

**NORTH DAKOTA STATE INVESTMENT BOARD
MINUTES OF THE
NOVEMBER 20, 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
 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

GUESTS:

Nick Archuleta, ND United
 Jodi Bjornson, WSI
 Alex Browning, Callan LLC
 Dean DePountis, Attorney General's Office
 Paul Erlendson, Callan LLC
 Joan Heckaman, Legacy Fund Earnings Committee
 Laura Helbling, Ins. Dept.
 Perry Hopper, Callan LLC
 Pete Keliuotis, Callan LLC
 Rachel Kriege, Ins. Dept.
 Jerry Klein, LBSFAB
 Gary Kreidt, LBSFAB
 Adam Mathiak, Legislative Council
 Amy McDuffe, Mosaic Governance Advisors
 Scott Miller, PERS
 Joe Morrissette, LBSFAB
 Tim Porter, BND
 Chris Prestigiaco, Wisconsin Inv Board
 Ryan Rauschenberger, LBSFAB
 Bryan Reinhardt, PERS
 Karen Tyler, Securities Dept. Commissioner

CALL TO ORDER:

Dr. Rob Lech, Vice Chair, called the State Investment Board (SIB) regular meeting to order at 8:36 a.m. on Friday, November 20, 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 November 20, 2020, meeting,

IT WAS MOVED BY TREASURER SCHMIDT AND SECONDED BY MS. GUMERINGER AND CARRIED BY A VOICE VOTE TO ACCEPT THE AGENDA FOR THE NOVEMBER 20, 2020, MEETING.

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

NAYS: NONE

MOTION CARRIED

ABSENT: MR. OLSON, COMMISSIONER SMITH

MINUTES:

IT WAS MOVED BY TREASURER SCHMIDT AND SECONDED BY MS. GUMERINGER AND CARRIED BY A VOICE VOTE TO APPROVE THE OCTOBER 25, 2020, MINUTES AS DISTRIBUTED.

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

NAYS: NONE

MOTION CARRIED

ABSENT: MR. OLSON, COMMISSIONER SMITH

INVESTMENTS:

Asset/Performance Overview - Mr. Hunter provided an asset and performance update. SIB client's assets under management totaled \$17 billion as of September 30, 2020; Pension Trust at \$6.3 billion, Insurance Trust at \$3 billion, and the Legacy Fund at \$7.4 billion. SIB clients generated \$735 million and the Legacy Fund \$344 million of net investment income due to a continuing rebound in equities. Over 99% of the SIB clients generated net returns which exceeded their approved policy benchmarks for the 5-years ended September 30, 2020.

The Pension Trust posted a net return of 8.1% and generated a net annualized return of 8.3% during the last 5- years exceeding the policy benchmark of 7.8%.

The Insurance Trust generated a net investment return of 6.3% and during the last 5- years, posted a net annualized return of 6.4%, exceeding the performance benchmark of 5.4%.

The Legacy Fund generated a net investment return of 8.3% and during the last 5- years, earned a net annualized return of 7.9%, exceeding the policy benchmark of 7.3%.

| SIB Five Largest Clients (AUM as of 9/30/2020) | Qtr. Ended 9/30/2020 | 1 Yr Ended 9/30/2020 | 3 Yrs Ended 9/30/2020 | 5 Yrs Ended 9/30/2020 | 10 Yrs Ended 9/30/2020 |
|---|-------------------------|-------------------------|--------------------------|--------------------------|---------------------------|
| Legacy Fund \$7.4 billion | | | | | <i>9 Yrs. Ended</i> |
| Total Fund Return - Net | 4.93% | 8.27% | 6.02% | 7.91% | 5.19% |
| Policy Benchmark Return | 3.95% | 7.45% | 5.94% | 7.26% | 4.48% |
| Excess Return | 0.98% | 0.82% | 0.08% | 0.65% | 0.71% |
| PERS \$3.4 billion | | | | | |
| Total Fund Return - Net | 4.97% | 8.15% | 6.39% | 8.35% | 8.05% |
| Policy Benchmark Return | 4.35% | 7.05% | 6.25% | 7.83% | 7.52% |
| Excess Return | 0.62% | 1.10% | 0.14% | 0.52% | 0.53% |
| TFFR \$2.7 billion | | | | | |
| Total Fund Return - Net | 4.89% | 8.08% | 6.38% | 8.29% | 8.07% |
| Policy Benchmark Return | 4.41% | 7.06% | 6.24% | 7.79% | 7.42% |
| Excess Return | 0.48% | 1.02% | 0.14% | 0.50% | 0.65% |
| WSI \$2.2 billion | | | | | |
| Total Fund Return - Net | 3.10% | 7.46% | 6.29% | 7.07% | 7.00% |
| Policy Benchmark Return | 2.25% | 7.30% | 5.88% | 5.99% | 5.60% |
| Excess Return | 0.85% | 0.16% | 0.41% | 1.08% | 1.40% |
| BSF \$738 million | | | | | |
| Total Fund Return - Net | 1.63% | 3.06% | 2.80% | 2.22% | 2.13% |
| Policy Benchmark Return | 0.23% | 3.70% | 2.83% | 2.06% | 1.27% |
| Excess Return | 1.40% | -0.64% | -0.03% | 0.16% | 0.86% |

Callan LLC Review - Representatives reviewed the investment performance of the Pension Trust, Insurance Trust, and Legacy Fund for the period ending September 30, 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 LLC'S PERFORMANCE EVALUATION FOR THE QUARTER ENDING SEPTEMBER 30, 2020.

