

Governance and Policy Review Committee

Tuesday, February 13, 2024, 2:00 p.m.

Virtual Only

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AGENDA

- I. **CALL TO ORDER AND ACCEPTANCE OF AGENDA** (*Committee Action*)
- II. **ACCEPTANCE OF MINUTES – (November 9, 2023)** (*Committee Action*)
- III. **SIB GOV MANUAL REVIEW – SECTION D** (30 min) (*Committee Action*) – Ms. Murtha
- IV. **STRATEGIC PLANNING PRESENTATION** (45 min) (*Information*) – Ms. Murtha
- V. **LEGISLATIVE STUDY AND INITIATIVE IMPLEMENTATION UPDATE** (5 min) (*Information*) – Ms. Murtha
- VI. **OTHER**

Next Meeting: Scheduled March 14, 2024, at 10:00 a.m. (Reschedule?)
- VII. **ADJOURNMENT**

**STATE INVESTMENT BOARD
GOVERNANCE & POLICY REVIEW COMMITTEE MEETING
MINUTES OF THE NOVEMBER 9, 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 2:01 p.m. on Thursday, November 9, 2023. The meeting was held virtually.

AGENDA:

The agenda was considered for the November 9, 2023, meeting.

IT WAS MOVED BY TREASURER BEADLE AND SECONDED BY DR. LECH AND CARRIED BY A VOICE VOTE TO APPROVE THE AGENDA FOR THE NOVEMBER 9, 2023, MEETING AS DISTRIBUTED.

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

MINUTES:

The minutes were considered for the October 12, 2023, meeting.

IT WAS MOVED BY TREASURER BEADLE AND SECONDED BY MS. SISK AND CARRIED BY A VOICE VOTE TO APPROVE THE OCTOBER 12, 2023, MINUTES AS DISTRIBUTED.

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

SIB GOVERNANCE MANUAL REVIEW - SECTION C:

Ms. Murtha reviewed proposed changes to the SIB Governance Manual Section C. This section addresses the Executive Director's role. Staff does not have many proposed changes for this section. The Committee discussed proposed changes to policies C-3 and C-4 and provided feedback for staff.

STRATEGIC PLANNING PREPARATION:

Ms. Murtha provided an overview of the upcoming strategic review process. Ms. Murtha attended the JEL meeting in October where the Governor's Office provided expectations for the upcoming strategy review. They provided sample slides which define what items will be part of the strategy. RIO will kick off strategic planning in December. The Boards were not formally involved for the last strategic planning process. Ms. Murtha requested that the GPR Committee will participate in discussion on the major policy initiatives before

completion of the plan. The TFFR GPR Committee will also be asked to participate. Committee discussion followed.

LEGISLATIVE STUDY AND INITIATIVE IMPLEMENTATION UPDATE:

Ms. Murtha provided an update on two legislative studies that RIO is participating in. The ESG Study Steering Committee is discussing the need for education, outreach, and marketing around the subject. The Cash Management study has been delayed by a lack of RFP responses, but the committee has continued to work. The IT infrastructure for the internal investment program has been designated as a large IT project which will require an Executive Steering Committee (ESC). The first ESC meeting has been tentatively scheduled for the end of November 2023. Committee discussion followed.

OTHER:

With no further business to come before the GPR Committee, Dr. Lech adjourned the meeting at 2:38 am.

Prepared by:

Missy Kopp, Assistant to the Board

IV. Ends Contents – Update to new format	
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B.: Organizational Beneficiaries	2
C.: Investment Services	3
D.: Information on Available Services.....	3
E.: Retirement Services.....	4
F. Information on Retirement Services	4
G.: Customer Satisfaction	4
Exhibit I: Organization Beneficiaries.....	5
ExhibitII	6
Exhibit III	

Combine C & D

Combine E & F

Add

H. Fiscal Services

I. Internal Audit Services

Exhibit III - Delegation Matrix

D-1: Mission

The Retirement and Investment Office exists in order that:

- Prudent and transparent investment services are provided to SIB client funds and North Dakota public school educators are supported with responsible benefit administration.

The execution of this mission will be evaluated on the following:

- SIB clients receive investment returns, consistent with their written investment policies and market variables, in a cost-effective manner and under the Prudent Investor Rule.
- Potential SIB clients have access to information regarding the investment services provided by the SIB.
- TFFR benefit recipients receive their retirement benefits in a cost effective and timely manner.
- TFFR members have access to information which will allow them to become knowledgeable about the issues and process of retirement.
- SIB clients and TFFR benefit recipients receive high quality services from the boards and staff of the office.

