

**NORTH DAKOTA STATE INVESTMENT BOARD
MINUTES OF THE
OCTOBER 26, 2018, BOARD MEETING**

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

MEMBERS ABSENT: Jon Godfread, Insurance Commissioner
Yvonne Smith, PERS Board

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
Susan Walcker, Investment Accountant

OTHERS PRESENT: Brian Barnett, APT, Inc.
Andrew Chapman, Macquarie
Anna Dayn, XTP
Jeff Engleson, Dept. of Trust Lands
Michael Glascott, Macquarie
Greg Gordon, Cerberus
Wolfram Klinger, XTP
Karl Kuchel, Macquarie
Anders Odegaard, Attorney General's Office
Ronald Rawald, Cerberus
Bryan Reinhardt, PERS

CALL TO ORDER:

Lt. Governor Sanford, Chair, called the State Investment Board (SIB) regular meeting to order at 8:32 a.m. on Friday, October 26, 2018, in the Peace Garden Room, at the State Capitol, Bismarck, ND.

AGENDA:

IT WAS MOVED BY MS. TERNES AND SECONDED BY DR. LECH AND CARRIED BY A VOICE VOTE TO ACCEPT THE REVISED AGENDA FOR THE OCTOBER 26, 2018, MEETING.

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

NAYS: NONE

MOTION CARRIED

ABSENT: COMMISSIONER GODFREAD, MS. SMITH

MINUTES:

IT WAS MOVED BY DR. LECH AND SECONDED BY MR. OLSON AND CARRIED BY A VOICE VOTE TO ACCEPT THE MINUTES OF THE SEPTEMBER 28, 2018, MEETING AS DISTRIBUTED.

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

NAYS: NONE

MOTION CARRIED

ABSENT: COMMISSIONER GODFREAD, MS. SMITH

INVESTMENTS:

Infrastructure Background/Overview - Mr. Schulz reviewed the current infrastructure portfolios of the SIB, the importance of diversification, and the due diligence conducted by staff to support their proposed recommendation.

Macquarie Infrastructure Partners (MIP) - Representatives Mr. Kuchel, Mr. Chapman, and Mr. Glascott provided an overview and structure of the firm. After the review,

IT WAS MOVED BY TREASURER SCHMIDT AND SECONDED BY DR. LECH AND CARRIED BY A VOICE VOTE TO ENTER INTO EXECUTIVE SESSION PURSUANT TO NDCC §44-04-18.4(1), §44-04-19.1(9), & §44-04-19.2 TO DISCUSS CONFIDENTIAL COMMERCIAL AND FINANCIAL INFORMATION AND PROVIDE CONTRACT NEGOTIATING INSTRUCTIONS TO ITS ATTORNEY OR NEGOTIATOR.

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

NAYS: NONE

MOTION CARRIED

ABSENT: COMMISSIONER GODFREAD, MS. SMITH

The Board exited Open Session at 9:01 a.m. and entered into Executive Session at 9:02 a.m. The following individuals were present during Executive Session: Mr. Olson, Ms. Gumeringer, Mr. Miller, Mr. Seibel, Ms. Ternes, Commissioner Smith, Dr. Lech, Treasurer Schmidt, Lt. Governor Sanford, Mr. Odegaard, Mr. Chin, Ms. Flanagan, Ms. Heit, Mr. Hunter, Ms. Sauter, Mr. Schmidt, Mr. Schulz, Ms. Walcker, Mr. Kuchel, Mr. Chapman, and Mr. Glascott.

The Board exited Executive Session at 9:50 a.m. and entered into Open Session at 9:51 a.m.

Mr. Schulz reviewed staff's proposal and felt an investment in MIP IV would be a prudent investment for the Legacy Fund and Pension Trust. An investment in MIP IV offers manager and asset diversification which would be complementary to the Pension Trust and Legacy Fund's existing infrastructure portfolio. MIP IV's core/core plus focus is well-suited as an anchor infrastructure allocation parallel to JP Morgan's Infrastructure Investment Fund (IIF.) A commitment to MIP IV further diversifies the SIB's current infrastructure investments with a focus on large core transactions supplemented by core-plus opportunities. Staff recommended a commitment up to \$140 million in MIP IV (\$65 million in the Pension Trust and \$75 million in the Legacy Fund).

After discussion,

IT WAS MOVED BY TREASURER SCHMIDT AND SECONDED BY MS. TERNES AND CARRIED BY A ROLL CALL VOTE TO ACCEPT STAFF RECOMMENDATION.

