

**NORTH DAKOTA TEACHERS' FUND FOR RETIREMENT
MINUTES OF THE
NOVEMBER 19, 2020 BOARD MEETING**

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

STAFF PRESENT: Jayme Heick, Retirement Programs Spec
David Hunter, ED/CIO
Missy Kopp, Retirement Assistant
Jan Murtha, Deputy ED/CRO
Sara Sauter, Supvr of Internal Audit
Stephanie Starr, Retirement Programs Spec
Dottie Thorsen, Internal Auditor
Denise Weeks, Retirement Program Mgr

OTHERS PRESENT: Alex Browning, Callan LLC
Dean DePountis, Atty. General's Office
Tanya Dybal, Segal
Paul Erlendson, Callan LLC
Julia Moriarty, Callan LLC
Kim Nicholl, Segal
Matt Strom, Segal

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, November 19, 2020. The meeting was held at the State Capitol, Pioneer Room, Bismarck, ND.

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

ACCEPTANCE OF AGENDA:

The Board considered the agenda for the November 19, 2020, meeting.

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

AYES: SUPT. BAESLER, TREASURER SCHMIDT, MR. BURTON, MR. MICKELSON, MS. GUMERINGER, MR. OLSON, AND PRES. LECH

NAYS: NONE

MOTION CARRIED

MINUTES:

The Board considered the minutes of the September 24 and October 7, 2020, meetings.

IT WAS MOVED BY MR. MICKELSON AND SECONDED BY MR. OLSON AND CARRIED BY A VOICE VOTE TO APPROVE THE SEPTEMBER 24 AND OCTOBER 7, 2020, MINUTES AS DISTRIBUTED.

AYES: MR. MICKELSON, MR. OLSON, TREASURER SCHMIDT, MR. BURTON, SUPT. BAESLER, MS. GUMERINGER, AND PRES. LECH

NAYS: NONE

MOTION CARRIED

GOVERNANCE:

Asset Liability Analysis:

Ms. Julia Moriarty and Mr. Alex Browning, Callan, presented the findings of the Asset Allocation and Liability Study. The goal of the asset-liability study is to determine an appropriate long-term mix between return-seeking assets and risk-mitigating assets. The asset-liability study helps TFFR quantify the impact that different strategies might have on relevant metrics. They evaluated the interaction of three key policies (investment, funding, and benefits) to identify the optimal investment policy.

A modestly improving funded status in the median outcome is due in large part to a combined statutory contribution rate of 24.5% of pay which leads to assets outpacing liabilities. Many factors support an asset allocation with a risk posture similar to the current target. The statutory contribution policy combined with the relatively large illiquid allocation led Callan to recommend maintaining the current risk posture (mix 4a) or moving to a slightly less aggressive asset allocation (mix 4). After discussions between RIO staff and Callan, mix 4 was recommended. Mix 4 has expected returns over the next ten years that fall short of the 7.25% return assumption, but there are mitigating factors that offset the projected returns. Callan's public market return projections are based on passive implementation and do not incorporate active management premiums; Callan's 10-year projections are cyclically lower than our longer-term expectations; the target and mix 4 have a 45-46% probability of achieving a 7.25% return over the next ten years.

Board discussion followed.

IT WAS MOVED BY MR. OLSON AND SECONDED BY MS. GUMERINGER AND CARRIED BY A ROLL CALL VOTE TO APPROVE THE MIX 4 ASSET ALLOCATION RECCOMENDATION FROM CALLEN.

AYES: TREASURER SCHMIDT, MS. GUMERINGER, MR. OLSON, MR. BURTON, MR. MICKELSON, AND PRES. LECH
NAYS: NONE
MOTION CARRIED
ABSENT: SUPT. BAESLER

Actuarial Valuation:

Ms. Kim Nicholl, Ms. Tanya Dybal, and Mr. Matt Strom, Segal, presented the annual Actuarial Valuation report as of July 1, 2020. Highlights include the following:

- Changes in actuarial assumptions:
 - Inflation lowered from 2.75% to 2.30%; investment return lowered from 7.75% to 7.25%; healthy mortality, disabled mortality, and active mortality tables changed; disability rates reduced by 20%; retirement, withdrawal, and salary scale rates updated
- Market value of assets returned 3.3% for year ending 6/30/20 (Segal calculation)
 - Gradual recognition of deferred losses resulted in 6.2% return on actuarial value of assets
- Funded ratio decreased from 66.0% (as of 7/1/2019) to 65.7% (as of 7/1/2020)
- Effective amortization period increased from 23 years to 24 years
- Net impact on actuarially determined contribution (ADC) was an increase from 12.84% of payroll to 13.19% of payroll
 - Based on the employer contribution rate of 12.75%, the contribution deficiency has increased from 0.09% of payroll to 0.44% of payroll
- GASB Net Pension Liability increased from \$1.38 billion as of 6/30/19, to \$1.53 billion as of 6/30/20

Board discussion followed.

IT WAS MOVED BY MR. BURTON AND SECONDED BY TREASURER SCHMIDT AND CARRIED BY A ROLL CALL VOTE TO APPROVE THE 2020 ACTUARIAL VALUATION REPORT.

