

Governance and Policy Review Committee (Virtual Only)

Monday, October 24, 2022, 10:00 a.m.

RIO Conference Room

1600 E Century Ave, Ste. 3, Bismarck, ND

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AGENDA

- I. CALL TO ORDER AND ACCEPTANCE OF AGENDA**
- II. MINUTES – SEPTEMBER 21, 2022**
- III. EDUCATION – SIB GOVERNANCE MANUAL CHANGES – MR. ANDERSON**
- IV. COMMITTEE DISCUSSION**
- V. ADJOURNMENT**

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

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

MEMBERS ABSENT: Jon Godfread, Insurance Commissioner

STAFF PRESENT: Scott Anderson, CIO
Eric Chin, Deputy CIO
Rachel Kmetz, Accounting Mgr.
Missy Kopp, Exec Assistant
Jan Murtha, Exec Dir
Sara Sauter, Supervisor of Internal Audit

CALL TO ORDER:

Dr. Lech called the State Investment Board (SIB) Governance and Policy Review (GPR) Committee meeting to order at 2:00 p.m. on Wednesday, September 21, 2022, in the Retirement and Investment Office 1600 E Century Ave., Bismarck, ND.

AGENDA:

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

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

AYES: TREASURER BEADLE AND DR. LECH

NAYS: NONE

ABSENT: COMMISSIONER GODFREAD

MOTION CARRIED

MINUTES:

The minutes were considered for the July 27, 2022, meeting.

IT WAS MOVED BY TREASURER BEADLE AND SECONDED BY DR. LECH AND CARRIED BY A VOICE VOTE TO APPROVE THE JULY 27, 2022, MINUTES AS DISTRIBUTED.

AYES: TREASURER BEADLE AND DR. LECH

NAYS: NONE

ABSENT: COMMISSIONER GODFREAD

MOTION CARRIED

EDUCATION – GOVERNANCE FOR GROWTH:

Ms. Murtha shared that this same presentation would be given at the SIB meeting on Friday, September 23rd. Staff is looking for feedback from the GPR Committee before the presentation is made to the Board. Mr. Anderson provided education on how the SIB's evolving governance model can support further program growth. Mr. Anderson discussed the time horizon of decision making. The current governance model falls into a minimal delegation model where external managers are responsible for executing a mandate, investment staff make recommendations and provide opinions on investment strategy, and the Board is responsible for making policy and final decisions. We are moving toward a "some

delegated authority” model where decision making moves toward the Investment Committee (IC) which is a hybrid committee made up of Board members, staff, and outside experts.

The Committee discussed the best way to keep the SIB informed about what decisions the IC is making. Members of the Committee suggested that staff share the IC agenda and materials with the SIB chair so he can notify the IC if he wants an item to come to the SIB.

Mr. Anderson discussed the benefits of the “some delegation” model including the opportunity for more agility to respond to a fast-changing environment, stability from governance layers, independence of oversight and policy from decision making and execution, and better ends achievement at a lower cost.

Mr. Anderson discussed the near-term plans for modifications to the SIB Governance manual and post-legislative session modifications. Some sections of the manual need modifications because of the addition of the Investment Committee. There are also some sections of the manual that are out of date and some changes that need to be made for TFFR. Staff plan to work on the necessary changes, have a discussion with the IC, then bring them to the GPR Committee. The GPR Committee will bring their recommendations to the SIB for approval. This initial phase will allow RIO to operate with updated governance. After completion of legislative session, staff recommend a complete rewrite of the manual. The Committee discussed the plan for updating the Governance Manual and agreed that staff should proceed with the proposed process.

OTHER:

With no further business to come before the GPR Committee, Dr. Lech adjourned the meeting at 3:14 p.m.

Prepared by:

Missy Kopp
Assistant to the Board



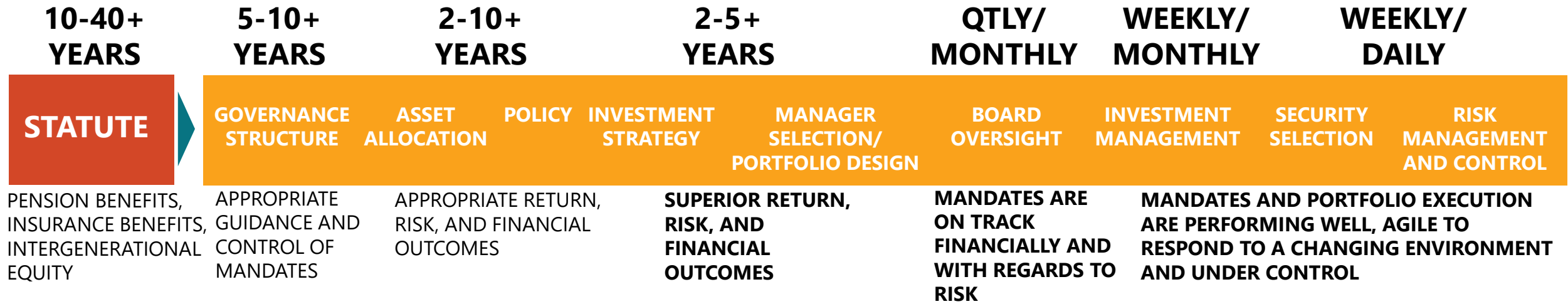
GOVERNANCE FOR GROWTH

Scott M Anderson, CFA
October 7, 2022

NORTH
Dakota
Be Legendary.

Retirement & Investment

TIME HORIZON OF DECISION MAKING



- GOOD GOVERNANCE REQUIRES THE TIME HORIZON AND FREQUENCY OF DECISIONS TO MATCH THE TIMELINE REQUIRED TO ACHIEVE A GOAL (AGILITY ↔ STABILITY)
- GOOD GOVERNANCE REQUIRES OVERSIGHT TO BE INDEPENDENT OF DECISIONS AND THEIR IMPLEMENTATION
- PERFORMANCE AND RISK MANAGEMENT REQUIRE SHORT TIME HORIZONS TO BE AGILE TO CHANGING ENVIRONMENTS, DISCIPLINE NOT TO ACT TOO FREQUENTLY, AND CONTINGENT PLANNING

