduct an "Annual Evaluation or RIO vs Ends policies each October."

SIB Governance Process B.7: Annual Board Planning Cycle

October: Annual Meeting for Evaluation of RIO vs. Policy “Ends”

Background: **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.**
2. **Potential SIB clients have access to information regarding the services provided by the SIB.**
3. **TFFR benefit recipients receive their retirement benefits in a cost effective and timely manner.**
4. **TFFR members have access to information which will allow them to become knowledgeable about the issues and process of retirement.**
5. **SIB and TFFR clients receive satisfactory services from the boards and staff of the office.**

RIO's performance is prudently monitored by the SIB

Mission Accomplished

1) **The vast majority (99% on an AUM* basis) of our SIB clients outperformed their respective investment benchmarks for the 5-years ended June 30, 2019,** (the two exceptions were PERS RHIC by -0.28% and Group Insurance by -0.01%) **while adhering to approved guidelines and noting investment fees declined from 0.65% in fiscal 2013 to 0.45% in fiscal 2019.**

2) **RIO is in the process of revising its website to enhance transparency and improve public access by adopting ND IT approved website formats and design.** RIO's IT team led by Rich Nagel and Len Wall expect to deploy our enhanced website in early 2020. RIO worked with our ND IT team in developing our new website including a separate Legacy Fund "button" and hyperlinks for our governance manual, audit charter and meeting materials (including Callan's and RIO's quarterly reviews). **The Sovereign Wealth Fund Institute awarded Legacy Fund with the highest (10 out of 10) transparency index rating in 2018 (versus 8 out of 10 in prior years).**

3) **Internal Audit 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 RIO'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 with the SIB receiving a 3.6 score and TFFR earning a 3.8 score (on a 4.0 scale) in 2019.**

**AUM = Assets Under Management*

SIB Gov. Policy D-3 states that Investment Ends will be evaluated on a "Comparison of client fund's rate of return NET of fees and expenses to that of the client's policy benchmark over a minimum evaluation period of 5 years".

Key Point: The NDSIB Consolidated Pension Trust generated a Net Investment Return of 9.44% for the 10-years ended June 30, 2019, versus a Target Policy Benchmark Return of 8.94%. *Source: Callan Quarterly Pension Investment Report (page 40).*

Pension Pool Return & Risk Summary – **June 30, 2019**

	1 Yr Ended 6/30/2019	3 Yrs Ended 6/30/2019	5 Yrs Ended 6/30/2019	Risk 5 Yrs Ended 6/30/2019	Risk Adj Excess Return 5 Yrs Ended 6/30/2019
PERS $3.15 billion					
Total Fund Return - Net	5.52%	9.21%	6.22%	6.6%	0.21%
Policy Benchmark Return	6.41%	8.68%	5.69%	6.2%	
Excess Return	-0.89%	0.53%	0.54%	106%	
TFFR $2.57 billion					
Total Fund Return - Net	5.54%	9.15%	6.19%	6.6%	0.28%
Policy Benchmark Return	6.36%	8.61%	5.66%	6.3%	
Excess Return	-0.82%	0.54%	0.53%	105%	
Bismarck Employee $105 million					
Total Fund Return - Net	5.94%	8.43%	5.91%	5.5%	0.48%
Policy Benchmark Return	6.34%	7.64%	5.28%	5.3%	
Excess Return	-0.39%	0.80%	0.64%	103%	

Key Points: Every Pension Pool portfolio generated positive "Excess Return" for the 5 years ended June 30, 2019, while adhering to prescribed risk levels (e.g. within 115% of the Policy Benchmark the last 5-years).

5-Yr. Returns June 30, 2019	Asset Allocation	Benchmark Return	Allocation x Return
Asset Class	*a*	*b*	*a x b*
Equity	58%	6.6%	3.8%
Fixed Income	23%	3.0%	0.7%
Real Assets	19%	6.2%	1.1%
Policy Benchmark Return (5-years)			5.69%

PERS Current Policy Benchmark:
58% Equity (30% U.S., 21% Non-U.S., 7% Private); **23% Fixed Income** (16% Investment Grade, 7% High Yield); **19% Real Assets** (11% Real Estate; 6% Infrastructure; 2% Timber).

Note: Amounts are unaudited and subject to change.

Pension Pool Return & Risk Summary – **June 30, 2019**

	1 Yr Ended 6/30/2019	3 Yrs Ended 6/30/2019	5 Yrs Ended 6/30/2019	Risk 5 Yrs Ended 6/30/2019	Risk Adj Excess Return 5 Yrs Ended 6/30/2019
Bismarck Police $42 million					
Total Fund Return - Net	5.76%	8.76%	5.97%	5.9%	0.45%
Policy Benchmark Return	6.14%	8.09%	5.40%	5.7%	
Excess Return	-0.38%	0.67%	0.58%	103%	
Job Service $97 million					
Total Fund Return - Net	6.86%	5.20%	4.87%	3.6%	0.25%
Policy Benchmark Return	6.74%	6.24%	4.48%	3.4%	
Excess Return	0.11%	-1.05%	0.38%	103%	
G.F. Employee $68 million					
Total Fund Return - Net	6.17%	9.46%	6.34%	6.7%	0.42%
Policy Benchmark Return	6.51%	8.96%	5.86%	6.7%	
Excess Return	-0.34%	0.50%	0.47%	101%	
G.F. Park District $7 million					
Total Fund Return - Net	6.02%	9.34%	6.46%	6.5%	0.22%
Policy Benchmark Return	6.65%	8.81%	5.91%	6.2%	
Excess Return	-0.64%	0.53%	0.55%	106%	

Risk Adjusted Excess Returns for the 5-years ended June 30, 2019, were positive for all Pension Pool clients.

Job Service is 140% funded & significantly de-risked its portfolio (to 20% equity / 80% debt) in recent years.

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

Note: Amounts are unaudited and subject to change.

Non-Pension Pool Return & Risk Summary – **June 30, 2019**

	1 Yr Ended 6/30/2019	3 Yrs Ended 6/30/2019	5 Yrs Ended 6/30/2019	Risk 5 Yrs Ended 6/30/2019	Risk Adj Excess Return 5 Yrs Ended 6/30/2019
WSI $2.065 billion					
Total Fund Return - Net	6.87%	6.83%	5.45%	4.0%	0.41%
Policy Benchmark Return	7.06%	5.33%	4.41%	3.4%	
Excess Return	-0.20%	1.49%	1.04%	OK	
Legacy Fund $6.58 billion					
Total Fund Return - Net	4.98%	8.16%	5.72%	6.5%	0.23%
Policy Benchmark Return	6.12%	7.49%	5.14%	6.1%	
Excess Return	-1.14%	0.67%	0.59%	OK	
Budget Stabilization $119 million					
Total Fund Return - Net	4.51%	1.86%	1.85%	1.1%	0.37%
Policy Benchmark Return	4.23%	1.60%	1.41%	1.0%	
Excess Return	0.28%	0.26%	0.44%	OK	
Fire & Tornado $23 million					
Total Fund Return - Net	6.41%	7.00%	5.35%	5.1%	0.32%
Policy Benchmark Return	6.76%	5.86%	4.52%	4.5%	
Excess Return	-0.35%	1.14%	0.83%	OK	
State Bonding $3.6 million					
Total Fund Return - Net	5.83%	3.08%	2.79%	1.9%	0.70%
Policy Benchmark Return	5.35%	1.92%	2.02%	1.8%	
Excess Return	0.48%	1.17%	0.77%	OK	
Insur.Reg.Trust Fund $6.2 million					
Total Fund Return - Net	5.03%	5.65%	4.07%	4.1%	0.09%
Policy Benchmark Return	5.37%	5.04%	3.64%	3.7%	
Excess Return	-0.35%	0.61%	0.43%	OK	

Returns and Risk: **Thirteen out of Fifteen Non-Pension Pool clients generated positive Excess Return and Risk Adjusted Excess Return for the 5 years ended June 30, 2019. PERS RHIC underperformed by 0.28% and Group Insurance trailed by 0.01%. These returns were achieved while adhering to risk levels within 1% of policy.**

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.

Note: Amounts are unaudited and subject to change.

Legacy Fund – Policy Benchmark Return

For the 3-year ended June 30, 2019

LEGACY FUND
Performance Benchmark Example
3-Years Ended June 30, 2019

Equity		50%		6.1%
- U.S.	Russell 3000	30%	14.0%	
- International	MSCI ACWI ex-US	20%	9.4%	
Fixed Income	BB US Aggregate	35%	2.3%	0.8%
Real Assets		15%		0.64%
- Real Estate	NCREIF	5%	6.9%	
- Other	U.S. TIPS	10%	2.9%	
Legacy Fund Policy Benchmark Return =======>				7.5%

1) The Legacy Fund has an overall target asset allocation of 50% Equity, 35% Fixed Income, and 15% Real Assets.

2) The 50% Equity allocation includes 30% U.S. equities (Russell 1000 and 2000) and 20% International (MSCI World ex-U.S.). The Russell 3000 is a "market cap weighted stock market index that seeks to benchmark the entire U.S. stock market and represents approximately 98% of the U.S. public equity market". The ACWI ex-US Index "captures 85% of the global equity opportunity set outside the U.S. including 22 developed countries and 24 emerging markets."

3) Fixed Income is benchmarked using the Bloomberg Aggregate Index which is "often used to represent investment grade bonds traded in the U.S." (All text in blue is from Wikipedia).

4) For the 3-years ended June 30, 2019, the 15% Real Asset allocation is benchmarked using 5% for Real Estate (using National Council of Real Estate Investment Fiduciaries) and 10% U.S. TIPS (Treasury Inflation Protected Securities).

The Bloomberg Aggregate Index is the most widely used broad based fixed income benchmark, while NCREIF is the most widely used broad based real estate index and Bloomberg's U.S. Treasury Inflation Protected Securities Index (TIPS).

Non-Pension Pool Return & Risk Summary – **June 30, 2019**

	1 Yr Ended 6/30/2019	3 Yrs Ended 6/30/2019	5 Yrs Ended 6/30/2019	Risk 5 Yrs Ended 6/30/2019	Risk Adj Excess Return 5 Yrs Ended 6/30/2019
Petrol Tank Release $6 million					
Total Fund Return - Net	5.47%	2.93%	2.62%	1.7%	0.64%
Policy Benchmark Return	5.07%	1.86%	1.92%	1.7%	
Excess Return	0.40%	1.06%	0.70%	OK	
State Risk Mgmt. $4.9 million					
Total Fund Return - Net	7.67%	7.01%	5.91%	4.7%	0.40%
Policy Benchmark Return	7.67%	5.79%	5.01%	4.2%	
Excess Return	0.00%	1.23%	0.90%	OK	
State Risk Mgmt W/C $5.2 million					
Total Fund Return - Net	7.56%	7.65%	6.33%	5.3%	0.34%
Policy Benchmark Return	7.75%	6.62%	5.55%	4.9%	
Excess Return	-0.19%	1.03%	0.78%	OK	
NDACo $6.3 million					
Total Fund Return - Net	7.12%	6.62%	5.06%	5.1%	0.28%
Policy Benchmark Return	7.32%	5.50%	4.26%	4.4%	
Excess Return	-0.19%	1.12%	0.80%	OK	
Bismarck Def.Sick Leave $779,596					
Total Fund Return - Net	6.90%	6.79%	5.30%	4.8%	0.43%
Policy Benchmark Return	7.06%	5.33%	4.28%	4.1%	
Excess Return	-0.16%	1.46%	1.02%	OK	
FargoDome Perm.Fund $45 million					
Total Fund Return - Net	5.13%	8.30%	5.85%	6.8%	0.28%
Policy Benchmark Return	6.07%	7.44%	5.15%	6.2%	
Excess Return	-0.94%	0.87%	0.70%	OK	

SIB Client Commentary:

Most Non-Pension Pool funds generated positive Risk Adjusted Excess Returns for the 5-years ended June 30, 2019, including the Legacy Fund, WSI, Budget Stabilization, Fire & Tornado, State Bonding, Insurance Regulatory Trust Fund, Petroleum Tank Release Compensation Fund, State Risk Management, State Risk Management Workers Compensation, NDACO, Bismarck Deferred Sick Leave, Fargo Dome and the Cultural Endowment Fund (excluding PERS Retiree Health Insurance Credit Fund and PERS Group Insurance Fund).

Note: Amounts are unaudited and subject to change.

Non-Pension Pool Return & Risk Summary – **June 30, 2019**

	1 Yr Ended 6/30/2019	3 Yrs Ended 6/30/2019	5 Yrs Ended 6/30/2019	Risk 5 Yrs Ended 6/30/2019	Risk Adj Excess Return 5 Yrs Ended 6/30/2019
Cultiral Endow.Fund $475,311					
Total Fund Return - Net	6.02%	8.96%	6.83%	7.0%	0.14%
Policy Benchmark Return	6.91%	8.47%	6.32%	6.6%	
Excess Return	-0.88%	0.50%	0.50%	OK	
Board of Medicine $2.3 million					
Total Fund Return - Net	4.98%	4.46%	N/A		
Policy Benchmark Return	5.22%	4.02%	N/A		
Excess Return	-0.24%	0.44%	N/A		
PERS RHIC Fund $136 million					
Total Fund Return - Net	6.51%	8.46%	5.79%	7.5%	-0.67%
Policy Benchmark Return	6.89%	8.44%	6.06%	6.9%	
Excess Return	-0.37%	0.02%	-0.28%	OK	
PERS Group Insur $31 million					
Total Fund Return - Net	4.20%	1.55%	1.23%	1.0%	-0.04%
Policy Benchmark Return	3.97%	1.54%	1.24%	1.0%	
Excess Return	0.24%	0.01%	-0.01%	OK	
Tobocco Prevention $9.3 million					
Total Fund Return - Net	4.47%	2.58%	N/A		
Policy Benchmark Return	4.38%	2.57%	N/A		
Excess Return	0.09%	0.01%	N/A		
Lewis & Clark Interp.Ctr. $751,763					
Total Fund Return - Net	6.99%	N/A	N/A		
Policy Benchmark Return	7.15%	N/A	N/A		
Excess Return	-0.16%	N/A	N/A		

Commentary:

The Board of Medicine became an SIB client 3 years ago noting they were previously investing in CD's.

PERS Retiree Health absolute returns have been reasonable the last 5-years (at 5.8%) but disappointing on a risk adjusted excess return basis of -0.67%. Given significant legislative actions impacting this fund, PERS is re-evaluating this portfolio in 2019-20.

PERS Group Insurance returns are reasonable and within 0.01% of the Policy Benchmark and within 0.04% for Risk Adjusted Excess Return basis (and improving in recent years).

The Tobacco Prevention and Control Trust Fund was transferred to OMB regulatory oversight on July 1, 2017.

The Lewis & Clark (Interpretive) Center became a client in 2017 and was previously invested in CD's.

Note: Amounts are unaudited and subject to change.

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 $300 million of incremental income via the prudent use of active management for the 5-years ended June 30, 2019.**

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 meetings, offer team members more opportunities to impact RIO's change initiatives and enhance our office environment and culture**.
    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. **Expand the efficient use of technology in our investment and retirements programs including risk management, compliance monitoring, client satisfaction surveys, website design and communications in order to increase overall efficiency and effectiveness.**

ND State Investment Board Investment Performance Summary As of June 30, 2019

Note: Investment returns should be evaluated over 5 to 10 year periods in order to maintain an appropriate long-term investment framework (e.g. TFFR versus WSI).

Investment Performance (net of fees)

			Fiscal Years ended June 30					Periods ended 6/30/19 (annualized)				
Fund Name	Market Values as of 6/30/19	FYTD 2019	2018	2017	2016	2015	2014	3 Years	5 Years	10 Years	20 Years	30 Years
Pension Pool												
Teachers' Fund for Retirement (TFFR)	$ 2,573,622,554	5.54%	9.11%	12.93%	0.28%	3.52%	16.53%	9.15%	6.18%	9.57%	5.68%	7.68%
Public Employees Retirement System (PERS)	3,152,930,087	5.52%	9.19%	13.05%	0.28%	3.53%	16.38%	9.21%	6.22%	9.41%	6.00%	7.90%
City of Bismarck Employees Pension	104,517,247	5.94%	7.86%	11.56%	0.82%	3.69%	14.56%	8.43%	5.91%	8.99%	5.93%	*
City of Bismarck Police Pension	41,862,976	5.76%	8.36%	12.24%	0.32%	3.56%	15.27%	8.76%	5.97%	9.24%	5.86%	*
City of Grand Forks Employees Pension	68,419,301	6.17%	9.46%	12.84%	0.11%	3.53%	16.33%	9.46%	6.33%	9.71%	*	*
Park District of the City of Grand Forks Pension	7,176,427	6.02%	9.33%	12.74%	0.36%	4.22%	16.44%	9.33%	6.45%	*	*	*
Subtotal Pension Pool	5,948,528,592											
Insurance Pool												
Workforce Safety & Insurance (WSI)	2,065,400,398	6.87%	5.34%	8.29%	3.58%	3.26%	11.71%	6.83%	5.45%	7.82%	5.87%	7.39%
State Fire and Tornado Fund	22,761,457	6.41%	5.32%	9.30%	2.67%	3.16%	12.78%	7.00%	5.34%	8.34%	5.87%	6.82%
State Bonding Fund	3,609,422	5.83%	1.07%	2.40%	3.48%	1.25%	4.06%	3.08%	2.79%	3.98%	3.48%	5.24%
Petroleum Tank Release Compensation Fund	5,994,235	5.47%	1.13%	2.23%	3.17%	1.13%	3.68%	2.93%	2.61%	3.67%	3.25%	*
Insurance Regulatory Trust Fund	6,218,781	5.03%	4.53%	7.40%	1.46%	2.04%	9.88%	5.65%	4.07%	6.29%	5.01%	5.89%
State Risk Management Fund	4,909,623	7.67%	5.14%	8.27%	4.46%	4.08%	12.29%	7.02%	5.91%	8.94%	5.58%	*
State Risk Management Workers Comp Fund	5,187,879	7.56%	6.03%	9.41%	4.21%	4.57%	13.68%	7.66%	6.34%	9.62%	*	*
Cultural Endowment Fund	475,311	6.02%	8.27%	12.71%	2.18%	5.22%	16.94%	8.96%	6.82%	10.62%	*	*
Budget Stabilization Fund	118,707,130	4.51%	0.32%	0.80%	1.82%	1.86%	1.94%	1.86%	1.85%	2.61%	*	*
ND Association of Counties (NDACo) Fund	6,333,052	7.12%	4.48%	8.30%	2.76%	2.77%	11.61%	6.62%	5.06%	8.00%	5.21%	*
Bismarck Deferred Sick Leave Account	779,596	6.90%	4.66%	8.85%	3.26%	2.95%	12.32%	6.79%	5.30%	8.28%	*	*
City of Fargo FargoDome Permanent Fund	44,840,633	5.13%	7.64%	12.25%	1.19%	3.38%	16.34%	8.30%	5.85%	9.67%	*	*
State Board of Medicine Fund	2,362,384	4.98%	3.12%	5.29%	1.63%	2.70%	*	4.46%	3.54%	*	*	*
PERS Group Insurance Account	31,067,120	4.20%	0.41%	0.08%	1.49%	0.01%	0.06%	1.55%	1.23%	0.74%	*	*
Lewis & Clark Interpretive Center Endowment	751,763	6.99%	*	*	*	*	*	*	*	*	*	*
Subtotal Insurance Pool	2,319,398,785											
Legacy Fund	6,580,759,920	4.98%	7.57%	12.03%	1.06%	3.31%	6.64%	8.15%	5.72%	*	*	*
Job Service of North Dakota Pension	97,285,279	6.86%	3.15%	5.63%	5.45%	3.30%	13.54%	5.20%	4.87%	8.17%	5.53%	*
Tobacco Control and Prevention Fund	9,300,127	4.47%	1.63%	1.66%	*	*	*	2.58%	*	*	*	*
PERS Retiree Health Insurance Credit Fund	135,962,521	6.51%	7.15%	11.81%	0.72%	3.06%	16.53%	8.47%	5.79%	9.76%	5.22%	*
Total Assets Under SIB Management	$ 15,091,235,224											

Note: Asset allocation largely drives investment performance. Each fund has a unique allocation that takes into consideration return objectives, risk tolerance, liquidity constraints, and unique circumstances. Such considerations must be taken into account when comparing investment returns. **All figures are preliminary and subject to revision.**

Key Point: The NDSIB Consolidated Insurance Trust generated a Net Investment Return of 6.7% for the 10-years ended June 30, 2019, versus a Target Policy Benchmark Return of 5.2%. *Source: Callan Quarterly Insurance Trust Report (page 33).*

State Investment Board – Client Assets Under Management

Fund Name	Market Values as of 6/30/19 [1]	Market Values as of 6/30/18 [2]
Pension Trust Fund		
Public Employees Retirement System (PERS)	3,152,930,087	3,024,222,995
Teachers' Fund for Retirement (TFFR)	2,573,622,554	2,485,835,306
City of Bismarck Employees Pension	104,517,247	99,177,507
City of Grand Forks Employees Pension	68,419,301	63,633,206
City of Bismarck Police Pension	41,862,976	40,106,249
Grand Forks Park District	7,176,427	6,772,657
Subtotal Pension Trust Fund	**5,948,528,592**	**5,719,747,919**
Insurance Trust Fund		
Workforce Safety & Insurance (WSI)	2,065,400,398	1,923,117,660
Budget Stabilization Fund	118,707,130	113,603,777
City of Fargo FargoDome Permanent Fund	44,840,633	44,629,288
PERS Group Insurance Account	31,067,120	31,610,707
State Fire and Tornado Fund	22,761,457	23,066,784
ND Association of Counties (NDACo) Fund	6,333,052	5,910,661
Insurance Regulatory Trust Fund	6,218,781	5,637,791
Petroleum Tank Release Compensation Fund	5,994,235	6,167,272
State Risk Management Workers Comp Fund	5,187,879	5,356,549
State Risk Management Fund	4,909,623	4,956,217
State Bonding Fund	3,609,422	3,411,215
ND Board of Medicine	2,362,384	2,251,119
Bismarck Deferred Sick Leave Account	779,596	730,026
Lewis & Clark Interpretive Center Endowment Fund	751,763	703,284
Cultural Endowment Fund	475,311	448,825
Subtotal Insurance Trust Fund	**2,319,398,784**	**2,171,601,175**
Legacy Trust Fund		
Legacy Fund	6,580,759,920	5,577,319,109
PERS Retiree Insurance Credit Fund	135,962,521	126,605,207
Job Service of North Dakota Pension	97,285,279	95,690,469
ND Tobacco Prevention and Control Trust Fund	9,300,127	54,365,162
Total Assets Under SIB Management	**15,091,235,223**	**13,745,329,041**

[1] *Market values are unaudited and subject to change.*

[2] *6/30/18 market values as stated in the Comprehensive Annual Financial Report.*

- **SIB client investments totaled approximately $15.1 billion as of June 30, 2019,** with the Pension Trust at $5.95 billion, Insurance Trust approaching $2.3 billion and Legacy Fund exceeding $6.5 billion.
- **Equity markets continued to advance in the second quarter, aided by expectations of easing by the Fed, healthy consumer spending, and low unemployment.** Bonds posted gains as rates rallied across maturities and credit spreads fell. As a result, global public equities returned 3.8% in the 2nd quarter of 2019, while fixed income returned 3.2%.
- **The Pension Trust posted a net return of 5.5% in the last year.** During the last 5-years, the Pension Trust generated a net annualized return of 6.2%, exceeding the performance benchmark of 5.7%.
- **The Insurance Trust generated a net return of 6.4% in the last year.** During the last 5-years, the Insurance Trust posted a net annualized return of 5.0%, exceeding the performance benchmark of 4.0%.
- **Legacy Fund generated a net return of 5.0% last year.** During the last 5-years, Legacy Fund earned a net annualized return of 5.7%, exceeding the performance benchmark of 5.2% noting the Fund was not fully invested in its current asset allocation until 2015.

Key Point: The NDSIB Legacy Fund generated a Net Investment Return of 4.8% for the 7.75-years ended June 30, 2019, versus a Target Policy Benchmark Return of 4.1%. *Source: Callan Quarterly Legacy Fund Investment Report (page 29).*

SIB Client Return on Investment Fees and Expenses

Investment Goals for SIB Client Fees and Expenses:

1. The SIB and RIO attempt to keep total fees and expenses at or below 50 bps (0.50%) per annum.
2. We also attempt to generate > 0.50% of excess return over our stated performance benchmarks (after deducting all investment fees and expenses) over a rolling 5-year period.
3. If we are successful in attaining both of the above goals, we are effectively earning a 2-for-1 return on our investment fee and expense dollars (which is consistent with our fundamental investment belief that the prudent use of active management is beneficial to our clients).

Key Point: Over the last 5-years, the vast majority of our SIB clients outperformed their approved policy benchmarks earning at least 0.50% of excess return, while investment fees & expenses remained at or below 0.50% per annum since 2015 (see below).

All State Investment Board Clients	Investment Fees and Expenses (in $millions)	Average "Assets Under Management" (in $billions)	% of AUM
Fiscal Year Ended June 30, 2013	45.5	6.9	0.66%
Fiscal Year Ended June 30, 2014	44.6	8.6	0.52%
Fiscal Year Ended June 30, 2015	49.1	10.2	0.48%
Fiscal Year Ended June 30, 2016	47.1	10.9	0.43%
Fiscal Year Ended June 30, 2017	56.1	11.8	0.48%
Fiscal Year Ended June 30, 2018	57.8	13.4	0.43%
Fiscal Year Ended June 30, 2019	65.5	14.3	0.46%

SIB fees declined by 0.20% between 2013 and 2019 as a % of AUM

Includes SIB administrative fees

Key Point: Based on $10 billion of Assets Under Management (AUM), a 0.20% decline in fees between fiscal 2013 and fiscal 2019 translates into $20 million of annual fee savings for our SIB clients.

A basis point (or "bp") is equal to one one-hundredth of one percent (or 0.01%) such that 100 basis points ("bps") is equivalent to 1%.

Note: All amounts are deemed to be materially accurate, but fiscal 2019 amounts unaudited and subject to change.

Agenda Item IV. B.

Board Approval Requested

State Investment Board

Annual Review of Investment Fees and Expenses

October 25, 2019

Dave Hunter, Executive Director / CIO
Darren Schulz, Deputy Chief Investment Officer
Fay Kopp, Deputy Executive Director / Chief Retirement Officer
Connie Flanagan, Chief Financial Officer
Eric Chin, Chief Risk Officer
ND Retirement & Investment Office (RIO)
State Investment Board (SIB)

SIB Client Return on Investment Fees and Expenses

Investment Goals for SIB Client Fees and Expenses:

1. The SIB and RIO attempt to keep total fees and expenses at or below 50 bps (0.50%) per annum.
2. We also attempt to generate > 0.50% of excess return over our stated performance benchmarks (after deducting all investment fees and expenses) over a rolling 5-year period.
3. If we are successful in attaining both of the above goals, we are effectively earning a 2-for-1 return on our investment fee and expense dollars (which is consistent with our fundamental investment belief that the prudent use of active management is beneficial to our clients).

Key Point: Over the last 5-years, the vast majority of our SIB clients outperformed their approved policy benchmarks earning at least 0.50% of excess return, while investment fees & expenses remained at or below 0.50% per annum since 2015 (see below).

All State Investment Board Clients	Investment Fees and Expenses (in $millions)	Average "Assets Under Management" (in $billions)	% of AUM
Fiscal Year Ended June 30, 2013	**45.5**	**6.9**	**0.66%**
Fiscal Year Ended June 30, 2014	**44.6**	**8.6**	**0.52%**
Fiscal Year Ended June 30, 2015	**49.1**	**10.2**	**0.48%**
Fiscal Year Ended June 30, 2016	**47.1**	**10.9**	**0.43%**
Fiscal Year Ended June 30, 2017	**56.1**	**11.8**	**0.48%**
Fiscal Year Ended June 30, 2018	**57.8**	**13.4**	**0.43%**
Fiscal Year Ended June 30, 2019	**65.5**	**14.3**	**0.46%**

SIB fees declined by 0.20% between 2013 and 2019 as a % of AUM

Includes SIB administrative fees

Key Point: Based on $10 billion of Assets Under Management (AUM), a 0.20% decline in fees between fiscal 2013 and fiscal 2019 translates into $20 million of annual fee savings for our SIB clients.

A basis point (or "bp") is equal to one one-hundredth of one percent (or 0.01%) such that 100 basis points ("bps") is equivalent to 1%.

Note: All amounts are deemed to be materially accurate, but fiscal 2019 amounts unaudited and subject to change.

Legacy Fund
Schedule of Investment Expenses

	FY 2019			FY 2018		
	Average Market Value	Fees in $	Fees in %	Average Market Value	Fees in $	Fees in %
Investment managers' fees:						
Domestic large cap equity managers	**1,325,183,262**	**3,240,792**	**0.24%**	**1,157,153,749**	**817,082**	**0.07%**
Domestic small cap equity managers	**462,998,204**	**1,075,289**	**0.23%**	**424,498,126**	**709,704**	**0.17%**
International equity managers	1,185,852,998	4,769,488	0.40%	1,051,633,065	4,308,926	0.41%
Domestic fixed income managers	2,108,399,241	6,467,723	0.31%	1,829,238,525	5,809,170	0.32%
Diversified real assets managers	**594,427,449**	**4,667,325**	**0.79%**	**513,215,642**	**2,704,986**	**0.53%**
Real estate managers	290,713,673	1,605,648	0.55%	273,421,343	1,490,324	0.55%
Cash & equivalents managers	115,302,787	100,541	0.09%	42,188,081	69,690	0.17%
Total investment manager expenses	**6,082,877,614**	**21,926,806**	**0.36%**	**5,291,348,530**	**15,909,882**	**0.30%**
Custodian fees		550,192	0.01%		430,805	0.01%
Investment consultant fees		251,009	0.00%		294,600	0.01%
Administrative fees		928,596	0.02%		834,828	0.02%
Total investment expenses		**23,656,603**	**0.39%**		**17,470,115**	**0.33%**
Actual Investment Performance (Net of Fees)			**4.98%**			**7.57%**
Policy Benchmark			**6.12%**			**6.51%**
			-1.14%			**1.06%**

➢ **Investment fees and expenses increased to 0.39% in fiscal 2019 from 0.33% in fiscal 2018 largely due to higher performance fees in Domestic Equity (Clifton Parametric) and Diversified Real Assets (infrastructure).**

➢ **The use of active management negatively impacted returns in fiscal 2019, while generating significant incremental income (of $100 million) in the Legacy Fund for the 5-years ended June 30, 2019 (e.g. average AUM of $4 billion x 0.50% excess return = $20 million per year x 5 years = $100 million over 5 years).**

A basis point is equal to one one-hundredth of one percent (or 0.01%) such that 100 basis points is equivalent to 1%.

The above amounts are based on unaudited data that is deemed to be materially accurate but subject to change.

ND Public Employees Retirement System
Schedule of Investment Expenses

	FY 2019			FY 2018		
	Average Market Value	Fees in $	Fees in %	Average Market Value	Fees in $	Fees in %
Investment managers' fees:						
Global equity managers	494,315,731	1,686,401	0.34%	497,790,578	1,681,241	0.34%
Domestic large cap equity managers	**516,771,697**	**881,396**	**0.17%**	**515,164,976**	**(440,474)**	**-0.09%**
Domestic small cap equity managers	166,938,546	563,129	0.34%	159,742,325	726,715	0.45%
Developed international equity managers	353,765,992	1,032,288	0.29%	356,749,281	1,112,638	0.31%
Emerging markets equity managers	122,071,361	928,786	0.76%	129,137,589	1,060,299	0.82%
Investment grade domestic fixed income	487,001,317	1,391,604	0.29%	435,743,619	1,905,957	0.44%
Below investment grade fixed income managers	209,065,335	3,118,590	1.49%	188,814,114	2,500,721	1.32%
Developed international fixed income managers	-	-	0.00%	63,279,110	291,762	0.46%
Real estate managers	356,218,017	3,018,369	0.85%	311,837,804	3,481,736	1.12%
Timber managers	64,669,866	426,412	0.66%	67,040,540	443,112	0.66%
Infrastructure managers	**144,516,287**	**2,339,875**	**1.62%**	**134,465,192**	**1,557,534**	**1.16%**
Private equity managers	103,212,459	1,816,942	1.76%	90,169,972	1,649,381	1.83%
Cash & equivalents managers	17,185,873	14,416	0.08%	25,394,516	23,636	0.09%
Total investment managers' fees	**3,035,732,480**	**17,218,208**	**0.57%**	**2,975,329,617**	**15,994,259**	**0.54%**
Custodian fees		283,626	0.01%		278,632	0.01%
Investment consultant fees		119,403	0.00%		139,021	0.00%
Administrative fees		519,043	0.02%		507,190	0.02%
Total investment expenses		**18,140,280**	**0.60%**		**16,919,102**	**0.57%**
Actual Investment Performance (Net of Fees)			**5.52%**			**9.19%**
Policy Benchmark			**6.41%**			**7.85%**
Outperformance			**-0.89%**			**1.34%**

➢ **PERS investment fees & expenses increased to 0.60% in fiscal 2019 from 0.57% in fiscal 2018 largely due to higher performance fees in Domestic Equity (Clifton) and Infrastructure (Grosvenor, Macquarie and I-Squared).**

➢ **The use of active management negatively impacted returns in fiscal 2019, while generating significant incremental income to PERS for the 5-years ended June 30, 2019 (e.g. average AUM of $2.6 billion x 0.50% excess return = $13 million per year x 5 years = $65 million for the 5 years ended June 30, 2019).**

The above amounts are based on unaudited data that is deemed to be materially accurate but subject to change.

ND Teachers' Fund for Retirement
Schedule of Investment Fees and Expenses

	FY 2019			FY 2018		
	Average Market Value	Fees in $	Fees as % of Average MV	Average Market Value	Fees in $	Fees as % of Average MV
Investment managers' fees:						
Global equity managers	400,722,725	1,367,498	0.34%	408,901,458	1,380,401	0.34%
Domestic large cap equity managers	**432,047,867**	**730,141**	**0.17%**	**427,574,723**	**(368,098)**	**-0.09%**
Domestic small cap equity managers	129,039,675	429,127	0.33%	129,193,929	586,340	0.45%
Developed international equity managers	304,063,790	888,364	0.29%	306,343,352	954,958	0.31%
Emerging markets equity managers	79,636,183	607,541	0.76%	84,989,807	697,607	0.82%
Investment grade domestic fixed income	398,684,392	1,137,802	0.29%	364,622,117	1,593,550	0.44%
Below investment grade fixed income	170,711,008	2,446,530	1.43%	148,364,649	1,953,550	1.32%
Developed international fixed income	-	-	0.00%	58,553,192	270,428	0.46%
Real estate managers	267,011,840	2,258,800	0.85%	238,450,646	2,660,865	1.12%
Timber managers	57,726,174	380,628	0.66%	59,876,758	395,760	0.66%
Infrastructure managers	**118,635,657**	**1,920,619**	**1.62%**	**114,181,019**	**1,316,541**	**1.15%**
Private equity managers	94,737,256	1,667,745	1.76%	82,765,742	1,513,944	1.83%
Cash & equivalents managers	25,879,892	30,119	0.12%	29,499,369	36,561	0.12%
Total investment management fees	**2,478,896,460**	**13,864,914**	**0.56%**	**2,453,316,763**	**12,992,407**	**0.53%**
Custodian fees		235,778	0.01%		233,938	0.01%
Investment consultant fees		129,878	0.01%		150,251	0.01%
SIB Administrative fees		421,242	0.02%		376,830	0.02%
Total investment expenses		**14,651,812**	**0.59%**		**13,753,426**	**0.56%**
Actual Investment Performance (Net of Fees)			**5.54%**			**9.11%**
Policy Benchmark			**6.36%**			**7.89%**
Outperformance/(Underperformance)			**-0.82%**			**1.22%**

- **TFFR investment fees & expenses increased to 0.59% in fiscal 2019 from 0.56% in fiscal 2018 largely due to higher performance fees in Domestic Equity, Fixed Income and Infrastructure (Grosvenor, Macquarie and ISQ).**

- **The use of active management negatively impacted returns in fiscal 2019, while generating significant incremental income for TFFR for the 5-years ended June 30, 2019 (e.g. average AUM of $2 billion x 0.50% excess return = $10 million per year x 5 years = $50 million for the 5 years ended June 30, 2019).**

The above amounts are based on unaudited data that is deemed to be materially accurate but subject to change.

