

**SPECIAL AUDIT COMMITTEE
MEETING**

Thursday, October 14, 2021 – 3:00 PM
RIO Conference Room
3442 E Century Ave, Bismarck, ND 58507

Teleconference 701-328-0950, Conference ID: 909 079 776#

AGENDA

- I. Call to Order and Approval of Agenda – Chair (committee action) (5 minutes)
- II. Governance Discussion – Sara Sauter (committee action) (90 minutes)
 - a. Board Member Orientation and Education
 - b. Draft Governance Committee
- III. Other – Next SIB Audit Committee Meeting
Workforce Safety & Insurance Conference Room
1600 E Century Ave Suite 1, Bismarck, ND 58503
Tuesday November 16, 2021 @ 2:30 PM
- IV. Adjournment

MEMORANDUM

TO: State Investment Board (SIB) Audit Committee

FROM: Sara Sauter, Supervisor of Internal Audit

DATE: October 14, 2021

SUBJECT: Governance Recommendations

The State Investment Board (SIB) on May 21, 2021, requested the assistance of the SIB Audit Committee "to review SIB governance policy B-2, governing style in Section B governance process, to clearly define inquiry and to review the board's structure and bring a recommendation back to the full SIB." On August 11, 2021, the SIB Audit Committee had a discussion at their quarterly meeting about this request and possible recommendations.

At the request of the SIB Audit Committee, internal audit staff was asked to research and put together a plan to address the following areas:

1. Comprehensive onboarding for new SIB members
2. Plan for Board Education
3. Establishing a Governance Committee

Board Member Orientation and Education Program

The State Investment Board (Board) members are responsible for making policy decisions affecting all major aspects of investment program administration. Therefore, Board members should acquire and maintain an appropriate level of knowledge that provides and improves core competencies necessary to govern large, complex investment funds.

1. Board Member Core Competencies

Board members should develop and maintain their knowledge on effective Board governance. The State Investment Board will utilize a research-based framework to support the six core competencies of effective boards, which include:

- 1) **Contextual:** The Board understands and takes into account the culture, norms, and values of the organization it governs.
- 2) **Educational:** The Board takes the necessary steps to ensure that members are well informed about the organization and the professions working there, as well as the Board's own roles, responsibilities, and performance.
- 3) **Interpersonal:** The Board nurtures the development of its member as a group, attends to the Board's collective welfare, and fosters a sense of cohesiveness.
- 4) **Analytical:** The Board recognizes the complexities and subtleties in the issues it faces, and it draws on multiple perspectives to dissect complex problems and to synthesize appropriate responses.
- 5) **Political:** The Board accepts, as one of its primary responsibilities, the need to develop and maintain healthy relationships among all key constituencies.
- 6) **Strategic:** The Board envisions and shapes institutional direction and helps to ensure a strategic approach to the organization's future.

2. Board Member Education

The Executive Director will present an annual board education plan to align with the six core competencies. This will include a focus on critical areas necessary to effectively govern institutional investments. These board education topics will be presented, at minimum, on a 2-year rotation. These include, but are not limited to:

- a. Board governance policies
- b. Asset allocation and investment management concepts
- c. Investment terminology
- d. Prudent Investor Rule
- e. Financial reporting, controls, and audits
- f. Open meeting and open records laws
- g. Fiduciary responsibilities
- h. Ethics and conflicts of interest

Beyond regular, meeting-embedded, board education, the State Investment Board supports additional professional learning opportunities to develop core competencies, discharge their fiduciary duties, and ensure Board members have a full understanding of the issues facing the SIB. These areas include:

- a. New Board member orientation

- b. Educational conferences, workshops, and other training programs
- c. In-house education sessions
- d. Webinars, reports, and studies

The collective Board, and individual Board members, should identify areas in which they might benefit from additional education, and work with the Executive Director to find or develop educational opportunities to best address those needs.

Board members must annually report board education received each year.

