

BOARD OF UNIVERSITY AND SCHOOL LANDS

Governor's Conference Room

Ground Floor, State Capitol

May 30, 2019 at 8:00 AM

AGENDA

➤ = Board Action Requested

1. Approval of Meeting Minutes – *Jodi Smith*

Consideration of Approval of Land Board Meeting Minutes by voice vote.

➤ A. April 25, 2019 – pg. 1

2. **Energy Infrastructure and Impact Office – Jodi Smith**

➤ A. Contingency Grants – pg. 21

➤ B. Airport Grants Delegation of Authority – pg. 23

3. **Minerals – Drew Combs**

➤ A. Marathon Oil Company Request for Lease Extension in Dunn County T148-R95W – pg. 25

4. **Surface – Mike Humann**

➤ A. Mitigation Credits – pg. 60

5. **Litigation – Jodi Smith**

➤ A. XTO – pg. 65

➤ B. Whiting – pg. 66

➤ C. Wilkinson – pg. 67

➤ D. Newfield – pg. 69

➤ E. Paul Sorum et. al. v. The State of North Dakota, et al – pg. 70

➤ **Executive session under the authority of NDCC §§ 44-04-19.1 and 44-04-19.2 for attorney consultation with the Board's attorneys to discuss: – pg. 72**

- XTO

- Whiting

- Wilkinson

- Newfield

- Paul Sorum et. al. v. The State of North Dakota, et al

6. **Operations – Jodi Smith**

A. Legislative Bill Review – to be provided at the Board Meeting

7. **Reports – Jodi Smith**

A. Report of Easements Issued by the Commissioner – pg. 75

B. Summary of Oil & Gas Lease Auction – pg. 78

C. Financial Position – pg. 79

8. **Investments – Jeff Engleson**

➤ A. Absolute Return - Westwood Holdings Group – pg. 87

➤ B. Quarterly Performance Update – pg. 109

C. Investment Updates – pg. 152

Next Meeting Date – June 27, 2019 9:00 AM

**Minutes of the Meeting of the
Board of University and School Lands
April 25, 2019**

The April 25, 2019 special meeting of the Board of University and School Lands was called to order at 9:03 AM in the Governor's Conference Room of the State Capitol by Chairman Doug Burgum.

Members Present:

Doug Burgum	Governor
Alvin A. Jaeger	Secretary of State
Wayne Stenehjem	Attorney General
Kelly Schmidt	State Treasurer

Member Absent:

Kirsten Baesler	Superintendent of Public Instruction
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Department of Trust Lands Personnel present:

Jodi Smith	Commissioner
Drew Combs	Minerals Division Director
Mike Humann	Surface Division Director
Jeff Engleson	Investments Director
Kristie McCusker	Paralegal
Allisen Nagel	Mineral Title Specialist
Catelin Newell	Office Manager
Kate Schirado	Administrative Assistant

Guests in Attendance:

Dave Garner	Attorney General's Office
Matt Sagsveen	Attorney General's Office
Charles Carvell	Special Assistant Attorney General
Leslie Bakken Oliver	Governor's Legal Counsel
Reice Haase	Governor's Office
Mark Hanson	Nilles Law Office
Amy Dalrymple	Bismarck Tribune
Brady Pelton	ND Petroleum Council
Zac Weis	Marathon Oil
Ron Ness	Marathon Oil
Ed Seymour	Marathon Oil
Brenda Selinger	Marathon Oil
Craig Smith	Crowley Fleck
Geoff Simon	Western Dakota Energy Association

APPROVAL OF MINUTES

A motion to approve the minutes of the March 28, 2019 meetings was made by Attorney General Wayne Stenehjem and seconded by Treasurer Kelly Schmidt and the motion carried unanimously on a voice vote.

(04/25/19)

O P E R A T I O N S

Legislative Bill Status (as of April 25, 2019)

Currently the Department of Trust Lands is monitoring approximately 20 bills.

DEPARTMENT BUDGET BILL

HB 1013 Legislative appropriation and budget for the Commissioner of University and School Lands

Introduced/Sponsored by: Appropriations Committee
 House Appropriations Committee - Government Operations Division (Chairman Vigesaa)
 Status: Passed Conference Committee
 Representatives: Kempenich, Bellew, Mock
 Senators: Wanzek, Hogue, Grabinger

DEPARTMENT SUBMITTED BILLS

**SB 2081 Continuing authority for building repairs and investment due diligence
 *Fiscal Note Filed by Department**

Introduced/Sponsored by: Government and Veterans Affairs Committee
 Senate Government and Veterans Affairs Committee (Chairman Davison)
 Status: PASSED Senate, PASSED House
 Signed by Governor
 Filed with Secretary of State

**SB 2082 Repeal of N.D.C.C. §§ 15-04-02 Lease of Cultivated Lands for Summer Fallow, and 15-04-04, Failure to Summer-Fallow Cultivated Lands, Use for Cancellation of Lease
 *Fiscal Note Filed by Department**

Introduced/Sponsored by: Agriculture Committee
 Senate Agriculture Committee (Chairman Luick)
 Status: PASSED Senate, PASSED House
 House Agriculture Committee (Chairman D. Johnson)
 Signed by Governor
 Filed with Secretary of State

DEPARTMENT SUPPORTED BILLS

HB 1392 Confidentiality of records received by the Board of University and School Lands

Introduced/Sponsored by: Representatives Zubke, Dockter, Nathe, Westlind
 House Government and Veterans Affairs Committee (Chairman Kasper)
 Status: PASSED House, PASSED Senate
 Senate Government and Veterans Affairs Committee (Chairman Davison)
 Signed by Governor
 Filed with Secretary of State

SB 2211 Amend N.D.C.C. §§ 61-33.1-04 and 61-33.1-05 relating to the ownership of mineral rights of land inundated by Pick-Sloan Missouri basin project

Introduced/Sponsored by: Senators Bekkedahl, Dwyer, Unruh Representatives Keiser, Porter
Senate Energy and Natural Resources Committee (Chairman Unruh)
Status: Passed Conference Committee
Representatives: Keiser, Martinson, Porter
Senators: Unruh, Schaible, Piepkorn

SB 2212 Relating to authorization for the Board of University and School Lands to impose a civil penalty for failure to produce records; and to provide penalty

Introduced/Sponsored by: Senators Bekkedahl, Dwyer, Unruh Representatives Keiser, Porter
Senate Energy and Natural Resources Committee (Chairman Unruh)
Status: PASSED Senate, INTRODUCED House
House Energy and Natural Resources Committee (Chairman Porter)
Signed by Governor
Filed with Secretary of State

SB 2264 Relating to meetings and policy approval process of the Board of University and School Lands exempt administrative agencies

Introduced/Sponsored by: Senators Unruh, Klein, Schaible Representatives Howe, Nathe, Porter
Senate Government and Veterans Affairs Committee (Chairman Davison)
Status: PASSED Senate, PASSED House
Signed by Governor
Filed with Secretary of State

Other bills that have a direct impact on the Board of University and Schools Lands, the Department of Trust Lands, or the trusts and funds that they manage.

HB 1192 Relating to defining and delineating the ordinary high-water mark of a navigable body of water; and to amend and reenact section 61-33-01 and subdivision e of subsection 3 of section 61-33.1-03 of the North Dakota Century Code, relating to the definition and determination of ordinary high water mark.

Introduced/Sponsored by: Representatives Keiser, Martinson Senator Unruh
House Energy and Natural Resources Committee (Chairman Porter)
Senate Energy and Natural Resources Committee (Chairman Unruh)
Status: Failed House, applicable language to be included in 2211.

HB 1202 Relating to determinations of navigability; to amend and reenact sections 61-33-01 and subdivision e of subsection 3 of section 61-33.1-03 of the North Dakota Century Code, relating to sovereign land management definitions; and to provide for a state engineer review of determinations of navigability.

Introduced/Sponsored by: Rep. Delzer, Porter, Zubke, Sen. Schaible
House Energy and Natural Resources Committee (Chairman Porter)
Senate Energy and Natural Resources Committee (Chairman Unruh)
Status: PASSED Senate, PASSED House
Sent to Governor

HB 1320 Relating to the Theodore Roosevelt presidential library and museum endowment fund; to provide a continuing appropriation; to provide for a transfer; to authorize a loan; and to declare an emergency.

Introduced by Rep. Pollert, Headland
 Introduced by Sen. G. Lee, Wanzek
 Status: Laid Over One Legislative Day

SB 2037 Relating to the disposal and storage of high-level radioactive waste and subsurface storage and retrieval of nonhydrocarbons; to amend and reenact sections 12.1-06.1-01 and 38-19-09 of the North Dakota Century Code, relating to the definition of illegal transportation or disposal of radioactive waste material or hazardous waste and disposition of unusable products; to repeal chapter 23-20.2 of the North Dakota Century Code, relating to the disposal of nuclear waste material; and to provide a penalty.

Introduced/Sponsored by: Legislative Management
 Senate Energy and Natural Resources Committee (Chairman Unruh)
 House Energy and Natural Resources Committee (Chairman Porter)
 Status: Returned from Conference Committee, Conference committee report adopted
 Representatives: J. Roers, Kreun, Piepkorn
 Senators: Lefor, Roers Jones, Marschall
 Senate Second reading, passed, yeas 43 nays 3
 House Second reading, passed, yeas 85 nays 5

SB 2315 Relating to identifying private land open to hunters; to amend and reenact sections 12.1-22-03, 20.1-01-18, 20.1-01-19, 20.1-01-20, and 20.1-03-42 of the North Dakota Century Code, relating to criminal trespass and hunting on private land; to repeal section 20.1-01-17 of the North Dakota Century Code, relating to posting land; and to provide a penalty.

Introduced/Sponsored by: Sen. Erbele, Patten, Unruh, Rep. Boe, Schmidt, Westlind
 Senate Agriculture Committee (Chairman Luick)
 House Agriculture Committee (Chairman Johnson)
 Status: Conference Committee
 Representatives: Schreiber-Beck, Heinert, Tveit
 Senators: Luick, Erbele, O. Larsen

SB 2344 Relating to injection or migration of substances into pore space.

Introduced/Sponsored by: Sen. Unruh, Cook, Schaible, Rep. Kempenich, Porter
 Senate Energy and Natural Resources Committee (Chairman Unruh)
 House Energy and Natural Resources Committee (Chairman Porter)
 Status: Returned from Conference Committee, Conference committee report adopted
 Representatives: Keiser, Roers Jones, Mitskog
 Senators: Unruh, Schaible, Piepkorn
 Senate Second reading, passed, yeas 34 nays 12
 House Second reading, passed, yeas 66 nays 24

SB 2362 Relating to the allocation of oil extraction tax; to provide an effective date; and to declare an emergency.

Introduced/Sponsored by: Sen. Cook, Holmberg, Wardner, Rep. Delzer, Headland, Pollert
 Senate Finance and Taxation Committee (Chairman Cook)
 House Finance and Taxation Committee (Chairman Headland)
 Status: PASSED Senate, PASSED House
 Signed by Governor

Unclaimed Property Information Technology Project Status Update

The Department of Trust Land's (Department) 2017-2019 biennial budget appropriation includes \$3.6 million to replace legacy information technology systems as authorized by Senate Bill 2013.

Severe limitations in the current IT system, including redundant manual processes, have hampered efficiencies. Many of the Department's core data management systems were developed in the 1980s and 1990s, using designs and tools no longer supported by vendors. Some supplemental system improvements and purchases have been implemented; however, the outdated database structure restricts many potential improvements.

The Department signed a contract with Kelmar, a software company providing specialized services and solutions to assist governments with the management and administration of unclaimed property programs. With substantial knowledge of state governments, system tools, and process workflows, Kelmar has been helping unclaimed property departments across the United States since 2001. By dedicating their organization exclusively to matters of unclaimed property, they maintain the necessary subject matter expertise and reliability to serve as a partner in unclaimed property resources and offer the next step in unclaimed property management. Not only will the Department partner with them on software, we will draw on their unclaimed property experience to; increase the amount of unclaimed property returned and reunited with rightful owners; reduce risk associated with administering unclaimed property program operations; implement efficiencies and best practices to manage unclaimed property in safekeeping, and; achieve program goals using dedicated and cost-effective unclaimed property resources.

The go-live date for Kelmar is April 29, 2019. The URL for the new cloud-based software is <https://unclaimedproperty.nd.gov>.

Department of Trust Lands Website

After months of hard work and dedication, led by Catelin Newell and in collaboration with Marketing & Advertising Business Unlimited, Inc. (MABU), the Department will launch a new website in May 2019.

The URL will remain the same <https://land.nd.gov>. The goal with the new website is to provide our visitors an easier way to learn about the Department of Trust Lands with maps depicting the history of the trusts, submit right-of-way applications, search for unclaimed property claims and upload holder reports and allow for a more interactive experience for all customers. The Department focused on communications planning, user experience, analytics to assist in determining the websites structure and content re-organization. The website pages have been re-written to place an emphasis on communicating clear and concise messaging that provides visitors with information they are seeking. Additionally, the "look and feel" of the new website places an emphasis the Department's mission and the encapsulates the work of the Board.

(04/25/19)

Performance Audit Follow-Up

In February 2019 the State Auditor initiated a performance audit of the Department of Trust Lands (Department) under N.D.C.C. § 54-10-01(4) in conjunction with the study proposed under Senate Bill 2130 of the 66th Legislative Assembly:

SECTION 1. LEGISLATIVE MANAGEMENT STUDY - STATE AGENCY

FEES. During the 2019-20 interim, the legislative management shall study, in coordination with the state auditor, the provisions of the North Dakota Century Code relating to state agency fees. The study must include a review of the dates state agency fee provisions were created and modified, the revenue generated by the fee as compared to the expenditures related to the purpose or purposes for which the fee is imposed, and the fund or funds in which fee revenue is deposited and from which fee revenue is expended; consideration of whether the amounts of fees should be changed and whether the imposition of a fee is appropriate or if other government revenues should be used to fund the provision of services. The legislative management shall report its findings and recommendations, together with any legislation required to implement the recommendations, to the sixty-seventh legislative assembly.

The objectives of the audit are as follows:

1. Are all fees collected by state agencies and the university system authorized?
2. What are the revenues and expenditures associated with state agency and university system fees?

The State Auditor's planned methodologies include researching and reviewing the North Dakota Century Code, North Dakota Administrative Code, and State Board of Higher Education policy. In addition, there will be inquiries into management and identification of revenues and expenditures related to fees.

The Department has been working with the State Auditor's Office and will continue to do so, providing information as requested. The audit is anticipated to be complete by December 31, 2019.

Marathon Oil Company Request for Lease Extension in Dunn County T148-R95W-16: All

In May of 2013, Marathon Oil Company (Marathon) entered into four leases with the Board of University and School Lands (Board) (OG13-00342, OG13-00343, OG13-00344, and OG13-00345). These leases cover 469.52 acres of Common Schools mineral tracts in T148N-R95W-16, Dunn County, North Dakota, and Marathon paid a total bonus to the Board of \$3,850,064. Marathon states their total expenses to date are in excess of \$4 million (bonus, surveys, archeological surveys, etc.).

Marathon experienced extreme difficulties in developing these mineral tracts, including; complex stakeholders, environmental concerns, and rough terrain which have impeded timely development of the area. The North Dakota Department of Trust Lands (Department) has been working with Marathon since late 2015 in search of a viable solution to develop the section.

On November 20, 2017, a formal request was directed to Commissioner Gaebe requesting a 365-day extension. On January 23, 2018, Commissioner Smith received another formal request for a 365-day extension.

On February 22, 2018, Marathon sought two 180-day extensions for all four leases, for a total extension of 360 days from the Board.

Section 8 of the Board's Oil and Gas lease states:

If, at the expiration of the primary term, production of oil and/or gas has not been obtained in commercial quantities on the leased premises but drilling, testing, completion, recompletion, reworking, deepening, plugging back, or repairing operations are being conducted thereon in good faith, lessee may, on or before the expiration of the primary term, file a written application with the Commissioner of University and School Lands for a one hundred eighty (180) day extension of this lease, such application to be accompanied by a payment of ten dollars (\$10.00) per acre, and the Commissioner shall, in writing, extend this lease for a period of one hundred eighty (180) days beyond the expiration of the primary term and as long as oil and/or gas is produced in commercial quantities; lessee may, as long as such drilling, testing, or completion operations are being conducted in good faith, make written application to the Commissioner, on or before the expiration of the initial extended period of one hundred eighty (180) days for an additional extension of one hundred eighty (180) days, such application to be accompanied by a payment of twenty dollars (\$20.00) per acre, and the Commissioner shall, in writing, extend this lease for an additional one hundred eighty (180) day period from and after the expiration of the initial extended period of one hundred eighty (180) days, and as long as oil and/or gas is produced in commercial quantities; this lease shall not be extended for more than a total of three hundred sixty (360) days from and after the expiration of the primary term unless production in commercial quantities has been obtained or unless extended by some other provision hereof.

All parties recognized the initial request for an extension did not constitute the activation of paragraph 8; however, given the circumstances, it was beneficial to all parties to come to a mutually acceptable solution in granting Marathon a 360-day amendment to the leases.

At the February 2018 Board meeting, a Board member specifically asked Department staff and the Commissioner if an extension could be granted in lieu of paragraph 8 but they could still come back to the Board and ask for another extension if they met the criteria of paragraph 8. Department staff and the Commissioner at that time noted to the Board that there would not grant the opportunity for an additional extension. The Board accepted the terms to not offer the opportunity to grant an additional extension beyond the 360-days.

The Board voted unanimously at the February 2018 Board meeting to direct the Commissioner to negotiate a one-time 360-day extension for leases OG13-00342, OG13-00343, OG13-00344, and OG13-00345 and bring those negotiated terms to the Board's regularly scheduled meeting in March 2018.

The Commissioner and Department staff worked with Marathon to reach mutually acceptable terms.

The Board's initial terms of the lease(s) for this area set for a royalty rate of 3/16 (18.75%). Marathon agreed to increase the royalty to a flat 20%. Marathon also agreed to pay a \$100 per net mineral acre, for a total of \$46,952.

At the March 2018 Board meeting, the Board authorized Marathon Oil Company a three hundred sixty day (360) extension of the four leases (OG13-00342, OG13-00343, OG13-00344, and OG13-00345) in exchange for \$100 per net mineral acre and increasing the royalty rate to 20%.

(04/25/19)

Amended lease(s) were executed on May 4, 2018. The terms of the lease(s) that the Lessor and Lessee agreed to are as follows:

Lessor hereby amends the Lease by extending the leases(s) for a period of three hundred and sixty (360) days after May 6, 2018. The amended term shall commence on May 7, 2018, and terminate on May 1, 2019, but shall continue beyond the termination date of the Amended Term for as long thereafter as oil and/or gas may be produced in commercial quantities from the Leases Premises. Notwithstanding anything to the contrary in the Lease, including, but not limited to, the terms and conditions in Paragraphs 6, 8, and 11 of the Lease, the Amended Term will expire and the Lease will terminate if the Lessee has not obtained oil and/or gas production in commercial quantities from the Leased Premises as of the Termination Date.

Pursuant to paragraph 4(A) of the Lease, the royalty rate is increased from “three sixteenth” to “20%” during the Amended Term and the Secondary Term.

Section 8 is hereby deleted from the Lease during the Amended Term and the Secondary Term.

In all other respects, except as expressly provided herein, the Lease shall continue in full force and effect as originally written.

The Commissioner and Department staff met with Marathon on January 22, 2019, and were made aware of concerns to obtain commercial production before expiration of the amended terms. The Commissioner and Department staff met with Marathon on January 25, 2019, and Marathon requested permission to explore the opportunity to place an off unit pad north of Enerplus’s well pad located on State surface. Department staff contacted Enerplus and requested a formal response to Marathon’s request to locate an off unit pad north of Enerplus’s well pad. In a letter dated February 12, 2019, Enerplus denied the request stating a violation of correlative rights and therefore opposed Marathon’s proposed pad location.

On March 26, 2019, the Commissioner and Department staff met with Marathon to discuss concerns that commercial production would be obtained prior to the expiration of the amended terms. On April 4, 2019, the Commissioner received a formal request for extension from Marathon. The Commissioner responded on April 16, 2019, to Marathon’s request for an extension that the determination had been made that circumstances do not warrant extension of the leases per the Amendment of the Oil and Gas Lease dated May 4, 2018.

Additionally, per N.D.C.C § 39-09-18. Terms of lease – Unit operation.

All leases for the purposes as hereinbefore provided shall be made by the state of North Dakota and all agencies and departments and political subdivisions thereof for not less than twenty-five cents per acre [.40 hectare] per year for deferred drilling and shall be made with a royalty reservation of not less than one-eighth of all oil and gas produced from said land as long as oil and gas may be produced from said land. The term one-eighth as used herein must be construed to mean one-eighth of such interest as may be owned by the lessor. All leases hereunder must be made for a period of not less than five years and must continue in effect under the terms thereof as long as oil or gas may be produced thereon in commercial quantities.

N.D.C.C. § 38-11-14.

No lands owned in whole or in part, or on which a reservation of oil and gas rights has been made in a conveyance thereof, by the State of North Dakota or by any department or agency thereof or by any county or other political subdivision of this state, may be leased

for oil and gas exploration or production except as provided for in sections 38-11-14 through 38-09-20.

The Board is only authorized under N.D.C.C. § 15-07-20 to lease nongrant lands without advertisement or competitive bidding and the four leases Marathon is requesting a 3rd and 4th extension are grant lands.

The board of university and school lands may lease nongrant lands under reasonable rules as it may establish. The rules may provide for leasing with or without advertisement or competitive bidding. Leases made under this section must be for cash only, and the rental must be collected in advance except that the board may collect a share of a conservation reserve program payment paid by the federal government. A lease of nongrant lands may not extend for a period of more than five years, except any land accepted into the conservation reserve program may have a lease term that coincides with the term of the conservation reserve program contract if so provided in the lease. Leases may be renewed at the discretion of the board. When nongrant lands are leased without advertisement or competitive bidding, the board shall determine the rental by taking into consideration the nature and adaptability of the lands and the improvements thereon.

There are several century code sections that address mineral leasing. N.D.C.C. Chapter 38-09 outlines procedures for leasing oil and gas rights for exploration and production which applies to all departments or agencies of the state government as well as any county or political subdivision. Id. The procedure requires public notice of the time and place for leasing and must allow for written or oral bidding. N.D.C.C. §§ 38-09-15, 38-09-17. N.D.C.C. Chapter 15-05 addresses mineral leasing specifically for lands under the control of the Board. This chapter allows these lands to be leased for oil and gas development but does not provide any specific procedure. N.D.C.C. § 15-05-09. This section allows the Board to establish rules and regulations for development and drilling operations. Id. N.D.C.C. Chapter 15-07 addresses sale and leasing of nongrant lands. The legislature again did not provide any specific procedure but specified that leasing can be with or without advertisement and competitive bidding and directs the Board to establish reasonable rules and regulations for the leasing of nongrant lands. N.D.C.C. § 15-07-20.

In conclusion, Marathon was unable to satisfy the terms of the amendment therefore the lease(s) will expire per the terms of the amendment on May 1, 2019. The Commissioner, Department staff and the assistant attorney general took all necessary factors into consideration when making the determination to not authorize a third and fourth extension to Marathon, which is not allowed under the terms of the Board lease or the amended terms of the lease.

Motion: The Board directs the Commissioner to grant Marathon Oil a 30-day extension for leases OG13-00342, OG13-00343, OG13-00344, and OG13-00345 in order for the Board to further investigate the information provided to them in the request for extension.

Action Record	Motion	Second	Aye	Nay	Absent
Secretary Jaeger		X	X		
Superintendent Baesler					X
Treasurer Schmidt			X		
Attorney General Stenehjem	X		X		
Governor Burgum			X		

Supported documents provided to the Board are available at the Department upon request and included: previous Marathon Oil extension request Board memorandums, amended oil and gas lease documents and addendums, April 2019 Marathon Oil extension request letter, and April 2019 Commissioner Smith response letter.

R E P O R T S**Report of Easements Issued by Land Commissioner (3/19/19 to 4/16/2019)**

Granted to:	XTO ENERGY INC, SPRING-TX
For the Purpose of:	On-lease Act. Amend: Horizontal Oil Well
Right-of-Way Number:	RW0008347
Trust:	A - Common Schools
Legal Description:	MOU-157-93-36-SE4
Granted to:	XTO HOLDINGS LLC, SIDNEY-MT
For the Purpose of:	Easement: Subsurface Well Bore
Right-of-Way Number:	RW0008428
Trust:	A - Common Schools
Legal Description:	MOU-154-94-16-SW4
Granted to:	WEST RIVER TELECOMMUNICATIONS, HAZEN-ND
For the Purpose of:	Easement-Amend: Communication Cable
Right-of-Way Number:	RW0008429
Trust:	A - Common Schools
Legal Description:	GRA-137-89-36-SE4, SW4
Granted to:	BNN NORTH DAKOTA LLC, LAKEWOOD-CO
For the Purpose of:	Easement-Amend: Drop Line-Pipeline & Communication
Right-of-Way Number:	RW0008438
Trust:	A - Common Schools
Legal Description:	MCK-150-98-36-SE4, SW4
Granted to:	HYDRA XL, LLC, HOUSTON-TX
For the Purpose of:	Letter of Permission: Temporary Water Layflat Line
Right-of-Way Number:	RW0008455
Trust:	A - Common Schools
Legal Description:	MOU-154-93-36-NW4, SW4
Granted to:	BRUIN E & P OPERATING LLC, HOUSTON-TX
For the Purpose of:	Letter of Permission: Temporary Water Layflat Line
Right-of-Way Number:	RW0008463
Trust:	A - Common Schools
Legal Description:	WIL-157-100-16-SE4 LESS 10 ACRES, SW4
Granted to:	MCKENZIE ELECTRIC COOPERATIVE INC, WATFORD CITY-ND
For the Purpose of:	Easement-Amend: Drop Line-Electric
Right-of-Way Number:	RW0008471
Trust:	A - Common Schools
Legal Description:	MCK-153-94-16-NW4
Granted to:	MCKENZIE ELECTRIC COOPERATIVE INC, WATFORD CITY-ND
For the Purpose of:	Easement: Electric Distribution Line - Above Ground
Right-of-Way Number:	RW0008472
Trust:	A - Common Schools
Legal Description:	DUN-146-95-36-SE4

<p>Granted to: For the Purpose of: Right-of-Way Number: Trust: Legal Description:</p>	<p>MCKENZIE ELECTRIC COOPERATIVE INC, WATFORD CITY-ND Easement: Drop Line-Electric Distribution Line RW0008473 A - Common Schools DUN-146-95-36-SE4</p>
<p>Granted to: For the Purpose of: Right-of-Way Number: Trust: Legal Description:</p>	<p>ETHNOSCIENCE INC, BILLINGS-MT Permit: Planning & Preconstruction Survey RW0008483 A - Common Schools N/A</p>
<p>Granted to: For the Purpose of: Right-of-Way Number: Trust: Legal Description:</p>	<p>PURITY OILFIELD SERVICES LLC, WILLISTON-ND Letter of Permission: Temporary Water Layflat Line RW0008484 A - Common Schools MCK-152-96-36-SW4</p>
<p>Granted to: For the Purpose of: Right-of-Way Number: Trust: Legal Description:</p>	<p>MBI ENERGY SERVICES, DICKINSON-ND Letter of Permission: Temporary Water Layflat Line RW0008486 A - Common Schools MCK-150-98-36-SW4</p>
<p>Granted to: For the Purpose of: Right-of-Way Number: Trust: Legal Description:</p>	<p>WEST DAKOTA WATER LLC, WILLISTON-ND Letter of Permission: Temporary Water Layflat Line RW0008490 A - Common Schools WIL-155-99-16-NE4, NW4</p>
<p>Granted to: For the Purpose of: Right-of-Way Number: Trust: Legal Description:</p>	<p>GOLDEN FIELD SERVICES INC, WATFORD CITY-ND Permit: Planning & Preconstruction Survey RW0008491 A - Common Schools N/A</p>
<p>Granted to: For the Purpose of: Right-of-Way Number: Trust: Legal Description:</p>	<p>NDSU (DEPT 2715), FARGO-ND Letter of Permission: Access to School Land RW0008492 A - Common Schools BRK-164-93-36-NE4, NW4, SE4, SW4</p>
<p>Granted to: For the Purpose of: Right-of-Way Number: Trust: Legal Description:</p>	<p>USDA-NRCS, BISMARCK-ND Letter of Permission: Access to School Land RW0008493 A - Common Schools BEN-151-70-16-NE4 PIE-158-72-16-SW4</p>
<p>Granted to: For the Purpose of: Right-of-Way Number: Trust: Legal Description: (04/25/19)</p>	<p>SELECT ENERGY SERVICES LLC, WILLISTON-ND Letter of Permission: Temporary Water Layflat Line RW0008495 A - Common Schools MCK-151-96-16-SE4</p>

Spring Surface Lease Auction Summary

The Department of Trust Lands (Department) hosted six staff members of the Manitoba Agriculture Crown Lands (Crown Lands) during the week of the surface lease auctions. Crown Lands staff traveled onsite to two of the Department's auctions before spending a day in the office with Department staff to discuss auction procedures as they look to bring Manitoba Agriculture Crown Lands into a modernized leasing process.

The communication stemmed from the Minister of Crown Lands Ralf Eichler expressing his full support of Manitoba and North Dakota collaborating after having signed an MOU with North Dakota's Agriculture Commissioner Doug Goehring at the Tri-National Agricultural Accord in Mexico last October. The visiting staff has expressed the hope to improve connections with North Dakota.

Department staff have remained in communication with Crown Lands staff as a resource during the remodel of Crown Lands' leasing process.

The 2019 spring surface lease auctions were completed in March 2019. The following table is a summary for this spring compared to last spring.

	2018	2019
Number of counties	26	27
Total tracts offered	82	99
Number of tracts bid	66 (80.5%)	79 (79.8%)
Number of tracts bid-up	14 (21.2% of bid tracts)	27 (34% of bid tracts)
Total amount of minimum advertised bids	\$151,276.00	\$220,960.00
Total amount received	\$156,286.00	\$273,177.00
Competition factor (% collected over minimum bid)	\$5,010.00 (3.3%)	\$52,217.00 (23.6%)

Investment Updates

Asset Allocation

The table below shows the status of the permanent trusts' asset allocation as of March 31, 2019. Due to the timing of certain fund reporting, the numbers provided do not include end of March valuation updates for the core plus real estate portfolios and for the Angelo Gordon direct loan portfolio.

Account/Asset Class	Long-Term Asset Allocation	3/31/19 Actual Allocation \$	3/31/19 Actual Allocation %	3/31/19 %Diff.
Large Cap US Equity	13.3%	\$ 623,989,566	13.3%	0.0%
Mid/Small Cap US Equity	3.7%	\$ 171,472,759	3.7%	0.0%
International Equity	13.3%	\$ 606,600,217	13.0%	-0.3%
Emerging Market Equity	3.7%	\$ 181,693,668	3.9%	0.2%
Total Equities	34.0%	\$ 1,583,756,210	33.8%	-0.2%
Core Fixed Income	12.6%	\$ 677,768,502	14.5%	1.9%
Non-Core Fixed Income	8.4%	\$ 299,942,208	6.4%	-2.0%
Total Fixed Income	21.0%	\$ 977,710,710	20.9%	-0.1%
Total Absolute Return	20.0%	\$ 941,899,511	20.1%	0.1%
Commodities	3.0%	\$ 140,885,081	3.0%	0.0%
MLPs	3.0%	\$ 143,158,072	3.1%	0.1%
TIPS	2.0%	\$ 91,193,026	1.9%	-0.1%
Natural Resource Equities	2.0%	\$ 94,096,541	2.0%	0.0%
Total Inflation Strategies	10.0%	\$ 469,332,719	10.0%	0.0%
Core Real Estate	8.0%	\$ 391,544,331	8.4%	0.4%
Core Plus Real Estate	7.0%	\$ 319,722,649	6.8%	-0.2%
Total Real Estate	15.0%	\$ 711,266,979	15.2%	0.2%
Total Asset	100.0%	\$ 4,683,966,130	100.0%	

Angelo Gordon (\$55.94 million, 1.2% of PTF assets)**Direct Lending Fund**

The Angelo Gordon Direct Lending portfolio was initially funded in late-August 2018. To date, a total of \$54.75 million dollars has been transferred to the fund; the last capital call was funded on December 10, 2018. A total of 36.5% has now been transferred of the total commitment of \$150 million.

Upcoming Investment Manager Meetings

The following meetings with investment managers are planned to discuss strategy, compliance, and performance. They will be held in the Department's conference room. Please inform the Commissioner ahead of time if you plan to attend, so that we can make sure enough presentation materials are available.

May 7, 2019, 8:30 AM**Angelo Gordon – Direct Lending Fund III**

Non-Core Fixed Income (\$55.9 million, 1.2% of PTF assets)

Bill Cullinan and Drew Guyette

The Financial Position was provided to the Board and is available at the Department upon request.

I N V E S T M E N T S**Absolute Return Strategies Portfolio**

Over the past 9 months the Commissioner, with the help of RVK, has provided the Board with information about changes at Westwood Holdings Group. Westwood manages an absolute return strategy for the Board that is one-third of the Board's 20% allocation to absolute return strategies; the portfolio is currently valued at approximately \$319.0 million.

When it was announced last summer that CIO and co-portfolio manager Mark Freeman was leaving the firm in March 2019, it appeared as if Westwood had a well thought out transition plan in place for the strategy. RVK spent time at Westwood's offices and was comfortable with the transition plan; the Commissioner and staff also held discussions with Westwood and were comfortable with the planned changes.

As the Commissioner reported last month, RVK and the Commissioner recently learned of other changes at Westwood that will have a major impact on how this product is managed going forward. Those changes include:

- The two seasoned individuals that were expected to be co-lead portfolio managers for the strategy have both left that role, with one leaving the firm entirely.
- The individual that was brought in from the outside in early 2019 to manage the multi-asset strategies team is now a co-lead portfolio manager. The other new co-lead portfolio manager is the firm's convertible bond expert, who previously worked some with the multi-asset team. Neither of these portfolio managers has worked together before, nor do they have direct experience with this strategy.
- RVK now believes that there was a lack of transparency during the extensive discussions they had with Westwood last fall related to the transition, given the new portfolio manager team for the strategy.
- During RVK's recent on-site visit with Westwood, RVK was informed that the firm now believes the capacity for this product is \$10 billion, not the \$5 billion amount former CIO Freeman has always maintained was the capacity for this product.

Any one of the items noted above could be considered a reason to terminate a manager, but all four occurring in a short period of time should be considered a red flag. Therefore, both RVK and the Commissioner are recommending termination of Westwood as a portfolio manager for the permanent

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trusts. A copy of RVK’s recommendation to terminate Westwood was presented to the Board and is available at the Department upon request.

As the securities held in this portfolio are primarily high-quality, large cap stocks and high-quality bonds, liquidity concerns are minimal. Because the strategy remains supported by a deep and experienced team of analysts at Westwood, and the underlying portfolio does not turn over with high frequency, neither RVK or the Commissioner have concerns about having Westwood manage this portfolio in the short-term. The Commissioner will work with RVK and Westwood to ensure a smooth transition of these assets going forward.

Board policy states it is the Board’s intent to have a plan in place before termination of a manager. Due to the short time frame since being notified of the major changes noted above (late-March), a specific plan has not been put in place yet. However, the Commissioner and RVK have begun working on several options as to what should be done with these assets; they plan to have a recommendation ready for the Board in May.

Motion: The Board directs the Commissioner to place Westwood on formal watch as a money manager, with the understanding that Westwood will continue to manage the portfolio in the short-term until the Board makes a final determination as to how the assets will be reallocated.

Action Record	Motion	Second	Aye	Nay	Absent
Secretary Jaeger			X		
Superintendent Baesler					X
Treasurer Schmidt	X		X		
Attorney General Stenehjem		X	X		
Governor Burgum			X		

S U R F A C E M A N A G E M E N T

Roughrider Electric Cooperative, Inc., N.D.C.C. ch. 15-09 Purchase Request (five acres within the SE4 Section 36, Township 142 North, Range 101 West, Billings County)

At the February 28, 2019 Board of University and School Lands’ (Board) meeting, information was provided to the Board regarding Roughrider Electric Cooperative, Inc.’s (Roughrider) application under N.D.C.C. ch. 15-09 to purchase an existing substation currently held by easement and additional acreage for a laydown yard, a total of approximately five acres. The existing electric substation provides services to rural residents and the oil industry in the surrounding area. The original easement had a 30-year term; however, due to the long term power needs in the area, Roughrider would rather purchase the property than extend the easement.

Two appraisals have been completed as follows:

Billings County Appraisal	\$5,900.00/acre
Point Value Appraisal	\$5,000.00/acre

The Billings County Appraisal was completed by the Billings County Tax and Zoning Director and is comprised of three comparable sales. The Point Value Appraisal was completed by Chris Chase, a certified general appraiser, and is comprised of the same three sales, plus five additional comparable sales in the area. It is the Department’s position that the Point Value Appraisal is well-documented, complete, and a more accurate reflection of the property’s value.

N.D.C.C. § 15-09-04 states:

The board of university and school lands may sell the property described in the application to the applicant at a price not less than the appraised value if the board concludes that the land described in the application is required for the purposes stated in such application and that a conveyance of the property is consistent with this title and the fiduciary responsibilities of the board. If the land described in the application is less than an entire tract, the board, in fixing the price at which such partial tract will be conveyed, shall take its value into consideration together with all detriment caused to the remaining portions of the tract by the conveyance of the partial tract. If the applicant agrees to the price fixed by the board for the land described in the application and pays the full purchase price therefor, the board shall cause the tract to be conveyed to the applicant.

The sale of a five-acre parcel to Roughrider will leave 155 acres more or less in the SE4 of Section 36 for pasture purposes.

Motion: The Board 1) approves the appraised value of \$5,000 per acre for the five acres of land within Billings County, SE4 Section 36, Township 142 North, Range 101 West, Billings for public purpose and a total sales price of \$25,000, plus appraisal (\$2,500) and sales costs, including a Land Sale Fee for conveyance preparation and recording costs (\$100 total), and advertising costs (amount to be determined); and 2) authorizes the Commissioner to advertise the proposed sale, conduct a public hearing, and refer the matter to the Board if needed or complete the sale to Roughrider Electric Power Cooperative, Inc. on the Board's behalf.

Action Record	Motion	Second	Aye	Nay	Absent
Secretary Jaeger	X		X		
Superintendent Baesler					X
Treasurer Schmidt			X		
Attorney General Stenehjem	X				
Governor Burgum			X		

LITIGATION

Continental Interpleader

Case: **Continental Resources, Inc. v. North Dakota Board of University and School Lands, et al., Case No. 1:17-cv-00014**

Date Filed: December 23, 2016

Court: Federal District Court, 8th Circuit

Judge: Honorable David Hovland

Attorney: Charles Carvell, David Garner, and Jen Verleger

Opposing

Counsel: Lawrence Bender, David Ogden, Paul Wolfson, John S. Most

Issues: In December 2016, Continental Resources, Inc. (Continental) brought an interpleader action against the Board of University and School Lands and the United States regarding certain lands underlying Continental operated wells located in McKenzie, Mountrail, and Williams Counties. This case addresses overlapping ownership claims by the State and the United States of minerals underlying the Missouri River. Continental is requesting the Court determine the property interests for the disputed lands so that Continental can correctly distribute the proceeds from

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the affected wells. Continental has claimed that there is “great doubt as to which Defendant is entitled to be paid royalties related to the Disputed Lands.” Currently, Continental is paying the United States its full royalty based on the acreage it claims. The remaining royalty, over and above what is due the United States, is being escrowed with the Bank of North Dakota pursuant to the Board’s rules.

The United States removed this action to federal district court on January 11, 2017. The Board filed its answer to the complaint on February 13, 2017. The United States filed its answer to the complaint on May 12, 2017. An Amended Complaint was filed by Continental Resources on September 14, 2017. The United States filed a Motion to Dismiss for Lack of Subject Matter Jurisdiction on October 18, 2017. In support of its motion, the United States alleges that it has not waived its sovereign immunity under the Quiet Title Act and the United States alleges that the interpleader action is moot under S.B. 2134.

Current Status:

The Board filed a response on December 20, 2017 opposing the motion to dismiss. Continental filed a response and the United States filed its reply. The United States filed a Motion to Dismiss on March 16, 2018. The Board filed a Surreply to the Motion to Dismiss on April, 16, 2018. The Order Denying the United States’ Motion to Dismiss for Lack of Subject Matter Jurisdiction was entered on December 31, 2018. The Order provided that North Dakota and the United States confer and submit a proposed scheduling order to the Court no later than sixty days from the date of the order. On January 8, 2019 the United States filed its Motion to Stay Action Due to Lapse of Appropriations. On January 10, 2019, the Court granted the United States’ Motion and cancelled the January 24, 2019 scheduling conference. The Order stated the “action is stayed until appropriations are restored and Department attorneys and the Bureau of Land Management personnel are permitted to resume their usual civil litigation functions.” A January 10, 2019 docket entry provides “Deadlines and Hearings Terminated.” The United States filed a Notice of Restoration of Appropriations on January 28, 2019, which requested the Court set a new scheduling conference date. On January 30, 2019, the Court issued an order granting the motion for scheduling conference, requiring the parties submit a revised scheduling/discovery plan by March 15, 2019, and setting a telephonic scheduling conference for 10:00 a.m., March 18, 2019. The parties filed a Joint Motion for Extension of Time to File Scheduling Proposal and Participate in Scheduling Conference on March 12, 2019, due to appointment of Magistrate Judge Clare Hochhalter, replacing Magistrate Judge Charles Miller, and the recusal of Shaun Pettigrew of the Environment and Natural Resources Division of the Department of Justice, with John S. Most as his replacement. The Court entered an Order granting the extension to April 12, 2019 and a scheduling conference was reset for April 15, 2019. **The Scheduling Conference was held on April 15, 2019. A Status Conference was set for September 20, 2019 before Magistrate Judge Clare R. Hochhalter.**

Wilkinson

Case: William S. Wilkinson, et. al. v. Board of University & School Lands, Brigham Oil & Gas, LLP; EOG Resources, Inc.; Case No. 53-2012-CV-00038
Date Filed: January, 2012
Court: Williams County District Court
Judge: Paul Jacobson

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Attorney: Jennifer Verleger/Matthew Sagsveen/David Garner
Opposing Counsel: Josh Swanson/Rob Stock, Lawrence Bender, Lyle Kirmis

Issues: The Wilkinson lawsuit was filed on January 10, 2012. The Plaintiffs assert that they own minerals in a 200 acre tract west of Williston. This suit was initially filed in state court as a quiet title action. The Attorney General's Office filed an Answer and Counterclaim on February 27, 2012.

On July 1, 2014, the Plaintiffs filed an amended complaint in the case and added claims of unconstitutional takings, conversion, constructive trust and unjust enrichment, civil conspiracy and deprivation of rights under 42 U.S.C. § 1983. Plaintiffs assert in their amended complaint that the Board should be issuing leases on the west side of the Highway 85 bridge pursuant to the Phase II Investigation – the estimated location of the ordinary high watermark (OHWM) prior to inundation of Lake Sakakawea – rather than the Phase I Delineation – current location of the OHWM. Plaintiffs argue that the subject property is located under Lake Sakakawea, which did not exist at statehood, and thus the state did not acquire title to it as sovereign lands. Therefore, the State's title to the Missouri River is limited to the channel as it existed prior to inundation of Lake Sakakawea as determined by the Phase II investigation.

In January of 2016, the State Engineer sought and was granted intervention. A joint motion for summary judgment was filed by the Board and the State Engineer on March 1, 2016. On May 18, 2016, the district court granted the motion for summary judgment finding that: (1) the subject property is located along the Missouri River, which is no doubt navigable; (2) The Phase I Delineation should be used to determine the OHWM for the subject property rather than the Phase II Investigation, and therefore the property is determined to be sovereign land of the state of North Dakota; (3) to the extent Plaintiffs are aggrieved by the Phase I Delineation, they must exhaust their administrative remedies through the State Engineer before making a claim in district court; and (4) there are no grounds to support Counts II through VII. Plaintiffs filed a notice of appeal on June 1, 2016. Both EOG Resources, Inc. and Statoil Oil and Gas LP filed cross-appeals.

On September 28, 2017, the North Dakota Supreme Court reversed the district court's decision and remanded the case back to the district court. The Supreme Court held that:

1. Surface ownership could not be determined without the United States as a party to the action;
2. N.D.C.C. ch. 61-33.1 has a retroactive clause and the district court did not have an opportunity to determine if it applies and governs ownership of the minerals at issue;
3. A "takings" analysis must be conducted if the district court determines the State owns the disputed minerals; and
4. The district court erroneously made findings of disputed fact.

Current Status: Due to the passage of S.B. 2134, the District Court ordered the case stayed and all deadlines be held in abeyance until the final review findings under S.B. 2134 are issued by the North Dakota Industrial Commission (NDIC). Plaintiff, after NDIC issued the review findings, requested a status conference with the Court to set a

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new trial date and other deadlines. The Board and State Engineer filed a Motion for Continued Stay of Proceedings on October 11, 2018. The telephonic status conference scheduled for November 2, 2018 was cancelled. A Hearing on the Motion for Continued Stay was held November 30, 2018. Defendants submitted a proposed Order and the Judge asked for Plaintiffs to submit a proposed Order, which was filed December 4, 2018. The Court issued its Order on December 12, 2018, denying the Motion for Continued Stay and requiring the parties confer on a scheduling order and submit a Rule 16 scheduling order by January 26, 2019. The State filed a Motion for Proposed Scheduling Order on January 28, 2019, and Plaintiffs filed a notice of hearing on January 31, 2019, and filed their Response to State's Motion for Proposed Scheduling Order and Plaintiffs' Request for Rule 16(F) Sanctions on February 1, 2019. State Defendants filed a Reply Brief in Support of Motion for Proposed Scheduling Order on February 8, 2019. Statoil & Gas LP filed a Response to State's Motion for Proposed Scheduling Order and Plaintiff's Proposed Scheduling Order on February 11, 2019. Plaintiffs scheduled a hearing in District Court on the Motion for Scheduling Order which was held March 5, 2019, at 2:00 p.m. The District Court didn't rule on the scheduling motions but granted Plaintiffs' request to file a motion for Summary Judgment within 30 days of the hearing. **On April 15, 2019, Plaintiffs' filed with the District Court a Notice of Motion, Motion for Summary Judgment, Brief in Support of Motion for Summary Judgment, Affidavit of Joshua Swanson, Notice of Hearing (requesting a hearing be held at the earliest possible date available on the Court's calendar), and proposed Order Granting Plaintiffs' Motion for Summary Judgment. On April 17, 2019, Plaintiffs' filed a Notice of Hearing scheduling a hearing for 2:00 p.m. on July 30, 2019 before the Honorable Paul W. Jacobson, at the Williams County Courthouse, Williston.**

The Plaintiffs' Brief in Support of Motion for Summary Judgment was provided to the Board and is available at the Department upon request.

Sorum

Case: **Paul Sorum, et. al. v. State of North Dakota, et. al. – Civ. No. 09-2018-CV-00089**
Tribunal: **Cass County District Court**
Judge: **John C. Irby**
Attorney: **Mark Hanson & Peter Hvidston, Nilles Law Firm**
Opposing Counsel: **Terrance W. Moore, Fintan L. Dooley**

Issues: The Board was named as a defendant in the above reference case which was served on January 10, 2018. Plaintiffs have filed this action to challenge the Constitutionality of S.B. 2134 passed during the last legislative session and codified as N.D.C.C. ch. 61-33.1. Under the new legislation, “[t]he state sovereign land mineral ownership of the riverbed segments inundated by Pick-Sloan Missouri basin project dams extends only to the historical Missouri riverbed channel up to the ordinary high water mark.” N.D.C.C. § 61-33.1-02. S.B. 2134 established a process by which the Department of Mineral Resources is directed to procure a “qualified engineering and surveying firm” to “review the delineation of the ordinary high water mark of the corps survey segments” for the portion of the Missouri River designated as the “historical Missouri riverbed channel.” N.D.C.C. § 61-33.1-03(2), (3). Following a review process, which includes a public hearing and public comments, the North Dakota Industrial Commission must adopt final review findings which “will determine the delineation of the ordinary high water mark for the segment of the river addressed by the findings.” N.D.C.C. § 61-33.1-03(7).

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Plaintiffs' complaint requests from the court a declaratory judgment finding that N.D.C.C. ch. 61-33.1 violates the Public Trust Doctrine and the Anti-Gift, Privileges and Immunities, and Local and Special Law Clauses of the North Dakota Constitution. Plaintiffs are also requesting the Court issue an injunction to prevent all state officials from further implementing and enforcing N.D.C.C. ch. 61-33.1.

Current Status:

An Answer was filed. Defendants filed a Motion to Dismiss, which was denied in April 2018. Petition for Supervisory Writ and Exercise of Original Jurisdiction was filed by Defendants and denied in May 2018. A Motion for Preliminary Injunction was brought by Plaintiffs and a hearing was held on May 21, 2018. An Order for Preliminary Injunction was filed June 26, 2018. A Scheduling Conference was held on September 6, 2018 and the following briefing deadlines were set: Summary Judgment Motions were filed October 22, 2018. Response Briefs were filed December 10, 2018. Reply Briefs were due December 21, 2018. A hearing on the Motions for Summary Judgment was held on January 4, 2019. The Order on Cross-Motions for Summary Judgment was issued on February 27, 2019, and Defendants were directed to prepare the proposed Judgment. On March 6, 2019, Defendants filed their proposed Judgment. Plaintiff's filed a letter on March 7, 2019, advising the Court that they felt Defendants' proposed Judgment was deficient and that they would also be submitting a proposed Judgment. Plaintiff's proposed Judgment was filed March 8, 2019. Defendants filed a letter on March 8, 2019 advising the Court that they intended to submit a response to Plaintiffs' proposed Judgment within 14 days. On March 19, 2019, Defendants filed an Objection to Plaintiffs' Proposed Judgment. Thereafter, Plaintiffs filed a letter asking the Court not to rule on Defendants' Objection until Plaintiffs have had the opportunity to be heard and further, that Plaintiffs' intend to bring a Motion for Clarification concerning retroactive royalty refunds within 14 days. **Plaintiffs filed their Response to Defendants' Objection to Proposed Judgment and Request for Clarification and their Amended Proposed Order and Judgment on March 29, 2019. Defendants filed their Objection to Plaintiffs' Proposed Order and Judgment (Plaintiffs' Amended Proposed) and Reply to Plaintiffs' Response to Defendants' Objection to Proposed Judgment and Request for Clarification on April 8, 2019.**

The Commissioner recommends the Board consider entering executive session for consultation with legal counsel regarding pending and potential litigation.

EXECUTIVE SESSION

Under the authority of North Dakota Century Code Sections 44-04-19.1 and 44-04-19.2, the Board close the meeting to the public and go into executive session for purposes of attorney consultation relating to:

- **Continental Interpleader**
- **Wilkinson**
- **Paul Sorum, et. al. v. The State of North Dakota, et al**

Action Record	Motion	Second	Aye	Nay	Absent
Secretary Jaeger			X		
Superintendent Baesler					X
Treasurer Schmidt		X	X		
Attorney General Stenehjem	X		X		
Governor Burgum			X		

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EXECUTIVE SESSION

Members Present:

Doug Burgum	Governor
Alvin A. Jaeger	Secretary of State
Wayne Stenehjem	Attorney General
Kelly Schmidt	State Treasurer
Kirsten Baesler	Superintendent of Public Instruction

Member Absent:

Kirsten Baesler	Superintendent of Public Instruction
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Department of Trust Lands Personnel present:

Jodi Smith	Commissioner
Kristie McCusker	Paralegal
Catelin Newell	Office Manager
Kate Schirado	Administrative Assistant

Guests in Attendance:

Dave Garner	Attorney General's Office
Matt Sagsveen	Attorney General's Office
Leslie Bakken Oliver	Governor's Legal Counsel
Reice Haase	Governor's Office
Mark Hanson	Nilles Law Office
Charles Carvell	Special Assistant Attorney General

The executive session adjourned at 10:52 AM and the Board returned to open session and the public was invited to return to the meeting. During the executive session, the Board was provided information regarding the Continental Interpleader, Wilkinson, and Paul Sorum litigation.

A D J O U R N

There being no further business, the meeting was adjourned at 10:52 PM.

