Executive Summary - Informational

TO: State Investment Board

FROM: Dave Hunter

DATE: June 23, 2020

SUBJECT: SIB Meeting Materials – June 26, 2020 (Special Meeting)

The SIB meeting on June 26 will be held in a virtual manner in light of ongoing public health concerns related to the COVID-19 outbreak. This Board meeting will include two new manager presentations in U.S. Small Cap Equity and Opportunistic Credit in addition to the following topics:

1. <u>Interim Investment Update</u> – **TFFR, PERS and Legacy Fund net returns improved from -7% on a fiscal year to date basis as of March 31, 2020 to -1.3% on a fiscal year to date basis as of April 30, 2020, due to a strong equity market recovery in April.** Based on preliminary indicative return estimates for May and early June, RIO believes TFFR, PERS and Legacy Fund net returns are estimated to roughly approximate **+3%** on a fiscal year to date basis as of June 16, 2020, <u>noting these estimates are subject to material change</u>. WSI and Budget Stabilization Fund returns have also rebounded significantly since March 31, 2020, and broadly estimated to approximate **+4%** and **+1%**, respectively, on a fiscal year to data basis as of June 16, 2020.

	TFFR	PERS	Legacy	WSI	Budget Stabilization
Net Returns for 1-Year Ended 12/31/2019	**18.0%**	**18.0%**	**18.1%**	**13.6%**	**4.7%**
Net Returns for Quarter Ended 9/30/2019	**0.4%**	**0.4%**	**1.0%**	**1.7%**	**0.9%**
Net Returns for Quarter Ended 12/31/2019	**5.6%**	**5.7%**	**5.2%**	**2.6%**	**0.8%**
Net Returns for Quarter Ended 3/31/2020	**-12.0%**	**-12.1%**	**-12.7%**	**-6.1%**	**-3.6%**
Fiscal Year to Date Returns at 3/31/2020	**-7%**	**-7%**	**-7%**	**-2%**	**-2%**
Net Returns for Month Ended 4/30/2020	**5.7%**	**5.8%**	**6.4%**	**4.1%**	**1.6%**
Fiscal Year to Date Returns at 4/30/2020	**-1.3%**	**-1.3%**	**-1.3%**	**2%**	**-0.4%**
Est. MTD through 5/31/2020	***3%***	***3%***	***3%***	***1%***	***0.3%***
Est. MTD through 6/16/2020	***2%***	***2%***	***2%***	***1%***	***1%***
Esimated FYTD Returns at June 16, 2020	***3%***	***3%***	***3%***	***4%***	***1%***

May and June returns are rough indicative estimates based on underlying benchmark data, not actual results. All estimates are preliminary, unaudited and <u>subject to material change</u>.

2. **<u>Portfolio Rebalancing Update</u> – On March 27th, the SIB approved a recommendation to engage Parametric to assist us in synthetically rebalancing fund exposures in an efficient and cost effective manner. RIO will provide a status update of rebalancing actions noting that Public/Private Equity and Fixed Income/Cash are within 1% of 3% Target as of June 16th within the Pension and Insurance pools and Legacy Fund.**

3. **Public Equity Update** - **RIO will request the SIB to approve Riverbridge as a new U.S. Small Cap Equity manager to replace Parametric Clifton and complement our existing manager - Atlanta Capital.** RIO staff and Callan has conducted extensive due diligence on this search in recent months. The SIB approved Callan to assist RIO in conducting two U.S. Small Cap Equity searches earlier this year and intends to bring the second complementary manager to the Board for further consideration at our next SIB meeting on July 24, 2020. In July, RIO intends to preview our Global Equity search criteria with the Board with Callan's assistance. Lastly, it is worthwhile to note that Mercer allowed us to utilize their investment manage database in recent months in order to supplement our due diligence in public equity (as well as private infrastructure and opportunistic credit).

4. **Opportunistic Credit – RIO will request the SIB to approve a $250 million commitment to Sixth Street Partners (SSP) opportunistic credit fund (TAO), which RIO staff and Callan believe "is well positioned to execute in the current (market) dislocation".** Based on the desire to further diversify public equity risk and reduce volatility in our higher return seeking portfolios, RIO recommends a $150 million commitment for the Pension Pool and a $100 million commitment for the Legacy Fund. Based on discussion with Callan, RIO recommends the $150 million Pension Pool commitment should be a relatively conservative sector allocation within Private Equity, while the $100 million Legacy Fund commitment will represent a new opportunistic credit sector within Public Equity. Both sector allocations should serve to dampen public equity market volatility, while improving expected downside risk returns given that SSP's TAO strategy is keenly focused on "minimizing downside loss of principal", while historically generating Net Internal Rate of Returns which have averaged over 9.9% since inception (but not less than 6% in any given year). RIO and Callan have conducted due diligence with SSP TAO professionals during the last four years in anticipation of an inevitable major market dislocation, while noting that Callan and RIO completed their latest round of investment due diligence in May and June, respectively.

5. **Governance Update** – The Board will be asked to review the upcoming meeting schedule for July and August (including ongoing public equity manager searches and board education on fiduciary training), discuss potential legislative planning topics, and review the Governor's budget limits in 2021-23 in conjunction with ongoing agency initiatives and our long-term strategic plan. The SIB may also review Executive Director / CIO compensation.

6. **RIO Agency Update –** RIO became fully staffed on June 1st with the hiring of Janilyn Murtha as our new Deputy Executive Director and Chief Retirement Officer and Jayme Heick as our new Retirement Benefits Counselor. RIO has remained fully functional since the start of the global pandemic and despite being understaffed throughout most of the past fiscal year. RIO intends to open up to the public by appointment only on July 1st.

North Dakota State Investment Board

ND STATE INVESTMENT BOARD MEETING

Friday, June 26, 2020, 8:30 a.m.
RIO Conference Room (Virtual Meeting Host)
Teleconferencing - 701.328.7950 Participant Code – 696855#
3442 East Century Avenue, Bismarck, ND

AGENDA (SPECIAL MEETING)

I CALL TO ORDER AND ACCEPTANCE OF AGENDA

II ACCEPTANCE OF MINUTES (May 22, 2020)

III INVESTMENTS

A. Interim Performance Update - Mr. Hunter (10 minutes) *Informational*
B. U.S. Small Cap Equity Search Overview - Mr. Darren Schulz (40 minutes)
   1. Riverbridge Presentation – Mr. Rick Moulton, Mr. Ross Johnson, Mr. Tim Wilkinson *Informational*
   2. Staff Recommendation – Mr. Eric Chin **Board Action**
B. Opportunistic Credit Overview - Mr. Hunter (40 minutes)
   1. Sixth Street Partners TAO - Mr. Alan Waxman, Ms. Ahsha Haggart, Mr. Brian D'Arcy *Informational*
   2. Staff Recommendation - Mr. Schulz **Board Action**

I GOVERNANCE (20 minutes)

A. July/August Meeting Schedule – Mr. Hunter *Informational (verbal)*
B. Governor Budget Guidelines – Base and Optional (TFFR PAS) - Mr. Hunter *Informational (verbal)*
C. ED/CIO Compensation – Chair Lt.Gov. Sanford or ERC* Chair Yvonne Smith – **Board Action**
   **ERC = Executive Review Committee*

OTHER
Next Meetings: SIB – July 24, 2020, 8:30 a.m. - Retirement and Investment Office

I ADJOURNMENT

NORTH DAKOTA STATE INVESTMENT BOARD
MINUTES OF THE
MAY 22, 2020, BOARD MEETING

MEMBERS PRESENT:	Brent Sanford, Lt. Governor, Chair Rob Lech, TFFR Board, Vice Chair Bryan Klipfel, Director of WSI Troy Seibel, PERS Board, Parliamentarian Toni Gumeringer, TFFR Board Keith Kempenich, Legacy/Budget Stab. Adv. Board Adam Miller, PERS Board Mel Olson, TFFR Board Kelly Schmidt, State Treasurer Jodi Smith, Commissioner of Trust Lands Yvonne Smith, PERS Board
MEMBER ABSENT:	Jon Godfread, Insurance Commissioner
STAFF PRESENT:	Eric Chin, Chief Risk Officer/Senior CIO Connie Flanagan, Chief Financial Officer Ann Griffin, Investment Accountant Bonnie Heit, Admin Svs Suprv David Hunter, Exec Dir/CIO Matt Posch, Investment/Compliance Officer Sara Sauter, Suprv of Internal Audit Darren Schulz, Dep CIO Susan Walcker, Senior Financial Accountant
GUESTS:	Alex Browning, Callan LLC Jenny Chan, Macquarie Dean DePountis, Attorney General's Office Paul Erlendson, Callan LLC Andrew Killian, Macquarie Karl Kuchel, Macquarie 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, May 22, 2020. The virtual meeting was held at the Retirement and Investment Office (RIO), 3442 East Century Avenue, Bismarck, ND with the majority of the participants attending remotely.

AGENDA:

The Board considered the agenda for the May 22, 2020, meeting,

IT WAS MOVED BY MR. OLSON AND SECONDED BY MS. SMITH AND CARRIED BY A VOICE VOTE TO ACCEPT THE AGENDA FOR THE MAY 22, 2020, MEETING.

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

MINUTES:

IT WAS MOVED BY DR. LECH AND SECONDED BY MS. GUMERINGER AND CARRIED BY A VOICE VOTE TO APPROVE THE APRIL 24, 2020, MINUTES AS DISTRIBUTED.

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

INVESTMENTS:

Mr. Hunter highlighted performance for the period ending March 31, 2020. U.S. Equity markets fell 20% in the first quarter of 2020 after gaining 30% in 2019. Equity and fixed income markets improved considerably in April, while May returns have been mixed, to date, given continuing uncertainty and the impact of the global pandemic on public health, unemployment, consumer spending, and economic growth.

The Pension Trust posted a net return of -3.4% in the last year. During the last 5 years, the Pension Trust generated a net annualized return of 4.2%, exceeding the performance benchmark of 3.8%. The Insurance Trust generated a net return of 0.8% in the last year. During the last 5 years, the Insurance Trust posted a net annualized return of 4.0%, exceeding the performance benchmark of 3.7%. The Legacy Fund generated a net return of -4.2% last year. During the last 5 years, the Legacy Fund earned a net annualized return of 3.5%, exceeding the performance benchmark of 3.4%.

Fiscal year-to-date returns for Teachers' Fund for Retirement (TFFR), Public Employees Retirement System (PERS) and the Legacy Fund are estimated to approximate -3% from July 1, 2019 to May 14, 2020. Fiscal year-to-date returns for Workforce Safety & Insurance (WSI) and Budget Stabilization are estimated to range from +1% to -1% during this same period. TFFR, PERS, and the Legacy Fund net returns ranged from -12.0% to -12.7% for the quarter ending March 31, 2020, noting U.S. and global equities lost over 20% in the first quarter. WSI and Budget Stabilization are estimated to range from +1% to -1% for the same period.

Monitoring of the portfolios against their target allocations is taking place on a daily basis with the additional assistance of Parametric to synthetically rebalance fund exposures in an efficient and cost effective manner. Within the Pension Pool, Insurance Pool, and Legacy Fund, the Public Equity and Fixed Income/Cash are within 1% of target. The Pension Pool in Private Equity is underweighted by approximately $92 million and Private Real Estate is over weighted by approximately $81 million.

Mr. Hunter requested a June 26, 2020, meeting be added to the SIB schedule to review U.S. Small Cap Equity.

IT WAS MOVED BY MR. OLSON AND SECONDED BY MS. SMITH AND CARRIED BY A VOICE VOTE TO SCHEDULE A JUNE 26, 2020, MEETING.

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

IT WAS MOVED BY DR. LECH AND SECONDED BY TREASURER SCHMIDT AND CARRIED BY A VOICE VOTE TO ACCEPT THE PERFORMANCE OVERVIEW FOR THE PERIOD ENDING MARCH 31, 2020.

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

CALLAN LLC:

Representatives reviewed the investment performance of the Pension Trust, Insurance Trust, and Legacy Fund for the period ending March 31, 2020. Callan LLC also provided a market update for the same period.

IT WAS MOVED BY MR. OLSON AND SECONDED BY MS. SMITH AND CARRIED BY A ROLL CALL VOTE TO ACCEPT CALLAN'S INVESTMENT REVIEW FOR THE PERIOD ENDING MARCH 31, 2020.

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

INFRASTRUCTURE OVERVIEW:

Mr. Hunter provided an overview of MacQuarie's Infrastructure Partners V investment opportunity.

Macquarie representatives reviewed their Infrastructure Partners V portfolio.

RIO's investment team recommended the SIB commit up to $100 million to the MacQuarie Infrastructure Partners V in order to further diversify real asset investments within the Pension Pool, Insurance Pool, and Legacy Fund. RIO's investment team worked with Mercer and Callan's infrastructure specialists to reaffirm MacQuarie as a proven leader in the infrastructure sector.

IT WAS MOVED BY MR. OLSON AND SECONDED BY DR. LECH AND CARRIED BY A ROLL CALL VOTE TO ACCEPT STAFF RECOMMENDATION AND COMMIT $100 MILLION TO THE MACQUARIE INFRASTRUCTURE PARTNERS V FUND.

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

GOVERNANCE:

Audit Committee – Ms. Sauter reviewed Internal Audit activities for the period of January 1, 2020 – March 31, 2020.

CliftonLarsonAllen (CLA) reviewed their financial audit scope and approach of RIO for the period of July 1, 2019 – June 30, 2020.

Audit Activities Completed on Behalf of RIO – The Administrative Expense Audit was issued January 30, 2020. Internal Audit reviewed RIO's policies pertaining to travel and office expenses and compared those to the Office of Management and Budget (OMB) policies and state purchasing requirements.

Audit Activities Completed on Behalf of the SIB – The Executive Limitations Audit for the calendar year January 1, 2019 – December 31, 2019 was issued on February 27, 2020. The audit reviews the Executive Director/CIO's level of compliance with SIB Governance Manual Executive Limitation policies.

Assistance was provided to the Executive Review Committee (ERC) in administering a board self-evaluation. Results were issued to the SIB on March 27, 2020.

Assistance was also provided to the ERC for the annual evaluation of the Executive Director/CIO. Surveys were sent to the SIB and RIO staff. The RIO staff survey was completed in March 2020 and the SIB survey was administered in March/April 2020 and the results were reported to the ERC.

The Cash Management and Rebalancing Audit was started in March 2020 which entails a review of procedures for cash management and rebalancing of investment allocations. Due to COVID-19, the audit is on hold.

The Internal Control Assessment was started in March 2020. The internal control guidelines put forth by the Office of Management and Budget will be completed first. Due to COVID-19, the audit was temporarily put on hold but is now in progress.

Audit Activities Completed on Behalf of TFFR – Three Employer Audits were completed and one was in progress.

The Salary Verification which entails the reconcilement of salaries is currently in progress.

The TFFR File Maintenance Audit was completed and a report was issued January 31, 2020.

The Benefit Payment Audit was completed and a report was issued April 20, 2020.

A Task List Project is underway and will run through June 30, 2020. Internal Audit is working with Retirement Services, Administrative Services, and Information Technology on tracking retirement program activities due to retirements and the implementation of the Pension Administration System (PAS).

Internal Audit has been working with the internal Information Technology Division as well as the ND Information Technology Department to develop data analytics to help streamline the TFFR Employer Salary, Service Hours, and Eligibility Review process. Internal Audit is currently working through the first employer audit comparing the employer master payroll file with the Education Standards and Practices Board database.

IT WAS MOVED BY MS. SMITH AND SECONDED BY MS. GUMERINGER AND CARRIED BY A VOICE VOTE TO ACCEPT THE INTERNAL AUDIT REPORT FOR THE PERIOD OF JANUARY 1, 2020 – MARCH 31, 2020.

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

Securities Litigation Committee – Mr. Hunter reviewed activities of the Securities Litigation Committee's (SLC) April 30, 2020, special meeting. The SLC reviewed a developing international securities litigation case involving investors in Nissan Motor Co. Ltd. who suffered damages as a result of alleged financial misconduct. The SLC, based on recommendations from Financial Recovery Technologies, elected to opt in on the group securities litigation case. The ND Emergency Commission approved the SLC's request to engage in a litigation contingency fee arrangement in an effort to recover damages. RIO is currently in the process of obtaining approval from the Office of the Attorney General for the appointment of a Special Assistant Attorney General.

Mr. Hunter also informed the SIB, RIO is planning to work with RIO's Attorney General counsel to draft legislation which would allow the SIB to engage in litigation contingency fee arrangements in the future without the prior consent of the ND Emergency Commission.

IT WAS MOVED BY MS. GUMERINGER AND SECONDED BY MS. SMITH TO ACCEPT THE SECURITIES LITIGATION REPORT.

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

Executive Review Committee – Ms. Smith reminded the SIB the Executive Review Committee (ERC) was charged with recommending a compensation increase for the Executive Director/CIO. Data reveals the compensation for the Executive Director/CIO is well below peer wage comparisons within other state run agencies similar to the SIB. Given the economic downturn, Ms. Smith encouraged the SIB to consider a wage package when deemed more appropriate.

Governor's Budget Guidelines – Mr. Hunter reviewed the 2021-23 budget guidelines for RIO from the Office of Management and Budget. Agencies are required to reprioritize 5 percent of the 2019-21 special funds adjusted legislative base. Mr. Hunter also provided an update on vacancies and the TFFR PAS.

MONITORING:

The monitoring reports for the quarter were presented for the SIB's approval. Mr. Hunter also indicated LSV is currently on the Watch List and staff continues to conduct their due diligence.

IT WAS MOVED BY DR. LECH AND SECONDED BY MR. OLSON AND CARRIED BY A VOICE VOTE TO ACCEPT THE MONITORING REPORTS FOR THE QUARTER ENDING MARCH 31, 2020.

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

OTHER:

The next meeting of the SIB Audit Committee is scheduled for May 21, 2020, at 3:00 p.m. at the Retirement and Investment Office (virtual).

The next special meeting of the SIB has been scheduled for June 26, 2020, at 8:30 a.m., at the Retirement and Investment Office (virtual).

ADJOURNMENT:

With no further business to come before the SIB, Lt. Governor Sanford adjourned the meeting at 10:53 a.m.

Lt. Governor Brent Sanford, Chair
State Investment Board

Bonnie Heit
Recorder

Informational

Interim Investment Update

As of April 30, 2020

June 23, 2020

Dave Hunter, Executive Director / CIO
Darren Schulz, Deputy Chief Investment Officer
Janilyn Murtha, 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)

State Investment Board – Five Largest Clients
Interim FYTD Estimated Returns – June 19, 2020

Interim estimated returns for the SIB's five largest clients are summarized below on a Fiscal Year To Date (FYTD) basis from July 1, 2019 through June 19, 2020:

		TFFR	PERS	Legacy	WSI	Budget Stabilization
Net Returns for 1-Year Ended 12/31/2019		18.0%	18.0%	18.1%	13.6%	4.7%
Net Returns for Quarter Ended 9/30/2019		0.4%	0.4%	1.0%	1.7%	0.9%
Net Returns for Quarter Ended 12/31/2019		5.6%	5.7%	5.2%	2.6%	0.8%
Net Returns for Quarter Ended 3/31/2020		-12.0%	-12.1%	-12.7%	-6.1%	-3.6%
Fiscal Year to Date Returns at 3/31/2020		-7%	-7%	-7%	-2%	-2%
Net Returns for Month Ended 4/30/2020		5.7%	5.8%	6.4%	4.1%	1.6%
Fiscal Year to Date Returns at 4/30/2020		-1.3%	-1.3%	-1.3%	2%	-0.4%
Est. MTD through	*5/31/2020*	*3%*	*3%*	*3%*	*1%*	*0.3%*
Est. MTD through	*6/19/2020*	*2%*	*2%*	*2%*	*1%*	*1%*
Esimated FYTD Returns at June 19, 2020		*3%*	*3%*	*3%*	*4%*	*1%*

1. **Investment volatility hit an all-time high in 2020 as the longest bull market in history (11+ years) was immediately followed by one of the fastest bear market corrections on record (less than one month). This record level of volatility resulted in U.S. and global equities increasing by 30% in 2019 prior to falling 20% in the first quarter of 2020.**
2. **As shown above, TFFR, PERS and Legacy returns gained 18% in 2019 before losing 12% in Q1 of 2020 as their diversified portfolios served to dampen roughly 40% of the equity market volatility (or experience roughly 60% of the equity market gains/losses). The impact of the COVID-19 pandemic on public health, global economy, capital markets and consumer spending was unprecedented.**
3. **TFFR, PERS and Legacy returns materially improved in April due to a strong equity market recovery with FYTD returns recovering from a -7% as of March 31, 2020 to -1.3% as of April 30, 2020, noting WSI and BSF also improved significantly.**
4. **Based on preliminary market data which is unaudited and subject to material change, TFFR, PERS & Legacy Fund returns are roughly estimated to approximate 3% on a fiscal year to date basis as of June 19, 2020, and are expected to benefit from a significant public equity and fixed income market recovery in May and first half of June.**
5. **WSI and Budget Stabilization Fund returns are estimated to approximate 4 and 1%, respectively, on a FYTD basis as of June 19, 2020. A significant recovery in public fixed income (and equity) market valuations in May and early-June drove improved returns.**

April and May returns are rough indicative estimates based on underlying benchmark data (not actual results) and all amounts are preliminary, unaudited and subject to material change.

Portfolio Overlay and Rebalancing Update
As of June 19, 2020

PENSION POOL

	Physical	Overlay	Actual	Target	Over or Under $	Over or Under %
Public Equity	$ 3,103	$ 168	$ 3,271	$ 3,112	$ 159	2.6%
Fixed Income/Cash	$ 1,564	$ (168)	$ 1,396	$ 1,440	$ (44)	-0.7%
Private Equity	$ 276	$ -	$ 276	$ 395	$ (119)	-2.0%
Private Real Assets	$ 1,135	$ -	$ 1,135	$ 1,131	$ 4	0.1%
As of June 19, 2020	**$ 6,078**	**$ -**	**$ 6,078**	**$ 6,078**	$ -	0%
Inception to Date Gain on Pension Equity Overlay Strategy				**$ 18**		

The Pension Pool was valued at approximately $6 billion as of June 19, 2020. Public Equity was over-weight 2.6% and Fixed Income/Cash was underweight 0.7% of Target. Private Equity was underweight 2.0% and Private Real Estate was nearly on Target at June 19, 2020.

LEGACY FUND

	Physical	Overlay	Actual	Target	Over or Under $	Over or Under %
Public Equity	$ 3,366	$ 234	$ 3,600	$ 3,520	$ 80	1.1%
Fixed Income/Cash	$ 2,664	$ (234)	$ 2,430	$ 2,464	$ (34)	-0.5%
Private Real Assets	$ 1,009	$ -	$ 1,009	$ 1,055	$ (46)	-0.7%
As of June 19, 2020	**$ 7,039**	**$ -**	$ 7,039	**$ 7,039**	$ -	0%
Inception to Date Gain on Legacy Equity Overlay Strategy				**$ 31**		

The Legacy Fund was valued at approximately $7 billion as of June 19, 2020. Public Equity was over-weight 1.1% and Fixed Income/Cash was underweight 0.5%. Private Real Assets were underweight 0.7% at June 19, 2020.

INSURANCE POOL

	Physical	Overlay	Actual	Target	Over or Under $	Over or Under %
Public Equity	$ 477	$ 50	$ 527	$ 506	$ 21	0.7%
Fixed Income/Cash	$ 2,160	$ (50)	$ 2,110	$ 2,121	$ (11)	-0.4%
Private Real Assets	$ 358	$ -	$ 358	$ 368	$ (10)	-0.3%
As of June 19, 2020	**$ 2,995**	**$ -**	$ 2,995	**$ 2,995**	$ -	0%
Inception to Date Gain Insurance Equity Overlay Strategy				**$ 6**		

The Insurance Pool was valued at nearly $3 billion as of June 19, 2020. Public Equity was overweight 0.7% and Fixed Income/Cash was under-weight 0.4% of Target at June 19, 2020. Private Real Assets were underweight 0.3%.

Note: Amounts are unaudited and subject to material change.

Investment Work Plan Update

New Information in Blue Text

U.S. Small Cap Equity: Conduct a two manager U.S. Small Cap Equity search to fulfill a three manager structure that includes top performing Atlanta Capital High Quality.

The SIB engaged Callan to aide RIO in the identification of suitable candidates. RIO and Callan identified a shortlist of ten U.S. small cap growth and ten U.S. Small Cap core/value managers for final review and recommendation to the SIB.

On May 22, the Board approved a Special SIB meeting on June 26 to accommodate finalist presentations for at least one U.S. Small Cap Equity manager (as jointly advanced by Callan and RIO). RIO intends to bring the second complementary U.S. Small Cap manager before the Board for consideration on July 24.

Opportunistic Credit: As noted in last month's "Investment Work Plan Update", RIO continues to review SIB client portfolios in light of unprecedented market volatility and the continuing impact of the coronavirus pandemic on public heath, unemployment, economic growth and the capital markets. After recent discussions with Callan, RIO is recommending a new $250 million opportunistic credit mandate with Sixth Street Partners given current market dislocations and desire to dampen public equity market volatility.

Private Infrastructure: The SIB approved a $100 million commitment to Macquarie Infrastructure Partners V (MIP V) on May 22. The SIB and RIO closed on MIP V on June 19 with expert legal assistance provided by Assistant Attorney General Dean DePountis and Special Assistant Attorney General Scott Cheskiewicz (Jackson Walker).

Legacy and Budget Stabilization Fund Advisory Board Update – June 17, 2020

North Dakota Legislative Management

Tentative Agenda

21.5139.02000

LEGACY AND BUDGET STABILIZATION FUND ADVISORY BOARD

Wednesday, June 17, 2020

Due to public health considerations and in accordance with Executive Order 2020-16, a meeting room will not be available for this meeting. This meeting will be held by teleconference and committee members will receive sign-in or call-in information at least 1 day before the meeting. A live stream of the meeting will be available to the public at: http://video.legis.nd.gov. Written comments regarding the committee's agenda topics may be submitted to smsandness@nd.gov.

9:00 a.m.	Call to order Roll call Consideration of the minutes of the December 3, 2019, meeting
9:05 a.m.	Presentation by representatives of the Retirement and Investment Office and advisory board member discussion regarding the status, asset allocation, basis points charged by investment advisors, and the balance and returns of the budget stabilization fund and the legacy fund
9:45 a.m.	Advisory board member discussion and staff directives
10:00 a.m.	Adjourn

Committee Members

Representatives: Keith Kempenich (Chairman), Gary Kreidt
Senators: Jim Dotzenrod, Jerry Klein
Citizen Members: Eric Hardmeyer, Joe Morrissette, Ryan Rauschenberger

Staff Contact: Sheila M. Sandness, Senior Fiscal Analyst

Budget Stabilization Fund

Net Investment Returns as of April 30, 2020 with Market Values as of May 31, 2020

BUDGET STABILIZATION FUND
INVESTMENT PERFORMANCE REPORT AS OF MAY 31, 2020

	May-20	April-20		Quarter End 3/31/2020		Quarter End 12/31/19		Current FYTD	Prior Year FY19	3 Years Ended 6/30/2019	5 Years Ended 6/30/2019
	Market Value	Market Value	Month Net	Market Value	Quarter Net	Market Value	Quarter Net	Returns Net	Returns Net	Net	Net
TOTAL BUDGET STABILIZATION FUND	714,342,407	708,004,160	1.61%	696,775,990	-3.59%	674,214,754	0.76%	-0.37%	4.51%	1.86%	1.85%
POLICY TARGET BENCHMARK			*0.62%*		*1.68%*		*0.59%*	*3.62%*	*4.23%*	*1.60%*	*1.41%*
CASH EQUIVALENTS											
Northern Trust-MFB NI Govt Assets Portfolio	1,574,293	4,524,523	0.02%	4,458,280	0.30%	3,827,647	0.39%	1.23%	2.09%	1.16%	0.72%
Bank of ND	3,510,853	3,510,048	0.07%	3,571,708	0.39%	4,336,663	0.44%	1.45%	2.28%	N/A	N/A
TOTAL CASH EQUIVALENTS	***5,085,146***	***8,034,571***	***0.04%***	***8,029,988***	***0.35%***	***8,164,310***	***0.42%***	***1.34%***	***2.17%***	***1.26%***	***0.78%***
90 Day T-Bill			***0.01%***		***0.58%***		***0.46%***	***1.62%***	***2.31%***	***1.38%***	***0.87%***
SHORT TERM FIXED INCOME											
JP Morgan Short Bond Portfolio	365,334,778	362,714,667	1.22%	358,360,064	0.82%	331,531,396	0.61%	3.50%	4.55%	1.61%	1.51%
Barings Active Short Duration	343,922,482	337,254,922	2.08%	330,385,938	-8.04%	334,519,048	0.92%	N/A	N/A	N/A	N/A
TOTAL SHORT TERM FIXED INCOME	***709,257,261***	***699,969,589***	***1.63%***	***688,746,002***	***-3.63%***	***666,050,443***	***0.77%***	***-0.39%***	***4.55%***	***1.77%***	***1.75%***
Bloomberg 1-3 Year US Gov/Credit Index			***0.63%***		***1.69%***		***0.59%***	***3.99%***	***4.27%***	***1.49%***	***1.33%***

NOTE: Monthly returns and market values are preliminary and subject to change.