3. New Board Member Orientation

Each new Board member is strongly encouraged to attend a new Board member orientation session(s) as soon as possible after appointed to the Board or elected to office. The Board Chair will assign each new Board member an experienced Board mentor to assist the new member in becoming familiar with roles and responsibilities. The orientation sessions will be developed by the Executive Director, and will include, at minimum, review of the following topics and materials:

- a. Introduction to RIO staff
- b. Tour of RIO office
- c. Board Governance Manual
 - a. Carver Model of Governance
 - b. Boards That Make a Difference
- d. Board duties and responsibilities
- e. History and overview of the investment program
- f. Overview of TFFR-SIB-RIO organizational structure
- g. Laws, rules, and board policies governing the plan
- h. Fiduciary responsibilities, conflict of interests, and ethics
- i. Open meetings and open records
- j. Board meeting schedule and protocol
- k. Board meeting minutes and materials
- l. Annual financial report
- m. Investment program, investment policy statement, asset allocation, and performance
- n. RIO website – TFFR and SIB sections
- o. Legislative issues
- p. List of educational conferences and training sessions
- q. Other relevant information or materials deemed appropriate

4. Ongoing Board Member Education

a) Educational Conferences, Workshops, and other Training Programs

The Executive Director will maintain a list of educational conferences, workshops, and other training programs appropriate for Board members to attend. The list will be provided at least annually to Board members. Board members may attend such conferences or others deemed to be appropriate by the Executive Director. Subject to budget availability, Board members may attend at least one out of state educational conference each year.

The Executive Director will review conference agendas and materials to ensure they are geared toward Board member education, subject to budget availability, and will approve board travel requests. Board

travel outside of the continental United States must be approved by the Board Chair and Executive Director.

The Executive Director will inform the Board of educational conferences, workshops, or other training programs attended by board members on an annual basis.

b) In-House Education Sessions

Based on the education needs identified by board members or staff, the Executive Director will arrange for staff or outside service providers to conduct educational sessions at regularly scheduled board meetings. Topics may include board governance, investments, asset allocations, benchmarks, and other topics determined by the Board.

c) Webinars, Reports, and Studies

Board members are encouraged to subscribe to mailing lists and review websites for information about public pension plan conferences, webinars, reports, and studies from pension and investment organizations. Examples include:

- Callan Investment Institute ([Callan](#))
- Council of Institutional Investors ([CII](#))

The Executive Director will also provide links to recent published reports and studies with board meeting materials.

Governance Committee Charter

PURPOSE

The Governance Committee (“Committee”) will assist the State Investment Board (SIB) to fulfill its responsibilities regarding matters that relate to governing the SIB and in identifying and making recommendations to the SIB.

KEY RESPONSIBILITIES

The Governance Committee shall perform all duties as requested or required by the SIB. The Governance Committee will specifically be responsible for the following duties and responsibilities:

1. Advise the SIB about operational strategies including relevant to the SIB’s governance manual to strengthen the SIB and empower the Board members in meeting its obligations related to good governance principles and abide by the agency’s mission.
2. Advise the SIB about strategies that strive to increase the individual Board member effectiveness and their abilities to work collaboratively with their peers.
3. Devise and make recommendations for policies on issues related to the Board member’s service.
4. Devise and make recommendations for policies that reflect best practices for overall good governance.
5. Provide an annual review of the conflict of interest policy and recommend any enhancements to the SIB.
6. Review any complaints or allegations of any policy violations by a Board member.
7. Lead and facilitate periodic board self-assessments to ensure superior board performance and overall trust in effectiveness.
8. Make recommendations regarding an orientation process for newly appointed SIB members.
9. Request Retirement and Investment Office staff for specific topic training and education for Board members.

GOVERNANCE COMMITTEE COMPOSITION AND TERM LIMITS

The Governance Committee shall be composed of at least three and not more than five SIB members. They will be nominated, approved by the SIB, and appointed by a majority vote of the SIB. The Board Chair will serve as committee chair. This is a standing committee with no term limits.

MEETINGS

The Governance Committee will meet at annual and hold additional meetings as needed to fulfill its responsibilities as described in this Committee Charter and as called by the Governance Committee Chair.

AUTHORIZATION AND LIMITATIONS OF POWER

The Governance Committee is established by the SIB governance manual and has no power or authority to act on behalf of the full board. The Governance Committee will abide by the provisions in the governance manual that pertain to the meetings and actions of the Board.

DRAFT