

Governance and Policy Review Committee

Wednesday, May 18, 2022, 9:00a.m.

Microsoft Teams Meeting

Teleconferencing – 701.328.0950 Participant Code – 790 842 372#

AGENDA

- I. CALL TO ORDER AND ACCEPTANCE OF AGENDA**
- II. ACCEPTANCE OF MINUTES (April 21, 2022)**
- III. INVESTMENT COMMITTEE CHARTER – MR. ANDERSON**
- IV. BOARD COMPOSITION – MR. ANDERSON**
- V. ANNUAL INVESTMENT MANAGER MEETINGS – MR. CHIN**
- VI. COMMITTEE CALENDAR – MS. MURTHA**
- VII. ADJOURNMENT**

**STATE INVESTMENT BOARD
GOVERNANCE & POLICY REVIEW COMMITTEE MEETING
MINUTES OF THE
APRIL 21, 2022, MEETING**

MEMBERS PRESENT: Dr. Rob Lech, TFFR Board, Chair
Thomas Beadle, State Treasurer, Vice Chair
Jon Godfread, Insurance Commissioner

STAFF PRESENT: Scott Anderson, CIO
Eric Chin, Deputy CIO
Connie Flanagan, CFO/COO
Missy Kopp, Exec Assistant
Jan Murtha, Exec Dir
Ann Nagel, Investment Accountant
Sara Sauter, Suprv of Internal Audit

GUESTS : Colton Schulz, Insurance Dept.

CALL TO ORDER:

Dr. Lech called the State Investment Board (SIB) Governance and Policy Review (GPR) Committee meeting to order at 11:08 a.m. on Thursday, April 21, 2022, in the Peace Garden Room, State Capitol, 600 E Boulevard Ave., Bismarck, ND.

AGENDA:

The agenda was considered for the April 21, 2022, meeting.

IT WAS MOVED BY COMMISSIONER GODFREAD AND SECONDED BY TREASURER BEADLE AND CARRIED BY A VOICE VOTE TO APPROVE THE AGENDA FOR THE APRIL 21, 2022, MEETING AS DISTRIBUTED.

**AYES: TREASURER BEADLE, COMMISSIONER GODFREAD, AND DR. LECH
NAYS: NONE
MOTION CARRIED**

ELECTION OF OFFICERS:

IT WAS MOVED BY COMMISSIONER GODFREAD AND SECONDED BY TREASURER BEADLE AND CARRIED BY A VOICE VOTE TO NOMINATE DR. LECH AS CHAIR AND TREASURER BEADLE AS VICE CHAIR OF THE SIB GPR COMMITTEE.

**AYES: COMMISSIONER GODFREAD, TREASURER BEADLE, AND DR. LECH
NAYS: NONE
MOTION CARRIED**

OPERATING STATISTICS & INVESTMENT COMMITTEE STRUCTURES:

Mr. Anderson provided education on operating statistic and investment committee structures. Based on a database of US public fund managers and a peer group of similar size plans, RIO has fewer investment FTEs with 8, which is well below the 25th percentile of 26 FTEs for \$17 billion Assets Under Management (AUM). As AUM grows, the number of FTEs to manage those investments need to grow. Mr. Anderson discussed the staffing needs if some funds are shifted to

internal management and the estimated cost for this investment strategy. Different types of investment committee structures were presented and the type of membership and function of each type.

REVIEW OF COMMITTEE CHARTER & TOPICS FOR FUTURE DISCUSSION:

Ms. Murtha asked the Committee to identify the topics they want to cover moving forward to assist staff with planning. The Committee identified their high-priority topics as an investment committee structure, SIB composition, including FTE requests, and 2023 Legislative Session planning. Ms. Murtha stated that the Committee should do a review of their charter to ensure that it correctly fits this Committee, and its needs and functions.

PROPOSED MEETING SCHEDULE:

Ms. Murtha presented the proposed GPR Committee meeting schedule for 2022-23. There are currently some conflicts with the Land Board. Ms. Murtha asked the Committee members to review their schedules, so we plan a schedule for the next fiscal year. The next meeting will be on May 18, 2022, at 9:00 a.m. and will be virtual only.

OTHER:

With no further business to come before the GPR Committee, Dr. Lech adjourned the meeting at 12:17 p.m.