Doug Burgum, Chairman
Board of University and School Lands

Jodi Smith, Secretary
Board of University and School Lands

MEMORANDUM TO THE BOARD OF UNIVERSITY AND SCHOOL LANDS
 May 30, 2019

RE: Energy Infrastructure and Impact Office (EIIO) Contingency Grant

Section 10 of Senate Bill 2013 allows the use of unexpended funds to provide for grants and administrative costs during the 2017-2019 biennium:

SECTION 10. EXEMPTION - OIL AND GAS IMPACT GRANT FUND. The amount appropriated from the oil and gas impact grant fund for the energy infrastructure and impact office line item in section 1 of chapter 13 of the 2015 Session Laws and for oil and gas impact grants in section 5 of chapter 463 of the 2015 Session Laws is not subject to section 54-44.1-11. Any money deposited in the fund for taxable events occurring through June 30, 2017, and any unexpended funds from the appropriation are available for grants and administrative costs associated with the fund during the biennium beginning July 1, 2017, and ending June 30, 2019. (Emphasis added).

The current members serving on the Contingency Grant Advisory Committee (Committee):

Dan Kalil (Williston Township Chair), Jay Elkin (Stark County Commissioner), Philip Reily (Mayor of Watford City), Marcia Lamb (Billings County Auditor), Mark Spooner (Border Township Chair), Allen Ryberg (Burke County Commissioner), David Wegner (Beach PSD Superintendent), Gary Weisenberger (Mayor of Stanley), and Reinhard Hauck (Dunn County Commissioner)

Per the Board's approved grant requirements, the grant announcement closed on April 30, 2019. EIIO received and scored ten applications. The Committee reviewed and discussed each application thoroughly before finalizing its recommendations during a public meeting on May 21, 2019. The Committee recommends six of the ten applications be approved by the Board:

APPLICANT	COUNTY	APPLICATION NUMBER	SHORT DESCRIPTION	PROJECT TOTAL	AMOUNT REQUESTED	AMOUNT RECOMMENDED
CITY OF WATFORD CITY	MCKENZIE	A190027	RECONSTRUCTION AND SEWER REPAIRS	\$608,927.00	\$570,000.00	\$200,000.00
SCOTIA TOWNSHIP	BOTTINEAU	A190028	2019 GRAVELING	\$15,000.00	\$7,500.00	\$0.00
MISSOURI RIDGE TOWNSHIP	WILLIAMS	A190029	PAVING 3 MILES OF 139TH AVE, 56TH ST, AND 138TH AVE	\$1,674,532.00	\$1,674,532.00	\$0.00
MCKENZIE PSD #1	MCKENZIE	A190030	PORTABLE CLASSROOMS	\$99,588.00	\$99,588.00	\$50,000.00
BOTTINEAU COUNTY	BOTTINEAU	A190031	BOTTINEAU COUNTY ROAD IMPROVEMENTS	\$237,910.00	\$190,300.00	\$100,000.00
WILLISTON PSD #1	WILLIAMS	A190032	WHS COMMONS EXPANSION	\$3,100,000.00	\$3,100,000.00	\$1,300,000.00
CITY OF NEW ENGLAND	HETTINGER	A190033	STREET AND SEWER IMPROVEMENTS- 2019 N SIDE GROWTH AREA	\$1,442,000.00	\$1,000,000.00	\$0.00
WILLIAMS COUNTY	WILLIAMS	A190034	COUNTY ROAD 19 BRIDGE REPLACEMENT	\$1,835,505.00	\$209,000.00	\$0.00
WILLIAMS COUNTY	WILLIAMS	A190035	COUNTY ROAD 42 RECONSTRUCTION	\$6,148,427.00	\$245,700.00	\$175,000.00
NOONAN FIRE DEPARTMENT	DIVIDE	A190036	FIRE FIGHTING GEAR	\$20,400.00	\$15,300.00	\$15,300.00
				15,182,289	7,111,920	\$1,840,300.00

Recommendation: The Board awards six grants under the Contingency Grant to Williams County, Noonan Fire Department, Williston PSD #1, City of Watford City, McKenzie PSD #1, and Bottineau County for \$1,840,300.00.

Action Record	Motion	Second	Aye	Nay	Absent
Secretary Jaeger					
Superintendent Baesler					
Treasurer Schmidt					
Attorney General					
Governor Burgum					

MEMORANDUM TO THE BOARD OF UNIVERSITY AND SCHOOL LANDS

May 30, 2019

RE: Airport Grants Delegation of Authority

In the 2013-2015 Biennium the Legislative Assembly appropriated the following (HB 1358):

OIL AND GAS IMPACT GRANT FUND - GRANT RECOMMENDATIONS. There is appropriated out of any moneys in the oil and gas impact grant fund in the state treasury, not otherwise appropriated, the sum of \$239,299,174, or so much of the sum as may be necessary, to the board of university and school lands for the purpose of oil and gas impact grants, for the biennium beginning July 1, 2013, and ending June 30, 2015.

\$60,000,000, or so much of the sum as may be necessary, for grants to airports impacted by oil and gas development. The director of the energy infrastructure and impact office shall adopt grant procedures and requirements necessary for distribution of grants under this subsection, which must include cost-share requirements. Cost-share requirements must H. B. NO. 1358 - PAGE 10 consider the availability of local funds to support the project. Grant funds must be distributed giving priority to projects that have been awarded or are eligible to receive federal funding.

Of the \$60,000,000 awarded to Airports, 4 grants to the Sloulin International Airport remain with a current balance of \$1,292,633.71. Federal funding has been awarded since these grants were originally granted.

During the 2015- 2017 Biennium the Legislative Assembly appropriated the following (HB 1176):

OIL AND GAS IMPACT GRANT FUND - GRANT RECOMMENDATIONS - EXEMPTION - REPORT TO BUDGET SECTION. There is appropriated out of any moneys in the oil and gas impact grant fund in the state treasury, not otherwise appropriated, the sum of \$139,300,000, or so much of the sum as may be necessary, to the board of university and school lands for the purpose of oil and gas impact grants, for the biennium beginning July 1, 2015, and ending June 30, 2017.

\$48,000,000, or so much of the sum as may be necessary, for grants to airports impacted by oil and gas development. The director of the energy infrastructure and impact office, in consultation with the aeronautics commission, shall adopt grant procedures and requirements H. B. NO. 1176 - PAGE 12 necessary for the distribution of grants under this subsection, which must include cost-share requirements. Cost-share requirements must consider the availability of local funds to support the project. Grant funds must be distributed giving priority to projects that have been awarded or are eligible to receive federal funding.

Of the \$48,000,000 awarded to Airports, 5 grants to remain with a current balance of \$533,793.91. Federal funding has been awarded since these grants were originally granted.

In the 2017- 2019 Biennium the Legislative Assembly appropriated the following (SB-2013):

OIL AND GAS IMPACT GRANT FUND - AIRPORT GRANTS. The grants line item and the total special funds line item in section 1 of this Act include the sum of \$25,000,000 from the oil and gas impact grant fund for grants to airports, for the biennium beginning July 1, 2017, and ending June 30, 2019. Of the \$25,000,000, the board of university and school lands shall award a grant of \$20,000,000 to the Williston airport and a grant of \$5,000,000 to the Dickinson airport. A grant may be awarded to the Williston airport only when any related federal funding is committed and available to be spent on the new airport

construction project. Grants awarded but not yet paid under this section are not subject to section 54-44.1-11.

SECTION 14. ENERGY IMPACT FUND - WILLISTON AIRPORT GRANT. The grants line item and the total special funds line item in section 1 of this Act include the sum of \$15,000,000 from the energy impact fund for a grant to the Williston airport, for the biennium beginning July 1, 2017, and ending June 30, 2019. A grant may be awarded to the Williston airport only when any related federal funding is committed and available to be spent on the new airport construction project. Grants awarded but not yet paid under this section are not subject to section 54-44.1-11.

Of the \$40,000,000 awarded to the Sloulin International Airport and Dickinson Municipal Airports, 26 grants remain with a current balance of \$20,554,915.53. Federal funding has been awarded since these grants were originally granted.

The North Dakota Aeronautics Commission has identified numerous grants that will be complete in the upcoming months with remaining balances available. The current process for approval for a Scope of Work change can take up to three months which has the potential to delay progress on the airport projects. During the 2013-2015 biennium, 2015-2017 biennium and 2017-2019 biennium these funds were specifically designated to the airports impacted by oil and gas development; thus, the Board does not have the authority to allocate these funds to any other sector. As a means to streamline the changes in the scope of work for airport grants awarded during the 2013-2015, 2015-2017 and 2017-2019 biennium the Department of Trust is requesting the Board of University and School Lands authorize the Commissioner to approve the Scope of Work changes. The process for the Scope of Work changes will require documentation of the scope change and funds that will be spent on the new project. Additionally, it will require the Executive Director of the Aeronautics Commission to authorize the change in scope.

Recommendation: The Board authorizes the Commissioner to approve changes in the Scope of Work for grants awarded to airports impacted by oil and gas development.

Action Record	Motion	Second	Aye	Nay	Absent
Secretary Jaeger					
Superintendent Baesler					
Treasurer Schmidt					
Attorney General Stenehjem					
Governor Burgum					

MEMORANDUM TO THE BOARD OF UNIVERSITY AND SCHOOL LANDS

May 30, 2019

RE: Marathon Oil Company Request for an Additional 360 Day Lease Extension in Dunn County T148-R95W-16: All

In May of 2013, Marathon Oil Company (Marathon) entered into four leases with the Board of University and School Lands (Board) (OG13-00342, OG13-00343, OG13-00344, and OG13-00345). These leases cover 469.52 acres of common schools mineral tracts in T148N-R95W-16, Dunn County, North Dakota, and Marathon paid a total bonus to the Board of \$3,850,064. Marathon states their total expenses to date are in excess of \$4 million (bonus, surveys, archeological surveys, etc.).

Marathon experienced some challenges in developing these mineral tracts, including complex stakeholders, environmental concerns, and rough terrain, which have impeded timely development of the area. The North Dakota Department of Trust Lands (Department) has been working with Marathon since late 2015 in search of a viable solution to develop the section.

On November 20, 2017, a formal request was directed to former Commissioner Lance Gaebe requesting a 365-day extension. Due to the appointment of a new Commissioner, on January 23, 2018, Commissioner Jodi Smith received another formal request for a 365-day extension.

On February 22, 2018, Marathon's request for two 180-day extensions for all four leases, for a total extension of 360 days was presented to the Board.

Section 8 of the Board's Oil and Gas lease states:

If, at the expiration of the primary term, production of oil and/or gas has not been obtained in commercial quantities on the leased premises but drilling, testing, completion, recompletion, reworking, deepening, plugging back, or repairing operations are being conducted thereon in good faith, lessee may, on or before the expiration of the primary term, file a written application with the Commissioner of University and School Lands for a one hundred eighty (180) day extension of this lease, such application to be accompanied by a payment of ten dollars (\$10.00) per acre, and the Commissioner shall, in writing, extend this lease for a period of one hundred eighty (180) days beyond the expiration of the primary term and as long as oil and/or gas is produced in commercial quantities; lessee may, as long as such drilling, testing, or completion operations are being conducted in good faith, make written application to the Commissioner, on or before the expiration of the initial extended period of one hundred eighty (180) days for an additional extension of one hundred eighty (180) days, such application to be accompanied by a payment of twenty dollars (\$20.00) per acre, and the Commissioner shall, in writing, extend this lease for an additional one hundred eighty (180) day period from and after the expiration of the initial extended period of one hundred eighty (180) days, and as long as oil and/or gas is produced in commercial quantities; this lease shall not be extended for more than a total of three hundred sixty (360) days from and after the expiration of the primary term unless production in commercial quantities has been obtained or unless extended by some other provision hereof.

All parties recognized the initial request to the Board on February 22, 2018, for an extension did not constitute the activation of paragraph 8; however, given the circumstances, it was beneficial to all parties to come to a mutually acceptable solution in granting Marathon a 360-day amendment to the leases.

At the February 2018 Board meeting, a Board member specifically asked Department staff and the Commissioner if an extension could be granted in lieu of paragraph 8 but Marathon could ask for another extension if they met the criteria of paragraph 8. Department staff and the Commissioner advised there would not be the opportunity for an additional extension. The Board agreed not to offer an additional extension beyond the 360-days.

The Board voted unanimously at the February 2018 Board meeting to direct the Commissioner to negotiate a one-time 360-day extension for leases OG13-00342, OG13-00343, OG13-00344, and OG13-00345 and to bring those negotiated terms to the Board's regularly scheduled meeting in March 2018.

The Commissioner and Department staff worked with Marathon to reach mutually acceptable terms.

The Board's initial terms of the leases set for a royalty rate of 3/16 (18.75%). Marathon agreed to increase the royalty to 20%. Marathon also agreed to pay \$100 per net mineral acre, for a total of \$46,952.

At the March 2018 Board meeting, the Board granted Marathon a 360-day extension of the four leases (OG13-00342, OG13-00343, OG13-00344, and OG13-00345) in exchange for \$100 per net mineral acre and an increased the royalty rate to 20%.

The Amendment of Oil and Gas leases were executed on May 4, 2018. The agreed to terms of the leases are as follows:

Lessor hereby amends the Lease by extending the leases(s) for a period of three hundred and sixty (360) days after May 6, 2018. The amended term shall commence on May 7, 2018, and terminate on May 1, 2019, but shall continue beyond the termination date of the Amended Term for as long thereafter as oil and/or gas may be produced in commercial quantities from the Leases Premises. **Notwithstanding anything to the contrary in the Lease, including, but not limited to, the terms and conditions in Paragraphs 6, 8, and 11 of the Lease, the Amended Term will expire and the Lease will terminate if the Lessee has not obtained oil and/or gas production in commercial quantities from the Leased Premises as of the Termination Date.**

Pursuant to paragraph 4(A) of the Lease, the royalty rate is increased from "three sixteenth" to "20%" during the Amended Term and the Secondary Term.

Section 8 is hereby deleted from the Lease during the Amended Term and the Secondary Term.

In all other respects, except as expressly provided herein, the Lease shall continue in full force and effect as originally written.

The Commissioner and Department staff met with Marathon on January 22, 2019, and were made aware of concerns regarding obtaining commercial production before expiration of the amended terms. The Commissioner and Department staff met with Marathon again on January 25, 2019, and Marathon requested permission to explore the opportunity of placing an off unit pad north of Enerplus's well pad located on State surface. Department staff contacted Enerplus and requested a formal response to Marathon's request to locate an off unit pad north of Enerplus's well pad. In a letter dated February 12, 2019, Enerplus denied the request stating that it would hamper its ability to safely develop the unit to the north and, therefore, opposed Marathon's proposed pad location.

On March 26, 2019, the Commissioner and Department staff met with Marathon to discuss concerns whether commercial production would be obtained prior to expiration of the amended terms. On April 4, 2019, the Commissioner received a formal request for extension from Marathon. On April 16, 2019, the Commissioner responded to Marathon's request for an extension advising it was determined that the circumstances do not warrant extension of the leases per the May 4, 2018 Amendment of the Oil and Gas Lease.

Additionally, N.D.C.C § 38-09-18 provides in part as follows:

Terms of lease – Unit operation. All leases for the purposes as hereinbefore provided shall be made by the state of North Dakota and all agencies and departments and political subdivisions thereof for not less than twenty-five cents per acre [.40 hectare] per year for deferred drilling and shall be made with a royalty reservation of not less than one-eighth of all oil and gas produced from said land as long as oil and gas may be produced from said land. The term one-eighth as used herein must be construed to mean one-eighth of such interest as may be owned by the lessor. All leases hereunder must be made for a period of not less than five years and must continue in effect under the terms thereof as long as oil or gas may be produced thereon in commercial quantities.

N.D.C.C. § 38-09-14.

No lands, owned in whole or in part, or on which a reservation of oil and gas rights has been made in a conveyance thereof, by the State of North Dakota or by any department or agency thereof or by any county or other political subdivision of this state, may be leased for oil and gas exploration or production except as provided for in sections 38-09-14 through 38-09-20.

Under N.D.C.C. § 15-07-20 the Board is only authorized to lease non-grant lands without advertisement or competitive bidding; however, the four leases for which Marathon is requesting a third and fourth extension are grant lands and extensions and amendments cannot be allowed under statute.

The board of university and school lands may lease non-grant lands under reasonable rules as it may establish. The rules may provide for leasing with or without advertisement or competitive bidding. . . . A lease of non-grant lands may not extend for a period of more than five years Leases may be renewed at the discretion of the board. When non-grant lands are leased without advertisement or competitive bidding, the board shall determine the rental by taking into consideration the nature and adaptability of the lands and the improvements there on.

Id.

There are several century code sections that address mineral leasing. N.D.C.C. ch. 38-09 outlines procedures for leasing oil and gas rights for exploration and production on publicly owned lands, which applies to all departments and agencies of state government, as well as any county or political subdivision. Public notice of the time and place for leasing is required and written or oral bidding may allowed. N.D.C.C. §§ 38-09-15, 38-09-17. N.D.C.C. ch. 15-05 addresses mineral leasing specifically for lands under the control of the Board. This chapter allows these lands to be leased for oil and gas development. N.D.C.C. § 15-05-09. This section allows the Board to establish rules and regulations for development and drilling operations. Id. N.D.C.C. ch. 15-07 addresses sale and lease of non-grant lands. The legislature specified that leasing can

be with or without advertisement and competitive bidding and directs the Board to establish reasonable rules and regulations for the leasing of non-grant lands. N.D.C.C. § 15-07-20. Leases for grant lands cannot be negotiated pursuant to the above statutes.

Marathon’s latest request was presented to the Board on April 25, 2019. At that meeting, the Department recommended the Board not honor Marathon’s request to amend the lease for an additional year. This recommendation was made due to Marathon not satisfying the terms of the amendment. The Commissioner, Department staff and the assistant attorney general took all necessary factors into consideration when making the determination to not authorize a third and fourth extension to Marathon, and concluded there was no basis to extend these leases, as it was in the best interest of the Common Schools Trust Fund to allow these leases to expire and place them on the next available lease auction.

Since the April 25, 2019 Board meeting, several companies have approached the Department with concerns of not having the opportunity to lease these tract(s). As an example, on April 30, 2019 Enerplus, the operator to the north of this unit, sent a formal “Expression of Interest” to the Commissioner for consideration. As discussed previously, Enerplus’s current location is ideally suited, with a slight expansion, to develop this unit and spare the local environment an additional well pad.

In conclusion, Marathon was unable to satisfy the terms of the amendment therefore the lease(s) will expire per the terms of the amendment on May 31, 2019. The Commissioner, Department staff and the assistant attorney general took all necessary factors into consideration when making the determination to not authorize a third and forth extension to Marathon, which is not allowed under the terms of the Board lease or the amended terms of the lease.

Recommendation: The Board authorizes the Commissioner to deny Marathon’s request for an additional 360 day extension for leases OG13-00342, OG13-00343, OG13-00344, and OG13-00345.

Action Record	Motion	Second	Aye	Nay	Absent
Secretary Jaeger					
Superintendent Baesler					
Treasurer Schmidt					
Attorney General Stenehjem					
Governor Burgum					

Attachments:

- Attachment 1: April 25, 2019 Board of University and School Lands Memo Re: Marathon Oil Company Request for Lease Extension in Dunn County T148-R95W-16: All
- Attachment 2: February 22, 2018 Board of University and School Lands Memo Re: Marathon Oil Company Request for Lease Extension in Dunn County T148-R95W-16: All
- Attachment 3: March 29, 2018 Board of University and School Lands Memo Re: Marathon Oil Company Request for Lease Extension in Dunn County T148-R95W-16: All
- Attachment 4: Amendment of Oil and Gas Lease #OG-13-00342
- Attachment 5: Amendment of Oil and Gas Lease #OG-13-00343
- Attachment 6: Amendment of Oil and Gas Lease #OG-13-00345
- Attachment 7: Amendment of Oil and Gas Lease #OG-13-00344
- Attachment 8: Oil and Gas Lease #OG-13-00342
- Attachment 9: Oil and Gas Lease #OG-13-00343
- Attachment 10: Oil and Gas Lease #OG-13-00344
- Attachment 11: Oil and Gas Lease #OG-13-00345
- Attachment 12: Marathon Oil Request for Extension Letter
- Attachment 13: Department of Trust Lands Response to Marathon Oil Request for Extension Letter

MEMORANDUM TO THE BOARD OF UNIVERSITY AND SCHOOL LANDS

April 25, 2019

RE: Marathon Oil Company Request for Lease Extension in Dunn County T148-R95W-16: All

In May of 2013, Marathon Oil Company (Marathon) entered into four leases with the Board of University and School Lands (Board) (OG13-00342, OG13-00343, OG13-00344, and OG13-00345). These leases cover 469.52 acres of common schools mineral tracts in T148N-R95W-16, Dunn County, North Dakota, and Marathon paid a total bonus to the Board of \$3,850,064. Marathon states their total expenses to date are in excess of \$4 million (bonus, surveys, archeological surveys, etc.).

Marathon experienced extreme difficulties in developing these mineral tracts, including; complex stakeholders, environmental concerns, and rough terrain which have impeded timely development of the area. The North Dakota Department of Trust Lands (Department) has been working with Marathon since late 2015 in search of a viable solution to develop the section.

On November 20, 2017, a formal request was directed to Commissioner Gaebe requesting a 365-day extension. On January 23, 2018, Commissioner Smith received another formal request for a 365-day extension.

On February 22, 2018, Marathon sought two 180-day extensions for all four leases, for a total extension of 360 days from the Board.

Section 8 of the Board's Oil and Gas lease states:

If, at the expiration of the primary term, production of oil and/or gas has not been obtained in commercial quantities on the leased premises but drilling, testing, completion, recompletion, reworking, deepening, plugging back, or repairing operations are being conducted thereon in good faith, lessee may, on or before the expiration of the primary term, file a written application with the Commissioner of University and School Lands for a one hundred eighty (180) day extension of this lease, such application to be accompanied by a payment of ten dollars (\$10.00) per acre, and the Commissioner shall, in writing, extend this lease for a period of one hundred eighty (180) days beyond the expiration of the primary term and as long as oil and/or gas is produced in commercial quantities; lessee may, as long as such drilling, testing, or completion operations are being conducted in good faith, make written application to the Commissioner, on or before the expiration of the initial extended period of one hundred eighty (180) days for an additional extension of one hundred eighty (180) days, such application to be accompanied by a payment of twenty dollars (\$20.00) per acre, and the Commissioner shall, in writing, extend this lease for an additional one hundred eighty (180) day period from and after the expiration of the initial extended period of one hundred eighty (180) days, and as long as oil and/or gas is produced in commercial quantities; this lease shall not be extended for more than a total of three hundred sixty (360) days from and after the expiration of the primary term unless production in commercial quantities has been obtained or unless extended by some other provision hereof.

All parties recognized the initial request for an extension did not constitute the activation of paragraph 8; however, given the circumstances, it was beneficial to all parties to come to a mutually acceptable solution in granting Marathon a 360-day amendment to the leases.

At the February 2018 Board meeting, a Board member specifically asked Department staff and the Commissioner if an extension could be granted in lieu of paragraph 8 but they could still come back to the Board and ask for another extension if they met the criteria of paragraph 8. Department staff and the Commissioner at that time noted to the Board that there would not be the opportunity for an additional extension. The Board accepted the terms to not offer the opportunity to grant an additional extension beyond the 360-days.

The Board voted unanimously at the February 2018 Board meeting to direct the Commissioner to negotiate a one-time 360-day extension for leases OG13-00342, OG13-00343, OG13-00344, and OG13-00345 and bring those negotiated terms to the Board's regularly scheduled meeting in March 2018.

The Commissioner and Department staff worked with Marathon to reach mutually acceptable terms.

The Board's initial terms of the lease(s) for this area set for a royalty rate of 3/16 (18.75%). Marathon agreed to increase the royalty to a flat 20%. Marathon also agreed to pay a \$100 per net mineral acre, for a total of \$46,952.

At the March 2018 Board meeting, the Board authorized Marathon Oil Company a three hundred sixty day (360) extension of the four leases (OG13-00342, OG13-00343, OG13-00344, and OG13-00345) in exchange for \$100 per net mineral acre and increasing the royalty rate to 20%.

Amended lease(s) were executed on May 4, 2018. The terms of the lease(s) that the Lessor and Lessee agreed to are as follows:

Lessor hereby amends the Lease by extending the leases(s) for a period of three hundred and sixty (360) days after May 6, 2018. The amended term shall commence on May 7, 2018, and terminate on May 1, 2019, but shall continue beyond the termination date of the Amended Term for as long thereafter as oil and/or gas may be produced in commercial quantities from the Leases Premises. **Notwithstanding anything to the contrary in the Lease, including, but not limited to, the terms and conditions in Paragraphs 6, 8, and 11 of the Lease, the Amended Term will expire and the Lease will terminate if the Lessee has not obtained oil and/or gas production in commercial quantities from the Leased Premises as of the Termination Date.**

Pursuant to paragraph 4(A) of the Lease, the royalty rate is increased from "three sixteenth" to "20%" during the Amended Term and the Secondary Term.

Section 8 is hereby deleted from the Lease during the Amended Term and the Secondary Term.

In all other respects, except as expressly provided herein, the Lease shall continue in full force and effect as originally written.

The Commissioner and Department staff met with Marathon on January 22, 2019, and were made aware of concerns to obtain commercial production before expiration of the amended terms. The Commissioner and Department staff met with Marathon on January 25, 2019, and Marathon requested permission to explore the opportunity to place an off unit pad north of Enerplus's well pad located on State surface. Department staff contacted Enerplus and requested a formal response to Marathon's request to locate an off unit pad north of Enerplus's well pad. In a letter

dated February 12, 2019, Enerplus denied the request stating a violation of correlative rights and therefore opposed Marathon's proposed pad location.

On March 26, 2019, the Commissioner and Department staff met with Marathon to discuss concerns that commercial production would be obtained prior to the expiration of the amended terms. On April 4, 2019, the Commissioner received a formal request for extension from Marathon. The Commissioner responded on April 16, 2019, to Marathon's request for an extension that the determination had been made that circumstances do not warrant extension of the leases per the Amendment of the Oil and Gas Lease dated May 4, 2018.

Additionally, per N.D.C.C § 39-09-18. Terms of lease – Unit operation.

All leases for the purposes as hereinbefore provided shall be made by the state of North Dakota and all agencies and departments and political subdivisions thereof for not less than twenty-five cents per acre [.40 hectare] per year for deferred drilling and shall be made with a royalty reservation of not less than one-eighth of all oil and gas produced from said land as long as oil and gas may be produced from said land. The term one-eighth as used herein must be construed to mean one-eighth of such interest as may be owned by the lessor. All leases hereunder must be made for a period of not less than five years and must continue in effect under the terms thereof as long as oil or gas may be produced thereon in commercial quantities.

N.D.C.C. § 38-11-14.

No lands owned in whole or in part, or on which a reservation of oil and gas rights has been made in a conveyance thereof, by the State of North Dakota or by any department or agency thereof or by any county or other political subdivision of this state, may be leased for oil and gas exploration or production except as provided for in sections 38-11-14 through 38-09-20.

The Board is only authorized under N.D.C.C. § 15-07-20 to lease nongrant lands without advertisement or competitive bidding and the four leases Marathon is requesting a 3rd and 4th extension are grant lands.

The board of university and school lands may lease nongrant lands under reasonable rules as it may establish. The rules may provide for leasing with or without advertisement or competitive bidding. Leases made under this section must be for cash only, and the rental must be collected in advance except that the board may collect a share of a conservation reserve program payment paid by the federal government. A lease of nongrant lands may not extend for a period of more than five years, except any land accepted into the conservation reserve program may have a lease term that coincides with the term of the conservation reserve program contract if so provided in the lease. Leases may be renewed at the discretion of the board. When nongrant lands are leased without advertisement or competitive bidding, the board shall determine the rental by taking into consideration the nature and adaptability of the lands and the improvements thereon.

There are several century code sections that address mineral leasing. N.D.C.C. Chapter 38-09 outlines procedures for leasing oil and gas rights for exploration and production which applies to all departments or agencies of the state government as well as any county or political subdivision. Id. The procedure requires public notice of the time and place for leasing and must allow for written or oral bidding. N.D.C.C. §§ 38-09-15, 38-09-17. N.D.C.C. Chapter 15-05 addresses

mineral leasing specifically for lands under the control of the Board. This chapter allows these lands to be leased for oil and gas development but does not provide any specific procedure. N.D.C.C. § 15-05-09. This section allows the Board to establish rules and regulations for development and drilling operations. Id. N.D.C.C. Chapter 15-07 addresses sale and leasing of nongrant lands. The legislature again did not provide any specific procedure but specified that leasing can be with or without advertisement and competitive bidding and directs the Board to establish reasonable rules and regulations for the leasing of nongrant lands. N.D.C.C. § 15-07-20.

In conclusion, Marathon was unable to satisfy the terms of the amendment therefore the lease(s) will expire per the terms of the amendment on May 1, 2019. The Commissioner, Department staff and the assistant attorney general took all necessary factors into consideration when making the determination to not authorize a third and fourth extension to Marathon, which is not allowed under the terms of the Board lease or the amended terms of the lease.

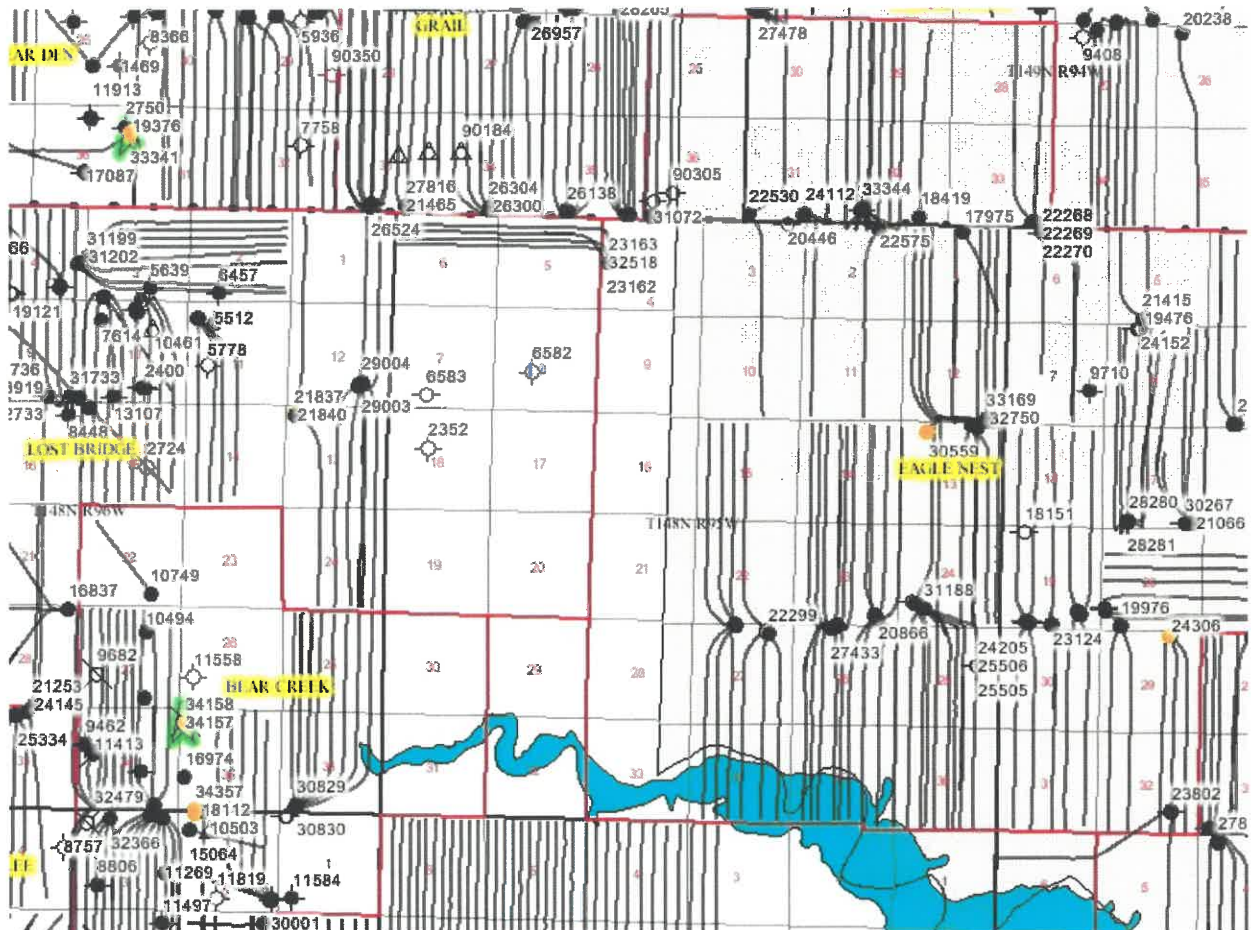
MEMORANDUM TO THE BOARD OF UNIVERSITY AND SCHOOL LANDS

February 22, 2018

RE: Marathon Oil Company Request for Lease Extension in Dunn County T148-R95W-16: All

In May of 2013, Marathon Oil Company (Marathon) entered into four leases with the Board of University and School Lands (Board) (OG13-00342, OG13-00343, OG13-00344, and OG13-00345). These leases cover 469.52 acres of common schools mineral tracts in T148N-R95W-16, Dunn County, North Dakota, and Marathon paid a total bonus to the Board of \$3,850,064. Marathon states their total expenses to date are in excess of \$4 million (bonus, surveys, archeological surveys, etc.).

Below is a depiction of the area and the oil and gas development using GIS data from the North Dakota Industrial Commission (NDIC).



Marathon has experienced extreme difficulties in developing these mineral tracts, including; complex stakeholders, environmental concerns, and rough terrain which have impeded timely development of the area. The North Dakota Department of Trust Lands (NDDTL) has been working with Marathon since late 2015 in search of a viable solution to develop the section. At this time, Marathon is seeking two 160-day extensions for all four leases, for a total extension of 320 days.

Note, the current spacing order is the product of a lengthy series of NDIC hearings, protests, and an eventual order favoring Marathon's proposal, which further delayed development within the primary term.

Additionally, surrounding lands are owned in fee and in trust by the Three Affiliated Tribes, allottees, Federal government, ND Game and Fish, NDDTL and various fee owners and each of these owners has their own interests and development plans. Some of the federally managed lands have not been offered for lease; however, the BLM has given Marathon an indication these leases may soon be auctioned. With certain provisions, Marathon could produce NDDTL minerals without those Federal lands.

While the NDDTL manages the minerals, the ND Game and Fish holds the surface and manages those lands. This is an area that is active with bighorn sheep and is in the Little Missouri River corridor. Current plans for development would have a surface location approximately three miles from these lands.

Marathon plans to drill as many as eleven three-mile lateral wells in the Three Forks and Middle Bakken. Their engineers estimate that there are 800,000 barrel of oil equivalent in gross reserves on the Trust lands and estimate that, after full development, the Trust's net income to be \$18,000,000 based on a flat West Texas Intermediate of \$55 barrel.

Section 8 of the Board's Oil and Gas lease states:

If, at the expiration of the primary term, production of oil and/or gas has not been obtained in commercial quantities on the leased premises but drilling, testing, completion, recompletion, reworking, deepening, plugging back, or repairing operations are being conducted thereon in good faith, lessee may, on or before the expiration of the primary term, file a written application with the Commissioner of University and School Lands for a one hundred eighty (180) day extension of this lease, such application to be accompanied by a payment of ten dollars (\$10.00) per acre, and the Commissioner shall, in writing, extend this lease for a period of one hundred eighty (180) days beyond the expiration of the primary term and as long as oil and/or gas is produced in commercial quantities; lessee may, as long as such drilling, testing, or completion operations are being conducted in good faith, make written application to the Commissioner, on or before the expiration of the initial extended period of one hundred eighty (180) days for an additional extension of one hundred eighty (180) days, such application to be accompanied by a payment of twenty dollars (\$20.00) per acre, and the Commissioner shall, in writing, extend this lease for an additional one hundred eighty (180) day period from and after the expiration of the initial extended period of one hundred eighty (180) days, and as long as oil and/or gas is produced in commercial quantities; this lease shall not be extended for more than a total of three hundred sixty (360) days from and after the expiration of the primary term unless production in commercial quantities has been obtained or unless extended by some other provision hereof.

All parties recognize this request does not constitute the activation of paragraph 8; however, given the circumstances, it may be beneficial to all parties to come to a mutually acceptable solution in granting Marathon a 360 day extension to the leases.

Recommendation: The Board direct the Commissioner to negotiate a onetime 360 day extension for leases OG13-00342, OG13-00343, OG13-00344, and OG13-00345 and bring those negotiated terms to the Board's regularly scheduled meeting in March 2018.

Action Record	Motion	Second	Aye	Nay	Absent
Secretary Jaeger					
Superintendent Baesler					
Treasurer Schmidt					
Attorney General Stenehjem					
Governor Burgum					

MEMORANDUM TO THE BOARD OF UNIVERSITY AND SCHOOL LANDS

March 29, 2018

**RE: Marathon Oil Company Request for Lease Extension in Dunn County T148-R95W-16:
All. (Results of negotiations as directed by Board at their regular February 2018 meeting)**

At the February 22, 2018 regular meeting of the North Dakota Board of University and School Lands (Board), the Board directed the Commissioner and staff to negotiate terms to allow Marathon Oil Company (Marathon) an additional 360 days to produce from a particularly challenging and complex section. These lands are located to the Western border of Fort Berthold, in rough and broken terrain, and is favored habitat of the bighorn sheep. They consists of four leases OG13-00342, OG13-00343, OG13-00344, and OG13-00345 and cover 469.52 acres of common schools mineral tracts in T148N-R95W-16, Dunn County, North Dakota. Marathon paid a total bonus to the Board of \$3,850,064 in May of 2013. Marathon states their total expenses to date are in excess of \$4 million (bonus, surveys, archeological surveys, etc.).

The Commissioner is pleased to report that the Department of University and Schools Lands has reached mutually acceptable terms.

Currently, the Board's lease(s) for this area is set for a royalty rate of 3/16 (18.75%). Marathon has agreed to increase the royalty to a flat 20%. Using conservative estimates, provided by Marathon and in-house analysis, we would expect that this royalty increase has the potential to increase each wellbores income, over the life of the well, by approximately \$250,000 per well. Marathon has stated their current plan calls for eleven plus wells over the course of the unit's production.

As per section eight of the Board's Oil and Gas lease, under certain circumstances the Commissioner has the authority to grant a one hundred eighty (180) day extension for a nominal fee of ten dollars per acre (\$10). Should another extension be needed and another set of criteria met, she would have the authority to extend for an addition one hundred eighty (180) days for another fee of twenty dollars per acre (\$20). In the regular course of business, a full three hundred sixty (360) day extension would carry a total fee burden of thirty dollars (\$30) per net mineral acre. In this case \$14,085.60. Marathon has offered to increase the fee, for three hundred and sixty (360) days, to a \$100 per net mineral acre, for a total of \$46,952.00.

Recommendation: The Board authorize Marathon Oil Company a three hundred sixty day (360) extension of the four leases (OG13-00342, OG13-00343, OG13-00344, and OG13-00345) in exchange for \$100 per net mineral acre and increasing the royalty rate to 20%.

Action Record	Motion	Second	Aye	Nay	Absent
Governor Burgum					
Superintendent Baesler					
Treasurer Schmidt					
Attorney General Stenehjem					
Secretary Jaeger					

AMENDMENT OF OIL AND GAS LEASE

Marathon Oil Company (Lessee) is presently the owner of an interest in the leasehold estate created by Oil and Gas Lease #OG-13-00342 dated May 7, 2013 (the "Lease") which was entered into between the State of North Dakota, acting by and between the Board of University and School Lands (Lessor) and Marathon Oil Company (Lessee) covering the following described lands in Dunn County, North Dakota:

Township 148 North, Range 95 West
 Section 16: Lots 1,2
 (the "Leased Premises")

The Lease is now in full force and effect and has been made a part hereof by reference.

Lessee has requested that the Lease be amended by extending the term for three hundred and sixty (360) days on the terms and conditions described herein. In consideration of \$7,514.00 paid by Lessee to Lessor, Lessor and Lessee do hereby agree as follows:

- Lessor hereby amends the Lease by extending the lease(s) for a period of three hundred and sixty (360) days after May 6, 2018. The amended term shall commence on May 7, 2018, and terminate on May 1, 2019, (the "Amended Term") but shall continue beyond the termination date of the Amended Term (the "Termination Date") for as long thereafter as oil and/or gas may be produced in commercial quantities from the Leased Premises (the "Secondary Term"). Notwithstanding anything to the contrary in the Lease, including, but not limited to, the terms and conditions in Paragraphs 6, 8 and 11 of the Lease, the Amended Term will expire and the Lease will terminate if the Lessee has not obtained oil and/or gas production in commercial quantities from the Leased Premises as of the Termination Date.
- Pursuant to paragraph 4(A) of the Lease, the royalty rate is increased from "three sixteenth" to "20%" during the Amended Term and the Secondary Term.
- Section 8 is hereby deleted from the Lease during the Amended Term and the Secondary Term.
- In all other respects, except as expressly provided herein, the Lease shall continue in full force and effect as originally written.

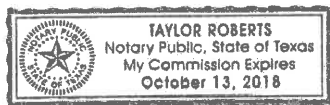
Marathon Oil Company

By: 

STATE OF Texas)
 ss.
 COUNTY OF Harris)

On this 15th day of May, 2018, before me personally appeared Edmund A. Seymour, Attorney-in-fact (title), acting on behalf of Marathon Oil Company, known to me to be the person who executed this instrument and acknowledged to me that they executed the same.

(SEAL)




 Notary Public

BOARD OF UNIVERSITY AND SCHOOL LANDS

By: Jodi Smith
Jodi Smith
Commissioner of University and School Lands

STATE OF NORTH DAKOTA)

COUNTY OF BURLEIGH)ss.
)

On this 4th day of May, 20 18, before me personally appeared Jodi Smith, Commissioner of University and School Lands, acting on behalf of the Board of University and School Lands of North Dakota, known to me to be the person who executed this instrument and acknowledged to me that he executed the same.

(SEAL)

Allison Bement
Notary Public

AMENDMENT OF OIL AND GAS LEASE

Marathon Oil Company (Lessee) is presently the owner of an interest in the leasehold estate created by Oil and Gas Lease #OG-13-00343 dated May 7, 2013 (the "Lease") which was entered into between the State of North Dakota, acting by and between the Board of University and School Lands (Lessor) and Marathon Oil Company (Lessee) covering the following described lands in Dunn County, North Dakota:

Township 148 North, Range 95 West
 Section 16: NW4
 (the "Leased Premises")

The Lease is now in full force and effect and has been made a part hereof by reference.

Lessee has requested that the Lease be amended by extending the term for three hundred and sixty (360) days on the terms and conditions described herein. In consideration of \$16,000.00 paid by Lessee to Lessor, Lessor and Lessee do hereby agree as follows:

- Lessor hereby amends the Lease by extending the lease(s) for a period of three hundred and sixty (360) days after May 6, 2018. The amended term shall commence on May 7, 2018, and terminate on May 1, 2019, (the "Amended Term") but shall continue beyond the termination date of the Amended Term (the "Termination Date") for as long thereafter as oil and/or gas may be produced in commercial quantities from the Leased Premises (the "Secondary Term"). Notwithstanding anything to the contrary in the Lease, including, but not limited to, the terms and conditions in Paragraphs 6, 8 and 11 of the Lease, the Amended Term will expire and the Lease will terminate if the Lessee has not obtained oil and/or gas production in commercial quantities from the Leased Premises as of the Termination Date.
- Pursuant to paragraph 4(A) of the Lease, the royalty rate is increased from "three sixteenth" to "20%" during the Amended Term and the Secondary Term.
- Section 8 is hereby deleted from the Lease during the Amended Term and the Secondary Term.
- In all other respects, except as expressly provided herein, the Lease shall continue in full force and effect as originally written.

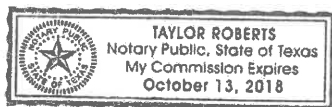
Marathon Oil Company

By: 

STATE OF Texas)
)
 ss.
 COUNTY OF Harris)

On this 15th day of May, 2018, before me personally appeared Edmund A. Seymour, Attorney-in-fact (title), acting on behalf of Marathon Oil Company, known to me to be the person who executed this instrument and acknowledged to me that they executed the same.

(SEAL)




 Notary Public

BOARD OF UNIVERSITY AND SCHOOL LANDS

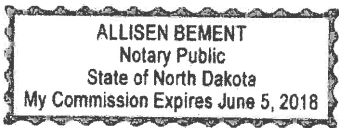
By: Jodi Smith
Jodi Smith
Commissioner of University and School Lands

STATE OF NORTH DAKOTA)
)ss.
COUNTY OF BURLEIGH)

On this 4th day of May, 2018, before me personally appeared Jodi Smith, Commissioner of University and School Lands, acting on behalf of the Board of University and School Lands of North Dakota, known to me to be the person who executed this instrument and acknowledged to me that he executed the same.

Allisen Bement
Notary Public

(SEAL)



AMENDMENT OF OIL AND GAS LEASE

Marathon Oil Company (Lessee) is presently the owner of an interest in the leasehold estate created by Oil and Gas Lease #OG-13-00345 dated May 7, 2013 (the "Lease") which was entered into between the State of North Dakota, acting by and between the Board of University and School Lands (Lessor) and Marathon Oil Company (Lessee) covering the following described lands in Dunn County, North Dakota:

Township 148 North, Range 95 West
Section 16: SW4
(the "Leased Premises")

The Lease is now in full force and effect and has been made a part hereof by reference.

Lessee has requested that the Lease be amended by extending the term for three hundred and sixty (360) days on the terms and conditions described herein. In consideration of \$16,000.00 paid by Lessee to Lessor, Lessor and Lessee do hereby agree as follows:

- Lessor hereby amends the Lease by extending the lease(s) for a period of three hundred and sixty (360) days after May 6, 2018. The amended term shall commence on May 7, 2018, and terminate on May 1, 2019, (the "Amended Term") but shall continue beyond the termination date of the Amended Term (the "Termination Date") for as long thereafter as oil and/or gas may be produced in commercial quantities from the Leased Premises (the "Secondary Term"). Notwithstanding anything to the contrary in the Lease, including, but not limited to, the terms and conditions in Paragraphs 6, 8 and 11 of the Lease, the Amended Term will expire and the Lease will terminate if the Lessee has not obtained oil and/or gas production in commercial quantities from the Leased Premises as of the Termination Date.
- Pursuant to paragraph 4(A) of the Lease, the royalty rate is increased from "three sixteenth" to "20%" during the Amended Term and the Secondary Term.
- Section 8 is hereby deleted from the Lease during the Amended Term and the Secondary Term.
- In all other respects, except as expressly provided herein, the Lease shall continue in full force and effect as originally written.

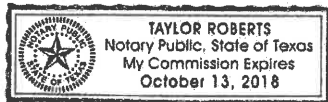
Marathon Oil Company

By: 

STATE OF Texas)
)
) ss.
COUNTY OF Harris)

On this 15th day of May, 2018, before me personally appeared Edmund A. Seymour, Attorney-in-fact (title), acting on behalf of Marathon Oil Company, known to me to be the person who executed this instrument and acknowledged to me that they executed the same.

(SEAL)



 Notary Public

BOARD OF UNIVERSITY AND SCHOOL LANDS

By: Jodi Smith
Jodi Smith
Commissioner of University and School Lands

STATE OF NORTH DAKOTA)

)ss.
COUNTY OF BURLEIGH)

On this 4th day of May, 20 18, before me personally appeared Jodi Smith, Commissioner of University and School Lands, acting on behalf of the Board of University and School Lands of North Dakota, known to me to be the person who executed this instrument and acknowledged to me that he executed the same.

Allison Bement
Notary Public

(SEAL)

BOARD OF UNIVERSITY AND SCHOOL LANDS

By: Jodi Smith
Jodi Smith
Commissioner of University and School Lands

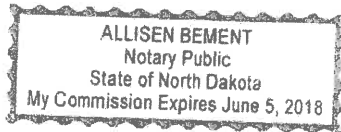
STATE OF NORTH DAKOTA)

COUNTY OF BURLEIGH)ss.
)

On this 4th day of May, 2018, before me personally appeared Jodi Smith, Commissioner of University and School Lands, acting on behalf of the Board of University and School Lands of North Dakota, known to me to be the person who executed this instrument and acknowledged to me that he executed the same.

Allisen Bement
Notary Public

(SEAL)



OIL AND GAS LEASE

Lease Number
OG-13-00342

Rentals for this lease have been paid through the primary term.

This lease, executed May 7, 2013, between the State of North Dakota acting by and through the Board of University and School Lands and its agent, the Commissioner of University and School Lands, 1707 North 9th Street, Bismarck, ND 58501, hereinafter called "lessor," and

MARATHON OIL COMPANY
5555 SAN FELIPE STE 410
HOUSTON TX 77056

hereinafter called "lessee."

1. Lessor, in consideration of \$ 616148.00, and the initial annual delay rental of \$ 75.14, the receipt of which is acknowledged, and of the royalties, covenants, and conditions contained herein to be kept and performed by the lessee, does lease exclusively to lessee the property described below, for the purpose of exploring for drilling for, and producing oil and/or gas from the leased premises; for a primary term of five years and as long thereafter as oil and/or gas may be produced in commercial quantities and subject to other provisions as provided herein; and with the right of ingress and egress and the right to use as much of the leased premises as shall be reasonably necessary to the purpose of this lease including but not limited to constructing and maintaining wellpads, roads, pipelines, communication lines, and other structures, appliances, and equipment. When the surface is owned by Lessor, the construction of a well pad and appurtenances thereto, such as a separate tank battery, roads, pipelines, communication lines, and electrical lines, shall be subject to review and approval by Lessor before construction begins.

DUNN COUNTY, NORTH DAKOTA
TOWNSHIP 148 NORTH, RANGE 95 WEST
SECTION 16: LOTS 1,2

Exhibit "J" attached hereto is by this reference made a part hereof

2. If lessor owns an interest less than the whole and undivided fee in the leased premises, the royalties under paragraph 4 and payments under paragraphs 8 and 10 shall be paid lessor in the proportion which lessor's interest bears to the whole and undivided fee. Lessor neither warrants nor agrees to defend title to the leased premises, except that all bonuses and rentals will be returned to the lessee in the event lessor does not have a lawful right to lease the leased premises for oil and/or gas exploration and production.

3. If no well be commenced on the leased premises on or before the anniversary date of the lease during the primary term, this lease shall terminate unless lessee by said date shall pay lessor, the annual delay rental specified in paragraph 1, payment of such sum shall cover the privilege of deferring the commencement of a well for one year from said date.

4. ROYALTIES:

A. Lessee agrees to pay lessor a royalty of three sixteenth

B. Lessee agrees to pay lessor the royalty on oil based upon gross production or the market value thereof, at the option of lessor, such value to be determined by 1) the highest posted price, plus premium, if any, paid for oil, condensate, distillate, or other liquid hydrocarbons, respectively, of a like type and gravity for the field where produced and when run, or 2) the highest market price thereof paid for the area where produced and when run, or 3) the gross proceeds of sale, whichever is greater. Lessee agrees that before any gas produced from the land hereby leased is sold, used or processed in a plant, it will be run free of cost to lessor through an adequate oil and gas separator of conventional type or other equipment at least as efficient to the end that all liquid hydrocarbons recoverable from the gas by such means will be recovered. Upon written consent of lessor, the requirement that such gas be run through such a separator or other equipment may be waived upon such terms and conditions as prescribed by lessor.

C. Lessee agrees to pay lessor the royalty on any gas, produced and marketed, based on gross production or the market value thereof, at the option of the lessor, such value to be based on gross proceeds of sale where such sale constitutes an arm's length transaction.

D. Lessee agrees to pay lessor the royalty on carbon black, sulphur or any other products produced or manufactured from gas (excepting liquid hydrocarbons) whether said gas be "casinghead", "dry" or any other gas, by fractionating, burning or any other processing, based on gross production of such products, or the market value thereof, at the option of lessor, such market value to be the lessee's share of the average gross proceeds of sale for each of the products where such sale constitutes an arm's length transaction.

E. If a sale of gas, carbon black, sulphur, or any other products produced or manufactured from gas, including liquid hydrocarbons recovered from gas processed in a plant, does not constitute an arm's length transaction the payment of royalties not taken in kind shall be governed by the rules and regulations of the Board of University and School Lands in effect on the date of this lease.

F. All royalties on oil, gas, carbon black, sulphur, or any other products shall be payable on an amount equal to the full value of all consideration for such products in whatever form or forms, which directly or indirectly compensates, credits, or benefits lessee.

G. Notwithstanding anything contained herein to the contrary, lessor may, at its option, upon not less than sixty (60) days notice to lessee, require at any time or from time to time that payment of all or any royalties accruing to lessor under this lease be made in kind at the well without deduction for the cost of producing, gathering, storing, separating, treating, dehydrating, vapor recovery, compressing, processing, transporting, conditioning, removing impurities, depreciation, risk capital, and otherwise making the oil, gas and other products hereunder ready for sale or use; in such event lessor will provide its own tankage when necessary and will indemnify lessee against all tort claims arising from the taking of royalty in kind.

