

**Minutes of the Meeting of the
Board of University and School Lands
July 27, 2023**

The July 27, 2023, meeting of the Board of University and School Lands was called to order via Microsoft Teams meeting at 9:10 AM by Chairman Doug Burgum.

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
Catelin Newell	Administrative Staff Officer
Kate Schirado	Executive Assistant
Rick Owings	Administrative Staff Officer
James Wald	Legal Council
Frank Mihail	Chief Investment Officer
Teresa Hettinger	Investments Officer
Maria Garcia	Finance
Susan Dollinger	Unclaimed Property Director
Elvedina Papalichev	Paralegal
Peggy Gudvangen	Finance Director
Joseph Stegmiller	Surface Director
Pam Reile	Revenue Compliance
Matthew Reile	IT System Administrator
Adam Otteson	Revenue Compliance Director
Garret Hecker	Surface Range Soils Management Specialist
Lynn Spencer	Minerals Title Specialist
Jacob Lardy	Land Management Specialist
Jessica Fretty	Unclaimed Property
Scott Giere	Revenue Compliance
Ryan Kobilansky	Surface Range Soils Management Specialist

Guests in Attendance:

Ryan Norrell	Office of the Governor
Claire J. Ness	Office of the Attorney General
Jennifer Sandberg	RVK
Matt Sturdivan	RVK
Cheryl Hanson	NISA
Dan Scholz	NISA
John Knowles-Bagwell	NISA
Jordan Smith	NISA
Justin Mars	NISA
Jack Dura	Media
C. Rajala	Media

APPROVAL OF MINUTES

A motion to approve the minutes of the June 29, 2023 meeting was made by Secretary Howe and the motion was seconded by Attorney General Wrigley and the motion carried unanimously on a voice vote.

OPERATIONS

Commissioner's Report

- Commissioner Performance & Compensation Committee – action planned for August meeting (2 board members; 1 HRMS rep., 1 industry professional)
- July 6 – Chaired meeting of State Investment Board – Securities Litigation Committee
- July 12 – testified in favor of North Dakota Trust Lands Completion Act before the U.S. Senate Committee on Energy and Natural Resources - Subcommittee on Public Lands, Forests, and Mining; meetings with congressional delegation and committee staffers; very productive and interesting trip; likely back to D.C. in Fall for U.S. House hearing
- July 14 – attended State Investment Board - Investment Committee meeting as voting member
- July 19 - attended Lignite Research Council meeting as voting member
- July 21 - attended full State Investment Board meeting as voting member
- July 26 – attended Legislative Audit and Fiscal Review Committee meeting

HR Update

- New Unclaimed Property Claims Processor position filled
- Interviews being conducted for new Investment and Minerals Officer positions

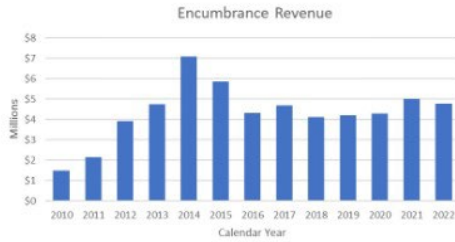
DIVISION REPORTS

SURFACE

SURFACE DIVISION

Encumbrances issued by Commissioner during June 2023:

