

**NORTH DAKOTA STATE INVESTMENT BOARD
MINUTES OF THE
MAY 18, 2023, BOARD MEETING (IN-PERSON)**

MEMBERS PRESENT: Tammy Miller, Lt. Governor, Chair
Dr. Rob Lech, TFFR Board, Vice Chair
Thomas Beadle, State Treasurer
Joseph Herringer, Commissioner of Unv. & School Lands
Cody Mickelson, TFFR Board
Adam Miller, PERS Board
Mel Olson, TFFR Board
Art Thompson, Director of WSI

MEMBERS ABSENT: Jon Godfread, Insurance Commissioner
Claire Ness, PERS Board, Parliamentarian
Yvonne Smith, PERS Board

STAFF PRESENT: Scott Anderson, CIO
Eric Chin, Deputy CIO
Derek Dukart, Investment Officer
Rachel Kmetz, Accounting Mgr.
Missy Kopp, Exec. Assistant
George Moss, Sr. Investment Officer
Sarah Mudder, Communications/Outreach Dir.
Jan Murtha, Exec. Dir.
Ann Nagel, Retirement Accountant
Madalynn Nelson, Accounting Intern
Matt Posch, Sr. Investment Officer
Emmalee Riegler, Contracts/Records Admin.
Mike Schmitcke, Investment Accountant
Sara Seiler, Internal Audit Supvr.
Ryan Skor, CFO/COO
Lindsey Trotter, Legal Intern
Nitin Vaidya, Chief Risk Officer
Tami Volkert, Compliance Spec.
Susan Walcker, Sr. Financial Accountant
Jason Yu, Risk Officer
Lance Zietlow, Sr. Investment Officer

GUESTS: Craig Chaikin, Callan
Dean DePountis, Attorney General's Office
Perry Hopper, Callan
Candace Johnson, Securities Commission
Jerry Klein, Legacy/Budget Stab. Adv. Board
Adam Montgomery, Securities Commission
Members of the Public

CALL TO ORDER:

Lt. Gov. Miller, Chair, called the State Investment Board (SIB) regular meeting to order at 8:30 a.m. on Friday, May 18, 2023. 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 Heringer, Dr. Lech, Lt. Gov. Miller, Mr. Miller, Mr. Olson, and Mr. Thompson.

Ms. Murtha introduced new RIO staff Mike Schmitcke, Lindsey Trotter, and Madalynn Nelson.

ACCEPTANCE OF AGENDA:

The Board considered the agenda for the May 18, 2023, 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: COMMISSIONER HERINGER, TREASURER BEADLE, MR. MILLER, MR. OLSON, MR. THOMPSON, DR. LECH, AND LT. GOV. MILLER

NAYS: NONE

ABSENT: COMMISSIONER GODFREAD, MR. MICKELSON, MS. NESS, AND MS. SMITH

MOTION CARRIED

Mr. Mickelson joined the meeting at 8:05 a.m.

MINUTES:

The Board considered the minutes of the April 28, 2023, SIB meeting.

IT WAS MOVED BY MR. THOMPSON AND SECONDED BY TREASURER BEADLE AND CARRIED BY A VOICE VOTE TO APPROVE THE APRIL 18, 2023, MINUTES AS DISTRIBUTED.

AYES: MR. MICKELSON, COMMISSIONER HERINGER, MR. THOMPSON, TREASURER BEADLE, DR. LECH, MR. OLSON, MR. MILLER, AND LT. GOV. MILLER

NAYS: NONE

ABSENT: COMMISSIONER GODFREAD, MS. NESS, AND MS. SMITH

MOTION CARRIED

GOVERNANCE:

2021-23 Biennium Review:

Ms. Murtha reviewed what RIO has accomplished over the biennium. The agency has gone through numerous changes since June of 2021 resulting from legislation, staffing changes, IT unification, an office move, and the pension administration system upgrade project. Ms. Murtha reviewed RIO milestones, accomplishments, and the strategic plan. Many of the goals in the strategic plan required legislative changes to achieve. With the legislation that was approved this session, we have achieved all of the goals that were set in our strategic plan. Ms. Murtha reviewed the new mission, vision, and core values for RIO and the process to create the new statements. Board discussion followed.

