

**NORTH DAKOTA STATE INVESTMENT BOARD
MINUTES OF THE
AUGUST 28, 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
 Jodi Smith, Commissioner of Trust Lands
 Yvonne Smith, PERS Board

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
 Jan Murtha, Dep Exec Dir/CRO
 Matt Posch, Investment/Compliance Officer
 Sara Sauter, Suprv of Internal Audit
 Darren Schulz, Dep CIO
 Dottie Thorsen, Internal Auditor
 Susan Walcker, Senior Financial Accountant
 Len Wall, Information Security

GUESTS:

Lynn Baranski, BlackRock
 Dave Brett, Public Citizen
 Aimee Copas, Council of Educational Leaders
 Dean DePountis, Attorney General's Office
 Simon Dwyer, BlackRock
 Miguel Gonzalo, Adams Street
 Jordan Hutzenbuhler, Public Citizen
 Kelly Meldrum, Adams Street
 Ross Ramatici, Public Citizen
 Bryan Reinhardt, PERS
 Alex Storer, Adams Street

CALL TO ORDER:

Lt. Governor Sanford, called the State Investment Board (SIB) regular meeting to order at 8:30 a.m. on Friday, August 28, 2020. The virtual meeting was held at the Retirement and Investment Office (RIO), 3442 East Century Avenue, Bismarck, ND.

Attendance was taken:

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

AGENDA:

The Board considered the agenda for the August 28, 2020, meeting,

IT WAS MOVED BY DR. LECH AND SECONDED BY MS. GUMERINGER AND CARRIED BY A VOICE VOTE TO ACCEPT THE AGENDA FOR THE AUGUST 28, 2020, MEETING.

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

MOTION CARRIED

ABSENT: MR. OLSON

MINUTES:

IT WAS MOVED BY TREASURER SCHMIDT AND SECONDED BY COMMISSIONER GODFREAD AND CARRIED BY A VOICE VOTE TO APPROVE THE JULY 24, 2020, MINUTES AS DISTRIBUTED.

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

NAYS: NONE

MOTION CARRIED

ABSENT: MR. OLSON

INVESTMENTS:

Mr. Hunter reviewed preliminary fiscal year end results for June 30, 2020.

A strong equity market recovery during the second quarter drove Teachers' Fund for Retirement (TFFR) and Public Employees Retirement System (PERS) returns up 10.8% and the Legacy Fund up 12.3%, while Workforce Safety & Insurance (WSI) and Budget Stabilization Fund posted net gains of 8.1% and 4.3%, respectively.

	TFFR	PERS	Legacy	WSI	Budget Stabilization
Net Returns for 1-Year Ended 12/31/2019	18.0%	18.0%	18.1%	13.6%	4.7%
Net Returns for Quarter Ended 9/30/2019	0.4%	0.4%	1.0%	1.7%	0.9%
Net Returns for Quarter Ended 12/31/2019	5.6%	5.7%	5.2%	2.6%	0.8%
Net Returns for Quarter Ended 3/31/2020	-12.0%	-12.1%	-12.7%	-6.1%	-3.6%
Net Return for Quarter Ended 6/30/2020	10.8%	10.8%	12.3%	8.1%	4.3%
Preliminary Net Return FYE 6/30/2020	3.4%	3.4%	4.2%	6.0%	2.3%

Note: Net returns are based on preliminary data which is unaudited and subject to change.

For the Fiscal Year Ended (FYE) June 30, 2020, TFFR and PERS net investment returns are estimated at 3.4% and Legacy Fund is estimated at 4.2%. WSI and Budget Stabilization Fund net returns are estimated at 6% and 2.3%, respectively, for the FYE June 30, 2020.

PERS and TFFR earned a net investment return of 3.4% for the year ended June 20, 2020, which exceeded the Policy Benchmark by 0.20%. For the 5-years ended June 30, 2020, PERS and TFFR earned a net investment return of 6.2% and 6.17%, respectively, exceeding respective Policy Benchmarks by 0.30%. Job Service, which is a de-risked pension plan with a funded ratio in excess of 140%, failed to exceed Policy Benchmark Returns for the 1, 3 and 5 year periods ended June 30, 2020. Most SIB clients 5-year returns exceeded their Policy Benchmarks.

