

**NORTH DAKOTA STATE INVESTMENT BOARD
MINUTES OF THE
JANUARY 24, 2020, BOARD MEETING**

MEMBERS PRESENT: Rob Lech, TFFR Board, Vice Chair
Troy Seibel, PERS Board, Parliamentarian
Jon Godfread, Insurance Commissioner
Toni Gumeringer, TFFR Board
Gary Kreidt, Legacy/Budget Stab. Adv. Board
Adam Miller, PERS Board
Mel Olson, TFFR Board
Kelly Schmidt, State Treasurer
Jodi Smith, Commissioner of Trust Lands
Yvonne Smith, PERS Board

MEMBERS ABSENT: Brent Sanford, Lt. Governor, Chair
Bryan Klipfel, Director of WSI

STAFF PRESENT: Eric Chin, Chief Risk Officer/Senior CIO (tlcf)
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 Financial Acct

GUESTS: Jace Beehler, Governor's Office
Alex Browning, Callan LLC
Sam Coust, Broadridge
Jessica Davis, Insurance Dept.
Mitchell Goldstein, Ares
Kara Herskowitz, Ares
Jana Markowicz, Ares

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, January 24, 2020, at the State Capitol, Ft. Union Room, Bismarck, ND.

AGENDA:

The Board considered the agenda for the January 24, 2020, meeting,

IT WAS MOVED BY MS. SMITH AND SECONDED BY MR. OLSON AND CARRIED BY A VOICE VOTE TO ACCEPT THE AGENDA FOR THE NOVEMBER 22, 2019, MEETING.

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

NAYS: NONE

MOTION CARRIED

ABSENT: COMMISSIONER GODFREAD, MR. KLIPFEL, LT. GOVERNOR SANFORD

MINUTES:

IT WAS MOVED BY MR. OLSON AND SECONDED BY MS. SMITH AND CARRIED BY A VOICE VOTE TO APPROVE THE NOVEMBER 22, 2019, MINUTES AS DISTRIBUTED.

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

NAYS: NONE

MOTION CARRIED

ABSENT: MR. KLIPFEL, COMMISSIONER GODFREAD, LT. GOVERNOR SANFORD

INVESTMENTS:

Mr. Hunter provided an update on the status of the investment portfolios the SIB manages on behalf of its' clients for the period ending November 30, 2019. SIB investments exceeded \$16 billion and are at or near all-time highs, given very favorable capital market and economic conditions and strong oil and gas production levels. Clients earned over \$2 billion of net investment income for the 11 months ending November 30, 2019. Interim results for the four largest investment clients - Legacy Fund 16.2% or \$925 million, Public Employees Retirement System (PERS) 15.9% or \$450 million, Teachers' Fund for Retirement (TFFR) 15.9% or \$365 million, and Workforce Safety & Insurance (WSI) 12.6% or \$235 million. The vast majority of the SIB clients earned at least 0.50% of positive excess return in 2019 based on preliminary valuations.

Mr. Hunter also informed the Board the Office of the State Treasurer inquired if the SIB could accept them as a client to oversee the Veterans Cemetery Fund which is approximately \$500,000. The income from this fund would be used to fund maintenance expenses of the U.S. Veterans Cemetery.

After discussion,

IT WAS MOVED BY MR. OLSON AND SECONDED BY MS. SMITH TO AUTHORIZE RIO PERSONNEL TO WORK TOWARDS ACCEPTING THE VETERANS CEMETARY FUND AS A POTENTIAL NEW CLIENT.

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

NAYS: NONE

MOTION CARRIED

ABSENT: COMMISSIONER GODFREAD, MR. KLIPFEL, LT. GOVERNOR SANFORD

For the record, the Industrial Commission will need to authorize the contract prior to its implementation per State Statute 21-10-02.

Fixed Income - Mr. Schulz reviewed the SIB's current direct lending mandate. Staff is recommending an increase in the commitment to bring the allocation to direct lending strategies closer to target in the Pension Pool and the Legacy Fund. The underweight is a result of the significant growth in assets for both of the portfolios.

Ares representatives reviewed the SIB's portfolio currently under their management.

