

**Investment Committee**  
**Friday, December 13, 2024, 9:00 a.m.**  
**Virtual Only**  
[Click here to join the meeting](#)

**AGENDA**

- I. CALL TO ORDER AND ACCEPTANCE OF AGENDA – *(Committee Action)***
- II. ACCEPTANCE OF MINUTES (November 8, 2024) – *(Committee Action)***
- III. MANAGER RECOMMENDATION (60 minutes) – *(Committee Action)***
  - A. In-State Legacy Fund<sup>1</sup> – *Mr. Kevan and Mr. Francis, RVK*
  - B. Public Markets<sup>2</sup> – *Mr. Dukart and Mr. Posch*
- IV. TRANSITION UPDATE<sup>2</sup> (30 minutes) – *(Committee Action)***
  - A. Public Markets – *Mr. Chin*
  - B. Fixed Income – *Mr. Chin and Mr. Gandhi*
- (Break)
- V. INVESTMENT GUIDELINES (30 minutes) – *(Committee Action)***
  - A. Internal Investing – *Mr. Anderson, Mr. Gandhi, and Mr. Moss*
  - B. Investment Data for Compliance<sup>2</sup> – *Mr. Anderson*
- VI. INVESTMENT POLICY STATEMENTS (15 minutes) – *(Committee Action)***
  - A. Workforce Safety and Insurance – Update – *Mr. Chin*
- VII. DISCUSSION**
- VIII. ADJOURNMENT**

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<sup>1</sup> Executive Session pursuant to N.D.C.C. 44-04-19.2, 44-04-18.4 (2)(a) and N.D.C.C. 44-04-18.4(2)(d) to review and discuss confidential commercial information and trade secrets.

<sup>2</sup> Executive Session pursuant to N.D.C.C. 44-04-19.2, 44-04-18.4 (2)(a) and N.D.C.C. 44-04-18.4(2)(d) to review and discuss confidential commercial information and trade secrets.

**STATE INVESTMENT BOARD  
INVESTMENT COMMITTEE MEETING  
MINUTES OF THE  
NOVEMBER 8, 2024, MEETING**

**MEMBERS PRESENT:** Thomas Beadle, State Treasurer, Chair  
Joseph Heringer, Trust Lands Commissioner, Vice Chair  
Scott Anderson, Chief Investment Officer  
Eric Chin, Deputy Chief Investment Officer  
Pete Jahner, External Representative  
Dr. Prodosh Simlai, External Representative

**STAFF PRESENT:** Derek Dukart, Senior Investment Analyst  
Jennifer Ferderer, Fiscal Investment Admin  
Chirag Gandhi, Portfolio Manager  
Rachel Kmetz, Fiscal and Investment Operations Manager  
Robbie Morey, Investment Accountant  
George Moss, Portfolio Manager  
Sarah Mudder, Communications and Outreach Director  
Janilyn Murtha, Executive Director  
Matt Posch, Portfolio Manager  
Emmalee Riegler, Procurement/Records Mgmt. Coordinator  
Ryan Skor, Chief Financial Officer/Chief Operating Officer  
Susan Walcker, Senior Financial Accountant  
Jason Yu, Risk Analyst  
Lance Zietlow, Portfolio Manager

**GUESTS:** Members of the public

**CALL TO ORDER**

Treasurer Beadle called the State Investment Board (SIB) Investment Committee (IC) meeting to order at 9:01 a.m. on Friday, November 8, 2024. The meeting was held virtually.

**The following members were present representing a quorum: Mr. Anderson, Treasurer Beadle, Mr. Chin, Commissioner Heringer, Mr. Jahner, and Dr. Simlai.**

**AGENDA**

The agenda was considered for the November 8, 2024, meeting.

**IT WAS MOVED BY COMMISSIONER HERINGER AND SECONDED BY MR. CHIN AND CARRIED BY A VOICE VOTE TO APPROVE THE AGENDA FOR THE NOVEMBER 8, 2024, MEETING AS DISTRIBUTED.**

**AYES: MR. ANDERSON, MR. CHIN, COMMISSIONER HERINGER, MR. JAHNER, DR. SIMLAI, AND TREASURER BEADLE**

**NAYS: NONE**

**MOTION CARRIED**

## **MINUTES**

The minutes were considered for the October 17, 2024, meeting.

