

**NORTH DAKOTA STATE INVESTMENT BOARD  
MINUTES OF THE  
AUGUST 24, 2018, BOARD MEETING**

**MEMBERS PRESENT:** Brent Sanford, Lt. Governor, Chair  
Rob Lech, TFFR Board, Vice Chair  
Toni Gumeringer, TFFR Board  
Adam Miller, PERS Board (TLCF)  
Mel Olson, TFFR Board  
Kelly Schmidt, State Treasurer  
Jodi Smith, Commissioner of Trust Lands  
Yvonne Smith, PERS Board  
Cindy Ternes, WSI Designee

**MEMBERS ABSENT:** Jon Godfread, Insurance Commissioner  
Troy Seibel, PERS Board, Parliamentarian

**STAFF PRESENT:** Eric Chin, Senior Investment Officer  
Connie Flanagan, Fiscal & Invt Ops Mgr(TLCF)  
David Hunter, ED/CIO  
Fay Kopp, Dep ED/CRA  
Missy Kopp, Retirement Asst  
Sara Sauter, Audit Svs Suprv  
Cody Schmidt, Compliance Officer  
Darren Schulz, Dep CIO

**OTHERS PRESENT:** Alex Browning, Callan LLC  
Paul Erlendson, Callan LLC  
Scott Miller, PERS  
Anders Odegaard, Attorney General's Office

**CALL TO ORDER:**

Lt. Governor Sanford, Chair, called the State Investment Board (SIB) regular meeting to order at 8:33 a.m. on Friday, August 24, 2018, in the Peace Garden Room, at the State Capitol, Bismarck, ND.

**AGENDA:**

**IT WAS MOVED BY TREASURER SCHMIDT AND SECONDED BY MR. LECH AND CARRIED BY A VOICE VOTE TO ACCEPT THE AGENDA FOR THE AUGUST 24, 2018, MEETING.**

**AYES: MS. TERNES, MR. OLSON, TREASURER SCHMIDT, COMMISSIONER SMITH, MR. LECH, MS. SMITH, MRS. GUMERINGER, AND LT. GOVERNOR SANFORD**

**NAYS: NONE**

**MOTION CARRIED**

**ABSENT: COMMISSIONER GODFREAD, MR. MILLER, MR. SEIBEL**

**MINUTES:**

**IT WAS MOVED BY MS. TERNES AND SECONDED BY MR. OLSON AND CARRIED BY A VOICE VOTE TO ACCEPT THE MINUTES OF THE JULY 27, 2018, MEETING AS DISTRIBUTED.**

**AYES: MS. TERNES, MR. OLSON, TREASURER SCHMIDT, MRS. GUMERINGER, MS. SMITH, COMMISSIONER SMITH, MR. LECH, AND LT. GOVERNOR SANFORD**

**NAYS: NONE**

**MOTION CARRIED**

**ABSENT: COMMISSIONER GODFREAD, MR. MILLER, MR. SEIBEL**

**INVESTMENTS:**

Asset and Performance - Mr. Hunter reviewed SIB clients' assets currently under management for the quarter ending June 30, 2018.

SIB client investments exceeded \$13.7 billion with the Pension Trust exceeding \$5.7 billion, Insurance Trust exceeding \$2.1 billion and the Legacy Fund approaching \$5.6 billion.

The Pension Trust posted a net return of 9.1% in the last year. During the last 5-years, the Pension Trust generated a net annualized return of 8.3%, exceeding the performance benchmark of 7.5%. The Insurance Trust generated a net return of 5.2% in the last year. During the last 5-years, the Insurance Trust posted a net annualized return of 5.3%, exceeding the performance benchmark of 4.0%. The Legacy Fund generated a net return of 7.6% last year, exceeding its policy benchmark. During the last 5-years, the Legacy Fund earned a net annualized return of 6.1%, exceeding the performance benchmark of 5.1%.

RIO conservatively estimates the SIB use of active management enhanced client returns by over \$300 million since June 30, 2013.