WSI Fund
Schedule of Investment Expenses

	FY 2019			FY 2018		
	Average Market Value	Fees in $	Fees in %	Average Market Value	Fees in $	Fees in %
Investment managers' fees:						
Domestic large cap equity managers	218,291,644	426,575	0.20%	227,079,176	190,170	0.08%
Domestic small cap equity managers	56,371,918	113,501	0.20%	72,903,372	40,693	0.06%
International equity managers	155,036,549	636,198	0.41%	168,974,116	714,087	0.42%
Domestic fixed income managers	**1,165,503,513**	**2,721,468**	**0.23%**	**1,027,289,753**	**3,272,794**	**0.32%**
Diversified real assets managers	242,270,855	1,088,007	0.45%	273,049,518	1,315,597	0.48%
Real estate managers	110,809,025	604,237	0.55%	139,777,042	765,668	0.55%
Cash & equivalents managers	19,867,588	28,642	0.14%	19,396,368	32,686	0.17%
Total investment managers' fees	**1,968,151,091**	**5,618,628**	**0.29%**	**1,928,469,346**	**6,331,695**	**0.33%**
Custodian fees		176,867	0.01%		160,338	0.01%
Investment consultant fees		91,932	0.00%		111,348	0.01%
Administrative fees		304,691	0.02%		311,969	0.02%
Total investment expenses		**6,192,118**	**0.31%**		**6,915,350**	**0.36%**
Actual Investment Performance (Net of Fees)			**6.87%**			**5.34%**
Policy Benchmark			**7.06%**			**3.77%**
Outperformance			**-0.19%**			**1.57%**

- **Investment fees and expenses declined to 0.31% in fiscal 2019 from 0.34% in fiscal 2018 largely due to WSI adopting a more conservative asset allocation by increasing fixed income and reducing equities and real estate.**

- **The use of active management negatively impacted returns in fiscal 2019, while generating significant incremental income for WSI for the 5-years ended June 30, 2019 (e.g. average AUM of $2 billion x 0.50% excess return = $10 million per year x 5 years = $50 million for the 5 years ended June 30, 2019).**

A basis point is equal to one one-hundredth of one percent (or 0.01%) such that 100 basis points is equivalent to 1%.

The above amounts are based on unaudited data that is deemed to be materially accurate but subject to change.

Budget Stabilization Fund
Schedule of Investment Expenses

	FY 2019			FY 2018		
	Average Market Value	Fees in $	Fees in %	Average Market Value	Fees in $	Fees in %
Investment managers' fees:						
Short-term fixed income managers	113,365,761	151,750	0.13%	54,932,137	79,173	0.14%
Cash & equivalents managers	2,847,787	1,984	0.07%	2,262,299	3,999	0.18%
Total investment managers' fees	**116,213,548**	**153,734**	**0.13%**	**57,194,436**	**83,172**	**0.15%**
Custodian fees		10,095	0.01%		2,864	0.01%
Investment consultant fees		4,143	0.00%		2,106	0.00%
Administrative fees		17,840	0.02%		5,440	0.01%
Total investment expenses		**185,812**	**0.16%**		**93,582**	**0.16%**
Actual Investment Performance (Net of Fees)			**4.51%**			**0.32%**
Policy Benchmark			**4.23%**			**0.24%**
Outperformance			**0.28%**			**0.08%**

- ➢ **Investment fees and expenses remained flat at approximately 0.16% over the last two fiscal years.**

- ➢ **Investment performance increased sharply in fiscal 2019 on both an absolute and relative return basis due to the significant rise in short-term interest rates over the last year. This was largely driven by Federal Reserve policy decisions including four 0.25% increases in the Fed Funds Rate in March, June, September and December of 2018 prior to two 0.25% rate reductions in June and September of 2019.**

A basis point is equal to one one-hundredth of one percent (or 0.01%) such that 100 basis points is equivalent to 1%.

The above amounts are based on unaudited data that is deemed to be materially accurate but subject to change.

RIO Due Diligence Travel Expense Update

Fiscal Year Ended 6/30	Total Expenses	Average AUM during year	Cost as % of AUM
2012	**19,161**	**6,071,721,996**	**0.00032%**
2013	8,148	6,905,312,561	**0.00012%**
2014	20,034	8,632,237,726	**0.00023%**
2015	19,134	7,011,550,394	**0.00027%**
2016	24,997	10,896,823,143	**0.00023%**
2017	20,589	11,782,432,860	**0.00017%**
2018	**26,661**	**13,388,707,450**	**0.00020%**
2019	**28,337**	**14,284,272,693**	**0.00020%**

RIO attempts to be fiscally prudent when traveling to conduct onsite due diligence noting that our Supervisor of Administrative Services consistently obtains reasonable fares for air travel and lodging. Our Investment Accountant, who previously worked in the State's Auditor Office, reviews all submitted expenses for strict adherence to published State guidelines. RIO's investment staff frequently attempt to combine due diligence trips whenever possible in a prudent and cost effective manner. As example, RIO frequently meets with multiple managers when conducting onsite due diligence to most major cities.

RIO's due diligence travel expenses have generally ranged from $19,000 to $29,000 per year since 2012 (with one exception in fiscal 2013 due to the former CIO resigning in May of 2012). Costs as a % of average assets under management (AUM) approximated 0.00020% per year in fiscal 2018 and 2019 noting the SIB and RIO must conduct a prudent and reasonable level of due diligence when exercising their fiduciary oversight responsibility. Although RIO travel expenses have increased by 48% since fiscal 2012, it is important to note that SIB client AUM has increased by over 135% during the last seven years.

The above amounts are based on unaudited data that is deemed to be materially accurate but subject to change.

CUSTOMER SATISFACTION SURVEY
NORTH DAKOTA STATE INVESTMENT BOARD
2019

Evaluation Forms Sent:	15
Evaluation Forms Returned:	11

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

Excellent	Above Average	Average	Poor	N/A
8	3	0	0	0

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

Excellent	Above Average	Average	Poor	N/A
6	3	2	0	0

3. Frequency of Communications/Reporting

Excellent	Above Average	Average	Poor	N/A
7	4	0	0	0

4. Knowledge of Investments

Excellent	Above Average	Average	Poor	N/A
8	3	0	0	0

5. Overall value of services provided

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

2019 Summary of SIB Client Satisfaction Survey Ratings:

	Excellent	Above Average	Average	Poor	N/A
Totals	37	15	3	0	0
Weight	4	3	2	1	0
Percent	67%	27%	5%	0%	0%
Average	**3.62**				

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**				

2017 Summary of SIB Client Satisfaction Survey Ratings:

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

Overall Customer Satisfaction Survey Comments and Impressions:

- Board members have varied degrees for experience/backgrounds and tenure. It's important communications reflect our changing Board. I feel the staff is very knowledgeable and openly communicates and shares their insights. Sometimes in meeting we skip over portions of information which, even though I have read it previously, makes me a little uneasy. Every time I have had any communications (phone, email, or in person) I have always had prompt and well thought out responses. I trust the answers I have gotten to questions and trust is very important in this field. The SIB and RIO staff do excellent work being responsive to requests (most notably via email). In terms of improvements, I believe the upcoming online portal system update will be beneficial from the standpoint of accessing information and sending documentation to RIO/TFFR. I also think that email updates from TFFR are helpful and could be slightly more frequent. The RIO staff does an excellent job providing timely and easy to read reports on investments and other pertinent issues. It may be valuable to consider how that information could be packaged to highlight the most valuable information. It currently gets to be a lot of information that can be timely and difficult to review. An executive summary or a restructuring of the most valuable information would be helpful. RIO staff is consistently responsive to requests for additional information.
- You are doing a great job
- Both work well our agency. The RIO staff has the expertise and provides good advice for SIB to make decisions. I like the investment allocation process where the respective client works with vendor to determine what asset allocation is acceptable. The client asset allocation is already determined and just a need confirmation from SIB.
- At this time can not think of anything interesting. Thank you.

MEMORANDUM

TO: **State Investment Board (SIB)**

FROM: **SIB Audit Committee**

DATE: **September 26, 2019**

SUBJECT: **Fiscal Year End Audit Committee Activities Update**
July 1, 2018 to June 30, 2019

The Audit Committee is a standing committee of the State Investment Board (SIB) authorized under the SIB Governance Policy B-6, Standing Committees. Its primary function is to assist the SIB in fulfilling its oversight responsibilities of the Retirement and Investment Office (RIO) internal and external audit programs, including the financial reporting process, internal controls, and compliance with laws, regulations, policies, and procedures.

The Audit Committee consists of five members selected by the SIB. Three members of the Audit Committee represent the three groups on the SIB (Teachers' Fund for Retirement (TFFR) Board, Public Employees Retirement System (PERS) Board, and elected and appointed officials). The other two members are selected from outside the SIB, that are both independent and financially literate. Members of the Audit Committee for the 2018 - 2019 fiscal year were:

Yvonne Smith, PERS Board, Chair
Rob Lech, TFFR Board, Vice Chair
Cindy Ternes, (Workforce Safety & Insurance designee) Elected and Appointed Officials and SIB Liaison
Joshua Wiens, External Member
Jon Griffin, External Member

The Audit Committee held four regular meetings during the fiscal year ended June 30, 2019. The meetings occurred on: September 27, 2018, November 15, 2018, February 21, 2019, and May 23, 2019.

Activities of the Audit Committee during the past year included:

- The Committee approved a July 1, 2018 through June 30, 2019 Audit Service work plan. Progress was monitored on a quarterly basis. Audit activities included:

    - o A formal Agency-Wide Risk Assessment was completed. It documented risk involved in activities and/or systems in order to provide assurance that risk is being addressed by RIO management.
    - o Four TFFR Employer Reporting Reviews were completed. The review tested the accuracy of retirement salaries and contributions reported by the Employer. Eligibility and services hours were also reviewed.
    - TFFR Benefit Payment Cost Efficiency Audit was completed. A review of TFFR benefit recipients was completed to determine that they received their retirement benefits in a cost effective and timely manner. The accuracy of benefit payments via the recalculation of benefit payments for the sampling of member accounts was also verified.
    - o The TFFR Refund and Purchase Audit was completed. Refunds and purchases of service credit was reviewed along with procedures. The accuracy of payments and installment purchases of service credit was also verified.

  - Annual Salary Verification Project was completed. Salaries, contributions, service hours, and eligibility reported to TFFR for the prior fiscal year for sixty-four randomly selected member accounts were verified.
  - Executive Limitations Audit was completed. The audit determined the Executive Director/CIO's level of compliance with SIB Governance Manual Executive Limitation policies (A-1 through A-11) for the calendar year ending December 31, 2018.
  - RIO's Audit Services division provided assistance to our external audit partners, CliftonLarsonAllen, LLP, during the financial audit of the RIO as well as the GASB 68 Census Data Audits.
  - Audit Services staff continued to pursue networking and professional development opportunities via the IIA's local chapter. Staff attended training seminars and monthly meetings which cover a variety of topics.

- The Committee received the results of the RIO financial audit for the fiscal year ended June 30, 2018 from independent auditors, CliftonLarsonAllen, LLP. They issued an unmodified "clean" opinion.

- The Committee reviewed the RIO financial audit plan for fiscal year ended June 30, 2019 with independent auditors, CliftonLarsonAllen, LLP. Discussion included scope and approach for the audit to ensure complete coverage of financial information and review and approval of the Final GASB 68 Schedule Audit Report.

- The Committee adopted a detailed audit work plan and budgeted hours for fiscal year July 1, 2018 to June 30, 2019.

The above activities support the Committee's fulfillment of its oversight responsibilities. Please inform the Committee if there are special audits or activities the Board would like to have reviewed.

MEMORANDUM

TO: **State Investment Board (SIB) Audit Committee**

FROM: **Sara Sauter, Supervisor of Internal Audit**

DATE: **September 26, 2019**

SUBJECT: **2019 - 2020 Audit Services Workplan**

The following information details the proposed workplan for Audit Services for 2019 - 2020. This workplan represents what Audit Services anticipates will be accomplished in the upcoming fiscal year, however needs and priorities may change and this workplan may require adjustments. Any anticipated changes will be discussed with the SIB Audit Committee as they are identified. Frequency, hours, and reporting are addressed where applicable Audit Services will allocate resources to the following audit activities during fiscal year 2020:

Primary Audit Responsibilities
Total Hours Allocated: 2,630

Teachers' Fund for Retirement (TFFR) Salary Reviews • TFFR Salary Review Notifications • TFFR Salary Review • Annual Salary Verification Project	43%
TFFR File Maintenance Audit and TFFR Refund and Purchase Audit	8%
Death Benefit Payment Audit	7.5%
Cash Management and Rebalancing Audit	7.5%
Internal Control Assessment	7.5%
Administrative Expenses Audit	3%
Investment Confirmation Audit	4%
Portfolio Monitoring Procedures - *Consulting*	1.5%
Pension System Upgrade – *Consulting*	4%
Executive Limitation Audit • SIB Customer Satisfaction Survey • ED/CIO Effectiveness Survey • Executive Limitations Audit CY 2019 • SIB Executive Review Committee Survey (If Requested)	9.5%
External Auditor Assistance • GASB 68 Census Data Audit Notifications	2.5%
Administrative Manual Updating - *Consulting*	2%

Percentage Allocated to TFFR: 62.5%
Percentage Allocated to SIB and RIO: 37.5%

TEACHERS’ FUND FOR RETIREMENT (TFFR) SALARY REVIEWS:

The primary purpose of employer salary reviews is to determine if the retirement salaries and contributions reported to TFFR by a participating employer are in compliance with the definition of salary as it appears in the North Dakota Century Code (N.D.C.C. § 15-39.1-04 (10)). Reported service hours and eligibility for TFFR membership are also verified. It should be noted that RIO has no legal responsibility to test the reporting by the employers. This testing is a done as a service for the TFFR members.

TFFR Salary Review Notifications are sent to participating employers throughout the fiscal year based on anticipated production levels with approximately two to three employers notified at one time. Audit notifications are sent electronically to key personnel including the superintendent and business manager. The 2019-2020 audit plan includes performing TFFR Salary Reviews on the ten largest employers on a five-year cycle. The ten largest employers employ over half of the participants reported to the TFFR program. A total of 8 salary reviews are scheduled for the 2019-2020. It is the intention of Audit Services to have 2 – 4 audits in progress with 2 audits pending but not yet started at any given time. Audit Services is working with Retirement Services on transitioning more into an overall sampling process and moving away from traditional cycles.

The Annual Salary Verification Project is intended to supplement other auditing activities. This project increases the number of participating employers included in overall audit activities and reinforces to our participating employers the importance of accurate reporting. A total of 65 member accounts from 60 different employers will be randomly selected for further verification from all available participating employers except those employers who meet the following criteria: currently being audited by Audit Services, have been notified of an upcoming audit by Audit Services, have been audited by Audit Services in the last twelve months, were selected for a GASB 68 Census Data Audit, or were included in the prior year salary verification project.

Total Hours Allocated: 1,140
Audit Report Recipients: Deputy Executive Director/Chief Retirement Officer, Retirement Program Manager, SIB Audit Committee, and TFFR Board

TFFR FILE MAINTENANCE AUDIT:

On an annual basis, Audit Services of the Retirement and Investment Office (RIO) will review system generated (CPAS) audit tables and reports to ensure transactions initiated by staff are expected and appropriate given an individual’s role within the organization. Member account information from ten Member Action Forms will be reviewed to verify that contact and demographic information has been updated correctly per Member Action Forms on file.

Total Hours Allocated: 100
Audit Report Recipients: Deputy Executive Director/Chief Retirement Officer, Retirement Program Manager, Chief Financial Officer, Supervisor of Information Systems, SIB Audit Committee, and TFFR Board

TFFR REFUND AND PURCHASE AUDIT:

On an annual basis, Audit Services will review a sample of the system generated audit tables for eight randomly selected refunds and four randomly selected purchases of service credit (two installments and two lump sum). The accuracy of month end reporting of lump sum payments and installment purchases of service credit is also verified.

Total Hours Allocated: 100
Audit Report Recipients: Deputy Executive Director/Chief Retirement Officer, Retirement Program Manager, Chief Financial Officer, Supervisor of Information Systems, SIB Audit Committee, and TFFR Board

TFFR DEATH BENEFIT PAYMENT AUDIT:

On a biannual basis, a review of deaths, long outstanding checks, and long term annuitants is completed to determine that established policies and procedures are being followed by Retirement Services staff.

Total Hours Allocated: 200
Audit Report Recipients: Deputy Executive Director/Chief Retirement Officer, Retirement Program Manager, Chief Financial Officer, SIB Audit Committee, and TFFR Board

Note: The TFFR Cost Benefit Audit and the TFFR Benefit Payments Audit will be done on a rotational basis.

EXECUTIVE LIMITATION AUDIT:

On an annual basis, the Executive Director/CIO's compliance with the State Investment Board (SIB) Governance Manual Executive Limitation Policies A-1 through A-11 is reviewed. The most recent calendar year is included in the audit. As a part of the Executive Limitation Audit process, Audit Services facilitates a number of surveys. In December of each year staff is asked to evaluate the Executive Director/CIO in the areas of leadership, communication, and valuing employees. In July of each year, Audit Services facilitates a customer satisfaction survey which is administered to SIB investment clients. At the request of the SIB Executive Review Committee, Audit Services will also facilitate and compile the results of the survey administered to members of the SIB each February as a part of their evaluation of the Executive Director/CIO.

Total Hours Allocated: 250
Audit Report Recipients: Executive Director/CIO, SIB Audit Committee, and SIB

INVESTMENT CONFIRMATION AUDIT:
A sample of investments will be selected and a confirmation letter will be sent to investment manager and custodial bank. This will confirm investment balances exist and that the investments are being reported accurately.

Total Hours Allocated: 100
Audit Report Recipients: Executive Director/CIO, Deputy CIO, Chief Financial Officer, SIB Audit Committee, and SIB

CASH MANAGEMENT AND REBALANCING AUDIT:
Audit Services will conduct a review of procedures of the cash management and rebalancing of the investment allocations. The following procedures will be tested as part of this audit:

- Rebalancing of asset allocations sample
- Wire transactions
- Timeliness and accuracy of client requests
- Sample of bank fees
- Review of staff access and authorization

Total Hours Allocated: 200
Audit Reports Recipients: Executive Director/Chief Investment Officer, Deputy Chief Investment Officer, Chief Financial Officer, and SIB Audit Committee

INTERNAL CONTROL ASSESSMENT:
A formal internal control assessment of RIO has never been completed. The purpose of an internal control assessment is to evaluate existing internal controls and review the effectiveness. The assessment will document controls and review the effectiveness of the system as a whole. An assessment of about 90 questions will cover Internal Audit, Human Resources, Information Technology, Operations, etc. This should be updated periodically to ensure effectiveness and efficiency with internal controls.

Total Hours Allocated: 200
Audit Report Recipients: Executive Director, Deputy Executive Director/Chief Retirement Officer, Chief Financial Officer, Supervisor of Administrative Services, Supervisor of Information Systems, Retirement Program Manager, and SIB Audit Committee

ADMINISTRATIVE EXPENSE AUDIT:
This is an audit on administrative expenses to check compliance with OMB policy and state purchasing requirements. There will also be a sampling of travel expenses to check compliance with polices.

Total Hours Allocated: 80
Audit Report Recipients: Executive Director/Chief Financial Officer, Chief Financial Officer, Supervisor of Administrative Services, SIB Audit Committee, and SIB

EXTERNAL AUDITOR ASSISTANCE:
Audit Services assists our external auditor, CliftonLarsonAllen (CLA), with a variety of tasks related to the annual financial audit. In particular, Audit Services is responsible for notifying participating employers that they have been selected to participate in an upcoming GASB 68 Census Data Audit. Audit Services is also responsible for ensuring any information requested from participating employers is provided timely to our external audit partners. Audits

Services will also become more involved with the external audit assistance in preparing documents and gathering information.

Total Hours Allocated: 60

CONSULTING:

PENSION SYSTEM UPGRADE ASSISTANANCE:

TFFR was approved for a pension system upgrade to be started in the next biennial. Audit Services can help significantly reduce risks by playing a role that is educational, consultative or audit in nature, and by bringing deep independent subject-matter expertise to the most common risk areas. Audit Service's ability to operate across the agency and across all individual work streams in a program provides visibility to risks that might otherwise be lost between silos. Audit Services also went to training on project management for internal auditors to help with the upgrade process.

Total Hours Allocated: 100

PORTFOLIO MONITORING PROCEDURES:

RIO staff has been working with Blackrock to implement a comprehensive risk management system using Blackrock's Aladdin system. This includes a module designed to monitor investment portfolios to ensure they remain investment guidelines. This will give investment staff to independently monitor investment guidelines and not be reliant on investment managers to notify if they are outside of investment guidelines. RIO investment staff will be adding additional staff and is will be working on designing procedures to regularly monitor investment portfolios. Although guideline monitoring has been done sporadically in the past, it is considered a best practice in the industry to have a more consistent and specific process in place. Audit staff will help review procedures and provide feedback during the process.

Total Hours Allocated: 40

ADMINISTRATIVE MANUAL UPDATING:

RIO is in the process of updating its administrative manual. Internal audit will work with the Supervisor of Administrative Services on reviewing existing policies, recommending additional policies, and ensuring compliance with administrative polices.

Total Hours Allocated: 60

Audit Services will allocate resources to the following administrative activities during fiscal year 2019:

Primary Administrative Responsibilities **Total Hours Allocated: 1,530**	
Annual Leave, Sick Leave, and Holidays	42%
Staff Meetings, Reporting, Email, and Records Retention	29%
SIB Audit Committee, SIB, and TFFR Board Meetings • Preparation and Attendance	20%
Annual Audit Planning	5%
Professional Development	4%

ANNUAL LEAVE, SICK LEAVE, AND HOLIDAYS:

The staff auditor earns 192 hours of annual leave per year (16 hours per month). The Supervisor of Audit Services earns 136 hours of annual leave per year (10-12 hours per month). The current workplan makes an allowance for each staff member to utilize 80 hours of sick leave per year. Given the nature of such leave it is anticipated that more or less leave could be utilized. During the course of the fiscal year, all state offices will close on ten observed holidays including New Year's Day, Martin Luther King Jr Day, President's Day, Good Friday, Memorial Day, Independence Day, Labor Day, Veterans Day, Thanksgiving Day, and Christmas Day.

Total Hours Allocated: 640

STAFF MEETINGS, REPORTING, EMAIL, AND RECORDS RETENTION:
Audit staff engages in numerous activities required to facilitate the day to day operations of both the department and the organization. Audit Services participates in department staff meetings and organization wide staff meetings. Staff members also must manage electronic communication, complete time and general reporting activities, and ensure compliance with published records retention procedures.

Total Hours Allocated: 450

SIB AUDIT COMMITTEE, SIB, AND TFFR BOARD MEETINGS
The Supervisor of Audit Services is required to prepare meeting materials for all SIB Audit Committee meetings. On some occasions meeting materials are also required for SIB and TFFR meetings as Audit Services provides quarterly updates to both of these boards. The Supervisor of Audit Services attends (whenever possible) all SIB Audit Committee, SIB, and TFFR meetings. The staff auditor attends SIB Audit Committee meetings.

Total Hours Allocated: 300

ANNUAL AUDIT PLANNING:
Audit Services completes audit planning activities on an annual basis. The agency risk assessment will be reviewed and adjusted depending on how risks have changed. The audit plan will be risk-based. An audit hours' budget and workplan are also created.

Total Hours Allocated: 80

PROFESSIONAL DEVELOPMENT
Professional development and continuing education opportunities are critical to continued professional success. All staff members of the Audit Services are members of the Institute of Internal Auditors (IIA). Staff members attend monthly educational opportunities provided by our local IIA chapter on a regular basis. The IIA also offers free webinars to all IIA members throughout the year which cover a variety of auditing related topics. Staff will continue to attend two-day training seminars offered by our local IIA chapter and regional conferences if and when such opportunities are available under current budgetary constraints.

Total Hours Allocated: 60

Audit Services

North Dakota Retirement and Investment Office

Investment Due Diligence Audit

Final Audit Report

July 31, 2019

Background

Internal Audit of the Retirement and Investment Office (RIO) has developed an Audit Program to review the ongoing investment due diligence process for the investment managers. Due diligence is the exercise of care that a reasonable person is expected to take over the life of an investment from pre-hire to wind-down. Given that a reliable investment due diligence process requires extensive ongoing monitoring to ensure that continued investment with a given manager is advisable, the Investment Team at RIO spends a substantial amount of time completing due diligence procedures with existing investment managers. This audit will review the due diligence procedures and documentation on investment managers.

Results Summary

Overall, Internal Audit (IA) found that the Investment Team has a comprehensive ongoing due diligence process. IA reviewed the due diligence process for 5 investment managers and no concerns were noted. IA reviewed a daily compliance report that BlackRock's Aladdin produced and that the Compliance Officer reviews on a daily basis. The exceptions noted on the report were false positives and IA did not note any concerns. Policies and procedures were reviewed with one recommendation noted.

While it appears that the Investment Team communicates frequently with each other on the details of the due diligence completed for each of the investment managers, there is no formal documentation for the procedures completed. It is recommended that a formal documentation process be established. Examples of documented procedures could include: the date due diligence was performed, the Investment Team member that performed the due diligence, the names of individuals in attendance, the notation of observations, concerns, and any other pertinent information.

The Investment Team should notify Internal Audit with their responses to the recommendation noted in this audit within 30 days of receipt of this report.

Scope

A majority of the audit work occurred in the second and third quarter of fiscal year 2019. A total a 5 investment managers were selected and the due diligence procedures were reviewed. Meetings were held with each member of the Investment Team and the Compliance Officer about the due diligence process.

Observations, Conclusions and Recommendations

IA met with the Investment Team (Chief Investment Officer, Deputy Chief Investment Officer, and Investment Analyst) and the Compliance Officer to discuss the process of ongoing due diligence performed on the investment managers. The Investment Team discussed what they do on a weekly, monthly, quarterly, semi-annually, and annual basis. The Deputy Chief Investment Officer also provided the ongoing due diligence policy with the investment managers. There is continual monitoring on performance and compliance with the investment guidelines. The Investment Team also works closely with Callan, the State Investment Board's (SIB) primary general investment consultant, on monitoring portfolio behavior. Callan produces performance reports on a quarterly basis for staff to review. Callan also meets quarterly with the SIB to review the portfolio performance and discuss any concerns.

The software BlackRock's Aladdin is utilized to help manage and monitor risk in the investment portfolio. BlackRock's Aladdin produces portfolio risk management reports. These reports allow the Investment

Team to view risk sensitivities from the individual security, portfolio, portfolio group and the enterprise level. It also aggregates exposures by asset types, sectors and portfolios. Benchmarks are also modeled at the individual security level which allows detailed comparisons of portfolios versus benchmarks. Reports can be produced daily, monthly and over other various timeframes. The Compliance Officer on a daily basis reviews changes to the portfolio to ensure that the investment guidelines are being adhered to by the investment managers.

On an annual basis, the Compliance Officer sends a Due Diligence Questionnaire (DDQ) to each of the investment managers to complete. This is a comprehensive document that helps the Investment Team monitor any significant changes that have occurred, and to ensure that investment managers are still adhering to the investment guidelines. The DDQ is reviewed every year before it is sent out to the investment managers and questions are added or removed as needed.

Once the DDQs are received from the investment managers, they are reviewed by the Compliance Officer. If any problem areas are noted, they are immediately brought to the attention of the Deputy Chief Investment Officer. The Deputy Chief Investment Officer also reviews each of the DDQs. It should be noted that these procedures are not required for vintage, non-core private equity partners to complete. There is one Investment Manager that is not required to complete a DDQ, but is required to send their audited financials and annual certification of investment guidelines.

The software Tamale is used as a central depository for investment related documents. These include but are not limited to the DDQ, contracts, agreements, and other routine monitoring documents. Staff has indicated that the purchase of Tamale in 2013 has helped with the monitoring of investment managers as everything is stored in one place and accessible to the Staff.

Another important procedure for ongoing due diligence is for the Investment Team to do onsite visits. Onsite due diligence reviews are considered an industry best practice which gives the Investment Team more insight into each investment manager. They are able to interview more of the investment manager's staff and get a better insight to the company. Policy states that at least once every three years an onsite due diligence visit will be done. However, if any market conditions or manager-specific issues arise more frequently onsite visits may occur. As of this report, there are 38 active investment managers with 73 different accounts. It should be noted that 6 of these relationships are ending and no onsite due diligence is required for these 6 relationships.

In discussions with the Investment Team, there was no formal documentation process for the remote or onsite due diligence reviews. Due to time constraints and a small staff, no formal documentation has been developed. However, during the discussions and review of materials, it does appear that the Investment Team does an efficient job of communicating to the team members on what was discussed and reviewed on remote or onsite due diligence visits.

Distribution:

State Investment Board
State Investment Board Audit Committee
David Hunter, Executive Director/Chief Investment Officer
Darren Schulz, Deputy Chief Investment Officer
Connie Flanagan, Chief Financial Officer

TO: **RIO Internal Audit and State Investment Board**

FROM: Dave Hunter, Darren Schulz and Eric Chin

DATE: September 6, 2019

SUBJECT: **RIO Investment Due Diligence Audit Report - Response**

I am pleased that "Internal Audit found that the Investment Team has a comprehensive ongoing due diligence process", while acknowledging that our formal documentation process should be enhanced.

Based on this Internal Audit recommendation, **RIO's Investment Team** has developed a **Detailed Quarterly Monitoring Report** which includes the following items:

1. Investment manager or consulting firm name;
2. Date and location of due diligence meeting or conference;
3. Type of due diligence conducted (e.g. preliminary, market update, portfolio update, pricing update, consultant screening);
4. Meeting attendees; and
5. Brief description of documentation form, length, file location and key findings, if any.

RIO's Investment Team implemented the above described documentation process effective July 1, 2019. RIO intends to share this **Detailed Quarterly Monitoring Report** with the SIB after each quarter-end effective as of October 1, 2019. The **Detailed Quarterly Monitoring Report** will be inserted behind RIO's existing "**Quarterly Monitoring**" report which is formally accepted by the SIB (as a consent agenda item after every quarter end). RIO's Investment, Fiscal and Administrative Services Teams also worked together to redefine the roles and responsibilities of our new Investment and Compliance Officer to further support and enhance RIO's existing investment due diligence documentation procedures.

> *Note: An interim version of this new Detailed Quarterly Monitoring Report is attached for reference purposes (for due diligence efforts from July 1, 2019 to August 31, 2019).*

STATE INVESTMENT BOARD
AUDIT COMMITTEE MEETING
MINUTES OF THE
MAY 23, 2019 MEETING

COMMITTEE MEMBERS PRESENT:	Yvonne Smith, PERS Board, Chair Jon Griffin, External Representative Josh Wiens, External Representative
MEMBERS ABSENT:	Bryan Klipfel, Workforce Safety & Insurance Rob Lech, TFFR Board, Vice Chair
STAFF PRESENT:	Connie Flanagan, Chief Financial Officer Bonnie Heit, Admin Svs Suprv David Hunter, ED/CIO Fay Kopp, Dep ED/CRO Sara Sauter, Suprv of Internal Audit Shelly Schumacher, Retirement Program Manager Dottie Thorsen, Internal Auditor
GUEST:	Thomas Rey, CliftonLarsonAllen Anders Odegaard, Attorney General's Office

CALL TO ORDER:

Ms. Smith called the State Investment Board (SIB) Audit Committee meeting to order at 3:00 p.m. on Thursday, May 23, 2019, at the Retirement and Investment Office (RIO), 3442 E Century Ave., Bismarck, ND.

A quorum was present for conducting business.

AGENDA:

The agenda was considered for the May 23, 2019, meeting.

IT WAS MOVED BY MR. GRIFFIN AND SECONDED BY MR. WIENS AND CARRIED BY A VOICE VOTE TO APPROVE THE AGENDA FOR THE MAY 23, 2019, MEETING AS DISTRIBUTED.

AYES: MR. WIENS, MR. GRIFFIN, MS. SMITH
NAYS: NONE
MOTION CARRIED
ABSENT: DR. LECH, MR. KLIPFEL

MINUTES:

IT WAS MOVED BY MR. WIENS AND SECONDED BY MR. GRIFFIN AND CARRIED BY A VOICE VOTE TO ACCEPT THE FEBRUARY 21, 2019, MINUTES AS DISTRIBUTED.

AYES: MR. GRIFFIN, MR. WIENS, AND MS. SMITH
NAYS: NONE
MOTION CARRIED
ABSENT: DR. LECH, MR. KLIPFEL

CLIFTONLARSONALLEN:

Mr. Rey reviewed the engagement scope, work plan, critical audit areas, and timeline of the financial statement audit of the Retirement and Investment Office (RIO) for the period of July 1, 2018 – June 30, 2019.

Mr. Rey also reviewed the audit results for GASB 68 schedules (schedules of employer allocations and pension amounts by employer) for the period ending June 30, 2018. An unmodified clean opinion was issued on the statements.

Discussion followed on ongoing internal audit activities that could be done throughout the year in support of CliftonLarsonAllen. Mr. Rey felt since a Risk Assessment has been completed on RIO that a starting point would be to focus on areas that have been identified as the highest risk. CliftonLarsonAllen and the Internal Audit Division will be coordinating more of their efforts as the Internal Audit Division of RIO continues to refocus their efforts and audit areas of RIO that have been identified as those of highest risk.

IT WAS MOVED BY MR. WEIN AND SECONDED BY MR. GRIFFIN AND CARRIED BY A ROLL CALL VOTE TO APPROVE THE AUDIT SCOPE AND APPROACH PRESENTED BY CLIFTONLARSONALLEN FOR THE FINANCIAL STATEMENT AUDIT OF RIO FOR THE PERIOD OF JULY 1, 2018 – JUNE 30, 2019.

AYES: MR. WIENS, MR. GRIFFIN, AND MS. SMITH
NAYS: NONE
MOTION CARRIED
ABSENT: DR. LECH, MR. KLIPFEL

AUDIT ACTIVITIES REPORT:

Ms. Sauter reported on internal audit activities for the period of January 1, 2019 – March 31, 2019, and also provided updates.

Four employer audits have been completed with three in progress with two to be completed by fiscal year end.

The Teachers' Fund for Retirement (TFFR) Purchase and Refund Audit has been completed. There were no significant findings.

The TFFR Salary Verification Audit testing is completed. The report will be forthcoming.

Since January of 2018, Internal Audit and RIO's Information Technology Division have been working with the State Information Technology Division to develop data analytics to help streamline the TFFR Employer Salary, Service Hours, and Eligibility Review process. The goal is to have it completed by June 30, 2019.

The TFFR Cost Benefit Audit was completed and reviewed with the Audit Committee at their February 21, 2019, meeting.

The Executive Limitations Audit was completed and reviewed with the Audit Committee at their February 21, 2019, meeting.

The Internal Audit Division has been assisting the SIB Executive Review Committee in the annual evaluation of the Executive Director/CIO and also assisting in developing and administering a board self-assessment.

The Investment Due Diligence audit testing has been completed. The audit is a new focus of the Internal Audit Division. The report will be forthcoming.

Ms. Sauter reported on Administrative Activities which included an educational segment at a RIO staff meeting on what internal audit is and its structure.

Ms. Sauter also provided an update on what Internal Audit will specifically be focusing on in the next couple of months.

Discussion followed on data analytics and the Death Audit.

Ms. Sauter and Ms. Thorsen also reviewed the Purchase and Refund Audit.

Ms. Sauter also reviewed the Executive Limitation review process.

Ms. Sauter also reviewed a draft of the final Employer Reporting Review. She has been working with the Retirement Services Division to revamp the final report that will be issued to Retirement Services. Internal Audit will now be issuing their findings on Employer audits to Retirement Services, not the Employers. Retirement Services will be responsible for issuing reports to the Employers and giving a written response on how, if any, findings and recommendations are being addressed.

IT WAS MOVED BY MR. WIENS AND SECONDED BY MR. GRIFFIN AND CARRIED BY A ROLL CALL VOTE TO ACCEPT THE INTERNAL ACTIVITIES REPORT FOR THE PERIOD OF JANUARY 1, 2019 – MARCH 31, 2019, AS WELL AS THE UPDATES.

AYES: MR. GRIFFIN, MR. WIENS, AND MS. SMITH
NAYS: NONE
MOTION CARRIED
ABSENT: DR. LECH, MR. KLIPFEL

WORK PLAN & BUDGETED HOURS:

Ms. Sauter reviewed the July 1, 2019 – June 30, 2020 work plan and requested feedback from the Audit Committee as far as allocation of time.

Discussion followed on the work plan.

Mr. Wiens questioned if there is confirmation of the valuation and existence of the SIB assets.

Mr. Hunter reviewed the avenues that would be available to Ms. Sauter. Ms. Sauter will work with the Investment Service’s Division to determine the most efficient process to pursue and will report back to the Audit Committee.

The work plan will be revised to reflect this change and brought before the Audit Committee at their September 2019 meeting.

IT WAS MOVED BY MR. WIENS AND SECONDED BY MR. GRIFFIN AND CARRIED BY A ROLL CALL VOTE TO ACCEPT THE CURRENT WORKPLAN WITH MODIFICATIONS TO TAKE PLACE AS WARRANTED.

AYES: MR. WIENS, MR. GRIFFIN, AND MS. SMITH
NYAS: NONE
MOTION CARRIED
ABSENT: DR. LECH, MR. KLIPFEL

MEETING SCHEDULE:

A draft meeting schedule for the period of July 2019 - June 30, 2020 was presented for the Audit Committee’s consideration.

The Audit Committee concurred with the schedule.

COMMITTEE MEMBERSHIP:

The Audit Committee membership will be determined by the SIB at their July 26, 2019, meeting. Current Audit Committee members are to let Ms. Sauter know if they are interested in continuing to serve.

OTHER:

The next Audit Committee meeting is scheduled for Thursday, September 26, 2019, at 10:00 a.m. at the Retirement and Investment Office, 3442 East Century Ave., Bismarck, ND.

With no further business to come before the Audit Committee, Ms. Smith adjourned the meeting at 4:21 p.m.

Respectfully Submitted:

Yvonne Smith (9-26-19)
Ms. Yvonne Smith, Chair
SIB Audit Committee

Bonnie Heit (9-26-19)
Bonnie Heit
Recording Secretary

AGENDA ITEM IV.E.