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

NAYS: NONE

MOTION CARRIED

ABSENT: COMMISSIONER SMITH, MR. SEIBEL

Teachers' Fund for Retirement (TFFR) - RIO investment personnel and Callan LLC presented a revision to the TFFR asset allocation. The TFFR Board, at its November 19, 2020, meeting approved Mix 4 over the current policy target due to its' higher expected return of 6.8% and lower expected standard deviation of 13.1%. RIO investment personnel also recommended Mix 4 due to a slightly lower expected standard deviation of 13.1% and a slightly lower use of likely higher cost alternative investments.

| Asset Class | Policy Target | Lower Risk | | | Same Risk | | |
|-----------------------------|---------------|------------|----------|------------|-----------|----------|------------|
| | | Mix 4 | % Change | \$M Change | Mix 4a | % Change | \$M Change |
| Public Equity | 52% | 45% | -7% | (\$183) | 45% | -7% | (\$183) |
| Broad U.S. Equity | 29% | 27% | -2% | (\$52) | 27% | -2% | (\$52) |
| Global ex-U.S. Equity | 23% | 18% | -5% | (\$131) | 18% | -5% | (\$131) |
| Fixed Income | 24% | 27% | 3% | \$78 | 25% | 1% | \$26 |
| Core Fixed Income | 16% | 18% | 2% | \$52 | 17% | 1% | \$26 |
| High Yield | 7% | 8% | 1% | \$26 | 7% | 0% | \$0 |
| Cash Equivalents | 1% | 1% | | | 1% | | |
| Alternatives | 24% | 20% | -4% | (\$105) | 30% | 6% | \$105 |
| Real Estate | 10% | 9% | -1% | (\$26) | 10% | 0% | \$0 |
| Private Infrastructure | 6% | 9% | 3% | \$78 | 10% | 4% | \$105 |
| Timber | 2% | 0% | -2% | (\$52) | 0% | -2% | (\$52) |
| Private Equity | 6% | 10% | 4% | \$105 | 10% | 4% | \$105 |
| Expected Return | 6.7% | 6.8% | | | 6.8% | | |
| Expected Standard Deviation | 13.3% | 13.1% | | | 13.3% | | |
| Probability >7.25% | 45% | 45% | | | 46% | | |

IT WAS MOVED BY MR. OLSON AND SECONDED BY MS. GUMERINGER AND CARRIED BY A ROLL CALL VOTE TO APPROVE THE TFFR REVISED ASSET ALLOCATION.

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

NAYS: NONE

MOTION CARRIED

ABSENT: COMMISSIONER GODFREAD, COMMISSIONER SMITH, MR. SEIBEL

Budget Stabilization Fund - The Investment Policy Statement (IPS) of the Budget Stabilization Fund was revised by the Legacy and Budget Stabilization Fund Advisory Board at their November 12, 2020, meeting. The revision included a statutory cap of \$726,534,475 for the 2019-21 biennium.

Legacy Fund - The IPS of the Legacy Fund was revised by the Legacy and Budget Stabilization Fund Advisory Board at their November 12, 2020, meeting. The revision included a \$100 million increase by the SIB, for a total commitment of up to \$400 million, in the Bank of North Dakota's (BND) in-state investment program.

IT WAS MOVED BY TREASURER SCHMIDT AND SECONDED BY MS. GUMERINGER AND CARRIED BY A ROLL CALL VOTE TO ACCEPT THE REVISIONS TO THE IPS' FOR THE BUDGET STABILIZATION FUND AND THE LEGACY FUND.

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

NAYS: NONE

MOTION CARRIED

ABSENT: COMMISSIONER SMITH, MR. SEIBEL

State of Wisconsin Investment Board (SWIB) - Mr. Chris Prestigiacomo, Private Markets Portfolio Manager for the SWIB, shared his experience in leading SWIB's private market in-state investment program.

In-State Investments - Callan LLC reviewed Phase 1 of the SIB in-state investment program research project.

The board recessed at 10:23 am and reconvened at 10:40 a.m.

GOVERNANCE & EDUCATION:

Governance Education - Ms. Amy McDuffee, Mosaic Governance Advisors, provided education on best practices in public fund board governance which included a focus on in-state investment program governance.

Audit Committee - Ms. Sauter provided an update on Internal Audit activities since July 1, 2020. Most notably, CliftonLarsonAllen has completed their review of the financial statements of RIO for the year ended June 30, 2020, and have issued an unmodified "clean" opinion.

IT WAS MOVED BY TREASURER SCHMIDT AND SECONDED BY MS. GUMERINGER AND CARRIED BY A VOICE VOTE TO ACCEPT THE AUDIT COMMITTEE REPORT.

