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

Friday, October 24, 2025, 8:30 a.m.
WSI Board Room (In-Person)
1600 E Century Ave, Bismarck, ND
Click here to join the meeting

AGENDA

I. CALL TO ORDER AND ACCEPTANCE OF AGENDA (*Board Action)*
- A. Pledge of Allegiance
- B. Roll Call & Conflict of Interest Disclosure
- C. Introduction of New Staff

II. ACCEPTANCE OF MINUTES (September 26, 2025) *(Board Action)*

III. INVESTMENTS (30 minutes) *(Board Action)*
- A. Quarterly & Annual Performance Update – Mr. Anderson

IV. GOVERNANCE (45 minutes)
- A. Investment Committee Update *(Information)* – Treasurer Beadle, Mr. Anderson
- B. Executive Review & Compensation Committee Update *(Board Action)*– Dr. Lech, Ms. Smith, Mr. Otteson

V. QUARTERLY MONITORING REPORTS (15 minutes) *(Board Action)*
- A. Investment Ends – Mr. Posch
- B. Quarterly Budget/Fiscal Conditions Report – Mr. Otteson
- C. Executive Limitations/Staff Relations – Ms. Smith

(Break)

VI. GOVERNANCE ASSESSMENT UPDATE (60 minutes) (Information)
- A. Education Session – Rick Funston

VII. OTHER
- A. Next Meetings:
  - SIB ERCC – November 5, 2025, at 10:00 a.m.
  - SIB GPR Committee – November 12, 2025, at 10:00 a.m.
  - Investment Committee – November 14, 2025, at 9:00 a.m.
  - Audit Committee – November 18, 2025, at 2:30 p.m.
  - SIB Meeting – November 21, 2025, at 8:30 a.m.

VIII. 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.

NORTH DAKOTA STATE INVESTMENT BOARD
MINUTES OF THE
SEPTEMBER 26, 2025, BOARD MEETING (IN-PERSON)

MEMBERS PRESENT:	Kelly Armstrong, Governor, Chair Dr. Rob Lech, TFFR Board, Vice Chair Thomas Beadle, State Treasurer, Parliamentarian Rep. Glenn Bosch, LBSFAB Joseph Heringer, Commissioner of Unv. & School Lands Pete Jahner, Investment Professional Sen. Jerry Klein, LBSFAB Cody Mickelson, TFFR Board Adam Miller, PERS Board Joe Morrissette, Director of OMB Dr. Prodosh Simlai, Investment Professional Art Thompson, Director of WSI
MEMBER ABSENT:	Gerald Buck, PERS Board
STAFF PRESENT:	Scott M. Anderson, CIO Eric Chin, Deputy CIO Jac Collins, Sr. Investment Analyst Cory Cox, Public Funds Analyst Derek Dukart, Sr. Investment Analyst Chirag Gandhi, Portfolio Mgr. Missy Kopp, Executive Assistant Robbie Morey, Investment Operations Analyst George Moss, Portfolio Mgr. Sarah Mudder, Communications/Outreach Dir. Chuck Napp, Sr. Investment Operations Manager Adam Otteson, CFOO Daphne Pfleiger, Investment Accountant Emmalee Riegler, Procurement/Records Coord. Chad Roberts, DED/CRO Sara Seiler, Supervisor of Internal Audit Jodi Smith, Executive Director Nitin Vaidya, Chief Risk Officer Susan Walcker, Sr. Financial Manager Lance Ziettlow, Portfolio Mgr.
GUESTS:	Marc Gesell, Verus Eileen Neill, Verus Kirsten Tuntland, Assistant Attorney General Scott Whalen, Verus Members of the Public

CALL TO ORDER:

Gov. Armstrong, Chair, called the State Investment Board (SIB) meeting to order at 8:30 a.m. on Friday, September 26, 2025. The meeting was held in the WSI Boardroom, 1600 E Century Ave., Bismarck, ND.

The following members were present representing a quorum: Commissioner Heringer, Treasurer Beadle, Mr. Miller, Rep. Bosch, Mr. Thompson, Dr. Simlai, Mr. Mickelson, Sen. Klein, Dr. Lech, Mr. Morrissette, Mr. Jahner, and Gov. Armstrong

MINUTES:

The Board considered the minutes of the August 14, 2025, SIB meeting.

IT WAS MOVED BY TREASURER BEADLE AND SECONDED BY DR. LECH AND CARRIED BY A VOICE VOTE TO APPROVE THE AUGUST 14, 2025, MINUTES AS DISTRIBUTED.

AYES: MR. MICKELSON, COMMISSIONER HERINGER, MR. MORRISSETTE, MR. THOMPSON, TREASURER BEADLE, DR. LECH, MR. JAHNER, SEN. KLEIN, REP. BOSCH, MR. MILLER, DR. SIMLAI, AND GOV. ARMSTRONG
NAYS: NONE
ABSENT: MR. BUCK
MOTION CARRIED

EDUCATION:

Fiduciary Duty and Ethics:

Ms. Tuntland, Assistant Attorney General, provided board education on fiduciary duties and ethics. The presentation included information about the prudent investor rule, fiduciary duties of SIB members, and ways to mitigate fiduciary risk. Ms. Tuntland provided an overview of the 6-step process for disclosing conflicts of interest. Board discussion followed.

INVESTMENTS:

Quarterly & Annual Performance Update:

Ms. Neill and Mr. Gesell, Verus, provided the quarterly and annual performance update as of June 30, 2025. North Dakota funds performed strongly. Market gains were largely driven by favorable economic conditions in the latter half of the fiscal year. A review was provided of risk-adjusted performance metrics, noting improved tracking error, consistent positive Sharpe ratios, and strong relative results across asset classes. The Legacy Fund and pension portfolios showed returns near the top of peer comparisons, with asset allocations now more closely aligned. Private equity funding is still in early stages but progressing as planned. Insurance funds also demonstrated solid performance, with results ahead of benchmarks despite persistent negative cash flow. Overall, all major funds outperformed their policy benchmarks for the quarter and fiscal year to date.

IT WAS MOVED BY TREASURER BEADLE AND SECONDED BY COMMISSIONER HERINGER AND CARRIED BY A ROLL CALL VOTE TO ACCEPT THE QUARTERLY/ANNUAL INVESTMENT PERFORMANCE UPDATE.

AYES: REP. BOSCH, SEN. KLEIN, COMMSSIONER HERINGER, DR. SIMLAI, MR. MORRISSETTE, MR. MICKELSON, MR. MILLER, TREASURER BEADLE, MR. JAHNER, MR. THOMPSON, DR. LECH, AND GOV. ARMSTRONG
NAYS: NONE
ABSENT: MR. BUCK
MOTION CARRIED

Investment Fees Discussion:

Mr. Anderson summarized the 2024 fee study by Verus, noting overall investment management fees remain reasonable and below market benchmarks. While a few mandates exceeded peer averages, most were lower, and total plan fees have declined since 2020. The shift to direct private market investments and expanded internal management are expected to further reduce costs over time. Board discussion followed.

GOVERNANCE:

Investment Committee Update:

Treasurer Beadle provided an update from the August 8, 2025, and September 12, 2025, Investment Committee meetings. In August, the committee reviewed internal trading controls, and discussed NEPC's asset allocation recommendations for client funds, which were subsequently approved by multiple boards. Staff also provided market updates and announced private market commitments totaling $95 million across the pension and Legacy Fund pools.

At the September meeting, staff presented the strategic roadmap for evolving the investment program, including internal management initiatives to reduce costs and improve performance. The committee also reviewed private market managers in executive session, discussed pacing plans for future commitments, and considered potential adjustments to the timing of private market benchmark reporting. Board discussion followed.

Governance & Policy Review (GPR) Committee Update:

Dr. Lech provided an update from the September 9, 2025, GPR Committee meeting. The primary topic for the meeting was the governance review project with Funston. The consultant noted their appreciation for the high level of board participation in the initial survey. Individual interviews are underway to gather additional context on survey results. Funston's preliminary assessment identified key focus areas, including updating the governance manual, clarifying roles and responsibilities between the board and staff, refining delegation and oversight processes, and reviewing committee structures. The project follows an accelerated timeline, with recommendations expected by December. Board discussion followed.

Audit Committee Update:

Treasurer Beadle provided an update from the September 3, 2025, Audit Committee meeting. The committee reviewed the internal audit (IA) interim work plan and received updates on ongoing projects with Weaver, including advisory services and the external investment oversight audit, which is expected to be completed in October. IA activities include compliance reviews, GASB 68 coordination, and development of a risk-based audit plan. The committee also discussed progress on hiring an additional audit staff member.
An isolated fraud incident affecting a TFFR member account was reported and has been fully resolved, with additional security measures implemented. The committee approved the IA work plan for the coming year.

The board received a recommendation for a new member to fill the vacancy on the Audit Committee.

IT WAS MOVED BY DR. LECH AND SECONDED BY TREASURER BEADLE AND CARRIED BY A ROLL CALL VOTE TO APPOINT LISA CORBIN TO THE SIB AUDIT COMMITTEE.

AYES: MR. MORRISSETTE, MR. MILLER, SEN. KLEIN, MR. MICKELSON, DR. LECH, MR. JAHNER, MR. THOMPSON, DR. SIMLAI, COMMISSIONER HERINGER, TREASURER BEADLE, REP. BOSCH, AND GOV. ARMSTRONG
NAYS: NONE
ABSENT: MR. BUCK
MOTION CARRIED

Securities Litigation Committee Update:

Commissioner Heringer provided an update from the September 16, 2025, Securities Litigation Committee meeting. The committee elected officers and completed their annual review of the charter. Updates were provided on the four active litigation cases and a securities litigation monitoring report.

Business Continuity Update:

Ms. Smith provided an overview of the plan to update the agency's business continuity plan. The current plan is outdated so staff will collaborate with NDIT to modernize the plan to ensure secure data management and resilient business processes. The recent Funston survey highlighted the need for stronger board engagement in risk and continuity planning. Future recommendations will include increased oversight of these areas. Board discussion followed.

REPORTS:

Quarterly Budget/Fiscal Conditions Report:

Ms. Smith reviewed the quarterly budget/fiscal conditions report for the quarter ending June 30, 2025. Some funds were unused due to open positions during the biennium. Operational expenditures were also below projections because the pension system launch occurred later than anticipated, delaying related capital expenses to the next period. Contingency funds were used for executive searches for the Executive Director and Chief Financial Officer positions. A summary of continuing appropriations and associated expenditures was also provided.

Annual Audit Activities Report:

Ms. Seiler provided an overview of the annual audit activities report which included activities of the Audit Committee. Key activities included administering the board's self-evaluation, supporting the Executive Search Committee with the Executive Director search, and continuing the multi-year internal audit maturity project. In partnership with Weaver, the team completed a risk assessment, updated charters, and finalized an IA manual in August 2024. Staffing needs were reviewed, leading to one additional FTE and a co-sourcing contract with Weaver for specialized support. Weaver conducted the first external investment oversight audit, currently in draft form, and provided advisory support to the fiscal and investment compliance teams during staffing shortages. Additional work included the TFFR file maintenance audit, employee exit reviews, and the successful launch of the TFFR Pioneer Project in February. External financial statement and GASB 68 audits were completed with clean, unmodified opinions.

IT WAS MOVED BY TREASURER BEADLE AND SECONDED BY MR. THOMPSON AND CARRIED BY A ROLL CALL VOTE TO ACCEPT THE QUARTERLY BUDGET/FISCAL CONDITIONS AND ANNUAL AUDIT ACTIVITIES REPORTS.

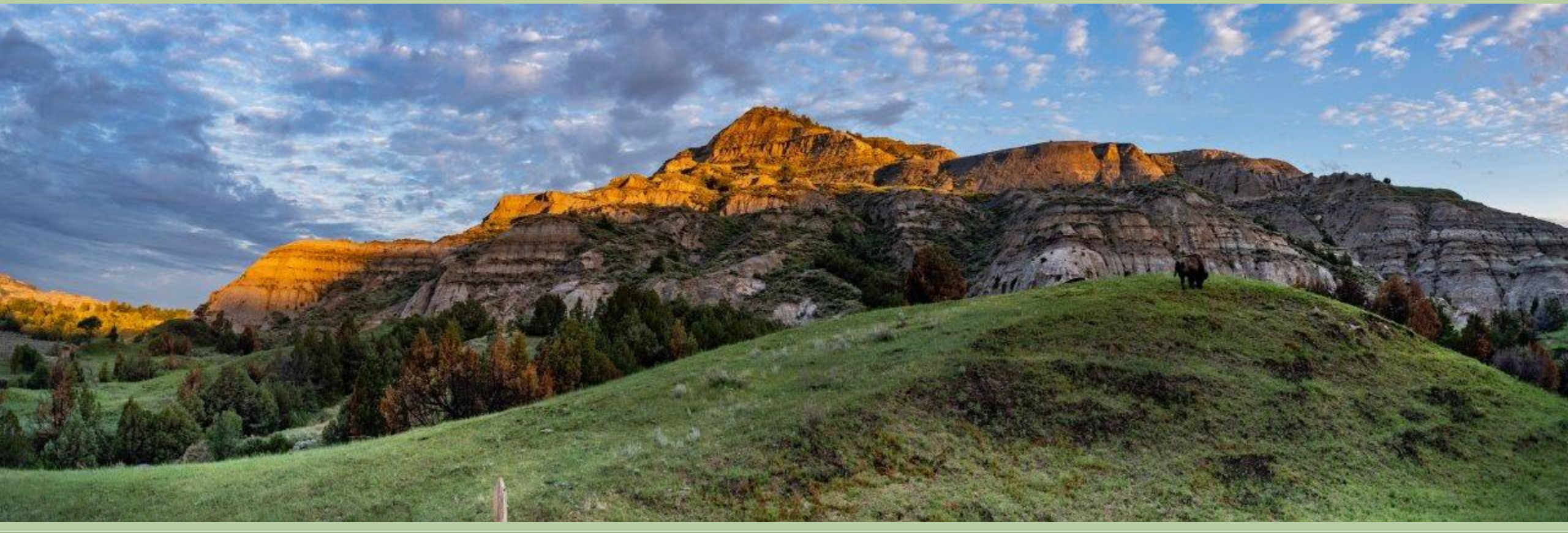
AYES: MR. MORRISSETTE, MR. MILLER, SEN. KLEIN, MR. MICKELSON, DR. LECH, MR. JAHNER, MR. THOMPSON, DR. SIMLAI, COMMISSIONER HERINGER, TREASURER BEADLE, REP. BOSCH, AND GOV. ARMSTRONG
NAYS: NONE
ABSENT: MR. BUCK
MOTION CARRIED

ADJOURNMENT:

With no further business to come before the SIB, Gov. Armstrong adjourned the meeting at 10:21 a.m.

Prepared by: Missy Kopp, Assistant to the Board

SIB QUARTERLY AND ANNUAL PERFORMANCE UPDATE



RETIREMENT & INVESTMENT OFFICE

Scott Anderson, Chief Investment Officer
October 22, 2025

PERFORMANCE – BENCHMARK INDICES

Summary of Returns June 30, 2025					
Benchmark Indices (% change, annualized)	**YTD**	**1 Yr**	**5 Yr**	**10 Yr**	**10 Yr Volatility**
Russell 3000	5.8%	15.3%	16.0%	12.9%	18.7%
Russell 1000	6.1%	15.7%	16.3%	13.3%	18.6%
Russell 2000	-1.8%	7.7%	10.0%	7.1%	23.5%
S&P 500	6.2%	15.2%	16.6%	13.6%	18.4%
MSCI ACWI IMI Net	9.8%	15.9%	13.4%	9.7%	14.7%
MSCI World ex US	19.0%	18.7%	11.5%	6.6%	14.8%
MSCI Emerging Markets	15.3%	15.3%	6.8%	4.8%	16.1%
Bloomberg Aggregate	4.0%	6.1%	-0.7%	1.8%	4.8%
Bloomberg Gov/Credit	3.9%	5.9%	-0.8%	1.9%	5.1%
Bloomberg US High Yield	4.6%	10.3%	6.0%	5.4%	5.2%
NCREIF Property Index	2.5%	4.2%	3.7%	5.2%	4.0%

Source: Bloomberg

PERFORMANCE – BENCHMARK INDICES - CURRENT

Summary of Returns October 13, 2025					
Benchmark Indices (% change, annualized)	**YTD**	**1 Yr**	**5 Yr**	**10 Yr**	**10 Yr Volatility**
Russell 3000	13.9%	15.8%	14.5%	14.2%	18.5%
Russell 1000	14.1%	16.0%	14.8%	14.5%	18.4%
Russell 2000	11.5%	11.7%	10.0%	9.4%	23.4%
S&P 500	14.3%	15.9%	15.3%	14.7%	18.2%
MSCI ACWI IMI Net	17.8%	16.4%	12.2%	11.0%	14.5%
MSCI World ex US	24.8%	17.6%	10.8%	7.7%	14.5%
MSCI Emerging Markets	28.2%	19.1%	6.1%	7.2%	15.8%
Bloomberg Aggregate	6.7%	5.0%	-0.3%	1.9%	4.8%
Bloomberg Gov/Credit	6.5%	4.8%	-0.5%	2.0%	5.1%
Bloomberg US High Yield	6.6%	7.3%	5.1%	5.9%	5.1%
NCREIF Property Index (09/30/2025)	2.5%	3.4%	3.5%	4.9%	4.0%

Source: Bloomberg

RISK SUMMARY

Macro and Economic Risks

- Sticky Inflation: Core CPI +3.1% y/y (Aug 2025); persistent pressure keeps Fed cautious, eroding real returns.
- Higher-for-Longer Rates: Fed policy rate 4.00–4.25%, 10y Treasury ~4.05%; impacts liabilities & bond valuations.
- Growth Volatility: Q2 GDP +3.8% annualized (Atlanta Now); stop-start cycle complicates return forecasts.

