

**Minutes of the Meeting of the
Board of University and School Lands
June 29, 2023**

The June 29, 2023, meeting of the Board of University and School Lands was called to order at 9:05 AM by Chairman Doug Burgum and roll was taken.

Members Present:

Doug Burgum	Governor
Michael Howe	Secretary of State
Drew Wrigley	Attorney General
Thomas Beadle	Treasurer

Members Absent:

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

Joseph Heringer	Commissioner
Kate Schirado	Executive Assistant
Rick Owings	Administrative Staff Officer
James Wald	Legal Council
Frank Mihail	Chief Investment Officer
Teresa Hettinger	Investments Officer
Chris Suelzle	Minerals Director
Emily Bosch	Unclaimed Property
Maria Garcia	Finance
Susan Dollinger	Unclaimed Property Director
Elvedina Papalichev	Paralegal
Peggy Gudvangen	Finance Director
Joseph Stegmiller	Surface Director
Pam Reile	Revenue Compliance
Vicki Siegel	Finance
Matthew Reile	IT System Administrator
Adam Otteson	Revenue Compliance Director
Garret Hecker	Surface Range Soils Management Specialist

Guests in Attendance:

Ryan Norrell	Office of the Governor
John Reiten	Office of the Governor
Suzie Weigel	Office of the Attorney General
Josh Kevan	RVK
Kirby Frances	RVK
Peter Buckland	Khosla
Arash Rebek	Khosla
Jennifer Sandberg	RVK
Kevin Balaod	With Intelligence
Geoff Simon	Western Dakota Energy Association
Charles Tuttle	

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 May 25, 2023 meeting was made by Attorney General Wrigley and the motion was seconded by Treasurer Beadle and the motion carried unanimously on a voice vote.

O P E R A T I O N S

Commissioner Compensation

Performance Recap

- Hired March 14, 2022 - \$150,000 salary
- Quick study on multiple complex issues stepped into – legal and investment experience helped greatly
- Restructured Leadership - Surface Director, Investment Director, Unclaimed Property Director, General Counsel
- Enhanced board communication & collaboration
- Improved Board Packets - new format, more concise, more data analytics
- New Hires - Accountant, Investment Officer, 2 surface positions, Revenue Compliance Payment Processor, Unclaimed Property Claims Processor, Paralegal
- Achieved numerous royalty settlements totaling millions of dollars
- Success in reducing litigation
- Completed acreage adjustment project on time and under budget
- Record revenues, assets, and distributions
- Record unclaimed property receipts and payouts
- Successful legislative session with three critical new FTEs, fully funded IT project completion, salary increases, surface clean-up / red tape reduction bill, unclaimed property statute of limitations and record retention bill, and worked to stop some bad legislation
- New minerals system went live January 2023
- Implemented hybrid work policy
- Pay equity funding allowed much needed and well-deserved salary adjustments to key and highly skilled team members

Motion: Approve legislatively funded 6% increase to the Commissioner’s annual salary to \$159,000, effective July 1, 2023; Appoint a committee / working group to study and provide recommendations to the Board for Commissioner performance review policy and further adjustments to compensation, consisting of: Two Board members; One HRMS representative; One industry professional

Action Record	Motion	Second	Aye	Nay	Absent
Secretary Howe	X		X		
Superintendent Baesler					X
Treasurer Beadle			X		
Attorney General Wrigley		X	X		
Governor Burgum			X		

DIVISION REPORTS

SURFACE

SURFACE DIVISION



Encumbrances issued by Commissioner during May 2023:

- 14 Right of Way Agreements generating \$311,315 in income for the Trusts

Dunn County 148-96-36; Fall 2018
Photo Credit: Kayla Spangelo

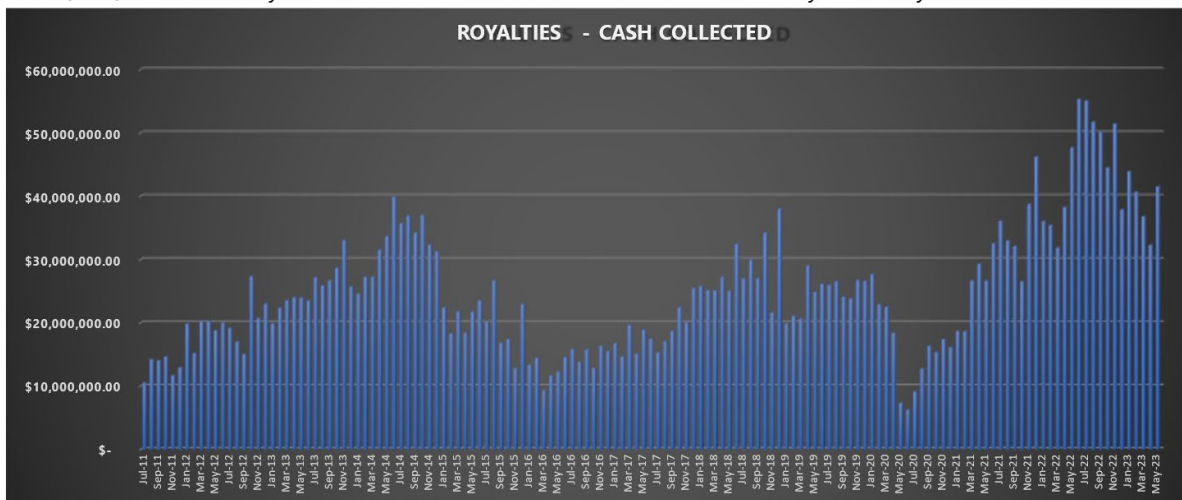


MINERALS

RECORD FISCAL YTD O/G ROYALTIES



As of May 2023, for fiscal year 2022-23 the Department has received **\$485,617,217** in royalties as compared to **\$401,616,106** last fiscal year at this time. That is an all time record and **21%** year-over-year increase!



UNCLAIMED PROPERTY

UNCLAIMED PROPERTY DIVISION

NORTH
Dakota | Trust Lands
Be Legendary.™

For the month of May 2023, the Division paid 729 claims with \$1,105,794.77 returned to rightful owners/heirs. It received 107 holder reports with a dollar value of \$216,464.02.

The Division offered two free property reporting webinars in June providing important information for holders to help them increase reporting compliance according to N.D.C.C. 47-30.2

The webinars offered were Reporting 101 to learn the fundamentals of unclaimed property reporting and Preparing the Manual Online Report (MOR), a step-by-step instruction on creating the report.



FINANCIALS

Financial Statements Position Report (Unaudited) for period ended March 31, 2023

The following statements represent the unaudited financial position for the various trusts and funds managed by the Department of Trust Lands. The unaudited financial positions are two months delayed as a significant portion of the revenue for Commons Schools Trust, Strategic Investment and Improvements Fund, and Coal Development Trust includes gross production tax, oil extraction tax and coal severance tax distributions which are received two months after production date.

The Financial Report (Unaudited) for period ending March 31, 2023, was presented to the Board for review and is available at the Department upon request.

Executive Estimate of Assets

EXECUTIVE ESTIMATE OF ASSETS					
NORTH DAKOTA DEPARTMENT OF TRUST LANDS					
As of May 31, 2023					
	5/31/2023 Value	MOM\$ 4/30/2023 Value	MOM% Change	YOY\$ 5/31/2022 Value	YOY% Change
Cash	647,131,545	545,653,407		445,793,880	
Investments ^[1]	7,243,220,738	7,286,203,524		6,422,782,468	
Tax Receivables ^[2]	-	-		193,820,370	
Loans ^[3]	38,084,527	38,175,596		43,182,871	
Receivables ^[4]	8,684,512	8,508,502		7,088,924	
Sub-Total Net Assets	\$7,937,121,322	7,878,541,028	0.74%	\$7,112,668,513	11.59%
Mineral Rights ^[5]	2,813,480,347	2,813,480,347		2,813,480,347	
Surface Rights ^[6]	518,077,274	518,077,274		511,088,869	
Building Value ^[7]	1,015,196	1,015,196		264,332	
Total Net Assets	\$11,269,694,139	\$11,211,113,845	0.52%	\$10,437,502,061	7.97%

[1] Approximately 60% of the portfolio is publicly traded for which values are current to the as of date. The remaining 40% is private assets, the values of which are updated as the managers provide them, typically 30-60 days after the end of each quarter.

