NORTH Dakota Be Legendary. | State Investment Board RETIREMENT & INVESTMENT

Governance and Policy Review Committee Meeting
Thursday, November 6, 2025, 3:00 p.m.
Virtual Only
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AGENDA

I. CALL TO ORDER AND ACCEPTANCE OF AGENDA ***(Committee Action)***

II. GOVERNANCE MODEL REVIEW DRAFT REPORT (60 minutes) (Information)

III. OTHER

Next Meeting: November 12, 2025, at 10:00 a.m.

IV. ADJOURNMENT

Any individual requiring an auxiliary aid or service, please contact the Retirement and Investment Office (701) 328-9885 at least three (3) days prior to the scheduled meeting.

Governance Model Review

Draft Final Report

November 3, 2025

Not intended as legal or investment advice.

Submitted By



Funston Advisory Services LLC

Draft for discussion

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EXECUTIVE SUMMARY

High Demands + Low Autonomy = A Perfect Storm is Brewing

As of September 30, 2025, the North Dakota State Investment Board (SIB) had approximately $26 billion in assets under management (AUM). These represent the combined assets of twenty-nine (~29) client funds, including the Public Employees Retirement System (PERS), the Teachers' Fund for Retirement (TFFR), the Workforce Safety & Insurance Fund (WSI), the Legacy Fund (North Dakota's sovereign wealth fund), and the Budget Stabilization Fund. Over the past ten years, the AUM has more than doubled. Its success affects every North Dakotan.

The SIB and its administrative and investment arm, the Retirement and Investment Office (RIO) have delivered strong results despite significant statutory and organizational constraints. Their heroic performance reflects dedication, discipline, and prudent management. However, this success is increasingly fragile as assets continue to grow rapidly within an environment of limited autonomy, outdated infrastructure, and rising complexity.

Under the Prudent Investor standard, SIB/RIO must consider peer practices. Compared to peers, North Dakota has the lowest level of autonomy in the Nation despite the complexity and rate of growth of its portfolio. As a result, it lags significantly in autonomy, infrastructure, and staffing.

Despite managing over $26 billion in assets, SIB/RIO cannot hire staff, retain expertise or purchase equipment or systems without legislative approval—even though such expenses are funded entirely by the investment funds themselves, not the State's General Fund. This statutory limitation impairs its agility and the Board's ability to manage increasing operational and investment risk.

Operational realities include chronic understaffing (50% less than peers), high turnover (70% of all executives and staff have less than 1 year on the job), high reliance on manual processes and spreadsheets (60% could be automated with a new accounting system), lack of timely legal support (months of delay on time sensitive matters), and difficulty producing reliable, real-time information and closing the books timely. As of this report, SIB/RIO still had not been able to close its books from July 2025. Burnout and prolonged vacancies exacerbate these risks, especially as global competition for investment talent intensifies.

As a result, the organization is sub-optimizing returns, incurring increased costs and missing opportunities for reasons largely beyond its control. In 2024-2025, RIO estimates that these performance drags amounted to almost $140 million. This is more than 17 times RIOs' annual operating budget excluding investment-related expenses.

Trustees report that stakeholders (literally everyone in the State) often express confusion about SIB's mission and structure, reflecting the challenges of managing multiple fund types under one governance framework. The Governance Manual is outdated, and operational systems and processes have not kept pace with the scale or sophistication of investment management at peer institutions, especially pertaining to internal investment management.

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Implications

- SIB/RIO's statutorily limited authority to scale people, processes, and systems impedes its ability to achieve its mission and fulfill its fiduciary duties.
- ND SIB is low cost but fragile and is increasingly exposed to operational, reputational, and succession risks, and thus fiduciary risks.
- Without modernization, the gap between assets under management and internal capacity will continue to widen.
- The Board needs to work with the Legislature to align staffing and infrastructure with peer norms to reduce operational risk and strengthen organizational agility and resilience.

Our scope was limited to a review of SIB's policies but not actual practices. However, RIO's leadership has identified numerous operational shortcomings including:

- Failure to identify and escalate increasing operational risk to the SIB and the Legislature due to chronic under-staffing, turnover, manual processes, multiple spreadsheets and antiquated systems.
- Failure to correct chronic investment manager non-compliance.
- Inability to locate the investment policy statements for all funds.
- Increased costs and lost opportunities in 2024-2025 alone that resulted in a combined performance drag of $140 million. Without intervention, suboptimization is likely to continue.

Fiduciaries are legally and ethically obligated to assure that trust and investment operations are adequately resourced—including qualified staff, sound systems, and independent oversight—because:

- An under-resourced fiduciary organization cannot meet the prudence, care, and loyalty standards of trust law.
- These requirements are embedded in Restatement (Third) of Trusts § 90, UMPERSA § 8, ERISA § 404(a), NDCC § 59-16 and NDCC § 21-10-07.

Failing to resource fiduciary operations adequately is itself a breach of fiduciary duty under both trust law and public pension governance standards.

The Bottom Line

North Dakotans are counting on SIB/RIO to prudently manage the State's growing portfolio for generations to come. To sustain success over a long horizon, the SIB and RIO need the autonomy to budget resources and modernize the infrastructure to manage complexity, capture opportunity, and safeguard public trust.

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The following report describes our conclusions and recommendations in relation to the six deliverables mandated by the SIB.

Summary Conclusions

ND SIB is a "high-complexity, low-autonomy" governance paradox—an institution with autonomy to manage $26 billion in increasingly sophisticated, fast-growing assets within the most administratively restrictive operating environment in the Nation when compared to its peers. Contrary to its mission and mandate, SIB/RIO is suboptimizing returns with increasing unrewarded risk, resulting in higher costs and lost opportunities.

Operational risk is the potential for loss resulting from inadequate or failed governance, internal processes, people, systems, or from external events. From a governance perspective, until just recently, it appears the Board has not been made aware of increasing operational risk. The Board lacks the authority to increase resources or move resources where they are most needed. Essentially, the SIB lacks the authority to timely fulfill its fiduciary duties in a rapidly changing environment.

As a strategic priority, with the anticipated growth in assets under management (AUM) and increasing internal management, NDSIB must have the authority to invest in essential people, systems, and delegated authority if it is to maintain control and fulfill its fiduciary duties.

The ***rate of and magnitude of change*** exacerbates the weaknesses of a complex, under-resourced investment organization. Without adequate agility, each new policy, asset class, or market event adds weight to an already overburdened system. Without resilience, shocks will reverberate through governance, staff, and systems faster than they can recover.

The result is declining responsiveness and performance drag. The remedy is to invest not just in assets, but in organizational infrastructure. It will require governance clarity, data integration, human capital, and process automation. In these ways, agility and resilience will become embedded capabilities, not crisis responses.

Draft for discussion

The SIB asked for six deliverables from this review. These are shown below, together with our summary conclusions.

Deliverable	Summary Conclusions
1. **Evaluate the SIB Program Manual.**	• The Program Manual needs a complete overhaul. It ignores the Legislature's critical role, and its archaic language contributes to complexity and confusion.
2. **Assess the organization's framework (governance model) for directing, controlling, and monitoring operations with respect to compliance and effectiveness.**	• SIB's governance of performance, people, processes, and systems is increasingly fragile and not sustainable. • Internal controls are weak and lack a formal closed-loop process as evidenced by chronic non-compliance among investment managers. • SIB's oversight is obscured by the volume of data and the lack of an enterprise risk management (ERM) framework to flag increasing operational risks.
3. **Evaluate the reports to the board and committees from staff and consultants.**	• Reports are voluminous, cumbersome, and lack insight regarding policy implications. Reports obscure the "big picture" with detail.
4. **Benchmark the SIB governance model and Program Manual.**	• SIB/RIO is an outlier. It has one of the most complex portfolios with the least autonomy to respond. Without autonomy over resources and a clearly written Program Manual that drives accountability, the organization has been limited in its response to high turnover, aging or obsolete systems, and outdated manual processes. • The complexity of the governance model and program manual results in costly delays and lost opportunities.
5. **Develop a governance risk heat map identifying key vulnerabilities and oversight priorities.**	• Increasing operational risks are likely to result in continued financial losses and thus reputational and fiduciary risk and loss of public trust.
6. **Develop a recommended future governance review process based upon leading and prevailing peer practices.**	• Build in safeguards and conduct regular reviews to assess and report progress to the SIB and the Legislature.

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Summary Recommendations

The Governance Program Manual needs to be completely rewritten. North Dakota's current model (the Carver model) —while originally intended to clarify roles—has instead created ambiguity, rigidity, and under-delegation in a system that now manages multi-billion-dollar fiduciary responsibilities. The shift is needed to align governance with the SIB's growing assets, risk profile, and accountability requirements.

Revising the Program Manual, while necessary, will not by itself resolve the underlying autonomy challenge. It will simply make it more transparent that the SIB and RIO operate within significant statutory and administrative constraints.

The current budget review and appropriation process limits SIB/RIO's flexibility to adapt to growth, technology, and talent needs. Over time, the organization appears to have become accustomed to operating within these constraints, focusing on budgetary compliance and efficiency rather than requesting the resources and flexibility needed to effectively meet fiduciary demands.

Going forward, the SIB/RIO should develop and present a well-supported business case to the Legislature. The business case needs to be grounded in fiduciary duty, peer comparisons, and performance risk management. SIB/RIO needs to clearly demonstrate why increased operational autonomy and strategic flexibility are essential to prudently manage a growing and increasingly complex investment portfolio. The solution to complexity is simplicity.

Modernizing SIB/RIO

Modernizing and empowering the SIB and RIO can be achieved while improving the robustness of legislative oversight. The majority of the Board is already comprised of legislative and executive members who participate alongside client fund appointees and investment experts.

Oversight would remain strong, as legislative and executive members retain direct visibility into operations, RIO would continue to function under state agency requirements for appropriations, open meetings, and audits, and independent reviews by third parties to assure transparency and accountability.

Using a structured performance or sunset review process—similar to the North Dakota Financial Institutions Commission—could reaffirm SIB/Rio's efficiency, accountability, and fiduciary integrity over time. With publicly reported, independently benchmarked results, stakeholders can see clear evidence of prudent stewardship. Proven models, such as South Carolina's RSIC, demonstrate that operational delegation can coexist with statutory oversight and fiduciary discipline.

In the meantime, SIB/RIO should address the factors within its control using the framework of the Governance Effectiveness Model (GEM): Conduct Business, Set Direction, Approve then Delegate, Oversee Performance and Risk, Verify Reliability. These are described on the following pages.