H. No royalty shall be payable on any oil and/or gas unavoidably lost or on any gas as may represent this lease's proportionate share of any fuel used to process gas produced hereunder in any processing plant. Notwithstanding anything contained herein to the contrary, lessee may recycle gas for gas lift purposes on the leased premises or for injection into any oil or gas producing formation underlying the leased premises after the liquid hydrocarbons contained in the gas have been removed and no royalties shall be payable on the gas so recycled until such time as the same may thereafter be produced and sold or used by lessee in such manner as to entitle lessor to a royalty thereon under the royalty provisions of this lease. Lessee shall have the free use of oil, gas, saltwater, and other products produced from the leased premises where the same are reasonably used by lessee to produce oil and/or gas in commercial quantities from the leased premises.

I. Notwithstanding anything contained herein to the contrary, royalties due under this lease shall be subject to any lawful price controls governing the oil and/or gas produced from the leased premises.

5. All royalties not taken in kind and other payments under this lease shall be paid to the Commissioner of University and School Lands, State Land Department, 1707 North 9th Street, PO Box 5523, Bismarck, ND 58506-5523, in accordance with the rules and regulations of the Board of University and School Lands in effect on the date of this lease.

6. During the primary term, if prior to discovery of oil and/or gas on the leased premises, lessee should drill a dry hole or holes thereon, or if after discovery of oil and/or gas the production thereof should cease from any cause, this lease shall not terminate if lessee commences additional drilling or reworking operations within sixty (60) days thereafter or resumes the payment of the annual delay rental as provided in paragraph 3 of this lease on or before the anniversary date next ensuing after the expiration of sixty (60) days from the date of completion of the dry hole(s) or cessation of production. If lessee should drill a dry hole during the last year of the primary term, lessee's rights shall remain in full force and effect without further operations or payments of annual delay rentals until the expiration of the primary term.

7. In the event that production of oil and/or gas in commercial quantities on the leased premises, after once obtained shall cease for any cause at or after the expiration of the primary term, this lease shall not terminate if lessee commences additional drilling or reworking operations on the leased premises within sixty (60) days after such cessations, and this lease shall remain in full force and effect so long as such operations continue in good faith, without interruptions totaling more than thirty (30) days during any such operations; if any such operations result in the production of oil and/or gas, this lease shall remain in full force and effect as long as oil and/or gas is produced in commercial quantities.

8. If, at the expiration of the primary term, production of oil and/or gas has not been obtained in commercial quantities on the leased premises but drilling, testing, completion, recompletion, reworking, deepening, plugging back, or repairing operations are being conducted thereon in good faith, lessee may, on or before the expiration of the primary term, file a written application with the Commissioner of University and School Lands for a one hundred eighty (180) day extension of this lease, such application to be accompanied by a payment of ten dollars (\$10.00) per acre, and the Commissioner shall, in writing, extend this lease for a period of one hundred eighty (180) days beyond the expiration of the primary term and as long as oil and/or gas is produced in commercial quantities; lessee may, as long as such drilling, testing, or completion operations are being conducted in good faith, make written application to the Commissioner, on or before the expiration of the initial extended period of one hundred eighty (180) days for an additional extension of one hundred eighty (180) days, such application to be accompanied by a payment of twenty dollars (\$20.00) per

acre, and the Commissioner shall, in writing, extend this lease for an additional one hundred eighty (180) day period from and after the expiration of the initial extended period of one hundred eighty (180) days, and as long as oil and/or gas is produced in commercial quantities; this lease shall not be extended for more than a total of three hundred sixty (360) days from and after the expiration of the primary term unless production in commercial quantities has been obtained or unless extended by some other provision hereof.

9. After a well producing, or capable of producing, oil and/or gas has been completed on the leased premises, lessee shall exercise the diligence of a reasonably prudent operator in drilling such additional well or wells as may be reasonably necessary for the proper development of the leased premises and in marketing the production therefrom. Lessee shall adequately protect the leased premises from drainage from adjacent lands or leases. Without limiting the generality of the preceding sentence, if oil and/or gas is produced in commercial quantities from adjacent state owned mineral land leased at a lesser royalty or any other adjacent mineral land where the well is within one thousand (1,000) feet of the leased premises and where the leased premises are not entitled to an interest in such well by reason of spacing, pooling, or unitization, lessee shall, within one hundred twenty (120) days after completion of such well, and subject to oil and gas conservation laws, rules, and orders, 1) diligently begin in good faith the drilling of a corresponding offset well on the leased premises, or on lands pooled therewith, and such offset well shall be drilled to such depth as may be necessary to prevent the drainage of the leased premises, 2) agree with lessor to pay a compensatory royalty in lieu of the drilling of an offset well, 3) release sufficient leased acreage (not less than a governmental quarter-quarter section or comparable legal subdivision) to avoid the offset requisites, or 4) apply to lessor for a waiver of the offset obligation the granting of which shall be subject to the sole discretion and approval of the Board of University and School Lands. If an offset well is drilled lessee shall use all means necessary in a good faith effort to make such offset well produce oil and/or gas in commercial quantities.

10. In the event lessee discovers gas in commercial quantities but is unable to market same and this lease is not otherwise being maintained in force and effect, lessee may pay the sum of \$1,600.00 per annum for each well capable of producing gas in commercial quantities; such payment shall be made prior to the expiration of the primary term of this lease or if the primary term has expired within sixty (60) days after lessee shuts in such well or ceases to produce gas therefrom or within sixty (60) days after this lease ceases to be otherwise maintained in force and effect. If such payment is made, this lease shall be considered to be a producing lease and such shut-in gas well payment shall extend the term of this lease for a period of one (1) year from the end of the primary term or, if after the primary term, from the first day of the month next succeeding the month in which such well was shut in or production ceased or this lease ceased to be otherwise maintained in force and effect. Thereafter, if no suitable market for such gas exists, lessee may extend this lease for two (2) additional and successive periods of one (1) year each by the payment of a like sum of money each year as above provided, on or before the expiration of the extended term. If, while this lease is being maintained in force and effect by payment of such shut-in gas well payments, gas should be sold from a well or wells situated within 1,000 feet of the leased premises and completed in the same producing reservoir, or in any case where drainage is occurring, the right to further extend this lease by such shut-in gas well payments shall cease and this lease shall remain in force and effect for the remainder of the current one-year period for which the shut-in gas well payment has been made and for an additional period not to exceed two (2) years from the expiration of the primary term by payment by lessee of compensatory royalty at the royalty rate provided for herein, of the value of production from the well completed in the same producing reservoir from which gas is being sold and which is situated within 1,000 feet of or draining the leased premises on which such shut-in gas well is situated; this compensatory royalty shall be paid monthly to lessor beginning on or before the last day of the month next succeeding the month in which such gas is sold, provided further that such compensatory royalties paid in any twelve-month period must be at least equal to the annual shut-in gas well payment provided for herein. Nothing herein shall relieve lessee of the obligation of reasonable development, nor of the obligation to drill offset wells as required by law or by this lease.

11. Whenever as a result of war, rebellion, riots, acts of God, or a governmental law, order, or regulation, other than a law in Title 15 or Chapter 38-09 of the North Dakota Century Code and other than an order or regulation of the Board of University and School Lands (unless such order or regulation specifically provides otherwise), lessee, despite his good faith effort, is prevented from exercising any rights or performing any obligations under this lease, and this lease is not kept in force and effect by other provisions contained herein, this lease shall remain in full force and effect for the period of such prevention provided lessee acts diligently, when possible, to legally overcome such law, order, or regulation that is preventing lessee from exercising any rights under this lease. This provision shall not operate to extend the lease for a period of more than two (2) years. The operation of this paragraph shall not release lessee from paying royalties on actual production, compensatory royalty under paragraph 9 or the continuing payment of any sum in accordance with a shut-in agreement entered into under paragraph 10. Lessee shall pay lessor the amount of the annual rental specified in paragraph 1 for each year during the period of prevention unless lessor is receiving other compensation under this lease.

12. Lessee agrees to indemnify lessor from any and all lawful claims against lessor for loss, injury or damage resulting from the activities of lessee under this lease.

13. This lease shall be subject to all rules and regulations of the Board of University and School Lands in effect on the date of this lease; such rules and regulations are herein incorporated by reference. If lessee shall fail or refuse to make the payment of any sum due under the lease or if any of the terms of this lease shall be violated, this lease may be cancelled by lessor in accordance with such rules.

14. The rights of Lessee hereunder may not be assigned or subleased in whole or in part without Lessor's prior written consent.

15. Time is of the essence; however, sufficient time allowances will be given so that a lease will not expire due to delays resulting from the failure of the Board of University and School Lands to act on a proposal under paragraph 9 of this lease.

16. The lessor hereby reserves and retains title to any and all historical, archaeological, and paleontological materials, whether such materials are found upon the surface or below the surface of the land. If the lessee discovers a historical, archaeological, or paleontological resource during its operations on the leased premises, the lessee shall immediately stop work and do nothing to disturb or alter the resource. The lessee shall notify the State Land Department and shall not resume work until the State Land Department notifies the lessee what protective measures, if any, the Commissioner may require to preserve or protect the resource.

17. The covenants, conditions, and agreements contained herein shall extend to and be binding upon the heirs, executors, administrators, successors, or assigns of the lessee.

Reserved for recording


Commissioner of University and School Lands



Exhibit "J"

**ADDENDUM TO ND BOARD OF UNIVERSITY AND SCHOOL LAND
OIL AND GAS LEASE #13-00342
May 7, 2013**

**DUNN COUNTY, NORTH DAKOTA
TOWNSHIP 148 NORTH, RANGE 95 WEST
SECTION 16: LOTS 1,2**

The land covered by this oil and gas lease is within an area identified as essential wildlife habitat. The lessee or lessee's operator must contact the commissioner prior to any surface activity. Operational mitigation measures to reduce impact, including timing restrictions, location adjustments and reduced or restricted surface occupancy may be required. Habitat or terrain considerations may preclude locating a well site on this tract.

g:\minerals\auction\addendums list\forms\form - wildlife habitat restricted surface occupancyaddendum.docx

OIL AND GAS LEASE

Lease Number
OG-13-00343

Rentals for this lease have been paid through the primary term.

This lease, executed May 7, 2013, between the State of North Dakota acting by and through the Board of University and School Lands and its agent, the Commissioner of University and School Lands, 1707 North 9th Street, Bismarck, ND 58501, hereinafter called "lessor," and

MARATHON OIL COMPANY
5555 SAN FELIPE STE 410
HOUSTON TX 77056

hereinafter called "lessee."

1. Lessor, in consideration of \$ 1312000.00, and the initial annual delay rental of \$ 160.00, the receipt of which is acknowledged, and of the royalties, covenants, and conditions contained herein to be kept and performed by the lessee, does lease exclusively to lessee the property described below, for the purpose of exploring for drilling for, and producing oil and/or gas from the leased premises; for a primary term of five years and as long thereafter as oil and/or gas may be produced in commercial quantities and subject to other provisions as provided herein; and with the right of ingress and egress and the right to use as much of the leased premises as shall be reasonably necessary to the purpose of this lease including but not limited to constructing and maintaining wellpads, roads, pipelines, communication lines, and other structures, appliances, and equipment. When the surface is owned by Lessor, the construction of a well pad and appurtenances thereto; such as a separate tank battery, roads, pipelines, communication lines, and electrical lines, shall be subject to review and approval by Lessor before construction begins.

DUNN COUNTY, NORTH DAKOTA
TOWNSHIP 148 NORTH, RANGE 95 WEST
SECTION 16: NW4

Exhibit "J" attached hereto is by this reference made a part hereof

2. If lessor owns an interest less than the whole and undivided fee in the leased premises, the royalties under paragraph 4 and payments under paragraphs 8 and 10 shall be paid lessor in the proportion which lessor's interest bears to the whole and undivided fee. Lessor neither warrants nor agrees to defend title to the leased premises, except that all bonuses and rentals will be returned to the lessee in the event lessor does not have a lawful right to lease the leased premises for oil and/or gas exploration and production.

3. If no well be commenced on the leased premises on or before the anniversary date of the lease during the primary term, this lease shall terminate unless lessee by said date shall pay lessor, the annual delay rental specified in paragraph 1, payment of such sum shall cover the privilege of deferring the commencement of a well for one year from said date.

4. ROYALTIES:

A. Lessee agrees to pay lessor a royalty of three sixteenth

B. Lessee agrees to pay lessor the royalty on oil based upon gross production or the market value thereof, at the option of lessor, such value to be determined by 1) the highest posted price, plus premium, if any, paid for oil, condensate, distillate, or other liquid hydrocarbons, respectively, of a like type and gravity for the field where produced and when run, or 2) the highest market price thereof paid for the area where produced and when run, or 3) the gross proceeds of sale, whichever is greater. Lessee agrees that before any gas produced from the land hereby leased is sold, used or processed in a plant, it will be run free of cost to lessor through an adequate oil and gas separator of conventional type or other equipment at least as efficient to the end that all liquid hydrocarbons recoverable from the gas by such means will be recovered. Upon written consent of lessor, the requirement that such gas be run through such a separator or other equipment may be waived upon such terms and conditions as prescribed by lessor.

C. Lessee agrees to pay lessor the royalty on any gas, produced and marketed, based on gross production or the market value thereof, at the option of the lessor, such value to be based on gross proceeds of sale where such sale constitutes an arm's length transaction.

D. Lessee agrees to pay lessor the royalty on carbon black, sulphur or any other products produced or manufactured from gas (excluding liquid hydrocarbons) whether said gas be "casinghead", "dry" or any other gas, by fractionating, burning or any other processing, based on gross production of such products, or the market value thereof, at the option of lessor, such market value to be the lessee's share of the average gross proceeds of sale for each of the products where such sale constitutes an arm's length transaction.

E. If a sale of gas, carbon black, sulphur, or any other products produced or manufactured from gas, including liquid hydrocarbons recovered from gas processed in a plant, does not constitute an arm's length transaction the payment of royalties not taken in kind shall be governed by the rules and regulations of the Board of University and School Lands in effect on the date of this lease.

F. All royalties on oil, gas, carbon black, sulphur, or any other products shall be payable on an amount equal to the full value of all consideration for such products in whatever form or forms, which directly or indirectly compensates, credits, or benefits lessee.

G. Notwithstanding anything contained herein to the contrary, lessor may, at its option, upon not less than sixty (60) days notice to lessee, require at any time or from time to time that payment of all or any royalties accruing to lessor under this lease be made in kind at the well without deduction for the cost of producing, gathering, storing, separating, treating, dehydrating, vapor recovery, compressing, processing, transporting, conditioning, removing impurities, depreciation, risk capital, and otherwise making the oil, gas and other products hereunder ready for sale or use; in such event lessor will provide its own tankage when necessary and will indemnify lessee against all tort claims arising from the taking of royalty in kind.

H. No royalty shall be payable on any oil and/or gas unavoidably lost or on any gas as may represent this lease's proportionate share of any fuel used to process gas produced hereunder in any processing plant. Notwithstanding anything contained herein to the contrary, lessee may recycle gas for gas lift purposes on the leased premises or for injection into any oil or gas producing formation underlying the leased premises after the liquid hydrocarbons contained in the gas have been removed and no royalties shall be payable on the gas so recycled until such time as the same may thereafter be produced and sold or used by lessee in such manner as to entitle lessor to a royalty thereon under the royalty provisions of this lease. Lessee shall have the free use of oil, gas, saltwater, and other products produced from the leased premises where the same are reasonably used by lessee to produce oil and/or gas in commercial quantities from the leased premises.

I. Notwithstanding anything contained herein to the contrary, royalties due under this lease shall be subject to any lawful price controls governing the oil and/or gas produced from the leased premises.

5. All royalties not taken in kind and other payments under this lease shall be paid to the Commissioner of University and School Lands, State Land Department, 1707 North 9th Street, PO Box 5523, Bismarck, ND 58506-5523, in accordance with the rules and regulations of the Board of University and School Lands in effect on the date of this lease.

6. During the primary term, if prior to discovery of oil and/or gas on the leased premises, lessee should drill a dry hole or holes thereon, or if after discovery of oil and/or gas the production thereof should cease from any cause, this lease shall not terminate if lessee commences additional drilling or reworking operations within sixty (60) days thereafter or resumes the payment of the annual delay rental as provided in paragraph 3 of this lease on or before the anniversary date next ensuing after the expiration of sixty (60) days from the date of completion of the dry hole(s) or cessation of production. If lessee should drill a dry hole during the last year of the primary term, lessee's rights shall remain in full force and effect without further operations or payments of annual delay rentals until the expiration of the primary term.

7. In the event that production of oil and/or gas in commercial quantities on the leased premises, after once obtained shall cease for any cause at or after the expiration of the primary term, this lease shall not terminate if lessee commences additional drilling or reworking operations on the leased premises within sixty (60) days after such cessations, and this lease shall remain in full force and effect so long as such operations continue in good faith, without interruptions totaling more than thirty (30) days during any such operations; if any such operations result in the production of oil and/or gas, this lease shall remain in full force and effect as long as oil and/or gas is produced in commercial quantities.

8. If, at the expiration of the primary term, production of oil and/or gas has not been obtained in commercial quantities on the leased premises but drilling, testing, completion, recompletion, reworking, deepening, plugging back, or repairing operations are being conducted thereon in good faith, lessee may, on or before the expiration of the primary term, file a written application with the Commissioner of University and School Lands for a one hundred eighty (180) day extension of this lease, such application to be accompanied by a payment of ten dollars (\$10.00) per acre, and the Commissioner shall, in writing, extend this lease for a period of one hundred eighty (180) days beyond the expiration of the primary term and as long as oil and/or gas is produced in commercial quantities; lessee may, as long as such drilling, testing, or completion operations are being conducted in good faith, make written application to the Commissioner, on or before the expiration of the initial extended period of one hundred eighty (180) days for an additional extension of one hundred eighty (180) days, such application to be accompanied by a payment of twenty dollars (\$20.00) per

acre, and the Commissioner shall, in writing, extend this lease for an additional one hundred eighty (180) day period from and after the expiration of the initial extended period of one hundred eighty (180) days, and as long as oil and/or gas is produced in commercial quantities; this lease shall not be extended for more than a total of three hundred sixty (360) days from and after the expiration of the primary term unless production in commercial quantities has been obtained or unless extended by some other provision hereof.

9. After a well producing, or capable of producing, oil and/or gas has been completed on the leased premises, lessee shall exercise the diligence of a reasonably prudent operator in drilling such additional well or wells as may be reasonably necessary for the proper development of the leased premises and in marketing the production therefrom. Lessee shall adequately protect the leased premises from drainage from adjacent lands or leases. Without limiting the generality of the preceding sentence, if oil and/or gas is produced in commercial quantities from adjacent state owned mineral land leased at a lesser royalty or any other adjacent mineral land where the well is within one thousand (1,000) feet of the leased premises and where the leased premises are not entitled to an interest in such well by reason of spacing, pooling, or unitization, lessee shall, within one hundred twenty (120) days after completion of such well, and subject to oil and gas conservation laws, rules, and orders, 1) diligently begin in good faith the drilling of a corresponding offset well on the leased premises, or on lands pooled therewith, and such offset well shall be drilled to such depth as may be necessary to prevent the drainage of the leased premises, 2) agree with lessor to pay a compensatory royalty in lieu of the drilling of an offset well, 3) release sufficient leased acreage (not less than a governmental quarter-quarter section or comparable legal subdivision) to avoid the offset requisites, or 4) apply to lessor for a waiver of the offset obligation the granting of which shall be subject to the sole discretion and approval of the Board of University and School Lands. If an offset well is drilled lessee shall use all means necessary in a good faith effort to make such offset well produce oil and/or gas in commercial quantities.

10. In the event lessee discovers gas in commercial quantities but is unable to market same and this lease is not otherwise being maintained in force and effect, lessee may pay the sum of \$1,600.00 per annum for each well capable of producing gas in commercial quantities; such payment shall be made prior to the expiration of the primary term of this lease or if the primary term has expired within sixty (60) days after lessee shuts in such well or ceases to produce gas therefrom or within sixty (60) days after this lease ceases to be otherwise maintained in force and effect. If such payment is made, this lease shall be considered to be a producing lease and such shut-in gas well payment shall extend the term of this lease for a period of one (1) year from the end of the primary term or, if after the primary term, from the first day of the month next succeeding the month in which such well was shut in or production ceased or this lease ceased to be otherwise maintained in force and effect. Thereafter, if no suitable market for such gas exists, lessee may extend this lease for two (2) additional and successive periods of one (1) year each by the payment of a like sum of money each year as above provided, on or before the expiration of the extended term. If, while this lease is being maintained in force and effect by payment of such shut-in gas well payments, gas should be sold from a well or wells situated within 1,000 feet of the leased premises and completed in the same producing reservoir, or in any case where drainage is occurring, the right to further extend this lease by such shut-in gas well payments shall cease and this lease shall remain in force and effect for the remainder of the current one-year period for which the shut-in gas well payment has been made and for an additional period not to exceed two (2) years from the expiration of the primary term by payment by lessee of compensatory royalty at the royalty rate provided for herein, of the value of production from the well completed in the same producing reservoir from which gas is being sold and which is situated within 1,000 feet of or draining the leased premises on which such shut-in gas well is situated; this compensatory royalty shall be paid monthly to lessor beginning on or before the last day of the month next succeeding the month in which such gas is sold, provided further that such compensatory royalties paid in any twelve-month period must be at least equal to the annual shut-in gas well payment provided for herein. Nothing herein shall relieve lessee of the obligation of reasonable development, nor of the obligation to drill offset wells as required by law or by this lease.

11. Whenever as a result of war, rebellion, riots, acts of God, or a governmental law, order, or regulation, other than a law in Title 15 or Chapter 38-09 of the North Dakota Century Code and other than an order or regulation of the Board of University and School Lands (unless such order or regulation specifically provides otherwise), lessee, despite his good faith effort, is prevented from exercising any rights or performing any obligations under this lease, and this lease is not kept in force and effect by other provisions contained herein, this lease shall remain in full force and effect for the period of such prevention provided lessee acts diligently, when possible, to legally overcome such law, order, or regulation that is preventing lessee from exercising any rights under this lease. This provision shall not operate to extend the lease for a period of more than two (2) years. The operation of this paragraph shall not release lessee from paying royalties on actual production, compensatory royalty under paragraph 9 or the continuing payment of any sum in accordance with a shut-in agreement entered into under paragraph 10. Lessee shall pay lessor the amount of the annual rental specified in paragraph 1 for each year during the period of prevention unless lessor is receiving other compensation under this lease.

12. Lessee agrees to indemnify lessor from any and all lawful claims against lessor for loss, injury or damage resulting from the activities of lessee under this lease.

13. This lease shall be subject to all rules and regulations of the Board of University and School Lands in effect on the date of this lease; such rules and regulations are herein incorporated by reference. If lessee shall fail or refuse to make the payment of any sum due under the lease or if any of the terms of this lease shall be violated, this lease may be cancelled by lessor in accordance with such rules.

14. The rights of Lessee hereunder may not be assigned or subleased in whole or in part without Lessor's prior written consent.

15. Time is of the essence; however, sufficient time allowances will be given so that a lease will not expire due to delays resulting from the failure of the Board of University and School Lands to act on a proposal under paragraph 9 of this lease.

16. The lessor hereby reserves and retains title to any and all historical, archaeological, and paleontological materials, whether such materials are found upon the surface or below the surface of the land. If the lessee discovers a historical, archaeological, or paleontological resource during its operations on the leased premises, the lessee shall immediately stop work and do nothing to disturb or alter the resource. The lessee shall notify the State Land Department and shall not resume work until the State Land Department notifies the lessee what protective measures, if any, the Commissioner may require to preserve or protect the resource.

17. The covenants, conditions, and agreements contained herein shall extend to and be binding upon the heirs, executors, administrators, successors, or assigns of the lessee.

Reserved for recording

Lawrence D. Stebbins
Commissioner of University and School Lands



Exhibit "J"

**ADDENDUM TO ND BOARD OF UNIVERSITY AND SCHOOL LAND
OIL AND GAS LEASE #13-00343
May 7, 2013**

**DUNN COUNTY, NORTH DAKOTA
TOWNSHIP 148 NORTH, RANGE 95 WEST
SECTION 16: NW4**

The land covered by this oil and gas lease is within an area identified as essential wildlife habitat. The lessee or lessee's operator must contact the commissioner prior to any surface activity. Operational mitigation measures to reduce impact, including timing restrictions, location adjustments and reduced or restricted surface occupancy may be required. Habitat or terrain considerations may preclude locating a well site on this tract.

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OIL AND GAS LEASE

Lease Number
OG-13-00344

Rentals for this lease have been paid through the primary term.

This lease, executed **May 7, 2013**, between the State of North Dakota acting by and through the Board of University and School Lands and its agent, the Commissioner of University and School Lands, 1707 North 9th Street, Bismarck, ND 58501, hereinafter called "lessor," and

MARATHON OIL COMPANY
5555 SAN FELIPE STE 410
HOUSTON TX 77056

hereinafter called "lessee."

1. Lessor, in consideration of **\$ 609916.00**, and the initial annual delay rental of **\$ 74.38**, the receipt of which is acknowledged, and of the royalties, covenants, and conditions contained herein to be kept and performed by the lessee, does lease exclusively to lessee the property described below, for the purpose of exploring for drilling for, and producing oil and/or gas from the leased premises; for a primary term of five years and as long thereafter as oil and/or gas may be produced in commercial quantities and subject to other provisions as provided herein; and with the right of ingress and egress and the right to use as much of the leased premises as shall be reasonably necessary to the purpose of this lease including but not limited to constructing and maintaining wellpads, roads, pipelines, communication lines, and other structures, appliances, and equipment. When the surface is owned by Lessor, the construction of a well pad and appurtenances thereto, such as a separate tank battery, roads, pipelines, communication lines, and electrical lines, shall be subject to review and approval by Lessor before construction begins.

DUNN COUNTY, NORTH DAKOTA
TOWNSHIP 148 NORTH, RANGE 95 WEST
SECTION 16: LOTS 3,4

Exhibit "J" attached hereto is by this reference made a part hereof

2. If lessor owns an interest less than the whole and undivided fee in the leased premises, the royalties under paragraph 4 and payments under paragraphs 8 and 10 shall be paid lessor in the proportion which lessor's interest bears to the whole and undivided fee. Lessor neither warrants nor agrees to defend title to the leased premises, except that all bonuses and rentals will be returned to the lessee in the event lessor does not have a lawful right to lease the leased premises for oil and/or gas exploration and production.

3. If no well be commenced on the leased premises on or before the anniversary date of the lease during the primary term, this lease shall terminate unless lessee by said date shall pay lessor, the annual delay rental specified in paragraph 1, payment of such sum shall cover the privilege of deferring the commencement of a well for one year from said date.

4. **ROYALTIES:**

A. Lessee agrees to pay lessor a royalty of **three sixteenth**

B. Lessee agrees to pay lessor the royalty on oil based upon gross production or the market value thereof, at the option of lessor, such value to be determined by 1) the highest posted price, plus premium, if any, paid for oil, condensate, distillate, or other liquid hydrocarbons, respectively, of a like type and gravity for the field where produced and when run, or 2) the highest market price thereof paid for the area where produced and when run, or 3) the gross proceeds of sale, whichever is greater. Lessee agrees that before any gas produced from the land hereby leased is sold, used or processed in a plant, it will be run free of cost to lessor through an adequate oil and gas separator of conventional type or other equipment at least as efficient to the end that all liquid hydrocarbons recoverable from the gas by such means will be recovered. Upon written consent of lessor, the requirement that such gas be run through such a separator or other equipment may be waived upon such terms and conditions as prescribed by lessor.

C. Lessee agrees to pay lessor the royalty on any gas, produced and marketed, based on gross production or the market value thereof, at the option of the lessor, such value to be based on gross proceeds of sale where such sale constitutes an arm's length transaction.

D. Lessee agrees to pay lessor the royalty on carbon black, sulphur or any other products produced or manufactured from gas (excepting liquid hydrocarbons) whether said gas be "casinghead", "dry" or any other gas, by fractionating, burning or any other processing, based on gross production of such products, or the market value thereof, at the option of lessor, such market value to be the lessee's share of the average gross proceeds of sale for each of the products where such sale constitutes an arm's length transaction.

E. If a sale of gas, carbon black, sulphur, or any other products produced or manufactured from gas, including liquid hydrocarbons recovered from gas processed in a plant, does not constitute an arm's length transaction the payment of royalties not taken in kind shall be governed by the rules and regulations of the Board of University and School Lands in effect on the date of this lease.

F. All royalties on oil, gas, carbon black, sulphur, or any other products shall be payable on an amount equal to the full value of all consideration for such products in whatever form or forms, which directly or indirectly compensates, credits, or benefits lessee.

G. Notwithstanding anything contained herein to the contrary, lessor may, at its option, upon not less than sixty (60) days notice to lessee, require at any time or from time to time that payment of all or any royalties accruing to lessor under this lease be made in kind at the well without deduction for the cost of producing, gathering, storing, separating, treating, dehydrating, vapor recovery, compressing, processing, transporting, conditioning, removing impurities, depreciation, risk capital, and otherwise making the oil, gas and other products hereunder ready for sale or use; in such event lessor will provide its own tankage when necessary and will indemnify lessee against all tort claims arising from the taking of royalty in kind.

H. No royalty shall be payable on any oil and/or gas unavoidably lost or on any gas as may represent this lease's proportionate share of any fuel used to process gas produced hereunder in any processing plant. Notwithstanding anything contained herein to the contrary, lessee may recycle gas for gas lift purposes on the leased premises or for injection into any oil or gas producing formation underlying the leased premises after the liquid hydrocarbons contained in the gas have been removed and no royalties shall be payable on the gas so recycled until such time as the same may thereafter be produced and sold or used by lessee in such manner as to entitle lessor to a royalty thereon under the royalty provisions of this lease. Lessee shall have the free use of oil, gas, saltwater, and other products produced from the leased premises where the same are reasonably used by lessee to produce oil and/or gas in commercial quantities from the leased premises.

I. Notwithstanding anything contained herein to the contrary, royalties due under this lease shall be subject to any lawful price controls governing the oil and/or gas produced from the leased premises.

5. All royalties not taken in kind and other payments under this lease shall be paid to the Commissioner of University and School Lands, State Land Department, 1707 North 9th Street, PO Box 5523, Bismarck, ND 58506-5523, in accordance with the rules and regulations of the Board of University and School Lands in effect on the date of this lease.

6. During the primary term, if prior to discovery of oil and/or gas on the leased premises, lessee should drill a dry hole or holes thereon, or if after discovery of oil and/or gas the production thereof should cease from any cause, this lease shall not terminate if lessee commences additional drilling or reworking operations within sixty (60) days thereafter or resumes the payment of the annual delay rental as provided in paragraph 3 of this lease on or before the anniversary date next ensuing after the expiration of sixty (60) days from the date of completion of the dry hole(s) or cessation of production. If lessee should drill a dry hole during the last year of the primary term, lessee's rights shall remain in full force and effect without further operations or payments of annual delay rentals until the expiration of the primary term.

7. In the event that production of oil and/or gas in commercial quantities on the leased premises, after once obtained shall cease for any cause at or after the expiration of the primary term, this lease shall not terminate if lessee commences additional drilling or reworking operations on the leased premises within sixty (60) days after such cessations, and this lease shall remain in full force and effect so long as such operations continue in good faith, without interruptions totaling more than thirty (30) days during any such operations; if any such operations result in the production of oil and/or gas, this lease shall remain in full force and effect as long as oil and/or gas is produced in commercial quantities.

8. If, at the expiration of the primary term, production of oil and/or gas has not been obtained in commercial quantities on the leased premises but drilling, testing, completion, recompletion, reworking, deepening, plugging back, or repairing operations are being conducted thereon in good faith, lessee may, on or before the expiration of the primary term, file a written application with the Commissioner of University and School Lands for a one hundred eighty (180) day extension of this lease, such application to be accompanied by a payment of ten dollars (\$10.00) per acre, and the Commissioner shall, in writing, extend this lease for a period of one hundred eighty (180) days beyond the expiration of the primary term and as long as oil and/or gas is produced in commercial quantities; lessee may, as long as such drilling, testing, or completion operations are being conducted in good faith, make written application to the Commissioner, on or before the expiration of the initial extended period of one hundred eighty (180) days for an additional extension of one hundred eighty (180) days, such application to be accompanied by a payment of twenty dollars (\$20.00) per

acre, and the Commissioner shall, in writing, extend this lease for an additional one hundred eighty (180) day period from and after the expiration of the initial extended period of one hundred eighty (180) days, and as long as oil and/or gas is produced in commercial quantities; this lease shall not be extended for more than a total of three hundred sixty (360) days from and after the expiration of the primary term unless production in commercial quantities has been obtained or unless extended by some other provision hereof.

9. After a well producing, or capable of producing, oil and/or gas has been completed on the leased premises, lessee shall exercise the diligence of a reasonably prudent operator in drilling such additional well or wells as may be reasonably necessary for the proper development of the leased premises and in marketing the production therefrom. Lessee shall adequately protect the leased premises from drainage from adjacent lands or leases. Without limiting the generality of the preceding sentence, if oil and/or gas is produced in commercial quantities from adjacent state owned mineral land leased at a lesser royalty or any other adjacent mineral land where the well is within one thousand (1,000) feet of the leased premises and where the leased premises are not entitled to an interest in such well by reason of spacing, pooling, or unitization, lessee shall, within one hundred twenty (120) days after completion of such well, and subject to oil and gas conservation laws, rules, and orders, 1) diligently begin in good faith the drilling of a corresponding offset well on the leased premises, or on lands pooled therewith, and such offset well shall be drilled to such depth as may be necessary to prevent the drainage of the leased premises, 2) agree with lessor to pay a compensatory royalty in lieu of the drilling of an offset well, 3) release sufficient leased acreage (not less than a governmental quarter-quarter section or comparable legal subdivision) to avoid the offset requisites, or 4) apply to lessor for a waiver of the offset obligation the granting of which shall be subject to the sole discretion and approval of the Board of University and School Lands. If an offset well is drilled lessee shall use all means necessary in a good faith effort to make such offset well produce oil and/or gas in commercial quantities.

10. In the event lessee discovers gas in commercial quantities but is unable to market same and this lease is not otherwise being maintained in force and effect, lessee may pay the sum of \$1,600.00 per annum for each well capable of producing gas in commercial quantities; such payment shall be made prior to the expiration of the primary term of this lease or if the primary term has expired within sixty (60) days after lessee shuts in such well or ceases to produce gas therefrom or within sixty (60) days after this lease ceases to be otherwise maintained in force and effect. If such payment is made, this lease shall be considered to be a producing lease and such shut-in gas well payment shall extend the term of this lease for a period of one (1) year from the end of the primary term or, if after the primary term, from the first day of the month next succeeding the month in which such well was shut in or production ceased or this lease ceased to be otherwise maintained in force and effect. Thereafter, if no suitable market for such gas exists, lessee may extend this lease for two (2) additional and successive periods of one (1) year each by the payment of a like sum of money each year as above provided, on or before the expiration of the extended term. If, while this lease is being maintained in force and effect by payment of such shut-in gas well payments, gas should be sold from a well or wells situated within 1,000 feet of the leased premises and completed in the same producing reservoir, or in any case where drainage is occurring, the right to further extend this lease by such shut-in gas well payments shall cease and this lease shall remain in force and effect for the remainder of the current one-year period for which the shut-in gas well payment has been made and for an additional period not to exceed two (2) years from the expiration of the primary term by payment by lessee of compensatory royalty at the royalty rate provided for herein, of the value of production from the well completed in the same producing reservoir from which gas is being sold and which is situated within 1,000 feet of or draining the leased premises on which such shut-in gas well is situated; this compensatory royalty shall be paid monthly to lessor beginning on or before the last day of the month next succeeding the month in which such gas is sold, provided further that such compensatory royalties paid in any twelve-month period must be at least equal to the annual shut-in gas well payment provided for herein. Nothing herein shall relieve lessee of the obligation of reasonable development, nor of the obligation to drill offset wells as required by law or by this lease.

11. Whenever as a result of war, rebellion, riots, acts of God, or a governmental law, order, or regulation, other than a law in Title 15 or Chapter 38-09 of the North Dakota Century Code and other than an order or regulation of the Board of University and School Lands (unless such order or regulation specifically provides otherwise), lessee, despite his good faith effort, is prevented from exercising any rights or performing any obligations under this lease, and this lease is not kept in force and effect by other provisions contained herein, this lease shall remain in full force and effect for the period of such prevention provided lessee acts diligently, when possible, to legally overcome such law, order, or regulation that is preventing lessee from exercising any rights under this lease. This provision shall not operate to extend the lease for a period of more than two (2) years. The operation of this paragraph shall not release lessee from paying royalties on actual production, compensatory royalty under paragraph 9 or the continuing payment of any sum in accordance with a shut-in agreement entered into under paragraph 10. Lessee shall pay lessor the amount of the annual rental specified in paragraph 1 for each year during the period of prevention unless lessor is receiving other compensation under this lease.

12. Lessee agrees to indemnify lessor from any and all lawful claims against lessor for loss, injury or damage resulting from the activities of lessee under this lease.

13. This lease shall be subject to all rules and regulations of the Board of University and School Lands in effect on the date of this lease; such rules and regulations are herein incorporated by reference. If lessee shall fail or refuse to make the payment of any sum due under the lease or if any of the terms of this lease shall be violated, this lease may be cancelled by lessor in accordance with such rules.

14. The rights of Lessee hereunder may not be assigned or subleased in whole or in part without Lessor's prior written consent.

15. Time is of the essence; however, sufficient time allowances will be given so that a lease will not expire due to delays resulting from the failure of the Board of University and School Lands to act on a proposal under paragraph 9 of this lease.

16. The lessor hereby reserves and retains title to any and all historical, archaeological, and paleontological materials, whether such materials are found upon the surface or below the surface of the land. If the lessee discovers a historical, archaeological, or paleontological resource during its operations on the leased premises, the lessee shall immediately stop work and do nothing to disturb or alter the resource. The lessee shall notify the State Land Department and shall not resume work until the State Land Department notifies the lessee what protective measures, if any, the Commissioner may require to preserve or protect the resource.

17. The covenants, conditions, and agreements contained herein shall extend to and be binding upon the heirs, executors, administrators, successors, or assigns of the lessee.

Reserved for recording

Sam D. Sells

Commissioner of University and School Lands



OIL AND GAS LEASE

Lease Number
OG-13-00345

Rentals for this lease have been paid through the primary term.

This lease, executed May 7, 2013, between the State of North Dakota acting by and through the Board of University and School Lands and its agent, the Commissioner of University and School Lands, 1707 North 9th Street, Bismarck, ND 58501, hereinafter called "lessor," and

MARATHON OIL COMPANY
5555 SAN FELIPE STE 410
HOUSTON TX 77056

hereinafter called "lessee."

1. Lessor, in consideration of \$ 1312000.00, and the initial annual delay rental of \$ 160.00, the receipt of which is acknowledged, and of the royalties, covenants, and conditions contained herein to be kept and performed by the lessee, does lease exclusively to lessee the property described below, for the purpose of exploring for, and producing oil and/or gas from the leased premises; for a primary term of five years and as long thereafter as oil and/or gas may be produced in commercial quantities and subject to other provisions as provided herein; and with the right of ingress and egress and the right to use as much of the leased premises as shall be reasonably necessary to the purpose of this lease including but not limited to constructing and maintaining wellpads, roads, pipelines, communication lines, and other structures, appliances, and equipment. When the surface is owned by Lessor, the construction of a well pad and appurtenances thereto, such as a separate tank battery, roads, pipelines, communication lines, and electrical lines, shall be subject to review and approval by Lessor before construction begins.

DUNN COUNTY, NORTH DAKOTA
TOWNSHIP 148 NORTH, RANGE 95 WEST
SECTION 16: SW4

Exhibit "J" attached hereto is by this reference made a part hereof

2. If lessor owns an interest less than the whole and undivided fee in the leased premises, the royalties under paragraph 4 and payments under paragraphs 8 and 10 shall be paid lessor in the proportion which lessor's interest bears to the whole and undivided fee. Lessor neither warrants nor agrees to defend title to the leased premises, except that all bonuses and rentals will be returned to the lessee in the event lessor does not have a lawful right to lease the leased premises for oil and/or gas exploration and production.

3. If no well be commenced on the leased premises on or before the anniversary date of the lease during the primary term, this lease shall terminate unless lessee by said date shall pay lessor, the annual delay rental specified in paragraph 1, payment of such sum shall cover the privilege of deferring the commencement of a well for one year from said date.

4. ROYALTIES:

A. Lessee agrees to pay lessor a royalty of three sixteenth

B. Lessee agrees to pay lessor the royalty on oil based upon gross production or the market value thereof, at the option of lessor, such value to be determined by 1) the highest posted price, plus premium, if any, paid for oil, condensate, distillate, or other liquid hydrocarbons, respectively, of a like type and gravity for the field where produced and when run, or 2) the highest market price thereof paid for the area where produced and when run, or 3) the gross proceeds of sale, whichever is greater. Lessee agrees that before any gas produced from the land hereby leased is sold, used or processed in a plant, it will be run free of cost to lessor through an adequate oil and gas separator of conventional type or other equipment at least as efficient to the end that all liquid hydrocarbons recoverable from the gas by such means will be recovered. Upon written consent of lessor, the requirement that such gas be run through such a separator or other equipment may be waived upon such terms and conditions as prescribed by lessor.

C. Lessee agrees to pay lessor the royalty on any gas, produced and marketed, based on gross production or the market value thereof, at the option of the lessor, such value to be based on gross proceeds of sale where such sale constitutes an arm's length transaction.

D. Lessee agrees to pay lessor the royalty on carbon black, sulphur or any other products produced or manufactured from gas (excepting liquid hydrocarbons) whether said gas be "casinghead", "dry" or any other gas, by fractionating, burning or any other processing, based on gross production of such products, or the market value thereof, at the option of lessor, such market value to be the lessee's share of the average gross proceeds of sale for each of the products where such sale constitutes an arm's length transaction.

E. If a sale of gas, carbon black, sulphur, or any other products produced or manufactured from gas, including liquid hydrocarbons recovered from gas processed in a plant, does not constitute an arm's length transaction the payment of royalties not taken in kind shall be governed by the rules and regulations of the Board of University and School Lands in effect on the date of this lease.

F. All royalties on oil, gas, carbon black, sulphur, or any other products shall be payable on an amount equal to the full value of all consideration for such products in whatever form or forms, which directly or indirectly compensates, credits, or benefits lessee.

G. Notwithstanding anything contained herein to the contrary, lessor may, at its option, upon not less than sixty (60) days notice to lessee, require at any time or from time to time that payment of all or any royalties accruing to lessor under this lease be made in kind at the well without deduction for the cost of producing, gathering, storing, separating, treating, dehydrating, vapor recovery, compressing, processing, transporting, conditioning, removing impurities, depreciation, risk capital, and otherwise making the oil, gas and other products hereunder ready for sale or use; in such event lessor will provide its own tankage when necessary and will indemnify lessee against all tort claims arising from the taking of royalty in kind.

H. No royalty shall be payable on any oil and/or gas unavoidably lost or on any gas as may represent this lease's proportionate share of any fuel used to process gas produced hereunder in any processing plant. Notwithstanding anything contained herein to the contrary, lessee may recycle gas for gas lift purposes on the leased premises or for injection into any oil or gas producing formation underlying the leased premises after the liquid hydrocarbons contained in the gas have been removed and no royalties shall be payable on the gas so recycled until such time as the same may thereafter be produced and sold or used by lessee in such manner as to entitle lessor to a royalty thereon under the royalty provisions of this lease. Lessee shall have the free use of oil, gas, saltwater, and other products produced from the leased premises where the same are reasonably used by lessee to produce oil and/or gas in commercial quantities from the leased premises.

I. Notwithstanding anything contained herein to the contrary, royalties due under this lease shall be subject to any lawful price controls governing the oil and/or gas produced from the leased premises.

5. All royalties not taken in kind and other payments under this lease shall be paid to the Commissioner of University and School Lands, State Land Department, 1707 North 9th Street, PO Box 5523, Bismarck, ND 58506-5523, in accordance with the rules and regulations of the Board of University and School Lands in effect on the date of this lease.

6. During the primary term, if prior to discovery of oil and/or gas on the leased premises, lessee should drill a dry hole or holes thereon, or if after discovery of oil and/or gas the production thereof should cease from any cause, this lease shall not terminate if lessee commences additional drilling or reworking operations within sixty (60) days thereafter or resumes the payment of the annual delay rental as provided in paragraph 3 of this lease on or before the anniversary date next ensuing after the expiration of sixty (60) days from the date of completion of the dry hole(s) or cessation of production. If lessee should drill a dry hole during the last year of the primary term, lessee's rights shall remain in full force and effect without further operations or payments of annual delay rentals until the expiration of the primary term.

7. In the event that production of oil and/or gas in commercial quantities on the leased premises, after once obtained shall cease for any cause at or after the expiration of the primary term, this lease shall not terminate if lessee commences additional drilling or reworking operations on the leased premises within sixty (60) days after such cessations, and this lease shall remain in full force and effect so long as such operations continue in good faith, without interruptions totaling more than thirty (30) days during any such operations; if any such operations result in the production of oil and/or gas, this lease shall remain in full force and effect as long as oil and/or gas is produced in commercial quantities.

8. If, at the expiration of the primary term, production of oil and/or gas has not been obtained in commercial quantities on the leased premises but drilling, testing, completion, recompletion, reworking, deepening, plugging back, or repairing operations are being conducted thereon in good faith, lessee may, on or before the expiration of the primary term, file a written application with the Commissioner of University and School Lands for a one hundred eighty (180) day extension of this lease, such application to be accompanied by a payment of ten dollars (\$10.00) per acre, and the Commissioner shall, in writing, extend this lease for a period of one hundred eighty (180) days beyond the expiration of the primary term and as long as oil and/or gas is produced in commercial quantities; lessee may, as long as such drilling, testing, or completion operations are being conducted in good faith, make written application to the Commissioner, on or before the expiration of the initial extended period of one hundred eighty (180) days for an additional extension of one hundred eighty (180) days, such application to be accompanied by a payment of twenty dollars (\$20.00) per

acre, and the Commissioner shall, in writing, extend this lease for an additional one hundred eighty (180) day period from and after the expiration of the initial extended period of one hundred eighty (180) days, and as long as oil and/or gas is produced in commercial quantities; this lease shall not be extended for more than a total of three hundred sixty (360) days from and after the expiration of the primary term unless production in commercial quantities has been obtained or unless extended by some other provision hereof.

9. After a well producing, or capable of producing, oil and/or gas has been completed on the leased premises, lessee shall exercise the diligence of a reasonably prudent operator in drilling such additional well or wells as may be reasonably necessary for the proper development of the leased premises and in marketing the production therefrom. Lessee shall adequately protect the leased premises from drainage from adjacent lands or leases. Without limiting the generality of the preceding sentence, if oil and/or gas is produced in commercial quantities from adjacent state owned mineral land leased at a lesser royalty or any other adjacent mineral land where the well is within one thousand (1,000) feet of the leased premises and where the leased premises are not entitled to an interest in such well by reason of spacing, pooling, or unitization, lessee shall, within one hundred twenty (120) days after completion of such well, and subject to oil and gas conservation laws, rules, and orders, 1) diligently begin in good faith the drilling of a corresponding offset well on the leased premises, or on lands pooled therewith, and such offset well shall be drilled to such depth as may be necessary to prevent the drainage of the leased premises, 2) agree with lessor to pay a compensatory royalty in lieu of the drilling of an offset well, 3) release sufficient leased acreage (not less than a governmental quarter-quarter section or comparable legal subdivision) to avoid the offset requisites, or 4) apply to lessor for a waiver of the offset obligation the granting of which shall be subject to the sole discretion and approval of the Board of University and School Lands. If an offset well is drilled lessee shall use all means necessary in a good faith effort to make such offset well produce oil and/or gas in commercial quantities.

10. In the event lessee discovers gas in commercial quantities but is unable to market same and this lease is not otherwise being maintained in force and effect, lessee may pay the sum of \$1,600.00 per annum for each well capable of producing gas in commercial quantities; such payment shall be made prior to the expiration of the primary term of this lease or if the primary term has expired within sixty (60) days after lessee shuts in such well or ceases to produce gas therefrom or within sixty (60) days after this lease ceases to be otherwise maintained in force and effect. If such payment is made, this lease shall be considered to be a producing lease and such shut-in gas well payment shall extend the term of this lease for a period of one (1) year from the end of the primary term or, if after the primary term, from the first day of the month next succeeding the month in which such well was shut in or production ceased or this lease ceased to be otherwise maintained in force and effect. Thereafter, if no suitable market for such gas exists, lessee may extend this lease for two (2) additional and successive periods of one (1) year each by the payment of a like sum of money each year as above provided, on or before the expiration of the extended term. If, while this lease is being maintained in force and effect by payment of such shut-in gas well payments, gas should be sold from a well or wells situated within 1,000 feet of the leased premises and completed in the same producing reservoir, or in any case where drainage is occurring, the right to further extend this lease by such shut-in gas well payments shall cease and this lease shall remain in force and effect for the remainder of the current one-year period for which the shut-in gas well payment has been made and for an additional period not to exceed two (2) years from the expiration of the primary term by payment by lessee of compensatory royalty at the royalty rate provided for herein, of the value of production from the well completed in the same producing reservoir from which gas is being sold and which is situated within 1,000 feet of or draining the leased premises on which such shut-in gas well is situated; this compensatory royalty shall be paid monthly to lessor beginning on or before the last day of the month next succeeding the month in which such gas is sold, provided further that such compensatory royalties paid in any twelve-month period must be at least equal to the annual shut-in gas well payment provided for herein. Nothing herein shall relieve lessee of the obligation of reasonable development, nor of the obligation to drill offset wells as required by law or by this lease.

11. Whenever as a result of war, rebellion, riots, acts of God, or a governmental law, order, or regulation, other than a law in Title 15 or Chapter 38-09 of the North Dakota Century Code and other than an order or regulation of the Board of University and School Lands (unless such order or regulation specifically provides otherwise), lessee, despite his good faith effort, is prevented from exercising any rights or performing any obligations under this lease, and this lease is not kept in force and effect by other provisions contained herein, this lease shall remain in full force and effect for the period of such prevention provided lessee acts diligently, when possible, to legally overcome such law, order, or regulation that is preventing lessee from exercising any rights under this lease. This provision shall not operate to extend the lease for a period of more than two (2) years. The operation of this paragraph shall not release lessee from paying royalties on actual production, compensatory royalty under paragraph 9 or the continuing payment of any sum in accordance with a shut-in agreement entered into under paragraph 10. Lessee shall pay lessor the amount of the annual rental specified in paragraph 1 for each year during the period of prevention unless lessor is receiving other compensation under this lease.

12. Lessee agrees to indemnify lessor from any and all lawful claims against lessor for loss, injury or damage resulting from the activities of lessee under this lease.

13. This lease shall be subject to all rules and regulations of the Board of University and School Lands in effect on the date of this lease; such rules and regulations are herein incorporated by reference. If lessee shall fail or refuse to make the payment of any sum due under the lease or if any of the terms of this lease shall be violated, this lease may be cancelled by lessor in accordance with such rules.

14. The rights of Lessee hereunder may not be assigned or subleased in whole or in part without Lessor's prior written consent.

15. Time is of the essence; however, sufficient time allowances will be given so that a lease will not expire due to delays resulting from the failure of the Board of University and School Lands to act on a proposal under paragraph 9 of this lease.

16. The lessor hereby reserves and retains title to any and all historical, archaeological, and paleontological materials, whether such materials are found upon the surface or below the surface of the land. If the lessee discovers a historical, archaeological, or paleontological resource during its operations on the leased premises, the lessee shall immediately stop work and do nothing to disturb or alter the resource. The lessee shall notify the State Land Department and shall not resume work until the State Land Department notifies the lessee what protective measures, if any, the Commissioner may require to preserve or protect the resource.

17. The covenants, conditions, and agreements contained herein shall extend to and be binding upon the heirs, executors, administrators, successors, or assigns of the lessee.