Respectfully Submitted:



Governance and Policy Review Committee

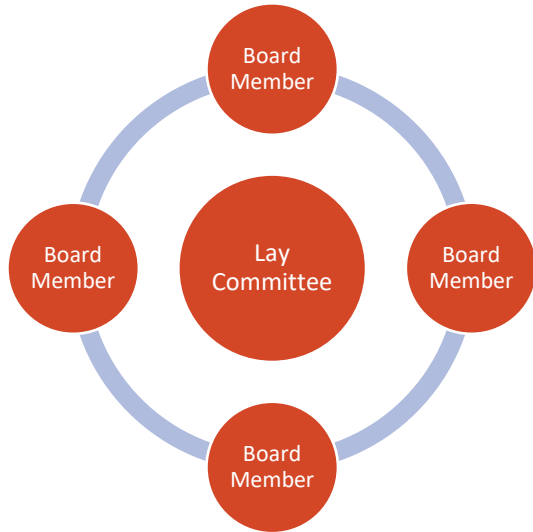
Scott M Anderson, CFA

May 19, 2022

NORTH
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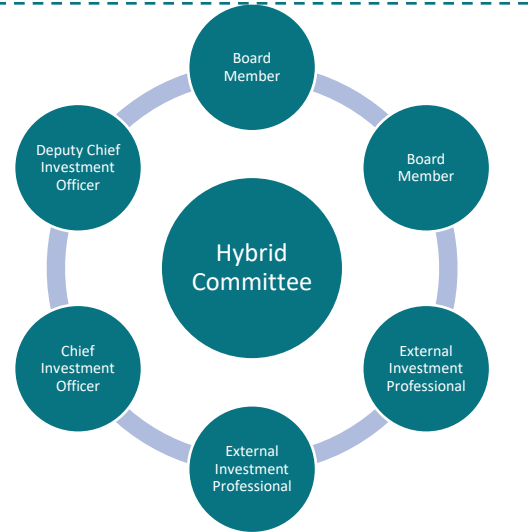
Retirement & Investment

THREE INVESTMENT COMMITTEE ARCHETYPES



- Operates like the board but can meet more frequently or more quickly
- Able to have focused and in-depth investment conversations
- Able to summarize for full board approval
- Lacks investment expertise
- Most investment decisions are at the board level with little delegation to staff

More Board Level



- Able to meet more frequently or more quickly
- Able to have focused and in-depth investment conversations
- Able to summarize for full board approval when necessary but also can delegate decisions to staff
- Staff participation enables delegation, quick decision and better implementation
- Outside and independent investment expertise
- Most investment decisions are at the investment committee or staff level

More Advisory



- Can meet more frequently or more quickly
- Able to have focused and in-depth investment conversations
- Able to summarize for full board approval
- Outside and independent investment expertise but need to ensure shared decision making
- Most investment decisions are at the board level
- Less delegation and associated benefits

PROPOSED INVESTMENT COMMITTEE COMPOSITION



- TWO BOARD MEMBERS, TWO EXTERNAL INVESTMENT PROFESSIONALS, TWO RIO STAFF
- NOMINATED AND APPROVED BY SIB BY A MAJORITY VOTE
- A CHAIR AND VICE-CHAIR WILL BE NOMINATED AND APPOINTED BY SIB
- EXTERNAL INVESTMENT PROFESSIONALS HAVE SUBSTANTIAL INSTITUTIONAL INVESTMENT EXPERIENCE
- ONE EXTERNAL PROFESSIONAL WITH TIES TO NORTH DAKOTA
- COMPENSATION FOR EXTERNAL COMMITTEE MEMBERS
- CHIEF INVESTMENT OFFICER RESPONSIBLE FOR MATERIAL PREPERATION