- 22 Right of Way Agreements generating \$343,196 in income for the Trusts

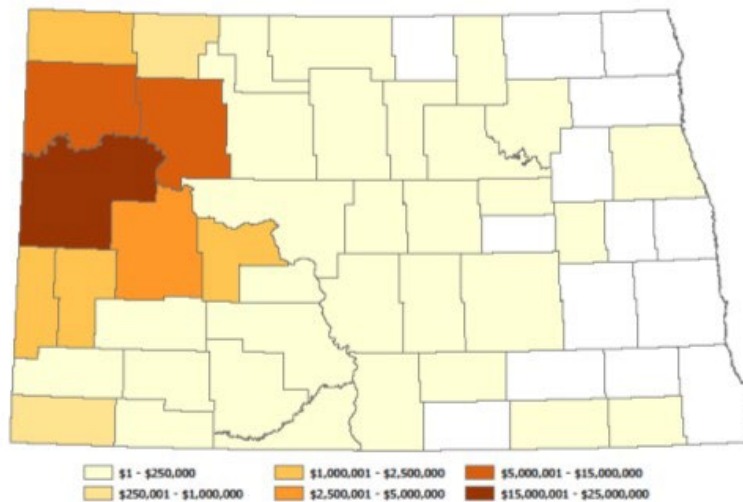


Williams County 153-99-22
Photo Credit: Kayla Spangelo (June 2019)
Short-horned Lizard (*Phrynosoma douglassi*)



SURFACE DIVISION

Total Encumbrance Revenue by County since 2010



MINERALS

MINERALS DIVISION



The Minerals Division is preparing for the Department’s next online Oil & Gas Lease Auction. The auction will open on August 1, 2023, and close on August 8, 2023. The auction will be hosted by EnergyNet.

78 Land Units, comprising a total of 8,741.96 net mineral acres, have been nominated for the auction.

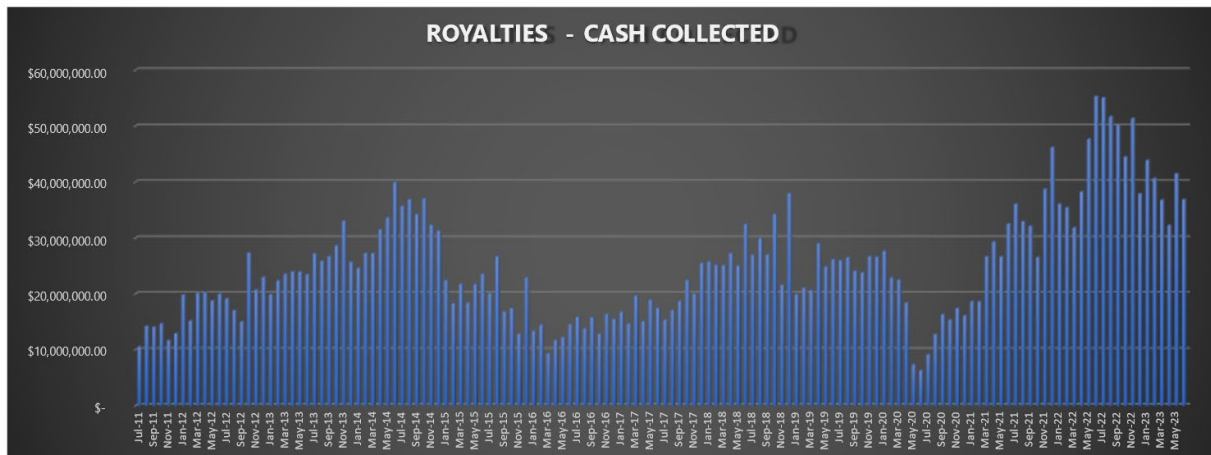
Land Units nominated for the August 1-8, 2023 Online Oil & Gas Lease Auction

County	Land Units	Net Acres
Billings	10	1,440.00
Burke	6	688.00
Divide	20	2,000.00
Dunn	2	160.00
McKenzie	20	3199.36
Mountrail	2	34.60
Stark	10	820.00
Williams	8	400.00
TOTAL	78 Land Units	8,741.96 Net Acres

RECORD FISCAL YTD O/G ROYALTIES



As of June 2023, for fiscal year 2022-23 the Department has received **\$522,469,809** in royalties as compared to **\$456,915,316** last fiscal year at this time. This closes out our record fiscal year at more than a 14% increase over last fiscal year.

