

**NORTH DAKOTA STATE INVESTMENT BOARD  
MINUTES OF THE  
MAY 22, 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

**MEMBER 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  
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  
Jenny Chan, Macquarie  
Dean DePountis, Attorney General's Office  
Paul Erlendson, Callan LLC  
Andrew Killian, Macquarie  
Karl Kuchel, Macquarie  
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, May 22, 2020. The virtual meeting was held at the Retirement and Investment Office (RIO), 3442 East Century Avenue, Bismarck, ND with the majority of the participants attending remotely.

**AGENDA:**

The Board considered the agenda for the May 22, 2020, meeting,

**IT WAS MOVED BY MR. OLSON AND SECONDED BY MS. SMITH AND CARRIED BY A VOICE VOTE TO ACCEPT THE AGENDA FOR THE MAY 22, 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 DR. LECH AND SECONDED BY MS. GUMERINGER AND CARRIED BY A VOICE VOTE TO APPROVE THE APRIL 24, 2020, MINUTES AS DISTRIBUTED.

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

NAYS: NONE

MOTION CARRIED

ABSENT: COMMISSIONER GODFREAD

INVESTMENTS:

Mr. Hunter highlighted performance for the period ending March 31, 2020. U.S. Equity markets fell 20% in the first quarter of 2020 after gaining 30% in 2019. Equity and fixed income markets improved considerably in April, while May returns have been mixed, to date, given continuing uncertainty and the impact of the global pandemic on public health, unemployment, consumer spending, and economic growth.

The Pension Trust posted a net return of -3.4% in the last year. During the last 5 years, the Pension Trust generated a net annualized return of 4.2%, exceeding the performance benchmark of 3.8%. The Insurance Trust generated a net return of 0.8% in the last year. During the last 5 years, the Insurance Trust posted a net annualized return of 4.0%, exceeding the performance benchmark of 3.7%. The Legacy Fund generated a net return of -4.2% last year. During the last 5 years, the Legacy Fund earned a net annualized return of 3.5%, exceeding the performance benchmark of 3.4%.

Fiscal year-to-date returns for Teachers' Fund for Retirement (TFFR), Public Employees Retirement System (PERS) and the Legacy Fund are estimated to approximate -3% from July 1, 2019 to May 14, 2020. Fiscal year-to-date returns for Workforce Safety & Insurance (WSI) and Budget Stabilization are estimated to range from +1% to -1% during this same period. TFFR, PERS, and the Legacy Fund net returns ranged from -12.0% to -12.7% for the quarter ending March 31, 2020, noting U.S. and global equities lost over 20% in the first quarter. WSI and Budget Stabilization are estimated to range from +1% to -1% for the same period.

Monitoring of the portfolios against their target allocations is taking place on a daily basis with the additional assistance of Parametric to synthetically rebalance fund exposures in an efficient and cost effective manner. Within the Pension Pool, Insurance Pool, and Legacy Fund, the Public Equity and Fixed Income/Cash are within 1% of target. The Pension Pool in Private Equity is underweighted by approximately \$92 million and Private Real Estate is over weighted by approximately \$81 million.

Mr. Hunter requested a June 26, 2020, meeting be added to the SIB schedule to review U.S. Small Cap Equity.

IT WAS MOVED BY MR. OLSON AND SECONDED BY MS. SMITH AND CARRIED BY A VOICE VOTE TO SCHEDULE A JUNE 26, 2020, MEETING.

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

NAYS: NONE

MOTION CARRIED

ABSENT: COMMISSIONER GODFREAD

IT WAS MOVED BY DR. LECH AND SECONDED BY TREASURER SCHMIDT AND CARRIED BY A VOICE VOTE TO ACCEPT THE PERFORMANCE OVERVIEW FOR THE PERIOD ENDING MARCH 31, 2020.

**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**

**CALLAN LLC:**

Representatives reviewed the investment performance of the Pension Trust, Insurance Trust, and Legacy Fund for the period ending March 31, 2020. Callan LLC also provided a market update for the same period.

**IT WAS MOVED BY MR. OLSON AND SECONDED BY MS. SMITH AND CARRIED BY A ROLL CALL VOTE TO ACCEPT CALLAN'S INVESTMENT REVIEW FOR THE PERIOD ENDING MARCH 31, 2020.**

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

**NAYS: NONE**

**MOTION CARRIED**

**ABSENT: COMMISSIONER GODFREAD**

**INFRASTRUCTURE OVERVIEW:**

Mr. Hunter provided an overview of MacQuarie's Infrastructure Partners V investment opportunity.

Macquarie representatives reviewed their Infrastructure Partners V portfolio.

RIO's investment team recommended the SIB commit up to \$100 million to the MacQuarie Infrastructure Partners V in order to further diversify real asset investments within the Pension Pool, Insurance Pool, and Legacy Fund. RIO's investment team worked with Mercer and Callan's infrastructure specialists to reaffirm MacQuarie as a proven leader in the infrastructure sector.

**IT WAS MOVED BY MR. OLSON AND SECONDED BY DR. LECH AND CARRIED BY A ROLL CALL VOTE TO ACCEPT STAFF RECOMMENDATION AND COMMIT \$100 MILLION TO THE MACQUARIE INFRASTRUCTURE PARTNERS V FUND.**

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

**NAYS: NONE**

**MOTION CARRIED**

**ABSENT: MR. SEIBEL, COMMISSIONER GODFREAD**

**GOVERNANCE:**

Audit Committee - Ms. Sauter reviewed Internal Audit activities for the period of January 1, 2020 - March 31, 2020.

CliftonLarsonAllen (CLA) reviewed their financial audit scope and approach of RIO for the period of July 1, 2019 - June 30, 2020.

