



# ND STATE INVESTMENT BOARD MEETING

Friday, March 23, 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 (February 23, 2018)

### III. GOVERNANCE

- A. Board Self-Assessment - Ms. Jeanna Cullins and Ms. Julie Becker (1 hour) **Board Action** <sup>(1)</sup>
- B. Securities Litigation Committee Update - Mr. Hunter and Ms. Flanagan (15 minutes) **Board Action**
- C. New Client: ND Parks & Recreation Department - Ms. Flanagan (10 minutes) **Board Action**

### IV. INVESTMENTS

- A. Investment Policy Statements - Mr. Hunter (20 minutes)
  - 1. City of Bismarck Employee Pension Plan **Board Action**
  - 2. City of Bismarck Police Pension Plan **Board Action**
  - 3. City of Grand Forks Employee Pension Plan **Board Action**
  - 4. ND Association of Counties **Board Action**
  - 5. PERS Retiree Health Insurance Credit Fund **Board Action**

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

- B. Infrastructure Overview - Mr. Schulz and Mr. Chin (15 minutes) <sup>(1)</sup>
- C. I-Squared Capital Infrastructure Manager Interview - Mr. Sadek Wahba (45 minutes)
- D. Mercer Due Diligence Report on ISQ – Mr. Hunter and Mr. McGowan (15 minutes) <sup>(2)</sup>
- E. RIO Infrastructure Recommendation - Mr. Schulz and Mr. Chin (15 minutes) **Board Action**

### V. ADMINISTRATION

- A. Executive Review Committee Update - Ms. Smith (5 minutes)
- B. GFOA Award - Mr. Hunter (5 minutes)

### VI. FUTURE MANAGER MEETINGS

### VII. OTHER

Next Meetings: SIB - April 27, 2018, 8:30 a.m. - State Capitol, Peace Garden Room  
SIB Securities Litigation Committee - May 10, 2018 - RIO Conference Room  
SIB Audit Committee - May 24, 2018, 3:00 pm - RIO Conference Room

### VIII. ADJOURNMENT

- <sup>(1)</sup> To be distributed by Aon Hewitt (Board Self-Assessment) or RIO Staff (Infrastructure Overview) at the SIB meeting.
- <sup>(2)</sup> Potential Executive Session pursuant to NDCC §44-04-18.4(1) & §44-04-19.2 to review confidential financial research.

NORTH DAKOTA STATE INVESTMENT BOARD  
MINUTES OF THE  
FEBRUARY 23, 2018, BOARD MEETING

1593

**MEMBERS PRESENT:** Brent Sanford, Lt. Governor, Chair  
Rob Lech, TFFR Board, Vice Chair  
Mike Gessner, TFFR Board  
Jon Godfread, Insurance Commissioner  
Adam Miller, PERS Board  
Mel Olson, TFFR Board  
Kelly Schmidt, State Treasurer  
Troy Seibel, PERS Board  
Jodi Smith, Commissioner of Trust Lands  
Yvonne Smith, PERS Board  
Cindy Ternes, WSI Designee

**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  
Sara Sauter, Audit Svs Suprv  
Cody Schmidt, Compliance Officer  
Darren Schulz, Dep CIO  
Susan Walcker, Invt Acct

**OTHERS PRESENT:** Patrick Brooke, Attorney General's Office  
Alex Browning, Callan Associates  
Kelvin Hullet, Bank of North Dakota  
Josef Lakonishok, LSV Asset Mgmt  
James Owens, LSV Asset Mgmt  
Bryan Reinhardt, PERS  
Harshal Shah, Callan Associates

**CALL TO ORDER:**

Lt. Governor Sanford, Chair, called the State Investment Board (SIB) regular meeting to order at 8:30 a.m. on Friday, February 23, 2018, at the State Capitol, Peace Garden Room, Bismarck, ND.

**AGENDA:**

IT WAS MOVED BY MR. LECH AND SECONDED BY MR. OLSON AND CARRIED BY A VOICE VOTE TO ACCEPT THE AGENDA FOR THE FEBRUARY 23, 2018, MEETING.

AYES: COMMISSIONER SMITH, TREASURER SCHMIDT, MR. MILLER, COMMISSIONER GODFREAD, MR. OLSON, MS. TERNES, MR. GESSNER, MR. LECH, MS. SMITH, LT. GOVERNOR SANFORD

NAYS: NONE

MOTION CARRIED

ABSENT: MR. SEIBEL

**MINUTES:**

IT WAS MOVED BY MR. OLSON AND SECONDED BY MS. SMITH AND CARRIED BY A VOICE VOTE TO ACCEPT THE MINUTES OF THE JANUARY 26, 2018, MEETING AS DISTRIBUTED.

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

**NAYS: NONE**

**MOTION CARRIED**

**ABSENT: MR. SEIBEL**

**INVESTMENTS:**

Asset and Performance Overview - Mr. Hunter highlighted SIB clients' assets under management as of December 31, 2017. Assets under management grew by 17 percent or \$1.9 billion in 2017 due to \$1.7 billion of net investment income including \$635 million for the Legacy Fund, \$440 million for the Public Employees Retirement System (PERS), \$360 million for the Teachers' Fund for Retirement (TFFR), and \$195 million for Workforce Safety & Insurance (WSI). SIB client assets totaled approximately \$13.3 billion based on unaudited valuations.

The Pension Trust posted a net return of 17.1 percent in the last year. During the last 5 years, the Pension Trust generated a net annualized return of 9.3 percent, exceeding the performance benchmark of 8.2 percent.

The Insurance Trust generated a net return of 10.5 percent in the last year. During the last 5-years, the Insurance Trust posted a net annualized return of 5.5 percent, exceeding the performance benchmark of 4.1 percent.

The Legacy Fund generated a net return of 14.6 percent last year, exceeding its policy benchmark. During the last 5-years, the Legacy Fund earned a net annualized return of 6.0 percent, exceeding the performance benchmark of 5.0 percent.

Every Pension Trust client posted positive excess returns of at least 0.75 percent per annum over the last 5-years, while adhering to approved risk levels and generating at least 0.40 percent of positive risk adjusted excess return (over the last 5-years).

Every Non-Pension Trust client generated positive excess return of at least 0.75 percent per annum and positive risk adjusted excess returns for the 5-years ended December 31, 2017, with two exceptions - the PERS Retiree Health Insurance Credit Fund (-0.10 percent) and PERS Group Insurance (-0.05 percent).

Risk, as measured by standard deviation, was within approved levels for all SIB clients for the 5-years ended December 31, 2017.

Callan Associates, as of December 31, 2017, confirmed actual asset allocations are within target ranges and guidelines.

Mr. Hunter also reviewed investment manager reviews that have taken place in 2017 and the meetings scheduled thus far into 2018, the investment work plan as of February 23, 2018, the annual board planning cycle, strategic investment plan, and fundamental investment beliefs of the SIB. Mr. Hunter also reviewed the results of the State Government Survey completed in December 2017 which compared RIO's employee survey results to cabinet agencies.

Callan Associates - Callan representatives reviewed economic and market environments for the period ending December 31, 2017, as well as performance of the Pension Trust, Insurance Trust, and Legacy Fund. Mr. Browning and Mr. Shah also provided an educational segment on Private Equity and reviewed the portfolio performance of the SIB's current private equity managers.

**IT WAS MOVED BY TREASURER SCHMIDT AND SECONDED BY MR. LECH AND CARRIED BY A ROLL CALL VOTE TO ACCEPT CALLAN'S INVESTMENT MEASUREMENT REVIEWS FOR THE QUARTER ENDING DECEMBER 31, 2017.**

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

**NAYS: NONE**

**MOTION CARRIED**

Investment Policy Statements - Mr. Hunter reviewed revised Investment Policy Statements for the Teachers' Fund for Retirement (TFFR) and the Park District of the City of Grand Forks.

**IT WAS MOVED BY MR. OLSON AND SECONDED BY MR. GESSNER AND CARRIED BY A ROLL CALL VOTE TO ACCEPT THE INVESTMENT POLICY STATEMENT CHANGES FOR THE TFFR FUND.**

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

**NAYS: NONE**

**MOTION CARRIED**

**IT WAS MOVED BY MS. SMITH AND SECONDED BY MR. GESSNER AND CARRIED BY A ROLL CALL VOTE TO ACCEPT THE INVESTMENT POLICY STATEMENT CHANGES FOR THE PARK DISTRICT OF THE CITY OF GRAND FORKS.**

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

**NAYS: NONE**

**MOTION CARRIED**

Callan National Conference - SIB trustees Treasurer Schmidt, Mr. Seibel, Ms. Smith, and Mr. Miller attended Callan's annual conference in San Francisco, CA, January 29 - 31, 2018. The trustees felt the conference was well done, informative, and extended their gratitude to Callan.

Securities Litigation Charter & Standing Committee Policy - The SIB Securities Litigation Committee consisting of Mr. Seibel, Chair, Treasurer Schmidt, Mr. Brooke, Ms. Flanagan, and Mr. Hunter held their first meeting on February 23, 2018. The SIB reviewed a draft of the Committee's Charter for consideration and approval. After the review, modifications were made to the Charter. The Committee will bring the Charter back for further review and consideration as well as a draft securities litigation policy.

The Board was also provided a revised SIB Governance Policy, Governance Process/Standing Committees. The policy was revised to include the SIB Securities Litigation Committee as a standing committee of the SIB. The policy will be brought back to the Board for their first reading once the policy has been revised to reflect the Board's action regarding the Charter.

Investment Work Plan - Mr. Schulz provided an update on the transitioning of the JP Morgan Mortgage Backed Securities mandate and the UBS and Brandywine Non US Global Fixed Income mandates. Blackrock is assisting with the transitioning of the mandates to Prudential's Core Bond portfolio and the process is expected to be completed by the end of March. RIO personnel are also looking at non-investment grade compliments to the existing non-investment grade portfolio and also are engaged in a private infrastructure search.

SIB Investment Manager Summary - Mr. Hunter informed the Board RIO personnel has received reverse inquiries on the SIB's private market investments particularly in private equity. Mr. Hunter requested the Board consider the sale of non-strategic



private market investments at or above their latest market valuation on or before June 30, 2018. The Board concurred.

The Board recessed at 10:23 am and reconvened at 10:41 am

**GOVERNANCE:**

Board Self-Assessment - At the January 26, 2018, meeting, the SIB directed RIO personnel to engage Aon Hewitt to conduct a board self-assessment. A draft self-assessment questionnaire and proposed timeline was presented to the Board for their consideration. After discussion,

**IT WAS MOVED BY MS. TERNES AND SECONDED BY MR. LECH AND CARRIED BY A ROLL CALL VOTE TO ACCEPT THE PROPOSED TIMELINE FOR THE BOARD SELF ASSESSMENT.**

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

**NAYS: NONE**

**MOTION CARRIED**

The self-assessment will be sent to the Board by Aon Hewitt and the results will be reviewed with the Board by Aon Hewitt at the Board's March 23, 2018, meeting.

Audit Committee - Ms. Sara Sauter reviewed activities of the SIB Audit Committee as of February 22, 2018. The Audit Committee received the following from the Internal Audit Division - second quarter activities report for the period of October 1, 2017 - December 31, 2017, the Executive Limitations report for the period of January 1, 2017 - December 31, 2017, and GASB 68 Schedules audit for the period ending June 30, 2017. The Audit Committee is also reviewing their Charter. Once finalized, the Charter will be brought before the SIB for their consideration and approval.

**IT WAS MOVED BY MR. GESSNER AND SECONDED BY MS. SMITH TO ACCEPT THE AUDIT COMMITTEE ACTIVITIES REPORT AS OF FEBRUARY 22, 2018.**

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

**NAYS: NONE**

**MOTION CARRIED**

Executive Review Committee - SIB Governance Manual C-4, Monitoring Executive Performance, states that "each March the Board will conduct a formal evaluation of the Executive Director/CIO. At the February board meeting, the Chairperson will appoint a three-member committee to review the board's evaluation and make a recommendation to the full board regarding compensation for the Executive Director/CIO.

Lt. Governor Sanford asked for volunteers. Commissioner Smith, Ms. Smith, and Mr. Lech volunteered to serve on the committee.

Bank of ND (BND) Match Loan CD Program - Mr. Hunter and Mr. Kelvin Hullet, BND, provided an update on the BND Match Loan CD Program. At the request of Chairman Kempenich, the BND submitted a request to the Legacy and Budget Stabilization Fund Advisory Board (LBSFAB) on November 28, 2017, to increase the Match Loan Program by \$200 million for an Infrastructure Loan Program for a total Program amount of \$400 million. Mr. Hunter informed the board the LBSFAB's request would be considered in conjunction with the Legacy Fund asset allocation study which is expected to be completed by Callan Associates relatively soon.

SIB Governance Policy, Investments/Bank of North Dakota Match Loan Program, which was implemented by the SIB on April 24, 1998, states:

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

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

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

Mr. Hunter will continue to keep the board informed before any decision is made on this request.

#### **BOARD EDUCATION:**

LSV Asset Management - LSV representatives, Mr. Josef Lakonishok, Founding Partner, CEO & CIO, and Mr. James Owens, Relationship Manager, reviewed LSV's 20-year relationship with the SIB.

#### **OTHER:**

The next meeting of the Securities Litigation Committee meeting is scheduled for March 14, 2018, at 3:00 p.m. at the Retirement and Investment Office.

The next meeting of the SIB is scheduled for March 23, 2018, at 8:30 a.m. at the State Capitol, Peace Garden Room.

The next meeting of the SIB Audit Committee is scheduled for May 24, 2018, at 3:00 p.m. at the Retirement and Investment Office.

#### **ADJOURNMENT:**

With no further business to come before the SIB, Lt. Governor Sanford adjourned the meeting at 12:04 p.m.

---

Lt. Governor Sanford, Chairman  
State Investment Board

---

Bonnie Heit  
Assistant to the Board

# NORTH DAKOTA STATE INVESTMENT BOARD

2017 Board of Trustees  
Self-Evaluation Report

**Confidential**

March 23, 2018

Please return this booklet to the facilitator after the  
session.



## Individual Board Member Self-Evaluation Results

*The following chart represents the tabulation of the Board members' responses for the self-evaluation questionnaire. The number under each score indicates how many Trustees issued that score for the corresponding item.*

Assessment Criteria	1 Never	2 Rarely	3 Occasionally	4 Frequently	5 Almost Always	Average Score
1. I attend all Board meetings, arriving on time, and staying until the meeting concludes.				1	9	4.90
2. I am prepared for Board meetings, reading the information in advance, so I can make informed decisions.				3	7	4.70
3. I actively engage in Board meetings by contributing to the discussion in a meaningful way, listening to others (i.e., board members, staff, guests) and making my points concisely.			1	3	6	4.50
4. I strive for consensus when it is called for; but, understand that all decisions do not have to be unanimous.			1	1	8	4.70
5. I expect and embrace different opinions; and when I have a difference of opinion, I willingly share the reason and seek to understand the views of others.			1	5	4	4.30
6. My decisions are based on a fair, balanced, and prudent assessment of each situation. I do not let my personal interest or those of a particular constituency conflict with my duty of loyalty to the members and beneficiaries.				1	9	4.90
7. I find my participation on the Board to be stimulating and rewarding.			1	2	6	4.50
8. I understand the legal duties and responsibilities required of me as a fiduciary.					10	5.00
9. I believe I have the skill set necessary to fulfill my responsibilities as a SIB member.				1	9	4.90
10. I know what authority has been retained by the Board and what has been delegated and to whom.				2	8	4.80
11. I make an effort to be educated on the aspects of the investment program that I do not understand.				4	6	4.60
12. I work with the other Board members as a team, striving for consensus when possible.				3	7	4.70

Assessment Criteria	1 Never	2 Rarely	3 Occasionally	4 Frequently	5 Almost Always	Average Score
13. I understand the Board Code of Conduct, abide by it and avoid conflicts of interest.					10	5.00
14. I am comfortable with the amount of time I devote as a Board member.			1	3	6	4.50
15. I work with the Executive Director in a way that creates an atmosphere of trust and cooperation.				2	8	4.70
16. I understand the Executive Director works for the entire Board, not for individual Trustees, and I act accordingly.				1	9	4.90
17. I deal fairly, respectfully and professionally with other Board members and staff.					10	5.00
18. I periodically read and refresh my recollection regarding key SIB policies and procedures.			2	5	3	4.10

## NORTH DAKOTA SIB OVERALL BOARD EVALUATION RESULTS

The following chart represents the tabulation of the Board members' responses for the overall Board evaluation. The number under each score indicates how many Board members issued that score for the corresponding item. We have averaged the scores for discussion purposes.

Assessment Criteria	1 Strongly Disagree	2 Disagree	3 Slightly Agree	4 Agree	5 Strongly Agree	Average Score
<p>1. The Board understands its role, striving to govern with an emphasis on strategic leadership more than implementation and administrative detail.</p> <p><b>Trustee comment 1.a:</b> We will always have a need to address this issue as Board members come and go.</p> <p><b>Trustee comment 1.b:</b> Occasionally we fall into too much detail, but overall the Board does a good job of staying within our realm of responsibility.</p>			1	6	3	4.20
<p>2. The Board engages in long-range strategic thinking and planning and keeps the RIO mission in mind when making decisions throughout the year.</p> <p><b>Trustee comment 2a:</b> I agree, however it is important to note RIO does not have a vote they have a recommendation.</p> <p><b>Trustee comment 2b:</b> I appreciate the constant commitment to board education and our fiduciary responsibility.</p>			1	2	7	4.60

Assessment Criteria	1 Strongly Disagree	2 Disagree	3 Slightly Agree	4 Agree	5 Strongly Agree	Average Score
<p>3. The Board develops and follows a clearly defined biennial work-plan.</p> <p><b>Trustee comment 3.a:</b> ... From what I have seen so far my feeling is that I agree the biennial work-plan is adhered to.</p> <p><b>Trustee comment 3.b:</b> I appreciate the annual retreat and the opportunity to pull together the other Board members...IE, PERS, TFFR, Legacy. It's important we hear the same message and have similar learning opportunities.</p> <p><b>Trustee comment 3.c:</b> The director does a good job of periodically reminding the board of our biennial work plan.</p> <p><b>Trustee comment 3.d:</b> The Executive Director does a good job of keeping us on track and up to date on our work plan. The Board meetings are efficiently used to this end.</p>				4	6	4.60

Assessment Criteria	1 Strongly Disagree	2 Disagree	3 Slightly Agree	4 Agree	5 Strongly Agree	Average Score
<p>4. The Board comprehends and respects the difference between its policy-making role and the Executive Director's management/implementation role.</p> <p><b>Trustee comment 4.a:</b> <i>This is a learning process for many.</i></p> <p><b>Trustee comment 4.b:</b> <i>We are periodically reminded of our role as a policy-making board by various members of the board.</i></p> <p><b>Trustee comment 4.c:</b> <i>I agree with this for the most part, but, at times, there appears to be tension between RIO and some of the more senior board members. It does not seem to impact the work of RIO or the board, however.</i></p>			1	6	3	4.20
<p>5. Board members understand their fiduciary responsibilities and act in accordance with the laws, regulations, and policies governing the fund.</p> <p><b>Trustee comment 5.a:</b> <i>Most do, some don't.</i></p> <p><b>Trustee comment 5.b:</b> <i>Our representative from the AG's office keeps us on track.</i></p> <p><b>Trustee comment 5.c:</b> <i>This must be a continued area of focus as the board makeup continues to evolve.</i></p> <p><b>Trustee comment 5.d:</b> <i>In my opinion, all of the members carry out their fiduciary role in a prudent, conscientious manner.</i></p>			1	3	6	4.50



Assessment Criteria	1 Strongly Disagree	2 Disagree	3 Slightly Agree	4 Agree	5 Strongly Agree	Average Score
<p>6. The Board understands what authority it has retained and what has been delegated and to whom.</p> <p><b>Trustee comment 6.a:</b> <i>There have been a number of times that Board members have brought up in discussion the obligations and limitations of certain aspects of the Board's authority...I sincerely appreciate these discussions.</i></p> <p><b>Trustee comment 6.b:</b> <i>There is much disparity related to delegated authority especially with the Legacy Fund.</i></p> <p><b>Trustee comment 6.c:</b> <i>At times we need clarification on our specific role, but by and large we operate consistently.</i></p>		1		4	5	4.30
7. The Board's practices are consistent with the policies it has adopted.				4	6	4.60
<p>8. The Board monitors its decisions to ensure implementation occurs in a timely manner.</p> <p><b>Trustee comment 8.a:</b> <i>The Board is engaged with the activities of staff and there seems to be good communication between the Board and staff at all times.</i></p> <p><b>Trustee comment 8.b:</b> <i>We receive more information on the front end of a decision than the follow up of our decisions.</i></p>			1	6	3	4.20

