



ND STATE INVESTMENT BOARD MEETING

Friday, October 27, 2017, 8:30 a.m.
Peace Garden Room, State Capitol
Bismarck, ND

I. APPROVAL OF AGENDA

II. APPROVAL OF MINUTES (September 22, 2017)

III. GOVERNANCE & EDUCATION

- A. Annual Evaluation of RIO vs Ends - Mr. Hunter (enclosed) (20 minutes) **Board Acceptance**
- B. Infrastructure, BND and Fixed Income Update - Mr. Hunter (enclosed) (10 minutes) **Board Action**
- C. Callan Board Education - Mr. Peyton & Mr. Erlendson (enclosed) (1 hour) *Informational*
- D. SIB Client Satisfaction Survey - Ms. Miller-Bowley (enclosed) (10 minutes) **Board Acceptance**

===== Break from 10:15 to 10:30 a.m. =====

- E. SIB Governance Manual (Second Reading) - Mr. Hunter (enclosed) (10 minutes) **Board Action**
- F. RIO Background and Budget Guidelines - Ms. Flanagan (enclosed) (5 minutes) *Informational*
- G. Continuing Board Education Proposal - (enclosed) Mr. Hunter (10 minutes) **Board Action**
- H. State Survey Update - Mr. Hunter (5 minutes) *Informational*

IV. INVESTMENTS

- A. North Dakota Parks & Recreation - Ms. Flanagan (enclosed) (10 minutes) **Board Action**
- B. Employee Benefits Program Committee Update - Mr. Hunter (enclosed) (5 minutes) *Informational*
- C. PERS Investment Update - Mr. Schulz (enclosed) (5 minutes) *Informational*
- D. Investment Policy Statement: TPC and NDAC - Ms. Flanagan (enclosed) (10 minutes) **Board Action**

V. QUARTERLY MONITORING - 9/30/17 (enclosed) (Board Acceptance) (10 minutes)

- A. Executive Limitations/Staff Relations - Mr. Hunter
- B. Budget/Financial Conditions - Ms. Flanagan
- C. Investment Program - Mr. Schulz
- D. Retirement Program - Ms. Kopp
- E. Watch List - Mr. Schulz
- F. SIB Audit Committee Report - Ms. Miller-Bowley

VI. OTHER

SIB Audit Committee meeting - November 16, 2017, 3:00 p.m. - Retirement and Investment Office
SIB meeting - November 17, 2017, 8:30 a.m. - State Capitol, Peace Garden Room

VII. ADJOURNMENT.

**NORTH DAKOTA STATE INVESTMENT BOARD
MINUTES OF THE
SEPTEMBER 22, 2017, BOARD MEETING**

MEMBERS PRESENT: Brent Sanford, Lt. Governor, Chair (TLCF)
Rob Lech, TFFR Board, Vice Chair
Jon Godfread, Insurance Commissioner
Lance Gaebe, Commissioner of Trust Lands
Mike Gessner, TFFR Board
Adam Miller, PERS Board
Mel Olson, TFFR Board
Troy Seibel, PERS Board
Yvonne Smith, PERS Board
Cindy Ternes, WSI Designee

MEMBERS ABSENT: Kelly Schmidt, State Treasurer

STAFF PRESENT: Eric Chin, Senior Investment Officer
Connie Flanagan, Fiscal & Invt Ops Mgr
Bonnie Heit, Assist to the SIB
David Hunter, ED/CIO
Fay Kopp, Dep ED/CRA
Terra Miller Bowley, Supvr Audit Services
Cody Schmidt, Compliance Officer
Darren Schulz, Dep CIO
Susan Walcker, Invt Acct

OTHERS PRESENT: Maulik Bhansali, Montgomery
Kirsten Burton, Montgomery
Levi Erdmann, Dept. of Trust Lands
Thomas Harkless, Wells Fargo
David Klug, Montgomery
Jan Murtha, Attorney General's Office
Jarad Vasques, Montgomery

CALL TO ORDER:

Mr. Lech, Vice Chair, called the State Investment Board (SIB) meeting to order at 1:00 p.m. on Friday, September 22, 2017, at the State Capitol, Peace Garden Room, Bismarck, ND.

AGENDA:

IT WAS MOVED BY MS. SMITH AND SECONDED BY MR. GESSNER AND CARRIED BY A VOICE VOTE TO ACCEPT THE AGENDA FOR THE SEPTEMBER 22, 2017, MEETING.

AYES: COMMISSIONER GAEBE, MR. MILLER, MR. OLSON, MS. TERNES, MR. GESSNER, MR. SEIBEL, MR. LECH, AND MS. SMITH

NAYS: NONE

MOTION CARRIED

ABSENT: TREASURER SCHMIDT, COMMISSIONER GODFREAD, LT. GOVERNOR SANFORD

MINUTES:

IT WAS MOVED BY MR. OLSON AND SECONDED BY COMMISSIONER GAEBE AND CARRIED BY A VOICE VOTE TO ACCEPT THE MINUTES OF THE AUGUST 25, 2017, MEETING AS DISTRIBUTED.

AYES: MR. GESSNER, COMMISSIONER GAEBE, MS. SMITH, MS. TERNES, MR. LECH, MR. OLSON, MR. SEIBEL, AND MR. MILLER

NAYS: NONE

MOTION CARRIED

ABSENT: TREASURER SCHMIDT, COMMISSIONER GODFREAD, LT. GOVERNOR SANFORD

INVESTMENTS:

Fixed Income Overview - Mr. Schulz provided an update on the restructuring of the Fixed Income managers for the Pension Trust.

Montgomery - Representatives from Montgomery reviewed their core fixed income product.

Mr. Chin reviewed staff's due diligence process leading up to the recommendation of Montgomery. After the review and discussion,

IT WAS MOVED BY MR. OLSON AND SECONDED BY MR. GESSNER AND CARRIED BY A ROLL CALL VOTE TO ACCEPT STAFF RECOMMENDATION AND SELECT WELLS CAPITAL'S MONTGOMERY SUBSIDIARY TO MANAGE A US CORE FIXED INCOME MANDATE OF UP TO \$300 MILLION IN THE PENSION TRUST.

AYES: MR. OLSON, MR. SEIBEL, COMMISSIONER GAEBE, MR. GESSNER, COMMISSIONER GODFREAD, MS. SMITH, MR. MILLER, MS. TERNES, MR. LECH, AND LT. GOVERNOR SANFORD

NAYS: NONE

MOTION CARRIED

ABSENT: TREASURER SCHMIDT

Investment Policy Statement - Mr. Hunter reviewed changes to the Teachers' Fund for Retirement (TFFR) Investment Policy Statement (IPS). At the Board's September 21, 2017, meeting, the Board revised the Investment Grade within Global Fixed Income from 19% to 16% and Non-Investment Grade from 4% to 7%. The total asset allocation to Global Fixed Income will remain at 23%.

IT WAS MOVED BY MS. SMITH AND SECONDED BY COMMISSIONER GODFREAD AND CARRIED BY A ROLL CALL VOTE TO ACCEPT THE REVISIONS TO THE TFFR INVESTMENT POLICY STATEMENT AS RECOMMENDED BY THE TFFR BOARD.

AYES: MR. GESSNER, COMMISSIONER GODFREAD, MS. TERNES, COMMISSIONER GAEBE, MS. SMITH, MR. LECH, MR. MILLER, MR. SEIBEL, MR. OLSON, AND LT. GOVERNOR SANFORD

NAYS: NONE

MOTION CARRIED

ABSENT: TREASURER SCHMIDT

Tribune Litigation - Ms. Murtha reviewed the facts of the case. After the review,

IT WAS MOVED BY MR. GESSNER AND SECONDED BY MS. TERNES AND CARRIED BY A ROLL CALL VOTE TO ENTER INTO EXECUTIVE SESSION FOR ATTORNEY CONSULTATION PURSUANT TO NDCC 44-04-19.1(5) AND NDCC 44-04-19.2.

AYES: MS. SMITH, MR. MILLER, MR. OLSON, MR. GESSNER, MR. LECH, MR. SEIBEL, MS. TERNES, COMMISSIONER GODFREAD, COMMISSIONER GAEBE, AND LT. GOVERNOR SANFORD

NAYS: NONE

MOTION CARRIED

ABSENT: TREASURER SCHMIDT

The SIB entered into Executive Session at 2:19 p.m.

The SIB, RIO personnel, and Ms. Murtha were present.

The SIB exited Executive Session at 2:29 p.m.

The Board provided direction to Ms. Murtha in Executive Session.

The Board recessed at 2:30 p.m. and reconvened at 2:37 p.m.

GOVERNANCE :

Audit Committee - Ms. Miller Bowley reviewed activities of the Audit Committee from their September 22, 2017, meeting. Highlights included the July 1, 2016 - June 30, 2017, year-end activities report, July 1, 2016 - June 30, 2017, report to the SIB, and review of the Audit Committee charter.

IT WAS MOVED BY MR. SEIBEL AND SECONDED BY MR. MILLER AND CARRIED BY A VOICE VOTE TO ACCEPT THE AUDIT COMMITTEE REPORT.

AYES: MR. SEIBEL, MR. OLSON, COMMISSIONER GAEBE, MR. LECH, MR. MILLER, COMMISSIONER GODFREAD, MR. GESSNER, MS. SMITH, AND MS. TERNES

NAYS: NONE

MOTION CARRIED

ABSENT: TREASURER SCHMIDT, LT. GOVERNOR SANFORD

Governance Manual - An annual review of the SIB Governance Manual was completed by the Board and Mr. Hunter per SIB policy Governance Process/Annual Board Planning Cycle. The following sections were specifically reviewed - NDCC 21-10, Section B - Governance Process, and Section D - Mission and Investment Services. After the review,

IT WAS MOVED BY COMMISSIONER GAEBE AND SECONDED BY MS. SMITH AND CARRIED BY A ROLL CALL VOTE TO ACCEPT THE GOVERNANCE MANUAL REVISIONS AS PRESENTED.

AYES: MR. TERNES, MR. OLSON, COMMISSIONER GAEBE, MR. SEIBEL, MR. LECH, MR. MILLER, MS. SMITH, MR. GESSNER, AND LT. GOVERNOR SANFORD

NAYS: NONE

MOTION CARRIED

ABSENT: COMMISSIONER GODFREAD, TREASURER SCHMIDT

Mr. Hunter also discussed and recommended the board engage Callan to provide board education on Governance Trends in the Public Sector. The education would increase the SIB and RIO personnel's awareness and understanding of recent changes affecting board governance and the potential impact on the SIB's current structure.

IT WAS MOVED BY MR. MILLER AND SECONDED BY MS. SMITH AND CARRIED BY A ROLL CALL VOTE TO ACCEPT STAFF RECOMMENDATION AND ENGAGE CALLAN TO PROVIDE BOARD EDUCATION ON GOVERNANCE TRENDS IN THE PUBLIC SECTOR.

AYES: MS. TERNES, MR. OLSON, COMMISSIONER GAEBE, MR. SEIBEL, MR. LECH, MR. MILLER, MS. SMITH, MR. GESSNER, AND LT. GOVERNOR SANFORD

NAYS: NONE

MOTION CARRIED

ABSENT: COMMISSIONER GODFREAD, TREASURER SCHMIDT

Compliance Review - Mr. Schmidt reviewed compliance certifications that the SIB managers are required to confirm their adherence to each fiscal year end: Certification of Compliance with Investment Guidelines, Financial Audit and Internal Control (SSAE 16), ADV Part 1, 2A, and 2B, and the due diligence questionnaire.

Mr. Schmidt stated all of the SIB managers have responded to the compliance review and are for the most part in compliance. There were a few exceptions and staff will be following up with those managers.

IT WAS MOVED BY MR. GESSNER AND SECONDED BY MS. SMITH AND CARRIED BY A VOICE VOTE TO ACCEPT THE COMPLIANCE REPORT.

AYES: MR. LECH, MR. OLSON, COMMISSIONER GAEBE, MR. SEIBEL, MR. MILLER, MR. GESSNER, MS. SMITH, MS. TERNES, AND LT. GOVERNOR SANFORD

NAYS: NONE

MOTION CARRIED**ABSENT: TREASURER SCHMIDT, COMMISSIONER GODFREAD**

Budget Review - Ms. Flanagan reviewed RIO's budget for the following bienniums, 2015-17, and 2017-2019.

IT WAS MOVED BY MR. OLSON AND SECONDED BY MS. SMITH AND CARRIED BY A VOICE VOTE TO ACCEPT THE BUDGET REPORT.

AYES: MS. TERNES, COMMISSIONER GAEBE, MR. GESSNER, MS. SMITH, MR. SEIBEL, MR. MILLER, MR. LECH, MR. OLSON, AND LT. GOVERNOR SANFORD

NAYS: NONE

MOTION CARRIED**ABSENT: COMMISSIONER GODFREAD, TREASURER SCHMIDT**

Asset Liability Studies - Mr. Hunter stated the following SIB clients are due for asset liability studies - Legacy Fund, Workforce Safety and Insurance, and the City of Grand Forks Park District Employee Pension Plan. Typically, asset liability studies are conducted every five years. Mr. Hunter stated it is up to each client to determine who will conduct the study. RV Kuhns completed the most recent study for the Legacy Fund in March 2013 and Mr. Hunter requested the SIB utilize Callan for the next study. After discussion,

IT WAS MOVED BY COMMISSIONER GAEBE AND SECONDED BY MS. TERNES AND CARRIED BY A ROLL CALL VOTE TO ENGAGE CALLAN TO CONDUCT AN ASSET LIABILITY STUDY OF THE LEGACY FUND WITH THE UNDERSTANDING THAT THE FEE FOR THE STUDY WILL BE PAID BY THE LEGACY FUND.

AYES: MR. GESSNER, COMMISSIONER GAEBE, MS. SMITH, MR. LECH, MR. OLSON, MR. SEIBEL, MR. MILLER, MS. TERNES, AND LT. GOVERNOR SANFORD

NAYS: NONE

MOTION CARRIED**ABSENT: TREASURER SCHMIDT, COMMISSIONER GODFREAD****OTHER:**

The next meeting of the SIB is scheduled for October 27, 2017, at 8:30 a.m. at the State Capitol, Peace Garden Room.

The next meeting of the SIB Audit Committee is scheduled for November 16, 2017, at 3:00 p.m. at the Retirement and Investment Office.

ADJOURNMENT:

With no further business to come before the SIB, Mr. Lech adjourned the meeting at 3:49 p.m.

Mr. Rob Lech, Vice Chairman
State Investment Board

Bonnie Heit
Assistant to the Board

Board Acceptance Requested

State Investment Board

Annual Evaluation of RIO versus Policy Ends

October 27, 2017

Dave Hunter, Executive Director / CIO

Darren Schulz, Deputy Chief Investment Officer

Eric Chin, Senior Investment Analyst

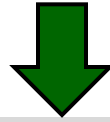
ND Retirement & Investment Office (RIO)

State Investment Board (SIB)

Annual Board Planning Cycle – Biennial Agenda

SIB Approved on April 28, 2017

Annual Board Planning Cycle Biennial Agenda



Fiscal 2017-18	July 2017	August	September	October	November	December	January 2018	February	March	April	May
	Board Education (BSC Offsite)	Annual Investment Performance Review	Annual Review of Gov. Manual	Annual Evaluation of RIO vs. Ends policies	Investment Director Report on Investment Work Plan	No Meeting Scheduled	Board Education Risk Management	Investment Director Report on Investment Work Plan	Review Budget Guidelines for next Biennium	Review "Ends" Policies, Biennial Agenda, Strategic Plan and Budget Guidelines	Investment Director Report on Investment Work Plan ED/CIO Review
	- Election of Officers* - Appoint Audit Comm.* - Plan Annual Agenda	- Establish Investment Work Plan - Add Invest. Education	- New Board Member Orientation Complete	- Annual Board Evaluation	- Annual Board Evaluation			- Executive Limitations Review			- Investment Guidelines
	* May be delayed										
Fiscal 2018-19	July 2018	August	September	October	November	December	January 2019	February	March	April	May
	Plan Board Education Offsite	Annual Investment Performance Review	Annual Review of Gov. Manual	Annual Evaluation of RIO vs. Ends policies	Investment Director Report on Investment Work Plan	Reserved for a potential SIB meeting in advance of Legislative Session (Preview RIO Budget)	Board Education Risk Management	Investment Director Report on Investment Work Plan	Confirm Budget Guidelines	Review Biennial Agenda, End Policies, Strategic Investment Plan and Budget Guidelines	Investment Director Report on Investment Work Plan ED/CIO Review
<i>The SIB Meeting Agenda has not been established for Fiscal 2018-19</i>	- Election of Officers, - Appoint Audit Comm. - Plan Annual Agenda	- Establish Investment Work Plan - Add Invest. Education	- New Board Member Orientation Complete	- Annual Board Evaluation	- Annual Board Evaluation		- Legislative Update	- Executive Limitations Review	- Legislative Update		- Investment Guidelines

- 1.) SIB Governance Policy B-7 on Governance Process states that "the Board will follow a biennial agenda which (a) completes a re-exploration of Ends policies annually (April) (which is also referred to as "RIO's Mission Statement") and (b) continually improves its performance through attention to board education and to enriched input and deliberation."
- 2.) "In the first three months of the new cycle, the Board will develop its agenda for the ensuing year. Scheduled monitoring will be used to evaluate and adjust the annual agenda as needed."
- 3.) "The Board will identify areas of education and input needed to increase the level of wisdom forethought it can give to subsequent choices. A board education plan will be developed during July and August of each year."
- 4.) Budget Guidelines: RIO will prepare and submit a biennial budget pursuant to OMB guidelines as established by the Governor which will not reduce the level of service provided by RIO. Expenditures for budget items will not exceed the appropriation without approval of the State Investment Board.

Date: April 21, 2017

SIB Governance Process B.7: Annual Board Planning Cycle

October: Annual Meeting for Evaluation of RIO vs. Policy “Ends”

Background: RIO’s “Mission” is defined in SIB Governance Policy D-1 on “Ends”.

The Retirement and Investment Office serves the SIB and exists in order that:

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

RIO's performance is prudently monitored by the SIB

Mission Accomplished

- 1) Every SIB client generated positive excess returns for the 5-years ended June 30, 2017, with two exceptions (for the PERS Retiree Health Insurance Credit Fund by -0.03% and PERS Group Insurance by -0.04%) while adhering to approved investment guidelines and noting that management fees declined from 0.65% in fiscal 2013 to approximately 0.47% in fiscal 2017.
- 2) RIO implemented a transparency enhancement initiative in recent years which enhanced public access to our website by adding new hyperlinks for our governance manual, audit charter and meeting materials (including our quarterly investment performance reviews by RIO and Callan).
- 3) RIO's internal audit team has conducted reviews which provide reasonable assurance that TFFR benefit recipients receive their retirement benefits in a cost effective and timely manner.
- 4) TFFR member surveys support management's belief that members have access to information which will allow them to become knowledgeable about retirement issues and processes.
- 5) SIB and TFFR client surveys confirm that the boards and staff provide satisfactory services with SIB receiving a **3.6** score and TFFR earning a **3.8** score (on a 4.0 scale) in recent years.

Investment Performance Evaluation – June 30, 2017

Investment Performance Criteria :

SIB clients should receive investment returns consistent with their investment policies and market variables (pursuant to Section D.3 of the SIB Governance Manual). The “Ends” for investment performance is evaluated based on comparison of each client’s actual rate of return (net of fees), risk levels and risk adjusted returns, versus the client’s policy benchmark over 5 years.

Pension Trust:

Every Pension Trust client posted positive Excess Returns over the last 5-years, while adhering to approved risk levels and generating at least 0.50% of positive Risk Adjusted Excess Return (over the last 5-year).

TFFR and PERS each earned over 9% for the 5-years ended June 30, 2017. Global equities were the primary performance driver and gained 11% over the last 5-years with U.S. Equities up 15% and International Equity up 9%. Private equity returns were disappointing at 1.6% since June 30, 2012. Fixed Income was our #1 generator of excess return and earned 4.6% per annum over the last 5-years with U.S. Fixed Income up 5.6% and International Debt up 1.2%. Global Real Assets also performed well and gained over 8% per annum for the 5-years ended June 30, 2017, with Real Estate up 12% and Infrastructure up 6.5%, while Timber returns were disappointing at less than 1% per annum over the last 5-years.

Non-Pension Trust:

Every Non-Pension Trust client generated positive Excess Return and positive Risk Adjusted Excess Returns for the 5-years ended June 30, 2016, with two exception for the PERS Retiree Health Insurance Credit Fund and PERS Group Insurance.

Legacy Fund earned 12% for the 1-year ended June 30, 2017, which translates into \$480 million of net investment income (including unrealized gains). Legacy Fund’s U.S. Equity portfolio earned over 19% last year, while International Equities earned nearly 24%. U.S. Fixed Income also performed well with a 3.5% return versus -0.31% for the Bloomberg Aggregate Index. Diversified Real Assets and Real Estate returns exceeded their performance benchmarks and earned over 2% and 8%, respectively, in the last year. Our second largest non-Pension Trust client, WSI, also generated strong returns by earning approximately 8% and 7% for the 1- and 5-years ended June 30, 2017, respectively.

Risk, as measured by standard deviation, was within approved levels for all SIB clients for the 5-years ended June 30, 2017.

Actual asset allocations are within Target ranges and guidelines as confirmed by Callan Associates as of June 30, 2017.

Pension Trust Return & Risk Summary – June 30, 2017

Returns and Risk: Every Pension Trust client portfolio generated positive “Excess Return” for the 3- and 5-year periods ended June 30, 2017, while adhering to prescribed risk levels (e.g. within 115% of the Policy Benchmark for the 5-years ended 6/30/2017).

	1 Yr. Ended 6/30/2017	3 Yrs Ended 6/30/2017	5 Yrs Ended 6/30/2017	Risk 5 Yrs Ended 6/30/2017	Risk Adj Excess Return 5 Yrs Ended 6/30/2017
PERS - \$2.8 billion					
Total Fund Return - Net	13.05%	5.49%	9.16%	4.8%	0.50%
Policy Benchmark Return	11.87%	4.75%	8.25%	4.6%	
Excess Return	1.18%	0.74%	0.90%	105%	

TFFR - \$2.3 billion					
Total Fund Return - Net	12.92%	5.44%	9.18%	4.8%	0.52%
Policy Benchmark Return	11.63%	4.69%	8.25%	4.6%	
Excess Return	1.29%	0.76%	0.94%	105%	

Bismark Employee - \$92 million					
Total Fund Return - Net	11.56%	5.26%	8.48%	4.2%	0.57%
Policy Benchmark Return	9.98%	4.48%	7.38%	4.0%	
Excess Return	1.58%	0.78%	1.10%	107%	

Pension Trust Return & Risk Summary – June 30, 2017

	1 Yr. Ended 6/30/2017	3 Yrs Ended 6/30/2017	5 Yrs Ended 6/30/2017	Risk 5 Yrs Ended 6/30/2017	Risk Adj Excess Return 5 Yrs Ended 6/30/2017
Bismarck Police - \$38 million					
Total Fund Return - Net	12.24%	5.26%	8.73%	4.6%	0.51%
Policy Benchmark Return	10.98%	4.56%	7.73%	4.3%	
Excess Return	1.27%	0.70%	1.00%	106%	
Job Service - \$97 million					
Total Fund Return - Net	5.63%	4.79%	7.86%	3.9%	0.79%
Policy Benchmark Return	7.85%	3.85%	6.42%	3.6%	
Excess Return	-2.22%	0.95%	1.44%	109%	
Grand Forks Employee - \$63 million					
Total Fund Return - Net	12.84%	5.37%	9.18%	5.0%	0.51%
Policy Benchmark Return	12.07%	4.83%	8.38%	4.8%	
Excess Return	0.77%	0.54%	0.80%	103%	
Grand Forks Park District - \$6 million					
Total Fund Return - Net	12.74%	5.65%	9.46%	4.9%	0.73%
Policy Benchmark Return	11.83%	4.96%	8.55%	4.8%	
Excess Return	0.92%	0.69%	0.91%	102%	

Risk Adjusted Excess Returns for the 5-years ended June 30, 2017, were positive for all Pension Trust clients ranging from 0.50% for PERS to 0.79% for Job Service.

Job Service is 140+% funded & significantly de-risked its investment portfolio over the last year.

Risk Adjusted Excess Return measures actual portfolio results versus a benchmark adjusted by its risk relative to a benchmark portfolio. This metric is positive if excess returns are due to “smart” investment decisions or negative if driven by excess risk.

Non-Pension Trust Return & Risk Summary – June 30, 2017

	Current FYTD 6/30/2017	3 Yrs Ended 6/30/2017	5 Yrs Ended 6/30/2017	Risk 5 Yrs Ended 6/30/2017	Risk Adj Excess Return 5 Yrs Ended 6/30/2017
Legacy Fund - \$4.7 billion					
Total Fund Return - Net	12.03%	5.36%	4.77%	3.9%	0.59%
Policy Benchmark Return	9.91%	4.37%	3.76%	3.5%	
Excess Return	2.12%	1.00%	1.01%	OK	
Workforce Safety Insurance - \$1.9 billion					
Total Fund Return - Net	8.29%	5.02%	6.98%	3.3%	1.37%
Policy Benchmark Return	5.20%	3.75%	5.01%	3.0%	
Excess Return	3.09%	1.27%	1.97%	OK	
Budget Stabilization - \$6 million					
Total Fund Return - Net	0.80%	1.49%	1.66%	0.7%	0.55%
Policy Benchmark Return	0.37%	0.87%	0.71%	0.5%	
Excess Return	0.42%	0.62%	0.95%	OK	
Fire & Tornado Fund - \$22 million					
Total Fund Return - Net	9.30%	5.00%	7.62%	3.7%	0.79%
Policy Benchmark Return	6.47%	3.83%	5.74%	3.2%	
Excess Return	2.83%	1.17%	1.88%	OK	

Returns and Risk: All but two Non-Pension Trust clients generated positive Excess Return and Risk Adjusted Excess Return for the 5-year period ended June 30, 2017 (if applicable). These returns were achieved while adhering to reasonable risk levels which were generally within 1% of policy levels.

Risk Adjusted Excess Return measures a portfolio's excess return adjusted by its risk relative to a benchmark portfolio. This metric is positive if returns are due to "smart" investment decisions or negative if driven by excess risk.

Non-Pension Trust Return & Risk Summary – June 30, 2017

	Current FYTD 6/30/2017	3 Yrs Ended 6/30/2017	5 Yrs Ended 6/30/2017	Risk 5 Yrs Ended 6/30/2017	Risk Adj Excess Return 5 Yrs Ended 6/30/2017
State Bonding Fund - \$3 million					
Total Fund Return - Net	2.40%	2.37%	2.83%	2.0%	1.14%
Policy Benchmark Return	0.05%	1.48%	1.30%	1.7%	
Excess Return	2.34%	0.90%	1.52%	OK	
Insurance Reg. Trust Fund - \$5 million					
Total Fund Return - Net	7.40%	3.60%	5.79%	3.0%	0.41%
Policy Benchmark Return	5.69%	2.93%	4.60%	2.6%	
Excess Return	1.70%	0.67%	1.20%	OK	
Petroleum Tank Release Compensation Fund - \$6 million					
Total Fund Return - Net	2.23%	2.18%	2.54%	1.8%	1.04%
Policy Benchmark Return	0.09%	1.36%	1.20%	1.6%	
Excess Return	2.14%	0.82%	1.34%	OK	
State Risk Management Fund - \$5.8 million					
Total Fund Return - Net	8.27%	5.58%	7.81%	3.4%	1.03%
Policy Benchmark Return	5.47%	4.39%	5.79%	3.0%	
Excess Return	2.80%	1.19%	2.02%	OK	

SIB Client Commentary:

The State Bonding Fund, Insurance Regulatory Trust Fund, Petroleum Tank Release Compensation Fund, and State Risk Management Fund have all posted positive Risk Adjusted Excess Returns for the 5-years ended June 30, 2017, including Excess Returns of 1.20% or more.

Non-Pension Trust Return & Risk Summary – June 30, 2017

	Current FYTD 6/30/2017	3 Yrs Ended 6/30/2017	5 Yrs Ended 6/30/2017	Risk 5 Yrs Ended 6/30/2017	Risk Adj Excess Return 5 Yrs Ended 6/30/2017
State Risk Management W/C Fund - \$5.5 million					
Total Fund Return - Net	9.41%	6.03%	8.63%	3.8%	1.02%
Policy Benchmark Return	6.83%	4.90%	6.69%	3.4%	
Excess Return	2.58%	1.13%	1.94%	OK	
ND Assoc. of Counties - \$4.4 million					
Total Fund Return - Net	8.30%	4.58%	6.92%	3.5%	0.74%
Policy Benchmark Return	5.51%	3.44%	5.07%	2.9%	
Excess Return	2.79%	1.14%	1.85%	OK	
Bismark Deferred Sick Leave - \$700,000					
Total Fund Return - Net	8.85%	4.99%	7.38%	3.7%	0.92%
Policy Benchmark Return	5.44%	3.62%	5.24%	3.0%	
Excess Return	3.41%	1.37%	2.15%	OK	
FargoDome Permanent Fund - \$42 million					
Total Fund Return - Net	12.25%	5.50%	9.16%	4.9%	0.93%
Policy Benchmark Return	9.74%	4.38%	7.46%	4.5%	
Excess Return	2.51%	1.11%	1.70%	OK	

SIB Client Commentary:

The State Risk Management Workers Compensation Fund, North Dakota Association of Counties, City of Bismarck Deferred Sick Leave Account and FargoDome Permanent Fund have all posted positive Risk Adjusted Excess Returns for the 5-years ended June 30, 2017, including Excess Returns of 1.85% or more.

Non-Pension Trust Return & Risk Summary – June 30, 2017

	Current FYTD 6/30/2017	3 Yrs Ended 6/30/2017	5 Yrs Ended 6/30/2017	Risk 5 Yrs Ended 6/30/2017	Risk Adj Excess Return 5 Yrs Ended 6/30/2017
Cultural Endowment Fund - \$431,000					
Total Fund Return - Net	12.71%	6.62%	10.37%	4.9%	0.83%
Policy Benchmark Return	10.79%	5.66%	8.76%	4.5%	
Excess Return	1.93%	0.96%	1.62%	OK	
Board of Medicine - \$2 million					
Total Fund Return - Net	5.29%	3.19%			
Policy Benchmark Return	4.06%	2.40%			
Excess Return	1.23%	0.79%			
PERS Retiree Health - \$116 million					
Total Fund Return - Net	11.81%	5.09%	8.80%	5.3%	-0.64%
Policy Benchmark Return	11.32%	5.42%	8.83%	4.9%	
Excess Return	0.49%	-0.32%	-0.03%	OK	
PERS Group Insurance - \$37 million					
Total Fund Return - Net	0.08%	0.52%	0.38%	0.6%	-0.06%
Policy Benchmark Return	0.37%	0.65%	0.42%	0.5%	
Excess Return	-0.29%	-0.12%	-0.04%	OK	
Tobacco Prevention & Control - \$57 million					
Total Fund Return - Net	1.66%				
Policy Benchmark Return	1.67%				
Excess Return	-0.02%				

SIB Client Specific Commentary:

The Cultural Endowment Fund has generated the highest absolute level of net investment returns (of 10.37%) over the last 5-years.

The Board of Medicine became an SIB client two years ago noting they were previously investing in Certificates of Deposit.

PERS Retiree Health absolute returns have been reasonable the last 5-years (8.80%) but disappointing on a risk adjusted basis.(-0.64%). We are re-examining SEI's benchmarks and risk and return profile.

PERS Group Insurance performance for the fiscal year ended June 30, 2017 is disappointing but within 0.04% of the Policy Benchmark Return over the last 5-years.

The Tobacco Prevention and Control Trust Fund was transferred to OMB regulatory oversight on July 1, 2017.

Fundamental Investment Beliefs

Strategic Investment Plan

RIO's Mission Statement and Strategic Investment Plan are based on the Fundamental Investment Belief that asset allocation decisions are the main drivers of long-term investment returns, but the prudent use of active management is an important contributor to ensuring our clients attain their stated investment objectives.

Dave Hunter, Executive Director / CIO
ND Retirement & Investment Office (RIO)
State Investment Board (SIB)

NDSIB - Fundamental Investment Beliefs

- ❑ **Asset allocation is the # 1 driver of investment returns.**
- ❑ **The prudent use of active management can improve investment returns and contribute towards ensuring our clients attain their stated investment objectives.** (See example below.)
 - **If SIB client assets started out the year at \$11 billion and earned 10% in one-year, SIB assets would end the year at \$12.1 billion assuming no contributions or withdrawals (e.g. \$11 billion x 10% = \$1.1 billion + \$11 billion to start = \$12.1 billion at year-end).**
 - **RIO estimates that SIB clients earned \$100 million of incremental income from the prudent use of active investment management for the fiscal year ended June 30, 2017.**
 - **If these estimates are accurate, “asset allocation” was responsible for \$1 billion (> 90%) of the net investment return, while “active management” was responsible for \$100 million (< 10%) of the net investment return for the fiscal year ended June 30, 2017.**

Strategic Investment Plan – SIB Approved April 28, 2017

Fundamental Investment Beliefs

Asset allocation decisions are the primary driver of investment returns, but the prudent use of active investment management is an important contributor towards ensuring our clients attain their stated investment objectives. SIB clients generated over **\$300 million** of incremental income via the prudent use of active investment management the last five years including **\$100+ million** of incremental income (or excess return) in **2017**.

Strategic Investment Plan

1. Reaffirm our organizational commitment to the importance of **continuing board education and strong board governance**.
2. Enhance understanding of our core goals and beliefs while enhancing overall transparency.
 - a. Remain steadfast in our commitment to the prudent use of active investment management.
 - b. Expand awareness to downside risk management which is essential to achieving our long term investment goals.
 - c. Given actual and projected growth of SIB client assets and the heightened public awareness of the Legacy Fund, align our investment platforms to promote greater clarity and efficiency in reporting and implementing client investment policies.
3. Expand RIO's influence and ability to create positive and sustainable change by building deeper relationships with existing clients, organizations and legislative leaders.
 - a. Enhance community outreach to build upon public awareness and confidence.
 - b. Develop concise presentations which highlight our overall risk, return and cost control framework including our progress towards attaining our long-term goals.
4. Heighten employee engagement by promoting an open and collaborative work environment while encouraging employee participation in staff meetings, offer team members more opportunities to impact RIO's change initiatives **and improve the office environment for staff and clients**.
 - a. RIO's ability to continue to deliver strong results is dependent on the combined efforts of our highly valuable team members.
5. Enhance our internal control environment by improving use of proven risk management solutions relating to fraud risk assessments, investment risk management and overall enterprise risk management.
 - a. A robust risk management framework serves as a foundation to support a sound internal control environment and lessen downside risks.
 - b. Broaden stakeholder awareness of the challenges faced in estimating Legacy Fund earnings for any given period. A deeper understanding may serve to change the basic methodology used for determining budget estimates in future biennia.
6. Evaluate and expand the efficient use of technology in our investment program activities including risk management, compliance monitoring, client satisfaction surveys, website design and communications in order to increase overall efficiency and effectiveness.



Net Investment Returns – Fiscal 2017

- ▶ **Pension Trust +13%** (\$600 million of net income - \$5.3 billion AUM)
 - ▶ Asset Allocation – 58% Equity, 23% Fixed Income, 19% Real Assets
 - ▶ Equities up 19%; Fixed Income and Real Assets up 4%

- ▶ **Legacy Fund +12%** (\$480 million of net income - \$4.6 billion AUM)
 - ▶ Asset Allocation – 50% Equity, 35% Fixed Income, 15% Real Assets
 - ▶ Equities up 19%; Fixed Income and Real Assets up 3%

- ▶ **Insurance Trust +7%** (\$160 million of net income - \$2.1 billion AUM)
 - ▶ Allocation – 24% Equity, 52% Fixed Income, 19% Real Assets, 5% Cash
 - ▶ Equities up 19%; Fixed Income and Real Assets up 3%

AUM = Assets Under Management, preliminary estimates as of June 30, 2017

Board Education – July 1, 2015 to June 30, 2017

SIB members have actively participated in numerous educational opportunities over the last year including the following sessions which occurred during our regularly scheduled board meetings:

- Capital Market Updates & Performance Review Education by Callan (6 hours)
- Portfolio Reviews by JPMorgan, PIMCO, Western Asset Management, Invesco, Epoch and Adams Street Partners (6 hours)
- Investment Performance Reviews by RIO Staff (6 hours)
- Governance Education by Aon Hewitt, Callan & KPA Advisory (6 hours)
- Litigation Monitoring Education by the Office of the Attorney General (2 hours)
- Investment Management Fee Reviews by Callan (2 hours)
- Capital Market, Portfolio & Securities Lending Updates by Northern Trust (2 hours)
- Time spent by board members reviewing meeting materials in advance (10+ hours)

Several board members and RIO staff have obtained additional investment education by attending conferences sponsored by a wide variety of industry experts such as:

- Callan's Annual Conference and/or Callan College (two to three days)
- Common Fund Forums (two to three days)
- Great Plains (and/or Mountain States) Investor Forum (one to two days)
- National Association of State Retirement Officers (two to three days)
- National Association of State Investment Officers (two to three days)
- National Association of State Investment Professionals (two to three days)
- Various conferences sponsored by "Pensions and Investments" (one to three days)

Next Educational Opportunity: Today's presentation on "Governance Trends" by Callan

State Investment Board – Client Assets Under Management

Fund Name	Market Values as of 6/30/17 ⁽¹⁾	Market Values as of 6/30/16 ⁽²⁾
Pension Trust Fund		
Public Employees Retirement System (PERS)	2,781,347,058	2,459,388,086
Teachers' Fund for Retirement (TFFR)	2,318,214,334	2,082,183,640
City of Bismarck Employees Pension	91,954,165	82,441,003
City of Grand Forks Employees Pension	63,392,384	57,975,758
City of Bismarck Police Pension	38,136,784	33,983,598
Grand Forks Park District	6,160,568	5,720,245
Subtotal Pension Trust Fund	5,299,205,292	4,721,692,330
Insurance Trust Fund		
Workforce Safety & Insurance (WSI)	1,894,614,791	1,832,104,203
City of Fargo FargoDome Permanent Fund	41,634,918	38,782,721
PERS Group Insurance Account	37,500,315	37,715,356
State Fire and Tornado Fund	22,008,326	24,091,203
Petroleum Tank Release Compensation Fund	6,396,410	7,149,512
Budget Stabilization Fund	6,127,844	575,918,381
State Risk Management Fund	5,781,003	6,534,801
State Risk Management Workers Comp Fund	5,534,628	5,516,177
Insurance Regulatory Trust Fund	5,289,164	1,085,836
ND Association of Counties (NDACo) Fund	4,383,920	4,048,863
State Bonding Fund	3,374,399	3,296,372
ND Board of Medicine	2,179,911	2,208,667
Bismarck Deferred Sick Leave Account	698,131	642,265
Cultural Endowment Fund	431,470	386,452
Subtotal Insurance Trust Fund	2,035,955,230	2,539,480,809
Legacy Trust Fund		
Legacy Fund	4,687,963,729	3,809,485,177
PERS Retiree Insurance Credit Fund	116,150,947	101,623,224
Job Service of North Dakota Pension	97,332,820	96,588,333
ND Tobacco Prevention and Control Trust Fund	57,462,736	54,366,538
Total Assets Under SIB Management	12,294,070,754	11,323,236,410

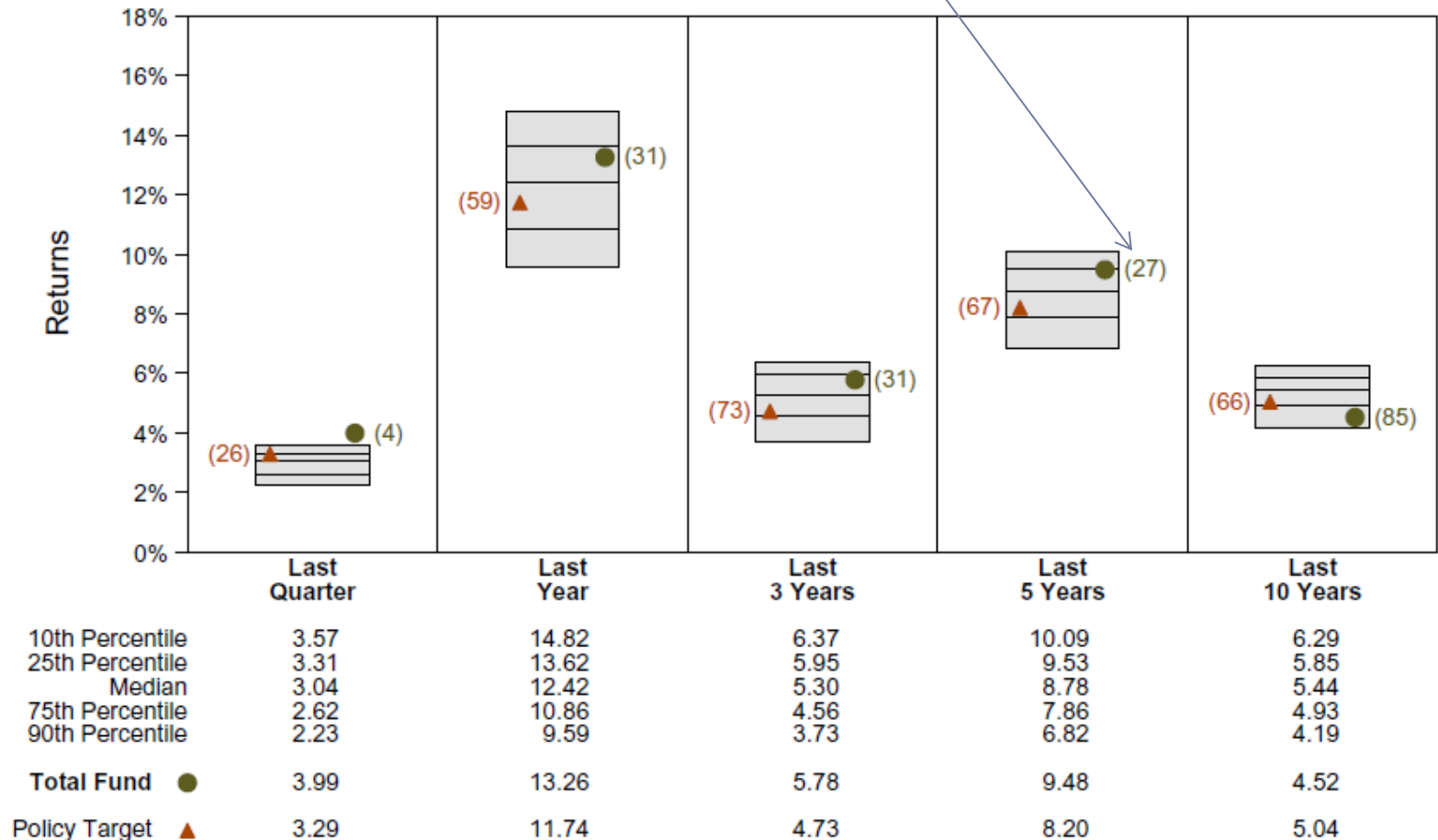
- ▶ SIB client assets grew by approximately 8.6% (or \$971 million) in the last year due to a combination of Legacy Fund and Pension Trust asset growth of \$878 million and \$577 million, respectively.
- ▶ The Pension Trust posted a net return of 12.96% in the last year. During the last 5-years, the Pension Trust generated a net annualized return of 9.14%, exceeding the performance benchmark of 8.20%.
- ▶ The Insurance Trust generated a net return of 7.80% in the last year. During the last 5-years, the Insurance Trust posted a net annualized return of 5.45%, exceeding the performance benchmark of 3.90%.
- ▶ The Legacy Fund generated a net investment gain of 12.03% for the year ended June 30, 2017, exceeding its performance benchmark. During the last 5-years, the Legacy Fund has generated a net annualized return of 4.76%, exceeding the performance benchmark of 3.84%.
- ▶ SIB client assets totaled approximately \$12.3 billion as of June 30, 2017, based on unaudited valuations.

⁽¹⁾ 6/30/17 market values are unaudited and subject to change.

⁽²⁾ 6/30/16 market values as stated in the Comprehensive Annual Financial Report.

Pension Trust “gross” returns were ranked in the 27th percentile for the 5-years ended June 30, 2017, based on Callan’s “Public Fund Sponsor Database”.

CAI Public Fund Sponsor Database



* Current Quarter Target = 16.1% Russell 1000 Index, 16.0% MSCI World, 13.2% Blmbg Aggregate, 11.2% MSCI World ex US, 10.5% NCREIF Total Index, 6.5% NDSIB PEN - Private Equity, 5.4% Blmbg Glob Agg ex USD, 5.0% CPI-W, 4.9% Russell 2000 Index, 4.6% Blmbg HY 2% Iss Cap, 3.1% MSCI EM, 3.1% NCREIF Timberland Index and 0.4% 3-month Treasury Bill.



October 27, 2017

**North Dakota
State Investment Board**

10 Practical Tips for
Investment Committees

Ron Peyton
Executive Chairman

Paul Erlendson
Senior Vice President

About the Presenters



Ronald D. Peyton is Executive Chairman of Callan LLC, an employee-owned firm whose mission is: "Collaborating with each client to build tailored and lasting investment solutions."

Ron provides firm-wide oversight by conferring with associates and clients to improve communications, process, and service quality. He regularly meets with senior industry professionals and is active in industry and community events to advocate for the institutional investment industry. Ron is Chairman of Callan's Management Committee and the Emerging and Minority, Women, or Disabled-owned Managers Committee and a member of Callan's Client Policy Review Committee. He is Chairman of Callan's Board of Directors and a shareholder of the firm.

Ron serves on the Board of the United Way of the Bay Area. He is the Chairman of the CFA Institute Asset Manager Code of Professional Conduct Advisory Committee, and is a member of the Strategic Advisory Committee for the CFA Society San Francisco.



Paul M. Erlendson is a Senior Vice President and senior consultant in Callan's Denver Fund Sponsor Consulting office. Paul has assisted a variety of institutional investors with a broad array of investment policy formulation, implementation, and evaluation decisions. He is a shareholder and member of Callan's Client Policy Review, Manager Search, Institute Advisory and Defined Contribution Committees.

Since joining Callan in 1986, Paul has worked in the Global Manager Research group; headed the Capital Markets Research Group; and headed the San Francisco Fund Sponsor consulting group. He previously worked in the insurance industry and had a stint as a college instructor. Paul's commitment to education extends to participating in speaking roles at various investment forums.

Paul earned an MA and a BA from North Dakota State University. Paul is a "Big" with Big Brothers Big Sisters of Colorado and is a "Pal" (volunteer) with the Assistance League of Denver. He previously served on the Pitzer College Parent Leadership Council.

1. Commit to a long-term investment strategy—then stick to it

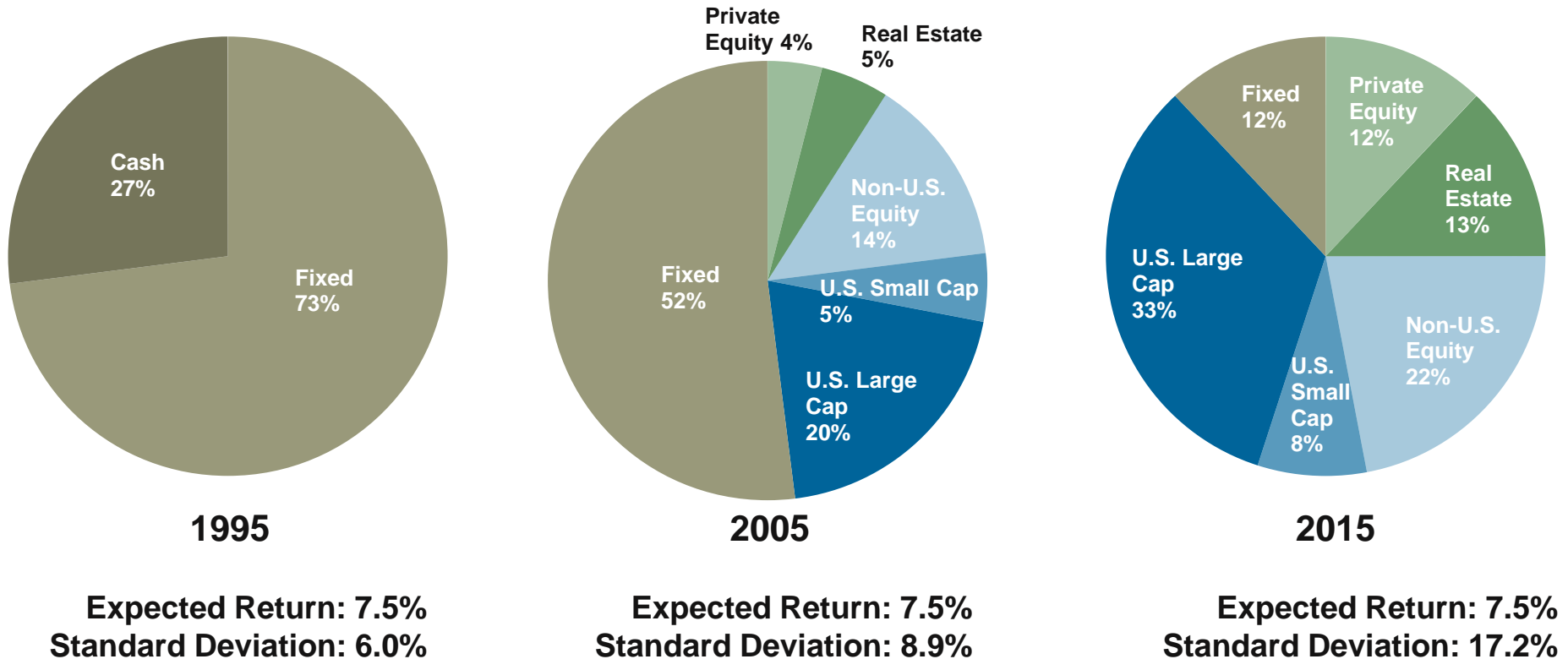


- Select a strategy that satisfies the long-term return needs and can be understood and maintained by future administrations
- Avoid making decisions based on strictly short-term inputs
- Avoid changing a good strategy to prepare for an anticipated “next crisis” when it was the original strategy that got the investor through the last one
- A poor strategy may be disastrously revealed in situations like the Global Financial Crisis
- Risks to strong investment outcomes:
 - Not knowing your true time horizon (or not being able to adhere to it),
 - not understanding your true liquidity needs, and
 - overreacting to short-term market developments

Increasing Volatility and Complexity

Expected Portfolio Returns Over Past 20 Years

Increasing Complexity →



Increasing Risk →

2. Understand the investment strategy



- Only employ investment strategies that the committee fully understands
- Complexity is not a taboo, but “popularity” is no substitute for a clear understanding of an investment strategy – whether or not it is complex
- The right strategy should solve a specific problem for the Fund in achieving its long-term goals
- Be sure that current and future decision-makers will be able to understand complex strategies
 - Documentation of the need, selection process, and selection rationale should be a matter of record
- Only use strategies that can be maintained, explained, and defended by the next CIO, investment committee, or administration at its worst possible moment

3. Hire and fire managers for the right reasons



- Hire managers for their investment strategy and their perceived ability to achieve the strategy
- Fire when the manager's investment strategy is faulty or the competence to achieve the strategy fails to exist in the manager's organization
- Recent underperformance alone should not automatically result in termination
- Periodically conduct a formal review of the Committee's decision-making process and its effectiveness in making active manager hiring and firing decisions
- Consider use of an index fund when:
 - It provides low-cost exposure to an asset class where active management premia is difficult to consistently achieve
 - It provides ready-liquidity for purposes of rebalancing a Fund to its strategic asset allocation targets
- The most successful Callan clients have hired able managers and kept them through thick and thin — even when appearances made it difficult to support their continued retention

4. Develop proper controls and oversight



- Even though certain investment functions may be delegated, fiduciaries retain the responsibility to oversee and control delegated activities
- It is nearly impossible to insulate a Fund from fraud entirely, but strong controls and oversight of external advisors and internal players can reduce (but not preclude) its potential
- Thorough operational due diligence is a critical aspect of oversight that may prevent fraudulent investments
- Beyond out-and-out fraud, the industry abounds with examples where poor oversight and controls resulted in losses for the Fund
- Custodial arrangements and securities lending operations can create exposure to unintended investment problems

5. Vigorously monitor costs



- Tracking and managing investment-related costs is critical: the first step in ensuring they are reasonable with respect to the value added
- Understand all aspects of investment costs—including those related to the administration of the investments—and manage them wherever possible
- Alternative investments:
 - costs come in different forms and are often indirectly assessed—d
 - Though challenging, it is important to really know how and how much private equity and real asset advisers are paid
- Fees and expenses have become much more transparent in recent years, but additional progress is needed

49 bps

Average expense for public
DB plans, 2015

55 bps

Average estimated expense
for DC plans, 2016

Source: Callan

6. Create well-defined rebalancing practices



- Establishing a clear asset allocation along with well-defined rebalancing ranges is a critical risk management function
- Rebalancing is often counterintuitive to human nature, but it is the only proven way to buy low and sell high successfully over time
- Failure to rebalance can result in taking too much — or too little — investment risk
- Too much risk is often painful over the short-term, but too little risk can present a real possibility of failing to meet long-term investment objectives
- The key to objective, successful rebalancing is to believe in the long-term strategy

7. Understand each strategy's investment restrictions



- A well-diversified portfolio can be hurt by restrictions on the type of investments allowed
- Understand how any restrictions can impact the investment opportunity set and the potential effect these restrictions can have on long-term returns
 - Recent examples of restrictions include: divestment of shares in tobacco firms, firearms makers, and those doing business in South Africa; and economically targeted investments
- Review critically all investments that purport to have secondary economic or social benefits, including the costs of these decisions
- Base decisions on restricted investments on the same criteria as other investments: competitiveness of the potential return and risk

8. Attract and retain a qualified investment team



- As institutions have increasingly embraced more complex alternative investments, the need to attract and retain talent to identify, implement, and oversee these investments has grown in importance
- Stability in decision makers can help institutions stick to other best practices and increase the odds of long-term success
- Attracting and retaining a qualified investment team, as well as developing new talent, is a challenge in a very competitive industry and requires a budgetary commitment and committee support

9. Delegate strategy and policy implementation to CIO/staff



- Investment committees are primarily responsible for:
 - setting investment strategy, policy guidelines, and asset allocation
 - monitoring results
 - overseeing the plan
 - representing the plan on behalf of the beneficiaries
- Rely on the expertise of your qualified investment team and delegate as much of the implementation of the investment program as possible
- By carefully considering what issues must have approval and what can be delegated to staff, operational efficiencies such as rebalancing and dealing with investment manager issues in a timely fashion will likely improve long-term results

10. Prepare for turnover



- Excessive changes in decision-making bodies can destroy institutional knowledge and result in excessive changes to investment strategy
- Changes in investment strategy are costly and often occur at the worst possible time
- Committee members for institutions with higher turnover should be aware of how their decisions can impact future decision makers, and they should seek to design an investment program that can endure changes in decision makers

Key Takeaways

- Long-term investment success requires a strong governance and decision-making framework
- Governance, not investments, is the primary responsibility of investment committees
- Our guiding principle for institutional investors: focus on avoiding losses rather than trying to achieve extraordinary gains
- Simple math illustrates that a loss of 20% requires a gain of 25% to break even, and a loss of 50% requires a 100% recovery



**Our mission: to improve the best practices
of the institutional investment community
through education, insight, and dialogue**

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38th Annual Callan Institute in San Francisco

Palace Hotel in San Francisco: January 29 – 31, 2018

SPEAKERS

- Zanny Minton Beddoes - Editor-in-Chief, The Economist, on the economy and geopolitics
- Hal Hershfield, UCLA Anderson School of Management, and
- Raphael Schoenle, Brandeis University, on financial decision-making
- Shankar Vedantam - host of the Hidden Brain on NPR, on the hidden brain in finance
- Dr. R. David Edelman - Director of MIT's Project on Technology, the Economy, & National Security, on cybersecurity
- Paul Nicklen - National Geographic writer and photographer, author of the following books - Polar Obsession and Spirit of the Wild
- We anticipate sending invitation on November 1, 2017. **NDSIB members are invited!**

Disclosure

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Asset and Investment Performance Highlights

- SIB client assets reached an all-time high of nearly \$12.3 billion as of June 30, 2017.
- Investment returns exceeded policy benchmarks for 99% of SIB client assets under management for the 5-years ended June 30, 2017, while noting that prescribed risk levels (as measured by standard deviation) were adhered to for all client portfolios without exception.
- PERS and TFFR earned 13.0% and 12.9%, respectively, for the year ended June 30, 2017, exceeding their policy benchmarks by over 1% and generating \$45 million of excess return (in fiscal 2017). For the 5-years ended June 30, 2017, PERS and TFFR each earned over 9.1% per annum including over 0.60% of excess return which translates into over \$120 million of incremental income (over the last 5 years).
- Legacy Fund earned 12% for the year ended June 30, 2017, surpassing its policy benchmark by over 1.5% which translates into \$60 million of incremental income in fiscal 2017.
- Workforce Safety & Insurance earned 8.2% and 6.9% for the 1- and 5-year periods ended June 30, 2017, beating its policy benchmarks by at least 1.5% which translates into over \$100 million of incremental income for WSI over the last 5-years.
- BND's deposit program is being enhanced to raise the interest rate to 0.10% above the effective federal funds rate for overnight investments and may incorporate separate fixed rate CD's with terms up to 3-years. Given BND's AA deposit rating and short-term nature of these investments, RIO deems the interest rate risk to be reasonable noting aggregate BND exposure will not exceed the SIB approved \$200 million level.

The above amounts are based on unaudited data that is deemed to be materially accurate but subject to change.

Board Action

TO: State Investment Board

FROM: Dave Hunter

DATE: October 25, 2017

SUBJECT: Infrastructure, BND and Fixed Income Update

Infrastructure Update: Request for Investment Consultant Search

The Legacy Fund and Insurance Trust have dedicated allocations to Diversified Real Assets which includes Infrastructure investments (such as toll roads, airports and regulated utilities) and global inflation linked debt securities. **In connection with two large SIB clients revisiting their asset allocation policies in 2018, RIO would like to engage an investment consultant to provide manager search assistance in the infrastructure sector.** RIO believes the proposed timing of this search is favorable given that the Legacy Fund and WSI are considering asset allocation studies in 2018. SIB clients have over \$1 billion invested in Diversified Real Assets including \$450 million with Western Asset Management (global inflation linked debt), \$400 million with JPMorgan (infrastructure), \$100 million with Grosvenor (infrastructure) and \$185 million with Timber Investment Resources. Ideally, RIO would like to add at least one highly qualified infrastructure manager to complement our existing relationships with JPMorgan and Grosvenor in this sector.

RIO staff have completed preliminary due diligence on a short list of investment consultants with experience in the infrastructure sector including Aon Hewitt, Callan, Mercer and StepStone.

If the board concurs, RIO requests the SIB to make a motion to instruct staff to conduct an infrastructure manager search in the next three to six months.

Bank of North Dakota (BND) Match Loan Certificate of Deposit (CD) Program Update

BND recently expressed interest in expanding the existing \$200 million CD Program by \$200 million to fund infrastructure opportunities in North Dakota. Based on preliminary discussion, BND believes this could be achieved in four \$50 million increments over the next four years. RIO will consider this request in connection with asset allocation reviews under consideration by the Legacy Fund and engage with the Legacy Fund Advisory Board to confirm if this request is consistent with their own formal recommendation to the SIB.

Fixed Income Update

RIO will provide a verbal update on the implementation status of our Pension Trust fixed income restructuring plan.

TO: State Investment Board
FROM: Dave Hunter, Executive Director/CIO
DATE: October 23, 2017
SUBJECT: SIB Client Satisfaction Survey – Cover Memo

The Audit Services team conducted the 2017 Customer Satisfaction Survey over the past few months.

SIB clients assigned a 3.6 overall rating in 2017 which is the comparable to prior years. This numerical score was based on 4.0 rating scale as follows:

Excellent	4.0
Above Average	3.0
Average	2.0
Poor	1.0
Not Applicable	-

Terra Miller-Bowley, Supervisor of Audit Services, has provided a summary which follows on the next two pages. Terra can address any questions on the overall survey or individual board responses. I am also able to answer any questions relating to the survey comments noting that the vast majority of board responses were positive and encouraging.

Similar to last year, we received two comments requesting “faster turnaround on monthly reports”. As noted last year, RIO has not historically closed our fiscal year-end financial reporting until the external audit is substantially complete which generally does not take place until mid-to-late September.

I am pleased to note this is the first time in the last four years that we received responses from all 13 client boards.

SIB Client Boards:

1. **PERS**
2. **TFFR**
3. **City of Bismarck**
4. **City of Grand Forks Employees**
5. **City of Grand Forks Park District**
6. **WSI**
7. **Insurance Commissioner**
8. **State Risk Mgmt.**
9. **ND Association of Counties**
10. **Council on the Arts**
11. **State Board of Medical Examiners**
12. **City of Fargo**
13. **Legacy & Budget Stabilization Fund Advisory Board**

<p align="center">CUSTOMER SATISFACTION SURVEY NORTH DAKOTA STATE INVESTMENT BOARD 2017</p>
--

Evaluation Forms Sent: 13
Evaluation Forms Returned: 13

1. Telephone calls and/or e-mail handled promptly and professionally.

Excellent	Above Average	Average	Poor	N/A
10	2	1	0	0

2. Clarity and effectiveness of letters, reports, and presentations.

Excellent	Above Average	Average	Poor	N/A
9	1	3	0	0

3. Detail provided on reports.

Excellent	Above Average	Average	Poor	N/A
8	2	3	0	0

4. Delivery of high-quality service.

Excellent	Above Average	Average	Poor	N/A
10	2	1	0	0

5. Accessibility.

Excellent	Above Average	Average	Poor	N/A
10	2	1	0	0

6. Responsiveness.

Excellent	Above Average	Average	Poor	N/A
9	2	2	0	0

7. Efficiency.

Excellent	Above Average	Average	Poor	N/A
9	2	2	0	0

8. Knowledge of investments.

Excellent	Above Average	Average	Poor	N/A
9	3	1	0	0

2017 Summary of SIB Client Satisfaction Survey Ratings:

	Excellent	Above Average	Average	Poor	N/A
Totals	74	16	14	0	0
Weight	4	3	2	1	0
Percent	71%	15%	13%	0%	0%
Average	3.58				

2016 Summary of SIB Client Satisfaction Survey Ratings:

	Excellent	Above Average	Average	Poor	N/A
Totals	67	30	6	0	1
Grade	4	3	2	1	0
Percent	64%	29%	6%	0%	1%
Average	3.59				

*N/A responses removed from calculation of average score.

*13 of 14 clients responded to survey

2015 Summary of SIB Client Satisfaction Survey Ratings:

	Excellent	Above Average	Average	Poor	N/A
Totals	53	25	0	0	18
Weight	4	3	2	1	0
Percent	55%	26%	0%	0%	19%
Average	3.68				

*N/A responses removed from calculation of average score.

