North Dakota State Investment Board

ND STATE INVESTMENT BOARD MEETING

Friday, January 26, 2018, 8:30 a.m.
State Capitol, Peace Garden Room
600 E Blvd, Bismarck, ND

AGENDA

I. CALL TO ORDER AND ACCEPTANCE OF AGENDA

II. ACCEPTANCE OF MINUTES (November 17, 2017)

III. INVESTMENTS, GOVERNANCE & EDUCATION (enclosed) (2 hours)*

A. Asset and Performance Overview – Mr. Hunter *Informational*
B. SIB Governance Discussion Points – Mr. Hunter *Informational*
C. Fiduciary Trends in Public Pension Plan Governance – Ms Jeanna Cullins *Education*
D. SIB Governance Affirmation or Amendment – Mr. Hunter and Ms. Cullins **Board Action**
E. Appointment of SIB Securities Litigation Committee – Mr. Hunter **Board Action**
F. 2018-19 Board Meeting Schedule - Mr. Hunter **Board Action**
G. Investment Policy Statements - Mr. Hunter **Board Action**

* *The proposed "Break" time may be altered to accommodate the required length of board, consultant and staff discussion.*

======================== * Break from 10:30 to 10:45 a.m.* ==========================

H. RIO Employee Survey Results – Mr. Hunter (5 minutes)
I. Environmental, Social and Governance Update – Mr. Hunter (10 minutes)

IV. QUARTERLY MONITORING (enclosed) (10 min) **Board Acceptance**

A. Budget and Financial Condition - Ms. Flanagan
B. Executive Limitations / Staff Relations - Mr. Hunter
C. Investment Program - Mr. Schulz
D. Retirement Program - Ms. Kopp
E. Watch List Update - Mr. Schulz

V. OTHER

Next Meetings: SIB Audit Committee meeting - February 22, 2018, 3:00 p.m. - Retirement and Investment Office
SIB meeting - February 23, 2018, 8:30 a.m. - State Capitol, Peace Garden Room

VI. ADJOURNMENT

An individual who requires an auxiliary aid or service may contact the Retirement and Investment Office at 701-328-9885 at least three (3) days prior to the scheduled meeting.

NORTH DAKOTA STATE INVESTMENT BOARD
MINUTES OF THE
NOVEMBER 17, 2017, BOARD MEETING

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

MEMBERS ABSENT: Jon Godfread, Insurance Commissioner

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
Cody Schmidt, Compliance Officer
Darren Schulz, Dep CIO
Susan Walcker, Invt Acct

OTHERS PRESENT: Alex Browning, Callan Associates
Rich Dabrowski, Mercer
Jeff Engleson, Dept of Trust Lands
Levi Erdmann, Dept of Trust Lands
Paul Erlendson, Callan Associates
Emily Fortin, Financial Recovery Technologies
Michael McGowan, Mercer
John Menard, Financial Recovery Technologies
Richard Piccirillo, Prudential
Peter Taggart, Prudential

CALL TO ORDER:

Mr. Rob Lech, Vice Chair, called the State Investment Board (SIB) regular meeting to order at 8:30 a.m. on Friday, November 17, 2017, at the State Capitol, Peace Garden Room, Bismarck, ND.

AGENDA:

IT WAS MOVED BY MR. GESSNER AND SECONDED BY MS. SMITH AND CARRIED BY A VOICE VOTE TO ACCEPT THE AGENDA FOR THE NOVEMBER 17, 2017, MEETING.

AYES: COMMISSIONER GAEBE, MR. GESSNER, MS. SMITH, MR. MILLER, MR. LECH, MR. OLSON, TREASURER SCHMIDT, AND LT. GOVERNOR SANFORD
NAYS: NONE
MOTION CARRIED
ABSENT: COMMISSIONER GODFREAD, MS. TERNES, MR. SEIBEL

MINUTES:

IT WAS MOVED BY MR. OLSON AND SECONDED BY COMMISSIONER GAEBE AND CARRIED BY A VOICE VOTE TO ACCEPT THE MINUTES OF THE OCTOBER 27, 2017, MEETING AS DISTRIBUTED.

AYES: MR. GESSNER, COMMISSIONER GAEBE, MS. SMITH, TREASURER SCHMIDT, MR. LECH, MR. OLSON, MR. MILLER, AND LT. GOVERNOR SANFORD
NAYS: NONE
MOTION CARRIED
ABSENT: COMMISSIONER GODFREAD, MR. SEIBEL, MS. TERNES

INVESTMENTS:

Asset and Performance Overview – Mr. Hunter highlighted SIB clients' assets under management as of September 30, 2017. Assets under management grew by approximately 8.8 percent or $1.04 billion due to the Legacy Fund and Pension Trust asset growth of $891 million and $598 million, respectively. SIB assets totaled approximately $12.8 billion based on unaudited valuations.

The Legacy Fund generated a net return of 11.4% last year, exceeding its policy benchmark. During the last 5-years, the Legacy Fund earned a net annualized return of 5.3%, exceeding the performance benchmark of 4.3%.

The Pension Trust posted a net return of 13% in the last year. During the last 5 years, the Pension Trust generated a net annualized return of 9%, exceeding the performance benchmark of less than 8%.

The Insurance Trust generated a net return of 7.9% in the last year. During the last 5-years, the Insurance Trust posted a net annualized return of 5.3%, exceeding the performance benchmark of 3.9%.

Every Pension Trust client posted positive excess returns for the 5-years, while adhering to approved risk levels and generating at least 0.50% of positive risk adjusted excess return (over the last 5-years).

Every Non-Pension Trust client generated positive excess return and positive risk adjusted excess returns for the 5-years, with two exceptions - the PERS Retiree Health Insurance Credit Fund and PERS Group Insurance.

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

Fixed Income – Mr. Schulz updated the SIB on the status of the US Core Fixed Income mandate. At the SIB's September 22, 2017, meeting the SIB authorized staff to engage Wells Capital's, Montgomery Subsidiary, to manage a US Core Fixed Income Mandate in the Pension Trust. Since that time, RIO personnel have learned that several staff departures have occurred including the co-head senior portfolio manager. RIO personnel then opted to change course and recommend Prudential Global Investment Management to manage the mandate. Prudential currently manages Core Plus mandates on behalf of the Insurance Trust and Legacy Fund.

Prudential Global Investment Management representatives reviewed the firm's core fixed income strategy.

After the review and discussion,

IT WAS MOVED BY COMMISSIONER GAEBE AND SECONDED BY MS. TERNES AND CARRIED BY A ROLL CALL VOTE TO RESCIND THE BOARD'S ACTION FROM THEIR SEPTEMBER 22, 2017, MEETING WHEREBY THE BOARD ACCEPTED STAFF RECOMMENDATION TO ENGAGE WELLS CAPITAL'S, MONTGOMERY SUBSIDIARY, TO MANAGE A US CORE FIXED INCOME MANDATE (UP TO $300 MILLION) IN THE PENSION TRUST AND INSTEAD ENGAGE PRUDENTIAL GLOBAL INVESTMENT MANAGEMENT, PER STAFF RECOMMENDATION.

AYES: MR. OLSON, MR. GESSNER, MR. MILLER, MS. SMITH, MR. SEIBEL, MS. TERNES, COMMISSIONER GAEBE, MR. LECH, TREASURER SCHMIDT, AND LT. GOVERNOR SANFORD
NAYS: NONE
MOTION CARRIED
ABSENT: COMMISSIONR GODFREAD
MOTION CARRIED

Infrastructure – At the SIB's October 27, 2017, meeting the SIB authorized RIO personnel to proceed with an infrastructure consultant search to assist staff in identifying one to two infrastructure managers to complement existing infrastructure mandates with JP Morgan and Grosvenor. Mr. Hunter reviewed with the board the due diligence work staff had undertaken during the past six months to identify a firm to assist in the search. Staff recommended Mercer to assist in the search.

Mercer representatives reviewed their infrastructure resource capabilities.

After discussion,

IT WAS MOVED BY MS. TERNES AND SECONDED BY MR. GESSNER AND CARRIED BY A ROLL CALL VOTE TO ACCEPT STAFF RECOMMENDATION AND ENGAGE MERCER TO ASSIST RIO PERSONNEL IN CONDUCTING A SEARCH TO IDENTIFY ONE TO TWO INFRASTRUCTURE MANAGERS WHICH WOULD PROVIDE COMPLEMENTARY EXPOSURES TO EXISTING INVESTMENT PORTFOLIOS.

AYES: MS. TERNES, MR. OLSON, TREASURER SCHMIDT, COMMISSIONER GAEBE, MR. SEIBEL, MR. LECH, MR. MILLER, MS. SMITH, MR. GESSNER, AND LT. GOVERNOR SANFORD
NAYS: NONE
MOTION CARRIED
ABSENT: COMMISSIONER GODFREAD

The Board recessed at 10:16 a.m. and reconvened at 10:30 a.m.

Callan Investment Review – Callan representatives reviewed the performance evaluation of the Pension Trust, Insurance Trust, and Legacy Fund for the quarter ending September 30, 2017. After the review,

IT WAS MOVED BY MR. GESSNER AND SECONDED BY MR. OLSON AND CARRIED BY A ROLL CALL VOTE TO ACCEPT THE RESULTS OF THE PERFORMANCE EVALUATION REVIEW OF THE PENSION TRUST, INSURANCE TRUST, AND LEGACY FUND FOR THE PERIOD ENDING SEPTEMBER 30, 2017.

AYES: MS. TERNES, MR. OLSON, MR. MILLER, TREASURER SCHMIDT, MR. GESSNER, MS. SMITH, COMMISSIONER GAEBE, MR. LECH, MR. SEIBEL, AND LT. GOVERNOR SANFORD
NAYS: NONE
MOTION CARRIED
ABSENT: COMMISSIONER GODFREAD

GOVERNANCE:

RIO Financial Audit Report – Mr. Hunter informed the board the SIB Audit Committee received RIO's Financial Audit Report for the period ending June 30, 2017, by CliftonLarsonAllen (CLA). CLA issued a clean opinion.

IT WAS MOVED BY MR. SEIBEL AND SECONDED BY MS. SMITH AND CARRIED BY A VOICE VOTE TO ACCEPT THE RESULTS OF RIO'S FINANCIAL AUDIT REPORT FOR THE PERIOD ENDING JUNE 30, 2017.

AYES: MR. LECH, TREASURER SCHMIDT, MR. OLSON, COMMISSIONER GAEBE, MR. SEIBEL, MR. MILLER, MR. GESSNER, MS. SMITH, MS. TERNES, LT. GOVERNOR SANFORD
NAYS: NONE
MOTION CARRIED
ABSENT: COMMISSIONER GODFREAD

Securities Litigation – At the SIB's August 26, 2016, meeting, the SIB authorized staff to identify a third party firm whom they could enter into a contract with to review the Northern Trust's class action claims filing process. Staff identified Financial Recovery Technologies (FRT) and the firm completed the review in May 2017 and confirmed that Northern Trust has been providing excellent service for U.S. cases.

FRT representatives, Mr. Menard and Ms. Fortin, reviewed the firm's securities litigation monitoring and claims filing services.

After the review,

IT WAS MOVED BY TREASURER SCHMIDT AND SECONDED BY MR. SEIBEL AND CARRIED BY A ROLL CALL VOTE TO ENTER INTO EXECUTIVE SESSION PURSUANT TO NDCC §44-04-18.4(1), §44-04-10.1(9), AND §44-04-19.2 TO DISCUSS CONFIDENTIAL COMMERCIAL AND FINANCIAL INFORMATION AND PROVIDE CONTRACT NEGOTIATING INSTRUCTIONS TO ITS ATTORNEY OR NEGOTIATOR.

AYES: TREASURER SCHMIDT, MR. GESSNER, MS. TERNES, COMMISSIONR GAEBE, MS. SMITH, MR. LECH, MR. MILLER, MR. SEIBEL, MR. OLSON
NAYS: NONE
MOTION CARRIED
ABSENT: COMMISSIONER GODFREAD, LT. GOVERNOR SANFORD

The SIB entered into Executive Session at 11:38 a.m. The SIB, RIO personnel, and FRT representatives were present.

The SIB entered into Open Session at 11:53 a.m.

After further discussion,

IT WAS MOVED BY TREASURER SCHMIDT AND SECONDED BY MR. OLSON AND CARRIED BY A ROLL CALL VOTE TO ACCEPT STAFF RECOMMENDATION AND ENGAGE FINANCIAL RECOVERY TECHNOLOGIES TO PROVIDE COMPREHENSIVE GLOBAL SECURITIES LITIGATION MONITORING AND CLAIM RECOVERY SERVICES.

AYES: MS. SMITH, MR. MILLER, MR. OLSON, MR. GESSNER, MR. LECH, MR. SEIBLE, MS. TERNES, COMMISSINER GAEBE, AND TREASURER SCHMIDT
NAYS: NONE
MOTION CARRIED
ABSENT: COMMISSIONER GODFREAD, LT. GOVERNOR SANFORD

Governance – Mr. Hunter reviewed SIB governance discussion points for the SIB's consideration. The Board deferred action until the January 26, 2018, meeting when Ms. Jeanna Cullins, Aon Hewitt, will provide further board governance education.

The SIB did, however, take action on appointment of a Special Assistant Attorney General. Given the rapid growth of the SIB's investment program, the substantial increase in assets under management, and the corresponding increase in the complexity of the investment opportunities and agreements over the last six years, legal counsel and RIO personnel recommended the SIB request the appointment of a Special Assistant Attorney General (outside counsel) by the Attorney General's Office to assist RIO staff and RIO's designated Assistant Attorney General with legal review of future investment management contracts.

IT WAS MOVED BY MS. TERNES AND SECONDED BY TREASURER SCHMIDT AND CARRIED BY A ROLL CALL VOTE TO REQUEST FROM THE ATTORNEY GENERAL'S OFFICE THE APPOINTMENT OF A SPECIAL ASSISTANT ATTORNEY GENERAL (OUTSIDE COUNSEL) TO ASSIST RIO AND RIO'S DESIGNATED ASSISTANT ATTORNEY WITH LEGAL REVIEWS OF THE SIB'S INVESTMENT MANAGEMENT CONTRACTS.

For clarification purposes, the Special Assistant Attorney General will be appointed by the Attorney General's Office on a case by case basis. Mr. Seibel will be overseeing the appointments.

AYES: TREASURER SCHMIDT, MR. SEIBEL, MR. OLSON, COMMISSIONER GAEBE, MR. LECH, MR. MILLER, MR. GESSNER, MS. SMITH, AND MS. TERNS
NAYS: NONE
MOTION CARRIED
ABSENT: COMMISSIONER GODFREAD, LT. GOVERNOR SANFORD

OTHER:

The next regular meeting of the SIB is scheduled for January 26, 2018, at 8:30 a.m. at the State Capitol, Peace Garden Room.

The next regular meeting of the SIB Audit Committee is scheduled for February 22, 2018, at 3:00 p.m. at the Retirement and Investment Office.

Commissioner Gaebe's last meeting as Commissioner of Trust Land's was the November 17, 2017, meeting. Mr. Lech, on behalf of the SIB, thanked Commissioner Gaebe for all of his work, guidance, and leadership and wished him well. Commissioner Gaebe has been serving on the SIB since December 15, 2010.

ADJOURNMENT:

With no further business to come before the SIB, Mr. Lech adjourned the meeting at 12:13 p.m.

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Mr. Rob Lech, Vice Chairman
State Investment Board

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Bonnie Heit
Assistant to the Board

Informational Purposes Only

Asset and Performance Overview

January 19, 2018

NOTE: This Asset and Performance Overview was largely reviewed at our last SIB meeting. RIO notes that pages 11 to 16 were refreshed for **Governance Education** purposes.

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)

State Investment Board – Client Assets Under Management

As of 9/30/17, 6/30/17 and 9/30/16

Fund Name	Market Values as of 9/30/17 [1]	Market Values as of 6/30/17 [1]	Market Values as of 9/30/16 [1]
Pension Trust Fund			
Public Employees Retirement System (PERS)	2,882,780,029	2,781,347,058	2,548,430,036
Teachers' Fund for Retirement (TFFR)	2,387,906,588	2,318,214,334	2,144,533,865
City of Bismarck Employees Pension	95,026,968	91,954,165	85,179,534
City of Grand Forks Employees Pension	64,381,330	63,392,384	58,778,547
City of Bismarck Police Pension	39,465,200	38,136,784	35,180,238
Grand Forks Park District	6,374,760	6,160,568	5,834,315
Subtotal Pension Trust Fund	**5,475,934,876**	**5,299,205,292**	**4,877,936,536**
Insurance Trust Fund			
Workforce Safety & Insurance (WSI)	1,923,540,134	1,894,614,791	1,860,023,835
City of Fargo FargoDome Permanent Fund	43,138,744	41,634,918	35,386,219
Budget Stabilization Fund	38,450,912	6,127,844	578,309,532
PERS Group Insurance Account	35,409,719	37,500,315	37,239,691
State Fire and Tornado Fund	22,024,834	22,008,326	24,853,937
Petroleum Tank Release Compensation Fund	6,453,583	6,396,410	7,214,431
State Risk Management Fund	5,418,039	5,781,003	6,208,850
State Risk Management Workers Comp Fund	5,187,082	5,534,628	5,680,663
ND Association of Counties (NDACo) Fund	5,108,131	4,383,920	4,167,501
State Bonding Fund	3,406,523	3,374,399	3,329,117
ND Board of Medicine	2,215,578	2,179,911	2,248,565
Insurance Regulatory Trust Fund	1,209,577	5,289,164	1,232,868
Bismarck Deferred Sick Leave Account	717,066	698,131	661,908
Cultural Endowment Fund	443,012	431,470	398,147
Subtotal Insurance Trust Fund	**2,092,722,934**	**2,035,955,230**	**2,566,955,264**
Legacy Trust Fund			
Legacy Fund	4,960,721,538	4,687,963,729	4,070,189,950
PERS Retiree Insurance Credit Fund	120,668,531	116,150,947	105,505,466
Job Service of North Dakota Pension	97,583,404	97,332,820	96,325,192
ND Tobacco Prevention and Control Trust Fund	57,850,830	57,462,736	52,785,217
Total Assets Under SIB Management	**12,805,482,113**	**12,294,070,754**	**11,769,697,625**

[1] *Market values are unaudited and subject to change.*

- SIB client assets grew by approximately 8.8% (or $1.04 billion) for the 1-year ended September 30, 2017, due to Legacy Fund and Pension Trust asset growth of $891 million and $598 million, respectively.
- The Pension Trust posted a net return of 13% in the last year. During the last 5-years, the Pension Trust generated a net annualized return of 9%, exceeding the performance benchmark of less than 8%.
- The Insurance Trust generated a net return of 7.9% in the last year. During the last 5-years, the Insurance Trust posted a net annualized return of 5.3%, exceeding the performance benchmark of 3.9%.
- Legacy Fund generated a net return of 11.4% last year, exceeding its policy benchmark. During the last 5-years, Legacy Fund earned a net annualized return of 5.3%, exceeding the performance benchmark of 4.3%.
- SIB client assets totaled approximately $12.8 billion as of September 30, 2017, based on unaudited valuations.

Investment Performance Evaluation – Sep. 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-years).

TFFR and PERS each earned over 9% for the 5-years ended September 30, 2017. Global equities were the primary performance driver and gained 11% over the last 5-years with U.S. Equities up 14.5% and International Equity up 9%. Private equity returns were disappointing at less than 1% the last 5-year. Fixed Income was our #1 generator of excess return and earned 4.1% per annum over the last 5-years with U.S. Fixed Income up 5.1% and International Debt down 0.7%. Global Real Assets also performed well and gained over 8% per annum for the 5-years ended September 30, 2017, with Real Estate up 12% and Infrastructure up 6%, while Timber returns were disappointing at less than 1% per annum 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 September 30, 2017, with two exceptions for the PERS Retiree Health Insurance Credit Fund and PERS Group Insurance.

Legacy Fund earned over 11% for the 1-year ended Sep. 30, 2017, which translates into $490 million of net investment income (including unrealized gains). Legacy Fund's U.S. Equity portfolio earned nearly 19% last year, while International Equities earned nearly 22%. U.S. Fixed Income also performed well with a 3.2% return versus 0.07% for the Bloomberg Aggregate Index. Diversified Real Assets and Real Estate returns exceeded their performance benchmarks and earned approximately 1% and 7%, respectively, in the last year. Our second largest non-Pension Trust client, WSI, also generated strong returns by earning approximately 7.9% and 6.7% for the 1- and 5-years ended September 30, 2017, respectively.

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

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

Note: Current year returns are unaudited and subject to change.

Pension Trust Return & Risk Summary – **Sep. 30, 2017**

<u>KEY POINT for Returns and Risk</u>: Every Pension Trust client portfolio generated positive "Excess Return" for the 3- and 5-year periods ended September 30, 2017, while adhering to prescribed risk levels (e.g. within 115% of the Policy Benchmark for the 5-years ended 9/30/2017).

	Current FYTD 9/30/2017	1 Yr Ended 9/30/2017	3 Yrs Ended 9/30/2017	5 Yrs Ended 9/30/2017	Risk 5 Yrs Ended 9/30/2017	Risk Adj Excess Return 5 Yrs Ended 9/30/2017
PERS						
Total Fund Return - Net	3.87%	13.26%	7.23%	9.04%	4.8%	0.55%
Policy Benchmark Return	3.06%	11.29%	6.27%	7.98%	4.5%	
Excess Return	0.80%	1.97%	0.96%	1.06%	106%	
TFFR						
Total Fund Return - Net	3.80%	13.05%	7.17%	9.05%	4.8%	0.57%
Policy Benchmark Return	3.10%	11.18%	6.23%	7.98%	4.5%	
Excess Return	0.70%	1.87%	0.94%	1.07%	106%	
BISMARCK EMPLOYEES						
Total Fund Return - Net	3.35%	11.58%	6.75%	8.27%	4.1%	0.59%
Policy Benchmark Return	2.77%	9.51%	5.86%	7.11%	3.9%	
Excess Return	0.58%	2.08%	0.89%	1.15%	108%	

Note: Amounts are unaudited and subject to change.

