North Dakota State Investment Board

ND STATE INVESTMENT BOARD MEETING

Friday, September 28, 2018, 8:30 a.m.
Peace Garden Room, State Capitol
600 E Blvd., Bismarck, ND

I. APPROVAL OF AGENDA

II. APPROVAL OF MINUTES (AUGUST 24, 2018)

III. INVESTMENTS

A. Investment Work Plan Update *Informational*
   1. Global Alternatives Manager Preview - Mr. Chin (enclosed) (15 minutes)
   2. Other Real Assets Manager Preview - Mr. Schulz (enclosed) (15 minutes)
   3. Callan Fee Study Update – Mr. Hunter (enclosed) (15 minutes)

B. Legacy Fund Earnings Update - Mr. Hunter (to follow) (15 minutes) *Informational*

========================= Break from 9:45 to 10:00 a.m. ============================

IV. GOVERNANCE (enclosed) (90 minutes)

A. SIB Audit Committee Update - Ms. Sauter **Board Acceptance**
B. Annual Governance Manual Review - Mr. Hunter **Board Action**
C. Annual Compliance Update - Mr. Schmidt **Board Acceptance**
D. RIO Budget Update - Ms. Flanagan **Board Acceptance**
E. RIO Budget Preview for 2019 to 2021 - Mr. Hunter *Informational*

V. OTHER

Next Meetings: SIB - October 26, 2018, 8:30 a.m., State Capitol, Peace Garden Room
Securities Litigation Committee - November 5, 2018, 3:00 p.m. RIO Conference Room
Audit Committee - November 15, 2018, 3:00 p.m. RIO Conference Room

VI. ADJOURNMENT

NORTH DAKOTA STATE INVESTMENT BOARD
MINUTES OF THE
AUGUST 24, 2018, BOARD MEETING

MEMBERS PRESENT:	Brent Sanford, Lt. Governor, Chair Rob Lech, TFFR Board, Vice Chair Toni Gumeringer, TFFR Board Adam Miller, PERS Board (TLCF) Mel Olson, TFFR Board Kelly Schmidt, State Treasurer Jodi Smith, Commissioner of Trust Lands Yvonne Smith, PERS Board Cindy Ternes, WSI Designee
MEMBERS ABSENT:	Jon Godfread, Insurance Commissioner Troy Seibel, PERS Board, Parliamentarian
STAFF PRESENT:	Eric Chin, Senior Investment Officer Connie Flanagan, Fiscal & Invt Ops Mgr(TLCF) David Hunter, ED/CIO Fay Kopp, Dep ED/CRA Missy Kopp, Retirement Asst Sara Sauter, Audit Svs Suprv Cody Schmidt, Compliance Officer Darren Schulz, Dep CIO
OTHERS PRESENT:	Alex Browning, Callan LLC Paul Erlendson, Callan LLC Scott Miller, PERS Anders Odegaard, Attorney General's Office

CALL TO ORDER:

Lt. Governor Sanford, Chair, called the State Investment Board (SIB) regular meeting to order at 8:33 a.m. on Friday, August 24, 2018, in the Peace Garden Room, at the State Capitol, Bismarck, ND.

AGENDA:

IT WAS MOVED BY TREASURER SCHMIDT AND SECONDED BY MR. LECH AND CARRIED BY A VOICE VOTE TO ACCEPT THE AGENDA FOR THE AUGUST 24, 2018, MEETING.

AYES: MS. TERNES, MR. OLSON, TREASURER SCHMIDT, COMMISSIONER SMITH, MR. LECH, MS. SMITH, MRS. GUMERINGER, AND LT. GOVERNOR SANFORD

NAYS: NONE
MOTION CARRIED
ABSENT: COMMISSIONER GODFREAD, MR. MILLER, MR. SEIBEL

MINUTES:

IT WAS MOVED BY MS. TERNES AND SECONDED BY MR. OLSON AND CARRIED BY A VOICE VOTE TO ACCEPT THE MINUTES OF THE JULY 27, 2018, MEETING AS DISTRIBUTED.

AYES: MS. TERNES, MR. OLSON, TREASURER SCHMIDT, MRS. GUMERINGER, MS. SMITH, COMMISSIONER SMITH, MR. LECH, AND LT. GOVERNOR SANFORD

NAYS: NONE
MOTION CARRIED
ABSENT: COMMISSIONER GODFREAD, MR. MILLER, MR. SEIBEL

INVESTMENTS:

Asset and Performance **–** Mr. Hunter reviewed SIB clients' assets currently under management for the quarter ending June 30, 2018.

SIB client investments exceeded $13.7 billion with the Pension Trust exceeding $5.7 billion, Insurance Trust exceeding $2.1 billion and the Legacy Fund approaching $5.6 billion.

The Pension Trust posted a net return of 9.1% in the last year. During the last 5-years, the Pension Trust generated a net annualized return of 8.3%, exceeding the performance benchmark of 7.5%. The Insurance Trust generated a net return of 5.2% in the last year. During the last 5-years, the Insurance Trust posted a net annualized return of 5.3%, exceeding the performance benchmark of 4.0%. The Legacy Fund generated a net return of 7.6% last year, exceeding its policy benchmark. During the last 5-years, the Legacy Fund earned a net annualized return of 6.1%, exceeding the performance benchmark of 5.1%.

RIO conservatively estimates the SIB use of active management enhanced client returns by over $300 million since June 30, 2013.

Every Pension Trust client posted positive excess returns of at least 0.70% per annum over the last 5-years, while adhering to approved risk levels and generating 0.25% of aggregate positive Risk Adjusted Excess Return.

Every Non-Pension trust client generated positive excess returns of at least 0.65% per annum and positive risk adjusted excess returns for the 5-years ended June 30, 2018, with two exceptions for PERS Retiree Health Insurance Credit Fund (-0.17%) and PERS Group Insurance (-0.07%).

Risk as measured by standard deviation, was within approved levels for all SIB clients for the 5-years ended June 30, 2018.

Callan LLC Performance Review – Callan LLC representatives reviewed economic and market environments for the period ending June 30, 2018, as well as performance of the Pension Trust, Insurance Trust, and Legacy Fund for the same time period.

IT WAS MOVED BY MR. OLSON AND SECONDED BY MR. LECH AND CARRIED BY A ROLL CALL VOTE TO ACCEPT THE CALLAN LLC INVESTMENT REVIEW FOR THE PENSION TRUST, INSURANCE TRUST, AND LEGACY FUND FOR THE PERIOD ENDING JUNE 30, 2018.

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

The Board recessed at 10:12 am and reconvened at 10:32 am

<u>Private Equity</u> – Mr. Hunter provided an update on the SIB's private equity portfolio. As part of a multi-year plan to enhance the expected return of the private equity portfolio, RIO continues to review existing and prospective private equity managers in the market place. In March of 2016 RIO and Callan identified BlackRock as a new strategic partner to complement Adams Street and re-establish the SIB's clients' long-term commitment in the asset class. The establishment of two strategic partners in this long-term investment should also help to reduce management fees. Given expected capital distributions on existing private equity assets over the next five years, Adams Street Partners (and Blackrock) believes annual private equity commitments will likely need to be approximately $65 million (for each manager) over the next five years.

<u>Adams Street</u> – Adams Street associates, Mr. Miguel Gonzalo and Mr. Brijesh Jeevarathnam, provided a firm and market update and also a review of the SIB's portfolio and private equity investment strategy.

<u>Pacing Schedule Recommendation</u> – Mr. Schulz reviewed the pacing schedule of the SIB private equity portfolio. Since 2015, the SIB and RIO have continued to build out and diversify the private equity portfolio within the Pension Trust by making $200 million of new commitments to BlackRock and $120 million of new commitments to Adams Street Global Funds (in 2015, 2016, and 2017). As of June 30, 2018, SIB clients within the Pension Trust currently have a 6.5% (or $372 million) target allocation to private equity versus an actual allocation of $191 million. With the asset growth in the Pension Trust over the course of the last three years, RIO engaged both Adams Street and BlackRock to independently review the SIB's existing private equity pacing schedule. Based on pacing models that incorporated overall plan asset growth, existing commitments, capital calls and distributions, each firm determined that annual private equity commitments in the order of $130 million in total are required over the next five years to address the asset class underweight in a methodical, programmatic fashion.

RIO recommended the SIB approve annual private equity commitments of $130 million based on the revised pacing schedule. The recommendation includes the approval of a $65 million commitment to Adams Street's 2018 Global Fund and an incremental $15 million annual commitment increase to the existing BlackRock private equity portfolio. Previously staff informed the SIB, at the board's July 22, 2016, meeting, that Blackrock would be receiving $50 million per annum.

Discussion followed on the pacing schedule. After discussion,

IT WAS MOVED BY MS. TERNES AND SECONDED BY COMMISSIONER SMITH AND CARRIED BY A ROLL CALL VOTE TO ACCEPT STAFF RECOMMENDATION AND APPROPRIATE $65 MILLION TO THE ADAMS STREET 2018 GLOBAL FUND.

AYES: MS. TERNES, COMMISSIONER SMITH, MRS. GUMERINGER, MS. SMITH, MR. MILLER, MR. LECH, MR. OLSON, AND LT. GOVERNOR SANFORD
NAYS: TREASURER SCHMIDT
MOTION CARRIED
ABSENT: COMMISSIONER GODFREAD, MR. SEIBEL

IT WAS MOVED BY MR. OLSON AND SECONDED BY MS. SMITH AND CARRIED BY A ROLL CALL VOTE TO INCREASE THE BLACKROCK PROGRAM'S ANNUAL COMMITMENT FROM $50 MILLION TO $65 MILLION IN 2018.

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

Legacy Fund Earnings – Mr. Hunter reviewed the Legacy Fund earnings estimate for the remaining 2017-19 biennium and 2019-21 biennium. Based on the expected strength and resiliency of the capital markets over the next three years, RIO continues to recommend a 2% average "transferrable earnings" rate for the remaining 2017-19 biennium and 2019-21 biennium. Based on this and incorporating actual returns of the Legacy Fund through May 31, 2018, in addition to Office of Management and Budget's (OMB) expected oil and gas tax projections through June 30, 2021, RIO estimates Legacy Fund "transferrable earnings" will approach $350 million in 2017-19 and $300 million in 2019-21.

BOARD EDUCATION:

Mr. Hunter reviewed educational options for the SIB. Based on the board self-assessment and executive review process, SIB trustees expressed a willingness to engage in board education tailored to meet the varying needs and experience of individual board members.

MONITORING:

Per Governance Policy, Board/Staff Relationship/Monitoring Executive Performance C-4, the following monitoring reports for the quarter ending June 30, 2018, were provided to the SIB for their consideration: Budget/Financial Conditions, Executive Limitations/Staff Relations, Investment Program, and Retirement Program.

Mr. Hunter also informed the board there are currently no managers on the Watch List.

Investment Manager Catalog – Board members were also provided an Investment Manager Catalog which lists each of the SIB's current investment managers and their mandates as well as closed accounts.

IT WAS MOVED BY MR. LECH AND SECONDED BY MS. SMITH AND CARRIED BY A ROLL CALL VOTE TO ACCEPT THE MONITORING REPORTS FOR THE QUARTER ENDING JUNE 30, 2018.

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

The next meeting of the SIB Audit Committee is scheduled for September 27, 2018, at 10:00 a.m. at the Retirement and Investment Office.

The next meeting of the SIB is scheduled for September 28, 2018, at 8:30 a.m. at the State Capitol, Peace Garden Room.

The next meeting of the Securities Litigation Committee meeting is scheduled for November 5, 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 11:54 a.m.

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Lt. Governor Sanford, Chair
State Investment Board

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Bonnie Heit
Assistant to the Board

AGENDA ITEM III.A.1

Informational

TO: State Investment Board

FROM: Eric Chin

DATE: September 28, 2018

SUBJECT: **European NPL Investment Strategy Overview**

Executive Summary:

Staff has identified a highly compelling investment opportunity in European non-performing loans (NPL). Since the strategy is nuanced and dissimilar from other investment strategies on the platform, Staff is presenting the strategy ahead of an expected manager presentation and formal Staff recommendation at the October board meeting. Staff believes that an NPL strategy is appropriate for the Pension Trust and Legacy Fund since it offers an attractive risk-return profile and serves as a diversifier to existing strategies. It is not suitable for the Insurance Trust because the strategy is illiquid. It is important to note, because this strategy is different there are classification challenges. If approved, the strategy will likely be categorized in the Global Alternatives asset class in the Pension Trust and in the Diversified Real Assets asset class in the Legacy Fund.

The core concept of the NPL strategy is that by purchasing European NPLs managers can access the underlying collateral of the loans at a significant discount to **today's** market value. European regulatory pressure and a less competitive market has created a supply-demand imbalance whereby investors can purchase NPLs at very attractive prices. In today's market where most assets are fairly priced or overvalued this is the rare opportunity to purchase assets cheaply. In contrast to a prognosticating strategy, the key drivers of the NPL strategy are appraising and buying well and transacting to expeditiously unlock the value of the underlying collateral.

Background:

What are European non-performing loans (NPLs)?

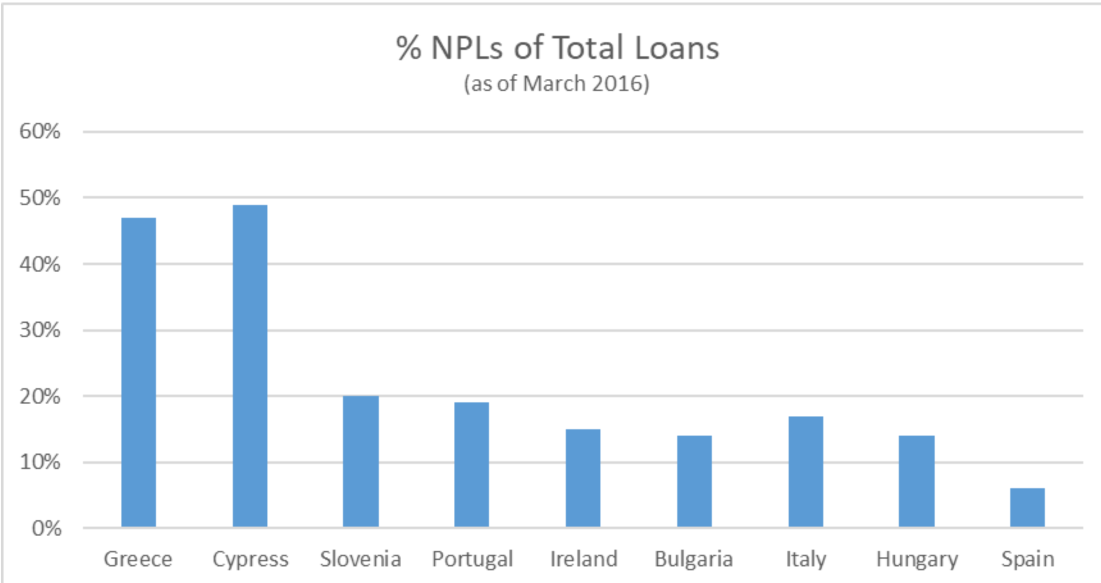
The European Central Bank (ECB) defines non-performing loans as: "A bank loan is considered non-performing when more than 90 days pass without the borrower paying the agreed installments or interest. Non-performing loans are also called 'bad debt'." NPLs are a natural part of the lending cycle and a certain proportion of loans will become non-performing as changes to the underlying borrowers' circumstances make it difficult or impossible for the borrowers to make the required payments.

The European NPL Market:

While NPL formation is a natural part of the lending cycle, an abnormally large amount of NPLs were created as a result of fallout from the Global Financial Crisis (GFC). Recession, liquidity issues, devaluing of the underlying collateral all contributed to the significant increase in NPL exposure on European bank balance sheets. For context, in 2006, prior to the GFC, the percent of NPLs on banks' balance sheets across the European Union (EU) was 2%. In 2013, this number ballooned to over 8%. While the NPL ratio has since dropped to below 5.7% (as of March 2016), European banks still have over $1.17 trillion of NPLs (as of Feb. 2018, source Bloomberg) on their balance sheets.

Furthermore, the Bank of America Merrill Lynch (BofA) estimates that the 115 largest banks will continue to generate €110 billion worth of new NPLs each year if markets conditions remain stable.

While the reduction to an average 5.7% NPL ratio indicates improving conditions, the average masks the underlying disparity of NPL exposure across EU countries. Banks in countries such as Greece, Italy, and Cypress have significantly higher ratios of NPLs on their balance sheets (see chart below).



Compounding this issue is that there is significant dispersion of the amount of NPLs on the balance sheets between major banks within each of these countries—some banks have notably higher exposure and some less. The takeaway is that there are a number of banks across the EU that have a significant amount of NPL exposure on their balance sheets and that these banks are actively seeking solutions to reduce this exposure.

Regulatory Environment:

European regulators believe that high NPLs balances lead to a number of key economic issues:

1. **NPLs negatively impact a bank's profitability.** NPLs consume bank capital and resources to manage diverting resources away from profitable business units. Moreover, capital charges against NPLs limit the amount of new loans a bank can issue.
2. **NPLs can impact the resilience of individual banks and can negatively impact the banking system as a whole.** In the event of another recession, banks may not have the infrastructure or resources to deal with a new wave of NPLs.
3. **The suppression of lending limits economic growth.**

In order to mitigate these economic issues, European regulators have been pressuring banks to reduce NPL ratios. The European Banking Association (EBA) has proposed a 5% gross NPL to total loan ratio threshold above which banks would be considered challenged. The EBA is pushing banks to get below this 5% threshold in three years.

Furthermore, in March 2018 the European Commission proposed a comprehensive package to tackle the NPL issue in Europe. The proposal includes the following elements:

1. "Ensuring sufficient loss coverage by banks for future NPLs"

2. “Enabling accelerated out-of-court enforcement of loans secured by collateral”
3. “Further developing secondary markets for NPLs”

Lastly, new accounting standards in 2018 require banks to make an estimate of losses over the next 12 months and make an upfront provision for these loans. Once a loan is provisioned the likelihood of a sale increases. Here the key takeaway is that regulatory pressures are spurring banks to reduce NPL exposure and this will lead to a substantial supply of NPLs in the secondary market.