Draft for discussion

Recommendations: Factors within the Control of SIB/RIO

Conduct the Business of the Board and its Committees

1. Develop a unified, streamlined, principle-based policy manual that makes explicit reference to the role of the Legislature.
2. Align Board meeting agendas with the exercise of its five powers: Conduct, Set, Approve, Oversee, and Verify. Consider using consent agendas. See example, Appendix 1: Example Board Agenda.
3. Set a multi-year strategic policy agenda for the Board and its committees.
4. Build in constructive challenge by providing a set of standing questions to be asked by the Board or committee in relation to recurring agenda items. For example, questions the Audit Committee should always ask.
5. Establish the expectation that meeting materials will have been read in advance, and present based on that assumption.
6. Reduce the time spent "presenting" materials and increase the time spent on dialogue.
7. Streamline trustee onboarding to make it more digestible. Enable individualization and accommodate different learning styles. Start with the "need-to-know" by Day 1, Day 90, Day 180, and Day 360.
8. Given that the majority of SIB trustees are lay people, establish annual expectations for trustees continuing education.
9. Consider assigning mentors to new trustees.
10. Overhaul the Executive Director evaluation to provide more timely feedback.

Committees

11. Clarify that only trustees should vote on committees. The role of Staff is to advise and execute.
12. Review and clarify all board, committee and RIO charters mandates and delegations.
13. Strengthen the role of committees to alleviate the burden on the Board in terms of research, oversight, and verification.
14. Expand the mandate of the Audit Committee to include enterprise risk and compliance.
15. Reassign Securities Litigation oversight responsibilities to the Audit and Risk Committee.
16. Create a Strategic Budget and Oversight Committee to oversee fiscal and budgetary compliance reporting.

Draft for discussion

Set Direction and Policy

17. Develop a 3–5-year strategic plan and budget to build sustainable organizational capabilities.
18. Establish policies designed to maintain strategic policy continuity as a patient capital investor and prevent short-termism.
19. Align SIB/RIO's policies with its mission, risk appetite, and long-horizon strategy.
20. Review all governance policies at least triennially.
21. Investment Policy Statements (IPSs) should be regularly reviewed
    a. Oversight: Quarterly, not policy adjustment
    b. Annual: Confirm continued validity
    c. Triennial: Strategic alignment & modernization
22. Require that Strategic Policy Options be presented for all major issues:
    - Issues / Background / Stakeholders affected
    - Range of options available (Least to most)
    - Pros and cons as seen by stakeholders
    - Recommendations in the best interests of beneficiaries depending on type of fund.

Approve then Prudently Delegate

23. Revise the Delegation Matrix.
24. Adopt a Four Lines Model of Assurance and Reassurance.

Oversee Performance and Risk

25. Streamline Board and committee material packages and require exception-based reporting.
26. Require root cause analyses for significant exceptions.
27. Require presenters to highlight the policy implications, if any, and recommend whether to stay the course, adjust the course, or change the course and why.
28. Require that investment performance reports relate directly to the Investment Policy Statements (IPSs), help visualize actual performance compared to expected performance and identify policy implications.
29. Enable "drill down" from system-wide overviews to further detail as needed, i.e., the forest and the trees.
30. Expand performance and risk oversight to include enterprise-wide operations, e.g., HR, IT, middle and back office – not just front-office investments.

Draft for discussion

31. Require accounting mechanisms to assure the appropriate allocation of expenses to the respective funds.

32. Obtain CEM benchmarking annually.

Verify Reliability of Information and Advice

33. Strengthen Internal Audit capacity by expanding staffing, resources, and training to achieve sustainable audit coverage to meet the complexity of investment operations and provide both assurance and advisory services.

34. The Internal Audit Charter should require a QAIP (Quality Assurance and Improvement Program), including (1) ongoing internal monitoring, (2) annual internal assessments, and (3) external quality assessment (EQA) at least every five years.

35. Update the IA charter to include a formal list of required report elements (e.g., issue aging, overall assurance opinion).

36. Enhance Investment Manager Oversight by requiring timely, complete, and compliant System and Organization Control (SOC) reports from all external managers; enforce corrective actions for repeat deficiencies.

37. Develop an Integrated Assurance Map and Tracking System to map oversight responsibilities, track audit findings, and assure closed-loop feedback on the status of prior findings.

38. Increase accountability and continuous improvement by introducing external triennial governance reviews to track and report implementation prior to legislative sunset reviews.

Recommendations that are not related to the Governance Program Manual.

39. Obtain timely independent advice including retaining in-house legal counsel and independent counsel as needed.

40. Consider adding Enterprise Risk Management (ERM) and Chief Compliance Officer (CCO) positions.

41. Develop the business case and seek statutory modernization from the Legislature under NDCC §21-10-02 to enable SIB / RIO to go “off-book” to acquire the staff and infrastructure consistent with peer norms.

42. Until the organization has addressed these friction and fragility issues, SIB/RIO should suspend further internalization of investment management.

Draft for discussion

Recommendations: Factors within the Control of the Legislature

The Legislature should consider delegating budgetary authority to the SIB and RIO to enhance North Dakota's investment governance framework, thereby helping to assure the autonomy and modern infrastructure necessary to manage complexity and align with peer systems.

The current line-by-line approval process of the SIB/RIO budget makes North Dakota an outlier among state investment board peers as the only state with line-by-line budgetary approval. Adopting an "off book" approach would bring North Dakota in-line with peers who have budgetary delegations with reporting and legislative oversight.

If the Legislature supports SIB/RIO going "off book", it should:

1. Commission a triennial governance effectiveness review of ND SIB/RIO to precede a sunset review of the continuing appropriation authority.
2. Consider adopting a budgetary ceiling based on the size of assets under management (AUM) to allow flexibility to respond to growth or retraction.

North Dakota has recently allowed the Department of Financial Institutions to operate outside the ordinary biennial appropriation process, i.e., off-book. This authorizes the agency to spend dedicated revenues without line-item appropriations.

We understand that the Legislative Council and OMB applied an informal 4-part test before supporting a continuing appropriation bill:

1. Dedicated funding stream: agency is self-supporting (fees, assessments, interest).
2. Limited fiscal risk: no potential draw on the General Fund.
3. Defined oversight mechanism: an appointed board or commission reviews and approves budgets.
4. Documented accountability: annual reporting and external audit obligations are maintained.

SIB/RIO appears to meet these criteria:

1. SIB/RIO have a dedicated funding stream from the funds themselves and not the General Fund.
2. There is no potential draw on the General Fund.
3. The SIB is a fiduciary board with oversight responsibility and, if our recommendation is accepted, there will be a dedicated board committee for financial and budget oversight.
4. There will be documented annual reporting and external audits.

While this structure provides operational flexibility, the statutes delegate budget authority subject to controls such as board approval, restricted uses, mandated audits, and reporting to legislative committees. These safeguards are critical to assuring that off-books programs remain accountable to the public and aligned with legislative intent.

Draft for discussion

MAIN BODY OF REPORT

Purpose of this Review

After a competitive bid process, Funston Advisory Services LLC (FAS) was retained by the North Dakota State Investment Board (SIB) to conduct an independent review of its governance model. FAS reports to the Board through the Governance Policy Review Committee (GPRC). The GPRC is chaired by Dr. Robert Lech (Vice-Chair of the SIB) and includes the State Treasurer, Thomas Beadle, and Mr. Joseph Morrisette, the Director of the Office of Management and Budget.

The purpose of this review was to assess the current state of SIB's governance model, its effectiveness, its policies and practices, compare it to those of peers, and recommend future state improvements.

Our Review Principles

Our review is guided by four overarching principles:

1. **Tell you what you need to hear.**
   We will provide clear, objective feedback grounded in evidence — even when it challenges conventional assumptions and practices — to strengthen fiduciary judgment and accountability.

2. **Fix the problem, not the blame.**
   Our focus is on solutions and improvement, not fault-finding. We aim to build trust and capability across the organization and its stakeholders.

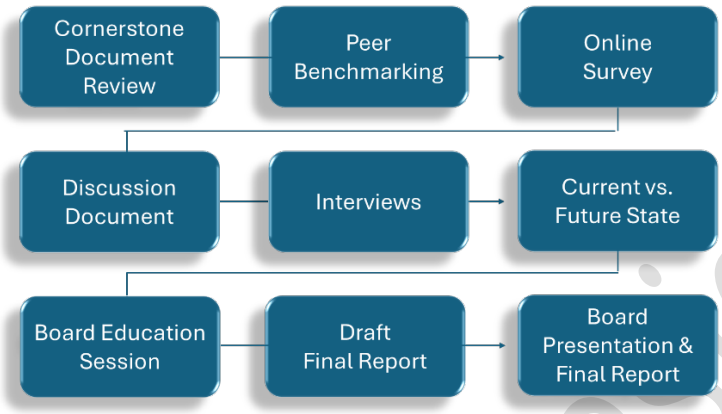
3. **No surprises.**
   We work collaboratively and transparently, engaging stakeholders throughout the process so our findings and recommendations are well-understood before they are finalized.

4. **One Size Fits One!**
   Every client is unique. Our methods, benchmarks, and recommendations are tailored to the organization's specific governance structure, scale, and strategic context.

We will provide our independent opinion, so the SIB is in an informed position to decide what's best for SIB and RIO.

Draft for discussion

The Review Process



Under the direction of the GPRC, in September 2025, FAS began by conducting a review of SIB's cornerstone documents, which included, for example:

- Chapter 21-10 of the North Dakota Century Code (NDCC).
- Chapter 54-52.5 of the NDCC.
- The SIB's Governance Program Manual
- The Delegation Matrix
- Organization chart
- Staff and consultant reports to the SIB over the past 5 years

We compared SIB's governance model to the statutory frameworks of all 50 states based on research conducted by the National Association of State Retirement Administrators (NASRA), the governance policy manuals of almost 100 state and local retirement systems using our proprietary National Public Pension Policy Repository (N3PR™), and our proprietary governance peer benchmarking database (InGov™).

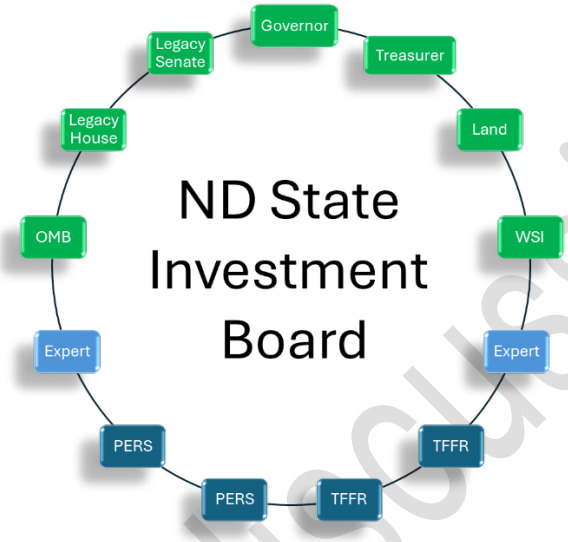
While we continued our document review, we conducted an online survey of SIB's Trustees and RIO Executives to gather their perspectives on the model's strengths and weaknesses. On September 15, 2025, we prepared and distributed a Discussion Document summarizing the survey results. We used the Discussion Document and the Survey results to prepare for and conduct structured interviews with each trustee and RIO's senior executives.