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

NAYS: NONE

MOTION CARRIED

ABSENT: COMMISSIONER GODFREAD, MS. SMITH

The Board recessed at 10:02 a.m. and reconvened at 10:15 a.m.

European Non-Performing Loan Investment - At the September 28, 2018, SIB meeting, Mr. Chin reviewed an investment opportunity for the board's consideration in European Non-Performing Loans (NPL). Mr. Chin provided a recap of the investment opportunity.

Cerberus - Representatives Mr. Rawald and Mr. Gordon provided an overview of the firm and the NPL investment opportunity.

Mr. Chin reviewed staff recommendation. RIO investment personnel recommended that the SIB invest up to \$120 million (\$60 million Pension Trust and \$60 million Legacy Fund) in the Cerberus Global NPL investment opportunity subject to continued negotiations and finalization of the contract. The investment would represent a 1% position in both the Pension Trust and the Legacy Fund. The allocation would be funded by reducing equity exposure in both portfolios.

After discussion,

IT WAS MOVED BY TREASURER SCHMIDT AND SECONDED BY COMMISSIONER SMITH AND CARRIED BY A ROLL CALL VOTE TO DENY STAFF RECOMMENDATION REGARDING THE NPL INVESTMENT OPPORTUNITY.

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

NAYS: DR. LECH

MOTION CARRIED

ABSENT: COMMISSIONER GODFREAD, MS. SMITH

Lt. Governor Sanford left the meeting and Dr. Lech presided over the meeting. Ms. Ternes also exited the meeting.

Park District of the City of Grand Forks (GFPD) Investment Policy Statement IPS - Mr. Hunter reviewed a revised IPS for the GFPD which was approved by the trustees of the GFPD on October 2, 2018. The GFPD recently completed an asset liability study conducted by Arthur J. Gallagher.

IT WAS MOVED BY COMMISSIONER SMITH AND SECONDED BY MR. OLSON AND CARRIED BY A ROLL CALL VOTE TO ACCEPT THE REVISED IPS FOR THE PARK DISTRICT OF THE CITY OF GRAND FORKS.

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

NAYS: NONE

MOTION CARRIED

ABSENT: MS. SMITH, MS. TERNES, COMMISSIONER GODFREAD, AND LT. GOVERNOR SANFORD

GOVERNANCE AND EDUCATION:

Annual Evaluation of RIO vs Ends - Mr. Hunter, per Governance Policy/Annual Board Planning Cycle highlighted RIO's adherence to the "Ends" policies for the period ending June 30, 2018. Mr. Hunter stated the vast majority of the SIB clients outperformed their respective investment benchmarks for the 5-years ended June 30, 2018 (two exceptions - Public Employees Retirement System (PERS) Retiree Health Insurance Credit and PERS Group Insurance) while adhering to approved guidelines. Mr. Hunter also stated investment fees declined from 0.65% in fiscal 2013 to approximately 0.43% in fiscal 2018. RIO has increased their transparency by enhancing public access to their website. RIO's Internal Audit Division has conducted reviews which provide reasonable assurance that Teachers' Fund for Retirement (TFFR) benefit recipients receive their retirement benefits in a cost effective and timely manner. TFFR member surveys support RIO management's belief that members have access to information which allows them to become knowledgeable about retirement issues and processes. SIB and TFFR client surveys confirm that the boards and staff provide satisfactory services with SIB receiving a 3.7 score and TFFR earning a 3.8 score (on a 4.0 scale) in recent years.

IT WAS MOVED BY TREASURER SCHMIDT AND SECONDED BY MR. OLSON AND CARRIED BY A VOICE VOTE TO ACCEPT THE ANNUAL REVIEW OF RIO VERSUS THE SIB GOVERNANCE "ENDS" POLICIES.

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

NAYS: NONE

MOTION CARRIED

ABSENT: MS. SMITH, MS. TERNES, COMMISSIONER GODFREAD, AND LT. GOVERNOR SANFORD

Investment Fee Update - Mr. Hunter updated the Board on investment fees of the SIB portfolios. SIB client investment fees have declined from approximately 0.65% in fiscal year 2013 to approximately 0.43% in fiscal year 2018. Novarca was contracted by the SIB in 2014 to perform a comprehensive review of the investment fees and expenses. Novarca identified over \$1 million in aggregate fee savings in addition to assisting RIO to obtain favorable terms in ongoing fee negotiations with investment firms. Callan has also been conducting biennial fee studies of the SIB's major investment trusts and in-depth fee reviews within selected private markets. Mr. Hunter also noted the Dept. of Trust Lands investment personnel have been assisting RIO to obtain favorable market terms including a re-negotiation which is expected to generate an incremental \$150,000 in annual fee savings for the SIB's clients. Investment fee savings have also been realized between the Dept. of Trust Lands and the SIB who currently share 10 investment managers.