*12 of 13 clients responded to survey

2014 Summary of SIB Client Satisfaction Survey Ratings:

	Excellent	Above Average	Average	Poor	N/A
Totals	63	25	0	0	8
Weight	4	3	2	1	0
Percent	66%	26%	0%	0%	8%
Average	3.72				

*N/A responses removed from calculation of average score.

*12 of 13 clients responded to survey

Overall Customer Satisfaction Survey Comments and Impressions:

- We are very satisfied with the service provided by SIB and the RIO office.

- Doing a great job.

Rather than answer that question (I have no suggestions), I would like to say how much I appreciate the

- assistance Connie Flanagan has given me. Her responses to questions have been prompt and extremely helpful.

- Faster turnaround on monthly financial reports.

- The staff is very knowledgeable, always willing to explain and help out.

Once again this year, I am pleased to enter excellent for all the rating factors. In working with the staff I am

- impressed with the way in which they work at the sacred duty of protecting the hard earned monies for the future retirement of educators in the state of North Dakota.

- Keep up the good work!

SIB continues to do an excellent job with supporting the TFFR board in all areas. One area for possible consideration is the reinforcing with all boards, not just TFFR, the roles and responsibilities of the individual boards as opposed to the State Investment Board. During the board education, it seemed that some of the board members did not have appropriate clarity on what decisions are made at the board level and what fall under the SIB.

- Information & reports are timely and helpful.

BOARD ACTION

TO: State Investment Board
FROM: Dave Hunter
DATE: October 23, 2017
SUBJECT: SIB Governance Manual (Second Reading) – Cover Memo

In accordance with Section B-7 of the SIB Governance Manual, the Board Planning Cycle should include an “Annual Review of the Governance Manual” in September.

This review, including NDCC Chapter 21-10 relating to the powers, duties and responsibilities of the SIB, was held at our last board meeting on September 22, 2017.

On September 22, 2017, the SIB accepted RIO’s recommended changes to the Governance Manual (including Exhibit E-1 to reflect current SIB member composition).

If the SIB has no concerns with the changes previously accepted in the “first reading” of RIO’s recommended changes to the Governance Manual, RIO recommends the SIB approve the previously proposed changes in order to satisfy the “second reading” requirements.

CHAPTER 21-10 STATE INVESTMENT BOARD

21-10-01. State investment board - Membership - Term - Compensation - Advisory council.

1. The North Dakota state investment board consists of the governor, the state treasurer, the commissioner of university and school lands, the director of workforce safety and insurance, the insurance commissioner, three members of the teachers' fund for retirement board or the board's designees who need not be members of the fund as selected by that board, two of the elected members of the public employees retirement system board as selected by that board, and one member of the public employees retirement system board as selected by that board. The director of workforce safety and insurance may appoint a designee, subject to approval by the workforce safety and insurance board of directors, to attend the meetings, participate, and vote when the director is unable to attend. The teachers' fund for retirement board may appoint an alternate designee with full voting privileges to attend meetings of the state investment board when a selected member is unable to attend. The public employees retirement system board may appoint an alternate designee with full voting privileges from the public employees retirement system board to attend meetings of the state investment board when a selected member is unable to attend. The members of the state investment board, except elected and appointed officials and the director of workforce safety and insurance or the director's designee, are entitled to receive as compensation one hundred forty-eight dollars per day and necessary mileage and travel expenses as provided in sections 44-08-04 and 54-06-09 for attending meetings of the state investment board.
2. The state investment board may establish an advisory council composed of individuals who are experienced and knowledgeable in the field of investments. The state investment board shall determine the responsibilities of the advisory council. Members of the advisory council are entitled to receive the same compensation as provided the members of the advisory board of the Bank of North Dakota and necessary mileage and travel expenses as provided in sections 44-08-04 and 54-06-09.


21-10-02. Board - Powers and duties.

The board is charged with the investment of the funds enumerated in section 21-10-06. It shall approve general types of securities for investment by these funds and set policies and procedures regulating securities transactions on behalf of the various funds. Representatives of the funds enumerated in section 21-10-06 may make recommendations to the board in regard to investments. The board or its designated agents must be custodian of securities purchased on behalf of funds under the management of the board. The board may appoint an investment director or advisory service, or both, who must be experienced in, and hold considerable knowledge of, the field of investments. The investment director or advisory service shall serve at the pleasure of the board. The investment director or advisory service may be an individual, corporation, limited liability company, partnership, or any legal entity which meets the qualifications established herein. The board may authorize the investment director to lend securities held by the funds. These securities must be collateralized as directed by the board. The board may create investment fund pools in which the funds identified in section 21-10-06 may invest.

21-10-02.1. Board - Policies on investment goals and objectives and asset allocation.

1. The governing body of each fund enumerated in section 21-10-06 shall establish policies on investment goals and objectives and asset allocation for each respective fund. The policies must provide for:
 - a. The definition and assignment of duties and responsibilities to advisory services and persons employed by the board.

- b. Rate of return objectives, including liquidity requirements and acceptable levels of risk.
- c. Long-range asset allocation goals.
- d. Guidelines for the selection and redemption of investments.
- e. Investment diversification, investment quality, qualification of advisory services, and amounts to be invested by advisory services.
- f. The type of reports and procedures to be used in evaluating performance.

- 
2. The asset allocation and any subsequent allocation changes for each fund must be approved by the governing body of that fund and the state investment board. The governing body of each fund shall use the staff and consultants of the retirement and investment office in developing asset allocation and investment policies.

21-10-03. Cooperation with Bank of North Dakota.

Repealed by S.L. 1987, ch. 190, § 14.

21-10-04. Board - Meetings.

The state investment board shall select one of its members to serve as chair, one to serve as vice chair, and shall meet at the call of the chair or upon written notice signed by two members of the board.

21-10-05. Investment director - Powers and duties.

Subject to the limitations contained in the law or the policymaking regulations or resolutions adopted by the board, the investment director may sign and execute all contracts and agreements to make purchases, sales, exchanges, investments, and reinvestments relating to the funds under the management of the board. This section is a continuing appropriation of all moneys required for the making of investments of funds under the management of the board. The investment director shall see that moneys invested are at all times handled in the best interests of the funds. Securities or investments may be sold or exchanged for other securities or investments.


The investment director shall formulate and recommend to the investment board for approval investment regulations or resolutions pertaining to the kind or nature of investments and limitations, conditions, and restrictions upon the methods, practices, or procedures for investment, reinvestment, purchase, sale, or exchange transactions that should govern the investment of funds under this chapter.

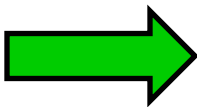
21-10-06. Funds under management of board - Accounts.

1. Subject to the provisions of section 21-10-02, the board shall invest the following funds:

- a. State bonding fund.
- b. Teachers' fund for retirement.
- c. State fire and tornado fund.
- d. Workforce safety and insurance fund.
- e. Public employees retirement system.
- f. Insurance regulatory trust fund.
- g. State risk management fund.
- h. Budget stabilization fund.
- i. Health care trust fund.
- j. Cultural endowment fund.
- k. Petroleum tank release compensation fund.
- l. Legacy fund.

- m. A fund under contract with the board pursuant to subsection 3.

- 
2. Separate accounting must be maintained for each of the funds listed in subsection 1. The moneys of the individual funds may be commingled for investment purposes when determined advantageous.

- 
3. The state investment board may provide investment services to, and manage the money of, any agency, institution, or political subdivision of the state, subject to agreement with the industrial commission. The scope of services to be provided by the state investment board to the agency, institution, or political subdivision must be specified in a written contract. The state investment board may charge a fee for providing investment services and any revenue collected must be deposited in the state retirement and investment fund.

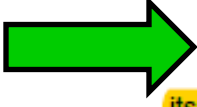
21-10-06.1. Board - Investment reports.

The board shall annually prepare reports on the investment performance of each fund under its control. The reports must be uniform and must include:

1. A list of the advisory services managing investments for the board.
2. A list of investments at market value, compared to previous reporting period, of each fund managed by each advisory service.
3. Earnings, percentage earned, and change in market value of each fund's investments.
4. Comparison of the performance of each fund managed by each advisory service to other funds under the board's control and to generally accepted market indicators.


21-10-06.2. Investment costs.

The amounts necessary to pay for investment costs, such as investment counseling fees, trustee fees, custodial fees, performance measurement fees, expenses associated with money manager searches, expenses associated with onsite audits and reviews of investment managers, and asset allocation expenses, incurred by the state investment board are hereby appropriated and must be paid directly out of the funds listed in section 21-10-06 by the fund incurring the expense.



21-10-07. Legal investments.

The state investment board shall apply the prudent investor rule in investing for funds under its supervision. 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 speculation but in regard to the permanent disposition of funds, considering probable safety of capital as well as probable income. The retirement funds belonging to the teachers' fund for retirement and the public employees retirement system must be invested exclusively for the benefit of their members and in accordance with the respective funds' investment goals and objectives.



21-10-08. Reserves - Percentage limitations.

In order to meet claims and liabilities, reserves must be established and maintained in each of the funds in accordance with the investment policy and asset allocation established for each fund.

21-10-09. Personal profit prohibited - Penalty.

No member, officer, agent, or employee of the state investment board may profit in any manner from transactions on behalf of the funds. Any person violating any of the provisions of this section is guilty of a class A misdemeanor.


21-10-10. State investment board fund - Cost of operation of board.

Repealed by S.L. 1989, ch. 667, § 13.



21-10-11. Legacy and budget stabilization fund advisory board.

The legacy and budget stabilization fund advisory board is created to develop recommendations for the investment of funds in the legacy fund and the budget stabilization fund to present to the state investment board. The goal of investment for the legacy fund is principal preservation while maximizing total return. The board consists of two members of the



senate appointed by the senate majority leader, two members of the house of representatives appointed by the house majority leader, the director of the office of management and budget or designee, the president of the Bank of North Dakota or designee, and the tax commissioner or designee. The board shall select a chairman and must meet at the call of the chairman. The board shall report at least semiannually to the budget section. Legislative members are entitled to receive compensation and expense reimbursement as provided under section 54-03-20 and reimbursement for mileage as provided by law for state officers. The legislative council shall pay the compensation and expense reimbursement for the legislative members. The legislative council shall provide staff services to the legacy and budget stabilization fund advisory board. The staff and consultants of the state retirement and investment office shall advise the board in developing asset allocation and investment policies.

21-10-12. Legacy fund - Earnings defined.

For the purposes of section 26 of article X of the Constitution of North Dakota, the term "earnings" means net income in accordance with generally accepted accounting principles, excluding any unrealized gains or losses.

**NORTH DAKOTA
RETIREMENT AND INVESTMENT OFFICE**

**STATE INVESTMENT BOARD
GOVERNANCE MANUAL**

1930 BURNT BOAT DRIVE
P.O. BOX 7100
BISMARCK, ND 58507-7100
TELEPHONE: 701/328-9885

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A. EXECUTIVE LIMITATIONS

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POLICY TYPE: EXECUTIVE LIMITATIONS

POLICY TITLE: 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 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 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 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 Deputy Executive Director, the Deputy Chief Investment Officer, and the Fiscal and Investment Operations Manager 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 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.

POLICY TYPE: EXECUTIVE LIMITATIONS

POLICY TITLE: 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:

1. Operate without personnel procedures which clarify personnel rules for staff, provide for effective handling of grievances, and protect against wrongful conditions or violate any state or federal law.
2. Fail to provide staff with the opportunity to complete an employment termination questionnaire and an exit interview with the Supervisor of Audit Services.

Policy Implemented: June 23, 1995.

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

POLICY TYPE: EXECUTIVE LIMITATIONS

POLICY TITLE: 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 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.

POLICY TYPE: EXECUTIVE LIMITATIONS

POLICY TITLE: 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 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.
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.

POLICY TYPE: EXECUTIVE LIMITATIONS

POLICY TITLE: 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.
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 and Emergency Commission approval.
4. Allow appropriation expenditures to be made unless reported on PeopleSoft.

Policy Implemented: June 23, 1995.

Amended: September 26, 2014.

POLICY TYPE: EXECUTIVE LIMITATIONS

POLICY TITLE: 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 monitoring data required by the board (see policy 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 if, in the executive director's opinion, the board is not in compliance with its own policies on *Governance Process* and *Board-Staff Relationship*, particularly in the case of board behavior which is detrimental to the work relationship between the board and the executive director.
4. Fail to marshal for the board as many staff and external points of view, issues, and options as 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.
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 in a timely manner of any intention to hire or dismiss the Deputy Executive Director, the Deputy Chief Investment Officer, or the Fiscal and Investment Operations Manager.
10. Fail to keep the board informed concerning the delegation of fiduciary authority to any staff member. 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.

POLICY TYPE: EXECUTIVE LIMITATIONS

POLICY TITLE: ASSET PROTECTION

The executive director may not allow assets to be unprotected, inadequately maintained, nor unnecessarily risked.

Accordingly, the executive director may not:

1. Fail to insure against theft and casualty losses to at least 80 percent replacement value and against liability losses to board members, staff, or the organization itself in an amount greater than the average for comparable organizations.
2. Allow non-bonded personnel access to funds.
3. Subject plant 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.
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 law or board policy.
8. Acquire, encumber, or dispose of real property.
9. Endanger the organization's public image or credibility, particularly in ways that would hinder its accomplishment of mission.
10. 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.

POLICY TYPE: EXECUTIVE LIMITATIONS

POLICY TITLE: *COMPENSATION AND BENEFITS*

Compensation and benefits 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.

POLICY TYPE: EXECUTIVE LIMITATIONS

POLICY TITLE: 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 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.

"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 annually, in writing, and must disclose any conflicts of interest that may arise (See Exhibit A-I).

Policy Implemented: June 23, 1995.

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

POLICY TYPE: EXECUTIVE LIMITATIONS

POLICY TITLE: 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.

POLICY TYPE: EXECUTIVE LIMITATIONS

POLICY TITLE: *UNRELATED BUSINESS INTERESTS*

In the pursuit of personal business interests, the Executive Director will not allow a situation to exist that presents a conflict of interest to the SIB investment program, nor shall such activity be in violation of RIO Administrative Policy 3.47, Use of Office Facilities and Equipment.

Policy Implemented: August 18, 2000

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):

B. GOVERNANCE PROCESS

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POLICY TYPE: GOVERNANCE PROCESS

POLICY TITLE: GOVERNANCE COMMITMENT

The board, on behalf of benefit recipients and the other clients, who have entrusted their funds to us, will:

- Lead the North Dakota Retirement and Investment Office (RIO) with a strategic perspective.
- Rigorously attend to its investment and oversight role.
- Continually improve its capability as a body to define values and vision.

Policy Implemented: June 23, 1995.

The board will strive to govern with an emphasis on:

- Outward vision rather than an internal preoccupation.
- Encouragement of diversity in viewpoints.
- Strategic leadership more than administrative detail.
- Clear distinction of board and executive director roles.
- Collective rather than individual decisions.
- Future rather than past or present.
- Proactivity rather than reactivity.

The board will:

1. Cultivate a sense of group responsibility. The board, not the staff, will be responsible for excellence in governing. The board will strive to be an initiator of policy, not merely a reactor to staff initiatives. The board will strive to use the expertise of individual members to enhance the ability of the board as a body, rather than to substitute the individual judgments for the board's values.
2. Direct, control, and inspire the organization through the careful establishment of the broadest written policies reflecting the board's values and perspectives. The board's major focus will be on the intended long-term impacts outside the operating organization (*Ends*), not on the administrative or programmatic means of attaining those effects.
3. Enforce upon itself whatever discipline is needed to govern with excellence. Discipline will apply to matters such as attendance, policy-making principles, respect of roles, and ensuring the continuity of governance capability.
4. After speaking with one voice, self-police any tendency to stray from adopted board governance policies. The board will not allow any officer, member, or committee of the board to hinder or be an excuse for not fulfilling its commitments. The board respects the right of any member, as an individual, to publicly disagree with an adopted board policy. Board members will accurately portray board policies and decisions.
5. Promote continual board development through orientation and mentoring of new members in the board's governance process and through periodic board discussion of process improvement. The board shall not delegate new member governance orientation to the executive director or any staff member.
 - A. A board mentor, who is knowledgeable and who will assume responsibility for assisting the new members, will be assigned by the chairperson.

- B. The new board member should read and study Chapter 21-10, North Dakota Century Code (Section J of the SIB Policy Governance Manual which governs the activities of the boards represented on the SIB: Teachers' Fund for Retirement Board, Public Employees Retirement Systems Board, and the State Investment Board).
- C. The board should receive a glossary of terms used by the retirement and pension fund industry; i.e. Callan Associates Inc. - Glossary of Terms.
- D. Newly appointed or elected board members should become familiar with the Carver Model of Governance, since the SIB directs its activities by this model. They should read Boards That Make a Difference and study the policy manuals that have been developed by the SIB and TFFR Board.
- E. The board members must understand their roles as trustees and fiduciaries, the Prudent Investor Rule, and Procedural Prudence.

A "new trustee book bag" containing the Retirement and Investment Office's Comprehensive Annual Financial Report (CAFR) and reference materials relating to board governance, fiduciary conduct, and investment management concepts and terminology and other appropriate materials will be made available to new trustees.

- F. The executive director will provide the SIB with a list of periodicals available which would provide current information on pension issues. The board members will review and request subscriptions to appropriate periodicals.
- 6. Monitor and regularly discuss the board's process and performance. Self-monitoring will include comparison of board activity and discipline to policies in the *Governance Process* and *Board-Staff Relationship* categories.
 - 7. Observe Robert's Rules except where the board has superseded them.

Policy Implemented: June 23, 1995.

Amended: June 28, 1996; November 19, 1999, January 26, 2001, February 27, 2015.

POLICY TYPE: GOVERNANCE PROCESS

POLICY TITLE: BOARD JOB DESCRIPTION

The function of the board is to make certain contributions that lead RIO toward the desired performance and ensure that it occurs. The board's specific contributions are unique to its trusteeship role and necessary for proper governance and management.

Consequently, the "products" or contributions of the board shall be:

1. The link between the SIB, its investment clients, and benefit recipients.
2. Written governing policies that, at the broadest levels, address:
 - A. *Ends*: Organizational products, impacts, benefits, outcomes, recipients, and their relative worth (what good for which needs at what cost).
 - B. *Executive Limitations*: Constraints on executive authority which establish the prudence and ethics boundaries within which all executive activity and decisions must take place.
 - C. *Governance Process*: Specification of how the board conceives, carries out, and monitors its own task.
 - D. *Board-Executive Director Relationship*: How authority is delegated and its proper use monitored: the executive director's role, authority, and accountability.
3. The assurance of executive director performance against above policies 2a and 2b.
4. Legislation necessary to achieve the board's *Ends*.

Policy Implemented: June 23, 1995.

POLICY TYPE: GOVERNANCE PROCESS

POLICY TITLE: CHAIRPERSON'S ROLE

The chairperson's primary responsibility is to insure the integrity of the board's process. The chairperson is the only board member authorized to speak for the board other than in specifically authorized instances.

1. The duty of the chairperson is to see that the board operates consistent with state law, administrative rules, and its own policies.
 - A. The board agenda will be the responsibility and be coordinated by the chairperson.
 - B. Meeting discussion content will only be those issues which, according to board policy, clearly belong to the board and not the executive director, or in a board member's opinion, may deal with fiduciary responsibilities.
 - C. Deliberation will be fair, open, and thorough, but also efficient, timely, orderly, and brief.
 - D. The chairperson shall appoint a parliamentarian.
2. The authority of the chairperson consists in making decisions that fall within the topics covered by board policies on *Governance Process* and *Board-Executive Director Relationship*, except where the board specifically delegates portions of this authority to others. The chairperson is authorized to use any reasonable interpretation of the provisions in these policies.
 - A. The chairperson is empowered to chair board meetings with all the commonly accepted authority of that position (e.g., ruling, recognizing).
 - B. The chairperson has no authority to make decisions about policies created by the board within *Ends* and *Executive Limitations* policy areas. Therefore, the chairperson has no authority to supervise or direct the executive director.
 - C. The chairperson may represent the board to outside parties in announcing board-stated positions and in stating chairperson decisions and interpretations within the area delegated to the chairperson.
 - D. The chairperson is authorized, in consultation with the RIO Executive Director, to grant approval for international travel by SIB members and to keep the board informed on travel requests.
 - E. The chairperson is authorized, in consultation with the RIO Executive Director, to grant approval for domestic due diligence visits by SIB members and it shall be the responsibility of the traveling board member to report to the SIB on the results of the due diligence visits.

Policy Implemented: June 23, 1995.

Amended: August 17, 2001, September 25, 2009.

POLICY TYPE: GOVERNANCE PROCESS

POLICY TITLE: BOARD COMMITTEE PRINCIPLES

Unless specifically provided by governance policy, board committees will be assigned so 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.
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.
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: *STANDING COMMITTEES*

The board's standing committee is that which is set forth in this policy as follows:

1. Audit Committee

A. The audit committee shall operate under the terms of a charter approved by the board.

INTRODUCTION

An Audit Committee has been established as a standing committee of the State Investment Board (SIB). The Audit Committee will assist the SIB in carrying out its oversight responsibilities as they relate to the Retirement and Investment Office (RIO) internal and external audit programs, including financial and other reporting practices, internal controls, and compliance with laws, regulations, and ethics.

The primary objective of the internal audit function is to assist the SIB and management in the effective discharge of their responsibilities. To this end, internal auditing will furnish them with analyses, appraisals, recommendations, and pertinent information concerning the activities reviewed.

Functions and units within RIO will be reviewed at appropriate intervals to determine whether they are effectively carrying out their responsibilities of planning, organizing, directing, and controlling in accordance with SIB and management instructions, applicable laws, policies, and procedures, and in a manner consistent with both the RIO objectives and high standards of administrative practice.

POLICY OF THE STATE INVESTMENT BOARD

The audit staff shall have full, free, and unrestricted access to all RIO activities, records, property, and personnel relative to the subject under review. The audit function will be conducted in a manner consistent with acceptable professional standards and coordinated with others to best achieve the audit objectives and the RIO objectives.

The Internal Audit Services Unit is responsible for developing and directing a broad, comprehensive program of internal auditing within RIO. The Internal Audit Services Unit will report administratively to management and functionally to the Audit Committee of the SIB.

The RIO unit supervisors are responsible for seeing that corrective action on reported weaknesses is either planned or taken within 30 days from the receipt of a report disclosing those weaknesses if known or applicable. The unit supervisors are also responsible for seeing that a written report of action planned or completed is sent to the executive director. If a plan for action is reported, a second report shall be made promptly upon completion of the plan.

Policy Implemented: June 23, 1995.

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 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: GOVERNANCE PROCESS

POLICY TITLE: BOARD MEMBERS ' CODE O F CONDUCT

The following will be the Code of Ethical Responsibility for the SIB:

1. SIB members owe a duty to conduct themselves so as to inspire the confidence, respect, and trust of the SIB members and to strive to avoid not only professional impropriety but also the appearance of impropriety.
2. SIB members should perform the duties of their offices impartially and diligently. SIB members are expected to fulfill their responsibilities in accord with the intent of all applicable laws and regulations and to refrain from any form of dishonest or unethical conduct. Board members should be unswayed by partisan interest, public sentiment, or fear of criticism.
3. Conflicts of interest and the appearance of impropriety shall be avoided by SIB members. Board members must not allow their family, social, professional, or other relationships to influence their judgment in discharging their responsibilities. Board members must refrain from financial and business dealings that tend to reflect adversely on their duties. If a conflict of interest unavoidably arises, the board member shall immediately disclose the conflict to the SIB. A board member must abstain in those situations where the board member is faced with taking some official action regarding property or a contract in which the board member has a personal interest. Conflicts of interest to be avoided include, but are not limited to: receiving consideration for advice over which the board member 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 involving for which the board member has acquired information unavailable to the general public, through participation on the board.

“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 with also involves the member’s fiduciary responsibility.

4. The board should not unnecessarily retain consultants. The hiring of consultants shall be based on merit, avoiding nepotism and preference based upon considerations other than merit that may occur for any reason, including prior working relationships. The compensation of such consultants shall not exceed the fair value of services rendered.
5. Board members must abide by North Dakota Century code 21-10-09, which reads: “No member, officer, agent, or employee of the state investment board shall profit in any manner from transactions on behalf of the funds. Any person violating any of the provisions of this section shall be guilty of a Class A misdemeanor.”
6. Board members shall perform their respective duties in a manner that satisfies their fiduciary responsibilities.
7. All activities and transactions performed on behalf of public pension funds must be for the exclusive purpose of providing benefits to plan participants and defraying reasonable expenses of administering the plan.

POLICY TYPE: GOVERNANCE PROCESS

POLICY TITLE: *BOARD MEMBERS' CODE OF CONDUCT*

8. Prohibited transactions. Prohibited transactions are those involving self-dealing. Self-dealing refers to the fiduciary's use of plan assets or material, non-public information for personal gain; engaging in transactions on behalf of parties whose interests are adverse to the plan; or receiving personal consideration in connection with any planned transaction.
9. Violation of these rules may result in an official reprimand from the SIB. No reprimand may be issued until the board member or employee has had the opportunity to be heard by the board.
10. Board Members are required to affirm their understanding of this policy annually, in writing, and must disclose any conflicts of interest that may arise (See Exhibit B-I).

Policy Implemented: June 23, 1995.

Amended: January 22, 1999, February 25, 2011, January 27, 2012, February 27, 2015.

POLICY TYPE: GOVERNANCE PROCESS

POLICY TITLE: ADMINISTRATION OF FIDUCIARY AUTHORITY

The board is responsible for:

1. Proper exercise of fiduciary investment authority by RIO.
2. The determination of policies.
3. The investment and disposition of property held in a fiduciary capacity.
4. The direction and review of the actions of all officers, employees, and committees in the exercise of the board's delegated fiduciary authority.

Policy Implemented: June 23, 1995.

POLICY TYPE: GOVERNANCE PROCESS

POLICY TITLE: POLICY INTRODUCTION/AMENDMENT/PASSAGE

New policies or policy amendments may be proposed by the Executive Director or a Board member. All new policies or amendments may be submitted to the Board's Legal Counsel for drafting in the approved style.

Upon request of the Executive Director or a Board member a new policy or amendment shall be placed on the Board's agenda for action as follows:

1. Introduction and first reading. A brief explanation or summary of the new policy or amendment shall be presented to the Board. Upon approval of introduction and first reading, the measure shall be placed on the agenda of the next scheduled meeting of the Board for second reading and adoption. When appropriate, the measure shall be distributed to interested parties.
2. *Second reading and adoption. Interested parties and the public shall be allowed an opportunity to comment on the policy or amendment before final action by the Board. The measure shall take effect immediately following second reading and adoption by the Board, unless a different effective date is stated.*
3. Amendments. Amendments may be proposed at any time before final adoption of the measure. Upon determination by the Board that adoption of an amendment constitutes a substantive change that significantly changes the meaning or effect of the measure, the Board shall continue consideration of second reading and adoption to the next meeting to permit further review and comment.

Emergency measures. The Board may, upon determination that an emergency or other circumstances calling for expeditious action exists, waive the requirement of a second meeting and immediately approve second reading and adoption following introduction and first reading.

Policy Implemented: February 27, 2009

Memorandum

To: State Investment Board

From: RIO Compliance Officer

Date: July 1, 20--

RE: Annual Affirmation of Code of Conduct Policy

Governance Process Policy B-8, *Board Members' Code of Conduct*, which is attached to this memorandum, details the Code of Ethical Responsibility for the SIB. Item #10 of this policy indicates that each Board Member 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 Governance Process Policy B-8 *Board Members' Code of Conduct*. I have disclosed any conflicts of interest as required by this policy."

Name (printed) _____

Signature_____

Date_____

Detail of any conflicts of interest (if any):

C. BOARD-STAFF RELATIONSHIP

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Chief Executive Role	C-1
Delegation to the Executive Director	C-2
Executive Director Job Description.....	C-3
Monitoring Executive Performance.....	C-4

POLICY TYPE: BOARD-STAFF RELATIONSHIP

POLICY TITLE: CHIEF EXECUTIVE ROLE

The executive director, as chief executive officer, is accountable to the board acting as a body. The board will instruct the executive director through these written policies, delegating to the executive director the implementation and administration of these policies.

Policy Implemented: June 23, 1995.

POLICY TYPE: BOARD-STAFF RELATIONSHIP

POLICY TITLE: DELEGATION TO THE EXECUTIVE DIRECTOR

All board authority delegated to staff is delegated through the executive director.

1. The board authority will direct the executive director to achieve specified results, for specified recipients, at a specified cost through the establishment of *Ends* policies. The board will limit the latitude the Executive Director may exercise in practices, methods, conduct, and other “means” to the *Ends* through establishment of *Executive Limitations* policies.
2. The Executive Director must use reasonable judgment in the implementation or administration of the board’s *Ends* and *Executive Limitations* policies; the executive director is authorized to establish practices, and develop activities.
3. The board may change its *Ends* and *Executive Limitations* policies. By so doing, the board changes the latitude of choice given to the Executive Director. If any particular delegation is in place, the board and its members will respect and support the Executive Director’s choices, provided that the Executive Director’s choice is consistent with the board’s fiduciary responsibility.
4. Only decisions of the board acting as the body are binding upon the Executive Director.
 - a. Decisions or instructions of individual board members, officers, or committees are not binding on the Executive Director except in rare instances when the board has specifically authorized such exercise of authority.
 - b. In the case of board members or committees requesting information, other than a public record, or assistance without board authorization, the Executive Director may refuse such requests that require a material amount of staff time or funds or is disruptive.
5. The Executive Director will be responsible for the hiring, termination, and annual evaluation of all employees of the Retirement and Investment Office.

Policy Implemented: June 23, 1995.

Amended: November 22, 1996; November 19, 1999.

POLICY TYPE: BOARD-STAFF RELATIONSHIP

POLICY TITLE: EXECUTIVE DIRECTOR JOB DESCRIPTION

As the board's single official link to the operating organization, the executive director's performance will be considered to be synonymous with the RIO's total performance.

Consequently, the executive director's job contributions can be stated as performance in the following areas:

1. Organizational accomplishment of the provisions of board policies on *Ends*.
2. Organizational operation within the boundaries of prudence and ethics established in board policies on *Executive Limitations*.
3. Maintain accurate records of the proceedings of the SIB and TFFR Board.

Policy Implemented: June 23, 1995.

POLICY TYPE: BOARD-STAFF RELATIONSHIP

POLICY TITLE: MONITORING EXECUTIVE PERFORMANCE

Monitoring executive performance is synonymous with monitoring organizational performance against board policies on *Ends* and on *Executive Limitations*. Any evaluation of the executive director's performance, formal or informal, may be derived only from these monitoring data.

1. The purpose of monitoring is simply to determine the degree to which board policies are being fulfilled. Information which does not do this will not be considered to be monitoring. Only a minimum amount of board time as necessary will be devoted toward monitoring so that meetings can best be used to create the future rather than to review the past.
2. A given policy may be monitored in one or more of three ways:
 - A. Internal report: Disclosure of compliance information to the board from the executive director.
 - B. External report: Discovery of compliance information by a disinterested, external auditor, inspector or judge who is selected by and reports directly to the board. Such reports must assess executive performance only against policies of the board, not those of the external party unless the board has previously indicated that party's opinion to be the standard.
 - C. Direct board inspection: Discovery of compliance information by a board member, a committee, or the board as a whole. This is a board inspection of documents, activities, or circumstances directed by the board which allows a "prudent person" test of policy compliance.
3. The board will monitor each *Ends* and *Executive Limitations* policy according to the following frequency and method:

Quarterly internal reports for policies:

- A-2 Staff Relations
- A-4 Budgeting
- A-5 Financial Condition
- D-3 Investment Services
- D-4 Investment Performance

Annual external reports for policies:

- A-2 Staff Relations
- A-4 Budgeting
- A-7 Asset Protection
- D-3 Investment Services
- D-4 Investment Performance

POLICY TYPE: BOARD-STAFF RELATIONSHIP

POLICY TITLE: MONITORING EXECUTIVE PERFORMANCE

Annual internal reports for policies:

- A-1 General Executive Constraint
- A-3 Relating to Public and Government
- A-8 Compensation and Benefits
- A-9 Conflict of Interest

4. The Executive Director will submit required monitoring reports at regular meetings of the board. The board will act on those reports by voting on one of the following motions:
 - A. A motion to accept the report.
 - B. A motion to conditionally accept the report, with a statement of the revisions or additional information that is necessary for the report to be accepted without condition.

The internal audit staff will be responsible for preparing an annual summary of the board's action concerning required reports submitted by the Executive Director, and the summary will be made available as a part of the formal evaluation of the Executive Director.

5. Each March the board will conduct a formal evaluation of the executive director/investment officer. This evaluation will be based on accomplishments of *Ends* and *Compliance with Executive Limitations*.
6. At the February board meeting, the chairperson will appoint a three-member committee to review the board's evaluation and make a recommendation to the full board concerning salary for the executive director/investment officer.

In making its recommendation, the committee will consider job performance as evidenced by the annual summary of the periodic monitoring reports, the Retirement and Investment Office budget status, the annual Public Pension System's Compensation Survey, the annual National Association of State Investment Officer's survey, the legislature's approved salary increases for state employees, the North Dakota market compensation for comparable positions, and other data or information considered relevant by the committee.

The committee's recommendation will be placed on the May board meeting agenda for possible action by the board. Final action by the board will be accomplished no later than the June board meeting.

Policy Implemented: June 23, 1995

Amended: November 21, 1997; June 25, 1999; November 19, 1999; January 28, 2000; February 25, 2000; February 23, 2001; September 26, 2014.

D. ENDS

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<i>Monitoring Summary</i>	<i>D-II</i>

The Retirement and Investment Office exists in order that:

- 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 satisfactory services from the boards and staff of the office.

Policy Implemented: October 27, 1995.

Amended: January 27, 2012.

POLICY TYPE: ENDS

POLICY TITLE: 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.

POLICY TYPE: ENDS

POLICY TITLE: 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:

1. 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.
2. 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.
3. 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.

POLICY TYPE: ENDS

POLICY TITLE: *INFORMATION ON AVAILABLE SERVICES*

The Retirement and Investment Office exists in order that:

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

Policy Implemented: October 27, 1995.

POLICY TYPE: ENDS

POLICY TITLE: 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.

POLICY TYPE: ENDS

POLICY TITLE: *INFORMATION ON RETIREMENT SERVICES*

The Retirement and Investment Office exists in order that:

1. 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.

POLICY TYPE: ENDS

POLICY TITLE: CUSTOMER SATISFACTION

The Retirement and Investment Office exists in order that:

1. SIB clients and TFFR benefit recipients receive satisfactory services from the boards and staff of the office.
 - A. The quality of services will be assured by direct board contact and by surveying clients and beneficiaries at least annually and promptly addressing identified client/beneficiary concerns.

Policy Implemented: December 1, 1995.

ORGANIZATIONAL BENEFICIARIES

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. 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. Board of Medicine
12. Center for Tobacco Prevention & Control

ADMINISTRATIVE CLIENTS:

Statutory:

1. Teachers' Fund for Retirement Beneficiaries

Amended: July 24, 2015

GOVERNANCE POLICY MONITORING SUMMARY				
POLICY	METHOD	RESPONSIBILITY	FREQUENCY	BOARD ACTION
ENDS				
Investment Services	External	Investment Consultant	Annual - FYE	N/A
	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				
Executive Constraint	Internal	Executive Director	Annual - CYE	Accept or Follow-Up
	Internal	Audit Supervisor	Quarterly	Accept or Follow-Up
Staff Relations	Internal	Executive Director	Quarterly	Accept or Follow-Up
	Internal (External)	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*

E. INVESTMENTS

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<i>Listing of Trust Funds</i>	<i>E-I</i>
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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 twelve statutory funds. Through contractual obligations, fiduciary responsibility extends to eleven 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. 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 speculation but in regard to 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

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:

Asset allocation targets:

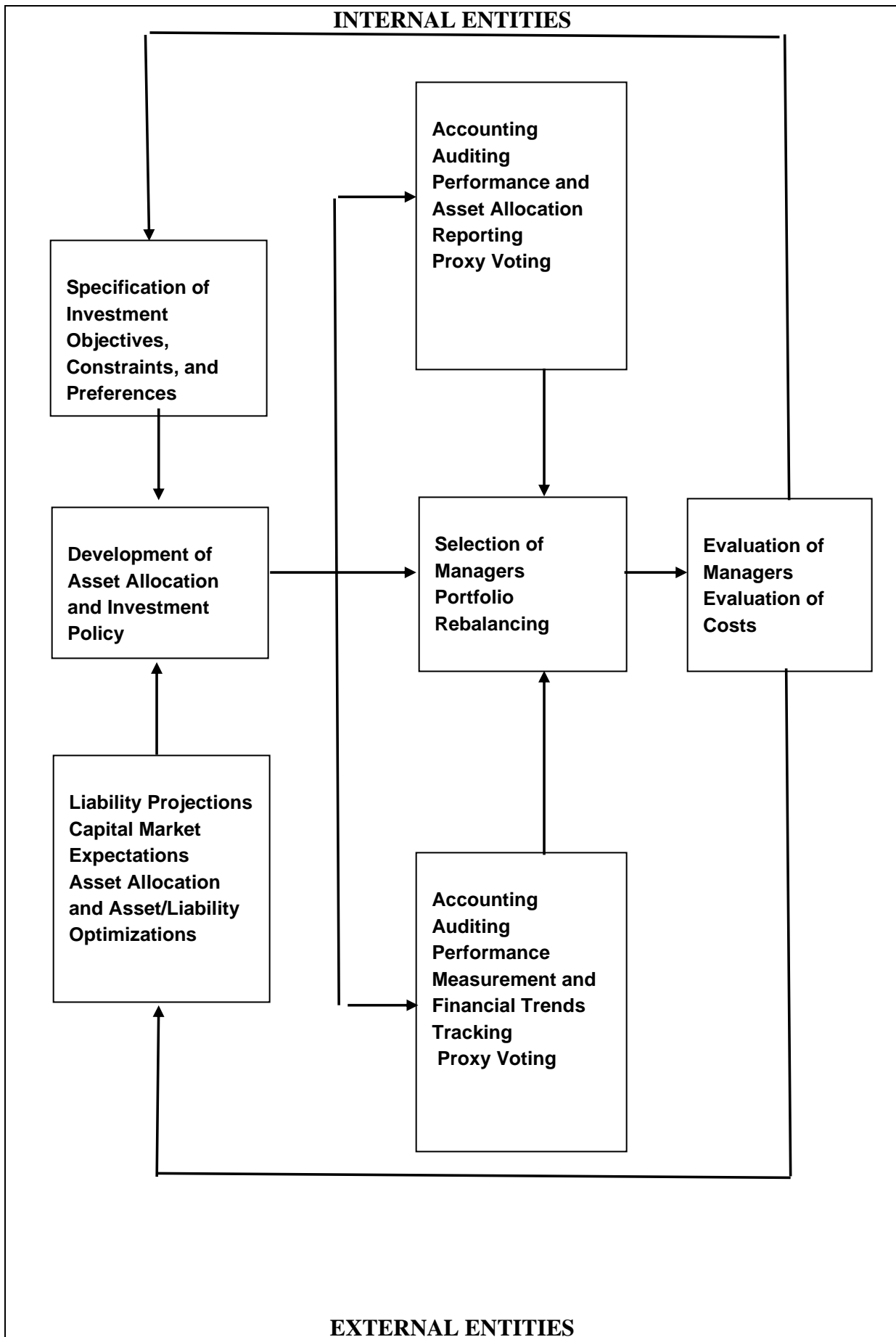
- Setting appropriate benchmarks.
- Finding the right managers.
- Monitoring the program.
- Searching for appropriate new opportunities.

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.



POLICY TYPE: INVESTMENTS

POLICY TITLE: KEY PROGRAM ENTITIES AND RESPONSIBILITIES

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.
3. Hire actuary when required.

SIB

1. Invest funds entrusted by statute and contracted entities.
2. Set policies on appropriate investments and investment practices for entrusted funds.
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.
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.

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. 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 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

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

POLICY TYPE: INVESTMENTS

POLICY TITLE: INVESTMENT POLICY DEVELOPMENT – TRUST FUNDS

All funds under SIB management must have a written investment policy. Investment policy forms the cornerstone of the management of any investment program. A sound investment policy ensures that fund assets are managed in a disciplined process, based on long-term fundamental investment principles.

For the larger, more complex trust funds, consultants are used to assist in policy and asset allocation development. Their specialized skills are needed to model and analyze the many variables that go into determining a proper asset allocation.

Policy development starts with the specification of investment objectives, constraints, and preferences. Fund trustees must address a number of factors:

- What is the fund's objective(s)?
- What is the board's tolerance for risk or threshold for under-performance?
- What are the fund's liquidity needs and cash flow characteristics?
- What are the board's asset class preferences and constraints?
- What is the actuarial earnings assumption?
- What are the legal or political considerations?
- What is the investment time horizon?

Since the ultimate objective of fund investments is to provide for the payment of future capital needs, claims, or other monetary requirements, it is essential that the investment policy be developed within the context of fund liabilities or spending policy. The development of investment policy, therefore, is always unique to the circumstances of each fund.

Complex actuarial models are used to quantify the liabilities of the pension plans and Workforce Safety and Insurance. Internal entities develop cash flow forecasts for the smaller funds based on past claims or anticipated expenditures.

Asset allocation optimizations are used to quantify the range of future investment outcomes. Investment consultants contribute needed expertise on capital market expectations and in identifying the risks associated with a particular asset allocation.

For some funds, the risk/return tradeoffs of alternative portfolios are not well represented by expected returns and standard deviation. More important are the expected results for required sponsor and participant contributions and funded ratios over time. Asset/liability modeling is the tool that allows the governing boards to examine and assess the tradeoffs leading to an appropriate investment policy.

The results of the optimizations are a description of the range of financial results that might realistically be expected to occur. These results provide the basis for determining an asset allocation.

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.

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

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.

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

The SIB will ensure that appropriate monitoring mechanisms are in place at all times. The three basic mechanisms are:

- Accounting
- Auditing
- Performance Measurement

The primary objective of these functions is to provide useful information to decision makers (fiduciaries and legislators). These monitoring functions are needed to keep track of assets and manager activity and to control the asset mix. Different aspects of these activities will be conducted internally by RIO staff and externally by the master custodian, auditors, and investment consultants.

Accounting

The master custodian will provide RIO staff with such accounting detail and at such frequency as the staff deems necessary to fulfill the SIB's reporting requirements.

From this information, RIO accounting staff will generate monthly and annual financial statements for each of the trust funds managed by the SIB.

RIO management is responsible to ensure the proper valuation of all assets. Formal valuation policies must be developed and implemented utilizing industry best practices and GAAP accounting requirements.

Compliance

RIO management is responsible for developing and implementing compliance procedures utilizing industry best practices. A summary of compliance procedures and results will be presented to the SIB annually.

Auditing

The North Dakota State Auditor is responsible for the external audit of RIO. They may assign this responsibility to an outside firm which they select by way of the RFP process. The SIB Audit Committee may make recommendations to the State Auditor concerning the selection, evaluation, and termination of this firm. This firm conducts an extensive financial and management audit for each fiscal year. The audited financial statements are filed with the Legislative Audit and Fiscal Review Committee.

RIO has a dedicated internal audit function that reports to the SIB Audit Committee. The internal audit function encompasses both the investment and retirement divisions of RIO. The SIB Audit Committee has oversight responsibilities as outlined in the SIB Audit Committee charter.

Performance Measurement and Reporting

The third element of monitoring entails measuring the performance of the individual investment managers and the total fund performance of each of the funds under the SIB. The SIB will retain reputable investment consultants or performance measurement services to provide comprehensive quarterly performance measurement information. This information will include data on the capital markets, other plan sponsors, and other investment managers. Performance results for SIB accounts will be calculated from data provided by the master custodian and compared to relevant capital market benchmarks, other public funds, manager peer groups, and investment goals specified in the asset class investment policy. Time periods covered by the report may vary but generally will include the most recent quarter, last 12 months, last three years, five years, and longer time periods (as data is available).

POLICY TYPE: INVESTMENTS

POLICY TITLE: *MONITORING*

RIO staff will use appropriate sources to compile monthly performance reports for each of the funds under the SIB that show recent performance and asset mix.

Policy Implemented: September 20, 1995.

Amended: February 27, 2009, February 25, 2011.

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 audit 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

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 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:

Quantitative characteristics, such as GIPS-compliant composite return data, risk-adjusted rates of return and relevant portfolio characteristics.

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.

- 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 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, 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 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 rebalancing, RIO works with the investment consultants to determine 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. 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.

POLICY TYPE: INVESTMENTS

POLICY TITLE: EVALUATION

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 to discuss performance, investment philosophy, organizational changes, economic outlook, and areas of concern.

POLICY TYPE: INVESTMENTS

POLICY TITLE: *EVALUATION*

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. The most reliable source of comparison currently available is the cost survey prepared by the Canadian consulting firm Cost Effectiveness Measurement, Inc. The information contained in this survey is not available anywhere else. Staff is encouraged to identify other cost-comparison sources.

Policy Implemented: September 20, 1995.

POLICY TYPE: INVESTMENTS

POLICY TITLE: PERFORMANCE RELATED INVESTMENT MANAGER REVIEW

The North Dakota State Investment Board (SIB) recognizes the inherent importance of assessing an investment manager because of performance. Thus, the following process of evaluation includes quantitative *and* qualitative input. This procedure is structured to assist the SIB in recognizing potentially distressed investment managers, initiating a formal review process, and providing guidelines for termination if necessary. Note: The “Manager Review” terminology or concept is not meant to cause the manager to make substantive changes in investment philosophy, style, or strategies. Rather, it is intended to define a period of close scrutiny of the manager’s activities, circumstances, and investment results.

Factors which may result in a Manager Review:

Significant changes in organizational structure

Significant changes in investment philosophy

Significant deviation in portfolio management from stated philosophy (style drift)

Substandard investment performance

Diminished confidence in manager

Manager Review Procedures:

Information is submitted to, or generated by, the Board which initiates consideration of a Manager Review.

If warranted, the Board takes action to initiate a Manager Review.

Based on the situation and with input from the Investment Director, the SIB suggests appropriate action to facilitate the Review. Action may include telephone conferencing, local or on-site visits with manager, investigation by consultants, appearance of manager before a select committee of the SIB, or appearance of the manager before the SIB. Investment Director initiates investigation of situation based on direction from SIB.

The Investment Director report’s findings to SIB at a subsequent meeting.

After considering findings of the Manager Review, SIB may:

- Remove manager from Review status
- Suggest additional action to facilitate Manager Review
- Relieve manager of duties

POLICY TYPE: INVESTMENTS

POLICY TITLE: PERFORMANCE RELATED INVESTMENT MANAGER REVIEW

In the case where continued investigation is warranted, the Investment Director will report new information and/or recommendations to the SIB as appropriate. It will be considered the responsibility of the Investment Director to maintain awareness and consideration of the Review until the situation is resolved.

It is important to recognize that situations occasionally arise of such a serious nature that a Manager Review process must be immediately initiated. In such cases, the Investment Director is granted the authority to place an investment manager under Review, including the freezing of assets if necessary, and report on such action at the next meeting of the State Investment Board.

In every case, the Investment Director is responsible for documenting the Manager Review process including recognition of:

- Reason of Manager Review
- Action taken to investigate the situation
- Report on results of investigation
- Report on resultant action taken by SIB
- Notification of investigation and conclusions to manager and consultants

A complete record of Manager Review activities and history shall be maintained at the ND Retirement and Investment Office.

Policy Implemented: June 27, 1997.

POLICY TYPE: INVESTMENTS

POLICY TITLE: *BANK OF NORTH DAKOTA MATCH LOAN PROGRAM*

The SIB has a commitment to the Bank of North Dakota Match Loan Program. The purpose of the program is to encourage and attract financially strong companies to North Dakota. The program is targeted to manufacturing, processing and value-added industries.

The SIB provides capital to the program by purchasing Certificates of Deposit (CD's) from the Bank of North Dakota. The CD's are guaranteed by the state, typically have seven to fifteen year maturities and pay interest pegged to US Treasury notes.

The source of funding for CD's shall be determined by the Investment Director; that funding to be from the most appropriate source consistent with liquidity and relative yield and return objectives and constraints.

Policy Implemented: April 24, 1998.

Amended: February 27, 2009

POLICY TYPE: INVESTMENTS

POLICY TITLE: ACCEPTING NEW CLIENTS

NDCC 21-10-06 states *“The state investment board may provide investment services to, and manage the money of, any agency, institution, or political subdivision of the state, subject to agreement with the industrial commission. The scope of services to be provided by the state investment board to the agency, institution, or political subdivision must be specified in a written contract. The state investment board may charge a fee for providing investment services and any revenue collected must be deposited in the state retirement and investment fund.”*

When a request is received by staff from a potential new investor requesting investment services from the State Investment (SIB), the following steps shall be followed.

1. Staff will conduct initial discussions with the potential client regarding type of fund, risk tolerance, size of fund, services to be provided, costs, etc.
2. Staff will recommend that an Asset/Liability study be conducted by the potential client if one has not been done recently. This discussion will include a description of the asset classes available for investment with the SIB to be included in their study.
3. If the potential client is still interested in participating in the SIB program, staff will bring the preliminary request to the SIB for acceptance. It shall be the policy of the SIB to take the following into consideration when determining if a new investor request will be accepted.
 - a. Internal staff administrative capacity.
 - b. Compatibility of new investor's goals and risk tolerances with the existing SIB program structure.
 - c. Whatever other factors the SIB determines to be appropriate to the decision.
4. If the SIB chooses to accept the preliminary request, staff will provide the necessary template documents to the potential client for review and completion. These documents include a contract for services and investment guidelines.
5. Once documentation is completed, staff will request to have the issue included on the Industrial Commission's agenda for their approval. Copies of all documentation will be provided for their review.
6. If approved by the Industrial Commission, final documentation will be presented to the SIB for final acceptance.
7. If accepted, staff will work with the new client to set up transfer of funds and implementation of asset allocation as directed. All new clients will be brought in as of the last day of a calendar quarter.
8. Fees will be charged with the intention of covering all associated costs as described in RIO Fiscal Management procedure “Investment Fee Allocations”.

Policy Implemented: November 20, 2009

POLICY TYPE: INVESTMENTS

POLICY TITLE: *SECURITIES MONITORING AND LITIGATION*

General Purpose

1. The North Dakota State Investment Board (“SIB”) is a fiduciary for assets held in trust for the benefit of SIB clients’ including their beneficiaries and to defray expenses of administration of their respective investment funds.
2. In order to carry out its fiduciary duty to prudently invest and diversify the assets of the various investment funds, the SIB invests considerable assets in global public securities markets.
3. The efficient and effective deployment of plan assets requires that in seeking returns market risks must be prudently assumed and managed. Investing in publicly-traded securities in regulated markets under accounting, disclosure and business practice laws and regulations provides general, but not perfect assurance that the information forming the basis for investments is accurate, conforms with accepted accounting practices, and is not distorted due to misfeasance, malfeasance or nonfeasance, or the timing of information disclosures by persons or entities with the ability to affect market prices of the investment securities.
4. Legal action is sometimes necessary to attempt to recover all or part of losses the fund may incur due to alleged improper action or inaction that results in the impairment of the value of the fund’s security holdings.
5. Most such actions will be prosecuted by the class action bar whether or not the SIB takes an active role as a plaintiff or a passive role as a member of a certified class of plaintiffs. Any ultimate award or settlement from a class action filing will be ratably allocated among legitimate claimants.
6. The SIB will generally only consider pursuing active participation in securities actions when such a role is expected to add value by enhancing the prospect for recovery, increasing the amount of recovery, assuring more efficient and effective prosecution of the case, or identifying and addressing corporate governance issues through litigation.

For purposes of this Policy, “active participation” means seeking status as lead plaintiff, co-lead plaintiff, or filing separate legal action.

Non-Active Recovery and Filing

1. SIB will require as part of its agreement with its custodial bank, that adequate securities class action monitoring is maintained on an ongoing basis, sufficient to assure that most of the actual awards and settlements for such cases are tracked and identified and that proof of claim forms, including supporting documentation, will be properly and timely filed.
2. To augment and enhance coverage, identification and tracking of class-action cases (potential or actual) SIB may engage one or more legal firms that specialize in monitoring and prosecuting security class-action cases; any such engagement is subject to the special appointment requirements of N.D.C.C. § 54-12-08. For these purposes only, such firm(s) may be granted ongoing access to security holdings information through the custodian bank.

3. A monitoring agreement with any law firm for monitoring service access and reporting will not commit SIB to employing said firm in the event that it seeks to represent SIB as an active participant in any securities related litigation. Such representation must be effected by a separate retainer agreement between the SIB and said firm, or another, depending on such factors as the potential monetary scope, the nature of the case and industry specialty that may be required, the allocation of current or past cases among candidate firms, the likely duration and cost of prosecuting such a case, retainer fees or contingency splits, the venue in which the case is to be filed, and other considerations.
4. The custodial bank will be required to provide the Retirement and Investment Office (“RIO”) with periodic reports that detail class action cases monitored, claims filed, and award or settlement distributions received. RIO will maintain these records and provide an update to the SIB with regards to accounting information on distributions received on claims filed by the custodian bank on our behalf.

Active Participation in Cases

1. The Executive Director will initiate active participation in securities cases only upon prior review and approval of the SIB. Before bringing any recommendations to the Board, the Executive Director with significant assistance by legal counsel from the Office of the Attorney General, will assess the merits and prospects for active participation by reference to the criteria and factors outlined in this section.
2. Decision Criteria and Factors:
 - a. The decision to participate in an active capacity in security litigation should be based on the totality of the circumstances. Dollar loss amounts are important, but not the sole or overriding factor to consider in making such recommendations by the Executive Director, or determinations by the SIB.
 - b. Potential losses to SIB clients must be significant in order to warrant participation as a lead plaintiff, co-lead plaintiff, or separate “opt-out” litigant. Generally, in cases where the potential loss does not exceed the greater of 0.1% of trust assets, the SIB will avoid active participation.
 - c. The *prima facie* merits of the claim for loss, and the factual basis for the action, recognizing that the full discovery process will not commence until the class has been certified by the court in which such case is to be filed.
 - d. The availability of witnesses, and possible support that may be obtained from investment managers, consultants, and the custodial bank through discovery.
 - e. The potential that any defendants or insurers will be able to pay an adequate recovery to the class, without impairing the value of any current security holdings SIB may yet hold in the issuer in the portfolio.
 - f. The ability of the law firm recommending action on the part of SIB to prosecute the case effectively, in the venue where such case is likely to be filed, and the experience of the firm in managing such cases individually or in partnership with other firms.

- g. Potential long-term benefits from corporate governance changes from pursuing litigation.
 - h. The ability of SIB to serve as a fiduciary on behalf of all class members in the case, especially in relative terms to other institutional investors that may be considering the same case.
 - i. Potential costs that may be incurred. Special consideration must be given to any case that must be filed in a non-U.S. venue under the “Morrison” criteria established by the U. S. Supreme Court in a 2010 decision, since costs of litigation and potential liabilities of unsuccessful claims may be significant.
 - j. Current workload and staffing resources required for the fulfillment of SIB’s primary member service functions, and whether participation might displace time and staff resources needed for core business functions.
3. Decision Criteria and Factors for cases filed in a non-U.S. venue: In addition to the Criteria and Factors set forth in Subsection 2, the SIB may consider the following:
- a. The proposed funding arrangements for the action.
 - b. Evaluate the merits and risks of the case in light of the law of the jurisdiction in which the action would be brought.
 - c. The role or level of participation in the case by the SIB.

Roles in Managing and Monitoring Litigation

- 1. The SIB will make the final determination of whether it is in the SIB’s best interest to pursue active participation in any case and whether to engage any law firm and the terms of such engagement.
- 2. Decisions regarding the conduct and implementation of the Board’s decision to participate will be the responsibility of the Executive Director, or an approved member of the management staff if he so delegates. When feasible and advisable, the Executive Director shall seek advice and direction from the Board on strategic and legal issues that may arise in prosecuting the action on behalf of the SIB and its clients. The Executive Director shall timely report to the Board on the progress of the litigation.
- 3. The Executive Director shall be responsible for management of the relationship with any portfolio monitoring law firm or organization for such purpose. Based on the need for additional coverage, the Executive Director will determine whether one or several firms are needed to fulfill the goals of this Policy and may terminate such monitoring agreements as judgment advises.
- 4. Any agreement for portfolio monitoring services that includes a fee or subscription cost must first be approved by the SIB before execution by the Executive Director.

Policy Review

- 1. The Board shall review this policy at least every three years to ensure that it remains relevant and appropriate.

Policy Implemented: November 20, 2015

EXHIBIT E-IState Investment Board (SIB) Members **2017-2018:**

Position	Incumbent	Designation	Term Expiration
Lt. Governor	Brent Sanford	Ex officio	Open
State Treasurer	Kelly Schmidt	Ex officio	Open
State Insurance Commissioner	Jon Godfread	Ex officio	Open
Commissioner University & School Lands	Lance Gaebe	Appointed	N/A
Executive Director Workforce Safety & Insurance	Bryan Klipfel	Appointed	N/A
Trustee, TFFR	Mel Olson	Appointed by TFFR Board	6/30/18
Trustee, TFFR	Michael Gessner	Appointed by TFFR Board	6/30/21
Trustee, TFFR	Rob Lech	Appointed by TFFR Board	6/30/20
Trustee, PERS	Adam Miller	Appointed by PERS Board	6/30/22
Trustee, PERS	Troy Seibel	Appointed by PERS Board	6/30/21
Trustee, PERS	Yvonne Smith	Appointed by PERS Board	6/30/19

Retirement and Investment Office (RIO) Staff:

Position	Incumbent	Education
Executive Director/ Chief Investment Officer	David Hunter	BS, Accounting, Northern Illinois University MBA, Finance, University of Chicago
Deputy Chief Investment Officer	Darren Schulz	BBA, Finance, Georgia State University, CFA
Fiscal and Investment Operations Mgr	Connie Flanagan	BS, Accounting, University of Mary
Deputy Executive Director/ Chief Retirement Officer	Fay Kopp	BS, Education, Valley City State University, CRC, CRA

External

Function	Firm	Date Hired
Investment Consultant	Callan Associates Inc.	4/84
Actuary (TFFR)	Segal	7/11
Auditor	CliftonLarsonAllen	4/12
Master/Global Custodian	The Northern Trust Company	12/83

F. TFFR ENDS

Reference: Teachers' Fund for Retirement "Ends"

<http://www.nd.gov/rio/SIB/Board/default.htm>

G. TRUST FUND INVESTMENT GUIDELINES

Bismarck Deferred Sick Leave

Bismarck Employees

Bismarck Police

Board of Medicine

Bonding

Budget Stabilization

Cultural Endowment Fund

Fargo - FargoDome Permanent Fund

Fire and Tornado

Grand Forks City

Grand Forks Park

Health Care Trust

Insurance Regulatory

Job Service

Legacy Fund

ND Association of Counties

PERS

PERS Group Insurance

PERS Prefunded Health

Petroleum Tank

Risk Management

Risk Management Workers Comp

Teachers' Fund for Retirement

Workers Compensation

H. BY-LAWS

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CHAPTER 1 - AUTHORITY

- Section 1-1. The State Investment Board (SIB) has the authority to maintain an administrative office under Chapter 54-52.5, North Dakota Century Code.
- Section 1-2. The SIB has the authority and responsibility for providing administrative services to the North Dakota Teachers' Fund for Retirement (TFFR) and the North Dakota State Investment Board. This includes organizing, staffing, and maintaining an administrative office.
- Section 1-3. The SIB has the authority and responsibility for developing and monitoring the agency budget.
- Section 1-4. The SIB has the authority and responsibility to maintain office records, an accounting system, and data processing support services.
- Section 1-5. The SIB has the authority to pay all claims and investment expenses filed with TFFR and the SIB.

Policy Implemented: June 23, 1995.

CHAPTER 2 - BOARD

- Section 2-1. Members of the State Investment Board (SIB) are the Governor, State Treasurer, Commissioner of University and School Lands, director of Workforce Safety & Insurance, Commissioner of Insurance, three members of the Teachers' Fund for Retirement (TFFR) Board, two of the elected members and one member of the Public Employees Retirement System (PERS) Board as selected by those boards. The PERS and TFFR Boards may appoint an alternate designee with full voting privileges to attend meetings of the SIB when a selected member is unable to attend. The director of Workforce Safety and Insurance may appoint a designee, subject to approval by the Workforce Safety and Insurance board of directors, to attend the meetings, participate, and vote when the director is unable to attend.
- Section 2-2. The SIB will have general charge and management of the business of TFFR and the SIB, subject to law, administrative rules and regulations, and governance policies. The SIB will make such policy as necessary to fulfill this obligation.
- Section 2-3. When the statutes allow a Deputy to represent a member of the SIB or an alternate to represent the TFFR or PERS Board, the Chair will recognize the individual for the record, and the individual(s) will then have the right to vote on matters before the SIB.
- Section 2-4. The SIB will be responsible for the operation of an administrative office that will provide support services to TFFR and the SIB.

Policy Implemented: June 23, 1995.

Amended: July 22, 2011.

CHAPTER 3 - OFFICERS AND DUTIES

- Section 3-1. The officers of the SIB are a Chair and Vice Chair, one of which must be an appointed or elected member of the TFFR or PERS Board. The officers will be elected by the SIB to a one-year term at the first regularly scheduled meeting following July 1 of each year. Vacancies will be filled by the SIB at the first scheduled meeting following the vacancy.
- Section 3-2. Chair. The Chair will preside at all meetings of the SIB.
- Section 3-3. Vice Chair. In the absence of the Chair, the Vice Chair will perform the duties of the Chair.
- Section 3-4. Executive Director. An Executive Director will be retained by the SIB. The Executive Director will serve at the SIB's pleasure, be responsible for keeping the records of the SIB and TFFR Board actions, and perform such duties as the SIB prescribes. The Executive Director will make out and give out all notices required to be given by law, procedures, or rules and regulations of the two boards.

Policy Implemented: June 23, 1995.

CHAPTER 4 - MEETINGS

- Section 4-1. Regular meetings of the SIB to conduct business are to be held as often as necessary. The SIB will meet at least once each quarter. Notice of all meetings will be made in accordance with North Dakota Century Code, Section 44-04-20.
- Section 4-2. Meetings of the SIB may be called by the Chair or two members of the SIB upon reasonable notice in writing to the other members of the Board. (NDCC 21-10-04)
- Section 4-3. A quorum will be six (6) members of the SIB.
- Section 4-4. Voting on matters before the SIB will be contained in the minutes which will show the recorded vote of each SIB member.
- Section 4-5. All meetings of the SIB are open to the public.
- Section 4-6. A record of procedures will be kept by the Executive Director on all meetings of the SIB. The records of these proceedings are public documents, and copies will be distributed to the TFFR, SIB, and PERS Boards and upon request.
- Section 4-7. Public participation during meetings of the SIB may be allowed at the discretion of the Chair.
- Section 4-8. SIB members, except elected and appointed officials, will be paid the amount specified in NDCC 21-10-01 per SIB meeting attended.

