

**Minutes of the Meeting of the
Board of University and School Lands
September 29, 2016**

The September 29, 2016 meeting of the Board of University and School Lands was called to order at 9:00 AM in the Governor's Conference Room by Chairman Jack Dalrymple.

Members Present:

Jack Dalrymple	Governor
Alvin A. Jaeger	Secretary of State – via telephone
Wayne Stenehjem	Attorney General
Kelly Schmidt	State Treasurer
Kirsten Baesler	Superintendent of Public Instruction

Department of Trust Lands Personnel present:

Lance D. Gaebe	Commissioner
Jeff Engleson	Director, Investment Division
Levi Erdmann	Investment Analyst
Gerry Fisher	Director, Grants and Claims
Linda Fisher	Deputy Commissioner
Catelin Newell	Office Manager
Rick Owings	Land Professional

Guests in Attendance:

Bonnie Storbakken	Governor's Legal Counsel
Jason Nisbet	Governor's Office
Josh Kevan	RVK
Marcia Beard	RVK
David Jones	Major Oak
Andrew Studee	Major Oak
Harry Marsteller	Major Oak
Pete Crosswell	Major Oak (via telephone)
Mike Nowatski	Forum Communications
Nick Smith	Bismarck Tribune

A P P R O V A L O F M I N U T E S

A motion to approve the minutes of the August 25, 2016 meeting was made by Treasurer Kelly Schmidt and seconded by Attorney General Wayne Stenehjem and the motion carried unanimously on a voice vote.

E N E R G Y I N F R A S T R U C T U R E A N D I M P A C T O F F I C E

Revenue Update:

The following statistics are as of September 16, 2016:

Within the 2015-2017 biennium, the oil and gas impact grant fund (OGIGF) has received \$38,419,273.41 of distributions from gross production tax collections including the September 2016 distribution.

The February 2016 revised state revenue forecast projected the OGIGF would receive \$28.6 million of the \$140 million appropriated. The revised state revenue forecast released in July 2016 increased the projection to \$73.4 million.

The balance of carryover funds remaining in the OGIGF from previous biennium awards is \$30.4 million. For the current biennium, \$8.8 million remains after accounting for reimbursements and administrative costs. Accounting for previous and current biennium available funds, \$39.2 million is available in the OGIGF.

It seems that the OGIGF will have adequate deposits to cover current grant obligations and the required January 2017 \$5 million to critical access hospitals and \$1 million to developmentally disabled service providers. It is expected that there will be funding to address additional legislative identified grant allocations which the Board had to suspend consideration of in February.

Cancelation of Grants

At the Board's July 2016 direction the EIO staff contacted grantees whose grants were suspended in February 2016 as a result of the projected revenue shortfall. During phone calls, several grants were identified for cancelation. Additionally, seven grant projects for airports were completed under budget and were included among the recommendations for cancellations of grants or remaining balances of grants:

