

**NORTH DAKOTA STATE INVESTMENT BOARD  
MINUTES OF THE  
MARCH 27, 2020, BOARD MEETING**

**MEMBERS PRESENT:** Brent Sanford, Lt. Governor, Chair  
Rob Lech, TFFR Board, Vice Chair  
Bryan Klipfel, Director of WSI  
Troy Seibel, PERS Board, Parliamentarian  
Toni Gumeringer, TFFR Board  
Keith Kempenich, 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:** Jon Godfread, Insurance Commissioner

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

**GUESTS:** Alex Browning, Callan LLC  
Paul Erlendson, Callan LLC  
Ben Lazarus, Parametric  
Thomas Lee, Parametric  
Bob McConnell, City of Bismarck  
Bryan Reinhardt, PERS

**CALL TO ORDER:**

Lt. Governor Sanford, Chair, called the State Investment Board (SIB) regular meeting to order at 9:00 a.m. on Friday, March 27, 2020. The virtual meeting was held at the Retirement and Investment Office, 3442 East Century Avenue, Bismarck, ND with the majority of the participants attending remotely.

**AGENDA:**

The Board considered the agenda for the March 27, 2020, meeting,

**IT WAS MOVED BY DR. LECH AND SECONDED BY MR. OLSON AND CARRIED BY A VOICE VOTE TO ACCEPT THE AGENDA FOR THE MARCH 27, 2020, MEETING.**

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

**NAYS: NONE**

**MOTION CARRIED**

**ABSENT: COMMISSIONER GODFREAD**

**MINUTES:**

IT WAS MOVED BY MS. SMITH AND SECONDED BY DR. LECH AND CARRIED BY A VOICE VOTE TO APPROVE THE FEBRUARY 28, 2020, MINUTES AS DISTRIBUTED.

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

NAYS: NONE

MOTION CARRIED

ABSENT: COMMISSIONER GODFREAD

INVESTMENTS:

Mr. Hunter highlighted returns for the five largest SIB clients for the period ending March 25, 2020. Estimated client returns are consistent with their underlying asset allocation with Teachers' Fund for Retirement (TFFR), Public Employees Retirement System (PERS) down approximately 9 percent, Legacy Fund down approximately 8 percent, Workforce Safety & Insurance down about 1 percent, and the Budget Stabilization Fund up approximately 4 percent from July 1, 2019 - March 25, 2020. Funds with higher equity allocations are more adversely impacted by the recent severe equity market decline. TFFR, PERS, and Legacy Fund have target allocations to public equities of 52 percent, 51 percent, and 50 percent, respectively, while TFFR and PERS have target private equity allocations of 6 percent and 7 percent, respectively.

Callan LLC representatives also provided a general market analysis.

Mr. Hunter also reviewed recent asset class returns and the speed and severity of the current market decline in comparison to prior market corrections. He reviewed S&P 500 returns in the 12 months following the last seven major downturns, dating back to Black Monday in 1987, and highlighted the historical benefits of staying invested for the last 20 years which included the March 2000 Tech Bubble, 2007 Financial Crisis, 2011 U.S. Credit Downgrade, and 4<sup>th</sup> quarter 2018 Trade War. Mr. Hunter reminded the board that the goal is to remain invested and remain focused on the long term asset allocation policies.

Mr. Hunter updated the Board on proxy voting negotiations with Broadridge Financial Solutions and the SIB's custodian - The Northern Trust (TNT). Investment personnel continue to work with both entities to develop a practical and cost efficient process to enhance staff's ability to efficiently monitor the proxy voting policies, practices and actions of the SIB's equity managers in order to gain assurance that the managers are materially aligned with the investment beliefs of the SIB and the best interests of the SIB's stakeholders and constituents. Mr. Hunter hopes to finalize the process between the two entities soon and will provide a future update.

Parametric - Mr. Hunter updated the board on the Parametric overlay program. Due to a sharp selloff in global equities in recent weeks amid the novel coronavirus pandemic, the three primary SIB investment pools have experienced variances from equity target allocations that are approaching policy lower bounds. Given liquidity challenges in bond markets globally, the cost to transact in physical bonds is prohibitively expensive, which restricts institutions from using bonds as a source of funds to rebalance into public equities. Futures contracts remain a liquid and relatively inexpensive way to access public market exposure synthetically. The overlay program is similar to Board action undertaken during the depths of the Global Financial Crisis in 2008 and generated \$100 million of net investment gains for the SIB's clients when used to synthetically rebalance exposures.

