

**NORTH DAKOTA STATE INVESTMENT BOARD
MINUTES OF THE
August 27, 2021, BOARD MEETING**

MEMBERS PRESENT: Brent Sanford, Lt. Governor, Chair
 Rob Lech, TFFR Board, Vice Chair
 Troy Seibel, PERS Board, Parliamentarian
 Thomas Beadle, State Treasurer
 Jon Godfread, Insurance Commissioner
 Keith Kempenich, Legacy/Budget Stab. Adv. Board
 Bryan Klipfel, Director of WSI
 Cody Mickelson, TFFR Board
 Adam Miller, PERS Board
 Mel Olson, TFFR Board
 Jodi Smith, Commissioner of Unv & School Lands
 Yvonne Smith, PERS Board

STAFF PRESENT: Eric Chin, Interim CIO
 Connie Flanagan, Chief Financial Officer
 Jayme Heck, Retirement Programs Specialist
 Missy Kopp, Retirement Asst
 Jan Murtha, Interim Exec Dir
 Matt Posch, Investment/Compliance Officer
 Ann Nagel, Investment Accountant
 Sara Sauter, Internal Audit Supvr
 Dottie Thorsen, Internal Auditor
 Tami Volkert, Employer Svs Coordinator
 Susan Walcker, Senior Financial Accountant

GUESTS: Nick Archuleta, ND United
 John Arnold, Insurance Dept.
 Jace Beehler, Governor's Office
 Alex Browning, Callan LLC
 Dan Cummings, EFL Associates
 Omar Davis, EFL Associates
 Dean DePountis, Attorney General's Office
 Paul Erlendson, Callan LLC
 Aidan Forde, Arrowstreet Capital
 Kodee Furst, 50 South Capital
 Trey Hart, 50 South Capital
 Kelvin Hullet, BND
 Candace Johnson, Securities Dept.
 Manolis Liodakis, Arrowstreet Capital
 Bob Morgan, 50 South Capital
 Scott Miller, PERS
 Adam Montgomery, Securities Dept.
 Bryan Reinhardt, PERS
 Rich Wardner, Legislative Assembly

CALL TO ORDER:

Lt. Governor Sanford, Chair, called the State Investment Board (SIB) regular meeting to order at 8:30 a.m. on Friday, August 27, 2021. The meeting was held at Workforce Safety and Insurance, 1600 E Century Ave., Bismarck, ND.

THE FOLLOWING MEMBERS WERE PRESENT: Treasurer Beadle, Commissioner Godfread, Mr. Klipfel, Dr. Lech, Mr. Mickelson, Mr. Miller, Mr. Olson, Lt. Gov. Sanford, Mr. Seibel, Commissioner Smith, and Ms. Smith

ACCEPTANCE OF AGENDA:

The Board considered the agenda for the August 27, 2021, meeting.

IT WAS MOVED BY MR. OLSON AND SECONDED BY MS. SMITH AND CARRIED BY A VOICE VOTE TO APPROVE THE AGENDA AS DISTRIBUTED.

**AYES: COMMISSIONER SMITH, TREASURER BEADLE, MR. MILLER, COMMISSIONER GODFREAD, MR. OLSON, MR. KLIPFEL, MR. MICKELSON, MR. SEIBEL, DR. LECH, MS. SMITH, AND LT. GOV. SANFORD
NAYS: NONE
MOTION CARRIED**

MINUTES:

The Board considered the minutes of the July 23, 2021 SIB meeting and the July 27, 2021, special SIB meeting.

IT WAS MOVED BY DR. LECH AND SECONDED BY MS. SMITH AND CARRIED BY A VOICE VOTE TO APPROVE THE JULY 23, 2021 AND JULY 27, 2021, MINUTES AS DISTRIBUTED.