AYES: MS. GUMERINGER, MR. MICKELSON, TREASURER SCHMIDT, SUPT. BAESLER, MR. BURTON, MR. OLSON, AND PRES. LECH
NAYS: NONE
MOTION CARRIED

Employee Benefits Programs Committee (EBPC) Update:

Ms. Murtha shared an update from the October 28, 2020 EBPC meeting. The EBPC heard the request of the TFFR Board to accept jurisdiction of Bill Draft No. 233 to effect the change to the required minimum distribution rule required by the 2019 Setting Every Community Up for Retirement Enhancement (SECURE) Act. The EBPC accepted jurisdiction of the proposed bill and approved a favorable recommendation of the bill draft. Ms. Murtha

indicated that the EBPC also approved the interim change to this statute until it could be acted on by the legislature in the upcoming session.

Board discussion followed.

Strategic Messaging:

Ms. Murtha shared information about strategic messaging plans for sharing information about TFFR. The Board reading materials included a video about this topic. There will be further discussion about strategic messaging at the January 21, 2021 Board meeting.

Board discussion followed.

REPORTS:

TFFR Ends:

Ms. Murtha provided the quarterly TFFR Ends monitoring report. Dr. Lech was reappointed to the TFFR Board for a 5-year term. The Retirement and Investment Office's (RIO) new website was launched. There are over 5,600 TFFR members who have registered for Member Online. Customer satisfaction scores remain high at 3.9 (4.0 scale).

Board discussion followed.

Investment Report:

Mr. Hunter shared the investment report for the period ended September 30, 2020. TFFR earned 8.09% in the last year and 8.29% for the 5-years ended September 30, 2020 exceeding policy benchmarks. TFFR earned 8.07% over the last 10-years exceeding the policy benchmark of 7.42% by 0.65%. TFFR gross returns ranked in the top quartile for the 10-years ended September 30, 2020. Actual asset allocations are within 1% of target as of September 30, 2020. World Equity managers, Epoch, and LSV remain on watch. RIO and Callan LLC are working on public equity searches and intend to advance public equity strategies for SIB consideration in the first quarter of 2021. TFFR's total fund target return and risk was slightly lower than the average Callan Public Fund Sponsor Database the last 10 years while TFFR's actual total fund return and risk was modestly higher.

Board discussion followed.

IT WAS MOVED BY MR. MICKELSON AND SECONDED BY MR. OLSON AND CARRIED BY A VOICE VOTE TO APPROVE THE INVESTMENT REPORT.

AYES: TREASURER SCHMIDT, MR. OLSON, MR. BURTON, MR. MICKELSON, MS. GUMERINGER, SUPT. BAESLER, AND PRES. LECH

NAYS: NONE

MOTION CARRIED

OPERATION UPDATES:

Pension Administration System (PAS) Project:

Ms. Murtha provided an update on the PAS project. RIO staff participated in training on agency goals, fiduciary obligations, and open records in preparation of business process discussions. The Executive Steering Committee (ESC) met in September and voted to issue a Notice of Award to Segal Company for Consultant Services to the PAS project. RIO staff met in small groups to prepare for business process interviews with the consultant. RIO and procurement staff participated in post bid debriefs with unsuccessful bidders. The contract with Segal was signed in September and a kickoff meeting was held with all RIO staff and the consultant in October.

Board discussion followed.

Outreach:

Ms. Weeks provided an update on TFFR outreach services. Annual statements and newsletters will no longer be mailed to non-retired members. A notice will be mailed each September reminding members their statements can be accessed in their online accounts and the newsletters will be posted on RIO's website. Information was shared with TFFR employers addressing COVID-19 funding that was made available to schools. RIO staff are developing virtual options for education offerings for members and employers. Ms. Murtha presented at the ND Council of Education Leaders Conference via prerecorded video.

Board discussion followed.

CONSENT AGENDA:

IT WAS MOVED BY MR. MICKELSON AND SECONDED BY MR. OLSON AND CARRIED BY A ROLL CALL VOTE TO APPROVE THE CONSENT AGENDA, DISABILITY 2020-7D.

AYES: MR. BURTON, SUPT. BAESLER, MR. MICKELSON, MS. GUMERINGER, MR. OLSON, TREASURER SCHMIDT, AND PRES. LECH.

NAYS: NONE

MOTION CARRIED

OTHER BUSINESS:

Resolution for Treasurer Schmidt:

Dr. Lech recognized Treasurer Schmidt for her many years of service to the TFFR and SIB Boards.

ND TFFR and ND SIB Joint Board Resolution
In Appreciation of
State Treasurer Kelly Schmidt

WHEREAS, State Treasurer Kelly Schmidt has served as a member of the TFFR and SIB Boards for the past 16 years; and

WHEREAS, State Treasurer Kelly Schmidt has diligently carried out her duties and responsibilities as a member of these Boards and fiduciary of the TFFR and SIB Programs; and

WHEREAS, State Treasurer Kelly Schmidt has been a valued and dedicated member of these Boards in helping maintain the integrity and stability of the TFFR and SIB Programs.

NOW THEREFORE, BE IT RESOLVED that State Treasurer Kelly Schmidt be duly recognized by these Boards for her years of unselfish dedication to the State of North Dakota through her service on the Teachers' Fund for Retirement Board of Trustees and State Investment Board.

IT WAS MOVED BY MR. OLSON AND SECONDED BY MR. BURTON AND CARRIED BY A ROLL CALL VOTE TO ACCEPT THE BOARD RESOLUTION.

AYES: MR. OLSON, MS. GUMERINGER, MR. MICKELSON, MR. BURTON, SUPT. BAESLER, AND PRES. LECH

NAYS: NONE

MOTION CARRIED

ADJOURNMENT:

With no further business to come before the Board, President Lech adjourned the meeting at 3:47 p.m.

Respectfully Submitted:



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



Missy Kopp
Reporting Secretary