Reserved for recording

Leon D. Rebe

Commissioner of University and School Lands



Exhibit "J"

**ADDENDUM TO ND BOARD OF UNIVERSITY AND SCHOOL LAND
OIL AND GAS LEASE #13-00345
May 7, 2013**

**DUNN COUNTY, NORTH DAKOTA
TOWNSHIP 148 NORTH, RANGE 95 WEST
SECTION 16: SW4**

The land covered by this oil and gas lease is within an area identified as essential wildlife habitat. The lessee or lessee's operator must contact the commissioner prior to any surface activity. Operational mitigation measures to reduce impact, including timing restrictions, location adjustments and reduced or restricted surface occupancy may be required. Habitat or terrain considerations may preclude locating a well site on this tract.

g:\minerals\auction\addendums list\forms\form - wildlife habitat restricted surface occupancy\addendum.docx



Ed Seymour
Bakken Asset - Land Supervisor

Marathon Oil Company
5555 San Felipe Street
Houston, Texas 77056
Telephone 713.296.2650
Mobile 307.250.0385
ESeymour@MarathonOil.com

**DELIVERED VIA: FedEx Overnight
Email**

April 4, 2019

Ms. Jodi Smith
Commissioner
North Dakota Department of Trust Lands
1707 North 9th Street
P.O. Box 5523
Bismarck, ND 58506-5523

Re: State of North Dakota Leases OG-13-00342, OG-13-00343, OG-13-00344 and OG-13-0345
Dunn County, North Dakota
Township 148 North, Range 95 West
Section 16: Lots 1, 2, NW4, Lots 3, 4, SW4

Commissioner Smith:

Thank you for the recent opportunity to speak with you, as well as members of your staff and fully discuss the above referenced leases, amendments thereto and potential additional extensions or amendments of the same.

As you are aware, Marathon Oil Company has spent a considerable amount of time and money in trying to develop the above referenced oil and gas leases. In November of 2017, Marathon first approached the Department of Trust Lands (Department), requesting an extension of one year to the primary term of the initial leases and presented to the Department a timeline of complexities, delays and Marathon's good faith efforts, including a substantial financial investment outlay to develop the leases thus far. Based on Marathon's diligent efforts, the lack of control that Marathon had over the numerous setbacks, the negotiation of additional bonus and a higher royalty interest, as well as a desire to recognize financial benefit for the Department and the State

of North Dakota, the Board of University and School Lands graciously granted a 360 day extension to Marathon as recommended by the Department. The amended term of the leases commenced on May 7, 2018 and will terminate on May 1, 2019.

Marathon has worked feverishly during this additional 360 days to develop this unit and your leases. Marathon has obtained plats and land surveys, cultural and botany surveys, the BLM APD, cured title, submitted a Communitization Agreement and attempted to secure a drilling location. We have conducted many interdepartmental, tribal and working interest owner meetings and secured many permissions as well as incurred at least an additional \$100,000.00. Throughout this process, we have attempted to keep the Department advised of our efforts as well as the difficulties and setbacks we experienced along the way. As we have reported, the setbacks encountered in this continued development effort center, for the most part, around securing a drilling location for this development to take place.

As we all know, the leased lands lie adjacent to the Fort Berthold Indian Reservation in an area of rough topography. The spacing unit that Marathon is attempting to develop and has secured the appropriate spacing order for consists of Sections 4, 9, and 16 in Township 148 North, Range 95 West.

Due to this rough topography, there are really only two potential drilling sites, which are both located in the North half of Section 4. However, the land underlying one of the locations is part of the Buffalo Ranch, which is owned by the Three Affiliated Tribes ("Tribes"). The Tribes have petitioned the United States to take the Buffalo Ranch into trust status, a regulatory process that has been pending for several years. Despite lengthy discussions, Marathon has been unable to negotiate surface access with the Tribes. This is because the United States has warned the Tribes that any such grant of surface rights could adversely affect the Tribe's fee-to-trust application. Therefore, until the Buffalo Ranch is taken into trust, the Tribes are unwilling to grant Marathon surface access at any price. Our latest information is that this process may be concluded soon giving us a better chance to secure this potential location.

The second potential site is located on allotted trust lands. Marathon has been working to obtain the necessary surface rights from the allotted landowners and the Bureau of Indian Affairs ("BIA"). However, on November, 8, 2018 it was determined that the drilling location lies within Dakota Skipper habitat. This rules out any possibility of obtaining BIA approval of the necessary surface rights until a presence survey (which must occur in summer months) can be completed. In pursuit of this alternative location, we believe we can have the survey results by early August, 2019.

Marathon has also investigated the possibility of off-unit drilling sites. A suitable site was found in the SE¼ of Section 36, Township 149 North, Range 95 West. However, this site lies within lands leased by a third party operator, and the operator declined Marathon's request to locate its drilling site in Section 36.

So as you can see, we are close to a possible resolution with two of our potential locations, but not quite there. Marathon is confident if given another 360 day extension, a drilling location can be finally secured and the leases can be developed, all to the benefit of the Department and the State of North Dakota, as well as the other mineral owners in the unit.

Marathon believes it has been a loyal and trustworthy industry neighbor and partner enabling the Department and State of North Dakota to rest comfortably knowing we are here for the long haul, in pursuit of full development of these resources in a safe, productive and environmentally sensitive manner.

It cannot be stressed enough that this entire situation is both highly complex and rare, and most likely, will never be encountered again by Marathon, the State, or any other operator. Marathon's inability to develop the leases to date is solely the result of government actions beyond our control, and Marathon has in no way contributed to any part of the delay to date. Marathon believes it could have initially sought an extension (up to two years) or amendments in 2017 by other means provided by law and the provisions of the original leases, but a decision was made to accept the Department's reasonable offer to amend which included the payment of additional bonus and the grant of a more favorable lease royalty for the Department and State of North Dakota. We believe the evidentiary reasons for granting the first extension and amendment continue to exist today and given these highly unique circumstances, Marathon believes the granting of a second 360 extension is well within the spirit of the original lease terms and authority of the Board. In light of that evidence and Marathon's continued diligent efforts to overcome the obstacles outlined herein and previously discussed, Marathon respectfully requests that the Board of University and School Lands extend and amend the four oil and gas leases first referenced herein for another 360 days. Marathon stands ready to submit another bonus payment to insure our sincere efforts in proceeding to develop your leases and allowing you to meet your fiduciary and financial responsibilities to the State of North Dakota.

Sincerely,



Edmund A. Seymour
Bakken Land Supervisor

1707 North 9th Street
PO Box 5523
Bismarck, ND 58506-5523
Phone: (701) 328 – 2800
Fax: (701) 328 – 3650



www.land.nd.gov

Jodi A. Smith, Commissioner

April 16, 2019

7015 1730 0002 2042 9751

EDMUND A. SEYMOUR - BAKKEN LAND SUPERVISOR
MARATHON OIL COMPANY
5555 SAN FELIPE STREET
HOUSTON, TX 77056

RE: State of North Dakota Leases OG-13-00342, OG-13-00343, OG-13-00344 and OG-13-0345
Dunn County, North Dakota
Township 148 North, Range 95 West
Section 16: Lots 1, 2 NW4, Lots 3, 4, SW4

Dear Mr. Seymour:

Thank you for meeting with the Department of Trust Lands (Department) on March 26, 2019, to discuss the above-referenced leases, amendments thereto and potential additional extensions or amendments.

The Department has determined the circumstances do not warrant extension of the leases per the Amendment of Oil and Gas Lease dated May 4, 2018. Per the amendment:

“Lessor hereby amends the Lease by extending the lease(s) for a period of three hundred and sixty (360) days after May 6, 2018. The amended term shall commence on May 7, 2018, and terminate on May 1, 2019, “the Amended Term” but shall continue beyond the termination date of the Amended Term (the “Termination Date”) for as long thereafter as oil and/or gas may be produced in commercial quantities from the Leased Premises (the “Secondary Term”). Notwithstanding anything to the contrary in the Lease, including, but not limited to , the terms and conditions in Paragraphs 6, 8 and 11 of the Lease, the Amended Term will expire and the Lease will terminate if the Lessee has not obtained oil and/or gas production in commercial quantities from the Leased Premises as of the Termination Date.”

The tracts will be available for nomination upon expiration of the amended term. Our next auction will run July 30 through August 6th via EnergyNet with a nomination deadline of June 21st.

Please contact me if you would like to discuss further.

Thank you,

A handwritten signature in black ink that reads "Jodi Smith".

Jodi Smith
Commissioner of University and School Lands

MEMORANDUM TO THE BOARD OF UNIVERSITY AND SCHOOL LANDS

Date May 30, 2019

RE: Ecosystem Services and the Potential for Mitigation Banks on North Dakota State Trust Lands

OVERVIEW

Ecosystems are biological communities of interacting organisms and their physical environment. Ecosystem improvement programs have been developed which focus on monetizing the value of specific improved natural functions provided by water, living species and carbon. Ecosystem service projects can be lucrative. Depending on their size, location and characteristics, it may be possible to generate considerable revenue for the trusts from ecosystem service projects. The most attractive ecosystem service markets have well-defined systems for evaluating impacts and a clear regulatory process for approving proposed mitigation banks. These markets include wetlands, and increasingly, streams and rivers as well as endangered species.

MITIGATION

Mitigation refers to actions completed to restore, enhance, establish, or preserve natural resources in order to offset unavoidable impacts to those resources that occur from land development projects. Through a coordinated partnership, mitigation providers provide state and county highway departments, county water resource boards, other agencies, developers, and landowners with reliable procedures to plan and efficiently develop future land development projects while ensuring that environment impacts are adequately addressed. The three mitigation mechanisms used to offset natural resource impacts from land development projects include:

1. Permittee/landowner responsible mitigation
2. In-lieu fee (ILF) mitigation programs
3. Mitigation banks

Permittee/landowner responsible mitigation is the most traditional form of mitigation and, as the name implies, the permittee/landowner retains responsibility for the successful completion of the required mitigation measures. **In-lieu fee** is a form of “compensatory mitigation” for impacts to the environment. With in-lieu fee, mitigation occurs when a permittee provides funds to an in-lieu fee sponsor which is usually a public agency or non-profit organization. Ducks Unlimited, Inc. is an in-lieu fee program provider for aquatic resources in North Dakota, like mitigation banking, in-lieu fee mitigation is often “off-site”. Mitigation for in-lieu fee programs typically occurs after the impacts are permitted. In lieu-fee programs rely on fees collected from permittees or landowners to initiate compensatory mitigation and are forbidden by law from making a profit on their projects.

Mitigation banks are another type of compensatory mitigation and operate as a system of credits and debits devised to ensure that ecological loss is compensated for by the preservation and restoration of wetlands, natural habitats, streams, endangered species, archeological site, paleontological site or historic structure in other areas so that there is no net loss to the environment. The person or entity undertaking such restoration work is referred to as a mitigation banker. Just as a commercial bank has cash as an asset that it can loan to customers, a mitigation bank has mitigation credits as its assets that it can eventually sell to those who are trying to offset unavoidable impacts. Mitigation banks are generally planned and operated by a construction agency, such as the North Dakota Department of Transportation (NDDOT), or a private entity that plans to sell mitigation credits. Generally, the purchasers of mitigation credits are individuals or entities undertaking land development projects.

Mitigation banking is an efficient and effective method focused on monetizing the ecological value of improvements to specific natural functions provided by water, living species and carbon to meet mitigation requirements by establishing a bank of mitigation credits in advance of project impacts. Wetland mitigation banking for example, is particularly beneficial for agencies and organizations

developing projects that commonly result in wetland losses such as highway projects, airport improvements, and agricultural activities. For agencies and organizations with construction programs that frequently impact wetlands or streams, mitigation banking has proven to be a more reliable, cost-effective means of compensating for unavoidable wetland losses than locating and developing an individual mitigation site for each land development project. The most common types of mitigation banks are as follows:

- **Aquatic resource banks**, which offer credits to offset ecological losses that occur in wetlands and streams. These are regulated and approved by the USACE (U.S. Army Corps of Engineers) and the USEPA (U.S. Environmental Protection Agency).
- **Conservation banks**, which offer credits to offset losses of endangered species and/or their habitats. These are regulated and approved by USFWS (U. S. Fish and Wildlife Service) and NMFS (National Marine Fisheries Service).

In-lieu fee programs and mitigation banks may be used when a government agency, corporation, nonprofit organization, or other entity undertakes these activities under a formal agreement with a regulatory agency and have four distinct components as defined by the USEPA:

- **The site:** the physical acreage that is restored, established, enhanced, or preserved;
- **The instrument:** the formal agreement between the sponsor and regulators establishing liability, performance standards, management and monitoring requirements, and the terms of credit approval;
- **The Interagency Review Team (IRT):** the interagency team that provides regulatory review, approval, and oversight; and
- **The service area:** the geographic area within which permitted impacts can be compensated for at a given bank.

The mitigation banker, after purchasing an environmentally damaged site that they wish to regenerate, works with the IRT that approves plans for building, maintaining and monitoring the bank. The primary role of the IRT is to facilitate the establishment of mitigation banks by ensuring reliable information is available to assist bank sponsors in making informed decisions. The IRT will provide guidance to interested agencies, organizations, and individuals, to plan and develop mitigation banks. The IRT also approves the number of mitigation credits that the bank may earn and sell with a particular restoration project. The role of the bank sponsor is the responsibility for the overall operation, management, monitoring, and success of the bank in accordance with the terms of the banking agreements. The sponsor either purchases the land or works with a landowner(s) to restore and protect a parcel of land containing a degraded natural resource in need restoration, enhancement or protection. These mitigation credits may then be bought by anyone who plans to undertake land development projects on or near a degraded natural resource that will in the process negatively impact the ecosystem of that region. The mitigation banker is responsible for not just the development, but also the future upkeep and maintenance of the mitigation bank.

BENEFITS OF MITIGATION BANKING

Mitigation banking has a number of advantages over traditional permittee-responsible compensatory mitigation because of the ability of mitigation banking programs to:

1. Protect and conserve the environment

Mitigation banking aids in protecting nature and its diversity. The impact of increasing industrialization and urbanization on natural habitats, streams, and wetlands is inevitable. Mitigation banks provide an opportunity to partially offset this impact. Mitigation has the potential to save and restore the most valuable environmental resources at the least cost, assuming that regulation 1) protects health and welfare as defined by the National Environmental Policy Act (NEPA) and 2) assures that a credit accurately represents measurable ecological value. Buyers are typically looking for mitigation credits that are both cheap and the most likely to meet regulatory requirements for compensatory mitigation. Regulators must therefore find a balance

between protecting the long term public interest and ensuring that buyers have the proper incentives to participate in the environmental marketplace.

2. Improve efficiency

A mitigation bank is more efficient in that it ensures that a vast consolidated piece of land is recovered or conserved to offset the adverse impact of developers for many small sites. The economies of scale and technological expertise of a mitigation bank make it more efficient not just in terms of cost, but also in terms of the quality of restored acreage. Allows mitigation bankers to assemble and apply extensive financial resources, planning, and scientific expertise not always available to many permittee-responsible compensatory mitigation proposals. Mitigation banks enable the efficient use of limited agency resources in the review and compliance monitoring of compensatory mitigation projects because of consolidation. On site mitigation often becomes a burden on development sites, causing a development to be planned around the mitigation. Buying credits from a mitigation bank allows the developer to maximize his usable land and put that space to its highest and best use.

3. Decrease time lag and increase regulatory ease

It is easier for developers to buy credits from an approved bank than to get regulatory approvals that might otherwise take months to procure. As mitigation banks have already restored units of affected acreage in the process of earning credits, there is little to no time lag between the environmental impact at a service area and its restoration at a bank site. Land previously unused or impractical for development is given greater monetary value under a mitigation system. For instance, land in floodplains may be impractical for commercial or residential development but conducive for mitigation activities. Land in rural areas with very little potential for growth are more valuable when given the opportunity to be used for mitigation credits. These factors reduce permit processing time and provide more cost-effective compensatory mitigation opportunities.

4. Transfer liability

The system of mitigation banking effectively transfers the liability of ecological loss from the developer (permittee) to the mitigation banker. Once the permittee buys the required credits as per regulations, it becomes the responsibility of the mitigation banker to develop, maintain and monitor the site on a long-term basis. This also reduces uncertainty over whether the compensatory mitigation will be successful in offsetting project impacts. Mitigation systems place the environmental costs of development mostly on the individuals or entities that are impacting the environment. Without environmental mitigation, costs of alleviating environmental damage caused by development could be placed in the hands of the government which would in turn pass costs on to taxpayers not responsible for environmental impacts.

CHALLENGES OF MITIGATION

The following are the challenges of environmental mitigation and crediting systems:

1. Correctly assessing ecological loss.

One challenge of compensatory mitigation is the difficulty encountered by regulatory agencies in correctly assessing ecological loss and improvement. The credits offered to mitigation banks have to be appropriately evaluated by regulators. Although these agencies make use of a number of environmental assessment techniques, it is not an easy task to fully capture the ecological impact of damage caused to natural resources. To address these uncertainties regulators often assign 'coverage ratios' to compensatory mitigation agreements. Coverage ratios of, for example, 3:1 require 3 compensatory mitigation credits for every 1 unit of ecological disturbance.

It is also questionable whether the natural habitats and wetlands that took centuries to evolve can be artificially engineered in a span of just a few years. In some cases, the quality of such artificially developed wetlands in terms of floral and faunal diversity has been found to be sub-standard, compared to their natural counterparts.

It is also believed that mitigation banks, as opposed to individual mitigation where developers create their own mitigation sites in the vicinity of acreage destroyed, tend to be located far from the sites of impact, and hence cannot fully replicate the site impacted.

2. Effects on land cost and availability

Mitigation could be seen as contributing to the increasing cost of land because in some cases mitigation banks requires that large tracts (100 to 500 acres on average) of land be purchased or put into conservation easements. Mitigation can therefore compete with other rural land uses such as agriculture and residential development. This suggests that land owners must be alert to find the highest and best use for their properties given the potential market value that mitigation credits represent.

3. Permanent commitments of land

Commitment of lands to compensatory mitigation must be done permanently into the future. In North Dakota, this means for a maximum period of ninety-nine years. Otherwise, the long-term public interest could not be served via compensatory mitigation programs. This means that properties must continue to be managed with ecosystem values in mind, sometimes preventing landowners from transforming the landscape to meet changing needs. For example, future large scale development projects would not likely be permitted on previously dedicated mitigation property.

All three mitigation mechanisms utilize a permanent instrument (such as a conservation easement or deed restriction or other agreement as approved by the USACE) on the land, with a trust fund specifically dedicated to long term management of natural resources inherent to the bank. By securing mitigation credits from neighboring ecosystems many large landowners, including the government, are able to maintain a property in its current management state while retaining ecological functionality (ecosystem services), important to the public interest. This commitment must comply with North Dakota law, as easement terms are limited by N.D.C.C §47-05-02.1 to 99 years. The Corps has approved 99 year conservation easements for North Dakota mitigation banks. If conservation easements are used as the permanent protection instrument, it is important to note that they can receive public opposition because they place limitations on certain surface disturbance as well as reduce leasable land acres for certain uses.

APPLICABLE ENVIRONMENTAL REGULATIONS AND POLICY

Projects impacting aquatic and natural resources must be in compliance with existing federal, tribal, and state statutes and regulations and consistent with applicable policies, including:

- Clean Water Act {33 U.S.C. 1251 et seq.}, Section 404 and Section 401.
- Food Security Act of 1985, as amended (7 CFR Part 12).
- Compensatory Mitigation for Losses of Aquatic Resources – Final Rule (Federal Register Vol. 73, No. 70, April 10, 2008)
- National Environmental Policy Act {42 U.S.C. 4321 et seq.} and implementing regulations.
- Fish and Wildlife Coordination Act {16 U.S.C. 4321 et seq.} and implementing regulations.
- Fish and Wildlife Coordination Act {16 U.S.C. 661-666 }.
- U.S. Fish and Wildlife Service Mitigation Policy.
- Rivers and Harbors Act of 1899 {33 U.S.C. 403}.
- Section 404(b)(1) Guidelines {40 CFR, Part 230}; including interpretations of the Guideline in the Memorandum of Agreement between EPA and the Department of the Army Concerning the Determination of Mitigation under the Clean Water Act Section 404(b)(1) Guidelines.
- Federal Permit Regulations {33 CFR, Part 320-330} including interpretive guidance provided by the Corps.
- Endangered Species Act, as amended {16 U.S.C. 1531 – 1543}.

- Federal Guidance on the Use of the TEA-21 Preference for Mitigation Banking to fulfill mitigation requirements under Section 404 of the Clean Water Act.
- Executive Order 11990, concerning the Protection of Wetlands.
- Executive Order 11988, concerning Floodplain Management.
- 1990 Memorandum of Agreement between the Department of the Army and the Environmental Protection Agency on the Determination of Mitigation under the Clean Water Act 404(b)(1) Guidelines.
- FAA Advisory Circular 150/5200-33, Hazardous Wildlife Attractants On or Near Airports.’

The most significant of the above policies is the Clean Water Act (CWA) section 404 and other provisions of this act and the April 10, 2008 Compensatory Mitigation Rule that was jointly issued by the USACE and the EPA which made it compulsory to avoid and minimize the impact on designated water bodies and provide compensatory mitigation for unavoidable impacts. The 2008 rule also established standards for the implementation of mitigation banks, in-lieu fee programs and permittee-responsible mitigation (individual). The standards in this rule are consistent with those in the CWA Section 404.

SUMMARY

Mitigation refers to actions completed to restore, enhance, establish, or preserve natural resources in order to offset unavoidable impacts to those resources that occur from land development projects. Mitigation actions are typically completed through permittee/landowner responsible efforts, in-lieu fee (ILF) efforts, and mitigation banking efforts. Mitigation banking is a system by means of which the liability of ecological damage is transferred from the permittee to the mitigation banker through a system of credits and debits under regulatory guidelines. A mitigation banker develops, restores, preserves and manages the acreage at a bank site and earns mitigation credits, which are then sold to a permittee or developer for a fee. This system, despite some of its limitations such as the possible lack of robust environmental assessment techniques and poor quality of natural diversity in some cases, still has many advantages that could provide additional revenues to the trusts. With increasing private investment in the development of mitigation banks and research on ecosystems as well as easing regulatory controls, the future for mitigation banking is indeed bright both for investors and for the environment. Compensatory mitigation allows for the opportunity to generate revenue from ecosystem service markets and there is potential to generate revenue from these markets on trust lands.

Recommendation: The Board grant approval for the Commissioner to develop the necessary permits and easements which will allow for ecosystem improvements to be implemented on trust lands. The Department will work with other western states land offices, the Attorney General’s office, the mitigation industry and Federal agencies to develop permits and easements that will allow an ecosystem services program to be implemented on school trust lands. The easements and permits developed for the ecosystems services program will be brought to the Board for approval prior to ecosystem service program implementation.

Action Record	Motion	Second	Aye	Nay	Absent
Secretary Jaeger					
Superintendent Baesler					
Treasurer Schmidt					
Attorney General Stenehjem					
Governor Burgum					

MEMORANDUM TO THE BOARD OF UNIVERSITY AND SCHOOL LANDS

May 30, 2019

RE: XTO Energy, Inc., and XTO Holdings, LLC v. North Dakota Board of University and School Lands and the United States of America

Case: XTO Energy, Inc., and XTO Holdings, LLC v. North Dakota Board of University and School Lands and the United States of America, Case No. 1:19-cv-00076

Date Filed: April 29, 2019

Court: Federal District Court, District of North Dakota

Judge: (Unassigned)

Attorney: Charles Carvell, David Garner, Jen Verleger

Opposing

Counsel: XTO: Lawrence Bender, Spencer Ptacek

USA: John Most

Issues: In April 2019, XTO Energy, Inc. and XTO Holdings, LLC (XTO), brought an interpleader action against the Board of University and School Lands and the United States regarding certain lands underlying XTO operated wells located in McKenzie and Williams Counties. This case addresses overlapping ownership claims by the State and the United States of minerals underlying the Missouri River. XTO, which has leases from both the state and the United States, is requesting the Court determine the property interests for the disputed lands so that XTO can correctly distribute the proceeds from the affected wells. XTO has claimed that there is "great doubt as to which of the Defendants is entitled to be paid royalties related to the Disputed Lands." Currently, there are twelve wells at issue in four spacing units, though XTO could drill more wells in the disputed lands and expand the lawsuit. Based on the allegations in XTO's complaint, XTO appears to be depositing at least a portion of the state royalty in escrow in the Bank of North Dakota, but it is also paying the United States its royalty for production from two of the wells.

Current

Status: The Summons and Complaint were served on the Board and the Attorney General's Office on April 30, 2019, with the Answer being due May 21, 2019. To the best of our knowledge, the United States was served on April 30, 2019, and its Answer is due on June 29, 2019. A request for an extension to file the Board's Answer was made and the Answer is now due on June 29, 2019.

MEMORANDUM TO THE BOARD OF UNIVERSITY AND SCHOOL LANDS

May 30, 2019

RE: Whiting Oil and Gas Corporation v. Arlen A. Dean, et. al.

Case: Whiting Oil and Gas Corporation v. Arlen A. Dean, et. al., Civ. No. 27-2016-CV-00040

Date Filed: January 25, 2016

Court: McKenzie County District Court

Judge: Robin Schmidt

Attorney: David Garner/Jennifer Verleger/Charles Carvell

Opposing Counsel: Paul Forster, Shane Hanson (Whiting Oil and Gas Corp.), Kevin Chapman (multiple defendants)

Issues: Whiting Oil and Gas Corporation (“Whiting”) operates the Kuykendall 34-31-1H well located in McKenzie County near the Montana border. The Yellowstone River flows through the Kuykendall well spacing unit. Over time, the river has shifted westward. There are also islands within the Kuykendall spacing unit. On January 25, 2016, Whiting filed this interpleader action to resolve alleged title questions that have arisen due to the movement of the Yellowstone River. Because of these title questions, Whiting is withholding royalty payments. In its lawsuit, Whiting essentially asks the court to require all those asserting title to the minerals in the spacing unit to set forth and prove their claims, and once the court rules on those claims, Whiting will know who to pay.

The Board claims a mineral interest under the Yellowstone River, including the islands, and the Board also claims a 5% mineral interest in some of the riparian tracts in this spacing unit.

The Board and the State Engineer filed a joint response to the Complaint and several cross claims that have been made against the State.

Current

Status: The court trial (no jury) scheduled for August 6-10, 2018 was postponed to April 22 - 26, 2019. The initial scheduling order was amended for the State to conduct field work that could not be completed in the winter. Due to property flooding from high flows on the Yellowstone River, the State has been unable to conduct field work. Therefore, a telephonic scheduling conference was held August 16, 2018 to discuss the Court’s wishes for resetting deadlines. All deadlines and the April 2019 trial were cancelled. **A January 3, 2019 telephonic status conference was held and a trial was scheduled for April 20-24, 2020.**

MEMORANDUM TO THE BOARD OF UNIVERSITY AND SCHOOL LANDS

May 30, 2019

RE: **William S. Wilkinson, et. al. v. Board of University & School Lands, Brigham Oil & Gas, LLP; EOG Resources, Inc.**

Case: **William S. Wilkinson, et. al. v. Board of University & School Lands, Brigham Oil & Gas, LLP; EOG Resources, Inc.; Case No. 53-2012-CV-00038**

Date Filed: **January, 2012**

Court: **Williams County District Court**

Judge: **Paul Jacobson**

Attorney: **Jennifer Verleger/Matthew Sagsveen/David Garner**

Opposing

Counsel: **Josh Swanson/Rob Stock, Lawrence Bender, Lyle Kirmis**

Issues: The Wilkinson lawsuit was filed on January 10, 2012. The Plaintiffs assert that they own minerals in a 200 acre tract west of Williston. This suit was initially filed in state court as a quiet title action. The Attorney General's Office filed an Answer and Counterclaim on February 27, 2012.

On July 1, 2014, the Plaintiffs filed an amended complaint in the case and added claims of unconstitutional takings, conversion, constructive trust and unjust enrichment, civil conspiracy and deprivation of rights under 42 U.S.C. § 1983. Plaintiffs assert in their amended complaint that the Board should be issuing leases on the west side of the Highway 85 bridge pursuant to the Phase II Investigation – the estimated location of the ordinary high watermark (OHWM) prior to inundation of Lake Sakakawea – rather than the Phase I Delineation – current location of the OHWM. Plaintiffs argue that the subject property is located under Lake Sakakawea, which did not exist at statehood, and thus the state did not acquire title to it as sovereign lands. Therefore, the State's title to the Missouri River is limited to the channel as it existed prior to inundation of Lake Sakakawea as determined by the Phase II investigation.

In January of 2016, the State Engineer sought and was granted intervention. A joint motion for summary judgment was filed by the Board and the State Engineer on March 1, 2016. On May 18, 2016, the district court granted the motion for summary judgment finding that: (1) the subject property is located along the Missouri River, which is no doubt navigable; (2) The Phase I Delineation should be used to determine the OHWM for the subject property rather than the Phase II Investigation, and therefore the property is determined to be sovereign land of the state of North Dakota; (3) to the extent Plaintiffs are aggrieved by the Phase I Delineation, they must exhaust their administrative remedies through the State Engineer before making a claim in district court; and (4) there are no grounds to support Counts II through VII. Plaintiffs filed a notice of appeal on June 1, 2016. Both EOG Resources, Inc. and Statoil Oil and Gas LP filed cross-appeals.

On September 28, 2017, the North Dakota Supreme Court reversed the district court's decision and remanded the case back to the district court. The Supreme Court held that:

1. Surface ownership could not be determined without the United States as a party to the action;

2. N.D.C.C. ch. 61-33.1 has a retroactive clause and the district court did not have an opportunity to determine if it applies and governs ownership of the minerals at issue;
3. A “takings” analysis must be conducted if the district court determines the State owns the disputed minerals; and
4. The district court erroneously made findings of disputed fact.

**Current
Status:**

Due to the passage of S.B. 2134, the District Court ordered the case stayed and all deadlines be held in abeyance until the final review findings under S.B. 2134 are issued by the North Dakota Industrial Commission (NDIC). Plaintiff, after NDIC issued the review findings, requested a status conference with the Court to set a new trial date and other deadlines. The Board and State Engineer filed a Motion for Continued Stay of Proceedings on October 11, 2018. The telephonic status conference scheduled for November 2, 2018 was cancelled. A Hearing on the Motion for Continued Stay was held November 30, 2018. Defendants submitted a proposed Order and the Judge asked for Plaintiffs to submit a proposed Order, which was filed December 4, 2018. The Court issued its Order on December 12, 2018, denying the Motion for Continued Stay and requiring the parties confer on a scheduling order and submit a Rule 16 scheduling order by January 26, 2019. The State filed a Motion for Proposed Scheduling Order on January 28, 2019, and Plaintiffs filed a notice of hearing on January 31, 2019, and filed their Response to State’s Motion for Proposed Scheduling Order and Plaintiffs’ Request for Rule 16(F) Sanctions on February 1, 2019. State Defendants filed a Reply Brief in Support of Motion for Proposed Scheduling Order on February 8, 2019. Statoil & Gas LP filed a Response to State’s Motion for Proposed Scheduling Order and Plaintiff’s Proposed Scheduling Order on February 11, 2019. Plaintiffs scheduled a hearing in District Court on the Motion for Scheduling Order which was held March 5, 2019, at 2:00 p.m. The District Court didn’t rule on the scheduling motions but granted Plaintiffs’ request to file a motion for Summary Judgment within 30 days of the hearing. On April 15, 2019, Plaintiffs’ filed with the District Court a Notice of Motion, Motion for Summary Judgment, Brief in Support of Motion for Summary Judgment, Affidavit of Joshua Swanson, Notice of Hearing (requesting a hearing be held at the earliest possible date available on the Court’s calendar), and proposed Order Granting Plaintiffs’ Motion for Summary Judgment. On April 17, 2019, Plaintiffs’ filed a Notice of Hearing scheduling a hearing for 2:00 p.m. on July 30, 2019 before the Honorable Paul W. Jacobson, at the Williams County Courthouse, Williston. **The parties entered into a Stipulation Extending Time to Respond to Plaintiffs’ Motion for Summary Judgment and Plaintiffs’ Time to Reply which was entered May 1, 2019. The Order Extending Time to Respond was entered May 2, 2019, extending Defendants’ time to respond to June 14, 2019, and extending Plaintiffs’ deadline to file reply to July 1, 2019.**

MEMORANDUM TO THE BOARD OF UNIVERSITY AND SCHOOL LANDS

May 30, 2019

RE: Newfield Exploration Company, Newfield Production Company, and Newfield RMI LLC v. State of North Dakota, ex rel. the North Dakota Board of University and School Lands and the Office of the Commissioner of University and School Lands, a/k/a the North Dakota Department of Trust Lands

Case: Newfield Exploration Company, Newfield Production Company, and Newfield RMI LLC v. State of North Dakota, ex rel. the North Dakota Board of University and School Lands and the Office of the Commissioner of University and School Lands, a/k/a the North Dakota Department of Trust Lands, Civ. No. 27-2018-CV-00143

Date Filed: March 7, 2018

Court: District Court/McKenzie County

Attorneys: David Garner

Opposing

Counsel: Lawrence Bender and Spencer Ptacek/Fredrikson & Byron, P.A.

Judge: Robin Schmidt

Issues: Plaintiff is seeking a Declaratory Judgment that it is currently paying gas royalties properly under the Board's lease. Specifically, Plaintiff is asking the Court to order that gas royalty payments made by the Plaintiff be based on the gross amount received by the Plaintiff from an unaffiliated third-party purchaser, not upon the gross amount paid to a third party by a downstream purchaser, and that Plaintiff does not owe the Defendants any additional gas royalty payments based on previous payments.

Current Status:

A Complaint and Answer with Counterclaims have been filed. Newfield filed an Answer to Counterclaims. A Scheduling conference was held July 27, 2018. Plaintiffs' filed a Motion for Summary Judgment on August 13, 2018 and Defendants filed a Cross-Motion for Summary Judgment. Plaintiffs' Response was filed October 19, 2018 and Defendants' Reply was filed November 9, 2018. A hearing on the Motions for Summary Judgment was held on January 4, 2019 at 1:30 p.m., McKenzie County. An Order on Cross Motions for Summary Judgment was issued on February 14, 2019, granting Plaintiff's motion for summary judgment and denying Defendants' motion for summary judgment. The Judgment was entered March 1, 2019, and the Notice of Entry of Judgment was filed March 4, 2019. Defendants have filed a Notice of Appeal to the North Dakota Supreme Court. The trial scheduled in McKenzie County District Court for September 10 and 11, 2019 has been cancelled. **Defendants/Appellants' Brief to the North Dakota Supreme Court was filed April 29, 2019. Plaintiffs/Appellee' will file a brief and Defendants/Appellants will file a reply brief. Oral Argument is scheduled for June 20, 2019.**

MEMORANDUM TO THE BOARD OF UNIVERSITY AND SCHOOL LANDS

May 30, 2019

RE: Paul Sorum, et. al. v. State of North Dakota, et. al.

Case: Paul Sorum, et. al. v. State of North Dakota, et. al. – Civ. No. 09-2018-CV-00089

Tribunal: Cass County District Court

Judge: John C. Irby

Attorney: Mark Hanson & Peter Hvidston, Nilles Law Firm

Opposing Counsel: Terrance W. Moore, Fintan L. Dooley

Issues: The Board was named as a defendant in the above reference case which was served on January 10, 2018. Plaintiffs have filed this action to challenge the Constitutionality of S.B. 2134 passed during the last legislative session and codified as N.D.C.C. ch. 61-33.1. Under the new legislation, “[t]he state sovereign land mineral ownership of the riverbed segments inundated by Pick-Sloan Missouri basin project dams extends only to the historical Missouri riverbed channel up to the ordinary high water mark.” N.D.C.C. § 61-33.1-02. S.B. 2134 established a process by which the Department of Mineral Resources is directed to procure a “qualified engineering and surveying firm” to “review the delineation of the ordinary high water mark of the corps survey segments” for the portion of the Missouri River designated as the “historical Missouri riverbed channel.” N.D.C.C. § 61-33.1-03(2), (3). Following a review process, which includes a public hearing and public comments, the North Dakota Industrial Commission must adopt final review findings which “will determine the delineation of the ordinary high water mark for the segment of the river addressed by the findings.” N.D.C.C. § 61-33.1-03(7). Plaintiffs’ complaint requests from the court a declaratory judgment finding that N.D.C.C. ch. 61-33.1 violates the Public Trust Doctrine and the Anti-Gift, Privileges and Immunities, and Local and Special Law Clauses of the North Dakota Constitution. Plaintiffs are also requesting the Court issue an injunction to prevent all state officials from further implementing and enforcing N.D.C.C. ch. 61-33.1.

Current Status:

An Answer was filed. Defendants filed a Motion to Dismiss, which was denied in April 2018. Petition for Supervisory Writ and Exercise of Original Jurisdiction was filed by Defendants and denied in May 2018. A Motion for Preliminary Injunction was brought by Plaintiffs and a hearing was held on May 21, 2018. An Order for Preliminary Injunction was filed June 26, 2018. A Scheduling Conference was held on September 6, 2018 and the following briefing deadlines were set: Summary Judgment Motions were filed October 22, 2018. Response Briefs were filed December 10, 2018. Reply Briefs were due December 21, 2018. A hearing on the Motions for Summary Judgment was held on January 4, 2019. The Order on Cross-Motions for Summary Judgment was issued on February 27, 2019, and Defendants were directed to prepare the proposed Judgment. On March 6, 2019, Defendants filed their proposed Judgment. Plaintiff’s filed a letter on March 7, 2019, advising the Court that they felt Defendants’ proposed Judgment was deficient and that they would also be submitting a proposed Judgment. Plaintiff’s proposed Judgment was filed March 8, 2019. Defendants filed a letter on March 8, 2019 advising the Court that they intended to submit a response to Plaintiffs’ proposed Judgment within 14 days. On March 19, 2019, Defendants filed an Objection to Plaintiffs’ Proposed Judgment. Thereafter, Plaintiffs filed a letter asking the Court not to rule on Defendants’

Objection until Plaintiffs have had the opportunity to be heard and further, that Plaintiffs' intend to bring a Motion for Clarification concerning retroactive royalty refunds within 14 days. Plaintiffs filed their Response to Defendants' Objection to Proposed Judgment and Request for Clarification and their Amended Proposed Order and Judgment on March 29, 2019. Defendants filed their Objection to Plaintiffs' Proposed Order and Judgment (Plaintiffs' Amended Proposed) and Reply to Plaintiffs' Response to Defendants' Objection to Proposed Judgment and Request for Clarification on April 8, 2019. **On April 25, 2019, Judge Irby entered an Order for Entry of Judgment ordering the Clerk to enter Defendants' Proposed Order as the Judgment of the Court. Judgment was entered on April 26, 2019. Plaintiffs' filed a Notice of Motion for Attorney Fees, Costs, and Service Award to Plaintiffs scheduling a hearing for 1:30 p.m. June 10, 2019 in Fargo. The Notice of Entry of Order on Cross-Motions for Summary Judgment, Order for Entry of Judgment, and Judgment was filed by Defendants on May 3, 2019. On May 15, 2019, Plaintiffs filed their Motion for Attorney Fees, Costs and Service Award to Plaintiffs and the Memorandum in Support of Motion, together with supporting documents. On May 20, 2019, Plaintiffs filed their Amended Motion for Attorneys Fees, Costs and Service Award to Plaintiffs. Defendants filed an Expedited Motion for Extension of Time to Respond to Plaintiffs' Memorandum in Support of Motion for Attorney Fees, Costs and Service Award to Plaintiffs and requested the June 10, 2019 hearing be postponed.**

Procedures for Executive Session regarding Attorney Consultation and Consideration of Closed Records

Overview

- 1) The governing body must first meet in open session.
- 2) During the meeting's open session the governing body must announce the topics to be discussed in executive session and the legal authority to hold it.
- 3) If the executive session's purpose is attorney consultation, the governing body must pass a motion to hold an executive session. If executive session's purpose is to review confidential records a motion is not needed, though one could be entertained and acted on. The difference is that attorney consultation is not necessarily confidential but rather has "exempt" status, giving the governing body the option to consult with its attorney either in open session or in executive session. Confidential records, on the other hand, cannot be opened to the public and so the governing body is obligated to review them in executive session.
- 4) The executive session must be recorded (electronically, audio, or video) and the recording maintained for 6 months.
- 5) Only topics announced in open session may be discussed in executive session.
- 6) When the governing body returns to open session, it is not obligated to discuss or even summarize what occurred in executive session. But if "final action" is to be taken, the motion on the decision must be made and voted on in open session. If, however, the motion would reveal "too much," then the motion can be abbreviated. A motion can be made and voted on in executive session so long as it is repeated and voted on in open session. "Final actions" DO NOT include guidance given by the governing body to its attorney or other negotiator regarding strategy, litigation, negotiation, etc. (See NDCC §44-04-19.2(2)(e) for further details.)

Recommended Motion to be made in open session:

Under the authority of North Dakota Century Code Sections 44-04-19.1 and 44-04-19.2, the Board close the meeting to the public and go into executive session for purposes of attorney consultation relating to:

- XTO
- Whiting
- Wilkinson
- Newfield
- Paul Sorum et. al. v. The State of North Dakota, et al

Action Record	Motion	Second	Aye	Nay	Absent
Secretary Jaeger					
Superintendent Baesler					
Treasurer Schmidt					
Attorney General Stenehjem					
Governor Burgum					

Statement:

“This executive session will be recorded and all Board members are reminded that the discussion during executive session must be limited to the announced purpose for entering into executive session, which is anticipated to last approximately one hour.

The Board is meeting in executive session to provide guidance or instructions to its attorneys regarding the identified litigation. Any formal action by the Board will occur after it reconvenes in open session.

Board members, their staff, employees of the Department of Trust Lands and counsel with the Attorney General staff will remain, but the public is asked to leave the room.

The executive session will begin at: _____AM, and will commence with a new audio recording device. When the executive session ends the Board will reconvene in open session.”

Statements upon return to open session:

State the time at which the executive session adjourned and that the public has been invited to return to the meeting room.

State that the Board is back in open session.

State that during its executive session, the Board provided its attorney with guidance regarding litigation relating to the sovereign lands' minerals claims.

[The guidance or instructions to attorney does not have to be announced or voted upon.]

State that no final action will be taken at this time as a result of the executive session discussion

-or- .

Ask for a formal motion and a vote on it.

Move to the next agenda item.

MEMORANDUM TO THE BOARD OF UNIVERSITY AND SCHOOL LANDS

May 30, 2019

RE: Legislative Bill Review

(No Action Requested)

HB 1013 Legislative appropriation and budget for the Commissioner of University and School Lands

The Department is preparing a Request for Proposal for the Minerals Assessment. The Energy Infrastructure and Impact Office will accept grant requests throughout the next biennium to award the \$4 million appropriated. The Department posted the Administrative Assistant position, with a goal to fill the position in July 2019. The Commissioner will begin working with the Attorney General to fill the Assistant Attorney General position provided in HB 1013.

SB 2081 Continuing authority for building repairs and investment due diligence

The Department is revising Department Accounting and Investment Policies to clearly define which expenses qualify for continuing authority.

SB 2082 Repeal of N.D.C.C. §§ 15-04-02 Lease of Cultivated Lands for Summer Fallow, and 15-04-04, Failure to Summer-Fallow Cultivated Lands, Use for Cancellation of Lease

The Department is working with the Attorney General's Office to modify the Board's Surface Land Lease to reflect the repealing of N.D.C.C. §§ 15-04-02 and 15-04-04.

HB 1392 Confidentiality of records received by the Board of University and School Lands

The Department will send a letter to all operators subject to Department audits notifying them of the statutory change.

SB 2211 Amend N.D.C.C. §§ 61-33.1-04 and 61-33.1-05 relating to the ownership of mineral rights of land inundated by Pick-Sloan Missouri basin project

The Department a contract with Kadmas, Lee & Jackson, Inc. to analyze the final review findings and determine the acreage on a quarter-quarter basis or government lot basis above and below the ordinary high water mark as delineated by the final review findings of the Industrial Commission is being finalized. The contract's scope of work concludes twelve months from the date of execution, at a total cost of \$1,088,635.

SB 2212 Relating to authorization for the Board of University and School Lands to impose a civil penalty for failure to produce records; and to provide penalty

The Department will send a letter to all operators subject to Department audits notifying them of the statutory change. Additionally, the Department is establishing Department policies that will clearly define when the Department will submit the request to the District Court. Additionally, the Commissioner is developing a Board policy concerning allocation of the penalties collected.

SB 2264 Relating to meetings and policy approval process of the Board of University and School Lands exempt administrative agencies

The Department is preparing Administrative Rules based upon recently adopted Board policies. The Board can expect to review the proposed Administrative Rules at the June 2019 Board meeting.

MEMORANDUM TO THE BOARD OF UNIVERSITY AND SCHOOL LANDS

(May 30, 2019)

RE: Report of Easements Issued by Land Commissioner (04/17/2019 to 05/20/2019)

No Action Requested

Granted to: **EMMONS-LOGAN WIND LLC, JUNO BEACH-FL**
For the Purpose of: Easement: Wind electric transmission line
Right-of-Way Number: RW0008246
Date Issued: 5/2/2019
Application Fee: \$100.00
Right-of-way Income: \$40,110.23
Damage Payment to Lessee: N/A
Trust: A - Common Schools
Length (Rods): 161.13
Area (Acres): 6.10
Legal Description: EMM-133-76-36-SE4

Granted to: **XTO HOLDINGS, LLC, SPRING-TX**
For the Purpose of: On-lease Act. Amend: Horizontal Oil Well
Right-of-Way Number: RW0008347
Date Issued: 4/25/2019
Application Fee: N/A
Right-of-way Income: \$6,125.00
Damage Payment to Lessee: N/A
Trust: A - Common Schools
Length (Rods): N/A
Area (Acres): 2.45
Legal Description: MOU-157-93-36-SE4

Granted to: **PETRO-HUNT LLC, DALLAS-TX**
For the Purpose of: Easement: Salt Water Disposal Well - Extension
Right-of-Way Number: RW0008420
Date Issued: 5/6/2019
Application Fee: \$100.00
Right-of-way Income: N/A
Damage Payment to Lessee: N/A
Trust: A - Common Schools
Length (Rods): N/A
Area (Acres): N/A
Legal Description: WIL-154-99-16-SW4

Granted to: **KRAKEN OPERATING, LLC, HOUSTON-TX**
For the Purpose of: Permit: Section Line Access Road
Right-of-Way Number: RW0008475
Date Issued: 5/2/2019
Application Fee: \$100.00
Right-of-way Income: \$6,195.00
Damage Payment to Lessee: N/A
Trust: A - Common Schools
Length (Rods): 142.14
Area (Acres): 1.77
Legal Description: WIL-157-99-36-SE4

Granted to: **ND GEOLOGICAL SURVEY, BISMARCK-ND**
For the Purpose of: Letter of Permission: Access to School Land - Frac Proppant Sampling
Right-of-Way Number: RW0008498
Date Issued: 4/26/2019
Application Fee: NA
Right-of-way Income: NA
Damage Payment to Lessee: N/A
Trust: A - Common Schools
Length (Rods): N/A
Area (Acres): N/A
Legal Description: Numerous tracts in 13 Central ND Counties

Granted to: **KOHLER COMMUNICATIONS INC, DICKINSON-ND**
For the Purpose of: Easement: Tower Site
Right-of-Way Number: RW0008499
Date Issued: 5/2/2019
Application Fee: \$100.00
Right-of-way Income: \$1,400 annually
Damage Payment to Lessee: N/A
Trust: A - Common Schools
Length (Rods): N/A
Area (Acres): N/A
Legal Description: MOU-153-91-18-SW4

Granted to: **ND GEOLOGICAL SURVEY, BISMARCK-ND**
For the Purpose of: Letter of Permission: Access to School Land - Critical Element Sampling
Right-of-Way Number: RW0008500
Date Issued: 4/26/2019
Application Fee: NA
Right-of-way Income: NA
Damage Payment to Lessee: N/A
Trust: A - Common Schools
Length (Rods): N/A
Area (Acres): N/A
Legal Description: Numerous tracts in 7 Western ND Counties

Granted to: **ND ENERGY SERVICES INC, DICKINSON-ND**
For the Purpose of: Letter of Permission: Temporary Water Layflat Line
Right-of-Way Number: RW0008501
Date Issued: 4/26/2019
Application Fee: \$100.00
Right-of-way Income: \$2,640.00
Damage Payment to Lessee: N/A
Trust: A - Common Schools
Length (Rods): 160.00
Area (Acres): N/A
Legal Description: DUN-146-93-16-NE4

Granted to: **SELECT ENERGY SERVICES LLC, WILLISTON-ND**
For the Purpose of: Letter of Permission: Temporary Water Layflat Line
Right-of-Way Number: RW0008502
Date Issued: 4/26/2019
Application Fee: \$100.00
Right-of-way Income: \$5,280.00
Damage Payment to Lessee: N/A
Trust: A - Common Schools
Length (Rods): 320.00
Area (Acres): N/A
Legal Description: MCK-150-95-16-NW4, SW4

Granted to: **SELECT ENERGY SERVICES LLC, WILLISTON-ND**
For the Purpose of: Letter of Permission: Temporary Water Layflat Line
Right-of-Way Number: RW0008502
Date Issued: 4/26/2019
Application Fee: \$100.00
Right-of-way Income: \$5,280.00
Damage Payment to Lessee: \$
Trust: A - Common Schools
Length (Rods): 320.00
Area (Acres): N/A
Legal Description: MCK-150-95-16-NW4, SW4

Granted to: **RRC POWER & ENERGY LLC, ROUND ROCK-TX**
For the Purpose of: Permit-Amend: Soil Testing
Right-of-Way Number: RW0008507
Date Issued: 5/6/2019
Application Fee: \$150.00
Right-of-way Income: \$300.00
Damage Payment to Lessee: N/A
Trust: A - Common Schools
Length (Rods): N/A
Area (Acres): N/A
Legal Description: WIL-158-96-16-SE4
WIL-158-96-36-NW4
WIL-159-97-16-SE4

Granted to: **HOUSTON ENGINEERING INC, FARGO-ND**
For the Purpose of: Permit: Planning & Preconstruction Survey
Right-of-Way Number: RW0008508
Date Issued: 4/30/2019
Application Fee: \$100.00
Right-of-way Income: \$500.00
Damage Payment to Lessee: N/A
Trust: A - Common Schools
Length (Rods): N/A
Area (Acres): N/A
Legal Description: NA

Granted to: **NDSU SCHOOL OF NAT RES SCIENCE, FARGO-ND**
For the Purpose of: Letter of Permission: Access to School Land
Right-of-Way Number: RW0008514
Date Issued: 5/6/2019
Application Fee: NA
Right-of-way Income: NA
Damage Payment to Lessee: \$
Trust: A - Common Schools
Length (Rods): N/A
Area (Acres): N/A
Legal Description: BOW-132-102-36-NE4

MEMORANDUM TO THE BOARD OF UNIVERSITY AND SCHOOL LANDS

Date May 30, 2019

RE: Summary of Oil & Gas Lease Auction

On behalf of the Board, the Department conducted an oil and gas mineral lease auction on www.energynet.com which concluded on May 7, 2019.

There were 258 tracts offered and 241 tracts listed received competitive bids. The highest bid per acre was \$300.00 for 80 net acres in Dunn County.

May-19			
County	Mineral Acres	Total Bonus	Bonus/Acres
Billings	3,895.23	\$58,474.46	\$15.01
Burke	1,081.22	\$107,244.60	\$99.19
Divide	188.09	\$14,103.02	\$74.98
Dunn	160.00	\$47,280.00	\$295.50
Golden Valley	1,280.00	\$1,280.00	\$1.00
McKenzie	732.00	\$51,228.00	\$69.98
McLean	320.00	\$1,440.00	\$4.50
Mountrail	5,532.98	\$486,063.78	\$87.85
Slope	640.00	\$1,280.00	\$2.00
Stark	160.00	\$4,560.00	\$28.50
Ward	6,315.16	\$261,154.37	\$41.35
Williams	640.00	\$66,560.00	\$104.00
GRAND TOTAL	20,944.68	\$1,100,668.23	\$52.55

There were 54 bidders registered, 32 of which submitted bids in the seven-day auction. Bidders were from 12 states (CA, CO, CT, IN, LA, MI, MT, ND, NE, TX, WA, and WY).

A total of \$1,100,668.23 of bonus was collected from the auction.

