



State Investment Board  
RETIREMENT & INVESTMENT

**Governance and Policy Review Committee**  
**Monday, September 11, 1:00 p.m.**  
**Virtual Only**  
[Click here to join the meeting](#)

AGENDA

- I. CALL TO ORDER AND ACCEPTANCE OF AGENDA *(Committee Action)*
- II. ACCEPTANCE OF MINUTES – (AUGUST 24, 2023) *(Committee Action)*
- III. SIB GOV MANUAL REVIEW – SECTION A (30 min) *(Committee Action)* – Ms. Murtha
- IV. GOVERNANCE MODEL MAP (15 min) *(Information)* – Mr. Anderson
- V. OTHER

Next Meeting: October 12, 2023, at 10:00 a.m.

Proposed Schedule Change: November 9, 2023, at 2:00 p.m.

**VI. ADJOURNMENT**

**STATE INVESTMENT BOARD  
GOVERNANCE & POLICY REVIEW COMMITTEE MEETING  
MINUTES OF THE AUGUST 24, 2023, MEETING (VIRTUAL)**

**MEMBERS PRESENT:** Dr. Rob Lech, TFFR Board, Chair  
Thomas Beadle, State Treasurer, Vice Chair  
Susan Sisk, OMB Director

**STAFF PRESENT:** Scott Anderson, CIO  
Missy Kopp, Exec Assistant  
Sarah Mudder, Communications/Outreach Dir.  
Jan Murtha, Exec. Director  
Sara Seiler, Internal Audit Supr.  
Ryan Skor, CFO/COO

**CALL TO ORDER:**

Dr. Lech called the State Investment Board (SIB) Governance and Policy Review (GPR) Committee meeting to order at 3:31 p.m. on Thursday, August 24, 2023. The meeting was held virtually.

**AGENDA:**

The agenda was considered for the August 24, 2023, meeting.

**IT WAS MOVED BY TREASURER BEADLE AND SECONDED BY MS. SISK AND CARRIED BY A VOICE VOTE TO APPROVE THE AGENDA FOR THE AUGUST 24, 2023, MEETING AS DISTRIBUTED.**

**AYES: TREASURER BEADLE, MS. SISK, AND DR. LECH  
NAYS: NONE  
MOTION CARRIED**

**MINUTES:**

The minutes were considered for the July 17, 2023, meeting.

**IT WAS MOVED BY TREASURER BEADLE AND SECONDED BY MS. SISK AND CARRIED BY A VOICE VOTE TO APPROVE THE JULY 17, 2023, MINUTES AS DISTRIBUTED.**

**AYES: MS. SISK, TREASURER BEADLE, AND DR. LECH  
NAYS: NONE  
MOTION CARRIED**

**SIB GOVERNANCE MANUAL REVIEW PROJECT:**

Ms. Murtha reviewed the proposed work plan for the SIB Governance Manual review. The work plan outlines the section that will be reviewed at each Committee meeting. The Committee discussed the workplan and the current board governance model. Ms. Murtha described the process for reviewing and revising the policies. The policy revisions would be presented to the SIB for a first reading at their April 2024 meeting.

**IT WAS MOVED BY MS. SISK AND SECONDED BY TREASURER BEADLE AND CARRIED BY A VOICE VOTE TO APPROVE THE WORK PLAN.**

**AYES: TREASURER BEADLE, MS. SISK, AND DR. LECH  
NAYS: NONE  
MOTION CARRIED**

**OTHER:**

Ms. Murtha shared information about two studies that RIO staff is participating in. The first study is ESG study with the Bank of North Dakota and the second is a cash management study with OMB. Ms. Murtha asked if the Committee would like to receive updates on these studies as they progress. The Committee concurred that it would be good information that can also be shared with the Board.

With no further business to come before the GPR Committee, Dr. Lech adjourned the meeting at 3:57 p.m.

Prepared by:

Missy Kopp, Assistant to the Board

## MEMORANDUM

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**TO:** SIB – Governance & Policy Review (GPR) Committee  
**FROM:** Jan Murtha, Executive Director  
**DATE:** September 8, 2023  
**RE:** SIB Governance Manual Review Project

Pursuant to the project review plan approved at the August meeting please find enclosed suggested revisions to Section A of the SIB Governance Manual. Please note that additional changes may need to be made as later sections of the manual are completed for consistency and clarity. Staff will present the basis for each recommended amendment at the committee.