Every Pension Trust client posted positive excess returns of at least 0.70% per annum over the last 5-years, while adhering to approved risk levels and generating 0.25% of aggregate positive Risk Adjusted Excess Return.

Every Non-Pension trust client generated positive excess returns of at least 0.65% per annum and positive risk adjusted excess returns for the 5-years ended June 30, 2018, with two exceptions for PERS Retiree Health Insurance Credit Fund (-0.17%) and PERS Group Insurance (-0.07%).

Risk as measured by standard deviation, was within approved levels for all SIB clients for the 5-years ended June 30, 2018.

Callan LLC Performance Review - Callan LLC representatives reviewed economic and market environments for the period ending June 30, 2018, as well as performance of the Pension Trust, Insurance Trust, and Legacy Fund for the same time period.

**IT WAS MOVED BY MR. OLSON AND SECONDED BY MR. LECH AND CARRIED BY A ROLL CALL VOTE TO ACCEPT THE CALLAN LLC INVESTMENT REVIEW FOR THE PENSION TRUST, INSURANCE TRUST, AND LEGACY FUND FOR THE PERIOD ENDING JUNE 30, 2018.**

**AYES: MR. LECH, TREASURER SCHMIDT, MR. OLSON, COMMISSIONER SMITH, MRS. GUMERINGER, MS. SMITH, MS. TERNES, AND LT. GOVERNOR SANFORD**

**NAYS: NONE**

**MOTION CARRIED**

**ABSENT: COMMISSIONER GODFREAD, MR. MILLER, MR. SEIBEL**

The Board recessed at 10:12 am and reconvened at 10:32 am

Private Equity - Mr. Hunter provided an update on the SIB's private equity portfolio. As part of a multi-year plan to enhance the expected return of the private equity portfolio, RIO continues to review existing and prospective private equity managers in the market place. In March of 2016 RIO and Callan identified BlackRock as a new strategic partner to complement Adams Street and re-establish the SIB's clients' long-term commitment in the asset class. The establishment of two strategic partners in this long-term investment should also help to reduce management fees. Given expected capital distributions on existing private equity assets over the next five years, Adams Street Partners (and Blackrock) believes annual private equity commitments will likely need to be approximately \$65 million (for each manager) over the next five years.

Adams Street - Adams Street associates, Mr. Miguel Gonzalo and Mr. Brijesh Jeevarathnam, provided a firm and market update and also a review of the SIB's portfolio and private equity investment strategy.

Pacing Schedule Recommendation - Mr. Schulz reviewed the pacing schedule of the SIB private equity portfolio. Since 2015, the SIB and RIO have continued to build out and diversify the private equity portfolio within the Pension Trust by making \$200 million of new commitments to BlackRock and \$120 million of new commitments to Adams Street Global Funds (in 2015, 2016, and 2017). As of June 30, 2018, SIB clients within the Pension Trust currently have a 6.5% (or \$372 million) target allocation to private equity versus an actual allocation of \$191 million. With the asset growth in the Pension Trust over the course of the last three years, RIO engaged both Adams Street and BlackRock to independently review the SIB's existing private equity pacing schedule. Based on pacing models that incorporated overall plan asset growth, existing commitments, capital calls and distributions, each firm determined that annual private equity commitments in the order of \$130 million in total are required over the next five years to address the asset class underweight in a methodical, programmatic fashion.

RIO recommended the SIB approve annual private equity commitments of \$130 million based on the revised pacing schedule. The recommendation includes the approval of a \$65 million commitment to Adams Street's 2018 Global Fund and an incremental \$15 million annual commitment increase to the existing BlackRock private equity portfolio. Previously staff informed the SIB, at the board's July 22, 2016, meeting, that Blackrock would be receiving \$50 million per annum.