**IT WAS MOVED BY DR. SIMLAI AND SECONDED BY MR. ANDERSON AND CARRIED BY A VOICE VOTE TO APPROVE THE MINUTES FOR THE OCTOBER 17, 2024, MEETING AS DISTRIBUTED.**

**AYES: MR. ANDERSON, MR. CHIN, COMMISSIONER HERINGER, MR. JAHNER, DR. SIMLAI, AND TREASURER BEADLE**

**NAYS: NONE**

**MOTION CARRIED**

## **STRATEGY REVIEW**

Mr. Anderson provided an overview of the Internal Investing Strategy, including the summary of initial opportunities, objectives and strategies, and core investment framework.

Mr. Moss presented information regarding integrated index fund management and an update on the Order and Execution Management System, noting we are on track to go live in 2025. Mr. Moss talked about trading agreements and platforms and Weaver's assistance in maintaining compliance. To wrap up, Mr. Moss reviewed with the committee the proposed overlay guidelines that they will see in an upcoming IC meeting.

Mr. Gandhi finished up the strategy review presentation by providing information on overlay cash with futures and rebalancing efforts with futures.

Committee discussion followed.

The Committee recessed at 10:21 a.m. and reconvened at 10:28 a.m.

## **MANAGER UPDATE**

Mr. Zietlow provided a private markets manager update. Carlyle Realty Partners, LP was onboarded with a \$100 million commitment (\$40 million Pension Pool, \$60 million Legacy Fund).

## **CONSULTANT UPDATES**

Mr. Anderson reviewed the requirement for a cost benefit analysis for measures affecting the Legacy Fund. The analysis must be prepared by an independent consultant. RVK is familiar with the Legacy Fund through their work on the asset allocation, making RVK uniquely qualified for this effort.

**IT WAS MOVED BY MR. JAHNER AND SECONDED BY MR. CHIN AND CARRIED BY A ROLL CALL VOTE APPROVE ONBOARDING RVK AS THE COST BENEFIT ANALYSIS CONSULTANT.**

**AYES: DR. SIMLAI, MR. CHIN, COMMISSIONER HERINGER, MR. JAHNER, MR. ANDERSON AND TREASURER BEADLE**

**NAYS: NONE**

**MOTION CARRIED**

Mr. Anderson provided commentary on the work quality of the performance consultant, noting the untimeliness of the performance data due to the transfer of data from the previous to the current consultant.

### **CONFIDENTIALITY REVIEW SAAG REQUEST**

Ms. Murtha discussed the need to have a proactive approval request for SAAG status for the potential need of an external legal firm to review confidential materials.

**IT WAS MOVED BY COMMISSIONER HERINGER AND SECONDED BY MR. ANDERSON AND CARRIED BY A ROLL CALL VOTE APPROVE THE EXPANDED SAAG REQUEST FOR INVESTMENT MANAGEMENT AGREEMENTS.**

**AYES: MR. JAHNER, MR. CHIN, MR. ANDERSON, DR. SIMLAI, COMMISSIONER HERINGER, AND TREASURER BEADLE  
NAYS: NONE  
MOTION CARRIED**

### **QUARTERLY REPORTS**

Mr. Anderson provided an update on the investment service contracts he has signed since policy inception through quarter 3 of 2024. The report included vendor names, execution dates, descriptions, and costs of the contracts signed. Committee discussion followed.

### **DISCUSSION**

The Committee discussed the passing of ND Measure 3, the Legacy Fund Transfers Amendment, highlighting the reduction of the liquidity risk of the Legacy Fund. Mr. Anderson noted the potential for an updated asset allocation.

The passing of Measure 3 reduces the amount of principle that can be spent per biennium by the Legislature. The original provision in the Constitution was that every biennium, with 2/3 vote of the Legislature, up to 15% of the principle on the Legacy Fund could be essentially called or spent by the Legislature. Now, with the passing of Measure 3, the amount was reduced to 5%.

### **ADJOURNMENT**

With no further business to come before the Investment Committee, Treasurer Beadle adjourned the meeting at 11:26 a.m.

Prepared by:

Jennifer Ferderer, Assistant to the Board

Confidential materials will be sent separately to  
Committee members via secure link.