**AYES: MR. MICKELSON, COMMISSIONER SMITH, MS. SMITH, MR. KLIPFEL, TREASURER BEADLE, DR. LECH, COMMISSIONER GODFREAD, MR. OLSON, MR. SEIBEL, MR. MILLER, AND LT. GOV. SANFORD
NAYS: NONE
MOTION CARRIED**

BOARD EDUCATION:**Meaning in the Numbers: Performance Monitoring:**

Mr. Paul Erlendson and Mr. Alex Browning of Callan LLC provided education on the process by which performance reports are created and a brief explanation of how the performance reports can help SIB members fulfill their fiduciary responsibilities.

ND Growth Fund Investment Process:

Mr. Morgan and Mr. Trey Hart of 50 South Capital provided an overview of the process for in-state investment, ND private equity, and how private equity works within asset allocation.

INVESTMENTS:**In-State Investment Update:**

IT WAS MOVED BY DR. LECH AND SECONDED BY COMMISSIONER GODFREAD AND CARRIED BY A VOICE VOTE TO ENTER INTO EXECUTIVE SESSION TO DISCUSS CONFIDENTIAL COMMERCIAL AND FINANCIAL INFORMATION PURSUANT TO N.D.C.C. 44-04-18.4(1).

AYES: MR. OLSON, MR. SEIBEL, COMMISSIONER SMITH, MR. MICKELSON, COMMISSIONER GODFREAD, MS. SMITH, MR. MILLER, TREASURER BEADLE, MR. KLIPFEL, DR. LECH, AND LT. GOV. SANFORD
NAYS: NONE
MOTION CARRIED

Executive session began at 9:55 a.m. and ended at 10:30 a.m. It was attended by the SIB Board, RIO staff members, TFFR legal counsel, Mr. Beehler from the Governor's Office, Ms. Furst and Mr. Morgan of 50 South Capital.

The Board recessed at 10:31 a.m. and reconvened at 10:45 a.m.

Preliminary Fiscal Year End Results/Investment Update:

Mr. Chin provided an investment and performance update as of June 30, 2021. There has been a strong performance across equities. Both equities and fixed income have generated positive returns despite the pandemic.

PERS and TFFR earned a net investment return of 27.15% and 26.55% respectively for the year ending June 30, 2021. For the 5-year period ending June 30, 2021, PERS and TFFR earned a net investment return of 11.36% and 11.23% respectively. Job Service, a de-risked pension plan, failed to exceed policy benchmark returns for the 1, 3, and 5-year periods ending June 30, 2021. Staff will reach out to SEI to better understand the underperformance.

WSI and Legacy Fund earned a net investment return of 11.57% and 22.68% respectively for the year ended June 30, 2021. For the 5-year period ended June 30, 2021, WSI and Legacy Fund earned a net investment return of 7.59% and 10.10% respectively. Budget Stabilization's relative performance has materially improved from the prior fiscal year, outperforming in each the 1, 3, and 5-year periods.

Over 98% of the SIB Pension clients earned net returns which exceeded their respective policy benchmarks for the 5-year period ending June 30, 2021 (based on AUM). All of the SIB Non-Pension clients earned net returns which exceeded benchmarks for the 5-year period ending June 30, 2021 (based on AUM). Board discussion followed.

International Equity Overview:

Staff recommends adding a new quantitative international equity manager to increase active exposure in the Pension Pool and reduce manager concentration risk in the Legacy Fund and the Insurance Pool. Staff believes it prudent to identify an active strategy funded by the Northern vehicle to improve the Pension Pool's ability to generate long-term excess returns.

In the Insurance Pool and the Legacy Fund, Staff is concerned with the large allocations to William Blair International Leaders (9.3% of the Legacy Fund and 2.5% of the Insurance Pool as of June 30, 2021) and LSV International Large Cap Value (6.4% of the Legacy Fund and 2.3% of the Insurance Pool as of June 30, 2021). Staff believes it prudent to identify a new international equity manager and fund it with capital from the two aforementioned funds to reduce manager concentration risk, while maintaining active exposure.

Lastly, Staff believes that adding a quantitative international strategy will add a new alpha engine to all three pools increasing strategy diversification.

There is a strong case to utilize active investment strategies in international equities. Historical data suggests that investors in active strategies are generally well rewarded compared to investing in passive indices. A large majority of active international equity strategies have outperformed the MSCI ACWI ex US Index, particularly over longer time frames.

