

**NORTH DAKOTA STATE INVESTMENT BOARD
MINUTES OF THE
MAY 20, 2022, BOARD MEETING (IN PERSON)**

MEMBERS PRESENT: Brent Sanford, Lt. Governor, Chair
Dr. Rob Lech, TFFR Board, Vice Chair
Thomas Beadle, State Treasurer
Glenn Bosch, Legacy/Budget Stab. Adv. Board Rep
Jon Godfread, Insurance Commissioner
Joseph Herringer, Commissioner of Unv & School Lands
Bryan Klipfel, Director of WSI
Cody Mickelson, TFFR Board
Adam Miller, PERS Board
Mel Olson, TFFR Board
Yvonne Smith, PERS Board

STAFF PRESENT: Scott Anderson, CIO
Eric Chin, Deputy CIO
Connie Flanagan, CFO/COO
Missy Kopp, Exec Assistant
Jan Murtha, Exec Dir
Ann Nagel, Investment Accountant
Matt Posch, Sr. Investment Officer
Emmalee Riegler, Contracts/Records Admin
Sara Sauter, Internal Audit Supvr
Rachelle Smith, Retirement Assistant
Dottie Thorsen, Internal Auditor
Susan Walcker, Senior Financial Accountant
Denise Weeks, Retirement Prog Mgr
Dr. Paul White, Chief Risk Officer

GUESTS: Alex Browning, Callan
Dean DePountis, Attorney General's Office
Paul Erlendson, Callan
Rebecca Fricke, PERS
Derrick Hohbein, PERS
Perry Hopper, Callan
Keith Kempenich, Legacy/Budget Stab. Adv. Board
Jerry Klein, Legacy/Budget Stab. Adv. Board
Brian Kroshus, Tax Commissioner
Adam Montgomery, Securities Commission
Colton Schulz, Insurance Department
Teleconference Guests - 6

CALL TO ORDER:

Lt. Gov. Sanford Chair, called the State Investment Board (SIB) regular meeting to order at 8:35 a.m. on Friday, May 20, 2022. The meeting was held in the Workforce Safety and Insurance Board Room, 1600 E Century Ave., Bismarck, ND.

The following members were present representing a quorum: Treasurer Beadle, Commissioner Godfread, Commissioner Heringer, Mr. Klipfel, Dr. Lech, Mr. Mickelson, Mr. Miller, Mr. Olson, Lt. Gov. Sanford, and Ms. Smith.

ACCEPTANCE OF AGENDA:

The Board considered the agenda for the May 20, 2022, meeting.

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

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

NAYS: NONE

MOTION CARRIED

MINUTES:

The Board considered the minutes of the April 22, 2022, SIB meeting.

IT WAS MOVED BY COMMISSIONER GODFREAD AND SECONDED BY MS. SMITH AND CARRIED BY A VOICE VOTE TO APPROVE THE APRIL 22, 2022, MINUTES AS DISTRIBUTED.

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

NAYS: NONE

MOTION CARRIED

BOARD EDUCATION:

Inflation, Interest Rates, Bond Returns:

Mr. Anderson provided education on inflation, interest rates, and bond returns and how these factors affect the investment portfolio.

Risk Management:

Dr. White provided education on risk management practices that support management of the investment portfolio.

INVESTMENTS:

Callen Quarterly Performance Review:

Mr. Erlendson and Mr. Browning, Callen, provided the quarterly performance review. Each of the Trust's asset allocations were within policy ranges and cash flows were managed to rebalance towards strategic targets as of March 31, 2022. Total Fund returns for PERS, TFFR, WSI, Budget Stabilization, and Legacy Funds have each exceeded their respective benchmarks on a net-of-fee basis for the trailing five-year period ended March 31, 2022. Within the Total Fund structures, the small cap equity allocations underperformed the benchmark over most cumulative periods ended March 31, 2022. Two small cap managers were terminated due to performance concerns and were replaced by new firms one year ago. Since the manager changes were implemented, small cap results have exceeded the benchmark. Total Fund net-of-fee results exceed the benchmark.

Manager & Investment Portfolio Changes:

IT WAS MOVED BY DR. LECH AND SECONDED BY TREASURER BEADLE AND CARRIED BY A ROLL CALL VOTE TO ENTER EXECUTIVE SESSION PURSUANT TO NDCC 44-04-18.4(1), 44-04-19.1(9), AND 44-04-19.2 TO DISCUSS CONFIDENTIAL COMMERCIAL INFORMATION AND CONTRACT NEGOTIATING STRATEGY.