**COMMITTEE ACTION REQUESTED: Provide staff guidance regarding recommended changes to Section A. A motion will not be necessary at this time and the committee may wait until the April 2024 GPR to finalize all recommended changes.**

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### Section I: Executive Limitations

#### A. General Executive Constraint

#### B. Communication and Counsel to Board

#### C. Relating to Public and Government

#### D. Conflict of Interest

#### E. Code of Conduct

#### F. Unrelated Business Interest

#### G. Financial Condition

#### H. Budgeting

#### I. Compensation & Benefits

#### J. Asset Protection

# Executive Limitations

## A-1: General Executive Constraint

The executive director shall not knowingly cause or allow any practice, activity, decision, or organizational circumstance which is either imprudent or in violation of commonly accepted business and professional ethics, state law, rules, and policies.

1. With respect to treatment of staff, the executive director shall not knowingly cause or allow any condition or any communication which is contrary to the agency core values of integrity, accountability and service ~~unfair, undignified, or disrespectful~~.
2. In relating to the public and other governmental entities, the executive director may not knowingly cause or allow any action which is contrary to the agency core values of integrity, accountability and service ~~unfair, undignified, or disrespectful~~. In addition, the executive director may not allow any communications from the staff which are inaccurate or fail to distinguish between fact and personal opinion.
3. Budgeting for any fiscal year or the remaining part of any fiscal year shall not knowingly deviate materially from board *Ends* priorities, or create fiscal jeopardy, or fail to be derived from the biennial planning calendar.
4. With respect to the actual, ongoing condition of the organization's financial health, the executive director may not cause or allow the development of fiscal jeopardy or a material deviation of actual expenditures from board priorities established in *Ends* policies.
5. With respect to providing information and counsel to the board, the executive director may not permit the board to be uninformed.
6. The executive director in collaboration with the chief investment officer, may not allow assets to be unprotected, inadequately maintained, nor unnecessarily risked.
7. Compensation and benefits for staff shall not deviate from applicable state and federal law, ~~including N.D. Administrative Code, Chapter 4-07-02~~.
8. In order to protect the board from sudden loss of executive services, the executive director may not have fewer than three other executives familiar with board and chief executive issues and processes. The executive director shall not fail to inform the ~~d~~Deputy ~~e~~Executive ~~d~~Director- chief retirement officer, the ~~Deputy~~-~~c~~Chief Investment ~~o~~fficer, and the ~~c~~Chief ~~f~~Financial/chief operating officer of executive and board issues and processes.

9. The executive director will not allow a conflict of interest in the procurement of goods and services.
  
10. The executive director will not operate the office without a code of conduct and conflict of interest policy for all RIO Employees. This code of conduct will be a part of the office Administrative Policy Manual.

**Policy Implemented:** July 23, 1995.

**Amended:** January 22, 1999; November 19, 1999; September 26, 2014.

## A-2: Staff Relations

With respect to treatment of staff, the executive director shall not cause or allow any condition or any communication which is **unfair, undignified, or disrespectful**.

Accordingly, the executive director may not:

- A. 1.**—Operate without personnel procedures which clarify personnel rules for staff, provide for effective handling of grievances, and protect against wrongful employment conditions ~~or violate~~ contrary to any state or federal law.
  
2. Fail to provide a policy and process that allows staff ~~with~~ the opportunity to complete an employment termination questionnaire and a voluntary exit interview with the Supervisor of Audit Services absent extenuating circumstances.

**Policy Implemented:** June 23, 1995.

**Amended:** May 31, 1996; September 26, 2014.

## A-3: Relating to Public and Government

In relating to the public and other governmental entities, the executive director may not cause or allow any action which is contrary to the agency core values of integrity, accountability and service **unfair, undignified, or disrespectful**. In addition, the executive director may not allow any communications from the staff which is inaccurate or fails to distinguish between fact and personal opinion.

**Policy Implemented:** June 23, 1995.

## A-4: Budgeting

Budgeting for any fiscal year or the remaining part of any fiscal year shall not deviate materially from board *Ends* priorities or create fiscal jeopardy.

Accordingly, the executive director in collaboration with the chief financial/ chief operating officer may not cause or allow budgeting which:

1. Contains too little information to enable credible projection of expenses, cash flow, and disclosure of planning assumptions.
2. Plans the expenditure in any fiscal year of more funds than are authorized by legislative appropriation and continuing appropriation authority.
3. Reduces the level of service, or anticipates a reduction in the level of service, of any Retirement and Investment Office program without the prior approval of the State Investment Board.

