Executive Summary - Informational

TO: **State Investment Board**

FROM: **Dave Hunter**

DATE: **March 23, 2021**

SUBJECT: **SIB Meeting Materials – March 26, 2021**

The March SIB meeting will include finalist presentations by three in-state investment program managers including GCM Grosvenor, 50 South Capital (Northern Trust) and Sun Mountain Capital as advanced by Callan LLC following a comprehensive investment manager search and due diligence process over the last six months. (These manager presentations will be distributed on Tuesday, March 23rd.) **RIO supports Callan's recommendations to advance these finalists for consideration by the SIB including Callan's recommendation the SIB identify the top two firms for additional RIO investment due diligence over the next month.**

RIO's ensuing evaluation of the two finalists will explore in detail how each firm proposes to implement their respective in-state program. Among other steps, RIO will compare the operational and contractual aspects of the two proposals. RIO will advance one firm for final consideration by the SIB on April 23rd after determining the most effective and efficient proposed investment structure and negotiation of agreed upon investment terms and pricing.

Legacy Fund Asset Allocation Overview – Callan presented Phase Two of the Legacy Fund Asset Allocation Study to the Advisory Board on March 23rd. Callan highlighted the key takeaways from this important due diligence process including revised projections of future Legacy Fund investment earnings and asset growth based on OMB's (ND Office of Management & Budget) latest revenue forecast (as of March 16th), Callan's latest capital market assumptions (January 2021) and Legacy Fund's revised asset allocation policy (February 2021), the latter of which includes a target 3% allocation to Private Capital (with a preference for in-state investments) and a target 5% allocation to BND's In-State Investment Program (Match Loan). **Callan highlighted the advantages of Legacy Fund earnings distributions being based on the Percent of Market Value (POMV) method, which is an industry best practice, versus the current definition in order to reduce budget and spending volatility. Callan's projections included Legacy Fund earnings and market value forecasts through 2040 based on the current earnings definition and POMV at 6%, 8% and 10% per biennium.**

Legislative Update – RIO will review recent legislative developments on bills impacting the SIB, TFFR, RIO and Legacy Fund. RIO intends to offer neutral clarifying testimony unless directed otherwise by the SIB. The TFFR Ends Report for March 31, 2020, is also included for informational purposes only in addition to a TFFR Pension Administration System update.

<u>Executive Review Committee Update</u> – **The ERC will review recent Board Self-Assessment Survey Results and request SIB acceptance thereof** in addition to presenting U.S. public fund peer compensation data for future reference by the SIB in upcoming months.

<u>SIB Client Investment Performance Overview</u> – Over 98% of SIB clients generated net investment returns which exceeded their approved policy benchmarks for the 1, 5 and 10 years ended 12/31/2020 including Legacy, PERS, TFFR, WSI and Budget Stabilization. RIO estimates this translates into $300 million of incremental income for our SIB clients over the last 5-years and nearly $500 million over the last decade. In the last half of 2020, Legacy Fund alone earned $70 million of excess return (e.g. $7 billion x 1% = $70 million).

SIB Five Largest Clients (AUM as of 12/31/2020)	Current FYTD 12/31/2020	1 Yr Ended 12/31/2020	5 Yrs Ended 12/31/2020	10 Yrs Ended 12/31/2020
Legacy Fund $8.16 billion				Since 10/1/2011
Total Fund Return - Net	14.37%	12.22%	9.25%	6.03%
Policy Benchmark Return	13.32%	12.08%	8.60%	5.28%
Excess Return	1.06%	0.14%	0.65%	0.75%
PERS $3.67 billion				
Total Fund Return - Net	15.10%	12.19%	9.77%	8.34%
Policy Benchmark Return	14.52%	11.96%	9.27%	7.88%
Excess Return	0.58%	0.23%	0.50%	0.46%
TFFR $2.955 billion				
Total Fund Return - Net	14.86%	12.07%	9.69%	8.29%
Policy Benchmark Return	14.66%	12.00%	9.24%	7.72%
Excess Return	0.20%	0.07%	0.45%	0.57%
WSI $2.263 billion				
Total Fund Return - Net	8.16%	9.85%	7.84%	7.29%
Policy Benchmark Return	6.61%	9.54%	6.65%	5.90%
Excess Return	1.54%	0.31%	1.20%	1.39%
BSF $747 million				
Total Fund Return - Net	2.80%	3.45%	2.53%	2.15%
Policy Benchmark Return	0.35%	3.22%	2.14%	1.29%
Excess Return	2.45%	0.23%	0.39%	0.86%

Note: Legacy Fund was invested in 100% short-term fixed income from Sep. 7, 2011 to Aug. 1, 2013.

Sovereign Wealth Fund Returns for 6-Months, I-Year and 5-Years Ended 12/31/2020

Recent Board survey results expressed an interest in "more trend analysis of what is happening with other sovereign wealth funds". The following table offers a comparison of North Dakota's Legacy Fund net investment returns (ranked # 47 in size by the Sovereign Wealth Fund Institute "SWFI") versus Norway's Government Pension Fund (ranked #1 at $1.3 trillion) and the next three largest U.S. SWF's, including Alaska's Permanent Fund (ranked #18 in the World and #1 in the U.S.) in addition to New Mexico's State Investment Council (#31) and Wyoming's Permanent Mineral Trust Fund (#45). North Dakota's Legacy Fund has generally performed reasonably well versus peers as of 12/31/2020 posting the second highest returns in the last six months, highest return in the last year and second highest return in the last 5-years. As you know, asset allocation decisions are a major driver of investment returns and comparisons between SWF's with different asset allocation targets can be challenging, if not misleading. As a result, most institutional investors assess fund performance in comparison with their approved Policy Benchmark Return (or Passive Index Benchmark) over 5 or more years. Based on this one comparison, North Dakota's Legacy Fund was ranked # 2 with 0.65% of above benchmark returns for the 5-years ended 12/31/2020 (9.25% versus 8.60%), trailing Alaska's Permanent Fund at 0.69% (10.09% versus 9.40%). The target asset allocation policy of each SWF is shown in gray highlighted and *italicized* text below.

SWFI Rank	Asset Allocation is a Major Driver of Long-Term Returns	6-Mos. Ended 12/31/2020	1-Year Ended 12/31/2020	5-Yrs. Ended 12/31/2020
1	**Norway Gov't. Pension Fund Global $1.3 trillion**			
	Net Investment Return	**na**	**10.86%**	**8.69%**
	- Passive Index Benchmark	*na*	*10.59%*	*8.50%*
	72.8% Equity / 24.7% Fixed Income / 2.5% Real Estate			
18	**Alaska Permanent Fund $73 billion**			
	Net Investment Return	**15.74%**	**12.15%**	**10.09%**
	- Passive Index Benchmark	*18.24%*	*12.38%*	*9.40%*
	60% Equity / 20% Fixed Income / 10% US TIPs / 10% Real Estate			
31	**New Mexico SIC Land Grant $22 billion**			
	Net Investment Return	**14.24%**	**8.94%**	**8.68%**
	- Interim Policy Index	*14.55%*	*10.13%*	*8.75%*
	51% Equity / 26% Fixed Income / 12% Real Estate / 10% Real Return / 1% Cash			
45	**Wyoming Permanent Mineral $9 billion**			
	Net Investment Return	**11.5%**	**9.1%**	**7.1%**
	- Total Fund Index	*11.2%*	*8.4%*	*6.9%*
	40% Equity / 36% Fixed Income / 11% Real Estate / 7.5% Hedge Funds / 5.5% MLPs			
47	**North Dakota Legacy $8 billion**			
	Net Investment Return	**14.37%**	**12.22%**	**9.25%**
	- Policy Benchmark Return	*13.32%*	*12.08%*	*8.60%*
	50% Equity / 35% Fixed Income / 5% US TIPs / 5% Real Estate / 5% Infrastructure			

Texas Permanent School Fund and University of Texas Investment Management Company are ranked 23 and 24, resepctively, but have an August 31 fiscal year end and extensive private investments impacting comparability.

North Dakota State Investment Board

ND STATE INVESTMENT BOARD MEETING

Friday, March 26, 2021, 8:30 a.m. (CST)
Workforce Safety & Insurance
1600 E Century Avenue, Bismarck, ND

Teleconference 701-328-0950, Conference ID: 855 809 310#

AGENDA

I. CALL TO ORDER AND ACCEPTANCE OF AGENDA

II. ACCEPTANCE OF MINUTES (February 26, 2021)

III. INVESTMENTS

A. Legacy Fund Asset Allocation Review and Advisory Board Update – David Hunter (15 minutes)
B. Legacy Fund In-State Investment Program Update – (2 hours)
   1. Callan Investment Due Diligence Overview – Paul Erlendson, Pete Keliuotis, Jay Kloepfer
   2. GCM Grosvenor – Melford Carter, Erik Hall, Michael Rose, Bernard Yancovich
   3. Northern Trust/50 South – Tamara Doi Beck, Trey Hart, Bob Morgan
   4. Sun Mountain – Brian Birk, Dan Brooks, Sally Corning, Lee Rand
   5. In-State Manager Recommendation – Callan **Board Action**

IV. GOVERNANCE / EDUCATION

A. Legislative Update – David Hunter (10 minutes) *Informational*
B. TFFR Ends Report & Pension Administration System Update *Informational*
C. Executive Review Committee Update - Yvonne Smith (10 minutes) *Informational*
   1. Board Self-Assessment Results – Sara Sauter **Board Action**
   2. Annual Compensation Survey – Yvonne Smith*

   ***Executive Session** pursuant to NDCC 44-04-19.1 to review and discuss confidential information.*

V. OTHER

Next Meetings: SIB - April 23, 2021, 8:30 a.m. - Workforce Safety & Insurance
SIB Executive Review Committee – April 14, 2021 8:30 a.m. – RIO Conference Room
SIB Securities Litigation Committee - May 6, 2021, 2:00 p.m. - RIO Conference Room
SIB Audit Committee - May 27, 2021, 2:30 p.m. - RIO Conference Room

VI. ADJOURNMENT

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

NORTH DAKOTA STATE INVESTMENT BOARD
MINUTES OF THE
FEBRUARY 26, 2021, BOARD MEETING

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

MEMBER ABSENT:
Troy Seibel, PERS Board, Parliamentarian

STAFF PRESENT:
Eric Chin, Chief Risk Officer/Senior CIO
Connie Flanagan, Chief Financial Officer
Bonnie Heit, Admin Svs Suprv
David Hunter, Exec Dir/CIO
Jan Murtha, Dep Exec Dir/CRO
Matt Posch, Investment/Compliance Officer
Sara Sauter, Suprv of Internal Audit
Darren Schulz, Dep CIO
Dottie Thorsen, Internal Auditor
Susan Walcker, Senior Financial Accountant

GUESTS:
Alex Browning, Callan LLC
Dean DePountis, Attorney General's Office
Eric Hall, GCM Grosvenor
Eric Hardmeyer, LBSFAB
Perry Hopper, Callan LLC
Candace Johnson, Securities Dept.
Jerry Klein, LBSFAB
Jay Kloepfer, Callan LLC
Scott Litman, GCM Grosvenor
Adam Mathiak, Legislative Council
Adam Montgomery, Securities Dept.
Bryan Reinhardt, PERS
Michael Rose, GCM Grosvenor

CALL TO ORDER:

Lt. Governor Sanford, Chair, called the State Investment Board (SIB) regular meeting to order at 8:30 a.m. on Friday, February 26, 2021. The meeting was held at the Retirement and Investment Office (RIO) (virtual host), 3442 E Century Ave, Bismarck, ND.

AGENDA:

The Board considered the agenda for the February 26, 2021, meeting,

IT WAS MOVED BY MS. GUMERINGER AND SECONDED BY COMMISSIONER SMITH AND CARRIED BY A VOICE VOTE TO ACCEPT THE AGENDA FOR THE FEBRUARY 26, 2021, MEETING.

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

MINUTES:

IT WAS MOVED BY COMMISSIONER SMITH AND SECONDED BY MR. OLSON AND CARRIED BY A VOICE VOTE TO APPROVE THE JANUARY 22, 2021, MINUTES AS DISTRIBUTED.

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

INVESTMENTS:

Asset/Performance – Mr. Hunter highlighted performance. Over 99% of SIB clients generated net returns which exceeded their approved policy benchmarks for the five years ended December 31, 2020.

For the current fiscal year, Legacy Fund, Public Employees Retirement System (PERS), and Teachers' Fund for Retirement (TFFR) net returns were 14.37%, 15.10%, and 14.86% respectively, exceeding policy benchmarks returns. Workforce Safety & Insurance (WSI) and Budget Stabilization Fund also performed well with net investments returns of 8.16% and 2.80%, respectively.

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In-State Investment – Mr. Hunter provided an update on expansion of the In-State Investment Program. Discussion followed on legislation being introduced and how it will play out between the SIB, Legacy Fund, and the Bank of North Dakota.

Callan LLC reviewed Phase 1 of an asset allocation study of the Legacy Fund to evaluate the impact of incorporating a new target allocation to private equity. The review was previously given to the Legacy and Budget Stabilization Fund Advisory Board (LBSFAB) at their February 16, 2021, meeting.

Legacy Fund – Mr. Hunter reviewed a revised Investment Policy Statement (IPS) for the Legacy Fund. The IPS statement reflects a Private Capital target of 3% to include a preference for in-state investments at a competitive rate of return. The Legacy and Budget Stabilization Fund Advisory Board approved the revision at their February 16, 2021, meeting.

IT WAS MOVED BY MR. OLSON AND SECONDED BY DR. LECH AND CARRIED BY A ROLL CALL VOTE TO ACCEPT THE REVISIONS TO THE LEGACY FUND INVESTMENT POLICY STATEMENT.

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

Diversified Real Assets – GCM Grosvenor representatives reviewed their Customized Infrastructure Strategies (CIS) Fund III.

The SIB previously approved commitments to GCM Grosvenor's predecessor funds ($75 million to CIS I in 2011 and $105 million to CIS II in 2014). Performance of the predecessor funds are in line with expectations with a net investment rate of return of 8.5% for CIS I and 9.9% for CIS II as of September 30, 2020.

RIO investment personnel requested the SIB approve up to a $200 million commitment to GCM Grosvenor Customized Infrastructure Strategies Fund III to be split between the Legacy Fund ($105 million), the Pension Pool ($80 million) and the Insurance Trust ($15 million). A combination of strong public equity performance and the lifecycle of current commitments have led to deviations from policy targets in diversified real assets. This commitment will aid in bringing expected allocations in diversified real assets closer to target.

IT WAS MOVED BY MS. GUMERINGER AND SECONDED BY COMMISSIONER SMITH AND CARRIED BY A ROLL CALL VOTE TO ACCEPT STAFF RECOMMENDATION FOR GCM GROSVENOR CUSTOMIZED INFRASTRUCTURE STRATEGIES FUND III.

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

Callan LLC Investment Measurement Review – Mr. Browning reviewed US market conditions and also reviewed performance of the Pension Trust, Insurance Trust, and Legacy Fund portfolios for the period ending December 31, 2020.

IT WAS MOVED BY TREASURER BEADLE AND SECONDED BY MS. SMITH AND CARRIED BY A VOICE VOTE TO ACCEPT THE CALLAN LLC REPORT.

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

GOVERNANCE/EDUCATION:

Governance Review – Mr. Hunter reviewed changes to Exhibit E-I to update SIB membership and term expiration dates for the Board's consideration.

There were no further revisions to the Governance Manual which concluded the annual review.

IT WAS MOVED BY MR. OLSON AND SECONDED BY MR. KLIPFEL AND CARRIED BY A VOICE VOTE TO ACCEPT THE UPDATES TO EXHIBIT E-I OF THE GOVERNANCE MANUAL.

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

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

Retirement/Investment Office (RIO) - The Executive Limitations Audit was issued in February 2021.

Support was provided to CliftonLarsonAllen (CLA) for the TFFR GASB 68 Census Data audit and the Financial Statements audit of RIO for the period ending June 30, 2020. The Financial Statements audit of RIO was issued on November 9, 2020 and the GASB 68 Schedules of Employer Allocations and Pension Amounts by Employer was issued in December 2020.

Internal Audit is also assisting with the review of RIO's administrative policies.

Internal Audit is working on internal control guidelines for an overall assessment of processes for state agencies put forth by the Office of Management and Budget (OMB).

SIB – Cash Management and Rebalancing Audit. The audit entails a review of procedures for cash management and rebalancing of investment allocations, wire transactions, and bank fees. A review of staff access and authorization will also be reviewed. The audit is currently in progress.

TFFR – The Minot Employer Salary Review was completed in November 2020. There are no other audits in progress.

The Salary Verification Audit is in progress. On an annual basis retirement salaries and contributions reported to TFFR for the prior fiscal year for 65 randomly selected member accounts from 60 different employers are verified.

Internal Audit continues to assist in the Pension Administration System upgrade.

IT WAS MOVED BY COMMISSIONER SMITH AND SECONDED BY TREASURER BEADLE AND CARRIED BY A VOICE VOTE TO ACCEPT THE AUDIT COMMITTEE REPORT.

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

Executive Review Committee (ERC) **-** Ms. Smith, Chair, reviewed activities from the February 10, 2021, meeting. The SIB self-assessment process, timeline, and template were reviewed as well as the results of the 2020 assessment. The ERC elected to complete an assessment for 2021. The assessment will be sent to the SIB on February 15, 2021 with a due date of March 1, 2021.

IT WAS MOVED BY MS. GUMERINGER AND SECONDED BY COMMISSIONER SMITH AND CARRIED BY A VOICE VOTE TO ACCEPT THE EXECUTIVE REVIEW COMMITTEE REPORT.

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

Securities Litigation Committee (SLC) – Mr. Hunter updated the Board on activities of the SLC from their February 4, 2021, meeting. The SLC approved the engagement of Robbins Geller Rudman & Dowd LLP to Opt-In to an international group securities litigation to recover up to an estimated $315,000 in net loss recoveries due to Daimler AG allegedly violating German securities trading laws.

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

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

Legislation – Mr. Hunter reviewed and discussion took place on legislation affecting RIO and the SIB. The SIB encouraged Mr. Hunter to offer neutral clarifying testimony at legislative hearings when deemed appropriate and/or upon specific requests by legislative committee members.

Quarterly Monitoring – The following quarterly reports for the period ending December 31, 2020, were provided for the SIB's consideration: Executive Limitations/Staff Relations, Budget/Financial Conditions, Investment Program (also included Due Diligence report), and TFFR Pension Administration System update.

IT WAS MOVED BY COMMISSIONER SMITH AND SECONDED BY MS. GUMERINGER AND CARRIED BY A VOICE VOTE TO ACCEPT THE QUARTERLY MONITORING REPORTS FOR THE PERIOD ENDING DECEMBER 31, 2020.

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

OTHER:

The next meeting of the Executive Review Committee has been scheduled for March 8, 2021, at 8:30 a.m. at RIO.

The next regular meeting of the SIB has been scheduled for March 26, 2021, at 8:30 a.m. at RIO.

ADJOURNMENT:

With no further business to come before the SIB, Lt. Governor Sanford adjourned the meeting at 11:30 a.m.

Lt. Governor Sanford, Chair
State Investment Board

Bonnie Heit
Recorder

Informational

TO: State Investment Board

FROM: Dave Hunter

DATE: March 23, 2021

SUBJECT: Legacy Fund Asset Allocation Review and Advisory Board Update

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On March 23rd, RIO and Callan were requested by the Legacy and Budget Stabilization Fund Advisory Board to present:

1) An update on the status, asset allocation and returns of the Legacy Fund; and
2) Phase Two of Legacy Fund's Asset Allocation Study.

RIO highlighted key takeaways from this important due diligence process including revised projections of future Legacy Fund investment earnings and asset growth based on OMB's (ND Office of Management & Budget) latest revenue forecast (as of March 16th), Callan's latest capital market assumptions (January 2021) and Legacy Fund's revised asset allocation policy (February 2021), the latter of which includes a target 3% allocation to Private Capital (with a preference for in-state investments) and a target 5% allocation to BND's In-State Investment Program (Match Loan).

Callan highlighted the advantages of Legacy Fund earnings distributions being based on the Percent of Market Value (POMV) method, an industry best practice, versus the current earnings definition in order to reduce budget and spending volatility. Callan's projections included Legacy Fund earnings and market value forecasts through 2040 based on the current earnings definition and POMV at 6%, 8% and 10% per biennium.

Key Takeaway: Phase Two of Callan's Legacy Fund Asset Allocation Review confirmed a target 3% Private Capital allocation (+/- 3%) with a preference for in-state investments at a competitive rate of return improves Legacy's long-term expected returns with no material adverse impact on downside risk or liquidity.

The Legacy Fund Advisory Board presentations are attached for reference. Although RIO does not intend to review these materials in detail, RIO and Callan are able to address any questions or comments on these March 23rd presentations upon request.

Legacy and Budget Stabilization Fund Advisory Board

Legacy Fund - Asset Allocation Review: Phase Two

March 23, 2021

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)

Legacy Fund

Source: NDRIO Legacy Fund website https://www.rio.nd.gov/legacy-fund

The Legacy Fund was created by a constitutional amendment in 2010. The amendment provides that 30% of oil and gas gross production and oil extraction taxes on oil produced after June 30, 2011, be transferred to the Legacy Fund. The State Investment Board (SIB) is responsible for the investment of the fund. The first Legacy Fund transfer was received by the SIB in September 2011. The ND Constitution also requires that all earnings accrued after June 30, 2017, must be transferred to the state's general fund at the end of each biennium.

Balances listed below as of January 31, 2021.

FUND VALUE

$8,162,305,388

INCEPTION-TO-DATE NET INCOME

$2,680,527,701

PRINCIPAL BALANCE

$6,373,880,575

CURRENT BIENNIUM-TO-DATE EARNINGS
(as defined by NDCC 21-10-12)

$636,395,417

EARNINGS TRANSFERRED TO GENERAL FUND

2017-19 Biennium **$455,263,216**

Legacy Fund Asset Allocation
Actual versus Target

As of January 31, 2021

		Allocation		Current FYTD Returns
	Market Value	Actual	Policy	Net
TOTAL LEGACY FUND	**8,166,501,207**	**100%**	**100%**	**14.04%**
POLICY TARGET BENCHMARK				***13.09%***
TOTAL RELATIVE RETURN				**0.95%**
GLOBAL EQUITY	***4,109,487,729***	***50.3%***	***50.0%***	***25.29%***
Benchmark				***25.45%***
GLOBAL FIXED INCOME	**2,870,839,422**	**35.2%**	**35.0%**	**2.95%**
Benchmark				**0.57%**
GLOBAL REAL ASSETS	***1,135,120,455***	***13.9%***	***15.0%***	***4.08%***
Benchmark				***3.24%***
GLOBAL CASH	***51,053,601***	***0.6%***	***0.0%***	***0.03%***
Benchmark				***0.08%***

Initial funding September 7, 2011.

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

North Dakota's Legacy Fund earned a Net Investment Return of 9.25% for the 5-years ended 12/31/2020 including a 14.37% return in the last half of 2020

	Current FYTD 12/31/2020	1 Yr Ended 12/31/2020	3 Yrs Ended 12/31/2020	5 Yrs Ended 12/31/2020
Legacy $8.16 billion				
Total Fund Return - Net	**14.37%**	**12.22%**	**7.88%**	**9.25%**
Policy Benchmark Return	**13.32%**	**12.08%**	**7.96%**	**8.60%**
Total Relative Return	**1.06%**	**0.14%**	**-0.08%**	**0.65%**

1. **As of 12/31/2020, Legacy had a market value of over $8.1 billion. Legacy's target asset allocation policy is 50% Global Equity, 35% Global Fixed Income and 15% Diversified Real Assets (including Global Real Estate & Infrastructure and U.S. Treasuries), as approved by the Legacy Fund Advisory Board and SIB.**

2. **In the Current Fiscal Year To Date (FYTD) 12/31/2020, Legacy Fund generated a Net Investment Return of 14.37% exceeding the Policy Benchmark of 13.32% by over 1%.**

3. **For the 5-Years Ended 12/31/2020, Legacy Fund earned a Net Return of 9.25% exceeding the Policy Benchmark Return of 8.60% by 0.65% over the last 5-years.**

4. **The SIB's prudent use of active investment management generated over $70 million of incremental income (versus passive investments) for the Legacy Fund over the last 6-months after deducting all investment fees and expenses (e.g. average balance over $7 billion x Excess Return of over 1% = $70 million in the last six months).**

Note: All returns as of December 31, 2020, are unaudited and subject to change.

RIO Overview of Callan Asset Allocation Review: Phase Two

Overview

- **Section 21-10-11 of the North Dakota Century Code provides a description of the Legacy and Budget Stabilization Fund Advisory Board's (Advisory Board) responsibilities, including the following:**
  1. "The legacy and budget stabilization fund advisory board is created to develop recommendations for the investment of funds in the legacy fund and the budget stabilization fund to present to the state investment board."
  2. "The goal of investment for the legacy fund is ***principal preservation while maximizing total return***."
  7. "The staff and consultants of the state retirement and investment office shall advise the board in developing asset allocation and investment policies."
- **Consistent with the duties listed above, the North Dakota Retirement and Investment Office (RIO) made a series of recommendations to the Advisory Board on January 29, 2021:**
  A. Determine if the Advisory Board seeks to expand the "in state investment platform" by allowing private market investments; and if so

  B. Seek to retain a qualified outside firm to conduct an asset allocation study with the purpose of evaluating a potential addition of "private equity" to the Legacy Fund's strategic asset allocation policy.
- **Callan performed the asset allocation study in two phases.**
  C. **Phase One was a returns-only analysis. The study was presented February 12, 2021** to the Advisory Board. It evaluates what adding Private Capital investments may do to the Legacy Fund's *expected return and risk levels*.

  D. **Phase Two analyzes the impact of Private Capital investments by measuring the dollar-based future variations in the Legacy Fund's *market value;* ranges of *expected inflows* (based on projected oil prices and production volumes); and *ouflows transferred to the General Fund* based on projected earnings.**

Private Capital and the North Dakota Legacy Fund

- **The State of North Dakota is currently considering legislation that would encourage the Legacy Fund to allocate capital to in-state investments. The majority of states with in-state programs invest via private rather than public markets for these types of investment mandates.** This experience provides the basis for considering "private capital" as an asset class to house prospective direct private investments for Legacy Fund.
- "Private capital" includes the potential for investment in private equity (ownership) and private debt (direct lending)
- **Private equity and private debt require development of a comprehensive program to deploy capital**
  - Establish goals, design portfolio, develop plan to allocate capital across strategies and time, source deals, execute, and monitor
- **An allocation to in-state investments, including through Private Capital, should have the goal of meeting institutional best practices** in design, execution, and due diligence, as well as expectations for risk and return
- **A Private Capital program will focus on investing in North Dakota**, but the allocation will be broadly diversified and include private investments across the U.S.
- **Callan Observation - Existing in-state investment programs have clearly shown that the majority of investments are made via private markets rather than through public markets.** They have typically begun with low single-digit target allocations.
- **RIO Summary of Callan Recommendation - Callan recommended the Advisory Board consider adopting Mix 3. The interim Private Capital target is 3 +/- 3% (with a range of 0% to 6%).**
  - **The Target can be adjusted as the program gains traction via successful implementation.**
  - **The Advisory Board and SIB approved this recommendation to FURTHER EXPAND Legacy Fund's in-state investment program with a private capital target allocation of 3% (to complement the existing 5% target to the BND In-State Investment Program (Match Loan).**
  - **Expansion of the in-state investment mandate is subject to SIB retaining a qualified program manager.**

Cash Flow, Market Value and Annual Distribution Analysis

Fully Integrated Model of the Legacy Fund

Phase Two of this asset allocation study takes a deeper dive to measure the cash flow implications of asset mixes that include various amounts of private capital. The study includes an evaluation of future Fund MV and cash flow based on:

1. **ND government projections of oil prices and production volumes** that are used to establish inflows into the Legacy Fund;
2. **Callan's standard Capital Market Assumptions (CMAs)** to model alternative asset mixes' performance;
3. **Outflow assumptions (annual distributions to the State's general fund.** Two methods examined:
   1. Current policy - based on the North Dakota Century Code's definition of "earnings", AND
   2. A percent of market value (POMV) model, which Callan suggests is industry best practice

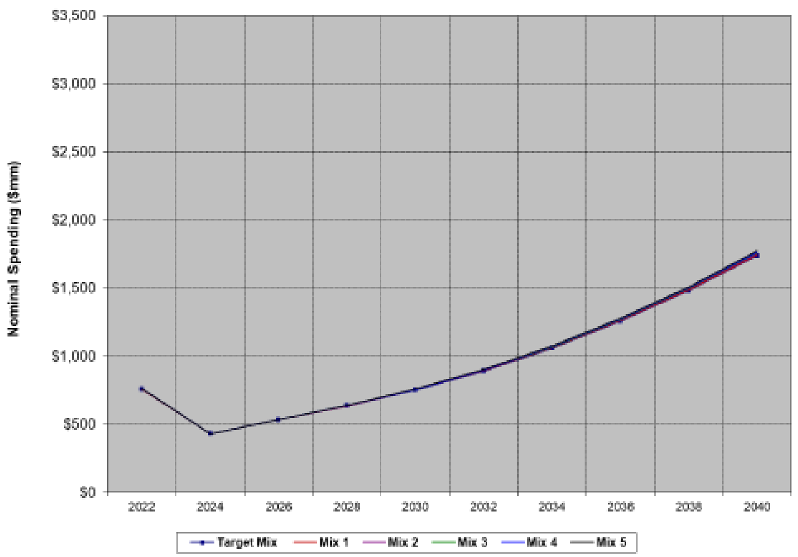
A key element to the analysis included an evaluation of the distribution or "spending policy" of the ND Legacy Fund.

- **The ND legislature is considering a change to the NDCC to remove "earnings" and replace the distribution policy to POMV, so we modeled both methods.**
- **The volatility of the distribution can vary greatly under the two methods (earnings and POMV)**
- The size of the distribution can be tailored under either method to meet goals articulated for the Fund.
  - For the earnings method, the percent of earnings transferred can be changed, as can the definition of earnings. Current policy is 100% of earnings.
  - For POMV, the % of assets transferred can be changed, as can the period over which the market value is calculated for the transfer.

Nominal Distributions – POMV versus Earnings

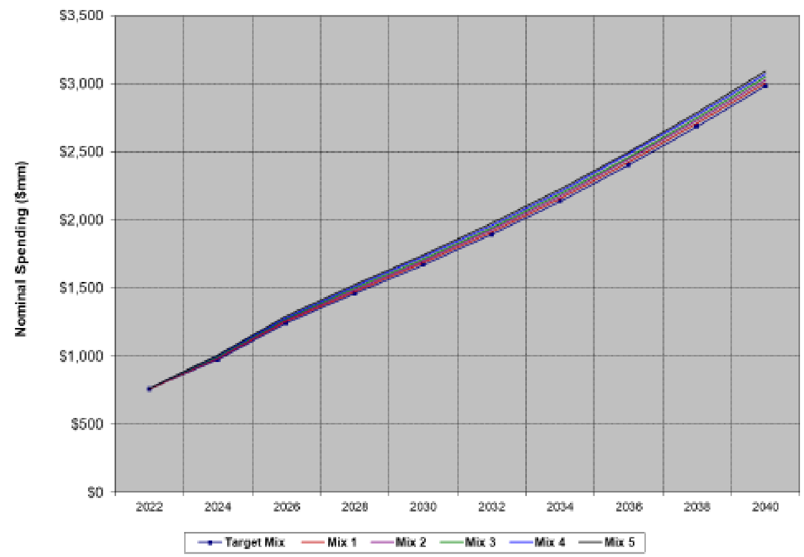
Deterministic Projections – No Capital Market Uncertainty

6% POMV Per Biennium, 5-Year MV Smooth, Lagged One Fiscal Year



– Distribution for FY 2022 reflects transfer of 100% of earnings based on 2019-21 biennium. 6% of biennia POMV is assumed thereafter.

Earnings Transferred Each Biennium in the First Month of the Next Biennium



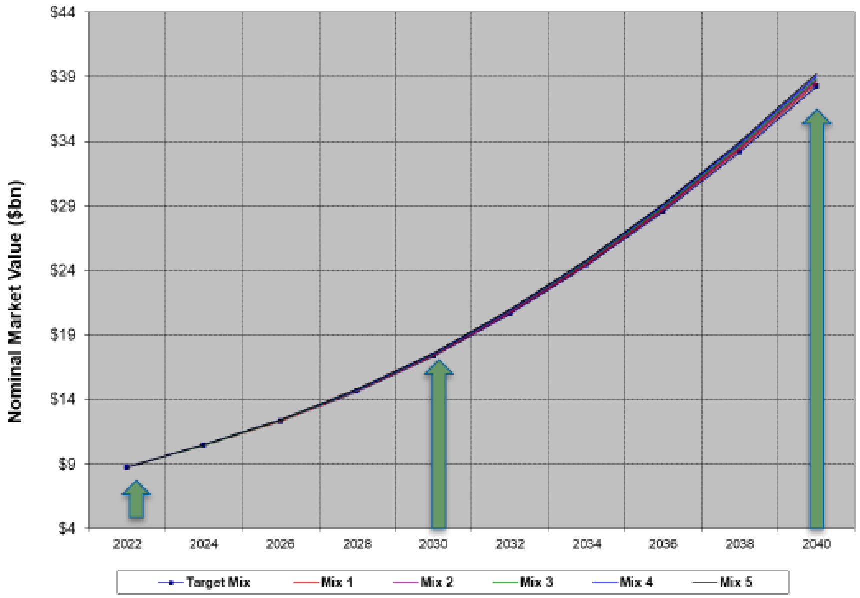
– Distribution for 100% of earnings is assumed for the forecast.

– Charts are on the same scale to facilitate comparison.

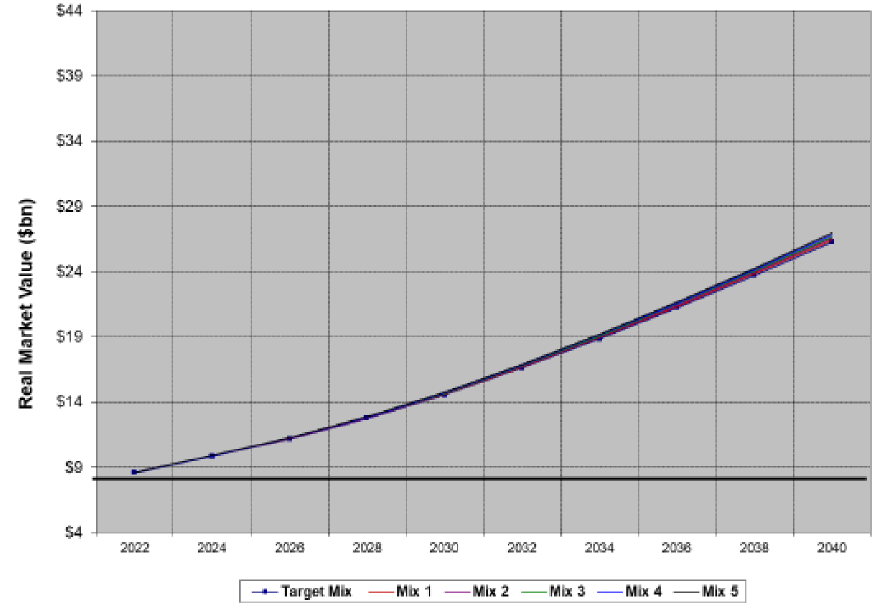
Projected Growth in Legacy Fund Market Value – 6% POMV

Distribution Policy of 6% of Market Value of Assets Per Biennium

Nominal Market Value



Real Market Value



Mix 3 = Legacy Fund grows to $17 billion in 2030 and $38 billion by 2040.

Charts show nominal and real (inflation-adjusted) market value for the year following each biennium, after transfers to the General Fund have been removed.

Nominal and real market values increase under all asset allocations, supported by strong inflows from ND royalty forecasts.

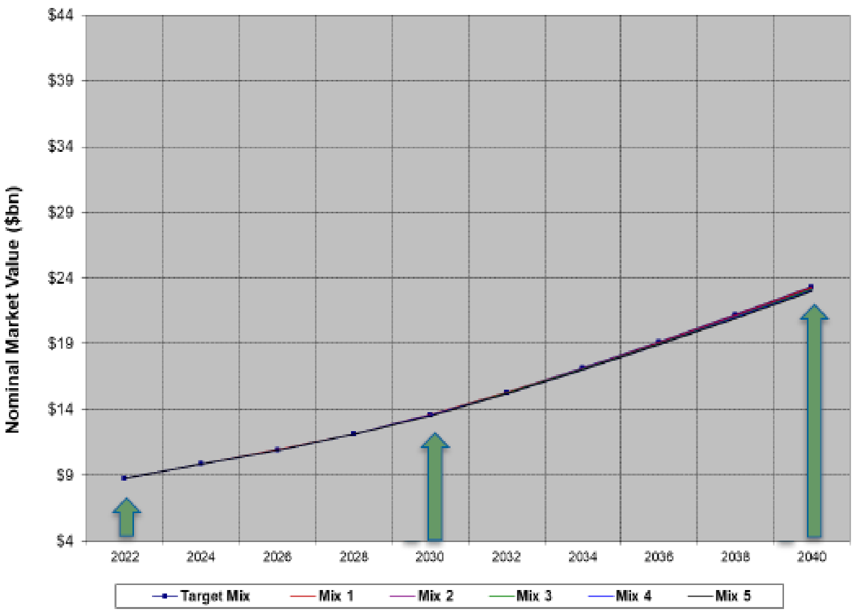
Purchasing power of the Legacy Fund (real value of Fund assets) can be sustained over the long run under a distribution policy of 6% of POMV each biennium. The Fund could easily sustain a higher rate of POMV spending, 4% to 5% per year, or 8-10% per biennium.

Distributing at the maximum rate allowed for the Fund (income plus 15% of fund value) would eventually catch up to inflows from oil and gas, and real value of the fund begins to decline after 15 years for all mixes (not shown above).

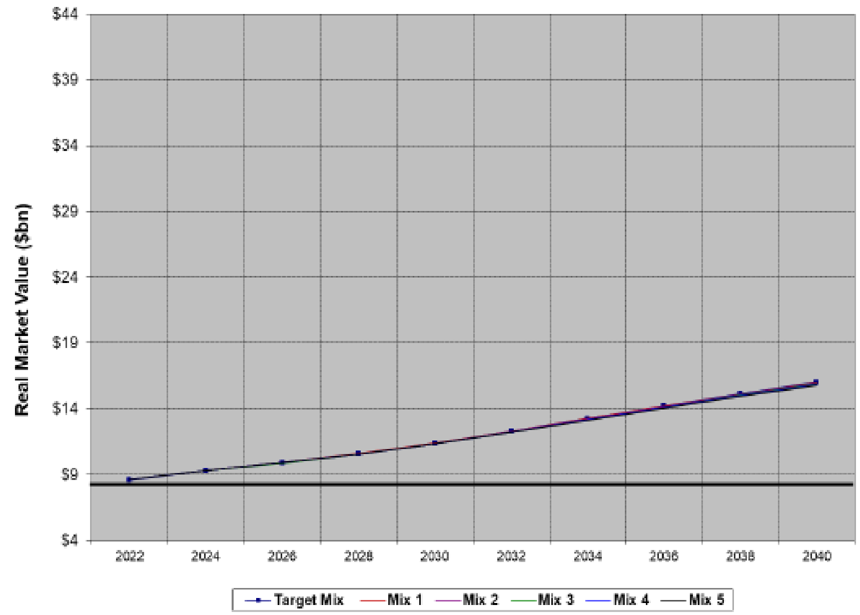
Projected Growth in Legacy Fund Market Value – Earnings

Distribution Policy of 100% of Earnings (NDCC Definition) Assets Per Biennium

Nominal Market Value



Real Market Value



Mix 3 = Legacy Fund grows to $14 billion in 2030 and $23 billion by 2040.

Charts show nominal and real (inflation-adjusted) market value for the year following each biennium, after transfers to the General Fund have been removed.

Nominal and real market values increase under all asset allocations, supported by strong inflows from ND royalty forecasts.

Purchasing power of the Legacy Fund (real value of Fund assets) can be sustained over the long run under a spending policy of 100% of earnings each biennium. Effective annual spending rate rises from 5% to 8% over the forecast period. Earnings spending can be managed by adjusting the percentage spent (0-100%) or changing the definition of earnings with regard to capital gains.

Summary of Results

POMV Distribution Policy

- **A POMV distribution policy simplifies the accounting of and planning for the transfers to the general fund, and greatly improves on the stability and predictability of the amount distributed each biennium.**
- **The POMV policy is an industry standard that** acknowledges total return and Fund market value without separately accounting for income, realized and unrealized gains. **The distribution policy generates a much narrower range of potential outcomes, enabling the legislature to better plan for the use of the transfers in budgeting. The rate of the POMV policy, along with the calculation of the MV against which the policy is applied can be easily tailored to meet the goals of the Legacy Fund:**
  - Intergenerational equity – setting the rate that will be sustained by the Fund's expected return and royalty deposits
  - Stability of transfers – smoothing of the MV calculation by averaging over multiple years' MV
  - Predictability – lagging of the MV calculation in advance of the transfer, along with the smoothing of the MV over multiple years
  - The effect of smoothing and lagging shifts the impact of market volatility from the annual distribution to corpus of the Legacy Fund, which has a much longer time horizon than the biennial state budget process
- **The proposed policy of 6% of POMV per biennium implies an annual rate of 3%. The smoothing over 5 fiscal years and lagging the calculation one year results in an effective spending rate that comes out to 1-2% of MV per year, or 2-4% per biennium**.

Summary of Results

Private Capital Allocation

- **The analysis of the financial condition of the ND Legacy Fund under both earnings-based and POMV distribution policies suggest the proposed allocation of 3% to private capital (private equity and private credit) does not pose any immediate issues to the liquidity requirement of the ND Legacy Fund.**
- **Current projections for robust royalties from oil and gas in ND will support strong growth in the market value of fund assets and distributions under either policy, and that the increase in exposure to illiquid assets does not compromise the ability of the Fund to meet its transfer obligations to the general fund, nor interfere with the operation of the investment program.** One caveat to this finding:
  - Spending at the maximum allowable rate (15% of principal plus income) will eventually cause growth in the real value of the corpus and spending will stop after 15 years, and both measures will begin to decline as spending catches up to the inflows.
  - This analysis assumes the legislature does not invoke this maximum allowable rate, but sticks with either the current earnings distribution policy or adopts a POMV policy.
- **The analysis of the proposed Mix 3, with 3% in private capital, suggests that MV and spending will be modestly improved over the current target, with no substantial worsening of the worse case result.**

Appendix – Reference Materials

North Dakota In-State Investment Program Overview

Neutral Factual Testimony

The State Investment Board (SIB) has supported Bank of North Dakota's (BND) Match Loan CD Program, which provides cost-efficient funding to businesses looking to grow existing operations or establish a new business in North Dakota, for over 30 years.

In 2019 and 2020, the Legacy Fund Advisory Board (Advisory Board) and SIB doubled the size of its commitment to the BND Match Loan CD Program from $200 million in 2019 to $400 million in 2020 (and represents an approximate 5% target asset allocation).

In 2020 and 2021, the Advisory Board and SIB conducted a study to determine the most efficient and prudent manner to expand the in-state investment program. After reviewing the study, the Advisory Board approved a new 3% Private Capital allocation with a preference for in-state investments. The SIB approved this recommendation to increase Legacy in-state investment targets to 8%.

As a result, the Legacy Fund asset allocation policy now includes a 5% target for the BND Match Loan CD Program as a Fixed Income sector allocation in addition to a target 3% Private Capital allocation (+/- 3%) with a preference for in-state investments at a competitive rate (which reduced Legacy's asset allocation to Global Equities from 50% to 47%).

Private market investments take a significant length of time to prudently deploy capital as it commonly takes many years to hit investment targets.

Legacy Fund earned a net investment return of 9.25% per annum for the 5-years ended Dec. 31, 2020. In the last half of 2020, Legacy's net investment return was 14.3% (or $1 billion) which exceeded the policy benchmark return by 1% (or $70 million) after all fees and expenses.

As of January 31, 2021, the Legacy Fund balance exceeded $8.1 billion including nearly $2.7 billion of net investment income (since inception) with current biennium to date earnings of $636 million (as defined by NDCC 21-10-12). Legacy Fund earnings were $455,263,216 in the 2017-19 biennium (as defined by NDCC 21-10-12) and were transferred to the General Fund in mid-2019.

Note: Reported amounts post June 30, 2020, are unaudited and subject to change.

Overview of Recent SIB and Advisory Board Legacy Fund In-State Investment Plan Activities

Key Milestones to Expand Legacy Fund In-State Investment Program:

Sep. 25, 2020 - SIB raises Legacy Fund In-State Investment Program Commitment to $400 million

Oct. 23, 2020 - Callan, Barings, Commerce, Grosvenor and Hamilton Lane share their insight, background and experience in expanding SIB's existing in-state investment program

Nov. 20, 2020 - Callan, RIO and SWIB In-State Portfolio Manager highlight common elements of other mature in-state investment programs in private equity, venture capital and private credit
- Mosaic Governance Advisors reviews key factors when "*Constructing Prudent Due Diligence When Considering an In-State Investment Program*"

Jan. 22, 2021 - RIO outlines key considerations to expand the Legacy Fund In-State Investment Program
- Callan and RIO review recent in-state investment survey results and propose a timeline to advance an "In-State Investment Program" for review and approval by the Advisory Board

Jan. 29, 2021 - RIO recommends the Advisory Board engage Callan to conduct an asset allocation study to evaluate the impact of including a target allocation to private equity by February 12, 2021; and
- Acknowledge the SIB will seek to engage Callan to identify at least one private equity firm with expert, institutional experience within "in-state private equity programs" by March 26, 2021

Feb. 12, 2021 - Callan to present the results of their asset allocation study including the recommended options to expand the Legacy Fund in-state investment program in the private markets. RIO will seek to incorporate the recommended changes into a new Legacy Fund investment policy statement

Feb. 26, 2021 - RIO will seek SIB approval of Legacy Fund's revised investment policy statement including any asset allocation changes to add a new private markets in-state investment program

Mar. 26, 2021 - Callan and RIO will advance at least one investment management firm with expert, institutional experience in implementing a new in-state investment program in the private markets

<u>Callan In-State Investment Program Research of Other U.S. Public Funds</u>:

Callan previously provided a comprehensive list of 23 in-state investment programs in 16 other states ranging in size from $50 million in Colorado and Nevada and up to roughly $1 billion in larger states like California, Florida, New Mexico, New York and Texas. **Although the dollar value of the programs varied widely, they generally represented less than 3% of the underlying investment fund.**

Callan also highlighted programs in states like Alaska, Connecticut, Nevada, New Mexico and Oregon with state economies being more closely comparable to North Dakota's in terms of size and structure (with GDP ranging from $54 to $287 billion). Amounts invested within this group ranged from $50 million to $360 million based on Callan's research. Most of these programs invested in multiple asset classes, though the primary focus is venture capital and growth equity, noting that these two strategies are expected to be the most effective in driving job creation and economic development. Implementation has been through a combination of private equity fund commitments and co-investments, although each state uses different guidelines for which types of businesses the programs intend to target. Most of these programs are designed to support businesses in the state, although Connecticut and Oregon's are regional. Investment outcomes across these state programs has varied from satisfactory to disappointing.

Asset Class	Policy Target Percentage
Broad US Equity	30%
Broad International Equity	20%
Fixed Income and BND CD	35%
Core Real Estate	5%
Diversified Real Assets	10%

Broad U.S. Equity	28%
Broad Non-U.S. Equity	19%
Private Capital	3%
Fixed Income and BND CD	35%
Broad Real Estate	5%
Diversified Real Assets	10%

SIB Raises In-State Investment Targets up to 8% as Recommended by Legacy Fund Advisory Board

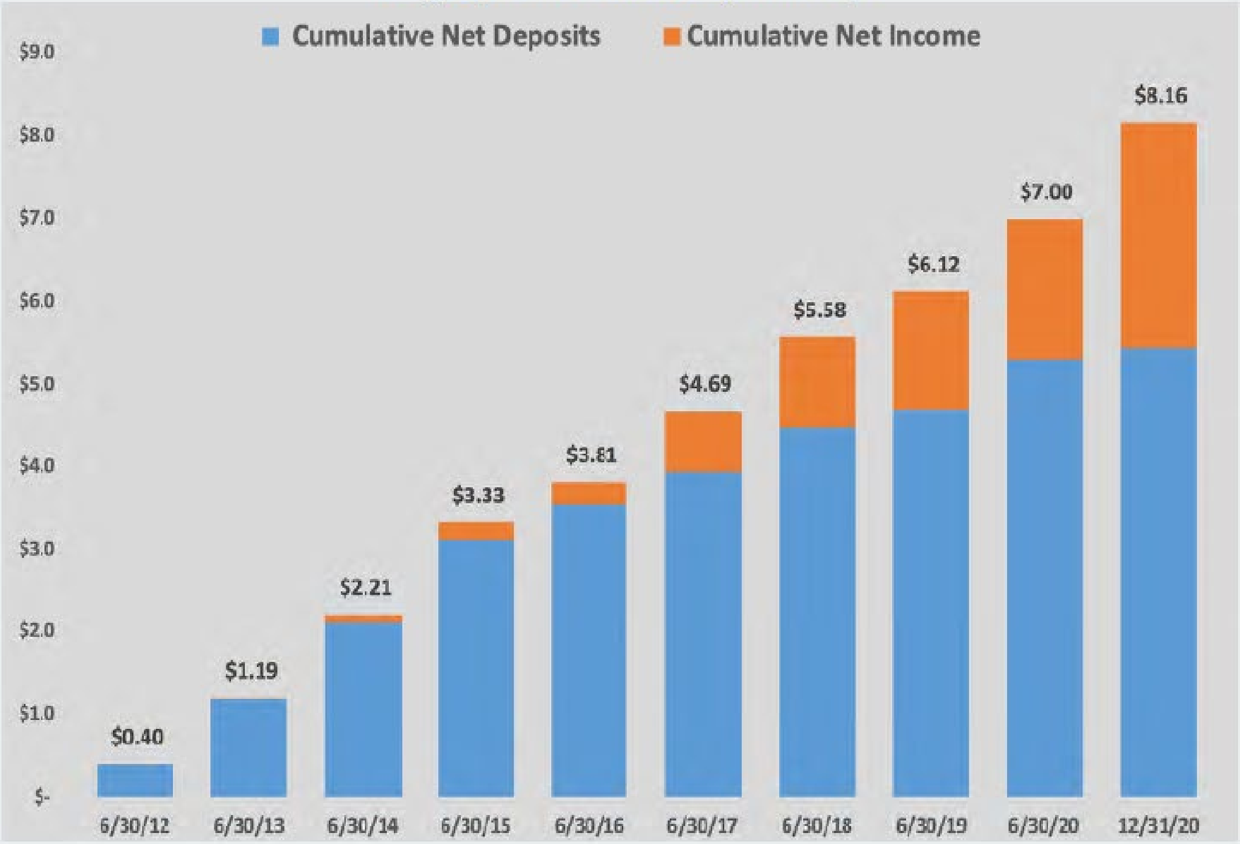
During the past 18 months, the SIB has doubled the size of the Legacy Fund In-State Investment Program by increasing its long-standing commitment to the Bank of North Dakota Match Loan Program – from a $200 million commitment in August of 2019 to a $400 million in November 2020. In 2021, the Advisory Board and SIB seeks to further expand its commitment to the Legacy Fund In-State Investment Program by adding a new private capital allocation with a preference to target in-state investments in private equity and private credit. The SIB approved these Advisory Board recommendations in February and is working towards identifying a new In-State Investment Program management firm.

Legacy Fund Gains Over $1 billion in Last Half of 2020

The Legacy Fund balance exceeded $8 billion at year-end 2020 and has earned over $2.7 billion of net investment income since inception.

Legacy Fund net investment returns exceeded 14.3% in the last half of 2020 and 9.25% per annum for the 5-years ended 12/31/2020. Month-end valuations and investment results are reported on RIO's website.

Legacy Fund Balance ($ in billions)



SWFI Rank		6-Mos. Ended 12/31/2020	1-Year Ended 12/31/2020	5-Yrs. Ended 12/31/2020
1	**Norway Gov't. Pension Fund Global $1.3 trillion**			
	Net Investment Return	**na**	**10.86%**	**8.69%**
	- Passive Benchmark	*na*	*10.59%*	*8.50%*
	72.8% Equity / 24.7% Fixed Income / 2.5% Real Estate			
18	**Alaska Permanent Fund $73 billion**			
	Net Investment Return	**15.74%**	**12.15%**	**10.09%**
	- Passive Benchmark	*18.24%*	*12.38%*	*9.40%*
	60% Equity / 20% Fixed Income / 10% US TIPs / 10% Real Estate			
31	**New Mexico SIC Land Grant $22 billion**			
	Net Investment Return	**14.24%**	**8.94%**	**8.68%**
	- Interim Policy Index	*14.55%*	*10.13%*	*8.75%*
	51% Equity / 26% Fixed Income / 12% Real Estate / 10% Real Return / 1% Cash			
45	**Wyoming Permanent Mineral $9 billion**			
	Net Investment Return	**11.5%**	**9.1%**	**7.1%**
	- Passive Benchmark	*11.2%*	*8.4%*	*6.9%*
	40% Equity / 36% Fixed Income / 11% Real Estate / 7.5% Hedge Funds / 5.5% MLPs			
47	**North Dakota Legacy $8 billion**			
	Net Investment Return	**14.37%**	**12.22%**	**9.25%**
	- Passive Benchmark	*13.32%*	*12.08%*	*8.60%*
	50% Equity / 35% Fixed Income / 5% US TIPs / 5% Real Estate / 5% Infrastructure			

Texas Permanent School Fund and University of Texas Investment Management Company are ranked 23 and 24, resepctively, but have an August 31 fiscal year end and extensive private investments impacting comparability.

Callan

March 23, 2021

Legacy and Budget Stabilization Fund Advisory Board

Asset Allocation Review: Phase Two

Paul Erlendson
Fund Sponsor Consulting

Alexander Browning
Fund Sponsor Consulting

Jay Kloepfer
Capital Market Research

Overview

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  7. "The staff and consultants of the state retirement and investment office shall advise the board in developing asset allocation and investment policies."
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  D. Phase Two analyzes the impact of Private Capital investments by measuring the dollar-based future variations in the Legacy Fund's *market value;* ranges of *expected inflows* (based on projected oil prices and production volumes); and *ouflows transferred to the General Fund* based on projected earnings.[2]

[1] Emphasis added
[2] Phase Two of the asset liability will assess the investment and fund value implications should a vote of at least two-thirds of the members elected to each house of the legislative assembly result in up to fifteen percent of the principal of the Legacy Fund being expended during a biennium.

Private Capital and the North Dakota Legacy Fund

- The Legacy Fund's current strategic asset allocation policy ("Target") includes six broad asset classes:
  - Public U.S. equity
  - Public non-U.S. equity, including emerging markets
  - Broad fixed income, including a 5% allocation to private credit
  - TIPS ("Treasury Inflation-Protected Securities")
  - Private infrastructure
  - Private real estate
- The North Dakota Legislative Assembly is currently considering legislation that would require the Legacy Fund to allocate capital to in-state investments. The majority of states with in-state programs invest via private rather than public markets for these types of investment mandates. This experience provides the basis for considering "private capital" as an asset class to house prospective direct private investments for the Legacy Fund.
- "Private capital" includes the potential for investment in private equity (ownership) and private debt (direct lending)
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- A Private Capital program will focus on investing in North Dakota, but the allocation will be broadly diversified and include private investments across the U.S.