Assessment Criteria	1 Strongly Disagree	2 Disagree	3 Slightly Agree	4 Agree	5 Strongly Agree	Average Score
<p>9. The staff is effective in supporting the Board before, during and after meetings.</p> <p><b>Trustee comment 9.a :</b> <i>The staff does a great job of providing the support needed to make informed decisions.</i></p> <p><b>Trustee comment 9.b:</b> <i>All staff members provide excellent information and support to the Board. They see that information and explanations are correct and concise.</i></p>			1	1	8	4.70
<p>10. The Board members engage in discussions in a respectful manner.</p> <p><b>Trustee comment 10.a:</b> <i>Board leadership adheres to Robert's Rules of Order which encourages respectful discussion.</i></p>			1	1	8	4.70
<p>11. Board members appropriately balance their time listening and talking.</p> <p><b>Trustee Comment 11.a:</b> <i>I would like to see equal input from all Board members.</i></p> <p><b>Trustee Comment 11.b:</b> <i>Every member of the Board stays on topic. By doing so, we are able to consider points made by each Board member and keep our meetings moving forward and recognizing that there is a lot of information to cover at each Board meeting. I believe we have struck a good balance of listening to multiple perspectives but also keeping the meetings moving forward without getting bogged down in unnecessary conversation.</i></p> <p><b>Trustee comment 11.c:</b> <i>Our newest members are still gaining comfort with their roles.</i></p>			1	6	3	4.20

Assessment Criteria	1 Strongly Disagree	2 Disagree	3 Slightly Agree	4 Agree	5 Strongly Agree	Average Score
<p>12. Board members have the opportunity to provide input into topics on the meeting agendas if they so desire.</p> <p><b>Trustee comment 12.a:</b> <i>I am not sure if this has ever been discussed or communicated to board members.</i></p>		1	2	2	5	4.10
<p>13. Board meetings are conducted in a manner that ensures open communication, meaningful participation, and sound resolution of issues.</p> <p><b>Trustee comment 13.a:</b> <i>We are given every opportunity to comment, and all comments are received with courtesy and respect for differences of opinion.</i></p>				3	7	4.70
<p>14. The Board members are consistently prepared for meetings and staying engaged.</p> <p><b>Trustee comments 14.a:</b> <i>We have members who are fully prepared and others who [are] not ....</i></p>			2	5	3	4.10

Assessment Criteria	1 Strongly Disagree	2 Disagree	3 Slightly Agree	4 Agree	5 Strongly Agree	Average Score
<p>15. The Board thoroughly examines the pros and cons of all major issues and makes fully informed decisions.</p> <p><b>Trustee comment 15.a:</b> <i>The Board has done an excellent job of presenting pros and cons for each decision. The Board makes decisions deliberately with the information available at the time. There may be unintended consequences that go along with each of the Board decisions, but it is my understanding that the impact of unintended consequences is kept to a minimum. I am confident the Board will continue to make informed decisions by using the same decision making processes I have seen the Board use in the past.</i></p> <p><b>Trustee comment 15.b:</b> <i>Our decisions are fully informed, however there are times I am given information based on what they want me to know rather than what I need to know.</i></p> <p><b>Trustee comment 15.c:</b> <i>Board members do not hesitate to ask for further information or clarification as needed.</i></p>				5	5	4.50
<p>16. Board members regularly attend meetings.</p> <p><b>Trustee comment 16.a:</b> <i>For the most part this is true...[members] need to be more present at board meetings.</i></p>				4	6	4.60
<p>17. The Board meeting materials are well-balanced, allowing appropriate time for the most critical issues.</p> <p><b>Trustee comment 17.a:</b> <i>I appreciate receiving Board prep no less than one week prior to a meeting.</i></p> <p><b>Trustee comment 17.b:</b> <i>On occasion additional time is needed for discussion or review, and this time is provided.</i></p>			1	4	5	4.40

Assessment Criteria	1 Strongly Disagree	2 Disagree	3 Slightly Agree	4 Agree	5 Strongly Agree	Average Score
<p>18. Board meetings are of reasonable length and frequency.</p> <p><b>Trustee comment 18.a:</b> <i>Discussion/agenda should not be limited to the clock but what is necessary to accomplish the work to the best of our ability.</i></p>			1	5	4	4.30
<p>19. Board meetings reflect the right allocation of time between Board discussion and presentations.</p> <p><b>Trustee comment 19.a:</b> <i>There are times we get presentation heavy.</i></p>			1	5	4	4.30
<p>20. The Board Chair effectively and appropriately leads and facilitates the meetings.</p> <p><b>Trustee comment 20.a:</b> <i>...needs to be more present and take on a greater leadership role within the State Investment Board.</i></p>			1	5	4	4.30
<p>21. The Board receives timely, accurate, and useful information (from staff, consultants, attorneys, etc.) upon which to make decisions.</p> <p><b>Trustee comment 21.a:</b> <i>Our work benefits greatly from the expertise provided by the Callan consultants, the AG's office, and the staff.</i></p>				3	7	4.70

Assessment Criteria	1 Strongly Disagree	2 Disagree	3 Slightly Agree	4 Agree	5 Strongly Agree	Average Score
<p>22. The Board members have the skill set and expertise needed to fulfill its mission.</p> <p><b>Trustee comment 22.a:</b> <i>The Board has multiple new members...[they] need some time to develop their skills.</i></p> <p><b>Trustee comment 22.b:</b> <i>We are all at a different place in the learning process. This provides a learning opportunity for EVERYONE.</i></p> <p><b>Trustee comment 22.c:</b> <i>With a generally inexperienced board, we are still growing in this capacity. There is a great capacity within this group of people to be an excellent board.</i></p> <p><b>Trustee comment 22.d:</b> <i>There is certainly a learning curve, but the resources are provided to help us get up to speed and maintain our knowledge.</i></p>		1	1	6	2	3.90
<p>23. The Board operates in a transparent manner.</p> <p><b>Trustee comment 23.a:</b> <i>We could always do better especially with discussion items in our minutes.</i></p>				2	8	4.80
<p>24. The minutes of the meetings adequately reflect the Board's deliberative process and decisions.</p>			1	2	7	4.60

Assessment Criteria	1 Strongly Disagree	2 Disagree	3 Slightly Agree	4 Agree	5 Strongly Agree	Average Score
<p>25. The Board stays abreast of issues and trends affecting the investment program and uses this information to assess and guide the organization over the long- term.</p> <p><b>Trustee comment 25.a:</b> <i>I can only speak for myself...I watch issues and trends which may affect our role.</i></p> <p><b>Trustee comment 25.b:</b> <i>Board education is very helpful in this regard. I am glad it is supported within the meeting structure.</i></p> <p><b>Trustee comment 25.c:</b> <i>Again, we are provided with education and resources to help us stay current.</i></p>			1	2	7	4.60
<p>26. The Board conducts an annual evaluation of the Executive Director/CIO.</p> <p><b>Trustee comment 26.a:</b> <i>I would like to see an evaluation with more depth.</i></p>				3	7	4.60
<p>27. The Board ensures that the staff provides new Board members with a prompt, thorough orientation.</p> <p><b>Trustee comment 27.a:</b> <i>I am assuming this to be true.</i></p> <p><b>Trustee comment 27.b:</b> <i>I wonder if it would be helpful to provide a continuous and structured orientation program throughout the first year rather than a one-time training.</i></p> <p><b>Trustee comment 27.c:</b> <i>Orientation is provided promptly. We have at times discussed the possibility of pairing new members with more seasoned members. This may be worth considering, as it would speed up the learning curve.</i></p>			1	6	3	4.30

Assessment Criteria	1 Strongly Disagree	2 Disagree	3 Slightly Agree	4 Agree	5 Strongly Agree	Average Score
<p>28. Board members receive sufficient continuing education to effectively meet their responsibilities.</p> <p><b>Trustee comment 28.a:</b> <i>I assume this to be true. There is no accountability to the Board.</i></p>				4	6	4.60
<p>29. The Board is knowledgeable about the expected performance of the asset allocation it has adopted and related risks.</p> <p><b>Trustee comment 29.a:</b> <i>There are some who continue to understand.</i></p> <p><b>Trustee comment 29.b:</b> <i>RIO does an excellent job in supporting the board in understanding the critical elements of governing institutional investments.</i></p>				4	6	4.60
<p>30. The Board monitors investment performance and measures it against appropriate benchmarks.</p> <p><b>Trustee comment 30.a:</b> <i>This is done through the information provided by the RIO.</i></p> <p><b>Trustee comment 30.b:</b> <i>We are provided with this information regularly, and the information is provided in a concise, understandable manner.</i></p>					10	5.00
<p>31. The Board ensures that investment managers it employs are adhering to its investment policies and procedures and are performing to its satisfaction.</p> <p><b>Trustee comment 31.a:</b> <i>Does the Board or the investment staff?</i></p>				4	6	4.60



Assessment Criteria	1 Strongly Disagree	2 Disagree	3 Slightly Agree	4 Agree	5 Strongly Agree	Average Score
<p>32. The Board does not “rubber-stamp” the recommendations of senior management or its external advisors.</p> <p><b>Trustee comment 32.a:</b> <i>The Board is always aware of its obligations. Senior management and its external advisers have earned a level of trust and their recommendations are considered; but the Board makes its own decisions in regard to the Board's obligations.</i></p> <p><b>Trustee comment 32.b:</b> <i>It is rare for the Board to go against a recommendation.</i></p> <p><b>Trustee comment 32.c:</b> <i>Discussion during the Board meetings assures that the members are comfortable with the recommendations.</i></p>			1	3	6	4.50
<p>33. Board expectations and concerns are promptly, candidly, and effectively communicated to the Executive Director/CIO through the Chair.</p> <p><b>Trustee comment 33.a:</b> <i>I think Board expectations are communication directly to the Executive Director at Audit Committee, Board meetings, and Executive Compensation meetings.</i></p> <p><b>Trustee comment 33.b:</b> <i>... engagement of our Chair [is a topic for discussion].</i></p> <p><b>Trustee comments 33.c:</b> <i>I assume this is done, since he is conscientious about his responsibilities. I haven't personally been involved in discussing expectations or concerns with the Chair.</i></p>			3	4	2	3.88
<p>34. The Board speaks in “one voice” while respecting the right of each member to individually disagree with an adopted board policy.</p>	1			3	6	4.30

## ASSESSMENT HIGHLIGHTS

### Areas of Strength

*Below are the six items which received the highest average scores:*

- The Board monitors investment performance and measures it against appropriate benchmarks (item #30, with the highest average score of 5.00).
- The Board operates in a transparent manner (item #41, with second highest average score of 4.80).

*The next 4 items tied with the third highest average score of 4.70:*

- The staff is effective in supporting the Board before, during and after meetings (item #9, with the third highest average score of 4.70).
- The Board members engage in discussions in a respectful manner (item #10, with the third highest average score of 4.70).
- Board meetings are conducted in a manner that ensures open communication, meaningful participation, and sound resolution of issues (item #13, with the third highest average score of 4.70).
- The Board receives timely, accurate, and useful information (from staff, consultants, attorneys, etc.) upon which to make decisions (item #21, with the third highest average score of 4.70).

### Areas for Possible Enhancement

*Below are the four items which received the lowest average scores:*

- Board expectations and concerns are promptly, candidly, and effectively communicated to the Executive Director/CIO through the Chair (item #33, with the lowest average score of 3.88).
- The Board members have the skill set and expertise needed to fulfill its mission (item #22, with the second lowest average score of 3.90).

*The next two items tied with the third lowest average score of 4.10:*

- Board members have the opportunity to provide input into topics on the meeting agendas if they so desire (item #12, with third lowest average score of 4.10).
- The Board members are consistently prepared for meetings and staying engaged (item #14, with third lowest average score of 4.10).

## **GREATEST ACHIEVEMENTS**

The following summarize the Board Member's comments regarding the Board and/or RIO's greatest achievements during the past two years.

- Exceeding benchmarks
- Solid returns
- Limiting amount of risk
- Reduction of fees
- Excellent choices of fund managers
- Attention to asset allocation
- Exploring investment opportunities
- Meeting investment objectives
- Content of materials provided to Board
- This assessment
- Strong customer satisfaction
- All voices are heard
- Positive Board culture with transparency and professionalism
- Excellent staff

## ISSUES FOR DISCUSSION

The following themes summarize the Board members' comments for discussion. The categories appear in no particular order of importance.

### **Board Operations/Governance**

- Creation of additional subcommittees for handling detailed work
- Member attendance and preparation for Board meetings
- Being mindful of disparate levels of experience on the Board
- Understanding what authority has been retained and what authority has been delegated and why
- Ensuring equal participation by all members
- Opportunity to provide input on content and volume of board agenda topics

### **New Board Member Orientation and Continuing Education**

- Providing continuous and structured new trustee orientation throughout the trustee's first year
- Mentoring of new board members, pairing new board members with more seasoned members as a mentor
- Documenting each board member's continuing education
- Are there a minimum number of hours

### **Board Education and Future Topics**

- Millennial generation, employment practices and impact on stability of public pension plans
- Fiduciary duty
- Understanding benchmark selection process

### **Staff-Related**

- Reviewing format of current Executive Director evaluation
- Ensure retention of high performing staff

# Securities Litigation Committee Update

March 15, 2018

Dave Hunter, Executive Director/CIO  
Connie Flanagan, Fiscal and Investment Operations Manager  
ND Retirement & Investment Office (RIO)  
State Investment Board (SIB)

# Securities Litigation Background

---

- The SIB has long recognized the importance of strong corporate governance and board oversight. Given recent developments in global securities litigation outside the U.S. and giving special consideration to the “Morrison” and “ANZ Securities” U.S. Supreme Court cases, the SIB engaged Financial Recovery Technology (FRT) in 2017 to perform a review of our historical claims filing experience with regards to securities litigation actions.
- FRT’s review of our class action claims filing recoveries from 2007 to 2017 confirmed that our custodian, Northern Trust, had effectively monitored and obtained our ratable share of loss recoveries for the vast majority of U.S. class action claims during the past decade.
- FRT’s review also confirmed the growing need to expand our international securities litigation monitoring capabilities in order to enhance the likelihood of increasing loss recoveries on significant securities litigation actions outside the U.S., while enhancing our ability to monitor developing actions within the U.S. including anti-trust cases and appraisal right disputes.
- Given the growth of the SIB’s client assets the past decade and recent securities litigation trends, the SIB established a Securities Litigation Committee (SLC) to offer additional oversight and maintain strong fiduciary responsibility while minimizing the administrative burden on SIB client boards and the Office of the Attorney General in addition to the SIB and RIO. Appointed Committee members currently include the Chief Deputy Attorney General and State Treasurer along with RIO’s legal counsel, chief fiscal officer and executive director.

# Securities Litigation Charter, Policy and Thresholds

At our last SLC meeting, we acknowledged the importance of sharing newly proposed thresholds which will serve to guide the SLC in carrying out the SIB's policy with regards to “actively” engaging in new securities litigation actions.

- RIO Staff developed the proposed “**Thresholds**” based on detailed discussions with expert legal counsel (including FRT, [BLBG](#), [G&E](#) and [RGRD](#)) and review of existing securities litigation policies established by over a dozen different U.S. public pension plans.
- RIO's recommended policy thresholds are summarized below:
  - **U.S. and Canada:** RIO recommends adding a dollar threshold of \$5 million to the existing “0.1%” percentage threshold (based on trust assets). This change is consistent with nearly every other U.S. public pension plan litigation policy reviewed by RIO staff. (RIO's policy review noted that dollar thresholds generally ranged from \$1 million to \$10 million)
  - **Non-U.S. and Canada:** RIO recommends four dollar thresholds ranging from \$20,000 to \$10 million based on the perceived costs and risks associated with actively participating in securities litigation actions based on governing laws in international jurisdictions.
    - **\$20,000** for passive or very low risk jurisdictions characterized by simple claim filing or registration demands, strong anonymity and very low costs (e.g. Australia)
    - **\$1 million** for low risk jurisdictions with no discovery demands and low costs (e.g. Japan)
    - **\$5 million** for moderate risk jurisdictions with some restricted discovery requirements, limited anonymity, the ability to fund/insure upfront fees and moderate overall costs (e.g. Germany)
    - **\$10 million** for high risk jurisdictions which may require in-person discovery, no anonymity and uncapped fees (e.g. Taiwan, United Kingdom, Singapore and Brazil)

# Securities Litigation Charter, Policy and Thresholds

---

## Next Steps:

1. Review recommended changes to our existing Securities Litigation Policy including Exhibit A which proposes new dollar based thresholds for Non-U.S. securities litigation actions by governing legal jurisdiction;
2. Review our new Securities Litigation Committee Charter which incorporates board member input shared at our last SIB meeting;
3. If the SIB so desires, request a board member to make a motion to accept the recommended changes to our Securities Litigation Policy (including dollar thresholds for actively engaging in further litigation related actions);
4. If the SIB so desires, request a board member to make a motion to accept the new Securities Litigation Committee Charter incorporating all revisions shared by the SIB during the last two board meetings; and/or
5. Request RIO staff and SLC to incorporate additional revisions to either the Securities Litigation Policy or Charter for further consideration by the SIB.



# Securities Litigation Process

## US and Canadian Actions (Opting Out)

---

1. Litigation is initiated in courts which results in a settlement
2. A class of litigants is established
3. FRT receives notice of class action settlement
4. FRT reviews SIB portfolios for affected securities/transactions
5. FRT calculates recognized loss
  - If below proposed policy limit of greater of 0.1% of Fund AUM or \$5 million, FRT will automatically file the necessary documentation to become part of class action
    - Recovery will be based on SIB's pro rata share of final settlement amount.
  - If above proposed policy limit, FRT will assist Staff/Committee in analyzing considerations for **Opting Out** of the class action and pursuing direct action
    - Considerations for opting out of US/Canadian class actions
      - How SIB losses compare to overall class
      - Merits of the matter
      - Identity and capability of outside counsel, including cost structure (will require special appointment)
      - Potential sources of additional recovery outside the class
      - Internal and external resources needed
      - Whether direct action will have stronger impact on future corp. behavior
      - Whether SIB involvement may increase likelihood of recovery (both to class or in separate action)
      - Impact of publicity
      - Likely burden to staff time, money and/or cost in relation to outcome.

# Securities Litigation Process

## Non-US/Canadian Actions (Opting In)

---

1. Litigation is initiated in courts
2. FRT monitors and identifies potential **Opt-in** actions
3. FRT reviews SIB portfolios for affected securities/transactions
4. FRT identifies jurisdiction and calculates estimated loss
  - If below proposed policy limit, FRT will not automatically file documentation
  - If above proposed policy limit, FRT will advise Staff/Committee of potential factors/options for opting in to the group action
    - Provide transaction history to litigator for anonymous loss calculation
    - Provide risk analysis based on jurisdiction which may include:
      - Cost/Benefit
      - Participation requirements
      - Anonymity
      - Identity and capability of outside counsel, including review of retainer agreements and cost structure (will require special appointment)
      - Likely burden to staff time (discovery)
  - For cases involving little to no additional cost or time (relatively simple opt-in cases), staff will direct FRT to move forward without additional Committee approval (likely in Very Low and Low Risk jurisdictions)

# Securities Litigation Charter, Policy and Thresholds

---

- Goal is to create policy that allows process to be as automatic as possible.
- FRT will provide coverage for Non-US and Antitrust cases that previously were not covered under custodian agreement. There is really no significant change in the US/Canadian class action process.
- This process does not apply to cases where SIB is a named defendant (e.g. Tribune and GM cases).
- Committee's role will be to provide more flexibility in being able to meet on shorter notice or in the interim for cases that have shorter deadlines for making decisions on opting in to Non-US cases.
- All Committee decisions will be reported to the full SIB.
- Committee will also receive periodic reporting on all cases filed.
- Based on the parameters set in the policy, it is not anticipated that there will be many cases that require specific Committee or Board approval.