Pension Trust Return & Risk Summary – **Sep. 30, 2017**

	Current FYTD 9/30/2017	1 Yr Ended 9/30/2017	3 Yrs Ended 9/30/2017	5 Yrs Ended 9/30/2017	Risk 5 Yrs Ended 9/30/2017	Risk Adj Excess Return 5 Yrs Ended 9/30/2017
BISMARCK POLICE						
Total Fund Return - Net	3.49%	12.19%	6.86%	8.51%	4.5%	0.54%
Policy Benchmark Return	2.93%	10.39%	6.04%	7.45%	4.2%	
Excess Return	0.56%	1.81%	0.81%	1.06%	107%	
JOB SERVICE						
Total Fund Return - Net	1.45%	6.19%	5.54%	7.20%	3.7%	0.68%
Policy Benchmark Return	1.77%	7.42%	4.87%	5.99%	3.4%	
Excess Return	-0.32%	-1.23%	0.67%	1.21%	108%	
GRAND FORKS						
Total Fund Return - Net	3.69%	12.94%	6.99%	8.97%	4.9%	0.54%
Policy Benchmark Return	3.19%	11.58%	6.40%	8.13%	4.7%	
Excess Return	0.50%	1.36%	0.59%	0.85%	104%	
GRAND FORKS PARK DISTRICT						
Total Fund Return - Net	3.75%	13.01%	7.10%	9.26%	4.9%	0.76%
Policy Benchmark Return	3.13%	11.67%	6.34%	8.29%	4.7%	
Excess Return	0.62%	1.34%	0.75%	0.97%	102%	

Risk Adjusted Excess Returns for the 5-years ended June 30, 2017, were positive for all Pension Trust clients ranging from 0.55% for PERS to 0.76% for City of Grand Forks Park District.

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.

Note: Current year returns are unaudited and subject to change.

Non-Pension Trust Return & Risk Summary – **Sep. 30, 2017**

	Current FYTD 9/30/2017	1 Yr Ended 9/30/2017	3 Yrs Ended 9/30/2017	5 Yrs Ended 9/30/2017	Risk 5 Yrs Ended 9/30/2017	Risk Adj Excess Return 5 Yrs Ended 9/30/2017
WSI						
Total Fund Return - Net	2.44%	7.89%	6.02%	6.69%	3.16%	1.38%
Policy Benchmark Return	2.04%	5.26%	4.67%	4.83%	2.92%	
Excess Return	0.40%	2.64%	1.36%	1.86%	OK	
LEGACY FUND						
Total Fund Return - Net	3.64%	11.42%	7.26%	5.34%	4.03%	0.50%
Policy Benchmark Return	3.14%	9.69%	6.01%	4.34%	3.64%	
Excess Return	0.51%	1.73%	1.25%	1.00%	OK	
BUDGET STABILIZATION						
Total Fund Return - Net	0.38%	0.76%	1.58%	1.56%	0.64%	0.53%
Policy Benchmark Return	0.33%	0.69%	0.98%	0.73%	0.50%	
Excess Return	0.06%	0.07%	0.61%	0.83%	OK	
FIRE & TORNADO FUND						
Total Fund Return - Net	2.86%	8.98%	6.31%	7.28%	3.57%	0.84%
Policy Benchmark Return	2.25%	6.53%	4.90%	5.57%	3.13%	
Excess Return	0.60%	2.45%	1.41%	1.70%	OK	

KEY POINT for Returns and Risk: Thirteen out of Fifteen Non-Pension Trust clients generated positive Excess Return and Risk Adjusted Excess Return for the 5-year period ended Sep.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.

Note: Current year returns are unaudited and subject to change.

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

	Current FYTD 9/30/2017	1 Yr Ended 9/30/2017	3 Yrs Ended 9/30/2017	5 Yrs Ended 9/30/2017	Risk 5 Yrs Ended 9/30/2017	Risk Adj Excess Return 5 Yrs Ended 9/30/2017
STATE BONDING FUND						
Total Fund Return - Net	0.95%	2.35%	2.67%	2.53%	1.84%	1.11%
Policy Benchmark Return	0.59%	0.36%	1.64%	1.24%	1.70%	
Excess Return	0.36%	1.99%	1.03%	1.28%	OK	
INSURANCE REG.TRUST						
Total Fund Return - Net	2.32%	7.16%	4.69%	5.56%	2.93%	0.43%
Policy Benchmark Return	1.91%	5.74%	3.86%	4.49%	2.58%	
Excess Return	0.41%	1.43%	0.84%	1.07%	OK	
PETROL.TANK RELEASE						
Total Fund Return - Net	0.90%	2.22%	2.46%	2.32%	1.68%	1.01%
Policy Benchmark Return	0.56%	0.37%	1.52%	1.15%	1.55%	
Excess Return	0.34%	1.85%	0.94%	1.17%	OK	
RISK MANAGEMENT FUND						
Total Fund Return - Net	2.51%	8.05%	6.56%	7.41%	3.23%	1.10%
Policy Benchmark Return	2.00%	5.60%	5.18%	5.61%	2.92%	
Excess Return	0.50%	2.45%	1.38%	1.80%	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 September 30, 2017, including Excess Returns of 1.07% or more.

Note: Current year returns are unaudited and subject to change.

Non-Pension Trust Return & Risk Summary – **Sep. 30, 2017**

	Current FYTD 9/30/2017	1 Yr Ended 9/30/2017	3 Yrs Ended 9/30/2017	5 Yrs Ended 9/30/2017	Risk 5 Yrs Ended 9/30/2017	Risk Adj Excess Return 5 Yrs Ended 9/30/2017
RISK MGMT. WORKERS COMP						
Total Fund Return - Net	2.76%	9.16%	7.13%	8.23%	3.60%	1.07%
Policy Benchmark Return	2.29%	6.91%	5.84%	6.50%	3.31%	
Excess Return	0.46%	2.26%	1.30%	1.72%	OK	
NDAC						
Total Fund Return - Net	2.62%	7.96%	5.77%	6.57%	3.30%	0.79%
Policy Benchmark Return	2.04%	5.61%	4.40%	4.91%	2.84%	
Excess Return	0.58%	2.35%	1.37%	1.66%	OK	
BISMARCK DEFERRED SICK LEAVE						
Total Fund Return - Net	2.75%	8.48%	6.23%	7.00%	3.47%	0.98%
Policy Benchmark Return	2.08%	5.56%	4.60%	5.06%	2.98%	
Excess Return	0.66%	2.92%	1.63%	1.94%	OK	
FARGODOME						
Total Fund Return - Net	3.62%	11.61%	7.35%	8.84%	4.78%	0.94%
Policy Benchmark Return	3.04%	9.46%	6.03%	7.25%	4.42%	
Excess Return	0.57%	2.15%	1.32%	1.59%	OK	

SIB Client Commentary:

The State Risk Management Workers Compensation Fund, North Dakota Association of Counties, City of Bismarck Deferred Sick Leave Account and Fargo Dome Permanent Fund have all posted positive Risk Adjusted Excess Returns for the 5-years ended Sep. 30, 2017, including Excess Returns of 1.59% or more.

Note: Current year returns are unaudited and subject to change.

Non-Pension Trust Return & Risk Summary – **Sep. 30, 2017**

	Current FYTD 9/30/2017	1 Yr Ended 9/30/2017	3 Yrs Ended 9/30/2017	5 Yrs Ended 9/30/2017	Risk 5 Yrs Ended 9/30/2017	Risk Adj Excess Return 5 Yrs Ended 9/30/2017
CULTURAL ENDOWMENT						
Total Fund Return - Net	3.56%	12.30%	8.27%	10.04%	4.77%	0.84%
Policy Benchmark Return	3.13%	10.66%	7.11%	8.55%	4.46%	
Excess Return	0.43%	1.65%	1.17%	1.49%	OK	
BOARD OF MEDICINE						
Total Fund Return - Net	1.65%	5.11%	3.95%			
Policy Benchmark Return	1.41%	4.30%	3.04%			
Excess Return	0.24%	0.81%	0.92%			
PERS RETIREE HEALTH						
Total Fund Return - Net	3.50%	11.68%	6.71%	8.52%	5.18%	-0.63%
Policy Benchmark Return	3.27%	11.21%	6.98%	8.59%	4.83%	
Excess Return	0.23%	0.47%	-0.27%	-0.06%	OK	
PERS GROUP INSURANCE						
Total Fund Return - Net	0.39%	0.41%	0.65%	0.44%	0.59%	-0.06%
Policy Benchmark Return	0.35%	0.69%	0.76%	0.49%	0.54%	
Excess Return	0.05%	-0.28%	-0.11%	-0.05%	OK	
TOBACCO CONTROL & PREVENTION						
Total Fund Return - Net	0.67%	2.01%				
Policy Benchmark Return	0.69%	2.02%				
Excess Return	-0.02%	-0.01%				

SIB Client Specific Commentary:

The Cultural Endowment Fund has generated the highest absolute level of net investment returns (of 10.04%) over the last 5-years.

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

PERS Retiree Health absolute returns have been reasonable the last 5-years (8.52%) but disappointing on a risk adjusted basis.(-0.63%). We are re-examining SEI's benchmarks and risk and return profile.

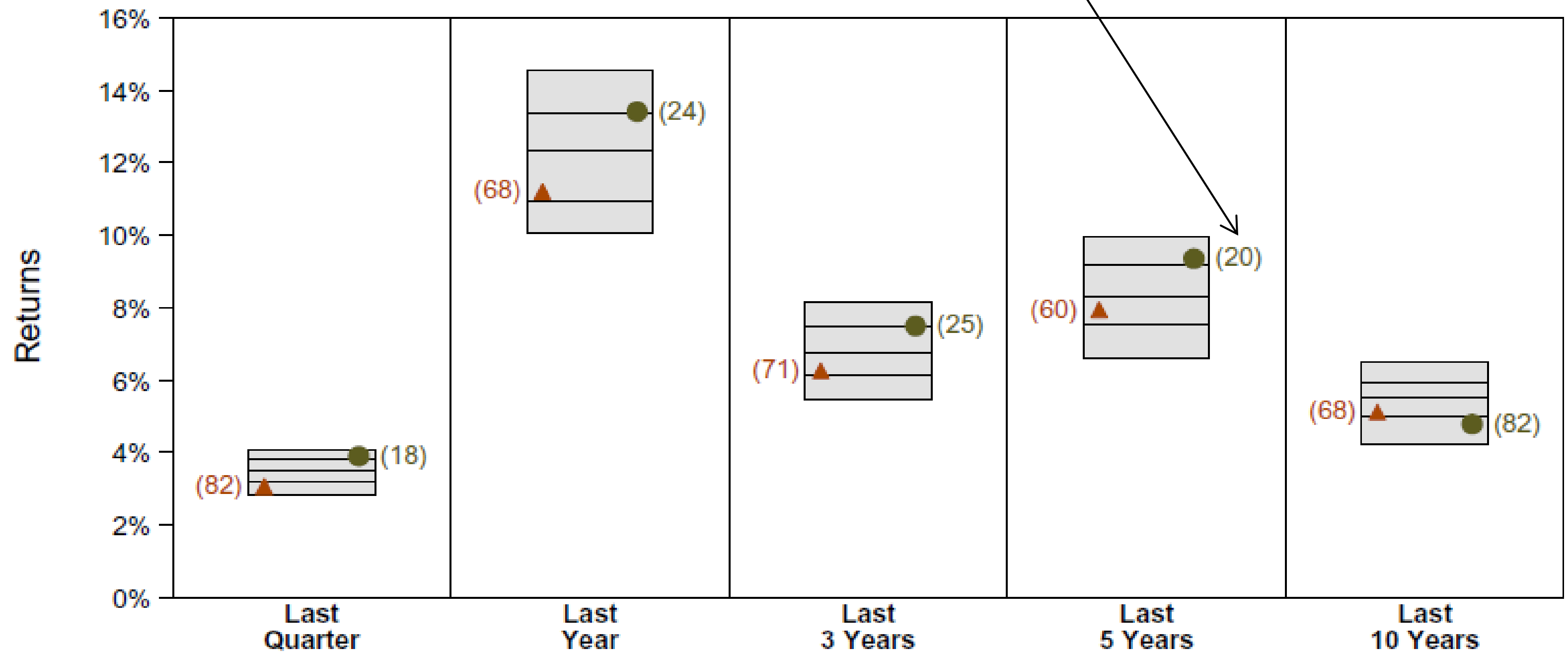
PERS Group Insurance returns for the fiscal year ended Sep. 30, 2017 is disappointing but within -0.05% to -0.06% of the Policy Benchmark over the last 5-years.

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

Note: Current year returns are unaudited and subject to change.

Pension Trust "gross" returns were ranked in the 20th percentile for the 5-years ended September 30, 2017, based on Callan's "Public Fund Sponsor Database".

Callan Public Fund Sponsor Database



	Last Quarter	Last Year	Last 3 Years	Last 5 Years	Last 10 Years
10th Percentile	4.07	14.55	8.13	9.96	6.50
25th Percentile	3.79	13.38	7.49	9.16	5.94
Median	3.48	12.33	6.76	8.30	5.49
75th Percentile	3.19	10.94	6.14	7.51	5.02
90th Percentile	2.84	10.08	5.47	6.59	4.24
Total Fund ●	3.89	13.41	7.49	9.35	4.78
Policy Target ▲	3.06	11.20	6.25	7.94	5.11

* 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.

Investment Fees and Expenses – Summary

Investment management fees and expenses as a % of average Assets Under Management (AUM) have declined from 0.65% in fiscal 2013 to 0.46% in fiscal 2017. Based on $10 billion of AUM during this four-year period, this translates into approximately $19 million of annual fee savings ($10 billion x 0.19%).

All State Investment Board Clients	Investment Fees and Expenses	Average "Assets Under Management"	% of AUM
	a	b	a / b
Fiscal Year Ended June 30, 2013	$45 million	$6.9 billion	0.65%
Fiscal Year Ended June 30, 2014	$44 million	$8.6 billion	0.51%
Fiscal Year Ended June 30, 2015	$48 million	$10.1 billion	0.48%
Fiscal Year Ended June 30, 2016	$46 million	$10.9 billion	0.42%
Fiscal Year Ended June 30, 2017	$54.5 million	$11.8 billion	0.46%

- **KEY POINT**: The combined efforts of the SIB, RIO, Callan & Novarca are responsible for these fee reductions which benefitted from a 70% increase in AUM (largely driven by the Legacy Fund). Callan's review of our Timber fees generated over $3 million of savings in fiscal 2016, while subsequent fee review procedures by Novarca saved SIB clients an additional $600,000 the last three years.

- We will continue to prudently manage SIB client fees and expenses while striving to keep them at or below 0.50% per annum. RIO seeks to generate 0.65% (or more) of excess return after all fees and expenses over a rolling 5-year period (which has consistently been achieved since Sep. 30, 2014).

A basis point (or "bp") is equal to one one-hundredth of one percent (or 0.01%) such that 100 basis points ("bps") is equivalent to 1%.

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

SIB Client Return and RIO Agency Update

- **SIB client assets exceeded $13.1 billion as of Nov. 30, 2017**, including $5.1 billion in the Legacy Fund, $2.9 billion for PERS, $2.4 billion for TFFR and $1.9 billion for WSI. For the 5-months ended Nov. 30, 2017, the net returns of Legacy, PERS, TFFR and WSI approximated 6.2%, 7.0%, 6.9% and 4.1%, respectively, and each surpassed their performance benchmarks by over 0.65%. **For the 5-months ended Nov. 30, 2017, SIB client net investment income approximated $740 million.**
- Investment returns exceeded policy benchmarks for 99% of SIB client assets under management for the 5-years ended Sep. 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 each earned over 13% for the 1-year ended Sep. 30, 2017, exceeding their policy benchmarks by over 1%. For the 5-years ended Sep. 30, 2017, PERS and TFFR each earned over 9% per annum including over 0.65% of excess return.
- Legacy earned over 11% and 7% for the 1- and 3-years ended Sep. 30, 2017, respectively, surpassing its policy benchmark by over 1% (which translates into over $50 million of incremental income last year and over $100 million of incremental income during the last three years).
- **KEY POINT** - RIO provided an investment update to the Legacy Fund Advisory Board on Nov. 28, 2017, noting **the Advisory Board approved the recommendation to engage Callan to conduct an asset liability study. Bank of North Dakota also requested an increase in the Match Loan CD program. This request will be considered in reviewing Legacy's asset allocation policy.**
- **KEY POINT - RIO expects all three open positions to be filled in January including the return of Denise Weeks as a Retirement Benefits Counselor and addition of Sara Sauter as Supervisor of Audit Services and Melissa Kopp as TFFR's Administrative Assistant.**

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

Fundamental Investment Beliefs of the NDSIB

1. **Asset allocation is the # 1 driver of investment returns.**
2. **The prudent use of active investment management can improve performance and contribute towards our clients attaining their stated investment objectives. (See example below.)**
    a) **SIB clients earned approximately $1.7 billion of net investment income (after all fees and expenses) for the 1-year ended November 30, 2017.**
    b) **RIO estimates that active management enhanced net investment returns by at least 1% or $100 million during the last year** noting the Pension Trust and Legacy Fund approximated $10 billion in aggregate, while net investment returns exceeded their benchmarks by 1% last year (e.g. $10 billion x 1% = $100 million).
    c) **Based on the above estimates, "asset allocation" was responsible for $1.6 billion (or 94%) of the net investment income, while "active management" was responsible for $100 million (or 6%) of the net investment income for the 1-year ended November 30, 2017.**
    d) **SIB governance policies reinforce our fundamental investment beliefs by monitoring actual versus target asset allocation levels every quarter and comparing actual net investment returns versus approved benchmarks.**

The above amounts are preliminary estimates and subject to change.

Affirm Commitment to Board Education and Governance

- **Maintain a persistent awareness to the importance of continuing board education.**
  - **Emphasize continuing board education at SIB meetings and promote the attendance of educationally focused industry conferences.**
  - **Given current budget pressures, the SIB engaged our consultant to offer "Callan College" in Bismarck in order improve accessibility for board members and clients while seeking to reduce costs.**

- **Reaffirm organizational commitment to our current governance structure.**
  - **Annual board review of SIB governance manual (conducted every September) including governance meetings in July of 2015 and 2016.**

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 Update on "Fiduciary Trends with Public Plans"

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 **$250 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 **2016**.

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.

Informational

TO: State Investment Board

FROM: Dave Hunter

DATE: January 26, 2018

SUBJECT: **SIB Governance Discussion Points for Consideration**

On November 17, 2017, the SIB elected to continue discussion of the following two governance related topics at our January 26, 2018 board meeting (noting the Jeanna Cullins, Aon Hewitt Partner and Fiduciary Services Practice Leader, is scheduled to provide additional board governance education on that day):

1. RIO believes our current governance structure is effective and efficient, but invite board member discussion on the length and frequency of board meetings and the greater utilization of subcommittees; and

2. Many governance “experts” suggest investment manager hiring and firing decisions should be delegated to staff investment professionals, although this delegation may be accompanied by a maximum dollar threshold – RIO invites board discussion on this concept including any potential maximum limit.

Jeanna Cullins, JD
Partner
Fiduciary Services
Practice Leader

- Works with a wide array of institutional investor clients with a primary focus in the areas of fiduciary and management reviews, policy development, compliance, strategic planning, trustee education, and other board and plan governance matters
- Has worked with over 50 public fund boards, corporate pension funds, endowments and foundations to enhance their governance and management processes
- Served as the Executive Director and General Counsel for a public retirement board
- Over 30 years of industry experience
- Holds a BA, cum laude, from Brooklyn College, City University of New York; and a J.D. from Georgetown University Law Center
- Licensed to practice law in Washington, D.C.
- NACD Member

North Dakota Retirement and Investment Office
Fiduciary Trends in Public Pension Plan Governance

January 26, 2018

Jeanna Cullins, Partner, Fiduciary Services

Aon Hewitt
Retirement and Investment | Investment Consulting

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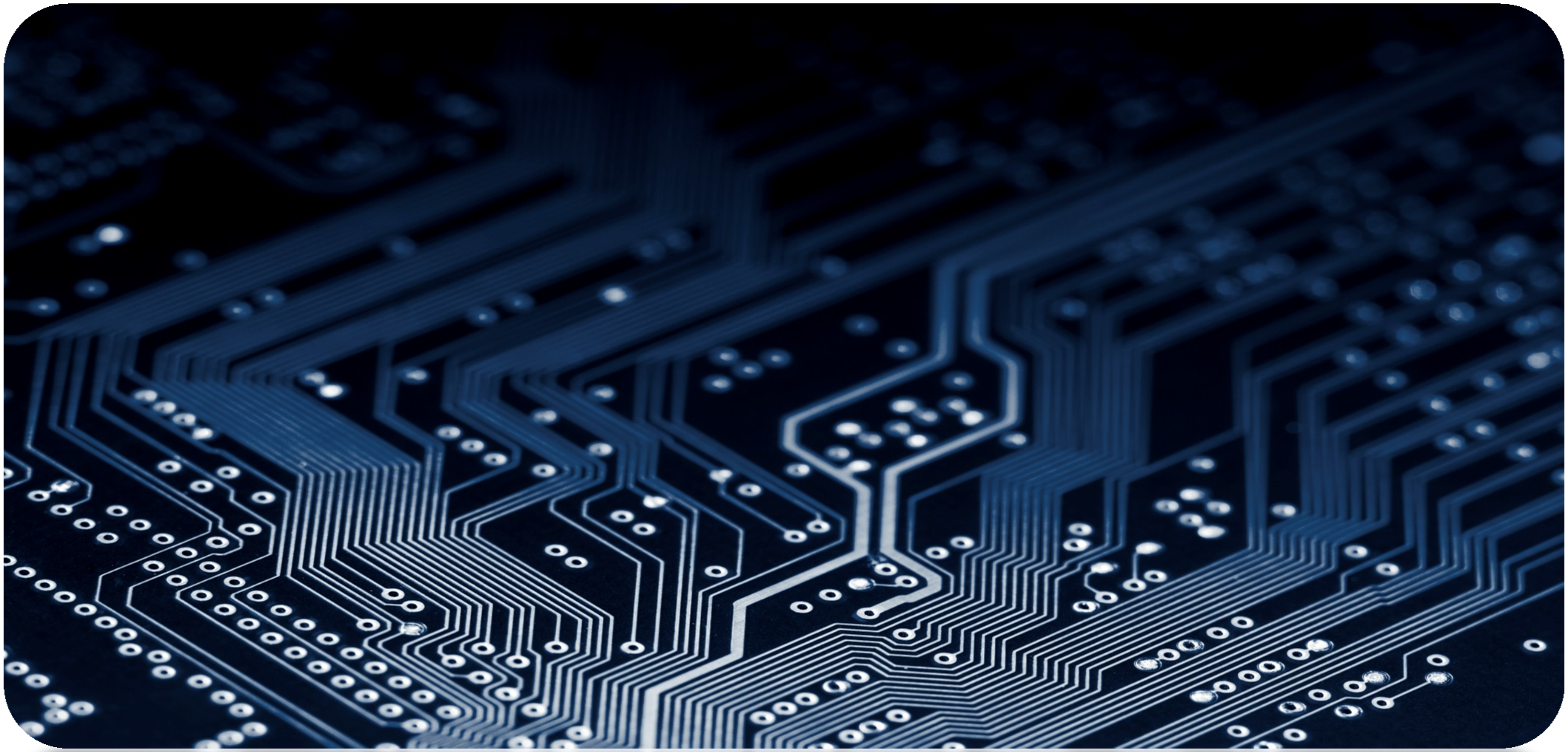
Agenda

- ❑ Section 1: Introduction
- ❑ Section 2: Some Trends Among Public Pension Plans
  - ❑ Length and Frequency of Meetings
  - ❑ Delegation
  - ❑ Requiring Continuing Education
  - ❑ Conducting an Annual Board Self-Assessment
- ❑ Section 3: Discussion: Q & A



Section 1: Introduction

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Introduction – Governance

Good governance helps to ensure better organizational performance, fewer conflicts of interest, higher probability that goals and objectives will be attained, and less opportunity for misuse of corporate or fund assets." - The Stanford Institutional Investors' Forum

"Behind every well-run pension fund stands a governing board that knows its job, and does it well."