BOARD ACTION

TO: **State Investment Board**

FROM: **Dave Hunter**

DATE: **October 18, 2019**

SUBJECT: **Annual Review of Governance Manual – Cover Memo**

In accordance with Section B-7 of the SIB Governance Manual, the Board Planning Cycle should include an "Annual Review of the Governance Manual". In order to facilitate a meaningful review, **the SIB will complete the review process over four months as follows:**

August 23, 2019 (Board Approved on Sep. 27, 2019)

Section A – Executive Limitations (13 pages)

Section B – Governance Process (15 pages) (added Executive Review Committee)

September 27, 2019 (Second Reading)

Section C – Board Staff Relationship (6 pages)

Section D – Ends (10 pages)

October 25, 2019 (First Reading)

Section E - Investments (30 pages)

Section F – TFFR Ends (postponed pending ongoing TFFR Board review)

November 22, 2019

Section G – By-Laws (9 pages)

Section H – Century Code (5 pages)

RIO encourages board members and RIO staff to review the relevant sections of our SIB Governance Manual prior to each of the above scheduled board meetings.

At the conclusion of our monthly board discussions, the SIB may make a motion to accept the recommended "First Reading" or "Second Reading" changes, if any, to the Governance Manual. Alternatively, the Board may motion to recommend additional and/or different changes. All SIB recommended changes will be brought forward for further discussion and formally approved at our next regularly scheduled board meeting, assuming no additional changes are recommended.

http://www.nd.gov/rio/SIB/Board/GovernanceManual/default.htm

Second Reading

EXHIBIT D-1

ORGANIZATIONAL BENEFICIARIES

INVESTMENT CLIENTS:

Statutory:

1. Budget Stabilization Fund
2. Cultural Endowment Fund
3. Insurance Regulatory Trust Fund
4. Petroleum Tank Release Compensation Fund
5. Public Employees Retirement System Fund
6. Risk Management Fund
7. State Bonding Fund
8. State Fire and Tornado Fund
9. Teachers' Fund for Retirement
10. The Legacy Fund
11. Workforce Safety & Insurance Fund

Contractual:

1. City of Bismarck Deferred Sick Leave Fund
2. City of Bismarck Employees Retirement Fund
3. City of Bismarck Police Retirement Fund
4. City of Fargo Dome Permanent Fund
5. City of Grand Forks Park District Pension Fund
6. City of Grand Forks Pension Fund
7. ND Association of Counties Fund
8. ND Job Service Retirement Fund
9. Public Employees Retirement System Group Health Insurance Fund
10. Public Employees Retirement System Retiree Health Insurance Fund
11. ND Board of Medicine
12. ND Parks and Recreation
13. **ND Office of the Attorney General**

ADMINISTRATIVE CLIENTS:

Statutory:

1. Teachers' Fund for Retirement Beneficiaries

Amended: ~~**March 23, 2018**~~ **October 25, 2019**

First Reading of Section E on INVESTMENTS

POLICY TYPE: INVESTMENTS

POLICY TITLE: *FIDUCIARY DUTIES*

By virtue of the responsibilities assigned to the SIB by North Dakota Century Code Chapter 21-10, the members of the SIB are fiduciaries for eleven statutory funds. Through contractual obligations, fiduciary responsibility extends to ~~twelve~~thirteen additional funds.

A fiduciary is a person who has discretionary authority or management responsibility for assets held in trust to which another has beneficial title or interest. The fiduciary is responsible for knowing the "prudent requirements" for the investment of trust assets. Remedial actions may be assessed against fiduciaries for violations of fiduciary duty.

North Dakota state law provides broad fiduciary guidelines for the SIB members. NDCC 21-10-07 specifies that "the state investment board shall apply the prudent investor rule in investing for funds under its supervision. The "prudent investor rule" means that in making investments, the fiduciaries shall exercise the judgment and care, under the circumstances then prevailing, that an institutional investor of ordinary prudence, discretion, and intelligence exercises in the management of large investments entrusted to it, not in regard to speculation but in regard to the permanent disposition of funds, considering probable safety of capital as well as probable income."

Procedural prudence is a term that has evolved to describe the appropriate activities of a person (or persons) who act in a fiduciary role. Court decisions to date indicate that procedural prudence is more important in assessing fiduciary activities than actual portfolio performance. A fiduciary cannot be faulted for making the "wrong" decision provided that proper due diligence was performed.

The key to successfully discharging the SIB's fiduciary duties is the establishment of and adherence to proper due diligence procedures. While not bound by ERISA (Employee Retirement and Income Security Act of 1974), the SIB will use the procedural prudence outlined by ERISA as guidance in developing its procedures:

1. An investment policy must be established for each fund and must be in writing.
2. Plan assets must be diversified, unless under the circumstances it would be prudent not to do so.
3. Investment decisions must be made with the skill and care of a prudent expert.
4. Investment performance must be monitored.
5. Investment expenses must be controlled.
6. Prohibited transactions must be avoided.

Policy Implemented: September 20, 1995.
Amended: May 30, 1997, January 22, 1999, February 27, 2009, October 26,2018.

POLICY TYPE: INVESTMENTS

POLICY TITLE: *INVESTMENT PROCESS*

The SIB believes that an investment program must be built and managed like any good business, with a clear statement of mission, overall objectives, roles and responsibilities, and policies and guidelines. Major issues to be faced by the SIB will revolve around:

Asset allocation targets:

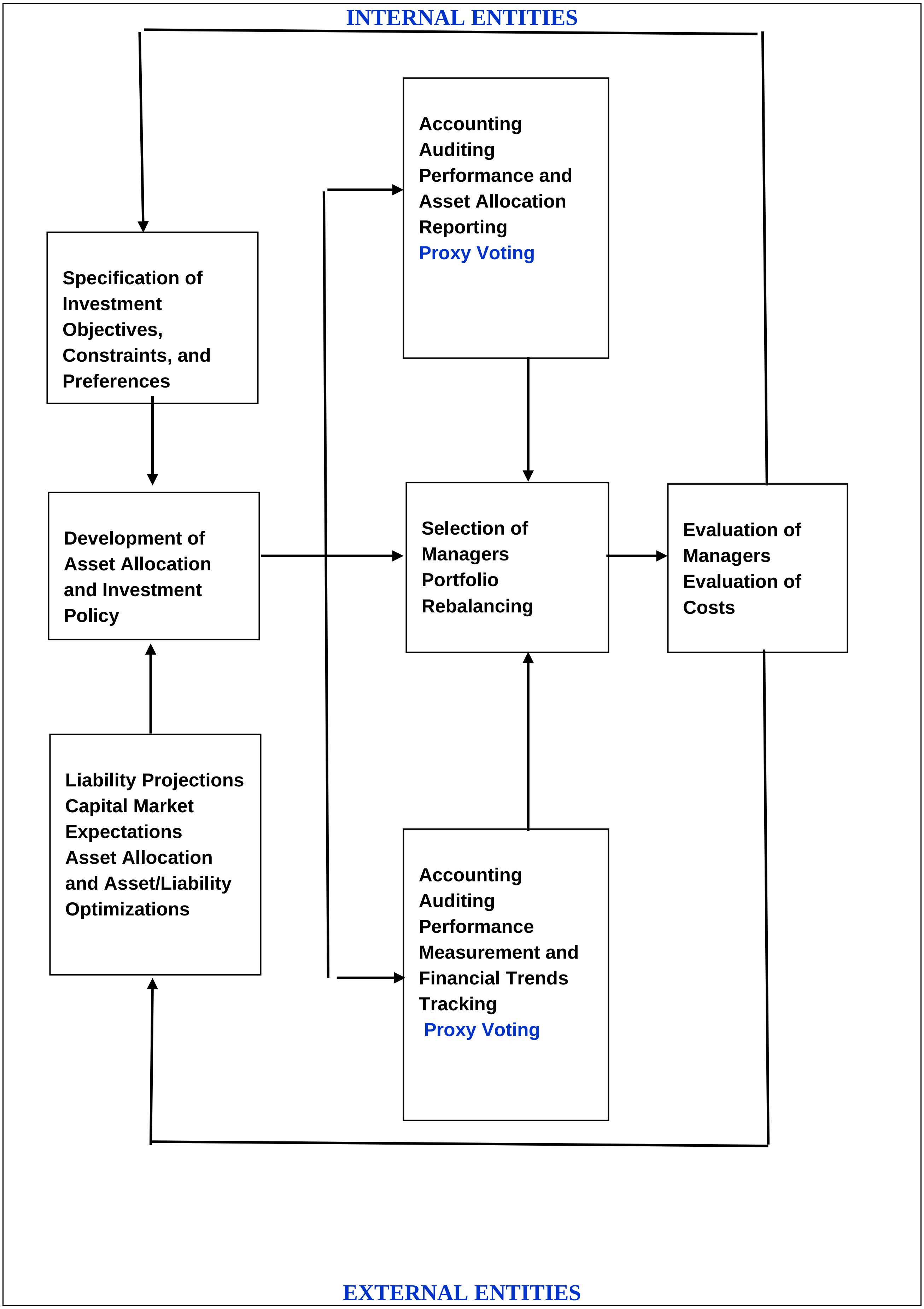
- Setting appropriate benchmarks.
- Finding the right managers.
- Monitoring the program.
- Searching for appropriate new opportunities.

To ensure rigorous attention to all aspects of the investment program, the SIB follows an established investment process. This process, described by the diagram on the following page, involves three phases:

- Investment policy development/modification.
- Implementation/monitoring.
- Evaluation.

The first column of boxes describes the policy development phase, the middle column implementation/monitoring, and the last box on right evaluation. Activities associated with internal entities are shown along the top. Those associated with external entities are shown along the bottom. The middle shows activities that internal and external entities work on together.

Policy Implemented: September 20, 1995.


INTERNAL ENTITIES
Accounting
Auditing
Performance and
Asset Allocation
Reporting
Proxy Voting
Specification of
Investment
Objectives,
Constraints, and
Preferences
Development of
Asset Allocation
and Investment
Policy
Selection of
Managers
Portfolio
Rebalancing
Evaluation of
Managers
Evaluation of
Costs
Liability Projections
Capital Market
Expectations
Asset Allocation
and Asset/Liability
Optimizations
Accounting
Auditing
Performance
Measurement and
Financial Trends
Tracking
Proxy Voting
EXTERNAL ENTITIES

POLICY TITLE: *KEY PROGRAM ENTITIES AND RESPONSIBILITIES*

The key responsibilities of the entities involved in the investment program are:

Fund Governing Bodies

1. Establish policy on investment goals and objectives.
2. Establish asset allocation.
3. Hire actuary when required.

SIB

1. Invest funds entrusted by statute and contracted entities.
2. **Set policies on appropriate investments and investment practices for entrusted funds.**
3. Approve asset allocation and investment policies of participating trust funds.
4. Report the investment performance of the funds to each fund's governing authority.
5. Hire and terminate money managers, custodians, and consultants.

Investment Officer and RIO Staff

1. **Implement investment policies approved by the SIB.**
2. **Provide research and administrative support for SIB projects.**
3. **Recommend investment regulations appropriate for governing the investment of entrusted funds.**
4. Assist fund governing bodies in developing asset allocation and investment policies.
5. Evaluate money manager adherence to investment objectives.
6. Provide performance reports to the SIB and boards of participating funds.
7. Recommend hiring or terminating money managers, custodians, consultants, and other outside services needed to effectively manage the investment funds.
8. Develop and maintain appropriate accounting policies and systems for the funds entrusted to the SIB.

POLICY TYPE: INVESTMENTS

POLICY TITLE: *KEY PROGRAM ENTITIES AND RESPONSIBILITIES*

Investment Consultant

1. Measure money manager performance and monitor adherence to investment goals, objectives, and policies.
2. Conduct annual evaluation of program policies and results, and assist in development of annual work plan.
3. Assist in implementation of annual work plan.
4. Conduct asset allocation or asset/liability studies.
5. Conduct requested money manager searches.
6. Assist in development of investment policies and manager structure and rebalancing guidelines.
7. Extension of staff for special projects.

Actuary

1. Assist fund governing bodies in developing benefit and funding policies.
2. Measure actuarial soundness of plan.
3. Perform experience studies as requested by plan sponsor.
4. Provide liability projections as needed.
5. Conduct annual evaluation of program policies and results, and assist in developmental of annual work plan.
6. Assist in implementation of annual work plan.

Auditor

1. Measure, validate, and offer an opinion on agency financial statements and management.
2. Assist in developing appropriate accounting policies and procedures.
3. Bring technical competence, sound business judgment, integrity, and objectivity to the financial reporting process.

Master Custodian

1. Provide safekeeping of all securities purchased by managers on behalf of the SIB.
2. Provide global custody services.
3. Collect interest, dividend, and principal payments in a timely manner.
4. Provide for timely settlement of securities.
5. Price all securities and post transactions daily.
6. Maintain short-term investment vehicles for investment of cash not invested by SIB managers. Sweep all manager accounts daily to ensure all available cash is invested.
7. Provide monthly, quarterly, and annual accounting reports for posting to RIO's general ledger.
8. May manage a securities lending program to enhance income.
9. Provide electronic access to accounting reports.
10. Provide other services that assist with the monitoring of managers and investments.

Portfolio Managers

1. Manage portfolios as assigned by the SIB.
2. Provide liquidity, as required, in a timely and cost-efficient manner.
3. **Vote proxies.**
4. Provide educational assistance to board.

Policy Implemented: September 20, 1995.
Amended: February 27, 2009

POLICY TYPE: INVESTMENTS

POLICY TITLE: *INVESTMENT POLICY DEVELOPMENT – TRUST FUNDS*

All funds under SIB management must have a written investment policy. Investment policy forms the cornerstone of the management of any investment program. A sound investment policy ensures that fund assets are managed in a disciplined process, based on long-term fundamental investment principles.

For the larger, more complex trust funds, consultants are used to assist in policy and asset allocation development. Their specialized skills are needed to model and analyze the many variables that go into determining a proper asset allocation.

Policy development starts with the specification of investment objectives, constraints, and preferences. Fund trustees must address a number of factors:

- What is the fund's objective(s)?
- What is the board's tolerance for risk or threshold for under-performance?
- What are the fund's liquidity needs and cash flow characteristics?
- What are the board's asset class preferences and constraints?
- What is the actuarial earnings assumption?
- What are the legal or political considerations?
- What is the investment time horizon?

Since the ultimate objective of fund investments is to provide for the payment of future capital needs, claims, or other monetary requirements, it is essential that the investment policy be developed within the context of fund liabilities or spending policy. The development of investment policy, therefore, is always unique to the circumstances of each fund.

Complex actuarial models are used to quantify the liabilities of the pension plans and Workforce Safety and Insurance. Internal entities develop cash flow forecasts for the smaller funds based on past claims or anticipated expenditures.

Asset allocation optimizations are used to quantify the range of future investment outcomes. Investment consultants contribute needed expertise on capital market expectations and in identifying the risks associated with a particular asset allocation.

For some funds, the risk/return tradeoffs of alternative portfolios are not well represented by expected returns and standard deviation. More important are the expected results for required sponsor and participant contributions and funded ratios over time. Asset/liability modeling is the tool that allows the governing boards to examine and assess the tradeoffs leading to an appropriate investment policy.

The results of the optimizations are a description of the range of financial results that might realistically be expected to occur. These results provide the basis for determining an asset allocation.

POLICY TYPE: INVESTMENTS

POLICY TITLE: *INVESTMENT POLICY DEVELOPMENT – TRUST FUND*

In accordance with NDCC 21-10-02.1, RIO staff works with each fund's governing authority, and consultants as needed, to develop an investment policy, which includes an appropriate asset allocation, for each of the statutory funds. Contracted entities are responsible for their own policy development.

Each policy, as a minimum, will include the following information:

1. Fund characteristics and constraints.
    a. An explanation as to the purpose of the portfolio and its legal structure.
    b. Size of portfolio and the likelihood and amount of future contributions and disbursements
    c. Participant demographics when applicable.
    d. Fiscal health of fund.
    e. Constraints.
    f. Unique circumstances.
2. Responsibilities of SIB.
3. Investment objectives.
4. Standards of investment performance.
5. Asset allocation policy and guidelines.
6. Evaluation and review.

Policy Implemented: September 20, 1995.
Amended: February 27, 2009

POLICY TYPE: INVESTMENTS

POLICY TITLE: *INVESTMENT POLICY DEVELOPMENT – INVESTMENT POOLS*

The SIB does no in-house investment of funds. All investment activity is delegated to outside money managers. Within each asset class there are numerous manager styles (i.e. market sector specializations) that may be employed by the SIB to affect exposure to the various asset classes.

SIB investment pool policy statements will define the following for each asset class:

1. Strategic objectives.
2. Performance objectives.
    a. Appropriate capital market benchmarks.
    b. Excess return targets, after payment of investment management fees.
    c. Peer-group ranking.
    d. Risk characteristics.
    e. Termination factors.
3. Portfolio constraints.
    a. Quality of securities/portfolio (security – BAA/portfolio – AA).
    b. Quality held (maximum in company/industry/economic sector).
    c. Other specific restrictions if applicable (ADRs, 144A securities, prohibited transactions, etc.).
4. Investment structure.
    a. Percent of assets per manager cycle.
    b. Ranges for rebalancing.
5. Control Procedures
    a. Duties and responsibilities of the SIB
    b. Duties and responsibilities of money managers.
    c. Reporting requirements.

Policy Implemented: September 20, 1995.
Amended: February 27, 2009

The SIB will ensure that appropriate monitoring mechanisms are in place at all times. The three basic mechanisms are:

- Accounting
- Auditing
- Performance Measurement

The primary objective of these functions is to provide useful information to decision makers (fiduciaries and legislators). These monitoring functions are needed to keep track of assets and manager activity and to control the asset mix. Different aspects of these activities will be conducted internally by RIO staff and externally by the master custodian, auditors, and investment consultants.

Accounting

The master custodian will provide RIO staff with such accounting detail and at such frequency as the staff deems necessary to fulfill the SIB's reporting requirements.

From this information, RIO accounting staff will generate monthly and annual financial statements for each of the trust funds managed by the SIB.

RIO management is responsible to ensure the proper valuation of all assets. Formal valuation policies must be developed and implemented utilizing industry best practices and GAAP accounting requirements.

Compliance

RIO management is responsible for developing and implementing compliance procedures utilizing industry best practices. A summary of compliance procedures and results will be presented to the SIB annually.

Auditing

The North Dakota State Auditor is responsible for the external audit of RIO. They may assign this responsibility to an outside firm which they select by way of the RFP process. The SIB Audit Committee may make recommendations to the State Auditor concerning the selection, evaluation, and termination of this firm. This firm conducts an extensive financial and management audit for each fiscal year. The audited financial statements are filed with the Legislative Audit and Fiscal Review Committee.

RIO has a dedicated internal audit function that reports to the SIB Audit Committee. The internal audit function encompasses both the investment and retirement divisions of RIO. The SIB Audit Committee has oversight responsibilities as outlined in the SIB Audit Committee charter.

Performance Measurement and Reporting

The third element of monitoring entails measuring the performance of the individual investment managers and the total fund performance of each of the funds under the SIB. The SIB will retain reputable investment consultants or performance measurement services to provide comprehensive quarterly performance measurement information. This information will include data on the capital markets, other plan sponsors, and other investment managers. Performance results for SIB accounts will be calculated from data provided by the master custodian and compared to relevant capital market benchmarks, other public funds, manager peer groups, and investment goals specified in the asset class investment policy. **Time periods covered by the report may vary but generally will include the most recent quarter, last 12 months, last three years, five years, and longer time periods (as data is available).**

POLICY TYPE: INVESTMENTS

POLICY TITLE: *MONITORING*

RIO staff will use appropriate sources to compile monthly performance reports for each of the funds under the SIB that show recent performance and asset mix.

Policy Implemented: September 20, 1995.
Amended: February 27, 2009, February 25, 2011.

STATEMENT OF POLICY

It shall be the policy of the State Investment Board (SIB) to vote all proxies appurtenant to shares held in the various plans administered by the Board, and to vote said shares in a manner that best serves the system's interests. Specifically, all shares are to be voted with the interest of preserving or enhancing share value. The Board endorses the Department of Labor opinion that proxies have economic power which shareholders are obligated to exercise to improve corporate performance. The Board further recognized that proxy issues are frequently complex, requiring expert guidance; accordingly, it has adopted procedures that employ such experts.

The objective of these policies are as follows:

➡ **1. Exercise the value empowered in proxies.**

➡ **2. Maintain or improve share value for the exclusive benefit of the participants.**

➡ **3. Achieve changes for the common good whenever these do not conflict with the exclusive benefit objective.**

PROCEDURES

DISTINCTION OF RESPONSIBILITIES

Master Custodian

The system's master custodian shall be responsible for timely receipt and distribution of proxy ballots to the appropriate investment management institutions.

Managers

The managers shall be responsible for promptly voting all proxies pursuant to the Board's policies, and in keeping with the managers' best judgments.

Staff

Staff, in concert with the master custodian and the managers, shall be responsible for monitoring the receipt and voting of all proxies.

Board

The Board shall administer and enforce its policies. This administration and enforcement requires reporting from responsible persons, as discussed in the following.

REPORTING

Master Custodian

The master custodian shall report **quarterly** in writing on all pertinent proxy issues, including (1) receipt of proxy material; (2) nature of issues; (3) due date; (4) names of managers and dates forwarded; and (5) deficiency reports covering proxies that should have been received but were not.

Manager

Managers shall report quarterly in writing on how proxies have been voted, with explanations given whenever the Board's guidelines have not been followed.

Staff

Internal compliance staff shall report annually on the efficiency of the process, the portion of total proxies that have actually been voted, and compliance with Board directives.

GUIDELINES

The Board believes that good corporate investment decisions require good corporate governance, and that social responsibilities cannot be ignored in these decision processes. Accordingly, the practice of faithfully voting with management will *not* be tolerated, nor will the "Wall Street Rule" which advocates the sale of shares if there is disagreement with management.

In keeping with the Board's philosophy, the managers are encouraged to vote *for* proposals that *increase* or enhance the following, and against those that decrease or diminish the same:

- **Health of the population**
- **Environmental conditions**
- **Management and Board accountability**
- **Abolition of management entrenchment**
- **Control of executive compensation**
- **Shareholder rights and ownership**
- **Fair labor practices**

Guidelines may be altered periodically by the Board as situations warrant.

See next page for consideration of additional "Proxy Voting" clarifying language.

Notwithstanding the forgoing, social and environmental issues are increasingly being incorporated into proxy voting. The Board expects voting of social and environmental proposals will be based solely on enhancing or protecting long-term value to the assets under its oversight and not be based on establishing or endorsing social policy. As part of its fiduciary duty, the Board expects Managers to consider only those factors that relate to the economic value of the Board's investments and shall not subordinate the interests of our SIB clients to unrelated objectives.

It is the policy of this Board that RIO investment and compliance staff shall regularly review related proxy votes by our investment managers. Any proxy votes deemed to be contrary to the interests of our SIB clients shall be fully explained by the Manager in writing and brought to the attention of the SIB for its review if deemed to be material.

Policy Implemented: September 20, 1995.
Amended: February 27, 2009, October 26, 2018.

The SIB hires investment managers with the intention of maintaining long-standing relationships. Care is taken to select managers for defined roles based on their strengths in designated areas. The hiring process is done in accordance with all applicable state and federal laws.

Some manager selections are conducted by the consultant while others may be directed by the staff in coordination with the SIB. Ultimately, the selection process is often a team effort involving the investment consultants, SIB members, and RIO staff. A consultant may be invaluable in this activity due to the large volume of data that needs to be collected, verified, and summarized. Also, their ongoing dialogue with money management firms provides useful qualitative input.

The investment management business has rapidly evolved since the 1990's. It is recognized that many viable firms have been formed as the result of spin-offs or start-ups and may not have a traditional long-term investment performance history in accordance with the following guidelines. There has also been a tremendous increase in the types of strategies available to institutional investors resulting in the need for flexibility in the establishment of investment criteria. Subject to the case-by-case acceptance of deviation by the SIB members, money managers must meet the following minimum selection criteria for inclusion in a manager search:

- Must be a registered investment adviser, bank, insurance company, or investment company (mutual fund). Should provide ADV Part II (registered investment adviser) prospectus (investment company) or comparable information (bank or insurance company).

- Provide at least five years of actual quarterly performance data that is time weighted a representative composite of accounts, and meets Global Investment Performance Standards (GIPS).

- Provide information that illustrates the key investment personnel have been together for at least five years and the capabilities of the firm can handle the current level of investment activity.

- Able to articulate the firm's investment strategies and philosophy in a manner understandable by the Board, and provide a statement that the strategy has been followed for at least five years.

- Disclose any pending or past litigation or censure.

- Be willing to acknowledge their fiduciary status in writing (mutual funds are exempted from this requirement).

The following steps will be followed in the selection process, subject to modification relative to investment strategy and manager search circumstances:

- Develop a profile of the type of manager needed. This is based on the investment goals and asset allocations. Included in the profile are such things as:

  Quantitative characteristics, such as GIPS-compliant composite return data, risk-adjusted rates of return and relevant portfolio characteristics.

Qualitative characteristics, such as key personnel, investment philosophy, investment strategy, research orientation, decision making process, and risk controls.

Organizational factors, such as type and size of firm, ownership structure, client servicing capabilities, ability to obtain and retain clients, and fees.

- The Investment Officer will give a written report to the SIB on the due diligence process conducted by the Investment Officer, RIO staff, and the SIB in the manager selection process. This report will include selection steps followed and process steps excluded.

- Consultant and/or staff use the profile to screen their data base for managers that meet SIB criteria.

- Consultant and/or staff reduce the group to the top candidates and prepare a summary report. The report will contain pertinent data on each of the candidates.

- When appropriate, on-site visits may be made by staff and board members to the candidates' home offices. Visits by board members to potential manager sites must have board approval.

- When appropriate the Investment Officer will conduct fact-finding pre-interviews. SIB trustees and RIO staff will receive notice of these pre-interviews.

  Interviews are conducted with each of the finalists in Bismarck. All are required to bring the potential portfolio manager to the interview. Particular attention is paid to gaining an understanding of the investment process and determining the manager's compatibility with the SIB's guidelines and objectives.

  The Investment Officer will schedule manager interviews with the SIB. Following these interviews, the Investment Officer, with the advice of RIO staff and consultants, will make recommendations to the SIB on manager selection.

- The SIB will select the investment manager by majority vote.

- Manager(s) selected by the SIB are notified immediately by RIO staff. Unsuccessful candidates are notified by consultant **and RIO staff.**

- Investment management contracts are reviewed and finalized, sent to the Attorney General for approval, and executed.

- Accounts are set up at the master custodian and on the internal general ledger.

- Consultant is notified when to begin the measurement of the investment performance of the manager(s).

Policy Implemented: September 20, 1995
Amended: February 27, 2009

Portfolio Rebalancing

The need to rebalance the portfolio can arise due to a new asset allocation or because market activity has driven the actual distribution of assets away from the desired mix. To minimize transaction costs due to rebalancing, RIO works with the investment consultants to determine appropriate ranges around the target mix (which are specified in the policy statement). Rigidly adhered to, such a policy is a valuable risk control tool. By maintaining asset mix within reasonably tight ranges, the SIB avoids making unintentional "bets" in the asset mix and avoids market-timing decisions.

All of the funds the SIB oversees have an asset allocation with minimum and maximum limits assigned. RIO's rebalancing policy requires the asset mix to be determined at the end of each month. At the end of each quarter, all portfolios deviating from the target beyond the acceptable limits are rebalanced to target.

Policy Implemented: September 20, 1995.

POLICY TITLE: *EVALUATION*

The SIB will follow an annual evaluation cycle for the investment program to ensure systematic review of investment policies and performance results and the development and implementation of corrective action plans. Evaluation of the program seeks to answer such questions as:

- Are all investment goals being met?
- What has worked and what has not?
- Have changes occurred in the capital markets, plan design, or board philosophy to warrant changes in investment policy?
- Are money managers meeting our expectations?
- Is continued confidence in the money managers warranted?
- Are accounting practices sound and fair to participating funds?
- Is service delivered in the most cost-effective manner?

The SIB's consultants play a key role in helping to answer some of these questions. The external auditor's report provides insight on accounting practices and cost effectiveness.

Evaluation of Money Managers

Achievement of the SIB's performance goals hinges on the success of the investment strategies and money managers it employs. Evaluation of each money manager must consider the following:

- Has the manager achieved the SIB's performance objectives?
- Has the firm adhered to the investment philosophy for which it was hired?
- Have there been any organizational or personnel changes that may negatively affect future performance?
- Are areas of concern being adequately addressed?
- Can the manager perform well in the future, regardless of whether extraordinary events, long-term performance, and/or short-term performance argue for termination?

These criteria are assessed by quantitative and qualitative means:

- Analyses provided by the investment consultant.
- Annual meetings with each manager in Bismarck to discuss performance, investment philosophy, organizational changes, economic outlook, and areas of concern.

Longer periods of time are better than shorter time periods when assessing a manager's performance. Ideally, performance should be assessed over a market cycle. Market cycles have varying lengths but have historically averaged 5-7 years. The SIB will use a minimum five-year period to evaluate manager performance against long-term performance standards. Long-term performance standards will be a market index that the manager has previously agreed to be measured against.

Shorter-term performance standards will also be established for each money manager. These standards will incorporate a minimum three-year measurement period and measure the manager against a previously agreed-upon peer group or style market index.

Long-term performance standards, short-term performance standards, extraordinary events, and termination factors will be incorporated in the written asset class investment policies.

Evaluation of Program Costs

Costs will be broken out by internal administration, investment consultants, master custodian, and external manager fees. Reports will detail this information by investment pool, managers, and by fund.

These costs will be compared to other funds on an annual basis and generally include a fee study conducted by an experienced investment consultant every two years. Staff is encouraged to identify other cost-comparison sources which may include the engagement of specialized fee consultants to conduct in-depth fee reviews on a periodic basis, subject to board review and approval.

Policy Implemented: September 20, 1995.
Amended: October 26, 2018

POLICY TYPE: INVESTMENTS

POLICY TITLE: *PERFORMANCE RELATED INVESTMENT MANAGER REVIEW*

The North Dakota State Investment Board (SIB) recognizes the inherent importance of assessing an investment manager because of performance. Thus, the following process of evaluation includes quantitative *and* qualitative input. This procedure is structured to assist the SIB in recognizing potentially distressed investment managers, initiating a formal review process, and providing guidelines for termination if necessary. Note: The “Manager Review” terminology or concept is not meant to cause the manager to make substantive changes in investment philosophy, style, or strategies. Rather, it is intended to define a period of close scrutiny of the manager’s activities, circumstances, and investment results.

Factors which may result in a Manager Review:

Significant changes in organizational structure

Significant changes in investment philosophy

Significant deviation in portfolio management from stated philosophy (style drift)

Substandard investment performance

Diminished confidence in manager

Manager Review Procedures:

Information is submitted to, or generated by, the Board which initiates consideration of a Manager Review.

If warranted, the Board takes action to initiate a Manager Review.

Based on the situation and with input from the Investment Director, the SIB suggests appropriate action to facilitate the Review. Action may include telephone conferencing, local or on-site visits with manager, investigation by consultants, appearance of manager before a select committee of the SIB, or appearance of the manager before the SIB. Investment Director initiates investigation of situation based on direction from SIB.

The Investment Director report’s findings to SIB at a subsequent meeting.

After considering findings of the Manager Review, SIB may:

- Remove manager from Review status
- Suggest additional action to facilitate Manager Review
- Relieve manager of duties

In the case where continued investigation is warranted, the Investment Director will report new information and/or recommendations to the SIB as appropriate. It will be considered the responsibility of the Investment Director to maintain awareness and consideration of the Review until the situation is resolved.

It is important to recognize that situations occasionally arise of such a serious nature that a Manager Review process must be immediately initiated. In such cases, the Investment Director is granted the authority to place an investment manager under Review, including the freezing of assets if necessary, and report on such action at the next meeting of the State Investment Board.

In every case, the Investment Director is responsible for documenting the Manager Review process including recognition of:

- Reason of Manager Review
- Action taken to investigate the situation
- Report on results of investigation
- Report on resultant action taken by SIB
- Notification of investigation and conclusions to manager and consultants

A complete record of Manager Review activities and history shall be maintained at the ND Retirement and Investment Office.

Policy Implemented: June 27, 1997.

POLICY TITLE: *BANK OF NORTH DAKOTA MATCH LOAN PROGRAM*

The SIB has a commitment to the Bank of North Dakota Match Loan Program. The purpose of the program is to encourage and attract financially strong companies to North Dakota. The program is targeted to manufacturing, processing and value-added industries.

The SIB provides capital to the program by purchasing Certificates of Deposit (CD's) from the Bank of North Dakota. The CD's are guaranteed by the state, typically have seven to fifteen year maturities and pay interest pegged to US Treasury notes.

The source of funding for CD's shall be determined by the Investment Director; that funding to be from the most appropriate source consistent with liquidity and relative yield and return objectives and constraints.

Policy Implemented: April 24, 1998.
Amended: February 27, 2009

POLICY TYPE: INVESTMENTS

POLICY TITLE: *ACCEPTING NEW CLIENTS*

NDCC 21-10-06 states *"The state investment board may provide investment services to, and manage the money of, any agency, institution, or political subdivision of the state, subject to agreement with the industrial commission. The scope of services to be provided by the state investment board to the agency, institution, or political subdivision must be specified in a written contract. The state investment board may charge a fee for providing investment services and any revenue collected must be deposited in the state retirement and investment fund."*

When a request is received by staff from a potential new investor requesting investment services from the State Investment (SIB), the following steps shall be followed.

1. Staff will conduct initial discussions with the potential client regarding type of fund, risk tolerance, size of fund, services to be provided, costs, etc.

2. Staff will recommend that an Asset/Liability study be conducted by the potential client if one has not been done recently. This discussion will include a description of the asset classes available for investment with the SIB to be included in their study.

3. If the potential client is still interested in participating in the SIB program, staff will bring the preliminary request to the SIB for acceptance. It shall be the policy of the SIB to take the following into consideration when determining if a new investor request will be accepted.

    a. Internal staff administrative capacity.
    b. Compatibility of new investor's goals and risk tolerances with the existing SIB program structure.
    c. Whatever other factors the SIB determines to be appropriate to the decision.

4. If the SIB chooses to accept the preliminary request, staff will provide the necessary template documents to the potential client for review and completion. These documents include a contract for services and investment guidelines.

5. Once documentation is completed, staff will request to have the issue included on the Industrial Commission's agenda for their approval. Copies of all documentation will be provided for their review.

6. If approved by the Industrial Commission, final documentation will be presented to the SIB for final acceptance.

7. If accepted, staff will work with the new client to set up transfer of funds and implementation of asset allocation as directed. All new clients will be brought in as of the last day of a calendar quarter.

8. Fees will be charged with the intention of covering all associated costs as described in RIO Fiscal Management procedure "Investment Fee Allocations".

Policy Implemented: November 20, 2009

POLICY TYPE: INVESTMENTS

POLICY TITLE: *SECURITIES MONITORING AND LITIGATION*

General Purpose

1. The North Dakota State Investment Board ("SIB") is a fiduciary for assets held in trust for the benefit of SIB clients, including their beneficiaries.

2. In order to carry out its fiduciary duty to prudently invest and diversify the assets of the various investment funds, the SIB invests considerable assets in global public securities markets.

3. The efficient and effective deployment of plan assets requires that in seeking returns market risks must be prudently assumed and managed. Investing in publicly-traded securities in regulated markets under accounting, disclosure and business practice laws and regulations provides general, but not perfect assurance that the information forming the basis for investments is accurate, conforms with accepted accounting practices, and is not distorted due to misfeasance, malfeasance or nonfeasance, or the timing of information disclosures by persons or entities with the ability to affect market prices of the investment securities.

4. Legal action is sometimes necessary to attempt to recover all or part of losses the funds may incur due to alleged improper action or inaction which results in the impairment of the value of the funds' security holdings.

5. Most such actions will be prosecuted through class action litigation whether or not the SIB takes an active role as a plaintiff or a passive role as a member of a certified class of plaintiffs. Any ultimate award or settlement from a class action will be ratably allocated among legitimate claimants.

6. The SIB will generally only consider pursuing active participation in securities actions when such a role is expected to add value by enhancing the prospect for recovery, increasing the amount of recovery, assuring more efficient and effective prosecution of the case, or identifying and addressing corporate governance issues through litigation.

For purposes of this Policy, "active participation" means seeking status as lead plaintiff, co-lead plaintiff, or filing separate legal action.

Non-Active Recovery and Filing

1. SIB will require as part of its agreement with its custodial bank or other designated agent, that adequate securities class action monitoring is maintained on an ongoing basis, sufficient to assure that most of the actual awards and settlements for such cases are tracked and identified and that proof of claim forms, including supporting documentation, will be properly and timely filed.

2. SIB may engage one or more legal firms that specialize in prosecuting security class-action cases; any such engagement is subject to the special appointment requirements of N.D.C.C. § 54-12-08. For these purposes only, such firm(s) may be granted ongoing access to security holdings information through the custodian bank or other designated agent.

3. An agreement with any law firm for non-litigation services will not commit SIB to employing said firm in the event that it seeks to represent SIB as an active participant in any securities related litigation. Such representation must be effected by a separate retainer agreement between the SIB and said firm, or another, depending on such factors as the potential monetary scope, the nature of the case and industry specialty that may be required, the allocation of current or past cases among candidate firms, the likely duration and cost of prosecuting such a case, retainer fees or contingency splits, the venue in which the case is to be filed, and other considerations.