**Informational**

**TO:** State Investment Board Securities Litigation Committee

**FROM:** Dave Hunter and Connie Flanagan

**DATE:** March 14, 2018

**SUBJECT:** Review of Current Securities Litigation Policy

---

**Based on SIB guidance shared at our last Board meeting, RIO suggests the Committee make a motion to accept the proposed revisions to our current Securities Monitoring and Litigation policy including any requested changes or request RIO to offer a revised draft of proposed changes at our next Committee meeting.**

**POLICY TITLE: SECURITIES MONITORING AND LITIGATION**

**General Purpose**

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

6. The SIB will generally only consider pursuing active participation in securities actions when such a role is expected to add value by enhancing the prospect for recovery, increasing the amount of recovery, assuring more efficient and effective prosecution of the case, or identifying and addressing corporate governance issues through litigation.

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

#### Non-Active Recovery and Filing

1. SIB will require as part of its agreement with its custodial bank [or other designated agent](#), that adequate securities class action monitoring is maintained on an ongoing basis, sufficient to assure that most of the actual awards and settlements for such cases are tracked and identified and that proof of claim forms, including supporting documentation, will be properly and timely filed.
2. ~~To augment and enhance coverage, identification and tracking of class action cases (potential or actual)~~ SIB may engage one or more legal firms that specialize in [monitoring and](#) prosecuting security class-action cases; any such engagement is subject to the special appointment requirements of N.D.C.C. § 54-12-08. For these purposes only, such firm(s) may be granted ongoing access to security holdings information through the custodian bank [or other designated agent](#).
3. ~~An monitoring~~ agreement with any law firm for [monitoring non-litigation](#) services ~~access and reporting~~ will not commit SIB to employing said firm in the event that it seeks to represent SIB as an active participant in any securities related litigation. Such representation must be effected by a separate retainer agreement between the SIB and said firm, or another, depending on such factors as the potential monetary scope, the nature of the case and industry specialty that may be required, the allocation of current or past cases among candidate firms, the likely duration and cost of prosecuting such a case, retainer fees or contingency splits, the venue in which the case is to be filed, and other considerations.
4. The custodial bank [or other designated agent](#) will be required to provide the Retirement and Investment Office (“RIO”) with periodic reports that detail class action cases monitored, claims filed, and award or settlement distributions received. RIO will maintain these records and provide an update to the SIB [or Securities Litigation Committee \(Committee\)](#) with regards to accounting information on distributions received on claims filed by the custodian bank [or other designated agent](#) on our behalf.

#### Active Participation in Cases

1. The Executive Director will initiate active participation in securities cases only upon prior review and approval of the SIB [or Committee](#). Before bringing any recommendations to the ~~Board~~[SIB or Committee](#), the Executive Director, with significant assistance ~~by from~~ legal counsel from the Office of the Attorney General, will assess the merits and prospects for active participation by reference to the criteria and factors outlined in this section.

## 2. Decision Criteria and Factors:

- a. The decision to participate in an active capacity in security litigation should be based on the totality of the circumstances. Dollar loss amounts are important, but not the sole or overriding factor to consider in making such recommendations by the Executive Director, or determinations by the SIB or Committee.
- b. Potential losses to SIB clients must be significant in order to warrant participation as a lead plaintiff, co-lead plaintiff, or separate ~~“opt-out”~~ litigant in U.S. or Canadian cases. Generally, in cases where the potential loss does not exceed the greater of 0.1% of trust assets or \$5 million, the SIB will avoid active participation.
- c. The *prima facie* merits of the claim for loss, and the factual basis for the action, recognizing that the full discovery process will not commence until the class has been certified by the court in which such case is to be filed.
- d. The availability of witnesses, and possible support that may be obtained from investment managers, consultants, and the custodial bank through discovery.
- e. The potential that any defendants or insurers will be able to pay an adequate recovery to the class, without impairing the value of any current security holdings SIB may yet hold in the issuer in the portfolio.
- f. The ability of the law firm recommending action on the part of SIB to prosecute the case effectively, in the venue where such case is likely to be filed, and the experience of the firm in managing such cases individually or in partnership with other firms.
- g. Potential long-term benefits from corporate governance changes from pursuing litigation.
- h. The ability of SIB to serve as a fiduciary on behalf of all class members in the case, especially in relative terms to other institutional investors that may be considering the same case.
- i. Potential costs that may be incurred. Special consideration must be given to any case that must be filed in a non-U.S. venue under the “Morrison” criteria established by the U. S. Supreme Court in a 2010 decision, since costs of litigation and potential liabilities of unsuccessful claims may be significant.
- j. Current workload and staffing resources required for the fulfillment of SIB’s primary member service functions, and whether participation might displace time and staff resources needed for core business functions.

## 3. Decision Criteria and Factors for cases filed in a non-U.S. venue: In addition to the Criteria and Factors set forth in Subsection 2, the SIB or Committee may consider the following:

- a. The proposed funding arrangements for the action.
- b. Evaluate the merits and risks of the case in light of the law of the jurisdiction in which the action would be brought. Generally, in cases where the potential loss does not exceed the Jurisdictional Thresholds referenced in Exhibit A, the SIB will avoid opt-in or group litigation participation.
- ~~c. The role or level of participation in the case by the SIB.~~

#### Roles in Managing and Monitoring Litigation

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

#### Policy Review

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

Exhibit A  
Non-US Opt-In and Group Litigation  
Jurisdictional Thresholds

<u>Jurisdictional Description</u>	<u>Threshold</u>
<u>Passive/very low risk jurisdictions, simple registration or claim filing (no participation in litigation required, strong anonymity, very low costs) including, but potentially not limited to: Australia, Israel, Netherlands (including Dutch Foundations), regulatory funds (e.g. Compensation Schemes in UK)</u>	<u>\$20,000</u>
<u>Low risk jurisdictions (no discovery, low cost) including, but potentially not limited to: Japan</u>	<u>\$1 million</u>
<u>Moderate risk jurisdictions (moderate cost, funded/insured to protect from cost shifting, some restricted discovery, not fully public) including but potentially not limited to: Germany, Austria, Belgium, Switzerland, Denmark, Spain, Finland, France, Hong Kong, Indonesia, Ireland, Italy, Korea, Luxembourg, Malaysia, Norway, New Zealand, Portugal, Sweden, and Thailand</u>	<u>\$5 million</u>
<u>High risk jurisdictions (potential in-person discovery, no anonymity, uncapped fees) including, but potentially not limited to: Taiwan, United Kingdom, Singapore, Brazil</u>	<u>\$10 million</u>

Jurisdictional Thresholds are developed in consultation with legal counsel including other designated agents which are experts in global securities litigation matters.

**Policy Implemented:** November 20, 2015



***Committee Action Requested***

**TO:** SIB Securities Litigation Committee (Committee)  
**FROM:** Dave Hunter and Connie Flanagan  
**DATE:** March 14, 2018  
**SUBJECT:** **Proposed Charter for Securities Litigation Committee**

---

RIO's Fiscal & Investment Operations Manager Connie Flanagan drafted the proposed Charter for the Securities Litigation Committee based on the *SIB Audit Committee Charter*. The proposed Charter was reviewed and discussed with the Committee at our last Committee meeting on February 16, 2018. **After further review and discussion with the SIB on February 23, 2018, RIO recommends the Committee approve the revised Securities Litigation Committee Charter, which incorporates comments provided by the Board, and/or offer alternative language for further consideration.**

**CHARTER OF THE  
SECURITIES LITIGATION COMMITTEE OF THE  
NORTH DAKOTA STATE INVESTMENT BOARD**

**PURPOSE**

The Securities Litigation Committee (the Committee) is a standing committee of the North Dakota State Investment Board (SIB) created to assist in fulfilling its fiduciary oversight responsibilities of monitoring the investment of assets entrusted to it by the various statutory and contracted funds, and to serve as a communications link for the SIB, RIO's management and staff, third party securities litigation firms, and others.

The Committee will determine when an active role should be pursued in regards to securities litigation affecting securities within the SIB's portfolios.

**AUTHORITY**

The Committee is authorized to:

- **~~create SIB-draft~~ policy (to be formally approved by SIB)** regarding dollar and/or risk thresholds for determining when to opt-out of class actions and/or seek direct litigation or lead plaintiff status;
- **based on SIB approved policy**, make decisions on the level of participation the SIB will take in direct litigation, opt-in or group litigation, anti-trust and other class actions; and

- approve the selection of special assistant attorneys in cases of direct litigation.

## **COMPOSITION**

The Committee will consist of the Executive Director of RIO, one member of RIO fiscal or investment staff, RIO general counsel, and two members of the SIB appointed by the Chair.

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

The Committee will elect a Chair and a Vice Chair. The Chair will preside at all meetings of the Committee and serve as the liaison to the SIB. In the absence of the Chair, the Vice Chair will perform the duties of the Chair. The liaison will report at least four times a year to the SIB on the activities of the Committee and other pertinent information.

The Committee may form, and delegate authority to, subcommittees when it deems appropriate.

## **MEETINGS**

The Committee will meet generally four times a year, with authority to convene additional meetings, as circumstances require or to adequately fulfill all the obligations and duties as outlined in this charter.

Meeting agendas will be prepared by the Executive Director and approved by the Committee Chair, unless otherwise directed by the Committee and will be provided to the Committee members along with briefing materials before the scheduled committee meeting.

Committee members are expected to attend each meeting, in person or via tele- or video-conference. RIO's executive management and others necessary to provide information and to conduct business will attend meetings. The Committee may invite staff of RIO or others to attend meetings, as necessary. The Committee may hold executive sessions as allowed under state law.

The Committee will act only on the affirmative vote of three of the committee members at a meeting. To conduct business, a quorum will be three members of the Committee. Should a quorum not be present before a scheduled meeting or during a meeting, the Chair will announce the absence of a quorum and the members will disburse. Meetings unable to transact business for lack of a quorum are not considered meetings. Meeting minutes will be prepared by RIO, or as otherwise directed by the Committee. Approved meeting minutes of the Committee will be submitted to the SIB.

## **RESPONSIBILITIES**

RIO's management is responsible for ongoing monitoring of securities litigation and claims filing. **Based on SIB approved policy guidelines**, the Committee has the responsibility to provide oversight in the areas of:

- policy development
- determination on direct litigation and/or lead plaintiff status
- approval of special assistant attorneys (outside counsel)

To this end, the Committee will:

- Develop initial policy and periodically review policy to determine if changes are needed.
- Review reports from RIO staff and third parties in order to maintain awareness of potential and actual securities litigation affecting the SIB portfolios.
- Make decisions on whether to pursue direct litigation and/or lead plaintiff status on cases exceeding policy thresholds for passive participation.
- Select third party litigation firms when deemed appropriate.
- Perform other activities related to this charter as requested by the SIB.
- Review and assess the adequacy of the Committee charter annually, requesting the SIB approval for proposed changes.
- Confirm annually the review of all responsibilities outlined in this charter.

#### Reporting Responsibilities

- Report to the SIB about the Committee's activities, issues, and related recommendations.
- Provide a written report annually to the SIB, describing the Committee's composition, responsibilities and how they were discharged, and any other information required.

**DATE OF CREATION OF COMMITTEE AMENDMENTS: March \_\_, 2018**

**DATE SECURITIES LITIGATION COMMITTEE CHARTER ADOPTED AND APPROVED:  
March \_\_, 2018**

## **POLICY TYPE: GOVERNANCE PROCESS**

---

### **POLICY TITLE: POLICY INTRODUCTION/AMENDMENT/PASSAGE**

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

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

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

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

**Policy Implemented:** February 27, 2009

**Policy Revised:** November 18, 2016

## **POLICY TYPE: GOVERNANCE PROCESS**

### **POLICY TITLE: *STANDING COMMITTEES***

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

1. Audit Committee
2. Securities Litigation Committee

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

#### **INTRODUCTION – Audit Committee**

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

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

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

#### **POLICY OF THE STATE INVESTMENT BOARD – Audit Committee**

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

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

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

## INTRODUCTION – Securities Litigation Committee

A Securities Litigation Committee (SLC) has been established as a standing committee of the State Investment Board (SIB). The SLC will assist the SIB in fulfilling its fiduciary oversight responsibilities of monitoring the investment assets entrusted to it by the various statutory and contracted funds, and to serve as a communications link for the SIB, RIO's management and staff, third party securities litigation firms, and others.

The SLC will determine when an active role should be pursued in regards to securities litigation affecting investments within the SIB's portfolios.

## POLICY OF THE STATE INVESTMENT BOARD – Securities Litigation Committee

The SLC is authorized to:

- create-draft policy (to be formally approved by SIB) regarding dollar and/or risk thresholds for determining when to opt-out of class actions and/or seek direct litigation or lead plaintiff status;
- based on SIB approved policy make decisions on the level of participation the SIB will take in direct litigation, opt-in or group litigation, anti-trust and other class actions; and
- approve the selection of special assistant attorneys (in conjunction with the approval of the Office of the Attorney General) in cases of direct litigation.

RIO's management is responsible for ongoing monitoring of securities litigation and claims filing. RIO management and staff will enable the SLC to provide a quarterly update to the SIB on the SLC's activities and related recommendations at least four times a year.

The SLC has the responsibility to provide oversight in the areas of:

- policy development;
- determination on direct litigation and/or lead plaintiff status; and
- approval of special assistant attorneys (outside counsel) with concurrence of the Attorney General.

## Board Input Requested on Recommended Governance Manual Policy Changes on Standing Committees:

RIO requests the Board to provide input on the proposed governance policy language relating to the newly established Securities Litigation Committee. This language would be inserted into Section B – 6 (on Standing Committees) in the SIB Governance Manual if formally approved by the SIB on March 23, 2018. **Given that this is a "First Reading" of a newly proposed governance section, RIO is only requesting preliminary input from the SIB at this time.**

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

**Policy Amended:** February \_\_, 2018.

*Informational*

**TO:** State Investment Board

**FROM:** Connie Flanagan

**DATE:** March 16, 2018

**SUBJECT:** **New Client: ND Parks & Recreation Department (Parks & Rec)**

---

At the October 27, 2017, SIB meeting, the Board preliminarily approved accepting Parks & Rec as a client to invest the approximately \$700,000 Lewis and Clark Interpretive Center Endowment Fund (Fund) within the Insurance Trust pool, contingent upon the Fund's Advisory Board making the necessary changes to the trust agreement of the fund to meet legal requirements under NDCC 21-10-06 (3).

Since that time, staff has worked with Parks & Rec in drafting all the documents necessary to bring them in as a client. A motion was approved at their March 12, 2018, Advisory Board meeting to grant the director of Parks & Rec authority to manage and invest the Fund assets. They have now signed the management agreement, which includes an Investment Policy Statement (IPS). That IPS is included in the Board materials.

North Dakota Century Code 21-10-06 also requires Industrial Commission approval before the SIB may begin investing on behalf of a new client. The next Industrial Commission meeting is scheduled for March 28 and this item has been requested to be added to their agenda. We expect no issues with that request. Per SIB policy, new client funds are accepted on the last day of the quarter.

**Therefore staff requests, contingent upon final Industrial Commission approval next week, the SIB accept the attached Investment Policy Statement for the Lewis & Clark Interpretive Center Endowment Fund, effectively accepting the ND Parks & Recreation Department as a client.**

# **LEWIS AND CLARK INTERPRETIVE CENTER ENDOWMENT FUND**

## **INVESTMENT POLICY STATEMENT**

### **1. PLAN CHARACTERISTICS AND FUND CONSTRAINTS**

The Lewis and Clark Interpretive Center Endowment Fund (Fund) was created in 2003 exclusively for the maintenance, repair and upkeep of the ND Lewis and Clark Interpretive Center/Rest Area, for programming and facility improvements. The original principal was endowed to the North Dakota Lewis and Clark Bicentennial Foundation who transferred the funds to the North Dakota Parks and Recreation Department (Parks and Rec) in 2017.

### **2. FUND GOALS**

It is the intention of Parks and Rec to utilize the earnings of the Fund to supplement its biennial appropriation for the maintenance of the Lewis and Clark Interpretive Center.

### **3. RESPONSIBILITIES AND DISCRETION OF THE STATE INVESTMENT BOARD (SIB).**

Parks and Rec has entered into a contract with the SIB for investment services as allowed under NDCC 21-10-06. Parks and Rec is responsible for establishing policies on investment goals and asset allocation of the fund. The SIB is charged with implementing these policies and investing the assets of the fund in the manner provided in NDCC 21-10-07, the prudent investor rule. Under this rule, the fiduciaries shall exercise the judgment and care, under the circumstances then prevailing, that an institutional investor of ordinary prudence, discretion, and intelligence exercises in the management of large investments entrusted to it, not in regard to speculation but in regard to the permanent disposition of funds, considering probable safety of capital as well as probable income. The fund must be invested exclusively for the benefit of the members and their beneficiaries in accordance with this investment policy.

Management responsibility for the investment program not assigned to the SIB in Chapter 21-10 of the North Dakota Century Code (NDCC) is hereby delegated to the SIB, who must establish written policies for the operation of the investment program, consistent with this investment policy.

The SIB may delegate investment responsibility to professional money managers. Where a money manager has been retained, the SIB's role in determining investment strategy and security selection is supervisory, not advisory.

The SIB is responsible for establishing criteria, procedures, and making decisions with respect to hiring, keeping, and terminating money managers. SIB investment responsibility also includes selecting performance measurement services, consultants, report formats, and frequency of meetings with managers.

The SIB will implement changes to this policy as promptly as is prudent.



#### **4. RISK TOLERANCE**

Parks and Rec is unwilling to undertake investment strategies that might jeopardize the ability of the Fund to maintain principal value over the long-term.

#### **5. INVESTMENT OBJECTIVES**

Parks and Rec'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. Risk, as measured by the annual standard deviation of net returns for the Fund, should not exceed that of the policy portfolio by more than 100 basis points over a minimum evaluation period of five years.
3. The risk-adjusted performance of the Fund, net of fees and expenses, should at least match that of the policy benchmark over a minimum evaluation period of five years.

#### **6. POLICY ASSET MIX**

Asset allocation policy is critical because it defines the basic risk and return characteristics of the investment portfolio. Asset allocation targets are established using an asset-liability analysis designed to assist Parks and Rec in determining an acceptable volatility target for the fund and an optimal asset allocation policy mix. This analysis estimates the potential impact of various asset class mixes on key measures of total fund risk.

After consideration of all the inputs and a discussion of its own collective risk tolerance, Parks and Rec approves the appropriate policy asset mix for the fund.

<u>Asset Class</u>	<u>Policy Target(%)</u>
Global Equity	35
Global Fixed Income	64
Cash Equivalents	1

While Parks and Rec recognizes fluctuations in market values will lead to short-term deviations from policy targets, Parks and Rec does not intend to engage in tactical asset allocation. Rebalancing of the fund to this target will be done in accordance with the SIB's rebalancing policy, but not less than annually.

## **7. RESTRICTIONS**

While the SIB is responsible for establishing specific quality, diversification, restrictions, and performance objectives for the investment vehicles in which the fund's assets will be invested, it is understood that:

- a. Futures and options may be used to hedge or replicate underlying index exposure, but not for speculation.
- b. Derivatives use will be monitored to ensure that undue risks are not taken by the money managers.
- c. No transaction shall be made which threatens the tax exempt status of the fund.
- d. All assets will be held in custody by the SIB's master custodian or such other custodians as are acceptable to the SIB.
- e. No unhedged short sales or speculative margin purchases shall be made.
- f. 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, Parks and Rec's policy favors investments which will have a positive impact on the economy of North Dakota.

## 8. INTERNAL CONTROLS

A system of internal controls must be in place by the SIB to prevent losses of public funds arising from fraud or employee error. Such controls deemed most important are the separation of responsibilities for investment purchases from the recording of investment activity, custodial safekeeping, written confirmation of investment transactions, and established criteria for broker relationships. The annual financial audit must include a comprehensive review of the portfolio, accounting procedures for security transactions and compliance with the investment policy.

## 9. EVALUATION AND REVIEW.

Investment management of the fund will be evaluated against the fund's investment objectives. Emphasis will be placed on five year results. Evaluation should include an assessment of the continued feasibility of achieving the investment objectives and the appropriateness of the Investment Policy Statement for achieving those objectives.

Performance reports will be provided to Parks and Rec quarterly and investment performance presentations will be provided to Parks and Rec upon request, but not less than annually. Such reports will include asset returns and allocation data as well as information regarding all significant and/or material matters and changes pertaining to the investment of the fund, including, but not limited to:

1. A list of the advisory services managing investments for Parks and Rec.
2. A list of investments at market value, compared to previous reporting period, of each fund managed by each advisory service.
3. Earnings, percentage earned, and change in market value of each fund's investments.
4. Comparison of the performance of each fund managed by each advisory service to other funds under the SIB's control and to generally accepted market indicators.
5. All material legal or legislative proceedings affecting the SIB.
6. Compliance with this investment policy statement.