NORTH DAKOTA
BOARD OF UNIVERSITY AND SCHOOL LANDS

Financial Position Report
(Unaudited)

For period ended March 31, 2019



Board of University and School Lands

Comparative Financial Position (Unaudited)

Schedule of Net Assets

Assets by Trust:	March 31, 2019	March 31, 2018
Common Schools	\$4,455,951,771	\$4,207,083,923
North Dakota State University	70,436,709	67,879,320
School for the Blind	12,169,286	11,014,156
School for the Deaf	20,965,315	20,849,183
State Hospital	14,453,476	14,391,209
Ellendale *	21,351,028	20,183,142
Valley City State University	12,665,081	12,114,986
Mayville State University	7,687,687	7,470,350
Youth Correctional Center	23,360,693	22,198,293
State College of Science	16,954,722	16,591,736
School of Mines **	21,080,907	19,945,326
Veterans Home	5,325,599	5,329,462
University of North Dakota	33,165,544	31,545,163
Capitol Building	6,717,792	3,933,502
Strategic Investment and Improvements	930,288,010	292,925,194
Coal Development	70,844,570	70,270,291
Indian Cultural Education Trust	1,254,363	1,260,835
Total	\$5,724,672,553	\$4,824,986,071
Assets by Type:		
Cash	\$39,056,844	\$34,780,114
Receivables	15,925,236	14,234,894
Investments ***	5,458,884,844	4,693,595,812
Office Building (Net of Depreciation)	441,971	499,036
Farm Loans	9,319,890	7,243,766
Energy Construction Loans	987,731	1,047,724
Energy Development Impact Loans	11,446,733	12,146,680
School Construction Loans (Coal)	44,670,542	47,391,757
Due to/from Other Trusts and Agencies	143,938,762	14,046,288
Total	\$5,724,672,553	\$4,824,986,071

*** Ellendale Trust**

The following entities are equal beneficiaries of the Ellendale Trust:

Dickinson State University	School for the Blind
Minot State University	Veterans Home
Dakota College at Bottineau	State Hospital
	State College of Science - Wahpeton

**** School of Mines**

Benefits of the original grant to the School of Mines are distributed to the University of North Dakota.

***** Investments**

Includes available cash available for loans, investments, abandoned stock and claimant liability.

Board of University and School Lands

Comparative Financial Position (Unaudited)

Combined Permanent Trusts

	March 31, 2019	March 31, 2018
Balance Sheet		
Assets:		
Cash	\$34,916,543	\$34,096,998
Interest Receivable	10,985,847	12,648,476
Investments	4,660,975,112	4,397,978,885
Farm Loans	9,319,890	7,243,766
Energy Construction Loans	987,731	1,047,724
Due from Other Agencies	15,465,995	13,966,264
Office Building (Net of Depreciation)	441,971	499,036
Total Assets	\$4,733,093,089	\$4,467,481,149
Liabilities:		
Unclaimed Property Claimant Liability	\$17,510,901	\$10,875,980
Due to Other Trusts	-	-
Due to Other Funds	14,371	8,918
Accounts Payable	-	-
Total Liabilities	17,525,272	10,884,898
Equity:		
Fund Balance	4,571,686,280	4,172,739,955
Net Income/(Loss)	143,881,537	283,856,296
Total Liabilities and Equity	\$4,733,093,089	\$4,467,481,149
Income Statement		
Income:		
Investment Income	\$99,509,725	\$84,544,471
Realized Gain/(Loss)	(24,121,804)	35,279,098
Unrealized Gain/(Loss)	(1,646,649)	122,059,731
Royalties - Oil and Gas	117,009,739	103,439,630
Royalties - Coal	350,060	321,871
Royalties - Aggregate	33,970	40,838
Bonuses - Oil and Gas	674,167	1,090,894
Bonuses - Coal	-	-
Rents - Surface	12,175,590	11,044,257
Rents - Mineral	31,597	135,350
Rents - Coal	54,436	21,636
Rents - Office Building	49,320	49,320
Gain/Loss on Sale of Land - OREO	-	-
Sale of Capital Asset	-	-
Oil Extraction Tax Income	72,141,237	57,069,927
Unclaimed Property Income	9,467,496	9,664,234
Total Income	285,728,884	424,761,257
Expenses and Transfers:		
Investment Expense	6,898,697	6,225,312
In-Lieu and 5% County Payments	244,396	-
Administrative Expense	2,191,278	2,205,608
Operating Expense - Building	109,300	70,366
Transfers to Beneficiaries	132,403,676	132,403,675
Total Expense and Transfers	141,847,347	140,904,961
Net Income/(Loss)	\$143,881,537	\$283,856,296

Board of University and School Lands

Comparative Financial Position (Unaudited)

Capitol Building Trust

	March 31, 2019	March 31, 2018
Balance Sheet		
Assets:		
Cash	\$141,290	\$21,545
Interest Receivable	47,008	10,516
Investments	6,529,494	3,901,441
Total Assets	\$6,717,792	\$3,933,502
Liabilities:		
Due to Other Trusts and Agencies	\$0	\$0
Equity:		
Fund Balance	4,723,483	5,089,876
Net Income	1,994,309	(1,156,374)
Total Liabilities and Equity	\$6,717,792	\$3,933,502
Income Statement		
Income:		
Investment Income	\$107,561	\$38,516
Realized Gain(Loss)	10,341	1,901
Unrealized Gain/(Loss)	41,582	(5,763)
Rents - Surface	145,432	150,273
Rents - Mineral	640	6,559
Royalties - Oil and Gas	638,881	565,598
Bonuses - Oil and Gas	-	8,320
Royalties - Coal	-	(763)
Royalties - Aggregate	1,070,995	748,619
Total Income	2,015,432	1,513,260
Expenses and Transfers:		
Investment Expense	1,448	1,071
In-Lieu and 5% County Payments	3,383	-
Administrative Expense	16,292	18,563
Transfers to Facility Management	-	2,650,000
Total Expense and Transfers	21,123	2,669,634
Net Income/(Loss)	\$1,994,309	(\$1,156,374)

Board of University and School Lands

Comparative Financial Position (Unaudited)

Coal Development Trust

	<u>March 31, 2019</u>	<u>March 31, 2018</u>
<u>Balance Sheet</u>		
Assets:		
Cash	\$113,064	\$2,226
Interest Receivable	729,390	831,705
Investments	13,810,360	9,817,896
Coal Impact Loans	11,446,733	12,146,680
School Construction Loans	44,670,542	47,391,757
Due from other Trusts and Agencies	248,268	266,747
Total Assets	<u>\$71,018,357</u>	<u>\$70,457,011</u>
Liabilities:		
Accounts Payable	\$173,788	\$186,722
Equity:		
Fund Balance	69,591,292	69,080,947
Net Income	1,253,277	1,189,342
Total Liabilities and Equity	<u>\$71,018,357</u>	<u>\$70,457,011</u>
<u>Income Statement</u>		
Income:		
Investment Income	\$223,716	\$94,010
Interest on School Construction Loans	590,303	778,987
Realized Gain/(Loss)	24,241	5,527
Unrealized Gain/(Loss)	100,346	(21,310)
Coal Severance Tax Income	372,981	380,207
Total Income	1,311,587	1,237,421
Expenses and Transfers:		
Investment	3,602	2,943
Administrative	2,036	3,557
Transfers to General Fund	52,672	41,579
Total Expense and Transfers	58,310	48,079
Net Income/(Loss)	<u>\$1,253,277</u>	<u>\$1,189,342</u>

Board of University and School Lands

Comparative Financial Position (Unaudited)

Strategic Investment and Improvements Fund

	March 31, 2019	March 31, 2018
Balance Sheet		
Assets:		
Cash	\$3,885,479	\$655,524
Interest Receivable	4,160,974	741,665
Investments	793,843,271	291,528,005
Due from other Trusts or Agencies	128,398,286	-
Total Assets	\$930,288,010	\$292,925,194
Liabilities:		
Accounts Payable	\$0	\$0
Equity:		
Fund Balance	354,701,097	372,661,563
Net Income	575,586,913	(79,736,369)
Total Liabilities and Equity	\$930,288,010	\$292,925,194
Income Statement		
Income:		
Investment Income	\$7,646,324	\$2,532,167
Realized Gain/(Loss)	1,006,230	147,639
Unrealized Gain/(Loss)	4,108,297	(586,867)
Interest on Fuel Prod Facility	100,445	102,037
Royalties - Oil and Gas	76,110,923	58,463,467
Bonuses - Oil and Gas	2,247,413	958,637
Royalties - Coal	374,841	78,163
Rents - Mineral	50,683	54,071
Tax Income - Oil Extraction & Production Distribution	613,224,139	-
Total Income	704,869,295	61,749,314
Expenses and Transfers:		
Administrative	667,764	540,969
Investment Expense	95,148	87,719
Transfers to General Fund	124,000,000	124,000,000
Transfer to State Highway Patrol	358,000	-
Transfer to Commerce Department (SB 2018)	4,000,000	-
Transfer to Adjutant General	300,000	-
Transfer to Health Department (SB 2018)	75,736	-
Transfer from NDSU - Vet Diag Lab (HB 1020)	(214,266)	-
Transfer to Public Service Commission (HB 1008)		100,000
Transfer to Department of Corrections (SB 2015)		935,907
Transfer to Department of Agriculture (HB 1009)		1,000,000
Transfer to Energy Impact Fund		3,000,000
Transfer to Attorney General (HB1024/SB 2191)		16,022,000
Transfer to Industrial Commission (SB 2014)		4,000,000
Transfer from State Historical Society (HB 1024)		(22,105)
Transfer from Legal Counsel of Indigents (HB 1024)		(189,000)
Transfer from NDIC - Core Library (HB 1014)		(329,290)
Transfer from Political Subdivision Allocation Fund (SB 2013)		(7,660,518)
Total Expense and Transfers	129,282,382	141,485,683
Net Income/(Loss)	\$575,586,913	(\$79,736,369)

As of March 31, 2019, the SIIF had a fund balance of \$930,288,010. The fund balance is made up of two parts. The assigned fund balance is that portion of the fund that has either been set aside until potential title disputes related to certain riverbed leases have been resolved or dedicated to various loan programs established by the legislature. The unassigned fund balance is the portion of the fund that is unencumbered, and is thus available to be spent or dedicate to other programs as the legislature deems appropriate. The unassigned balance of the fund was \$663,065,779 on March 31, 2019, which includes \$37,472,918 of emergency spending authorized by the 66th Legilsative Assembly.

Note: As of May 22, 2019, the unassigned balance was \$683,721,637 excluding oil and gas production distribution, and oil extraction tax distribution.

Board of University and School Lands

Comparative Fiduciary Statements (Unaudited)

Indian Cultural Trust

	March 31, 2019	March 31, 2018
<u>Fiduciary Net Position</u>		
Assets:		
Cash	\$ 467	\$ 3,822
Interest receivable	2,016	2,532
Investments	1,251,880	1,254,481
Total Assets	1,254,363	1,260,835
Liabilities:		
Accounts payable	-	-
Total Liabilities	-	-
Net Position:		
Net position restricted	1,254,363	1,260,835
Total Net Position	\$ 1,254,363	\$ 1,260,835
<u>Changes in Fiduciary Net Position</u>		
Additions:		
Contributions:		
Donations	-	-
Total Contributions	\$ -	\$ -
Investment Income:		
Net change in fair value of investments	(7,705)	47,672
Interest	27,208	24,585
Less investment expense	(1,869)	(1,793)
Net Investment Income	17,634	70,464
Miscellaneous Income	2,900	2,926
Total Additions	20,534	73,390
Deductions:		
Payments in accordance with Trust agreement	34,676	34,676
Administrative expenses	1,202	1,710
Total Deductions	35,878	36,386
Change in net position held in Trust for:		
Private-Purpose	(15,344)	37,004
Total Change in Net Position	(15,344)	37,004
Net Position - Beginning of Year	1,269,707	1,223,831
Net Position - March 31	\$ 1,254,363	\$ 1,260,835

MEMORANDUM TO THE BOARD OF UNIVERSITY AND SCHOOL LANDS

May 30, 2019

RE: Terminate Westwood and Reallocate Assets

During the April Board meeting, Department staff, the Commissioner and RVK reported concerns with changes occurring with Westwood Holdings Group (Westwood) that will have a major impact on how this product is managed going forward. Those changes include:

- The two seasoned individuals that were expected to be co-lead portfolio managers for the strategy have both left that role, with one leaving the firm entirely.
- The individual that was brought in from the outside in early 2019 to manage the multi-asset strategies team is now a co-lead portfolio manager. The other new co-lead portfolio manager is the firm's convertible bond expert, who previously worked some with the multi-asset team. Neither of these portfolio managers has worked together before, nor do they have direct experience with this strategy.
- RVK now believes that there was a lack of transparency during the extensive discussions they had with Westwood last fall related to the transition, given the new portfolio manager team for the strategy.
- During RVK's recent on-site visit with Westwood, RVK was informed that the firm now believes the capacity for this product is \$10 billion, not the \$5 billion amount former CIO Freeman has always maintained was the capacity for this product.

In April the Board placed Westwood on formal watch status and asked the Commissioner and RVK to come back to the May meeting with a formal recommendation on the disposition of the Westwood managed portfolio.

RVK has recommended to all clients that Westwood be terminated; the Commissioner agrees with RVK's recommendation.

Westwood currently manages 1/3 of the 20% allocation the permanent trust funds have to absolute return strategies. As of April 30, 2019, the permanent trusts had a total of \$957.1 million allocated to absolute return strategies and Westwood's portfolio was valued at \$322.3 million. In initial discussions with RVK, both RVK and the Commissioner had concerns with splitting the 20% absolute return allocation between the Board's two other absolute return managers, PIMCO and GMO, as it would reduce the diversification of the overall absolute return portfolio and increase manager risk.

Over the past two months the Commissioner and staff have worked closely with RVK to determine the best way to reallocate the assets currently managed by Westwood. The initial focus of that work was to determine if there was another liquid absolute return manager that might be an obvious replacement for Westwood. Information compiled by RVK and reviewed by staff shows that there does not appear to be a long list of compelling replacement options that have provided the risk/return profile and the diversification benefits that Westwood has historically provided. Another option would be to explore illiquid absolute return strategies. However, to date the Board has been hesitant to look at illiquid strategies and doing so would require more in-depth asset allocation work and an advanced manager search.

After determining that the options described above were not viable solutions at this time, RVK and the Commissioner began exploring the idea of redeploying the assets to existing managers/strategies. The Commissioner asked RVK to determine if the current risk/return profile of the portfolio could be mirrored or replicated using existing managers in different proportions. After running various asset allocation options through their optimizers, RVK determined that the Board could essentially mirror the current risk/return profile of the existing portfolio using existing managers in different proportions. Further discussions between RVK and the Commissioner resulted in today's recommendation; that the Board adopt one of the following two revised asset allocations for the permanent trusts.

Asset Class	Current Target	Recommended Portfolio 1	Recommended Portfolio 2
Broad US Equity	17.0%	17.0%	18.5%
Broad International Equity	17.0%	17.0%	18.5%
Fixed Income	21.0%	26.0%	23.0%
Absolute Return	20.0%	15.0%	15.0%
DIS	10.0%	10.0%	10.0%
Real Estate	15.0%	15.0%	15.0%
Expected Arithmetic Return	6.28%	6.15%	6.28%
Expected Risk (Standard Deviation)	10.27%	9.83%	10.32%
Expected Compounded Return	5.79%	5.70%	5.78%
Expected Return/Risk Ratio	0.61	0.63	0.61

Josh Kevan is here today to go over the attached RVK report, which details the work done by RVK and the Commissioner to arrive at the recommended portfolios. Josh will also go over the small, but measurable differences between the two recommended portfolios. The primary difference between the portfolios is that Portfolio 2 reallocates some of the Westwood assets to equities, while Portfolio 1 reallocates those assets only to fixed income. As a result, Portfolio 1 has a slightly more conservative risk/reward profile than our current portfolio, while Portfolio 2 has a risk/reward profile essentially matching the current portfolio. The good news is that both options:

- Will not require additional manager searches/changes
- Will reduce total manager fees
- Avoid increasing manager concentration risk

Generally, the Commissioner and RVK would make a recommendation to the Board to adopt either one or the other of these portfolios. The two options above are being presented to the Board today because some concerns were expressed at the May Land Board meeting about adding to equities when stocks are at/near all-time highs. The Commissioner acknowledges that concern but wants to remind the Board that it is not a market timer. Both portfolios presented are optimal portfolios that fall on the efficient frontier; one is just slightly more risk adverse than the other. The Commissioner and RVK are fully supportive of either portfolio.

If the Board approves reallocating the funds to one of the two recommended portfolios, the Commissioner believes a transition can be completed by the end of June 2019. Funds would be allocated proportionately to current managers within each broad asset class that receives additional assets. Manager's receiving funds will be given the opportunity to take securities currently in the Westwood portfolio in lieu of cash. Those securities that cannot be transferred will be liquidated in an efficient and effective manner, with a goal of completing the transition by the end of June 2019. The Board's IPS will be revised this fall to reflect the new asset allocation adopted by the Board.

Recommendation: That the Board: direct the Commissioner to terminate Westwood as a money manager effective immediately, adopt revised Portfolio ____ (1 or 2) as the new asset allocation for the permanent trusts, and reallocate funds to existing managers in an efficient and effective way.

Action Record	Motion	Second	Aye	Nay	Absent
Secretary Jaeger					
Superintendent Baesler					
Treasurer Schmidt					
Attorney General Stenehjem					
Governor Burgum					



North Dakota Board of University and School Lands

Westwood Reallocation Recommendation and Asset Allocation Study

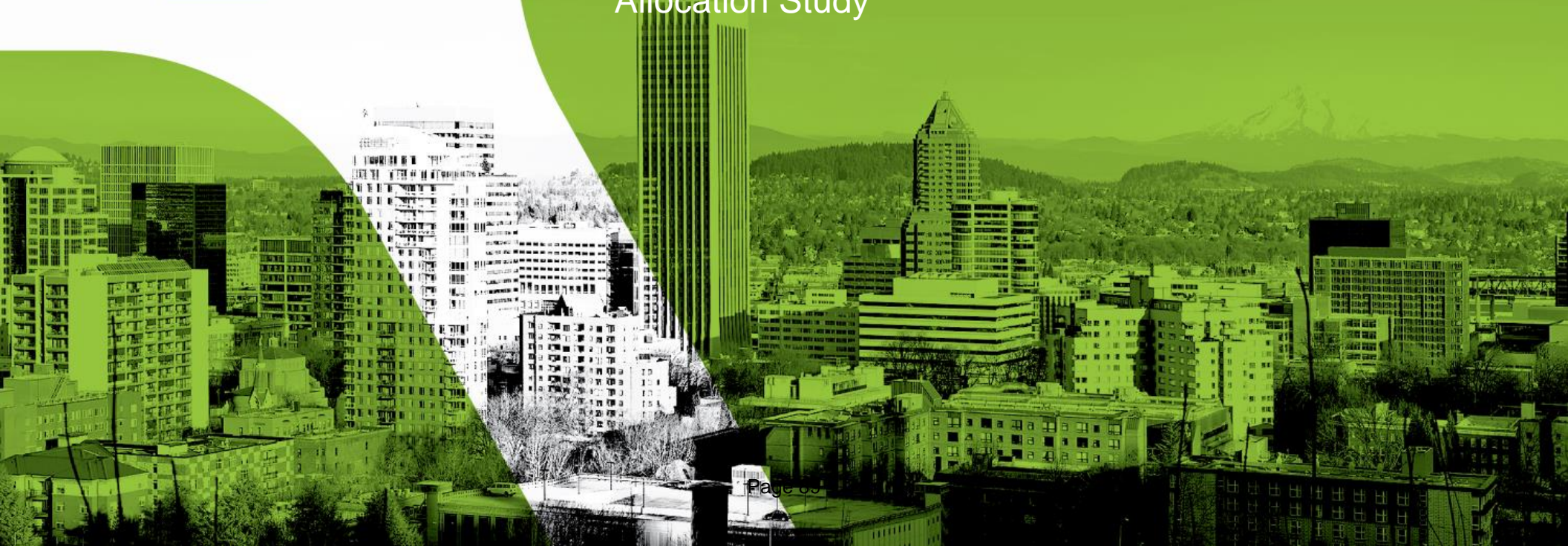


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– RVK Capital Market Assumptions Overview	
– Absolute Return Portfolio Overview	
– Absolute Return Replacement Search Candidate Overview	

Overview and Recommendation



Overview

- In April 2019, the Board of the North Dakota Permanent Trust Funds (“the Board”) placed the Westwood Income Opportunity Strategy (“Westwood”) on formal watch status given the strategy’s portfolio manager turnover, the firm’s reorganization of the multi-asset class team, the firm’s inadequate transparency in communicating portfolio management changes, and the doubling of the stated capacity for the strategy.
 - As of March 31, 2019, \$316 million of the Permanent Trust Funds’ assets were invested in Westwood, representing 6.75% of total assets.
- The North Dakota Permanent Trust Funds (“the PTFs”) currently has a 20% target allocation to Absolute Return (“AR”), evenly distributed among three mandates, GMO Benchmark Free Allocation, PIMCO All Asset All Authority, and Westwood Income Opportunity fund.
- RVK and Staff recommend termination of the investment management relationship with Westwood, and have analyzed several options for allocating the Westwood assets.
 - **Reallocating funds among the PTFs’ two existing AR managers**
 - **Hiring a new absolute return manager to replace Westwood**
 - **Modifying the PTFs’ asset allocation target to reduce the AR allocation**

Overview

- RVK and Staff recommend modifying the PTFs' asset allocation target and reducing the AR target allocation from 20% to 15%. Modifying the PTFs' asset allocation target would:
 - Increase target allocations to fixed income (and potentially US and international equity) while maintaining long-term expected risk and return targets consistent with the PTFs' current long-term expected return and risk
 - Require no additional manager changes
 - Reduce total manager fees¹
 - Avoid increasing manager concentration risk
- Securities currently held by Westwood can be offered to existing equity and fixed income managers for in-kind transfer, potentially reducing associated transition costs.

¹Manager fees would be reduced by approximating \$63,300 under Recommended Portfolio 1 and by \$352,000 under Recommended Portfolio 2. Fee calculations are based on asset class targets, maintaining current US equity, Non-US equity, and fixed income portfolio structures, and PTFs' market value as of 3/31/2019.

Recommendation

- **RVK and Staff recommend the Board adopt asset allocation targets for either Recommended Portfolio 1 or 2** (shown below) which reduces the AR target allocation from 20% to 15% and maintains a similar long-term expected return and risk as the current asset allocation target. The two portfolios differ modestly in long-term expected return and risk and in how the 5% is redistributed among the rest of the portfolio.
 - Recommended Portfolio 1 – redistributes the 5% solely to fixed income and results in a marginally lower long-term expected return and risk than the current target expected return and risk
 - Recommended Portfolio 2 – redistributes the 5% to broad US equity (+1.5%), broad international equity (+1.5%), and fixed income (+2.0%) and maintains the PTFs’ current long-term expected return with a marginal increase in expected risk

Asset Class	Current Target	Recommended Portfolio 1	Recommended Portfolio 2
Broad US Equity	17.0%	17.0%	18.5%
Broad International Equity	17.0%	17.0%	18.5%
Fixed Income	21.0%	26.0%	23.0%
Absolute Return	20.0%	15.0%	15.0%
DIS	10.0%	10.0%	10.0%
Real Estate	15.0%	15.0%	15.0%
Expected Arithmetic Return	6.28%	6.15%	6.28%
Expected Risk (Standard Deviation)	10.27%	9.83%	10.32%
Expected Compounded Return	5.79%	5.70%	5.78%
Expected Return/Risk Ratio	0.61	0.63	0.61

Allocation noted in **red** indicates a decrease allocation compared to the current target allocation.
 Allocation noted in **green** indicates an increase allocation compared to the current target allocation.

Asset Allocation Study



Asset Allocation Study

Key Inputs

Long-Term Return and Risk Assumptions

Asset Class	Arithmetic Return Assumption	Standard Deviation Assumption	Index	Longest Historical Time Frame	Annualized Arithmetic Return	Annualized Standard Deviation
US Equity	6.80	17.80	Russell 3000	Jan 79 – Dec 18	11.48	16.43
International Equity	8.90	20.95	MSCI ACW ex US IMI (Gross)	Jun 94 – Dec 18	5.06	21.86
Fixed Income	3.75	6.00	Bloomberg US Agg Bond	Jan 76 – Dec 18	7.27	6.82
Absolute Return	6.25	10.50	Custom GTAA Index	Dec 88 – Dec 18	5.57	9.61
Diversified Inflation Hedge (DIS)	6.71	13.50	Custom DIS	Mar 97– Dec 18	6.23	10.50
Real Estate	6.00	12.50	NCREIF ODCE (Gross) (AWA)	Jan 78 – Dec 18 (Q)	8.50	9.35

Correlations

	Broad US Equity	Broad International Equity	Fixed Income	Absolute Return	Diversified Inflation Hedge (DIS)	Real Estate
Broad US Equity	1.00	0.83	0.16	0.82	0.66	0.22
Broad International Equity	0.83	1.00	0.00	0.93	0.74	0.27
Fixed Income	0.16	0.00	1.00	0.28	0.10	-0.04
Absolute Return	0.82	0.99	0.28	1.00	0.76	0.34
Diversified Inflation Hedge (DIS)	0.69	0.78	0.06	0.73	1.00	0.24
Real Estate	0.22	0.27	-0.04	0.34	0.29	1.00

2019 RVK Capital Market Assumptions.

Custom GTAA Index is comprised of 60% MSCI ACW IMI (Gross) and 40% Barclays US Aggregate Bond Index.

Custom Diversified Inflation Strategies Index is comprised of 20% Bloomberg US TIPS Index, 30% Alerian MLP Index, 20%

MSCI All Country World Investable Market Index (Gross), 30% Dow-Jones UBS Commodity Index (Total Returns)

Asset Allocation Study

Efficient Portfolios – Efficient Frontier

- The maximum allocation to Absolute Return was reduced from 20% (from the prior asset allocation study conducted in 2017) to 15%. All other asset class allocation ranges remained the same.

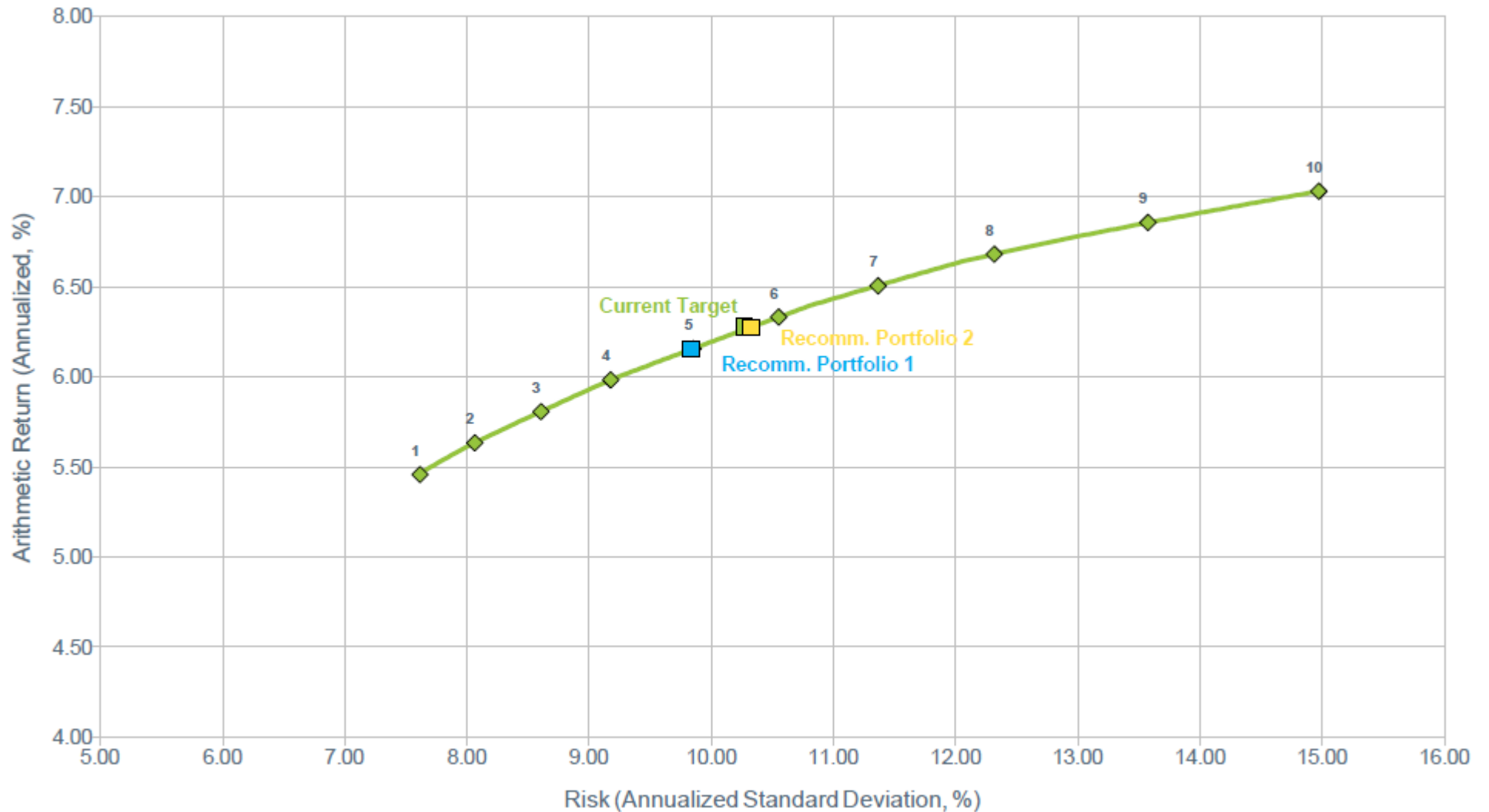
	Min	Max	1	2	3	4	5	6	7	8	9	10	Current Target	Recomm. Portfolio 1	Recomm. Portfolio 2
Broad US Equity	15	50	15	15	15	15	17	19	23	29	35	40	17.0	17.0	18.5
Broad International Equity	15	50	15	15	15	15	17	19	23	29	35	40	17.0	17.0	18.5
Fixed Income	20	50	50	44	37	30	26	22	20	20	20	20	21.0	26.0	23.0
Absolute Return	0	15	1	1	8	15	15	15	8	0	0	0	20.0	15.0	15.0
Custom DIS	0	10	4	10	10	10	10	10	10	6	0	0	10.0	10.0	10.0
Core Real Estate	0	15	15	15	15	15	15	15	15	15	9	0	15.0	15.0	15.0
Total			100	100	100	100	100	100	100	100	100	100	100	100	100
Capital Appreciation			30	30	30	30	34	38	47	59	71	80	34	34	37
Capital Preservation			50	44	37	30	26	22	20	20	20	20	21	26	23
Alpha			1	1	8	15	15	15	8	0	0	0	20	15	15
Inflation			19	25	25	25	25	25	25	21	9	0	25	25	25
Expected Arithmetic Return			5.46	5.63	5.81	5.98	6.16	6.33	6.51	6.68	6.86	7.03	6.28	6.15	6.28
Expected Risk (Standard Deviat			7.62	8.07	8.61	9.18	9.85	10.55	11.36	12.32	13.57	14.97	10.27	9.83	10.32
Expected Compound Return			5.19	5.32	5.46	5.58	5.71	5.81	5.91	5.98	6.01	6.00	5.79	5.70	5.78
Expected Return (Arithmetic)/Risk R:			0.72	0.70	0.67	0.65	0.63	0.60	0.57	0.54	0.51	0.47	0.61	0.63	0.61
RVK Expected Eq Beta (LCUS Eq =			0.37	0.39	0.42	0.45	0.49	0.53	0.58	0.64	0.72	0.80	0.51	0.49	0.52
RVK Liquidity Metric (T-Bills = 100)			79	79	79	79	80	80	80	81	85	91	80	80	80

*Allocations shown may not sum up to 100% exactly due to rounding.

Asset Allocation Study

Efficient Frontier

The figure below illustrates the relationship between risk and return for Efficient Frontier. The line connecting the points represents all the optimal portfolios subject to the given constraints and is known as the "efficient frontier."



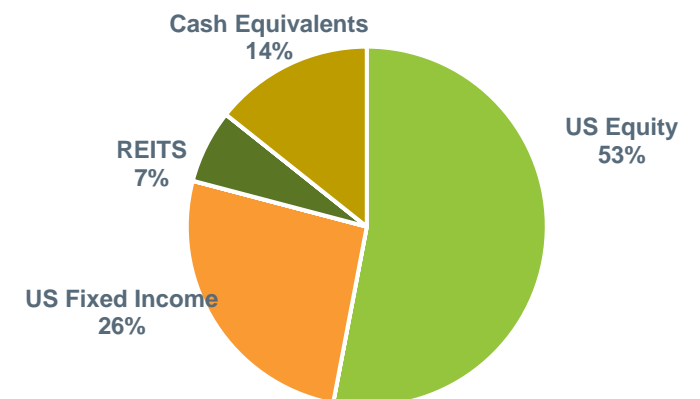
Asset Allocation Study

Recommended Portfolios

- Recommended Portfolio 1 and Recommended Portfolio 2 have marginally different equity and fixed income target allocations.
- Compared to the current asset allocation target, Recommended Portfolio 2 has a 3% greater allocation to total equity (split equally between broad US equity and broad international equity) and a 2% greater allocation to fixed income. However, Recommended Portfolio 2 is inline with the PTFs' current equity and fixed income exposure given Westwood's asset allocation.
 - Westwood has a 53% allocation to US equity which at an approximate 6.8% allocation of the PTFs, results in a 3.6% exposure to US equity at the total fund level.
 - Westwood has a 26% allocation to US fixed income which results in approximately 1.8% exposure to fixed income at the total fund level.

Asset Class	Current Target	Recommended Portfolio 1	Recommended Portfolio 2
Broad US Equity	17.0%	17.0%	18.5%
Broad International Equity	17.0%	17.0%	18.5%
Fixed Income	21.0%	26.0%	23.0%
Absolute Return	20.0%	15.0%	15.0%
DIS	10.0%	10.0%	10.0%
Real Estate	15.0%	15.0%	15.0%

Westwood Income Opportunity Allocation (as of 3/31/2019)



Monte Carlo Simulation

Expected Returns

The table below shows the expected nominal annual return by percentile for each portfolio on the Frontier for the 1, 3, 5, and 10 year periods.

1 Year	1	2	3	4	5	6	7	8	9	10	Current Target	Recomm. Portfolio 1	Recomm. Portfolio 2
1st Percentile	-12.89	-14.30	-13.85	-13.34	-15.29	-17.25	-21.17	-25.97	-30.03	-34.15	-15.18	-15.22	-16.56
5th Percentile	-5.65	-6.30	-5.74	-5.59	-6.42	-7.39	-9.52	-12.15	-14.50	-16.80	-6.48	-6.40	-7.07
25th Percentile	1.26	1.21	1.42	1.58	1.43	1.19	0.60	-0.25	-0.99	-1.84	1.52	1.43	1.28
50th Percentile	5.54	5.73	5.83	5.95	6.13	6.31	6.54	6.75	6.93	7.08	6.25	6.13	6.26
75th Percentile	9.87	10.35	10.43	10.55	11.08	11.75	12.77	14.04	15.06	16.42	11.26	11.07	11.53
95th Percentile	16.50	17.29	17.34	17.41	18.55	19.74	22.05	25.19	27.59	30.57	18.75	18.52	19.37
99th Percentile	21.60	22.88	22.72	22.81	24.29	26.09	29.53	33.80	37.52	41.59	24.57	24.25	25.52
3 Years													
1st Percentile	-4.79	-5.54	-5.41	-5.24	-6.12	-7.28	-9.61	-12.60	-15.32	-18.28	-6.02	-6.11	-6.87
5th Percentile	-1.34	-1.62	-1.33	-1.16	-1.69	-2.22	-3.40	-5.12	-6.42	-8.05	-1.59	-1.67	-2.06
25th Percentile	2.81	2.83	3.03	3.21	3.15	3.05	2.65	2.07	1.60	1.03	3.23	3.15	3.09
50th Percentile	5.42	5.62	5.79	5.98	6.15	6.31	6.42	6.52	6.65	6.71	6.27	6.14	6.26
75th Percentile	8.00	8.29	8.43	8.59	8.97	9.36	10.03	10.77	11.45	12.16	9.10	8.96	9.23
95th Percentile	11.68	12.25	12.37	12.44	13.14	13.93	15.24	17.00	18.41	19.99	13.31	13.12	13.71
99th Percentile	14.25	14.96	15.01	15.09	16.07	17.18	19.11	21.52	23.59	25.80	16.35	16.05	16.80
5 Years													
1st Percentile	-2.58	-3.12	-2.86	-2.65	-3.33	-4.07	-5.89	-8.50	-11.01	-14.12	-3.29	-3.32	-3.83
5th Percentile	0.15	-0.06	0.19	0.32	-0.05	-0.48	-1.54	-2.87	-4.07	-5.65	0.02	-0.03	-0.36
25th Percentile	3.32	3.38	3.61	3.77	3.73	3.69	3.38	2.91	2.56	2.09	3.83	3.73	3.72
50th Percentile	5.42	5.58	5.74	5.89	6.06	6.20	6.34	6.41	6.47	6.53	6.19	6.05	6.17
75th Percentile	7.38	7.68	7.81	7.98	8.31	8.64	9.15	9.71	10.24	10.76	8.42	8.30	8.52
95th Percentile	10.16	10.62	10.67	10.91	11.47	12.11	13.10	14.48	15.64	16.93	11.66	11.45	11.89
99th Percentile	12.20	12.69	12.83	12.99	13.79	14.73	16.12	17.89	19.53	21.32	14.00	13.77	14.45
10 Years													
1st Percentile	-0.19	-0.55	-0.26	-0.08	-0.53	-1.06	-2.31	-4.13	-5.57	-7.66	-0.37	-0.52	-0.94
5th Percentile	1.61	1.46	1.68	1.86	1.61	1.29	0.53	-0.56	-1.49	-2.61	1.68	1.62	1.39
25th Percentile	3.84	3.91	4.12	4.29	4.29	4.31	4.09	3.73	3.42	3.00	4.40	4.30	4.31
50th Percentile	5.29	5.47	5.66	5.83	5.96	6.10	6.19	6.25	6.28	6.30	6.09	5.96	6.06
75th Percentile	6.76	7.01	7.16	7.36	7.63	7.90	8.26	8.67	9.02	9.39	7.75	7.63	7.80
95th Percentile	8.80	9.18	9.31	9.49	9.96	10.41	11.21	12.16	12.93	13.89	10.11	9.94	10.26
99th Percentile	10.30	10.75	10.83	10.96	11.54	12.21	13.26	14.61	15.84	17.07	11.71	11.52	11.99

Monte Carlo Simulation

Probability of Achieving Set Real Returns

The table below shows the percentage chance of achieving or exceeding the given real return for each portfolio on the Frontier for the 1, 3, 5, and 10 year periods.

1 Year	1	2	3	4	5	6	7	8	9	10	Current Target	Recomm. Portfolio 1	Recomm. Portfolio 2
Target 3%	50	51	51	52	53	53	54	54	55	54	53	53	53
Target 3.5%	47	48	49	49	50	51	52	52	53	53	51	50	51
Target 4%	44	45	46	47	48	49	50	51	51	52	48	48	49
Target 4.5%	41	43	43	44	46	47	48	49	49	50	46	46	46
Target 5%	39	40	41	41	43	44	46	47	48	48	43	43	44
3 Years													
Target 3%	49	50	52	54	55	56	56	56	56	56	56	55	55
Target 3.5%	44	46	48	49	51	52	52	53	53	53	52	51	51
Target 4%	40	41	43	45	46	48	49	50	50	51	48	46	47
Target 4.5%	35	37	39	40	42	44	45	47	48	49	43	42	43
Target 5%	31	33	34	35	38	40	42	44	45	46	39	38	39
5 Years													
Target 3%	48	50	52	54	56	57	57	56	56	56	57	55	56
Target 3.5%	42	44	46	48	50	51	52	53	53	53	51	50	51
Target 4%	36	38	41	42	44	46	48	49	49	50	46	44	46
Target 4.5%	30	33	34	36	39	41	43	45	46	47	40	39	40
Target 5%	25	27	29	31	34	36	39	41	42	43	35	34	35
10 Years													
Target 3%	46	49	52	55	56	57	58	57	56	56	58	56	57
Target 3.5%	38	41	44	47	49	51	52	52	52	52	51	49	50
Target 4%	30	33	35	38	41	44	46	47	47	48	43	41	43
Target 4.5%	23	26	28	31	34	37	40	41	43	44	36	34	36
Target 5%	17	20	22	24	27	30	34	36	38	39	29	27	29

Appendix



RVK Capital Markets Assumptions Overview

Capital Market (CM) assumptions are forward-looking estimates of the behavior of asset classes.

- The asset class behaviors that we attempt to estimate in our CM assumptions – **risk, return** and **correlation** – are widely accepted as the most powerful drivers of the total fund return over the long run.
- Forecast Horizon: CM forecasts are virtually never less than three years, and even forecasts of five years are rare. Typically, the outlook is 10 years or more. Economic forecasts typically center around 12 months.
- We deploy a team of RVK professionals each year to focus on each asset class and we ensure that all of our consultants formally review, critique, and ultimately support our CM assumptions.
- RVK's CM assumptions have a time horizon of 10-20 years.
- Annual updates are typically gradual and incorporate historic performance, current valuations, as well as the overall economic environment.
- The modeling assumes passive index returns for traditional asset classes. Additional alpha can be achieved through active management in select asset classes.

RVK 2019 Assumptions

		2017			2019			Change (2019 - 2017)		
Asset Class	Benchmark	Nominal Return (Arith.)	Standard Deviation	Nominal Return (Geo.)	Nominal Return (Arith.)	Standard Deviation	Nominal Return (Geo.)	Nominal Return (Arith.)	Standard Deviation	Nominal Return (Geo.)
Broad US Equity	Russell 3000	7.05%	17.80%	5.60%	6.80%	17.80%	5.35%	-0.25%	0.00%	-0.25%
Broad International Equity	MSCI ACW Ex US IMI (Gross)	8.85%	20.65%	6.94%	8.90%	20.95%	6.94%	0.05%	0.30%	0.00%
Global Equity	MSCI ACW IMI (Gross)	7.90%	18.30%	6.38%	7.80%	18.40%	6.26%	-0.10%	0.10%	-0.12%
US Aggregate Fixed Income	Bloomberg US Aggregate Bond	3.50%	6.00%	3.33%	3.75%	6.00%	3.58%	0.25%	0.00%	0.25%
TIPS	Bloomberg US Treasury: US TIPS	3.75%	6.25%	3.56%	4.00%	6.25%	3.81%	0.25%	0.00%	0.25%
Core Real Estate	NCREIF ODCE (Gross) (AWA)	6.25%	12.50%	5.52%	6.00%	12.50%	5.27%	-0.25%	0.00%	-0.25%
MLPs	Alerian MLP Index	8.50%	22.00%	6.34%	9.00%	23.00%	6.65%	0.50%	1.00%	0.32%
GTAA	Custom GTAA Index	6.25%	10.00%	5.78%	6.25%	10.50%	5.73%	0.00%	0.50%	-0.05%
Commodities	Bloomberg Commodity Index	5.75%	19.75%	3.95%	5.50%	19.75%	3.70%	-0.25%	0.00%	-0.25%
Diversified Inflation Strategies	Custom DIS Index	6.60%	13.15%	5.80%	6.71%	13.50%	5.87%	0.11%	0.35%	0.07%
US Inflation	Consumer Price Index	2.50%	3.00%	2.46%	2.50%	3.00%	2.46%	0.00%	0.00%	0.00%
Cash Equivalents	BofA ML 3 Mo US T-Bill	2.25%	3.00%	2.21%	3.00%	3.00%	2.96%	0.75%	0.00%	0.75%

2019 RVK Capital Market Assumptions.

Custom GTAA Index is comprised of 60% MSCI ACW IMI (Gross) and 40% Barclays US Aggregate Bond Index.

Custom Diversified Inflation Strategies Index is comprised of 20% Bloomberg US TIPS Index, 30% Alerian MLP Index, 20% MSCI All Country World Investable Market Index (Gross), 30% Dow-Jones-UBS Commodity Index (Total Returns)

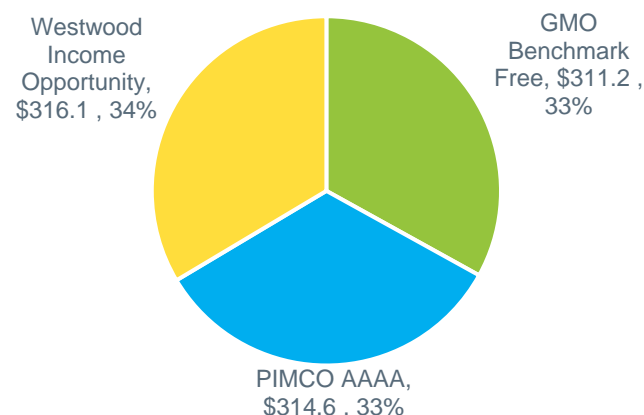
North Dakota Permanent Trust Funds' Current AR Portfolio

The North Dakota Permanent Trust Funds has a target allocation of 20% Absolute Return (“AR”), representing approximately \$941 million as of March 31, 2019.

As of March 31, 2019

	Market Value (\$M)	% of AR Portfolio	% of Total Fund
GMO Benchmark Free	\$311.2	33.0%	6.64%
PIMCO AAAA	\$314.6	33.4%	6.71%
Westwood Income Opportunity	\$316.1	33.0%	6.75%

Absolute Return Portfolio
Market Values as of March 31, 2019 (\$M)



Manager Asset Allocation



AR Replacement Search Candidate

Search Candidates	Product Assets (\$M)	Inception Date	Return Target (Stated)	Target Volatility	Shorting Allowed	Fee CF (basis points)	Description Summary
BlackRock: Global Allocation Fund	\$60,900	10/31/1993	Not Provided	10%	Yes	68 ^{1,2}	Widely-diversified strategy with an opportunistic, value-driven investment approach. Neutral allocation is 60% equities/40% fixed income, but allocations can vary based on the team's view of relative value.
Bridgewater: Optimal Portfolio Fund, Ltd - 10 Vol	\$21,800	2/1/2015	7% (Net of fees)	10%	Yes	100 + 10% perf. fee	Strategy trades 80+ futures, swap, and forward markets globally including in equities, bonds, FX, and commodities. Invests 50% of risk in a strategic risk parity portfolio, 25% in relative value "alphas" with limited correlation to market beta, and 25% to directional short "alphas" that are negatively correlated to market betas. The portfolio seeks to be an optimal combination of alpha and beta.
Eaton Vance: Global Macro Absolute Return Advantage	\$5,036	8/31/2010	Cash + 6-8%	4-8%	Yes	50 ³	Top-down, country focused investment process focuses on forecasting changes in political, macroeconomic and policy environments combined with relative valuation analysis of interest rate and credit sensitive bonds, currencies, and to a lesser extent commodities and equities.
PineBridge: Global Dynamic Asset Allocation	\$12,772	1/1/2002	CPI + 5%	8-10%	Yes	73	Management takes 9-18 month tactical views on asset classes and attempts to provide a return similar to that of equities with 2/3 of the volatility. Allocations across asset classes are driven by forecasts based on PineBridge's various asset management teams.
Westwood: Income Opportunity (Incumbent)	\$3,287	1/1/2003	Custom Index ¹	8-10%	No	72	Tactically invests across common stocks, preferred stocks, fixed income, MLPs, REITs, convertible preferred securities and royalty trusts.

1 - 68 basis points on first \$50m invested in Commingled Fund A of BlackRock Global Allocation Fund subject to minimum revenue requirement of \$25,000. 2 - BlackRock estimates additional administrative costs of 2-6 bps.; 3 - S2 share class is available at 50 bps management fee with other expenses capped at 14 bps. Eaton Vance estimates there is roughly \$300 million left of capacity in the S2 share class.

AR Replacement Search Candidate

Search Candidates	US Equity	International Equity	US Fixed Income	International Fixed Income	Commodities	REIT	Alternatives	Cash & Other
BlackRock: Global Allocation Fund	32%	26%	28%	5%	2%	0%	0%	7%
Bridgewater: Optimal Portfolio Fund, Ltd - 10 Vol	-14% ¹	34% ¹	86% ¹	-111% ¹	-5% ¹	0% ¹	-45% ¹	0% ¹
Eaton Vance: Global Macro Absolute Return Advantage	0% ²	7% ²	5% ²	82% ²	0% ²	0% ²	0% ²	6% ²
PineBridge: Global Dynamic Asset Allocation	17%	25%	27%	4%	0%	0%	25%	2%
<i>Westwood: Income Opportunity (Incumbent)</i>	56%	0%	28%	0%	0%	7%	0%	9%

1 - Allocations shown reflect net exposures. The risk allocation to Optimal Portfolio is broken out as follows: 50% to All Weather (risk parity), 25% to uncorrelated relative value trades and 25% to directional short trades explicitly designed to be uncorrelated with the risk parity portfolio.

2 - Eaton Vance allocations reflect net exposures within each category. The Fund's notional net exposure is 16.60%, the net of 169.26% long and 152.66% short exposure.

PORTLAND

CHICAGO

NEW YORK



MEMORANDUM TO THE BOARD OF UNIVERSITY AND SCHOOL LANDS

May 30, 2019

RE: Quarterly Investment Reports – 1st Quarter 2019
(No Action Requested)

Josh Kevan from RVK will review the performance of the Board of University and School Land's (Board) investment program for the period ending March 31, 2019.

The first report to be reviewed is prepared by RVK to enable the Board to monitor and evaluate the collective performance of the permanent trusts' investments and the performance of individual managers within the program. In order to provide an overview of the program and highlight critical information, an executive summary has been incorporated into the Board report. A more comprehensive, detailed report is also available.

After RVK's presentation, Jeff Engleson will review the report which details the activities of the Strategic Investment and Improvements Fund, the Coal Development Trust Fund and the Capitol Building Fund, as well as the performance of Northern Trust separate investment pool that holds the assets of these three funds.

Attachments:

Attachment 1: RVK Permanent Trust Fund Performance Analysis Report

Attachment 2: Other Funds Managed by the Board Report – Distributed at Board Meeting

Attachment 3: RVK Ultra-short Performance Report



North Dakota Board of University and School Lands

April Performance Update

Data as of April 30, 2019



Capital Markets Review as of April 30, 2019

- Following one of the best performing quarters in nearly two decades, equity markets continued their rally in April.
- Global equity markets benefited from improved corporate earnings, accommodative central banks policies, improved growth expectations for China, and the expectation of a resolution to China-US trade negotiations.
 - The S&P 500 Index returned 4.1% during the month, reaching an all-time high. Robust corporate earnings and the Federal Open Market Committee’s more accommodative stance aided performance.
 - International developed equities as measured by the MSCI EAFE Index returned 2.8% during the month, while emerging market equities, as measured by the MSCI EM Index, posted a return of 2.1%.
 - The US fixed income market as measured by the Bloomberg US Aggregate Index was flat for the month, but gained approximately 3.0% calendar year-to-date (“CYTD”).
- Oil prices increased by 6.3% in April due to a reduction in supply following OPEC’s agreement to curtail oil production and the US ban on Iranian oil.