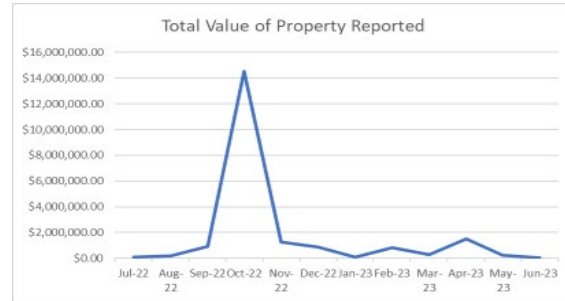
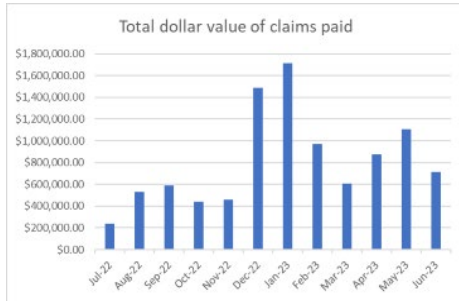


UNCLAIMED PROPERTY

UNCLAIMED PROPERTY DIVISION
<https://unclaimedproperty.nd.gov/>

NORTH Dakota | Trust Lands
 Be Legendary.™

For the month of June 2023, the Division paid 437 claims with \$713,769.42 returned to rightful owners/heirs. It received 61 holder reports with a dollar value of \$54,584.03.

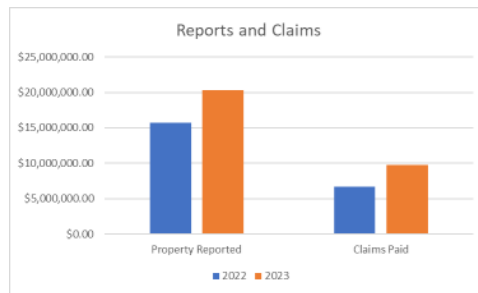


Good Morning America ran three segments on back-to-back days at the end of June highlighting unclaimed property and the opportunity states have to return money to rightful owners. This national spotlight produced a tremendous spike in page views, searches, and claims filed. For North Dakota, during the same time period last year, 101 claims were filed compared to 713 claims filed this year for an increase of 606%.

UNCLAIMED PROPERTY DIVISION
<https://unclaimedproperty.nd.gov/>

NORTH Dakota | Trust Lands
 Be Legendary.™

Fiscal Year 2022 vs. Fiscal Year 2023



In June, the Division presented and recorded two educational webinars that will be added to the website to bolster education for businesses required to report/remit unclaimed property. The first provides general information on the Fundamentals of Unclaimed Property and the second is specific to creating an unclaimed property report in the proper format.

FINANCIALS

Financial Statements Position Report (Unaudited) for period ended April 30, 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 April 30, 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 June 30, 2023					
	6/30/2023 Value	MOM\$ 5/31/2023 Value	MOM% Change	YOY\$ 6/30/2022 Value	YOY% Change
Cash	769,244,735	647,131,545		574,285,156	
Investments ^[1]	7,387,811,095	7,243,220,738		6,197,797,109	
Tax Receivables ^[2]	-	-		246,166,707	
Loans ^[3]	38,015,765	38,084,527		40,799,923	
Receivables ^[4]	10,805,125	8,684,512		26,687,000	
Sub-Total Net Assets	\$8,205,876,719	7,937,121,322	3.39%	\$7,085,735,896	15.81%
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		-	
Total Net Assets	\$11,538,449,536	\$11,269,694,139	2.38%	\$10,410,305,112	10.84%

[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.

