

NORTH DAKOTA STATE INVESTMENT BOARD
MINUTES OF THE
SEPTEMBER 28, 2018, BOARD MEETING

MEMBERS PRESENT: Rob Lech, TFFR Board, Vice Chair
Troy Seibel, PERS Board, Parliamentarian
Jon Godfread, Insurance Commissioner
Toni Gumeringer, TFFR Board
Adam Miller, PERS Board
Mel Olson, TFFR Board
Kelly Schmidt, State Treasurer
Yvonne Smith, PERS Board
Cindy Ternes, WSI Designee

MEMBERS ABSENT: Brent Sanford, Lt. Governor, Chair
Jodi Smith, Commissioner of Trust Lands

STAFF PRESENT: Eric Chin, Senior Investment Officer
Connie Flanagan, Chief Financial Officer
Bonnie Heit, Asst to the Board
David Hunter, ED/CIO
Sara Sauter, Audit Svs Suprv
Cody Schmidt, Compliance Officer
Darren Schulz, Dep CIO

OTHERS PRESENT: Brian Barnett, APT, Inc.
Anders Odegaard, Attorney General's Office

CALL TO ORDER:

Dr. Rob Lech, Vice Chair, called the State Investment Board (SIB) regular meeting to order at 8:30 a.m. on Friday, September 28, 2018, in the Peace Garden Room, at the State Capitol, Bismarck, ND.

AGENDA:

IT WAS MOVED BY MS. SMITH AND SECONDED BY MR. OLSON AND CARRIED BY A VOICE VOTE TO ACCEPT THE AGENDA FOR THE SEPTEMBER 28, 2018, MEETING.

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

NAYS: NONE

MOTION CARRIED

ABSENT: LT. GOVERNOR SANFORD, COMMISSIONER SMITH

MINUTES:

IT WAS MOVED BY MS. TERNES AND SECONDED BY MS. SMITH AND CARRIED BY A VOICE VOTE TO ACCEPT THE MINUTES OF THE AUGUST 24, 2018, MEETING AS DISTRIBUTED.

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

NAYS: NONE

MOTION CARRIED

ABSENT: LT. GOVERNOR SANFORD, COMMISSIONER SMITH

INVESTMENTS:

Global Alternatives Manager Preview - Mr. Chin provided an educational segment on European Non-Performing Loans. Staff will be addressing this further at the October 26, 2018, meeting with an additional manager presentation and formal staff recommendation.

Other Real Assets Manager Preview - Mr. Schulz reviewed the current infrastructure portfolios of the SIB. RIO investment personnel will be providing additional information to the board at their October 26, 2018, meeting to address the underweighting in infrastructure in the Pension Trust, Insurance Trust, and Legacy Fund. JP Morgan is managing approximately \$407.6 million in infrastructure mandates and RIO investment personnel are looking at options to diversify the portfolios to lower manager concentration, increase diversification by revenue drivers, geography, and sectors thereby potentially lowering overall risk.

Callan Fee Study - Mr. Hunter informed the board Callan is in the process of conducting a fee study. The study is conducted on a biannual basis and Callan will present the results at the SIB's November 16, 2018, meeting. RIO investment personnel have been considering bringing in another firm similar to Novarca to help RIO identify fee savings.

Legacy Fund Earnings - Mr. Hunter provided an earnings estimate on the Legacy Fund for the remaining 2017-19 and 2019-21 bienniums. RIO investment personnel recommend a 2 percent average transferrable earnings rate or \$350 million and \$300 million respectively for the remaining 2017-19 and 2019-21 bienniums. Their recommendation is contingent on the expected strength and resiliency of the capital markets over the next three years in addition to Office of Management and Budget's (OMB) expected oil and gas tax projections through June 30, 2021.

Discussion followed on the definition of earnings and how it is perceived as far as the Legislators are concerned. Board members felt education is the key and the SIB, whenever possible, along with Mr. Hunter have on numerous occasions done their best to inform the Legislators on how the Legacy Fund earnings is defined according to N.D.C.C. 21-10-12. The Legacy and Budget Stabilization Fund Advisory Board, appointed by the Legislators, according to N.D.C.C. 21-10-11, need to take a more active role in education.

The Board recessed at 9:41 a.m. and reconvened at 10:01 a.m.

GOVERNANCE:

SIB Audit Committee - Ms. Sauter highlighted activities of the SIB's Audit Committee as of their May 24, 2018, meeting.