**ND Parks and Recreation Department Adopted and Approved:**

Date \_\_\_\_\_

Date \_\_\_\_\_

\_\_\_\_\_  
Director

\_\_\_\_\_  
David Hunter  
Executive Director / Chief Investment Officer  
North Dakota Retirement & Investment Office

## AGENDA ITEM IV.A.

### BOARD ACTION

**TO:** State Investment Board

**FROM:** Dave Hunter

**DATE:** March 15, 2018

**SUBJECT:** Investment Policy Statement Updates:  
**Bismarck City Employee Pension Plan (BCEPP)**  
**Bismarck City Police Pension Plan (BCPPP)**  
**Grand Forks Employee Pension Plan (GFEPP)**  
**ND Association of Counties (NDACO)**  
**PERS Retiree Health Insurance Credit Fund (RHIC)**

---

**RIO requests the SIB accept investment policy statement (IPS) changes recently approved by the governing boards or trustees for the BCEPP, BCPBP, GFEPP, NDACO, and RHIC.**

**On February 22, 2018, the governing boards for BCEPP and BCPBP approved recommended changes to their respective asset allocation policies.** RIO recommended a simplified asset allocation policy in which sector allocations within the three major asset classes are segmented into two categories for Pension Trust clients. These sector allocations include **Public Equity or Private Equity for Global Equities, Investment Grade or Non-Investment Grade for Global Fixed Income, and Real Estate or Other for Global Real Assets.** These changes are consistent with recent PERS and TFFR board approved policy revisions for fixed income in which dedicated international debt mandates were eliminated such that the remaining sector allocations are classified as investment grade or non-investment grade. For Real Assets, the dedicated allocation to Timber will be contained within "Other" given that we no longer recommend any new capital commitments to timber. (The timber allocation within other real assets will decline as this asset is harvested thereby allowing our infrastructure and other real asset exposure to grow.) RIO notes the decision to eliminate dedicated target allocations to international debt and timber were prompted by the expectation that these two sectors offer poor risk adjusted return opportunities as supported by our investment consultant capital market expectations. These changes will serve to improve RIO's operational efficiency, while diminishing administrative burdens. **If the Board concurs, RIO requests the SIB make a motion to accept the BCEPP and BCPBP board approved IPS changes** (noting that there were no changes made to the three major asset classes of Global Equity, Global Fixed Income & Global Real Assets).

**On March 19, 2018, the trustee for the GFEPP will be requested to approve the same asset allocation changes described in the above paragraph.** Global Equity will be classified as either Public Equity (55%) or Private Equity (5%) while Global Fixed Income will be classified as either Investment Grade (17%) or Non-Investment Grade (7%) and Global Real Assets will be classified as either Real Estate (7%) or other (8%). **If the Board concurs, RIO requests the SIB make a motion to accept the GFEPP trustee approved IPS changes** (noting that there were no changes made to the three major asset classes of Global Equity, Global Fixed Income & Global Real Assets).

During the last year, RIO worked with NDACO to review their long-term risk and return profile and current liquidity requirements. Based on this review, RIO was amenable to NDACO's desire to lower the target cash allocation by 10% and increasing target allocations to fixed income and equity. As a result, NDACO's governing committee approved a 10% reduction in Cash (to 3% from 13%) and 5% increase to both Fixed Income (to 62% from 57%) and Equity (to 35% from 30%). **If the Board concurs, RIO requests the SIB make a motion to accept the IPS changes approved by the NDACO governing body** (as detailed on the second page of the attached NDACO Investment Policy Statement).

On March 12, 2018, the PERS board approved NDPERS Investment Subcommittee recommendation to lessen the overweight allocation to U.S. Equities within the RHIC Fund. This recommendation was originally made by SEI (investment manager) and confirmed by RIO at an NDPERS Investment Subcommittee meeting on February 15, 2018. The specific SEI recommendation was to increase International Equity by 7% (to 21%) and decrease U.S. Large Cap Equity by 4% (to 33%) and decrease U.S. Small Cap Equity by 3% (to 6%). **If the Board concurs, RIO requests the SIB make a motion to accept the PERS board approved IPS changes** (noting that the overall asset allocation to Equities at 60% and Fixed Income at 40% remains unchanged).

#### **SIB SYSTEMATIC REBALANCING POLICY**

At least quarterly, all portfolios will be evaluated to determine if the actual percentage of assets within the broad asset classes are in compliance with the asset allocation plan. Broad asset classes in which the percentage of assets deviate by more than the established range around the target shall be rebalanced back within the range. Unless specifically indicated in the Investment Policy Statement, ranges around a target allocation are as follows:

Target allocation of less than 10%	+/- 25% of the target
Target allocation of 10% or greater but less than 20%	+/- 18.75% of the target
Target allocation of 20% or greater	+/- 12.5% of the target

## **CITY OF BISMARCK EMPLOYEE PENSION PLAN**

### **INVESTMENT POLICY STATEMENT**

#### **1. PLAN CHARACTERISTICS AND FUND CONSTRAINTS**

The Bismarck, North Dakota City Employee Pension Plan (BCEPP) is the pension benefit plan (Fund) established for the city of Bismarck public employees. The Fund is administered by the Bismarck City Employee Pension Plan Board of Trustees. The Fund is a defined benefit pension plan maintained to provide retirement benefits, and/or death benefits as may be the case, to the participants in accordance with Chapter 9-07 of the city of Bismarck Code of Ordinance (1986 revised). The Fund is administered in accordance with IRS and Treasury Regulations. The Fund was established to provide benefits to members eligible to receive them in accordance with the provisions of the Fund.

#### **2. FUND GOALS**

The plan benefits are financed through both employer and employee contributions and the investment earnings on assets held in the Fund. The BCEPP Board recognizes that a sound investment program is essential to meet the pension obligations.

As a result, the Fund goals are to:

- Improve the Plan's funding status to protect and sustain current and future benefits.
- Minimize the employee and employer contributions needed to fund the Plan over the long term.
- Avoid substantial volatility in required contribution rates and fluctuations in the Plan's funding status.
- Accumulate a funding surplus to provide increases in retiree annuity payments to preserve the purchasing power of their retirement benefit.

The BCEPP Board acknowledges the material impact that funding the pension plan has on the City's financial performance. These goals affect the Fund's investment strategies and often represent conflicting goals. For example, 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 BCEPP Board places greater emphasis on the strategy of improving the funding status and reducing the contributions that must be made to the Fund, as it is most consistent with the long-term goal of conserving money to apply to other important projects.

#### **3. RESPONSIBILITIES AND DISCRETION OF THE STATE INVESTMENT BOARD (SIB).**

The BCEPP Board has entered into a contract with the SIB for investment services as allowed under NDCC 21-10-06. The BCEPP Board is responsible for establishing policies on investment goals and asset allocation of the Fund. The SIB is charged with implementing these policies and investing the assets of the Fund in the manner provided in NDCC 21-10-07, the prudent investor rule. Under this rule, the fiduciaries shall exercise the judgment and care,

under the circumstances then prevailing, that an institutional investor of ordinary prudence, discretion, and intelligence exercises in the management of large investments entrusted to it, not in regard to speculation but in regard to the permanent disposition of funds, considering probable safety of capital as well as probable income. The Fund must be invested exclusively for the benefit of the members and their beneficiaries in accordance with this investment policy.

Management responsibility for the investment program not assigned to the SIB in Chapter 21-10 of the North Dakota Century Code (NDCC) is hereby delegated to the SIB, who must establish written policies for the operation of the investment program, consistent with this investment policy.

The SIB may delegate investment responsibility to professional money managers. Where a money manager has been retained, the SIB's role in determining investment strategy and security selection is supervisory, not advisory.

At the discretion of the SIB, the Fund's assets may be pooled with other funds. In pooling funds, the SIB may establish whatever asset class pools it deems necessary with specific quality, diversification, restrictions, and performance objectives appropriate to the prudent investor rule and the objectives of the funds participating in the pools.

The SIB is responsible for establishing criteria, procedures, and making decisions with respect to hiring, keeping, and terminating money managers. SIB investment responsibility also includes selecting performance measurement services, consultants, report formats, and frequency of meetings with managers.

The SIB will implement changes to this policy as promptly as is prudent.

#### **4. RISK TOLERANCE**

The BCEPP Board is unwilling to undertake investment strategies that might jeopardize the ability of the Fund to finance the pension benefits promised to plan participants.

However, funding the pension promise in an economical manner is critical to the City's ability to continue to provide pension benefits to plan participants. Thus, the BCEPP Board actively seeks to lower the cost of funding the plan's pension obligations by taking on risk for which it expects to be compensated over the long term. The BCEPP Board understands that a prudent investment approach to risk taking can result in periods of under-performance for the Fund in which the funding status may decline. These periods, in turn, can lead to higher required contribution rates. Nevertheless, the BCEPP Board believes that such an approach, prudently implemented, best serves the long-run interests of the City and, therefore, of plan participants.

#### **5. INVESTMENT OBJECTIVES**

The BCEPP 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. POLICY ASSET MIX

Benefit payments are projected to occur over a long period of time. This allows BCEPP Board to adopt a long-term investment horizon and asset allocation policy for the management of fund assets. Asset allocation policy is critical because it defines the basic risk and return characteristics of the investment portfolio. Asset allocation targets are established using an asset-liability analysis designed to assist the BCEPP Board in determining an acceptable volatility target for the fund and an optimal asset allocation policy mix. This asset-liability analysis considers both sides of the plan balance sheet, utilizing both quantitative and qualitative inputs, in order to estimate the potential impact of various asset class mixes on key measures of total plan risk, including the resulting estimated impact of funded status and contribution rates. After consideration of all the inputs and a discussion of its own collective risk tolerance, the BCEPP Board approves the appropriate policy asset mix for the Fund.

Asset Class	Policy Target(%)
Global Equity	46
Public Equity	42
Domestic Equity	25
Large	15
Small	10
International Equity	17
Developed	12
Emerging	5
Private Equity	4
Global Fixed Income	34
Domestic Fixed	30
Investment Grade	24
Non-Investment Grade	6
International Fixed	4
Developed	4
Global Real Assets	20
Global Real Estate	12
Other	8
Infrastructure	5
Timber	5

While the Board recognizes fluctuations in market values will lead to short-term deviations from policy targets, the BCEPP Board does not intend to engage in tactical asset allocation. An allocation to Global Alternatives of up to 10% is authorized but shall not

Formatted: Indent: Left: 1", First line: 0.5"

Formatted: Left, Indent: First line: 0", Right: 0", Widow/Orphan control



increase the expected volatility of the portfolio as measured in Section 5; and if utilized, all other targets will be adjusted pro-rata. The BCEPP 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 rebalancing costs. Rebalancing of the Fund to this target will be done in accordance with the SIB's rebalancing policy, ~~but not less than annually.~~

## 7. RESTRICTIONS

While the SIB is responsible for establishing specific quality, diversification, restrictions, and performance objectives for the investment vehicles in which the Fund's assets will be invested, it is understood that:

- a. Futures and options may be used to hedge or replicate underlying index exposure, but not for speculation.
- b. Derivatives use will be monitored to ensure that undue risks are not taken by the money managers
- c. No transaction shall be made which threatens the tax exempt status of the Fund.
- d. All assets will be held in custody by the SIB's master custodian or such other custodians as are acceptable to the SIB.
- e. No unhedged short sales or speculative margin purchases shall be made.
- f. 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 task.
- 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

A system of internal controls must be in place by the SIB to prevent losses of public funds arising from fraud or employee error. Such controls deemed most important are the separation of responsibilities for investment purchases from the recording of investment activity, custodial safekeeping, written confirmation of investment transactions, and established criteria for broker relationships. The annual financial audit must include a comprehensive review of the portfolio, accounting procedures for security transactions and compliance with the investment policy.

## 9. EVALUATION AND REVIEW

Investment management of the Fund will be evaluated against the Fund's investment objectives. Emphasis will be placed on five year results. Evaluation should include an assessment of the continued feasibility of achieving the investment objectives and the appropriateness of the Investment Policy Statement for achieving those objectives.

Performance reports will be provided to the TFFR Board periodically, but not less than annually. Such reports will include asset returns and allocation data as well as information regarding all significant and/or material matters and changes pertaining to the investment of the Fund, including but not limited to:

- 1) A list of the advisory services managing investments for the board.
- 2) A list of investments at market value, compared to previous reporting period, of each fund managed by each advisory service.
- 3) Earnings, percentage earned, and change in market value of each fund's investments.
- 4) Comparison of the performance of each fund managed by each advisory service to other funds under the board's control and to generally accepted market indicators.
- 5) All material legal or legislative proceedings affecting the SIB.
- 6) Compliance with this investment policy statement.

Bismarck City Employee Pension Plan  
Board of Trustees

ND State Investment Board

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

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

\_\_\_\_\_

\_\_\_\_\_

David J Hunter  
Executive Director/CIO

[Approved Bismarck City: February 22, 2018](#)  
[Approved by State Investment Board:](#)

## **CITY OF BISMARCK POLICE PENSION PLAN**

### **INVESTMENT POLICY STATEMENT**

#### **1. PLAN CHARACTERISTICS AND FUND CONSTRAINTS**

The Bismarck, North Dakota City Police Pension Plan (BCPPP) is the pension benefit plan (Fund) established for the city of Bismarck police. The Fund is administered by the Bismarck City Police Pension Plan Board of Trustees. The Fund is a defined benefit pension plan maintained to provide retirement benefits, and/or death benefits as may be the case, to the participants in accordance with Chapter 9-08 of the city of Bismarck Code of Ordinance (1986 revised). The Fund is administered in accordance with IRS and Treasury Regulations. The Fund was established to provide benefits to members eligible to receive them in accordance with the provisions of the Fund.

#### **2. FUND GOALS**

The plan benefits are financed through both employer and employee contributions and the investment earnings on assets held in the Fund. The BCPBP Board recognizes that a sound investment program is essential to meet the pension obligations.

As a result, the Fund goals are to:

- Improve the Plan's funding status to protect and sustain current and future benefits.
- Minimize the employee and employer contributions needed to fund the Plan over the long term.
- Avoid substantial volatility in required contribution rates and fluctuations in the Plan's funding status.
- Accumulate a funding surplus to provide increases in retiree annuity payments to preserve the purchasing power of their retirement benefit.

The BCPBP Board acknowledges the material impact that funding the pension plan has on the City's financial performance. These goals affect the Fund's investment strategies and often represent conflicting goals. For example, 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 BCPBP Board places greater emphasis on the strategy of improving the funding status and reducing the contributions that must be made to the Fund, as it is most consistent with the long-term goal of conserving money to apply to other important projects.

#### **3. RESPONSIBILITIES AND DISCRETION OF THE STATE INVESTMENT BOARD (SIB).**

The BCPBP Board has entered into a contract with the SIB for investment services as allowed under NDCC 21-10-06. The BCPBP Board is responsible for establishing policies on investment goals and asset allocation of the Fund. The SIB is charged with implementing these policies and investing the assets of the Fund in the manner provided in NDCC 21-10-07, the prudent investor rule. Under this rule, the fiduciaries shall exercise the judgment and care,

under the circumstances then prevailing, that an institutional investor of ordinary prudence, discretion, and intelligence exercises in the management of large investments entrusted to it, not in regard to speculation but in regard to the permanent disposition of funds, considering probable safety of capital as well as probable income. The Fund must be invested exclusively for the benefit of the members and their beneficiaries in accordance with this investment policy.

Management responsibility for the investment program not assigned to the SIB in Chapter 21-10 of the North Dakota Century Code (NDCC) is hereby delegated to the SIB, who must establish written policies for the operation of the investment program, consistent with this investment policy.

The SIB may delegate investment responsibility to professional money managers. Where a money manager has been retained, the SIB's role in determining investment strategy and security selection is supervisory, not advisory.

At the discretion of the SIB, the Fund's assets may be pooled with other funds. In pooling funds, the SIB may establish whatever asset class pools it deems necessary with specific quality, diversification, restrictions, and performance objectives appropriate to the prudent investor rule and the objectives of the funds participating in the pools.

The SIB is responsible for establishing criteria, procedures, and making decisions with respect to hiring, keeping, and terminating money managers. SIB investment responsibility also includes selecting performance measurement services, consultants, report formats, and frequency of meetings with managers.

The SIB will implement changes to this policy as promptly as is prudent.

#### **4. RISK TOLERANCE**

The BCPPP Board is unwilling to undertake investment strategies that might jeopardize the ability of the Fund to finance the pension benefits promised to plan participants.

However, funding the pension promise in an economical manner is critical to the City's ability to continue to provide pension benefits to plan participants. Thus, the BCPPP Board actively seeks to lower the cost of funding the plan's pension obligations by taking on risk for which it expects to be compensated over the long term. The BCPPP Board understands that a prudent investment approach to risk taking can result in periods of under-performance for the Fund in which the funding status may decline. These periods, in turn, can lead to higher required contribution rates. Nevertheless, the BCPPP Board believes that such an approach, prudently implemented, best serves the long-run interests of the City and, therefore, of plan participants.

#### **5. INVESTMENT OBJECTIVES**

The BCPPP 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. POLICY ASSET MIX

Benefit payments are projected to occur over a long period of time. This allows BCPPP Board to adopt a long-term investment horizon and asset allocation policy for the management of fund assets. Asset allocation policy is critical because it defines the basic risk and return characteristics of the investment portfolio. Asset allocation targets are established using an asset-liability analysis designed to assist the BCPPP Board in determining an acceptable volatility target for the fund and an optimal asset allocation policy mix. This asset-liability analysis considers both sides of the plan balance sheet, utilizing both quantitative and qualitative inputs, in order to estimate the potential impact of various asset class mixes on key measures of total plan risk, including the resulting estimated impact of funded status and contribution rates. After consideration of all the inputs and a discussion of its own collective risk tolerance, the BCPPP Board approves the appropriate policy asset mix for the Fund.

Asset Class	Policy Target(%)
Global Equity	51
Public Equity	46
Domestic Equity	27
Large	15
Small	11
International Equity	19
Developed	13
Emerging	6
Private Equity	5
Global Fixed Income	29
Domestic Fixed	25
Investment Grade	19
Non-Investment Grade	6
International Fixed	4
Developed	4
Global Real Assets	20
Global Real Estate	10
Other	10
Infrastructure	5
Timber	5

While the Board recognizes fluctuations in market values will lead to short-term

Formatted: Indent: Left: 1.5"

Formatted: Left, Indent: First line: 0", Right: 0", Widow/Orphan control

~~deviations from policy targets, the BCPPP Board does not intend to engage in tactical asset allocation. An allocation to Global Alternatives of up to 10% is authorized but shall not increase the expected volatility of the portfolio as measured in Section 5; and if utilized, all other targets will be adjusted pro-rata. The BCPPP 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 rebalancing costs.~~ Rebalancing of the Fund to this target will be done in accordance with the SIB's rebalancing policy, ~~but not less than annually.~~

## 7. RESTRICTIONS

While the SIB is responsible for establishing specific quality, diversification, restrictions, and performance objectives for the investment vehicles in which the Fund's assets will be invested, it is understood that:

- a. Futures and options may be used to hedge or replicate underlying index exposure, but not for speculation.
- b. Derivatives use will be monitored to ensure that undue risks are not taken by the money managers
- c. No transaction shall be made which threatens the tax exempt status of the Fund.
- d. All assets will be held in custody by the SIB's master custodian or such other custodians as are acceptable to the SIB.
- e. No unhedged short sales or speculative margin purchases shall be made.
- f. 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 task.
- 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

A system of internal controls must be in place by the SIB to prevent losses of public funds arising from fraud or employee error. Such controls deemed most important are the separation of responsibilities for investment purchases from the recording of investment activity, custodial safekeeping, written confirmation of investment transactions, and established criteria for broker relationships. The annual financial audit must include a comprehensive review of the portfolio, accounting procedures for security transactions and compliance with the investment policy.

## 9. EVALUATION AND REVIEW

Investment management of the Fund will be evaluated against the Fund's investment objectives. Emphasis will be placed on five year results. Evaluation should include an assessment of the continued feasibility of achieving the investment objectives and the appropriateness of the Investment Policy Statement for achieving those objectives.

Performance reports will be provided to the TFFR Board periodically, but not less than annually. Such reports will include asset returns and allocation data as well as information regarding all significant and/or material matters and changes pertaining to the investment of the Fund, including but not limited to:

- 1) A list of the advisory services managing investments for the board.
- 2) A list of investments at market value, compared to previous reporting period, of each fund managed by each advisory service.
- 3) Earnings, percentage earned, and change in market value of each fund's investments.
- 4) Comparison of the performance of each fund managed by each advisory service to other funds under the board's control and to generally accepted market indicators.
- 5) All material legal or legislative proceedings affecting the SIB.
- 6) Compliance with this investment policy statement.