[2] Estimated value of production, extraction, and severance tax payments not yet received by the Department because they are not distributed until two months after production date.

[3] Various loan programs funded with trust assets.

[4] Loans and investments interest accrued, but not yet paid.

[5] Valued annually via contract with Mineral Tracker. Valuation as of December 31, 2021.

[6] Valued annually via Department fair market value policy. Valuation as of March 2023, based off agricultural values.

[7] Updated annually via broker price opinion. Valuation as of Sept. 15, 2022.

INVESTMENTS**Investment Updates****Q3 Pipeline**

Public Equity: Education session on 130/30 active extension strategies and manager recommendations for the public equity portfolio

Public Credit: bond overlay manager recommendation

Absolute Return: multi-strategy hedge fund recommendation

Real Estate: total portfolio restructuring recommendation

Portfolio Rebalancing UpdatesCapital Calls Funded and Pending:

05/05 GCM Grosvenor Secondary Opportunities Fund III \$9.5M

06/21 Ares Pathfinder Fund \$6.0M

06/22 GCM Grosvenor Private Equity \$3.45M

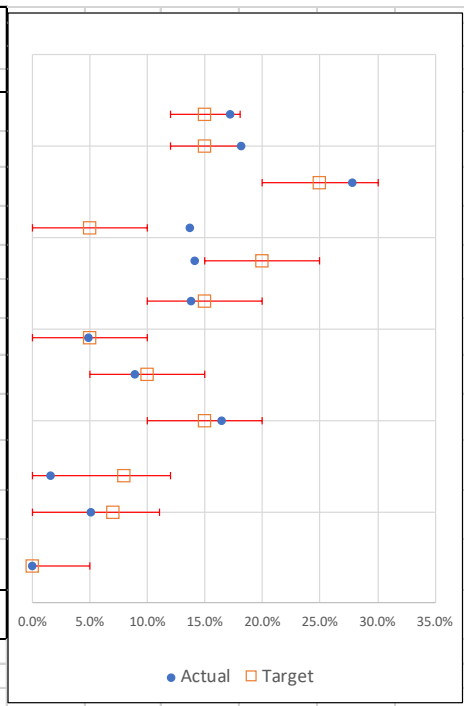
07/06 Owl Rock Diversified Lending \$7.5M

Total Unfunded Commitments Remaining \$488M (as of May 31, 2023):