**Policy Implemented:** June 23, 1995.

**Amended:** November 2, 1997; June 26, 1998.

## A-5: Financial Condition

With respect to the actual, ongoing condition of the organization's financial health, the executive director may not cause or allow the development of fiscal jeopardy or a material deviation of actual expenditures from board priorities established in Ends policies.

Accordingly, the executive director may not:

1. Make any expenditure that exceeds the appropriation authority authorized by the North Dakota legislature or exceeds the parameters for expenditures authorized by continuing appropriation authority as established in the Ends policies.
2. Create policies for payment of administrative obligations that are in conflict with the policies of the Office of Management and Budget.
3. Initiate a transfer of appropriation authority between budget line items without board approval and Emergency Commission approval as required by that body.
- ~~4. Allow appropriation expenditures to be made unless reported on PeopleSoft.~~

Policy Implemented: June 23, 1995.

Amended: September 26, 2014.

## A-6: Communication and Counsel to the Board

With respect to providing information and counsel to the board, the executive director may not permit the board to be uninformed.



Accordingly, the executive director may not:

1. Neglect to ~~submit~~provide monitoring data required by the board and Ends policies (see policy C-4 on Monitoring Executive Performance) in a timely, accurate, and understandable fashion, directly addressing provisions of the board policies being monitored.
2. Let the board be unaware of relevant trends, anticipated adverse media coverage, material external and internal changes, and particularly changes in the assumptions upon which any board policy has previously been established.
3. Fail to advise the board chair and governance and policy review committee if, in the executive director's opinion, the board is not in compliance with its own policies on Governance Process (Currently Section B, proposed Section II) and Board-Staff Relationship (Currently Section C, Proposed Section III), particularly in the case of board behavior which is detrimental to the work relationship between the board and the executive director, and executive director and staff.
4. Fail to ~~marshal for~~provide the board as many with varying staff and external points of view on, issues, and options as prudent needed for fully informed board choices.
5. Present information in unnecessarily complex or lengthy form.
6. Fail to provide a mechanism for official board, officer, or committee communications.
7. Fail to deal with the board as a whole except when (a) fulfilling individual requests for information or (b) responding to officers or committees duly charged by the board (c) as otherwise delegated in accordance with board policies.
8. Fail to report in a timely manner an actual or anticipated noncompliance with any policy of the board, ~~particularly Ends and Executive Limitations~~.
9. Fail to inform the board chair and vice chair in a timely manner of any intention to ~~hire or dismiss, or fail to notify the full board of the resignation of~~ the ~~d~~Deputy ~~e~~Executive ~~d~~Director, chief retirement officer, the ~~Deputy c~~Chief ~~i~~nvestment ~~o~~fficer, or the ~~c~~Chief ~~f~~inancial ~~o~~fficer/ chief operating officer.
10. Fail to keep the board informed concerning the delegation of fiduciary authority to any staff member in compliance with the Ends policies. Every person to whom such fiduciary responsibility is delegated is ultimately accountable to the board as to the exercise and execution of the delegated authority.

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

Amended: September 26, 2014.

## A-7: Asset Protection

The executive director in coordination with the chief investment officer may not allow assets to be

unprotected, inadequately maintained, nor unnecessarily risked. Accordingly, the executive director may not:

1. Fail to implement policies that insure against theft and casualty losses to level and in a manner appropriate to an institutional investor as set for in Investment Ends policy (Currently D-3 proposed Section IV.) ~~to at least 80 percent replacement value~~ and against liability losses to board members, staff, or the organization itself in compliance with the State of North Dakota Risk Management guidelines~~an amount greater than the average for comparable organizations.~~
2. Allow individuals not covered by an employment or contractual fiduciary relationship with the agency or board access to funds~~non-bonded personnel access to funds.~~
3. Subject ~~plant~~property and equipment to improper wear and tear or insufficient maintenance.
4. Unnecessarily expose the organization, its board, or staff to claims of liability.
5. Fail to protect intellectual property, information, and files from loss or significant damage in a manner consistent with the process and standard of care required of North Dakota state entities.
6. Receive, process, or disburse funds under controls which are insufficient to meet the state auditor's standards.
7. Invest or hold operating capital in a manner that is inconsistent with state and federal law or board policy.
- ~~8. Acquire, encumber, or dispose of real property.~~
- ~~9-8.~~ 9-8. Endanger the organization's public image or credibility, particularly in ways that would hinder its accomplishment of mission.
- ~~10-9.~~ 10-9. Deviate from the investment process set by the State Investment Board (SIB) as contained in the board's policy on investments.