Market Risks

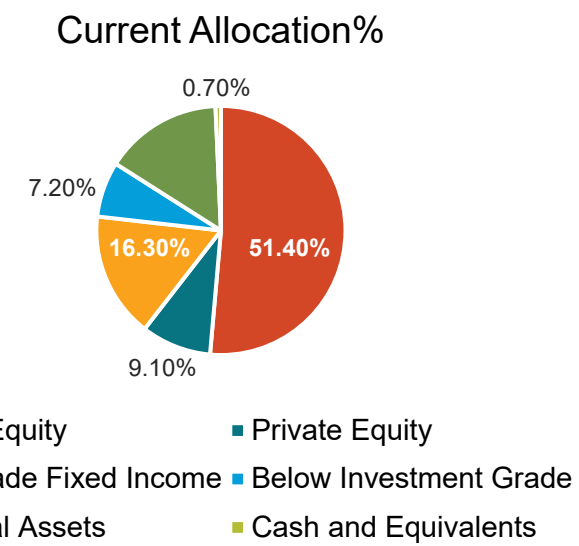
- Equity Valuation: S&P500 Shiller CAPE ~40; forward PE at >22; top 10 stocks = ~30–40% of S&P 500.
- Credit Stress: HY OAS ~295 bps; default rates could rise to 3–4% in downturn scenarios (Rating Agencies).
- USD Volatility: DXY ~99.4 (-8.4% YTD); swings impact EM, global equity earnings

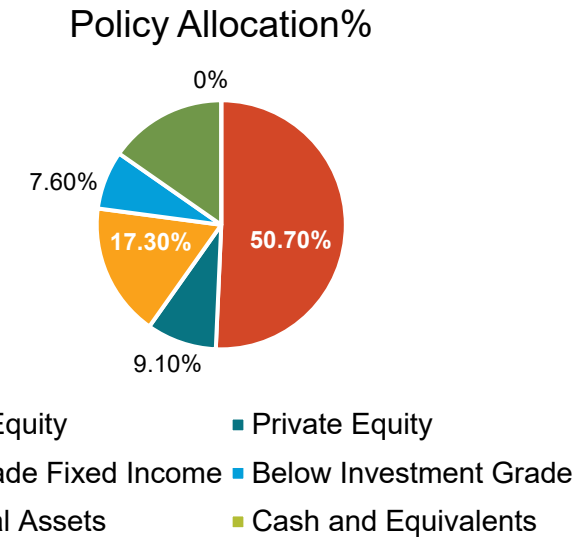
Geopolitical & Political Risks

- Tariff Shock: New tariffs = $80–88B YTD revenue; Aug customs receipts $20–30B; raises inflation & costs.
- Geopolitical Tensions: Ukraine conflict; commodity, defense & risk premium volatility.
- U.S. Fiscal/Policy Risk: Large deficits & Treasury issuance; politicization of Fed adds tail policy outcomes.

PUBLIC EMPLOYEE RETIREMENT SYSTEM

PERS ASSET ALLOCATION





Asset Category		Current Balance ($)	Current Allocation (%)	Policy Allocation (%)		Differences ($)
Global Public Equity	$	2,501,748,421	51.4%	50.7%	$	31,624,483
Private Equity	$	443,338,391	9.1%	9.1%	$	4,030
Investment Grade Fixed Income	$	794,240,154	16.3%	17.3%	$	(47,257,917)
Below Investment Grade	$	349,820,878	7.2%	7.6%	$	(18,310,191)
Diversified Real Assets	$	744,527,551	15.3%	15.3%	$	87,968
Cash and Equivalents	$	33,851,626	0.7%	0%	$	33,851,626
Total	$	4,867,527,021	100.0%	100.0%	$	-

1. June 2025 values – Verus

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PERS PERFORMANCE

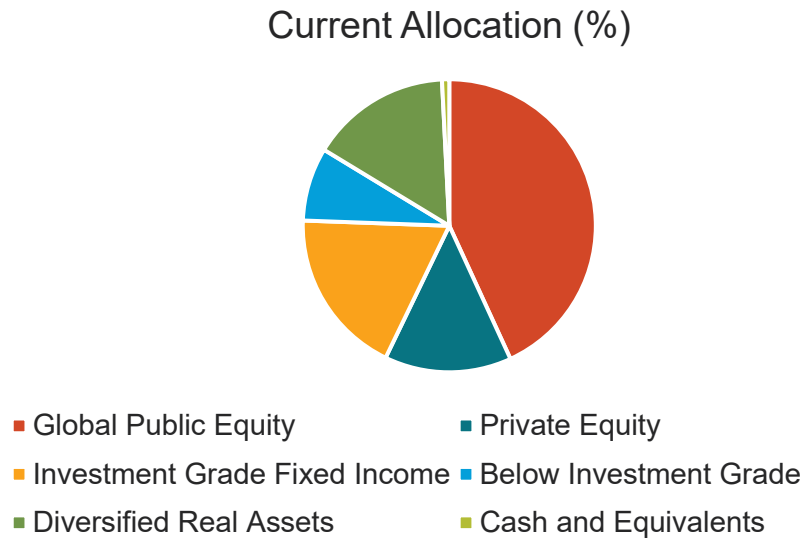
JUNE 30, 2025 PERS $4.9 Billion	Year to Date	1 Year	3 year	5 Year	10 Year	Risk (5 Year)
Total Fund Return - Net	7.8%	12.0%	9.6%	9.4%	7.8%	8.7%
Policy Benchmark Return	6.5%	10.6%	9.3%	8.8%	7.3%	9.1%
Total Relative Return[1]	1.3%	1.4%	0.3%	0.6%	0.5%	

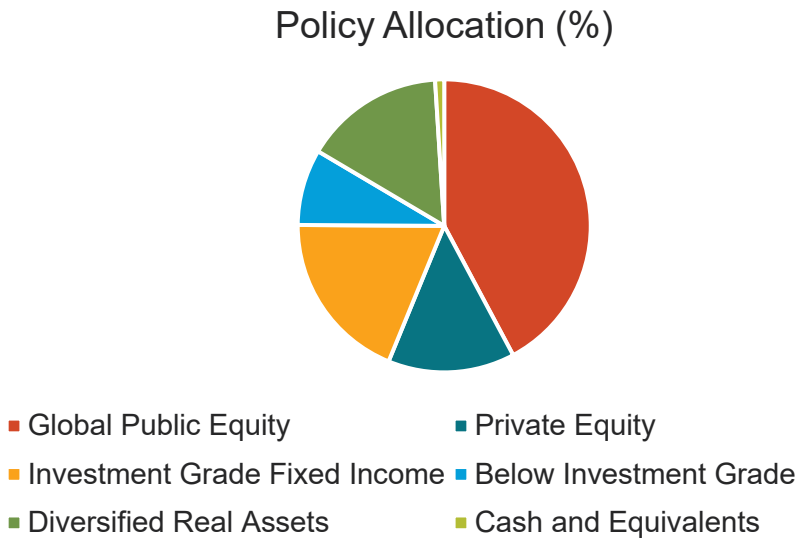
1. June 2025 values – Verus

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TEACHERS FUND FOR RETIREMENT

TFFR ASSET ALLOCATION





Asset Category		Current Balance ($)	Current Allocation (%)	Policy Allocation (%)		Differences ($)
Global Public Equity	$	1,543,908,404	43.1%	42.2%	$	31,352,646
Private Equity	$	502,750,805	14.0%	14.0%	$	10,414
Investment Grade Fixed Income	$	659,358,283	18.4%	18.9%	$	(16,586,453)
Below Investment Grade	$	291,802,462	8.1%	8.4%	$	(8,609,460)
Diversified Real Assets	$	554,882,801	15.5%	15.5%	$	55,726
Cash and Equivalents	$	29,600,155	0.8%	1.0%	$	(6,222,874)
Total	$	3,582,302,910	100.0%	100.0%	$	-

1. June 2025 values – Verus

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TFFR PERFORMANCE

JUNE 30, 2025 TFFR $3.6 Billion	Year to Date	1 Year	3 year	5 Year	10 Year	Risk (5 Year)
Total Fund Return - Net	7.4%	11.4%	9.0%	8.9%	7.6%	8.1%
Policy Benchmark Return	5.9%	9.7%	8.6%	8.3%	7.1%	8.5%
Total Relative Return[1]	1.5%	1.4%	0.4%	0.6%	0.5%	

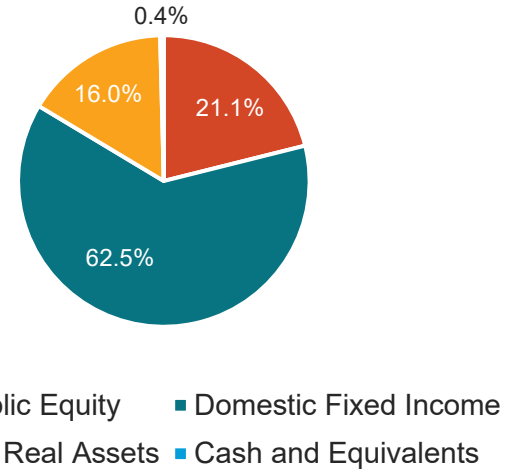
1. June 2025 values – Verus

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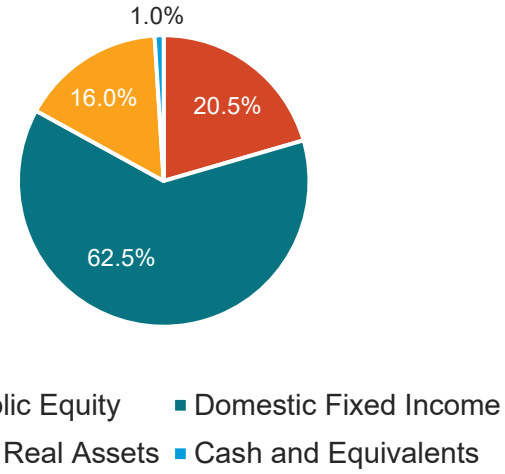
WSI

WSI ASSET ALLOCATION

Current Allocation (%)



Policy Allocation (%)



Asset Category		Current Balance ($)	Current Allocation (%)	Policy Allocation (%)		Differences ($)
Global Public Equity	$	477,922,573	21.1%	20.5%	$	1 3,327,086
Domestic Fixed Income	$	1,417,436,901	62.5%	62.5%	$	33,863
Diversified Real Assets	$	363,940,716	16.0%	16.0%	$	(17,748)
Cash and Equivalents	$	9,343,234	0.4%	1.0%	$	(13,343,201)
Total	$	2,268,643,424	21.1%	20.5%	$	-

1. June 2025 values – Verus

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WSI PERFORMANCE

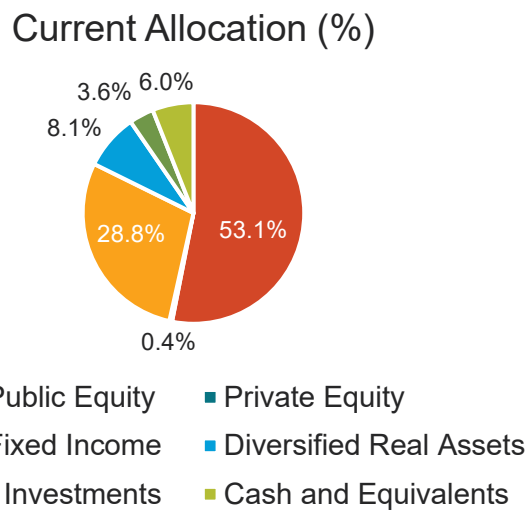
JUNE 30, 2025 WSI $2.3 Billion	Year to Date	1 Year	3 year	5 Year	10 Year	Risk (5 Year)
Total Fund Return - Net	5.7%	8.7%	5.8%	3.7%	4.5%	6.9%
Policy Benchmark Return	5.2%	7.8%	4.9%	2.8%	3.8%	5.5%
Total Relative Return[1]	0.5%	0.9%	0.9%	0.9%	0.7%	

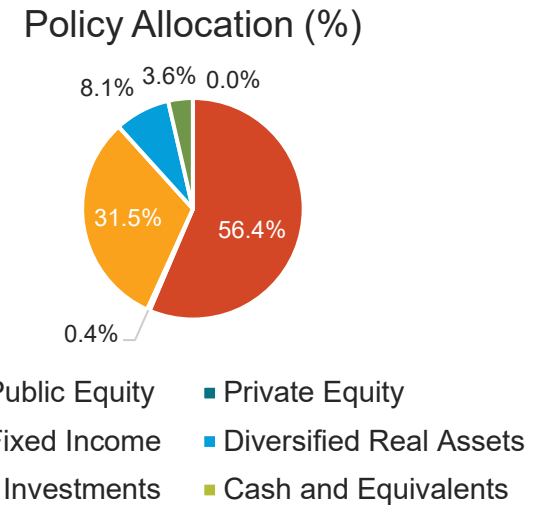
1. June 2025 values – Verus

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LEGACY FUND

LEGACY FUND ASSET ALLOCATION





Asset Category		Current Balance ($)	Current Allocation (%)	Policy Allocation (%)		Differences ($)
Global Public Equity	$	6,908,107,808	53.1%	56.4%	$	(432,062,847)
Private Equity	$	52,140,045	0.4%	0.4%	$	64,554
Global Fixed Income	$	3,748,122,653	28.8%	31.5%	$	(349,307,173)
Diversified Real Assets	$	1,059,297,623	8.1%	8.1%	$	82,135
In-State Investments	$	470,040,837	3.6%	3.6%	$	59,530
Cash and Equivalents	$	781,163,802	6.0%	0.0%	$	781,163,802
Total	$	13,018,872,768	100.0%	100.0%	$	-

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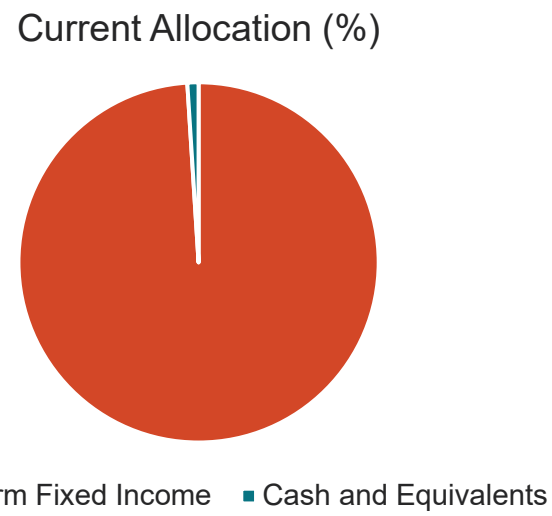
LEGACY FUND PERFORMANCE[1]

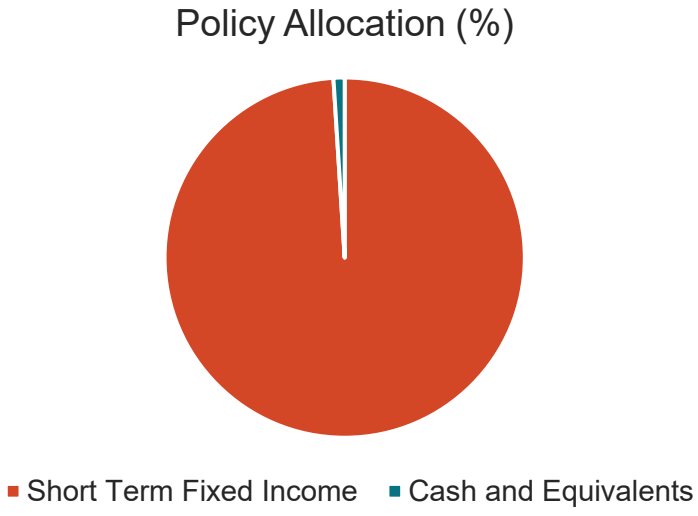
As of June 30, 2025 Legacy $13.0 Billion	YTD	1 Year	3 Year	5 Year	10 Year	Risk (5 Year)
Total Fund Return - Net	8.3%	12.7%	10.6%	8.3%	7.1%	9.3%
Policy Benchmark Return	7.7%	12.1%	9.6%	7.3%	6.4%	9.6%
Total Relative Return	0.6%	0.6%	1.0%	1.0%	0.7%	