The Budget Stabilization Fund was valued at $712 million as of Feb. 29, 2020, prior to experiencing a negative 3.6% return in March due to the impact of the global pandemic on investments including high-quality, short-term securities held by one of our two investment managers in this Fund. **The vast majority of the losses were unrealized (as opposed to realized losses).**

The Budget Stabilization Fund recovered fairly well in April and May (up $17 million) increasing its estimated market value to $714 million at May 31 versus $697 million as of March 31, 2020.

As of June 16, 2020, the Budget Stabilization Fund was value at approximately $724 million substantially recovering from mark to market (unrealized) losses experienced during the height of the global pandemic driven liquidity crisis in March.

Note: Amounts are unaudited and subject to change.

Legacy Fund

Net Investment Returns and Market Values as of April 30, 2020

Indicative Estimated Returns and Market Values as of May 31 and June 12, 2020

LEGACY FUND Actual Returns up to April 30, 2020 *Indicative Estimated Returns from May 1, 2020 to June 12, 2020*	9/30/2019	12/31/2019	3/31/2020	4/30/2020	5/31/2020	6/12/2020	Reported Results Fiscal YTD 4/30/2020	*Indicative Estimates 5/1/2020 to 6/12/2020*	***Indicative Estimates*** Fiscal YTD 6/12/2020
Net Return	**1.01%**	**5.16%**	**-12.65%**	**6.35%**	***2.7%***	***0.6%***	**-1.3%**	*3.3%*	***2%***
Market Value	*$6.36 billion*	*$6.86 billion*	*$6.15 billion*	*$6.59 billion*	*$6.8 billion*	*$6.9billion*	*$6.59 billion*		***$6.9 billion***

Note: All data as of June 12, 2020, is preliminary, unaudited and subject to change. Indicative return estimates from May 1, 2020 to June 12, 2020, are based on underlying benchmark data, not actual returns, and subject to material change and uncertainty.

Interim Investment Overview for the Fiscal Year To Date as of June 12, 2020

1. **Legacy Fund investments peaked in mid-February of 2020 at over $7 billion given strong capital market and economic conditions including over $1 billion of net investment income in 2019 and a net investment return of over 18% in 2019.**
2. **Legacy Fund returns declined by over 12% during the first quarter of 2020 due to the impact of the global pandemic on public health, the economy, unemployment and capital markets. Given the impact of the global pandemic on Legacy's equity investments, the SIB approved RIO's recommendation to implement an equity overlay strategy in order to rebalance our equity investments towards our SIB client board approved target equity allocation of 50%.**
3. **Given heightened market volatility, RIO monitors actual and target asset allocations on a daily basis to ensure the Legacy Fund remains within approved rebalancing ranges on a monthly basis. Given the strength of the equity market recovery in May of 2020, RIO lifted (or reduced) $70 million of our approved equity overlay program in late-May.**
4. **RIO will continue to make additional recommendations to the SIB to reduce the investment volatility inherent in the public equity markets including increasing equity manager diversification and taking advantage of opportunistic investments in the private credit markets given recent market dislocations and improve downside risk performance.**
5. **SIB clients are generally long-term investors who understand asset allocation is the # 1 driver of investment returns and diversifying investments in fixed income and real assets serve to moderate return volatility inherent in the equity markets. During the last 5-years, most SIB clients have also benefitted from the prudent and successful use of active management to generate net investment returns which exceed underlying benchmark indices by 0.25% to 0.50%.**

Note: Amounts are unaudited and subject to change.

LEGACY FUND
Statement of Net Position
As of 4/30/2020

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

	As of 4-30-20	As of 6-30-19
ASSETS:		
INVESTMENTS (AT FAIR VALUE)		
GLOBAL EQUITIES	$ 3,085,212,463	$ 3,203,129,265
GLOBAL FIXED INCOME	2,440,691,085	2,170,475,305
GLOBAL REAL ASSETS	1,000,576,007	923,488,586
INVESTED CASH (NOTE 1)	43,562,527	255,829,361
TOTAL INVESTMENTS	6,570,042,082	6,552,922,517
RECEIVABLES		
DIVIDEND/INTEREST RECEIVABLE	22,319,666	27,837,411
MISCELLANEOUS RECEIVABLE	9,638	14,323
TOTAL RECEIVABLES	22,329,304	27,851,734
OTHER ASSETS		
INVESTED SECURITIES LENDING COLLATERAL (NOTE 2)	18,841,620	19,392,771
OPERATING CASH	82,734	113,720
TOTAL ASSETS	6,611,295,740	6,600,280,742
DEFERRED OUTFLOWS OF RESOURCES		
DEFERRED OUTFLOWS RELATED TO PENSIONS	204,624	234,169
LIABILITIES:		
SECURITIES LENDING COLLATERAL (NOTE 2)	18,841,620	19,392,771
ACCOUNTS PAYABLE	-	137,902
ACCRUED EXPENSES	499,396	545,406
DUE TO OTHER FUNDS (NOTE 5)	-	455,263,216
INVESTMENT EXPENSE PAYABLE	2,917,084	2,917,084
TOTAL LIABILITIES	22,258,100	478,256,379
DEFERRED INFLOWS OF RESOURCES		
DEFERRED INFLOWS RELATED TO PENSIONS	30,661	30,661
NET POSITION:		
HELD IN TRUST	6,589,211,603	6,122,227,871
TOTAL NET POSITION	$ 6,589,211,603	$ 6,122,227,871

These financial statements are preliminary, unaudited and subject to change. 5/29/2020

LEGACY FUND
Statement of Changes in Net Position
For the Month Ended 4/30/2020

	Month Ended 4-30-20	Year-to-Date
ADDITIONS:		
INVESTMENT INCOME		
GAIN ON SALE OF INVESTMENTS	$ 242,286,049	$ 1,493,345,699
LOSS ON SALE OF INVESTMENTS	196,292,065	1,447,215,014
NET GAINS (LOSSES) INVESTMENTS	45,993,984	46,130,685
NET APPREC (DEPREC) MARKET VALUE	336,859,033	(245,091,382)
NET CHANGE IN FAIR VALUE OF INVESTMENTS	382,853,017	(198,960,697)
INTEREST, DIVIDEND & OTHER INVESTMENT INCOME	11,749,688	117,060,739
	394,602,705	(81,899,958)
LESS INVESTMENT EXPENSES	2,507,443	11,785,294
NET INCOME FROM INVESTING ACTIVITIES	392,095,262	(93,685,252)
SECURITIES LENDING INCOME	49,136	524,608
SECURITIES LENDING EXPENSES	9,820	104,831
NET SECURITIES LENDING INCOME	39,316	419,777
NET INVESTMENT INCOME	392,134,578	(93,265,475)

Notes To Financial Statements
April 30, 2020

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

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

As of the date of these financial statements, the principal balance of the Legacy Fund is $ 6,160,706,554

As of the date of these financial statements, the amount of earnings transferrable to the General Fund at the end of the 2019-21 biennium is $ 198,253,302

These financial statements are preliminary, unaudited and subject to change.

Note: The impact of the global pandemic on the capital markets drove Legacy Fund "earnings" to decline by over 45% from $262.5 million at January 31, 2020, to $143 million at March 31, 2020, prior to recovering to $198.2 million at April 30, 2020.

ND Legacy Fund
Summary of Deposits, Earnings and Net Position
As of April 30, 2020

	Deposits	Withdrawals	Total Net Earnings	Net Increase/ (Decrease)	Ending Net Position	Earnings as defined in NDCC 21-10-12
FY2012	396,585,658	-	2,300,225	398,885,883	398,885,883	2,571,475
FY2013	791,126,479	-	4,216,026	795,342,505	1,194,228,388	15,949,089
FY2014	907,214,971	-	113,153,662	1,020,368,633	2,214,597,021	50,033,655
FY2015	1,011,343,040	-	99,895,650	1,111,238,690	3,325,835,711	95,143,905
FY2016	434,853,950	-	45,851,680	480,705,630	3,806,541,341	65,326,673
FY2017	399,501,134	-	479,595,256	879,096,390	4,685,637,731	207,814,875
Totals	**3,940,625,232**	**-**	**745,012,499**	**4,685,637,731**	**4,685,637,731**	**436,839,672**
All earnings prior to 7/1/2017 became part of principal.						
FY2018	529,870,755		360,575,532	890,446,287	**5,576,084,018**	242,859,840
FY2019 *	628,610,681		53,186,743	681,797,424	6,257,881,442	212,403,376
			Earnings transferred 7/23/19 for 2017-19 biennium			**455,263,216**
June, 2019	**63,958,262**	**(455,263,216)**	**255,651,383**	**(135,653,571)**	**6,122,227,871**	**46,980,140**
FY2020 **	**560,801,952**	**-**	**(93,818,220)**	**466,983,732**	**6,589,211,603**	**151,273,162**
			Earnings transferrable at end of 2019-21 biennium			**198,253,302**
Life-to-date Totals	**5,723,866,882**		**1,320,607,937**	**6,589,211,603**	**6,589,211,603**	**1,090,356,190**

** FY2019 amounts reflect 11 months ended 5/31/19 as 2019-21 transfer was based on 23 months.*

*** FY2020 amounts are preliminary and unaudited.*

NDCC 21-10-12 defines "earnings" as net income in accordance with generally accepted accounting principles excluding unrealized gains and losses. In order to eliminate undue risk in the State budget process, the SIB supports a **Percent Of Market Value (POMV)** approach to defining Legacy Fund "earnings". **The POMV approach is considered a best practice and commonly used by other sovereign wealth funds (and ND's Department of Trust Lands) to determine a sustainable spending policy in a prudent, efficient and transparent manner.** POMV earnings estimates using spending rate assumptions ranging from 1% to 10% are shown at right and based on the market value of the Legacy Fund the last four fiscal year ends* (including April 30, 2020 for FYE 2020).

		POMV Last Four FYE's*			POMV Last Four FYE's*
		5,846,208,533			5,846,208,533
1%	$	58,462,085	6%	$	350,772,512
2%	$	116,924,171	7%	$	409,234,597
3%	$	175,386,256	8%	$	467,696,683
4%	$	233,848,341	9%	$	526,158,768
5%	$	292,310,427	10%	$	584,620,853

Note: Amounts are unaudited and subject to change.

State Investment Board – Client Assets Under Management

As of April 30, 2020 versus June 30, 2019 and April 30, 2019

Fund Name	Market Values as of 4/30/20 [1]	Market Values as of 6/30/19 [2]	Market Values as of 4/30/19 [1]
Pension Trust Fund			
Public Employees Retirement System (PERS)	3,072,838,784	3,152,930,087	3,119,182,126
Teachers' Fund for Retirement (TFFR)	2,487,978,326	2,573,622,554	2,540,304,760
City of Bismarck Employees Pension	102,885,298	104,517,247	102,777,731
City of Grand Forks Employees Pension	61,887,218	68,419,301	64,606,839
City of Bismarck Police Pension	40,838,416	41,862,976	41,189,274
Grand Forks Park District	7,072,942	7,176,427	7,112,134
Subtotal Pension Trust Fund	**5,773,500,984**	**5,948,528,592**	**5,875,172,864**
Insurance Trust Fund			
Workforce Safety & Insurance (WSI)	2,059,522,261	2,065,400,398	2,035,565,928
Budget Stabilization Fund	708,004,160	118,707,130	117,175,408
City of Fargo FargoDome Permanent Fund	41,194,389	44,840,633	44,328,840
PERS Group Insurance Account	30,552,880	31,067,120	31,714,578
State Fire and Tornado Fund	21,775,524	22,761,457	22,912,470
ND Association of Counties (NDACo) Fund	6,372,244	6,333,052	6,218,385
Petroleum Tank Release Compensation Fund	6,163,427	5,994,235	5,894,399
State Risk Management Workers Comp Fund	4,871,267	5,187,879	5,103,387
Insurance Regulatory Trust Fund	4,377,800	6,218,781	5,088,219
State Risk Management Fund	4,359,420	4,909,623	4,820,938
State Bonding Fund	3,719,728	3,609,422	3,544,462
ND Board of Medicine	2,367,757	2,362,384	2,334,622
Attorney General Settlement Fund	1,029,320		
Lewis & Clark Interpretive Center Endowment Fund	755,139	751,763	737,687
Bismarck Deferred Sick Leave Account	736,005	779,596	765,189
Cultural Endowment Fund	467,491	475,311	471,133
ND Veterans' Cemetary Trust Fund	296,632		
Subtotal Insurance Trust Fund	**2,896,565,444**	**2,319,398,784**	**2,286,675,645**
Legacy Trust Fund			
Legacy Fund	6,592,361,749	6,580,759,920	6,390,403,479
PERS Retiree Insurance Credit Fund	135,184,322	135,962,521	134,063,021
Job Service of North Dakota Pension	94,035,972	97,285,279	96,631,813
ND Tobacco Prevention and Control Trust Fund	7,582,387	9,300,127	29,043,856
Total Assets Under SIB Management	**15,499,230,858**	**15,091,235,223**	**14,811,990,678**

(1) *Market values are unaudited and subject to change.*

(2) *6/30/19 market values as stated in the Comprehensive Annual Financial Report.*

Note: SIB client assets under management are estimated to exceed $16 billion as of June 19, 2020, based on preliminary market valuations which are unaudited and subject to material change.

AGENDA ITEM III.B.

Informational Overview

TO: **State Investment Board**

FROM: Dave Hunter, Darren Schulz and Eric Chin

DATE: June 23, 2020

SUBJECT: **U.S. Small Cap Equity Search Overview**

Background:

In early-2020, the SIB approved RIO's recommendation to replace the existing Parametric Clifton Russell 2000 synthetic beta mandates with U.S. Small Cap Equity strategies that have a greater potential for outperformance. The Board also approved RIO's recommendation to formally engage Callan LLC to conduct the search to identify two candidates that would complement our existing U.S. Small Cap Equity manager Atlanta Capital. Parametric Clifton currently manages synthetic U.S. small cap index mandates on behalf of the Pension, Insurance and Legacy pools totaling approximately $400 million. SIB client AUM in the U.S. Small Cap Equity segment approximate $800 million (with Atlanta Capital holding the remaining $400 million). Given the relative inefficiency of the small cap market, a diverse universe for stock selection, and higher return dispersion than other market segments, RIO believes, and academic literature supports, that greater opportunity for active management exists within the U.S. small cap equity space.

The Case for Active Management in U.S. Small Cap Equity:

The successful implementation of active management requires the fusion of two elements: the breadth of the opportunity set and manager skill. The opportunity set is a function of size, inefficiency, and variety. Manager skill, on the other hand, is the ability to successfully identify mispriced securities and forecast expected returns.

U.S. small cap equity remains a robust market segment within public equity for the implementation of active management. The universe is large in count, diverse, and inefficient. Unlike large and mega-cap companies, small cap companies are less liquid and less followed by the analyst community, frequently resulting in missed pricings that are well-suited to an active management approach.

Identifying manager skill, the other element of active management, involves a complex array of qualitative and quantitative considerations to conclude not only whether a manager displays skill but also the likelihood the manager will continue to display skill in the future. For simplicity's sake, we can use historical manager performance as a measure of skill.

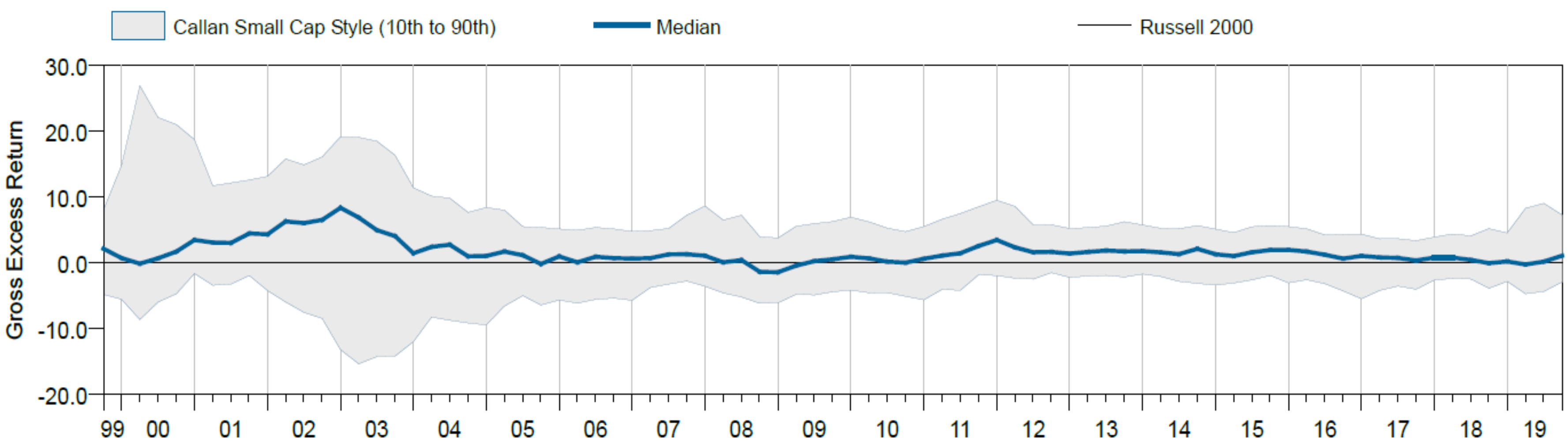
Using graphs from Callan Institute's "Active vs. Passive Report" consisting of gross excess returns for all managers in Callan's database for the broad U.S. small cap equity segment, we can observe the distribution spectrum and probability of outperformance, indicating greater disparity in manager skill sets in the segment. Overall, the active small cap premium is measurably positive and persistent over time.

How often Manager Beat Benchmark by more than Fee Hurdle in Rolling 3-Year Periods over last 20 Years

Fee Hurdle	0.50%	0.55%	0.60%	0.65%	0.70%	0.75%	0.80%	0.85%	0.90%	0.95%
Median	79%	78%	78%	73%	70%	66%	63%	63%	63%	60%
45th Percentile	90%	89%	89%	86%	85%	83%	83%	83%	83%	80%
40th Percentile	98%	98%	98%	98%	98%	98%	94%	89%	86%	86%
35th Percentile	98%	98%	98%	98%	98%	98%	98%	98%	98%	98%
30th Percentile	99%	98%	98%	98%	98%	98%	98%	98%	98%	98%
25th Percentile	100%	100%	100%	100%	100%	99%	99%	99%	99%	99%

Average Annualized 3-Year Excess Return (gross) – Median Manager: 1.60%

Rolling 3-Year Gross Excess Return relative to Russell 2000 for 20 Years ended September 30, 2019



Callan Search Process Overview:

The Callan Search Process starts when the client (SIB/RIO) identify the preferred candidate profile or desired characteristics to conduct a quantitative screening process as highlighted below and the following page.

1) **Identify Client and Candidate Profiles**
2) **Quantitative Analysis**
3) **Qualitative Assessment**
4) **Manager Search Committee**
5) **Semi-Finalist Review**
6) **Finalists**

Candidate Profile

1. Manager Type

Only qualified investment counselors or organizations registered under the Investment Advisers Act of 1940 that are currently managing assets will be considered. This includes investment counselors and investment counseling subsidiaries of banks, brokerage houses and insurance companies.

2. Investment Style

Client desires a manager employing a U.S. small cap growth strategy with either a fundamental or quantitative implementation. The manager will provide exposure to small cap growth companies and will complement the incumbent U.S. small cap core manager (Atlanta Capital) and a yet to be selected U.S. small cap core/value manager. No index provider preference. An above average expected, and to a lesser extent historical, tracking error risk profile is appropriate.

3. Managed Assets

The client prefers a minimum of $1 billion in strategy assets and/or firm assets over $5 billion. Firms that don't meet these minimums will be considered on a case by case basis.

4. Professional Staff

Investment staff should be stable and of sufficient depth and breadth to perform the ongoing duties of the firm and to ensure continuity of the investment process. The firm's executive management team should be experienced and stable. Additionally, there should be a sufficient number of client service professionals relative to the firm's client base to ensure that the client has reasonable access to the firm.

5. Portfolio Manager Structure & Experience

Team approach preferred but not required. Key professionals should have at least 10 years of investment experience. Teams that have worked together for at least five years are preferred.

6. Investment Vehicle

Separate account and if available CIT or other commingled structure. Liquidity dependent on strategy fit; all else being equal, more liquidity is preferred to less.

The client intends to keep the three pools of assets separate and any pooled vehicle needs to accept non-qualified assets as a result of the Insurance Trust.

7. Historical Performance & Risk Criteria

Performance over multiple cumulative, annual and rolling periods will be evaluated relative to the appropriate peer group and index. Risk-adjusted measures and holdings-based portfolio characteristics will also be considered.

Candidate Profile (continued)

8. **Qualities Specifically Sought**
   - The firm must be a viable, ongoing business
   - Well established organization with institutional focus
   - Disciplined and time-tested investment process with risk controls
   - Low turnover of personnel
   - Low dispersion of returns within appropriate composite
   - Commitment to client service and an ability to effectively articulate their investment process
   - Willingness to visit client as needed
9. **Qualities To Be Avoided**
   - Concentrated client base
   - Candidates currently involved in a merger, acquisition, or recent transaction impacting the firm's senior executives
   - Excessive recent personnel turnover

Manager Search Committee –

After conducting preliminary manager due diligence utilizing quantitative and qualitative screens, Callan and RIO jointly identified ten U.S. Small Cap semi-finalist for consideration by Callan's Manager Search Committee.

Callan's Research Committee then conducted a collaborative discussion of the merits and concerns with each of the top ten finalists noting there was a desire to select U.S. Small Cap Growth Equity manager which would **serve as a good complement to Atlanta Capital.** After this discussion process, **Callan's Manager Search Committee** selected **Brown, Kayne Anderson, Riverbridge, Wasatch as finalists**.

Candidate Summary Matrix

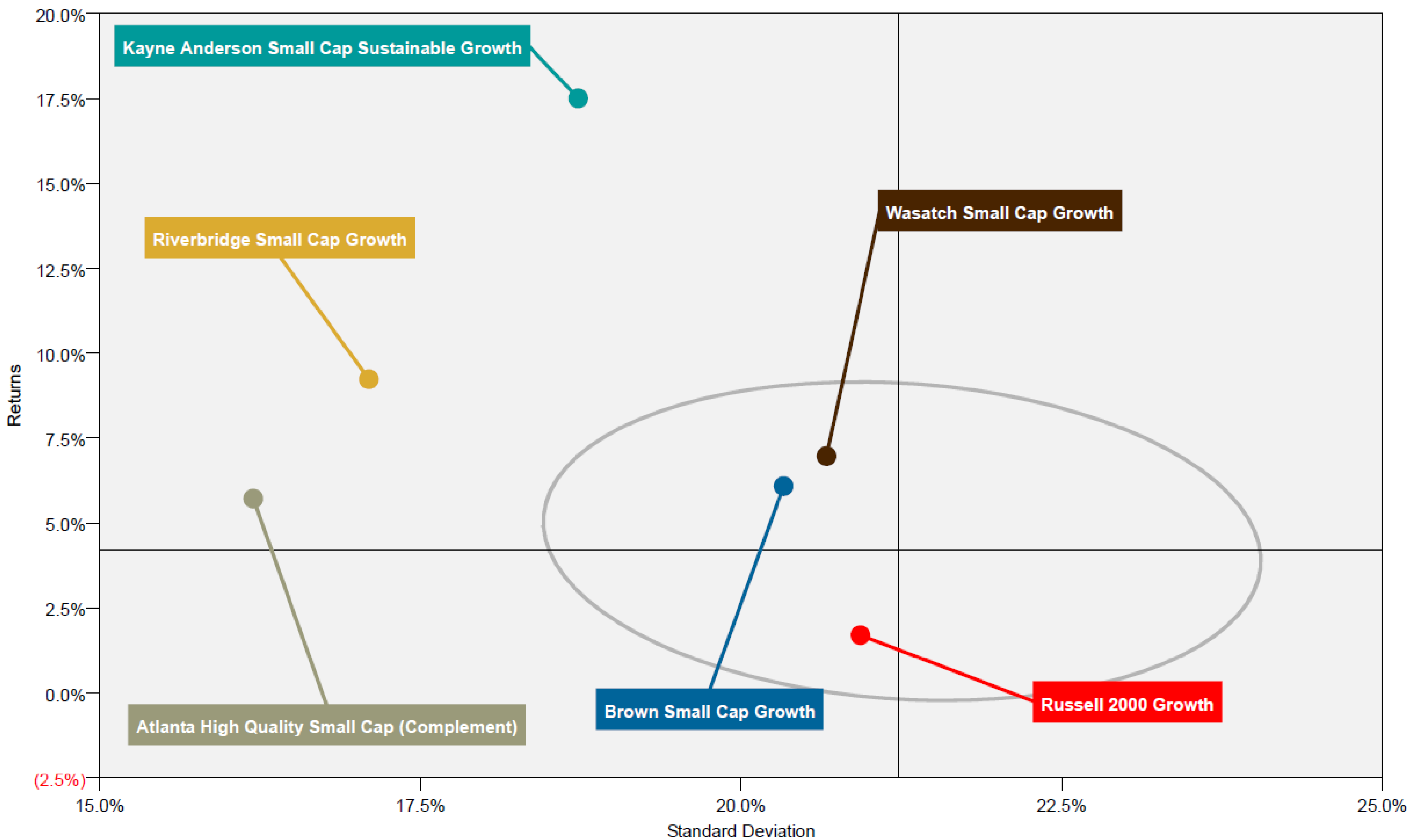
	Organization/Team	Strategy/Portfolio	Summary Opinion
Brown Investment Advisory & Trust Company Small Cap Growth	– Stable and well established majority employee owned firm; based in Baltimore, Maryland – Most of the firm's institutional asset base is in domestic equity – Tenured lead PM Chris Berrier (since 2006); George Sakellaris supports him as associate portfolio manager; further supported by a subset of the central research analyst group at Brown – The portfolio had been co-managed with Tim Hathaway but he transitioned off in 2014	– Seek companies with a large and/or growing addressable markets, sustainable competitive advantage, potential for above average future growth and returns, and capable management that is shareholder-friendly – Use screens to narrow the universe followed by fundamental research – The market cap of the portfolio drifts higher than the index, and the portfolio has a higher weight to GICS Technology (they use their own internal classification methods for sectors); style may lean more core than peers – 50-80 holdings, turnover 30-50%	– Callan holds the firm and strategy in high regard; tenured team focused on long-term quality growth – Protects in down markets and participates in up markets – Large asset base; Brown has not been actively marketing the portfolio and states over $5 billion in capacity
Kayne Anderson Rudnick Investment Management, LLC Small Cap Sustainable Growth	– Wholly owned subsidiary of Virtus Investment Partners. Manages concentrated international and domestic focused equity strategies across the market cap spectrum – Los Angeles based team led by PMs Todd Beiley and Jon Christensen, who also manage Small Cap Core. Beiley and Christensen also separately manage other strategies such as Small Cap Focus and Mid Cap Core – Shared analyst structure with seven additional investment professionals supporting this product. PMs and analysts have sector responsibilities	– Seeks businesses with durable, competitive advantage. Wants companies with structural cost advantage or strong brands. Long term owners of stocks – Portfolio holdings tend to have high economic return on capital and modest amounts of debt leverage – Typically avoid Biotech names because they do not feel like they have an expertise in that field of science – Sector allocations are a by-product of bottom up fundamental research. There are no guardrails in place to limit sector deviations – Allows up to 20% in international holdings – 20-35 holdings with a max position size of 10% at market. Turnover ranges from 25-35% typically – Tend to UW biotech and energy. They will underperform if these sectors are the leaders	– Tracking error can be elevated due to concentrated nature of portfolio, sector deviations, and international holdings – The PMs will let the winners run, resulting in a market cap that has been higher than peers/benchmark – High asset base coupled with the concentrated nature of the portfolio is an area of concern. The firm has a 15% ownership limit on a stock across all strategies at the firm – Healthcare underweight at the end of 1Q20 is notable; however they do not anticipate this to be permanent. They had a few Healthcare companies taken out in 2019 and have not redeployed capital in that sector yet – Higher stability score, which has resulted in good downside protection