GOVERNANCE MODEL – ROLES & RESPONSIBILITIES

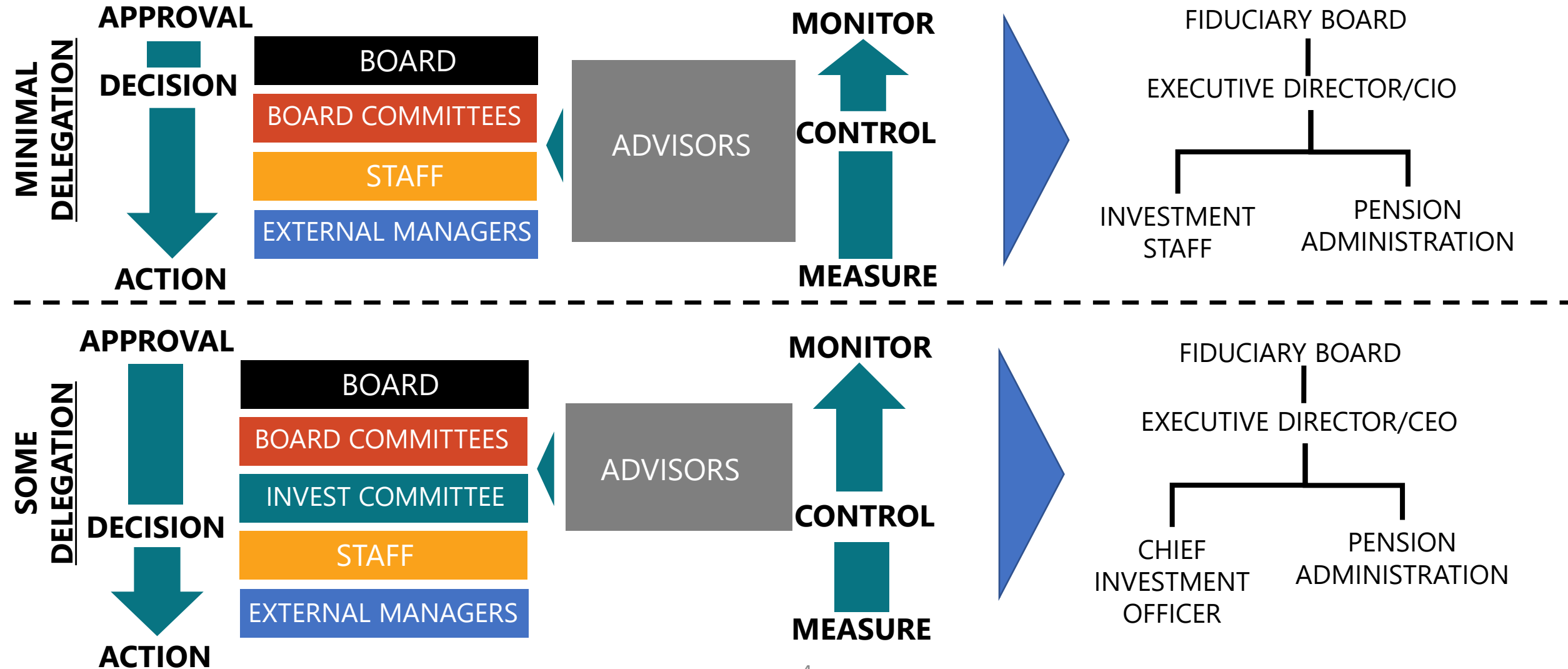
MINIMAL DELEGATION – CURRENT MODEL



SOME DELEGATED AUTHORITY



GOVERNANCE MODEL – DELEGATION



ILLUSTRATION

SOME DELEGATED AUTHORITY



BENEFITS OF SOME DELEGATION

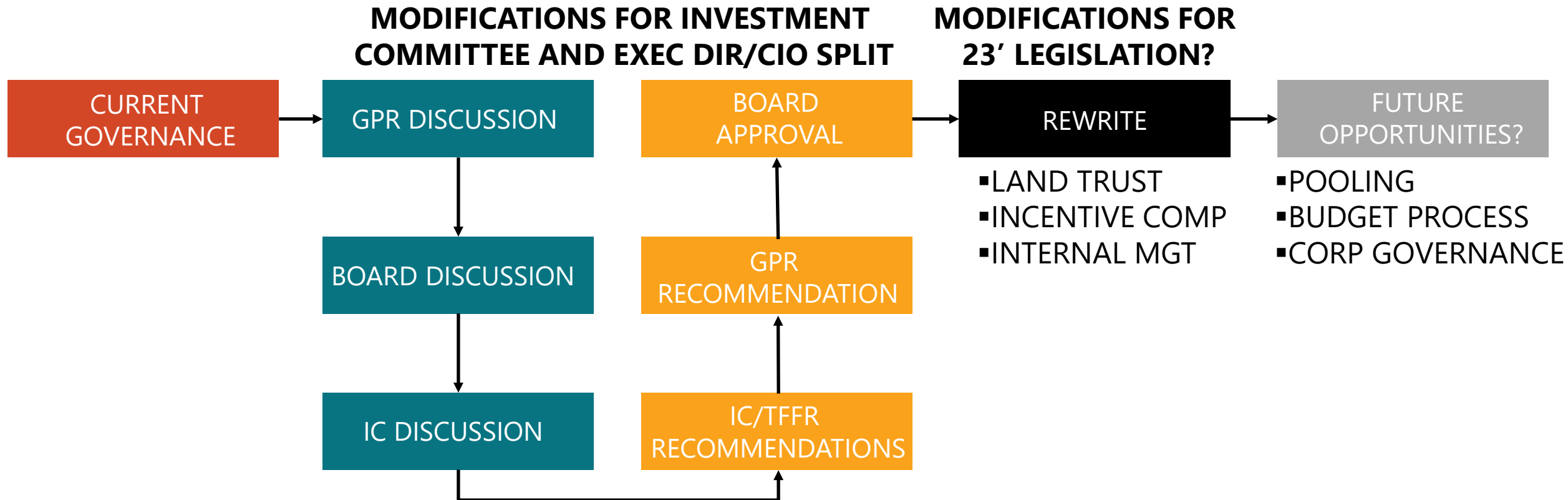
- AGILITY TO RESPOND TO A FAST-CHANGING ENVIRONMENT
- STABILITY FROM GOVERNANCE LAYERS
- MORE SUBSTANTIAL AND TECHNICAL CONVERSATIONS TO ENABLE MORE SOPHISTICATED STRATEGIES
- INDEPENDENCE OF OVERSIGHT AND POLICY FROM DECISION MAKING AND EXECUTION
- BETTER ENDS ACHIEVEMENT AT A LOWER COST

STATE INVESTMENT BOARD GOVERNANCE MANUAL

TABLE OF CONTENTS

- A. EXECUTIVE LIMITATIONS
- B. GOVERNANCE PROCESS
- C. BOARD-STAFF RELATIONSHIP
- D. ENDS
- E. INVESTMENTS
- F. TFFR PROGRAM
- G. TRUST FUND INVESTMENT GUIDELINES
- H. BY-LAWS
- I. CENTURY CODE

NEAR TERM MODIFICATIONS/ POST LEGISLATIVE SESSION MODIFICATIONS



MODIFICATIONS FOR INVESTMENT COMMITTEE AND

E. FIDUCIARY DUTIES

E. INVESTMENT PROCESS

E. ENTITIES/RESPONSIBILITIES

E. PROXY VOTING

E. EVALUATION

E. EXHIBITS

CONSIDERATION FOR LEGACY FUND

E.2 – INVESTMENT PROCESS DIAGRAM;

E.3 – INCLUDE IC; CLARIFY DELEGATION AND ROLES

E.7 – CLARIFY

E.10, 11, 13 – REFLECTS INVESTMENT COMMITTEE EXISTANCE

E. EXHIBITS - UPDATE EXHIBITS

POLICY TYPE: GOVERNANCE PROCESS

POLICY TITLE: *BOARD COMMITTEE PRINCIPLES*

Unless specifically provided by governance policy, board committees will be assigned ~~se-as~~ to minimally interfere with the wholeness of the board's job and so as never to interfere with delegation from board to executive director. Board committees will be used sparingly.