Investment Strategy:

Conceptually the investment strategy is simple: Managers purchase portfolios of NPLs and other non-core assets from European banks and seek to unlock the value of the underlying collateral. Managers primarily target portfolios of loans that are collateralized with tangible assets—predominantly commercial and residential real estate (but these pools may also be secured by small to medium sized enterprises and other assets such as ships). After acquiring these loans, managers monetize the loans by working with the borrower to transform the loan into a reperforming loan (through a credit work-out or loan forgiveness program) or by accessing and liquidating the underlying collateral (through the bankruptcy process). Essentially, the manager is buying the rights to the underlying asset at a significant discount to market value and generating an attractive rate of return by working to unlock the underlying value of the asset.

While the strategy seems simple, the implementation is complex and resource intensive. Sourcing deals requires a local presence and a proprietary network of advisors. Furthermore, NPL portfolios can contain hundreds if not thousands of underlying loans. To properly underwrite these pools, the vast majority of the underlying loans and their respective collateral needs to be appraised and priced. This process requires third party (legal, appraisers, brokers etc.) and in-house and onsite regional investment expertise. Once a portfolio is won, substantial infrastructure is required to service and monetize each loan. Dedicated servicing capability is necessary to work with each underlying borrower to identify and facilitate attractive solutions (workout/bankruptcy). Because the legal framework and protocols are different in each country, managers need to hire specialized servicers that have a particular expertise in a market/asset class. Lastly, in the event that a manager is required to access the collateral through the bankruptcy process, there is additional cost from specialized legal expertise. All in all, the substantial upfront and ongoing costs serve as a significant barrier to new entrants looking to enter this market.

Risks:

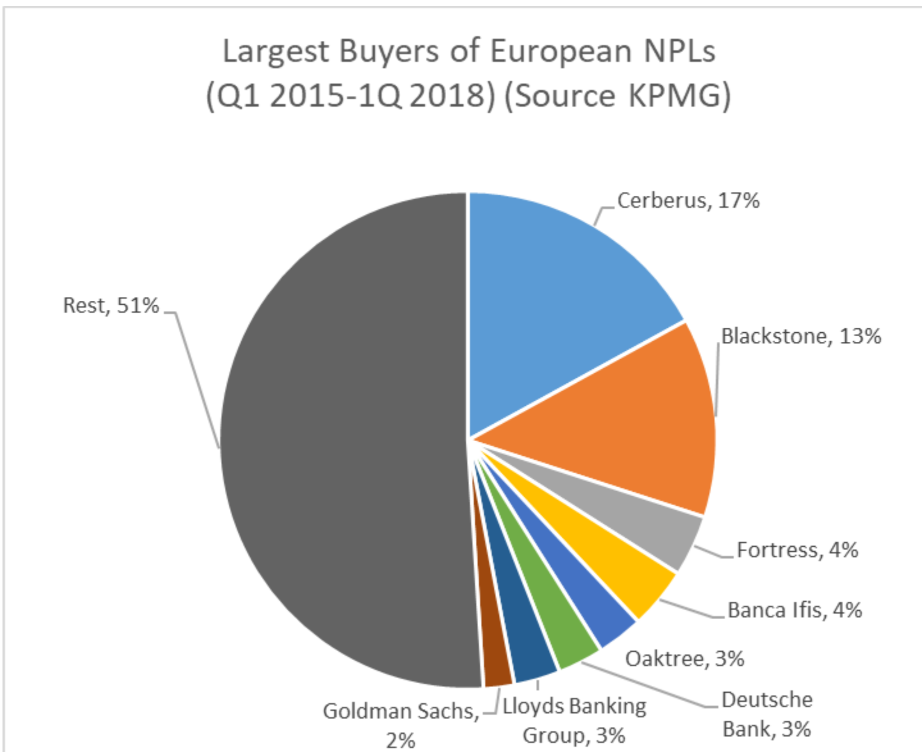
Beyond the typical macro risks that most assets face (global recession, geopolitical events etc.) there are some unique risks to a European NPL strategy. Our candidate managers will likely invest in NPLs predominantly from Spain, Italy, Germany, Greece and Ireland. As such, there is regional concentration risk and the strategy will be more sensitive to events that specifically impact each of these countries. Furthermore, the underlying collateral is illiquid and factors that hinder the manager’s ability to sell the underlying collateral may impact returns. Lastly, there is regulatory risk. Regulatory changes or changes to the bankruptcy code can impact the method and timing by which a manager can access the underlying collateral. However, Staff believes that the discount that managers are purchasing NPLs serves as implicit downside protection. Furthermore, Staff believes that the current regulatory environment is a tailwind to the strategy and that this trend looks to continue in the medium term.

<u>Conclusion:</u>

Staff believes that there is a highly compelling medium-term (5-10 years) investment opportunity in European NPLs. Current market dynamics and regulatory pressure has resulted in a supply-demand imbalance. This imbalance has resulted in highly attractive pricing for buyers of NPL portfolios.

1. **Pressure from European regulatory agencies and changes to accounting methodologies are turning banks into non-economic sellers of NPLs.** Banks are thus motivated to sell NPL portfolios at attractive prices. A study by BofA estimates that to reach the 5% EBA target in three years, 115 of the largest European banks must sell over €370 billion worth of NPLs—implying a sale of over €120 billion of NPLs in each year. The supply in the secondary market is expected to be robust over the medium term.

2. **Significant barriers to entry has resulted in a secondary market that is highly fragmented and less competitive.**
   a. As noted earlier, NPLs require significant and expensive infrastructure to service, underwrite, source, workout and monetize. These upfront costs have limited new entrants into the market. Today, the market is currently dominated by a few large investors with the ten largest purchasers accounting for approximately 50% of the market (according to KPMG).



   b. There are significant economy of scale benefits from servicing larger volumes of loans. These advantages serve as additional barriers to entry for new entrants.
      i. **Fixed costs are spread across a greater number of loans**
      ii. **Processing more loans results in a competitive information edge.** Managers that service and process more loans will have a proprietary database of information that includes transaction records, pricing data, and borrower histories. This database leads to more efficient pricing of future NPL purchases as well as more effective collections.

iii. **Large and established investors have better access to deal flow.**
   1. Banks prefer to sell large portfolios of NPLs as larger transactions are more efficient. By definition, only larger investors have the capital to participate in these trades. The average deal size for the ten largest participants was €1.4 billion, compared to €0.5 billion for the other 140 investors.
   2. Banks favor working with large repeat buyers that they have already developed an established relationship.
      a. Larger investors have deeper infrastructure which is vital to managing the operational complexity of transferring a large NPL portfolio—thus minimizing operational risks.
      b. Repeat buyers are a known entity and minimize headline risk.

In the current market where most assets are fairly priced or overvalued, Staff believes NPLs represent a highly compelling investment opportunity. Competitive barriers to entry coupled with forced selling by European banks have created a highly inefficient market. Managers can buy NPL portfolios at a significant discount to the underlying market value of the collateral. Compared to an equity manager that generates returns by prognosticating about which companies are likely to outperform, NPL managers buy NPLs at a deep discount and work to unlock the value of the loans. The keys to the NPL strategy is to 1) buy well—appraise the underlying collateral accurately and bid appropriately and 2) transact efficiently—work through each loan as quickly as possible to unlock the underlying value of the collateral at **today's** prices.

Staff is bullish on European NPLs and believes that the attractive risk-return profile and the diversifying drivers of the strategy will augment the Pension Trust and Legacy Fund portfolios. Staff has identified a few managers that have the investment expertise and infrastructure to implement a European NPL strategy for the SIB. Staff is continuing its due diligence process on these managers and expects to recommend a manager at the next board meeting.

North Dakota State Investment Board

AGENDA ITEM III.A.2

Informational Purposes Only

Other Real Assets Update

September 28, 2018

Dave Hunter, Darren Schulz and Eric Chin

Current NDSIB Infrastructure Portfolios

as of 7/31/18

Pension Trust (Target Allocation 5.8%)

Managers	Market Value (mm)	% of Total Assets
Rohatyn Group Asian Infrastructure	$21.18	0.36%
JP Morgan Infrastructure Investments Fund	$193.29	3.33%
Grosvenor Custom Infrastructure I	$35.00	0.60%
Grosvenor Custom Infrastructure II	$15.95	0.27%
ISQ Global Infrastructure	$3.50	0.06%
Subtotal	**$268.92**	**4.63%**

Portfolio is underweight by approximately $68 million.

Insurance Trust (Target Allocation 5%)

Managers	Market Value (mm)	% of Total Assets
JP Morgan Infrastructure Investments Fund	$92.11	3.98%
Grosvenor Custom Infrastructure I	$17.50	0.76%
Subtotal	**$109.61**	**4.74%**

Portfolio is underweight by approximately $6 million.

Legacy Fund (Target Allocation 5%)

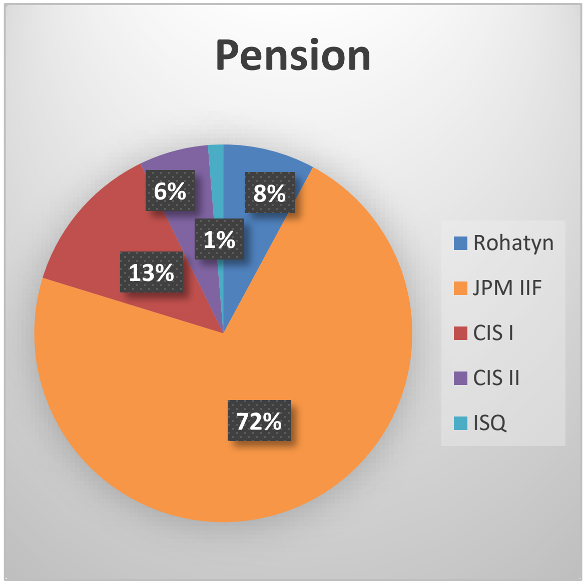
Managers	Market Value (mm)	% of Total Assets
JP Morgan Infrastructure Investments Fund	$122.21	2.14%
Grosvenor Custom Infrastructure II	$39.87	0.70%
ISQ Global Infrastructure	$4.00	0.07%
Subtotal	**$166.08**	**2.90%**

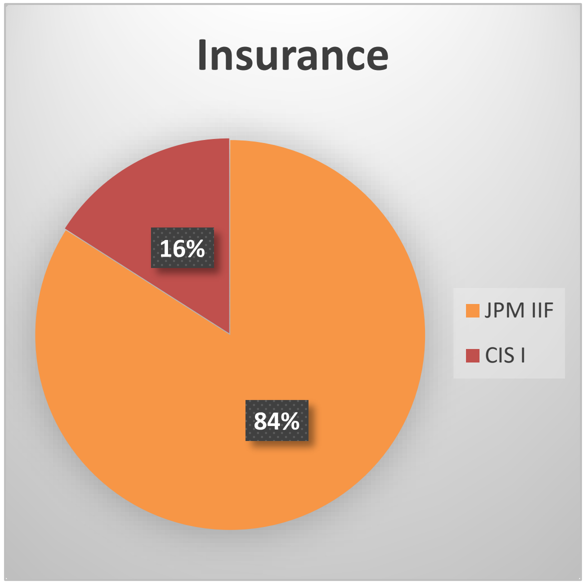
Portfolio is underweight by approximately $120 million.

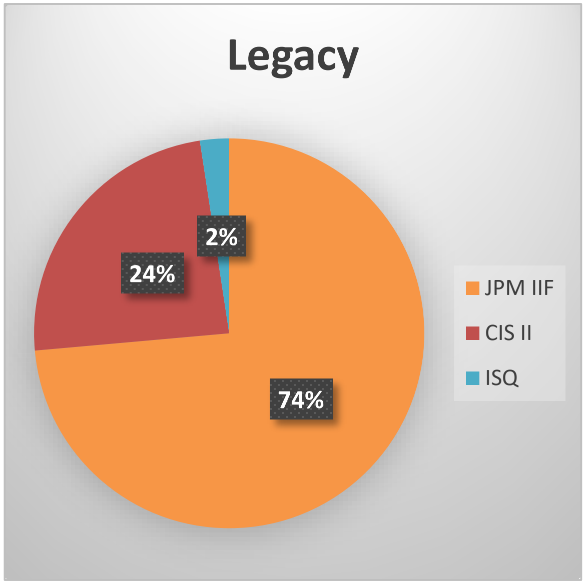
North Dakota State Investment Board

Current NDSIB Infrastructure Portfolios

as of 7/31/18







North Dakota State Investment Board

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

North Dakota State Investment Board

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

North Dakota State Investment Board

Infrastructure Roadmap
Recommendations

- Partially redeem JPM IIF exposure to reduce manager and asset 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
- Commitments to I-Squared value-add strategy in Pension Trust and Legacy Fund to complement existing infrastructure exposures
- Macquarie, a core/core plus manager identified by Staff, to present to the SIB in October

North Dakota State Investment Board

Callan Fee Study Update

For the Periods Ended June 30, 2018

September 26, 2018

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

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

TO: State Investment Board ("SIB") Clients
FROM: Dave Hunter
DATE: September 26, 2018
SUBJECT: **Callan Fee Study Update**

Background:

- **SIB Governance Policy D-1 on Ends states that "SIB clients receive investment returns … in a cost effective manner …" and Policy E-1 on Fiduciary Duties states that "investment expenses must be controlled".**

- **As consistent with prior years, the SIB approved RIO's recommendation to engage Callan to conduct a review of investment fee levels.** (RIO notes the Callan contract includes two projects per fiscal year and the fee study represents one of the two projects for the current fiscal year.) RIO will request Callan to present the results of the bi-annual fee study to the SIB at our November board meeting.

- RIO will continue to work with our existing managers on various fee reduction initiatives noting that Novarca was engaged in prior years to help RIO staff identify fee savings and we are seriously considering another competing firm to conduct a similar initiative in the near future.

Summary:

- **RIO believes that investment expenses are reasonable overall noting that management fees have declined by approximately 0.20% per annum (from 0.65% in fiscal 2013 to less than 0.45% in fiscal 2018) in the last 5 years.**

- **More importantly, RIO notes the return on investment fees has been meaningfully positive and exceeded 60 bps per annum (or $300 million in aggregate) over the last five years.**

- As such, the SIB has been successful in prudently using active management to generate positive risk adjusted rates of return while significantly reducing fee levels for the vast majority of our 16 SIB client boards.

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

Investment Fees and Expenses – Summary

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

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

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

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

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

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

TFFR FY 2018 Example:

ND Teachers' Fund for Retirement
Schedule of Investment Expenses

	FY 2018				FY 2017			
	Average Market Value	Fees in $	Fees as % of Average MV	Contribution to Total Fees	Average Market Value	Fees in $	Fees as % of Average MV	Contribution to Total Fees
Investment managers' fees:								
Global equity managers	408,901,458	1,380,401	0.34%	0.06%	368,541,670	1,426,842	0.39%	0.06%
Domestic large cap equity managers	427,574,723	(368,098)	-0.09%	-0.01%	388,663,320	551,198	0.14%	0.02%
Domestic small cap equity managers	129,193,929	586,340	0.45%	0.02%	117,362,483	455,668	0.39%	0.02%
Developed international equity managers	306,343,352	954,958	0.31%	0.04%	269,890,875	852,764	0.32%	0.04%
Emerging markets equity managers	84,989,807	697,608	0.82%	0.03%	77,503,580	633,942	0.82%	0.03%
Investment grade domestic fixed income managers	364,622,117	1,593,550	0.44%	0.06%	282,438,107	2,017,975	0.71%	0.09%
Below investment grade fixed income managers *	148,364,649	1,940,692	1.31%	0.08%	101,467,769	1,383,336	1.36%	0.06%
Developed international fixed income managers	78,070,923	270,428	0.35%	0.01%	118,359,898	423,318	0.36%	0.02%
Real estate managers	238,450,646	2,660,865	1.12%	0.11%	229,402,622	2,541,836	1.11%	0.11%
Timber managers	59,876,758	395,760	0.66%	0.02%	65,007,185	437,057	0.67%	0.02%
Infrastructure managers *	114,181,019	1,316,541	1.15%	0.05%	100,536,799	803,006	0.80%	0.04%
Private equity managers *	82,765,742	1,531,098	1.85%	0.06%	72,608,878	1,225,954	1.69%	0.06%
Cash & equivalents managers	29,499,369	36,561	0.12%	0.00%	19,216,771	20,203	0.11%	0.00%
Total investment management fees	**2,472,834,494**	**12,996,703**	**0.53%**		**2,210,999,957**	**12,773,099**	**0.58%**	
Custodian fees		233,938	0.01%	0.01%		213,844	0.01%	0.01%
Investment consultant fees		150,251	0.01%	0.01%		124,539	0.01%	0.01%
Total investment expenses		**13,380,892**	**0.54%**			**13,111,481**	**0.59%**	

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

FY 2018		FY 2017
9.11%	**Actual Investment Performance (Net of Fees)**	**12.92%**
7.89%	**Policy Benchmark**	**11.63%**
1.22%	**Outperformance/(Underperformance)**	**1.29%**

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

TFFR Investment Ends – June 30, 2018

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

TFFR earned $211 million of net income in fiscal 2018 (and nearly $850 million in fiscal 2014 to 2018).

	1 Yr Ended 6/30/2018	3 Yrs Ended 6/30/2018	5 Yrs Ended 6/30/2018	Risk 5 Yrs Ended 6/30/2018	Risk Adj Excess Return 5 Yrs 6/30/2018
Total Fund Return - Net	9.11%	7.30%	8.31%	4.81%	0.26%
Policy Benchmark Return	7.89%	6.61%	7.45%	4.45%	
Excess Return	1.21%	0.69%	0.85%	108%	

Key Point: TFFR investments have averaged nearly **$2.2 billion** during the last 5-years and Excess Return has averaged over **0.50%** per annum. Based on these values, **TFFR's use of active management has enhanced Net Investment Returns by $55 million for the 5-years ended June 30, 2018** (or $2.2 billion x 0.50% = $11 million x 5 years = $55 million). This Excess Return has been achieved while adhering to prescribed **Risk** limits (e.g. **108%** versus a policy limit of 115%).

Current Policy Benchmark: 58% Equity (31% U.S., 21% Non-U.S., 6% Private); **23% Fixed Income** (16% U.S., 7% High Yield); **18% Real Assets** (10% Real Estate; 5.7% Infrastructure; 2.3% Timber); and **1% Cash.**

Comparison of Major Asset Class Returns vs. Benchmark

Global Equities earned 12.38% for the 1-year ended June 30, 2018, which was 1.25% above the benchmark, while the 5-year return of 10.05 surpassed the benchmark of 9.38% by 0.67%.