1. Verus Performance Report For Period Ending 6/30/2025

BUDGET STABILIZATION FUND

BUDGET STABILIZATION FUND ASSET ALLOCATION





Asset Category		Current Balance ($)	Current Allocation (%)	Policy Allocation (%)		Differences ($)
Short Term Fixed Income	$	970,639,534	99.0%	99.0%	$	(4,503.00)
Cash and Equivalents	$	10,264,762	1.0%	1.0%	$	4,503.00
Total	$	980,904,296	100.0%	100.0%	$	-

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BUDGET STABILIZATION FUND PERFORMANCE[1]

As of June 30, 2025
Budget Stabilization Fund
$981 Million

	YTD	1 Year	3 Year	5 Year	10 Year	Risk
Total Fund Return - Net	3.0%	6.6%	5.6%	2.9%	2.4%	2.0%
Policy Benchmark Return	2.9%	5.9%	3.8%	1.6%	1.8%	2.0%
Total Relative Return	0.1%	0.7%	1.8%	1.3%	0.6%	

1. Verus Performance Report For Period Ending 6/30/2025

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MEMORANDUM

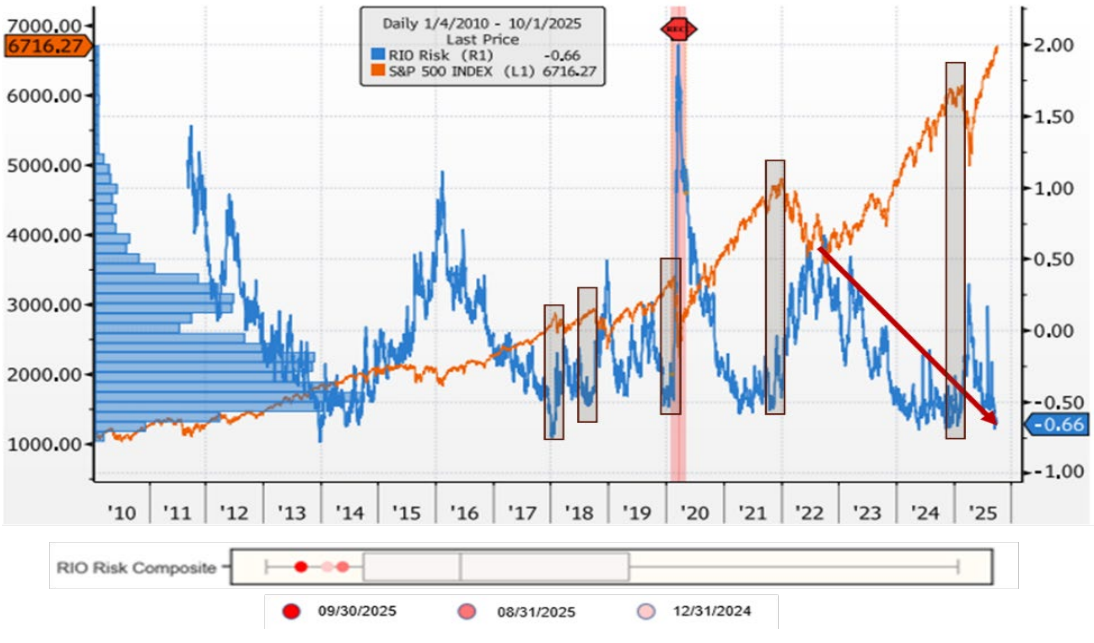
TO: **SIB**
FROM: **Scott M. Anderson, CFA – Chief Investment Officer**
DATE: **October 15, 2025**
RE: **Investment Committee Update**

CALL TO ORDER, REVIEW OF AGENDA, AND APPROVAL OF MINUTES

The Investment Committee of the Board of Trustees met virtually on October 10, 2025, with Treasurer Thomas Beadle presiding. A quorum was confirmed. The Committee reviewed the agenda and approved the minutes of the September 12, 2025, meeting as presented. No conflicts of interest were disclosed. Staff introduced the Portfolio Manager of Quantitative Risk and Funds Management, Ross Hambrick, his hire strengthens the plan level management of risks and the internal management initiative supported by data-driven portfolio oversight.

RISK/IT UPDATE (Open Session)

Staff presented the Quarterly Risk Overview, highlighting that systemic and macro risk indicators remain moderate following the spring volatility spike. The composite risk index reflected stabilization across capital markets, though staff cautioned that traditional fixed income diversification benefits have diminished amid higher bond volatility and tighter equity correlations. Portfolio-level analysis across all four funds (PERS, TFFR, Legacy, and WSI) showed stable overall exposure with manageable liquidity levels.



The Committee reviewed enhancements to the internal risk measurement system, including integration of Aladdin and Venn factor analytics, expanded stress testing, and enhanced daily exposure tracking. Staff also presented initial testing of overlay strategies designed to fine-tune duration, equity beta, and factor exposure. Committee discussion centered on the implications of persistent stock-bond correlation shifts and preparation for potential rate volatility scenarios.

INVESTMENT GUIDELINE REVISIONS – PUBLIC MARKETS (Closed Session)

Staff recommended adoption of **Public Markets Investment Guidelines** for a new manager to align benchmark definitions, tracking-error ranges, and permissible instruments with evolving internal management capabilities. Following review and discussion, the Committee voted unanimously to **approve** the recommended guidelines. Staff will coordinate with legal counsel to finalize updated language. Once the IMA for the manager is complete including the guidelines, the name of the manager will be publicly disclosed.

INTERNAL ENHANCEMENT MODEL – EQUITY IMPLEMENTATION (Closed Session)

Staff provided a recommendation in closed session for an **enhanced internal equity strategy** that uses a model portfolio of an external firm to guide the investments of a portion of the internal equity assets. The benefits of the model portfolio are 1) lower fees for an active strategy 2) the signal from the model portfolio can be expanded to other sub-asset classes and other asset classes 3) enables learning of how to develop high earning strategies 4) enables developing of advanced active portfolio management techniques such as rebalancing, trading, and security lending, corporate action decisions, etc. 5) enables the model portfolio information to be applied to the entire indexed exposure, yet maintain the liquidity characteristics, low fees and importantly generate return on assets that otherwise would not have an active return.

Following review and discussion, the Committee voted unanimously to **approve** the recommended internal enhanced equity implementation guided by a particular firm's model portfolio. Staff will coordinate with legal counsel to finalize an agreement with that external firm.

Discussion and Adjournment
The meeting closed without additional discussion.

https://www.rio.nd.gov/sites/www/files/documents/PDFs/SIB%20Investment/Board/Materials/sibinvestmat20251010.pdf

Board Action Requested: Information only.

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MEMORANDUM

TO: **SIB**
FROM: **Jodi Smith, Executive Director**
DATE: **October 24, 2025**
RE: **Executive Review and Compensation Committee**

The ERCC met on Wednesday, October 15, 2025. The committee members present included:

- Dr. Rob Lech (Chair)
- Gerald Buck (Vice Chair)
- Senator Jerry Klein.

The meeting addressed key elements of the Retirement and Investment Office (RIO) Incentive Compensation Program, which was authorized by NDCC § 54-52.5 and formally adopted by the SIB on May 17, 2024, with an effective date of July 1, 2024.

Overview of the Incentive Compensation Program

The Incentive Compensation Program is established to attract and retain talented investment professionals and motivate staff to earn the highest possible returns for RIO's client funds while controlling risk. Awards are contingent upon net investment performance exceeding defined benchmarks.

Key Policy Mechanics:

Eligibility: Participants must be employed in a covered position for at least three full consecutive months and be in "good standing" (performance rated above

"developing" and not on a performance improvement plan) on the day of payment.

Component Weighting: The maximum incentive opportunity is allocated between two components:

Fund Value Added (VA): 80% weight (Quantitative Component). This is based on the weighted average outperformance of the Legacy Fund, PERS pension fund, TFFR fund, and WSI fund relative to SIB-approved benchmarks.

Individual Goals: 20% weight (Discretionary Component). This component is set by the Participant's manager, approved by the Executive Director, and factors may include leadership, mentoring, and contribution to strategic planning.

Payout Criteria (80% Quantitative): Payout ranges from 0% (at or below benchmark) to 100% (when net performance equals or exceeds the full Incentive Compensation Metric, ICM).

During the Incentive Compensation Overview, concerns were raised regarding the ambiguity inherent in the 20% Individual Goals component, which is labeled as "discretionary."

Key Discussion Points:

- **Subjectivity Concerns:** It was noted that implementing this subjective measure presents challenges, as current ratings indicate all employees in the Investment Division have been assigned an "excels" rating. This lack of differentiation is atypical and raises concerns about defensibility to the legislature and consistency in application.
- **Need for Structure:** The committee discussed developing a scale or rubric for the 20% component by breaking it down into specific categories with assigned weights or points (e.g., leadership training participation, contribution to strategic planning, manager evaluation rating). This would help introduce objectivity and ensure consistency across evaluations.

- **Talent Management Context:** The group reviewed how similar programs have used qualitative components as part of a broader talent management strategy to encourage behaviors aligned with organizational goals, such as leadership development and cross-organizational collaboration.

Next Steps: It was agreed that a structured framework or rubric will be developed to define how the 20% discretionary component will be determined. This framework will be presented for committee review and considered for future policy modification, while the current fiscal year's payout will proceed under the existing policy language.

Committee Discussion and Action Items

Position Title Update

While reviewing the Incentive Compensation Program Plan, we identified several position titles within the Retirement and Investment Office (RIO) that have been updated since the plan's adoption.

This is a formal request for approval to update the plan to reflect the current position titles and ensure alignment with the corresponding maximum incentive compensation percentages. These updates are administrative in nature and do not alter the structure or intent of the plan.

The plan currently defines maximum opportunities based on generic position titles:

Maximum Incentive Award	Position Title Listed in Policy
100%	Chief Investment Officer, Executive Director
90%	Deputy Chief Investment Officer
75%	Portfolio Manager (new FTE's), Chief Risk Officer, Senior Investment Officer
60%	Chief Financial Officer/ Chief Operating Officer
50%	Investment Officer, Risk Officer, Accounting Manager
25%	Sr. Investment Accountant, Investment Accountant

While the established policy provides broad categories, the updated staff roles listed in the compensation chart reflect more specific and customized titles, leading to a lack of clarity in the formal documentation matching the new role to the approved maximum percentage category.

To ensure the Incentive Compensation Plan remains rigorously managed and compliant, and because the State Investment Board (SIB) must approve any question or matter whose resolution requires material modification to the plan, such as a change to the performance standards or maximum award levels, we request approval for the following current position titles and their associated maximum incentive compensation percentages:

Previous Title	**Max Incentive**	**Current Title**
Chief Investment Officer	100%	Chief Investment Officer
Deputy Chief Investment Officer	90%	Deputy Chief Investment Officer
Senior Analyst Private Markets	50%	Senior Analyst Private Markets
Analyst Internal Equity	50%	Analyst Internal Equity
Investment Officer (AFM)	50%	Sr Analyst of Internal Equity
Fiscal and Investment Operations Mgr	50%	Deputy Chief Financial and Operations Officer
Portfolio Manager Internal Fixed Income	75%	Portfolio Manager Internal Fixed Income
Chief Risk Officer	75%	Portfolio Mgr of Quantitative Risk & Fund Management
Investment Accountant	25%	Investment Operations Analyst
Sr Investment Officer (PE)	75%	Portfolio Mgr Internal Equity
Senior Investment Accountant	25%	Senior Investment Ops Manager

Chief Financial and Operations Officer	60%	Chief Financial and Operations Officer
Sr. Investment Officer (AFM)	75%	Portfolio Manager Public Funds
Executive Director	100%	Executive Director
Sr Investment Officer (In-State)	75%	Portfolio Mgr Private Markets
Analyst Internal Fixed Income	50%	Analyst Internal Fixed Income
Risk Officer	50%	Risk Analyst
Public Markets Investment Analyst	50%	Public Markets Investment Analyst

ERCC Committee Motion: A motion was made, seconded, and carried to approve the current position titles and their accompanying maximum incentive compensation percentages to formalize participation within the approved plan framework.

Benchmark for Value Added (VA) Calculation

Clarification was sought on which of the two SIB-approved benchmarks—the Policy Index (Option 1) or the Corridor Target Index (Option 2)—should be used as the definitive measure for calculating the Fund VA performance.

• The **Policy Index** is referenced in SIB Ends Policy for formal evaluation.

• The **Corridor Target Index** is frequently used as the operational benchmark for detailed risk analysis (such as Sharpe Ratio and Tracking Error) in performance reports across key funds (PERS, TFFR, and Legacy Fund).

The Corridor Target Index is generally understood to reflect actual portfolio weightings, as opposed to the static allocations used in the Policy Index.

BOARD ACTION: The SIB approve updated eligible position titles and the adoption of the Corridor Target Index as the measure for “Value Added” performance under the Incentive Compensation Plan.

Quarterly Report on Ends
Quarter ending September 30, 2025

Investment Program

Public Markets:

Over the past quarter, the Alpha and Funds Management (AFM) team continued advancing efforts to strengthen the structure and effectiveness of the public markets portfolio. The team progressed contract negotiations with newly approved public equity managers and conducted portfolio reviews with existing managers to evaluate positioning, performance, and outlook.

Private Markets:

The Team completed due diligence on two private equity managers that were recommended and approved by the Investment Committee. One of which recently held its fund closing and the other is still in legal due diligence. The team also revised the Ares Credit Fund investment guidelines which were approved by the investment committee. The Private Markets Team conducted approximately 113 introductory, due diligence, and monitoring meetings with prospective and current managers and strategies.

Risk:

Chief Risk Officer Nitin Vaidya retired in October; his work has been transitioned to our new hire Ross Hambrick, PM of Quantitative Risk and Funds Management, who will also focus on the development of Aladdin risk reports. Data quality challenges remain, resolution of which is expected to lead to more accurate and timely reporting.

Internal Management:

The pilot phase officially concluded at the end of the quarter with $3.6 billion in AUM across all the internally managed portfolios (including cash overlay), representing 13.56% of total AUM. The final funding came from the receipt of cash and assets in-kind from the termination of certain external managers.

Both the equity and fixed income teams discussed plans for enhancing their respective index portfolios with the Investment Committee, with more detailed discussion to follow.

The hiring process for the Public Markets Investment Analyst position remained ongoing at the end of the quarter.

Other:

- Staff continues to conduct due diligence on prospective managers/products for future consideration.
- Staff continues to monitor each client's asset allocation monthly and makes rebalancing decisions based on rebalancing policy and cash flow requirements.
- Staff attended meetings with many SIB client boards, sub-committees and/or legislative committees or representatives including TFFR, PERS, and WSI.

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MEMORANDUM

TO: **SIB**
FROM: **Adam Otteson, Chief Financial/Operating Officer**
DATE: **October 16, 2025**
RE: **Quarterly Budget/Fiscal Conditions Report**

The following is the budget and expense report for the quarter ending September 30, 2025.

Budget Status (Through September 30, 2025)

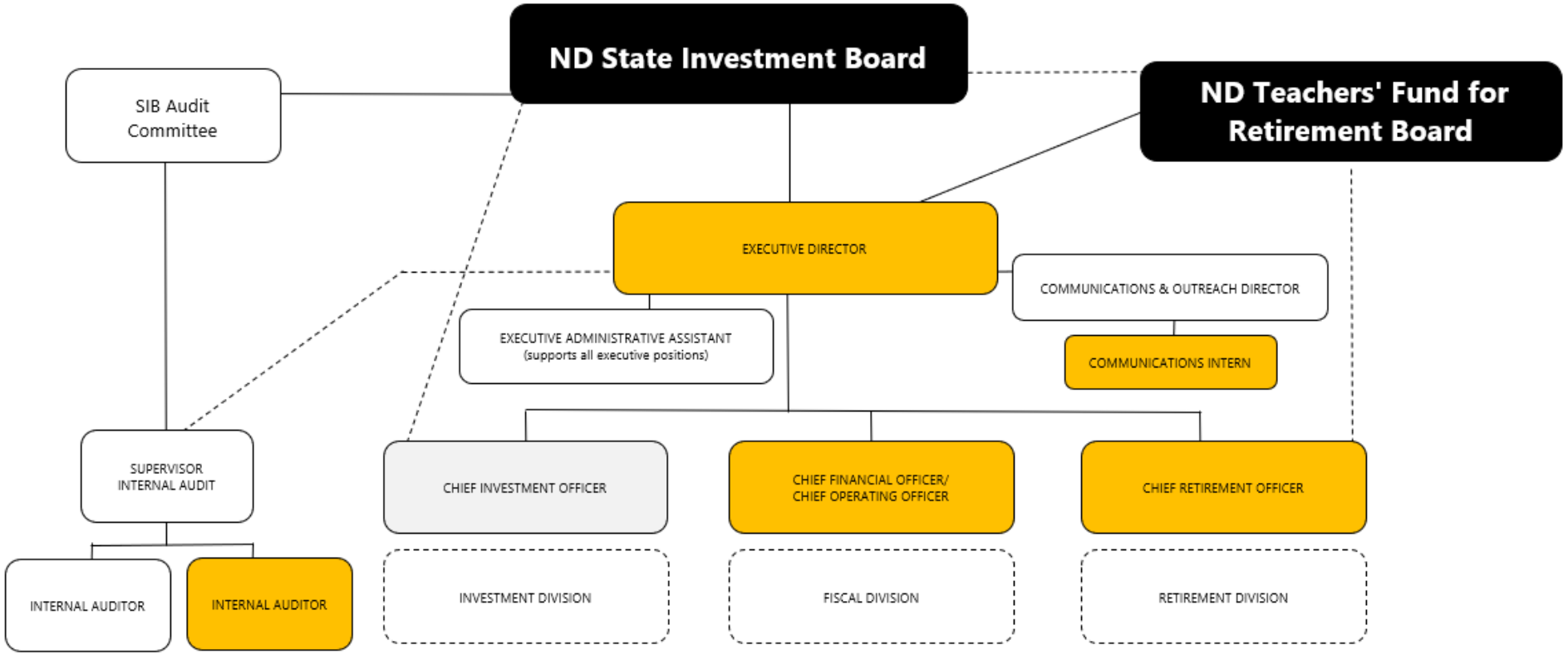
Category	Current Appropriation	Expenditures	Remaining Appropriation	% Remaining
Salaries	$12,103,659	$1,274,829	$10,828,830	89%
New and Vacant pool	470,466		470,466	100%
Operating Expenses	3,785,133	293,789	3,491,344	92%
Contingency	200,000		200,000	100%
Budgeted Expenditures	$16,559,258	$1,568,618	$14,990,640	91%
Continuing Authority		$13,508,652		
Total Expenditures		**$15,077,270**		

Board Action Requested: Board acceptance.