Audit Activities Completed on Behalf of RIO - The Administrative Expense Audit was issued January 30, 2020. Internal Audit reviewed RIO's policies pertaining to travel and office expenses and compared those to the Office of Management and Budget (OMB) policies and state purchasing requirements.

Audit Activities Completed on Behalf of the SIB - The Executive Limitations Audit for the calendar year January 1, 2019 - December 31, 2019 was issued on February 27, 2020. The audit reviews the Executive Director/CIO's level of compliance with SIB Governance Manual Executive Limitation policies.

Assistance was provided to the Executive Review Committee (ERC) in administering a board self-evaluation. Results were issued to the SIB on March 27, 2020.

Assistance was also provided to the ERC for the annual evaluation of the Executive Director/CIO. Surveys were sent to the SIB and RIO staff. The RIO staff survey was completed in March 2020 and the SIB survey was administered in March/April 2020 and the results were reported to the ERC.

The Cash Management and Rebalancing Audit was started in March 2020 which entails a review of procedures for cash management and rebalancing of investment allocations. Due to COVID-19, the audit is on hold.

The Internal Control Assessment was started in March 2020. The internal control guidelines put forth by the Office of Management and Budget will be completed first. Due to COVID-19, the audit was temporarily put on hold but is now in progress.

Audit Activities Completed on Behalf of TFFR - Three Employer Audits were completed and one was in progress.

The Salary Verification which entails the reconciliation of salaries is currently in progress.

The TFFR File Maintenance Audit was completed and a report was issued January 31, 2020.

The Benefit Payment Audit was completed and a report was issued April 20, 2020.

A Task List Project is underway and will run through June 30, 2020. Internal Audit is working with Retirement Services, Administrative Services, and Information Technology on tracking retirement program activities due to retirements and the implementation of the Pension Administration System (PAS).

Internal Audit has been working with the internal Information Technology Division as well as the ND Information Technology Department to develop data analytics to help streamline the TFFR Employer Salary, Service Hours, and Eligibility Review process. Internal Audit is currently working through the first employer audit comparing the employer master payroll file with the Education Standards and Practices Board database.

**IT WAS MOVED BY MS. SMITH AND SECONDED BY MS. GUMERINGER AND CARRIED BY A VOICE VOTE TO ACCEPT THE INTERNAL AUDIT REPORT FOR THE PERIOD OF JANUARY 1, 2020 - MARCH 31, 2020.**

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

**NAYS: NONE**

**MOTION CARRIED**

**ABSENT: COMMISSIONER GODFREAD, MR. SEIBEL**

Securities Litigation Committee - Mr. Hunter reviewed activities of the Securities Litigation Committee's (SLC) April 30, 2020, special meeting. The SLC reviewed a developing international securities litigation case involving investors in Nissan Motor Co. Ltd. who suffered damages as a result of alleged financial misconduct. The SLC, based on recommendations from Financial Recovery Technologies, elected to opt in on the group securities litigation case. The ND Emergency Commission approved the SLC's request to engage in a litigation contingency fee arrangement in an effort to recover damages. RIO is currently in the process of obtaining approval from the Office of the Attorney General for the appointment of a Special Assistant Attorney General.

Mr. Hunter also informed the SIB, RIO is planning to work with RIO's Attorney General counsel to draft legislation which would allow the SIB to engage in litigation contingency fee arrangements in the future without the prior consent of the ND Emergency Commission.

**IT WAS MOVED BY MS. GUMERINGER AND SECONDED BY MS. SMITH TO ACCEPT THE SECURITIES LITIGATION REPORT.**

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

**NAYS: NONE**

**MOTION CARRIED**

**ABSENT: COMMISSIONER GODFREAD, MR. SEIBEL**

Executive Review Committee - Ms. Smith reminded the SIB the Executive Review Committee (ERC) was charged with recommending a compensation increase for the Executive Director/CIO. Data reveals the compensation for the Executive Director/CIO is well below peer wage comparisons within other state run agencies similar to the SIB. Given the economic downturn, Ms. Smith encouraged the SIB to consider a wage package when deemed more appropriate.

Governor's Budget Guidelines - Mr. Hunter reviewed the 2021-23 budget guidelines for RIO from the Office of Management and Budget. Agencies are required to reprioritize 5 percent of the 2019-21 special funds adjusted legislative base. Mr. Hunter also provided an update on vacancies and the TFFR PAS.

**MONITORING:**

The monitoring reports for the quarter were presented for the SIB's approval. Mr. Hunter also indicated LSV is currently on the Watch List and staff continues to conduct their due diligence.

**IT WAS MOVED BY DR. LECH AND SECONDED BY MR. OLSON AND CARRIED BY A VOICE VOTE TO ACCEPT THE MONITORING REPORTS FOR THE QUARTER ENDING MARCH 31, 2020.**

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

**NAYS: NONE**

**MOTION CARRIED**

**ABSENT: MR. SEIBEL, COMMISSIONER GODFREAD**

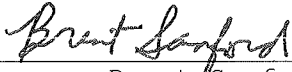
**OTHER:**

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 (virtual).

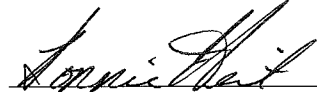
The next special meeting of the SIB has been scheduled for June 26, 2020, at 8:30 a.m., at the Retirement and Investment Office (virtual).

**ADJOURNMENT:**

With no further business to come before the SIB, Lt. Governor Sanford adjourned the meeting at 10:53 a.m.



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Lt. Governor Brent Sanford, Chair  
State Investment Board



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Bonnie Heit  
Recorder