Global Fixed Income earned 3.58% last year and 4.14% the last 5-years due to strong returns in U.S. Fixed Income including high yield & private credit offset by weaker returns in International Debt and Long Term Treasuries due to rising rates.

Global Real Assets earned 6.06% last year and 7.94% the last 5-years with Real Estate and Infrastructure surpassing benchmarks while Timber trailed its benchmark by over 6%.

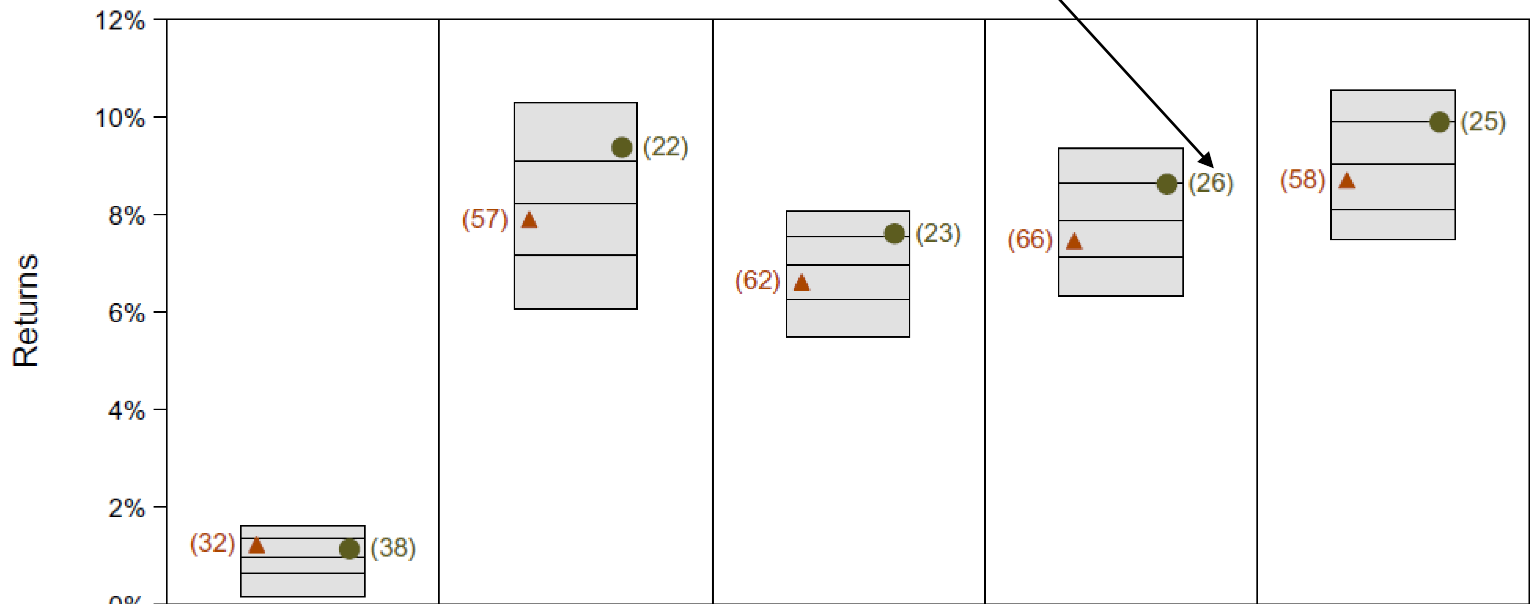
Every major asset class outperformed their respective benchmarks for the 1 and 5-years ended June 30, 2018, with strong returns in all asset classes other than Private Equity and Timber.

TFFR Asset Allocation	Target Allocation	1-year	5-years
Global Equity	58%		
- Actual		12.38%	10.05%
- Benchmark		11.13%	9.38%
		1.25%	0.67%
Global Fixed Income	23%		
- Actual		3.58%	4.14%
- Benchmark		2.00%	2.79%
		1.58%	1.35%
Global Real Assets	18%		
- Actual		6.06%	7.94%
- Benchmark		5.42%	6.75%
		0.64%	1.19%
Cash Equivalents	1%		
- Actual		1.47%	0.52%
- Benchmark		1.36%	0.42%
		0.11%	0.10%
TFFR - Total Fund	100%		
- Actual		9.11%	8.31%
- Benchmark		7.89%	7.45%
		1.22%	0.86%

TFFR's "gross" returns were ranked in the 26th percentile for the 5-years ended June 30, 2018, based on Callan's "Public Fund Sponsor Database".

Callan Public Fund Sponsor Database

Unadjusted Ranking



	Last Quarter	Last Year	Last 3 Years	Last 5 Years	Last 8 Years
10th Percentile	1.60	10.31	8.07	9.34	10.55
25th Percentile	1.34	9.09	7.54	8.66	9.92
Median	0.95	8.23	6.96	7.87	9.05
75th Percentile	0.64	7.15	6.24	7.14	8.08
90th Percentile	0.13	6.06	5.49	6.32	7.48
Total Fund ●	1.12	9.37	7.61	8.62	9.90
Policy Target ▲	1.21	7.89	6.61	7.45	8.70

* Current Quarter Target = 16.6% Russell 1000 Index, 16.0% Blmbg Aggregate, 16.0% MSCI World, 11.8% MSCI World ex US, 10.0% NCREIF Total Index, 7.0% Blmbg HY 2% Iss Cap, 6.0% NDSIB TFFR - Private Equity, 5.7% CPI-W, 4.8% Russell 2000 Index, 2.8% MSCI EM, 2.3% NCREIF Timberland Index and 1.0% 3-month Treasury Bill.

Legacy Fund Earnings Update
September 27, 2018

Overview:

RIO was requested to provide a revised Legacy Fund earnings estimate for the remaining 2017-19 and upcoming 2019-21 biennia. RIO relied on oil and gas tax estimates provided by OMB and expected investment earnings over the next three years. Estimates are based on the anticipated average balance of the Legacy Fund during the forecast period acknowledging that commodity prices are volatile in addition to the impact of this price volatility on oil and gas production and related tax collections.

Background:

The North Dakota State Investment Board (SIB) and Legacy Fund Advisory Board recently completed an asset liability study which affirmed the current target asset allocation of 50% equity, 35% fixed income and 15% diversified real assets. Given that our current investment policy includes a 50% target allocation to public equities which are inherently subject to significant return volatility including the potential for negative investment returns over any defined time period, RIO notes it is reasonable to expect the Legacy Fund to lose money during certain periods when the equity markets are experiencing losses, credit markets are experiencing elevated defaults and/or when liquidity in the private markets is challenged. Despite these investment concerns (which are present in most any return seeking portfolio), RIO is confident the Legacy Fund will meet or exceed its targeted investment return of 6% over the long term. In order to be prudent and diligent and in light of our significant fiduciary responsibility, the SIB and RIO work with expert consultants and professional investment management firms to confirm the reasonableness of our future capital market assumptions which serve as the foundation for long-term return expectations.

RIO notes the original earnings estimate of $200 million for the 2017-19 biennium was based on a 2% average "earnings" rate and anticipated Legacy Fund average balance of approximately $5 billion ($5 billion x 2% = $100 million per year or $200 million per biennium). *The **2%** average "earnings" rate was originally based on the midpoint of the RV Kuhn consultant forecast including a 6% Base Case and -2% Worst Case, noting the Worst Case was raised by 1% (from -3%) based on the expected strength of the capital markets during the prescribed time period.* RIO notes that NDCC 21-10-12 defines "earnings" as "net income in accordance with generally accepted accounting principles, excluding any unrealized gains or losses." This definition of "earnings" is materially different than net investment return which includes both unrealized and realized gains and losses. For comparison, the Legacy Fund generated over $1.1 billion of net investment earnings since inception (as of July 31, 2018) whereas "earnings" as defined in accordance with NDCC 21-10-12 approximated $697 million during this same time period.

Legacy Fund "Transferrable Earnings" Estimate:

Based on the expected strength and resiliency of the capital markets over the next three years, RIO continues to recommend a **2%** average "transferrable earnings" rate for the remaining 2017-19 and 2019-21 biennia. **Based on this 2% "transferable earnings" assumption and incorporating actual returns of the Legacy Fund through July 31, 2018, in addition to OMB's expected oil and gas tax projections through June 30, 2021, RIO estimates Legacy Fund "transferrable earnings" will approximate $350 million in 2017-19 and $300 million in 2019-21**. RIO acknowledges the $350 million estimate for 2017-19 is $50 million higher than our prior forecast due to a moderate and sustained rise in U.S. interest rates in addition to generally strong economic conditions in the U.S. and moderately strong oil and gas tax revenue projections through June 30, 2021 (resulting in average oil and gas tax deposits of nearly $55 million/month). **The $300 million "transferrable earnings" estimate for the 2019-21 biennia is largely driven by OMB's forecasted oil and gas tax deposits causing average Legacy Fund investments to approximate $7.5 billion in the 2019-21 biennia (e.g. $7.5 billion x 2% "earnings" rate = $150 million x 2 years = $300 million).**

Review of Legacy Fund "Transferrable Earnings" definition:

Although there is a reasonable belief that the long-term "transferrable earnings" rate will trend upwards towards 3% to 4% in the next decade, **it is important to acknowledge that "realized earnings" will likely be negative in some future 2-year time frame**.

Given the risk of a moderate market correction in the foreseeable future, RIO notes the definition of "transferrable earnings" could be revised to exclude both realized and unrealized gains and losses to minimize volatility and the potential adverse impact on our State's budgeting process. If "transferrable earnings" were revised to only include "net investment income without any realized or unrealized gains or losses", the impact of a market correction would be significantly reduced.

Current Example:

RIO notes that "net investment income without realized and unrealized gains or losses" approximated $112 million for the 13 months ended July 31, 2018. In contrast, "transferrable earnings as currently defined under NDCC 21-10-12 approximated $260 million for the 13 months ended July 31, 2018.

		"Earnings" under current definition
FY2012		
Net Investment Income w/out Gains/Losses	2,350,618	
Net Realized Gains (Losses)	220,857	2,571,475
Net Unrealized Gains (Losses)	(271,250)	
Net Increase (Decrease) per financials	2,300,225	
FY2013		
Net Investment Income w/out Gains/Losses	16,547,631	
Net Realized Gains (Losses)	(598,542)	15,949,089
Net Unrealized Gains (Losses)	(11,733,063)	
Net Increase (Decrease) per financials	4,216,026	
FY2014		
Net Investment Income w/out Gains/Losses	39,126,389	
Net Realized Gains (Losses)	10,907,266	50,033,655
Net Unrealized Gains (Losses)	63,120,007	
Net Increase (Decrease) per financials	113,153,662	
FY2015		
Net Investment Income w/out Gains/Losses	54,076,842	includes PPA
Net Realized Gains (Losses)	41,067,063	95,143,905
Net Unrealized Gains (Losses)	4,751,745	
Net Increase (Decrease) per financials	99,895,650	
FY2016		
Net Investment Income w/out Gains/Losses	77,306,531	
Net Realized Gains (Losses)	(11,979,858)	65,326,673
Net Unrealized Gains (Losses)	(19,474,993)	
Net Increase (Decrease) per financials	45,851,680	
FY2017		
Net Investment Income w/out Gains/Losses	89,624,346	
Net Realized Gains (Losses)	118,190,529	207,814,875
Net Unrealized Gains (Losses)	271,780,381	
Net Increase (Decrease) per financials	479,595,256	
Net earnings (per NDCC) since inception (left in principal)		436,839,672
FY2018	Jun-18	
Net Investment Income w/out Gains/Losses	**107,250,877**	
Net Realized Gains (Losses)	135,608,963	**242,859,840**
Net Unrealized Gains (Losses)	117,715,692	
Net Increase (Decrease) per financials	360,575,532	
FY2019	Jul-18	
Net Investment Income w/out Gains/Losses	**5,331,201**	
Net Realized Gains (Losses)	12,408,747	**17,739,948**
Net Unrealized Gains (Losses)	60,307,424	
Net Increase (Decrease) per financials	78,047,372	
Net earnings (per NDCC) since 7/1/2017		**260,599,788**

Per NDCC 21-10-12: For the purposes of section 26 of article X of the Constitution of North Dakota, the term "earnings" means net income in accordance with generally accepted accounting principles, excluding any unrealized gains or losses.

Total Net Earnings	**1,183,635,403**	
Net Investment Income w/o Gains/Losses (7/1/17 to 7/31/18)		**112,582,078**

ND STATE INVESTMENT BOARD
AUDIT COMMITTEE MEETING

Thursday May 24, 2018 – 3:00 PM
Retirement and Investment Office
3442 E Century Ave, Bismarck, ND 58507

AGENDA

1. Call to Order and Approval of Agenda – Chair (committee action) (5 minutes)

2. Approval of February 22, 2018 Minutes – Chair (committee action) (5 minutes)

3. Presentation of July 1, 2017 to June 30, 2018 Fiscal Year Financial Audit Scope and Approach and Final GASB 68 Schedule Audit Report – CliftonLarsonAllen (to follow)(committee action)(30 minutes)

4. 2017 – 2018 Third Quarter Audit Activities Report – Sara Sauter (committee action)(10 minutes)

5. What is Internal Audit? – Sara Sauter (education)(30 minutes)

6. 2018-2019 Audit Services Workplan, Budgeted Hours, and Employer Risk Assessment– Sara Sauter (committee action)(45 minutes)

7. TFFR Employer Audit Reporting Process – Fay Kopp & Sara Sauter (information)(5 minutes)

8. 2018-2019 SIB Audit Committee Meeting Schedule – Sara Sauter (committee action)(5 minutes)

9. 2018-2019 SIB Audit Committee Membership – Sara Sauter (information)(5 minutes)

10. Other – Next SIB Audit Committee Meeting

    PENDING APPROVAL
    Retirement and Investment Office
    Thursday September 27, 2018 - 10:00 AM
    RIO Conference Room
    3442 E Century Ave
    Bismarck, ND

11. Adjournment

Any individual requiring an auxiliary aid or service should contact the Retirement and Investment Office at (701) 328-9885 at least (3) days prior to the scheduled meeting.

STATE INVESTMENT BOARD
AUDIT COMMITTEE MEETING
MINUTES OF THE
MAY 24, 2018 MEETING

COMMITTEE MEMBERS PRESENT:	Rebecca Dorwart, Chair Yvonne Smith, PERS Board, Vice Chair Mike Burton, TFFR Board Cindy Ternes, Workforce Safety & Insurance Josh Wiens, External Representative
STAFF PRESENT:	Connie Flanagan, Fiscal & Inv Op Mgr Bonnie Heit, Assist to the Audit Committee David Hunter, ED/CIO Fay Kopp, Dep ED/CRO Sara Sauter, Audit Svs Suprv Shelly Schumacher, Retirement Program Mgr Dottie Thorsen, Internal Auditor
GUEST:	Rob Lech, TFFR Board (TLCF) Anders Odegaard, Attorney General's Office Thomas Rey, CliftonLarsonAllen

CALL TO ORDER:

Ms. Dorwart called the State Investment Board (SIB) Audit Committee meeting to order at 3:03 p.m. on Thursday, May 24, 2018, at the Retirement and Investment Office (RIO), 3442 E Century Ave., Bismarck, ND.

A quorum was present for conducting business.

AGENDA:

IT WAS MOVED BY MS. TERNES AND SECONDED BY MR. WIENS AND CARRIED BY A VOICE VOTE TO APPROVE THE AGENDA FOR THE MAY 24, 2018, MEETING AS DISTRIBUTED.

AYES: MS. SMITH, MS. TERNES, MR. WIENS, MR. BURTON AND MS. DORWART
NAYS: NONE
MOTION CARRIED

MINUTES:

IT WAS MOVED BY MS. SMITH AND SECONDED BY MS. TERNES AND CARRIED BY A VOICE VOTE TO ACCEPT THE FEBRUARY 22, 2018, MINUTES.

AYES: MR. BURTON, MS. SMITH, MS. TERNES, MR. WIENS, AND MS. DORWART
NAYS: NONE
MOTION CARRIED

CLIFTONLARSONALLEN:

Mr. Thomas Rey, CliftonLarsonAllen, reviewed the engagement and work plan for the audit of the financial statements of the Retirement and Investment Office (RIO) for the period of July 1, 2017 to June 30, 2018.

Mr. Rey also reviewed the audit results for GASB 68 schedules (schedules of employer allocations and pension amounts by employer) for the period ending June 30, 2017. An unmodified clean opinion was issued on the statements.

IT WAS MOVED BY MR. WIENS AND SECONDED BY MS. TERNES AND CARRIED BY A VOICE VOTE TO ACCEPT CLIFTONLARSONALLEN'S REPORT.

AYES: MS. TERNES, MR. WIENS, MS. SMITH, MR. BURTON, AND MS. DORWART
NAYS: NONE
MOTION CARRIED

AUDIT ACTIVITIES REPORT:

Ms. Sauter reviewed third quarter activities of the Audit Division for the period of January 1, 2018 – March 31, 2018.

Nine TFFR Employer Audits had been completed, three audits were in progress, five were pending and not yet started, and three audit notifications had been sent out.

The TFFR File Maintenance Audit for the July 1, 2017 through September 30, 2017 quarter was completed and the report was issued in April 2018.

Internal Audit and Retirement Services developed a joint questionnaire which was sent to eight Regional Education Associations (REA). The responses to the questionnaire will give Internal Audit and Retirement Services a better understanding of how the REA's are reporting to TFFR. Staff will be following up on the information received and developing a plan to address any issues.

The Executive Limitations Audit was completed for the 2017 calendar year and issued in February 2018. Audit Services was sufficiently satisfied that the Executive Director/CIO was in compliance with the SIB Governance Manual Executive Limitation policies A-1 through A-11.

Ms. Sauter joined RIO January 1, 2018, and has spent time getting up to speed with the agency, Internal Audit, reading manuals, regulations, attending Business Manager training, and getting to know the staff.

Ms. Sauter has also been attending board meetings and a Securities Litigation meeting. Biweekly meetings were held with the Deputy Director/CRO and multiple meetings with the Executive Director on various topics.

Audit Services continues to participate in the IIA Central NoDak Chapter for professional development.

IT WAS MOVED BY MS. SMITH AND SECONDED BY MS. TERNES AND CARRIED BY A VOICE VOTE TO ACCEPT THE THIRD QUARTER INTERNAL AUDIT ACTIVITIES REPORT FOR THE PERIOD OF JANUARY 1, 2018 – MARCH 31, 2018.