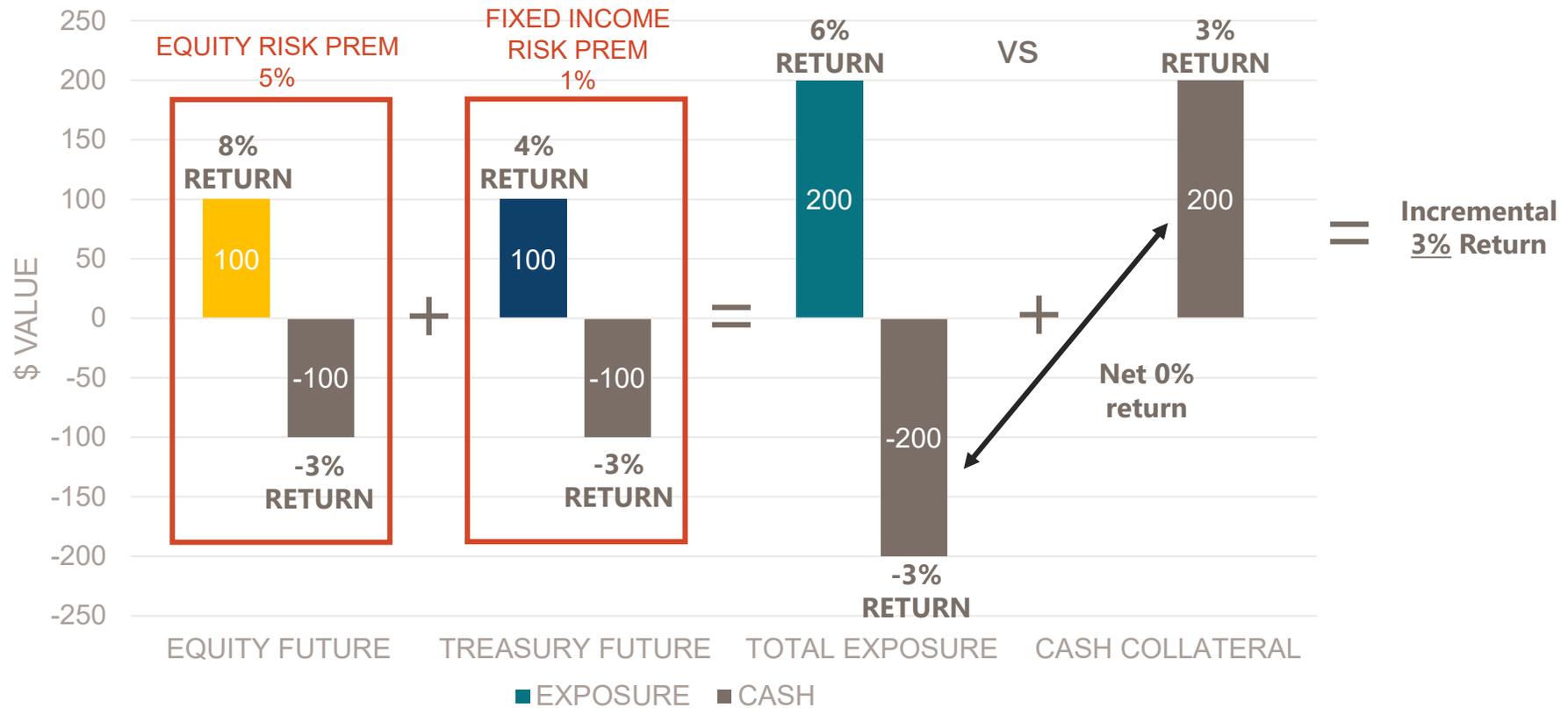
# CASH OVERLAY STRATEGY

Chirag Gandhi, CFA – Portfolio Manager, Internal Fixed Income  
George Moss – Portfolio Manager, Internal Equity  
December 13, 2024