Throughout the process, we rapidly reiterated our observations, conclusions, and recommendations, then validated and verified them with the RIO executive and the GPRC. We described the Current vs Future State compared to peers and on October 24, 2025, conducted an education session with the full Board. We received feedback from the Board and the GPRC and have prepared this draft final report.

Draft for discussion

Our Understanding of the State Investment Board (SIB)

The SIB is a creation of the North Dakota Legislature. Trustees are very busy, part-time and primarily lay people. Compared to peers, SIB has the highest number of ex officio (legislators and executive branch) and the lowest number of investment experts. See Appendix 3: Investment Board Composition Comparison.



Similar to most peers, SIB's fund expenses are paid from the funds themselves – not the State's General Fund.

SIB's Mission and Mandate

Mission:	**"The mission of the North Dakota State Investment Board is to prudently manage the funds entrusted to it in the exclusive interest of the funds' beneficiaries, consistent with constitutional and statutory requirements, sound investment principles, and the highest fiduciary standards."**
Mandate:	Maximize returns with a prudent level of risk (as a prudent institutional investor).
Beneficiaries:	SIB affects everyone in North Dakota – everyone is a beneficiary in some way. High visibility demands transparency and reliability.
Ambition:	To become one of the world's best long-horizon investors among public retirement systems and sovereign wealth funds.

Draft for discussion

The ND SIB is responsible for the investment oversight and management of twenty-nine (~29) client funds. Its core responsibilities include:

1. **Fiduciary Oversight and Policy Governance.** The SIB acts as the fiduciary for a range of client funds, setting investment policies, strategic asset allocations, and risk management parameters for each fund in accordance with their respective objectives and statutory requirements.

2. **Investment Management and Performance.** The SIB oversees investment programs totaling more than $26 billion in assets. The Board monitors performance versus policy benchmarks and attribution factors such as asset allocation and manager selection across asset classes.

3. **Strategic Asset Allocation**. The Board (together with client funds) defines and periodically reviews the policy mix of global equity, fixed income, real assets, and alternatives to balance growth, income, and liquidity across short-, medium-, and long-horizon funds (e.g., pension vs. sovereign wealth vs. insurance portfolios).

4. **Selection and Oversight of External Managers and Consultants** – SIB employs professional investment consultants to advise on strategy, performance measurement, benchmarks and economic outlooks across funds.

5. **Client Fund Stewardship** – The Board (through RIO) invests on behalf of client entities such as:

    - Pension funds including the Public Employees' Retirement System (PERS), Teachers' Fund for Retirement (TFFR), and other local funds,
    - Legacy Fund (sovereign wealth fund)
    - Insurance and Risk Management Trusts
    - Workforce Safety & Insurance Fund
    - Budget Stabilization Fund

    Each of these funds has unique policy objectives, liquidity needs, and time horizons under the SIB's consolidated oversight.

6. **Risk, Compliance, and Reporting**. The SIB is responsible for assuring that investment practices align with statutory requirements, the prudent investor standard, and internal control frameworks. It provides quarterly and annual performance reports detailing returns, benchmark comparisons, and economic context.

In summary, ND SIB's mandate is to prudently invest and manage state and public funds to maximize long-term risk-adjusted returns while fulfilling the fiduciary duties of a prudent investor of each client fund under a unified governance and investment management structure.

Draft for discussion

The Retirement and Investment Office (RIO)

RIO is a state agency that serves as the administrative and operational arm supporting the SIB. RIO's overarching purpose is to provide professional management, oversight, and fiduciary support for the state's retirement and investment programs. The retirement program supports the financial security of nearly 25,000 teachers and reports to the TFFR Board.

RIO's annual operating budget as of September 2025 was about $8 million. This does not include investment expenses. RIO's annual budget including staffing expenses (including retirement staff) is less than 3.5 bps of AUM.

RIO is organized into three divisions:

- Investment (Front Office)
- Fiscal (Middle and Back Office)
- Retirement

The Front Office

The Front Office is responsible for executing the investment policies established by the State Investment Board (SIB) and for managing relationships with external investment managers, consultants, and custodians.

The Front Office is where investment decisions are implemented and overseen — it translates board-approved policies into active portfolio management and day-to-day investment operations. The Front Office has lean staffing: only fourteen investment FTEs for $26B AUM (~$1B per staffer) less than half the staff of peer fund South Dakota (~$.5B per staffer). One investment staff departure represents a ~7% loss in capacity (the highest among peers).

Middle and Back Office

Similarly, according to CEM (2021), the Fiscal Division (Middle and Back Office) has only nine (9) staff; while peers average thirteen (13) (but with modern accounting systems). RIO's workload is exacerbated by the manual processing of the accounting book of record (ABOR) and the investment book of record (IBOR).

This not only makes it difficult to compare RIO with peers using automated systems but also results in significant delays in processing investment transactions. As the time of writing, the July 2025 books had still not been closed while the peer standard is thirty (30) days. This delay has the downstream effect of preventing twenty-nine (~29) client funds from closing their books. This also involves significant rework requiring Front Office involvement and compromises the independence of the reports and records. RIO is currently lacks the personnel and systems to separate the fees and expenses associated with each type of fund. This means that some funds may be charged more than their fair share of expenses.

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Retirement Services

The SIB is the fiduciary investor for North Dakota's public retirement systems and other state funds. The SIB is responsible for investing the assets of North Dakota's public retirement systems — but not for the administration benefits or member services of those systems.

The RIO serves as the administrative and operational arm supporting the SIB's investments. It also provides retirement services for the Teachers' Fund for Retirement (TFFR) but not for PERS. The TFFR Board is the fiduciary board for retirement services administered by RIO.

Thus, RIO fulfills a dual role — acting as the operating arm of the SIB for investment operations and as the retirement plan administrator for TFFR and related services.

Function	Responsible Entity	Description
Investment of Pension and Trust Assets	**State Investment Board (SIB)**	SIB establishes investment policy, selects managers, monitors performance, and acts as fiduciary for assets belonging to the pension plans, the Legacy Fund, and other state trust funds.
Administration of Retirement Benefits	**Retirement and Investment Office (RIO)**	RIO administers TFFR benefits directly and provides retirement staff, operations, and oversight support. The RIO Executive Director reports to the TFFR Board for benefit administration while the PERS Board has its own executive director and staff for benefits.
Governance Link	**SIB governs / RIO executes**	The Executive Director of RIO serves as the Executive Director of the SIB and manages both investment operations and retirement benefit administration under SIB policy but reports to the TFFR Board for retirement services.

Draft for discussion

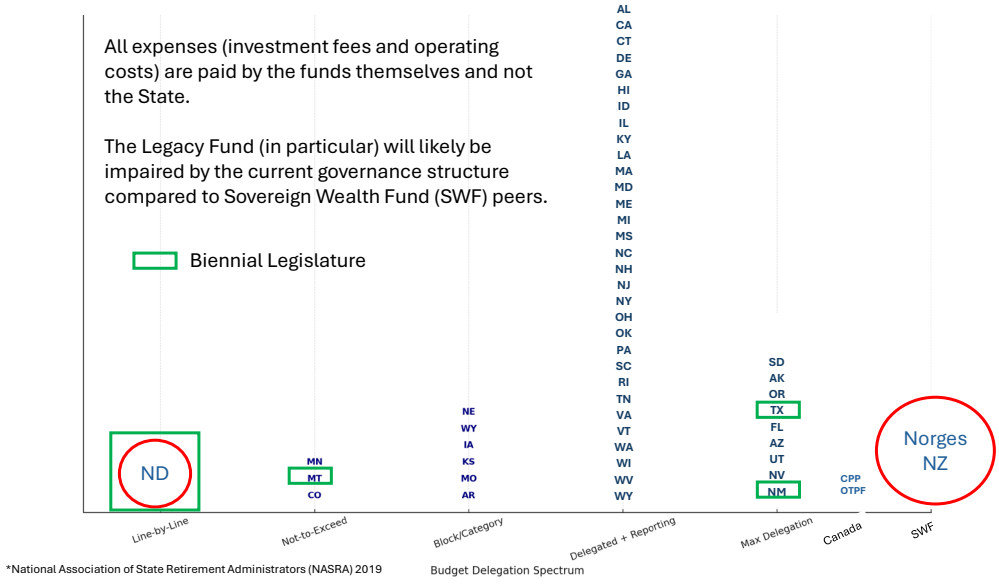
The Unique Nature of SIB/RIO

The North Dakota SIB/RIO model is unique because it is:

- **Multi-fiduciary/multi-beneficiary.** It serves multiple independent beneficiaries (pension, insurance, sovereign wealth, and growth stabilization) under one board. This means it must exercise caution in exercising its duties of loyalty in relation to each group of beneficiaries: retirees, insurance claimants, injured workers or the citizens of the State.
- **Financially self-sufficient but procedurally constrained by state rules.** The Legislature approves the budget biennially. North Dakota is the only state that requires line-by-line budgetary approval. The duties of being a prudent investor entails not only proper due diligence but also assuring the organization is adequately resourced.
- **Governance-intensive.** Success requires integrated policies, risk management, and systems capable of serving funds and boards with very different purposes and horizons.
- **Dual-reporting.** SIB is responsible for investment programs but not retirement services so the Executive Director reports to the TFFR Board for retirement services.

North Dakota's SIB/RIO are one of the most complex public investment and retirement systems in the United States. Unlike peers that manage primarily pension assets, the SIB governs a diversified investment enterprise — encompassing long-term sovereign wealth and short-term stabilization mandates — under a single fiduciary framework.

SIB/RIO's governance structure, cross-fund fiduciary duties, and state-agency model make it a singular case study in how public institutions can struggle to balance fiduciary independence, political accountability, and intergenerational stewardship.



for discussion

DELIVERABLES

1. Assess the organization's framework (governance model) for directing, controlling, and monitoring operations with respect to compliance and effectiveness.

2. Benchmark the SIB governance model and Program Manual.

3. Evaluate the SIB Program Manual.

We have grouped our response to these deliverables because they each examine the same governance system from different angles. Together, they tell a unified story—an outdated manual and constrained organization have left SIB/RIO structurally misaligned and operationally fragile—and point to one integrated solution: modernize the governance model, build capacity, and restore alignment between fiduciary duty, legislative authority, and operational effectiveness.

