

**NORTH DAKOTA STATE INVESTMENT BOARD
MINUTES OF THE
AUGUST 23, 2019, BOARD MEETING**

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

STAFF PRESENT: Eric Chin, Senior Investment Officer
Bonnie Heit, Admin Svs Suprv
David Hunter, Exec Dir/CIO
Sara Sauter, Suprv of Internal Audit
Darren Schulz, Deputy CIO

GUESTS: Jeff Diehl, Adams Street
Miguel Gonzalo, Adams Street
Eric Hardmeyer, Bank of North Dakota
Anders Odegaard, Attorney General Counsel
Michael Shackelford, Dept. of Trust Lands
Todd Steinwand, Bank of North Dakota

CALL TO ORDER:

Lt. Governor Sanford, Chair, called the State Investment Board (SIB) regular meeting to order at 8:30 a.m. on Friday, August 23, 2019, at the State Capitol, Peace Garden Room, Bismarck, ND.

AGENDA:

The Board considered the agenda for the August 23, 2019, meeting,

IT WAS MOVED BY MR. OLSON AND SECONDED BY COMMISSIONER SMITH AND CARRIED BY A VOICE VOTE TO ACCEPT THE AGENDA FOR THE AUGUST 23, 2019, MEETING.

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

NAYS: NONE

MOTION CARRIED

MINUTES:

IT WAS MOVED BY DR. LECH AND SECONDED BY MS. SMITH AND CARRIED BY A VOICE VOTE TO APPROVE THE JULY 26, 2019 MINUTES AS DISTRIBUTED.

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

NAYS: NONE

MOTION CARRIED

INVESTMENTS:

Asset and Performance Overview - Mr. Hunter highlighted investment performance of the SIB client assets under management for the period ending June 30, 2019.

The SIB client assets under management totaled approximately \$15.1 billion - Pension Trust \$5.95 billion, Insurance Trust approximately \$2.3 billion, and the Legacy Fund exceeding \$6.5 billion.

The Pension Trust posted a net return of 5.5% in the last year. The Pension Trust generated a net annualized return of 6.2%, exceeding the performance benchmark of 5.7% during the last 5-years.

The Insurance Trust posted a net annualized return of 5.0%, exceeding the performance benchmark of 4.0% during the last 5-years.

The Legacy Fund earned a net annualized return of 5.7%, exceeding the performance benchmark of 5.2% during the last 5-years. The Legacy Fund earned 8.1% per annum for the 3-years ended June 30, 2019, which surpassed the performance benchmark return of 7.5%, noting the Fund was not fully invested in its current asset allocation until 2015.

Every Pension Pool client posted positive excess returns of at least 0.38% per annum over the last 5-years (including 0.53% for Public Employees Retirement System (PERS) and Teachers' Fund for Retirement (TFFR)) while adhering to approved risk levels and generating positive risk adjusted excess return.

Every Non-Pension client generated positive excess return of at least 0.38% per annum and positive risk adjusted excess returns for the 5-years ended June 30, 2019.

Risk, as measured by standard deviation, was within approved levels for all SIB clients for the 5-years ended June 30, 2019.

Public Equity - Mr. Chin highlighted the work completed thus far on analyzing the public equity portfolios and developing a plan to optimize the portfolios. RIO investment personnel believe it is timely to review and optimize the equity portfolios across the three pools given the evolving equity landscapes and the importance of public equity strategies for meeting long-term return targets. Within the Pension Pool, Insurance Pool, and Legacy Fund approximately \$6.4 billion is allocated to equity strategies which approximates to 44.8% of total plan total assets as of May 31, 2019.

Legacy Fund Earnings Committee - Mr. Hunter reviewed the conversations he has had with the Legacy Fund Earnings Committee. Mr. Hunter has provided information to the Committee on the investments and earnings of the Legacy Fund. He has also reviewed historical annual earnings, investment volatility, the current "earnings" definition, and an alternative approach for estimating future earnings. Discussion has taken place on developing a sustainable spending policy using the Percent of Market Value (POMV) approach for estimating future "earnings" for potential distribution from the Fund. Mr. Hunter indicated the POMV approach has been used by many other similar funds including Alaska's Permanent Fund and the ND Common Schools Trust Fund. RIO investment personnel proposed a POMV approach based on the Legacy Fund's current asset allocation policy and an assumed long-term rate of return of approximately 6% less an assumed inflation rate of 2%. This annual sustainable spending policy rate of 4% was suggested by Callan in early 2019 and is conservative when compared to the Alaska Permanent Fund at 5.25% per annum or the ND Common Schools Trust Fund at 10% per biennium or 5% per annum, noting the average spending rate for endowments has ranged 4.2% to 5.2% in the prior decade.

Discussion followed on the POMV. After discussion,

IT WAS MOVED BY TREASURER SCHMIDT AND SECONDED BY DR. LECH AND CARRIED BY A ROLL CALL VOTE THAT THE SIB TAKE A POSITION TO SUPPORT A LEGACY FUND EARNINGS ESTIMATE FORMULA SIMILAR TO THAT OF THE ND COMMON SCHOOLS TRUST FUND WHICH IS A PERCENT OF MARKET VALUE APPROACH.

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

NAYS: NONE

MOTION CARRIED

For the record, it is not the SIB's fiduciary responsibility to determine the POMV percentage. However, the SIB deemed it to be reasonable and prudent to recommend a sustainable spending policy framework for the North Dakota Legacy Fund. The development of sustainable spending policy for the Legacy Fund should be a collaborative effort between RIO investment personnel, the SIB, the Legacy and Budget Stabilization Fund Advisory Board, the Legacy Fund Earnings Committee and North Dakota's Legislative, Executive and Judicial branches.

