

**NORTH DAKOTA STATE INVESTMENT BOARD  
MINUTES OF THE  
NOVEMBER 19, 2021, BOARD MEETING**

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

**MEMBERS ABSENT:** Bryan Klipfel, Director of WSI

**STAFF PRESENT:** Eric Chin, Interim CIO  
Connie Flanagan, Chief Financial Officer  
Missy Kopp, Executive Assistant  
Jan Murtha, Interim Exec Dir  
Matt Posch, Investment/Compliance Officer  
Ann Nagel, Investment Accountant  
Sara Sauter, Internal Audit Supvr  
Susan Walcker, Senior Financial Accountant

**GUESTS:** Jace Beehler, Governor's Office  
Dean DePountis, Attorney General's Office  
Paul Erlandson, Callan  
Alex Browning, Callan  
Scott Miller, PERS  
Adam Montgomery, Securities Commission  
Bryan Reinhardt, PERS  
Hope Wedul, HRMS

**CALL TO ORDER:**

Lt. Governor Sanford, Chair, called the State Investment Board (SIB) regular meeting to order at 8:30 a.m. on Friday, November 19, 2021. The meeting was held at Workforce Safety and Insurance, 1600 E Century Ave., Bismarck, ND.

**The following members were present: Treasurer Beadle, Rep. Kempenich, Dr. Lech, Mr. Mickelson, Mr. Miller, Mr. Olson, Lt. Gov. Sanford, Commissioner Smith, and Ms. Smith**

**ACCEPTANCE OF AGENDA:**

The Board considered the agenda for the November 19, 2021, meeting.

**IT WAS MOVED BY DR. LECH AND SECONDED BY TREASURER BEADLE AND CARRIED BY A VOICE VOTE TO APPROVE THE AGENDA AS DISTRIBUTED.**

**AYES: COMMISIONER SMITH, TREASURER BEADLE, MR. MILLER, MR. OLSON, MR. MICKELSON, DR. LECH, MS. SMITH, AND LT. GOV. SANFORD**

**NAYS: NONE**

**MOTION CARRIED**

**ABSENT: COMMISSIONER GODFREAD, MR. KLIPFEL, AND MR. SEIBEL**

**MINUTES:**

The Board considered the minutes of the October 22, 2021, SIB meeting.

**IT WAS MOVED BY MR. OLSON AND SECONDED BY DR. LECH AND CARRIED BY A VOICE VOTE TO APPROVE THE OCTOBER 22, 2021, MINUTES AS DISTRIBUTED.**

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

**NAYS: NONE**

**MOTION CARRIED**

**ABSENT: COMMISSIONER GODFREAD, MR. KLIPFEL, AND MR. SEIBEL**

**BOARD EDUCATION:**

**Audit Operations:**

Ms. Sauter provided education on Internal Audit (IA) operations at RIO. Internal auditing provides an independent and objective assessment of agency operations. IA improves effectiveness and efficiencies by assessing controls, reviewing processes, and working with divisions to find solutions. Ms. Sauter reviewed IA responsibilities, types of auditors, and the risk-based internal auditing process.

**INVESTMENTS:**

**Callan Asset and Performance Overview:**

Mr. Erlendson and Mr. Browning, Callan provided an asset and performance overview for the period ended September 30, 2021. Each of the Trust's asset allocations were within policy ranges as of September 30, 2021. Each of the Trust's cash flows were managed to rebalance towards strategic targets. Returns for PERS, TFFR, WSI, Budget Stabilization, and Legacy Funds have each exceeded their respective Total Fund benchmarks on a net-of-fee basis for the trailing five-year period ended September 30, 2021. The small cap equity allocation within the Pension, Insurance, and Legacy funds has underperformed benchmark over most cumulative periods ended September 30, 2021. Two small cap managers were terminated due to performance concerns and were replaced by new firms within the last year. Total Fund net-of-fee results exceed benchmark. As of September 30, 2021, no specific action steps were recommended as the Plans are meeting objectives.