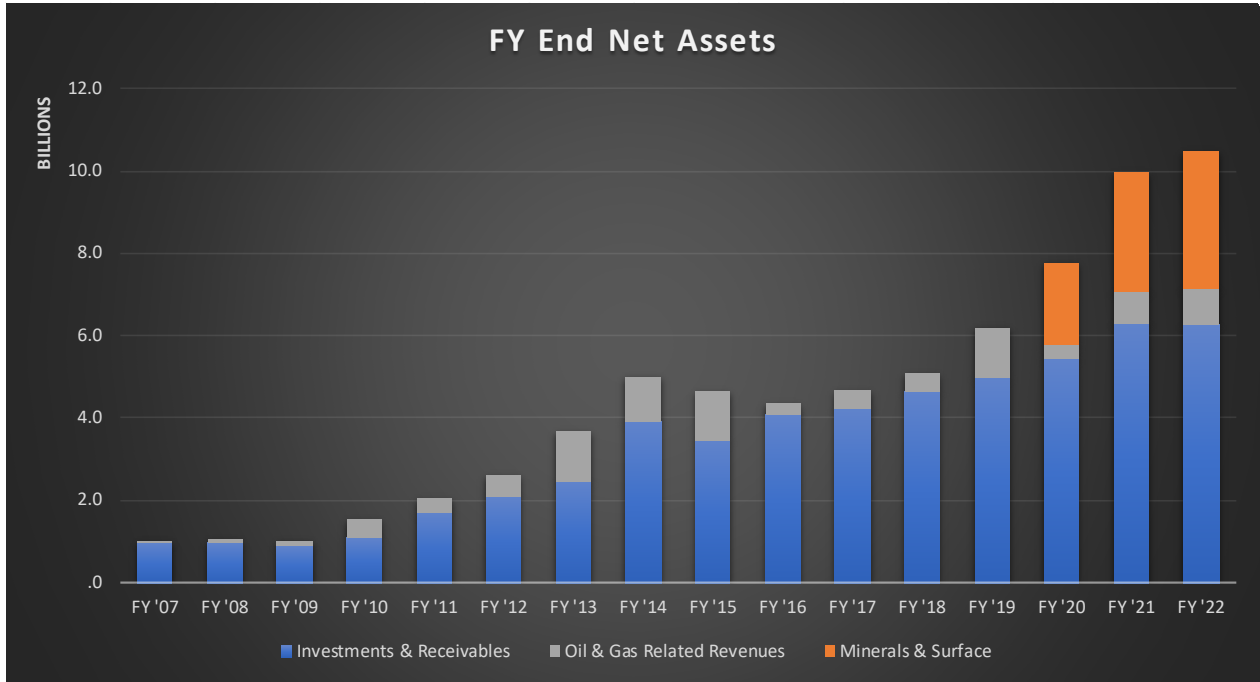
[3] Various loan programs funded with trust assets.

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

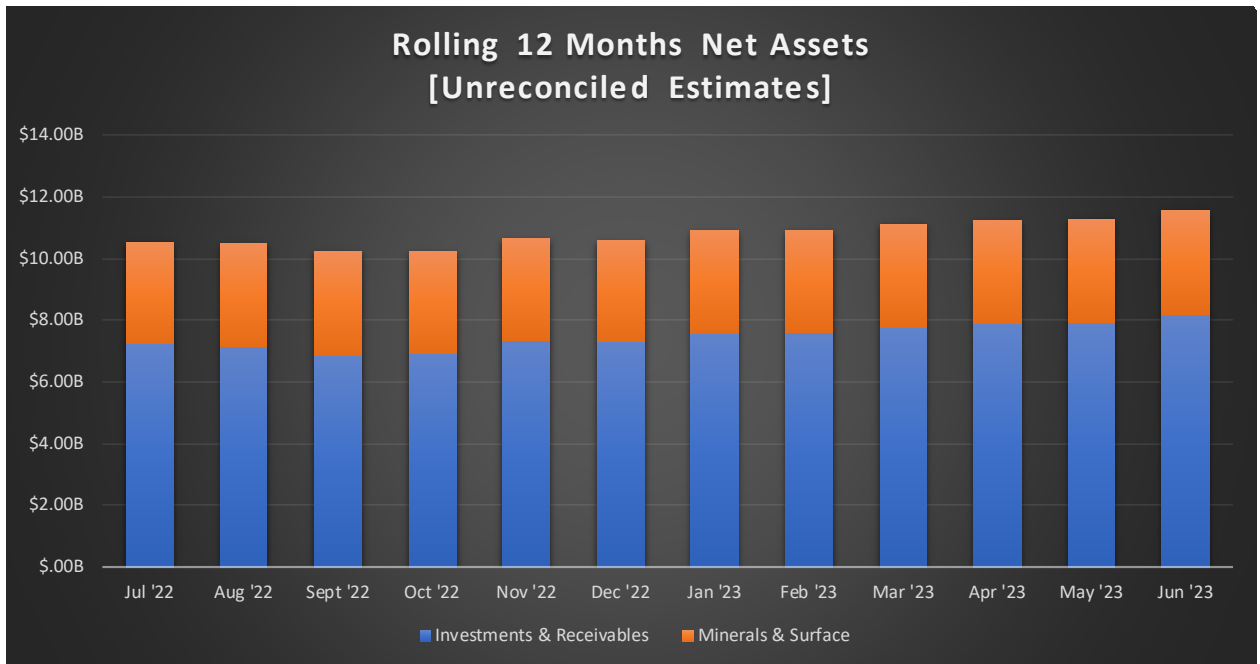
[5] Valued annually via contract with Mineral Tracker. Valuation as of December 31, 2021.