1. Board committees are to help the board do its job, not to help the staff do its job. Committees ordinarily will assist the board by preparing policy alternatives and implications for board deliberation. Board committees are created to advise the board, not the staff. The Investment Committee is a hybrid committee comprised of Board members, Staff and external investment experts. The investment committee is delegated authority as provided by Board policy.
2. Board committees may not speak or act for the board except when formally given such authority for specific and time-limited purposes. Expectations and authority will be carefully stated in order not to conflict with authority delegated to the executive director.
3. Board committees cannot exercise authority over staff however committees will make requests of staff through the executive director unless staff is assigned to the committee. Because the executive director works for the full board, he or she will not be required to obtain approval of a board committee before an executive action. In keeping with the board's broader focus, board committees will normally not have direct dealings with current staff operations.
4. Board committees are to avoid over-identification with the committee's assignment. Therefore, a board committee which has helped the board create policy will not be used to monitor organizational performance on that policy. The Investment Committee is chartered to monitor certain investment strategy execution and investment performance in a more detailed way than the Board which receives independent performance appraisals and summarized updates on investment activities. The Board is the ultimate governance authority of the investment program.
5. This policy applies only to committees which are formed by board action, whether or not the committees include non-board members. It does not apply to committees formed under the authority of the executive director.
6. The chairperson will appoint board committees authorized by the board. The operational life span of a board committee will be defined at the time of appointment.

Policy Implemented: June 23, 1995.

Amended: November 22, 1996, February 27, 2015

POLICY TYPE: GOVERNANCE PROCESS

POLICY TITLE: ANNUAL BOARD PLANNING CYCLE

To accomplish its job outputs with a governance style consistent with board policies, the board will strive to follow a biennial agenda which (a) completes a re-exploration of *Ends* policies annually and (b) continually improves its performance through attention to board education and to enriched input and deliberation.

1. A biennial calendar will be developed.
 2. The cycle will conclude each year on the last day of June in order that administrative budgeting can be based on accomplishing a one-year segment of the most recent board long-range vision.
 - A. In the first three months of the new cycle, the board will strive to develop its agenda for the ensuing one-year period.
 - B. Scheduled monitoring will be used to evaluate and adjust the annual agenda as needed.
 3. Education, input, and deliberation will receive paramount attention in structuring the series of meetings and other board activities during the year.
 - A. To the extent feasible, the board will strive to identify those areas of education and input needed to increase the level of wisdom and forethought it can give to subsequent choices.
 - B. A board education plan will be developed during July and August of each year.
 4. The sequence derived from this process for the board planning year ending June 30 is as follows:
 - A. July: Election of officers, appoints audit and investment committee, plan annual agenda, begin to develop board education plan, and new board member orientation.
 - B. August: Present education plan and continue new board member orientation.
 - C. September: Annual Review of Governance Manual.
 - D. October: Chief Investment Officer review of investment results. Annual meeting for evaluation of RIO vs. *Ends* policies and annual board evaluation.
 - E. November: Chief Investment Officer report on investment work plan.
 - F. January: During second year of the biennium, begin to develop *Ends* policies for the coming biennium for budget purposes.
 - G. February: Chief Investment Officer present the investment work plan. Evaluation of Executive Director.
 - H. March: Chief Investment Officer review of investment results and report on investment work plan. During first year of biennium, set budget guidelines for budget development.
-

POLICY TYPE: GOVERNANCE PROCESS

I. June: Chief Investment Officer review of investment results and report on investment work plan

4. ~~The sequence derived from this process for the board planning year ending June 30 is as follows:~~
- ~~A. July: Election of officers, appoints audit committee, plan annual agenda, begin to develop board education plan, and new board member orientation.~~
 - ~~B. August: Investment Director review of investment results, establish investment work plan, add investment education to education plan, and continue new board member orientation.~~
 - ~~C. September: Annual Review of Governance Manual.~~
 - ~~D. October: Annual meeting for evaluation of RIO vs. Ends policies and annual board evaluation.~~
 - ~~E. November: Investment Director report on investment work plan.~~
 - ~~F. January: During second year of the biennium, begin to develop Ends policies for the coming biennium for budget purposes.~~
 - ~~G. February: Investment Director report on investment work plan. Evaluation of Executive Director.~~
 - ~~H. March: During first year of biennium, set budget guidelines for budget development.~~
 - ~~I. May: Investment Director report on investment work plan.~~

Policy Implemented: June 23, 1995; November 19, 1999.

Amended: September 26, 2014, February 27, 2015.

POLICY TYPE: INVESTMENTS

POLICY TITLE: FIDUCIARY DUTIES

By virtue of the responsibilities assigned to the SIB by North Dakota Century Code Chapter 21-10, the members of the SIB are fiduciaries for eleven statutory funds. Through contractual obligations, fiduciary responsibility extends to ~~twelve~~fifteen additional funds.

A fiduciary is a person who has discretionary authority or management responsibility for assets held in trust to which another has beneficial title or interest. The fiduciary is responsible for knowing the "prudent requirements" for the investment of trust assets. Remedial actions may be assessed against fiduciaries for violations of fiduciary duty.

North Dakota state law provides broad fiduciary guidelines for the SIB members. NDCC 21-10-07 specifies that "the state investment board shall apply the prudent investor rule in investing for funds under its supervision except that Section 21-10-07.1 requires the SIB to give preference to qualified investment firms and financial institutions with a presence in the state for legacy fund investment purposes. The "prudent investor rule" means that in making investments, 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~~regarding speculation but ~~in regard to~~regarding the permanent disposition of funds, considering probable safety of capital as well as probable income."

Procedural prudence is a term that has evolved to describe the appropriate activities of a person (or persons) who act in a fiduciary role. Court decisions to date indicate that procedural prudence is more important in assessing fiduciary activities than actual portfolio performance. A fiduciary cannot be faulted for making the "wrong" decision provided that proper due diligence was performed.