Market Performance (%)	MTD	QTD	CYTD	1 Yr	3 Yr	5 Yr	7 Yr	10 Yr
S&P 500 (Cap Wtd)	4.05	4.05	18.25	13.49	14.87	11.63	13.59	15.32
Russell 2000	3.40	3.40	18.48	4.61	13.60	8.63	11.52	14.10
MSCI EAFE (Net)	2.81	2.81	13.07	-3.22	7.24	2.60	6.35	7.95
MSCI EAFE SC (Net)	3.02	3.02	13.99	-7.88	7.75	5.27	8.75	11.49
MSCI EM (Net)	2.11	2.11	12.24	-5.04	11.25	4.04	3.17	7.50
Bloomberg US Agg Bond	0.03	0.03	2.97	5.29	1.90	2.57	2.32	3.72
ICE BofAML 3 Mo US T-Bill	0.19	0.19	0.79	2.18	1.25	0.78	0.58	0.45
NCREIF ODCE (Gross)	N/A	N/A	1.42	7.52	7.97	10.18	10.77	8.74
FTSE NAREIT Eq REITs Index (TR)	-0.24	-0.24	16.08	18.88	6.90	8.36	8.77	15.10
HFR1 FOF Comp Index	0.99	0.99	5.66	0.94	4.10	2.53	3.29	3.54
Bloomberg Cmnty Index (TR)	-0.42	-0.42	5.88	-8.03	-0.66	-9.43	-7.14	-2.67

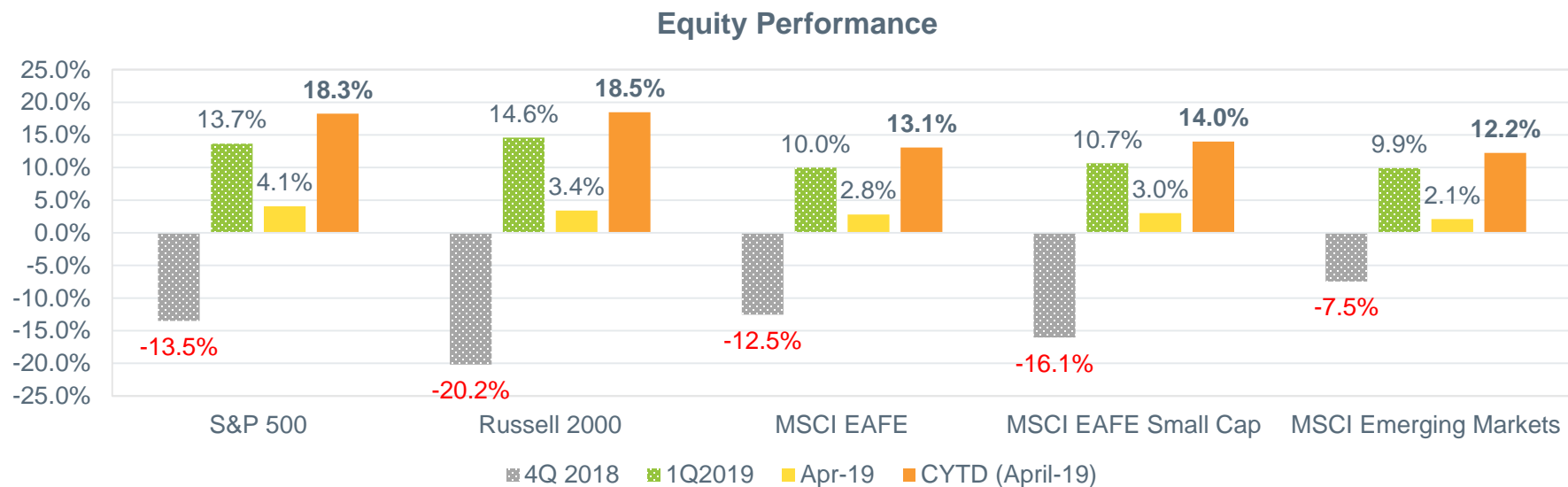
Economic Indicators	Apr-19	Mar-19	Apr-18	10 Yr	20 Yr
Federal Funds Rate (%)	2.45 ▲	2.43	1.89	0.49	1.90
Breakeven Inflation - 5 Year (%)	1.86 ▲	1.79	2.11	1.74	1.86
Breakeven Inflation - 10 Year (%)	1.95 ▲	1.87	2.18	2.01	2.04
Breakeven Inflation - 30 Year (%)	1.99 ▲	1.92	2.19	2.16	2.27
Bloomberg US Agg Bond Index - Yield (%)	2.97 ▲	2.93	3.29	2.61	3.94
Bloomberg US Agg Bond Index - OAS (%)	0.44 —	0.44	0.40	0.55	0.64
Bloomberg US Agg Credit Index - OAS (%)	1.04 ▼	1.13	1.02	1.40	1.47
Bloomberg US Corp: HY Index - OAS (%)	3.58 ▼	3.91	3.38	5.12	5.52
Capacity Utilization (%)	77.93 ▼	78.46	78.80	76.05	77.25
Unemployment Rate (%)	3.6 ▼	3.8	3.9	6.6	5.9
PMI - Manufacturing (%)	52.8 ▼	55.3	57.9	54.3	52.8
Baltic Dry Index - Shipping	1,011 ▲	689	1,341	1,378	2,310
Consumer Conf (Conf Board)	129.20 ▲	124.20	125.60	86.10	92.78
CPI YoY (Headline) (%)	2.0 ▲	1.9	2.5	1.6	2.2
CPI YoY (Core) (%)	2.1 ▲	2.0	2.1	1.8	2.0
PPI YoY (%)	2.0 ▲	1.4	2.4	1.5	2.3
M2 YoY (%)	N/A	N/A	3.8	3.7	6.0
US Dollar Total Weighted Index	92.84 ▲	92.07	87.63	81.70	86.24
WTI Crude Oil per Barrel (\$)	64 ▲	60	69	73	61
Gold Spot per Oz (\$)	1,284 ▼	1,292	1,315	1,318	896

Data as of April 30, 2019.

Capital Markets Review as of April 30, 2019

Equity

- Equity markets' favorable April performance contributed to its strong CYTD returns, with the S&P 500 and MSCI Emerging Markets indices fully recovering from 4Q2018 losses.
- While investor sentiment and several macroeconomic factors have improved in 2019, many uncertainties remain including:
 - unknown Brexit resolution,
 - turmoil in Argentina and Turkey,
 - China-US trade negotiations,
 - US-Iran conflict, and
 - the continued Venezuela political crisis.

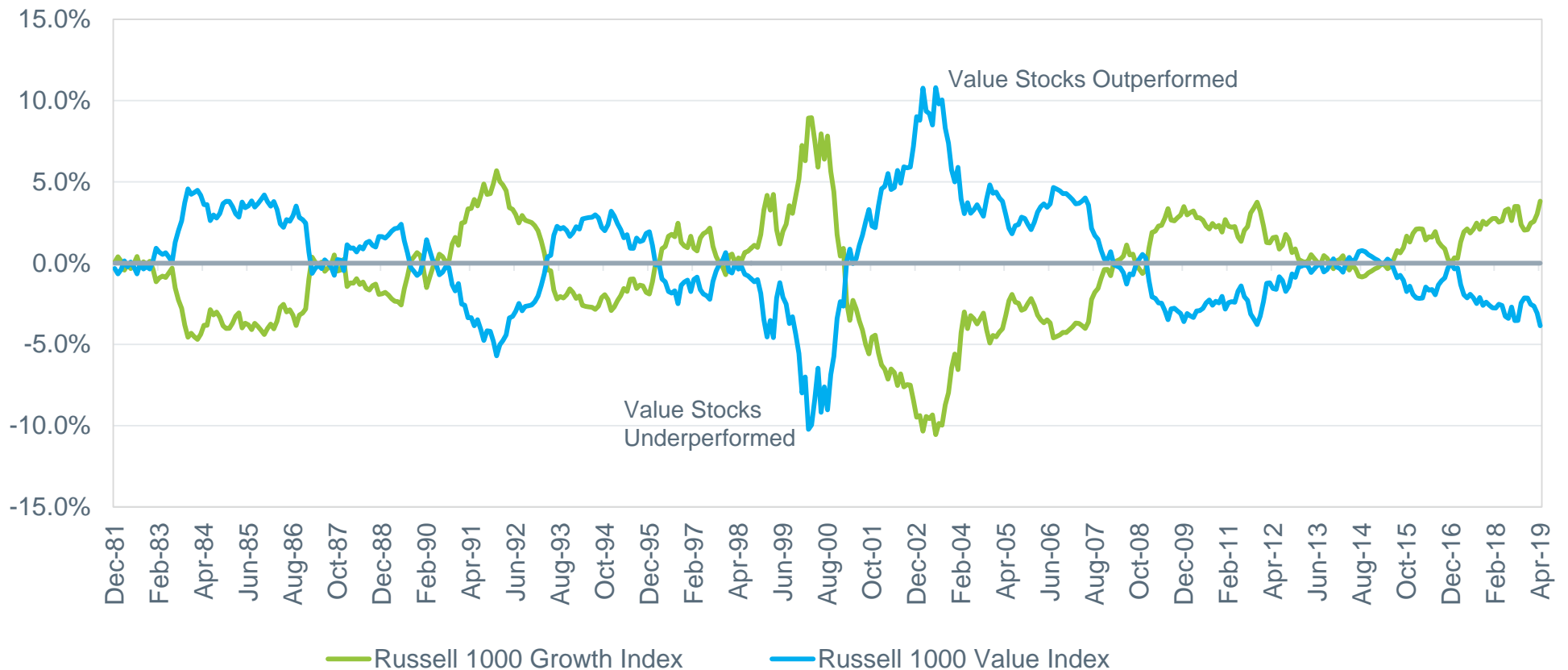


Capital Markets Review as of April 30, 2019

Equity

- Growth has outperformed value consistently for most of the past decade, as a handful of large technology companies have provided narrow market leadership.
- Managers with a valuation focus have generally not fared well though this period.
- Past cycles of growth outperformance, have set the stage for an eventual period of significant value outperformance.

**Rolling 3-Year Excess Return
Benchmark: Russell 1000 Index**



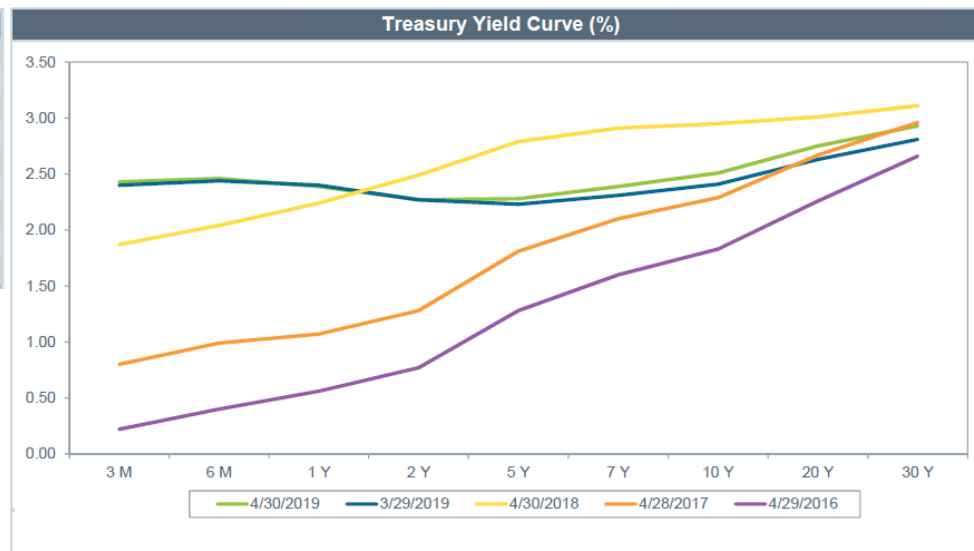
Data as of April 30, 2019

Capital Markets Review as of April 30, 2019

Fixed Income

- April performance¹ for fixed income markets were mixed.
 - US Treasuries returned -0.28% as government bond yields rose amid favorable economic data.
 - Corporate bonds continued to perform well as spreads tightened during the month and U.S. corporate investment grade bonds returned 0.54%.
 - Riskier fixed income assets outperformed during the month; US High Yield corporates gained 1.4% and global high yield bonds returned 1.5%.
 - Emerging market debt was nearly flat for the month, hindered by with rising oil prices and strengthening of the dollar.
- The Federal Open Market Committee kept the Federal Fund rate unchanged, inline with its decision earlier in the year to take a more patient approach to future rate hikes.

Treasury Yield Curve (%)	Apr-19	Mar-19	Apr-18	Apr-17	Apr-16
3 Month	2.43	2.40	1.87	0.80	0.22
6 Month	2.46	2.44	2.04	0.99	0.40
1 Year	2.39	2.40	2.24	1.07	0.56
2 Year	2.27	2.27	2.49	1.28	0.77
5 Year	2.28	2.23	2.79	1.81	1.28
7 Year	2.39	2.31	2.91	2.10	1.60
10 Year	2.51	2.41	2.95	2.29	1.83
20 Year	2.75	2.63	3.01	2.67	2.26
30 Year	2.93	2.81	3.11	2.96	2.66



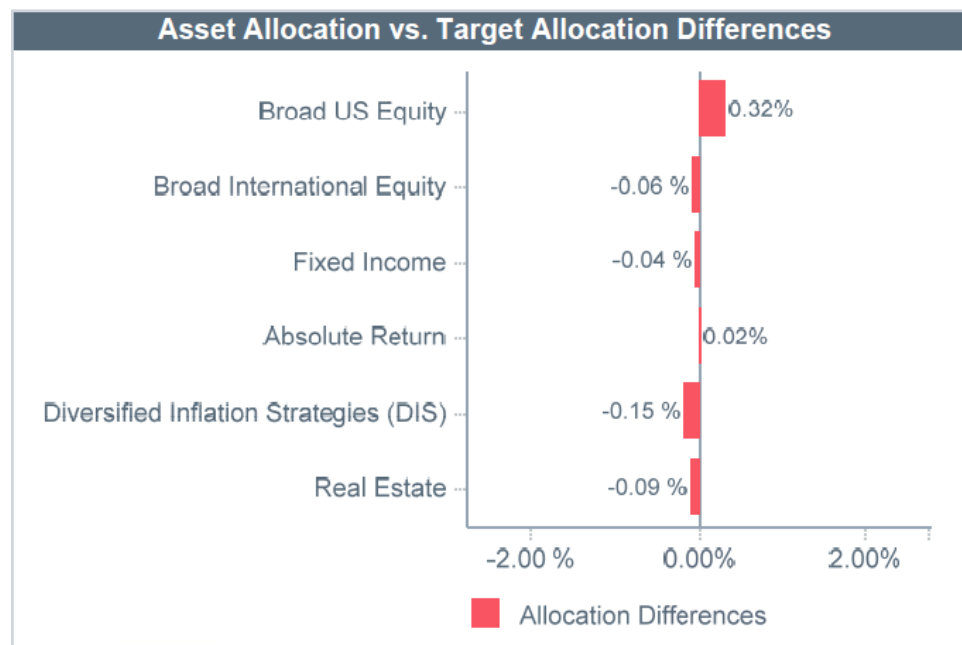
¹Fixed income subsector performance is based on corresponding Bloomberg Barclays indices.

North Dakota Board of University and School Lands

Asset Allocation vs. Target Allocation

- The Permanent Trust Funds' ("the PTFs") assets totaled \$4.78 billion as of April 30, 2019, and returned approximately 8.6% CYTD, gaining \$377 million.
- The PTFs remain in line with policy targets.

Asset Allocation vs. Target Allocation			
	Market Value (\$)	Allocation (%)	Target (%)
Broad US Equity	828,225,721	17.32	17.00
Broad International Equity	809,898,050	16.94	17.00
Fixed Income	1,001,883,953	20.96	21.00
Absolute Return	957,078,003	20.02	20.00
Diversified Inflation Strategies (DIS)	470,725,053	9.85	10.00
Real Estate	712,742,228	14.91	15.00
Total Fund	4,780,553,007	100.00	100.00



Schedule of Investable Assets					
Period Ending	Beginning Market Value (\$)	Net Cash Flow (\$)	Gain/Loss (\$)	Ending Market Value (\$)	% Return
CYTD	4,372,852,953	30,358,827	377,341,228	4,780,553,007	8.62

North Dakota Board of University and School Lands

Total Fund and Asset Class Performance

- Over the past three years, the PTFs has gained 6.6% net of fees on an annual basis, trailing the total fund benchmark by 0.4%. US Equity, Fixed Income, and Real Estate have outperformed over this period while International Equity, Absolute Return, and Diversified Inflation Strategies have trailed their benchmarks.
- Longer term total fund performance data is not reflective of the current investment policy as the PTFs has been transitioning to new allocation targets over much of the past 5 years.

	MTD	CYTD	FYTD	1 Year	3 Years	5 Years	7 Years	10 Years	2018	2017	2016	Since Incep.	Inception Date
Total Fund (Net)	1.44	8.48	2.98	2.98	6.64	4.18	5.86	8.30	-5.12	12.62	8.65	6.62	08/01/1995
Target Allocation Index (Net)	1.45	9.18	4.36	4.52	7.07	5.40	6.85	N/A	-4.51	13.14	7.85	N/A	
Difference	-0.01	-0.70	-1.38	-1.54	-0.43	-1.22	-0.99	N/A	-0.61	-0.52	0.80	N/A	
Total Fund (Gross)	1.46	8.62	3.35	3.46	7.18	4.65	6.27	N/A	-4.63	13.24	9.17	8.14	07/01/2009
Target Allocation Index (Gross)	1.45	9.21	4.47	4.66	7.21	5.54	6.95	N/A	-4.38	13.29	8.00	8.93	
Difference	0.01	-0.59	-1.12	-1.20	-0.03	-0.89	-0.68	N/A	-0.25	-0.05	1.17	-0.79	
Broad US Equity	4.13	18.71	8.37	12.32	15.05	11.21	12.78	N/A	-5.40	21.53	13.47	14.58	07/01/2009
Russell 3000 Index	3.99	18.60	8.88	12.68	14.74	11.20	13.37	15.29	-5.24	21.13	12.74	14.92	
Difference	0.14	0.11	-0.51	-0.36	0.31	0.01	-0.59	N/A	-0.16	0.40	0.73	-0.34	
Broad International Equity	2.78	13.89	-0.42	-4.38	7.32	2.30	6.68	N/A	-16.27	26.75	5.02	6.80	07/01/2009
MSCI ACW Ex US Index (USD) (Net)	2.64	13.23	0.95	-3.23	8.09	2.83	5.35	7.75	-14.20	27.19	4.50	6.62	
Difference	0.14	0.66	-1.37	-1.15	-0.77	-0.53	1.33	N/A	-2.07	-0.44	0.52	0.18	
Fixed Income	0.08	2.57	3.68	3.33	2.57	2.85	2.94	N/A	-0.02	5.01	4.13	4.58	07/01/2009
Global Fixed Income Custom Index	0.14	3.39	4.56	4.54	2.26	2.43	2.40	4.03	-0.52	4.98	3.66	3.84	
Difference	-0.06	-0.82	-0.88	-1.21	0.31	0.42	0.54	N/A	0.50	0.03	0.47	0.74	
Bloomberg US Agg Bond Index	0.03	2.97	4.67	5.29	1.90	2.57	2.32	3.72	0.01	3.54	2.65	3.65	
Difference	0.05	-0.40	-0.99	-1.96	0.67	0.28	0.62	N/A	-0.03	1.47	1.48	0.93	
Absolute Return	1.24	7.10	4.02	2.61	6.26	N/A	N/A	N/A	-4.41	12.99	8.45	2.95	07/01/2014
Absolute Return Custom Index	1.99	10.69	4.84	4.96	7.54	5.31	6.54	8.48	-5.93	15.39	6.22	4.86	
Difference	-0.75	-3.59	-0.82	-2.35	-1.28	N/A	N/A	N/A	1.52	-2.40	2.23	-1.91	
Diversified Inflation Strategies (DIS)	0.30	12.49	-4.31	-3.05	2.50	-0.07	N/A	N/A	-13.73	3.01	19.55	0.40	04/01/2014
DIS Custom Index	-1.04	8.20	-1.29	-1.51	2.73	0.30	1.71	6.25	-9.13	4.80	16.53	0.73	
Difference	1.34	4.29	-3.02	-1.54	-0.23	-0.37	N/A	N/A	-4.60	-1.79	3.02	-0.33	
Real Estate	0.00	1.25	5.43	8.06	9.98	N/A	N/A	N/A	9.61	11.28	9.77	10.27	07/01/2015
NCREIF ODCE Index (AWA) (Gross)	0.00	1.42	5.36	7.52	7.97	10.18	10.77	8.74	8.35	7.62	8.77	8.73	
Difference	0.00	-0.17	0.07	0.54	2.01	N/A	N/A	N/A	1.26	3.66	1.00	1.54	

¹April performance is preliminary and does not include Real Estate composite and index performance which is only available on a quarterly basis. Interim period performance assumes a 0.00% return.

North Dakota Board of University and School Lands

US Equity Portfolio

- The US equity portfolio outperformed its benchmark by 14 basis points in April, benefiting from outperformance of its sole active manager, Northern Trust Small Cap Core.
 - Northern Trust's overweight allocation to technology and favorable stock selection added value during the month. While the fund has underperformed during the CYTD period, largely as a result of its more defensive portfolio positioning in 1Q2019, its long-term relative performance remains favorable.
- The portfolio's intentional overweight allocations to mid- and small- cap stocks detracted from relative performance during the fiscal year and trailing one-year periods, as large cap stocks outperformed mid and small cap stocks.

	MTD	CYTD	FYTD	1 Year	3 Years	5 Years	10 Years	2018	2017	2016	Since Incep.	Inception Date
Broad US Equity	4.13	18.71	8.37	12.32	15.05	11.21	N/A	-5.40	21.53	13.47	14.58	07/01/2009
Russell 3000 Index	3.99	18.60	8.88	12.68	14.74	11.20	15.29	-5.24	21.13	12.74	14.92	
Difference	0.14	0.11	-0.51	-0.36	0.31	0.01	N/A	-0.16	0.40	0.73	-0.34	
State Street Russell 1000 Index SL (CF)	4.04	18.60	9.82	13.34	N/A	N/A	N/A	-4.77	N/A	N/A	13.11	06/01/2017
Russell 1000 Index	4.04	18.60	9.80	13.33	14.82	11.41	15.39	-4.78	21.69	12.05	13.11	
Difference	0.00	0.00	0.02	0.01	N/A	N/A	N/A	0.01	N/A	N/A	0.00	
State Street Russell Mid Cap Index (SA)	3.81	20.91	7.58	10.77	N/A	N/A	N/A	-8.94	N/A	N/A	10.95	06/01/2017
Russell Mid Cap Index	3.81	20.97	7.49	10.69	12.82	9.75	15.65	-9.06	18.52	13.80	10.90	
Difference	0.00	-0.06	0.09	0.08	N/A	N/A	N/A	0.12	N/A	N/A	0.05	
NT Small Cap Core (CF)	4.95	17.51	-0.18	6.67	16.37	N/A	N/A	-6.97	22.66	19.02	8.77	07/01/2014
Russell 2000 Index	3.40	18.48	-2.08	4.61	13.60	8.63	14.10	-11.01	14.65	21.31	7.60	
Difference	1.55	-0.97	1.90	2.06	2.77	N/A	N/A	4.04	8.01	-2.29	1.17	

North Dakota Board of University and School Lands

International Equity Portfolio

- The PTFs' international equity portfolio returned 2.8% in April, outperforming its benchmark by 0.14%.
 - DFA's focus on small cap and value stocks detracted from performance.
 - QMA's valuation and quality factors (two of the four fundamental factors used in QMA's bottom-up, systematic stock selection strategy) detracted from relative performance during the month.

	MTD	CYTD	FYTD	1 Year	3 Years	5 Years	10 Years	2018	2017	2016	Since Incep.	Inception Date
Broad International Equity	2.78	13.89	-0.42	-4.38	7.32	2.30	N/A	-16.27	26.75	5.02	6.80	07/01/2009
MSCI ACW Ex US Index (USD) (Net)	2.64	13.23	0.95	-3.23	8.09	2.83	7.75	-14.20	27.19	4.50	6.62	
Difference	0.14	0.66	-1.37	-1.15	-0.77	-0.53	N/A	-2.07	-0.44	0.52	0.18	
State Street World Ex US Index (CF)	2.83	13.56	0.31	-2.68	7.11	N/A	N/A	-14.14	24.17	2.68	1.86	07/01/2014
MSCI Wrld Ex US Index (USD) (Net)	2.83	13.58	0.35	-2.63	7.16	2.45	7.81	-14.09	24.21	2.75	1.92	
Difference	0.00	-0.02	-0.04	-0.05	-0.05	N/A	N/A	-0.05	-0.04	-0.07	-0.06	
DFA Emg Mkts Core Eq;I (DFCEX)	1.38	10.25	2.24	-6.53	10.29	N/A	N/A	-14.77	37.36	13.05	3.06	07/01/2014
MSCI Emg Mkts Index (USD) (Net)	2.11	12.24	2.72	-5.04	11.25	4.04	7.50	-14.58	37.28	11.19	2.89	
Difference	-0.73	-1.99	-0.48	-1.49	-0.96	N/A	N/A	-0.19	0.08	1.86	0.17	
Harding Loevner:IEM;IZ (HLEZX)	3.78	19.25	2.03	-2.33	12.69	N/A	N/A	-17.61	37.29	14.73	4.72	07/01/2014
MSCI Emg Mkts Index (USD) (Net)	2.11	12.24	2.72	-5.04	11.25	4.04	7.50	-14.58	37.28	11.19	2.89	
Difference	1.67	7.01	-0.69	2.71	1.44	N/A	N/A	-3.03	0.01	3.54	1.83	
QMA International Small Cap Equity (CF)	2.86	14.11	-7.64	-11.71	N/A	N/A	N/A	N/A	N/A	N/A	-14.15	02/01/2018
MSCI EAFE Sm Cap Index (USD) (Gross)	3.08	14.17	-4.90	-7.53	8.15	5.64	11.87	-17.58	33.50	2.55	-8.48	
Difference	-0.22	-0.06	-2.74	-4.18	N/A	N/A	N/A	N/A	N/A	N/A	-5.67	

North Dakota Board of University and School Lands

International Equity Portfolio

DFA Emerging Markets Core

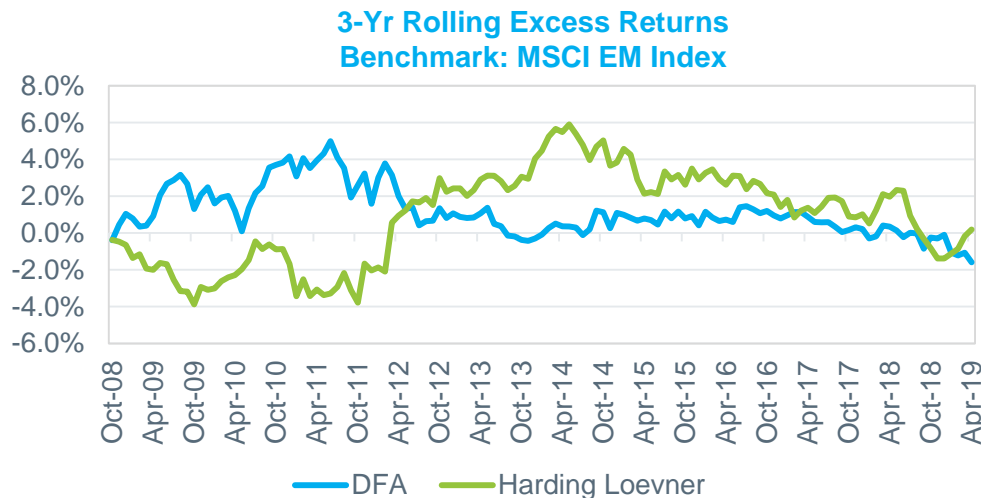
- **Strategy Overview**

- Systematically built, taking into account a broader investment universe than the MSCI EM Index
 - The portfolio has over 5,000 holdings compared to 1,100 of the Index; Investment universe is limited to meeting criteria based on country size and liquidity
- Emphasis on factors believed to drive stock prices, including size (focus on small cap), price (book value/market cap, value stocks), and profitability (excludes stocks with lowest profitability); Momentum is used to determine the timing of buy and sell decisions
- DFA's quantitative approach and diversified portfolio serves as a complement to Harding Loevner's fundamental bottom-up concentrated portfolio.

Harding Loevner Emerging Markets

- **Strategy Overview**

- Employs a fundamental philosophy focusing on four key criteria (competitive advantage; quality management; financial strength, and sustainable growth)
- Focuses on bottom-up company research and views understanding the global competitive structure of an industry as critical to identifying the best companies



DFA and Harding Loevner - Excess Return Correlation
Benchmark: MSCI EM Index

	3-Year	5-Year	10-Year
Excess Return Correlation	0.10	0.25	0.35

North Dakota Board of University and School Lands

Fixed Income Portfolio

- The fixed income portfolio was relatively flat for the month and underperformed by 6 basis points¹.
 - Brandywine's significant out-of-benchmark allocation to emerging market debt hindered performance in April.
- The portfolio gained 2.6%¹ during the CYTD period and trailed its custom benchmark by 82 basis points.
 - While all active managers outperformed¹ their respective benchmarks, the portfolio's lower duration compared to the benchmark detracted from relative performance as interest rates declined during 1Q2019.

	MTD	CYTD	FYTD	1 Year	3 Years	5 Years	10 Years	2018	2017	2016	Since Incep.	Inception Date
Fixed Income	0.08	2.57	3.68	3.33	2.57	2.85	N/A	-0.02	5.01	4.13	4.58	07/01/2009
Global Fixed Income Custom Index	0.14	3.39	4.56	4.54	2.26	2.43	4.03	-0.52	4.98	3.66	3.84	
Difference	-0.06	-0.82	-0.88	-1.21	0.31	0.42	N/A	0.50	0.03	0.47	0.74	
Bloomberg US Agg Bond Index	0.03	2.97	4.67	5.29	1.90	2.57	3.72	0.01	3.54	2.65	3.65	
Difference	0.05	-0.40	-0.99	-1.96	0.67	0.28	N/A	-0.03	1.47	1.48	0.93	
Payden & Rygel Long Term (SA)	0.25	3.52	5.08	5.58	3.24	3.38	5.15	0.36	5.20	4.03	5.92	08/01/1995
Bloomberg US Agg Bond Index	0.03	2.97	4.67	5.29	1.90	2.57	3.72	0.01	3.54	2.65	5.15	
Difference	0.22	0.55	0.41	0.29	1.34	0.81	1.43	0.35	1.66	1.38	0.77	
JP Morgan FI Intermediate Bond (SA)	0.16	2.57	4.41	4.99	2.01	2.43	N/A	1.11	2.81	1.99	2.08	08/01/2012
Bloomberg US Gov't Crdt Int Trm Bond Index	0.19	2.52	4.44	4.99	1.63	2.05	3.12	0.88	2.14	2.08	1.73	
Difference	-0.03	0.05	-0.03	0.00	0.38	0.38	N/A	0.23	0.67	-0.09	0.35	
Brandywine Gbl Opp FI (CF)	-0.84	2.42	0.47	-4.04	1.78	N/A	N/A	-4.71	13.33	5.69	1.37	11/01/2014
FTSE Wrld Gov't Bond Index	-0.50	1.24	1.34	-0.18	0.37	0.27	2.15	-0.84	7.49	1.60	0.96	
Difference	-0.34	1.18	-0.87	-3.86	1.41	N/A	N/A	-3.87	5.84	4.09	0.41	
Payden:Low Dur;Inv (PYSBX)	0.34	1.90	3.17	3.33	2.16	1.79	3.12	1.48	1.93	2.26	3.92	04/01/2002
Bloomberg US Trsy 1-3 Yr Index	0.20	1.20	2.72	3.11	1.03	0.99	1.08	1.56	0.42	0.86	2.26	
Difference	0.14	0.70	0.45	0.22	1.13	0.80	2.04	-0.08	1.51	1.40	1.66	
AG Direct Lending Fund III, L.P.	0.00	0.00	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	2.40	09/01/2018
CS Lvg'd Loan Index	0.00	0.00	1.93	2.23	5.00	3.66	7.06	4.36	4.25	9.88	0.68	
Difference	0.00	0.00	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	1.72	
Schroders Securitized Credit (SA)	0.53	2.04	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	1.91	12/01/2018
3 Month LIBOR Index (USD)+1.75%	0.36	1.53	3.59	4.31	3.31	2.80	2.48	3.86	2.88	2.42	1.90	
Difference	0.17	0.51	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	0.01	

¹Performance excludes returns from Angelo Gordon Direct Lending, given first quarter performance for the manager was not available at the time this report was produced. AG Direct Lending Fund is available on a quarterly basis. Interim period performance assumes a 0.00% return.

Data as of April 30, 2019.

Returns are gross of fees, unless noted otherwise.

North Dakota Board of University and School Lands

Absolute Return Portfolio

- The PTFs' absolute return portfolio underperformed its benchmark in April and CYTD periods by 75 and 359 basis points respectively.
 - GMO underperformed due to its significant below-benchmark allocation to US equities, overweight allocation to emerging markets, and meaningful allocation to cash (which proved beneficial during the 4Q18 sell-off).
 - In contrast to 4Q18, PIMCO's short exposure to US equity detracted from performance in 2019.
 - Westwood's¹ significant underweight allocation to REITs in favor of an overweight allocation to US equities was beneficial.
- The portfolio's fiscal year to date and trailing 1-year underperformance is a result of significant underperformance during the CYTD period.

	MTD	CYTD	FYTD	1 Year	3 Years	5 Years	10 Years	2018	2017	2016	Since Incep.	Inception Date
Absolute Return	1.24	7.10	4.02	2.61	6.26	N/A	N/A	-4.41	12.99	8.45	2.95	07/01/2014
Absolute Return Custom Index	1.99	10.69	4.84	4.96	7.54	5.31	8.48	-5.93	15.39	6.22	4.86	
Difference	-0.75	-3.59	-0.82	-2.35	-1.28	N/A	N/A	1.52	-2.40	2.23	-1.91	
GMO:Bchmk-Fr All;IV (GBMBX)	1.55	7.32	3.67	1.93	6.36	N/A	N/A	-4.46	14.07	4.35	2.84	07/01/2014
60% MSCI ACW (Net)/40% Bbrg Gbl Agg Idx	1.91	10.20	4.41	3.65	7.22	4.59	7.96	-6.00	17.09	5.69	4.12	
Difference	-0.37	-2.88	-0.74	-1.72	-0.86	N/A	N/A	1.54	-3.02	-1.34	-1.28	
Consumer Price Index+5%	0.94	3.39	5.62	7.10	7.33	6.59	6.92	7.01	7.21	7.18	6.52	
Difference	0.60	3.93	-1.95	-5.17	-0.97	N/A	N/A	-11.47	6.86	-2.83	-3.68	
PIMCO:All Ast Ath;Inst (PAUIX)	0.20	4.15	1.34	-1.94	5.27	N/A	N/A	-5.22	13.09	14.80	1.09	07/01/2014
All Asset Custom Index (EqI Wtd)	1.21	6.78	4.77	5.31	5.60	4.10	6.50	-1.62	8.94	6.47	3.80	
Difference	-1.01	-2.63	-3.43	-7.25	-0.33	N/A	N/A	-3.60	4.15	8.33	-2.71	
Consumer Price Index+5%	0.94	3.39	5.62	7.10	7.33	6.59	6.92	7.01	7.21	7.18	6.52	
Difference	-0.74	0.76	-4.28	-9.04	-2.06	N/A	N/A	-12.23	5.88	7.62	-5.43	
Westwood Income Opportunity (SA)	1.96	9.93	7.09	8.02	7.12	N/A	N/A	-3.64	11.83	6.47	4.90	07/01/2014
Westwood Custom Index	0.86	9.47	7.34	10.65	6.21	6.17	8.80	-1.31	8.13	5.37	5.84	
Difference	1.10	0.46	-0.25	-2.63	0.91	N/A	N/A	-2.33	3.70	1.10	-0.94	
Consumer Price Index+5%	0.94	3.39	5.62	7.10	7.33	6.59	6.92	7.01	7.21	7.18	6.52	
Difference	1.02	6.54	1.47	0.92	-0.21	N/A	N/A	-10.65	4.62	-0.71	-1.62	

¹Westwood was placed on formal watch status in April 2019, per RVK and Staff's recommendation as discussed in the April RVK Westwood Income Opportunity update memorandum.

Data as of April 30, 2019.

Returns are gross of fees, unless noted otherwise.

North Dakota Board of University and School Lands

Diversified Inflation Strategies Portfolio

- The DIS portfolio gained 0.3% in April and outperformed its benchmark by 134 basis points.
 - Harvest, the portfolio's only underperforming manager in April, was hurt by a pull back in the midstream energy sector. Underperformance during the month was offset by the fund's strong 1Q19 absolute and relative performance.
- The DIS portfolio's strong CYTD absolute and relative performance improved its trailing period performance. Underperformance during FYTD and trailing 1-year is primarily due to Van Eck's meaningful underperformance in 2018 and 2017.

	MTD	CYTD	FYTD	1 Year	3 Years	5 Years	10 Years	2018	2017	2016	Since Incep.	Inception Date
Diversified Inflation Strategies (DIS)	0.30	12.49	-4.31	-3.05	2.50	-0.07	N/A	-13.73	3.01	19.55	0.40	04/01/2014
DIS Custom Index	-1.04	8.20	-1.29	-1.51	2.73	0.30	6.25	-9.13	4.80	16.53	0.73	
Difference	1.34	4.29	-3.02	-1.54	-0.23	-0.37	N/A	-4.60	-1.79	3.02	-0.33	
NT Common TIPS Index (CF)	0.36	3.62	2.31	3.17	1.80	1.79	3.79	-1.25	3.14	4.82	4.03	06/01/2004
Bloomberg US Trsy US TIPS Index	0.33	3.54	2.26	3.10	1.69	1.74	3.64	-1.26	3.01	4.68	3.93	
Difference	0.03	0.08	0.05	0.07	0.11	0.05	0.15	0.01	0.13	0.14	0.10	
Gresham Commodities (SA)	1.32	10.67	-4.89	-6.28	3.63	N/A	N/A	-13.15	11.98	12.44	-2.16	07/01/2015
Bloomberg Cmdty Ex Energy Index (TR)	-2.71	-0.44	-6.15	-11.43	-3.23	-6.95	-0.26	-10.95	5.36	7.77	-3.69	
Difference	4.03	11.11	1.26	5.15	6.86	N/A	N/A	-2.20	6.62	4.67	1.53	
Gresham Custom Index	0.66	8.54	-5.87	-8.67	0.26	N/A	N/A	-14.04	5.89	12.56	-3.65	
Difference	0.66	2.13	0.98	2.39	3.37	N/A	N/A	0.89	6.09	-0.12	1.49	
Harvest MLP (SA)	-1.36	19.28	0.53	6.11	4.13	N/A	N/A	-12.98	-4.81	20.10	-3.07	07/01/2015
S&P MLP Index (TR)	-0.99	17.57	2.82	7.01	4.01	-4.78	9.70	-11.67	-5.58	21.95	-4.29	
Difference	-0.37	1.71	-2.29	-0.90	0.12	N/A	N/A	-1.31	0.77	-1.85	1.22	
Van Eck NR Equities (SA)	1.22	15.21	-16.98	-17.43	-2.16	N/A	N/A	-28.04	0.09	45.15	-4.94	07/01/2015
S&P Gbl Natural Res Sect Index (TR)	0.03	12.42	-5.22	-4.82	9.49	1.29	4.40	-12.57	22.66	32.28	5.84	
Difference	1.19	2.79	-11.76	-12.61	-11.65	N/A	N/A	-15.47	-22.57	12.87	-10.78	
S&P N Amer Natural Res Index	0.39	16.67	-12.54	-9.11	0.99	-4.95	4.44	-21.07	1.23	30.87	-0.96	
Difference	0.83	-1.46	-4.44	-8.32	-3.15	N/A	N/A	-6.97	-1.14	14.28	-3.98	

North Dakota Board of University and School Lands

Real Estate Portfolio

- During the 1Q2019, the real estate portfolio returned 1.0% underperforming its benchmark by 16 basis points.
 - Performance continued to be led by the industrial sector and strong returns from Prologis.
 - Jamestown returned -0.38% and was negatively impacted by capital expenditures related to some property renovations and declines in retail market rents.
 - UBS underperformed the Index due to lower retail appreciation, as its retail portfolio declined 1.2%.
 - JP Morgan trailed the Index due to a total portfolio depreciation of 0.2%, resulting from marking its debt to market as US Treasuries rates declined during the quarter.
- Real estate has remained one of the strongest performing asset classes for the Permanent Trust Funds, providing an annualized net return of 9.1% since its inception in 2015.

Data as of 3/31/2019 (net of fees)	QTD	CYTD	FYTD	1 Year	3 Years	5 Years	10 Years	2018	2017	2016	Since Incep.	Inception Date
Real Estate	1.04	1.04	4.68	6.95	8.55	N/A	N/A	8.27	9.54	8.48	9.09	07/01/2015
NCREIF ODCE Index (AWA) (Net)	1.20	1.20	4.65	6.55	7.00	9.18	7.73	7.36	6.66	7.79	7.95	
Difference	-0.16	-0.16	0.03	0.40	1.55	N/A	N/A	0.91	2.88	0.69	1.14	
Morgan Stanley Prime Property Fund (CF)	1.27	1.27	5.28	7.19	8.43	N/A	N/A	7.96	8.75	9.23	9.11	07/01/2015
NCREIF ODCE Index (AWA) (Net)	1.20	1.20	4.65	6.55	7.00	9.18	7.73	7.36	6.66	7.79	7.95	
Difference	0.07	0.07	0.63	0.64	1.43	N/A	N/A	0.60	2.09	1.44	1.16	
UBS Trumbull Property Fund, L.P. (CF)	0.50	0.50	3.30	4.94	5.45	N/A	N/A	6.17	5.42	6.14	6.48	07/01/2015
NCREIF ODCE Index (AWA) (Net)	1.20	1.20	4.65	6.55	7.00	9.18	7.73	7.36	6.66	7.79	7.95	
Difference	-0.70	-0.70	-1.35	-1.61	-1.55	N/A	N/A	-1.19	-1.24	-1.65	-1.47	
Jamestown Premier Property Fund (CF)	-0.38	-0.38	2.24	4.06	8.57	N/A	N/A	7.75	14.22	5.26	8.97	07/01/2015
NCREIF ODCE Index (AWA) (Net)	1.20	1.20	4.65	6.55	7.00	9.18	7.73	7.36	6.66	7.79	7.95	
Difference	-1.58	-1.58	-2.41	-2.49	1.57	N/A	N/A	0.39	7.56	-2.53	1.02	
Prologis USLF (CF)	2.94	2.94	9.69	15.25	17.11	N/A	N/A	15.84	20.37	N/A	17.11	04/01/2016
NCREIF ODCE Index (AWA) (Net)	1.20	1.20	4.65	6.55	7.00	9.18	7.73	7.36	6.66	7.79	7.00	
Difference	1.74	1.74	5.04	8.70	10.11	N/A	N/A	8.48	13.71	N/A	10.11	
JP Morgan US Real Estate Income and Growth, LP (CF)	0.51	0.51	2.75	4.11	N/A	N/A	N/A	5.73	5.82	N/A	6.31	07/01/2016
NCREIF ODCE Index (AWA) (Net)	1.20	1.20	4.65	6.55	7.00	9.18	7.73	7.36	6.66	7.79	6.93	
Difference	-0.69	-0.69	-1.90	-2.44	N/A	N/A	N/A	-1.63	-0.84	N/A	-0.62	

Data as of March 31, 2019.
Returns are net of fees.

PORTLAND

CHICAGO

NEW YORK





Investment Performance Analysis

North Dakota Board of University and School Lands

Period Ended: March 31, 2019

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Capital Markets Review

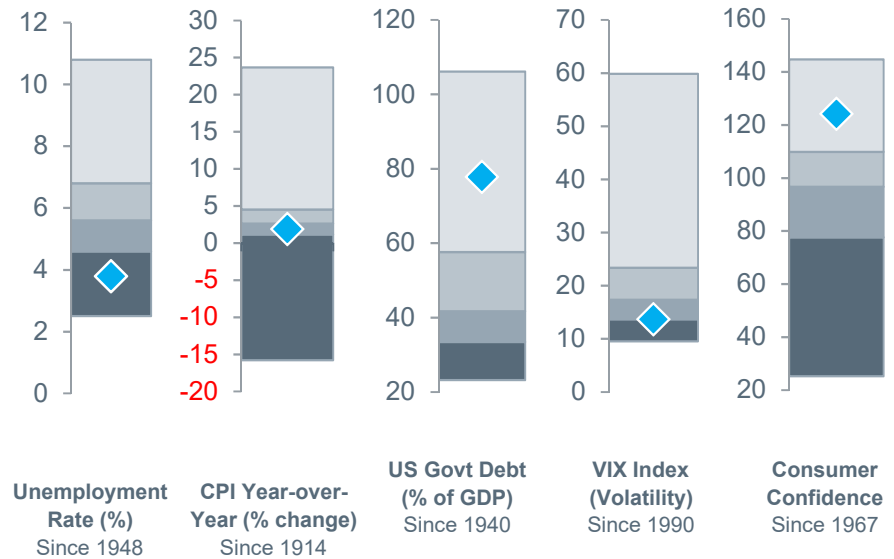


First Quarter Economic Environment

Key Economic Indicators

Risk assets and fixed income markets performed well over the first quarter, largely driven by a more accommodative stance by the Federal Open Market Committee (“FOMC”). The global equity market, as represented by the MSCI All Country World Index, rose over 12% during the quarter, while fixed income markets benefited from the shift in interest rate expectations. Volatility markets also declined back to record low levels on the message of greater accommodation by the FOMC. Positive returns were generated despite declining growth forecasts in Asia and Europe, weak global inflation, market uncertainty caused by geopolitical risks, such as Brexit, and global markets destabilized by ongoing trade wars. At its March meeting, the FOMC maintained policy rates in the range of 2.25% to 2.50%. Interest rates declined notably over the period amidst signs of weakness in economic growth and a continued lack of inflationary pressure. During the quarter, the 10-year nominal Treasury yield fell to 2.39%, a level not seen since 2017, while the yield curve continued to flatten and even invert across certain maturities. However, the labor market hasn't reflected recessionary fears as US employment remains at record levels.

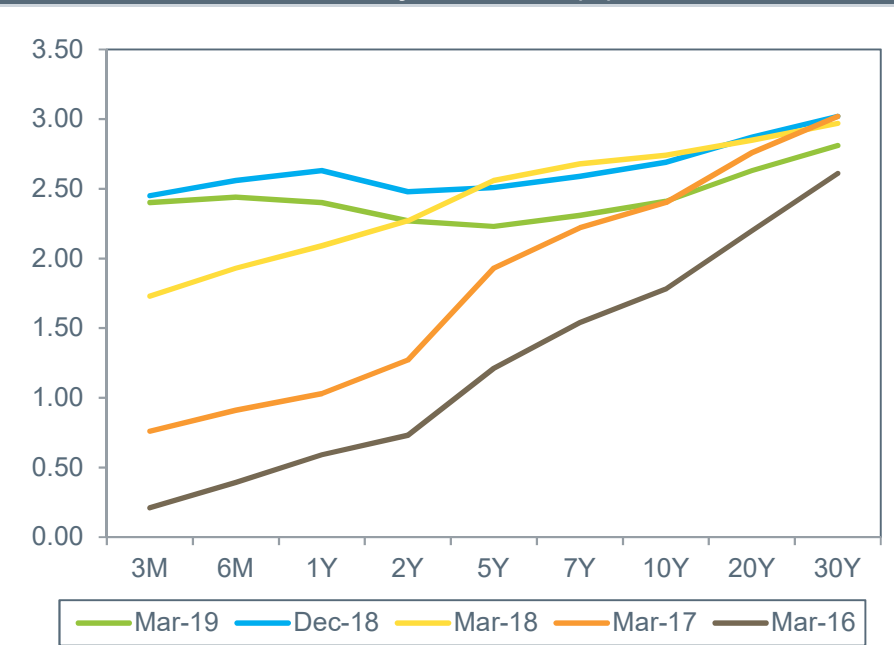
Key Economic Indicators



Economic Indicators

	Mar-19	Dec-18	Mar-18	Mar-16	20 Yr
Federal Funds Rate (%)	2.43 ▲	2.40	1.68	0.25	1.91
Breakeven Infl. - 5 Yr (%)	1.79 ▲	1.49	2.04	1.51	1.86
Breakeven Infl. - 10 Yr (%)	1.87 ▲	1.71	2.06	1.63	2.03
CPI YoY (Headline) (%)	1.9 -	1.9	2.4	0.9	2.2
Unemployment Rate (%)	3.8 ▼	3.9	4.0	5.0	5.9
Real GDP YoY (%)	3.2 ▲	3.0	2.6	1.6	2.2
PMI - Manufacturing	55.3 ▲	54.3	59.3	51.2	52.8
USD Total Wtd Idx	92.07 ▲	91.79	86.37	89.72	86.26
WTI Crude Oil per Barrel (\$)	60.1 ▲	45.4	64.9	38.3	60.6
Gold Spot per Oz (\$)	1,292 ▲	1,282	1,326	1,233	892

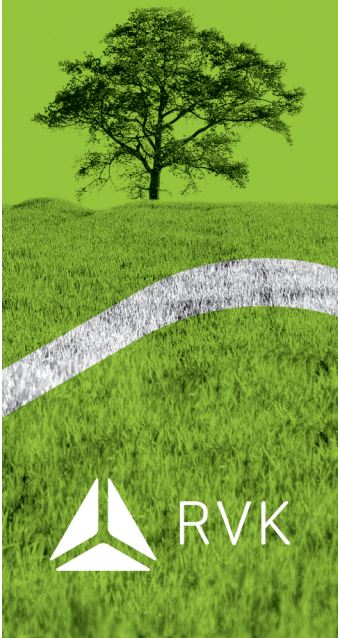
Treasury Yield Curve (%)



Market Performance (%)

	QTD	CYTD	1 Yr	5 Yr	10 Yr
S&P 500 (Cap Wtd)	13.65	13.65	9.50	10.91	15.92
Russell 2000	14.58	14.58	2.05	7.05	15.36
MSCI EAFE (Net)	9.98	9.98	-3.71	2.33	8.96
MSCI EAFE SC (Net)	10.65	10.65	-9.36	4.47	12.76
MSCI Emg Mkts (Net)	9.93	9.93	-7.41	3.68	8.95
Bloomberg US Agg Bond	2.94	2.94	4.48	2.74	3.77
ICE BofAML 3 Mo US T-Bill	0.60	0.60	2.12	0.74	0.43
NCREIF ODCE (Gross)	1.42	1.42	7.52	10.18	8.74
FTSE NAREIT Eq REIT (TR)	16.33	16.33	20.86	9.12	18.28
HFRI FOF Comp	4.62	4.62	0.15	2.20	3.55
Bloomberg Cmdb (TR)	6.32	6.32	-5.25	-8.92	-2.56

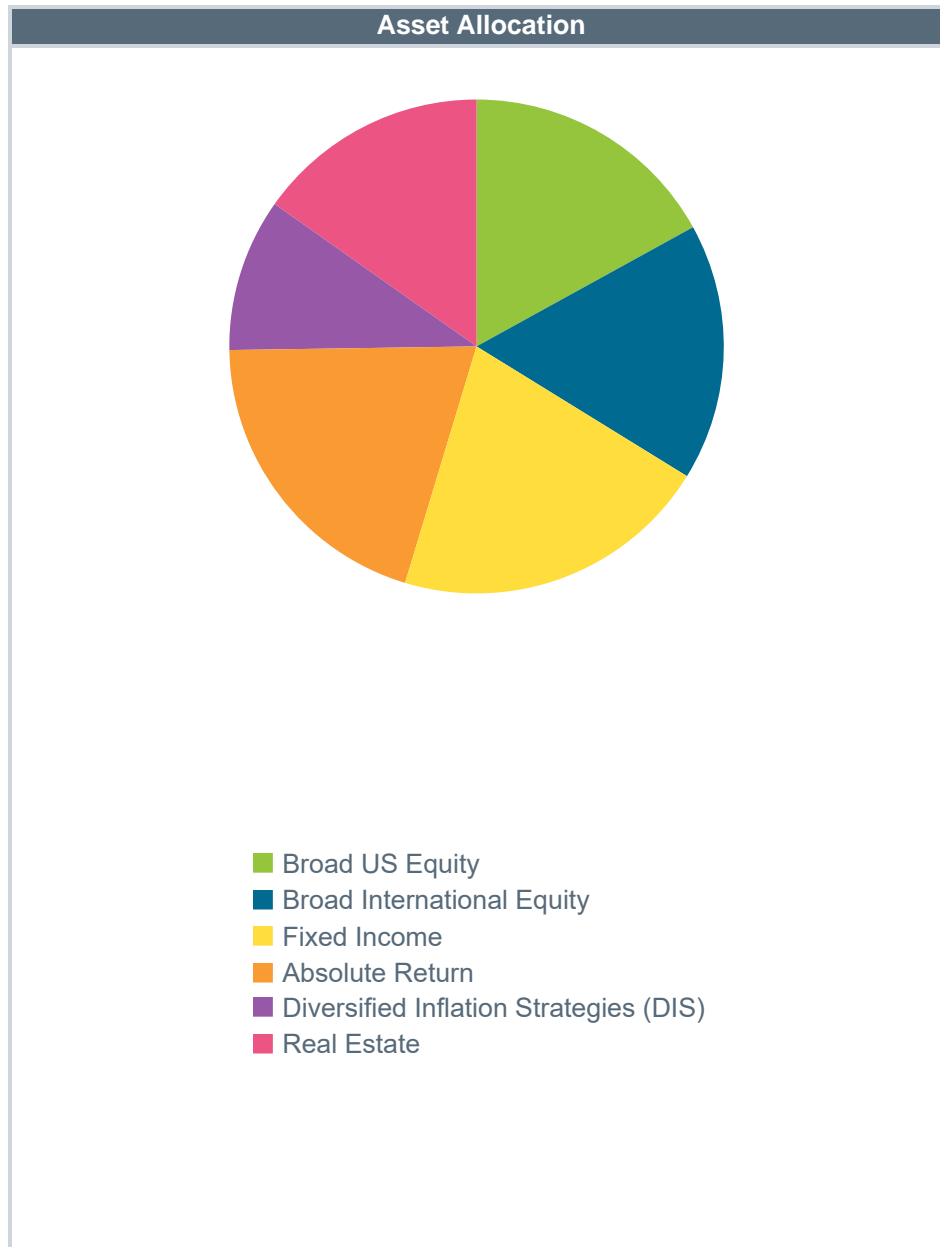
Total Fund



Quarterly Performance Commentary¹

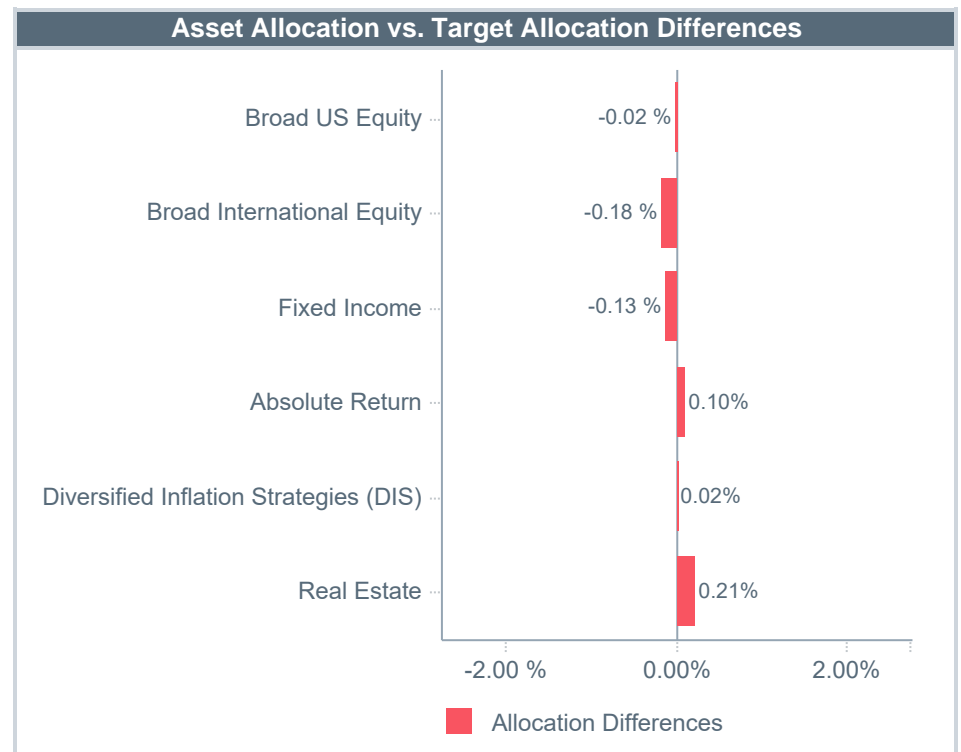
- The Total Fund gained 7.1% during the first quarter offsetting losses experienced in the prior quarter. The Fund trailed the target allocation index by 55 basis as the US equity, fixed income, absolute return, and real estate portfolios underperformed their respective benchmarks. Conversely, the international equity and diversified inflation strategies portfolios outperformed.
- Equity markets rallied during the first quarter, following the worst quarter performance in nearly a decade. US equity performance was largely driven by the Federal Open Market Committee's decision to not increase Federal Fund rate in the near-term. The US equity portfolio returned 14.0%, but marginally underperformed its benchmark. The portfolio's sole active manager underperformed due to its more defensive portfolio positioning; however, its long-term relative performance remains favorable.
- Developed international equities returned 10.5% and emerging markets gained 9.9% during the quarter. Markets reacted favorably to the European Central Bank's decision to inject further liquidity in the Eurozone banking system and China's announcement of new fiscal stimulus that targeted its manufacture sector, while concerns remained over the economic slowdown in Europe, uncertain Brexit plan, China-US trade war, and political unrest in Venezuela. The international equity portfolio returned 10.8% and outperformed during the quarter due to favorable relative performance from two of its three active managers.
- US fixed income markets posted a strong first quarter return of 2.9%, aided by US Treasury rates declining across all maturities. The fixed income portfolio gained 2.5%. (Performance excludes returns from Angelo Gordon Direct Lending, given first quarter performance for the manager was not available at the time this report was produced.) Each active fixed income manager (excluding Angelo Gordon) outperformed its respective benchmark.
- The Fund's absolute return portfolio gained 5.8% and underperformed its benchmark by 274 basis points. GMO's underperformance was primarily due to its significant below-benchmark allocation to US equities and its allocation to cash. PIMCO's short exposure to US equity, one of the top performing asset classes, detracted from performance. Westwood was placed on formal watch status in April 2019, per RVK and Staff's recommendation as discussed in the April RVK Westwood Income Opportunity update memorandum.
- In a reversal from the prior quarter, the diversified inflation strategies portfolio posted a 12.2% return and outperformed its benchmark by 282 basis points. MLPs and crude oil and energy stocks posted double digit gains and benefitted from the continued growth in US energy production, increasing oil prices, OPEC agreement to reduce output, and geopolitical concerns in Venezuela and Iran. Each of the portfolio's active managers outperformed its respective benchmark.
- The real estate portfolio gained 1.3% and underperformed its benchmark by 17 basis points. Manager performance was mixed. Jamestown was the worst performer and returned -0.4%, negatively impacted by capital expenditures related to some property renovations and declines in retail market rents. The portfolio's exposure to the industrial sector continued to be additive with Prologis remaining the top performer, returning 2.9% compared to the NCREIF ODCE Index return of 1.2%.

