

**NORTH DAKOTA STATE INVESTMENT BOARD
MINUTES OF THE
SEPTEMBER 27, 2019, BOARD MEETING**

MEMBERS PRESENT: Brent Sanford, Lt. Governor, Chair
Rob Lech, TFFR Board, Vice Chair
Jon Godfread, Insurance Commissioner
Toni Gumeringer, TFFR Board
Bryan Klipfel, Director of WSI
Adam Miller, PERS Board (tlcf)
Mel Olson, TFFR Board
Kelly Schmidt, State Treasurer
Jodi Smith, Commissioner of Trust Lands
Yvonne Smith, PERS Board

MEMBERS ABSENT: Keith Kempenich, Legacy/Budget Stab. Adv. Board
Troy Seibel, PERS Board, Parliamentarian

STAFF PRESENT: Eric Chin, Senior Investment Officer
Connie Flanagan, Chief Financial Officer
Bonnie Heit, Admin Svs Suprv
David Hunter, Exec Dir/CIO
Fay Kopp, Dep Exec Dir/CRO
Sara Sauter, Suprv of Internal Audit
Darren Schulz, Dep CIO
Susan Walcker, Senior Investment Acct

GUESTS: Alex Browning, Callan Associates LLC
Paul Erlendson, Callan Associates LLC
Adam Mathiak, Legislative Council
Anders Odegaard, Attorney General Counsel
Bryan Reinhardt, PERS

CALL TO ORDER:

Lt. Governor Sanford, Chair, called the State Investment Board (SIB) regular meeting to order at 8:30 a.m. on Friday, September 27, 2019, at the State Capitol, Ft. Union Room, Bismarck, ND.

AGENDA:

The Board considered the agenda for the September 27, 2019, meeting,

IT WAS MOVED BY DR. LECH AND SECONDED BY MS. SMITH AND CARRIED BY A VOICE VOTE TO ACCEPT THE AGENDA FOR THE SEPTEMBER 27, 2019, MEETING.

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

NAYS: NONE

MOTION CARRIED

ABSENT: MR. SEIBEL

MINUTES:

IT WAS MOVED BY MS. SMITH AND SECONDED BY MR. OLSON AND CARRIED BY A VOICE VOTE TO APPROVE THE AUGUST 23, 2019 MINUTES AS DISTRIBUTED.

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

NAYS: NONE

MOTION CARRIED

ABSENT: MR. SEIBEL

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 return of 6.4% in the last year. 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 generated a net return of 5.0% last year. The Legacy Fund earned a net annualized return of 5.7%, exceeding the performance benchmark of 5.2% during the last 5-years.

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 returns of at least 0.43% per annum and positive risk adjusted excess returns for the 5-years ended June 30, 2019 (two exceptions PERS Retiree Health Insurance Credit Fund and PERS Group Insurance).

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

Callan Associates LLC - Mr. Erlendson and Mr. Browning highlighted the performance of the Pension Trust, Insurance Trust, and the Legacy Fund for the period ending June 30, 2019. Mr. Erlendson and Mr. Browning also provided commentary on economic and market environments for the period ending August 31, 2019.

IT WAS MOVED BY MR. OLSON AND SECONDED BY COMMISSIONER GODFREAD AND CARRIED BY A ROLL CALL VOTE TO ACCEPT THE PERFORMANCE REVIEWS FOR THE PENSION TRUST, INSURANCE TRUST, AND THE LEGACY FUND FOR THE PERIOD ENDING JUNE 30, 2019.

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

NAYS: NONE

MOTION CARRIED

ABSENT: MR. SEIBEL

Legacy Fund - RIO participated in a survey conducted by RVK which surveyed 10 US Sovereign Wealth Funds to gain additional insight and perspective on the governance structures, constraints, and spending models of US based funds. Mr. Hunter stated the survey focused on Objectives, Asset Allocation and Performance, Governance and Decision

Making Structures, and Constraints and Spending. Mr. Hunter noted 6 of the 10 Sovereign Wealth Funds utilized the Percent of Market Value (POMV) approach for determining the level of distributions or spending (5 respondents used 5 percent and one used 4 percent of "Trailing Market Value.") The SIB voted in favor of supporting a Legacy Fund earnings estimate formula using the POMV approach noting it is used by the ND Common Schools Trust Fund.

Legacy Fund Earnings Committee - Mr. Hunter will share the RVK report with the Legacy Fund Earnings Committee at their next meeting as well as discussions he has had with other US sovereign wealth fund representatives; Alaska, Wyoming, New Mexico, and others. Mr. Hunter also shared prior discussions he has had with the Legacy Fund Earnings Committee.

Press Releases - Mr. Hunter distributed a press release which was included in the Bismarck Tribune Business Digest regarding the SIB expanding their role in the Bank of North Dakota's Match Loan Certificate of Deposit Program.