Good governance adds value

"Governance is a key component when it comes to excellence. The directions and actions an organization takes are determined by governance, so it's certainly appropriate to review the governance process of any organization" - Rep. Mark Sanford (ND)

Governance is the act of putting processes in place to ensure that the organization achieves its purpose. K.Ambachtsheer

Introduction – What are Some Characteristics of “Poor” Governance?

- Lack of transparency and accountability
  - Inadequate reporting and oversight
  - Roles are not properly defined and understood
- Poor documentation
- Inconsistent decision-making
- High tolerance for conflicts
- Micromanagement
- No strategic plan/direction

Introduction – Peers

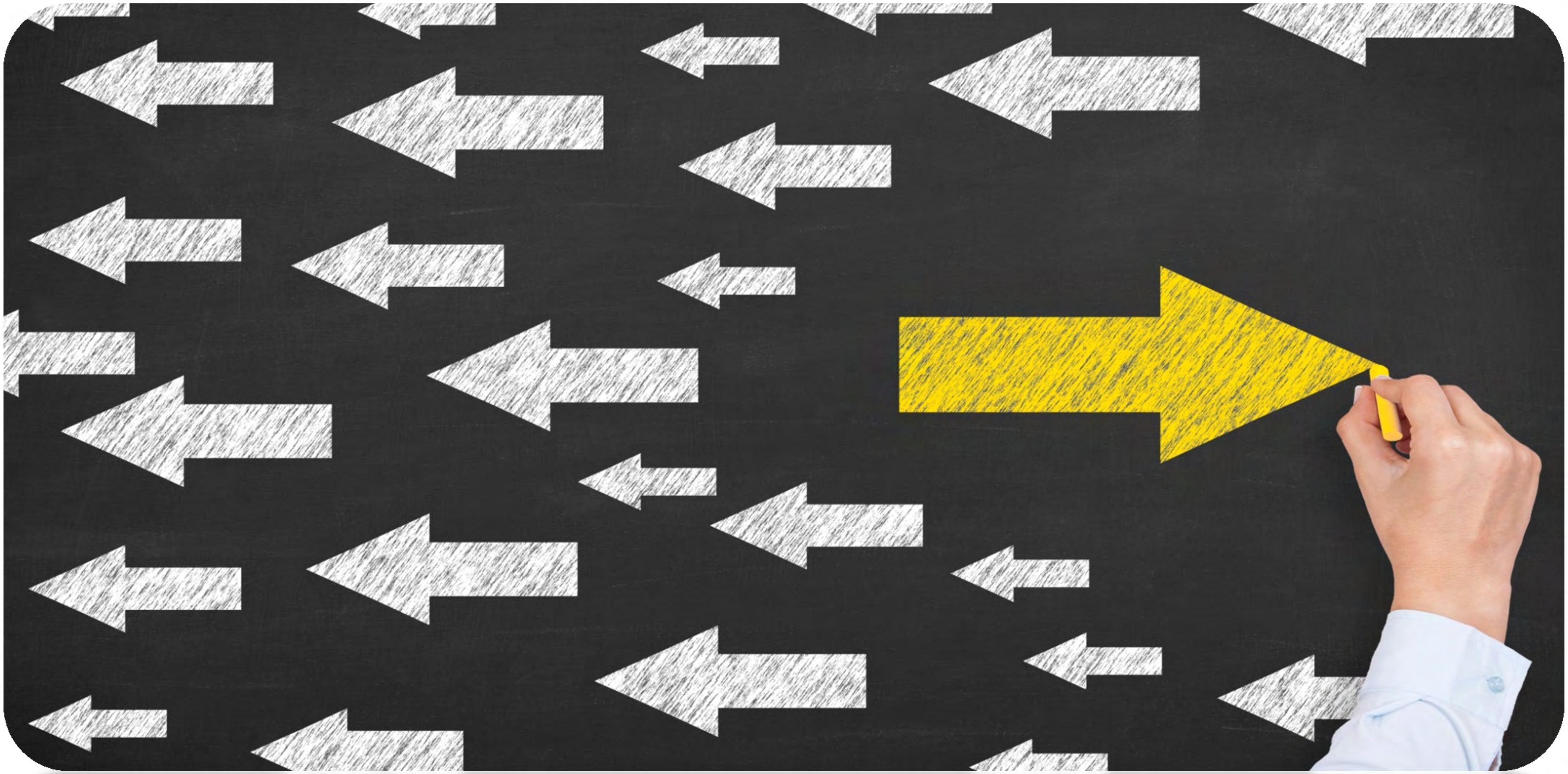
State Investment Boards

- Alaska State Pension Investment Board
- CT. Office of the Treasurer IAC
- Florida State Board of Administration
- Illinois State of Investments
- Massachusetts Pension Reserves Investment Management Board
- Michigan Bureau of Investments
- Minnesota State Investment Board
- Montana Board of Investments
- Nebraska Investment Council
- New Jersey State Investment Council
- NM State Investment Council (no pension assets)
- NC State Treasurer Investment Management Division
- Oregon Investment Council
- SD State Investment Council
- Washington State Investment Board
- WV Investment Management Board
- State of Wisconsin Investment Board
- South Carolina Retirement Investment Commission

Survey Peers

- California State Teachers Retirement System
- **Minnesota State Investment Board**
- Ohio Public Employees Retirement System
- Ohio State Teachers Retirement System
- **South Dakota Investment Council***
- **State of Wisconsin Investment Board**
- Wyoming Retirement System*

- Not used for delegation trends
  Bolded survey peers are state investment boards



Section 2: Trends in Public Pension Plans

Length and Frequency of Meetings

Importance of Board Meetings

- Meetings are where the work gets done
- Good meetings facilitate good decision-making
- Questions to consider when examining meeting length and frequency:
  - Does the board use an annual work plan which identifies the issues it must address
  - Are agendas established with the work plan in mind?
  - Does the board have the right number of meetings to accomplish its work?
  - Is the board functioning in a strategic policy and oversight role or an implementation role?
  - Is there a proper allocation of time to each agenda issue?
  - Are discussions kept focused on the issues at hand?
  - Is there good attendance at the meetings?
  - Are meeting materials useful and provided in advance?
  - Are board members prepared?

Length and Frequency of Meetings

Funds	Average # of Meetings/Year	Average Length of Meetings	Fund Size (est.)	No. of Board Members
Fund A	10	2-3 days	$221.7B	12
Fund B	4	< 1hr	$89.1B	4 ex-officio
		2-3hrs. (IAC)		17 (IAC)
Fund C	12	2 days	$90.B	11
Fund D	9	2 days	$72.B	11
Fund E	5	5.5hrs.	$14.B	8
Fund F	6	4 hrs.	$104B	9
Fund G	4	2 days 6.5hrs/day	$7.7B	11
ND ROI	10	3hrs.	$11.4B	11
Peer Median	6	13hrs	90.B	11

Bold indicates Investment Board

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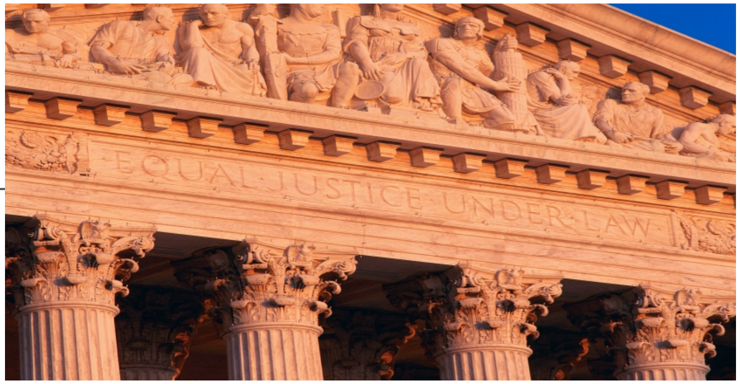
Delegation

Duty to Delegate?



A trustee has a duty personally to perform the responsibilities of trustee ***except as a prudent person might delegate those responsibilities to others****. In deciding whether, to whom and in what manner to delegate fiduciary authority in the administration of a trust, and thereafter in supervising agents, the trustee is under a duty to the beneficiaries to* ***exercise fiduciary discretion and to act as a prudent person would act in similar circumstances.***

Restatement of Trusts, § 171

The extent to which a Board does or does not delegate is a fiduciary decision

Board's Role and Responsibilities

- The Board is the ultimate governing fiduciary
  - The highest and best role is to establish policies and procedures that experts/staff can implement to protect the fund and ensure the highest level of services to the beneficiaries and participants
  - Policy versus implementation – what is prudent?
  - Best practice is a governance model that enables board members to focus on the policy issues that demand their attention, trending away from board management of minutiae

- The duty to monitor emanates from the duty of prudence
  - Adequate, ongoing reporting is necessary for prudent monitoring

Delegation Must Be Prudent

- To be prudent, when delegating the following generally applies:
  - Duty of prudence in selecting qualified professionals
  - Duty to specify the scope of the delegation
  - Duty to monitor the professionals to ensure the delegation is carried out in a manner consistent with the delegation, in the best interest of participants and beneficiaries, and the delegation continues to be prudent
  - Duty of loyalty to select the professionals on the basis of the best interests of the participants and beneficiaries

Delegation - Trend Toward Delegation of Some Investment Functions

Usually Retained

- Operating budget
- Investment Policy Statement
- Asset Allocation
- Permissible Asset Classes
- Performance Benchmarks
- Selection of Investment Consultant

Sometimes Delegated

- Number of managers in each asset class
- Active versus passive management
- Internal versus external management

Frequently Delegated Duties

- **Selection and termination of investment managers**
- Rebalancing activities
- Criteria for manager searches
- Investment manager/service provider due diligence
- Drafting RFP’s and reviewing manager/service provider responses
- Ongoing manager monitoring
- Documentation of transactions
- Meeting with managers/periodic due diligence visits

This list of functions is not all-inclusive. Some funds delegate more, others less.

Delegation: Peer Comparisons

Funds	Delegation of Search, Selection & Termination	Internal Asset Management	Average # of Meetings/Year	Average Length of Meetings	Fund Size
Fund A	No	Yes	10	2-3 days	$221.7B
Fund B	No	Yes	4	< 1hr 2-3hrs	$89.1B
Fund C	Yes	Yes	12	2 days	$90.B
Fund D	Yes	Yes	9	2 days	$72.B
Fund E	Yes	Yes	5	5.5hrs.	$14.B
Fund F	Yes	Yes	6	4 hrs.	$104B
Fund G	Yes	No	4	2 days 6.5hrs/day	$7.7B
ND ROI	No	No	10	3hrs	$11.4B
Conclusion	5 of 7 delegate	6 of 7 have internal management			

Continuing Education

Requiring Continuing Education

- Many public pension funds have embraced continuing education either by statute or pursuant to policy.

- There is also no standard minimum number of required number for public funds.

- The following are examples of States with statutory requirements:
  - Illinois requires 32 hours for new public fund trustees and 16 hours/year of continuing education for all trustees for public funds in the state (40 ILCS 5/1-109.3).
  - California requires continuing education for CalPERS, CalSTRS, and LACERA; within the first two years of assuming office board members must engage in 24 hours of education and for every subsequent two-year period the board member continues to serve.
  - Texas requires all public fund trustees (e.g. Texas Teachers, Texas ERS, etc.) to engage in continuing education; new trustees must complete at least seven credit hours in the first year, other trustees must complete at least two hour of continuing education within a two-year period after their first year.
  - Ohio and Pennsylvania instituted a minimum number of annual continuing education hours for pension fund board members.

Requiring Continuing Education

- Continuous-improvement is an ethos for boards that have adopted a culture of “good governance.” The 2016 National Association of Corporate Directors Blue Ribbon Commission recommends mandatory continuing education regardless of experience levels or length of board tenure. Notwithstanding, there is no stated minimum number of required continuing education hours standard for corporate boards or committees.

Peers Requiring Continuing Education

Funds	Continuing Education Requirement	Source of Requirement
Fund A	Yes	Policy
Fund B	Yes	Law
Fund C	Yes	Law
Fund D	Yes	Law
Fund E	Yes	Policy
Fund F	Yes	Policy
Fund G	Yes	Policy
ND ROI	Yes	Policy
Conclusion	All require continuing education	Requirement is typically by policy

Board Self-Assessments

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Why Conduct a Board Self-Assessment

- It's a recognized industry best practice
  - The Cadbury Report (UK) recommended conducting an annual board self-assessment as a governance best practice in 1992.
  - Many public funds conduct annual board self-assessment; however, many still do not.
- Regulators for some entities expect or require that organizations under their purview engage in a self-assessment process
  - Canadian Association of Pension Supervisory Authorities (Guideline No.4)
  - New York Stock exchange (NYSE) requires all listed companies to conduct an evaluation of the board and its committees at least annually (Rule 303A.09, adopted in 2003 and approved by the SEC)

Benefits of Board Self-Assessment

- Reinforces understanding and expectations of the board's purpose, roles and responsibilities
- Encourages candid discussion, thereby strengthening communications among board members
- Results in the identification of different perceptions and opinions among board members, and gaps in relation to best practice
- Provides a structure for problem solving, fine-tuning, setting priorities, and creating a tangible action plan for improvement
- Demonstrates a commitment to accountability and good governance best practices

Board Self-Assessment Process

1 **Research**
Review pertinent facts about past governance matters of the Board.

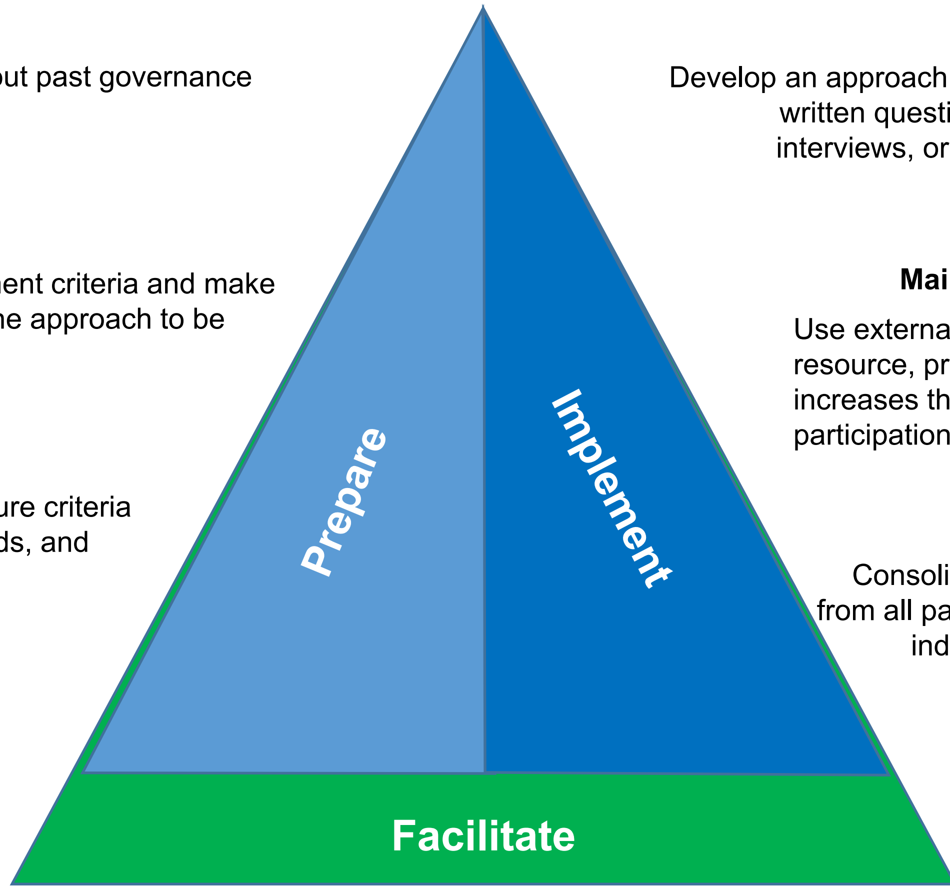
2 **Create**
Draft customized assessment criteria and make recommendations about the approach to be used.

3 **Review & Confirm**
Have Board review to ensure criteria align with the Board's needs, and reiterate understanding of assessment participants.

Collect Data 4
Develop an approach to gather input; e.g., written questionnaire, one-on-one interviews, oral group discussion .

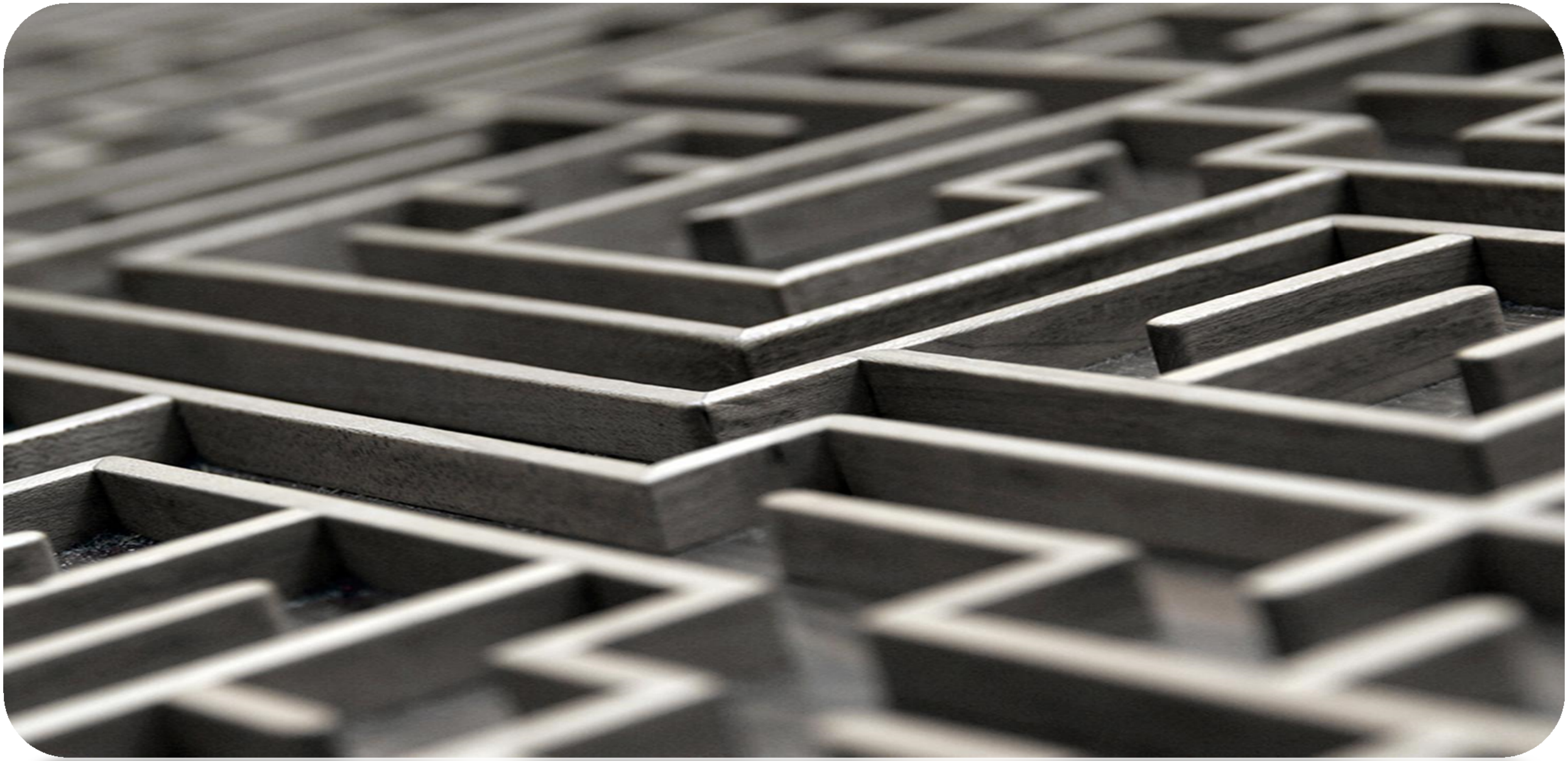
Maintain Confidentiality 5
Use external, independent resource, promotes candor and increases the likelihood of participation.

Analyze Results 6
Consolidate and analyze input from all participants. Develop our independent assessment.



7 **Facilitate Board Discussions**
Present findings to the Board (preferably in person) and lead discussions on governance improvements.

8 **Assist with Follow-up** Document key outcomes from the Board facilitation. Be available for follow-up about policy or procedure changes. Include action items in annual work plan.



Section 3: Discussion: Q & A

Empower Results®

Suggested Topics for Discussion

- Is the current length and frequency of the meetings required to perform fiduciary duties and responsibilities?
  - Is there a collation between authority retained versus authority delegated and the length and frequency of meetings.
  - Is your decision-making at the “policy” level or the “implementation” level?
  - What is the highest and best use of your time?
  - Are there any statutory requirement that prevent delegation?
- Options:
  - Delegation of certain functions to a “subcommittee”: will the subcommittee have final decision making authority or will decision still have to be approved by the full board.
  - Delegation of certain functions to senior management (i.e., the investment functions such as approval of the selection and termination.)

Presenter Biography

Jeanna Cullins, JD
Partner
Fiduciary Services
Practice Leader

- Works with a wide array of institutional investor clients with a primary focus in the areas of fiduciary and management reviews, policy development, compliance, strategic planning, trustee education, and other board and plan governance matters
- Has worked with over 75 public fund boards, corporate pension funds, endowments and foundations to enhance their governance and management processes
- Served as the Executive Director and General Counsel for a public retirement board
- Over 30 years of industry experience
- Holds a BA, cum laude, from Brooklyn College, City University of New York; and a J.D. from Georgetown University Law Center
- Licensed to practice law in Washington, D.C.
- National Association of Corporate Directors – Governance Fellow

Contact List

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Aon Hewitt Investment Consulting, Inc.
200 E. Randolph Street
Suite 1500
Chicago, IL 60601
ATTN: AHIC Compliance Officer

AGENDA ITEM III.D.

