

INVESTMENT POLICY STATEMENT

ND Veterans' Cemetery Trust Fund

I. Plan Characteristics and Fund Constraints

The ND Veterans' Cemetery Trust Fund (Fund) was established in 1997 as a permanent fund to be used to support the veterans' cemetery. As spelled out in NDCC 39-04-10.10, the Fund receives a portion of the annual surcharge assessed on the issuance of North Dakota veterans' number plates. The North Dakota State Treasurer has full authority to invest the fund in the same manner as the State Investment Board is authorized to make investments. Upon request of the Adjutant General, the interest in the Fund must be deposited into the Veterans' Cemetery Maintenance Fund for the purpose of funding salaries and maintenance of the veterans' cemetery.

II. Responsibilities and Discretion of the State Investment Board

The ND State Treasurer (Client) has entered into a contract with the SIB for investment services as allowed under NDCC 21-10-06. It is the responsibility of the Client to establish policies on investment goals and asset allocation of the Fund. The SIB is charged with implementing these policies and asset allocation and investing the Fund in the manner provided in Section 21-10-07-the prudent institutional investor rule. The fiduciaries shall exercise the judgment and care, under the circumstances then prevailing, that an institutional investor of ordinary prudence, discretion, and intelligence exercises in the management of large investments entrusted to it, not in regard to speculation but in regard to the permanent disposition of funds, considering probable safety of capital as well as probable income.

Management responsibility for the investment program not assigned to the SIB in Chapter 21-10 is hereby delegated to the SIB, which must establish written policies for the operation of the investment program consistent with this investment policy.

The SIB may delegate investment responsibility to professional money managers, which are also required to employ investment strategies consistent with the investment policy. Where a money manager has been retained, the SIB's role in determining investment strategy and security selection is supervisory not advisory.

At the discretion of the SIB, the Fund's assets may be pooled with other funds. In pooling funds, the SIB may establish whatever asset class pools it deems necessary with specific quality,

diversification, restrictions, and performance objectives appropriate to the prudent investor rule and the objectives of the funds participating in the pool.

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

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

III. Policy Asset Mix

After consideration of all the liquidity needs, spending policy and time horizon of the Fund and a discussion of its risk tolerance, the Client approves the following policy asset mix for the Fund:

Asset Class	Allocation
Global Equities	50%
Global Fixed Income	35%
Global Real Assets	15%

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

IV. Investment Objectives

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 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.
3. 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. Restrictions

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. Derivatives use will be monitored to ensure that undue risks are not taken by the money managers.
3. No transaction may be made that would threaten the tax-exempt status of the Fund.
4. All assets will be held in custody by the SIB's master custodian or such other custodians as are acceptable to the SIB.
5. No unhedged short sales or speculative margin purchases may be made.
6. Social investing is prohibited unless it meets the exclusive benefit rule, and it can be substantiated that the investment provides an equivalent or superior rate of return for a similar investment with a similar time horizon and similar risk. For the purpose of this document, social investing is defined as the consideration of socially responsible criteria in the investment or commitment of public fund money for the purpose of obtaining an effect other than a maximized return to the Fund.
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 Client's policy favors investments which will have a positive impact on the economy of North Dakota.

VI. Internal Controls

A system of internal controls must be in place by the SIB to prevent losses of public funds arising from fraud or employee error. Such controls deemed most important are the separation of responsibilities for investment purchases from the recording of investment activity, custodial

safekeeping, written confirmation of investment transactions, and established criteria for investment manager selection and monitoring. The annual financial audit must include a comprehensive review of the portfolio, accounting procedures for security transactions, and compliance with the investment policy.

VII. Evaluation and Review

Investment management of the Fund will be evaluated against the Fund's investment objectives and investment performance standards. Emphasis will be placed on 5-year and 10-year results. Evaluation should include an assessment of the continued feasibility of achieving the investment objectives and the appropriateness of the investment policy statement for achieving those objectives.

Performance reports will be provided to the Client periodically, but not less than quarterly. Such reports will include asset returns and allocation data. Additionally, not less than annually, reports will include information regarding all significant and/or material matters and changes pertaining to the investment of the Fund, including:

1. A list of advisory services managing investments for the Board.
2. A list of investments at fair value, compared to the previous reporting period, of each fund managed by each advisory service.
3. Earnings, percentage earned, and change in fair value of each fund's investments.
4. Comparison of the performance of each fund managed by each advisory service to other funds under the Board's control and to generally accepted market indicators.
5. All material legal or legislative proceedings affecting the SIB.
6. Compliance with this investment policy statement.