Expenses will be paid according to state law and OMB policies.

Policy Implemented: June 23, 1995.

Amended: July 22, 2011.

CHAPTER 5 - COMMITTEES

Section 5-1. The SIB will establish one standing committee: Audit Committee.

Section 5-1-1. Audit Committee. The Audit Committee will consist of five members. They will be selected by the SIB. Three members of the committee will represent the three groups on the SIB (TFFR Board, PERS Board, and elected and appointed officials). The other two members will be selected from outside of the SIB and be auditors with at least a Certified Public Accountant (CPA) or Certified Internal Auditor (CIA) designation.

The Audit Committee will have responsibility for oversight of financial reporting, auditing, and internal control. The Audit Committee will be responsible for developing a written charter, to be approved by the SIB, which puts forth the authority, responsibilities, and structure of the Audit Committee. It will also be the responsibility of the Audit Committee to supervise the audit activities of the internal audit staff, work with the State Auditor/external auditors, and develop reports for the SIB.

The Executive Director shall supervise the administrative activities of the internal/external audit programs such as travel, securing contracts, paying fees, maintaining official reports, etc.

The supervisor of the internal audit function will be the staff member directly responsible to the Audit Committee.

Membership on the Audit 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 Audit Committee.

Section 5-2. No member of the SIB will be paid, other than expenses, for attending seminars, conferences, or other such educational meetings.

Policy Implemented: June 23, 1995.

CHAPTER 6 - RULES OF ORDER

Section 6-1. All SIB meetings will be conducted in accordance with Robert's Rules of Order Newly Revised except as superseded by these by-laws and board governance policies.

Policy Implemented: June 23, 1995.

CHAPTER 7 - ADMINISTRATIVE OFFICE

Section 7-1. For the purpose of carrying out the day-to-day business of TFFR and the SIB, an administrative office will be maintained in Bismarck, North Dakota. This office is called the Retirement and Investment Office (RIO).

Section 7-2. The Executive Director will be the administrator of the office.

Policy Implemented: June 23, 1995.

CHAPTER 8 - AMENDMENTS

Section 8-1. These by-laws may be amended by a two-thirds vote of SIB members. All amendments must be mailed to SIB members at least thirty (30) days prior to the meeting at which they are considered.

Section 8-2. All amendments must include an effective date.

Policy Implemented: June 23, 1995.

I. CENTURY CODE

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CHAPTER 21-10 STATE INVESTMENT BOARD

21-10-01. State investment board - Membership - Term - Compensation - Advisory council.

1. The North Dakota state investment board consists of the governor, the state treasurer, the commissioner of university and school lands, the director of workforce safety and insurance, the insurance commissioner, three members of the teachers' fund for retirement board or the board's designees who need not be members of the fund as selected by that board, two of the elected members of the public employees retirement system board as selected by that board, and one member of the public employees retirement system board as selected by that board. The director of workforce safety and insurance may appoint a designee, subject to approval by the workforce safety and insurance board of directors, to attend the meetings, participate, and vote when the director is unable to attend. The teachers' fund for retirement board may appoint an alternate designee with full voting privileges to attend meetings of the state investment board when a selected member is unable to attend. The public employees retirement system board may appoint an alternate designee with full voting privileges from the public employees retirement system board to attend meetings of the state investment board when a selected member is unable to attend. The members of the state investment board, except elected and appointed officials and the director of workforce safety and insurance or the director's designee, are entitled to receive as compensation one hundred forty-eight dollars per day and necessary mileage and travel expenses as provided in sections 44-08-04 and 54-06-09 for attending meetings of the state investment board.
2. The state investment board may establish an advisory council composed of individuals who are experienced and knowledgeable in the field of investments. The state investment board shall determine the responsibilities of the advisory council. Members of the advisory council are entitled to receive the same compensation as provided the members of the advisory board of the Bank of North Dakota and necessary mileage and travel expenses as provided in sections 44-08-04 and 54-06-09.


21-10-02. Board - Powers and duties.

The board is charged with the investment of the funds enumerated in section 21-10-06. It shall approve general types of securities for investment by these funds and set policies and procedures regulating securities transactions on behalf of the various funds. Representatives of the funds enumerated in section 21-10-06 may make recommendations to the board in regard to investments. The board or its designated agents must be custodian of securities purchased on behalf of funds under the management of the board. The board may appoint an investment director or advisory service, or both, who must be experienced in, and hold considerable knowledge of, the field of investments. The investment director or advisory service shall serve at the pleasure of the board. The investment director or advisory service may be an individual, corporation, limited liability company, partnership, or any legal entity which meets the qualifications established herein. The board may authorize the investment director to lend securities held by the funds. These securities must be collateralized as directed by the board. The board may create investment fund pools in which the funds identified in section 21-10-06 may invest.

21-10-02.1. Board - Policies on investment goals and objectives and asset allocation.

1. The governing body of each fund enumerated in section 21-10-06 shall establish policies on investment goals and objectives and asset allocation for each respective fund. The policies must provide for:
 - a. The definition and assignment of duties and responsibilities to advisory services and persons employed by the board.

- b. Rate of return objectives, including liquidity requirements and acceptable levels of risk.
- c. Long-range asset allocation goals.
- d. Guidelines for the selection and redemption of investments.
- e. Investment diversification, investment quality, qualification of advisory services, and amounts to be invested by advisory services.
- f. The type of reports and procedures to be used in evaluating performance.

- 
2. The asset allocation and any subsequent allocation changes for each fund must be approved by the governing body of that fund and the state investment board. The governing body of each fund shall use the staff and consultants of the retirement and investment office in developing asset allocation and investment policies.

21-10-03. Cooperation with Bank of North Dakota.

Repealed by S.L. 1987, ch. 190, § 14.

21-10-04. Board - Meetings.

The state investment board shall select one of its members to serve as chair, one to serve as vice chair, and shall meet at the call of the chair or upon written notice signed by two members of the board.

21-10-05. Investment director - Powers and duties.

Subject to the limitations contained in the law or the policymaking regulations or resolutions adopted by the board, the investment director may sign and execute all contracts and agreements to make purchases, sales, exchanges, investments, and reinvestments relating to the funds under the management of the board. This section is a continuing appropriation of all moneys required for the making of investments of funds under the management of the board. The investment director shall see that moneys invested are at all times handled in the best interests of the funds. Securities or investments may be sold or exchanged for other securities or investments.

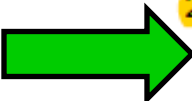
The investment director shall formulate and recommend to the investment board for approval investment regulations or resolutions pertaining to the kind or nature of investments and limitations, conditions, and restrictions upon the methods, practices, or procedures for investment, reinvestment, purchase, sale, or exchange transactions that should govern the investment of funds under this chapter.

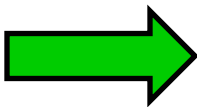
21-10-06. Funds under management of board - Accounts.

1. Subject to the provisions of section 21-10-02, the board shall invest the following funds:

- a. State bonding fund.
- b. Teachers' fund for retirement.
- c. State fire and tornado fund.
- d. Workforce safety and insurance fund.
- e. Public employees retirement system.
- f. Insurance regulatory trust fund.
- g. State risk management fund.
- h. Budget stabilization fund.
- i. Health care trust fund.
- j. Cultural endowment fund.
- k. Petroleum tank release compensation fund.
- l. Legacy fund.

- m. A fund under contract with the board pursuant to subsection 3.

- 
2. Separate accounting must be maintained for each of the funds listed in subsection 1. The moneys of the individual funds may be commingled for investment purposes when determined advantageous.

- 
3. The state investment board may provide investment services to, and manage the money of, any agency, institution, or political subdivision of the state, subject to agreement with the industrial commission. The scope of services to be provided by the state investment board to the agency, institution, or political subdivision must be specified in a written contract. The state investment board may charge a fee for providing investment services and any revenue collected must be deposited in the state retirement and investment fund.

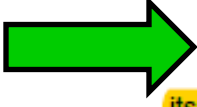
21-10-06.1. Board - Investment reports.

The board shall annually prepare reports on the investment performance of each fund under its control. The reports must be uniform and must include:

1. A list of the advisory services managing investments for the board.
2. A list of investments at market value, compared to previous reporting period, of each fund managed by each advisory service.
3. Earnings, percentage earned, and change in market value of each fund's investments.
4. Comparison of the performance of each fund managed by each advisory service to other funds under the board's control and to generally accepted market indicators.


21-10-06.2. Investment costs.

The amounts necessary to pay for investment costs, such as investment counseling fees, trustee fees, custodial fees, performance measurement fees, expenses associated with money manager searches, expenses associated with onsite audits and reviews of investment managers, and asset allocation expenses, incurred by the state investment board are hereby appropriated and must be paid directly out of the funds listed in section 21-10-06 by the fund incurring the expense.



21-10-07. Legal investments.

The state investment board shall apply the prudent investor rule in investing for funds under its supervision. 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 speculation but in regard to the permanent disposition of funds, considering probable safety of capital as well as probable income. The retirement funds belonging to the teachers' fund for retirement and the public employees retirement system must be invested exclusively for the benefit of their members and in accordance with the respective funds' investment goals and objectives.



21-10-08. Reserves - Percentage limitations.

In order to meet claims and liabilities, reserves must be established and maintained in each of the funds in accordance with the investment policy and asset allocation established for each fund.

21-10-09. Personal profit prohibited - Penalty.

No member, officer, agent, or employee of the state investment board may profit in any manner from transactions on behalf of the funds. Any person violating any of the provisions of this section is guilty of a class A misdemeanor.


21-10-10. State investment board fund - Cost of operation of board.

Repealed by S.L. 1989, ch. 667, § 13.



21-10-11. Legacy and budget stabilization fund advisory board.

The legacy and budget stabilization fund advisory board is created to develop recommendations for the investment of funds in the legacy fund and the budget stabilization fund to present to the state investment board. The goal of investment for the legacy fund is principal preservation while maximizing total return. The board consists of two members of the



senate appointed by the senate majority leader, two members of the house of representatives appointed by the house majority leader, the director of the office of management and budget or designee, the president of the Bank of North Dakota or designee, and the tax commissioner or designee. The board shall select a chairman and must meet at the call of the chairman. The board shall report at least semiannually to the budget section. Legislative members are entitled to receive compensation and expense reimbursement as provided under section 54-03-20 and reimbursement for mileage as provided by law for state officers. The legislative council shall pay the compensation and expense reimbursement for the legislative members. The legislative council shall provide staff services to the legacy and budget stabilization fund advisory board. The staff and consultants of the state retirement and investment office shall advise the board in developing asset allocation and investment policies.

21-10-12. Legacy fund - Earnings defined.

For the purposes of section 26 of article X of the Constitution of North Dakota, the term "earnings" means net income in accordance with generally accepted accounting principles, excluding any unrealized gains or losses.

**NORTH DAKOTA
RETIREMENT AND INVESTMENT OFFICE**

**STATE INVESTMENT BOARD
GOVERNANCE MANUAL**

1930 BURNT BOAT DRIVE
P.O. BOX 7100
BISMARCK, ND 58507-7100
TELEPHONE: 701/328-9885

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A. EXECUTIVE LIMITATIONS

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POLICY TYPE: EXECUTIVE LIMITATIONS

POLICY TITLE: 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 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 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 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 Deputy Executive Director, the Deputy Chief Investment Officer, and the Fiscal and Investment Operations Manager 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 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.

POLICY TYPE: EXECUTIVE LIMITATIONS

POLICY TITLE: 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:

1. Operate without personnel procedures which clarify personnel rules for staff, provide for effective handling of grievances, and protect against wrongful conditions or violate any state or federal law.
2. Fail to provide staff with the opportunity to complete an employment termination questionnaire and an exit interview with the Supervisor of Audit Services.

Policy Implemented: June 23, 1995.

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

POLICY TYPE: EXECUTIVE LIMITATIONS

POLICY TITLE: 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 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.

POLICY TYPE: EXECUTIVE LIMITATIONS

POLICY TITLE: 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 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.
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.

POLICY TYPE: EXECUTIVE LIMITATIONS

POLICY TITLE: 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.
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 and Emergency Commission approval.
4. Allow appropriation expenditures to be made unless reported on PeopleSoft.

Policy Implemented: June 23, 1995.

Amended: September 26, 2014.

POLICY TYPE: EXECUTIVE LIMITATIONS

POLICY TITLE: 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 monitoring data required by the board (see policy 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 if, in the executive director's opinion, the board is not in compliance with its own policies on *Governance Process* and *Board-Staff Relationship*, particularly in the case of board behavior which is detrimental to the work relationship between the board and the executive director.
4. Fail to marshal for the board as many staff and external points of view, issues, and options as 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.
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 in a timely manner of any intention to hire or dismiss the Deputy Executive Director, the Deputy Chief Investment Officer, or the Fiscal and Investment Operations Manager.
10. Fail to keep the board informed concerning the delegation of fiduciary authority to any staff member. 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.

POLICY TYPE: EXECUTIVE LIMITATIONS

POLICY TITLE: ASSET PROTECTION

The executive director may not allow assets to be unprotected, inadequately maintained, nor unnecessarily risked.

Accordingly, the executive director may not:

1. Fail to insure against theft and casualty losses to at least 80 percent replacement value and against liability losses to board members, staff, or the organization itself in an amount greater than the average for comparable organizations.
2. Allow non-bonded personnel access to funds.
3. Subject plant 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.
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 law or board policy.
8. Acquire, encumber, or dispose of real property.
9. Endanger the organization's public image or credibility, particularly in ways that would hinder its accomplishment of mission.
10. 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.

POLICY TYPE: EXECUTIVE LIMITATIONS

POLICY TITLE: *COMPENSATION AND BENEFITS*

Compensation and benefits 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.

POLICY TYPE: EXECUTIVE LIMITATIONS

POLICY TITLE: 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 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.

"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 annually, in writing, and must disclose any conflicts of interest that may arise (See Exhibit A-I).

Policy Implemented: June 23, 1995.

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

POLICY TYPE: EXECUTIVE LIMITATIONS

POLICY TITLE: 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.

POLICY TYPE: EXECUTIVE LIMITATIONS

POLICY TITLE: *UNRELATED BUSINESS INTERESTS*

In the pursuit of personal business interests, the Executive Director will not allow a situation to exist that presents a conflict of interest to the SIB investment program, nor shall such activity be in violation of RIO Administrative Policy 3.47, Use of Office Facilities and Equipment.

Policy Implemented: August 18, 2000

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):

B. GOVERNANCE PROCESS

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POLICY TYPE: GOVERNANCE PROCESS

POLICY TITLE: GOVERNANCE COMMITMENT

The board, on behalf of benefit recipients and the other clients, who have entrusted their funds to us, will:

- Lead the North Dakota Retirement and Investment Office (RIO) with a strategic perspective.
- Rigorously attend to its investment and oversight role.
- Continually improve its capability as a body to define values and vision.

Policy Implemented: June 23, 1995.

The board will strive to govern with an emphasis on:

- Outward vision rather than an internal preoccupation.
- Encouragement of diversity in viewpoints.
- Strategic leadership more than administrative detail.
- Clear distinction of board and executive director roles.
- Collective rather than individual decisions.
- Future rather than past or present.
- Proactivity rather than reactivity.

The board will:

1. Cultivate a sense of group responsibility. The board, not the staff, will be responsible for excellence in governing. The board will strive to be an initiator of policy, not merely a reactor to staff initiatives. The board will strive to use the expertise of individual members to enhance the ability of the board as a body, rather than to substitute the individual judgments for the board's values.
2. Direct, control, and inspire the organization through the careful establishment of the broadest written policies reflecting the board's values and perspectives. The board's major focus will be on the intended long-term impacts outside the operating organization (*Ends*), not on the administrative or programmatic means of attaining those effects.
3. Enforce upon itself whatever discipline is needed to govern with excellence. Discipline will apply to matters such as attendance, policy-making principles, respect of roles, and ensuring the continuity of governance capability.
4. After speaking with one voice, self-police any tendency to stray from adopted board governance policies. The board will not allow any officer, member, or committee of the board to hinder or be an excuse for not fulfilling its commitments. The board respects the right of any member, as an individual, to publicly disagree with an adopted board policy. Board members will accurately portray board policies and decisions.
5. Promote continual board development through orientation and mentoring of new members in the board's governance process and through periodic board discussion of process improvement. The board shall not delegate new member governance orientation to the executive director or any staff member.
 - A. A board mentor, who is knowledgeable and who will assume responsibility for assisting the new members, will be assigned by the chairperson.

POLICY TYPE: GOVERNANCE PROCESS

POLICY TITLE: GOVERNING STYLE

- B. The new board member should read and study Chapter 21-10, North Dakota Century Code (Section J of the SIB Policy Governance Manual which governs the activities of the boards represented on the SIB: Teachers' Fund for Retirement Board, Public Employees Retirement Systems Board, and the State Investment Board).
- C. The board should receive a glossary of terms used by the retirement and pension fund industry; i.e. Callan Associates Inc. - Glossary of Terms.
- D. Newly appointed or elected board members should become familiar with the Carver Model of Governance, since the SIB directs its activities by this model. They should read Boards That Make a Difference and study the policy manuals that have been developed by the SIB and TFFR Board.
- E. The board members must understand their roles as trustees and fiduciaries, the Prudent Investor Rule, and Procedural Prudence.

A "new trustee book bag" containing the Retirement and Investment Office's Comprehensive Annual Financial Report (CAFR) and reference materials relating to board governance, fiduciary conduct, and investment management concepts and terminology and other appropriate materials will be made available to new trustees.

- F. The executive director will provide the SIB with a list of periodicals available which would provide current information on pension issues. The board members will review and request subscriptions to appropriate periodicals.
- 6. Monitor and regularly discuss the board's process and performance. Self-monitoring will include comparison of board activity and discipline to policies in the *Governance Process* and *Board-Staff Relationship* categories.
 - 7. Observe Robert's Rules except where the board has superseded them.

Policy Implemented: June 23, 1995.

Amended: June 28, 1996; November 19, 1999, January 26, 2001, February 27, 2015.

POLICY TYPE: GOVERNANCE PROCESS

POLICY TITLE: BOARD JOB DESCRIPTION

The function of the board is to make certain contributions that lead RIO toward the desired performance and ensure that it occurs. The board's specific contributions are unique to its trusteeship role and necessary for proper governance and management.

Consequently, the "products" or contributions of the board shall be:

1. The link between the SIB, its investment clients, and benefit recipients.
2. Written governing policies that, at the broadest levels, address:
 - A. *Ends*: Organizational products, impacts, benefits, outcomes, recipients, and their relative worth (what good for which needs at what cost).
 - B. *Executive Limitations*: Constraints on executive authority which establish the prudence and ethics boundaries within which all executive activity and decisions must take place.
 - C. *Governance Process*: Specification of how the board conceives, carries out, and monitors its own task.
 - D. *Board-Executive Director Relationship*: How authority is delegated and its proper use monitored: the executive director's role, authority, and accountability.
3. The assurance of executive director performance against above policies 2a and 2b.
4. Legislation necessary to achieve the board's *Ends*.

Policy Implemented: June 23, 1995.

POLICY TYPE: GOVERNANCE PROCESS

POLICY TITLE: *CHAIRPERSON'S ROLE*

The chairperson's primary responsibility is to insure the integrity of the board's process. The chairperson is the only board member authorized to speak for the board other than in specifically authorized instances.

1. The duty of the chairperson is to see that the board operates consistent with state law, administrative rules, and its own policies.
 - A. The board agenda will be the responsibility and be coordinated by the chairperson.
 - B. Meeting discussion content will only be those issues which, according to board policy, clearly belong to the board and not the executive director, or in a board member's opinion, may deal with fiduciary responsibilities.
 - C. Deliberation will be fair, open, and thorough, but also efficient, timely, orderly, and brief.
 - D. The chairperson shall appoint a parliamentarian.
2. The authority of the chairperson consists in making decisions that fall within the topics covered by board policies on *Governance Process* and *Board-Executive Director Relationship*, except where the board specifically delegates portions of this authority to others. The chairperson is authorized to use any reasonable interpretation of the provisions in these policies.
 - A. The chairperson is empowered to chair board meetings with all the commonly accepted authority of that position (e.g., ruling, recognizing).
 - B. The chairperson has no authority to make decisions about policies created by the board within *Ends* and *Executive Limitations* policy areas. Therefore, the chairperson has no authority to supervise or direct the executive director.
 - C. The chairperson may represent the board to outside parties in announcing board-stated positions and in stating chairperson decisions and interpretations within the area delegated to the chairperson.
 - D. The chairperson is authorized, in consultation with the RIO Executive Director, to grant approval for international travel by SIB members and to keep the board informed on travel requests.
 - E. The chairperson is authorized, in consultation with the RIO Executive Director, to grant approval for domestic due diligence visits by SIB members and it shall be the responsibility of the traveling board member to report to the SIB on the results of the due diligence visits.

Policy Implemented: June 23, 1995.

Amended: August 17, 2001, September 25, 2009.

POLICY TYPE: GOVERNANCE PROCESS

POLICY TITLE: *BOARD COMMITTEE PRINCIPLES*

Unless specifically provided by governance policy, board committees will be assigned so 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.
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.
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: *STANDING COMMITTEES*

The board's standing committee is that which is set forth in this policy as follows:

1. Audit Committee

A. The audit committee shall operate under the terms of a charter approved by the board.

INTRODUCTION

An Audit Committee has been established as a standing committee of the State Investment Board (SIB). The Audit Committee will assist the SIB in carrying out its oversight responsibilities as they relate to the Retirement and Investment Office (RIO) internal and external audit programs, including financial and other reporting practices, internal controls, and compliance with laws, regulations, and ethics.

The primary objective of the internal audit function is to assist the SIB and management in the effective discharge of their responsibilities. To this end, internal auditing will furnish them with analyses, appraisals, recommendations, and pertinent information concerning the activities reviewed.

Functions and units within RIO will be reviewed at appropriate intervals to determine whether they are effectively carrying out their responsibilities of planning, organizing, directing, and controlling in accordance with SIB and management instructions, applicable laws, policies, and procedures, and in a manner consistent with both the RIO objectives and high standards of administrative practice.

POLICY OF THE STATE INVESTMENT BOARD

The audit staff shall have full, free, and unrestricted access to all RIO activities, records, property, and personnel relative to the subject under review. The audit function will be conducted in a manner consistent with acceptable professional standards and coordinated with others to best achieve the audit objectives and the RIO objectives.

The Internal Audit Services Unit is responsible for developing and directing a broad, comprehensive program of internal auditing within RIO. The Internal Audit Services Unit will report administratively to management and functionally to the Audit Committee of the SIB.

The RIO unit supervisors are responsible for seeing that corrective action on reported weaknesses is either planned or taken within 30 days from the receipt of a report disclosing those weaknesses if known or applicable. The unit supervisors are also responsible for seeing that a written report of action planned or completed is sent to the executive director. If a plan for action is reported, a second report shall be made promptly upon completion of the plan.

Policy Implemented: June 23, 1995.

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 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: GOVERNANCE PROCESS

POLICY TITLE: BOARD MEMBERS ' CODE O F CONDUCT

The following will be the Code of Ethical Responsibility for the SIB:

1. SIB members owe a duty to conduct themselves so as to inspire the confidence, respect, and trust of the SIB members and to strive to avoid not only professional impropriety but also the appearance of impropriety.
2. SIB members should perform the duties of their offices impartially and diligently. SIB members are expected to fulfill their responsibilities in accord with the intent of all applicable laws and regulations and to refrain from any form of dishonest or unethical conduct. Board members should be unswayed by partisan interest, public sentiment, or fear of criticism.
3. Conflicts of interest and the appearance of impropriety shall be avoided by SIB members. Board members must not allow their family, social, professional, or other relationships to influence their judgment in discharging their responsibilities. Board members must refrain from financial and business dealings that tend to reflect adversely on their duties. If a conflict of interest unavoidably arises, the board member shall immediately disclose the conflict to the SIB. A board member must abstain in those situations where the board member is faced with taking some official action regarding property or a contract in which the board member has a personal interest. Conflicts of interest to be avoided include, but are not limited to: receiving consideration for advice over which the board member 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 involving for which the board member has acquired information unavailable to the general public, through participation on the board.

“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 with also involves the member’s fiduciary responsibility.

4. The board should not unnecessarily retain consultants. The hiring of consultants shall be based on merit, avoiding nepotism and preference based upon considerations other than merit that may occur for any reason, including prior working relationships. The compensation of such consultants shall not exceed the fair value of services rendered.
5. Board members must abide by North Dakota Century code 21-10-09, which reads: “No member, officer, agent, or employee of the state investment board shall profit in any manner from transactions on behalf of the funds. Any person violating any of the provisions of this section shall be guilty of a Class A misdemeanor.”
6. Board members shall perform their respective duties in a manner that satisfies their fiduciary responsibilities.
7. All activities and transactions performed on behalf of public pension funds must be for the exclusive purpose of providing benefits to plan participants and defraying reasonable expenses of administering the plan.

POLICY TYPE: GOVERNANCE PROCESS

POLICY TITLE: *BOARD MEMBERS' CODE OF CONDUCT*

8. Prohibited transactions. Prohibited transactions are those involving self-dealing. Self-dealing refers to the fiduciary's use of plan assets or material, non-public information for personal gain; engaging in transactions on behalf of parties whose interests are adverse to the plan; or receiving personal consideration in connection with any planned transaction.
9. Violation of these rules may result in an official reprimand from the SIB. No reprimand may be issued until the board member or employee has had the opportunity to be heard by the board.
10. Board Members are required to affirm their understanding of this policy annually, in writing, and must disclose any conflicts of interest that may arise (See Exhibit B-I).

Policy Implemented: June 23, 1995.

Amended: January 22, 1999, February 25, 2011, January 27, 2012, February 27, 2015.

POLICY TYPE: GOVERNANCE PROCESS

POLICY TITLE: ADMINISTRATION OF FIDUCIARY AUTHORITY

The board is responsible for:

1. Proper exercise of fiduciary investment authority by RIO.
2. The determination of policies.
3. The investment and disposition of property held in a fiduciary capacity.
4. The direction and review of the actions of all officers, employees, and committees in the exercise of the board's delegated fiduciary authority.

Policy Implemented: June 23, 1995.

POLICY TYPE: GOVERNANCE PROCESS

POLICY TITLE: POLICY INTRODUCTION/AMENDMENT/PASSAGE

New policies or policy amendments may be proposed by the Executive Director or a Board member. All new policies or amendments may be submitted to the Board's Legal Counsel for drafting in the approved style.

Upon request of the Executive Director or a Board member a new policy or amendment shall be placed on the Board's agenda for action as follows:

1. Introduction and first reading. A brief explanation or summary of the new policy or amendment shall be presented to the Board. Upon approval of introduction and first reading, the measure shall be placed on the agenda of the next scheduled meeting of the Board for second reading and adoption. When appropriate, the measure shall be distributed to interested parties.
2. *Second reading and adoption. Interested parties and the public shall be allowed an opportunity to comment on the policy or amendment before final action by the Board. The measure shall take effect immediately following second reading and adoption by the Board, unless a different effective date is stated.*
3. Amendments. Amendments may be proposed at any time before final adoption of the measure. Upon determination by the Board that adoption of an amendment constitutes a substantive change that significantly changes the meaning or effect of the measure, the Board shall continue consideration of second reading and adoption to the next meeting to permit further review and comment.

Emergency measures. The Board may, upon determination that an emergency or other circumstances calling for expeditious action exists, waive the requirement of a second meeting and immediately approve second reading and adoption following introduction and first reading.

Policy Implemented: February 27, 2009

Memorandum

To: State Investment Board

From: RIO Compliance Officer

Date: July 1, 20--

RE: Annual Affirmation of Code of Conduct Policy

Governance Process Policy B-8, *Board Members' Code of Conduct*, which is attached to this memorandum, details the Code of Ethical Responsibility for the SIB. Item #10 of this policy indicates that each Board Member 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 Governance Process Policy B-8 *Board Members' Code of Conduct*. I have disclosed any conflicts of interest as required by this policy."

Name (printed) _____

Signature_____

Date_____

Detail of any conflicts of interest (if any):

C. BOARD-STAFF RELATIONSHIP

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POLICY TYPE: BOARD-STAFF RELATIONSHIP

POLICY TITLE: CHIEF EXECUTIVE ROLE

The executive director, as chief executive officer, is accountable to the board acting as a body. The board will instruct the executive director through these written policies, delegating to the executive director the implementation and administration of these policies.

Policy Implemented: June 23, 1995.

POLICY TYPE: BOARD-STAFF RELATIONSHIP

POLICY TITLE: DELEGATION TO THE EXECUTIVE DIRECTOR

All board authority delegated to staff is delegated through the executive director.

1. The board authority will direct the executive director to achieve specified results, for specified recipients, at a specified cost through the establishment of *Ends* policies. The board will limit the latitude the Executive Director may exercise in practices, methods, conduct, and other “means” to the *Ends* through establishment of *Executive Limitations* policies.
2. The Executive Director must use reasonable judgment in the implementation or administration of the board’s *Ends* and *Executive Limitations* policies; the executive director is authorized to establish practices, and develop activities.
3. The board may change its *Ends* and *Executive Limitations* policies. By so doing, the board changes the latitude of choice given to the Executive Director. If any particular delegation is in place, the board and its members will respect and support the Executive Director’s choices, provided that the Executive Director’s choice is consistent with the board’s fiduciary responsibility.
4. Only decisions of the board acting as the body are binding upon the Executive Director.
 - a. Decisions or instructions of individual board members, officers, or committees are not binding on the Executive Director except in rare instances when the board has specifically authorized such exercise of authority.
 - b. In the case of board members or committees requesting information, other than a public record, or assistance without board authorization, the Executive Director may refuse such requests that require a material amount of staff time or funds or is disruptive.
5. The Executive Director will be responsible for the hiring, termination, and annual evaluation of all employees of the Retirement and Investment Office.

Policy Implemented: June 23, 1995.

Amended: November 22, 1996; November 19, 1999.

POLICY TYPE: BOARD-STAFF RELATIONSHIP

POLICY TITLE: EXECUTIVE DIRECTOR JOB DESCRIPTION

As the board's single official link to the operating organization, the executive director's performance will be considered to be synonymous with the RIO's total performance.

Consequently, the executive director's job contributions can be stated as performance in the following areas:

1. Organizational accomplishment of the provisions of board policies on *Ends*.
2. Organizational operation within the boundaries of prudence and ethics established in board policies on *Executive Limitations*.
3. Maintain accurate records of the proceedings of the SIB and TFFR Board.

Policy Implemented: June 23, 1995.

POLICY TYPE: BOARD-STAFF RELATIONSHIP

POLICY TITLE: MONITORING EXECUTIVE PERFORMANCE

Monitoring executive performance is synonymous with monitoring organizational performance against board policies on *Ends* and on *Executive Limitations*. Any evaluation of the executive director's performance, formal or informal, may be derived only from these monitoring data.

1. The purpose of monitoring is simply to determine the degree to which board policies are being fulfilled. Information which does not do this will not be considered to be monitoring. Only a minimum amount of board time as necessary will be devoted toward monitoring so that meetings can best be used to create the future rather than to review the past.
2. A given policy may be monitored in one or more of three ways:
 - A. Internal report: Disclosure of compliance information to the board from the executive director.
 - B. External report: Discovery of compliance information by a disinterested, external auditor, inspector or judge who is selected by and reports directly to the board. Such reports must assess executive performance only against policies of the board, not those of the external party unless the board has previously indicated that party's opinion to be the standard.
 - C. Direct board inspection: Discovery of compliance information by a board member, a committee, or the board as a whole. This is a board inspection of documents, activities, or circumstances directed by the board which allows a "prudent person" test of policy compliance.
3. The board will monitor each *Ends* and *Executive Limitations* policy according to the following frequency and method:

Quarterly internal reports for policies:

- A-2 Staff Relations
- A-4 Budgeting
- A-5 Financial Condition
- D-3 Investment Services
- D-4 Investment Performance

Annual external reports for policies:

- A-2 Staff Relations
- A-4 Budgeting
- A-7 Asset Protection
- D-3 Investment Services
- D-4 Investment Performance

POLICY TYPE: BOARD-STAFF RELATIONSHIP

POLICY TITLE: MONITORING EXECUTIVE PERFORMANCE

Annual internal reports for policies:

- A-1 General Executive Constraint
- A-3 Relating to Public and Government
- A-8 Compensation and Benefits
- A-9 Conflict of Interest

4. The Executive Director will submit required monitoring reports at regular meetings of the board. The board will act on those reports by voting on one of the following motions:
 - A. A motion to accept the report.
 - B. A motion to conditionally accept the report, with a statement of the revisions or additional information that is necessary for the report to be accepted without condition.

The internal audit staff will be responsible for preparing an annual summary of the board's action concerning required reports submitted by the Executive Director, and the summary will be made available as a part of the formal evaluation of the Executive Director.

5. Each March the board will conduct a formal evaluation of the executive director/investment officer. This evaluation will be based on accomplishments of *Ends* and *Compliance with Executive Limitations*.
6. At the February board meeting, the chairperson will appoint a three-member committee to review the board's evaluation and make a recommendation to the full board concerning salary for the executive director/investment officer.

In making its recommendation, the committee will consider job performance as evidenced by the annual summary of the periodic monitoring reports, the Retirement and Investment Office budget status, the annual Public Pension System's Compensation Survey, the annual National Association of State Investment Officer's survey, the legislature's approved salary increases for state employees, the North Dakota market compensation for comparable positions, and other data or information considered relevant by the committee.

The committee's recommendation will be placed on the May board meeting agenda for possible action by the board. Final action by the board will be accomplished no later than the June board meeting.

Policy Implemented: June 23, 1995

Amended: November 21, 1997; June 25, 1999; November 19, 1999; January 28, 2000; February 25, 2000; February 23, 2001; September 26, 2014.

D. ENDS

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The Retirement and Investment Office exists in order that:

- 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 satisfactory services from the boards and staff of the office.

Policy Implemented: October 27, 1995.

Amended: January 27, 2012.

POLICY TYPE: ENDS

POLICY TITLE: 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.

POLICY TYPE: ENDS

POLICY TITLE: 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:

1. 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.
2. 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.
3. 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.

POLICY TYPE: ENDS

POLICY TITLE: *INFORMATION ON AVAILABLE SERVICES*

The Retirement and Investment Office exists in order that:

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

Policy Implemented: October 27, 1995.

POLICY TYPE: ENDS

POLICY TITLE: 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.

POLICY TYPE: ENDS

POLICY TITLE: *INFORMATION ON RETIREMENT SERVICES*

The Retirement and Investment Office exists in order that:

1. 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.

POLICY TYPE: ENDS

POLICY TITLE: CUSTOMER SATISFACTION

The Retirement and Investment Office exists in order that:

1. SIB clients and TFFR benefit recipients receive satisfactory services from the boards and staff of the office.
 - A. The quality of services will be assured by direct board contact and by surveying clients and beneficiaries at least annually and promptly addressing identified client/beneficiary concerns.

Policy Implemented: December 1, 1995.

ORGANIZATIONAL BENEFICIARIES

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. 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. Board of Medicine
12. Center for Tobacco Prevention & Control

ADMINISTRATIVE CLIENTS:

Statutory:

1. Teachers' Fund for Retirement Beneficiaries

Amended: July 24, 2015

GOVERNANCE POLICY MONITORING SUMMARY				
POLICY	METHOD	RESPONSIBILITY	FREQUENCY	BOARD ACTION
ENDS				
Investment Services	External	Investment Consultant	Annual - FYE	N/A
	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				
Executive Constraint	Internal	Executive Director	Annual - CYE	Accept or Follow-Up
	Internal	Audit Supervisor	Quarterly	Accept or Follow-Up
Staff Relations	Internal	Executive Director	Quarterly	Accept or Follow-Up
	Internal (External)	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*

E. INVESTMENTS

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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 twelve statutory funds. Through contractual obligations, fiduciary responsibility extends to eleven 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. 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 speculation but in regard to 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

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:

Asset allocation targets:

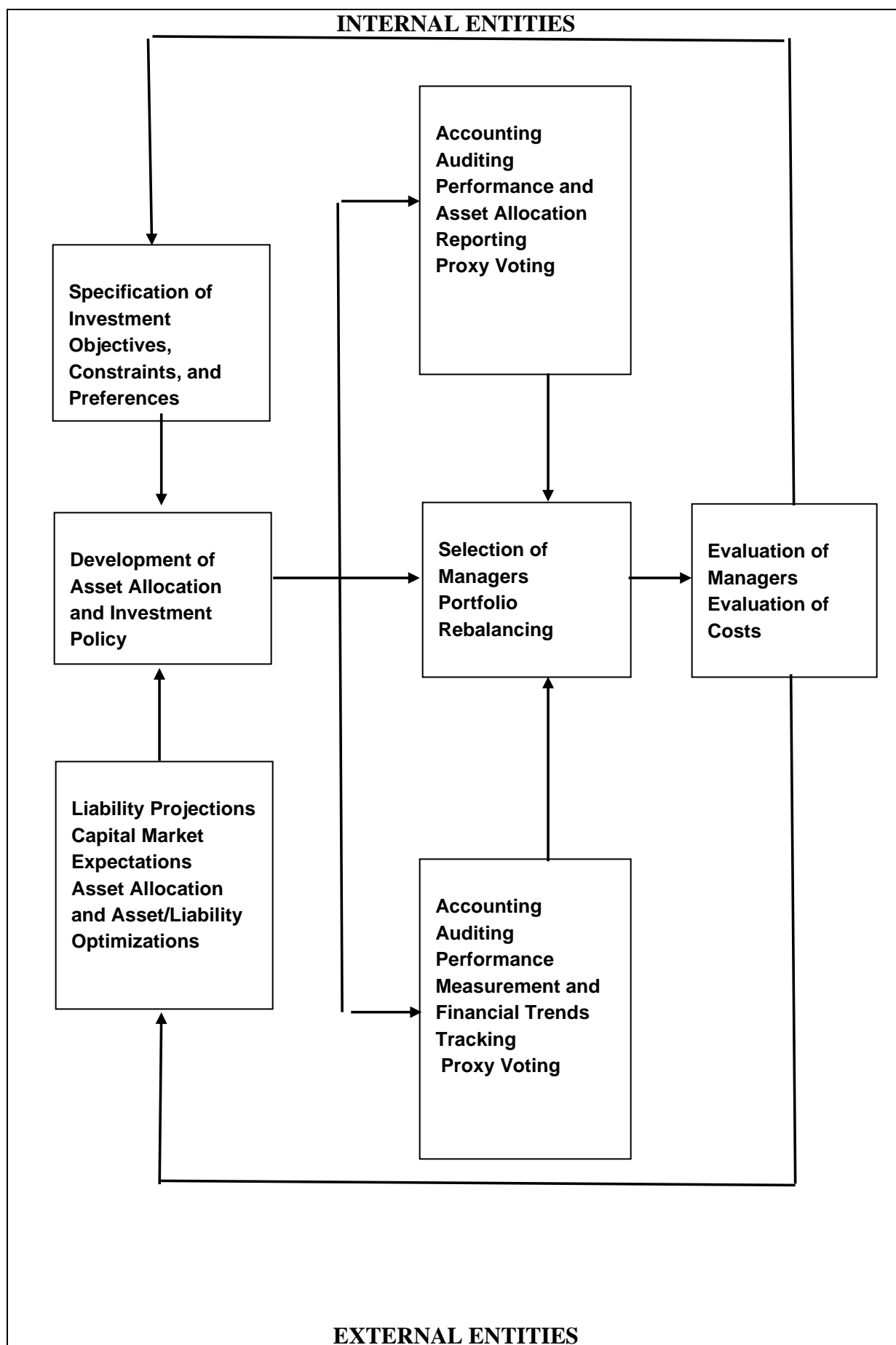
- Setting appropriate benchmarks.
- Finding the right managers.
- Monitoring the program.
- Searching for appropriate new opportunities.

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.



POLICY TYPE: INVESTMENTS

POLICY TITLE: KEY PROGRAM ENTITIES AND RESPONSIBILITIES

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.
3. Hire actuary when required.

SIB

1. Invest funds entrusted by statute and contracted entities.
2. Set policies on appropriate investments and investment practices for entrusted funds.
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.
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.

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. 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 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

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

POLICY TYPE: INVESTMENTS

POLICY TITLE: INVESTMENT POLICY DEVELOPMENT – TRUST FUNDS

All funds under SIB management must have a written investment policy. Investment policy forms the cornerstone of the management of any investment program. A sound investment policy ensures that fund assets are managed in a disciplined process, based on long-term fundamental investment principles.

For the larger, more complex trust funds, consultants are used to assist in policy and asset allocation development. Their specialized skills are needed to model and analyze the many variables that go into determining a proper asset allocation.

Policy development starts with the specification of investment objectives, constraints, and preferences. Fund trustees must address a number of factors:

- What is the fund's objective(s)?
- What is the board's tolerance for risk or threshold for under-performance?
- What are the fund's liquidity needs and cash flow characteristics?
- What are the board's asset class preferences and constraints?
- What is the actuarial earnings assumption?
- What are the legal or political considerations?
- What is the investment time horizon?

Since the ultimate objective of fund investments is to provide for the payment of future capital needs, claims, or other monetary requirements, it is essential that the investment policy be developed within the context of fund liabilities or spending policy. The development of investment policy, therefore, is always unique to the circumstances of each fund.

Complex actuarial models are used to quantify the liabilities of the pension plans and Workforce Safety and Insurance. Internal entities develop cash flow forecasts for the smaller funds based on past claims or anticipated expenditures.

Asset allocation optimizations are used to quantify the range of future investment outcomes. Investment consultants contribute needed expertise on capital market expectations and in identifying the risks associated with a particular asset allocation.

For some funds, the risk/return tradeoffs of alternative portfolios are not well represented by expected returns and standard deviation. More important are the expected results for required sponsor and participant contributions and funded ratios over time. Asset/liability modeling is the tool that allows the governing boards to examine and assess the tradeoffs leading to an appropriate investment policy.

The results of the optimizations are a description of the range of financial results that might realistically be expected to occur. These results provide the basis for determining an asset allocation.

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.

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

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.

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

The SIB will ensure that appropriate monitoring mechanisms are in place at all times. The three basic mechanisms are:

- Accounting
- Auditing
- Performance Measurement

The primary objective of these functions is to provide useful information to decision makers (fiduciaries and legislators). These monitoring functions are needed to keep track of assets and manager activity and to control the asset mix. Different aspects of these activities will be conducted internally by RIO staff and externally by the master custodian, auditors, and investment consultants.

Accounting

The master custodian will provide RIO staff with such accounting detail and at such frequency as the staff deems necessary to fulfill the SIB's reporting requirements.

From this information, RIO accounting staff will generate monthly and annual financial statements for each of the trust funds managed by the SIB.

RIO management is responsible to ensure the proper valuation of all assets. Formal valuation policies must be developed and implemented utilizing industry best practices and GAAP accounting requirements.

Compliance

RIO management is responsible for developing and implementing compliance procedures utilizing industry best practices. A summary of compliance procedures and results will be presented to the SIB annually.

Auditing

The North Dakota State Auditor is responsible for the external audit of RIO. They may assign this responsibility to an outside firm which they select by way of the RFP process. The SIB Audit Committee may make recommendations to the State Auditor concerning the selection, evaluation, and termination of this firm. This firm conducts an extensive financial and management audit for each fiscal year. The audited financial statements are filed with the Legislative Audit and Fiscal Review Committee.

RIO has a dedicated internal audit function that reports to the SIB Audit Committee. The internal audit function encompasses both the investment and retirement divisions of RIO. The SIB Audit Committee has oversight responsibilities as outlined in the SIB Audit Committee charter.

Performance Measurement and Reporting

The third element of monitoring entails measuring the performance of the individual investment managers and the total fund performance of each of the funds under the SIB. The SIB will retain reputable investment consultants or performance measurement services to provide comprehensive quarterly performance measurement information. This information will include data on the capital markets, other plan sponsors, and other investment managers. Performance results for SIB accounts will be calculated from data provided by the master custodian and compared to relevant capital market benchmarks, other public funds, manager peer groups, and investment goals specified in the asset class investment policy. Time periods covered by the report may vary but generally will include the most recent quarter, last 12 months, last three years, five years, and longer time periods (as data is available).

POLICY TYPE: INVESTMENTS

POLICY TITLE: *MONITORING*

RIO staff will use appropriate sources to compile monthly performance reports for each of the funds under the SIB that show recent performance and asset mix.

Policy Implemented: September 20, 1995.

Amended: February 27, 2009, February 25, 2011.

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 audit 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

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 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:

Quantitative characteristics, such as GIPS-compliant composite return data, risk-adjusted rates of return and relevant portfolio characteristics.

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.

- 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 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, 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 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 rebalancing, RIO works with the investment consultants to determine 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. 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.

POLICY TYPE: INVESTMENTS

POLICY TITLE: *EVALUATION*

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 to discuss performance, investment philosophy, organizational changes, economic outlook, and areas of concern.

POLICY TYPE: INVESTMENTS

POLICY TITLE: *EVALUATION*

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. The most reliable source of comparison currently available is the cost survey prepared by the Canadian consulting firm Cost Effectiveness Measurement, Inc. The information contained in this survey is not available anywhere else. Staff is encouraged to identify other cost-comparison sources.

Policy Implemented: September 20, 1995.

POLICY TYPE: INVESTMENTS

POLICY TITLE: PERFORMANCE RELATED INVESTMENT MANAGER REVIEW

The North Dakota State Investment Board (SIB) recognizes the inherent importance of assessing an investment manager because of performance. Thus, the following process of evaluation includes quantitative *and* qualitative input. This procedure is structured to assist the SIB in recognizing potentially distressed investment managers, initiating a formal review process, and providing guidelines for termination if necessary. Note: The “Manager Review” terminology or concept is not meant to cause the manager to make substantive changes in investment philosophy, style, or strategies. Rather, it is intended to define a period of close scrutiny of the manager’s activities, circumstances, and investment results.

Factors which may result in a Manager Review:

Significant changes in organizational structure

Significant changes in investment philosophy

Significant deviation in portfolio management from stated philosophy (style drift)

Substandard investment performance

Diminished confidence in manager

Manager Review Procedures:

Information is submitted to, or generated by, the Board which initiates consideration of a Manager Review.

If warranted, the Board takes action to initiate a Manager Review.

Based on the situation and with input from the Investment Director, the SIB suggests appropriate action to facilitate the Review. Action may include telephone conferencing, local or on-site visits with manager, investigation by consultants, appearance of manager before a select committee of the SIB, or appearance of the manager before the SIB. Investment Director initiates investigation of situation based on direction from SIB.

The Investment Director report’s findings to SIB at a subsequent meeting.

After considering findings of the Manager Review, SIB may:

- Remove manager from Review status
- Suggest additional action to facilitate Manager Review
- Relieve manager of duties

POLICY TYPE: INVESTMENTS

POLICY TITLE: PERFORMANCE RELATED INVESTMENT MANAGER REVIEW

In the case where continued investigation is warranted, the Investment Director will report new information and/or recommendations to the SIB as appropriate. It will be considered the responsibility of the Investment Director to maintain awareness and consideration of the Review until the situation is resolved.

It is important to recognize that situations occasionally arise of such a serious nature that a Manager Review process must be immediately initiated. In such cases, the Investment Director is granted the authority to place an investment manager under Review, including the freezing of assets if necessary, and report on such action at the next meeting of the State Investment Board.

In every case, the Investment Director is responsible for documenting the Manager Review process including recognition of:

- Reason of Manager Review
- Action taken to investigate the situation
- Report on results of investigation
- Report on resultant action taken by SIB
- Notification of investigation and conclusions to manager and consultants

A complete record of Manager Review activities and history shall be maintained at the ND Retirement and Investment Office.

Policy Implemented: June 27, 1997.

POLICY TYPE: INVESTMENTS

POLICY TITLE: *BANK OF NORTH DAKOTA MATCH LOAN PROGRAM*

The SIB has a commitment to the Bank of North Dakota Match Loan Program. The purpose of the program is to encourage and attract financially strong companies to North Dakota. The program is targeted to manufacturing, processing and value-added industries.

The SIB provides capital to the program by purchasing Certificates of Deposit (CD's) from the Bank of North Dakota. The CD's are guaranteed by the state, typically have seven to fifteen year maturities and pay interest pegged to US Treasury notes.

The source of funding for CD's shall be determined by the Investment Director; that funding to be from the most appropriate source consistent with liquidity and relative yield and return objectives and constraints.

Policy Implemented: April 24, 1998.

Amended: February 27, 2009

POLICY TYPE: INVESTMENTS

POLICY TITLE: ACCEPTING NEW CLIENTS

NDCC 21-10-06 states *“The state investment board may provide investment services to, and manage the money of, any agency, institution, or political subdivision of the state, subject to agreement with the industrial commission. The scope of services to be provided by the state investment board to the agency, institution, or political subdivision must be specified in a written contract. The state investment board may charge a fee for providing investment services and any revenue collected must be deposited in the state retirement and investment fund.”*

When a request is received by staff from a potential new investor requesting investment services from the State Investment (SIB), the following steps shall be followed.

1. Staff will conduct initial discussions with the potential client regarding type of fund, risk tolerance, size of fund, services to be provided, costs, etc.
2. Staff will recommend that an Asset/Liability study be conducted by the potential client if one has not been done recently. This discussion will include a description of the asset classes available for investment with the SIB to be included in their study.
3. If the potential client is still interested in participating in the SIB program, staff will bring the preliminary request to the SIB for acceptance. It shall be the policy of the SIB to take the following into consideration when determining if a new investor request will be accepted.
 - a. Internal staff administrative capacity.
 - b. Compatibility of new investor's goals and risk tolerances with the existing SIB program structure.
 - c. Whatever other factors the SIB determines to be appropriate to the decision.
4. If the SIB chooses to accept the preliminary request, staff will provide the necessary template documents to the potential client for review and completion. These documents include a contract for services and investment guidelines.
5. Once documentation is completed, staff will request to have the issue included on the Industrial Commission's agenda for their approval. Copies of all documentation will be provided for their review.
6. If approved by the Industrial Commission, final documentation will be presented to the SIB for final acceptance.
7. If accepted, staff will work with the new client to set up transfer of funds and implementation of asset allocation as directed. All new clients will be brought in as of the last day of a calendar quarter.
8. Fees will be charged with the intention of covering all associated costs as described in RIO Fiscal Management procedure “Investment Fee Allocations”.

Policy Implemented: November 20, 2009

POLICY TYPE: INVESTMENTS

POLICY TITLE: *SECURITIES MONITORING AND LITIGATION*

General Purpose

1. The North Dakota State Investment Board (“SIB”) is a fiduciary for assets held in trust for the benefit of SIB clients’ including their beneficiaries and to defray expenses of administration of their respective investment funds.
2. In order to carry out its fiduciary duty to prudently invest and diversify the assets of the various investment funds, the SIB invests considerable assets in global public securities markets.
3. The efficient and effective deployment of plan assets requires that in seeking returns market risks must be prudently assumed and managed. Investing in publicly-traded securities in regulated markets under accounting, disclosure and business practice laws and regulations provides general, but not perfect assurance that the information forming the basis for investments is accurate, conforms with accepted accounting practices, and is not distorted due to misfeasance, malfeasance or nonfeasance, or the timing of information disclosures by persons or entities with the ability to affect market prices of the investment securities.
4. Legal action is sometimes necessary to attempt to recover all or part of losses the fund may incur due to alleged improper action or inaction that results in the impairment of the value of the fund’s security holdings.
5. Most such actions will be prosecuted by the class action bar whether or not the SIB takes an active role as a plaintiff or a passive role as a member of a certified class of plaintiffs. Any ultimate award or settlement from a class action filing will be ratably allocated among legitimate claimants.
6. The SIB will generally only consider pursuing active participation in securities actions when such a role is expected to add value by enhancing the prospect for recovery, increasing the amount of recovery, assuring more efficient and effective prosecution of the case, or identifying and addressing corporate governance issues through litigation.

For purposes of this Policy, “active participation” means seeking status as lead plaintiff, co-lead plaintiff, or filing separate legal action.

Non-Active Recovery and Filing

1. SIB will require as part of its agreement with its custodial bank, that adequate securities class action monitoring is maintained on an ongoing basis, sufficient to assure that most of the actual awards and settlements for such cases are tracked and identified and that proof of claim forms, including supporting documentation, will be properly and timely filed.
2. To augment and enhance coverage, identification and tracking of class-action cases (potential or actual) SIB may engage one or more legal firms that specialize in monitoring and prosecuting security class-action cases; any such engagement is subject to the special appointment requirements of N.D.C.C. § 54-12-08. For these purposes only, such firm(s) may be granted ongoing access to security holdings information through the custodian bank.

3. A monitoring agreement with any law firm for monitoring service access and reporting will not commit SIB to employing said firm in the event that it seeks to represent SIB as an active participant in any securities related litigation. Such representation must be effected by a separate retainer agreement between the SIB and said firm, or another, depending on such factors as the potential monetary scope, the nature of the case and industry specialty that may be required, the allocation of current or past cases among candidate firms, the likely duration and cost of prosecuting such a case, retainer fees or contingency splits, the venue in which the case is to be filed, and other considerations.
4. The custodial bank will be required to provide the Retirement and Investment Office (“RIO”) with periodic reports that detail class action cases monitored, claims filed, and award or settlement distributions received. RIO will maintain these records and provide an update to the SIB with regards to accounting information on distributions received on claims filed by the custodian bank on our behalf.

Active Participation in Cases

1. The Executive Director will initiate active participation in securities cases only upon prior review and approval of the SIB. Before bringing any recommendations to the Board, the Executive Director with significant assistance by legal counsel from the Office of the Attorney General, will assess the merits and prospects for active participation by reference to the criteria and factors outlined in this section.
2. Decision Criteria and Factors:
 - a. The decision to participate in an active capacity in security litigation should be based on the totality of the circumstances. Dollar loss amounts are important, but not the sole or overriding factor to consider in making such recommendations by the Executive Director, or determinations by the SIB.
 - b. Potential losses to SIB clients must be significant in order to warrant participation as a lead plaintiff, co-lead plaintiff, or separate “opt-out” litigant. Generally, in cases where the potential loss does not exceed the greater of 0.1% of trust assets, the SIB will avoid active participation.
 - c. The *prima facie* merits of the claim for loss, and the factual basis for the action, recognizing that the full discovery process will not commence until the class has been certified by the court in which such case is to be filed.
 - d. The availability of witnesses, and possible support that may be obtained from investment managers, consultants, and the custodial bank through discovery.
 - e. The potential that any defendants or insurers will be able to pay an adequate recovery to the class, without impairing the value of any current security holdings SIB may yet hold in the issuer in the portfolio.
 - f. The ability of the law firm recommending action on the part of SIB to prosecute the case effectively, in the venue where such case is likely to be filed, and the experience of the firm in managing such cases individually or in partnership with other firms.

- g. Potential long-term benefits from corporate governance changes from pursuing litigation.
 - h. The ability of SIB to serve as a fiduciary on behalf of all class members in the case, especially in relative terms to other institutional investors that may be considering the same case.
 - i. Potential costs that may be incurred. Special consideration must be given to any case that must be filed in a non-U.S. venue under the “Morrison” criteria established by the U. S. Supreme Court in a 2010 decision, since costs of litigation and potential liabilities of unsuccessful claims may be significant.
 - j. Current workload and staffing resources required for the fulfillment of SIB’s primary member service functions, and whether participation might displace time and staff resources needed for core business functions.
3. Decision Criteria and Factors for cases filed in a non-U.S. venue: In addition to the Criteria and Factors set forth in Subsection 2, the SIB may consider the following:
- a. The proposed funding arrangements for the action.
 - b. Evaluate the merits and risks of the case in light of the law of the jurisdiction in which the action would be brought.
 - c. The role or level of participation in the case by the SIB.

Roles in Managing and Monitoring Litigation

- 1. The SIB will make the final determination of whether it is in the SIB’s best interest to pursue active participation in any case and whether to engage any law firm and the terms of such engagement.
- 2. Decisions regarding the conduct and implementation of the Board’s decision to participate will be the responsibility of the Executive Director, or an approved member of the management staff if he so delegates. When feasible and advisable, the Executive Director shall seek advice and direction from the Board on strategic and legal issues that may arise in prosecuting the action on behalf of the SIB and its clients. The Executive Director shall timely report to the Board on the progress of the litigation.
- 3. The Executive Director shall be responsible for management of the relationship with any portfolio monitoring law firm or organization for such purpose. Based on the need for additional coverage, the Executive Director will determine whether one or several firms are needed to fulfill the goals of this Policy and may terminate such monitoring agreements as judgment advises.
- 4. Any agreement for portfolio monitoring services that includes a fee or subscription cost must first be approved by the SIB before execution by the Executive Director.

Policy Review

- 1. The Board shall review this policy at least every three years to ensure that it remains relevant and appropriate.

Policy Implemented: November 20, 2015

EXHIBIT E-IState Investment Board (SIB) Members **2017-2018:**

Position	Incumbent	Designation	Term Expiration
Lt. Governor	Brent Sanford	Ex officio	Open
State Treasurer	Kelly Schmidt	Ex officio	Open
State Insurance Commissioner	Jon Godfread	Ex officio	Open
Commissioner University & School Lands	Lance Gaebe	Appointed	N/A
Executive Director Workforce Safety & Insurance	Bryan Klipfel	Appointed	N/A
Trustee, TFFR	Mel Olson	Appointed by TFFR Board	6/30/18
Trustee, TFFR	Michael Gessner	Appointed by TFFR Board	6/30/21
Trustee, TFFR	Rob Lech	Appointed by TFFR Board	6/30/20
Trustee, PERS	Adam Miller	Appointed by PERS Board	6/30/22
Trustee, PERS	Troy Seibel	Appointed by PERS Board	6/30/21
Trustee, PERS	Yvonne Smith	Appointed by PERS Board	6/30/19

Retirement and Investment Office (RIO) Staff:

Position	Incumbent	Education
Executive Director/ Chief Investment Officer	David Hunter	BS, Accounting, Northern Illinois University MBA, Finance, University of Chicago
Deputy Chief Investment Officer	Darren Schulz	BBA, Finance, Georgia State University, CFA
Fiscal and Investment Operations Mgr	Connie Flanagan	BS, Accounting, University of Mary
Deputy Executive Director/ Chief Retirement Officer	Fay Kopp	BS, Education, Valley City State University, CRC, CRA

External

Function	Firm	Date Hired
Investment Consultant	Callan Associates Inc.	4/84
Actuary (TFFR)	Segal	7/11
Auditor	CliftonLarsonAllen	4/12
Master/Global Custodian	The Northern Trust Company	12/83

F. TFFR ENDS

Reference: Teachers' Fund for Retirement "Ends"

<http://www.nd.gov/rio/SIB/Board/default.htm>

G. TRUST FUND INVESTMENT GUIDELINES

Bismarck Deferred Sick Leave

Bismarck Employees

Bismarck Police

Board of Medicine

Bonding

Budget Stabilization

Cultural Endowment Fund

Fargo - FargoDome Permanent Fund

Fire and Tornado

Grand Forks City

Grand Forks Park

Health Care Trust

Insurance Regulatory

Job Service

Legacy Fund

ND Association of Counties

PERS

PERS Group Insurance

PERS Prefunded Health

Petroleum Tank

Risk Management

Risk Management Workers Comp

Teachers' Fund for Retirement

Workers Compensation

H. BY-LAWS

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CHAPTER 1 - AUTHORITY

- Section 1-1. The State Investment Board (SIB) has the authority to maintain an administrative office under Chapter 54-52.5, North Dakota Century Code.
- Section 1-2. The SIB has the authority and responsibility for providing administrative services to the North Dakota Teachers' Fund for Retirement (TFFR) and the North Dakota State Investment Board. This includes organizing, staffing, and maintaining an administrative office.
- Section 1-3. The SIB has the authority and responsibility for developing and monitoring the agency budget.
- Section 1-4. The SIB has the authority and responsibility to maintain office records, an accounting system, and data processing support services.
- Section 1-5. The SIB has the authority to pay all claims and investment expenses filed with TFFR and the SIB.

Policy Implemented: June 23, 1995.

CHAPTER 2 - BOARD

- Section 2-1. Members of the State Investment Board (SIB) are the Governor, State Treasurer, Commissioner of University and School Lands, director of Workforce Safety & Insurance, Commissioner of Insurance, three members of the Teachers' Fund for Retirement (TFFR) Board, two of the elected members and one member of the Public Employees Retirement System (PERS) Board as selected by those boards. The PERS and TFFR Boards may appoint an alternate designee with full voting privileges to attend meetings of the SIB when a selected member is unable to attend. The director of Workforce Safety and Insurance may appoint a designee, subject to approval by the Workforce Safety and Insurance board of directors, to attend the meetings, participate, and vote when the director is unable to attend.
- Section 2-2. The SIB will have general charge and management of the business of TFFR and the SIB, subject to law, administrative rules and regulations, and governance policies. The SIB will make such policy as necessary to fulfill this obligation.
- Section 2-3. When the statutes allow a Deputy to represent a member of the SIB or an alternate to represent the TFFR or PERS Board, the Chair will recognize the individual for the record, and the individual(s) will then have the right to vote on matters before the SIB.
- Section 2-4. The SIB will be responsible for the operation of an administrative office that will provide support services to TFFR and the SIB.

Policy Implemented: June 23, 1995.

Amended: July 22, 2011.

CHAPTER 3 - OFFICERS AND DUTIES

- Section 3-1. The officers of the SIB are a Chair and Vice Chair, one of which must be an appointed or elected member of the TFFR or PERS Board. The officers will be elected by the SIB to a one-year term at the first regularly scheduled meeting following July 1 of each year. Vacancies will be filled by the SIB at the first scheduled meeting following the vacancy.
- Section 3-2. Chair. The Chair will preside at all meetings of the SIB.
- Section 3-3. Vice Chair. In the absence of the Chair, the Vice Chair will perform the duties of the Chair.
- Section 3-4. Executive Director. An Executive Director will be retained by the SIB. The Executive Director will serve at the SIB's pleasure, be responsible for keeping the records of the SIB and TFFR Board actions, and perform such duties as the SIB prescribes. The Executive Director will make out and give out all notices required to be given by law, procedures, or rules and regulations of the two boards.

Policy Implemented: June 23, 1995.

CHAPTER 4 - MEETINGS

- Section 4-1. Regular meetings of the SIB to conduct business are to be held as often as necessary. The SIB will meet at least once each quarter. Notice of all meetings will be made in accordance with North Dakota Century Code, Section 44-04-20.
- Section 4-2. Meetings of the SIB may be called by the Chair or two members of the SIB upon reasonable notice in writing to the other members of the Board. (NDCC 21-10-04)
- Section 4-3. A quorum will be six (6) members of the SIB.
- Section 4-4. Voting on matters before the SIB will be contained in the minutes which will show the recorded vote of each SIB member.
- Section 4-5. All meetings of the SIB are open to the public.
- Section 4-6. A record of procedures will be kept by the Executive Director on all meetings of the SIB. The records of these proceedings are public documents, and copies will be distributed to the TFFR, SIB, and PERS Boards and upon request.
- Section 4-7. Public participation during meetings of the SIB may be allowed at the discretion of the Chair.
- Section 4-8. SIB members, except elected and appointed officials, will be paid the amount specified in NDCC 21-10-01 per SIB meeting attended.