Board Education and Planning Calendar:

The Board approved the schedule for the upcoming fiscal year (FY) at the April 2023 meeting. Staff have prepared a planning calendar with routine meeting and education topics throughout the year. Ms. Murtha asked for Board acceptance of the planning calendar.

IT WAS MOVED BY TREASURER BEADLE AND SECONDED BY DR. LECH AND CARRIED BY A VOICE VOTE TO APPROVE THE BOARD EDUCATION AND PLANNING CALENDAR.

AYES: MR. OLSON, COMMISSIONER HERINGER, MR. MICKELSON, MR. MILLER, TREASURER BEADLE, MR. THOMPSON, DR. LECH, AND LT. GOV. MILLER

NAYS: NONE

**ABSENT: COMMISSIONER GODFREAD, MS. NESS, AND MS. SMITH
MOTION CARRIED**

Investment Committee (IC) Update:

Treasurer Beadle and Mr. Anderson provided an update from the IC meeting on May 12, 2023. The IC received presentations on the risk management strategy and country risk. The Committee discussed the timber portfolio and the IC charter. Staff provided updates to SIB Governance Policy E-3 which add clarity to delegation guidelines for the investment program. Mr. Anderson reviewed the proposed amendments to Policy E-3 and a new delegation matrix which will be added as Exhibit E-III. Board discussion followed.

IT WAS MOVED BY TREASURER BEADLE AND SECONDED BY DR. LECH AND CARRIED BY A ROLL CALL VOTE TO APPROVE THE INTRODUCTION AND FIRST READING OF AMENDED POLICY E-3 AND NEW EXHIBIT E-III.

AYES: TREASURER BEADLE, MR. MICKELSON, MR. THOMPSON, COMMISSIONER HERINGER, DR. LECH, MR. MILLER, MR. OLSON, AND LT. GOV. MILLER

NAYS: NONE

**ABSENT: COMMISSIONER GODFREAD, MS. NESS, AND MS. SMITH
MOTION CARRIED**

Executive Review and Compensation Committee (ERCC):

Mr. Miller provided an update from the ERCC meeting on May 18, 2023. The ERCC completed the Executive Director's (ED) annual review and has provided a compensation recommendation for the ED to the Board. The ED review summary has been provided to the Board. Board discussion followed.

IT WAS MOVED BY TREASURER BEADLE AND SECONDED BY DR. LECH AND CARRIED BY A ROLL CALL VOTE TO APPROVE THE RECOMMENDED INCREASE OF 6% FOR THE ED SALARY AND THE ANNUAL EXECUTIVE REVIEW.

AYES: MR. MILLER, MR. OLSON, MR. MICKELSON, DR. LECH, MR. THOMPSON, COMMISSIONER HERINGER, TREASURER BEADLE, AND LT. GOV. MILLER

NAYS: NONE

**ABSENT: COMMISSIONER GODFREAD, MS. NESS, AND MS. SMITH
MOTION CARRIED**

The Board recessed at 9:57 a.m. and reconvened at 10:11 a.m.

INVESTMENTS:

Quarterly Markets and Performance Update:

Mr. Chaikin, Callan, provided an update on market conditions and performance for the quarter ended March 31, 2023. 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, 2023. Most total fund returns have each exceeded their respective benchmarks on a net-of-fee basis for the trailing five-year period ended March 31, 2023. PERS trails by an annualized 2 basis points (bps) and TFFR by an annualized 30 bps. Mr. Chaikin discussed corridor benchmarking which adjusts a portfolio's benchmark weights to reflect the actual weights of private market and less liquid investments. Any increase or decrease from the strategic target weights to private/less liquid investments will be offset by an equal magnitude decrease/increase to the benchmark weight in equity and/or fixed income. Corridor benchmarking is used so that performance attribution from asset allocation would more clearly reflect the investment team's decisions. The weights will be adjusted by rebalancing private equity to public equity. Real assets, including real estate, will be rebalanced to 50% public fixed income and 50% public equity. Mr. Chaikin provided examples of corridor benchmarking. Board discussion followed.