Candidate Summary Matrix (cont'd)

	Organization/Team	Strategy/Portfolio	Summary Opinion
Riverbridge Partners LLC Small Cap Growth	– Minneapolis-based asset manager focused on U.S. equity growth investing – In 2012, Northill Capital (London based private investment firm) took a 58% stake in the firm (currently own 54%); based in Minneapolis, MN – Team is led by Mark Thompson (CEO/CIO), Rick Moulton is the additional portfolio manager on the strategy; they are further supported by a team of dedicated analysts	– Seek high quality, well-managed companies with sustainable earnings growth – Four facets to their analysis: 1) strong unit growth, 2) dominant market position, 3) conservative accounting, 4) internally financed growth (minimal debt) – Z-score and market cap above the Russell 2000 Growth Index – Holdings of 45-60, turnover under 30%	– Callan views the firm and strategy positively; experienced and stable team focused on quality growth investing – Strong downside protection and upside participation – Higher tracking error, lower standard deviation relative to small cap growth peers. Higher stability score – Portfolio does not invest in biotech names because they are looking for profitable companies on an unit level
Wasatch Advisors, Inc. Wasatch Small Cap Growth	– Founded in 1975 by Samuel Stewart, who resigned in April 2018; 100% employee-owned with over 30 equity owners – Wasatch "multiple eyes culture" – portfolio managers serve as analysts, team is very collaborative – Three named portfolio managers – JB Taylor, Ken Korngibel, and Ryan Snow – Long-time PM Jeff Cardon retired in 2017; lead portfolio manager JB Taylor had assumed Cardon's CEO duties in 2016. Korngibel and Snow were added as portfolio managers in 2017	– Employs a bottom-up, quality growth fundamental process to construct portfolios – Focuses on companies high economic returns, industry-best management teams, defensible business models, earnings growth in good and bad economic environments, 15%+ forward EPS growth – 40-90 holdings; low turnover: 30-40% – Limit ownership in a company at 15% – Takes a basket approach to Biotech	– Jeff Cardon's retirement well planned – Equity recycling program ensures firm remains employee owned, transitions are smooth, and aligns investment professional incentives with client interests – Attractive long-term risk-adjusted returns – Sector weights are considered in later stages of the investment process, leading to consistent over and under weightings compared to the Russell 2000 Growth Index – Historically closed but reopened in March 2020

Risk/Reward Structure

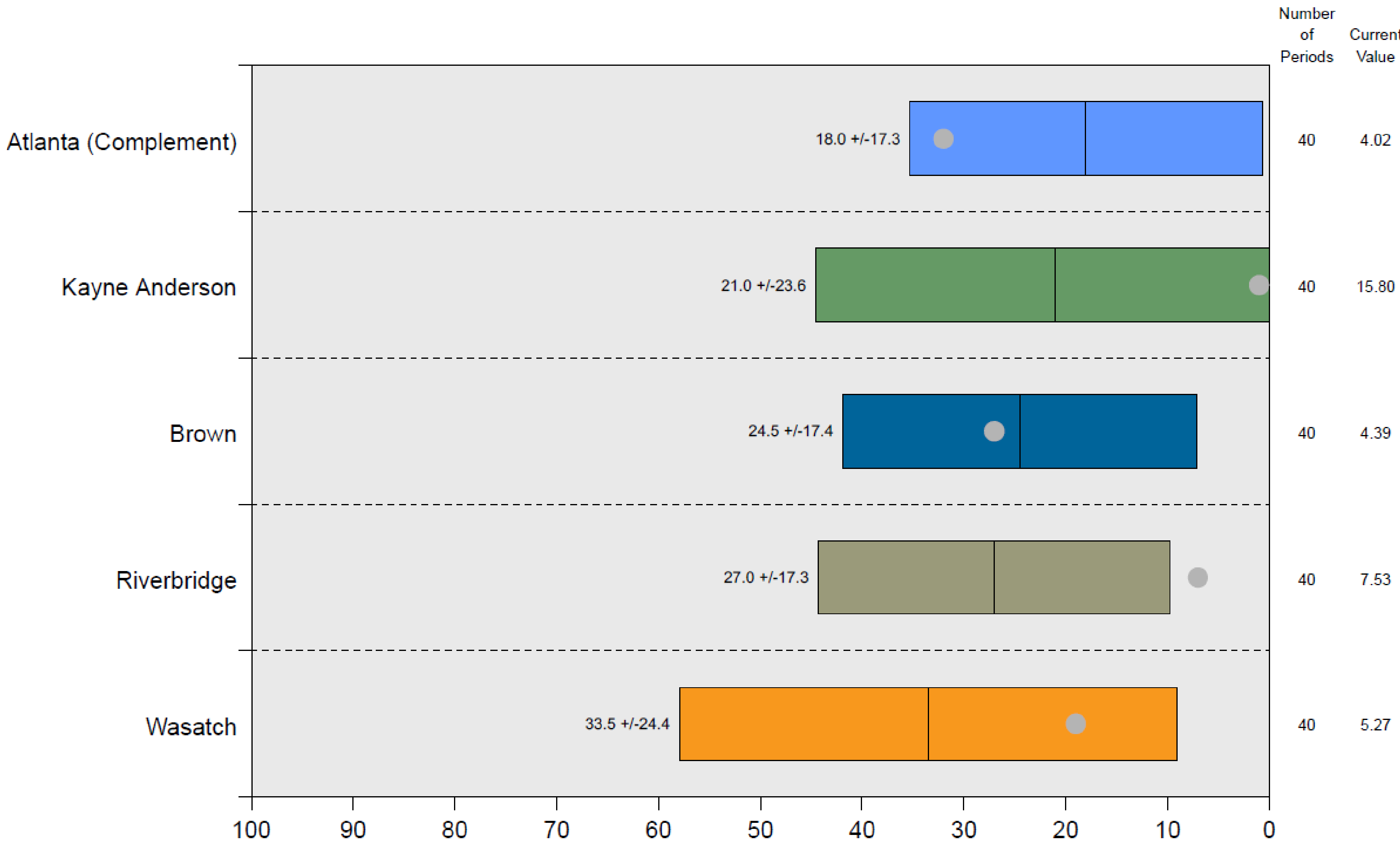
Risk/Reward for Five Years Ended March 31, 2020
Group: Callan Small Cap Growth (Ellipse with Median at Central Axis)



Manager candidate performance shown is Gross-of-fees unless otherwise noted.

Excess Return

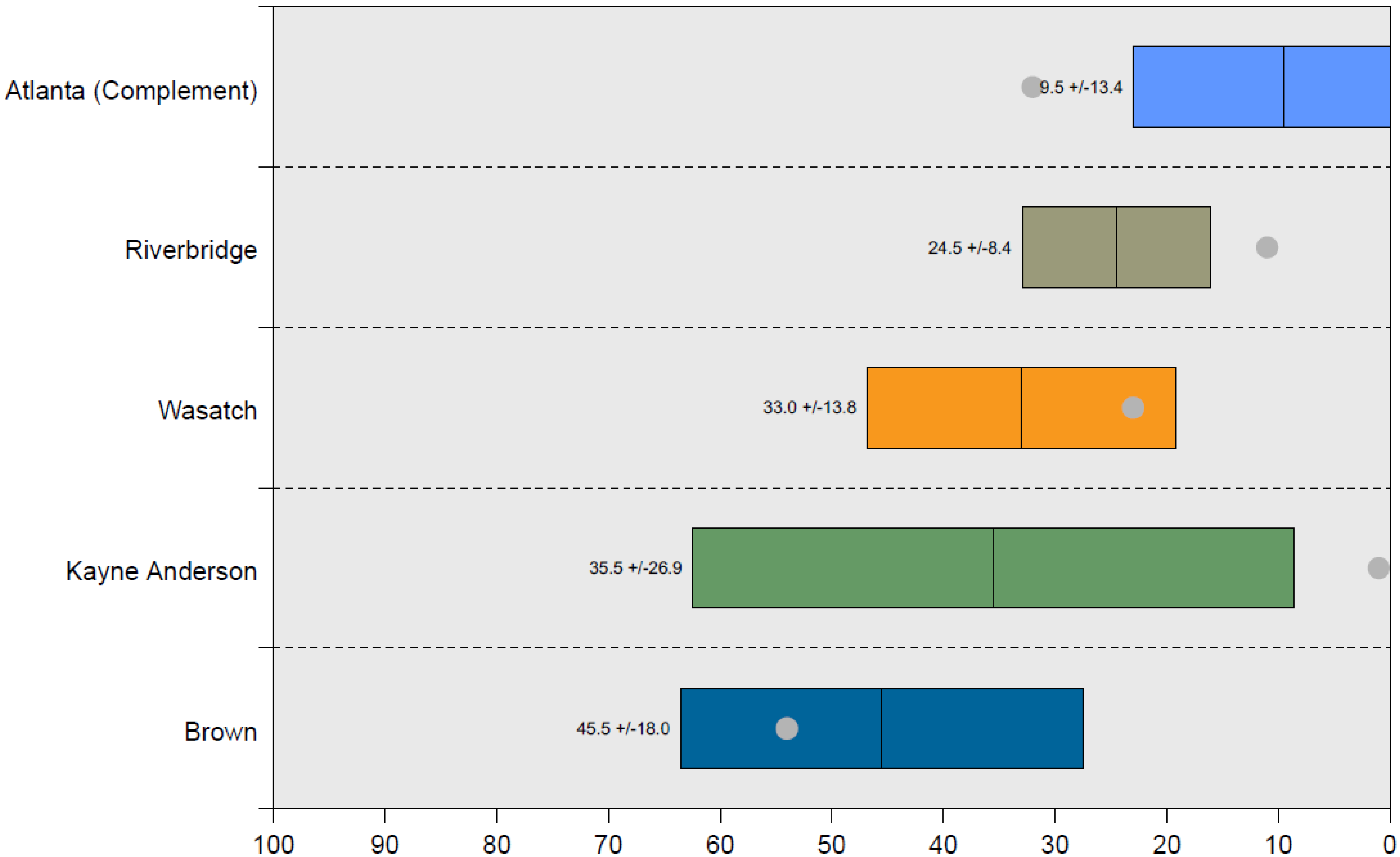
Rolling Five Year Excess Return for Ten Years Ended March 31, 2020
Benchmark: Russell 2000 Growth Index



Excess Return

Rolling Ten Year Excess Return for Ten Years Ended March 31, 2020

Benchmark: Russell 2000 Growth Index



	Number of Periods	Current Value
Atlanta (Complement)	40	2.82
Riverbridge	40	3.91
Wasatch	40	3.15
Kayne Anderson	40	8.77
Brown	40	2.07

INVEST WITH ENDURANCE™

Riverbridge

June 26, 2020

North Dakota State Investment Board

Information as of March 31, 2020

PRESENTED BY:

Rick Moulton, CFA
Lead Portfolio Manager

Ross Johnson, CFA
Portfolio Manager

Tim Wilkinson
Relationship Manager

Riverbridge

Established in 1989 to coordinate the activities of the State Investment Board (SIB) and the Teachers' Fund for Retirement (TFFR)

MINDSET

- Client focused approach
  - 3.8 out of 4.0 member/employer satisfaction under TFFR
- Long term oriented
  - Legacy Fund - intended to help create generational equality - emphasis on growth and a long-term investment horizon
- Robust risk management framework
  - Awareness of downside risk management and its role in achieving long-term investment goals
- Record of Excellence
  - Accolades based on accountability, transparency, and integrity

Riverbridge®

We Seek to Further Human Flourishing by Investing with Endurance

OUR MINDSET

- At Riverbridge, our work each day is to serve the long-term good of our clients. We seek to help our clients experience superior investment outcomes–equipping them to pursue their goals
- We believe in the power of long-term investment to build a stronger future for our communities. Our approach is to identify and invest in the leaders and businesses that are creating true value over time
- Our disciplined and timeless investment philosophy offers an enduring track record of downside protection
- We are committed to relationships built on trust, transparency, and patience in stewarding our clients' long-term best interests

REPRESENTATIVE LIKE-MINDED CLIENTS

Pension Reserves Investment Management Board

City of Clearwater, Florida

PERS of Mississippi

City of Kansas City, Missouri

Weymouth Retirement System

City of El Paso Employees Retirement Trust

North Dakota State Investment Board and Riverbridge are in strategic alignment.

North Dakota State Investment Board

Riverbridge®

- ✓ FOCUSED ON CLIENT OUTCOMES
- ✓ LONG TERM ORIENTED
- ✓ FUNDAMENTAL DOWNSIDE PROTECTION

WHO WE ARE

Our mission is to invest with endurance in ways that build true value over time.

At Riverbridge, we believe what is true endures–in investments, people, and companies. Since 1987, we've served clients with an investment strategy that bridges human insight with data analysis to identify the building blocks of endurance. We invest in companies with the fundamentals and leadership to grow their intrinsic value over long periods of time. We're on a mission to create enduring value for our clients.

AT A GLANCE

- HEADQUARTERED IN MINNEAPOLIS, MN
- 33 YEAR TRACK RECORD
- UNCHANGING, TIME-TESTED INVESTMENT APPROACH
- 17 YR AVERAGE INVESTMENT TEAM FIRM TENURE
- MAJORITY OF FIRM EMPLOYEES ARE SHAREHOLDERS
- INVESTMENT CENTRIC CULTURE

INVESTMENT PHILOSOPHY

We believe earnings power determines the value of a franchise.

We focus on companies that are building their earnings power and intrinsic value over long periods of time. We invest in high-quality growth companies that demonstrate the ability to sustain strong secular earnings growth, regardless of overall economic conditions.

OUR INVESTMENT STRATEGY

We look to identify and invest only in companies that meet all aspects of our investment criteria.

We build portfolios by identifying and buying well-managed companies that are diversified in their sources of earnings and have a sustainable competitive differentiation, which will earn them a high return on invested capital and superior growth in business value. We analyze each company's unit growth, market position, accounting practices, and ability to finance growth. We spend significant face-to-face time meeting with management and employees, and because we are committed to forming a holistic perspective on the effectiveness of management, we also spend time with industry peers, customers, suppliers, and others who may offer an experienced perspective on the company and its management.

HUMAN INSIGHT + DATA ANALYSIS

Our investment strategy bridges human insight with data analysis to identify enduring businesses that demonstrate the ability to produce a sustainable high return on invested capital. We seek to invest in companies that possess all five building blocks of our philosophy:

- ☑ SOUND CULTURE & MANAGEMENT
- ☑ STRONG UNIT GROWTH
- ☑ STRATEGIC MARKET POSITION
- ☑ INTERNALLY FINANCED GROWTH
- ☑ CONSERVATIVE ACCOUNTING

INVESTMENT PROCESS

The Riverbridge Investment Team collectively manages all our strategies and each company in the strategies has a Champion and a Devil's Advocate. The member of the Investment Team who ultimately adds a particular stock to the strategy is considered the Champion for that holding, while another member of the team is assigned to play the role of Devil's Advocate for that stock after it has been added to the strategy, conducting his or her own research. This process prevents the Champion from developing an unfounded positive bias that could cloud judgment.

Prior to making an investment, the Riverbridge Investment Team meets with the company's management team, conducts a peer review, reviews the company's strategic planning policies, analyzes their past performance, and conducts research of the investment candidate's financials to determine that it meets our investment criteria. Once a company has been added to our strategies we continually evaluate the business for its ability to sustain a high return on invested capital and superior growth in business value.

SELL DISCIPLINES

Our intention is to remain fully invested at all times. We prune our portfolios to remain invested in the highest-quality companies. The Riverbridge Investment Team could decide to sell for one of three reasons:

- Portfolio diversification
- To fund new/better opportunities
- Deterioration in the fundamentals

1

DISCOVERY

- ☑ DOES THE COMPANY STAND OUT IN THE MARKET?

2

DUE DILIGENCE

- ☑ DOES THE COMPANY DEMONSTRATE THAT ALL 5 BUILDING BLOCKS ARE PRESENT AND WILL ENDURE?
- ☑ IS THE COMPANY'S STOCK VALUED AT OR BELOW ITS INTRINSIC VALUE?

3

CONTINUAL REVIEW
(held stock)

- ☑ HAS THE DEVIL'S ADVOCATE CHALLENGED THE CHAMPION FOR UNFOUNDED POSITIVE BIAS?
- ☑ DO FUNDAMENTAL BUILDING BLOCKS REMAIN SOUND?

The Riverbridge Small Cap Growth portfolio demonstrates an enduring track record of robust returns with historically lower risk compared to the benchmark.

AS OF 03/31/2020	ENDURING TRACK RECORD RIVERBRIDGE ANNUALIZED RETURNS* (GROSS OF FEES)	HISTORICALLY LOWER RISK RIVERBRIDGE ANNUALIZED STANDARD DEVIATIONS*
Riverbridge Small Cap Growth Since Strategy Inception 06/30/1988	12.51%	18.75
Russell 2000® Growth	*7.18%*	*21.56*
+ / – Benchmark	**5.33%**	**-2.82**

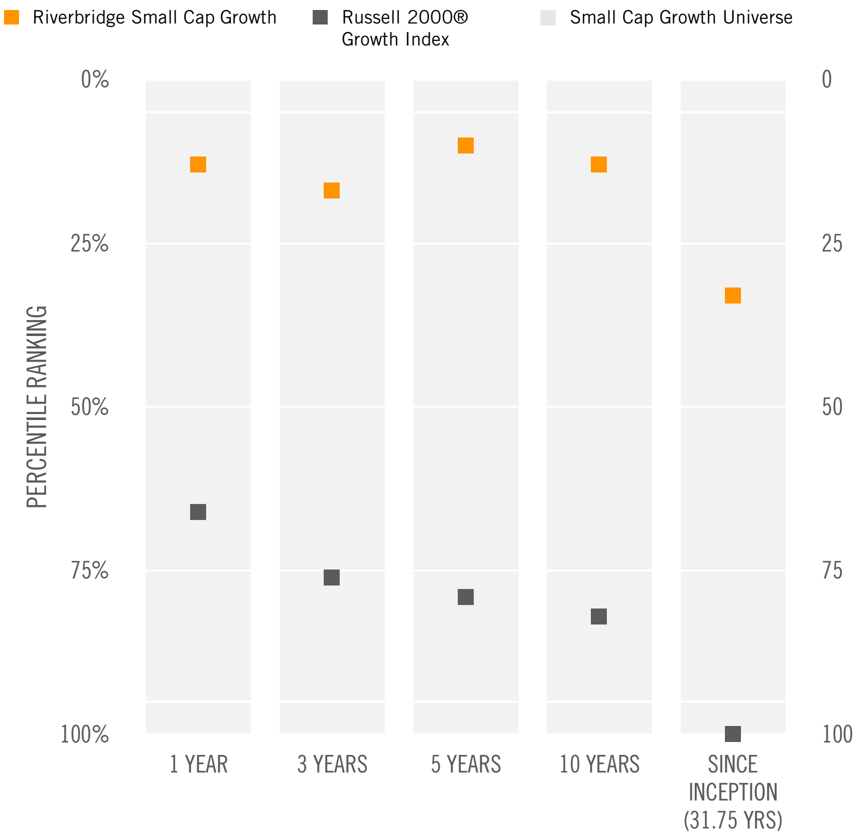
Performance related information, including but not limited to market capitalization information, portfolio risk measures, sector weightings, and representative holdings provided in this document, is presented as supplemental information to the compliant presentation found in the Disclosure section.

PEER COMPARISON | RIVERBRIDGE SMALL CAP GROWTH VS. U.S. SMALL CAP GROWTH EQUITY

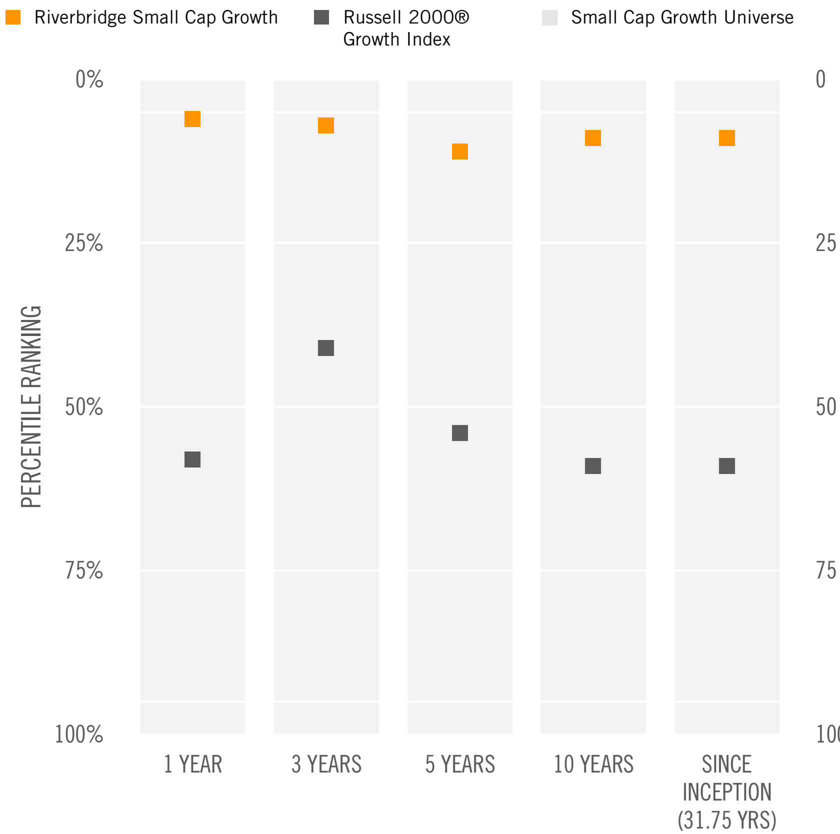
The Riverbridge Small Cap strategy shows consistent strong performance with historically lower risk within the U.S. small cap growth universe.

AS OF 03/31/2020

ANNUALIZED TRAILING PERFORMANCE PERCENTILE RANKING



ANNUALIZED TRAILING STANDARD DEVIATION PERCENTILE RANKING



Peer comparison data is from eVestment as of 3/31/20. Information is gross of fees. The Small Cap Growth Universe includes all managers categorized in the small cap growth asset class by eVestment. See also supplemental disclosures on pg. 19.

SMALL CAP GROWTH STRATEGY

The Riverbridge Small Cap Growth portfolio is managed by the Riverbridge Investment Team utilizing our time-tested investment philosophy and disciplines.

PORTFOLIO FACTS (AS OF 03/31/2020)

Inception Year	1988
Number of Holdings	52
Benchmark	Russell 2000® Growth
Wgt. Avg. Market Cap	$3.4 billion
Median Market Cap	$2.4 billion
Dividend Yield	0.5%
5-Year Turnover	19.2%

MARKET CAPITALIZATION DISTRIBUTION

Under $7B	94.85%
$7B - $10B	5.15%

PERFORMANCE HISTORY (AS OF 03/31/2020)

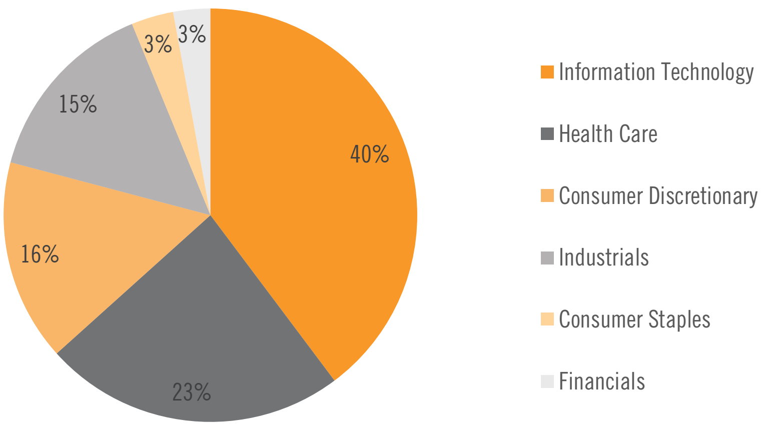
	1Q 2020	YTD	1 Year	3 Year	5 Year	10 Year	Inception
Riverbridge Small Cap Growth	-17.04%	-17.04%	-8.04%	9.72%	9.23%	12.79%	12.51%
Russell 2000® Growth	-25.76%	-25.76%	-18.58%	0.10%	1.70%	8.89%	7.18%

Periods greater than one year are annualized; Performance is gross of fees; Inception Date: 06/30/1988

TOP TEN HOLDINGS

Chemed Corporation	4.15%	Grand Canyon Education, Inc.	2.99%
Pegasystems, Inc.	3.43%	SPS Commerce, Inc.	2.82%
Globant S.A.	3.41%	Ritchie Bros. Auctioneers, Inc.	2.80%
Five Below, Inc.	3.23%	Healthcare Services Group, Inc.	2.76%
BlackLine, Inc.	3.06%	Proto Labs, Inc.	2.76%

SECTOR WEIGHTINGS

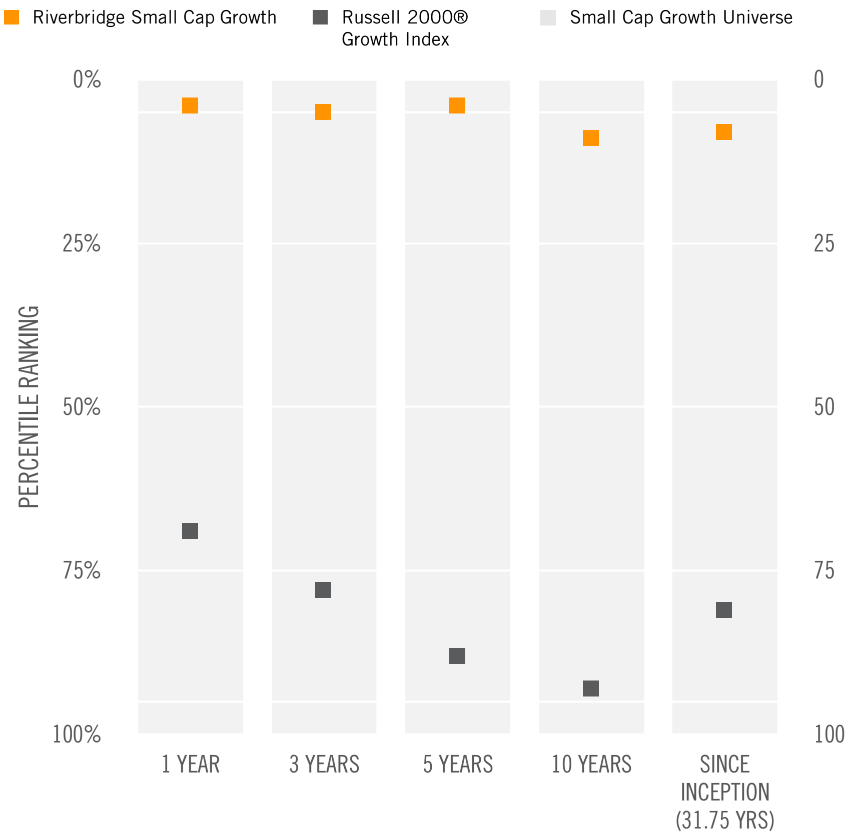


DOWNSIDE PROTECTION | RIVERBRIDGE SMALL CAP GROWTH VS. U.S. SMALL CAP GROWTH EQUITY

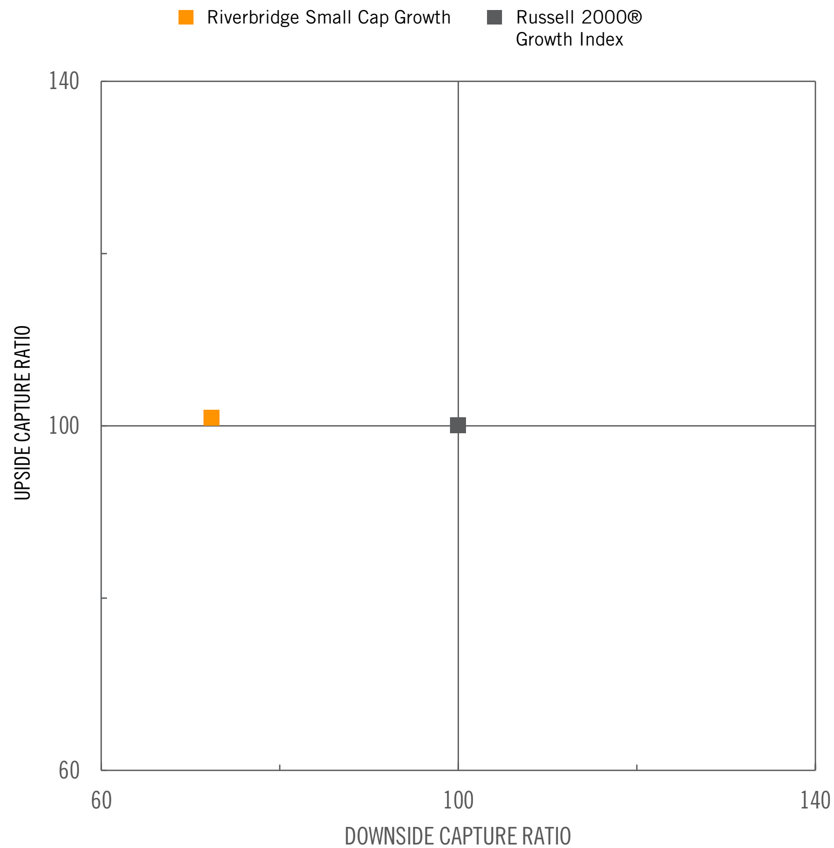
The Riverbridge Small Cap strategy offers strong downside protection during periods of market uncertainty.