¹Performance referenced is gross of fees.



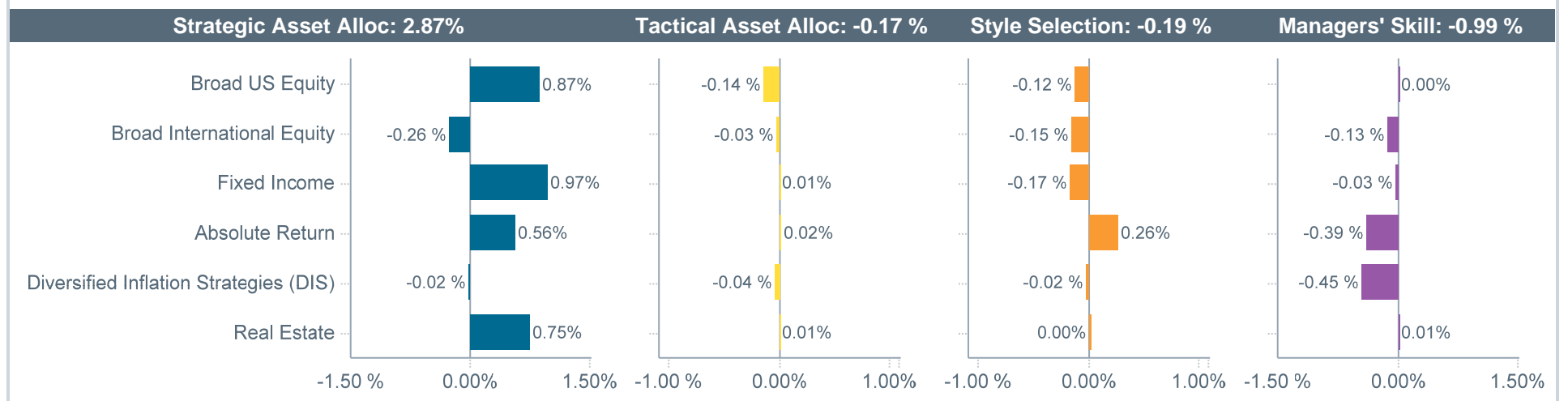
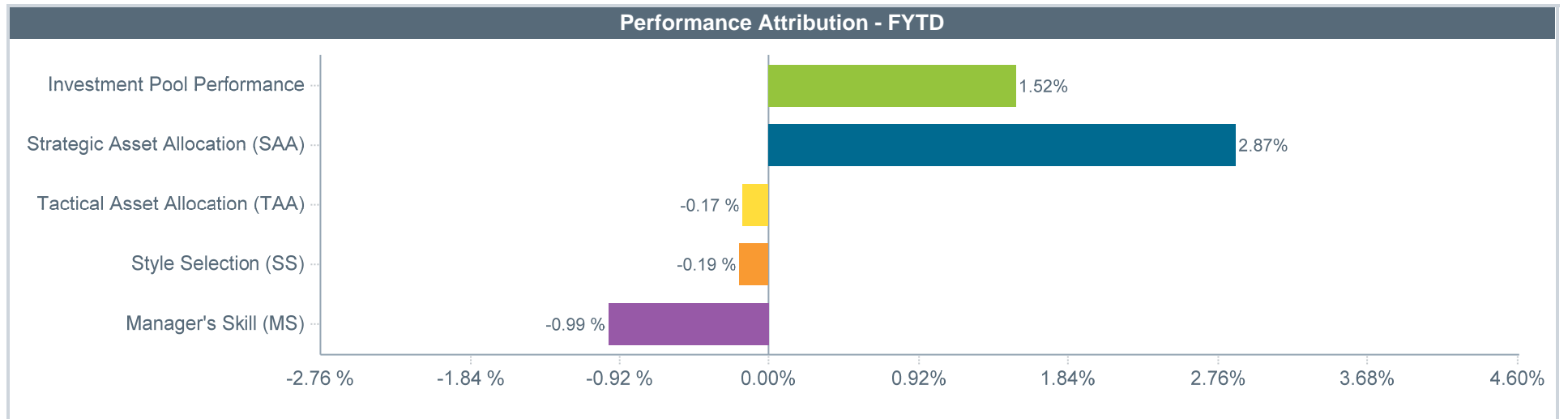
Asset Allocation vs. Target Allocation

	Market Value (\$)	Allocation (%)	Target (%)
Broad US Equity	795,462,325	16.98	17.00
Broad International Equity	788,293,885	16.82	17.00
Fixed Income	977,710,019	20.87	21.00
Absolute Return	941,899,511	20.10	20.00
Diversified Inflation Strategies (DIS)	469,332,719	10.02	10.00
Real Estate	712,742,228	15.21	15.00
Total Fund	4,685,440,688	100.00	100.00



RVK began monitoring the assets of North Dakota Board of University and School Lands in Q3 2014. Allocations shown may not sum up to 100% exactly due to rounding.

Comparative Performance									
	QTD	CYTD	FYTD	1 Year	3 Years	5 Years	10 Years	Since Incep.	Inception Date
Total Fund	6.95	6.95	1.52	2.02	6.84	3.96	8.48	6.58	08/01/1995
Target Allocation Index (Net)	7.61	7.61	2.87	3.65	7.17	5.22	N/A	N/A	
Difference	-0.66	-0.66	-1.35	-1.63	-0.33	-1.26	N/A	N/A	
Total Fund (Gross)	7.06	7.06	1.86	2.49	7.38	4.43	N/A	8.05	07/01/2009
Target Allocation Index (Gross)	7.65	7.65	2.97	3.79	7.31	5.36	N/A	8.85	



Performance shown is net of fees except where noted. Attribution shown is calculated using the Investment Decision Process (IDP). RVK began monitoring the assets of North Dakota Board of University and School Lands in Q3 2014. Please see the Addendum for position index definitions. Fiscal year ends 6/30.



North Dakota Board of University and School Lands
Comparative Performance - Gross

As of March 31, 2019

	QTD	CYTD	FYTD	1 Year	3 Years	5 Years	7 Years	10 Years	Since Incep.	Inception Date
Total Fund (Net)	6.95	6.95	1.52	2.02	6.84	3.96	5.65	8.48	6.58	08/01/1995
Target Allocation Index (Net)	7.61	7.61	2.87	3.65	7.17	5.22	6.66	N/A	N/A	
Difference	-0.66	-0.66	-1.35	-1.63	-0.33	-1.26	-1.01	N/A	N/A	
Total Fund	7.06	7.06	1.86	2.49	7.38	4.43	6.06	N/A	8.05	07/01/2009
Target Allocation Index (Gross)	7.65	7.65	2.97	3.79	7.31	5.36	6.76	N/A	8.85	
Difference	-0.59	-0.59	-1.11	-1.30	0.07	-0.93	-0.70	N/A	-0.80	
Broad US Equity	14.00	14.00	4.08	8.09	13.71	10.16	12.07	N/A	14.24	07/01/2009
Russell 3000 Index	14.04	14.04	4.70	8.77	13.49	10.36	12.63	16.00	14.60	
Difference	-0.04	-0.04	-0.62	-0.68	0.22	-0.20	-0.56	N/A	-0.36	
Broad International Equity	10.81	10.81	-3.11	-6.09	7.33	1.86	5.88	N/A	6.56	07/01/2009
MSCI ACW Ex US Index (USD) (Net)	10.31	10.31	-1.64	-4.22	8.09	2.57	4.72	8.85	6.39	
Difference	0.50	0.50	-1.47	-1.87	-0.76	-0.71	1.16	N/A	0.17	
Fixed Income	2.49	2.49	3.61	2.68	2.79	2.96	3.07	N/A	4.61	07/01/2009
Global Fixed Income Custom Index	3.24	3.24	4.42	3.46	2.51	2.58	2.54	4.13	3.86	
Difference	-0.75	-0.75	-0.81	-0.78	0.28	0.38	0.53	N/A	0.75	
Bloomberg US Agg Bond Index	2.94	2.94	4.65	4.48	2.03	2.74	2.48	3.77	3.68	
Difference	-0.45	-0.45	-1.04	-1.80	0.76	0.22	0.59	N/A	0.93	
Absolute Return	5.79	5.79	2.75	1.33	6.56	N/A	N/A	N/A	2.74	07/01/2014
Absolute Return Custom Index	8.53	8.53	2.79	3.17	7.22	5.05	6.20	9.06	4.51	
Difference	-2.74	-2.74	-0.04	-1.84	-0.66	N/A	N/A	N/A	-1.77	
Consumer Price Index+5%	2.42	2.42	4.64	6.96	7.31	6.55	6.55	6.89	6.43	
Difference	3.37	3.37	-1.89	-5.63	-0.75	N/A	N/A	N/A	-3.69	
Diversified Inflation Strategies (DIS)	12.16	12.16	-4.59	0.91	5.35	0.35	N/A	N/A	0.35	04/01/2014
DIS Custom Index	9.34	9.34	-0.25	3.55	5.84	0.95	2.18	7.32	0.95	
Difference	2.82	2.82	-4.34	-2.64	-0.49	-0.60	N/A	N/A	-0.60	
Real Estate	1.25	1.25	5.43	8.06	9.98	N/A	N/A	N/A	10.51	07/01/2015
NCREIF ODCE Index (AWA) (Gross)	1.42	1.42	5.36	7.52	7.97	10.18	10.77	8.74	8.93	
Difference	-0.17	-0.17	0.07	0.54	2.01	N/A	N/A	N/A	1.58	

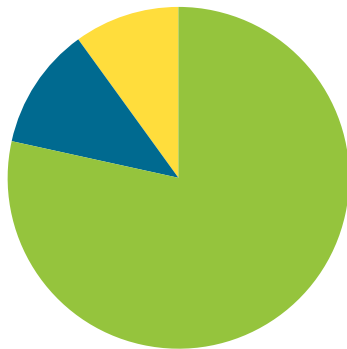
Performance shown is gross of fees except where noted. Composite inception dates are based on availability of data for each asset class. Please see the Addendum for custom index definitions. RVK began monitoring the assets of North Dakota Board of University and School Lands in Q3 2014. Fiscal year ends 6/30.

Comparative Performance

	QTD	CYTD	FYTD	1 Year	3 Years	5 Years	10 Years	Since Incep.	Inception Date
Broad US Equity	14.00	14.00	4.08	8.09	13.71	10.16	N/A	14.24	07/01/2009
Russell 3000 Index	14.04	14.04	4.70	8.77	13.49	10.36	16.00	14.60	
Difference	-0.04	-0.04	-0.62	-0.68	0.22	-0.20	N/A	-0.36	

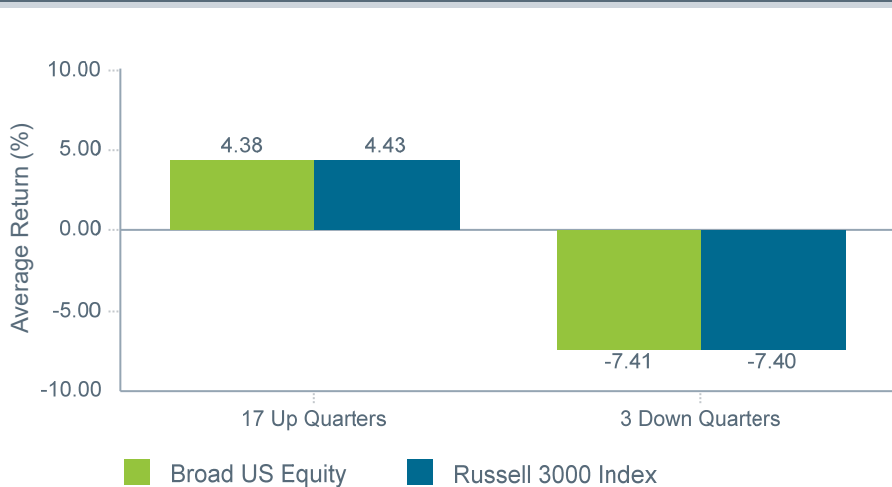
Asset Allocation by Manager

\$795,462,325

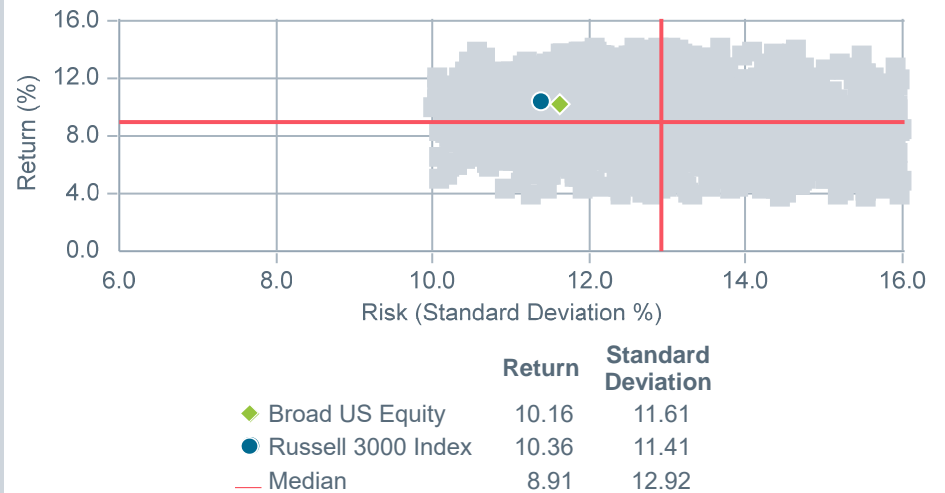


	Market Value (\$)	Allocation (%)
State Street Russell 1000 Index SL (CF)	623,989,566	78.44
NT Small Cap Core (CF)	92,148,123	11.58
State Street Russell Mid Cap Index (SA)	79,324,636	9.97

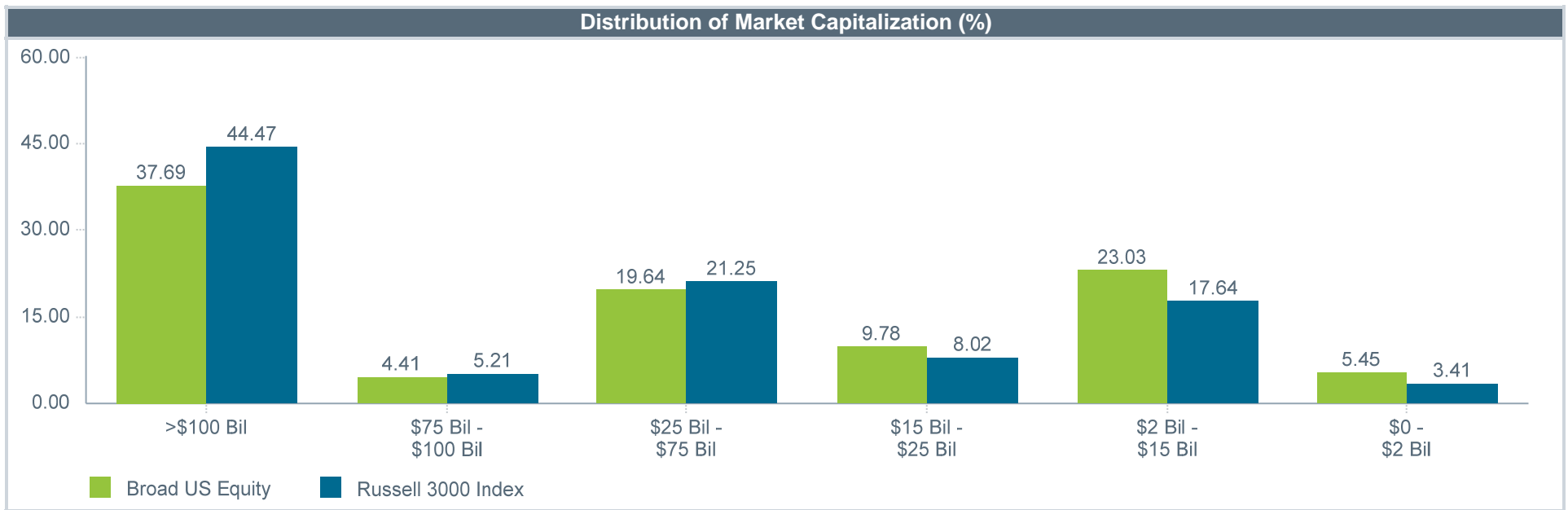
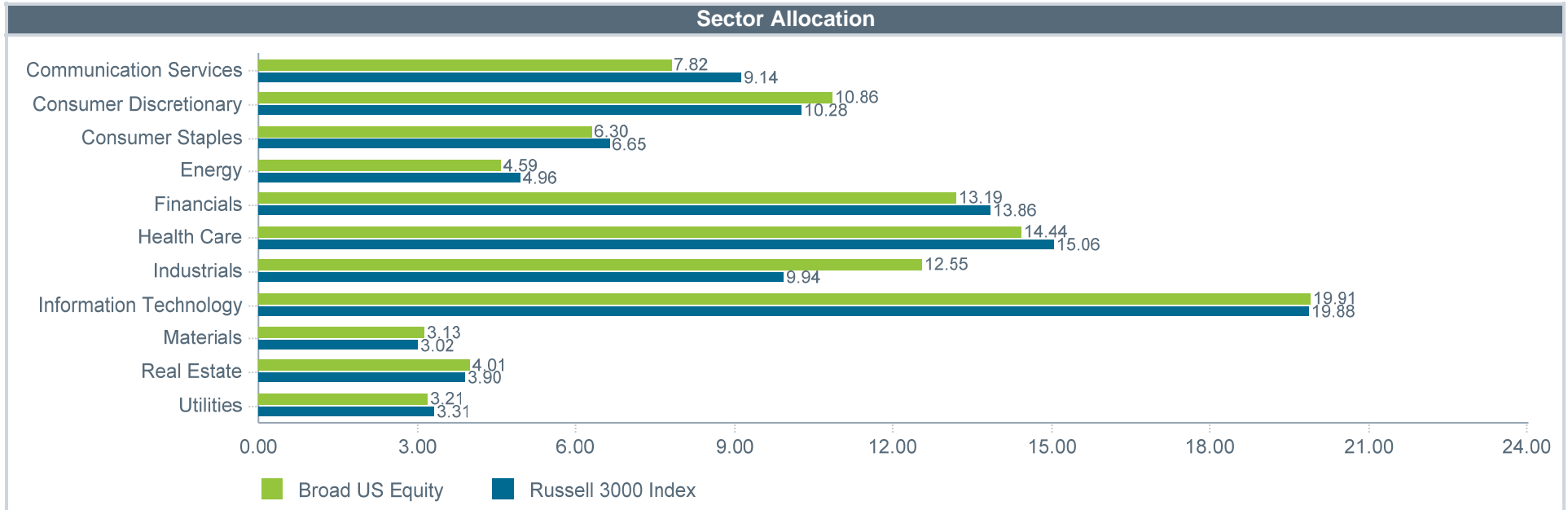
Up/Down Markets - 5 Years



Peer Group Scattergram - 5 Years



Performance shown is gross of fees. RVK began monitoring the assets of North Dakota Board of University and School Lands in Q3 2014. Allocations shown may not sum up to 100% exactly due to rounding. Please see Addendum for peer groups. Fiscal year ends 6/30.



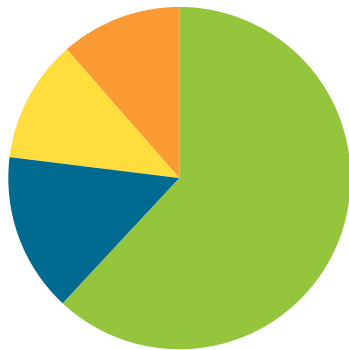
RVK began monitoring the assets of North Dakota Board of University and School Lands in Q3 2014. Allocations shown may not sum up to 100% exactly due to rounding.

Comparative Performance

	QTD	CYTD	FYTD	1 Year	3 Years	5 Years	10 Years	Since Incep.	Inception Date
Broad International Equity	10.81	10.81	-3.11	-6.09	7.33	1.86	N/A	6.56	07/01/2009
MSCI ACW Ex US Index (USD) (Net)	10.31	10.31	-1.64	-4.22	8.09	2.57	8.85	6.39	
Difference	0.50	0.50	-1.47	-1.87	-0.76	-0.71	N/A	0.17	

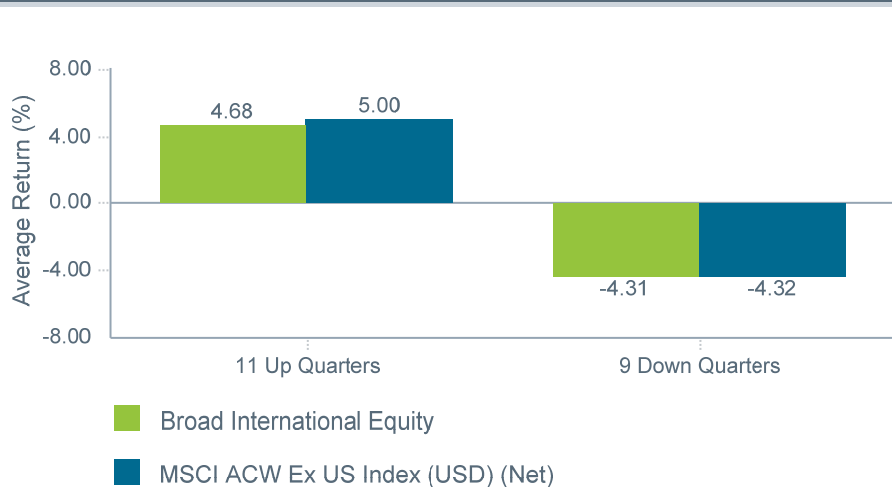
Asset Allocation by Manager

\$788,293,885



	Market Value (\$)	Allocation (%)
State Street World Ex US Index (CF)	488,234,515	61.9
QMA International Small Cap Equity (CF)	118,365,702	15.0
Harding Loevner:IEM;IZ (HLEZX)	91,476,551	11.6
DFA Emg Mkts Core Eq;I (DFCEX)	90,217,117	11.4

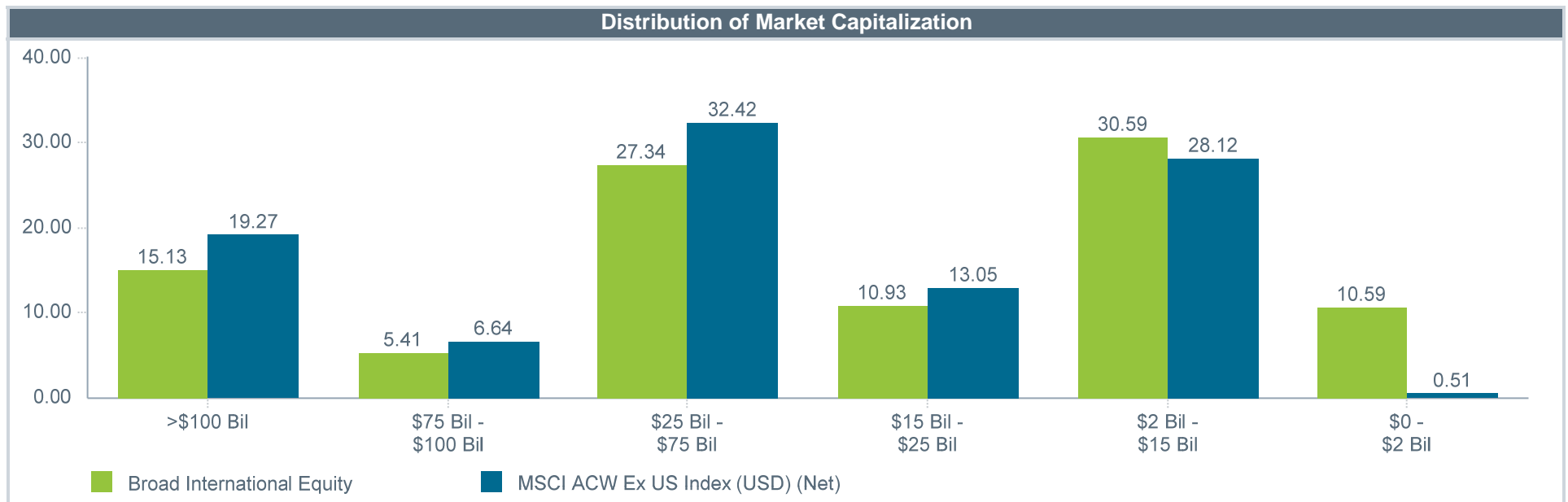
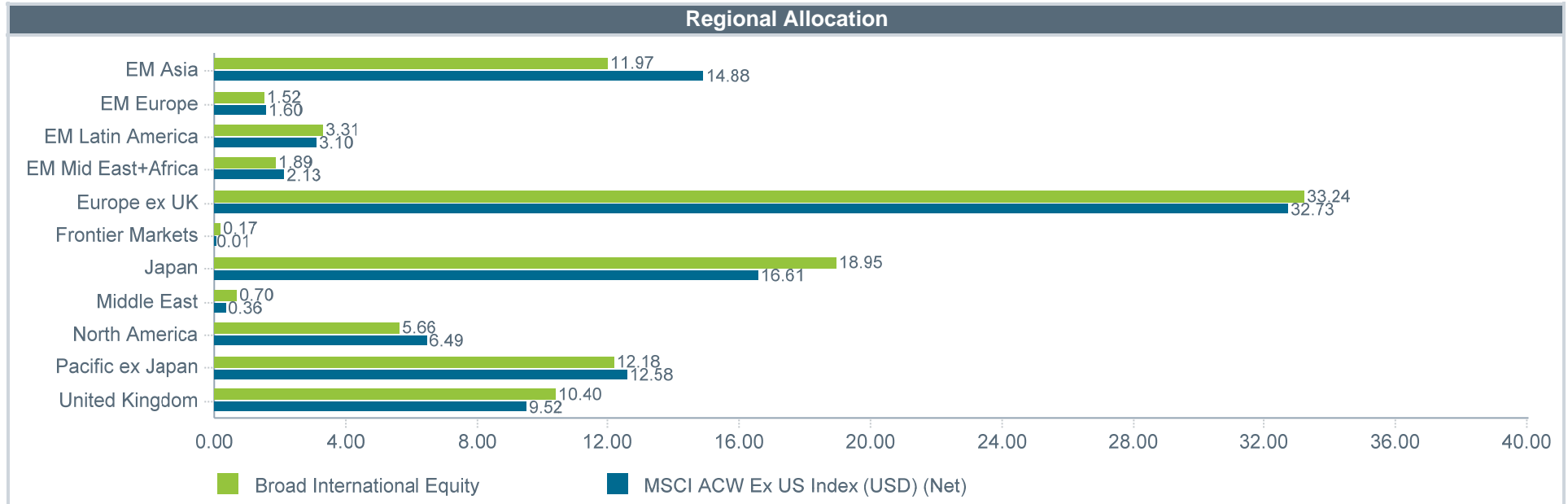
Up/Down Markets - 5 Years



Peer Group Scattergram - 5 Years



Performance shown is gross of fees. RVK began monitoring the assets of North Dakota Board of University and School Lands in Q3 2014. Allocations shown may not sum up to 100% exactly due to rounding. Please see Addendum for peer groups. Fiscal year ends 6/30.



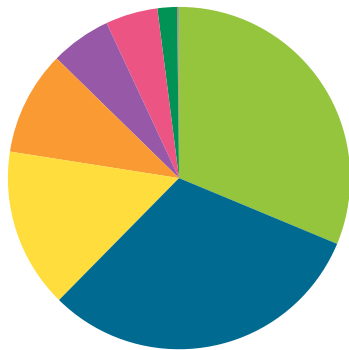
RVK began monitoring the assets of North Dakota Board of University and School Lands in Q3 2014. Allocations shown may not sum up to 100% exactly due to rounding.

Comparative Performance

	QTD	CYTD	FYTD	1 Year	3 Years	5 Years	10 Years	Since Incep.	Inception Date
Fixed Income	2.49	2.49	3.61	2.68	2.79	2.96	N/A	4.61	07/01/2009
Global Fixed Income Custom Index	3.24	3.24	4.42	3.46	2.51	2.58	4.13	3.86	
Difference	-0.75	-0.75	-0.81	-0.78	0.28	0.38	N/A	0.75	

Asset Allocation by Manager

\$977,710,019



	Market Value (\$)	Allocation (%)
Payden & Rygel Long Term (SA)	305,782,109	31.28
JP Morgan FI Intermediate Bond (SA)	304,047,212	31.10
Brandywine Gbl Opp FI (CF)	147,648,789	15.10
Schroders Securitized Credit (SA)	96,263,276	9.85
AG Direct Lending Fund III, L.P.	55,937,736	5.72
Payden:Low Dur;Inv (PYSBX)	48,146,736	4.92
FLP (Loans)	18,081,159	1.85
ECLP (Loans)	1,103,974	0.11
ND Land - PTF Cash (SA)	607,313	0.06

Up/Down Markets - 5 Years



Peer Group Scattergram - 5 Years

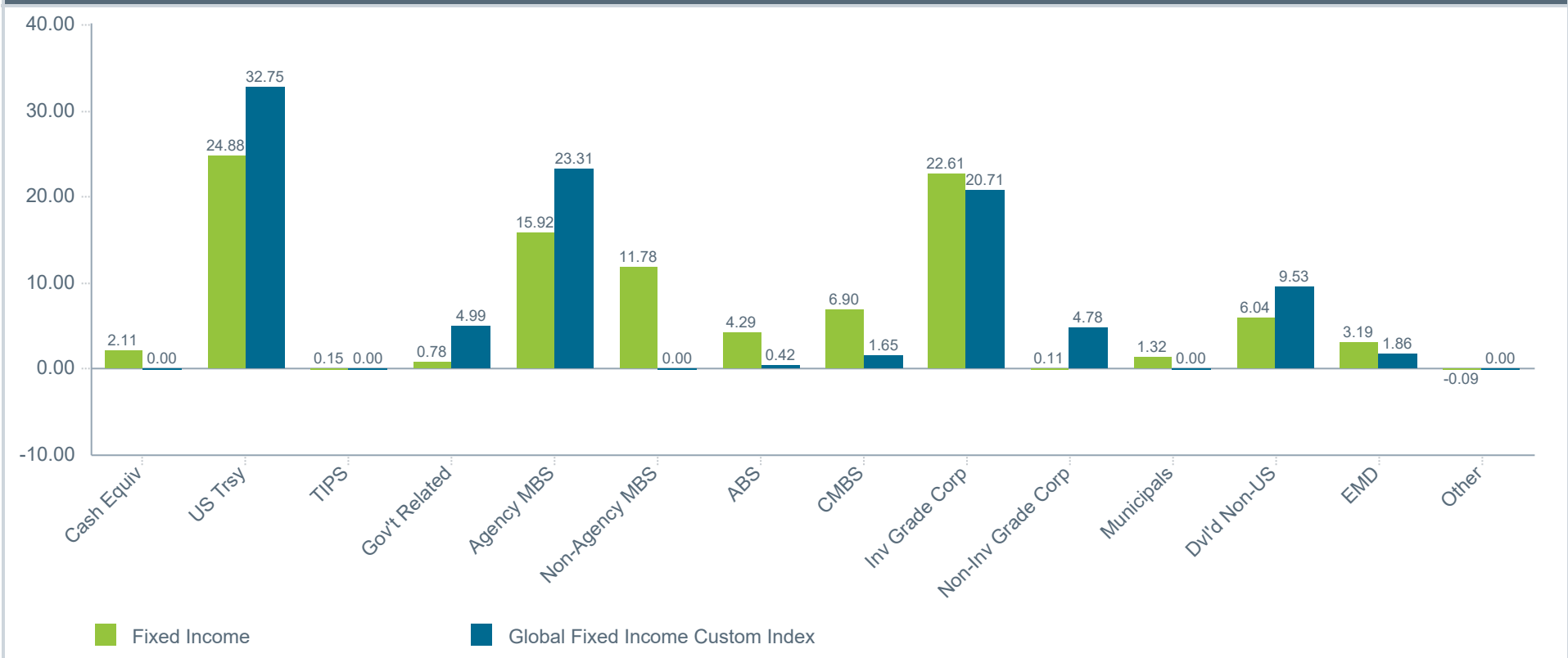


Performance shown is gross of fees. The Global Fixed Income Custom Index currently consists of the Bloomberg US Unv Bond Index. RVK began monitoring the assets of North Dakota Board of University and School Lands in Q3 2014. Allocations shown may not sum up to 100% exactly due to rounding. Please see Addendum for peer groups. Fiscal year ends 6/30.

Portfolio Characteristics

	Portfolio	Benchmark
Effective Duration	4.56	5.63
Avg. Maturity	N/A	7.91
Avg. Quality	A1	N/A
Yield To Maturity (%)	3.38	3.32
Coupon Rate (%)	N/A	3.55
Yield To Worst (%)	3.23	3.30
Current Yield (%)	3.68	0.20

Sector Distribution



FLP & ECLP Bank Loans, AG Direct Lending Fund III, L.P. and ND Land - PTF Cash (SA) are excluded from portfolio characteristics and sector distribution. RVK began monitoring the assets of North Dakota Board of University and School Lands in Q3 2014. Allocations shown may not sum up to 100% exactly due to rounding. Allocation to "Other" consists of currency forwards.

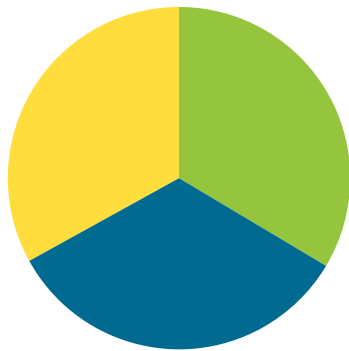


Comparative Performance

	QTD	CYTD	FYTD	1 Year	3 Years	5 Years	10 Years	Since Incep.	Inception Date
Absolute Return	5.79	5.79	2.75	1.33	6.56	N/A	N/A	2.74	07/01/2014
Absolute Return Custom Index	8.53	8.53	2.79	3.17	7.22	5.05	9.06	4.51	
Difference	-2.74	-2.74	-0.04	-1.84	-0.66	N/A	N/A	-1.77	

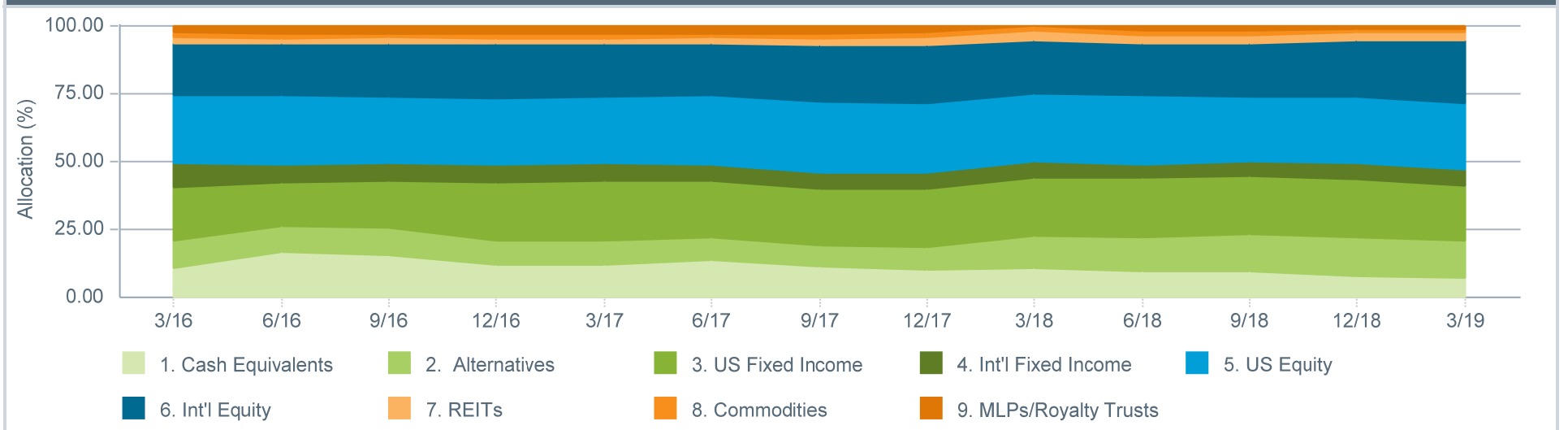
Asset Allocation by Manager

\$941,899,511



	Market Value (\$)	Allocation (%)
Westwood Income Opportunity (SA)	316,125,566	33.56
PIMCO:All Ast Ath;Inst (PAUIX)	314,600,908	33.40
GMO:Bchmk-Fr All;IV (GBMBX)	311,173,036	33.04

Historical Asset Allocation



Performance shown is gross of fees. The Absolute Return Custom Index consists of 60% MSCI ACW IM Index (USD) (Net) and 40% Bloomberg US Agg Bond Index. RVK began monitoring the assets of North Dakota Board of University and School Lands in Q3 2014. Allocations shown may not sum up to 100% exactly due to rounding. Fiscal year ends 6/30.



North Dakota Board of University and School Lands
Diversified Inflation Strategies (DIS)

As of March 31, 2019

Comparative Performance

	QTD	CYTD	FYTD	1 Year	3 Years	5 Years	10 Years	Since Incep.	Inception Date
Diversified Inflation Strategies (DIS)	12.16	12.16	-4.59	0.91	5.35	0.35	N/A	0.35	04/01/2014
DIS Custom Index	9.34	9.34	-0.25	3.55	5.84	0.95	7.32	0.95	
Difference	2.82	2.82	-4.34	-2.64	-0.49	-0.60	N/A	-0.60	

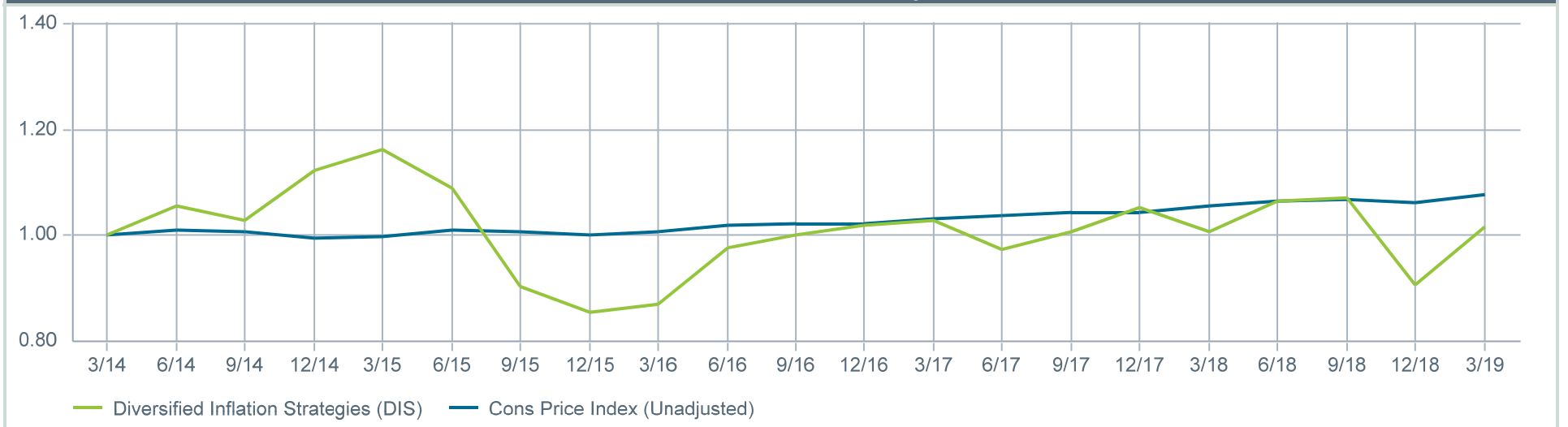
Asset Allocation by Manager

\$469,332,719



	Market Value (\$)	Allocation (%)
Harvest MLP (SA)	143,158,072	30.50
Gresham Commodities (SA)	140,885,081	30.02
Van Eck NR Equities (SA)	94,096,541	20.05
NT Common TIPS Index (CF)	91,193,026	19.43

Growth of a Dollar - Since Inception



Performance shown is gross of fees. The DIS Custom Index consists of 50% Bloomberg US Trsy US TIPS Index and 50% FTSE EPRA/NAREIT Dvl'd Index (\$) (Gross) through 06/2015. It consists of 20% Bloomberg US Trsy US TIPS Index, 30% Bbrg Cmndy Ex Energy Index (TR), 30% S&P MLP Index (TR), and 20% S&P Gbl Natural Res Sect Index (TR) thereafter. RVK began monitoring the assets of North Dakota Board of University and School Lands in Q3 2014. Allocations shown may not sum up to 100% exactly due to rounding. Fiscal year ends 6/30.

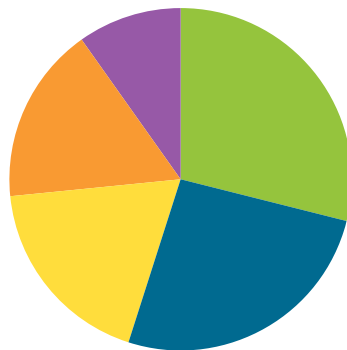


Comparative Performance

	QTD	CYTD	FYTD	1 Year	3 Years	5 Years	10 Years	Since Incep.	Inception Date
Real Estate	1.25	1.25	5.43	8.06	9.98	N/A	N/A	10.51	07/01/2015
NCREIF ODCE Index (AWA) (Gross)	1.42	1.42	5.36	7.52	7.97	10.18	8.74	8.93	
Difference	-0.17	-0.17	0.07	0.54	2.01	N/A	N/A	1.58	

Asset Allocation by Manager

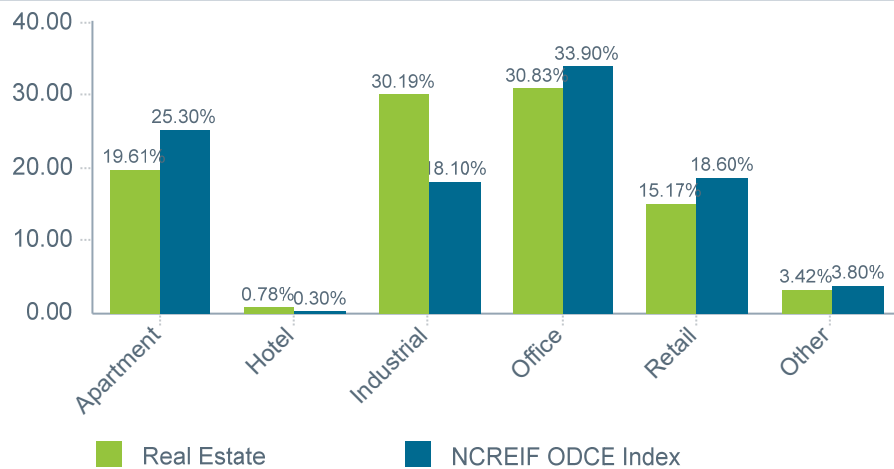
\$712,742,228



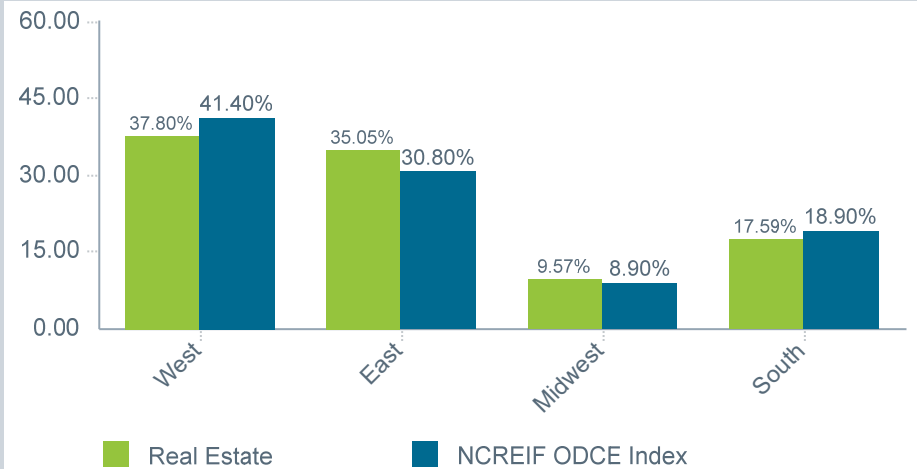
- Morgan Stanley Prime Property Fund (CF)
- UBS Trumbull Property Fund, L.P. (CF)
- JP Morgan US Real Estate Income and Growth, LP (CF)
- Prologis USLF (CF)
- Jamestown Premier Property Fund (CF)

Market Value (\$)	Allocation (%)
206,222,951	28.93
185,321,381	26.00
131,686,578	18.48
119,490,469	16.76
70,020,849	9.82

Property Type Allocation



Geographic Allocation



Performance shown is gross of fees. Benchmark allocation to "Other" consists of entertainment (theaters, golf courses, bowling alleys), healthcare (hospitals, clinics), manufactured homes, parking lots, selfstorage units, senior living, and undeveloped land. RVK began monitoring the assets of North Dakota Board of University and School Lands in Q3 2014. Allocations shown may not sum up to 100% exactly due to rounding. Fiscal year ends 6/30.



Addendum



North Dakota Board of University and School Lands
Comparative Performance - Net

As of March 31, 2019

	QTD	CYTD	FYTD	1 Year	3 Years	5 Years	10 Years	Since Incep.	Inception Date
Total Fund	6.95	6.95	1.52	2.02	6.84	3.96	8.48	6.58	08/01/1995
Target Allocation Index (Net)	7.61	7.61	2.87	3.65	7.17	5.22	N/A	N/A	
Difference	-0.66	-0.66	-1.35	-1.63	-0.33	-1.26	N/A	N/A	
Broad US Equity	13.98	13.98	4.01	8.00	13.58	10.03	N/A	14.11	07/01/2009
Russell 3000 Index	14.04	14.04	4.70	8.77	13.49	10.36	16.00	14.60	
Difference	-0.06	-0.06	-0.69	-0.77	0.09	-0.33	N/A	-0.49	
State Street Russell 1000 Index SL (CF)	13.99	13.99	5.54	9.29	N/A	N/A	N/A	11.31	06/01/2017
Russell 1000 Index	14.00	14.00	5.54	9.30	13.52	10.63	16.05	11.32	
Difference	-0.01	-0.01	0.00	-0.01	N/A	N/A	N/A	-0.01	
State Street Russell Mid Cap Index (SA)	16.47	16.47	3.61	6.52	N/A	N/A	N/A	9.20	06/01/2017
Russell Mid Cap Index	16.54	16.54	3.55	6.47	11.82	8.81	16.88	9.18	
Difference	-0.07	-0.07	0.06	0.05	N/A	N/A	N/A	0.02	
NT Small Cap Core (CF)	11.77	11.77	-5.39	0.65	14.11	N/A	N/A	7.08	07/01/2014
Russell 2000 Index	14.58	14.58	-5.29	2.05	12.92	7.05	15.36	6.98	
Difference	-2.81	-2.81	-0.10	-1.40	1.19	N/A	N/A	0.10	
NT Small/Smid Composite	11.77	11.77	-5.39	0.65	14.11	7.04	14.96	9.66	03/01/1996
Small/Smid Blended Index	14.58	14.58	-5.29	2.05	12.92	7.48	16.06	9.65	
Difference	-2.81	-2.81	-0.10	-1.40	1.19	-0.44	-1.10	0.01	

Performance shown is net of fees. Manager inception dates shown represent the first full month following initial funding. Composite inception dates are based on availability of data for each asset class. Please see the Addendum for custom index definitions. RVK began monitoring the assets of North Dakota Board of University and School Lands in Q3 2014. Fiscal year ends 6/30.