WSI earned 6% for the 1, 3 and 5 years ended June 30, 2020, which trailed the Policy Benchmark by 0.63% in fiscal 2020 and beat the Policy Benchmark by 0.80% the last 5 years. Legacy Fund earned 4.2% in fiscal 2020 and 5.9% for the 5-years ended June 30, 2020, which trailed by the Policy Benchmark by 0.15% in fiscal 2020 and exceeded the Policy Benchmark by 0.37% over the last 5 years. Budget Stabilization earned 2.35% and 1.95% for the 1 and 5 years ended June 30, 2020, respectively, and trailed Policy Benchmarks.

The vast majority of SIB clients (93%) generated net investment returns which exceeded their respective Policy Benchmarks for the 5-years ended June 30, 2020, but the impact of the global pandemic severely impacted Fiscal 2020 results. Investment returns improved sharply in the second quarter of 2020 for SIB clients.

Private Equity - Mr. Hunter reviewed the Adams Street Global Private Equity Program. The SIB's private equity returns remain in the 3rd quartile for the Pension Trust as of March 31, 2020. RIO's Investment Personnel and Callan's private equity experts teamed up in 2015 and 2016 to re-evaluate the overall investment approach in private equity. As a result, the SIB approved a renewed commitment to Adams Street Partners Global Fund strategies and a new fund of one program with BlackRock. Recent commitments have improved performance which have been ranked in the 1st and 2nd quartile since 2015.

Adams Street Partners representatives reviewed the SIB's portfolio.

Investment Personnel recommended a new "follow-on" commitment, up to \$60 million, to the Adams Street Partners 2020 Global Fund. SIB clients within the Pension Trust have a 6.5% (or \$393 million) target allocation to private equity versus an actual allocation of \$290.3 million as of March 31, 2020.

IT WAS MOVED BY TREASURER SCHMIDT AND SECONDED BY MR. OLSON AND CARRIED BY A ROLL CALL VOTE TO ACCEPT RIO INVESTMENT PERSONNEL'S RECOMMENDATION FOR THE ADAMS STREET PARTNERS 2020 GLOBAL FUND.

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

NAYS: NONE

MOTION CARRIED

BlackRock Private Equity Partners reviewed the SIB's portfolio.

RIO Investment Personnel recommended an additional commitment of up to \$250 million to the SIB's Private Opportunities Fund, L.P. (North Dakota's customized private equity mandate managed by BlackRock Private Equity Partners.

IT WAS MOVED BY TREASURER SCHMIDT AND SECONDED BY DR. LECH AND CARRIED BY A ROLL CALL VOTE TO ACCEPT RIO INVESTMENT PERSONNEL'S RECOMMENDATION FOR THE BLACKROCK PRIVATE OPPORTUNITIES FUND, L.P.

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

NAYS: NONE

MOTION CARRIED

GOVERNANCE:

Audit Committee - Ms. Sauter reviewed the SIB Audit Committee's activities for the period of July 1, 2019 - June 30, 2020. The following activities were completed; Executive Limitations Audit, SIB Self-Evaluation, Investment Due Diligence, Administrative Expense Audit, Three TFFR Employer Reporting Reviews, TFFR Benefit Payment Audit, TFFR File Maintenance Audit, and TFFR Task List Project. Internal Audit also assisted CliftonLarsonAllen LLP (CLA), RIO's Loss Control Committee, and is assisting in a review of RIO staff's policy manual.

The Audit Committee also received the results of the RIO financial audit for the fiscal year ended June 30, 2019 from CLA. An unmodified "clean" opinion was issued. The Audit Committee reviewed the RIO financial audit plan for fiscal year ended June 30, 2020 with CLA. The Audit Committee adopted a work plan and budgeted hours for fiscal year July 1, 2020 to June 30, 2021.

Ms. Sauter also reviewed the Audit Committee charter. The charter requires the SIB confirm on an annual basis the review of all responsibilities outlined in the Charter.

Ms. Sauter also reviewed a fraud incident with a January 2020 retiree benefit payment. The TFFR Board was notified on April 23, 2020, and the Audit Committee on May 21, 2020. TFFR worked with legal counsel and the State Risk Management division to restore the member's payment. TFFR, with the assistance of Internal Audit, have put additional measures in place to reduce the likelihood of this occurring in the future.

IT WAS MOVED BY DR. LECH AND SECONDED BY COMMISSIONER SMITH AND CARRIED BY A ROLL CALL VOTE TO ACCEPT THE AUDIT REPORT FOR THE PERIOD OF JULY 1, 2019 - JUNE 30, 2020.