Draft for discussion

Evaluation of SIB's Governance Model and the Program Manual

A governance model is a framework for directing, controlling and monitoring operations. It is the operating blueprint that defines how authority, accountability, and oversight are distributed and exercised by legislators, the board of trustees, staff, and advisors. It should be an aid to collective decision-making in achieving the mission.

The SIB's Governance Program Manual (GPM) should operationalize that model by specifying *how* those authorities are to be exercised, delegated, and monitored. It should establish the policies, protocols, and documentation standards that give effect to the three tiers of governance powers:

1. Powers reserved for the Legislature,
2. Powers delegated to the SIB, and
3. Authority and resources delegated to the Retirement and Investment Office (RIO)

When these three tiers are aligned, it should help to assure:

- Clarity so that each entity operates within its legally defined scope of authority.
- Accountability so decision rights are mapped to responsible roles.
- Consistency so that all policies and delegations flow from a unified governance model.
- Transparency so that the Legislature, the SIB, and RIO can demonstrate adherence to statutory and fiduciary duties and provide beneficiaries and stakeholders with timely, reliable information.

The Governance Program Manual should be the unifying document that institutionalizes the governance model — converting the conceptual "who decides what" framework into actionable, accountable policy, delegation, and reporting mechanisms that guide the day-to-day and long-term functioning of SIB and RIO.

Unfortunately, it currently does not.

Draft for discussion

Powers Reserved and Delegated

The following pages describe each of the Powers Reserved and Delegated in more detail for each tier.

1. Powers Reserved for the North Dakota Legislature

The powers of the Legislature are defined in statute (e.g., creation of the SIB, budget appropriations, and oversight hearings). It should be reflected in the GPM through references to statutory mandates, appropriation limits, and reporting obligations to legislative bodies. The Legislature is not a fiduciary of the funds.

The North Dakota Legislative Assembly retains several critical powers and oversight functions related to the State Investment Board (SIB) and the Retirement and Investment Office (RIO):

Appropriations and Budget Control
The Legislature approves RIO's biennial budget on a line-by-line basis, determining staffing levels, compensation, and operating expenses. This gives lawmakers granular control over SIB's resources, limiting its flexibility to rapidly adapt to changing markets or governance needs.

Statutory Authority and Investment Mandates
Investment authority derives from state statute (e.g., N.D.C.C. Chapter 21-10). The Legislature defines what funds exist (e.g., PERS, TFFR, Legacy, Insurance, Budget Stabilization, etc.), the purposes of each, and allowable investment types.

Creation and Dissolution of Funds
The Legislature establishes new funds (e.g., Legacy Fund, Budget Stabilization Fund) and defines their inflows, outflows, and spending policies.

Oversight and Reporting Requirements
The SIB and RIO must submit regular reports to legislative committees (typically the Legislative Management's Interim Committee on Investments), assuring transparency and compliance with statutory investment parameters.

Appointment Confirmation and Policy Review
Legislative leaders indirectly influence appointments (through statute-defined representation) and can amend laws governing the composition and powers of the SIB.

Draft for discussion

The Program Manual omits reference to the Legislature.

Upon review, despite its central importance, we find no references in the Program Manual to the North Dakota Legislature as the top tier in the governance framework. This omission removes the explicit source of statutory and fiscal authority on which all other powers depend. Without this anchor, the SIB's governance model appears self-contained, as though the State Investment Board and the Retirement and Investment Office derive their authority independently rather than by legislative delegation.

This omission blurs the line between fiduciary accountability to beneficiaries and political accountability to the public, creating uncertainty about who ultimately controls budgets, staffing, and oversight. In the end, it is the Legislature that decides the budget and not the SIB.

The SIB's reliance on the Carver Policy Governance Model magnifies this ambiguity. Carver's focus on "Ends" and "Executive Limitations" works well in autonomous nonprofit settings, but in a public investment system—where the Legislature retains constitutional and appropriations powers—it leaves key questions unanswered.

2. Powers Delegated to the State Investment Board (SIB)

The powers delegated to the SIB are derived from legislative authority assigning fiduciary responsibility for investment policy, strategic asset allocation, and oversight of trust funds. The Governance Program Manual should formalize these powers through Board charters, investment policy statements, delegation matrices, and fiduciary standards consistent with being a prudent investor. The SIB is the sole fiduciary body with statutory authority to manage investments for multiple funds and client entities.

The SIB has five powers to fulfill its fiduciary duties:

1. Conduct the Business of the Board and Its Committees

The SIB organizes and manages its own affairs—establishing committees, adopting procedures, and assuring that meetings, agendas, and minutes reflect sound governance and compliance with open meeting laws and fiduciary standards.

2. Set Direction and Policy

The SIB establishes and periodically reviews investment policy statements (IPSs) with each fund, including the Legacy Fund, Pension funds (e.g., TFFR and PERS), Insurance Trust, and Budget Stabilization Fund. The SIB (in conjunction with the client funds) has full fiduciary responsibility to adopt investment policies, determine asset allocation, select and monitor investment managers, and assure prudent diversification across asset classes. The Board defines strategic objectives, investment beliefs, risk tolerance, and fiduciary priorities through the adoption of policies such as the Investment Policy Statement (IPS), the Program Manual, and the Ethics Code. This establishes the framework for all subsequent decisions and actions.

Draft for discussion

3. Approve Key Decisions and Delegate Authority

The SIB retains decision rights over fundamental matters—such as strategic asset allocation, budget approval, and major contracts—while prudently delegating operational authority and resources for day-to-day management to the Executive Director, Chief Investment Officer, and its committees under clear policy boundaries and reporting expectations.

4. Oversee the Execution of Directives within Policy

The Board monitors performance, risk, and compliance to assure that delegated authorities are exercised consistently with the SIB's established policy intent. Oversight includes reviewing performance reports and management responses to Board directives. Through external consultants (e.g., Verus and NEPC) and staff reporting, the SIB monitors asset class allocation and performance, risk-adjusted returns, compliance with policy benchmarks, and manager performance attribution (as reflected in the quarterly Verus reports across funds).

5. Verify the Reliability of Information and Advice

The SIB assures that decisions are based on accurate, complete, and independent information by engaging qualified experts (e.g., legal, governance), internal and external auditors, actuaries, and investment consultants, and by maintaining robust internal controls and assurance mechanisms.

Draft for discussion

3. Authority and Resources Delegated to the Retirement and Investment Office (RIO)

The SIB, through approved legislative delegations, should prudently delegate operational and administrative authorities and resources to RIO. The Governance Program Manual should delineate these delegations — for example, investment execution, manager oversight, performance reporting, risk management, and compliance functions — with clear limits, escalation paths, and reporting requirements.

RIO serves as the operational and administrative arm of the SIB, responsible for implementing investment policies and managing all support functions:

Execution Authority:
RIO is responsible for executing investment decisions within the limits approved by the SIB, including contracting with investment managers, custodians, consultants, and other service providers.

Internal Operations and Compliance:
RIO is responsible for maintaining accounting, performance measurement, compliance, and risk reporting systems that serve both investment and retirement administration functions.

Resource Limitations:
RIO's authority is constrained by the legislative budgeting process. Despite overseeing a portfolio exceeding $26 billion, staffing and compensation are subject to legislative appropriation, which constrains recruitment, technology upgrades, and internal investment management capacity.

Consolidation Role:
RIO centrally administers the investments of multiple entities (Legacy Fund, pension plans, insurance funds, etc.), creating economies of scale but also creating operational complexity.

Draft for discussion

Key Challenges in the Current Delegation Framework

In reality, the current governance and delegation structure creates systemic frictions that limit SIB/RIO's agility, accountability, and resilience and increase costs and risks.

Category	Challenge	Impact
Governance	Line-item legislative control over RIO's budget by a Legislature that only meets biennially.	Restricts SIB/RIO's ability to respond swiftly to market shifts or resource needs.
Operational	As the fiduciary board, SIB bears fiduciary responsibility without full operational control. RIO must execute within legislative constraints that the SIB cannot change easily or quickly.	Blurs accountability; SIB has fiduciary responsibility but limited control over RIO's staffing and systems. This creates friction between fiduciary accountability and administrative dependence.
Complexity	Management of multiple fund types with differing beneficiaries and objectives (pension, sovereign wealth, insurance, stabilization).	Requires sophisticated risk, liquidity, and performance management infrastructure which is lacking.
Resources	Legislative constraints on pay, positions, legal advice, and systems.	Hinders competitive recruitment and retention of front, middle, and back-office staff, and modernizing systems. SIB/RIO does not have timely access to specialized legal counsel.
Autonomy	RIO is administratively linked to state budgeting and HR systems	Reduces flexibility compared to peers. SIB/RIO has the least autonomy of any peer in the Nation.
Coordination	Need for alignment among multiple funds, IPSs, and reporting cycles	Adds administrative burden, complicates rebalancing, and oversight. This is exacerbated by the lack of modern systems and the high reliance on manual processes, particularly as internal management is increasing.

Draft for discussion

Our report and recommendations are intended to identify and remedy the problem and not to assign blame. The Legislature has, in fact, consistently supported the SIB and RIO. However, RIO has not escalated its concerns about operational risk, choosing instead to do the best it can with the limited resources available. The environment has changed and will continue to change rapidly and profoundly. What worked in the past is no longer sufficient to address today's challenges and those of the future.

Increasing Operational Risk

A convergence of governance, organizational, operational, and systemic factors is accelerating the risk of an operational failure within the SIB and its operating arm, RIO. The organization's structural fragility has reached a critical inflection point as turnover, complexity, and legacy systems intersect with the rising demands of a complex portfolio, internal investment management and limited institutional capacity.

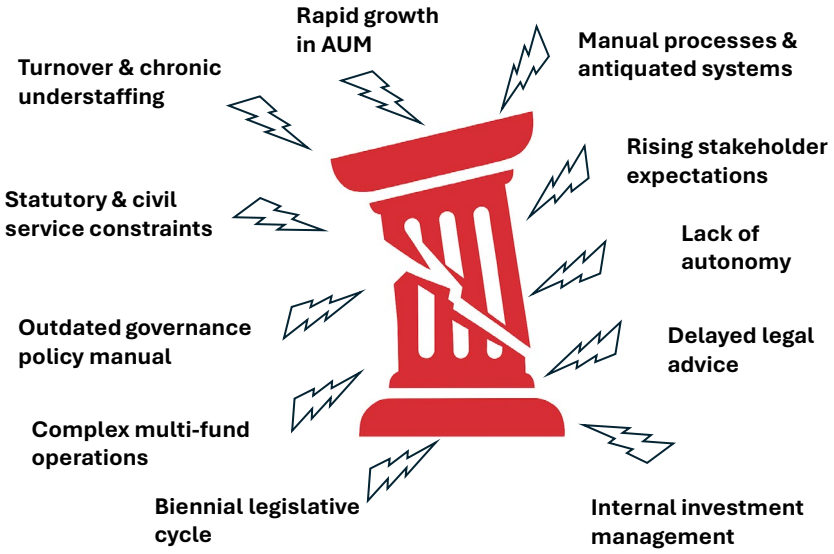
Without significant modernization of governance, staffing, systems, and delegated authority, SIB/RIO will remain structurally vulnerable. As assets grow and internal management expands, the likelihood of an operational disruption—or a reputational crisis arising from it—increases nonlinearly.