After the review and further discussion on the recommendation,

IT WAS MOVED BY TREASURER SCHMIDT AND SECONDED BY MS. SMITH AND CARRIED BY A ROLL CALL VOTE TO EXPAND THE EXISTING \$200 MILION COMMITMENT TO THE ARES ND CREDIT STRATEGIES FUND LLC (DIRECT LENDING) BY UP TO \$100 MILLION.

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

NAYS: NONE

MOTION CARRIED**ABSENT: MR. KLIPFEL, LT. GOVERNOR SANFORD**

Investment Consulting - Mr. Hunter reached out to the top 10 investment management consulting firms to learn more about how they conduct their business and the areas in which each firm focuses its resources, efforts and expertise. Based on this review, RIO ranked Callan LLC (1), RVK (2), and Aon (3) as the top three general investment consulting firms for U.S. public pension plans and U.S. sovereign wealth funds which are similar in size, complexity and structure to the SIB and RIO.

RIO staff recommended the SIB maintain their existing investment consulting relationship with Callan LLC given their proven track-record in delivering high quality professional investment management consulting services at a reasonable price while enabling the SIB to generate over 0.50% (or ½ of 1 percent) of positive excess return versus board approved policy benchmarks for the 3, 5 and 10 year periods ended June 30, 2019. Based on \$10 billion of investments and 0.50% of positive excess return for the 10-years ended June 30, 2019, the SIB, RIO and Callan LLC have successfully collaborated to generate approximately \$500 million of incremental income and wealth for the vast majority of SIB clients over the past decade.

After discussion,

IT WAS MOVED BY TREASURER SCHMIDT AND SECONDED BY COMMISSIONER GODFREAD AND CARRIED BY A ROLL CALL VOTE TO EXTEND THE CALLAN LLC RELATIONSHIP PER STAFF RECOMMENDATION.

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

NAYS: NONE

MOTION CARRIED

ABSENT: MR. KLIPFEL, LT. GOVERNOR SANFORD

US Small Cap Equity - Mr. Schulz reviewed the small cap equity market. Staff believes, and academic literature supports, that greater opportunity for active management exists within the U.S. small cap equity space.

Staff recommended the SIB engage Callan LLC to conduct a U.S. small cap equity search to replace the Parametric Russell 2000 synthetic index mandates with (U.S. small cap equity) strategies that have a greater potential for outperformance. Parametric manages over \$1 billion for the SIB including \$432 million of U.S. small cap futures exposure in the Legacy Fund, Pension and Insurance pools. In late-2019, the SIB approved expanding an existing \$160 million relationship with Atlanta Capital in U.S. small cap and the proposed search activity will be aligned to complement the existing manager structure, preserve downside risk protection and efficiently capture upside appreciation in a prudent and cost effective manner. RIO notes this search could result in expanding relationship exposures with existing investment firms.

IT WAS MOVED BY COMMISSIONER SMITH AND SECONDED BY MS. SMITH AND CARRIED BY A ROLL CALL VOTE TO RETAIN CALLAN LLC TO CONDUCT A SMALL CAP MANAGER SEARCH PER STAFF RECOMMENDATION.

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

NAYS: NONE

MOTION CARRIED

ABSENT: MR. KLIPFEL, LT. GOVERNOR SANFORD

Discussion followed on the process of hiring a new manager and how the roles of staff and Callan are defined.

The Board recessed at 9:50 a.m. and reconvened at 10:09 a.m.

GOVERNANCE:

Proxy Voting - Mr. Hunter reviewed revisions to the SIB's proxy voting policy. The SIB, in connection with their annual Governance Manual review, sought to adopt best practices with regards to efficiently monitoring various proxy voting practices which could potentially be misaligned with the interests of their stakeholders and constituents.

RIO staff recommended the SIB engage Broadridge Financial Solutions and utilize their Proxy Disclosure service to enhance the SIB's ability to efficiently audit the proxy voting practices of their equity managers.

After discussion,

IT WAS MOVED BY TREASURER SCHMIDT AND SECONDED BY MR. SEIBEL AND CARRIED BY A ROLL CALL VOTE TO ENTER INTO CONTRACT NEGOTIATIONS, AND THE PROCESS NEEDED WITH RIO STAFF, TO BRING ON BROADRIDGE FINANCIAL SOLUTIONS CONTINGENT UPON REVIEW BY THE ATTORNEY GENERALS OFFICE.