There is a persistence of positive excess returns generated by the median manager over time. Staff's analysis of the international equities segment finds that this space is well suited for an active approach. The MSCI ACWI ex-US Index (as a proxy for the international equities segment) consists of well over 2000 stocks. The index is large, diverse, complex and inefficient— characteristics that bode well for active strategies. Index constituents are diverse ranging from large, inefficient, debt-laden, state-run companies to small, independent, entrepreneurial companies still managed by founders.

Moreover, international stocks are generally less well covered by the analyst community leading to significant price inefficiencies. Furthermore, the MSCI ACWI ex-US index comprises of almost 50 different countries each with different characteristics. Different countries will have different political systems, geopolitical risks, legal frameworks, economic growth, demographics etc. adding additional complexity to investing in international equities. A manager's ability to navigate both country and stock selection is key to generating excess returns.

Arrowstreet Capital Presentation:

Mr. Aidan Forde and Mr. Manolis Liodakis of Arrowstreet Capital provided an overview of their firm as a specialist global equities manager. Mr. Forde and Mr. Liodakis provided information about their staff, assets under management, and their international equity strategy objectives. Board discussion followed.

Staff Recommendation:

Mr. Chin shared the RIO staff recommendation that the SIB approve Arrowstreet Capital, L.P. to manage an international equity mandate for all three pools. The recommended initial target allocations are 40% in the Pension Pool, 1.6% in the Insurance Pool, 5.3% in the Legacy Fund with a total allocation of approximately \$789 million. Board discussion followed.

IT WAS MOVED BY MR. OLSON AND SECONDED BY DR. LECH AND CARRIED BY A ROLL CALL VOTE TO APPROVE THE STAFF RECOMMENDATION THAT ARROWSTREET CAPITAL, L.P. MANAGE AN INTERNATIONAL EQUITY MANDATE FOR AL THREE POOLS.

AYES: TREASURER BEADLE, MR. MICKELSON, COMMISSIONER GODFREAD, MR. KLIPFEL, COMMISSIONER SMITH, MS. SMITH, DR. LECH, MR. MILLER, MR. SEIBEL, MR. OLSON, AND LT. GOV. SANFORD

NAYS: NONE

MOTION CARRIED

GOVERNANCE:

Executive Limitations/Staff Relations Update:

Ms. Murtha shared current agency needs and changes. RIO will be moving to the WSI building in 2021, but in a different space in the building. This space will not require any remodeling and reduced the number of months paying rent at the current and future location. Current procurement activities include the Pension Administration System (PAS) project, an automated death audit service, the executive search consultant, temporary help for specialized services, and automated conflict monitoring services. IT unification efforts continue to progress with both internal and external meetings.

Ms. Murtha provided an update on staff retirements, resignations and the need for FTE's and temporary assistance. RIO has undertaken the first phase of reorganization and strategic planning to address organizational risk. Phase 1 of the reorganization will go into effect on September 1, 2021. The intent of the reorganization is to take the opportunity to reallocate resources to address interim and long-term needs. Mr. Murtha highlighted current open positions and additional temporary assistance for the agency that are in the process of being posted. Information was provided to highlight current organizational risk relating to program needs, the shift in workforce trends, lack of redundancy and impact on critical oversight and reporting for the fiscal division, succession planning efforts, and feedback from stakeholders. Board discussion followed.

Executive Search Committee Update:

Dr. Lech provided an update of the activities of the Executive Search Committee. The SIB authorized the Executive Search Committee to issue a Notice of Award for an executive search firm at its July 23, 2021 meeting. A notice award was issued to EFL Associates (EFL). A kick-off meeting was held with EFL and RIO staff on Friday, August 20, 2021. The committee needs direction from the SIB before proceeding with their search. The SIB must decide whether to keep the Executive Director (ED) and Chief Investment Officer (CIO) positions combined or to separate these positions permanently.