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

NAYS: NONE
MOTION CARRIED

The executive session began at 10:48 a.m. and ended at 11:31 a.m. In attendance were Board members, RIO staff, Mr. DePountis, Sen. Klein, Sen. Bosch, and Mr. Schulz.

IT WAS MOVED BY DR. LECH AND SECONDED BY TREASURER BEADLE AND CARRIED BY A ROLL CALL VOTE TO TERMINATE EPOCH, LSV, AND VANGUARD AND UTILIZE NORTHERN TRUST, STATE STREET, AND EXCHANGE TRADED FUNDS TO MANAGE PASSIVE INDEX EXPOSURE AND TO REALLOCATE EQUITY PORTFOLIOS AND WORK WITH EXISTING MANAGERS AS DIRECTED.

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

NAYS: NONE
MOTION CARRIED

Lewis & Clark Interpretive Center Endowment Fund Revised IPS:

Ms. Flanagan provided information on the revised Investment Policy Statement (IPS) for the Lewis & Clark Interpretive Center Endowment Fund (LCICEF). This fund was previously under the ND Parks and Recreation Department, but the Legislature moved the responsibility for the maintenance of the LCICEF to the State Historical Society of ND (SHSND). The contract with the SIB must be modified to reflect that the relationship is now with SHSND and not ND Parks & Recreation. The Industrial Commission approved the SIB to enter into the contract with SHSND on April 29, 2022. There is no change in the asset allocation at this time.

IT WAS MOVED BY MR. OLSON AND SECONDED BY COMMISSIONER GODFREAD AND CARRIED BY A ROLL CALL VOTE TO APPROVE THE REVISED INVESTMENT POLICY STATEMENT FOR THE LEWIS & CLARK INTERPRETIVE CENTER ENDOWMENT FUND UNDER THE NEW CLIENT, STATE HISTORICAL SOCIETY OF ND.

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

NAYS: NONE
MOTION CARRIED

The Board recessed at 10:00 a.m. and reconvened at 10:14 a.m.

GOVERNANCE:

Governance & Policy Review (GPR) Committee Update:

Dr. Lech shared an update from the GPR Committee. The Committee provided two archetype board composition options to consider. The Committee spent a great deal of time discussing the number of investment professionals and the process for nominating and selecting those members. The second archetype does not include the Land Commissioner and would be recommended if the SIB is not going to oversee land assets. The Committee suggested that the Commerce Commissioner could replace the Insurance Commissioner on the Board to provide some expertise for the Board to explore, especially for the in-state investment program. The Board will further discuss Board composition options and proposed legislation at the July 22, 2022, meeting.

Ms. Murtha shared information on the first reading of amended Policy B-6, amended Policy E-10, and the draft Investment Committee Charter.

IT WAS MOVED BY COMMISSIONER HERINGER AND SECONDED BY MR. OLSON AND CARRIED BY A ROLL CALL VOTE TO APPROVE THE FIRST READING OF AMMENDED POLICY B-6 AND THE DRAFT INVESTMENT COMMITTEE CHARTER.

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

NAYS: NONE

MOTION CARRIED

IT WAS MOVED BY COMMISSIONER HERRINGER AND SECONDED BY DR. LECH AND CARRIED BY A ROLL CALL VOTE TO APPROVE THE FIRST READING OF THE AMMENDED POLICY E-10.

AYES: MR. KLIPFEL, COMMISSIONER GODFREAD, MR. OLSON, MR. MILLER, TREASURER BEADLE, MR. MICKELSON, MS. SMITH, COMMISIONER HERINGER, AND LT. GOV. SANFORD

NAYS: NONE

MOTION CARRIED

Executive Review Committee (ERC) Update:

Mr. Olson provided an update from the ERC. The ERC met to discuss a plan for Executive Director (ED) compensation. The ERC reviewed data and analysis to support a recommendation for a salary increase and compensation plan for the ED. The ERC recommends the SIB adopt a goal statement to address a longer-term plan for ED compensation. Board discussion followed.

The ERC also completed the executive review of the ED which was provided to the Board.

