

**NORTH DAKOTA TEACHERS' FUND FOR RETIREMENT
MINUTES OF THE
SEPTEMBER 26, 2019, BOARD MEETING**

BOARD MEMBERS PRESENT: Rob Lech, President
Mike Burton, Vice President
Toni Gumeringer, Trustee
Cody Mickelson, Trustee
Mel Olson, Trustee
Kelly Schmidt, State Treasurer

BOARD MEMBER ABSENT: Kirsten Baesler, State Supt. DPI

STAFF PRESENT: Connie Flanagan, CFO
David Hunter, ED/CIO
Fay Kopp, Deputy ED/CRO
Missy Kopp, Retirement Assistant
Rich Nagel, IT Program Mgr
Sara Sauter, Internal Audit Supvr
Shelly Schumacher, Retirement Program Mgr
Dottie Thorsen, Internal Auditor

OTHERS PRESENT: Kim Nicholl, Segal Consultants (Vdcf)
Anders Odegaard, Attorney General's Office
Matt Strom, Segal Consultants (Vdcf)

CALL TO ORDER:

Dr. Rob Lech, President of the Teachers' Fund for Retirement (TFFR) Board of Trustees, called the meeting to order at 1:00 p.m. on Thursday, September 26, 2019, at the Retirement and Investment Office (RIO), Bismarck, ND.

THE FOLLOWING MEMBERS WERE PRESENT REPRESENTING A QUORUM: MR. BURTON, MRS. GUMERINGER, PRES. LECH, MR. MICKELSON, MR. OLSON AND TREASURER SCHMIDT.

ACCEPTANCE OF AGENDA:

The Board considered the agenda for the September 26, 2019, meeting.

IT WAS MOVED BY MR. BURTON AND SECONDED BY MR. OLSON AND CARRIED BY A VOICE VOTE TO ACCEPT THE AGENDA AS DISTRIBUTED.

AYES: TREASURER SCHMIDT, MR. BURTON, MR. MICKELSON, MRS. GUMERINGER, MR. OLSON, AND PRES. LECH

NAYS: NONE

MOTION CARRIED

ABSENT: SUPT. BAESLER

MINUTES:

The Board considered the minutes of the July 25, 2019, meeting and the July 26, 2019, special meeting.

IT WAS MOVED BY MR. OLSON AND SECONDED BY MR. BURTON AND CARRIED BY A VOICE VOTE TO ACCEPT THE JULY 25 AND 26, 2019, MINUTES AS DISTRIBUTED.

AYES: MR. MICKELSON, MR. OLSON, TREASURER SCHMIDT, MR. BURTON, MRS. GUMERINGER, AND PRES. LECH

NAYS: NONE

MOTION CARRIED

ABSENT: SUPT. BAESLER

TFFR PLAN MANAGEMENT POLICY 1ST READING:

Ms. Kim Nicholl and Mr. Matt Strom, Segal Consulting, presented the TFFR Plan Management Policy draft for a first reading. The Plan Management Policy is a risk assessment and management tool that monitors the ongoing health of TFFR using the most recent actuarial valuation results and stochastic projections. It provides a basis for balancing the Fund's obligations with current assets and expected future contributions in order to maintain its long-term health and viability. The Plan Management Policy also provides a framework the Board can follow in establishing metrics for future funding and benefit changes. The Plan Management Policy is based upon metrics and a scoring system. The Policy Score will be updated subsequent to each annual actuarial valuation.

Board discussion followed.

IT WAS MOVED BY MR. MICKELSON AND SECONDED BY MR. OLSON AND CARRIED BY A ROLL CALL VOTE TO APPROVE THE FIRST READING OF THE TFFR PLAN MANAGEMENT POLICY.