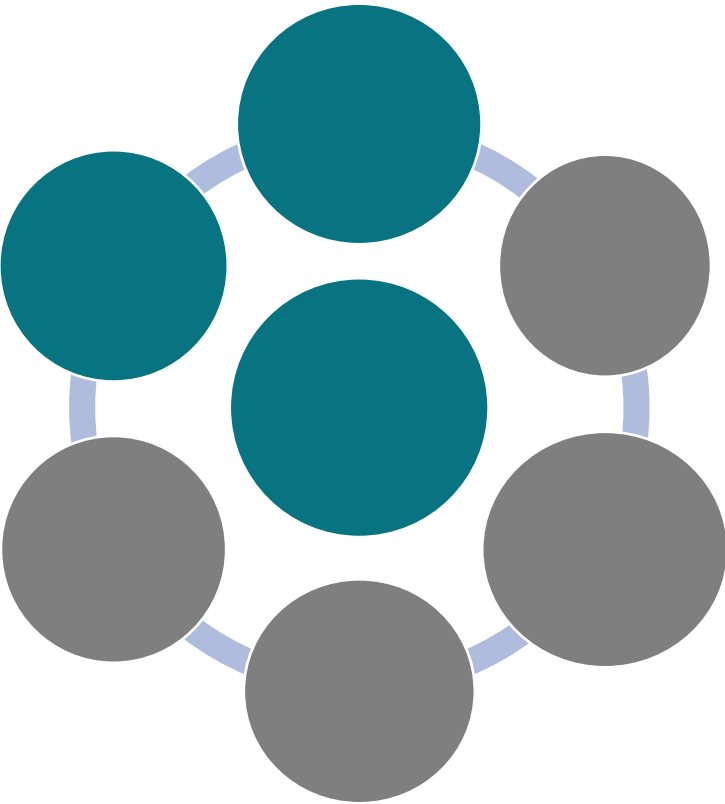
IMPORTANT CAPABILITIES/COMMITTEE KNOWLEDGE

- INVESTMENT STRATEGY
 - How investment philosophy, asset allocation, fund structure, talent management and operations influence results
- ASSET ALLOCATION
- PERFORMANCE MEASUREMENT AND MANAGEMENT
- RISK MANAGEMENT
- FUND OPERATIONS
- CHARACTERISTICS OF ASSET CLASSES AND INVESTMENT STRATEGIES
- INVESTMENT MANAGER SELECTION
- INVESTMENT TALENT MANAGEMENT
- INVESTMENT POLICY AND GUIDELINE DESIGN
- INVESTMENT FEE MANAGEMENT
- LIQUIDITY MANAGEMENT AND REBALANCING
- EXPOSURE MANAGEMENT

PROPOSED DUTIES AND RESPONSIBILITIES

- INVESTMENT STRATEGY
- ASSET ALLOCATION
- RISK AND RETURN AT THE CLIENT FUND, PORTFOLIO AND ASSET CLASS LEVEL
- POLICIES AND PROCEDURES DEVELOPMENT AND IMPLEMENTATION IN ACCORDANCE WITH INDUSTRY BEST PRACTICES
- PROPOSE POLICY CHANGES TO BOARD
- APPROVE INVESTMENT GUIDELINES, NEW INSTRUMENTS, INVESTMENT STRATEGIES
- EXAMINE PORTFOLIO CHARACTERISTICS AND STRATEGY EXECUTION
- COMPLIANCE AND WAIVERS
- INVESTMENT FEE MANAGEMENT
- TRANSITIONS
- BENCHMARKS
- INVESTMENT ENVIRONMENT

PROPOSED GENERAL PROCEDURES



- A MAJORITY OF VOTING MEMBERS OF THE COMMITTEE CONSTITUTE A QUORUM
- QUORUM REQUIRED TO TAKE ANY ACTION OR APPROVE A MOTION
- CHAIR MAY REPORT AN APPROVED MOTION TO THE BOARD IF THERE IS DISAGREEMENT
- A MEMBER PROPOSING OR RESPONSIBLE FOR OVERSIGHT OF IMPLIMENTATION WILL BE RECUSED FROM A VOTE
- REGULAR MONTHLY MEETINGS AND INTERIM MEETINGS WITH APPROPRIATE NOTICE
- INVESTMENT COMMITTEE CHARTER REVIEWED ANNUALLY AND APPROVED BY THE SIB
- MEETING MINUTES KEPT, PROVIDED TO, AND PRESENTED TO THE SIB
- THE COMMITTEE MAY ESTABLISH STANDING SUB-COMMITTEES OR WORKING GROUPS THAT REPORT TO THE COMMITTEE

North Dakota State Investment Board Committee Charter

The North Dakota State Investment Board Investment Committee (SIB Investment Committee), in conjunction with North Dakota Retirement and Investment Office management (RIO) and North Dakota State Investment Board (SIB), has developed the following policies and procedures relating to the prudent management of SIB assets.