IT WAS MOVED BY TREASURER BEADLE AND SECONDED BY COMMISSIONER HERINGER AND CARRIED BY A ROLL CALL VOTE TO ACCEPT THE QUARTERLY PERFORMANCE REVIEW.

AYES: TREASURER BEADLE, MR. OLSON, COMMISSIONER HERINGER, DR. LECH, MR. MILLER, MR. MICKELSON, MR. THOMPSON, AND LT. GOV. MILLER

NAYS: NONE

ABSENT: COMMISSIONER GODFREAD, MS. NESS, AND MS. SMITH

MOTION CARRIED

Risk Strategy:

Mr. Vaidya presented the risk allocation and management strategy. Investors must decide where they should be on the risk spectrum and what is the desired level of risk. Mr. Vaidya described investment risk, its effect on returns, and the measures of risk and return. A model for evaluating outcomes was provided. Mr. Vaidya outlined RIO's risk allocation and management beliefs, objective, and strategy. Information was provided on risk allocation and management and their effect on investment outcomes. Staff shared plans for communication with the SIB, IC, and client funds on risk allocation and management including an example of a structural risk dashboard. A timeline of near-term activities was reviewed. Board discussion followed.

Country Risk:

Mr. Anderson provided background on the previous activities and reasons for addressing country risk. Mr. Chin outlined the activities completed by staff to allow them to be nimbler in making exposure adjustment. Staff has implemented operational infrastructure and analytical resources to better manage country risk, including opening markets to facilitate separate accounts for international managers and adding new research capabilities to assess geopolitical risk. With US-China geopolitical tensions rising, staff recommended an interim portfolio solution to manage China exposure. Board discussion followed.

Portfolio Changes:

IT WAS MOVED BY DR. LECH AND SECONDED BY TREASURER BEADLE AND CARRIED BY A ROLL CALL VOTE TO ENTER INTO 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 NEGOTIATION STRATEGY.

AYES: MR. THOMPSON, MR. OLSON, TREASURER BEADLE, COMMISSIONER HERINGER, DR. LECH, MR. MICKELSON, AND LT. GOV. MILLER

NAYS: NONE

ABSENT: COMMISSIONER GODFREAD, MS. NESS, AND MS. SMITH

MOTION CARRIED.

The executive session started at 11:26 a.m. and ended at 11:42 a.m. and was attended by Board members, staff, and Mr. Chaikin, Callan.

QUARTERLY MONITORING REPORTS:

Audit Activities Report:

Ms. Seiler provided the Quarterly Audit Activities Report. The SIB Audit Committee met on May 11, 2023. The Committee reviewed and approved the third quarter and current audit activities, June 30, 2023, FY financial statement audit kickoff, and 2023-24 internal audit (IA) workplan. Weaver and Tidwell, LLP presented the final report for the IA business process review. Ms. Sauter reviewed the process and results of the review. Board discussion followed.

Executive Limitations/Staff Relations:

Ms. Murtha provided an update on staffing and shared that RIO is fully staffed. Staff are working on changes to current positions in preparation for posting the new FTEs which were granted by the legislature. Staff are preparing for new board members and board member onboarding. Board discussion followed.

IT WAS MOVED BY TREASURER BEADLE AND SECONDED BY DR. LECH AND CARRIED BY A ROLL CALL VOTE TO ACCEPT THE QUARTERLY AUDIT ACTIVITIES AND EXECUTIVE LIMITATIONS/STAFF RELATIONS REPORTS.