AS OF 03/31/2020

TRAILING DOWNSIDE MARKET CAPTURE PERCENTILE RANKING



UPSIDE/DOWNSIDE MARKET CAPTURE (3 YR)



Peer comparison data is from eVestment as of 3/31/20. Information is gross of fees. The Small Cap Growth Universe includes all managers categorized in the small cap growth asset class by eVestment. See also supplemental disclosures on pg. 19.

North Dakota State Investment Board and Riverbridge are in strategic alignment.

North Dakota State Investment Board

Riverbridge®

- FOCUSED ON CLIENT OUTCOMES
- LONG TERM ORIENTED
- FUNDAMENTAL DOWNSIDE PROTECTION

INVESTMENT TEAM AND BIOGRAPHIES

Mark Thompson
Principal,
Management

Mark Thompson co-founded Riverbridge Partners in 1987 to pursue his passionate belief in long-term investing. As Chief Manager, Mark is responsible for the strategic decision making and overall management of the firm. He is also Chairman of the Riverbridge Board of Governors. Mark serves as the Chief Investment Officer, where he is responsible for coordinating the efforts of the Investment Team and overall portfolio compliance to Riverbridge Partners investment disciplines. Prior to founding Riverbridge Partners, Mark spent several years at IDS Financial Corp. where he performed investment research and was an associate portfolio manager of the IDS New Dimensions Fund. Mark earned his Bachelor of Science in Business degree in Finance from the University of Minnesota Carlson School of Management and is a member of the CFA Institute and the CFA Society of Minnesota. Mark is also a member of the Board of Directors of Wiland Direct, Inc., TreeHouse, Opportunity International Nicaragua, and Pulse Outreach, as well as a Trustee of the LoCorr mutual funds and the Board of Investment - Converge Retirement Fund. He is also active in the Minneapolis City of Lakes Rotary Club and his local church, Christ Presbyterian Church.

Rick Moulton
CFA, Principal

Rick Moulton joined Riverbridge Partners in 1991. He is a member of the Riverbridge Board of Governors. As a lead portfolio manager, Rick is responsible for portfolio construction. Prior to joining Riverbridge Partners, he worked for Dain Bosworth, Inc. as an IRA/Margin generalist. Rick earned his Bachelor of Science in Business degree in Finance from the University of Minnesota Carlson School of Management. Rick is a holder of the right to use the Chartered Financial Analyst® designation. He is a member of the CFA Institute and the CFA Society of Minnesota. Rick is actively involved in the community and serves on the Board of the Heritage Christian Academy Foundation. As a sports enthusiast, Rick enjoys cheering on his “beloved” Minnesota Vikings.

Dana Feick
CFA

Dana Feick joined Riverbridge Partners in 1992. As a portfolio manager of counsel, Dana shares responsibility for conducting company and industry research across all industry sectors. Prior to joining Riverbridge Partners, Dana began his investment career at IDS Financial Corp where he was a research associate for the IDS Growth Spectrum Advisors and a research analyst for the IDS Investment Research division, where he was responsible for a variety of industries. He earned his Bachelor of Science in Business degree in Finance from the University of Minnesota Carlson School of Management. Dana is a holder of the right to use the Chartered Financial Analyst® designation. He is a member of the CFA Institute and the CFA Society of Minnesota. Dana and his family are avid nature enthusiasts who have made a personal commitment to promote biodiversity and ecosystem preservation. The focus of their actions includes rehabilitating wetlands and oak savannas, in addition to planting over 50,000 trees.

INVESTMENT TEAM AND BIOGRAPHIES CONTINUED

David Choe
CFA

David Choe joined Riverbridge Partners in 2012. As a portfolio manager, David is responsible for security selection and conducting company and industry research across all industry sectors. Prior to joining Riverbridge Partners, David spent his career in Sales, Corporate Finance, Strategy and Operations positions, most recently for TE Connectivity (formerly ADC Telecom) where he served as the business transformation leader and director of strategy. He is the author of the book, How to Start a Movement in Your Company, and speaks at business conferences and MBA classes on closing the gap between strategy and execution. David earned his Bachelor of Science in German and Civil Engineering from the United States Military Academy at West Point and his MBA from INSEAD in Fontainebleau, France. In addition, he holds a Lean Sigma-Six Master Black Belt certification and is a Gallup Certified Strengths Coach. David is a holder of the right to use the Chartered Financial Analyst® designation. He is a member of the CFA Institute and the CFA Society of Minnesota. He is extensively involved in his church and non-profits. Having lived overseas for several years, David speaks German and French and is conversationally fluent.

Julian Dehn
CFA

Julian Dehn joined Riverbridge Partners in 2012. As a portfolio manager, Julian is responsible for security selection and conducting company and industry research across all industry sectors. Julian earned his Bachelor of Science in Business degree in Finance from the University of Minnesota Carlson School of Management. While at the University, Julian served as an undergraduate analyst helping to manage the Carlson School of Management Growth Fund. Julian is a holder of the right to use the Chartered Financial Analyst® designation. He is a member of the CFA Institute and the CFA Society of Minnesota. He serves on the Board at St. Paul Urban Tennis. Julian grew up in Ger-many and enjoys playing tennis and golf in his spare time.

Ross Johnson
CFA, Management

Ross Johnson joined Riverbridge Partners in 2010. As a portfolio manager, Ross is responsible for security selection and conducting company and industry research across all industry sectors. He is also a member of the management team at Riverbridge, which is responsible for the strategic decision making and overall management of the firm. Prior to joining Riverbridge Partners, Ross spent three years with Boston Scientific as a manufacturing operations supervisor and a financial analyst, and began his career working for the Rosemount Division of Emerson Process Management as an engineer. He earned his Bachelor of Science in Mechanical Engineering from the University of North Dakota and his MBA from the University of St. Thomas Opus College of Business. Ross is a holder of the right to use the Chartered Financial Analyst® designation. He is a member of the CFA Institute and the CFA Society of Minnesota. Ross is adventurous and spends a lot of time exploring outdoors, whether it be practicing his landscaping, golfing or fishing skills or enjoying a new hobby.

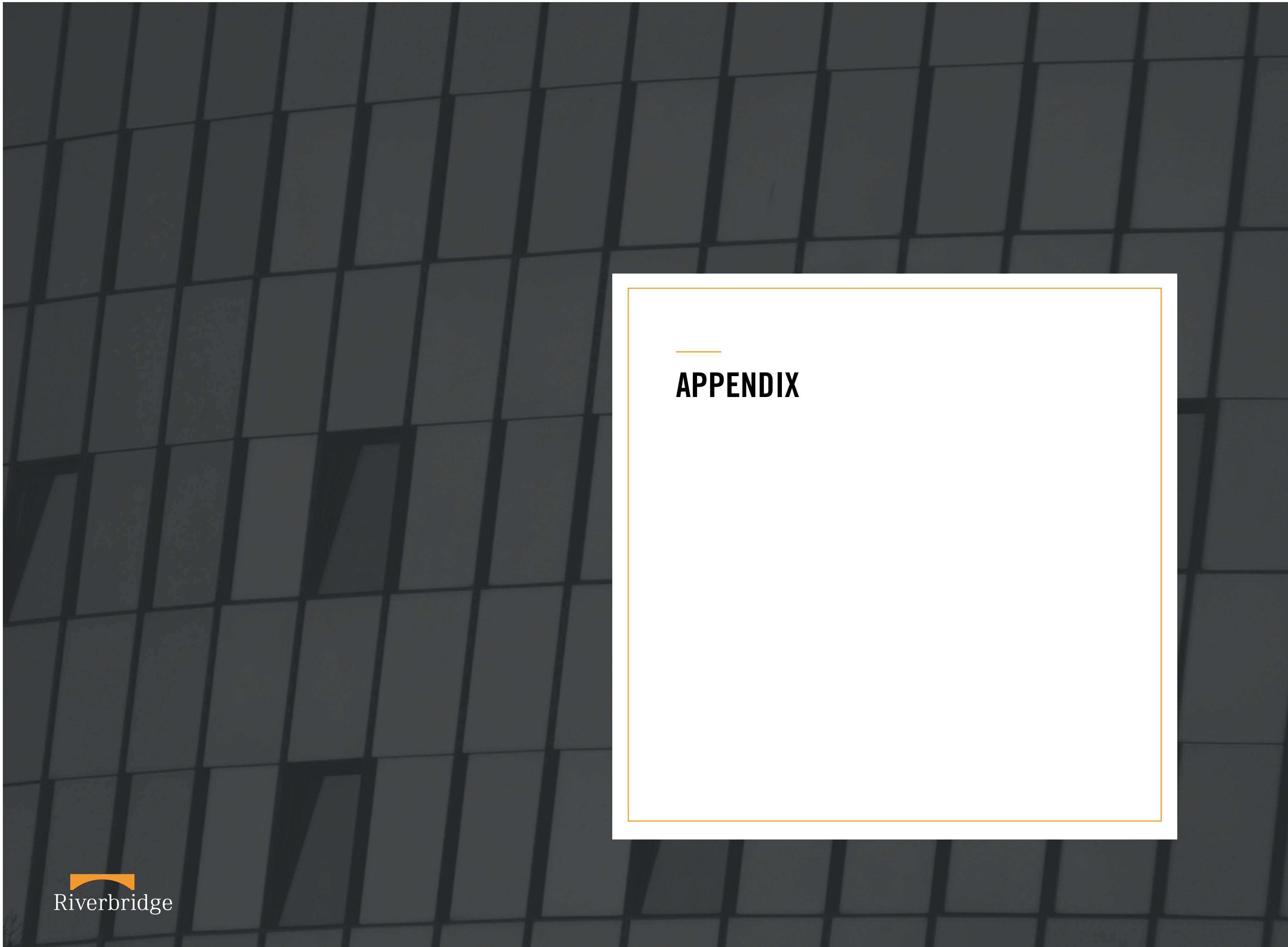
INVESTMENT TEAM AND BIOGRAPHIES CONTINUED

Adam McGrane joined Riverbridge Partners in 2008 as part of the Trading and Operations Team. He joined the Investment Team in 2010. As a portfolio manager, Adam is responsible for security selection and conducting company and industry research across all industry sectors. Prior to joining Riverbridge Partners, Adam owned a successful full-service landscaping business where he was responsible for operations, finance, sales and ongoing customer service. He earned his Bachelor of Science in Finance and Business Economics from Saint Cloud State University. Adam is a holder of the right to use the Chartered Financial Analyst® designation. He is a member of the CFA Institute and the CFA Society of Minnesota. In his free time, Adam enjoys playing baseball and other recreational sports.

Adam McGrane
CFA

Emily Soltvedt joined Riverbridge Partners in 2009. As a portfolio manager, Emily is responsible for security selection and conducting company and industry research across all industry sectors. She is also a member of the management team at Riverbridge, which is responsible for the strategic decision making and overall management of the firm. Prior to joining the Investment Team, Emily was a relationship manager at Riverbridge where she was responsible for supporting the investment needs of our clients and was responsible for the marketing efforts of the firm. Prior to joining Riverbridge Partners, Emily was a public relations specialist at Padilla Speer Beardsley working with clients in the manufacturing and technology industries and, prior to that, an investment banking analyst at Piper Jaffray. She earned her Bachelor of Science in Business degree in Marketing and Finance from the University of Minnesota Carlson School of Management. Emily is active in her community, serving on the Development Committee for TreeHouse and the Board of Governors of Opportunity International.

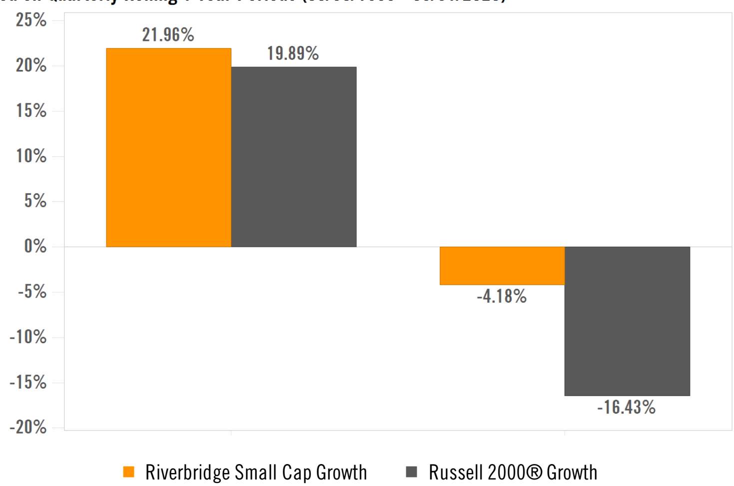
Emily Soltvedt
Management



APPENDIX

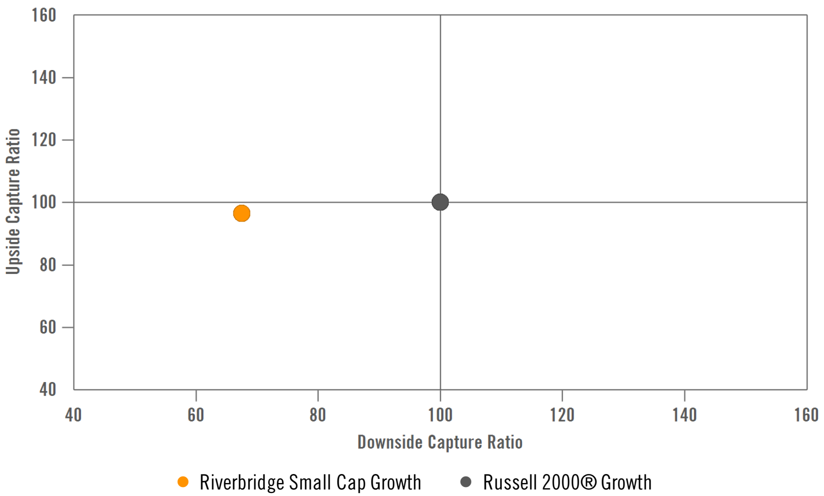
RANGE OF ANNUAL RETURNS

Market Cycle Performance Compared to Russell 2000® Growth
Based on Quarterly Rolling 1 Year Periods (06/30/1988 - 03/31/2020)



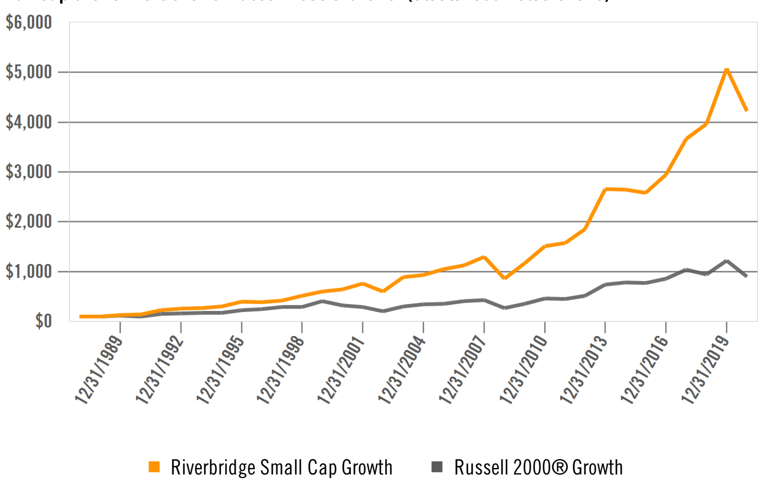
MARKET CAPTURE (06/30/1988 - 03/31/2020)

All Ratios Calculated vs. Russell 2000® Growth, Gross of fees.



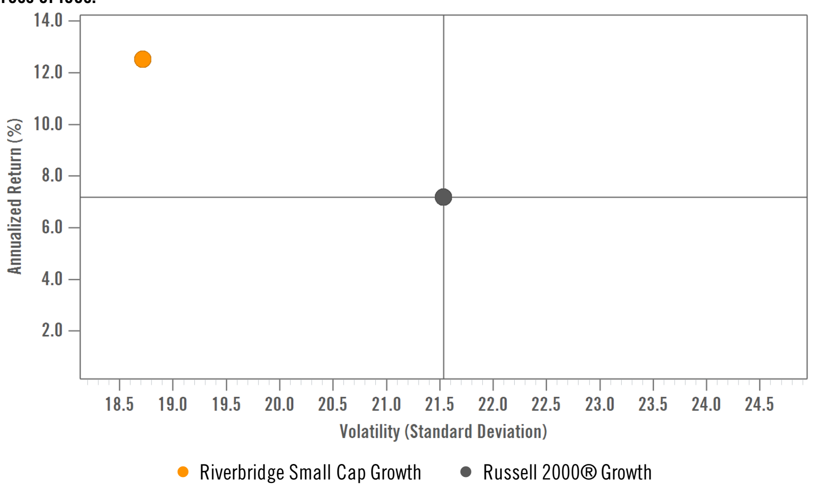
CUMULATIVE PERFORMANCE COMPARISON

Small Cap Growth Portfolio vs. Russell 2000® Growth (06/30/1988 - 03/31/2020)



RISK REWARD COMPARISON (06/30/1988 - 03/31/2020)

Gross of fees.



SMALL CAP GROWTH

ANNUAL RETURNS (06/30/1988 - 03/31/2020)

Periods greater than one year are annualized. Gross of fees.

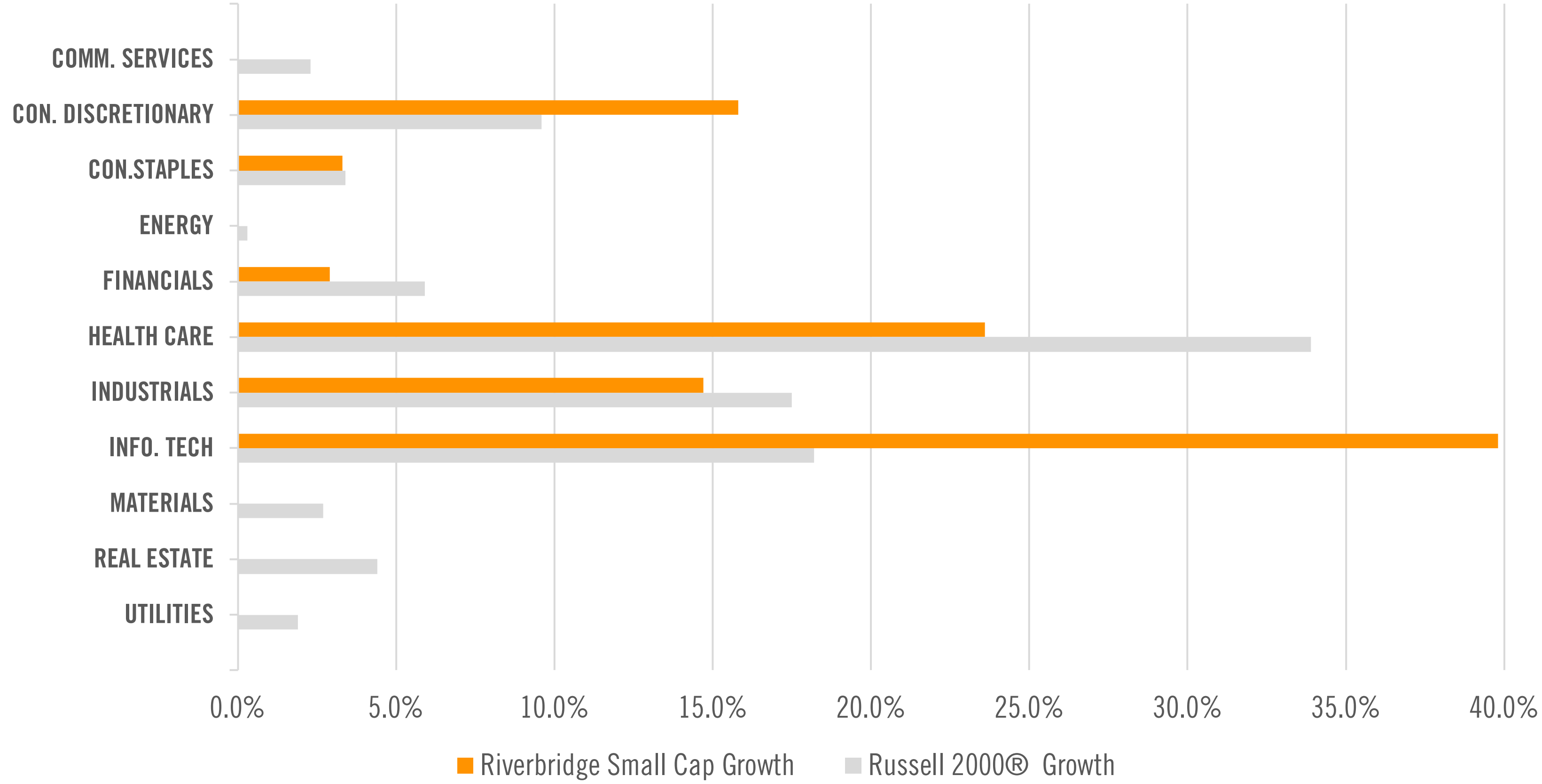
	Small Cap Growth	Russell 2000® Growth
1988 (since inception: 06/30/1988)	-7.21%	-3.60%
1989	38.41%	20.17%
1990	6.68%	-17.41%
1991	67.61%	51.19%
1992	11.10%	7.77%
1993	5.90%	13.37%
1994	11.72%	-2.43%
1995	32.78%	31.04%
1996	-2.56%	11.26%
1997	8.04%	12.95%
1998	20.92%	1.23%
1999	17.68%	43.09%
2000	6.52%	-22.43%
2001	18.18%	-9.23%
2002	-20.53%	-30.26%
2003	47.24%	48.54%
2004	5.08%	14.31%
2005	13.55%	4.15%

	Small Cap Growth	Russell 2000® Growth
2006	6.31%	13.35%
2007	15.76%	7.05%
2008	-34.03%	-38.54%
2009	36.19%	34.47%
2010	29.41%	29.09%
2011	4.14%	-2.91%
2012	17.93%	14.59%
2013	43.47%	43.30%
2014	-0.34%	5.60%
2015	-2.56%	-1.38%
2016	14.23%	11.32%
2017	24.09%	22.17%
2018	8.14%	-9.31%
2019	28.32%	28.48%
2020 (through 03/31)	-17.04%	-25.76%

Performance information is presented as supplemental information to the compliant presentation found in the Disclosure section.

SECTOR WEIGHTINGS VS. BENCHMARK

AS OF 03/31/2020



DISCLOSURES

PERFORMANCE DISCLOSURES

- Returns presented within this document are presented for gross-of-fee performance figures, which do not reflect the deduction of investment advisory fees. A client's returns will be reduced by the advisory fees and other expenses incurred in the management of its account. For example, the deduction of a 1% advisory fee over a 10 year period would reduce a 10% gross return to an 8.9% net return. A description of Riverbridge's advisory fees are disclosed on Part 2 of its Form ADV, a copy of which is available upon request.
- Past performance does not guarantee future results.
- Performance results do not reflect the impact of taxes.
- It should not be assumed that account holdings will correspond directly to any such comparative benchmark index.
- Comparative indices may be more or less volatile than Riverbridge portfolios.
- Riverbridge performance results reflect the reinvestment of dividends and other account earnings, and are net of applicable account transaction charges.
- Information in this document is not intended to be used as investment advice.
- Mention of companies/stocks herein is for illustrative purposes only and should not be interpreted as investment advice.
- The holdings included in this document are for illustrative purposes only and should not be considered a recommendation to purchase or sell any particular security. There is no guarantee that the same or similar holdings will be purchased or held in accounts in the future.

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- The data contained in this report may only be used for your internal use. The data is not intended to constitute investment advice or a recommendation to make (or refrain from making) any kind of investment decision and may not be relied on as such, nor should it be taken as an indication or guarantee of any future performance, analysis, forecast or prediction.

SMALL CAP GROWTH COMPOSITE

Year	Gross-of-Fee Return (%)	Net-of-Fee Return (%)	Russell 2000® Growth Return (%)	Portfolios	Dispersion (%)	Composite 3-Year Ex-Post Std. Dev.	Russell 2000® Growth 3-Year Ex-Post Std. Dev.	Composite Assets ($ Millions)	Firm Assets ($ Millions)
2019	28.32	27.32	28.48	97	0.27	15.31	16.37	1,396.4	5,378.3
2018	8.14	7.32	-9.31	104	0.47	15.47	16.46	1,372.9	4,737.1
2017	24.09	23.18	22.17	107	0.60	12.99	14.59	1,408.0	5,047.9
2016	14.23	13.37	11.32	111	0.75	15.29	16.67	1,566.9	4,686.7
2015	-2.56	-3.22	-1.38	133	0.43	14.19	14.95	1,633.3	5,030.8
2014	-0.34	-1.03	5.60	155	0.50	13.28	13.82	1,938.4	5,523.2
2013	43.47	42.57	43.30	163	0.87	13.76	17.27	2,257.3	5,718.3
2012	17.93	17.26	14.59	143	0.59	16.75	20.72	1,288.4	3,225.7
2011	4.14	3.37	-2.91	157	1.03	21.10	24.31	1,323.7	2,558.0
2010	29.41	28.70	29.09	135	0.33			1,339.6	2,495.0

Firm Information: Riverbridge Partners, LLC is a Minnesota based investment advisor registered with the Securities and Exchange Commission under the Investment Advisors Act of 1940. The firm provides investment management services to institutional and individual investors. The company offers growth-oriented investment services by investing in growth equity securities, which it believes will provide high returns over the long term. The firm's standard fee schedule is an annual 1%.

