NORTH DAKOTA STATE INVESTMENT BOARD
MINUTES OF THE
JULY 24, 2020, 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
Yvonne Smith, PERS Board

MEMBER ABSENT:
Jodi Smith, Commissioner of Trust Lands

STAFF PRESENT:
Eric Chin, Chief Risk Officer/Senior CIO
Ann Griffin, Investment Accountant
Bonnie Heit, Admin Svcs Suprv
David Hunter, Exec Dir/CIO
Jan Murtha, Dep Exec Dir/CRO
Rich Nagel, Information Technology Suprv
Matt Posch, Investment/Compliance Officer
Sara Sauter, Suprv of Internal Audit
Darren Schulz, Dep CIO
Susan Walcker, Senior Financial Accountant

GUESTS:
Dean DePoutis, Attorney General's Office
Daniel Dy, Sycamore Capital
Gary Miller, Sycamore Capital
Bryan Reinhardt, PERS

CALL TO ORDER:
Lt. Governor Sanford, called the State Investment Board (SIB) regular meeting to order at 8:30 a.m. on Friday, July 24, 2020. The virtual meeting was held at the Retirement and Investment Office (RIO), 3442 East Century Avenue, Bismarck, ND.

AGENDA:
The Board considered the agenda for the July 24, 2020, meeting,

IT WAS MOVED BY DR. LECH AND SECONDED BY MS. SMITH AND CARRIED BY A VOICE VOTE TO ACCEPT THE AGENDA FOR THE JULY 24, 2020, MEETING.

AYES: MS. SMITH, MR. KLIPFEL, TREASURER SCHMIDT, DR. LECH, MR. OLSON, MR. SEIBEL, MR. MILLER, AND LT. GOVERNOR SANFORD
NAYS: NONE
MOTION CARRIED
ABSENT: MS. GUMERINGER, COMMISSIONER SMITH, COMMISSIONER GODFREAD
MINUTES:

IT WAS MOVED BY MS. SMITH AND SECONDED BY MR. OLSON AND CARRIED BY A VOICE VOTE TO APPROVE THE JUNE 26, 2020, MINUTES AS DISTRIBUTED.

AYES: MR. OLSON, MR. SEIBEL, MS. SMITH, MR. MILLER, TREASURER SCHMIDT, MR. KLIPFEL, DR. LECH, AND LT. GOVERNOR SANFORD
NAYS: NONE
MOTION CARRIED
ABSENT: COMMISSIONER SMITH, MS. GUMERINGER, COMMISSIONER GODFREAD

ELECTIONS:

IT WAS MOVED BY DR. LECH AND SECONDED BY MR. OLSON AND CARRIED BY A ROLL CALL VOTE TO NOMINATE LT. GOVERNOR SANFORD AS CHAIR FOR THE PERIOD OF JULY 1, 2020 – JUNE 30, 2021.

AYES: MR. KLIPFEL, MR. OLSON, TREASURER SCHMIDT, MR. SEIBEL, DR. LECH, MR. MILLER, MS. SMITH, AND LT. GOVERNOR SANFORD
NAYS: NONE
MOTION CARRIED
ABSENT: COMMISSIONER GODFREAD, COMMISSIONER SMITH, MS. GUMERINGER

IT WAS MOVED BY MR. OLSON AND SECONDED BY MS. SMITH AND CARRIED BY A ROLL CALL VOTE TO NOMINATE DR. LECH AS VICE CHAIR FOR THE PERIOD OF JULY 1, 2020 – JUNE 30, 2021.

AYES: MS. SMITH, DR. LECH, MR. SEIBEL, MR. KLIPFEL, MR. OLSON, MR. MILLER, TREASURER SCHMIDT, LT. GOVERNOR SANFORD, AND MS. GUMERINGER
NAYS: NONE
MOTION CARRIED
ABSENT: COMMISSIONER GODFREAD, COMMISSIONER SMITH

Lt. Governor Sanford reappointed Mr. Seibel as Parliamentarian for the period of July 1, 2020 – June 30, 2021.

IT WAS MOVED BY TREASURER SCHMIDT AND SECONDED BY MR. OLSON AND CARRIED BY A ROLL CALL VOTE TO RETAIN THE CURRENT COMPOSITION OF THE AUDIT COMMITTEE FOR THE PERIOD OF JULY 1, 2020 – JUNE 30, 2021.