[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.



- [1] FY End 2020 - included initial Mineral valuations as of 12/31/19 amounting to \$1,449,002,408 and surface fair market value as of 12/31/19 amounting to \$538,179,773.
- [2] FY End 2021 - included new Mineral valuations as of 12/31/20 amounting to \$2,391,439,503. and surface fair market value as of 12/31/20 amounting to \$523,938,730.
- [3] FY End 2022 - included most recent Mineral valuations as of 12/31/21 amounting to \$2,813,480,347 and surface fair market value as of 12/31/21 amounting to \$511,088,869.



- [1] Dec 2021 includes mineral rights value of \$2,813,480,347
- [2] Sep 2022 includes appraised building value of \$1,015,196
- [3] Mar 2023 includes surface rights value of \$518,077,274

I N V E S T M E N T S

Investment Updates

Q3-Q4 Pipeline

Public Credit: bond overlay manager recommendation

Real Estate: total portfolio restructuring recommendation

Public Equity: extended equity (130-30) manager recommendation

Private Credit: distressed credit manager recommendation

Absolute Return: multi-strategy hedge fund recommendation

Portfolio Rebalancing Updates

Capital Calls Funded and Pending:

06/21 Ares Pathfinder Fund \$6.0M

06/22 GCM Grosvenor Private Equity \$3.45M

07/06 Owl Rock Diversified Lending \$7.5M

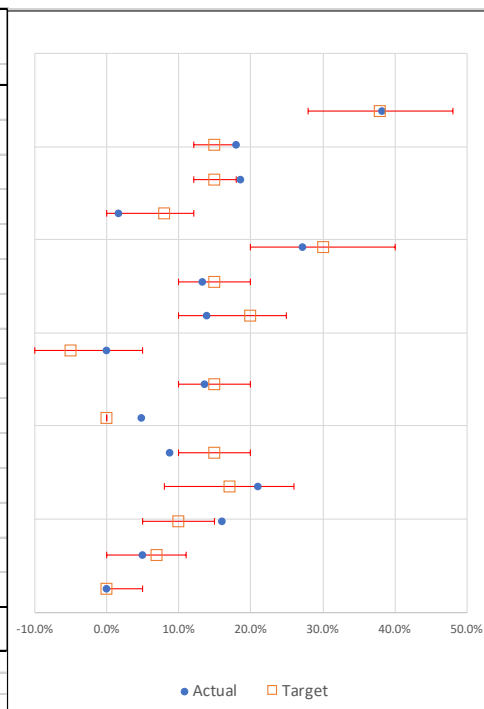
07/25 Hamilton Lane Infrastructure Opportunities Fund \$1.5M