Political Subdivision	Year	Grant Number	Amount Awarded	Amount Paid	Balance to be Canceled	Project Description
ADAMS COUNTY	2014	G140086	\$96,750.00	\$89,170.73	\$7,579.27	Training; 2 vehicles; K-9
ADAMS COUNTY	2014	G140226	\$126,450.00	\$91,271.81	\$35,178.19	Mobile Computer w/ Docking Stations, Printer & Scanner; Mobile (digital) Radios w/ Installation; Tower & Repeater & Building w/ Generator & Security Fence.
BEACH COMM AMBULANCE	2016	G160027	\$67,500.00	\$63,006.27	\$4,493.73	Ambulance Equipment
BIG MEADOW TOWNSHIP	2015	G150279	\$140,000.00	\$125,400.16	\$14,599.84	Rebuild and Fix Roads
BURKE COUNTY	2014	G140089	\$109,233.00	\$102,115.30	\$7,117.70	Housing Allowances; Overtime; Vehicle & Equipment; Equipment; Licensing Fees
CITY OF STANLEY	2015	G150093	\$80,000.00	\$73,025.92	\$6,974.08	Fire Hall Renovations
DICKINSON MUNICIPAL AIRPORT AUTHORITY	2015	G150131	\$4,704.00	\$3,579.91	\$1,124.09	FAA 2014 AIP #31 - Runway 32 Safety Area Design
EARL PSD #18	2016	G160059	\$11,973.00		\$11,973.00	Renovation and improvement projects
GRASSLAND TOWNSHIP	2015	G150282	\$32,000.00		\$32,000.00	Road Maintenance
HETTINGER COUNTY	2014	G140093	\$144,311.00	\$141,442.08	\$2,868.92	Vehicles; Equipment; UTV
MCHENRY COUNTY	2014	G140231	\$115,773.00	\$115,711.95	\$61.05	(1) Deputy Position; Overtime; DV Training; (1) Vehicle w/ equipment & installation; Lightbar, Radio & Radar; In-Car Camera; Uniform; Ammo, Oil changes/Fuel; Tires; Taser; Alco-Sensor; Vest; Cell Phone
MCHENRY COUNTY	2016	G160107	\$2,250.00		\$2,250.00	Building, Equipment, Supplies
MCLEAN COUNTY	2014	G140233	\$126,758.00	\$126,757.26	\$0.74	(1) Criminal Investigator Position; (1) Narcotics Investigator Position; 2 Unmarked Patrol Vehicles w/ Equipment ; Supplies for new officer/vehicles; Cell phones; Modems; Netmotion fees
NEW ENGLAND RURAL FIRE DISTRICT	2016	G160030	\$22,741.00	\$22,579.21	\$161.79	Stryker Power Load System
SIKES TOWNSHIP	2014	G140256	\$200,000.00	\$99,201.00	\$100,799.00	Road Repairs
SLOPE COUNTY	2016	G160119	\$53,100.00	\$45,638.54	\$7,461.46	Personnel, Equipment, Supplies
SLOULIN INT'L AIRPORT	2014	G140074	\$67,032.00	\$67,031.82	\$0.18	General Aviation Primary Guiding Documents (Airport Transition Policy, Minimum Standards, Lease Agreements
SLOULIN INT'L AIRPORT	2014	G140298	\$110,654.00	\$109,898.65	\$755.35	Architectural Terminal Pre-Design
SLOULIN INT'L AIRPORT	2014	G140299	\$50,486.00	\$25,243.11	\$25,242.89	Site Selection and Preliminary Environmental Study
SLOULIN INT'L AIRPORT	2015	G150132	\$32,748.00	\$32,058.32	\$689.68	FAA 2014 AIP #38 - Purchase Class 4 - 3,000 Gallon ARFF Truck
SLOULIN INT'L AIRPORT	2015	G150285	\$895,078.00	\$865,125.26	\$29,952.74	Terminal ARFF/SREE Schematic Design Reimbursement
SLOULIN INT'L AIRPORT	2015	G150286	\$496,249.00	\$419,749.10	\$76,499.90	Benefit Cost Analysis/ FAA Letter Of Intent Application

Total of Cancelations \$367,783.60

Motion: **The Board canceled the 22 grant balances identified in the preceding list for a total of \$367,783.60. Subsequently the Board declared these funds as available within the oil and gas impact grant fund.**

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

Grant Rounds for Critical Access Hospitals and Providers to the Developmentally Disabled

Critical Access Hospitals

HB 1176 as passed by the 2015 Legislature allocated \$10 million for grants to critical access hospitals in oil producing and contiguous counties. The legislation identified that one-half of the grant funding must be distributed in January of each year. In January 2016, \$5 million was distributed to seven hospitals based upon earlier awards approved by the Board.

The EIIO will work with the Department of Human Services to begin accepting applications during October and to score the applications in November.