The key to successfully discharging the SIB's fiduciary duties is the establishment of and adherence to proper due diligence procedures. While not bound by ERISA (Employee Retirement and Income Security Act of 1974), the SIB will use the procedural prudence outlined by ERISA as guidance in developing its procedures:

1. An investment policy must be established for each fund and must be in writing.
2. Plan assets must be diversified, unless under the circumstances it would be prudent not to do so.
3. Investment decisions must be made with the skill and care of a prudent expert.
4. Investment performance must be monitored.
5. Investment expenses must be controlled.
6. Prohibited transactions must be avoided.

Policy Implemented: September 20, 1995.

Amended: May 30, 1997, January 22, 1999, February 27, 2009, October 26, 2018.

POLICY TYPE: INVESTMENTS**POLICY TITLE: *INVESTMENT PROCESS***

The SIB believes that an investment program must be built and managed like any good business, with a clear statement of mission, overall objectives, roles and responsibilities, and policies and guidelines. Major issues to be faced by the SIB will revolve around:

- Setting asset allocation targets
- Setting appropriate benchmarks
- Finding the right managers
- Funds implementation and ongoing execution
- Monitoring the program
- Searching for appropriate new opportunities

Asset allocation targets:

- ~~Setting appropriate benchmarks.~~
- ~~Finding the right managers.~~
- ~~Monitoring the program.~~
- ~~Searching for appropriate new opportunities.~~

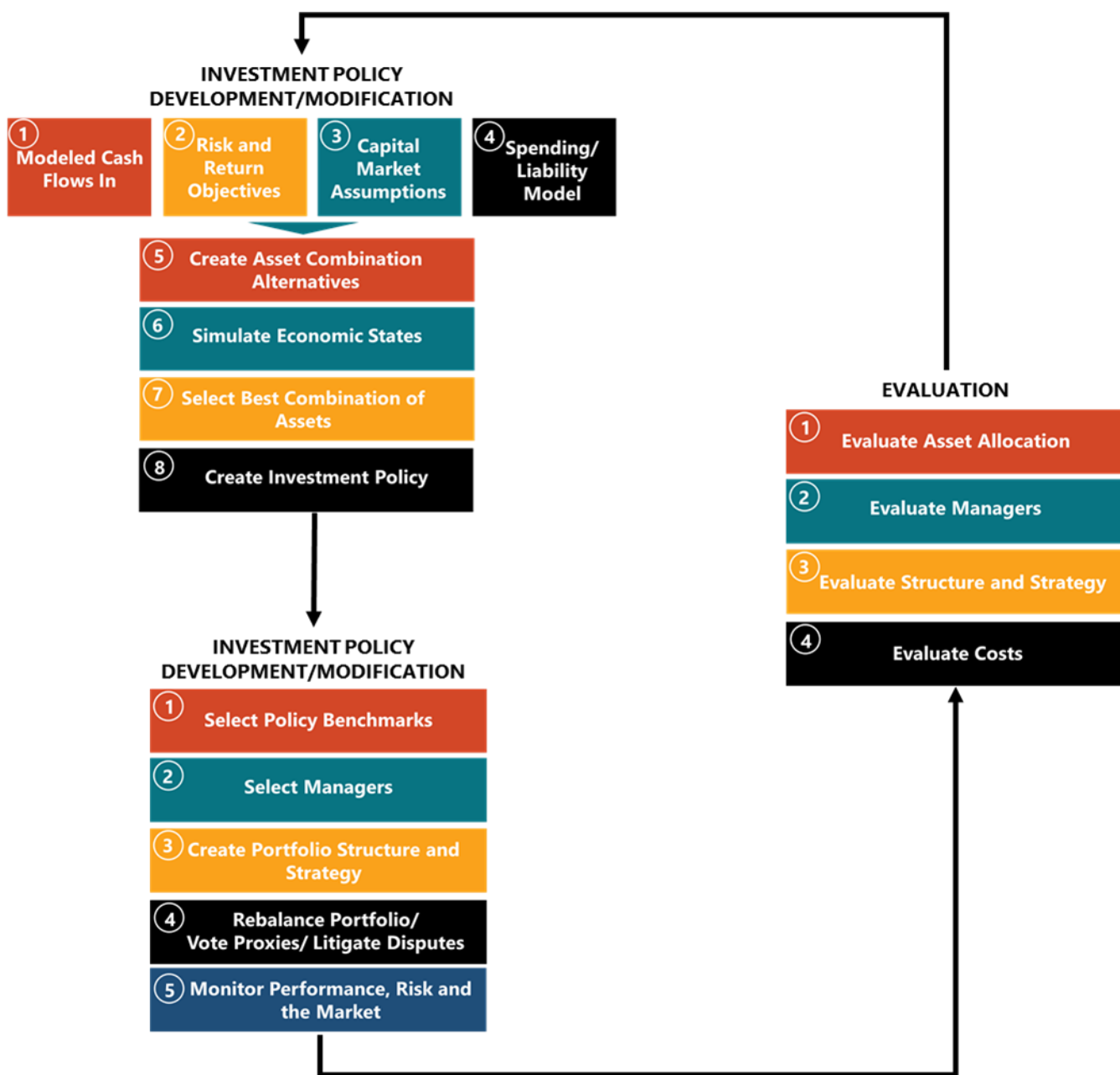
To ensure rigorous attention to all aspects of the investment program, the SIB follows an established investment process. This process, described by the diagram on the following page, involves three phases:

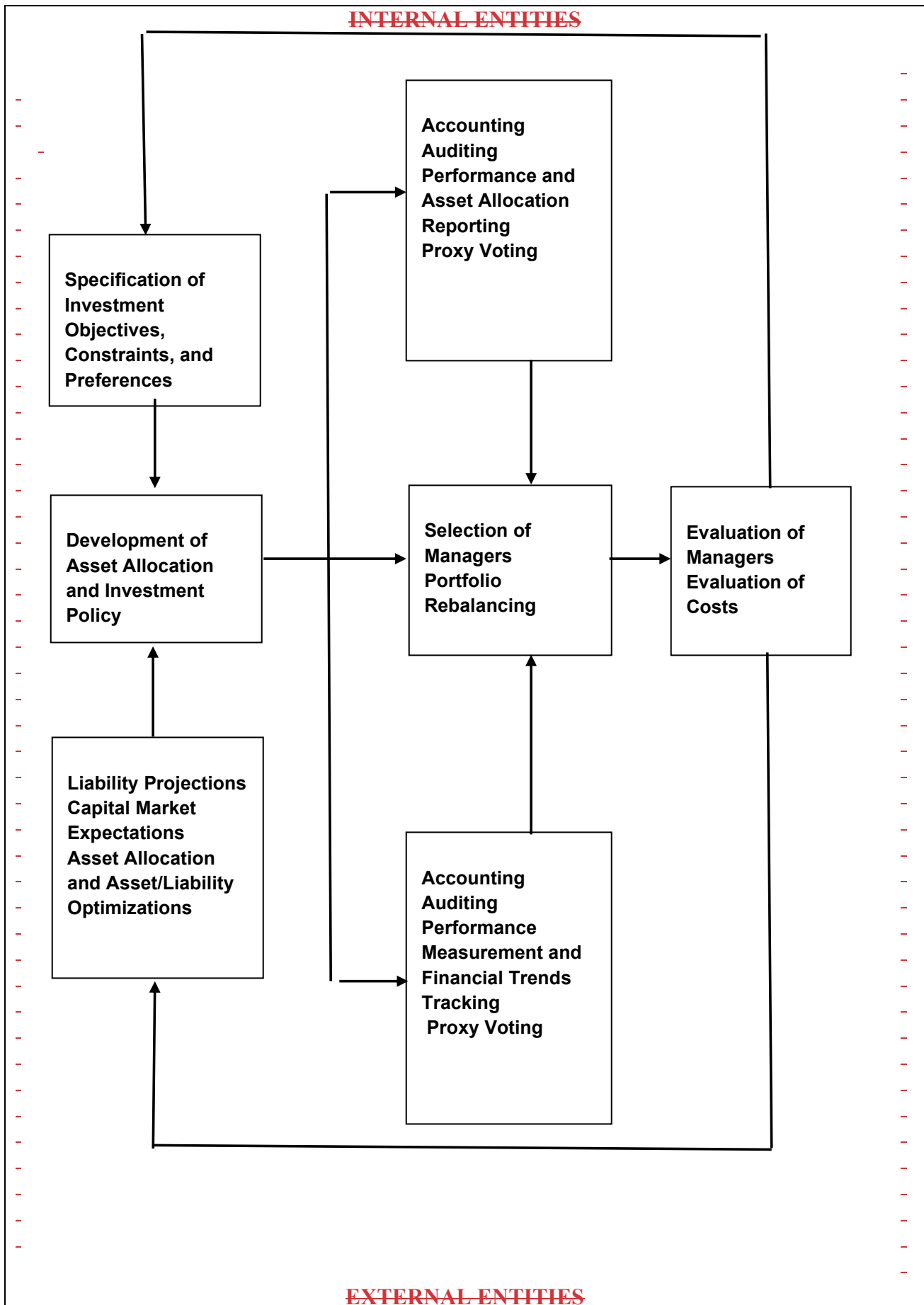
- Investment policy development/modification.
- Implementation/monitoring.
- Evaluation.

The first column of boxes describes the policy development phase, the middle column implementation/monitoring, and the last box on right evaluation. Activities associated with internal entities are shown along the top. Those associated with external entities are shown along the bottom. The middle shows activities that internal and external entities work on together.

Policy Implemented: September 20, 1995.

E-2





POLICY TYPE: INVESTMENTS

POLICY TITLE: INVESTMENT PROCESS

The key responsibilities of the entities involved in the investment program are:

Fund Governing Bodies

1. Establish policy on investment goals and objectives.
2. Establish asset allocation or approve a pool allocation.
3. Hire actuary when required.

SIB

1. Invest funds entrusted by statute and contracted entities, delegating investment authority when deemed appropriate.
2. Set policies for appropriate investments and investment practices of entrusted funds.
3. Approve asset allocation and investment policies of participating trust funds or establish pool asset allocation previously approved by the Investment Committee.
4. Monitor the progress of the implementation of the investment strategy.
5. Monitor the performance and risk of the investment program provided by an independent third-party performance appraisal.
6. The Board will receive program updates, training regarding investment topics, market updates, investment performance/risk, investment procedures, program costs and updates on investment execution of investment strategies from Investment Committee representatives.
7. Approve benchmark recommendations from an independent third-party benchmark consultant previously approved by the Investment Committee.
8. Review summaries of Investment Committee proceedings.
9. Review updates regarding specific investment strategies, manager selection, termination, guideline changes and changes to instrument usage.
10. The Board may choose to have decision authority over specific Investment Committee decisions when deemed appropriate including new investment programs, strategies, techniques, instruments, and initiatives.

Investment Committee

1. The Committee will suggest and recommend changes to the SIB Investment Policy, as necessary including any delegation of authority to RIO investment staff.
2. The Committee will review periodically and approve changes and additions to the IC Guidelines and will report any revisions to the SIB.
3. The Committee may examine internally (if approved) and externally managed portfolios, individual

POLICY TYPE: INVESTMENTS

POLICY TITLE: *INVESTMENT PROCESS*

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.

4. The Committee will review and approve the use of new investment instruments prior to their implementation in internal (if approved) and external SIB portfolios.
 5. 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.
 6. 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.
 7. The Committee will review 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.
 8. The Committee will review all compliance-related issues including compliance with statutes, administrative rules, internal and external manager investment guidelines or as otherwise requested.
 9. 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.
 10. 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.
 11. 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.
 12. 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).
 13. The Committee will review annual benchmark recommendations from a Board-appointed benchmark consultant and will provide its evaluation and recommendation to the Board.
 14. The Committee will review and revise portfolio guidelines as necessary.
 15. 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.
 16. The Committee will conduct periodic round table discussions of the economic and investment environment.
4. Report the investment performance of the funds to each fund's governing authority.

POLICY TYPE: INVESTMENTS

POLICY TITLE: *INVESTMENT PROCESS*

5. Hire and terminate money managers, custodians, and consultants.

Chief Investment Officer and RIO Staff

1. Participate on the Investment Committee and report to the Board as required.
2. Implement investment policies approved by the Investment Committee and the Board.
3. Provide research and administrative for SIB client funds and client projects.
4. Recommend investment policies and procedures appropriate for governing the investment of entrusted funds.
5. Lead the development of asset allocations, investment strategies, manager mandates, manager guidelines, investment implementations and investment policies to be approved by the Investment Committee and Board.
6. Hire and terminate money managers, custodians, and consultants as delegated by the Investment Committee and Board.
7. Negotiate manger contract terms and conditions as delegated by the Investment Committee and Board.
8. Evaluate money manager adherence to investment objectives, mandate requirements and guidelines.
9. Provide performance reports to the Investment Committee, the Board and Boards of participating funds as a representative of the Investment Committee and the SIB.
10. Recommend hiring or terminating money managers, custodians, consultants, and other outside services needed to effectively manage the investment funds.
11. Develop and maintain appropriate accounting policies and investment systems for the funds entrusted to the SIB.

