

**Minutes of the Meeting of the
Board of University and School Lands
August 29, 2019**

The August 29, 2019 meeting of the Board of University and School Lands was called to order at 8:04 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
Kirsten Baesler	Superintendent of Public Instruction

Department of Trust Lands Personnel present:

Jodi Smith	Commissioner
Kristie McCusker	Paralegal
Kate Schirado	Administrative Assistant
Michael Shackelford	Investments Division Manager
Dennis Chua	Investments Analyst
Allie Nagel	Minerals Division Land Professional
Rick Owings	Grants Administrator
Jeff Engleson	Investments

Guests in Attendance:

Dave Garner	Attorney General's Office
Reice Haase	Governor's Office
Geoff Simon	Western Dakota Energy Association
Brady Pelton	North Dakota Petroleum Council
Rob Forward	DW Slate
Marcia Beard	RVK
Charles Tuttle	

APPROVAL OF MINUTES

A motion to approve the minutes of the July 17, 2019 meeting was made by Secretary Al Jaeger and seconded by Attorney General Wayne Stenehjem and the motion carried unanimously on a voice vote.

O P E R A T I O N S

Surface Land Management, Investments, and Minerals Management Administrative Rules

In House Bill 1300, the 65th Legislative Assembly directed the Board of University and School Lands (Board) no longer be exempt from the Administrative Agencies Practice Act (Act). In Senate Bill 2264, the 66th Legislative Assembly directed the Board of University and School Lands be exempt from the adjudicative proceeding requirements and procedures under North Dakota Century Code §§ 28-32-21 through 28-32-51 of the Act.

The Department of Trust Lands (Department) considered existing rules, together with policies and procedures, to incorporate necessary wording from those into rules which comply with the North Dakota Administrative Code. North Dakota Century Code § 28-32-07 states: “Any rule change, including a creation, amendment, or repeal, made to implement a statutory change must be adopted and filed with the legislative council within nine months of the effective date of the statutory change.”

Revisions to rules concerning General Administration and rules for Surface Land Management, Investments, and Minerals Management are posted on the Department’s website, publication of a notice of intent has been completed, and copies of these rules were sent to sponsoring legislators. A public hearing on these rules was scheduled for August 28, 2019. The Department will continue to receive comments until September 9, 2019.

Acreage Adjustment Survey

Senate Bill 2211 of the Sixty-Sixth Legislative Assembly amended N.D.C.C. ch. 61-33.1 relating to the ownership of mineral rights of land subject to inundation by Pick-Sloan Missouri basin project dams. Under N.D.C.C. § 61-33.1-03(8), the Department executed a contract with Kadrmass, 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.” The contract’s scope of work concludes twelve months from the date of execution, at a total cost of \$1,088,635.

Acreage Adjustment Township Survey Status attachments were provided at the board meeting and are available upon request.

Adoption of Investments Director, Jeff Engleson Retirement Congratulations Resolution

After more than 33 years of employment with the Department of Trust Lands, Jeff Engleson is retiring as the Director of Investments.

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

Retirement of Grants

Of the grants awarded during Fiscal Years 2017 through 2019, one is complete, and one has a remaining balance available for retirement as the grant holder is non-responsive. The list of recommended retirement of grants for the Board’s consideration is as follows:

Political Sub	Grant	Awarded	Paid	Balance	Project
CITY OF KENMARE	G170056	\$15,000.00	\$10,304.00	\$4,696.00	TRAINING
WHITE SHIELD PSD #85	G180062	\$29,510.00		\$29,510.00	RENOVATION & IMPROVEMENT PROJECTS

\$34,206.00

White Shield PSD is a non-responsive grant holder per N.D. Admin. Code § 85-02-04-02, which states:

A grantee that does not respond to the director's notice is deemed to concur with the cancellation of the grant. The board may cancel the grant immediately and retire the remaining balance to the originating grant fund. If an extension of an aged grant is not granted, the board may cancel the grant immediately and retire the remaining balance to the originating grant fund.

Final notifications were sent to White Shield PSD on December 27, 2018, stating their grant was considered delinquent and to avoid retirement of funding, EIIO needed a written grant status response no later than January 21, 2019. Additionally, the grantee's legislators were included in the notification process.

White Shield Public School District PSD has failed to submit progress reports and to respond to repeated communications via emails, phone calls, and letters with the Energy Infrastructure and Impact Office (EIIO).

