

INVESTMENT POLICY STATEMENT

City of Bismarck Employee Pension Plan

I. Plan and Fund Overview

The Bismarck, North Dakota City Employee Pension Plan (BCEPP or the Plan) is the pension benefit plan (Fund) established for the City of Bismarck public employees. The Fund is administered by the Bismarck City Employee Pension Plan Board of Trustees.

The Fund is a defined benefit pension plan maintained to provide retirement benefits, and/or death benefits as may be the case, to the participants in accordance with Chapter 9-07 of the City of Bismarck Code of Ordinance (1986 revised).

The Fund is administered in accordance with IRS and Treasury Regulations. The Fund was established to provide benefits to members eligible to receive them in accordance with the provisions of the Fund.

Client Investment Objectives

Plan benefits are financed through both employer and employee contributions and the investment earnings on assets held in the Fund. The BCEPP Board recognizes that a sound investment program is essential to meet the pension obligations. As a result, the Fund goals are to:

- Improve the Plan's funding status to protect and sustain current and future benefits.
- Minimize the employee and employer contributions needed to fund the Plan over the long term.
- Avoid substantial volatility in required contribution rates and fluctuations in the Plan's funding status.
- Accumulate a funding surplus to provide increases in retiree annuity payments to preserve the purchasing power of their retirement benefit.

The BCEPP Board acknowledges the material impact that funding the pension plan has on the City's financial performance. These goals affect the Fund's investment strategies and often represent conflicting goals. For example, minimizing the long-term funding costs implies a less conservative investment program, whereas dampening the volatility of contributions and avoiding large swings in the funding status implies a more conservative investment program.

The BCEPP Board places greater emphasis on the strategy of improving the funding status and reducing the contributions that must be made to the Fund, as it is most consistent with the long-term goal of conserving money to apply to other important projects.

II. Responsibilities and Discretion of the State Investment Board

The State Investment Board (SIB) is established under North Dakota Century Code (NDCC) Chapter § 21-10. The BCEPP Board has entered into a contract with the SIB for investment services as allowed under NDCC § 21-10-06. The BCEPP Board is responsible for establishing policies on investment goals and asset allocation of the Fund. The SIB acts as a fiduciary and must invest, reinvest, and manage such assets in accordance with the Prudent Investor Rule and the policies adopted by each fund's governing body.

Pursuant to NDCC § 21-10-02 and NDCC § 21-10-02.1, the SIB shall:

- Implement investment policies and asset allocations established by each fund's governing body.
- Approve investment guidelines, procedures, and permissible securities for the funds under its management.
- Serve as custodian of securities purchased on behalf of such funds or designate a qualified custodian.
- Establish written policies on investment goals, objectives, and asset allocation, including liquidity requirements, diversification, and acceptable levels of risk.
- Develop procedures for the selection, retention, evaluation, and termination of professional money managers, consultants, and custodians.

Delegation and Oversight

The SIB may delegate investment responsibility for all or part of a fund to professional money managers that meet established qualifications. When such delegation occurs, the SIB's role is supervisory rather than advisory, ensuring that each manager operates within approved guidelines and performance expectations.

The SIB may also pool assets of this Fund with other funds having similar objectives and time horizons to enhance diversification, reduce costs, and improve returns. In pooling fund assets, the SIB must ensure compliance with the Prudent Investor Rule and the objectives of all participating funds.

III. Investment Performance Objective

The BCEPP Board's investment objectives are expressed in terms of reward and risk expectations relative to investable, passive benchmarks. The Fund's policy benchmark is comprised of policy mix weights of appropriate asset class benchmarks as set by the SIB.

- The fund's rate of return, net of fees and expenses, should at least match that of the policy benchmark over a minimum evaluation period of five years.
- The fund's risk, measured by the standard deviation of net returns, should not exceed 115% of the policy benchmark over a minimum evaluation period of five years.

IV. Asset Allocation

The BCEPP Board establishes the Fund's asset allocation, with input from consultants and the Retirement and Investment Office (RIO), based on an asset-liability study. Based on the most recent study, the following allocation was established. The asset allocation will be reviewed periodically and updated when appropriate.

Asset Class	Target Allocation	Minimum Allocation	Maximum Allocation
Global Equity	55%	45%	65%
Public Equity	40%	34%	46%
Private Equity	15%	10%	20%
Global Fixed Income	26%	19%	33%
Investment Grade Fixed Income	16%	11%	21%
Non-Investment Grade Fixed Income	2.5%	0%	6%
Private Credit	7.5%	5%	10%
Global Real Assets	19%	10%	25%
Real Estate	11%	5%	15%
Other (Infrastructure/Timber)	8%	0%	10%
Cash and Cash Equivalents	0%	0%	2%

Corridor Benchmark/Allocations: Long-term target allocations utilizing alternative asset classes can take several years to implement prudently. To ensure portfolio exposures remain aligned with the Fund's strategic objectives during this period, the SIB may employ a corridor methodology. Under this approach, allocations to private market asset classes (such as private equity, private credit, or real assets) that cannot be immediately adjusted—due to the illiquid

nature of the assets—will be temporarily reallocated to corresponding public market asset classes that serve as suitable proxies. Both the target and ranges are adjusted based on the corridor methodology.