The following criteria was recommended:

- Qualifying hospitals must have incurred an operating loss in the most recently completed fiscal year, excluding any grant amount received in the 2016 HB 1358 Grant program for CAHs.
- Uncompensated care provided by the facility must have exceeded 2.7% of Gross Patient Revenue.
 - Uncompensated care provided over the 2.7% threshold will be eligible for grant funds. However, the amount of the grant may not result in the hospital earning a positive operating margin.
 - Gross Patient Revenue is defined as Inpatient Hospital Revenue, Outpatient Hospital Revenue and Hospital Owned Clinic Revenue. It excludes revenue from Nursing Home, Assisted Living, Basic Care, Hospice, Home Health, etc.

In 2015 the Board appointed a Critical Access Hospitals Grants Advisory Committee:

Becky Hansen, Southwest Healthcare Services, Bowman
 Daniel Kelly, McKenzie County Healthcare, Watford City
 Darrold Bertsch, Sakakawea Medical Center, Hazen
 Matt Grimshaw, Mercy Medical Center, Williston
 Randall Pederson, Tioga Medical Center, Tioga
 Tom Nehring, ND Department of Health, Bismarck
 Jerry Jurena, President of the ND Hospital Association, Bismarck

The EIIO will work with the advisory committee to develop December grant recommendations Board consideration.

Providers to the Developmentally Disabled

HB 1176, as passed by the 2015 Legislature also allocated \$2 million for grants to providers serving individuals with developmental disabilities located in oil producing counties.

The Legislature directed distributions are to be made each January during the biennium and for the EIIO to work with the Department of Human Services (DHS) regarding grant procedures. The legislation directed that grant recommendations be based upon each provider's number of full-time equivalent positions.

In December of 2015 the Board made grants to eleven providers totaling \$1 million with distribution of these awards provided in January 2016.

The EIO will again work with the DHS to provide award recommendation to the Board in December 2016 for distribution of \$1 million in January 2017.

Motion: The EIO is authorized to initiate energy impact grant rounds for Critical Access Hospitals and providers serving the developmentally disabled using the described criteria and advisory groups as outlined herein and in 2015 Session Law.

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

Presentation to the Budget Section

The EIO Budget Section presentation was distributed for the Board's review.

INVESTMENTS

RVK Investment Performance Review

Marcia Beard and Josh Kevan from RVK reviewed the performance of the permanent trust funds' pool of investment assets for the period ending June 30, 2016. They also provided an update on markets and portfolio performance since the end of the quarter.

This report presents the collective performance of the permanent trusts' investments and the performance of individual managers within the program.

The complete detailed report was reviewed by the Board and is available at the Department.

U.S. Equity Portfolio Restructure

During a February 2016 comprehensive review of equities, RVK informed the Board that the permanent trusts' U.S equity portfolio had a small underweight to mid cap stocks and small overweight to small cap stocks. This size bias was established when the equity portfolio was restructured in mid 2014.

With RVK's assistance, the Department has analyzed the historic risk/return profile of U.S stocks; and the historic performance of active versus passive management of U.S equities. The results of that analysis shows that:

- Mid cap stocks have outperformed both small and large cap stocks by a substantial margin over the past 36 years
- Small cap stocks have outperformed large cap stocks, but are more volatile than both mid and large cap stocks
- Evidence in support of the active management of small cap stocks is compelling
- Evidence in support of active management of both mid and large cap stocks is far less compelling

The permanent trusts' allocation to domestic equities is approximately \$649 million, which represents 17% of total fund assets. Of that \$649 million, 79% (\$512 million) is invested in a passive S&P 500 Index fund managed by State Street Global Advisors and 21% (\$137 million) is invested in an active small cap portfolio managed by Northern Trust. The cost of managing the U.S. Equity portfolio has averaged approximately 15 basis points (0.15%) per year over the past 2 years.