Benefits and Considerations Private Capital

BENEFITS

- Expected higher return than in public markets, in exchange for illiquidity and lock-up of assets for an extended periods
  - Successfully implemented private ***equity*** expected to generate a 1.5% compound return premium over public equity
  - Successfully implemented private ***debt*** expected to generate a 4.5% compound return premium over public fixed income
- Define “private capital” as including investments in both private equity and private debt

CONSIDERATIONS

- Investing in private markets takes time
  - “Vintage year” diversification reduces exposure to economic downturns and market cycles dictate the available opportunities in a given year
  - Diversification by strategy and economic sector
  - Program stability and continuity will require a strategic plan to “pace” asset flows into and out of the program through time
  - Investments will mature (produce “realizations” at time of sale) at different times, generally over a 4 – 10 year period.
  - Distributions typically occur later in the cycle, requiring that new investments be funded with capital taken from other assets
- Capital calls and illiquidity will impact the ability of the Legacy Fund to generate cash for distributions
  - Private capital strategies typically call capital from investors over a period of years rather than all at once.
  - Assets invested in private capital cannot be redeemed on demand, requiring that funds be taken from a smaller subset of the liquid, public market assets in order to meet biannual distributions.
  - Market drawdown in public equities or a large withdrawal under the current spending policy will push up the relative size of the private markets program, altering the desired risk profile for the investment program
- Size and pacing matters
  - The in-state program manager will develop a multi-year plan to deploy target amount of assets into the investment opportunities..
  - Depending on the opportunities presented, it may be prudent to work up to the target allocation size over time.

Callan

Add Private Capital – Return and Risk

Legacy Fund Asset Allocation Review: Phase One

2021 Callan Capital Market Assumptions

Risk and return: 2021–2030

		PROJECTED RETURN			PROJECTED RISK		
Asset Class	**Index**	**1-Year Arithmetic**	**10-Year Geometric***	**Real**	**Standard Deviation**	**Sharpe Ratio**	**Projected Yield**
Equities							
Broad U.S. Equity	Russell 3000	8.00%	6.60%	4.60%	17.95%	0.390	1.95%
Large Cap U.S. Equity	S&P 500	7.85%	6.50%	4.50%	17.70%	0.387	2.00%
Small/Mid Cap U.S. Equity	Russell 2500	8.75%	6.70%	4.70%	21.30%	0.364	1.75%
Global ex-U.S. Equity	MSCI ACWI ex USA	8.70%	6.80%	4.80%	20.70%	0.372	2.80%
Developed ex-U.S. Equity	MSCI World ex USA	8.25%	6.50%	4.50%	19.90%	0.364	3.00%
Emerging Market Equity	MSCI Emerging Markets	9.80%	6.90%	4.90%	25.15%	0.350	2.35%
Fixed Income							
Short Duration Gov't/Credit	Bloomberg Barclays 1-3 Yr G/C	1.50%	1.50%	-0.50%	2.00%	0.250	1.55%
Core U.S. Fixed	Bloomberg Barclays Aggregate	1.80%	1.75%	-0.25%	3.75%	0.213	2.50%
Long Government	Bloomberg Barclays Long Gov	1.35%	0.60%	-1.40%	12.50%	0.028	3.00%
Long Credit	Bloomberg Barclays Long Cred	2.95%	2.45%	0.45%	10.50%	0.186	4.65%
Long Government/Credit	Bloomberg Barclays Long G/C	2.30%	1.80%	-0.20%	10.40%	0.125	4.00%
TIPS	Bloomberg Barclays TIPS	1.80%	1.70%	-0.30%	5.05%	0.158	2.35%
High Yield	Bloomberg Barclays High Yield	4.85%	4.35%	2.35%	10.75%	0.358	6.70%
Global ex-U.S. Fixed	Bloomberg Barclays Gl Agg xUSD	1.15%	0.75%	-1.25%	9.20%	0.016	1.80%
Emerging Market Sovereign Debt	EMBI Global Diversified	3.90%	3.50%	1.50%	9.50%	0.305	5.95%
Alternatives							
Core Real Estate	NCREIF ODCE	6.60%	5.75%	3.75%	14.10%	0.397	4.40%
Private Infrastructure	MSCI Glb Infra/FTSE Dev Core 50/50	7.00%	6.00%	4.00%	15.45%	0.388	4.60%
Private Equity	Cambridge Private Equity	11.50%	8.00%	6.00%	27.80%	0.378	0.00%
Private Credit	N/A	7.15%	6.25%	4.25%	14.60%	0.421	6.25%
Hedge Funds	Callan Hedge FoF Database	4.25%	4.00%	2.00%	8.00%	0.406	0.00%
Commodities	Bloomberg Commodity	3.80%	2.25%	0.25%	18.00%	0.156	2.00%
Cash Equivalents	90-Day T-Bill	1.00%	1.00%	-1.00%	0.90%	0.00%	1.00%
Inflation	CPI-U		2.00%		1.50%		

- Note that return projections for public markets assume index returns with no premium for active management.

- Geometric returns are derived from arithmetic returns and the associated risk (standard deviation); Projected yields represent the expected 10-year average
Source: Callan LLC

2021 Callan Capital Market Assumptions

Correlations: 2021 - 2030

	Lg Cap	Sm/Mid	Dev ex-US	Em Market Eq	Sht Dur	Core Fix	Long Gov	Long Credit	TIPS	Hi Yield	Global ex-US Fixed	EMD	Core Real Estate	Private Equity	Hedge Funds	Comm	Cash Equiv	Inflation
Large Cap U.S. Eq	1.000																	
Small/Mid Cap U.S. Eq	0.915	1.000																
Dev. ex-U.S. Eq	0.765	0.775	1.000															
Emerging Market Eq	0.775	0.765	0.845	1.000														
Short Duration	-0.040	-0.065	-0.050	-0.080	1.000													
Core U.S. Fixed	-0.100	-0.125	-0.105	-0.140	0.845	1.000												
Long Government	-0.100	-0.125	-0.110	-0.170	0.770	0.900	1.000											
Long Credit	0.300	0.275	0.230	0.230	0.640	0.840	0.750	1.000										
TIPS	-0.040	-0.075	-0.050	-0.085	0.555	0.640	0.530	0.480	1.000									
High Yield	0.600	0.585	0.570	0.560	-0.030	0.030	-0.100	0.400	0.055	1.000								
Global ex-U.S. Fixed	0.010	0.000	0.050	0.100	0.495	0.530	0.470	0.540	0.400	0.120	1.000							
EM Sovereign Debt	0.530	0.515	0.515	0.545	0.050	0.110	-0.010	0.350	0.180	0.600	0.010	1.000						
Core Real Estate	0.695	0.665	0.660	0.625	-0.005	-0.035	-0.045	0.320	0.000	0.455	-0.050	0.360	1.000					
Private Equity	0.830	0.805	0.795	0.765	-0.160	-0.185	-0.250	0.190	-0.135	0.525	0.060	0.425	0.600	1.000				
Hedge Funds	0.775	0.750	0.745	0.720	0.055	0.100	0.120	0.390	0.085	0.560	-0.050	0.540	0.525	0.635	1.000			
Commodities	0.220	0.210	0.205	0.200	-0.195	-0.100	-0.030	-0.045	0.120	0.100	0.150	0.190	0.200	0.180	0.210	1.000		
Cash Equivalents	-0.030	-0.045	-0.030	-0.065	0.300	0.100	0.040	-0.100	0.120	-0.110	0.000	-0.070	-0.060	0.000	-0.070	0.070	1.000	
Inflation	-0.020	0.020	0.000	0.030	-0.205	-0.280	-0.250	-0.250	0.100	0.070	-0.100	0.000	0.100	0.060	0.200	0.400	0.000	1.000

– Relationships between asset classes are as important as standard deviation

– To determine portfolio mixes, Callan employs mean-variance optimization

– Return, standard deviation, and correlation determine the composition of efficient asset mixes

Source: Callan LLC

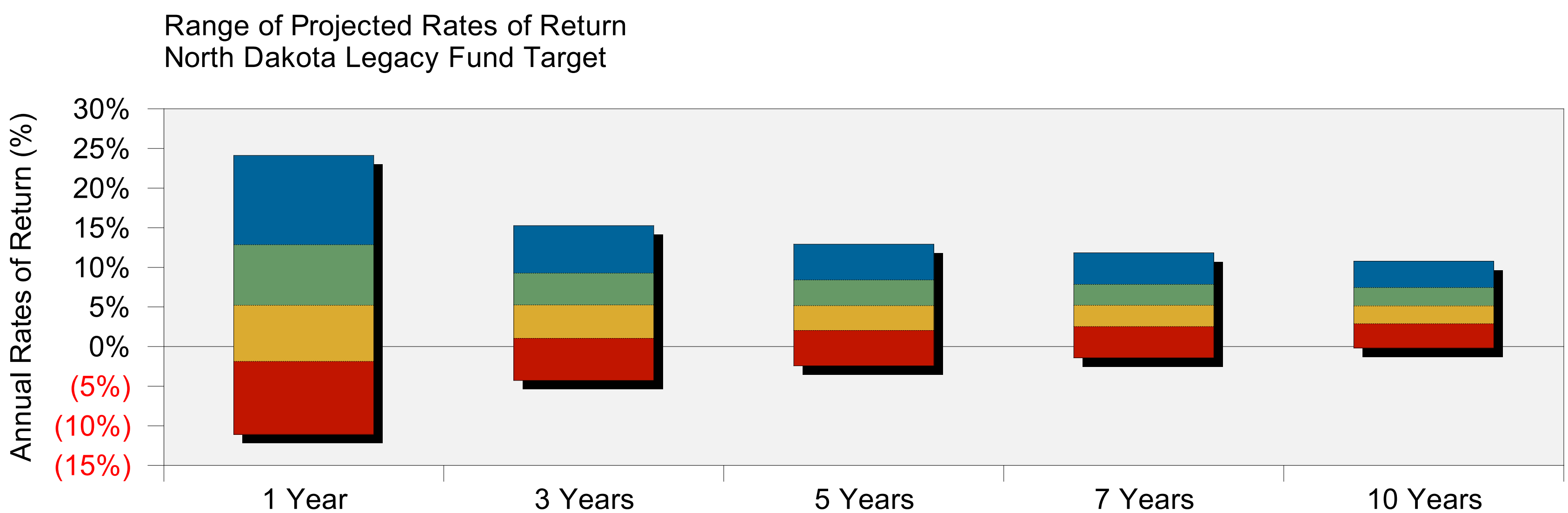
Legacy Fund's Current Policy Target; Alternative Mixes Add Private Capital

Asset Class	Policy Target	Optimal Mixes Mix 1	Mix 2	Mix 3	Mix 4	Mix 5
Broad US Equity	30%	29%	28%	28%	27%	27%
Broad Non-US Equity	20%	20%	20%	19%	19%	18%
Private Capital	0%	1%	2%	3%	4%	5%
Domestic Fixed Income	35%	35%	35%	35%	35%	35%
TIPS	5%	5%	5%	5%	5%	5%
Infrastructure	5%	5%	5%	5%	5%	5%
Real Estate	5%	5%	5%	5%	5%	5%
Total	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**
Expected Return	**5.14%**	**5.17%**	**5.20%**	**5.22%**	**5.26%**	**5.28%**
Expected Real Return	**3.14%**	**3.17%**	**3.20%**	**3.22%**	**3.26%**	**3.28%**
Expected Standard Deviation	**10.16%**	**10.22%**	**10.27%**	**10.31%**	**10.37%**	**10.42%**
Projected Yield	**2.59%**	**2.57%**	**2.55%**	**2.52%**	**2.51%**	**2.48%**
Total Equity (%)	**50%**	**50%**	**50%**	**50%**	**50%**	**50%**
Total Fixed Income (%)	**40%**	**40%**	**40%**	**40%**	**40%**	**40%**
% Illiquid	**15%**	**16%**	**17%**	**18%**	**19%**	**20%**

- The Policy Target (on left side of panel above) was adopted in 2013.
  - Real estate, private credit (5% of assets under fixed income) and infrastructure are the current illiquid asset classes. An allocation to private capital will increase illiquid asset exposure.
  - Maximum exposure to "illiquid" assets was limited to a maximum of 20% based on the Legislature's 15% of principal call option.
- The expected return for the Policy Target (first row in table above) represents a 10-year compound rate of 5.1%
- Alternative Mixes 1 – 5 add "Private Capital" in one percent increments: 1% in Mix 1 up to 5% in Mix 5

Range of Potential Return Over Multiple Time Periods – Policy Target

Illustration applies to the Current Target (excluding any allocation to "Private Capital")

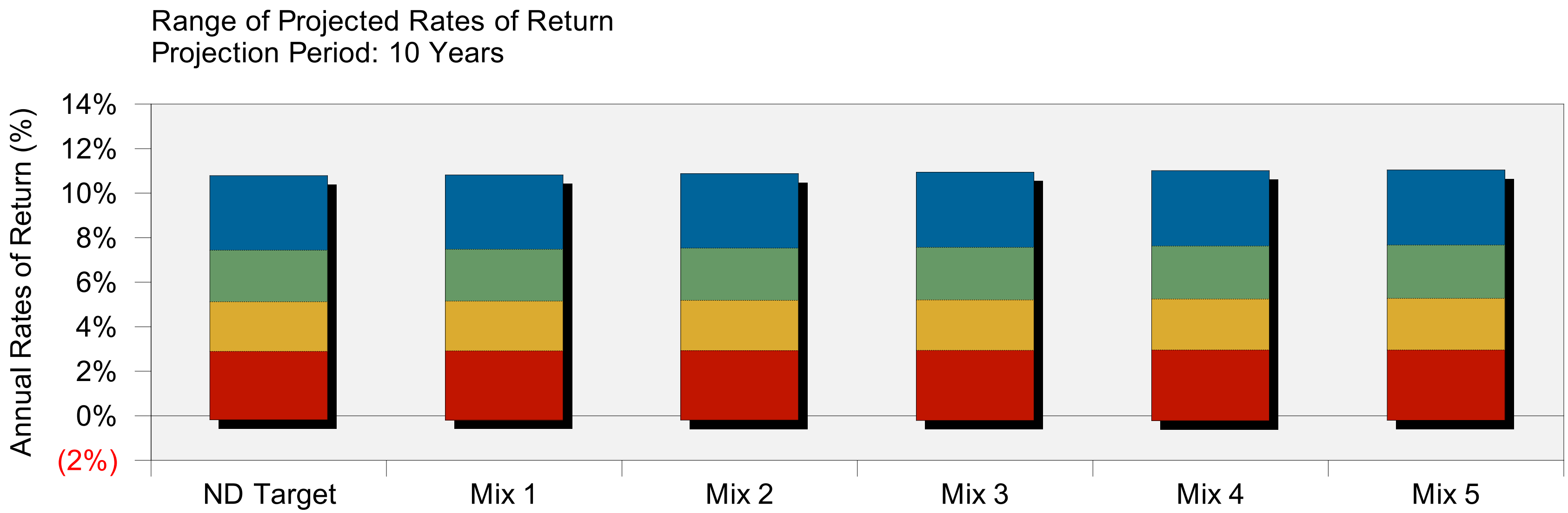


	1 Year	3 Years	5 Years	7 Years	10 Years
5th Percentile	24.1%	15.3%	12.9%	11.8%	10.8%
25th Percentile	12.8%	9.3%	8.4%	7.9%	7.4%
Median	5.2%	5.3%	5.2%	5.2%	5.1%
75th Percentile	(1.9%)	1.1%	2.0%	2.5%	2.9%
95th Percentile	(11.1%)	(4.3%)	(2.4%)	(1.4%)	(0.2%)

- Widest range of potential return outcomes is greater over shorter periods (bars on the left side of the chart) and decreases as the investment time horizon increases (bars on the right side of the chart)
- The greatest uncertainty of market returns (and greatest volatility) is likely to occur over a one-year period
- Range of compound returns narrows over time because the returns in good years offset those in poor years

Range of Potential Returns – 10 Year Projection

Illustration of the Current Target and five Alternative Mixes with progressively more Private Capital



	ND Target	Mix 1	Mix 2	Mix 3	Mix 4	Mix 5
5th Percentile	10.79%	10.83%	10.88%	10.95%	11.01%	11.04%
25th Percentile	7.44%	7.48%	7.54%	7.57%	7.62%	7.67%
Median	5.12%	5.16%	5.18%	5.20%	5.24%	5.27%
75th Percentile	2.89%	2.92%	2.93%	2.95%	2.95%	2.95%
95th Percentile	(0.17%)	(0.19%)	(0.20%)	(0.21%)	(0.22%)	(0.20%)

- The “ND Target” reflects the Legacy Fund’s current asset allocation policy and does not include Private Capital.
- The five alternative mixes add Private Capital in one-percent increments (1% in Mix 1 to 5% in Mix 5)
- Over a ten-year horizon, the addition of Private Capital modestly enhances returns in the expected case with a slightly wider range of potential outcomes
- Compounding of higher expected returns shifts the Total Fund return distribution modestly higher over time

Summary Observations – Phase One

OBSERVATIONS

- Existing in-state investment programs have clearly shown that the majority of investments are made via private markets rather than through public markets. They have typically begun with low single-digit target allocations.
- The addition of a "Private Capital" category to the Legacy Fund's Policy Asset Mix will be required if a robust in-state investment program is to be implemented without violating the Fund's current Investment Policy Statement
- All relevant parameters being equal, Private Capital is expected to have a preference for in-state investments although the category is also expected to be diversified with other private investments from across the U.S.
- The Legacy Fund's Private Capital and in-state investment program should be managed in accordance with Institutional best practice including diversification across vintage years, strategies, industries and geography
- As the Private Capital portfolio is assembled over time, it will reduce liquidity available to meet distributions
- Current portfolio invested in 15% illiquid assets
- Unique spending policy of up to 15% of fund assets available for distribution each biennium, on top of annual income, could tax liquidity in a market downturn or should oil and gas royalty payments decline.
- Private Capital programs are expensive so the Legacy Fund's investment management costs will likely increase.

Recommendations – Phase One

RECOMMENDATION – Accepted in February 2021

- Callan recommended that the Legacy and Budget Stabilization Fund Advisory Board consider adopting Mix 3. The interim Private Capital target is 3 +/- 3% (a range of a minimum 0% to a maximum of 6%).
  - The Target can be adjusted as the program gains traction via successful implementation.
- The Legacy Board and the State Investment Board accepted this recommendation to BEGIN the in-state investment program with a private capital allocation of 3%.
- Expansion of the in-state investment mandate will be subject to the SIB retaining a qualified program manager.

Callan

Cash Flow, Market Value and Annual Distribution Analysis Under Alternative Asset Allocation and Spending Policies

Legacy Fund Asset Allocation Review: Phase Two

Cash Flow, Market Value and Annual Distribution Analysis

Fully Integrated Model of the Legacy Fund

Phase Two of this asset allocation study takes a deeper dive to measure the cash flow implications of asset mixes that include various amounts of private capital. The study includes an evaluation of future Fund MV and cash flow based on:

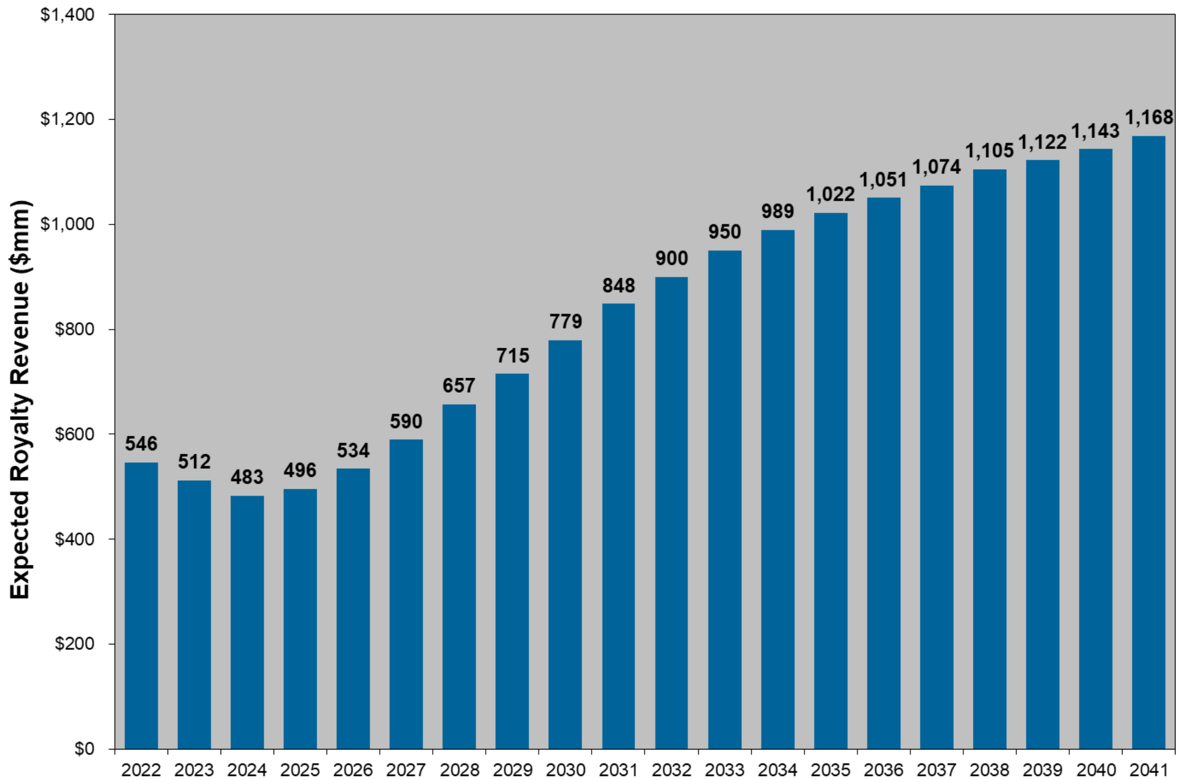
1. ND government projections of oil prices and production volumes that are used to establish inflows into the Legacy Fund;
2. Callan's standard Capital Market Assumptions (CMAs) to model alternative asset mixes' performance;
3. Outflow assumptions (annual distributions to the State's general fund. Two methods examined:
   1. Current policy - based on the North Dakota Century Code's definition of "earnings", AND
   2. A percent of market value (POMV) model, which Callan suggests is industry best practice

A key element to the analysis included an evaluation of the distribution or "spending policy" of the ND Legacy Fund.

- The ND legislature is considering a change to the NDCC to remove "earnings" and replace the distribution policy to POMV, so we modeled both methods.
- The volatility of the distribution can vary greatly under the two methods (earnings and POMV)
- The size of the distribution can be tailored under either method to meet goals articulated for the Fund.
  - For the earnings method, the percent of earnings transferred can be changed, as can the definition of earnings. Current policy is 100% of earnings.
  - For POMV, the % of assets transferred can be changed, as can the period over which the market value is calculated for the transfer.

Project Oil and Gas Tax Deposits Into Legacy Fund

Baseline Scenario Developed from OMB, ND Pipeline Authority Projections



WTI Crude for Feb = $59.40

Baseline assumes oil prices remain steady near current price around $50 through 2025, then rise to $75 by 2040. Forecast for the next two fiscal years comes from OMB, and is then merged with NDPA forecast

Production remains steady near current level of 1.1 mm barrels per day (BOPD) through 2025, then rises gradually to 1.6 mm through the forecast to 2040.

Distribution Policy Considerations

- General rule of thumb: to balance intergenerational equity in the absence of inflows, a policy can’t spend more than the expected real return on investments over the long run.
- Rule leads many endowments, foundations and state natural resource funds to seek a higher return to support higher real spending – a tilt toward growth assets, similar to than embraced by the Legacy Fund
  - Inflation of 2%-2.5% plus a nominal return target of 7% results in a real return expectation of 4.5%-5%
  - 5% is typical of the spending targeted by a majority of foundations & endowments.
  - Challenge in today’s environment: generating a real return of 5%. Many institutions have reconsidered spending policies in light of expectations for the capital markets.
- How to accommodate potential inflows from royalties?
  - Ignore – dedicate to growing the endowment for future spending.
  - Acknowledge – supports spending in excess of the real investment return. **<u>This policy is the embedded in the Legacy Fund.</u>**
  - Projections for strong royalty revenue suggests that the Legacy Fund could support spending in excess of the expected real return; reduction in royalty expectations would suggest reconsideration of the effective rate of spending by the Fund.
  - Most similar funds calculate spending from market value of assets smoothed over a rolling time period, 3 to 5 years. Purpose of rolling Market Value (MV) calculation is to smooth spending in light of volatile capital markets.
  - Legacy Fund distribution policy is unique.
    - *Income accrues over the biennium and is transferred to the General Fund at the beginning of the next biennium. Realized capital gains introduce an asymmetry into spending, with a zero floor imposed when gains turn to losses in a market downturn.*
    - *The Legislature may spend up to 15% of the market value of the fund each biennium. This distribution has not been exercised thus far.*
    - *Income and capital gains accrue over a set two year period that contracts as each month and quarter passes, and then a large chunk of the assets are sent over to the general fund at the conclusion of the biennium*

Note: NDCC Earnings approximated $636 million for the 20 months ended January 31, 2021.

Distribution Policy Evaluation

Current Earnings Policy

- Current legislation calls for transfer of 100% of “Earnings” to General Fund.
  - *NDCC 21-10 defines “Earnings” as interest and dividend income plus or minus net realized capital gains or losses.*
  - “Earnings” or “Income” accrues through the end of each biennium, and is to be transferred at the start of the next biennium.
  - Legislature is permitted to spend up to 15% of the Fund principal in each biennium (e.g. 7.5% year). These funds are expected to be transferred at the start of the next biennium. The legislature has not exercised this option thus far.
- Earnings = interest + dividends + realized capital gains
  - Using Callan’s yield and dividend projections, the “income” component of earnings is expected to amount to between 2% and 3% of fund assets.
  - Turnover generates capital gains, including turnover required to effect the transfer of assets to the general fund.
  - For the current biennium, falling interest rates have held income to $183 million through January 2021, while capital gains have totaled $406 million.
  - Sum of income and capital gains for 19-21 biennium is projected to reach $750 million, almost 9% of expected Fund market value. On an annual basis, 9% approximates 4.5%, in line with common rates of spending from endowments and state resource funds.
  - Strong inflows from royalty revenues can offset a high rate of spending and support the goal of intergenerational equity. NET outflows for 19-21 biennium are projected to be 2.5% of MV.
  - Lower royalty inflows may require tempering of spending rate attached to the market value of the Fund.
  - Including realized capital gains in earnings results in the potential for *substantial volatility* in the potential transfer to the general fund each year. Losses can reduce earnings to zero (or below) in worse case outcomes. Limiting earnings to zero due to losses from capital gains adds an asymmetry to the distribution policy, which skews the median distribution over time upward.
- The legislation establishes a spending policy of as much as 12% per year (e.g. 4.5% + 7.5% = 12%). This rate is much higher than most endowments or permanent funds.
  - The potential to draw 15% in any one biennium may limit the ability of the Legacy Fund to invest in illiquid assets.

Alternative Distribution Policy Evaluation

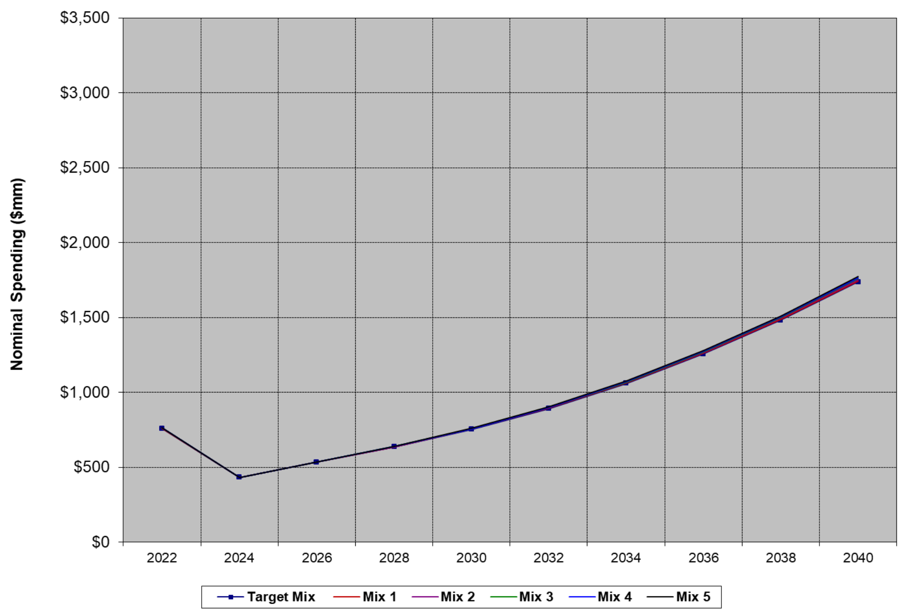
Percentage of Market Value (POMV)

- POMV distribution simplifies the distribution policy for both the Legacy Fund and the general fund, and enables a much more reliable, predictable projection of the amount available for transfer each biennium
- Two levers to customize the POMV policy
  - Percentage of MV for transfer
  - Definition of MV for calculation – rolling average market value: number of periods, lags
    - *The longer the rolling period over which MV is calculated, the smoother the distribution will be from year to year*
    - *Lagging the period for calculation makes planning easier for the legislature – the amount of the distribution is known well in advance*
    - *The longer the period for the rolling MV and the greater the lag, the lower the effective distribution rate, assuming expected growth from investments and continued deposits of royalty revenue*
    - *A rolling 5-year POMV with a one-year lag will have an effective distribution policy that is 1% to 2% lower than the stated distribution rate*

Nominal Distributions – Earnings vs POMV

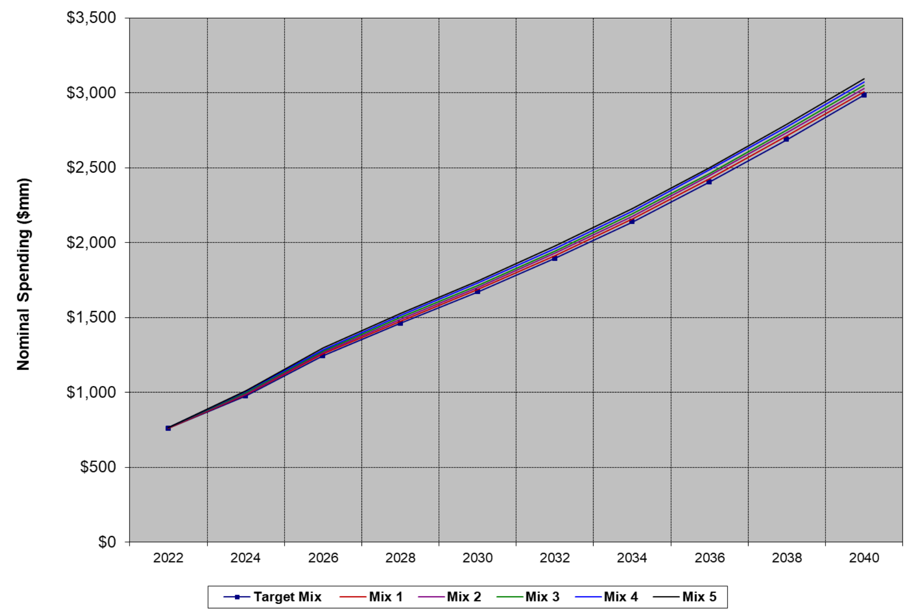
Deterministic Projections – No Capital Market Uncertainty

6% POMV Per Biennium, 5-Year MV Smooth, Lagged One Fiscal Year



– Distribution for FY 2022 reflects transfer of 100% of earnings based on 2019-21 biennium. 6% of biennia POMV is assumed thereafter.

Earnings Transferred Each Biennium in the First Month of the Next Biennium



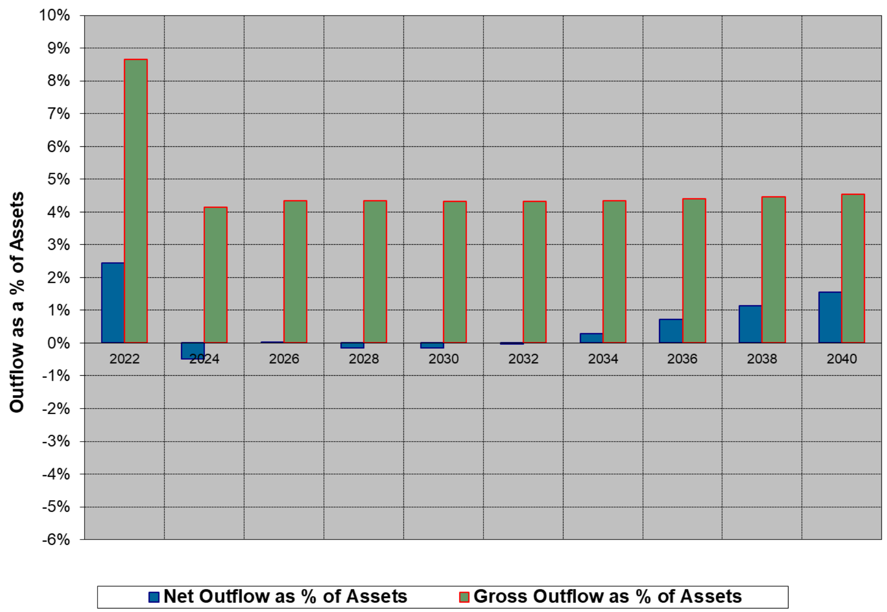
– Distribution for 100% of earnings is assumed for the forecast.

– Charts are on the same scale to facilitate comparison.

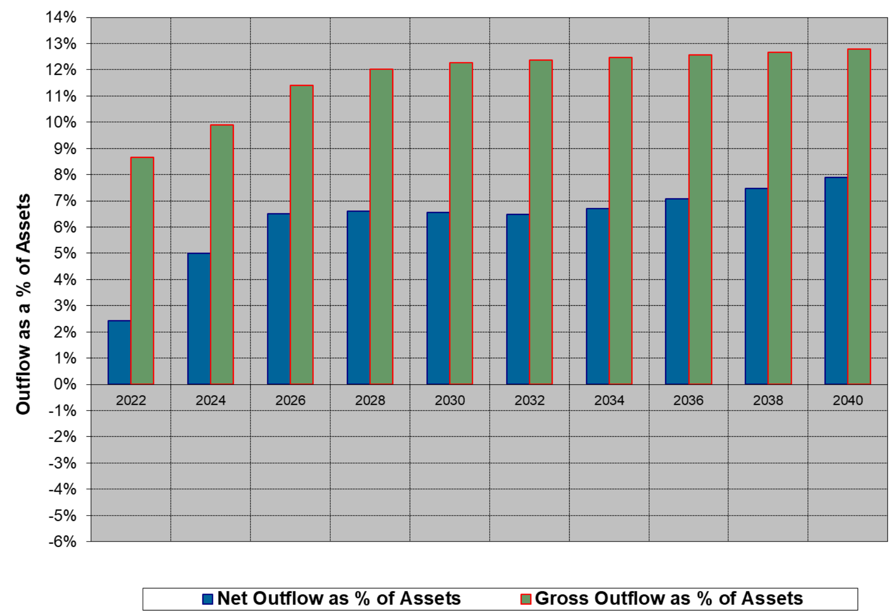
Nominal Distribution – Earnings vs POMV

Effective Distribution Rate

6% POMV Per Biennium, 5-Year MV Smooth, Lagged One Fiscal Year



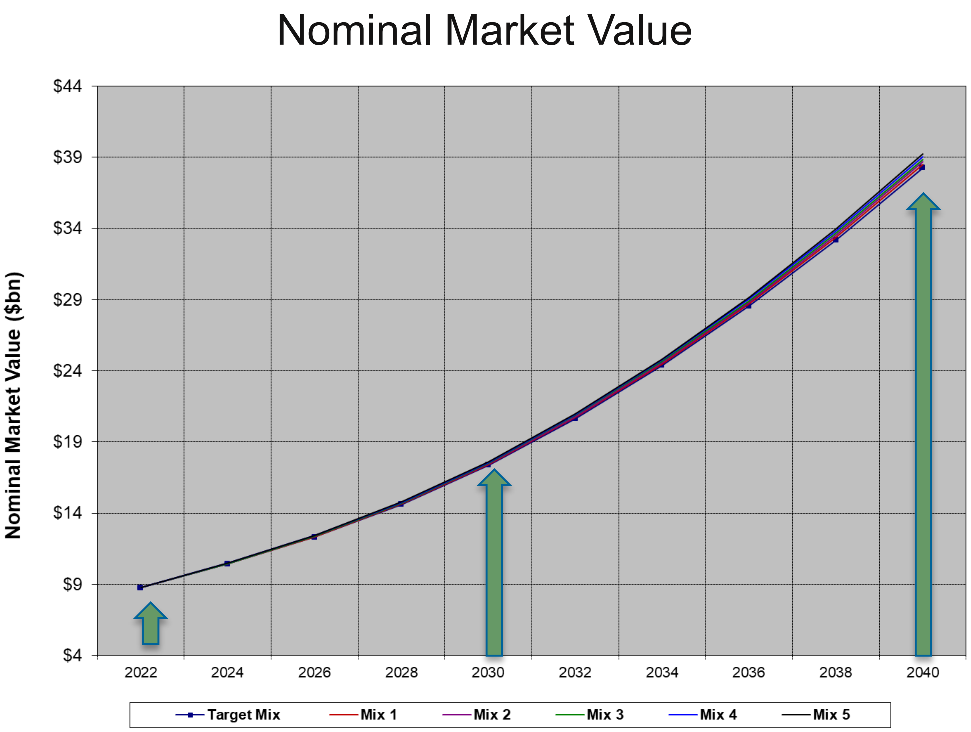
Earnings Transferred Each Biennium in the First Month of the Next Biennium

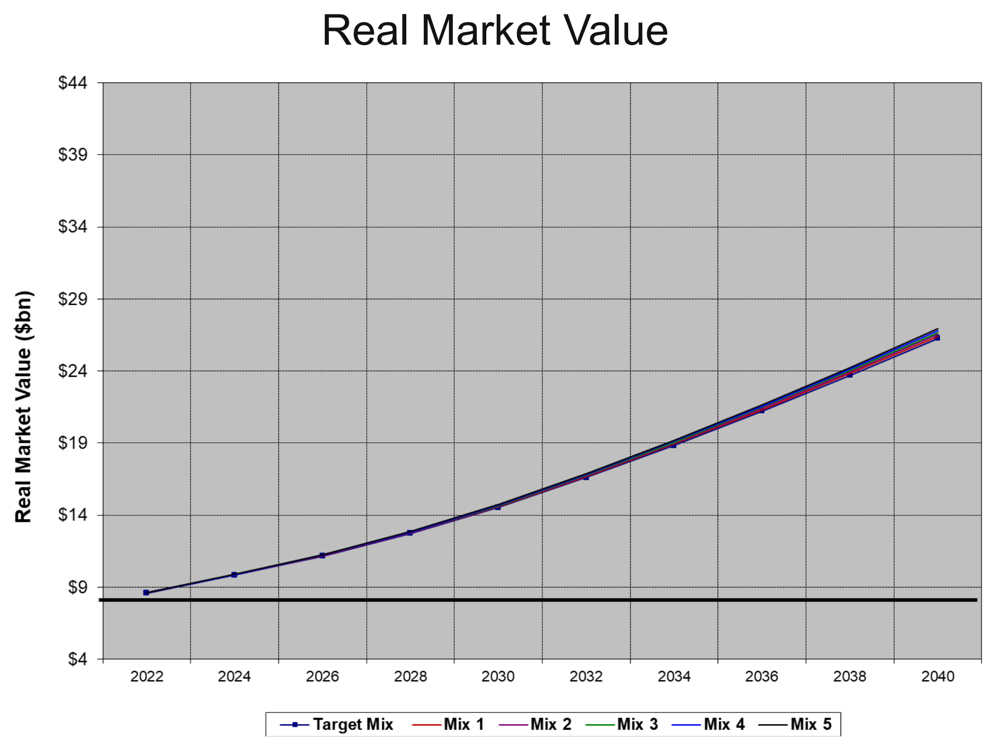


- Gross outflow as a % of assets is the distribution back to the general fund divided by the MV of the fund at the time of distribution.
  - FY 22 reflects earnings transfer attributable to the 19-21 biennium; $636 million through January, projected to be $750 m for the full period. Then the POMV formula kicks in.
  - With a five year MV average and a year lag, the actual MV grows with investments and royalty deposits; the calculated transfer in July 2024 amounts to only 4% of assets rather than 6%.
  - On the right, the sum of income plus capital gains generates a biennial gross % of MV closer to 12%, or 6% a year. Average yield for the portfolio is 2.5% over 10 years, to which we add realized gains, which are projected to match the income over the forecast. This projection is in line with the Fund’s experience – in the current biennium the gains are 2x the income!

Projected Growth in Legacy Fund Market Value – 6% POMV

Distribution Policy of 6% of Market Value of Assets Per Biennium





Mix 3 = Legacy Fund grows to $17 billion in 2030 and $38 billion by 2040.

Charts show nominal and real (inflation-adjusted) market value for the year following each biennium, after transfers to the General Fund have been removed.

Nominal and real market values increase under all asset allocations, supported by strong inflows from ND royalty forecasts.

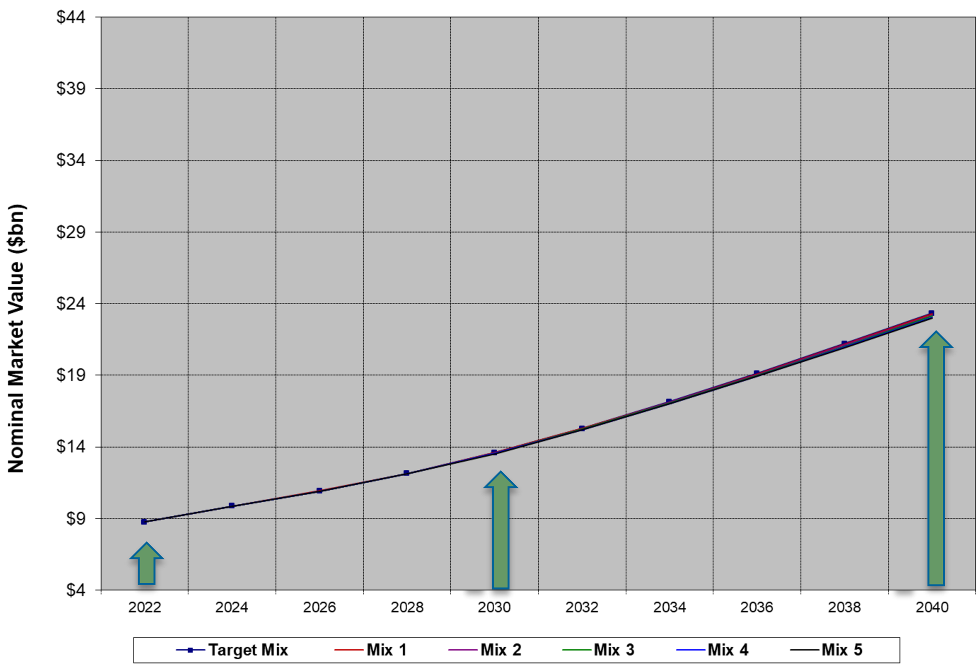
Purchasing power of the Legacy Fund (real value of Fund assets) can be sustained over the long run under a distribution policy of 6% of POMV each biennium. The Fund could easily sustain a higher rate of POMV spending, 4% to 5% per year, or 8-10% per biennium.

Distributing at the maximum rate allowed for the Fund (income plus 15% of fund value) would eventually catch up to inflows from oil and gas, and real value of the fund begins to decline after 15 years for all mixes (not shown above).

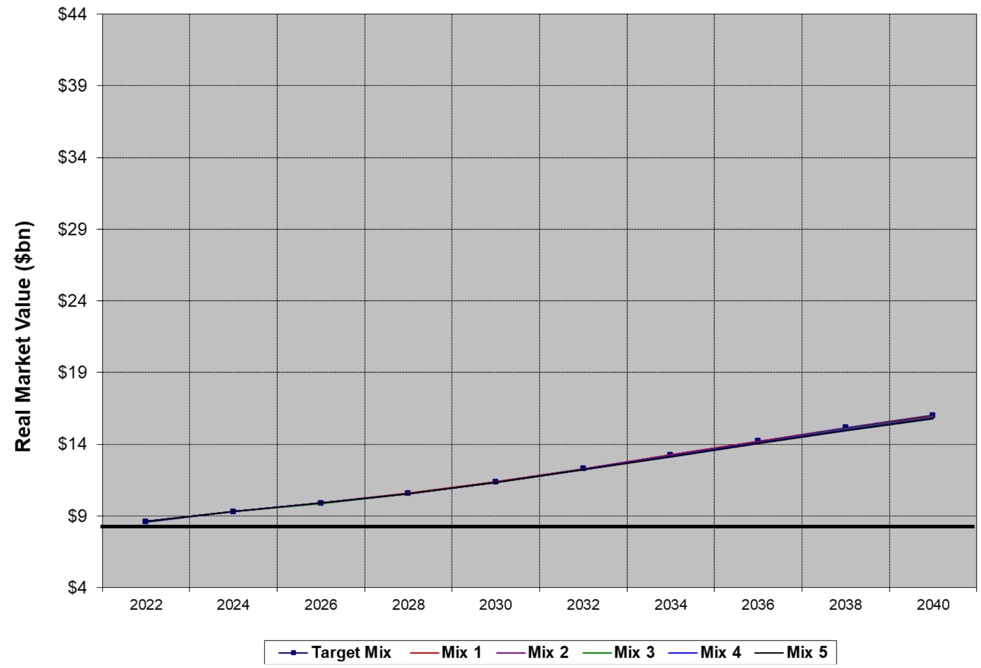
Projected Growth in Legacy Fund Market Value – Earnings

Distribution Policy of 100% of Earnings (NDCC Definition) Assets Per Biennium

Nominal Market Value



Real Market Value



Mix 3 = Legacy Fund grows to $14 billion in 2030 and $23 billion by 2040.

Charts show nominal and real (inflation-adjusted) market value for the year following each biennium, after transfers to the General Fund have been removed.

Nominal and real market values increase under all asset allocations, supported by strong inflows from ND royalty forecasts.

Purchasing power of the Legacy Fund (real value of Fund assets) can be sustained over the long run under a spending policy of 100% of earnings each biennium. Effective annual spending rate rises from 5% to 8% over the forecast period. Earnings spending can be managed by adjusting the percentage spent (0-100%) or changing the definition of earnings with regard to capital gains.

Conclusions – Deterministic Results

The Legacy Fund spending policy (via distributions to General Fund) is expected to generate a lumpy spending pattern, with large outflows moving from the fund at the start of a biennium & no outflows in the following year.

Spending is based on the income earned during the previous biennium plus realized capital gains, defined as "earnings. The real value of Fund assets is projected to grow over the next 10 and 20 years for all asset mixes, fueled by strong projections of royalty revenues. A spending rate of 100% of earnings over each biennium is expected to result in growth in both the real value of Fund assets and spending, supported by the expected strong inflows of oil & gas revenues under current ND state projections.

The earnings-based distribution policy has the potential for very wide swings in potential distributions for each subsequent biennium, subject to the capital market vagaries of realized capital gains and losses. Worse case scenarios show distributions of zero in years with substantial capital losses.

POMV distribution results in far more stable, predictable distributions. The policy is easier to manage for both the Legacy Fund and the legislature, does not require the tracking and definition of earnings nor an earnings reserve, and the predictability regardless of the market conditions enhances the budgeting process . The size and stability of the distributions to meet the goals of intergenerational equity and Fund asset growth can be managed through the appropriate setting of the POMV rate, the period over which the MV is calculated and the imposition of a lag between the MV calculation and the effective distribution.

The impact of oil & gas tax inflows on the purchasing power and real spending can be profound. With no inflows, preserving the purchasing power (real market value) and real spending would be challenged at an annual rate beyond the real investment return (current target real return is 3.6%). The current projections of $60 oil and 1.4 mm BOPD are expected to support a policy of income plus 5% of Fund principal. Under the maximum spending rate allowed, the current revenue projections will be challenged eventually, even for the most aggressive asset mixes.

Limitations of Deterministic Projections

A deterministic projection does not reflect capital market uncertainty (risk).

10-year (and 20-year) returns with no volatility - a deterministic projection with the same return each year - may yield substantially different results from a series of 10 annual returns with substantial volatility but the same 10-year average return. The sequence of the returns matter, as do the size of the swings. Negative returns earlier in the period may cause less harm than later in the period, when more money may be at stake.

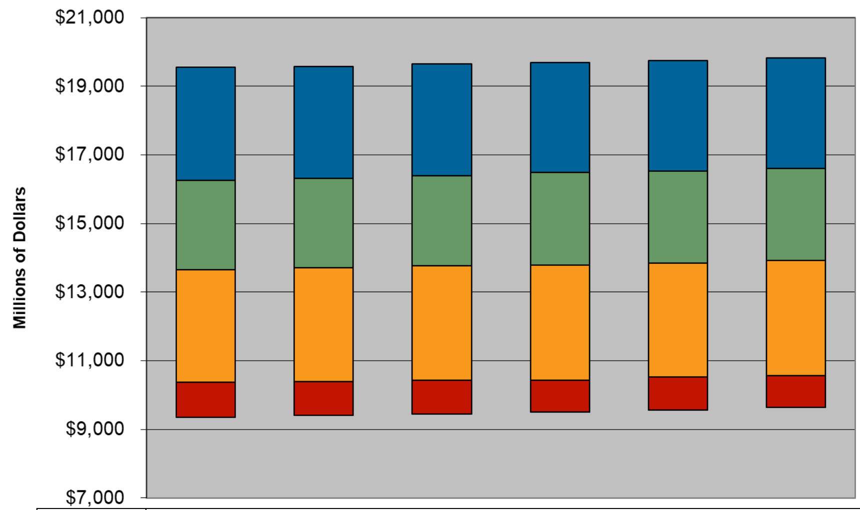
Simulation models that take volatility and probabilities into account typically generate median returns - those with a 50% probability of occurring - that are below those of the deterministic or average projections.

The deterministic projections paint a more optimistic view of the Legacy Fund over the next 20 years than under a regime of capital market uncertainty.

Simulated Market Values in 2030 – 6% POMV Distribution Policy

Spending Policy of 6% of POMV Per Biennium

Range of Nominal Ending Market Values in 2030



Percentile	Target	Mix 1	Mix 2	Mix 3	Mix 4	Mix 5
25th	$19,554	$19,582	$19,652	$19,690	$19,751	$19,828
50th	$16,255	$16,312	$16,395	$16,484	$16,527	$16,603
75th	$13,648	$13,714	$13,768	$13,790	$13,840	$13,916
95th	$10,369	$10,386	$10,423	$10,423	$10,536	$10,572
98th	$9,359	$9,417	$9,446	$9,507	$9,555	$9,643

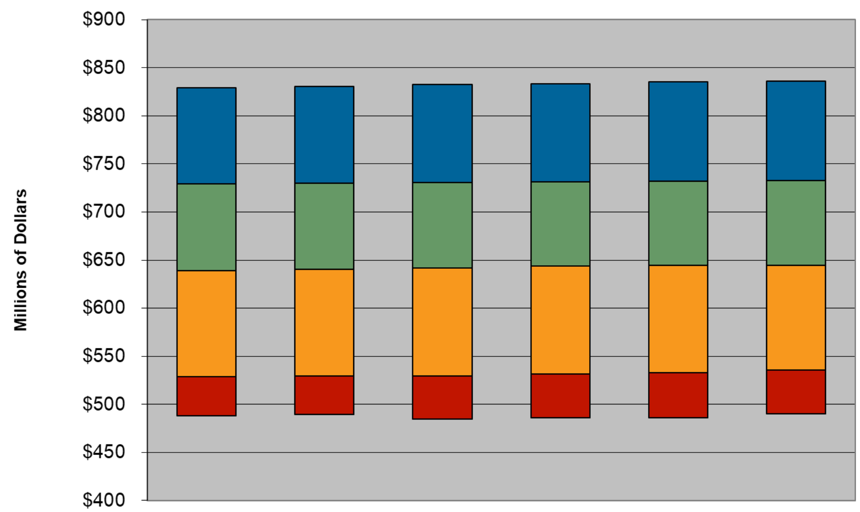
The Legacy Fund is forecasted to reach $16.3 billion in 2030 under the current "Target" asset allocation, while ranging from $9.4 billion to $19.6 billion.

- Nominal (non-inflation-adjusted) Fund market value for the current Target in 10 years ranges from $9.4 b in the worse case scenario (98th percentile, approximately 2 standard deviation event on the downside) to $19.5 b at the 25th percentile, with a median of $16.2 b.
- Median market value is higher as private capital exposure increases (moving from Mix 1 to Mix 5), while the range of results remains roughly comparable, suggesting the addition of private capital enhances MV but does not worsen the downside risk.
- Purchasing power under 6% POMV distribution policy over ten and twenty years can be maintained in the expected case across all of the asset mixes, thanks to the strong inflows of oil & gas tax receipts. Worse case scenarios for all asset mixes suggest the potential for erosion of purchasing power is low.

Simulated Spending in 2030 – 6% POMV Distribution Policy

Spending Policy of 6% of POMV Per Biennium

Range of Nominal Spending in 2030



Percentile	Target	Mix 1	Mix 2	Mix 3	Mix 4	Mix 5
25th	$829	$831	$832	$833	$835	$836
50th	$729	$730	$731	$731	$732	$732
75th	$639	$641	$642	$644	$644	$645
95th	$529	$529	$530	$532	$533	$535
98th	$488	$489	$485	$486	$486	$490

Nominal Spending is expected to reach $730 million per biennium in 2030 under the current “Target” mix, while ranging from $490 to $830 million.

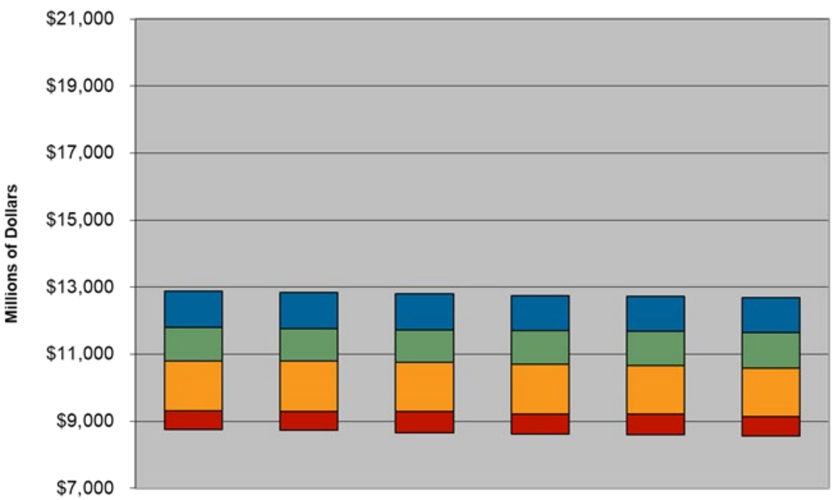
- Nominal (non-inflation-adjusted) total distribution in 10 years (attributable to biennium ending with FY 2030) reaches $729 m for the current target mix.
- Expected case (50th percentile) spending is slightly higher with rising private equity exposure, while the worse case outcome remains roughly constant. Real (inflation-adjusted) total spending in 10 years (attributable to biennium ending with FY 2027) reaches $613 m for the current target mix (not shown).
- Range of real spending widens slightly with increasing exposure to private equity, but the worse case result is roughly comparable to the current target. suggesting the addition of private capital enhances spending slightly but does not worsen the downside risk.

