

**NORTH DAKOTA STATE INVESTMENT BOARD
MINUTES OF THE
OCTOBER 23, 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
 Missy Kopp, Retirement Asst
 Rich Nagel, Suprv of IT
 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

GUESTS:

Nick Archuleta, ND United
 Jace Beehler, Governor's Office
 Renee Bloms, OMB
 John Brecker, Hamilton Lane
 Alex Browning, Callan LLC
 Dean DePountis, Attorney General's Office
 Paul Erlendson, Callan LLC
 Andrew Feist, Governor's Office
 Karlene Fine, Industrial Commission
 Eric Hall, Grosvenor
 Eric Hardmeyer, BND
 Joan Heckaman, Legacy Fund Earnings Committee
 Dave Helgerson, Hamilton Lane
 Perry Hopper, Callan LLC
 Pete Keliuotis, Callan LLC
 Rachel Kriege, Ins. Dept.
 James Leiman, Dept of Commerce
 Greg Long, Barings
 Adam Mathiak, Legislative Council
 Katie Moore, Hamilton Lane
 Jerry Klein, LBSFAB
 Gary Kreidt, LBSFAB
 Joe Morrissette, LBSFAB
 Mina Pacheko, Barings
 Ryan Rauschenberger, LBSFAB
 Mike Rose, Grosvenor
 Jeff Stammen, Barings
 Rich Wardner, Legacy Fund Earnings Committee
 Bernard Yancovich, Grosvenor

CALL TO ORDER:

Lt. Governor Sanford, called the State Investment Board (SIB) regular meeting to order at 8:38 a.m. on Friday, October 23, 2020. The meeting was held at the State Capitol, Pioneer Room (virtual host), 600 East Boulevard, Bismarck, ND.

AGENDA:

The Board considered the agenda for the October 23, 2020, meeting,

IT WAS MOVED BY TREASURER SCHMIDT AND SECONDED BY DR. LECH AND CARRIED BY A VOICE VOTE TO ACCEPT THE AGENDA FOR THE OCTOBER 23, 2020, MEETING.

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

NAYS: NONE

MOTION CARRIED

MINUTES:

IT WAS MOVED BY TREASURER SCHMIDT AND SECONDED BY COMMISSIONER SMITH AND CARRIED BY A VOICE VOTE TO APPROVE THE SEPTEMBER 25, 2020, MINUTES AS DISTRIBUTED.

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

NAYS: NONE

MOTION CARRIED

INVESTMENTS:

Asset/Performance Overview - Mr. Hunter provided an asset and performance update as of August 31, 2020. Teachers' Fund for Retirement (TFFR) and Public Employees Retirement System (PERS) benefited from a major recovery in the capital markets in mid-2020. Due to the impact of the global pandemic, TFFR's pension plan declined from \$2.6 billion in January 2020 down to \$2.4 billion in March 2020. Since March 2020, the TFFR pension plan has fully recovered and is valued at \$2.8 billion in August 2020. The PERS pension plan declined from \$3.3 billion in January 2020 down \$2.9 billion in March 2020 due to the global pandemic, prior to experiencing a full recovery and valued at over \$3.4 billion as of August 31, 2020.

All SIB client's results were affected by the global pandemic. TFFR and PERS earned net returns of over 3.4% for the one-year ended June 30, 2020, which exceeded most other U.S. public plans. SIB pension pool returns, which include PERS and TFFR, were in the top 25% of U.S. Public plans over the last 10-years by exceeding 8.4% per year. Over the last 30-years, TFFR and PERS have each earned over 7.5% per annum exceeding their respective long-term return assumptions of 7.25% for TFFR and 7% for PERS.

The Legacy Fund was valued at approximately \$7.5 billion as of August 31, 2020. The first Legacy Fund transfer was received by the SIB in September 2011. Inception to date net income, as of August 31, 2020, is at \$2,162,724,969. Earnings, as defined by N.D.C.C. 21-10-12, of \$455,263,216 were transferred to the General Fund for the 2017-19 biennium. Current biennium to date earnings through August 31, 2020, are at \$407,290,474.

<u>Fund Name</u>	<u>Market Values as of 8/31/2020</u>	<u>Market Values as of 6/30/2020</u>
Pension Pool		
Teachers' Fund for Retirement (TFFR)	\$ 2,773,832,001	\$ 2,612,716,499
Public Employees Retirement System (PERS)	3,424,539,928	3,212,113,496
City of Bismarck Employees Pension	112,612,259	106,946,867
City of Bismarck Police Pension	44,977,019	42,552,004
City of Grand Forks Employees Pension	71,027,641	67,458,579
Park District of the City of Grand Forks Pension	7,880,633	7,406,214
Subtotal Pension Pool	6,434,869,480	6,049,193,658
Insurance Pool		
Workforce Safety & Insurance (WSI)		
State Fire and Tornado Fund	2,199,874,706	2,125,881,220
State Bonding Fund	19,600,488	22,825,556
Petroleum Tank Release Compensation Fund	3,822,112	3,787,526
Insurance Regulatory Trust Fund	6,216,941	6,165,424
State Risk Management Fund	5,951,862	5,714,619
State Risk Management Workers Comp Fund	4,017,676	4,561,175
State Risk Management Workers Comp Fund	5,403,933	5,116,217
Cultural Endowment Fund	529,694	493,401
Budget Stabilization Fund	737,062,186	727,275,063
ND Association of Counties (NDACo) Fund	7,046,658	6,693,191
Bismarck Deferred Sick Leave Account	806,673	770,793
City of Fargo FargoDome Permanent Fund	46,494,368	43,550,868
State Board of Medicine Fund	2,576,509	2,470,787
PERS Group Insurance Account	31,789,534	31,495,987
Lewis & Clark Interpretive Center Endowment	835,289	793,808
Attorney General (AG) Settlement Fund	1,071,414	1,057,147
Veterans' Cemetery Trust Fund	334,192	312,782
Subtotal Insurance Pool	3,073,434,234	2,988,965,565
Individual Investment Accounts		
Legacy Fund		
Job Service of North Dakota Pension	7,501,671,928	6,999,783,262
Tobacco Control and Prevention Fund	96,533,277	95,338,534
PERS Retiree Health Insurance Credit Fund	7,594,388	7,589,354
	154,883,621	144,237,322
Total Assets Under SIB Management	\$ 17,268,986,930	\$ 16,285,107,695