AYES: MS. TERNES, MR. WIENS, MS. SMITH, MR. BURTON, AND MS. DORWART
NAYS: NONE
MOTION CARRIED

EDUCATION:

Ms. Sauter presented an educational segment on internal auditing - its purpose and the benefits of an internal audit program.

WORK PLAN/BUDGETED HOURS/EMPLOYER RISK ASSESSMENT:

Ms. Sauter presented the 2018-19 work plan for the Audit Committee's consideration. The work plan was modified from previous years to address the Internal Audit Divisions allotted time within RIO - particularly between the two entities of RIO, the State Investment Board (SIB) and the Teachers' Fund for Retirement (TFFR).

Ms. Sauter informed the Audit Committee she would like to conduct an internal control assessment and agency risk assessment neither of which has ever been formally documented at RIO. With the changing agency portfolio and the emerging risks, Audit Services is recommending moving to a risk-based audit plan. To address the emerging risks and ensure effective and efficient policies and procedures, Audit Services proposed an audit work plan that would address the time spent on TFFR and RIO as a whole. Ms. Sauter stated an agency risk assessment should be completed on RIO's overall internal control environment and then prioritize the work being performed by Audit Services based on the agency risk assessment. RIO's investment oversight function has grown and changed in the past ten years and the primary function of RIO's Internal Audit Division for many years has been TFFR Compliance Audits. RIO has no legal responsibility to test the reporting by the school districts. The testing has been completed as a service for those school districts and members participating in the TFFR plan.

Discussion followed on accepting the work plan as presented or if a risk assessment should be conducted first.

Discussion also took place on staying with the direction the Audit Committee has been operating under for the past 20 years and enhancing those areas before moving into other areas.

After discussion,

IT WAS MOVED BY MS. TERNES AND SECONDED BY MR. WIENS AND CARRIED BY A VOICE VOTE TO APPROVE THE INTERNAL AUDIT DIVISION MOVING FORWARD WITH A RISK ASSESSMENT AS DEEMED NECESSARY TO ADJUST THE FUTURE WORK PLAN TO BE MORE PRODUCTIVE AND MORE RISK BASED AS NEEDED.

AYES: MS. SMITH, MS. TERNES, MR. WIENS, MR. BURTON, AND MS. DORWART
NAYS: NONE
MOTION CARRIED.

Ms. Sauter is to present a new work plan based on the results of the agency risk assessment for the Audit Committee's consideration at the September 27, 2018, meeting.

EMPLOYER AUDIT REPORTING PROCESS:

Ms. Kopp informed the Audit Committee that Internal Audit and Retirement Services have been having discussions on issuing all future TFFR employer compliance audit reports to both the Superintendent/Director and School Board/Governing Body President. TFFR audit reports would be submitted for acceptance by the full school board at a regular meeting of the governing body. Auditing best practices recommends that all audit reports be issued to the governing body of the entity being audited. Currently the reports are issued to the Superintendent/Director and a copy is sent to the Business Manager.

The Audit Committee felt the change was in the best interest of the governing body.

A TFFR Board policy amendment may be needed based on feedback from the Audit Committee and the TFFR Board. Ms. Kopp will follow-up with the Audit Committee.

MEETING SCHEDULE:

Ms. Sauter presented a proposed meeting schedule for the period of July 1, 2018 – June 30, 2019.

IT WAS MOVED BY MS. SMITH AND SECONDED MR. BURTON AND CARRIED BY A VOICE VOTE TO ACCEPT THE AUDIT COMMITTEE MEETING SCHEDULE FOR THE PERIOD OF JULY 1, 2018 - JUNE 30, 2019.

AYES: MR. BURTON, MS. SMITH, MS. TERNES, MR. WIENS, MS. DORWART
NAYS: NONE
MOTION CARRIED

COMMITTEE MEMBERSHIP:

SIB Audit Committee membership is for a one-year term beginning July of each fiscal year. Audit Committee members are to notify Ms. Sauter by next Thursday, May 31, 2018, if they are interested in serving for the period of July 1, 2018 – June 30, 2019.

OTHER:

The next Audit Committee meeting is scheduled for Thursday, September 27, 2018, at 3:00 pm at the Retirement and Investment Office, 3442 East Century Ave., Bismarck, ND.

With no further business to come before the Audit Committee, Ms. Dorwart adjourned the meeting at 4:51 p.m.

Respectfully Submitted:

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Ms. Rebecca Dorwart, Chair
SIB Audit Committee

____

Bonnie Heit
Assistant to the Audit Committee

BOARD ACTION

TO: **State Investment Board**

FROM: **Dave Hunter**

DATE: **September 6, 2018**

SUBJECT: **Annual Review of Governance Manual – Cover Memo**

In accordance with Section B-7 of the SIB Governance Manual, the Board Planning Cycle should include an "Annual Review of the Governance Manual" in September. In order to facilitate a meaningful review, RIO encourages board members and RIO staff to review the Governance Manual prior to the September 28 board meeting.

RIO will be prepared to discuss all sections of our Governance Manual including North Dakota Century Code (NDCC) Chapter 21-10, but intends to focus this meetings review on the following areas, unless directed otherwise by the SIB:

Section B – Governance Process (15 pages)

Section D – Ends (10 pages)

Section E – Investments (29 pages)

At the conclusion of our board discussion, the SIB may make a motion to accept RIO's recommended changes, if any, to the Governance Manual (including Exhibit E-1 to reflect current SIB member composition). Alternatively, the Board may motion to recommend additional and/or different changes. The SIB recommended changes will be brought forward for further discussion and formally approved at our next regularly scheduled board meeting, assuming no additional changes are recommended.

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

NORTH DAKOTA
RETIREMENT AND INVESTMENT OFFICE

STATE INVESTMENT BOARD

GOVERNANCE MANUAL

3442 EAST CENTURY AVENUE
P.O. BOX 7100
BISMARCK, ND 58507-7100
TELEPHONE: 701/328-9885

TABLE OF CONTENTS

A. *EXECUTIVE LIMITATIONS*

POLICY TYPE: EXECUTIVE LIMITATIONS

POLICY TITLE: *GENERAL EXECUTIVE CONSTRAINT*

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

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

2. In relating to the public and other governmental entities, the executive director may not knowingly cause or allow any action which is unfair, undignified, or disrespectful. In addition, the executive director may not allow any communications from the staff which are inaccurate or fail to distinguish between fact and personal opinion.

3. Budgeting for any fiscal year or the remaining part of any fiscal year shall not knowingly deviate materially from board *Ends* priorities, or create fiscal jeopardy, or fail to be derived from the biennial planning calendar.

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

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

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

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

8. In order to protect the board from sudden loss of executive services, the executive director may not have fewer than three other executives familiar with board and chief executive issues and processes. The executive director shall not fail to inform the Deputy Executive Director, the Deputy Chief Investment Officer, and the Fiscal and Investment Operations Manager of executive and board issues and processes.

9. The executive director will not allow a conflict of interest in the procurement of goods and services.

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

Policy Implemented: July 23, 1995.
Amended: January 22, 1999; November 19, 1999; September 26, 2014.

POLICY TITLE: ***STAFF RELATIONS***

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

Accordingly, the executive director may not:

1. Operate without personnel procedures which clarify personnel rules for staff, provide for effective handling of grievances, and protect against wrongful conditions or violate any state or federal law.

2. Fail to provide staff with the opportunity to complete an employment termination questionnaire and an exit interview with the Supervisor of Audit Services.

Policy Implemented: June 23, 1995.
Amended: May 31, 1996; September 26, 2014.

POLICY TYPE: EXECUTIVE LIMITATIONS

POLICY TITLE: *RELATING TO PUBLIC AND GOVERNMENT*

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

Policy Implemented: June 23, 1995.

POLICY TYPE: EXECUTIVE LIMITATIONS

POLICY TITLE: *BUDGETING*

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

Accordingly, the executive director may not cause or allow budgeting which:

1. Contains too little information to enable credible projection of expenses, cash flow, and disclosure of planning assumptions.

2. Plans the expenditure in any fiscal year of more funds than are authorized by legislative appropriation.

3. Reduces the level of service, or anticipates a reduction in the level of service, of any Retirement and Investment Office program without the prior approval of the State Investment Board.

Policy Implemented: June 23, 1995.
Amended: November 2, 1997; June 26, 1998.

POLICY TYPE: EXECUTIVE LIMITATIONS

POLICY TITLE: *FINANCIAL CONDITION*

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

Accordingly, the executive director may not:

1. Make any expenditure that exceeds the appropriation authority authorized by the North Dakota legislature.

2. Create policies for payment of administrative obligations that are in conflict with the policies of the Office of Management and Budget.

3. Initiate a transfer of appropriation authority between budget line items without board and Emergency Commission approval.

4. Allow appropriation expenditures to be made unless reported on PeopleSoft.

Policy Implemented: June 23, 1995.
Amended: September 26, 2014.

POLICY TYPE: EXECUTIVE LIMITATIONS

POLICY TITLE: ***COMMUNICATION AND COUNSEL TO THE BOARD***

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

Accordingly, the executive director may not:

1. Neglect to submit monitoring data required by the board (see policy on Monitoring Executive Performance) in a timely, accurate, and understandable fashion, directly addressing provisions of the board policies being monitored.

2. Let the board be unaware of relevant trends, anticipated adverse media coverage, material external and internal changes, and particularly changes in the assumptions upon which any board policy has previously been established.

3. Fail to advise the board if, in the executive director's opinion, the board is not in compliance with its own policies on *Governance Process* and *Board-Staff Relationship*, particularly in the case of board behavior which is detrimental to the work relationship between the board and the executive director.

4. Fail to marshal for the board as many staff and external points of view, issues, and options as needed for fully informed board choices.

5. Present information in unnecessarily complex or lengthy form.

6. Fail to provide a mechanism for official board, officer, or committee communications.

7. Fail to deal with the board as a whole except when (a) fulfilling individual requests for information or (b) responding to officers or committees duly charged by the board.

8. Fail to report in a timely manner an actual or anticipated noncompliance with any policy of the board, particularly *Ends* and *Executive Limitations*.

9. Fail to inform the board in a timely manner of any intention to hire or dismiss the Deputy Executive Director, the Deputy Chief Investment Officer, or the Fiscal and Investment Operations Manager.

10. Fail to keep the board informed concerning the delegation of fiduciary authority to any staff member. Every person to whom such fiduciary responsibility is delegated is ultimately accountable to the board as to the exercise and execution of the delegated authority.

Policy Implemented: June 23, 1995; November 19, 1999.
Amended: September 26, 2014.

POLICY TYPE: EXECUTIVE LIMITATIONS

POLICY TITLE: *ASSET PROTECTION*

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

Accordingly, the executive director may not:

1. Fail to insure against theft and casualty losses to at least 80 percent replacement value and against liability losses to board members, staff, or the organization itself in an amount greater than the average for comparable organizations.

2. Allow non-bonded personnel access to funds.

3. Subject plant and equipment to improper wear and tear or insufficient maintenance.

4. Unnecessarily expose the organization, its board, or staff to claims of liability.

5. Fail to protect intellectual property, information, and files from loss or significant damage.

6. Receive, process, or disburse funds under controls which are insufficient to meet the state auditor's standards.

7. Invest or hold operating capital in a manner that is inconsistent with state law or board policy.

8. Acquire, encumber, or dispose of real property.

9. Endanger the organization's public image or credibility, particularly in ways that would hinder its accomplishment of mission.

10. Deviate from the investment process set by the State Investment Board (SIB) as contained in the board's policy on investments.

Policy Implemented: June 23, 1995.

POLICY TYPE: EXECUTIVE LIMITATIONS

POLICY TITLE: *COMPENSATION AND BENEFITS*

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

Accordingly, the executive director may not:

1. Change the compensation and benefits of any program officer reporting directly to the SIB.

2. Promise or imply permanent or guaranteed employment.

Policy Implemented: June 23, 1995.
Amended: January 22, 1999; November 19, 1999.

POLICY TITLE: *CONFLICT OF INTEREST*

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

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

The executive director will be required to affirm their understanding of this policy annually, in writing, and must disclose any conflicts of interest that may arise (See Exhibit A-I).

Policy Implemented: June 23, 1995.
Amended: January 22, 1999; February 25, 2011.

POLICY TITLE: *CODE OF CONDUCT*

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

Policy Implemented: June 27, 1997.

POLICY TYPE: EXECUTIVE LIMITATIONS

POLICY TITLE: *UNRELATED BUSINESS INTERESTS*

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

Policy Implemented: August 18, 2000

EXHIBIT A-I

Memorandum

To: **RIO Executive Director/CIO**

From: **RIO Compliance Officer**

Date: **July 1, 20--**

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

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

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

Name (printed) ________________________________

Signature_____________________________________

Date____

Detail of any conflicts of interest (if any):

B. *GOVERNANCE PROCESS*

PAGE

EXHIBITS

POLICY TYPE: GOVERNANCE PROCESS

POLICY TITLE: *GOVERNANCE COMMITMENT*

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

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

Policy Implemented: June 23, 1995.

POLICY TITLE: *GOVERNING STYLE*

The board will strive to govern with an emphasis on:

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

The board will:

1. Cultivate a sense of group responsibility. The board, not the staff, will be responsible for excellence in governing. The board will strive to be an initiator of policy, not merely a reactor to staff initiatives. The board will strive to use the expertise of individual members to enhance the ability of the board as a body, rather than to substitute the individual judgments for the board's values.

2. Direct, control, and inspire the organization through the careful establishment of the broadest written policies reflecting the board's values and perspectives. The board's major focus will be on the intended long-term impacts outside the operating organization (*Ends*), not on the administrative or programmatic means of attaining those effects.

3. Enforce upon itself whatever discipline is needed to govern with excellence. Discipline will apply to matters such as attendance, policy-making principles, respect of roles, and ensuring the continuity of governance capability.

4. After speaking with one voice, self-police any tendency to stray from adopted board governance policies. The board will not allow any officer, member, or committee of the board to hinder or be an excuse for not fulfilling its commitments. The board respects the right of any member, as an individual, to publicly disagree with an adopted board policy. Board members will accurately portray board policies and decisions.

5. Promote continual board development through orientation and mentoring of new members in the board's governance process and through periodic board discussion of process improvement. The board shall not delegate new member governance orientation to the executive director or any staff member.

    A. A board mentor, who is knowledgeable and who will assume responsibility for assisting the new members, will be assigned by the chairperson.

B. The new board member should read and study Chapter 21-10, North Dakota Century Code (Section J of the SIB Policy Governance Manual which governs the activities of the boards represented on the SIB: Teachers' Fund for Retirement Board, Public Employees Retirement Systems Board, and the State Investment Board).

C. The board should receive a glossary of terms used by the retirement and pension fund industry; i.e. Callan Associates Inc. - Glossary of Terms.

D. Newly appointed or elected board members should become familiar with the Carver Model of Governance, since the SIB directs its activities by this model. They should read Boards That Make a Difference and study the policy manuals that have been developed by the SIB and TFFR Board.

E. The board members must understand their roles as trustees and fiduciaries, the Prudent Investor Rule, and Procedural Prudence.

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

F. The executive director will provide the SIB with a list of periodicals available which would provide current information on pension issues. The board members will review and request subscriptions to appropriate periodicals.

6. Monitor and regularly discuss the board's process and performance. Self-monitoring will include comparison of board activity and discipline to policies in the *Governance Process* and *Board-Staff Relationship* categories.

7. Observe Robert's Rules except where the board has superseded them.

Policy Implemented: June 23, 1995.
Amended: June 28, 1996; November 19, 1999, January 26, 2001, February 27, 2015.

POLICY TYPE: GOVERNANCE PROCESS

POLICY TITLE: *BOARD JOB DESCRIPTION*

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

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

1. The link between the SIB, its investment clients, and benefit recipients.

2. Written governing policies that, at the broadest levels, address:

   A. *Ends:* Organizational products, impacts, benefits, outcomes, recipients, and their relative worth (what good for which needs at what cost).

   B. *Executive Limitations:* Constraints on executive authority which establish the prudence and ethics boundaries within which all executive activity and decisions must take place.

   C. *Governance Process:* Specification of how the board conceives, carries out, and monitors its own task.

   D. *Board-Executive Director Relationship:* How authority is delegated and its proper use monitored: the executive director's role, authority, and accountability.

3. The assurance of executive director performance against above policies 2a and 2b.

4. Legislation necessary to achieve the board's *Ends*.

Policy Implemented: June 23, 1995.

POLICY TYPE: GOVERNANCE PROCESS

POLICY TITLE: ***CHAIRPERSON'S ROLE***

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

1. The duty of the chairperson is to see that the board operates consistent with state law, administrative rules, and its own policies.

   A. The board agenda will be the responsibility and be coordinated by the chairperson.

   B. Meeting discussion content will only be those issues which, according to board policy, clearly belong to the board and not the executive director, or in a board member's opinion, may deal with fiduciary responsibilities.

   C. Deliberation will be fair, open, and thorough, but also efficient, timely, orderly, and brief.

   D. The chairperson shall appoint a parliamentarian.

2. The authority of the chairperson consists in making decisions that fall within the topics covered by board policies on *Governance Process* and *Board-Executive Director Relationship*, except where the board specifically delegates portions of this authority to others. The chairperson is authorized to use any reasonable interpretation of the provisions in these policies.

   A. The chairperson is empowered to chair board meetings with all the commonly accepted authority of that position (e.g., ruling, recognizing).

   B. The chairperson has no authority to make decisions about policies created by the board within *Ends* and *Executive Limitations* policy areas. Therefore, the chairperson has no authority to supervise or direct the executive director.

   C. The chairperson may represent the board to outside parties in announcing board-stated positions and in stating chairperson decisions and interpretations within the area delegated to the chairperson.

   D. The chairperson is authorized, in consultation with the RIO Executive Director, to grant approval for international travel by SIB members and to keep the board informed on travel requests.

   E. The chairperson is authorized, in consultation with the RIO Executive Director, to grant approval for domestic due diligence visits by SIB members and it shall be the responsibility of the traveling board member to report to the SIB on the results of the due diligence visits.

Policy Implemented: June 23, 1995.
Amended: August 17, 2001, September 25, 2009.

POLICY TYPE: GOVERNANCE PROCESS

POLICY TITLE: ***BOARD COMMITTEE PRINCIPLES***

Unless specifically provided by governance policy, board committees will be assigned so as to minimally interfere with the wholeness of the board's job and so as never to interfere with delegation from board to executive director. Board committees will be used sparingly.