BOARD ACTION REQUESTED

TO: State Investment Board

FROM: Dave Hunter

DATE: January 22, 2018

SUBJECT: **SIB Governance Policy Affirmation or Amendment**

After Ms. Cullins, presentation on "Fiduciary Trends in Public Pension Plan Governance", the SIB may consider:

1) **altering the scheduled frequency and length of future board meetings;**

2) **delegating manager hiring and firing decisions to RIO's investment staff;**

3) **establishing a new investment committee to approve investment manager hiring/firing decisions;**

4) **establishing a new securities litigation committee to assist the SIB in carrying out its fiduciary duty by selectively considering the use of additional legal actions in securities litigation cases** "when such a role is expected to add value by enhancing the prospect for recovery, increasing the amount recovery, assuring more efficient and effective prosecution of a case, or identifying and addressing corporate governance issues through litigation."; and/or

5) **conducting an annual board self-assessment.**

Alternatively, the SIB may also reaffirm its current governance structure, policies and practices without modification.

BOARD ACTION REQUESTED

TO: State Investment Board

FROM: Dave Hunter

DATE: January 22, 2018

SUBJECT: **Appointment of SIB Securities Litigation Committee**

If the SIB so desires, RIO requests the Board to make a motion to recommend to establish a new five member SIB Securities Litigation Committee including Chief Deputy Attorney General Troy Seibel. SIB Governance Policy B-5 provides guidance on Board Committee Principles is shown below.

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, 2995.
Amended: November 22, 1996, February 27, 2015

BOARD APPROVAL REQUESTED

TO:	State Investment Board
FROM:	Dave Hunter, Executive Director/CIO
DATE:	January 26, 2018
SUBJECT:	State Investment Board Meeting Schedule

Recommendation:

RIO requests the SIB approve one of the proposed board meeting schedules through June 30, 2019.

SIB meetings are held on the fourth Friday morning of each month with the exception of June, November and December. The November meeting is moved up to the third Friday (due to Thanksgiving), while no meeting has been scheduled in June or December in recent years. Given the upcoming legislative session, the SIB may consider adding a meeting in December of 2018.

State Investment Board 2018-19 Meeting Schedule (Option A – 10 meetings/year)

February 23, 2018 (Quarterly Performance Review)

March 23, 2018

April 27, 2018 (reserved but may be cancelled and replaced with December [21] 2018)

May 25, 2018 (Quarterly Performance Review)

July 27, 2018 (Election of Officers - Reserved for Board Education and Governance Review)

August 24, 2018 (Fiscal Year-End Performance Review)

September 28, 2018

October 26, 2018

November 16, 2018 (Quarterly Performance Review)

December [21], 2018 (newly reserved in advance of the 2019-2021 legislative session)

January 25, 2019 (scheduled during legislative session with January 3, 2019 being the "1st day")

February 22, 2019 (Quarterly Performance Review) (scheduled during legislation session)

March 22, 2019 (scheduled during legislation session with April 26, 2019 being the "80th day")

May 24, 2019 (Quarterly Performance Review)

<u>State Investment Board 2018-19 Meeting Schedule</u> (Option B – 8 meetings/year)

February 23, 2018 (Quarterly Performance Review)

March 23, 2018 (Infrastructure Finalist Presentations)

May 25, 2018 (Quarterly Performance Review)

July 27, 2018 (Election of Officers - Reserved for Board Education and Governance Review)

August 24, 2018 (Fiscal Year-End Performance Review)

November 16, 2018 (Quarterly Performance Review)

December [21], 2018 (newly reserved in advance of the 2019-2021 legislative session)

January 25, 2019 (scheduled during legislative session with January 3, 2019 being the "1st day")

February 22, 2019 (Quarterly Performance Review) (scheduled during legislation session)

March 22, 2019 (scheduled during legislation session with April 26, 2019 being the "80th day")

May 24, 2019 (Quarterly Performance Review)

<u>State Investment Board 2018-19 Meeting Schedule</u> (Option C – 4 meetings/year)

February 23, 2018 (Quarterly Performance Review)

May 25, 2018 (Quarterly Performance Review – Reserved for Board Education & Gov. Review)

August 24, 2018 (Fiscal Year-End Performance Review – Election of Officers)

November 16, 2018 (Quarterly Performance Review)

February 22, 2019 (Quarterly Performance Review)

May 24, 2019 (Quarterly Performance Review – Reserved for Board Education & Gov. Review)

NOTE: Option C requires manager hiring and firing decisions to be delegated to RIO.

AGENDA ITEM G.

BOARD ACCEPTANCE REQUESTED

TO: State Investment Board

FROM: Dave Hunter

DATE: January 23, 2018

SUBJECT: **Investment Policy Statement Reviews – PERS Main Plan, Retiree Health Insurance Credit Fund, Group Insurance and Job Service**

RIO requests the SIB accept investment policy statement changes recently approved by the PERS board which provide oversight of PERS Main (Pension) Plan ($3 billion), Retiree Health Insurance ($124 million), Job Service ($98 million) and Group Insurance ($36 million).

The PERS Investment Sub-Committee reviewed and affirmed the attached investment policy statements for PERS Main (Pension) Plan, PERS Retiree Health Insurance Credit Fund, Job Service and PERS Group Insurance on November 17, 2017. The PERS Board then approved these four (4) investment policy statements on December 12, 2017. PERS staff note the bulk of the changes (as redlined) relate to "*several administrative updates such as a change in fund or benchmark name and updating contribution and return assumptions*." It is also important to note that some policies were reviewed and affirmed by the PERS Board without any changes (as recommended by RIO and PERS Investment Sub-Committee). **RIO believes the most substantive change approved for the PERS Main Plan relates to the revised Fixed Income allocation in which Investment Grade is reduced to 16% (from 18%) and Non-Investment Grade is increased to 7% (from 5%).** As previously noted in prior board meetings, the SIB approved these recommendations in connection with the elimination of dedicated international debt mandates (which offer poor risk adjusted returns due to high foreign currency volatility). **RIO notes that similar changes are being presented to all of our Pension Trust clients during the first calendar quarter of 2018 (including TFFR).**

STATEMENT OF INVESTMENT GOALS, OBJECTIVES AND POLICIES FOR THE NORTH DAKOTA PUBLIC EMPLOYEES RETIREMENT SYSTEM

1. 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 nine~~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, one ~~and the seventh~~ member is the State Health Officer or their designee and two are legislative appointees.

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 Public Safety~~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 State Law Enforcement (BCI) ~~National Guard Plan the~~ employee contribution is~~is~~ 6~~5~~.0~~5~~% and employer contribution is 9~~6~~.81~~5~~%, for the Public Safety~~Law Enforcement~~ Plan with prior service the employee contribution is 5.54% and the employer contribution is 9.81% and for the Public Safety~~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' *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. (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.

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.

5. 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.

6. 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 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.

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.

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.

Sharon Schiermeister~~J. Sparb Collins~~
Interim Executive Director
North Dakota Public Employees Retirement System

Date: ______________________________

David Hunter
Executive Director
North Dakota Retirement and Investment Office

Date: ______________________________

Approved by the NDSIB ~~5-26-2017~~
Approved by the NDPERS Board 124-12~~7~~-2017

NDPERS RETIREE HEALTH INSURANCE CREDIT FUND

STATEMENT OF INVESTMENT GOALS, OBJECTIVES AND POLICIES

1. PLAN CHARACTERISTICS AND FUND CONSTRAINTS

The North Dakota Public Employees Retirement System (NDPERS) Retiree Health Insurance Credit Fund was established in 1989 to provide for prefunding of premiums for medical coverage to state employees and employees of participating political subdivisions in accordance with Chapter 54-52.1 of the North Dakota Century Code. The plan is 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, one member is ~~and the seventh member is~~ the State Health Officer or their designee and two are legislative appointees.

The NDPERS plan is a defined benefit program that provides for a partial payment of a retiree's medical insurance premium based on the number of years of service.

Funding for the NDPERS plan is provided by a monthly employer contribution of 1.14~~one~~ percent of payroll. On a monthly basis, benefit payments are netted out against contributions and the balance forwarded to the trust's custodian for investment.

Each year the NDPERS Board has an actuarial valuation performed. The current actuarial assumed rate of return on assets for the plan is 7~~8~~.5~~0~~%.

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, 21-10-02, 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 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' 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. (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.

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 the 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 credit to maintain the purchasing power of their benefit.

5. INVESTMENT PERFORMANCE OBJECTIVE

The NDPERS Board will seek to make investments that generate sufficient return to meet the goals outlined in this policy. The objectives established in this section are in accordance with the fiduciary requirement in federal and state law.

It is in the best interest of NDPERS and its beneficiaries that performance objectives be established for the total Fund. It is clearly understood these objectives are to be viewed over the long term and have been established after full consideration of all factors set forth in this Statement of Investment Goals, Objectives and Policies.

a. The funds rate of return, over the long term should equal that of the policy portfolio which is comprised of policy weights of appropriate asset class benchmarks as set by the SIB.

b. The annual standard deviation of total returns for the Fund should not materially exceed that of the policy portfolio.

c. Over 5-year and longer periods the fund should match or exceed the expected rate of return projected in the most recent asset/liability study without exceeding the expected risk for the period by more than 15% as measured by standard deviation.

6. 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:

Date of Last Asset Allocation Study: February~~NDPERS Board Approved February 2009~~~~December~~ 2017 – SEI Corporation

Domestic Equities - Large Cap	~~37~~ 37~~3~~%
Domestic Equities – Small Cap	~~9~~ 96%
International Equities	~~14~~ ~~2~~14%
~~Core Plus~~ Fixed Income	40%
Expected Return	8.142%
Standard Deviation ~~of Returns~~	~~11.7%~~ 13.34%

Rebalancing of the Fund to this target will be done in accordance with the SIB's rebalancing policy, but not less than annually.

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.

7. RESTRICTIONS

A. No transaction may be made which threatens the tax exempt status of the Fund.

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."*

B. 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.

C. 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.

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.

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.

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.

______________________________	______________________________
Sharon Schiermeister~~J. Sparb Collins~~	David Hunter
Interim Executive Director	Executive Director
North Dakota Public Employees Retirement System	North Dakota Retirement and Investment Office
Date: ______________________________	Date: ______________________________

NDPERS GROUP INSURANCE ACCOUNT
INVESTMENT OBJECTIVES AND POLICY GUIDELINES

1. FUND CHARACTERISTICS AND CONSTRAINTS.

The ND Public Employees Retirement System (PERS) Group Insurance Account (Fund) was established to hold insurance premiums collected from employers until paid to the insurance carrier.

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

PERS has entered into a contract with the SIB for investment services as allowed under NDCC 21-10-06. It is the responsibility of PERS to establish policies on investment goals and asset allocation of the Funds. The SIB is charged with implementing these policies and asset allocation and investing the assets of the Funds 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, performance objectives appropriate to the prudent investor rule and objectives of the funds 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.

3. INVESTMENT OBJECTIVES.

Premiums are collected throughout the month at PERS and will be forwarded to the Fund investment account on the 1st and 15th of each month. The premiums transferred into the investment account will be transferred back to PERS on approximately the 22nd of each month so they may be remitted to the insurance carrier. The investment objective of the Fund is to maximize the return on the deposits within the short-term time-frame involved.

4. STANDARDS OF INVESTMENT PERFORMANCE.

The Fund's investment objectives 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:

a. The Fund should produce a rate of return that meets or exceeds the portfolio policy index defined as the 90-day Treasury bill.

b. The Fund annual standard deviation of total returns should not materially exceed that of the policy portfolio.

5. **POLICY AND GUIDELINES.**

The asset allocation of the Fund is established by PERS, with input from the SIB. Asset allocation is based upon the appraisal of projected liquidity and income requirements, and estimates of the investment returns likely to be achieved by the various asset classes over the next five years.

In recognition of these factors, the following allocation is deemed appropriate for the fund:

Short Term Fixed Income	95% (allocation not to exceed $36 million)
Cash Equivalents	5%

This cash will be held in an enhanced money market account at the Fund's custodian.

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 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 must provide 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 investment or commitment of public pension fund money for the purpose of obtaining an effect other than a maximized return to the intended beneficiaries."*

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.

6. EVALUATION AND REVIEW.

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:

NDPERS	STATE INVESTMENT BOARD
_________________________	_________________________
Sharon Schiermeister Interim Executive Director, NDPERS	David Hunter Executive Director/CIO, RIO
Date: ____________________	Date: ____________________

RETIREMENT PLAN FOR EMPLOYEES OF JOB SERVICE NORTH DAKOTA
INVESTMENT POLICY STATEMENT

1. PLAN CHARACTERISTICS AND FUND CONSTRAINTS

The Retirement Plan for the Employees of Job Service North Dakota (Plan) is a defined benefit retirement plan for the eligible employees hired before October 1, 1980. There have been no new entrants to the plan since October 1, 1980. The plan provides retirement benefits, disability benefits and survivor benefits consistent with the written Plan document. Until October 1, 1993, annuities were purchased from the Travelers for retirees, since that date retiree benefits are paid from Plan assets. Annual cost of living adjustments for all Plan pensioners including annuitants with the Travelers are paid from Plan assets. The NDPERS Board (the Board) is the Plan Administrator and administers the Plan in accord with Chapter 52-11 of the North Dakota Century Code.

Job Service North Dakota as the employer contributes 4% of the active participant's salary as a contribution 'on behalf of the employee' and the active participants pay 3% of their salary into Plan assets.

Each year the Plan has an actuarial valuation performed. The current actuarial assumed rate of return on assets is 5.7%.

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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' 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. (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.

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 the 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 objectives of the Plan have been established by the Plan's Administrator upon consideration of its strategic objectives and a comprehensive review of current and projected financial requirements.

Objective #1: To maintain a level of surplus sufficient to eliminate the need for future contributions;

Objective #2: To achieve a rate of return which exceeds the rate of inflation, as measured by the Consumer Price index (CPI), by 3.0 or more percentage points per year (based on current actuarial assumptions of 5.7% return and ~~2 to3 %~~ 2.5% inflation), over a complete market cycle; and

Objective #3: As a secondary objective, to maximize the Plan's surplus to increase future benefit payments.

5. INVESTMENT PERFORMANCE OBJECTIVE

The NDPERS Board will seek to make investments that generate sufficient return to meet the goals outlined in this policy. The objectives established in this section are in accordance with the fiduciary requirement in federal and state law.

It is in the best interest of NDPERS and its beneficiaries that performance objectives be established for the total Fund. It is clearly understood these objectives are to be viewed over the long term and have been established after full consideration of all factors set forth in this Statement of Investment Goals, Objectives and Policies.

a) The funds rate of return, over the long term should equal that of the policy portfolio which is comprised of policy weights of appropriate asset class benchmarks as set by the SIB.

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b) The annual standard deviation of total returns for the Fund should not materially exceed that of the policy portfolio by more than 15%.

c) Over 5-year and longer periods the fund should match or exceed the expected rate of return projected in the most recent asset/liability study without exceeding the expected risk for the period as measured by standard deviation by more than 15%.

6. ASSET ALLOCATION

The NDPERS Board as plan Administrator establishes the asset allocation of the Fund, with input from consultants and SIB staff. The current asset allocation is based upon the asset/liability study completed by SEI Consultants in 2017. That study provided an appraisal of current cash flow projections and estimates of the investment returns likely to be achieved by the various asset classes.

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In recognition of the Plan's objectives, projected financial status, and capital market expectations, the following asset allocation options were deemed appropriate for the Fund:

Domestic Equity – 18%
Global Equity - 12%
U.S. High Yield Bonds - 3%
Emerging Markets Debt - 3%
Core Fixed Income - 23%
Limited Duration Fixed Income - 22%
Diversified Short Term Fixed Income - 12%
Short Term Corporate Fixed Income - 7 %

Rebalancing of the Fund to this target allocation 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. All assets will be held in custody by the SIB's master custodian or such other custodians as are acceptable to the SIB.

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."*

d. 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 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.

e. 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.

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.

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.

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.

______________________________	______________________________
Sharon Schiermeister	**David Hunter**
Interim Plan Administrator and Trustee	**Executive Director**
Retirement Plan for Employees of	**North Dakota Retirement and Investment Office**
Job Service North Dakota	
Date:______________________	Date:______________________

RIO Employee Survey
Summary of Results
January 18, 2018

- **RIO employees gave a favorable response on over 79% of the survey questions which is generally consistent with the favorable response rate (of 79.9%) for participating Non-Cabinet Level (NCL) agencies in aggregate.** NCL participating agencies include the Aeronautics Commission, Attorney General, Career and Technical Education, Insurance, Treasurer, Veterans, and Water Commission. Cabinet Level agencies also performed well and received favorable responses on 76% of their survey questions.

- **RIO received "overwhelming positive responses" (defined as a favorable response rate of 90% or higher) on 30% of the survey questions including:**

  1. I understand how my job contributes to our agency's success;
  2. Processes and procedures allow me to meet my customers' needs;
  3. I have passion and excitement about my work;
  4. I have the authority I need to do my job effectively;
  5. The work I do is important;
  6. The physical layout of where I work allows me to be productive;
  7. I feel physically safe and secure to do my job where I work;
  8. I understand what to do if an emergency were to occur at work;
  9. My immediate supervisor believes customer service is important in our team;
  10. I understand my immediate supervisor's expectations of me;
  11. My immediate supervisor holds me accountable for achieving results;
  12. I have a clear understanding of RIO's mission, vision and values;
  13. I enjoy my work;
  14. I am an important part of my employing agency; and
  15. My work gives me a feeling of personal accomplishment.

- **RIO received "materially positive responses" (defined as a favorable response rate of 70% or higher) on over 75% of the survey questions. Favorable responses outnumbered neutral and unfavorable responses for every one of the 50 survey questions for RIO.**

- **RIO's participation rate of 73% (11 of 15) was slightly below all NCL agencies (of 77%) in aggregate and compared favorably to the 61% participation rate reported for Cabinet Level agencies.**

- **Although survey responses were generally positive, RIO received unfavorable responses (from 3 or 4 team members) on 9 questions (listed below). The Executive Director invites all RIO team members to promote and share constructive ideas to enhance our overall agency culture in 2018.**

  1. There is a climate of trust within my team (3 unfavorable);
  2. My teammates display a high degree of teamwork (4 unfavorable);
  3. My team has a climate in which diverse perspectives are valued (3 unfavorable);
  4. My teammates develop and value relationships with others (3 unfavorable);
  5. RIO's senior leadership seeks input before making important decisions (3 unfavorable);
  6. RIO's senior leadership are transparent in their decisions (3 unfavorable);
  7. RIO team members trust and support each other (4 unfavorable);
  8. Information and knowledge are shared openly (4 unfavorable); and
  9. I am satisfied with my opportunities for career growth & advancement (3 unfavorable).

- **Open ended responses focused on improving employee communication, compensation and teamwork, which was also cited in other NCL agency commentary.**

North Dakota Retirement & Investment Office - Team Member Survey (Dec. 2017)

Participation % = 73% (11 of 15 with 3 open positions)

#	Question			
	Questions 1-2 confirms the respondent is a RIO team member.	1-4 yrs.	5-10 yrs.	> 10 yrs.
3	How long have you worked for the State of ND?	1	2	5
		Yes	No	
4	Do you supervise other team members?	2	5	
		Regular	Temp.	Don't know
5	Please select the status of your position?	8	0	1

Response Rate Color Code: Green = 90% to 100% Blue = 60% to 90% White = Less than 60%

#		RIO Agency Favorable	RIO Agency Neutral	RIO Agency Unfavor.	Non-Cabinet Agencies Favorable	Non-Cabinet Agencies Neutal	Non-Cabinet Agencies Unfavor.
6	Training and professional development are available.	64%	27%	9%	80%	11%	9%
7	I feel free to try new things even if my efforts don't succeed.	82%	9%	9%	80%	13%	7%
8	Tools & resources to deliver excellent customer service are present.	73%	27%	0%	80%	14%	6%
9	I understand how my job contributes to our agency's success.	100%	0%	0%	95%	4%	1%
10	Processes and procedure allow me to meet my customers needs.	91%	9%	0%	77%	15%	8%
11	I have passion and excitement about my work.	90%	10%	0%	85%	10%	5%
12	The amount of work I am expected to do is reasonable.	80%	10%	10%	76%	12%	12%
13	I have the authority I need to do my job effectively.	90%	0%	10%	83%	10%	7%
14	The work I do is important.	100%	0%	0%	95%	4%	1%
15	The physical layout of where I work allows me to be productive.	91%	9%	0%	79%	11%	10%
16	I feel physically safe and secure to do my job where I work.	100%	0%	0%	93%	4%	3%
17	I understand what to do if an emergency were to occur at work.	91%	9%	0%	91%	6%	3%
18	My teammates use technology to best support our customers.	82%	9%	9%	86%	11%	3%
19	There is a climate of trust within my team.	55%	18%	27%	77%	13%	10%
20	My teammates display a high degree of teamwork.	64%	0%	36%	77%	15%	8%
21	My team has a climate in which diverse perspectives are valued.	64%	9%	27%	70%	21%	9%
22	My teammates develop and value relationships with others.	73%	0%	27%	77%	16%	7%
23	My teammates are committed to performing quality work.	73%	27%	0%	92%	7%	1%
24	I receive the right amount of communication from my immediate supervisor.	82%	0%	18%	76%	14%	10%
25	My immediate supervisor believes customer service is important in our team.	91%	9%	0%	91%	8%	1%
26	I understand my immediate supervisor's expectations of me.	91%	9%	0%	87%	8%	5%
27	My immediate supervisor holds me accountable for achieving results.	90%	10%	0%	89%	9%	2%
28	I am comfortable giving my immediate supervisor feedback.	82%	9%	9%	86%	9%	5%
29	My immediate supervisor recognizes me for a job well done.	82%	9%	9%	81%	15%	4%
30	My immediate supervisor treats me with respect.	82%	9%	9%	89%	8%	3%
31	I a comfortable raising ethical concerns to my immediate supervisor.	82%	9%	9%	81%	14%	5%
32	My immediate supervisor encourages me to think creatively at work.	82%	0%	18%	76%	19%	6%
33	I have confidence in my immediate supervisor within the agency where I work.	82%	9%	9%	85%	10%	5%
34	My immediate supervisor is willing to take a risk on new ideas.	82%	9%	9%	73%	20%	7%
35	My agency's senior leadership informs us about things we need to know.	70%	20%	10%	64%	21%	15%
36	My agency's senior leadership seeks input from others before making important decision	60%	10%	30%	56%	26%	18%
37	My agency's senior leadership sets an example for others to follow.	70%	10%	20%	72%	19%	9%
38	My agency's senior leadership is transparent in their decisions.	60%	10%	30%	50%	30%	19%
39	My agency's senior leadership treats others with respect.	73%	9%	18%	84%	10%	6%
40	I am confident my agency's senior leadership will respond to unethical behavior.	82%	9%	9%	81%	13%	6%
41	I have confidence in my agency's senior leadership to make the appropriate decisions.	60%	30%	10%	76%	17%	7%
42	The agency where I work values honesty and integrity.	73%	27%	0%	87%	10%	3%
43	I am recognized/rewarded for delivering great customer service to our customers.	64%	18%	18%	65%	21%	14%
44	The agency where I work has a clear sense of purpose and direction.	73%	27%	0%	83%	12%	5%
45	I have a clear understanding of my agency's mission, vision and values.	91%	9%	0%	86%	11%	3%
46	Team members of the agency where I work trust and support each other.	64%	0%	36%	72%	17%	11%
47	Information and knowledge are shared openly.	64%	0%	36%	64%	23%	13%
48	I enjoy my work	100%	0%	0%	89%	9%	2%
49	I have a good work life balance.	89%	11%	0%	86%	11%	3%
50	I am an important part of my employing agency.	100%	0%	0%	84%	13%	3%
51	I would recommend working for my specific agency to a friend.	56%	22%	22%	77%	15%	8%
52	I would recommend the State of North Dakota as a good place to work.	89%	11%	0%	77%	15%	8%
53	My works gives me a feeling of personal accomplishment	100%	0%	0%	86%	10%	4%
54	I am satisfied with my opportunities for career growth and advancement.	56%	11%	33%	59%	20%	21%
55	Considering everything, I am satisfied working here.	89%	11%	0%	84%	11%	5%

Informational Purposes Only

Board Education: ESG Investing

(Environmental, Social and Governance)

January 19, 2018

Overview: The SIB and RIO have a deep understanding of the importance of investment due diligence and consider Environmental, Social and Governance (ESG) factors to be one of the many factors that inform our investment decisions. As of December 31, 2017, RIO believes that approximately 85% of its investment managers (based on AUM) are signatories to the United Nations Principles for Responsible Investing (UNPRI) and over 95% of its strategic partners.