Dr. Lech exited the meeting and Mr. Seibel presided over the remainder of the meeting.

XTP Implementation Services - Representatives Ms. Dayn and Mr. Klingler provided an overview of their firm and strategy.

RIO investment personnel recommended the SIB engage XTP to perform a comprehensive review of their investment fee structures and underlying expenses to further enhance transparency and potentially reduce investment costs. The recommendation would be subject to satisfactory negotiation of legal documentation including a contingent fee structure and strict terms of confidentiality. XTP would replace Novarca as Novarca has completed the terms of their contract.

After discussion,

IT WAS MOVED BY MR. OLSON AND SECONDED BY MR. MILLER AND CARRIED BY A ROLL CALL VOTE TO ACCEPT STAFF RECOMMENDATION AND ENGAGE XTP FOR A PERIOD OF TWO YEARS SUBJECT TO SATISFACTORY NEGOTIATION OF THE CONTRACT.

AYES: TREASURER SCHMIDT, MR. OLSON, COMMISSIONER SMITH, MR. SEIBEL, MR. MILLER, AND MS. GUMERINGER

NAYS: NONE

MOTION CARRIED

ABSENT: DR. LECH, COMMISSIONER GODFREAD, MS. SMITH, MS. TERNES, AND LT. GOVERNOR SANFORD

Included in the board packet were the following reports; Client Satisfaction Survey 2018, Audit Committee Annual Report July 1, 2017 - June 30, 2018, Securities Litigation Committee Update, and Governance Manual (second reading) for the SIB's consideration.

IT WAS MOVED BY TREASURER SCHMIDT AND SECONDED BY MS. GUMERINGER AND CARRIED BY A ROLL CALL VOTE TO ACCEPT AGENDA ITEMS IV. C. CLIENT SATISFACTION SURVEY 2018, D. AUDIT COMMITTEE ANNUAL REPORT JULY 1, 2017 - JUNE 30, 2018, E. SECURITIES LITIGATION COMMITTEE UPDATE, AND F. GOVERNANCE MANUAL (SECOND READING).

AYES: MR. OLSON, MR. SEIBEL, COMMISSIONER SMITH, MS. GUMERINGER, MR. MILLER, AND TREASURER SCHMIDT

NAYS: NONE

MOTION CARRIED

ABSENT: COMMISSIONER GODFREAD, MS. SMITH, MS. TERNES, DR. LECH, AND LT. GOVERNOR SANFORD

QUARTERLY MONITORING:

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

There was not a Watch List report provided as no SIB managers are currently on watch.

Mr. Hunter stated he received one application for the Voluntary Separation Incentive Program which he has approved with a termination date of April 30, 2019. RIO intends to fill the position assuming budget availability.

IT WAS MOVED BY MR. MILLER AND SECONDED BY MR. OLSON AND CARRIED BY A ROLL CALL VOTE TO ACCEPT THE QUARTERLY MONITORING REPORTS FOR THE QUARTER ENDING SEPTEMBER 30, 2018.

AYES: TREASURER SCHMIDT, MS. GUMERINGER, COMMISSIONER SMITH, MR. MILLER, MR. OLSON, AND MR. SEIBEL

NAYS: NONE

MOTION CARRIED

ABSENT: COMMISSIONER GODFREAD, MS. TERNES, MS. SMITH, DR. LECH, LT. GOVERNOR SANFORD

Mr. Hunter informed the board RIO will be participating in the State Employee Survey in the next month.

Mr. Hunter also informed the board he provided a market update to the Employee Benefits Programs Committee at their October 25, 2018, meeting.

He also informed the board preliminary discussions have been taking place with the ND State Historical Society regarding possibly coming on board as a client of the SIB. He will keep the board informed.

OTHER:

The next meeting of the SIB is scheduled for November 16, 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.

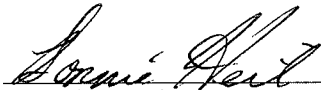
The next meeting of the SIB Audit Committee is scheduled for November 15, 2018, at 3:00 p.m. at the Retirement and Investment Office.

ADJOURNMENT:

With no further business to come before the SIB, Mr. Seibel adjourned the meeting at 11:55 a.m.



Lt. Governor Sanford, Chair
State Investment Board



Bonnie Heit
Assistant to the Board