Policy Implemented: October 27, 1995.

Amended: January 27, 2012.

D-2: Organizational Beneficiaries

RIO beneficiaries (clients) are those which are statutorily defined and those which have contracted for services under statutory authority. Exhibit D-I lists the organizational beneficiaries.

Policy Implemented: October 27, 1995.

D-3: Investment Services

The Retirement and Investment Office exists in order that:

1. SIB clients receive investment returns, consistent with their written investment policies and market variables, in a cost-effective manner and under the Prudent Investor Rule.
 - a. This “End” will be evaluated based on the following:
 - i. Comparison of client fund’s rate of return NET of fees and expenses, to that of the client’s policy benchmark over a minimum evaluation period of 5 years.
 - ii. Comparison of the client fund’s risk, measured by standard deviation of NET returns, to that of the client’s policy benchmark over a minimum evaluation period of 5 years.
 - iii. Comparison of the risk adjusted performance of the client fund, NET of fees and expenses, to that of the client’s policy benchmark over a minimum evaluation period of 5 years.

Policy Implemented: October 27, 1995.

Amended: November 22, 1996, January 27, 2012.

Combine with D-3

2. Potential SIB clients have access to information regarding the investment services provided by the SIB.

Policy Implemented: October 27, 1995.

D-5: Retirement Services

The Retirement and Investment Office exists in order that:

1. TFFR benefit recipients receive their retirement benefits in a cost-effective and timely manner.
 - a. Retirement program performance quality will be measured against the Ends and retirement policies and administrative rules adopted by the Teachers' Fund for Retirement Board.

Policy Implemented: October 27, 1995.

Combine with D-5

2. TFFR members have access to information which will allow them to become knowledgeable about the issues and process of retirement.

Policy Implemented: October 27, 1995.

D-7: Customer Satisfaction

The Retirement and Investment Office exists in order that:

1. SIB clients and TFFR benefit recipients receive high quality services from the boards and staff of the office.
 - a. The quality of services will be assured by surveying clients at least annually and beneficiaries upon receipt of services and promptly addressing identified client/beneficiary concerns.

Policy Implemented: December 1, 1995.

New Section

1. Fiscal Services

The Retirement and Investment Office exists in order that:

The funds and accounts of SIB clients and TFFR beneficiaries are managed prudently under applicable accounting standards and practices.

This End will be evaluated based on the following:

Internal and external audit reports, internal compliance controls, the publishing of timely and accurate financial statements, and responsiveness and accuracy of reporting to oversight authorities.

2. Internal Audit Services

To be discussed and added upon recommendation of Audit Committee.

Exhibit D-I: Organization Beneficiaries – Fund list is outdated and will be updated for the April meeting with new client information. – Consider removing exhibit or adding language that states the Exhibit will be updated annually with one reading at the July business meeting.

INVESTMENT CLIENTS:

Statutory:

1. Budget Stabilization Fund
2. Cultural Endowment Fund
3. Insurance Regulatory Trust Fund
4. Petroleum Tank Release Compensation Fund
5. Public Employees Retirement System Fund
6. State Risk Management Fund
7. State Bonding Fund
8. State Fire and Tornado Fund
9. Teachers' Fund for Retirement
10. The Legacy Fund
11. Workforce Safety & Insurance Fund

Contractual:

1. City of Bismarck Deferred Sick Leave Fund
2. City of Bismarck Employees Retirement Fund
3. City of Bismarck Police Retirement Fund
4. City of Fargo Dome Permanent Fund
5. City of Grand Forks Park District Pension Fund
6. City of Grand Forks Pension Fund
7. ND Association of Counties Fund
8. ND Job Service Retirement Fund
9. Public Employees Retirement System Group Health Insurance Fund
10. Public Employees Retirement System Retiree Health Insurance Fund
11. ND State Board of Medicine
12. Tobacco Prevention and Control Fund
13. ND Parks and Recreation
14. ND Office of the Attorney General
15. Veterans' Cemetery Trust Fund

ADMINISTRATIVE CLIENTS:

Statutory:

1. Teachers' Fund for Retirement Beneficiaries

Exhibit D-II – Replace with an updated table – April meeting

Notes for table: Expanded list of consultant services. Update reporting from TFFR to annual statistical report. Add a column for report provided by (ie responsibility of ED but report provided by CFO/COO, Communications Director etc.) Combine rows to reflect current report formats (ie Budget and Fiscal Conditions etc.).