Mr. Dan Cummings and Mr. Omar Davis of EFL Associates provided their recommendation for the ED/CIO role. Creating spate CIO and ED roles better aligns to the structure of ND RIO. RIO is a complex, sophisticated \$20 billion financial institution with a fiduciary responsibility to its members, and as a custodian of billions of dollar earmarked to benefit the people of ND. This immense responsibility requires the best possible administrative structure which might not be adequately provided by the combined ED/CIO position. Splitting the position allows for clarity of duties. A CIO would be dedicated full-time to portfolio oversight and an ED to organizational administration, legislative engagement, and stakeholder relations. Board discussion followed.

IT WAS MOVED BY DR. LECH AND SECONDED BY TREASURER BEADLE AND CARRIED BY A ROLL CALL VOTE TO SPLIT THE ED/CIO POSITION AND CONDUCT A SEARCH FOR THE CIO POSITION FIRST FOLLOWED BY THE ED POSITION.

AYES: MS. SMITH, MR. MILLER, MR. OLSON, MR. MICKELSON, DR. LECH, MR. SEIBEL, MR. KLIPFEL, COMMISSIONER GODFREAD, TREASURER BEADLE, AND LT. GOV. SANFORD

NAYS: NONE

MOTION CARRIED

ABSENT: COMMISSIONER SMITH

Audit Committee Update:

Ms. Smith provided an update from the SIB Audit Committee. The Committee met on August 11, 2021 to review the request by the SIB to review SIB governance policy B-2, governing style in Section B governance process, to clearly define the inquiry and review the Board's structure and bring a recommendation back to the full SIB. The Committee decided the topic warranted further discussion, so a special Audit Committee meeting has been scheduled for September. The Committee will provide another update at the September SIB meeting.

OTHER BUSINESS:

GFOA Award:

Ms. Flanagan shared that the Government Finance Officers Association (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to RIO for its Annual Comprehensive Financial Report (ACFR) for the fiscal year ended June 30, 2020.

Resolution – Service Recognition for Bonnie Heit:

ND State Investment Board Resolution
In Appreciation of
Bonnie Heit

WHEREAS, Bonnie Heit has served as a state employee and valued member of the Retirement and Investment Office for the past 33 years; and

WHEREAS, Bonnie Heit has diligently carried out her duties and responsibilities for the State Investment Board, the Retirement and Investment Office, and the general population of the State of North Dakota; And

WHEREAS, Bonnie Heit has been a valued and dedicated State employee in helping maintain the stability of the Retirement and Investment Office.

NOW THEREFORE, BE IT RESOLVED that Bonnie Heit be duly recognized by this Board for her years of unselfish dedication to the State of North Dakota through her service to the State Investment Board.

Resolution – Service Recognition for Darren Schulz:

ND State Investment Board Resolution
In Appreciation of
Darren Schulz

WHEREAS, Darren Schulz has served as a state employee and valued member of the Retirement and Investment Office for the past 9 years; and

WHEREAS, Darren Schulz has diligently carried out his duties and responsibilities for the State Investment Board, the Retirement and Investment Office, and the general population of the State of North Dakota; and

WHEREAS, Darren Schulz has been a valued and dedicated State employee in helping maintain the stability of the Retirement and Investment Office.

NOW THEREFORE, BE IT RESOLVED that Darren Schulz be duly recognized by this Board for his years of unselfish dedication to the State of North Dakota through his service to the State Investment Board.

IT WAS MOVED BY TREASURER BEADLE AND SECONDED BY DR. LECH AND CARRIED BY A VOICE VOTE TO ACCEPT THE RESOLUTIONS AS PRESENTED.

AYES: TREASURER BEADLE, MR. SEIBEL, MR. OLSON, DR. LECH, MR. MILLER, COMMISSIONER GODFREAD, MR. MICKELSON, MS. SMITH, MR. KLIPFEL, AND LT. GOV. SANFORD

NAYS: NONE

MOTION CARRIED

ABSENT: COMMISSIONER SMITH


ADJOURNMENT:

With no further business to come before the SIB, Lt. Gov. Sanford adjourned the meeting at 12:57 p.m.

Respectfully Submitted:



Lt. Governor Sanford, Chair
State Investment Board



Missy Kopp
Recorder