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

NAYS: NONE

MOTION CARRIED

Securities Litigation - Mr. Hunter updated the SIB on activities of the SIB Securities Litigation Committee (SLC).

The SLC re-elected Chief Deputy Attorney General Troy Seibel to serve as Chair and Land Commissioner Jodi Smith to serve as Vice Chair. The SLC also reviewed its list of approved securities litigation firms and the range of loss recoveries in recent fiscal years. K&L Gates provided an overview of recent legal developments on the WG Trading and Tribune cases.

IT WAS MOVED BY MR. OLSON AND SECONDED BY MS. SMITH AND CARRIED BY A ROLL CALL VOTE TO ACCEPT THE SECURITIES LITIGATION REPORT.

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

NAYS: NONE

MOTION CARRIED

Budget and Website - Ms. Flanagan informed the SIB RIO's budget was submitted for 2021-23 biennium with three optional requests. The budget was submitted in accordance with the Governor's instruction, with no increase in the total base budget request.

RIO Website - RIO's new website has been up and running since August 4, 2020. Ms. Flanagan requested the SIB let her know if there are any issues with finding financial statements and performance reports, etc.

Government Finance Officers Association (GFOA) - Mr. Hunter stated GFOA has awarded RIO a Certificate of Achievement for Excellence in Financial Reporting for its Comprehensive Annual Financial Report for the fiscal year ended June 30, 2019. This is the 22nd consecutive year that RIO has achieved the award. Mr. Hunter thanked all of RIO specifically, Ms. Flanagan, Ms. Walcker and Ms. Griffin.

Prudent Investor Rule - Mr. Hunter reviewed the Prudent Investor Rule and how the rule applies to the SIB program.

21-10-07. Legal investments.

The state investment board shall apply the prudent investor rule in investing for funds under its supervision. The "prudent investor rule" means that in making investments the fiduciaries shall exercise the judgment and care, under the circumstances then prevailing, that an institutional investor of ordinary prudence, discretion, and intelligence exercises in the management of large investments entrusted to it, not in regard to speculation but in regard to the permanent disposition of funds, considering probable safety of capital as well as probable income. The retirement funds belonging to the teachers' fund for retirement and the public employees' retirement system must be invested exclusively for the benefit of their members and in accordance with the respective funds' investment goals and objectives.

The SIB does not make individual investments in securities as all client portfolios are externally managed by approved investment firms using SIB client board approved investment policies and asset allocations.

Economically targeted investing is prohibited unless the investment meets the "exclusive benefit rule" and the following four conditions are satisfied:

- 1) The cost does not exceed the fair market value at time of investment;
- 2) The investment provides the fund with an equivalent or superior rate of return for a similar investment with a similar time horizon and expected risk;
- 3) Sufficient liquidity is maintained in the fund to permit distributions in accordance with plan terms; and
- 4) The safeguards or diversity that a prudent investor rule would adhere to are present.

Mr. Hunter also reviewed a new investment duties regulation issued by the US Department of Labor. The rule is intended to provide a clear regulatory guidepost for plan fiduciaries in light of recent trends involving environmental, social, and governance (ESG) investing.

Discussion followed on the diversification of the Legacy Fund, Pension Fund, and Insurance Fund.

Discussion also followed on the Legacy Fund, its oversight, and its Investment Policy Statement specifically, who decides how and where the funds are invested particularly when it comes to investing in North Dakota. There is growing concern from the public regarding the Legacy Fund and its impact in North Dakota.

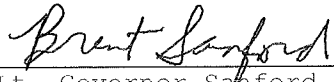
The next regular meeting of the SIB has been scheduled for September 25, 2020, at 8:30 a.m. at RIO (virtual).

The next regular meeting of the SIB Securities Litigation Committee is scheduled for November 5, 2020, at 1:00 p.m. at RIO (virtual).

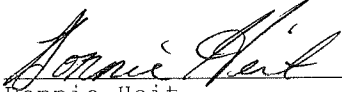
The next regular meeting of the SIB Audit Committee is scheduled for November 12, 2020, at 2:30 p.m. at RIO (virtual).

ADJOURNMENT:

With no further business to come before the SIB, Lt. Governor Sanford adjourned the meeting at 11:08 a.m.



Lt. Governor Sanford, Chair
State Investment Board



Bonnie Heit
Recorder