GOVERNANCE POLICY MONITORING SUMMARY				
POLICY	METHOD	RESPONSIBILITY	FREQUENCY	BOARD ACTION
ENDS				
Investment Services	External	Investment Consultant	Annual - FYE	
	Internal	Investment Officer	Quarterly	Accept or Follow-Up
Retirement Services	External	Actuary	Annual - FYE	N/A
	Internal	Retirement Officer	Quarterly	Accept or Follow-Up
EXECUTIVE DIRECTOR LIMITATIONS				
	Internal	Executive Director	Annual - CYE	Accept or Follow-Up

Executive Constraint	Internal	Audit Supervisor	Quarterly	Accept or Follow-Up
Staff Relations	Internal	Executive Director	Quarterly	Accept or Follow-Up
	Internal	Audit Supervisor (SIB)	Annual - CYE	Accept or Follow-Up
Public Relations	Internal	Executive Director	Annual - CYE	Accept or Follow-Up
	Internal	Audit Supervisor	Annual - CYE	Accept or Follow-Up
Budgeting	Direct	Board Review	Biennial	Accept or Follow-Up
	External	Governor (State Auditor)	Annual - FYE	N/A
	Internal	Executive Director	Quarterly	Accept or Follow-Up
Financial Condition	External	External Auditor	Annual - FYE	Accept or Follow-Up
	Internal	Executive Director	Quarterly	Accept or Follow-Up
Board Communication	Direct Board Participation	State Investment Board	Annual - CYE	Accept or Follow-Up
Asset Protection	External	External Auditor	Annual - FYE	N/A
	Internal	Executive Director	Annual - CYE	Accept or Follow-Up
Compensation and Benefits	Internal	Executive Director	Annual - CYE	Accept or Follow-Up
	Internal	Audit Supervisor	Annual - CYE	Accept or Follow-Up
Conflict of Interest	Internal	Executive Director	Annual - CYE	Accept or Follow-Up
	Internal	Audit Supervisor	Annual - CYE	Accept or Follow-Up
Code of Conduct	Internal	Executive Director	Annual - CYE	Accept or Follow-Up
	Internal	Audit Supervisor	Annual - CYE	Accept or Follow-Up
Unrelated Business Interests	Internal	Executive Director	Annual - CYE	Accept or Follow-Up
	Internal	Audit Supervisor	Annual - CYE	Accept or Follow-Up

Audit Supervisor = Report to State Investment Board Audit Committee with a Summary Report to the SIB
FYE = Fiscal Year End CYE = Calendar Year End N/A = Not Applicable
Amended September 26, 2014

Exhibit D-4 Delegation Matrix for contract authority for April meeting.

A bison is shown in profile, facing left, standing in a field. The background is a blurred landscape with a blue tint, suggesting a sunset or sunrise. The bison's fur is dark brown with a lighter patch on its chest. The overall scene is serene and natural.

STRATEGY REVIEW

Retirement & Investment Office

Jan Murtha, J.D., M.P.A.P. – Executive Director
TBD 2024

NORTH
Dakota
Be Legendary.

The background of the slide is a composite image. The top half shows a dark night sky with the Milky Way galaxy visible as a bright, hazy band of stars. The bottom half shows a rocky, desert-like landscape at night, with warm, golden-yellow lights illuminating the rock formations and creating long shadows. A wire fence is visible in the foreground of the landscape.

AGENCY VISION STATEMENT

To be recognized as a trusted and innovative provider of investment and pension services.




AGENCY PRIORITIES

Outreach – *Implementing a communication strategy with our stakeholders and the public that supports education and transparency.*

Organizational Culture – *Recognizing that talent management, a growth mindset, and a remote enabled workforce supports agency success.*

Technology - *Leveraging technology enabled processes and infrastructure to enhance organizational efficiency and support quality fiscal and risk management practices.*



BIG HAIRY AUDACIOUS GOALS (BHAG)

LOOKING AHEAD 5 TO 10 YEARS

BHAG Goals (Draft)

ND Cash Management Practices – Leveraging opportunities across agencies.

Internal Investment Initiative Expansion – Building on the business case to optimize benefits of scale.

Benefits Administration Optimization – Leveraging opportunities across agencies.

Financial/Retirement Literacy Initiative – Educating for teacher recruitment & retention success.

Industry Leader Initiative – Innovation in operations to excel in education, technology, and talent pool.