IT WAS MOVED BY MR. OLSON AND SECONDED BY MR. MICKELSON AND FAILED BY A ROLL CALL VOTE TO ADOPT THE FOLLOWING GOAL STATEMENT “IT IS THE GOAL OF THE SIB, ASSUMING THE EXECUTIVE DIRECTOR (ED) IS MEETING THE EXPECTATIONS OF THE BOARD, TO COMPENSATE THE ED AT OR ABOVE THE 50TH PERCENTILE OF PEER PUBLIC FUNDS OF SIMILAR SIZE AND COMPOSITION. AVAILABLE PUBLIC FUND SURVEYS WILL BE UTILIZED TO DETERMINE THOSE PARAMETERS AND COMPARISONS. THE SIB HAS SET A TARGET DATE OF 7/1/2024 TO REACH THE TARGETED SALARY LEVEL.”, APPROVE THE 2% LEGISLATIVE INCREASE, AND 10% ADDITIONAL SALARY INCREASE FOR THE ED AS OF JULY 1, 2022.

AYES: MR. OLSON, MR. MILLER, MR. MICKELSON, AND MS. SMITH

NAYS: DR. LECH, TREASURER BEADLE, COMMISSIONER HERINGER, COMMISIONER GODFREAD, MR. KLIPFEL, AND LT. GOV. SANFORD

MOTION FAILED

IT WAS MOVED BY MR. OLSON TO ADOPT THE GOAL STATEMENT, APPROVE THE 2% LEGISLATIVE INCREASE, AND 5% ADDITIONAL SALARY INCREASE FOR THE ED AS OF JULY 1, 2022. THE MOTION FAILED WITHOUT A SECOND.

IT WAS MOVED BY DR. LECH AND SECONDED BY TREASURER BEADLE AND CARRIED BY A ROLL CALL VOTE TO APPROVE THE 2% LEGISLATIVE INCREASE FOR THE ED AS OF JULY 1, 2022.

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

NAYS: NONE

MOTION CARRIED

IT WAS MOVED BY MR. OLSON AND SECONDED BY MS. SMITH AND FAILED BY A ROLL CALL VOTE TO GIVE AN ADDITIONAL 5% INCREASE TO THE ED EFFECTIVE JULY 1, 2022.

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

IT WAS MOVED BY COMMISSIONER GODFREAD AND SECONDED BY TREASURER BEADLE AND CARRIED BY A ROLL CALL VOTE TO APPROVE THE EXECUTIVE REVIEW OF THE ED.

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

Board & Committee Calendar:

The Board considered the proposed SIB Board & Committee Calendar for 2022-23.

IT WAS MOVED BY COMMISSIONER HERINGER AND SECONDED BY MS. SMITH AND CARRIED BY A VOICE VOTE TO APPROVE THE SIB BOARD AND COMMITTEE CALENDAR FOR 2022-23.

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

QUARTERLY MONITORING REPORTS:

IT WAS MOVED BY MR. OLSON AND SECONDED BY COMMISSIONER GODFREAD AND CARRIED BY A VOICE VOTE TO ACCEPT THE AUDIT COMMITTEE, AND EXECUTIVE LIMITATIONS/STAFF RELATIONS REPORTS.

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

OTHER:

Resolution in Recognition of Connie Flanagan:

ND State Investment Board Resolution
In Recognition of
Connie Flanagan

WHEREAS, Connie Flanagan has served as valued and dedicated member of the Retirement & Investment Office for more than 30 years; and

WHEREAS, Connie Flanagan has diligently carried out her duties and responsibilities as Chief Fiscal Officer and Chief Operating Officer in support of both the TFFR and SIB Programs; and

WHEREAS, Connie Flanagan has diligently helped to maintain the fiscal operations, integrity and stability of the TFFR and SIB Programs.

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

DATED this 20th day of May 2022

IT WAS MOVED BY MR. OLSON AND SECONDED BY COMMISSIONER GODFREAD AND CARRIED BY A VOICE VOTE TO APPROVE THE RESOLUTION.

AYES: COMMISSIONER HERINGER, TREASURER BEADLE, MR. MILLER, COMMISSIONER GODFREAD, MR. OLSON, MR. KLIPFEL, MR. MICKELSON, DR. LECH, AND MS. SMITH

NAYS: NONE

MOTION CARRIED

ABSENT: LT. GOV. SANFORD

ADJOURNMENT:

With no further business to come before the SIB, Dr. Lech adjourned the meeting at 12:46 p.m.

Prepared by:

Missy Kopp, Assistant to the Board