Expenses will be paid according to state law and OMB policies.

Policy Implemented: June 23, 1995.

Amended: July 22, 2011.

CHAPTER 5 - COMMITTEES

Section 5-1. The SIB will establish one standing committee: Audit Committee.

Section 5-1-1. Audit Committee. The Audit Committee will consist of five members. They will be selected by the SIB. Three members of the committee will represent the three groups on the SIB (TFFR Board, PERS Board, and elected and appointed officials). The other two members will be selected from outside of the SIB and be auditors with at least a Certified Public Accountant (CPA) or Certified Internal Auditor (CIA) designation.

The Audit Committee will have responsibility for oversight of financial reporting, auditing, and internal control. The Audit Committee will be responsible for developing a written charter, to be approved by the SIB, which puts forth the authority, responsibilities, and structure of the Audit Committee. It will also be the responsibility of the Audit Committee to supervise the audit activities of the internal audit staff, work with the State Auditor/external auditors, and develop reports for the SIB.

The Executive Director shall supervise the administrative activities of the internal/external audit programs such as travel, securing contracts, paying fees, maintaining official reports, etc.

The supervisor of the internal audit function will be the staff member directly responsible to the Audit Committee.

Membership on the Audit 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 Audit Committee.

Section 5-2. No member of the SIB will be paid, other than expenses, for attending seminars, conferences, or other such educational meetings.

Policy Implemented: June 23, 1995.

CHAPTER 6 - RULES OF ORDER

Section 6-1. All SIB meetings will be conducted in accordance with Robert's Rules of Order Newly Revised except as superseded by these by-laws and board governance policies.

Policy Implemented: June 23, 1995.

CHAPTER 7 - ADMINISTRATIVE OFFICE

Section 7-1. For the purpose of carrying out the day-to-day business of TFFR and the SIB, an administrative office will be maintained in Bismarck, North Dakota. This office is called the Retirement and Investment Office (RIO).

Section 7-2. The Executive Director will be the administrator of the office.

Policy Implemented: June 23, 1995.

CHAPTER 8 - AMENDMENTS

Section 8-1. These by-laws may be amended by a two-thirds vote of SIB members. All amendments must be mailed to SIB members at least thirty (30) days prior to the meeting at which they are considered.


Section 8-2. All amendments must include an effective date.

Policy Implemented: June 23, 1995.

I. CENTURY CODE

<u>SECTION</u>		<u>PAGE</u>
STATE INVESTMENT BOARD		
21-10-01.	State investment board - Membership -Term - Compensation -Advisory council.	1
21-10-02.	Board -Powers and duties.	1
21-10-02.1.	Board -Policies on investment goals and objectives and asset allocation.	1
21-10-03.	Cooperation with Bank of North Dakota.	2
21-10-04.	Board -Meetings.	2
21-10-05.	Investment director - Powers and duties.	2
21-10-06.	Funds under management of board - Accounts.	2
21-10-06.1.	Board - Investment reports.	3
21-10-06.2.	Investment costs.	3
21-10-07.	Legal investments.	3
21-10-08.	Reserves - Percentage limitations.	3
21-10-09.	Personal profit prohibited - Penalty.	3
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STATE RETIREMENT AND INVESTMENT OFFICE		
54-52.5-01.	North Dakota State Retirement and Investment Office.	1
54-52.5-02.	Governing authority.	1
54-52.5-03.	State retirement and investment fund - Cost of operation of agency.	1

Retirement and Investment Office

- ▶ RIO was created in 1989 as the oversight agency for our two programs: TFFR and SIB
 - ▶ By statute, the SIB Board is the governing board of the agency
 - ▶ All expenses of the agency are funded by the income collected from the programs
 - ▶ Expenses within RIO are allocated to the two programs based on staff allocations and actual usage – most RIO divisions/staff support both programs
 - ▶ Expenses allocated to the investment program are further allocated down to each client fund, including TFFR, based on percentage of total funds under management or actual usage
- 

RIO Funding Sources

▶ TFFR Program

- Assets belong to Members
 - Contributions
 - Member
 - Employer
 - Investment Income

▶ SIB Program

- Assets belong to Client Funds
 - Investment Income

None of these funds belongs to RIO – RIO is simply the fiduciary of the funds.

RIO Funding Sources

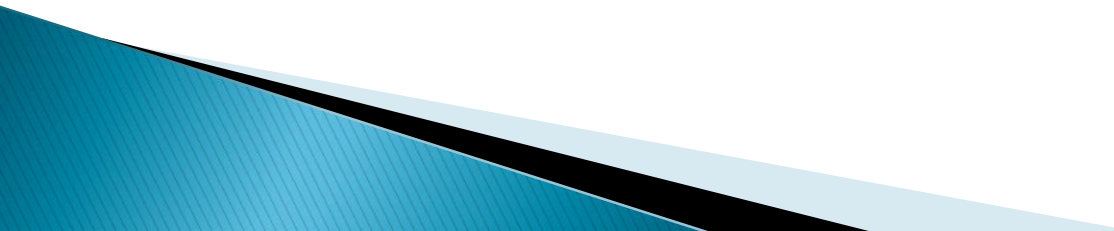
	FY 2017 Actual	% of Total
Contributions	\$ 168,157,111	11.3%
Investment Income	<u>1,320,979,866</u>	88.7%
Total FY2017 Income	\$1,489,136,977	

RIO Expenses

	FY 2017 Actual	% of Total
Benefits & Refunds	\$196,516,544	77.3%
Investment Expenses	54,465,421	21.4%
Administrative Expenses		
Appropriated	1,766,854	1.1%
Other Continuing Approp.	<u>603,154</u>	0.2%
Total FY2017 Expenses	\$211,810,455	

RIO Budget

Continuing Appropriation Expenses

- ▶ Do not require specific legislative approval each session
 - ▶ Defined in statute
 - TFFR statute specifies benefits, investment expenses and consultant fees
 - SIB statute specifies investment costs such as investment management fees, manager search costs, asset allocation expenses and expenses associated with onsite audits and review of investment managers (due diligence)
- 

RIO Budget

Appropriated Expenses

- ▶ Legislature meets biennially (beginning January of odd numbered years)
- ▶ Agencies are required to submit their budget requests to OMB by July 15 of even numbered years (effectively a full year before the start of the next biennium)
- ▶ Historically, the Governor has issued guidelines for General Fund agency requests (i.e “hold even” or 97%)
 - For the 2017–19 biennium, GF agencies were asked to submit a 90% budget (10% cut from 2015–17)

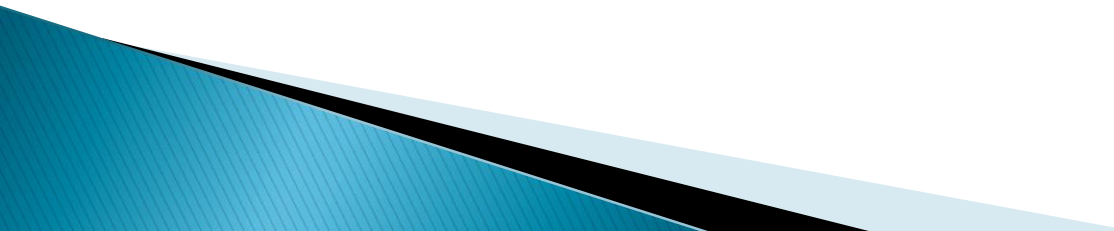
RIO Budget

Appropriated Expenses

- ▶ RIO's appropriation from the Legislature allows us to spend from the funds we manage rather than giving us funds to spend
- ▶ Although we are considered to be a Special Fund Agency, there are some connections to the General Fund
 - EX: PERS' invested funds come from contribution collections, much of which are paid by General Fund agencies

RIO Budget

Appropriated Expenses

- ▶ The legal level for appropriated expenses is at the line item level
 - ▶ RIO currently has three line items
 - Salaries and Benefits
 - Operating
 - Contingency
 - ▶ Funds appropriated in one line may not be spent in another
 - ▶ Contingency funds may be spent only with the approval of the SIB
- 

RIO Budget

Appropriated Expenses

	2015-2017 Biennium Approved Budget			2017-2019 Biennium Approved Budget			Change from 2015-17 Approved Budget					
	TFFR	SIB	RIO Total	TFFR	SIB	RIO Total	TFFR		SIB		RIO Total	
SALARIES & BENEFITS	2,245,751	2,096,805	4,342,556	2,325,812	2,099,758	4,425,570	80,061	3.6%	2,953	0.1%	83,014	1.9%
OPERATING	765,026	225,848	990,874	680,125	182,359	862,484	(84,901)	-11.1%	(43,488)	-19.3%	(128,390)	-13.0%
CONTINGENCY	41,000	41,000	82,000	26,000	26,000	52,000	(15,000)	-36.6%	(15,000)	-36.6%	(30,000)	-36.6%
TOTAL	3,051,777	2,363,653	5,415,430	3,031,937	2,308,117	5,340,054	(19,840)	-0.7%	(55,535)	-2.3%	(75,376)	-1.4%

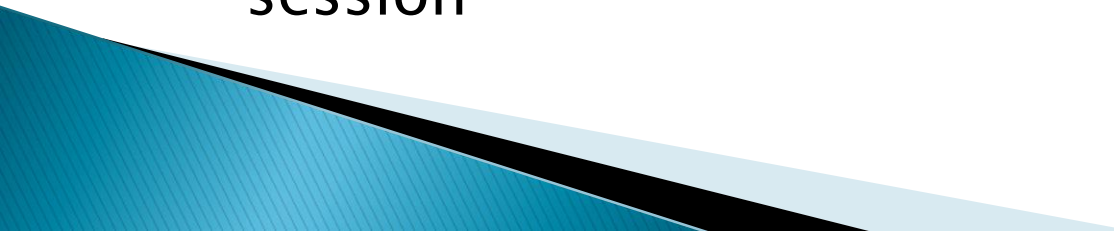
RIO Budget

Salaries and Wages

- ▶ Agencies are only allowed to request funding for classified positions at their current pay levels
 - Some exceptions with non-classified positions
 - Vacant positions as of submission deadline must be estimated and generally cannot be higher than first quartile of pay grade
 - Legislature requests information on vacant positions during the session
 - Most agencies who had vacant positions during the last session lost them
- ▶ Initial request includes benefits at current or estimated levels as premium rates for next biennium are not yet known
 - Governor's recommendation in December (and subsequent final version) will include premium rates as determined by PERS board
 - Health insurance premiums paid by the agency are the same for single and family plans.
 - PERS uses the excess premiums collected on single plans to buy down future premium increases.

RIO Budget

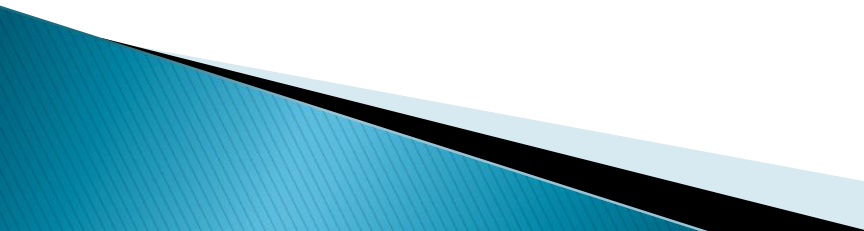
Salaries and Wages

- ▶ Board member pay is included in this line
 - ▶ Temporary salaries/positions can be requested
 - All of RIO's requested temporary salaries, which included the intern position, were removed by the legislature during the session
 - ▶ If additional full time equivalent position (FTE) is requested, the costs would be included in this line
 - Legislature was not open to funding new FTEs this session
- 

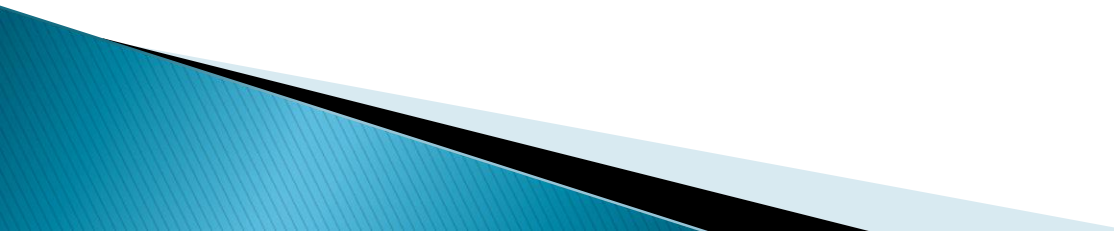
RIO Budget Operating

- ▶ “Overhead” expenses
 - Rent, supplies, ITD charges, travel reimbursements, most equipment
 - If individual equipment cost is $> \$5000$, must have special “capital assets” line approved
- ▶ Original operating line request was \$91K less than previous biennium request
- ▶ Final approved operating line is over \$37K less than original request (total \$128K less)

RIO Budget Operating

- ▶ Able to purchase items with excess funds in the last biennium (nearly \$24K)
 - ▶ Incurring new costs due to move that we were unaware of in original request or even during the session (approx. \$13K)
 - ▶ After dust settled, need to cut approximately \$30K from expected expenses to balance the operating line.
 - Current plan is to reduce out-of-state professional development to cover this shortfall
 - Funds are still available for in-state professional development and for travel directly associated with agency mission (member or client based meetings/counseling/seminars)
- 

RIO Budget Conclusions

- ▶ Although our appropriated funds have been reduced, we believe we can still accomplish the things we need to accomplish
 - ▶ As in past years, projects will come up that we did not know about during the original budget development, so reprioritization will be necessary as we go
 - ▶ Communication is key – we can't make reprioritization decisions without key information
- 

BOARD ACTION

TO: State Investment Board

FROM: Dave Hunter

DATE: October 24, 2017

SUBJECT: Continuing Education on “Governance Trends in the Public Sector”

In order to further increase the SIB and RIO’s awareness and understanding of recent changes impacting board governance and their potential impact on our current structure, RIO recommends the SIB engage Aon Hewitt to provide continuing board education on “Governance Trends in the Public Sector”. This action would allow the SIB and RIO to further increase their understanding of developing governance trends and changing fiduciary risk levels within the public sector. It would also serve to improve the understanding of our own governance standards, practices and policies in comparison with our peers.

The NDSIB previously engaged AonHewitt to provide continuing board education at our governance retreat at Bismarck State College in July of 2016. RIO recommends that we request Jeanna Cullins to provide a follow-up presentation on good board governance practices while highlighting current governance trends in the public sector. AonHewitt has agreed to provide this board education at our next meeting in November if the board concurs. RIO believes it is worthwhile for RIO staff and NDSIB members to receive governance education from multiple industry leaders given its overall importance to the success for our organization.

If the board concurs, RIO requests the SIB to make a motion to engage AonHewitt to provide continuing board education on “Governance Trends in the Public Sector” at a future meeting. Proposed topics might include the frequency and length of board meetings, use of sub-committees for securities litigation monitoring and/or delegation of manager selection and retention to investment staff.

MEMORANDUM

TO: State Investment Board

FROM: Connie Flanagan

DATE: October 20, 2017

RE: Lewis and Clark Interpretive Center Endowment Fund

In July 2017, RIO staff was approached by the ND Parks and Recreation Department (NDPRD) inquiring about investment management services for their Lewis and Clark Interpretive Center Endowment Fund (Fund). The Fund had recently been transferred to NDPRD from the Lewis and Clark Fort Mandan Foundation to be used to supplement on-going maintenance of the Interpretive Center. NDPRD receives a biennial appropriation for the maintenance of the Interpretive Center but their hope would be to use income from the fund to supplement that appropriation in the future.

As per SIB Governance Policy E-13 "Accepting New Clients", the following steps have been taken by staff.

1. Staff has conducted initial discussions with NDPRD regarding the Fund and services to be provided by the SIB. As mentioned above, the approximately \$650,000 fund will be a long-term fund that will be used to supplement funds appropriated for maintenance of the facility. The long-term nature of the fund and the desire to use only earnings from the Fund would lend itself to having a higher risk tolerance level.
2. Due to the relatively small size of the Fund, staff feels a formal asset/liability study is not necessary and will assist the Fund in determining the proper asset allocation for the Fund. Initial discussions have recommended a 65% equities, 30% fixed income and 5% cash allocation.
3. An initial review by legal counsel concluded that the Fund would not be eligible under NDCC 21-16-06 (3) to be invested by the SIB unless additional action was taken by NDPRD to change the existing trust agreement. Based on the initial discussions, NDPRD has expressed interest in making the necessary changes in the trust agreement to allow them to contract with the SIB for investment management services. They are awaiting the approval of the SIB before taking that action.

Per Policy E-13, the SIB should take the following into consideration in determining if a new investor request will be accepted.

- a. Internal staff administrative capacity – RIO staff has recently been able to better automate some of its monthly accounting processes which has freed up staff time. Based on that, the relatively small size of the Fund, and the fact that staff would recommend pooling the Fund with the existing Insurance Trust, staff capacity should be sufficient to absorb this fund.
- b. Compatibility of new investor's goals and risk tolerances with the existing SIB program structure – as mentioned in a. above, staff would recommend pooling the Fund with the

Insurance Trust. That pool's asset class and management structure would support the goals and risk tolerance of the Fund.

- c. Whatever other factors the SIB determines to be appropriate to the decision – the SIB program offers a very cost effective solution for state agencies and political subdivisions to invest public funds. Funds of this size do not have institutional investment options available at the fee levels offered in these pooled accounts. A minimum administrative fee of \$1,000 per year will apply to this fund. The administrative contract fees collected are then used to offset the administrative fees charged to the statutory funds.

Based on the previous analysis, it is staff recommendation for the SIB to accept the ND Parks and Recreation Department as a client and invest their Lewis and Clark Interpretive Center Endowment Fund within the Insurance Trust pool, contingent upon NDPRD making the necessary changes to the trust agreement to meet legal requirements under NDCC 21-10-06 (3).

If the SIB chooses to accept the staff recommendation, staff will move forward with the remaining steps in Policy E-13 and bring the final documentation, including an Investment Policy Statement, to the SIB for final acceptance at a future meeting.

POLICY TYPE: INVESTMENTS

POLICY TITLE: ACCEPTING NEW CLIENTS

NDCC 21-10-06 states *“The state investment board may provide investment services to, and manage the money of, any agency, institution, or political subdivision of the state, subject to agreement with the industrial commission. The scope of services to be provided by the state investment board to the agency, institution, or political subdivision must be specified in a written contract. The state investment board may charge a fee for providing investment services and any revenue collected must be deposited in the state retirement and investment fund.”*

When a request is received by staff from a potential new investor requesting investment services from the State Investment (SIB), the following steps shall be followed.

1. Staff will conduct initial discussions with the potential client regarding type of fund, risk tolerance, size of fund, services to be provided, costs, etc.
2. Staff will recommend that an Asset/Liability study be conducted by the potential client if one has not been done recently. This discussion will include a description of the asset classes available for investment with the SIB to be included in their study.
3. If the potential client is still interested in participating in the SIB program, staff will bring the preliminary request to the SIB for acceptance. It shall be the policy of the SIB to take the following into consideration when determining if a new investor request will be accepted.
 - a. Internal staff administrative capacity.
 - b. Compatibility of new investor’s goals and risk tolerances with the existing SIB program structure.
 - c. Whatever other factors the SIB determines to be appropriate to the decision.
4. If the SIB chooses to accept the preliminary request, staff will provide the necessary template documents to the potential client for review and completion. These documents include a contract for services and investment guidelines.
5. Once documentation is completed, staff will request to have the issue included on the Industrial Commission’s agenda for their approval. Copies of all documentation will be provided for their review.
6. If approved by the Industrial Commission, final documentation will be presented to the SIB for final acceptance.
7. If accepted, staff will work with the new client to set up transfer of funds and implementation of asset allocation as directed. All new clients will be brought in as of the last day of a calendar quarter.
8. Fees will be charged with the intention of covering all associated costs as described in RIO Fiscal Management procedure “Investment Fee Allocations”.

Policy Implemented: November 20, 2009

Informational Only

Retirement & Investment Office Overview

Investment Update for Public Employees Retirement System and Teachers' Fund for Retirement Investments

Employee Benefits Program Committee

October 26, 2017

Dave Hunter, Executive Director / CIO

Fay Kopp, Deputy Executive Director / Chief Retirement Officer

Darren Schulz, Deputy Chief Investment Officer

Retirement & Investment Office (RIO)

State Investment Board (SIB)

Retirement & Investment Office (RIO) – Background

RIO was created by the 1989 Legislative Assembly to capture administrative and investment cost savings in the management of the retirement program of the Teachers' Fund for Retirement (TFFR) and the investment program of the State Investment Board (SIB).

The SIB is responsible for setting policies and procedures guiding the investment of over \$12 billion in assets for seven pension funds, the Legacy Fund and 16 other insurance-type funds. Individual investment guidelines for each fund can be found in the Investment Section of RIO's Comprehensive Annual Financial Report (CAFR). **These guidelines include goals and objectives, risk tolerance, liquidity constraints, asset allocation and portfolio restrictions specific to each fund's unique circumstances.** When creating investment pools to implement the asset allocations for each client fund, the SIB takes all of these guidelines into consideration in order to best meet the objectives of each fund and safeguard fund assets.

The pension investment pool is made up of only qualified pension funds whose monies must be invested exclusively for the benefit of their participants. The insurance investment pool is made up of mainly insurance-type funds, but also includes other funds that do not qualify as pension funds and would like to benefit from the cost savings of being pooled with other funds' assets. **All of these funds are invested in accordance with the "Prudent Investor Rule."**

An important aspect of the prudent investor rule is that individual investments are considered not in isolation but in the context of the trust portfolio as a whole. Some new opportunities may appear risky when viewed alone. However, when part of a diversified mix of investments in stocks, bonds and other assets, they can increase returns often without increasing the overall portfolio risk and, in some cases, may help decrease the overall portfolio's risk.

Retirement & Investment Office (RIO) – Pools and Budget

The pension investment pool was created in July 1989 with pooling of selected investments of TFFR and PERS. Assets from the Bismarck Employees & Police pension funds were added later that year. In April 1994, Job Service made their initial contribution to the pool. The Fargo Employees pension plan joined the pension pool in December 2007 and Grand Forks Employees pension plan in May 2009. Grand Forks Park District pension plan began participating in the pension pool in December 2009. Fargo Employees pension plan withdrew the bulk of their assets from the SIB in December 2013.

The insurance investment pool began in December 1993 with the pooling of the assets of the WSI, Fire and Tornado, Bonding, Insurance Regulatory, and Petroleum Tank Release funds.

Other additions to this pool have occurred as follows:

- The Risk Management Fund was added in 1996.
- North Dakota County funds were added during fiscal year 1999.
- City of Bismarck Deferred Sick Leave and PERS Group Insurance funds were added in 1999.
- The City of Fargo (Fargo Dome) Permanent Fund was added in 2002.
- Risk Management Workers Compensation Fund was added in 2003.
- The Cultural Endowment Fund was added by the 2005 legislature and funded in 2005.
- Budget Stabilization Fund joined in September 2005 upon reaching statutorily designated levels.
- The State Board of Medical Examiners Fund joined the pool in 2014.
- Tobacco Prevention and Control Trust Fund was added in 2016.

RIO is a Special Fund agency with 19 FTE and a \$5.34 million budget. RIO receives no money from the General Fund, but generated over \$1.25 billion of investment income for our clients last year. Last session, RIO's operating expenses and contingencies were cut by 13% and 37%, respectively, while salaries and wages rose 1.8% due to higher "cost to continue" and health care costs.

State Investment Board – Client Assets Under Management

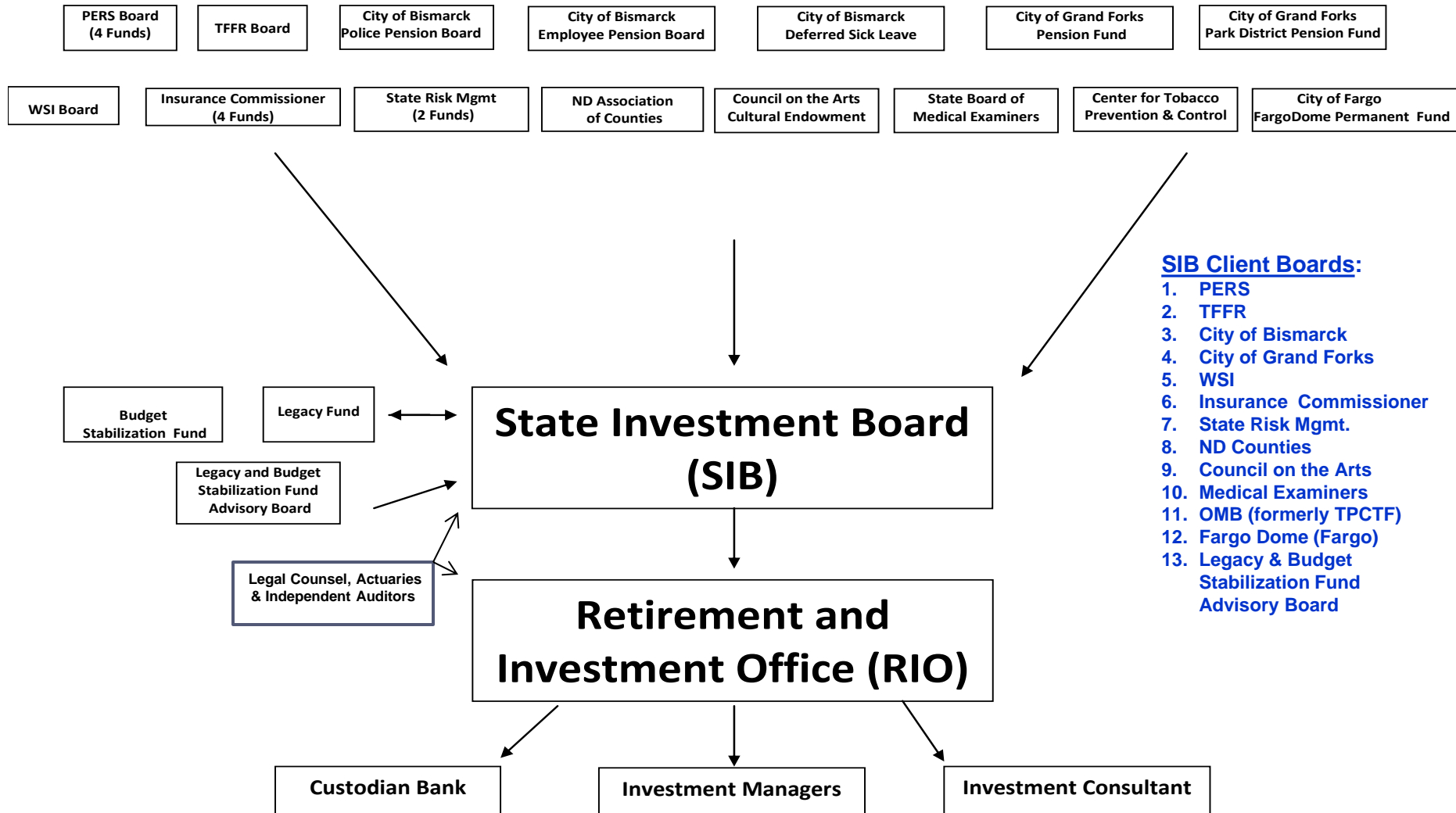
- ▶ **SIB clients assets have doubled the last 5-years** from \$6 billion at June 30, 2012, to \$12.3 billion at June 30, 2017 (*and \$12.6 billion at 8/31/2017*).
- ▶ **SIB clients earned over \$1.25 billion of net investment income for the fiscal year ended June 30, 2017.** This included over \$600 million in the Pension Trust and \$480 million in the Legacy Fund. The vast majority of this income is unrealized.
- ▶ **The Pension Trust posted a net return of 13% in Fiscal 2017.** During the last 5-years, the Pension Trust generated a net annualized return of over 9%, exceeding the performance benchmark of 8.2%.
- ▶ **The Insurance Trust earned a net return of 7.8% in Fiscal 2017.** Over the last 5-years, the Insurance Trust posted a net annualized return of over 5.4%, exceeding the performance benchmark of 3.9%.
- ▶ **Legacy Fund generated a net investment return of 12% for the year ended June 30, 2017.** During the last 5-years, the Legacy Fund has generated a net annualized return of over 4.7%, exceeding the performance benchmark of 3.8%. Legacy's asset allocation has materially changed the last 5-years.

<u>Fund Name</u>	<u>Market Values as of 6/30/17 ⁽¹⁾</u>	<u>Market Values as of 6/30/16 ⁽²⁾</u>
Pension Trust Fund		
Public Employees Retirement System (PERS)	2,781,347,058	2,459,388,086
Teachers' Fund for Retirement (TFFR)	2,318,214,334	2,082,183,640
City of Bismarck Employees Pension	91,954,165	82,441,003
City of Grand Forks Employees Pension	63,392,384	57,975,758
City of Bismarck Police Pension	38,136,784	33,983,598
Grand Forks Park District	6,160,568	5,720,245
Subtotal Pension Trust Fund	5,299,205,292	4,721,692,330
Insurance Trust Fund		
Workforce Safety & Insurance (WSI)	1,894,614,791	1,832,104,203
City of Fargo FargoDome Permanent Fund	41,634,918	38,782,721
PERS Group Insurance Account	37,500,315	37,715,356
State Fire and Tornado Fund	22,008,326	24,091,203
Petroleum Tank Release Compensation Fund	6,396,410	7,149,512
Budget Stabilization Fund	6,127,844	575,918,381
State Risk Management Fund	5,781,003	6,534,801
State Risk Management Workers Comp Fund	5,534,628	5,516,177
Insurance Regulatory Trust Fund	5,289,164	1,085,836
ND Association of Counties (NDACo) Fund	4,383,920	4,048,863
State Bonding Fund	3,374,399	3,296,372
ND Board of Medicine	2,179,911	2,208,667
Bismarck Deferred Sick Leave Account	698,131	642,265
Cultural Endowment Fund	431,470	386,452
Subtotal Insurance Trust Fund	2,035,955,230	2,539,480,809
Legacy Trust Fund		
Legacy Fund	4,687,963,729	3,809,485,177
PERS Retiree Insurance Credit Fund	116,150,947	101,623,224
Job Service of North Dakota Pension	97,332,820	96,588,333
ND Tobacco Prevention and Control Trust Fund	57,462,736	54,366,538
Total Assets Under SIB Management	12,294,070,754	11,323,236,410

⁽¹⁾ 6/30/17 market values are unaudited and subject to change.

⁽²⁾ 6/30/16 market values as stated in the Comprehensive Annual Financial Report.

State Investment Board Process



State Investment Board Members – October 18, 2017

The SIB includes 11 members with Lieutenant Governor Brent Sanford serving as Chairman and includes **State Treasurer Kelly Schmidt**, the **Commissioner of University and School Lands Lance Gaebe**, the **Director of Workforce Safety and Insurance designee Cindy Ternes**, the **Insurance Commissioner Jon Godfread**, plus three TFFR board members and three PERS board members.

The TFFR representatives include **Michael Gessner**, **Rob Lech** and **Mel Olson** noting that Mr. Lech also serves as the Vice Chairman.

The PERS representatives include **Adam Miller**, **Troy Seibel** and **Yvonne Smith** noting that Mr. Seibel also serves as Parliamentarian.

PERS Investment Update

For the Periods Ended June 30, 2017

Note: This document contains unaudited data which is deemed to be materially accurate, but is unaudited and subject to change.

Dave Hunter, Executive Director/CIO

Darren Schulz, Deputy Chief Investment Officer

ND Retirement & Investment Office (RIO)

State Investment Board (SIB)

PERS Investment Returns – June 30, 2017

		1 Yr. Ended 6/30/2017	3 Yrs Ended 6/30/2017	5 Yrs Ended 6/30/2017
Total Fund Return - Net	a	13.05%	5.49%	9.16%
Policy Benchmark Return	b	11.87%	4.75%	8.25%
Excess Return	a - b	1.18%	0.74%	0.90%

5-Yr. Returns June 30, 2017	Asset Allocation	Benchmark Return	Allocation x Return
<i>Asset Class</i>	<i>a</i>	<i>b</i>	<i>a x b</i>
Equity	58%	11%	6.4%
Fixed Income	23%	2.6%	0.6%
Real Assets	19%	7.3%	1.4%
Policy Benchmark Return (5-years)			8.3%

PERS 2017 Policy Benchmark: 58% **Equity** (31% U.S., 21% Non-U.S., 6% Private); 23% **Fixed Income** (13% U.S., 6% Non-U.S. 4% High Yield); 19% **Real Assets** (11% Real Estate; 5% Infrastructure; 3% Timber).

PERS Performance Summary:

1. PERS earned 13% or \$320 million of net investment income last year (Ex. \$2.5 billion x 13%);
2. PERS earned 9% or \$980 million of net income the last 5-years (Ex. \$2.2 billion x 9% x 5 years);
3. PERS managers outperformed their benchmarks by over 0.65% the last 5-years.

This translates into \$70 million of incremental plan income for PERS from 2012-17 (Ex. \$2.15 billion x 0.65% x 5 years).

Executive Summary for periods ended June 30, 2017

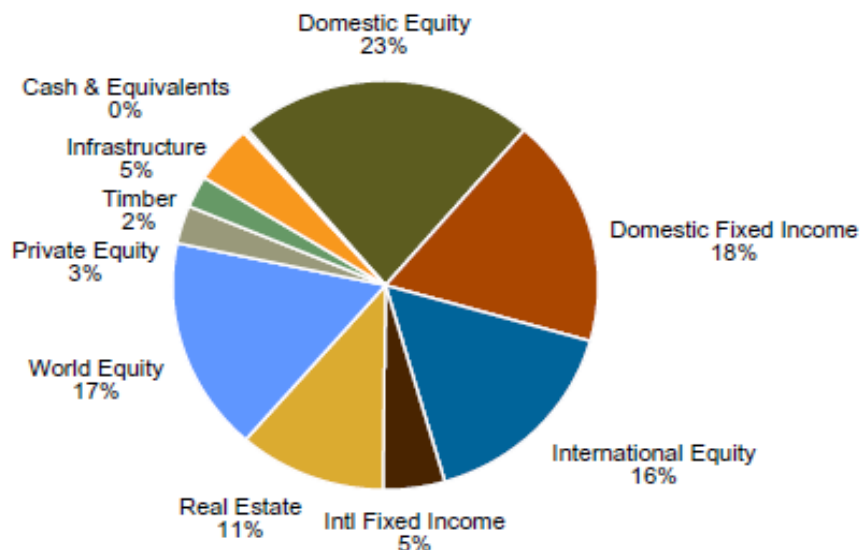
Investment Performance Update –

- **For the fiscal year ended June 30, 2017, PERS earned a net return of 13.0% versus a policy benchmark of less than 12%.** The financial markets were surprisingly robust and resilient in fiscal 2017. Global equities rose 18.8% last year with PERS's International Equity portfolio (up 21%) outperforming our U.S. Equity managers (up 17%). PERS fixed income returns far exceeded expectations with our U.S. debt portfolio posting a 6% gain versus 3% for the benchmark. PERS international debt portfolio earned less than 1% in fiscal 2017 but beat the global fixed income index which was negative due to low “real” rates outside the U.S. Real Assets were mixed with Real Estate and Infrastructure each earning over 9% in fiscal 2017, while **Timber fell over 9%** this past year.
- **Asset allocation is the primary driver of returns noting that PERS target allocation is currently at 58% Equity, 23% Fixed Income and 19% Real Assets. PERS earned a net return of 9.1% for the 5-years ended June 30, 2017, which exceeded the policy benchmark of 8.3% by over 0.65%.** During the last 5-years, PERS earned **\$980 million** of net investment income including **\$910 million** (or 93%) from asset allocation and **\$70 million**₁ (7%) from active management.
- **PERS investment returns were ranked in the 26th percentile for the 5-years ended June 30, 2017,** based on Callan's Public Fund Sponsor Database (on an unadjusted risk basis). As a result, PERS returns were better than 74% of other U.S. public pension plans.

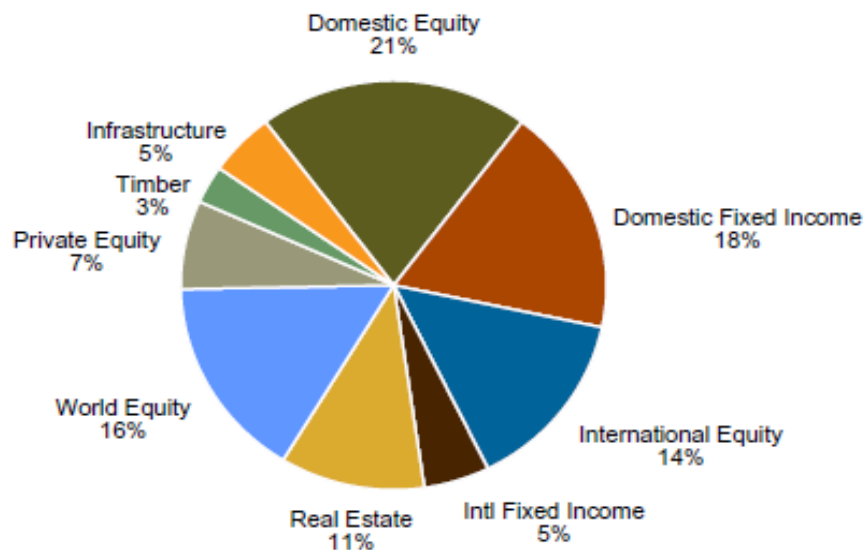
Actual Asset Allocations are within 4% of Target

The **Private Equity Underweight of 4.0%** is offset by **Overweight** allocations to **Domestic Equity of 2.1%**, **Int'l. Equity of 1.7%** and **World Equity of 0.9%**.

Actual Asset Allocation



Target Asset Allocation



Asset Class	\$000s Actual	Weight Actual	Target	Percent Difference	\$000s Difference
Domestic Equity	631,278	22.7%	20.6%	2.1% ←	58,320
Domestic Fixed Income	502,620	18.1%	18.0%	0.1%	1,978
International Equity	447,370	16.1%	14.4%	1.7% ←	46,856
Intl Fixed Income	130,196	4.7%	5.0%	(0.3%)	(8,871)
Real Estate	311,147	11.2%	11.0%	0.2%	5,199
World Equity	468,680	16.9%	16.0%	0.9% ←	23,665
Private Equity	83,863	3.0%	7.0%	(4.0%) →	(110,832)
Timber	68,943	2.5%	3.0%	(0.5%)	(14,498)
Infrastructure	126,764	4.6%	5.0%	(0.4%)	(12,304)
Cash & Equivalents	10,486	0.4%	0.0%	0.4%	10,486
Total	2,781,347	100.0%	100.0%		

Asset Class Performance

Periodic Table of Investment Returns
for Periods Ended June 30, 2017

Best



Worst

Last Quarter	Last Year	Last 3 Years	Last 5 Years	Last 10 Years	Last 20 Years
MSCI:EM Gross 6.4%	Russell:2000 Index 24.6%	S&P:500 9.6%	S&P:500 14.6%	S&P:500 7.2%	Russell:2000 Index 8.0%
MSCI:EAFE 6.1%	MSCI:EM Gross 24.2%	Russell:2000 Index 7.4%	Russell:2000 Index 13.7%	Russell:2000 Index 6.9%	S&P:500 7.2%
S&P:500 3.1%	MSCI:EAFE 20.3%	Blmbg:Aggregate 2.5%	MSCI:EAFE 8.7%	Blmbg:Aggregate 4.5%	MSCI:EM Gross 5.8%
Russell:2000 Index 2.5%	S&P:500 17.9%	MSCI:EM Gross 1.4%	MSCI:EM Gross 4.3%	MSCI:EM Gross 2.2%	Blmbg:Aggregate 5.2%
Blmbg:Aggregate 1.4%	3 Month T-Bill 0.5%	MSCI:EAFE 1.1%	Blmbg:Aggregate 2.2%	MSCI:EAFE 1.0%	MSCI:EAFE 4.3%
3 Month T-Bill 0.2%	Blmbg:Aggregate (0.3%)	3 Month T-Bill 0.2%	3 Month T-Bill 0.2%	3 Month T-Bill 0.6%	3 Month T-Bill 2.2%
Blmbg:Commodity Price Idx (3.2%)	Blmbg:Commodity Price Idx (7.0%)	Blmbg:Commodity Price Idx (15.0%)	Blmbg:Commodity Price Idx (9.4%)	Blmbg:Commodity Price Idx (6.9%)	Blmbg:Commodity Price Idx (1.8%)

U.S. Small Caps (**Russell 2000**) and Emerging Markets (**MSCI EM**) returned over 24% for the 1-year ended June 30, 2017, while International Equity (**MSCI EAFE**) was up 20% and U.S. Large Cap (**S&P 500**) was up 18%. U.S. Fixed Income (**Blmbg. Aggregate**) **declined 0.3%** in Fiscal 2017.





Comparison of Major Asset Class Returns vs. Benchmark

Global Equities earned 18.85% for the 1-year ended June 30, 2017, which was 0.06% above the benchmark, while the 5-year return of 11.28% surpassed the benchmark of 10.75% by 0.53%.

Global Fixed Income earned 5.02% last year and 4.65% the last 5-years due to strong returns in U.S. Fixed Income including high yield & private credit offset by weaker returns in International Debt and Long Term Treasuries due to rising rates.

Global Real Assets were mixed with Real Estate and Infrastructure earning over 9.1% last year, while **Timber returns were -9.4%** in fiscal 2017.

Every major asset class outperformed their respective benchmarks for the 5-years ended June 30, 2017, with the largest excess return (of 1.95%) created within Global Fixed Income.

NDPERS Allocation	Target Allocation	1-year	5-years
Global Equity	58%		
- Actual		18.85%	11.28%
- Benchmark		<u>18.79%</u>	<u>10.75%</u>
		0.06%	0.53% 
Global Fixed Income	23%		
- Actual		5.02%	4.65%
- Benchmark		<u>1.73%</u>	<u>2.70%</u>
		3.29%	1.95% 
Global Real Assets	19%		
- Actual		6.15%	8.40%
- Benchmark		<u>4.70%</u>	<u>7.26%</u>
		1.45%	1.14% 
Cash Equivalents	< 1%		
- Actual		0.74%	0.24%
- Benchmark		<u>0.49%</u>	<u>0.17%</u>
		0.25%	0.07%
TFFR - Total Fund	100%		
- Actual		13.05%	9.16%
- Benchmark		<u>11.87%</u>	<u>8.25%</u>
		1.18%	0.90% 

PERS Returns for 1- and 5- years ended June 30, 2017

**PERS earned
13.0% and 9.1%
for the 1- and 5-
years ended June
30, 2017, beating
the Policy Target
Benchmarks.**

**Equity markets
were strong with
Global Equities up
18.8% the last
year and 11.3%
the last 5-years
beating our
Benchmarks for
the 1- and 5-years
ended June 30,
2017.**

	June-17			Fiscal 2017	5 Years Ended 6/30/2017
	Market Value	Actual	Policy	Net	Net
TOTAL FUND	2,781,347,058	100%	100%	13.05%	9.16%
<i>POLICY TARGET BENCHMARK</i>				11.87%	8.25%
EXCESS RETURN (over Benchmark)				1.18%	0.90%
GLOBAL EQUITIES	1,631,190,926	58.6%	58.0%	18.85%	11.28%
<i>Benchmark</i>				18.79%	10.75%
Epoch Global Choice (1)	208,607,374	7.5%	7.0%	16.96%	10.71%
LSV Global Value Equity	260,072,966	9.4%	9.0%	23.29%	N/A
Total Global Equities	468,680,340	16.9%	16.0%	20.57%	10.62%
<i>MSCI World</i>				18.20%	11.38%
<i>Domestic - broad</i>	631,277,505	22.7%	20.6%	17.10%	14.85%
<i>Benchmark</i>				19.58%	14.51%
LA Capital Large Cap Growth	182,563,127	6.6%	6.3%	15.66%	15.27%
LA Capital Large Cap Index/Active	106,120,946	3.8%	3.2%	15.44%	14.81%
<i>Russell 1000</i>				18.03%	14.67%
NTAM - Quant Enhanced S&P 500	88,590,653	3.2%	3.2%	16.51%	14.28%
Clifton Group Enhanced S&P 500	101,791,517	3.7%	3.2%	17.72%	14.70%
<i>S&P 500</i>				17.90%	14.63%
Total Large Cap Domestic	479,066,244	17.2%	15.8%	16.20%	15.31%
<i>Russell 1000 (2)</i>				18.03%	14.67%
Atlanta Capital Small Cap Equity Fund	68,626,878	2.5%	2.4%	14.98%	N/A
Clifton Group Enhanced Russell 2000	83,584,383	3.0%	2.4%	24.44%	14.25%
Total Small Cap Domestic	152,211,261	5.5%	4.8%	20.08%	13.09%
<i>Russell 2000</i>				24.60%	13.70%
<i>International - broad</i>	447,370,459	16.1%	14.4%	21.18%	9.13%
<i>Benchmark</i>				20.53%	7.53%
NTAM - MSCI World ex-US Index	156,739,205	0.0%	5.5%	19.92%	N/A
<i>MSCI World Ex US</i>				19.49%	
William Blair International Leaders	76,100,978	2.7%	3.3%	19.77%	N/A
<i>MSCI ACWI ex-US IMI (Net)</i>				20.43%	
DFA Intl. Small Cap Value Portfolio (4)	45,622,857	1.6%	1.1%	28.80%	13.77%
Wellington International Small Cap Op	50,781,278	1.8%	1.1%	19.62%	14.12%
<i>S&P/Citigroup BMI EPAC < \$2BN</i>				20.89%	12.00%
Total Developed International	329,244,318	11.8%	11.0%	21.05%	10.27%
<i>MSCI World Ex US (3)</i>				19.49%	8.55%
Axiom Emerging Markets Equity Fund	89,447,891	3.2%	2.6%	22.29%	N/A
DFA Emerging Markets Small Cap Po	28,678,250	1.0%	0.9%	19.53%	6.86%
Total Emerging Markets	118,126,140	4.2%	3.4%	21.55%	4.94%
<i>MSCI Emerging Markets</i>				23.74%	3.96%
Total Private Equity (4)	83,862,622	3.0%	7.0%	11.12%	1.60%

NOTE Monthly returns and market values are preliminary and subject to change.

PERS Returns for the 1- and 5-years ended June 30 2017

Global Fixed Income
earned over 4.6% for the
1- and 5-years ended
June 30, 2017, exceeding
Benchmarks. Strong
returns in U.S. Fixed
Income including Private
Credit and High Yield
where offset by weak
results in International
Fixed Income.

Global Real Assets
earned 6.1% last year and
8.4% per annum over the
last 5-years. Real Estate
and Infrastructure earned
12.5% and 6.6%,
respectively, the last 5-
years, while **Timber**
returns disappointed at
only 0.3% per annum for
the 5-years ended June
30, 2017.

	June-17			Fiscal 2017	5 Years Ended 6/30/2017
	Market Value	Actual	Policy	Net	Net
GLOBAL FIXED INCOME Benchmark	632,816,498	22.8%	23.0%	5.02%	4.65%
Domestic Fixed Income Benchmark	502,620,245	18.1%	18.0%	6.30%	5.61%
PIMCO Distressed Senior Credit Oppo	55,316,665	2.0%	2.0%	17.08%	13.70%
Bloomberg Aggregate				-0.31%	
State Street Long U.S. Treasury Index	60,882,047	2.2%	1.3%	-7.27%	N/A
Bloomberg Long Treasuries				-7.22%	
PIMCO Unconstrained Bond Fund	34,704,050	1.2%	1.7%	9.22%	N/A
Declaration Total Return Bond Fund (4	46,751,080	1.7%	1.6%	4.99%	5.14%
3m LIBOR				0.98%	
JP Morgan Mortgage Backed Securitie	67,592,541	2.4%	2.6%	0.61%	N/A
PIMCO Agency MBS	94,549,724	3.4%	3.9%	0.19%	9.48%
Bloomberg Mortgage Backed Securities Index				-0.06%	
Total Investment Grade Fixed Inco	359,796,107	12.9%	13.0%	3.65%	4.55%
Bloomberg Aggregate				-0.31%	2.21%
Loomis Sayles High Yield	110,353,972	4.0%	3.8%	12.91%	7.41%
PIMCO BRAVO II (4)	31,491,553	1.1%	1.1%	13.38%	N/A
Total Below Investment Grade Fixe	142,824,137	5.1%	5.0%	12.86%	8.21%
Bloomberg High Yield 2% Issuer Constrained Index				12.69%	6.90%
International Fixed Income Benchmark	130,196,253	4.7%	5.0%	0.79%	1.24%
UBS Global (ex-US) Bond Strategy	53,104,130	1.9%	2.5%	-4.00%	-0.86%
Brandywine Global Opportunistic Fixe	77,092,123	2.8%	2.5%	4.38%	3.15%
GLOBAL REAL ASSETS Benchmark	506,853,480	18.2%	19.0%	6.15%	8.40%
				4.70%	7.26%
Invesco Core Real Estate - U.S.A., L.F	140,782,671			8.16%	11.58%
Invesco Real Estate Fund III, LP (4)	11,925,960			11.58%	15.89%
Invesco U.S. Value-Add Fund IV, L.P.	24,216,147			8.07%	N/A
Invesco Asia Real Estate Fund III, L.P	11,856,673			21.25%	N/A
JP Morgan Strategic & Special Situati	107,883,754			7.08%	11.84%
JP Morgan European Opportunistic Pr	5,441,695			-0.51%	9.48%
JP Morgan Greater China Property Fu	8,624,839			37.81%	24.95%
Total Global Real Estate	311,147,233	11.2%	11.0%	9.13%	12.47%
NCREIF TOTAL INDEX				6.97%	10.49%
TIR Teredo Timber, LLC	15,883,699	0.6%		-7.02%	5.75%
TIR Springbank, LLC	53,058,979	1.9%		-10.13%	-2.37%
Total Timber (4)	68,942,678	2.5%	3.0%	-9.44%	0.27%
NCREIF Timberland Index				3.35%	7.16%
JP Morgan Asian Infrastructure & Rela	12,071,004	0.4%		35.48%	8.92%
JP Morgan Infrastructure Investments	91,657,971	3.3%		6.33%	5.72%
Grosvenor Customized Infrastructure S	19,207,968	0.7%		8.70%	8.94%
Grosvenor Customized Infrastructure S	3,826,627	0.1%		3.28%	N/A
Total Infrastructure	126,763,569	4.6%	5.0%	9.21%	6.57%
CPI				1.50%	1.11%
Northern Trust Collective STIF	7,777,863			0.75%	0.25%
Bank of ND	2,708,292			N/A	N/A
Total Cash Equivalents	10,486,155	0.4%	0.0%	0.74%	0.24%
90 Day T-Bill				0.49%	0.17%

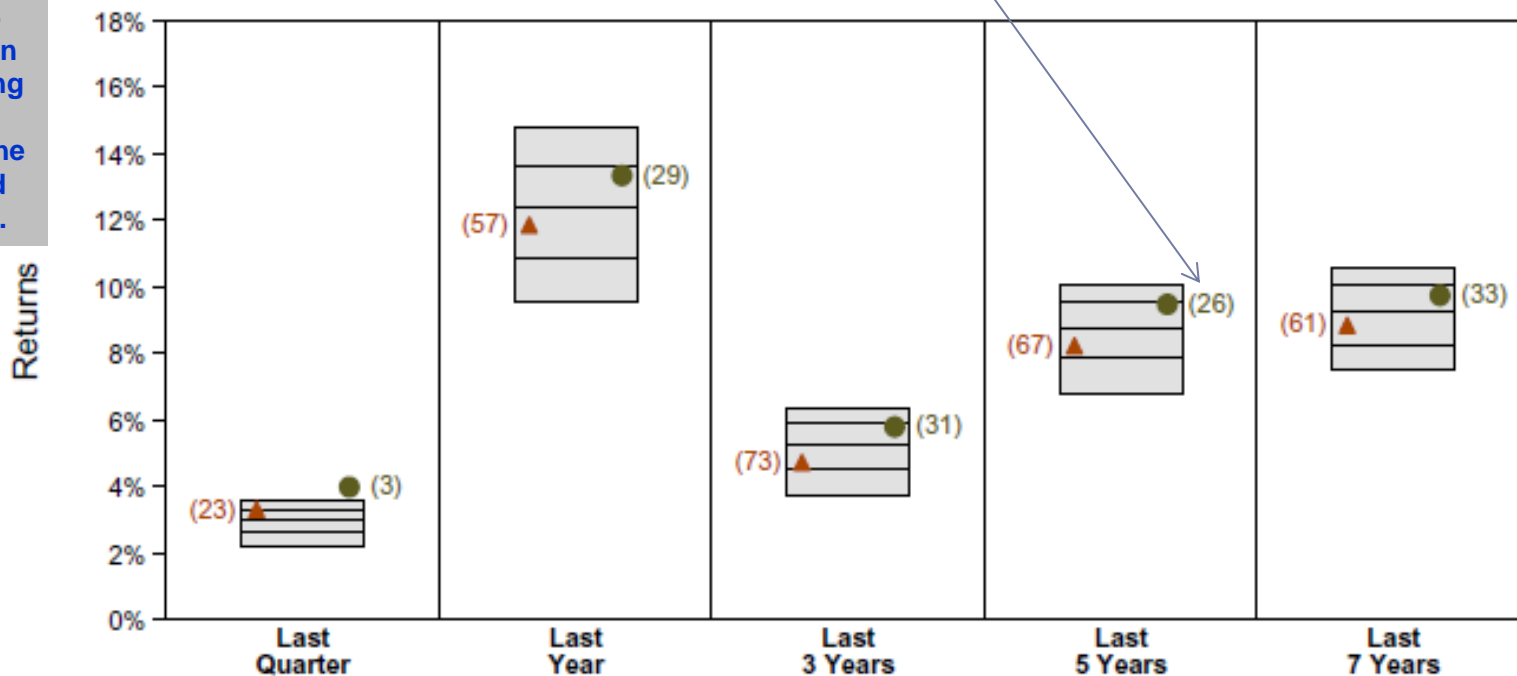
NOTE Monthly returns and market values are preliminary and subject to change.

PERS “gross” returns were ranked in the 26th percentile for the 5-years ended June 30, 2017, based on Callan’s “Public Fund Sponsor Database”.

CAI Public Fund Sponsor Database

Unadjusted Ranking

NOTE: PERS asset allocation adjusted ranking is in the 14th percentile for the 5-years ended June 30, 2017.



10th Percentile	3.57	14.82	6.37	10.09	10.59
25th Percentile	3.31	13.62	5.95	9.53	10.04
Median	3.04	12.42	5.30	8.78	9.24
75th Percentile	2.62	10.86	4.56	7.86	8.22
90th Percentile	2.23	9.59	3.73	6.82	7.53
Total Fund	4.00	13.35	5.81	9.49	9.75
Policy Target	3.33	11.87	4.74	8.25	8.86

* Current Quarter Target = 16.6% Russell 1000 Index, 16.0% MSCI World, 13.0% Blmbg Aggregate, 11.8% MSCI World ex US, 10.0% NCREIF Total Index, 6.0% Blmbg Glob Agg ex USD, 6.0% NDSIB TFFR - Private Equity, 5.0% CPI-W, 4.8% Russell 2000 Index, 4.0% Blmbg HY 2% Iss Cap, 3.0% NCREIF Timberland Index, 2.8% MSCI EM and 1.0% 3-month Treasury Bill.

ND Public Employees Retirement System Schedule of Investment Expenses

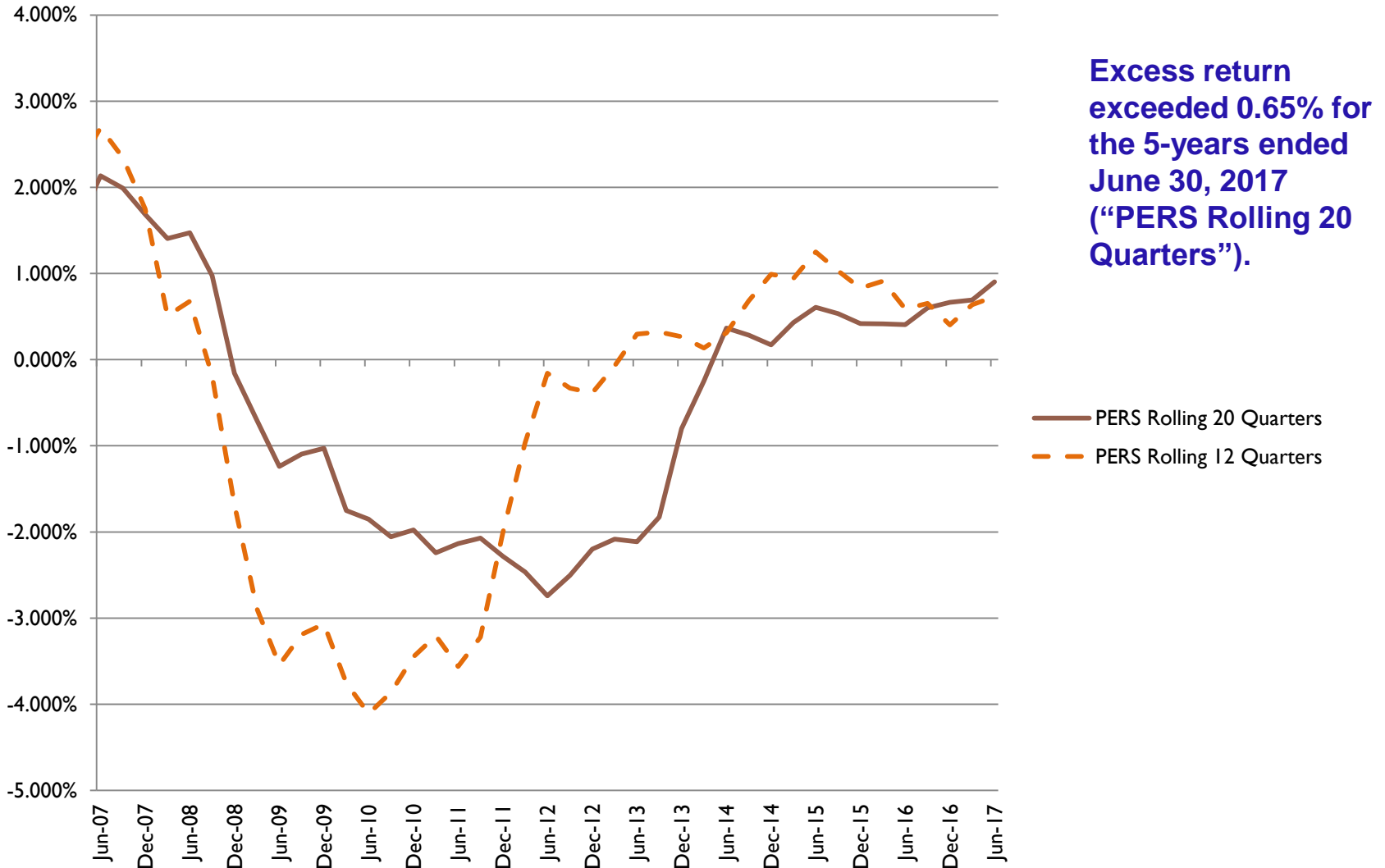
	FY 2017				FY 2016			
	Average Market Value	Fees in \$	Fees in %	Contribution to Total Fees	Average Market Value	Fees in \$	Fees in %	Contribution to Total Fees
Investment managers' fees:								
Global equity managers	443,295,467	1,716,931	0.39%	0.06%	381,723,510	1,463,105	0.38%	0.06%
Domestic large cap equity managers	458,670,881	654,319	0.14%	0.02%	415,066,060	1,042,600	0.25%	0.04%
Domestic small cap equity managers	144,408,396	561,231	0.39%	0.02%	117,678,274	661,525	0.56%	0.03%
Developed international equity managers	306,782,154	969,488	0.32%	0.04%	268,317,607	1,087,387	0.41%	0.05%
Emerging markets equity managers	109,834,610	898,494	0.82%	0.03%	88,000,359	717,641	0.82%	0.03%
Investment grade domestic fixed income managers	335,502,197	2,399,466	0.72%	0.09%	301,575,217	1,164,370	0.39%	0.05%
Below investment grade fixed income managers	136,630,885	1,854,744	1.36%	0.07%	128,662,524	1,349,888	1.05%	0.06%
Developed international fixed income managers	126,532,685	452,558	0.36%	0.02%	121,049,255	428,095	0.35%	0.02%
Real estate managers	299,601,975	3,348,730	1.12%	0.13%	256,587,200	2,470,029	0.96%	0.10%
Timber managers	72,185,096	485,605	0.67%	0.02%	80,540,706	(1,054,317)	-1.31%	-0.04%
Infrastructure managers	114,660,304	917,728	0.80%	0.03%	108,898,046	1,148,047	1.05%	0.05%
Private equity managers	79,104,475	1,335,628	1.69%	0.05%	84,636,554	1,524,925	1.80%	0.06%
Cash & equivalents managers	14,736,175	17,861	0.12%	0.00%	34,951,692	34,800	0.10%	0.00%
Total investment managers' fees	2,641,945,299	15,612,783	0.59%		2,387,687,004	12,038,095	0.50%	
Custodian fees		250,055	0.01%	0.01%		227,822	0.01%	0.01%
Investment consultant fees		111,406	0.00%	0.00%		150,745	0.01%	0.01%
Total investment expenses		15,974,244	0.60%			12,416,661	0.52%	
Actual Investment Performance (Net of Fees)			13.05%				0.28%	
Policy Benchmark			11.87%				0.56%	
Outperformance			1.18%				-0.28%	

PERS fees increased to 0.60% in FY 2017 from 0.52% in FY 2016 mostly due to the Timber fee reversal of -1.31%. Performance fees (including U.S. fixed income) were higher in 2017 than 2016.

Note: All amounts are deemed to be materially accurate, but are unaudited and subject to change.