CliftonLarsonAllen presented their financial audit scope and approach of RIO for the fiscal year ending June 30, 2018. Ms. Sauter presented an educational segment on the role of "internal audit." The Audit Committee directed Ms. Sauter to conduct a formal risk assessment of RIO. The risk assessment was completed and a work plan reflecting the results of the risk assessment was adopted by the Audit Committee at their September 27, 2018, meeting. Ms. Sauter will review the work plan at a future SIB meeting.

IT WAS MOVED BY TREASURER SCHMIDT AND SECONDED BY COMMISSIONER GODFREAD AND CARRIED BY A VOICE VOTE TO ACCEPT THE INTERNAL AUDIT DIVISION'S REPORT.

Ms. Ternes, SIB Audit Committee liaison to the SIB, is in support of the work plan and everything that Ms. Sauter is doing but also had concerns about the Teachers' Fund for Retirement (TFFR) school district compliance audits. For the last 20 years RIO's internal audit division has primarily focused on school district compliance audits. Ms.

Ternes felt that additional staff may be needed in the internal audit division or other divisions of RIO to support all of the areas that should have oversight. Results of this year's risk assessment would transition the Internal Audit division of RIO from a 95/5 split of time allocated between the TFFR program and the SIB program respectively to a 50/50 split. After discussion a voice vote was taken.

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

NAYS: NONE

MOTION CARRIED

ABSENT: LT. GOVERNOR SANFORD, COMMISSIONER SMITH

Governance Manual Review - Mr. Hunter reviewed Section B - Governance Process, Section D - Ends, and Section E - Investments. The Board will conduct a second reading of the sections at their October 26, 2018, meeting.

IT WAS MOVED BY MR. OLSON AND SECONDED BY MS. SMITH AND CARRIED BY A VOICE VOTE TO ACCEPT THE FIRST READING OF THE GOVERNANCE MANUAL REVIEW OF SECTIONS B, D, AND E.

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

NAYS: NONE

MOTION CARRIED

ABSENT: LT. GOVERNOR SANFORD, COMMISSIONER SMITH

Compliance Update - Mr. Schmidt reviewed compliance certifications that the SIB managers are required to confirm on an annual basis.

Mr. Schmidt stated all of the SIB managers have responded to the compliance review and are for the most part in compliance. There were a few minor exceptions and staff will be following up with those managers.

IT WAS MOVED BY MR. OLSON AND SECONDED BY MS. SMITH AND CARRIED BY A VOICE VOTE TO ACCEPT THE ANNUAL COMPLIANCE REPORT.

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

NAYS: NONE

MOTION CARRIED

ABSENT: LT. GOVERNOR SANFORD, COMMISSIONER SMITH

RIO Budget - Ms. Flanagan reviewed the status of RIO's budget for the 2017-19 biennium. Ms. Flanagan also reviewed the status of the 2019-21 biennium budget. The Governor's guidelines include agencies with an appropriation of \$5 million or more should submit a base budget with a 10% reduction in ongoing expenditures. RIO has put together a budget that complies with the recommendation, but also includes three optional packages for additional funding. The budget has not been finalized by the Governor's Office at this time.

IT WAS MOVED BY MS. TERNES AND SECONDED BY MR. MILLER AND CARRIED BY A VOICE VOTE TO ACCEPT THE BUDGET REPORT.

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

NAYS: NONE

MOTION CARRIED

ABSENT: LT. GOVERNOR SANFORD, COMMISSIONER SMITH

RIO Budget 2019/21 - Mr. Hunter provided additional information to the board regarding RIO's budget for the 2019-21 biennium. The board took no action.

The next meeting of the SIB is scheduled for October 26, 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.

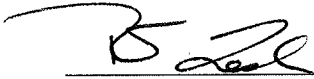
The next meeting of the SIB Audit Committee is scheduled for November 15, 2018, at 3:00 p.m. at the Retirement and Investment Office.

OTHER:

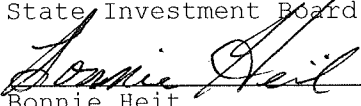
Ms. Ternes will be retiring in April 2019. Dr. Lech and the Board congratulated Ms. Ternes and thanked her for her years of service to the SIB and the public. Ms. Ternes has been serving on the SIB as the designee of Workforce Safety and Insurance since August 2007. Ms. Ternes has also been serving on the SIB Audit Committee representing elected officials since October 2007.

ADJOURNMENT:

With no further business to come before the SIB, Dr. Lech adjourned the meeting at 11:03 a.m.



 Dr. Rob Lech, Vice Chair
 State Investment Board



 Bonnie Heit
 Assistant to the Board