1. Board committees are to help the board do its job, not to help the staff do its job. Committees ordinarily will assist the board by preparing policy alternatives and implications for board deliberation. Board committees are created to advise the board, not the staff.

2. Board committees may not speak or act for the board except when formally given such authority for specific and time-limited purposes. Expectations and authority will be carefully stated in order not to conflict with authority delegated to the executive director.

3. Board committees cannot exercise authority over staff however committees will make requests of staff through the executive director unless staff is assigned to the committee. Because the executive director works for the full board, he or she will not be required to obtain approval of a board committee before an executive action. In keeping with the board's broader focus, board committees will normally not have direct dealings with current staff operations.

4. Board committees are to avoid over-identification with the committee's assignment. Therefore, a board committee which has helped the board create policy will not be used to monitor organizational performance on that policy.

5. This policy applies only to committees which are formed by board action, whether or not the committees include non-board members. It does not apply to committees formed under the authority of the executive director.

6. The chairperson will appoint board committees authorized by the board. The operational life span of a board committee will be defined at the time of appointment.

Policy Implemented: June 23, 1995.
Amended: November 22, 1996, February 27, 2015

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 based on the SIB approved Securities Litigation Policy and approved SIB Securities Litigation Committee Charter.

POLICY OF THE STATE INVESTMENT BOARD – Securities Litigation Committee

The SLC is authorized to:

- 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 periodic update to the SIB on the SLC's activities and related recommendations.

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.

Policy Implemented: June 23, 1995.
Policy Amended: April 27, 2018.

POLICY TITLE: *ANNUAL BOARD PLANNING CYCLE*

To accomplish its job outputs with a governance style consistent with board policies, the board will strive to follow a biennial agenda which (a) completes a re-exploration of *Ends* policies annually and (b) continually improves its performance through attention to board education and to enriched input and deliberation.

1. A biennial calendar will be developed.

2. The cycle will conclude each year on the last day of June in order that administrative budgeting can be based on accomplishing a one-year segment of the most recent board long-range vision.

   A. In the first three months of the new cycle, the board will strive to develop its agenda for the ensuing one-year period.

   B. Scheduled monitoring will be used to evaluate and adjust the annual agenda as needed.

3. Education, input, and deliberation will receive paramount attention in structuring the series of meetings and other board activities during the year.

   A. To the extent feasible, the board will strive to identify those areas of education and input needed to increase the level of wisdom and forethought it can give to subsequent choices.

   B. A board education plan will be developed during July and August of each year.

4. The sequence derived from this process for the board planning year ending June 30 is as follows:

   A. July: Election of officers, appoints audit committee, plan annual agenda, begin to develop board education plan, and new board member orientation.

   B. August: Investment Director review of investment results, establish investment work plan, add investment education to education plan, and continue new board member orientation.

   C. September: Annual Review of Governance Manual.

   D. October: Annual meeting for evaluation of RIO vs. *Ends* policies and annual board evaluation.

   E. November: Investment Director report on investment work plan.

   F. January: During second year of the biennium, begin to develop *Ends* policies for the coming biennium for budget purposes.

   G. February: Investment Director report on investment work plan.
   Evaluation of Executive Director.

   H. March: During first year of biennium, set budget guidelines for budget development.

   I. May: Investment Director report on investment work plan.

Policy Implemented: June 23, 1995; November 19, 1999.
Amended: September 26, 2014, February 27, 2015.

POLICY TYPE: GOVERNANCE PROCESS

POLICY TITLE: *BOARD MEMBERS' CODE OF CONDUCT*

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

1. SIB members owe a duty to conduct themselves so as to inspire the confidence, respect, and trust of the SIB members and to strive to avoid not only professional impropriety but also the appearance of impropriety.

2. SIB members should perform the duties of their offices impartially and diligently. SIB members are expected to fulfill their responsibilities in accord with the intent of all applicable laws and regulations and to refrain from any form of dishonest or unethical conduct. Board members should be unswayed by partisan interest, public sentiment, or fear of criticism.

3. Conflicts of interest and the appearance of impropriety shall be avoided by SIB members. Board members must not allow their family, social, professional, or other relationships to influence their judgment in discharging their responsibilities. Board members must refrain from financial and business dealings that tend to reflect adversely on their duties. If a conflict of interest unavoidably arises, the board member shall immediately disclose the conflict to the SIB. A board member must abstain in those situations where the board member is faced with taking some official action regarding property or a contract in which the board member has a personal interest. Conflicts of interest to be avoided include, but are not limited to: receiving consideration for advice over which the board member has any direct or indirect control, acting as an agent or attorney for a person in a transaction involving the board, and participation in any transaction involving for which the board member has acquired information unavailable to the general public, through participation on the board.

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

4. The board should not unnecessarily retain consultants. The hiring of consultants shall be based on merit, avoiding nepotism and preference based upon considerations other than merit that may occur for any reason, including prior working relationships. The compensation of such consultants shall not exceed the fair value of services rendered.

5. Board members must abide by North Dakota Century code 21-10-09, which reads: "No member, officer, agent, or employee of the state investment board shall profit in any manner from transactions on behalf of the funds. Any person violating any of the provisions of this section shall be guilty of a Class A misdemeanor."

6. Board members shall perform their respective duties in a manner that satisfies their fiduciary responsibilities.

7. All activities and transactions performed on behalf of public pension funds must be for the exclusive purpose of providing benefits to plan participants and defraying reasonable expenses of administering the plan.

8. Prohibited transactions. Prohibited transactions are those involving self-dealing. Self-dealing refers to the fiduciary's use of plan assets or material, non-public information for personal gain; engaging in transactions on behalf of parties whose interests are adverse to the plan; or receiving personal consideration in connection with any planned transaction.

9. Violation of these rules may result in an official reprimand from the SIB. No reprimand may be issued until the board member or employee has had the opportunity to be heard by the board.

10. Board Members are required to affirm their understanding of this policy annually, in writing, and must disclose any conflicts of interest that may arise (See Exhibit B-I).

Policy Implemented: June 23, 1995.
Amended: January 22, 1999, February 25, 2011, January 27, 2012, February 27, 2015.

POLICY TYPE: GOVERNANCE PROCESS

POLICY TITLE: *ADMINISTRATION OF FIDUCIARY AUTHORITY*

The board is responsible for:

1. Proper exercise of fiduciary investment authority by RIO.

2. The determination of policies.

3. The investment and disposition of property held in a fiduciary capacity.

4. The direction and review of the actions of all officers, employees, and committees in the exercise of the board's delegated fiduciary authority.

Policy Implemented: June 23, 1995.

POLICY TYPE: GOVERNANCE PROCESS

POLICY TITLE: *POLICY INTRODUCTION/AMENDMENT/PASSAGE*

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

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

1. Introduction and first reading. A brief explanation or summary of the new policy or amendment shall be presented to the Board. Upon approval of introduction and first reading, the measure shall be placed on the agenda of the next scheduled meeting of the Board for second reading and adoption. When appropriate, the measure shall be distributed to interested parties.

2. *Second reading and adoption. Interested parties and the public shall be allowed an opportunity to comment on the policy or amendment before final action by the Board. The measure shall take effect immediately following second reading and adoption by the Board, unless a different effective date is stated.*

3. Amendments. Amendments may be proposed at any time before final adoption of the measure. Upon determination by the Board that adoption of an amendment constitutes a substantive change that significantly changes the meaning or effect of the measure, the Board shall continue consideration of second reading and adoption to the next meeting to permit further review and comment.

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

Policy Implemented: February 27, 2009
Policy Revised: November 18, 2016

<u>Memorandum</u>

To: **State Investment Board**

From: **RIO Compliance Officer**

Date: **July 1, 20--**

RE: **Annual Affirmation of Code of Conduct Policy**

Governance Process Policy B-8, *Board Members' Code of Conduct,* which is attached to this memorandum, details the Code of Ethical Responsibility for the SIB. Item #10 of this policy indicates that each Board Member is required to reaffirm their understanding of this policy annually and disclose any conflicts of interest. Therefore, please read and sign the statement below to comply with this requirement.

"I have read and understand SIB Governance Process Policy B-8 *Board Members' Code of Conduct*. I have disclosed any conflicts of interest as required by this policy."

Name (printed) ________________________________

Signature_____________________________________

Date____

Detail of any conflicts of interest (if any):

C. *BOARD-STAFF RELATIONSHIP*

POLICY TYPE: BOARD-STAFF RELATIONSHIP

POLICY TITLE: *CHIEF EXECUTIVE ROLE*

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

Policy Implemented: June 23, 1995.

POLICY TYPE: BOARD-STAFF RELATIONSHIP

POLICY TITLE: *DELEGATION TO THE EXECUTIVE DIRECTOR*

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

1. The board authority will direct the executive director to achieve specified results, for specified recipients, at a specified cost through the establishment of *Ends* policies. The board will limit the latitude the Executive Director may exercise in practices, methods, conduct, and other "means" to the *Ends* through establishment of *Executive Limitations* policies.

2. The Executive Director must use reasonable judgment in the implementation or administration of the board's *Ends* and *Executive Limitations* policies; the executive director is authorized to establish practices, and develop activities.

3. The board may change its *Ends* and *Executive Limitations* policies. By so doing, the board changes the latitude of choice given to the Executive Director. If any particular delegation is in place, the board and its members will respect and support the Executive Director's choices, provided that the Executive Director's choice is consistent with the board's fiduciary responsibility.

4. Only decisions of the board acting as the body are binding upon the Executive Director.
    a. Decisions or instructions of individual board members, officers, or committees are not binding on the Executive Director except in rare instances when the board has specifically authorized such exercise of authority.
    b. In the case of board members or committees requesting information, other than a public record, or assistance without board authorization, the Executive Director may refuse such requests that require a material amount of staff time or funds or is disruptive.

5. The Executive Director will be responsible for the hiring, termination, and annual evaluation of all employees of the Retirement and Investment Office.

Policy Implemented: June 23, 1995.
Amended: November 22, 1996; November 19, 1999.

POLICY TYPE: BOARD-STAFF RELATIONSHIP

POLICY TITLE: *EXECUTIVE DIRECTOR JOB DESRIPTION*

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

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

1. Organizational accomplishment of the provisions of board policies on *Ends*.

2. Organizational operation within the boundaries of prudence and ethics established in board policies on *Executive Limitations*.

3. Maintain accurate records of the proceedings of the SIB and TFFR Board.

Policy Implemented: June 23, 1995.

POLICY TYPE: BOARD-STAFF RELATIONSHIP

POLICY TITLE: *MONITORING EXECUTIVE PERFORMANCE*

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

1. The purpose of monitoring is simply to determine the degree to which board policies are being fulfilled. Information which does not do this will not be considered to be monitoring. Only a minimum amount of board time as necessary will be devoted toward monitoring so that meetings can best be used to create the future rather than to review the past.

2. A given policy may be monitored in one or more of three ways:

   A. Internal report: Disclosure of compliance information to the board from the executive director.

   B. External report: Discovery of compliance information by a disinterested, external auditor, inspector or judge who is selected by and reports directly to the board. Such reports must assess executive performance only against policies of the board, not those of the external party unless the board has previously indicated that party's opinion to be the standard.

   C. Direct board inspection: Discovery of compliance information by a board member, a committee, or the board as a whole. This is a board inspection of documents, activities, or circumstances directed by the board which allows a "prudent person" test of policy compliance.

3. The board will monitor each *Ends* and *Executive Limitations* policy according to the following frequency and method:

   Quarterly internal reports for policies:

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

   Annual external reports for policies:

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

Annual internal reports for policies:

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

4. The Executive Director will submit required monitoring reports at regular meetings of the board. The board will act on those reports by voting on one of the following motions:

   A. A motion to accept the report.

   B. A motion to conditionally accept the report, with a statement of the revisions or additional information that is necessary for the report to be accepted without condition.

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

5. Each March the board will conduct a formal evaluation of the executive director/investment officer. This evaluation will be based on accomplishments of *Ends* and *Compliance with Executive Limitations.*

6. At the February board meeting, the chairperson will appoint a three-member committee to review the board's evaluation and make a recommendation to the full board concerning salary for the executive director/investment officer.

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

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

Policy Implemented: June 23, 1995
Amended: November 21, 1997; June 25, 1999; November 19, 1999; January 28, 2000; February 25, 2000; February 23, 2001; September 26, 2014.

D. *ENDS*

POLICY TYPE: ENDS

POLICY TITLE: ***MISSION***

The Retirement and Investment Office exists in order that:

- SIB clients receive investment returns, consistent with their written investment policies and market variables, in a cost effective manner and under the Prudent Investor Rule.

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

- TFFR benefit recipients receive their retirement benefits in a cost effective and timely manner.

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

- SIB clients and TFFR benefit recipients receive satisfactory services from the boards and staff of the office.

Policy Implemented: October 27, 1995.
Amended: January 27, 2012.

POLICY TYPE: ENDS

POLICY TITLE: *ORGANIZATIONAL BENEFICIARIES*

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

Policy Implemented: October 27, 1995.

POLICY TYPE: ENDS

POLICY TITLE: ***INVESTMENT SERVICES***

The Retirement and Investment Office exists in order that:

1. SIB clients receive investment returns, consistent with their written investment policies and market variables, in a cost-effective manner and under the Prudent Investor Rule.

   A. This "End" will be evaluated based on the following:

      1. Comparison of client fund's rate of return NET of fees and expenses, to that of the client's policy benchmark over a minimum evaluation period of 5 years.

      2. Comparison of the client fund's risk, measured by standard deviation of NET returns, to that of the client's policy benchmark over a minimum evaluation period of 5 years.

      3. Comparison of the risk adjusted performance of the client fund, NET of fees and expenses, to that of the client's policy benchmark over a minimum evaluation period of 5 years.

Policy Implemented: October 27, 1995.
Amended: November 22, 1996, January 27, 2012.

POLICY TYPE: ENDS

POLICY TITLE: *INFORMATION ON AVAILABLE SERVICES*

The Retirement and Investment Office exists in order that:

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

Policy Implemented: October 27, 1995.

POLICY TYPE: ENDS

POLICY TITLE: *RETIREMENT SERVICES*

The Retirement and Investment Office exists in order that:

1. TFFR benefit recipients receive their retirement benefits in a cost-effective and timely manner.

    A. Retirement program performance quality will be measured against the *Ends* and retirement policies and administrative rules adopted by the Teachers' Fund for Retirement Board.

Policy Implemented: October 27, 1995.

POLICY TYPE: ENDS

POLICY TITLE: *INFORMATION ON RETIREMENT SERVICES*

The Retirement and Investment Office exists in order that:

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

Policy Implemented: October 27, 1995.

POLICY TYPE: ENDS

POLICY TITLE: *CUSTOMER SATISFACTION*

The Retirement and Investment Office exists in order that:

1. SIB clients and TFFR benefit recipients receive satisfactory services from the boards and staff of the office.

    A. The quality of services will be assured by direct board contact and by surveying clients and beneficiaries at least annually and promptly addressing identified client/beneficiary concerns.

Policy Implemented: December 1, 1995.

EXHIBIT D-I

ORGANIZATIONAL BENEFICIARIES

INVESTMENT CLIENTS:

Statutory:

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

Contractual:

1. City of Bismarck Deferred Sick Leave Fund
2. City of Bismarck Employees Retirement Fund
3. City of Bismarck Police Retirement Fund
4. City of Fargo Dome Permanent Fund
5. City of Grand Forks Park District Pension Fund
6. City of Grand Forks Pension Fund
7. ND Association of Counties Fund
8. ND Job Service Retirement Fund
9. Public Employees Retirement System Group Health Insurance Fund
10. Public Employees Retirement System Retiree Health Insurance Fund
11. Board of Medicine
12. ND Parks and Recreation

ADMINISTRATIVE CLIENTS:

Statutory:

1. Teachers' Fund for Retirement Beneficiaries

Amended: March 23,2018

GOVERNANCE POLICY MONITORING SUMMARY				
POLICY	METHOD	RESPONSIBILITY	FREQUENCY	BOARD ACTION
ENDS				
Investment Services	External	Investment Consultant	Annual - FYE	N/A
	Internal	Investment Officer	Quarterly	Accept or Follow-Up
Retirement Services	External	Actuary	Annual - FYE	N/A
	Internal	Retirement Officer	Quarterly	Accept or Follow-Up
EXECUTIVE DIRECTOR LIMITATIONS				
Executive Constraint	Internal	Executive Director	Annual - CYE	Accept or Follow-Up
	Internal	Audit Supervisor	Quarterly	Accept or Follow-Up
Staff Relations	Internal	Executive Director	Quarterly	Accept or Follow-Up
	Internal (External)	Audit Supervisor (SIB)	Annual - CYE	Accept or Follow-Up
Public Relations	Internal	Executive Director	Annual - CYE	Accept or Follow-Up
	Internal	Audit Supervisor	Annual - CYE	Accept or Follow-Up
Budgeting	Direct	Board Review	Biennial	Accept or Follow-Up
	External	Governor (State Auditor)	Annual - FYE	N/A
	Internal	Executive Director	Quarterly	Accept or Follow-Up
Financial Condition	External	External Auditor	Annual - FYE	Accept or Follow-Up
	Internal	Executive Director	Quarterly	Accept or Follow-Up
Board Communication	Direct Board Participation	State Investment Board	Annual - CYE	Accept or Follow-Up
Asset Protection	External	External Auditor	Annual - FYE	N/A
	Internal	Executive Director	Annual - CYE	Accept or Follow-Up
Compensation and Benefits	Internal	Executive Director	Annual - CYE	Accept or Follow-Up
	Internal	Audit Supervisor	Annual - CYE	Accept or Follow-Up
Conflict of Interest	Internal	Executive Director	Annual - CYE	Accept or Follow-Up
	Internal	Audit Supervisor	Annual - CYE	Accept or Follow-Up
Code of Conduct	Internal	Executive Director	Annual - CYE	Accept or Follow-Up
	Internal	Audit Supervisor	Annual - CYE	Accept or Follow-Up
Unrelated Business Interests	Internal	Executive Director	Annual - CYE	Accept or Follow-Up
	Internal	Audit Supervisor	Annual - CYE	Accept or Follow-Up

Audit Supervisor = Report to State Investment Board Audit Committee with a Summary Report to the SIB

FYE = Fiscal Year End CYE = Calendar Year End N/A = Not Applicable *Amended September 26, 2014*

E. *INVESTMENTS*

POLICY TYPE: INVESTMENTS

POLICY TITLE: ***FIDUCIARY DUTIES***

By virtue of the responsibilities assigned to the SIB by North Dakota Century Code Chapter 21-10, the members of the SIB are fiduciaries for twelve statutory funds. Through contractual obligations, fiduciary responsibility extends to eleven additional funds.