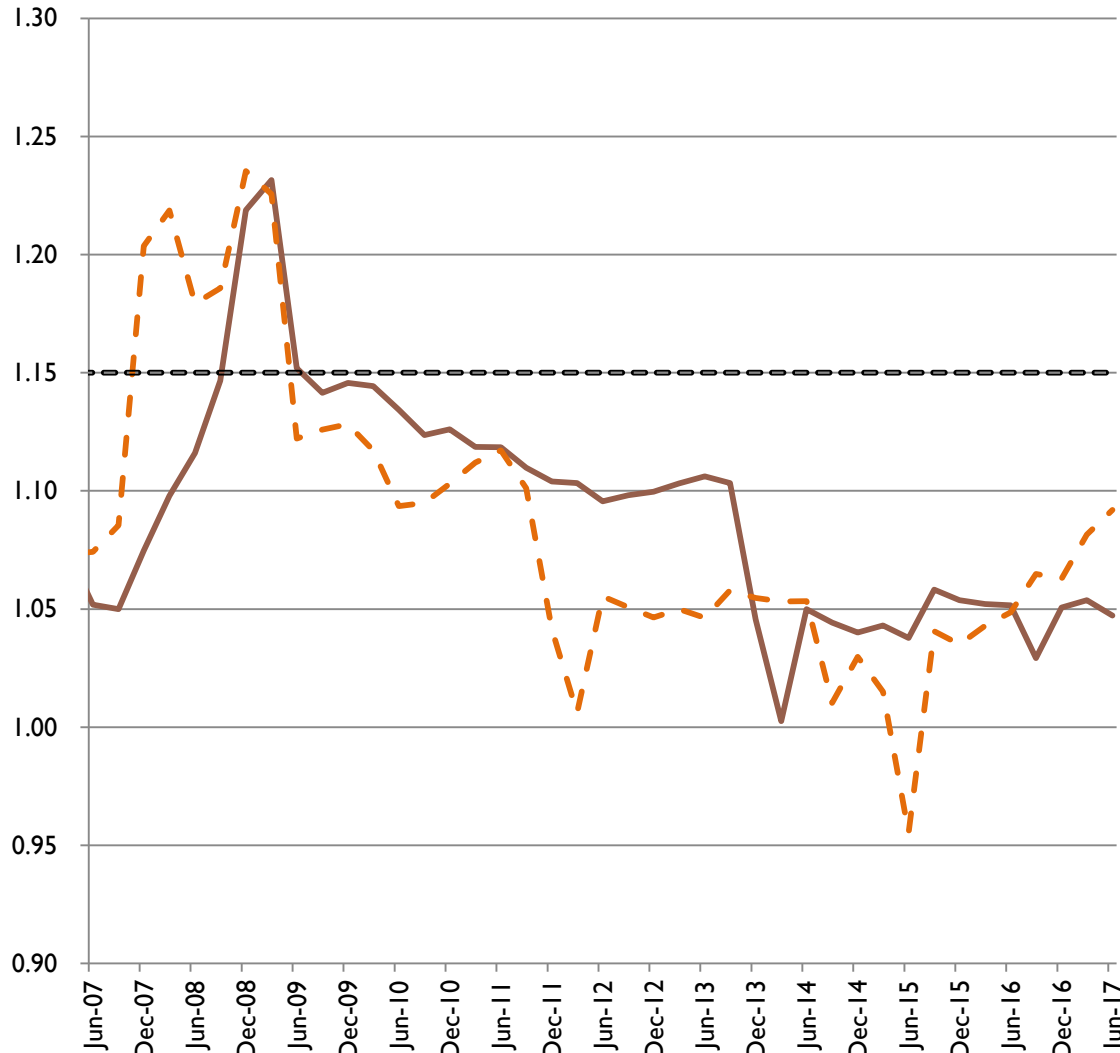
Excess Return Relative to Policy Benchmark

10 Years Ended 6/30/2017



Relative Standard Deviation Relative to Policy Benchmark

10 Years Ended 6/30/2017



Investment risk, as measured by standard deviation, remains within investment guidelines of 1.15 (or 115% of the policy benchmark) over the last 5 years.

— PERS Rolling 20 Quarters
- - - PERS Rolling 12 Quarters
- - - Reference

PERS standard deviation for the 5-years ended June 30, 2017 was 105% (or 1.05 times) the policy benchmark.

TFFR Investment Update

For the Periods Ended June 30, 2017

Note: This document contains unaudited data which is deemed to be materially accurate, but is unaudited and subject to change.

Dave Hunter, Executive Director/CIO
Darren Schulz, Deputy Chief Investment Officer
ND Retirement & Investment Office (RIO)
State Investment Board (SIB)

TFFR Investment Returns – June 30, 2017

TFFR earned \$265 million of net income in fiscal 2017.

TFFR earned \$860 million of net income from 2012 to 2017.

1 Yr. Ended
6/30/2017

3 Yrs Ended
6/30/2017

5 Yrs Ended
6/30/2017

Total Fund Return - Net	a	12.92%	5.44%	9.18%
Policy Benchmark Return	b	11.63%	4.69%	8.25%
Excess Return	a - b	1.29%	0.76%	0.94%

Key: TFFR investments averaged \$1.9 billion the last 5-years and Excess Return has exceeded **0.65%** per annum. Based on these values, **TFFR's use of active management has enhanced Net Investment Returns by \$60 million for the 5-years ended June 30, 2017** (or \$1.9 billion x **0.65%** = \$12 million x 5 years = **\$60 million**). These returns were achieved while adhering to prescribed Risk limits (e.g. 105% versus a policy limit of 115%).

5-Yr. Returns June 30, 2017	Asset Allocation	Benchmark Return	Allocation x Return
<i>Asset Class</i>	<i>a</i>	<i>b</i>	<i>a x b</i>
Equity	58%	11%	6.4%
Fixed Income	23%	2.6%	0.6%
Real Assets	18%	7.3%	1.3%
Policy Benchmark Return (5-years)			8.3%

Current Policy Benchmark: 58% Equity (31% U.S., 21% Non-U.S., 6% Private); 23% Fixed Income (13% U.S., 6% Non-U.S. 4% High Yield); 18% Real Assets (10% Real Estate; 5% Infrastructure; 3% Timber); and 1% Cash.

Executive Summary for periods ended June 30, 2017

Investment Performance Update –

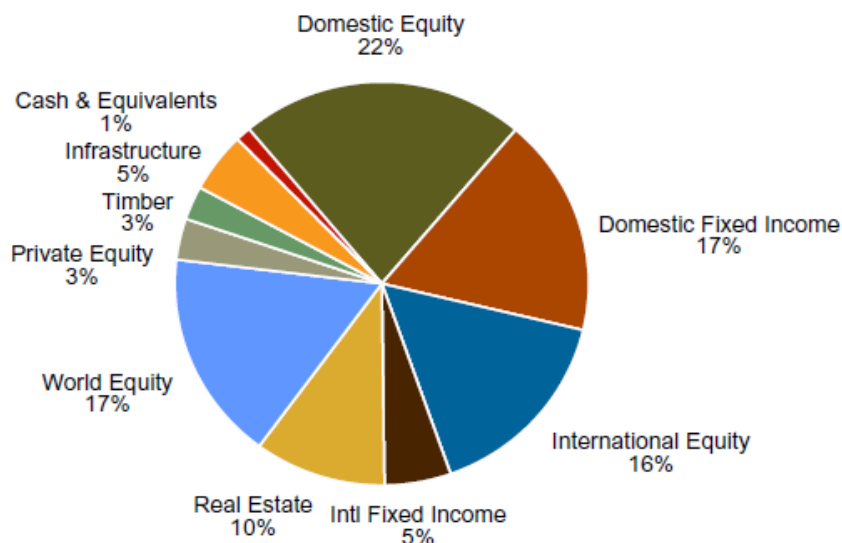
- **For the fiscal year ended June 30, 2017, TFFR earned a net return of 12.9% versus a policy benchmark of less than 12%.** The financial markets were surprisingly robust and resilient in fiscal 2017. Global equities rose 18.8% last year with TFFR's International Equity portfolio (up 21%) outperforming our U.S. Equity managers (up 17%). TFFR's fixed income returns far exceeded expectations with our U.S. debt portfolio posting a 6% gain versus a **-0.3%** return for the Aggregate Index. Real Assets were mixed with Real Estate and Infrastructure each earning over 9% in fiscal 2017, while **Timber fell over 9%**. **TFFR's target asset allocation remains at 58% Equity, 23% Fixed Income, 18% Real Assets and 1% Cash.**
- **Asset allocation is the primary driver of returns. TFFR earned a net return of 9.1% for the 5-years ended June 30, 2017, which exceeded the policy benchmark of 8.3% by over 0.65%.** During the last 5-years, TFFR earned over \$860 million of net investment income including \$800 million (93%) from asset allocation and \$60 million¹ (7%) from active management. Successful active management results when we select managers which outperform an underlying passive investment benchmark (such as the S&P 500 Index for U.S. Large Cap Equity).
- TFFR's investment returns were ranked in the **26th** percentile for the 5-years ended June 30, 2017, based on Callan's Public Fund Sponsor Database (on an unadjusted risk basis).

Footnote 1: Assuming the market value of TFFR's assets were \$1.9 billion for the five-years ended June 30, 2017 ($\$1.9 \text{ billion} \times 0.65\% = \$12 \text{ million} \times 5 \text{ years} = \60 million).

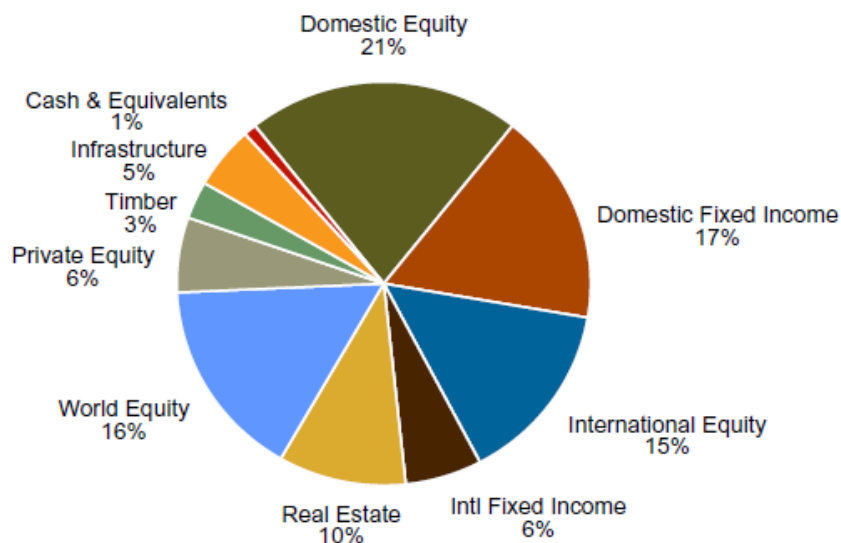
Actual Asset Allocations are within 3% of Target

The **Private Equity Underweight of 2.7%** is offset by **Overweight** allocations to **Domestic Equity of 1.1%**, **Int'l. Equity of 1.3%** and **World Equity of 0.8%**.

Actual Asset Allocation



Target Asset Allocation



Asset Class	\$000s Actual	Weight Actual	Target	Percent Difference	\$000s Difference
Domestic Equity	521,098	22.5%	21.4%	1.1%	25,000
Domestic Fixed Income	405,007	17.5%	17.0%	0.5%	10,910
International Equity	368,270	15.9%	14.6%	1.3%	29,811
Intl Fixed Income	121,141	5.2%	6.0%	(0.8%)	(17,952)
Real Estate	237,904	10.3%	10.0%	0.3%	6,083
World Equity	388,563	16.8%	16.0%	0.8%	17,649
Private Equity	76,976	3.3%	6.0%	(2.7%)	(62,117)
Timber	61,610	2.7%	3.0%	(0.3%)	(7,937)
Infrastructure	110,391	4.8%	5.0%	(0.2%)	(5,520)
Cash & Equivalents	27,255	1.2%	1.0%	0.2%	4,072
Total	2,318,214	100.0%	100.0%		





Comparison of Major Asset Class Returns vs. Benchmark

Global Equities earned 18.81% for the 1-year ended June 30, 2017, which was 0.23% above the benchmark, while the 5-year return of 11.29% surpassed the benchmark of 10.71% by 0.58%.

Global Fixed Income earned 4.68% last year and 4.57% the last 5-years due to strong returns in U.S. Fixed Income including high yield & private credit offset by weaker returns in International Debt and Long Term Treasuries due to rising rates.

Global Real Assets were mixed with Real Estate and Infrastructure earning over 9.1% last year, while **Timber returns were -9.4%** in fiscal 2017.

Every major asset class outperformed their respective benchmarks for the 5-years ended June 30, 2017, with the largest excess return (of 1.99%) created within Global Fixed Income.

	Target Allocation	1-year	3-years	5-years
Global Equity	58%			
- Actual		18.81%	5.60%	11.29%
- Benchmark		<u>18.58%</u>	<u>4.95%</u>	<u>10.71%</u>
		0.23%	0.65%	0.58% 
Global Fixed Income	23%			
- Actual		4.68%	3.14%	4.57%
- Benchmark		<u>0.94%</u>	<u>1.64%</u>	<u>2.58%</u>
		3.74%	1.50%	1.99% 
Global Real Assets	18%			
- Actual		5.78%	7.56%	8.29%
- Benchmark		<u>4.82%</u>	<u>6.61%</u>	<u>7.29%</u>
		0.96%	0.95%	1.00% 
Cash Equivalents	1%			
- Actual		0.74%	0.37%	0.25%
- Benchmark		<u>0.49%</u>	<u>0.23%</u>	<u>0.17%</u>
		0.25%	0.14%	0.08%
TFFR - Total Fund	100%			
- Actual		12.92%	5.44%	9.18%
- Benchmark		<u>11.63%</u>	<u>4.69%</u>	<u>8.25%</u>
		1.29%	0.75%	0.93% 

TFFR Returns for 1- and 5- years ended June 30, 2017

TFFR earned over 12.9% and 9.1% for the 1- and 5-years ended June 30, 2017, beating the Policy Target Benchmarks.

Equity markets were strong with Global Equities up 18.8% the last year and 11.3% the last 5-years beating our Benchmarks for the 1- and 5-years ended June 30, 2017.

	June-17			Fiscal 2017	5 Years Ended 6/30/2017
	Market Value	Allocation Actual	Policy	Net	Net
TOTAL FUND	2,318,214,334	100%	100%	12.9%	9.2%
<i>POLICY TARGET BENCHMARK</i>				11.6%	8.2%
EXCESS RETURN				1.3%	0.9%
GLOBAL EQUITIES Benchmark	1,354,907,884	58.4%	58.0%	18.8%	11.3%
				18.6%	10.8%
Epoch Global Choice (1)	172,947,709	7.5%	7.0%	17.0%	10.7%
LSV Global Value Equity	215,615,694	9.3%	9.0%	23.3%	N/A
Total Global Equities	388,563,403	16.8%	16.0%	20.6%	10.6%
<i>MSCI World</i>				18.2%	11.4%
<i>Domestic - broad Benchmark</i>	521,098,204	22.5%	21.5%	17.1%	14.9%
				19.6%	14.5%
Large Cap Domestic					
LA Capital Large Cap Growth	151,593,528	6.5%	6.6%	15.7%	15.3%
<i>Russell 1000 Growth</i>				20.4%	15.3%
LA Capital 60% Large Cap/40% Large Cap	88,118,826	3.8%	3.3%	15.4%	14.8%
<i>Russell 1000</i>				18.0%	14.7%
NTAM - Quant Enhanced S&P 500	73,562,333	3.2%	3.3%	16.5%	14.3%
Clifton Group Enhanced S&P 500	84,523,832	3.6%	3.3%	17.7%	14.7%
<i>S&P 500</i>				17.9%	14.6%
Total Large Cap Domestic	397,798,520	17.2%	16.6%	16.2%	15.3%
<i>Russell 1000 (2)</i>				18.0%	14.7%
Small Cap Domestic					
Atlanta Capital Small Cap Equity Fund	55,591,631	2.4%	2.4%	15.0%	N/A
Clifton Group Enhanced Russell 2000	67,708,052	2.9%	2.4%	24.4%	14.2%
Total Small Cap Domestic	123,299,684	5.3%	4.8%	20.1%	13.1%
<i>Russell 2000</i>				24.6%	13.7%
<i>International - broad Benchmark</i>	368,269,962	15.9%	14.5%	21.2%	9.4%
				20.3%	7.7%
Developed International					
NTAM - MSCI World ex-US Index	136,865,616	5.9%	5.9%	19.9%	N/A
<i>MSCI World Ex US</i>				19.5%	
William Blair International Leaders	66,451,831	2.9%	3.5%	19.8%	N/A
<i>MSCI ACWI ex-US IMI (Net)</i>				20.4%	
DFA Intl. Small Cap Value Portfolio (4)	39,838,153	1.7%	1.2%	28.8%	13.8%
Wellington International Small Cap Oppor	44,342,517	1.9%	1.2%	19.6%	14.1%
<i>S&P/Citigroup BMI EPAC < \$2BN</i>				20.9%	12.0%
Total Developed International	287,498,117	12.4%	11.8%	21.0%	10.3%
<i>MSCI World Ex US (3)</i>				19.5%	8.5%
Emerging Markets					
Axiom Emerging Markets Equity Fund (4)	61,162,340	2.6%	2.1%	22.3%	N/A
DFA Emerging Markets Small Cap Portfo	19,609,505	0.8%	0.7%	19.5%	6.9%
Total Emerging Markets	80,771,845	3.5%	2.8%	21.6%	4.9%
<i>MSCI Emerging Markets</i>				23.7%	4.0%
Total Private Equity (4)	76,976,315	3.3%	6.0%	11.1%	1.6%

TFFR Returns for the 1- and 5-years ended June 30,

2017

Global Fixed Income earned over 4.5% for the 1- and 5-years ended June 30, 2017, exceeding Benchmarks. Strong returns in U.S. Fixed Income including Private Credit and High Yield where offset by weak results in International Fixed Income.

Global Real Assets earned 5.8% last year and 8.3% per annum over the last 5-years. Real Estate and Infrastructure earned 12.5% and 6.6%, respectively, the last 5-years, while **Timber** returns disappointed at only 0.3% per annum for the 5-years ended June 30, 2017.

	June-17			Fiscal 2017	5 Years Ended 6/30/2017
	Market Value	Actual	Policy	Net	Net
GLOBAL FIXED INCOME Benchmark	526,147,328	22.7%	23.0%	4.7%	4.6%
Domestic Fixed Income Benchmark	405,006,822	17.5%	17.0%	6.0%	5.5%
Investment Grade Fixed Income					
PIMCO Distressed Senior Credit Opportu	45,961,014	2.0%	2.0%	17.1%	13.7%
Bloomberg Aggregate				-0.3%	
State Street Long U.S. Treasury Index N	50,585,129	2.2%	1.3%	-7.3%	N/A
Bloomberg Long Treasuries				-7.2%	
PIMCO Unconstrained Bond Fund	28,834,589	1.2%	1.7%	9.2%	N/A
Declaration Total Return Bond Fund (4)	38,844,117	1.7%	1.6%	5.0%	5.1%
3m LIBOR				1.0%	0.5%
JP Morgan Mortgage Backed Securities	56,160,684	2.4%	2.6%	0.6%	N/A
PIMCO Agency MBS	78,558,625	3.4%	3.9%	0.2%	9.5%
Bloomberg Mortgage Backed Securities Index				-0.1%	2.0%
Total Investment Grade Fixed Income	298,944,158	12.9%	13.0%	3.7%	4.5%
Bloomberg Aggregate				-0.3%	2.2%
Below Investment Grade Fixed Income					
Loomis Sayles High Yield	81,949,988	3.5%	3.0%	12.9%	7.4%
PIMCO BRAVO II (4)	23,385,949	1.0%	1.0%	13.4%	N/A
Total Below Investment Grade Fixed	106,062,664	4.6%	4.0%	12.9%	8.2%
Bloomberg High Yield 2% Issuer Constrained Index				12.7%	6.9%
International Fixed Income Benchmark	121,140,506	5.2%	6.0%	0.8%	1.2%
UBS Global (ex-US) Bond Strategy	49,410,494	2.1%	3.0%	-4.0%	-0.9%
Brandywine Global Opportunistic Fixed In	71,730,012	3.1%	3.0%	4.4%	3.1%
Bloomberg Global Aggregate (ex-US)				-2.2%	0.8%
GLOBAL REAL ASSETS Benchmark	409,904,597	17.7%	18.0%	5.8%	8.3%
Global Real Estate				4.8%	7.3%
Invesco Core Real Estate - U.S.A., L.P.	107,642,917			8.2%	11.6%
Invesco Real Estate Fund III, LP (4)	9,118,630			11.6%	15.9%
Invesco U.S. Value-Add Fund IV, L.P. (4)	18,515,749			8.1%	N/A
Invesco Asia Real Estate Fund III, L.P. (4)	9,065,653			21.3%	N/A
JP Morgan Strategic & Special Situation	82,488,291			7.1%	11.8%
JP Morgan European Opportunistic Prop	4,160,739			-0.5%	9.5%
JP Morgan Greater China Property Fund	6,594,582			37.8%	24.9%
Total Global Real Estate	237,904,250	10.3%	10.0%	9.1%	12.5%
NCREIF TOTAL INDEX				7.0%	10.5%
Timber					
TIR Teredo Timber, LLC	14,194,277	0.6%		-7.0%	5.7%
TIR Springbank, LLC	47,415,521	2.0%		-10.1%	-2.4%
Total Timber (4)	61,609,798	2.7%	3.0%	-9.4%	0.3%
NCREIF Timberland Index				3.3%	7.2%
Infrastructure					
JP Morgan Asian Infrastructure & Related	10,511,890	0.5%		35.5%	8.9%
JP Morgan Infrastructure Investments Fun	79,819,256	3.4%		6.3%	5.7%
Grosvenor Customized Infrastructure Stra	16,727,031	0.7%		8.7%	8.9%
Grosvenor Customized Infrastructure Stra	3,332,372	0.1%		3.3%	N/A
Total Infrastructure	110,390,549	4.8%	5.0%	9.2%	6.6%
CPI				1.5%	1.1%
Northern Trust Collective STIF	20,215,413			0.8%	0.2%
Bank of ND	7,039,112			N/A	N/A
Total Cash Equivalents	27,254,525	1.2%	1.0%	0.7%	0.2%
90 Day T-Bill				0.5%	0.2%

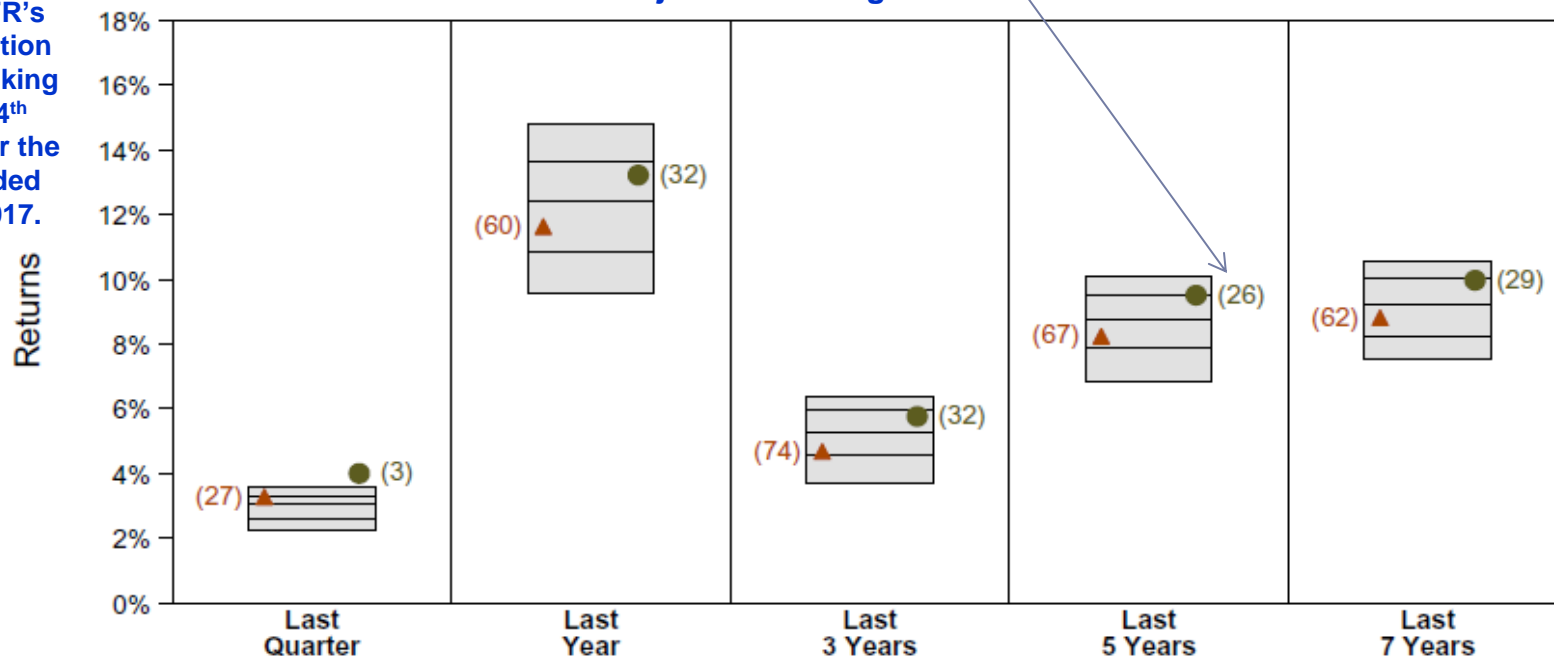
NOTE Monthly returns and market values are preliminary and subject to change.

TFFR's "gross" returns were ranked in the 26th percentile for the 5-years ended June 30, 2017, based on Callan's "Public Fund Sponsor Database".

CAI Public Fund Sponsor Database

NOTE: TFFR's asset allocation adjusted ranking is in the 14th percentile for the 5-years ended June 30, 2017.

Unadjusted Ranking



* Current Quarter Target = 16.6% Russell 1000 Index, 16.0% MSCI World, 13.0% Blmbg Aggregate, 11.8% MSCI World ex US, 10.0% NCREIF Total Index, 6.0% Blmbg Glob Agg ex USD, 6.0% NDSIB TFFR - Private Equity, 5.0% CPI-W, 4.8% Russell 2000 Index, 4.0% Blmbg HY 2% Iss Cap, 3.0% NCREIF Timberland Index, 2.8% MSCI EM and 1.0% 3-month Treasury Bill.

ND Teachers' Fund for Retirement Schedule of Investment Expenses

	FY 2017				FY 2016			
	Average Market Value	Fees in \$	Fees as % of Average MV	Contribution to Total Fees	Average Market Value	Fees in \$	Fees as % of Average MV	Contribution to Total Fees
Investment managers' fees:								
Global equity managers	368,541,670	1,426,842	0.39%	0.06%	321,572,579	1,230,533	0.38%	0.06%
Domestic large cap equity managers	388,663,320	551,198	0.14%	0.02%	358,363,312	903,523	0.25%	0.04%
Domestic small cap equity managers	117,362,483	455,668	0.39%	0.02%	100,948,962	563,542	0.56%	0.03%
Developed international equity managers	269,890,875	852,764	0.32%	0.04%	241,176,848	977,198	0.41%	0.05%
Emerging markets equity managers	77,503,580	633,942	0.82%	0.03%	64,914,247	529,699	0.82%	0.03%
Investment grade domestic fixed income managers	282,438,107	2,017,975	0.71%	0.09%	257,980,949	1,005,950	0.39%	0.05%
Below investment grade fixed income managers *	101,467,769	1,412,036	1.39%	0.06%	105,033,618	1,082,779	1.03%	0.05%
Developed international fixed income managers	118,359,898	423,318	0.36%	0.02%	105,997,529	376,723	0.36%	0.02%
Real estate managers	229,402,622	2,541,836	1.11%	0.11%	217,214,225	2,053,698	0.95%	0.10%
Timber managers	65,007,185	437,057	0.67%	0.02%	73,053,142	(956,302)	-1.31%	-0.05%
Infrastructure managers	100,536,799	803,006	0.80%	0.04%	97,501,541	1,027,901	1.05%	0.05%
Private equity managers *	72,608,878	1,258,121	1.73%	0.06%	77,686,695	1,399,707	1.80%	0.07%
Cash & equivalents managers	19,216,771	20,203	0.11%	0.00%	19,020,916	23,185	0.12%	0.00%
Total investment management fees	2,210,999,957	12,833,966	0.58%		2,040,464,564	10,218,136	0.50%	
Custodian fees		213,844	0.01%	0.01%		197,310	0.01%	0.01%
Investment consultant fees		124,539	0.01%	0.01%		204,752	0.01%	0.01%
Total investment expenses		13,172,349	0.60%			10,620,199	0.52%	
			FY 2017				FY 2016	
Actual Investment Performance (Net of Fees)			12.92%		Actual Investment Performance (Net of Fees)		0.27%	
Policy Benchmark			11.63%		Policy Benchmark		0.62%	
Outperformance/(Underperformance)			1.29%		Outperformance/(Underperformance)		-0.35%	

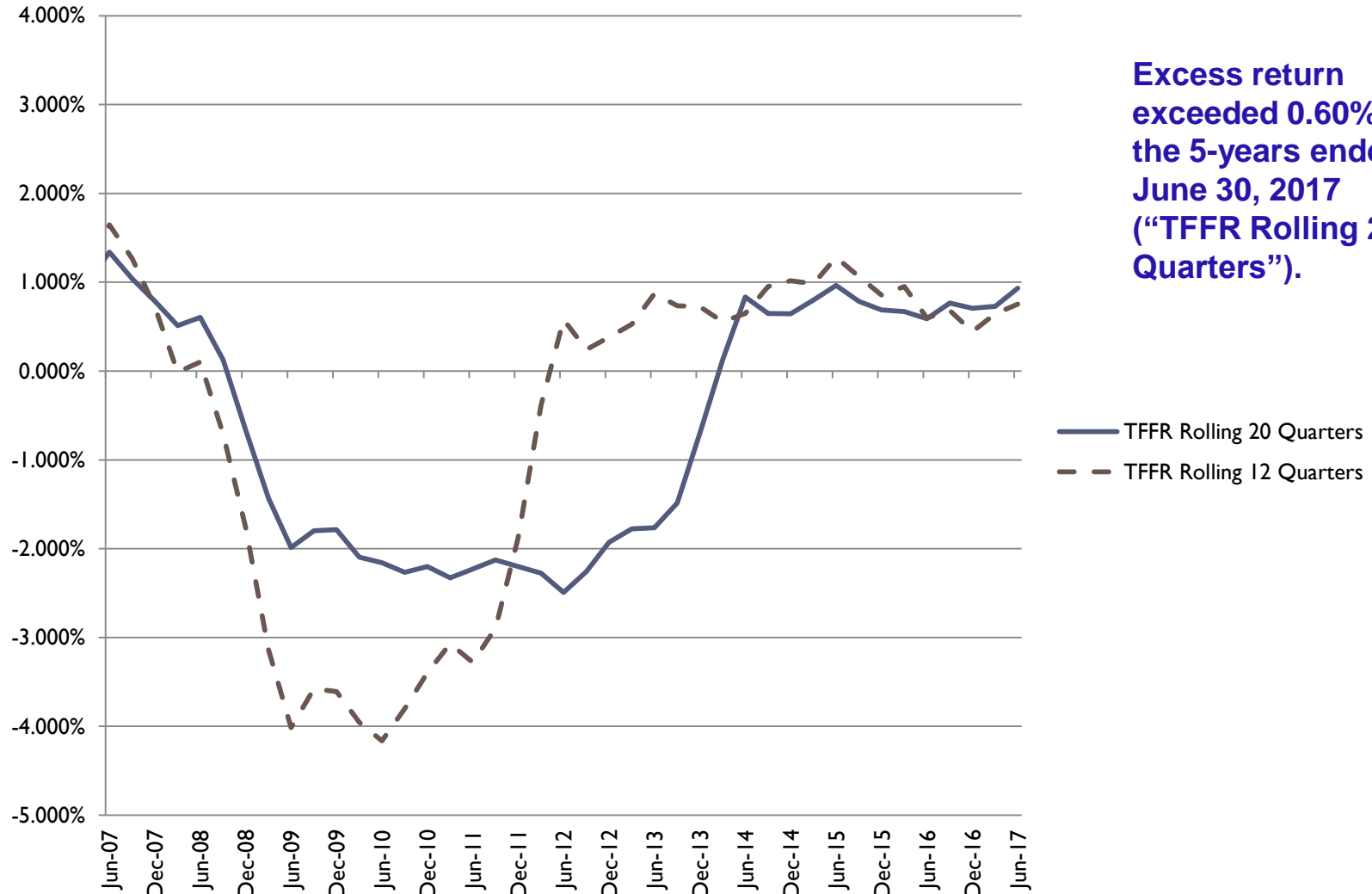
* Includes some estimates for June quarter carried interest/incentive fees not yet reported.

➤ **TFFR's fees increased to 0.60% in FY 2017 from 0.52% in FY 2016 mostly due to the Timber fee reversal of in the prior year. Performance fees were also higher in 2017 than 2016.**

Note: All amounts are deemed to be materially accurate, but are unaudited and subject to change.

Excess Return Relative to Policy Benchmark

10 Years Ended 6/30/2017

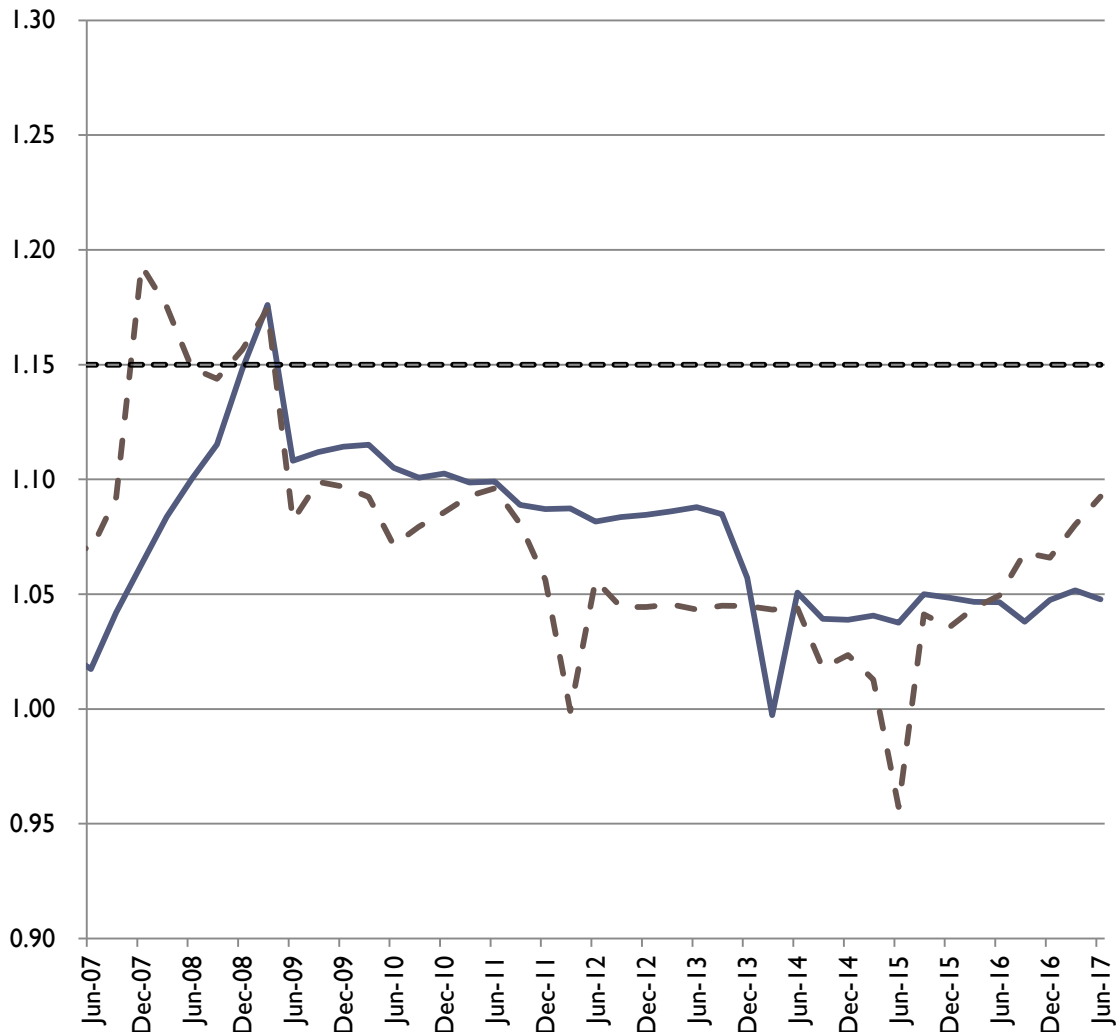


Excess return exceeded 0.60% for the 5-years ended June 30, 2017 (“TFFR Rolling 20 Quarters”).

— TFFR Rolling 20 Quarters
- - TFFR Rolling 12 Quarters

Relative Standard Deviation Relative to Policy Benchmark

10 Years Ended 6/30/2017



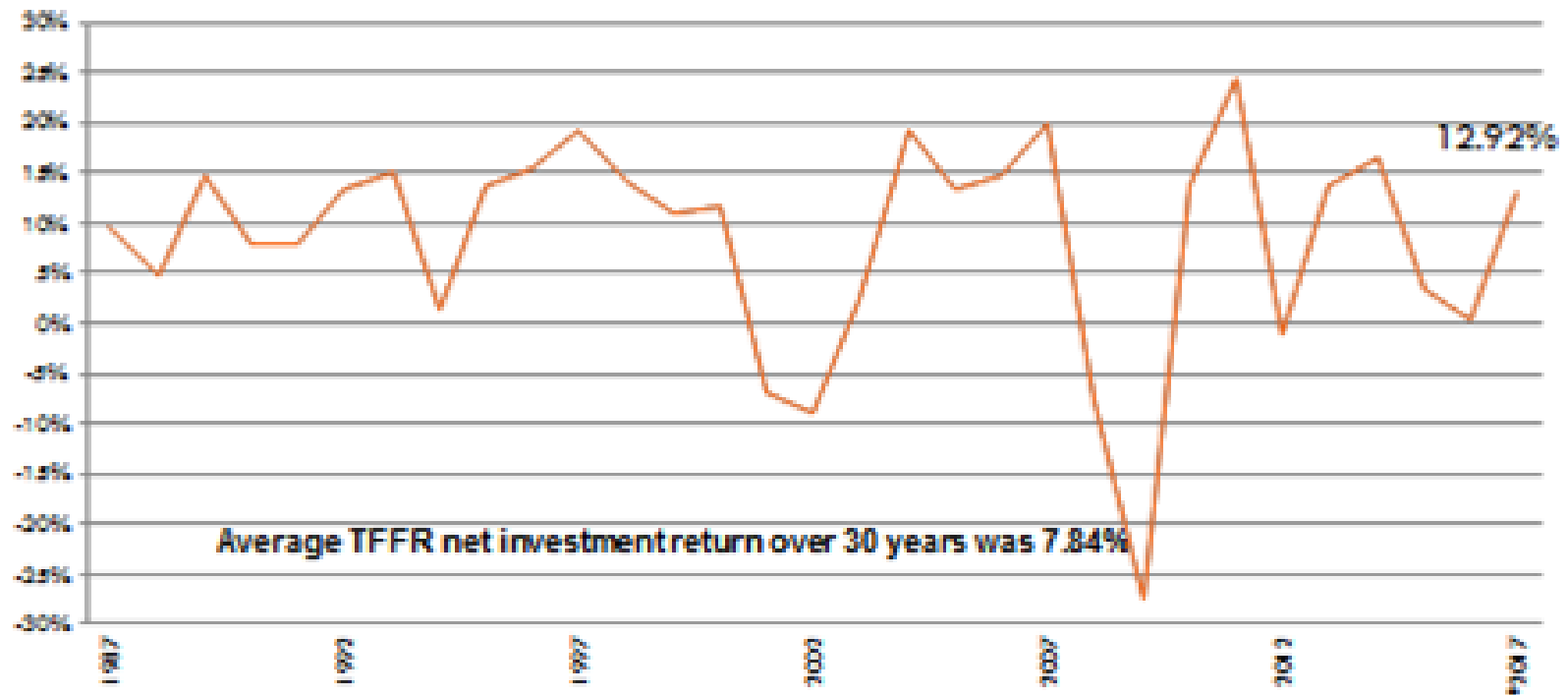
Investment risk, as measured by standard deviation, remains within investment guidelines of 1.15 (or 115% of the policy benchmark) over the last 5 years.

— TFFR Rolling 20 Quarters
- - - TFFR Rolling 12 Quarters
- - - Reference

TFFR's standard deviation for the 5-years ended June 30, 2017 was 105% (or 1.05 times) the policy benchmark.

TFFR Net Investment Performance – Annual 1987-2017

21

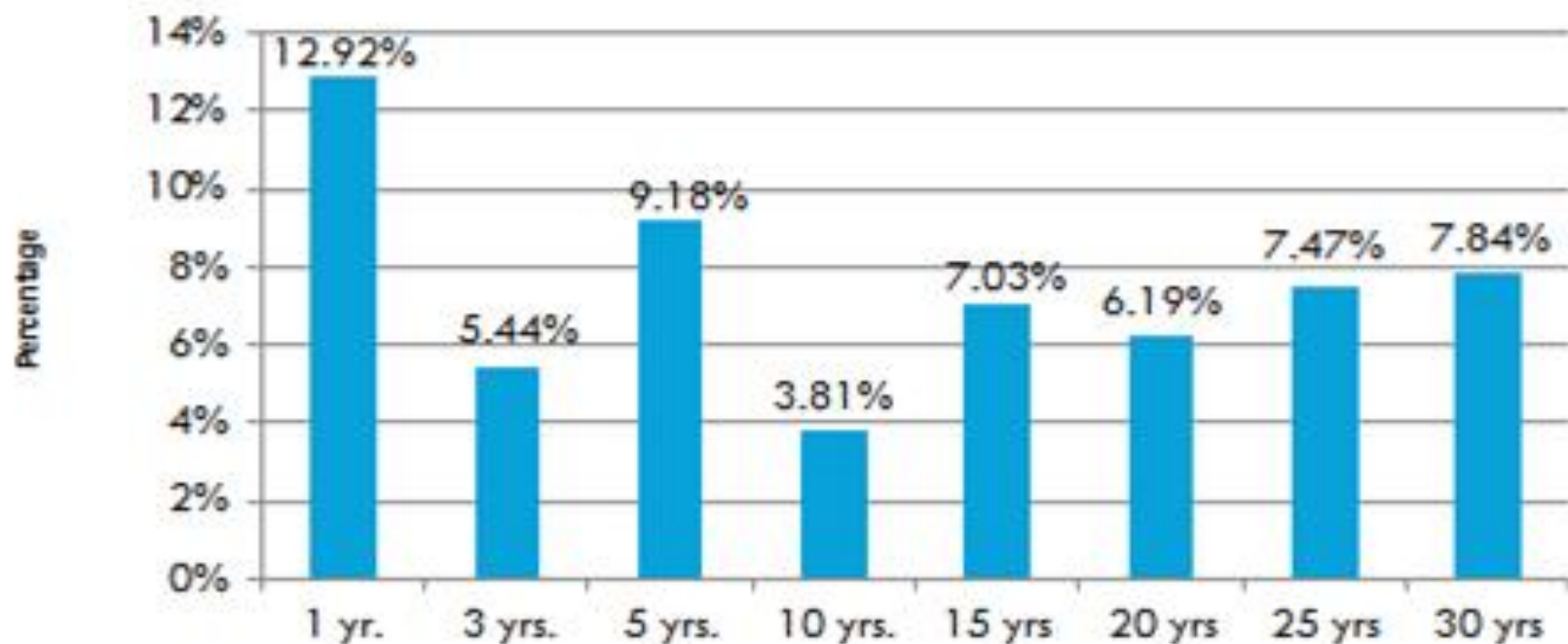


Note: The investment returns shown were calculated by the SIB Investment consultant. This calculation uses daily time-weighted cash flows in compliance with Global Investment Performance Standards (GIPS). These returns differ from the returns calculated by the actuary. The actuary calculation uses a very simplified approach with annual income and valuation data obtained by the actuary at the end of each fiscal year.

*Preliminary 2017 data

TFFR Net Investment Performance – Average Fiscal Year Ended June 30, 2017

22



Note: The investment returns shown were calculated by the SIB investment consultant. This calculation uses daily time-weighted cash flows in compliance with Global Investment Performance Standards (GIPS). These returns differ from the returns calculated by the actuary. The actuary calculation uses a very simplified approach with annual income and valuation data obtained by the actuary at the end of each fiscal year.

Preliminary 2017 data

Summary of PERS and TFFR Investment Performance and SIB Client Assets Under Management

Pension Trust Posted a Net Investment Return of 13% for the 1-year ended June 30, 2017

Current year returns benefitted from robust global equity markets which rose 19% in fiscal 2017. During the last 5 years, PERS and TFFR's results have outperformed 74% of other U.S. public pension plans (based on Callan's public fund database). **Over the last 30-years, PERS and TFFR earned 7.8% per year which approximates their 7.75% long-term return assumption.**

SIB Returns have Outperformed Passive Benchmarks by \$300 million the last 5-years

SIB investment returns have benefitted from selecting firms which have outperformed passive benchmarks by \$300 million (or 0.65%) the last 5-years (after fees). Asset allocation decisions are the primary driver of investment returns but the prudent use of active investment management can help our clients achieve their long term investment goals.

Focus on Investment Management Fees and Expenses

Fee reduction efforts have reduced investment fees from 0.65% per year in fiscal 2013 to approximately 0.47% in fiscal 2017 – this translates into **\$20 million of annual fee savings.**

SIB Client Assets Have Doubled in the Last Five-Years

SIB assets have doubled from \$6 billion at June 30, 2012, to \$12.3 billion at June 30, 2017. This growth has resulted from approximately \$4 billion of cash contributions to the Legacy Fund and over \$3 billion of net investment income for our SIB clients.

Appendix – EBPC Presentation (October 2017)

- ▷ SIB Client Assets & Net Investment Returns – June 30, 2017
- ▷ SIB Process and Responsibilities
- ▷ North Dakota Century Code 21-10 (SIB)
- ▷ Investment Transparency
- ▷ North Dakota Retirement & Investment Office – Awards
- ▷ Legacy Fund Update

North Dakota State Investment Board Clients
Investment Performance (Net of Fees)
As of June 30, 2017

Investment Performance (Net of Fees) As of June 30, 2017			Investment Performance (net of fees)									
Fund Name	Market Values as of 6/30/17	Fiscal 2017	Fiscal Years ended June 30					Periods ended 6/30/17 (annualized)				
			2016	2015	2014	2013	2012	3 Years	5 Years	10 Years	15 Years	30 Years
Pension Trust Fund												
Teachers' Fund for Retirement (TFFR)	2,318,214,334	12.93%	0.28%	3.52%	16.53%	13.57%	-1.12%	5.44%	9.18%	3.81%	7.03%	7.84%
Public Employees Retirement System (PERS)	2,781,347,058	13.05%	0.28%	3.53%	16.38%	13.44%	-0.12%	5.48%	9.16%	4.28%	7.21%	7.85%
City of Bismarck Employees Pension	91,954,165	11.56%	0.82%	3.69%	14.56%	12.41%	1.57%	5.26%	8.47%	4.68%	7.09%	*
City of Bismarck Police Pension	38,136,784	12.24%	0.32%	3.56%	15.27%	13.03%	1.31%	5.26%	8.72%	4.53%	7.08%	*
City of Grand Forks Employees Pension	63,392,384	12.84%	0.11%	3.53%	16.33%	14.01%	1.09%	5.36%	9.18%	*	*	*
Park District of the City of Grand Forks Pension	6,160,568	12.74%	0.36%	4.22%	16.44%	14.43%	0.86%	5.65%	9.46%	*	*	*
Subtotal Pension Trust Fund	5,299,205,292											
Insurance Trust Fund												
Workforce Safety & Insurance (WSI)	1,894,614,791	8.29%	3.58%	3.26%	11.71%	8.31%	6.17%	5.02%	6.98%	5.46%	6.26%	*
State Fire and Tornado Fund	22,008,326	9.30%	2.67%	3.16%	12.78%	10.59%	4.93%	5.00%	7.62%	5.57%	6.45%	*
State Bonding Fund	3,374,399	2.40%	3.48%	1.25%	4.06%	2.96%	5.31%	2.37%	2.83%	1.13%	3.60%	*
Petroleum Tank Release Compensation Fund	6,396,410	2.23%	3.17%	1.13%	3.68%	2.47%	4.84%	2.18%	2.53%	0.86%	3.29%	*
Insurance Regulatory Trust Fund	5,289,164	7.40%	1.46%	2.04%	9.88%	8.49%	2.82%	3.60%	5.80%	4.27%	5.38%	*
State Risk Management Fund	5,781,003	8.27%	4.46%	4.08%	12.29%	10.19%	7.63%	5.59%	7.81%	6.30%	6.61%	*
State Risk Management Workers Comp Fund	5,534,628	9.41%	4.21%	4.57%	13.68%	11.61%	7.40%	6.04%	8.63%	6.47%	*	*
Cultural Endowment Fund	431,470	12.71%	2.18%	5.22%	16.94%	15.58%	4.65%	6.62%	10.37%	6.05%	*	*
Budget Stabilization Fund	6,127,844	0.80%	1.82%	1.86%	1.94%	1.87%	2.03%	1.49%	1.66%	1.68%	*	*
ND Counties	4,383,920	8.30%	2.76%	2.77%	11.61%	9.46%	1.69%	4.58%	6.92%	4.06%	5.87%	*
Bismarck Deferred Sick Leave Account	698,131	8.85%	3.26%	2.95%	12.32%	9.83%	5.69%	4.99%	7.38%	5.80%	6.54%	*
City of Fargo FargoDome Permanent Fund	41,634,918	12.25%	1.19%	3.38%	16.34%	13.46%	3.14%	5.50%	9.16%	5.81%	*	*
State Board of Medicine Fund	2,179,911	5.29%	1.63%	2.70%	*	*	*	3.20%	*	*	*	*
PERS Group Insurance Account	37,500,315	0.08%	1.49%	0.01%	0.06%	0.27%	0.24%	0.53%	0.38%	0.73%	1.48%	*
Subtotal Insurance Trust Fund	2,035,955,231											
Legacy Fund	4,687,963,729	12.03%	1.06%	3.31%	6.64%	1.15%	*	5.36%	*	*	*	*
Job Service of North Dakota Pension	97,332,820	5.63%	5.45%	3.30%	13.54%	11.71%	3.09%	4.79%	7.85%	5.02%	7.01%	*
Tobacco Control and Prevention Fund	57,462,736	1.66%	*	*	*	*	*	*	*	*	*	*
PERS Retiree Health Insurance Credit Fund	116,150,947	11.81%	0.72%	3.06%	16.53%	12.71%	2.62%	5.09%	8.80%	4.69%	6.55%	*
Total Assets Under SIB Management	\$ 12,294,070,755											

* These funds do not have the specified periods of history under SIB management.



State Investment Board Process

Client Responsibilities: (Per NDCC 21-10-02.1) The governing body of each fund (client) shall establish policies on investment goals and objectives and asset allocation that must include:

- Acceptable rates of return, liquidity and levels of risk
- Long-range asset allocation goals

State Investment Board Responsibilities: (Per NDCC 21-10):

- Accept and implement client asset allocations
- Apply Prudent Investor Rule when investing for fund under its supervision
- Approve general types of securities for investment
- Set policies and procedures regulating securities transactions on behalf of the clients
- Select custodian servicer
- Select investment director and/or investment consulting service
- Create investment pools

State Investment Board Process

Retirement and Investment Office Staff Responsibilities (on behalf of SIB):

- Administer overall investment strategy
- Advise SIB on ways to maximize risk/return opportunities within each asset class
- Act as liaison between SIB and managers, consultant and custodian
- Monitor individual clients' investment guidelines and asset allocations
- Maintain separate accounting for client accounts

Investment Manager Responsibilities:

- Accept and implement specific mandates or “investment missions”
- Make buy/sell decisions based on investment guidelines
- Report to RIO Staff on regular basis
- Provide education to SIB

State Investment Board Process

Custodian Bank Responsibilities:

- Safe-keep assets
- Settle trades
- Record-keeper

Investment Consultant Responsibilities:

- Performance measurement of investment managers
- Manager search assistance
- Provide education to SIB
- Special projects

Others Experts:

- Legal Counsel
- Independent Actuaries and Auditors
- Specialists in custody and fee reviews and/or transaction cost analyses

NDCC Chapter 21-10 State Investment Board

21-10-01. State investment board - Membership - Term - Compensation – Advisory council.

The North Dakota state investment board consists of the governor, the state treasurer, the commissioner of university and school lands, the director of workforce safety and insurance, the insurance commissioner, three members of the teachers' fund for retirement board or the board's designees who need not be members of the fund as selected by that board, two of the elected members of the public employees retirement system board as selected by that board, and one member of the public employees retirement system board as selected by that board. The director of workforce safety and insurance may appoint a designee, subject to approval by the workforce safety and insurance board of directors, to attend the meetings, participate, and vote when the director is unable to attend. The teachers' fund for retirement board may appoint an alternate designee with full voting privileges to attend meetings of the state investment board when a selected member is unable to attend. The public employees retirement system board may appoint an alternate designee with full voting privileges from the public employees retirement system board to attend meetings of the state investment board when a selected member is unable to attend. The members of the state investment board, except elected and appointed officials and the director of workforce safety and insurance or the director's designee, are entitled to receive as compensation one hundred forty-eight dollars per day and necessary mileage and travel expenses as provided in sections 44-08-04 and 54-06-09 for attending meetings of the state investment board.

The state investment board may establish an advisory council composed of individuals who are experienced and knowledgeable in the field of investments. The state investment board shall determine the responsibilities of the advisory council. Members of the advisory council are entitled to receive the same compensation as provided the members of the advisory board of the Bank of North Dakota and necessary mileage and travel expenses as provided in sections 44-08-04 and 54-06-09.

21-10-02. Board - Powers and duties.

The board is charged with the investment of the funds enumerated in section 21-10-06. It shall approve general types of securities for investment by these funds and set policies and procedures regulating securities transactions on behalf of the various funds. Representatives of the funds enumerated in section 21-10-06 may make recommendations to the board in regard to investments. The board or its designated agents must be custodian of securities purchased on behalf of funds under the management of the board. The board may appoint an investment director or advisory service, or both, who must be experienced in, and hold considerable knowledge of, the field of investments. The investment director or advisory service shall serve at the pleasure of the board. The investment director or advisory service may be an individual, corporation, limited liability company, partnership, or any legal entity which meets the qualifications established herein. The board may authorize the investment director to lend securities held by the funds. These securities must be collateralized as directed by the board. The board may create investment fund pools in which the funds identified in section 21-10-06 may invest.

NDCC Chapter 21-10 State Investment Board

21-10-02.1. Board - Policies on investment goals and objectives and asset allocation.

1. The governing body of each fund enumerated in section 21-10-06 shall establish policies on investment goals and objectives and asset allocation for each respective fund. The policies must provide for:
 - a. The definition and assignment of duties and responsibilities to advisory services and persons employed by the board.
 - b. Rate of return objectives, including liquidity requirements and acceptable levels of risk.
 - c. Long-range asset allocation goals.
 - d. Guidelines for the selection and redemption of investments.
 - e. Investment diversification, investment quality, qualification of advisory services, and amounts to be invested by advisory services.
 - f. The type of reports and procedures to be used in evaluating performance.
2. The asset allocation and any subsequent allocation changes for each fund must be approved by the governing body of that fund and the state investment board. The governing body of each fund shall use the staff and consultants of the retirement and investment office in developing asset allocation and investment policies.

21-10-03. Cooperation with Bank of North Dakota.

Repealed by S.L. 1987, ch. 190, § 14.

21-10-04. Board - Meetings.

The state investment board shall select one of its members to serve as chair, one to serve as vice chair, and shall meet at the call of the chair or upon written notice signed by two members of the board.

21-10-05. Investment director - Powers and duties.

Subject to the limitations contained in the law or the policymaking regulations or resolutions adopted by the board, the investment director may sign and execute all contracts and agreements to make purchases, sales, exchanges, investments, and reinvestments relating to the funds under the management of the board. This section is a continuing appropriation of all moneys required for the making of investments of funds under the management of the board. The investment director shall see that moneys invested are at all times handled in the best interests of the funds. Securities or investments may be sold or exchanged for other securities or investments.

The investment director shall formulate and recommend to the investment board for approval investment regulations or resolutions pertaining to the kind or nature of investments and limitations, conditions, and restrictions upon the methods, practices, or procedures for investment, reinvestment, purchase, sale, or exchange transactions that should govern the investment of funds under this chapter.

NDCC Chapter 21-10 State Investment Board

21-10-06. Funds under management of board - Accounts.

1. Subject to the provisions of section 21-10-02, the board shall invest the following funds:
 - a. State bonding fund.
 - b. Teachers' fund for retirement.
 - c. State fire and tornado fund.
 - d. Workforce safety and insurance fund.
 - e. Public employees retirement system.
 - f. Insurance regulatory trust fund.
 - g. State risk management fund.
 - h. Budget stabilization fund.
 - i. Health care trust fund.
 - j. Cultural endowment fund.
 - k. Petroleum tank release compensation fund.
 - l. Legacy fund.
 - m. A fund under contract with the board pursuant to subsection 3.
2. Separate accounting must be maintained for each of the funds listed in subsection 1. The moneys of the individual funds may be commingled for investment purposes when determined advantageous.
3. The state investment board may provide investment services to, and manage the money of, any agency, institution, or political subdivision of the state, subject to agreement with the industrial commission. The scope of services to be provided by the state investment board to the agency, institution, or political subdivision must be specified in a written contract. The state investment board may charge a fee for providing investment services and any revenue collected must be deposited in the state retirement and investment fund.

21-10-06.1. Board - Investment reports.

The board shall annually prepare reports on the investment performance of each fund under its control. The reports must be uniform and must include:

1. A list of the advisory services managing investments for the board.
2. A list of investments at market value, compared to previous reporting period, of each fund managed by each advisory service.
3. Earnings, percentage earned, and change in market value of each fund's investments.
4. Comparison of the performance of each fund managed by each advisory service to other funds under the board's control and to generally accepted market indicators.

NDCC Chapter 21-10 State Investment Board

21-10-06.2. Investment costs.

The amounts necessary to pay for investment costs, such as investment counseling fees, trustee fees, custodial fees, performance measurement fees, expenses associated with money manager searches, expenses associated with onsite audits and reviews of investment managers, and asset allocation expenses, incurred by the state investment board are hereby appropriated and must be paid directly out of the funds listed in section 21-10-06 by the fund incurring the expense.

21-10-07. Legal investments.

The state investment board shall apply the prudent investor rule in investing for funds under its supervision. 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 speculation but in regard to the permanent disposition of funds, considering probable safety of capital as well as probable income. The retirement funds belonging to the teachers' fund for retirement and the public employees retirement system must be invested exclusively for the benefit of their members and in accordance with the respective funds' investment goals and objectives.

21-10-08. Reserves - Percentage limitations.

In order to meet claims and liabilities, reserves must be established and maintained in each of the funds in accordance with the investment policy and asset allocation established for each fund.

21-10-09. Personal profit prohibited - Penalty.

No member, officer, agent, or employee of the state investment board may profit in any manner from transactions on behalf of the funds. Any person violating any of the provisions of this section is guilty of a class A misdemeanor.

21-10-10. State investment board fund - Cost of operation of board.

Repealed by S.L. 1989, ch. 667, § 13.

NDCC Chapter 21-10 State Investment Board

21-10-11. Legacy and budget stabilization fund advisory board.

The legacy and budget stabilization fund advisory board is created to develop recommendations for the investment of funds in the legacy fund and the budget stabilization fund to present to the state investment board. The goal of investment for the legacy fund is principal preservation while maximizing total return. The board consists of two members of the senate appointed by the senate majority leader, two members of the house of representatives appointed by the house majority leader, the director of the office of management and budget or designee, the president of the Bank of North Dakota or designee, and the tax commissioner or designee. The board shall select a chairman and must meet at the call of the chairman. The board shall report at least semiannually to the budget section. Legislative members are entitled to receive compensation and expense reimbursement as provided under section 54-03-20 and reimbursement for mileage as provided by law for state officers. The legislative council shall pay the compensation and expense reimbursement for the legislative members. The legislative council shall provide staff services to the legacy and budget stabilization fund advisory board. The staff and consultants of the state retirement and investment office shall advise the board in developing asset allocation and investment policies.

21-10-12. Legacy fund - Earnings defined.

For the purposes of section 26 of article X of the Constitution of North Dakota, the term "earnings" means net income in accordance with generally accepted accounting principles, excluding any unrealized gains or losses.

Investment Transparency – October 2017

SIB Meetings are Open to the Public:

SIB meetings are open to the public and RIO is committed to adhering to all applicable open records and meeting laws. **RIO posts SIB meeting materials on our public website including quarterly investment performance reviews, monthly investment results by client and investment strategy, and annual reviews of our investment policy statements and investment fees.** RIO engages a third party to review and confirm the reasonableness of our investment returns on a quarterly basis in addition to an annual audit of our overall financial statements including a review of our internal control environment. We believe these actions support our desire to foster trust, understanding and support with our clients.

RIO's Website is Public:

- 1) The SIB Governance Manual can be viewed using a hyperlink on RIO's website (hyperlink accessed by clicking on "SIB Governance Manual" under the "SIB / Board" section);
<http://www.nd.gov/rio/SIB/Board/GovernanceManual/default.htm>
 - 2) SIB Meeting Materials can be accessed using a hyperlink on RIO's website (hyperlink accessed by clicking on "Meeting Materials" under the "SIB / Board" section);
<http://www.nd.gov/rio/SIB/Board/SIB%20Meeting%20Materials/default.htm>
 - 3) The SIB Audit Committee Charter and Meeting Materials may be viewed using a hyperlink on RIO's website (hyperlinks accessed by clicking on "SIB Audit Charter" or "Meeting Materials" under the "SIB Audit" section). <http://www.nd.gov/rio/SIB%20Audit/Board/default.htm>
-

North Dakota Retirement & Investment Office – Awards

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to RIO for its comprehensive annual financial report for the fiscal year ended June 30, 2016. This was the 19th consecutive year that RIO has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

TFFR also received the 2015 Public Pension Standards Award for Funding and Administration from the Public Pension Coordinating Council. To receive the award, the retirement system must certify that it meets specific professional standards for a comprehensive benefit program, actuarial valuations, financial reporting, investments, communications to members, and funding adequacy.

Legacy Fund Update

Dave Hunter, Executive Director / CIO

Darren Schulz, Deputy Chief Investment Officer

Retirement & Investment Office (RIO)

State Investment Board (SIB)

Legacy Fund

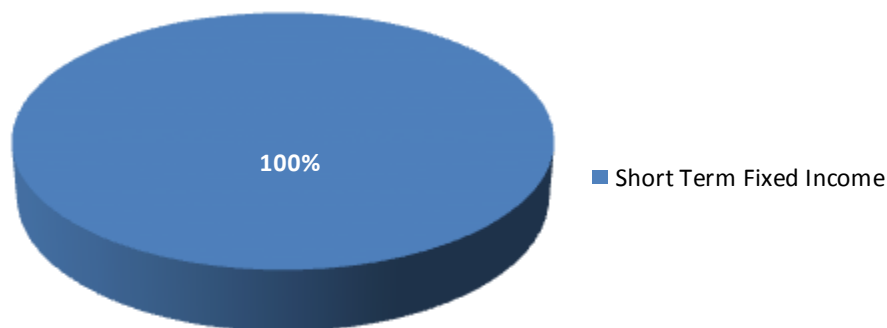
Net Investment Returns – June 30, 2017

	1-Year 6/30/2017	3 Yrs Ended 6/30/2017	5 Yrs Ended 6/30/2017
Total Fund Return - Net	12.03%	5.36%	4.77%
Policy Benchmark Return	9.91%	4.37%	3.76%
Excess Return	2.12%	1.00%	1.01%

Investment Performance Note: Legacy Funds net investment returns have consistently exceeded performance benchmarks by 1% (or more) since inception. The Total Fund Return of 12% in fiscal 2017 (including Excess Return over 2%) is strong, but unlikely to be consistently repeated in the future. Investment returns may be negative in future years if there is a major market correction. RIO's goal is to outperform the passive index investor over the long-term including when equity markets are down. As such, the Legacy Fund will likely experience investment losses over certain periods. All SIB clients, including the Legacy Fund, remain fully invested in board approved asset allocations at all times. We are long term investors and do not attempt to time market swings. As a result, we expect to experience investment losses in future years when there are market downturns.