Total Unfunded Commitments Remaining \$477M (as of June 30, 2023):

1. Private Credit, \$105M
 - i. Ares Pathfinder Fund, \$32M
 - ii. Owl Rock Diversified Lending, \$52.5M
 - iii. Varde Dislocation Fund, \$20.5M
2. Private Equity, \$212M
 - i. GCM Grosvenor Private Equity, \$94M
 - 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

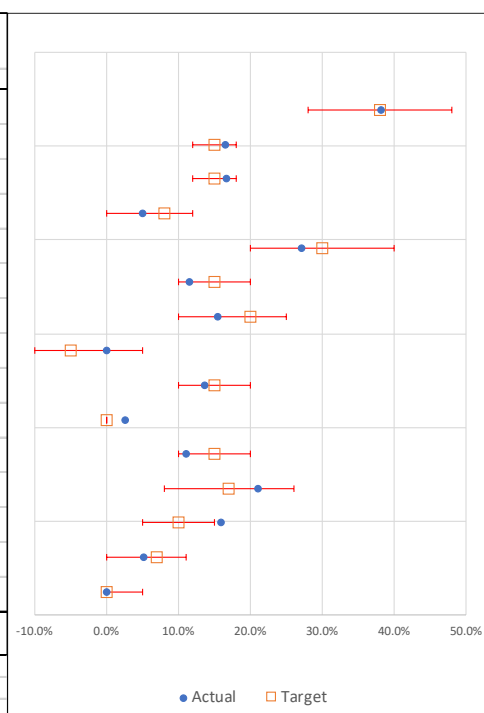
Current Asset Allocation (unaudited)

As of June 30, 2023	Market Value \$	Actual	Target	Lower Range	Upper Range
Equity	2,465,264,838	38.2%	38.0%	28.0%	48.0%
<i>Broad US Equity</i>	1,161,162,531	18.0%	15.0%	12.0%	18.0%
<i>Broad Int'l Equity</i>	1,195,911,327	18.5%	15.0%	12.0%	18.0%
<i>Private Equity</i>	108,190,980	1.7%	8.0%	0.0%	12.0%
Fixed Income	1,750,181,909	27.1%	30.0%	20.0%	40.0%
<i>Public Credit</i>	853,421,407	13.2%	15.0%	10.0%	20.0%
<i>Private Credit</i>	896,760,502	13.9%	20.0%	10.0%	25.0%
<i>Cash / (Implied Leverage)</i>	-	0.0%	-5.0%	-10.0%	5.0%
Absolute Return	879,719,384	13.6%	15.0%	10.0%	20.0%
<i>Global Tactical Asset Allocation</i>	312,977,149	4.9%	0.0%	0.0%	0.0%
<i>Multi-Strategy Hedge Fund</i>	566,742,235	8.8%	15.0%	10.0%	20.0%
Real Assets	1,356,677,050	21.0%	17.0%	8.0%	26.0%
<i>Real Estate</i>	1,035,212,070	16.0%	10.0%	5.0%	15.0%
<i>Private Infrastructure</i>	321,464,980	5.0%	7.0%	0.0%	11.0%
Opportunistic Investments	-	0.0%	0.0%	0.0%	5.0%
Portfolio Total	6,451,843,182	100.0%			



Hypothetical Asset Allocation (after funding all commitments)