The City of Kenmare was awarded a grant in 2017 for training and equipment for their ambulance service in the amount of \$15,000. The City of Kenmare completed its projects and has a remaining balance that the grantee has authorized for retirement.

Motion: The Board retires the two grants identified in the preceding list for a total of \$34,206.00. Subsequently, the Board declares these funds within the Oil and Gas Impact Grant Fund as contingent for future unmet needs.

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

I N V E S T M E N T S

Authority over Financial Assets – Board Resolution

Historically when new investment personnel are hired, Northern Trust Company and other investment advisors have requested a Board resolution, or other formal documentation, identifying the individuals responsible for managing the Board's investment program. Recently the Department hired Michael Shackelford as the Investment Director and Dennis Chua as an Investment Analyst.

The following resolution is proposed for adoption:

BE IT RESOLVED, that Michael Shackelford and Dennis Chua shall have authority to represent the Board in all activities involving the financial assets under the Board's control, as provided for in state law and in accordance with Board policy.

The individuals that will be authorized to give direction to advisors and custodians include Commissioner Jodi Smith, Investment Director Michael Shackelford, and Investment Analyst Dennis Chua. The Department complies with the North Dakota State's Office of Management and

(08/29/19)

Budget, Fiscal and Administrative Policy 216 – Internal Control and Fraudulent/Significant Dishonest Act.

Motion: **The Board adopts the resolution that Michael Shackelford and Dennis Chua, the Investment Director and Investment Analyst, respectively, shall have authority to represent the Board in all activities involving the financial assets under the Board’s control, as provided for in state law and in accordance with Board policy.**

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		

Investment Policy Statement Review and Update – First Reading

Per the Board Investment Policy Statement (IPS), the Board’s IPS is to be formally reviewed at least every four years. However, the Commissioner has chosen to review the IPS on an annual basis to ensure it remains relevant with continued asset growth.

At the October 25, 2018, Board meeting a first reading of proposed IPS changes occurred; however, the Board did not have an opportunity for a second reading. Therefore, the Board will have the opportunity to review the 2018 recommended changes in addition to the 2019 recommended changes. The majority of the proposed changes to the IPS are to address outdated language and modify the IPS based upon changes the Board has made over the last year.

The substantive changes from 2018 include the following:

- **Securities Litigation (page 10):** In August of 2018, the Board directed the Commissioner to contract with Financial Recovery Technologies (FRT), a securities litigation monitoring and claims filing services firm. The Commissioner and staff are in the process of finalizing a contract with FRT. Over the next year FRT will work with the Commissioner and staff to update the Board’s current securities litigation program and policies to more actively engage in securities litigation monitoring.
- **Distribution Policy (page 12-13):** By law, distributions from the Common Schools Trust Fund occur from August through April of each school year. In the past lower amounts were paid out early in the year and higher amounts were paid out later in the year; this was an attempt to match distributions with income as it was earned. Starting in fiscal year 2018, at OMB’s request, distributions are being made in approximately equal amounts each month.
- **Capitol Building Fund Strategic Asset Allocation (page 22):** When the first IPS was adopted, in August 2015, the Board adopted investment guidelines for the Capitol Building Fund. At that time, the Commissioner was of the belief that the Capitol Grounds Planning Commission (CGPC) had also adopted those guidelines, when in fact, the guidelines had been presented to the Commission, but were never formally adopted. This change corrects the policy to state that the Board, not the Commission, has adopted the guidelines.

The substantive changes for 2019 include the following:

- **Strategic Asset Allocation Target (page 14):** The IPS was updated to include the revised asset allocation targets that were adopted by the Board on May 30, 2019, as a result of the termination of Westwood Holdings Group.

- **Policy Benchmark for the Permanent Trust Funds (page 16):** The policy benchmark for the permanent trusts funds was updated to reflect the new target allocation adopted by the Board on May 30, 2019. In addition, the benchmark used to measure fixed income performance was changed to the Barclays US Universal Index, from the previously blended benchmark. This change more closely aligns the target benchmark for fixed income portion of the portfolio with the current generally US focus of the fixed income portfolio.
- **National Statistical Ratings Organization (NSRO) (page 17):** The definition of a national ratings agency eligible to rate collateralized obligations was expanded to include any NSROs registered with the SEC, not just Moody's and Standard and Poor's.

Investment Policy Statement (redline version) attachment was provided at the board meeting and is available upon request.