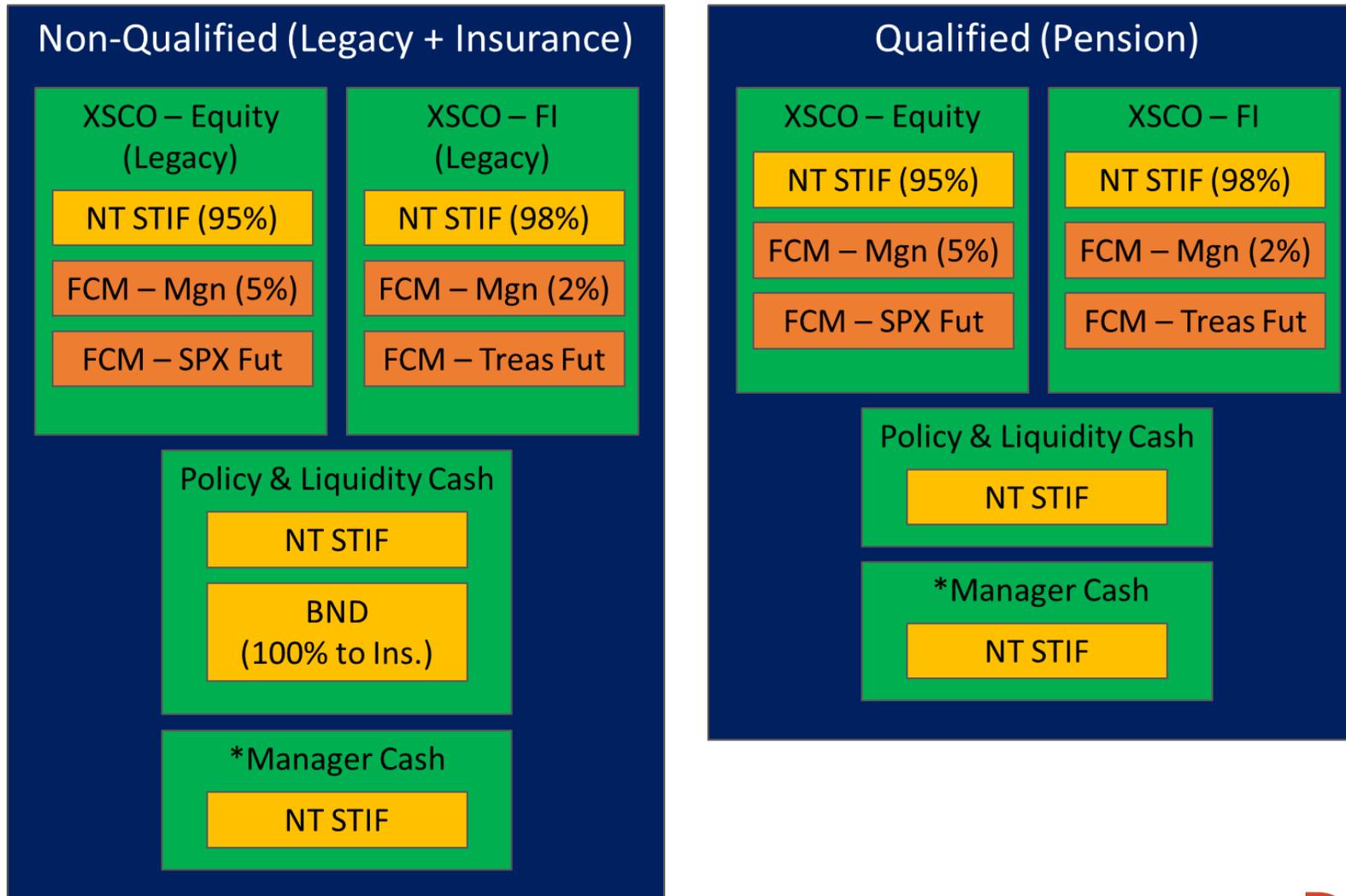
NORTH  
**Dakota**  
Be Legendary.

Retirement & Investment

# OVERLAY CASH WITH FUTURES



# ILLUSTRATIVE CASH OVERLAY STRUCTURE



# PROPOSED CASH OVERLAY GUIDELINES

- Goal is to maintain the liquidity of the excess cash while investing it in a manner that more closely approximates the overall policy targets to equity and fixed income...reduce cash “drag”
- Excess Cash: frictional cash that is not part of a policy allocation (e.g. TFFR has a 1% policy target)
- Primarily utilize U.S. Treasury and S&P 500 futures that are fully collateralized (i.e. NO leverage)
- Target Allocations & Rebalancing Ranges:
  - Equity: 60% target, 55%-65% range
  - Fixed Income: 40% target, 35%-45% range
- Leverage is explicitly prohibited and must be corrected by the end of any month in which it occurs (may occur when there is a large net distribution)
- Seeking approval by the Investment Committee for the attached guidelines

## Cash Overlay Portfolio Guidelines

Investment objective: Gain market exposure to U.S. Fixed Income and U.S. Equity risk premiums to reduce tracking error and misalignment versus the Policy Allocation.