Bismarck City Police Pension Plan  
Board of Trustees

ND State Investment Board

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

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



---

David J Hunter  
Executive Director/CIO

---

Approved by Bismarck City: February 22, 2018  
Approved by State Investment Board:

## **CITY OF GRAND FORKS PENSION PLAN**

### **INVESTMENT POLICY STATEMENT**

#### **1. PLAN CHARACTERISTICS AND FUND CONSTRAINTS**

The City of Grand Forks Pension Fund (the "Fund") is operated by the Grand Forks City Council pursuant to the authority granted in the Grand Forks City Code Chapter 7.

The City of Grand Forks, North Dakota Pension Plan (the "Plan") is a cost-sharing multiple employer public employee pension plan. All classified employees who earned at least one hour of service prior to January 1, 1996 are eligible to participate in the Plan. Some participants have elected to cease benefit accruals under the Plan as of June 30, 2008 and to participate in the North Dakota Public Employees Retirement System.

Benefit provisions are established by the City Council. The employers contribute such amounts as necessary to provide the promised benefits. The contribution amounts are determined by the annual actuarial valuation report and approved by the City Council.

#### **2. FUND GOALS**

The plan benefits are financed through both employer and employee contributions and the investment earnings on assets held in the Fund. The City Council recognizes that a sound investment program is essential to meet the pension obligations.

As a result, the Fund goals are to:

- Improve the Plan's funding status to protect and sustain current and future benefits.
- Minimize the employee and employer contributions needed to fund the Plan over the long term.
- Avoid substantial volatility in required contribution rates and fluctuations in the Plan's funding status.
- Accumulate a funding surplus to provide increases in retiree annuity payments to preserve the purchasing power of their retirement benefit.

The City Council acknowledges the material impact that funding the pension plan has on the City's financial performance. These goals affect the Fund's investment strategies and often represent conflicting goals. For example, 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 City Council places greater emphasis on the strategy of improving the funding status and reducing the contributions that must be made to the Fund, as it is most consistent with the long-term goal of conserving money to apply to other important projects.

#### **3. RESPONSIBILITIES AND DISCRETION OF THE STATE INVESTMENT BOARD (SIB)**

The City Council has entered into a contract with the SIB for investment services as allowed under NDCC 21-10-06. The City Council is responsible for establishing policies on investment goals and asset allocation of the Fund. The SIB is charged with implementing

these policies and investing the assets of the Fund in the manner provided in NDCC 21-10-07, the prudent investor rule. Under this rule, the fiduciaries shall exercise the judgment and care, under the circumstances then prevailing, that an institutional investor of ordinary prudence, discretion, and intelligence exercises in the management of large investments entrusted to it, not in regard to speculation but in regard to the permanent disposition of funds, considering probable safety of capital as well as probable income. The Fund must be invested exclusively for the benefit of the members and their beneficiaries in accordance with this investment policy.

Management responsibility for the investment program not assigned to the SIB in Chapter 21-10 of the North Dakota Century Code (NDCC) is hereby delegated to the SIB, who must establish written policies for the operation of the investment program, consistent with this investment policy.

The SIB may delegate investment responsibility to professional money managers. Where a money manager has been retained, the SIB's role in determining investment strategy and security selection is supervisory, not advisory.

At the discretion of the SIB, the Fund's assets may be pooled with other funds. In pooling funds, the SIB may establish whatever asset class pools it deems necessary with specific quality, diversification, restrictions, and performance objectives appropriate to the prudent investor rule and the objectives of the funds participating in the pools.

The SIB is responsible for establishing criteria, procedures, and making decisions with respect to hiring, keeping, and terminating money managers. SIB investment responsibility also includes selecting performance measurement services, consultants, report formats, and frequency of meetings with managers.

The SIB will implement changes to this policy as promptly as is prudent.

#### **4. RISK TOLERANCE**

The City Council is unwilling to undertake investment strategies that might jeopardize the ability of the Fund to finance the pension benefits promised to plan participants. However, funding the pension promise in an economical manner is critical to the City Council's ability to continue to provide pension benefits to plan participants. Thus, the City Council actively seeks to lower the cost of funding the plan's pension obligations by taking on risk for which it expects to be compensated over the long term. The City Council understands that a prudent investment approach to risk taking can result in periods of under-performance for the Fund in which the funding status may decline. These periods, in turn, can lead to higher required contribution rates. Nevertheless, the City Council believes that such an approach, prudently implemented, best serves the long-run interests of the City and, therefore, of plan participants.

#### **5. INVESTMENT OBJECTIVES**

The City Council'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. POLICY ASSET MIX

Benefit payments are projected to occur over a long period of time. This allows the City Council to adopt a long-term investment horizon and asset allocation policy for the management of fund assets. Asset allocation policy is critical because it defines the basic risk and return characteristics of the investment portfolio. Asset allocation targets are established using an asset-liability analysis designed to assist the City Council in determining an acceptable volatility target for the fund and an optimal asset allocation policy mix. This asset-liability analysis considers both sides of the plan balance sheet, utilizing both quantitative and qualitative inputs, in order to estimate the potential impact of various asset class mixes on key measures of total plan risk, including the resulting estimated impact of funded status and contribution rates. After consideration of all the inputs and a discussion of its own collective risk tolerance, the City Council approves the appropriate policy asset mix for the Fund.

Asset Class	Policy Target %
<b>Global Equity</b>	<b>60</b>
Public Equity	55
<del>Domestic Equity</del>	<del>40</del>
<del>Large</del>	<del>30</del>
<del>Small</del>	<del>10</del>
<del>International Equity</del>	<del>15</del>
<del>Developed</del>	<del>10</del>
<del>Emerging</del>	<del>5</del>
Private Equity	5
<b>Global Fixed Income</b>	<b>24</b>
Investment Grade	17
Non-Investment Grade	7
<b>Global Real Assets</b>	<b>15</b>
Global Real Estate	7
Other	8
<del>Infrastructure</del>	<del>5</del>
<del>Timber</del>	<del>3</del>

While the City Council recognizes fluctuations in market values will lead to short-term deviations from policy targets, the City Council does not intend to engage in tactical asset allocation. An allocation to Global Alternatives of up to 10% is authorized but shall not increase the expected volatility of the portfolio as measured in Section 5; and if utilized, all other targets will

Formatted: Font: 11 pt

be adjusted pro-rata. The City Council 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 rebalancing costs. Rebalancing of the Fund to this target will be done in accordance with the SIB's rebalancing policy, ~~but not less than annually.~~

Formatted: Font: 11 pt

## 7. RESTRICTIONS

While the SIB is responsible for establishing specific quality, diversification, restrictions, and performance objectives for the investment vehicles in which the Fund's assets will be invested, it is understood that:

- a. Futures and options may be used to hedge or replicate underlying index exposure, but not for speculation.
- b. Derivatives use will be monitored to ensure that undue risks are not taken by the money managers.
- c. No transaction shall be made which threatens the tax exempt status of the Fund.
- d. All assets will be held in custody by the SIB's master custodian or such other custodians as are acceptable to the SIB.
- e. No unhedged short sales or speculative margin purchases shall be made.
- f. Social investing is prohibited unless it meets the exclusive benefit rule, and it can be substantiated that the investment provides an equivalent or superior rate of return for a similar investment with a similar time horizon and similar risk.

For the purpose of this document, social investing is defined as the consideration of socially responsible criteria in the investment or commitment of public fund money for the purpose of obtaining an effect other than a maximized return to the Fund.

- g. Economically targeted investing is prohibited unless the investment meets the Exclusive Benefit Rule.

For the purpose of this document economically targeted investment is defined as an investment designed to produce a competitive rate of return commensurate with risk involved, as well as to create collateral economic benefits for a targeted geographic area, group of people, or sector of the economy.

Also, for the purpose of this document, the Exclusive Benefit Rule is met if the following four conditions are satisfied:

- (1) The cost does not exceed the fair market value at the time of investment.
- (2) The investment provides the Fund with an equivalent or superior rate of return for a similar investment with a similar time horizon and similar risk.
- (3) Sufficient liquidity is maintained in the Fund to permit distributions in accordance with the terms of the plan.
- (4) The safeguards and diversity that a prudent investor would adhere to are present.

Where investment characteristics, including yield, risk, and liquidity are equivalent, the City Council's policy favors investments which will have a positive impact on the economy of North Dakota.

## 8. INTERNAL CONTROLS

A system of internal controls must be in place by the SIB to prevent losses of public funds

arising from fraud or employee error. Such controls deemed most important are the separation of responsibilities for investment purchases from the recording of investment activity, custodial safekeeping, written confirmation of investment transactions, and established criteria for investment manager selection and monitoring. The annual financial audit must include a comprehensive review of the portfolio, accounting procedures for security transactions and compliance with the investment policy.

## 9. EVALUATION AND REVIEW

Investment management of the Fund will be evaluated against the Fund's investment objectives. Emphasis will be placed on five year results. Evaluation should include an assessment of the continued feasibility of achieving the investment objectives and the appropriateness of the Investment Policy Statement for achieving those objectives.

Performance reports will be provided to the City Council periodically, but not less than annually. Such reports will include asset returns and allocation data as well as information regarding all significant and/or material matters and changes pertaining to the investment of the Fund, including, but not limited to:

1. A list of the advisory services managing investments for the SIB.
2. A list of investments at market value, compared to previous reporting period, of each account managed by each advisory service.
3. Earnings, percentage earned, and change in market value of each account's investments.
4. Comparison of the performance of each account managed by each advisory service to other accounts under the SIB's control and to generally accepted market indicators.
5. All material legal or legislative proceedings affecting the SIB.
6. Compliance with this investment policy statement.

Trustee for the City of Grand Forks,  
North Dakota Pension Plan

David Hunter  
Executive Director/CIO  
Retirement and Investment Office

By: \_\_\_\_\_

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

By: \_\_\_\_\_

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

# **NORTH DAKOTA ASSOCIATION OF COUNTIES**

## **INVESTMENT POLICY STATEMENT**

### **PLAN CHARACTERISTICS AND FUND CONSTRAINTS**

The North Dakota Association of Counties (NDACo) (Fund) was established to aid in the administration of county government by providing a medium for exchange of information, ideas, and experience of county officials; promote training; facilitate cooperation with all levels of government; and be a legislative advocate for counties. NDACo and the benefits provided there under are funded by dues from member counties and special programs and projects of NDACo.

### **RESPONSIBILITIES AND DISCRETION OF THE STATE INVESTMENT BOARD (SIB)**

NDACo has entered into a contract with the SIB for investment services as allowed under NDCC 21-10-06. It is the responsibility of NDACo to establish policies on investment goals and asset allocation of the Fund. The SIB is charged with implementing these policies and asset allocation and investing the assets of the Fund in a manner consistent with the prudent investor rule as provided in NDCC 21-10-07.

At the discretion of the SIB, the Fund's assets may be pooled with other funds. In pooling funds, the SIB may establish whatever asset class pools it deems necessary with specific quality, diversification, restrictions, and performance objectives appropriate to the prudent investor rule and objectives of the Fund participating in the pools.

The SIB may delegate investment responsibility to professional money managers. Where a money manager has been retained, the SIB's role in determining investment strategy and security selection is supervisory, not advisory.

The SIB is responsible for establishing criteria and procedures and making decisions with respect to hiring, maintaining, and terminating money managers. This responsibility includes selecting performance measurement services, consultants and report formats and determining the frequency of meetings with managers.

The SIB will implement changes to this policy as promptly as is prudent.

### **RISK TOLERANCE**

Funds in excess of those required for operating and claims payment needs will be invested to obtain the maximum total return on investments consistent with safety of principal on funds in excess of those required for operating and claims payment needs. The investment fund(s) may be comprised of fixed income securities and equity securities. Individual investments may be either actively or passively managed.

### **INVESTMENT OBJECTIVE**

The Fund's investment objectives are expressed in terms of reward and risk expectations relative to investable, passive benchmarks. The Fund's policy benchmark is comprised of policy mix weights of appropriate asset class benchmarks as set by the SIB.

1. The fund's rate of return, net of fees and expenses, should at least match that of the policy benchmark over a minimum evaluation period of five years.
2. Risk, as measured by the annual standard deviation of net returns for the Fund, should not exceed that of the policy portfolio by more than 100 basis points over a minimum evaluation period of five years.
3. The risk-adjusted performance of the fund, net of fees and expenses, should at least match that of the policy benchmark over a minimum evaluation period of five years.

## **POLICY ASSET MIX**

Asset allocation policy is critical because it defines the basic risk and return characteristics of the investment portfolio. Asset allocation targets are established using an asset allocation analysis designed to assist the Fund in determining an acceptable volatility target for the fund and an optimal asset allocation policy mix. This analysis estimates the potential impact of various asset class mixes on key measures of total fund risk.

After consideration of all the inputs and a discussion concerning risk tolerance, the Fund approves the appropriate policy asset mix for the Fund.

<u>Asset Class</u>	<u>Policy Target(%)</u>
Large Cap Domestic Equity	20
Small Cap Domestic Equity	5
International Equity	10
Domestic Fixed Income	62
Cash Equivalents	3

While the Fund recognizes fluctuations in market values will lead to short-term deviations from policy targets, the Fund does not intend to engage in tactical asset allocation. Rebalancing of the Fund to this target will be done in accordance with the SIB's rebalancing policy, but not less than annually.

## **RESTRICTIONS**

While the SIB is responsible for establishing specific quality, diversification, restrictions, and performance objectives for the investment vehicles in which the Fund's assets will be invested, it is understood that:

- a. Futures and options may be used to hedge or replicate underlying index exposure, but not for speculation.
- b. Derivatives use will be monitored to ensure that undue risks are not taken by the money managers.
- c. No transaction shall be made which threatens the tax exempt status of the Fund.
- d. All assets will be held in custody by the SIB's master custodian or such other custodians as are acceptable to the SIB.
- e. No unhedged short sales or speculative margin purchases shall be made.
- f. Social investing is prohibited unless it meets the exclusive benefit rule, and it can be substantiated that the investment provides an equivalent or superior rate of return for a similar investment with a similar time horizon and similar risk.

For the purpose of this document, social investing is defined as the consideration of socially responsible criteria in the investment or commitment of public fund money for the purpose of obtaining an effect other than a maximized return to the Fund.

- g. Economically targeted investing is prohibited unless the investment meets the Exclusive Benefit Rule.



For the purpose of this document economically targeted investment is defined as an investment designed to produce a competitive rate of return commensurate with risk involved, as well as to create collateral economic benefits for a targeted geographic area, group of people, or sector of the economy.

Also, for the purpose of this document, the Exclusive Benefit Rule is met if the following four conditions are satisfied:

- (1) The cost does not exceed the fair market value at the time of investment.
- (2) The investment provides the Fund with an equivalent or superior rate of return for a similar investment with a similar time horizon and similar risk.
- (3) Sufficient liquidity is maintained in the Fund to permit distributions in accordance with the terms of the plan.
- (4) The safeguards and diversity that a prudent investor would adhere to are present.

Where investment characteristics, including yield, risk, and liquidity are equivalent, the Board's policy favors investments which will have a positive impact on the economy of North Dakota.

## **INTERNAL CONTROLS**

A system of internal controls must be in place by the SIB to prevent losses of public funds arising from fraud or employee error. Such controls deemed most important are the separation of responsibilities for investment purchases from the recording of investment activity, custodial safekeeping, written confirmation of investment transactions, and established criteria for investment manager selection and monitoring. The annual financial audit must include a comprehensive review of the portfolio, accounting procedures for security transactions and compliance with the investment policy.

## **EVALUATION AND REVIEW**

Investment management of the Fund will be evaluated against the Fund's investment objectives. Emphasis will be placed on five year results. Evaluation should include an assessment of the continued feasibility of achieving the investment objectives and the appropriateness of the Investment Policy Statement for achieving those objectives.

Performance reports will be provided to the Fund periodically, but not less than annually. Such reports will include asset returns and allocation data as well as information regarding all significant and/or material matters and changes pertaining to the investment of the Fund, including, but not limited to:

1. A list of the advisory services managing investments for the SIB.
2. A list of investments at market value, compared to previous reporting period, of each account managed by each advisory service.
3. Earnings, percentage earned, and change in market value of each account's investments.
4. Comparison of the performance of each account managed by each advisory service to other accounts under the SIB's control and to generally accepted market indicators.
5. All material legal or legislative proceedings affecting the SIB.
6. Compliance with this investment policy statement.

Approved by:

**ND ASSOCIATION OF COUNTIES**

**STATE INVESTMENT BOARD**

---

**Mark A. Johnson**  
**Executive Director**

---

**David Hunter**  
**Executive Director/CIO**

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

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

Approved by the SIB:

# 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 nine 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 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 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 7.5%.

### 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 201~~8~~<sup>7</sup> – SEI Corporation

Domestic Equities - Large Cap	<del>33</del> <sup>37</sup> %
Domestic Equities – Small Cap	<del>6</del> <sup>9</sup> %
International Equities	<del>21</del> <sup>14</sup> %
Fixed Income	40%
<b>Expected Return</b>	8.1%
<b>Standard Deviation</b>	13.3%

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  
Interim Executive Director  
North Dakota Public Employees Retirement System

\_\_\_\_\_  
David Hunter  
Executive Director  
North Dakota Retirement and Investment Office

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

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



# Infrastructure Overview

March 23, 2018

Dave Hunter, Darren Schulz and Eric Chin

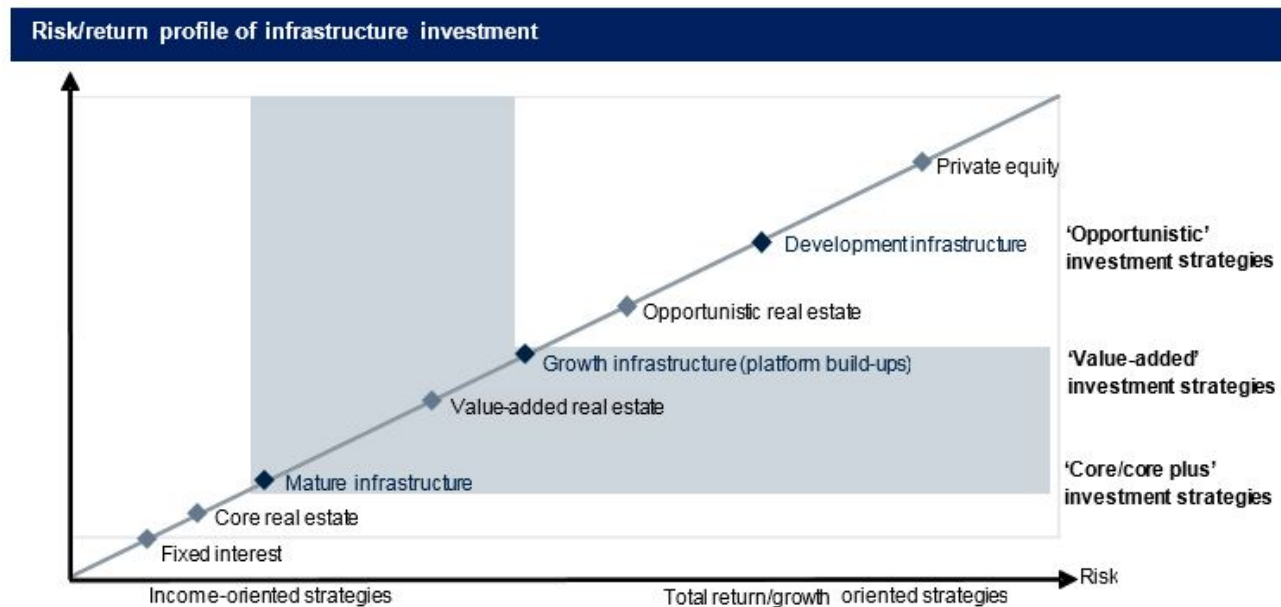


# What are Infrastructure Assets?

- ▶ Generally **long life assets associated with the delivery of essential public services**, such as roads, airports, power generation and pipelines
- ▶ Tend to be **hard assets with steady and predictable cash flow**
- ▶ **Inflation protection** can be derived to the extent that revenues are explicitly linked to inflation
- ▶ **Demand** for asset tends to be **predictable and inelastic**, therefore **less susceptible to economic downturns** as compared to other asset classes
- ▶ **Income generation via a cash yield return** exists for more mature, stabilized assets