As of June 30, 2023	Market Value \$	Actual	Target	Lower Range	Upper Range
Equity	2,465,264,838	38.2%	38.0%	28.0%	48.0%
<i>Broad US Equity</i>	1,067,162,531	16.5%	15.0%	12.0%	18.0%
<i>Broad Int'l Equity</i>	1,077,911,327	16.7%	15.0%	12.0%	18.0%
<i>Private Equity</i>	320,190,980	5.0%	8.0%	0.0%	12.0%
Fixed Income	1,750,181,909	27.1%	30.0%	20.0%	40.0%
<i>Public Credit</i>	748,421,407	11.6%	15.0%	10.0%	20.0%
<i>Private Credit</i>	1,001,760,502	15.5%	20.0%	10.0%	25.0%
<i>Cash / (Implied Leverage)</i>	-	0.0%	-5.0%	-10.0%	5.0%
Absolute Return	879,719,384	13.6%	15.0%	10.0%	20.0%
<i>Global Tactical Asset Allocation</i>	162,977,149	2.5%	0.0%	0.0%	0.0%
<i>Multi-Strategy Hedge Fund</i>	716,742,235	11.1%	15.0%	10.0%	20.0%
Real Assets	1,356,677,050	21.0%	17.0%	8.0%	26.0%
<i>Real Estate</i>	1,025,212,070	15.9%	10.0%	5.0%	15.0%
<i>Private Infrastructure</i>	331,464,980	5.1%	7.0%	0.0%	11.0%
Opportunistic Investments	-	0.0%	0.0%	0.0%	5.0%
Portfolio Total	6,451,843,182	100.0%			



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.

Investment Policy Statement – Second 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 approved at the June 29, 2023 Board meeting.

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).

Motion: The Board approve changes to the Investment Policy Statement as shown on the attached redline version.

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		

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

Public Credit – Bond Overlay

Last month, the Board of University and School Lands (Board) approved a new Strategic Asset Allocation (SAA), increasing the public credit target to 15% and authorizing a prudent use of leverage in the core bond portfolio. The goal is to improve cash efficiency and reduce hedge fund drag on the portfolio over the long run.

Staff recommends hiring an overlay manager to synthetically replicate the public credit benchmark / policy index. The overlay manager will use derivative instruments, such as total return swaps and futures to gain exposure to the Barclays US Aggregate Bond Index. As governed by policy targets and leverage limits set forth in the Investment Policy Statement (IPS), guidelines for the mandate will be put in place to target 5% synthetic exposure over the long run, with the ability to increase exposure up to 10% or decrease exposure down to 0%.

Synthetic Exposure	Min	Target	Max
US Aggregate Bond Index	0%	5%	10%

Staff and RVK began a manager search by reaching out to a list of five capable overlay managers. After interviewing and conducting due diligence on potential investment managers, Staff and RVK recommend contracting with NISA to provide core bond overlay services.

NISA was founded in 1994 and is headquartered in St. Louis. The firm manages over \$495B in assets across 215 institutional relationships and trades over \$1T in notional exposure annually. The firm has a research team of 55 analysts and a portfolio management team with 23 years of experience, on average.

Today’s macroeconomic environment may not be the right backdrop to implement such a strategy because (1) financing costs above 5.00% are higher than recent past and (2) the market is telling us (inverted yield curve) that it does not pay to take duration risk. However, Staff recommends beginning the manager hiring process today. It is expected to take at least 8 weeks to finalize guidelines and set up appropriate counterparty agreements. The program can be authorized today, set up in a couple months and turned on at a later date.

Motion: The Board approve contracting with NISA to provide core bond overlay services, subject to standard legal review/documentation.

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 Executive Summary and NISA Presentation were provided to the Board and are available at the Department upon request.

Extended Equity Educational Presentation was provided to the Board and is available at the Department upon request.

SPECIAL PROJECTS

Administrative Rules Revisions – First Reading

The Department of Trust Lands proposes changes to Title 85, Board of University and School Lands, of the North Dakota Administrative Code in order to add clarity, achieve greater efficiency, and reduce red tape. Proposed changes are summarized as follows:

North Dakota Administrative Code ch. 85-01-01 (Definitions and General Provisions)

The definition of “oil well” is amended to apply to only those wells that are producing in paying quantities, and the definition of “agricultural use” is amended to remove honeybee pasture or meadow grazing as an agricultural use as the term is applied throughout N.D.A.C. title 85, including as it relates to the sale and leasing of trust lands. All revisions are spelled out in the attached proposed rules.