Investment Update - Mr. Hunter informed the SIB RIO received a \$513 million transfer into the Budget Stabilization Fund on August 13, 2019, and expect to receive an additional \$32 million in late August which would bring the Fund to approximately \$665 million.

The Office of Attorney General has requested the SIB accept them as a new client to oversee the investment of their AG Settlement Fund of approximately \$1 million.

IT WAS MOVED BY MR. OLSON AND SECONDED BY COMMISSIONER SMITH AND CARRIED BY A ROLL CALL VOTE TO ACCEPT THE OFFICE OF ATTORNEY GENERAL AS A SIB CLIENT TO MANAGE THEIR AG SETTLEMENT FUND CONTINGENT UPON THE INDUSTRIAL COMMISSION'S APPROVAL.

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

NAYS: NONE

MOTION CARRIED

Private Equity - Mr. Schulz reviewed the private equity portfolio of the Pension Trust. RIO investment personnel have a long range plan to enhance the expected return of the private equity portfolio and are considering making a new "follow-on" commitment up to \$75 million to the Adams Street Partners Global Fund for 2019. The Pension Trust is currently underweighted in the private equity target allocation by \$172 million.

Adams Street Global Fund - Mr. Diehl and Mr. Gonzalo, Adams Street Partners, provided a firm and market update in addition to a review of the SIB's Adams Street portfolio and private equity investment strategy.

Pacing Schedule & Staff Recommendation - Mr. Schulz reviewed a revised pacing schedule for the private equity portfolio within the Pension Trust. RIO investment personnel engaged both Adams Street and BlackRock to each independently review the SIB's existing private equity pacing schedule. Each firm determined that annual private equity commitments of \$130 million in total were required over the next five years to address the asset class underweight.

IT WAS MOVED BY MS. SMITH AND SECONDED BY MR. OLSON AND CARRIED BY A ROLL CALL VOTE TO ACCEPT STAFF RECOMMENDATION AND COMMIT UP TO \$75 MILLION IN THE ADAMS STREET GLOBAL FUND FOR 2019.

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

NAYS: NONE

MOTION CARRIED

Match Loan CD Program - The SIB has committed the lesser of \$200 million or 5% of the Legacy Fund to the Bank of North Dakota Match Loan Certificates of Deposit (CD) Program. The purpose of the program is to encourage and attract financially strong companies to North Dakota. The program is targeted to manufacturing, processing, and value-added industries. The SIB provides capital to the program by purchasing CDs from the Bank of North Dakota. The CDs are guaranteed by the state and typically have 7 to 15 year maturities and pay interest pegged to US Treasury notes. As of June 30, 2019, less than \$40 million of CD's were outstanding.

RIO investment personnel recommended the SIB consider increasing their commitment up to \$100 million to \$300 million based on the above market based pricing spread to like term US Treasuries. The Bank of North Dakota is anticipating significant growth in the Program.

After discussion,

IT WAS MOVED BY TREASURER SCHMIDT AND SECONDED BY COMMISSIONER GODFREAD AND CARRIED BY A ROLL CALL VOTE TO INCREASE THE SIB'S COMMITMENT TO THE BANK OF NORTH DAKOTA MATCH LOAN CD PROGRAM TO \$100 MILLION FOR A TOTAL COMMITMENT OF \$300 MILLION.

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

NAYS: NONE

MOTION CARRIED

The SIB requested a press release on the above action be issued.

The Board recessed at 10:29 a.m. and reconvened at 10:44 a.m.

GOVERNANCE:

Governance Review - Mr. Hunter reviewed Section A, Executive Limitations, and Section B, Governance Process.

IT WAS MOVED BY DR. LECH AND SECONDED BY COMMISSIONER GODFREAD AND CARRIED BY A VOICE VOTE TO APPROVE 1673 FIRST READING OF THE GOVERNANCE MANUAL SECTIONS A & B.

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

NAYS: NONE

MOTION CARRIED

Governance Expert and Board Proposed Ideas - Mr. Hunter reviewed ideas and suggestions that were shared during the SIB's review of best practices and current trends in public fund governance at their July 26, 2019, meeting. The Board concurred with the topics and requested Mr. Hunter begin the process of implementation.

Board Education - Mr. Hunter reviewed upcoming educational opportunities for the Board to consider for 2019-20 as well as opportunities the Board has engaged in for the period of July 1, 2017 - June 30, 2019.

Agency Update - Mr. Hunter provided an agency update as of June 30, 2019. RIO was fully staffed at the end of the biennium. Current openings include an Investment Accountant and Investment/Compliance Officer.

RIO personnel are working to develop a project charter for the TFFR Pension Administration System upgrade.

OTHER:

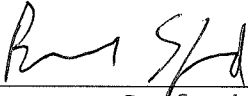
The next meeting of the SIB for regular business has been scheduled for September 27, 2019, at 8:30 a.m., at the State Capitol, Peace Garden Room.

The next meeting of the Securities Litigation Committee is scheduled for September 4, 2019, at 3:00 p.m. at the Retirement and Investment Office.

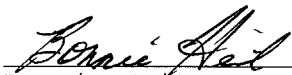
The next meeting of the SIB Audit Committee is scheduled for September 26, 2019, at 10:00 a.m. at the Retirement and Investment Office.

ADJOURNMENT:

With no further business to come before the SIB, Lt. Governor Sanford adjourned the meeting at 11:36 a.m.



Lt. Governor Sanford, Chair
State Investment Board



Bonnie Heft
Recorder