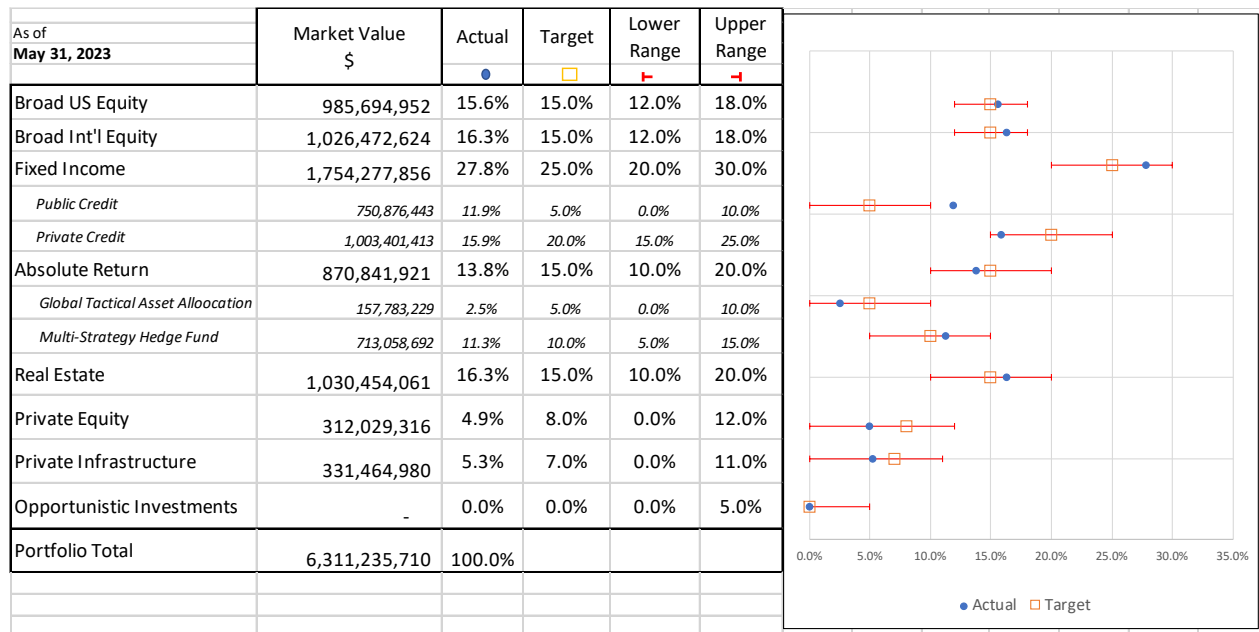
1. Private Credit, \$112M
 - i. Ares Pathfinder Fund, \$39M
 - ii. Owl Rock Diversified Lending, \$52.5M
 - iii. Varde Dislocation Fund, \$20.5M
2. Private Equity, \$216M
 - i. GCM Grosvenor Private Equity, \$98M
 - ii. GCM Grosvenor Secondary Opportunities Fund III, \$106.5M
 - iii. Morgan Stanley Ashbridge TS Fund II, \$11.5M
3. Private Infrastructure, \$10M
 - i. Hamilton Lane Infrastructure Opportunities Fund, \$10M
4. Absolute Return, \$150M
 - i. Millennium USA LP (Hedge Fund), \$150M

Current Asset Allocation (unaudited)

As of May 31, 2023	Market Value \$	Actual	Target	Lower Range	Upper Range
Broad US Equity	1,083,694,952	17.2%	15.0%	12.0%	18.0%
Broad Int'l Equity	1,144,472,624	18.1%	15.0%	12.0%	18.0%
Fixed Income	1,754,277,856	27.8%	25.0%	20.0%	30.0%
Public Credit	862,876,443	13.7%	5.0%	0.0%	10.0%
Private Credit	891,401,413	14.1%	20.0%	15.0%	25.0%
Absolute Return	870,841,921	13.8%	15.0%	10.0%	20.0%
Global Tactical Asset Allocation	307,783,229	4.9%	5.0%	0.0%	10.0%
Multi-Strategy Hedge Fund	563,058,692	8.9%	10.0%	5.0%	15.0%
Real Estate	1,040,454,061	16.5%	15.0%	10.0%	20.0%
Private Equity	96,029,316	1.5%	8.0%	0.0%	12.0%
Private Infrastructure	321,464,980	5.1%	7.0%	0.0%	11.0%
Opportunistic Investments	-	0.0%	0.0%	0.0%	5.0%
Portfolio Total	6,311,235,710	100.0%			