Compare Market Values in 2030 – POMV vs Earnings Distribution Policy

Substantial Difference in EMV Due to Substantially Different Distributions

Earnings

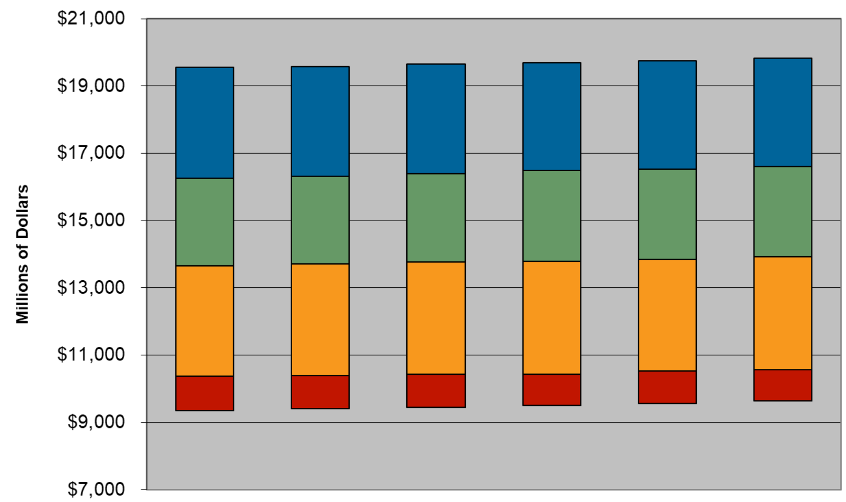
Range of Nominal Ending Market Values in 2030



Percentile	Target	Mix 1	Mix 2	Mix 3	Mix 4	Mix 5
25th	$12,874	$12,841	$12,796	$12,744	$12,733	$12,681
50th	$11,796	$11,760	$11,721	$11,702	$11,680	$11,642
75th	$10,805	$10,800	$10,751	$10,707	$10,661	$10,595
95th	$9,310	$9,292	$9,285	$9,223	$9,211	$9,142
98th	$8,761	$8,727	$8,650	$8,624	$8,599	$8,566

6% POMV

Range of Nominal Ending Market Values in 2030



Percentile	Target	Mix 1	Mix 2	Mix 3	Mix 4	Mix 5
25th	$19,554	$19,582	$19,652	$19,690	$19,751	$19,828
50th	$16,255	$16,312	$16,395	$16,484	$16,527	$16,603
75th	$13,648	$13,714	$13,768	$13,790	$13,840	$13,916
95th	$10,369	$10,386	$10,423	$10,423	$10,536	$10,572
98th	$9,359	$9,417	$9,446	$9,507	$9,555	$9,643

Earnings-based distribution policy results in substantially higher distributions, 6-8% of Fund assets

Distributions shoulder the burden of large swings in capital markets due to capital gains and movements in interest rates, and therefore income

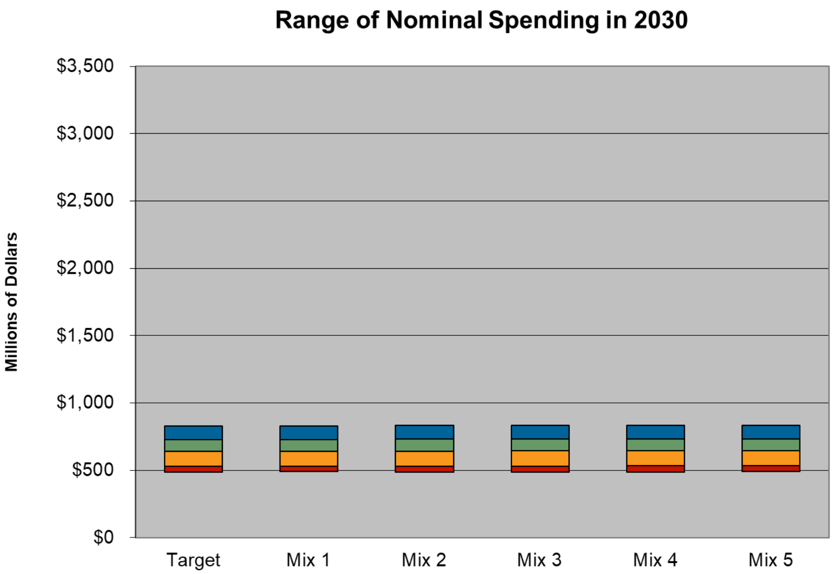
6% POMV results in much lower distributions than the earnings policy, and therefore higher EMV

Distributions are much more stable and range-bound under POMV, as a result the MV of the Fund shoulders more of the volatility in the capital markets

Nominal Distributions – Earnings vs POMV

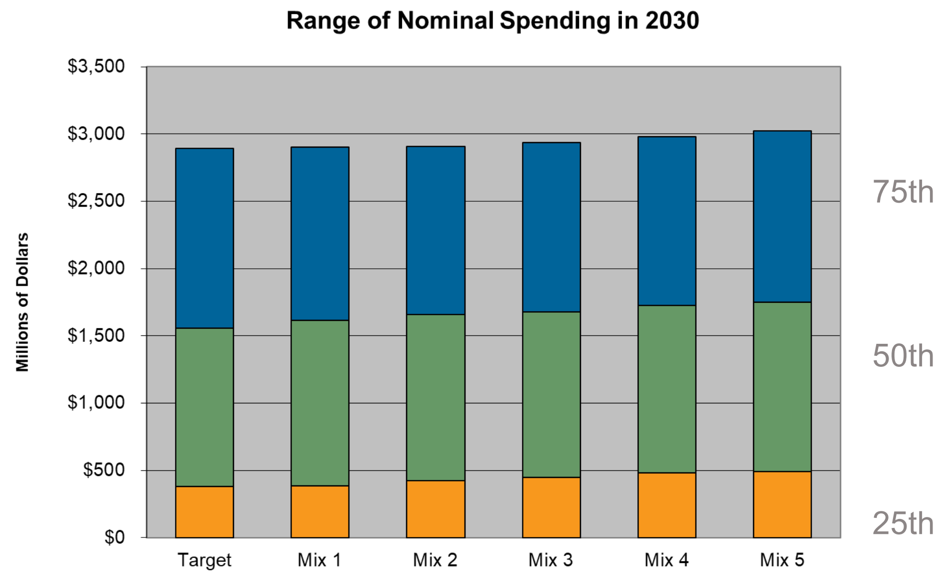
Stochastic Simulations – Recognize Capital Market Uncertainty

6% POMV Per Biennium, 5-Year MV Smooth, Lagged One Fiscal Year



- Range of distributions much less variable than under earnings definition:
  - POMV calculated over 5-year smoothed MV, and lagged a year, results in a very steady pattern of distributions
  - 6% POMV over biennium is a stated 3% per year, but smoothing and lag results in an effective distribution rate of 1-2% per year.

Earnings Transferred Each Biennium in the First Month of the Next Biennium



- Zero floor under simulated nominal distributions, as negative capital gains are allowed to offset income, but only until earnings reach zero
- Inclusion of earnings generates substantial variability, and substantially higher effective distribution rate, closer to 10% per biennium or 5% per year

Summary of Results

Current Earnings Distribution Policy

- The appropriate asset allocation will attempt to balance the dual objectives of maintaining or increasing real spending while maintaining or growing the real (inflation-protected) value of the Legacy Fund over the projection period.
- In the absence of any royalty inflows:
  - A spending policy with an effective rate less than or equal to the real return on the fund investments is required to maintain the real value of the corpus and therefore sustain intergenerational equity.
  - The real return projected for the current Fund target allocation is 3.1%, which suggests a sustainable distribution policy on an annual basis, or approximately 6% for each biennium
  - Given that investment income is assumed to be transferred out each biennium at a rate of between 3% and 4% of fund assets annually, or 6%-8% on a biennial basis, the Legislature would need to limit spending relative to the market value of the Fund's principal such that the sum of the income and realized capital gains spending is sustainable in the long run – effectively no greater than the real investment return over time.
- Under the current projection of oil & gas tax revenue inflows:
  - Inflows are sufficient to offset the spending generated by the current earnings policy over the next 20 years. The real value of the corpus increases, implying that the purchasing power of the Legacy Fund increases over time.
  - Importantly, the distributions to the general fund can be expected to vary widely under the earnings distribution policy, driven by the volatility inherent in the realized capital gains portion of the earnings definition. In worse case scenarios, distributions can be driven to zero by capital losses, although a zero floor is placed under earnings. The distributions absorb a large share of market volatility under the earnings based distribution.
- If the current projection of inflows is lower, the earnings spending policy and/or the asset allocation policy would need to be adjusted if sustaining the real value of the fund corpus remains a goal. Lower inflows under the current Target and the proposed Mix 3 (with 3% in private capital) could see worse case outcomes in which the real market value of the principal would decline, thereby eroding the purchasing power of the Fund.

Summary of Results

POMV Distribution Policy

- A POMV distribution policy simplifies the accounting of and planning for the transfers to the general fund, and greatly improves on the stability and predictability of the amount distributed each biennium.
- The POMV policy is an industry standard that acknowledges total return and Fund market value without separately accounting for income, realized and unrealized gains. The distribution policy generates a much narrower range of potential outcomes, enabling the legislature to better plan for the use of the transfers in budgeting. The rate of the POMV policy, along with the calculation of the MV against which the policy is applied can be easily tailored to meet the goals of the Legacy Fund:
  - Intergenerational equity – setting the rate that will be sustained by the Fund’s expected return and royalty deposits
  - Stability of transfers – smoothing of the MV calculation by averaging over multiple years’ MV
  - Predictability – lagging of the MV calculation in advance of the transfer, along with the smoothing of the MV over multiple years
  - The effect of smoothing and lagging shifts the impact of market volatility from the annual distribution to corpus of the Legacy Fund, which has a much longer time horizon than the biennial state budget process
- The proposed policy of 6% of POMV per biennium implies an annual rate of 3%. The smoothing over 5 fiscal years and lagging the calculation one year results in an effective spending rate that comes out to 1-2% of MV per year, or 2-4% per biennium. Assumed investment growth and royalty inflows means the spending rate is applied to a smoothed asset market value that in the expected case is well below that of the Fund’s MV at the start of a biennium, when the transfer is effected.

Summary of Results

Private Capital Allocation

- The analysis of the financial condition of the ND Legacy Fund under both earnings-based and POMV distribution policies suggest the proposed allocation of 3% to private capital (private equity and private credit) does not pose any immediate issues to the liquidity requirement of the ND Legacy Fund.
- The current illiquid asset exposure would rise to 18% of the Fund's investment program.
  - Note that other endowment funds pursuing substantial exposure to alternatives typically engage in market-value-related distribution policies
- Current projections for robust royalties from oil and gas in ND will support strong growth in the market value of fund assets and distributions under either policy, and that the increase in exposure to illiquid assets does not compromise the ability of the Fund to meet its transfer obligations to the general fund, nor interfere with the operation of the investment program. One caveat to this finding:
  - Spending at the maximum allowable rate (15% of principal plus income) will eventually cause growth in the real value of the corpus and spending will stop after 15 years, and both measures will begin to decline as spending catches up to the inflows.
  - This analysis assumes the legislature does not invoke this maximum allowable rate, but sticks with either the current earnings distribution policy or adopts a POMV policy.
- The analysis of the proposed Mix 3, with 3% in private capital, suggests that MV and spending will be modestly improved over the current target, with no substantial worsening of the worse case result.

Callan

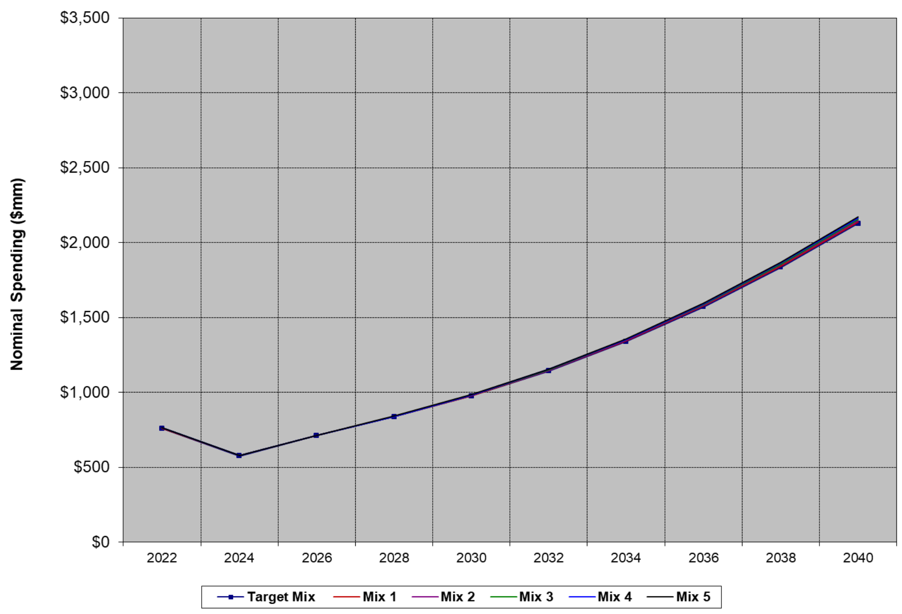
Supplemental Information

Legacy Fund Asset Allocation Review: Phase Two

Nominal Distributions – Earnings vs 8% POMV

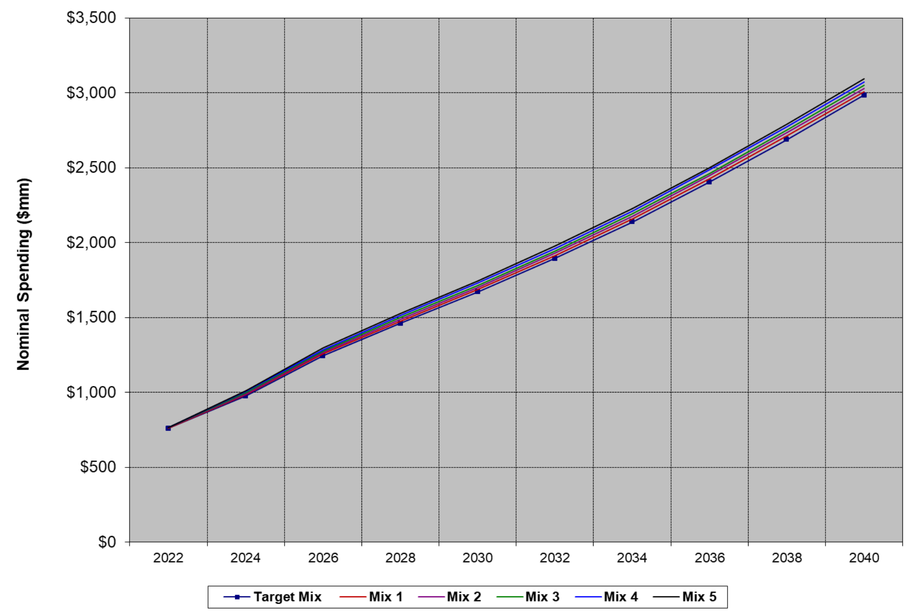
Deterministic Projections – No Capital Market Uncertainty

8% POMV Per Biennium, 5-Year MV Smooth, Lagged One Fiscal Year



– Distribution for FY 2022 reflects transfer of 100% of earnings based on 2019-21 biennium. 8% of biennia POMV is assumed thereafter.

Earnings Transferred Each Biennium in the First Month of the Next Biennium



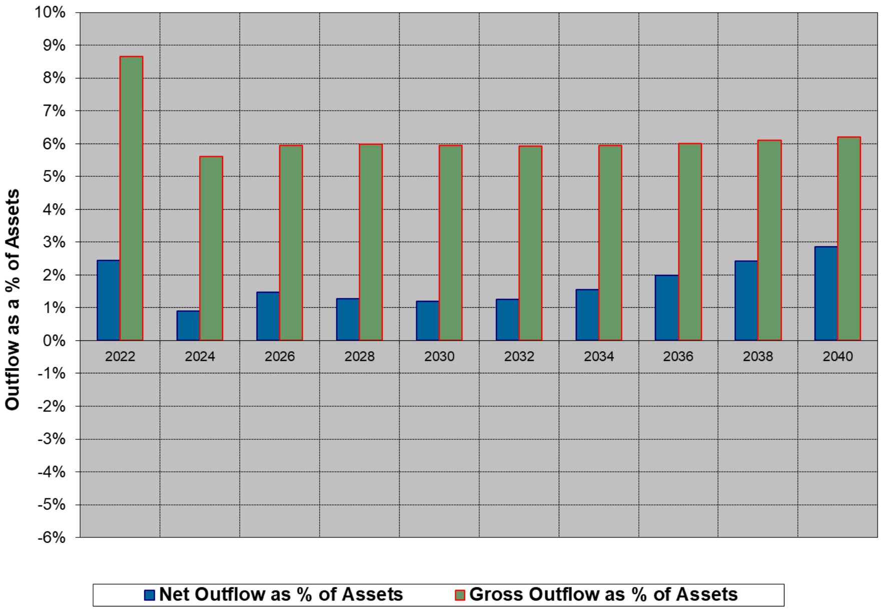
– Distribution for 100% of earnings is assumed for the forecast.

– Charts are on the same scale to facilitate comparison.

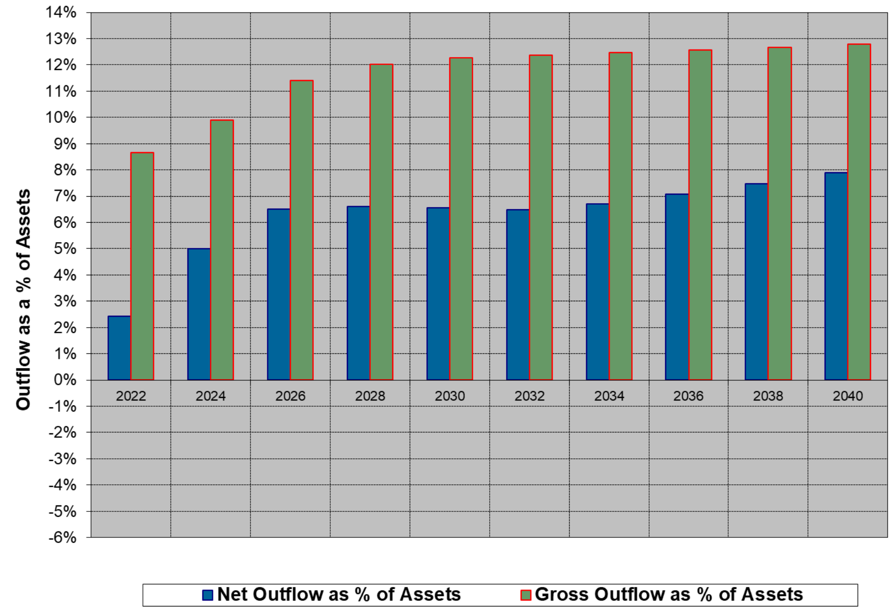
Nominal Distribution – Earnings vs 8% POMV

Effective Distribution Rate

8% POMV Per Biennium, 5-Year MV Smooth, Lagged One Fiscal Year



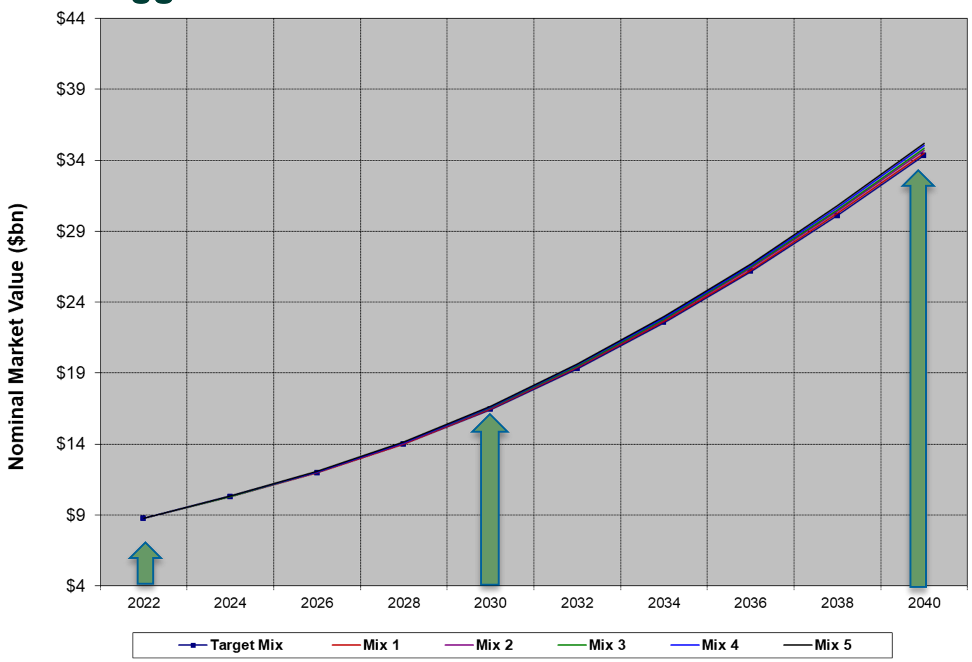
Earnings Transferred Each Biennium in the First Month of the Next Biennium



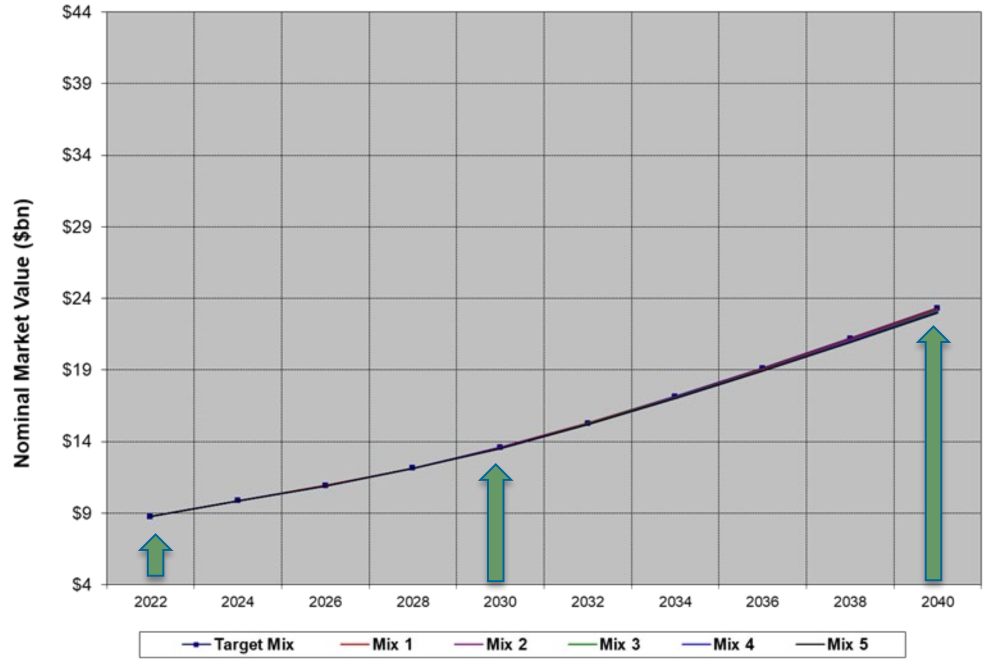
- Gross outflow as a % of assets is the distribution back to the general fund divided by the MV of the fund at the time of distribution.
  - FY 22 reflects earnings transfer attributable to the 19-21 biennium; $636 million through January, projected to be $750 m for the full period. Then the POMV formula kicks in.
  - With a five year MV average and a year lag, the actual MV grows with investments and royalty deposits; the calculated transfer in July 2024 amounts to 5.6% of assets rather than 8%, averages 6% thereafter.
  - On the right, the sum of income plus capital gains generates a biennial gross % of MV closer to 12%, or 6% a year. Average yield for the portfolio is 2.5% over 10 years, to which we add realized gains, which are projected to match the income over the forecast. This projection is in line with the Fund’s experience – in the current biennium the gains are 2x the income!

Projected Growth in Legacy Fund Nominal Market Value – Earnings vs 8% POMV

8% POMV Per Biennium, 5-Year MV Smooth, Lagged One Fiscal Year



Earnings Transferred Each Biennium in the First Month of the Next Biennium



8% POMV: Mix 3 = Legacy Fund grows to $16.6 billion in 2030 and $35 billion by 2040.

Charts show nominal and real (inflation-adjusted) market value for the year following each biennium, after transfers to the General Fund have been removed.

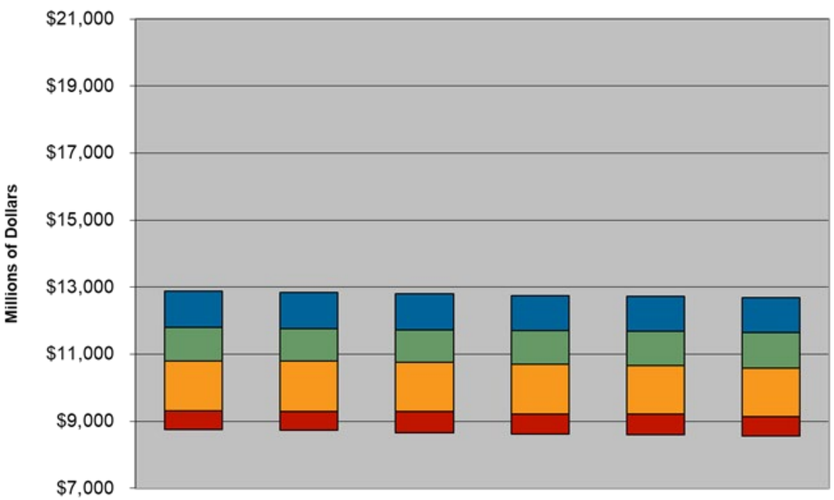
Nominal and real market values increase under all asset allocations, supported by strong inflows from ND royalty forecasts.

Compare Market Values in 2030 – POMV vs Earnings Distribution Policy

Substantial Difference in EMV Due to Substantially Different Distributions

Earnings

Range of Nominal Ending Market Values in 2030



Percentile	Target	Mix 1	Mix 2	Mix 3	Mix 4	Mix 5
25th	$12,874	$12,841	$12,796	$12,744	$12,733	$12,681
50th	$11,796	$11,760	$11,721	$11,702	$11,680	$11,642
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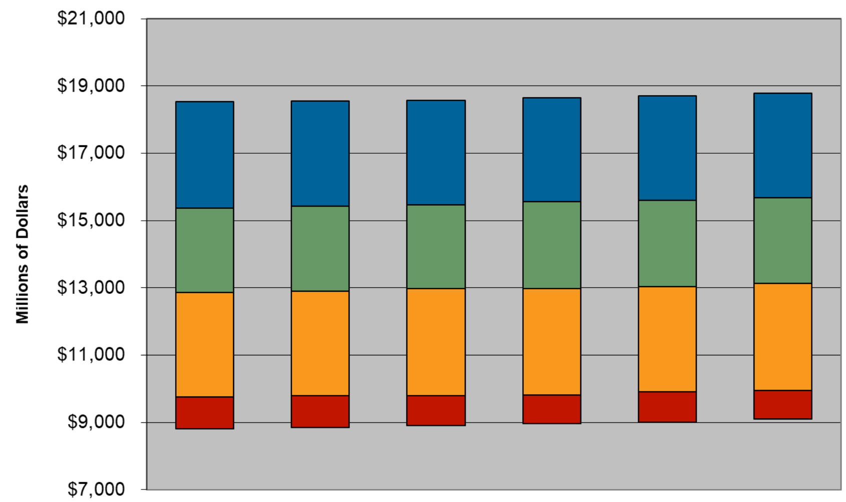
8% POMV

Range of Nominal Ending Market Values in 2030



Percentile	Target	Mix 1	Mix 2	Mix 3	Mix 4	Mix 5
25th	$18,528	$18,550	$18,577	$18,643	$18,709	$18,792
50th	$15,368	$15,429	$15,475	$15,562	$15,609	$15,673
75th	$12,861	$12,909	$12,969	$12,984	$13,043	$13,139
95th	$9,760	$9,790	$9,798	$9,814	$9,906	$9,952
98th	$8,813	$8,845	$8,899	$8,964	$9,001	$9,092

Earnings-based distribution policy results in substantially higher distributions, 6-8% of Fund assets

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8% POMV results in much lower distributions than the earnings policy, and therefore higher EMV

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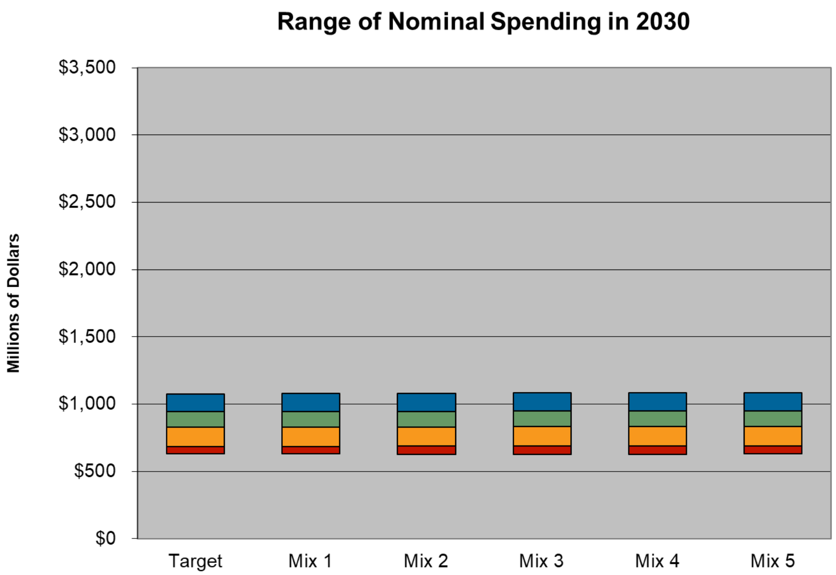
Nominal Distributions – Earnings vs POMV

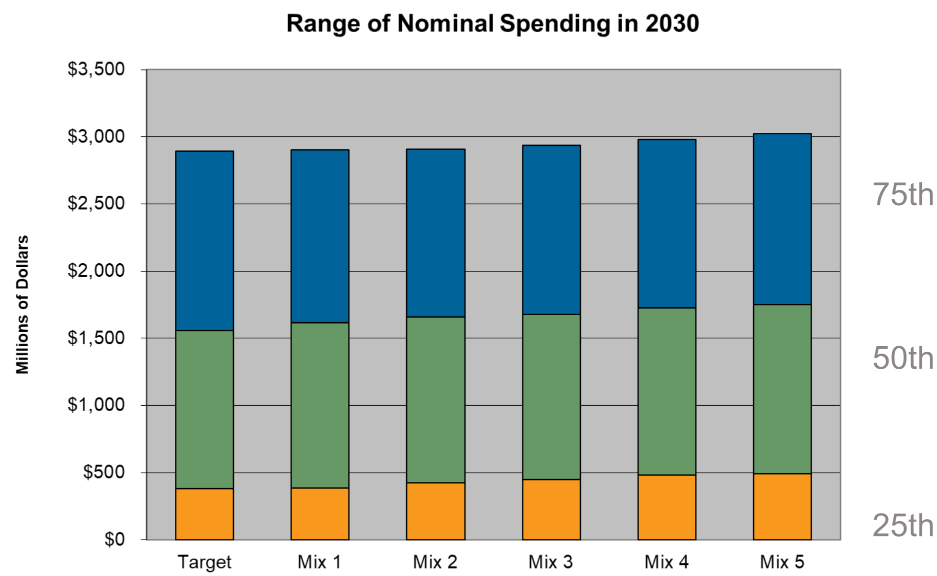
Stochastic Simulations – Recognize Capital Market Uncertainty

8% POMV Per Biennium, 5-Year MV Smooth, Lagged One Fiscal Year



- Range of distributions much less variable than under earnings definition:
  - POMV calculated over 5-year smoothed MV, and lagged a year, results in a very steady pattern of distributions
  - 8% POMV over biennium is a stated 4% per year, but smoothing and lag results in an effective distribution rate of 3% per year.

Earnings Transferred Each Biennium in the First Month of the Next Biennium

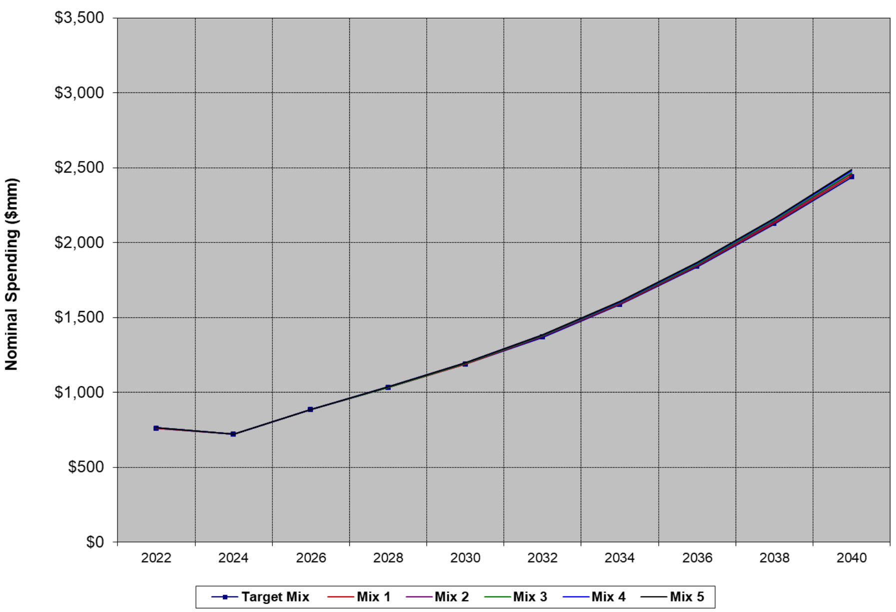


- Zero floor under simulated nominal distributions, as negative capital gains are allowed to offset income, but only until earnings reach zero
- Inclusion of earnings generates substantial variability, and substantially higher effective distribution rate, closer to 10% per biennium or 5% per year

Nominal Distributions – Earnings vs 10% POMV

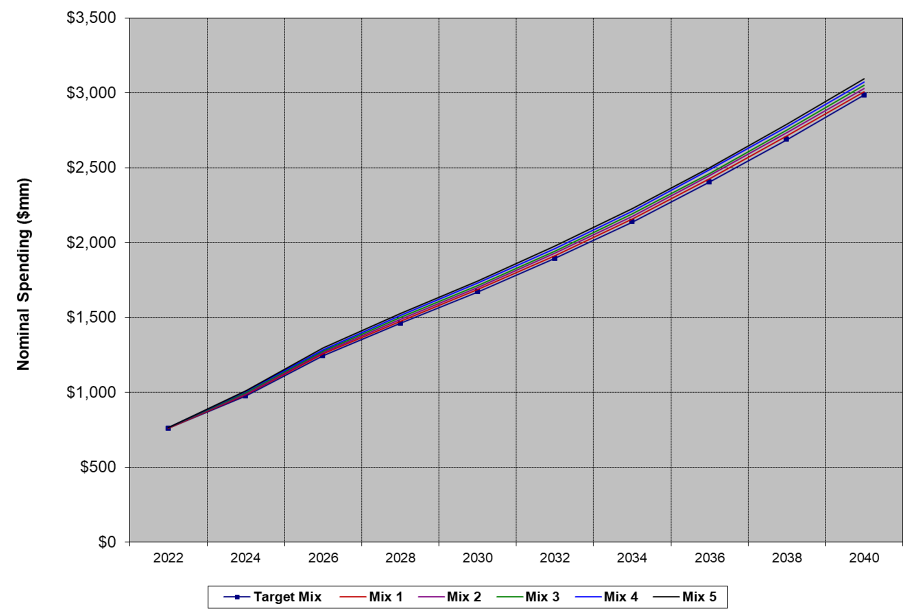
Deterministic Projections – No Capital Market Uncertainty

10% POMV Per Biennium, 5-Year MV Smooth, Lagged One Fiscal Year



– Distribution for FY 2022 reflects transfer of 100% of earnings based on 2019-21 biennium. 10% of biennia POMV is assumed thereafter.

Earnings Transferred Each Biennium in the First Month of the Next Biennium



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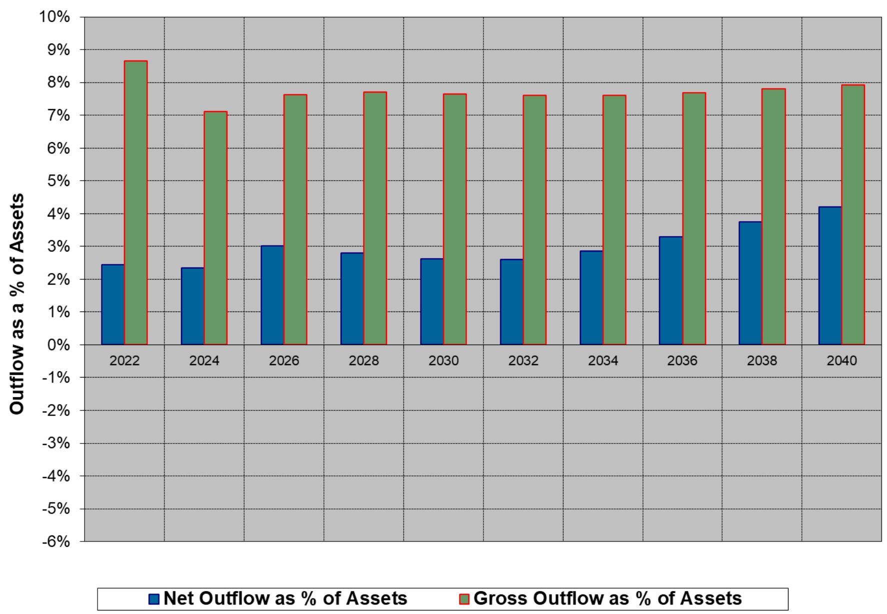
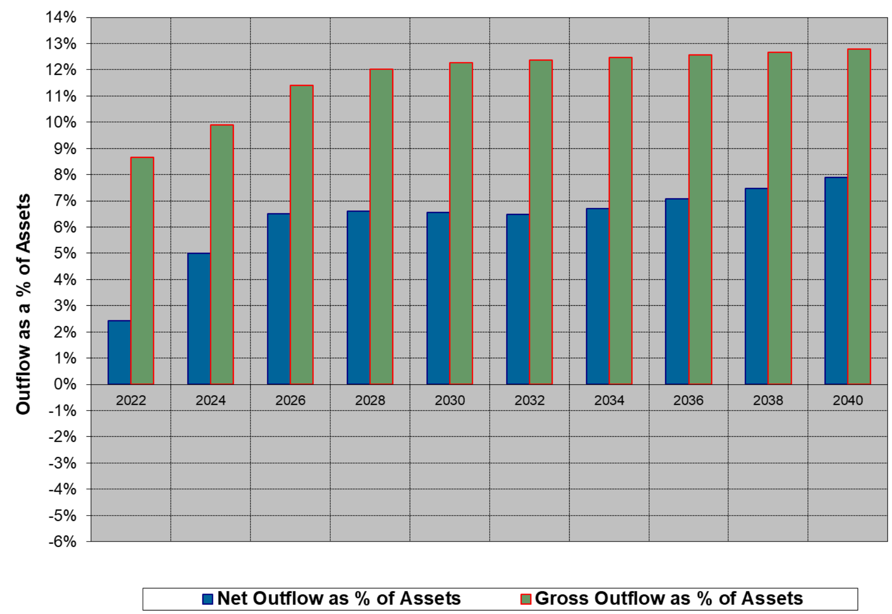
Nominal Distribution – Earnings vs 10% POMV

Effective Distribution Rate

10% POMV Per Biennium, 5-Year MV Smooth, Lagged One Fiscal Year



Earnings Transferred Each Biennium in the First Month of the Next Biennium



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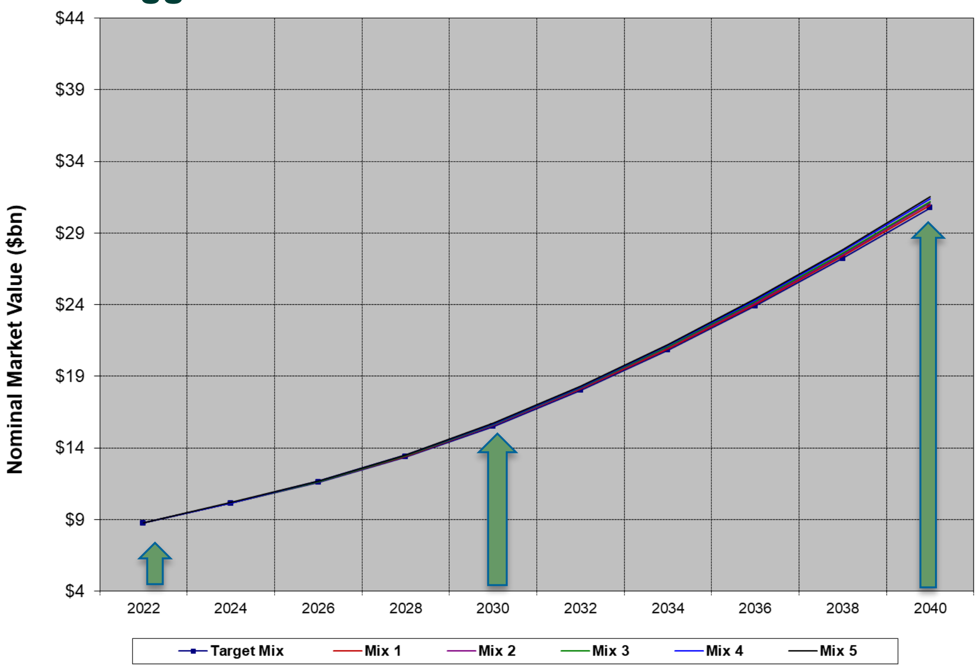
  - On the right, the sum of income plus capital gains generates a biennial gross % of MV closer to 12%, or 6% a year. Average yield for the portfolio is 2.5% over 10 years, to which we add realized gains, which are projected to match the income over the forecast. This projection is in line with the Fund's experience – in the current biennium the gains are 2x the income!

Projected Growth in Legacy Fund Nominal Market Value – Earnings vs 10% POMV

10% POMV Per Biennium, 5-Year MV Smooth, Lagged One Fiscal Year



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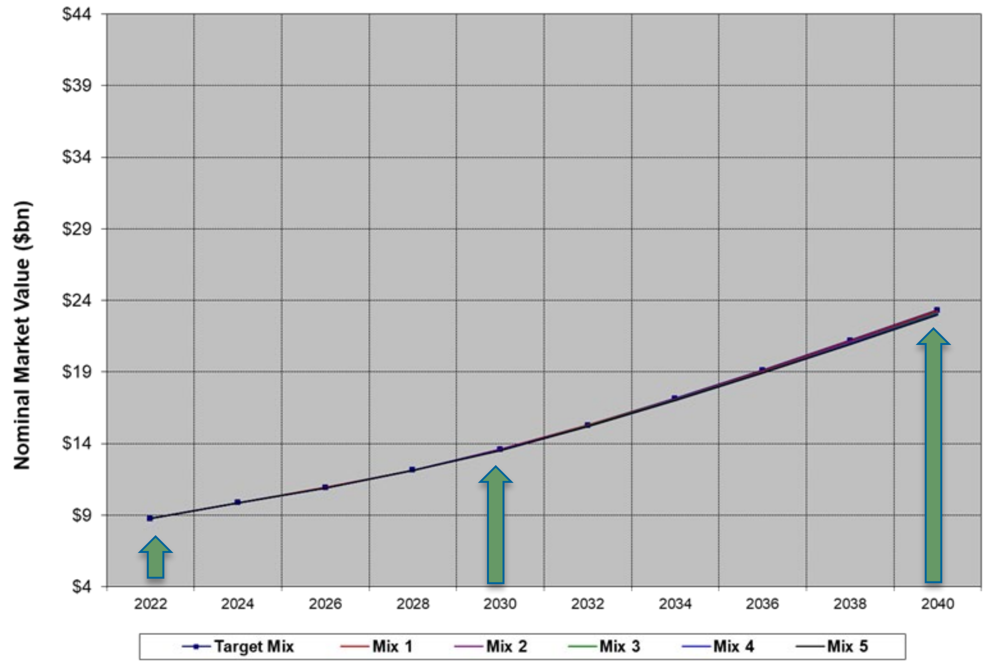

10% POMV: Mix 3 = Legacy Fund grows to $15.7 billion in 2030 and $31 billion by 2040.

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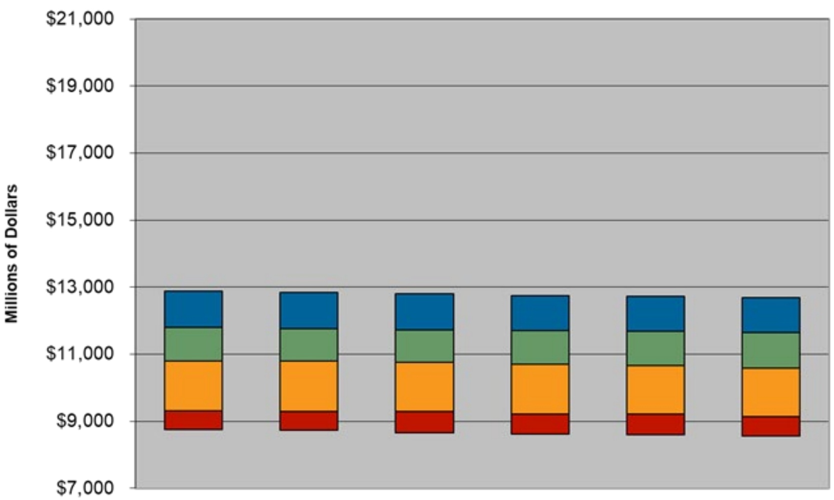

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10% POMV

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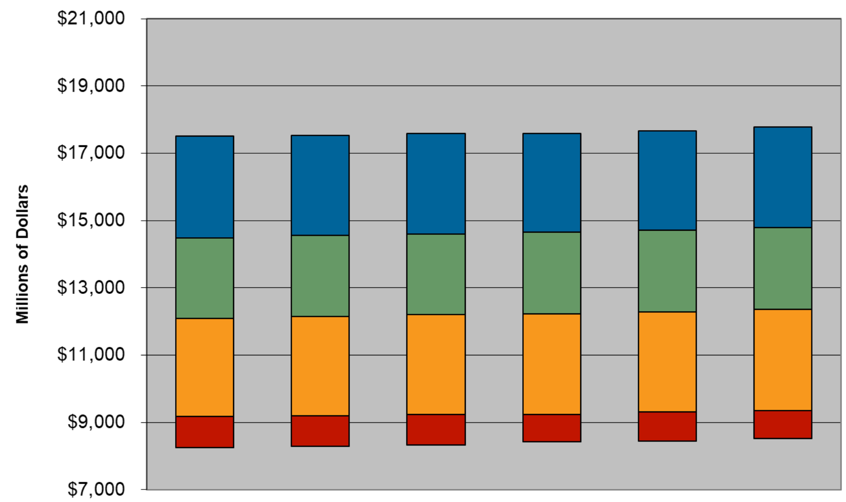

Percentile	Target	Mix 1	Mix 2	Mix 3	Mix 4	Mix 5
25th	$17,514	$17,520	$17,587	$17,595	$17,674	$17,776
50th	$14,485	$14,552	$14,594	$14,664	$14,714	$14,783
75th	$12,094	$12,152	$12,198	$12,220	$12,281	$12,363
95th	$9,169	$9,203	$9,230	$9,230	$9,310	$9,351
98th	$8,255	$8,287	$8,336	$8,428	$8,438	$8,523

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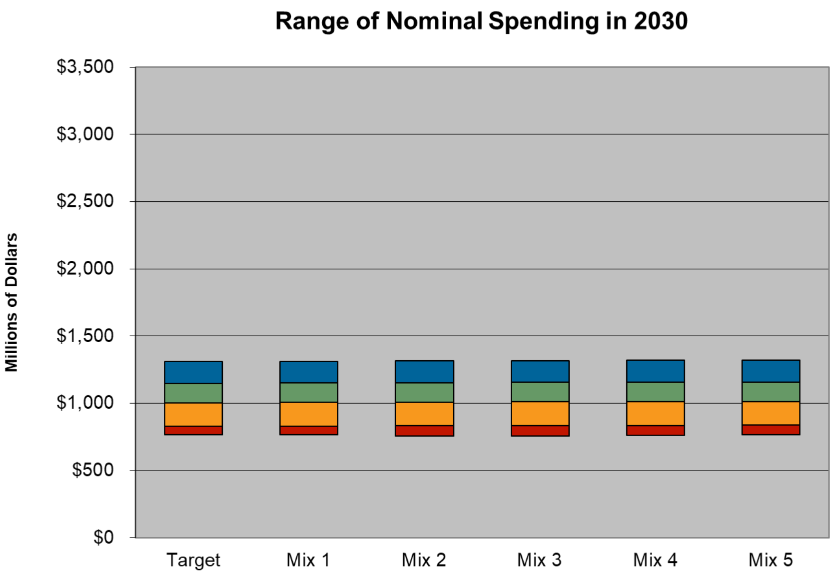

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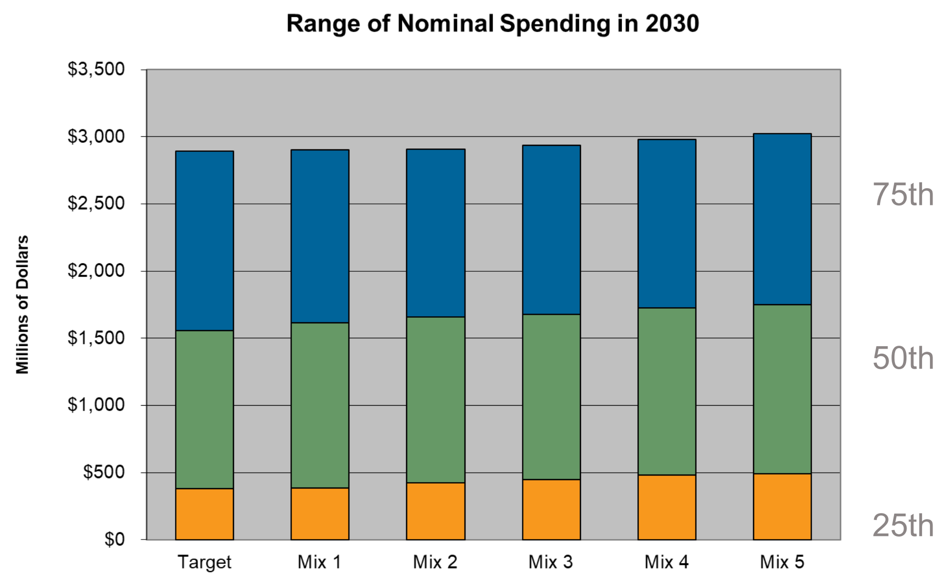
  - POMV calculated over 5-year smoothed MV, and lagged a year, results in a very steady pattern of distributions
  - 10% POMV over biennium is a stated 5% per year, but smoothing and lag results in an effective distribution rate of just under 4% per year.

Earnings Transferred Each Biennium in the First Month of the Next Biennium



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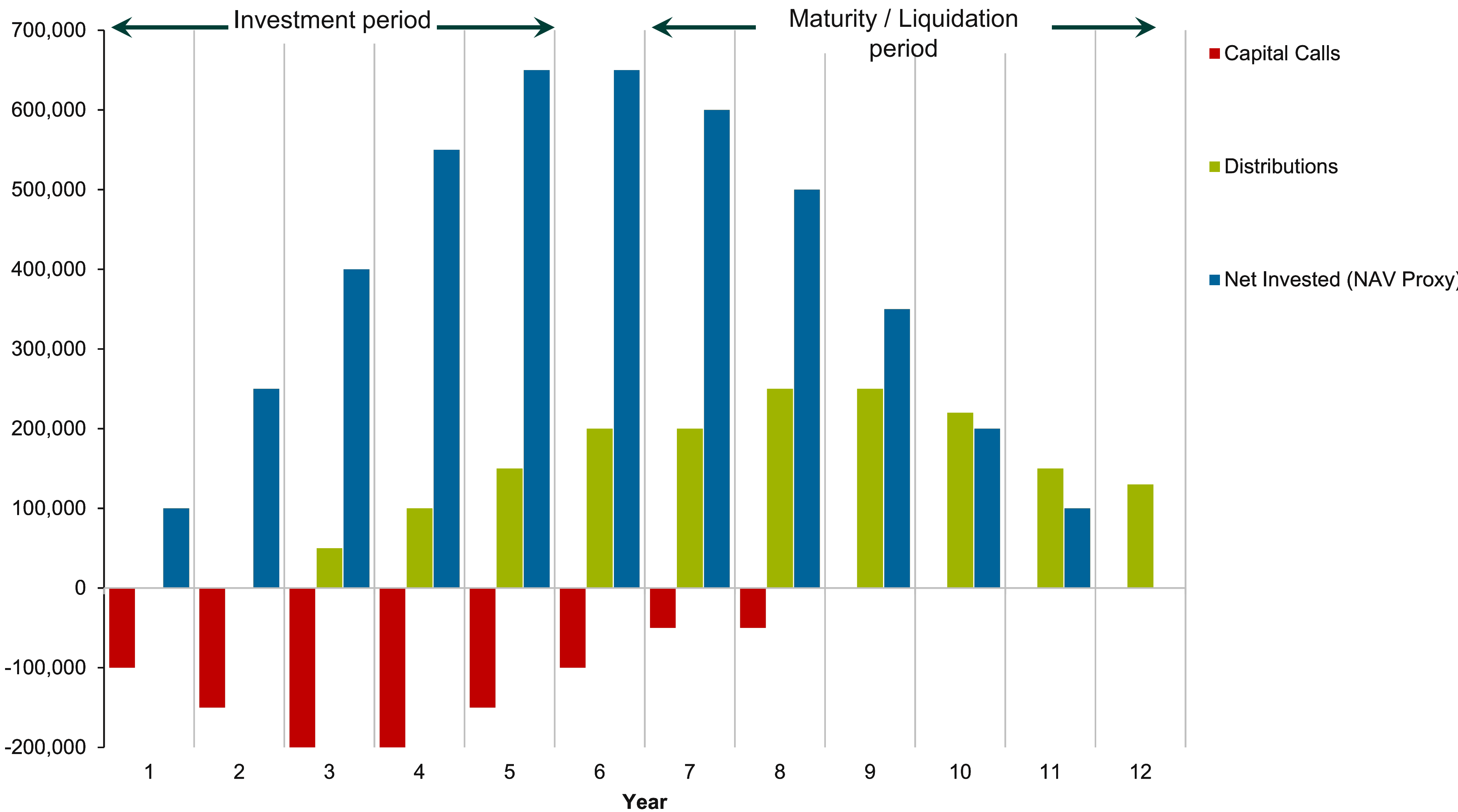
- Inclusion of earnings generates substantial variability, and substantially higher effective distribution rate, closer to 10% per biennium or 5% per year

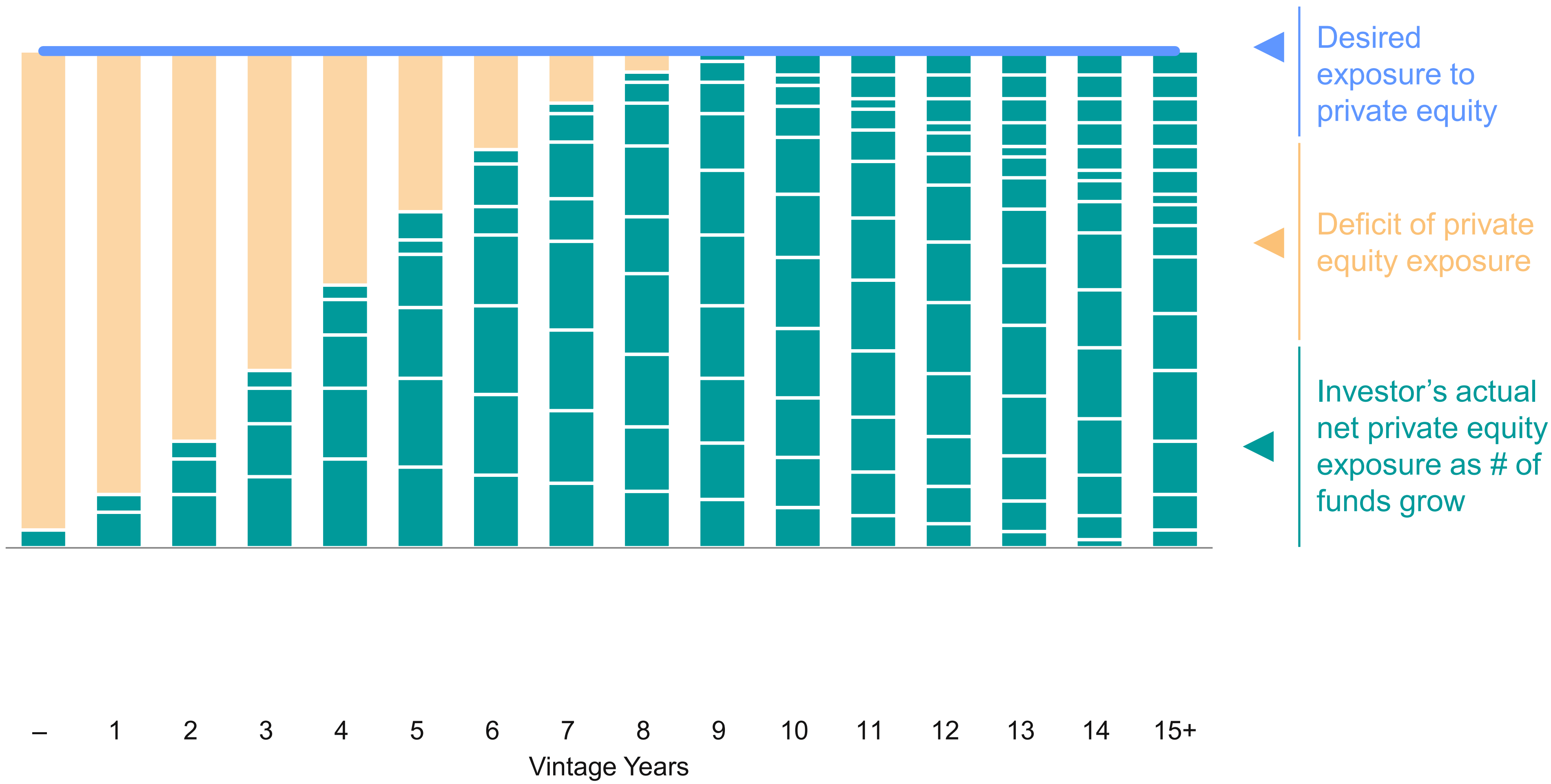
Private Capital Cash Flows and Net Asset Value

Represents yearly cash flow and NAV for a $1 million partnership (or vintage year) commitment



Commitment Pacing

Private Capital Program Development



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Past performance is no guarantee of future results.