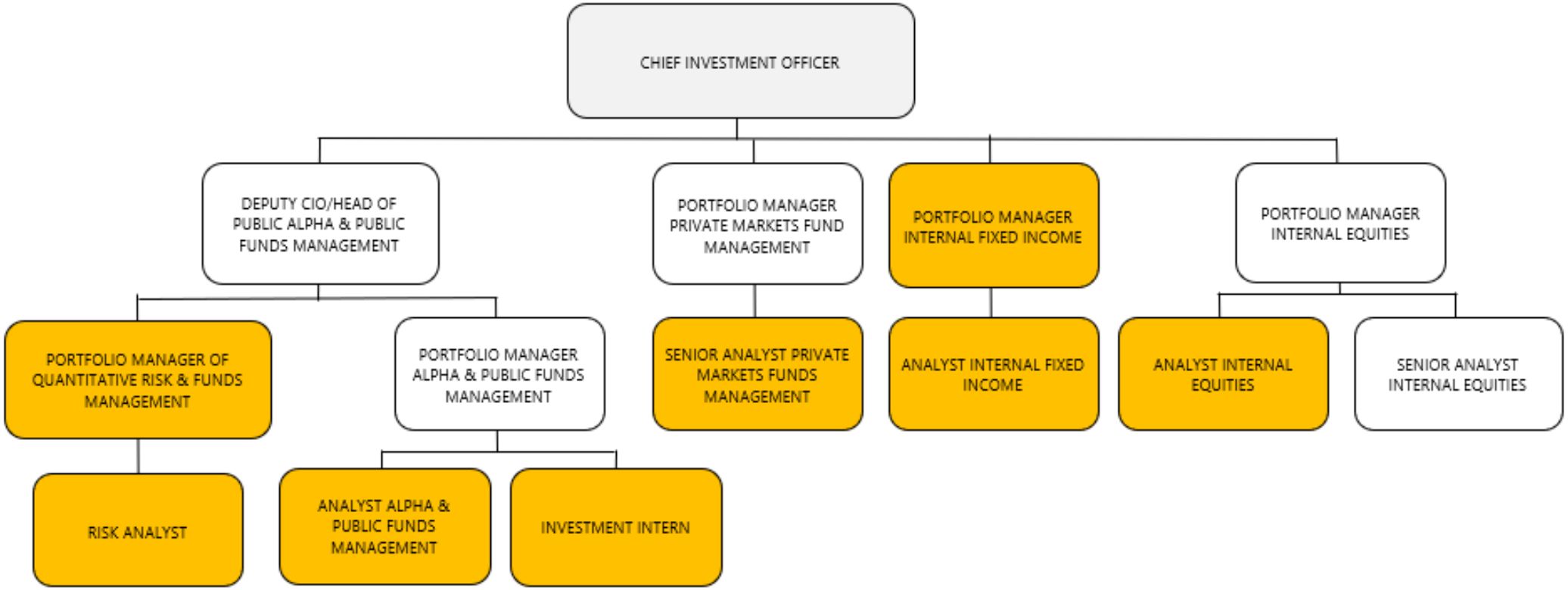
Executive Limitations

Position Title	Status
Chief Retirement Officer	Posted
Internal Auditor	Interviewing
Investment Administrative Assistant	Posting Pending
Risk Analyst	Posting Pending
Public Markets Investment Analyst	Hire Date 11/17/2025
Communications Intern	HIRED
Portfolio Manager of Quantitative Risk and Fund Management	HIRED
Accountant	HIRED
Senior Investment Operations Manager	HIRED
Deputy Chief Financial Officer	HIRED
Chief Financial Officer	HIRED

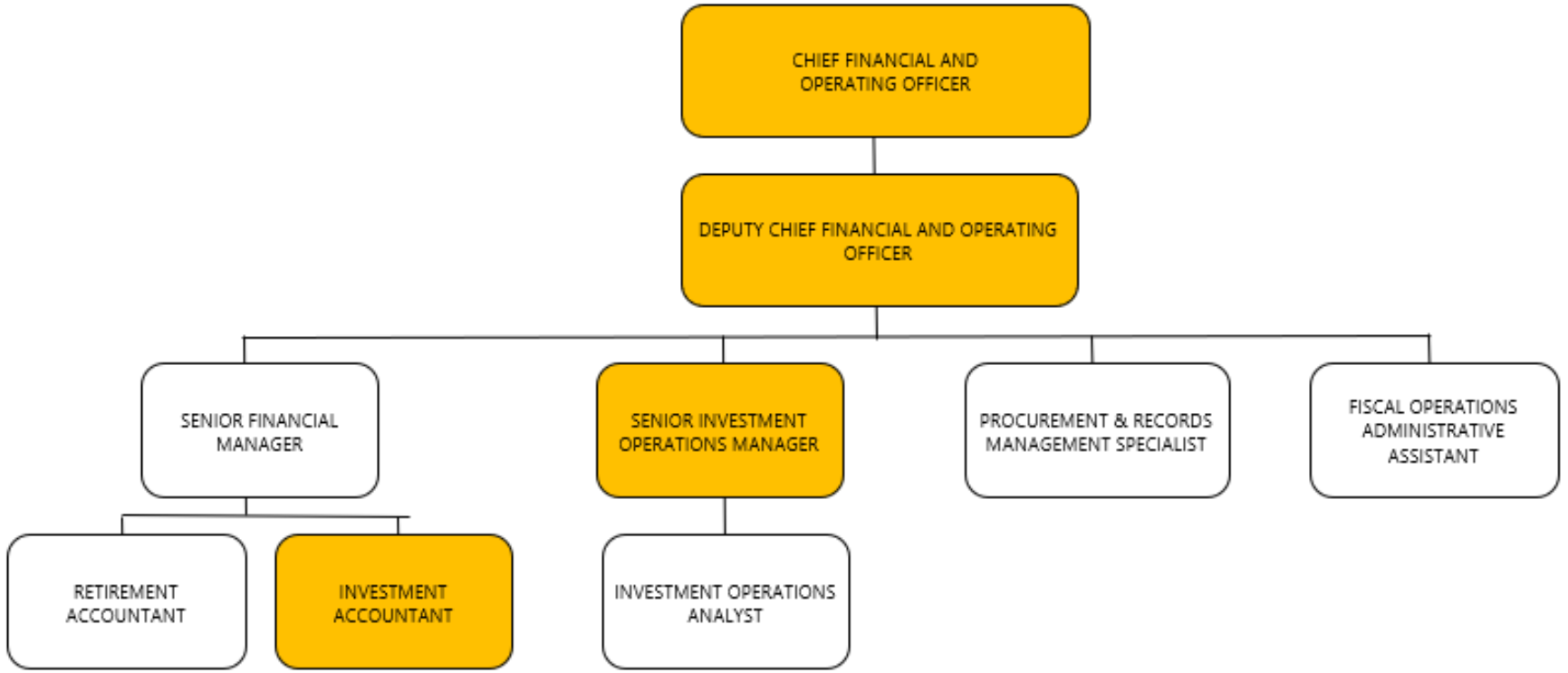
Executive Organization Chart



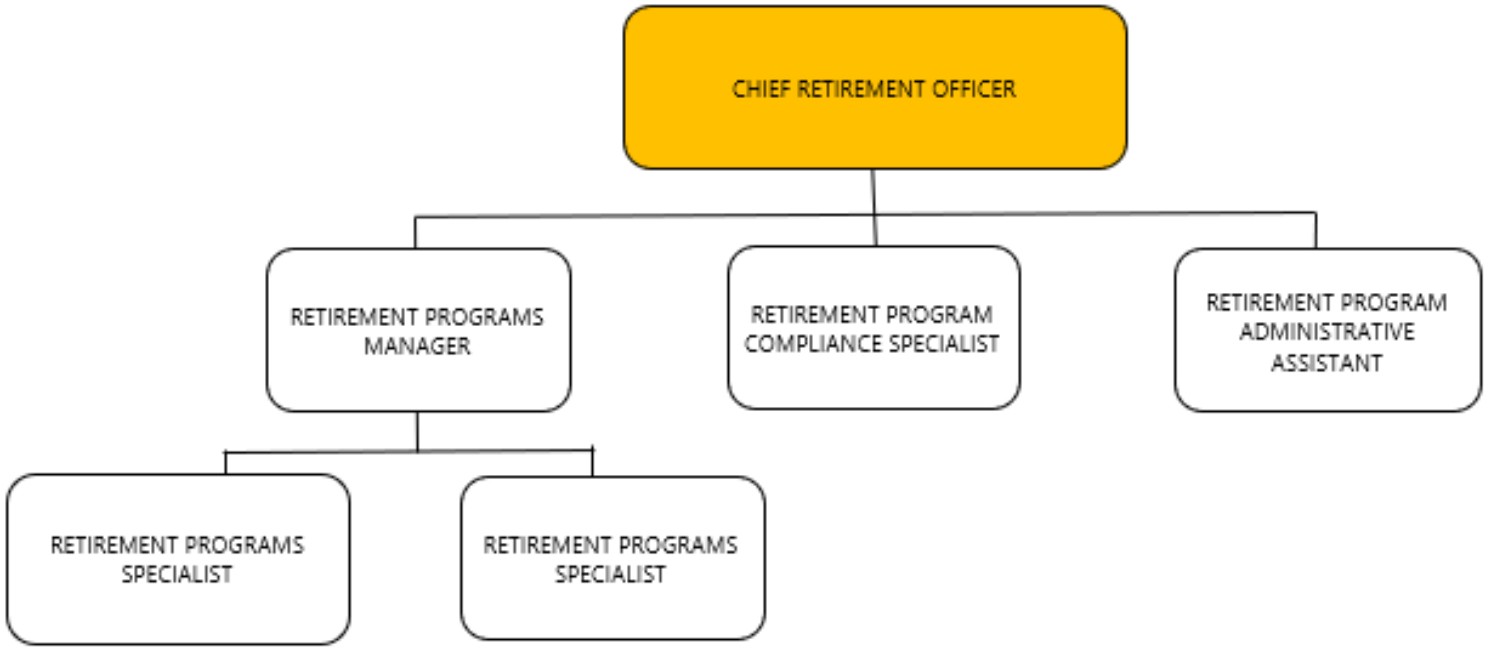
Investments Organization Chart



Fiscal and Operations Organization Chart



Retirement Organization Chart



2025 Strategic Goals

Industry Leader Initiative – Innovation in operations to excel in education, technology and talent pool.

- Recruitment and Onboarding of ED and CFO
- Transition from network folders and Teams to SharePoint
- Implementation of investment operations compliance plan

Succession & Business Continuity Planning

- Create succession plans for ED, CIO, CFO/COO

Alignment thru Continuous Improvement

- Identify pockets of innovation across the organization during regular check-ins. Small, compounding changes and innovations add up to outsized results over time.
- Governance Review

Strategic Implementation of New Statutes

- HB 1319 – Creation of Legacy Fund Transparency Website

Industry Leader Initiative

Innovation in operations to excel in education, technology and talent pool.

Recruitment and Onboarding of ED & CFO

- **COMPLETED**

Transition from network folders and Teams to SharePoint

- NOT STARTED

Implementation of investment operations compliance plan

- IN PROGRESS: The Code of Ethics has been formally adopted, with quarterly trading reviews underway and new leadership trained. Compliance is coordinating with investment and risk teams to implement an approved Exchange Trade Funds list and strengthen oversight. The Investment Committee approved the SOP for internal trade approvals and escalations, and efforts continue to align compliance data between Aladdin and Northern Trust while refining internal trading rules.

Succession & Business Continuity Planning

Create succession plans for ED, CIO, CFO/COO

- FINALIZING

Alignment thru Continuous Improvement

Identify pockets of innovation across the organization during regular check-ins. Small, compounding changes and innovations add up to outsized results over time.

- **COMPLETED** business process mapping
- **COMPLETED** identification and implementation of quick wins
- **COMPLETED** strategic planning sessions with TFFR team
- **COMPLETED** strategic planning session with Investment and Operations teams
- IMPLEMENTING AI Team

Governance Review

- IN PROGRESS

STRATEGIC IMPLEMENTATION OF NEW STATUTES

HB 1319 – Creation of Legacy Fund Transparency Website

- IN PROGRESS: The RFP draft is in progress. NDIT Business Analyst is helping develop the technical requirements. Waiting for NDIT to determine project type (if it is considered a major IT project or not) and assign additional project management resources.

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Governance Model Review

Current vs. Future State

October 24, 2025

Not intended as legal or investment advice.

Funston Advisory Services LLC



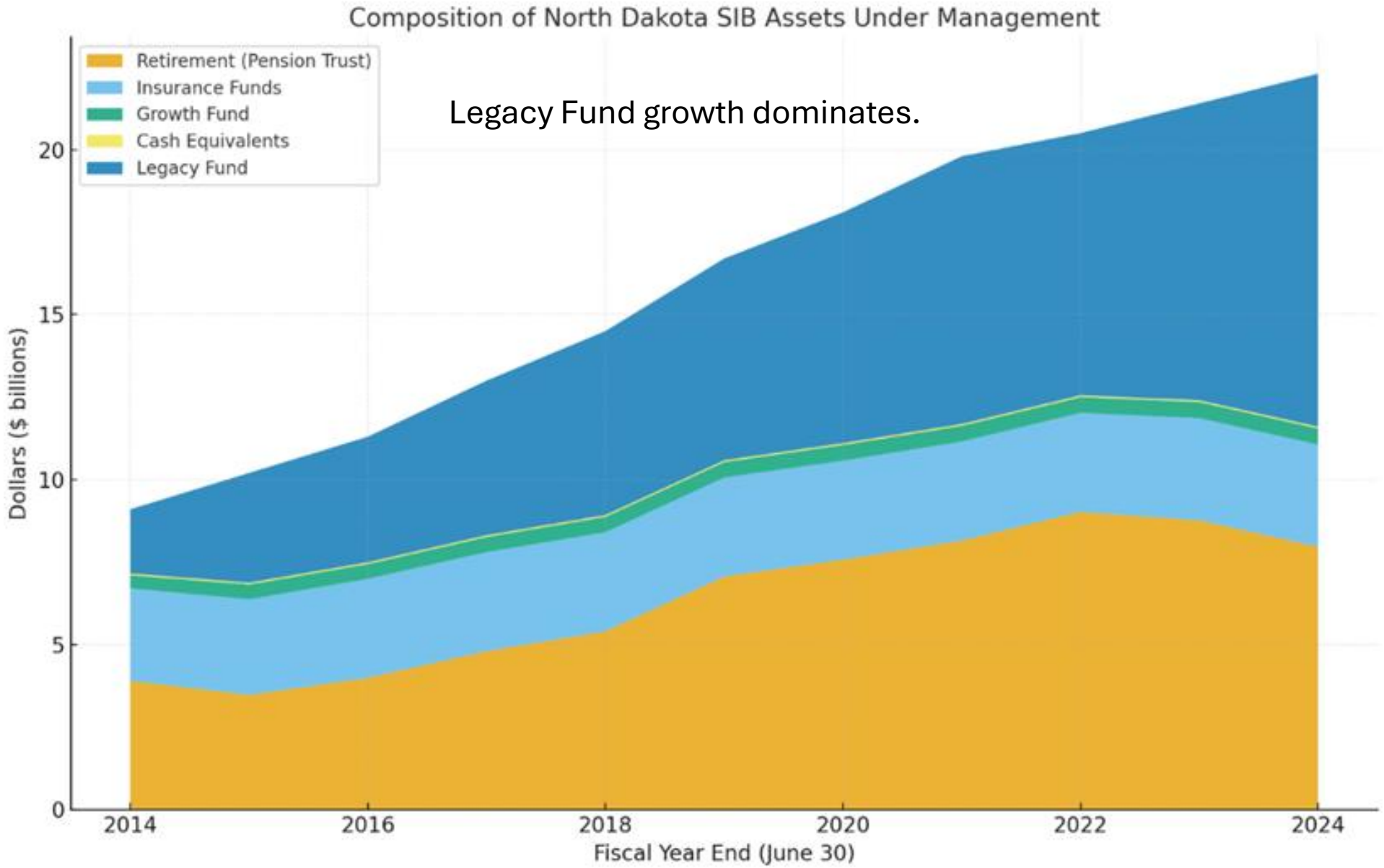
Overview

- SIB's Asset Growth (Current and Projected)
- Beneficiaries and Duties
- Governance Models Review
- Current vs. Future State
- What will it take to get there?
- Is there the will to do it?
- Next Steps

Shift Happens Fast!