4. The custodial bank or other designated agent will be required to provide the Retirement and Investment Office ("RIO") with periodic reports that detail class action cases monitored, claims filed, and award or settlement distributions received. RIO will maintain these records and provide an update to the SIB or Securities Litigation Committee (Committee) with regards to accounting information on distributions received on claims filed by the custodian bank or other designated agent on our behalf.

Active Participation in Cases

1. The Executive Director will initiate active participation in securities cases only upon prior review and approval of the SIB or Committee. Before bringing any recommendations to the SIB or Committee, the Executive Director, with significant assistance from legal counsel from the Office of the Attorney General, will assess the merits and prospects for active participation by reference to the criteria and factors outlined in this section.

2. Decision Criteria and Factors:

   a. The decision to participate in an active capacity in security litigation should be based on the totality of the circumstances. Dollar loss amounts are important, but not the sole or overriding factor to consider in making such recommendations by the Executive Director, or determinations by the SIB or Committee.

   b. Potential losses to SIB clients must be significant in order to warrant participation as a lead plaintiff, co-lead plaintiff, or separate litigant in U.S. or Canadian cases. Generally, in cases where the potential loss does not exceed the $5 million **(which may include assets under management by the Land Board)**, the SIB will generally avoid active participation.

   c. The *prima facia* merits of the claim for loss, and the factual basis for the action, recognizing that the full discovery process will not commence until the class has been certified by the court in which such case is to be filed.

   d. The availability of witnesses, and possible support that may be obtained from investment managers, consultants, and the custodial bank through discovery.

   e. The potential that any defendants or insurers will be able to pay an adequate recovery to the class, without impairing the value of any current security holdings SIB may yet hold in the issuer in the portfolio.

f. The ability of the law firm recommending action on the part of SIB to prosecute the case effectively, in the venue where such case is likely to be filed, and the experience of the firm in managing such cases individually or in partnership with other firms.

g. Potential long-term benefits from corporate governance changes from pursuing litigation.

h. The ability of SIB to serve as a fiduciary on behalf of all class members in the case, especially in relative terms to other institutional investors that may be considering the same case.

i. Potential costs that may be incurred. Special consideration must be given to any case that must be filed in a non-U.S. venue under the "Morrison" criteria established by the U. S. Supreme Court in a 2010 decision, since costs of litigation and potential liabilities of unsuccessful claims may be significant.

j. Current workload and staffing resources required for the fulfillment of SIB's primary member service functions, and whether participation might displace time and staff resources needed for core business functions.

3. Decision Criteria and Factors for cases filed in a non-U.S. venue: In addition to the Criteria and Factors set forth in Subsection 2, the SIB or Committee may consider the following:

   a. The proposed funding arrangements for the action.

   b. Evaluate the merits and risks of the case in light of the law of the jurisdiction in which the action would be brought. Generally, in cases where the potential loss does not exceed the Jurisdictional Thresholds referenced in Exhibit A, the SIB will avoid opt-in or group litigation participation.

Roles in Managing & Monitoring Litigation

1. The SIB or Committee will make the final determination of whether it is in the SIB's best interest to pursue active participation in any case and whether to engage any law firm and the terms of such engagement.

2. Decisions regarding the conduct and implementation of the SIB's or Committee's decision to participate will be the responsibility of the Executive Director, or an approved member of the management staff if he so delegates. When feasible and advisable, the Executive Director shall seek advice and direction from the SIB or Committee on strategic and legal issues that may arise in prosecuting the action on behalf of the SIB and its clients. The Executive Director shall timely report to the SIB or Committee on the progress of the litigation.

3. The Executive Director shall be responsible for management of the relationship with any portfolio monitoring law firm or organization for such purpose. Based on the need for additional coverage, the Executive Director and Committee will determine whether one or several firms are needed to fulfill the goals of this Policy and may terminate such monitoring agreements as judgment advises.

4. Any agreement for portfolio monitoring services that includes a fee or subscription cost must first be approved by the SIB or Committee before execution by the Executive Director.

Policy Review

1. The Committee and SIB shall review this policy at least every three years to ensure that it remains relevant and appropriate.

Exhibit A
Non-US Opt-In and Group Litigation
Jurisdictional Thresholds

Jurisdictional Description	Threshold
Passive/very low risk jurisdictions, simple registration or claim filing (no participation in litigation required, strong anonymity, very low costs) including, but potentially not limited to: Australia, Israel, Netherlands (including Dutch Foundations), regulatory funds (e.g. Compensation Schemes in UK)	None
Low risk jurisdictions (no discovery, low cost) including, but potentially not limited to: Japan	$1 million
Moderate risk jurisdictions (moderate cost, funded/insured to protect from cost shifting, some restricted discovery, not fully public) including but potentially not limited to: Germany, Austria, Belgium, Switzerland, Denmark, Spain, Finland, France, Hong Kong, Indonesia, Ireland, Italy, Korea, Luxembourg, Malaysia, Norway, New Zealand, Portugal, Sweden, and Thailand	$5 million
High risk jurisdictions (potential in-person discovery, no anonymity, uncapped fees) including, but potentially not limited to: Taiwan, United Kingdom, Singapore, Brazil	$10 million

Jurisdictional Thresholds are developed in consultation with legal counsel including other designated agents which are experts in global securities litigation matters.

Policy Implemented: November 20, 2015

Policy Amended: April 27, 2018, May 24, 2019

EXHIBIT E-I

State Investment Board (SIB) Members 2018-2019:

Position	**Incumbent**	**Designation**	**Term Expiration**
Lt. Governor	Brent Sanford	Statutory	12/31/20
State Treasurer	Kelly Schmidt	Statutory	12/31/20
State Insurance Commissioner	Jon Godfread	Statutory	12/31/20
Commissioner University & School Lands	Jodi Smith	Statutory	open
Executive Director Workforce Safety & Insurance	Bryan Klipfel	Statutory	open
Trustee, TFFR	Toni Gumeringer	Appointed by TFFR Board	6/30/~~19~~24
Trustee, TFFR	Rob Lech	Appointed by TFFR Board	6/30/20
Trustee, TFFR	Mel Olson	Appointed by TFFR Board	6/30/23
Trustee, PERS	Adam Miller	Appointed by PERS Board	6/30/22
Trustee, PERS	Troy Seibel	Appointed by PERS Board	6/30/21
Trustee, PERS	Yvonne Smith	Appointed by PERS Board	6/30/~~19~~24

Representative Keith Kempenich serves as a non-voting member of the SIB and is Chair of the Legacy and Budget Stabilization Fund Advisory Board.

EXHIBIT E-II

Retirement and Investment Office (RIO) Staff:

Positi	Incumbent	Educa
Executive Director/ Chief Investment Officer	David Hunter	BS, Accounting, Northern Illinois University MBA, Finance, University of Chicago
Deputy Chief Investment Officer	Darren Schulz	BBA, Finance, Georgia State University,
Chief Financial Officer	Connie Flanagan	BS, Accounting, University of Mary
Deputy Executive Director/ Chief Retirement Officer	Fay Kopp	BS, Education, Valley City State University, CRC,

External

Function	Firm	Date Hired
Investment Consultant	Callan Associates Inc.	4/84
Actuary (TFFR)	Segal	7/11
Auditor	CliftonLarsonAllen	4/12
Master/Global Custodian	The Northern Trust Company	12/83

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NORTH DAKOTA LEGISLATIVE MANAGEMENT

Tentative Agenda

LEGACY FUND EARNINGS COMMITTEE

Tuesday and Wednesday, November 12-13, 2019
Diederich Atrium, Harry D. McGovern Alumni Center,
North Dakota State University, 1241 North University Drive
Fargo, North Dakota

Tuesday, November 12, 2019

6:30 p.m.	Call to order Roll call Consideration of the minutes of the August 15, 2019, meeting Comments by the Chairman
6:35 p.m.	Presentation by the Legislative Council staff regarding the status of the legacy fund, including a brief review of the history of the fund

PUBLIC COMMENTS

6:40 p.m.	Comments by interested persons regarding proposed uses of legacy fund earnings

REVENUE INFORMATION

7:40 p.m.	Presentations by the Legislative Council staff regarding projected legacy fund earnings and a comparison of ongoing general fund revenues and appropriations
8:00 p.m.	Recess

Wednesday, November 13, 2019

SOVEREIGN WEALTH FUNDS

8:30 a.m.	Comments by the Chairman
8:35 a.m.	Presentation by a representative of the Retirement and Investment Office regarding an overview of sovereign wealth funds in the United States
9:15 a.m.	Presentation by Mr. David Teal, Director, Alaska Division of Legislative Finance, regarding the Alaska state budget and use of the Alaska permanent fund
10:15 a.m.	Break

OTHER PRESENTATIONS AND COMMITTEE DISCUSSION

10:25 a.m.	Presentation by Mr. Jonathan Williams, Chief Economist and Vice President, Center for State Fiscal Reform, American Legislative Exchange Council, regarding state fiscal policy, including income tax rate reductions
11:10 a.m.	Comments by interested persons regarding the committee's study
11:20 a.m.	Committee discussion regarding the potential uses of legacy fund earnings
12:00 noon	Adjourn

Committee Members

Representatives: Chet Pollert (Chairman), Josh Boschee, Jeff Delzer, Craig Headland, Keith Kempenich, Don Vigesaa

Senators: Joan Heckaman, Ray Holmberg, Jerry Klein, Jessica Unruh, Rich Wardner

Staff Contact: Adam Mathiak, Senior Fiscal Analyst

North Dakota Legacy Fund
Estimated "Earnings" Examples Using Percent of Market Value (POMV) Approach
As of June 30, 2019

	Deposits	Total Net Earnings	Net Increase/ (Decrease)	Ending Net Position
FY2016	**434,853,950**	**45,851,680**	480,705,630	**3,806,541,341**
FY2017	**399,501,134**	**479,595,256**	879,096,390	**4,685,637,731**
FY2018	**529,870,755**	**360,575,532**	890,446,287	**5,576,084,018**
FY2019 *	***692,568,943***	***308,838,126***	***1,001,407,069***	***6,577,491,087***
FY2020 **	***643,000,000***	***-***	***643,000,000***	***7,220,491,087***
FY2021	***The most recent fiscal year end is excluded each biennium***			-
		Average net position in 5 prior FYE's		**5,573,249,053**

Wyoming Perm. Min. Trust Fund may seek to reduce its Spending Policy (as a POMV for the 5 prior years) from:

5.00% in FY 2020
4.75% in FY2021
4.50% in FY 2020

Assumed Annual Spending Rate	**2.00%**	**3.00%**	**4.00%**	**5.00%**
Biennial Spend Rate Policy (x 2)	**2**	**2**	**2**	**2**
Biennial Spending Rate Examples	**222,929,962**	**334,394,943**	**445,859,924**	**557,324,905**

* FY2019 amounts are unaudited and subject to change, but deemed to be materially accurate.

* FY2020 Deposits are forecasted estimates whereas FY2020 Total Net Earnings are assumed to be zero until September of 2020.

1. **The Percent of Market Value approach is a prudent, responsible and transparent method for defining future Legacy Fund earnings.**
2. **The POMV approach is commonly used by similar investment funds, including North Dakota's Common Schools Trust Fund, in developing a sustainable spending policy. It is widely accepted as a best practice by many endowments and foundations.**
3. **The POMV approach uses the Legacy Fund's average ending market value from the prior five fiscal years and then applies an earnings distribution of 2, 3, 4, or 5 percent to establish a sustainable spending policy. The SIB encourages the Legislature to embrace this approach through legislation which should serve to benefit all North Dakotans in the future. This approach seeks to eliminate undue risk when developing a sustainable spending policy for future state budgeting and reporting purposes.**
4. **The Percent of Market Value approach increases transparency, is sustainable, and is a proven method that is used by other funds similar to the Legacy Fund. Moving to the POMV approach will give the Legislature a consistent approach for utilization in the budgeting process while protecting the integrity of the Legacy Fund.**

All future values and estimates are unaudited and subject to change given the inherent volatility of commodities and the capital markets.

Survey of US Sovereign Wealth Funds – Asset Allocation, Performance, Governance Structures, Constraints & Spending Policies

North Dakota Legacy Fund

Table of Contents

Overview of Peer Survey

Overview of Peer Survey

- RVK conducted a survey of US Sovereign Wealth Funds ("SWFs") in order to gain additional insight and perspective on the unique governance structures, constraints, and spending models of US based funds
- We have observed in working with various US SWFs that while there is a desire to understand how they compare to others, comparison can be extremely challenging due to the widely different governance structures and unique constraints
- This presentation includes information gathered by RVK via the survey and interviews with senior investment staff across the various funds, RVK consulting teams that serve those funds, and publicly available performance and asset allocation data
- The survey focused on the following:
  - Objectives, Asset Allocation, and Performance
  - Governance and Decision Making Structures
  - Constraints and Spending
- Where appropriate, we compare survey results to observed best practices

Overview of Peer Survey

US Sovereign Wealth Funds

- Alaska Permanent Fund*
- Commissioners of the Land, State of Oklahoma*
- Idaho Endowment Fund Investment Board*
- Montana Board of Investments*
- New Mexico State Investment Council*
- North Dakota Legacy Fund*
- North Dakota State Land Board*
- Texas Board of Education*
- Utah School & Institutional Trust Funds Office (“SITFO”)*
- Wyoming State Treasurer’s Office*
- Alabama Trust Fund
- Arizona State Treasurer
- Louisiana Education Quality Trust Fund
- Minnesota Permanent School Fund
- Texas University Fund

*Indicates survey respondent or RVK client. Publicly available data utilized for others to enhance universe sample size for some exhibits.

Overview of Peer Survey

A Note About Backwards Looking Peer Comparisons

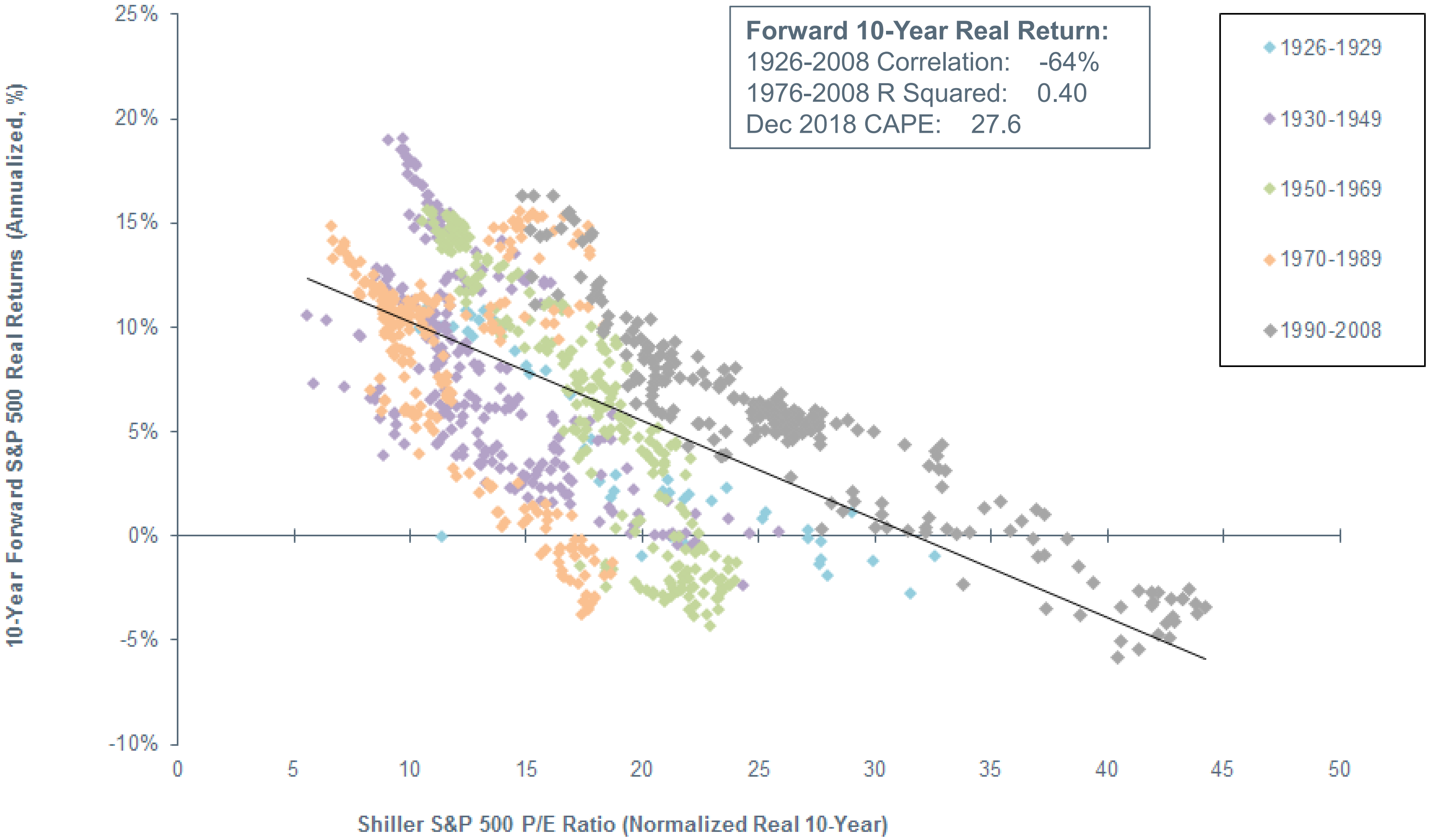
- Historical comparisons can be helpful, but should approached with a degree of caution
    - They rarely convey a full sense of the unique objectives and constraints faced by each institution
    - They don't necessarily separate luck from skill
    - They don't tell you what will work best in the future
- Focus should be on the primary objectives of each institution, the road ahead, and the removal of as many obstacles as possible that stand in the way of achieving the objectives

Overview of Peer Survey

Forward Looking Perspective: Returns Likely to be Lower

US Equity Valuations: Shiller P/E vs. Forward Returns

Trendline at 12/31/2018 = 1.6% Real Return


Forward 10-Year Real Return:
1926-2008 Correlation: -64%
1976-2008 R Squared: 0.40
Dec 2018 CAPE: 27.6

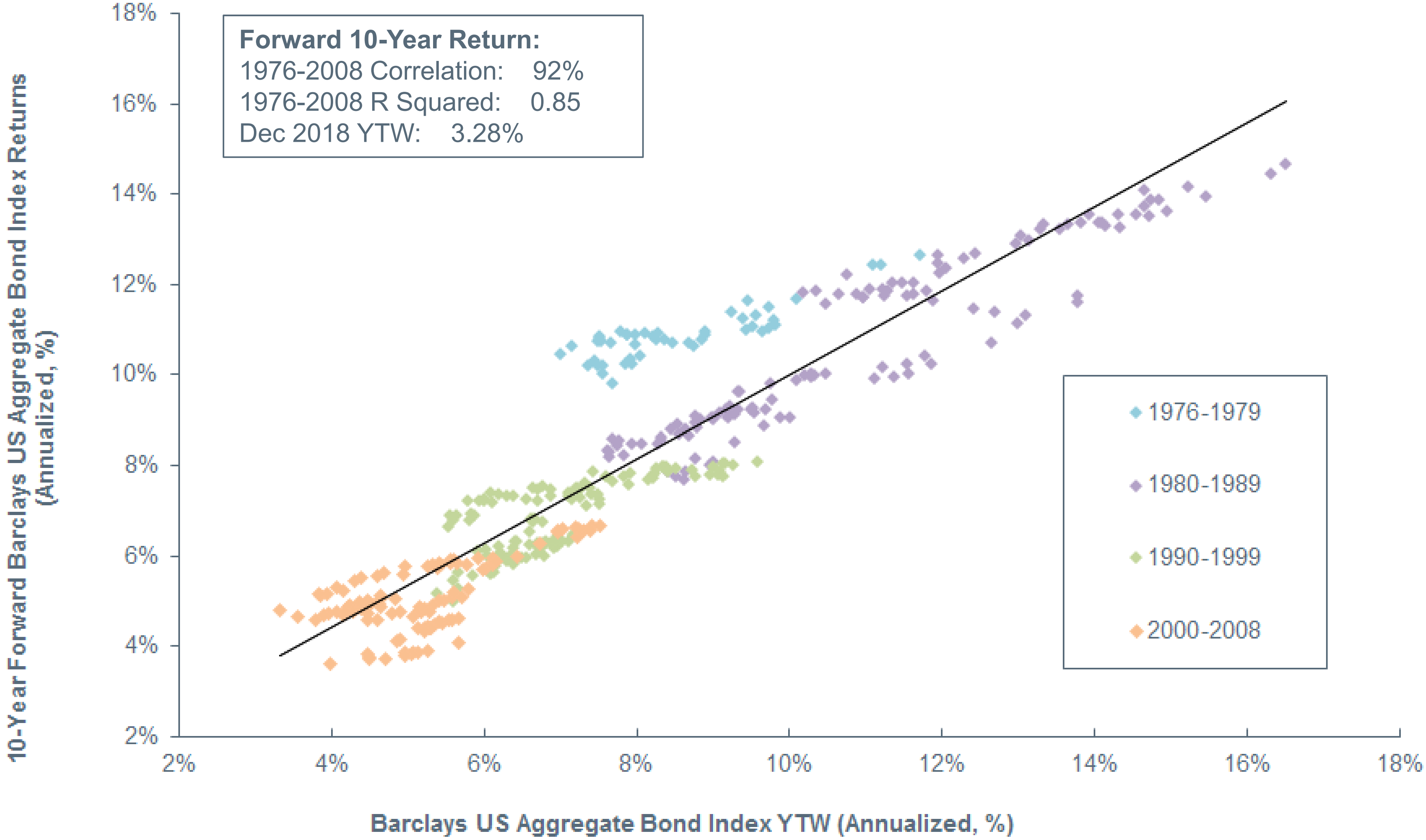
Trendline = -0.0047x + 0.1497

Overview of Peer Survey

Forward Looking Perspective: Returns Likely to be Lower

US Fixed Income Valuations: Current Yield vs. Forward Returns

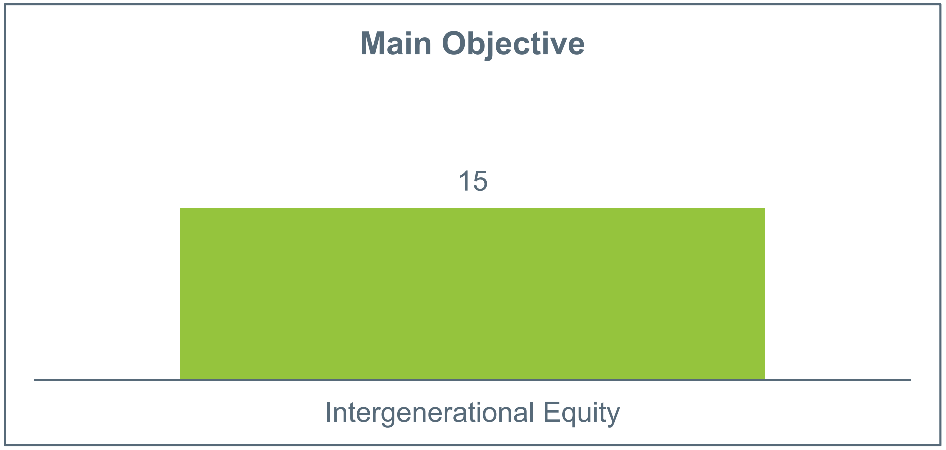
Trendline at 12/31/2018 = 3.75% Nominal Return

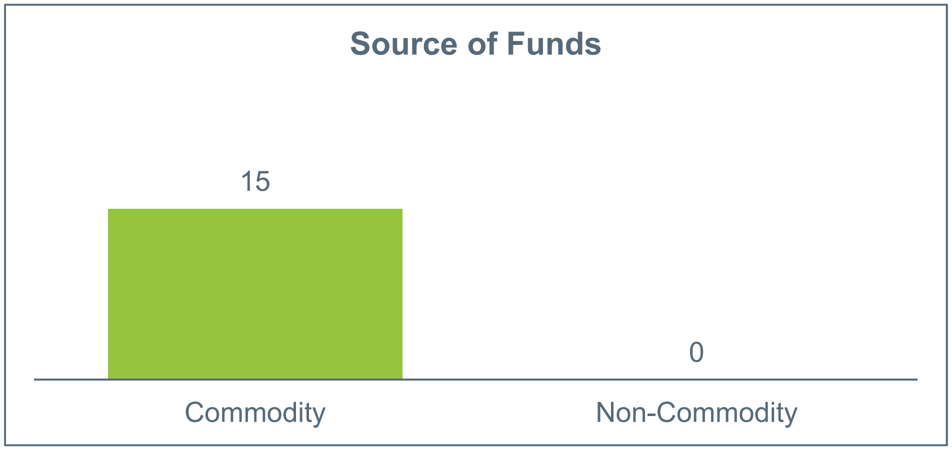


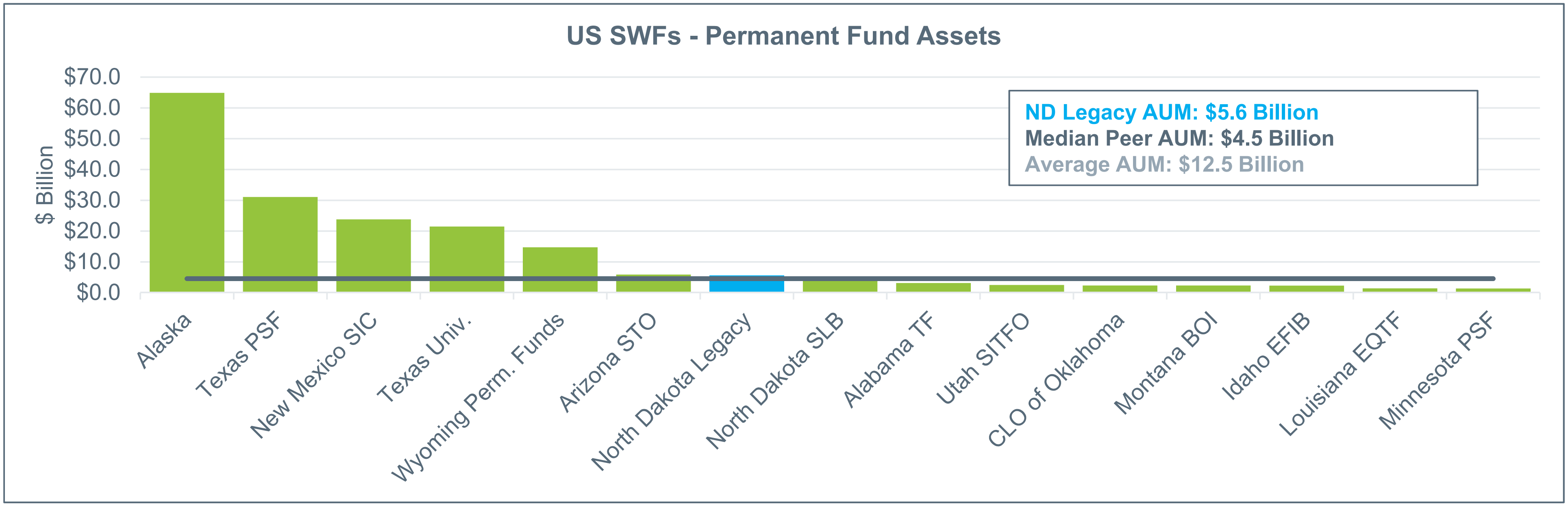
Trendline = 0.9321x + 0.007

Overview of Peer Survey

Universe Summary and Characteristics







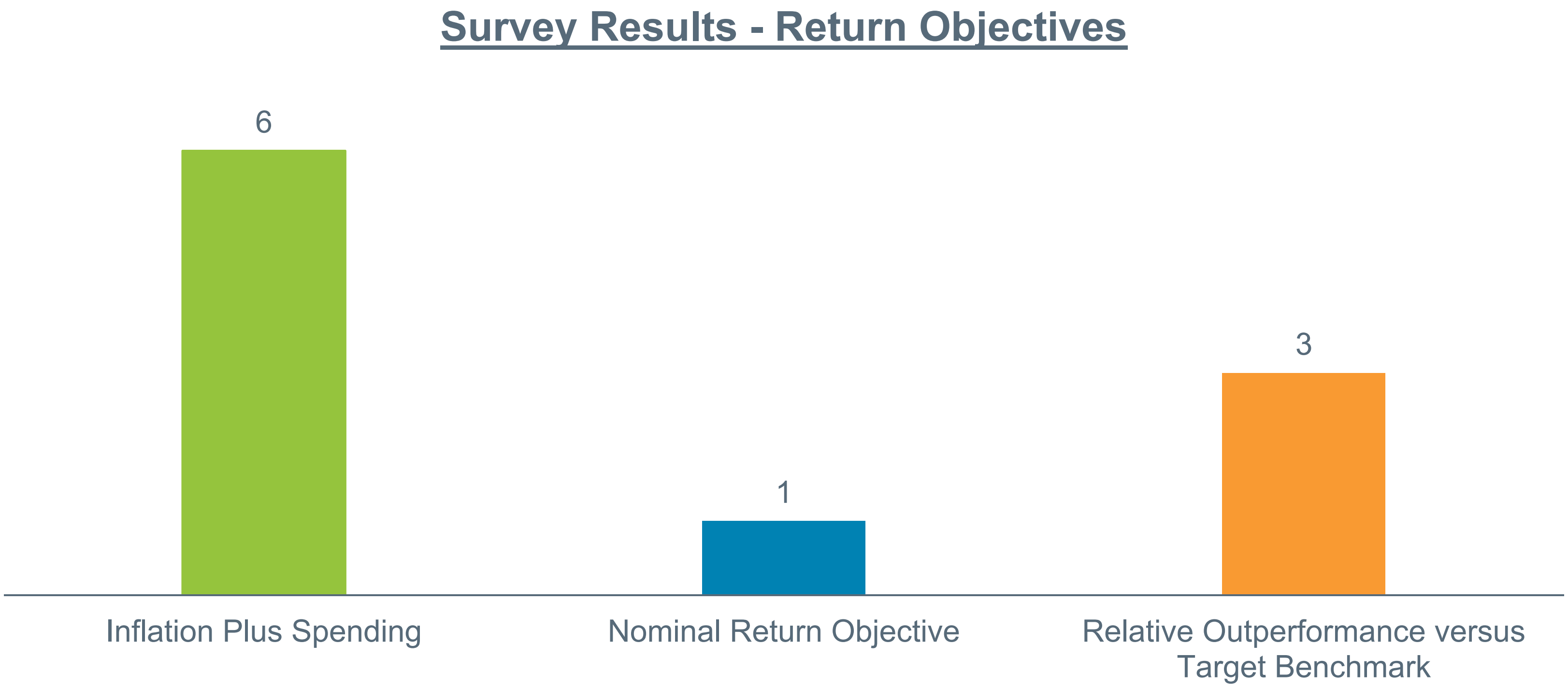
ND Legacy AUM: $5.6 Billion
Median Peer AUM: $4.5 Billion
Average AUM: $12.5 Billion

Data is as of June 30, 2018. Assets reflect permanent fund assets only and may differ from total AUM reported by the entity.

Asset Allocation and Performance

Objectives

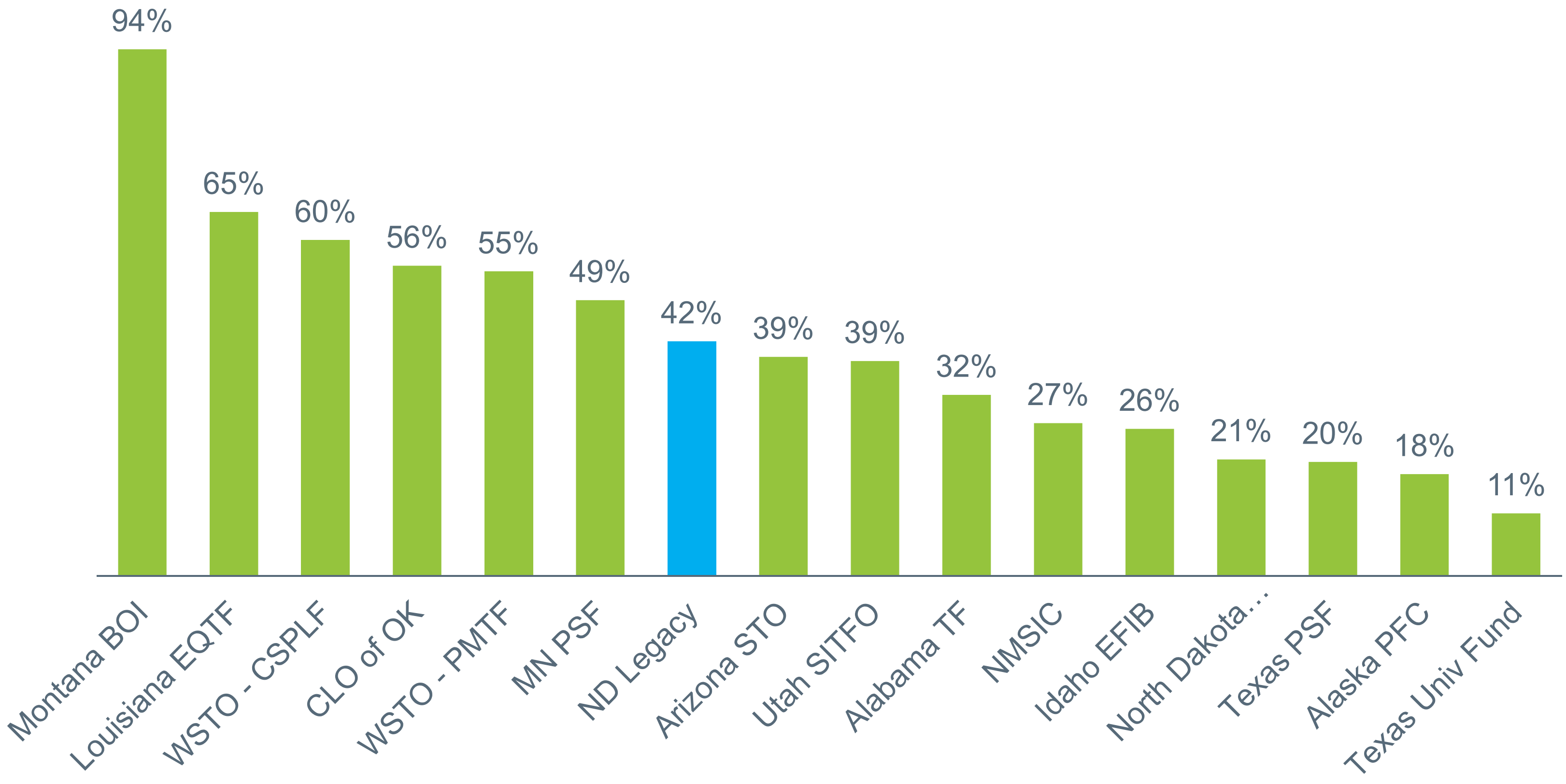
- Stated performance objectives are commonly tied to the spending policy and preserving the purchasing power of the SWF for future generations
- All funds surveyed have a long-term perpetual nature



Asset Allocation

- Although long-term objectives are similar, there is a wide dispersion of “safe” vs “risk” asset allocations

Allocation to Fixed Income & Cash as of June 30, 2018

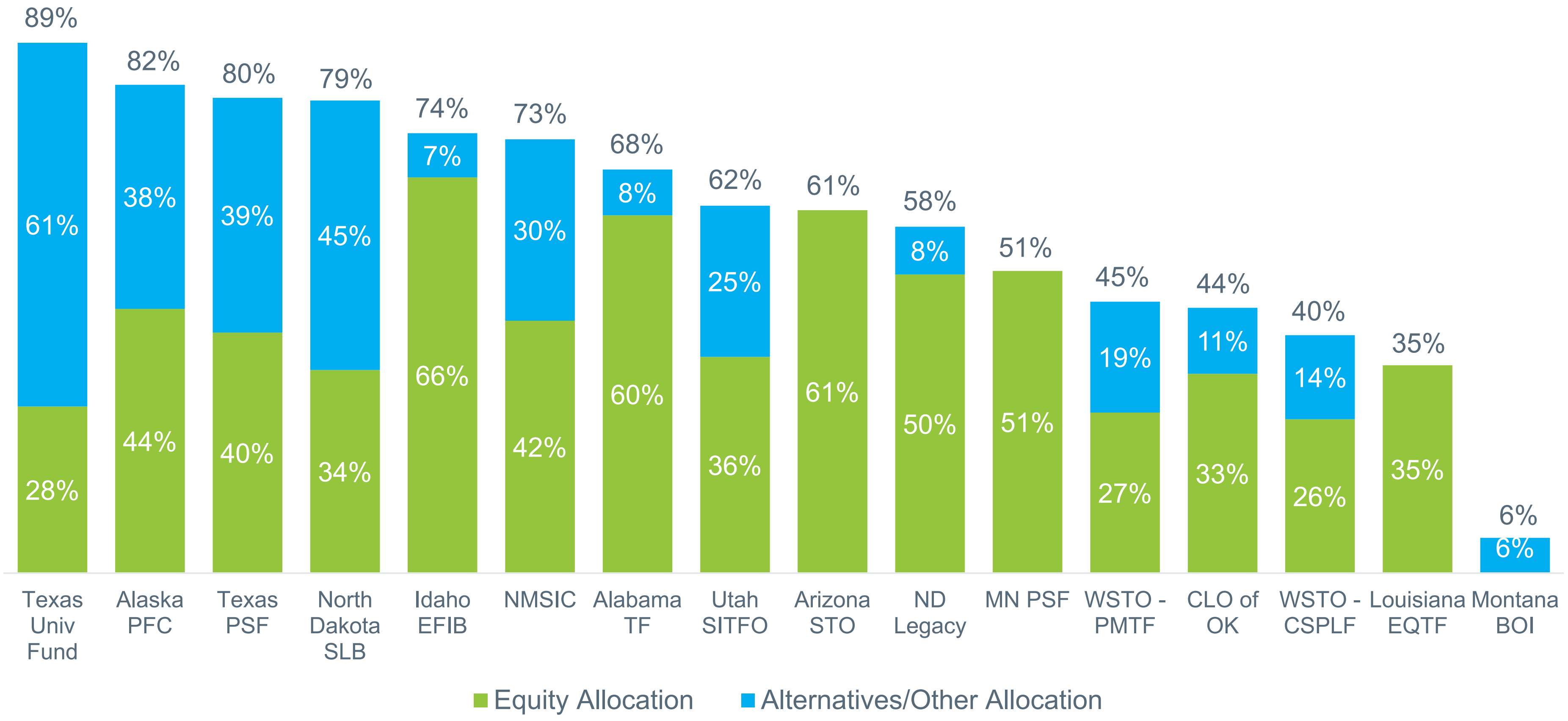


Allocations shown represent actual allocations as of June 30, 2018, not target.