Quarterly Investment Reports – 2nd Quarter 2019

Marcia Beard from RVK will review the performance of the Board investment program for the period ending June 30, 2019. While here Marcia will also provide the Board some insight as to the performance of the UBS Trumbull Property Fund and also provide some perspective on the current inverted yield curve.

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 (Attachment 1). A more comprehensive, detailed report is also available.

Next RVK will provide an update on the real estate market as a whole, as well as insight into the downward revaluation of retail assets in the UBS Trumbull Property Fund, which resulted in a negative return for the quarter (-3.69%).

Recently, the news had been dominated by the yield curve inversion and how it has been a strong predictor of recessions in the past. Following the discussion on real estate, Marcia will share with the Board recent research undertaken by RVK specifically regarding the yield curve inversion

The second performance related document RVK will touch on outlines the performance of the Ultra-Short portfolio in which the Strategic Investment and Improvements Fund, the Coal Development Trust Fund and the Capitol Building Fund are invested (Attachment 2). The normal report prepared by staff for these funds could not be prepared in a timely manner due to a delay in fiscal yearend report processing.

RVK Permanent Trust Fund Performance Analysis Report, UBS Trumbull Property Fund Performance Update, Investment Perspectives – What to Know About Yield Curve Inversion,

RVK Ultra-short Performance Report, Attachments were provided at the board meeting and are available upon request.

R E P O R T S

Report of Easements Issued by Land Commissioner 06/20/2019 to 08/20/2019

Granted to: PEARL TOWNSHIP, BEACH-ND
For the Purpose of: Easement-Amend: Road Right-of-Way

(08/29/19)

Right-of-Way Number: RW0008351
 Trust: A - Common Schools
 Legal Description: GOL-143-104-16-NE4, SE4

Granted to: XTO HOLDINGS, LLC, SPRING-TX
 For the Purpose of: Easement: Well-Directional Wellsite Location
 Right-of-Way Number: RW0008375
 Trust: A - Common Schools
 Legal Description: DUN-148-96-36-SW4

Granted to: NORTHEAST REGIONAL WATER DISTRICT, CAVALIER-ND
 For the Purpose of: Easement: Pipeline-Potable Water Pipeline
 Right-of-Way Number: RW0008425
 Trust: U – University Of ND
 I – ND Industrial School
 M – School of Mines
 Legal Description: TOW-163-65-6-SE4, TOW-163-65-7- NE4, LOT 4

Granted to: WHITING OIL AND GAS CORPORATION, DENVER-CO
 For the Purpose of: Easement-Amend: Pipeline-Gas Gathering Pipeline
 Right-of-Way Number: RW0008434
 Trust: A - Common Schools
 Legal Description: MOU-155-92-36-SW4

Granted to: WHITING OIL AND GAS CORPORATION, DENVER-CO
 For the Purpose of: Easement-Amend: Pipeline-Gas Gathering Pipeline
 Right-of-Way Number: RW0008435
 Trust: A - Common Schools
 Legal Description: MOU-155-92-36-SW4

Granted to: HESS NORTH DAKOTA IPELINES, LLC, HOUSTON-TX
 For the Purpose of: Easement: Pipeline-Multiple Pipelines & Communication Cable
 Right-of-Way Number: RW0008441
 Trust: A - Common Schools
 Legal Description: MOU-156-92-36-SW4

Granted to: BRIDGER PIPELINE LLC, CASPER-WY
 For the Purpose of: Easement: Pipeline-Oil Gathering Pipeline
 Right-of-Way Number: RW0008478
 Trust: A - Common Schools
 Legal Description: MCK-153-94-36-SW4

Granted to: RESOURCE ENERGY CAN-AM LLC, HIGHLANDS RANCH-CO
 For the Purpose of: Permit: Road-Access Road
 Right-of-Way Number: RW0008524
 Trust: A - Common Schools
 Legal Description: DIV-164-101-36-SE4, SW4

Granted to: HIGHLINE WATER LLC, WILLISTON-ND
 For the Purpose of: Permit: Temporary Water Layflat Line
 Right-of-Way Number: RW0008528
 Trust: A - Common Schools
 Legal Description: DIV-160-96-36-SE4, SW4

