

**NORTH DAKOTA STATE INVESTMENT BOARD
MINUTES OF THE
JANUARY 25, 2019, BOARD MEETING**

MEMBERS PRESENT: Brent Sanford, Lt. Governor, Chair
Rob Lech, TFFR Board, Vice Chair
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: Troy Seibel, PERS Board, Parliamentarian
Jodi Smith, Commissioner of Trust Lands

STAFF PRESENT: Eric Chin, Senior Investment Officer
Bonnie Heit, Admin Svs Suprv
David Hunter, ED/CIO
Fay Kopp, Dep ED/CRO
Rich Nagel, IT Suprv
Sara Sauter, Audit Svs Suprv
Cody Schmidt, Compliance Officer
Darren Schulz, Dep CIO
Susan Walcker, Investment Accountant

OTHERS PRESENT: Anders Odegaard, Attorney General's Office

CALL TO ORDER:

Lt. Governor Sanford, Chair, called the State Investment Board (SIB) regular meeting to order at 8:39 a.m. on Friday, January 25, 2019, at Workforce Safety & Insurance, 1600 East Century Avenue, Bismarck, ND.

AGENDA:

IT WAS MOVED BY MR. OLSON AND SECONDED BY MS. TERNES AND CARRIED BY A VOICE VOTE TO ACCEPT THE AGENDA FOR THE JANUARY 25, 2019, MEETING.

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

NAYS: NONE

MOTION CARRIED

ABSENT: TREASURER SCHMIDT, COMMISSIONER SMITH, MR. SEIBEL

MINUTES:

IT WAS MOVED BY DR. LECH AND SECONDED BY MS. SMITH AND CARRIED BY A VOICE VOTE TO APPROVE THE MINUTES OF THE NOVEMBER 16, 2018, MEETING AS DISTRIBUTED.

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

NAYS: NONE

MOTION CARRIED

ABSENT: TREASURER SCHMIDT, COMMISSIONER SMITH, MR. SEIBEL

INVESTMENTS AND GOVERNANCE:

Asset/Performance Overview - Mr. Hunter highlighted assets and performance of the SIB portfolios for the period ending November 30, 2018. SIB client investments declined to \$13.75 billion as of November 30, 2018. As of September 30, 2018, The Pension Trust declined by \$238 million, Insurance Trust by \$51 million, and the Legacy Fund by \$121 million.

For the five months ending November 30, 2018, the Pension Trust posted a preliminary net investment loss of -1.3%, the Insurance Trust generated a preliminary net investment loss of -0.64%, and the Legacy Fund experienced a preliminary net investment loss of -2.21%.

The S&P 500 fell 9% in December and 13.5% in the 4th quarter of 2018 as investment volatility spiked due to growing geopolitical risk in the US and abroad (despite generally strong economic fundamentals in the US). RIO estimates that net investment returns for the Legacy Fund, Public Employees Retirement System (PERS) and Teachers Fund for Retirement (TFFR) will approximate -5% for the six months ended December 31, 2018. Workforce Safety & Insurance (WSI) is estimated to generate a net investment loss of -1.5% for the six months ended December 31, 2018, while the Budget Stabilization Fund is estimated to earn a net investment gain of +1.5% for this same period.

Technology Report - Mr. Nagel provided a RIO technology update. The Member Online Portal went live in January 2018. As of January 14, 2019, 2,100 actives and 700 retirees have activated their accounts.

TFFR's current Pension Administration Software has been in operation for 13 years. The functionality and technical architecture of the system is at the end of its product release lifecycle. RIO is working towards a more technologically advanced and secure web-based system. RIO has provided testimony to the Senate Appropriations Committee and will continue to work with Legislators in an effort to get funding approved for the project.

Mr. Nagel has been working with Ms. Sauter to review current policies and procedures to ensure a high level of security. Ms. Sauter is also working on an internal risk assessment of RIO to help determine any areas of improvement or modifications to improve overall risk and security.

The Tamale records management system for the Investment Division has been updated to the most current version. Mr. Nagel is also working on implementing the web-based platform for Tamale which will allow users more flexibility when working remotely.

Mr. Nagel also highlighted future initiatives; 1) CPAS database and FileNet records retention and purge, 2) new website for RIO, 3) create and utilize data analytics for member and employer data reconciliations, 4) upgrade/replace TFFR Pension Administration Software which would allow for greater functionality, enhancements, and additional security for RIO and TFFR members and employers.

Meeting Schedule - Mr. Hunter proposed two options for the SIB 2019-20 meeting schedule. Option A would allow for 10 meetings per year and Option B would allow for 8 meetings per year. Mr. Hunter recommended Option A noting the September 2019 and March 2020 meetings would be scheduled as tentative.

IT WAS MOVED BY MS. TERNES AND SECONDED BY DR. LECH AND CARRIED BY A ROLL CALL VOTE TO ACCEPT OPTION A AS RECOMMENDED BY STAFF.