Asset Allocation

- Although long-term objectives are similar, there is a wide dispersion of “safe” vs “risk” asset allocations.

Allocation to Public Equities and Alternative Assets as of June 30, 2018

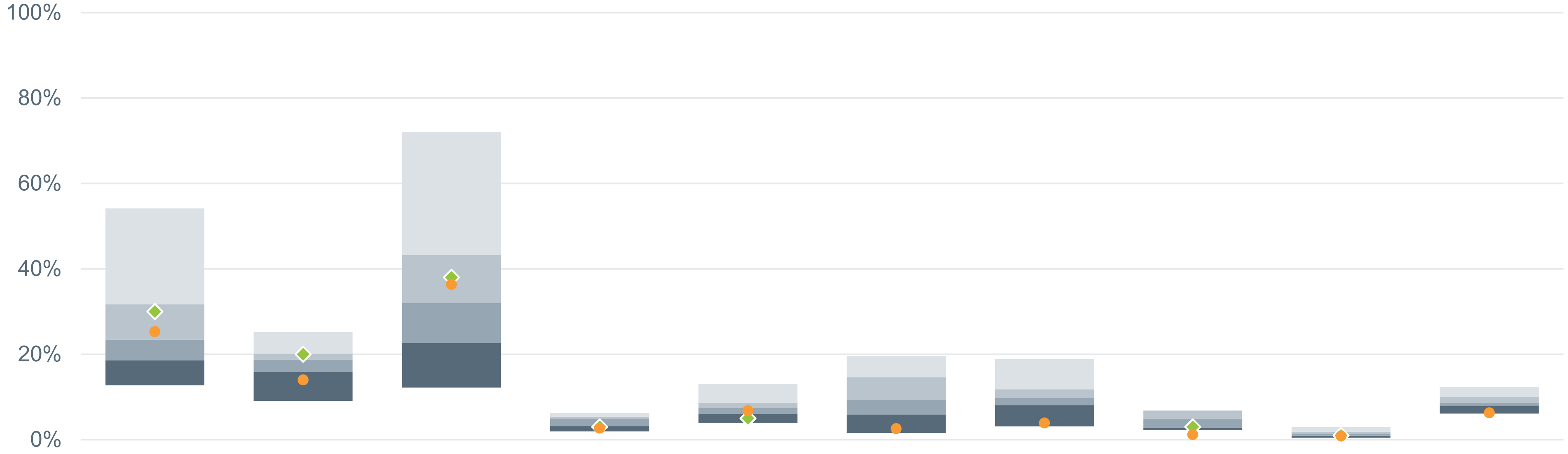


Allocations shown represent actual allocations as of June 30, 2018, not target.
Allocation to “Other” includes real return, GTAA, MLPs, risk parity, commodities and other alternative investments not broken out.

Asset Allocation

Asset Allocation

- North Dakota Legacy Fund has a higher allocation to US and International Equity and US Fixed Income, with lower allocations to real estate and alternatives compared to the median and average US sovereign wealth fund allocation.



	US Equity	Int'l Equity	US Fixed Income	Int'l Fixed Income	Real Estate	Hedge Funds	Private Equity	Infra.	Cash	Other
ND Legacy	**30.0%**	**20.0%**	**38.0%**	**3.0%**	**5.0%**	**N/A**	**N/A**	**3.0%**	**1.0%**	**N/A**
Median	**23.4%**	**18.7%**	**32.0%**	**5.1%**	**7.5%**	**7.5%**	**9.9%**	**4.9%**	**1.4%**	**8.9%**
Population	*15*	*13*	*16*	*9*	*13*	*5*	*6*	*4*	*11*	*9*
Average	**25.3%**	**14.0%**	**36.4%**	**2.7%**	**6.8%**	**2.6%**	**3.9%**	**1.2%**	**0.9%**	**6.3%**

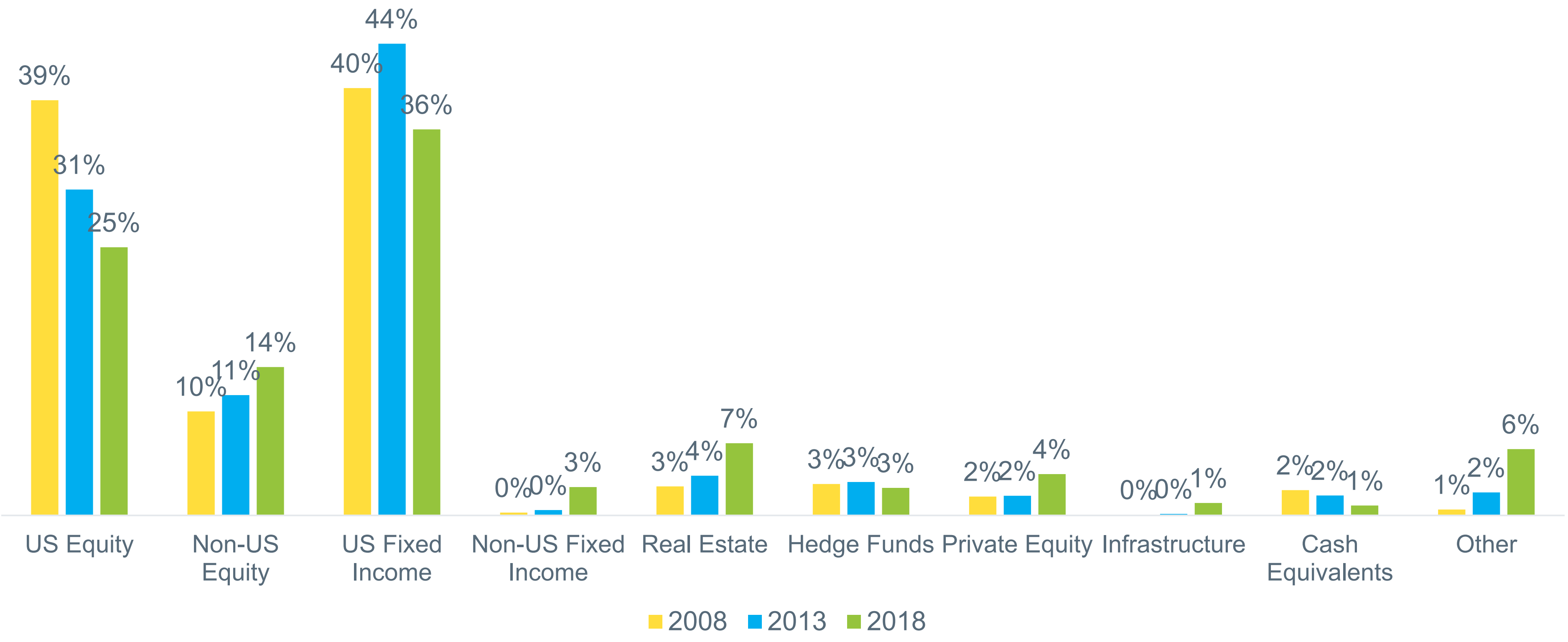
Allocation to “Other” includes real return, GTAA, MLPs, risk parity, commodities and other alternative investments not broken out.

Asset Allocation

Asset Allocation Trends

- US Equity allocations have declined significantly over the past 10 years
- Allocations to Real Estate, Private Equity, and other investments (most commonly real return, absolute return/GTAA) have increased

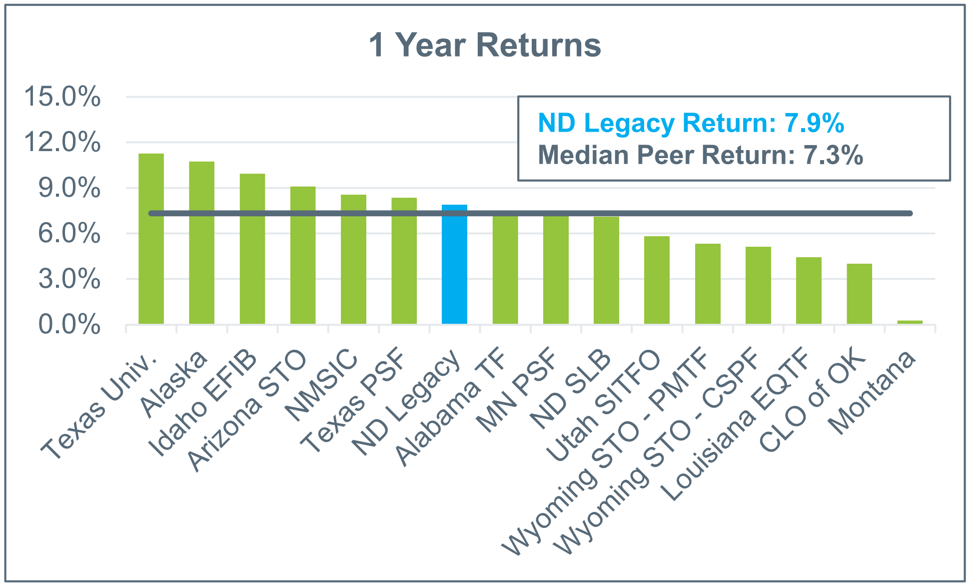
Average Asset Allocation



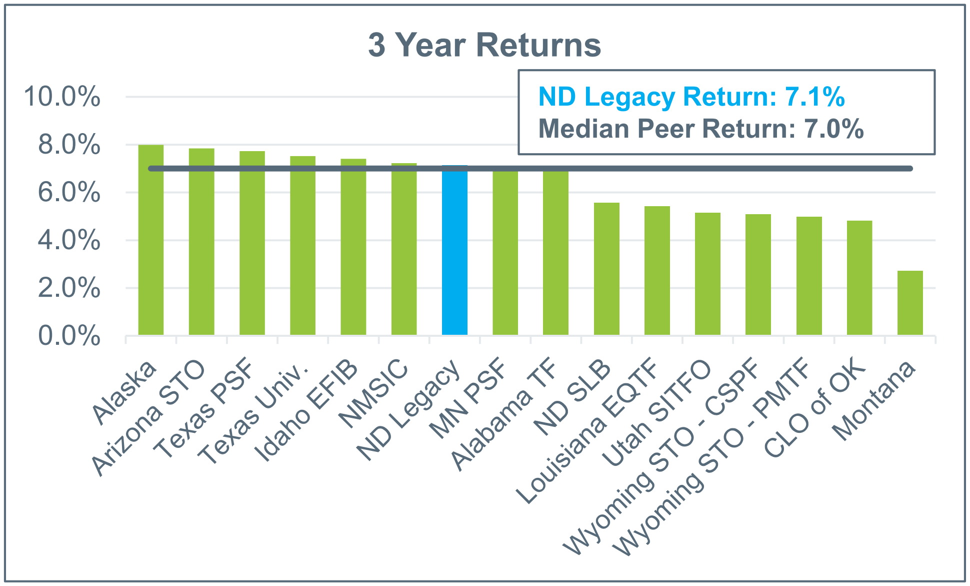
Allocation to "Other" includes real return, GTAA, MLPs, risk parity, commodities and other alternative investments not broken out.

Performance

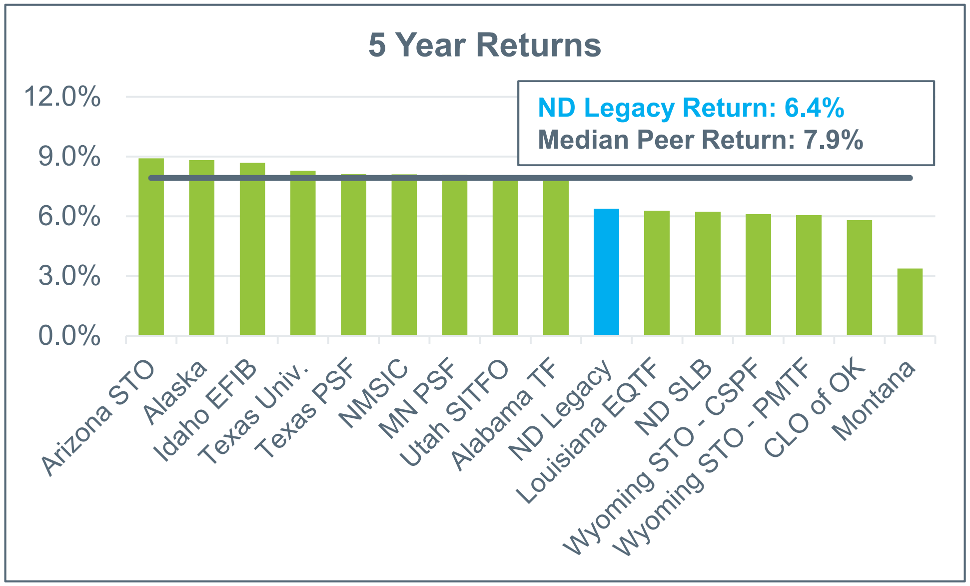
Historical Fund Performance



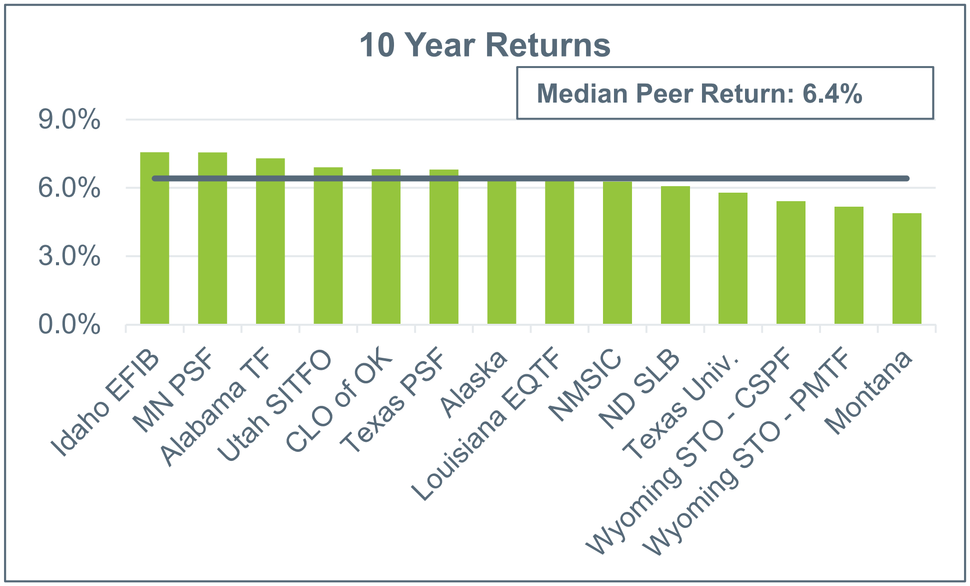
ND Legacy Return: 7.9%
Median Peer Return: 7.3%



ND Legacy Return: 7.1%
Median Peer Return: 7.0%



ND Legacy Return: 6.4%
Median Peer Return: 7.9%

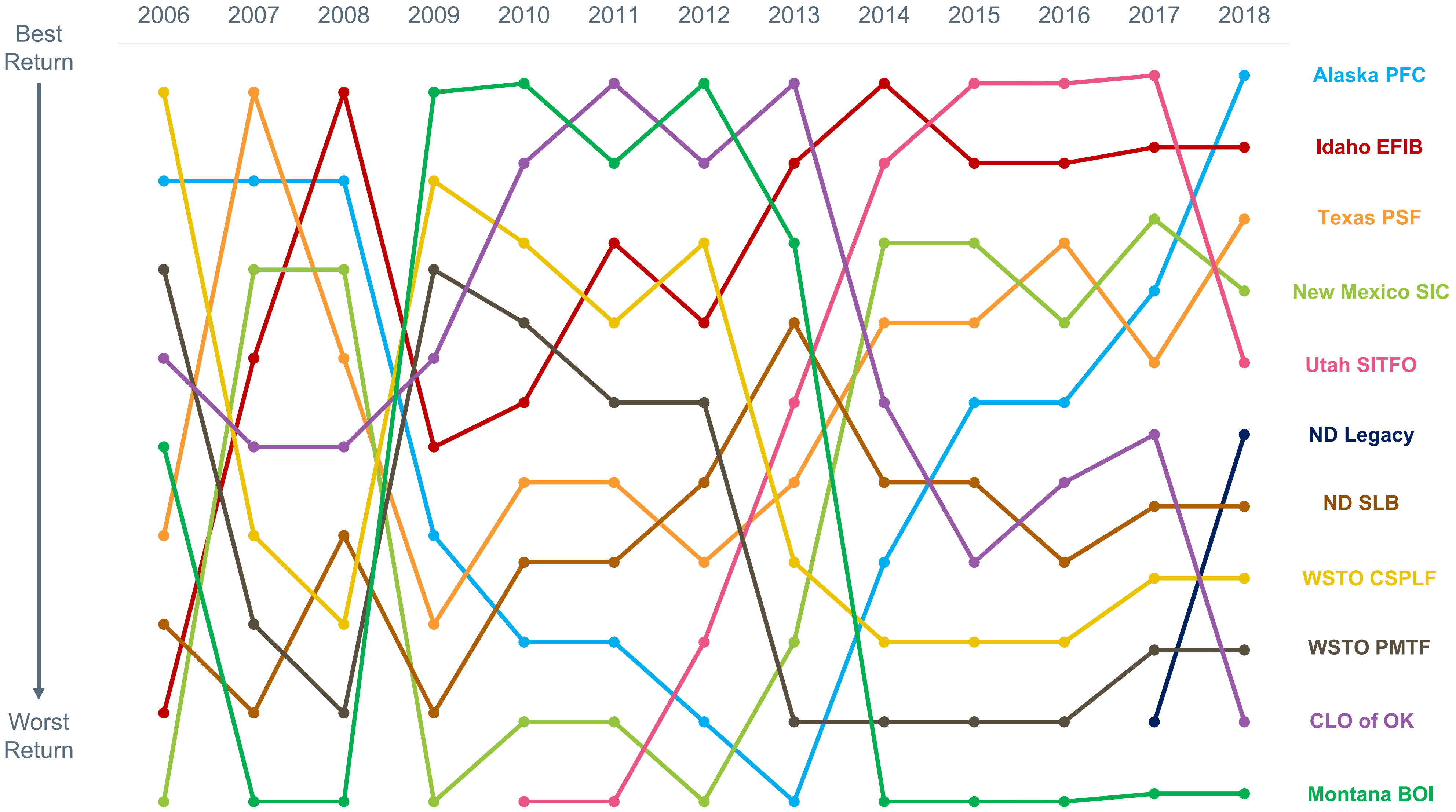


Median Peer Return: 6.4%

All data is as of June 30, 2018 and is gross of fees.
Performance shown for North Dakota SLB is net of fees prior to 2010.
Performance is reported in US Dollars and is reflective of permanent fund assets only.

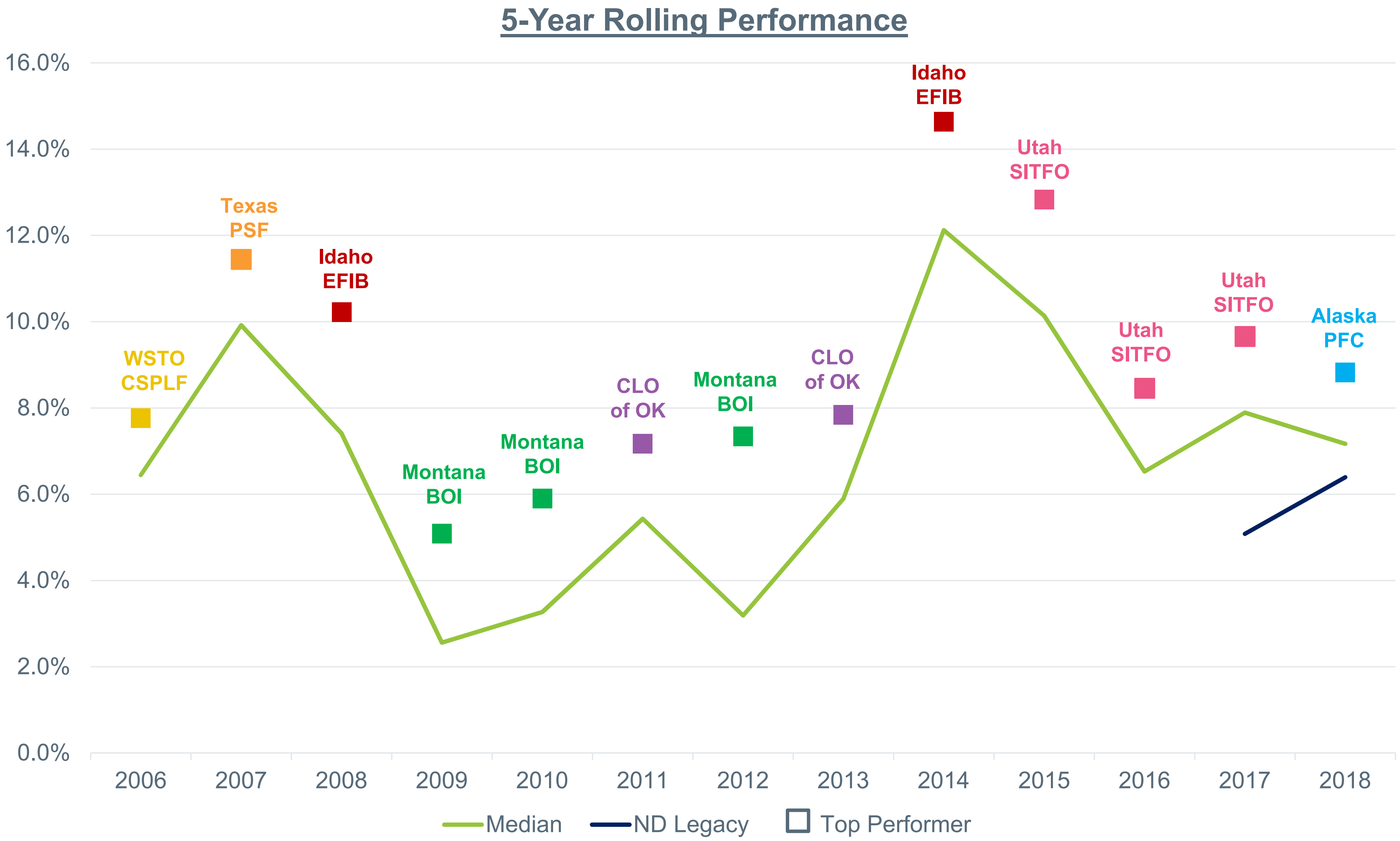
Ranking of Rolling 5 Year Returns

- The below chart ranks the 5-year return of each Fund from 2006 to 2018.



Performance is gross of fees.
Performance shown for North Dakota SLB is net of fees prior to 2010.

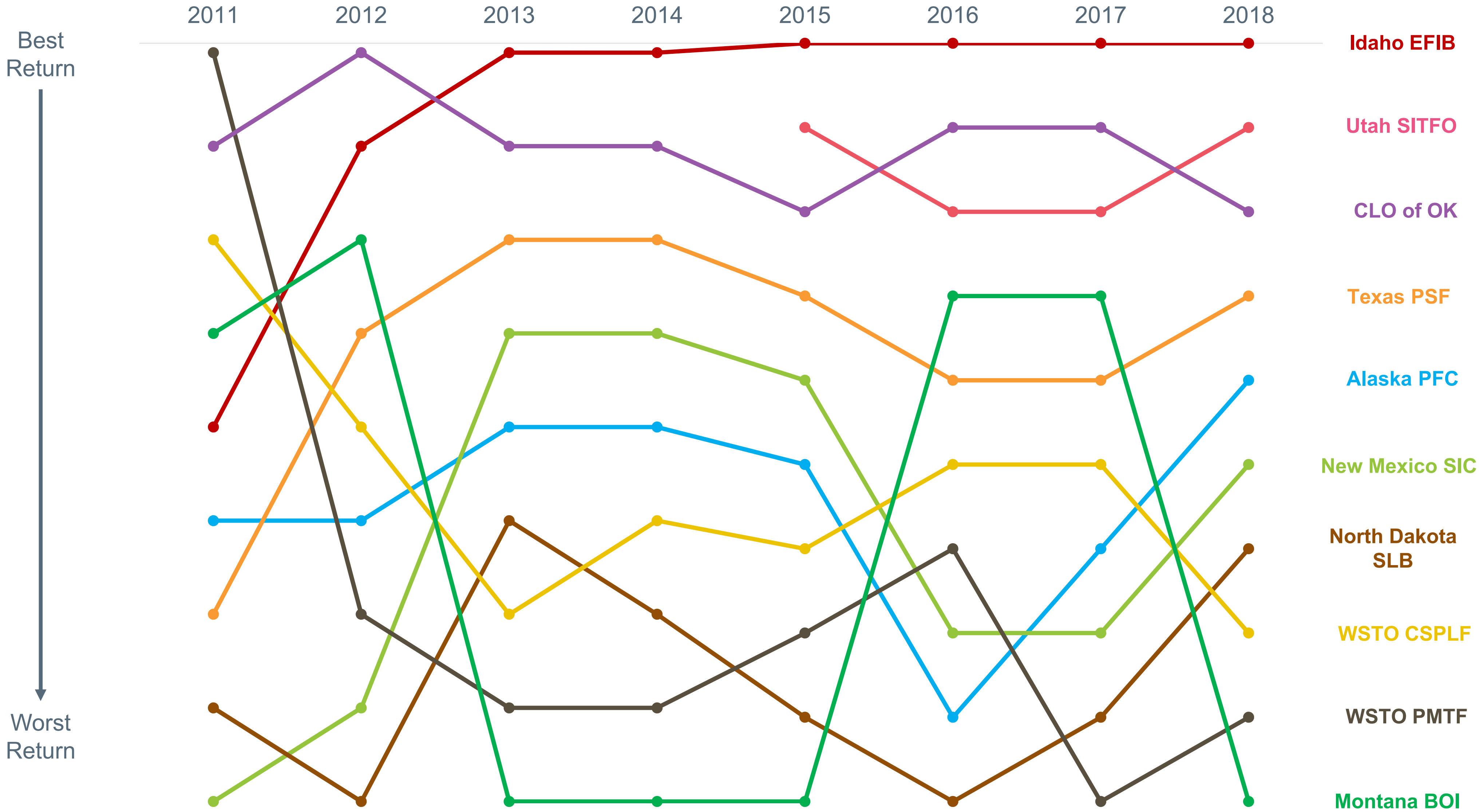
Rolling 5 Year Returns



Performance is gross of fees.
Performance for North Dakota SLB is net of fees prior to 2010.

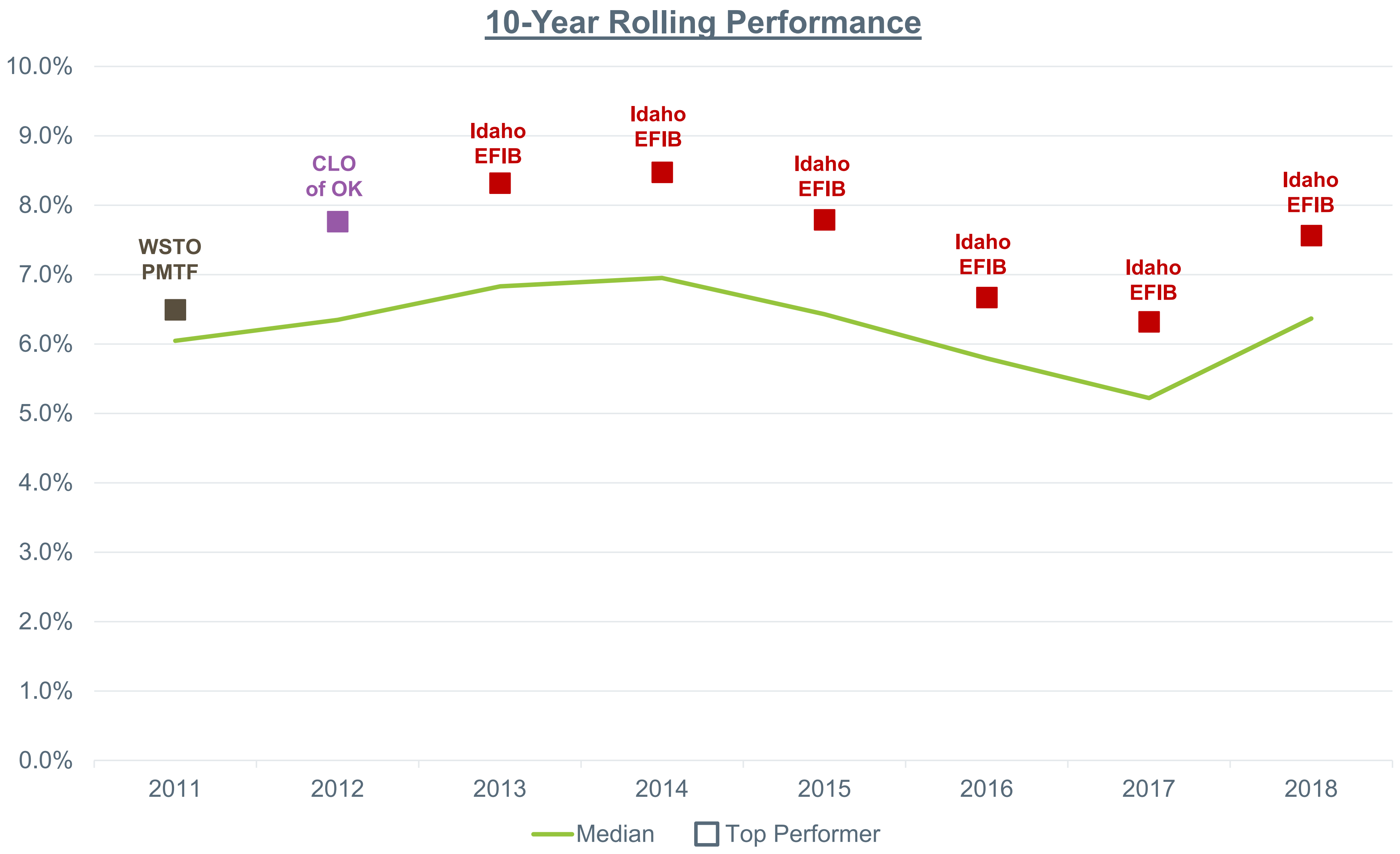
Ranking of Rolling 10 Year Returns

- The below chart ranks the 10-year return of each Fund from 2011 to 2018.



Performance is gross of fees.
Performance shown for North Dakota SLB is net of fees prior to 2010.

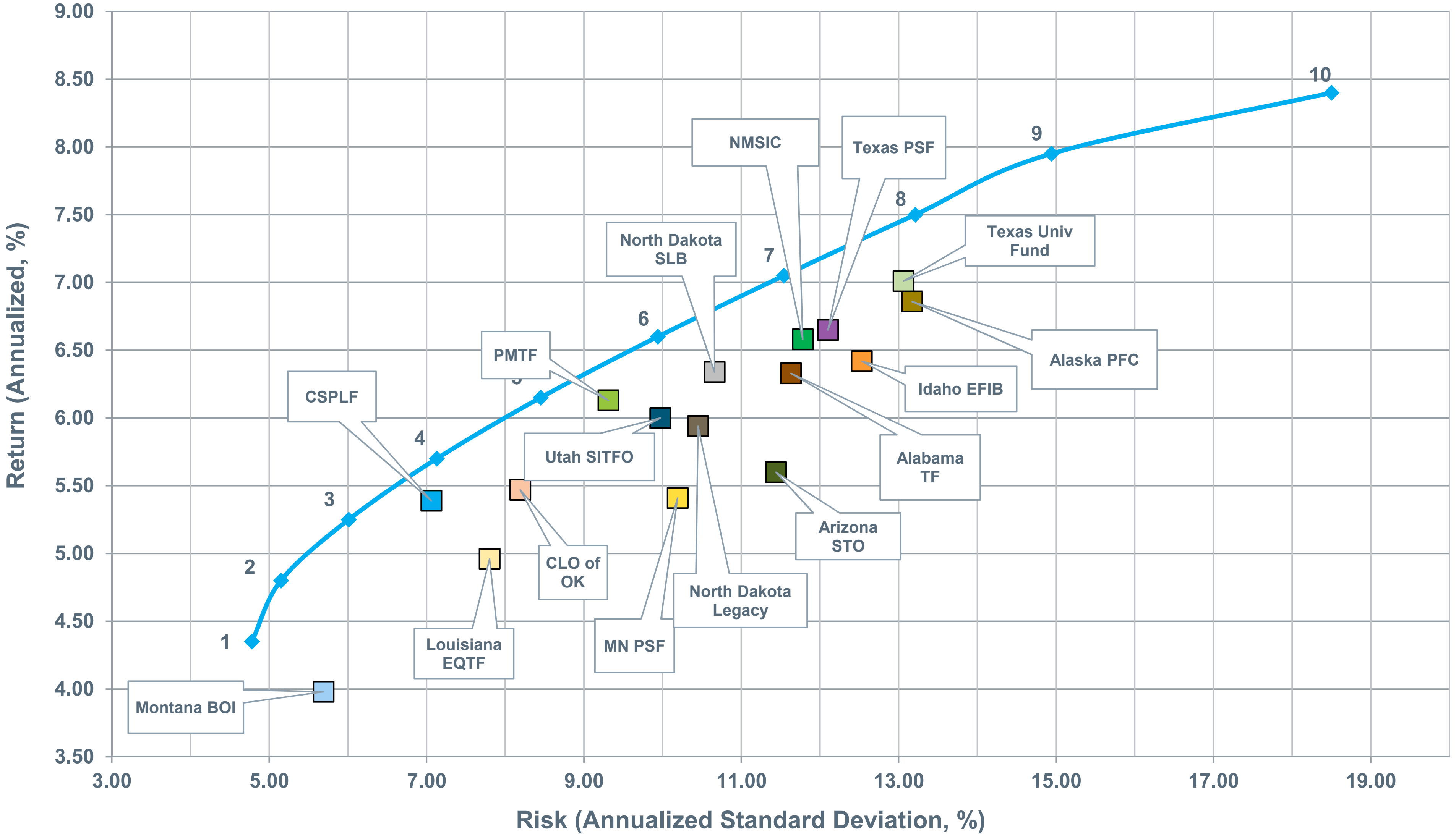
Rolling 10 Year Returns



Performance is gross of fees.
Performance for North Dakota SLB is net of fees prior to 2010.

Asset Allocation vs. Objectives

- The expected risk and return of each US SWF is modeled below using RVK's 2019 capital markets assumptions, and Fund asset allocations as of June 30, 2018.*



*Best efforts were made to accurately capture each funds asset allocation at 6/30/18, however may not fully portray all nuances associated with each funds allocation structure.

Asset Allocation vs. Objectives

- Using RVK's 2019 capital markets assumptions and Monte Carlo simulation, the North Dakota Legacy Fund has the following probabilities of achieving the below annualized real rates of return over a 10-year period.
- For reference, we also include the probabilities for a traditional "Endowment" allocation of 70% global equities and 30% US fixed income and the average peer allocation.

	North Dakota Legacy Fund	Average Peer Asset Allocation	70% Global Equity/30% US Fixed Income
3.0% Real Return	51%	52%	55%
4.0% Real Return	38%	37%	45%
5.0% Real Return	26%	24%	35%

Estimated Downside Risk (1-Year, 1st Percentile nominal return)	**-19.32%**	**-16.05%**	**-28.17%**

Governance & Decision Making Models

Governance and Investment Decision Making

Considerations for Governance and Decision Making

I	II	III	IV
Defining the Scope of Authority	***Selecting Committee Members***	***Maintaining Strategic Continuity***	***Optimizing Decision Making and Execution***
☐ Determining the optimal scope of delegated committee authority ☐ Identifying responsibilities to delegate to staff or third parties	☐ Establishing an optimal Board size ☐ Identifying key member roles ☐ Identifying value-added member attributes ☐ Recruiting qualified committee members ☐ Evaluating committee member performance ☐ Enforcing accountability	☐ Educating new and existing committee members ☐ Creating comprehensive and practical documentation ☐ Establishing a continuous, disciplined strategic review process	☐ Prioritizing issues appropriately ☐ Creating impactful meeting materials ☐ Ensuring consistent meeting attendance ☐ Ensuring adequate meeting preparation ☐ Executing meeting facilitation that balances efficiency and thoroughness
Common Obstacles			
☐ *Stakeholder time availability*	☐ *Organizational influence of committee members (e.g., major donors)* ☐ *Candidate pool constraints, such as:* • *Current committee membership,* • *Legally required representation*	☐ *Committee member turnover* ☐ *Infrequency of committee meetings* ☐ *Pre-existing investment biases of committee members*	☐ *Meeting time constraints* ☐ *Committee member availability and engagement* ☐ *Cognitive decision-making biases*

❖ Although all aspects of the governance and investment decision making process are critical, for purposes of this survey, we are focused on Considerations I and III

- Defining the Scope of Authority
- Maintaining Strategic Continuity

Source: *Investment Committee Best Practices.* RVK, Inc. (2017).