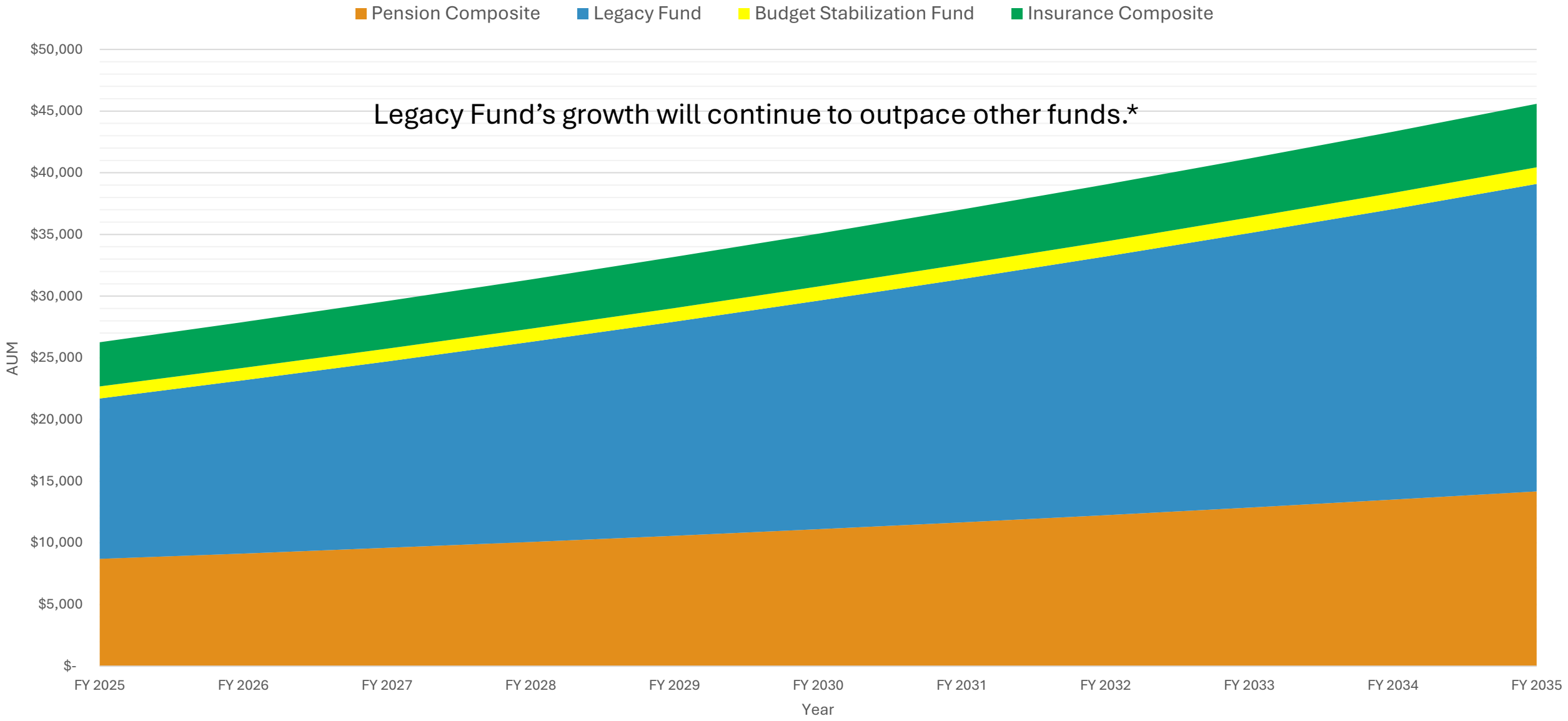
- Shifts ranging from political, geo-political, technological, demographic, energy to medical and AI are accelerating – creating a wave chain of colliding tsunamis.
- SIB is experiencing extraordinary growth rates (current and projected).
- Are SIB's governance and infrastructure (people, processes, systems) keeping pace?
- SIB recognized the need to adapt and commissioned this review.

2.5x Times Growth in Ten Years



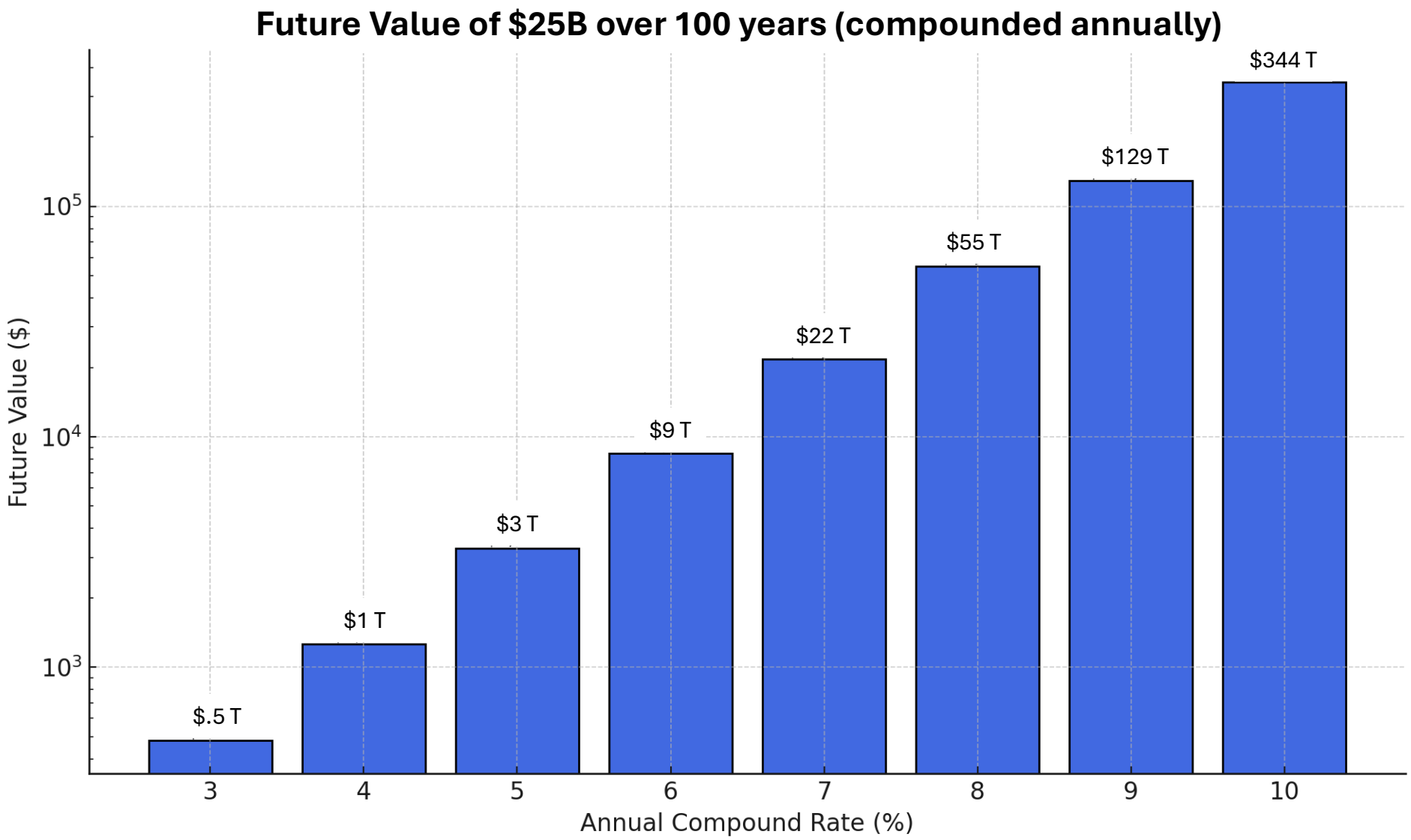
Legacy Fund growth dominates.

Projected Growth of Funds (millions)



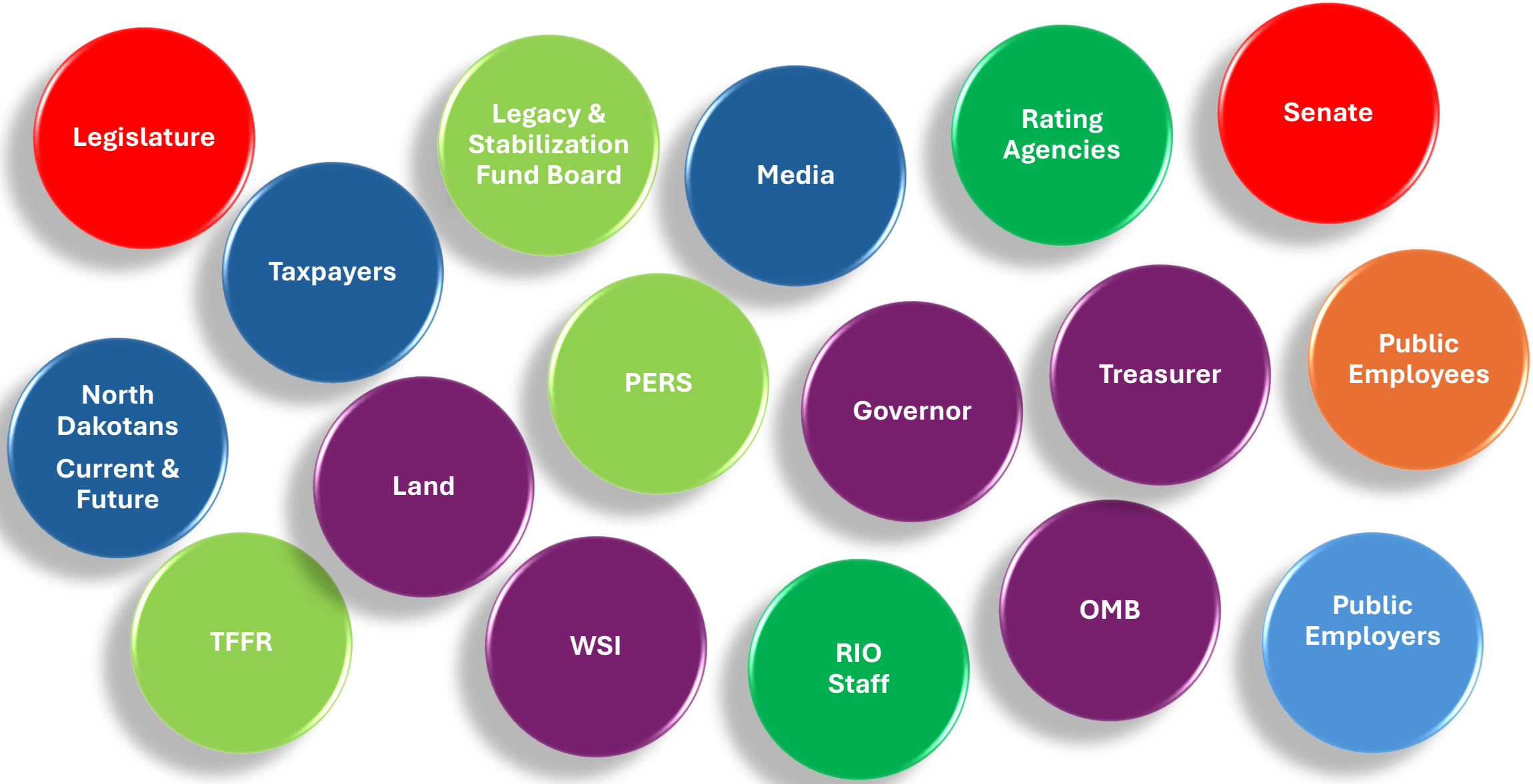
*Provided by RIO

Compounding Effect by 2125



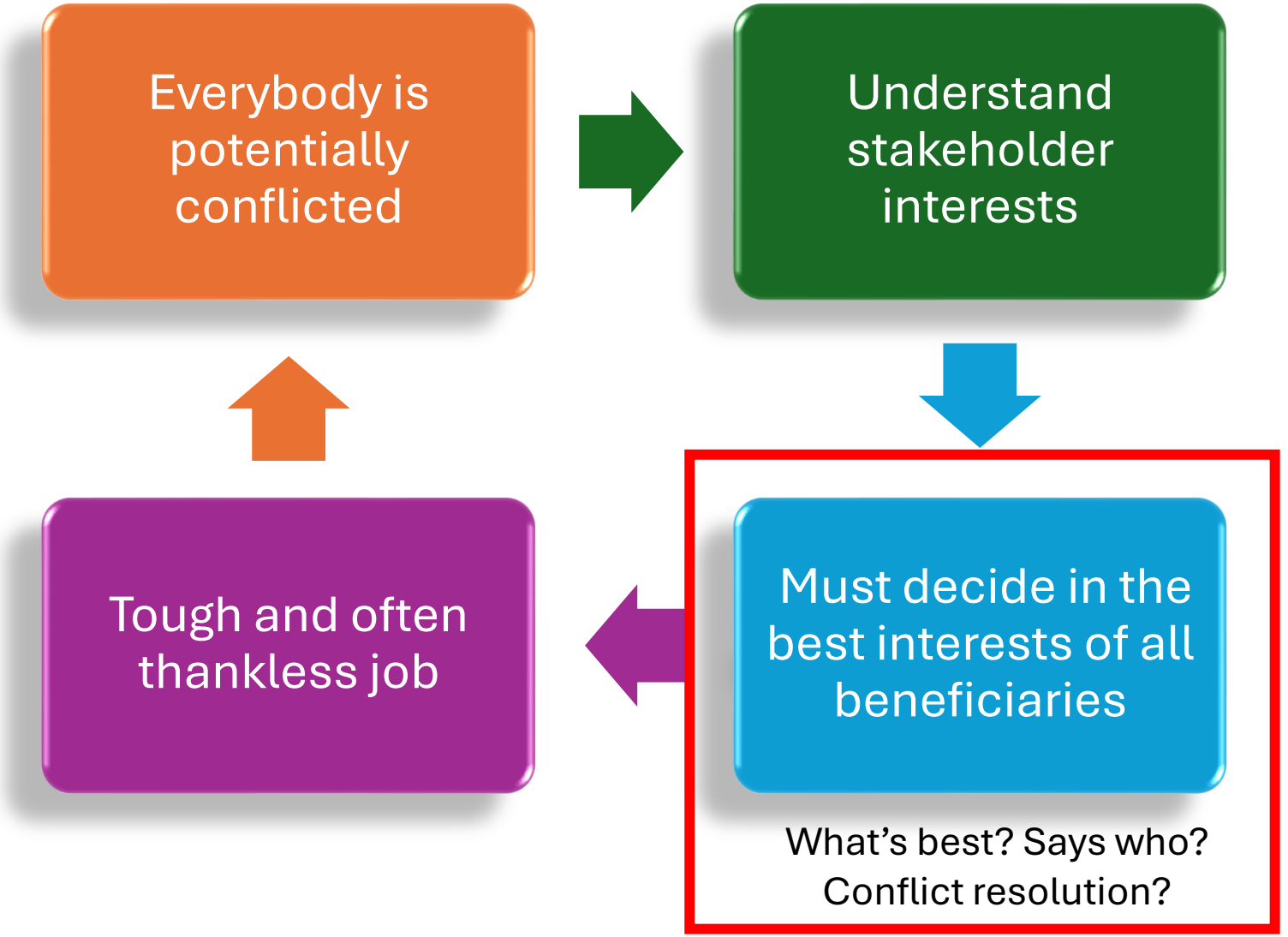
For illustrative purposes only.