Granted to: For the Purpose of: Right-of-Way Number: Trust: Legal Description:	ANDEAVOR FIELD SERVICES LLC, SAN ANTONIO-TX Easement-Amend: Pipeline-Oil Gathering Pipeline RW0008529 A - Common Schools MCK-150-97-36-SE4, SW4
Granted to: For the Purpose of: Right-of-Way Number: Trust: Legal Description:	AMES SAVAGE WATER SOLUTIONS LLC, WILLISTON-ND Permit: Temporary Water Layflat Line RW0008530 C – Capital Building A – Common Schools MOU-155-94-28-SE4 MOU-155-94-32-NE4 MOU-155-94-36-NW4
Granted to: For the Purpose of: Right-of-Way Number: Trust: Legal Description:	MINNESOTA ZOO, APPLE VALLEY-MN Letter of Permission: Access to School Land RW0008534 A - Common Schools MCK-153-94-16-ALL
Granted to: For the Purpose of: Right-of-Way Number: Trust: Legal Description:	HERMAN ENERGY SERVICES, LLC, HALLIDAY-ND Permit: Temporary Water Layflat Line RW0008539 A - Common Schools MOU-153-92-16-NE4, NW4
Granted to: For the Purpose of: Right-of-Way Number: Trust: Legal Description:	TRAVIS MEIER, TUTTLE-ND Letter of Permission: Access to School Land RW0008540 Y - Mayville SHE-145-76-21-NE4
Granted to: For the Purpose of: Right-of-Way Number: Trust: Legal Description:	CATES EARTH SCIENCE TECHNOLOGIES INC, BISMARCK- ND Permit: Temporary Water Layflat Line RW0008543 A - Common Schools MOU-151-92-36-W2NE4SW4, NW4SW4, S2SW4
Granted to: For the Purpose of: Right-of-Way Number: Trust: Legal Description:	ND ENERGY SERVICES INC, DICKINSON-ND Permit: Temporary Water Layflat Line RW0008553 A - Common Schools DUN-144-96-16-SE4

Granted to: AMERICAN ENGINEERING TESTING INC, DICKINSON-ND
 For the Purpose of: Permit: Soil Testing
 Right-of-Way Number: RW0008557
 Trust: A - Common Schools
 Legal Description: WIL-153-99-22-SW4 LESS ACRES CONDEMNED,
 W2SE4 LESS ACRES CONDEMNED

Granted to: SELECT ENERGY SERVICES LLC, WILLISTON-ND
 For the Purpose of: Permit: Temporary Water Layflat Line
 Right-of-Way Number: RW0008560
 Trust: A - Common Schools
 Legal Description: MCK-153-98-36-SW4

Granted to: SHASTA PATTERSON, DUNN CENTER-ND
 For the Purpose of: Letter of Permission: Access to School Land
 Right-of-Way Number: RW0008567
 Trust: A - Common Schools
 Legal Description: DUN-147-94-36-SW4

Granted to: ENVIRONMENTAL RESOURCES MANAGEMENT, PORTLAND-OR
 For the Purpose of: Permit: Planning & Preconstruction Survey
 Right-of-Way Number: RW0008568
 Trust: A - Common Schools
 Legal Description: N/A

Granted to: ENCOMPASS ENERGY SERVICES, LLC, BROOMFIELD-CO
 For the Purpose of: Permit: Planning & Preconstruction Survey
 Right-of-Way Number: RW0008569
 Trust: A - Common Schools
 Legal Description: N/A

Granted to: WILDFIRE HYPERHEATERS LLC, DICKINSON-ND
 For the Purpose of: Permit: Temporary Water Layflat Line
 Right-of-Way Number: RW0008570
 Trust: A - Common Schools
 Legal Description: MCK-150-98-36-SW4

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 August 7, 2019.

There were 694 tracts offered and 135 tracts listed received competitive bids (if the Board does not receive a competitive bid the lease is awarded to the nominator.) The highest bid per acre was \$15,776.00 for 160 net acres in Dunn County.

County	Mineral Acres	Total Bonus	Bonus/Acres
Billings	352.00	\$88,040.00	\$250.11
Bowman	38,485.55	\$43,756.31	\$1.14
Dunn	469.52	\$7,407,147.52	\$15,776.00

Golden Valley	13,546.10	\$14,872.55	\$1.10
McKenzie	481.46	\$701,838.85	\$1,457.73
Mountrail	80.00	\$123,280.00	\$1,541.00
Ward	5,033.09	\$15,236.09	\$3.03
GRAND TOTAL	58,447.72	\$8,394,171.32	\$143.62

There were 51 bidders registered, 27 of which submitted bids in the eight-day auction. Bidders were from 11 states (CO, GA, MN, MO, MT, ND, NV, OK, TX, WA, and WY).