Using RVK's optimization tools, a revised domestic equity portfolio structure for the permanent trusts was developed and recommended:

- 78% Russell 1000 Index
- 10% Russell Mid Cap Index
- 12% actively managed small cap

The resultant portfolio over weights both mid and small cap stocks by approximately 30% versus their benchmark weight in the Russell 3000. The recommended structure will also bring down the cost of managing the domestic portfolio to approximately 9.6 basis points annually.

Northern Trust and State Street Global Advisors (SSGA) were both requested to provide estimates to manage the suggested allocations in the Russell 1000 and Russell Mid Cap index mandates.

Both proposed fees of 1.0 basis points for a Russell 1000 Index product, this is down from the 1.5 basis point fee currently paid to SSGA for the S&P 500 Index. Both firms also proposed a fee of 3.0 basis points for a Russell Mid Cap index product.

Further discussions with both entities resulted in SSGA agreeing to lower the fee for the current World Ex US Index portfolio it manages from 2.5 basis points to 2.0 basis points. The World Ex US fee reduction proposed by SSGA more than offsets the custody saving advantage that would be achieved by investing through Northern.

Recommended Motion:

The Board:

- 1. Adopts a new structure for the permanent trusts' U.S. equity portfolio that includes a 78% allocation to in the Russell 1000 Index, a 10% allocation to the Russell Mid Cap Index and a 10% allocation to actively managed small cap equities;**
- 2. Achieves the desired structure by using SSGA to manage the two index portfolios and continue to use Northern Trust to manage the active small cap;**
- 3. Directs the Commissioner to amend agreements as needed to implement the desired fund structure.**

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

Asset Class Review – Diversified Inflation Strategies

Each quarter, the Board reviews a separate investment asset class in which the permanent trust funds participate. At this meeting, RVK reviewed the permanent trusts' diversified inflation strategies portfolio. The permanent trusts' diversified inflation strategies investment is made up of four different

portfolios that hold TIPS (treasury inflation protected securities), commodities, master limited partnerships (MLPs) and natural resource equities.

The commodities, MLPs and natural resource equities portfolios are all actively managed; these portfolios were initially funded in June 2015 as a result of the RVK asset allocation implementation project. The TIPS portfolio, which has been a part of the permanent trusts' portfolio since June of 2004, is a passively managed commingled fund.

The presentation covered the asset class as a whole, as well as the specific strategies and managers. The presentation was reviewed by the Board and is available at the Department.

Investment Policy Statement Amendment of Fixed Income Benchmark

During the June 2016 Board meeting, RVK presented a review of the Permanent Trusts' fixed income investments and discussed revision of the benchmark to more closely reflect exposures to non-US debt and high yield credit. Subsequently, appropriate options were evaluated and the Department and the consultant recommended an update to the investment policy statement to change the fixed income benchmark from the Barclays Global Aggregate to a blended benchmark of 75% Barclays US Universal Index and 25% Barclays Multiverse Index.

Motion: The Board adopts the blended benchmark of 75% Barclays US Universal Index and 25% Barclays Multiverse Index for the fixed income composite of the Permanent Trust Funds, and accepts the proposed changes within its Investment Policy Statement.

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

Other Funds Managed by the Board – 2nd Quarter 2016

STRATEGIC INVESTMENT AND IMPROVEMENTS FUND

The Strategic Investment and Improvements Fund (SIIF) was created in 2011, 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. Because the entire balance of this fund can be appropriated each biennium, it is invested in a conservative, short-term fixed income portfolio.

	06/30/16 Asset Balances	Yield/Total Return for Qtr. Ended 6/30/16
Strategic Investment and Improvements Fund		
Loan Guarantee – Fuel Production	\$ 18,169,000	0.40% Yield
Investments/Cash	<u>327,037,000</u>	0.65% Total Return
Total	\$ <u>345,206,000</u>	

The Board reviewed the authorized transfers which occurred within the SIIF during the first fiscal year of the biennium:

- ◆ \$150 million of school construction loans were transferred to the newly created school construction assistance loan fund (SCALF) in July 2015. SB 2039 gave control of the SCALF to the Bank of North

Dakota (BND); contingent on voter approval of a constitutional measure in November 2016. The Board manages the SCALF until it is determined by voters if it will be transferred to the BND.