The Board recessed at 10:08 a.m. and reconvened at 10:34 a.m.

GOVERNANCE:

Governance Review - Mr. Hunter reviewed SIB Governance Manual Section A - Executive Limitations, Section B - Governance Process, Section C - Board/Staff Relationship, and Section D - Ends. After discussion,

IT WAS MOVED BY TREASURER SCHMIDT AND SECONDED BY DR. LECH AND CARRIED BY A ROLL CALL VOTE TO ACCEPT THE SECOND READING OF SECTIONS A (EXECUTIVE LIMITATIONS) AND SECTION B (GOVERNANCE PROCESS) WHICH ALSO ESTABLISHES THE EXECUTIVE REVIEW COMMITTEE AS A STANDING COMMITTEE OF THE SIB.

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

NAYS: NONE

MOTION CARRIED

ABSENT: MR. SEIBEL

IT WAS MOVED BY COMMISSIONER SMITH AND SECONDED BY DR. LECH AND CARRIED BY A VOICE VOTE TO ACCEPT THE FIRST READING OF ENDS (EXHIBIT D-1/ACCEPTING THE ND OFFICE OF THE ATTORNEY GENERAL AS A CLIENT).

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

NAYS: NONE

MOTION CARRIED

ABSENT: MR. SEIBEL

Securities Litigation Committee - Mr. Hunter updated the SIB on the Securities Litigation Committee's activity as of their September 20, 2019, meeting. The Securities Litigation Committee reviewed their Charter including the jurisdictional, risk and dollar based policy thresholds for pursuing securities litigation as approved by the SIB in 2019; reviewed the SIB approved securities litigation firms including Bernstein Litowitz Berger & Grossmann, Grant & Eisenhofer, and Labaton Sucharow; reviewed and approved the Recovery and Monitoring Reports noting that recoveries increased to \$344,684 in fiscal 2019 versus \$189,006 in fiscal 2018 (and \$424,362 in fiscal 2017); received securities litigation case updates on Volkswagen and Danske Bank from Grant & Eisenhofer in addition to a potential 3M Company case with FRT.

Comments followed on the 3M Company case. Commissioner Smith informed the SIB the Dept. of Trust Land Board discussed this case and their current policy and if there is a combined State loss of a minimum of \$5 million, the State would consider becoming lead plaintiff versus each Board taking losses of \$5 million.

The Dept. of Trust Land Board and SIB will both incur losses in the 3M Company case but the current estimated amount of losses is below the SIB's approved threshold. Commissioner Smith will be working with RIO investment personnel to revise the Dept. of Trust Land's investment policy to address losses in the event both entities incur losses in future cases so the State of North Dakota is represented appropriately.

IT WAS MOVED BY MS. GUMERINGER AND SECONDED BY MR. OLSON AND CARRIED BY A VOICE VOTE TO ACCEPT THE SIB SECURITIES LITIGATION COMMITTEE REPORT.

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

NAYS: NONE

MOTION CARRIED

ABSENT: MR. SEIBEL

Education - Mr. Hunter reminded the SIB to attend approved investment education conferences in the upcoming year to include Callan's annual conference and the Callan College.

Treasurer Schmidt recently sat on a panel for a conference in Utah and proxy voting was an area that was discussed. Treasurer Schmidt is concerned about the State of North Dakota diverting their authority of proxy voting to a third party and does not believe the voting is being done in the best interests of North Dakota. Treasurer Schmidt requested the Dept. of Trust Land and the SIB's proxy voting policies be reviewed and revisions made so the proxies are being voted in a collaborative effort by both entities for the good of North Dakota.

Agency Update - Mr. Hunter provided a brief update on RIO. The Investment Accountant position has been filled and the applicant is expected to begin October 1, 2019. RIO personnel are scheduled to begin interviewing for the Investment/Compliance Officer position in October.

RIO and the State Information Technology Dept. are working to develop a project charter for the Teachers' Fund for Retirement Pension Administration System project.

OTHER:

The next meeting of the SIB for regular business has been scheduled for October 25, 2019, at 8:30 a.m., at the State Capitol, Ft. Union Room.

The next meeting of the Securities Litigation Committee is scheduled for November 7, 2019, at 3:00 p.m. at the Retirement and Investment Office.

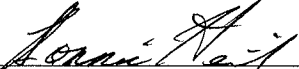
The next meeting of the SIB Audit Committee is scheduled for November 13, 2019, at 3:00 p.m. at the Retirement and Investment Office.

ADJOURNMENT:

With no further business to come before the SIB, Lt. Governor Sanford adjourned the meeting at 10:52 a.m.



Lt. Governor Sanford, Chair
State Investment Board



Bonnie Heit
Recorder