The proxy allocations are utilized such that the overall portfolio continues to reflect, as closely as practical, the intended risk–return characteristics around the long-term targets, until private market commitments are fully funded and capital is called.

Corridor Guidelines:

- Private equity will be proxied with public equity
- Private credit will be proxied with half public equity and half public investment grade fixed income
- Private real assets will be proxied with half public equity and half public investment grade fixed income

Rebalancing: The need to rebalance the portfolio can arise from a new asset allocation or because market activity has driven the actual distribution of assets away from the desired mix. To minimize transaction costs from rebalancing, RIO develops appropriate ranges around the target mix (which are specified in the policy statement). Rigidly adhered to, such a policy is a valuable risk control tool. By maintaining asset mix within reasonably tight ranges, the SIB avoids making unintentional bets in the asset mix and avoids market-timing decisions.

All funds the SIB oversees have an asset allocation with minimum and maximum limits assigned. RIO's rebalancing policy requires the asset mix to be determined at the end of each month and that appropriate rebalancing takes place.

V. General Restrictions and Guidelines

While the SIB determines quality, diversification, and performance standards for investments, the following restrictions apply:

1. Derivatives may be used to manage and replicate systematic exposures, for fund rebalancing, and for risk management, which includes overlays (i.e. cash overlay program).
2. Derivatives, short selling, and security margining may be used in a manner consistent with approved manager guidelines.
3. Derivatives use will be monitored to ensure that undue risks are not taken.
4. No investment may jeopardize the tax-exempt status of the Fund.
5. All assets must be held by the SIB's master custodian or an approved sub-custodian.

6. Social Investing is prohibited unless it meets the Exclusive Benefit Rule (NDCC § 21-10-08.1).
 - a. Social Investment is defined as the investment or commitment of public funds for the purpose of obtaining an effect other than a maximized return at a prudent level of risk to the state. (NDCC § 21-10-08.1)
7. Economically Targeted Investing is prohibited unless it meets the Exclusive Benefit Rule.
 - a. Economically Targeted Investment is defined as an investment designed to produce a competitive rate of return commensurate with risk involved and create collateral economic benefits for a targeted geographic area, group of people, or sector of the economy.

Exclusive Benefit Rule

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 BCEPP Board's policy favors investments that will have a positive impact on the economy of North Dakota.

All investments shall be made in compliance with applicable laws, regulations, and policies governing the State Investment Board.

VI. Internal Controls

The SIB shall maintain a system of internal controls designed to prevent loss of funds arising from fraud, error, or mismanagement.

Key controls include the segregation of duties, which ensures that no single individual has authority or control over all phases of an investment transaction. Specifically, the responsibilities for initiating investment purchases, recording and reconciling investment activity, and custodial safekeeping of assets are separated among different staff, functional areas, or service providers to provide independent checks and balances.

Other critical controls include maintaining written or confirmations of all investment transactions and establishing formal criteria for broker relationships and trading counterparties. Annual financial audits will include a comprehensive review of the portfolio, accounting procedures for security transactions, and verification of compliance with this Investment Policy.

VII. Evaluation and Review

The Fund's performance will be evaluated against its investment objectives, with emphasis on rolling five-year results. Reports to the BCEPP Board (no less than annually) will include:

1. A list of investment managers and their performance relative to benchmarks.
2. Earnings, percentage earned and change in market value of each mandate.
3. Current portfolio allocations and performance summaries by asset class.
4. All material legal or legislative proceedings affecting the SIB.
5. Compliance with this investment policy statement.

VIII. Withdrawals

1. **Standard Withdrawals:** The client may withdraw up to 5% of total fund assets per month with a minimum of 15 business days' notice to ensure appropriate liquidity planning and transaction coordination. These withdrawals will generally be processed as of month-end, unless otherwise approved by the Chief Financial Officer or Deputy Chief Financial Officer.
2. **Extraordinary Withdrawals:** Withdrawals greater than 5% may materially impact the Fund's asset allocation and/or liquidity position. Such withdrawals should be discussed in advance with the Chief Financial Officer or Deputy Chief Financial Officer to determine the appropriate timing and execution plan.

Approved by Bismarck City Employee Pension Plan Board of Trustees: 12/15/2025

Approved by State Investment Board: 1/16/2026