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Callan

March 26, 2021

North Dakota State Investment Board

In-State Investment Program Manager Selection Overview

Pete Keliuotis
Executive Vice President

Paul Erlendson
Senior Vice President

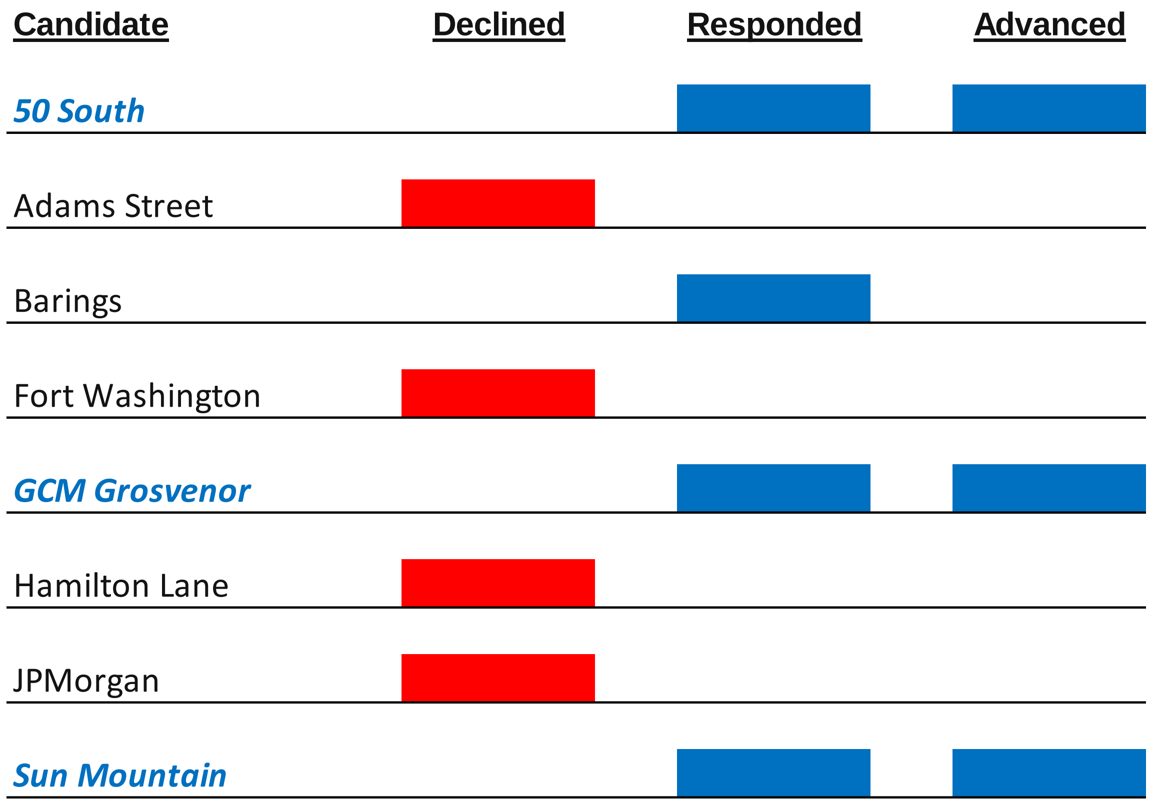
Alex Browning
Senior Vice President

Overview: Semi-Finalist Selection Process

- Program manager selection is one step in a prudent process that has been followed by the North Dakota State Investment Board and the Legacy and Budget Stabilization Fund Advisory Board. This project follows a series of educational meetings and asset allocation evaluations.
- Callan's Alternatives Consulting group identified eight firms with institutional investment management experience who also possess private capital asset management capabilities.
- Callan issued a "North Dakota State Investment Board In-State Investment Program Questionnaire" to the group of institutional-quality investment firms in mid-February, 2021. Categories of inquiry covered by the 57-question document included:
  - Organization;
  - Personnel;
  - Private Asset Experience;
  - Overview of proposal for North Dakota In-State Investment Program;
  - Private Asset Performance History; and
  - Operations and Fees.
- Responses were reviewed by a team of Callan investment professionals.
- Callan conducted reference checks of the candidates' in-state clients and third-party general partners with whom the candidates interact in the management of in-state programs.
- RIO and Callan staff remained engaged throughout the due diligence process.

Candidates Considered for the North Dakota In-State Investment Program

Questionnaire and Outcomes



Among reasons given by firms that declined to participate:

- Mismatch between the desired capital commitment and the perceived size of the in-state opportunity set.
- Belief that the firm would not be competitive based on experience with in-state investing and pricing.
- Lack of scale and opportunity with in-state programs versus in other alternatives within the private markets.
- Potential headline risk to the managers associated with running an in-state investment program.

Considerations and Suggested Next Steps

Considerations

1. In-state investment program management requires an uncommon set of skills:
   - Private capital investment expertise;
   - Specialized professional resources familiar with geographically-constrained opportunity evaluation;
   - Ability to research opportunities that may not be widely known or followed, or easily accessed;
   - Sensitivity and awareness of investment AND non-investment considerations of in-state programs; and
   - A long-term commitment to meeting the goals and objectives of the North Dakota State Investment Board.
2. SIB's goals, priorities and measurement standards must be clearly ***understood by all stake-holders***.
3. SIB's goals, priorities and measurement standards must be clearly ***understood and agreed by the manager***.

Suggested Next Steps

A. Identify two candidates for further consideration, evaluation and negotiation by RIO staff.

B. Provide guidance on priorities to be used in evaluating and negotiating with the two selected semi-finalists.

C. Assess the needs and potential requirements for additional RIO staff relative to an in-state investment program.

D. Other . . . ?

Callan

March 19, 2021

North Dakota State Investment Board (NDSIB)

In-State Private Markets Program
RFP Summary

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Executive Summary of Candidate Merits and Considerations

50 South Capital Advisors, LLC

Merits

- Northern Trust, the parent company, is a well-resourced firm with many different supporting lines of business.
- Stable private markets team, with few senior-level departures.
- 10 discretionary private equity funds with total invested capital of $3.8 billion.
- The Firm has $260 million of invested capital and $835 million of uncalled capital across two In-State Programs with investments in venture capital, buyouts, and private credit.
- The Firm proposes to allocate $10 Million to Incubator/Start-Up Programs and a total of $35 Million to venture capital investments for the North Dakota In-State Program.
- Size of team allocated to NDSIB; and made note of the LIFT and BND Match programs.

Considerations

- The firm's two In-State Investment Programs are managed on a non-discretionary basis; North Dakota is seeking a discretionary relationship.
  - Limited track record with their two In-State Investment Programs.
- Few capabilities outside of private equity and private debt.
- They propose running the in-state program out of their existing private equity team as opposed to identifying dedicated individuals.

Barings, LLC

Merits

- The Private Markets team consists of 36 employees, 11 of which are senior investment professionals.
- The firm expects to allocate 100% of the program to in-state investments or investments within a nexus of the state.
- Three individuals identified to run the program.
  - Barings investment professionals have experience managing seven In-State programs, including leading three In-State mandates at a prior firm.

Considerations

- Significant turnover among senior professionals. Four of the Six Managing Partners joined the firm in the past five years.
- Highest proposed fees by a significant margin among the four candidates.
- Limited In-State investment experience with only $5 Million managed in separate accounts.
- Small team size dedicated to NDSIB relationship, with senor professional, Mina Nazemi, also leading two other in-state programs currently in development.
- The Firm allocates on behalf of its parent company, MassMutual, though an SMA and expects to commit $250 million to $400 million per year across the Private Markets.
- No significant track record for some areas Barings recommends allocating (e.g., Infrastructure, Energy).
- Only one client reference provided.
- The Firm does not differentiate In-State Program employees from Private Market employees.

GCM Grosvenor

Merits

- Since the Firm's first In-State Program in 2003, the Firm has committed over $3 Billion to In-State Programs across the Private Markets.
- The Firm has breadth of experience having managed seven In-State Programs located in Michigan, New York, Colorado, Oregon, Florida, and two separate programs in California.
- The investment team is supported by an operational and due diligence team which allows key professionals to allocate almost all of their time to generating and structuring deals.
- Research teams across all major asset classes: private equity; private credit; natural resources; and infrastructure.
- Competitive total fee proposal, with the lowest management fees.

Considerations

- Key Personnel have not grown over the past 5 years while the Firm still maintains large client relationships.
- Concerns about whether NDSIB will get adequate attention from the senior team.
- Proposal did not meaningfully reference North Dakota opportunity set or potential local partners and lacked specificity on how to implement the mandate.
- Primary focus of program expected to be energy, agriculture, and infrastructure with venture/growth and private equity only 0-25% of capital allocation potentially limiting opportunities for capital formation and economic development.

Sun Mountain Capital Advisors, LLC

Merits

- Firm specializes in In-State investment programs and investment in undercapitalized areas.
- Firm is 100% employee owned.
- $710 million in in-state investment program assets across five different in-state investment programs
- Experience with sponsors having different primary objectives (economic development, innovation, returns, etc.)
- Firm plans to hire to dedicated employees located in North Dakota to source and manage deal flow.
- Proposal provided a detailed program implementation.
- Competitive fees; no performance fee.

Considerations

- The Firm is small compared to its peers with only 13 centrally located employees.
- Potentially longer implementation time-frame due to the need to hire in-state professionals.
- Firm total assets of $1.3 billion of which $710 million are discretionary in-state program assets.
- Primary capabilities in venture/growth, private equity, and private debt.
- Mixed results with other geographically targeted programs.

In-state Program Process Overview

This report summarizes proposals submitted by candidate to manage the North Dakota State Investment Board's in-state investment program. This information was derived from proposals submitted by the candidate firms. Callan has summarized this information in good faith for consideration by the SIB in preparation for interviews of three semi-finalists at its March 26, 2021 meeting.

This document was prepared as part of a three-phase study that was outlined in a proposal submitted by Callan to the SIB in October 2020 in response to a request from the SIB. The project included providing both the SIB and the Legacy Fund and Budget Stabilization Fund Advisory Board with education on the history of other states' in-state investment programs; insights about potential investment objectives, measurement standards, and types of investments / assets to be included; and assistance in identifying potential third-party to managers to implement the program.

Investment Proposal Summaries

The RFP respondents were asked a series of questions on their investment approach and implementation of the In-State Investment Program. Managers used a $100mm program size as a guide to construct their model portfolios and asset allocation. A few of the key considerations Callan analyzed were proposed program Investments across strategy types and geography. Callan also requested information on managers' access to deal flow and existing GP relationships across North Dakota and the Midwest. Each manager provided the minimum and maximum program size that would be optimal for running a successful program. Other considerations Callan requested through the RFP are analyzed further throughout this section.

Proposed Model Portfolio by Geography

The following table provides each respondent's model portfolio allocation by geography. The table shows the percentage allocation to each location and number of investments in each location is shown in parentheses.

Geography	50 South Capital	Barings*	GCM Grosvenor	Sun Mountain
North Dakota	50% (12-15)	90% (9)	60% (4-6)	75% (25)
Regional	30% (6-8)	10% (2)	20% (1-2)	15% (3)
United States	20% (2-4)	0% (0)	20% (0-2)	10% (2)
Total Investments	**100% (20-27)**	**100% (11)**	**100% (5-10)**	**100% (30)**

* Barings proposes to target companies with headquarters or business operations in the State of North Dakota, as well as businesses with a nexus to the State. These opportunities may fall in the "North Dakota" or "Regional" buckets.

50 South Capital - Strategy Type

A summary of the proposed allocation to each investment strategy is shown below.

Strategy Type	Investments	Allocation ($m)	%
Venture Capital (multi-stage)	10-12	$25	25%
Growth Buyout / Growth Equity	5-7	$20	20%

Private Credit (e.g., senior, mezzanine)	2-3	$10	10%
Venture Debt	2-3	$10	10%
Accelerators, Incubators and/or Startup Studios	1-2	$10	10%
Co-Investments	12-15	$25	25%
Total Investments	**32-42**	**100**	**100%**

Barings - Strategy Type

A summary of the proposed allocation to each investment strategy is shown below.

Strategy Type	Investments	Allocation ($m)	%
Buyouts	4	25	25%
Growth	3	15	15%
Infrastructure	2	25	25%
Natural Resources	2	25	25%
Other	1	10	10%
Total Investments	**11**	**100**	**100%**

GCM Grosvenor - Strategy Type

A summary of the proposed allocation to each investment strategy is shown below.

Strategy Type	Investments	Allocation ($m)	%
Energy & Infrastructure (Funds)	1-3	30	30%
Real Estate (Funds/JVs)	1-2	40	40%
Private Equity / Private Credit (Co-investments)	1-3	20	20%
Energy & Infrastructure (Co-investments)	1-2	10	10%
Total Investments	**5-10**	**100**	**100%**

Sun Mountain - Strategy Type

A summary of the proposed allocation to each investment strategy is shown below.

Strategy Type	Investments	Allocation ($m)	%
Venture Capital	10	35	35%
Growth Equity	10	35	35%
Senior Debt	5	15	15%
Mezzanine	5	15	15%
Other (Please Specify)	0	0	0%
Total Investments	**30**	**100**	**100%**

Firm Strategy Summaries

RFP Respondent	Summary
50 South Capital	- The firm plans to focus on venture capital (35% allocation) consisting of a portfolio of funds with stage/sector diversification. Additionally, the firm plans to sponsor 1-2 incubators/accelerators/startup studios and 1-2 later stage venture debt or revenue-based firms complementing state sponsored lending programs. - The firm expects to allocate to Growth Equity/Buyout strategies in order to balance higher risk inherent in early stage venture. The goal in this strategy is to target investing in North Dakota's thriving industries such as oil field services and equipment industry. Co-investment opportunities will be pursued alongside growth equity/buyout funds with a focus on North Dakota's exploration and production, downstream, and midstream economies. - Lastly, the firm plans to allocate 10% to private credit opportunities across 1-3 firms as additional source of capital for mature businesses.
Barings	- Barings believes that limiting asset classes or sectors limits the impact of the program. The firm will consider buyouts, growth equity, venture capital, natural resources, infrastructure, food, agriculture and real estate as viable options. - The firm will consider pledge fund structures with local owner-operators for in-state mandates but finds that direct equity co-investments are the most frequently available opportunities. - The firm plans to target investments in core sectors and growing/strategic sectors. Target opportunities include supporting continued growth of core sectors such as natural resources and food and agriculture sectors and developing sectors such as advanced manufacturing and business services.
GCM Grosvenor	- GCM Grosvenor anticipates program investments with a focus on the state's traditional areas of capital along with GCM's review of historical deal flow and manager activity within the state. Examples include energy and infrastructure, real estate, other real assets (i.e., agriculture), as well as private equity. - The $100 million program is expected to be invested in up to 40% energy and infrastructure, up to 40% real estate, and 0-25% private equity and credit. - The firm expects agriculture to be fairly sizable portion of the portfolio with potential investments across real asset, infrastructure, real estate or private equity buckets. - The firm expects that investments will be equally split between fund and co-investments. Through co-investments, GCM expects to invest in both equity and credit opportunities across energy, infrastructure, real estate, and agriculture.
Sun Mountain	- Sun Mountain places an emphasis on running In-State Investment Program for financial return as lasting economic development is a direct result of investing in growing firms. The firm has an additional goal of deepening North Dakota's capital pool throughout the private capital markets. - The firm states that it is imperative to select top performing funds based in North Dakota or willing to actively invest in North Dakota Based companies. The firm plans to accomplish this goal through forming a deep understanding of local sources of deal flow and sourcing external funds that invest in those stages/sectors. To execute on this goal the firm expects to employ a proprietary process to identify promising sectors for deal flow and determine if these sectors have adequate capital to support strong companies. - The Firm anticipates incorporating private equity, venture capital, and private debt investments.

- Investments in private equity/Venture capital will be allocated through either commitments to investment funds or co-investments. The firm anticipates that approximately $40 million would be dedicated to fund commitments, $30 million reserved for co-investments, and the remaining $30 million to be allocated to private debt/credit transactions.
- The use of private debt to reach a broader set of companies and diversify the portfolio is important to implementing the Firm’s strategy. The firm would target 2-3 million average investment and up to a total of $30 million in private debt/credit.

Organizational Overviews

50 South Capital Advisors, LLC

50 South LaSalle Street, M-12
Chicago, IL 60603

Firm Overview

50 South Capital Advisors, LLC (“50 South Capital” or the “Firm”) dates back to 2000 when Northern Trust began offering private equity and hedge fund products to its clients. In 2011, the private equity and hedge fund groups were combined into Northern Trust Alternatives. 50 South Capital was officially established as a separate wholly-owned subsidiary of Northern Trust in July 2015. Today, the firm is still led by its two co-founders along with a team of senior professionals focused on global venture capital, growth buyout, private credit, secondaries and direct investment markets.

The firm currently has forty-four full-time employees with twenty-six of them solely focused on private markets. In addition to the main office in Chicago, IL, 50 South Capital has an office in Indianapolis, IN.

The Firm’s principal focus is Private Equity with total regulatory assets of $10.5 billion across a diversified client base of public/private pension plans, sovereign wealth funds, endowments, foundations, insurance companies, family offices and individual investors.

The firm currently manages approximately $1.1billion in regulatory assets across two in-state investment programs, the Illinois Growth and Innovation Fund and the Indiana Next Level Fund. Both in-state programs are invested on a non-discretionary basis.

Organizational Structure	
Year Founded:	2000
Type of Firm:	Public
Ownership:	Subsidiary of Northern Trust Corporation
Errors & Omissions Insurance:	☒
U.S. SEC & DOL Compliance:	☒
Registered Investment Adviser:	☒

Employee Structure (Private Markets)	
Senior Investment Professionals	11
Due Diligence/Research Analysts	5
Monitoring & Reporting	8
Other Research/Analytics	0
Marketing/Client Service	2
Administration/Other	5
Total Employees	**31**

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Title:	Managing Director

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50 South Capital – In-State Investment Program Team

Team Overview

The In-State Investment Program Team is comprised of four Managing Directors, three Directors, and two Vice Presidents. The Firm has had no turnover of its senior investment professionals. Historically, the Firm has experienced customary turnover of junior and mid-level investment professionals. The Firm believes it is well staffed at the senior level and continues to seek opportunities to grow investment and operations teams. The Firm expects continued growth in private credit and secondaries and is looking to add members to the firm over the next 1-2 years. Additionally, the firm is currently looking for a mid-level investment professional focused on sourcing of buyout and direct co-investment opportunities.

Key Professionals (In-State Investment Program)

Key Professionals	Years With Firm	Years of PE Experience	In-State Investment Program Experience	Percentage of Time Spent on Investment Activities	Principally Involved in NDSIB In-State Program
Robert Morgan Managing Director	20	30	20	60%	X
Bradley Dorchinecz Managing Director	20	30	20	75%	X
Adam Freda Managing Director	7	11	7	85%	X
James Hart III Managing Director	8	14	10	85%	X
Aaron Gillum Senior Vice President	3	10	3	85%	X
Molly Brister Director	3	6	3	90%	X
Kevin Butts Director	9	9	9	90%	X
Charles Davis Director	5	5	5	90%	X
Bridget Schweihs Vice President	4	6	4	90%	X

Personnel Turnover (In-State Investment Program) – Past Five Years

Year	Staff Additions	Staff Terminations	Key Personnel Additions	Key Personnel Terminations	Net Totals
2021 (YTD)	-	-	-	-	-
2020	1	(1)	-	-	0
2019	6	(3)	2	(1)	4
2018	4	(2)	0	(0)	2
2017	4	(0)	0	(0)	4
2016	5	(0)	0	(0)	5
2015	2	(1)	0	(0)	1

50 South Capital – In-State Investment Program Assets

The following tables, as of 12/31/2020, provide a breakout of 50 South Capital's In-State Investment Program client advisory assets and discretionary assets under management.

Mandate Type ($ Millions)

	# Accounts	Assets Under Management	Uncalled Commitments	Net Asset Value	Uncalled Commitments & Net Asset Value
Separate Accounts:					
Discretionary:	0	$0	$0	$0	$0
Non-Discretionary:	1	849	627	222	849
Fund-of-Ones:	1	247	207	39	247
Total:	**2**	**$1,096**	**$835**	**$261**	**$1,096**

50 South Capital – Private Markets Assets

The following tables, as of 12/31/20, provide a breakout of 50 South Capital's total private markets client advisory assets and discretionary assets under management.

Mandate Type ($ Millions)

	# Accounts	Assets Under Management	Uncalled Commitments	Net Asset Value	Uncalled Commitments & Net Asset Value
Fund of Funds:	14	$4,191	$1,358	$2,833	$4,191
Secondary Funds	4	577	236	342	577
Direct Co-Investments:	273	25	16	10	25
Separate Accounts:					
Discretionary:	1	56	17	40	56
Non-Discretionary:	19	2,394	1,229	1,165	2,394
Fund-of-Ones:	5	687	492	195	687
Total:	**44**	**$7,932**	**$3,347**	**$4,585**	**$7,932**

Investor Type ($ Millions)

	# Accounts*	Assets Under Management	Uncalled Commitments	Net Asset Value	Uncalled Commitments & Net Asset Value
Public Pension:		$1,412	$947	$464	$1,412
Corporate Pension:		752	357	394	752
Endowment/Foundation:		1258	551	706	1258
Financial Institution (Banks, Ins.):		660	241	419	660
Other (HNW Individuals) (T-H):		3851	1,250	2,601	3851
Total:		**$7,932**	**$3,347**	**$4,585**	**$7,932**

*# of Accounts by investor type was not provided

50 South Capital – Private Markets Performance

Primary Partnerships

Private Markets Performance Vintage Years 2010-2017

Performance	2010	2011	2012	2013	2014	2015	2016	2017
Accounts	12	15	10	16	18	14	24	21
Committed Capital ($m)	$74	$90	$93	$124	$170	$126	$309	$268
IRR	10.5%	17.8%	33.7%	18.0%	19.7%	11.8%	17.7%	22.7%
TVPI	1.62	2.46	4.12	1.96	1.94	1.36	1.50	1.51
DPI	1.02	1.25	1.82	0.61	0.61	0.30	0.08	0.16

Co-Investments

Private Markets (Private Equity) Performance Vintage Years 2010-2017

Performance	2010	2011	2012	2013	2014	2015	2016	2017
Accounts	-	-	-	-	-	1	3	3
Committed Capital ($m)	-	-	-	-	-	$5	$17	$22
IRR	-	-	-	-	-	173.6%	22.6%	17.8%
TVPI	-	-	-	-	-	16.41	2.29	1.64
DPI	-	-	-	-	-	15.21	0.00	0.00

Barings, LLC

300 South Tryon Street, Suite 2500
Charlotte, NC 28202

Firm Overview

The origin of Barings follows the paths of two firms, Baring Asset Management Limited ("BAML") and Babson Capital Management LLC ("Babson"). BAML traces its roots to 1762 when the Baring brothers founded a merchant and banking firm in London. Babson, through its predecessor, David L. Babson & Company, Inc., was founded in 1940. Both companies were acquired by Massachusetts Mutual Life Insurance Company - Babson in 1995 and BAML in 2005. In July 2016, BAML became an indirect, wholly-owned subsidiary of Babson, which changed its name to Barings LLC in September 2016.

Currently, Barings employs 1,760 professionals and has Assets Under Management (“AUM”) of $345 Billion. Additionally, the firm has 18 professionals focused on In-State Investment programs.

Organizational Structure

Year Founded:	1940
Type of Firm:	Private
Ownership:	Subsidiary of Massachusetts Mutual Life Insurance Company
Errors & Omissions Insurance:	☒
U.S. SEC & DOL Compliance:	☒
Registered Investment Adviser:	☒

Employee Structure (Private Markets)

Senior Investment Professionals	10
Due Diligence/Research Analysts	8
Monitoring & Reporting	13
Other Research/Analytics	0
Marketing/Client Service	2
Administration/Other	3
Total Employees	**36**

Contact

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Barings, LLC - In-State Investment Program Team

Team

Baring's In-State Investment Program Team is comprised of six Managing Directors, Four Directors, three Associate Directors and five Analysts. The investment team consists of 50% women or diverse professionals. The team has significant private equity experience with the average Managing Partner having 24 years of PE experience. Four of the Six Managing Partners have joined the firm in the past five years. The firm did not provide In-State Investment program personnel turnover or a detailed explanation of five year personnel turnover.

Key Professionals (In-State Investment Program)

Key Professionals	Years With Firm	Years of PE Experience	In-State Investment Program Experience	Percentage of Time Spent on Investment Activities	Principally Involved in NDSIB In-State Program
Richard Spencer, CFA Managing Director	31	34	2	50%	
Mina Nazemi Managing Director	3	23	17	75%	X
Ralph Witt, CFA Managing Director	8	24	2	90%	
Elizabeth Weindruch Managing Director	5	16	2	90%	
Naoki Ohta Managing Director	4	22	2	90%	
Patrick O'Hara Managing Director	3	24	10	95%	
Dave LaBrie Director	10	16	2	95%	X
Sean McDonell, CFA Director	5	14	2	95%	
Allen Ruiz Director	3	14	9	95%	
Russell Metcalfe Director	3	13	2	95%	
Jeffrey (J.R.) Keeve Associate Director	4	10	2	100%	
Jonathan Hammill Associate Director	4	13	2	100%	
Elizabeth Hartnett Associate Director	3	6	2	100%	

Barings, LLC – In-State Investment Program Team

Personnel Turnover (Private Markets) – Past Five Years*

Year	Staff Additions	Staff Terminations	Key Personnel Additions	Key Personnel Terminations	Net Totals
2021 (YTD)	0	(0)	0	(0)	0
2020	1	(2)	0	(2)	3
2019	2	(1)	0	(0)	1
2018	2	0	0	(0)	2
2017	5	(1)	3	(1)	6
2016	4	(2)	0	(0)	2
2015	1	(1)	1	(1)	0

*In-State Investment Program personnel turnover is not available due to Barings not designating an In-State team.

Key personnel defined as Managing Directors. Data does not include internal transfers.

Barings, LLC – In-State Investment Program Assets

The following tables, as of 12/31/2020, provide a breakout of Barings, LLC's In-State Investment Program client advisory assets and discretionary assets under management.

Mandate Type ($ Millions)

	# Accounts	Assets Under Management	Uncalled Commitments	Net Asset Value	Uncalled Commitments & Net Asset Value
Separate Accounts:					
Discretionary:	2	$5	$5	$0	$5
Non-Discretionary:	0	0	0	0	0
Fund-of-Ones:	0	0	0	0	0
Total:	**2**	**$5**	**$5**	**0**	**$5**

Barings, LLC – In-State Investment Program Performance

Barings, LLC ("the Firm") does not have an In-State Investment Program track record due to their first In-State Program commitment being in 2019. For the 2019 vintage year, the firm manages $5 million of Primary Partnerships on a discretionary basis. The Firm also currently manages a $100 million real assets-focused In-State investment program and a $150 million private equity-focused program. In the 4th quarter of 2020, Barings approved an $8 million commitment to a transportation/logistics co-investment. The firm did not provide any other co-investment commitments or performance.

Barings, LLC - Private Equity Assets

The following tables provide a breakout of Barings, LLC's Private Equity client advisory assets and discretionary assets under management. The number of accounts are as of February 15, 2021 and the Uncalled Commitments and NAV data as of September 30, 2020.

Mandate Type ($ Millions)

	# Accounts	Assets Under Management	Uncalled Commitments	Net Asset Value	Uncalled Commitments & Net Asset Value
Fund of Funds:	2	$169	$39	$131	$169
Secondary Funds	0	0	0	0	0
Direct Co-Investments:	0	0	0	0	0
Separate Accounts (Subtotal):	0	0	0	0	0
Discretionary:	5	4,237	996	3,240	4,237
Non-Discretionary:	0	0	0	0	0
Fund-of-Ones:	4	324	101	222	324
Total:	**11**	**$4,730**	**$1,136**	**$3,593**	**$4,730**

Investor Type ($ Millions)

	# Accounts	Assets Under Management	Uncalled Commitments	Net Asset Value	Uncalled Commitments & Net Asset Value
Public Pension:	4	$208	$37	$171	$208
Corporate Pension:	2	17	3	13	17
Endowment/Foundation:	1	5	5	0	5
Financial Institution (Banks, Ins):	2	4,495	1,090	3,405	4,495
Other (HNW Individuals) (T-H):	6	5	1	4	5
Total:	**15**	**$4,730**	**$1,136**	**$3,593**	**$4,730**

Barings, LLC – Private Markets Performance

The following tables, as of 09/30/2020, provide Barings, LLC's private markets discretionary performance for primary partnerships and co-investments. Performance metrics (IRR, TVPI, and DPI) are show on a net basis.

Primary Partnerships

Private Markets Performance Vintage Years 2010-2017

Performance	2010	2011	2012	2013	2014	2015	2016	2017
Accounts	6	6	6	3	8	-	2	3
Committed Capital ($m)	$70	$70	$65	$40	$115	-	$36	$32
IRR	11.4%	18.6%	25.6%	8.1%	10.5%	-	38.7%	14.3%
TVPI	1.64x	1.74x	2.86x	1.29x	1.33x		1.89x	1.24x
DPI	1.04x	1.48x	1.21x	0.47x	0.60x	-	0.52x	0.32x

Co-Investments

Private Markets (Private Equity) Performance Vintage Years 2010-2017

Performance	2010	2011	2012	2013	2014	2015	2016	2017
Accounts	-	-	-	-	-	-	1	3
Committed Capital ($m)	-	-	-	-	-	-	$11	$23
IRR	-	-	-	-	-	-	43.1%	10.0%
TVPI	-	-	-	-	-	-	3.31x	1.26x
DPI	-	-	-	-	-	-	0.93x	0.25x

GCM Grosvenor

900 N. Michigan Avenue
Chicago, IL 60611

Firm Overview

GCM Grosvenor ("GCM Grosvenor" or the "Firm") was originally founded in 1971 when it launched its first portfolio of hedge funds. From inception to 1990, the Firm focused on family offices and high net worth clients providing multi-strategy and single-strategy alternative portfolios. In 1990 the current Chairman and Vice Chairman joined the firm with a focus on institutional asset management. The private equity group, which was acquired from Credit Suisse in 2014, implemented their first investment in 1999. In addition to the acquisition of the CFIG group from Credit Suisse, Northern Trust has also acquired other supporting real estate and infrastructure businesses.

The Firm has been majority management owned since inception in 1971. In 2019, the Firm restructured with Hellman & Friedman resulting in a dividend split change to 92% GCM Grosvenor / 8% Hellman & Friedman compared to 71% GCM Grosvenor / 29% Hellman & Friedman. In November 2020, the Firm closed a transaction to become a public company (Nasdaq: GCMG). Currently, the Firm's management owns 78% of equity interest in the Firm.

Today, the Firm has main offices in Chicago (headquarters), New York, Los Angeles, Hong Kong, London, Seoul, and Tokyo with total assets under management ("AUM") of $62 billion. Of the $62 Billion in AUM, the firm manages over $22 Billion in private equity allocated across Primaries, Secondaries, and Co-Investments.

Organizational Structure

Year Founded:	1971
Type of Firm:	Public
Ownership:	78% GCM Grosvenor / 22% Public
Errors & Omissions Insurance:	☒
U.S. SEC & DOL Compliance:	☒
Registered Investment Adviser:	☒

Employee Structure

Senior Investment Professionals	40
Junior Investment Professionals	34
Monitoring and Support	72
Marketing/Client Service	61
Other (Legal/Compliance/Risk/Finance/HR, etc.)	283
Total Employees	**490**

Contact

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GCM Grosvenor – In-State Investment Program Team

Team

The In-State Investment Program team is comprised of one President, two Managing Directors, three Principals, and one Executive Director. The team is supported by an 8-person Investment Committee, a 5-person Operations Committee, 7 Risk Management professionals, 15 Operational Due Diligence professionals, and a 42-person Client Group. As a result of a large team supporting the investment team, the key investment professionals are able to allocate almost all of their time to generating deal flow and other investment activities. The Firm has had turnover within the private equity group over the past five years. Iris Zhao, a Managing Director focused of private equity real estate, and infrastructure, left in 2015 to pursue other opportunities. Arnaud Lipkowicz, an investment professional focused on European Private Equity investments, left the Investment Committee in 2020. Two notable hires within private equity include Brian Sullivan, head of global secondaires and part of the Investment Committee, and Kevin Nickelberry, a Managing Director, focused on private equity co-investments.

Key Professionals (In-State Investment Program)

Key Professionals	Years With Firm	Years of PE Experience	In-State Investment Program Experience	Percentage of Time Spent on Investment Activities*	Principally Involved in NDSIB In-State Program
Jonathan Levin President	10	18	18	See Note	X
Fred Pollock Chief Investment Officer	6	17	17	See Note	X
Michael Rose Managing Director	17	19	19	See Note	X
Bernard Yancovich Managing Director	21	26	26	See Note	X
Mo Saraiya Principal	3	18	18	See Note	X
Todd Roland Principal	6	14	14	See Note	X
Michael Kell Principal	10	23	23	See Note	X
Erik Hall Executive Director	7	-	-	See Note	X

*The Investment Teams are supported by several other teams, including an 8-person Investment Committee, a 5-person Operations Committee, 7 Risk Management professionals, 15 Operational Due Diligence professionals, 10 tax professionals, and a 42-person Client Group. Our senior investment professionals can therefore allocate nearly 100% of their time to generating deal-flow, reviewing opportunities, conducting due diligence, and negotiating and structuring deals.

GCM Grosvenor – In-State Investment Program Team

Personnel Turnover (Private Markets) – Past Five Years*

Year	Staff Additions	Staff Terminations	Key Personnel Additions	Key Personnel Terminations	Net Totals
2021 (YTD)	0	(0)	0	(0)	0
2020	8	(4)	1	2	4
2019	7	(8)	2	1	(1)
2018	15	(7)	0	(1)	8
2017	9	(5)	0	(0)	4
2016	9	(8)	0	(0)	1
2015	9	(5)	0	(0)	4

*Additions and terminations as of January 1, 2021. Data provided for private equity, real estate and infrastructure investment professionals. Data includes analysts who are a part of our three-year rotational program and excludes internal transfers.

GCM Grosvenor – In-State Investment Program Assets

The following tables, as of 12/31/2020, provide a breakout of GCM Grosvenor's In-State Investment Program client advisory assets and discretionary assets under management.

Mandate Type ($ Millions)

	# Accounts	Assets Under Management	Uncalled Commitments	Net Asset Value	Uncalled Commitments & Net Asset Value
Separate Accounts:					
Discretionary:	17	$909	$272	$638	$909
Non-Discretionary:	8	362	8	354	362
Fund-of-Ones:	0	0	0	0	0
Total:	**25**	**$1,271**	**$280**	**$991**	**$1,271**

GCM Grosvenor – In-State Investment Program Performance

The following tables, as of 09/30/2020, provide GCM Grosvenor's In-State Investment Program discretionary performance for primary partnerships and co-investments. Performance metrics (IRR, TVPI, and DPI) are show on a net basis.

Primary Partnerships

In-State Discretionary Performance Vintage Years 2010-2017

Performance	2010	2011	2012	2013	2014	2015	2016	2017
Accounts	7	14	5	8	7	5	8	6
Committed Capital ($m)	$45	$117	$15	$65	$29	$55	$15	$37
IRR	30.8%	11.2%	-2.8%	8.1%	7.8%	6.1%	71.5%	23.3%
TVPI	6.16x	1.62x	0.88x	1.35x	1.27x	1.15x	3.83x	1.43x
DPI	1.97x	1.15x	0.18x	0.33x	0.90x	0.45x	0.08x	0.04x

Co-Investments

In-State Discretionary Performance by Vintage Years 2010-2017

Performance	2010	2011	2012	2013	2014	2015	2016	2017
Accounts	7	14	5	8	7	5	8	6
Committed Capital ($m)	$55	$105	$49	$81	$53	$49	$87	$54
IRR	33.3%	26.3%	29.8%	14.0%	8.4%	13.9%	-6.4%	10.4%
TVPI	2.02x	2.64x	2.68x	1.42x	1.32x	1.64x	0.81x	1.23x
DPI	2.02x	2.63x	2.39x	1.17x	1.04x	0.81x	0.38x	0.86x

GCM Grosvenor - Private Equity Assets

The following tables provide a breakout of GCM Grosvenor's Private Equity client advisory assets and discretionary assets under management. The number of accounts are as of February 15, 2021 and the Uncalled Commitments and NAV data as of September 30, 2020.

Mandate Type ($ Millions)

	# Accounts	Assets Under Management	Uncalled Commitments	Net Asset Value	Uncalled Commitments & Net Asset Value
Fund of Funds:	28	$1,474	$403	$1,071	$1,474
Secondary Funds	3	709	259	451	709
Direct Co-Investments:	3	1,517	842	675	1,517
Separate Accounts (Subtotal):					
Discretionary:	135	26,203	12,868	13,335	26,203
Non-Discretionary:	4	324	58	266	324
Fund-of-Ones:	6	222	89	133	222
Total:	179	**$30,450**	**$14,519**	**$15,931**	**$30,450**

Investor Type ($ Millions)

	# Accounts	Assets Under Management	Uncalled Commitments	Net Asset Value	Uncalled Commitments & Net Asset Value
Public Pension:	42	$21,042	$9,742	$11,301	$21,042
Corporate Pension:	12	2220	982	1239	2220
Endowment/Foundation:	8	123	19	104	123
Financial Institution (Banks, Ins):	6	956	744	212	956
Other (HNW Individuals) (T-H):	58	6109	3033	3076	6109
Total:	**126**	**$30,450**	**$14,519**	**$15,931**	**$30,450**

GCM Grosvenor – Private Equity Performance

The following tables, as of 09/30/2020, provide GCM Grosvenor's private markets discretionary performance for primary partnerships and co-investments. Performance metrics (IRR, TVPI, and DPI) are show on a net basis.

Primary Partnerships

Private Markets (Private Equity) Performance Vintage Years 2010-2017

Performance	2010	2011	2012	2013	2014	2015	2016	2017
Accounts	34	34	24	21	20	25	23	23
Committed Capital ($m)	$1,742	$1,350	$1,050	$443	$481	$908	$713	$865
IRR	17.0%	14.3%	18.2%	11.5%	14.7%	16.3%	13.2%	20.1%
TVPI	1.79x	1.62x	1.81x	1.39x	1.46x	1.46x	1.30x	1.32x
DPI	1.53x	1.14x	1.23x	0.63x	0.68x	0.45x	0.18x	0.22x

Co-Investments

Private Markets (Private Equity) Performance Vintage Years 2010-2017

Performance	2010	2011	2012	2013	2014	2015	2016	2017
Accounts	14	16	11	11	6	12	10	10
Committed Capital ($m)	$417	$295	$254	$152	$90	$337	$316	$276
IRR	17.6%	18.5%	34.9%	25.1%	16.8%	13.7%	28.2%	8.3%
TVPI	1.72x	2.02x	2.46x	1.91x	1.77x	1.66x	2.03x	1.24x
DPI	1.69x	2.00x	2.20x	1.68x	1.20x	1.05x	0.79x	0.40x

Sun Mountain Capital Advisors, LLC

527 Don Gaspar Ave
Santa Fe, NM 87505

Firm Overview

Sun Mountain Capital Advisors, LLC ("Sun Mountain" or the "Firm") is an independent investment management firm founded in 2006. The firm was founded with a focus on targeted private equity and venture capital investing in underserved areas. In 2017, one of the founders of the firm, Leslie Shaw, retired. Edward Markman was hired in 2014 to replace Leslie Shaw and is currently a Partner and serves as the firm's Chief Financial Officer and Chief Compliance Officer. The Firm was formed as a partnership and continues to operate under this structure.

Currently, the Firm has a total of 19 employees which includes 6 regional employees dedicated to specific In-State Investment Programs. As of 12/31/2020, the Firm had $710 million in discretionary in-state program assets and total firm assets of $1.3 billion.

Organizational Structure

Year Founded:	2006
Type of Firm:	Private
Ownership:	Partnership
Errors & Omissions Insurance:	☒
U.S. SEC & DOL Compliance:	☒
Registered Investment Adviser:	☒

Employee Structure (Private Markets)*

Senior Investment Professionals	6
Due Diligence/Research Analysts	4
Monitoring & Reporting	1
Other Research/Analytics	0
Marketing/Client Service	0
Administration/Other	2
Total Employees	**13**

Contact

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*Sun Mountain has an affiliate team of 6 additional professionals who work out of Wisconsin and Mexico.

Sun Mountain - In-State Investment Program Team

Team

The In-State Investment Program Team is comprised of one Managing Partner, two Partners, and one Senior Associate. The team as reviewed is largely focused on In-State Investment Programs, with four of the six key professionals expected to be principally involved in the NDSIB In-State Program. The Firm has had minimal turnover with most notable departures being Leslie Shaw, co-founding Partner, retiring in 2016 and Mark Hollis, Principal, leaving due to personal reasons in 2017. In the past, the team has added investment professionals located within the state where the program is located. For the NDSIB In-State Program, the team that is focused on the program is expected to include two additional employees located in North Dakota focused solely on sourcing and generating deal flow.

Key Professionals (In-State Investment Program)

Key Professionals	Years With Firm	Years of PE Experience	In-State Investment Program Experience	Percentage of Time Spent on Investment Activities	Principally Involved in NDSIB In-State Program
Brian Birk Managing Partner	15	23	17	60%	X
Sally Corning Partner	15	28	15	70%	X
Lee Rand Partner	12	12	12	70%	X
Catriona Forrester Principal	5	5	5	80%	
Brian Lewis Principal	5	5	5	90%	
Dan Brooks Senior Associate	7	7	7	90%	X

Personnel Turnover (In-State Investment Program) – Past Five Years

Year	Staff Additions	Staff Terminations	Key Personnel Additions	Key Personnel Terminations	Net Totals
2021 (YTD)	0	(0)	0	(0)	0
2020	0	(1)	1	(0)	0
2019	0	(0)	1	(0)	1
2018	1	(0)	1	(0)	2
2017	0	(1)	0	(0)	(1)
2016	0	(0)	0	(1)	(1)
2015	3	(0)	0	(0)	3

Sun Mountain – In-State Investment Program Assets

The following tables, as of 12/31/2020, provide a breakout of Sun Mountain's In-State Investment Program client advisory assets and discretionary assets under management.

Mandate Type ($ Millions)

	# Accounts	Assets Under Management	Uncalled Commitments	Net Asset Value	Uncalled Commitments & Net Asset Value
Separate Accounts:					
Discretionary:	11		$169	$541	$710
Non-Discretionary:	0		0	0	0
Fund-of-Ones:	0		0	0	0
Total:	**2**		**$ 169**	**$541**	**$710**

Sun Mountain – In-State Investment Program Performance

The following tables, as of 09/30/2020, provide Sun Mountain's In-State Investment Program discretionary performance for primary partnerships and co-investments. Performance metrics (IRR, TVPI, and DPI) are show on a net basis.

Direct Equity

In-State Discretionary Performance Vintage Years 2010-2017

Performance	2010	2011	2012	2013	2014	2015	2016	2017
Accounts	-	-	-	1	1	1	-	1
Committed Capital ($m)	-	-	-	$20	$40	$23	-	$28
IRR	-	-	-	9.0%	5.2%	2.1%	-	2.3%
TVPI	-	-	-	1.85x	1.28x	1.10x	-	1.05x
DPI	-	-	-	0.03x	0.02x	0.59x	-	0.03x

Sun Mountain - Private Markets Assets

The following tables provide a breakout of Sun Mountain's private markets client advisory assets and discretionary assets under management. The number of accounts are as of February 15, 2021 and the Uncalled Commitments and NAV data as of September 30, 2020.

Mandate Type ($ Millions)

	# Accounts	Assets Under Management	Uncalled Commitments	Net Asset Value	Uncalled Commitments & Net Asset Value
Fund of Funds:	5	$246	$83	$163	$246
Secondary Funds	0	0	0	0	0
Direct Co-Investments:	6	464	86	378	464
Separate Accounts (Subtotal):	0	0	0	0	0
Discretionary:	0	0	0	0	0
Non-Discretionary:	0	0	0	0	0
Fund-of-Ones:	0	0	0	0	0
Total:	**11**	**$710**	**$169**	**$541**	**$710**

Investor Type ($ Millions)

	# Accounts	Uncalled Commitments	Net Asset Value	Uncalled Commitments & Net Asset Value
Public Pension:	0	$0	$0	$0
Corporate Pension:	1	$2	$3	$4
Endowment/Foundation:	2	$0	$0	$1
Financial Institution (Banks, Ins):	6	$58	$179	$237
Sovereign Wealth Funds	1	$72	$314	$386
State Government Entities	2	$21	$5	$26
Other (HNW Individuals) (T-H):	73	$172	$516	$688
Total:	**85**	**$325**	**$1,017**	**$1,342**

Sun Mountain – Private Markets Performance

The following tables, as of 09/30/2020, provide Sun Mountain's private markets discretionary performance for primary partnerships. Performance metrics (IRR, TVPI, and DPI) are show on a net basis.

Direct Equity

Private Markets Performance Vintage Years 2010-2017

Performance	2010	2011	2012	2013	2014	2014(a)	2015	2016	2017
Accounts	-	-	-	1	1	1	-	1	1
Committed Capital ($m)	-	-		$20	$40	$23	-	$28	$45
IRR	-	-	-	9.0%	5.2%	2.1%	-	2.3%	7.8%
TVPI	-	-	-	1.85x	1.28x	1.10x	-	1.05x	1.21x
DPI	-	-	-	0.03x	0.02x	0.59x	-	0.03x	0.00x

*** (a) 2014 is split into multiple columns to avoid using a blended average IRR between New Mexico investments and Mexico investments**

Fee Proposals

Summary

Throughout the process of analyzing proposed fees, Callan evaluated fee proposals by Management Fees, Carried Interest (performance based fees), and Charge-Backs (legal, fund administrative, and other fees). Fees were assessed using a commitment to the program of $100mm and a 15 year program. Management fees were charged on the program commitment and respondents generally offered management fee discounts after the Investment Period. Carried Interest was calculated using projected cash flows from the program's underlying investments. Callan further analyzed Carried Interest charged by each manager by reconciling differences in projected cash flows and examining proposed performance based fee structures.

Fee Proposal Breakdown by Fee Type

The following table shows an overview of the proposed fees charged for each respondent by fee type. Fees are shown assuming a plan life of 15 years.

RFP Respondent	Management Fees	Carried Interest	Charge-Backs	Total Fees	Average Annual Fee on $100mm
50 South Capital**	$9,800,000	$2,500,000	$3,025,000	$15,325,000	1.02%
Barings	$8,854,348	$11,352,092	$1,925,000	$22,131,440	1.48%
GCM Grosvenor	$7,738,333	$5,715,393	$2,021,700	$15,475,426	1.03%
Sun Mountain	$13,130,000	-	$1,215,000	$14,345,000	0.96%

*Data was extracted using RFP responses and are for illustrative purposes only
**Based on NDSIB being a long standing client of Northern Trust, 50 South Capital has negotiated a custody fee credit equal to 10% of 50 South Capital's proposed annual management fee over the life of the fund.

Management Fee Terms

The following table shows an overview of the proposed Management Fee terms for each respondent.

RFP Respondent	Average Annual Management Fee	Average Annual Management Fee (Investment Period)	Investment Period
50 South Capital	0.65%	0.96%	5 Years
Barings	0.59%	1.25%	4 Years
GCM Grosvenor	0.52%	1.00%	5 Years
Sun Mountain	0.88%	1.30%	5 Years

*Data was extracted using RFP responses and are for illustrative purposes only

Carried Interest Terms

The following table shows an overview of the proposed Carried Interest terms for each respondent.

RFP Respondent	Carried Interest	Preferred Return	Type of Investments subject to GP Carry
50 South Capital	10.00%	Not Specified	Co-Investments
Barings	10.00%	8.00%	Total Plan
GCM Grosvenor	10.00%	8.00%	Total Plan
Sun Mountain	0%	N/A	N/A

*Data was extracted using RFP responses and are for illustrative purposes only

Projected Fee Schedules

The following charts provide a more comprehensive view on respondents proposed fee structures by plan year and fee type.

50 South Capital Proposed Fee Schedule

Year	Commitment	Management Fee	Carried Interest	Charge-Backs	Total	Cumulative Total
1	$100,000,000	$800,000	-	$400,000	$1,200,000	
2		$1,000,000	-	$250,000	$1,250,000	
3		$1,000,000	-	$250,000	$1,250,000	
4		$1,000,000	-	$250,000	$1,250,000	
5		$1,000,000	-	$250,000	$1,250,000	
6		$950,000	-	$200,000	$1,150,000	
7		$900,000	-	$200,000	$1,100,000	
8		$850,000	$500,000	$200,000	$1,550,000	
9		$800,000	$500,000	$200,000	$1,500,000	
10		$500,000	$500,000	$200,000	$1,200,000	
11		$500,000	$500,000	$200,000	$1,200,000	
12		$500,000	$500,000	$200,000	$1,200,000	
13		-	-	$75,000	$75,000	
14		-	-	$75,000	$75,000	
15		-	-	$75,000	$75,000	
TOTAL		**$9,800,000**	**$2,500,000**	**$3,025,000**	**$15,325,000**	

Barings, LLC Proposed Fee Schedule

Year	Commitment	Management Fee	Carried Interest	Charge-Backs	Total	Cumulative Total
1	$100,000,000	$1,000,000	-	$175,000	$1,175,000	
2		$1,250,000	-	$125,000	$1,375,000	
3		$1,250,000	-	$125,000	$1,375,000	
4		$1,500,000	-	$125,000	$1,625,000	
5		$1,258,138	-	$125,000	$1,383,138	
6		$1,076,000	-	$125,000	$1,201,000	
7		$746,773	-	$125,000	$871,773	
8		$456,716	-	$125,000	$581,716	
9		$203,421	$8,220,690	$125,000	$8,549,111	
10		$62,186	$1,770,955	$125,000	$1,958,141	
11		$34,542	$592,973	$125,000	$752,515	
12		$13,939	$419,463	$125,000	$558,402	
13		$2,633	$237,179	$125,000	$364,812	
14		-	$95,611	$125,000	$220,611	
15		-	$15,222	$125,000	$140,222	
TOTAL		**$8,854,348**	**$11,352,092**	**$1,925,000**	**$22,131,440**	

GCM Grosvenor Proposed Fee Schedule

Year	Commitment	Management Fee	Carried Interest	Charge-Backs	Total	Cumulative Total
1	$100,000,000	$1,000,000	-	$285,230	$1,285,230	
2		$1,000,000	-	$140,528	$1,140,528	
3		$1,000,000	-	$145,525	$1,145,525	
4		$1,000,000	-	$132,723	$1,132,723	
5		$1,000,000	-	$135,460	$1,135,460	
6		$816,667	-	$127,278	$943,944	
7		$711,667	-	$126,111	$837,778	
8		$255,000	-	$126,111	$381,111	
9		$191,667	$3,579,559	$125,988	$3,897,213	
10		$170,000	$691,100	$117,498	$978,597	
11		$153,333	$672,465	$117,250	$943,049	
12		$140,000	$357,647	$117,250	$614,897	
13		$120,000	$271,300	$109,000	$500,300	
14		$100,000	$121,161	$108,250	$329,411	
15		$80,000	$22,161	$107,500	$209,661	
TOTAL		**$7,738,333**	**$5,715,393**	**$2,021,700**	**$15,475,426**	

Sun Mountain Capital Proposed Fee Schedule

Year	Commitment	Management Fee	Carried Interest	Charge-Backs	Total	Cumulative Total
1	$100,000,000	$1,300,000	-	$165,000	$1,465,000	
2		$1,300,000	-	$75,000	$1,375,000	
3		$1,300,000	-	$75,000	$1,375,000	
4		$1,300,000	-	$75,000	$1,375,000	
5		$1,300,000	-	$75,000	$1,375,000	
6		$1,040,000	-	$75,000	$1,115,000	
7		$1,040,000	-	$75,000	$1,115,000	
8		$910,000	-	$75,000	$985,000	
9		$910,000	-	$75,000	$985,000	
10		$780,000	-	$75,000	$855,000	
11		$650,000	-	$75,000	$725,000	
12		$520,000	-	$75,000	$595,000	
13		$390,000	-	$75,000	$465,000	
14		$260,000	-	$75,000	$335,000	
15		$130,000	-	$75,000	$205,000	
Total		$13,130,000	$0	$1,215,000	$14,345,000	

Important Information and Disclosures

This investment evaluation of the candidate sponsor and the candidate investment vehicle(s) was compiled by Callan at the request of North Dakota State Investment Board, exclusively for use by North Dakota State Investment Board.