Dave Hunter, Executive Director / CIO

ND Retirement & Investment Office (RIO)

State Investment Board (SIB)

ND's State Investment Board Governance Manual
Policy E-7.1: Proxy Voting

"The Board believes that good corporate investment decisions require good corporate governance, and that social responsibilities cannot be ignored in these decision processes."

"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"

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

How do managers define Governance, Environmental & Social factors?

William Blair ESG Integration Philosophy Definitions

Governance considerations focus on shareholder value creation, transparency, oversight , accounting policies, executive compensation, alignment of management/shareholders interests and the audit function.

Environmental factors include resource management, product innovation, renewable energy/water use and reporting or disclosures of environmental practices including and past environmental issues.

Social considerations are likely the most diverse any may include human rights in the supply chain, labor/ management relations, product/workplace safety and community relations.

Governance Considerations	*Environmental Considerations*	*Social Considerations*
The William Blair analyst comments on governance profile, focusing on potential risks if applicable. Focus areas include shareholder value creation, transparency, oversight, and accounting policies. Does the company practice good governance? How are executives compensated, and is this aligned with shareholder interests and executive performance? Are there concerns about alignment of interests between management and outside shareholders (particularly when the company is closely held)? Is the board focused on shareholder interests and is it accountable? Is there an independent audit function and, if so, has it found significant issues? Does it report on these issues for shareholders? How conservative/ aggressive are accounting practices?	The William Blair analyst comments on relevant environmental issues/ risks, if applicable. Focus areas include resource management, product innovation, renewable energy/water use, and reporting. Are these factors relevant? What are the company's environmental reporting/disclosure practices? Does it use resources effectively and minimize the impact of operations? Have there been any past environmental issues?	The William Blair analyst comments on relevant environmental issues/ risks, if applicable. Focus areas include human rights at the company and in the supply chain, labor/management relations, product/workplace safety, and community relations. What is the relationship between labor and management? Are there any other areas of concern, including the company's history and policy supporting human rights, workplace safety, product safety, community relations, resource use, or specific political risks?

William Blair

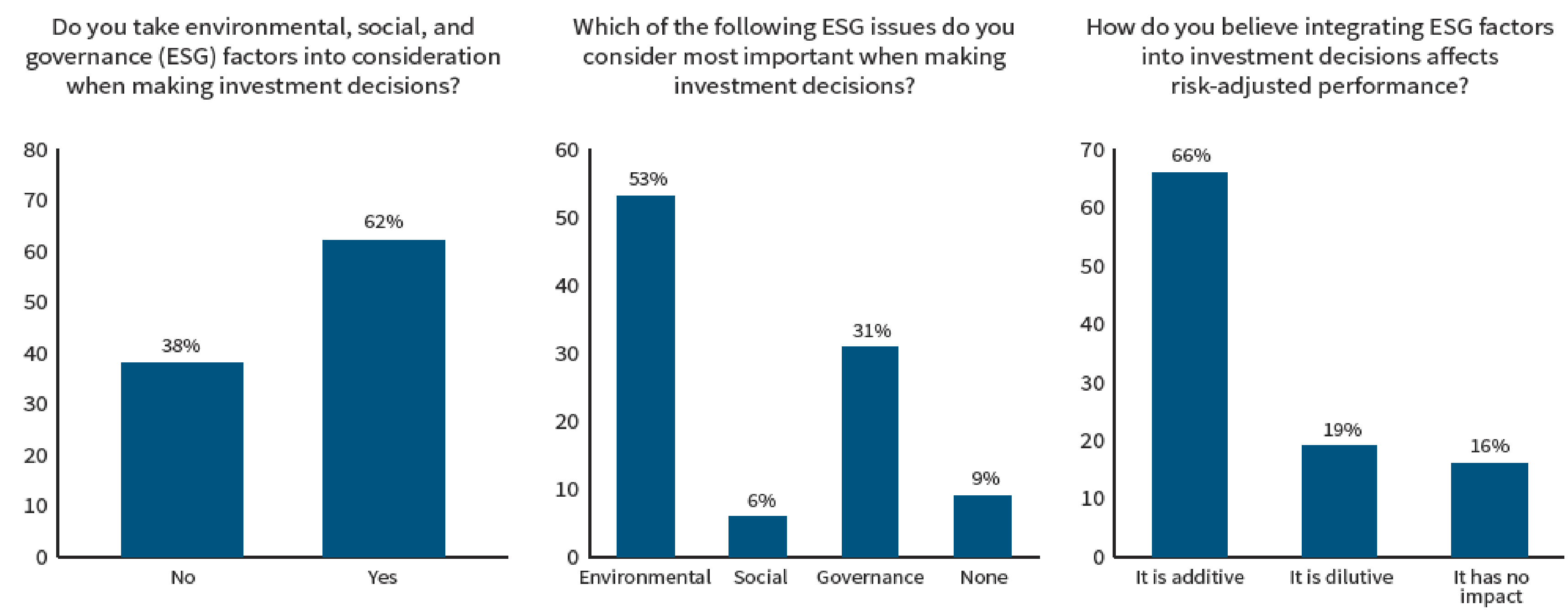
ESG Integration Philosophy

Interest in environmental, social and governance (ESG) factors is expanding at a rapid pace among institutional and retail investors.

How Do Investors View ESG?

1. **Figure 1** - Most respondents to a June 2017 William Blair poll (**62%**) think it makes sense to incorporate ESG into investment decisions.
2. **Figure 2 -** When asked which factor (**E, S** or **G**) investors considered most important in making investment decisions, **Environmental** was ranked first (at 53%), followed by **Governance** (at 31%), **None** (at 9%) and **Social** (at 6%).

Figure 1:



Source: William Blair, as of June 2017.

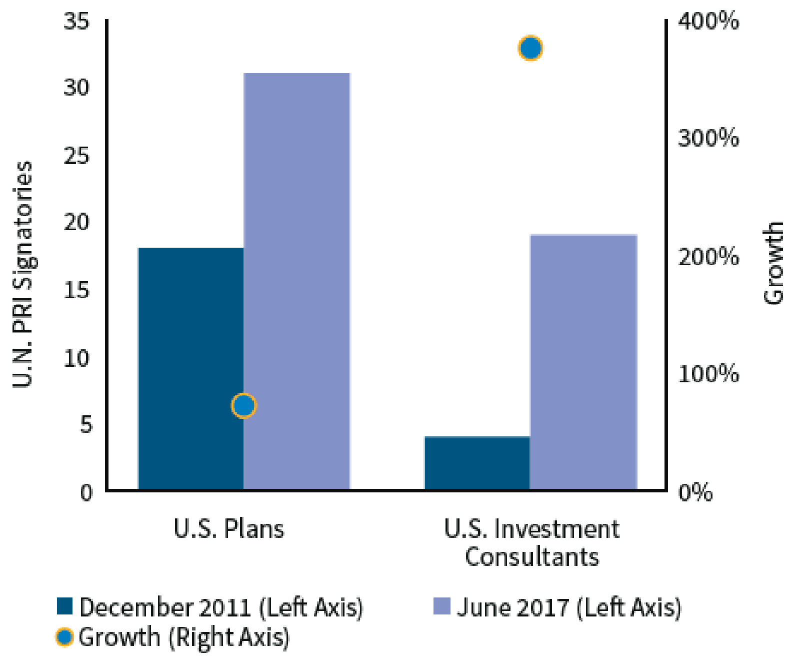
Figure 3 - About 66% of poll respondents “believe integrating ESG factors” into investment decisions has a positive affect on performance.

Increasing Emphasis on ESG Among U.S. Plan Sponsors

Figure 2 shows that **U.S. plan sponsor signatories** to the *"Principles for Responsible Investing"* **(PRI)** grew from **18% in December 2011** to **over 30% in June of 2017.**

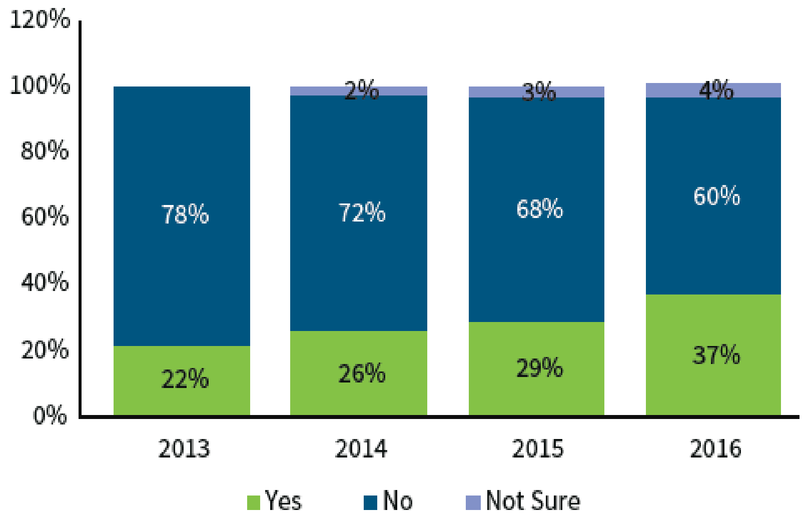
Figure 3 illustrates that **ESG** factor adoption by U.S. Institutional plans increased significantly from **22% in 2013** to **37% in 2016.**

Figure 2:
PRI Adoption by U.S. Plans and Consultants



Source: InterSec Research, as of June 2017.

Figure 3:
U.S. Institutional Plan Adoption



Source: Callan.

ESG integration has been supported by recent guidance from the U.S. DOL clarifying that ESG factors are not inconsistent with fiduciary duty. This recent guidance has effectively removed what had been a barrier to broader consideration of ESG by plan sponsors.

Executive Summary

Introduction

2017 ESG Survey

In August 2017, Callan conducted our fifth annual ESG survey. The results reflect input from 105 unique institutional U.S. funds with more than $1.1 trillion in assets.

Over the last five years, these surveys reveal that U.S.-based institutional investors have increasingly incorporated environmental, social, and governance (ESG) considerations into their investment decision-making process. After several years of education around ESG issues, in 2017 overall incorporation rates held steady with the previous year at more than one-third of total funds.

ESG factor incorporation levels off after years of steady growth

Overall incorporation of ESG factors into investment decision-making plateaued at 37% of respondents in 2017, on par with 2016 (37%) and up from 2013 (22%). This trend reflects changing survey respondents over time (a larger portion of smaller and corporate funds responded in 2017 than in previous years), as well as multiple years of investor education around ESG coming to fruition. Further suggesting a plateau in adoption rates, 7% of respondent firms that have not yet incorporated ESG factors into investment decisions were considering doing so in the future, down from 22% in 2016.

By fund type, we note a slight dip in the rate of ESG incorporation among corporate and endowment funds compared to 2016 (likely due to sample changes over time) while other fund types saw a continued rise in adoption:

– 35% of public funds indicated they incorporate ESG factors into the investment decision-making process, up from 25% in 2016

– Foundations reported the highest rate of ESG incorporation at 56% in 2017 (vs. 48% in 2016)

The largest of funds (with $20 billion in AUM or more) continued to incorporate ESG factors into the investment decision-making process at a much higher rate than their smaller counterparts: 78% for the largest funds compared to 30% for the smallest funds ($500 million in assets or less).

Key Findings

Callan's fifth annual *2017 ESG Survey* reflects trends on ESG adoption for U.S. institutional funds. The results reflect input from 105 unique institutional U.S. funds and trusts with more than $1.1 trillion in assets.

7% of those who have not yet incorporated ESG factors are considering it

50% of those who have incorporated ESG added language to the investment policy statement

78% of largest funds have incorporated ESG factors into investment decisions

Most frequently cited reason to incorporate ESG:

My fund must consider ESG factors as part of our fiduciary responsibility

68% Increase in the rate of ESG adoption since inception of survey in 2013

ESG incorporation by region

Pacific	53%
Northeast	44%
Central	32%
Southeast	21%
Mountain	20%

88% of corporate funds surveyed incorporated ESG factors in order to complete their fiduciary duty

56% foundations

39% endowments

35% public funds

25% corporate

41% of respondents define ESG using the literal definition, implying an acceptance of the definition provided by managers hired

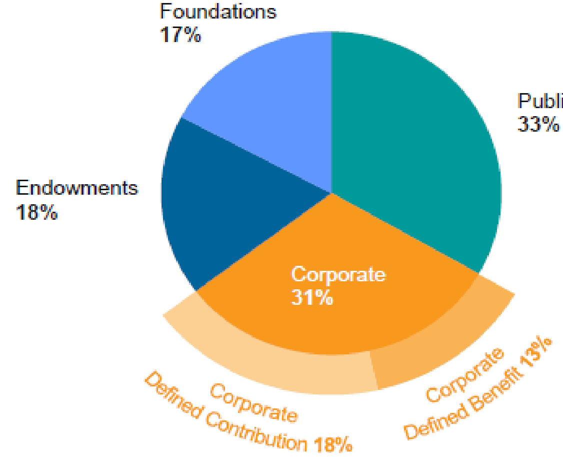
Respondent Overview

105 funds and trusts responded to the survey; approximately one-third public funds, one-third corporate funds, and one-third endowments & foundations

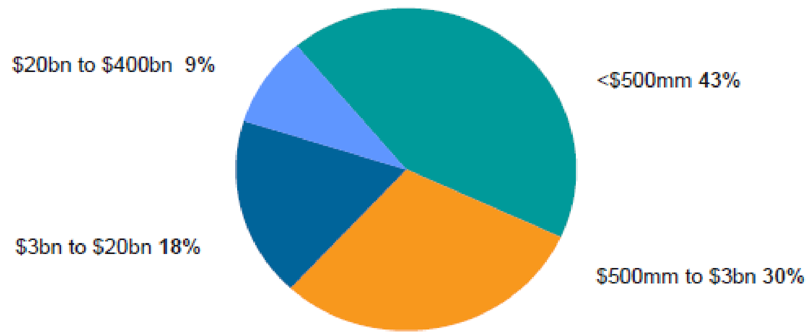
>$1.1 trillion in total assets are represented in this survey

43% of respondents are "small" funds with $500 mm or less in assets; smaller funds are less likely than their larger counterparts to adopt ESG practices

Respondents by Fund Type



Respondents by Fund Size



Defining ESG

How Funds Define ESG

Callan has found that definitions of ESG vary widely in the industry. Logically, defining ESG is often the first step many funds take in exploring implementation.

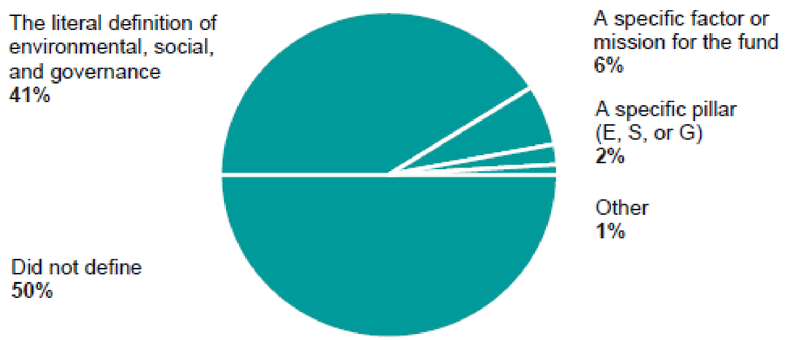
50%

of respondent firms did not define or attempt to define ESG in 2017, up from 33% in 2016.

41%

defined ESG using the literal definition of environment, social, and governance considerations, up from 35% in 2016.

Fewer funds (8%) defined ESG by a specific pillar, factor, or mission than a year ago (17%), suggesting broadening definitions of ESG beyond individual issues that can be targeted for divestment.



ESG Factor Adoption Rates

Callan asked whether or not respondent funds have "incorporated ESG factors into investment decision-making." This language is intentionally broad in order to capture as many potential implementations as possible that reflect the prevalence of ESG considerations in the institutional investment arena.

Overall: The percentage of respondents in 2017 that had incorporated ESG factors into decision-making leveled off at 37%, on par with 2016 (37%). This trend reflects changing survey respondents over time (a larger portion of smaller and corporate funds responded in 2017 than previous years), as well as multiple years of investor education around ESG coming to fruition.

By Fund Type: Foundations and endowments have been the greatest adopters of ESG compared to other fund types over the last five years and in 2017 at 56% and 39%, respectively. Corporate funds saw a decrease in ESG adoption year over year, from 30% in 2016 to 25% in 2017, but an overall increase from 15% five years ago. Corporate defined benefit plans saw a modest dip in adoption from 29% in 2016 to 25% in 2017. This was after a leap from 7% in 2015, which Callan partially attributes to the Department of Labor's 2015 bulletin clarifying that investment strategies that consider ESG factors can be in compliance with their fiduciary duty under ERISA. More than one-third of public funds reported incorporating ESG (35%) in the 2017 survey, up from 25% in 2016.

By Fund Size: The majority (78%) of the largest respondents ($20 bn or greater) have incorporated ESG factors into investment decisions. The largest funds have incorporated ESG factors at the highest rate since the inception of the survey in 2013, while smaller funds are less likely to make ESG considerations part of the investment process.

By Region: 2017 survey respondents were from across the U.S.: 36% Central, 26% Northeast, 18% Southeast, 15% Pacific, and 5% Mountain. The Pacific region had the highest percentage of funds incorporating ESG factors at 53%, followed by the Northeast (44%) and Central (32%).

Looking Forward: Only 7% of respondents that have not yet incorporated ESG into investment decision-making are considering doing so. This is less than one-third of the amount considering this decision in 2016 (22%), suggesting many of the firms that have expressed interest in ESG are on the path to implementation or have decided not to implement.

ESG Factor Adoption Rates Overall

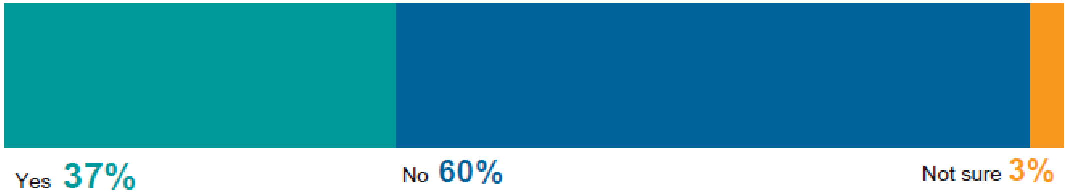
37%

of respondents had incorporated ESG factors into investment decisions in 2017, on par with 2016. The 2017 survey reflects a greater portion of responses from smaller funds (<$500 mm) and corporate funds, which are less likely than larger funds and other fund types to incorporate ESG into the investment process.

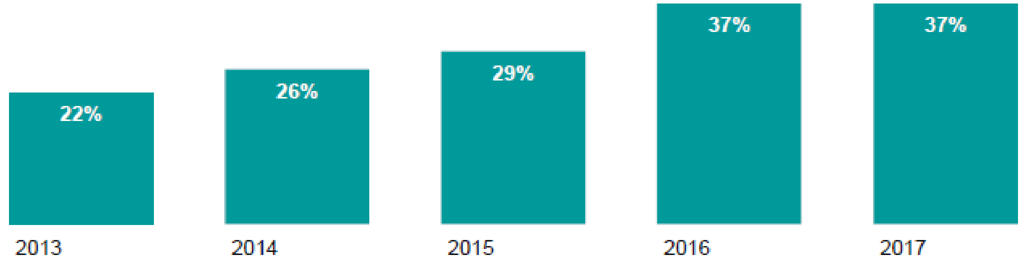
68%

increase in respondents that have incorporated ESG factors into investment decisions from 2013 to 2017.

2017: Does your fund incorporate ESG factors into investment decisions?



Funds that have incorporated ESG factors into investment decisions over time

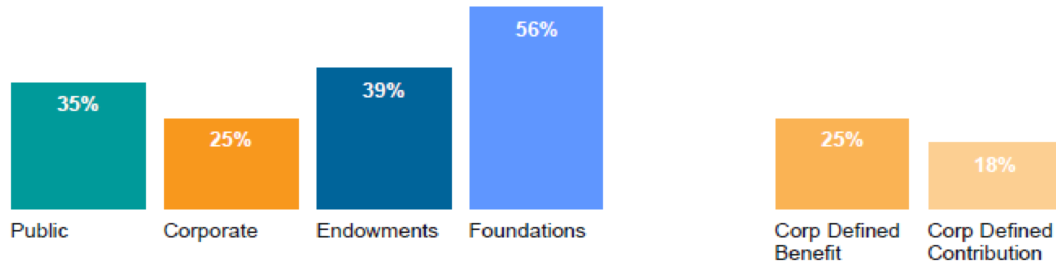


ESG Factor Adoption Rates by Fund Type

56%

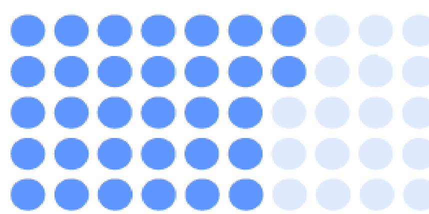
of foundations have incorporated ESG factors into investment decisions, the 2017 survey found. Foundations have incorporated ESG factors at a higher rate than all other fund types in 4 out of the 5 years that Callan has fielded this survey.