AYES: DR. LECH, MR. OLSON, MR. MILLER, COMMISSIONER GODFREAD, MS. GUMERINGER, MS. SMITH, MS. TERNES, AND LT. GOVNROR SANFORD

NAYS: NONE

MOTION CARRIED

ABSENT: TREASURER SCHMIDT, COMMISSIONER SMITH, MR. SEIBEL

Legacy Fund - Mr. Hunter reviewed Legacy Fund earnings given the number of proposed bills and resolutions relating to the Legacy Fund. Mr. Hunter stated it is challenging to estimate the impact of proposed spending bills which are heavily dependent on the future oil and gas prices and production particularly when combined with investment earnings volatility. RIO's transferrable earnings estimate for the 2017-19 and 2019-21 biennium's is \$300 million. The estimate for the 2019-21 biennium is based on Office of Management and Budget's (OMB) latest forecasted oil and gas tax deposits causing average Legacy Fund investments to approximate \$7.5 billion in the 2019-21 biennium while continuing to use the 2% average "earnings" rate.

RIO investment professionals will continue to monitor these proposals and offer support to any legislators or other parties requesting RIO's assistance on the estimated impact of these proposals on the future growth and earnings potential of the Legacy Fund. In most instances, RIO investment professionals consult with other outside experts in determining the estimated impact of these various proposals noting that Callan LLC and RIO's fellow US sovereign wealth fund leaders and mineral trust officials are consistently willing to share their own insight and experiences.

Discussion followed on Legacy Fund earnings.

Lt. Governor Sanford exited the meeting and Dr. Lech presided over the remainder of the meeting.

Survey Results - Mr. Hunter reviewed the survey results of RIO personnel in conjunction with a state initiated survey to cabinet and non-cabinet agencies conducted in October 2018. The top three concerns cited by RIO staff were compensation, communication, and teamwork which are common concerns with other non-cabinet level agency survey responses.

Due Diligence - Mr. Schulz reviewed investment due diligence practices and procedures (post-hire) followed by RIO investment personnel. The investment due diligence practices and procedures of RIO's investment professionals are being documented in a more formal format as a result of the risk assessment being conducted by the Internal Audit Division of RIO.

Audit Charters - Ms. Sauter reviewed the SIB Audit Committee's charter for the SIB's consideration. The Audit Committee formalized the Charter at their November 15, 2018, meeting. The Charter was also reviewed by RIO's counsel, Mr. Odegaard.

IT WAS MOVED BY COMMISSIONER GODFREAD AND SECONDED BY MS. TERNES AND CARRIED BY A ROLL CALL VOTE TO ACCEPT THE SIB AUDIT COMMITTEE'S CHARTER.

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

NAYS: NONE

MOTION CARRIED

ABSENT: COMMISSIONER SMITH, MR. SEIBEL, TREASURER SCHMIDT, AND LT. GOVERNOR SANFORD

Ms. Sauter also presented RIO's Internal Audit Division's charter for the SIB's consideration. The Audit Committee formalized the Charter at their November 15, 2018, meeting. The Charter was also reviewed by Mr. Odegaard.

IT WAS MOVED BY COMMISSIONER GODFREAD AND SECONDED BY MR. OLSON AND CARRIED BY A ROLL CALL VOTE TO ACCEPT RIO'S INTERNAL AUDIT DIVISION'S CHARTER.

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

NAYS: NONE

MOTION CARRIED

ABSENT: COMMISSIONER SMITH, TREASURER SCHMIDT, MR. SEIBEL, AND LT. GOVERNOR SANFORD

Legislative/Budget - Mr. Hunter reviewed legislation that he is monitoring; HB 1368 SIB Membership, HB 1504 Legacy Earnings Fund, SB 2022 RIO Budget, SB 2276 Infrastructure Revolving Loan Fund, SB 2293 Game and Fish - Special Fund, SCR 4005 Legacy Fund - Principal & Earnings.

Mr. Hunter also updated the SIB on RIO's budget. RIO's budget request includes maintaining current staffing levels (19 FTE), adding one new investment professional, and requests approval to spend up to \$9.13 million to upgrade or replace TFFR's Pension Administration System. The first Committee hearing was held on January 8, 2019. The hearing went well, with a generally positive reception of RIO's budget requests. A subcommittee was appointed to review RIO's budget details, with a special focus on the TFFR pension software project.

Discussion followed on HB 1368 SIB Membership.

MONITORING:

Per Governance Policy, Board/Staff Relationship/Monitoring Executive Performance C-4, the following monitoring reports for the quarter ending December 31, 2018, were provided to the SIB for their consideration: Executive Limitations/Staff Relations, Budget/Financial Conditions, Investment Program, and Retirement Program.

IT WAS MOVED BY MR. OLSON AND SECONDED BY COMMISSIONER GODFREAD AND CARRIED BY A ROLL CALL VOTE TO ACCEPT THE DECEMBER 31, 2018, MONITORING REPORTS.

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

NAYS: NONE

MOTION CARRIED

ABSENT: MR. SEIBEL, COMMISSIONER SMITH, AND LT. GOVERNOR SANFORD

OTHER:

The next meeting of the Securities Litigation Committee meeting is scheduled for February 14, 2019, at 3:00 p.m. at the Retirement and Investment Office.

The next meeting of the SIB Audit Committee is scheduled for February 21, 2019, at 3:00 p.m. at the Retirement and Investment Office.

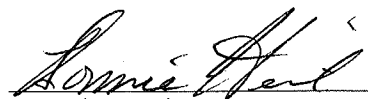
The next meeting of the SIB for regular business has been scheduled for February 22, 2019, at 8:30 a.m. at Workforce Safety & Insurance, 1600 E Century Ave.

ADJOURNMENT:

With no further business to come before the SIB, Dr. Lech adjourned the meeting at 9:58 a.m.



Lt. Governor Sanford, Chair
State Investment Board



Bonnie Heit
Recorder