- 1) The overlay portfolio permitted investment instruments:
  - a) Exchange traded futures for exposure to U.S. Treasuries and U.S. Equity Markets
  - b) Forwards and Total Return SWAPS related to U.S. Treasuries and U.S. Equity Markets
  - c) U.S. Treasury and U.S. Equity index related ETFs
  - d) U.S. Treasury securities.
- 2) The use of the above instruments will require liquidity for collateral and margin requirements. The cash in the overlay accounts will be allocated to the client funds, and cash will be swept as needed from client funds for collateral and maintenance of the positions.
- 3) The target asset allocation: 60% S&P 500 index with range of 55% to 65% and 40% Bloomberg U.S. Treasury Index with range of 35% to 45%. Exception: the earnings held for transfer to the State's General Fund in accordance with North Dakota Century Code 21-10-12 may deviate from the target.
- 4) Rebalancing of the overlay portfolios to target will be done in accordance with SIB's rebalancing policy. Rebalancing is intended to maintain the target of 60/40 and not for speculative positioning away from the target.
- 5) The Overlay Portfolios are not permitted to have inter-month notional leverage and are intended to be fully collateralized. Notional exposure is targeted to stay below the client cash relative to the Policy Allocation of cash, and any deviation at or above 105% of the cash balance must be rebalanced by month end back to 100% or less.

# **WORKFORCE SAFETY & INSURANCE**

## **INVESTMENT POLICY STATEMENT**

### **1. PLAN CHARACTERISTICS AND FUND CONSTRAINTS.**

North Dakota Workforce Safety & Insurance (WSI) is an exclusive state workers' compensation fund (Fund), which exists for the mutual benefit of North Dakota employers and employees. The assets of the Fund are utilized to pay benefits to injured workers or their survivors.

Section 65-04-01 of the North Dakota Century Code requires WSI to establish premium rates for funding sufficiently high to provide for:

1. The payment of the expenses of administration of the organization,
2. The payment of compensation according to the provisions and schedules contained in this title, and
3. The maintenance by the Fund of adequate reserves and surplus to the end that it may be kept at all times in an entirely solvent condition.

### **2. RESPONSIBILITIES AND DISCRETION OF THE STATE INVESTMENT BOARD (SIB).**

The governing body of WSI is charged by law under NDCC 21-10-02.1 with the responsibility of establishing policies on investment goals and asset allocation of the Fund. WSI fulfills this responsibility through its Board of Directors, under the oversight and approval of the Governor. The SIB is charged with implementing these policies and asset allocation and investing the assets of the Fund in a manner consistent with the prudent investor rule as provided in NDCC 21-10-07. The Fund must be invested exclusively for the benefit of the members and their beneficiaries in accordance with this investment policy.

At the discretion of the SIB, the Fund's assets may be pooled with other funds. In pooling funds, the SIB may establish whatever asset class pools it deems necessary with specific quality, diversification, restrictions, and performance objectives appropriate to the prudent investor rule and the objectives of the funds participating in the pools.

The SIB may delegate investment responsibility to professional money managers. Where a money manager has been retained, the SIB's role in determining investment strategy and security selection is supervisory not advisory.

The SIB is responsible for establishing criteria, procedures, and making decisions with respect to hiring, keeping, and terminating money managers. SIB investment responsibility also includes selecting performance measurement services, consultants, report formats, and frequency of meetings with managers.

The SIB will implement changes to this policy as promptly as is prudent.

### **3. INVESTMENT OBJECTIVES.**

The investment goal of WSI is to supplement premiums, through various investments, to accomplish its statutory obligations.

The following investment objectives are established as of the date adopted and are in keeping with the fiduciary requirements as set forth in federal and state law and as expected by the members. WSI expects to receive results from the SIB that are consistent with the policies included herein. These objectives and guidelines will provide a basis for evaluating the effectiveness of the investment program over time. It is clearly understood these objectives and standards are to be viewed over the long term and have been established after full consideration of all factors set out in the Statement of Investment Policy.

The operating and liquidity needs of WSI are generally to be met by the cash equivalents allocation.

Funds in excess of those required for operating and liquidity needs will be invested in domestic equity, international equity, real estate and fixed income securities. The objective of these assets is to obtain the maximum total return on investments consistent with safety of principal on funds in excess of those required for operating and liquidity needs.