Composite Characteristics: The Small Cap Growth Composite was created in July 1988. It is a growth stock portfolio invested in small to medium sized growth companies. Effective 8/1/2019, this strategy generally invests in companies with market capitalizations of less than $7 billion. Prior to that the general guideline was less than $5 billion. The general market cap guideline was redefined in 2019 due to market appreciation. A complete list and description of all firm composites is available upon request. The composite benchmark is the Russell 2000® Growth Index. The Russell 2000® Growth Index includes the segment of securities within the Russell 2000® Index with higher price-to-book ratios and higher forecasted growth values. The Russell 2000® Index is an unmanaged index measuring the performance of the small-cap U.S. equity universe. Prior to 2008, the Russell 2000® Index was also shown for general market comparison purposes. The composite minimum value is $100,000.

Calculation Methodology: Valuations and returns are computed and stated in U.S. dollars. Individual portfolios are revalued daily starting 1/1/2009. Prior to that, individual portfolios were revalued monthly and intra-month when large cash flows (defined at 10%) occurred. Gross-of-fee returns are calculated net of transaction costs and gross of management fees. Until 12/31/2007, net performance was calculated by applying the maximum annual management fee of 1% to gross performance on a monthly basis. Starting 1/1/2008, net-of-fee returns are calculated net of actual investment management fees. Both gross-of-fee and net-of-fee returns are calculated gross of all withholding taxes on foreign dividends. Accruals are included in calculations. The dispersion measure is the equal-weighted standard deviation of accounts in the composite for the entire year. Additional information for valuing portfolios, calculating performance and preparing compliant presentations is available upon request.

Other Disclosures: Riverbridge Partners, LLC claims compliance with the Global Investment Performance Standards (GIPS®) and has prepared and presented this report in compliance with the GIPS standards. Riverbridge Partners, LLC has been independently verified for the periods 12/31/1989 – 12/31/2019. 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 Small Cap Growth Composite has been examined for the periods 07/01/1988 – 12/31/2019. The verification and performance examination reports are available upon request. The benchmark returns are not covered by the report of the independent verifiers. Past performance does not guarantee future results. This performance report should not be construed as a recommendation to purchase or sell any particular securities held in composite accounts. Market conditions can vary widely over time and can result in a loss of portfolio value.

BOARD ACTION REQUESTED

TO: State Investment Board

FROM: Dave Hunter, Darren Schulz, Eric Chin & Matt Posch

DATE: June 26, 2020

SUBJECT: Small Cap Growth Manager Recommendation

RIO Recommendation:

Staff recommends that the SIB approve Riverbridge Partners as a new U.S. small cap equity manager to replace the Parametric Clifton Russell 2000 mandate. Specifically, Staff is recommending Riverbridge's Small Cap Growth Strategy, which is a highly active, high quality small cap growth strategy that represents an attractive complement to the SIB's existing mandate with Atlanta Capital. Riverbridge has a long and successful track record of investing in small cap growth companies with the strategy's inception in 1988.

Staff's recommendation of the Riverbridge Small Cap Growth Strategy is based on:

1. **Riverbridge employs an experienced, collaborative and stable team. The two lead portfolio managers have worked together for over 25 years. Riverbridge has not lost a member of the investment team due to a voluntarily departure (with the exception of retirements).**
2. **Riverbridge has demonstrated the ability to protect capital in down markets. The strategy's focus on quality companies with strong earnings growth, low/no debt, a strategic market position, and quality management should lead to continued downside protection.**
3. **Riverbridge has a unique investment process. Riverbridge assigns both a Champion and Devil's Advocate to every position in the portfolio. This model allows for autonomy and accountability and leads to additional rigor as two team members must independently evaluate each holding.**
4. **Since inception in 1988, Riverbridge has generated annualized returns of 12.50% compared to 7.18% for the Russell 2000 Growth Index and 8.16% for the Russell 2000 index.**

As mentioned at the January 24, 2020 Board meeting, Staff believes it is prudent to take a more active approach in U.S. small cap equities. Replacing the Parametric Clifton Russell 2000 strategy with the more active Riverbridge Small Cap Growth Strategy will ultimately lead to the potential for greater outperformance over the long term.

Background:

At the January 24, 2020 Board meeting, the Board approved an engagement with Callan to conduct a search to identify two candidate managers that would complement the existing U.S. small cap mandate with Atlanta Capital. Staff recommended replacing the Parametric Clifton Russell 2000 synthetic beta mandates with two managers that employ a more active approach. Staff believes and academic literature supports, there is greater opportunity for active management within the

U.S. small cap equity space. This results from the fact that the small cap market is relatively inefficient, there is a diverse universe for stock selection, and there is higher return dispersion across companies when compared to other market segments. Today, Staff is recommending the first of two managers to replace the Parametric Clifton Russell 2000 mandate.

Process:

Following the Board's approval to commence the search for candidate managers to replace the Parametric Clifton Russell 2000 mandate, Staff proceeded to conduct extensive research on candidates in the small cap space. To identify candidate managers, Staff screened Callan's database of 700+ small cap managers for managers that had the following criteria:

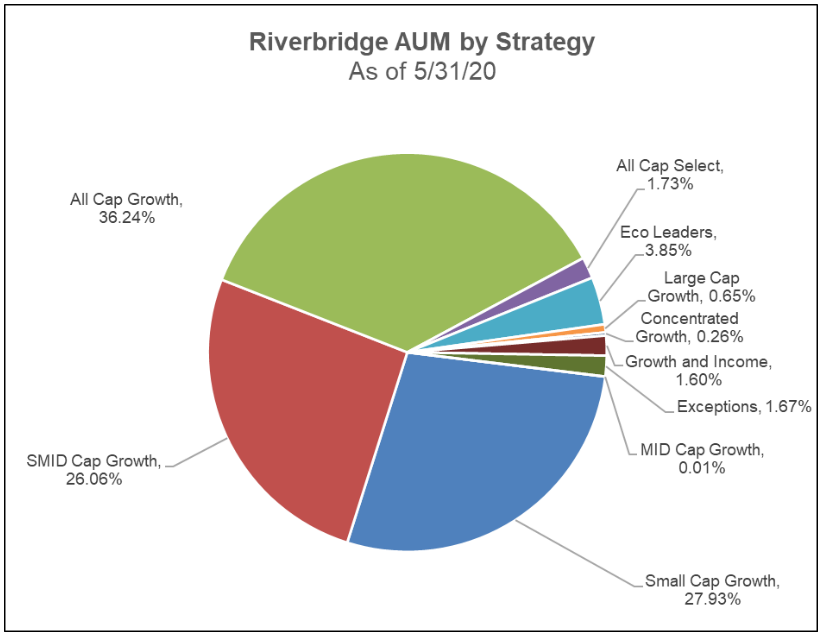
- A 15-year track record (or greater)
- Generated positive excess returns over the Russell 2000 Index in the most recent 5 and 10 year periods
- An information ratio vs. the Russell 2000 index above .40
- Strategy assets under management greater than $1 billion
- Down market capture less than 100%

This resulted in a universe of just under 100 managers. Staff sorted the managers into growth, value, and core/neutral strategies and selected the top 10 managers in each group ranked by Sharpe ratio. Staff held introductory calls with each manager to determine if they might be a good fit for the SIB's portfolios. Candidate managers were removed if they were capacity constrained or exhibited other obvious issues that would disqualify their candidacy. Staff conducted additional quantitative and qualitative due diligence, and looked to identify managers that would best serve as a complement to the existing Atlanta Capital Small Cap strategy. Next, Staff collaborated with Callan to produce a list of ten semi-finalist managers for consideration by Callan's Manager Search Committee. It's worth noting that both Callan and Staff independently identified Riverbridge as a top ten candidate. Callan's Research Committee then conducted a collaborative discussion of the merits and concerns with each of the top ten finalists. The four remaining managers were Brown Advisory, Kayne Anderson, Riverbridge, and Wasatch.

Staff proceeded to conduct additional diligence on the four finalists and held video conferences with senior portfolio managers at each firm. At this stage of the process all four finalists were high quality and highly capable managers. Riverbridge slightly edged out the competition based on its stable and experienced investment team, differentiated investment process and attractive risk/reward characteristics.

Riverbridge Partners Small Cap Growth Strategy Evaluation:

1. **Organizational Overview:** Riverbridge was founded in 1987, and has been an investment manager for institutions and high net worth clients for over 30 years. The firm is based in Minneapolis, Minnesota and employs 37 people, 25 of whom are partners. Northill Capital is a passive owner in Riverbridge and owns 51% of the firm. As of May 31, 2020 the firm manages approximately $9.00 billion in assets under management (AUM). A breakdown of AUM by strategy is below.



2. **Riverbridge Small Cap Growth Strategy:**

   a. **Overview:** The Riverbridge Small Cap Growth strategy was incepted in 1988. Mark Thompson the Co-Founder and Rick Moulton who joined Riverbridge in 1991, co-manage the strategy and have worked together for over 25 years. They are supported by a team of six analysts. As of May 31, 2020, Riverbridge manages approximately $2.5 billion in this strategy.

   b. **Philosophy: "**Riverbridge believes that earnings power determines the value of a business and seeks to find and invest in **high quality growth** companies that can build their earnings power at above average rates for long periods of time." The most important fundamental factor that Riverbridge looks for in its businesses is the ability to sustain high returns on invested capital. Other criteria that Riverbridge seeks in its companies include:

      i. Sound management teams/culture
      ii. Strong unit growth
      iii. The ability to internally finance growth
      iv. A strategic market position
      v. Employs conservative accounting practices.

c. **Strategy:** The Riverbridge Small Cap Growth strategy seeks to invest in high quality growth companies with market capitalizations between $100 million and $3.5 billion at the time of purchase. Riverbridge employs a deep bottom-up fundamental research process and seeks to invest with companies for the long-term.

   Riverbridge's due diligence process centers around assessing a company's management team. Riverbridge seeks to identify management teams that are focused on the next decade and beyond. Prior to making an investment, Riverbridge will meet with a company's management team to understand the team's vision and long-term strategic plans. Riverbridge will conduct a peer review and meet with a firm's customers, suppliers, competitors and other industry participants who can offer an insightful perspective on the company and its management. Riverbridge seeks to understand the differences between how a management team views themselves compared to how they are perceived in the competitive marketplace. Importantly, Riverbridge looks for management teams that are well respected in the industry.

   Another key criteria Riverbridge seeks in its portfolio companies is a firm with a strategic market position. Riverbridge believes that this is essential for long term growth and protects a firm from being displaced in their competitive market place. Riverbridge also prefers companies that have the capability to internally finance their growth. They prefer companies with little or no debt and strong cash flows. Riverbridge believes that this allows a firm to more nimbly respond to changing market conditions. Lastly, Riverbridge favors companies that provide a service or product that is essential to their customers.

   Riverbridge's investment process is a collaborative process and is built around gathering multiple perspectives. Each analyst is a generalist and can offer insights across sectors, industries and business models. Any analyst is able to champion a company and can add it to the portfolio at a maximum position size of 1.5%. Unique to Riverbridge's process is that when a company is added to the portfolio a Devil's Advocate is immediately assigned to conduct independent research on the company. The purpose of the Devil's Advocate is to develop an independent perspective and challenge assumptions. A position cannot grow above the initial 1.5% weighting unless the Devil's Advocate concurs with the increase.

   The Riverbridge team sources most of its investment ideas through its peer review process. As stated, this process entails meetings with a prospective or current company's peers within the firm's ecosystem. While the primary purpose is to confirm Riverbridge's assessment of a firm's management team, the peer review process is a rich source of investment ideas. Other sources of idea generation include, industry conferences, sell side conferences or the team's network.

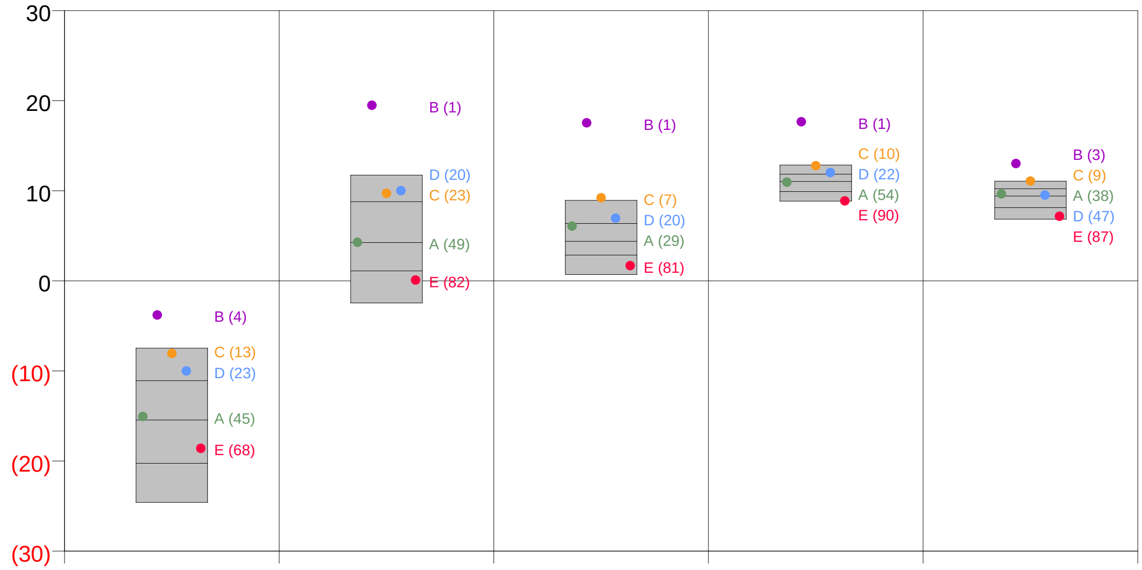
d. **Guidelines/Capacity:** The Riverbridge Small Cap Growth strategy typically holds 45-60 positions. Maximum position size is 5%. When a company's market cap reaches $7 billion, Riverbridge will use that position as a source of funds. The strategy takes a long term view of its companies and portfolio turnover is typically low ranging from 10-20%. Riverbridge does not have specific sector limits rather they limit their exposure to a common external earnings catalyst to no more than 20% of the portfolio. The strategy has $1-1.5 billion in additional capacity (this number does not include the potential allocation from the SIB).

e. **Performance Overview:** As a result of the rigorous due diligence process it's not surprising that the four finalist candidate managers all have produced exceptional returns over the long term. Compared to its peer group, the Riverbridge Small Cap Growth Strategy generated top quartile absolute and risk adjusted returns over the 1, 3, 5, 10, and 15 year periods (see charts below). The Riverbridge Small Cap Growth Strategy's down market capture of 89% is noteworthy as this demonstrates Riverbridge's ability to protect capital in down markets. Also significant is the Riverbridge Small Cap Growth Strategy's standard deviation of 17.43% which is comparatively lower than the Russell 2000 Growth Index of 19.85% indicating less risk.

Common Period Returns and Risk Statistics (Gross)
15 Years as of 3/31/20

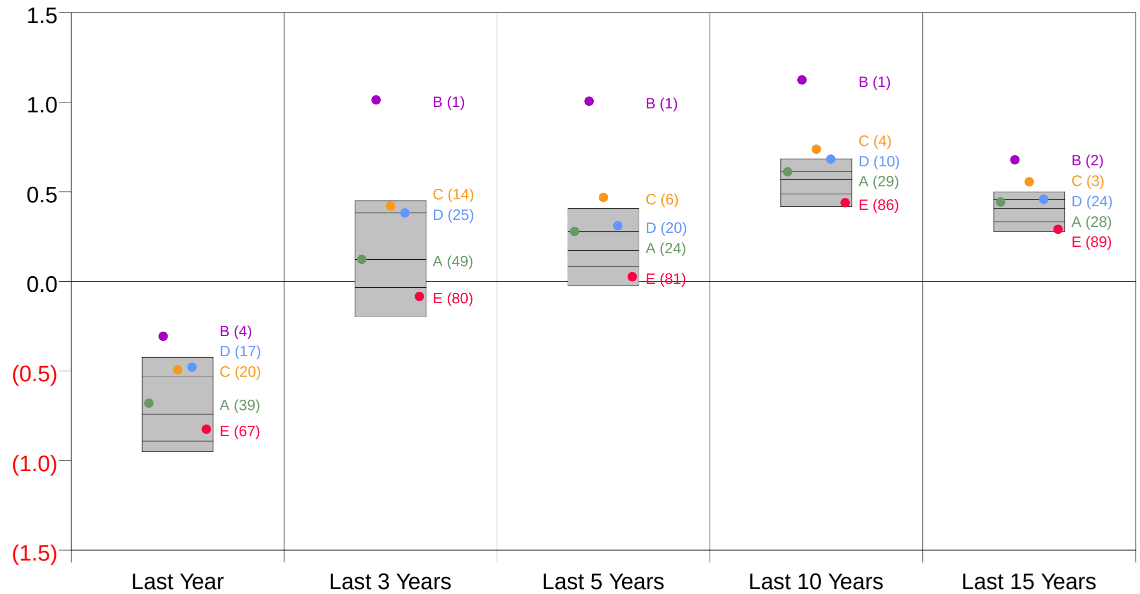
	Riverbridge Small Cap Growth	Wasatch Small Cap Growth	Kayne Anderson Small Cap Sustainable Growth	Brown Advisory Small Cap Growth	Russell 2000 Growth
Returns	11.09%	9.53%	13.03%	9.66%	7.17%
Excess Return (Russell 2000 Growth)	3.92%	2.35%	5.86%	2.49%	0.00%
Standard Deviation	17.43%	17.71%	17.15%	18.64%	19.85%
Sharpe Ratio (3 month T-bill)	0.56	0.46	0.68	0.44	0.29
Tracking Error (Russell 2000 Growth)	6.75%	6.26%	8.08%	6.06%	0.00%
Up Market Capture (Russell 2000 Growth)	102.10%	83.67%	100.29%	119.70%	100.00%
Down Market Capture (Russell 2000 Growth)	89.07%	89.72%	80.46%	96.97%	100.00%

Returns
for Periods Ended March 31, 2020
Group: Callan Small Cap Growth



		Last Year	Last 3 Years	Last 5 Years	Last 10 Years	Last 15 Years
10th Percentile		(7.46)	11.75	8.95	12.87	11.07
25th Percentile		(11.07)	8.80	6.37	11.85	10.23
Median		(15.44)	4.25	4.40	11.03	9.42
75th Percentile		(20.25)	1.12	2.86	9.91	8.14
90th Percentile		(24.59)	(2.45)	0.72	8.85	6.86
Member Count		70	70	69	67	57
Brown Inv:Small Cap Growth	A	(15.05)	4.29	6.09	10.96	9.66
KA Rudnick:Sm Cp Sus Gr	B	(3.78)	19.50	17.55	17.68	13.03
Riverbridge:Small Cap Growth	C	(8.04)	9.73	9.23	12.79	11.09
Wasatch:Sm Cap Growth	D	(9.99)	10.02	6.97	12.03	9.53
Russell:2000 Growth	E	(18.58)	0.10	1.70	8.89	7.17

Sharpe Ratio
for Periods Ended March 31, 2020
Group: Callan Small Cap Growth



		Last Year	Last 3 Years	Last 5 Years	Last 10 Years	Last 15 Years
10th Percentile		(0.42)	0.45	0.41	0.68	0.50
25th Percentile		(0.53)	0.38	0.28	0.62	0.46
Median		(0.74)	0.12	0.17	0.57	0.41
75th Percentile		(0.89)	(0.03)	0.09	0.49	0.33
90th Percentile		(0.95)	(0.20)	(0.02)	0.42	0.28
Member Count		70	70	69	67	57
Brown Inv:Small Cap Growth	A	(0.68)	0.12	0.28	0.61	0.44
KA Rudnick:Sm Cp Sus Gr	B	(0.31)	1.01	1.01	1.13	0.68
Riverbridge:Small Cap Growth	C	(0.49)	0.42	0.47	0.74	0.56
Wasatch:Sm Cap Growth	D	(0.48)	0.38	0.31	0.68	0.46
Russell:2000 Growth	E	(0.82)	(0.08)	0.03	0.44	0.29

<u>Conclusion:</u>

Following an intense and rigorous manager search and due diligence process, Staff has identified the Riverbridge Small Cap Growth Strategy as one of two strategies to replace the Parametric Clifton Russell 2000 mandate. With a strong track record, a demonstrated ability to protect capital in down markets, a stable and experienced team and a differentiated investment process, the Riverbridge Small Cap Growth Strategy stands on its own merits as a highly competent manager. Moreover, the Riverbridge Small Cap Growth Strategy's focus on high quality growth companies with a high return on invested capital complements the Atlanta mandate well. Lastly, an allocation to the Riverbridge Small Cap Growth Strategy helps to achieve the SIB's objective of becoming more active in the small cap space. In summary, the Riverbridge Small Cap Growth Strategy is a highly attractive strategy, complements Atlanta well, increases active exposure in the small cap space and ultimately improves the SIB's portfolios potential to generate outperformance over the long term.

Informational Overview

TO: State Investment Board

FROM: Dave Hunter

DATE: June 23, 2020

SUBJECT: Opportunistic Credit Overview

Background:

Based on the desire to dampen public equity market return volatility and further diversify equity manager risk within our higher return seeking portfolios (including the Legacy Fund and Pension Pool), RIO and Callan have identified opportunistic credit strategies as an attractive and compelling investment alternative. Given current market dislocations following the impact of the global pandemic on the capital markets, there are numerous opportunistic credit strategies being raised and/or funded at this time.

Callan identified four "High Conviction Multi-Strategy Credit Managers" for further consideration including CarVal, Fortress, Sixth Street Partners and Varde (under consideration by ND's Land Board). RIO and Callan specifically identified Sixth Street Partners (SSP) opportunistic credit fund (TAO) as being "well positioned to execute in the current (market) dislocation". RIO has been conducting due diligence on SSP and its' prior beneficial owner TPG for over three years given their strong downside risk performance (dating back to CEO Alan Waxman's experience at Goldman Sachs Special Situations Group). RIO notes that Callan has consistently ranked Sixth Street returns in the 1st or 2nd quartile on a Net Internal Rate of Return basis since inception with strong recovery ratios when ranked among its peers in distressed scenarios.

Based on current asset liability studies underway for PERS and TFFR in addition to recent discussions with Legacy Fund Advisory Board leadership, RIO recommends a $150 million Pension Pool commitment would represent a relatively conservative sector allocation within Private Equity (noting the Pension Pool is underweight to private equity by over $100 million), while a $100 million Legacy Fund commitment would represent a new opportunistic credit sector allocation within Public Equity. Both sector allocations would serve to dampen public equity market volatility with higher expected returns than public equity (but less than private equity), while improving expected downside risk returns given that SSP's TAO strategy is keenly focused on "minimizing downside loss of principal". Net Internal Rate of Returns (IRR) have averaged over 9.9% since inception (but not less than 6% in any given year).

RIO and Callan have conducted due diligence with SSP TAO professionals for several years in anticipation of an inevitable major market dislocation, while noting that Callan and RIO completed their latest round of due diligence in May and June, respectively.

Summary of Key Findings

Merits

- **Deep, experienced investment team** – The broad Sixth Street team is led by Alan Waxman, who previously led the Goldman Sachs Americas Special Situations Group business, which has spun out a number of successful credit investors. Callan believes this background has been a robust training ground for Waxman and his senior team, who take a creative, team-based approach to credit special situations investment while maintaining a sharp eye on downside mitigation.
- **Theme based investing** – The TAO team actively invests in broad investment themes developed across the Sixth Street platform. The benefit of thematic investing is that it provides a more robust lens with which to view investment opportunities, adding multiple layers to assessing potential outcomes relative to single focused value investing which tends to rely on bottoms-up fundamental analysis alone.
- **Leverage across broad SSP Platform** – An integrated, team approach to investing is deeply embedded in Sixth Street's culture. Investment team members are generalists and own a deal from sourcing to underwriting and, ultimately investment monitoring. There is a strong culture built around collaboration and sharing of intellectual capital. Team members are incentivized to leverage resources across the multiple Sixth Street platforms.
- **Strong alignment of interest** – The founders and senior partners of the firm own 80% of the equity and invest in every deal. This creates a strong alignment between senior management and Fund investors. The broader team participates in the upside of their investments through owning carry in their funds.
- **Robust sourcing capabilities** – Sixth Street has a deep sourcing team of 20 individuals that work across the platform with sourcing recognized as a significant alpha driver. In addition, the broader team is incentivized to source unique investment ideas. The combination of the deep experience and long-term relationships that the team brings to the sourcing effort with the push to source outside of normal broker and advisory channels forms a robust pipeline of unique opportunities. The lending facility to another asset manager to provide backstop financing is an example of this sourcing edge.
- **Focus on capital preservation** – The TAO team has built a strong track record of generating equity like returns with bond-like downside protection. There is a significant focus on modeling downside scenarios with each underwriting, where the team works to provide a downside cushion in its purchase price; likes to see strong underlying asset liquidation value; and prefers to attach at first dollar risk.
- **Disciplined underwriting, portfolio construction and monitoring processes** – The TAO team's underwriting process benefits from a thoughtful framework and robust analysis in evaluating each strategy investment. The process is iterative and designed to leverage off of the broad Sixth Street platform as well as to obtain the final buy-in from the senior partners of the firm. The depth of this work is also expected to be leveraged across the firm and for subsequent investments in similar industries or themes.
- **Long term capital** – The availability of long-term capital through the TAO funds (i.e., a three to five and one-half year investment period and greater than six year total life), enables TAO to be patient around theses playing out, often through driving catalysts through processes such as financial restructurings, operational turnarounds, or some type of consolidation play. This lock-up structure also gives the team the flexibility to add, from time-to-time, esoteric private assets that are synergistic with investment themes in the broader portfolio.

Considerations

- **Public market volatility** – TAO will have some exposure to more liquid credit investments such as broadly syndicated term loans, subordinated debt, and preferred and common stock. The valuations and returns of these securities can be volatile and significantly influenced by public market volatility and liquidity. Furthermore, SSP does not actively hedge the market exposure of the TAO portfolio.

Mitigants

- Callan believes SSP has demonstrated the ability to incorporate downside protection in their deals, including a cushion against a downturn in a target company's prospects. The TAO team takes a conservative underwriting approach; most of the capital deployed is expected to be senior secured.

— **Headline risk** – TAO may occasionally invest in securities that generate unfavorable media attention for SSP and its investors. Its investment in PG&E related debt and equity as part of the Fundamental Strategies portfolio, with which TAO may co-invest, is an example of this, though it has been highly profitable to date.

Mitigants

- Distressed investing at times unavoidably invites media scrutiny, in part because it often involves companies in the midst of a bankruptcy process that may lead to a corporate restructuring and layoffs. These unfortunate steps are often necessary to put companies on a stronger financial footing and positioned for resumption in growth.
- SSP has not historically invested in disreputable sectors such as payday lending; Callan does not expect their portfolio to have an outsized exposure to such areas of the economy.

— **Recent change to corporate structure** – In January 2020 Sixth Street Partners and TPG announced they will become wholly independent organizations, potentially causing some disruption to SSP's business.

Mitigants

- Callan believes SSP has been operating largely autonomously from TPG for the past few years, based on statements from Alan Waxman as well as Callan's prior experience with SSP and TPG. SSP has established a strong infrastructure and stable governance model and is led by a relatively young senior management team. This should enable SSP to continue to operate independently without meaningful disruptions to its business.
- TPG has retained a small minority interest in SSP and they continue to share certain administrative services; this highlights what has been an amicable separation of the two organizations.