Market values are unaudited and subject to change.

In-State Investing - Callan LLC representatives reviewed a proposal which provided a process to evaluate and implement an in state investment program consistent with sound fiduciary practices.

Commissioner Godfread and Mr. James Leiman provided additional comments on the in-state investment program since they last reviewed the proposal at the September 25, 2020, SIB meeting.

Barings, GCM Grosvenor, and Hamilton Lane representatives, reviewed their firms' in-state investment program experience.

RIO's legal counsel, Mr. DePountis, provided comments on the SIB's authority to invest a portion of the Legacy Fund in economic development for the State of North Dakota. Mr. DePountis' interpretation of the statute is that the SIB may invest a portion of the Legacy Fund in economic development provided any such investment is accomplished in accordance with 1) recommendations from the Legacy and Budget Stabilization Fund Advisory Board (LBSFAB); and 2) the Prudent Investor Rule.

Discussion followed on the SIB's role implementing an in-state investment program and if it coincides within the governance structure that is followed by the board.

IT WAS MOVED BY COMMISSIONER SMITH AND SECONDED BY TREASURER SCHMIDT AND CARRIED BY A ROLL CALL VOTE TO ENGAGE CALLAN LLC TO MOVE FORWARD WITH A COMPREHENSIVE RESEARCH PROJECT TO ADVANCE AN IN-STATE INVESTMENT PROGRAM AS PART OF THE LBSFAB ASSET ALLOCATION POLICY.

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

NAYS: NONE

MOTION CARRIED

GOVERNANCE:

Evaluation of RIO versus Ends - Mr. Hunter reviewed the Ends report for the period ending June 30, 2020.

IT WAS MOVED BY TREASURER SCHMIDT AND SECONDED BY MS. SMITH AND CARRIED BY A VOICE VOTE TO ACCEPT THE ANNUAL EVALUATION OF RIO VS ENDS.

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

NAYS: NONE

MOTION CARRIED

The Board recessed at 11:35 a.m. and reconvened at 11:38 a.m.

Client Satisfaction Survey - Ms. Sauter reviewed the results of the SIB client satisfaction survey. Thirteen out of 18 clients responded for an overall rating of 3.4 on a scale of 4.0.

IT WAS MOVED BY MS. SMITH AND SECONDED BY DR. LECH AND CARRIED BY A VOICE VOTE TO ACCEPT THE RESULTS OF THE SIB CLIENT SATISFACTION SURVEY.

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

NAYS: NONE

MOTION CARRIED

Legacy Fund Investment Policy Statement (IPS) - The Board deferred action on the IPS until the LBSFAB has had an opportunity to review and accept it. The IPS was revised to reflect the additional commitment of \$100 million to the Bank of North Dakota (BND) Match Loan CD Program.

Governance Review - Mr. Hunter highlighted Section A, Executive Limitations, Section B, Governance Process, Section C, Board Staff Relationship, and Section D, Ends.

IT WAS MOVED BY DR. LECH AND SECONDED BY TREASURER SCHMIDT AND CARRIED BY A VOICE VOTE TO ACCEPT THE FIRST READING OF SECTIONS A - D.

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

NAYS: NONE

MOTION CARRIED

Governance Education - Mr. Hunter requested authorization to invite Ms. Amy McDuffee, Mosaic Governance Advisors, to the November 20, 2020, meeting to provide education on board governance and investment education. The Board normally partakes in this type of training at their July retreat but because of the pandemic, the Board elected to conduct regular business.

IT WAS MOVED BY TREASURER SCHMIDT AND SECONDED BY DR. LECH TO ENGAGE MOSAIC GOVERNANCE ADVISORS TO PROVIDE EDUCATION AT THE SIB NOVEMBER 20, 2020, MEETING.

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

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).

The next regular meeting of the SIB has been scheduled for November 20, 2020, at 8:30 a.m. at the State Capitol, Pioneer Room (virtual).

ADJOURNMENT:

With no further business to come before the SIB, Lt. Governor Sanford adjourned the meeting at 12:01 p.m.

Lt. Governor Sanford, Chair
State Investment Board

Bonnie Heit

Bonnie Heit
Recorder