RIO has demonstrated strong commitment and performance despite structural constraints. However, the convergence of turnover, manual systems, increasing complexity, and the demands of internal management have created a fragile equilibrium that is unsustainable.

To protect long-term value and fiduciary credibility, SIB must modernize its governance, people, processes, systems, and governance—not incrementally, but comprehensively. The risk is not failure of judgment—it is failure of capacity in an environment where fiduciary responsibility continues to expand faster than the resources and authorities available to discharge it.

discussion

A Perfect Storm is Brewing



1. Cumulative Overload

Several compounding stressors are increasing organizational fragility:

- **Turnover and Understaffing:** Ongoing executive and staff turnover (70% have been in their job less than a year), unfilled positions (RIO to verify- x positions have been vacant more than y), and chronic understaffing (50% less than peers) due budgetary constraints have eroded institutional memory which is the tacit knowledge that anchors policy and operational continuity. This loss is particularly acute in an environment where key processes depend on individual expertise rather than documented, automated systems and creates a critical weakness in loss of institutional knowledge. Without this capacity, operational risks compound, eroding both resilience and the long-term intelligence and insights essential for managing complex investment systems. See Appendix 6: Staffing Metrics.

- **Manual and Antiquated Processes:** The organization continues to rely heavily on manual spreadsheets and legacy systems for data aggregation, reconciliation, and reporting. In such an environment, institutional memory itself becomes the "system of record." When that memory is lost, the system can fail. This dependency creates cumulative risk across investment accounting, performance reporting, compliance monitoring, and liquidity management. As of October 31, 2025, RIO was unable to close its books for July 2025. This has also prevented twenty-nine (~29) client funds from closing their books.

- **Internal Audit and Oversight Gaps:** Internal Audit remains under-resourced relative to the scope and risk of operations. Weaver's benchmarking shows a shortfall in expected audit hours and insufficient depth to execute the annual plan. This limits RIO's ability to independently test controls, assess compliance, and reassure the reliability of investment and operational reporting.

- **Delayed Legal Counsel:** Access to timely and specialized legal advice—particularly in time-sensitive specialized investment, governance and contracting matters—is constrained by reliance on the Attorney General's office. This introduces delays in policy interpretation, contract execution, and issue resolution, which compounds operational bottlenecks and has resulted in missed opportunities.

- **Multi-Fund Complexity:** SIB manages a uniquely diverse set of mandates—pension, insurance, sovereign wealth, and stabilization funds—each governed by distinct statutes, policies, liquidity needs, and performance objectives. Coordinating across these structures requires precision, speed, and system integration that exceed current staffing and infrastructure capacity. Add to this the complexities of internal management described below and the conditions for operational failure increase exponentially.

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Collectively, these conditions create a fragile organization in which small shocks—loss of a key person, an operational error, or a market event—could cascade across functions. The risk is not theoretical; it is structural and accelerating.

2. The Extraordinary Demands of Internal Investment Management

At the same time, RIO's evolving internal management model magnifies these vulnerabilities. RIO has already brought 15% of its portfolio ($3.5 billion) in-house with the goal of 50%. Moving from an outsourced or consultant-driven model to internal investment management is not a linear efficiency gain—it is a structural transformation that requires building the capabilities of an investment firm inside a government agency in advance and not on the fly.

Internal investment management is demanding because it requires the organization to be simultaneously the asset owner, asset manager, and regulator of itself—within a highly constrained budgetary and governance environment.

a. Accountability and Fiduciary Burden

- Every decision, trade, and policy deviation becomes the direct fiduciary responsibility of SIB and RIO staff.
- The Prudent Investor Standard requires a documented rationale for each action and deviation, subject to public and legislative scrutiny.
- Mistakes or delays, even when minor, can have reputational and political consequences that exceed their financial materiality.

b. Full Integration of Front-, Middle-, and Back-Office Functions

- Internal management requires a complete operational infrastructure—portfolio construction, trading, compliance, risk management, accounting, and performance attribution—integrated across systems and custodians.
- Each link must be both accurate and timely; a single point of failure can disrupt the entire chain.

c. Talent and Resource Constraints

- The skillsets required—portfolio managers, analysts, risk officers, and operations specialists—are scarce and expensive.
- RIO must compete with global markets for this expertise while operating under state pay bands, limited career progression, and slow hiring cycles.
- This creates key-person dependency and magnifies operational risk when staff turnover occurs.
- Until recently. SIB/RIO has not had succession plans for key positions.

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d. Data, Technology, and Analytical Demands

- Internal management requires real-time data, integrated analytics, and automated controls.
- Manual reconciliation and spreadsheet-based decision support are incompatible with the speed and precision required for modern investment management.
- Each trade and valuation must flow seamlessly into accounting, performance, and compliance systems—a level of data governance that current tools and staffing cannot provide.

e. Governance, Oversight, and Reporting Complexity

- Internal management multiplies governance workload: policy reviews, investment approvals, compliance certifications, and audit trails.
- The reporting cycle expands—daily exposure reporting, monthly reconciliations, quarterly performance attribution, and multiple committee reviews—each requiring accurate, verifiable data and documentation.

f. Multi-Fund Integration and Liquidity Coordination

- Managing internal portfolios across pension, insurance, and sovereign wealth mandates requires balancing risk, liquidity, and performance objectives across time horizons and legal constraints.
- Tactical rebalancing, cash management, and inter-fund transfers demand robust forecasting, coordination, and system integration.

g. Public Transparency and Political Oversight

- Unlike private asset managers, RIO operates under open records laws and biennial legislative appropriations.
- Every policy, contract, and performance report is a public document. This transparency, while vital, limits flexibility, slows innovation, and creates an environment of risk aversion that is difficult to reconcile with the needs of active portfolio management.
- The Legacy Fund (currently at about $13 billion AUM) affects every North Dakotan and has very high visibility. People are right to expect transparency and reliability of information but RIO's ability is impaired by lack of fiscal staff, modern systems and timely legal advice.

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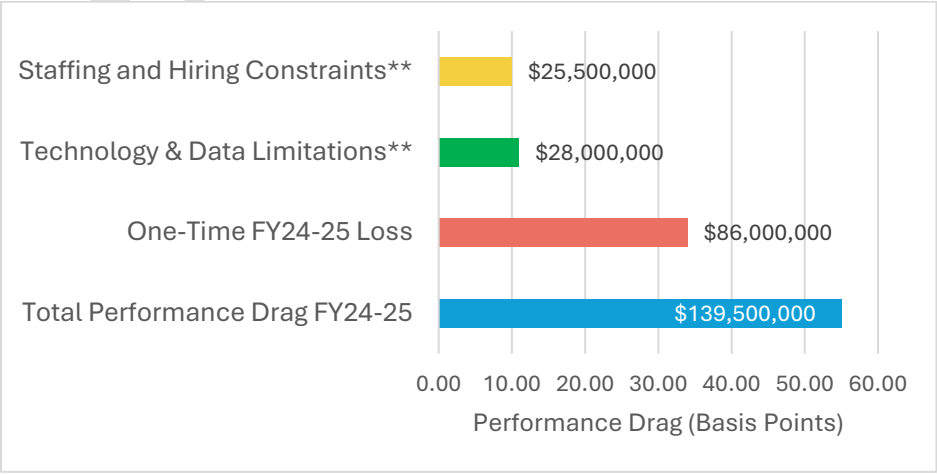
3. The Governance Implications: A Perfect Storm is Brewing

The combination of increasing operational fragility and expanding internal investment demands forms a self-reinforcing cycle of accelerating risk:

Pressure	Effect	Consequence
Turnover + chronic understaffing	Loss of continuity and control	Increased risk of error and loss of institutional memory, burnout, further turnover
Manual processes and antiquated systems	Delays, inaccurate, unreliable information, risks are obscured	Cumulative errors, rework, downstream impacts on client funds (can't close books timely)
Complex, multi-fund operations	Overload of finite staff and systems	Reduced timeliness and resilience
Under-resourced internal audit and legal	Weak reassurance and delayed mitigation, legal advice	Hidden or compounding compliance risks. Missed opportunities.
Expansion of internal management	Higher data, system, and control requirements	Exposure exceeds current infrastructure capabilities.
Statutory and civil service constraints	Limits on autonomy, pay, and agility	Growing gap between fiduciary duty and capacity
Rising stakeholder expectations	Confusion / Different expectations	Reputational harm, Loss of public trust
Complex governance	Lack of a timely, comprehensive view of RIO – enterprise-wide and enterprise-deep.	Inability to identify and respond to risk and thus being blindsided.

Increased costs and missed opportunities

Recent Example Performance Drags & Operational Risks (2024-2025)



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Conclusions

A 0.5% difference in annual returns results in an $8 trillion difference in terminal wealth after 100 years! RIO's executives and staff are making heroic efforts but it is not sustainable for a variety of reasons.

The SIB Program Manual (2024):

- Does not identify or explain powers reserved for the Legislature.
- Only makes incidental references to legislative appropriation limits.
- Operates conceptually as a closed two-tier governance system (Board → Executive) rather than a three-tier system (Legislature → Board → Executive).

This structural omission contributes directly to ambiguity in authority, delegation, and accountability. The current governance model—rooted in the Carver "Policy Governance" framework—is misaligned with the structure and statutory realities of a public fiduciary entity like the State Investment Board and the Retirement and Investment Office.

The Carver model provides conceptual clarity between board and management, but when applied in a public fiduciary context, it becomes rigid, incomplete, and counterproductive. It fails to reflect SIB/RIO's dual accountability—to beneficiaries under trust law and for the Legacy Fund, to the Legislature under public law. This exacerbates ambiguity, limits adaptability, and weakens governance coherence.

1. Built for Nonprofits, Not State Fiduciaries
Originally designed in the 1970s–80s for nonprofit and health boards, the Carver model presumes a single board–executive relationship and fails to recognize the sovereign legislative tier that governs public entities. It is too rigid, hierarchical, and incomplete for an organization subject to constitutional oversight, fiduciary duties, and statutory constraints.

2. Ignores Legislative Authority and Multi-Tier Oversight
Carver assumes the board holds full authority to delegate freely. In SIB/RIO's case, budgeting, staffing, and statutory powers remain under legislative control, creating a gap in the delegation chain. The absence of this tier in the model leads to ambiguity between fiduciary and administrative responsibilities and constrains organizational agility.