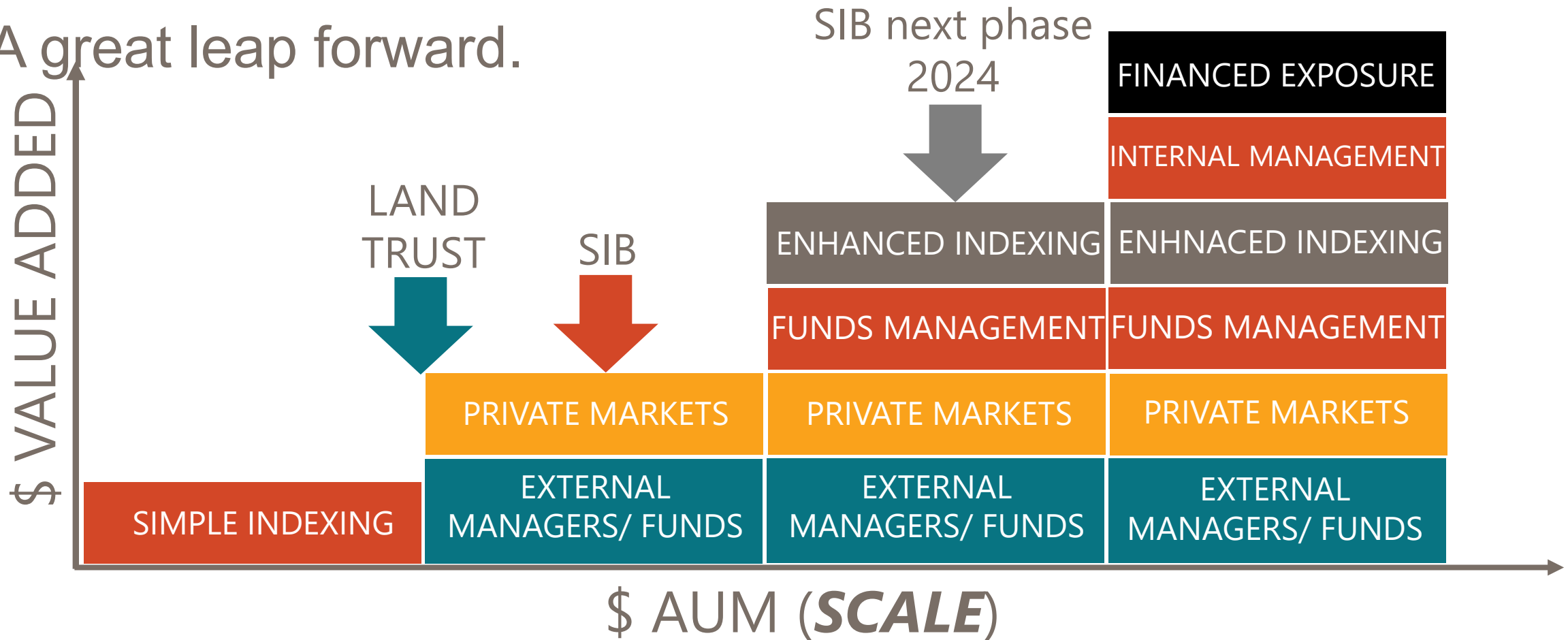
2025-27

STRATEGIC GOALS

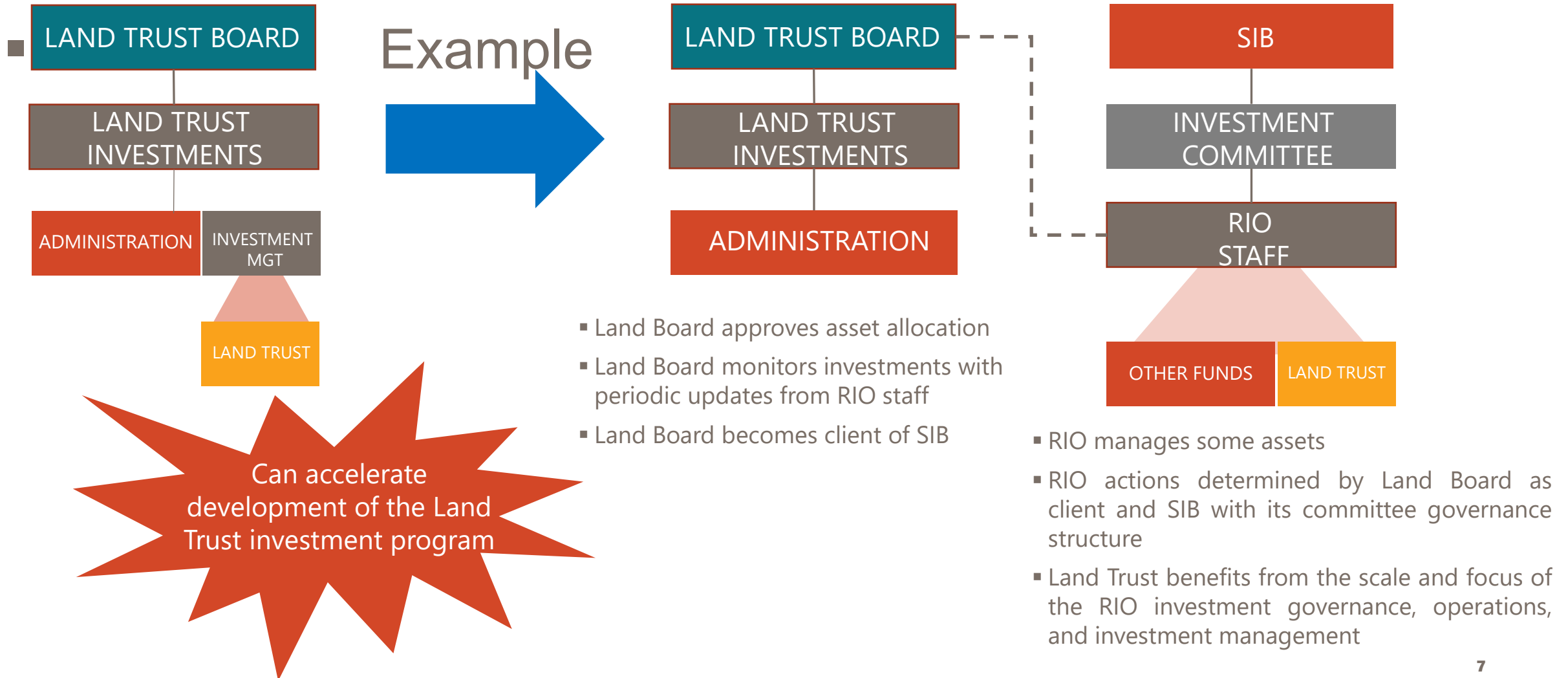
Strategic Goals	Problem Being Solved
ND Cash Management Practices – Implementing Cash Management Study Recommendations.	Unnecessary expense, failure to leverage benefits of scale, governance to support growth.
Internal Direct Investment Initiative 2.0 – Building on the business case to optimize benefits of scale.	Exposure Management & Active management of assets beyond simple indexing. Compliance and Internal Audit.
Benefits Administration Optimization – Leveraging opportunities across agencies.	RIO and PERS collaboration and possible unification. Governance & Communication opportunities.
Financial/Retirement Literacy Initiative – Educating for teacher recruitment & retention success.	Lack of understanding of industry not just benefit. Economic health of citizens in state. Educating students interested in education and supporting recruitment of new teachers.
Industry Leader Initiative – Innovation in operations to excel in education, technology, and talent pool.	Improving external communication, leveraging IT resources including AI, increase industry participation relating to public policy, promote and support growth mindset org. culture.

COLLABORATION LEADS TO INNOVATION

A great leap forward.



CASH MANAGEMENT STUDY MAY INCLUDE INVESTMENT RELATED RECOMMENDATIONS



EX: MANAGEMENT OF SIIF ASSETS¹

CASH OUTFLOW TIMING BASED PORTFOLIO