Parametric representatives reviewed the firm's overlay services and the benefits of using an equity and fixed income overlay program to synthetically rebalance fund exposures in an efficient and cost effective manner.

After the review, staff recommended the following:

The SIB engage Parametric to establish a synthetic rebalancing overlay program that could be activated should market conditions persist. The goal is to have a timely, efficient and inexpensive rebalancing solution to supplement trading in physical markets, which in the case of fixed income has seen a deterioration of liquidity, challenging price discovery, wide bid-ask spreads, and dramatically higher transaction costs.

**IT WAS MOVED BY TREASURER SCHMIDT AND SECONDED BY MS. SMITH AND CARRIED BY A ROLL CALL VOTE TO ACCEPT STAFF RECOMMENDATION TO RETAIN PARAMETRIC TO ESTABLISH A CONTINGENT FUTURES OVERLAY PROGRAM.**

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

**NAYS: NONE**

**MOTION CARRIED**

**ABSENT: COMMISSIONER GODFREAD**

SIB Client (New) - At the January 24, 2020, meeting, the SIB authorized staff to work towards accepting the Office of the State Treasurer as an investment client in relation to the ND Veterans' Cemetery Trust Fund. The Industrial Commission, at their March 9, 2020, meeting, approved the relationship per NDCC 21-10-06.

Staff recommended the SIB formally accept the Office of the State Treasurer as a contractual investment client for the Veterans' Cemetery Trust Fund along with their Investment Policy Statement.

**IT WAS MOVED BY TREASURER SCHMIDT AND SECONDED BY DR. LECH AND CARRIED BY A ROLL CALL VOTE TO ACCEPT STAFF RECOMMENDATION.**

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

**NAYS: NONE**

**MOTION CARRIED**

**ABSENT: COMMISSIONER GODFREAD**

**GOVERNANCE:**

Executive Review Committee (ERC) - The board-assessment and trustee-assessment results were presented by Ms. Sauter. There was 100 percent participation. On a 4.0 scale there were no ratings below 3.0. Generally, overall comments were positive for both portions.

Discussion followed on the results and areas that need improvement.

**IT WAS MOVED BY MS. GUMERINGER AND SECONDED BY MR. OLSON AND CARRIED BY A ROLL CALL VOTE TO ACCEPT THE BOARD-ASSESSMENT AND TRUSTEE-ASSESSMENTS.**

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

**NAYS: NONE**

**MOTION CARRIED**

**ABSENT: COMMISSIONER GODFREAD**

The ERC requested Ms. Sauter to send out the Executive Director/CIO survey on March 19, 2020, with a due date of April 2, 2020.

The ERC will present a summary of the Executive Director/CIO survey, RIO employee survey, and Executive Limitations along with a compensation recommendation at the April 24, 2020, meeting.

Agency Update - Mr. Hunter informed the board the office is fully functional. The office is closed to the public and most non-managerial positions are working remotely.

The Deputy Executive Director/Chief Retirement Officer position was reposted on March 9, 2020, with a closing date of April 9, 2020.

The Retirement Program Manager position was accepted by Ms. Denise Weeks, effective March 1, 2020. RIO will be posting a Retirement Programs Specialist vacancy in the near future.

The Investment Accountant position has been filled by Ms. Ann Griffin, effective March 2, 2020.

The office website is still moving forward with processes being automated.

The Pension Administration System has not had as much time devoted to it but staff hopes to get back on schedule once the critical issues are addressed.

Mr. Hunter stated he is pleased on how the office is running considering the challenging times RIO and everyone else is working through.

**OTHER:**

The next meeting of the SIB Executive Review Committee has been scheduled for April 13, 2020, at 8:30 a.m. at the Retirement and Investment Office.

The next meeting of the SIB for regular business has been scheduled for April 24, 2020, at 8:30 a.m., at the State Capitol, Ft. Union Room.

The next meeting of the SIB Securities Litigation Committee is scheduled for May 19, 2020, at 1:00 p.m. at the Retirement and Investment Office.

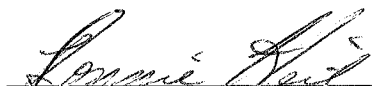
The next meeting of the SIB Audit Committee is scheduled for May 21, 2020, at 3:00 p.m. at the Retirement and Investment Office.

**ADJOURNMENT:**

With no further business to come before the SIB, Lt. Governor Sanford adjourned the meeting at 10:35 a.m.



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Lt. Governor Brent Sanford, Chair  
State Investment Board



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Bonnie Heit  
Recorder