

INVESTMENT POLICY STATEMENT

Opioid Settlement Fund

I. Plan Characteristics and Fund Constraints

The 68th Legislative Assembly created the Opioid Settlement Fund ("Fund") and directed moneys recovered as a result of opioid litigation be deposited into the Fund. Moneys in the fund may be used in compliance with any court-ordered restrictions and as authorized by legislative appropriation and NDCC 50-36; however, legislative appropriations from the fund may not exceed eight million dollars in a biennium.

The Opioid Settlement Advisory Committee was created in NDCC 50-36-03 to forward recommendations to the North Dakota Department of Health and Human Services ("DHHS") on spending decisions of the legislatively appropriated funds for remediation or abatement of the opioid crisis in this state.

II. Fund Goals

The investment objectives of the Fund reflect a low risk tolerance and short-term liquidity needs. Operating considerations shape the Fund's policies and priorities as outlined below:

Objective #1: Sufficient liquidity must be maintained as the Fund may be drawn down over the next few years. Short-term fixed income and/or cash equivalent investments shall be used to achieve this objective.

Objective #2: Growth of capital is minimal to preserve the real purchasing power of Fund assets as the potential exists for the investment term to be less than a few years.

Objective #3: Investment income may be used as a funding source. This will be achieved through a diversified portfolio of high quality, short-term fixed income and/or cash.

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

The North Dakota Department of Health and Human Services ("DHHS") is charged by law under NDCC 21-10-02.1 with the responsibility of establishing policies on investment goals and asset allocation of the Opioid Settlement Fund. The SIB is charged with implementing these policies and investing the assets of the Fund in the manner provided in NDCC 21-10-07, the prudent investor rule. Under this 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.

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

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

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

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

IV. Investment Performance and Risk Objectives

DHHS'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. Risk, as measured by the annual standard deviation of net returns for the Fund, should not exceed that of the policy portfolio by more than 200 basis points over a minimum evaluation period of five years.

V. Asset Allocation

After consideration of all the inputs and discussion of its own risk tolerance, DHHS has chosen the following asset allocation:

Asset Class	Policy Target (%)
Short-term Fixed Income	100%
Total	100%

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

VI. Fund Specific Requirements

DHHS may spend from the fund up to the approved legislative appropriation each biennium exclusively for purposes of remediating or abating the opioid crisis in this state.

VII. 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 shall be made which threatens 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 shall 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 Trustee's policy favors investments which will have a positive impact on the economy of North Dakota.

VIII. Internal Controls

The SIB must have a system of internal controls in place to prevent losses of public funds arising from fraud or employee error. The 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 broker relationships. The annual financial audit must include a comprehensive review of the portfolio, accounting procedures for security transactions and compliance with the investment policy.

IX. Evaluation and Review

Investment management of the Fund will be evaluated against the vehicle's investment objectives and investment performance standards. Emphasis will be placed on five-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 DHHS periodically, but not less than quarterly. These reports will include:

1. A list of the advisory services managing investments for the board.
2. A list of investments at fair value, compared to 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.

Annually, a report will be provided to DHHS that includes:

1. All material legal or legislative proceedings affecting the SIB.
2. Confirmation that the Fund is in compliance with this investment policy statement and/or any exceptions.