### **4. STANDARDS OF INVESTMENT PERFORMANCE.**

The Fund's investment objectives and characteristics give rise to an asset allocation that is considered to have greater than a 50% probability of achieving the results desired. For evaluation purposes, the following performance targets will apply:

- a. The rate of return, net of fees and expenses, should at least match that of the policy portfolio, over a minimum evaluation period of five years.
- b. Risk, as measured by the annual standard deviation of net returns for the Fund, should not exceed that of the policy portfolio by more than 100 basis points over a minimum evaluation period of five years.
- c. Risk adjusted excess returns of the Fund, net of fees and expenses, should match or exceed the policy benchmark over a minimum evaluation period of five years.

### **5. POLICY AND GUIDELINES**

The asset allocation policy developed herein is based on an evaluation of WSI's ability and willingness to assume investment risk in light of WSI's financial goals and objectives. In recognition of these goals and objectives, coupled with a liability-sensitive asset allocation study conducted by Callan Associates in February of 2022, the following asset allocation is deemed appropriate for WSI. The portfolio mix shall be in accordance with the following asset allocation and periodically reviewed by WSI.

<b>Global Equity</b>		<b>20%</b>
- U.S. Equity	12%	
- U.S. Large Cap	10%	
- U.S. Small Cap	2%	
- International	8%	
<b>Domestic Fixed Income</b>		<b>62%</b>
<b>Global Real Assets</b>		<b>17%</b>
- Diversified		
o TIPS	8%	
o Infrastructure/Timber	4%	
- Real Estate	5%	
<b>Cash Equivalents</b>		<b>1%</b>

Rebalancing of the Fund to this target will be done in accordance with the SIB's rebalancing policy, but not less than annually.

While the SIB is responsible for establishing specific quality, diversification, restrictions, and performance objectives for the investment vehicles in which the Fund's assets will be invested, it is understood that:

- a. Futures and options may be used to hedge or replicate underlying index exposure, but not for speculation.
- b. Derivatives use will be monitored to ensure that undue risks are not taken by the money managers.
- c. No transaction shall be made which threatens the tax exempt status of the Fund.
- d. All assets will be held in custody by the SIB's master custodian or such other custodians as are acceptable to the SIB.
- e. No unhedged short sales or speculative margin purchases shall be made.
- f. Social investing is prohibited unless it meets the Exclusive Benefit Rule and it can be substantiated that the investment must provide an equivalent or superior rate of return for a similar investment with a similar time horizon and similar risk.

For the purpose of this document, Social Investing is defined as *"The consideration of socially responsible criteria in the investment or commitment of public funds for the purpose of obtaining and effect other than a maximized return to the state."*

- g. Economically targeted investing is prohibited unless the investment meets the Exclusive Benefit Rule.

For the purpose of this document economically targeted investment is defined as an investment designed to produce a competitive rate of return commensurate with risk

involved, as well as to create collateral economic benefits for a targeted geographic area, group of people, or sector of the economy.

Also, for the purpose of this document, the Exclusive Benefit Rule is met if the following four conditions are satisfied:

- (1) The cost does not exceed the fair market value at the time of investment.
- (2) The investment provides the Fund with an equivalent or superior rate of return for a similar investment with a similar time horizon and similar risk.
- (3) Sufficient liquidity is maintained in the Fund to permit distributions in accordance with the terms of the plan.
- (4) The safeguards and diversity that a prudent investor would adhere to are present.

Where investment characteristics, including yield, risk, and liquidity are equivalent, the Board's policy favors investments which will have a positive impact on the economy of North Dakota.

## 6. EVALUATION AND REVIEW.

Investment management of the Fund will be evaluated against the Fund's investment objectives and investment performance standards. Evaluation will be conducted quarterly by the SIB through its review of funds participating in the Insurance Trust.

Money managers will be evaluated by the SIB quarterly. In-state meetings will be held with the money managers at least annually.

**Approved by:**

**WORKFORCE SAFETY &  
INSURANCE**

**STATE INVESTMENT BOARD**

\_\_\_\_\_  
**Bryan Klipfel**  
**Director, WSI**

\_\_\_\_\_  
**Scott Anderson**  
**Chief Investment Officer, RIO**

**Date:** \_\_\_\_\_

**Date:** \_\_\_\_\_

Recommended by WSI Board  
Approved by Governor

February 16, 2022  
March 1, 2022