A fiduciary is a person who has discretionary authority or management responsibility for assets held in trust to which another has beneficial title or interest. The fiduciary is responsible for knowing the "prudent requirements" for the investment of trust assets. Remedial actions may be assessed against fiduciaries for violations of fiduciary duty.

North Dakota state law provides broad fiduciary guidelines for the SIB members. NDCC 21-10-07 specifies that "the state investment board shall apply the prudent investor rule in investing for funds under its supervision. The "prudent investor rule" means that in making investments, the fiduciaries shall exercise the judgment and care, under the circumstances then prevailing, that an institutional investor of ordinary prudence, discretion, and intelligence exercises in the management of large investments entrusted to it, not in regard to speculation but in regard to the permanent disposition of funds, considering probable safety of capital as well as probable income."

Procedural prudence is a term that has evolved to describe the appropriate activities of a person (or persons) who act in a fiduciary role. Court decisions to date indicate that procedural prudence is more important in assessing fiduciary activities than actual portfolio performance. A fiduciary cannot be faulted for making the "wrong" decision provided that proper due diligence was performed.

The key to successfully discharging the SIB's fiduciary duties is the establishment of and adherence to proper due diligence procedures. While not bound by ERISA (Employee Retirement and Income Security Act of 1974), the SIB will use the procedural prudence outlined by ERISA as guidance in developing its procedures:

1. An investment policy must be established for each fund and must be in writing.

2. Plan assets must be diversified, unless under the circumstances it would be prudent not to do so.

3. Investment decisions must be made with the skill and care of a prudent expert.

4. Investment performance must be monitored.

5. Investment expenses must be controlled.

6. Prohibited transactions must be avoided.

Policy Implemented: September 20, 1995.
Amended: May 30, 1997; January 22, 1999; February 27, 2009

POLICY TYPE: INVESTMENTS

POLICY TITLE: *INVESTMENT PROCESS*

The SIB believes that an investment program must be built and managed like any good business, with a clear statement of mission, overall objectives, roles and responsibilities, and policies and guidelines. Major issues to be faced by the SIB will revolve around:

Asset allocation targets:

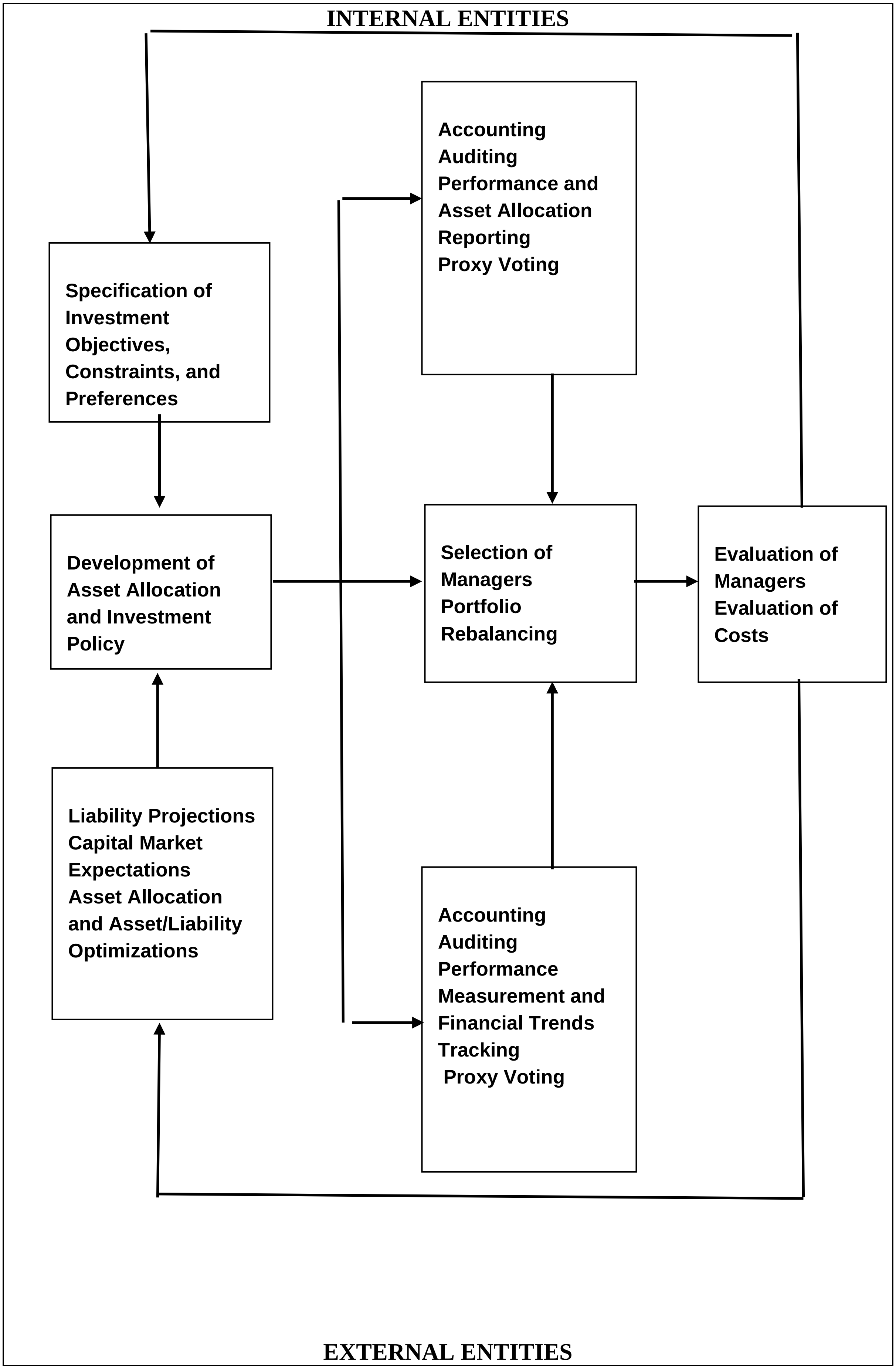
- Setting appropriate benchmarks.
- Finding the right managers.
- Monitoring the program.
- Searching for appropriate new opportunities.

To ensure rigorous attention to all aspects of the investment program, the SIB follows an established investment process. This process, described by the diagram on the following page, involves three phases:

- Investment policy development/modification.
- Implementation/monitoring.
- Evaluation.

The first column of boxes describes the policy development phase, the middle column implementation/monitoring, and the last box on right evaluation. Activities associated with internal entities are shown along the top. Those associated with external entities are shown along the bottom. The middle shows activities that internal and external entities work on together.

Policy Implemented: September 20, 1995.


INTERNAL ENTITIES
Accounting
Auditing
Performance and
Asset Allocation
Reporting
Proxy Voting
Specification of
Investment
Objectives,
Constraints, and
Preferences
Development of
Asset Allocation
and Investment
Policy
Selection of
Managers
Portfolio
Rebalancing
Evaluation of
Managers
Evaluation of
Costs
Liability Projections
Capital Market
Expectations
Asset Allocation
and Asset/Liability
Optimizations
Accounting
Auditing
Performance
Measurement and
Financial Trends
Tracking
Proxy Voting
EXTERNAL ENTITIES

The key responsibilities of the entities involved in the investment program are:

Fund Governing Bodies

1. Establish policy on investment goals and objectives.

2. Establish asset allocation.

3. Hire actuary when required.

SIB

1. Invest funds entrusted by statute and contracted entities.

2. Set policies on appropriate investments and investment practices for entrusted funds.

3. Approve asset allocation and investment policies of participating trust funds.

4. Report the investment performance of the funds to each fund's governing authority.

5. Hire and terminate money managers, custodians, and consultants.

Investment Officer and RIO Staff

1. Implement investment policies approved by the SIB.

2. Provide research and administrative support for SIB projects.

3. Recommend investment regulations appropriate for governing the investment of entrusted funds.

4. Assist fund governing bodies in developing asset allocation and investment policies.

5. Evaluate money manager adherence to investment objectives.

6. Provide performance reports to the SIB and boards of participating funds.

7. Recommend hiring or terminating money managers, custodians, consultants, and other outside services needed to effectively manage the investment funds.

8. Develop and maintain appropriate accounting policies and systems for the funds entrusted to the SIB.

Investment Consultant

1. Measure money manager performance and monitor adherence to investment goals, objectives, and policies.
2. Conduct annual evaluation of program policies and results, and assist in development of annual work plan.
3. Assist in implementation of annual work plan.
4. Conduct asset allocation or asset/liability studies.
5. Conduct requested money manager searches.
6. Assist in development of investment policies and manager structure and rebalancing guidelines.
7. Extension of staff for special projects.

Actuary

1. Assist fund governing bodies in developing benefit and funding policies.
2. Measure actuarial soundness of plan.
3. Perform experience studies as requested by plan sponsor.
4. Provide liability projections as needed.
5. Conduct annual evaluation of program policies and results, and assist in developmental of annual work plan.
6. Assist in implementation of annual work plan.

Auditor

1. Measure, validate, and offer an opinion on agency financial statements and management.
2. Assist in developing appropriate accounting policies and procedures.
3. Bring technical competence, sound business judgment, integrity, and objectivity to the financial reporting process.

Master Custodian

1. Provide safekeeping of all securities purchased by managers on behalf of the SIB.
2. Provide global custody services.
3. Collect interest, dividend, and principal payments in a timely manner.
4. Provide for timely settlement of securities.
5. Price all securities and post transactions daily.
6. Maintain short-term investment vehicles for investment of cash not invested by SIB managers. Sweep all manager accounts daily to ensure all available cash is invested.
7. Provide monthly, quarterly, and annual accounting reports for posting to RIO's general ledger.
8. May manage a securities lending program to enhance income.
9. Provide electronic access to accounting reports.
10. Provide other services that assist with the monitoring of managers and investments.

Portfolio Managers

1. Manage portfolios as assigned by the SIB.
2. Provide liquidity, as required, in a timely and cost-efficient manner.
3. Vote proxies.
4. Provide educational assistance to board.

Policy Implemented: September 20, 1995.
Amended: February 27, 2009

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

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

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

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

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

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

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

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

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

POLICY TITLE: *INVESTMENT POLICY DEVELOPMENT – TRUST FUNDS*

In accordance with NDCC 21-10-02.1, RIO staff works with each fund's governing authority, and consultants as needed, to develop an investment policy, which includes an appropriate asset allocation, for each of the statutory funds. Contracted entities are responsible for their own policy development.

Each policy, as a minimum, will include the following information:

1. Fund characteristics and constraints.

   a. An explanation as to the purpose of the portfolio and its legal structure.

   b. Size of portfolio and the likelihood and amount of future contributions and disbursements

   c. Participant demographics when applicable.

   d. Fiscal health of fund.

   e. Constraints.

   f. Unique circumstances.

2. Responsibilities of SIB.

3. Investment objectives.

4. Standards of investment performance.

5. Asset allocation policy and guidelines.

6. Evaluation and review.

Policy Implemented: September 20, 1995.
Amended: February 27, 2009

POLICY TYPE: INVESTMENTS

POLICY TITLE: *INVESTMENT POLICY DEVELOPMENT – INVESTMENT POOLS*

The SIB does no in-house investment of funds. All investment activity is delegated to outside money managers. Within each asset class there are numerous manager styles (i.e. market sector specializations) that may be employed by the SIB to affect exposure to the various asset classes.

SIB investment pool policy statements will define the following for each asset class:

1. Strategic objectives.
2. Performance objectives.
    a. Appropriate capital market benchmarks.
    b. Excess return targets, after payment of investment management fees.
    c. Peer-group ranking.
    d. Risk characteristics.
    e. Termination factors.
3. Portfolio constraints.
    a. Quality of securities/portfolio (security – BAA/portfolio – AA).
    b. Quality held (maximum in company/industry/economic sector).
    c. Other specific restrictions if applicable (ADRs, 144A securities, prohibited transactions, etc.).
4. Investment structure.
    a. Percent of assets per manager cycle.
    b. Ranges for rebalancing.
5. Control Procedures
    a. Duties and responsibilities of the SIB
    b. Duties and responsibilities of money managers.
    c. Reporting requirements.

Policy Implemented: September 20, 1995.
Amended: February 27, 2009

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

- Accounting
- Auditing
- Performance Measurement

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

Accounting

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

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

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

Compliance

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

Auditing

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

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

Performance Measurement and Reporting

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

POLICY TYPE: INVESTMENTS

POLICY TITLE: *MONITORING*

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

Policy Implemented: September 20, 1995.
Amended: February 27, 2009, February 25, 2011.

STATEMENT OF POLICY

It shall be the policy of the State Investment Board (SIB) to vote all proxies appurtenant to shares held in the various plans administered by the Board, and to vote said shares in a manner that best serves the system's interests. Specifically, all shares are to be voted with the interest of preserving or enhancing share value. The Board endorses the Department of Labor opinion that proxies have economic power which shareholders are obligated to exercise to improve corporate performance. The Board further recognized that proxy issues are frequently complex, requiring expert guidance; accordingly, it has adopted procedures that employ such experts.

The objectives of these policies are as follows:

1. Exercise the value empowered in proxies.

2. Maintain or improve share value for the exclusive benefit of the participants.

3. Achieve changes for the common good whenever these do not conflict with the exclusive benefit objective.

PROCEDURES

DISTINCTION OF RESPONSIBILITIES

Master Custodian

The system's master custodian shall be responsible for timely receipt and distribution of proxy ballots to the appropriate investment management institutions.

Managers

The managers shall be responsible for promptly voting all proxies pursuant to the Board's policies, and in keeping with the managers' best judgments.

Staff

Staff, in concert with the master custodian and the managers, shall be responsible for monitoring the receipt and voting of all proxies.

Board

The Board shall administer and enforce its policies. This administration and enforcement requires reporting from responsible persons, as discussed in the following.

REPORTING

Master Custodian

The master custodian shall report quarterly in writing on all pertinent proxy issues, including (1) receipt of proxy material; (2) nature of issues; (3) due date; (4) names of managers and dates forwarded; and (5) deficiency reports covering proxies that should have been received but were not.

Managers

Managers shall report quarterly in writing on how proxies have been voted, with explanations given whenever the Board's guidelines have not been followed.

Staff

Internal audit staff shall report annually on the efficiency of the process, the portion of total proxies that have actually been voted, and compliance with Board directives.

GUIDELINES

The Board believes that good corporate investment decisions require good corporate governance, and that social responsibilities cannot be ignored in these decision processes. Accordingly, the practice of faithfully voting with management will *not* be tolerated, nor will the "Wall Street Rule" which advocates the sale of shares if there is disagreement with management.

In keeping with the Board's philosophy, the managers are encouraged to vote *for* proposals that *increase* or enhance the following, and against those that decrease or diminish the same:

- Health of the population
- Environmental conditions
- Management and Board accountability
- Abolition of management entrenchment
- Control of executive compensation
- Shareholder rights and ownership
- Fair labor practices

Guidelines may be altered periodically by the Board as situations warrant.

Policy Implemented: September 20, 1995.
Amended: February 27, 2009

The SIB hires investment managers with the intention of maintaining long-standing relationships. Care is taken to select managers for defined roles based on their strengths in designated areas. The hiring process is done in accordance with all applicable state and federal laws.

Some manager selections are conducted by the consultant while others may be directed by the staff in coordination with the SIB. Ultimately, the selection process is often a team effort involving the investment consultants, SIB members, and RIO staff. A consultant may be invaluable in this activity due to the large volume of data that needs to be collected, verified, and summarized. Also, their ongoing dialogue with money management firms provides useful qualitative input.

The investment management business has rapidly evolved since the 1990's. It is recognized that many viable firms have been formed as the result of spin-offs or start-ups and may not have a traditional long-term investment performance history in accordance with the following guidelines. There has also been a tremendous increase in the types of strategies available to institutional investors resulting in the need for flexibility in the establishment of investment criteria. Subject to the case-by-case acceptance of deviation by the SIB members, money managers must meet the following minimum selection criteria for inclusion in a manager search:

- Must be a registered investment adviser, bank, insurance company, or investment company (mutual fund). Should provide ADV Part II (registered investment adviser) prospectus (investment company) or comparable information (bank or insurance company).
- Provide at least five years of actual quarterly performance data that is time weighted a representative composite of accounts, and meets Global Investment Performance Standards (GIPS).
- Provide information that illustrates the key investment personnel have been together for at least five years and the capabilities of the firm can handle the current level of investment activity.
- Able to articulate the firm's investment strategies and philosophy in a manner understandable by the Board, and provide a statement that the strategy has been followed for at least five years.
- Disclose any pending or past litigation or censure.
- Be willing to acknowledge their fiduciary status in writing (mutual funds are exempted from this requirement).

The following steps will be followed in the selection process, subject to modification relative to investment strategy and manager search circumstances:

- Develop a profile of the type of manager needed. This is based on the investment goals and asset allocations. Included in the profile are such things as:

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

Qualitative characteristics, such as key personnel, investment philosophy, investment strategy, research orientation, decision making process, and risk controls.

Organizational factors, such as type and size of firm, ownership structure, client servicing capabilities, ability to obtain and retain clients, and fees.

- The Investment Officer will give a written report to the SIB on the due diligence process conducted by the Investment Officer, RIO staff, and the SIB in the manager selection process. This report will include selection steps followed and process steps excluded.

- Consultant and/or staff use the profile to screen their data base for managers that meet SIB criteria.

- Consultant and/or staff reduce the group to the top candidates and prepare a summary report. The report will contain pertinent data on each of the candidates.

- When appropriate, on-site visits may be made by staff and board members to the candidates' home offices. Visits by board members to potential manager sites must have board approval.

- When appropriate the Investment Officer will conduct fact-finding pre-interviews. SIB trustees and RIO staff will receive notice of these pre-interviews.

  Interviews are conducted with each of the finalists in Bismarck. All are required to bring the potential portfolio manager to the interview. Particular attention is paid to gaining an understanding of the investment process and determining the manager's compatibility with the SIB's guidelines and objectives.