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

NAYS: NONE

MOTION CARRIED

ABSENT: COMMISSIONER SMITH, MR. SEIBEL

Callan LLC Fee Review - Callan LLC reviewed the results of their investment fee study for the fiscal year ended 2020. Results confirm RIO investment personnel's belief that overall investment expenses are reasonable. Management fees have been trending downward on a percent basis from 0.65% in fiscal year 2013 to less than 0.50% in fiscal years 2019 and 2020. SIB client returns on investment fees has been positive and exceeded 50 basis points per annum (or \$300 million in aggregate) for the 5-years ended September 30, 2020.

IT WAS MOVED BY MS. GUMERINGER AND SECONDED BY MR. MILLER AND CARRIED BY A ROLL CALL VOTE TO ACCEPT THE CALLAN LLC FEE STUDY RESULTS.

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

NAYS: NONE

MOTION CARRIED

ABSENT: COMMISSIONER SMITH, COMMISSIONER GODFREAD, MR. KLIPFEL, AND LT. GOVERNOR SANFORD

Governance Review - The review was tabled.

Securities Litigation Committee - Mr. Hunter provided an update on the activities of the Securities Litigation Committee since their last meeting on November 5, 2020.

Securities litigation recoveries amounted to \$638,661 for fiscal year 2020.

The SIB has been named as a defendant in two cases arising out of the Tribune and General Motors bankruptcy proceedings. The cases relate to securities that were purchased by external investment managers in one or more portfolios held by the SIB on behalf of its investment client funds. K&L Gates has been retained for legal representation in the Tribune case and Kasowitz Benson Torres for the General Motors case. Both appointments were overseen and approved by the Office of the Attorney General.

Grant & Eisenhofer reviewed the status of the Danske Bank and Volkswagen international securities cases.

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

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

NAYS: NONE

MOTION CARRIED

ABSENT: MR. KLIPFEL, COMMISSIONER GODFREAD, COMMISSIONER SMITH, LT. GOVERNOR SANFORD

QUARTERLY MONITORING:

Monitoring reports for the quarter ending September 30, 2020, were presented for approval; Executive Limitations/Staff Relations, Budget/Financial Conditions, Investment Ends/Watch List (including additional monitoring report), Retirement Program Ends (including TFFR Pension Administration System), and Annual Compliance.

IT WAS MOVED BY MR. OLSON AND SECONDED BY MS. GUMERINGER AND CARRIED BY A VOICE VOTE TO ACCEPT THE MONITORING REPORTS.

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

NAYS: NONE

MOTION CARRIED

ABSENT: COMMISSIONER SMITH, COMMISSIONER GODFREAD, MR. KLIPFEL, AND LT. GOVERNOR SANFORD

OTHER:

Resolution for Treasurer Schmidt - The following resolution was presented on behalf of Treasurer Schmidt. Treasurer Schmidt has served on the SIB and TFFR boards since January 2005. Board members expressed their gratitude to Treasurer Schmidt.

ND TFFR and ND SIB Joint Board Resolution

In Appreciation of

State Treasurer Kelly Schmidt

WHEREAS, State Treasurer Kelly Schmidt has served as a member of the TFFR and SIB Boards for the past 16 years; and

WHEREAS, State Treasurer Kelly Schmidt has diligently carried out her duties and responsibilities as a member of these Boards and fiduciary of the TFFR and SIB Programs; and

WHEREAS, State Treasurer Kelly Schmidt has been a valued and dedicated member of these Boards in helping maintain the integrity and stability of the TFFR and SIB Programs.

NOW THEREFORE, BE IT RESOLVED that State Treasurer Kelly Schmidt be duly recognized by these Boards for her years of unselfish dedication to the State of North Dakota through her service on the Teachers' Fund for Retirement Board of Trustees and State Investment Board.

DATED this 19th day of November, 2020

IT WAS MOVED BY MR. OLSON AND SECONDED BY MR. MILLER AND CARRIED BY A VOICE VOTE TO ACCEPT THE RESOLUTION PRESENTED FOR TREASURER SCHMIDT.

AYES: MS. GUMERINGER, MS. SMITH, DR. LECH, MR. OLSON, MR. SEIBEL, MR. MILLER

NAYS: NONE

ABSTAIN: TREASURER SCHMIDT

ABSENT: COMMISSIONER SMITH, MR. KLIPFEL, COMMISSIONER GODFREAD, AND LT. GOVERNOR SANFORD

The next regular meeting of the SIB has been scheduled for December 18, 2020 (tentative), at 8:30 a.m., Retirement and Investment Office (virtual).

The next regular meeting of the SIB Securities Litigation Committee is scheduled for February 4, 2021, at 1:00 p.m. at RIO (virtual).

The next regular meeting of the SIB Audit Committee is scheduled for February 25, 2021, at 3:00 p.m. at RIO (virtual).

ADJOURNMENT:

With no further business to come before the SIB, Dr. Lech adjourned the meeting at 12:29 p.m.



Dr. Rob Lech, Vice Chair
State Investment Board



Bonnie Heit
Recorder