- ◆ The medical facilities infrastructure fund, which had been managed by the BND but owned by the SIIF, became a revolving fund managed by the BND in July 2015. The approximately \$50 million of loans and assets in this fund will no longer be paid back to the SIIF.
- ◆ In February 2016, OMB transferred \$50.0 million of SIIF money to BND to fund the newly created infrastructure revolving loan fund. This transfer of funds is permanent.
- ◆ The funds set aside to guarantee a loan for the Dakota Spirit AgEnergy biomass fuel production facility earned an annualized yield of approximately 0.40% during the quarter. In addition, the annual guarantee fee of \$45,000 (0.25% of the outstanding loan balance) was received in June 2016.
- ◆ During the quarter ended June, 2016, the SIIF earned approximately \$17.9 million. \$14.4 million of revenues came from oil and gas royalties, \$2.2 million came from investment income and capital gains, and \$894,000 came from mineral bonuses.

APPROPRIATED TRANSFERS FY 2016

The table below shows a breakdown of the \$314.78 million of cash transfers that came out of the SIIF during fiscal year 2016:

Amount	Bill (Agency)	Purpose
\$237 million	SB 2103 - SURGE (DOT)	Balance of distributions to counties for road and bridge infrastructure needs.
\$13,125,322	HB 1014 - (NDIC)	Balance of funding for new core library
\$650,000	HB 1285 - (Commerce)	Grants to domestic violence organizations
\$7.5 million	HB 1018 - (Commerce)	Funding to enhanced use lease grant program at GFAB
\$3.0 million	HB 1020 - (Extension Service)	Partial transfer of funding for veterinary diagnostic laboratory project
\$50.0 million	HB 1443 - (BND)	Transfer to BND infrastructure revolving loan fund
\$3.5 million	HB 1012 - (DOT)	Partial funding for DOT's short line railroad program

An additional \$18.7 million of appropriated transfers are scheduled to come from the SIIF over the remainder of the 2015-17 biennium:

Amount	Bill (Agency)	Purpose
\$3.5 million	HB 1012 - (DOT)	Remaining funding for DOT's short line railroad program
\$15.0 million	HB 1020 - (Extension Service)	Balance of funding for veterinary diagnostic laboratory project
\$200,000	HB 1022 – Commission on Legal Counsel for Indigents	Funding for contract services

A contingent appropriation of \$25.85 million to the state highway fund will not occur during FY 2017, as budget projections for the General Fund revenues did not exceed legislative estimates by \$126.0 million for the fiscal year ended June 30, 2016, as required by law.

SCHOOL CONSTRUCTION ASSISTANCE LOAN FUND (SCALF)

The SCALF was created by SB 2039, effective July 1, 2015, with a transfer of \$150 million of outstanding school construction loans from the SIIF. SB 2039 gave control of the SCALF to the BND, contingent on voter approval of a constitutional measure in November 2016. The Board manages the SCALF until it is determined if it will be transferred to BND or not.

- ◆ As of June 30, 2016, the SCALF had a balance of approximately \$153.2 million and was made up of \$143.2 million of school construction loans, \$8.7 million of invested cash, and \$1.3 million of accrued income.

- ◆ The \$8.7 million of cash represents principal and interest payments received during fiscal year 2016, and is available to loan by the Department of Public Instruction.
- ◆ The average yield of the outstanding total loan balance was 1.43% as of June 30, 2016. The invested cash is currently earning an annual yield of about 0.20%.

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 lent 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.