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

NAYS: NONE

MOTION CARRIED

ABSENT: MR. KLIPFEL, LT. GOVERNOR SANFORD

Commissioner Smith requested the contract be written in a general sense so as to allow the State the opportunity to contract with any proxy voting vendor not just a specific vendor as the Land Dept. is also looking into contracting with a proxy voting service. The Board concurred.

IT WAS MOVED BY COMMISSIONER SMITH AND SECONDED BY COMMISSIONER GODFREAD AND CARRIED BY A ROLL CALL VOTE TO ADOPT THE FIRST READING OF THE SIB PROXY VOTING POLICY.

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

NAYS: NONE

MOTION CARRIED

ABSENT: MR. KLIPFEL, LT. GOVERNOR SANFORD

Meeting Schedule - A proposed meeting schedule for July 24, 2020 - May 28, 2021 was presented for the Board's consideration.

IT WAS MOVED BY COMMISSIONER GODFREAD AND SECONDED BY MR. OLSON AND CARRIED BY A ROLL CALL VOTE TO APPROVE THE MEETING SCHEDULE.

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

NAYS: NONE

MOTION CARRIED

ABSENT: MR. KLIPFEL, LT. GOVERNOR SANFORD

Board Self-Assessment - Mr. Hunter inquired if the Board is interested in conducting a self-assessment. Board self-assessments were completed in 2018 by Aon Hewitt and 2019 by the Executive Review Committee (ERC) with the assistance of RIO's Internal Audit Department.

After discussion,

IT WAS MOVED BY COMMISSIONER GODFREAD AND SECONDED BY MR. OLSON AND CARRIED BY A ROLL CALL VOTE TO CONDUCT A BOARD SELF-ASSESSMENT INTERNALLY.

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

NAYS: NONE

MOTION CARRIED

ABSENT: MR. KLIPFEL, LT. GOVERNOR SANFORD

The Board requested the ERC review and make a recommendation to the Board on how often a self-assessment should be conducted and if it should be completed internally or externally.

RIO Compensation Study - Mr. Hunter requested authorization to complete a compensation study in order to improve RIO's ability to attract and retain a dedicated team of top performing professionals who are responsible for administering a \$4 billion retirement benefits program and a \$16 billion investment program.

The Board took no action on the request. Board members expressed the building concern among their own agencies as well as many state agencies who are experiencing the same difficulties of attracting and retaining personnel. Agencies need to continue to bring their concerns to the Office of Management and Budget, Human Resource Management Services, and the Legislature. If there is a compensation study done, it should be mandated by the Legislature.

ERC - The ERC was appointed on July 26, 2019, with the following members serving for the period of July 1, 2019 - June 30, 2020; Ms. Smith, Chair, Mr. Olson, and Mr. Miller. The ERC was also established as a standing committee of the SIB. The ERC will be conducting a formal evaluation of the Executive Director/CIO based on accomplishments of Ends and compliance with Executive Limitations.

The following monitoring reports for the quarter ending December 31, 2019 were presented for the Board's acceptance; Budget/Financial Conditions, Executive Limitations/Staff Limitations, Investment Program, and Retirement Program.

IT WAS MOVED BY MS. GUMERINGER AND SECONDED BY COMMISSIONER SMITH AND CARRIED BY A VOICE VOTE TO ACCEPT THE MONITORING REPORTS FOR THE PERIOD ENDING DECEMBER 31, 2019.

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

NAYS: NONE

MOTION CARRIED

ABSENT: MR. KLIPFEL, LT. GOVERNOR SANFORD

OTHER:

The next meeting of the Securities Litigation Committee is scheduled for February 4, 2020, at 1:00 p.m. at the Retirement and Investment Office.

The next meeting of the SIB Audit Committee is scheduled for February 27, at 3:00 p.m. at the Retirement and Investment Office.

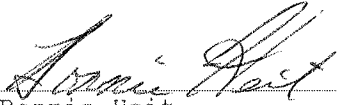
The next meeting of the SIB for regular business has been scheduled for February 28, 2020, at 8:30 a.m., at the State Capitol, Ft. Union Room.

ADJOURNMENT:

With no further business to come before the SIB, Dr. Lech adjourned the meeting at 11:10 a.m.



Rob Lech, Vice Chair
State Investment Board



Bonnie Heit
Recorder