

INVESTMENT POLICY STATEMENT

State Risk Management Fund

I. Plan and Fund Overview

To address the State's loss of sovereign immunity, the 1995 North Dakota Legislature created a new chapter of the North Dakota Century Code (NDCC) § 32-12.2 that established the Risk Management Fund (the Fund) to administer claims against the State and state employees for personal injury, death, or property damage caused by the State or a state employee acting within the scope of the employee's employment. The Fund is directed by the Office of Management and Budget (OMB).

Each entity of the State is required to participate in the Fund. Contributions to the Fund are determined by the Director of OMB based on an actuarial review of the financial status of the Fund. This results in a fluctuation of contributions made to the Fund from one biennium to another. The actuarial assumed rate of return on assets is 3%.

The amount of money damages the Fund may pay is currently limited for State court actions to a total of \$468,750 per person and \$1,875,000 per occurrence. The statutory caps increase to \$500,000 per person and \$2,000,000 per occurrence effective July 1, 2026.

These liability caps may not be recognized in Federal Court actions or in actions filed in other states. The Fund's excess carrier provides coverage up to \$10,000,000 for those exposures not covered by the Tort Claims Act.

Significant claims paid from the Fund are usually somewhat predictable and take a period of time to resolve. A person bringing a claim or lawsuit against the State or a state employee must give notice to the OMB Director within 180 days after the alleged injury is discovered or reasonably should have been discovered. If the claim is one for "serious injury" as defined in NDCC § 26.1-41-01, notice must be presented within 1 year.

The Risk Management Division's operating expenses including loss control activities are paid from the Fund as incurred.

II. Responsibilities and Discretion of the State Investment Board

The State Investment Board (SIB) is established under NDCC § Chapter 21-10 and is charged with investing and managing the assets of the funds enumerated in NDCC § 21-10-06, including the funds of this Plan. 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 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.

- 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 5 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 5 years.

IV. Asset Allocation

The Director of the Office of Management and Budget establishes the Fund's asset allocation, with input from consultants and/or the Retirement and Investment Office (RIO). 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	30%	20%	40%
U.S. Public Equity	30%	20%	40%
Global Fixed Income	65%	55%	45%
Investment Grade Fixed Income	65%	55%	45%
Cash and Cash Equivalents	5%	0%	10%

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 Fund'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 electronic 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 Director of the Office of Management and Budget (no less than annually) will include:

1. A list of investment managers and their performance relative to benchmarks net of fees.
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 these investment goals, objectives and policies.

VIII. Withdrawals

1. **Routine Withdrawals:** The Client may withdraw up to 5% of total fund assets per month with a minimum of 3 business days' notice, subject to standard settlement timelines.
2. **Larger Withdrawals:** Withdrawals greater than 5% and up to 10% require 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.
3. **Extraordinary Withdrawals:** Withdrawals greater than 10% 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 SIB: 3/20/2026