RVK

Governance and Investment Decision Making

Defining the Scope of Authority

- Defining the scope of authority involves:
  1. Defining which group within the structure is responsible for (and has the authority to execute) which investment activities.
  2. Clearly documenting the decision making process so that there is no confusion about which group is responsible for certain activities.

- *"The institutional frameworks across SWFs differ. Regardless of the governance framework, the operational management of an SWF should be conducted on an independent basis to minimize potential political influence or interference that could hinder the achievement of the SWF's objectives."*
  - IMF Working Paper - Sovereign Wealth Funds: Aspects of Governance Structures and Investment Management

- *"Sound governance is critical to maintaining stakeholder and public confidence in the Guardians and the Fund. As an autonomous Crown entity, the Guardians is legally separate from the Crown. This means that, although we are still accountable to the Government, we have operational independence regarding investment decisions and are, instead, overseen by an independent Board."*
  - New Zealand SuperFund (nzsuperfund.nz)

- *"Key determinates of APFC's governance success include: an effective independent management and organizational structure, the adherence to accountability measures, defined legal and regulatory responsibilities, established policies and procedures, as well as being a leader in establishing best practice standards."*
  - Alaska Permanent Fund Corporation (afpc.org)

Governance and Investment Decision Making

Defining the Scope of Authority

The Santiago Principles

- The Santiago Principles consists of 24 generally accepted principles and practices voluntarily endorsed by International Forum of Sovereign Wealth Funds (IFSWF) members.
- The Santiago Principles promote transparency, good governance, accountability and prudent investment practices whilst encouraging a more open dialogue and deeper understanding of SWF activities.
- Drafted by the International Working Group of SWFs and welcomed by the IMF's International Monetary Financial Committee in 2008, the objectives of the Santiago Principles are:
  - To help maintain a stable global financial system and free flow of capital and investment;
  - To comply with all applicable regulatory and disclosure requirements in the countries in which SWFs invest;
  - To ensure that SWFs invest on the basis of economic and financial risk and return-related considerations; and
  - To ensure that SWFs have in place a transparent and sound governance structure that provides adequate operational controls, risk management, and accountability.

Source: International Forum of Sovereign Wealth Funds (IFSWF)

Governance and Investment Decision Making

Defining the Scope of Authority

A Selection of Santiago Principles – Generally Accepted Principles and Practices ("GAPP")

- GAPP 4: There should be clear and publicly disclosed policies, rules, procedures, or arrangements in relation to the SWF's general approach to funding, withdrawal, and spending operations.
- GAPP 6: The governance framework for the SWF should be sound and establish a clear and effective division of roles and responsibilities in order to facilitate accountability and operational independence in the management of the SWF to pursue its objectives.
- GAPP 7: The owner should set the objectives of the SWF, appoint the members of its governing body(ies) in accordance with clearly defined procedures, and exercise oversight over the SWF's operations.
- GAPP 9: The operational management of the SWF should implement the SWF's strategies in an independent manner and in accordance with clearly defined responsibilities.
- GAPP 10: The accountability framework for the SWF's operations should be clearly defined in the relevant legislation, charter, other constitutive documents, or management agreement.
- GAPP 13: Professional and ethical standards should be clearly defined and made known to the members of the SWF's governing body(ies), management, and staff.
- GAPP 14: Dealing with third parties for the purpose of the SWF's operational management should be based on economic and financial grounds, and follow clear rules and procedures.
- GAPP 16: The governance framework and objectives, as well as the manner in which the SWF's management is operationally independent from the owner, should be publicly disclosed

Source: International Forum of Sovereign Wealth Funds (IFSWF)

Governance and Investment Decision Making

Defining the Scope of Authority

❖ Representative separation of roles and responsibilities in formulating and implementing investment policy between a SWF's owner and the fund manager

Responsibilities of the Owner

- Articulate fund objectives
- Define risk tolerances
- Define investment horizon
- Review investment performance

Retained or Delegated by the Owner to the Fund

- Approve:
  - Strategic asset allocation
  - Policy benchmarks
  - Active risk budget

Responsibilities of the Fund: Implementation of the Investment Policy

- Propose capital markets assumptions
- Implement strategic asset allocation
- Manage portfolios in-house or select external managers
- Measure risk and performance
- Report to the owner and stakeholders

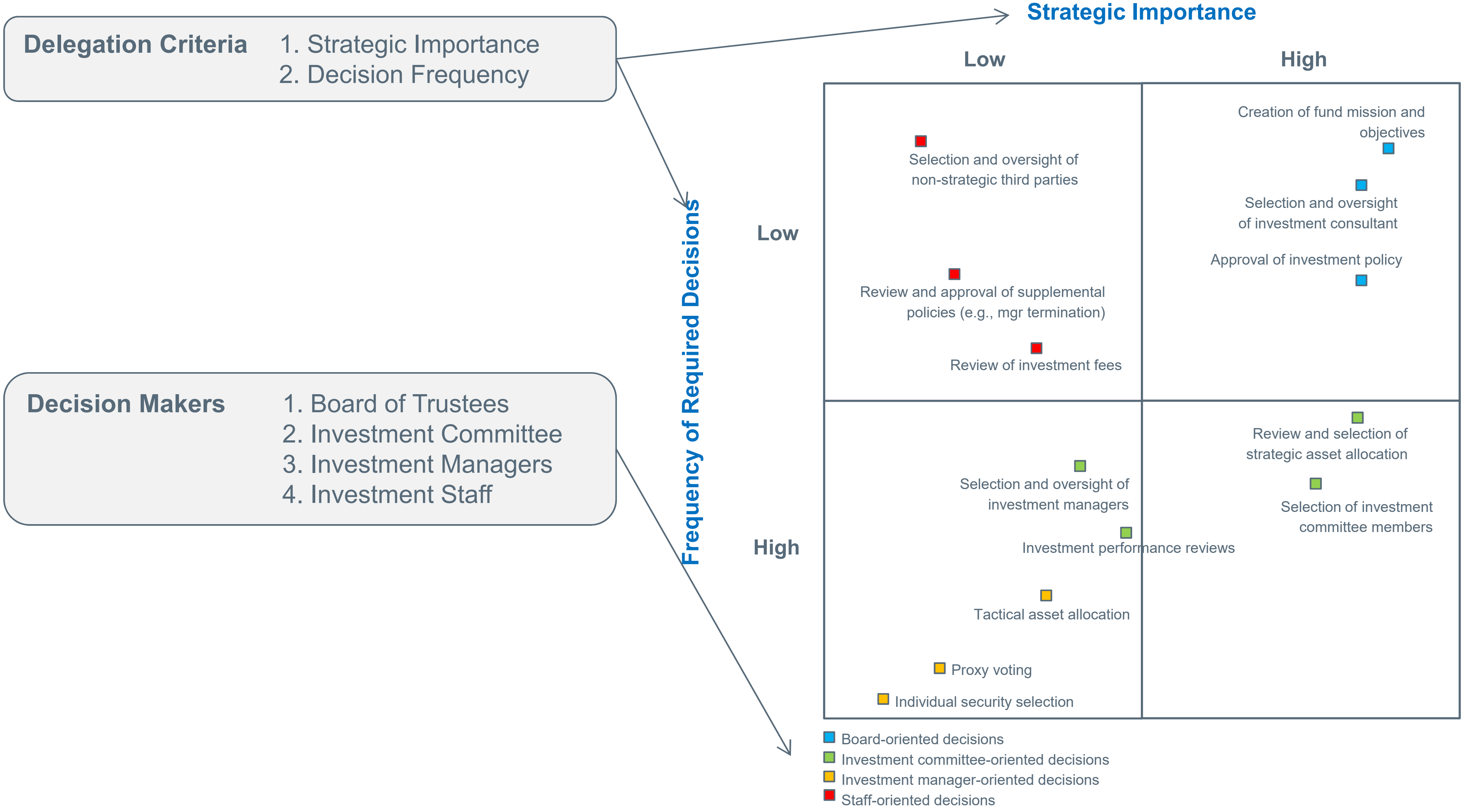
Source: IMF Working Paper - Sovereign Wealth Funds: Aspects of Governance Structures and Investment Management

Governance and Investment Decision Making

Defining the Scope of Authority

- A delegation framework exercise can be a helpful tool to establish who is responsible for each task

Delegation Framework



Delegation Criteria
1. Strategic Importance
2. Decision Frequency

Decision Makers
1. Board of Trustees
2. Investment Committee
3. Investment Managers
4. Investment Staff

Strategic Importance

Frequency of Required Decisions

	Low	High
Low	🟥 Selection and oversight of non-strategic third parties 🟥 Review and approval of supplemental policies (e.g., mgr termination) 🟥 Review of investment fees	Creation of fund mission and objectives 🟦 🟦 Selection and oversight of investment consultant Approval of investment policy 🟦
High	🟩 Selection and oversight of investment managers 🟩 Investment performance reviews 🟨 Tactical asset allocation 🟨 Proxy voting 🟨 Individual security selection	🟩 Review and selection of strategic asset allocation 🟩 Selection of investment committee members

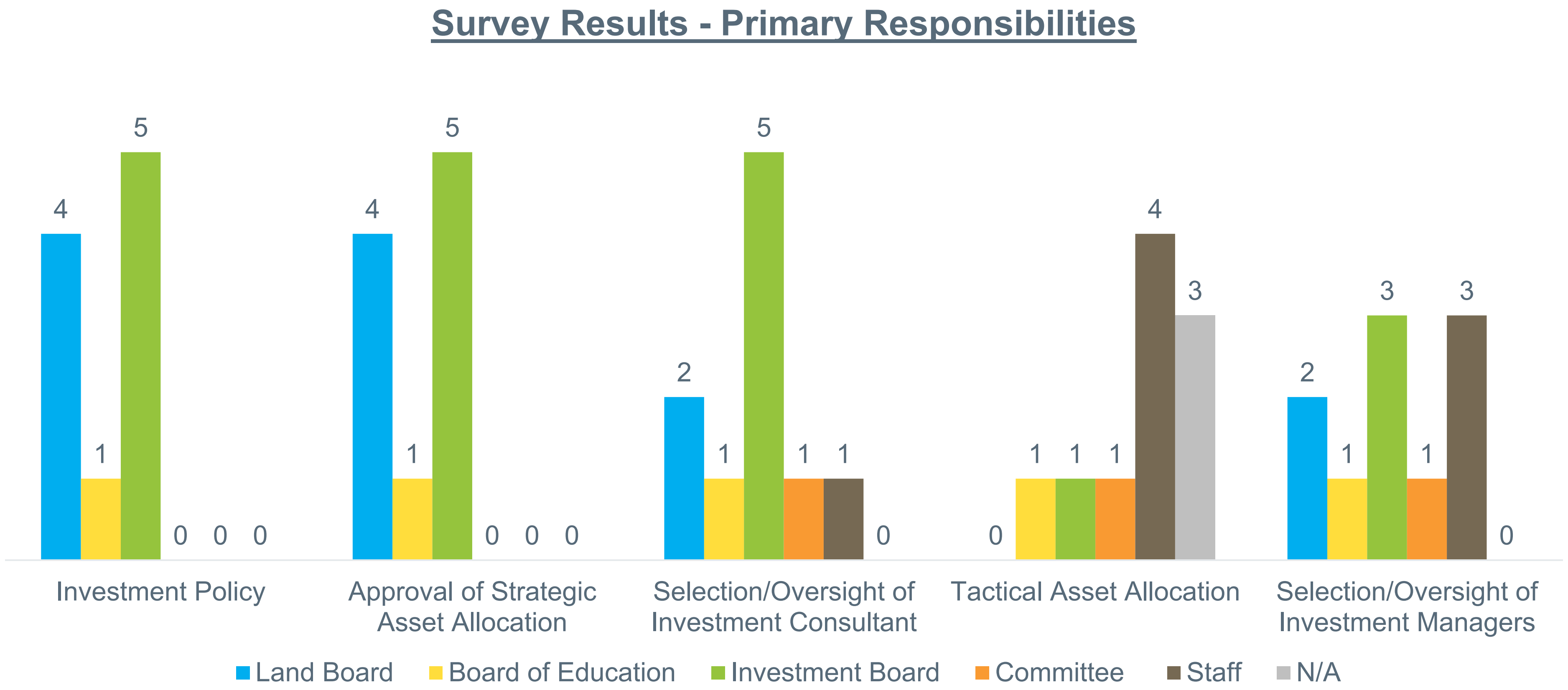
🟦 Board-oriented decisions
🟩 Investment committee-oriented decisions
🟨 Investment manager-oriented decisions
🟥 Staff-oriented decisions

Source: *Investment Committee Best Practices.* RVK, Inc. (2017).

Governance and Investment Decision Making

Defining the Scope of Authority

- Out of the 10 Funds surveyed, some form of Investment Board* is most likely to have the responsibility of approving the strategic asset allocation and investment policy. The Land Board owns these decisions for 4 of the 10 funds.
- Tactical asset allocation and selection of asset managers are the tasks most likely to be delegated to staff.



*Investment Board refers to any Board, Council or Commission that has primary responsibility for investment decision making and is not entirely comprised of elected officials.

Governance and Investment Decision Making

Defining the Scope of Authority

- Composition of the entity with primary investment responsibility for each survey respondent

	Alaska PFC	CLO of OK	Idaho EFIB	Montana BOI	New Mexico SIC
Board Composition	Quasi-independent state agency. 6 Trustees appointed by Governor. Two must be cabinet members, and include the commissioner of revenue. Four public members.	Commissioners consist of Governor, Lt. Governor, Superintendent of Public Instruction, Audit and Inspector, Secretary of Agriculture).	Investment Board consists of six individuals from community with investment expertise appointed by Governor, 2 legislators, 1 representative from education. Investment Board reports to Land Board annually.	Attached to Dept. of Commerce but functions as an independent, quasi-judicial board. Consists of 9 members appointed by the Governor, including 7 members with a background in the financial community, small business, agriculture, or labor, and who are informed and experienced in the subject of investments. One member from PERS Board and one member from TRS Board.	Council consists of 11 members: Governor, Treasurer, Commissioner of Public Lands, Secretary of Finance and Administration, 4 public members appointed by Legislative Council, 3 public members appointed by the Governor.

RVK

Governance and Investment Decision Making

Defining the Scope of Authority

	North Dakota Legacy	North Dakota SLB	Texas PSF	Utah SITFO	Wyoming STO
Board Composition	State Investment Board – 11 member board includes Lt Governor, State Treasurer, Insurance Commissioner, Land Commissioner, Exec. Director of Workforce Safety and Insurance, plus 3 members of PERS and 3 members of TFFR.	Board consists of Governor, Secretary of State, Treasurer, Attorney General, Superintendent of Public Instruction.	Board of Education consists of 15 Elected Board Members. Chair is appointed by Governor.	Quasi-governmental agency that reports to the executive branch and the legislature. 5 Board members. 4 from the community with extensive investment experience. State Treasurer is Chair. Prior to 2016 Treasurer was sole fiduciary.	Board consists of Governor, Treasurer, Auditor, Secretary of State, Superintendent of Public Instruction.

Governance and Investment Decision Making

Maintaining Strategic Continuity

- Maintaining the strategic continuity of an investment program is a key to long-term success, therefore maximizing consistency of the key decision makers should be a top priority.
- There are inherent challenges when there are changes in the leadership of the governing body, but a commitment to the long-term strategic approach should be a top consideration.

Key Challenges

1. Investment Committee and Board Turnover
2. Creating comprehensive and practical documentation
3. Establishing a continuous, disciplined strategic review process
4. Hyper-reactivity to short-term market events

Tactics to Promote Strategic Continuity

1. Committee and Board Member Orientation
2. Annual Investment Strategy Reviews
3. Rolling Work Plans
4. Strategic Objective Statements

Source: *Investment Committee Best Practices.* RVK, Inc. (2017).

Governance and Investment Decision Making

Maintaining Strategic Continuity

- Board terms of survey respondents

	Alaska PFC	CLO of OK	Idaho EFIB	Montana BOI	New Mexico SIC
Term Length	4 Years (with one new appointee each year)	Members are defined by their term in office	4 Years	4 Years (coincides with gubernatorial term)	5 Years with staggered terms

	North Dakota Legacy	North Dakota SLB	Texas PSF	Utah SITFO	Wyoming STO
Term Length	Legislative member terms are defined by their time in office. PERS and TFFR members are determined by their respective Boards	Members are defined by their term in office	2 Years	6 Years	Members are defined by their term in office

Constraints and Spending

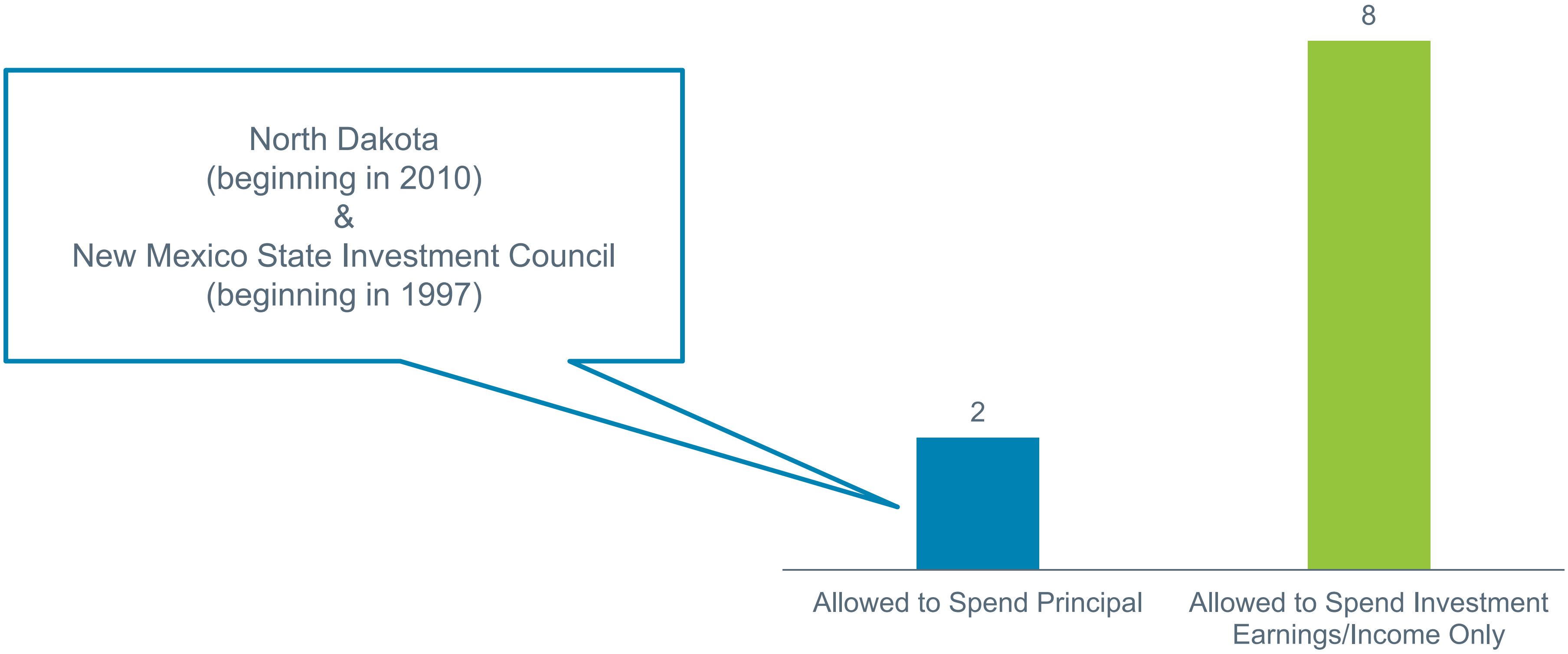
Constraints and Spending

Objective, Constraints, and Spending Policy

	North Dakota Legacy Fund
Fund Horizon:	• Permanent Fund (Perpetual)
Investment Constraints:	• Uncertainty around distribution amounts and timing requires relatively high liquidity level
Investment Goals:	• Nominal rate of return of 6%
Spending Policy:	• Investment earnings distributed to general fund at end of each biennium. Additionally up to 15% of corpus may be distributed every 2 years.
Observed Allocation Changes over Past 10 Years	• Initial implementation of long-term asset allocation occurred in 2014.

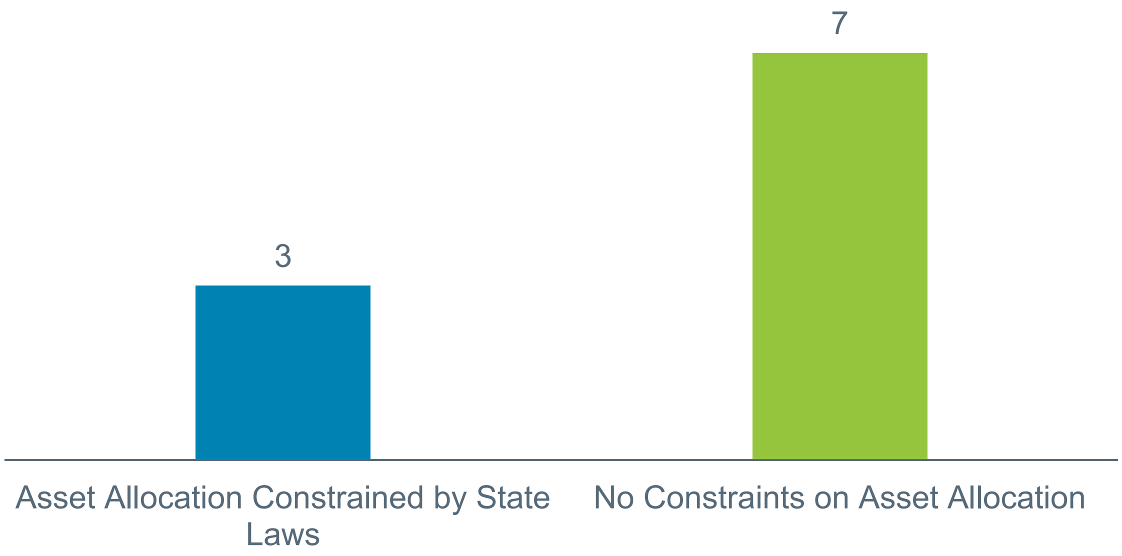
Constraints and Spending

- Out of the 10 Funds interviewed, there are two Funds that are not restricted to using income (interest, dividends, realized gains) for distributions.
- Because these funds are allowed to spend principal, they are free to pursue a true, "Total Return" investment approach.



Constraints and Spending

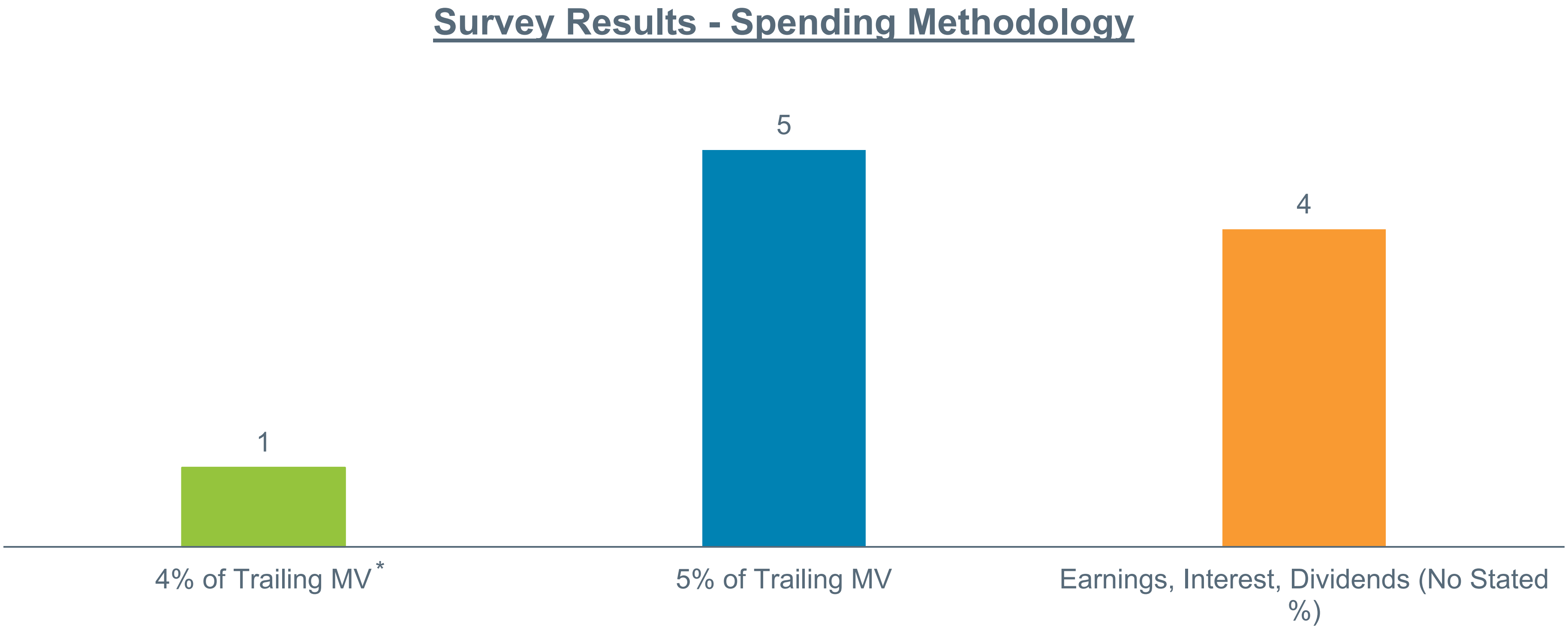
- There are 3 Funds with Statutory Constraints on Asset Allocation:
  - CLO of Oklahoma – maximum of 60% may be invested in equities
  - Wyoming STO – maximum of 70% may be invested in equities and alternative investments
  - Montana Board of Investment – may not invest in equities



Constraints and Spending

Spending Framework

- There are two commonly used frameworks for determining the level of distributions.
  1. Predetermined percentage (commonly 4-5%) applied to the trailing 3-5 year total fund market value.
  2. Investment Income (realized gains/losses, interest, and dividends).



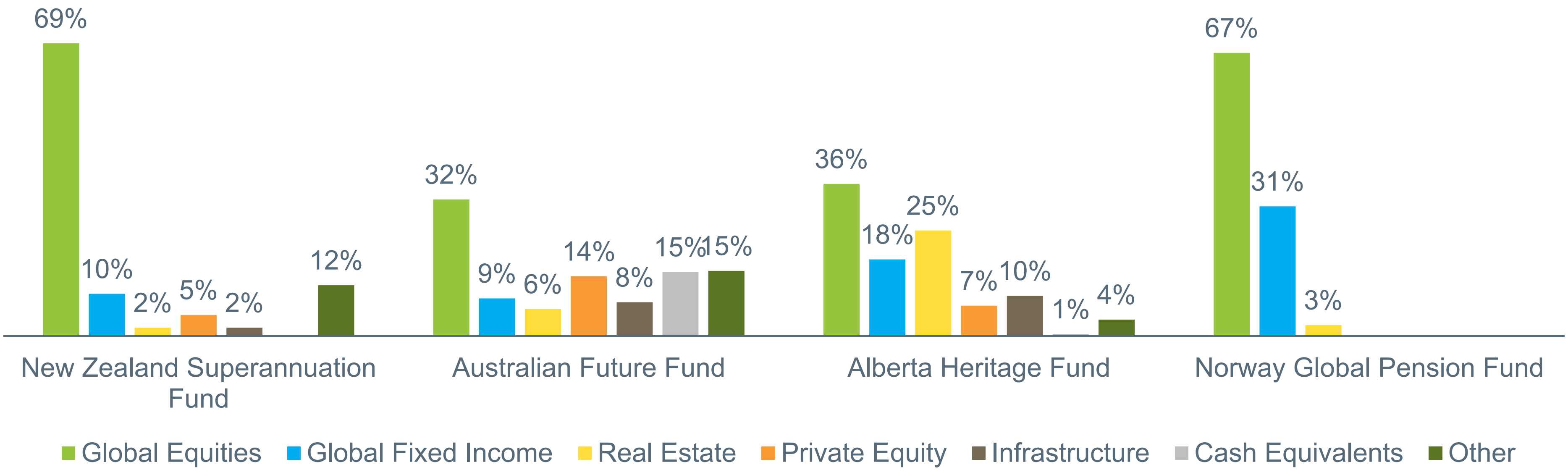
*Utah SITFO's spending policy is an average of: 4% of the average market value over the past 12 quarters & prior year distribution plus inflation. Spending is also capped at no greater than the trailing 4% of trailing 12 quarter average.

International Perspective

International Perspective

- ❖ Asset allocation for a subset of international SWFs is shown below (New Zealand Super Fund, Australian Future Fund, Alberta Heritage Fund, and Norway Global Pension Fund).
  - o Fixed income allocations are low compared to US counterparts (all Fund allocations are lower than the peer median of 37%).

Asset Allocation as of June 30, 2018



New Zealand allocation to “Other” consists of timber (6%), other private markets (3%), other public markets (2%) and rural farmland (1%).
Australia allocation to “Other” consists of alternative assets not broken out (15%).
Alberta allocation to “Other” consists of timberland (3%) and overlays (1%).

Concluding Thoughts

Concluding Thoughts

- Asset Allocation
  - Observations of asset allocation and performance appear to support the notion that asset allocation is the primary determinant of risk and returns. Although the US SWFs surveyed all have a perpetual nature and long-term objectives, there is a surprisingly high degree of risk asset allocation variance among the funds – which appears to be largely driven by current and historical constraints
  - Ability to earn a return above inflation over the next 10 years that supports a 5% real return objective appears challenged, although other dynamics such as contributions and spending policy mechanisms likely influence how impactful this is for each institution
  - Long-term, higher allocations to equities and other return seeking assets appears appropriate for perpetual funds with intergenerational objectives
    - Those looking to increase risk exposures may wish to take a gradual approach given current valuation levels

Concluding Thoughts

- Governance/Investment Decision Making
  - Defining the Scope of Authority
    - Best practices suggest that fund owners should retain ***formulation*** of investment objectives, while ***implementation*** is independent of the political process
    - The majority of US SWFs surveyed appear to have moved in this direction, although there does still appear to be significant involvement by elected officials in the implementation process
    - Regardless of the structure chosen, it is critical to clearly define who is responsible for what, and clearly document
    - The process should be transparent, and provide appropriate accountability
    - The Santiago Principles are a useful filter through which to evaluate potential governance structures
  - Maintaining Strategic Continuity
    - Strategic Continuity (consistent application of long-term asset allocation approach) is one of the most critical factors in successful long-term investing
    - Funds that have integrated community members (non-elected) with investment experience and lengthened Board terms may be in better position to maintain strategic continuity
    - To the extent that board turnover is experienced, it is important to establish procedures to educate new decision makers on the mission, objectives, history, constraints, asset allocation strategy, and the importance of strategic continuity

Concluding Thoughts

- Constraints and Spending
  - Most funds do not appear to have asset allocation constraints codified in statute, although there are a handful that do. While it is appropriate for asset owners to determine risk tolerance, care should be taken to ensure that constraints do not interfere with achieving long-term objectives
  - The majority of funds are not allowed to violate corpus, and can only distribute investment earnings, most commonly defined as interest, dividends, and net realized gains/losses
    - Two states have amended their constitution to remove this constraint and allow for a true total return approach.
  - An “earnings only” distribution model introduces challenges and does appear to potentially influence asset allocation decision making in some cases (desire to avoid realized losses, emphasis on income producing assets)
    - This has the potential to limit a SWFs ability to achieve intergenerational equity if the resulting allocations are too conservative
    - Many SWFs utilize an earnings reserve fund to help stabilize current spending
    - Funds utilizing reserve accounts have widely varying approaches to the size of the reserves, how they are allocated, and whether or not the legislature can access reserve accounts
  - Care should be taken to ensure that the unique constraints, spending policy, and distribution mechanisms do not unnecessarily prohibit a cohesive integration with the asset allocation strategy to maximize benefits for both current and future generations

PORTLAND **BOISE** CHICAGO NEW YORK

RVK

AGENDA ITEM V.A.

NORTH DAKOTA RETIREMENT AND INVESTMENT OFFICE

QUARTERLY MONITORING REPORT

Quarter Ended June 30 and September 30, 2019

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 two quarters, there were no exceptions to this Executive Limitation.

The Executive Director/CIO held six full office meetings and six manager meetings during the second and third calendar quarters of 2019 in order to promote an open and collaborative work environment while enhancing team member communication, awareness and engagement. The vast majority of RIO team members also participated in two strengths assessment training sessions during the past six months in addition to CPR and defibrillator awareness training.

As noted in prior quarterly updates, RIO was fully staffed as of June 30, 2019. In late June, however, RIO was informed that our compliance officer accepted a new position with the North Dakota Securities Department effective July 10th. Also as you likely recall, RIO's budget for the 2019-21 biennium added one new FTE to support our growing investment program.

RIO was pleased to hire our new Investment Accountant, Amy Carlson, on October 1, 2019. RIO is also in the process of interviewing prospective candidates for our new Investment and Compliance Officer position. We expect to complete the first round of interviews in October and seek to schedule finalist interviews in November. RIO intends to take advantage of this opportunity to make our agency more efficient by redefining roles and responsibilities to address areas of increased emphasis (including investment risk management and enhanced due diligence reporting and compliance monitoring).

On September 26, 2019, TFFR's Chief Retirement Officer and RIO's Deputy Executive Director Fay Kopp announced her intent to retire from RIO effective on March 31, 2020. RIO was deeply saddened by this announcement noting that Fay has been an outstanding talent having worked at RIO for 32 years including 20 years as TFFR's Chief Retirement Officer. Fay has been a truly inspirational leader for our agency for a very long time and she will be incredibly difficult to replace.

During the past month, RIO's management team and TFFR leadership has met to discuss the best ways to position the agency for continued future success. We have also consulted with HRMS. In order to identify any retirement leaders who may be interested in pursuing the opportunity to become TFFR's next Chief Retirement Officer and RIO's next Deputy Executive

Director, RIO intends to post for this position internally (within RIO) on or before November 1, 2019, and seek to provide a further update to the TFFR board and SIB next month.

TFFR Pension Administration System Project Update:

RIO and ITD are working together to develop a project charter for our TFFR Pension Administration System (PAS) project. This included a kick-off meeting with Justin Data, Enterprise ITD Division Manager – Reinvention Division in addition to PERS Executive Director Scott Miller and PERS CFO and COO Derrick Hohbein. RIO intends to work closely with ITD and the Governor’s Office to ensure we adhere to all state procurement guidelines and remain keenly focused on our fiduciary responsibility to our valued TFFR clients and constituents.

On September 20, RIO’s Executive Director, Deputy Executive Director and IT Manager along with PERS Executive Director and CFO/COO met with the State’s Chief Information Officer Shaun Riley and COO Jodi Uecker to discuss the TFFR PAS project charter. On October 8, TFFR’s Chief Retirement Officer and RIO’s Executive Director provided a follow-up memo to the Governor’s COO Jodi Uecker in order to provide additional background information about the TFFR and PERS Board fiduciary duties and other factors which impact the TFFR’s board responsibilities to select the best vendor solution for this important TFFR PAS project.