50%
PERPETUALLY
INVESTED
@7.0%²

25%
INTERMEDIATE
@5.2%²

25%
SHORT TERM
@3.25%²

5.6%¹

Versus

SHORT DURATION PORTFOLIO

100%
SHORT TERM
@3.25%

ILLUSTRATION

A 2.35% Benefit!
(\$23.5 Million/Year on
\$1 Billion)¹

1. Based on cash flow timing assumption illustration, actual timing yet to be determined. *Cost savings of implementation captured in combination business case*
2. Cash overlay, intermediate credit and cash return based on Callan assumptions

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ACTION PLAN

Strategic Goal: ND Cash Management Practices

Action Items:

1. Participate in Cash Management study led by OMB and RVK.
2. Based on results of study, merge SIIF and Budget Stabilization Funds and other as required. Enable a unitization of the funds.
3. Transition the funds to be managed with new internal direct investment capability.
4. Enable overlays of the new cash as required and as beneficial.
5. Overlay working cash in all investment portfolios.

Resources Needed (Note Existing or New):

1. **EXISTING** in 24 + **NEW**: Internal direct investment team of five hired in 2024. An expanded team would enable more active management of the cash funds potentially with two additional cash management analysts.
2. **EXISTING**: Completion of the order management/portfolio management system with treasury function enabled.
3. **NEW**: Additional data sets used for financed exposures and new internal direct investment strategies.