Discussion followed on the pacing schedule. After discussion,

**IT WAS MOVED BY MS. TERNES AND SECONDED BY COMMISSIONER SMITH AND CARRIED BY A ROLL CALL VOTE TO ACCEPT STAFF RECOMMENDATION AND APPROPRIATE \$65 MILLION TO THE ADAMS STREET 2018 GLOBAL FUND.**

**AYES: MS. TERNES, COMMISSIONER SMITH, MRS. GUMERINGER, MS. SMITH, MR. MILLER, MR. LECH, MR. OLSON, AND LT. GOVERNOR SANFORD**

**NAYS: TREASURER SCHMIDT**

**MOTION CARRIED**

**ABSENT: COMMISSIONER GODFREAD, MR. SEIBEL**

**IT WAS MOVED BY MR. OLSON AND SECONDED BY MS. SMITH AND CARRIED BY A ROLL CALL VOTE TO INCREASE THE BLACKROCK PROGRAM'S ANNUAL COMMITMENT FROM \$50 MILLION TO \$65 MILLION IN 2018.**

**AYES: MRS. GUMERINGER, COMMISSIONER SMITH, MS. SMITH, TREASURER SCHMIDT, MR. LECH, MR. OLSON, MR. MILLER, MS. TERNES, AND LT. GOVERNOR SANFORD**

**NAYS: NONE**

**MOTION CARRIED**

**ABSENT: COMMISSIONER GODFREAD, MR. SEIBEL**

Legacy Fund Earnings - Mr. Hunter reviewed the Legacy Fund earnings estimate for the remaining 2017-19 biennium and 2019-21 biennium. Based on the expected strength and resiliency of the capital markets over the next three years, RIO continues to recommend a 2% average "transferrable earnings" rate for the remaining 2017-19 biennium and 2019-21 biennium. Based on this and incorporating actual returns of the Legacy Fund through May 31, 2018, in addition to Office of Management and Budget's (OMB) expected oil and gas tax projections through June 30, 2021, RIO estimates Legacy Fund "transferrable earnings" will approach \$350 million in 2017-19 and \$300 million in 2019-21.

**BOARD EDUCATION:**

Mr. Hunter reviewed educational options for the SIB. Based on the board self-assessment and executive review process, SIB trustees expressed a willingness to engage in board education tailored to meet the varying needs and experience of individual board members.

**MONITORING:**

Per Governance Policy, Board/Staff Relationship/Monitoring Executive Performance C-4, the following monitoring reports for the quarter ending June 30, 2018, were provided to the SIB for their consideration: Budget/Financial Conditions, Executive Limitations/Staff Relations, Investment Program, and Retirement Program.

Mr. Hunter also informed the board there are currently no managers on the Watch List.

Investment Manager Catalog - Board members were also provided an Investment Manager Catalog which lists each of the SIB's current investment managers and their mandates as well as closed accounts.

**IT WAS MOVED BY MR. LECH AND SECONDED BY MS. SMITH AND CARRIED BY A ROLL CALL VOTE TO ACCEPT THE MONITORING REPORTS FOR THE QUARTER ENDING JUNE 30, 2018.**

**AYES: MR. OLSON, MRS. GUMERINGER, MR. MILLER, MS. SMITH, MS. TERNES, COMMISSIONER SMITH, MR. LECH, TREASURER SCHMIDT, LT. GOVERNOR SANFORD**

**NAYS: NONE**

**MOTION CARRIED**

**ABSENT: COMMISSIONER GODFREAD, MR. SEIBEL**

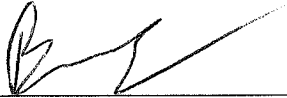
The next meeting of the SIB Audit Committee is scheduled for September 27, 2018, at 10:00 a.m. at the Retirement and Investment Office.

The next meeting of the SIB is scheduled for September 28, 2018, at 8:30 a.m. at the State Capitol, Peace Garden Room.

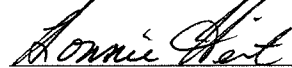
The next meeting of the Securities Litigation Committee meeting is scheduled for November 5, 2018, at 3:00 p.m. at the Retirement and Investment Office.

**ADJOURNMENT:**

With no further business to come before the SIB, Lt. Governor Sanford adjourned the meeting at 11:54 a.m.



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Lt. Governor Sanford, Chair  
State Investment Board



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Bonnie Heit  
Assistant to the Board