Everyone in North Dakota is Affected



Resolving Group Conflicting Interests

North Dakota's legislation puts the key stakeholders in the same room and authorizes the SIB to determine what is in the best interests of the beneficiaries (who may have different priorities)

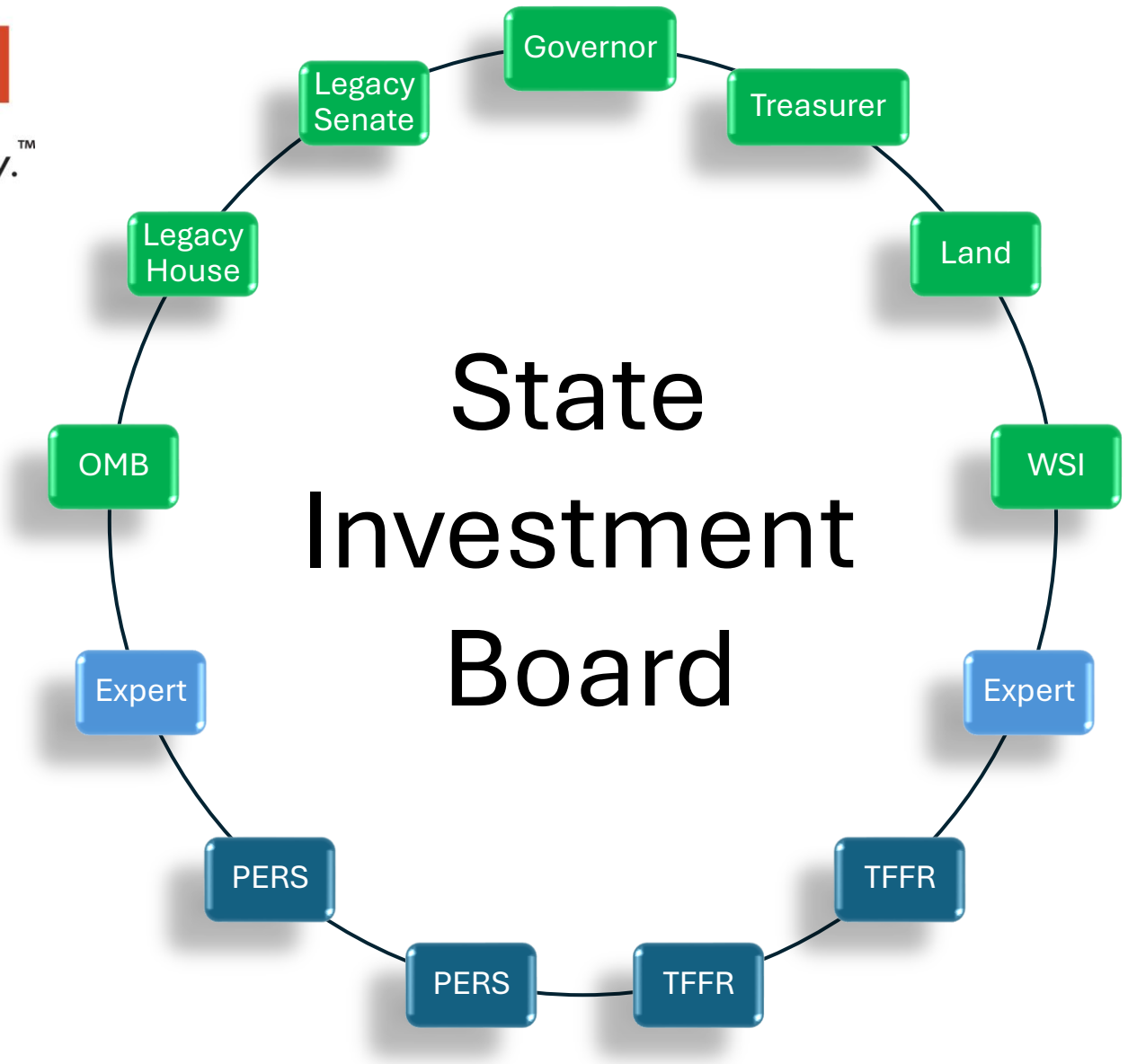


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SIB is a creation of the Legislature

- Powers Reserved for the Legislature
- Powers Delegated to the SIB

Trustees - very busy, part-time & primarily lay people



Compared to peers:

- SIB has a higher number of ex officio / legislators
- Lower number of experts

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

Governance Model Review

Purpose

- Independent review
- Report to the Board through the GPRC
- Assess current state of governance
  - Leading
  - Prevailing
  - Lagging
- Recommend future state

Principles

- Tell you what you need to hear
- Fix the problem, not the blame
- No surprises
- One Size Fits One!



Preliminary Summary

- $25 billion AUM is expected to double every ten years ≈ 7% per year
- In 100 years ≈ $22 trillion
- Strong intent to be prudent and do the right thing
- Short-termism threatens long-term returns (Governance risk)
- SIB/RIO has a mandate without authority or means
- Operational risk is increasing (≈ 55 bps in 2024-2025 – slide 20)
- Compounded effects of sub-optimization over 100 years ≈ $ 2-4 trillion
- Modernize or sub-optimize

Governance Model Review

Deliverables (Compared to Peers):

1. Evaluate the SIB Program Manual.
2. Assess the organization's framework for directing, controlling, and monitoring operations with respect to compliance, effectiveness.
3. Evaluate the reports to the board and committees from staff and consultants.
4. Benchmark the SIB governance model and Program Manual.
5. Develop a governance risk heat map identifying key vulnerabilities and oversight priorities.
6. Develop a recommended future governance review process based upon leading and prevailing peer practices.

Governance Model Review

Process

1. Document review
2. SIB Trustee & RIO Executive survey
3. Discussion document
   - Interviews
   - Peer benchmarking
   - Validation/verification of facts with RIO
4. Today's presentation: Current vs Future compared to peers and Education session.

Progress

- About halfway through review
- Still learning, analyzing and refining
- All observations, conclusions and recommendations are preliminary

Purpose of a Governance Model

- The *operating blueprint* that defines how authority, accountability, and oversight are distributed and exercised by legislators, trustees, staff, and advisors as an aid to collective decision-making in achieving the mission.
- Its purpose is to assure that fiduciary, strategic, and operational decisions are made effectively, ethically, and in alignment with the interests of the beneficiaries.
- It describes the “rules of the road” about how the Legislature, client funds, the SIB and RIO will work together.
- It should be:
  - Simple
  - Practical
  - Easy to use



Governance Models

In common: Board sets and oversees policy, Staff advise, execute, and report.

CURRENT: Carver (1970-80s)

- Built for nonprofits and health boards
- Pre-information age - too rigid
- Archaic / complex
- What not to do
- Focused exclusively on executive oversight
- Impractical / non-adaptive

FUTURE: Governance Effectiveness Model (GEM - 2020s)

- Built for public retirement and investment boards
- Flexible/ adaptive to change
- Simple
- What to do
- Practical, real-world, data-driven, continuous learning
- Focused on five powers including oversight

SIB's Cornerstone Documents

Cornerstone Documents

1. NDCC Statutory Authority
2. SIB Investment Policy
3. Governance Manual
4. Delegation Matrix

Preliminary Conclusions

- The overall conclusion is that these cornerstone documents are not aligned.
- This is causing confusion and is impairing the ability of SIB and RIO to perform as expected.

Board Governance is Collective Decision-Making



SIB Purpose



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.

Mandate Without Authority or Means



Heroic efforts but may not be sustainable:

- Legacy Fund has very high visibility.
- Demands transparency and reliability but ability is impaired by lack of fiscal staff.
- The Legislature has been very supportive of SIB.
- ND SIB has been a high performer despite statutory and organizational challenges but this is fragile as assets continue to grow rapidly.
- Because of complexity, there is stakeholder confusion about SIB's purpose and mission.
- Need to achieve the mission despite inevitable short-term pressures.

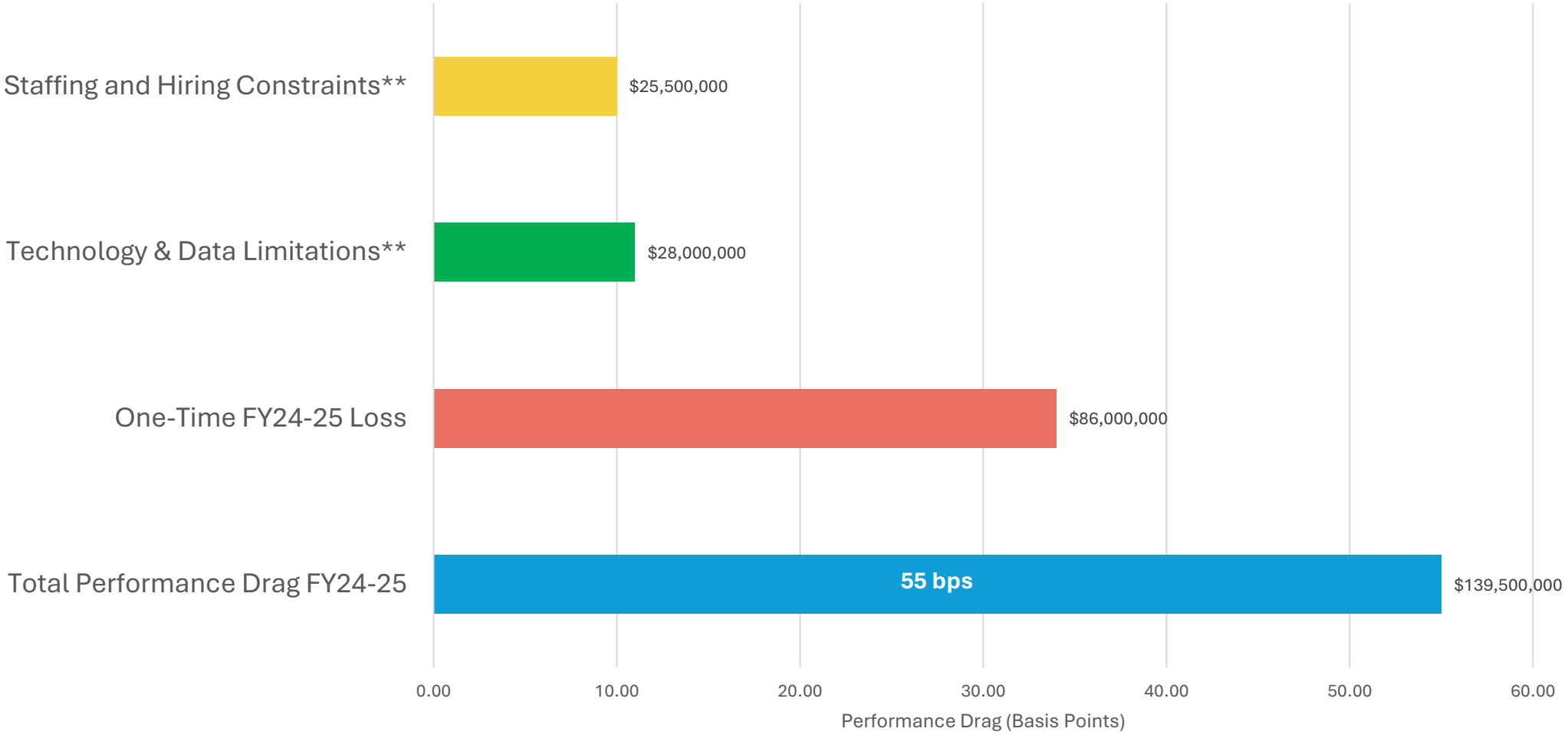
Mission may be unachievable with current infrastructure due to external factors:

- 100% executive turnover every 3 years for last ten years.
- Front Office:
  - Extremely lean staffing: only 13 FTE for $26B AUM (~$2B per staffer). One investment staff departure = 7.7% loss in capacity (highest among peers). CEM 2021.
- Fiscal- Middle and Back Office:
  - only 2 staff; peers= avg 13. CEM 2021.
  - Manual processing (ABOR and IBOR). Difficult to compare RIO to those with automated systems.
  - Rework requires Front Office and compromises independence.

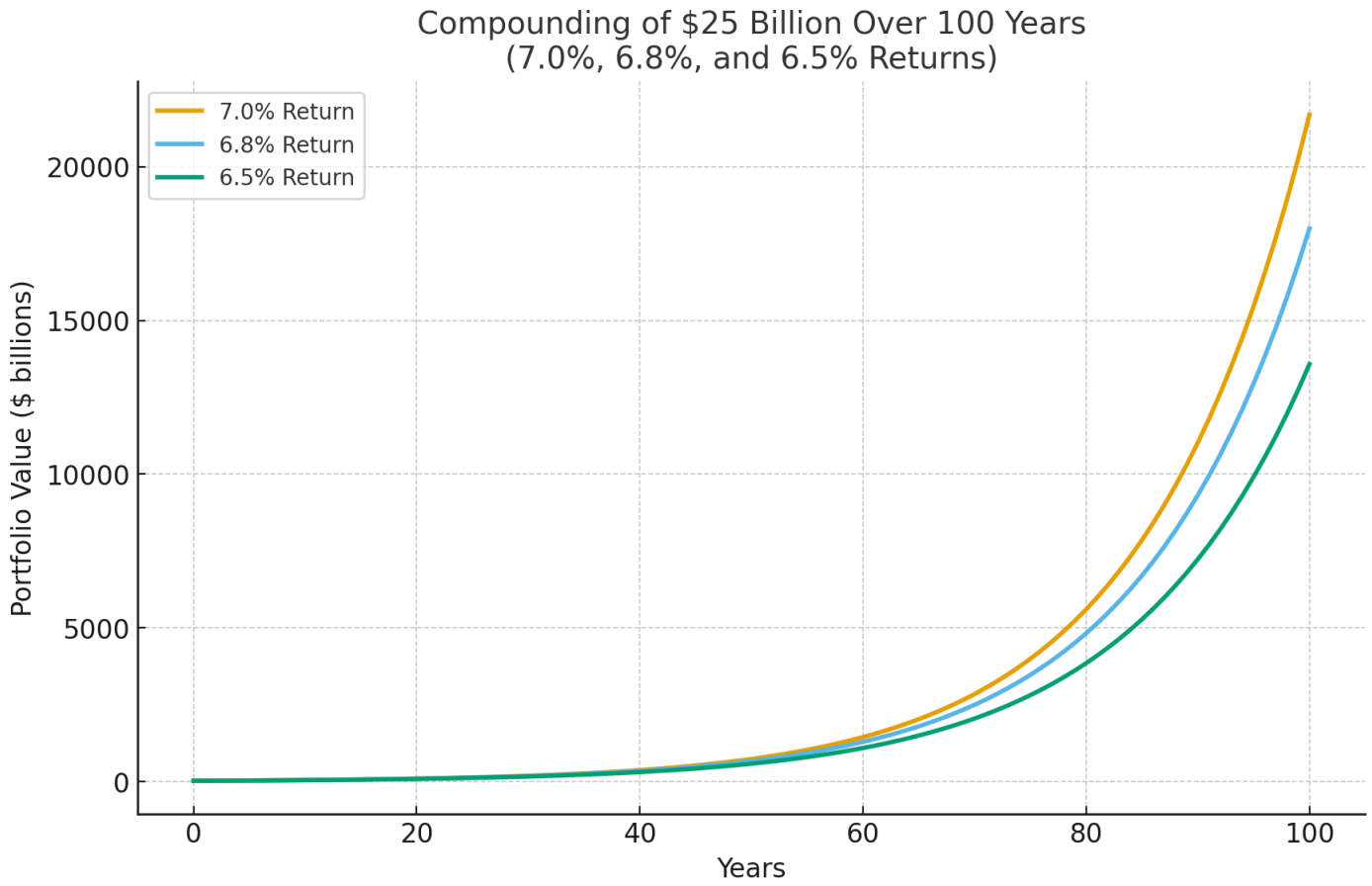
RIO is seriously under-staffed and lacking contemporary systems.
Note: RIO has not yet asked for additional fiscal and operations staff.

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





Effect of Performance Drag



A 0.5% difference in annual returns results in an **$8 trillion** difference after 100 years!

Rate of Return	Terminal Wealth	%
7%	$ 22 trillion	100
6.8%	$ 18 trillion	-18%
6.5%	$ 14 trillion	-36%

Lean is efficient, anorexic is not



Decision-Making Efficiency	SIB's decision speed is impaired by lengthy asset allocation processes, lack of timely legal advice, unclear delegations and the time to obtain legislative approvals.
Resource Efficiency	Headcount restraints result in sub-optimal allocation of staff, consultant, and external manager resources to deliver the highest net value-added per dollar spent. SIB lacks essential fiscal staffing and systems support.
Process Efficiency	Workflows, reporting, and governance routines are cumbersome and increase the administrative burden, distracting trustees and staff from focusing on high-impact strategic issues.
Capital Efficiency	Lack of personnel and systems impair the rapid deployment of financial capital to liabilities, benchmarks, and opportunity costs — including ineffective rebalancing, liquidity management, and transaction execution.
Time Horizon Efficiency	There are numerous short-term distractions and political pressures that dilute SIB's long-term compounding potential, which negatively impact strategic priorities and multi-decade fiduciary goals.

What does it all mean?



SIB and client funds have complete discretion over $26 billion in assets but cannot hire a clerk or buy a computer without legislative approval (even though the expenses are paid by the funds themselves and not the State's General Fund).