North Dakota Administrative Code ch. 85-04-01 (Leasing Trust Lands for Agricultural Use)

Proposed revisions include the repeal of language allowing for temporary assignment of surface leases, clarification as to how notice of intent to terminate a surface land lease must be provided, and how cost-share payments from the Department may be made. All revisions are spelled out in the attached proposed rules.

North Dakota Administrative Code ch. 85-04-02 (Construction Aggregate)

Proposed amendments clarify how advance royalty payments for mining of construction aggregate are paid. All revisions are spelled out in the attached proposed rules.

North Dakota Administrative Code ch. 85-04-03 (Permanent Improvements)

Repeal of language prohibiting rent credits, cost-share, and depreciation for livestock water developments on trust land tracts that receive up-front livestock water deduction when determining the minimum bid for public lease auction. This revision permits certain rent credits, cost-sharing, and depreciation for livestock water developments even where an up-front livestock water deduction is applied to the minimum bid price for surface leases. All revisions are spelled out in the attached proposed rules.

North Dakota Administrative Code ch. 85-04-04 (Encumbrances of Trust Lands)

Proposed amendments reduce red tape associated with obtaining an encumbrance on trust lands by refining and further clarifying the application process, including how an applicant may apply for an encumbrance and clarification as to purposes for which an encumbrance may be obtained. All revisions are spelled out in the attached proposed rules.

North Dakota Administrative Code ch. 85-04-07 (Land Sales under North Dakota Century Code Chapter 15-06)

The procedure pertaining to the sale of original grant lands was revisited to streamline the process and clarify ambiguities. While much of the previous process will remain intact, certain amendments to the application and review process are proposed. The most significant changes relate to the procedures of no-net-loss sales with exceptions made for certain hard-to-manage tracts. All revisions are spelled out in the attached proposed rules.

North Dakota Administrative Code ch. 85-04-08 (Land Sales under North Dakota Century Code Chapter 15-07)

Many of the same amendments related to the land sale process in N.D.A.C. ch. 85-04-07 are also applied to the land sale process set forth in N.D.A.C. ch. 85-05-08. All revisions are spelled out in the attached proposed rules.

North Dakota Administrative Code ch. 85-06-01 (Oil and Gas)

Various portions of chapter 85-06-01 are amended to increase efficiency, reduce red tape, and provide greater clarification, including updates pertaining to the nomination payment process for mineral auctions, payment of delay rentals, rules regarding oil and gas lease cancellation due to a breach of the lease terms, and updates to the shut-in procedures of an oil and gas well located on trust lands. All revisions are spelled out in the attached proposed rules.

North Dakota Administrative Code ch. 85-03-04 (Unclaimed Property Examinations)

The sole revision to this chapter is the repeal of the words "to the examiner" in N.D.A.C. § 85-03-04-03. The result of this revision is that funds may be remitted directly to the state rather than first being sent through an examiner. This revision is spelled out in the attached proposed rules.

Motion: The Board authorizes the Commissioner to proceed with review of the proposed Administrative Rules, including formal review by the Office of Attorney General, preparation for public hearings, collection of comments, and submittal to Legislative Council.

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		

Redline version was provided to the Board and is available at the Department upon request.

LITIGATION

Litigation Update

- MHA (Missouri riverbed ownership) – On July 7, 2023, the United States filed a motion to amend its pleading to add a quiet title crossclaim against North Dakota as a new Intervenor in the case. We are preparing a response to the motion.
- 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 16, 2023; 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 21, 2023, 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; briefing scheduled to be completed in October
- Whitetail Wave (OHWM title dispute / takings claim) – Trial court issued attorney fees order on June 28, 2023, the appeal deadline for which is August 28, 2023; remaining title issues on hold until final resolution of attorney fees issue

A D J O U R N

There being no further business, the meeting was adjourned at 11:13 AM.

Doug Burgum, Chairman
Board of University and School Lands

Joseph Heringer, Secretary
Board of University and School Lands