**IT WAS MOVED BY TREASURER BEADLE AND SECONDED BY DR. LECH AND CARRIED BY A VOICE VOTE TO ACCEPT THE CALLAN PERFORMANCE EVALUATION UPDATE.**

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

**NAYS: NONE**

**MOTION CARRIED**

**ABSENT: MR. KLIPFEL**

**Investment Program/Projects Update:**

Ms. Murtha provided an update on the in-state investment program roll out progress. Staff designed this presentation based on feedback received from stakeholders. Staff have noticed the need to clarify certain terms related to the investment

program. The term “investment” can be used in different ways, all of which are accurate, but there is a correct usage in relation to the SIB investment program. When discussing the in-state investment program, the SIB is authorized to invest in economic development through loans but not grants, which do not have an expectation of return. There will also be investment in financial markets which are structured to achieve a maximum return for an acceptable level of risk. Ms. Murtha highlighted the key components of HB 1425. Manager preference focuses on the Legacy Fund as a whole, not just the in-state program, to develop a preference program for in-state managers. This is contingent on RIO being allocated appropriate staffing to implement. The other parts of HB 1425 are the 10% Equity and 10% Fixed Income investments. Ms. Murtha discussed the roles of client boards and the SIB. The governing body of each fund is responsible to approve asset allocations then the SIB will implement and monitor those allocations. Manager selection occurs at the SIB level, not at the client board level.

Commissioner Godfreed asked a question about a letter that was sent to the SIB from the Legacy and Budget Stabilization Fund Advisory Board. This letter was set to be discussed later in the agenda, but the Board chose to address it now as it relates to the presentation topics. The Advisory Board has expressed confusion about their role as a client board. RIO staff have presented to the Advisory Board three times in the past month to reinforce the framework within statute in relation to the client fund and SIB responsibilities. Statute requires that the SIB chooses managers, not the client board. The SIB does not directly invest in any businesses, but discretion is given to the managers to choose investments. In staff’s response to the letter it was stated that RIO and the SIB will fulfill their obligations as appropriate under state law. It is necessary that the Advisory Board sets their asset allocation before the SIB can move forward with further action.

Ms. Murtha continued the presentation. SB 2291 was passed by the legislature this year. This bill enacted a prohibition on social investing. Social investment means the consideration of socially responsible criteria in the investment or commitment of public funds for the purpose of obtaining an effect other than a maximized return. There is an exception for the Legacy Fund pursuant to an investment policy and if there is an equivalent or superior rate of return to a similar investment.

The Advisory Board voted at their October 28, 2021, meeting to move forward with an Asset Allocation Study. RIO staff have been researching consultant capabilities before a Request for Proposal (RFP) is issued to ensure that all the needs are expressed to potential consultants.

Ms. Murtha highlighted the Manager Preference Program which consists of two separate searches to implement the In-State Preference Program. Staff used input from industry representatives when designing this process.

Mr. Chin shared an update on next steps for the In-State Equity program. The first step is to define the scope of the consultant search. Next, staff will work with the Advisory Board to develop and issue an RFP to select a consultant. The Advisory Board will conduct an asset allocation study and define investment policy for In-State Equity investments. Then staff will work with the Private Market In-State consultant to identify managers. Staff are looking at private market specialists and in-state banks that can serve as consultants for the in-state program. Staff have been evaluating in-state opportunities and laying the groundwork to deploy capital for the in-state equity program. This includes the ND Bankers Association, in-state banks, and existing managers that may have in-state investment capabilities.

Mr. Chin summarized some of the challenges to deploying in-state equity including the need for dedicated resources to identify managers, the increased risk associated with investments in smaller firms, and the specialized expertise required for private transactions.

Mr. Chin provided an update on global equities. Staff have reviewed the portfolio with Epoch and believe a change is warranted. Staff are reviewing options and researching potential replacements for Epoch.

#### University System Capital Building Investment Fund:

Ms. Flanagan shared information about a new client fund for the SIB. SB 2033 was passed during the legislative session and created the University System Capital Building Fund. The bill indicated the State Board of Higher Education may

provide for the fund to be invested under the supervision of the SIB. Ms. Flanagan reviewed the policy for bringing on new clients and asked the Board to contingently bring on this new client on December 31, 2021.

**IT WAS MOVED BY MR. OLSON AND SECONDED BY TREASURER BEADLE AND APPROVED BY A ROLL CALL VOTE TO BRING ON THE UNIVERSITY SYSTEM CAPITAL BUILDING FUND AS A NEW CLIENT ON DECEMBER 31, 2021, CONTINGENT UPON RECEIVING THE FINAL APPROVALS FROM THE INDUSTRIAL COMMISSION AND THE BOARD OF HIGHER EDUCATION.**

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

**NAYS: NONE**

**MOTION CARRIED**

**ABSENT: MR. KLIPFEL, COMMISSIONER SMITH, MS. SMITH**

The Board recessed at 10:40 a.m. and reconvened at 10:56 a.m.

