

INVESTMENT POLICY STATEMENT

Budget Stabilization Fund

I. Fund Characteristics and Constraints

The Budget Stabilization Fund (Fund) is a special fund, created in 1987 under Chapter 54-27.2 of the North Dakota Century Code (NDCC), used to deposit general fund moneys in excess of the amounts described in that chapter. The Fund serves as a "rainy day fund" for the State of North Dakota general fund. The state investment board shall supervise investment of the budget stabilization fund in accordance with NDCC 21-10.

Any interest or other budget stabilization fund earnings must be deposited in the fund. Any amounts provided by law for deposit in the fund and any interest or earnings of the fund which would bring the balance in the fund to an amount greater than that described in NDCC 54-27.2-01 may not be deposited or retained in the fund but must be deposited instead in the state general fund. **The statutory cap for the 2019-21 biennium is \$726,534,475.** In the event of a budget shortfall, additional transfers may be made from the Fund only in accordance with NDCC 54-27.2-03.

II. Responsibilities and Discretion of the State Investment Board (SIB)

The Fund 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. 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.

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 objectives of the funds participating in the pools.

The SIB may delegate investment responsibility to professional money managers. When a money manager has been retained, the SIB's role in determining investment strategy and security selection is supervisory, not advisory. In accordance with this Investment Policy Statement, the Fund's assets may be invested directly or through collective investment vehicles.

The SIB is responsible for establishing criteria and procedures and making decisions with respect to hiring, maintaining, and terminating money managers. This responsibility includes selecting

performance measurement services, consultants, and report formats and determining the frequency of meetings with managers.

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

III. Investment Objectives

The investment objectives of the Fund reflect the relatively unknown life-span and the moderate risk tolerance of the Fund. Operating and statutory considerations shape the Fund's policies and priorities as outlined below:

Objective: Sufficient liquidity is to be maintained to meet known or anticipated financial obligations and preserve the value of the surplus. Cash equivalent investments will be used to achieve this objective.

IV. Standards of Investment Performance

The Fund'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:

1. 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.
2. The risk-adjusted performance of the Fund, net of fees and expenses, should at least match that of the policy benchmark over a minimum evaluation period of five years.

V. Policy and Guidelines

The asset allocation of the Budget Stabilization Fund is established by the SIB, with input from the Legacy and Budget Stabilization Advisory Board ("Advisory Board"). Asset allocation is based upon the appraisal of projected liquidity and income requirements, and estimates of the investment returns likely to be achieved by the various asset classes over the next five years.

In recognition of these factors, the following allocation is deemed appropriate for the fund:

Asset Class	Allocation
Short-term Fixed Income	Minimum of 90%
Bank Loans with floating yields	Maximum of 5%
Absolute Return Strategies	Maximum of 5%

On June 17, 2017, the Advisory Board acknowledged the Bank of North Dakota Match Loan Certificates of Deposit Program (BND CD) was transferred to the Legacy Fund in early-2017.

Rebalancing of the Fund to this target will be done in accordance with the SIB's rebalancing policy.

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:

1. Futures and options may be used to hedge or replicate underlying index exposure, but not for speculation.
2. Derivative use will be monitored to ensure that undue risks are not taken by the money managers.
3. All assets will be held in custody by the State Investment Board's master custodian or such other custodians as are acceptable to the State Investment Board.
4. No funds shall be borrowed excluding a SIB approved securities lending program.
5. No unhedged short sales or speculative margin purchases shall be made.
6. 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 investment or commitment of public pension fund money for the purpose of obtaining an effect other than a maximized return to the intended beneficiaries. "

7. 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:

- a. The cost does not exceed the fair market value at the time of investment.
- b. 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.
- c. Sufficient liquidity is maintained in the Fund to permit distributions in accordance with the terms of the plan.
- d. The safeguards and diversity that a prudent investor would adhere to are present.

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

VI. 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. Meetings will be held with the money managers at least annually.

Approved by LBSFAB: 11/12/2020

Approved by the SIB: 11/20/2020