COMMITTEE PURPOSE AND CHARTER

The Investment Committee (the "Committee") is created to provide oversight of SIB investments within the parameters established by the SIB. Oversight will include an analysis of risk and return at the portfolio, asset class, and client fund levels. Additionally, the Committee will provide input to the Board on asset allocation and benchmark recommendations.

In general, the Committee will focus on various policies and procedures of the agency to ensure they are consistent with industry standards and that they continue to keep pace with prudent investment theory and practice.

The Committee will review decisions made about deviations from established benchmarks and allocation of investments among internal management (if approved) and external management, including decisions about passive, active and quantitative styles.

The Committee is responsible for (i) proposing to the SIB changes to its Investment Policy including delegation of investment authority to RIO investment staff; (ii) approving the SIB Investment Committee Investment Guidelines (IC Guidelines); (iii) approving the general strategies for each investment division; and (iv) approving new investment instruments. All investment guidelines must be consistent with the investment authority provided in North Dakota Century Code Chapter 21-10.

GOVERNANCE & POLICY REVIEW COMMITTEE COMPOSITION AND TERM LIMITS

The Governance & Policy Review Committee shall be composed of two members of the SIB board, two external investment professionals and two RIO staff. They will be nominated and approved by a majority vote of the SIB. A Chair and a Vice Chair of the Committee will be appointed by the SIB. The two external investment professionals may be either currently active or retired and have substantial institutional investment experience. At least one of the external investment professionals shall be residents of the State of North Dakota or have ties to North Dakota. This is a standing committee with no term limits. The Chief Investment Officer will be responsible for meeting preparation.

DUTIES AND RESPONSIBILITIES

- A.** The Committee will suggest and recommend changes to the SIB Investment Policy, as necessary including any delegation of authority to RIO investment staff.
- B.** The Committee will review periodically and approve changes and additions to the IC Guidelines and will report any revisions to the SIB.
- C.** The Committee may examine internally (if approved) and externally managed portfolios, individual investments, correlation among portfolios, and such other matters as the Committee deems appropriate for the purpose of understanding, measuring, controlling, monitoring, and reporting SIB investment exposure.
- D.** The Committee will review and approve the use of new investment instruments prior to their implementation in internal (if approved) and external SIB portfolios.
- E.** The Committee will oversee the review and implementation of any other new investment programs or initiatives in all SIB portfolios and will coordinate any necessary related SIB approvals.
- F.** For purposes of fulfilling its risk management and oversight responsibilities, the Committee will act as liaison between the RIO investment Staff and the SIB on issues concerning investment risk management.
- G.** The Committee will review a subset of asset class strategies at least quarterly to assess established risk limits and evaluate strategy and will approve such strategies annually. The relevant Investment Staff shall be responsible for the specific investment decisions and implementations including internally (if approved) and externally managed mandates that are used to execute the approved strategies.
- H.** The Committee will review all compliance-related issues referred by the Enterprise Risk and Compliance Committee, including compliance with statutes, administrative rules, internal and external manager investment guidelines or as otherwise requested.
- I.** The Committee will review asset allocation plans and strategies and will review and approve any proposed changes to SIB's strategic asset allocations and fund-level active risk objectives before they are presented to the Board for approval. The Committee will provide consultation and assistance to the SIB, ED and staff

concerning total fund allocation changes or rebalance decisions, as needed.

- J.** The Committee will review and act on all requests from investment managers, both internal (if approved) and external for waivers to provisions in their investment guidelines. On an emergency basis when it is impractical to timely convene a meeting of the Investment Committee, either the Chair or Vice Chair of the committee with the concurrence of the Chief Investment Officer of the Committee or the Executive Director, may approve a waiver. That waiver will be brought to the Committee for ratification at its next regularly scheduled meeting.
- K.** The Committee may review and analyze other compliance-, risk- or derivative-related (if approved) matters that are directed to the attention of the Committee by the SIB, external auditors, the Internal Audit group, and RIO investment and accounting staff.
- L.** The Committee will receive quarterly reports regarding transitions (if any) and shall review with the applicable Investment Staff the costs and impacts associated with the transitions. It will also from time-to-time review reports on the trading effectiveness of investment execution of internal investment strategies (if approved).
- M.** The Committee will review annual benchmark recommendations from a Board-appointed benchmark consultant and will provide its evaluation and recommendation to the Board.
- N.** The Committee will review and revise portfolio guidelines as necessary.
- O.** The Committee will establish procedures for the methodology and frequency of review of (i) fund, asset class and portfolio performance, (ii) performance attribution, (iii) allocation within asset classes and (iv) risk levels. Procedures will be shared with the Board of Trustees.
- P.** The Committee will conduct periodic round table discussions of the economic and investment environment.