### **GOVERNANCE:**

#### **Legislative Special Session Update:**

Ms. Murtha shared an update on bills from the special legislative session that had an impact on RIO. HB 1506 authorized RIO's six Full Time Equivalent (FTE) request and additional budget adjustments. HB 1512 expanded the membership of the Legacy and Budget Stabilization Fund Advisory Board. SB 2345 expanded the list of funds that the SIB is required to invest by statute to include the Water Projects Stabilization Fund.

#### **Executive Limitations/Staff Relations:**

Ms. Murtha provided an update on the RIO facility move which will occur on November 23, 2021. A staff engagement survey was conducted in October and results were provided to the Board. Ms. Murtha provided a summary of staffing changes that have occurred and the work happening to fill openings. Current procurement activities include the Pension Administration System (PAS) project which is in the pre-award, contract negotiation stage and an RFP for temporary assistance firms that can provide contract services for additional investment personnel.

**IT WAS MOVED BY DR. LECH AND SECONDED BY TREASURER BEADLE AND CARRIED BY A VOICE VOTE TO ACCEPT THE EXECUTIVE LIMITATIONS/STAFF RELATIONS REPORT.**

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

**NAYS: NONE**

**MOTION CARRIED**

**ABSENT: MR. KLIPFEL AND COMMISSIONER SMITH**

#### **CIO Search Committee Update:**

Dr. Lech provided an update from the Executive Search Committee on the CIO search. The Committee met on October 22, 2021 to review and discuss the compensation parameters for the CIO position. The Committee recommends that the CIO salary range be set in the current biennium with a cap of \$271,456. This reflects the salary range cap previously approved for the ED/CIO position. The Committee will meet again on November 19, 2021, following the SIB meeting to review and discuss candidates.

**IT WAS MOVED BY TREASURER BEADLE AND SECONDED BY MS. SMITH AND CARRIED BY A ROLL CALL VOTE TO SET THE CIO SALARY RANGE WITH A CAP OF \$271,456.**

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

**NAYS: NONE**

**MOTION CARRIED**

**ABSENT: MR. KLIPFEL AND COMMISSIONER SMITH**

Executive Director (ED) Search Discussion:

Dr. Lech provided options to the Board to fill the RIO ED position. The first option would be to work with a search firm. This option would provide the broadest candidate pool but would take the most time and would be costly. The second option is to open the position up internally and externally which could happen quickly and would be more cost effective. The third option is for the Board to appoint Ms. Murtha as the ED. Board discussion followed.

**IT WAS MOVED BY COMMISSIONER GODFREAD AND SECONDED BY TREASURER BEADLE AND CARRIED BY A ROLL CALL VOTE TO REMOVE THE INTERIM TAG MAKING MS. MURTHA THE EXECUTIVE DIRECTOR OF RIO.**

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

**NAYS: NONE**

**ABSENT: MR. KLIPFEL AND COMMISSIONER SMITH**

**IT WAS MOVED BY TREASURER BEADLE AND SECONDED BY MS. SMITH AND CARRIED BY A ROLL CALL VOTE TO OFFER MS. MURTHA A STARTING SALARY OF \$203,000 PER YEAR FOR THE ED POSITION.**

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

**NAYS: MR. SEIBEL**

**MOTION CARRIED**

**ABSENT: MR. KLIPFEL AND COMMISSIONER SMITH**

Legacy & Budget Stabilization Fund Advisory Board Update:

Ms. Murtha provided an update on information that staff has presented to the Advisory Board. Ms. Murtha asked the Board if there were any concerns or additions to the response letter that will be sent to the Advisory Board.

Securities Litigation Committee Update:

Mr. Seibel provided an update from the Securities Litigation Committee. The Committee met on November 4, 2021. At that meeting, elections were held, and the Committee received updates on securities monitoring and five securities litigation cases. The cases are proceeding as planned.

**QUARTERLY MONITORING:**

Quarterly Audit Activities & TFFR Ends Reports:

**IT WAS MOVED BY COMMISSIONER GODFREAD AND SECONDED BY TREASURER BEADLE AND CARRIED BY A VOICE VOTE TO ACCEPT THE QUARTERLY AUDIT ACTIVITIES AND TFFR ENDS REPORTS AS PROVIDED.**

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

**ADJOURNMENT:**

With no further business to come before the SIB, Lt. Gov. Sanford adjourned the meeting at 11:57 a.m.

Respectfully Submitted:



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Lt. Governor Sanford, Chair  
State Investment Board



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Missy Kopp  
Recorder