Challenges:

1. Hiring the talent to manage the advanced overlays and internal direct strategies – requires a total rewards package including incentive compensation.
2. Gaining the resources and budget in the 2025 legislative session.
3. Developing the capabilities of a remote and hybrid investment organization (most large investment organizations have this capability)
4. Opportunity to merge all of RIO and Land assets to streamline operations, reduce cost and gain scale.

Success Measures:

1. Merging and unitization of cash funds.
2. Successful internal direct management cash funds with demonstrated returns and returns per risk after cost.
3. Successful overlay of all operating cash across all investment portfolios including Land.

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ACTION PLAN

Strategic Goal: Internal Direct Investment Initiative 2.0

Action Items:

1. Develop framework for financed exposures to enable porting of active portfolios, overloading of active sub-asset classes, and managing systematic risks.
2. Develop a liquidity management framework to enable the cost management of financed exposures and risk management.
3. Develop risk and performance tools, staff and trading capabilities for financed exposures.
4. Develop risk and performance tools, staff and capability for first internal direct management strategies.

Resources Needed (Note Existing or New):

1. EXISTING in 24-25: Advanced data warehouse and exchange for analysis of exposure cost, risk management and for security level data used for internal direct management strategies.
2. NEW: Five additional analysts – two fixed income, two equity and one liquidity management analyst in addition to existing five analysts hired in 2024. Additional fiscal, compliance and internal audit positions.
3. EXISTING+NEW: Additional data sets used for financed exposures and new internal direct investment strategies.

Challenges:

1. Hiring the talent to manage the advanced overlays and internal direct strategies – requires a total rewards package including incentive compensation.
2. Gaining the resources and budget in the 2025 legislative session.
3. Developing the capabilities of a remote and hybrid investment organization (most large investment organizations have this capability)

Success Measures:

1. Completion of data warehouse, data content management and ongoing quantitative development framework centered on new data and IT related tools.
2. Successful implementation of an advanced portfolio rebalancing framework that incorporates exposure management with overlays as demonstrated by better returns and return per risk measurements.
3. Successful overloading of best active investment managers by off-setting systematic exposures demonstrated by better returns and return per risk measurements.
4. Successful first internal direct active strategies that are ported on existing systematic exposures demonstrated by better returns and return per risk

RIO & PERS: WHAT WE SHARE

- **Mission**

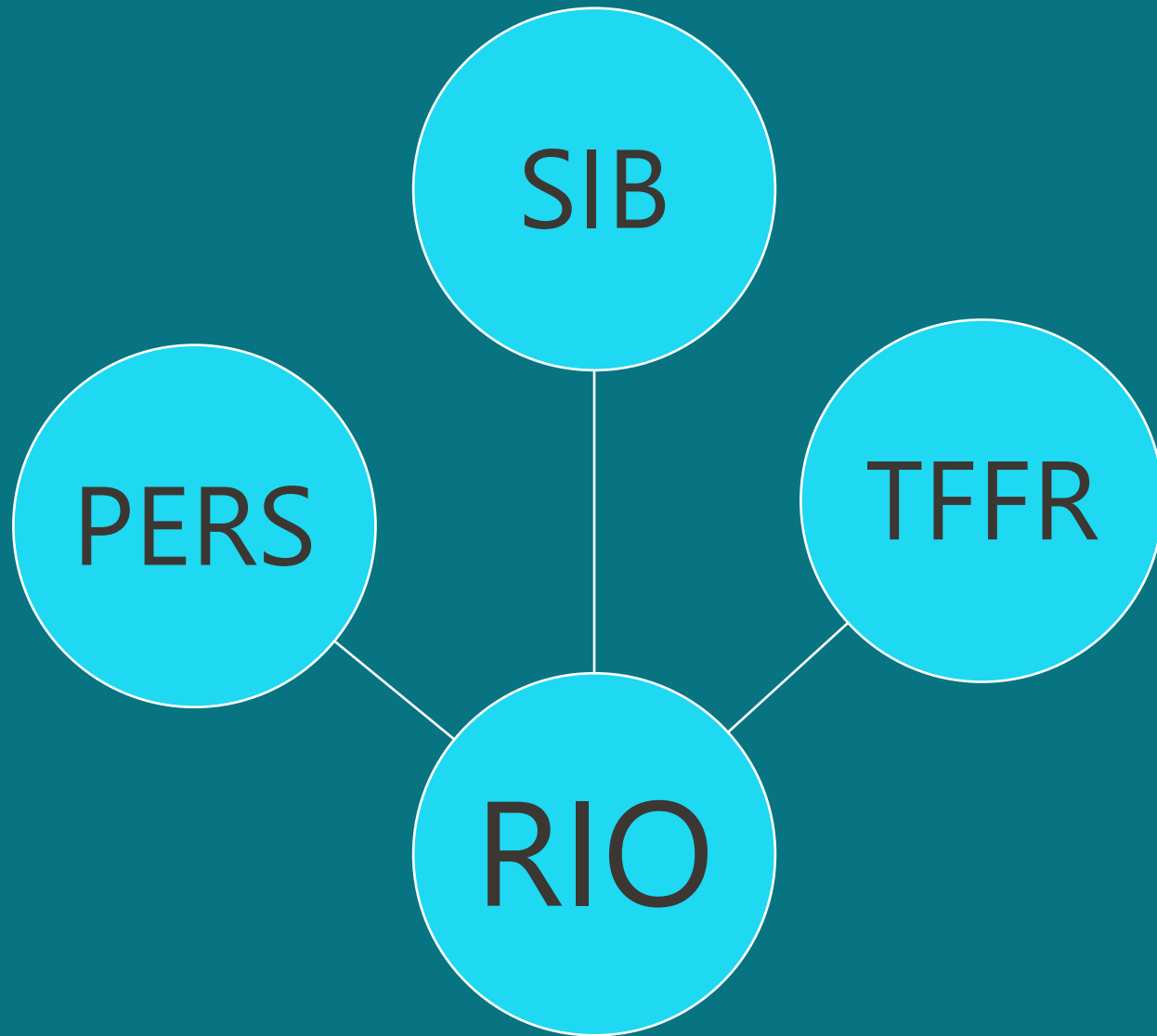
- Agencies provide benefits administration and education to public employees.