This investment evaluation and the information contained herein is confidential and proprietary information of Callan and should not be used other than by North Dakota State Investment Board for its intended purpose or disseminated to any other person without Callan's permission.

This investment evaluation gives consideration to the investment requirements and guidelines provided to Callan by North Dakota State Investment Board, and should not be relied upon by any person other than North Dakota State Investment Board or used in whole or in part for any purpose other than considering an investment in the candidate vehicle(s).

Information contained herein has been compiled by Callan and is based on information provided by various sources believed to be reliable but which Callan has not necessarily verified the accuracy or completeness of or updated. Information considered by Callan, includes information provided by the investment sponsor and information that is publicly available, as well as information developed by Callan from other sources, which may not be current as of the date of this investment evaluation. Callan does not make any representation or warranty, express or implied as to the accuracy or completeness of the information contained in this investment evaluation. Callan undertakes no obligation to update this investment evaluation except as specifically requested by North Dakota State Investment Board.

This investment evaluation is for informational purposes only and should not be construed as legal or tax advice. North Dakota State Investment Board is urged to consult with legal and tax advisers before investing in the candidate investment vehicle(s) or any other investment vehicle.

A potential investor in the candidate investment vehicle(s) should undertake an independent review of the sponsor's private placement memorandum, related offering documents and due diligence questionnaire, which describe, among other important information, the sponsor's background, experience and track record, investment strategy, investment risk factors, compensation program, and investor rights and obligations. Callan makes no representation or warranty, express or implied, as to the accuracy or completeness of the sponsor's offering materials. It is incumbent upon North Dakota State Investment Board to make an independent determination of the suitability and consequences of an investment in the candidate investment vehicle(s).

The appropriateness of the candidate investment vehicle(s) discussed in this investment evaluation is based on Callan's understanding of North Dakota State Investment Board' portfolio as of the date this investment evaluation is originally issued.

Opinions expressed in the investment evaluation are based on Callan's standard evaluation procedures which are designed to provide objective comments based upon information provided to Callan. Such opinions may be amended, supplemented or restated, based on changes in North Dakota State Investment Board' investment objectives or investment portfolio, the macroeconomic environment, legal/regulatory/political climate, the organization or team of the candidate general partner(s) or candidate investment vehicle(s) or other identified or unidentified factors.

Callan undertakes no obligation to update any opinion expressed in this investment summary except as specifically requested by North Dakota State Investment Board.

Nothing contained in this investment evaluation should be relied upon as a promise or representation as to past or future performance of the candidate investment vehicle(s) or other entity. Past performance is no guarantee of future results.

Certain operational topics may be addressed in this investment evaluation for informational purposes; however, Callan has not conducted due diligence of the operations of the candidate sponsor, or candidate investment vehicle(s), as may typically be performed in an operational due diligence evaluation assignment.

The issues considered and risks highlighted in this investment evaluation may not be comprehensive and other undisclosed or heretofore unknown risks may exist that may be deemed material to North Dakota State Investment Board regarding the candidate sponsor and candidate investment vehicle(s).

The investment evaluation and any related due diligence questionnaire completed by the candidate sponsor may contain highly confidential information that is covered by a non-disclosure or other related agreement with the candidate sponsor which must be respected by North Dakota State Investment Board and its representatives. North Dakota State Investment Board agrees to adhere to the conditions of any confidentiality or non-disclosure agreement provided with the investment evaluation.

Client Disclosure

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.

As a matter of policy, Callan follows strict procedures so that investment manager client relationships do not affect the outcome or process by which Callan's searches or evaluations are conducted.

Firm	Is an Investment Manager Client of Callan*	Is Not an Investment Manager Client of Callan*
50 South Capital	X	
Barings		X
GCM Grosvenor	X	
Sun Mountain		X

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

GCM GROSVENOR

North Dakota State Investment Board In-State Mandate

March 2021

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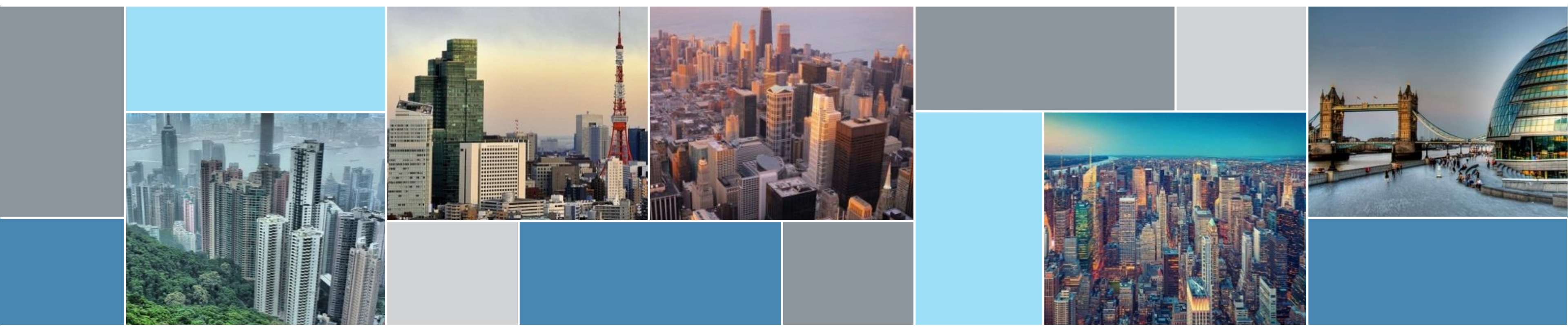


The Notes and Disclosures following this presentation are an integral part of this presentation and must be read in connection with your review of this presentation.

This presentation has been prepared by Grosvenor Capital Management, L.P. and GCM Customized Fund Investment Group, L.P.

NDSIB's Coverage Team

North Dakota State Investment Board ("NDSIB") will be supported by the full breadth and depth of our business.

Executive sponsorship			
	**Jonathan Levin** Managing Director, President	18 years of relevant experience, 10 years with the firm	Chicago
	**Frederick Pollock** Managing Director, Chief Investment Officer	17 years of relevant experience, 6 years with the firm	Chicago
Investment leads			
	**Michael Rose** Managing Director, Infrastructure	19 years of relevant experience, 17 years with the firm	New York
	**Bernard Yancovich** Managing Director, Private Equity	26 years of relevant experience, 21 years with the firm	New York
	**Mo Saraiya** Principal, Real Estate	18 years of relevant experience, 3 years with the firm	New York
	**Todd Roland** Principal, Private Equity Co-Investments	14 years of relevant experience, 6 years with the firm	Chicago
	**Mike Kell, CFA** Principal, Private Credit	23 years of relevant experience, 10 years with the firm	Detroit
Client services			
	**Erik Hall** Executive Director, Client Group	23 years of relevant experience, 7 years with the firm	Chicago

Supported by:

71 Private Equity, Infrastructure and Real Estate Investment Professionals

16 Operational Due Diligence

312 Operational Staff

+Includes:

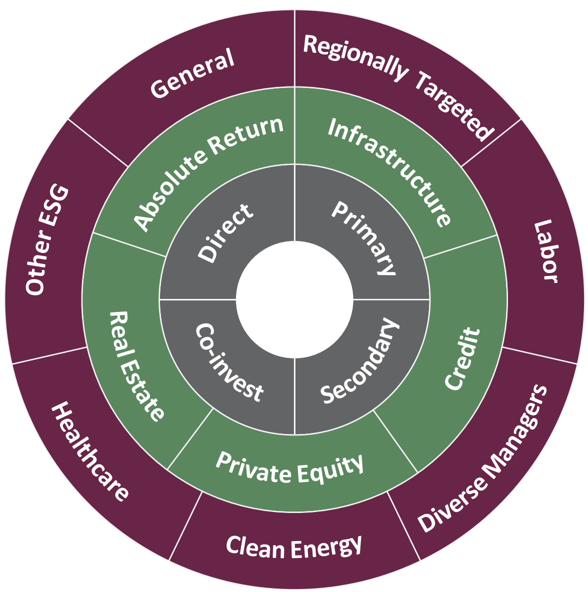
- 42 Client Group
- 122 Finance
- 39 Technology
- 15 Legal and Compliance
- 16 Human Resources

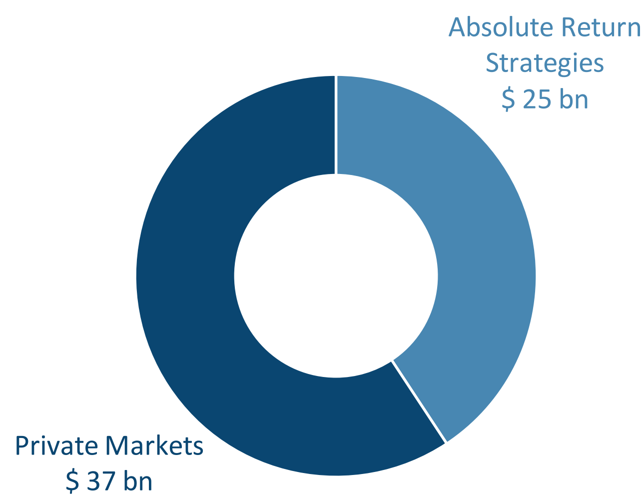
Data as of January 1, 2021. Individuals with dual responsibilities are counted only once. Years with the firm represents time with GCM Grosvenor and its predecessors.

50 Years of Alternatives Investing

GCM Grosvenor is one of the world's largest and most diversified independent alternative asset management firms.

1971	77%	$62 bn	490	169
First year of Investing	of AUM in customized separate accounts	Assets under Management	Employees	Investment professionals





Employee data as of January 1, 2021. AUM data as of December 31, 2020. The Operational Due Diligence team is included in the Investment professionals count.

Customized Solutions for Clients

Customized separate accounts

Tailored
Bespoke investment portfolio developed specifically for each client.

Flexible
The client defines the mandate with the flexibility to evolve it as needs change.

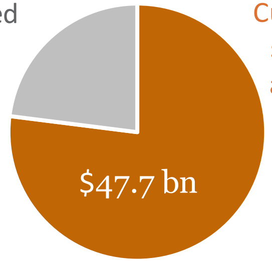
Collaborative
The client determines the level of involvement in investment and implementation decisions.

Economically efficient
Each client benefits from our size and global scale. Clients often access investments with favorable structures; they also leverage our staff and services.

Service-oriented
Designated coverage team includes investor relations and portfolio management staff.

A market leader in customized separate account solutions

Total assets under management
$62 billion



First customized separate account	1996
Customized separate account clients	147
Customized separate accounts	239

Value-add services

- Program design
- Knowledge transfer and education
- Staff augmentation
- Program evolution support
- Access to due diligence
- Reporting and technology
- Operational support

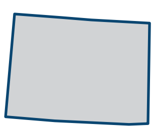
Data as of December 31, 2020.
No assurance can be given that any investment will achieve its objectives or avoid losses. Unless apparent from context, all statements herein represent GCM Grosvenor's opinion.

Representative Regionally-Targeted Investment Programs

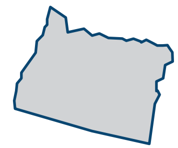
Each program varies in size, scope, investment objectives and strategies, program goals, implementation and measurement of impact. Each of these programs were created in partnership with GCM Grosvenor.

- Invest Michigan SBIC Fund
- Michigan 21st Century Investment Fund
- InvestMichigan! Growth Fund
- Venture Michigan Fund I
- Venture Michigan Fund II

- California Impact Fund
- California Mezzanine Investment Fund

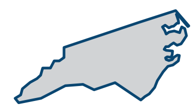


- Colorado Mile High Fund



- Oregon Investment Fund

- New York Co-Investment Program



- NC Innovation Fund

- Florida Opportunity Fund

- GCM Grosvenor Wrench Primaries
- GCM Grosvenor Wrench Co-Investments

For illustrative purposes only. Use of clients' names above does not imply endorsement of GCM Grosvenor or its services. **No assurance can be given that any investment will achieve its objectives or avoid losses.**

Approaches to In-State Programs

Considerations for Achieving Various Potential Program Goals

Approach	Key Considerations
Support new company creation	▪ Develop early stage VC-focused program, with capital available to fund companies as they grow ▪ Consider investments in VC funds and direct investments in companies ▪ Help build a network between universities, labs, incubators, and others
Support growth of existing companies	▪ Nexus to the State is easily identified ▪ Establish diversified investment program with flexibility to invest debt and or equity in companies of varying maturity ▪ Include companies within the state / region and those growing into the area ▪ Include investments in funds and direct investments in companies ▪ Include flexibility to incentivize GPs to spend time in region sourcing deals
Grow investment community / ecosystem	▪ Target investments to attract existing GPs to establish offices / presence in state ▪ Focus on supporting establishment of new funds
Support IP transfer from Universities	▪ Build off of and utilize existing relationships with universities ▪ Include investments in funds and direct investments in companies ▪ Team with incubators and economic development agencies to foster entrepreneurial growth

For illustrative purposes only. No assurance can be given that any investment will achieve its objectives or avoid losses.

Potential Approaches to In-State Programs (cont'd)

Portfolio Construction Considerations When Developing Program Goals

***Select risks include:** manager risk, macroeconomic risk, credit risk, interest rate risk, security selection risk, mark-to-market risk, jurisdiction risk, regulatory risk, capital markets risk, and inflation risk. Additional risks that result in losses may be present.*

Approach	Key Considerations
Fund Investments	▪ Matching high performing funds to program objectives is often difficult ▪ Diligence complexity / resource intensity for evaluating emerging manager investments ▪ Adherence to program objectives and fund in-state/regional nexus expectations ▪ Potentially longer time frame to assess success of fund investments
Co-Investments	▪ Nexus to the State is easily identified ▪ Potential to reduce J-curve for a program ▪ High quality sponsored opportunities are often limited ▪ Potential concentration in key industries most prominent/acquisitive within the state
Venture Capital/Growth Equity	▪ Very long investment cycle (extended J-curve) ▪ Typically lower job impact ▪ Technology expertise is critical in the fund
Private Equity	▪ Generally less volatile than venture or growth ▪ Typically greater in-state job impact ▪ Lends itself to co-investment opportunities
Real Estate	▪ Variety of potential strategies ▪ Cash flow generation and J-curve similar to private equity ▪ Job impact depends on project / investment scope
Infrastructure	▪ Cash yield potentially mitigates J-curve impact ▪ Longer investment horizon can provide recession resistance to the portfolio ▪ Can generate co-investment opportunities

For illustrative purposes only. No assurance can be given that any investment will achieve its objectives or avoid losses.

Measuring Impact

Sample metrics for assessing an in-state / regional program could include:

Metric	Key Considerations
Capital Deployment	▪ Dollars invested in region ▪ % of capital invested in region ▪ Other dollars from outside the program invested in the same investments ▪ Number of investments in region
Jobs and Infrastructure	▪ Number of jobs created or maintained in region ▪ Number of company headquarters in region ▪ Number of facilities in region
Impact	▪ Woman, indigenous, or minority-owned funds and companies ▪ Spending / payroll taxes / procurement by portfolio companies in region ▪ Track businesses in underserved and Low and Moderate Income ("LMI") areas
Quality of Jobs	▪ Percentage of companies providing benefits to employees including but not limited to: › Medical Insurance › Retirement Plan › Paid Sick leave › Paid Vacation › Company Stock › Other benefits including disability benefits

For illustrative purposes only. No assurance can be given that any investment will achieve its objectives or avoid losses.

North Dakota Portfolio Proposal

Portfolio Proposal

Customized Regionally Targeted Program for NDSIB

Regionally-targeted private markets program focused on North Dakota.

Overview

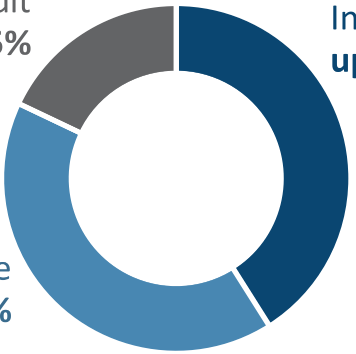
$100 million program size

Investment strategies:

- Infrastructure and Real Assets
- Real Estate
- Private Equity and Private Credit

Overall Program Portfolio Construction

We expect the program would be approximately 50/50 funds and co-investments



Portfolio composition is for illustrative purposes only and does not indicate actual or future allocations. No assurance can be given that any investment will achieve its objectives or avoid losses.

Key Considerations

- **Flexibility and appropriate scale are key determinants of success**
  - Program size must correspond to the opportunity set
  - Flexibility to invest across private markets and across the capital structure is imperative
- **Collaboration and transparency are critical to productive partnerships**
  - Clearly define and agree upon program goals, investment universe, capital sources, communications, resources and team
- **Seek to balance portfolio construction considerations with NDSIB's desired focus on North Dakota**
  - Focus on the state's traditional areas of capital focus (i.e., energy, infrastructure, agriculture and real estate), mixed with GCM Grosvenor's deal flow and knowledge of active players in the state
  - 50%/50% mix between funds and co-investments will seek to prudently diversify the portfolio (funds) and have direct impact on the state (co-investments)
- **Pursue partnerships with fund managers able to source deal flow from within the state and to invest an amount at least equal to the program's commitment to the fund**
  - Co-invest alongside the managers in the opportunities within the state
- **Program will emphasize North Dakota, but should also consider regional opportunities:**
  - South Dakota, Minnesota, Wyoming and Montana
- **Potential to consider opportunities with a "nexus" to North Dakota**
  - For example, companies headquartered in another state, but with presence/operations in North Dakota

No assurance can be given that any investment will achieve its objectives or avoid losses.

Our Approach

	Infrastructure and Real Assets	Real Estate	Private Equity and Private Credit
Target Allocation % of total portfolio	Up to 40%	Up to 40%	0-25%
Implementation Type	Funds and Co-Investments	Joint Ventures and Local Operating Partners	Mainly Co-Investments With Potential for Funds
Sectors of Focus	Upstream Energy, Midstream Infrastructure & Agriculture	Industrial (Logistics & Manufacturing), Storage and Multi-Family	Diversified
Sourcing Verification & Mapping	▪ Mapped deal flow utilizing Preqin over past 10 years+ for ND and neighboring states ▪ Reviewed GCM Grosvenor co-investments and funds sourcing flow and closed transactions for potential ND nexus ▪ Identified and consulted with GPs that have invested in ND previously and for whom ND remains a target geography	▪ Researched institutional-grade transactions across ND using well-known commercial real estate databases for last five years ▪ Determined pool of potential asset classes in which to invest based on prior transactions and macroeconomic trends ▪ Introduced to two brokerage teams at large, national firms who cover the North Dakota market and have on-the-ground relationships	▪ Mapped deal flow using Preqin over past five years in ND and neighboring states ▪ Reviewed GCM Grosvenor co-investments and funds sourcing flow and closed transactions for potential ND nexus ▪ Identified funds that had invested in ND previously

Portfolio composition is for illustrative purposes only and does not indicate actual or future allocations. No assurance can be given that any investment will achieve its objectives or avoid losses.

Case Study – Midstream Infrastructure

Select risks include: *Fund size increase, small investment team, key person risk, exposure to non-control investments.*

A midstream infrastructure manager with a focus encompassing North Dakota

Investment Snapshot	Vintage Year	Fund Size	Asset Type	Primary Geography	Target Returns[1]	Final Close Date
	2020	$750 million	Fund	U.S.	25% net IRR	Q2 2021

Investment Overview

2020 vintage U.S.-based fund focused on midstream infrastructure in the United States.

Investment strategy

- Founded in 2009
- Approximately $2 billion in firm AUM
- Women-founded and led firm
- Seek growth companies with contracted revenue and / or fees; focus on downside mitigation
- Primarily control-oriented, opportunistic growth capital transactions

Potential North Dakota Nexus

- The fund manager considers North Dakota to be part of its investment strategy; has invested in the state in two different investments in its prior funds, committing over $90 million

Investment Highlights

- **Strong investment performance:** 3.0x gross MOIC/78% gross IRR on 13 prior realizations (as of 9/30/2020)
  - Full track record: 1.7x gross MOIC/74% gross IRR (as of 9/30/2020)
- **Deep and experienced team:** 17-person team investment team with 235+ years of collective experience investing in and operating energy companies
- **Conservative approach:** Seek growth companies with contracted revenue and / or fees; focus on downside mitigation. 22% net debt as percentage of total equity invested across unrealized portfolio as of 9/30/20
- **Long-time GCM Grosvenor relationship:** GCM Grosvenor was an anchor investor (largest and first institutional investor in the fund and LP advisory board seat holder) in the manager's first two institutional funds

1 **Target returns are shown to illustrate the current risk/return profile of how the fund or investment is/will be managed. <u>They do not forecast, predict, or project any fund, investment, or investor return.</u> See the Notes and Disclosures following this report for additional information regarding target returns.No assurance can be given that any investment will achieve its target return or investment objectives.**

Returns do not take into account application of management fees, allocable expenses, and carried interest at the underlying fund level and returns would be lower if net-of-fee performance was presented. Please review the Notes and Disclosures for an example of the effect of fees on performance. The example was selected by GCM Grosvenor because we identified this manager as having done deals in North Dakota and actively targeting that region. We would expect to work with the GP on this specific mandate. This example is presented for illustrative purposes only and is not intended to be representative of GCM Grosvenor funds, strategies or investments. Unless apparent from context, all statements herein represent GCM Grosvenor's opinion. **No assurance can be given that any investment will achieve its objectives or avoid losses. <u>Past performance, if presented, is not indicative of future returns, and it should not be assumed that any future investments will be profitable.</u>**

Case Study – Industrial Operator

Select risks include: risks inherent in the ownership of real property, interest rate risk, tax risk, country-specific risks, environmental risks and management risk.

A programmatic joint venture with a local operator focused on last mile industrial assets

Investment Snapshot	Vintage Year	JV Size	Asset Type	Primary Geography	Target Returns[1]	Initial Execution Date
	2020	$76 million	Industrial	Northeast U.S.	14% – 17% net IRR	August 2020

Investment Overview

The venture is a non-discretionary programmatic JV focused on acquiring, developing, and/or redeveloping industrial assets across markets in the east coast of the United States. The JV has a particular focus on last-mile logistics assets.

Operator Overview

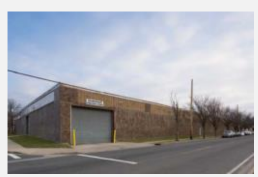
- Founded in 2014
- Headquartered in Boston, MA
- The founders have prior experience at firms such as Colony Capital, Blackstone, Transwestern/RBJ, and Mintz Levin

Potential North Dakota Nexus

- GCM Grosvenor's operating partner has strong relationships with brokers who cover North Dakota markets as well as a national tenant base and can serve as a helpful "off-book" advisor on evaluating potential transactions

Thesis at Underwriting

- **Off-market deal flow:** The vast majority of our partner's deal flow comes through off-market sources. Deals sourced off-market, through foreclosure, or in broken deal processes comprise 58% of invested capital in their track record
- **Compelling market opportunity post-COVID:** COVID-19 has accelerated a shift away from brick-and-mortar retail into e-commerce/industrial real estate. The venture will seek to capitalize on distressed opportunities created post-COVID, particularly among potential owner-user sellers
- **Compelling investment structure with below-market economics:** GCM Grosvenor retains discretion to invest as well as major decision rights over the investments, which we believe mitigates certain risks in investing directly with operators; additionally, we negotiated a below-market economic structure for the venture seeking to minimize gross-to-net spread



1 **Target returns are shown to illustrate the current risk/return profile of how the fund or investment is/will be managed. They do not forecast, predict, or project any fund, investment, or investor return. See the Notes and Disclosures following this report for additional information regarding target returns.No assurance can be given that any investment will achieve its target return or investment objectives.**

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Appendix 1

Additional Information

Key Questions to Address

Developing answers to the following key questions will help guide program evaluation and development when considering a potential in-state / regional program.

Strategy / Program Goals

- What are the program objectives?
- How is success defined for the program?
- Which investment asset classes are within scope (PE, RE, infrastructure) and which are excluded?
- Is the program focused solely on in-state investments or broader regional investments?
- What are the return expectations?
- Will the program pursue a place-based and or sector-based strategy?
- What are the key program milestones?
- What is the timeline for evaluating a program's success?
- Which metrics will be tracked to measure the program's progress?
- What is the expected program risk profile / appetite?
- Which clusters of in-state innovation / competitive advantage are expected to drive deal flow?
- Will the program have a broad / diversified focus or a more narrow/targeted focus on early stage company investments?
- What is the targeted number of investments?

Sizing / Investment Universe

- What is the minimum criteria for an investment to qualify as an in-state / regional deal?
- How much capital is targeted for deployment?
- Does the current in-state deal flow support the proposed capital deployment plan?
- Could the new program expand the investment universe?
- Which industries generate the most deal flow?
- Are existing investment opportunities failing to attract capital or are there few investment opportunities?
- Who are the most active GPs/investors in the state / region?
- Is the investment ecosystem / community in place to support the planned growth?
- What's the typical deal size of existing investments?

Capital Source(s)

- Will the program's capital be provided by a single LP or multiple LPs?
- Will all capital be committed upfront or after achievement of specific milestones?

Communications

- Who are the key stakeholders and how frequently will they require updates?
- What are the expectations for ongoing reporting of the program's progress?

Resources / Team

- Which governance model will be employed for the program?
- Who would be involved to manage the program? Only investment team members or a broader group of stakeholders, consultants, etc.?
- Will the program have an advisory board?
- Are internal resources sufficient to source, consummate and monitor investment? Are out-sourced resources required?

For illustrative purposes only. No assurance can be given that any investment will achieve its objectives or avoid losses.

Experience Managing Regionally Targeted Programs

We have extensive experience developing and managing regionally targeted private equity investment programs.

- We have committed approximately **$2.0 billion** for regionally targeted programs
- Existing programs in California, Colorado, Florida, Michigan, New York, North Carolina and Oregon
- Our regionally targeted programs are managed for several public pension plans, state governments and corporations, all with a stated interest in both return generation and localized economic impacts
- The programs are administered by senior investment professionals who have substantial regional investment experience, both prior to and during their work with GCM Grosvenor

Data as of March 31, 2020.

No assurance can be given that any investment will achieve its objectives or avoid losses.

Regionally Targeted Program Experience

We have significant experience developing and managing innovative, regionally targeted private equity investment programs for public pension plans, corporations and governmental agencies.

Colorado Mile High Fund

- A $50 million regional co-investment focused program designed to invest in businesses with a nexus to the state

NC Innovation Fund

- $482 million Innovation Funds (two series) focused on achieving an attractive risk-adjusted rate of return by investing in businesses or in funds with a nexus to North Carolina
- Investments across a diverse array of industries with a goal of supporting positive economic impacts to the state by leveraging program capital with partners

Florida Opportunity Fund

- A $29.5 million regional private equity program jointly awarded to GCM Grosvenor Private Markets and Arsenal Venture Partners in June 2008 by Enterprise Florida Inc. that makes targeted investments in seed and early stage VC funds

New York Co- Investment Program

- A $225 million co-investment program developed for the New York State Common Retirement Fund that focuses on New York-based co-investment opportunities that we believe have the potential to generate attractive risk-adjusted returns
  - The program includes a $200 million re-up completed in 2007 that includes cleantech co-investments and seeks to create green-collar jobs in NY

For illustrative purposes only. The regionally targeted private equity investment programs presented above are in summary format and are not intended to provide complete disclosure regarding such programs. It should not be assumed that recommendations made by GCM Grosvenor in the future will achieve the outcomes of the programs described above. **No assurance can be given that any investment will achieve its objectives or avoid losses.** Use of clients' names above does not imply endorsement of GCM Grosvenor or its services.

Regionally Targeted Program Experience

Continued

InvestMichigan! Growth Fund

- A $450 million program that seeks to generate attractive returns for the State of Michigan Retirement Systems, while encouraging the growth of businesses and jobs in the state
- The fund invests directly into Michigan-based companies across a variety of industries and investment stages
- A $180 million re-up was completed in 2012
- A $100 million re-up was completed in 2016

Venture Michigan Fund

- A $215 million venture capital fund investment program formed under the Michigan Early Stage Venture Investment Act of 2003 that seeks to promote Michigan's economic health through the establishment of a fund of funds that invests in private equity managers making venture capital investments in Michigan
- The Michigan Department of Treasury agreed to provide investors with a guarantee of up to $450 million through the issuance of tax vouchers
  - The program size includes a $120 million re-up completed in 2010

Michigan 21st Century Investment Fund

- A $109 million private equity fund created in accordance with the provisions of Michigan Public Act 225 of 2005 to promote Michigan's economic health through the establishment of a fund of funds that invests in private equity managers making venture capital, buyout and mezzanine investments in Michigan
- The fund was fully committed in early 2010
- The portfolio companies have been successful in attracting over $193 million of total capital, nearly 5x the Michigan 21st Century Investment Fund managers' investment

Invest Michigan SBIC Fund

- A $150 million Impact Investing SBIC focused on mezzanine debt and other growth financing opportunities in economically distressed areas in Michigan
  - $50 million of private capital was leveraged with $80 million of Small Business Administration ("SBA") funds to create the program
- For the benefit of Michigan, we were able to utilize our relationship with the SBA to work closely with staff in creating the first Impact Investment program

For illustrative purposes only. The regionally targeted private equity investment programs presented above are in summary format and are not intended to provide complete disclosure regarding such programs. It should not be assumed that recommendations made by GCM Grosvenor in the future will achieve the outcomes of the programs described above. **No assurance can be given that any investment will achieve its objectives or avoid losses.** Use of clients' names above does not imply endorsement of GCM Grosvenor or its services.

Regionally Targeted Program Experience

Continued

- A $158 million regional private equity program that was established for the Oregon Public Employees Retirement Fund that focused on investing in private equity fund and select co-investment opportunities primarily within the State of Oregon and the Northwest region
  - The program includes a $52 million re-up that was completed in 2007

- A $80 million program designed for the California Public Employees' Retirement System, focused on mezzanine debt investments in companies with a strong nexus to California
- The fund is opportunistic in targeting attractive equity or equity-like investments alongside the mezzanine investments with a view to providing the potential for enhanced or differentiated returns
- Established in October 2014, the fund invests on a co-investment and direct basis across a variety of industries

- Impact Investing SBIC is a $67 million program focused on making direct mezzanine debt investments in businesses with a California nexus and/or businesses with a positive economic, environmental and/or social value, including the education, cleantech, healthcare, and social enterprise sectors
- The fund employs a return-driven, capital preservation strategy focused on mezzanine debt investments with some exposure to equity securities for upside potential

- A $200 million program designed for the United Auto Workers Retiree Medical Benefit Trust, equally split between private equity primaries and co-investments
- The private equity program targets investments in private equity funds located in the State of Michigan, and the co-investment program targets investments in companies located in, or with a nexus, to Michigan
- Both established in May 2019, the primaries fund is targeting being fully committed by May 2023, while the co-investments fund is targeting May 2024

For illustrative purposes only. The regionally targeted private equity investment programs presented above are in summary format and are not intended to provide complete disclosure regarding such programs. It should not be assumed that recommendations made by GCM Grosvenor in the future will achieve the outcomes of the programs described above. **No assurance can be given that any investment will achieve its objectives or avoid losses.** Use of clients' names above does not imply endorsement of GCM Grosvenor or its services.

Appendix 2

Notes and Disclosures

Target Returns, Forward Looking Estimates, and Risk Parameters

Notes and Disclosures

Target Returns, Forward Looking Estimates, and Risk Parameters: Target returns, forward looking estimates, and risk parameters are shown to illustrate the current risk/return profile of how the fund or investment is/will be managed. **Target returns, forward looking estimates, and risk parameters do not forecast, predict, or project any fund, investment, or investor return.** It does not reflect the actual or expected returns of any investor, investment, GCM fund, or strategy pursued by any GCM fund, and does not guarantee future results.

Target returns, forward looking estimates, and risk parameters:

- are based solely upon how the fund or investment is expected to be managed including, but not limited to, GCM Grosvenor's current view of the potential returns and risk parameters of the investment, investments in the GCM fund, or strategy pursued by a GCM fund;
- do not forecast, predict, or project the returns or risk parameters for any investor, investment, GCM fund, or any strategy pursued by any GCM fund; and
- are subject to numerous assumptions including, but not limited to, observed and historical market returns relevant to certain investments, asset classes, projected cash flows, projected future valuations of target assets and businesses, other relevant market dynamics (including interest rate and currency markets), anticipated contingencies, and regulatory issues.

Changes in the assumptions will have a material impact on the target returns, forward looking estimates, and risk parameters presented. Target returns and forward looking estimates are generally shown before fees, transactions costs and taxes and do not account for the effects of inflation. Management fees, transaction costs, and potential expenses may not be considered and would reduce returns and affect parameters. **Target Returns And Risk Parameters May Not Materialize.**

Case Studies / Trade Examples

Notes and Disclosures

In reviewing the case studies / trade examples ("Examples") provided in this presentation, you should consider the following:

This presentation does not purport to make any recommendations regarding, or to serve as a basis or analysis on which persons might make investment decisions regarding, specific securities, investment strategies, industries or sectors. It is prepared for informational purposes only to provide background, data and topical comment on various aspects of the alternative investments industry. References to specific securities, strategies, industries or sectors contained in this presentation, whether successful or unsuccessful, are presented solely for illustrative and educational purposes only and should not be relied on in connection with making any investment decisions. The returns (actual or hypothetical) described in the Examples, if any, should not be taken as any indication of the performance of any investment in any strategy described herein. Further, potential outcome scenarios described in each Example represent only certain possible outcomes for the given trade. <u>Additional outcomes may include severe or total losses.</u>

Performance of predecessor investments and/or funds reflected herein may not represent GCM Grosvenor's returns for such investments/funds. Information regarding predecessor investments and/or funds sourced from reports and/or other materials provided by managers/sponsors.

References to "managers" or "investment managers" in this presentation are not necessarily to "managers" or "investment managers" of the underlying funds ("Underlying Funds") in which one or more GCM Grosvenor fund or account invests. Where expressly noted, however, references to "managers" or "investment managers" in this presentation are to the subset of investment managers of Underlying Funds in which one or more GCM Grosvenor fund or account invests.

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Track Record – General Performance – PE, RE, and Infra

Notes and Disclosures

(1) Returns are annualized and calculated based on daily inflows and outflows from GCM Grosvenor's underlying investments. No assurance can be given as to the value that may be ultimately realized by any of the underlying investments in the GCM Grosvenor-managed products above from their respective investment portfolios. **Returns do not take into account the application of management fees, allocable expenses and carried interest at the GCM Grosvenor fund level and returns would be lower if net-of-fee performance was presented. Fees are described in the relevant fund's offering materials.**

(2) GCM Grosvenor has included the following representative example to show the compounding effect of management fees over a period of time on the value of a client's portfolio. For each of these examples we have assumed the following: (i) a $100 million GCM Grosvenor-managed program; (ii) that management fees are calculated during the program's commitment period based on the investor's commitment to the program, and thereafter as follows: (a) Primary Fund Investments: investor's commitment to the program multiplied by the management fee rate multiplied the following schedule: Year 1 – 100%, Year 2 – 95%, Year 3 – 90%, Year 4 – 85%, Year 5 – 80%, Year 6 – 75%, Year 7 – 70%, Year 8 – 60%, Year 9 – 50%, Year 10 – 40%, Year 11 – 30%, Year 12 – 20%, Thereafter until liquidation – 5%, (b) Secondaries: 90% of the investor's prior year management fee (e.g., reduces by 10% of the prior year management fee), (c) Co-investments: the management fee rate multiplied by the sum of (x) remaining capital invested that has not yet been returned to the investor and (y) remaining commitments to underlying investments and reserves with respect thereto; (iii) a commitment period of three years; (iv) a preferred return of 8% per annum in the distribution waterfall; (v) a 100% catch-up for the general partner after a return of the investor's capital and management fees plus the preferred return thereon; (vi) a one time organization cost of $75,000, fixed partnership expenses of $125,000 per annum, legal costs of $3,000 per each Primary Fund Investment, legal costs of $10,500 at close and $1,500 at exit per each Co-Investment, legal costs of $9,000 for each Secondary transaction and $3,000 for each individual Secondary investment; and (vii) underlying investment (gross/net) returns based on our typical underwriting of the applicable type of investment. Management fees and expenses are assumed to be in addition to commitment.

Additional information, including the model and additional examples, is available upon request. In the tables below, "**IRR**" represents internal rate of return and "**TVPI**" represents the total value paid-in multiple. The returns used in the examples below reflect the gross TVPI target returns for the investment type, and are shown for illustrative purposes and are not representative of the returns of GCM Grosvenor or any GCM Grosvenor product. **Target returns do not forecast, predict, or project any fund, investment, or investor return.**

Primary Fund Investment Program
Assumptions:
0.45% per annum management fee
No carried interest
3 year commitment period
16 year program term

	Underlying Investment (Gross/Net)	Program Level (Net/Net)	Impact
IRR	17.34%	15.41%	1.93%
TVPI	1.75x	1.63x	0.12x

Secondary Transaction Program
Assumptions:
1.00% per annum management fee
10.0% carried interest
3 year commitment period
11 year program term

	Underlying Investment (Gross/Net)	Program Level (Net/Net)	Impact
IRR	19.30%	14.28%	5.02%
TVPI	1.55x	1.37x	0.18x

Co-Investment Program
Assumptions:
1.00% per annum management fee
10.0% carried interest
3 year commitment period
7 year program term

	Underlying Investment (Gross/Net)	Program Level (Net/Net)	Impact
IRR	19.39%	16.59%	2.80%
TVPI	2.00x	1.79x	0.21x

Contributions/Funded Amount/Invested Capital - Represents total amount of capital invested by GCM Grosvenor-managed series in underlying investments plus capitalized expenses paid in respect of such investments. **Distributions/Distributed Amount/Realized Proceeds -** Represents recallable and non-recallable returns of capital, interest, gains and dividend proceeds to GCM Grosvenor-managed series received from underlying investments. Distributions may include in-kind distributions at the value reported by the managers, if applicable. **Net Asset Value/Terminal Value/Unrealized Value/Fair Value -** Represents the latest fair value reported by the underlying investment managers as of the report date. GCM Grosvenor has not independently verified such information and does not assume any responsibility for the accuracy or completeness of such information. No assurance can be given as to the value that may ultimately be realized by any of these investments. **Total Value** – calculated as "Total Distributions" plus "Fair Value." **Underlying Investment Net Multiple -** The Underlying Investment Net Multiple is calculated as adjusted value (i.e., Distributions + Net Asset Value) over total Contributions (i.e., investments, expenses, management fees, org. costs). Because GCM Grosvenor's management fees, allocable expenses and carried interest are booked at the GCM Grosvenor product level and not at the underlying investment level, such fees and expenses are excluded from the calculation of individual underlying investment returns. **Underlying Investment Net IRR -** Performance information for underlying investments with less than 365 days of cash flows has not been annualized. Performance information for underlying investments and underlying investment sub-totals with more than 365 days of cash flows has been calculated using an annualized IRR. The Underlying Investment Net IRR reflects the total combined IRR for all the above underlying investments that have been invested in by GCM Grosvenor managed products. It is calculated using all the outflows to and inflows from the underlying investments, including cash flows for expenses and fees paid by GCM Grosvenor managed products to those underlying investments. Because GCM Grosvenor's management fees, allocable expenses and carried interest are booked at the GCM Grosvenor product level and not at the underlying investment level, such fees and expenses are excluded from the calculation of individual underlying investment returns.

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Notes and Disclosures (continued)

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For any questions, please contact GCM Grosvenor Investor Relations at investorrelations@gcmlp.com.

North Dakota State Investment Board

In-State Investment Program

March 26, 2021

50 SOUTH CAPITAL

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Any losses in such covered fund will be borne solely by investors in the covered fund and not by The Northern Trust Company; its affiliates, subsidiaries or any other bank. Therefore, losses in such covered fund will be limited to losses attributable to the ownership interests in the covered fund held by Northern Trust and any affiliate in its capacity as investor in the covered fund or as beneficiary of a restricted profit interest held by the business unit or any affiliate. Investors should read each Confidential Private Placement Memorandum carefully prior to investing.

ABOUT THE PRESENTERS

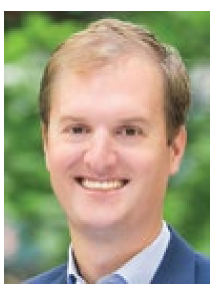
A SUBSIDIARY OF NORTHERN TRUST CORPORATION

Tamara Doi Beck

Tamara Doi Beck is Director, Public Funds & Taft-Hartley Plans at Northern Trust Asset Management. Tamara has dedicated her career to serving public funds as a relationship manager and has twenty years of financial industry experience. Tamara joined Northern Trust from Janus Capital Group, where she was Managing Director, and previously, she was Director of Business Development for LMCG Investments and Senior Vice President for Neuberger Berman. Tamara also held several roles at Morgan Stanley Investment Management for over six years, most recently as Vice President of Institutional Sales on the Public Funds Team. Tamara earned a BA from Tufts University and graduated *summa cum laude* with highest thesis honors. She holds Series 3, 7, 30 and 63 licenses.

Bob Morgan

Bob Morgan is a Managing Director of 50 South Capital Advisors, the wholly-owned subsidiary of Northern Trust focused on alternatives investments. He has management responsibility for the firm and is Chair of the Investment Committee. He had previously been Director of Private Equity at Northern Trust, a position he held since co-founding the Private Equity funds group in 2000. Prior to joining Northern Trust, he worked as a Director at Frye-Louis Capital Advisors, LLC ("FLCA"), a Chicago-based private equity investment manager, and was responsible for all of the operations of FLCA, including the management of a private equity fund-of-funds. Prior to joining FLCA, Bob worked for Heller Financial, a middle-market commercial finance company which was later acquired by General Electric. Bob was a Senior Vice President at Heller and was responsible for its private equity programs. Within Heller, Bob held several roles, including positions in the Corporate Finance Group, Corporate Credit and Heller Equity Capital Corporation, Heller's captive private equity fund. While at Heller, Bob also oversaw a direct equity co-investment program. Prior to attending business school, Bob worked for a commercial bank in North Carolina. He has invested in hundreds of private equity funds covering the buyout, venture capital, credit, distressed debt, real estate and international markets. Bob sits on the board of the IVCA and several fund advisory boards. He received his BA in Economics from Wake Forest University and an MBA from Emory University.



Trey Hart

Trey Hart is a Managing Director of 50 South Capital Advisors, the wholly-owned subsidiary of Northern Trust focused on alternative investments. He is responsible for sourcing and analyzing venture capital and buyout partnership and direct investment opportunities globally. Prior to joining Northern Trust, Trey was a Vice President at Greenspring Associates, the global venture capital fund-of-funds based in Baltimore, Maryland. At Greenspring Associates, Trey was active in all aspects of the investment process, including primary fund investments, secondary investments and direct co-investments. Prior to Greenspring Associates, Trey was as an Associate at Kirkland & Ellis LLP in the international law firm's private equity practice, where he worked with private equity firms in a fund-formation capacity. Trey is on the advisory boards of several limited partner advisory boards. Trey is a *magna cum laude* graduate of Washington and Lee University and a *magna cum laude* and Order of the Coif graduate of the University of Maryland School of Law, where he was an associate editor of the Maryland Law Review. While in law school, Trey worked at New Enterprise Associates, the global venture capital firm, in its Baltimore, Maryland offices. He is a licensed attorney in the State of Illinois. He is also a Kauffman Fellow (Class 20).

50 SOUTH CAPITAL ADVISORS, LLC

A SUBSIDIARY OF NORTHERN TRUST CORPORATION

A global alternatives firm that provides differentiated solutions and unique access to private equity, private credit and hedge fund investment opportunities.

AT A GLANCE

- Experienced team with a 20-year history
- Integrated alternative investment platform with hedge fund, private equity and private credit solutions
- Customized and multi-manager offerings

DISTINGUISHED APPROACH

- **Connected** to the global network and resources Northern Trust
- **Focus** on inefficient markets, specifically small to mid-sized managers
- **Diversified** and growing client base
- **Thoughtful** portfolio construction
- **Reputation** of finding talent early

Source: 50 South Capital. *AUM=$6.9B and AUA=$3.6B as of 12/31/20. Categories for investor breakouts include 50 South Advisor clients (AUM) as well as clients of affiliates (AUA).

50 SOUTH CAPITAL PRIVATE EQUITY TEAM

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Aaron Gillum
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Mike Marderosian
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Senior Vice President


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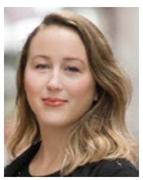
Chip Davis
Director


Molly Brister
Director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Patrick Clavio
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Mary Sheehan
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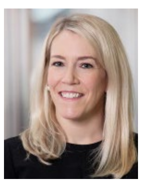
INVESTOR RELATIONS TEAM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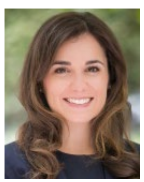
Senior Vice President


Kathleen Switala
Vice President


Megan Brooks
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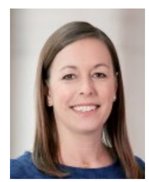
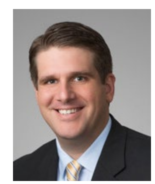
Jeffrey Buth
CFO


Lizabeth Boeckmann
CAO

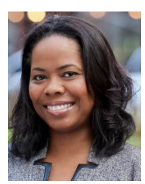

Josh Abrego
Controller


Justin Redeker
General Counsel


Kevin Kresnicka
Product Specialist


Patti Nolan
Operations


Maria Maldonado
Executive Admin


Thalia Lloyd
Back Office


Thomas Needle
Back Office


Mark DiPietro
Back Office


Cameron Cunion
Back Office


Phil Schwartzman
Finance and Operations

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3, 5 AND 10-YEAR NET PRIVATE EQUITY PERFORMANCE

50 SOUTH CAPITAL
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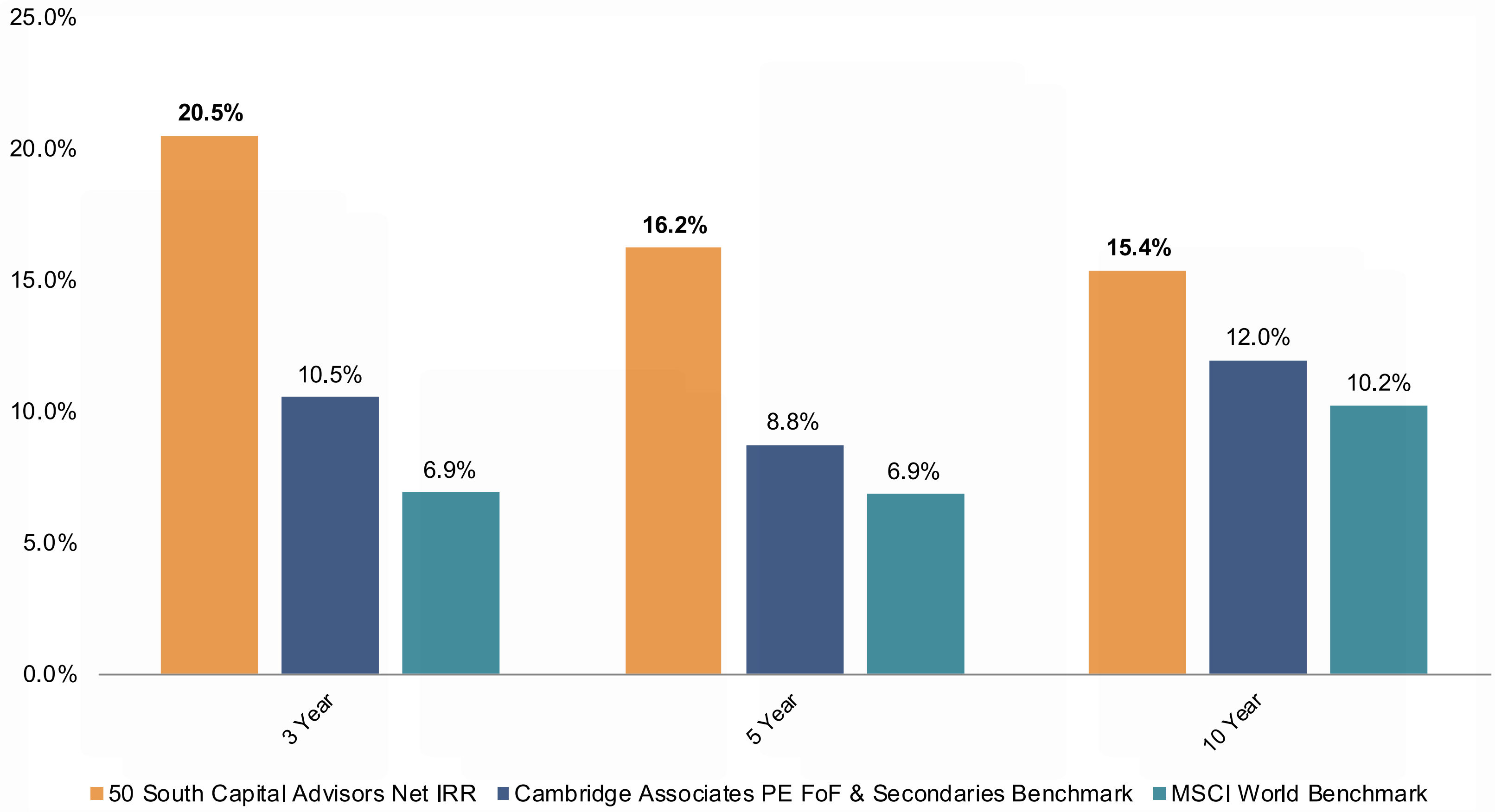
50 South Capital's private equity program has consistently out-performed.



50 South return data as of 9/30/20 benchmark data as of 6/30/20. 1.Pooled end-to-end return, net of fees, expenses, and carried interest. 2CA modified Public Market Equivalent (mPME) replicates private investment performance under public market conditions. The public benchmark's shares are purchased and sold according to the private fund cash flow schedule, with distributions calculated in the same proportion as the private fund, and mPME NAV is a function of mPME cash flows and public index returns. Sources: Cambridge Associates LLC, Frank Russell Company, MSCI Inc., Standard & Poor's and Thomson Reuters Datastream. Past performance is not indicative or a guarantee of future results.

IN-STATE INVESTMENT EXPERIENCE

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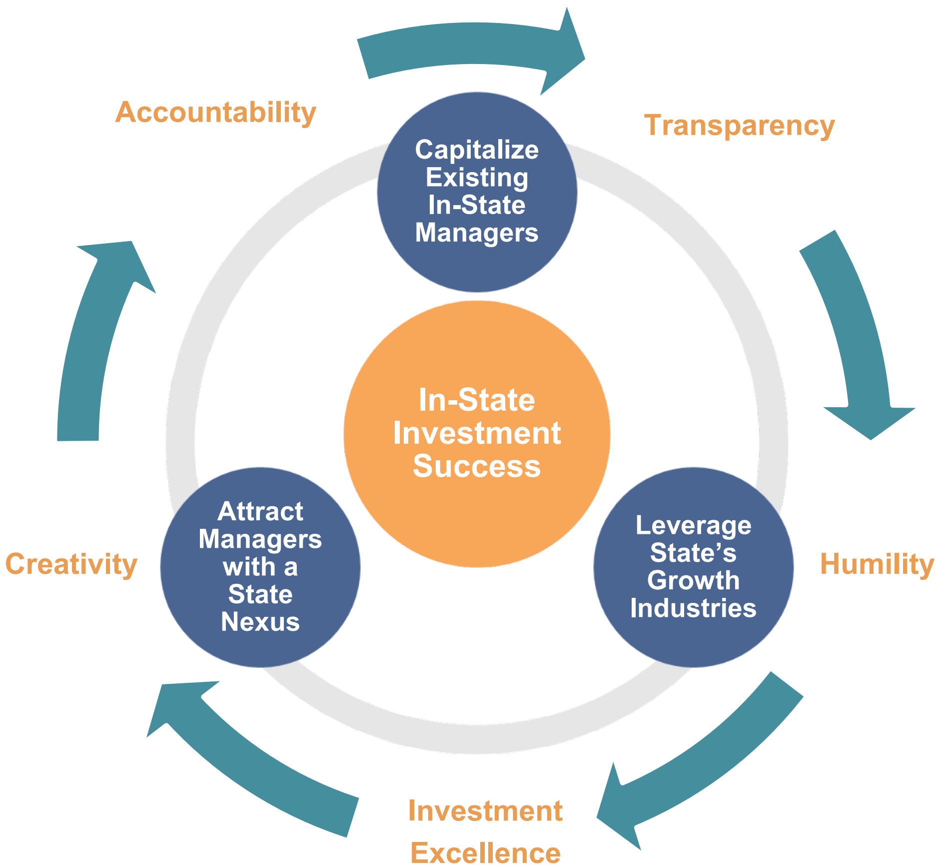
A SUBSIDIARY OF NORTHERN TRUST CORPORATION

For the past sixteen years, 50 South Capital has been one of the largest investors in Midwest venture capital funds.



$1.1B In-State Investment Program Assets	**16 Years** In-State Investment Experience
7,000+ Direct FTE Job Creation	**$5.0B+** Invested in In-State Businesses
85 In-State Fund Commitments Made	**20** In-State Direct Investments
9.3x In-State Investments / Fund Commitments	**$616M** In-State Investments

50 South Capital internal. Data as of 12.31.20. For illustrative purposes only. Past performance is not indicative of or a guarantee of future results.

ECONOMIC DEVELOPMENT & PERFORMANCE GOALS

In-State investment programs must balance the needs of the community with the needs for attractive risk-adjusted investment returns. There is no playbook or one-size-fits-all investment strategy for managing discrete in-state investment programs.

Foster a strong, vibrant ecosystem for high growth companies and entrepreneurs.
Raise the national profile of the state's rich manufacturing, healthcare, technology, agriculture, and business communities.

Drive economic activity in the state by making investments in private equity and venture capital firms and companies in order to attract, assist and retain quality businesses.

Deliver competitive investment performance for the state by building a diversified portfolio.

COMMUNITY-CENTRIC, VALUE-ADDED PARTNER

50 SOUTH CAPITAL
A SUBSIDIARY OF NORTHERN TRUST CORPORATION


CALPA Luncheon on Midwest Venture Capital

Indiana Next Level Fund Annual Summit


ILGIF Annual Summit

Indiana Next Level Fund Town Hall

Partnering Organizations

IVCA SERVING THE VENTURE CAPITAL AND PRIVATE EQUITY INDUSTRY

AgriNovus INDIANA

CALPA

P33

techstars_

Girls on the run

ALL RAISE

VentureClub of Indiana Powering Indiana Ventures

GRAYMATTER

Logos are for illustrative purposes only.