AYES: DR. LECH, TREASURER SCHMIDT, MR. OLSON, MR. SEIBEL, MR. MILLER, MS. GUMERINGER, MS. SMITH, MR. KLIPFEL, AND LT. GOVERNOR SANFORD
NAYS: NONE
MOTION CARRIED
ABSENT: COMMISSIONER SMITH, COMMISSIONER GODFREAD


AYES: TREASURER SCHMIDT, MS. GUMERINGER, MR. KLIPFEL, MS. SMITH, DR. LECH, MR. MILLER, MR. SEIBEL, MR. OLSON, AND LT. GOVERNOR SANFORD
NAYS: NONE
MOTION CARRIED
ABSENT: COMMISSIONER GODFREAD, COMMISSIONER SMITH
The membership of the Executive Review Committee will be addressed at the January 21, 2021, meeting when the SIB addresses Board Self-Assessment and evaluation of the Executive Director/CIO.

INVESTMENTS:

Interim Performance – Mr. Hunter reviewed performance as of June 30, 2020.

1. Investment volatility hit an all-time high in 2020 as the longest bull market in history (11+ years) was immediately followed by one of the fastest bear market corrections on record (less than one month). This record level of volatility resulted in U.S. and global equities increasing by 30% in 2019 prior to falling 20% in the first quarter of 2020.

2. Teachers’ Fund for Retirement (TFFR), Public Employees Retirement System (PERS) and Legacy Fund investments gained 18% in 2019 before losing 12% in Q1 of 2020 as their diversified portfolios served to dampen roughly 40% of the equity market volatility (or experience roughly 60% of the equity market gains/losses). The impact of the COVID-19 pandemic on public health, global economy, capital markets, and consumer spending was unprecedented.

3. TFFR, PERS and Legacy Fund returns materially improved in April and May due to a strong equity market recovery with fiscal year-to-date net investment returns of approximately +1.5% for TFFR and PERS and 2.0% for the Legacy Fund as of May 31, 2020.

4. Based on preliminary market data which is unaudited and subject to material change, TFFR, PERS and Legacy Fund net investment returns are roughly estimated to range from 3% to 4% on a fiscal year to date basis as of June 30, 2020.

5. Net investment returns for WSI and Budget Stabilization have also materially recovered from disappointing levels in March and preliminary indicative returns are roughly estimated at 5% for WSI and 1.5% for the Budget Stabilization Fund as of June 30, 2020.

<table>
<thead>
<tr>
<th></th>
<th>TFFR</th>
<th>PERS</th>
<th>Legacy</th>
<th>WSI</th>
<th>Budget Stabilization</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net Returns for 1-Year Ended 12/31/2019</td>
<td>18.0%</td>
<td>18.0%</td>
<td>18.1%</td>
<td>13.6%</td>
<td>4.7%</td>
</tr>
<tr>
<td>Net Returns for 1-Year Ended 9/30/2019</td>
<td>0.4%</td>
<td>0.4%</td>
<td>1.0%</td>
<td>1.7%</td>
<td>0.9%</td>
</tr>
<tr>
<td>Net Returns for 1-Year Ended 12/31/2019</td>
<td>5.6%</td>
<td>5.7%</td>
<td>5.2%</td>
<td>2.6%</td>
<td>0.8%</td>
</tr>
<tr>
<td>Net Returns for 1-Year Ended 3/31/2020</td>
<td>-12.0%</td>
<td>-12.1%</td>
<td>-12.7%</td>
<td>-6.1%</td>
<td>-3.6%</td>
</tr>
<tr>
<td>Monthly Return for April 30, 2020</td>
<td>5.7%</td>
<td>5.8%</td>
<td>6.4%</td>
<td>4.1%</td>
<td>1.6%</td>
</tr>
<tr>
<td>Monthly Return for May 31, 2020</td>
<td>2.9%</td>
<td>2.8%</td>
<td>3.4%</td>
<td>2.2%</td>
<td>1.3%</td>
</tr>
<tr>
<td>Total Fund Actual through 31-May</td>
<td>1.5%</td>
<td>1.5%</td>
<td>2.0%</td>
<td>4.3%</td>
<td>0.9%</td>
</tr>
<tr>
<td>Est. MTD through 6/30/2020</td>
<td>1.7%</td>
<td>1.7%</td>
<td>1.7%</td>
<td>1.1%</td>
<td>0.6%</td>
</tr>
<tr>
<td>Estimated FYTD Return 6/30/2020</td>
<td>3.3%</td>
<td>3.2%</td>
<td>3.7%</td>
<td>5.4%</td>
<td>1.5%</td>
</tr>
</tbody>
</table>

Investment Policy Statements – Mr. Hunter requested the SIB accept investment policy statement changes recently approved by the PERS Board.