Legacy Fund Strategic Asset Allocation

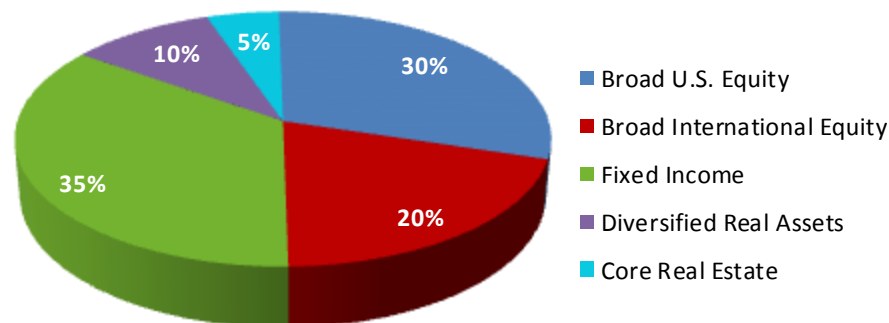
Actual Allocation
8/1/2013



Transition completion
January 2015

Policy Allocation

January 31, 2015 to Current



Note: Amounts are preliminary, unaudited and subject to change.

Legacy Fund

Deposits, Earnings & Net Position – June 30 & August 31, 2017

Column	A	B	C	D	E
					Earnings as defined in NDCC 21-10-12 <i>Note 1</i>
	Deposits	Total Net Earnings	Net Increase/ (Decrease)	Ending Net Position	
FY2012	396,585,658	2,300,225	398,885,883	398,885,883	2,571,475
FY2013	791,126,479	4,216,026	795,342,505	1,194,228,388	15,949,089
FY2014	907,214,971	113,153,662	1,020,368,633	2,214,597,021	50,033,655
FY2015	1,011,343,040	99,895,650	1,111,238,690	3,325,835,711	95,143,905
FY2016	434,853,950	45,851,680	480,705,630	3,806,541,341	65,326,673
FY2017	399,501,134	479,595,256	879,096,390	4,685,637,731	207,814,875
Totals	3,940,625,232 Net Earnings	745,012,499 Net Earnings	4,685,637,731	15,625,726,075 Ending Balance	436,839,672
FY2018 *	157,839,873	90,638,299	248,478,172	4,934,115,903	20,995,156
Life-to-date Totals	4,098,465,105	835,650,798	4,934,115,903	4,934,115,903 As of Aug.31, 2017	457,834,828

* FY2018 amounts are preliminary and unaudited.

Note 1: All earnings prior through 6/30/17 became part of principal.

Column A - Deposits into the Legacy Fund total \$3.94 billion as of June 30, 2017, and \$4.1 billion as of August 31, 2017.

Column B - Net Earnings for the Legacy Fund total \$745 million as of June 30, 2017, and \$835 million as of August 31, 2017.

Column C - Represents the sum of Deposits (Column A) and Net Earnings (Column B).

Column D - Legacy Fund's Ending Net Position as of August 31, 2017 exceeded \$4.9 billion.

Column E - Earnings available for transfer (per NDCC 21-10-02) are \$21 million for the two months ended August 31, 2017.

BOARD ACCEPTANCE REQUESTED

TO: State Investment Board

FROM: Darren Schulz

DATE: October 23, 2017

SUBJECT: **Recommended Investment Policy Statement Changes – PERS**

RIO requests the SIB accept PERS investment policy changes highlighted below.

On October 19, 2017, the PERS board approved a change within Global Fixed Income. PERS board approved RIO's recommendation that Investment Grade be reduced to 16% (from 18%), while Non-Investment Grade should be increased to 7% (from 5%). The total asset allocation to Global Fixed Income will remain constant at 23%.

These recommended changes are intended to improve PERS risk adjusted returns by eliminating dedicated international fixed income sectors which are expected to generate low investment returns with high investment risk/volatility over the next 5-to-10 years.

The Fixed Income Restructuring Overview provides further support for this recommendation including the table excerpt immediately below. Please refer to [page 21](#) of the attach PERS Investment Update for the specific changes made with PERS Investment Policy Statement.

PENSION TRUST - Fixed Income Only				
Fixed Income Restructuring to Improve Returns and Reduce Risk				
CURRENT	Target	Projected	Projected	
Pension Trust	Allocation	Return	Risk	
U.S. Investment Grade (IG)	13.3%	3.0%	3.8%	
U.S. High Yield Debt (HY)	4.6%	4.8%	10.4%	
International Debt	5.4%	1.4%	9.2%	
Fixed Income	23.3% (1)	3.0%	6.3% (3)	
				\$5,000
PROPOSED	Target	Projected	Projected	Pension \$
Pension Trust	Allocation	Return	Risk	\$5 billion
U.S. Investment Grade (IG)	16.3%	3.0%	3.8%	\$815
Diversified Credit (DC)	7.0%	4.8%	10.4%	\$350
International Debt (a)	0.0%	1.4%	9.2%	\$0
Fixed Income	23.3% (2)	3.5%	5.7% (4)	\$1,165
RIO's Fixed Income Recommendation:				
If International Debt (a) is eliminated while U.S. Investment Grade and Diversified Credit are increased by 3% and 2.4%, respectively, Projected Return would increase from 3.0% (1) to 3.5% (2), while Projected Risk would decline from 6.3% (3) to 5.7% (4).				
Key Point: RIO's Recommendation Increases Projected Returns 0.5% and Decreases Projected Risk 0.6% of "Fixed Income" in the Pension Trust.				

PERS Investment Update

For the Periods Ended June 30, 2017

October 19, 2017

Note: This document contains unaudited data which is deemed to be materially accurate, but is unaudited and subject to change.

Darren Schulz, Deputy Chief Investment Officer
ND Retirement & Investment Office (RIO)
State Investment Board (SIB)

Executive Summary for periods ended June 30, 2017

Investment Performance Update –

- **For the fiscal year ended June 30, 2017, PERS earned a net return of 13.0% versus a policy benchmark of less than 12%.** The financial markets were surprisingly robust and resilient in fiscal 2017. Global equities rose 18.8% last year with PERS's International Equity portfolio (up 21%) outperforming our U.S. Equity managers (up 17%). PERS fixed income returns far exceeded expectations with our U.S. debt portfolio posting a 6% gain versus 3% for the benchmark. PERS international debt portfolio earned less than 1% in fiscal 2017 but beat the global fixed income index which was negative due to low “real” rates outside the U.S. Real Assets were mixed with Real Estate and Infrastructure each earning over 9% in fiscal 2017, while **Timber fell over 9%** this past year.
- **Asset allocation is the primary driver of returns noting that PERS target allocation is currently at 58% Equity, 23% Fixed Income and 19% Real Assets. PERS earned a net return of 9.1% for the 5-years ended June 30, 2017, which exceeded the policy benchmark of 8.3% by over 0.65%.** During the last 5-years, PERS earned **\$980 million** of net investment income including **\$910 million** (or 93%) from asset allocation and **\$70 million₁** (7%) from active management.
- PERS investment returns were ranked in the **26th** percentile for the 5-years ended June 30, 2017, based on Callan's Public Fund Sponsor Database (on an unadjusted risk basis).

Investment Policy Statement Update –

- The SIB recently approved structural changes to eliminate \$575 million of agency MBS and international debt strategies. These changes are expected to materially improve risk adjusted returns within the Pension Trust largely due to the elimination of international fixed income with low expected returns and high expected volatility. **In order to implement these changes, PERS asset allocation within Fixed Income should be revised to reduce Investment Grade to 16% (from 19%) while increasing Non-Investment Grade to 7% (from 4%). The total allocation to Fixed Income will remain constant at 23%.**

PERS Investment Ends – June 30, 2017

SIB clients should receive net investment returns consistent with their written investment policies and market variables. This “End” is evaluated based on comparison of each client’s (a) actual net investment return, (b) standard deviation and (c) risk adjusted excess return, to the client’s policy benchmark over 5 years.

<div>PERS earned \$320 million of net income in fiscal 2017.</div>				<div></div>		
		1 Yr. Ended 6/30/2017	3 Yrs Ended 6/30/2017	5 Yrs Ended 6/30/2017	Risk 5 Yrs Ended 6/30/2017	Risk Adj Excess Return 5 Yrs Ended 6/30/2017
Total Fund Return - Net	a	13.05%	5.49%	9.16%	4.8%	0.50%
Policy Benchmark Return	b	11.87%	4.75%	8.25%	4.6%	
Excess Return	a - b	1.18%	0.74%	0.90%	105%	

Key: PERS investments averaged over \$2.2 billion the last 5-years and Excess Return has exceeded **0.65%** per annum. **PERS use of active management has enhanced Net Investment Returns by \$70 million for the 5-years ended June 30, 2017** (or \$2.2 billion x **0.65%** = \$14 million x 5 years = **\$70 million**). These returns were achieved while adhering to prescribed Risk limits (e.g. 105% versus a policy limit of 115%).

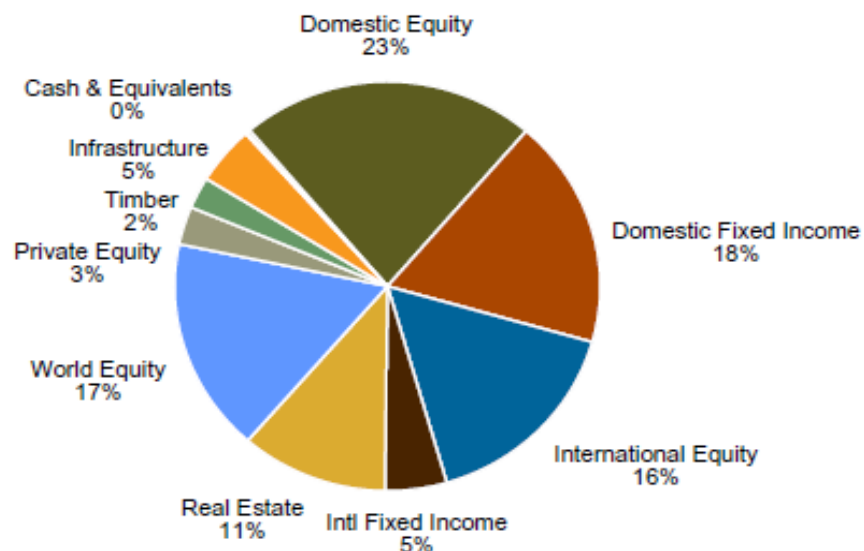
5-Yr. Returns June 30, 2017	Asset Allocation	Benchmark Return	Allocation x Return
<i>Asset Class</i>	<i>a</i>	<i>b</i>	<i>a x b</i>
Equity	58%	11%	6.4%
Fixed Income	23%	2.6%	0.6%
Real Assets	19%	7.3%	1.4%
Policy Benchmark Return (5-years)			8.3%

Current Policy Benchmark: 58% Equity (31% U.S., 21% Non-U.S., 6% Private); 23% Fixed Income (13% U.S., 6% Non-U.S. 4% High Yield); 19% Real Assets (11% Real Estate; 5% Infrastructure; 3% Timber).

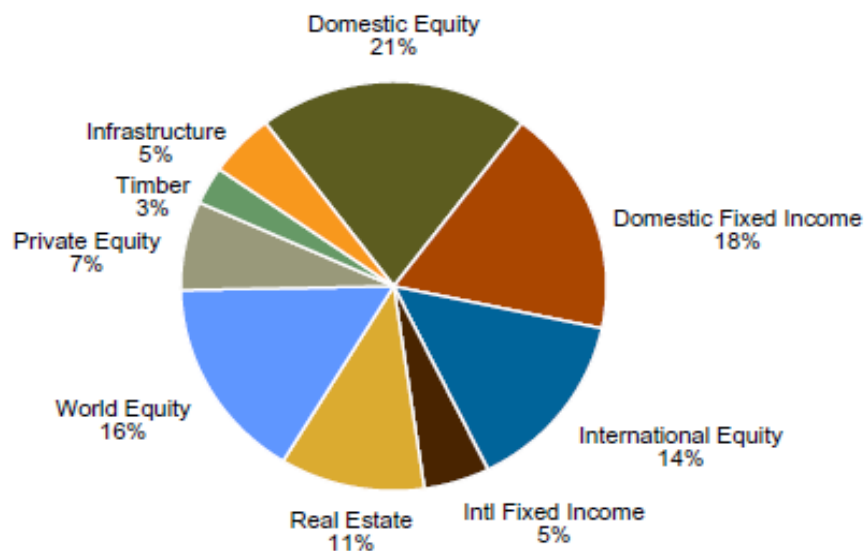
Actual Asset Allocations are within 4% of Target

The **Private Equity Underweight of 4.0%** is offset by **Overweight allocations to Domestic Equity of 2.1%, Int'l. Equity of 1.7% and World Equity of 0.9%.**

Actual Asset Allocation



Target Asset Allocation



Asset Class	\$000s Actual	Weight Actual	Target	Percent Difference	\$000s Difference
Domestic Equity	631,278	22.7%	20.6%	2.1% ←	58,320
Domestic Fixed Income	502,620	18.1%	18.0%	0.1%	1,978
International Equity	447,370	16.1%	14.4%	1.7% ←	46,856
Intl Fixed Income	130,196	4.7%	5.0%	(0.3%)	(8,871)
Real Estate	311,147	11.2%	11.0%	0.2%	5,199
World Equity	468,680	16.9%	16.0%	0.9% ←	23,665
Private Equity	83,863	3.0%	7.0%	(4.0%) →	(110,832)
Timber	68,943	2.5%	3.0%	(0.5%)	(14,498)
Infrastructure	126,764	4.6%	5.0%	(0.4%)	(12,304)
Cash & Equivalents	10,486	0.4%	0.0%	0.4%	10,486
Total	2,781,347	100.0%	100.0%		

Asset Class Performance

Periodic Table of Investment Returns
for Periods Ended June 30, 2017

Best



Worst

Last Quarter	Last Year	Last 3 Years	Last 5 Years	Last 10 Years	Last 20 Years
MSCI:EM Gross 6.4%	Russell:2000 Index 24.6%	S&P:500 9.6%	S&P:500 14.6%	S&P:500 7.2%	Russell:2000 Index 8.0%
MSCI:EAFE 6.1%	MSCI:EM Gross 24.2%	Russell:2000 Index 7.4%	Russell:2000 Index 13.7%	Russell:2000 Index 6.9%	S&P:500 7.2%
S&P:500 3.1%	MSCI:EAFE 20.3%	Blmbg:Aggregate 2.5%	MSCI:EAFE 8.7%	Blmbg:Aggregate 4.5%	MSCI:EM Gross 5.8%
Russell:2000 Index 2.5%	S&P:500 17.9%	MSCI:EM Gross 1.4%	MSCI:EM Gross 4.3%	MSCI:EM Gross 2.2%	Blmbg:Aggregate 5.2%
Blmbg:Aggregate 1.4%	3 Month T-Bill 0.5%	MSCI:EAFE 1.1%	Blmbg:Aggregate 2.2%	MSCI:EAFE 1.0%	MSCI:EAFE 4.3%
3 Month T-Bill 0.2%	Blmbg:Aggregate (0.3%)	3 Month T-Bill 0.2%	3 Month T-Bill 0.2%	3 Month T-Bill 0.6%	3 Month T-Bill 2.2%
Blmbg:Commodity Price Idx (3.2%)	Blmbg:Commodity Price Idx (7.0%)	Blmbg:Commodity Price Idx (15.0%)	Blmbg:Commodity Price Idx (9.4%)	Blmbg:Commodity Price Idx (6.9%)	Blmbg:Commodity Price Idx (1.8%)

U.S. Small Caps (**Russell 2000**) and Emerging Markets (**MSCI EM**) returned over 24% for the 1-year ended June 30, 2017, while International Equity (**MSCI EAFE**) was up 20% and U.S. Large Cap (**S&P 500**) was up 18%. U.S. Fixed Income (**Blmbg. Aggregate**) **declined 0.3%** in Fiscal 2017.

Global Equity, Fixed Income and Real Asset Valuations

PERS investment income was \$107 million last quarter while net outflows were < \$697,000.

Asset Class Allocation

	June 30, 2017				March 31, 2017	
	Market Value	Weight	Net New Inv.	Inv. Return	Market Value	Weight
GLOBAL EQUITY	\$1,631,190,921	58.65%	\$(12,153,247)	\$74,222,991	\$1,569,121,178	58.66%
Domestic Equity	\$631,277,502	22.70%	\$(6,609,511)	\$18,782,920	\$619,104,093	23.14%
Large Cap	479,066,241	17.22%	(6,365,156)	14,240,466	471,190,931	17.61%
Small Cap	152,211,261	5.47%	(244,355)	4,542,455	147,913,162	5.53%
International Equity	\$447,370,457	16.08%	\$(5,449,971)	\$27,777,639	\$425,042,789	15.89%
Developed Intl Equity	329,244,317	11.84%	(3,649,971)	20,993,261	311,901,027	11.66%
Emerging Markets	118,126,139	4.25%	(1,800,000)	6,784,378	113,141,762	4.23%
World Equity	\$468,680,340	16.85%	\$(37,663)	\$21,613,291	\$447,104,711	16.71%
Private Equity	\$83,862,623	3.02%	\$(56,102)	\$6,049,140	\$77,869,585	2.91%
GLOBAL FIXED INCOME	\$632,816,497	22.75%	\$(1,417,328)	\$16,919,646	\$617,314,180	23.08%
Domestic Fixed Income	\$502,620,244	18.07%	\$(1,288,857)	\$11,830,531	\$492,078,570	18.40%
Inv. Grade Fixed Income	359,796,107	12.94%	(514,777)	8,019,552	352,291,332	13.17%
Below Inv. Grade Fixed Income	142,824,137	5.14%	(774,081)	3,810,979	139,787,238	5.23%
International Fixed Income	\$130,196,253	4.68%	\$(128,471)	\$5,089,114	\$125,235,610	4.68%
GLOBAL REAL ASSETS	\$506,853,480	18.22%	\$10,284,400	\$15,815,993	\$480,753,087	17.97%
Real Estate	311,147,233	11.19%	1,592,603	9,851,031	299,703,599	11.20%
Timber	68,942,678	2.48%	(652,614)	(949,432)	70,544,724	2.64%
Infrastructure	126,763,569	4.56%	9,344,411	6,914,395	110,504,763	4.13%
Cash & Equivalents	\$10,486,155	0.38%	\$2,662,685	\$26,761	\$7,796,709	0.29%
Securities Lending Income	\$0	0.00%	\$(73,054)	\$73,054	-	-
Total Fund	\$2,781,347,053	100.0%	\$(696,544)	\$107,058,444	\$2,674,985,154	100.0%

Cash Outflows



Cash Inflows







Comparison of Major Asset Class Returns vs. Benchmark

Global Equities earned 18.85% for the 1-year ended June 30, 2017, which was 0.06% above the benchmark, while the 5-year return of 11.28% surpassed the benchmark of 10.75% by 0.53%.

Global Fixed Income earned 5.02% last year and 4.65% the last 5-years due to strong returns in U.S. Fixed Income including high yield & private credit offset by weaker returns in International Debt and Long Term Treasuries due to rising rates.

Global Real Assets were mixed with Real Estate and Infrastructure earning over 9.1% last year, while **Timber returns were -9.4%** in fiscal 2017.

Every major asset class outperformed their respective benchmarks for the 5-years ended June 30, 2017, with the largest excess return (of 1.95%) created within Global Fixed Income.

NDPERS Allocation	Target Allocation	1-year	5-years
Global Equity	58%		
- Actual		18.85%	11.28%
- Benchmark		<u>18.79%</u>	<u>10.75%</u>
		0.06%	0.53% 
Global Fixed Income	23%		
- Actual		5.02%	4.65%
- Benchmark		<u>1.73%</u>	<u>2.70%</u>
		3.29%	1.95% 
Global Real Assets	19%		
- Actual		6.15%	8.40%
- Benchmark		<u>4.70%</u>	<u>7.26%</u>
		1.45%	1.14% 
Cash Equivalents	< 1%		
- Actual		0.74%	0.24%
- Benchmark		<u>0.49%</u>	<u>0.17%</u>
		0.25%	0.07%
TFFR - Total Fund	100%		
- Actual		13.05%	9.16%
- Benchmark		<u>11.87%</u>	<u>8.25%</u>
		1.18%	0.90% 

PERS Returns for 1- and 5- years ended June 30, 2017

**PERS earned
13.0% and 9.1%
for the 1- and 5-
years ended June
30, 2017, beating
the Policy Target
Benchmarks.**

**Equity markets
were strong with
Global Equities up
18.8% the last
year and 11.3%
the last 5-years
beating our
Benchmarks for
the 1- and 5-years
ended June 30,
2017.**

	June-17			Fiscal 2017	5 Years Ended 6/30/2017
	Market Value	Actual	Policy	Net	Net
TOTAL FUND	2,781,347,058	100%	100%	13.05%	9.16%
<i>POLICY TARGET BENCHMARK</i>				11.87%	8.25%
EXCESS RETURN (over Benchmark)				1.18%	0.90%
GLOBAL EQUITIES	1,631,190,926	58.6%	58.0%	18.85%	11.28%
<i>Benchmark</i>				18.79%	10.75%
Epoch Global Choice (1)	208,607,374	7.5%	7.0%	16.96%	10.71%
LSV Global Value Equity	260,072,966	9.4%	9.0%	23.29%	N/A
Total Global Equities	468,680,340	16.9%	16.0%	20.57%	10.62%
<i>MSCI World</i>				18.20%	11.38%
<i>Domestic - broad</i>	631,277,505	22.7%	20.6%	17.10%	14.85%
<i>Benchmark</i>				19.58%	14.51%
LA Capital Large Cap Growth	182,563,127	6.6%	6.3%	15.66%	15.27%
LA Capital Large Cap Index/Active	106,120,946	3.8%	3.2%	15.44%	14.81%
<i>Russell 1000</i>				18.03%	14.67%
NTAM - Quant Enhanced S&P 500	88,590,653	3.2%	3.2%	16.51%	14.28%
Clifton Group Enhanced S&P 500	101,791,517	3.7%	3.2%	17.72%	14.70%
<i>S&P 500</i>				17.90%	14.63%
Total Large Cap Domestic	479,066,244	17.2%	15.8%	16.20%	15.31%
<i>Russell 1000 (2)</i>				18.03%	14.67%
Atlanta Capital Small Cap Equity Fund	68,626,878	2.5%	2.4%	14.98%	N/A
Clifton Group Enhanced Russell 2000	83,584,383	3.0%	2.4%	24.44%	14.25%
Total Small Cap Domestic	152,211,261	5.5%	4.8%	20.08%	13.09%
<i>Russell 2000</i>				24.60%	13.70%
<i>International - broad</i>	447,370,459	16.1%	14.4%	21.18%	9.13%
<i>Benchmark</i>				20.53%	7.53%
NTAM - MSCI World ex-US Index	156,739,205	0.0%	5.5%	19.92%	N/A
<i>MSCI World Ex US</i>				19.49%	
William Blair International Leaders	76,100,978	2.7%	3.3%	19.77%	N/A
<i>MSCI ACWI ex-US IMI (Net)</i>				20.43%	
DFA Intl. Small Cap Value Portfolio (4)	45,622,857	1.6%	1.1%	28.80%	13.77%
Wellington International Small Cap Op	50,781,278	1.8%	1.1%	19.62%	14.12%
<i>S&P/Citigroup BMI EPAC < \$2BN</i>				20.89%	12.00%
Total Developed International	329,244,318	11.8%	11.0%	21.05%	10.27%
<i>MSCI World Ex US (3)</i>				19.49%	8.55%
Axiom Emerging Markets Equity Fund	89,447,891	3.2%	2.6%	22.29%	N/A
DFA Emerging Markets Small Cap Po	28,678,250	1.0%	0.9%	19.53%	6.86%
Total Emerging Markets	118,126,140	4.2%	3.4%	21.55%	4.94%
<i>MSCI Emerging Markets</i>				23.74%	3.96%
Total Private Equity (4)	83,862,622	3.0%	7.0%	11.12%	1.60%

NOTE Monthly returns and market values are preliminary and subject to change.

PERS Returns for the 1- and 5-years ended June 30, 2017

Global Fixed Income
earned over 4.6% for the
1- and 5-years ended
June 30, 2017, exceeding
Benchmarks. Strong
returns in U.S. Fixed
Income including Private
Credit and High Yield
where offset by weak
results in International
Fixed Income.

Global Real Assets
earned 6.1% last year and
8.4% per annum over the
last 5-years. Real Estate
and Infrastructure earned
12.5% and 6.6%,
respectively, the last 5-
years, while **Timber**
returns disappointed at
only 0.3% per annum for
the 5-years ended June
30, 2017.

	June-17			Fiscal 2017	5 Years Ended 6/30/2017
	Market Value	Allocation Actual	Policy	Net	Net
GLOBAL FIXED INCOME Benchmark	632,816,498	22.8%	23.0%	5.02%	4.65%
Domestic Fixed Income Benchmark	502,620,245	18.1%	18.0%	6.30%	5.61%
PIMCO Distressed Senior Credit Oppo	55,316,665	2.0%	2.0%	17.08%	13.70%
Bloomberg Aggregate				-0.31%	
State Street Long U.S. Treasury Index	60,882,047	2.2%	1.3%	-7.27%	N/A
Bloomberg Long Treasuries				-7.22%	
PIMCO Unconstrained Bond Fund	34,704,050	1.2%	1.7%	9.22%	N/A
Declaration Total Return Bond Fund (4	46,751,080	1.7%	1.6%	4.99%	5.14%
3m LIBOR				0.98%	
JP Morgan Mortgage Backed Securitie	67,592,541	2.4%	2.6%	0.61%	N/A
PIMCO Agency MBS	94,549,724	3.4%	3.9%	0.19%	9.48%
Bloomberg Mortgage Backed Securities Index				-0.06%	
Total Investment Grade Fixed Inco	359,796,107	12.9%	13.0%	3.65%	4.55%
Bloomberg Aggregate				-0.31%	2.21%
Loomis Sayles High Yield	110,353,972	4.0%	3.8%	12.91%	7.41%
PIMCO BRAVO II (4)	31,491,553	1.1%	1.1%	13.38%	N/A
Total Below Investment Grade Fixe	142,824,137	5.1%	5.0%	12.86%	8.21%
Bloomberg High Yield 2% Issuer Constrained Index				12.69%	6.90%
International Fixed Income Benchmark	130,196,253	4.7%	5.0%	0.79%	1.24%
UBS Global (ex-US) Bond Strategy	53,104,130	1.9%	2.5%	-4.00%	-0.86%
Brandywine Global Opportunistic Fixe	77,092,123	2.8%	2.5%	4.38%	3.15%
GLOBAL REAL ASSETS Benchmark	506,853,480	18.2%	19.0%	6.15%	8.40%
				4.70%	7.26%
Invesco Core Real Estate - U.S.A., L.F	140,782,671			8.16%	11.58%
Invesco Real Estate Fund III, LP (4)	11,925,960			11.58%	15.89%
Invesco U.S. Value-Add Fund IV, L.P.	24,216,147			8.07%	N/A
Invesco Asia Real Estate Fund III, L.P	11,856,673			21.25%	N/A
JP Morgan Strategic & Special Situati	107,883,754			7.08%	11.84%
JP Morgan European Opportunistic Pr	5,441,695			-0.51%	9.48%
JP Morgan Greater China Property Fu	8,624,839			37.81%	24.95%
Total Global Real Estate	311,147,233	11.2%	11.0%	9.13%	12.47%
NCREIF TOTAL INDEX				6.97%	10.49%
TIR Teredo Timber, LLC	15,883,699	0.6%		-7.02%	5.75%
TIR Springbank, LLC	53,058,979	1.9%		-10.13%	-2.37%
Total Timber (4)	68,942,678	2.5%	3.0%	-9.44%	0.27%
NCREIF Timberland Index				3.35%	7.16%
JP Morgan Asian Infrastructure & Rela	12,071,004	0.4%		35.48%	8.92%
JP Morgan Infrastructure Investments	91,657,971	3.3%		6.33%	5.72%
Grosvenor Customized Infrastructure S	19,207,968	0.7%		8.70%	8.94%
Grosvenor Customized Infrastructure S	3,826,627	0.1%		3.28%	N/A
Total Infrastructure	126,763,569	4.6%	5.0%	9.21%	6.57%
CPI				1.50%	1.11%
Northern Trust Collective STIF	7,777,863			0.75%	0.25%
Bank of ND	2,708,292			N/A	N/A
Total Cash Equivalents	10,486,155	0.4%	0.0%	0.74%	0.24%
90 Day T-Bill				0.49%	0.17%

NOTE Monthly returns and market values are preliminary and subject to change.

PERS Long Term Results are Near Long-Term Assumptions

ND RETIREMENT AND INVESTMENT OFFICE
ND STATE INVESTMENT BOARD
INVESTMENT PERFORMANCE SUMMARY
AS OF JUNE 30, 2017

Investment Performance (net of fees)

Fund Name	Quarter Ended				FYTD 2017	Fiscal Years ended June 30					Periods ended 6/30/17 (annualized)				
	9/30/16	12/31/16	3/31/17	6/30/17		2016	2015	2014	2013	2012	3 Years	5 Years	15 Years	25 Years	30 Years
NDPERS	3.68%	0.49%	4.40%	3.93%	13.05%	0.28%	3.53%	16.38%	13.44%	-0.12%	5.48%	9.16%	7.21%	7.84%	7.85%

The TFFR Pension Plan is a Long Term Investor

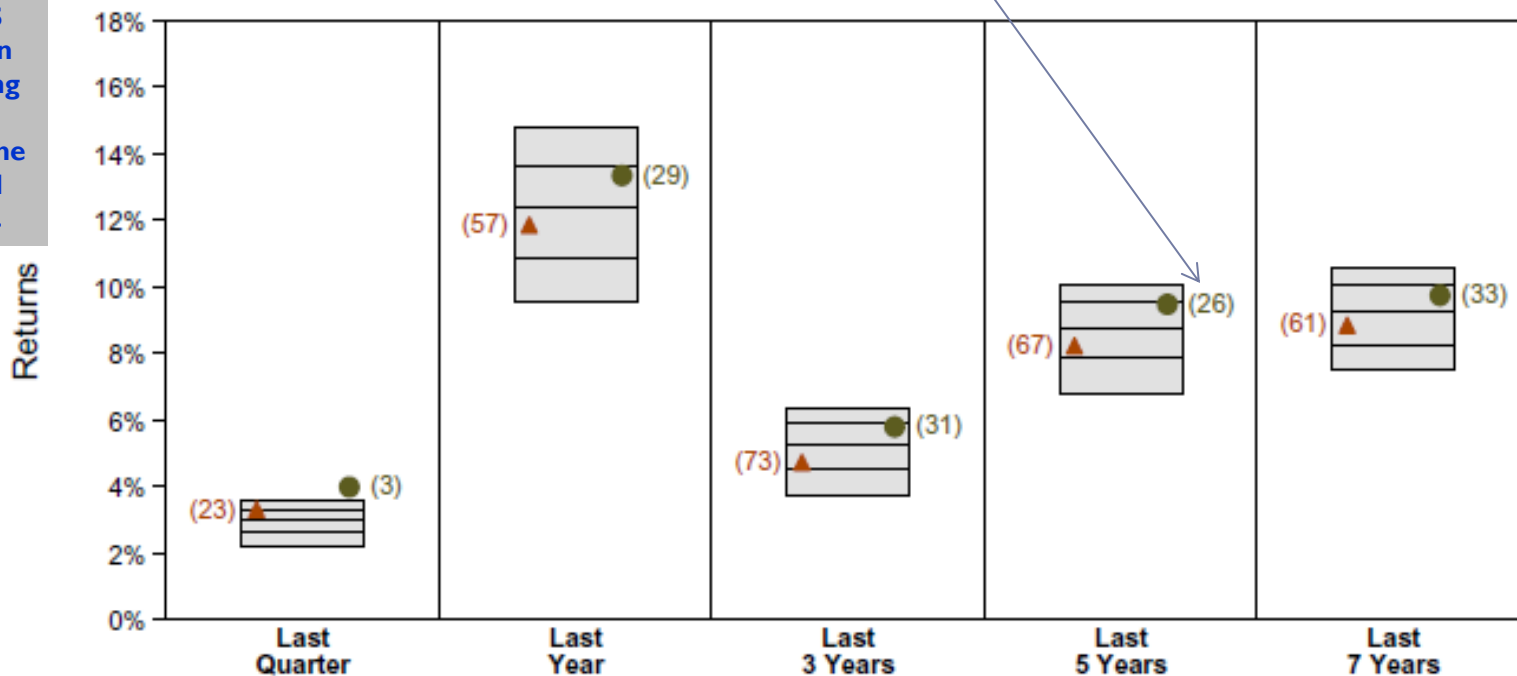
Net investment returns for the PERS Pension Plan have approximated 7.85% for the last 30-years which is materially consistent with the plan's long term actuarial assumption of 7.75%.

PERS “gross” returns were ranked in the 26th percentile for the 5-years ended June 30, 2017, based on Callan’s “Public Fund Sponsor Database”.

CAI Public Fund Sponsor Database

Unadjusted Ranking

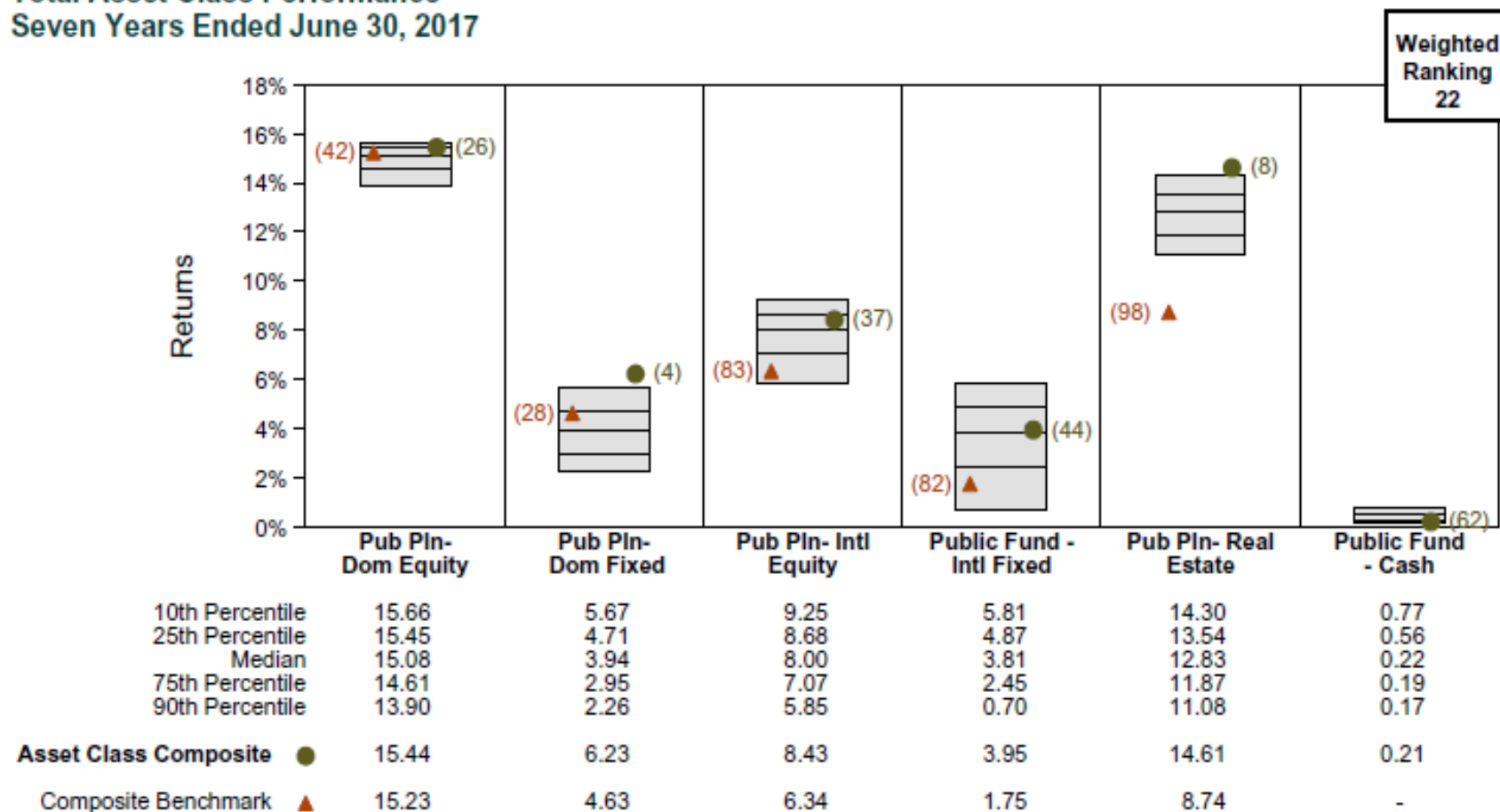
NOTE: PERS asset allocation adjusted ranking is in the 14th percentile for the 5-years ended June 30, 2017.



* Current Quarter Target = 16.6% Russell 1000 Index, 16.0% MSCI World, 13.0% Blmbg Aggregate, 11.8% MSCI World ex US, 10.0% NCREIF Total Index, 6.0% Blmbg Glob Agg ex USD, 6.0% NDSIB TFFR - Private Equity, 5.0% CPI-W, 4.8% Russell 2000 Index, 4.0% Blmbg HY 2% Iss Cap, 3.0% NCREIF Timberland Index, 2.8% MSCI EM and 1.0% 3-month Treasury Bill.

PERS managers performed well in the public markets over the last 7 years, but have been challenged in private equity and timber.

Total Asset Class Performance
Seven Years Ended June 30, 2017



NOTE: SIB utilizes the private markets to invest in real estate, infrastructure and timber (in addition to private equity and private debt).

NDSIB Watch List

Data as of 06/30/2017

Note: Return data is gross of fee due to data availability.

JP Morgan MBS (Pen.) \$131,206,979			
	Returns	Index ¹	Excess
1 Year	0.82	(0.06)	0.87
Inception*	2.76	2.30	0.46
*Funded 09/30/2014			

1 – Bloomberg Mortgage Backed Market Index

UBS International Fixed (Pen.) \$105,946,147			
	Returns	Index ²	Excess
1 Year	(3.69)	(3.80)	0.10
3 Year	(2.44)	(2.42)	(0.01)
Inception*	5.93	5.64	0.29
*Funded 07/01/1989			

2 – Bloomberg Global Aggregate ex-U.S. Fixed Income Index

UPDATE:

The SIB confirmed RIO's recommendation to keep JPMorgan's Agency MBS strategy (\$131 million) and the UBS International Fixed Income mandate (\$106 million) on Watch at the August 25, 2017 board meeting.

The SIB removed Adams Street Partners from Watch on April 28, 2017, following transparency enhancement initiatives implemented during the fourth quarter of 2016 and first quarter of 2017. PIMCO was removed from Watch on August 25, 2017, after RIO conducted extensive onsite due diligence during the past six months. PIMCO was originally placed on Watch in September of 2014 following the resignation of former CIO and co-founder Bill Gross. Recent staff meetings with PIMCO's current CEO Emmanuel Roman and Group CIO Dan Ivascyn confirm RIO's belief that PIMCO has successfully emerged from the post-Bill Gross era noting that firm level assets have stabilized at \$1.6 trillion. Callan concurs with these watch list recommendations and was instrumental in providing valuable market insight and investment research.

PERS Activity from June 30, 2016 to June 30, 2017

Net Investment Position - June 30. 2016	\$2,457	a
---	---------	---

Net Contributions	\$2	b
-------------------	-----	---

Investment Earnings	\$334	
Investment Expenses	<u>(\$14)</u>	
Net Investment Earnings	<u>\$320</u>	c

Net Investment Position - June 30. 2017	<u>\$2,779</u>	d
---	----------------	---

Change in Net Investment Position	(d - a)	<u>\$322</u>	e
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Net Investment Position improved by \$322 million (e) as Pension Contributions exceeded Benefit Payments by \$2 million (b), while Net Investment Earnings were \$320 million (c) after investment expenses.

The SIB and RIO have been working to restructure the fixed income allocation within the Pension Trust during the past year. The following three pages provide an overview of the fixed income restructuring plan as shared with the SIB in recent board meetings.

Fixed Income Restructuring Overview

August 25, 2017

Dave Hunter, Darren Schulz and Eric Chin

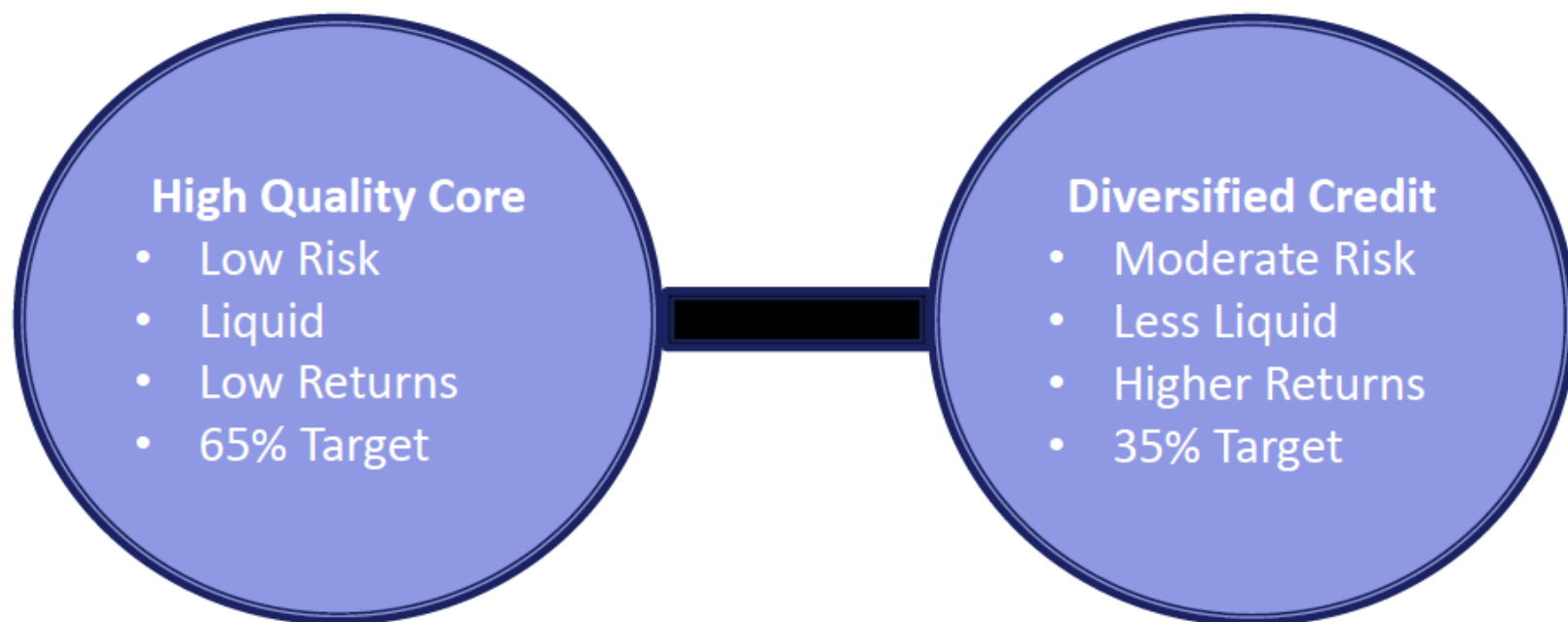
Pension Trust Fixed Income Structure

- ▶ Evolving fixed income landscape and stage of credit cycle merited a review of the Pension Trust's current fixed income manager structure
- ▶ In January, Staff presented a conceptual framework encompassing the following changes:
 - ➡ Increasing anchor of high quality, low risk, highly liquid U.S. investment grade core fixed income aka "High Quality Core"
 - ➡ Diversifying traditional non-investment grade with high yield/loan alternatives and private credit aka "Diversified Credit"
 - ➡ Transitioning non-U.S./global developed fixed income into U.S. centric fixed income

Fixed Income Structure Proposal

Initially discussed at the Jan. 2017 Board Meeting

- Barbelled approach



- Increase allocation to investment grade instruments
- Reallocate current investment grade assets into two Core Bond mandates—allow managers to tactically shift allocations across investment grade assets

Higher Expected Risk-Adjusted Returns

PENSION TRUST - Fixed Income Only				
Fixed Income Restructuring to Improve Returns and Reduce Risk				
CURRENT	Target	Projected	Projected	
Pension Trust	<u>Allocation</u>	<u>Return</u>	<u>Risk</u>	
U.S. Investment Grade (IG)	13.3%	3.0%	3.8%	
U.S. High Yield Debt (HY)	4.6%	4.8%	10.4%	
International Debt	5.4%	1.4%	9.2%	
Fixed Income	23.3%	(1) 3.0%	6.3% (3)	\$5,299 Pension \$
PROPOSED	Target	Projected	Projected	\$5.3 billion
Pension Trust	<u>Allocation</u>	<u>Return</u>	<u>Risk</u>	
U.S. Investment Grade (IG)	16.3%	3.0%	3.8%	\$864
Diversified Credit (DC)	7.0%	4.8%	10.4%	\$371
International Debt (a)	0.0%	1.4%	9.2%	\$0
Fixed Income	23.3%	(2) 3.5%	5.7% (4)	\$1,235
RIO's Fixed Income Recommendation:				
If International Debt (a) is eliminated while U.S. Investment Grade and Diversified Credit are increased by 3% and 2.4%, respectively, Projected Return would increase from 3.0% (1) to 3.5% (2), while Projected Risk would decline from 6.3% (3) to 5.7% (4).				
Key Point: RIO's Recommendation Increases Projected Returns 0.5% and Decreases Projected Risk 0.6% of "Fixed Income" in the Pension Trust.				

PERS Investment Policy Statement Review – Oct. 19, 2017

I. PLAN CHARACTERISTICS AND FUND CONSTRAINTS

The North Dakota Public Employees Retirement System (NDPERS) and the Highway Patrol Retirement System (HPRS) are pension benefit plans established to provide retirement income to state employees and employees of participating political subdivisions. The plans are administered by a seven member Board of Trustees (the Board). The Chair is appointed by the governor, three members are elected by the active members of the plans, one member is elected by the retired members, one is appointed by the Attorney General and the seventh member is the State Health Officer or their designee.

The NDPERS plan is a multi-employer hybrid benefit public pension plan that provides retirement benefits, disability retirement benefits, and survivor benefits, in accordance with Chapter 54-52 of the North Dakota Century Code (NDCC). Monthly retirement benefits for the Main, National Guard and Law Enforcement Plans are based on the formula: number of Years of Service times 2.0% times the final average salary. For the NDPERS Judges Plan the retirement formula is: for the first ten years of service of the formula is final average salary times 3.5%, for the second ten years of service the formula is final average salary times 2.80% and for all remaining years of service the formula is final average salary times 1.25%.

The Highway Patrol plan is a single employer plan that provides retirement benefits, disability benefits, and survivor benefits in accordance with Chapter 39-03.1 of the North Dakota Century Code. Monthly retirement benefits are based upon on the formula: first 25 years of credit service times 3.25% and all remaining years of service times 1.75%.

Funding for the NDPERS plan is provided by monthly employee contributions and employer contributions with the amount varying based upon which NDPERS plan the member participates in. For the Main NDPERS plan the employee contribution is 7% and the employer contribution is 7.12%, for the Judges Plan the employee contribution is 8% and employer contribution is 17.52%, for the National Guard Plan the employee contribution is 5.5% and employer contribution is 6.5%, for the Law Enforcement Plan with prior service the employee contribution is 4% and the employer contribution is 9.81% and for the Law Enforcement Plan without prior service the employee contribution rate is 5.5% and the employer rate is 7.93%.

Funding for the Highway Patrol plan is provided by a monthly employee contribution of 13.3% and an employer contribution of 19.7%

Each year the Board has an actuarial valuation performed. The current actuarial assumed rate of return on assets for all plans is **7.75%**.

2. RESPONSIBILITIES AND DISCRETION OF THE STATE INVESTMENT BOARD (SIB)

Aggregate plan contributions plus earnings, minus allowable expenses constitute the Fund. The Board is charged by NDCC chapters 54-52, 21-10-01, and 39-03.1 to establish policies for the investment goals and asset allocation of the Fund. The State Investment Board (SIB) is charged with implementing the asset allocation as promptly and prudently as possible in accordance with the Board's policies by investing the assets of the Fund in the manner provided in the prudent investor rule, which provides:

Fund 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 speculation but in regard to the permanent disposition of funds, considering probable safety of capital as well as probable income. The retirement funds belonging to the teachers' and for retirement and the public employees retirement system must be invested exclusively for the benefit of their members and in accordance with the respective funds' investment goals and objectives. (NDCC 21-10-07)

The SIB may delegate investment responsibility of the Fund or any portion of the Fund to professional money managers. Where a money manager has been retained, the SIB's role in determining investment strategy is supervisory not advisory.

The SIB may at its discretion, pool the assets of the Fund with another fund or funds having similar investment objectives and time horizons in order to maximize returns and minimize costs. In pooling fund assets the SIB will establish asset class pools it deems necessary to achieve the specific quality, diversification, restrictions, and performance objectives subject to the prudent investor rule and the objectives of the funds participating in the pools.

The SIB is responsible for establishing the selection criteria, determining the performance measures, and retaining all fund money managers. SIB is also responsible for the selection and retention of any investment consultants that may be employed in the investment of the Fund assets.

PERS Investment Policy Statement Review - Oct. 19, 2017

3. DELEGATION OF AUTHORITY

Management responsibility for NDPERS funds not assigned to the North Dakota State Investment Board (SIB) in Chapter 21-10 of the North Dakota Century Code (NDCC) is hereby delegated to the SIB, which must establish written policies and procedures for the operation of the NDPERS funds, consistent with this investment policy.

Such procedures must provide for:

1. The definition and assignment of duties and responsibilities to advisory services and persons employed by the SIB pursuant to NDCC 21-10-02.1(1) (a).
2. Investment diversification, investment quality, qualification of money managers, and amounts to be invested by money managers pursuant to NDCC 21-10-02.1(1)(e).
In developing these policies it is understood:
 - a. Futures and options may be used to hedge or replicate underlying index exposure, but not for speculation.
 - b. The use of derivatives will be monitored to ensure that undue risks are not taken by the money managers.
 - c. All assets must be held in custody by the SIB's master custodian or such other custodians as are selected by the SIB.
3. Guidelines for selection and redemption of investments will be in accordance with NDCC 21-10-02.1(1) (d).
4. The criteria for making decisions with respect to hiring, retention, and termination of money managers will be clearly defined. This also includes selecting performance measurement standards, consultants, report formats, and frequency of meetings with money managers.

All participants in the investment process must seek to act responsibly as custodians of the public trust.

4. INVESTMENT GOALS

The investment goals of the Fund have been established by the NDPERS Board based upon consideration of the Board's strategic objectives and a comprehensive review of the current and projected financial requirements. These goals are to be viewed over the long term.

Goal # 1 Accumulate sufficient wealth through a diversified portfolio of investments which will enable the State of North Dakota to pay all current and future retirement benefits and expense obligations of the Fund.

Goal # 2 To obtain an investment return in excess of that needed to allow for increases in a retiree's annuity to maintain the purchasing power of their retirement benefit.

The Board acknowledges the material impact that funding the pension plan has on the State's financial performance. To enable the State to continue offering secure pension benefits to plan participants, the Board believes that the Fund should pursue the following **secondary goals**:

1. Stabilize the employee and employer contributions needed to fund the Plan over the long term.
2. Avoid both substantial volatility in contributions and sizable fluctuations in the funding status of the Plan.

These two secondary goals affect the Fund's investment strategies and often represent conflicting goals. That is, minimizing the long-term funding costs implies a less conservative investment program, whereas dampening the volatility of contributions and avoiding large swings in the funding status implies a more conservative investment program. The Board places greater emphasis on the strategy of stabilizing the employee and employer contribution needed to fund the plan over the long term as it assists our participating employers by having a predictable contribution for budgeting.

Board Action Requested

PERS Investment Policy Statement Review - Oct. 19, 2017

6. INVESTMENT PERFORMANCE OBJECTIVE

The Board's investment objectives are expressed in terms of reward and risk expectations relative to investable, passive benchmarks. The Fund's policy benchmark is comprised of policy mix weights of appropriate asset class benchmarks as set by the SIB.

1. The fund's rate of return, net of fees and expenses, should at least match that of the policy benchmark over a minimum evaluation period of five years.
2. The fund's risk, measured by the standard deviation of net returns, should not exceed **115%** of the policy benchmark over a minimum evaluation period of five years.
3. The risk-adjusted performance of the fund, net of fees and expenses, should at least match that of the policy benchmark over a minimum evaluation period of five years.

7. ASSET ALLOCATION

In recognition of the plan's performance objectives, benefit projections, and capital market expectations, the NDPERS Board has established the following asset allocation:

Asset Class	Policy Target (%)	Rebalancing Range (%)
Global Equity	57	46-66
Public Equity	51	42-57
Private Equity	7	4-9
Global Fixed Income	23	16-30
Investment Grade	18 16	13-23 11-21
Non-Investment Grade	5 7	3-7 5-9
Global Real Assets	19	10-25
Global Real Estate	11	5-15
Other (Infrastructure/Timber)	8	0-10
Global Alternatives		0-10
Cash	0	0-2

The Total Fixed Income allocation of 23% remains constant, but Investment Grade is reduced to 16% (from 18%) while Non-Investment Grade is raised to 7% (from 5%). The Rebalancing Range will remain at +/- 5% for IG and +/- 2% for NIG.

The Board does not endorse tactical asset allocation, therefore, it is anticipated the portfolio be managed as close to the policy target as is prudent and practicable while minimizing re-balancing costs. Any allocation to Global Alternatives shall not increase the expected volatility of the portfolio as measured in Section #5, and all other targets will be adjusted pro-rata. PERS requires that in implementing this asset allocation that the State Investment Board seek to maximize return within the scope of these policies while limiting investment costs.

RIO recommends PERS approve the Fixed Income allocation for Investment Grade (IG) be reduced to 16% (from 18%) and Non-Investment Grade (NIG) be increased to 7% (from 5%). This recommendation will reduce expected risk and increase expected return by eliminating International Fixed Income which has high expected volatility and a low expected return for the next 5-to-10 years (based on Callan's Capital Market Assumptions as well as many other consultants). A supporting example is provided on page 18.

PERS Investment Policy Statement Review – Oct. 19, 2017

7. RESTRICTIONS

- A. Futures and options may be used to hedge or replicate underlying index exposure, but not for speculation.
- B. Use of derivatives will be monitored to ensure that undue risks are not taken by the money managers
- C. No transaction may be made which threatens the tax exempt status of the Fund.
- D. No unhedged short sales or speculative margin purchases may be made.

Social Investing is defined as *"The investment or commitment of public pension fund money for the purpose of obtaining an effect other than a maximized return to the intended beneficiaries."*

- E. Social investing is prohibited unless it meets the Exclusive Benefit Rule and it can be substantiated that the investment must provide an equivalent or superior rate of return for a similar investment with a similar time horizon and similar risk.

Economically targeted investing is defined as an investment designed to produce a competitive rate of return commensurate with risk involved, as well as to create collateral economic benefits for a targeted geographic area, group of people, or sector of the economy.

- F. Economically targeted investing is prohibited unless the investment meets the Exclusive Benefit Rule.

The Exclusive Benefit Rule is met if the following four conditions are satisfied:

- (1) The cost does not exceed the fair market value at the time of investment.
- (2) The investment provides the Fund with an equivalent or superior rate of return for a similar investment with a similar time horizon and similar risk.
- (3) Sufficient liquidity is maintained in the Fund to permit distributions in accordance with the terms of the plan.
- (4) The safeguards and diversity that a prudent investor would adhere to are present.

Where investment characteristics, including yield, risk, and liquidity are equivalent, the Board's policy favors investments which will have a positive impact on the economy of North Dakota.

- G. Publicly Traded REITs may not be used in the Real Estate asset allocation.

Where investment characteristics, including yield, risk, and liquidity are equivalent, the Board's policy favors investments which will have a positive impact on the economy of North Dakota.

8. INTERNAL CONTROLS

The SIB must have a system of internal controls to prevent losses of public funds arising from fraud or employee error. The controls deemed most important are the separation of responsibilities for investment purchases from the recording of investment activity, custodial safekeeping, written confirmation of investment transactions, and established criteria for broker relationships. The annual financial audit must include a comprehensive review of the portfolio, accounting procedures for security transactions and compliance with the investment policy.

PERS Investment Policy Statement Review – Oct. 19, 2017

9. EVALUATION

Investment management of the Fund will be evaluated against the Fund's investment objectives and investment performance standards.

An annual performance report must be provided to the Board by the State Investment Officer at a regularly scheduled NDPERS Board meeting. The annual performance report must include asset returns and allocation data as well as information regarding all significant or material matters and changes pertaining to the investment of the Fund, including:

- Changes in asset class portfolio structures, tactical approaches and market values;
- All pertinent legal or legislative proceedings affecting the SIB.
- Compliance with these investment goals, objectives and policies.
- A general market overview and market expectations.
- A review of fund progress and its asset allocation strategy.
- A report on investment fees and the SIB's effort relating to Section 6. To measure investment cost PERS requires as part of the annual review information from Callan, CEM or other acceptable source showing the value added versus the cost.
- Changes/additions to benchmarks utilized to monitor the funds.

In addition, the State Investment Officer shall review with the Board the procedures and policies established by the SIB relating to this statement of investment goals, objectives, and policies.

J. Sparb Collins
Executive Director
North Dakota Public Employees Retirement System

David Hunter
Executive Director / Chief Investment Officer
North Dakota Retirement and Investment Office

Date: _____

Date: _____

Job Service, Retiree Health and Group Insurance - June 30, 2017

	1 Yr. Ended 6/30/2017	3 Yrs Ended 6/30/2017	5 Yrs Ended 6/30/2017	Risk 5 Yrs Ended 6/30/2017	Risk Adj Excess Return 5 Yrs Ended 6/30/2017
Job Service - \$97 million					
Total Fund Return - Net	5.63%	4.79%	7.86%	3.9%	0.79%
Policy Benchmark Return	7.85%	3.85%	6.42%	3.6%	
Excess Return	-2.22%	0.95%	1.44%	109%	

Asset Allocation:

Job Service (30% Equity / 70% Bonds) underperformed in fiscal 2017 due its de-risking strategy being out of favor including low-volatility equities & core fixed income.

	1-Year 6/30/2017	3 Yrs Ended 6/30/2017	5 Yrs Ended 6/30/2017	Risk 5 Yrs Ended 6/30/2017	Risk Adj Excess Return 5 Yrs Ended 6/30/2017
PERS Retiree Health - \$116 million					
Total Fund Return - Net	11.81%	5.09%	8.80%	5.3%	-0.64%
Policy Benchmark Return	11.32%	5.42%	8.83%	4.9%	
Excess Return	0.49%	-0.32%	-0.03%	OK	

Retiree Health

(60% Equity / 40% Bonds) performed well in fiscal 2017, but slightly below benchmark (-0.03%) for the 5-years ended June 30, 2017.

PERS Group Insurance - \$37 million					
Total Fund Return - Net	0.08%	0.52%	0.38%	0.6%	-0.06%
Policy Benchmark Return	0.37%	0.65%	0.42%	0.5%	
Excess Return	-0.29%	-0.12%	-0.04%	OK	

Group Insurance

(90% short-term bonds and 10% cash) underperformed by 0.04% for the 5-years ended June 30, 2017.