- **Workforce**

- Agencies compete for employees with the same skillsets to perform similar roles and send employees to the same or similar trainings.

- **Operations**

- In addition to having a similar internal operation structure, we retain the same or similar vendor services.
- Both retain Sagitec as a software vendor, GRS for actuarial services, and the state auditor retains the same external auditor for both agencies.
- Both belong to same or similar national associations.

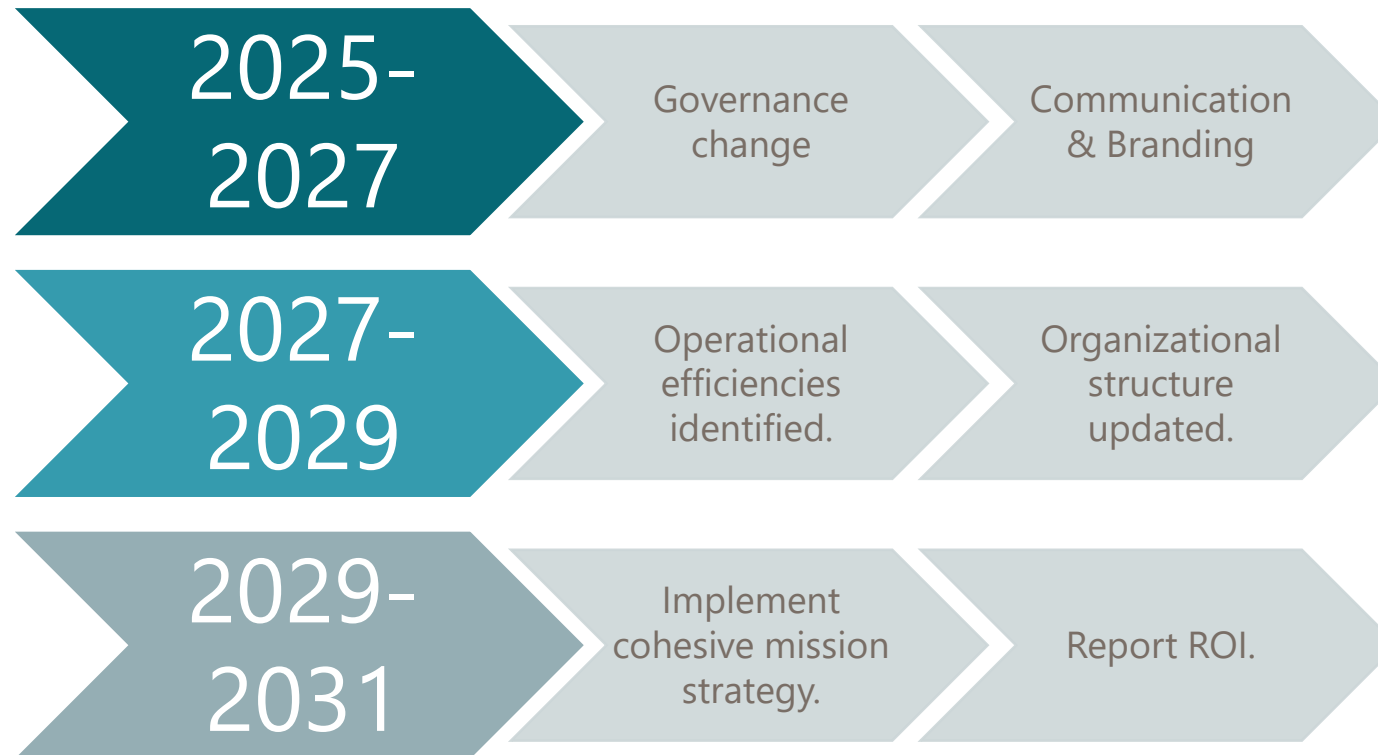


WHY UNIFY? BENEFITS OF CONSOLIDATION

- Current structure fails to leverage benefits of scale, promotes unnecessary competition for workforce, distorts stakeholder feedback, and duplicates services.
- SB2030 (1989) created RIO. The original bill proposed supporting SIB, TFFR and PERS through RIO.
- Through specialization, succession planning, and a cohesive mission strategy we can deliver better services.

PLANNING FOR SUCCESS

- Multi biennium roll-out to manage change.



2025-27

ACTION PLAN FOR RIO/PERS UNIFICATION OR COLLABORATION

Strategic Goal: RIO to support 3 Boards – SIB as governing board with PERS and TFFR as policy boards.

Action Items:

1. Legislation Change to allow Unification.
2. Board Governance Change to allow Unification.
3. Development and amendment to governance documents.
4. Development and implementation of a Change Management plan.
5. Communication of Change to internal and external parties.

Resources Needed (Note Existing or New):

1. Budgeting for change management
2. Enhanced support for fiscal operations to coordinate reporting.
3. Additional support for branding/communication.
4. Interim contingency funds.

Challenges:

1. Internal Change Management – Communicating the benefits of change
2. Communicating changes to stakeholders.
3. Governance alignment with Boards.
4. Branding.
5. Additional mandated program changes during period of unification.

Success Measures:

1. Completion of necessary updates to governance structure by 2026.
2. Identifying opportunities to specialize positions.
3. Identifying opportunities to provide back-up.
4. Identifying operational efficiencies and support succession planning.
5. Prepared to propose operational changes for 2027-2029 biennium.

2025 LEGISLATIVE INITIATIVES