ANNUAL EXPENSE REPORT
OCTOBER 25, 2019

Connie Flanagan
Chief Financial Officer

RETIREMENT AND INVESTMENT OFFICE
EXPENDITURE SUMMARY REPORT
FISCAL YEAR ENDED JUNE 30, 2019

	TFFR		SIB		Total RIO	
	Actual Expenses	% of Total	Actual Expenses	% of Total	Actual Expenses	% of Total
CONTINUING APPROPRIATIONS						
INVESTMENT EXPENDITURES	$ 14,169,720	6.0%	$ 48,991,088	96.5%	$ 63,160,808	21.9%
MEMBER CLAIMS						
ANNUITY PAYMENTS	215,328,174		-		215,328,174	
REFUND PAYMENTS	5,900,392		-		5,900,392	
TOTAL MEMBER CLAIMS	221,228,566	93.1%	-	0.0%	221,228,566	76.7%
OTHER CONTINUING APPROPRIATIONS	594,328	0.3%	799,703	1.6%	1,394,031	0.5%
TOTAL CONTINUING APPROPRIATIONS	235,992,614	99.3%	49,790,791	98.1%	285,783,405	99.1%
APPROPRIATED EXPENDITURES						
SALARIES AND BENEFITS	1,144,527	0.5%	1,098,807	2.2%	2,243,334	0.8%
OPERATING EXPENSES	292,831	0.1%	100,724	0.2%	393,555	0.1%
SIB EXPENSES ALLOCATED TO TFFR	219,399		(219,399)		-	
TOTAL APPROPRIATED EXPENDITURES	1,656,757	0.7%	980,132	1.9%	2,636,889	0.9%
TOTAL EXPENDITURES	$ 237,649,371		$ 50,770,923		$ 288,420,294	

RETIREMENT AND INVESTMENT OFFICE
2017-2019 BIENNIUM APPROPRIATION STATUS REPORT
AS OF JUNE 30, 2019

			EXPENDITURES			
	2017-2019 BUDGET	ADJUSTED APPROPRIATION	BIENNIUM TO DATE ACTUAL	BUDGET AVAILABLE	% BUDGET AVAILABLE	% OF BIENNIUM REMAINING
SALARIES AND BENEFITS	$ 4,425,570	$ 4,425,570	$ 4,391,689	$ 33,881	0.77%	0.00%
OPERATING EXPENDITURES	862,484	862,484	702,920	159,564	18.50%	0.00%
CONTINGENCY	52,000	52,000	0	52,000	100.00%	0.00%
TOTAL	$ 5,340,054	$ 5,340,054	$ 5,094,609	245,445	4.60%	0.00%

RETIREMENT AND INVESTMENT OFFICE
SCHEDULE OF CONSULTING EXPENSES
FOR THE YEARS ENDED JUNE 30, 2019 and 2018

	TFFR		SIB	
	2019	2018	2019	2018
Actuary fees:				
Segal Company	108,000	71,499	-	-
Total Actuary Fees	108,000	71,499	-	-
Auditing/Accounting fees:				
CliftonLarsonAllen LLP	97,514	82,527	30,587	29,073
Total Auditing Fees	97,514	82,527	30,587	29,073
Disability consulting fees:				
Sanford Health	350	425	-	-
Legal fees:				
Office of Administrative Hearings	3,383	-	-	-
K&L Gates LLP	12,880	16,541	17,066	21,646
Kasowitz, Benson, Torres & Friedma	239	197	313	309
Jackson Walker LLP	3,105	3,105	54,804	9,316
ND Attorney General	37,798	23,805	50,746	20,681
Total legal fees:	57,405	43,648	122,929	51,952
Total consultant expenses	$263,269	$198,099	$153,516	$ 81,025

RETIREMENT AND INVESTMENT OFFICE

FINAL BUDGET STATUS FOR 2017-2019 BIENNIUM

	2017-2019 Biennium Approved Budget			2017-2019 Biennium Actual			2017-2019 (Over)/Under Budget			2019-21 Approved Budget	Increase/(Decrease) from 2017-19 Approved	
	TFFR	SIB	RIO Total	TFFR	SIB	RIO Total	TFFR	SIB	RIO Total	RIO Total		
SALARIES & WAGES	$ 1,637,129	$ 1,591,806	$3,228,935	$1,625,207	$ 1,628,926	$ 3,254,133	$ 11,922	$ (37,120)	$ (25,198)	$ 3,548,909	$ 319,974	9.9%
TEMPORARY SALARIES	-	-	-	-	-	-	-	-	-	50,000	50,000	100.0%
BENEFITS	688,683	507,952	1,196,635	624,584	512,972	1,137,556	64,099	(5,020)	59,079	1,379,321	182,686	15.3%
TOTAL SALARIES & BENEFITS	**2,325,812**	**2,099,758**	**4,425,570**	**2,249,791**	**2,141,898**	**4,391,689**	**76,021**	**(42,140)**	**33,881**	**4,978,230**	**552,660**	**12.5%**
IT - DATA PROCESSING	151,852	30,456	182,308	133,540	28,122	161,662	18,312	2,334	20,646	949,941	767,633	421.1%
IT - COMMUNICATIONS	12,600	6,480	19,080	11,678	7,260	18,938	922	(780)	142	18,960	(120)	-0.6%
TRAVEL	47,232	26,718	73,949	29,283	20,703	49,986	17,949	6,015	23,963	103,070	29,121	39.4%
SUPPLIES - IT SOFTWARE	699	401	1,100	673	419	1,092	26	(18)	8	900	(200)	-18.2%
POSTAGE	77,147	5,240	82,387	61,488	5,384	66,872	15,659	(144)	15,515	63,192	(19,195)	-23.3%
IT CONTRACT SERVICES	156,468	2,826	159,294	44,099	4,204	48,303	112,369	(1,378)	110,991	161,270	1,976	1.2%
LEASE/RENT - BLDG./LAND	110,237	62,905	173,142	110,792	64,740	175,532	(555)	(1,835)	(2,390)	179,230	6,088	3.5%
PROFESSIONAL DEVELOPMENT	22,769	8,632	31,400	27,732	10,731	38,463	(4,964)	(2,100)	(7,063)	46,315	14,915	47.5%
OPERATING FEES & SERVICES	29,646	18,143	47,789	25,574	16,317	41,891	4,072	1,826	5,898	47,779	(10)	0.0%
REPAIRS	476	274	750	1,072	611	1,683	(596)	(337)	(933)	1,000	250	33.3%
PROFESSIONAL SERVICES	24,520	9,070	33,590	21,757	10,418	32,175	2,763	(1,348)	1,415	1,906,610	1,873,020	5576.1%
INSURANCE	853	491	1,344	785	451	1,236	68	40	108	2,047	703	52.3%
OFFICE SUPPLIES	3,943	2,267	6,210	2,381	555	2,936	1,562	1,712	3,274	5,470	(740)	-11.9%
PRINTING	35,315	4,759	40,074	24,952	2,397	27,349	10,363	2,362	12,725	37,350	(2,724)	-6.8%
PROFESSIONAL SUPPLIES	875	875	1,750	1,134	803	1,937	(259)	72	(187)	1,700	(50)	-2.9%
MISCELLANEOUS SUPPLIES	2,585	1,485	4,070	1,245	718	1,963	1,340	767	2,107	4,100	30	0.7%
IT EQUIPMENT < $5000	363	368	731	5,584	3,725	9,309	(5,221)	(3,357)	(8,578)	7,500	6,769	926.0%
OTHER EQUIPMENT < $5000	1,474	847	2,321	2,165	1,538	3,703	(691)	(691)	(1,382)	-	(2,321)	-100.0%
OFFICE EQUIP & FURNITURE < $5000	1,071	124	1,195	10,070	7,820	17,890	(8,999)	(7,696)	(16,695)	2,500	1,305	109.2%
TOTAL OPERATING	**680,124**	**182,360**	**862,484**	**516,004**	**186,916**	**702,920**	**164,120**	**(4,556)**	**159,564**	**3,538,934**	**2,676,450**	**310.3%**
SOFTWARE > $5,000	-	-	-	-	-	-	-	-	-	6,300,000	6,300,000	100.0%
TOTAL CAPITAL ASSETS	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**6,300,000**	**6,300,000**	**100.0%**
TOTAL BEFORE CONTINGENCY	3,005,936	2,282,118	5,288,054	2,765,795	2,328,814	5,094,609	240,141	(46,696)	193,445	14,817,164	9,529,110	180.2%
CONTINGENCY	**26,000**	**26,000**	**52,000**	**-**	**-**	**-**	**26,000**	**26,000**	**52,000**	**52,000**	**-**	**0.0%**
TOTAL APPROPRIATED BUDGET	**$ 3,031,936**	**$ 2,308,118**	**$5,340,054**	**$2,765,795**	**$ 2,328,814**	**$ 5,094,609**	**$ 266,141**	**$ (20,696)**	**$ 245,445**	**14,869,164**	**9,529,110**	**178.4%**

Items highlighted in green reflect increases due to Pension Administration System replacement/upgrade project.

RETIREMENT AND INVESTMENT OFFICE

Analysis of Budget Changes

	2017-19 Approved Budget	Additional FTE	PAS Budget	Other Changes	2019-21 Approved Budget
Salaries and Benefits	4,425,570	294,996	50,000	207,664	4,978,230
Operating	862,484	14,450	2,650,000	12,000	3,538,934
Capital Assets	-	-	6,300,000	-	6,300,000
Contingency	52,000	-	-	-	52,000
	5,340,054	309,446	9,000,000	219,664	14,869,164

AGENDA ITEM V.B.

BUDGETING / FINANCIAL CONDITION

AS OF SEPTEMBER 30, 2019

			EXPENDITURES			
	2019-2021 BUDGET	ADJUSTED APPROPRIATION	BIENNIUM TO DATE ACTUAL	BUDGET AVAILABLE	% BUDGET AVAILABLE	% OF BIENNIUM REMAINING
SALARIES AND BENEFITS	$ 4,978,230.00	$ 4,978,230.00	$ 534,682.32	$ 4,443,547.68	89.26%	87.50%
OPERATING EXPENDITURES	3,538,934.00 *	3,538,934.00	75,010.50	3,463,923.50	97.88%	87.50%
CAPITAL ASSETS	6,300,000.00	6,300,000.00	0.00	6,300,000.00	100.00%	87.50%
CONTINGENCY	52,000.00	52,000.00	0.00	52,000.00	100.00%	87.50%
TOTAL	$ 14,869,164.00	$ 14,869,164.00	$ 609,692.82	14,259,471.18	95.90%	87.50%

* In addition to the Capital Assets line, the operating expenditure budget includes $2,650,000 for the TFFR Pension Administration System Project.

EXPENDITURE REPORT

QUARTER ENDED SEPTEMBER 30, 2019

	INVESTMENT	RETIREMENT	QUARTERLY TOTALS	FISCAL YEAR TO - DATE	BIENNIUM TO - DATE
CONTINUING APPROPRIATIONS					
INVESTMENT EXPENDITURES (SEE ATTACHED DETAIL)	$ 7,731,094.49	$ 0.00	$ 7,731,094.49	$ 7,731,094.49	$ 7,731,094.49
MEMBER CLAIMS					
1. ANNUITY PAYMENTS	0.00	55,792,876.87	55,792,876.87	55,792,876.87	55,792,876.87
2. REFUND PAYMENTS	0.00	1,455,227.81	1,455,227.81	1,455,227.81	1,455,227.81
TOTAL MEMBER CLAIMS	0.00	57,248,104.68	57,248,104.68	57,248,104.68	57,248,104.68
OTHER CONTINUING APPROPRIATIONS	26,666.00	100.00	26,766.00	26,766.00	26,766.00
TOTAL CONTINUING APPROPRIATIONS	7,757,760.49	57,248,204.68	65,005,965.17	65,005,965.17	65,005,965.17
BUDGETED EXPENDITURES					
1. SALARIES & BENEFITS					
SALARIES	194,565.84	197,035.94	391,601.78	391,601.78	391,601.78
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	61,780.37	81,300.17	143,080.54	143,080.54	143,080.54
TOTAL SALARY & BENEFITS	256,346.21	278,336.11	534,682.32	534,682.32	534,682.32
2. OPERATING EXPENDITURES					
DATA PROCESSING	2,435.63	9,878.79	12,314.42	12,314.42	12,314.42
TELECOMMUNICATIONS - ISD	393.06	651.75	1,044.81	1,044.81	1,044.81
TRAVEL	750.12	5,967.11	6,717.23	6,717.23	6,717.23
IT - SOFTWARE/SUPPLIES	50.26	50.26	100.52	100.52	100.52
POSTAGE SERVICES	192.48	9,352.76	9,545.24	9,545.24	9,545.24
IT - CONTRACTUAL SERVICES	13.63	(2.28)	11.35	11.35	11.35
BUILDING/LAND RENT & LEASES	9,210.54	14,440.62	23,651.16	23,651.16	23,651.16
DUES & PROF. DEVELOPMENT	275.00	5,945.00	6,220.00	6,220.00	6,220.00
OPERATING FEES & SERVICES	276.84	196.04	472.88	472.88	472.88
REPAIR SERVICE	0.00	0.00	0.00	0.00	0.00
PROFESSIONAL SERVICES	1,297.62	5,119.83	6,417.45	6,417.45	6,417.45
INSURANCE	60.11	104.58	164.69	164.69	164.69
OFFICE SUPPLIES	78.98	96.72	175.70	175.70	175.70
PRINTING	423.30	4,834.94	5,258.24	5,258.24	5,258.24
PROFESSIONAL SUPPLIES & MATERIALS	12.45	342.55	355.00	355.00	355.00
MISCELLANEOUS SUPPLIES	0.81	1.15	1.96	1.96	1.96
IT EQUIPMENT UNDER $5000	0.00	29.00	29.00	29.00	29.00
OTHER EQUIP. UNDER $5000	0.00	261.00	261.00	261.00	261.00
OFFICE EQUIP. & FURNITURE UNDER $5000	781.17	1,488.68	2,269.85	2,269.85	2,269.85
TOTAL OPERATING EXPENDITURES	16,252.00	58,758.50	75,010.50	75,010.50	75,010.50
3. CAPITAL ASSETS	0.00	0.00	0.00	0.00	0.00
4. CONTINGENCY	0.00	0.00	0.00	0.00	0.00
TOTAL BUDGETED EXPENDITURES	272,598.21	337,094.61	609,692.82	609,692.82	609,692.82
TOTAL EXPENDITURES	$ 8,003,692.70	$ 57,585,199.29	$ 65,615,657.99	$ 65,615,657.99	$ 65,615,657.99

INVESTMENT EXPENDITURE DETAIL

FEES PAID DURING THE QUARTER ENDED SEPTEMBER 30, 2019

FOR QUARTER ENDED 3/31/19		
PENSION INVESTMENT GRADE FIXED INCOME POOL		
State Street		3,145.18
INSURANCE FIXED INCOME POOL		
State Street		6,341.27
LEGACY FIXED INCOME		
State Street		10,809.28
TOBACCO PREVENTION & CONTROL TRUST FUND		
STATE STREET		762.28
TOTAL FOR QUARTER ENDED 3/31/19		**21,058.01**
FOR QUARTER ENDED 6/30/19		
PENSION DEVELOPED INTERNATIONAL EQUITY POOL		
Northern Trust	26,051.18	
Wellington	155,952.70	
William Blair	186,951.82	
TOTAL PENSION INTERNATIONAL EQUITY		368,955.70
PENSION GLOBAL EQUITY POOL		
Epoch	707,008.08	
LSV	133,781.00	
TOTAL PENSION GLOBAL EQUITY		840,789.08
PENSION BELOW INVESTMENT GRADE FIXED		
Loomis Sayles		259,701.67
PENSION INVESTMENT GRADE FIXED INCOME POOL		
PIMCO	100,540.38	
Prudential	98,045.50	
State Street	3,688.34	
TOTAL PENSION INVESTMENT GRADE FIXED INCOME		202,274.22
PENSION LARGE CAP EQUITY POOL		
Clifton S&P 500 (Performance)	361,657.60	
LA Capital	256,439.74	
TOTAL PENSION LARGE CAP EQUITY		618,097.34
PENSION SMALL CAP EQUITY POOL		
Atlanta Capital		272,153.00
PENSION REAL ESTATE		
JP Morgan (Special & Strategic)		601,857.06

INVESTMENT EXPENDITURE DETAIL

FEES PAID DURING THE QUARTER ENDED SEPTEMBER 30, 2019

INSURANCE FIXED INCOME POOL

PIMCO	12,870.84	
Prudential	168,669.25	
State Street	6,529.45	
Wells	51,505.32	
Western Asset	111,205.03	
TOTAL INSURANCE FIXED INCOME		350,779.89

INSURANCE LARGE CAP EQUITY POOL

LA Capital	52,321.18	
LSV	50,620.00	
TOTAL INSURANCE LARGE CAP		102,941.18

INSURANCE SMALL CAP EQUITY POOL

Clifton (Performance Fee)	50,057.61	
PIMCO RAE	19,789.49	
TOTAL INSURANCE SMALL CAP		69,847.10

INSURANCE INT'L EQUITY

LSV	64,555.00	
William Blair	67,003.25	
TOTAL INSURANCE INT'L EQUITY		131,558.25

INSURANCE DIVERSIFIED REAL ASSETS

Western Asset		39,823.01

INSURANCE SHORT TERM FIXED

JP Morgan		48,177.68

LEGACY FIXED INCOME

Prudential	282,156.27	
State Street	11,130.06	
Wells	90,675.83	
Western Asset	180,252.59	
TOTAL LEGACY FIXED INCOME		564,214.75

LEGACY LARGE CAP EQUITY

Clifton (Performance Fee)	499,443.68	
LA Capital	316,627.76	
LSV	294,493.00	
TOTAL LEGACY LARGE CAP		1,110,564.44

LEGACY SMALL CAP EQUITY

Clifton (Performance Fee)	527,593.24	
PIMCO RAE	144,173.96	
TOTAL LEGACY SMALL CAP		671,767.20

LEGACY INT'L EQUITY

LSV	468,303.00	
William Blair	490,499.44	
TOTAL LEGACY INT'L EQUITY		958,802.44

INVESTMENT EXPENDITURE DETAIL

FEES PAID DURING THE QUARTER ENDED SEPTEMBER 30, 2019

LEGACY DIVERSIFIED REAL ASSETS		
Western Asset		123,885.75
PERS RETIREE HEALTH INSURANCE CREDIT FUND		
SEI		94,618.81
JOB SERVICE FUND		
SEI		73,267.88
TOBACCO PREVENTION & CONTROL TRUST FUND		
STATE STREET		571.54
CONSULTANT		
Adams Street	12,478.00	
Callan	102,603.12	
Novarca	10,305.94	
TOTAL CONSULTANT		125,387.06
TOTAL FOR QUARTER ENDED 6/30/19		**7,630,035.05**
FOR QUARTER ENDED 9/30/19		
PENSION CASH		
Northern Trust		10,001.43
CONSULTANT		
FRT		70,000.00
TOTAL FOR QUARTER ENDED 9/30/19		**80,001.43**
TOTAL FEES PAID DURING QUARTER ENDED 9/30/2019		**7,731,094.49**

AGENDA ITEM V.B.

BUDGETING / FINANCIAL CONDITION

AS OF JUNE 30, 2019

			EXPENDITURES			
	2017-2019 BUDGET	ADJUSTED APPROPRIATION	BIENNIUM TO DATE ACTUAL	BUDGET AVAILABLE	% BUDGET AVAILABLE	% OF BIENNIUM REMAINING
SALARIES AND BENEFITS	$ 4,425,570.00	$ 4,425,570.00	$ 4,391,689.32	$ 33,880.68	0.77%	0.00%
OPERATING EXPENDITURES	862,484.00	862,484.00	702,920.44	159,563.56	18.50%	0.00%
CONTINGENCY	52,000.00	52,000.00	0.00	52,000.00	100.00%	0.00%
TOTAL	$ 5,340,054.00	$ 5,340,054.00	$ 5,094,609.76	245,444.24	4.60%	0.00%

EXPENDITURE REPORT

QUARTER ENDED JUNE 30, 2019

	INVESTMENT	RETIREMENT	QUARTERLY TOTALS	FISCAL YEAR TO - DATE	BIENNIUM TO - DATE
CONTINUING APPROPRIATIONS					
INVESTMENT EXPENDITURES (SEE ATTACHED DETAIL)	$ 9,701,889.83	$ 0.00	$ 9,701,889.83	$ 30,577,916.62	$ 61,826,220.50
MEMBER CLAIMS					
1. ANNUITY PAYMENTS	0.00	53,712,124.64	53,712,124.64	214,173,303.45	415,897,595.08
2. REFUND PAYMENTS	0.00	1,029,884.00	1,029,884.00	7,108,375.35	13,438,870.02
TOTAL MEMBER CLAIMS	0.00	54,742,008.64	54,742,008.64	221,281,678.80	429,336,465.10
OTHER CONTINUING APPROPRIATIONS	430,613.00	43,127.59	473,740.59	1,043,482.03	2,154,646.57
TOTAL CONTINUING APPROPRIATIONS	10,132,502.83	54,785,136.23	64,917,639.06	252,903,077.45	493,317,332.17
BUDGETED EXPENDITURES					
1. SALARIES & BENEFITS					
SALARIES	243,648.35	225,384.01	469,032.36	1,669,546.13	3,254,133.52
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	74,686.74	75,404.79	150,091.53	573,788.05	1,137,555.80
TOTAL SALARY & BENEFITS	318,335.09	300,788.80	619,123.89	2,243,334.18	4,391,689.32
2. OPERATING EXPENDITURES					
DATA PROCESSING	4,531.99	26,226.30	30,758.29	81,994.01	161,661.59
TELECOMMUNICATIONS - ISD	1,450.82	1,955.47	3,406.29	9,741.88	18,937.54
TRAVEL	1,389.85	3,233.41	4,623.26	26,470.75	49,985.60
IT - SOFTWARE/SUPPLIES	274.76	423.23	697.99	697.99	1,092.14
POSTAGE SERVICES	840.58	2,272.05	3,112.63	32,076.51	66,871.75
IT - CONTRACTUAL SERVICES	1,905.66	38,397.91	40,303.57	44,475.65	48,303.17
BUILDING/LAND RENT & LEASES	5,352.54	9,234.32	14,586.86	87,766.16	175,532.32
DUES & PROF. DEVELOPMENT	5,138.00	9,055.95	14,193.95	27,399.95	38,462.45
OPERATING FEES & SERVICES	6,508.87	11,477.20	17,986.07	21,372.52	41,891.46
REPAIR SERVICE	536.49	916.86	1,453.35	1,453.35	1,682.74
PROFESSIONAL SERVICES	2,863.52	4,141.48	7,005.00	16,742.00	32,175.86
INSURANCE	0.00	0.00	0.00	627.17	1,236.97
OFFICE SUPPLIES	165.53	697.19	862.72	1,638.32	2,935.45
PRINTING	308.13	858.17	1,166.30	12,050.11	27,348.66
PROFESSIONAL SUPPLIES & MATERIALS	32.43	55.78	88.21	1,212.19	1,936.99
MISCELLANEOUS SUPPLIES	260.23	326.83	587.06	1,181.82	1,963.11
IT EQUIPMENT UNDER $5000	2,026.93	3,918.36	5,945.29	8,577.29	9,308.76
OTHER EQUIP. UNDER $5000	0.00	0.00	0.00	1,381.44	3,703.24
OFFICE EQUIP. & FURNITURE UNDER $5000	7,255.54	8,265.82	15,521.36	16,696.46	17,890.64
TOTAL OPERATING EXPENDITURES	40,841.87	121,456.33	162,298.20	393,555.57	702,920.44
3. CONTINGENCY	0.00	0.00	0.00	0.00	0.00
TOTAL BUDGETED EXPENDITURES	359,176.96	422,245.13	781,422.09	2,636,889.75	5,094,609.76
TOTAL EXPENDITURES	$ 10,061,066.79	$ 55,164,253.77	$ 65,699,061.15	$ 255,539,967.20	$ 498,411,941.93

INVESTMENT EXPENDITURE DETAIL

FEES PAID DURING THE QUARTER ENDED JUNE 30, 2019

FOR QUARTER ENDED 12/31/18		
PENSION DEVELOPED INTERNATIONAL EQUITY POOL		
Northern Trust		25,811.80
PENSION INVESTMENT GRADE FIXED INCOME POOL		
PIMCO		97,848.08
PENSION INFRASTRUCTURE POOL		
Rohatyn		9,111.21
PENSION REAL ESTATE		
JP Morgan (Special & Strategic)		590,646.67
INSURANCE SHORT TERM FIXED		
JP Morgan		47,402.60
TOTAL FOR QUARTER ENDED 12/31/18		**770,820.36**
FOR QUARTER ENDED 3/31/19		
PENSION DEVELOPED INTERNATIONAL EQUITY POOL		
Northern Trust	23,270.34	
Wellington	156,746.41	
William Blair	177,948.73	
TOTAL PENSION INTERNATIONAL EQUITY		357,965.48
PENSION GLOBAL EQUITY POOL		
Epoch	678,550.49	
LSV	130,171.00	
TOTAL PENSION GLOBAL EQUITY		808,721.49
PENSION BELOW INVESTMENT GRADE FIXED		
Loomis Sayles		253,983.98
PENSION INVESTMENT GRADE FIXED INCOME POOL		
PIMCO	94,942.95	
Prudential	136,157.25	
TOTAL PENSION INVESTMENT GRADE FIXED INCOME		231,100.20
PENSION INFRASTRUCTURE POOL		
JP Morgan		308,161.49
PENSION LARGE CAP EQUITY POOL		
LA Capital		252,943.46
PENSION SMALL CAP EQUITY POOL		
Atlanta Capital		266,359.00
PENSION REAL ESTATE		
JP Morgan (Special & Strategic)	597,572.91	
Invesco	275,255.51	
TOTAL PENSION REAL ESTATE		872,828.42

INVESTMENT EXPENDITURE DETAIL

FEES PAID DURING THE QUARTER ENDED JUNE 30, 2019

INSURANCE FIXED INCOME POOL		
Prudential	164,422.82	
Wells	108,612.05	
Western Asset	110,328.28	
TOTAL INSURANCE FIXED INCOME		383,363.15
INSURANCE LARGE CAP EQUITY POOL		
LA Capital	52,053.17	
LSV	50,938.00	
TOTAL INSURANCE LARGE CAP		102,991.17
INSURANCE SMALL CAP EQUITY POOL		
PIMCO RAE		20,469.25
INSURANCE INT'L EQUITY		
LSV	64,394.00	
William Blair	66,047.11	
TOTAL INSURANCE INT'L EQUITY		130,441.11
INSURANCE DIVERSIFIED REAL ASSETS		
JP Morgan	72,766.86	
Western Asset	37,164.55	
TOTAL INSURANCE DIVERSIFIED REAL ASSETS		109,931.41
INSURANCE REAL ESTATE		
Invesco	45,102.39	
JP Morgan	91,107.07	
TOTAL INSURANCE REAL ESTATE		136,209.46
INSURANCE SHORT TERM FIXED		
JP Morgan		47,225.03
LEGACY FIXED INCOME		
Prudential	219,920.20	
Wells	183,045.11	
Western Asset	177,027.69	
TOTAL LEGACY FIXED INCOME		579,993.00
LEGACY LARGE CAP EQUITY		
LA Capital	302,109.41	
LSV	281,342.00	
TOTAL LEGACY LARGE CAP		583,451.41
LEGACY SMALL CAP EQUITY		
PIMCO RAE		142,919.28
LEGACY INT'L EQUITY		
LSV	454,262.00	
William Blair	467,970.80	
TOTAL LEGACY INT'L EQUITY		922,232.80
LEGACY DIVERSIFIED REAL ASSETS		
JP Morgan	194,837.87	
Western Asset	121,373.42	
TOTAL LEGACY DIVERSIFIED REAL ASSETS		316,211.29

INVESTMENT EXPENDITURE DETAIL

FEES PAID DURING THE QUARTER ENDED JUNE 30, 2019

LEGACY REAL ESTATE		
Invesco	124,436.09	
JP Morgan	280,492.22	
TOTAL LEGACY REAL ESTATE		404,928.31
PERS RETIREE HEALTH INSURANCE CREDIT FUND		
SEI		89,200.35
JOB SERVICE FUND		
SEI		72,193.74
TOBACCO PREVENTION & CONTROL TRUST FUND		
STATE STREET		292.13
CONSULTANT		
Adams Street	12,237.00	
Callan	103,097.20	
Novarca	16,216.13	
TOTAL CONSULTANT		131,550.33
TOTAL FOR QUARTER ENDED 3/31/19		**7,525,666.74**
FOR QUARTER ENDED 6/30/19		
PENSION INFRASTRUCTURE POOL		
JP Morgan		308,818.52
PENSION REAL ESTATE		
Invesco		277,048.61
PENSION CASH		
Northern Trust		8,792.51
INSURANCE DIVERSIFIED REAL ASSETS		
JP Morgan		72,922.01
INSURANCE REAL ESTATE		
Invesco	45,040.38	
JP Morgan	90,637.30	
TOTAL INSURANCE REAL ESTATE		135,677.68
LEGACY DIVERSIFIED REAL ASSETS		
JP Morgan		195,253.29
LEGACY REAL ESTATE		
Invesco	125,246.70	
JP Morgan	281,643.41	
TOTAL LEGACY REAL ESTATE		406,890.11
TOTAL FOR QUARTER ENDED 6/30/19		**1,405,402.73**
TOTAL FEES PAID DURING QUARTER ENDED 6/30/2019		**9,701,889.83**

AGENDA ITEM V.C.

Quarterly Report on Ends
Q1:FY20

Investment Program

As noted in the “RIO Investment Due Diligence Audit Report – Response” memo presented at the September board meeting, Staff has developed a Detailed Quarterly Monitoring Report. A copy of this report follows this memo. The report includes the following items:

1. Investment manager or consulting firm name
2. Date and location of due diligence meeting or conference
3. Type of due diligence conducted (e.g. preliminary, market update, portfolio update, pricing update, consultant screening)
4. Meeting attendees
5. Brief description of documentation, file location and key findings

Going forward this report will replace the “Ongoing due diligence” and “Preliminary due diligence” sections below.

Ongoing due diligence conducted on the following organizations:

Atlanta Capital (Small Cap Equity)
Barings/MassMutual (Short Term Debt)
BlackRock (Private Equity)
Cerberus (Direct Lending)
DFA (International Small Cap, EM Equity)
Grosvenor (Infrastructure)
JPMorgan (Real Estate)
Loomis Sayles (High Yield)
LSV (Domestic, International and Global Equity)
Parametric Clifton (Equity)
Research Affiliates (PIMCO)
SEI (Multi-Asset Strategies)
Vanguard (International Small Cap)
Wellington (International Small Cap)

Preliminary due diligence conducted on the following organizations:

BlackRock (Long Term Private Capital)
Brookfield (Infrastructure)
JO Hambro (Global Equity)
Lord Abbett (Equity, Short Term Debt)
Mondrian (Global Equity)
Morgan Stanley (Infrastructure)
PIMCO Corp Oppty Fund (Opportunistic Credit)
RGM Capital LLC (Small Cap Equity)

Investment Highlights:

Staff continues to work on developing a plan to optimize the public equity portfolios in the Pension Pool, Legacy Fund and Insurance Pool. To this end, Staff has conducted onsite due diligence with factor based equity managers such as LSV and DFA. Given Staff’s focus on equity strategies, Staff has conducted due diligence calls and meetings with a number of prospective equity candidate managers.

Staff continues to develop its quantitative capabilities. Leveraging the BlackRock Aladdin system, Staff has developed new risk analyses and risk reports. Recently, utilizing the Aladdin system, Staff has produced factor based analyses that have been quite insightful when evaluating equity portfolios. Furthermore, Staff has been working with FTSE Russell’s Analytics+ tool, a Web-based tool that allows users to apply, control and analyze single- and multi-factor factor exposures using a selection of FTSE Russell indexes.

Staff continues to conduct preliminary due diligence on prospect 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.

Staff attended meetings with the following entities: TFFR Board, NDPERS Board, NDPERS Investment Subcommittee, Legacy Fund Earnings Committee, and the Board of Medical Examiners.

LSV remains on the Watch List.

NDRIO Investment Due Diligence
Quarterly Monitoring Report
July 1 to Sep 30, 2019

Date	Manager/Consultant	Reason for Call/Meeting	*Key Takeaways*	Location	Rio Attendees	Manager Attendees	Document Type & Description: Location	Notes
7/9/2019	**JO Hambro**	Preliminary DD	*Potential for Global Equity manager.*	Conference Call	Eric Chin	Hambro: Luke Bridges, Robert Lancastle	Notes: J:\EChin\Documents\Manager Notes Shared Folder\JO Hambro 7-9-19.docx Presentation (39): Tamale	
7/10/2019	**Morgan Stanley - Infrastructure**	Prospect DD	*Continue to monitor as an potential infrastructure manager.*	RIO	Darren Schulz, Dave Hunter, Eric Chin	MSI - Claiborne Johnston (GRA), Markus Hotternot (CIO)	Hard Copy Presentation Filed & Notes: J:\EChin\Documents\Manager Notes Shared Folder\Morgan Stanley 7-10-19.docx	
7/11/2019	**Lord Abbett - Equity, S-T Debt**	Preliminary DD	*Continue to monitor as an potential equity and short term debt manager.*	RIO	Dave Hunter	LA - Nicholas Johnston	J:\Hunter\Lord Abbett Presentation (154) Firm, Team, AUM, Results	
7/12/2019	**Barings/MassMutual - S-T Debt**	Market Update	*Increase exposure given Budget Stabilization Fund inflows*	Conference Call	Darren Schulz, Dave Hunter, Eric Chin	MM - R.King, D.Nagle, M.Grimes, T.Furlong, J.Stammen	Presentation (53): Tamale Notes: J:\EChin\Documents\Manager Notes Shared Folder\Barings 7-12-19.docx	
7/12/2019	**ND Dept. of Trust Lands**	Market Update	*Continue to collaborate on shared relationships/pricing*	RIO	Dave Hunter	ND Land Commissioner Jodi Smith	None (Verbal review and discussion of SIB meeting materials)	
7/15/2019	**Cambridge / Consulting**	Consultant Screening	*Key Finding:*	Conference Call	Dave Hunter	C - Christopher Shepler	J:\Hunter\INVESTMENT CONSULTING REVIEW - 2019\Cambridge Presentation (87) Firm, Team, AUM, Results	
7/29/2019	**JPMorgan / CD Pricing**	Market Update (CD)	*Continue to collaborate on various pricing initiatives*	Conference Call	Dave Hunter	JPM - Jim Sakelaris (RM), Joe Hirsdorf (ED), Ted Ufferfilge (IS), Jimmie Irby (MD/RA)	None (JPM indicative rates offered verbally, not in writing or email)	
7/29/2019	**Grosvenor / Infrastructure**	Portfolio Update	*Continue to monitor new fundraising efforts and existing program returns*	Onsite	Eric Chin (Onsite), Darren Schulz (CC), Dave Hunter (CC)	Grosvenor: Michael Rose, John Levin, Erik Hall,	Notes: J:\EChin\Documents\Manager Notes Shared Folder\GCM 7-29-19.docx GCM Investment Memos: Filed Hard Copy	
7/30/2019	**BlackRock Private Equity**	Portfolio Update	*Continue to expand program and refine pacing schedule*	Onsite	Eric Chin (Onsite), Darren Schulz (CC), Dave Hunter (CC)	Simon Dwyer, Lynn Baranski, Andrew Farris, Russ Steenberg	Soft Copy Presentation (106): Tamale Notes: J:\EChin\Documents\Manager Notes Shared Folder\BlackRock Pep.docx	
8/5/2019	**Bank of North Dakota**	Pricing Update	*Continue to monitor Match Loan CD program size and market pricing*	BND	Darren Schulz, Dave Hunter		L:\INVESTMENT\22 (CM) COMMITTEE_MEETING\SIB Board Meetings\2019-20\August BND CD Match Loan CD Program July 2019	
8/6/2019	**US SWF Collaboration Call**	Market Update	*Continue to stay abreast of SWF trends, spending policies and earnings definitions*	Conference Call	Dave Hunter		J:\Hunter\SWF Collaboration Calls	
8/8/2019	**PIMCO Corp.Oppty.Fund**	Market Update	*Continue to stay abreast of fundraising initiative and program returns*	Conference Call	Darren Schulz, Dave Hunter		J:\Hunter\PIMCO (PIMCO Corp Oppty Fund III - Aug 2019) Presentation (60) Firm, Team, AUM, Results	
8/8/2019	**SEI - Multi-Asset Strategies**	Portfolio Update	*Continue to monitor Job Service and RHIC Fund returns pending Callan ALS*	RIO	Dave Hunter, Darren Schulz		J:\Hunter\SEI Job Service & RHIC Fund\SEI Update Aug 2019 Presentation (37) Firm, Team, AUM, Results	
8/8/2019	**Western Asset Mgmt. Co**	Pricing Update (CD)	*Continue to monitor TX, CO, and ND CD market pricing*	Conference Call	Darren Schulz, Dave Hunter, Eric Chin		J:\Hunter\Western Asset (WAMCO BND CD Analysis) J:\Hunter\Western Asset (Douglas Hulsey Email Aug 20 2019 4:07pm)	
8/9/2019	**ND Pipeline Authority**	Market Update	*Continue to monitor ND oil and tax production levels, pricing and trends*	Conference Call	Dave Hunter, Darren Schulz	NDPA - Justin Kringstad (ND Oil & Gas Expert)	N:\Investment Funds\Legacy Fund (JK Production Est Aug 9 2019) N:\Investment Funds\Legacy Fund (LF Earnings Present Aug 15 2019)	
8/9/2019	**Parametric Clifton**	Portfolio Update	*Continue to monitor program returns in light of equity optimization initiative*	RIO	Darren Schulz, Eric Chin, Dave Hunter	PC - Tom Lee (CIO), Ben Lazarus (RM)	J:\Hunter\Parametric Clifton Presentation (35) Firm, Team, AUM, Results	
8/12/2019	**RVK**	Market Update	*Continue to monitor as a potential investment consultant and SWF (WY) trends*	Conference Call	Dave Hunter, Darren Schulz	RVK - Josh Kevan (Sr.Consultant), Jake Derrah (Assoc.)	N:\Investment Funds\Legacy Fund (RVK SWF Legacy Survey 2019)	
8/14/2019	**Wilshire Consulting**	Consultant Screening	*Continue to monitor as a potential investment consultant*	RIO	Dave Hunter	WC - Ted Hermann (RM), Bill Bracamontes (Private Equity)	None Emails - See Outlook Calendar on Aug 14, 2019 from Noon to 1pm	
8/20/2019	**Torrey Cove / Ares Reference**	Consultant Screening	*Continue to monitor as a potential investment consultant (private markets)*	Conference Call	Dave Hunter	TC - Tyler Van Der Schaaf (Sr.Assoc.)	None Emails - See Outlook Calendar on Aug 20, 2019 from 3:30 to 4pm	
8/21/2019	**Cerberus - Direct Lending**	Portfolio Update	*Expand program size by $100 million and monitor return trends*	RIO	Eric Chin, Darren Schulz, Dave Hunter	CBF - Keith Read (President) Kevin McLeod (Sr. M.D.)	J:\Hunter\Cerberus - Aug 16 2019 Presentation (48) Firm, Team, AUM, Results	
8/26/2019	**Research Affiliates (PIMCO)**	Portfolio Update	*Continue to monitor program returns in light of equity optimization initiative*	Conference Call	Dave Hunter	RA - Trever Schuesler (RM), Brent Leadbetter (PM)	J:\Hunter\Research Affiliates White Papers, Regression Model, Emails - Factor Investing Review	
8/27/2019	**CliftonLarsonAllen**	Fraud Assessment	*Continue to monitor annual financial audit process and recommendations*	RIO	Dave Hunter	CLA - Tonya	None Emails - See Outlook Calendar on Aug 27, 2019 from 1:30 to 2pm	
8/27/2019	**JPMorgan - Real Estate**	Pricing Update	*Elect "Soft 3-Year Soft Lock-Up" Option to reduce management fee by 25%*	Conference Call	Dave Hunter, Darren Schulz	JPM - Jim Sakelaris (RM) Melissa Anazinis (RE)	J:\Hunter\JPMorgan RE Income Growth Fund Emails - Election Opportunity to Reduce Fees to 0.68% from 0.90%	
8/28/2019	**Vanguard - Int'l. Equity**	Portfolio Update	*Continue to monitor program returns in light of equity optimization initiative*	Conference Call	Darren Schulz, Eric Chin, Dave Hunter	V - Mark Miller, Eric Wolfsburger, William LaBarge	J:\Hunter\Vanguard Presentations (13) Strategy, Team, AUM, Results	
8/29/2019	**Loomis Sayles - High Yield**	Portfolio Update	*Continue to monitor returns & pricing in light of weak relative returns in 2019*	Conference Call	Dave Hunter, Darren Schulz, Eric Chin	LS - Stephanie Lord (RM), Ken Johnson (VP Fixed Income)	J:\Hunter\Loomis Sayles\Aug 29 2019 Conf Call Presentation (73) Firm, Team, AUM, Results	
8/30/2019	**LSV**	Manager is on watch list	*Continue to diligence and go onsite to evaluate*	CC	DS, EC	James Owens	Presentation and Slides: Tamale	
9/5/2019	**RGM Capital LLC**	Preliminary DD	*Small Cap manager prospect*	Conference Call	EC	Ed Calkins	Performance Sheet: Tamale	
9/6/2019	**Brookfield Infrastructure**	Prospect DD	*Solid infrastructure prospect. Continue to monitor.*	Onsite	DH, DS, EC	Sam Pollock – Managing Partner, CEO of Brookfield Infrastructure Chris Harris – Managing Director	Presentation: Tamale	
9/9/2019	**BlackRock Private Equity**	Pacing Discussion	*Fine tune pacing analysis*	CC	DH, DS, EC	Simon Dwyer	Pacing Model 2019V1: Tamale	