Appendix of Supporting Materials

PERS Update as of June 30, 2017

Callan's Quarterly Reports of investment performance are available on the following web address:

<http://www.nd.gov/rio/SIB/Board/SIB%20Meeting%20Materials/2017-08-25.pdf>

Board members can review monthly manager level performance using the following web address:

http://www.nd.gov/rio/RIO_ref/performance/PERS/201706.pdf

ND PUBLIC EMPLOYEES RETIREMENT SYSTEM
INVESTMENT PERFORMANCE REPORT AS OF JUNE 30, 2017

	June-17					March-17					December-16					September-16					Current Fiscal YTD		Prior Year FY16		3 Years Ended 6/30/2017		5 Years Ended 6/30/2017		
	Allocation		Quarter			Allocation		Quarter			Allocation		Quarter			Allocation		Quarter			Gross ⁽¹⁾	Net	Gross ⁽¹⁾	Net	Gross ⁽¹⁾	Net	Gross ⁽¹⁾	Net	
	Market Value	Actual	Policy	Gross ⁽¹⁾	Net	Market Value	Actual	Policy	Gross ⁽¹⁾	Net	Market Value	Actual	Policy	Gross ⁽¹⁾	Net	Market Value	Actual	Policy	Gross ⁽¹⁾	Net									
TOTAL FUND	2,781,347,068	100.0%	100.0%	4.00%	3.83%	2,674,986,166	100.0%	100.0%	4.48%	4.40%	2,683,018,848	100.0%	100.0%	0.68%	0.48%	2,648,430,038	100.0%	100.0%	3.78%	3.88%	13.36%	13.06%	0.81%	0.28%	6.81%	6.48%	9.48%	9.16%	
POLICY TARGET BENCHMARK				3.33%	3.33%				3.73%	3.73%				0.74%	0.74%				3.61%	3.61%	11.87%	11.87%	0.69%	0.69%	4.74%	4.74%	8.26%	8.26%	
ATTRIBUTION ANALYSIS																													
Asset Allocation				-0.12%	-0.12%				0.30%	0.30%				-0.03%	-0.03%				0.08%	0.08%	0.23%	0.23%	-0.03%	-0.03%	0.04%	0.04%	0.08%	0.08%	
Manager Selection				0.78%	0.71%				0.41%	0.36%				-0.18%	-0.22%				0.08%	0.01%	1.26%	0.84%	0.08%	-0.24%	1.03%	0.70%	1.18%	0.84%	
TOTAL RELATIVE RETURN				0.68%	0.61%				0.73%	0.66%				-0.19%	-0.25%				0.15%	0.07%	1.48%	1.18%	0.06%	-0.28%	1.07%	0.74%	1.24%	0.90%	
GLOBAL EQUITIES	1,631,190,926	58.6%	58.0%	4.73%	4.68%	1,669,121,184	58.7%	58.0%	6.19%	6.14%	1,494,703,178	58.3%	58.0%	1.61%	1.56%	1,473,368,642	57.8%	58.0%	5.42%	5.32%	19.13%	18.88%	-3.69%	-3.90%	5.96%	5.64%	11.63%	11.28%	
Benchmark				51.0%	4.65%	4.65%			51.0%	5.44%	5.44%				51.0%	2.36%	2.36%		51.0%	5.27%	5.27%	18.774%	18.79%	-3.86%	-3.86%	5.06%	5.06%	10.75%	10.75%
Epoch Global Choice (1)	208,607,374	7.5%	7.0%	6.32%	6.15%	196,369,747	7.3%	7.0%	8.70%	8.53%	180,646,123	7.0%	7.0%	-1.26%	-1.42%	183,039,665	7.2%	7.0%	3.15%	2.98%	17.71%	16.96%	-5.93%	-6.53%	6.33%	5.65%	11.43%	10.71%	
LSV Global Value Equity	260,072,966	9.4%	9.0%	3.67%	3.65%	250,734,965	9.4%	9.0%	5.73%	5.71%	253,511,907	9.9%	9.0%	5.45%	5.42%	240,199,121	9.4%	9.0%	6.84%	6.74%	23.50%	23.29%	-7.05%	-7.85%	5.38%	4.70%	N/A	N/A	
Total Global Equities	468,680,340	16.9%	16.0%	4.83%	4.76%	447,104,711	16.7%	16.0%	8.89%	8.81%	434,168,030	16.9%	16.0%	2.66%	2.48%	423,238,788	16.8%	16.0%	6.21%	6.08%	21.01%	20.67%	-8.53%	-7.27%	6.78%	6.10%	11.30%	10.82%	
MSCI World				4.03%	4.03%				6.38%	6.38%				1.86%	1.86%				4.87%	4.87%	18.20%	18.20%	-2.78%	-2.78%	5.24%	5.24%	11.38%	11.38%	
Domestic - broad	631,277,605	22.7%	20.6%	3.03%	3.00%	619,104,101	23.1%	20.6%	4.82%	4.78%	593,665,640	23.2%	20.6%	4.17%	4.13%	568,369,962	22.3%	20.6%	4.32%	4.19%	17.38%	17.10%	2.03%	1.90%	9.17%	8.98%	15.10%	14.85%	
Benchmark				2.94%	2.94%				6.19%	6.19%				6.03%	6.03%				5.16%	5.16%	19.58%	19.58%	0.72%	0.72%	8.91%	8.91%	14.51%	14.51%	
Large Cap Domestic																													
LA Capital Large Cap Growth	182,563,127	6.6%	6.3%	3.68%	3.63%	181,250,818	6.8%	6.3%	6.52%	6.57%	169,591,422	6.6%	6.3%	1.04%	0.99%	165,620,573	6.5%	6.3%	3.76%	3.71%	15.90%	15.66%	5.17%	4.95%	11.18%	10.95%	15.50%	15.27%	
Russell 1000 Growth				4.67%	4.67%				8.91%	8.91%				1.01%	1.01%				4.58%	4.58%	20.42%	20.42%	3.02%	3.02%	11.11%	11.11%	15.30%	15.30%	
LA Capital 60% Large Cap/40% Large Cap Active Extension	106,120,946	3.8%	3.2%	2.45%	2.42%	103,030,434	3.9%	3.2%	4.52%	4.50%	102,825,654	4.0%	3.2%	4.54%	4.52%	102,235,473	4.0%	3.2%	3.23%	3.20%	15.56%	15.44%	6.04%	5.92%	9.88%	9.75%	14.96%	14.81%	
Russell 1000				3.06%	3.06%				6.03%	6.03%				3.83%	3.83%				4.03%	4.03%	18.03%	18.03%	2.94%	2.94%	9.26%	9.26%	14.67%	14.67%	
NTAM - Quant Enhanced S&P 500	88,590,653	3.2%	3.2%	2.11%	2.11%	86,266,199	3.2%	3.2%	4.94%	4.94%	81,967,952	3.2%	3.2%	4.22%	4.22%	77,564,879	3.0%	3.2%	4.32%	4.32%	16.51%	16.51%	1.76%	1.76%	8.00%	7.88%	14.59%	14.28%	
Clifton Group Enhanced S&P 500	101,791,517	3.7%	3.2%	3.19%	3.19%	100,643,489	3.8%	3.2%	5.96%	5.96%	94,709,033	3.7%	3.2%	3.88%	3.88%	89,911,356	3.5%	3.2%	3.86%	3.65%	17.97%	17.72%	4.60%	4.50%	9.85%	9.77%	14.76%	14.70%	
S&P 500				3.09%	3.09%				6.07%	6.07%				3.82%	3.82%				3.88%	3.88%	17.90%	17.90%	3.99%	3.99%	9.61%	9.61%	14.63%	14.63%	
Total Large Cap Domestic	478,088,244	17.2%	16.8%	3.02%	3.00%	471,180,898	17.6%	16.8%	6.70%	6.67%	448,084,082	17.6%	16.8%	2.89%	2.87%	436,332,281	17.1%	16.8%	3.78%	3.69%	18.37%	18.20%	4.83%	4.62%	10.06%	9.80%	15.48%	15.31%	
Russell 1000 (2)				3.06%	3.06%				6.03%	6.03%				3.83%	3.83%				4.03%	4.03%	18.03%	18.03%	2.94%	2.94%	9.26%	9.26%	14.67%	14.67%	
Small Cap Domestic																													
Atlanta Capital Small Cap Equity Fund	68,626,878	2.5%	2.4%	3.65%	3.46%	66,386,034	2.5%	2.4%	1.71%	1.52%	65,164,822	2.5%	2.4%	7.24%	7.03%	60,525,276	2.4%	2.4%	2.46%	2.28%	15.83%	14.98%	N/A	N/A	N/A	N/A	N/A	N/A	
Clifton Group Enhanced Russell 2000	83,584,383	3.0%	2.4%	2.61%	2.61%	81,527,128	3.0%	2.4%	2.44%	2.44%	79,306,556	3.1%	2.4%	8.73%	8.73%	72,512,406	2.8%	2.4%	9.35%	8.88%	24.97%	24.44%	-5.49%	-5.85%	8.31%	7.89%	14.75%	14.25%	
Total Small Cap Domestic	162,211,261	6.6%	4.8%	3.07%	2.98%	147,913,182	6.6%	4.8%	2.11%	2.03%	144,471,478	6.6%	4.8%	8.04%	7.86%	133,037,882	6.2%	4.8%	8.18%	6.86%	20.74%	20.08%	-8.88%	-7.04%	6.86%	6.82%	13.68%	13.08%	
Russell 2000				2.46%	2.46%				2.47%	2.47%				8.83%	8.83%				9.05%	9.05%	24.60%	24.60%	-6.73%	-6.73%	7.36%	7.36%	13.70%	13.70%	
International - broad	447,370,459	16.1%	14.4%	6.53%	6.50%	425,042,787	15.9%	14.4%	8.87%	8.83%	390,567,334	15.2%	14.4%	-3.18%	-3.23%	403,486,478	15.8%	14.4%	8.08%	8.05%	21.37%	21.18%	-7.76%	-7.98%	2.96%	2.70%	9.46%	9.13%	
Benchmark				6.78%	6.78%				7.89%	7.89%				-1.26%	-1.26%				6.94%	6.94%	20.53%	20.53%	-10.46%	-10.46%	1.06%	1.06%	7.53%	7.53%	
Developed International																													
NTAM - MSCI World ex-US Index	156,739,205	0.0%	5.5%	5.80%	5.80%	149,814,569	0.0%	5.5%	6.94%	6.93%	140,099,666	0.0%	5.5%	-0.32%	-0.33%	140,513,278	0.0%	5.5%	6.35%	6.34%	19.94%	19.92%	-9.50%	-9.54%	1.04%	1.01%	N/A	N/A	
MSCI World Ex US				6.63%	6.63%				6.81%	6.81%				-0.36%	-0.36%				6.29%	6.29%	19.49%	19.49%	-8.84%	-8.84%	0.67%	0.67%			
William Blair International Leaders	76,100,978	2.7%	3.3%	7.92%	7.83%	70,213,982	2.6%	3.3%	7.65%	7.55%	65,287,227	2.5%	3.3%	-5.89%	-5.88%	69,421,636	2.7%	3.3%	9.89%	9.86%	20.15%	19.77%	N/A	N/A	N/A	N/A	N/A	N/A	
MSCI ACWI ex-US IM (Net)				6.86%	6.86%				7.89%	7.89%				-1.67%	-1.67%				7.05%	7.05%	20.43%	20.43%							
DFA Intl. Small Cap Value Portfolio (4)	45,622,857	1.6%	1.1%	6.33%	6.33%	45,126,344	1.7%	1.1%	7.73%	7.73%	41,889,875	1.6%	1.1%	1.71%	1.71%	41,168,138	1.6%	1.1%	10.54%	10.54%	28.80%	28.80%	-9.28%	-9.28%	4.16%	4.16%	14.04%	13.77%	
Wellington International Small Cap Opportunities	50,781,278	1.8%	1.1%	8.28%	8.07%	46,746,131	1.7%	1.1%	9.82%	9.60%	42,653,038	1.7%	1.1%	-4.94%	-5.15%	44,951,355	1.8%	1.1%	6.71%	6.47%	20.62%	19.62%	1.90%	1.06%	7.31%	6.42%	15.04%	14.12%	
S&P500plus BM EPAC < \$2BN				7.33%	7.33%				7.79%	7.79%				-3.16%	-3.16%				7.90%	7.90%	20.89%	20.89%	-3.37%	-3.37%	6.71%	6.71%	12.00%	12.00%	
Total Developed International	328,244,318	11.8%	11.0%	6.73%	6.68%	311,801,026	11.7%	11.0%	7.84%	7.68%	288,828,807	11.3%	11.0%	-2.06%	-2.10%	298,064,487	11.8%	11.0%	7.78%	7.74%	21.30%	21.06%	-7.88%	-7.82%	2.77%	2.62%	10.84%	10.27%	
MSCI World Ex US (3)				6.63%	6.63%				6.81%	6.81%				-0.36%	-0.36%				6.29%	6.29%	19.49%	19.49%	-10.16%	-10.16%	0.93%	0.93%	8.55%	8.55%	
Emerging Markets																													
Axiom Emerging Markets Equity Fund (4)	89,447,891	3.2%	2.6%	7.39%	7.39%	82,559,762	3.1%	2.6%	11.56%	11.56%	74,004,908	2.9%	2.6%	-6.47%	-6.47%	79,852,096	3.1%	2.6%	9.13%	9.13%	22.29%	22.29%	-10.32%	-10.32%	N/A	N/A			

ND PUBLIC EMPLOYEES RETIREMENT SYSTEM
INVESTMENT PERFORMANCE REPORT AS OF JUNE 30, 2017

	June-17					March-17					December-16					September-16					Current Fiscal YTD		Prior Year FY16		3 Years Ended 6/30/2017		5 Years Ended 6/30/2017		
	Allocation				Quarter Gross ⁽¹⁾ Net	Allocation				Quarter Gross ⁽¹⁾ Net	Allocation				Quarter Gross ⁽¹⁾ Net	Allocation				Quarter Gross ⁽¹⁾ Net	Fiscal YTD Gross ⁽¹⁾ Net	Fiscal YTD Gross ⁽¹⁾ Net	FY16 Gross ⁽¹⁾ Net	FY16 Gross ⁽¹⁾ Net	3 Years Ended 6/30/2017 Gross ⁽¹⁾ Net	3 Years Ended 6/30/2017 Gross ⁽¹⁾ Net	5 Years Ended 6/30/2017 Gross ⁽¹⁾ Net	5 Years Ended 6/30/2017 Gross ⁽¹⁾ Net	
	Market Value	Actual	Policy	Gross ⁽¹⁾		Market Value	Actual	Policy	Gross ⁽¹⁾		Market Value	Actual	Policy	Gross ⁽¹⁾		Market Value	Actual	Policy	Gross ⁽¹⁾										
Private Equity																													
Adams Street-Brinson 1998 Partnership Fund	63,015	0.0%		0.78%	0.78%	62,526	0.0%		-0.44%	-0.44%	62,803	0.0%		-0.16%	-0.16%	62,903	0.0%		-0.33%	-0.33%	-0.16%	-0.16%	4.14%	4.14%	1.08%	1.08%	4.12%	4.12%	
Adams Street-Brinson 1999 Partnership Fund	169,140	0.0%		3.55%	3.55%	163,346	0.0%		-2.15%	-2.15%	166,928	0.0%		2.13%	2.13%	163,454	0.0%		-3.60%	-3.60%	-0.25%	-0.25%	12.03%	12.03%	-2.85%	-2.85%	3.36%	3.36%	
Adams Street-Brinson 2000 Partnership Fund	277,862	0.0%		2.86%	2.86%	471,240	0.0%		-0.50%	-0.50%	473,609	0.0%		0.94%	0.94%	469,182	0.0%		-0.30%	-0.30%	3.00%	3.00%	-1.75%	-1.75%	-0.33%	-0.33%	0.71%	0.71%	
Adams Street-Brinson 2001 Partnership Fund	667,064	0.0%		4.37%	4.37%	639,121	0.0%		-3.53%	-3.53%	662,501	0.0%		8.47%	8.47%	749,479	0.0%		-1.49%	-1.49%	7.59%	7.59%	-0.11%	-0.11%	-1.19%	-1.19%	5.31%	5.31%	
Adams Street-Brinson 2002 Partnership Fund	170,182	0.0%		2.55%	2.55%	165,945	0.0%		0.04%	0.04%	165,887	0.0%		15.92%	15.92%	372,459	0.0%		0.54%	0.54%	19.56%	19.56%	9.43%	9.43%	1.75%	1.75%	5.99%	5.99%	
Adams Street-Brinson 2003 Partnership Fund	144,554	0.0%		5.79%	5.79%	159,805	0.0%		-1.10%	-1.10%	161,577	0.0%		6.39%	6.39%	151,872	0.0%		0.12%	0.12%	11.44%	11.44%	-2.55%	-2.55%	7.19%	7.19%	11.45%	11.45%	
Total Adams Street-Brinson Partnership Funds	1,491,816	0.1%		3.76%	3.76%	1,661,982	0.1%		-1.85%	-1.85%	1,693,304	0.1%		6.45%	6.45%	1,969,349	0.1%		-0.85%	-0.85%	7.49%	7.49%	-1.98%	-1.98%	-0.71%	-0.71%	4.31%	4.31%	
Adams Street-Brinson 1999 Non-US Partnership Fund	34,933	0.0%		3.72%	3.72%	33,681	0.0%		-2.30%	-2.30%	34,475	0.0%		9.08%	9.08%	31,604	0.0%		-8.08%	-8.08%	1.60%	1.60%	13.44%	13.44%	0.03%	0.03%	6.19%	6.19%	
Adams Street-Brinson 2000 Non-US Partnership Fund	266,388	0.0%		4.75%	4.75%	254,314	0.0%		4.25%	4.25%	368,692	0.0%		0.17%	0.17%	368,051	0.0%		3.37%	3.37%	13.07%	13.07%	-7.68%	-7.68%	-0.25%	-0.25%	0.63%	0.63%	
Adams Street-Brinson 2001 Non-US Partnership Fund	81,520	0.0%		10.18%	10.18%	73,988	0.0%		-0.88%	-0.88%	74,648	0.0%		-11.28%	-11.28%	84,142	0.0%		-1.30%	-1.30%	-4.37%	-4.37%	23.36%	23.36%	11.33%	11.33%	14.86%	14.86%	
Adams Street-Brinson 2002 Non-US Partnership Fund	251,500	0.0%		3.27%	3.27%	343,574	0.0%		-4.49%	-4.49%	359,710	0.0%		-3.54%	-3.54%	515,033	0.0%		-0.16%	-0.16%	-5.01%	-5.01%	29.09%	29.09%	4.42%	4.42%	5.43%	5.43%	
Adams Street-Brinson 2003 Non-US Partnership Fund	162,284	0.0%		4.87%	4.87%	154,747	0.0%		11.46%	11.46%	138,835	0.0%		5.28%	5.28%	291,491	0.0%		2.82%	2.82%	26.53%	26.53%	18.08%	18.08%	13.54%	13.54%	18.17%	18.17%	
Adams Street-Brinson 2004 Non-US Partnership Fund	160,537	0.0%		6.83%	6.83%	150,279	0.0%		-4.88%	-4.88%	157,995	0.0%		3.48%	3.48%	210,355	0.0%		4.06%	4.06%	9.42%	9.42%	-9.26%	-9.26%	-2.02%	-2.02%	7.06%	7.06%	
Total Adams Street-Brinson Non-US Partnership Fund	957,563	0.0%		5.12%	5.12%	1,010,583	0.0%		0.10%	0.10%	1,134,354	0.0%		-0.51%	-0.51%	1,600,676	0.0%		0.61%	0.61%	5.22%	5.22%	10.65%	10.65%	3.61%	3.61%	7.82%	7.82%	
Adams Street 2008 Non-US Partnership Fd	3,898,181	0.1%		8.34%	8.34%	3,786,248	0.1%		0.01%	0.01%	3,785,745	0.1%		6.75%	6.75%	3,621,229	0.1%		0.00%	0.00%	16.67%	16.67%	11.84%	11.84%	11.65%	11.65%	12.86%	12.86%	
Adams Street BVCF IV	1,736,009	0.1%		4.54%	4.54%	1,660,609	0.1%		-0.01%	-0.01%	1,949,680	0.1%		3.23%	3.23%	1,868,686	0.1%		0.00%	0.00%	7.91%	7.91%	-1.65%	-1.65%	14.68%	14.68%	18.81%	18.81%	
Adams Street Direct Co-Investment Fund	1,640,826	0.1%		-0.99%	-0.99%	1,657,199	0.1%		-9.34%	-9.34%	2,082,325	0.1%		7.53%	7.53%	2,338,164	0.1%		0.00%	0.00%	-4.11%	-4.11%	8.30%	8.30%	8.35%	8.35%	10.03%	10.03%	
Adams Street 2010 - Direct Fund	517,489	0.0%		7.99%	7.99%	470,707	0.0%		-2.88%	-2.88%	582,591	0.0%		6.82%	6.82%	614,523	0.0%		0.00%	0.00%	12.03%	12.03%	7.48%	7.48%	8.00%	8.00%	11.92%	11.92%	
Adams Street 2010 - Non-US Emerging Mkts	721,475	0.0%		4.09%	4.09%	693,102	0.0%		0.60%	0.60%	688,956	0.0%		5.16%	5.16%	647,480	0.0%		0.00%	0.00%	10.13%	10.13%	10.50%	10.50%	14.02%	14.02%	7.90%	7.90%	
Adams Street 2010 - Non-US Developed Mkts	1,579,541	0.1%		6.68%	6.68%	1,440,085	0.1%		1.53%	1.53%	1,471,376	0.1%		9.22%	9.22%	1,299,398	0.1%		0.00%	0.00%	21.63%	21.63%	9.63%	9.63%	9.17%	9.17%	10.50%	10.50%	
Adams Street 2010 - Partnership Fund	3,118,676	0.1%		3.66%	3.66%	3,069,784	0.1%		1.70%	1.70%	2,980,910	0.1%		9.20%	9.20%	2,765,892	0.1%		0.00%	0.00%	15.12%	15.12%	6.18%	6.18%	13.11%	13.11%	13.30%	13.30%	
Total Adams Street 2010 Funds	5,937,181	0.2%		5.63%	5.63%	5,673,678	0.2%		1.10%	1.10%	5,723,633	0.2%		8.43%	8.43%	5,327,292	0.2%		0.00%	0.00%	15.79%	15.79%	7.80%	7.80%	11.36%	11.36%	12.12%	12.12%	
Adams Street 2015 Global Fund	4,049,380	0.1%		5.17%	5.17%	3,173,037	0.1%		12.14%	12.14%	1,672,789	0.1%		28.68%	28.68%	1,299,947	0.1%		0.00%	0.00%	51.76%	51.76%	N/A	N/A	N/A	N/A	N/A	N/A	
Adams Street 2016 Global Fund	1,067,792	0.0%		3.34%	3.34%	531,532	0.0%		41.27%	41.27%	376,264	0.0%		N/A	N/A	-	0.0%		N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	
Blackrock PEP	4,320,397	0.2%		-3.26%	-3.26%	2,372,306	0.1%		N/A	N/A	-	0.0%		N/A	N/A	-	0.0%		N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	
Matlin Patterson - Global Opportunities II	580,474	0.0%		-10.52%	-10.52%	648,735	0.0%		-20.08%	-20.08%	811,692	0.0%		-0.49%	-0.49%	815,701	0.0%		0.00%	0.00%	-28.84%	-28.84%	7.27%	7.27%	-2.99%	-2.99%	-7.23%	-7.23%	
Matlin Patterson - Global Opportunities III	12,437,005	0.4%		6.35%	6.35%	13,341,492	0.5%		-0.93%	-0.93%	13,722,567	0.5%		1.41%	1.41%	13,531,512	0.5%		0.00%	0.00%	6.84%	6.84%	-5.66%	-5.66%	-0.58%	-0.58%	5.14%	5.14%	
InvestAmerica - Lewis and Clark Fund	814,147	0.0%		22.02%	22.02%	667,195	0.0%		0.00%	0.00%	667,195	0.0%		0.00%	0.00%	667,195	0.0%		0.00%	0.00%	22.02%	22.02%	-51.19%	-51.19%	-26.04%	-26.04%	-17.39%	-17.39%	
InvestAmerica - L&C II	4,574,756	0.2%		7.59%	7.59%	4,377,972	0.2%		2.64%	2.64%	4,483,024	0.2%		0.00%	0.00%	4,822,765	0.2%		0.00%	0.00%	10.83%	10.83%	1.88%	1.88%	-1.11%	-1.11%	N/A	-2.96%	N/A
Corstar III	7,203,906	0.3%		3.05%	3.05%	6,990,849	0.3%		-2.62%	-2.62%	7,139,730	0.3%		6.91%	6.91%	6,719,925	0.3%		-0.42%	-0.42%	6.83%	6.83%	34.22%	34.22%	9.34%	9.34%	3.15%	3.15%	
Corstar III - ND Investors LLC	12,068,230	0.4%		N/A	N/A	-	0.0%		N/A	N/A	-	0.0%		N/A	N/A	1	0.0%		24.54%	24.54%	N/A	N/A	5.41%	5.41%	N/A	N/A	N/A	N/A	
Capital International - Fund V	1,010,059	0.0%		12.67%	12.67%	10,709,741	0.4%		2.94%	2.94%	10,505,955	0.4%		7.17%	7.17%	11,515,235	0.5%		-1.06%	-1.06%	22.98%	22.98%	-2.38%	-2.38%	15.91%	15.91%	14.40%	14.40%	
Capital International - Fund V	1,010,059	0.0%		-34.83%	-34.83%	2,595,538	0.1%		-8.92%	-8.92%	2,835,260	0.1%		-14.38%	-14.38%	3,811,740	0.1%		-0.60%	-0.60%	-49.48%	-49.48%	-25.52%	-25.52%	-31.17%	-31.17%	-20.15%	-20.15%	
Capital International - Fund VI	11,841,140	0.4%		10.27%	10.27%	10,738,143	0.4%		-0.82%	-0.82%	9,731,269	0.4%		1.05%	1.05%	9,763,022	0.4%		-0.87%	-0.87%	9.55%	9.55%	1.06%	1.06%	-4.66%	-4.66%	-8.71%	-8.71%	
ELG (formerly TCW)	3,060,041	0.1%		19.09%	19.09%	2,569,606	0.1%		12.39%	12.39%	2,286,299	0.1%		-15.90%	-15.90%	2,688,338	0.1%		-0.41%	-0.41%	12.11%	12.11%	-67.59%	-67.59%	-34.78%	-34.78%	-23.36%	-23.36%	
Quantum - Resources	-	0.0%		N/A	N/A	19,878	0.0%		N/A	N/A	19,878	0.0%		N/A	N/A	25,905	0.0%		N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	
Quantum - Energy Partners	4,023,514	0.1%		56.03%	56.03%	2,578,582	0.1%		0.00%	0.00%	3,551,268	0.1%		0.62%	0.62%	3,852,146	0.2%		7.24%	7.24%	68.38%	68.38%	-22.63%	-22.63%	1.68%	1.68%	10.37%	10.37%	
Total Private Equity (4)	88,882,822	3.0%	7.0%	7.70%	7.70%	77,889,686	2.9%	7.0%	-1.18%	-1.18%	78,412,274	3.0%	7.0%	2.86%	2.86%	78,273,418	3.1%	7.0%	1.71%	1.71%	11.12%	11.12%	-7.19%	-7.20%	-0.81%	-0.82%	1.81%	1.80%	
GLOBAL FIXED INCOME																													
GLOBAL FIXED INCOME Benchmark	632,816,498	22.8%	23.0%	2.74%	2.68%	617,374,180	22.1%	23.0%	2.68%	2.62%	605,634,712	22.1%	23.0%	-2.29%	-2.35%	578,897,676	22.7%	23.0%	2.23%	2.16%	5.27%	5.02%	4.76%	4.50%	3.54%	3.29%	4.90%	4.68%	
				2.09%	2.09%				1.62%	1.62%				-3.61%	-3.61%				1.72%	1.72%	1.73%	1.73%	6.21%	6.21%	1.88%	1.88%	2.70%	2.70%	
Domestic Fixed Income																													
Domestic Fixed Income Benchmark	502,820,245	18.1%	18.0%	2.41%	2.35%	492,078,570	18.4%	18.0%	2.24%	2.19%	445,402,470	17.4%	18.0%	-0.															

ND PUBLIC EMPLOYEES RETIREMENT SYSTEM
INVESTMENT PERFORMANCE REPORT AS OF JUNE 30, 2017

	June-17					March-17					December-16					September-16					Current		Prior Year		3 Years Ended		5 Years Ended		
	Allocation				Quarter	Allocation				Quarter	Allocation				Quarter	Fiscal YTD		FY16		6/30/2017		6/30/2017							
	Market Value	Actual	Policy	Gross ⁽¹⁾		Market Value	Actual	Policy	Gross ⁽¹⁾		Market Value	Actual	Policy	Gross ⁽¹⁾		Market Value	Actual	Policy	Gross ⁽¹⁾	Gross ⁽¹⁾	Net	Gross ⁽¹⁾	Net	Gross ⁽¹⁾	Net	Gross ⁽¹⁾	Net		
International Fixed Income Benchmark	130,188,263	4.7%	6.0%	4.08%	3.87%	126,236,810	4.7%	6.0%	3.87%	3.77%	120,232,242	4.7%	6.0%	-7.77%	-7.88%	130,488,833	6.1%	6.0%	1.47%	1.38%	1.15%	0.79%	7.88%	7.50%	-0.37%	-0.74%	1.80%	1.24%	
				3.55%	3.55%				2.48%	2.48%				-10.26%	-10.26%				1.03%	1.03%	-3.80%	-3.80%	11.24%	11.24%	-2.43%	-2.43%	-0.36%	-0.36%	
Developed Investment Grade Int'l FI																													
UBS Global (ex-US) Bond Strategy	53,104,130	1.9%	2.5%	3.89%	3.81%	51,160,795	1.9%	2.5%	2.37%	2.28%	49,831,273	1.9%	2.5%	-10.50%	-10.58%	55,718,700	2.2%	2.5%	1.18%	1.10%	-3.69%	-4.00%	11.43%	11.07%	-2.44%	-2.78%	-0.55%	-0.85%	
Bloomberg Global Aggregate ex-US				3.55%	3.55%				2.48%	2.48%				-10.26%	-10.26%				1.03%	1.03%	-3.80%	-3.80%	11.24%	11.24%	-2.43%	-2.43%	-0.36%	-0.36%	
Brandywine Global Opportunistic Fixed Income	77,092,123	2.8%	2.5%	4.18%	4.09%	74,074,815	2.8%	2.5%	4.92%	4.82%	70,400,969	2.7%	2.5%	-5.74%	-5.83%	74,747,933	2.9%	2.5%	1.59%	1.59%	4.78%	4.38%	5.12%	4.73%	1.39%	1.00%	3.55%	3.15%	
Bloomberg Global Aggregate (ex-US)				2.60%	2.60%				1.76%	1.76%				-7.07%	-7.07%				0.82%	0.82%	-2.18%	-2.18%	8.87%	8.87%	-0.36%	-0.36%	0.77%	0.77%	
Total Developed Investment Grade Int'l FI	130,188,263	4.7%	6.0%	4.08%	3.87%	126,236,810	4.7%	6.0%	3.87%	3.77%	120,232,242	4.7%	6.0%	-7.77%	-7.88%	130,488,833	6.1%	6.0%	1.47%	1.38%	1.15%	0.79%	7.88%	7.50%	-0.37%	-0.74%	1.80%	1.24%	
Bloomberg Global Aggregate ex-US				3.55%	3.55%				2.48%	2.48%				-10.26%	-10.26%				1.03%	1.03%	-3.80%	-3.80%	11.24%	11.24%	-2.43%	-2.43%	-0.36%	-0.36%	
GLOBAL REAL ASSETS Benchmark	506,853,480	18.2%	19.0%	3.32%	3.18%	480,753,081	18.0%	19.0%	1.48%	1.38%	483,306,474	18.9%	19.0%	0.77%	0.67%	474,876,466	18.6%	19.0%	0.89%	0.81%	6.59%	6.18%	8.53%	7.99%	8.19%	7.73%	8.84%	8.40%	
				1.17%	1.17%				1.20%	1.20%				1.18%	1.18%				1.07%	1.07%	4.70%	4.70%	6.25%	6.25%	6.56%	6.56%	7.26%	7.26%	
Global Real Estate																													
Invesco Core Real Estate - U.S.A., L.P.	140,782,671			1.88%	1.79%	139,295,120			2.54%	2.45%	136,965,624			2.17%	2.08%	135,176,323			1.68%	1.59%	8.53%	8.16%	10.96%	10.59%	11.91%	11.52%	12.00%	11.58%	
INVESCO Real Estate Fund II (4)	102,899			3.30%	3.30%	99,592			22.17%	22.17%	81,518			-2.76%	-2.76%	2,893,926			0.00%	0.00%	22.72%	22.72%	6.65%	6.65%	11.61%	11.61%	14.46%	14.46%	
Invesco Real Estate Fund III, LP (4)	11,925,960			-2.76%	-2.76%	17,599,727			7.77%	7.77%	16,330,153			6.47%	6.47%	15,337,301			0.00%	0.00%	11.58%	11.58%	14.25%	14.25%	14.81%	14.81%	15.89%	15.89%	
Invesco U.S. Value-Add Fund IV, LP (4)	24,216,147			4.24%	4.24%	14,222,938			1.05%	1.05%	16,219,914			2.59%	2.59%	12,317,313			0.00%	0.00%	8.07%	8.07%	4.65%	4.65%	N/A	N/A	N/A	N/A	
Invesco Asia Real Estate Fund I, L.P. (4)	152,612			83.64%	83.64%	397,859			786.62%	786.62%	44,874			-31.45%	-31.45%	569,912			-3.02%	-3.02%	982.41%	982.41%	121.40%	121.40%	203.10%	203.10%	97.81%	97.81%	
Invesco Asia Real Estate Fund III, L.P. (4)	11,856,673			21.68%	21.68%	9,426,563			-3.05%	-3.05%	10,621,592			3.46%	3.46%	7,389,980			-0.64%	-0.64%	21.25%	21.25%	N/A	N/A	N/A	N/A	N/A	N/A	
JP Morgan Strategic & Special Situation Property Blend	107,883,754			1.70%	1.48%	107,116,362			1.97%	1.74%	106,175,986			2.18%	1.95%	103,912,878			1.97%	1.73%	8.05%	7.08%	12.25%	10.95%	11.64%	10.52%	12.91%	11.84%	
JP Morgan Alternative Property Fund	159,984			2.17%	2.17%	156,557			3.35%	3.35%	151,484			1.07%	1.07%	170,645			0.00%	0.00%	6.73%	6.73%	2.80%	2.80%	-9.88%	-9.88%	-2.55%	-2.57%	
JP Morgan European Opportunistic Property Fund III (4)	5,441,695			8.96%	8.96%	4,995,157			1.47%	1.47%	4,925,391			-11.05%	-11.05%	5,541,308			1.16%	1.16%	-0.51%	-0.51%	24.44%	24.44%	13.11%	13.11%	4.37%	9.48%	
JP Morgan Greater China Property Fund (4)	8,624,839			34.91%	34.91%	6,393,718			-1.11%	-1.11%	6,467,642			3.30%	3.30%	6,263,312			0.00%	0.00%	37.81%	37.81%	16.24%	16.24%	23.20%	23.20%	24.95%	24.95%	
Total Global Real Estate	311,147,233	11.2%	11.0%	9.32%	8.19%	288,703,684	11.2%	11.0%	2.38%	2.28%	287,884,177	11.8%	11.0%	2.16%	2.03%	288,672,887	11.4%	11.0%	1.48%	1.38%	8.86%	8.19%	11.98%	11.34%	12.44%	11.88%	13.01%	12.47%	
NCREIF TOTAL INDEX				1.75%	1.75%				1.58%	1.55%				1.73%	1.73%				1.77%	1.77%	6.97%	6.97%	10.64%	10.64%	10.17%	10.17%	10.49%	10.49%	
Timber																													
TIR Tereco Timber, LLC	15,883,699			-1.75%	-1.75%	16,165,887			-5.82%	-5.82%	17,164,570			0.47%	0.47%	17,083,529			0.00%	0.00%	-7.02%	-7.02%	9.29%	9.29%	5.49%	5.49%	5.75%	5.75%	
TIR Springbank, LLC	53,058,979			-1.24%	-1.24%	54,378,838			-1.15%	-1.15%	55,012,679			-7.94%	-7.94%	59,992,203			0.00%	0.00%	-10.13%	-10.13%	2.97%	2.97%	-3.20%	-3.20%	-2.37%	-2.37%	
Total Timber (4)	68,942,678	2.6%	3.0%	-1.36%	-1.36%	70,544,724	2.8%	3.0%	-2.28%	-2.28%	72,177,248	2.8%	3.0%	-8.07%	-8.07%	77,076,733	3.0%	3.0%	0.00%	0.00%	-8.44%	-8.44%	4.94%	4.94%	-8.80%	-8.80%	0.27%	0.27%	
NCREIF Timberland Index				0.70%	0.70%				0.76%	0.76%				1.18%	1.18%				0.67%	0.67%	3.35%	3.35%	3.39%	3.39%	5.64%	5.64%	7.16%	7.16%	
Infrastructure																													
JP Morgan Asian Infrastructure & Related Resources (4)	12,071,004			1.12%	1.12%	11,965,425			29.84%	29.84%	14,988,852			3.69%	3.69%	14,184,663			-0.47%	-0.47%	35.48%	35.48%	-9.66%	-9.66%	6.04%	6.04%	8.92%	8.92%	
JP Morgan Infrastructure Investments Fund (IIF)	91,657,971			6.87%	6.48%	76,587,670			-1.41%	-1.57%	77,837,245			1.62%	1.45%	71,935,417			0.00%	0.00%	7.06%	6.33%	5.11%	3.93%	4.38%	3.46%	6.68%	5.72%	
Grosvenor Customized Infrastructure Strategies, LP (4)	19,207,968			7.52%	7.52%	17,794,045			-0.16%	-0.16%	17,419,293			1.64%	1.64%	20,227,344			-0.37%	-0.37%	8.70%	8.70%	8.42%	8.42%	7.49%	7.49%	8.94%	8.94%	
Grosvenor Customized Infrastructure Strategies II (4)	3,626,627			5.35%	5.35%	4,157,623			-1.35%	-1.35%	2,899,659			0.27%	0.27%	1,880,414			-0.89%	-0.89%	3.28%	3.28%	6.10%	6.10%	N/A	N/A	N/A	N/A	
Total Infrastructure	128,783,688	4.8%	6.0%	8.28%	8.02%	110,604,783	4.1%	6.0%	1.62%	1.40%	113,146,048	4.4%	6.0%	1.86%	1.73%	108,227,837	4.2%	6.0%	-0.16%	-0.16%	8.73%	8.21%	3.88%	2.88%	4.81%	4.21%	7.21%	6.67%	
CP				0.49%	0.49%				0.96%	0.96%				-0.04%	-0.04%				0.09%	0.09%	1.50%	1.50%	0.64%	0.64%	0.58%	0.58%	1.11%	1.11%	
Cash Equivalents																													
Northern Trust Collective STIF	7,777,863			0.25%	0.25%	4,934,393			0.21%	0.21%	14,847,123			0.17%	0.17%	14,629,052			0.13%	0.13%	0.75%	0.75%	0.29%	0.29%	0.37%	0.37%	0.25%	0.25%	
Bank of ND	2,708,292			0.23%	0.23%	2,862,316			0.17%	0.17%	4,527,480			0.12%	0.12%	6,558,200			N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Total Cash Equivalents	10,486,155	0.4%	0.0%	0.26%	0.26%	7,796,709	0.3%	0.0%	0.20%	0.20%	19,374,683	0.8%	0.0%	0.18%	0.18%	21,287,262	0.8%	0.0%	0.12%	0.12%	0.74%	0.74%	0.29%	0.29%	0.38%	0.38%	0.24%	0.24%	
90 Day T-Bill				0.20%	0.20%				0.10%	0.10%				0.09%	0.09%				0.10%	0.10%	0.49%	0.49%	0.19%	0.19%	0.23%	0.23%	0.17%	0.17%	

NOTE: Monthly returns and market values are preliminary and subject to change.

New asset class structure began October 1, 2011. Composite returns for new composites not available prior to that date.

Portfolios moved between asset classes will show historical returns in new position.

(1) Epoch was included in the Large Cap Domestic Equity composite through 12/31/11.

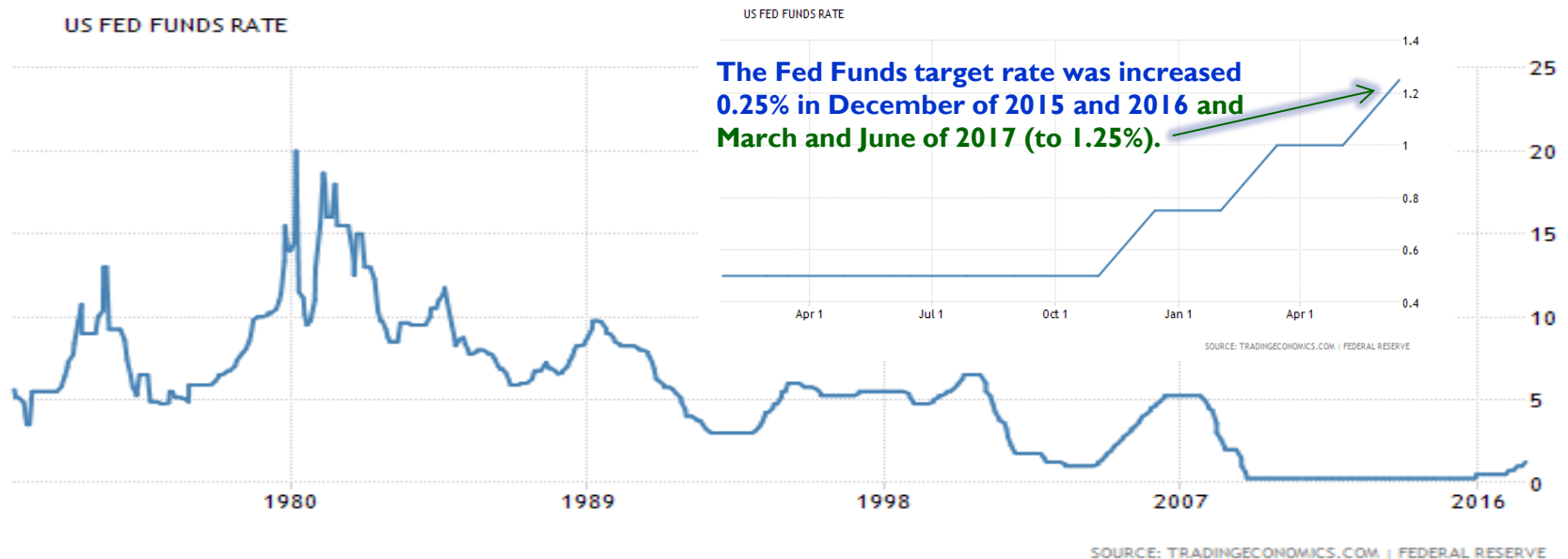
(2) Prior to January 1, 2012, the benchmark was S&P 500.

(3) This benchmark was changed to the MSCI World ex-US as of July 1, 2016 and the MSCI EAFE (unhedged) as of April 1, 2011.

(4) All limited partnership-type (and mutual funds as of 7/1/14) investment returns will only be reported net of fees, which is standard practice by the investment consultant.

U.S. Fed Funds Rate (1971 to 2017)

Background: The **federal funds rate** is the interest rate at which banks lend reserve balances to other banks overnight (on an uncollateralized basis). Banks with surplus balances lend to those in need of larger balances. Reserve balances are held at the Federal Reserve to maintain the banks' reserve requirements. **Changes in the federal funds rate trigger a chain of events that affect other short-term interest rates**, foreign exchange rates, long-term interest rates, the amount of money and credit, and, ultimately, a range of economic variables, including employment, output, and prices of goods and services. The Federal Reserve uses "monetary policy" to influence the availability and cost of money and credit to help promote national economic goals.



The Federal Reserve raised the target range for its federal funds rate by 25bps to 1% to 1.25% during its June 2017 meeting, in line with market expectations. Policymakers kept forecasts for one more rate hike this year while increasing growth projections and lowering inflation expectations. In addition, details on how the central bank will start reducing its USD 4.5 trillion portfolio were also provided. Interest Rate in the United States averaged 5.79 percent from 1971 until 2017, reaching an all time high of 20 percent in March of 1980 and a record low of 0.25 percent in December of 2008.

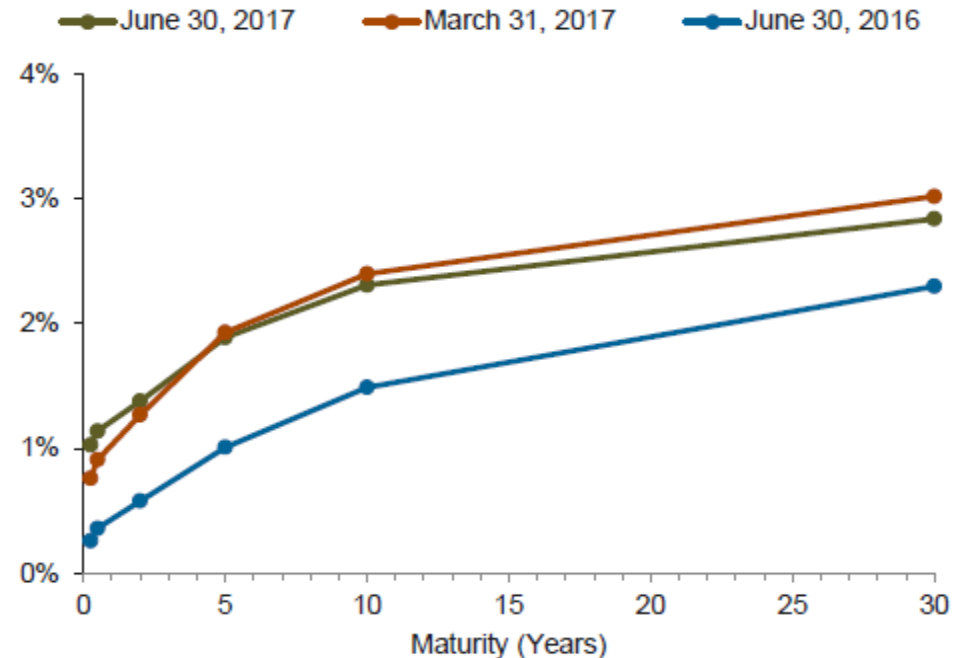
Yield Curve Changes

Periods Ending June 30, 2017

The Treasury yield curve flattened with short term rates rising along with Fed action and long term rates falling on expectations of a slower growth trajectory.

The yield on 10-year and 30-year treasuries dropped 0.09% and 0.18%, respectively, while 3-month rates rose 0.27%.

U.S. Treasury Yield Curves

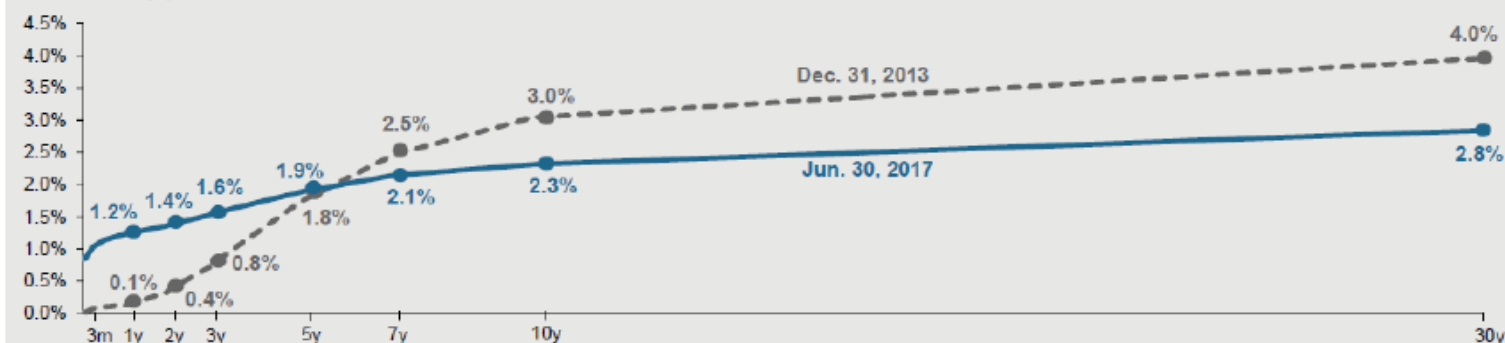


Source: U.S. Department of the Treasury

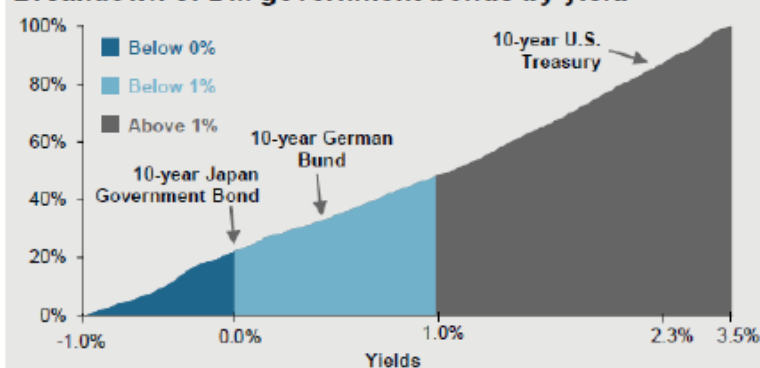
Bond Market Dynamics

Yield curve

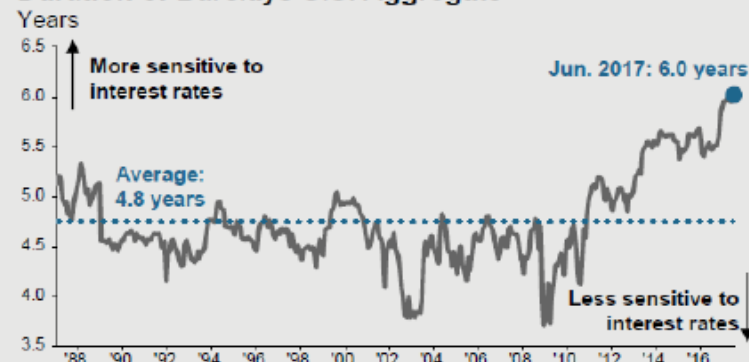
U.S. Treasury yield curve



Breakdown of DM government bonds by yield



Duration of Barclays U.S. Aggregate



- Historically high duration means the U.S. Aggregate is more sensitive to interest rate changes; however, higher yields in the U.S. relative to other developed markets increases global demand which could slow the pace at which long rates rise.

Source: FactSet, J.P. Morgan Asset Management; (Bottom left) Bloomberg, BofA/Merrill Lynch. (Bottom right) Barclays, Bloomberg. The Developed Market Government Bond Index is the Bank of America/Merrill Lynch Global Government Index. Duration measures the sensitivity of the price of a bond to a change in interest rates. The higher the duration the greater the sensitivity bond is to movements in the interest rate. Guide to the Markets – U.S. Data are as of June 30, 2017.

ND Public Employees Retirement System Schedule of Investment Expenses

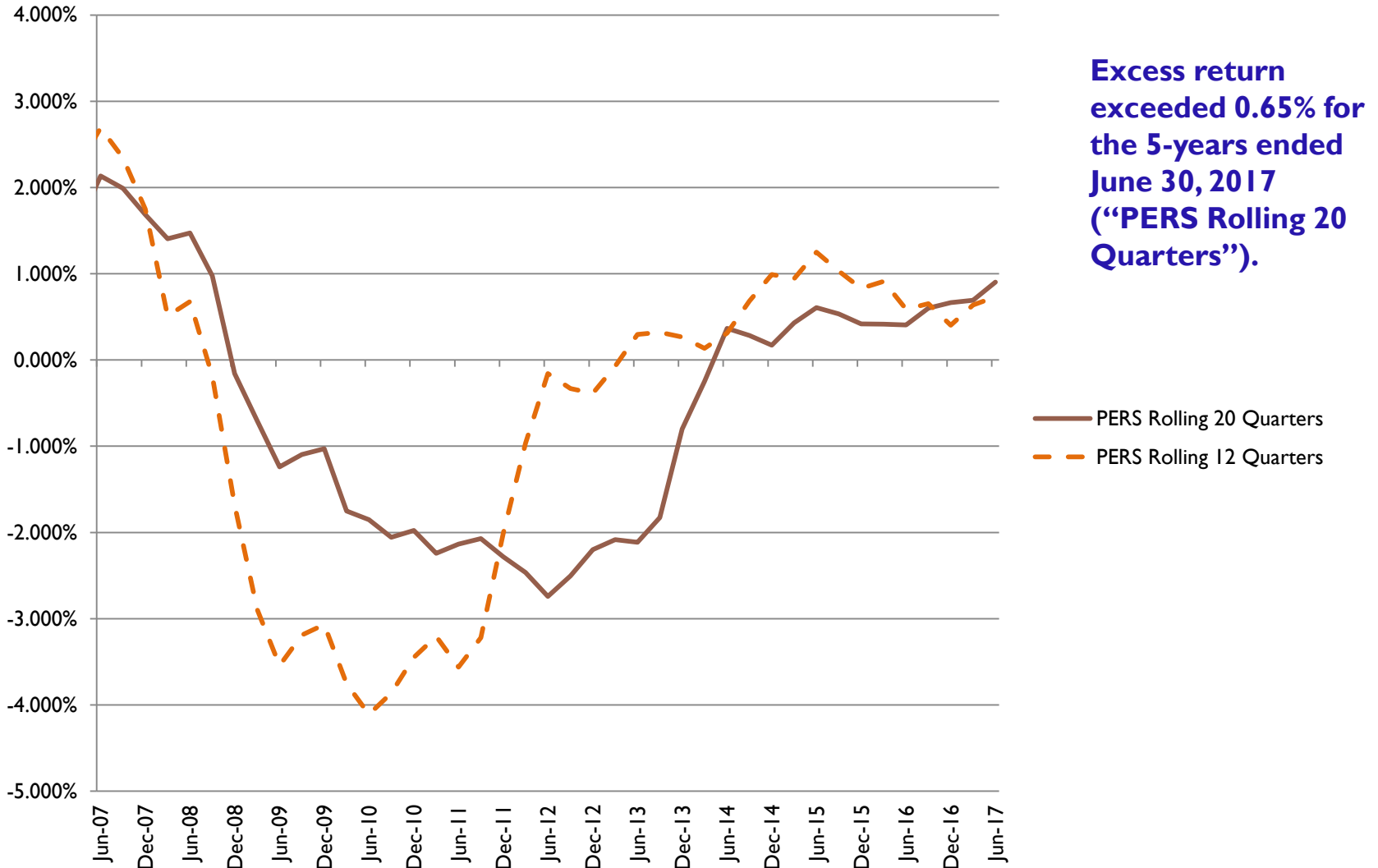
	FY 2017				FY 2016			
	Average Market Value	Fees in \$	Fees in %	Contribution to Total Fees	Average Market Value	Fees in \$	Fees in %	Contribution to Total Fees
Investment managers' fees:								
Global equity managers	443,295,467	1,716,931	0.39%	0.06%	381,723,510	1,463,105	0.38%	0.06%
Domestic large cap equity managers	458,670,881	654,319	0.14%	0.02%	415,066,060	1,042,600	0.25%	0.04%
Domestic small cap equity managers	144,408,396	561,231	0.39%	0.02%	117,678,274	661,525	0.56%	0.03%
Developed international equity managers	306,782,154	969,488	0.32%	0.04%	268,317,607	1,087,387	0.41%	0.05%
Emerging markets equity managers	109,834,610	898,494	0.82%	0.03%	88,000,359	717,641	0.82%	0.03%
Investment grade domestic fixed income managers	335,502,197	2,399,466	0.72%	0.09%	301,575,217	1,164,370	0.39%	0.05%
Below investment grade fixed income managers	136,630,885	1,854,744	1.36%	0.07%	128,662,524	1,349,888	1.05%	0.06%
Developed international fixed income managers	126,532,685	452,558	0.36%	0.02%	121,049,255	428,095	0.35%	0.02%
Real estate managers	299,601,975	3,348,730	1.12%	0.13%	256,587,200	2,470,029	0.96%	0.10%
Timber managers	72,185,096	485,605	0.67%	0.02%	80,540,706	(1,054,317)	-1.31%	-0.04%
Infrastructure managers	114,660,304	917,728	0.80%	0.03%	108,898,046	1,148,047	1.05%	0.05%
Private equity managers	79,104,475	1,335,628	1.69%	0.05%	84,636,554	1,524,925	1.80%	0.06%
Cash & equivalents managers	14,736,175	17,861	0.12%	0.00%	34,951,692	34,800	0.10%	0.00%
Total investment managers' fees	2,641,945,299	15,612,783	0.59%		2,387,687,004	12,038,095	0.50%	
Custodian fees		250,055	0.01%	0.01%		227,822	0.01%	0.01%
Investment consultant fees		111,406	0.00%	0.00%		150,745	0.01%	0.01%
Total investment expenses		15,974,244	0.60%			12,416,661	0.52%	
Actual Investment Performance (Net of Fees)			13.05%				0.28%	
Policy Benchmark			11.87%				0.56%	
Outperformance			1.18%				-0.28%	

PERS fees increased to 0.60% in FY 2017 from 0.52% in FY 2016 mostly due to the Timber fee reversal of -1.31%. Performance fees (including U.S. fixed income) were higher in 2017 than 2016.

Note: All amounts are deemed to be materially accurate, but are unaudited and subject to change.

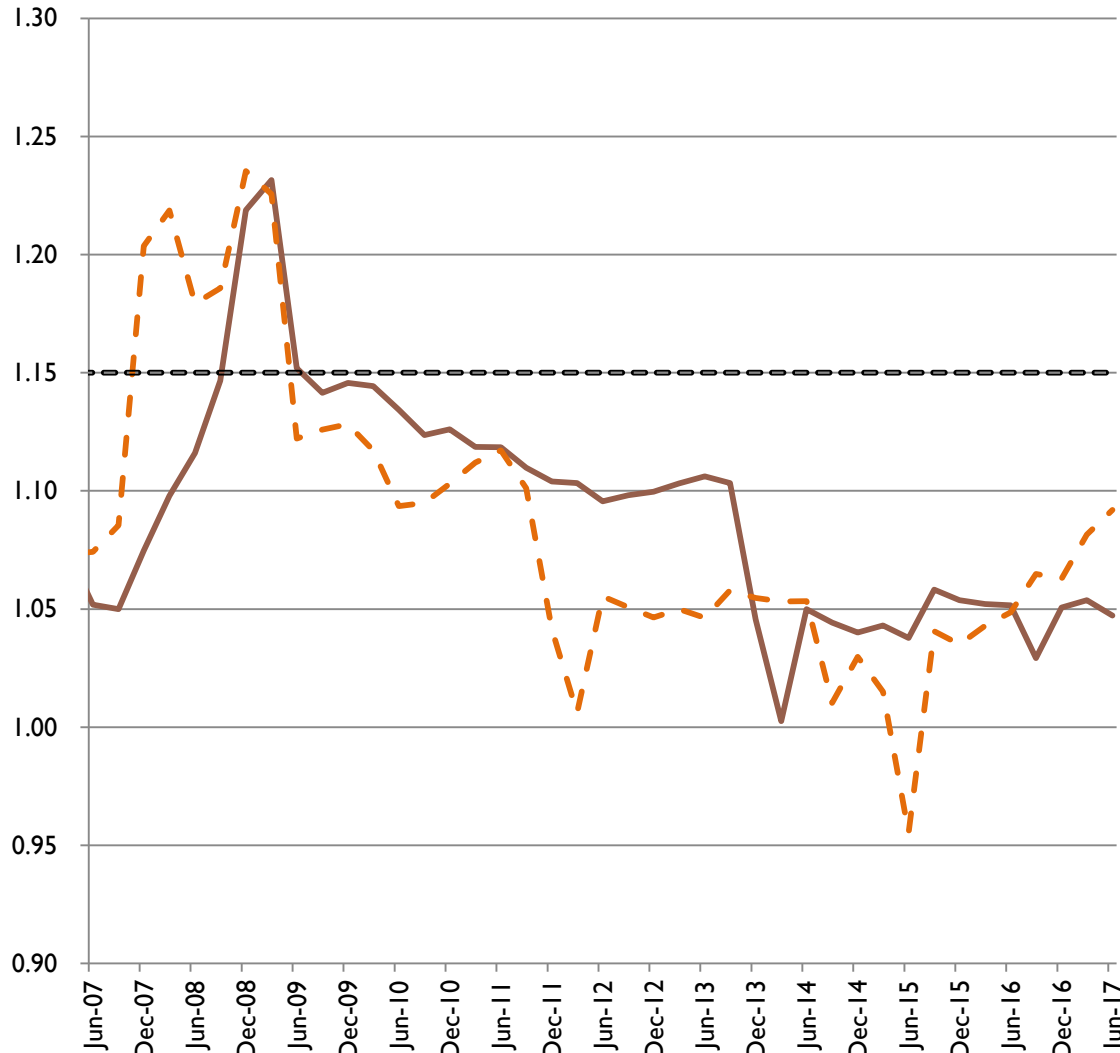
Excess Return Relative to Policy Benchmark

10 Years Ended 6/30/2017



Relative Standard Deviation Relative to Policy Benchmark

10 Years Ended 6/30/2017



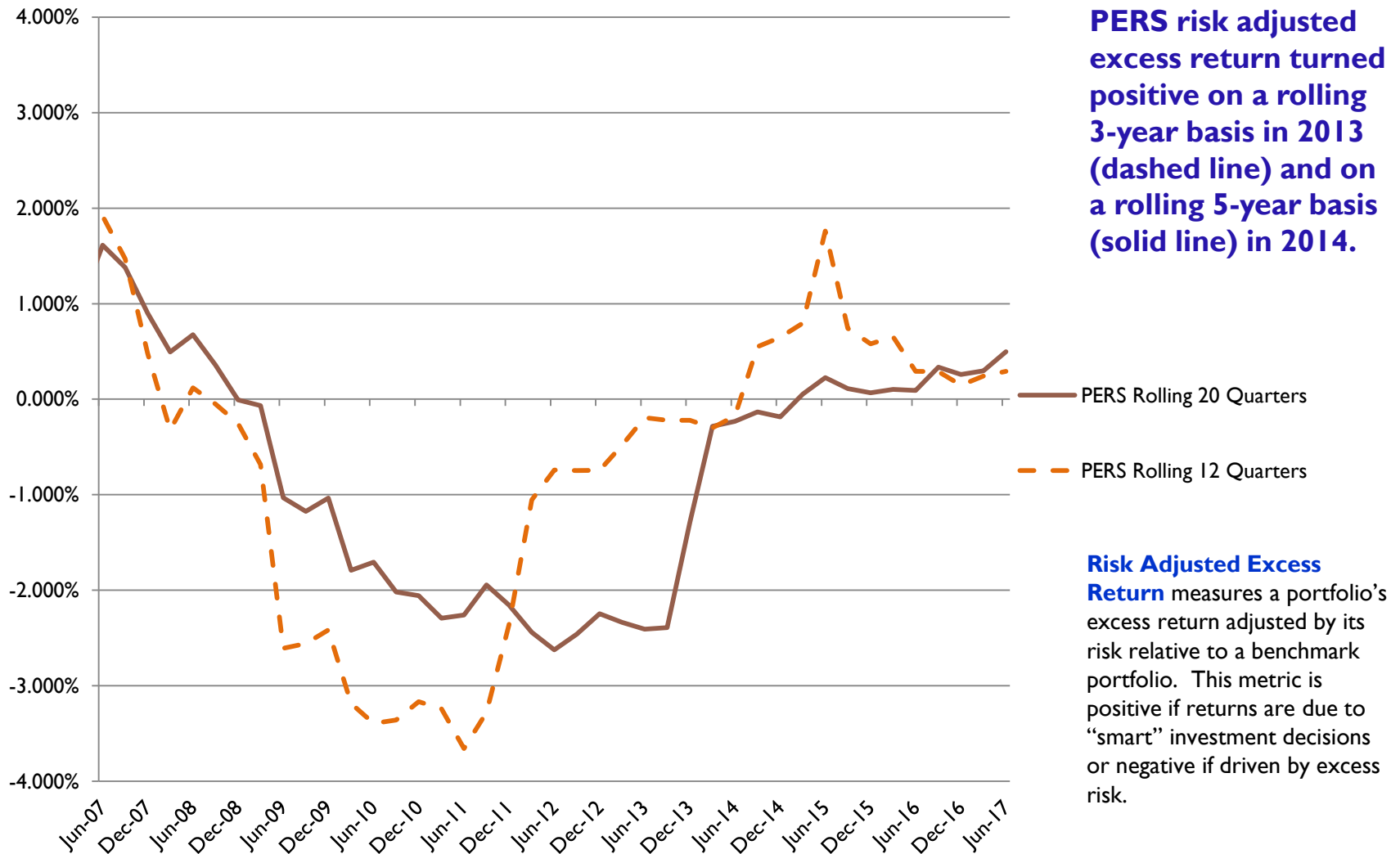
Investment risk, as measured by standard deviation, remains within investment guidelines of 1.15 (or 115% of the policy benchmark) over the last 5 years.

— PERS Rolling 20 Quarters
- - - PERS Rolling 12 Quarters
- - - Reference

PERS standard deviation for the 5-years ended June 30, 2017 was 105% (or 1.05 times) the policy benchmark.