GENERAL COMMITTEE PROCEDURES

- Q.** A majority of the voting members of the Committee constitute a quorum. A majority of a quorum is required to take any Committee action or approve any motion. If an approved motion lacked the support by the Committee Chair, the

results of the vote shall be reported in a separate report to the Board of Trustees at its next regularly scheduled meeting. Any member proposing or responsible for oversight of an investment being brought to the Committee for approval will be recused from the vote.

- R. The Committee shall establish a regular monthly meeting schedule. Non-routine meetings may be called by any Committee member with sufficient lead time to provide appropriate notice of the meeting under ...
- S. The Committee Charter shall be approved by the SIB.
- T. Minutes of Committee meetings shall be kept and be provided to SIB. Regular Board meetings shall include an agenda item for discussion of Committee actions and proceedings.
- U. The Committee may establish standing subcommittees or temporary working groups to carry on assigned activities. Such subcommittees or working groups will report on their activities to the Committee as requested by the Committee.

DERIVATIVE INVESTMENTS

- V. Procedures for review, processing, and monitoring of derivative investments (if approved) will be established by the Committee.
- W. Specific investment policies regarding the use of derivative instruments (if approved) are determined for each portfolio by the IC Guidelines. Such policies, as amended from time to time, are officially contained in the IC Guidelines or external manager contracts.
- X. The Chief Financial Officer or designee will review with the Committee any changes in the accounting treatment and required note disclosures for external reporting purposes used for derivative instruments, based on the applicable fund, the characteristics of the instrument and any underlying assets or liabilities.



BOARD COMPOSITON

Scott M Anderson, CFA

May 19, 2022

NORTH
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Retirement & Investment

SOME BOARD COMPOSITION ALTERNATIVES

MEMBER	QUANTITY	CONSIDERATIONS
GOVERNOR (Lt. Governor)	1	
TREASURER	1	
WSI DIRECTOR	1	Represents pension and insurance portfolios
LAND/AG/ OR NONE	1	Represents land assets and/or OMB
PENSION (TFFR AND PERS)	2-4	Existing charters, Board balance, Committee participation
OMB DIRECTOR	1	Represent budgeting process and state finances
INSURANCE COMMISSIONER	1	Represent insurance portfolios
INVESTMENT PROFESSIONAL	2-4	At least two are experienced institutional investors and can be on investment committee; Others can be from banking, economics, and business
LEGACY FUND ADVISORY	1	Represents Legislative Assembly (nonvoting)
TOTAL	11 - 15	

Goals

- **DESIRE TO HAVE AN EFFICIENT BOARD WITH SIZE LESS THAN 12**
- **DESIRE A BALANCE OF ELECTED OFFICIALS, APPOINTED REPRESENTATIVES AND BENEFICIARIES**
- **TRADE-OFF BETWEEN OUTSIDE EXPERTISE AND BENEFICIARIES**
- **OTHERS**

THREE ARCHETYPE BOARD COMPOSITIONS

ARCHETYPE ONE

GOVERNOR (Lt. Governor)
TREASURER
WSI DIRECTOR
LAND COMMISSIONER
2 PENSION (TFFR AND PERS)
OMB DIRECTOR
INSURANCE COMMISSIONER
4 INVESTMENT PROFESSIONALS
LEGACY FUND ADVISORY
12 voting, 1 nonvoting

ARCHETYPE TWO

GOVERNOR (Lt. Governor)
TREASURER
WSI DIRECTOR
AG
4 PENSION (TFFR AND PERS)
OMB DIRECTOR
INSURANCE COMMISSIONER
2 INVESTMENT PROFESSIONALS
LEGACY FUND ADVISORY
12 voting, 1 nonvoting

ARCHETYPE THREE

GOVERNOR (Lt. Governor)
TREASURER
WSI DIRECTOR
(no land assets)
4 PENSION (TFFR AND PERS)
OMB DIRECTOR
INSURANCE COMMISSIONER
3 INVESTMENT PROFESSIONALS
LEGACY FUND ADVISORY
12 voting, 1 nonvoting

MEMORANDUM

TO: SIB GPR Committee
FROM: Eric Chin, Deputy Chief Investment Officer
DATE: May 18th, 2022
RE: Annual Investment Manager Meetings

I. Introduction

An integral step to monitor and evaluate investment managers is meeting with a manager's key investment professionals. After a temporary halt during the pandemic, staff has resumed scheduling and holding annual meetings with each manager in Bismarck, per the SIB Governance manual.