Policy Implemented: June 23, 1995.

## A-8: Compensation and Benefits

Compensation and benefits, or employment terms for staff shall not deviate from applicable state and federal law, ~~including N.D. Administrative Code, Chapter 4-07-02.~~

~~Accordingly, the executive director may not:~~

- ~~1. Change the compensation and benefits of any program officer reporting directly to the SIB.~~
- ~~2. Promise or imply permanent or guaranteed employment.~~

Policy Implemented: June 23, 1995.

Amended: January 22, 1999; November 19, 1999.

## A-9: Conflict of Interest

Conflicts of interest and the appearance of impropriety shall be avoided by the executive director. The executive director must not allow family, social, professional, or other relationships to influence their judgment in discharging their responsibilities. The executive director must refrain from financial and business dealings that tend to reflect adversely on their duties. If a conflict of interest unavoidably arises, the executive director shall immediately disclose the conflict to the chair, vice chair and the supervisory of internal audit and follow any subsequent recommendations of the state investment board audit committee~~SIB~~. Conflicts of interest to be avoided include, but are not limited to: receiving consideration for advice given to a person concerning any matter over which the executive director has any direct or indirect control, acting as an agent or attorney for a person in a transaction involving the board, and participation in any transaction for which the executive director has acquired information unavailable to the general public, through their position.

The executive direction shall not fail to establish policies and procedures for the disclosure of and affirmation of understanding of conflicts of interests by staff.

"Conflict of Interest" means a situation in which a board member or staff member has a direct and substantial personal or financial interest in a matter which also involves the member's fiduciary responsibility.

The executive director will be required to affirm their understanding of this policy, and require the affirmation of staff annually, in writing, and must disclose any conflicts of interest that may arise (See Exhibit A-1 (Executive Director) and Exhibit A-2 (Staff) ).

Policy Implemented: June 23, 1995.

Amended: January 22, 1999; February 25, 2011.

## A-10: Code of Conduct

The executive director will not operate the office without a code of conduct for all RIO employees. This code of conduct shall be a part of the office Administrative Policy Manual.

Policy Implemented: June 27, 1997.

## A-11: Unrelated Business Interests

~~In the pursuit of personal business interests, the~~ The Executive Director will not allow a situation to exist that presents a conflict of interest to the SIB investment program in the pursuit of personal business interests, or the personal business interests of staff members, nor shall such activity be in

violation of RIO Administrative Policy, ~~Use of Office Facilities and Equipment~~. If the executive director becomes aware of a situation contrary to this policy that is outside the authority and control of the executive director to address the executive director shall notify the state investment board

Policy Implemented: August 18, 2000

**Exhibit A-1**

**Memorandum**

**To: RIO Executive Director/CIO**

**From: RIO Compliance Officer**

**Date: July 1, 20—**

**RE: Annual Affirmation of Conflict of Interest Policy**

Executive Limitations Policy A-9, Conflict of Interest, which is attached to this memorandum, details the conflict of interest policy for the executive director. This policy also indicates that the executive director is required to reaffirm their understanding of this policy annually and disclose any conflicts of interest. Therefore, please read and sign the statement below to comply with this requirement.

“I have read and understand SIB Executive Limitations Policy A-9, Conflict of Interest. I have disclosed any conflicts of interest as required by this policy.”

Name (printed): \_\_\_\_\_

Signature: \_\_\_\_\_

Date: \_\_\_\_\_

Detail of any conflicts of interest (if any):

# POLICY GOVERNANCE

Scott M Anderson, CFA – Chief Investment Officer

September 11, 2023

NORTH  
**Dakota**  
Be Legendary.