On July 14, 2020, the PERS board approved a 0.50% reduction in the actuarial assumed rate of return on assets for PERS Main (Pension) Plan thereby reducing the assumed long-term rate of return to 7.00% from 7.50% with an effective date of July 1, 2020.

On July 14, 2020, the PERS board approved a 1.00% reduction in the actuarial assumed rate of return on assets for the PERS Retiree Health Insurance Credit Fund (RHIC) thereby reducing the assumed long-term rate of return to 6.50% from 7.50% with an effective date of July 1, 2020.
On July 14, 2020, the PERS board approved a 0.25% reduction in the actuarial assumed rate of return in the Employees of Job Service ND plan given current and forecasted capital market expectations with an effective date of July 1, 2020.

IT WAS MOVED BY MS. SMITH AND SECONDED BY DR. LECH AND CARRIED BY A ROLL CALL VOTE TO ACCEPT THE REVISED PERS, PERS RETIREE HEALTH INSURANCE CREDIT FUND, AND EMPLOYEES OF JOB SERVICE ND INVESTMENT POLICY STATEMENTS.

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

NAYS: NONE

MOTION CARRIED

ABSENT: COMMISSIONER GODFREAD, COMMISSIONER SMITH

Also included was the investment policy statement for the ND Department of Environmental Quality. The only change was a minor technical correction which did not impact any investment return, risk, or liquidity objectives. No action was needed by the Board.

Legacy Fund Earnings Committee - Mr. Hunter attended a Legacy Fund Earnings Committee meeting on July 8, 2020, to review and/or discuss:

1) the status of Legacy Fund earnings (as presented by Legislative Council staff);

2) proposed uses of Legacy Fund earnings (from prior Committee meetings);

3) bill draft 21.0111.0100 relating to an amendment to NDCC Section 21-10-06. Creates a new Legacy Fund Earnings Reserve Fund, to be invested by the SIB, which is based on the Percent of Market Value approach endorsed by the SIB at their August 23, 2019, meeting. The number of years to be averaged and spending appropriation percentage is not specified.

4) an example of a plan to distribute funding from the proposed Legacy Earnings Fund.

Discussion followed.

US Small Cap Equity - Mr. Schulz provided an overview of the US Small Cap Equity search. The SIB approved staff’s recommendation to replace the existing Parametric Clifton Russell 2000 synthetic beta mandates with US Small Cap Equity strategies which have a greater potential for outperformance. The Board also approved RIO’s recommendation to formally engage Callan LLC to conduct the search to identify two candidates that would complement the existing U.S. Small Cap Equity manager Atlanta Capital. Parametric Clifton currently manages synthetic U.S. small cap index mandates on behalf of the Pension, Insurance, and Legacy pools totaling approximately $400 million.

Sycamore Capital representatives reviewed their Small Cap Value Equity strategy.

Mr. Chin reviewed staff’s recommendation to approve Sycamore Capital (a Victory Capital Management (VCM) franchise) as a new U.S. small cap equity manager to replace the Parametric Clifton Russell 2000 mandate. The Sycamore Small Cap Value Equity Strategy (SSCVS), a bottom up, quality small cap value strategy serves as an attractive complement to both the SIB’s existing mandate with Atlanta Capital and the pending mandate with Riverbridge. Given recent market volatility, staff adjusted its recommendations from a fixed dollar amount to a percentage of each portfolio. The target percentages were outlined as follows:
As of May 31, 2020