	6/30/2016 Asset Balances	Yield/Total Return for Qtr. Ended 6/30/16
<u>Coal Development Trust Fund</u>		
School Construction Loans	\$ 43,513,000	1.67% Yield
Coal Impact Loans	13,315,000	3.37% Yield
Investments/Cash	<u>11,141,000</u>	0.65% Total Return
Total	\$ 67,969,000	

- ◆ No new loans were funded out of the CDTF during the quarter ended June 30, 2016.
- ◆ In the school construction loan program, principal payments of \$7.6 million and interest payments of \$798,000 were received in fiscal year 2016. As of June 30, 2016, just under \$6.5 million of school loan capacity was available under the \$50 million loan cap for this program
- ◆ The investable balance of the CDTF was \$11.1 million at quarter’s end, up \$6.5 million from \$4.6 million on March 31, 2015.

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 its 10,000 surface and 27,700 mineral acres. Because the entire balance of this Fund can be appropriated by the legislature each biennium, it is invested in 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.

	6/30/16 Asset Balance	Total Return Qtr. Ended 6/30/16
<u>Capitol Building Fund</u>		
Investments/Cash	\$ 6,861,000	0.65% Total Return

- ◆ The 64th Legislative Session, appropriated approximately \$5.7 million from the Capitol Building Fund:
 - \$4.0 million for a new Governor’s residence (SB 2304)
 - \$1.4 million for capitol building entrance and signage projects (SB 2015)
 - \$310,000 for legislative wing electrical and ceiling repairs (SB 2015)
- ◆ In addition to the specific appropriations, NDCC 48-10-02 provides the CGPC with continuing appropriation authority of \$175,000 from the Fund, and SB 2015 contains a \$25,000 operating appropriation for the CGPC.

- ◆ During the quarter, the Capitol Building Fund collected approximately \$204,000 of oil and gas royalties. The next biggest contributor to fund growth during the quarter were investment income and capital gains which totaled more than \$41,000.
- ◆ During the quarter, \$1.0 million was transferred to Facilities Management to help pay for some of the upfront costs associated with the new governor's residence. The Capitol Building Fund has not received the \$500,000 transfer of donated money that is required before construction of the residence begins.
- ◆ The investment assets of the Capitol Building Fund are commingled with the SIIF, Coal Development Trust Fund in the Northern Trust Ultra-Short bond portfolio.

The Ultra-Short Performance Report dated June 30, 2016 and Ultra-Short Performance Report dated August 31, 2016 were provided to the Board for review and are available at the Department.

Investment Updates

Asset Allocation

The status of the asset allocation of the permanent trusts as of August 31, 2016, compared to the target allocation for each asset class.

Account/Asset Class	Long-Term Asset Allocation	8/31 Actual Allocation \$	8/31 Actual Allocation %
Large Cap US Equity	13.5%	\$ 512,770,232	13.6%
Small Cap US Equity	3.5%	\$ 135,471,952	3.6%
International Equity	12.0%	\$ 450,356,993	11.9%
Emerging Market Equity	3.0%	\$ 114,073,306	3.0%
Total Equities	32.0%	\$ 1,212,672,482	32.1%
Domestic Investment Grade	14.2%	\$ 541,980,003	14.4%
High Yield FI	3.0%	\$ 111,656,444	3.0%
International/Global FI	5.8%	\$ 217,279,232	5.8%
Total Fixed Income	23.0%	\$ 870,915,680	23.1%
Total Absolute Return	20.0%	\$ 752,287,800	19.9%
Commodities	3.0%	\$ 110,118,498	2.9%
MLPs	3.0%	\$ 112,283,808	3.0%
TIPS	2.0%	\$ 74,572,498	2.0%
Natural Resource Equities	2.0%	\$ 76,827,662	2.0%
Total Inflation Strategies	10.0%	\$ 373,802,466	9.9%
Core Real Estate	8.0%	\$ 325,803,443	8.6%
Core Plus Real Estate	7.0%	\$ 239,518,096	6.3%
Total Real Estate	15.0%	\$ 565,321,540	15.0%
Total Asset	100.0%	\$ 3,774,999,968	100.0%

The remaining \$28.25 million commitment to J.P. Morgan's Income and Growth Fund has been called; the funds will be transferred to J.P. Morgan on October 3, 2016. With this transfer, the real estate investment is essentially fully funded, and the permanent trust funds' long-term target allocations will be used to manage and evaluate the permanent trust investment portfolio.