DEEP EXPERIENCE INVESTING IN THE SECTORS OF GREATEST STRENGTH TO NORTH DAKOTA'S ECONOMY

50 SOUTH CAPITAL
A SUBSIDIARY OF NORTHERN TRUST CORPORATION

Agriculture	Energy & Infrastructure	Life Sciences	Manufacturing	Technology	Aviation & Mobility
INARI A Flagship Pioneering Company	CADENT ENERGY PARTNERS	Stemcentrx	pci PHARMA SERVICES	PPC PUBLIC PENSION CAPITAL	BBAM AIRCRAFT LEASING & MANAGEMENT
VALOR EQUITY PARTNERS	CREEDENCE ENERGY SERVICES	5AM VENTURES	BUILDERS	dcm	ENERGIZE VENTURES
ACRE	JUNIPER CAPITAL	NEA	FR	TENSILITY VENTURE PARTNERS	techstars_
BUILDERS	ENERGIZE VENTURES	ATLAS VENTURE	Parata	a_capital	NEA
First Leaf CAPITAL, LLC	KKR	FRAZIER HEALTHCARE PARTNERS	ATLAS HOLDINGS	NEA	Uncork CAPITAL
Flagship Pioneering	I SQUARED CAPITAL	SECTION 32	KPS CAPITAL PARTNERS, LP	GREATPOINT make no little plans	THE BEEKMAN GROUP
SECTION 32	EQT	AGENT CAPITAL	May River CAPITAL	PivotNorth CAPITAL	Mayfield
ILLINOIS VENTURES	techstars_	ROUNDTABLE HEALTHCARE PARTNERS	amp ADVANCED MATERIAL PROCESSING	M25	MIRACLEPLUS
OPENPRAIRIE	ANTIN INFRASTRUCTURE PARTNERS	Consonance Capital			
		GREATPOINT make no little plans			

50 South Capital internal. Logos are for illustrative purposes only.

HISTORY OF COMMUNITY COLLABORATION AND PARTNERSHIP

50 SOUTH CAPITAL
A SUBSIDIARY OF NORTHERN TRUST CORPORATION

50 South Capital In-State Investment Program Philosophy

- Immerse
- Engage
- Listen
- Adapt
- Respond
- Partner

Drive Performance ● Drive Workforce Development ● Drive North Dakota Forward

Logos are for illustrative purposes only.

RISKS AND DISCLOSURES

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Index Information: The S&P 500 Index is comprised of 500 publicly traded stocks representing all major U.S. industries. The MSCI World Index is a free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of developed markets.

RISKS AND DISCLOSURES

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Title cover photo attributed to 2019 North Dakota Governor's Best of Show and Decade's Best "Stormy Sunset" by Zachary Hargrove of Bismarck, North Dakota. Copyright free.

SUN MOUNTAIN CAPITAL

NORTH DAKOTA IN-STATE INVESTMENT PROGRAM

March 2021

Presented to the North Dakota State Investment Board

This presentation is specific to the North Dakota State Investment Board

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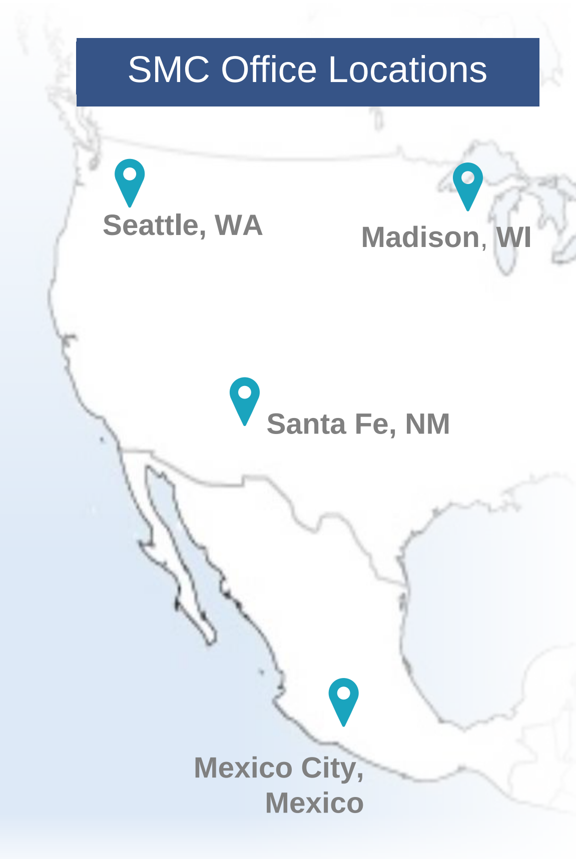
SUN MOUNTAIN CAPITAL INTRODUCTION

- An investment manager founded in 2006 to focus on geographically targeted and in-state investment programs (“IIPs”).
- Led by experienced investment professionals with global expertise as investors and entrepreneurs.
- SEC Registered Investment Adviser[2].

SMC Office Locations



SMC Is an Experienced Manager of IIPs

IIPs are what we do

- IIPs are complex investment programs that have their own unique set of opportunities and challenges
- Specialization is required to develop the expertise necessary for successful design and implementation of these programs

Senior Team Involvement

- North Dakota represents an important opportunity for Sun Mountain Capital
- Senior Team will be directly involved in all aspects of the program’s design and implementation
- Experienced in handling the many stakeholders associated with a high-profile investment program

Team Experience

- Sun Mountain team members have managed 14 IIPs in different states and in Mexico
- Value-adding investor with active roles as board members and advisors to entrepreneurs
- Co-investors with broad network of private equity and strategic investors
- Expertise in training and coaching new/emerging manager focused investments

Focused on the Middle West

- Our geographic focus is underserved states in the Middle West. New Mexico headquartered with offices in Seattle and Madison WI
- We understand the challenges that “fly over” states face and how to address them

This presentation is specific to the North Dakota State Investment Board

WHAT WE HAVE LEARNED ABOUT IIPs[1]

- First and foremost, the investment manager must take a fiduciary approach.
  - Economic development goals can be achieved by making investments into the most promising companies in the State.
  - Private capital matching requirement(s) for direct and fund investments.

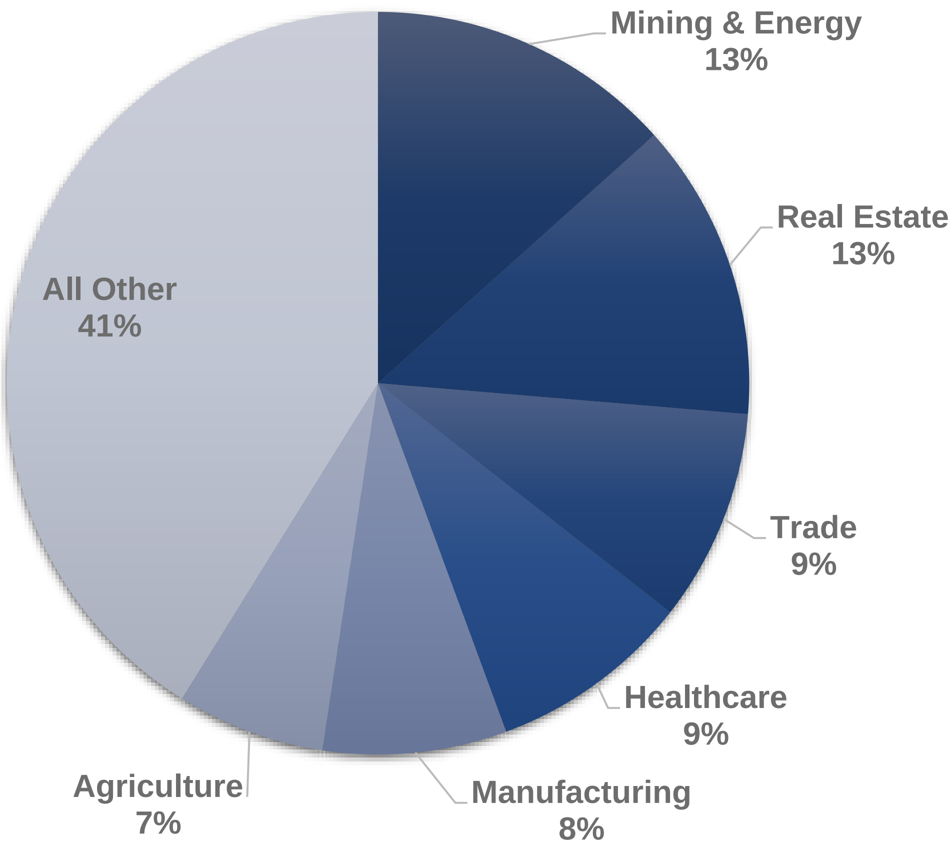
- Each state is different, and it is critical to match the program structure to the sources of deal flow in the State and understand the local business landscape.
  - Industry sectors.
  - Investment strategy mix (equity, debt, direct, funds).
  - Fund of Funds Investment manager fit.

- IIPs require close alignment and frequent communications between the sponsor and the investment manager.
  - IIPs have multiple goals vs. single goal of highest financial return.
  - IIPs are high profile.
  - Specialized reporting is required, and Sun Mountain has a proven process for data gathering and aggregation to the client.

[1]The opinions presented are based on Sun Mountain's internal analysis and views.

SUN MOUNTAIN CAPITAL

North Dakota Economic Profile



- North Dakota has a strong economic base largely concentrated in several industrial sectors outlined in the chart to the left.
- We believe these core industrial sectors will provide a large proportion of the in-state investment opportunities.
- We believe that there exists several adjacent high potential / high growth sectors such as agtech, energy tech, advanced manufacturing and proptech that will also provide interesting investment opportunities.

Source: IBISWorld 2018 State Economic Profile

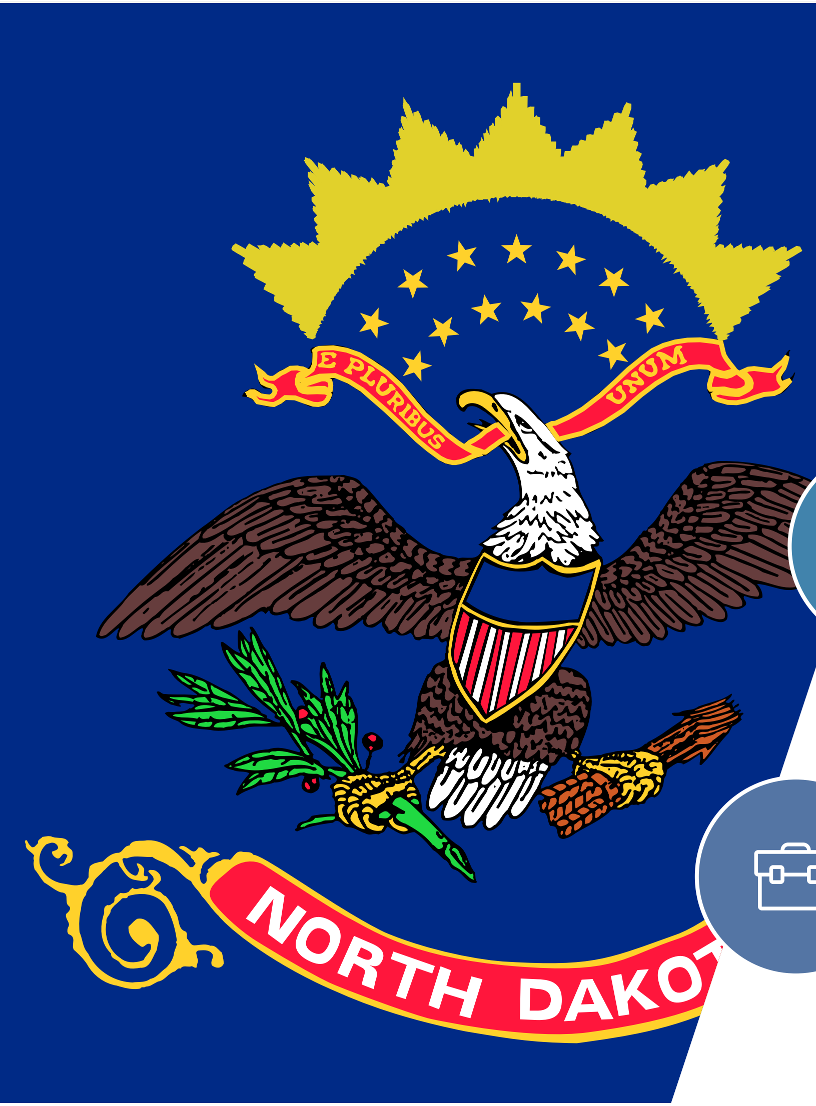
OUR APPROACH IN NORTH DAKOTA[1]

- Establish a Sun Mountain office in North Dakota staffed with two investment professionals to enable close coordination and communications.
- Act as a fiduciary – economic development goals can only be achieved by making investments into the most promising companies in the State.
- Deepen the capital pool in the State, especially for small and medium sized companies.
- Cultivate a deep knowledge of the deal flow sources in the State and carefully match these with top performing funds to achieve both competitive financial returns and increase investment activity in the State.
- Create an investment portfolio diversified across sector, stage, vintage and investment type to enhance returns, lower correlation, and reduce volatility.
- Employ fund of funds and direct investment strategies to support companies.
- Utilize both private equity and private credit to support a broad set of industries.

[1]These items represent some of the attributes the team will look to establish in an IIP in North Dakota. Actual attributes may vary in the final portfolio.

INVESTMENT STRATEGIES FOR NDSIB

SUN MOUNTAIN CAPITAL



Fund of Funds

Invest in a portfolio of private equity, venture capital and private debt fund managers with a requirement to invest in North Dakota.

Direct Equity

Invest directly into early and growth stage companies in North Dakota alongside other institutional investors.

Private Credit

Lend directly to a broad set of North Dakota companies facilitating growth across a wide range of industries.

FUND OF FUNDS

SUN MOUNTAIN CAPITAL

Investment Strategy

A fund of funds investment strategy would identify local, regional and national venture capital, private equity and private credit fund managers with investment strategies that align with the opportunity set in North Dakota.

Goals

- Increasing the amount of capital sources in an ecosystem.
- Attracting regional and national investors to North Dakota.
- Diversifying exposure in investment portfolio with professional managers.

Approach for North Dakota

- Approximately $40 million allocation to Fund of Funds investments.
- Fund of Funds program component sized to the opportunity set based upon Pitchbook data that shows that the recent historical venture capital investment in North Dakota has been $5-20 million annually with a history of larger private equity buyout transactions as well[1].
- Aligned with key sectors such as AgTech, Energy Services, Advanced Manufacturing, etc.
- Support existing local fund managers and invest in emerging fund managers in the State.
- Attract regional and national funds to invest in North Dakota.

Relevant Case Studies

- New Mexico Private Equity Investment Program.
- Badger Fund of Funds I, L.P. (Wisconsin).

[1]Source: Pitchbook/National Venture Capital Association 20Q4 Report

DIRECT EQUITY

SUN MOUNTAIN CAPITAL

Investment Strategy

A direct equity investment strategy would support small and medium sized business in North Dakota. Investments would be actively managed by the Sun Mountain team.

Goals

- Providing additional capital to companies in a geography.
- Increasing the return potential for the investment program.
- Help to retain high growth companies in a geography.

Approach for North Dakota

- Approximately $30 million allocation to direct equity investments.
- Based on Pitchbook/National Venture Capital Association data indicating a trend of growth in venture capital investment in North Dakota, a direct investment vehicle would be valuable in fostering this trend[1].
- Support existing industry sectors in North Dakota as well as new emerging sectors.
- Serve as a local source of capital to help retain the most promising North Dakota companies.
- Sun Mountain will provide value in the ecosystem beyond just investment by meeting with entrepreneurs, providing coaching and introductions to other potential investors.

Relevant Case Studies

- NMSIC (New Mexico State Investment Council) Co-Investment Fund, L.P.
- Bayotech – New Mexico seed to growth stage investment example[2].

[1]Source: Pitchbook/National Venture Capital Association 20Q4 Report
[2]The investment identified and described does not represent all of the investments purchased, sold or recommended for client accounts.

DIRECT CREDIT

Investment Strategy

A direct credit investment strategy would provide growth capital for a wide range of growing businesses in the State. This approach can provide flexible debt capital to potential borrowers.

Goals

- Provide short to mid-term income.
- Provide portfolio diversification with lower volatility.
- Increase the number and types of companies that would be eligible in the program.

Approach for North Dakota

- Approximately $30 million allocation to direct private credit investments.
- Sun Mountain believes there is a significant opportunity in North Dakota for direct credit based on proxies such as SBA 7(a) loans, which exceeded $40 million in FY19[1].
- Expand the set of industries and business that would be a fit for investment.
- Allow the In-State Investment Program to deploy more capital on a shorter timeline.
- Provide a source of near-term interest income to the program.
- Provide business owners a different funding option that does not require selling equity.

Relevant Case Studies

- Sun Mountain Capital Private Credit I, L.P.
- CLEARAS Water Recovery, Inc. – Montana based portfolio company[2].

[1]Source: https://www.sba.gov/node/1650132
[2]The investment identified and described does not represent all of the investments purchased, sold or recommended for client accounts.

SIMILAR PROGRAM: NEW MEXICO

- Sun Mountain believes that the New Mexico In-State Investment Program is a close analog for the North Dakota IIP.
- Sun Mountain was the program advisor from 2007-2018. In 2018 the discretionary and advisory components of the program were separated.
- Prior to Sun Mountain being hired, the New Mexico Program net IRR was -8.8%[1].
- For the last reporting date that Sun Mountain was the program advisor, the performance of Sun Mountain recommended funds and direct co-investments is summarized below:

	Net Internal Rate of Return			
Fund Group	1 Yr.	3 Yr.	5 Yr.	Inception
SMC Recommended Funds	12.3%	6.1%	9.4%	5.3%
SMC Co-Investment	28.3%	19.5%	17.4%	10.8%

Source: New Mexico Private Equity Investment Program 18Q2 report to the New Mexico State Investment Council
Note: Past performance is not a guarantee of future results. Inherent in any investment is the potential for loss. There is no guarantee that any investment will be profitable and significant losses are possible.

- The New Mexico In-State Investment Program has generated an investment multiplier on its investment from other investors of over 6x and over 80 New Mexico companies have received investment[1].

[1]Source: New Mexico Private Equity Investment Program 18Q2 Report.
https://www.sic.state.nm.us/uploads/FileLinks/c37f1f419e094c3ea5d1db24800aefeb/3.d_NMPEIP_Q2_2018_Performance_Review_vSENT1__2_.pdf

SUN MOUNTAIN CAPITAL CENTRAL TEAM

The Sun Mountain Capital team is comprised of investment and back-office professionals that have extensive experience in the management of geographically targeted investment programs in private equity, venture capital and private credit strategies.

Investment Team

Brian Birk

Managing Partner

Lee Rand

Partner

Sally Corning

Partner

Kevin Barber

Managing Director
Private Credit

Hal Hayden[1]

Managing Director
Private Credit

Connor Browne[2]

Managing Director
NM Recovery Fund

Catriona Forrester

Principal

Brian Lewis

Principal

Dan Brooks

Senior Associate

Reed Soehnel

Private Credit Analyst,
Accounting Director

Administrative & Operations

Edward Markman

Partner, CFO & CCO

Karen Allen

Controller

Diane Levy

Office Manager

Team Members Have Previous Experience Working at the Below Firms

GE Capital, Intel, Credit Suisse First Boston, BCG Boston Consulting Group, pwc, ZBI, Union Bay Partners, Comerica, applied minds, Morgan Stanley, Thornburg Investment Management, Deloitte., KPMG, Trinity Capital Investment

[1]Team member is not an SMC employee, but is a member of Sun Mountain Private Credit Investors, LLC
[2]Team member is not an SMC employee, but is a contracted manager of the New Mexico Recovery Fund, LP

SUN MOUNTAIN CAPITAL LOCAL TEAMS

SUN MOUNTAIN CAPITAL

Sun Mountain utilizes local teams in target geographies

- For each In-State Investment Program that Sun Mountain manages, the Firm ensures there is a local team of senior investment professionals to support the program.
- If selected as the manager of the North Dakota In-State Investment Program, Sun Mountain would anticipate hiring two senior investment professionals based in North Dakota to support the program.

Anticipated North Dakota Team

Principal

Senior Associate

Sun Mountain Kegonsa[1]

Ken Johnson

Wisconsin Partner

Mexico Ventures[1]

Felipe Vila, PhD

Managing Director

Jose Miguel Cortes

Managing Director

Rodrigo Sanchez

Associate

Elisa Portillo

Middle Office Manager

Luz Maria Pineda

Compliance

[1]This represents the respective teams co-managing our IIPs in Wisconsin and Mexico.

CONCLUSION

- Sun Mountain believes there is a significant untapped opportunity for investment in the State of North Dakota.
- Sun Mountain is experienced managing similar programs to the NDSIB and has familiarity with many of the issues facing these programs.
- If selected as the investment manager, Sun Mountain would be an engaged collaborative partner with the North Dakota ecosystem.
- North Dakota represents an important opportunity for Sun Mountain Capital and the entire team will be directly involved in all aspects of the program's design and implementation.

THANK YOU FOR YOUR TIME AND CONSIDERATION

RIO Legislative Update
March 23, 2021

Bill No.	Description	Sponsor/Introducer
HB 1022	**RIO Budget**	**Appropriations Committee**

https://www.legis.nd.gov/assembly/67-2021/documents/21-0281-03000.pdf

HB 1022 contains the 2021-23 budget authority for RIO to administer the SIB investment program and TFFR retirement program which are special funds. RIO's 2021-23 budget request is $6.49 million including a $311,154 increase in the Governor's Budget primarily for 2% annual salary increases and higher benefit costs, $73,123 to join the Governor's IT Unification plan and $52,000 to reinstate our Contingency line plus $309,225 in additional amendments primarily to add one FTE for a Public Information Officer (½ SIB and ½ TFFR) and $73,000 to more properly fund our Contingency line (to $125,000). RIO will also request an amendment to HB 1022 to rollover the remaining balance of the $9 million one-time funding for the TFFR Pension Administration System (PAS) project into the 2021-23 biennium. House Appropriations– Gov. Ops (GO) effectively approved RIO's Amended Budget Request excluding $73,000 to more properly fund our Contingency line to $125,000. RIO's Amended Budget includes a base payroll change, House salary and health insurance increase, funding for desktop support and Office 365, 1 FTE for a PIO ($236,225) and transfer of 2 FTE to ITD for IT unification (RIO IT professionals will remain onsite). **On 2/16, House Appropriations unanimously gave a Do Pass recommendation to the RIO Budget bill. However, that recommendation was on an amended version different from that recommended by the Government Operations Committee. House Appropriations Gov't. Ops. Chair Vigesaa highlighted the results of a recent study supporting RIO's PIO request to enhance strategic communication given increasing public interest in SIB investments which more than tripled from $5 billion in 2010 to over $18 billion in 2020. One committee representative stated he could not support this request and made a motion to remove the PIO FTE and related funding noting that other agency budgets are being cut. The committee voted 11-10 to amend RIO's Budget to eliminate the FTE for a PIO ($236,525). They also voted on a nearly unanimous voice vote to remove the request to implement the Governor's NDIT Unification plan (moving two IT FTE from RIO budget to NDIT budget and associated salary amounts from salary line to operating line), indicating they would be removing similar requests from other agency budgets. On 2/22, the House re-referred HB 1022 back to House Appropriations. On 2/23, House Appropriations voted unanimously to also remove "desktop support" funding from HB 1022.**
Status: Passed House 87-5 on 2/24 (without PIO, IT Unification and desktop support);
Senate Hearing 3/17 at 2:30pm.

HB 1038	**Legacy Fund Earnings Committee**	**Legislative Management**

https://www.legis.nd.gov/assembly/67-2021/documents/21-0178-01000.pdf

HB 1038 creates the legacy fund earnings committee to study the potential uses of legacy fund earnings, including the use of earnings to provide tax relief, provide for reinvestment of legacy fund earnings, fund research and technological advancements, promote economic growth and diversification, and promote workforce development and career and technical education. The committee may consider public input on

the use of legacy fund earnings and review the operation of other funds, such as Norway's sovereign wealth fund. Legislative management shall report its findings and recommendations, together with any legislation required to implement those recommendations, to the sixty-eighth legislative assembly.
Status: Passed House / Passed Senate; Signed by Governor 3/9/21

HB 1041 PERS Program

https://www.legis.nd.gov/assembly/67-2021/documents/21-0091-01000.pdf

A BILL for an Act to amend and reenact subsection 2 of section 54-52-06, section 54-52.1-06, and subsection 2 of section 54-52.6-09 of the North Dakota Century Code, relating to public employees retirement system penalties for late payments or failures to follow required processes; and to provide a penalty.
Status: Passed House and Sent to Senate 1/12; Passed Senate 3/16/21 46-1

HB 1140 Contingency Fee Arrangements Rep Klemin, Devlin, Roers Jones, Sen. Dwyer, Larson, Lee
https://www.legis.nd.gov/assembly/67-2021/documents/21-0612-01000.pdf

A BILL for an Act to amend and reenact section 54-12-08.1 of the North Dakota Century Code, relating to contingent fee arrangements. This may be impactful to securities litigation agreements. Secretary of State Jaeger did an excellent job presenting this bill and highlighting its interesting history.
Status: Passed House 2/2; Passed Senate 3/9; Signed by Governor 3/17

HB 1174 TFFR Program Rep. Kempenich and Kreidt, Senator Klein

https://www.legis.nd.gov/assembly/67-2021/documents/21-0677-01000.pdf

HB 1174 enacts the requirements of the Secure Act of 1999 which changed federal law relating to "required minimum distributions" (RMD's) in retirement plans. RMD's are minimum amounts that a retirement plan account owner must withdraw annually starting when the member reaches a certain age. The Secure Act changed that age. This bill was reviewed by plan actuaries who found no impact to the actuarial position of the fund, or material impact to liabilities or costs.
Status: Passed House 1/22; Passed Senate 3/5; Signed by Governor 3/15

HB 1188 Certs for Special Education Teacher Rep. Schreiber-Beck, D. Johnson, Sen. Oban

https://www.legis.nd.gov/assembly/67-2021/documents/21-0670-02000.pdf

A BILL for an Act to create and enact a new section to chapter 15.1-32 of the North Dakota Century Code, relating to services provided by special education technicians; and to amend and reenact section 15.1-02-16 of the North Dakota Century Code, relating to a certificate of completion for special education technicians.
Status: Passed House as amended 2/8/21; Passed Senate 3/19/21 44-2

HB 1209 PERS Program Rep. M. Ruby, Dockter, O'Brien, Schauer, Sen. Anderson, Dever

https://www.legis.nd.gov/assembly/67-2021/documents/21-0566-02000.pdf

A BILL for an Act to amend and reenact section 54-52-02.9, 54-52-06, 54-52-06.5, and 54-52.6-09 of the North Dakota Century Code, relating to public employees retirement system employer and temporary employee contribution rates; and to provide an effective date.
Status: Passed House 89-5 on 2/23; Senate Committee Hearing 3/18 at 9am

HB 1211 Veterans' Funds Rep. Magrum, Hoverson, Kasper, B. Koppelman, Louser, Schauer, Vetter Sen. Meyer, Vedaa

https://www.legis.nd.gov/assembly/67-2021/documents/21-0690-02000.pdf

A BILL for an Act to amend and reenact sections 37-14-03 and 37-14-14 of the North Dakota Century Code, relating to the veterans' aid fund and veterans' postwar trust fund; and to declare an emergency. Although this bill references NDCC Chapter 21-10, it does not appear it will have an impact on SIB clients.
Status: Passed House 2/8 91-0; Referred to GVA; Passed Senate 45-1 on 3/8; Signed by Governor 3/16.

HB 1231 SIB Program Rep. Satrom, K. Koppelman, Ostlie, Paulson, D. Ruby, Schauer, Vetter Sen. Conley

https://www.legis.nd.gov/assembly/67-2021/documents/21-0127-02000.pdf

A BILL for an Act to amend and reenact section NDCC 21-10-05, relating to duty of the investment director to consider investing locally. This may have implications for both the PERS and TFFR plans. **During the 2021-22 interim, the legislative management shall consider studying the benefits of investing legacy fund moneys locally before investing any moneys outside the state. The legislative management shall report its findings and recommendations, together with any legislation required to implement the recommendations to the sixty-eighth legislative assembly.**
Status: House amended to legislative study; Second reading passed 94-0; Referred to GVA;
Committee Hearing 03/04/21

HB 1380 SIB/Legacy Fund Rep. Lefor, Bosch, Dockter, Headland, Howe, Nathe, Porter, M. Ruby, Steiner Sen. Patten, Sorvaag, Wardner

https://www.legis.nd.gov/assembly/67-2021/documents/21-0218-06000.pdf

A BILL for an Act to create and enact a new section to chapter 6-09.4, a new section to chapter 21-10, and a new section to chapter 57-38 of NDCC, relating to a **legacy sinking and interest fund, a legacy earnings fund, and an income tax relief fund; to amend and reenact section 21-10-12 of NDCC relating to legacy fund definitions; to provide for a transfer; and to provide a statement of legislative intent**.

The **legacy sinking and interest fund** consists of all moneys deposited in the fund under section 3 of this Act. Moneys in the fund may be spent by the public finance authority pursuant to legislative appropriations to meet the debt service requirements for evidences of indebtedness issued by the authority. Any moneys in the fund in excess of the amounts necessary to meet the debt service requirements for a biennium, may be appropriated by the legislative assembly for other purposes.

Legacy earnings fund - 1. There is created in the state treasury the legacy earnings fund. The fund consists of all moneys transferred to the fund under subsection 2 and all interest and earnings upon moneys in the fund. 2. Any legacy fund earnings transferred to the general fund at the end of each biennium in accordance with section 26 of article X of the Constitution of North Dakota must be immediately transferred by the state treasurer to the legacy earnings fund. 3. **If the amounts transferred under subsection 2 exceed the amount available for appropriation under subsection 4 the state treasurer shall transfer the excess, within thirty days, as follows: a. 40% to the strategic investment and improvements fund to be used in accordance with the provisions of section 15 - 08.1 - 08; b. 40% to the legacy fund to become part of the principal; and c. 20% to the income tax relief fund under section 4 of this Act. 4.**

For each biennium subsequent to the biennium in which the legacy fund earnings are transferred under subsection 2, the amount available for appropriation from the legacy earnings fund is six percent of the five - year average value of the legacy fund assets as reported by the SIB. The average value of the legacy fund assets must be calculated using the value of the assets at the end of each fiscal year for the five - year period ending with the most recently completed even-numbered fiscal year. 5. **On July first of each odd - numbered year, from the amount available for appropriation or transfer from the legacy earnings fund for the biennium, the state treasurer shall transfer funding in the following order: a. The first one hundred million dollars to the legacy sinking and interest fund under section 1 of this Act; b. The next forty million dollars to the clean sustainable energy fund; c. The next forty million dollars to the infrastructure revolving loan fund under section 6 - 09 - 49, but not in an amount that would bring the balance of the infrastructure revolving loan fund to more than five hundred million dollars; and d. Any remaining funds for other purposes as designated by the legislative assembly.**

A new section to chapter 57-38 of the North Dakota Century Code is created and enacted as follows: Income tax relief fund. There is created in the state treasury the income tax relief fund. It is the intent of the sixty-seventh legislative assembly that the sixty-eighth legislative assembly consider additional allocations from the legacy earnings fund, including allocations to the highway tax distribution fund, value- added agricultural programs, the innovation loan fund to support technology advancement, state building maintenance and improvements, and for other one-time initiatives and projects, including initiatives and projects to diversify the state's economy, to improve the efficiency and effectiveness of state government, and to reduce ongoing general fund appropriations of state agencies.

Section 2 defines principal of the legacy fund as "all moneys in the legacy fund not included in earnings as defined under subsection 1." This bill no longer creates an additional SIB client (Legacy Earnings Fund). That fund will be in the state treasury but not invested by the SIB.

Status: Passed House 71-22 on 2/24/21; Senate Committee hearing 3/17 at 10am

HB 1425 SIB/Legacy Fund Rep. Nathe, D. Anderson, Bosch, Headland, Howe, Lefor, Mock, Porter
Sen. Meyer, Bell, Wardner

https://www.legis.nd.gov/assembly/67-2021/documents/21-0415-10000.pdf

A BILL for an Act to create and enact section 6-09-49.1 and a new section to NDCC 21-10, relating to the legacy infrastructure revolving loan fund and SIB; to amend and reenact sections 21-10-02 and 21-10-11 of NDCC, relating to the SIB and Legacy Advisory Board; and to provide a continuing appropriation.

HB 1425 Section 2 amends NDCC 21-07 to add "Prudent investor rule - Exception" for Legacy Fund.
HB 1425 Section 3.5 amends NDCC 21-10-02 Board Powers by stating the SIB shall give preference to investment firms and institutions with a presence in the state (without reference to their qualifications).
HB 1425 Section 4 amends NDCC 21-10-11 Advisory Board by stating target Legacy Fund in-state **investment allocations at 10% of fixed income and 10% of equity.**

RIO will review recent SIB and Advisory Board presentations with regards to in-state investment target percentages for other U.S. public funds, highlight due diligence best practices being used by SIB, RIO and Callan including "competitive rate of return" targets for existing BND in-state investment program, and highlight recent SIB and Advisory Board approval of recommended investment policy changes including a new 3% Private Capital target for the Legacy Fund with a preference for in-state investments at a competitive rate of return to complement an existing $400 million (5%) commitment by the SIB and Advisory Board to the BND In-State Investment Program. RIO understands HB 1425 may be applied to "new money", although this understanding is not stated in the current bill "in order to allow the Advisory Board and SIB implementation flexibility". Sen. Hogue proposed clarifying implementation language not accepted.
Status: House Finance & Taxation Do Pass 14-0-0 on 2/9; Re-referred to Appropriations 2/11; House Appropriations Do Pass 15-5-1; Engrossed HB 1425 Passed House 85-8 on 2/24; Senate Finance & Tax Committee Hearing 3/10 "Do Pass" 7-0-0; Senate Appropriations 3/24 8:30am.

HB 1475 SIB/Legacy Fund Rep. Satrom, Haggert, Kempenich, Keifert, Mitskog, Ostlie Sen. Conley, Wanzek

https://www.legis.nd.gov/assembly/67-2021/documents/21-0693-05000.pdf

A BILL for an Act to create and enact a new section to chapter 4.1-01 and a **new section to chapter 21-10 of the North Dakota Century Code, relating to an agriculture innovation fund and a transfer of legacy fund earnings; and to provide a continuing appropriation.**
Status: Passed House 81-11 on 2/24/21; Senate Ag Committee Hearing 3/12 "Do Pass" 6-0-0; Referred to Senate Appropriations.

SB 2033 NEW Fund Legislative Management

https://www.legis.nd.gov/assembly/67-2021/documents/21-0187-03000.pdf

A BILL for an Act to create and enact a new chapter to title 15 of the North Dakota Century Code, relating to creation of a **new university system capital building fund**; to provide an appropriation; to provide for a transfer; **State Board of Higher Ed may provide for fund to be invested by SIB**; and declare an emergency.
Status: Amended and Passed by Senate, 1/25; House Education Committee Hearing 3/8 "Do Pass" 12-0-1; Passed House 3/22 79-12.

SB 2043 Highway Patrolmen's Retirement Fund Gov. & Veteran's Affairs Committee

https://www.legis.nd.gov/assembly/67-2021/documents/21-0090-01000.pdf

A BILL for an Act to amend and reenact section 39-03.1-10 of the North Dakota Century Code, relating to contributions to the highway patrolmen's retirement system by the state.
Status: Senate Passed 47-0 on 2/19; House Committee hearing 3/19 at 9am

SB 2044 PERS Retirement Gov. & Veteran's Affairs Committee

https://www.legis.nd.gov/assembly/67-2021/documents/21-0092-01000.pdf

A BILL for an Act to amend and reenact section 39-03.1-10, subsection 2 of section 39-03.1-11.2, subsection 8 of section 54-52-17, subsection 10 of section 54-52-26, subsection 2 of section 54-52-28, subsection 2 of section 54-52.1-03.2, subsection 1 of section 54-52.1-03.3, and subsection 2 of section 54-52.6-21 of the North Dakota Century Code, relating to public employees retirement system unpaid benefit payments, missing member confidentiality requirements, compliance with Internal Revenue Code distribution requirements, insurance programs for which retiree health insurance credit moneys may be used, and clarification of eligibility for retiree health insurance credit payments.
Status: Senate Passed 47-0 on 1/18; Passed House 91-0

SB 2045 PERS Retirement Gov. & Veteran's Affairs Committee

https://www.legis.nd.gov/assembly/67-2021/documents/21-0094-01000.pdf

A BILL for an Act to create and enact a new section to chapter 54-52.2 of the North Dakota Century Code, relating to payment of administrative expenses for the public employees retirement system deferred compensation plan; and to provide a continuing appropriation.
Status: Passed Senate 46-1 on 1/18; House GVA Committee 3/11 at 2pm

SB 2046 PERS Retirement Gov. & Veteran's Affairs Committee

https://www.legis.nd.gov/assembly/67-2021/documents/21-0095-02000.pdf

A BILL for an Act to amend and reenact subsection 1 of section 54-52-02.9, subsection 2 of section 54-52-05, subsection 1 of section 54-52-06, subsection 6 of section 54-52.6-02, and section 54-52.6-09 of the North Dakota Century Code, relating to increased employer and employee contributions under the public employees retirement system defined benefit and defined contribution plans; and to provide a penalty.
Status: Senate Passed as amended 47-0 on 2/19; House Committee hearing on 3/19 at 9am

SB 2291 Social Investing Prohibition Senator Bell

https://www.legis.nd.gov/assembly/67-2021/documents/21-0717-03000.pdf

A BILL for an Act to create and enact a new section to chapter 21-10, a new section to chapter 54-44, and a new section to chapter 54-60 of the North Dakota Century Code, relating to social investments made by the state investment board and the boycott of energy or commodities companies; to provide for a department of commerce study of the implications of complete divestment of companies that boycott energy or commodities; and to provide for reports to legislative management. RIO engaged with legislators to highlight SIB's existing policies with regards to social investing including maximizing risk adjusted returns.
Status: Senate passed as amended, 42-4 on 2/17; Passed House 3/17 82-12; 3/22 Signed by House Speaker and Senate President – Sent to Governor

PERS Health Care Related Bills

HB 1029 PERS Health Care Legislative Management

https://www.legis.nd.gov/assembly/67-2021/documents/21-0170-01000.pdf

A BILL for an Act to amend and reenact section 54-52.1-04.2 of the North Dakota Century Code, relating to public employee uniform group insurance for health benefits; to provide for application; and to declare an emergency.
Status: House passed 90-0 on 1/12; Senate Passed 46-0 on 3/3; Signed by Governor 3/9

HB 1042 PERS Health Care Gov. & Veterans Affairs Committee

https://www.legis.nd.gov/assembly/67-2021/documents/21-0093-01000.pdf

A BILL for an Act to amend and reenact subsection 3 of section 54-52.1-04.16, relating to the public employees retirement system's uniform group insurance program part D contracts with pharmacy benefit managers.
Status: House passed as amended, 90-0 on 1/19; Senate Passed 47-0 3/05; Signed by Governor 3/15

HB 1233 PERS Health Care Rep. Kasper, Jones, Keiser, Lefor, Louser, Meier, Rohr, Schauer, Steiner

https://www.legis.nd.gov/assembly/67-2021/documents/21-0147-02000.pdf

A BILL for an Act to provide for the public employees retirement system to contract for an audit of pharmacy benefit managers providing contract services for the state uniform group health insurance program; and to provide for a legislative management report.
Status: Passed House 91-2 on 2/24/21; Senate HS Committee 3/17 "Do Pass" 5-1-0 as amended. Referred to Appropriations.

HB 1245 PERS Health Care Rep. Kasper, Dockter, Keiser, B. Koppelman, Lefor, Louser, Meier, Pollert, D. Ruby, Steiner Sen. Hogue

https://www.legis.nd.gov/assembly/67-2021/documents/21-0148-04000.pdf

A BILL for an Act to amend and reenact sections 54-52.1-04, 54-52.1-04.1, 54-52.1-04.2, 54-52.1-04.7, 54-52.1-04.8, and 54-52.1-05 of the North Dakota Century Code, relating to public employee uniform group insurance plans; to provide for application; and to declare an emergency.
Status: Passed House 90-4 on 2/23/21; Senate Committee Hearing 3/18 at 10am

Failed Bills

HB 1037 Legacy Earnings Fund & Transfers Legislative Management/Legacy Earnings Committee

https://www.legis.nd.gov/assembly/67-2021/documents/21-0111-02000.pdf

HB 1037 gives the SIB authority over the investment of a newly created "Legacy Earnings Fund" and requires all legacy fund earnings, which are constitutionally required to be transferred to the general fund at the end of each biennium, be immediately transferred into the new Legacy Earnings Fund. This bill would go into effect for legacy fund earnings generated and transferred during the 2021-23 biennium. **The bill then spells out the amount available for appropriation out of this new fund as six percent (6%) of the five-year average value of legacy fund assets as determined by SIB**. Any amounts in the new legacy earnings fund in excess of this 6% amount are to be retained in the fund as a reserve balance for future use only if the amounts transferred from the legacy fund are insufficient to cover the calculated 6% of average value amount. Beginning with the 2023-25 biennium, the legislature will be able to appropriate out of the new legacy earnings fund an amount equal to the six percent amount calculated above or the balance of the fund, whichever is less. **For the 2021-23 biennium and going forward, all constitutionally mandated legacy fund earnings which are transferred to the general fund will be immediately transferred to the new legacy earnings fund. All interest and earnings derived from this fund will also be kept in this fund. Therefore, for the 2021-23 biennium, there will be a reduction in available general fund revenues in an amount equal to the legacy fund earnings in the biennium. RIO will also note the Legacy Earnings Fund could be set-up as a sub-account within Legacy Fund, if desired.**
Status: Failed House 0-91 on 2/24

HB 1114 Teacher Support Program Rep. Heinert and Owens, Senator Schaible
https://www.legis.nd.gov/assembly/67-2021/documents/21-0255-02000.pdf

A BILL for an Act to amend and reenact sections 15.1-18.2-05 and 15.1-18.2-06 of the North Dakota Century Code, relating to the expansion of the teacher support program to provide mentoring to all first- and second-year teachers in the state; and to provide an appropriation.
Status: House Educ. Do Pass 12-1-1 on 1/14; House Do Not Pass 23-71-0 on 2/22

B 1155 PERS Health Care Rep. Keiser, Sen. Oban

https://www.legis.nd.gov/assembly/67-2021/documents/21-0135-03000.pdf

A Bill for an Act to amend and reenact section 54-52.1-02 of the North Dakota Century Code, relating to the public employees retirement system uniform group insurance program benefits; and to provide for application.
Status: **Failed House 37-56 on 2/23/21**

HB 1202 Land Board Investments Reps. Kempenich, Brandenburg, Delzer, M. Ruby, Schatz, Tveit Senators Klein, Patten

https://www.legis.nd.gov/assembly/67-2021/documents/21-0252-01000.pdf

HB 1202 amends NDCC 21-10-06 and NDCC 15-01-02 relating to funds managed by the SIB and board of university and school lands. "Investment authority over the permanent funds derived from the sale of any of the lands" including the "Common schools trust fund and other investments under the control of the board of university and school lands" are transferred to the SIB under HB 1202.

Status: Failed 2/3/21; 27-66

HB 1138 Free Speech Rep. Kading, Becker, Lefor, D. Ruby, Schatz, and Schauer, Sen. Heitkamp, O. Larsen, Myrdal

https://www.legis.nd.gov/assembly/67-2021/documents/21-0454-01000.pdf

To provide for a civil action against state/political subdivision for state constitutional free speech violation.

Status: Failed to Pass House 2/10/21; 28-66

HB 1147 PERS Health Care Rep. Brandenburg, Dobervich, Mitskog Sen. Erbele, Oban, K. Roers

https://www.legis.nd.gov/assembly/67-2021/documents/21-0447-02000.pdf

A BILL for an Act to create and enact section 54-52.1-04.19 of the North Dakota Century Code, relating to public employee fertility health benefits; to amend and reenact section 26.1-36.6-03 of the North Dakota Century Code, relating to self-insurance health plans; to provide for a report; to provide for application; to provide an expiration date; and to declare an emergency.

Status: Failed House 31-63 on 2/24

HB 1250 PERS Health Care Rep. M. Nelson, Adams Sen. Mathern

https://www.legis.nd.gov/assembly/67-2021/documents/21-0068-01000.pdf

A BILL for an Act to create and enact a new section to chapter 54-52.1 of the North Dakota Century Code, relating to public employee health insurance drug benefit coverage; to amend and reenact section 26.1-36.6-03 of the North Dakota Century Code, relating to self-insurance health plans; to require a report; to provide for application; to provide an expiration date; and to declare an emergency.

Status: Failed 1/19/21

HB 1260 Wage Moratorium Rep. Becker, Kasper, B. Koppelman, Rohr, Steiner Sen. Anderson, Heitkamp

https://www.legis.nd.gov/assembly/67-2021/documents/21-0598-07000.pdf

A BILL for an Act to create and enact a new section to chapter 54-06 of the North Dakota Century Code, relating to a wage and salary moratorium on state or local officials and employees if certain temporary restrictions on businesses are imposed.

Status: Failed House 25-68 on 2/18/21

HB 1274 Legacy Fund Fiscal Impact Reps. Kempenich, B. Anderson, Longmuir, Pollert, Shatz
Senators Erbele, Klein, Wardner

https://www.legis.nd.gov/assembly/67-2021/documents/21-0248-01000.pdf

HB 1274 creates and enacts a new section to NDCC 21-10 relating to fiscal impact statements for any measure or policy affecting the legacy fund. The legacy and budget stabilization fund advisory board shall review any legislative measure, initiated or referred measure, or asset allocation and investment policy affecting the legacy fund. **If the advisory board determines the measure or policy will have a fiscal impact on the fund, the board shall request the state retirement and investment office to arrange for the preparation and submission of a fiscal impact statement to the advisory board before the measure or policy is acted upon.** The fiscal impact statement must be prepared by an independent consultant paid by the state retirement and investment office. The fiscal impact statement must include the estimated fiscal impact of the measure or policy for the next biennium and for the next ten biennia. The Senate is

Status: Failed 1/22/21; 24-67

HB 1275 Legacy Earnings & Transfers Reps. Boschee, P. Anderson, Buffalo, Dobervich, Ista, Mitskog
Senators Heckaman, Hogan, Mathern, Oban

https://www.legis.nd.gov/assembly/67-2021/documents/21-0668-02000.pdf

HB 1275 is similar to HB 1037 and gives the SIB authority over the investment of a new "Legacy Earnings Fund" and a new "Human Services and Public Health Stabilization Fund", but also provides a distribution waterfall for the continuing appropriation of funds from the Legacy Earnings Fund including the "Arts and Culture Endowment Fund" and "Human Services and Public Health Stabilization Fund" among others.

HB1275 states the amount available for appropriation out of this new fund as <u>seven percent (7%)</u> of the five-year average value of legacy fund assets as determined by SIB (versus 6% for HB 1037). Any amounts in the new legacy earnings fund in excess of this 7% amount are to be retained in the fund as a reserve balance for future use only if the amounts transferred from the legacy fund are insufficient to cover the calculated 7% of average value amount. Beginning with the 2023-25 biennium, the legislature will be able to appropriate out of the new legacy earnings fund an amount equal to the six percent amount calculated above or the balance of the fund, whichever is less. **For the 2021-23 biennium and going forward, Section 7 of the bill will require all of the constitutionally mandated legacy fund earning which are transferred to the general fund to be immediately transferred to the new legacy earnings fund. <u>All interest and earnings</u> <u>derived from this fund will be kept in this fund</u>. Therefore, for the 2021-23 biennium, there will be a reduction in available general fund revenues in an amount equal to the legacy fund earnings in the biennium. RIO will also note the Legacy Earnings Fund could be reported as a sub-account within the Legacy Fund, if desired, to reduce administrative costs.**

Status: Failed House 14-76 on 2/24/21

HB 1342 PERS Retirement Rep. Lefor, Dockter, Nathe, O'Brien
Sen. Anderson, Dever, Wardner

https://www.legis.nd.gov/assembly/67-2021/documents/21-0202-05000.pdf

A BILL for an Act to amend and reenact subsection 1 of section 54-52-02.9, subsection 2 of section 54-52-05, subsection 1 of section 54-52-06, subsection 6 of section 54-52.6-02, subsection 1 of section 54-52.6-09, and subsection 2 of section 54-52.6-09 of the North Dakota Century Code, relating to increased employer and employee contributions under the public employees retirement system defined benefit and defined contribution plans; to provide an appropriation; and to provide a statement of legislative intent.

Status: Failed House 37-57 on 2/23/21

HB 1446 SIB/Legacy Fund Rep. Magrum, Ertelt, Kading, B. Koppelman, Simons, Toman Sen. Clemens, Heitkamp.

https://www.legis.nd.gov/assembly/67-2021/documents/21-0069-04000.pdf

A BILL for an Act to create and enact a **new section to chapter 21-10 and a new section to chapter 57-02 of the North Dakota Century Code, relating to the transfer of legacy fund earnings to a property tax relief fund and a property tax credit for property used as a primary residence**; to provide a continuing appropriation; to provide for a transfer; to provide an exemption; to provide an effective date; and to declare an emergency.

Status: Failed House 24-69 on 2/16

SB 2040 PERS Retirement Senate Appropriation Comm Senators Mathern, Heckaman, Oban Representatives Boschee, Dobervich, Mitskog

https://www.legis.nd.gov/assembly/67-2021/documents/21-0421-02000.pdf

Relating to bonded debt repayments; to amend and reenact sections 6-09.4-06, 6-09.4-10, and 15.1-36-08 of the North Dakota Century Code, relating to borrowing and lending authority of the public finance authority, reserve funds associated with bonds, and the school construction assistance revolving loan fund; to provide an appropriation; and to provide a bond issue limit.

Status: Senate Appropriations Do Not Pass 12-2-0 on 2/17; Senate Failed 7-40 on 2/18

SB 2042 PERS Retirement Gov. & Veterans' Affairs Committee

https://www.legis.nd.gov/assembly/67-2021/documents/21-0089-01000.pdf

A BILL for an Act to amend and reenact subsection 1 of section 54-52-02.9, subsection 1 of section 54-52-06, subsection 6 of section 54-52.6-02, and subsection 2 of section 54-52.6-09 of the North Dakota Century Code, relating to increased employer and employee contributions under the public employees retirement system defined benefit and defined contribution plans; and to provide a penalty.

Status: Senate GVA Do Not Pass 7-0-0 on 2/18; Senate Failed 1-46 on 2/19

SB 2069 Applications for Public Employment Gov. & Veteran's Affairs Committee

https://www.legis.nd.gov/assembly/67-2021/documents/21-8037-02000.pdf

SB 2069 expands the confidentiality of applications for public employment to include finalists.

Status: Senate Passed as amended 40-7 on 1/26; Failed House 3/17/21 1-92

SB 2320 Legacy Fund Sen. Klein, Wardner, Rep. Kempenich, Kreidt, Pollert

https://www.legis.nd.gov/assembly/67-2021/documents/21-1004-01000.pdf

A BILL for an Act to create and enact a new section to chapter 21-10 of the North Dakota Century Code, relating to fiscal impact statements for a measure or policy affecting the legacy fund.

Status: Failed 2/5/21; 0-45

TFFR Ends
Annual Review
Year Ended June 30, 2020

The information provided below indicates that the TFFR ends policies formally adopted by the TFFR Board and accepted by the SIB are being implemented.

Ends Policy: **Membership Data and Contributions**

Ends: Ensure the security and accuracy of the members' permanent records and the collection of member and employer contributions from every governmental body employing a TFFR member.

- **Member and Employer Information**

  The CPAS pension administration software and FileNet document management software has been used for 15 years. The CPAS pension administration software version we are using is client server based and is reaching the end of its life cycle. We received legislative approval in 2019 to replace or upgrade the TFFR pension software with a secure web based application to improve efficiencies and functionality. We have completed Phase 1 out of 3 and are currently on phase 2. TFFR Member and Employer Online Services are secure applications allowing TFFR members to view their personal pension account information and provide employers the ability to electronically report monthly payroll to TFFR. Security of TFFR data is a high priority and staff annually completes cyber security training. In FY20, we further expanded our FileNet workflow system used to manage Retirement Services paperless account processing functions.

- **Collections and Payments**

  Collected member and employer contributions totaling $178.8 million from 213 employers and $2.2 million from members for the purchase of service credit.

  Paid out $224.4 million in pension benefits and $6.5 million in refunds and rollovers totaling $230.9 million for the year.

  About 85% of employers electronically report contributions to TFFR. This comprises over 98% of the active membership.

  As of June 30, 2020, 180 employers are reporting using TFFR Employer Online Services.

  Assessed 5 reporting penalties and did not withhold foundation payments from any school districts. TFFR waived 0 of the 5 penalties. Employer reporting penalties include late reporting of contributions and failure to provide documentation in a timely manner (e.g. new member forms, return to teach forms, employer compliance audit documentation.) Due to the COVID-19 pandemic, TFFR waived the late reporting penalties from late March 2020 through June 2020.

  13 employers modified employer payment plan model election.

- **Employer Summary Report and Member Statements**

  Mailed 8,932 annual statements to retired members in December 2019
  Mailed FY2020 Employer Summary Report to each employer in August 2020
  Prepared 14,083 Annual Statements for non-retiree's online accounts in September 2020
  Mailed 14,216 Annual Statement Notices (trifold) to non-retirees in September 2020

- **Employer Outreach Programs & Communications**

  Met with school board members, business managers, and software vendors at the 2019 School Board and School Business Manager Association Annual Conference.

  Completed one new business manager workshop attended by Westhope, Oakes, and Dickinson in October 2019. The Spring Business Manager Workshops were cancelled due to the COVID-19 pandemic.

  GASB 68 2019 data updated and added to website.

  Briefly employer newsletter (4 publications sent electronically)

Ends Policy: **Member Services**

Ends: Provide direct services and public information to members of TFFR.

- **Outreach Program Statistics**

  651 attended outreach programs (plus convention participants)
  Retirement Services staff traveled 3,298 miles

- **Retirement Education Workshops**

  104 attended
  2 locations – Bismarck and Grand Forks

  Retirement Education Workshops are generally held at two sites each year in July and rotate between Bismarck, Minot, Fargo, and Grand Forks. Additional workshops will be added if requested by an employer and minimum attendance can be met.

- **Retirement 101 Workshops**

  33 attended
  1 location - Washburn

  Additional workshops will be added if requested by an employer and minimum attendance can be met.

- **Group Counseling Sessions**

  186 attended
  6 locations – Minot, Grand Forks, Devils Lake, Fargo, Dickinson, and Williston

- **Local Office Counseling –** 204 members

- **Group Presentations**

  125 attended

  NDRTA Convention
  NDSBA
  ND United Staff Education

- **Conferences and Conventions**

  ND Career and Technical Education Convention – Bismarck
  ND Retired Teachers Convention – Jamestown
  DPI Educators Conference - Bismarck
  ND School Board Convention – Bismarck
  NDCEL Annual Conference – Bismarck
  CREA Winter Conference - Minot
  Mandan In-Service

- **Member Communications**

  Report Card non-retired newsletter (2 publications)
  Retirement Today retiree newsletter (2 publications)
  Updated retirement forms
  Updated TFFR Fast Facts handout
  Marketed Member Online with email blasts
  Created COVID-19 FAQ document for the website

- **NDRIO Website**

  NDRIO web site was visited by 24,889 users a total of 50,228 times. The average length of each visit was just over 3 minutes. The webcasts in the training library were viewed 109 times in FY20. A few outdated webcasts were removed from the website in December 2019.

  NDRIO went live with the new website in August 2020!!

- **TFFR Member Online**

  As of June 30, 2020, 5,082 members have signed up for TFFR Member Online Services.

Ends Policy: **Account Claims**

Ends: Ensure the payment of benefit claims to members of TFFR.

- **Annuity Payments**

  Distributed $224.4 million in pension benefits to 8,863 retired members and beneficiaries. Of the total, only 2 payments are still mailed by check and the remainder deposited via electronic funds transfer.