2017 funds that are incorporating ESG factors into investment decisions



By fund type over last five years

2013	2014	2015	2016	2017
Foundations 31%	Foundations 35%	Foundations 39%	Endowments 53%	Foundations 56%
Endowments 22%	Endowments 34%	Endowments 37%	Foundations 48%	Endowments 39%
Corporate 22%	Public 22%	Public 27%	Corporate 30%	Public 35%
Public 15%	Corporate 15%	Corporate 15%	Public 25%	Corporate 25%



64%

of foundations have incorporated ESG factors into investment decisions in 2017 or are considering doing so in the future.

ESG Factor Adoption Rates by Fund Size

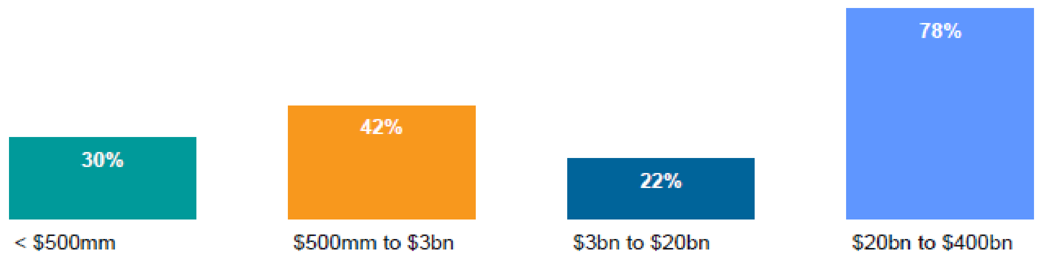
78%

of the largest respondents (>$20 bn) have incorporated ESG factors into investment decisions. The largest funds have incorporated ESG factors at the highest rate since the inception of the survey.

136%

Increase in respondents >$20bn that have incorporated ESG factors into investment decisions from 2013 to 2017.

2017 funds that are incorporating ESG factors into investment decisions



By fund size over last five years

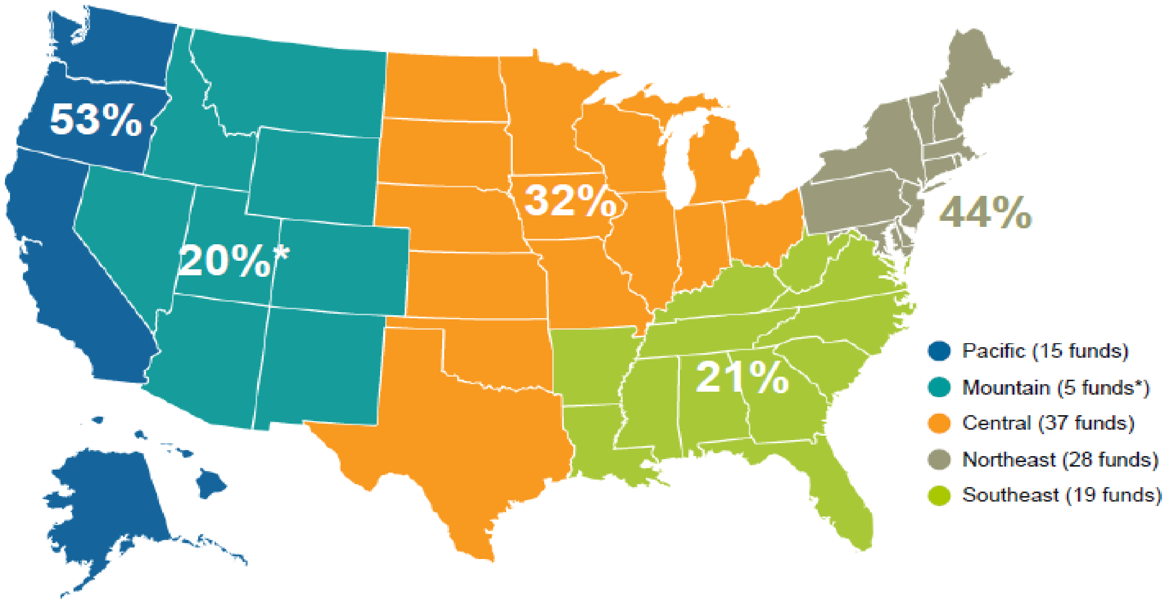
2013	2014	2015	2016	2017
$20bn to $400bn 33%	$20bn to $400bn 31%	$20bn to $400bn 35%	$20bn to $400bn 71%	$20bn to $400bn 78%
$3bn to $20bn 29%	$500mm to $3bn 24%	$3bn to $20bn 31%	<$500mm 39%	$500mm to $3bn 42%
$500mm to $3bn 23%	<$500mm 22%	<$500mm 26%	$3bn to $20bn 33%	<$500mm 30%
<$500mm 20%	$3bn to $20bn 18%	$500mm to $3bn 26%	$500mm to $3bn 29%	$3bn to $20bn 22%

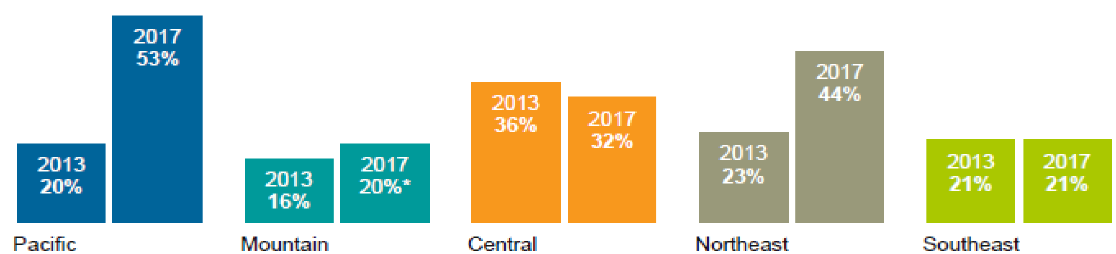
ESG Factor Adoption Rates by Region

2017 funds that are incorporating ESG factors in investment decisions by region

165%

increase in rate of Pacific region respondents that have incorporated ESG factors into investment decisions over a five-year period.





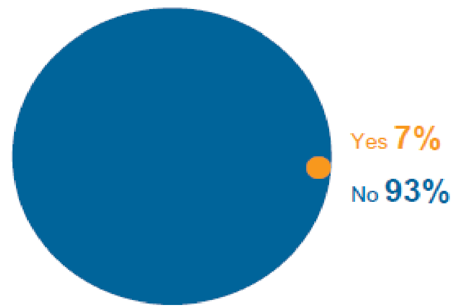
*Note the small sample size.

ESG Factor Adoption Rates Looking Forward

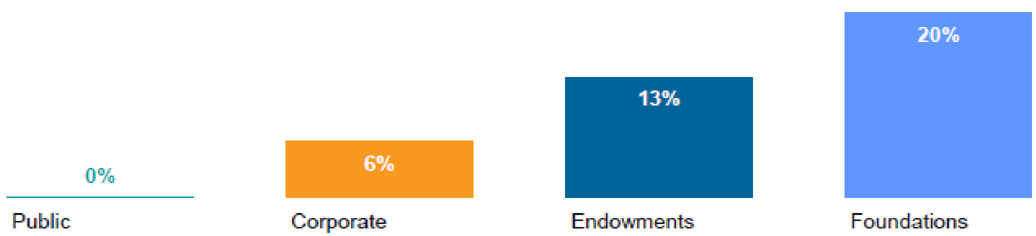
70%

decrease in the percentage of respondents that are considering incorporating ESG factors into investment decisions.

If you have not incorporated ESG factors into investment decisions, are you considering it?



Share of respondents that have not incorporated ESG factors into investment decisions but are considering it (by fund type)



ESG Implementation

Similar to ESG definitions, implementation strategies vary substantially from fund to fund, as investors find the approach that best accomplishes their unique goals. Callan asked survey respondents that have incorporated ESG factors into investment decisions specifically how they had done so to gauge which implementation strategies are most prevalent.

The top implementation method for survey respondents that are incorporating ESG into investment decisions in 2017 was to add language to the investment policy statement (50%), which was also the most common implementation method in 2016 (53%). Callan finds that adding language to investment beliefs or policy statements is frequently a first step that many institutional investors take when pursuing an integrated approach to incorporating ESG factors in investment decisions.

The next most prevalent implementations were:

– to communicate to their investment managers that ESG is important to the fund,

– to hire a manager that has incorporated ESG, and

– to incorporate a screening process and to communicate to investment managers that ESG is important to the fund (42% each).

A negative screening process can address a specific issue (e.g., screen out investments related to tobacco or fossil fuels), but positive screening is also becoming more prevalent (e.g., screen to include only securities that have best practices in a specific sector). Engagement/proxy voting ranked fifth, with 32% of investors utilizing this method. One-fifth of respondents (21%) indicate they are a Principles for Responsible Investment (PRI) signatory, double the rate in 2016 (10%).

ESG Implementation

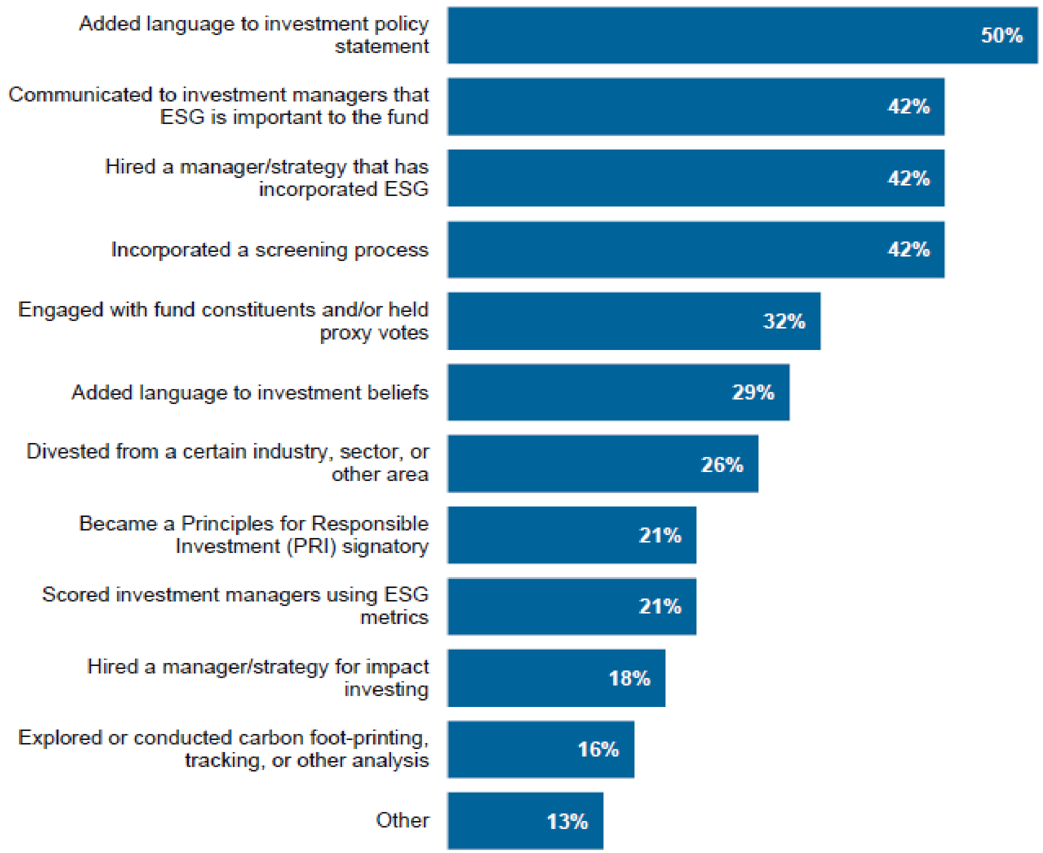
“Other” responses include:

“Divested [out] of industries with negative environmental records”

“Adopted a five-year strategic plan for ESG which includes KPIs, milestones, with targets included in senior staff performance targets”

“Use [consultant] on an ad hoc basis for ESG analysis of managers”

Implementation methods for incorporating ESG factors into the investment decision-making process



Reasons For and Against ESG

Reasons to Use ESG Factors

On the following page we show the motivations for incorporating ESG into investment decision-making. The order of these factors has changed little over the past two years; the top reasons cited for incorporating ESG factors into investment decisions in 2017 were:

– 47%: My fund must consider ESG factors as part of our fiduciary responsibility

– 42%: The fund's investment policy statement dictates that we consider ESG factors

– 32%: We expect to achieve higher returns AND we expect to achieve an improved risk profile

Explicitly documenting ESG factors by way of the investment policy statement (IPS) was a common implementation approach among all fund types except corporate funds. Half of public funds and foundations and 43% of endowments indicated their IPS dictates that they consider ESG factors. Ironically, only 13% of corporate funds' IPS dictated that ESG factors should be considered even though 88% of corporate respondents indicated they must consider ESG factors as part of their fiduciary responsibility.

Reasons Not to Use ESG Factors

More than half (61%) of U.S. institutional investors that responded to our survey in 2017 have not incorporated ESG factors into investment decision-making, in line with 2016 (60%). The most common reason cited in 2017 was that the fund would not consider any factors that are not purely financial in the investment decision-making process (41%).

The next most popular answer in 2017 was that the value proposition for ESG remains unclear (39%), down from 63% in 2016. This was especially true among endowments (86%) that do not incorporate ESG factors into investment decision making.

Reasons For and Against ESG

88%

of corporate funds surveyed utilize ESG factors in order to fulfill their fiduciary duty.

More investors expect to improve their fund's risk profile by applying an ESG lens in 2017 (32%) than fiver years ago (17%).

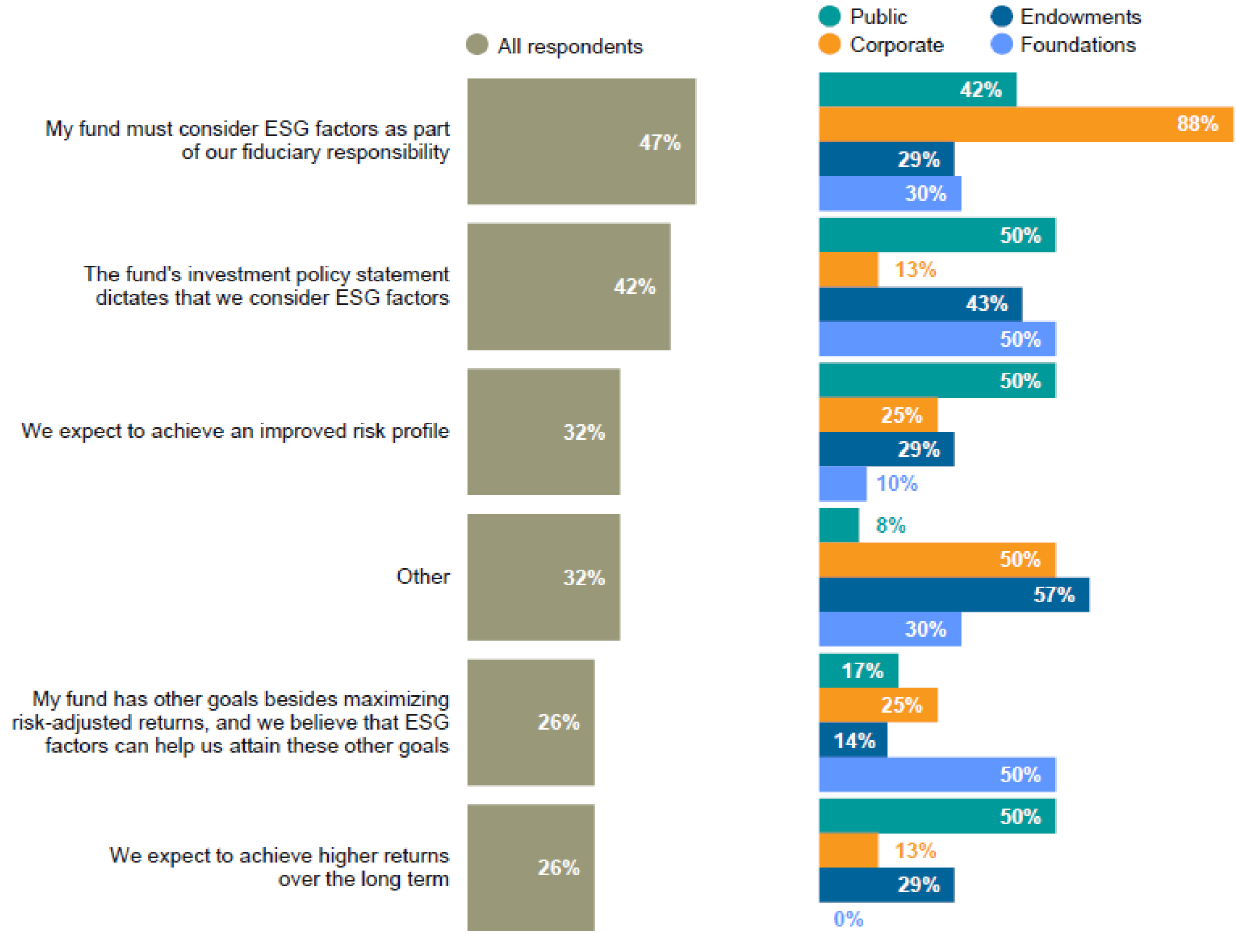
"Other" responses include:

"Participants desire to incorporate"

"We believe it is an important attribute for certain generations of participants"

"Mission alignment with our organization"

Reasons for incorporating ESG factors into the investment decision-making process*



* Multiple responses were allowed.

Conclusions

The percentage of U.S. investors that have incorporated ESG factors into decision-making has leveled off at 37% in 2017, on par with 2016 (37%) and up 68% relative to five years ago (22%).

Fund Type and Size Matter: Foundations and endowments have been the greatest adopters of ESG compared to other fund types over the last five years and remained on top in 2017. One-quarter of corporate funds and around one-third of public funds utilized ESG factors in some fashion in 2017, and all fund types have seen increased adoption over the last five years. The larger the fund, the more likely it was to incorporate ESG into investment decisions.

Implementation Varies: How to best implement ESG factors into investment decisions varies substantially from fund to fund, as investors find the approach that best accomplishes their unique goals. The top implementation methods in 2017 were:

- 50%: adding language to the investment policy statement
- 42%: communicating to their investment managers that ESG is important to the fund
- 42%: hiring a manager that has incorporated ESG
- 42%: incorporating a screening process and communicating to investment managers that ESG is important to the fund

Perceptions Change: Years of education around ESG issues and increased awareness of the vast options available to investors have changed how they think about the space. Today fewer investors are unclear on ESG's value proposition than five years ago (39% in 2017 vs. 53% in 2013), and more expect to improve their fund's risk profile by applying an ESG lens (32% in 2017 v. 17% in 2013).

Looking Forward: Climate change, fossil fuel-free investing, and the regulatory environment are a few examples of ESG issues that have been covered by the press in recent years. While fewer survey respondents in 2017 were considering new implementations of ESG in their investment decision-making processes than previous years (7% vs. around one-fifth, historically), perceptions and approaches to implementation have shifted over time. Callan will closely follow these trends as the ESG landscape for data availability and factor integration continues to evolve.

About the Authors

Shane Blanton is a Senior Analyst in Callan's Published Research Group covering business analytics. He is responsible for data analysis and visualization to support Callan's research endeavors. In addition, he is responsible for measuring and benchmarking Callan's communications campaigns. Previously Shane was a member of the Analytical Solutions Group for three years, training Callan's clients to use PEP software.

Prior to joining Callan, Shane worked as an Account Manager for an IC packaging manufacturer, and also worked as a trading assistant to a proprietary options firm. Shane attended Carnegie Mellon University, where he earned a B.S. in Business Administration.

Anna West is a Senior Vice President dedicated to Callan's research and education initiatives. As Director of the Callan Institute and Co-Manager of the Published Research Group, she oversees the educational content presented at the Callan Institute workshops and conferences. She also works with subject matter experts across Callan to produce white papers, surveys, charticles, and other research for investors. As chair of Callan's Environmental, Social, and Corporate Governance (ESG) Committee, Anna covers ESG trends and developments. Anna is also a member of Callan's Emerging and Minority, Women, or Disabled-owned Managers Committee and is chair of the Institute Advisory Committee. She is a shareholder of the firm.

Anna joined Callan in August 2006. Prior to Callan, she worked for Vail Resorts, Inc. She earned an MBA from the University of San Francisco and a BA in International Business and French from Washington University.

NDSIB Investment Due Diligence

The SIB and RIO have a deep understanding of the importance of investment due diligence and consider Environmental, Social and Governance (ESG) factors to be one of the many factors that inform our investment decisions

In 2017, RIO expanded its annual investment manager due diligence questionnaire by adding numerous ESG related questions including:

1. Does the firm have a policy addressing its approach to incorporating sustainable and responsible investment factors into its investment process? If so, please provide a copy of the policy and the extent of its use in current investment strategies. If not, please explain the rationale.
2. Please describe what ESG data, research, consultants, tools and practices are used and how they are incorporated into the investment and risk management process.
3. Have there been any changes in the firm's ESG practices, policies, applications or reporting in the past year. If so, please explain the changes.
4. Please describe what metrics are used to measure the impact of ESG investing practices.
5. Does the firm include climate related factors into its investment process including the measurement and monitoring of the carbon footprint of its investment portfolio? If yes, please explain the assessment process. If not, please explain the rationale.

In 2018, RIO's due diligence questionnaire will be further expanded and inquire if the firm is a signatory to the United Nations Principles for Responsible Investing (UNPRI). As of Dec. 31, 2017, RIO believes that over 85% of its investment managers are UNPRI signatories (based on AUM) and over 95% of its strategic partners (firms with SIB client AUM over $250 million).

THE SIX PRINCIPLES

United Nations
Principles for Responsible Investing
https://www.unpri.org/about/pri-teams/policy

PREAMBLE TO THE PRINCIPLES

As institutional investors, we have a duty to act in the best long-term interests of our beneficiaries. In this fiduciary role, we believe that environmental, social, and governance (ESG) issues can affect the performance of investment portfolios (to varying degrees across companies, sectors, regions, asset classes and through time). We also recognise that applying these Principles may better align investors with broader objectives of society. Therefore, where consistent with our fiduciary responsibilities, we commit to the following:

1. We will incorporate ESG issues into investment analysis and decision-making processes.
2. We will be active owners and incorporate ESG issues into our ownership policies and practices.
3. We will seek appropriate disclosure on ESG issues by the entities in which we invest.
4. We will promote acceptance and implementation of the Principles within the investment industry.
5. We will work together to enhance our effectiveness in implementing the Principles.
6. We will each report on our activities and progress towards implementing the Principles.