— **Illiquidity** – While most comparable strategies to TAO are invested through a hedge fund vehicle providing liquidity for investors under normal conditions, the Fund is in a closed-end fund structure, with a three to five and one-half year investment period and over six year total term.

Mitigants

- A closed-end fund structure provides SSP the flexibility to pursue a broader array of opportunities that may require an extended capital structure reorganization process as well as more complicated, and potentially more profitable, deal structures. These may accrue to the benefit of SSP's investors.
- SSP can recycle up to 100% of distributions during the investment period, which wouldn't be possible in a more liquid hedge fund vehicle that would be required to distribute income and principal as they are realized. This recycling provision is expected to lead to a higher TVPI and DPI than would otherwise be possible investing out of a hedge fund structure.

— **Credit risk and loss of principal** – Sixth Street originates and underwrites loans to borrowers which have underlying credit risks in their businesses. Ultimately, an increase in credit risk through the potential deterioration in a borrower's fundamental business and financial strength can lead to the inability of the borrower to repay the principal and interest on its loan, thus eroding the underlying value in the TAO portfolio.

Mitigants

– SSP builds diversified portfolios to mitigate oversized exposures to one borrower and industry that may experience stress.
– SSP has disciplined underwriting process with a strong focus on capital preservation. It often is senior in the capital structure, which mitigates downside in a stressed situation.
– SSP's flexible mandate and deep work-out expertise enables it to be well-positioned to maximize values should a credit become distressed and require restructuring. As such, the Strategy has realized a relatively low annualized loss rate of 14 bps which compares favorably with compared with average high yield and leveraged loan default rates of 4% through a cycle.

Exhibit A - Summary of Key Terms

See below for a summary of key terms for the NDSIB proposed commitment to the SSP TAO Commingled Fund.

Draft Term Sheet Summary	
Fund Name	SSP TAO
Fund Structure	Commingled Fund
Initial Capital Commitment	$250 million
Investment Period/Term	— Initial Commitment Period for Long-Term LPs – 5.5 years (Short-Term LPs – 3.5 years) — Harvest Period: after the expiration of the initial commitment period LPs will have periodic opportunities to terminate their commitment period with respect to all or a portion of their capital commitment, with a 1-year waiting period
Management Fee & Carry	— >=$250 m in Committed Capital: 1.25% Management Fee on invested capital, 0.15% on Unfunded Commitments — 17.5% Carried Interest — 5.0% Preferred Return — 100% GP Catch-up
GP Commitment	$138 million across the TAO vehicles

Sixth Street Partners TAO 5.0, L.P.

Fund Summary

Fund Name	Sixth Street Partners TAO 5.0, L.P.
Partnership Domicile	Delaware
Auditor	KPMG
Reporting Currency	USD

Strategy Summary

Strategy	Opportunistic, special situations, direct lending, and other investments
Geography	Global; primarily United States
Sector/Industry Focus	Diversified
Seniority	Majority First Lien/Senior Secured
Target Return	15 – 20% Gross Unlevered IRR; 1.4x – 1.8x Gross M-o-M
Proposed Commitment Size	$6+ bn; First Close June end 2020; Final Close October 2020

General Partner Summary

Firm/Headquarters	San Francisco, CA
General Partner	Sixth Street GenPar, L.P.
Leadership	Alan Waxman, CEO
Registered w/ US SEC	Yes
Regulatory/Legal	Nothing material as advised by SSP

Fees

Fund Term	Initial Commitment Period (Long-Term LPs – 5.5 years; Short-Term LPs – 3.5 years); Harvest Period: after the expiration of the initial commitment period LPs will have periodic opportunities to terminate their commitment period with respect to all or a portion of their capital commitment, with a 1-year waiting period
Recycling	LP choice; LPs can recycle up to 100% of capital through the Initial Commitment Period
Extension	None
Management Fee (<$250m commitment)	Long-Term LP: 0.65% on Unfunded Commitments; 1.35% on Invested Capital; Short-Term LP: 1.15% (UC) / 1.50% (I)
Waterfall Summary	Waterfall Type --- GP Carried Interest - 17.5% (L-T); 18.5% (S-T)
	Preferred Return - 5%
	GP Catch-Up - 100%

Summary Findings

SSP TAO takes a theme-driven opportunistic approach to alternative credit investing drawing from the broad SSP credit platform. The core strategies invested by the strategy include Direct Lending; Fundamental Strategies and Opportunistic Core. Industry expertise in energy, healthcare; media & communications; consumer & internet; and, agriculture is leveraged across the strategy. Investments can be across the liquidity spectrum with a focus on solutions based capital in the recent environment. The TAO strategy is expected to drive 15 to 20% gross returns through a cycle and is well-positioned to execute in the current dislocation. Callan recommends the TAO strategy as an opportunistic, multi-strategy approach to capturing attractive returns in the current dislocation while minimizing downside loss of principal.

Organization

Firm Overview

Sixth Street Partners ("Sixth Street" or "SSP", formerly "TPG SSP" or "TSSP") is a global credit and credit-related investment platform founded in 2009 by Managing Partner and Chief Investment Officer, Alan Waxman, and several co-founding Managing Directors. Headquartered in San Francisco, the firm is currently managed by 18 Partner Managing Directors and employs 250 people with nine offices globally, including New York, Dallas, London, and Hong Kong. Prior to forming Sixth Street, Mr. Waxman was a Partner and the Co-Head of the Americas Special Situations Group ("SSG") at Goldman Sachs, where he worked with eight of the co-founder MDs. SSP has continued many of the strategies they pursued as part of the Goldman Sachs SSG. Sixth Street manages over $34 billion across a series of private investment vehicles ("Sixth Street Funds"); a publicly traded business development company ("BDC"); and a series of accounts and collateralized loan obligation vehicles ("CLOs"). Other SSP strategies include Opportunity Partners ("TOP"), Strategic Lending ("TSL"), and Fundamental Strategies ("FS").

The intent of the Fund is to invest in the full breadth of credit investment opportunities generated by the Sixth Street platform, either on its own or alongside other Sixth Street vehicles. TAO seeks to generate attractive returns through the purchase or origination of opportunistic, special situations, direct lending, and other investments across the credit cycle. TAO also pursues investment opportunities sourced across the Sixth Street platform that Sixth Street believes offer attractive risk/reward characteristics and that are adjacent to other SSP strategies, but that do not fit the investment mandates of such funds due to factors that may include, but are not limited to, a non-control orientation, duration, the nature of the transaction or other considerations. These adjacent opportunities are not limited to any particular strategy. As with other SSP strategies, TAO utilizes a thematic approach to investing. Since the strategy's inception in 2012 and through December 31, 2019, Sixth Street TAO 1.0 has generated a 22.9% gross IRR and a 15.8% net IRR.

TAO benefits from the combined efforts of SSP's investing platforms. In aggregate, Sixth Street has approximately 140 investment professionals based in San Francisco, New York, Houston, Dallas, Boston, London, Hong Kong, and Melbourne. In addition SSP employs 115 middle and back office professionals in the firm's "Federation" group.

Investment Strategy

Sixth Street Partners' TAO (the "Strategy") is designed to capture theme-based liquid and less liquid investment opportunities across the Sixth Street platform. The strategy is the fullest expression of the SSP platform drawing from the following attributes of SSP's investment capabilities:

— **Thematic Investing** – The Strategy is designed to leverage off of investment themes developed and executed across the broader Sixth Street platform. From time-to-time the team will develop public-market specific themes. The philosophy is that thematic investing can generate alpha relative to fundamental company analysis alone. Investment themes generally are dynamic and rotate across a cycle. Examples of recent investment themes executed on at Sixth Street include Software in Transition and Generic Pharmaceuticals.

— **Deal Structuring –** The TAO team demonstrates a sharp focus on structuring deals with discipline around downside protection combined with upside optionality. The breadth of the platform provides significant resources for analyzing risk and return. A focusing on creating opportunities at a significant discount to market value maximizes upsize optionality.

— **Broad Platform and Intellectual Capital –** The Sixth Street team has deep experience working together and through multiple cycles. The team also brings significant industry expertise that can be levered across the platform. Finally the integrated, team approach at Sixth Street provides another later of oversight and ability to leverage niche expertise in deepening the level of investing by the TAO team.

Moving into the recent COVID-driven dislocation, SSP proactively decreased overall risk in the TAO portfolio with discipline around fund sizing; a focus on low-macro correlated assets; active investment theme rotation; increasing the percentage of cash yielding assets; conservatism around loan-to-value underwriting; and, tight risk-minimizing structures. As the investment landscape has rapidly evolved due to the dislocation, the TAO team has pivoted the rotate into new portfolio themes across the platform. A detailed list of emerging COVID themes can be found in Exhibit D.

The two primary strategies feeding into the TAO portfolio are Direct Lending and Opportunistic Core which are discussed below. Further, the TAO strategy portfolio may include a slice of SSP's Fundamental Strategy which invests in large liquid stressed and distressed opportunities as well as in other, niche areas such as Asset Dislocations and Growth Dislocations. The key attributes of the Direct Lending and Opportunistic Core strategies are outlined below.

— **Rescue Financings and Stressed Lending –** The SSP Direct Lending strategy is a continuation of the strategy managed by the SSP senior team while at the Goldman Sachs Specialty Lending group in the early 2000s. The lending team focuses on loan-to-value integrity in stressed scenarios on the last dollar of risk. The strategy has invested $11.5 billion in direct lending across its credit platform (including in TAO and its BDC (TSLX: NYSE) generating gross unlevered returns on fully realized investments since inception with < 10 bps of average annual net realized losses. The strategy spans N. America and Europe geographies with both BDCs generating top quartile performance since inception. The team leverages SSP's broad thematic overlay and drives 99% of its own origination. Key sub-strategies include 1) Special Situations/Rescue Financing through which SSP have invested $4.5 billion to date at a 24% gross IRR; 2) Non-Sponsor Lending which comprises about 35% of originations and has generated a 23% gross IRR since inception; and; 3) Asset Based Lending having invested $1.4 billion with a 23% gross IRR. In the early stage of the current dislocation, the SSP lending strategies is expected focus on a number of the following themes:

Rescue Financings and Stressed Lending Dislocation Themes
Good company/bad balance sheet
Trough earnings/good balance sheets
Good assets/bad business
Software working capital unwind and lack of new bookings
Filling the financing gap for M&A, recapitalizations, DIPs and ABLs

— **Opportunistic Core –** The SSP Opportunistic Core strategy focuses on providing highly structured cash infusions into stressed companies or situations in dislocated sectors. Dislocation drivers may include secular or cyclical shifts; bubbles created by capital flows; economically irrational actors; mismatched assets and liabilities; government intervention; and other idiosyncratic events. Opportunistic core investments are sourced across five industry verticals – Energy, Healthcare; Media, Entertainment & Communications; Consumer & Internet; and, Agriculture. These verticals are staffed with focused teams with deep industry expertise. Examples of recent investment themes by industry vertical are shown below:

Opportunistic Core Industry Themes				
Energy	**Healthcare**	**Media, Entertainment & Communications**	**Consumer & Internet**	**Agriculture**
Orphaned assets	Focus on top products	Distressed gaming	Travel-related consumer deposit unwind	Organic conversion
Partnership capital	Fund solutions/structures	Sports broadcasting accounts receivable	COVID-related consumer disruption	Transitional capital
Option-extension financing	Royalties, debt and trial financings	Telecom infrastructure development	Franchisor/franchisee stress	Midwest Distress Florida Citrus

Outside of the five industry verticals outlined above, the Opportunistic Core strategy may invest in other Opportunistic Core strategy may also look across a broader opportunity set including investments such as asset portfolios purchases; rescue financing; balance sheet bolster; busted club deals; debt-like preferred; and, Fund solutions. An example of dislocation themes currently providing investment opportunities for the Opportunistic Core strategy is shown below:

Opportunistic Dislocation Themes
Travel-related customer deposit unwinds
Commercial stage, cash burning biotech
A/R securitizations (i.e., CARES Act tax rebate)
COVID-impacted, quality elective procedure medical device
COVID-related consumer disruption (supply chain/consumer spending)
Royalty monetization with budget impacted organizations
Franchisee/franchisor pandemic & recession-related stress
Trial financings with large pharma and biotech

Lot LTV stressed airline aircraft sale leasebacks
Life settlement secondary solutions
Distressed unlevered hedgeable assets

Disclosures

As indicated below, one or more of the candidates listed in this report may, itself, be a client of Callan as of the date of the most recent quarter end. These clients pay Callan for educational, software, database and/or reporting products and services. Given the complex corporate and organizational ownership structures of investment management firms and/or trust/custody or securities lending firms, the parent and affiliate firm relationships are not listed here.

The client list below may include names of parent companies who allow their affiliates to use some of the services included in their client contract (e.g., educational services including published research and attendance at conferences and workshops). Affiliates will not be listed if they don't separately contract with Callan. Parent company ownership of the firms included in this report and any relationship with Callan can be provided at your request. Because Callan's clients list of investment managers changes periodically, the above information may not reflect recent changes. Clients are welcome to request a complete list of Callan's investment manager clients at any time.

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Firm	Is an Investment Manager Client of Callan*	Is Not an Investment Manager Client of Callan*
Sixth Street Partners		X

*Based upon Callan manager clients as of the most recent quarter end.

Sixth Street Presentation to ND State Investment Board

June 2020

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The Sixth Street Documentation will be made available and must be received prior to subscribing for an interest in a Sixth Street fund. The Sixth Street Documentation contains additional information about the investment objectives, terms and conditions of an investment in Sixth Street and risk disclosures that are important to any investment decision regarding Sixth Street. You should read the Sixth Street Documentation (including the risk disclosures) in its entirety before making an investment in a Sixth Street fund.

An investment in a private investment partnership is speculative and involves significant risks, including that there will be no public or private market for the interests in the partnership and such interests will not be transferable without the consent of the general partner. Investors should carefully review the information provided regarding such risk factors in the Sixth Street Documentation (including the private placement memorandum). Investors should understand these risks and have the financial ability and willingness to accept them for an extended period of time before making an investment.

Please note this Presentation contains various examples or subsets of investments. As the investments shown are intended to be examples or subsets demonstrating a particular theme or process, they inherently may not represent all investments that could be categorized or described on a particular page and in the aggregate may represent only a small percentage of existing and historical investments led by Sixth Street. Investments in other companies may have materially different results. There is no assurance that any investments discussed herein will remain in the applicable fund at the time you receive this information. It should not be assumed that any investment not shown would perform similarly to the examples shown. It should not be assumed that recommendations made in the future will be profitable, will equal the performance of the investments in this Presentation, or will not incur losses. Future investments may be under materially different economic conditions, including interest rates, market trends and general business conditions, affecting different investments and using different investment strategies and these differences may have a significant effect on the results portrayed. Each of these material market or economic conditions may or may not be repeated. Further investments may be made under different economic conditions, using different strategies, and may have materially different results. Please see the notes to historical performance summaries for important information and detail relating to the performance history presented in this Presentation.

The market analysis, estimates and similar information, including all statements of opinion and/or belief, contained herein are subject to inherent uncertainties and qualifications and are based on a number of assumptions. All statements in this Presentation (and oral statements made by Sixth Street personnel regarding the subjects of this Presentation) other than historical facts are forward-looking statements, which rely on a number of assumptions concerning future events and are subject to a number of uncertainties and factors outside of Sixth Street’s control which could cause actual results to differ materially from such statements. See the disclaimer on forward-looking statements on the following page.

No representation or warranty, express or implied, is made as to the accuracy or completeness of the information contained herein, and nothing shall be relied upon as a promise or representation as to the future performance of any investment. Past performance is not necessarily indicative of future results. Differences between past performance and actual results may be material and adverse.

[Continued on Next Page]

Disclaimer (Cont.)

Sixth Street generally presents performance-related data and returns at the fund level, which may not be indicative of an individual Limited Partner's results. Limited Partners should refer to their capital account statements for individual results. Unless otherwise noted, "Gross IRR" and "gross returns" refer to an aggregate, annual, compound, gross internal rate of return on investments. Gross returns do not reflect management fees and carried interest born by investors in a fund, which will reduce returns and in the aggregate may be substantial. Additional disclosures on Sixth Street's management fees are described in Part 2 of its Form ADV. In the case of portfolios of realized and unrealized investments, the gross returns are based on a combination of realized value and internal valuations by Sixth Street of unrealized investments as of a particular date. The actual realized returns on a fund's unrealized investments will depend on, among other factors, future operating results, the value of the assets and market conditions at the time of realization, any related transaction costs and the timing and manner of disposition, all of which may differ from the assumptions on which the valuations used in the prior performance data contained herein are based. Accordingly, the actual realized return of these unrealized investments may differ materially from the returns indicated thereon. Where gross performance figures are noted in this document please refer to the full track record for further detail.

Financial indices and benchmarks are unmanaged, do not reflect management or performance fees, assume reinvestment of income, are shown for illustration purposes only, and have limitations when used for such purposes because they may have volatility, credit or other material characteristics that are different from the Fund. Indices should not be relied upon as a fully accurate measure of comparison. Benchmarks are used solely for purposes of comparison and the comparison does not mean that there will necessarily be a correlation between the returns described herein and the benchmarks. There are limitations in using financial indices for comparison purposes because, among other reasons, such indices may have different volatility, diversification, credit, and other material characteristics (such as number or type of instrument or security).

Information throughout the Presentation derived from sources other than Sixth Street have not been independently verified.
Future investments may be under materially different economic conditions, including interest rates, market trends and general business conditions, affecting different investments and using different investment strategies and these differences may have a significant effect on the results portrayed. Each of these material market or economic conditions may or may not be repeated. Further investments may be made under different economic conditions, using different strategies, and may have materially different results.

Valuation marks are as of 12/31/2019, unless otherwise noted. Since that time, as a result of the COVID-19 pandemic and actions intended to slow the pandemic, the value of certain assets has declined.

Securities are offered through Sixth Street BD, LLC, 2100 McKinney Avenue, Suite 1500, Dallas, TX 75201, an affiliate of Sixth Street and a member of FINRA. It should not be assumed that recommendations made in the future will be profitable or will equal the performance of the investments in this Presentation. Complaints concerning services provided by Sixth Street BD may be directed to SixthStreetCompliance@tpg.com.

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All statements in this Presentation (and oral statements made regarding the subjects of this presentation) other than historical facts are forward-looking statements, which rely on a number of estimates, targets and assumptions concerning future events. Such statements are also subject to a number of uncertainties and factors outside Sixth Street's control. Such factors include, but are not limited to, uncertainty regarding and changes in global economic or market conditions, including those affecting the industries of Sixth Street portfolio companies, and changes in U.S. or foreign government policies, laws, regulations and practices. Opinions expressed are current opinions as of the date of this Presentation. Should Sixth Street's estimates, targets and assumptions or these other uncertainties and factors materialize in ways that Sixth Street did not expect, actual results could differ materially from the forward-looking statements in this Presentation, including the possibility that investors may lose all, or a material portion, of the amounts invested. While Sixth Street believes the assumptions underlying these forward-looking statements are reasonable under current circumstances, investors should bear in mind that such assumptions are inherently uncertain and subjective and that past or projected performance is not necessarily indicative of future results. No representation or warranty, express or implied, is made as to the accuracy or completeness of the information contained in this Presentation, and nothing shall be relied upon as a promise or representation as to the performance of any investment. Investors are cautioned not to place undue reliance on such forward-looking statements and should rely on their own assessment of an investment.

Introduction to Sixth Street

Sixth Street Executive Summary

Overview	▪ Multi-asset class platform dedicated to pursuing special situations, middle market direct lending and credit oriented adjacent opportunities on a global basis ▪ Founded in 2009, a continuation of the strategy employed by the Sixth Street leadership team at Goldman Sachs – Alan Waxman was Chairman of the Investment Committee and co-head of Goldman Sachs Americas Special Situations Group
Sixth Street Platforms	1. **Opportunities Platform** – Focus on special situations and opportunistic credit with private equity-like base case target returns 2. **Fundamental Strategies Platform** – Focus on secondary credit opportunities in large company capital structures with stress and distress 3. **Growth Platform** – Focus on structured financing solutions for late stage growth companies underwritten as credit but with upside optionality to base case returns 4. **Specialty Lending Platform** – Focus on direct credit origination at the top of capital structure with inflation / reinvestment protection 5. **Infrastructure Platform** – Focus on distressed, highly structured and niche areas within infrastructure 6. **Agriculture Platform** – Focus on North American cash yielding assets, predominantly in permanent crops 7. **Credit Market Strategies Platform** – Focus on the broadly syndicated leveraged market both directly and through CLO equity and liabilities 8. **Adjacencies Platform** – "Between the box" investments outside the mandates of the other Sixth Street platforms, as well as participation in larger deals alongside them
Sixth Street Team	▪ ~260 dedicated professionals primarily based in North America, Europe, and Asia – Collectively, the senior investment team has over 250 years of investing experience – Senior investment team based in San Francisco, New York, Dallas, London, and Hong Kong • 9 of the 18 Partners worked together at Goldman Sachs prior to forming Sixth Street ▪ Sixth Street leverages captive sourcing / servicing platforms to source and execute deals and manage investments

Note: As of June 2020.

Sixth Street Platform

SIXTH STREET™

- **Opportunities**
  - Corporate Distressed-for-Control
  - Corporate Dislocations
  - Asset Special Situations
- **Fundamental Strategies**
  - Stressed Public Credit
  - Distressed Public Credit
  - "2-step" and Other Opportunistic Situations
- **Growth**
  - Growth Debt
  - Stapled Solutions
  - "Sixth Street Playbook" Structured Equity
- **Specialty Lending**
  - European Mid Market Direct Lending
  - US Mid Market Direct Lending
- **Infrastructure**
  - Stressed
  - Structurally Complex
  - Niche
- **Agriculture**
  - Cash Yielding Assets
  - Uncorrelated Return Characteristics
- **Adjacencies**
  - Defensive Yield
  - Uncorrelated Assets
  - Stressed Opportunities
- **Credit Market Strategies**
  - Bank Loans
  - CLOs
  - Structured Credit

TAO: Sixth Street Cross-Platform Investing Vehicle

1.As of 12/31/2019

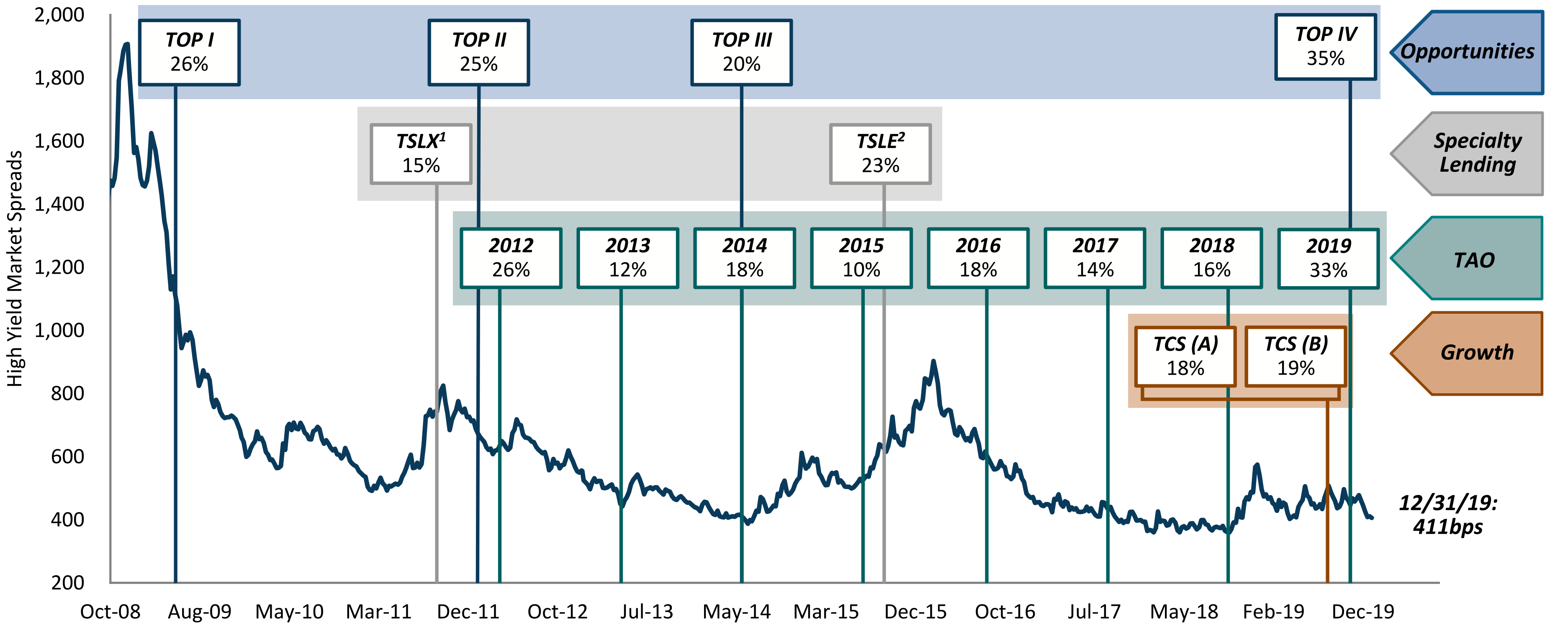
Over $34 billion[1] across 8 Sixth Street Investment Platforms

Sixth Street Alpha

Performance vs. Index

Sixth Street Gross IRR Performance

Overlaid with High Yield Spread-to-Maturity



1. TSLX Net IRR represents the annualized return rate (implied discount rate), calculated using investor cash flows, including cash received from capital called from investors, equity raised in public markets or through private placements, DRIP issuances, cash distributed to investors and the ending book net asset value or ending total market capitalization of TSLX as of 12/31/2019

2. Represents TSLE I gross IRR, levered as of 12/31/2019

Note: Performance as of 12/31/2019 unless otherwise noted. Past performance is not necessarily indicative of the future performance of such funds or future funds, and such funds' investments may be made under materially different circumstances and under a different mix of investment strategies. Performance is shown on a gross basis in order to show asset-level rates of return which are comparable to the High Yield Index and are not distorted by timing of a fund's payback of management fees and expenses. Gross returns do not reflect management fees and carried interest born by investors in a fund, which will reduce returns and in the aggregate may be substantial. Please refer to the track record for a detailed historical performance summary and related notes including net returns and information regarding the calculation of all performance figures represented herein. This has been separately provided to North Dakota on the TAO virtual data site.

Source: Credit Suisse High Yield Index II, shown as of 12/31/2019

Consistent alpha return generation across Sixth Street platform

Key Elements of Sixth Street Investment Philosophy

5 key elements of Sixth Street Investment Philosophy

Sixth Street Team

Note: As of March 2, 2020

~260 Person Team (~145 Investment Professionals, ~115 Federation)

Sixth Street Diversity of Portfolio

Project Lundy

Project Bills

Project Pine / Project Forest

Note: As of June 2020. Investments selected to represent variety of transaction structures and investment strategies and is not comprehensive.

Omnivorous, thematically driven strategy spanning Sixth Street platform

Sixth Street Illustrative Investments

Project Lundy	▪ 2012 purchase of a ~$2.5B notional portfolio of securities in distressed European companies, primarily based in the UK ▪ Largely senior secured debt, with some junior / mezzanine exposure (typically held pro rata with senior exposure)
Chobani	▪ 2014 rescue financing for the leading producer of Greek yogurt and third-largest overall yogurt producer in the U.S. ▪ $750M second lien debt facility plus warrants for up to 35% of the business
Spotify	▪ 2016 pre-IPO financing for a global leader in on-demand music streaming ▪ $1B debt financing which converted to equity upon the company's direct listing in 2018
PetSmart	▪ 2018 investment in North America's leading provider of pet products and services, with over 1,500 brick and mortar stores and an internet retailer, Chewy ▪ $310M acquisition of the publicly traded term loan and unsecured bonds, which had traded off due to investor concerns about earnings and capital structure

Note: Investments are shown for illustrative purposes only and is not intended to be, and must not be, taken as the basis for an investment decision. It should not be assumed that any investment not shown would perform similarly to the examples shown. Past performance does not guarantee future results.