Retirement & Investment

# TYPES OF GOVERNANCE MODELS<sup>1</sup>

- **Operational Model:** The board manages, governs and performs the work of the organization.
- **Collective Model:** The board and staff operate as a single team when making decisions about governance and the work of the organization. Board members may work with either or both service operations or management functions.
- **Management Model:** The board manages operations through functional committees that may or may not have a staff coordinator.
- **Constituent Representational Model:** An approach used by publicly elected officials. Federations or other constituency-elected boards have the primary responsibility of balancing the interests of their constituents with the best interests of the organization.
- **Traditional Model:** The board governs and oversees operations through committees established along functional lines (finance, human resources, programs) but delegates the management functions to the executive director.
- **Results-based Model:** The executive director is a non-voting member of the board, carries substantial influence over policy making, and is viewed as a full partner with the board. Committees, organized around board responsibilities and lead planning, would guide governance, and monitor and audit performance of the board, executive director and organization.
- **Policy Governance (Carver) Model:** The board governs through policies that establish organizational aims (ends), governance approaches, and management limitations. These policies also should define the relationship of the board with the executive director. The executive director has broad freedom to determine the means that will be used to achieve organizational aims.
- **Advisory Board Model:** A board selected and dominated by the executive director. Board members provide advice and may rubber-stamp the executive director's recommendations.

1. Adapted from the article "Building Effective Approaches to Governance" by Mel Gill, The Nonprofit Quarterly

# CARVER MODEL<sup>1</sup>

GOVERNANCE ELEMENT	DESCRIPTION
ENDS	Defined organizational products and outcomes for specified owners. What is the organization supposed to achieve – what benefit, for whom, at what cost?
EXECUTIVE LIMITATIONS	Clear limits and controls on operational decisions that the board would find unacceptable, defining the boundaries within which the CEO and staff may operate.
GOVERNANCE PROCESS	The board defines its own work, and how it will be carried out. These policies clearly state the expectations the board has for itself, for individual members, for the chair, and for collective behavior, including behavior at board meetings and for any board committees.
GOVERNANCE MANAGEMENT CONNECTION	Specific delegation of authority to the CEO, a process and timeline for CEO evaluation, and accountability of the CEO to the board as a whole, not to individuals.

1. Adapted from Leading Resources Inc. – What is Policy Governance?



# COHERENT GOVERNANCE MODEL<sup>1</sup>

## GOVERNANCE ELEMENT

## DESCRIPTION

### RESULTS

Results policies describe the outcomes the organization is expected to achieve for the specific clients or customers it serves. The Results policies are the performance targets for the CEO and the organization, and form the basis for judging the success of both.

### OPERATIONAL EXPECTATIONS

Policies that allow the board either to direct that certain conditions exist or actions occur, or to prohibit those conditions and actions that it would find unacceptable - "do this" or "don't do this". The result is clear direction from the board to the CEO.

### BOARD/CEO RELATIONS

Policies that define the degree of authority conveyed by the board to the CEO, and also outline the process for how the CEO will be evaluated. Essentially, the CEO's performance and the organization's performance are identical.

### GOVERNANCE CULTURE

The board deliberately and carefully crafts a set of policies that, in sum, establishes a culture for good governance. Separate policies establish standards for how the board performs its work, including policies defining the board's purpose, its job description, its self-defined norms for executing its work, and its own discipline and accountability.