AYES: DR. LECH, TREASURER BEADLE, MR. OLSON, COMMISSIONER HERINGER, MR. MILLER, MR. MICKELSON, MR. THOMPSON, AND LT. GOV. MILLER

NAYS: NONE

ABSENT: COMMISSIONER GODFREAD, MS. NESS, AND MS. SMITH

MOTION CARRIED

RESOLUTION FOR CLAIRE NESS:

WHEREAS, Deputy Attorney General Claire Ness has served as a PERS Trustee representative of the State Investment Board since 2022; and

WHEREAS, Ms. Ness has diligently carried out her duties and responsibilities as a member of the SIB and fiduciary of the SIB Program; and

WHEREAS, Ms. Ness has been a valued and dedicated member of the SIB in helping maintain the integrity and stability of the SIB Program.

NOW THEREFORE, BE IT RESOLVED that Ms. Ness be duly recognized by the SIB for her unselfish dedication to the State of North Dakota through her service on the State Investment Board.

DATED this 18th day of May 2023

IT WAS MOVED BY DR. LECH AND SECONDED BY TREASURER BEADLE AND CARRIED BY A ROLL CALL VOTE TO ACCEPT THE BOARD RESOLUTION.

AYES: MR. THOMPSON, COMMISSIONER HERINGER, MR. MICKELSON, MR. MILLER, DR. LECH, MR. OLSON, TREASURER BEADLE, AND LT. GOV. MILLER

NAYS: NONE

ABSENT: COMMISSIONER GODFREAD, MS. NESS, AND MS. SMITH

MOTION CARRIED

RESOLUTION FOR YVONNE SMITH:

WHEREAS, Yvonne Smith has served as a PERS Trustee representative of the State Investment Board since 2014; and

WHEREAS, Ms. Smith has diligently carried out her duties and responsibilities as a member of the SIB and fiduciary of the SIB Program; and

WHEREAS, Ms. Smith has been a valued and dedicated member of the SIB in helping maintain the integrity and stability of the SIB Program.

NOW THEREFORE, BE IT RESOLVED that Ms. Smith be duly recognized by the SIB for her years of unselfish dedication to the State of North Dakota through her service on the State Investment Board.

DATED this 18th day of May 2023

IT WAS MOVED BY COMMISSIONER HERINGER AND SECONDED BY TREASURER BEADLE AND CARRIED BY A ROLL CALL VOTE TO ACCEPT THE BOARD RESOLUTION.

AYES: MR. MICKELSON, COMMISSIONER HERINGER, TREASURER BEADLE, DR. LECH, MR. OLSON, MR. MILLER, MR. THOMPSON, AND LT. GOV. MILLER

NAYS: NONE

ABSENT: COMMISSIONER GODFREAD, MS. NESS, AND MS. SMITH

MOTION CARRIED

RESOLUTION FOR MEL OLSON:

WHEREAS, Mel Olson has served as a TFFR Trustee representative of the State Investment Board since 2015; and

WHEREAS, Mr. Olson has diligently carried out his duties and responsibilities as a member of the SIB and fiduciary of the SIB Program; and

WHEREAS, Mr. Olson has been a valued and dedicated member of the SIB in helping maintain the integrity and stability of the SIB Program.

NOW THEREFORE, BE IT RESOLVED that Mr. Olson be duly recognized by the SIB for his years of unselfish dedication to the State of North Dakota through his service on the State Investment Board.

DATED this 18th day of May 2023

IT WAS MOVED BY TREASURER BEADLE AND SECONDED BY DR. LECH AND CARRIED BY A ROLL CALL VOTE TO ACCEPT THE BOARD RESOLUTION.

AYES: MR. MICKELSON, MR. MILLER, MR. THOMPSON, COMMISSIONER HERINGER, DR. LECH, TREASURER BEADLE, AND LT. GOV. MILLER

NAYS: NONE

ABSENT: COMMISSIONER GODFREAD, MS. NESS, AND MS. SMITH

MOTION CARRIED

ADJOURNMENT:

With no further business to come before the SIB, Lt. Gov. Miller adjourned the meeting at 12:00 p.m.

Prepared by: Missy Kopp, Assistant to the Board