A total of \$8,394,171.32 of bonus was collected from the auction.

Attachments were provided at the board meeting and are available upon request.

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

Investment Updates

Asset allocation

The table below shows the status of the permanent trusts' asset allocation as of July 31, 2019. The figures provided are unaudited.

Account/Asset Class	Long-Term Asset Allocation	7/31/19 Actual Allocation \$	7/31/19 Actual Allocation %	7/31/19 % Diff.
Large Cap US Equity	14.5%	\$ 712,701,536	14.7%	0.2%
Mid/Small Cap US Equity	4.0%	\$ 196,734,940	4.1%	0.1%
International Equity	14.5%	\$ 699,780,741	14.4%	-0.1%
Emerging Market Equity	4.0%	\$ 194,093,799	4.0%	0.0%
Total Equities	37.0%	\$ 1,803,311,016	37.2%	0.2%
Core Fixed Income	13.8%	\$ 759,760,569	15.7%	1.9%
Non-Core Fixed Income	9.2%	\$ 359,859,024	7.4%	-1.8%
Total Fixed Income	23.0%	\$ 1,119,619,593	23.1%	0.1%
Total Absolute Return	15.0%	\$ 721,741,494	14.9%	-0.1%
Commodities	3.0%	\$ 151,063,864	3.1%	0.1%
MLPs	3.0%	\$ 144,121,928	3.0%	0.0%
TIPS	2.0%	\$ 96,580,025	2.0%	0.0%
Natural Resource Equities	2.0%	\$ 96,480,753	2.0%	0.0%
Total Inflation Strategies	10.0%	\$ 488,246,570	10.1%	0.1%
Core Real Estate	8.0%	\$ 387,779,390	8.0%	0.0%
Core Plus Real Estate	7.0%	\$ 330,698,622	6.8%	-0.2%
Total Real Estate	15.0%	\$ 718,478,012	14.8%	-0.2%
Total Asset	100.0%	\$ 4,851,396,685	100.0%	

Angelo Gordon (\$70.24 million, 1.5% 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 \$69.75 million dollars has been transferred to the fund. An \$11.25 million capital call was funded on July 29, 2019.

(08/29/19)

To date \$69.75 million has been transferred to the fund out of a total commitment of \$150 million; this represents 46.5% of the total commitment to the fund. According to Angelo Gordon, the Board’s commitment should be fully drawn by late-2020.

**Westwood Holdings Group (\$175,964, 0% of PTF assets)
Absolute Return**

In May 2019, the Board voted to terminate Westwood Holdings Group and reallocate those funds to other existing managers. The Commissioner contracted with State Street Bank to transition the assets of the existing portfolio. The transition went smoothly with the reallocation completely effected as of July 1, 2019. The residual cash and accruals in the account will be cleaned up over the next few months.

The long-term target allocations shown above now reflect the new asset allocation as approved by the Board last May 2019.

Upcoming Investment Manager Meetings

There are no upcoming meetings scheduled with Investment Managers.

LITIGATION

The Commissioner recommends the Board consider entering executive session for consultation with legal counsel regarding pending and potential litigation. Executive session began at 9:38 AM.

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:

- Whiting Oil and Gas Corporation Civ. No. 27-2016-CV-00040 – pg. 92
- Newfield Exploration Company et al Civ. No. 27-2018-CV-00143 - pg. 94
- DW Slate - pg. 96
- Northwest Landowners Association Civ. No. 05-2019-CV-00085 - pg. 97
- Paul Sorum et al. Civ. No. 09-2018-CV-00089 - pg. 98

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		

EXECUTIVE SESSION

Members Present:

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

Department of Trust Lands Personnel present:

Jodi Smith	Commissioner
Kristie McCusker	Paralegal
Catelin Newell	Office Manager
Kate Schirado	Administrative Assistant
Allie Nagel	Land Professional

Guests in Attendance:

Reice Haase	Governor's Office
Dave Garner	Attorney General's Office
Mark Hanson	Nilles Law Office

The executive session adjourned at 11:00 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 and Newfield litigation.

A D J O U R N

There being no further business, the meeting was adjourned at 11:00 AM.

Doug Burgum, Chairman
Board of University and School Lands

Jodi Smith, Secretary
Board of University and School Lands