Current State

- SIB/RIO lacks essential infrastructure authority and resources for critical areas within its responsibility.
- Very high burn out / turnover / prolonged vacancies.
- Capital markets are among the world's most competitive for talent.
- Both scale and depth are very limited compared to peer institutions.

Implications

- High and increasing operational and reputational risk.
- ND SIB is efficient but fragile. Risks include key-person dependency, limited oversight bandwidth, and succession vulnerability.
- If internal management expands, additional FTEs are essential to mitigate risk while still saving fees.
- Board should consider aligning staffing with peer norms (~$500M–$1B per FTE including middle and back office) to reduce operational exposure.

ND SIB's Mission – Current State



"Trust, like reputation, is gained in inches per year and lost in feet per second."

For largely legislative factors, SIB is currently sub-optimizing return with an increasing level of risk (operational and reputational).

- Can't scale essential infrastructure with the rate of asset growth (people, processes, systems).
- Lacks authority to achieve mission and fulfill duties:
  - Incurring higher costs
  - Leaving money on the table
  - High compounding effects over long-term (trillions)
- Examples (see following pages)
  - Technology: e.g., Great Plains
  - Private equity opportunities / expirations due to slow legal approvals
  - Staffing

The Threat of Short-termism: A Governance Risk



- **Definition: Focus on immediate results at the expense of sustained value creation.**
  - Distorted Decisions: Chasing quick gains over long-term investment.
  - Missed Compounding: Disrupts time-driven wealth building.
  - Higher Costs & Volatility: Higher expenses, missed opportunities.
  - Loss of Trust: Stakeholders see reactive behavior.
  - Governance Drift: Higher turnover (legislature, board & executive) can lead to policies shifts, undermining continuity.
- **Bottom Line: Short-termism undermines patient capital and weakens the ability to meet long-horizon obligations and/or maximize returns.**

Drivers of Short-termism



Market & Performance Pressures

- Quarterly earnings focus → 'beat the quarter' mentality
- Benchmark fixation → short-term index comparisons
- Compensation structures tied to annual performance.

Governance & Political Cycles

- Election cycles push for quick wins.
- Board turnover disrupts continuity.
- Legislative oversight imposes near-term budget control.

- **Stakeholder Expectations**
  - Media and public scrutiny drive reactive decisions.
  - Beneficiary impatience for immediate results.
  - Consultant evaluations hinge on 1–3-year returns.
- **Structural & Cultural Factors**
  - Liquidity obsession favors easily tradable assets.
  - Risk aversion to short-term underperformance.
  - Institutional inertia reinforces short-term metrics.

Governance is a Performance Driver



Governance Factor	Measured Impact	Evidence Source
Board Competence and Independence	+0.5–1.0% annual value added	Ambachtsheer, ICPM
Strategic Clarity and Policy Stability	+0.5–0.7%	ICPM, CEM
Internal Management Capability	+0.3–0.6%	CEM Benchmarking
Long-Term Investment Horizon (low turnover)	+1.0% compounded	Ambachtsheer, ICPM
Total Expected Governance Alpha	**1–2% per year**	Aggregate across studies

See Key Studies and Papers at the end of this deck

ND SIB's Mission – Future State



Sustaining fiduciary excellence and achieving patient capital and internalization ambitions will require:

- expanded authority
- modern infrastructure, and
- staffing aligned with peer norms to mitigate short-termism, operational fragility, and leadership churn.

Relationships



"When you are dying of thirst, it's too late to start digging a well." Japanese Proverb

Current State

Everyone in the State is affected

- General Public
- Beneficiaries
- Client funds (Legacy, TFFR, PERS, other boards on request)
- Legislature / Executive Branch
- the SIB/RIO

Majority of ED and CIO time is spent on relationships

Future State

- Relationships are critical
- Need proactive communications about purpose of each of the funds
- Communications are never fixed

Fiduciary Duties



Duties

- **Loyalty**
  - Maximize returns with a prudent level of risk
  - All current and future beneficiaries
- **Prudence (compared to peers)**
  - Diversification
  - Reasonable cost
  - Authority & resources to do the job
- **Compliance**
  - Laws
  - Plan documents
  - Policies

Fiduciary Duties



Current State

- Highest legal standards of loyalty and care.
- Prudent investor standard means taking into consideration peer practices.
- SIB/RIO has responsibility without authority and resources.
- It knows what needs to be done but lacks the fiscal authority (e.g., procurement, headcount, compensation, information systems, legal advice) and resources to build the infrastructure in a timely manner.
- SIB is sub-optimizing returns due to factors beyond its control.
- Operational risk is high and increasing and therefore mission and fiduciary duty is at risk.

Current State: SIB's 5 Powers

Conduct Business	Set Direction	Approve/ Delegate	Oversee Performance / Risk	Verify
Professional and ethical culture, with **strong fiduciary intent focused on beneficiaries.** Trustees understand the importance of patient capital investing. Board relationships are collegial but need constructive challenge and broader engagement. Committee authorities may bypass the full Board Committees should not include voting staff	**Policies are internally inconsistent and incompatible with SIB's actual authorities.** Carver model assigns SIB greater authority than NDCC provides **Set vs. Advise/Veto?** Creates confusion and unrealistic expectations Reality that different funds have different beneficiaries and time horizons won't change	**SIB has the lowest level of authority / autonomy in the nation.** **Can only recommend vs. approve and there are significant delays.** **Can't scale quickly.** Overall delegation of authority is SIB's weakest dimension due to statutory and structural constraints. SIB cannot retain independent counsel without Attorney General approval resulting in operational & contractual delays.	Investment oversight is strong, but **enterprise oversight (operations, compliance, HR, technology, and risk) is underdeveloped. No ERM or Compliance.** **Operational risk is increasing rapidly.** Reports are rich in detail but poor in intelligence and insight. Oversight focuses on short-term performance reporting. No exception-based reporting with drill-down capability.	**Verification and reassurance mechanisms are weak and fragmented despite Internal Audit's best efforts.** Limited availability of independent advisors, inadequate staffing of internal audit. Chronic gaps in manager System and Organization controls (SOC) compliance (66%). No formally required attestations. **No continuous improvement feedback loop is in place.**

Conduct Business



Current State

- Governance manual complex, archaic, outdated and confusing.
- SIB needs to make better use of time – spend more time on policy.
- Spend less time on presentations / more time on dialogue.
- Board needs constructive challenge / broader engagement.
- No development plans despite steep learning curve.
- Board onboarding and education valuable but can feel more like overboarding / waterboarding.
- No mentoring.
- Annual Executive Director evaluation process should be reviewed.

Conduct Business



Future State

- Completely overhaul governance manual -Develop unified, principle-based policy.
- Align agendas with powers: Conduct, Set, Approve, Oversee, Verify.
- Build-in constructive challenge:
  - Provide example questions to be asked - assume materials have been read.
- Streamline onboarding to make it more digestible – allow for individualization – different learning styles.
- Consider mentoring.
- Overhaul Executive Director evaluation.

Role of Committees



Current Committees

- Investment
- Audit
- Executive Review & Compensation Committee
- Governance and Policy Review
- Securities Litigation

Purpose

- Leverage the time of the board
  - Approve (within limits)
  - Research and recommend
  - Oversee
  - Verify
- Deeper dives
- Specialization
- Communication with the Board

Committees



Current State

- Staff are voting members
- Lack of clarity about
  - Committee authorities vs. Board
  - Committee appointments
- Should Securities Litigation be a Standing Committee?

Future State

- Only trustees vote - Staff advise
- Clarify committee mandates / delegations

Set Direction and Policy



Current State

- Client funds and SIB mutually decide Asset allocation / Investment Policy Statements - very time consuming.
- Policies overly detailed and fragmented; Good policy content but poor alignment, flexibility, and integration; impairs agility and clarity.
- Transactional not strategic.

Future State

- Align policies with mission, risk appetite, and long-horizon strategy.
- Establish triennial policy review and horizon scanning process.
- Require Strategic Policy Options:
  - Issues / Stakeholders affected
  - Range of options available
  - Least to most
  - Pros and cons as seen by stakeholders
  - Recommendations in best interests of beneficiaries depending on type of fund.

Approve then Delegate



Current State

SIB has little decision authority and is more advisory.

- Legislative line-item budgeting severely restricts flexibility.
  - SIB has no latitude for budget, legal counsel, or staffing, technology (infrastructure cannot keep pace).
- SIB to Delegation to Committees to RIO (inconsistent)
  - Investment Committee has authorities to approve not just recommend.
  - Manager selection (not delegated) vs. Internal Management (delegated).
  - Opportunistic or emergency actions require full board reapproval.
- Governance bottleneck:
  - Structural and statutory barriers prevent effective delegation, slowing decision-making increasing expenses and lost opportunity costs.

Budget Authority Delegation Spectrum



Line-by-Line	Not-to-Exceed	Block/ Category	Delegated + Reporting	Maximum Delegation	Canada Model	Sovereign Wealth Funds
Maximum control with minimum discretion. Legislature approves expenditures at the most detailed level (individual line items). Virtually no discretion; every change requires legislative action.	Legislature sets caps for broad purposes. Some discretion within limits; cannot exceed without approval.	Appropriations in broad blocks (e.g., personnel, operations, capital). Flexibility within blocks, legislative approval needed to move funds.	High discretion with structured oversight. Legislature sets policy and expects management to operate within guidelines; oversight shifts from pre-approval to post-monitoring. Shared authority with accountability. Enables timely decisions, requires strong transparency and accountability systems.	Full management autonomy under policy. Legislature sets high-level policy and appropriations; intervenes only on exceptions or policy violations. Board has wide discretion, makes all operational and investment decisions, and reports outcomes periodically. Oversight through reporting, audits, governance—not line-item control.	Statutory boards with professionals; arm's-length governance. Independent boards appoint/oversee professional management. Full operational and investment autonomy within fiduciary mandate.	Government sets the law and broad mandate. Day-to-day and strategic investment decisions made entirely by fund boards and professional staff. Legislative/ executive involvement limited to funding rules, withdrawals, and macro policy alignment.

Current State

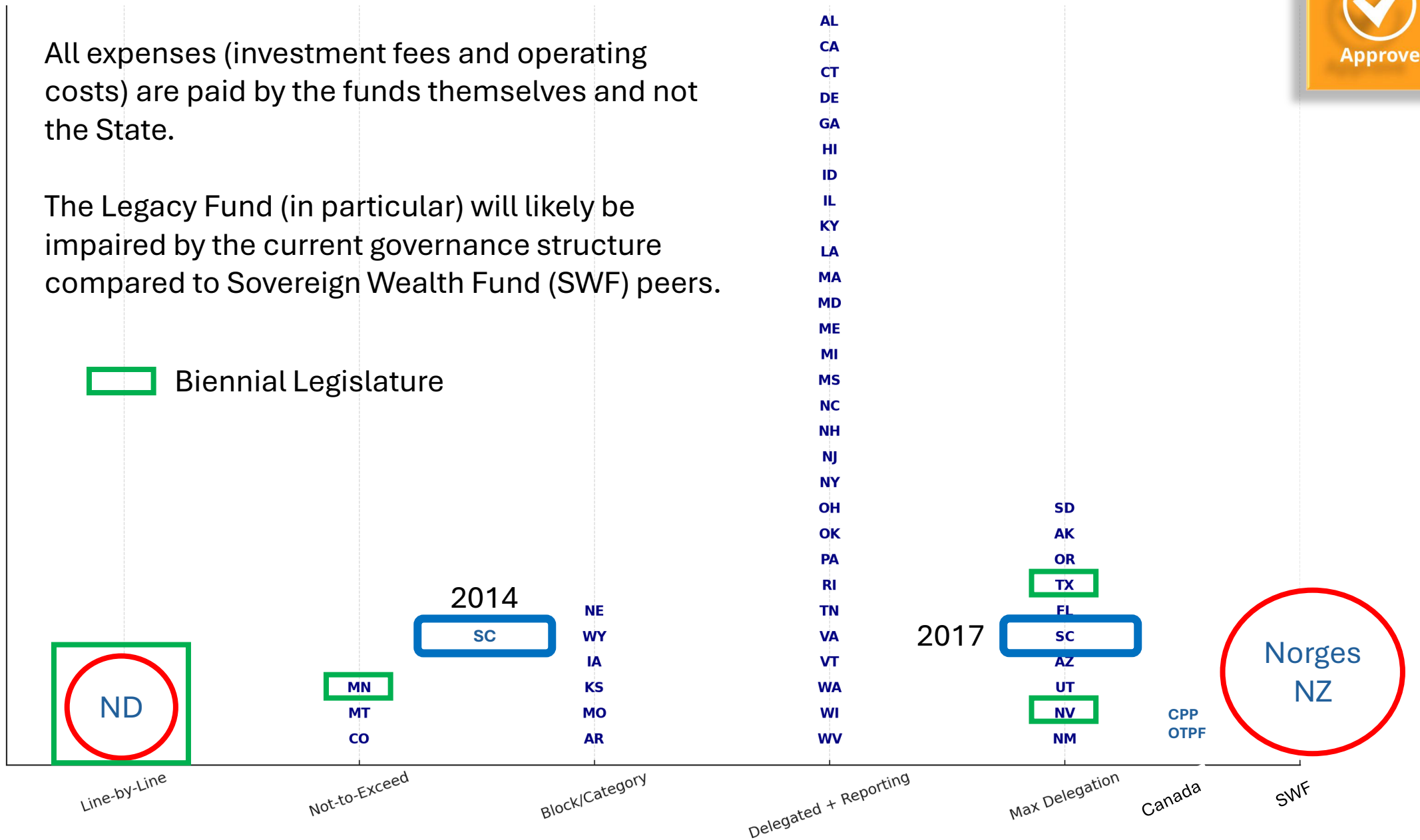
Key Decisions	Decision Makers						
	Governor	Legislature	ND Agency	Client Funds	SIB	Committee	RIO
Purpose / Mission		✓					
Board Composition		✓					
Board Appointments	✓						
Committee Structure					✓		
Asset Allocation				✓	✓		
Invest Policy Statement							
Invest Manager Selection						IC	✓
Internal Investment							✓
Litigation						SL	
Board Policies						GPR	
ED Selection/Eval						ERR	
SIB Operating Budget		✓					
HR			OMB				
IT			NDIT				
Procurement			OMB				
Independent Legal			AG				
External Auditor			SAO				

Budget Authority Continuum (50 States* + SWFs)

All expenses (investment fees and operating costs) are paid by the funds themselves and not the State.

The Legacy Fund (in particular) will likely be impaired by the current governance structure compared to Sovereign Wealth Fund (SWF) peers.

Biennial Legislature



*National Association of State Retirement Administrators (NASRA) 2019

Where is the Board?



4 Lines Model

Legislature
Not fiduciaries

Source of Funds
Fiduciary Responsibility
Authority & Resources

ND SIB Board & Committees
Fiduciaries

Executive Director RIO
(Reasonable Assurance)

Independent Reassurance

1st Line
Officers and Staff
Investment
$26B AUM
Retirement
85,000 North Dakotans

2nd Line
Officers and Staff
Inhouse
Fiscal -Middle/Back office
Compliance (Outsourced)
No ERM
Sister Agency
Procurement
HR / IT
Legal (AG)

3rd Line
Internal Audit

4th Line
SAO
External Audit
3rd Parties
Investment
Legal
Governance

Approve then Delegate



Future State

- Completely redo and simplify and align Governance Manual, IPS & Delegation Matrix.
- Seek statutory modernization under NDCC §21-10-02:
  - Consider ND Financial Institutions example.
  - Introduce conditional delegation (e.g., preset caps for investment hires/technology spending).
  - Advocate for limited operational autonomy within fiscal accountability frameworks.
  - Develop a migration path with sunset reviews.
- Adopt a Four Lines Model of Assurance and Reassurance.