- **Monthly Payroll Deductions** (July 1, 2020 payroll – total 8,986)

Federal tax withholding	6,823	76%
ND state tax withholding	5,608	62%
PERS health insurance	605	7%
PERS dental insurance	385	4%
PERS vision insurance	201	2%
PERS life insurance	21	<1%

- **Refunds, Rollovers & Transfers**

  Distributed refund and rollover payments of $6.5 million to 278 participants during the fiscal year. Approximately 42% of the refunding members rolled over their refund payment to an IRA or another eligible plan.

- **Processed Claims for Benefits**

Refunds	160
Rollovers	118
Retirements	282
Disabilities	3
Survivor annuitants	6
Continuing annuitants	64

- **Member Account Activity**

New members	817
Deaths	247
Pop ups	67
Purchase requests	175
Retiree Payroll Notices	8,282

Ends Policy: **Trust Fund Evaluation/Monitoring**

Ends: Ensure actuarial consulting and accounting services are provided to the retirement program. The TFFR Board of Trustees will select the independent actuary for consulting and actuarial purposes and direct a contract to be executed by the Deputy Directory/Chief Retirement Officer.

- **Actuarial Services**

  The annual actuarial valuation for July 1, 2020, was presented to the TFFR Board by Segal on November 19, 2020.

- **External Audit**

  An unqualified opinion was issued by independent auditors, Clifton Larson Allen, LLP, regarding RIO's financial statements for the year ending June 30, 2020. Clifton Larson Allen, LLP presented the report to the SIB Audit Committee on November 18, 2020.

- **Internal Audit**

  The annual audit activities report was presented to the TFFR Board on September 24 2020. The report included information about TFFR benefit payments of death claims, long-outstanding checks, and long-term annuitants.

- **Other**

  Received Certificate of Achievement in Financial Reporting from GFOA for June 30, 2019, Annual Financial Report.

  Received 2020 recognition award for pension plan administration from the Public Pension Coordinating Council.

TFFR Retirement Statistics

>Participation in Outreach Programs

>Service Purchase Statistics

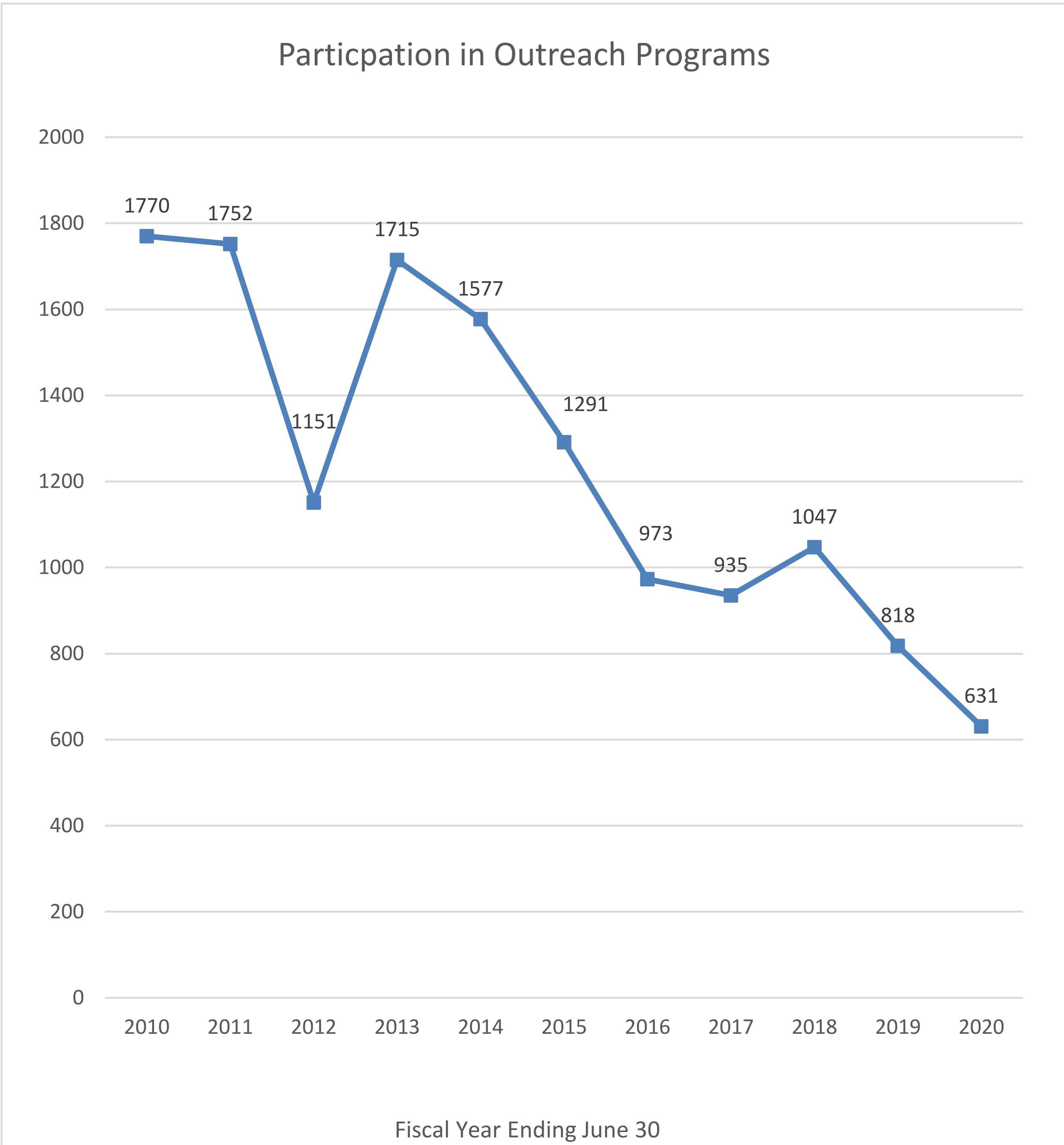
>Active Membership Tier Statistics

>Service Retiree History & Option Usage

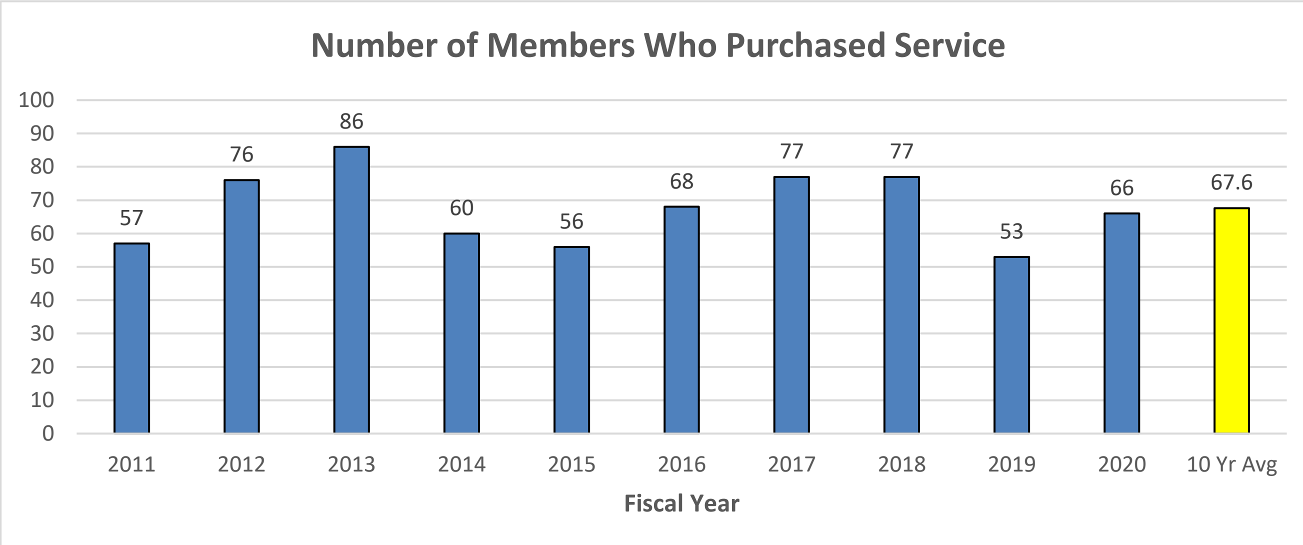
>Retiree Statistics

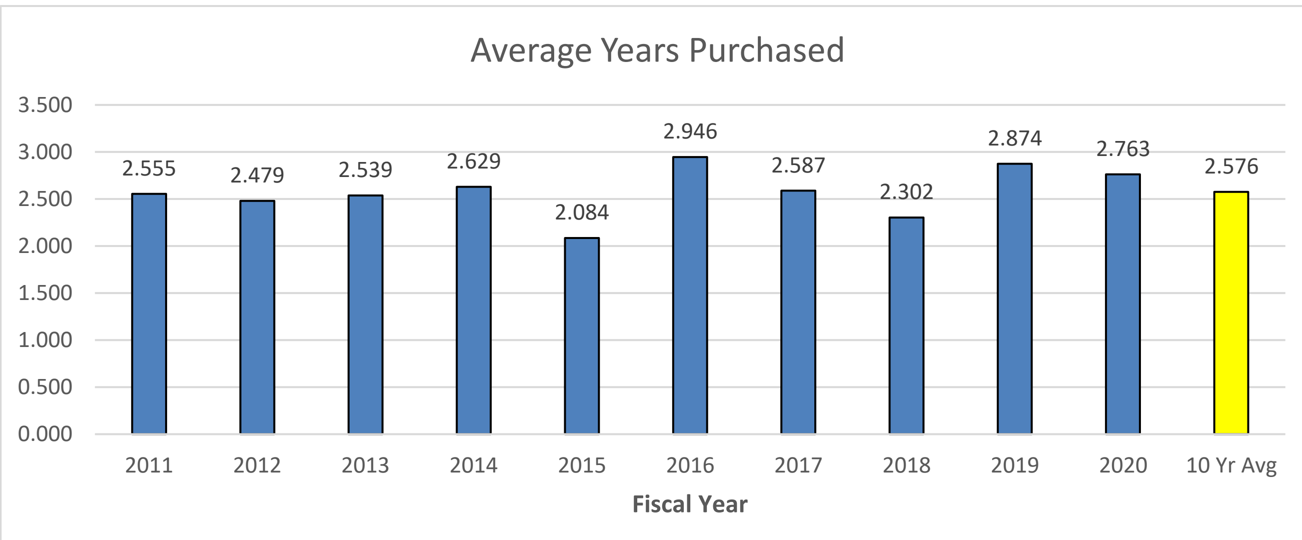
>Disability Retirements

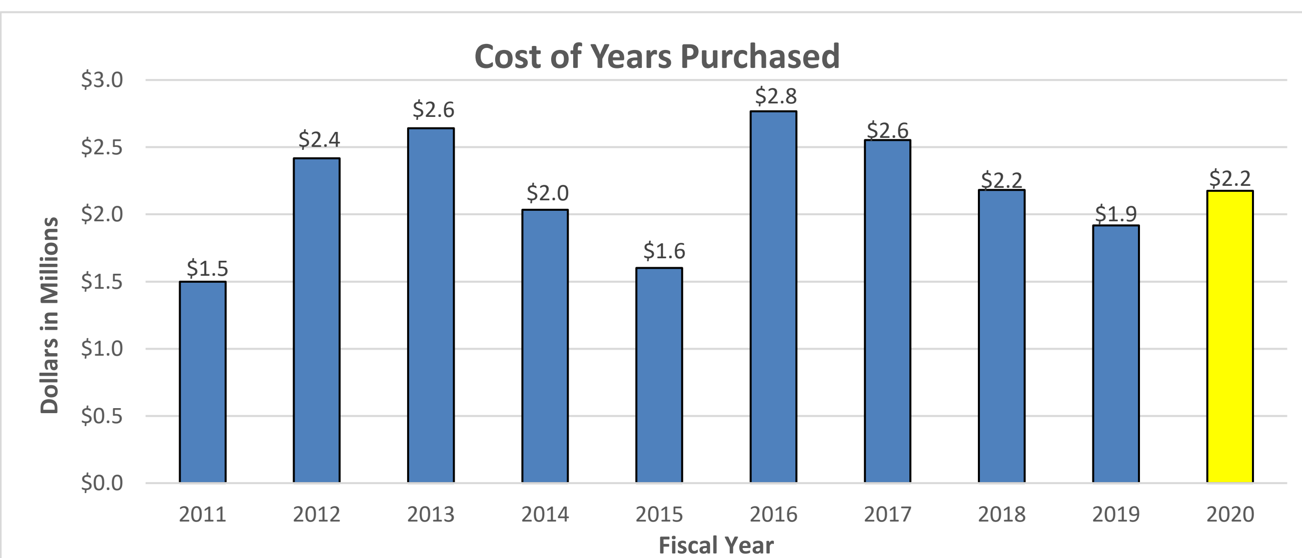
>Employer History & Current Employer Payment Model Statistics

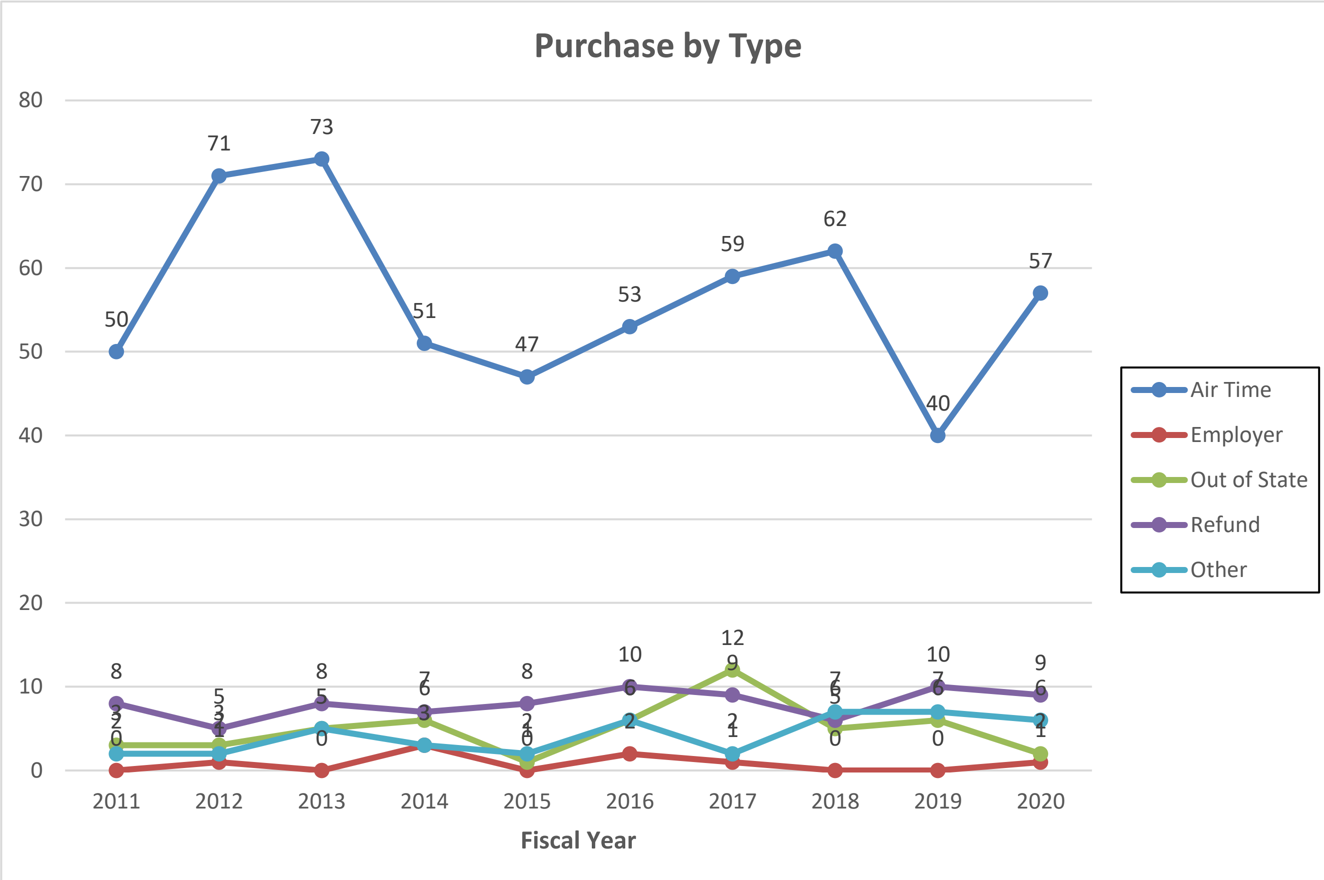

Particpation in Outreach Programs
2000
1800
1600
1400
1200
1000
800
600
400
200
0
1770
1752
1151
1715
1577
1291
973
935
1047
818
631
2010
2011
2012
2013
2014
2015
2016
2017
2018
2019
2020
Fiscal Year Ending June 30

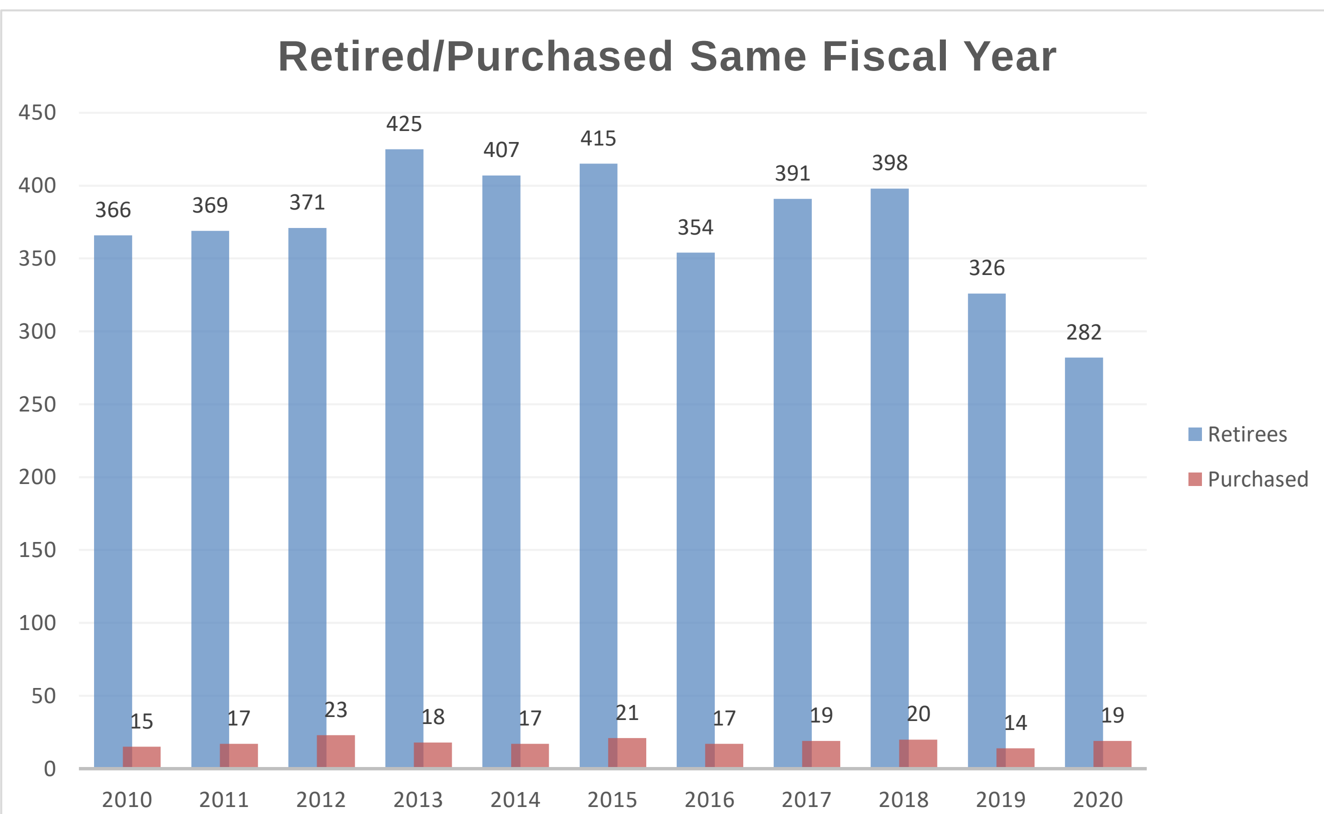
Service Purchase Statistics 2020

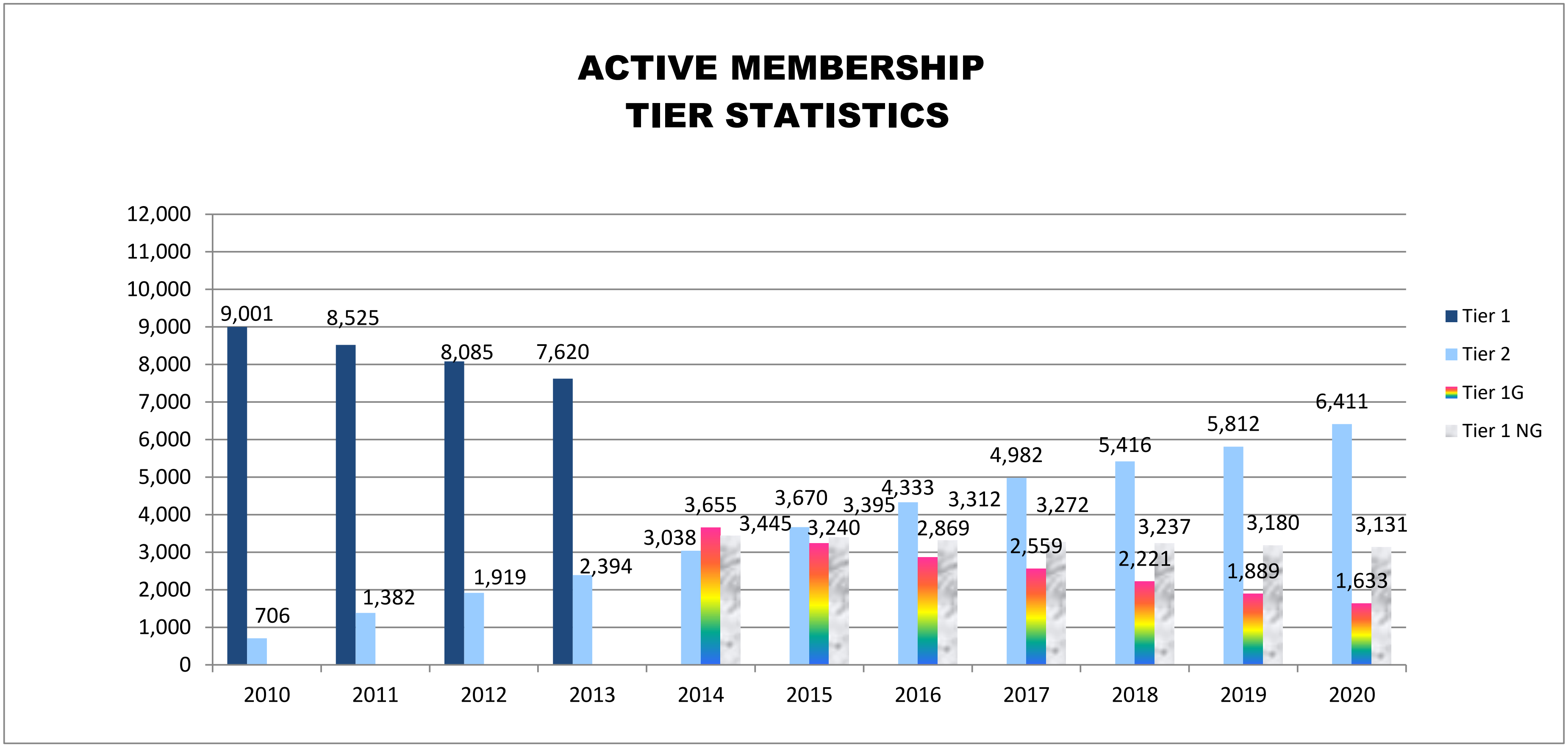


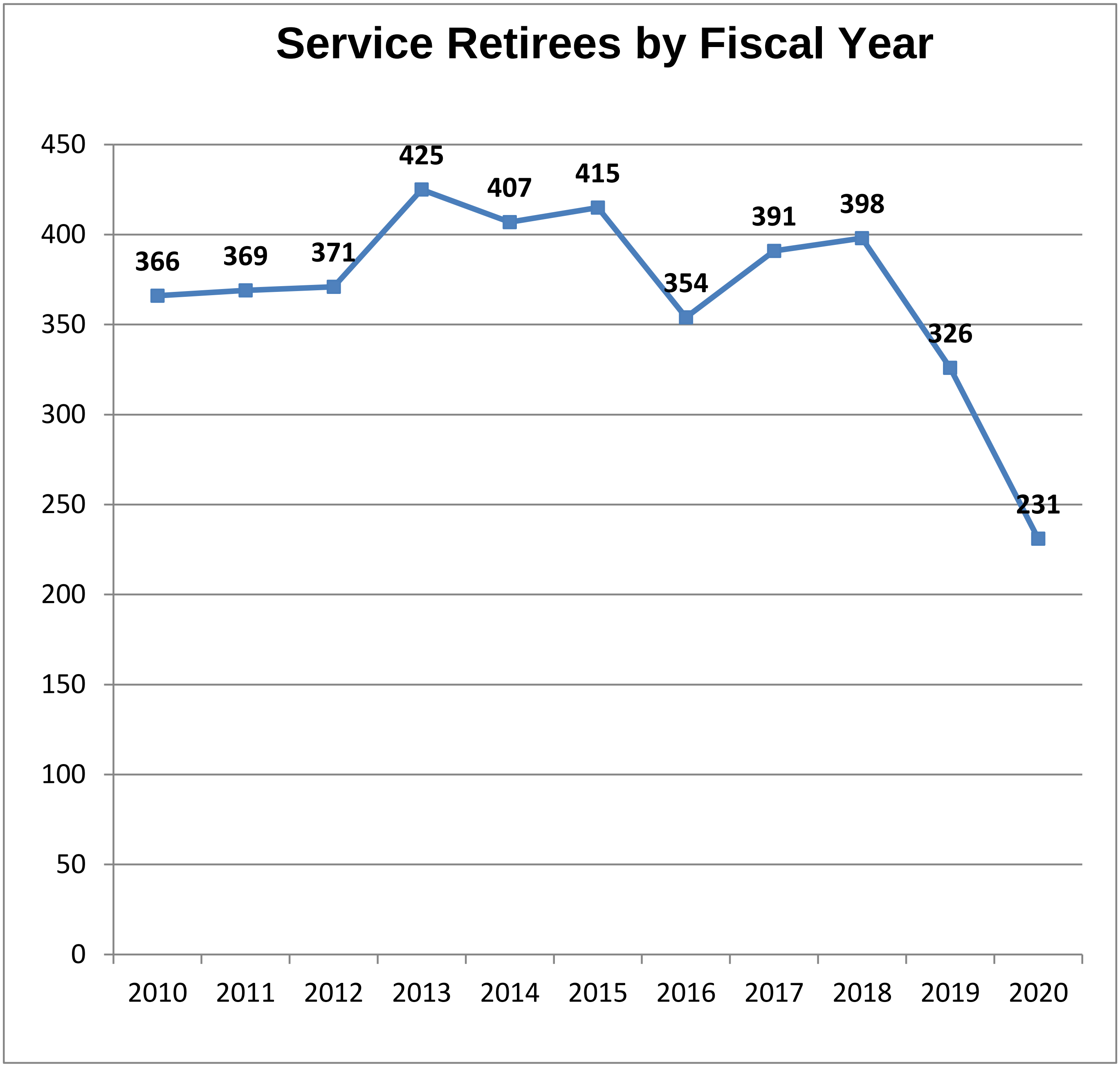





Purchase by Type
Fiscal Year
Air Time
Employer
Out of State
Refund
Other
2011
2012
2013
2014
2015
2016
2017
2018
2019
2020


Retired/Purchased Same Fiscal Year
Retirees
Purchased
2010
2011
2012
2013
2014
2015
2016
2017
2018
2019
2020


ACTIVE MEMBERSHIP
TIER STATISTICS
12,000
11,000
10,000
9,000
8,000
7,000
6,000
5,000
4,000
3,000
2,000
1,000
0
9,001
706
8,525
1,382
8,085
1,919
7,620
2,394
3,038
3,655
3,445
3,670
3,240
3,395
4,333
2,869
3,312
4,982
2,559
3,272
5,416
2,221
3,237
5,812
1,889
3,180
6,411
1,633
3,131
2010
2011
2012
2013
2014
2015
2016
2017
2018
2019
2020
Tier 1
Tier 2
Tier 1G
Tier 1 NG

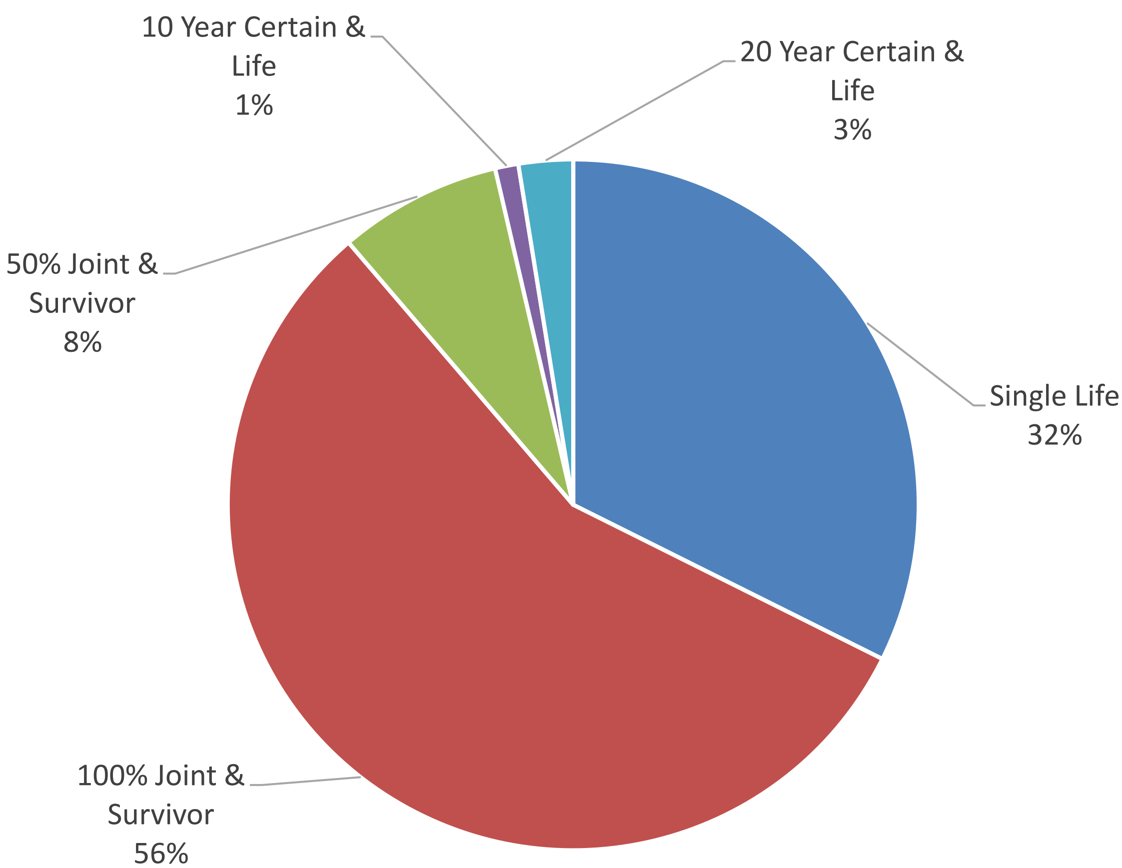


Service Retirees by Fiscal Year
450
400
350
300
250
200
150
100
50
0
366
369
371
425
407
415
354
391
398
326
231
2010
2011
2012
2013
2014
2015
2016
2017
2018
2019
2020

Service Retirement Options

2019-20

Retirement Option	Number
Single Life	92
100% Joint & Survivor	159
50% Joint & Survivor	21
10 Year Certain & Life	3
20 Year Certain & Life	7
Total	**282**



Note: Of total, 3 members (1%) selected level income option.

Of total, 9 members (3%) selected partial lump sum option.

TFFR Retiree Statistics

Data Selection

- 9,036 retired members and beneficiaries as of July 2020 on data from the valuation file
- Selected various categories of retiree data and grouped data 3 ways

TFFR Retiree
Statistics by Fiscal Year

Fiscal Year of Retirement Ending June 30	Avg Monthly Pension	Avg Annual Salary	Avg Service Credit	Avg Retirement Age of Member	Avg Current Age of Recipient	Number of Retirees
pre-1979	$ 494	$ 7,743	25.7	59.4	87.3	53
1980	$ 610	$ 13,539	28.9	60.0	92.9	9
1981	$ 477	$ 12,247	22.6	57.4	95.8	9
1982	$ 709	$ 20,970	27.3	61.7	92.4	12
1983	$ 423	$ 10,666	22.0	58.0	90.3	6
1984	$ 778	$ 20,008	28.9	61.7	94.5	30
1985	$ 879	$ 23,820	30.6	59.9	89.7	14
1986	$ 931	$ 23,771	30.9	60.9	93.4	44
1987	$ 915	$ 24,595	28.0	59.6	90.4	11
1988	$ 992	$ 25,744	28.4	60.1	90.4	67
1989	$ 975	$ 28,188	27.8	59.2	89.3	20
1990	$ 1,096	$ 27,312	30.0	58.9	87.9	151
1991	$ 1,012	$ 28,400	26.2	59.5	87.4	70
1992	$ 1,198	$ 31,157	30.1	58.7	85.6	134
1993	$ 1,122	$ 33,789	26.2	57.7	83.0	55
1994	$ 1,286	$ 32,299	28.4	59.2	85.4	209
1995	$ 1,248	$ 32,753	27.8	58.6	82.6	162
1996	$ 1,285	$ 33,449	27.9	58.4	82.1	141
1997	$ 833	$ 27,436	20.1	57.9	81.1	70
1998	$ 1,503	$ 34,537	29.0	58.9	81.0	304
1999	$ 1,116	$ 33,476	21.3	58.5	79.4	87
2000	$ 1,700	$ 38,037	29.3	58.6	78.9	374
2001	$ 1,408	$ 38,399	23.4	57.2	76.3	78
2002	$ 1,755	$ 39,428	28.5	58.2	76.5	467
2003	$ 1,732	$ 40,552	27.2	58.1	75.2	270
2004	$ 1,779	$ 41,621	27.3	58.2	74.0	339
2005	$ 1,921	$ 43,245	27.7	58.4	73.6	340
2006	$ 1,933	$ 44,682	27.4	58.9	72.5	357
2007	$ 2,106	$ 48,083	27.9	58.6	71.8	337
2008	$ 1,991	$ 46,218	26.4	59.3	71.5	354
2009	$ 2,130	$ 49,436	27.1	59.2	70.3	334
2010	$ 2,147	$ 50,026	26.2	60.5	70.7	329
2011	$ 2,176	$ 50,998	25.9	60.4	69.2	394
2012	$ 2,327	$ 53,817	26.6	60.7	68.8	363
2013	$ 2,628	$ 58,218	27.8	60.5	67.8	452
2014	$ 2,635	$ 59,083	27.7	61.2	67.5	415
2015	$ 2,569	$ 58,153	26.9	61.0	66.3	388
2016	$ 2,837	$ 63,955	26.7	61.5	65.4	405
2017	$ 2,867	$ 64,142	26.8	61.9	64.8	376
2018	$ 2,936	$ 66,519	26.1	61.6	63.6	397
2019	$ 3,117	$ 73,032	25.6	61.6	62.6	353
2020	$ 3,328	$ 72,551	28.0	61.0	61.2	237
2021	$ 5,236	$ 111,862	30.4	59.6	59.6	19
All FY	**$ 2,115**	**$ 48,809**	**27.2**	**59.8**	**72.5**	**9,036**

TFFR Retiree
Statistics by Formula

Fiscal Year of Retirement Ending June 30	Fiscal Year of Retirement Ending June 30	Avg Monthly Pension	Avg Annual Salary	Avg Service Credit	Avg Retirement Age of Member	Avg Current Age of Recipient	Number of Retirees
pre-1979	Old formulas	$ 494	$ 7,743	25.7	59.4	87.3	53
1.00%	1979-1983 or 1.00%	$ 578	$ 15,214	25.6	59.6	93.0	36
1.05%	1983-1985 or 1.05%	$ 810	$ 21,221	29.5	61.1	93.0	44
1.15%	1985-1987 or 1.15%	$ 928	$ 23,936	30.3	60.6	92.8	55
1.22%	1987-1989 or 1.22%	$ 988	$ 26,306	28.2	59.9	90.2	87
1.275%	1989-1991 or 1.275%	$ 1,070	$ 27,657	28.8	59.1	87.7	221
1.39%	1991-1993 or 1.39%	$ 1,176	$ 31,923	29.0	58.5	84.8	189
1.55%	1993-1997 or 1.55%	$ 1,221	$ 32,119	27.1	58.7	83.3	582
1.75%	1997-1999 or 1.75%	$ 1,417	$ 34,301	27.3	58.8	80.7	391
1.88%	1999-2001 or 1.88%	$ 1,650	$ 38,099	28.2	58.4	78.5	452
2.00%	2001-present or 2.00%	$ 2,371	$ 54,014	27.1	60.1	69.1	6,926
All Formulas	**All Formulas**	**$ 2,115**	**$ 48,809**	**27.2**	**59.8**	**72.5**	**9,036**

TFFR Retiree Statistics
By Retirement Type

Type	Avg Monthly Pension	Avg Annual Salary	Avg Service Credit	Avg Retirement Age of Member	Avg Current Age of Recipient	Number of Retirees
Death	$ 1,328	$ 38,766	27.0	58.7	75.0	787
Disability	$ 1,267	$ 40,254	15.3	50.4	64.9	127
Early	$ 738	$ 36,582	14.6	60.4	73.9	985
Normal	$ 2,414	$ 51,771	29.3	60.0	72.1	7,107
QDRO	$ 680	$ 48,823	10.1	58.4	68.7	30
All Types	**$ 2,115**	**$ 48,809**	**27.2**	**59.8**	**72.5**	**9,036**

Disability Summary -- 2001 - 2020

- Total disabilities approved since 2001 - 2020 — 128
  - Of 128, number of physical disabilities: — 111
  - Of 128, number of emotional disabilities: — 17

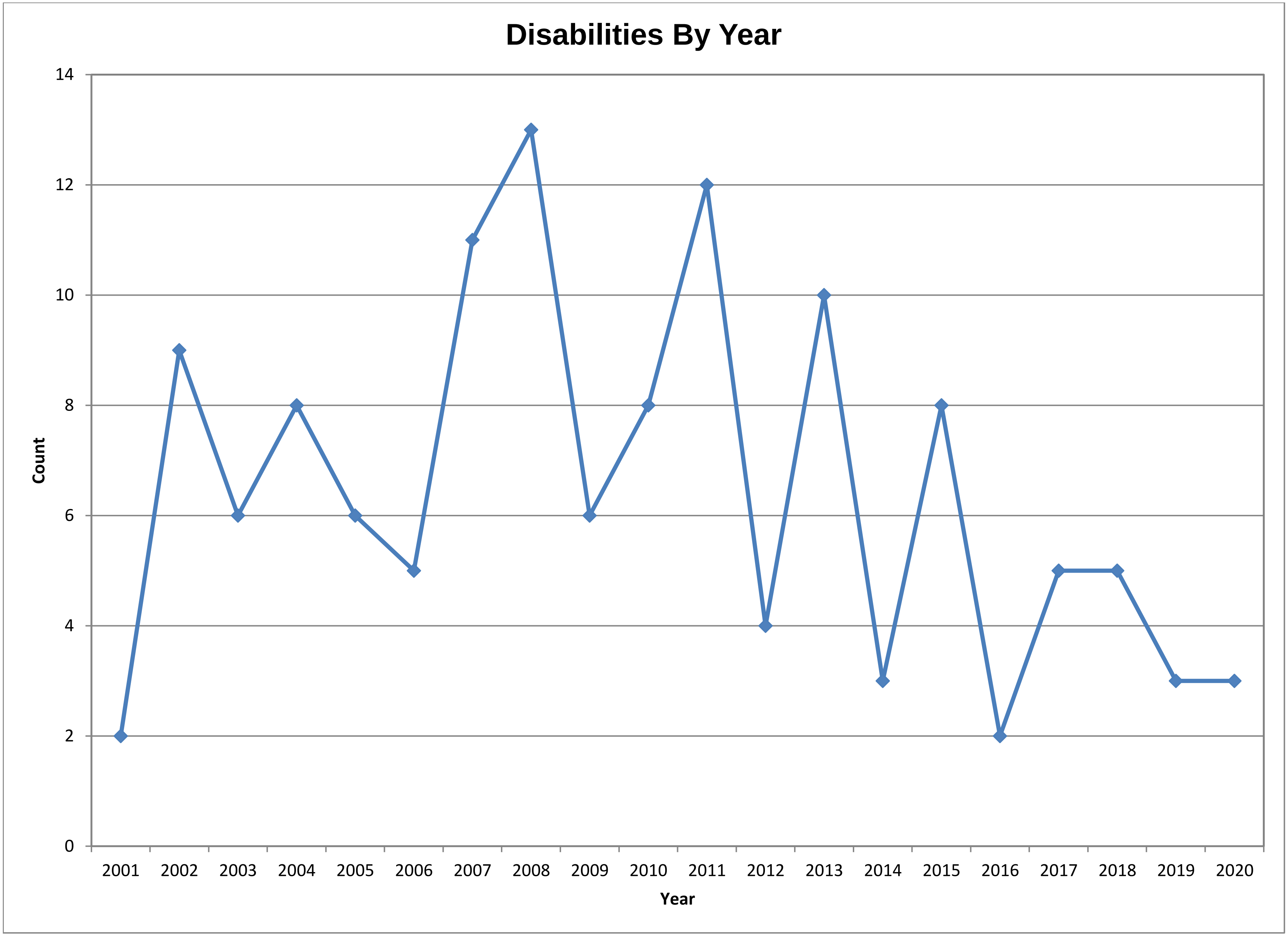
- Average number of disabilities approved per year: — 6

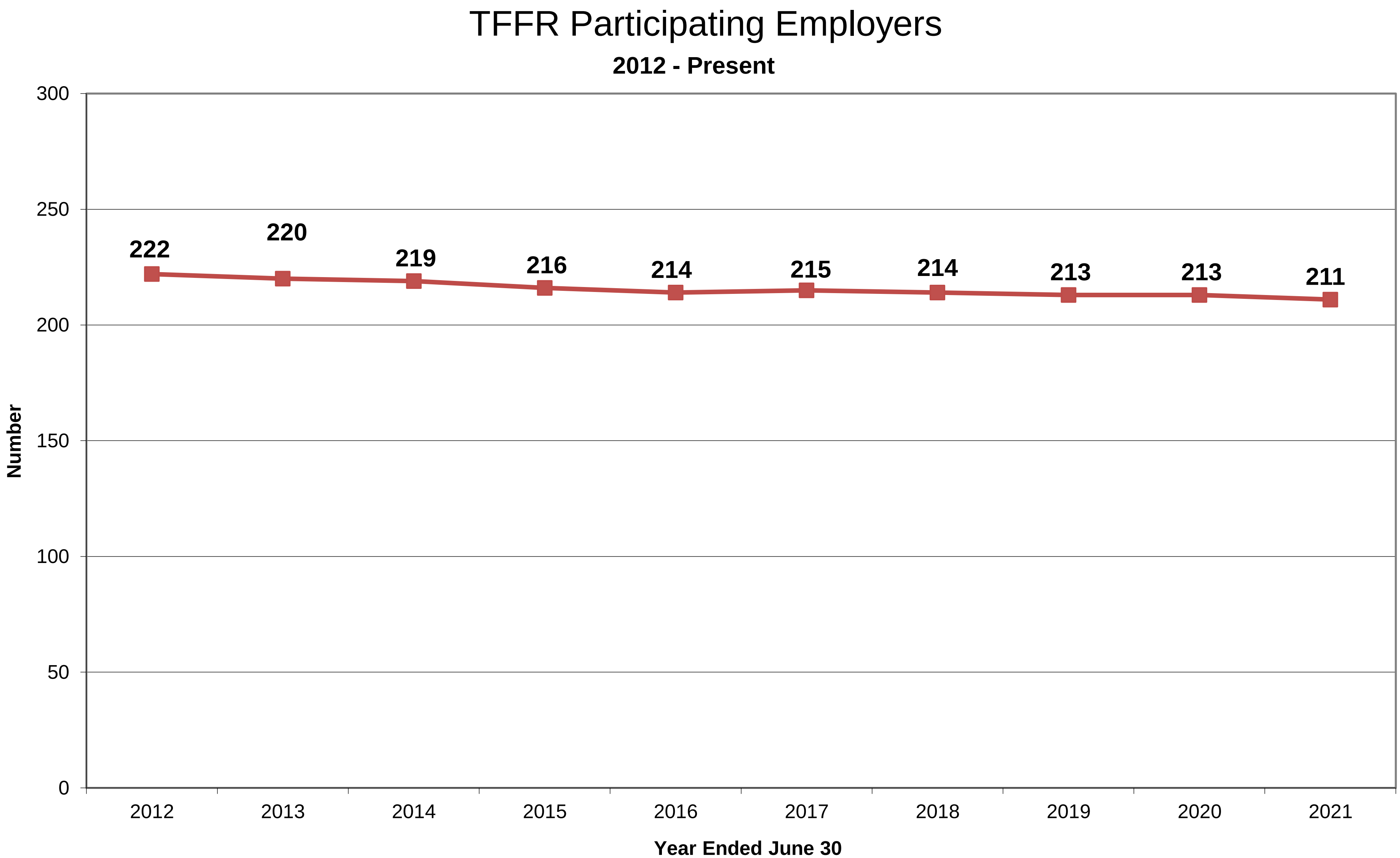
- Of 128, number that are living and drawing benefits: — 90
  - Of 128, number that are living and returned to work: — 3
  - Of 128, number that are deceased: — 35

- Of 128, option selected was:
  - Count of Single Life: — 81
  - Count of 100% Joint & Survivor: — 33
  - Count of 50% Joint & Survivor: — 10
  - Count of 5 Year Certain & Life: — 0
  - Count of 10 Year Certain & Life: — 1
  - Count of 20 Year Certain & Life: — 3

- Of 90 living and drawing benefits:
  - Average service credit in years: — 15.3
  - Average age in years: — 63
  - Average monthly benefit: — $1,440
  - Average years benefit was received: — 10.7
  - Number of physical disabilities: — 75
  - Number of emotional disabilities: — 15

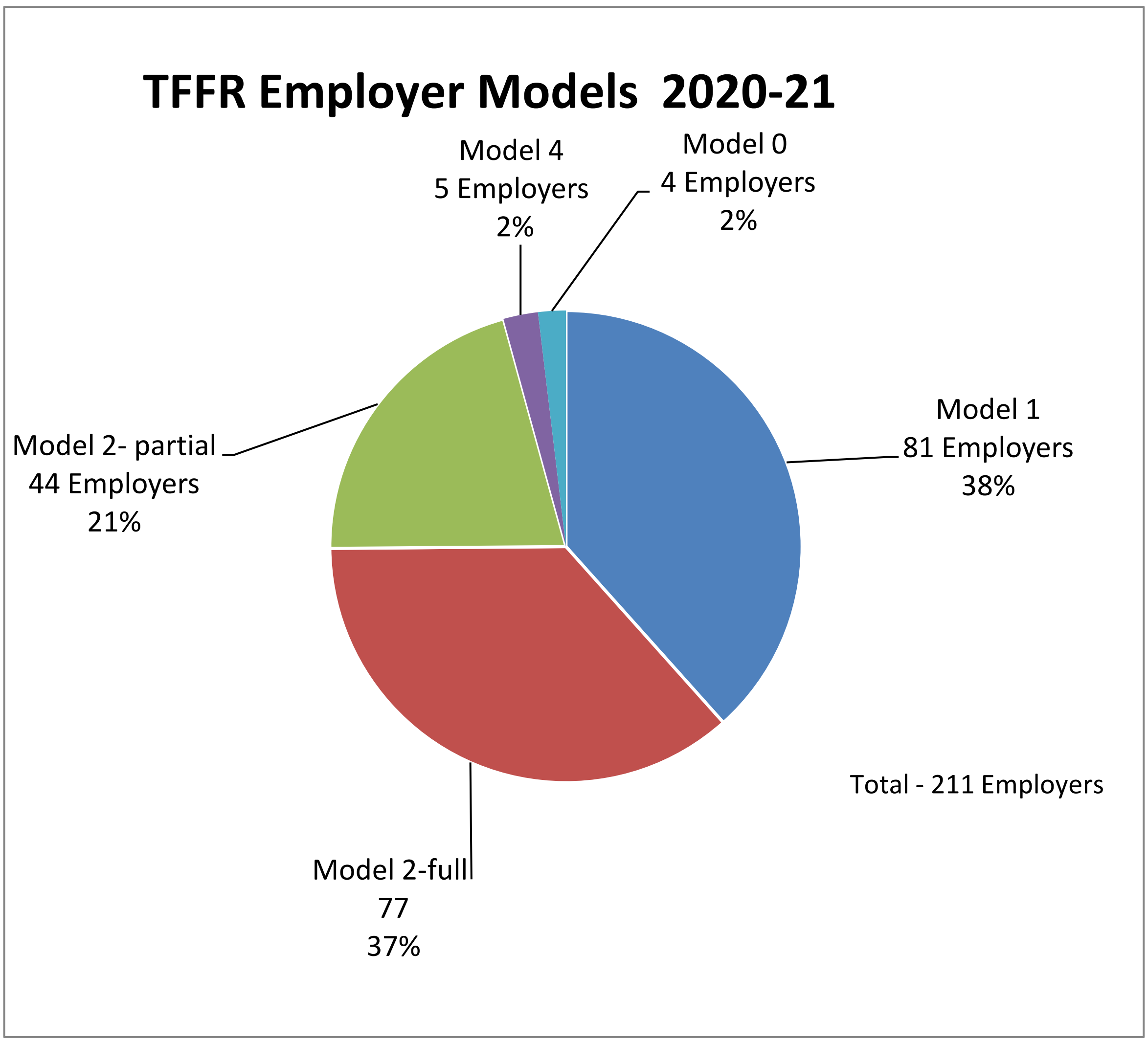
- Of 3 living and returned to work:
  - Average service credit in years: — 4.9
  - Average age in years: — 61
  - Average monthly benefit: — $888
  - Average years benefit was received: — 5.4
  - Number of physical disabilities: — 2
  - Number of emotional disabilities: — 1


Disabilities By Year
Count
Year
0
2
4
6
8
10
12
14
2001
2002
2003
2004
2005
2006
2007
2008
2009
2010
2011
2012
2013
2014
2015
2016
2017
2018
2019
2020


TFFR Participating Employers
2012 - Present
Number
300
250
200
150
100
50
0
222
220
219
216
214
215
214
213
213
211
2012
2013
2014
2015
2016
2017
2018
2019
2020
2021
Year Ended June 30

Model Usage 2020-21

	Employers	
Model 1	81	38%
Model 2-full	77	37%
Model 2-partial	44	21%
Model 4	5	2%
Model 0	4	2%
Total	211	100%



NORTH Dakota | Retirement and Investment

Be Legendary.™

MEMORANDUM

Item V.A.

TO:	**TFFR Board**
FROM:	**Jan Murtha, Deputy Executive Director – Chief Retirement Officer**
DATE:	**March 17, 2021**
RE:	**PAS Project Update**

The following summarizes the efforts of RIO agency staff to complete Phase 1 of the PAS project from January 2021 through the current date:

- Staff and Segal finished business interviews related to the Communication, Cyber Risk and Current Business Process Assessments.

- Staff and Segal completed workshops to discuss and agree upon a Future Business Process model on which to base RFP development.

- NDIT, RIO staff, and Segal meet weekly to discuss project status.

- The Communications Assessment was presented to the TFFR Board at its January 2021 meeting. The assessment provided a strong business case for the addition of a Public Information Officer (PIO) position for the agency. This position would be used to support strategic communication efforts for both the TFFR and SIB programs. The consultant issued a weighted average score of 39%, measuring our communication against the criteria proven to result in effective benefit communication. RIO requested a PIO position as a budget amendment; and this request was approved by the House Appropriations Government Operations subcommittee. Unfortunately, by a loss of one vote, the PIO position was removed from RIO's budget by the full House Appropriations Committee.

- The Cyber-Security and Business Model Assessments will be presented to the TFFR Board at the March Board meeting.

- Staff has reviewed all interim recommendations resulting from these assessments and is identifying a schedule and steps needed to take action on these items.

- RIO expects to sign off on all Phase 1 deliverables and begin Phase 2 of the PAS project (vendor RFP development) in March, 2021.

- Stage 2 has been initiated and multiple meetings between staff, Segal, IT, and procurement have and will continue to occur through issuance of the vender RFP.

- The project management team set a tentative goal of June 2021 to issue the vender RFP.

BOARD INFORMATION ONLY. No board action requested.

North Dakota Retirement and Investment Office

Internal Audit

State Investment Board Self-Evaluation Executive Review Summary

March 26, 2021

Background

The State Investment Board (SIB) requested Internal Audit of the Retirement and Investment Office (RIO) to assist the SIB Executive Review Committee on developing and administering a Board Self-Evaluation Survey (Survey). Internal Audit worked with the Executive Review Committee in developing, administering, and reporting the self-evaluation results.

Scope

The Survey is comprised of twenty-nine questions and consists of five categories for both the self-assessment and board assessment portions. The five categories in each section included: board and staff roles, board and committee structure, board meetings, policy making and reviews, and financial management and investment practices. There were two open ended questions at the end that asked for any other input for the Survey and any recommendations for topics to be included in future evaluations. The Survey was administered through SurveyMonkey and results were reviewed by the Executive Review Committee. A four-point scale was used, with 4 – strongly agree, 3 – agree, 2 – disagree, and 1 – strongly disagree as the rating system. Eleven out of twelve board members participated in the Survey.

Results Summary

Generally, the self-assessment portion of the Survey had positive results and comments. In the self-assessment section, board members found their participation on the board to be stimulating and rewarding. The majority of board members strongly agreed they abide by the Board Code of Conduct and avoid conflicts of interest. Overwhelming, board members strongly agree they understand their legal duties and responsibilities of being a fiduciary. Areas of improvement also have been identified. Board members stated that with the challenges of this past year, communication is more challenging with remote meetings, resulting in less active participation in discussions. One board member suggests that in-person meetings should start as soon as it is a viable option. The Executive Summary for board meetings is appreciated as there is a lot of information to review; however, having materials sooner would give board members more time to prepare.

The board-assessment portion of the Survey also had positive results and comments. From a board level, board members felt that board meetings were a good use of time and well-ran. The majority agreed the Board stays informed of economic trends and conditions that can affect investment performance. Multiple comments that Callan and staff do a great job on the communication and giving updates. There were several areas identified for improvement. First, that attendance continues to be an area that needs improvement as this was the lowest score in the entire assessment. Secondly, despite high scores for understanding the Board's authority and what is delegated to staff, comments suggest otherwise. There were several comments that Board may overstep into staff roles. The last area of improvement was that standing and ad hoc committees could effectively communicate to the full board and timely.

In comparing the self-evaluation results over the years, trends have emerged:

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

General overall comments were positive. The SIB operates effectively, and the staff does an outstanding job keeping Board members informed. There might be conflict, but common ground is found, and it does strengthen the board. One comment stated that the SIB has a clear and functional role; the members observe that with only occasional exceptions. We must continue to respect our roles as board members and avoid self-promoting activities.