POLICY TYPE: INVESTMENTS

POLICY TITLE: *KEY PROGRAM ENTITIES AND RESPONSIBILITIES*

Investment Consultant

1. Measure money manager performance and monitor adherence to investment goals, objectives, and policies.
2. Assist in the annual evaluation of program policies, results, and the development of annual work plan.
3. Work with Staff to develop the asset allocation or asset/liability studies.
4. Provide information for requested money manager searches.
5. Assist in development of investment policies and manager structure and rebalancing guidelines.
6. Extension of staff for special projects.

Actuary

1. Assist fund governing bodies in developing benefit and funding policies.
2. Measure actuarial soundness of plan.
3. Perform experience studies as requested by plan sponsor.
4. Provide liability projections as needed.
5. Conduct annual evaluation of program policies, results, and assist in developmental of annual work plan.
6. Assist in implementation of annual work plan.

Auditor

1. Measure, validate, and offer an opinion on agency financial statements and management.
2. Assist in developing appropriate accounting policies and procedures.
3. Bring technical competence, sound business judgment, integrity, and objectivity to the financial reporting process.

POLICY TYPE: INVESTMENTS

POLICY TITLE: KEY PROGRAM ENTITIES AND RESPONSIBILITIES

Master Custodian

1. Provide safekeeping of all securities purchased by managers on behalf of the SIB.
2. Provide global custody services.
3. Collect interest, dividend, and principal payments in a timely manner.
4. Provide for timely settlement of securities.
5. Price all securities and post transactions daily.
6. Maintain short-term investment vehicles for investment of cash not invested by SIB managers. Sweep all manager accounts daily to ensure all available cash is invested.
7. Provide monthly, quarterly, and annual accounting reports for posting to RIO's general ledger.
8. May manage a securities lending program to enhance income.
9. Provide electronic access to accounting reports.
10. Provide other services that assist with the monitoring of managers and investments.

Portfolio Managers

1. Manage portfolios as assigned by the SIB.
2. Provide liquidity, as required, in a timely and cost-efficient manner.
3. Vote proxies.
4. Provide educational assistance to board.

Policy Implemented: September 20, 1995.

Amended: February 27, 2009

SIB

~~1. Invest funds entrusted by
statute and contracted entities.~~

~~2. Set policies on appropriate
investments and investment
practices for entrusted funds.~~

POLICY TYPE: INVESTMENTS

POLICY TITLE: KEY PROGRAM ENTITIES AND RESPONSIBILITIES

~~3.—Approve asset allocation and investment policies of participating trust funds.~~

~~4.—Report the investment performance of the funds to each fund's governing authority.~~

~~5.—Hire and terminate money managers, custodians, and consultants. Investment Officer and RIO Staff~~

~~1.—Implement investment policies approved by the SIB.~~

~~2.—Provide research and administrative support for SIB projects.~~

~~3.—Recommend investment regulations appropriate for governing the investment of entrusted funds.~~

POLICY TYPE: INVESTMENTS

POLICY TITLE: KEY PROGRAM ENTITIES AND RESPONSIBILITIES

~~4.— Assist fund governing bodies in developing asset allocation and investment policies.~~

~~5.— Evaluate money manager adherence to investment objectives.~~

~~6.— Provide performance reports to the SIB and boards of participating funds.~~

~~7.— Recommend hiring or terminating money managers, custodians, consultants, and other outside services needed to effectively manage the investment funds.~~

~~8.— Develop and maintain appropriate accounting policies and systems for the funds entrusted to the SIB.~~

Investment Consultant

~~1.— Measure money manager performance and monitor adherence to investment goals, objectives, and policies.~~

~~2.— Conduct annual evaluation of program policies and results, and assist in development of annual work plan.~~

~~3.— Assist in implementation of annual work plan.~~

~~4.— Conduct asset allocation or asset/liability studies.~~

~~5.— Conduct requested money manager searches.~~

~~6.— Assist in development of investment policies and manager~~

POLICY TYPE: INVESTMENTS

POLICY TITLE: KEY PROGRAM ENTITIES AND RESPONSIBILITIES

~~structure and rebalancing~~

~~guidelines.~~

~~7.—Extension of staff for special
projects. Actuary~~

~~1.—Assist fund governing
bodies in developing benefit and
funding policies.~~

~~2.—Measure actuarial soundness
of plan.~~

~~3.—Perform experience studies
as requested by plan sponsor.~~

~~4.—Provide liability projections
as needed.~~

~~5.—Conduct annual evaluation
of program policies and results, and
assist in development of annual
work plan.~~

~~6.—Assist in implementation of
annual work plan. Auditor~~

POLICY TYPE: INVESTMENTS

POLICY TITLE: KEY PROGRAM ENTITIES AND RESPONSIBILITIES

~~1. Measure, validate, and offer an opinion on agency financial statements and management.~~

~~2. Assist in developing appropriate accounting policies and procedures.~~

~~3. Bring technical competence, sound business judgment, integrity, and objectivity to the financial reporting process.~~

Master Custodian

~~1. Provide safekeeping of all securities purchased by managers on behalf of the SIB.~~

~~2. Provide global custody services.~~

~~3. Collect interest, dividend, and principal payments in a timely manner.~~

~~4. Provide for timely settlement of securities.~~

~~5. Price all securities and post transactions daily.~~

~~6. Maintain short-term investment vehicles for investment of cash not invested by SIB managers. Sweep all manager~~

POLICY TYPE: INVESTMENTS

POLICY TITLE: KEY PROGRAM ENTITIES AND RESPONSIBILITIES

~~accounts daily to ensure all
available cash is invested.~~

~~7. Provide monthly, quarterly,
and annual accounting reports for
posting to RIO's general ledger.~~

~~8. May manage a securities
lending program to enhance
income.~~

~~9. Provide electronic access to
accounting reports.~~

~~10. Provide other services that
assist with the monitoring of
managers and investments.~~

Portfolio Managers

~~1. Manage portfolios as
assigned by the SIB.~~

~~2. Provide liquidity, as
required, in a timely and cost-
efficient manner.~~

POLICY TYPE: INVESTMENTS

POLICY TITLE: KEY PROGRAM ENTITIES AND RESPONSIBILITIES

~~3. Vote proxies.~~

~~4. Provide educational
assistance to board.~~

~~**Policy Implemented:**~~

~~September 20, 1995.~~

~~**Amended:** February 27, 2009~~

POLICY TYPE: INVESTMENTS

POLICY TITLE: INVESTMENT POLICY DEVELOPMENT – TRUST FUNDS

In accordance with NDCC 21-10-02.1, RIO staff works with each fund's governing authority, and consultants as needed, to develop an investment policy, which includes an appropriate asset allocation, for each of the statutory funds. Contracted entities are responsible for their own policy development. **Pooling of funds is allowed by statute. A pooled allocation will have an investment policy that can be approved by each fund's governing authority.**

Each policy, as a minimum, will include the following information:

1. Fund characteristics and constraints.
 - a. An explanation as to the purpose of the portfolio and its legal structure.
 - b. Size of portfolio and the likelihood and amount of future contributions and disbursements
 - c. Participant demographics when applicable.
 - d. Fiscal health of fund.
 - e. Constraints.
 - f. Unique circumstances.
2. Responsibilities of SIB.
3. Investment objectives.
4. Standards of investment performance.
5. Asset allocation policy and guidelines.
6. Evaluation and review.