J.P. Morgan – Columbus (\$251 million, 6.7% of assets)

In June the Board was informed that RVK had placed the J.P. Morgan – Columbus fixed income team on its "watch list", due to a number of recent departures.

In early September, representatives of J.P. Morgan traveled met with Department staff about the investment's performance, compliance and strategy. The Commissioner and investment staff are confident that J.P. Morgan's fixed income team can continue to do the job for which they were hired. Both RVK and the Department will continue to monitor this manager closely and will report any concerns to the Board.

Jamestown Premier Property Fund (\$77.4 million, 2.1% of assets)

On September 22, 2016, Jamestown Premier Property Fund distributed approximately \$4.5 million dollars to the trusts. This distribution of "sale proceeds" represents the trusts' share of the gain earned on the sale of one of the portfolio's buildings. In this case, 245 First Street in Cambridge, MA.

This distribution is at Jamestown's discretion.

OPERATIONS

Deputy Commissioner

Among the informal recommendations offered in the Department's performance audit, was a suggestion that the 'deputy commissioner' role be assigned under the requirements of NDCC §15-02-04 which requires the Board's consent of the appointment of a deputy commissioner and the subscription by that appointee of an oath of office.

The statutory role of the deputy is to serve as secretary for Board meetings in the Commissioner's absence, and the Board has also authorized the deputy to sign trust land easements and permits when the Commissioner is unavailable.

The Board's concurrence was requested to approve Linda Fisher as the deputy commissioner of the Department of Trust Lands.

Motion: The Board consents to the appointment of Linda Fisher as deputy commissioner of university and school lands and requests that Ms. Fisher take and subscribe the oath of office required by law for civil officers.

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

Business Process Modeling Project Update

The Department has hired Major Oak Consulting to undertake a Business Process Modeling (BPM) project to analyze current processes and identify recommendations for process improvements and future system strategy in support of a budget request for improved and advanced information technology systems.

In addition to interacting with all Department employees to document current processes and discuss improvements opportunities, Major Oak has been contacting peer organizations, software vendors, and various industry professionals. The information gathered will be used in completing a contract

deliverable that requires recommendations on system replacement options and estimated costs for budgeting purposes.

Major Oak's project summary and status report was provided to the Board for review. Major Oak personnel, Harrison Marsteller, David Jones, Pete Crowell and Andrew Studee provided project highlights to the Board.

R E P O R T S

Performance Audit Implementation Tracking

Following the April 2016 release and presentation of the State Auditor's performance audit report No. 3036 relating to the Energy Infrastructure and Impact Office, Unclaimed Property, and Trust Assets and Department Resources, the Department built an improvement tracking tool to record and gauge progress on each of the audit recommendations. This database details the recommendation, the Department response, a time stamped improvement tracking log, policy summaries or plans, and the location of any related documents.

The Legislative Audit and Fiscal Review Committee has requested an update of the Department's progress on implementing audit recommendations at its October 13, 2016 meeting. The Board reviewed graphs which depicted progress on the audit recommendations that will be presented to the committee.