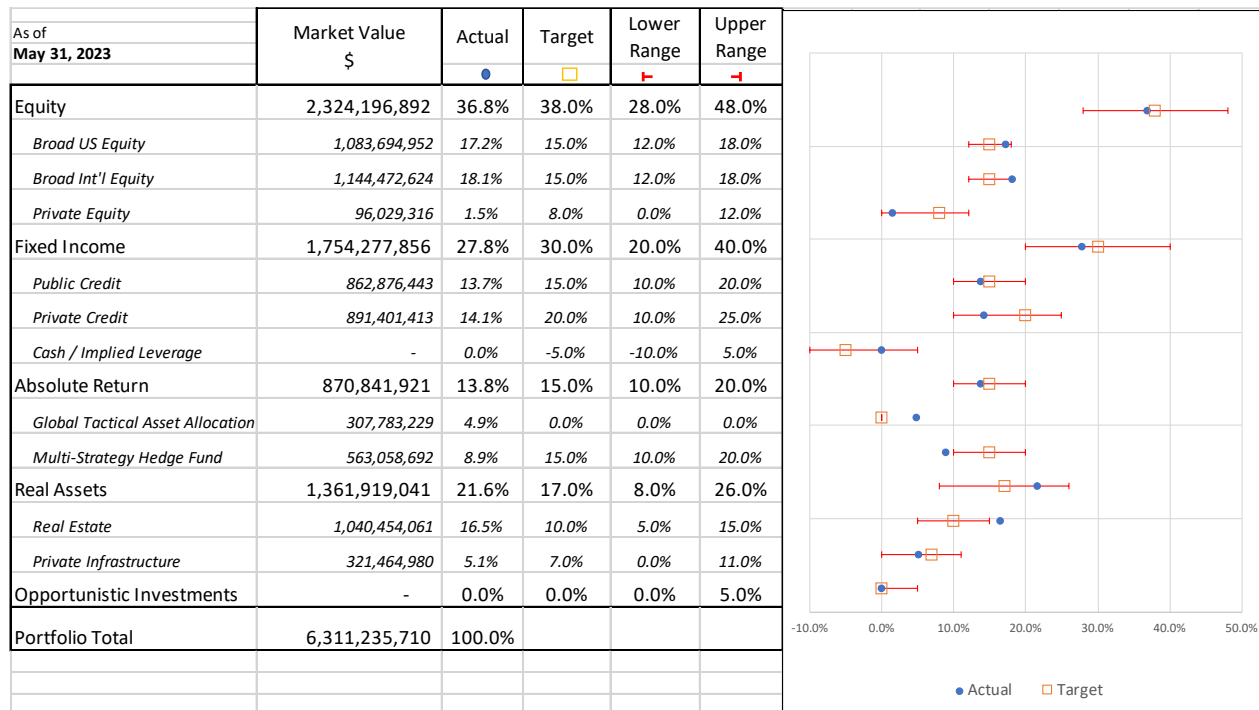


Hypothetical Asset Allocation (after funding all commitments)



Assumptions: No other new cash is expected to fund calls. No redemption proceeds or distributions were received. All capital calls came in at the same time.

Proposed Asset Allocation (unaudited)



Proposed Hypothetical Asset Allocation (after funding all commitments)

As of May 31, 2023	Market Value \$	Actual	Target	Lower Range	Upper Range
Equity	2,324,196,892	36.8%	38.0%	28.0%	48.0%
<i>Broad US Equity</i>	985,694,952	15.6%	15.0%	12.0%	18.0%
<i>Broad Int'l Equity</i>	1,026,472,624	16.3%	15.0%	12.0%	18.0%
<i>Private Equity</i>	312,029,316	4.9%	8.0%	0.0%	12.0%
Fixed Income	1,754,277,856	27.8%	30.0%	20.0%	40.0%
<i>Public Credit</i>	750,876,443	11.9%	15.0%	10.0%	20.0%
<i>Private Credit</i>	1,003,401,413	15.9%	20.0%	10.0%	25.0%
<i>Cash / Implied Leverage</i>	-	0.0%	-5.0%	-10.0%	5.0%
Absolute Return	870,841,921	13.8%	15.0%	10.0%	20.0%
<i>Global Tactical Asset Allocation</i>	157,783,229	2.5%	0.0%	0.0%	0.0%
<i>Multi-Strategy Hedge Fund</i>	713,058,692	11.3%	15.0%	10.0%	20.0%
Real Assets	1,361,919,041	21.6%	17.0%	8.0%	26.0%
<i>Real Estate</i>	1,030,454,061	16.3%	10.0%	5.0%	15.0%
<i>Private Infrastructure</i>	331,464,980	5.3%	7.0%	0.0%	11.0%
Opportunistic Investments	-	0.0%	0.0%	0.0%	5.0%
Portfolio Total	6,311,235,710	100.0%			

Private Equity – Venture Capital

In October 2022, the Board of University and School Lands (Board) reviewed the Private Markets Pacing Analysis by RVK. Assuming 5 years to reach our 8% target allocation for private equity, the pacing plan recommends \$110M per year in private equity commitments for the next 5 years to manage capital calls / distributions and benefit from vintage year diversification.