Policy Implemented: September 20, 1995.

Amended: February 27, 2009

POLICY TYPE: INVESTMENTS

POLICY TITLE: INVESTMENT POLICY DEVELOPMENT – INVESTMENT POOLS

Asset Class Implementation

The SIB may internally manage investment of funds as approved by the Investment Committee and if there is a policy approval for internal investment management by the Board. Within each asset class there are numerous manager strategies, internal and external that may be employed by the SIB to affect exposure to the various asset classes as well as achieve an excess return to the policy benchmark.

Investment Pools

Investment pools may be defined for asset allocations as well as individual asset classes, sub-asset classes, manager portfolios or transactions and unitized for allocation to client funds.

SIB investment pool policy statements will define the following:

~~The SIB does no in-house investment of funds. All investment activity is delegated to outside money managers. Within each asset class there are numerous manager styles (i.e. market sector specializations) that may be employed by the SIB to affect exposure to the various asset classes.~~

~~SIB investment pool policy statements will define the following for each asset class:~~

1. Strategic objectives.
2. Performance objectives.
 - a. Appropriate capital market benchmarks.
 - b. Excess return targets, after payment of investment management fees.
 - c. Peer-group ranking.
 - d. Risk characteristics.
 - e. Termination factors.
3. Portfolio constraints.
 - a. Quality of securities/portfolio (security – BAA/portfolio – AA).
 - b. Quality held (maximum in company/industry/economic sector).
 - c. Other specific restrictions if applicable (ADRs, 144A securities, prohibited transactions, etc.).
4. Investment structure.
 - a. Percent of assets per manager cycle.
 - b. Ranges for rebalancing.

POLICY TYPE: INVESTMENTS

5. Control Procedures

- a. Duties and responsibilities of the SIB
- b. Duties and responsibilities of money managers.
- c. Reporting requirements.

Policy Implemented: September 20, 1995.

Amended: February 27, 2009

STATEMENT OF POLICY

It shall be the policy of the State Investment Board (SIB) to vote all proxies appurtenant to shares held in the various plans administered by the Board, and to vote said shares in a manner that best serves the system's interests. Specifically, all shares are to be voted with the interest of preserving or enhancing share value. The Board endorses the Department of Labor opinion that proxies have economic power which shareholders are obligated to exercise to improve corporate performance. The Board further recognized that proxy issues are frequently complex, requiring expert guidance; accordingly, it has adopted procedures that employ such experts.

The objectives of these policies are as follows:

1. Exercise the value empowered in proxies.
2. Maintain or improve share value for the exclusive benefit of the participants.
- ~~3. Achieve changes for the common good whenever these do not conflict with the exclusive benefit objective.~~

PROCEDURES

DISTINCTION OF RESPONSIBILITIES

Master Custodian

The system's master custodian shall be responsible for timely receipt and distribution of proxy ballots to the appropriate investment management institutions.

Managers

The managers shall be responsible for promptly voting all proxies pursuant to the Board's policies, and in keeping with the managers' best judgments.

Staff

Staff, in concert with the master custodian and the managers, shall be responsible for monitoring the receipt and voting of all proxies.

Board

The Board shall administer and enforce its policies. This administration and enforcement requires reporting from responsible persons, as discussed in the following.

REPORTING

Master Custodian

The master custodian shall report quarterly in writing on all pertinent proxy issues, including (1) receipt of proxy material; (2) nature of issues; (3) due date; (4) names of managers and dates forwarded; and (5) deficiency reports covering proxies that should have been received but were not.

Managers

Managers shall report quarterly in writing on how proxies have been voted, with explanations given whenever the Board's guidelines have not been followed.

Staff

Internal compliance staff shall report annually on the efficiency of the process, the portion of total proxies that have actually been voted, and compliance with Board directives.

GUIDELINES

~~The Board believes that good corporate investment decisions require good corporate governance, and that social responsibilities cannot be ignored in these decision processes. Accordingly, the practice of faithfully voting with management will *not* be tolerated, nor will the "Wall Street Rule" which advocates the sale of shares if there is disagreement with management.~~

~~In keeping with the Board's philosophy, the managers are encouraged to vote *for* proposals that *increase* or enhance the following, and against those that decrease or diminish the same:~~

- ~~• Health of the population~~
- ~~• Environmental conditions~~
- ~~• Management and Board accountability~~
- ~~• Abolition of management entrenchment~~
- ~~• Control of executive compensation~~
- ~~• Shareholder rights and ownership~~
- ~~• Fair labor practices~~

~~Guidelines may be altered periodically by the Board as situations warrant.~~

Policy Implemented: September 20, 1995.

Amended: February 27, 2009, October 26, 2018.

POLICY TYPE: INVESTMENTS

POLICY TITLE: IMPLEMENTATION – INVESTMENT MANAGER SELECTION

The SIB hires investment managers with the intention of maintaining long-standing relationships. Care is taken to select managers for defined roles based on their strengths in designated areas. The hiring process is done in accordance with all applicable state and federal laws.

~~Some manager selections are conducted by the consultant while others may be directed by the staff in coordination with the SIB. Ultimately, the selection process is often a team effort involving the investment consultants, SIB members, and RIO staff. A consultant may be invaluable in this activity due to the large volume of data that needs to be collected, verified, and summarized. Also, their ongoing dialogue with money management firms provides useful qualitative input.~~

The investment management business has rapidly evolved since the 1990's. It is recognized that many viable firms have been formed as the result of spin-offs or start-ups and may not have a traditional long-term investment performance history in accordance with the following guidelines. There has also been a tremendous increase in the types of strategies available to institutional investors resulting in the need for flexibility in the establishment of investment criteria. Subject to the case-by-case acceptance of deviation by the SIB members, money managers must meet the following minimum selection criteria for inclusion in a manager search:

- Must be a registered investment adviser, bank, insurance company, or investment company (mutual fund). Should provide ADV Part II (registered investment adviser) prospectus (investment company) or comparable information (bank or insurance company).
- Provide at least five years of actual quarterly performance data that is time weighted a representative composite of ~~accounts, and~~ accounts and meets Global Investment Performance Standards (GIPS).
- Provide information that illustrates the key investment personnel have been together for at least five years and the capabilities of the firm can handle the current level of investment activity.
- Able to articulate the firm's investment strategies and philosophy in a manner understandable by the Board, and provide a statement that the strategy has been followed for at least five years.
- Disclose any pending or past litigation or censure.
- Be willing to acknowledge their fiduciary status in writing (mutual funds are exempted from this requirement).