# Infrastructure in an Investor's Portfolio

- ▶ While the risk/return profile of infrastructure assets vary considerably at different stages of development, in general, **infrastructure risk falls between a continuum of risk between real estate and private equity**



# Risk/Return Profile Among Infrastructure Strategies

	Core Equity	Core + Equity	Value-added Equity	Opportunistic Equity
<b>Type of assets</b>	Brownfield assets such as regulated utility, mature toll road, airport, other monopolistic contracted assets	Fewer monopolistic contracted and demand-based/GDP linked assets with expansion or growth potential	Platform-based infrastructure build-out blending brownfield and development. Telecom towers is one example.	Assets in construction (greenfield) phase; assets in emerging markets; assets highly growth-oriented, more akin to private equity
<b>Main return driver</b>	Mostly income	Income and appreciation	Income and appreciation	Mostly capital appreciation
<b>Key risks</b>	Operating, regulatory, patronage, financing	Operating, regulatory, patronage, financing, development	Political, operating contracts, strategy implementation, patronage, construction, currency and/or hedging risks, other	Political, operating contracts, strategy implementation, patronage, construction, currency and/or hedging risks, other
<b>Net return target</b>	5-8%	8-12%	11-14%	>14%

# Current NDSIB Infrastructure Portfolios

as of 1/31/18

## Pension Trust (Target Allocation 5%)

Managers	Market Value (mm)	% of Total Assets
JP Morgan Asian Infrastructure	\$22.62	0.42%
JP Morgan Infrastructure Investments Fund	\$192.91	3.57%
Grosvenor Custom Infrastructure I	\$33.75	0.62%
Grosvenor Custom Infrastructure II	\$13.98	0.26%
<b>Subtotal</b>	<b>\$220.60</b>	<b>4.87%</b>

## Insurance Trust (Diversified Real Asset Target Allocation 14%)

Managers	Market Value (mm)	% of Total Assets
JP Morgan Infrastructure Investments Fund	\$91.93	4.27%
Grosvenor Custom Infrastructure I	\$16.88	0.78%
<b>Subtotal</b>	<b>\$108.81</b>	<b>5.05%</b>

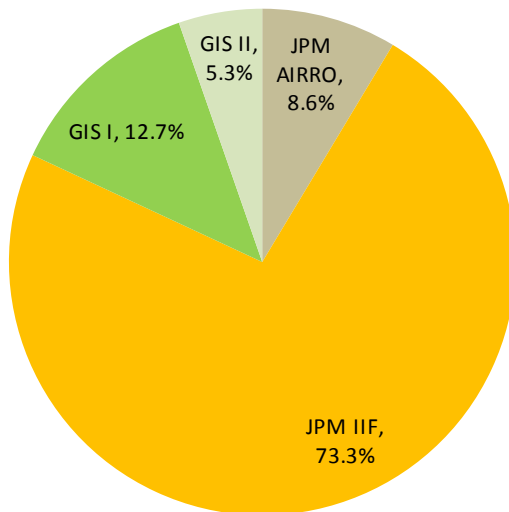
## Legacy Fund (Diversified Real Asset Target 10%)

Managers	Market Value (mm)	% of Total Assets
JP Morgan Infrastructure Investments Fund	\$121.97	2.31%
Grosvenor Custom Infrastructure II	\$34.94	0.66%
<b>Subtotal</b>	<b>\$156.91</b>	<b>2.97%</b>

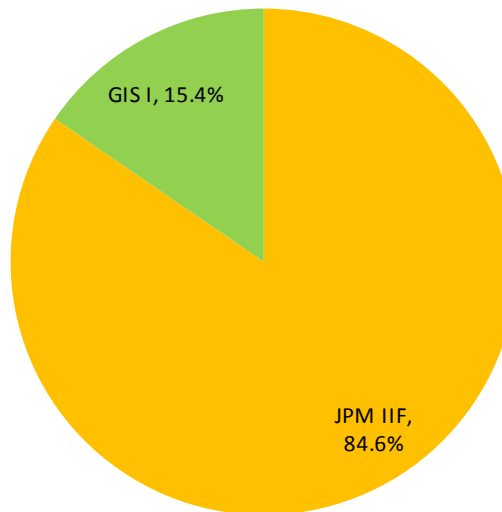
# Current NDSIB Infrastructure Portfolios

as of 1/31/18

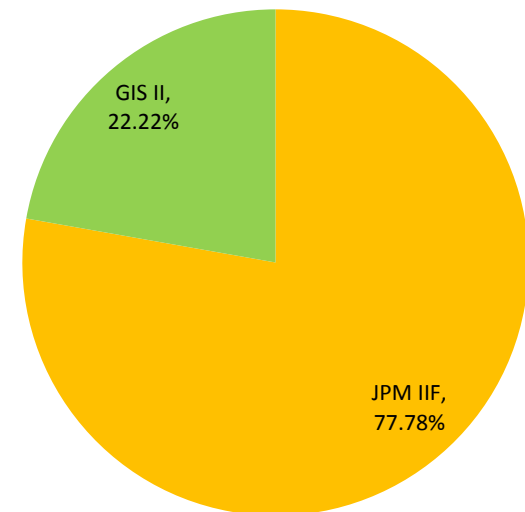
**Pension Trust**



**Insurance Trust**



**Legacy Fund**



# Importance of Diversification



Source: Mercer

- ▶ Diversification by manager helps to mitigate key-person risk, destabilizing staff turnover, and business risk.
- ▶ Strategy diversification is an important determinant of final portfolio risk, so a mix of strategies needs to be aligned to a targeted risk and return profile

# Current Portfolio

## Observations

- ▶ Current manager structure is heavily weighted to JP Morgan IIF, an open-end core/core plus fund
- ▶ Compared to JPM IIF, the weightings to Grosvenor CIS fund-of-funds are relatively low
- ▶ As CIS I and II mature, follow-on commitments will be needed to maintain policy allocations
- ▶ Reducing exposure to JPM as liquidity permits will help lower manager concentration, increase diversification by revenue drivers, geography, and sectors, thereby potentially lowering overall risk

# Infrastructure Roadmap

## Recommendations

- ▶ Partially redeem JPM IIF exposure to reduce manager concentration
- ▶ Current infrastructure portfolios would benefit from more closed-end fund exposure, as deploying capital into new primary commitments in a programmatic fashion enhances diversification by manager, geography, sectors, and asset lifecycles
- ▶ Adding value-added strategies to Pension Trust and Legacy Fund would complement existing infrastructure exposures





# I SQUARED CAPITAL



New York

Houston

London

New Delhi

Singapore

Hong Kong

# I Squared Capital – presenting team



## Sadek Wahba – Founding Partner

Sadek was previously at Morgan Stanley for 14 years where he was the CEO of Morgan Stanley Infrastructure, a global platform for infrastructure investments, and CIO of MSIP, a \$4 billion infrastructure investment fund. The portfolio included investments in several countries and diverse sectors including power generation, co-generation, gas distribution, transmission and distribution companies, airports, toll roads and container ports. Prior to joining Morgan Stanley, Sadek worked on structured financings at Lehman Brothers and as an economist for several years at the World Bank in Washington DC.

Sadek holds a Ph.D. in economics from Harvard University, a M.Sc. in economics from the London School of Economics (LSE) and a BA in economics from the American University in Cairo. He is a published author on economic research, including articles in the Journal of the American Statistical Association, Review of Economics and Statistics as well as other publications and proceedings. One of his publications was recently selected by MIT as one of their 50 most influential papers in the last 50 years. He is a frequent commentator on the need for more investment in infrastructure to promote economic growth and was part of the expert committee on the World Economic Forum first report on global infrastructure investments.

He is a member of the board of trustees of the American University in Cairo, a Senior Member of St. Antony's College, Oxford University, and was recently named the 2015 Global Infrastructure Personality of the Year by Private Equity International (PEI).



## William Campbell – General Counsel and Chief Compliance Officer

Mr. Campbell was previously a partner in the law firm Gibson Dunn & Crutcher and co-chair of the firm's Global Energy and Infrastructure Practice Group. He has more than 30 years of experience representing financial institutions, sponsors, lenders, contractors, operators, and suppliers in connection with a broad range of infrastructure investments internationally, including energy, water and waste treatment and transportation/logistics projects.

Mr. Campbell has worked with development finance institutions such as the World Bank, International Finance Corporation, Asian Development Bank, and Inter-American Development Bank. He also has in-depth experience advising sovereign clients in connection with national-interest infrastructure and other capacity building projects. His assignments have included major engagements by the governments of Argentina, Ecuador, Indonesia, Korea, Malaysia, Mexico, Tanzania, and Thailand.

Mr. Campbell lived and practiced law in Asia (based in Singapore) for 8 years and has devoted a substantial portion of his time to Asian related engagements for more than 30 years. He has also worked extensively over his career in Latin America and Africa on a broad range of inbound investments, development, and capacity building projects.

Mr. Campbell earned his JD cum laude in 1976 from the University of Texas School of Law, where he was elected to the Order of the Coif and a member of the Texas Law Review. He earned a BA magna cum laude from the University of Arizona. He is a member of the New York bar.

# About I Squared Capital

*I Squared Capital is an independent, fully employee owned investment platform with 99 investment professionals, operating partners and senior policy advisors in six offices on four continents.*

## Investment strategy

- North America, Europe and select high growth economies in Asia and Latin America;
- Energy, utilities, transport and telecom sectors;
- Mid-market with platform approach;
- Strong operational value creation;
- Proprietary risk methodology, in both investment and asset management; and
- Independently-sourced control investments negotiated under bilateral agreements.

Investment  
professionals  
**99**

Global offices  
**6**

• **New York**  
• **Houston**

Assets under  
management<sup>1</sup>  
**\$11.4** billion

Portfolio  
companies<sup>5</sup>  
**18**

Assets<sup>5</sup>  
**335+**

Countries<sup>5</sup>  
**20**

**Delhi**  
**Hong Kong**  
**Singapore**

**London**

## 2017 Performance Summary

Fund I Gross IRR<sup>3</sup>  
**26.5%**

Fund I Net IRR<sup>3</sup>  
**18.2%**

Fund I Gross MOIC<sup>3</sup>  
**1.5x**

Fund I Net MOIC<sup>3</sup>  
**1.3x**

Fund I Annualized  
Yield from  
Operations<sup>3, 4</sup>  
**9.2%**

<sup>1</sup> Represents aggregate capital commitments to ISQ Global Infrastructure Fund ("Fund I"), ISQ Global Infrastructure Fund II ("Fund II") and co-investment vehicles controlled by I Squared Capital.

<sup>2</sup> Represents aggregate capital committed by limited partners of Fund I and Fund II to co-investments alongside Fund I and Fund II.

<sup>3</sup> Past performance is not indicative of future results. Please see paragraphs 4 and 6 of the Disclaimer for important information on the performance information presented herein. Please see paragraph 7 of the Disclaimer for important information on the calculation of gross and net returns. Performance as of 31 December 2017 based on preliminary numbers which are subject to change based on the auditor and independent third party's final review.

<sup>4</sup> Please see paragraph 8 of the Disclaimer for important information on the calculation of Yield from Operations.

<sup>5</sup> Includes deals which are announced but not yet closed.

# A specialized and dedicated team

*I Squared Capital has continued to expand the team to maintain its resource and operational intensity with growth in assets under management.*

**Investment Team**

**32**

**Operations and  
Asset Management**

**23**

**Senior Policy  
Advisors**

**12**

**Finance**

**20**

**Legal and  
Compliance**

**7**

**IR and  
Co-Investments**

**5**

# Investment approach

*I Squared Capital focuses on global infrastructure projects with attractive risk-adjusted returns and robust downside protections.<sup>1</sup>*

## Core risk characteristics

A global network of on-the-ground teams and existing portfolio companies, combines geographic and sectoral flexibility with creativity to source, diligence and execute complex transactions quickly.

## Operational expertise

A team of seasoned infrastructure professionals with the geographic, sectoral and operational expertise to build platforms, optimize performance, create value, and reduce risk.

## Downside protection

I Squared Capital uses its proprietary risk model to select assets with core risk fundamentals and strong basic yields and implements robust risk reduction plans.

## Downside mitigation



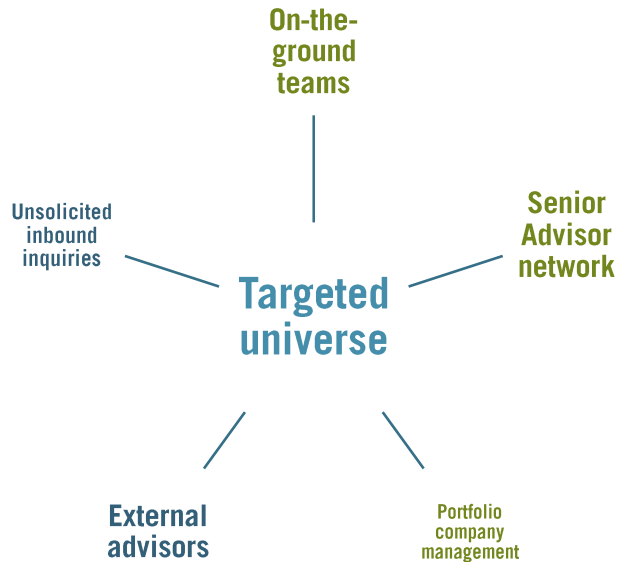
## Value creation



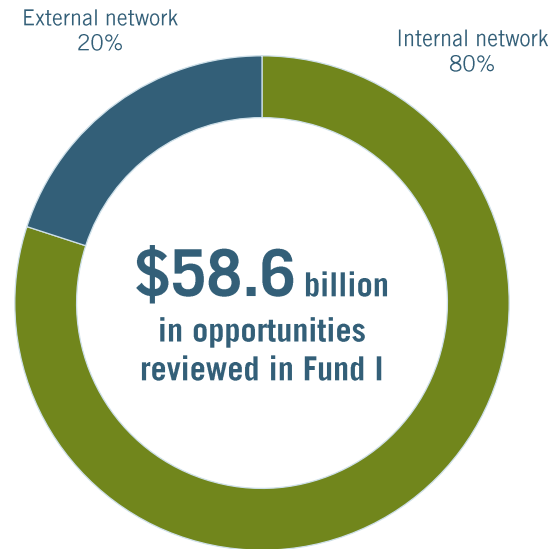
# Leveraging the I Squared Capital network to source transactions

*I Squared Capital leverages its “on-the-ground” teams, Investment Professionals, Operating Partners, Senior Policy Advisors and Joint Venture Partners to originate proprietary investment opportunities.*

## Origination strategy



## Origination strategy in action



*I Squared Capital maintains strong relationships with key partners including individuals, financial institutions and sectoral and regional specialists in each targeted market.*



# A globally diversified portfolio in Fund I<sup>1</sup>

*Fund I owns and operates fifteen portfolio companies, broadly diversified across its targeted infrastructure sectors, in fifteen countries on four continents.*

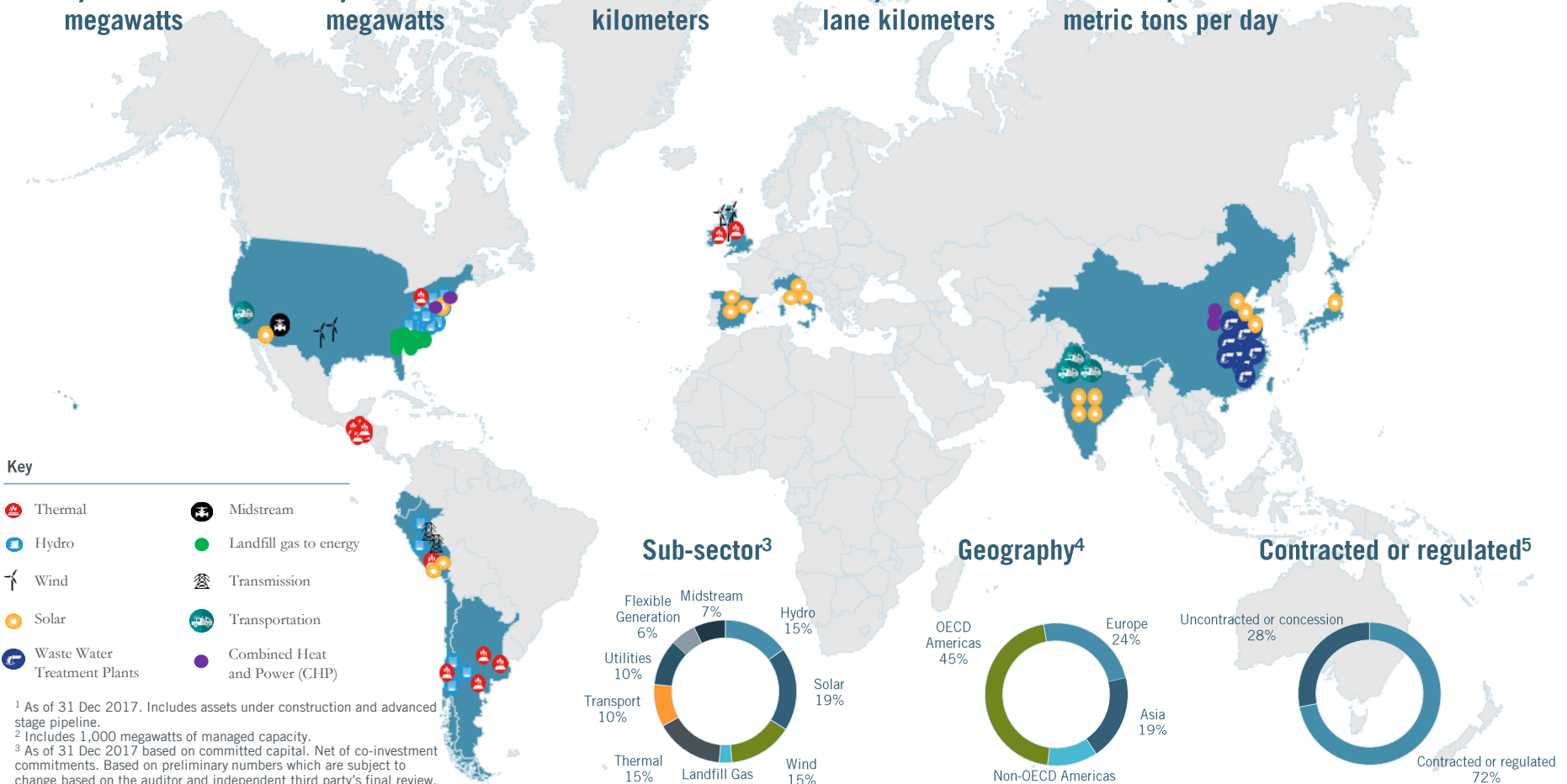
**Thermal**  
**3,330+**  
megawatts

**Renewables<sup>2</sup>**  
**4,000+**  
megawatts

**Gathering systems**  
**350 +**  
kilometers

**Toll roads**  
**1,700**  
lane kilometers

**Water treatment**  
**237,500**  
metric tons per day



<sup>1</sup> As of 31 Dec 2017. Includes assets under construction and advanced stage pipeline.

<sup>2</sup> Includes 1,000 megawatts of managed capacity.

<sup>3</sup> As of 31 Dec 2017 based on committed capital. Net of co-investment commitments. Based on preliminary numbers which are subject to change based on the auditor and independent third party's final review.

<sup>4</sup> As of 31 Dec 2017 based on aggregate commitments. Based on preliminary numbers which are subject to change based on the auditor and independent third party's final review.

<sup>5</sup> As of 31 Dec 2016 based on committed capital. Net of co-investment commitments.

# Fund I portfolio companies in the Americas

*ISQ Global Infrastructure Fund I holds seven infrastructure companies and platforms across the thermal, renewables, utilities, transportation and midstream sectors in seven countries in the Americas.*

## The U.S.

### *Cube Hydro*



A platform of peaking and run-of-the-river hydro plants with 374-megawatts of generation capacity in five U.S. states.

### *Lincoln Clean Energy*



A developer, owner and operator of wind and solar projects in North America, Lincoln Clean Energy has three wind farms with 803 megawatts of capacity in operation or under construction in Texas.

### *Oregon Clean Energy*



Oregon Clean Energy is a state-of-the-art 870-megawatt, two-on-one, combined-cycle, gas-fired power plant in northwestern Ohio producing reliable electricity to more than 700,000 homes.

## Latin America

### *Orazul Energy*



An energy business with thermal, hydroelectric, transmission lines and natural gas facilities, Orazul Energy has operations in Peru, Chile, Ecuador, El Salvador, Guatemala and Argentina.