Oversee Performance and Risk



Current State

- Strong investment oversight and transparent reporting but lack fiscal support.
- Limited risk intelligence and enterprise integration e.g., operational risk
- Overloaded with investment detail, leaving little time for discussion of strategic risk or long-term performance drivers..
- No integrated risk dashboard summarizing financial, operational, and compliance metrics.
- No Enterprise Risk Management (ERM) or Compliance position or process.
- Can’t see forest because of the trees
- Presentations not dialogue
- Lack clear link to Investment policy statement / expectations
- Focus on quarterly reports (performance attribution), not long-term risk-adjusted value creation or operational capacity

Reading the Sheet Music to the Audience

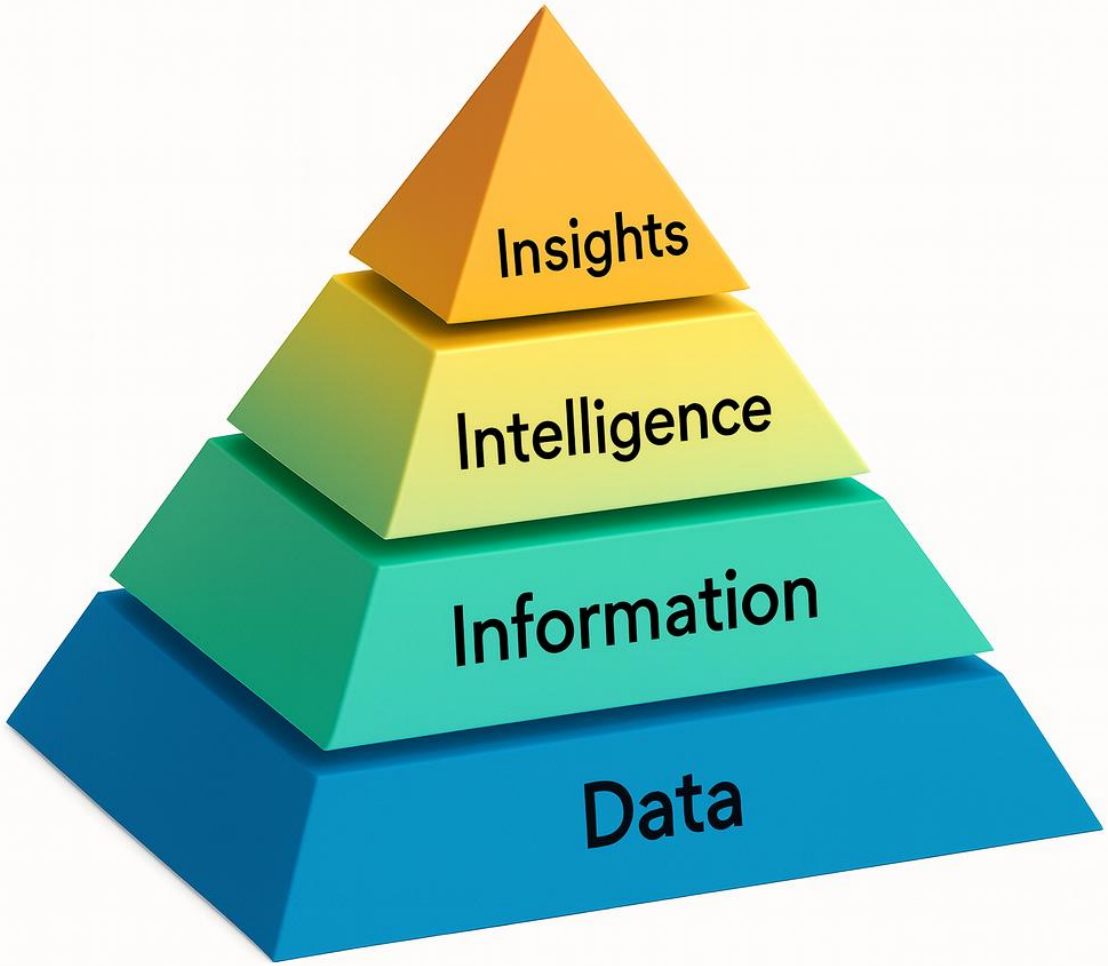
Total Fund

Performance Summary (Net of Fees) Period Ending: March 31, 2023

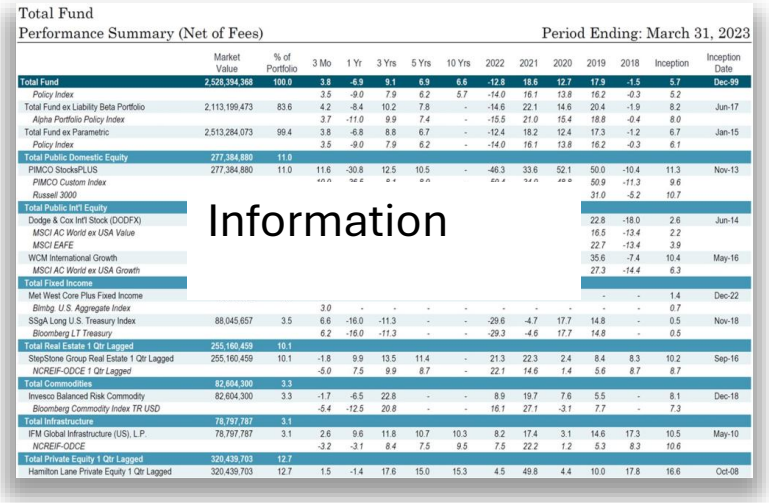
	Market Value	% of Portfolio	3 Mo	1 Yr	3 Yrs	5 Yrs	10 Yrs	2022	2021	2020	2019	2018	Inception	Inception Date
Total Fund	**2,528,394,368**	**100.0**	**3.8**	**-6.9**	**9.1**	**6.9**	**6.6**	**-12.8**	**18.6**	**12.7**	**17.9**	**-1.5**	**5.7**	**Dec-99**
Policy Index			*3.5*	*-9.0*	*7.9*	*6.2*	*5.7*	*-14.0*	*16.1*	*13.8*	*16.2*	*-0.3*	*5.2*	
Total Fund ex Liability Beta Portfolio	2,113,199,473	83.6	4.2	-8.4	10.2	7.8	-	-14.6	22.1	14.6	20.4	-1.9	8.2	Jun-17
Alpha Portfolio Policy Index			*3.7*	*-11.0*	*9.9*	*7.4*	-	*-15.5*	*21.0*	*15.4*	*18.8*	*-0.4*	*8.0*	
Total Fund ex Parametric	2,513,284,073	99.4	3.8	-6.8	8.8	6.7	-	-12.4	18.2	12.4	17.3	-1.2	6.7	Jan-15
Policy Index			*3.5*	*-9.0*	*7.9*	*6.2*	-	*-14.0*	*16.1*	*13.8*	*16.2*	*-0.3*	*6.1*	
Total Public Domestic Equity	**277,384,880**	**11.0**												
PIMCO StocksPLUS	277,384,880	11.0	11.6	-30.8	12.5	10.5	-	-46.3	33.6	52.1	50.0	-10.4	11.3	Nov-13
PIMCO Custom Index			*10.0*	*-36.5*	*8.1*	*8.0*	-	*-50.4*	*34.0*	*48.8*	*50.9*	*-11.3*	*9.6*	
Russell 3000			*7.2*	*-8.6*	*18.5*	*10.5*	-	*-19.2*	*25.7*	*20.9*	*31.0*	*-5.2*	*10.7*	
Total Public Int'l Equity	**270,163,807**	**10.7**												
Dodge & Cox Int'l Stock (DODFX)	132,842,726	5.3	6.1	-0.4	17.3	2.9	-	-6.8	11.0	2.1	22.8	-18.0	2.6	Jun-14
MSCI AC World ex USA Value			*5.3*	*-3.3*	*14.5*	*1.9*	-	*-8.0*	*11.1*	*-0.2*	*16.5*	*-13.4*	*2.2*	
MSCI EAFE			*8.6*	*-0.9*	*13.5*	*4.0*	-	*-14.0*	*11.8*	*8.3*	*22.7*	*-13.4*	*3.9*	
WCM International Growth	137,321,080	5.4	10.4	-5.4	13.8	8.8	-	-28.6	17.2	33.1	35.6	-7.4	10.4	May-16
MSCI AC World ex USA Growth			*8.6*	*-6.4*	*9.5*	*3.4*	-	*-23.1*	*5.1*	*22.2*	*27.3*	*-14.4*	*6.3*	
Total Fixed Income	**158,893,129**	**6.3**												
Met West Core Plus Fixed Income	70,847,472	2.8	3.7	-	-	-	-	-	-	-	-	-	1.4	Dec-22
Blmbg. U.S. Aggregate Index			*3.0*	-	-	-	-	-	-	-	-	-	*0.7*	
SSgA Long U.S. Treasury Index	88,045,657	3.5	6.6	-16.0	-11.3	-	-	-29.6	-4.7	17.7	14.8	-	0.5	Nov-18
Bloomberg LT Treasury			*6.2*	*-16.0*	*-11.3*	-	-	*-29.3*	*-4.6*	*17.7*	*14.8*	-	*0.5*	
Total Real Estate 1 Qtr Lagged	**255,160,459**	**10.1**												
StepStone Group Real Estate 1 Qtr Lagged	255,160,459	10.1	-1.8	9.9	13.5	11.4	-	21.3	22.3	2.4	8.4	8.3	10.2	Sep-16
NCREIF-ODCE 1 Qtr Lagged			*-5.0*	*7.5*	*9.9*	*8.7*	-	*22.1*	*14.6*	*1.4*	*5.6*	*8.7*	*8.7*	
Total Commodities	**82,604,300**	**3.3**												
Invesco Balanced Risk Commodity	82,604,300	3.3	-1.7	-6.5	22.8	-	-	8.9	19.7	7.6	5.5	-	8.1	Dec-18
Bloomberg Commodity Index TR USD			*-5.4*	*-12.5*	*20.8*	-	-	*16.1*	*27.1*	*-3.1*	*7.7*	-	*7.3*	
Total Infrastructure	**78,797,787**	**3.1**												
IFM Global Infrastructure (US), L.P.	78,797,787	3.1	2.6	9.6	11.8	10.7	10.3	8.2	17.4	3.1	14.6	17.3	10.5	May-10
NCREIF-ODCE			*-3.2*	*-3.1*	*8.4*	*7.5*	*9.5*	*7.5*	*22.2*	*1.2*	*5.3*	*8.3*	*10.6*	
Total Private Equity 1 Qtr Lagged	**320,439,703**	**12.7**												
Hamilton Lane Private Equity 1 Qtr Lagged	320,439,703	12.7	1.5	-1.4	17.6	15.0	15.3	4.5	49.8	4.4	10.0	17.8	16.6	Oct-08



Data – Insights Pyramid







Total Fund
Performance Summary (Net of Fees)
Period Ending: March 31, 2023

Information

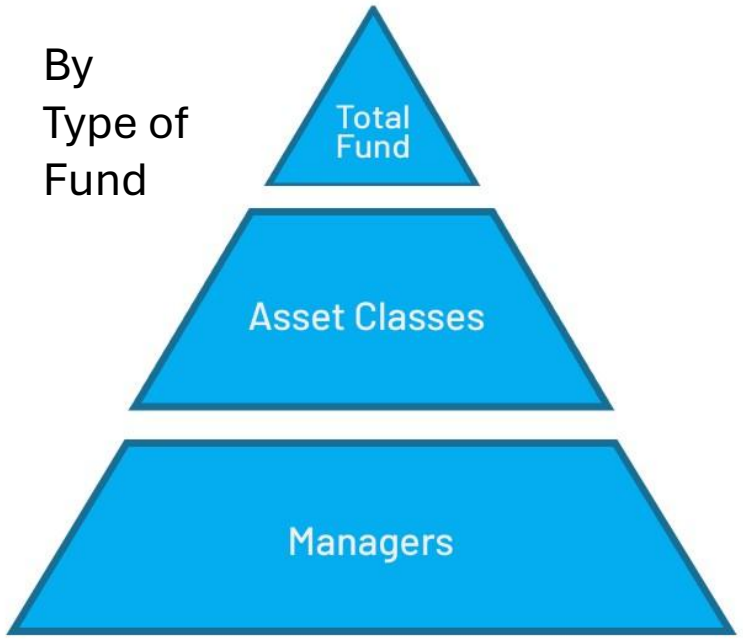
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Example Investment Performance Intelligence

(Policy Implications)

Transparency & Line of Sight

By Type of Fund



Policy Objective	Investment Performance Module					
Time Period	Inception	1 yr.	3 yr.	5 yr.	10 yr.	20 yr.	30 yr.
As At	June 30, 2025					
Asset Allocation	Total Plan Performance	Total Portfolio Risk	Risk Adjusted Net Return			
Public Domestic Equity	Public Int'l Equity	Fixed Income	Real Estate Q1 Lagged			
Commodities	Infrastructure	Priv. Equity Q1 Lagged	Priv. Credit Q1 Lagged			
	Risk Parity	Cash				
Public Domestic Equity	Public Int'l Equity	Fixed Income	Real Estate Q1 Lagged			
Commodities	Infrastructure	Priv. Equity Q1 Lagged	Priv. Credit Q1 Lagged			
	Risk Parity	Cash	Parametric Overlay			

Exceptional Expected Concern Alert

Oversee Performance and Risk



Future State

- Expand performance and risk oversight to enterprise-wide – not just Investments.
- Add Enterprise Risk Management (ERM) and Chief Compliance Officer (CCO) positions and processes.
- Provide investment performance reports that directly relate to the IPS.
- Implement integrated performance-risk dashboards (KPI/KRI).
- Adopt exception-based reporting and red/yellow/green alerts.
- Enable “drill down” from overviews to further detail as needed.
- Provide questions the board and committees should always ask.

Verify Reliability



Current State

- Limited availability of external advisors, especially legal.
- External audit is conducted independently under auspices of the State Auditor; professional and objective.
- Extra internal audit staff member added, but overall capacity remains below need compared to peers.
- Interim audit plan in place; full coverage not yet achieved. Plan is being submitted in Nov. 25.
- Repeated non-compliance with investment manager SOC (System and Organization Control) reports.
- No unified assurance map or tracking of issue resolution for closed loop feedback.
- Weak verification and follow-through due to lack of staffing, limits accountability, learning, and continuous improvement.

Verify Reliability



Future State

- For independence reasons, the supervisor of internal audit (SIA) cannot be a member of the executive team; but the SIA should be at the table as an independent advisor.
- Enable SIB/RIO to retain in-house legal counsel and independent counsel as needed.
- Strengthen Internal Audit capacity by expanding staffing, resources, and training to achieve sustainable audit coverage and meet the complexity of investment operations.
- 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.
- Develop an Integrated Assurance Map and Tracking System to map oversight responsibilities, track audit findings, and ensure closed-loop feedback to management and policy.
- Increase accountability and continuous improvement by introducing biennial governance reviews to track and report implementation of governance recommendations and foster learning across the organization.

ND SIB's Ambition

Become one of the world's best long-horizon investors among public retirement systems and sovereign wealth funds.

Requires modernizing and empowering SIB/RIO while retaining strong Legislative oversight

Broad Representation	• The legislative and executive branches have 7 seats at the table. • Authority resides within a fiduciary body whose loyalties must be to the beneficiaries.
Oversight Channels Remain Strong	• Legislative members maintain direct visibility and participation. • RIO operates as a state agency — subject to appropriations, open meetings, and audits. • Independent audits and consultant reviews (Verus, external auditors) provide third-party verification of performance and compliance.
Sunset / Performance Review	• Could be modeled after ND Financial Institutions Commission — periodic sunset reviews would reaffirm efficiency, accountability, and fiduciary integrity.
Transparency & Results	• Publicly reported, independently benchmarked results show prudent stewardship.
Proven National Models	• South Carolina RSIC and similar boards delegate authority while retaining oversight through statutory review and fiduciary audits.

Future State – NDSIB 2125?

At a crossroads – similar to Canada in early to mid-90s and South Carolina in 2014.

✓ Made bold moves and it has paid off.

How far is ND willing or able to move along the authority delegation continuum?



Are you willing to do what it will take to be legendary?

Most important Issues In Control of SIB/RIO

- Improve the ways SIB /RIO:
  - Conducts business
  - Sets policy and direction
  - Approves and Delegates
  - Oversees
  - Verifies
- Overhaul Governance manual
- Revise Delegation Matrix

Most important Issues In Control of Legislature

- Delegate authority and resources to match SIB's fiduciary responsibilities.

Next Steps

- Meet with the GPR Committee
- Incorporate Board and Committee feedback
- Conduct further research as needed
- Refine observations, conclusions and recommendations
- Prepare 1st Draft Final Report
- Refine based on feedback from GPRC
- Present Final Report in December 2025

Key Studies & Papers

Study / Paper	Authors / Date	Key Findings / Relevance
Improving Pension Fund Performance (1998)	Keith Ambachtsheer, Ronald Capelle, Tom Scheibelhut Taylor & Francis Online+1	This is one of the foundational papers. The authors examine a cross-section of pension funds and relate **organizational design / governance quality** to performance (net of costs). Taylor & Francis Online
The State of Global Pension Fund Governance Today: Board Competency Still a Problem (2007 working paper)	Ambachtsheer, Capelle & Lum ResearchGate	Based on a survey of 88 senior pension executives, the authors report a positive correlation between governance-quality (as measured via CEO ratings) and fund investment performance. ResearchGate
How Effective Is Pension Fund Governance Today? & Do Pension Funds Invest for the Long Term? (2015)	Keith Ambachtsheer & John McLaughlin CEM Benchmarking+1	A more recent survey of ~81 pension organizations, with governance questions matched to measures of long-horizon investing behavior and performance. Top1000funds.com
Internal Management and Pension Fund Performance	Mike Heale / CEM Benchmarking Investment Magazine	Using the CEM database, this analysis shows that funds with greater internal management (a governance / structural choice) tend to generate higher net value added. Investment Magazine
Value Added from Money Managers in Private Markets? (2012)	Andonov, Eichholtz, Kok epra.com	Using the CEM pension data, the paper examines performance in real estate allocations and shows how structure, cost, and governance characteristics shape realized returns in private asset classes. epra.com