AYES: TREASURER SCHMIDT, MRS. GUMERINGER, MR. OLSON, MR. BURTON, MR. MICKELSON, AND PRES. LECH

NAYS: NONE

MOTION CARRIED

ABSENT: SUPT. BAESLER

BOARD EDUCATION - FIDUCIARY DUTIES:

Mr. Odegaard, Attorney General's office, presented board education on the fiduciary duties of TFFR board members which are set forth in North Dakota Century Code (NDCC)15-39.1-05.1. Fiduciary duties include loyalty, impartiality, independence, prudence, administration, skill, delegation, exclusive benefit rule, and prudent investor rule. Mr. Odegaard also discussed application of fiduciary duties related to administration of the plan, maintaining the confidentiality of member records, monitoring

and suggesting improvements to the plan, conflicts of interest, code of conduct, breach of fiduciary duties, and board member liability. Board discussion followed.

ANNUAL INVESTMENT REPORT:

Mr. Hunter provided the annual investment report for the periods ended June 30, 2019. Net investment income increased TFFR pension assets by \$135 million in fiscal 2019. TFFR investments have averaged over \$2 billion during the last 5 years and excess return has averaged over 0.50% per annum. Based on these values, TFFR's use of active management has enhanced net investment returns by \$50 million for the 5-years ended June 30, 2019. This excess return has been achieved while adhering to prescribed risk limits.

TFFR's net investment return for the 1 year ended June 30, 2019 was 5.5%; 5 years was 6.2%; 10 years was 9.6%; 20 years was 5.7%; and 30 years was 7.7%. TFFR returns have approximated its actuarial return assumption of 7.75% over the last 30 years. TFFR has generated positive risk adjusted excess return for rolling 5-year periods since 2014. Investment fees and expenses increased from 0.55% in fiscal 2018 to 0.57% in fiscal 2019.

Board discussion followed.

IT WAS MOVED BY MR. OLSON AND SECONDED BY MRS. GUMERINGER AND CARRIED BY A ROLL CALL VOTE TO ACCEPT THE ANNUAL INVESTMENT REPORT.

AYES: MRS. GUMERINGER, MR. BURTON, MR. MICKELSON, MR. OLSON, TREASURER SCHMIDT, AND PRES. LECH

NAYS: NONE

MOTION CARRIED

ABSENT: SUPT. BAESLER

ANNUAL BUDGET AND EXPENSE REPORT:

Ms. Flanagan reviewed the annual TFFR budget and expense report for the fiscal year ending June 30, 2019. She explained that about 93% of TFFR's expenditures are for member benefit claims, 6% investment expenses, 0.3% other continuing appropriations, and 0.7% appropriated expenditures including salaries, benefits, operating expenses, and SIB expenses allocated to TFFR. She also reviewed continuing appropriations, budgeted expenditures, consulting expenses, and the approved 2019-21 biennial budget including the \$9 million PAS upgrade/replacement project.

IT WAS MOVED BY MR. BURTON AND SECONDED BY MR. MICKELSON AND CARRIED BY A ROLL CALL VOTE TO ACCEPT THE ANNUAL BUDGET AND EXPENSE REPORT.

AYES: MR. OLSON, MR. MICKELSON, MRS. GUMERINGER, TREASURER SCHMIDT, MR. BURTON, AND PRES. LECH

NAYS: NONE

MOTION CARRIED

ABSENT: SUPT. BAESLER

ANNUAL AUDIT SERVICES REPORT:

Ms. Sauter provided the annual audit services report. During fiscal year 2018-19 the following audits were completed for TFFR: four Employer Audits, Cost Benefit Audit, Purchase and Refund Audit, and Annual Salary Verification Project. The File Maintenance Audit was not completed in 2018-19, but is in progress. Other Audit activities include the Executive Limitations Audit, SIB Self-Assessment, Investment Due Diligence Audit, and Agency Risk Assessment.

IT WAS MOVED BY TREASURER SCHMIDT AND SECONDED BY MRS. GUMERINGER AND CARRIED BY A ROLL CALL VOTE TO ACCEPT THE ANNUAL AUDIT SERVICES REPORT.

AYES: MR. BURTON, MRS. GUMERINGER, MR. OLSON, TREASURER SCHMIDT, MR. MICKELSON, AND PRES. LECH

NAYS: NONE

MOTION CARRIED

ABSENT: SUPT. BAESLER

The Board recessed at 3:00 p.m. and reconvened at 3:15 p.m.