  The Investment Officer will schedule manager interviews with the SIB. Following these interviews, the Investment Officer, with the advice of RIO staff and consultants, will make recommendations to the SIB on manager selection.

- The SIB will select the investment manager by majority vote.

- Manager(s) selected by the SIB are notified immediately by RIO staff. Unsuccessful candidates are notified by consultant.

- Investment management contracts are reviewed and finalized, sent to the Attorney General for approval, and executed.

- Accounts are set up at the master custodian and on the internal general ledger.

- Consultant is notified when to begin the measurement of the investment performance of the manager(s).

Policy Implemented: September 20, 1995
Amended: February 27, 2009

Portfolio Rebalancing

The need to rebalance the portfolio can arise due to a new asset allocation or because market activity has driven the actual distribution of assets away from the desired mix. To minimize transaction costs due to rebalancing, RIO works with the investment consultants to determine appropriate ranges around the target mix (which are specified in the policy statement). Rigidly adhered to, such a policy is a valuable risk control tool. By maintaining asset mix within reasonably tight ranges, the SIB avoids making unintentional "bets" in the asset mix and avoids market-timing decisions.

All of the funds the SIB oversees have an asset allocation with minimum and maximum limits assigned. RIO's rebalancing policy requires the asset mix to be determined at the end of each month. At the end of each quarter, all portfolios deviating from the target beyond the acceptable limits are rebalanced to target.

Policy Implemented: September 20, 1995.

The SIB will follow an annual evaluation cycle for the investment program to ensure systematic review of investment policies and performance results and the development and implementation of corrective action plans. Evaluation of the program seeks to answer such questions as:

- Are all investment goals being met?
- What has worked and what has not?
- Have changes occurred in the capital markets, plan design, or board philosophy to warrant changes in investment policy?
- Are money managers meeting our expectations?
- Is continued confidence in the money managers warranted?
- Are accounting practices sound and fair to participating funds?
- Is service delivered in the most cost-effective manner?

The SIB's consultants play a key role in helping to answer some of these questions. The external auditor's report provides insight on accounting practices and cost effectiveness.

<u>Evaluation of Money Managers</u>

Achievement of the SIB's performance goals hinges on the success of the investment strategies and money managers it employs. Evaluation of each money manager must consider the following:

- Has the manager achieved the SIB's performance objectives?
- Has the firm adhered to the investment philosophy for which it was hired?
- Have there been any organizational or personnel changes that may negatively affect future performance?
- Are areas of concern being adequately addressed?
- Can the manager perform well in the future, regardless of whether extraordinary events, long-term performance, and/or short-term performance argue for termination?

These criteria are assessed by quantitative and qualitative means:

- Analyses provided by the investment consultant.
- Annual meetings with each manager in Bismarck to discuss performance, investment philosophy, organizational changes, economic outlook, and areas of concern.

Longer periods of time are better than shorter time periods when assessing a manager's performance. Ideally, performance should be assessed over a market cycle. Market cycles have varying lengths but have historically averaged 5-7 years. The SIB will use a minimum five-year period to evaluate manager performance against long-term performance standards. Long-term performance standards will be a market index that the manager has previously agreed to be measured against.

Shorter-term performance standards will also be established for each money manager. These standards will incorporate a minimum three-year measurement period and measure the manager against a previously agreed-upon peer group or style market index.

Long-term performance standards, short-term performance standards, extraordinary events, and termination factors will be incorporated in the written asset class investment policies.

Evaluation of Program Costs

Costs will be broken out by internal administration, investment consultants, master custodian, and external manager fees. Reports will detail this information by investment pool, managers, and by fund.

These costs will be compared to other funds on an annual basis. The most reliable source of comparison currently available is the cost survey prepared by the Canadian consulting firm Cost Effectiveness Measurement, Inc. The information contained in this survey is not available anywhere else. Staff is encouraged to identify other cost-comparison sources.

Policy Implemented: September 20, 1995.

POLICY TYPE: INVESTMENTS

POLICY TITLE: ***PERFORMANCE RELATED INVESTMENT MANAGER REVIEW***

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

Factors which may result in a Manager Review:

Significant changes in organizational structure

Significant changes in investment philosophy

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

Substandard investment performance

Diminished confidence in manager

Manager Review Procedures:

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

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

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

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

After considering findings of the Manager Review, SIB may:

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

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

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

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

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

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

Policy Implemented: June 27, 1997.

POLICY TYPE: INVESTMENTS

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

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

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

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

Policy Implemented: April 24, 1998.
Amended: February 27, 2009

POLICY TYPE: INVESTMENTS

POLICY TITLE: *ACCEPTING NEW CLIENTS*

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

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

1. Staff will conduct initial discussions with the potential client regarding type of fund, risk tolerance, size of fund, services to be provided, costs, etc.

2. Staff will recommend that an Asset/Liability study be conducted by the potential client if one has not been done recently. This discussion will include a description of the asset classes available for investment with the SIB to be included in their study.

3. If the potential client is still interested in participating in the SIB program, staff will bring the preliminary request to the SIB for acceptance. It shall be the policy of the SIB to take the following into consideration when determining if a new investor request will be accepted.

   a. Internal staff administrative capacity.
   b. Compatibility of new investor's goals and risk tolerances with the existing SIB program structure.
   c. Whatever other factors the SIB determines to be appropriate to the decision.

4. If the SIB chooses to accept the preliminary request, staff will provide the necessary template documents to the potential client for review and completion. These documents include a contract for services and investment guidelines.

5. Once documentation is completed, staff will request to have the issue included on the Industrial Commission's agenda for their approval. Copies of all documentation will be provided for their review.

6. If approved by the Industrial Commission, final documentation will be presented to the SIB for final acceptance.

7. If accepted, staff will work with the new client to set up transfer of funds and implementation of asset allocation as directed. All new clients will be brought in as of the last day of a calendar quarter.

8. Fees will be charged with the intention of covering all associated costs as described in RIO Fiscal Management procedure "Investment Fee Allocations".

Policy Implemented: November 20, 2009

POLICY TYPE: INVESTMENTS

POLICY TITLE: *SECURITIES MONITORING AND LITIGATION*

General Purpose

1. The North Dakota State Investment Board ("SIB") is a fiduciary for assets held in trust for the benefit of SIB clients, including their beneficiaries.

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 which results in the impairment of the value of the funds' security holdings.

5. Most such actions will be prosecuted through class action 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 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. SIB may engage one or more legal firms that specialize in 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 agreement with any law firm for non-litigation services 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 SIB or Committee, the Executive Director, with significant assistance 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 litigant in U.S. or Canadian cases. Generally, in cases where the potential loss does not exceed the $5 million, the SIB will generally avoid active participation.

   c. The *prima facia* 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.

<u>Roles in Managing & Monitoring Litigation</u>

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 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 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 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 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

Jurisdictional Description	Threshold
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)	$20,000
Low risk jurisdictions (no discovery, low cost) including, but potentially not limited to: Japan	$1 million
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	$5 million
High risk jurisdictions (potential in-person discovery, no anonymity, uncapped fees) including, but potentially not limited to: Taiwan, United Kingdom, Singapore, Brazil	$10 million

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

Policy Amended: April 27, 2018

EXHIBIT E-I

State Investment Board (SIB) Members 2018-2019:

Position	Incumbent	Designation	Term Expiration
Lt. Governor	Brent Sanford	Statutory	12/31/20
State Treasurer	Kelly Schmidt	Statutory	12/31/20
State Insurance Commissioner	Jon Godfread	Statutory	12/31/20
Commissioner University & School Lands	Jodi Smith	Statutory	open
Executive Director Workforce Safety & Insurance	Bryan Klipfel	Statutory	open
Trustee, TFFR	Toni Gumeringer	Appointed by TFFR Board	6/30/19
Trustee, TFFR	Rob Lech	Appointed by TFFR Board	6/30/20
Trustee, TFFR	Mel Olson	Appointed by TFFR Board	6/30/23
Trustee, PERS	Adam Miller	Appointed by PERS Board	6/30/22
Trustee, PERS	Troy Seibel	Appointed by PERS Board	6/30/21
Trustee, PERS	Yvonne Smith	Appointed by PERS Board	6/30/19

Retirement and Investment Office (RIO) Staff:

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

External

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

F. TFFR ENDS

Reference: Teachers' Fund for Retirement "Ends"

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

G. TRUST FUND INVESTMENT GUIDELINES

Bismarck Deferred Sick Leave

Bismarck Employees

Bismarck Police

Board of Medicine

Bonding

Budget Stabilization

Cultural Endowment Fund

Fargo - FargoDome Permanent Fund

Fire and Tornado

Grand Forks City

Grand Forks Park

Health Care Trust

Insurance Regulatory

Job Service

Legacy Fund

ND Association of Counties

ND Parks and Recreation

PERS

PERS Group Insurance

PERS Prefunded Health

Petroleum Tank

Risk Management

Risk Management Workers Comp

Teachers' Fund for Retirement

Workers Compensation

H. BY-LAWS

PAGE

CHAPTER 1 - AUTHORITY

Section 1-1. The State Investment Board (SIB) has the authority to maintain an administrative office under Chapter 54-52.5, North Dakota Century Code.

Section 1-2. The SIB has the authority and responsibility for providing administrative services to the North Dakota Teachers' Fund for Retirement (TFFR) and the North Dakota State Investment Board. This includes organizing, staffing, and maintaining an administrative office.

Section 1-3. The SIB has the authority and responsibility for developing and monitoring the agency budget.

Section 1-4. The SIB has the authority and responsibility to maintain office records, an accounting system, and data processing support services.

Section 1-5. The SIB has the authority to pay all claims and investment expenses filed with TFFR and the SIB.

Policy Implemented: June 23, 1995.

CHAPTER 2 - BOARD

Section 2-1. Members of the State Investment Board (SIB) are the Governor, State Treasurer, Commissioner of University and School Lands, director of Workforce Safety & Insurance, Commissioner of Insurance, three members of the Teachers' Fund for Retirement (TFFR) Board, two of the elected members and one member of the Public Employees Retirement System (PERS) Board as selected by those boards. The PERS and TFFR Boards may appoint an alternate designee with full voting privileges to attend meetings of the SIB when a selected member is unable to attend. The director of Workforce Safety and Insurance may appoint a designee, subject to approval by the Workforce Safety and Insurance board of directors, to attend the meetings, participate, and vote when the director is unable to attend.

Section 2-2. The SIB will have general charge and management of the business of TFFR and the SIB, subject to law, administrative rules and regulations, and governance policies. The SIB will make such policy as necessary to fulfill this obligation.

Section 2-3. When the statutes allow a Deputy to represent a member of the SIB or an alternate to represent the TFFR or PERS Board, the Chair will recognize the individual for the record, and the individual(s) will then have the right to vote on matters before the SIB.

Section 2-4. The SIB will be responsible for the operation of an administrative office that will provide support services to TFFR and the SIB.

Policy Implemented: June 23, 1995.
Amended: July 22, 2011.

CHAPTER 3 - OFFICERS AND DUTIES

Section 3-1. The officers of the SIB are a Chair and Vice Chair, one of which must be an appointed or elected member of the TFFR or PERS Board. The officers will be elected by the SIB to a one-year term at the first regularly scheduled meeting following July 1 of each year. Vacancies will be filled by the SIB at the first scheduled meeting following the vacancy.

Section 3-2. Chair. The Chair will preside at all meetings of the SIB.

Section 3-3. Vice Chair. In the absence of the Chair, the Vice Chair will perform the duties of the Chair.

Section 3-4. Executive Director. An Executive Director will be retained by the SIB. The Executive Director will serve at the SIB's pleasure, be responsible for keeping the records of the SIB and TFFR Board actions, and perform such duties as the SIB prescribes. The Executive Director will make out and give out all notices required to be given by law, procedures, or rules and regulations of the two boards.

Policy Implemented: June 23, 1995.

CHAPTER 4 - MEETINGS

Section 4-1. Regular meetings of the SIB to conduct business are to be held as often as necessary. The SIB will meet at least once each quarter. Notice of all meetings will be made in accordance with North Dakota Century Code, Section 44-04-20.

Section 4-2. Meetings of the SIB may be called by the Chair or two members of the SIB upon reasonable notice in writing to the other members of the Board. (NDCC 21-10-04)

Section 4-3. A quorum will be six (6) members of the SIB.

Section 4-4. Voting on matters before the SIB will be contained in the minutes which will show the recorded vote of each SIB member.

Section 4-5. All meetings of the SIB are open to the public.

Section 4-6. A record of procedures will be kept by the Executive Director on all meetings of the SIB. The records of these proceedings are public documents, and copies will be distributed to the TFFR, SIB, and PERS Boards and upon request.

Section 4-7. Public participation during meetings of the SIB may be allowed at the discretion of the Chair.

Section 4-8. SIB members, except elected and appointed officials, will be paid the amount specified in NDCC 21-10-01 per SIB meeting attended.

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

Policy Implemented: June 23, 1995.
Amended: July 22, 2011.

CHAPTER 5 - COMMITTEES

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

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

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

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

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

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

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

Policy Implemented: June 23, 1995.

CHAPTER 6 - RULES OF ORDER

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

Policy Implemented: June 23, 1995.

CHAPTER 7 - ADMINISTRATIVE OFFICE

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

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

Policy Implemented: June 23, 1995.

CHAPTER 8 - AMENDMENTS

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

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

Policy Implemented: June 23, 1995.

I. CENTURY CODE

ANNUAL INVESTMENT COMPLIANCE REPORT FOR YEAR ENDED 6/30/18

ADAMS STREET PARTNERS
Checklist Sent: 07/16/2018
Primary Contact: mgonzalo@adamsstreetpartners.com
Secondary Contact: mlefko@adamsstreetpartners.com

	Dated	Received	Notes
Annual Certification	6/30/18	8/28/18	
Audit	9/30/17	8/28/18	Private Markets Fund Administration Services
Internal Controls	-	-	NA - No Custody
ADV	3/29/18	4/6/18	
DDQ	6/30/18	8/28/18	

Additional Comments: Separate audited financials for the following accounts: Direct Co-Investment, 1998 US, 1999 US, 1999 Non-US, 2000 US, 2000 Non-US, 2001 US, 2001 Non-US, 2002 US, 2002 Non-US(P), 2002 Non-US(S), 2003 US, 2003 Non-US, 2004 Non-US, 2015 Global, 2016 Global, BVCF IV, 2010 Direct, 2010 Developed, 2010 Emerging, 2010 US Partnership

ARES MANAGEMENT
Checklist Sent: 07/16/2018
Primary Contact: Kara Herskowitz - kherskowitz@aresmgmt.com
Secondary Contact: Evan Heroux - eheroux@aresmgmt.com

	Dated	Received	Notes
Annual Certification	6/30/18	9/13/18	
Audit	12/31/17	3/23/18	Clean Opinion
Internal Controls	9/30/17	9/3/18	Bridge Letter June 2018
ADV	3/31/18	9/4/18	
DDQ	6/30/18	8/31/18	

Additional Comments:

ATLANTA CAPITAL
Checklist Sent: 07/16/2018
Primary Contact: emma.hutchinson@atlcap.com
Secondary Contact:

	Dated	Received	Notes
Annual Certification	6/30/18	8/9/18	
Audit	10/31/17	8/11/18	Qualified: See comment below
Internal Controls	1/25/18	8/10/18	
ADV	1/30/18	8/10/18	
DDQ	6/30/17	8/9/18	

Additional Comments: The Company has not recorded compensation expense in the accompanying financial statements related to certain stock- based compensation awards granted to employees of the Company by Eaton Vance Corp., nor has it provided required disclosures for such stock-based awards in the notes to the financial statements. In our opinion, accounting principles generally accepted in the United States of America require the Company to record such stock-based compensation expense in the accompanying financial statements. Had the Company recorded such stock-based compensation expense, net income would decrease by $5,384,821 and $4,804,657 for the years ended October 31, 2017 and 2016, respectively.

**Staff has reviewed the disclosure and is comfortable that no additional information is needed.*

Axiom International
Checklist Sent: 07/16/2018
Primary Contact: lchamberlain@axinvest.com
Secondary Contact: clientrelations@axiom-investors.com

	Dated	Received	Notes
Annual Certification	6/30/18	8/24/18	
Audit	12/31/17	4/6/18	Clean opinion
Internal Controls	9/30/17	8/24/18	
ADV	3/28/18	8/24/18	
DDQ	6/30/18	8/23/18	

Additional Comments:

BLACKROCK PEP
Checklist Sent: 07/16/2018
Primary Contact: leo.chenette@blackrock.com
Secondary Contact: brian.velez@blackrock.com

	Dated	Received	Notes
Annual Certification	6/30/18	9/19/18	
Audit	12/31/17	6/1/18	Clean opinion
Internal Controls	-	-	NA
ADV	3/29/18	9/18/18	
DDQ	6/30/18	9/14/18	

Additional Comments:

CAPITAL INTERNATIONAL
Checklist Sent: 07/16/2018
Primary Contact: jim_mcguigan@capgroup.com
Secondary Contact: brandon_florance@capgroup.com

	Dated	Received	Notes
Annual Certification	6/30/18	7/24/18	
Audit	12/31/17	7/24/18	Clean opinion - V & VI
Internal Controls	-	-	NA - See comment below
ADV	9/28/16	4/3/17	
DDQ	-	-	NA

Additional Comments: CIPEF V and VI are subject to an annual audit by Deloitte, which is currently the only third-party review and validation of our internal controls relating to financial reporting. We note that Deloitte's audit of the funds' financial statements is based on a 'substantive' audit approach, which involves auditing 100% of the balance sheet items and a sampling of certain Statement of Operations items (Profit & Loss statement). We do not currently engage with a third party to issue an SSAE 16/ISAE 3402 report on internal controls for Capital Group Private Markets. These audits are typically performed to evaluate the effectiveness of internal controls of an organization focused on accounting transactions and financial reporting controls and we maintain a robust oversight role.