3. Overemphasis on Executive Limitations
Carver's reliance on "what not to do" statements results in negative, compliance-oriented policies that stifle initiative and create uncertainty about what is affirmatively authorized. This becomes especially problematic where explicit statutory authority is required for every action.

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4. Too Abstract, Non-Adaptive, and Outdated
Carver's theoretical focus on Ends and Means provides little operational guidance for modern, data-driven, multi-fund investment organizations. The model lacks mechanisms for integrating fiduciary oversight, audit, legal, and legislative coordination, or for fostering continuous learning and adaptive management in a complex, fast-evolving environment.

5. Compounds Ambiguity Rather than Resolving It
By omitting the Legislature's role as the ultimate source of authority, the Carver model mis-frames statutory controls as managerial interference instead of constitutional governance. This has resulted in under-delegation, administrative bottlenecks, and blurred accountability between fiduciary and political responsibilities.

The Cumulative Effect

Together, these factors have created a three-way ambiguity in North Dakota's investment governance structure:

- The Legislature's role as the creator, approver of budgets, and regulator is not captured in the policy framework.
- The Board's role as fiduciary decision-maker is conceptually strong but practically weak.
- The RIO's role as operating arm is defined mainly through prohibitions rather than positive authority.

Without a fully tiered governance model linking legislative, fiduciary, and operational powers, North Dakota's system functions precariously—relying on informal understandings rather than codified authority. These informal understandings depend greatly on continuity on the Board, the Executive and staff. Something which has been sorely lacking.

Recommendations

Our recommendations are designed to address these shortcomings beginning with restructuring, simplifying and creating a plain language version of the Program Manual. The objective is to transform it from a policy-governance manual to a modern public fiduciary governance framework fully aligned with fiduciary duties. We recommend the Governance Effectives Model (GEM) as an organizing framework

Addressing these challenges would help to:

- Anchor SIB/RIO governance in statutory authority and legislative accountability,
- Replace the rigid Carver structure with a tiered, adaptive public fiduciary model, and
- Strengthen clarity, transparency, and continuity across leadership and board transitions.

Draft for discussion

Recommendations for the Program Manual

1. **Add a Cornerstone Authorities Section**
    - Consolidate all governing statutes, constitutional provisions, and bylaws.
    - Include a visual authority map showing the hierarchy: from the Legislature to SIB to RIO.
2. **Define Powers Reserved to the Legislature**
    - Explicitly identify powers reserved for the Legislature and sister agencies (appropriations, staffing, procurement/contracting, legal counsel).
    - Clarify how these constraints shape SIB's fiduciary and operational authority.
3. **Reframe the Governance Structure**
    - Transition from a two-tier Carver model (Board to Executive) to a three-tier public fiduciary model (Legislature to Board to Executive).
    - Replace "Executive Limitations" with positive, risk-based Delegation and Accountability statements.
4. **Expand SIB/RIO's Purpose / Mission / Vision**
    - Retain the existing mission but add a Vision and Core Values aligned to legislative purpose, fiduciary duties and public stewardship.
5. **Map Vital Functions**
    - **Clarify Institutional Roles:** Add a new section defining how the SIB (fiduciary investment oversight), RIO (administrative and operational agency), TFFR Board (benefit governance), Legacy Fund Board (investment client) and PERS Board (investment client) interrelate under state statute.
    - **Depict Accountability:** Include an organizational chart or relationship matrix showing reporting and fiduciary lines among SIB, RIO leadership, TFFR, and PERS.
    - **Standardize Policy Language**: Revise the Ends and Board-Staff Relationship sections to consistently reference these entities, distinguishing between investment clients (e.g., PERS) and retirement programs administered by RIO (TFFR).
    - **Create an Enterprise Functions Matrix** covering Investments, Retirement Benefits, Audit, HR, IT, Finance, Risk, and Legal.
    - **Assign accountability and reporting relationships** for each function.
6. **Formalize Relationships and Communications**

Draft for discussion

- Establish a Legislative and Stakeholder Communications Policy and crisis communication protocol.
- Clarify engagement expectations with beneficiaries, agencies, and the public.
- Clarify that Board requests of staff should be coordinated through the Executive Director.

7. Reinforce Fiduciary Duties

- Require annual fiduciary training and attestation.
- Streamline onboarding and individualize continuing education. Establish minimum expectations given the SIB's predominantly lay composition.

8. Strengthen Oversight and Assurance

- Develop an exception-based Enterprise Dashboard with key performance and risk indicators covering all vital functions not just investment front-office.
- Introduce a Governance Assurance Map and an annual Assurance Statement to the Legislature to describe:
    a. What the SIB is responsible for (its fiduciary and statutory mandates),
    b. How it has assured itself that laws, policies, and internal controls are being followed, and
    c. Whether any material risks, control weaknesses, or non-compliance issues have been identified and how they are being managed or corrected.

9. Modernize the Policy Architecture

- Replace Carver "Ends/Means" format with GEM's Strategic → Management → Operational policy hierarchy.
- Define policy review cycles and cross-policy linkages.

10. Consolidate Delegations

- Create a single Delegations Matrix showing all Board-to-Executive and Executive-to-staff authorities, thresholds, and reporting cadences.

11. Institutionalize Continuous Improvement

- Keep the existing Board Self-Evaluation policy.
- Elevate Strategic Planning to a multi-year rolling plan aligned with legislative and fiduciary priorities.

12. Add a Comprehensive Glossary

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- Define statutory, fiduciary terms and acronyms consistently (e.g., “fiduciary,” “delegation,” “beneficiary,” “continuing appropriation,” “tracking error” AUM etc.).

Draft for discussion

4. Evaluate the reports to the Board and committees from staff and consultants.

Report Analysis

Based on NDSIB's board materials and minutes. We've synthesized key types of reports (monthly, quarterly, annual, actuarial, consultant) and assessed them against FAS' evaluation questions.

Below are examples of the reports we reviewed.

Report	Period
Monthly Financial Statements (Legacy Fund)	2021-2025
Monthly Performance Report (Legacy Fund)	2021-2025
Quarterly Consolidated Performance Reports (Verus)	2020-2025
Annual Actuarial Valuation Reports (GRS, Segal)	2020-2022
Asset-Liability Study	2020
Experience Study	2020
Fee Review (Callan)	2020, 2024
Annual Audit (Financial / GASB)	2024
RIO/SIB Factsheets	N/A

Draft for discussion

Legacy Fund IPS	2023

Evaluation Criteria

1. Are materials concise, prioritized, and decision-focused?
2. Are data reconciled, consistent, and free of errors?
3. Are materials delivered at least 7 days before meetings, with minimal late changes?
4. Do materials cover past, present, and forward-looking horizons?
5. Is raw data presented clearly and in a digestible form with benchmarks?
6. Is data synthesized into meaningful categories?
7. Does it provide intelligence on important changes?
8. Do materials provide insight into performance drivers, risks, and implications?
9. Do materials explicitly connect to IPSs, funding policy, or strategy?

Draft for discussion

Summary Conclusions: Reporting

1. **Conciseness & Decision-Focus**
    - Monthly packets (financials + performance) are data-heavy, with limited executive summaries or graphic visualization. See Appendix 5: Board Packet Quality Assessment.
    - Verus consolidated quarterly reports include clear attribution, peer benchmarks, and summaries but they are very long (150+ pages).
    - Actuarial reports prioritize statutory compliance and detailed modeling, are less decision-focused.

2. **Accuracy & Consistency**
    - Data appear to be reconciled consistently across financial statements, consultant reports, and actuarial materials (cross-checked).
    - No significant errors were noted; consistent benchmarking against IPS policy targets.

3. **Timeliness of Delivery**
    - Monthly materials are often received only a few days in advance, creating compression before board/committee meetings.
    - Annual actuarial, audit, and consultant reports are delivered ≥10 days in advance, with minimal late changes.

4. **Past, Present & Forward-Looking Horizons**
    - Performance reports are strong on past/present (returns, attribution) but weaker on forward-looking risks and strategy.
    - Asset-liability and actuarial studies provide forward-looking scenario intelligence.
    - IPS and ALM studies explicitly tie to strategy and funding policy.

5. **Raw Data vs. Synthesis**
    - Raw data is well-presented (clear tables, consistent benchmarks).
    - Synthesis varies: strong in consultant (Verus, Callan) reports, weaker in staff-prepared monthly packets although there have been some recent improvements.

6. **Intelligence on Changes**
    - Performance reports highlight performance drivers but do not typically call out “exceptions” (underperformance, risks) in decision-focused ways.
    - Actuarial and audit reports flag material changes clearly.

7. **Connection to IPS, Funding Policy, Strategy**
    - IPS references are explicit in actuarial valuations and asset-liability studies.
    - Four IPSs could not be found.
    - Monthly/quarterly investment packets do not always explicitly link performance to IPS compliance or long-horizon strategy.

Draft for discussion

Recommendations for Reporting Improvement

1. **Adopt Executive Summary Dashboards** – Add 1-2 page decision-focused summaries with key insights, performance risks, and action items. Include Strategic Policy Options as needed. Use visualization to summarize large amounts of tabular data and information.

2. **Require Exception-Based Reporting** – Establish thresholds and use red-yellow-green dashboards to flag for example, deviations from benchmarks, IPS breaches, or material risks or (blue) outstanding performance.