Overall, the SIB Board Self-Evaluation was positive and continues to show areas the Board wishes to approve on.

2021 State Investment Board Self-Assessment

MARCH 26, 2021

Self-Assessment Results

Areas of Strength

- Participation positive and stimulating
- Understands Board Code of Conduct and conflicts of interest
- Executive summary beneficial

Areas of Improvement

- More interaction in board meetings
  - Virtual meetings are challenging
- Preparing for meeting can be challenging with volume of information

North Dakota State Investment Board

Board Assessment Results

Areas of Strength

- Meetings are well-run and good use of time
- Informed of economic trends and conditions
- Regularly reviews financial, investment, and portfolio

Areas of Improvement

- Meeting attendance
- All members should actively participate in discussions and hear all perspectives
- Understanding Board versus staff roles

North Dakota State Investment Board

General Comments

- SIB is effective and well informed
- Staff is very effective in communicating
- SIB is a strong Board with a commitment to governance and fiduciary duty
- Board members need to avoid self-promoting activities and respect the role as board members

North Dakota State Investment Board

Past 3-Years Trends

- Board attendance continues to have one of the lowest scores for multiple years
- An issue is understanding what authority has been retained by the Board and what has been delegated to staff
- That all Board members need to be vocal and make sure their voice is heard during meetings

North Dakota State Investment Board

North Dakota State Investment Board

QUESTIONS OR COMMENTS?

State Investment Board

2021 Board Self-Evaluation

Compilation of State Investment Board Self-Evaluation Results

GENERAL OVERVIEW
The Board Self-Evaluation consists of five categories, for both the self-assessment and board assessment portions. The five categories in each section which included: ☐ Board and Staff Roles ☐ Board and Committee Structure ☐ Board Meetings ☐ Policy Making and Reviews ☐ Financial Managment and Investment Practices *Any comments provided by respondents have been included as written in survey responses and have not been edited for spelling, grammar, etc.*

2021 State Investment Board Self-Evaluation
Self Assessment - Board and Staff Roles

1. I believe I have the skills and training necessary to fulfil my responsibilities as a SIB member.

Answer Choices	*# Responses*	*% Responses*	*2021 Average Response*	*2020 Average Response*
4 - Strongly Agree	8	72.73%	**3.73**	**3.50**
3 - Agree	3	27.27%		
2 - Disagree	0	0.00%		
1 - Strongly Disagree	0	0.00%		
	11	100.00%		

2. I understand the authority that has been retained by the SIB and what duties have been delegated to staff.

Answer Choices	*# Responses*	*% Responses*	*2021 Average Response*	*2020 Average Response*
4 - Strongly Agree	9	90.00%	**3.90**	**3.83**
3 - Agree	1	10.00%		
2 - Disagree	0	0.00%		
1 - Strongly Disagree	0	0.00%		
	10	100.00%		

3. I actively engage in Board meetings by contributing to the discussions in a meaningful way, listening to others (i.e., board members, staff, guests) and communicate my points concisely.

Answer Choices	*# Responses*	*% Responses*	*2021 Average Response*	*2020 Average Response*
4 - Strongly Agree	4	40.00%	**3.40**	**3.42**
3 - Agree	6	60.00%		
2 - Disagree	0	0.00%		
1 - Strongly Disagree	0	0.00%		
	10	100.00%		

4. I make an effort to be educated on the aspects of the investment program that I do not understand.

Answer Choices	*# Responses*	*% Responses*	*2021 Average Response*	*2020 Average Response*
4 - Strongly Agree	4	36.36%	**3.36**	**3.58**
3 - Agree	7	63.64%		
2 - Disagree	0	0.00%		
1 - Strongly Disagree	0	0.00%		
	11	100.00%		

2021 State Investment Board Self-Evaluation
Self Assessment - Board and Staff Roles

Comments for Self-Assessment - Board and Staff Meetings:

I have had ample educational opportunities to enable me to understand and participate in the duties of the board.

I think this past year has posed some unique challenges to the Board and staff. It is more challenging to communicate effectively utilizing remote meetings. While they provide a convenience to the Board I feel there has been some lost opportunities for communication and connection on significant issues. I would encourage the staff to begin utilizing in-person meetings as soon as it is a viable option.

2021 State Investment Board Self-Evaluation
Self Assessment - Board and Committee Structure

5. I understand board conduct, abide by it, and avoid conflicts of interest.

Answer Choices	*# Responses*	*% Responses*	*2021 Average Response*	*2020 Average Response*
4 - Strongly Agree	9	90.00%	**3.90**	**3.83**
3 - Agree	1	10.00%		
2 - Disagree	0	0.00%		
1 - Strongly Disagree	0	0.00%		
	10	100.00%		

6. I find my participation on the Board to be stimulating and rewarding.

Answer Choices	*# Responses*	*% Responses*	*2021 Average Response*	*2020 Average Response*
4 - Strongly Agree	8	80.00%	**3.80**	**3.75**
3 - Agree	2	20.00%		
2 - Disagree	0	0.00%		
1 - Strongly Disagree	0	0.00%		
	10	100.00%		

7. I am comfortable with the amount of time I devote as a Board member.

Answer Choices	*# Responses*	*% Responses*	*2021 Average Response*	*2020 Average Response*
4 - Strongly Agree	5	50.00%	**3.50**	**3.33**
3 - Agree	5	50.00%		
2 - Disagree	0	0.00%		
1 - Strongly Disagree	0	0.00%		
	10	100.00%		

8. If I am not able to attend the SIB meeting, I make appropriate notifications to staff and review the information presented at the meeting.

Answer Choices	*# Responses*	*% Responses*	*2021 Average Response*	*2020 Average Response*
4 - Strongly Agree	7	63.64%	**3.64**	**3.67**
3 - Agree	4	36.36%		
2 - Disagree	0	0.00%		
1 - Strongly Disagree	0	0.00%		
	11	100.00%		

2021 State Investment Board Self-Evaluation
Self Assessment - Board and Committee Structure

Comments for Self-Assessment - Board and Committee Structure:

I make every effort to be an informed participant. During this past year, I have not been as actively involved in the meetings, due to the necessity for virtual meetings.

I do believe it is important that the Board review regularly the code of conduct. I get concerned with the involvement of some of the Board members. There appears to be some Board members who are not as vocal and it is important that everyone feels as if they have a voice on the Board. This is not a reflection of the staff but more of the Board dynamics as certain Board members are more vocal than others.

2021 State Investment Board Self-Evaluation
Self-Assessment - Board Meeting

9. I am aware of an effective new member orientation program which outlined responsibilities and important organizational information.

Answer Choices	*# Responses*	*% Responses*	*2021 Average Response*	*2020 Average Response*
4 - Strongly Agree	6	54.55%	**3.55**	**3.25**
3 - Agree	5	45.45%		
2 - Disagree	0	0.00%		
1 - Strongly Disagree	0	0.00%		
	11	100.00%		

10. I am prepared for Board meetings, reading information in advance, so I can make informed decisions.

Answer Choices	*# Responses*	*% Responses*	*2021 Average Response*	*2020 Average Response*
4 - Strongly Agree	7	63.64%	**3.64**	**3.50**
3 - Agree	4	36.36%		
2 - Disagree	0	0.00%		
1 - Strongly Disagree	0	0.00%		
	11	100.00%		

Comments for Self Assessment - Board Meeting:

I feel largely prepared for the board meetings, but I do not always read all the detail made available to us. I am very appreciative of the summary we are given with our materials, the the explanations by our ED and the RIO staff and consultants are excellent.

It is challenging to prepare for the Board meetings if material is not provided several days in advance.

2021 State Investment Board Self-Evaluation
Self-Assessment - Policy Making and Reviews

11. I fully understand the policies of the SIB.

Answer Choices	*# Responses*	*% Responses*	*2021 Average Response*	*2020 Average Response*
4 - Strongly Agree	6	54.55%	**3.55**	**3.42**
3 - Agree	5	45.45%		
2 - Disagree	0	0.00%		
1 - Strongly Disagree	0	0.00%		
	11	100.00%		

12. I review board policies as necessary to fulfill my role as a board member.

Answer Choices	*# Responses*	*% Responses*	*2021 Average Response*	*2020 Average Response*
4 - Strongly Agree	6	54.55%	**3.55**	**3.50**
3 - Agree	5	45.45%		
2 - Disagree	0	0.00%		
1 - Strongly Disagree	0	0.00%		
	11	100.00%		

Comments for Self Assessment - Policy Making and Reviews:

2021 State Investment Board Self-Evaluation
Self-Assessment - Financial Management and Investment Practices

13. I understand the legal duties and responsibilities required of me as a fiduciary.

Answer Choices	*# Responses*	*% Responses*	*2021 Average Response*	*2020 Average Response*
4 - Strongly Agree	10	90.91%	**3.91**	**3.83**
3 - Agree	1	9.09%		
2 - Disagree	0	0.00%		
1 - Strongly Disagree	0	0.00%		
	11	100.00%		

14. I sufficiently understand all financial reports and seek clarification when necessary.

Answer Choices	*# Responses*	*% Responses*	*2021 Average Response*	*2020 Average Response*
4 - Strongly Agree	7	63.64%	**3.64**	**3.58**
3 - Agree	4	36.36%		
2 - Disagree	0	0.00%		
1 - Strongly Disagree	0	0.00%		
	11	100.00%		

15. I am familiar with the annual report by the independent auditors and understand any findings or recommendations.

Answer Choices	*# Responses*	*% Responses*	*2021 Average Response*	*2020 Average Response*
4 - Strongly Agree	10	90.91%	**3.91**	**3.67**
3 - Agree	1	9.09%		
2 - Disagree	0	0.00%		
1 - Strongly Disagree	0	0.00%		
	11	100.00%		

Comments for Self Assessment - Financial Management and Investment Practices:

Dave and staff do an excellent job of staying on top of the money managers and securing assistance from Callan and other.

Again, I feel that the information is concise and understandable. I have learned a great deal about the financial management.

2021 State Investment Board Self-Evaluation
Board Assessment - Board and Staff Roles

16. The Board members are consistently prepared for meetings and stays engaged.

Answer Choices	*# Responses*	*% Responses*	*2021 Average Response*	*2020 Average Response*
4 - Strongly Agree	3	27.27%	**3.27**	**3.00**
3 - Agree	8	72.73%		
2 - Disagree	0	0.00%		
1 - Strongly Disagree	0	0.00%		
	11	100.00%		

17. The Board has healthy discussions on a topic before making a well informed decision.

Answer Choices	*# Responses*	*% Responses*	*2021 Average Response*	*2020 Average Response*
4 - Strongly Agree	6	54.55%	**3.55**	**3.42**
3 - Agree	5	45.45%		
2 - Disagree	0	0.00%		
1 - Strongly Disagree	0	0.00%		
	11	100.00%		

18. The Board recognizes the authority it has retained and what has been delegated to staff.

Answer Choices	*# Responses*	*% Responses*	*2021 Average Response*	*2020 Average Response*
4 - Strongly Agree	8	72.73%	**3.73**	**3.42**
3 - Agree	3	27.27%		
2 - Disagree	0	0.00%		
1 - Strongly Disagree	0	0.00%		
	11	100.00%		

Comments for Board Assessment - Board and Staff Roles:

Occasionally we might veer into micromanaging matters that are better left to the ED and RIO staff.

I think the importance of understanding the Board policies and roles of Board vs. Staff will become increasingly important as the assets under the Board continue to increase.

I would like to see all board members fully engaged in discussion and sharing perspectives. I believe it makes us a much stronger board when all involved are active.

2021 State Investment Board Self-Evaluation
Board Assessment - Board and Committee Structure

19. All Board members regularly attend board meetings.

Answer Choices	*# Responses*	*% Responses*	*2021 Average Response*	*2020 Average Response*
4 - Strongly Agree	3	27.27%	**3.09**	**3.00**
3 - Agree	6	54.55%		
2 - Disagree	2	18.18%		
1 - Strongly Disagree	0	0.00%		
	11	100.00%		

20. Standing and ad hoc committees complete their tasks in an effective and timely way.

Answer Choices	*# Responses*	*% Responses*	*2021 Average Response*	*2020 Average Response*
4 - Strongly Agree	8	72.73%	**3.73**	**3.42**
3 - Agree	3	27.27%		
2 - Disagree	0	0.00%		
1 - Strongly Disagree	0	0.00%		
	11	100.00%		

21. Standing and ad hoc committees communicate to the full board in an effective and timely manner.

Answer Choices	*# Responses*	*% Responses*	*2021 Average Response*	*2020 Average Response*
4 - Strongly Agree	6	54.55%	**3.55**	**3.25**
3 - Agree	5	45.45%		
2 - Disagree	0	0.00%		
1 - Strongly Disagree	0	0.00%		
	11	100.00%		

Comments for Board Assessment - Board and Committee Structure:

Committees report consistently report to the board.

Last year there was some frustrations with the Executive Review Committee brining information to the Board at the Board meeting. This caused some frustrations that impacted conversations. I recognize all of the committees do their best to complete their task and provide information back to the Board; however, it is extremely important that the Board be provided with adequate time to review the Committee's reports.

2021 State Investment Board Self-Evaluation
Board Assessment - Board Meetings

22. Board meetings are generally well-run and make good use of members' time.

Answer Choices	*# Responses*	*% Responses*	*2021 Average Response*	*2020 Average Response*
4 - Strongly Agree	8	72.73%	**3.73**	**3.58**
3 - Agree	3	27.27%		
2 - Disagree	0	0.00%		
1 - Strongly Disagree	0	0.00%		
	11	100.00%		

23. Board meetings allow the right allocation of time between Board discussions and presentations.

Answer Choices	*# Responses*	*% Responses*	*2021 Average Response*	*2020 Average Response*
4 - Strongly Agree	8	72.73%	**3.73**	**3.58**
3 - Agree	3	27.27%		
2 - Disagree	0	0.00%		
1 - Strongly Disagree	0	0.00%		
	11	100.00%		

Comments for Board Assessment - Board Meetings:

Everyone has an opportunity to respond--Board President always ask for further comments

The Board seems to be having more discussions which is causing the meeting to run long or for some items to be pressed for time. The Staff may want to work with the Chair to determine what information can be reviewed by the Board and not discussed (unless there are questions by Board members) so that other agenda items are not rushed.

2021 State Investment Board Self-Evaluation
Board Assessment - Policy Making and Reviews

24. The Board reviews policies on a regular basis and updates them as needed.

Answer Choices	*# Responses*	*% Responses*	*2021 Average Response*	*2020 Average Response*
4 - Strongly Agree	5	45.45%	**3.45**	**3.58**
3 - Agree	6	54.55%		
2 - Disagree	0	0.00%		
1 - Strongly Disagree	0	0.00%		
	11	100.00%		

25. If a new policy is needed for the SIB, the policy is clearly presented to and discussed by the Board.

Answer Choices	*# Responses*	*% Responses*	*2021 Average Response*	*2020 Average Response*
4 - Strongly Agree	7	63.64%	**3.64**	**3.42**
3 - Agree	4	36.36%		
2 - Disagree	0	0.00%		
1 - Strongly Disagree	0	0.00%		
	11	100.00%		

Comments for Board Assessment - Policy Making and Reviews:

2021 State Investment Board Self-Evaluation
Board Assessment - Financial Management & Investment Practices

26. The Board regularly reviews financial, investment, and portfolio.

Answer Choices	*# Responses*	*% Responses*	*2021 Average Response*	*2020 Average Response*
4 - Strongly Agree	10	90.91%	**3.91**	**3.58**
3 - Agree	1	9.09%		
2 - Disagree	0	0.00%		
1 - Strongly Disagree	0	0.00%		
	11	100.00%		

27. The Board is regularly informed of economic trends or conditions that can effect investment performance.

Answer Choices	*# Responses*	*% Responses*	*2021 Average Response*	*2020 Average Response*
4 - Strongly Agree	8	72.73%	**3.73**	**3.67**
3 - Agree	3	27.27%		
2 - Disagree	0	0.00%		
1 - Strongly Disagree	0	0.00%		
	11	100.00%		

Comments for Board Assessment - Financial Management and Investment Practices:

Callan representatives provide great updates

I think understanding economic trends or conditions is very complex and synthesizing it to the Board is a challenging prospect. The Staff and Callan do an excellent job and bringing forward complex material.

2021 State Investment Board Self-Evaluation
Overall Assessment

28. Any final comments, observations, or suggestions for the board self-evaluation?
Would love to see some more economic forecasting and trend analysis of what it happening with other sovereign wealth funds or general market/rate information that would help us be able to make more proactively informed decisions.
I feel the Board and the staff are very effective in communicating with each other.
Thanks for putting this together.
No
The SIB is compromised of a mix of very capable, smart, members with considerable experience in their professions.
SIB is an effective, well informed b.oard that consistently makes well thought out decisions based on that information
Engagement on manger decisions.
The SIB has overall a clear and functional role, that is observed by the members with only occasional exceptions. It is important that we continue to respect our roles as board members and avoid self-promoting activities.
NO.
None
This is a very strong board with a commitment to governance, our fiduciary duty, and doing what is best for North Dakota. Like all effective boards, we are not always going to agree, but that conflict has the ability to build us up and strengthen our board collectively. While it is not always easy to do so after conflicts, this is done by a consistent recognition of the common ground and shared values held by all State Investment Board members.
29. Please let the Executive Review Committee know if there are any areas in the board self-evaluation that you would like to see addressed in the future?
None
none at this time
This survey is well designed document that addresses all the important areas.
None.
None.

Informational

TO: **State Investment Board**

FROM: **SIB Executive Review Committee (ERC) Chair Ms. Yvonne Smith**

DATE: March 19, 2021

SUBJECT: **Annual Compensation Survey**

The North Dakota Retirement and Investment Office (RIO) participates in an annual compensation survey conducted by a leading investment consulting firm along with 50 other U.S. public funds. RIO is able to obtain these survey results at no fee by signing a non-disclosure agreement in order to keep this information strictly confidential. Given these conditions, the ERC Chair will request the SIB to enter into Executive Session pursuant to NDCC 44-04-19.1 to discuss this confidential information.

Prior to entering into executive session, the ERC Chair notes the following items:

1) List of Survey Participants is shown on page 1;
2) 2020 Salary for Executive Directors with CIO Responsibilities is highlighted on page 2;
3) RIO Salary Variance to Mean is highlighted on page 5; and
4) 2020 Salary for Chief Investment Officers, segmented by Fund Assets, Location, Internal or External Management Style, and Bonus Practice, are highlighted on page 8.

The Annual Compensation Survey data is only being provided for informational purposes at this time as the ERC intends to make a compensation recommendation to the SIB on May 28, 2021.

Statement:

"This executive session will be recorded and all Board members are reminded that the discussion during the executive session must be limited to the announced purpose for entering into executive session, which is anticipated to last up to 15 minutes.

The Board is meeting in executive session to review an annual compensation survey of over 50 other U.S. public funds in order to gain an understanding of the pay levels of our U.S. public fund peers. This information is only being provided for reference purposes at this time.

Board members, their staff, the employees of RIO and counsel with the Attorney General staff may remain, but the public is asked to leave the room or virtual meeting.

This executive session will begin at: ______ AM, and will commence with a new audio recording device. When the executive session ends the Board will reconvene in open session."

POLICY OF THE STATE INVESTMENT BOARD – Executive Review Committee (SIB Governance Manual Section B.6.2)

The ERC is authorized to:

· Conduct a formal evaluation of the Executive Director annually;
· Obtain SIB approval of the annual performance evaluation of the Executive Director;
· Make a compensation recommendation to the SIB on or before June 30th of each year; and
· Administer a formal self-assessment of the SIB periodically (unless instructed otherwise).

The ERC and/or RIO will seek SIB approval prior to formally engaging any third party assistance in conducting the annual executive review process or board self-assessment.

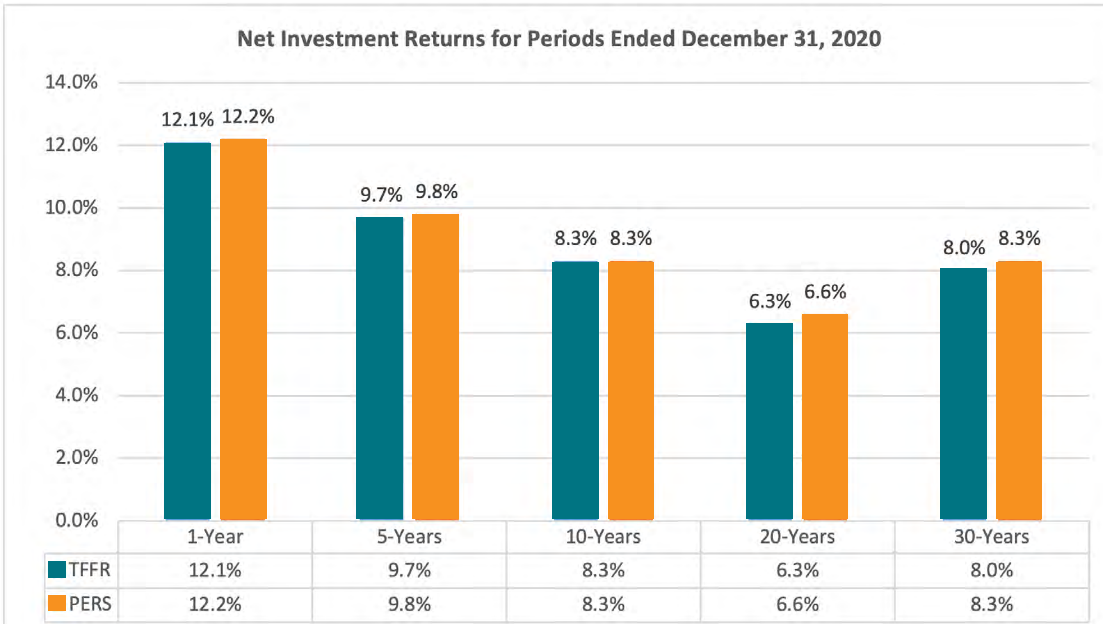
North Dakota State Investment Board

VESTED interest

From the Director's Chair

David Hunter
Executive Director/CIO

TFFR and PERS Returns Exceed 12% in 2020 and 9.7% over the last 5 years



	1-Year	5-Years	10-Years	20-Years	30-Years
TFFR	12.1%	9.7%	8.3%	6.3%	8.0%
PERS	12.2%	9.8%	8.3%	6.6%	8.3%

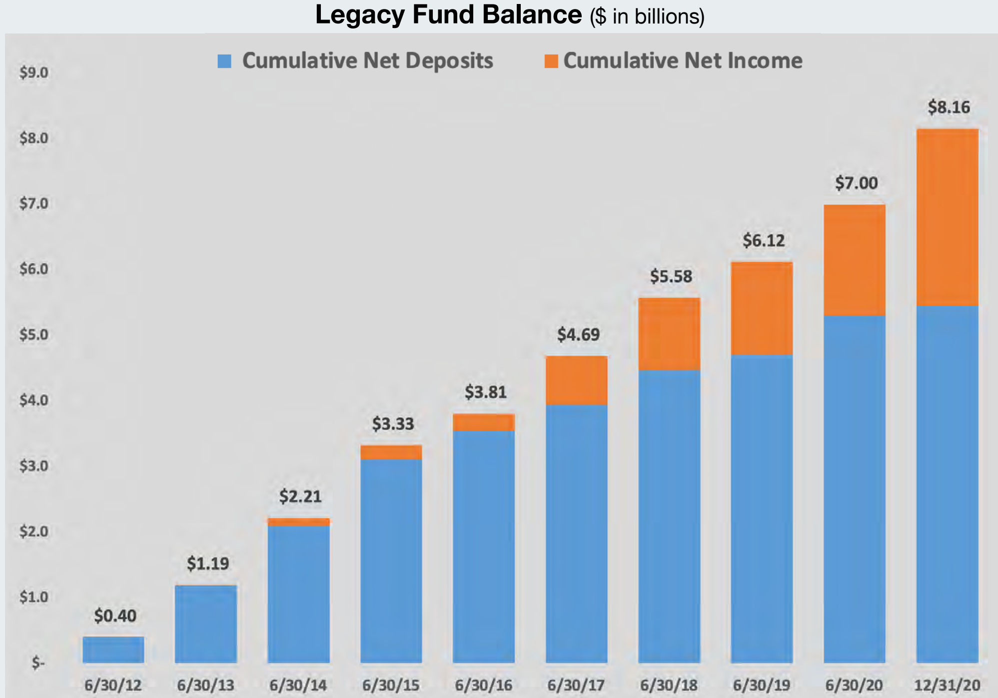
TFFR and PERS returns gained 15% in the second half of 2020 to drive net investment returns to exceed 12% in 2020 after experiencing a significant market decline earlier in the year due to the impact of COVID-19. TFFR and PERS returns exceeded 9.7% per annum in the last 5-years and 8% per annum for the 10 and 30-years ended December 31, 2020.

Legacy Fund Gains Over $1 billion in Last Half of 2020

The Legacy Fund balance exceeded $8 billion at year-end 2020 and has earned over $2.7 billion of net investment income since inception.

Legacy Fund net investment returns exceeded 14.3% in the last half of 2020 and 9.25% per annum for the 5-years ended 12/31/2020. Month-end valuations and investment results are reported on RIO's website.

Legacy Fund Balance ($ in billions)



State Investment Board Update

The SIB is responsible for administrative oversight of $18 billion of investments for 18 different client boards including TFFR, PERS, Workforce Safety & Insurance (WSI), and the Legacy and Budget Stabilization Advisory Board. SIB leadership and members include Lt. Governor Brent Sanford as Chair, Dr. Rob Lech as Vice Chair (TFFR), Chief Deputy Attorney General Troy Seibel as Parliamentarian (PERS), State Treasurer Thomas Beadle, WSI Director Bryan Klipfel, Insurance Commissioner Jon Godfread, Land Commissioner Jodi Smith, Yvonne Smith (PERS), Adam Miller (PERS), Toni Gumeringer (TFFR), Mel Olson (TFFR) and Legacy and Budget Stabilization Fund Advisory Board Chair Representative Keith Kempenich.

The SIB is required to apply the "prudent investor rule" in investing funds under its supervision. The "prudent investor rule" means that in making investments the fiduciaries shall exercise the judgment and care, under circumstances then prevailing, that an institutional investor of ordinary prudence, discretion, and intelligence exercises in the management of large investments entrusted to it, not in regard to speculation but in regard to the permanent disposition of funds, considering probable safety of capital as well as probable income (as defined by ND Century Code 21-10-07 Legal Investments). The SIB does not make individual investments in securities, as all client portfolios are externally managed by approved investment firms using SIB client board approved investment policies and asset allocations.

Annual Audit Completed

The 2020 financial statements of the North Dakota Retirement and Investment Office received an unqualified audit opinion from the independent audit firm of CliftonLarsonAllen, LLP. There were no exceptions, recommendations, or findings in the report. The final 2020 Annual Audit Report can be viewed from our website.

SIB Raises In-State Investment Targets up to 8% as Recommended by Legacy Fund Advisory Board

During the past 18 months, the SIB has doubled the size of the Legacy Fund In-State Investment Program by increasing its long-standing commitment to the Bank of North Dakota Match Loan Program - from a $200 million commitment in August 2019 to a $400 million commitment in November 2020. In 2021, the SIB seeks to further expand its commitment to the Legacy Fund In-State Investment Program by adding a new private capital allocation with a preference to target in-state investments in private equity and private credit. The SIB approved these Legacy and Budget Stabilization Fund Advisory Board recommendations in February and is working towards identifying a new In-State Investment Program management firm in the near future.

SIB Member Update

Former State Treasurer Kelly Schmidt retired in December 2020 after serving on the SIB for 16 years. We sincerely thank former Treasurer Schmidt for her outstanding service to the SIB. Newly elected State Treasurer Thomas Beadle has replaced Ms. Schmidt on the Board.

Former State Treasurer Kelly Schmidt

Elected State Treasurer Thomas Beadle

SIB Audit Committee

The Audit Committee is created to fulfill fiduciary oversight responsibility of the North Dakota Retirement and Investment Office (RIO) and to serve as a communication link among the State Investment Board (SIB), RIO's management and Internal Audit staff, independent auditors, and others.

The Audit Committee meets regularly to conduct essential business and contributes to the overall sense of fiscal security that RIO strives to maintain in its role as administrator of the SIB and Teachers' Fund for Retirement (TFFR) programs.

The SIB Audit Committee consists of five members – three from the SIB and two independent participants. Current members include

- Yvonne Smith, representing the Public Employees Retirement System and serves as Chair of the Audit Committee
- Jodi Smith, Land Commissioner
- Dr. Rob Lech, representing TFFR
- Julie Dahle, CIA, CCBIA, Senior Vice President and Chief Audit Officer for Choice Financial Group
- Jon Griffin, MBA, employed as VP of Risk Management at Capital Credit Union in Bismarck

Ms. Julie Dahle and Mr. Jon Griffin serve as expert, independent accounting and audit professionals on the SIB Audit Committee.

Anonymous Fraud Hotline – (866) 912-5978

2020 Annual Financial Report Available

The North Dakota Retirement and Investment Office Comprehensive Annual Financial Report (CAFR) has been published and may be viewed from our website. This report is a complete review of the financial, investment and actuarial conditions of the Teachers' Fund for Retirement and State Investment Board.

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BOARD LEADERSHIP

INNOVATIVE APPROACHES TO GOVERNANCE

NUMBER 173, JAN.–FEB. 2021

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The Good, Bad, and Ugly of Succession Planning: A Comparative Perspective

By Karl Besel, Ph.D., Arturo Flores, Ph.D., and Chae Young Chang, Ph.D.

Karl Besel, Ph.D., is professor of public administration and health management at the School of Public and Environmental Affairs, Indiana University Northwest in Gary. Arturo Flores, Ph.D., is a lecturer and researcher at Universidad Anáhuac, Naucalpan de Juárez, Mexico. Chae Young Chang, Ph.D., is assistant professor at the School of Public and Environmental Affairs at Indiana University Northwest.

In this article, the authors provide a summary of succession planning strategies (or a lack thereof) that are being implemented by nonprofits in the United States, Europe, and Latin America and discuss how nonprofit organizations, nationally and internationally, can begin to develop cultures of intentional succession planning.

Succession planning may be a part of the nonprofit management lexicon (at least in some countries) but that doesn't necessarily mean that boards are actively involved in facilitating leadership transfer at the CEO level in an intentional, thoughtful manner. Sarbanes-Oxley may be the law of the land as mentioned in a recent article in *Board Leadership*,[1] but comprehensive studies of succession planning show that the "rose glasses approach" that Froelich, McKee, and Rathge found in their comprehensive analysis of approximately 200 US nonprofits that most boards follow, still holds true today.[2]

ALSO IN THIS ISSUE

Time to Retire the CEO-Board Chair Role? 4

News 5

How to Use Social Media & Virtual Meetings to Improve Your Board's Governance 6

The Boardsource survey of 214 nonprofit organizations found that only 27% of nonprofit organizations had a written executive succession plan.[3] Both studies indicate that the rose glasses approach probably stems from the paradox of a long-serving leader imparting a mindset of stability. The current study expands this dialogue outside the United States, particularly in the health and human services sector. From our in-depth ethnographic interviews with approximately 20 nonprofit executives from the United States and about 20 executives/administrators from Germany, Mexico, Colombia, and Cuba from 2013–2019, we found that most nonprofit boards have not implemented intentional succession planning approaches.

In the following section, we detail the major themes gleaned from the interviews, along with a discussion of how these areas aligned with government publications and research articles

(continued on page 2)

CALENDAR OF EVENTS

March 23-25

2021 Nonprofit Technology Conference

Virtual Course

The 2021 Nonprofit Technology Conference, produced by NTEN: The Nonprofit Technology Network, will be held virtually March 23-25.

According to organizers, this event typically draws some 2,000 attendees from across the philanthropic sector, including IT staff, executive directors, development officers and nonprofit boards, that use technology to serve their communities and make positive change.

With over 100 live, interactive sessions, thought-provoking and inspiring keynote speakers, and opportunities to connect with the community and sponsors, the 2021 Nonprofit Technology Conference is designed to help attendees reinvigorate their work and bring that renewed passion back to their community.

This year's conference will include:

- Over 100 live, interactive sessions featuring practical and tactical strategies to address today's challenges.
- A participatory online experience where you can connect with others, engage with session presenters, and attend networking and community events.

(continued on page 8)

Planning

(continued from front page)

on nonprofit succession planning within Germany, Mexico, Colombia, and Cuba. It is significant to note that although most of the interviews in Mexico, Colombia, and Cuba took place in Mexico City, Cartagena, and Havana, respectively; many of our findings can be applied to nonprofits operating throughout these countries.

Obstacles to Succession Planning Strategies in Germany

One of the more compelling findings of our analysis of the German nonprofit sector was that the executives interviewed did not consider executive succession planning to have the same degree of importance as their American counterparts. The idea of actively discussing the inevitable departure of an organizational leader was considered to be "not polite" by the interviewees. The views of the executives interviewed on this subject were captured by the following statement provided by health care consultant and former health care administrator Jan Hacker.

> "To tell you the truth, I don't see anything like this (executive succession planning) in Germany. I know quite a significant number of public and nonprofit hospital administrators and hospital owners. It's like succession planning is considered something like dying to them. Everybody knows it's going to happen sometime, but you don't talk about it. And to address this with an existing CEO is considered to be bad manners if it happens earlier than 12 months before his retirement. I know a very successful CEO of a public hospital who is kind of married to his hospital and just turned 70 with no intention of leaving. Although he's 70, the board has yet to have a discussion about his succession. In order to implement succession planning, there would have to be a cultural change with this issue."[4]

It's important to clarify that though there seemed to be a cultural taboo with regard to executive succession planning, leadership training opportunities were discussed extensively by the interviewees. Executives such as Rüter stated that "we spend a lot of money and quite a lot of time training all of our so-called middle management team" so they can be potentially promoted as upper-level administrators when executives retire or leave.[5] These regular training sessions included current managers and clinical staff members, such as experienced doctors and nurses who demonstrated leadership potential. Essentially, succession planning was viewed in a broader sense as "leadership training" because an intentional focus on finding a replacement for an executive position was deemed impolite at best.[6]

Obstacles to Succession Planning Strategies in Mexico, Colombia, and Cuba

In general, the interviews revealed that more similarities existed than differences with these countries concerning why a vast majority of nonprofit organizations have not developed cultures of intentional succession planning. That being said, fiscal sustainability issues are more pervasive in Mexico City than in Cartagena, and dilemmas resulting from an underdeveloped sector are more pronounced in Cartagena. For these reasons, our discussion of the main findings for these first two obstacles focused mainly on individual cities.

The executive directors of both the Mexican Cancer Association and Cystic Fibrosis Association (Mayra Galindo and Guadalupe Campoy, respectively) both stated that "too much bureaucracy" and "overly restrictive rules" associated with receiving governmental funding severely impacted their abilities to engage in long-term strategies for fiscal sustainability. Subsequently, Campoy quipped that "the government requires that we spend no more than 7% of our operating budget on administrative costs — no one can do that!" These historically rigid (and arguably unrealistic) funding practices imposed on NGOs by the government have intensified under the current Mexican president, who recently enacted funding cutbacks for all nonprofits. These austerity measures are harshly impacting organizations such as the Mexican Cancer Association, whose "funding was cut by 50%, and now we will have to move since we can't pay our rent here."[7]

These examples of governmental structures and practices that negatively impact nonprofits' sustainability in Mexico City are supported by other studies and reports about the Mexican nonprofit sector. Earlier, Chávez and González[8] and the National Philanthropy and Civil Society Survey carried out by the Instituto Tecnólogico Autónomo de México[9] showed that NGOs continue to face a fiscal framework that limits their sustainability, their professionalization, and in general, the realization of their activities. Although in some states like Mexico City, programs have been implemented that give them tax incentives, because of a lack of confidence in NGOs, regulations still represent limitations for the sector.[8] According to the 2013 National Philanthropy and Civil Society Survey, 43% of Mexicans distrusted organizations that ask for donations: 82% of those who carry out voluntary or philanthropic actions preferred to contribute directly to those in need.[9]

An excessive regulatory burden is placed on organizations. For example, detailed reports of activities are required by a general office established to deal with NGOs issues, as well as taxes by the Tax Administration System (SAT) and state agencies from which it receives contracts. In summary, the obligations to which NGOs are subject are entirely disproportionate to the benefits they receive from the state.[10]

Chávez and González[8] affirm that of the 35 countries that were part of the study of the Johns Hopkins Comparative Nonprofit Sector Project, Mexico philanthropy and the public sector contribute to the income of the third

Table 1. Nonprofit Revenue Sources in Latin America

Country	Philanthropy Income (%)	Public Funding (%)	Self-Generated Resources (%)
Spain	19	32	49
Colombia	15	15	70
United States	13	31	56
Peru	12	18	70
Brasil	11	15	74
Argentina	8	19	73
Mexico	6	8	86

Adapted from Johns Hopkins Comparative Nonprofit Sector Project, 2018.[11]

sector with the lowest percentage of the entire sample, as shown in Table 1.

Although Mexican nonprofits (Table 1) fared worse than all other countries surveyed in this study regarding funds received from both philanthropic and governmental sources, Colombian NGOs were second only to Spain in income received from philanthropic entities. Thus, it appears that Colombian nonprofits are better positioned for organizational sustainability than their Mexican counterparts because a primary condition for long-term fiscal sustainability is the ability to secure and manage diverse streams of revenue.[12,13] Nonetheless, Colombian nonprofits exhibited one of the lowest percentages of income from public sources (15%) in this survey. Considering the relative lack of funding support received from governmental sources, it is no surprise that all of the interviewees in this study were concerned that fiscal sustainability issues significantly impacted their ability to recruit employees and to provide leadership training, as well as to facilitate board development activities: all essential components of a culture of intentional succession planning.[14]

Sanabria in his study on public service motivation in Colombia, discussed how an "underdeveloped civil service sector," in terms of the accepted and uniform standards of professional conduct, often impacts how public sector employees are socialized in the workforce.[15] In Colombia's case, it appears that this concept could easily be applied to the nonprofit and philanthropic sectors. A consistent theme of all of the interviews held with nonprofit administrators in Cartagena was a lack of transparency and uniformity concerning funding decisions, managerial structures, and compensation. Subsequently, a number of recent scandals have occurred throughout Colombia, where NGOs were "used as a front" by for-profit businesses "for laundering money and other nefarious activities."[16] Javier Anaya Lorduy, a certified public accountant, attorney, and treasurer of the World Baseball and Softball Federation, made the following statement, which captured a view shared by the other administrators interviewed in Cartagena.

> "We need to break the old frames that are based on greed and corruption and build new ones based on trust, transparency, and accountability. Salaries for all nonprofit administrators and staff members will need to become more competitive in order to protect against many of the current abuses."[17]

The dearth of professional development opportunities for nonprofit administrators in many ways runs in tándem with the underdevelopment of this sector. Maria Claudia Pena, Director of Cartagena Como Vamos (2019) stated,

> "People in the business community have training and workshops frequently related to entrepreneurship and other topics for business executives. We don't have that in the nonprofit sector. It seems like we don't care enough about people in our field."[18]

The Cuban health care system has been one of the crown jewels of this island nation since the Revolution. Cuba's relatively low infant mortality and high life expectancy rates, as well as other positive health outcomes, run in tandem with a reputable higher educational system and formidable community-based training programs for physicians. In addition to elevating the quality of life for Cubans, the highly respected medical system has been employed as a means of exercising "soft power" around the globe since the 1960s.

Although remaining highly respected, Cuban physicians and their nonprofit counterparts are not provided with the same monetary incentives as other Cubans with considerably less education. The lack of financial incentives for health care professionals, coupled with a myriad of other resource deficiencies, has resulted in a medical system with sustainability problems. This finding is aligned with Sixto's analysis that low salaries and lack of incentives have led to lower enrollments in Cuban medical schools.[19] Though higher education institutions such as the University of Havana provide graduate degrees in areas such as social development, aspiring nonprofit professionals such as historian Javier Busquets reported that they were not able to find any employment opportunities in the nonprofit field.[20] Essentially, Cuba has failed to create intentional succession planning strategies for their health care executives, as well as NGO managers in general, because of the highly centralized system that does not foster employment opportunities in this sector.[21] These conditions have been exacerbated by the Cuban government's loosening of some restrictions in the tourism sector, which has created an economic system where taxi cab drivers can potentially earn more (and often do) than medical doctors.

Planning for the Next Generation of Leaders

The discussion above delineates the numerous obstacles being faced by nonprofits within Germany, Mexico, Colombia, and Cuba with regard to fostering cultures of intentional succession planning. Information gleaned from our interviews with executives

(continued on page 7)

Time to Retire the CEO-Board Chair Role?

by Dr. Joseph C. Santora

Dr. Joseph C. Santora is the founder of TST, Inc., a management consulting company, editor of the International Leadership Journal *(internationalleadershipjournal.com), and an executive educator. In this article, he examines the argument for eliminating the dual role of board chair/CEO.*

The CEO-board chair role has provoked highly contentious debate among many corporate board observers. Board activists, board members, and other corporate stakeholders, as well as academics and practitioners are among the cast of corporate actors who have vigorously and actively participated in this exchange over the years. At the center of this issue is the following question: Should a corporate CEO also hold the board chair position? Or rather, should the CEO-board chair position be split into two separate positions held by two different people: a CEO and a board chair?

The origins of these two corporate governance positions stem from the early 20th century. Their established historical and philosophical management roots have unquestionably created some very compelling perspectives on both sides of the debate. For example, advocates of appointing a single person for the CEO and board chair position contend that this structure allows for tighter control through what French engineer and management author Henri Fayol calls "unity of command," one of the 14 principles of management in his general theory of management. Moreover, this arrangement can avoid a possible battle royale on important corporate issues. An example of a combined corporate leadership governance structure can be seen in banking giant JPMorgan, headquartered in New York City, where Jamie Dimon has held the consolidated position of CEO-board chair at the bank for more than 13 years. Adopting a similar corporate governance structure, oil giant ExxonMobil, headquartered in Irving, Texas, is headed by Darren Woods, who has held the CEO-board position since 2017. It is remarkable that in today's environment of corporate activism—and amid other stakeholder attempts to change the single CEO-board chair position—in May 2020, ExxonMobil shareholders voted to retain the unified CEO-board corporate governance structure with Woods securely in that position.

The other side of the argument has equally vociferous supporters (including corporate activists) calling for corporations to split the single CEO-board chair position. To bolster their position, these advocates maintain that the duties and responsibilities of a CEO are to manage and lead the corporation by implementing board policies, not by setting corporate policy. The latter responsibility is strictly the domain of the board of directors, led by the board chair, who evaluates the effectiveness of the CEO. Thus, the argument for separating the CEO and board chair positions evokes U.S. President Thomas Jefferson's 1802 letter to the Danbury Baptist Association (CT) on the separation of church and state.

Additional rationale for avoiding a centralized governance structure at the top includes an excessive amount of power, overwhelming organizational control, potential conflict of interest, unidimensional decision-making authority, and management missteps. An independent board creates better managerial oversight through a unique system of checks and balances that serves the best interests of all stakeholders. For example, as a result of the 737 MAX disaster, Boeing, the aircraft and aerospace manufacturing giant, split CEO-board chair Dennis Muilenberg's position when it appointed David Calhoun board chair in October 2019.

Recently, the gray literature has featured some interesting trends in splitting the CEO-board chair position. Spenser Stuart, a leading global executive search consulting firm, reported in its 2019 CEO Transitions White Paper that in 2019 only 9% of newly appointed CEOs in the S&P 500 were also appointed board chair—versus 15% of newly appointed CEOs in 2018. Although a year-over-year analysis may be inadequate for establishing any long-lasting trends, it will be interesting moving forward to see the direction corporations may be heading.

One way of assessing the effectiveness of splitting the CEO-board chair position is through company performance metrics. Does splitting the CEO-board chair role help or hinder company performance? Unfortunately, the jury is still out. The extant research has not served this line of inquiry well. Indeed, the research is often inconclusive or leans positively or negatively in one direction about the performance impact and added value of a single or split CEO-board chair position.

Perhaps the real question should not be about whether a corporation should split the CEO-board chair, but rather about the best mechanism for doing it. Should changing the corporate leadership governance structure follow a revolutionary or evolutionary approach? If on the one hand, we endorse a corporate activist's strategy and call for the immediate separation of the unified CEO-board position, we may encounter a chaotic situation at the board level. On the other hand, we may adopt a less radical, more reasonable evolutionary approach; for example, waiting until the incumbent CEO-board-chair announces her retirement may be a more palatable approach for all stakeholders. We are witnessing this trend in firms such as Capgemini and AT&T. With the recent appointment of Aiman Ezzat as CEO in May 2020, Capgemini, the global consulting firm, split the single CEO-board chair role, with Paul Hermelin, who previously held the dual position, retaining his position as board chair. With the retirement of CEO-board chair Randall Stephenson on June 30, 2020, communications giant AT&T split the CEO-board chair position, appointing company insider and former president and COO John Stankey as CEO on July 1, 2020 and Edgar Whitacre as board chair.

Regardless of the approach, revolutionary or evolutionary, it is time to split the CEO-board chair for the sake of good governance. Clearly, a system of checks and balances overrides the unity of command and single-pointed accountability perspective and can help avoid possible misconduct in the C-suite. It makes sense for all corporate stakeholders. ❑

Dr. Joseph C. Santora is a distinguished professor of management and director of the Executive Doctorate of Business Administration (EDBA) degree, Ponts Business School, Paris, France; and adjunct visiting faculty at the American University of Dubai. He has published extensively on leadership and corporate governance issues; and has served on five nonprofit boards.

N E W S

Webinar explores inclusive fundraising during crisis

Candid will host a webinar titled Launching Inclusive Online Fundraising Campaigns During a Crisis Feb. 25 at 2:00 PM ET.

Attendees will learn how even small fundraising teams can raise money online from both grassroots and major donors and bring supporters. They will also learn how to create an inclusive and empathetic online fundraising campaign and how their boards can contribute to its success.

Registration fees for this event are $25.

For more information, visit https://bit.ly/3meTMdT.

New board appointments at Bush Foundation for Family Literacy, California Wellness Foundation and others

Several leading foundations and nonprofit organizations have made changes to their boards of directors in recent weeks, aiming to bring on board fresh perspectives to help guide their decision-making going forward.

Here are some examples:

- The Barbara Bush Foundation for Family Literacy has announced several appointments to its board of directors, including:
  - LaMar Bunts, CEO and co-founder of the Beanstalk Initiative.
  - Lynn Hirshfield, senior vice president of strategic alliances at Participant Media.
  - Rachel Mushawar, vice president of Intel.
  - Christine Pina, chief advancement officer for Miss Porter's School.
  - David Risher, CEO and co-founder of Worldreader.
  - Denine Torr, executive director of the Dollar General Literacy Foundation.
- The California Wellness Foundation has appointed the following new board members:
  - Irma Cota, former CEO of the North County Health Project.
  - Virginia Hedrick, executive director of the California Consortium for Urban Indian Health.
  - Katherine Katcher, founder and executive director of Root & Rebound.
- The Colorado Trust has announced the appointment of the following to its board of trustees:
  - Christine Marquez-Hudson, executive director of the MSU Denver Foundation at Metropolitan State University of Denver.
  - Brandy Reitter, town manager of Eagle, Colo.
- The Howard Hughes Medical Institute announced the election of David Julius, PhD, to its board of trustees. Julius is a professor at the University of California, San Francisco. ❑

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 Use Social Media & Virtual Meetings to Improve Your Board's Governance

by Kristin Dyak

Kristin Dyak is digital marketing director at The Cyphers Agency, an integrated marketing and PR firm based outside of Washington, D.C. In this article, she discusses how board members can leverage social media and other digital tools to enhance governance.

Social media can serve as an incredibly powerful tool for organizations and individual board members to raise awareness of their existence, their missions, and their messages.

However, when utilized effectively it can also greatly improve board governance—not only by making your requisite monthly meetings easier and smoother to run but also, perhaps, by making these sometimes mundane tasks more engaging as well.

As a current member of two boards, those of the Chesapeake Chapter of the Public Relations Society of America (PRSA) and Broadway Crew, a promotional staffing resource for Broadway-related brands and events, I've seen these improvements happen firsthand by helping introduce and implement just a few easy-to-adopt actions.

With that in mind, here are my top recommendations.

How Boards Can Utilize Social Media for Better Governance

As any board member knows, it can be—or more accurately, always is!—a challenge to find meeting times that suit everyone's schedule and actually get your board members to attend them. For larger boards in particular, social media can be a useful way to promote meetings to boost attendance. Boards that prefer public awareness can publicize the specified date, time, and place across the various social media platforms to ensure a wide and relative audience. And if you would prefer to keep things more private, the use of direct messaging, LinkedIn InMails, Facebook, and LinkedIn groups are optimal for sharing information about the meeting, such as links and agendas, via a more limited means.

It's also worth considering creating a private Facebook or LinkedIn group for board members to create a more casual space for continued discussion and community. Private groups provide a place for board members to correspond and engage beyond the formality of email. Group leaders and members can share information about the board, whether asking for feedback or asking members to share the information with their larger networks. It also gives the members the opportunity to discuss an issue, agenda item, policy change, etc., in a private forum before releasing information to a public audience. Fun, lighthearted content is also welcomed in Facebook groups, such as sharing pictures of your holiday decorations or pets. Bringing a human quality to the conversations among your board members and allowing them to get to know each other can lead to greater collaboration on initiatives and decisions.

The content you choose to post on the organization's social media channels is important for a few reasons. First, it showcases the identity of the organization in general, plus its members and leaders. Second, it can create a place for conversation within the comments and enhance your digital community. And third, it allows the leaders (board members) to champion the organization's mission by engaging in the content and projecting the overall reach. Encourage your board members to increase their year-round participation and engagement by promoting initiatives, events, and announcements on social media. Whether it's sharing the content posted on the organization's page or posting content on their own pages, the extended reach will help spread the word along with reinforcing your support.

How Boards Can Utilize Virtual Meetings for Better Governance

Virtual meeting platforms are well equipped with share capabilities. Providing resources such as documents, hyperlinks, and jpeg images through the chat function during the meeting will help streamline your meetings by allowing you to pass these assets around in real-time instead of relying on members to search through their inboxes and desktops. Another helpful feature is screen-sharing, which allows the group to view a presentation, video, or document simultaneously, thereby ensuring that you're all on the same page and, as an added bonus, better holding everyone's attention.

When scheduling, it's important to make sure the meeting is organized for optimal communication among the group. Including Q&A portions throughout is a great way to allow and encourage everyone to engage in the conversation without trying to get your attention by interrupting. Social cues are a greater challenge during a virtual meeting than in-person, so take your time and give a moment to the group. It can be time-consuming and a bit of chaos to ask everyone to chime in aloud. Again, turning to the chat function for the group to submit their questions and/or answers is a streamlined way to participate without being disruptive. And if your board needs to time meet in smaller groups or committees, consider using the breakout room function available in a number of virtual meeting platforms, such as Zoom, to meet separately and then rejoin the larger group.

Keeping the group engaged can be one of the largest challenges when it comes to virtual meetings. The attendees are combating distractions on their computers and devices in addition to those in their surroundings, such as kids or street traffic. One way to keep everyone focused is to help encourage more engagement opportunities during the meeting. This can be done by using polling and hand-raising functions. Again, it's important to not disturb the flow of the meeting or distract the leaders with unnecessary interruptions, but the built-in tools that the platforms have enhanced for greater usage can ensure that everyone is engaged and heard.

As social media continues to evolve, it's essential for boards of all shapes and sizes—and all board members—to continuously consider how they can take advantage of it. Using it to improve attendance and communication, both during and outside of the meetings themselves, is a way to do so and, in my experience, well worth the effort. ❑

Planning

(continued from page3)

also indicates that many young, ambitious professionals in all of these countries are interested in leadership opportunities in the field. A number of the interviewees were millennials who "found the horizontal, decentralized leadership structures in many nonprofits to be very appealing" because "it's easier to be creative and innovative in this type of workplace."[22]

A large leadership conference was being held in Cartagena during one of our data collection trips, which featured predominately female executives from local nonprofits, including many of the individuals interviewed for this study. The current attorney general for Colombia was also one of the presenters, which added to the crowd size and publicity generated by this conference. This participation by one of the highest-ranking public officials in the country may be a sign of a greater emphasis being placed on the sector by stakeholders within both the public and for-profit sectors. These observations about the nonprofit sector's appeal with young professionals are also supported by Sanabria's 2016 survey of public sector motivation for recent college graduates in Colombia.[15]

The administrators interviewed for this study would be pleased to hear of the attractiveness of the nonprofit field to young professionals with advanced degrees because there was consensus on the need for "individuals with a wide range of business skills" to assume leadership positions, including "proposal development, marketing, human resource management, and an ability to promote the agency's programs through social media."[23] Subsequently, the interviewees from all of our research sites believed that a "strong values set" was of equal importance to the possession of a variety of business skills. These values included integrity, honesty, and social justice.

A step in the right direction related to succession planning appeared to be the intentional consideration of diversity and inclusivity with many nonprofits in all of these countries. The administrators interviewed provided numerous examples about how gender, ethnic background, and potential leaders' ability to represent inhabitants in the local community were factors discussed by boards of directors in hiring organizational leaders. Although improvements are still needed about transparency in hiring processes, especially within Mexico and Colombia, most interviewees believed that nonprofit boards enacted hiring plans that considered both diversity and inclusivity at the executive level.

Conclusion

The award-winning 2004 documentary "Fog of War" consists of former Secretary of Defense Robert MacNamara's reflections on prominent executive leadership positions he held in both the private and public sectors. One of the 11 life lessons MacNamara postulated in this film was the need to "get the data." In the case of succession planning, the data show that nonprofits operating in the United States have quite a bit in common with those operating in Germany and other countries in Latin America with regard to succession planning. Though policies, such as Sarbanes-Oxley or similar international counterparts, are in place within some of the countries we studied, but obstacles ranging from cultural norms/taboos to fiscal sustainability problems continue to act as impediments to developing intentional succession planning strategies. Board members need to be deliberate and systematic in addressing these issues in ways that build upon the strengths found within the nonprofit sectors within each of the countries discussed in this article.

These assets include a generation of aspiring nonprofit leaders that embrace a value-driven leadership approach that emphasizes diversity and inclusivity in hiring strategies. Besides the millennial generation leaders interviewed as a part of these collective studies reported in considerable detail about plans they were implementing in tandem with board members to increase accountability and transparency related to organizational finances, board member recruitment, and hiring executives. A key ingredient that needs to be embedded in these strategic planning strategies is succession planning.

As with all aspects of successful strategic planning, facilitating the successful transition of leadership at the executive level needs to become an integral part of organizational processes and reviewed by both professional and voluntary leaders on an ongoing basis.

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Acknowledgements

The authors want to extend their appreciation and thanks to all nonprofit executives and administrators who graciously agreed to participate in this study. They provided us with compelling and thoughtful information with regard to succession planning and issues surrounding this subject matter. We would also like to thank Professor Pico (Indiana University Kokomo) and Dr. Flores who coordinated and organized all of the research interviews in Cartagena and Mexico City, respectively. Arturo Arias, Dr. Flores' research assistant, played an instrumental role in gathering and compiling data for this article. Funding for travel costs for this study was provided by an International Programs and Activities grant (Indiana University Bloomington) and a Grants in Aid from Indiana University Northwest. ❑

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Postmaster: Send all address changes to *BOARD LEADERSHIP*, Wiley Periodicals LLC, c/o The Sheridan Press, PO Box 465, Hanover, PA 17331 USA.

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Printed in the USA by The Sheridan Press.

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