Staff recommends building a venture capital allocation within the private equity portfolio. Venture capital is a way to gain early exposure to companies with potential to deliver higher returns than private equity leveraged buyout. Potential for outsized returns does not come without risk and because of the higher volatility profile of venture capital, allocations must be sized prudently. Staff recommends venture capital represent no more than 1/3 of the private equity allocation. This results in a venture capital pacing recommendation of up to \$40M per year.

The current macroeconomic environment could be well-timed to build a venture capital portfolio. Series C and D valuations have declined by more than 50% from 2021 peak valuations. Peer allocators with mature private market portfolios have slowed allocations as their portfolios were impacted by the denominator effect, a phenomenon where private market portfolios become overweight due to public market selloffs. This will allow the Board to build relationships with top performing managers going into what may become the best vintage years of the next decade.

Staff began a manager search by reaching out to a list of top performing venture capital firms. After interviewing and conducting due diligence on potential venture capital managers, Staff and RVK recommend making a commitment to Khosla Ventures (KV).

KV was founded in 2004 by Vinod Khosla. The firm has grown to over \$14B in assets across 300 companies. The team is known for holding advanced technical degrees, which allow them to source opportunities in deep tech sectors such as robotics, epigenetics and artificial intelligence.

(06/29/23)

For diversification purposes, KV invests across a broad array of industries with concentration limits on any one sector or company.

The commitment will be allocated across three different funds – Seed Fund F targets seed rounds, KV VIII (main fund) targets Series A-B rounds and Opportunity Fund 2 targets Series C-D rounds.

Motion: The Board approve \$35M commitment to Khosla Ventures, subject to standard legal review/documentation.

Action Record	Motion	Second	Aye	Nay	Absent
Secretary Howe			X		
Superintendent Baesler					X
Treasurer Beadle	X		X		
Attorney General Wrigley		X	X		
Governor Burgum			X		

RVK Executive Summary and Khosla Ventures Presentation were presented to the Board and are available at the Department upon request.

Strategic Asset Allocation Study and Recommended Changes

The Investment Policy Statement (IPS) requires a formal asset allocation review at least once every four years; the last study was completed June 2022. Based on rapidly changing macroeconomic conditions and at the request of the Department Investment Staff (Staff), RVK conducted a Strategic Asset Allocation (SAA) study for the Permanent Trust Funds (PTFs). RVK used 2023 capital market assumptions, which updated their long-term expectations for investment returns and risk across all major asset classes. RVK ran these assumptions through their optimization model and Monte Carlo simulations. Based on the study, Staff and RVK recommend the following SAA changes:

- **Increase Public Credit.** Bonds have returned to favor as the Federal Reserve raised interest rates at its fastest pace in 40 years, increasing Fed Funds Rate from 0.00-0.25% in March 2022 to 5.00-5.25% in May 2023. Cash and Treasuries are generating a meaningful and attractive yield.
- **Decrease Real Estate.** 2023 capital market assumptions see real estate as one of the only asset classes with lower expected returns. A lagged asset class, real estate is starting to show cracks as certain subsectors (office and retail) meaningfully underperform. It may take considerable time for the asset class to recover from the higher interest rate environment.
- **Increase Multi-Strategy Hedge Funds.** Long-short, relative value and market neutral sub-strategies have proven to be effective diversifiers. They exhibit uncorrelated returns and stay true to the goal of Absolute Return – delivering consistent positive returns throughout the market cycle – from the ability to take short positions during market selloffs and crisis periods.
- **Remove Global Tactical Asset Allocation (GTAA).** GTAA's diversification benefits are minimal as the strategy invests in redundant asset classes, such as long-only stocks and bonds, which exhibit higher correlation to broad equity and bond market indices. Without the tools to trade against the market (go short), GTAA is not as effective as Multi-Strat Hedge Funds at staying true to the goal of Absolute Return – delivering consistent positive returns throughout the market cycle.
- **Add Portfolio Leverage.** A larger hedge fund allocation can drag the portfolio during expansion phases. Introducing a modest amount of leverage to a lower volatility asset class, such as core

bonds (public credit), can help improve portfolio efficiency over the long run. Introducing guidelines now will allow Staff to implement the strategy when appropriate.