PRI's MISSION

We believe that an economically efficient, sustainable global financial system is a necessity for long-term value creation. Such a system will reward long-term, responsible investment and benefit the environment and society as a whole.

The PRI will work to achieve this sustainable global financial system by encouraging adoption of the Principles and collaboration on their implementation; by fostering good governance, integrity and accountability; and by addressing obstacles to a sustainable financial system that lie within market practices, structures and regulation.

INTRODUCTION

The US is the world's largest capital market, and American investors are increasingly focused on long-term investment approaches that require the inclusion of environmental, social and governance (ESG) factors. The US is also the PRI's single largest market with more than 345 signatories and $36 trillion in assets under management. In recent years, we have seen US policy makers and regulators seek input on or adopt policies that help promote or support long-term value creation.

Demand for responsible investment is rooted at the investor level, where many US asset managers and owners have embraced, embedded and endorsed ESG incorporation as vital for achieving long-term value creation and a sustainable financial system. According to the US SIF, socially responsible investments increased by 33% to more than $8.5 trillion from 2014 to 2016[1]. Also promising is that 30% of corporate retirement plans now incorporate ESG factors into their investment decisions[2].

Recent investor-led developments demonstrate the level of support and momentum across the country to manage long-term risks and generate value. For example, we saw significant progress on active ownership in 2017. Shareholders of Exxon Mobile and Occidental Petroleum voted in favor of requiring greater disclosures related to climate risks. Several states, localities and other entities have also committed to the Paris Climate Agreement, seeing the clear investment risks related to climate change and the need for supportive policy environments for long-term investor returns.

This briefing discusses recent policy developments – particularly around fiduciary responsibilities, stewardship and financial disclosures – that could, or perhaps already have, impacted ESG integration in the US. It is not intended to be comprehensive, but is a starting point for discussions with our signatories on the PRI's policy views and US engagement strategy.

Highlights of the briefing include:

- Support for recent Labor Department (DOL) policies acknowledging that ESG issues can contain financial value and that retirement plan fiduciaries may take ESG factors into account when exercising their right to vote.
- Concern with legislative efforts, such as the Financial CHOICE Act, that could weaken the ability of shareholders to engage with companies and fellow investors on corporate governance and risk management.
- Calls for increased ESG-related disclosures to enable investors to make more informed decisions about long-term value creation that can support a more sustainable financial system.

While the majority of the PRI's policy efforts in the US have been focused at the federal level, several state and local public pension systems have committed to ESG integration. As part of the Fiduciary Duty in the 21st Century project, we intend to take a deeper dive into ESG integration at the state level in 2018.

We strongly encourage all of our signatories to share their views on existing and new policy proposals. We welcome your feedback on past and current work. To become better engaged, signatories can:

- Subscribe to our policy newsletter to receive updates on the PRI's policy work.
- Join our recently formed Global Policy Reference Group (GPRG) comprised of leading policy professionals from around the world. The purpose of the group is to ensure the PRI's, and our signatories', policy engagement is current, international and aligned with responsible investment objectives. If you are interested in joining the GPRG, please email jenny.waits@unpri.org.
- Attend the PRI's annual conference – PRI in Person – in San Francisco, September 12 – 14, 2018. For additional information please visit our events website, where you can also view highlights from the 2017 conference in Berlin.

1 US SIF, 2016 Report Trends Highlights
2 Callan Institute, 2016 ESG Interest and Implementation Survey

FIDUCIARY RESPONSIBILITIES

ESG GUIDANCE

In October 2015, the DOL issued critical guidance (Interpretive Bulleting 2015-01), which acknowledged that ESG factors can have a financial impact on retirement plan investments. This was the third bulletin relevant to ESG integration and the Employee Retirement Income Security Act of 1974 (ERISA), released by the DOL, since 1994. ERISA sets the rules for private retirement plans in the US. While the Clinton Administration issued guidance stating that ESG factors could be used as "tie-breakers" when all other factors were considered equal, the Bush Administration walked back this approach with guidance in 2008, stating that non-economic factors should rarely be considered during investment analysis. Unsurprisingly, this caused significant confusion among plan fiduciaries.

The Obama Administration echoed sentiments from the guidance issued under the Clinton Administration, stating that ESG factors could be used when all other factors were considered equal. However, the DOL also stated that when ESG factors have economic value, they are "**more than just tie-breakers, but rather are proper components of the fiduciary's analysis of the economic and financial merits of competing investment choices**." The PRI, through its Fiduciary Duty in the 21st Century project, concluded that failing to consider long-term investment value drivers, which include ESG issues, in investment practice is a failure of fiduciary duty. We strongly support the 2015 DOL guidance.

CONFLICT OF INTEREST RULE

In April 2016 and after six years in the making, the DOL published its long-awaited Fiduciary Rule. As the retirement landscape in the US continues to change, and more individuals depend on Individual Retirement Accounts (IRAs), the Department sought to ensure that all Americans received retirement advice that was in their best interest. While employer-sponsored retirement programs were already required to be handled by a fiduciary, IRAs were not subject to the same standards. The rule, and its related exemptions, was designed to create a more reliable and transparent retirement system that eliminated conflicts of interest in the market. For example, advisors would no longer be able to recommend products simply because they could result in higher commissions.

The new Administration expressed concern that the implementation of the rule and its related exemptions would lead to increased costs and fewer investment options for consumers. This is a belief held by many business groups, including the Chamber of Commerce and the Financial Services Roundtable that sued the DOL over the rule. In February 2017, President Trump signed a memorandum directing the DOL to re-examine the rule.

While parts of the rule – including the definition of a fiduciary – came into effect in June 2017, the DOL has delayed the effective date for the related exemptions until July 2019. These exemptions, which are a core component of the rulemaking, would have enabled retirement advisors to continue receiving various fees, including commissions, as long as they contractually agreed to put their clients' best interests first. Since this component contained the legally enforceable provision of the rulemaking, the path forward remains uncertain at present (January 2018). The DOL stated that it intends to use the 18-month effective date delay to best determine how to revise or repeal the rulemaking. The PRI supports robust fiduciary standards and policies that lead to a fairer and transparent market.

STEWARDSHIP (ADVOCACY, ENGAGEMENT, PROXY VOTING)

DOL PROXY GUIDANCE

At the end of the Obama Administration in 2016, the DOL issued Interpretive Bulletin (IB) 2016-1, which confirmed that ESG issues were consistent with shareholder engagement under ERISA. Similar to the DOL's 2015 ESG Guidance, the Proxy IB replaced guidance issued in 2008 and reaffirmed interpretations from guidance that was released under the Clinton Administration in 1994.

The DOL issued the new guidance to address concerns that the 2008 guidance prevented retirement plan fiduciaries from exercising their right to vote on ESG issues. The 2016 preamble states that: "The Department is concerned that IB 2008-2 has been read by some stakeholders to articulate a general rule that broadly prohibits ERISA plans from exercising shareholder rights, including voting of proxies, unless the plan has performed a cost-benefit analysis and concluded in the case of each particular proxy vote or exercise of shareholder rights that the action is more likely than not to result in a quantifiable increase in the economic value of the plan's investment."

The PRI welcomed the 2016 clarification from the DOL. We believe it is essential for shareholders, including retirement plans, to be able to exercise their rights through proxy voting. The Fiduciary Duty in the 21st Century project called on regulators and policy makers to clarify that fiduciaries must take into account ESG issues in their active ownership activities.

Last year, the PRI launched the proxy vote declaration system – a voluntary opportunity for PRI signatories to publicly declare how they intend to vote on shareholder resolutions around ESG issues. This is a way to help build good practice and encourage greater transparency on voting activity.

SEC STAFF LEGAL BULLETIN NO. 141 (CF)

The SEC released new guidance on the issue of shareholder proposals in the form of a Staff Legal Bulletin in November 2017. The most notable change is regarding ordinary business exceptions, which enable boards to table a resolution that "deals with a matter relating to the company's ordinary business operations." Staff Legal Bulletin No. 141 delegates greater responsibility to the board on ordinary business exceptions. It states that when a company submits a no-action request to the SEC to use the exception, the organization should now include an analysis from the board on the issue at hand.

The 2018 proxy season will shed more light on how this change impacts the no-action request process. However, shortly after the Bulletin's release, Apple Inc. sent the SEC no-action request letters on shareholder proposals relating to climate and human rights issues, referencing the new guidance. Some have expressed concern that the new process could enable more resolutions to be excluded from consideration.

In a speech in November 2017, SEC Chairman Jay Clayton said: "History has shown that shareholder proposals can gain traction and lead to corporate governance changes that better track the long-term interests of Main Street investors. They also create costs, including out-of-pocket costs and the use of board and management time, that otherwise could be devoted to the operation of the company itself." While the Chairman said he would like to address issues around the proxy process, proposed changes would not come for some time.

THE FINANCIAL CHOICE ACT AND THE CORPORATE GOVERNANCE REFORM AND TRANSPARENCY ACT

The PRI remains concerned about legislation that could weaken shareholder rights. The Financial CHOICE Act (H.R.10) was introduced by Financial Services Committee Chairman Jeb Hensarling and passed the House of Representatives in June 2017 without any Democratic support. The bill would mandate that shareholders seeking to submit proposals on a corporate ballot must own at least 1% of the company's outstanding stock over a three-year period, compared to the current $2,000 threshold for one or more years.

The proposal seeks to eliminate the ability of all but a few investors to file resolutions and exercise their voting rights through the shareholder proposal process. Such a change would reduce corporate accountability to long-term investors. The PRI sent a letter to the Financial Services Committee opposing these changes. The Trump Administration has endorsed the provision, revising the $2,000 shareholder proposal threshold and the current resubmission thresholds.

The CHOICE Act also repeals several provisions of the Dodd-Frank Act, which was passed in 2010 after the Financial Crisis to curb risky behaviour by financial institutions and help facilitate a more transparent and sustainable system. In February 2017, President Trump signed an Executive Order (EO) instructing Treasury Secretary Steve Mnuchin to review financial regulations in place and to put forward policy recommendations within 120 days. This resulted in the Treasury Department releasing a series of reports entitled Financial System That Creates Economic Opportunities. One common theme throughout the recommendations is the goal of reducing the number of regulations in place for financial markets – and, in particular, rolling back those created by Dodd-Frank.

The Senate is unlikely to pass the CHOICE Act in its current form. However, it is possible that the Senate will consider different provisions within the bill or that the SEC carries out some of the changes through rulemaking.

The Corporate Governance Reform and Transparency Act (H.R.4015), which passed the US House of Representatives in December 2017 with bipartisan support, would significantly weaken the role institutional investors play in the corporate governance of US companies. The bill requires that proxy advisory firms submit their recommendations to companies prior to publication. If a proxy advisory firm must share its recommendation to management before sharing it with investors, the recommendations have the potential to be biased towards management. As a result, this legislation threatens to undermine equity owners' ability to receive independent information.

We are also concerned that H.R.4015 would impose additional disproportionate compliance costs on proxy advisory firms and add substantial expense to institutional investors. The legislation requires that proxy firms register with the SEC and employ an ombudsman to receive complaints "from the subjects" of voting recommendations. The PRI expressed these concerns in a letter to the Committee ahead of the bill's markup. There is currently no companion bill in the Senate.

THE INVESTOR STEWARDSHIP GROUP PRINCIPLES

In addition to federal policy initiatives, several US investors have put forth and are adhering to a voluntary stewardship code. In February 2017, the Investor Stewardship Group (ISG), a body of large US and international investors, launched a Stewardship Framework for Institutional Investors. The ISG members, representing more than $22 trillion in assets under management, have committed to a set of stewardship principles that require them to evaluate the corporate governance activities of their investee companies and work alongside issuers to encourage adoption and implementation.

The ISG has formalized six principles around corporate governance and six around stewardship. The framework holds institutional investors accountable as stewards of others' money and requires transparency and a commitment to working alongside companies in a constructive manner. Similarly, for public companies, boards are independent, but accountable to shareholders who have a right to vote their interest. The framework goes into effect in January 2018. Several ISG signatories and endorsers are also PRI signatories; we strongly support the efforts of the group.

REPORTING AND RESPONSIBILITY

SEC'S REGULATION S-K

The SEC, under the Regulation S-K framework, requires that public companies file annual disclosure reports. In 2010, the SEC issued guidance "to remind companies of their obligations under existing federal securities laws and regulations to consider climate change and its consequences as they prepare disclosure documents to be filed with us and provided to investors." While the 2010 guidance was a welcome step, little has been done since then to standardize climate-related disclosures.

Despite a lack of enforcement of the 2010 guidance, the SEC sought to update disclosure requirements in April 2016. The Commission issued a Concept Release seeking public comments on efforts to modernize disclosure requirements, including a provision on ESG factors, under Regulation S-K. The PRI welcomed the solicitation and submitted a comment letter requesting that the Commission formally adopts the term "ESG factors." We also put forth recommendations that included requiring a standardized method of reporting ESG risks and opportunities, along with demonstrating clear links to the company's business model, in annual corporate disclosures. However, the SEC has not indicated support for new guidance on this issue in the near future.

FORM 5500 REPORTING

In 2016, the DOL issued a proposed rulemaking to modernize Form 5500, which is the required annual public disclosure form for ERISA-governed retirement plans. As part of the proposal, the DOL sought public comments on whether it should require information on ESG investments.

The PRI believes that clear disclosures of ESG factors would provide valuable information about various risks and opportunities for retirement plans. With that in mind, we submitted a comment letter to the DOL. Since the change of Administration, the DOL's project has been placed on hold.

CONFLICT MINERALS DISCLOSURES

The Dodd-Frank Act required the SEC to issue a rule around certain companies disclosing the use of conflict minerals – tantalum, tin, gold or tungsten – in products. The intent was to provide investors with relevant information about the origins of materials and help reduce violence in the mining areas of the Democratic Republic of Congo and nearby regions. The final rule has had a series of legal challenges on the issue of freedom of speech.

Republicans in Congress have repeatedly tried to repeal the rule on the basis that the disclosures are burdensome, require increased supply chain tracking that impose additional costs, and that the information is unnecessary for investment decisions. The Financial CHOICE Act included a repeal provision, a standalone repeal bill passed out of the House Financial Services Committee, and there have been several attempts by the House to defund the SEC's enforcement of the program through appropriation bills.

The PRI supports strong disclosure requirements around conflict minerals. From October 2009 through September 2012, a group of PRI signatories, led by Hermes Fund Managers and representing $635 billion in assets under management, engaged with 18 consumer electronics companies in the US, Europe and Japan on the topic of conflict minerals. The engagement achieved positive results. Based on an evaluation of company performance and disclosure among the companies following the PRI engagement evaluation framework, scores for overall company performance increased by an average of 23% from 2010 to 2011. Several investors in the group actively participated in the development and adoption of the SEC's Conflict Minerals Rule.

VOLUNTARY STANDARDS

The Sustainability Accounting Standards Board (SASB) has developed standards that allow for comparability across industries and a framework of materiality-focused, industry-specific key performance indicators to improve ESG integration for investors and companies. Last year, the PRI joined SASB in hosting a webinar on how SASB standards can help PRI signatories fulfill their PRI commitments and adhere to the values that undergird the PRI principles.

The Financial Stability Board's Task Force on Climate-related Financial Disclosures (TCFD), which is co-chaired by Michael Bloomberg, recently put forth disclosure recommendations that marked a turning point on how companies, banks, insurers, investors and regulators understand and respond to climate risk and opportunity. The PRI released a report with Baker McKenzie reviewing the recommendations in the context of seven countries, including the US. The analysis found that the TCFD's recommendations were consistent with the SEC's Regulation S-K and can provide helpful metrics and strategies for documenting climate-related financial risks.

Lastly, in March 2017, the New York Stock Exchange (NYSE) also affirmed its commitment to ESG disclosure, with the launch of a central repository of ESG reporting resources, including a range of tools to help companies understand ESG disclosure. Nasdaq OMX also released an ESG reporting guide for its Nordic and Baltic markets, which it has committed to modifying for the US market.

The PRI believes that recent developments around voluntary standards are a step in the right direction for stronger disclosure policies in the US.

FINANCIAL ACCOUNTING STANDARDS BOARD

In 2016, the Financial Accounting Standards Board (FASB), which sets accounting standards for public companies, released a proposal to update disclosure requirements. The proposal recommended including a disclosure requirement for disaggregated information on taxes.

The PRI wrote to FASB Technical Director, Susan Cosper, in support of these efforts. Our response included recommendations put forward by a PRI-convened investor taskforce on corporate tax responsibility to facilitate better understanding of tax-related risks and encourage dialogue with investee companies. The taskforce also contributed to the PRI's report, Engagement guidance on corporate tax responsibility: Why and how to engage with your investee companies.

STATE LEGISLATION

In early 2017, California state Senator Ben Allen (D-Santa Monica) introduced SB 560, the Climate Risk Bill, which would require state pension systems to consider "financial climate risk" within their funds. The bill would also mandate that the funds include risk assessments in their annual financial reports beginning in 2020.

California is home to CalPERs, the largest public pension fund in the country, and CalSTRS. Both pension funds are at the forefront of ESG integration. CalSTRS issued a statement opposing SB 560, stating it would like to see a number of changes to the bill, including changing the term financial "climate risk" to "climate-related financial risk." CalSTRS would also like clarification that the fund will only act in line with fiduciary responsibilities, and for the annual reporting requirement to be removed.

CONCLUSION

The PRI remains optimistic about the continued rise of responsible investment in the US. Despite the introduction of legislation in the US House of Representatives that could have serious implications for ESG issues, American investors continue to demand ESG integration to generate long-term growth. There has also been significant advancement in US policy in recent years – most notably the DOL's acknowledgement that when ESG issues contain financial value, they should be considered a core part of a fiduciary's investment analysis.

The PRI's Blueprint document, launched last year, focuses on our ESG priorities for the next decade. We are committed to collaborating with policy makers to address barriers to responsible investing. We will support investors in engaging federal and state law makers and regulators to further advance policies that not only support, but also encourage, ESG investing for long-term growth and value creation.

This briefing paper has been prepared for US and international signatories interested in US policy making on responsible investment and climate change. It is not intended to be exhaustive nor does it constitute legal advice. The paper was published in January 2018. For questions or comments, please email policy@unpri.org.

Prepared by Jenny Waits and Will Martindale.

The Principles for Responsible Investment (PRI)

The PRI works with its international network of signatories to put the six Principles for Responsible Investment into practice. Its goals are to understand the investment implications of environmental, social and governance (ESG) issues and to support signatories in integrating these issues into investment and ownership decisions. The PRI acts in the long-term interests of its signatories, of the financial markets and economies in which they operate and ultimately of the environment and society as a whole.

The six Principles for Responsible Investment are a voluntary and aspirational set of investment principles that offer a menu of possible actions for incorporating ESG issues into investment practice. The Principles were developed by investors, for investors. In implementing them, signatories contribute to developing a more sustainable global financial system.

More information: www.unpri.org

The PRI is an investor initiative in partnership with UNEP Finance Initiative and the UN Global Compact.

United Nations Environment Programme Finance Initiative (UNEP FI)

UNEP FI is a unique partnership between the United Nations Environment Programme (UNEP) and the global financial sector. UNEP FI works closely with over 200 financial institutions that are signatories to the UNEP FI Statement on Sustainable Development, and a range of partner organisations, to develop and promote linkages between sustainability and financial performance. Through peer-to-peer networks, research and training, UNEP FI carries out its mission to identify, promote, and realise the adoption of best environmental and sustainability practice at all levels of financial institution operations.

More information: www.unepfi.org

United Nations Global Compact

The United Nations Global Compact is a call to companies everywhere to align their operations and strategies with ten universally accepted principles in the areas of human rights, labour, environment and anti-corruption, and to take action in support of UN goals and issues embodied in the Sustainable Development Goals. The UN Global Compact is a leadership platform for the development, implementation and disclosure of responsible corporate practices. Launched in 2000, it is the largest corporate sustainability initiative in the world, with more than 8,800 companies and 4,000 non-business signatories based in over 160 countries, and more than 80 Local Networks.

More information: www.unglobalcompact.org

https://www.unpri.org/about/sustainable-development-goals

Causeway

Causeway's Observations on Environmental, Social, Governance Investing and Ratings

Decades of investment experience have taught Causeway that the share prices of companies that take care to preserve the environment, maintain fair employment standards, and have an above average dedication to shareholders are generally benefitted by these policies. In the past five years, the global asset management industry has given these practices a new name and credence. As a result, we have devoted increased attention to developing a more systematic approach to analyzing the environmental, social, and governance ("ESG") practices of companies in which we seek to invest. Despite growing interest, ESG investing is still in its infancy. The approaches and standards among the data providers developing ratings, the investment managers offering ESG strategies, and the asset owners implementing their own objectives generally lack consistency. The ambiguity makes a thorough evaluation particularly important. We believe Causeway's capabilities spanning both quantitative and fundamental research provide us a unique advantage in evaluating data providers and implementation approaches. These capabilities have also allowed us, we believe, to improve the alpha potential of third-party ESG data by allocating more weight to those topics deemed most material to specific industries.

Investing with a consideration for the ESG practices of companies has been prevalent in Europe for some time. However, its popularity has grown over recent years in the United States and other parts of the world. The United Nations Principles for Responsible Investment (PRI) now has over 1,500 signatories (including Causeway as of September 2016) managing more than $60 trillion in assets.[1] The U.S. SIF Foundation separately estimates that $8.1 trillion invested under professional management in the U.S. apply various ESG criteria in their investment analysis and portfolio selection as of the beginning of 2016, a roughly 70% increase from the $4.8 trillion two years earlier. The $8.1 trillion also represents over 20% of assets managed professionally in the U.S.[2]

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[1] United Nations. "U.N. Principles for Responsible Investment (PRI) 2016 Annual Report," http://annualreport.unpri.org/PRI_AR-2016.pdf.
[2] U.S. SIF Foundation, "2016 Report on US Sustainable, Responsible and Impact Investing Trends," http://www.ussif.org/files/SIF_Trends_16_Executive_Summary(1).pdf.