### *Cube District Energy*



A platform of combined heat and power systems, district cooling and landfill-gas-to-energy facilities across the U.S.

### *American Intermodal Management*



A transportation platform, American Intermodal Management leases new marine chassis with GPS technology to retailers, logistics companies and shipping lines in the U.S. intermodal supply chain.

### *Whiptail Midstream*



A newly constructed, 220-mile, three-commodity (oil, gas, water) unregulated gathering system in the San Juan Basin of northern New Mexico.



# Fund I portfolio companies in Europe and Asia

*ISQ Global Infrastructure Fund I holds eight infrastructure companies across the thermal, renewables, utilities and transportation sectors in eight countries in Europe and Asia.*

## Europe

### *Viridian Group*



A leading integrated energy business operating across Northern Ireland and the Republic of Ireland, Viridian is active across thermal generation, renewable generation and energy supply.

### *Grupo T-Solar*



A global owner and operator of solar facilities, Grupo T-Solar has 286-megawatts of photovoltaic capacity in Spain, Italy, the U.S., Japan, Peru and India.

### *Conrad Energy*



A power developer based in the U.K., Conrad Energy provides flexible generation, industrial-scale batteries and energy management services.

## India

### *Cube Highways*



A platform to acquire and operate toll roads and related infrastructure assets, Cube Highways operates over 1,700 lane-kilometers of highways in India.

## China

### *Asia Cube Water*



A platform of wastewater treatment plants, China Cube Water operates in various municipalities in six provinces treating more than 27 million metric tons of wastewater per year in China.

### *Asia Cube Solar*



A solar energy platform company, Asia Cube Solar develops and operates ground mounted and rooftop solar projects in the greater China region and Southeast Asia.

### *Asia Cube Energy*



A tri-generation energy management company, Asia Cube Energy develops, owns and operates natural gas combined heat and power solutions for industrial and corporate customers in the greater China region.

### *Amplus*



A solar company in India, Amplus provides distributed solar systems under long-term power purchase agreements to industrial and commercial customers in India.



Cube Hydro began with one asset, Mahoning Creek, and has grown to more than 374 megawatts of generation capacity in five states.

# Cube Hydro

*A platform of run-of-river hydroelectric generation assets in North America with 374 megawatts of capacity across five states.*

## Investment opportunity

The U.S. hydropower sector is highly fragmented, and only 3% of the 80,000 dams in the U.S. produce electricity today. The opportunity exists to double hydropower generation capacity in the U.S. by 2035. In 2014, I Squared Capital formed Cube Hydro to acquire, build and manage small to medium size run-of-river hydrogeneration facilities to capture this investment opportunity.

## Value creation

Cube Hydro creates operational value through top-line, opex and capex initiatives across its portfolio. Examples include the introduction of performance monitoring tools to increase plant turbine efficiency, the reduction of plant O&M and corporate overhead by improving vendor terms through economies-of-scale, and efficient capex procurement strategies – as evidenced by the Yadkin capex program.

## Risk management

Cube Hydro's risk management practices are centered on robust financial and operational protocols. Cube Hydro's finance department implemented state-of-the-art financial control tools to monitor company-wide invoicing and payments. Plant operators implemented uniform forecasting tools to support bids into day ahead energy markets. The company hired a head of marketing to support the commercialization of medium to long term energy sales through hedging and PPAs.



Growth in generation capacity

from **6** to **374** megawatts

Growth in number of assets

from **1** to **19** dams

Geographic footprint

**5** states

*New York, Pennsylvania, Virginia,  
West Virginia and North Carolina*



# Cube Highways

*A platform to acquire and operate a portfolio of toll roads and related infrastructure assets in India.*

## Investment thesis

One of the fastest growing passenger and commercial vehicles market in the world, India's growing urban population and rising disposable incomes result in secular growth in highway traffic. With more than \$25 billion of public-private partnership roads awarded, Cube Highways targets operating, long-duration concessions governed under stable and progressive regulation.

## Value creation

Cube Highways deploys state-of-the-art equipment for toll monitoring and pavement maintenance. It has reduced toll leakages materially by installing a smart remote toll monitoring center, optimized O&M costs by following a pro-active, technology driven maintenance philosophy and reduced debt costs through improving its credit rating and lowering interest rates. It has also undertaken pioneering environment and social initiatives.

## Risk management

The company instituted a robust governance framework including comprehensive MIS reporting with regular audits, conducts anti-corruption and safety training, and has created an Environmental and Social Management System consistent with IFC performance standards.

Over the past two years, Cube Highways has grown to over 130 employees operating 1,700 lane kilometers.



Number of assets

**6** roads

Number of lane kilometers

**1,700**

Key co-investor



Partial realization

**38%** stake sold<sup>1</sup>

<sup>1</sup> Transaction has been signed, but not yet closed.



# ESG initiatives for 2018

*Following analysis of industry and company best practices, I Squared Capital identified various environmental, social and governance initiatives.*

## Environmental

### **Climate change vulnerability assessment**

Continue development and implementation of recommendations from the Climate Change Working Group for adaption strategies to improve the safety and resiliency of portfolio company assets.

## Social

### **Increase community engagement**

Implement or expand applicable social and community engagement programs (e.g. volunteering, internships, site tours, etc.) across the portfolio.

## Governance

### **Expand vendor management systems**

Roll-out of the revised vendor management framework developed in 2017 to ensure proper diligence and compliance protocols for vendors across portfolio companies.

### **Revised emergency management policies**

Review and revise existing emergency management policies for portfolio companies to reflect recommendations from the Climate Change Working Group.



An aerial photograph showing rows of blue solar panels installed in a field, with a dirt path running through the center.

# Realizations

*I Squared Capital has executed the full realization of Public YieldCo and partial realizations of Viridian and Cube Highways.*

## VIRIDIAN

- Acquired in March 2016, Viridian is a leading integrated energy business operating in Ireland across thermal generation, renewable generation, and energy supply
- In May 2017, Viridian sold a 10.2% stake

The logo for Cube Highways, featuring a stylized green and black cube icon followed by the text "CUBEHIGHWAYS" in green and black.

## CUBEHIGHWAYS

- In 2014, ISQ set up Cube Highways in partnership with IFC as an investment platform to acquire roads and related infrastructure in India
- In Q4 2017, ISQ agreed to sell a 38% stake in Cube Highways<sup>1</sup>

## Public YieldCo

- At the end of 2015, ISQ leveraged the dislocation in the markets by investing via open market purchases in a publicly traded YieldCo
- In October 2017, ISQ divested its remaining position

<sup>1</sup> Transaction has been signed, but not yet closed.

# Fund II strategy

*ISQ Global Infrastructure Fund II strategy will continue to focus on delivering truly risk-adjusted returns to investors through a focus on middle market assets with core risk fundamentals, operational value-add and platform development.*

Mid-market, platform based investments

Proprietary risk model

Operational value addition

## Fund II focus<sup>1</sup>

### Geography

- Two-thirds in North America and Europe; *and*
- One-third in select high-growth economies in Asia and Latin America

### Sectors

- Energy
- Utilities
- Transportation
- Telecom

### Asset profile

- Middle market assets
- Core risk profile; *and*
- Some complexity with opportunistic return

<sup>1</sup> Ultimate portfolio construction may vary materially from these targets.



## Fund II investments

*In addition to the earmarked capital for the Cube Hydro and Cube Highways platforms, ISQ Fund II has acquired three assets across the telecom, midstream, and power sectors.*



### HGC

- With a network of more than 1.4 million kilometers of fiber-optic cable, HGC offers comprehensive information and communications technology solutions in Hong Kong and beyond
- #2 largest fixed-line telecom operator in Hong Kong (by revenue, EBITDA, and coverage)
- Owns a top-notch local network; connects 14.3k buildings 4.7k mobile cell sites for different mobile network operations and 25k Wi-Fi hot spots



### Pinnacle Midstream

- Strategically located provider of crude and natural gas gathering, natural gas processing and related midstream solutions in the Permian Basin of West Texas
- 39 miles of oil gathering pipelines
- 26 miles of gas gathering pipelines
- 60 million cubic feet per day gas processing plant (COD: Q1 2018)



### Inkia Energy

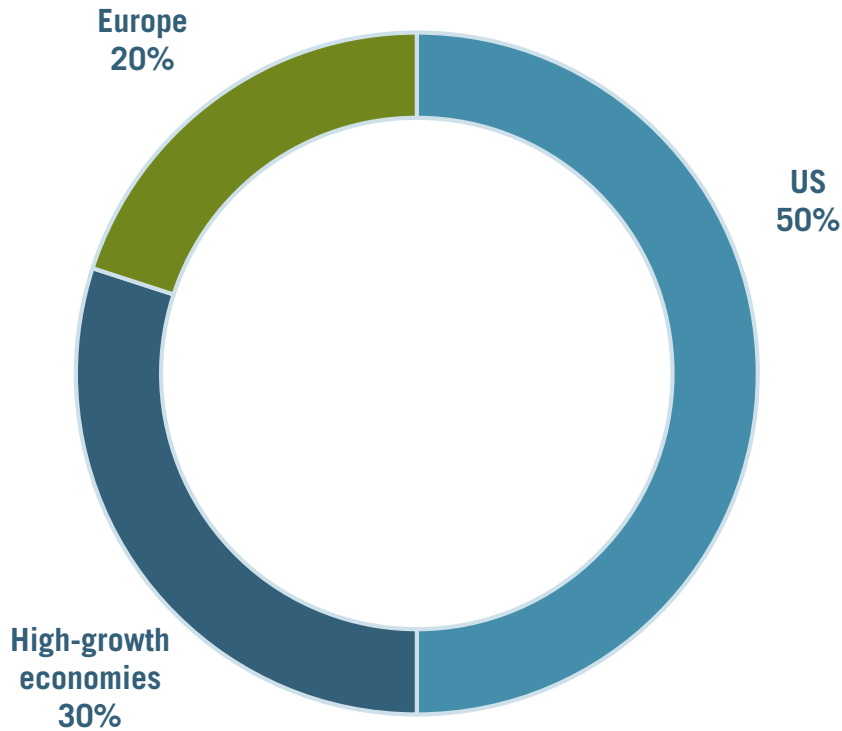
- Owner and developer of generation, transmission and distribution assets across Latin America
- One of the largest IPPs in LatAm, with over 3,400 MW of gross installed capacity across 9 countries
- Over 2,300 MW of newly-constructed hydro assets



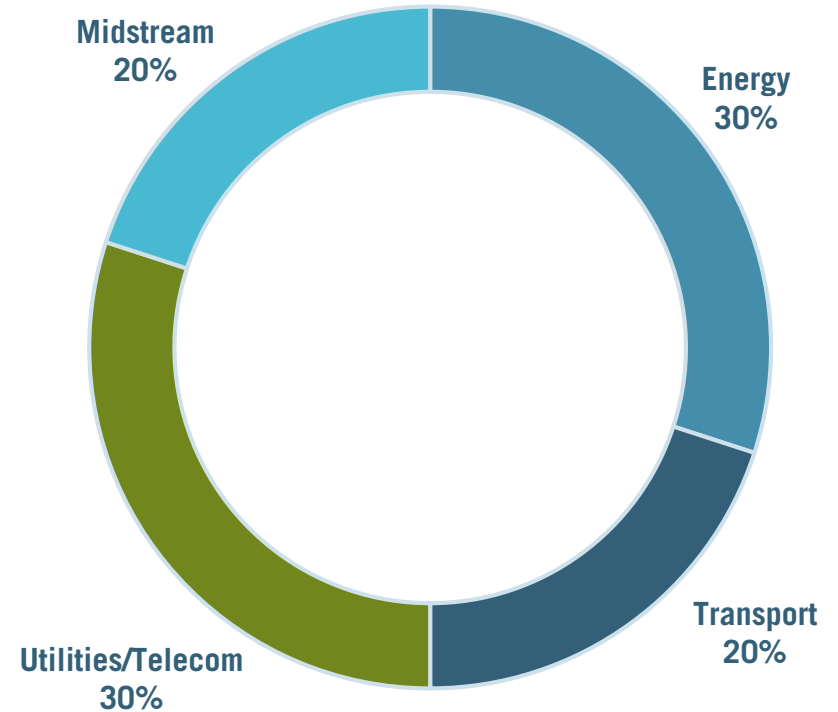
# Fund II expected capital deployment

*Fund II's capital deployment strategy will be consistent with the Fund I strategy.*

Expected deployment by geography



Expected deployment by sector





# Fund II summary term sheet

## ISQ Global Infrastructure Fund II

<b>Hard Cap</b>	\$6.5 billion
<b>Term</b>	Ten (10) years from the later of (i) the date on which the first management fees are paid and (ii) the final closing.
<b>Commitment period</b>	Five (5) years from the later of (i) the date on which the first management fees are paid and (ii) the final closing.
<b>GP commitment</b>	1%, up to \$50 million
<b>Management fee</b>	1.60% up to and including commitments of \$100 million
<b>Preferred return</b>	8%
<b>GP carried interest</b>	20%

# Disclaimer

1.This information in this presentation (this “Presentation”) is being provided upon request on a confidential basis to a limited number of sophisticated investors on a “one-on-one” basis for the purpose of providing certain information about I Squared Capital Advisors (US) LLC (together with its predecessors and affiliates, “I Squared Capital”), and ISQ Global Infrastructure Fund II, L.P. (together with its parallel vehicles, the “Fund”). Unless otherwise specified, the views reflected herein are those of I Squared Capital and are subject to change without notice. Except where otherwise indicated herein, the information provided herein is based on matters as they exist as of the date of preparation and will not be updated or otherwise revised to reflect information that subsequently becomes available or changes occurring after the date hereof. As a condition of receipt, each recipient of this Presentation agrees to keep the information contained herein strictly confidential and not to reproduce or redistribute any such information in any format without the prior written approval of I Squared Capital. Each investor and prospective investor may disclose to any persons the tax treatment and tax structure of the Fund and its investments and co-investments; provided that such disclosure shall not include the name (or other identifying information not relevant to the tax treatment) of any person.

2.The information contained herein is being provided for informational and discussion purposes only and is not, and may not be relied on in any manner as, legal, tax or investment advice, an offer of any such advice, or an offer to sell or a solicitation of an offer to buy an interest in the Fund. A private offering of interests in the Fund will only be made pursuant to the confidential private placement memorandum of the Fund (the “Memorandum”) and the Fund’s subscription documents, which will be furnished to qualified investors on a confidential basis at their request for their consideration in connection with such offering. The information contained herein is qualified in its entirety by reference to the Memorandum, which contains additional information about the investment objective, terms and conditions of an investment in the Fund and also contains tax information and risk disclosures that are important to any investment decision regarding the Fund. No person has been authorized to make any statement concerning the Fund other than as set forth in the Memorandum, and any such statements, if made, may not be relied upon. Before deciding to invest in the

Fund, each prospective investor should carefully review the Memorandum, including the risk disclosure contained therein, and make its own investigation and evaluation of the information set forth herein and therein. Each prospective investor should consult its own investment, legal and tax advisors as to the consequences of an investment in the Fund. An investment in the Fund will involve significant risks, including potential loss of the entire amount invested. The interests in the Fund will be illiquid, as there is no secondary market for such interests and none is expected to develop. There will be restrictions on transferring any such interests, investments may be leveraged and investment performance may be volatile. The fees and expenses charged in connection with an investment in the Fund may be higher than those of other alternative investments and will offset profits. Prospective investors must have the financial ability and willingness to accept the risk characteristics of an investment in the Fund.

3.Certain information contained in this presentation constitutes “forward-looking statements,” which may be identified by the use of forward-looking terminology such as “may,” “will,” “should,” “expect,” “anticipate,” “target,” “project,” “estimate,” “intend,” “continue” or “believe,” or the negatives thereof or other variations thereon or comparable terminology. Due to various risks and uncertainties, actual events and the actual performance of the Fund may differ materially from those reflected or contemplated in such forward-looking statements. Prospective investors in the Fund should not rely on these forward-looking statements in deciding whether to invest in the Fund. Certain of the information contained in this presentation has been obtained by I Squared Capital from third-party sources. While such information is believed to be reliable for the purposes used herein, neither I Squared Capital nor any of its partners, members, officers or employees, assume any responsibility for the accuracy of such information, as applicable.

4.In considering any performance data contained herein, prospective investors should bear in mind that past or targeted performance is not indicative of future results, and there can be no assurance that the Fund will achieve comparable results or avoid losses. Prospective investors should also bear in mind that past or targeted portfolio characteristics are not indicative of future portfolio characteristics, and there can be no assurance that the Fund will have comparable

portfolio characteristics or that target portfolio characteristics will be achieved.

5.The “Targeted Gross Return” for an investment represents our estimate, at the time such investment was acquired, of the potential gross IRR that the Fund might realize from such investment if all of our pre-acquisition assumptions regarding such investment proved to be true. The targeted gross return range for the Fund is based on our beliefs about the overall returns that may be achievable on investments that the Fund intends to pursue in light of our experience with similar investments historically, our view of current market conditions, potential investment opportunities that we are or have recently reviewed, availability of financing and certain assumptions about investing conditions and marked fluctuation or recovery. Targeted gross returns for individual investments may be outside the Fund’s targeted gross return range and may be greater or less than the Fund’s overall targeted gross returns. Actual realized returns will depend on, among other factors, future operating results of each applicable asset or portfolio company, changes in interest rates, changes in legislation or regulation, changes in market conditions (including as a result of general and local economic, governmental, regulatory, political and technological factors, capital market conditions and industry trends), changing levels of competition within certain industries and markets, legal and contractual restrictions on transfer that may limit liquidity and other factors affecting the value of such investment between now and the time of disposition, as well as any related transaction costs and the timing and manner of sale, all of which may differ from the assumptions on which the targeted returns were based and any or all of which could cause actual results to differ materially from the targeted returns shown. Accordingly, actual realized returns for each investment may be materially lower than the targeted returns presented herein. The targeted returns presented herein do not represent current valuations of any investment and are not predictions, projections or forecasts of returns that we or any of our investors should expect to realize from such investment. There can be no assurance that any investment or fund sponsored by ISQ will achieve comparable results or achieve its targeted returns, be able to implement its investment strategy, or be able to avoid losses. Targeted investment performance is not indicative of future results.

# Disclaimer

6. Performance as of 31 December 2017 based on preliminary numbers which are subject to change based on the auditor and independent third party's final review. The IRR, MOIC and cost basis are proforma for the funding of Project Trio, a pending Fund I acquisition of a highway with definitive documentation signed and awaiting regulatory approvals, which is expected to fund over the next month. Completion of Project Trio is a condition precedent to the transaction. The sale price and proceeds are estimates as of December 31, 2017, and are subject to further closing adjustments. The historical returns presented in this presentation represent hypothetical, unrealized IRRs and MOICs that are calculated utilizing certain mathematical models that require specific inputs that, in some cases, are estimated, and certain assumptions that ultimately may not hold true with respect to any investment. The models, including the estimates and assumptions, are prepared as of 31 December 2017 and reflect conditions at such time. Actual realized returns may deviate materially from these models. Calculations of the IRRs and MOICs represent U.S. dollar values and are based on (i) actual historical cash flows for each investment and (ii) the hypothetical disposition of each investment and hedge on 31 December 2017 for its Unrealized Value. "Unrealized Value" represents I Squared Capital's estimate of unrealized fair value in U.S. dollars as of 31 December 2017, taking into account all pertinent information, including available market prices, valuations of comparable public companies, recent sales of private and public comparable companies or assets, types of securities, marketability, restrictions on dispositions, material third-party transactions, current financial position, operating results, forecasts, general business and economic risk factors, liquidation or collateral value of the portfolio company's capital, offers from third parties to buy the portfolio company, potential claim recoveries and the value to potential strategic buyers or the value of recent investments in the securities of the portfolio company. There can be no assurance that unrealized investments will be realized at the Unrealized Values presented or at all. Actual realized returns will depend on, among other factors, future operating results of the applicable asset or portfolio company, changes in interest rates, changes in legislation or regulation, changes in market conditions (including as a result of general and local economic, governmental, regulatory, political and technological factors, capital market conditions and industry trends), changing

levels of competition within certain industries and markets, legal and contractual restrictions on transfer that may limit liquidity and other factors affecting the value of the assets between now and the time of disposition, as well as any related transaction costs and the timing and manner of sale, all of which may differ from the assumptions on which the calculations herein are based and any or all of which could cause actual results to differ materially from the results shown. Accordingly, actual realized returns may be materially lower than the unrealized returns presented herein. In certain circumstances, the Fund utilizes subscription facilities or other lending facilities to provide funding in anticipation of capital calls for investments or for partnership expenses. Interest expense incurred due to the use of such facilities causes Gross IRR and Net IRR to be lower than it would have otherwise been, but use of such facilities also increases Net IRR (but not Gross IRR) due to the shorter period during which capital contributions are outstanding. Nothing contained herein should be deemed to be a prediction or projection of future performance of the Fund.