TAO Overview

TAO Overview

Strategy	▪ Reincarnation of highly opportunistic “balance sheet” from the Goldman Sachs Americas Special Situations Group platform
	▪ TAO is designed to flexibly allocate across multiple sub strategies within credit and special situations and generate attractive risk adjusted returns at each point in the credit cycle
	    ▪ Today, the portfolio is weighted towards “defensive yield” investments which generate cash yield and are generally uncorrelated to financial markets
	    ▪ We believe the COVID 19 crisis will result in an increased volume of rescue financings, portfolio acquisitions, and distressed for control opportunities, and will therefore result in a shift of weightings in the TAO portfolio in the near term

Structure	▪ Differentiated fund structure
	    ▪ J-curve sensitive fee structure and modified promote rate
	    ▪ “Evergreen” structure allows for LP commitment duration management
	▪ Initial capital raising and investments beginning in 2012, with total commitments to TAO vehicles today of $9.1 billion[1]

Performance[2]	▪ $12,540 million equity invested and committed[3] ▪ Strong TAO track record with intense focus on managing risk units at this part of the late cycle – 2012 – 1.7x gross MoM, 26% gross IRR, 19% net IRR – 2013 – 1.3x gross MoM, 12% gross IRR, 7% net IRR – 2014 – 1.6x gross MoM, 18% gross IRR, 13% net IRR – 2015 – 1.3x gross MoM, 10% gross IRR, 6% net IRR – 2016 – 1.3x gross MoM, 18% gross IRR, 12% net IRR – 2017 – 1.2x gross MoM, 14% gross IRR, 9% net IRR – 2018 – 1.2x gross MoM, 16% gross IRR, 11% net IRR – 2019 – 1.1x gross MoM, 33% gross IRR, 25% net IRR

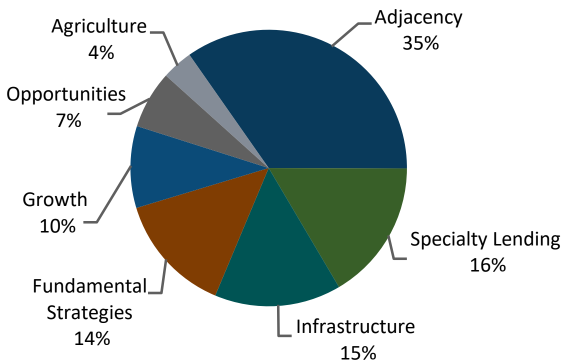
Note: Please refer to the track record for a detailed historical performance summary and related notes including net returns and information regarding the calculation of all performance figures represented herein. This has been separately provided to North Dakota on the TAO virtual data site. Past performance is not indicative of future results.

1. Total TAO commitments exclude (i) commitments made by Sixth Street-affiliated and “friends and family” investors as well as (ii) commitments for which a termination election has been submitted. Excludes approximately $3.1B in LP commitments committed to but not yet activated in a vehicle in the TAO business (“TAO Contingent”).
2. As of 12/31/2019. Please refer to the track record for a detailed historical performance summary and related notes including net returns and information regarding the calculation of all performance figures represented herein. This has been separately provided to North Dakota on the TAO virtual data site.
3. Includes TAO 1.0 and TAO Global as of 3/27/2020. Includes committed capital that is not yet funded.

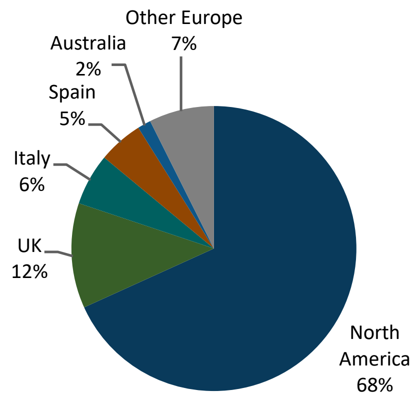
TAO Current Portfolio

Current Portfolio Characteristics

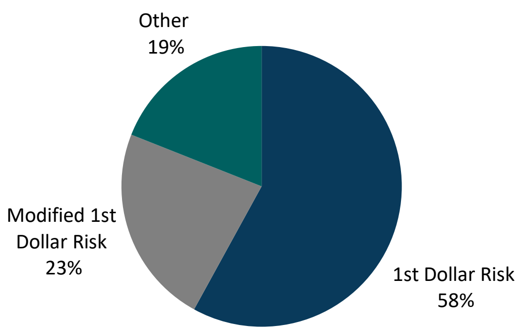
Hunting Ground Breakdown[1]



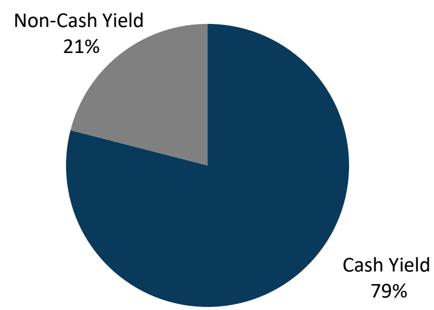
Geographic Mix[3]



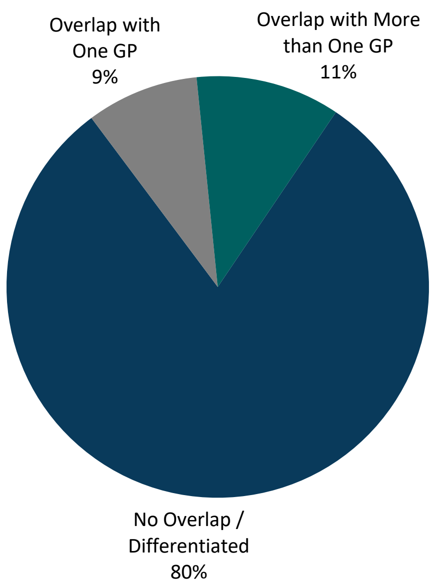
Committed Investments by Capital Structure[2]



Cash Yield



Differentiated Portfolio

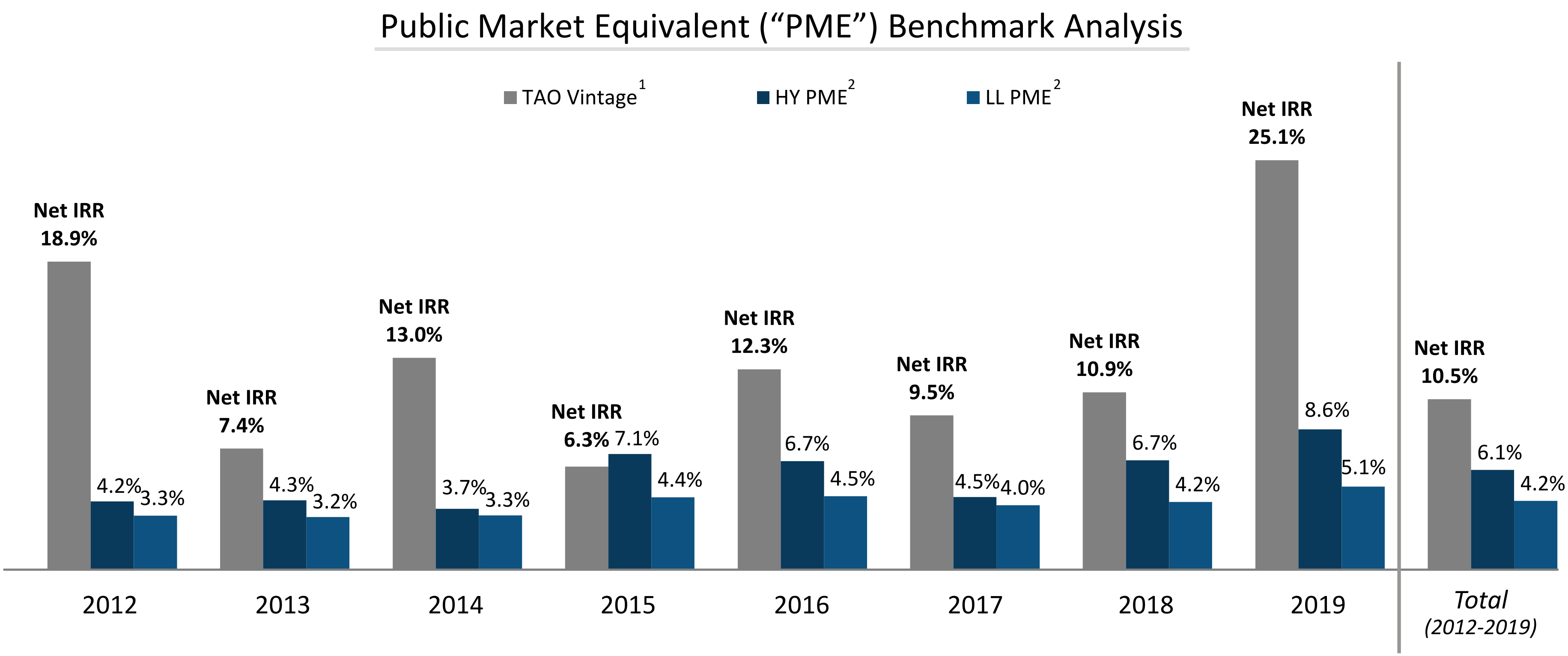


1. Hunting grounds constitute key strategies within their respective funds.
2. First dollar risk represents top of the capital structure. Modified first dollar includes investments with attachment points at less than 25% LTV. Other includes unsecured debt, mezzanine, structured finance and certain equity positions.
3. The geographic location(s) of investments for purposes of this presentation are determined at the General Partner's discretion based on a variety of factors including, but not limited to, (a) the location(s) in which the borrower/issuer is domiciled, headquartered, conducts significant operations and/or derives significant revenues, and/or (b) the location(s) of key assets of the borrower/issuer (including assets providing security in respect of the relevant investment). Regarding Sixth Street cross-over transactions (i.e., those investment consummated by two or more Sixth Street Funds), the geographic designation(s) of particular investments may vary across discrete Funds (e.g., if an investment has as strong nexus to both the UK and the U.S., it may be designated as a U.S. investment by a Fund that focuses on the U.S., whereas a Fund that focuses on Europe may designate it as a European investment). With regard to the pie chart above, Europe was selected as the sole geographic designation for certain investments that had nexuses to Europe and one or more other regions.

Note: Based on Unrealized Value for TAO Global as of 12/31/2019.

TAO Performance vs. Certain Public Benchmarks

As of December 31, 2019



Source: Bloomberg Finance, as of 12/31/2019

Note: Past performance does not guarantee future results, which may vary. Unless otherwise noted, all performance numbers are as of 12/31/2019 and are subject to change.

1. For TAO annual vintages, Net IRR calculations are hypothetical. These calculations are not actual returns to limited partners and do not reflect the actual returns of any single investor. Returns are based on a set of fee and expense assumptions applicable to a TAO Limited Partner with a commitment of less than $200 million and who elected to a 5.5-year minimum commitment period. These hypothetical performance results are being presented for illustrative purposes only and actual results may vary significantly. Please refer to the track record for a detailed historical performance summary and related notes including net returns and information regarding the calculation of all performance figures represented herein. This has been separately provided to North Dakota on the TAO virtual data site.
   - The management fee assumptions include annual fee rates of (i) 1.35% on equity invested and (ii) 0.65% on unused capital commitments.
   - The expense impact assumption represents the actual gross to net TAO expense impact during the quarter ended 12/31/2019 which is 1.04%. To note, this figure can fluctuate higher or lower over time.
   - Additionally, the calculation assumes a carried interest rate of 17.5%
2. The J.P. Morgan Domestic High Yield Index ("HY PME") and J.P. Morgan U.S. Leveraged Loan Index ("LL PME") benchmarks shown above are presented as a Public Market Equivalent ("PME") analysis based on the actual timing of investor cash flows in the TAO vehicles. Index performance has been adjusted to include 75bps impact from management fees, as these indices cannot be accessed directly. Please refer to the disclaimers at the beginning of this presentation for additional disclosure regarding the use of benchmark indices.

Strong historical outperformance vs. comparable public benchmarks

Agenda Item V.C.

INFORMATIONAL MEMO

TO: State Investment Board

FROM: Dave Hunter, Darren Schulz and Eric Chin

DATE: June 26, 2020

SUBJECT: Sixth Street Partners TAO 5.0, LP Commitment Recommendation

Summary:

As the economic fallout from the COVID-19 pandemic continues to evolve, the need for capital structure solutions by high quality companies and management teams at a time when capital is more scarce compared to pre-crisis levels will create investment opportunities during this difficult period. In anticipation of an inevitable market dislocation within credit markets, Staff identified Sixth Street Partners as an opportunistic credit manager with a broad credit platform with scale, an attractive track record, and a focus on downside protection that enables them to be well-positioned to take advantage of attractive investment opportunities within credit as the current landscape evolves. With the reopening of the main TAO evergreen vehicle for new capital given the changing market dynamics, Staff is recommending commitments of $150 million and $100 million to the TAO strategy for the Pension and Legacy Trusts, respectively. Given the strategy's equity-like credit profile, Staff is recommending that the Fund serve as a conservative position within the Pension Trust's Private Equity allocation and as a new opportunistic credit sector allocation within the Legacy Fund's Public Equity allocation.

Firm Background:

Sixth Street Partners ("SSP", formerly "TPG SSP") is a global credit and credit-related investment platform with over $35 billion in assets currently under management. The firm was founded in 2009 by Managing Partner and Chief Investment Officer, Alan Waxman, and was established as the private debt arm of TPG Capital ("TPG") upon the hiring of Waxman from Goldman Sach's Special Situations Group ("SSG"), where he served as a Partner and Co-Head of the Americas SSG and worked with eight of the co-founder MDs. Headquartered in San Francisco, the firm is managed by 18 Partner Managing Directors and employs more than 250 professionals across nine global offices. In January 2020, in light of a mutual review of each firm's strategic plans, Sixth Street and TPG together decided to become completely independent as part of a multi-year ownership and services sharing transition. Staff, Callan and Mercer all agree that the move to become independent poses no material risk to SSP's market position in the private debt space because SSP's investment strategy operated autonomously from TPG since the beginning of the firm's founding. It was also part of Waxman's vision to further build out debt capabilities previously established at Goldman Sachs SSG.

TAO Strategy Overview

TAO is Sixth Street Partners' flagship vehicle with a go-anywhere mandate to invest across all Sixth Street strategies. It represents the fullest manifestation of the firm's entire credit platform, in theme-driven liquid and less liquid investments across a broad array of credit-oriented opportunities. TAO seeks to generate private equity-like returns with significantly less risk and higher quality by virtue of being higher in the capital structure in cash generative assets. The strategy invests in opportunities sourced across the firm that feature attractive risk/reward profiles but do not fit the investment mandates of SSP's Special Situations or Direct Lending platforms. These opportunities carry the moniker "Adjacent Opportunities" and can be an outgrowth of certain conditions: non-control positions with attractive risk-reward profiles; higher return, low money multiples due to short duration situations; and longer duration opportunities with low macroeconomic correlations. The other key components are Special Situations Crossover Opportunities, Direct Lending Crossover Opportunities, and Fundamental Strategies, which shall be described below.

The strategy had been closed to new capital given the adoption of a highly defensive late cycle posture in 2016 due to a breakdown in credit market discipline being observed. Today, however, with the shockwaves of economic fallout from COVID-19 flow through credit markets, Sixth Street believes now is the time to reopen TAO in preparation for a rich opportunity set of credit investments. Staff has been diligencing the firm over the past four years and has been on a waiting list of LPs for available capacity.

Key Strategy Components

TAO's portfolio is built across four core components: Adjacent Opportunities, Special Situations Crossover Opportunities, Direct Lending Crossover Opportunities, and Fundamental Strategies.

- **Adjacent Opportunities** – Adjacent Opportunities represent "Between the Box" transactions that do not fit the mandates of Special Situations or Direct Lending and fall into three categories: Defensive Yield, Stressed Opportunities, and Distressed Control.

    - **Defensive Yield** transactions are non-distressed situations where the outcome, as underwritten in the SSP base case, has minimal correlation to the macroeconomic environment. These transactions often generate current yield, have a relatively longer duration and are generally sourced through proprietary relationships.

    - **Stressed Opportunities** represent stressed asset and corporate situations where SSP believes it has a differentiated angle to find value in industries or assets that are not experiencing full distress.

    - **Distressed Non-Control** transactions consist of opportunistic purchases of distressed non-control investments at a deep discount to fundamental value, where there is a low probability of gaining a control position.

- **Special Situations Crossover Opportunities** – TAO invests with the TOP Funds in certain special situations Crossover Opportunities. The TOP Funds focus on control situations, or where there is a path to control to influence the outcome and where SSP can add value by using its operational capabilities. The TOP Funds focus on three hunting grounds: Corporate Distressed-For-Control, Asset Special Situations and Corporate Dislocations. TAO will typically participate in special situations Crossover Opportunities after the TOP Funds have satisfied their demand.

    - **Corporate Distressed-For-Control**. The TOP Funds seek to invest globally in opportunities throughout the capital structure at a deep discount to intrinsic value where SSP believes the most attractive risk-adjusted returns exist. This will often mean that the focus of the TOP Funds' distressed-for-control investments will be in instruments with a high probability of converting into equity following a restructuring. These types of investments can be entered into via single name purchases or larger portfolio transactions. In addition to purchasing investments at discounts to intrinsic value, the TOP Funds seek situations where SSP believes it can enhance value creation by leading the restructuring process and improving operations post-restructuring. SSP believes its differentiated capabilities (sector expertise, local market presence and depth, and ability to create value through active ownership) enhance its credibility to companies and their various stakeholders and often allows it to take the driver's seat in and following a restructuring process.

  - **Asset Special Situations**. Asset Special Situations involve the acquisition of non- or subperforming loan portfolios or the acquisition and the development of asset management, servicing and originations businesses, predominantly in the US and Europe. Historically, SSP has purchased non-performing loan portfolios directly from commercial banks or financial institutions at discounts to current market values of the underlying assets. SSP believes that many of these financial institutions have not dedicated adequate staffing to service delinquent and non-performing loans, particularly with respect to smaller balance assets. The key barriers to entry to being a repeat, credible purchaser in this market are: (i) captive NPL servicing capabilities, (ii) direct sourcing channels into commercial banks, and (iii) tight control of risk management practices from underwriting to value enhancement.

  - **Corporate Dislocations**. SSP, through the TOP Funds, seeks to be a solutions provider to companies undergoing some type of distress or dislocation or confronted with an idiosyncratic issue. Dislocations may include, but are not limited to, excessive balance sheet leverage, lack of access to capital, company-specific operational problems, poor management, and structural changes in an industry caused by innovation, regulatory change, or other macroeconomic factors. SSP seeks to identify these areas of acute dislocation globally and across core sectors that will enable it to pursue investments from distressed sellers or be a provider of creative, structured solutions. SSP believes that its ability to identify and execute on these off-market Corporate Dislocations will enable it to add positively skewed, less economically correlated investments to the TOP portfolio. By its nature, this opportunity set is difficult to define or predict, and will change over time. However, key characteristics of these dislocations include (i) structural changes in a sector that create a large unmet economic need, (ii) flight of traditional capital providers (including banks and hedge funds) creating a supply/demand imbalance due to illiquidity, market shocks, negative perception of sectors, or poor regulatory capital treatment of the asset class, and (iii) complexity in accessing or analyzing the asset class.

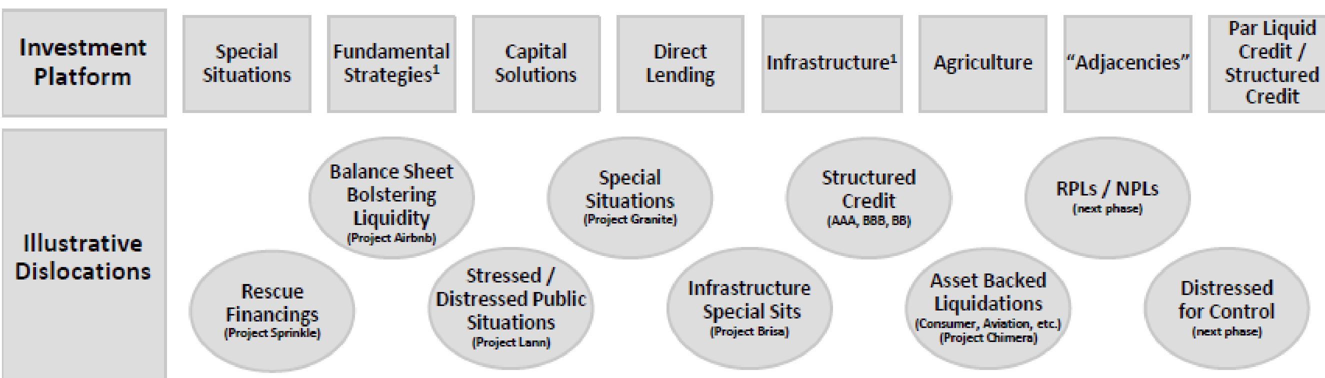
- **Direct Lending Platform Crossover Opportunities** – TAO invests with the direct lending platform in certain Crossover Opportunities. These include investments with TSLX and with TSLE. TSLX is a publicly listed (NYSE: TSLX) business development company which began investing in 2011. The primary focus of TSLX is U.S.-based middle market direct lending transactions. TSLE began investing in 2015 and is focused on European middle market direct lending transactions. TAO typically participates in direct lending Crossover Opportunities after TSLX and TSLE have satisfied their demand.

  Both TSLX and TSLE focus primarily on top of the capital structure, secured, floating-rate investments. TSSP expects TSLX and TSLE Crossover Opportunities to reflect a similar mix. Includes loans to private companies, privately placed debt of public companies, or loans backed by real assets (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.

- **Fundamental Strategies** – SSP Fundamental Strategies invests in thematic stressed and distressed opportunities in the large corporate liquid markets. The focus of this strategy are Stressed and Distressed Public Credit and Opportunistic Public Situations, the latter of which are a way to to add non-correlated assets to the portfolio within a broader public security opportunity. The strategy targets investing in cyclical and secular changes as well as company specific events. In the underwriting process, the Sixth Street team is focused on fundamental analysis; leveraging industry expertise across the platform; and, creating deal structures that provide strong downside protection.

Key SSP Differentiators

Sixth Street's business model operates across eight investment platforms creating a differentiated capability compared to other credit investors. One sourcing team across all platforms allows all teams to benefit from information yielded through sourcing efforts.



- **Thematic Investment:** Sixth Street opportunistically employs investment themes to channel sourcing efforts. The firm is adamant that the identification of observable or projected macro-level trends leads to alpha generation above and beyond company-level credit fundamentals. Themes are actionable but transitory, typically flowing from dislocations caused by varying origins, such as the following: exogenous shocks resulting in asset price corrections, industry changes, lax credit environments, regulatory changes, forced selling by unnatural holders of assets, to name but a few.

- **"One Team" Culture**: In order to migrate across themes, asset classes, and multiple strategies requires the flexibility to shift resources to the best ideas at any given time. SSP promotes a culture of "one team", which requires collaboration and respect so that the most attractive opportunities carry the day. The "One Team" mentality is promoted through SSP's ten core principles outlined below:

- **Principled Winning:** Deep desire to win 'the right way'
  - Protect our reputation
- **Ownership:** Ownership mentality
  - Everyone has a 'direct impact'
- **Meritocracy:** Debate-driven culture
  - Best idea wins
  - Everyone has a voice
  - Everyone is expected to be a leader and a follower
- **Creative Excellence:** White canvas mentality. Just MSH.
- **Appreciativeness:** Thank-you culture
- **Player / Coach:** 'Sleeves up'
  - Flat team
  - Scrappy, hungry
  - No managers
- **Teamwork:** Always have each others' backs… let's go into battle together
  - Everyone represents everyone
- **Humbleness:** Humble – no egos
- **Work / Life Balance:**
  - The #3, 2, 1 Rule
- Intense focus 'on the court' coupled with life balance 'off the court'
- **Directness:** Genuine direct communication
  - Always operate with candor

- **Sourcing**: SSP sourcing is focused on differentiated, high-quality, off-market, tailored deal flow through direct sourcing efforts and an external network of strategic partners. They target partners that can identify off-market deal flow through their unique relationships and market presence. The result is that a large majority of deals have been sourced away from Wall Street and have no overlap with other GPs.

- **Downside Protection**: Risk management permeates every aspect of the firm's investment process. For starters, SSP is biased towards investing at the top of the capital structure. Additionally, the team often negotiates or purchases complex structured investments that typically have embedded downside protection that can take many forms. Examples include collateral in unrelated assets, puts to creditworthy entities, off-market downside structure enhancements, and significant overcollateralization.

- **Cash Generation**: SSP targets cash generative assets as a way to de-risk the asset over time though current cash flows. This can take the form of interest, amortization, royalty and milestone payments. 80% of TAO asset are cash yielding.

- **Capital Discipline**: SSP flexes the size of its capital raises throughout the business cycle based on an integrated evaluation of available opportunities across asset classes and strategies, leading to a broader perspective on capital allocation. One of the firm's investing principles is "never to feel the pressure to invest." Accordingly, the Sixth Street targets fund sized with discipline and modesty.

Predecessor Funds Peer Group Performance

While TAO's broad mandate is without parallels within the liquid and less liquid stressed and distressed space, a broad peer group of comparables was created using Pitchbook data to benchmark predecessor TAO and TOP Funds. Without exception, SSP TAO and TOP delivered 1st quartile returns and equity multiples across several vintages.

Conclusion

Staff identified Sixth Street Partners as well positioned to capitalize on credit market dislocations when across a wide array of liquid and less liquid credit strategies. With the reopening of the main TAO evergreen vehicle for new capital given the changing market dynamics, Staff is recommending commitments of $150 million and $100 million to the TAO strategy for the Pension and Legacy Trusts, respectively. Given the strategy's equity-like credit profile, Staff is recommending that the Fund serve as a conservative position within the Pension Trust's Private Equity allocation and as a new opportunistic credit sector allocation within the Legacy Fund's Public Equity allocation.

POLICY TITLE: ***MONITORING EXECUTIVE PERFORMANCE***

Monitoring executive performance is synonymous with monitoring organizational performance against board policies on *Ends* and on *Executive Limitations*. Any evaluation of the executive director's performance, formal or informal, may be derived only from these monitoring data.

1. The purpose of monitoring is simply to determine the degree to which board policies are being fulfilled. Information which does not do this will not be considered to be monitoring. Only a minimum amount of board time as necessary will be devoted toward monitoring so that meetings can best be used to create the future rather than to review the past.

2. A given policy may be monitored in one or more of three ways:

   A. Internal report: Disclosure of compliance information to the board from the executive director.

   B. External report: Discovery of compliance information by a disinterested, external auditor, inspector or judge who is selected by and reports directly to the board. Such reports must assess executive performance only against policies of the board, not those of the external party unless the board has previously indicated that party's opinion to be the standard.

   C. Direct board inspection: Discovery of compliance information by a board member, a committee, or the board as a whole. This is a board inspection of documents, activities, or circumstances directed by the board which allows a "prudent person" test of policy compliance.

3. The board will monitor each *Ends* and *Executive Limitations* policy according to the following frequency and method:

   Quarterly internal reports for policies:

   A-2 Staff Relations
   A-4 Budgeting
   A-5 Financial Condition
   D-3 Investment Services
   D-4 Investment Performance

   Annual external reports for policies:

   A-2 Staff Relations
   A-4 Budgeting
   A-7 Asset Protection
   D-3 Investment Services
   D-4 Investment Performance

Annual internal reports for policies:

A-1 General Executive Constraint
A-3 Relating to Public and Government
A-8 Compensation and Benefits
A-9 Conflict of Interest

4. The Executive Director will submit required monitoring reports at regular meetings of the board. The board will act on those reports by voting on one of the following motions:

   A. A motion to accept the report.

   B. A motion to conditionally accept the report, with a statement of the revisions or additional information that is necessary for the report to be accepted without condition.