North Dakota Board of University and School Lands
Comparative Performance - Net

As of March 31, 2019

	QTD	CYTD	FYTD	1 Year	3 Years	5 Years	10 Years	Since Incep.	Inception Date
Broad International Equity	10.74	10.74	-3.32	-6.35	7.09	1.65	N/A	6.11	07/01/2009
MSCI ACW Ex US Index (USD) (Net)	10.31	10.31	-1.64	-4.22	8.09	2.57	8.85	6.39	
Difference	0.43	0.43	-1.68	-2.13	-1.00	-0.92	N/A	-0.28	
State Street World Ex US Index (CF)	10.43	10.43	-2.46	-3.19	7.23	N/A	N/A	1.28	07/01/2014
MSCI Wrld Ex US Index (USD) (Net)	10.45	10.45	-2.41	-3.14	7.29	2.20	8.82	1.35	
Difference	-0.02	-0.02	-0.05	-0.05	-0.06	N/A	N/A	-0.07	
DFA Emg Mkts Core Eq;l (DFCEX)	8.61	8.61	0.44	-9.48	9.60	N/A	N/A	2.21	07/01/2014
MSCI Emg Mkts Index (USD) (Net)	9.93	9.93	0.60	-7.41	10.68	3.68	8.95	2.49	
Difference	-1.32	-1.32	-0.16	-2.07	-1.08	N/A	N/A	-0.28	
Harding Loevner:IEM;IZ (HLEZX)	14.60	14.60	-2.50	-9.90	10.51	N/A	N/A	2.83	07/01/2014
MSCI Emg Mkts Index (USD) (Net)	9.93	9.93	0.60	-7.41	10.68	3.68	8.95	2.49	
Difference	4.67	4.67	-3.10	-2.49	-0.17	N/A	N/A	0.34	
QMA International Small Cap Equity (CF)	10.77	10.77	-10.63	-14.69	N/A	N/A	N/A	-17.53	02/01/2018
MSCI EAFE Sm Cap Index (USD) (Gross)	10.76	10.76	-7.74	-9.01	7.90	4.84	13.14	-11.39	
Difference	0.01	0.01	-2.89	-5.68	N/A	N/A	N/A	-6.14	

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North Dakota Board of University and School Lands
Comparative Performance - Net

As of March 31, 2019

	QTD	CYTD	FYTD	1 Year	3 Years	5 Years	10 Years	Since Incep.	Inception Date
Fixed Income	2.45	2.45	3.46	2.47	2.58	2.74	4.65	5.55	08/01/1995
Global Fixed Income Custom Index	3.24	3.24	4.42	3.46	2.51	2.58	4.13	N/A	
Difference	-0.79	-0.79	-0.96	-0.99	0.07	0.16	0.52	N/A	
Bloomberg US Agg Bond Index	2.94	2.94	4.65	4.48	2.03	2.74	3.77	5.17	
Difference	-0.49	-0.49	-1.19	-2.01	0.55	0.00	0.88	0.38	
Payden & Rygel Long Term (SA)	3.21	3.21	4.67	4.55	3.20	3.31	5.14	5.80	08/01/1995
Bloomberg US Agg Bond Index	2.94	2.94	4.65	4.48	2.03	2.74	3.77	5.17	
Difference	0.27	0.27	0.02	0.07	1.17	0.57	1.37	0.63	
JP Morgan FI Intermediate Bond (SA)	2.41	2.41	4.25	4.28	1.95	2.41	N/A	1.99	08/01/2012
Bloomberg US Gov't Crdt Int Trm Bond Index	2.32	2.32	4.23	4.24	1.66	2.12	3.14	1.72	
Difference	0.09	0.09	0.02	0.04	0.29	0.29	N/A	0.27	
Brandywine Gbl Opp FI (CF)	3.19	3.19	1.02	-5.76	2.30	N/A	N/A	1.21	11/01/2014
FTSE Wrld Gov't Bond Index	1.74	1.74	1.85	-1.57	0.95	0.59	2.20	1.09	
Difference	1.45	1.45	-0.83	-4.19	1.35	N/A	N/A	0.12	
Payden:Low Dur;Inv (PYSBX)	1.45	1.45	2.51	2.68	1.64	1.30	2.66	3.41	04/01/2002
Bloomberg US Trsy 1-3 Yr Index	0.99	0.99	2.51	2.73	0.98	0.98	1.04	2.26	
Difference	0.46	0.46	0.00	-0.05	0.66	0.32	1.62	1.15	
AG Direct Lending Fund III, L.P.	0.00	0.00	N/A	N/A	N/A	N/A	N/A	2.35	09/01/2018
CS Lvg'd Loan Index	0.00	0.00	1.93	2.73	5.66	3.71	7.89	0.68	
Difference	0.00	0.00	N/A	N/A	N/A	N/A	N/A	1.67	
Schroders Securitized Credit (SA)	1.42	1.42	N/A	N/A	N/A	N/A	N/A	1.21	12/01/2018
3 Month LIBOR Index (USD)+1.75%	1.16	1.16	3.21	4.27	3.25	2.76	2.47	1.53	
Difference	0.26	0.26	N/A	N/A	N/A	N/A	N/A	-0.32	
ND Land - PTF Cash (SA)	0.56	0.56	1.58	1.99	N/A	N/A	N/A	1.68	07/01/2017
ICE BofAML 3 Mo US T-Bill Index	0.60	0.60	1.66	2.12	1.19	0.74	0.43	1.73	
Difference	-0.04	-0.04	-0.08	-0.13	N/A	N/A	N/A	-0.05	
FLP (Loans)	1.23	1.23	4.22	5.82	6.06	6.03	6.10	7.22	08/01/1995
ECLP (Loans)	1.06	1.06	3.34	4.51	4.51	4.74	N/A	5.07	11/01/2010

Performance shown is net of fees. Manager inception dates shown represent the first full month following initial funding. Composite inception dates are based on availability of data for each asset class. Please see the Addendum for custom index definitions. RVK began monitoring the assets of North Dakota Board of University and School Lands in Q3 2014. Fiscal year ends 6/30.

North Dakota Board of University and School Lands
Comparative Performance - Net

As of March 31, 2019

	QTD	CYTD	FYTD	1 Year	3 Years	5 Years	10 Years	Since Incep.	Inception Date
Absolute Return	5.59	5.59	2.16	0.54	5.73	N/A	N/A	1.94	07/01/2014
Absolute Return Custom Index	8.53	8.53	2.79	3.17	7.22	5.05	9.06	4.51	
Difference	-2.94	-2.94	-0.63	-2.63	-1.49	N/A	N/A	-2.57	
GMO:Bchmk-Fr All;IV (GBMBX)	5.47	5.47	1.47	-0.88	5.28	N/A	N/A	1.69	07/01/2014
60% MSCI ACW (Net)/40% Bbrg Gbl Agg Idx	8.14	8.14	2.46	1.64	7.04	4.40	8.54	3.78	
Difference	-2.67	-2.67	-0.99	-2.52	-1.76	N/A	N/A	-2.09	
Consumer Price Index+5%	2.42	2.42	4.64	6.96	7.31	6.55	6.89	6.43	
Difference	3.05	3.05	-3.17	-7.84	-2.03	N/A	N/A	-4.74	
PIMCO:All Ast Ath;Inst (PAUIX)	3.70	3.70	0.41	-2.78	5.52	N/A	N/A	0.12	07/01/2014
All Asset Custom Index (EqI Wtd)	5.50	5.50	3.52	4.04	5.54	3.98	6.83	3.60	
Difference	-1.80	-1.80	-3.11	-6.82	-0.02	N/A	N/A	-3.48	
Consumer Price Index+5%	2.42	2.42	4.64	6.96	7.31	6.55	6.89	6.43	
Difference	1.28	1.28	-4.23	-9.74	-1.79	N/A	N/A	-6.31	
Westwood Income Opportunity (SA)	7.67	7.67	4.61	5.42	6.35	N/A	N/A	3.99	07/01/2014
Westwood Custom Index	8.54	8.54	6.43	9.61	5.77	6.23	9.67	5.75	
Difference	-0.87	-0.87	-1.82	-4.19	0.58	N/A	N/A	-1.76	
Consumer Price Index+5%	2.42	2.42	4.64	6.96	7.31	6.55	6.89	6.43	
Difference	5.25	5.25	-0.03	-1.54	-0.96	N/A	N/A	-2.44	

Performance shown is net of fees. Manager inception dates shown represent the first full month following initial funding. Composite inception dates are based on availability of data for each asset class. Please see the Addendum for custom index definitions. RVK began monitoring the assets of North Dakota Board of University and School Lands in Q3 2014. Fiscal year ends 6/30.

North Dakota Board of University and School Lands
Comparative Performance - Net

As of March 31, 2019

	QTD	CYTD	FYTD	1 Year	3 Years	5 Years	10 Years	Since Incep.	Inception Date
Diversified Inflation Strategies (DIS)	12.07	12.07	-4.93	0.41	4.80	-0.14	N/A	-0.14	04/01/2014
DIS Custom Index	9.34	9.34	-0.25	3.55	5.84	0.95	7.32	0.95	
Difference	2.73	2.73	-4.68	-3.14	-1.04	-1.09	N/A	-1.09	
NT Common TIPS Index (CF)	3.25	3.25	1.93	2.69	1.75	1.96	3.52	3.98	06/01/2004
Bloomberg US Trsy US TIPS Index	3.19	3.19	1.92	2.70	1.70	1.94	3.41	3.93	
Difference	0.06	0.06	0.01	-0.01	0.05	0.02	0.11	0.05	
Gresham Commodities (SA)	9.23	9.23	-6.41	-4.93	5.19	N/A	N/A	-3.09	07/01/2015
Bloomberg Cmdty Ex Energy Index (TR)	2.34	2.34	-3.53	-7.61	-0.34	-6.03	0.40	-3.06	
Difference	6.89	6.89	-2.88	2.68	5.53	N/A	N/A	-0.03	
Gresham Custom Index	7.83	7.83	-6.49	-6.58	2.76	N/A	N/A	-3.90	
Difference	1.40	1.40	0.08	1.65	2.43	N/A	N/A	0.81	
Harvest MLP (SA)	20.70	20.70	1.34	15.09	7.67	N/A	N/A	-3.50	07/01/2015
S&P MLP Index (TR)	18.75	18.75	3.84	17.50	8.84	-3.86	11.01	-4.13	
Difference	1.95	1.95	-2.50	-2.41	-1.17	N/A	N/A	0.63	
Van Eck NR Equities (SA)	13.65	13.65	-18.39	-14.35	1.47	N/A	N/A	-5.98	07/01/2015
S&P Gbl Natural Res Sect Index (TR)	12.39	12.39	-5.24	-0.09	13.42	1.83	4.86	5.97	
Difference	1.26	1.26	-13.15	-14.26	-11.95	N/A	N/A	-11.95	
S&P N Amer Natural Res Index	16.21	16.21	-12.88	-2.38	4.57	-4.16	5.31	-1.08	
Difference	-2.56	-2.56	-5.51	-11.97	-3.10	N/A	N/A	-4.90	

Performance shown is net of fees. Manager inception dates shown represent the first full month following initial funding. Composite inception dates are based on availability of data for each asset class. Please see the Addendum for custom index definitions. RVK began monitoring the assets of North Dakota Board of University and School Lands in Q3 2014. Fiscal year ends 6/30.

North Dakota Board of University and School Lands
Comparative Performance - Net

As of March 31, 2019

	QTD	CYTD	FYTD	1 Year	3 Years	5 Years	10 Years	Since Incep.	Inception Date
Real Estate	1.04	1.04	4.68	6.95	8.55	N/A	N/A	9.09	07/01/2015
NCREIF ODCE Index (AWA) (Net)	1.20	1.20	4.65	6.55	7.00	9.18	7.73	7.95	
Difference	-0.16	-0.16	0.03	0.40	1.55	N/A	N/A	1.14	
Morgan Stanley Prime Property Fund (CF)	1.27	1.27	5.28	7.19	8.43	N/A	N/A	9.11	07/01/2015
NCREIF ODCE Index (AWA) (Net)	1.20	1.20	4.65	6.55	7.00	9.18	7.73	7.95	
Difference	0.07	0.07	0.63	0.64	1.43	N/A	N/A	1.16	
UBS Trumbull Property Fund, L.P. (CF)	0.50	0.50	3.30	4.94	5.45	N/A	N/A	6.48	07/01/2015
NCREIF ODCE Index (AWA) (Net)	1.20	1.20	4.65	6.55	7.00	9.18	7.73	7.95	
Difference	-0.70	-0.70	-1.35	-1.61	-1.55	N/A	N/A	-1.47	
Jamestown Premier Property Fund (CF)	-0.38	-0.38	2.24	4.06	8.57	N/A	N/A	8.97	07/01/2015
NCREIF ODCE Index (AWA) (Net)	1.20	1.20	4.65	6.55	7.00	9.18	7.73	7.95	
Difference	-1.58	-1.58	-2.41	-2.49	1.57	N/A	N/A	1.02	
Prologis USLF (CF)	2.94	2.94	9.69	15.25	17.11	N/A	N/A	17.11	04/01/2016
NCREIF ODCE Index (AWA) (Net)	1.20	1.20	4.65	6.55	7.00	9.18	7.73	7.00	
Difference	1.74	1.74	5.04	8.70	10.11	N/A	N/A	10.11	
JP Morgan US Real Estate Income and Growth, LP (CF)	0.51	0.51	2.75	4.11	N/A	N/A	N/A	6.31	07/01/2016
NCREIF ODCE Index (AWA) (Net)	1.20	1.20	4.65	6.55	7.00	9.18	7.73	6.93	
Difference	-0.69	-0.69	-1.90	-2.44	N/A	N/A	N/A	-0.62	

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North Dakota Board of University and School Lands
Comparative Performance - Net

As of March 31, 2019

	FYTD	FY 18	FY 17	FY 16	FY 15	FY 14	FY 13	FY 12	FY 11	FY 10	FY 09	FY 08
Total Fund	1.52	6.50	9.50	-0.64	0.42	13.85	10.58	2.42	18.01	14.50	-13.75	-4.22
Target Allocation Index (Net)	2.87	6.29	9.65	1.41	2.54	14.64	10.64	3.47	18.63	17.00	N/A	N/A
Difference	-1.35	0.21	-0.15	-2.05	-2.12	-0.79	-0.06	-1.05	-0.62	-2.50	N/A	N/A
Broad US Equity	4.01	15.26	19.05	2.31	5.88	22.59	19.51	1.41	29.75	21.47	N/A	N/A
Russell 3000 Index	4.70	14.78	18.51	2.14	7.29	25.22	21.46	3.84	32.37	15.72	-26.56	-12.69
Difference	-0.69	0.48	0.54	0.17	-1.41	-2.63	-1.95	-2.43	-2.62	5.75	N/A	N/A
State Street Russell 1000 Index SL (CF)	5.54	14.51	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Russell 1000 Index	5.54	14.54	18.03	2.93	7.37	25.35	21.24	4.37	31.93	15.24	-26.69	-12.36
Difference	0.00	-0.03	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
State Street Russell Mid Cap Index (SA)	3.61	12.26	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Russell Mid Cap Index	3.55	12.33	16.48	0.56	6.63	26.85	25.41	-1.65	38.47	25.13	-30.36	-11.19
Difference	0.06	-0.07	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
NT Small Cap Core (CF)	-5.39	22.43	24.04	-4.77	1.14	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Russell 2000 Index	-5.29	17.57	24.60	-6.73	6.49	23.64	24.21	-2.08	37.41	21.48	-25.01	-16.19
Difference	-0.10	4.86	-0.56	1.96	-5.35	N/A	N/A	N/A	N/A	N/A	N/A	N/A
NT Small/Smid Composite	-5.39	22.43	24.04	-4.77	1.14	23.49	25.20	-4.03	34.54	21.04	-25.82	-15.32
Small/Smid Blended Index	-5.29	17.57	24.60	-6.73	6.49	26.22	25.61	-2.29	39.28	24.03	-26.72	-14.28
Difference	-0.10	4.86	-0.56	1.96	-5.35	-2.73	-0.41	-1.74	-4.74	-2.99	0.90	-1.04

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North Dakota Board of University and School Lands
Comparative Performance - Net

As of March 31, 2019

	FYTD	FY 18	FY 17	FY 16	FY 15	FY 14	FY 13	FY 12	FY 11	FY 10	FY 09	FY 08
Broad International Equity	-3.32	6.07	20.03	-9.09	-5.49	24.42	21.42	-18.55	30.64	4.91	N/A	N/A
MSCI ACW Ex US Index (USD) (Net)	-1.64	7.28	20.45	-10.24	-5.26	21.75	13.63	-14.56	29.73	10.43	-30.92	-6.64
Difference	-1.68	-1.21	-0.42	1.15	-0.23	2.67	7.79	-3.99	0.91	-5.52	N/A	N/A
State Street World Ex US Index (CF)	-2.46	6.98	19.39	-9.91	-5.35	N/A	N/A	N/A	N/A	N/A	N/A	N/A
MSCI Wrld Ex US Index (USD) (Net)	-2.41	7.04	19.49	-9.84	-5.28	23.83	17.07	-14.13	30.33	7.03	-31.62	-8.81
Difference	-0.05	-0.06	-0.10	-0.07	-0.07	N/A	N/A	N/A	N/A	N/A	N/A	N/A
DFA Emg Mkts Core Eq;l (DFCEX)	0.44	5.17	21.94	-8.77	-5.59	N/A	N/A	N/A	N/A	N/A	N/A	N/A
MSCI Emg Mkts Index (USD) (Net)	0.60	8.20	23.75	-12.05	-5.12	14.31	2.87	-15.94	27.80	23.15	-28.07	4.63
Difference	-0.16	-3.03	-1.81	3.28	-0.47	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Harding Loevner:IEM;IZ (HLEZX)	-2.50	8.73	22.82	-5.96	-6.77	N/A	N/A	N/A	N/A	N/A	N/A	N/A
MSCI Emg Mkts Index (USD) (Net)	0.60	8.20	23.75	-12.05	-5.12	14.31	2.87	-15.94	27.80	23.15	-28.07	4.63
Difference	-3.10	0.53	-0.93	6.09	-1.65	N/A	N/A	N/A	N/A	N/A	N/A	N/A
QMA International Small Cap Equity (CF)	-10.63	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
MSCI EAFE Sm Cap Index (USD) (Gross)	-7.74	12.85	23.64	-3.32	-0.45	29.48	21.25	-14.75	36.85	12.60	-27.83	-18.29
Difference	-2.89	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A

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North Dakota Board of University and School Lands
Comparative Performance - Net

As of March 31, 2019

	FYTD	FY 18	FY 17	FY 16	FY 15	FY 14	FY 13	FY 12	FY 11	FY 10	FY 09	FY 08
Fixed Income	3.46	0.30	2.08	4.75	1.50	4.80	1.44	7.15	6.37	11.28	3.49	6.29
Global Fixed Income Custom Index	4.42	0.14	0.34	6.52	-0.62	5.83	-0.24	6.21	6.28	9.33	4.35	7.74
Difference	-0.96	0.16	1.74	-1.77	2.12	-1.03	1.68	0.94	0.09	1.95	-0.86	-1.45
Bloomberg US Agg Bond Index	4.65	-0.40	-0.31	6.00	1.86	4.37	-0.69	7.47	3.90	9.50	6.05	7.12
Difference	-1.19	0.70	2.39	-1.25	-0.36	0.43	2.13	-0.32	2.47	1.78	-2.56	-0.83
Payden & Rygel Long Term (SA)	4.67	0.64	1.81	5.67	1.61	5.65	1.16	7.34	5.35	13.97	4.79	3.67
Bloomberg US Agg Bond Index	4.65	-0.40	-0.31	6.00	1.86	4.37	-0.69	7.47	3.90	9.50	6.05	7.12
Difference	0.02	1.04	2.12	-0.33	-0.25	1.28	1.85	-0.13	1.45	4.47	-1.26	-3.45
JP Morgan FI Intermediate Bond (SA)	4.25	0.00	0.11	4.31	1.98	3.19	N/A	N/A	N/A	N/A	N/A	N/A
Bloomberg US Gov't Crdt Int Trm Bond Index	4.23	-0.58	-0.21	4.33	1.68	2.86	0.28	5.42	3.77	8.29	5.27	7.37
Difference	0.02	0.58	0.32	-0.02	0.30	0.33	N/A	N/A	N/A	N/A	N/A	N/A
Brandywine Gbl Opp FI (CF)	1.02	-0.44	4.84	4.97	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
FTSE Wrld Gov't Bond Index	1.85	1.90	-4.14	11.26	-9.02	6.85	-4.50	2.68	10.54	3.03	4.00	17.00
Difference	-0.83	-2.34	8.98	-6.29	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Payden:Low Dur;Inv (PYSBX)	2.51	0.48	1.32	0.89	0.90	1.54	2.10	4.79	4.07	6.72	5.95	6.45
Bloomberg US Trsy 1-3 Yr Index	2.51	0.01	-0.11	1.31	0.90	0.76	0.33	0.81	1.34	2.74	4.50	7.28
Difference	0.00	0.47	1.43	-0.42	0.00	0.78	1.77	3.98	2.73	3.98	1.45	-0.83
AG Direct Lending Fund III, L.P.	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
CS Lvg'd Loan Index	1.93	4.67	7.49	0.93	2.15	6.11	7.64	3.33	9.70	17.69	-7.83	-3.39
Difference	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Schroders Securitized Credit (SA)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
3 Month LIBOR Index (USD)+1.75%	3.21	3.31	2.61	2.17	2.00	2.01	2.13	2.15	2.15	2.12	4.32	6.74
Difference	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
ND Land - PTF Cash (SA)	1.58	1.35	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
ICE BofAML 3 Mo US T-Bill Index	1.66	1.36	0.49	0.19	0.02	0.06	0.11	0.05	0.16	0.16	0.95	3.63
Difference	-0.08	-0.01	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
FLP (Loans)	4.22	6.35	6.09	6.09	5.96	6.22	5.12	6.19	6.32	6.77	7.11	7.54
ECLP (Loans)	3.34	4.53	4.35	5.14	5.10	5.06	5.33	5.79	N/A	N/A	N/A	N/A

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North Dakota Board of University and School Lands
Comparative Performance - Net

As of March 31, 2019

	FYTD	FY 18	FY 17	FY 16	FY 15	FY 14	FY 13	FY 12	FY 11	FY 10	FY 09	FY 08
Absolute Return	2.16	3.10	8.93	-1.28	-3.26	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Absolute Return Custom Index	2.79	6.48	10.93	0.24	1.33	15.53	9.70	-0.79	19.79	12.05	-15.47	-3.04
Difference	-0.63	-3.38	-2.00	-1.52	-4.59	N/A	N/A	N/A	N/A	N/A	N/A	N/A
GMO:Bchmk-Fr All;IV (GBMBX)	1.47	3.43	10.23	-4.28	-2.23	N/A	N/A	N/A	N/A	N/A	N/A	N/A
60% MSCI ACW (Net)/40% Bbrg Gbl Agg Idx	2.46	6.97	9.98	1.40	-2.42	16.59	8.75	-2.48	22.12	9.34	-17.08	-0.56
Difference	-0.99	-3.54	0.25	-5.68	0.19	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Consumer Price Index+5%	4.64	8.01	6.71	6.05	5.13	7.18	6.84	6.75	8.74	6.11	3.50	10.27
Difference	-3.17	-4.58	3.52	-10.33	-7.36	N/A	N/A	N/A	N/A	N/A	N/A	N/A
PIMCO:All Ast Ath;Inst (PAUIX)	0.41	2.11	9.62	-2.06	-8.63	N/A	N/A	N/A	N/A	N/A	N/A	N/A
All Asset Custom Index (EqI Wtd)	3.52	4.47	6.59	2.47	0.17	9.74	5.51	3.63	13.07	10.69	-5.94	2.72
Difference	-3.11	-2.36	3.03	-4.53	-8.80	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Consumer Price Index+5%	4.64	8.01	6.71	6.05	5.13	7.18	6.84	6.75	8.74	6.11	3.50	10.27
Difference	-4.23	-5.90	2.91	-8.11	-13.76	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Westwood Income Opportunity (SA)	4.61	3.73	6.94	2.52	1.24	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Westwood Custom Index	6.43	4.50	3.04	9.35	4.08	9.95	6.44	9.45	16.04	18.44	-14.84	-2.76
Difference	-1.82	-0.77	3.90	-6.83	-2.84	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Consumer Price Index+5%	4.64	8.01	6.71	6.05	5.13	7.18	6.84	6.75	8.74	6.11	3.50	10.27
Difference	-0.03	-4.28	0.23	-3.53	-3.89	N/A	N/A	N/A	N/A	N/A	N/A	N/A

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North Dakota Board of University and School Lands
Comparative Performance - Net

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	FYTD	FY 18	FY 17	FY 16	FY 15	FY 14	FY 13	FY 12	FY 11	FY 10	FY 09	FY 08
Diversified Inflation Strategies (DIS)	-4.93	8.95	-0.96	-10.67	2.68	N/A	N/A	N/A	N/A	N/A	N/A	N/A
DIS Custom Index	-0.25	3.88	2.93	-6.58	-0.58	9.38	4.44	7.63	20.23	17.60	-18.44	-3.16
Difference	-4.68	5.07	-3.89	-4.09	3.26	N/A	N/A	N/A	N/A	N/A	N/A	N/A
NT Common TIPS Index (CF)	1.93	2.16	-0.60	4.40	-1.87	4.61	-4.75	11.81	7.72	10.52	-2.02	15.61
Bloomberg US Trsy US TIPS Index	1.92	2.11	-0.63	4.35	-1.73	4.44	-4.78	11.66	7.74	9.52	-1.11	15.09
Difference	0.01	0.05	0.03	0.05	-0.14	0.17	0.03	0.15	-0.02	1.00	-0.91	0.52
Gresham Commodities (SA)	-6.41	15.59	-2.03	-16.13	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Bloomberg Cmdty Ex Energy Index (TR)	-3.53	-2.99	-3.22	-1.73	-16.16	3.98	-13.40	-7.92	37.12	12.71	-33.13	25.11
Difference	-2.88	18.58	1.19	-14.40	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Gresham Custom Index	-6.49	10.20	-4.63	-12.36	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Difference	0.08	5.39	2.60	-3.77	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Harvest MLP (SA)	1.34	0.13	2.70	-16.04	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
S&P MLP Index (TR)	3.84	-1.76	3.23	-18.93	-16.48	24.87	29.50	7.72	28.44	47.64	-11.63	-12.29
Difference	-2.50	1.89	-0.53	2.89	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Van Eck NR Equities (SA)	-18.39	18.01	-5.92	-12.41	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
S&P Gbl Natural Res Sect Index (TR)	-5.24	24.75	15.35	-8.86	-17.58	21.72	-2.56	-18.33	38.42	1.25	-35.87	25.49
Difference	-13.15	-6.74	-21.27	-3.55	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
S&P N Amer Natural Res Index	-12.88	19.80	-2.62	-5.56	-25.71	33.14	10.62	-17.44	44.29	13.42	-44.94	29.27
Difference	-5.51	-1.79	-3.30	-6.85	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A

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North Dakota Board of University and School Lands
Comparative Performance - Net

As of March 31, 2019

	FYTD	FY 18	FY 17	FY 16	FY 15	FY 14	FY 13	FY 12	FY 11	FY 10	FY 09	FY 08
Real Estate	4.68	10.37	8.39	10.66	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
NCREIF ODCE Index (AWA) (Net)	4.65	7.47	6.90	10.80	13.39	11.74	11.08	11.30	19.35	-6.83	-31.07	6.96
Difference	0.03	2.90	1.49	-0.14	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Morgan Stanley Prime Property Fund (CF)	5.28	8.39	9.12	11.38	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
NCREIF ODCE Index (AWA) (Net)	4.65	7.47	6.90	10.80	13.39	11.74	11.08	11.30	19.35	-6.83	-31.07	6.96
Difference	0.63	0.92	2.22	0.58	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
UBS Trumbull Property Fund, L.P. (CF)	3.30	6.85	4.62	9.57	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
NCREIF ODCE Index (AWA) (Net)	4.65	7.47	6.90	10.80	13.39	11.74	11.08	11.30	19.35	-6.83	-31.07	6.96
Difference	-1.35	-0.62	-2.28	-1.23	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Jamestown Premier Property Fund (CF)	2.24	15.35	6.61	9.75	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
NCREIF ODCE Index (AWA) (Net)	4.65	7.47	6.90	10.80	13.39	11.74	11.08	11.30	19.35	-6.83	-31.07	6.96
Difference	-2.41	7.88	-0.29	-1.05	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Prologis USLF (CF)	9.69	21.73	16.63	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
NCREIF ODCE Index (AWA) (Net)	4.65	7.47	6.90	10.80	13.39	11.74	11.08	11.30	19.35	-6.83	-31.07	6.96
Difference	5.04	14.26	9.73	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
JP Morgan US Real Estate Income and Growth, LP (CF)	2.75	6.57	8.06	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
NCREIF ODCE Index (AWA) (Net)	4.65	7.47	6.90	10.80	13.39	11.74	11.08	11.30	19.35	-6.83	-31.07	6.96
Difference	-1.90	-0.90	1.16	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A

Performance shown is net of fees. Manager inception dates shown represent the first full month following initial funding. Composite inception dates are based on availability of data for each asset class. Please see the Addendum for custom index definitions. RVK began monitoring the assets of North Dakota Board of University and School Lands in Q3 2014. Fiscal year ends 6/30.



North Dakota Board of University and School Lands
Fee Schedule

As of March 31, 2019

Fee Schedule	Market Value As of 03/31/2019 (\$)	Estimated Annual Fee (\$)	Estimated Annual Fee (%)
State Street Russell 1000 Index SL (CF)	623,989,566	62,399	0.01
State Street Russell Mid Cap Index (SA)	79,324,636	23,797	0.03
NT Small Cap Core (CF)	92,148,123	645,037	0.70
State Street World Ex US Index (CF)	488,234,515	97,647	0.02
DFA Emg Mkts Core Eq;l (DFCEX)	90,217,117	469,129	0.52
Harding Loevner:IEM;lZ (HLEZX)	91,476,551	1,015,390	1.11
QMA International Small Cap Equity (CF)	118,365,702	804,887	0.68
Payden & Rygel Long Term (SA)	305,782,109	611,564	0.20
JP Morgan FI Intermediate Bond (SA)	304,047,212	562,285	0.18
Brandywine Gbl Opp FI (CF)	147,648,789	591,771	0.40
Payden:Low Dur;Inv (PYSBX)	48,146,736	207,031	0.43
AG Direct Lending Fund III, L.P.	55,937,736	550,471	0.98
Schroders Securitized Credit (SA)	96,263,276	336,921	0.35
ND Land - PTF Cash (SA)	607,313	1,215	0.20
GMO:Bchmk-Fr All;IV (GBMBX)	311,173,036	2,551,619	0.82
PIMCO:All Ast Ath;Inst (PAUIX)	314,600,908	2,957,249	0.94
Westwood Income Opportunity (SA)	316,125,566	1,693,128	0.54
NT Common TIPS Index (CF)	91,193,026	42,358	0.05
Gresham Commodities (SA)	140,885,081	831,925	0.59
Harvest MLP (SA)	143,158,072	1,052,107	0.73

Mutual Fund fees are sourced from Morningstar and/or the investment manager.

North Dakota Board of University and School Lands
Fee Schedule

As of March 31, 2019

	Fee Schedule	Market Value As of 03/31/2019 (\$)	Estimated Annual Fee (\$)	Estimated Annual Fee (%)
Van Eck NR Equities (SA)	0.75 % of First \$50 M 0.50 % of Next \$200 M 0.48 % Thereafter	94,096,541	595,483	0.63
Morgan Stanley Prime Property Fund (CF)	0.84 % of Assets	206,222,951	1,732,273	0.84
UBS Trumbull Property Fund, L.P. (CF)	0.96 % of First \$10 M 0.83 % of Next \$15 M 0.81 % of Next \$25 M 0.79 % of Next \$50 M 0.67 % of Next \$150 M 0.60 % Thereafter Minimum Fee: \$1,390,421	185,321,381	1,390,421	0.75
Jamestown Premier Property Fund (CF)	0.70 % of Assets	70,020,849	490,146	0.70
JP Morgan US Real Estate Income and Growth, LP (CF)	1.05 % of First \$50 M 0.90 % of Next \$50 M 0.85 % of Next \$50 M 0.80 % of Next \$50 M 0.75 % Thereafter	131,686,578	1,244,336	0.94
Total Fund		4,685,440,688	21,062,315	0.45

- Morgan Stanley Prime Property Fund (CF) is also subject to an incentive fee of 5.0% * NAV * comparable property NOI growth (total capped at 0.35%).
- UBS Trumbull is also subject to a 0.15% incentive fee.
- Prologis USLF (CF): Priority Distribution: 7.5% of net operating income; Acquisition Fee: 0.90% of total acquisition cost on fund acquisitions; Renovation Fee: 0.70% per annum of the acquisition cost of the capital expenditures made with respect to renovation properties during the applicable renovation period. Fees are subject to a quarterly cap of 0.30% of the fund's NAV. Incentive fee of 15% over a 9% net IRR and 20% over a 12% net IRR is payable at the end of each three-year incentive period (next period ends 06/30/2020).

Mutual Fund fees are sourced from Morningstar and/or the investment manager.

Performance Related Comments

- Manager inception dates shown represent the first full month following initial funding.
- RVK began monitoring the assets of North Dakota Board of University and School Lands in Q3 2014. Prior historical data was provided by North Dakota Board of University and School Lands.
- Indices show N/A for since inception returns when the fund contains more history than the corresponding benchmark.
- Historical gross performance for composites was calculated by aggregating gross performance for each of the composites' underlying managers. Managers' gross performance was provided by North Dakota Board of University and School Lands. As of 07/2014, composite and manager performance is provided and calculated by RVK.
- NT Small Cap Core (CF) changed mandate from small and mid cap to strictly small cap in 06/2014. Performance for NT Small/Smid Composite consists of blended history from the previous mandate. From 07/2014 through present, performance consists of only the small cap mandate.
- Payden:Low Dur;Inv (PYSBX) performance prior to 08/2012 consists of blended Payden:Low Dur;Inv (PYSBX) and Payden:GNMA;Inv (PYGNX).

Index Comments

- The Target Allocation Index (Net) is a static custom index that is calculated monthly and consists of:
 - From 02/2018 through present: 17% Russell 3000 Index, 17% MSCI ACW Ex US Index (USD) (Net), 21% Global Fixed Income Custom Index, 15% NCREIF ODCE Index (AWA) (Net), 20% Absolute Return Custom Index, and 10% DIS Custom Index.
 - From 07/2014 through 01/2018: 17% Russell 3000 Index, 15% MSCI ACW Ex US Index (USD) (Net), 23% Global Fixed Income Custom Index, 15% NCREIF ODCE Index (AWA) (Net), 20% Absolute Return Custom Index, and 10% DIS Custom Index.
 - From 01/2013 through 06/2014: 18.7% Russell 1000 Index, 12.4% Russell 2500 Index, 7.5% FTSE EPRA/NAREIT US Index, 12.4% MSCI EAFE Index (USD) (Net), 33.3% Bloomberg US Agg Bond Index, 0.70% CS Lvg'd Loan Index, 10% Bloomberg US Corp Hi Yld Index, and 5% Bloomberg Gbl Agg Ex USD Index (Hedged).
 - From 07/2009 through 12/2012: 15% Russell 1000 Index, 10% Russell 2500 Index, 6% FTSE EPRA/NAREIT US Index, 10% MSCI EAFE Index (USD) (Net), 32.3% Bloomberg US Agg Bond Index, 1.70% CS Lvg'd Loan Index, 10% Bloomberg US Corp Hi Yld Index, 5% Bloomberg Gbl Agg Ex USD Index (Hedged), and 10% ICE BofAML Cnvt Bonds Index (All Qual).
- The Target Allocation Index (Gross) is a static custom index that is calculated monthly and consists of:
 - From 02/2018 through present: 17% Russell 3000 Index, 17% MSCI ACW Ex US Index (USD) (Net), 21% Global Fixed Income Custom Index, 15% NCREIF ODCE Index (AWA) (Gross), 20% Absolute Return Custom Index, and 10% DIS Custom Index.
 - From 07/2014 through 01/2018: 17% Russell 3000 Index, 15% MSCI ACW Ex US Index (USD) (Net), 23% Global Fixed Income Custom Index, 15% NCREIF ODCE Index (AWA) (Gross), 20% Absolute Return Custom Index, and 10% DIS Custom Index.
 - From 01/2013 through 06/2014: 18.7% Russell 1000 Index, 12.4% Russell 2500 Index, 7.5% FTSE EPRA/NAREIT US Index, 12.4% MSCI EAFE Index (USD) (Net), 33.3% Bloomberg US Agg Bond Index, 0.70% CS Lvg'd Loan Index, 10% Bloomberg US Corp Hi Yld Index, and 5% Bloomberg Gbl Agg Ex USD Index (Hedged).
 - From 07/2009 through 12/2012: 15% Russell 1000 Index, 10% Russell 2500 Index, 6% FTSE EPRA/NAREIT US Index, 10% MSCI EAFE Index (USD) (Net), 32.3% Bloomberg US Agg Bond Index, 1.70% CS Lvg'd Loan Index, 10% Bloomberg US Corp Hi Yld Index, 5% Bloomberg Gbl Agg Ex USD Index (Hedged), and 10% ICE BofAML Cnvt Bonds Index (All Qual).
- The Global Fixed Income Custom Index consists of the Bloomberg US Unv Bond Index. Prior to 03/2019, the index consisted of 75% Bloomberg US Unv Bond Index and 25% Bloomberg Multiverse Index.
- The Absolute Return Custom Index consists of 60% MSCI ACW IM Index (USD) (Net) and 40% Bloomberg US Agg Bond Index.
- The DIS Custom Index consists of 50% Bloomberg US Trsy US TIPS Index and 50% FTSE EPRA/NAREIT Dvl'd Index (\$) (Gross) through 06/2015. It consists of 20% Bloomberg US Trsy US TIPS Index, 30% Bbrg Cmdty Ex-Energy Index (TR), 30% S&P MLP Index (TR), and 20% S&P Gbl Natural Res Sect Index (TR) thereafter.
- The Gresham Custom Index consists of the Bloomberg Commodities Index excluding WTI, Brent and Natural Gas.
- The Small/Smid Blended Index consists of 100% Russell 2500 Index through 05/2014 and 100% Russell 2000 Index thereafter.
- The Westwood Custom Index consists of 25% S&P 500 Index (Cap Wtd), 25% FTSE NAREIT All Eq REITs TR Index, 25% FTSE 3 Mo T-Bill Index, and 25% FTSE 10 Yr Trsy OTR Index.

Index Comments (con't)

- The All Asset Custom Index (EqI Wtd) is an equal-weighted hybrid created independently by RVK specifically for PIMCO's All Asset strategies, and it consists of the following benchmarks:
 1. Short Term Strategies: ICE BofAML 1 Yr T-Bill Index
 2. US Core and Long Maturity Bond Strategies: Bloomberg US Agg Bond Index
 3. EM and Gbl Bond Strategies: PIMCO GLADI Index*
 4. Crdt Strategies: ICE BofAML US Hi Yld Master II Index
 5. Inflation Related Strategies: Bloomberg US Trsy US TIPS Index
 6. US Equity Strategies: Russell 3000 Index
 7. Global Equity Strategies: MSCI ACW Index (USD) (Net)
 8. Alternative Strategies: ICE BofAML 3 Mo US T-Bill Index + 3%
- * Performance for the PIMCO Gbl Advantage Bond Index (London Close) prior to 01/01/2004 consists of the JPM EMBI Gbl Dvf'd Index (TR).

Peer Groups

- Total Fund - All Master Trust Universe
- US Equity - IM US Equity (SA+CF)
- International Equity - IM International Large Cap Equity (MF)
- Fixed Income - IM Global Fixed Income (SA+CF)

PORTLAND

CHICAGO

NEW YORK

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**OTHER FUNDS MANAGED
BY THE BOARD**

1ST QUARTER 2019

**Strategic Investment and Improvements Fund,
Coal Development Trust Fund,
&
Capitol Building Fund**

STRATEGIC INVESTMENT AND IMPROVEMENTS FUND

The Strategic Investment and Improvements Fund (SIIF) holds the assets and collects the revenues earned from sovereign mineral acres, including those formerly owned by the Bank of North Dakota and State Treasurer, as well as the minerals located under navigable rivers and lakes. The SIIF also receives a portion of the oil and gas production and extraction taxes collected by the State. Because the entire balance of this fund can be appropriated each biennium, it is invested in a conservative, short-term fixed income portfolio.

	3/31/19 Asset Balances	Total Return for Qtr. Ended 3/31/18
Strategic Investment and Improvements Fund		
Loan Guarantee – Fuel Production		N/A
Accrued Oil Taxes	128,398,000	
Investments/Cash	<u>801,890,000</u>	1.14% Total Return
Total	\$ 930,288,000	

- ◆ The SIIF ended the quarter ended March 31, 2019 with a fund balance of \$930.29 million, an increase of \$214.82 million over the balance on December 31, 2018.
- ◆ The primary source of trust growth for the quarter was oil and gas taxes, at \$188.62 million; mineral royalties were the next largest contributor to trust growth at \$21.61 million.
- ◆ Interest income totaled approximately \$4.2 million for the quarter, an increase of \$1.8 million over the previous quarter, as the balance in the fund grew due to strong royalty and oil tax collections.
- ◆ During the quarter, \$3.0 million was transferred out of the SIIF to the Department of Commerce (SB 2018) and \$75,736 was transferred to the Department of Health (SB 2004). As of 3/31/19 only \$424,264 of appropriated transfers remained to be transferred before the end of the biennium.
- ◆ In January of 2019, the funds set aside to guarantee a loan for the Dakota Spirit AgEnergy biomass fuel production facility were returned to the SIIF by BND after the loan on the facility was paid off early.
- ◆ During the 2019 legislative session a bill was passed to raise the amount of SIIF money set aside to guarantee loans to \$50 million. Those funds will be invested along side the rest of SIIF funds until needed by BND to guarantee a new loan under the program.
- ◆ The assigned fund balance of the SIIF was \$229.3 million as of March 31, 2019. The assigned fund balance represents money that has been set aside to cover potential refunds related to lawsuits and legislation concerning ownership of the Missouri and Yellowstone Rivers. This \$229.3 million balance includes the \$100 million appropriation for mineral revenue refunds found in 2017's Senate Bill 2134.
- ◆ Current estimates indicate that the SIIF should end the biennium with a balance of over \$1.0 billion, as both tax and royalty revenues continue to remain strong. This balance should be reached even after the \$37.4 million of emergency clause appropriations that were approved by the 66th Legislative Assembly.

COAL DEVELOPMENT TRUST FUND

The **Coal Development Trust Fund** (CDTF) is a permanent fund from which the Board issues loans to energy impacted counties, cities and school districts as provided in NDCC Section 57-62-03, and lends to school districts pursuant to NDCC Chapter 15-60. The Board is responsible for investing all funds that have not been loaned to political subdivisions. As directed in the Constitution, the income earned by the CDTF is transferred to the General Fund each year. The CDTF has historically been invested in a conservative short-term fixed income portfolio.

	3/31/3019 Asset Balances	Yield/Total Return for Qtr. Ended 3/31/19
Coal Development Trust Fund		
School Construction Loans	\$ 44,671,000	1.53% Yield
Coal Impact Loans	11,447,000	3.35% Yield
Investments/Cash	<u>14,024,000</u>	1.14% Total Return
Total	\$ 70,142,000	

- ◆ During the quarter, there was no activity in the school construction loan program and the only activity in the Coal Impact Loan Program was the monthly payments on outstanding loans.
- ◆ Effective July 1, 2017, the purpose of the school construction loan program changed from a program that funded major construction projects to a program that now funds loans to schools for unanticipated construction projects and emergency repairs of less than \$2.0 million that have been approved by the Department of Public Instruction. The total amount available to loan for these projects has been increased to \$60 million, up \$10 million from the previous cap.
- ◆ Effective July 1, 2017, the amount coal severance taxes being deposited into the CDTF was reduced by 50% from approximately \$1.0 million a year to \$500,000 a year. It will not reduce the size of the current fund, only the future rate of fund growth.

CAPITOL BUILDING FUND

The Capitol Building Fund is a Constitutional fund that was created for the construction and maintenance of public buildings at the capital. It generates revenues from nearly 10,000 surface and 27,700 mineral acres it owns. Because the Fund can be appropriated by the legislature each biennium, it is invested in a conservative, short-term fixed income portfolio.

The Capitol Grounds Planning Commission (CGPC) has official control over the Capitol Building Fund; the Land Board is responsible for investing the assets on behalf of the CGPC, which it has done within the Northern Trust Ultra Short bond fund.

	3/31/19 Asset Balance	Total Return Qtr. Ended 3/31/19
Capitol Building Fund		
Investments/Cash	\$ 6,717,000	1.14% Total Return

- ◆ The Capitol Building Fund had a fund balance of \$6.72 million as of March 31, 2019, an increase of \$1.38 million over the balance of the fund on December 31, 2019.
- ◆ The biggest source of trust growth during the quarter ended March 31, 2019 was the \$1.07 of gravel royalty revenues received during the quarter. An additional \$185,000 of oil and gas royalties were received during the quarter as well as \$37,500 of interest income. It is important to note that the gravel royalties are one time revenues that will not continue over time.
- ◆ As of March 31, 2019, the Capitol Building Fund had received a total of \$887,000 of the \$1.0 million of donations pledged to the Governor’s residence project. It is anticipated that no further transfers will be made. The Commissioner is currently trying to confirm with the CGPC that no further donations will be received.
- ◆ The 65th Legislature did not approve any new spending out of the Capital Building Fund for the 2017-19 biennium. However, Facilities Management did receive carryover authority for the following amounts:
 - \$1.4 million previously designated in 2015 for Capitol Building entrance and signage projects. In accordance with HB 1015, Section 17, these funds will now be used for extraordinary repairs (\$1.0 million) and entrance and signage projects (\$400,000).
 - \$1.75 million for the new Governor’s residence. This authority was approved by the carryover committee in June of 2017.
- ◆ As of March 31, 2019, a total of \$2.65 million had been transferred to Facilities Management for both of the above noted projects. Staff recently learned the Facilities Management will be requesting the remaining \$500,000 of appropriation for those projects during the last quarter of the biennium.
- ◆ In addition to the carryover authority noted above, NDCC 48-10-02 provides the CGPC with continuing appropriation authority of \$175,000 out of this fund, and HB 1015 contained a \$25,000 operating appropriation for the CGPC.

INVESTMENT RETURNS

The investment assets of the SIIF, Coal Development Trust Fund, and Capitol Building Fund are commingled in the Ultra-Short bond portfolio managed by Northern Trust. See the RVK's review of the performance of the Ultra-short portfolio for the quarter ended December 31, 2018 for details on the how the investments of these funds have performed over time.

Schedule of Investable Assets							
Periods Ending	Beginning Market Value (\$)	Net Cash Flow (\$)	Gain/Loss (\$)	Ending Market Value (\$)	% Return		
QTD	584,031,739	226,557,387	7,902,070	818,491,196	1.14		
Asset Allocation & Performance							
	Market Value (\$)	Performance (%)					
		QTD	FYTD	CYTD	1 Year	Since Incep.	Inception Date
NT Ultra Short Extended (SA)	818,491,196	1.14	2.56	1.14	3.10	1.79	08/01/2015
NT Ultra Short Extended Custom Index		0.90	2.20	0.90	2.58	1.16	
Difference		0.24	0.36	0.24	0.52	0.63	
Fund Objective							
The objective of this fund is to provide capital preservation with returns which exceed that of its custom benchmark, 50% Bloomberg US Gov't Crdt 1-3 Yr Bond Index and 50% ICE BofAML 3 Mo US T-Bill Index.							
Portfolio Characteristics							
	Portfolio	Benchmark					
Effective Duration	1.32	1.07					
Modified Duration	1.39	1.04					
Spread Duration	1.03	1.08					
Convexity	-0.01	N/A					
Avg. Maturity	1.39	1.11					
Avg. Quality	A1	Aa1					
Yield To Maturity (%)	2.59	2.34					
Coupon Rate (%)	2.53	N/A					
Current Yield (%)	2.52	N/A					
Holdings Count	218	245					
Sector Distribution (%)							
		<p>■ NT Ultra Short Extended (SA) ■ NT Ultra Short Extended Custom Index</p>					

Performance shown is gross of fees. Net cash flow includes fees, securities lending income and client directed flows. Gain/loss includes dividend and interest income and capital appreciation. Allocations shown may not sum up to 100% exactly due to rounding. The NT Ultra Short Extended Custom Index is calculated monthly and currently consists of 50% Bloomberg US Gov't Crdt 1-3 Yr Bond Index and 50% ICE BofAML 3 Mo US T-Bill Index. Fiscal year end 6/30.



MEMORANDUM TO THE BOARD OF UNIVERSITY AND SCHOOL LANDS

May 30, 2019

RE: Investment Updates

(No Action Requested)

Asset Allocation

The table below shows the status of the permanent trusts' asset allocation as of April 30, 2019.

Account/Asset Class	Long-Term Asset Allocation	4/30/19 Actual Allocation \$	4/30/19 Actual Allocation %	4/30/19 % Diff.
Large Cap US Equity	13.3%	\$ 649,226,375	13.6%	0.3%
Mid/Small Cap US Equity	3.7%	\$ 178,999,346	3.7%	0.0%
International Equity	13.3%	\$ 623,621,156	13.0%	-0.3%
Emerging Market Equity	3.7%	\$ 186,276,893	3.9%	0.2%
Total Equities	34.0%	\$ 1,638,123,771	34.2%	0.2%
Core Fixed Income	12.6%	\$ 693,714,897	14.5%	1.9%
Non-Core Fixed Income	8.4%	\$ 309,344,240	6.5%	-1.9%
Total Fixed Income	21.0%	\$ 1,003,059,137	21.0%	0.0%
Total Absolute Return	20.0%	\$ 957,078,003	20.0%	0.0%
Commodities	3.0%	\$ 142,740,342	3.0%	0.0%
MLPs	3.0%	\$ 141,216,143	3.0%	0.0%
TIPS	2.0%	\$ 91,519,970	1.9%	-0.1%
Natural Resource Equities	2.0%	\$ 95,248,598	2.0%	0.0%
Total Inflation Strategies	10.0%	\$ 470,725,053	9.8%	-0.2%
Core Real Estate	8.0%	\$ 391,544,331	8.2%	0.2%
Core Plus Real Estate	7.0%	\$ 322,315,608	6.7%	-0.3%
Total Real Estate	15.0%	\$ 713,859,938	14.9%	-0.1%
Total Asset	100.0%	\$ 4,782,845,902	100.0%	

Angelo Gordon (\$57.16 million, 1.2% of PTF assets)

Direct Lending Fund

The Angelo Gordon Direct Lending Fund III portfolio was initially funded in late-August 2018. To date, a total of \$54.75 million dollars has been transferred to the fund. The Commissioner recently received a capital call for \$3.75 million that will be funded on May 29, 2019.

The interesting thing about May's capital call notice was that the \$3.75 million call was offset by a \$930,622 distribution of income from the fund. This is the first distribution of income from the fund since inception; it is expected that this fund will continue to make regular distributions going forward.

\$58.5 million, out of the total commitment of \$150 million, will have been transferred to the fund by the end of May 2019. This represents 39% of the total commitment to the fund. According to Angelo Gordon, the Board's commitment should be fully drawn by late-2020.

Upcoming Investment Manager Meetings

The following meetings with investment managers are planned to discuss strategy, compliance, and performance. They will be held in the Department's conference room. Please inform the Commissioner ahead of time if you plan to attend, so that we can make sure enough presentation materials are available.

May 30, 2019, 3:00 PM

JP Morgan

Core Fixed Income (\$304.5 million, 6.4% of PTF assets)

Jim Sakelaris and Joe Hisdorf

June 12, 2019, 8:00 AM

Payden and Rygel

Core Fixed Income (\$306.5 million, 6.4% of PTF assets)

Short-term Fixed Income (\$65.3 million, 1.4% of PTF assets)

Dave Ballantine and Mirjam Weber

June 18, 2019, 10:30 AM

Northern Trust Asset Management

Small Cap US Equities (\$96.7 million, 2.0% of PTF assets)

TIPS (\$91.5 million, 1.9% of PTF assets)

Ultra-Short Fixed Inc (\$891.2 million, Coal, Capitol & SIIF)

Tamara Doi Beck, Robert Gyorgy, Patrick Quinn