The Board reviewed Easements Issued by Land Commissioner from 8-16-16 through 9-9-16

Granted to:	ONEOK ROCKIES MIDSTREAM LLC, SIDNEY-MT
For the Purpose of:	Easement: Drop Line-Gas Gathering Pipeline
Legal Description:	MCK-153-97-16-NE4
Granted to:	1804 OPERATING LLC, DALLAS-TX
For the Purpose of:	Easement-Amend: Drop Line-Pipeline
Legal Description:	MCK-153-97-16-NE4
Granted to:	NP RESOURCES LLC, DENVER-CO
For the Purpose of:	Permit: Access Road
Legal Description:	MCK-145-102-36-NW4
Granted to:	AMERICAN MIDSTREAM BAKKEN LLC, WATFORD CITY-ND
For the Purpose of:	Easement-Amend: Oil Gathering Pipeline
Legal Description:	MCK-150-99-16-NW4
Granted to:	ONEOK ROCKIES MIDSTREAM LLC, SIDNEY-MT
For the Purpose of:	Easement: Drop Line-Gas Gathering Pipeline
Legal Description:	GOL-143-103-36-NE4
Granted to:	HESS NORTH DAKOTA PIPELINES LLC, MINOT-ND
For the Purpose of:	Easement: Gas Gathering Pipeline
Legal Description:	MOU-156-92-36-SW4
Granted to:	MCKENZIE ELECTRIC COOPERATIVE INC, WATFORD CITY-ND
For the Purpose of:	Easement: Drop Line-Electric Distribution Line
Legal Description:	MCK-151-95-16-NW4, SW4
Granted to:	MOUNTRAIL-WILLIAMS ELECTRIC COOPERATIVE, WILLISTON-ND
For the Purpose of:	Easement: Drop Line-Electric Distribution Line
Legal Description:	MOU-156-92-36-SW4
Granted to:	SACAGAWEA PIPELINE CO LLC, IRVING-TX
For the Purpose of:	Permit: Section Line Access Road
Legal Description:	MOU-153-91-16-NE4

Granted to: For the Purpose of: Legal Description:	MCKENZIE ELECTRIC COOPERATIVE INC, WATFORD CITY-ND Easement-Amend: Electric Distribution Line - Above Ground MCK-152-99-36-NW4
Granted to: For the Purpose of: Legal Description:	MOUNTRAIL-WILLIAMS ELECTRIC COOPERATIVE, WILLISTON-ND Easement-Amend: Electric Distribution Line - Above Ground WIL-154-97-16-NW4
Granted to: For the Purpose of: Legal Description:	DUNN COUNTY, MANNING-ND Easement: Road Right-of-Way DUN-146-97-36-NE4
Granted to: For the Purpose of: Legal Description:	B.O.B. ENTERPRISES, KILLDEER-ND Letter of Permission: Access to School Land (Frac project) DUN-148-96-36-LOTS 1,2,6,7, NW4SE4, S2SE4, LOT 8, S2NW4, LOTS 3,4,5
Granted to: For the Purpose of: Right-of-Way Number: Legal Description:	MBI ENERGY SERVICES, KILLDEER-ND Letter of Permission: Access to School Land (Frac project) RW0007885 MOU-154-93-16-NE4, NW4
Granted to: For the Purpose of: Legal Description:	SELECT ENERGY SERVICES LLC, WILLISTON-ND Letter of Permission: Access to School Land (Frac project) MCK-153-94-36-SW4
Granted to: For the Purpose of: Legal Description:	WEST DAKOTA WATER LLC, WILLISTON-ND Letter of Permission: Access to School Land (Frac project) MCK-153-97-16-NE4, NW4, SW4
Granted to: For the Purpose of: Legal Description:	SELECT ENERGY SERVICES LLC, WILLISTON-ND Letter of Permission: Access to School Land (Frac project) MCK-150-95-16-SW4
Granted to: For the Purpose of: Legal Description:	WHITING OIL AND GAS CORPORATION, DENVER-CO Letter of Permission: Access to School Land (Frac project) MCK-153-97-16-NE4
Granted to: For the Purpose of: Legal Description:	SELECT ENERGY SERVICES LLC, WILLISTON-ND Letter of Permission: Access to School Land (Frac project) MCK-149-95-36-LOTS 3,4

A D J O U R N

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

Jack Dalrymple, Chairman
Board of University and School Lands

Lance D. Gaebe, Secretary
Board of University and School Lands