   The internal audit staff will be responsible for preparing an annual summary of the board's action concerning required reports submitted by the Executive Director, and the summary will be made available as a part of the formal evaluation of the Executive Director.

5. Each March the board will conduct a formal evaluation of the executive director/investment officer. This evaluation will be based on accomplishments of *Ends* and *Compliance with Executive Limitations.*

6. At the February board meeting, the chairperson will appoint a three-member committee to review the board's evaluation and make a recommendation to the full board concerning salary for the executive director/investment officer.

   In making its recommendation, the committee will consider job performance as evidenced by the annual summary of the periodic monitoring reports, the Retirement and Investment Office budget status, the annual Public Pension System's Compensation Survey, the annual National Association of State Investment Officer's survey, the legislature's approved salary increases for state employees, the North Dakota market compensation for comparable positions, and other data or information considered relevant by the committee.

   The committee's recommendation will be placed on the May board meeting agenda for possible action by the board. Final action by the board will be accomplished no later than the June board meeting.

Policy Implemented: June 23, 1995
Amended: November 21, 1997; June 25, 1999; November 19, 1999; January 28, 2000; February 25, 2000; February 23, 2001; September 26, 2014.

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Common Obstacles to Effective Incentive Comp

By Gregory V. Milano

Gregory V. Milano is the founder and chief executive officer of Fortuna Advisors LLC, a New York City–based corporate strategy and consulting firm. The following article is adapted from his recent book Curing Corporate Short-Termism: Future Growth vs. Current Earnings.

In principle, the test of a good executive compensation program is the consistency with which pay rises when good things happen and declines when bad things happen. Seems straightforward, right? The executive compensation field is replete with thousands of experts, pundits, and advisers that are at the beck and call of compensation committees. Yet, somehow, despite all of this, and undoubtedly the best of intentions, executive compensation is a mess—full of highly questionable compensation strategies, structures, and execution. The following are common obstacles to effective incentive compensation that all board members should be aware of. [1]

Too Many (Incomplete) Measures

Someone once explained to me that they had identified over 400 key business performance indicators. This, of course, calls into question how "key" each of these indicators is. If, say, 223 measures rise and 177 decline, what does this tell you? The point is that when there are too many metrics, the picture becomes muddled.

We need a hierarchy that allows us to balance various inputs to optimize a decisive measure. When it comes to performance measurement, corporate finance executives tend to layer measures on top of measures to ensure that nothing escapes measurement. They appear to do this because none of the measures are really that good, or complete. Don't do it—the use of too many measures will obscure and distort the signals needed to make decisions, and many suboptimal decisions will end up increasing pay arbitrarily.

This is why proxy advisors are increasingly looking to comprehensive measures that can underpin their compensation design, investment frameworks, and overall approach to corporate governance. The well-known proxy advisory firm Institutional Shareholder Services signaled its support for these types of economic profit measures when it acquired EVA Dimensions in 2018. The benefit of economic profit-type measures is that they combine growth, margins, and investment in one measure. So up is good and down is bad. [2]

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ALSO IN THIS ISSUE

CALENDAR OF EVENTS

JUNE 18–20

2020 Virtual Govern for Impact Conference

The Worthington Renaissance Fort Worth Hotel, 200 Main St., Fort Worth, TX 76102, USA

The annual conference for Govern for Impact—formerly known as the International Policy Governance Association—brings together boards, CEOs, and administrators using the Policy Governance System, as well as young governance professionals and others exploring good governance.

The theme of this year's conference — which will be held online as a "virtual" conference due to COVID-19 — is "Accountability Powered by Purpose."

Sessions will be organized around three tracks: "Policy Governance Fundamentals, Practices and Principles," which will look at topics such as "Governing Risk Under Policy Governance in a High Risk World" and "Duties of Directors: Servant Leaders Meeting Legal and Fiduciary Obligations in Policy Governance"; "Innovation in Advanced Policy Governance Practices," which will include sessions such as "Focus on Purpose: Applying the Power of Ends" and "Valuing the Impact You Are Achieving: A Critical Board Job"; and "Governance Excellence," which will explore topics such as "Applying Policy Governance in Different

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Obstacles

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Sandbagged Budgets

From an internal corporate perspective, the problem of "sandbagging" is, hands down, the worst managerial behavior problem. Each year, most businesses submit a multiyear plan in which performance during the first year is projected to go down, but in every year thereafter is strongly up. The appeal of this well-known "hockey-stick" forecast for managers is that it provides an easy budget to beat in the annual incentive plan and a strong outlook beyond that, which helps them gain top management's approval for their capital requests.

To achieve better managerial behavior, it's essential to decouple plans and budgets from performance targets. Instead, performance targets can be set equal to prior-year performance to instill a mentality of continuous improvement, though this approach requires a very complete measure, as described in my book *Curing Corporate Short-Termism.*

Weak Upside

The often relentless focus on how much CEOs are paid diverts public attention from the real problem—how CEOs are paid. In most publicly held companies, the compensation of top executives is poorly linked to value creation—instead, these leaders are often paid more like bureaucrats. Is it any wonder then that so many CEOs act like bureaucrats rather than long-term committed owners?

Just as we don't want to overpay for poor performance, we don't want to underpay for strong value creation either. Consider, for example, Transocean, the leading offshore driller, which delivered 480% total shareholder return (TSR) over the five years from the end of 2002 through the end of 2007, which was almost six times the S&P 500. In three of those five years, its annual incentive plan for executives paid nothing, and in the other two years it paid an average of below-target annual incentives. Clearly, management was underpaid, which presents challenges in recruiting and retaining executive talent.

Avoid jacking up performance targets when times are good, lest we take away the incentive to influence and create good times.

The Relative TSR Conundrum

Over 50% of S&P 500 companies use relative total shareholder return to determine some part of executive compensation. The logic goes that relative TSR rewards success while limiting the risk that large payouts might accumulate and attract media attention simply because of an upward-drifting stock market or industry. This sounds great, but to those of us who've studied it, relative TSR just weakens the alignment between shareholders and executives while amplifying compensation volatility and uncertainty.

Companies typically calculate the percentile ranking of a company's TSR, which includes dividends and capital gains, over a period against the constituents of a stock index, the members of an industry, or a customized set of peers. The grant of performance share units (PSUs) is scaled up for high-percentile rankings and vice versa, with a common range of 0–200%. The intent is to deliver more shares to an executive team that leads a tough industry, and fewer to an executive group that trails in a high-performing industry.

We published capital market research on relative TSR in 2016 in *CFO* and 2017 in *Workspan*. In this research, we found large gaps between the average rewards to management and the cumulative returns for shareholders. Consider the semiconductor company NVIDIA, with 12-year cumulative TSR of 1,712%.[3] This was 98th percentile and should have generated a fantastic reward. But due to the pattern of the cycle-by-cycle relative TSR, NVIDIA's average relative TSR ranking was only 44th percentile, and their executives would have vested in less than 100% of their PSUs.

Across the whole sample, management teams would have either overvested or undervested, on average, by 45% of their total original number of PSUs. This is such a large average deviation from the intended outcome that it completely dismisses any notion that relative TSR is useful for aligning management with owners over time.

Also, within each relative TSR cycle, earned awards can vary considerably, depending on which day the cycle ends. For example, at the start of 2017, Celgene would have vested in 148% of its PSUs. This vesting dropped to 122% for the cycle ending at the conclusion of one month. Then over the following weeks, the vesting percentage would have increased until it reached the cap of 200% by mid-April, where it stayed for two months. But as the middle of the year approached, a substantial deterioration occurred in relative TSR, and for December, its relative TSR was bottom-quartile, so no PSU vesting would have been triggered.[4]

With only a few months of movement in the vesting date, the value of this allegedly long-term incentive would have reached either the cap or the floor, so either the managers or the owners are likely to feel shortchanged. Although, in principle, relative TSR appears attractive, in reality it does not align managers and owners over long periods; and, within a given cycle, the executives will vest in vastly different numbers of shares, depending on the day the three-year cycle ends. Many executives already discount the value of stock awards. Using relative TSR only exacerbates this, which is not at all helpful for attracting or retaining talent.

Problems With Base Pay

When it comes to senior executive salaries, that's one of those peculiar situations in life when less is more. If we are trying to motivate owner-like behavior, why would we want the big, dead anchor of a high fixed salary in the mix? The reason many executives are given high salaries is not that they need some minimum income, at least not CEOs. It's that everything else in compensation is granted as a percentage or multiple of salary. So, let's stop that right away and separate the two.

For now, let's consider cash compensation only. Since salary requires solely that the executive keep the job, it is of lower risk than other variable elements of compensation. Annual incentives, for example, vary year to year and therefore carry more risk. Sure, they may be higher, but they could be lower, too.

In finance, we discount cash flows for risk, and we can do the same with compensation. If a dollar of salary is worth one dollar, then a dollar of target annual incentive plan payment, which can end up being worth more or less, must be worth less than one dollar. This follows the basic principle that stable cash flows are worth more than variable cash flows, so for variable cash flows to have the same value, they must be targeted at a higher level.

One of the great things consulting firms do well regarding executive compensation is to gather, sort, and apply data. Let's say, in a given industry, the median CEO salary is $500,000 and the median target bonus is 100% of this, or another $500,000. Let's further assume that the bonus can rise to 200% or drop to zero, based on performance. So, in a great year the bonus will be two times $500,000, or $1,000,000, and total cash compensation will be $1,500,000. Sounds great, but of course the pendulum can swing both ways and the bonus can be zero.

If instead, we offer $400,000 in base pay—a reduction of $100,000—we would need to increase the target incentive compensation by more than $100,000 to compensate for risk. But we may find this greater exposure better aligns managers with shareholders. It is always worth considering alternative combinations of fixed and variable pay rather than assuming everything has to be set as a percentage of salary.

Recommendations

Having spent three decades designing incentive compensation for many different types of companies across the globe, I believe there are a few key learnings to share. First, boards should carefully consider the performance measure (or measures) that is most likely to encourage the desired behaviors in managers. This right metric for one company may be a poor fit for another, but there are some that will be reliable across nearly all industries. At Fortuna, we recommend Residual Cash Earnings, or RCE, which is a cash-based version of economic profit that was developed to improve on Economic Value Added (EVA). Our research has also demonstrated that RCE relates better to total shareholder return (as a proxy for value creation) than EVA in a comprehensive study of all major industries.[5]

Second, companies should decouple budgets and plans from incentive compensation by setting targets equal to prior-year performance, as indicated by a complete measure like RCE. (This is a process detailed in full in *Curing Corporate Short-Termism*.)[6] To demonstrate how well this "RCE versus last year" incentive paradigm works, we recently studied a client and about 15 peers. Using 120 data points of the group of companies over a span of years, we sorted the companies based on bonus multiples actually paid, and compared this to a simulation of incentives paid based on RCE versus the prior year.

In both cases, managers earning above-target bonuses delivered higher median TSR than those earning below-target bonuses. But this TSR advantage was more than twice as high when we sorted companies based on RCE bonus multiples than when we used the actual bonus multiples reported. So, in effect, RCE-based incentives showed a far stronger relationship to value creation than the various methodologies being used across different companies. This demonstrates that the combination of a complete measure like RCE and measurement against prior-year performance can provide a far better alignment of management's and shareholders' interests than the various measures and target-setting negotiations that are commonly used.

A final recommendation is that boards should be willing to break from the trend when it comes to incentive compensation. In my decades implementing and studying incentive designs, I have observed a strong pressure for compensation committees to conform to often dysfunctional industry norms. Many boards feel compelled to fall back on these standards, as it's the safe choice. After all, board members don't stand to benefit from the potential upside of compensation decisions to anywhere near the degree they are exposed to the downside in the form of criticism, potential job loss, and reputational risk—if the design does not work out as planned. But, as we have seen, this has led many companies to embrace and maintain questionable compensation practices. Boards that seek to align managers' behavior with the interest of long-term owners, and fuel a mindset of continuous improvement, should consider innovative approaches to compensation design. ❑

Gregory V. Milano is the author of Curing Corporate Short-Termism: Future Growth vs. Current Earnings. *He is an expert in incentive compensation design, with nearly 30 years' experience in management consulting. He has specialized in promoting an "ownership culture" in large corporations through innovative performance measurement and managerial incentives, and is currently the founder and chief executive officer of Fortuna Advisors LLC. Before founding Fortuna Advisors, he was a partner at Stern Stewart and a managing director at Credit Suisse. He has appeared on Bloomberg TV, CNBC, and Sky Business News, and his research has been featured in* Fortune, *the* Wall Street Journal, Financial Times, *and the* Journal of Applied Corporate Finance, *among other publications.*

REFERENCES

1. Certain parts of this article are adapted from *Curing Corporate Short-Termism*, by Gregory V. Milano.

2. Karame, M. (2018, Dec. 4). Prepare for this pay-for-performance measure.

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Alternatives to In-Person Directors' Meetings

Edmund Polubinski, Jr.

Edmund Polubinski, Jr. is a corporate lawyer at Lyne, Woodworth & Evarts LLP, a Boston-based law firm. In this article, he notes the rise in virtual directors' meetings due to the COVID-19 crisis and discusses how virtual meetings and several other alternatives to in-person meetings can be a useful tool for many boards.

The COVID-19 crisis has significantly increased the use of virtual directors' meetings. Even before the pandemic, however, boards frequently utilized virtual meetings and several other alternatives to in-person meetings. These alternatives were used for convenience or because of difficulties in convening a board.

Under all states' corporation laws, management of a corporation is vested in the board of directors. Under these laws, the authority of officers to act, without director authorization, is limited. Thus, for officers to bind the corporation to significant agreements and courses of action, the officers' acts must be authorized or approved by the directors.

Directors generally act by majority vote if a quorum is present at a meeting, and an effective meeting requires a quorum. Often, in an emergency, a quorum of in-person directors may not be readily convened. Likewise, for non-routine authorizations—the entry into a significant agreement or major lease in a smaller business—it is difficult to interest the remote outside director to travel to attend a directors' meeting.

The following discusses alternatives to the in-person meeting and some of the issues connected with those alternatives.

1. **Meetings by telecommunications.** For the last 10 years, a director who lives 1,500 miles away from the corporate office participated in monthly directors' meetings by Skype on a board on which I serve. In March 2020, because of the COVID-19 pandemic, we all met virtually. These days, more and more meetings are being held on Zoom, Skype, Google Hangouts, or even by conference and speaker telephone.

   Most states' corporate statutes permit participation in meetings either virtually or by telephone, if all directors can simultaneously hear one another. Note that "simultaneously hear" is critical, and I would add "simultaneously speak" (though, I would hope, not at the same time). Most state corporate statutes provide that "[a] director participating in a meeting [by telecommunications] is considered to be present in person, at the meeting ."1 In the past, this simultaneous presence was accomplished by directors huddled over speakerphones, but today it is by virtual means, using personal or laptop computers.

   A recurring issue with remote meetings is whether nonparticipants in the virtual meeting have received proper notice of a non-regularly scheduled meeting. Unless a director is present at a meeting (and does not object to the lack of notice), state corporate laws require that a director be given notice of the time and place of such a meeting. In the alternative, a director may, in writing, waive notice (as described in the following paragraph). Although most videoconferencing apps provide for some sort of notice, that notice sometimes falls short of requirements of state law or the corporation's bylaws. The person convening the meeting should, therefore, make sure the notice complies with the date, time, and agenda, if any, requirements of state law and the corporation's bylaws. Many states' laws and corporate bylaws provide for oral notice of directors' meetings, but because of proof issues, I use this only as a last resort. State law and the bylaws should be looked at to determine whether they permit electronic notice. If electronic notice is not permitted, or if the company is unsure, waivers of notice (see below) should be sent by mail to the nonparticipating directors.

   If notice is not given or is defective, most corporate laws permit a nonattending director to sign a waiver of notice before or after the meeting. The waiver is signed and dated by the nonparticipating director and contains a statement that the director "waives notice of the date, time, and purposes of the meeting." This waiver can be sent to the nonparticipating director and returned by the director by mail to the corporation. A waiver of notice is equivalent to a notice for purposes of the validity of the meeting.
2. **Ratification.** If the notice of the meeting was defective or a meeting itself was defective (i.e., lack of quorum) and for some reason (death, departure, hostility, etc.) the director cannot sign a waiver, the directors can ratify the unauthorized (by the directors) corporate action taken by the officers. This is simply a proper directors' vote taken after the unauthorized action "ratifying and confirming" the unauthorized action. This generally has the effect of a proper authorization.
3. **Consents.** Rather than conducting a meeting, directors may take action or authorize officers to act by consenting to a writing that sets forth the action or authorization. Most states' corpo-

rate statutes and most corporate bylaws require that the consent be unanimous. The consent may consist of a single writing signed by all directors or several identical writings each signed by a separate director or directors (as long as, collectively, all directors sign the writings). The rationale for unanimity is that it precludes the stifling of any dissent among the directors. Were it otherwise, a dissenting director could merely be excluded from the signing of the consent and the action approved without the board having received his or her input. With a requirement of unanimity, a director who opposes an action may refrain from signing the consent and force a meeting to discuss the action. The actions and authorizations given in a written consent have the same effect as if the action or authorizations were adopted at a directors' meeting.

4. **Executive or other committees.** A close corporation will frequently have a group of management directors working at the corporation's headquarters and an outside director or two. Sometimes the outside director or directors are geographically distant or are otherwise difficult to contact. Many public companies have large boards composed of directors geographically apart. If any of the foregoing is the case, the board of directors can name a committee composed of one or more directors to undertake routine business between directors' meetings. Most corporate statutes permit the directors to appoint committees. Many states require that there be at least two members, others, including Delaware and Massachusetts, permit committees having one or more members. While committees have specialized functions, such as audit and compensation committees, executive committees have traditionally provided guidance and routine adoptions and authorizations between regular board meetings.

   This executive committee can be given authority to take almost any action that the directors are required or permitted to take. State corporate law generally limits a committee's authority, and the limitations vary from state to state. For example, the current Massachusetts law prohibits the executive committee from:

- authorizing distributions (dividends);
- approving or proposing certain shareholder votes;
- changing the number, removing, or filling vacancies of directors;
- amending the charter or adopting, amending, or repealing bylaws; and
- authorizing or approving certain reacquisitions of shares.

But the executive committee is the ideal mechanism for approving routine matters in the close corporation where one or two directors are not readily available and for direction and adoption of routine corporate matters between regular meetings. It is also ideal in situations where it is difficult or impossible to readily convene the entire board of directors, such as in a large corporation having geographically disparate directors.

Action by executive committee reduces the necessity for notice, as the committee will be small and will, in the case of most corporations, be composed of management. Furthermore, if the committee is thoughtfully composed, all members will generally be able to attend the meeting, obviating the notice issues referred to earlier.

Conclusion

In difficult times, there are many ways for directors to act without an in-person meeting. As we move to normal times, the foregoing alternatives to in-person meetings of directors are useful. The corporation

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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. ❑

How to Start Your Strategic Planning Session Off on the Right Foot

By Cynthia Jarboe

Cynthia Jarboe is chief financial officer at the Emergency Assistance Foundation, a nonprofit organization that helps corporations make emergency hardship grants for their employees when they face unexpected and unavoidable financial hardships or disasters. In this article, Jarboe details how board members can start their strategic planning sessions off on the right foot.

There is no precise methodology or "right way" to conduct strategic planning. What is important is that strategic discussions occur among strategic thinkers. While it's likely that you'll have staff or board members with their favorite programs that they want to prioritize, you must work together to truly see the big picture and think strategically.

So how do you get everyone excited and focused as strategic thinkers for a strategic planning session?

Hopefully your board is annually taking a fresh perspective on planning for the future or at least updating the plan developed in the last couple of years. Change is happening quickly in today's world, and organizations need to adjust as quickly.

Not everyone is a strategic thinker. A few years ago, at the Governmental Affairs Conference of the Credit Union National Association, former President George W. Bush talked about Russian President Vladimir Putin. Specifically, he indicated that Putin was not a strategic thinker. President Bush defined a strategic thinker as one who focuses discussions on how we can win together. He said Putin focuses on how he can make you lose. While you may not have Putin in the room, you may have staff or board members with their favorite programs that they want to prioritize.

Planning for Planning

The preparation for the session is critical. Sufficient time must be set aside, and not just a few hours in the middle of a board meeting. It may not be possible to accomplish everything in one session. These sessions can be emotionally charged and, therefore, exhausting. Sometimes it may be important to hit the pause button and get back together later. You may need to gather more data.

The book Moments of Impact: How to Design Strategic Conversations That Accelerate Change, by Chris Ertel and Lisa Kay Solomon (Simon & Schuster, 2014), is a good resource for conducting strategic planning sessions. In the book, they state, "A great strategic conversation is not just an intellectual exercise—it's an exhilarating and memorable experience." You want the session to be an experience the participants will remember. For one thing, participants must feel the need for change. Consider incorporating role-playing or simulation exercises to work through alternatives. Sometimes a little thing can etch the experience in the minds of the participants. At the conclusion of one session, I handed out an electric candle to each participant with the final advice to go forth and shine light on their vision for others.

When

When selecting the date, survey the participants to identify the date when the most can attend. You want everyone face to face and not dialing in via phone or computer. That means scheduling it at least six months in advance. One board always plans a two-day strategic planning and educational retreat the last week of September. That way, the board members know not to schedule anything that competes. It has become the highlight of the board calendar, with a combination of fun, team-building activities, and strategic thinking. It is always at an interesting destination that rotates around the state. Speakers are brought in who educate on topics relevant to the organization and its future. For example, one year the speaker was an expert on the future of transportation, including driverless cars, and the next year another spoke on attracting future generations to the organization. To get quality speakers and facilitators, you need to provide plenty of advance notice.

Where

The environment should be conducive to strategic thinking. Consider a new location that provides plenty of space for subgroup breakout sessions. To get participants to think "out of the box," they need to be outside their normal meeting space. For example, The College of William & Mary Mason School of Business has a Design Center with lots of natural light, open flexible space, comfortable seating, and several whiteboards for affixing/jotting notes, making it a perfect space for strategic thinking.

Ensure the facility has sufficient meeting room(s) space so there can be small group discussions. Not everyone is comfortable sharing their thoughts with a larger group, so consider planning for small group breakouts. Table groups also prevent any one person from dominating the discussion and encourage the new board members to speak up and ask questions.

If the organization and its board members can afford a resort-type destination, that is a great way to get the maximum participation and provide a relaxed atmosphere for strategic thinking. Resorts provide activities for getting to know one another better prior to sitting down for planning.

Team-building activities can include everything from golf to scavenger hunts to cooking lessons. Think out of the box, with the objective being for the board to spend time outside the boardroom with one another so they get to understand different perspectives better.

Who

Think about who should be attending the session. While the board is ultimately responsible for the strategic plan, the session may need to involve other people with different perspectives. In Moments of Impact, the authors suggest assembling a "Dream Team," including those with differing areas of expertise, differing roles within the organization, and representatives from all the demographics of your stakeholders. Hopefully, your board is diverse and represents a dream team already. They also recommend having a core group of those familiar with one another and supplemented by a few who are new. Including external participants as observers and listeners may be helpful. Multiple perspectives are key. In particular, staff should participate (not conduct), as they will be critical to execution. It is harder to be committed if you are not part of the conversation.

The Society of International Business Fellows works hard to ensure its board reflects its membership. It also ensures fresh perspectives by adding new board members each year. The strategic planning session is the first event of the year, and therefore is the first opportunity for new board members to meet the more experienced board members. The new board members come in early for an orientation to learn more about the organization and how it is governed but are also encouraged to ask questions and speak up during the sessions. The staff is dispersed among the group so they interact with the entire board. In this case, the strategic planning session is only board and staff because it represents the membership well. However, if your board does not represent your stakeholders or if you want to increase the diversity of your members, volunteers, or donors, add representatives from outside your board to your strategic planning team.

How

The leader of the session can be a member of the board or a hired facilitator, depending on who can most effectively run the session given the personalities in the room.

The leader should open by explaining the objective of the session and where the group is expected to be at the end of the session. Data to prepare participants for the session may have been distributed for advance reading to save time and set a framework. A few ground rules should be established in the beginning to encourage strategic thinking and discussion.

- You will be conjuring up the future so there are no crazy thoughts or comments.
- To allow everyone to share their thoughts, the leader should recognize the person who will speak.
- Everyone is encouraged to question the status quo or current position and explore alternatives.
- Empathize with current and future stakeholders such as potential members, donors, beneficiaries, and service users. Put yourself in their place.
- Avoid groupthink or deferring to leaders.
- Listen, listen, listen—think of yourself as an observer in the balcony watching without bias from the outside, considering all viewpoints and perspectives.

As you plan for your strategic planning session, consider what you want to accomplish during the session. If the chair and the officers have already decided on the priorities based on their passions for the coming year, then do not set expectations that the assembled strategic planning team is going to reinvent what has already been decided on.

If this is a start from scratch and everything is open for discussion, then decide in advance on the process steps.

Process

A well-planned, thorough, strategic planning process should be flexible and can be modified as you go for your group, but the order of review can be important. The following steps are meant to prevent putting "the cart before the horse." Often, the participants want to go straight to tactical steps before having a clear vision or to make decisions without understanding the environment or having sufficient data points.

You may see different terminology, and not every group will define the steps the same way. To clarify, SWOT stands for strengths, weaknesses, opportunities, and threats. In advance of the session, gather data with the assistance of staff so you can have an informed discussion of the SWOT. Maybe your mission is clear and concise and you do not need to reevaluate it. Maybe your values have been defined in a prior year and everyone is in agreement and aware of the organization's values. It is still a good idea to put both the mission and values statements in front of everyone in advance as a refresher. Ensure your value proposition is crisp and clear, even if the values have not changed.

Provide the process to the team in advance, explaining what is meant by each step and the timeline for addressing each step. Emphasize that the process is flexible and may be revised as needed.

The leader should be well prepared for the session kickoff and provide an agenda and advance reading materials. Preparing open-ended questions to get the group or subgroups thinking creatively is also suggested. Sample questions include:

- Where are we going?
- What key issues should we tackle?
- How can we use our strengths to

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Alternatives

(continued from page 5)

implementing the alternatives should carefully craft its strategy going forward, paying particular attention to the laws of its state of incorporation and the corporation's bylaws. Some states and bylaws limit further the techniques described above, and some states allow for even more flexibility. No board should be without carefully thought-out alternatives to in-person meetings of the entire board. ❑

REFERENCE

1 Mass. Gen. Laws. C. 156D, § 8.20 (b). This statute is adapted from the Revised Model Business Act, a version of which is adopted in many, if not most, states.

Calendar

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Settings," "Translating Lofty Ends to Real-World Impact: Effective CEO Ends Interpretation," and "The Continuous Journey Toward Board Effectiveness."

For more information, visit https://governforimpact.org.

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Obstacles

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Planning

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build on what has worked in the past?

- Using the analogy of a house plan, what do you want your house to look like from the street (your vision at completion)?

The questions should be broad enough to keep everyone out of tactical discussions and financial need discussions. To start, ask them not to worry about resource needs.

If you are thoughtful about planning your strategy session, you should gain everyone's commitment to use the plan as a framework for decisions and priorities that will guide your organization toward its vision. Developing a strong strategic plan may be the most important task you perform as a board member. ❑

Cynthia Jarboe is the author of A Guide to Nonprofit Board Success: Answering the Call of Leadership, from which this article was excerpted. She is currently the chief financial officer for the Emergency Assistance Foundation, a nonprofit organization that administers employee relief funds awarding grants worldwide to those in need as a result of disaster, medical hardship, and trauma. She has over 40 years of experience serving as audit partner, consultant, executive, and volunteer board officer for all types of nonprofits, including universities, credit unions, cultural institutions, and religious institutions.

BOARD LEADERSHIP
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