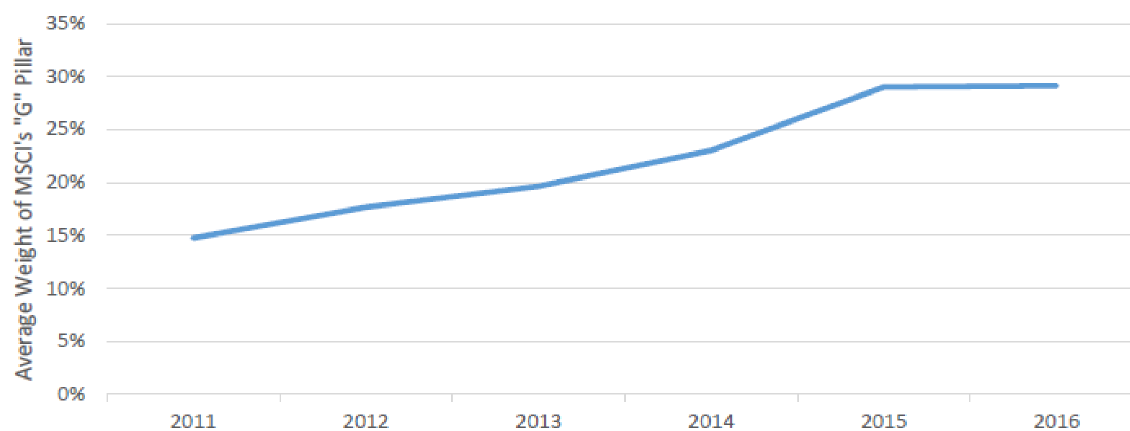
Causeway

The Alpha Potential of ESG

A returns or risk-based rationale raises the hurdle significantly because it requires stocks in an ESG portfolio to produce the same (or higher) shareholder returns, with potentially lower volatility, as the broader market. There are a number of reasons why, in theory, this should be possible. Most of them require that favorable ESG practices eventually positively impact a company's earnings or the variability of those earnings. There may be a wide variety of transmission mechanisms through which this can happen. From an environmental perspective, negative or positive externalities may eventually impact earnings through changes in regulation or a normalization of operating or capital expenditures. One obvious example was BP's Deepwater Horizon drilling rig in the Gulf of Mexico. A culture of aggressive cost savings (positive for short-term earnings) ultimately led to a well blowout that caused loss of life, environmental devastation, and a disaster for shareholders that far eclipsed the initial savings in operating costs and capital expenditures. From a social perspective, companies with exceptional human capital management may attract better talent, and companies with a keener focus on product liability may develop a reputation for higher-quality products and experience higher volumes and/or prices. From a governance perspective, companies with a greater emphasis on corporate behavior and investor relations may be rewarded by their shareholders with a superior valuation. In each of these examples, incorporating ESG practices into a stock selection process should, in theory, produce positive active returns or alpha.

MSCI has steadily increased the weight of governance within its composite ESG score.

Exhibit 2. MSCI's Governance ("G") Pillar Weight



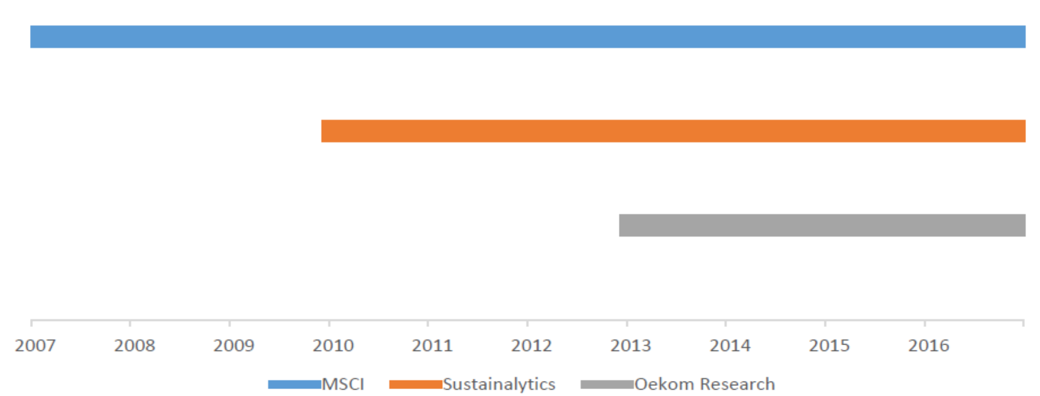
Note: G pillar weight is calculated as the index-weighted average of the MSCI World Index constituents' G pillar weights. Source: MSCI

Conclusion

Interest has surged in ESG investing, but this new movement has yet to offer objective and proven standards for measurement and implementation. Many studies have shown a positive relationship between corporate ESG practices and financial performance, but the literature linking ESG characteristics with stock price performance remains inconclusive. Although the data on ESG investing does not universally indicate superior returns compared to broader markets, we believe this may result from poorly conceived data collection and inappropriate ESG factor weighting schemes. Data choices and implementation methodologies undoubtedly impact the alpha opportunity of ESG factors, and we believe that a focus on materiality, in particular, is a critical component to a successful outcome. We suggest an integrated quantitative and fundamental approach to obtain the highest alpha potential from ESG investing.

The history of ESG data is relatively short among all major third-party vendors.

Exhibit 1. History of data availability



Note: Coverage measured in terms of number of constituents of MSCI World Index. Source: MSCI, Sustainalytics, Oekom Research

BUDGETING / FINANCIAL CONDITION

AS OF DECEMBER 31, 2017

	2017-2019 BUDGET	ADJUSTED APPROPRIATION	EXPENDITURES BIENNIUM TO DATE ACTUAL	BUDGET AVAILABLE	% BUDGET AVAILABLE	% OF BIENNIUM REMAINING
SALARIES AND BENEFITS	$ 4,425,570.00	$ 4,425,570.00	$ 1,053,640.09	$ 3,371,929.91	76.19%	75.00%
OPERATING EXPENDITURES	862,484.00	862,484.00	143,369.82	719,114.18	83.38%	75.00%
CONTINGENCY	52,000.00	52,000.00	0.00	52,000.00	100.00%	75.00%
TOTAL	$ 5,340,054.00	$ 5,340,054.00	$ 1,197,009.91	4,143,044.09	77.58%	75.00%

EXPENDITURE REPORT

QUARTER ENDED DECEMBER 31, 2017

	INVESTMENT	RETIREMENT	QUARTERLY TOTALS	FISCAL YEAR TO - DATE	BIENNIUM TO - DATE
CONTINUING APPROPRIATIONS					
INVESTMENT EXPENDITURES (SEE ATTACHED DETAIL)	$ 7,176,483.34	$ 0.00	$ 7,176,483.34	$ 14,125,360.76	$ 14,125,360.76
MEMBER CLAIMS					
1. ANNUITY PAYMENTS	0.00	50,480,018.72	50,480,018.72	100,950,751.74	100,950,751.74
2. REFUND PAYMENTS	0.00	2,253,002.80	2,253,002.80	3,787,530.34	3,787,530.34
TOTAL MEMBER CLAIMS	0.00	52,733,021.52	52,733,021.52	104,738,282.08	104,738,282.08
OTHER CONTINUING APPROPRIATIONS	64,511.41	62,481.70	126,993.11	334,266.45	334,266.45
TOTAL CONTINUING APPROPRIATIONS	7,240,994.75	52,795,503.22	60,036,497.97	119,197,909.29	119,197,909.29
BUDGETED EXPENDITURES					
1. SALARIES & BENEFITS					
SALARIES	193,667.55	180,900.75	374,568.30	777,445.30	777,445.30
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	60,446.27	72,492.24	132,938.51	276,194.79	276,194.79
TOTAL SALARY & BENEFITS	254,113.82	253,392.99	507,506.81	1,053,640.09	1,053,640.09
2. OPERATING EXPENDITURES					
DATA PROCESSING	4,151.90	17,744.65	21,896.55	35,661.65	35,661.65
TELECOMMUNICATIONS - ISD	818.54	1,386.32	2,204.86	3,785.72	3,785.72
TRAVEL	1,813.97	4,760.84	6,574.81	10,550.36	10,550.36
IT - SOFTWARE/SUPPLIES	85.76	149.22	234.98	234.98	234.98
POSTAGE SERVICES	610.05	2,117.48	2,727.53	18,580.43	18,580.43
IT - CONTRACTUAL SERVICES	96.22	1,384.34	1,480.56	2,202.29	2,202.29
BUILDING/LAND RENT & LEASES	5,607.54	9,009.32	14,616.86	44,455.58	44,455.58
DUES & PROF. DEVELOPMENT	0.00	1,675.00	1,675.00	3,810.00	3,810.00
OPERATING FEES & SERVICES	194.90	243.74	438.64	5,045.86	5,045.86
REPAIR SERVICE	0.00	0.00	0.00	229.39	229.39
PROFESSIONAL SERVICES	1,090.11	2,084.89	3,175.00	7,190.00	7,190.00
INSURANCE	165.35	287.66	453.01	609.80	609.80
OFFICE SUPPLIES	20.00	153.73	173.73	518.00	518.00
PRINTING	57.15	1,462.45	1,519.60	6,919.74	6,919.74
PROFESSIONAL SUPPLIES & MATERIALS	325.80	424.94	750.74	750.74	750.74
MISCELLANEOUS SUPPLIES	30.01	39.66	69.67	178.75	178.75
IT EQUIPMENT UNDER $5000	0.00	0.00	0.00	0.00	0.00
OTHER EQUIP. UNDER $5000	0.00	0.00	0.00	2,321.80	2,321.80
OFFICE EQUIP. & FURNITURE UNDER $5000	20.18	124.56	144.74	324.73	324.73
TOTAL OPERATING EXPENDITURES	15,087.48	43,048.80	58,136.28	143,369.82	143,369.82
3. CONTINGENCY	0.00	0.00	0.00	0.00	0.00
TOTAL BUDGETED EXPENDITURES	269,201.30	296,441.79	565,643.09	1,197,009.91	1,197,009.91
TOTAL EXPENDITURES	$ 7,445,684.64	$ 53,029,463.31	$ 60,602,141.06	$ 120,394,919.20	$ 120,394,919.20

INVESTMENT EXPENDITURE DETAIL

FEES PAID DURING THE QUARTER ENDED DECEMBER 31, 2017

FOR QUARTER ENDED 9/30/17

PENSION DEVELOPED INTERNATIONAL EQUITY POOL		
Northern Trust	25,077.48	
Wellington	211,434.85	
William Blair	140,814.28	
TOTAL PENSION INTERNATIONAL EQUITY		377,326.61
PENSION GLOBAL EQUITY POOL		
Epoch	671,526.71	
LSV	132,154.00	
TOTAL PENSION GLOBAL EQUITY		803,680.71
PENSION BELOW INVESTMENT GRADE FIXED		
Loomis Sayles		230,244.89
PENSION INVESTMENT GRADE FIXED INCOME POOL		
JP Morgan	68,715.51	
PIMCO	153,612.64	
State Street	11,204.12	
TOTAL PENSION INVESTMENT GRADE FIXED INCOME		233,532.27
PENSION INFRASTRUCTURE POOL		
JP Morgan		309,863.43
PENSION LARGE CAP EQUITY POOL		
LA Capital		236,979.53
PENSION SMALL CAP EQUITY POOL		
Atlanta Capital		239,406.00
PENSION REAL ESTATE		
JP Morgan (Special & Strategic)	440,644.31	
Invesco	216,247.71	
TOTAL PENSION REAL ESTATE		656,892.02
PENSION INTERNATIONAL FIXED INCOME		
Brandywine	150,114.85	
UBS	85,774.53	
TOTAL PENSION INTERNATIONAL FIXED INCOME		235,889.38
INSURANCE FIXED INCOME POOL		
Prudential	76,279.25	
State Street	12,016.71	
Wells	122,206.80	
Western Asset	100,454.15	
TOTAL INSURANCE FIXED INCOME		310,956.91
INSURANCE LARGE CAP EQUITY POOL		
LA Capital	54,417.40	
LSV	58,986.00	
TOTAL INSURANCE LARGE CAP		113,403.40

INVESTMENT EXPENDITURE DETAIL

FEES PAID DURING THE QUARTER ENDED DECEMBER 31, 2017

INSURANCE SMALL CAP EQUITY POOL		
PIMCO RAE		25,813.43
INSURANCE INT'L EQUITY		
LSV	75,992.00	
William Blair	72,202.39	
TOTAL INSURANCE INT'L EQUITY		148,194.39
INSURANCE DIVERSIFIED REAL ASSETS		
JP Morgan	147,833.40	
Western Asset	37,025.93	
TOTAL INSURANCE DIVERSIFIED REAL ASSETS		184,859.33
INSURANCE REAL ESTATE		
Invesco	54,987.05	
JP Morgan	134,851.31	
TOTAL INSURANCE REAL ESTATE		189,838.36
INSURANCE SHORT TERM FIXED		
JP Morgan		22,138.06
LEGACY FIXED INCOME		
Prudential	117,850.67	
State Street	19,628.40	
Wells	192,683.85	
Western Asset	156,029.92	
TOTAL INSURANCE FIXED INCOME		486,192.84
LEGACY LARGE CAP EQUITY		
LA Capital	236,503.30	
LSV	248,441.00	
TOTAL INSURANCE LARGE CAP		484,944.30
LEGACY SMALL CAP EQUITY		
PIMCO RAE		109,637.93
LEGACY INT'L EQUITY		
LSV	398,129.00	
William Blair	383,488.73	
TOTAL INSURANCE INT'L EQUITY		781,617.73
LEGACY DIVERSIFIED REAL ASSETS		
JP Morgan	195,207.47	
Western Asset	107,760.49	
TOTAL INSURANCE DIVERSIFIED REAL ASSETS		302,967.96
LEGACY REAL ESTATE		
Invesco	107,463.17	
JP Morgan	254,783.67	
TOTAL INSURANCE REAL ESTATE		362,246.84
PERS RETIREE HEALTH INSURANCE CREDIT FUND		
SEI		84,884.89

INVESTMENT EXPENDITURE DETAIL

FEES PAID DURING THE QUARTER ENDED DECEMBER 31, 2017

JOB SERVICE FUND		
SEI		69,006.19
TOBACCO PREVENTION & CONTROL TRUST FUND		
STATE STREET		4,725.46
CONSULTANT		
Adams Street	14,437.00	
Callan	106,305.14	
Novarca	40,830.81	
TOTAL CONSULTANT		161,572.95
TOTAL FOR QUARTER ENDED 9/30/17		**7,166,815.81**
FOR QUARTER ENDED 12/31/17		
PENSION CASH		
Northern Trust		9,667.53
TOTAL FOR QUARTER ENDED 12/31/17		**9,667.53**
TOTAL FEES PAID DURING QUARTER ENDED 12/31/2017		**7,176,483.34**

NORTH DAKOTA RETIREMENT AND INVESTMENT OFFICE

QUARTERLY MONITORING REPORT

Quarter Ended December 31, 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 at least three full office meetings and three manager meetings during the fourth 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. In addition, Terra Miller-Bowley, Supervisor of Audit Services, and Denise Osmond, Retirement Benefits Counselor, resigned from RIO on October 31, 2017, and November 15, 2017, respectively, to accept new career opportunities with the Department of Transportation.

RIO is pleased to report that all three open positions will be filled in January. Denise Weeks re-joined RIO as a Retirement Benefits Counselor on January 1, 2018. Denise previously worked at RIO for over 14 years before electing to pursue another opportunity in the private sector. Sara Sauter became RIO's Supervisor of Audit Services on January 1, 2018, noting that she previously worked for the Department of Financial Institutions as an Examiner. RIO extended the TFFR Administrative Assistant position to Melissa Kopp in early-January. Missy's start date is currently scheduled for January 22, 2018, noting that she currently works for the Department of Health.

ND Retirement and Investment Office (RIO)
Agency Organizational Chart (January 2018)

ND State Investment Board

ND Teachers' Fund for Retirement Board

- SIB Audit Committee
- David Hunter NC 9002 — EXECUTIVE DIRECTOR/CIO — 1197 GRADE 99
  - Darren Schulz NC 9021 — DEP CHIEF INVESTMENT OFFICER — 28262 GRADE 99
    - CONNIE FLANAGAN CI 0558 — FISCAL AND INVESTMENT OPERATIONS MANAGER — 1205 GRADE Q
      - Susan Walcker CI 0223 — INVESTMENT ACCOUNTANT — 1201 GRADE L
      - Cody Schmidt CI 0312 — COMPLIANCE OFFICER — 1212 GRADE L
    - Eric Chin CI 0560 — INVESTMENT ANALYST — 29311 GRADE O
  - Sara Sauter CI 0244 — SUPERVISOR of AUDIT SERVICES — 1200 GRADE N
    - Dottie Thorsen CI 0242 — AUDITOR — 1214 GRADE K
  - Bonnie Heit CI 0951 — SUPERVISOR of ADMINISTRATIVE SERVICES and OFFICE MANAGER — 1202 GRADE J
    - Melissa Kopp CI 0041 — TFFR ADMINISTRATIVE ASSISTANT — 1207 GRADE H
    - Ruby Benning CI 0032 — OFFICE ASSISTANT (RECEPTIONIST) — 1209 GRADE E
  - Fay Kopp NC 9021 — DEPUTY EXEC DIRECTOR/ CHIEF RETIREMENT OFFICER — 1198 GRADE 99
    - Rich Nagel CI 0171 — SUPERVISOR of INFORMATION SYSTEMS — 1203 GRADE M
      - Len Wall CI 0153 — DATA PROCESSING COORDINATOR — 1204 GRADE K
    - Shelly Schumacher CI 0559 — RETIREMENT PROGRAM MANAGER — 1199 GRADE O
      - Paula Brown CI 4250 — RETIREMENT PROGRAMS SPECIALIST — 1213 GRADE K
      - Denise Weeks CI 4250 — RETIREMENT PROGRAMS SPECIALIST — 1210 GRADE K
      - Tami Volkert CI 0221 — EMPLOYER SERVICES COORDINATOR — 1206 GRADE J
      - Estelle Kirchoffner CI 0911 — MEMBERSHIP SPECIALIST — 1211 GRADE I

Total of 19 FTE positions allocated between SIB and TFFR programs based on approximate time spent on each program.
Currently FTEs are split 12 TFFR and 7 SIB (8 shared positions in fiscal, administrative, IT and audit).

1. SIB is the Governing Board of RIO (per statute) and the Executive Director / Chief Investment Officer (ED/CIO) reports directly to SIB.
2. ED/CIO is responsible for all staffing of RIO office.
3. Deputy ED/Chief Retirement Officer (CRO) reports functionally to TFFR Board.
4. Audit Services report directly to the SIB Audit Committee (for compliance matters) and the RIO ED/CIO (for day to day operational matters).
5. Fiscal & Investment Services report to the Deputy CIO.
6. Administrative & Office Services report directly to the ED/CIO and is functionally shared with the Deputy ED/CRO and Deputy CIO.
7. Retirement Program and IT Services report to the Deputy ED/CRO.
8. RIO Executive Team includes the Deputy CIO, Deputy ED/CRO & ED/CIO.
9. RIO Management includes the Audit Supervisor, Fiscal & Investment Operations Manager, Administrative Services Supervisor, IT Supervisor, Retirement Program Manager and RIO Executive Team.

Quarterly Report on Ends
Q2:FY18

Investment Program

Ongoing due diligence conducted on the following organizations:

Adams Street (private equity)	JP Morgan (real estate)
Ares (private credit)	PIMCO (domestic fixed income)
Blackrock (private equity)	Prudential (domestic fixed income)
Cerberus (private credit)	Research Affiliates (public equity)
Grosvenor (infrastructure)	SEI (multi-asset class)
InvestAmerica (private equity)	UBS (international fixed income)
JP Morgan (infrastructure)	Western (domestic fixed income)

Preliminary due diligence conducted on the following organizations:

AMP (infrastructure)	Morgan Stanley (real assets)
BlackRock (infrastructure)	Pantheon (real assets)
Brookfield (infrastructure)	QMA (public equity)
Carlyle (infrastructure)	Stonepeak (infrastructure)
First State (infrastructure)	THL (private credit)
I Squared (infrastructure)	Westbrook (real estate)

At the October SIB meeting, Callan Associates presented Board education relating to governance trends in the public sector.

Due to several investment staff departures at Wells Montgomery prior to and following the Board's approval in September for the firm to manage a core fixed income mandate on behalf of the pension trust, the Board approved a Staff recommendation to substitute Prudential Global Investment Management's Core Bond strategy for an up to $300 million core fixed income mandate on behalf of the pension trust.

In November, the Board approved the retention of Mercer to assist with a search for private infrastructure managers to complement existing infrastructure platform investments. Legal contract review is pending. In conjunction with the hiring of Mercer, Staff conducted on-site due diligence meetings during the quarter with a number of private infrastructure managers.

Also at the November meeting, the Board approved the retention of Financial Recovery Technologies to provide global securities litigation monitoring and claims filing services.

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, NDPERS Investment Subcommittee and the Legacy and Budget Stabilization Fund Advisory Board.

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 December 31, 2017

Retirement Program

This report highlights exceptions to normal operating conditions.

- TFFR's actuary presented the 2017 annual actuarial valuation report, funding projections, and GASB 67 information to the TFFR Board and Legislative Employee Benefits Programs Committee.
- TFFR received 2017 Public Pension Standards Award for Administration. This award is designed to recognize public employee retirement systems that meet professional standards for pension plan administration. TFFR has received a PPCC award each year it has been granted since 1992.
- Transitioned additional retirees to direct deposit/EFT for receipt of monthly benefit payments. Of the 8,500 retirees, only 10 retirees were still receiving paper checks in December 2017.
- Transitioned remaining school districts which have the capability of submitting TFFR reports electronically to TFFR Employer Online Services. Currently 98% of active members are being electronically reported by participating employers.
- Making final preparations for the TFFR Member Online GO LIVE date which is scheduled for February 1, 2018. Conducted final user testing and ITD load testing; resolved remaining technical and security issues; finalized instructions, informational materials, and other implementation details.
- Continued exploring retirement program cost saving initiatives.

NDSIB Watch List

At December 31, 2017

JP Morgan MBS (Pen.)	$132,337,114		
	Returns	Index[1]	Excess
1 Year	3.04	2.47	0.57
3 Year	2.43	1.88	0.54
Inception*	2.64	2.29	0.34

*Funded 09/30/2014

[1] Bloomberg Mortgage Index

UBS International Fixed (Pen.)	$94,812,889		
	Returns	Index[2]	Excess
1 Year	9.99	10.51	(0.53)
3 Year	1.64	1.77	(0.13)
Inception*	5.95	5.69	0.26

*Funded 07/01/1989

[2] Bloomberg Global Aggregate ex-US

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

UPDATE:

In connection with the Fixed Income restructuring being implemented within the Pension Trust, RIO notes the JPMorgan MBS (Mortgage Backed Securities) strategy and the UBS International Fixed Income strategy are in the process of being transitioned into other approved debt strategies. As such, the NDSIB Watch List may not include any investment mandates when refreshed in the upcoming quarter.

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.