Motion: The Board approve changes to the Strategic Assets Allocation (SAA) as indicated by the Candidate Portfolio in the attached RVK Asset Allocation Overview and authorize Staff to begin investment manager searches to meet the new SAA.

Action Record	Motion	Second	Aye	Nay	Absent
Secretary Howe	X		X		
Superintendent Baesler					X
Treasurer Beadle		X	X		
Attorney General Wrigley			X		
Governor Burgum			X		

RVK Asset Allocation Overview was presented to the Board and is available at the Department upon request.

Investment Policy Statement – First Reading

The Board of University and School Lands (Board) Investment Policy Statement (IPS) must be updated to reflect the Board’s new Strategic Asset Allocation (SAA) for the Permanent Trust Funds.

The substantive changes to the IPS are as follows (see attachment):

1. Update Strategic Asset Allocation targets and ranges (pages 17-18).
2. Update Benchmark indices and targets (page 19).
3. Update Permitted Investments language under Fixed Income, Absolute Return and Total Portfolio Leverage sections (page 21-22).

Attachment: Investment Policy Statement redline

Investment Policy Statement redline was provided to the Board and is available at the Department upon request.

LITIGATION

Litigation Update

- MHA (Missouri riverbed ownership) – Appealed D.C. Federal District Court denial of Board’s motion to intervene; oral arguments were held February 1st; D.C. Circuit Court of Appeals issued judgment in Board’s favor April 21st reversing trial court and allowing Board to intervene; parties are now in discussion regarding next steps in this litigation with next status report due to the Court by July 10th
- EEE (OHWM title dispute / takings claim) – ND Federal District Court issued order May 31, 2022 granting Board’s motion to dismiss on all counts: federal preemption, sovereign immunity, takings; Plaintiffs appealed to 8th Circuit; briefing complete and oral arguments were held March 16th; awaiting court decision

- Leland/Whiting (OHWM river island ownership) – Watford City trial September 12-16, 2022; currently in post-trial briefing stage
- Continental Interpleader (OHWM fed/state dispute) – ND Federal District Court issued opinion March 21st granting Board’s motion for partial summary judgment on “Acquired Federal Lands” issue; this means the Wenck survey controls for establishing the historical ordinary high-water mark of the Missouri River in areas where the uplands were acquired by the federal government, and not original “public domain lands”; federal government appealed and we filed cross appeal
- Whitetail Wave (OHWM title dispute / takings claim) – ND Supreme Court issued opinion on September 29th dismissing appeal and sending back to trial court for further quiet title actions on at issue parcels; district court signed stipulated order and judgment on remaining claims February 1st; currently waiting for appeal status pending resolution of attorney fees issues between the other parties

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 consultations regarding:

- **Mandan, Hidatsa, and Arikara Nation v. United States Department of Interior – Case No. 20-1928**

Action Record	Motion	Second	Aye	Nay	Absent
Secretary Howe		X	X		
Superintendent Baesler					X
Treasurer Beadle			X		
Attorney General Wrigley	X		X		
Governor Burgum			X		

The Board entered into executive session at 10:36 AM.

EXECUTIVE SESSION

Members Present:

Doug Burgum	Governor
Michael Howe	Secretary of State
Drew Wrigley	Attorney General
Thomas Beadle	Treasurer

Members Absent:

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

Joseph Heringer	Commissioner
Kate Schirado	Executive Assistant
James Wald	Legal Council
Chris Suelzle	Minerals Director
Elvedina Papalichev	Paralegal

Guests in Attendance:

Ryan Norrell	Office of the Governor
John Reiten	Office of the Governor
Jennifer Verleger	Office of the Attorney General
Charles Carvell	Office of the Attorney General

The executive session adjourned at 11:05 AM and the Board returned to the open session and Teams meeting to rejoin the public. During the executive session, the Board discussed the MHA case with its attorneys. No formal action was taken.

A D J O U R N

There being no further business, the meeting was adjourned at 11:09 AM.

Doug Burgum, Chairman
Board of University and School Lands

Joseph Heringer, Secretary
Board of University and School Lands