7. The Gross IRRs and MOICs reflect all funded capital, fair market values, and hedges and exclude carried interest, fees and other partnership expenses, as well as blocker taxes, which, when deducted, would materially lower the reported gross returns herein. Net MOICs and IRRs are calculated based on gross IRR cash flows, as described above, and are presented net of carried interest, management fees and other partnership expenses but exclude blocker taxes. The management fees and carried interest taken into account for calculating "net" returns are based on blended rates paid across all investors in the applicable fund and do not necessarily represent the fees and carry paid by any particular investor.

8. As of 31 December 2017 based on preliminary numbers which are subject to change based on auditor's final review. Yield from operations is unaudited and represents (i) historical LTM December 2017 EBITDA at the asset level (unaudited), less debt service and maintenance capex, divided by (ii) cash funded into the assets as of 31 December 2017. For any assets acquired during LTM December 2017, Yield from Operations has been weighted to account for the pro-rated holding period. The calculation excludes greenfield assets, assets under development, assets acquired in the current quarter and

yields generated from investments in public securities. Further, certain other items, including one-time major capex, have been excluded from the calculation. Yield from Operations is a measure of portfolio company economic income and is not indicative of actual or potential distributions of current income or other returns to investors in Fund I or the Fund. Yield from Operations may be retained by a portfolio company in accordance with debt distribution covenants or to fund growth (by way of acquisitions or to fund the costs of running a growth platform) or other portfolio company needs rather than being distributed to Fund I. Any such amounts actually received by Fund I are not necessarily distributed to investors, and prior to any such distribution, such amounts will be reduced by management fees, carried interest and fund-level expenses, which in the aggregate are expected to be substantial.

9. Risk scores discussed in this Presentation represent ISQ's internal ratings of certain potential risks identified by ISQ. Our risk scores for an investment at the time such investment is made are reflective of our analysis of certain potential risks identified by us at the time such investment was made and are not necessarily an indication of the actual risks associated with such investment. Any reference herein to "de-risking" is intended to denote an effort by I Squared Capital to reduce the risk scores associated with the relevant investment or project, but no program can be expected to fully identify or ameliorate such risks. Any changes in our risk scores for an investment represent our views on the effects of our post-acquisition efforts to reduce the risks relating to our investments. There can be no assurance that the relevant risks for such investment have actually been identified or mitigated or that they will not result in significant losses in the future.

**BOARD ACTION**

**TO:** State Investment Board  
**FROM:** Dave Hunter, Darren Schulz and Eric Chin  
**DATE:** March 23, 2018  
**SUBJECT:** I Squared Infrastructure Recommendation

---

**RIO Recommendation:**

**Staff recommends that the NDSIB invest up to \$140 million in I Squared Capital's "ISQ" ISQ Global Infrastructure Fund II "Fund II". Staff recommends an investment of \$50-65 million in the Pension Trust and \$55-75 million in the Legacy Fund.** An investment in Fund II offers diversification and should enhance the returns of the Pension Trust's and Legacy Fund's existing infrastructure portfolio.

**ISQ Overview:**

ISQ is an \$11.4 billion infrastructure manager led by Sadek Wahba, Gautum Bhandari, and Adil Rahmathulla. ISQ was founded in 2012 and is headquartered in New York City. The firm has a global presence with offices in London, Houston, Delhi, Hong Kong, and Singapore. ISQ employs 99 people with 32 investment professionals, 23 Operators/Asset Managers, and 12 Senior Policy Advisors.

Fund II employs a global strategy and will seek to make infrastructure investments in energy, utilities, transportation, and telecom. Key tenets of the investment strategy are:

1. Platform approach: ISQ seeks to build and develop middle market investment platforms. The fund may purchase smaller assets with the goal of building a company with strong economies of scale, are professionally managed, and have operational synergies
2. Value creation through operational improvements: ISQ seeks to implement operational improvements to increase efficiencies and operating performance of assets
3. Control investments are critical
4. Unique risk framework that has 3 objectives:
  - a. Risk/return analysis for each potential investment
  - b. Establish a basis to compare potential investments across sectors and regions
  - c. Monitor risks over the life of the asset
5. Middle market focus, but may identify 3-5 opportunistic deals

**Fund II Characteristics:**

Target IRR: 13-14%

Fund Cap: \$6.5 billion

Number of Investments: 13-18 investments, 3-5 opportunistic deals

Non OECD exposure: Limited to 33.3%

Position Size Limit: No more than 20% of commitment in a single investment

## **Conclusion:**

Staff believes that an investment in Fund II is a prudent investment for the Legacy Fund and Pension Trust. Fund II's global focus, platform approach, and value creation through operational improvements strategy will not only diversify the NDSIB's current infrastructure investments, but also enhance the return profile of each fund's respective infrastructure portfolio.

ISQ possesses a number of competitive advantages that facilitates its sophisticated investment strategy. ISQ's competitive advantages include:

1. **Operations Team:** ISQ employs a large 23 person team of operators and industry veterans. This team plays a critical role in the alpha generation process as it is responsible for identifying and implementing operational value creation initiatives.
2. **Senior Policy Advisors:** ISQ employs a team of 12 industry experts that provide regulatory insights that help mitigate policy and regulatory risk. This team also facilitates dialogue with regulators and policy makers at the highest levels—oftentimes leading to information critical to the investment process.
3. **Risk Management Framework:** ISQ has a unique risk framework that not only mitigates risk, but also provides a basis to compare investments across sectors and regions. ISQ's framework is based upon quantifying 10 key risk variables: Barriers to entry, regulation, operations, growth, business cycle, leverage, governance, pricing, liquidity, and inflation. By quantifying these risks, ISQ can produce a risk/return analysis on each potential investment which allows the firm to identify and select the “best” opportunities.

Some of the risks/concerns Staff has identified are:

1. **Size of the Fund:** Fund II (\$6.5 billion projected commitments) is significantly larger than Fund I (\$3 billion in commitments) leading to concerns over ISQ's ability to effectively deploy this larger amount. These concerns are mitigated as ISQ has already invested \$1.05 billion across three investments in Fund II. Moreover, ISQ has a robust pipeline of deals—\$17.6 billion of potential investment opportunities, \$5.1 billion of which are already in later stage due diligence.
2. **Sizeable Emerging Markets Exposure:** Emerging market investments tend to be riskier investments. However, the fund is limited to 33.3% emerging markets exposure with expectations that actual exposure will be closer to 25%. Moreover, ISQ's risk framework, focus on downside and global presence gives Staff confidence that ISQ can uncover attractive opportunities (on a risk/return basis) in emerging markets.
3. **Growth of the Team:** While Staff believes that ISQ's large team and number of investment professionals per asset is a competitive advantage, it is worth noting that ISQ has grown significantly since inception. Staff will monitor the organization to ensure that ISQ's culture and investment process is maintained appropriately.

Ultimately, Staff believes that Fund II is an attractive investment and that ISQ's strengths outweigh the concerns and risks mentioned. Staff recommends an investment in Fund II.

# **Infrastructure Manager Recommendation**

March 23, 2018

Dave Hunter, Darren Schulz and Eric Chin

# Investment Recommendation

- ▶ Staff recommends that the NDSIB invest up to \$140 million in I Squared Capital's "ISQ" ISQ Global Infrastructure Fund II "The Fund"
  - \$50-65 million in the Pension Trust
  - \$55-75 million in the Legacy Fund
- ▶ ISQ's focus on value creation through operational improvements and a platform approach offers diversification and return enhancement
- ▶ Proprietary risk framework will mitigate the risks of a value oriented infrastructure strategy

# Manager Search Process

- ▶ Infrastructure manager search began in the summer of 2017
- ▶ Research included attending industry conferences, conference calls & meetings with infrastructure managers and consultants and reading industry publications
- ▶ Staff conducted in-office and onsite meetings with over 20 different infrastructure managers
- ▶ Collaborated with Callan and Mercer to create a list of candidates



# I Squared Manager Evaluation

## Organizational Overview

- ▶ ISQ is an \$11.4 billion infrastructure manager led by Sadek Wahba, Gautam Bhandari, and Adil Rahmathulla the “Principals”
- ▶ ISQ was founded in 2012
- ▶ Prior to ISQ the Principals worked together at Morgan Stanley Infrastructure Partners where they launched and managed a \$4 billion infrastructure fund
- ▶ Headquartered in New York City, the firm has offices in London, Houston, Delhi, Hong Kong, and Singapore
- ▶ 99 person team: 32 Investment, 23 Operations and Asset Management and 12 Senior Policy Advisors

# I Squared Manager Evaluation

## Investment Strategy

- ▶ ISQ seeks to invest in a globally diversified portfolio of infrastructure assets
- ▶ Investments will be principally in energy, utilities, transportation, and telecom
- ▶ Platform approach to infrastructure investments—target smaller assets to build companies that have operational synergies
- ▶ Implement operational improvements to increase efficiencies and operating performance of assets

# I Squared Manager Evaluation

## Investment Strategy

- ▶ Control positions are critical to implementing operational improvements
- ▶ Investment process is an integrated and collaborative approach between Investment, Operations, and Policy teams
- ▶ Unique risk framework allows ISQ to compare infrastructure assets across sectors and geographies

# I Squared Manager Evaluation

## Key Competitive Advantages

### ► Operations Team

- Large and experienced 23 person team of operators and industry veterans
- Critical to identifying/implementing operational value creation opportunities
  - Analyze and price operational initiatives
  - Oversee day-to-day life cycle asset performance and operations optimizations
- Tailor risk mitigation strategies for specific assets

# I Squared Manager Evaluation

## Key Competitive Advantages

### ► Senior Policy Advisors

- Team of 12 industry experts that provide regulatory insights that helps to reduce policy and regulatory risk
- Notable members include:
  - Johnson Cox: Chairman of the Water Services Regulatory Authority (UK)
  - Ginger Lew: Former Senior Advisor to White House Economic Council Director Larry Summers
  - Thomas J. Donahue Sr.: President and CEO, U.S. Chamber of Commerce
- Bring best practices to improve and optimize asset performance
- Key to measuring and quantifying regulatory risk
- Facilitates dialogue with regulators and policy makers at the highest levels

# I Squared Manager Evaluation

## Key Competitive Advantages

### ► Risk Management

- Risk framework has three key objectives
  - Develop risk/return analysis for each investment
  - Establish relative value comparison of investments across sectors and regions
  - Monitor risk profile of portfolio assets
- Ten critical variables including; barriers to entry, regulation, liquidity, growth, pricing, governance, leverage
- Quantify risk metrics to compare risk ratios and risk adjusted returns across investments

# I Squared Manager Evaluation

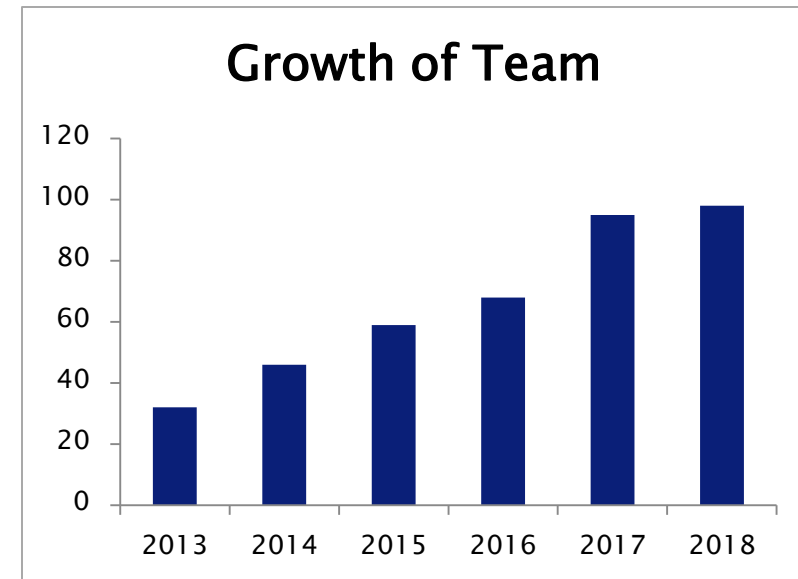
## Potential Risks/Concern

- ▶ Fund II will be significantly larger than Fund I. Fund I had \$3 billion in commitments, Fund II projects to have \$6.5 billion in commitments
- ▶ Sizeable allocation to emerging markets—more difficult to quantify regulatory risk
- ▶ Majority of Fund I's strong performance is unrealized
  - To date Fund I has had \$369 million of realizations
  - Total fund distributions of \$625 million

# I Squared Manager Evaluation

## Potential Risks/Concern

- ▶ Size and experience of the team is a competitive advantage
- ▶ Number of senior investment team members to number of assets is high
- ▶ However, the team has grown rapidly since inception
- ▶ Potential concerns over ability to maintain corporate culture and investment process





# I Squared

## Fund I Performance & Characteristics

### ▶ Fund I Performance

- Net IRR: 18.2%
- Annualized yield from operations: 9.2%
- Total realizations: \$369 million
- Net multiple on invested capital “MOIC”: 1.3x

### ▶ Characteristics

- \$3 billion of commitments
- 72% of the portfolio is contracted/regulated
- 15 portfolio companies and one public yieldco
- 45% Americas/24% Europe/19% Asia/12% Non OECD America

# I Squared Manager Evaluation

## Fund II Guidelines/Characteristics

- ▶ Target net IRR: 13-14%
- ▶ Yield from operations: 6%
- ▶ Fund cap: \$6.5 billion
- ▶ Target 13-18 investments, 3-5 opportunistic deals
- ▶ No more than 20% of commitment in a single investment
- ▶ No more than 25% in greenfield projects
- ▶ Limit of 33.3% to investments outside the OECD

# Conclusion

- ▶ **An investment in ISQ is a prudent investment for the Legacy and Pension Trust**
  - ISQ's platform approach and value creation through operational improvements strategy offers diversification benefits
    - ISQ has the team, regulatory/policy insights, and operational expertise to effect this strategy
  - Global approach allows ISQ to uncover attractive opportunities
    - “On the ground presence globally”, and strategic joint ventures are vital to sourcing and operating global assets
    - Unique risk management approach facilitates global strategy
    - Standardizing risk metrics allows ISQ to arbitrage across regions and sectors and invest in the “best” opportunities
  - Senior Policy Advisors team is unique competitive edge
    - ISQ has access to a Policy team, that larger organizations may not be able to replicate due to internal conflict of interests

INFORMATIONAL

To: State Investment Board

From: Dave Hunter, Executive Director / CIO

Date: March 15, 2018

RE: **Certificate of Achievement for Excellence in Financial Reporting**

---

**Government Finance Officers Association (“GFOA”) Award:**

The North Dakota Retirement and Investment Office received a **Certificate of Achievement for Excellence in Financial Reporting** from the GFOA for its Comprehensive Annual Financial Report (“CAFR”) for the year ended June 30, 2017. This marks the 20<sup>th</sup> consecutive year that RIO been awarded this honor. RIO’s CAFR was judged by an impartial panel to meet the high standards of the program including demonstrating a constructive “spirit of full disclosure” to clearly communicate its financial story. **“The Certificate of Achievement is the highest form of recognition in the area of governmental accounting and financial reporting, and its attainment represents a significant accomplishment by a government and its management.”**

I would like to sincerely thank our entire accounting and financial reporting team for this outstanding achievement including Connie Flanagan, Susan Walcker and Cody Schmidt in addition to everyone else at RIO in our Administrative, Audit, IT, Investment and Retirement Benefit Services teams.



**Government Finance Officers Association**  
203 North LaSalle Street, Suite 2700  
Chicago, Illinois 60601-1210  
312.977.9700 fax: 312.977.4806

March 8, 2018

Brent Sanford  
Chair, State Investment Board  
North Dakota Retirement and Investment Office  
PO Box 7100  
Bismarck, ND 58507-7100

Dear Lt. Governor Sanford:

We are pleased to notify you that your comprehensive annual financial report (CAFR) for the fiscal year ended 2017 qualifies for GFOA's Certificate of Achievement for Excellence in Financial Reporting. The Certificate of Achievement is the highest form of recognition in governmental accounting and financial reporting, and its attainment represents a significant accomplishment by a government and its management.

When a Certificate of Achievement is awarded to a government, an Award of Financial Reporting Achievement (AFRA) is also presented to the individual(s) or department designated by the government as primarily responsible for its having earned the Certificate. This award has been sent to the submitter as designated on the application.

We hope that you will arrange for a formal presentation of the Certificate and Award of Financial Reporting Achievement, and that appropriate publicity will be given to this notable achievement. A sample news release is enclosed to assist with this effort.

We hope that your example will encourage other government officials in their efforts to achieve and maintain an appropriate standard of excellence in financial reporting.

Sincerely,

Michele Mark Levine  
Director, Technical Services Center



GOVERNMENT FINANCE OFFICERS ASSOCIATION  
**NEWS RELEASE**

**FOR IMMEDIATE RELEASE**

03/08/2018

**For more information contact:**  
**Michele Mark Levine, Director/TSC**  
**Phone: (312) 977-9700**  
**Fax: (312) 977-4806**  
**E-mail: [mlevine@gfoa.org](mailto:mlevine@gfoa.org)**

(Chicago, Illinois)--The Certificate of Achievement for Excellence in Financial Reporting has been awarded to **North Dakota Retirement and Investment Office** by Government Finance Officers Association of the United States and Canada (GFOA) for its comprehensive annual financial report (CAFR). The Certificate of Achievement is the highest form of recognition in the area of governmental accounting and financial reporting, and its attainment represents a significant accomplishment by a government and its management.

An Award of Financial Reporting Achievement has been awarded to the individual(s) or department designated by the government as primarily responsible for preparing the award-winning CAFR.

The CAFR has been judged by an impartial panel to meet the high standards of the program, which includes demonstrating a constructive "spirit of full disclosure" to clearly communicate its financial story and motivate potential users and user groups to read the CAFR.

*Government Finance Officers Association is a major professional association servicing the needs of nearly 19,000 appointed and elected local, state, and provincial-level government officials and other finance practitioners. It provides top quality publications, training programs, services, and products designed to enhance the skills and performance of those responsible for government finance policy and management. The association is headquartered in Chicago, Illinois, with offices in Washington, D.C.*

## Investment Manager Meetings – *Forward Calendar*

---

**RIO generally meets with 10 to 12 existing investment managers each quarter in addition to numerous prospective firms.** Most meetings are conducted via conference call, although we also visit with our managers in their offices or host them in Bismarck. In 2017, the SIB and RIO hosted manager meetings with Adams Street, Ares, Axiom, Cerberus, Invesco, JPMorgan, LA Capital, LSV, PIMCO, Prudential, Western Asset Management and Wells Capital.

**During the first half of 2018, RIO intends to host investment updates with at least 6 of our 12 largest managers including:** 1) LSV - \$1.4 billion; 2) LA Capital - \$1.3 billion; 3) Western Asset - \$1.3 billion; 4) JPMorgan - \$1 billion; 5) PIMCO - \$800 million; 6) William Blair - \$700 million; 7) Northern Trust - \$600 million; and 8) Epoch - \$400 million.

**On March 27, PIMCO** has been invited (at 10:30am) to provide a performance update on fixed income portfolio. PIMCO/Research Associates manages \$800 million for our SIB clients including \$600 million in fixed income. *PIMCO has a 10-year investment relationship with the SIB.*

**On April 4, Mr. Bill Booth, Epoch Partners** Co-CIO & Portfolio Manager is scheduled to provide an investment update (at 9:00am) on our \$400 million Global Equity portfolio (Pension Trust). *Epoch has a 7-year relationship with the SIB.*

**SIB members attended manager meetings with firms responsible for externally managing over \$7 billion\* of investments in the past year.** RIO conducted portfolio reviews with firms responsible for managing over \$12 billion of SIB client assets in 2017 (with a heavy focus on firms utilizing active management).

\* SIB attendance included JPM (\$1 billion), WAMCO (\$1.3 billion), PIMCO (\$800 million), LA Capital (\$1.3 billion), Invesco (\$600 million) Prudential (\$300 million), Wells Capital (\$800 million), Adams Street / Ares / Cerberus (\$100+ million) and LSV (\$1.4 billion).