9/10/2019	**FTSE Russell**	Index Provider	*Index Vendor: Analytics+ tool-use to explore factors*	WebEx	EC	Sara Wilson Yan Yan	N/A
9/13/2019	**Callan**	Equity Restructuring Dialogue	*Continue to evaluate: framework is being formed for equity portfolio*	CC	DH, DS, EC	Alex Browning, Paul Erlendson	Callan Equity Presentation: Tamale
9/16/2019	**DFA**	Existing Manager DD	*Remain concerned with inability to calculate expected value premium. Value underperformance could continue for long periods of time.*	Onsite	DS, EC	Arun Keswani, CFA, Senior Portfolio Manager and Vice President Joe Young, CFA, Vice President Lukas Smart, CFA, Senior Portfolio Manager and Vice President Lauren Peiffer, CFA, Senior Associate Gerard K. O'Reilly, PhD, Co-Chief Executive Officer, Chief Investment Officer, and Dimensional Director Wes Crill, PhD, Vice President, Research	Presentations: Tamale Notes: J:\EChin\Documents\Manager Notes Shared Folder
9/18/2009	**Atlanta Capital**	Existing Manager Update	*Solid performance, quality in small cap just started to work?*	CC	DS, EC	J. Michael Jaje, Jr., CFA Chip Reed	Presentation: Tamale Notes: J:\EChin\Documents\Manager Notes Shared Folder
9/18/2019	**BlackRock**	Intro Call to BlackRock Long Term Private Capital	*Interesting eventually*	CC	DH, DS, EC	Ross Ramatici Leo Chenette	N/A
9/24/2019	**Wellington International Small Cap**	Portfolio Update	*Consider whether or not to merge with Vanguard*	CC	DH, DS, EC	Simon Thomas, Lee Cohen	Presentation: Tamale Notes: J:\EChin\Documents\Manager Notes Shared Folder
9/25/2019	**Mondrian**	Prospect DD	*Candidate for Global Equity*	RIO	DS, EC	Elizabeth Desmond, James F. Brecker III	Presentation: Tamale Notes: J:\EChin\Documents\Manager Notes Shared Folder
9/26/2019	**LSV**	Onsite DD for watch listed manager	*Concerned, but value vs growth spread is extraordinary*	Onsite	DS, EC	Josh Dupont, Menno Vermeulen, Jason Karceski, Ph.D.	Presentation: Tamale Notes: J:\EChin\Documents\Manager Notes Shared Folder

Quarterly Monitoring Report on TFFR Ends
Quarter Ended June 30, 2019
and
Quarter Ended September 30, 2019

Retirement Program

This report highlights exceptions to normal operating conditions.

- Governor Burgum re-appointed Toni Gumeringer of Bismarck to represent active members on the TFFR Board for a 5-year term from 7/1/19 – 6/30/24.

- The Employee Benefit Program Specialist position was filled by Stephanie Starr in May 2019.

- TFFR Member Online activity continues to increase. To date, over 4,000 active, inactive, and retired members have registered for this service.

- TFFR Board and Segal developed a Plan Management Policy to use as a risk assessment and management tool. Phase 1 included a comprehensive risk assessment and stochastic projections. Phase 2 included identifying policy metrics, establishing a scoring system to evaluate the financial health and long term sustainability of TFFR, and drafting the Plan Management Policy.

- TFFR Governance and Policy Review Committee and staff are working on a revised TFFR Board Governance Policy Manual.

- Based on member and employer customer satisfaction surveys, 2018-19 customer satisfaction remains high at 3.8 (4.0 scale).

- Initial planning discussions on the TFFR pension administration software project are underway. Several meetings have been held with TFFR/RIO, PERS, NDIT, and the Governor’s Office to discuss the IT project process, project resources, project charter, and collaboration with PERS on shared software. The Board and staff are keenly focused on its fiduciary responsibilities to TFFR members, retirees, and beneficiaries, and the importance of making the most prudent decision for TFFR without regard to other state interests. TFFR intends to follow all state procurement guidelines to ensure a fair and competitive bidding process is used, and to identify the best solution for TFFR at the best price considering licensing, implementation, and support/maintenance costs over the long term.

AGENDA ITEM V.E.

FOR INFORMATIONAL PURPOSES ONLY

TO: State Investment Board

FROM: David Hunter, Darren Schulz and Eric Chin

DATE: October 25, 2019

SUBJECT: Watch List Update: LSV Asset Management (Pension, Insurance and Legacy)

Watch List Update:

The SIB placed LSV Asset Management on Watch on May 24, 2019, as a result of meaningful underperformance relative to benchmarks in the short to intermediate term.

Background:

As of June 30, 2019, LSV Asset Management managed approximately $1.6 billion in global, domestic and international equity mandates held across all three investment pools. The mandates managed by the firm are summarized in the following table:

TOTAL LSV EQUITIES	>>>>>>>>	$	1,562,804,607	1-year	3-year	5-years	10-years
LSV World Equities	Pension	$	526,949,210	0.1%	10.0%	4.4%	-
Benchmark			*MSCI ACWI*	*4.6%*	*11.4%*	*6.0%*	-
	Pension		*Relative performance*	*-4.5%*	*-1.4%*	*-1.6%*	-
LSV U.S. Large Cap Value	Insurance	$	71,028,548	1.1%	10.3%	6.8%	13.6%
LSV U.S. Large Cap Value	Legacy	$	413,250,100	1.6%	10.9%	7.1%	-
Benchmark			*Russell 1000 Value*	*8.5%*	*10.2%*	*7.5%*	*13.2%*
	Insurance		*Relative performance*	*-7.4%*	*0.1%*	*-0.7%*	*0.4%*
	Legacy		*Relative performance*	*-6.9%*	*0.7%*	*-0.3%*	-
LSV International Value	Insurance	$	66,860,204	-5.3%	8.1%	1.5%	6.5%
LSV International Value	Legacy	$	484,716,545	-4.7%	8.1%	1.6%	
Benchmark			*MSCI EAFE*	*1.1%*	*9.1%*	*2.3%*	*6.6%*
	Insurance		*Relative performance*	*-6.4%*	*-1.0%*	*-0.8%*	*-0.1%*
	Legacy		*Relative performance*	*-5.7%*	*-1.0%*	*-0.7%*	-

LSV is a deep value equity manager employing a proprietary, disciplined quantitative process to rank stocks and construct portfolios. Their systematic investment approach is designed with an understanding of the fundamental causes of security mispricing. These include investors' tendencies to:

- extrapolate the past too far into the future;
- wrongly equate a good company with a good investment, irrespective of price;
- ignore statistical evidence; and
- develop a “mindset” about a company.

Unlike other deep value managers, they do not invest in distressed companies that require major turnarounds. Rather, they look for generally healthy companies that have gone through extended periods of underperformance, but more recently exhibit positive signs of change.

Value Risk Factor Performance Challenges:

For a variety of reasons, value-oriented equity strategies have underperformed other style factors since the global financial crisis. The last eighteen months, in particular, were as challenging for value equity investors relative to growth as the 1998-2000 Tech Bubble.

One explanation for the struggles of value investing has been investor preferences for bond substitutes. Put simply, low interest rates, lackluster global economic growth, and political turmoil have attracted investors to perceived flight to safety, low volatility, defensive stock that were once the domain of value managers but now trade at valuations that can no longer be justified.

At the other extreme is the emergence of so called new economy or new paradigm stocks that are part of the 21st century technology revolution. In comparison to old economy stocks, these companies have lower cost of sales and less need for physical assets to manufacture, store, and sell physical goods. They typically carry higher growth rates, but also trade at extremely high multiples that suggest high long term growth rates and invulnerability to economic downturns.

Conclusion:

Staff recommends maintaining LSV Asset Management on Watch in light of the magnitude of short and intermediate term underperformance. While Staff takes comfort in LSV’s organizational stability, steadfast commitment to its investment discipline and continuous research to make enhancements to its process, the degree to which the value risk factor has been impacted by market conditions and investor sentiment warrants a reappraisal of its future persistence as an equity risk premium. Accordingly, Staff will maintain heightened monitoring of the public equity mandates managed by the firm as it conducts equity risk factor research as part of the global equity manager structure review. RIO had conducted onsite visits with LSV portfolio management twice since these strategies have been placed on Watch in addition to conducting relative attribution performance reviews on a monthly basis. RIO notes that our investment consultant concurs with our current view on LSV and does not recommend any additional action at this time.

BOARD LEADERSHIP
INNOVATIVE APPROACHES TO GOVERNANCE

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Getting on Board: A Critical Analysis of Women on International Corporate Boards

By Usha C. V. Haley, George T. Haley, and Gergana Markova

Usha C.V. Haley, Ph.D., is the W. Frank Barton Distinguished Chair in International Business and professor of management at Wichita State University. George T. Haley, Ph.D., is professor of marketing at the University of New Haven. Gergana Markova, Ph.D., is associate professor of management at Wichita State University.

In this article, the authors discuss the status of women on international corporate boards and offer recommendations to achieve gender parity.

> *"Imagine if I walked you into a room and it was of a major corporation, like ExxonMobil, and every single person around the boardroom were black. You would think that were weird. But if I walked you into a Fortune 500 company and everyone around the table is a white male, when will it be that we think that's weird too?"*
>
> —Mellody Hobson, president, Ariel Investments, TED Talk, March 2014

Corporate boards of directors (hereafter referred to as "boards") constitute powerful decision-makers. Boards choose chief executive officers, assess senior executives, shape corporate vision and strategy, and manage legal and technological challenges, financial regulation, and reputation. Yet, across the world, many boards lack diversity, thereby missing key stakeholders' perspectives, including those of their corporations' consumers, employees, competitors, and communities. In this article, we assess the state of gender diversity across the world and offer recommendations.

In 2018, ostensibly, boards appeared more gender diverse across the world. Egon Zehnder analyzed BoardEx data from 1,610 public companies with market caps above 7 billion euros in 44 different countries as of May 2018. The company found that 84.9% of corporate boards in 44 countries included at least one woman director. Overall, women held 20.4% of all boards' positions, up from 13.6% in 2012. In Western Europe, the number of women on boards rose from 15.6% in 2012 to 29% in 2018. In 19 countries, all large-cap corporations had at least one female director, up

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ALSO IN THIS ISSUE

CALENDAR OF EVENTS

October 2–4

BoardSource Certificate of Nonprofit Board Consulting

Hope Services, 30 Las Colinas Lane,
San Jose, CA 95119, USA

BoardSource designed its Certificate of Nonprofit Board Consulting program to better meet the ongoing need for governance training among nonprofit organizations throughout the country. This three-day course aims to heighten the skills and abilities of those who currently, or would like to, consult and train nonprofit boards of directors on governance issues.

According to organizers, the course begins with an overview of core curricula that will give any board consultant the tools needed to address just about every major conversation that happens in the boardroom. This session does not teach the actual curricula, as it is expected that participants will have a working knowledge of the basic tenets of board governance. Instead, attendees will discuss the facilitation techniques BoardSource has found most effective in helping to simplify difficult boardroom discussions.

For more information, visit http://boardsource.org.

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Thinking of publishing in Board Leadership?
Contact Nicholas King for criteria at nicholaskingllc@gmail.com

Women

(continued from front page)

from eight countries in 2012. Yet, in 2018, 15% of large-cap corporations had no women on their boards; in 25 countries, including China, Brazil, and Russia, several large corporations had all-male boards. From 2016–2018, the worldwide percentage of publicly-listed corporations with at least one woman board member stayed flat. Table 1 provides an overview of boards' gender diversity in 14 major world markets.

Performance benefits

Research consistently indicates that corporations with more women on their boards outperform those with less: worldwide, shares of corporations with over $10 billion of market capitalization, and with women board members, outperformed comparable businesses with all-male boards by 26% over six years (Credit Suisse Research Institute, 2012). Corporations with more women board members exhibited less fraud, corruption, and bribery; engaged in fewer battles with shareholders (DeHaas, Akutagawa & Spriggs, 2019; Lee, Marshall, Rallis, & Moscardi, 2015); transparently disclosed stock prices (Gul, Srinidhi, & Ng, 2011); and had fewer financial reporting errors (Wahid, 2018). Consequently, institutional investors have demanded more gender diversity. For example, in 2018, BlackRock, the world's largest asset manager, sent letters to companies in the Russell 1000 Index with fewer than two women on their boards, asking for explanations on lack of progress.

Glacial progress

In the United States, from 2012 to 2018, the percentage of female directors rose by just 3.2%. Also in 2018, in Brazil, China, Mexico, Russia, and Singapore, women constituted only 10% of new board appointments. In Argentina, Chile, Hungary, Japan, Saudi Arabia, South Korea, and the United Arab Emirates, less than 55% of boards had at least one woman, and less than 10% had two or more (Egon Zehnder).

Boards average between nine and 13 members, and some have as many as 20; consequently, having one woman director provides a low bar for diversity. Significant evidence suggests that to promote ideals associated with gender diversity, boards require at least three women. Three women normalize women directors' presence, allowing women to speak and to contribute more freely, and men to listen with more open minds (Konrad, Kramer, & Erkut, 2008).

Table 1. Women corporate board members globally, 2016 and 2018

	2016 Percentage			2018 Percentage		
Country (No. of Companies)	1 or More	2 or More	3 or More	1 or More	2 or More	3 or More
France (60)	100.0	100.0	96.5	100.0	100.0	100.0
Germany (60)	91.5	91.5	83.0	93.3	90.0	80.0
Italy (17)	100.0	100.0	85.7	100.0	100.0	94.1
Sweden (21)	100.0	100.0	85.7	100.0	95.2	95.2
United Kingdom (81)	98.8	92.8	67.5	98.8	93.8	67.9
Russia (20)	50.0	20.0	15.0	55.0	20.0	10.0
Saudi Arabia (12)	28.6	0.0	0.0	8.3	0.0	0.0
China (69)	70.1	26.9	3.0	55.1	24.6	5.8
India (54)	92.5	35.0	10.0	100.0	40.7	13.0
South Korea (27)	20.0	4.0	4.0	29.6	0.0	0.0
Brazil (18)	50.0	12.5	0.0	61.1	11.1	0.0
Canada (55)	94.4	88.9	64.8	100.0	89.1	69.1
Mexico (12)	53.8	30.8	15.4	66.7	41.7	16.7
United States (544)	95.4	69.8	33.8	97.6	80.9	44.9

Source: Compiled from Egon Zehnder and U.S. Census data.

In 2018, Australia, Belgium, Finland, France, Italy, Norway, and Sweden averaged more than 30% female board directors, with France leading at 42%. In Belgium, France, Germany, Italy, and Sweden, corporations averaged more than four women directors. Conversely, countries with 6% or less of boards with women included Hungary, Japan, South Korea, and the United Arab Emirates, with Saudi Arabia at 1% (see Table 1 for how major markets stack up for gender inclusiveness).

Findings for large-cap corporations appear to hold for small caps. For corporations in the Russell 3000 Index, boards have become steadily more gender diverse since 2010. In 2019, nearly 20% of boards on this index had three or more women; all-male corporate boards constituted the minority. Yet, small-cap corporate boards are just attaining the gender diversity the S&P 500 achieved a decade ago. Indeed, the gender-diversity gap between the S&P 500 and the remaining companies in the Russell 3000 has grown from 5.4% in 2009 to 8% in 2019 (Morningstar).

Regulatory changes

Corporate progress appears slow and reactionary, while regulatory changes have occurred swiftly. In September 2018, California passed S.B. 826, which requires that public companies headquartered in California have at least one woman on their board of directors by 2019. By 2021, if boards have five directors, then at least two must be women; for boards with six or more directors, three must be women. Currently, 53% of microcaps in California have no female directors. To comply with S.B. 826, qualified women are in high demand to fill these board seats (Equilar, 2019).

Over the last decade, most significant improvements in board diversity have come in countries that used regulatory instruments. The first country to impose a quota in 2006, Norway, met its target of 40% women on public companies' boards within two years; in 2018, however, this number dropped to 36.7%. Other countries, including Sweden and the United Kingdom, have used targets instead of quotas. Here, too, corporations made progress, with the United Kingdom reaching 28% of women on boards in 2019.

Overboarding

With increased external demands for women board members, overboarding has become an issue. In 2018, the average female director sat on 1.3 corporate boards, versus 1.2 for men. That gap is increasing. Twenty-four percent of women board members sat on more than one board, detrimentally affecting diversity of opinions (Morningstar). Despite lack of availability, Fortune 1000 corporations have filled board vacancies with other Fortune 1000 corporations' CEOs. For gender diversity, boards need to broaden views on qualifications, and to adjust recruitment and selection of board candidates. Boards must strive to develop first-time directors. Executives, consultants and academics with research, functional, or industry experience and high leadership potential can add value, despite not holding CEO or director positions. Globally in 2019, women held just 5.6% of leadership roles on boards. Similarly, women held just 4.5% of nonexecutive chairs globally, and only 2.5% of executive chairs. From 2016–2018, those statistics on board leadership have decreased, each falling by half a percentage point globally. In about half of global corporations, women occupied no board-chair positions (Egon Zehnder). These statistics have implications for boards and corporations: A 2017 study by Deloitte found that corporations with female board chairs have nearly double the number of women serving on boards than male-chaired corporations do.

The dearth of women leaders within reflects without. Unchanged from 2016–2018, women constitute 3.7% of CEO positions in 44 countries. In 2018, public large caps in Finland, Canada, and Germany had no female CEOs. In 2019, the percentage of women in leadership roles (director level and above) varied from 17% in India to 35% in the United States ("The Glass-Ceiling Index," 2019). However, in the United States, fewer women ran corporations in the S&P 1500 than men named "John"; for each women CEO, four CEOs existed named John, Robert, William or James (Wolfers, 2015). One study argued that some corporations may engage in "twokenism" through appointing exactly two women directors to their boards; the authors suggested twokenism corresponds to the average number of female directors on S&P 1500 boards, 1.92. By choosing two women board members, corporations could claim above-average female representation (Chang, Milkman, Chugh, & Akinola, 2019).

Refreshing of boards

For gender parity, boards must accelerate hiring of new women directors. In 2018, new board appointments in the prior 12 months constituted 11.4% of all board positions. Of that number, 27% were women, up from 24.1% in 2016. Yet, about three-quarters of all new board positions worldwide still went to men; new women directors made up 3.1% of all board seats (Egon Zehnder). Turnover on boards has also decreased globally, so fewer opportunities exist to appoint new and diverse directors.

To catch up with senior executives' views and regulatory changes, CEOs may need to refresh their boards more frequently and to fill the new positions with diverse candidates. In a recent survey of U.S. board members, 87% said they supported term limits (Deloitte LLC). In the United Kingdom, the government passed a regulation limiting board chairs' terms to a maximum of nine years in total. Board seats for life have become less relevant in environments that require proactive, flexible, digitally savvy leadership open to new business models.

Pipeline issues

For the vast number of women in the global workforce, structural issues impede aspiring to directorships. Across the Organisation for Economic Co-operation and Development (OECD), the gender pay gap between full-time male and female employees averaged 13.5%, varying from 3.4% in Luxembourg to 36.7% in South Korea. Cross-nationally, researchers cannot control for extraneous factors such as tacit and explicit workplace discrimination, and intrinsic factors such as skill levels; consequently, these aggregate, comparative statistics have primarily illustrative value. Nevertheless, the OECD found that in 2018, full-time employed women with college degrees earned, on average, 26% less than their male counterparts.

Some regulatory environments may actively impede women from aspiring to leadership positions in corporations or society at large. A 2019 World Bank survey of 187 economies found that women had, on average, three-quarters of men's legal and employment rights. The survey inquired if women had freedom to travel and to start a business, property rights, and protection from sexual harassment. In the Middle East and North Africa, women had less than half the rights men possessed; Saudi Arabia ranked lowest in the world. Only six countries, Belgium, Denmark, France, Latvia, Luxembourg and Sweden, granted women equal societal rights under the law.

Recommendations

Where can international corporations find outstanding women directors? In all countries, increasing female representation on boards neither begins nor ends with senior executives, but within workplaces and communities. Without addressing major structural issues and hostile regulatory environments, boards cannot become more gender diverse than available talent pools (OECD, 2017). Detailed recommendations for gender parity vary significantly by country and context. Generally, corporations must

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Strategic Talent Imperatives for PE, VC, and Public Company Boards

By Jeff Hocking

Jeff Hocking is a San Francisco–based partner at the executive search firm ON Partners, where he and his colleagues work with public and private companies to identify and recruit high-impact executives for board and C-level leadership roles. Here, he discusses the ways that boardroom challenges and priorities compare for private equity–owned, venture capital–backed, and publicly traded companies.

It's undeniable that strong boards empower corporate success. So, it can be tempting to look for a single formula for building and maintaining a top-quality board—one that would offer just the right combination of industry experience, professional expertise, and diversity in the boardroom.

But, in fact, there are basic aspects of every company's business model, including whether it is a publicly traded company, venture capital (VC)–backed, or private equity (PE)–owned, that help shape its boardroom needs. Equally important, these factors also strongly influence the type of chief executive who is most desirable, for reasons that will include her or his ability to collaborate most successfully with the right kind of board. And it's worth emphasizing that these factors are not fixed in stone—rather, they continue to evolve, as the company transitions between different stages of growth and financial development—impacting its needs within the boardroom and the C-suite.

In what follows, I will discuss several strategic talent imperatives that help determine the right leadership profile for directors and the senior-most leaders within PE-owned, VC-backed, and public companies. Despite some similarities, the target talent profile will tend to differ quite significantly among these three corporate models.

And that's important to keep in mind when making vital decisions about who will step into these roles in the boardroom or the C-suite. My colleagues and I at ON Partners work frequently with all three types of corporations to meet their leadership challenges. Interestingly, there's often a natural progression for us between consulting on CEO searches and CEO succession strategies and then moving on to director searches and board assessments, or vice versa—starting with a boardroom search and then broadening our activities to the C-suite. That's because high-performing leadership teams must work successfully in tandem, with the right fit existing among directors, the chief executive, and other top executives.

The Business Model Imperative

The assessment of any company's leadership needs must necessarily start with its ownership structure, business model, and key strategic objectives.

As a general rule of thumb, one can assume that a company's ownership structure can tell us a great deal about its business model and essential priorities. Venture capitalists will typically be investing in companies that are startups or still in a fast-growth phase. Private equity firms will be less focused on those opportunities than on financial turnarounds or mature companies that could be repositioned to capitalize upon marketplace opportunities. PE firms will often invest in companies that may be older and/or larger than the venture capitalist's targets.

But venture capitalists and private equity firms will share a focus on achieving their strategic goals quickly, usually within a three- to five-year window. Their key goals will include an exit plan and target rate of return on the investment—and it's fair to say that everyone on the leadership team, including the board, the CEO, and the CFO, will be aligned around these core objectives.

In contrast, the leadership teams at a publicly traded company may well be collaborating to achieve a much broader spectrum of goals, which will differ whether the company's focus is on accelerating growth, boosting profitability, protecting its competitive edge, diversifying into new product areas or regions, restructuring, or carrying out some type of business transformation. Within the public equity arena (or some would say "fishbowl"), pressures will result from regulatory requirements, stock price swings, shareholder activism, and an inevitable focus on quarterly results—but it won't be an "exit strategy" that preoccupies the company's directors and C-suite executives.

There are pros and cons to the public company dynamic, but these include the reality that, without a fixed timetable (that is, an exit strategy), leadership teams at publicly traded companies sometimes outstay their maximum effectiveness. And this can happen in the boardroom, where the directors' mix of expertise and experience can fail to keep up with a company's shifting challenges and opportunities. As a result, it's typically more important for public companies, rather than VC or PE-owned companies, to conduct periodic board assessments, to make sure that their mix of directors is bringing what's currently needed—in terms of strategic perspectives, backgrounds, and diversity—to the table.

The Boardroom Imperative

The company's ownership structure, business model, and current strategic priorities will dictate which leadership backgrounds and skills will be most valuable in the boardroom.

Different needs and dynamics will apply. Let's start with a situation in which a private equity firm has stepped into a business situation, taking ownership of a company in need of significant restructuring in order to restore or ramp up profitability. The focus will be financial—and those serving on the board will all be extremely financially astute, highly seasoned professionals. It's likely that the new owners will replace the CEO and/or the CFO, and other senior executives with professionals who will be handpicked by the board.

This board will likely include partners from the private equity firm itself, or senior financial executives with close ties to it who have served in other portfolio companies. Although directors will typically come from financial rather than operational backgrounds, the board can be expected to be extremely hands-on. It will track financial results closely, and frequently interact with management in its efforts to keep the financial turnaround on course.

In a venture capital–backed situation, the board's focus will be growth—and directors will be just as committed as their private equity counterparts to keeping the company's development on track. But there may be somewhat less alignment within the VC-dominated board, if only because there may be multiple investors involved, who may bring differing strategic objectives and priorities to the table. Some may exit earlier than others, join at a later date, or decide to increase their investment stakes along the way.

Depending upon the size of their stakes, individual venture capital firms may hold one or more seats on the board. As with a private equity firm, they will either appoint one of their partners, or an executive with whom they have close ties, to hold the board seat. These will be highly skilled and seasoned professionals with growth, operational, and industry expertise. But when the company moves closer to its targeted exit, whether that might be acquisition by a larger competitor or an initial public offering, outside executives with relevant experience will join the boardroom mix.

In contrast to these two business models, that mix of directors will be broadest within a publicly traded company. For these companies, the marketplace will expect—and even demand—that the women and men at the table include a wide range of professional competencies, leadership backgrounds, and marketplace achievements. Diversity of race, gender, age, and strategic perspective is a must, although achieving this is a challenge that many corporations still struggle with.

As my colleagues at ON Partners and I have seen in our collaborations with many organizations, it's especially valuable for companies that are transitioning from one development stage or business model to another to assess their shifting boardroom needs as they plan for the transition. Boards need to keep evolving if they are to remain impactful.

Relying upon executive search professionals or other independent, strategic talent experts to conduct independent evaluations can be a powerful tool in identifying whether the current board is best suited to meet the company's current—and anticipated—strategic challenges. That's true whether the planned transition involves a technology-driven transformation, a significant merger or acquisition, expansion into new markets, an initial public offering, or other big change.

The CEO Imperative

In addition to a top-quality résumé and skill set, the right CEO will be someone whose personality and "softer skills" are best suited for the company's specific business model, key strategic objectives, and boardroom culture.

The most successful leadership teams include strong relationships between the board, the CEO, and others in the C-suite. But as discussed earlier, different business models and ownership structures necessitate different types of boardroom cultures in order to pursue key objectives.

This is one compelling reason among many why there is no one-size-fits-all solution when it comes to choosing the right chief executive and C-suite leadership team. And that's true no matter how skilled and experienced any executive is—no one can be the best fit for every situation.

Although this lesson is all-too-often overlooked, it's essential to consider the "softer side" of leadership when establishing the target profile for leadership candidates. Executives with certain types of personalities and attributes will collaborate more effectively with certain types of boards than with others.

Consider the demands on CEOs serving in private equity–owned companies. Their boards will have quarterly meetings, of course—but directors can be expected to be so "hands-on" as they monitor all relevant developments that weekly interactions with the board may well be an unspoken part of the job description for the CEO and the CFO. Only people with certain types of temperaments will want to go along with that, or be prepared to cope with the intensity of management pressures inherent in a PE situation.

Many executives will tell search consultants that they would *only* consider a position at a public or VC-backed company; PE executives are a rarer breed. But, then again, there are plenty of pressures in a venture capital setting, and many otherwise well-qualified candidates opt out of those opportunities as well.

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FOOD FOR THOUGHT

"Management is efficiency in climbing the ladder of success; leadership determines whether the ladder is leaning against the right wall."

Stephen Covey

Imperatives

(continued from page 5)

The complexities of VC boards can be off-putting. As noted earlier, VC boards will likely include a variety of perspectives from the different investment firms, and these directors will all be active in making their voices and priorities heard. The "right" executive for one of these positions will be adept at building successful working relationships with all of them.

Whenever a board's focus is on a three- to five-year exit strategy, it's fair to say that only certain types of executives need apply. Whether venture capital–backed or private equity–owned companies, these are high-pressure situations with extremely qualified boards that will be active and demanding. So although it's always the case that CEOs need to be strong communicators, it makes sense for companies to look for proven executives with sufficient management gravitas and finely honed communication skills that will enable them to satisfy their directors' needs.

These dynamics will shift, of course, if and when the company is positioning itself for ownership transition through an M&A event or initial public offering. The track record and expertise of the CEO and CFO will matter most, and those "softer" attributes will be less significant than their ability to help carry the company across the desired finish line.

As may go without saying, the relationship between a chief executive and a public company board is equally essential, although the dynamics will be different from those at PE-owned or VC-backed companies. These boards will be focused on bigger-picture, larger strategic issues, rather than hands-on operational or financial matters.

Some chief executives prefer to work in business settings with rubber-stamp boards, but if they are savvy about possibilities inherent in this relationship, they will look for much more. The best CEOs appreciate the benefits that accrue from situations in which the board and the executive team can work in tandem to explore strategic opportunities and protect the company against competitive, marketplace, technological, and other risks that may develop. These CEOs and their senior management teams will be committed to a different type of boardroom communication—reaching out to directors as sounding boards, leadership peers, and seasoned experts who will empower them to achieve the company's core objectives.

And, yes, those objectives will evolve over time, which will inevitably produce changes in the company's needs— in both the boardroom and the executive suite. Successful companies recognize this and plan ahead for leadership transitions that make sense in support of those new corporate developments. ❑

Calendar of Events

(continued from page 1)

OCTOBER 27–29

October Governance Institute Leadership Conference

Grand Hyatt Washington, 1000 H Street NW, Washington, DC 20001, USA

According to organizers, this event will serve as a valuable resource for those looking to stay abreast of current topics in health care and board governance. It will feature engaging and relevant content to foster learning opportunities and team building for boards, health care executives, and medical staff leadership.

For more information, visit https://governanceinstitute.com.

OCTOBER 28–30

Executive Retreat 2019: Bringing Leaders Together: A Retreat for Nonprofit Chief Executives

The Vinoy Renaissance Resort & Golf Club, 501 5th Ave. NE, St. Petersburg, FL 33701, USA

During this collaborative three-day program, attendees will have the opportunity to meet and connect with other nonprofit chief executives from throughout the country and sector to discuss the unique challenges of the chief executive role and what it takes to strengthen the leadership partnership between the executive and the board. According to organizers, the retreat will help attendees:

- Discover the power of a strong board-CEO partnership. The program will present tools and ideas to assist executive leaders in building strong partnerships with their board of directors from the fiduciary, generative, and strategic perspectives.
- Address opportunities and overcome challenges. Workshops and group sessions will look at how the current environment impacts your mission and action plan to address key opportunities and challenges facing your board leadership.
- Renew their energy by supporting and engaging with peers. Participants will find new energy and support from peers across the country through group projects, small-group discussions, and valuable time in and outside of formal sessions.

For more information, visit https://bit.ly/2WKN9bq. ❑

WRITING FOR *BOARD LEADERSHIP*

***Board Leadership* is looking for articles from governance practitioners, researchers and consultants on topics related to the discovery, explanation and discussion of innovative approaches to board governance. For more information email: nicholaskingllc@gmail.com** ❑

Women

(continued from page 3)

actively identify and recruit talented women for leadership, and support women through their careers to move into leadership roles. Specifically, we suggest:

- **Set internal rules and guidelines.** Some corporations used quotas as ceilings rather than floors for gender parity. Besides benefitting financial performance, gender parity brings many branding and marketing benefits. Consequently, to attract and to retain female talent, senior executives may consider rules and guidelines for balanced representation of men and women in key functional and strategic areas, commensurate with their skills. Corporations may also redefine rules of engagement for improved board dynamics and inclusive conversations. Such diversity of thought aids higher corporate performance through reducing cognitive limitations and tunnel vision for multidimensional representations of corporate environments (Haley & Stumpf, 1989).
- **Publicize board openings.** Corporations may strategically work to increase diversity of ideas and perspectives within boards through inviting diverse applicants. For example, corporations may publicize and market available board positions through search firms and industrial associations to reach more high-achieving and talented women and for gender and thought diversity.
- **Aim for critical mass.** The lone one or two women on boards routinely deal with mansplaining, patronizing attitudes, ignored or downplayed contributions, and interruptions. However, when three or more women serve on boards, research has shown that male board members appear more cooperative and respectful of the women's input, thereby contributing to more fruitful board discussions.
- **Seek women with diverse backgrounds.** For diversity of thought, and to attract leadership from nontraditional fields, corporations and search firms may look for functional, research, and international input from women board members. For example, search firms and the media may provide leads to highly qualified industry, country, research, and topical expertise for breadth and depth in board discussions.
- **Redefine criteria for board membership.** To avoid overboarding, corporations may recruit board members from fields with traditionally high numbers of women such as education or health care. Given the small pool of women at high levels, seeking women that bring nontraditional experiences such as community engagement, government services, and nonprofit leadership may enrich boards' understandings of key underrepresented constituencies.
- **Use technology.** Technology and flexible schedules have enhanced women's opportunities to engage in the workplace and on boards without evading family responsibilities. Opportunities to work from home, shorter weeks with longer hours, or telecommuting increases avenues for participation of highly qualified women and to avoid overboarding.
- **Lubricate pipelines.** Corporations can enhance avenues to identify and to develop outstanding women for board leadership through in-house programs and external networking. Senior executives may establish and extend mentoring programs, leadership institutes, and other

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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. ❑

Women

(continued from page 7)

external outreach to detect and to nurture exceptional women for boards.

- **Scout internationally.** Many issues that corporate boards face span national boundaries. Especially in countries where regulatory and social environments impede attracting women to boards, corporations may seek women with required issue expertise from other countries to break new ground and to establish precedent.
- **Educate women on rewards.** Women outside of business may have scant ideas of the career advancement that board membership brings. Women, even in business, often assume caregiver roles and may neglect their own advancement and self-promotion: Women in junior and senior positions may provide personal care for their families, including children and aging parents. While they can outsource some care, the emotional toll on female professionals may hinder seeking board opportunities. Education through community networks, and as part of corporate brand-building, can enlarge the pie of board membership, thereby contributing to boards' astuteness and strategic alacrity, and, ultimately, to higher corporate performance. ☐

Usha C. V. Haley specializes in international business, international trade and international strategy; for more information on this article, please contact her at http://ushahaley.academia.edu, usha.haley@wichita.edu and tel/fax 1-212-208-2468.

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