Risk Adjusted Excess Return

10 Years Ended 6/30/2017



BOARD ACCEPTANCE REQUESTED

TO: State Investment Board

FROM: Connie Flanagan

DATE: October 24, 2017

SUBJECT: **Recommended Investment Policy Statement Changes -
Tobacco Prevention and Control Fund
North Dakota Association of Counties**

RIO requests the SIB accept Investment Policy Statement (IPS) changes recently approved by the governing authorities of the Tobacco Prevention & Control (TPC) Fund and North Dakota Association of Counties (NDAC).

In recent months, RIO staff worked with OMB Director Pam Sharp to review the TPC IPS and properly reflect the transition of TPC fund oversight to OMB. RIO notes that House Bill 1015 assigned administrative authority of this fund to OMB effective July 1, 2017. Previously, oversight was governed by the Executive Committee of the TPC fund. The vast majority of the proposed revisions are technical and/or administrative in nature as there are no proposed changes to the fund goals, risk tolerance, asset allocation, investment restrictions or internal controls. **Janilyn Murtha, Assistant Deputy Attorney General, provided valuable legal guidance in drafting the revised language.**

During the last six months, RIO staff worked with NDAC Executive Director Mark Johnson and Assistant Director Genny Dienstmann to review their IPS. Based on this NDAC review and RIO's understanding of NDAC's improved liquidity profile, RIO recommends the following asset allocation changes:

- 1. Decrease Cash to 3% from 13% (-10%);**
- 2. Increase U.S. Large Cap Equity to 20% from 15% (+5%); and**
- 3. Increase U.S. Fixed Income to 62% from 57% (+5%).**

In addition to the recommended asset allocation changes which positively impacts expected return and risk adjusted excess return while reducing liquidity (in line with NDAC's expectations), RIO also proposed IPS language commonly used by our Non-Pension Trust clients. The impacted areas include investment objectives, internal controls and evaluation and review sections as highlighted in the attached IPS (which is redlined to identify changes).

RIO requests the SIB accept the IPS changes recently approved by the governing authorities of the TPC fund and NDAC as summarized immediately above and further detailed in the following two attachments.

NORTH DAKOTA TOBACCO PREVENTION AND CONTROL FUND

INVESTMENT POLICY STATEMENT

1. PLAN CHARACTERISTICS AND FUND CONSTRAINTS.

The North Dakota Tobacco Prevention and Control fund (fund) was established in 1999 for the purpose of creating and implementing a comprehensive statewide tobacco prevention and control plan (comprehensive plan). NDCC 54-27-25(2). The comprehensive plan ~~is was~~ administered by the Executive Committee ~~and is to be consistent with the centers for disease control best practices for comprehensive tobacco prevention and control programs until the Sixty-fifth Legislative Assembly repealed Chapter 23-42 of the ND Century Code, effectively eliminating the Executive Committee. During that same session, House Bill (HB) 1015 assigned administrative authority of the fund to the Office of Management and Budget (OMB) for the biennium beginning July 1, 2017, and ending June 30, 2019. NDCC 23-42-01. The Executive Committee has the power and duty to provide direction to the state investment board for investment of the fund. NDCC 23-42-04(1).~~

2. FUND GOALS

The fund consists of the tobacco settlement dollars obtained by the state under section IX(c)(2) of the agreement adopted by the east central judicial district court in its judgment entered December 28, 1998 [Civil No. 98-3778] in *State of North Dakota, ex rel. Heidi Heitkamp v. Philip Morris, Inc.* Interest earned on the fund must be credited to the fund. NDCC 54-27-25(2). ~~The fund Executive Committee~~OMB recognizes that a sound investment program is essential to ~~meet the goals of the comprehensive plan. As a result, the fund goal is to protect and sustain the fund in order to implement the comprehensive plan ensure the funds are available to be used as appropriated by the legislative assembly.~~

3. RESPONSIBILITIES AND DISCRETION OF THE STATE INVESTMENT BOARD (SIB).

~~The Executive Committee~~OMB has entered into a contract with the SIB for investment services as allowed under NDCC 21-10-06. ~~The Executive Committee~~OMB is ~~charged by law under NDCC 23-42-04 with the responsibility of providing direction to the state investment board for investment of the fund~~responsible for establishing policies on investment goals and asset allocation of the fund. The SIB is charged with implementing these policies and investing the assets of the fund in the manner provided in NDCC 21-10-07, the prudent investor rule. Under this rule, 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 speculation but in regard to the permanent disposition of funds, considering probable safety of capital as well as probable income. The fund must be invested exclusively for the benefit of the members and their beneficiaries in accordance with this investment policy.

Management responsibility for the investment program not assigned to the SIB in Chapter 21-10 of the North Dakota Century Code (NDCC) is hereby delegated to the SIB, who must establish written policies for the operation of the investment program, consistent with this investment policy.

The SIB may delegate investment responsibility to professional money managers. Where a money manager has been retained, the SIB's role in determining investment strategy and security selection is supervisory, not advisory.

The SIB is responsible for establishing criteria, procedures, and making decisions with respect to hiring, keeping, and terminating money managers. SIB investment responsibility also includes selecting performance measurement services, consultants, report formats, and frequency of meetings with managers.

The SIB will implement changes to this policy as promptly as is prudent.

4. RISK TOLERANCE

~~The Executive Committee~~OMB is unwilling to undertake investment strategies that might jeopardize the ability of the fund to ~~finance the comprehensive plan~~meet legislatively appropriated expenditures.

~~The Executive Committee actively seeks to sustain the fund by taking on risk for which it expects to be compensated over the long term. The Executive Committee understands that a prudent investment approach to risk taking can result in periods of under-performance for the fund in which the funding status may decline. The Executive Committee believes that such an approach, prudently implemented, best serves the long-run interests of the State.~~

5. INVESTMENT OBJECTIVES

~~The Executive Committee~~OMB's investment objectives are expressed in terms of reward and risk expectations relative to investable, passive benchmarks. The fund's policy benchmark is comprised of policy mix weights of appropriate asset class benchmarks as set by the SIB.

1. The fund's rate of return, net of fees and expenses, should at least match that of the policy benchmark over a minimum evaluation period of five years.
2. ~~The fund's risk, measured by the standard deviation of net returns, should not exceed 115% of the policy benchmark over a minimum evaluation period of five years.~~Risk, as measured by the annual standard deviation of net returns for the Fund, should not exceed that of the policy portfolio by more than 100 basis points over a minimum evaluation period of five years.
3. ~~The Executive Committee understands and acknowledges that the tobacco-free investment restriction may impair the funds ability to maximize investment returns when compared to investments that are not made in conjunction with a tobacco-free investment restriction.~~The risk-adjusted performance of the Fund, net of fees and expenses, should at least match that of the policy benchmark over a minimum evaluation period of five years.
- 3-4. ~~The Executive Committee~~OMB understands and acknowledges that the tobacco-free investment restriction may impair the funds ability to maximize investment returns when compared to investments that are not made in conjunction with a tobacco-free investment restriction.

6. POLICY ASSET MIX

Asset allocation policy is critical because it defines the basic risk and return characteristics of the investment portfolio. Asset allocation targets are established using an asset-liability analysis

designed to assist ~~the Executive Committee~~OMB in determining an acceptable volatility target for the fund and an optimal asset allocation policy mix. This analysis estimates the potential impact of various asset class mixes on key measures of total fund risk.

After consideration of all the inputs and a discussion of its own collective risk tolerance, ~~the Executive Committee~~OMB approves the appropriate policy asset mix for the fund.

<u>Asset Class</u>	<u>Policy Target(%)</u>	<u>Rebalancing Range(%)</u>
Global Equity	10	5-20
Global Fixed Income	75	60-90
Cash	15	10-20

While ~~the Executive Committee~~OMB recognizes fluctuations in market values will lead to short-term deviations from policy targets, ~~the Executive Committee~~OMB does not intend to engage in tactical asset allocation. Rebalancing of the fund to this target will be done in accordance with the SIB's rebalancing policy, but not less than annually.

7. RESTRICTIONS

While the SIB is responsible for establishing specific quality, diversification, restrictions, and performance objectives for the investment vehicles in which the fund's assets will be invested, it is understood that:

- a. Futures and options may be used to hedge or replicate underlying index exposure, but not for speculation.
- b. Derivatives use will be monitored to ensure that undue risks are not taken by the money managers.
- c. No transaction shall be made which threatens the tax exempt status of the fund.
- d. All assets will be held in custody by the SIB's master custodian or such other custodians as are acceptable to the SIB.
- e. No unhedged short sales or speculative margin purchases shall be made.
- f. Because the statutory purpose of the ~~Executive Committee~~Fund is to reinforce best practices related to comprehensive tobacco prevention and control programs, and to invest in or profit from the manufacturer and sale of tobacco products would contradict that purpose, the assets shall only be invested in securities issued by tobacco-free firms, defined as those which generate revenues of no greater than 0% from tobacco products. In the event of an inadvertent de minimis investment in a firm with any exposure to tobacco products, the inadvertent investment will be immediately divested upon discovery. For investment purposes "tobacco product" means tobacco or any product containing, made from, or derived from tobacco, in whole or in part, that is intended for human consumption, whether chewed, smoked, absorbed, dissolved, inhaled, snorted, sniffed, consumed, or ingested by any other means, including cigarettes, cigars, electronic smoking devices, pipe tobacco, chewing tobacco, snuff, snus, liquid, or other kinds and forms of tobacco. "Tobacco product" includes any product or device that contains nicotine, in any form, that is derived from tobacco. Any product that contains nicotine shall be presumed to contain nicotine derived from tobacco unless the nicotine is confirmed to be derived from a different source.
- g. Economically targeted investing is prohibited unless the investment meets the Exclusive Benefit Rule.

For the purpose of this document economically targeted investment is defined as an investment designed to produce a competitive rate of return commensurate with risk involved, as well as to create collateral economic benefits for a targeted geographic area, group of people, or sector of the economy.

Also, for the purpose of this document, the Exclusive Benefit Rule is met if the following four conditions are satisfied:

- (1) The cost does not exceed the fair market value at the time of investment.
- (2) The investment provides the fund with an equivalent or superior rate of return for a similar investment with a similar time horizon and similar risk.
- (3) Sufficient liquidity is maintained in the fund to permit distributions in accordance with the terms of the plan.
- (4) The safeguards and diversity that a prudent investor would adhere to are present.

Where investment characteristics, including yield, risk, and liquidity are equivalent, ~~the Executive Committee~~OMB's policy favors investments which will have a positive impact on the economy of North Dakota.

8. INTERNAL CONTROLS

A system of internal controls must be in place by the SIB to prevent losses of public funds arising from fraud or employee error. Such controls deemed most important are the separation of responsibilities for investment purchases from the recording of investment activity, custodial safekeeping, written confirmation of investment transactions, and established criteria for broker relationships. The annual financial audit must include a comprehensive review of the portfolio, accounting procedures for security transactions and compliance with the investment policy.

9. EVALUATION AND REVIEW.

Investment management of the fund will be evaluated against the fund's investment objectives. Emphasis will be placed on five year results. Evaluation should include an assessment of the continued feasibility of achieving the investment objectives and the appropriateness of the Investment Policy Statement for achieving those objectives.

Performance reports will be provided to the Executive Committee quarterly and investment performance presentations will be provided to the Executive Committee upon request, but not less than annually. Such reports will include asset returns and allocation data as well as information regarding all significant and/or material matters and changes pertaining to the investment of the fund, including, but not limited to:

1. A list of the advisory services managing investments for ~~the Executive Committee~~OMB.
2. A list of investments at market value, compared to previous reporting period, of each fund managed by each advisory service.
3. Earnings, percentage earned, and change in market value of each fund's investments.
4. Comparison of the performance of each fund managed by each advisory service to other funds under the ~~Executive Committee~~SIB's control and to generally accepted market indicators.
5. All material legal or legislative proceedings affecting the SIB.
6. Compliance with this investment policy statement.

~~Executive Committee~~Office of Management and Budget Adopted and Approved:

~~ND Center for ND State Investment Executive Committee~~
~~Tobacco Prevention and Control Policy~~

Date_____

Date_____

~~Jeanne Prom~~Pam Sharp
~~Executive~~ Director

David Hunter
Executive Director / Chief Investment Officer
North Dakota Retirement & Investment Office

NORTH DAKOTA ASSOCIATION OF COUNTIES

INVESTMENT POLICY STATEMENT

PLAN CHARACTERISTICS AND FUND CONSTRAINTS

The North Dakota Association of Counties (NDACo) (Fund) was established to aid in the administration of county government by providing a medium for exchange of information, ideas, and experience of county officials; promote training; facilitate cooperation with all levels of government; and be a legislative advocate for counties. NDACo and the benefits provided there under are funded by dues from member counties and special programs and projects of NDACo.

RESPONSIBILITIES AND DISCRETION OF THE STATE INVESTMENT BOARD (SIB)

NDACo has entered into a contract with the SIB for investment services as allowed under NDCC 21-10-06. It is the responsibility of NDACo to establish policies on investment goals and asset allocation of the Fund. The SIB is charged with implementing these policies and asset allocation and investing the assets of the Fund in a manner consistent with the prudent investor rule as provided in NDCC 21-10-07.

At the discretion of the SIB, the Fund's assets may be pooled with other funds. In pooling funds, the SIB may establish whatever asset class pools it deems necessary with specific quality, diversification, restrictions, and performance objectives appropriate to the prudent investor rule and objectives of the Fund participating in the pools.

The SIB may delegate investment responsibility to professional money managers. Where a money manager has been retained, the SIB's role in determining investment strategy and security selection is supervisory, not advisory.

The SIB is responsible for establishing criteria and procedures and making decisions with respect to hiring, maintaining, and terminating money managers. This responsibility includes selecting performance measurement services, consultants and report formats and determining the frequency of meetings with managers.

The SIB will implement changes to this policy as promptly as is prudent.

INVESTMENT OBJECTIVES**RISK TOLERANCE**

Funds in excess of those required for operating and claims payment needs will be invested to obtain the maximum total return on investments consistent with safety of principal on funds in excess of those required for operating and claims payment needs. The investment fund(s) may be comprised of fixed income securities and equity securities. Individual investments may be either actively or passively managed.

STANDARDS OF INVESTMENT PERFORMANCE**INVESTMENT OBJECTIVE**

The Fund's investment objectives are expressed in terms of reward and risk expectations relative to investable, passive benchmarks. The Fund's policy benchmark is comprised of policy mix weights of appropriate asset class benchmarks as set by the SIB, and liquidity constraints give rise to an asset allocation that is considered the most likely to achieve the results desired. For evaluation purposes, the following performance targets will apply:

1. The fund's rate of return, net of fees and expenses, should at least match that of the policy benchmark over a minimum evaluation period of five years.
2. Risk, as measured by the annual standard deviation of net returns for the Fund, should not exceed that of the policy portfolio by more than 100 basis points over a minimum evaluation period of five years.
3. The risk-adjusted performance of the fund, net of fees and expenses, should at least match that of the policy benchmark over a minimum evaluation period of five years.
 - a. ~~The Fund should produce a rate of return that meets or exceeds the portfolio policy index which is comprised of appropriate asset class benchmarks as set by the SIB.~~
 - b. ~~The annual standard deviation of total returns for the Fund should not exceed that of the policy portfolio.~~

POLICY AND GUIDELINESASSET MIX

Asset allocation policy is critical because it defines the basic risk and return characteristics of the investment portfolio. Asset allocation targets are established using an asset allocation analysis designed to assist the Fund in determining an acceptable volatility target for the fund and an optimal asset allocation policy mix. This analysis estimates the potential impact of various asset class mixes on key measures of total fund risk.

After consideration of all the inputs and a discussion concerning risk tolerance, the Fund approves the appropriate policy asset mix for the Fund.

~~The asset allocation is established by the North Dakota Association of Counties with input from the SIB. Asset allocation is based upon the appraisal of projected liquidity and income requirements.~~

~~In recognition of these factors, the following allocation is deemed appropriate for the Fund.~~

<u>Asset Class</u>	<u>Policy Target(%)</u>
Large Cap Domestic Equity	45 <u>20</u>
Small Cap Domestic Equity	5
International Equity	10
Domestic Fixed Income	57 <u>62</u>
Cash Equivalents	43 <u>3</u>

While the Fund recognizes fluctuations in market values will lead to short-term deviations from policy targets, the Fund does not intend to engage in tactical asset allocation. Rebalancing of the Fund to this target will be done in accordance with the SIB's rebalancing policy, but not less than annually.~~Rebalancing of the Fund to this target will be done in accordance with the SIB's rebalancing policy.~~

RESTRICTIONS

While the SIB is responsible for establishing specific quality, diversification, restrictions, and performance objectives for the investment vehicles in which the Fund's assets will be invested, it is understood that:

- a. Futures and options may be used to hedge or replicate underlying index exposure, but not for speculation.
- b. Derivatives use will be monitored to ensure that undue risks are not taken by the money managers.

- c. No transaction shall be made which threatens the tax exempt status of the Fund.
- d. All assets will be held in custody by the SIB's master custodian or such other custodians as are acceptable to the SIB.
- e. No unhedged short sales or speculative margin purchases shall be made.
- f. Social investing is prohibited unless it meets the exclusive benefit rule, and it can be substantiated that the investment provides an equivalent or superior rate of return for a similar investment with a similar time horizon and similar risk.

For the purpose of this document, social investing is defined as the consideration of socially responsible criteria in the investment or commitment of public fund money for the purpose of obtaining an effect other than a maximized return to the Fund.

- g. Economically targeted investing is prohibited unless the investment meets the Exclusive Benefit Rule.

For the purpose of this document economically targeted investment is defined as an investment designed to produce a competitive rate of return commensurate with risk involved, as well as to create collateral economic benefits for a targeted geographic area, group of people, or sector of the economy.

Also, for the purpose of this document, the Exclusive Benefit Rule is met if the following four conditions are satisfied:

- (1) The cost does not exceed the fair market value at the time of investment.
- (2) The investment provides the Fund with an equivalent or superior rate of return for a similar investment with a similar time horizon and similar risk.
- (3) Sufficient liquidity is maintained in the Fund to permit distributions in accordance with the terms of the plan.
- (4) The safeguards and diversity that a prudent investor would adhere to are present.

Where investment characteristics, including yield, risk, and liquidity are equivalent, the Board's policy favors investments which will have a positive impact on the economy of North Dakota.

INTERNAL CONTROLS

A system of internal controls must be in place by the SIB to prevent losses of public funds arising from fraud or employee error. Such controls deemed most important are the separation of responsibilities for investment purchases from the recording of investment activity, custodial safekeeping, written confirmation of investment transactions, and established criteria for investment manager selection and monitoring. The annual financial audit must include a comprehensive review of the portfolio, accounting procedures for security transactions and compliance with the investment policy.

~~The SIB must have a system of internal controls to prevent losses of public funds arising from fraud or employee error. The controls deemed most important are the separation of responsibilities for investment purchases from the recording of investment activity, custodial safekeeping, written confirmation of investment transactions, and established criteria for investment manager selection and monitoring. The annual financial audit must include a comprehensive review of the portfolio, accounting procedures for security transactions and compliance with the investment policy.~~

EVALUATION AND REVIEW

Investment management of the Fund will be evaluated against the Fund's investment objectives. Emphasis will be placed on five year results. Evaluation should include an assessment of the continued feasibility of achieving the investment objectives and the appropriateness of the Investment Policy Statement for achieving those objectives.

Performance reports will be provided to the Fund periodically, but not less than annually. Such reports will include asset returns and allocation data as well as information regarding all significant and/or material matters and changes pertaining to the investment of the Fund, including, but not limited to:

1. A list of the advisory services managing investments for the SIB.
 2. A list of investments at market value, compared to previous reporting period, of each account managed by each advisory service.
 3. Earnings, percentage earned, and change in market value of each account's investments.
 4. Comparison of the performance of each account managed by each advisory service to other accounts under the SIB's control and to generally accepted market indicators.
 5. All material legal or legislative proceedings affecting the SIB.
 6. Compliance with this investment policy statement.
- ~~Investment management of the Fund will be evaluated against the Fund's investment objectives and investment performance standards. Evaluation will be conducted quarterly by the SIB through its review of funds participating in the Insurance Trust.~~

~~Money managers will be evaluated by the SIB quarterly. In-state meetings will be held with the money managers at least annually.~~

Approved by:

ND ASSOCIATION OF COUNTIES

STATE INVESTMENT BOARD

Mark A. Johnson
Executive Director

David Hunter
Executive Director/CIO

Date:

Date:

NORTH DAKOTA RETIREMENT AND INVESTMENT OFFICE

QUARTERLY MONITORING REPORT

Quarter Ended September 30, 2017

EXECUTIVE LIMITATIONS / STAFF RELATIONS

The Executive Limitation “Staff Relations” deals with the treatment of staff at RIO. The executive director “shall not cause or allow any condition or any communication which is unfair, undignified, or disrespectful.” This Executive Limitation lists six specific limitations that range from personnel policies to exit interviews. All the limitations are intended to protect staff from unfair, undignified, or disrespectful treatment by management.

During the past quarter, there were no exceptions to this Executive Limitation.

The Executive Director/CIO held three full office meetings and three manager meetings during the third calendar quarter of 2017 in order to promote an open and collaborative work environment while enhancing team member communication, awareness and engagement.

Darlene Roppel, TFFR Administrative Assistant, retired from RIO on July 28, 2017.

Terra Miller-Bowley, Supervisor of Audit Services, tendered her resignation on October 12, 2017, and proposed her last day of employment will be on October 31, 2017.

RIO intends to fill both positions in the next several months.

BUDGETING / FINANCIAL CONDITION**AS OF SEPTEMBER 30, 2017**

	2017-2019 BUDGET	ADJUSTED APPROPRIATION	BIENNIUM TO DATE ACTUAL	EXPENDITURES		
				BUDGET AVAILABLE	% BUDGET AVAILABLE	% OF BIENNIUM REMAINING
SALARIES AND BENEFITS	\$ 4,425,570.00	\$ 4,425,570.00	\$ 546,133.28	\$ 3,879,436.72	87.66%	87.50%
OPERATING EXPENDITURES	862,484.00	862,484.00	85,233.54	777,250.46	90.12%	87.50%
CONTINGENCY	52,000.00	52,000.00	0.00	52,000.00	100.00%	87.50%
TOTAL	<u>\$ 5,340,054.00</u>	<u>\$ 5,340,054.00</u>	<u>\$ 631,366.82</u>	<u>4,708,687.18</u>	<u>88.18%</u>	<u>87.50%</u>

EXPENDITURE REPORT

QUARTER ENDED SEPTEMBER 30, 2017

	INVESTMENT	RETIREMENT	QUARTERLY TOTALS	FISCAL YEAR TO - DATE	BIENNIUM TO - DATE
<u>CONTINUING APPROPRIATIONS</u>					
INVESTMENT EXPENDITURES (SEE ATTACHED DETAIL)	\$ 6,948,877.42	\$ 0.00	\$ 6,948,877.42	\$ 6,948,877.42	\$ 6,948,877.42
MEMBER CLAIMS					
1. ANNUITY PAYMENTS	0.00	50,470,733.02	50,470,733.02	50,470,733.02	50,470,733.02
2. REFUND PAYMENTS	0.00	1,534,527.54	1,534,527.54	1,534,527.54	1,534,527.54
TOTAL MEMBER CLAIMS	0.00	52,005,260.56	52,005,260.56	52,005,260.56	52,005,260.56
OTHER CONTINUING APPROPRIATIONS	207,148.34	125.00	207,273.34	207,273.34	207,273.34
TOTAL CONTINUING APPROPRIATIONS	7,156,025.76	52,005,385.56	59,161,411.32	59,161,411.32	59,161,411.32
<u>BUDGETED EXPENDITURES</u>					
1. SALARIES & BENEFITS					
SALARIES	198,679.75	204,197.25	402,877.00	402,877.00	402,877.00
OVERTIME/TEMPORARY	0.00	0.00	0.00	0.00	0.00
TERMINATION SALARY & BENEFITS	0.00	0.00	0.00	0.00	0.00
FRINGE BENEFITS	61,030.23	82,226.05	143,256.28	143,256.28	143,256.28
TOTAL SALARY & BENEFITS	259,709.98	286,423.30	546,133.28	546,133.28	546,133.28
2. OPERATING EXPENDITURES					
DATA PROCESSING	2,275.44	11,489.66	13,765.10	13,765.10	13,765.10
TELECOMMUNICATIONS - ISD	559.78	1,021.08	1,580.86	1,580.86	1,580.86
TRAVEL	1,384.51	2,591.04	3,975.55	3,975.55	3,975.55
IT - SOFTWARE/SUPPLIES	0.00	0.00	0.00	0.00	0.00
POSTAGE SERVICES	594.60	15,258.30	15,852.90	15,852.90	15,852.90
IT - CONTRACTUAL SERVICES	241.80	479.93	721.73	721.73	721.73
BUILDING/LAND RENT & LEASES	10,705.08	19,133.64	29,838.72	29,838.72	29,838.72
DUES & PROF. DEVELOPMENT	275.00	1,860.00	2,135.00	2,135.00	2,135.00
OPERATING FEES & SERVICES	2,166.86	2,440.36	4,607.22	4,607.22	4,607.22
REPAIR SERVICE	74.60	154.79	229.39	229.39	229.39
PROFESSIONAL SERVICES	1,052.84	2,962.16	4,015.00	4,015.00	4,015.00
INSURANCE	57.23	99.56	156.79	156.79	156.79
OFFICE SUPPLIES	38.17	306.10	344.27	344.27	344.27
PRINTING	1,034.12	4,366.02	5,400.14	5,400.14	5,400.14
PROFESSIONAL SUPPLIES & MATERIALS	0.00	0.00	0.00	0.00	0.00
MISCELLANEOUS SUPPLIES	57.58	51.50	109.08	109.08	109.08
IT EQUIPMENT UNDER \$5000	0.00	0.00	0.00	0.00	0.00
OTHER EQUIP. UNDER \$5000	847.46	1,474.34	2,321.80	2,321.80	2,321.80
OFFICE EQUIP. & FURNITURE UNDER \$5000	0.00	179.99	179.99	179.99	179.99
TOTAL OPERATING EXPENDITURES	21,365.07	63,868.47	85,233.54	85,233.54	85,233.54
3. CONTINGENCY	0.00	0.00	0.00	0.00	0.00
TOTAL BUDGETED EXPENDITURES	281,075.05	350,291.77	631,366.82	631,366.82	631,366.82
TOTAL EXPENDITURES	\$ 7,229,952.47	\$ 52,355,552.33	\$ 59,792,778.14	\$ 59,792,778.14	\$ 59,792,778.14

INVESTMENT EXPENDITURE DETAIL

FEEES PAID DURING THE QUARTER ENDED SEPTEMBER 30, 2017

FOR QUARTER ENDED 3/31/17

PENSION DEVELOPED INTERNATIONAL EQUITY POOL

Northern Trust		22,785.23
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CUSTODIAN

Northern Trust		266,456.47
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TOTAL FOR QUARTER ENDED 3/31/17

289,241.70

FOR QUARTER ENDED 6/30/17

PENSION DEVELOPED INTERNATIONAL EQUITY POOL

Northern Trust	24,191.87	
Wellington	199,432.49	
William Blair	133,975.36	
TOTAL PENSION INTERNATIONAL EQUITY		357,599.72

PENSION GLOBAL EQUITY POOL

Epoch	630,592.35	
LSV	122,908.00	
LSV - Performance Fee	445,173.00	
TOTAL PENSION GLOBAL EQUITY		1,198,673.35

PENSION BELOW INVESTMENT GRADE FIXED

Loomis Sayles		251,009.79
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PENSION INVESTMENT GRADE FIXED INCOME POOL

JP Morgan	69,213.65	
PIMCO	150,830.46	
State Street	11,069.74	
TOTAL PENSION INVESTMENT GRADE FIXED INCOME		231,113.85

PENSION LARGE CAP EQUITY POOL

Clifton S&P 500 (Performance)	41,718.00	
LA Capital	232,143.21	
TOTAL PENSION LARGE CAP EQUITY		273,861.21

PENSION SMALL CAP EQUITY POOL

Atlanta Capital	232,857.00	
Clifton (Performance Fee)	171,509.00	
TOTAL PENSION SMALL CAP EQUITY		404,366.00

PENSION REAL ESTATE

JP Morgan (Special & Strategic)		441,014.48
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PENSION INTERNATIONAL FIXED INCOME

Brandywine	146,149.31	
UBS	82,704.85	
TOTAL PENSION INTERNATIONAL FIXED INCOME		228,854.16

INSURANCE FIXED INCOME POOL

Prudential	75,321.72	
State Street	12,074.59	
Wells	122,453.63	
Western Asset	101,444.69	
TOTAL INSURANCE FIXED INCOME		311,294.63

INVESTMENT EXPENDITURE DETAIL
FEES PAID DURING THE QUARTER ENDED SEPTEMBER 30, 2017

INSURANCE LARGE CAP EQUITY POOL

Clifton (Performance Fee)	6,800.00	
LA Capital	53,845.47	
LSV	55,460.00	
TOTAL INSURANCE LARGE CAP		116,105.47

INSURANCE SMALL CAP EQUITY POOL

Clifton (Performance Fee)	85,563.00	
PIMCO RAE	25,340.05	
TOTAL INSURANCE SMALL CAP		110,903.05

INSURANCE INT'L EQUITY

LSV	74,986.00	
William Blair	68,987.15	
TOTAL INSURANCE INT'L EQUITY		143,973.15

INSURANCE DIVERSIFIED REAL ASSETS

Western Asset		36,815.77
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INSURANCE SHORT TERM FIXED

JP Morgan		17,901.71
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LEGACY FIXED INCOME

Prudential	116,416.70	
State Street	18,830.71	
Wells	184,569.60	
Western Asset	150,351.87	
TOTAL INSURANCE FIXED INCOME		470,168.88

LEGACY LARGE CAP EQUITY

Clifton (Performance Fee)	(134,313.00)	
LA Capital	228,026.88	
LSV	232,989.00	
TOTAL INSURANCE LARGE CAP		326,702.88

LEGACY SMALL CAP EQUITY

Clifton (Performance Fee)	212,781.00	
PIMCO RAE	107,687.77	
TOTAL INSURANCE SMALL CAP		320,468.77

LEGACY INT'L EQUITY

LSV	372,179.00	
William Blair	359,774.05	
TOTAL INSURANCE INT'L EQUITY		731,953.05

LEGACY DIVERSIFIED REAL ASSETS

Western Asset		99,898.72
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PERS RETIREE HEALTH INSURANCE CREDIT FUND

SEI		82,116.05
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JOB SERVICE FUND

SEI		66,039.90
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TOBACCO PREVENTION & CONTROL TRUST FUND

STATE STREET		4,479.96
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INVESTMENT EXPENDITURE DETAIL
FEES PAID DURING THE QUARTER ENDED SEPTEMBER 30, 2017

CUSTODIAN

Northern Trust		268,429.72
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CONSULTANT

Adams Street	14,575.00	
Callan	100,610.18	
Novarca	37,184.46	
TOTAL CONSULTANT		<u>152,369.64</u>

TOTAL FOR QUARTER ENDED 6/30/17	6,646,113.91
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FOR QUARTER ENDED 9/30/17

PENSION CASH

Northern Trust	<u>13,521.81</u>
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TOTAL FOR QUARTER ENDED 9/30/17	13,521.81
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TOTAL FEES PAID DURING QUARTER ENDED 9/30/2017	<u><u>6,948,877.42</u></u>
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Quarterly Report on Ends Q1:FY18

Investment Program

Ongoing due diligence conducted on the following organizations:

BlackRock (private equity)	LSV (public equity)
Cerberus (private credit)	Parametric (public equity)
JP Morgan (real estate, infrastructure)	TIR (timberland)
LA Capital (public equity)	

Preliminary due diligence conducted on the following organizations:

Bain (opportunistic credit)	MacKay Shields (core fixed income)
Baird (core fixed income)	Manulife (core fixed income)
Barings (core fixed income)	Partners Group (infrastructure)
Doubleline (multi-sector fixed income)	PIMCO (core fixed income)
IFM (infrastructure)	TPG (special situations)
IR&M (core fixed income)	Wells Montgomery (core fixed income)

At the July SIB meeting, the Board and Staff attended an offsite meeting at which Callan Associates, as part of its Callan College curriculum, presented Board education relating to capital market theory, asset allocation, the role of the fiduciary, and investment policy statements.

The Board approved the selection of PIMCO and Wells Montgomery at the August and September Board meetings, respectively, to each manage up to \$300 million core fixed income mandates on behalf of the pension trust.

Following Board approval of the selection of Ares and Cerberus to manage middle market direct lending accounts in the third fiscal quarter, Staff and counsel completed a legal contract review with both firms and commenced the implementation of both accounts in the first fiscal quarter.

As part of the restructuring of the pension trust fixed income manager structure, Staff is conducting a search for opportunistic credit managers within the non-investment grade fixed income space.

Staff is continuing the live phase of the implementation of the BlackRock Solutions Aladdin system and is currently developing reporting packages.

Staff attended meetings with the following entities: TFFR Board, PERS Board, and the NDPERS Investment Subcommittee.

Staff continues to conduct preliminary due diligence on possible managers/products for future consideration.

Staff continues to monitor each client's asset allocation monthly and makes rebalancing decisions based on rebalancing policy and cash flow requirements.

Quarterly Monitoring Report on TFFR Ends Quarter Ended September 30, 2017

Retirement Program

This report highlights exceptions to normal operating conditions.

- TFFR continues to explore and implement cost saving initiatives by utilizing more electronic communications instead of printed materials. For example, TFFR is now using email to distribute newsletters to active members, routed through their employers, which will create cost savings in printing and postage. At this time, retirees and inactive members will continue to receive newsletters in the mail.
- Employer education initiatives continue to be implemented. New Business Manager Training Sessions are held two times each year at RIO, with business managers ranking the sessions very high. Two webcasts targeted specifically for employers are now available on the TFFR website: Employer Reporting Basics and Employer Payment Plan Models.
- 2016-17 TFFR member and employer customer service rankings were very high at 3.8 (on 4.0 scale).

NDSIB Watch List

Data as of 09/30/2017

JP Morgan MBS (Pen.)		\$132,263,091	
	Returns	Index ¹	Excess
1 Year	1.07	0.30	0.77
Inception*	2.81	2.44	0.37
*Funded 09/30/2014			

UBS International Fixed (Pen.)		\$93,444,838	
	Returns	Index ²	Excess
1 Year	(3.07)	(2.42)	(0.65)
3 Year	(0.02)	0.20	(0.23)
Inception*	5.94	5.68	0.26
*Funded 07/01/1989			

¹ Bloomberg Mortgage Index

² Bloomberg Global Aggregate ex-US

Note: Return data is gross of fee due to data availability

MEMORANDUM

TO: State Investment Board (SIB)

FROM: Rebecca Dorwart, SIB Audit Committee Chair

DATE: September 22, 2017

**SUBJECT: Fiscal Year End Audit Committee Activities Update
July 1, 2016 to June 30, 2017**

The Audit Committee is a standing committee of the State Investment Board (SIB) authorized under the SIB Governance Policy B-6, Standing Committees. Its primary function is to assist the SIB in fulfilling its oversight responsibilities of the Retirement and Investment Office (RIO) internal and external audit programs, including the financial reporting process, internal controls, and compliance with laws, regulations, policies, and procedures.

The Audit Committee consists of five members selected by the SIB. Three members of the Audit Committee represent the three groups on the SIB (Teachers' Fund for Retirement (TFFR) Board, Public Employees Retirement System (PERS) Board, and elected and appointed officials). The other two members are selected from outside the SIB and will be auditors with at least a Certified Public Accountant (CPA) or Certified Internal Auditor (CIA) designation. Members of the Audit Committee for the 2016 - 2017 fiscal year were:

Rebecca Dorwart, External Member, Chair
 Mike Gessner, TFFR Board, Vice Chair/SIB Liaison
 Mike Sandal, PERS Board
 Cindy Ternes, (Workforce Safety & Insurance designee) Elected and Appointed Officials
 Joshua Wiens, External Member

The Audit Committee held four regular meetings during the fiscal year ended June 30, 2017. The meetings occurred on: September 23, 2016, November 17, 2016, February 23, 2017, and May 25, 2017.

Activities of the Audit Committee during the past year included:

- The Committee approved a July 1, 2016 through June 30, 2017 Audit Service work plan. Progress was monitored on a quarterly basis. Audit activities included:
 - Twenty-five TFFR Employer Audits including twenty-two TFFR Compliance Audits, one Not In Compliance (NIC) Review, and two Special Audits. Compliance with the definition of salary as it appears in NDCC 15-39.1-04(10) is reviewed along with service hours and eligibility.
 - Annual Benefit Payment Audit was completed. Deaths, long outstanding checks, and long term annuitants are reviewed to ensure that established policies and procedures are being adhered to by staff.
 - Three TFFR File Maintenance Audits were completed. Changes made to TFFR member account data by RIO employees are reviewed. Refunds and purchases of service credit along with member account information from Member Action Forms are also reviewed.
 - Annual Salary Verification Project was completed. Salaries and contributions reported to TFFR for the prior fiscal year for fifty randomly selected member accounts are verified.

- Executive Limitations Audit was completed. The audit determined the Executive Director/CIO's level of compliance with SIB Governance Manual Executive Limitation policies (A-1 through A-11) for the calendar year ending December 31, 2016.
 - RIO's Audit Services division provided assistance to our external audit partners, CliftonLarsonAllen, LLP, during the financial audit of the RIO as well as the GASB 68 Census Data Audits.
 - Created internship program at the request of the Executive Director/CIO and SIB Audit Committee. Internship lasted 14 weeks with time allocated between Audit Services and Retirement Services. The Supervisor of Audit Services and Retirement Program Manager were responsible for orientation, training, and ongoing support.
 - Audit Services staff continued to pursue networking and professional development opportunities via the IIA's local chapter. Staff attended bi-annual training seminars and monthly meetings which cover a variety of topics. The Supervisor of Audit Services completed the requirements for a Certified Internal Auditor (CIA) designation.
- The Committee received the results of the RIO financial audit for the fiscal year ended June 30, 2016 from independent auditors, CliftonLarsonAllen, LLP. They issued an unqualified opinion.
 - The Committee reviewed the RIO financial audit plan for fiscal year ended June 30, 2017 with independent auditors, CliftonLarsonAllen, LLP. Discussion included scope and approach for the audit to ensure complete coverage of financial information and review and approval of the Final GASB 68 Schedule Audit Report.
 - The Committee adopted a detailed audit work plan and budgeted hours for fiscal year July 1, 2017 to June 30, 2018.

The above activities support the Committee's fulfillment of its oversight responsibilities. Please inform the Committee if there are special audits or activities the Board would like to have reviewed.



BOARD LEADERSHIP

INNOVATIVE APPROACHES TO GOVERNANCE

NUMBER 153, SEPT.–OCT. 2017

www.boardleadershipnewsletter.com

How Boards Can Measure What Matters

by Caroline Oliver

The common expression “what you measure is what you get” sums up why we should be very worried about whether we are measuring the right things at management and board levels. Here, Caroline Oliver, substantially informed by her knowledge of John Carver’s Policy Governance® approach, addresses this vital issue.

IN THIS ARTICLE, I focus my thoughts at the board level. I am choosing to do so on the basis that whatever the board measures to assess its organization’s effectiveness, management is sure to be measuring, too—if they want to keep their employers happy. So what should a board be measuring?

Table 1 shows the two typical approaches in use today.

In the first approach, what is being measured is whatever comes into a given board member’s head while preparing for the board meeting or at the moment that they ask their question. In the second approach, what is being measured—in this case on a regular basis—is a few areas

thought to be critical to organizational purpose and well-being. In neither case is the board truly measuring all that matters now or in the future.

The question is, can we improve on these methods, and if so, how? I would really appreciate hearing from *Board Leadership* readers about any good methodologies they know of but will share my own perspective here.

People talk a lot about outcomes measures. This is because they recognize that doing things is not the same as achieving whatever the doing is *for*. You can be very busy and diligent, but it is all pointless unless it is producing the desired outcomes; unfortunately, if you look at the reporting received by most boards most of the time, you will find an impressive amount of doing but relative silence on what is being achieved.

In seeking outcomes reporting, however, boards must think carefully for outcomes measures are extremely powerful tools in dictating

(continued on page 2)

EVENTS

OCTOBER 4, 2017

The OnTarget Board Members: 8 Indisputable Behaviors

— Mississauga, Ontario, Canada

The “8 Behaviors” is an approach to understanding best practices in governance that aims to enable your board to:

- reduce liability,
- increase transparency,
- improve accountability, and
- improve role clarity.

For more information go to <http://cmraso.com/uw.htm>.

OCTOBER 11, 2017

Administrative Support (Board Secretary) Workshop

— Mississauga, Ontario, Canada

Designed for board secretaries (staff or board members/volunteers) who support their boards of directors by preparing and ensuring that the board’s official documents are maintained properly.

For more information go to <http://cmraso.com/uw.htm#uw2>.

OCTOBER 19, 2017

Introduction to Policy Governance

— Helena, Montana, USA

For new and continuing board members or executives of boards

(continued on page 7)

ALSO IN THIS ISSUE

USING TECHNOLOGY TO ENRICH GOVERNANCE: WHAT’S POSSIBLE NOW AND WHAT’S COMING—

PART 2 4

LONE STAR GOVERNANCE 6

Measure

(continued from front page)

organizational behavior. As the ultimate authority within any organization, when the board states its

expectations clearly, the whole organization follows. Table 2 shows some of the common pitfalls.

In John Carver's Policy Governance approach, the outcome measurement process starts with the

question, "On whose behalf does this organization exist?" These people may or may not be the same as the organization's customers but, whoever they are, they form the organization's legal ownership (if they have voting rights over the organization) or moral ownership (if the board believes their investment—in whatever form—to be equivalent to that of those with voting rights).

On behalf of this ownership, the board then determines what the organization exists to produce, for whom, and at what worth. This is the board's determination of the overall purpose of the organization (its ends) and is arrived at in appropriate consultation not only with the organization's legal and moral owners, but also with other stakeholders and staff. These ends are also usually the result of much exercise of environmental scanning and strategic foresight.

Crucially, once in place, these ends are clearly the ultimate measure of organizational success and everything else is understood to be a matter of means. Saying this is not the same as saying that means don't matter. The Policy Governance system does not suggest that all means are justified by the ends. The board cannot be satisfied with the organization achieving

Table 1: Typical Board Approaches to Assessing Organizational Performance

Type	How It Works	Pros	Cons
Personal inquiry <i>Often described as: "Asking good questions" or "Being a critical friend"</i>	Individual board members consider what questions they might like to ask the CEO about how the organization is doing and ask them.	Simple	<ul style="list-style-type: none"> • Haphazard in terms of subject and timing. • Not based on collective wisdom. • CEO often cannot respond adequately to "on the spot" inquiries. • Lack of pre-stated expectations. • No clarity about what board as a whole should do with the answers.
Key performance indicators (KPIs) <i>Often feeding into dashboards with traffic lights</i>	Using a jointly created Strategic Plan, management suggest some key measures to demonstrate progress toward plan objectives.	<ul style="list-style-type: none"> • Based on stated expectations. • Regular reporting. • Boards like to see information "at a glance." 	KPIs, like Strategic Plans, are typically a combination of matters to do with purpose and process (ends and means) and can be difficult to ascertain their respective importance. KPIs (because they focus only on "key" topics) provide only a partial picture, whereas the board is accountable for the whole picture.

WRITING FOR BOARD LEADERSHIP

Board Leadership welcomes articles from governance practitioners, researchers, and consultants on topics related to the discovery, explanation, and discussion of innovative approaches to board governance. If you have something new to say or want to provide a new perspective on something already said, please get in touch to discuss your idea further and to get a copy of our publishing criteria. Email: coliver@goodtogovern.com □

Table 2: Pitfalls in Outcomes Measurement

Issue	Impact
Lack of clarity about legitimacy of outcomes choices	Unless they are accepted as legitimate across the organization, the board's outcomes may not carry sufficient weight for effective implementation.
Perverse incentives	It is very easy to encourage negative behaviors by failing to think through the potential consequences of the outcomes you set. Such results may include executives bullying staff, "gaming" their reported numbers, or indulging in other forms of cheating. They may also take the form of the discovery that achieving the chosen outcome involves sacrificing another equally or more beneficial outcome.
Failure to deal differently with ends and means outcomes	Organizational plans and goals cover many different kinds of issues. Acquiring a new building and more staff are certainly legitimate goals that need to be planned for, but they do not constitute reasons for the organization's existence. In other words, they are means, not ends. If ends outcomes are not given clear precedence over means outcomes, it is very possible to find that the organization is unwittingly defeating its own ends in the pursuit of its means outcomes. For example, a hospital board might set an outcome that no patient should wait in the emergency department for more than four hours. However, if that means that patients simply end up waiting the extra time at the site of the accident or in the ambulance, the hospital's overall ends pertaining to optimizing health may have been defeated.

its ends if the organization has done so by means that its legal and moral owners would regard as unethical or imprudent. So, when it comes to governing the work of its organization, the board must develop and measure outcomes in two areas:

1. Are we achieving the right things for the right people at the right worth?

2. Are we avoiding the use of unacceptable means along the way?

Table 3 lists the steps followed by boards using the Policy Governance system.

I hope you have gathered from the above that outcomes measurement
(continued on page 8)

FOOD FOR THOUGHT

"In the most robust states, a common moral foundation underpins both the public and private realms. What is wrong in the private sphere is also wrong in the public sphere. In contrast, in highly corrupt places there is a sharp dichotomy between public and private morality. What is wrong in the private sphere may be right in the public sphere. The net result is that people do not feel obligated to act ethically when it comes to anything involving the state or public affairs, with severe consequences for the quality of governance. The real mechanism for corporate governance is the active involvement of the owners." □

Seth D. Kaplan, Professorial Lecturer in the Paul H. Nitze School of Advanced International Studies (SAIS) at Johns Hopkins University, Senior Adviser for the Institute for Integrated Transitions (IFIT), and consultant to organizations such as the World Bank, United Nations, African Development Bank, and USAID, writing in: *The Moral Foundations of Good Governance*, <http://www.fragilestates.org/2012/06/27/the-moral-foundations-of-good-governance/>

Using Technology to Enrich Governance: What's Possible Now and What's Coming—Part 2

by Ray Tooley

In this, the second part of his two-part article on technology in the boardroom (see Board Leadership Issue 152 for the first part), Ray Tooley, CEO of OurBoardroom Technologies continues his review of the growing number of applications designed to help boards streamline their work and looks ahead to the radical advances coming our way.

IN PART 1 of this article, I focused on what I called “Class I” tools, which can essentially be described as delivering secure, consistent, and accessible board document management. Below, in Part 2, I will describe the next wave of offerings—what I am calling “Class II.” Finally, I will offer some thoughts about the radical developments on their way as a result of artificial intelligence (AI).

Class II Applications

Class II applications provide all the functionality of Class I versions but with a critical difference. Class II applications overlay a “governance model” on top of the technology used for simple document storage-based systems. One could view a governance model itself as a “technology” because it provides a collection of techniques, skills, methods, and processes used for the accomplishment of objectives. Model-based applications inform the purpose and function of all governance activities and can result in greatly enhanced organization performance.

In Part 1 of this article, I referred to various challenges and opportunities listed that Class II applications should be able to address. For example:

- Lack of clarity about who is uploading any given document and why.

- If the purpose is “board approval,” lack of any criteria for approval.
- Documents typically being provided in PDF or Word format, which makes them noninteractive. For example, a change to a board’s published policies usually means a whole new document must be generated and posted.
- Loss of history of policy changes is lost without comparing old and new policy documents.
- Lack of clarity about the purpose of governance.
- Lack of rigorous and reasonable performance reports that deliver a high confidence of achievement.
- Lack of a comprehensive Risk Governance framework.
- Lack of all-inclusive governance process documentation and monitoring
- Content that is incidental information versus that requiring specific board decisions.
- Lack of ability to search governance documentation classified by governance purpose.

And, as with any technology, not only may one application be superior to another, one governance model may be superior to another. The introduction of the iPhone resulted in the demise of the BlackBerry, a onetime market leader. It’s therefore important

to understand what model of governance is being implemented as Class II systems become available. As far as I am aware (and please correct me if you know of other similar offerings), Policy Governance® is the only governance model currently integrated in a Class II application.

What does a Class II model-based application deliver? When implemented, a Class II application should ensure that all content has a specific governance purpose that greatly clarifies what is expected of users of the system. Governance tasks are identified, scheduled, tracked, and recorded when completed. Only essential information is transferred from the board to the organization, and then from the organization to the board, on a defined schedule. This optimization of information transfer can greatly reduce the amount of time boards spend on unnecessary document review and discussion. It provides an expert system to help board members understand and practice the model in a short period of time. Governance records such as policies, agendas, minutes, and monitoring reports become “interactive,” where document content can be updated at a more detailed level. This also makes historical content more easily referenced. One example would be where a user is viewing a minute item on a particular topic discussed at a recent meeting and can then click on a “back” button to review the last time that topic was discussed at a past meeting. By clicking “back” and “forward,” years of discussion on the topic can be reviewed without opening any PDF documents.

The only currently available Class II application, OurBoardroom, fully implements the Policy Governance model and is available at a price of \$5,500 to \$12,000 per year and up depending on organization size.

A Technology Revolution

We are currently in the midst of a technology revolution that may turn out to have the largest influence on human society ever experienced. Arti-

ficial intelligence (AI), combined with deep learning that utilizes massive data sets, is accomplishing tasks now that were barely dreamed of only a decade ago: skin cancers can be diagnosed by AI as well as highly trained dermatologists. AI-interpreted brains scans of six-month-old babies can predict autism with 96 percent accuracy. Google's AlphaGo can beat the world's best Go players consistently—no small feat considering there are numerically more positions on a 19-by-19 grid playing surface than there are atoms in the universe. More than 50 percent of the world's stock trades are now initiated by AI. AI-backed personal assistants and "smart speakers" from Apple, Google, Amazon, and Microsoft are decoding human speech and intelligently fulfilling requests.

These technologies are growing at a remarkable clip with both major companies and start-up investors throwing massive sums of money and talent at the engineering challenges to make machines smarter. For the first time we can visualize that in perhaps as little as ten years a machine will pass the Turing test (where a person cannot tell the difference between a computer and another person in discussion).

Class II governance tools will be transformed to Class III with the addition of AI that is applied to very large governance-oriented data sets with guided, reinforced, and unguided deep learning methods. This has the potential to revolutionize governance, as boards will have access to intelligently analyzed information that surpasses the combined experience of the people that make up any board.

What will AI support look like for boards? AI will comb through many thousands of comparable organizations. Model-based Class II applications will serve as the database upon which AI will be initially applied. AI will then examine the mass of information available on the Internet. With guided learning it will understand the range of performance factors for purpose definition and achievement as well as risk governance and compliance. It

will understand evidence-based levels of performance in organizations and will assess strategic and operational conditions to give humans summarized advice. This advice will be invaluable in governance decision making.

There are currently no Class III applications available for boards but I predict we will start to see AI-augmented Class II products within the next three to five years. The pricing should remain in the same range as Class I products we have today because AI tools will become inexpensive and cloud based.

In conclusion, here are some of the questions many futurists and thought leaders are asking today:

- Will AI make management redundant?
- Will AI make boards redundant?
- How will AI and smart machines change society?
- How will wealth be distributed?
- Will society need to redefine technology ownership?
- Should society tax AI and smart machines that replace human workers?
- What are the risks of machines replacing people?
- Did we have this same discussion 200 years ago at the dawn of the Industrial Revolution?

What do you think?

Appendix of Vendors of Class I, II, and III Applications

Class III, AI-based Class II applications: None available for several years

Class II, Governance model-based Class I applications:

- **OurBoardroom**
<http://www.ourboardroom.com>
 \$5,500/year and up, organization size dependent

Class I, Document management-based calendar and task applications

- **Boardbook**
<https://www.boardbook.org/Home.aspx>
 \$2,000/year School Districts,
 \$3,000/year Others

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WHEN WE SAY ...

BOARD LEADERSHIP's mission is "to discover, explain, and discuss innovative approaches to board governance with the goal of helping organizations achieve effective, meaningful, and successful leadership to fulfill their missions."

Board Leadership aims to fulfill this mission by engaging its readers in a lively and illuminating inquiry into how board governance can be made more effective. This inquiry is based on three key assumptions:

- Boards exist to lead organizations; not merely monitor them.
- Effective board governance is not about either systems, structures, processes, theories, practices, culture, or behaviors—it is about all of them.
- Significant improvements are likely to come only through challenging the status quo and trying out new ideas in theory and in practice.

Uniquely among regular publications on board governance, *Board Leadership* primarily focuses on the job of board leadership as a whole, rather than on individual elements of practice within the overall job.

Over time, *Board Leadership* will provide a repository of different approaches to governance created through its regular "One Way to Govern" feature.

Here's what a few of the key terms we use mean to us:

- **Innovative:** Creating significant positive change.
- **Approaches to:** principles, theories, ideas, methodologies, and practices.
- **Board governance:** The job of governing whole organizations. □

Lone Star Governance

by A. J. Crabill

A J. Crabill is Deputy Commissioner of Governance at the Texas Education Agency and a former Kansas City Public Schools (KCPS) board member and board chair from 2010 to 2014. In all his work, he has been inspired by Policy Governance® and is now bringing his wisdom and experience to Texas and the local evolution of a framework that has been christened “Lone Star Governance.”

Introduction

TEXAS IS HOME to more than 1,200 public school systems, operating more than 6,800 school campuses, led by more than 300,000 teachers, serving more than 5.3 million students. Thus the saying: everything’s bigger in Texas.

Even beyond the sheer magnitude of Texas, the challenge of improving student outcomes is multiplied by the extraordinary diversity of the state—from districts serving less than 200 students to districts serving more than 200,000; rural, urban, and suburban; from lush forests to unending deserts; from beachfront to hill country; politically ultraconservative to politically ultraliberal; 0 percent English language learners to 100 percent English language learners; 0 percent economically disadvantaged students to 100 percent economically disadvantaged students; and the list goes on and on.

In this context, there can be no reductionist or one-size-fits-all model for improving student outcomes either in the classroom or in the boardroom. But there can be a continuous improvement framework for organizing the local vision and values in ways that leverage the wisdom of communities and the guidance of research. In Texas, we call the continuous improvement framework for governing teams “Lone Star Governance.”

Beginnings

The Texas legislature passed a new law in 2015 that enacted much tougher sanctions—such as school closure—for low-performing schools across the

state and charged the Texas Education Agency (TEA) with enforcing them. Many people across the state feared that TEA would implement the new law irresponsibly. In response, TEA began looking for ways to honor the law in the manner of a scalpel rather than a shotgun. One solution that was favored by groups throughout Texas when asked was to, instead of immediately closing low-performing schools, provide training and technical support. This support, however, needed to be available to everyone involved. It could not be just another ham-fisted attempt to place all of the blame on teachers. From these conversations the idea of a workshop for school boards began to emerge.

Over the course of the following several months, TEA staff worked collaboratively with Texas Association of School Boards (TASB) staff, regional Education Service Center (ESC) staff, and many school board members throughout the state to test various components and ideas. All of this culminated in the creation of a rubric—the implementation integrity instrument—that school boards can use to self-evaluate their own performance relative to those school board behaviors that research suggests correlate with improvements in student outcomes. This instrument rapidly evolved into a full manual and two-day workshop, with the first workshops taking place in November 2016.

The Lone Star Governance Framework

The intention of Lone Star Governance is to provide a continuous

improvement framework for governing teams (boards in collaboration with their superintendents) that choose and commit to intensively focus on one primary objective: improving student outcomes. The centerpiece of the implementation instrument is the understanding that school system activities can be categorized as inputs, outputs, and outcomes.

Inputs are resources and activities invested in a particular program or strategy and are usually knowable at the beginning of a cycle—teachers, instructional materials, facilities, and budgets. Outputs are the result of a particular set of inputs and are usually knowable in the midst of a cycle since they are a measure of the implementation of the program or strategy—formative assessments, participation measures, and financial and operational ratios. Outcomes are the end results of the program or strategy and are usually knowable at the end of a cycle—measures of the effect on the intended beneficiary such as graduation rates, literacy rates, and numeracy rates. Research suggests that school boards that focus intensely on student outcomes, rather than primarily on inputs or adult outputs and adult outcomes, create the conditions for their students to grow faster.

Because the work of school boards is to represent the vision and values of their communities, the outcomes for students are selected by the school board. The school board then creates SMART goals—goals that are specific, measurable, attainable, results focused, and time bound—based on the outcomes they want for students. Conveniently, the school board refers to these end results as Student Outcome Goals. Once the Student Outcome Goals are selected, the school board delegates the expert work of drafting progress measures for each Student Outcome Goal to the superintendent (these are then called Goal Progress Measures or GPMs).

Examples of Student Outcome Goals adopted or considered by school systems in Texas include:

- Number of high-performing campuses will increase from 5 to X by Z.

- Percentage of students persisting in their second year postsecondary will increase from X percent to 60 percent by Z.
- Percentage of graduates having completed an associate's degree and/or been awarded an industry certification by graduation will grow from X to Y by 2021.

The next step in the process involves the school board's identifying specific behaviors or inputs that would be unacceptable for the superintendent to engage in or use. The school board then creates management limitations by adopting Constraints: specific limitations on superintendent authority that align with the vision and values of the community. By using negation language to describe specific behaviors or inputs the superintendent may not engage in, the school board actually creates more freedom and autonomy for the superintendent: instead of having to ask permission for each action, the superintendent is now preauthorized to take any reasonable action that does not violate the school board's Constraints. Once the Constraints are selected, the school board delegates the expert work of drafting progress measures for each Constraint to the superintendent (these are then called Constraint Progress Measures or CPMs).

Examples of Constraints adopted or considered by school systems in Texas include the following:

The superintendent may not allow:

- The number or percentage of students in low-performing campuses to increase or remain the same for two school years in a row.
- Teacher/principal compensation or increases to be equal across a bell curve of teacher/principal performance.
- Teachers or principals in the bottom two quartiles of performance to serve in low performing campuses.

Once the school board has adopted Student Outcome Goals and Constraints and the superintendent has provided Goal Progress Measures and Constraint Progress Measures, the school board can begin monthly progress monitoring.

Future

The Lone Star Governance big bet is this: thirty-six months after a school board has achieved and remained above 80 points (out of 100) on their quarterly self-evaluations (using the implementation integrity instrument in the Lone Star Governance manual), growth rate on the board's student outcome goals will significantly outperform the previous five-year average. To have a large enough sample size with which to measure that bet, there need to be at least twenty facilitators across the state who are certified to facilitate the Lone Star Governance two-day workshop. A large push is currently under way to recruit and train candidates for the rigorous three-month facilitator development process.

Conclusion

School boards matter and, in particular, how they focus and use their time matters. To the extent that they focus on setting Student Outcomes

Goals and monitoring progress against them each month, their efforts can be a significant driver of improvements in student outcomes. The massive quantity of school boards in Texas creates both challenge and opportunity. But as the Lone Star Governance work continues to grow, so too will the outcomes for students across the state. □

Events

(continued from front page)

using Policy Governance who want to get up to speed with, or refresh their understanding of, the governance process used by their boards as well as for board members or executives of organizations not currently using Policy Governance who would like to know how it works.

For more information go to <https://www.eply.com/IntroductiontoPolicyGovernanceHelena1910023>. □

Technology

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- **Boardpaq**
<https://www.boardpaq.com/>
\$3,600 to \$6,000/year
- **Sparked Govern**
<https://www.sparkedgovern.com>
\$1,500 initial + Free to \$3,000/year depending on users
- **Passageways**
<https://www.passageways.com>
\$4,500/year (25 users)
- **Convene**
<https://www.azeusconvene.com>
\$5,000 to \$17,500/year
- **OurBoardroom**
<http://www.ourboardroom.com>
\$5,500/year and up, organization size dependent
- **Leading Boards**
<http://leadingboards.com/en/ca/en/>
\$6,000/board/year + \$3,000 per committee/year (\$12K/year typical)
- **Directorpoint**
<http://directorpoint.com/>
\$4,500 to \$9,000 to \$13,500 per year

- **Directors Desk**
<http://business.nasdaq.com/intel/directors-desk-board-portal/index.html>
\$15,300/year
- **Boardeffect**
<http://www.boardeffect.com/board-portal>
\$9,000 to \$12,000/year depending on features
- **Boardvantage**
<http://boardvantage.com>
\$28,750/year (including discount for NFP Hospitals)
- **Diligent**
<http://diligent.com>
\$26,400/year dependent on directors, committees, administrators, + \$3,200 installation fee

Note: Best efforts have been made for accuracy, but pricing will vary depending on your organization and must be obtained directly from vendors. □

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Measure

(continued from page 3)

is a very powerful tool that needs careful use. At its best, it can lead

your organization to achieving the results it wants with greatest possible velocity. At its worst, it can leave you worse off than you were when you started. □

Table 3: Getting to Outcomes Reporting

Step 1*	The board creates ends policies setting out what must be achieved, for whom, at what worth. (Such policies might also be called Strategic Outcomes policies.)
Step 2*	The board creates Executive Limitations policies setting boundaries of ethics and prudence around the means that may be used to achieve the ends. (Such policies might also be called Risk Governance policies.)
Step 3	The board "stress tests" its policies by considering various likely and unlikely scenarios that could arise and what interpretations the CEO might be able to justify as reasonable in those circumstances. The board adjusts its policies as necessary to exclude unacceptable interpretations.
Step 4	<p>The CEO (with relevant staff) creates explicit reasonable interpretations of each board policy.</p> <p>The International Policy Governance Association (IPGA) states that an interpretation is deemed to be reasonable when it provides an operational definition that includes defensible measures and standards against which policy achievement can be assessed. ...</p> <p>Defensible measures and standards are those that:</p> <ol style="list-style-type: none"> 1. Are objectively verifiable (e.g., through research, testing, and/or credible confirmation of observable phenomena). 2. Are relevant and conceptually aligned with the policy criteria and the board's policy set. 3. Represent an appropriate level of fulfillment within the scope of the policy. <p>http://www.policygovernanceassociation.org/images/IPGA-Consistency-Framework-Committee-Report-2.pdf</p>
Step 5	The board regularly assesses organizational performance by setting a schedule by which the CEO will report on each policy as above.
Step 6	<p>The board assesses each report as follows:</p> <ul style="list-style-type: none"> • Is the interpretation reasonable (in accordance with the board's duty of care, skill and diligence)? • Is the data sufficient to support compliance?
Step 7	<p>The board acts as necessary, that is,</p> <ol style="list-style-type: none"> 1. [In the case of a report of compliance] Accepting the interpretation as reasonable and the data as sufficient to support compliance[†] OR 2. Deeming the report to be insufficient to enable compliance to be judged and requiring resubmission with adequate interpretation or data or both. OR 3. [In the case of a report of noncompliance] Requiring compliance to be established by a certain date (and possibly establishing interim reporting).

* Some boards find it helpful to tackle Step 2 first.

† To achieve greatest possible economy of policy language, the board starts by creating all-encompassing statements in each category and subcategory and then moves down in specificity level by level until it reaches the level at which it is willing to accept "any reasonable interpretation" of what it has already said.

BOARD LEADERSHIP

INNOVATIVE APPROACHES TO GOVERNANCE

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