<table>
<thead>
<tr>
<th>AUM</th>
<th>Current Small Cap Policy Target ($)</th>
<th>Current Small Cap Policy Target (%)</th>
<th>Target Allocation SSCVS ($)</th>
<th>Target Allocation SSCVS (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pension Pool</td>
<td>$ 5,929,614,332.40</td>
<td>$ 289,719,054.06</td>
<td>4.89%</td>
<td>$ 96,573,018.02</td>
</tr>
<tr>
<td>Insurance Pool</td>
<td>$ 2,949,465,827.17</td>
<td>$ 71,142,278.14</td>
<td>2.41%</td>
<td>$ 23,714,092.71</td>
</tr>
<tr>
<td>Legacy Fund</td>
<td>$ 6,839,248,010.24</td>
<td>$ 547,139,840.82</td>
<td>8.00%</td>
<td>$ 182,379,946.94</td>
</tr>
<tr>
<td>Total</td>
<td>$ 15,718,328,169.81</td>
<td>$ 908,001,173.02</td>
<td>5.78%</td>
<td>$ 302,667,057.67</td>
</tr>
</tbody>
</table>

IT WAS MOVED BY DR. LECH AND SECONDED BY COMMISSIONER GODFREED AND CARRIED BY A ROLL CALL VOTE TO ACCEPT STAFF RECOMMENDATION AND ENGAGE IN THE Sycamore STRATEGY.

AYES: TREASURER SCHMIDT, MR. SEIBEL, MR. OLSON, DR. LECH, MR. MILLER, COMMISSIONER GODFREED, MS. GUMERINGER, MS. SMITH, MR. KLIPPEL, AND LT. GOVERNOR SANFORD
NAYS: NONE
MOTION CARRIED
ABSENT: COMMISSIONER SMITH

GOVERNANCE/EDUCATION:

Meeting Schedule - A revised meeting schedule for July 1, 2020 - June 30, 2021 was presented for the Board’s acceptance.

IT WAS MOVED BY DR. LECH AND SECONDED BY COMMISSIONER GODFREED AND CARRIED BY A VOICE VOTE TO ACCEPT THE REVISED MEETING SCHEDULE FOR JULY 1, 2020 - JUNE 30, 2121.

AYES: COMMISSIONER GODFREED, MR. KLIPPEL, MS. GUMERINGER, MS. SMITH, MR. SEIBEL, MR. MILLER, DR. LECH, MR. OLSON, TREASURER SCHMIDT, AND LT. GOVERNOR SANFORD
NAYS: NONE
MOTION CARRIED
ABSENT: COMMISSIONER SMITH

Agency Update - The RIO website is scheduled to go live August 4, 2020. The website is a state website platform.

Ms. Murtha provided an update on the TFFR Pension Administration System (PAS). The Request for Proposal (RFP) was issued for the consultant on June 2, 2020, with a June 30, 2020, deadline for receipt of proposals. Proposals were received and reviewed. A vendor was selected and is going through the procurement process and staff is hoping to have a contract executed by August 12, 2020. With the assistance of the consultant, the next phase would be to issue an RFP for the software vendor.

Mr. Hunter provided an agency budget update. RIO’s base budget was submitted in accordance with the Governor’s instruction for a “hold even” budget with three optional packages.

Code of Conduct - SIB Governance Policy/Board Members’ Code of Conduct requires the SIB members reaffirm their understanding of the policy on an annual basis and disclose any conflicts of interest. Mr. Posch requested the Board members to acknowledge the affirmation by signing and dating the form and returning to staff by August 15, 2020.

Fiduciary Education - Ms. Murtha presented an educational segment on Fiduciary Obligations.

Investment Manager Catalog - In the Board’s meeting materials was a catalog of investment managers which includes a brief description of existing investment strategies.
and firms, the date in which the SIB engaged the firms for a specific mandate, the asset class (or classes) for which they offer their services and the major investment pools (or trusts) in which these strategies are utilized. A listing of closed investment strategies is also included in the catalog.

OTHER:

The next regular meeting of the SIB Securities Litigation Committee is scheduled for August 11, 2020, at 2:00 p.m. at RIO (virtual).

The next regular meeting of the SIB Audit Committee is scheduled for August 13, 2020, at 2:30 p.m. at RIO (virtual).

The next regular meeting of the SIB has been scheduled for August 28, 2020, at 8:30 a.m. at RIO (virtual).

ADJOURNMENT:

With no further business to come before the SIB, Lt. Governor Sanford adjourned the meeting at 10:40 a.m.

Lt. Governor Sanford, Chair
State Investment Board

Bonnie Heit
Recorder