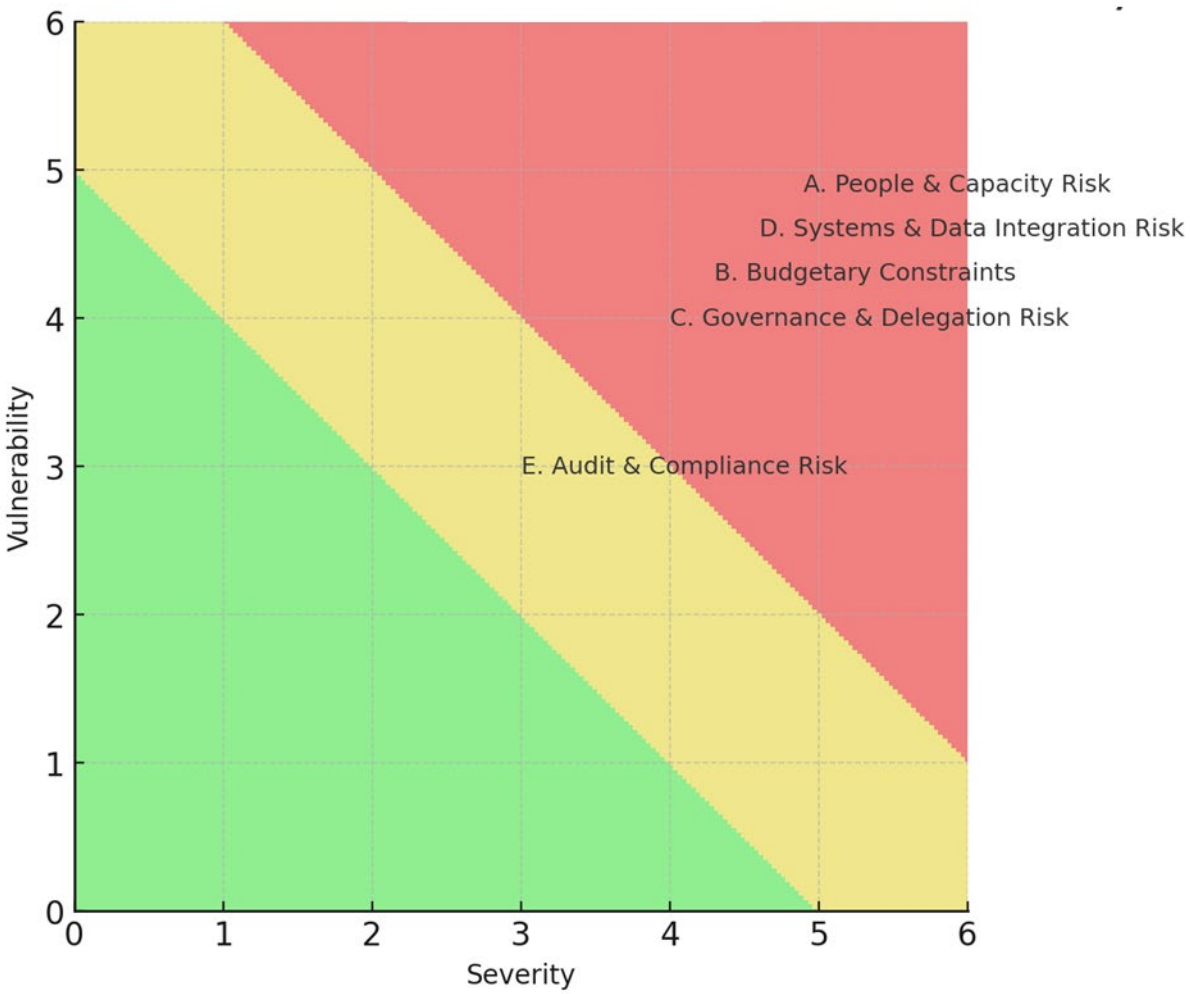
3. **Advance Delivery** – Standardize 7-day minimum distribution; restrict late changes except for material events.

4. **Explicit IPS/Funding Policy References** – Tie all investment (actual vs. expected) performance and actuarial updates explicitly back to policy expectations.

5. **Reduce Volume** – Encourage staff and consultants to provide both long-form and trustee-ready "board book" versions. Reduce time spent on presenting materials and more time on dialogue.

Draft for discussion

5. Governance Risk Heat Map — Key Vulnerabilities and Oversight Priorities



Risk Descriptions

Risk Category	Vulnerability Level	Severity	Oversight Priority (1–5)
A. People & Capacity Risk	**Very High** AUM/FTE 2–3 times less than peer median; high executive and staff turnover (e.g., ED, CFO/COO, CRO, Head of Retirement). 70% in job less than 1 year.	**Very High** Institutional fragility; loss of continuity; loss of institutional memory; burnout; diminished resilience to shocks.	**1**
B. Budgetary Constraints	**Very High** Biennial appropriations restrict staffing and system investments; limited incentive authority.	**Very High** Talent loss; inability to plan multi-year capacity build-out; antiquated systems, constrained fiduciary agility.	**1**
C. Governance & Delegation Risk	**High** Carver-style "executive limitations" model obscures Legislature's sovereign role and limits operational delegation; multiple client fund policies and authorities add complexity and reduce fiduciary control.	**High** Ambiguity in accountability; slow decisions; policy inconsistency across funds.	**2**
D. Systems & Data Integration Risk	**High** Aladdin OEMS is operational but manual reconciliation persists; incomplete data warehouse integration; reporting dependent on very small internal team.	**High** Risk of data inconsistency, rework, and control failures undermining front-office independence and internal management capabilities.	2
E. Audit & Compliance Risk	**Medium** Two Internal Audit FTEs cover pension and investment; reliance on Weaver co-sourcing; expanding internal management oversight burden.	**Medium** Limited audit coverage; failure to resolve compliance breaches, operational risk not escalated timely.	2

Risk Interdependency Matrix

Root Cause	Amplifying Effect on Other Risks
Statutory constraint	Multiplies governance and staffing fragility.
Lean staffing	Reduces middle and back-office capabilities, limits internal audit coverage and system integration quality.
Fragmented fund governance	Inhibits consolidated risk overview and fiduciary effectiveness and efficiency.
Manual processes	Heightens compliance and data risk exposure.
Leadership turnover	Erodes institutional memory and strategic continuity.

Summary of Operational Risk Landscape

Dimension	Strength	Weakness / Vulnerability	Reference
Cost efficiency	Top-decile (26 bps vs. 52 bps peer median)	Under-resourced relative to scale and complexity.	CEM Benchmarking (2021)
Governance structure	Committee framework well defined	Delegation authority unclear under Carver model.	Governance Manual II.B–E
Technology modernization	Aladdin OEMS live	Integration incomplete; manual data workarounds.	CIO Update Apr 2025
Staffing depth	High productivity	Capacity and succession risks.	SIB Minutes Mar 2025
Audit & risk control	Formal framework established	Staffing well below minimum for scale.	Audit Charter
Strategic alignment	Long-horizon focus emerging	Fragmented governance among client funds.	GPR Committee Update

Governance Priority Criteria

Oversight Priorities	Primary Drivers	Oversight Action
1 Critical (Immediate)	Capacity, Legislative, Delegation	Legislative engagement; workforce and delegation redesign; policy manual overhaul.
2 Necessary (12–18 months)	Systems integration, Audit coverage	Strengthen internal audit plan, data governance, and exception-based risk dashboards.
3 Important (Continuous)	Cost efficiency, Investment oversight	Maintain top-decile efficiency while reinvesting in risk control and analytics.

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6. Recommended Governance Review Process

Purpose

To establish a continuous, structured, and evidence-based governance assessment cycle that assures alignment between fiduciary intent, statutory authority, delegation clarity, and operational capability—consistent with prevailing peer practices.

A. Annual Governance Review Cycle (GEM Framework)

Phase	Timing	Deliverables / Activities	Primary Responsibility
1. Governance Self-Assessment	**Q1 each year**	Board and Committee surveys using GEM dimensions (Conduct, Set, Approve/Delegate, Oversee and Verify).	Governance & Policy Review Committee (GPRC) with external facilitator.
2. Policy and Delegation Audit	**Q2**	Review of all SIB and RIO policies and charters for alignment with statutes, legislative authority, and management accountabilities.	Internal Audit + Legal Counsel.
3. Board Effectiveness & Skills Matrix Update	**Q2–Q3**	Assess board composition, fiduciary competencies, and training needs.	Board Chair & external facilitator.
4. Strategic Governance Effectiveness Workshop	**Q3**	Review of mission, vision, fiduciary duties, and legislative relationships. Update 3-year governance roadmap.	SIB + Legislative observers + Executive Director with external facilitator.
5. Assurance Statement to Legislature	**Q4**	Provide annual Assurance Statement summarizing governance, risk, and performance integrity.	SIB Chair+ Executive Director; delivered to Legislature.
6. Independent Peer Benchmarking Review (Biennial)	**Every 2 years**	External comparison vs. peers. Assess progress on implementation of governance recommendations. Scope covers autonomy, delegation, resourcing, and governance maturity.	Independent Consultant delivered to SIB and Legislature

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B. Governance Review Principles (Leading Practice)

1. **Three-Tier Accountability Model**
    - Legislature (sovereign authority) → SIB (fiduciary board) → RIO (executive and operational arm).
    - Explicit mapping of powers reserved, delegated, and executed.
2. **Board Performance and Self-Evaluation**
    - Annual governance self-assessment with independent facilitation every 2 years.
    - Benchmark governance maturity using GEM® or similar frameworks.
3. **Policy Hierarchy and Delegation Registry**
    - Maintain a master delegation registry linking legislative authority, board policies, and executive procedures.
    - Annual validation of decision rights.
4. **Integrated Assurance Framework**
    - Combine internal audit, risk management, compliance, and external assurance into a single "Four Lines" reporting model.
    - Provide an annual assurance statement to Legislature confirming fiduciary and operational integrity.
5. **Board Education and Succession Planning**
    - Annual fiduciary education calendar; leadership succession plan reviewed and approved by the Board.
    - Overhaul onboarding and individualize continuing education.
6. **Governance Transparency**
    - Publish governance scorecard (public report) on delegation, compliance, and performance risk indicators.
    - Align with leading state fiduciary boards' public disclosure standards.

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C. Implementation Roadmap (2025–2027)

Year	Focus Area	Milestone Deliverables
2025	Clarify Governance Framework	Revise Program Manual; adopt GEM Governance Principles; define delegation registry.
2026	Build Assurance Infrastructure	Expand Internal Audit to 4 FTE; formalize integrated risk dashboard; deliver first Assurance Statement to Legislature.
2027	Embed Continuous Improvement	Conduct first biennial peer governance review; publish Board Governance Effectiveness Report.

Review Recommendations

ND SIB should transition from a compliance-centric, Carver-based model to a governance-integrated, assurance-driven framework (GEM**)** that:

- Clarifies legislative–board–executive accountability;
- Establishes a formal, recurring governance review process;
- Strengthens operational capacity and audit assurance;
- Enables sustainable, scalable fiduciary oversight as AUM and complexity grow.

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Appendices

Appendix 1: Example Board Agenda based on Powers Reserved

a. Conduct Business – Call to order, roll call, adopt minutes, consent agenda

b. Set Policy – Discuss all matters requiring Board policy decisions while trustees are fresh. Use a structured format for the informed discussion of policy. See Strategic Policy Options below.

c. Approve key decisions – Review committee and staff recommendations and related due diligence. Delegate accountability authority and resources.