1. Adapted from Leading Resources Inc. – What is Policy Governance?

# COMPARISON OF GOVERNANCE MODELS<sup>1</sup>

## Exhibit 1.1. Policy Titles in CG and PG

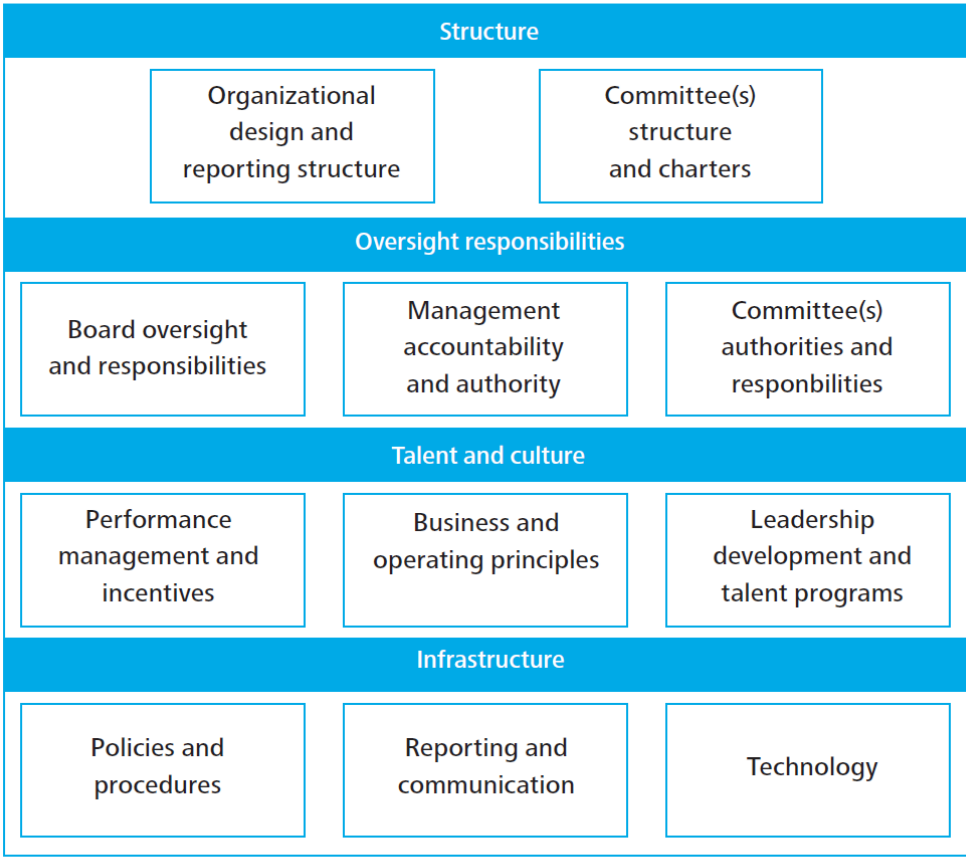
<i>Policy Quadrant</i>	<i>Coherent Governance</i>	<i>Policy Governance</i>
One	GC: Governance Culture	GP: Governance Process
Two	BCR: Board/CEO Relationship	GMC: Governance Management Connection
Three	OE: Operational Expectations	EL: Executive Limitations
Four	R: Results	E: Ends

1. Adapted from "The Art of Governing Coherently"

# GOVERNANCE OPERATING MODEL



**Exhibit 1**  
Illustrative governance operating model



“A governance operating model is the mechanism used by the board and management to translate the elements of the governance framework and policies into practices, procedures, and job responsibilities within the corporate governance infrastructure.”

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# ILLUSTRATIVE ACTIVITIES IN DESIGN

**Exhibit 3**  
Illustrative activities in designing the governance operating model

Components	Subcomponents	Description
Structure	<ul style="list-style-type: none"> <li>• Committee structure and charters</li> <li>• Organizational structure and reporting lines</li> <li>• Control and support functions' roles</li> </ul>	<ul style="list-style-type: none"> <li>• Outlines board and management committee structures, mandates, membership, and charters</li> <li>• Establishes design of governance framework</li> <li>• Delineates organizational structure, reporting lines, and relationships</li> <li>• Highlights role and independence of control and support functions from business owners</li> </ul>
Oversight responsibilities	<ul style="list-style-type: none"> <li>• Committees authorities and responsibilities</li> <li>• Management accountability and authority</li> <li>• Board oversight and responsibilities</li> <li>• Reporting, escalation, and veto rights</li> </ul>	<ul style="list-style-type: none"> <li>• Outlines the type of committees (board and management) and associated responsibilities</li> <li>• Specifies functional accountabilities for day-to-day management of business practices across the enterprise</li> <li>• Delineates board and management approved policies supporting delegation of authority (decision rights) including reporting, escalation, and veto rights</li> </ul>
Talent & culture	<ul style="list-style-type: none"> <li>• Business and operating principles</li> <li>• Core beliefs and risk culture</li> <li>• Leadership development and talent programs performance</li> <li>• Management and incentives</li> </ul>	<ul style="list-style-type: none"> <li>• Aligns governance with operating and business principles</li> <li>• Articulates core beliefs and foundation for culture</li> <li>• Highlights characteristics of risk culture</li> <li>• Outlines leadership succession, assessment, and development responsibilities</li> <li>• Aligns performance management, approach, measures and responsibilities to compensation and incentive plans</li> </ul>
Infrastructure	<ul style="list-style-type: none"> <li>• Policies and procedures</li> <li>• Reporting and communication</li> <li>• Technology</li> </ul>	<ul style="list-style-type: none"> <li>• Establishes design and content of policy manuals and associated procedures</li> <li>• Outlines type and frequency of internal reporting and communications</li> <li>• Defines scorecards, measures, and metrics to track performance</li> <li>• Aligns technology and governance requirements</li> </ul>