- Procurement – Clarification of procurement exemption for internal investment program infrastructure needs.
- Conditional – Board versus Legislature bill?
 - Statutory change to allow for unification and fund management.
 - Salary and Operational expenses related to initiatives.

MEMORANDUM

TO: SIB - GPR
FROM: Jan Murtha, Executive Director
DATE: February 12, 2024
RE: Legislative Study and Initiative Implementation Update

- **BND Study:** RIO is participating in the investment working group for the BND led study related to examining the impact of ESG related factors on state policy and industries. The working group is working together to present recommendations at the next steering committee meeting this spring.
- **Cash Management Study:** RIO is participating in the OMB led cash management study. RVK has been contracted as the consultant to perform the study. RIO has participated in the kick-off and initial information gathering meetings related to the study.
- **Audit Modernization Project:** Staff has created an Executive Steering committee comprised of the ED, CFO/COO, and IA Supervisor to oversee a project to implement consultant recommendations related to modernizing RIO's internal audit program. The Audit Committee approved procuring co-sourcing of some internal audit services to assist staff with implementing the recommendations. An RFP was issued and the Audit Committee interviewed finalists and selected a vendor at a special January Audit Committee meeting. Contract negotiations are pending.
- **Compensation Study RFP:** An RFP for a Compensation Study was issued for consultant services necessary to prepare and present an incentive compensation plan for approval to the Board and develop compensation goals for agency positions. Staff has been working with the vendor to complete the project. A final presentation will be made to both the ERCC and full SIB February.
- **Investment Program Software Solutions:** NDIT has determined that the investment software solution to provide the necessary infrastructure for internal investment management qualifies as a large IT project. RIO staff is working with NDIT and State Procurement through the procurement process. The Executive Steering Committee met in November and approved an RFP. The procurement process is pending.

Committee Action Requested: Information only.