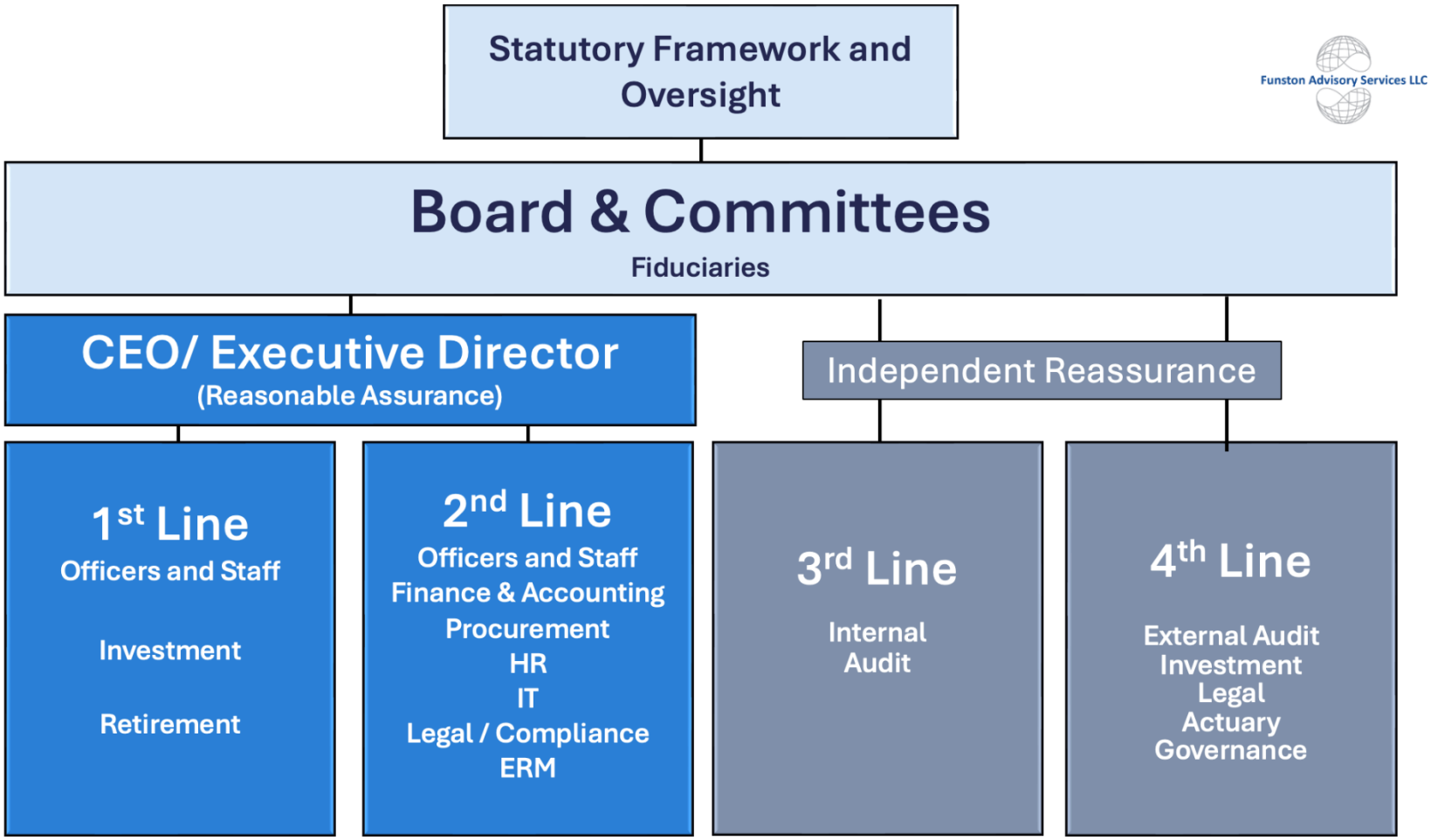
d. Oversee- Review exception-based reports and determine if there are policy implications or management actions required.

e. Verify the reliability of information and advice based on reports from internal audit and independent third parties.

f. Conduct business – Set next meeting and adjourn.

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Appendix 2: Lines Model of Assurance and Reassurance



Appendix 3: Investment Board Composition Comparisons

Type	DB/DC AUM $ Bil[1]	Board Seats	Composition				Voting	Non-Voting
Trustee-Only Boards			Ex Officio (Legislators/ Executive)	Appointed	Experts	Active/ Retired Members		
State of Wisconsin Investment Board	$150	9	1	8	8	2	9	
State of Michigan Investment Board	$127	5	2	3	3		5	
Oregon Investment Council	$105	6	2	4	4		5	1[2]
New Jersey State Investment Council	$81	16		16	7	2	16	
South Carolina RSIC.	$58	17	1	7	7	2	7	1[2]
Illinois State Board of Investment	$33	9	4	5	2[3]	3[3]	9	
North Dakota State Investment Board	$26	13	7	5	2			
Nebraska Investment Council	$25	7	2	5	5		5	2[4]
West Virginia Investment Management Board	$22	13	3	10	10		13	
Montana Board of Investments	$16	11	2	9	3	2	9	2[5]
South Dakota Investment Council	$16	8	3	5	5		8	
Rhode Island State Investment Commission	$14	10	3	7	6	1	10	1[2]

[1/] Based upon Pensions & Investments data for DB and DC assets from February 10, 2025 issue –updated for North Dakota 10/10/2025
[2/] Non-voting member is the Executive Director of the retirement agency
[3/] Number of members and experts for ISBI are not specified in statute
[4/] Non-voting members are the Executive Director of the retirement agency and the State Treasurer
[5/] Non-voting members are legislative liaisons, a State Representative and a State Senator
[6/] Mass PRIM has 22 advisory experts who serve on committees and vote

Appendix 4: Complexity vs. Autonomy of State Investment Boards

State / Entity	Governance Model	Funds Managed	Budget & Staffing Control	Delegation of Investment Authority	Relative Autonomy	Complexity of Mandate
North Dakota SIB / RIO	*Hybrid fiduciary board + state agency* SIB is fiduciary; RIO is administrative agency subject to legislative control	Pensions, Legacy Fund (sovereign wealth), Insurance Trust, Budget Stabilization, Retiree Health	Legislature controls line-by-line budget, staffing, and pay levels	Limited; SIB delegates to ED/CIO, but RIO operates within state personnel and procurement rules	**Very Low** – constrained by legislative process and state HR systems	**Very High** – multiple fund types, liquidity horizons, and legal regimes, internal management
Washington SIB (WSIB)	*Independent fiduciary board*	Pensions, industrial insurance, public trusts	Independent budget; salaries approved by Board, not legislature	Full delegation to CIO and internal investment staff	**Very High** – operationally independent	**High** – multiple fund types but integrated under one governance structure
Wisconsin SWIB	*Independent public corporation*	Pension and state investment fund (cash, agency accounts)	Board-approved budget, exempt from state civil service; self-funded via AUM fees	Full delegation to ED/CIO; internal management of ~50% of assets	**High** – corporatized governance model	**High** – dual fund management but uniform fiduciary framework. 50% internal management.
South Dakota Investment Council (SDIC)	*Independent council under Treasury oversight*	Pension, trust, and reserves	Self-funded, independent pay plan authorized by statute	Full authority delegated to State Investment Officer	**High** – long-term independence codified in law	**Moderate** – fewer fund types, simpler liquidity mix
Oregon State Treasury / OPERF	*Hybrid Treasury model with a fiduciary board*	Pensions, insurance, state funds	Legislative oversight of Treasury, but Investment Council	Delegated to OST staff under Council policy	**Moderate** – shared between Treasurer and Council	**High** – broad fund scope, internal management, policy independence

State / Entity	Governance Model	Funds Managed	Budget & Staffing Control	Delegation of Investment Authority	Relative Autonomy	Complexity of Mandate
			independent on policy			
Montana Board of Investments	*Statutory fiduciary board housed in Dept. of Commerce*	Pensions, trust, state funds	Department-approved budget; limited staff flexibility	Moderate delegation; internal management of fixed income	**Moderate** – partially autonomous	**Moderate** – mixed internal / external management
Alaska Permanent Fund Corp.	*Public corporation*	Sovereign wealth only	Self-funded, independent HR and procurement	Full delegation to CEO/CIO; independent board	**Very High**	**Low-Moderate** – single fund, SWF only

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Appendix 5: Board Packet Quality Assessment Report

Name of Report	Type	Avg. Size (# pages)	Days Before Meeting	Frequency	Exception-Based Reporting (Y/N)	Overall Quality Score
Monthly Financial Statements (Legacy Fund)	Investment / Risk	15–20	5–7	Monthly	**N**	**Medium-High**
Monthly Performance Report (Legacy Fund)	Investment	15–25	5–7	Monthly	**N**	**Medium**
Quarterly Consolidated Performance Reports (Verus)	Investment / Risk	150–250	7–10	Quarterly	**Partial Y (attribution, but not framed as exceptions)**	**High**
Annual Actuarial Valuation Reports (GRS, Segal)	Risk / Funding Policy	150–300	≥10	Annual	**N**	**High**
Asset-Liability Study	Strategy / Risk	~50–100	≥10	Every 3–5 years	**N**	**High**
Experience Study (2020)	Actuarial	~40–50	≥10	Every 5 years	**N**	**Medium-High**
Fee Review (Callan, 2020, 2024)	Operations / Oversight	~40–50	≥10	Every 3–5 years	**N**	**Medium**
Annual Audit (Financial / GASB)	Risk / Compliance	~70–120	≥10	Annual	**Y (management letter exceptions)**	**High**
RIO/SIB Factsheets	Summary / Stakeholder	2–5	Variable	Annual / Ad hoc	**N**	**Medium**
Legacy Fund IPS (2023)	Policy / Strategy	~30–40	≥10	As updated	**N**	**High**

1/ Board does not delegate manager selection

1/ Board does not delegate manager selection

Appendix 6: Staffing Metrics

Metric	NDSIB	Peer Median (U.S. Public Funds)	Commentary
AUM (2025)	**~$26 billion**	—	Includes Legacy Fund, PERS, TFFR, WSI, Insurance, and other client funds.
Total Staff (FTE)	**~27** (investment only)	90–120	Among the leanest peer funds by staff per AUM.
Investment Division (FTE)	**~10–14**	45–70	Minimal internal investment staffing; internal management just beginning.
AUM per FTE (Total)	**$650–740 million per FTE**	$250–350 million per FTE	Roughly **2–3x leaner** than peer median.
AUM per Investment FTE	**~$2.0–2.5 billion per investment staff**	$800M–$1.2B	Significantly leaner; indicative of capacity constraint particularly as in-house management scales.
Internal vs. External Management	**15% internal (goal to expand)**	40–50% internal typical for peers	Large reliance on external managers and higher costs.
Operating Budget (Biennium 2023–2025)	**$18.8M adjusted**	—	Includes PAS system modernization, Aladdin rollout, and internal trading pilot.

Citations:

- *CEM FTE Benchmarking Template 2021 – North Dakota* (Cost Effectiveness data)
- *Governance Manual (2024 update)*
- *SIB and committee minutes (March–April 2025)*
- Verus and Weaver reports (2024-2025)

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