ANNUAL STATE INVESTMENT BOARD (SIB) CUSTOMER SATISFACTION SURVEY:

Pres. Lech reported on the SIB Customer Satisfaction Survey. The annual customer satisfaction survey was provided to all TFFR Board members. Pres. Lech compiled the results and a weighted average was used to determine Excellent ratings in all categories provided to the SIB. All individual comments were included in the compiled survey.

IT WAS MOVED BY MR. BURTON AND SECONDED BY MR. MICKELSON AND CARRIED BY A ROLL CALL VOTE TO APPROVE THE TFFR BOARD RESPONSE TO THE ANNUAL SIB CUSTOMER SATISFACTION SURVEY.

AYES: MRS. GUMERINGER, MR. MICKELSON, TREASURER SCHMIDT, MR. BURTON, MR. OLSON, AND PRES. LECH

NAYS: NONE

MOTION CARRIED

ABSENT: SUPT. BAESLER

PENSION ADMINISTRATION SYSTEM (PAS) PROJECT UPDATE:

Ms. Kopp provided an update on the PAS project. RIO staff contacted ND Information Technology (IT) staff this summer to request project resources, procurement and management assistance. Meetings were held on August and September with staff from RIO, PERS, ND IT and the Governor's Office to begin discussing the project. Questions have been brought up regarding whether TFFR and PERS could potentially share pension

administration software in the future. Ms. Kopp emphasized that as fiduciaries, trustees must act solely in the best interest of the members, retirees, and beneficiaries of TFFR for the exclusive purpose of providing benefits and paying reasonable expenses of administering the TFFR plan. No other State or outside interests may come before that of the TFFR members. Ms. Kopp will provide information regarding the Board's fiduciary duties and other issues impacting the Board's responsibility to prudently select the best vendor solution at the best price for this important project.

Board discussion followed.

GOVERNANCE & POLICY REVIEW (GPR) COMMITTEE UPDATE:

Mr. Mickelson and Ms. Kopp provided an update on the GPR Committee. The GPR Committee met in September to review the first draft of a revised TFFR Board Governance Policy Manual. At this meeting, the GPR Committee discussed and provided feedback on Sections A-J of the draft manual. The feedback from that discussion will be used to prepare another draft. The GPR Committee plans to meet again in late October or November to continue discussing the draft manual.

Board discussion followed.

MISSION STATEMENT APPROVAL:

Pres. Lech reported on the development of a new mission statement for the TFFR Board. At the July meeting, the Board members created three new statements. Those statements were sent to all Board members and RIO staff for feedback. Using that feedback and after further discussion, the Board considered the following mission statement:

"TFFR administers a comprehensive retirement program that provides North Dakota public educators with a foundation for retirement security."

IT WAS MOVED BY MR. OLSON AND SECONDED BY MRS. GUMERINGER AND CARRIED BY A ROLL CALL VOTE TO APPROVE THE NEW TFFR MISSION STATEMENT.

AYES: MR. BURTON, MRS. GUMERINGER, MR. OLSON, TREASURER SCHMIDT, MR. MICKELSON, AND PRES. LECH

NAYS: NONE

MOTION CARRIED

ABSENT: SUPT. BAESLER

VISION STATEMENT DEVELOPMENT:

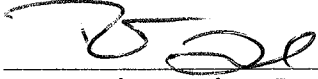
Pres. Lech led the Board in an exercise to develop a TFFR vision statement. Board members worked in small groups to identify TFFR's cause, actions, and outcomes which were used to draft possible vision statements. Pres. Lech will send the draft statements out in a survey to RIO staff and the

TFFR Board for feedback. Survey results will be brought to the October meeting for further discussion.

ADJOURNMENT:

With no further business to come before the Board, President Lech adjourned the meeting at 4:40 p.m.

Respectfully Submitted:



Dr. Rob Lech, President
Teachers' Fund for Retirement Board



Missy Kopp
Reporting Secretary