II. Governance

Section E-10 *Evaluation of Money Managers* of the SIB Governance manual notes that investment criteria such as: performance objectives, investment philosophy, organizational changes, areas of concern, and future performance are assessed through;

“Annual meetings with each manager in Bismarck to discuss performance, investment philosophy, organizational changes, economic outlook, and areas of concern.”

Staff is scheduling in-person meetings with the SIB's investment managers and will conduct in-person due diligence in Bismarck over the next 12 months.

III. Committee Action Requested

Staff has two requests related to the annual investment manager meetings:

1. Discuss current and future practices related to Board member participation in manager meetings.
2. Recommend that the Board adjust the language of the SIB Governance Policy E-10, to read “Annual meetings with each manager in Bismarck, *onsite at the managers' offices or virtually* to discuss performance, investment philosophy, organizational changes, economic outlook, and areas of concern.”

State Investment Board & Committee Calendar 2022-23

Below please find a combined SIB & TFFR Board and Committee Calendar for 2022-2023. The TFFR Board approved its 2022/23 schedule at its meeting on April 21, 2022. While committee dates are subject to change, if the proposed Committee schedule meets expectations staff requests the Committee approve the following:

July 2022

July 21, 2022 – TFFR @ 1:00 PM
July 21, 2022 - SIB GPR @ 10:00 AM
July 22, 2022 – SIB @ 8:30 AM

August 2022

August 9, 2022- TFFR GPR @ 10:00 AM
August 9, 2022 – SIB Audit Committee @ 2:30 PM
August 23, 2022 – SIB GRP @ 2:30 PM
August 26, 2022 – SIB @ 8:30 AM

September 2022

September 20, 2022 – SIB Securities @ 10:00 AM
September 22, 2022 – SIB GRP @ 10:00 AM
September 22, 2022 – TFFR @ 1:00 PM
September 23, 2022 – SIB @ 8:30 AM

October 2022

October 26, 2022 – SIB GPR @ 2:30 PM
October 28, 2022 – SIB @ 8:30 AM

November 2022

November 8, 2022 – TFFR GPR @ 3:30 PM
November 15, 2022 – SIB Audit Committee @ 2:30 PM
November 16, 2022 – SIB GPR @ 2:30 PM
November 17, 2022 – TFFR @ 1:00 PM
November 18, 2022 – SIB @ 8:30 AM

December 2022

December 13, 2022 – SIB Securities @ 10:00 AM
December 16, 2022 – SIB @ 8:30 AM (tentative)

January 2023

January 26, 2023 – TFFR @ 1:00 PM
January 26, 2023 – SIB GPR @ 10:00 AM
January 27, 2023 – SIB @ 8:30 AM

February 2023

February 7, 2023 – TFFR GPR @ 3:30 PM
February 16, 2023 – SIB Audit Committee @ 10:00 AM
February 16, 2023 – TFFR @ 2:00 PM (tentative)
February 17, 2023 – SIB @ 8:30 AM

March 2023

March 21, 2023 – SIB Securities @ 10:00 AM
March 23, 2023 – SIB GPR @ 10:00 AM
March 23, 2023 – TFFR @ 1:00 PM
March 24, 2023 – SIB @ 8:30 AM

April 2023

April 27, 2023 – SIB GPR @ 10:00 AM
April 27, 2023 – TFFR @ 1:00 PM
April 28, 2023 – SIB @ 8:30 AM

May 2023

May 9, 2023 – TFFR GPR @ 3:30 PM
May 11, 2023 – SIB Audit Committee @ 2:30 PM
May 18, 2023 – SIB GPR @ 10:00 AM
May 19, 2023 – SIB @ 8:30 AM

June 2023

June 13, 2023 – SIB Securities @ 10:00 AM
June 15, 2023 – TFFR Board Retreat @ 1:00 PM

COMMITTEE ACTION REQUESTED: Approve Committee Schedule.