The following steps will be followed in the selection process, subject to modification relative to investment strategy and manager search circumstances:

- Develop a profile of the type of manager needed. This is based on the investment goals and asset allocations. Included in the profile are such things as:
 1. Quantitative characteristics, such as GIPS-compliant composite return data, risk-adjusted rates of return and relevant portfolio characteristics.
 2. Qualitative characteristics, such as key personnel, investment philosophy, investment strategy, research orientation, decision making process, and risk controls.
 3. Organizational factors such as type and size of firm, ownership structure, client servicing capabilities, ability to obtain and retain clients, and fees.

POLICY TYPE: INVESTMENTS

POLICY TITLE: IMPLEMENTATION – INVESTMENT MANAGER SELECTION

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POLICY TYPE: INVESTMENTS

POLICY TITLE: IMPLEMENTATION – INVESTMENT MANAGER SELECTION

~~Qualitative characteristics, such as key personnel, investment philosophy, investment strategy, research orientation, decision making process, and risk controls.~~

~~Organizational factors, such as type and size of firm, ownership structure, client servicing capabilities, ability to obtain and retain clients, and fees.~~

- ~~Staff will provide a written report to the Investment Committee as required on the due diligence process conducted during the selection process. This report will include selection steps followed and process steps excluded. The Investment Officer will give a written report to the SIB on the due diligence process conducted by the Investment Officer, RIO staff, and the SIB in the manager selection process. This report will include selection steps followed and process steps excluded.~~
- Consultant and/or staff use the profile to screen their data base for managers that meet SIB criteria.
- Consultant and/or staff reduce the group to the top candidates and prepare a summary report. The report will contain pertinent data on each of the candidates.
- When appropriate, on-site visits may be made by staff and board members to the candidates' home offices. Visits by board members to potential manager sites must have board approval.
- When appropriate the Investment Officer will conduct fact-finding pre-interviews. SIB trustees and RIO staff will receive notice of these pre-interviews.

Interviews are conducted with each of the finalists in Bismarck. All are required to bring the potential portfolio manager to the interview. Particular attention is paid to gaining an understanding of the investment process and determining the manager's compatibility with the SIB's ~~guidelines requirements~~ and objectives.

The Investment Officer will schedule manager interviews with the SIB. Following these interviews, the Investment Officer, with the advice of RIO staff and consultants, will make recommendations to the SIB on manager selection.

- The SIB will select the investment manager by majority vote.
- Manager(s) selected by the SIB are notified immediately by RIO staff. Unsuccessful candidates are notified by consultant.
- Investment management contracts are reviewed and finalized, sent to the Attorney General for ~~approval review~~, and executed.
- Accounts are set up at the master custodian and on the internal general ledger.
- Consultant is notified when to begin the measurement of the investment performance of the manager(s).

Policy Implemented: September 20, 1995

Amended: February 27, 2009

POLICY TYPE: INVESTMENTS

POLICY TITLE: IMPLEMENTATION – PORTFOLIO REBALANCING

Portfolio Rebalancing

The need to rebalance the portfolio can arise ~~due to~~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 ~~due to~~from rebalancing, RIO ~~works with the investment consultants to determine~~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 ~~of the~~ 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.

~~RIO's rebalancing policy requires the asset mix to be determined at the end of each month. At the end of each quarter, all portfolios deviating from the target beyond the acceptable limits are rebalanced to target.~~

Policy Implemented: September 20, 1995.

The Board and the Investment Committee ~~The SIB~~ will follow an annual evaluation cycle for the investment program to ensure systematic review of investment policies and performance results and the development and implementation of corrective action plans. Evaluation of the program seeks to answer such questions as:

- Are all investment goals being met?
- What has worked and what has not?
- Have changes occurred in the capital markets, plan design, or board philosophy to warrant changes in investment policy?
- Are money managers meeting our expectations?
- Is continued confidence in the money managers warranted?
- Are accounting practices sound and fair to participating funds?
- Is service delivered in the most cost-effective manner?

The SIB's consultants play a key role in helping to answer some of these questions. The external auditor's report provides insight on accounting practices and cost effectiveness.

Evaluation of Money Managers

Achievement of the SIB's performance goals hinges on the success of the investment strategies and money managers it employs. Evaluation of each money manager must consider the following:

- Has the manager achieved the SIB's performance objectives?
- Has the firm adhered to the investment philosophy for which it was hired?
- Have there been any organizational or personnel changes that may negatively affect future performance?
- Are areas of concern being adequately addressed?
- Can the manager perform well in the future, regardless of whether extraordinary events, long-term performance, and/or short-term performance argue for termination?

These criteria are assessed by quantitative and qualitative means:

- Analyses provided by the investment consultant.
- 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.

Longer periods of time are better than shorter time periods when assessing a manager's performance. Ideally, performance should be assessed over a market cycle. Market cycles have varying lengths but have historically averaged 5-7 years. The SIB will use a minimum five-year period to evaluate manager performance against long-term performance standards. Long-term performance standards will be a market index that the manager has previously agreed to be measured against.

Shorter-term performance standards will also be established for each money manager. These standards will incorporate a minimum three-year measurement period and measure the manager against a previously agreed-upon peer group or style market index.

Long-term performance standards, short-term performance standards, extraordinary events, and termination factors will be incorporated in the written asset class investment policies.

Evaluation of Program Costs

Costs will be broken out by internal administration, investment consultants, master custodian, and external manager fees. Reports will detail this information by investment pool, managers, and by fund.

These costs will be compared to other funds on an annual basis and generally include a fee study conducted by an experienced investment consultant every two years. Staff is encouraged to identify other cost-comparison sources which may include the engagement of specialized fee consultants to conduct in-depth fee reviews on a periodic basis, subject to board review and approval.

Policy Implemented: September 20, 1995.

Amended: October 26, 2018, July 22, 2022.

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.

INVESTMENT COMMITTEE COMPOSITION AND TERM LIMITS

The Investment Committee shall be composed of two members of the SIB board, two external investment professionals and two RIO staff appointed by the SIB Chair. The SIB Chair will also appoint a Chair and a Vice Chair of the Committee. The two external investment professionals may be either currently active or retired and have substantial institutional investment experience.

Membership on the Committee will be for one year or termination of term on the SIB. Vacancies will be filled by the SIB at the first scheduled meeting following the vacancy. There will be no limit to the number of terms served on the Committee.

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 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.