CERBERUS CAPITAL MANAGEMENT	Primary Contact:	asolomon@cerberuscapital.com	
Checklist Sent: 07/16/2018	Secondary Contact:	dleotta@cerberuscapital.com	
	Dated	Received	Notes
Annual Certification	6/30/18	8/31/18	
Audit	12/31/17	8/31/18	Clean opinion
Internal Controls	9/30/17	8/31/18	
ADV	3/30/18	4/16/18	
DDQ	6/30/18	8/31/18	
Additional Comments:			

CLIFTON GROUP	Primary Contact:	blazarus@paraport.com	
Checklist Sent: 07/16/2018	Secondary Contact:	kshelquist@paraport.com	
	Dated	Received	Notes
Annual Certification	6/30/18	7/12/18	
Audit	-	-	10-K, privately held (Eaton Vance)
Internal Controls	4/23/18	8/24/18	
ADV	1/26/18	5/15/18	
DDQ	6/30/18	8/24/18	
Additional Comments:			

CORSAIR CAPITAL	Primary Contact:	corsiarcompliance@corsairinvestments.com	
Checklist Sent: 07/16/2018	Secondary Contact:	gordon@corsair-capital.com	
	Dated	Received	Notes
Annual Certification	6/30/18	9/12/18	
Audit	12/31/17	4/2/18	Clean opinion - III & IV
Internal Controls	-	-	NA
ADV	3/29/18	9/12/18	
DDQ	-	-	NA
Additional Comments:			

DECLARATION MANAGEMENT	Primary Contact:	amymcpike@manulife.com	
Checklist Sent: 07/16/2018	Secondary Contact:		
	Dated	Received	Notes
Annual Certification	6/30/18	8/30/18	
Audit	12/31/17	4/30/18	Clean opinion
Internal Controls	9/30/17	8/30/18	
ADV	3/31/18	8/30/18	
DDQ	6/30/18	8/30/18	
Additional Comments:			

DIMENSIONAL FUND ADVISORS	Primary Contact:	joe.young@dimensional .com	
Checklist Sent: 07/16/2018	Secondary Contact:	kyle.lundy@dimensional.com	
	Dated	Received	Notes
Annual Certification	6/30/18	8/31/18	
Audit	10/31/17	8/31/18	Clean opinion
Internal Controls	9/30/17	8/31/18	
ADV	8/20/18	8/31/18	
DDQ	6/30/18	8/31/18	
Additional Comments:			

EIG	Primary Contact:	renee.davidovits@eigpartners.com	
Checklist Sent: 07/16/2018	Secondary Contact:	britany.crosby@eigpartners.com	
	Dated	Received	Notes
Annual Certification	6/30/18	8/31/18	
Audit	12/31/17	3/22/18	Clean opinion
Internal Controls	8/30/17	9/4/18	
ADV	3/29/18	4/2/18	
DDQ	6/30/18	8/31/18	
Additional Comments:			

EPOCH	Primary Contact:	lbabij@eipny.com	
Checklist Sent: 07/19/2017	Secondary Contact:		
	Dated	Received	Notes
Annual Certification	6/30/18	8/21/18	
Audit	10/31/17	8/21/18	Clean opinion
Internal Controls	9/30/17	2/22/18	
ADV	1/28/18	8/21/17	
DDQ	6/30/18	8/20/18	
Additional Comments:			

GOLDMAN SACHS	**Primary Contact:**		joe.hernandez@gs.com
Checklist Sent: 07/16/2018	**Secondary Contact:**		patrick.byrne@gs.com
	Dated	Received	Notes
Annual Certification	6/30/18	9/11/18	
Audit	12/31/17	2/27/18	Clean opinion - GS 2006 & GS V
Internal Controls	-	-	NA - annual audit only
ADV	3/29/18	9/11/18	See comments below
DDQ	-	-	

Additional Comments: C2 OPTIONS EXCHANGE, INCORPORATED ("C2") BUSINESS CONDUCT COMMITTEE (THE "COMMITTEE") ALLEGED THAT GOLDMAN SACHS EXECUTION & CLEARING, L.P. ("GSEC"), A FORMER AFFILIATE OF GOLDMAN SACHS & CO. LLC (THE "FIRM"), FAILED: (I) FROM ON OR ABOUT MAY 21, 2014 THROUGH ON OR ABOUT JULY 14, 2016, TO QUALIFY AND REGISTER ONE ASSOCIATED PERSON (THE "ASSOCIATED PERSON") IN THE PROPRIATE CATEGORY OF REGISTRATION WITH C2, AND TO REGISTER THE ASSOCIATED PERSON IN THE PREREQUISITE REGISTRATION CATEGORY WITH C2; AND (II) FROM ON OR ABOUT MAY 21, 2014 THROUGH ON OR ABOUT MARCH 25, 2015, TO REGISTER THE MINIMUM NUMBER OF INDIVIDUALS REQUIRED TO BE REGISTERED AS A PROPRIETARY TRADER PRINCIPAL (TP) WITH C2.

WITHOUT ADMITTING OR DENYING THE RULE VIOLATIONS, ALLEGATIONS OR FINDINGS, THE FIRM CONSENTED TO A FINE IN THE AMOUNT OF $10,000, WHICH WAS PAID BY THE SUBMISSION OF A WIRE ON SEPTEMBER 20, 2017.

Additional Comments: FINANCIAL INDUSTRY REGULATORY AUTHORITY, INC. ("FINRA") DEPARTMENT OF ENFORCEMENT ALLEGED THAT GOLDMAN SACHS & CO. LLC (THE "FIRM"): (A) DURING THE PERIOD FROM DECEMBER 11, 2014 THROUGH DECEMBER 16, 2014, FAILED TO REPORT TO THE OVER-THE-COUNTER ("OTC") REPORTING FACILITY ("OTCRF") THE CORRECT TIME OF EXECUTION FOR CERTAIN TRANSACTIONS IN REPORTABLE SECURITIES IN VIOLATION OF FINRA RULE 7330(D)(4); AND (B) DURING THE PERIODS FROM SEPTEMBER 1, 2014 TO DECEMBER 31, 2014, AND FROM JANUARY 1, 2015 TO APRIL 30, 2015, (I) FAILED TO TRANSMIT TO THE OTCRF CERTAIN LAST SALE REPORTS OF TRANSACTIONS IN OTC EQUITY SECURITIES WITHIN 10 SECONDS AFTER EXECUTION.

WITHOUT ADMITTING OR DENYING THE ALLEGATIONS OR FINDINGS, THE FIRM CONSENTED TO A CENSURE AND FINE AND ENTERED INTO A LETTER OF ACCEPTANCE, WAIVER AND CONSENT (AWC) WHICH WAS ACCEPTED BY FINRA ON NOVEMBER 1, 2017, AND ON NOVEMBER 10, 2017, THE FIRM SUBMITTED A WIRE IN PAYMENT OF A FINE IN THE AMOUNT OF $39,500.

Additional Comments: FINANCIAL INDUSTRY REGULATORY AUTHORITY, INC. ("FINRA") DEPARTMENT OF ENFORCEMENT ALLEGED THAT GOLDMAN SACHS EXECUTION AND CLEARING, L.P. ("GSEC"), A FORMER AFFILIATE OF GOLDMAN SACHS & CO. LLC (THE "FIRM"), DUE TO CERTAIN FLAWS IN ITS PROSPECTUS-DELIVERY SYSTEM, FAILED TO DELIVER CERTAIN ETF PROSPECTUSES THAT IT INTENDED TO DELIVER IN THE PERIOD BETWEEN JUNE 2008 AND OCTOBER 2014. AS A CONSEQUENCE OF GSEC'S ALLEGED FAILURE TO ESTABLISH, MAINTAIN AND ENFORCE A SUPERVISORY SYSTEM AND WRITTEN SUPERVISORY PROCEDURES IN CONNECTION WITH ETF PROSPECTUS DELIVERY THAT WERE REASONABLY DESIGNED TO ACHIEVE COMPLIANCE WITH SECTION 5(B) (2) OF THE SECURITIES ACT OF 1933.

WITHOUT ADMITTING OR DENYING THE RULE VIOLATIONS, ALLEGATIONS OR FINDINGS, THE FIRM CONSENTED TO A CENSURE, A FINE AND AN UNDERTAKING, AND ENTERED INTO A LETTER OF ACCEPTANCE, WAIVER AND CONSENT (AWC) WHICH WAS ACCEPTED BY FINRA ON DECEMBER 1, 2017, AND ON DECEMBER 14, 2017, THE FIRM SUBMITTED A WIRE IN PAYMENT OF A FINE IN THE AMOUNT OF $700,000.

Additional Comments: THE GOLDMAN SACHS GROUP, INC. ("GS GROUP") AND GOLDMAN SACHS BANK USA ("GS BANK") ENTERED INTO AN ORDER OF ASSESSMENT OF A CIVIL MONEY PENALTY ISSUED UPON CONSENT PURSUANT TO THE FEDERAL DEPOSIT INSURANCE ACT, AS AMENDED, WITH THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM (THE "FEDERAL RESERVE") ON JANUARY 12, 2018 (THE "CONSENT ASSESSMENT"). THE CONSENT ASSESSMENT RELATED TO ALLEGATIONS BY THE FEDERAL RESERVE THAT, PRIOR TO SEPTEMBER 1, 2011, GS GROUP AND GS BANK HAD ENGAGED IN DEFICIENT PRACTICES IN RESIDENTIAL MORTGAGE LOAN SERVICING AND FORECLOSURE PROCESSING INVOLVING LITTON LOAN SERVICING LP ("LITTON").

WITHOUT ADMITTING OR DENYING THE ALLEGATIONS IN THE AMENDED CONSENT, GS GROUP, GS BANK AND THE FEDERAL RESERVE ENTERED INTO THE CONSENT ASSESSMENT, WHICH RELEASES AND DISCHARGES GS GROUP, GS BANK, AND THEIR AFFILIATES, SUCCESSORS, AND ASSIGNS FROM ALL POTENTIAL LIABILITY THAT HAS BEEN OR MIGHT HAVE BEEN ASSERTED BY THE FEDERAL RESERVE BASED ON THE CONDUCT THAT IS THE SUBJECT OF CONSENT ASSESSMENT OR THE AMENDED CONSENT, AND ASSESSES GS GROUP AND GS BANK A CIVIL MONEY PENALTY IN THE AMOUNT OF $14,000,000, WHICH WAS PAID TO THE FEDERAL RESERVE BY SUBMISSION OF A WIRE ON JANUARY 12, 2018.

Additional Comments: THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM (THE "FEDERAL RESERVE") HAS ALLEGED THAT: WHEREAS THE GOLDMAN SACHS GROUP, INC. ("GS GROUP") SERVES AS A FOREIGN EXCHANGE ("FX") DEALER THROUGH CERTAIN OF ITS INDIRECT SUBSIDIARIES ("FX SUBSIDIARIES"), BY BUYING AND SELLING U.S. DOLLARS AND FOREIGN CURRENCY FOR THEIR OWN ACCOUNT AND BY SOLICITING AND RECEIVING ORDERS THROUGH COMMUNICATIONS BETWEEN CUSTOMERS AND SALES PERSONNEL THAT ARE EXECUTED ON THE SPOT MARKET ("COVERED FX ACTIVITIES"), FROM OCTOBER 2008 THROUGH OCTOBER 2012, GS GROUP AND CERTAIN SUBSIDIARIES (TOGETHER, THE "FIRM"): (A) LACKED ADEQUATE GOVERNANCE, COMPLIANCE RISK MANAGEMENT, COMPLIANCE AND/OR AUDIT POLICIES TO ENSURE THAT THE FX SUBSIDIARIES' COVERED FX ACTIVITIES COMPLIED WITH SAFE AND SOUND BANKING PRACTICES AND APPLICABLE INTERNAL POLICIES; AND (B) HAD DEFICIENT POLICIES AND PROCEDURES THAT PREVENTED IT FROM DETECTING AND ADDRESSING POTENTIALLY UNSOUND CONDUCT BY CERTAIN OF THE FX SUBSIDIARIES' FX TRADERS, AND AS A RESULT OF THE DEFICIENT POLICIES AND PROCEDURES, ENGAGED IN UNSAFE AND UNSOUND BANKING PRACTICES.

ON MAY 1, 2018, PRIOR TO THE FILING OF ANY NOTICES OF CHARGES, OR TAKING OF ANY TESTIMONY, OR ADJUDICATION OF OR FINDING ON ANY ISSUES OF FACT OR LAW HEREIN, THE FIRM PAID A CIVIL MONETARY PENALTY IN THE AMOUNT OF $54,750,000

**Staff has reviewed the material changes and disclosures made by Goldman Sachs as part of their ADV filing and feel that no additional information is required and that the disclosures above do not affect their ability to manage the accounts effectively.*

GROSVENOR	**Primary Contact:**		ajohnson@gcmlp.com
Checklist Sent: 07/16/2018	**Secondary Contact:**		
	Dated	Received	Notes
Annual Certification	6/30/18	8/21/18	
Audit	12/31/17	6/29/18	Clean opinion I & II
Internal Controls	9/30/17	8/21/18	Gap letter 10/1/17
ADV	3/23/18	8/21/18	
DDQ	-	-	NA

Additional Comments:

HEARTHSTONE	**Primary Contact:**		mporath@hearthstone.com
Checklist Sent: 07/16/2018	**Secondary Contact:**		dle@hearthstone.com
	Dated	Received	Notes
Annual Certification	6/30/18	8/14/18	
Audit	12/31/17	4/2/18	Clean - II & III
Internal Controls	-	-	NA
ADV	3/30/18	8/14/18	
DDQ	-	-	NA

Additional Comments:

I Squared Capital	**Primary Contact:**	andreas.moon@isquaredcapital.com	
Checklist Sent: 07/16/2018	**Secondary Contact:**		
	Dated	Received	Notes
Annual Certification			reminder 8/31, 9/21
Audit	10/31/17	9/24/18	Clean opinion
Internal Controls	3/1/17	8/31/18	
ADV	3/31/18	9/19/18	
DDQ	6/30/18	8/31/18	
Additional Comments:			

INVESCO - Core, II, III, IV	**Primary Contact:**	paul.michaels@invesco.com	
Checklist Sent: 07/16/2018	**Secondary Contact:**	melissa.neckar@invesco.com	
	Dated	Received	Notes
Annual Certification	6/30/18	8/31/18	
Audit	12/31/17	4/2/18	Clean opinion - II, III, IV
Internal Controls	9/30/17	8/31/18	
ADV	7/12/18	8/31/18	
DDQ	6/30/18	8/31/18	
Additional Comments:			

INVESCO Asia I & III	**Primary Contact:**	eva.cheng@invesco.com	
Checklist Sent: 07/16/2018	**Secondary Contact:**		
	Dated	Received	Notes
Annual Certification	6/30/18	9/4/18	
Audit	12/31/17	4/2/18	
Internal Controls	-	-	NA
ADV	7/12/18	8/31/18	
DDQ	6/30/18	8/31/18	
Additional Comments:			

INVEST AMERICA	**Primary Contact:**	jcosgriff@investam.com	
Checklist Sent: 07/16/2018	**Secondary Contact:**	mbenge@investam.com	
	Dated	Received	Notes
Annual Certification	6/30/18	7/23/18	
Audit	12/31/17	5/11/18	L&C I Clean, L&C II comment below
Internal Controls	-	-	NA
ADV	-	-	NA
DDQ	-	-	NA

Additional Comments: As described in Note 1, these financial statements have been prepared in conformity with accounting practices prescribed or permitted by the U.S. Small Business Administration, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The investment valuations of Lewis & Clark Private Equities, LP were prepared in accordance with its approved valuation policy established in accordance with Section 310(d)(2) of the Small Business Investment Act of 1958, as amended. Accordingly, the accompanying financial statements are not intended to be a presentation in conformity with accounting principles generally accepted in the United States of America.

**Staff has reviewed the disclosure and is comfortable that no additional information is needed.*

JP MORGAN	**Primary Contact:**	scott.h.rubin@jpmchase.com	
Checklist Sent: 07/16/2018	**Secondary Contact:**	james.g.sakelaris@jpmorgan.com	
	Dated	Received	Notes
Annual Certification	6/30/18	8/18/18	
Audit	12/31/17	8/15/18	
Internal Controls	12/31/17	7/18/18	
ADV	3/30/18	5/1/18	
DDQ	6/30/18	8/14/17	

Additional Comments: Separate audited financials for the following accounts: Greater China Property, Asian Infrastructure, IIF, Greater Europe, Alternative Property

LA CAPITAL	**Primary Contact:**	thomas.stevens@lacapm.com	
Checklist Sent: 07/19/2017	**Secondary Contact:**	jreynolds@lacapm.com	
	Dated	Received	Notes
Annual Certification	6/30/18	8/30/18	
Audit	12/31/17	4/30/18	Clean opinion
Internal Controls	10/31/17	8/30/18	
ADV	3/29/18	8/30/18	
DDQ	6/30/18	8/30/18	
Additional Comments:			

LOOMIS SAYLES	**Primary Contact:**	slord@loomissayles.com	
Checklist Sent: 07/16/2018	**Secondary Contact:**	tjurevic@loomissayles.com	
	Dated	Received	Notes
Annual Certification	6/30/18	7/13/18	
Audit	10/31/17	9/6/18	Clean opinion
Internal Controls	8/31/17	8/31/18	
ADV	8/8/18	8/31/18	
DDQ	6/30/18	8/31/18	
Additional Comments:			

LSV	**Primary Contact:**		jowens@lsvasset.com
Checklist Sent: 07/16/2018	**Secondary Contact:**		
	Dated	Received	Notes
Annual Certification	6/30/18	8/20/18	
Audit	12/31/17	8/20/18	Clean opinion
Internal Controls	10/31/17	8/20/18	
ADV	3/28/18	8/24/18	
DDQ	6/30/18	8/20/18	
Additional Comments:			

MATLIN PATTERSON	**Primary Contact:**		investorservices@mpasset.com
Checklist Sent: 07/16/2018	**Secondary**		nauth@matlinpatterson.com
	Dated	Received	Notes
Annual Certification	6/30/18	8/31/18	
Audit	12/31/17	4/2/17	Clean opinion - II & III
Internal Controls	-	-	NA
ADV	3/31/17	8/31/18	
DDQ	-	-	NA
Additional Comments:			

NORTHERN TRUST ASSET MANAGE.	**Primary Contact:**		bp142@ntrs.com
Checklist Sent: 07/16/2018	**Secondary Contact:**		sy9@ntrs.com
	Dated	Received	Notes
Annual Certification	6/30/18	8/22/18	
Audit	7/31/17	7/17/18	Clean opinion - Domestic/International Equities
Internal Controls	3/13/18	8/22/18	
ADV	9/5/18	9/20/18	
DDQ	6/30/17	8/21/18	
Additional Comments:			

NORTHERN TRUST CUSTODIAN	**Primary Contact:**		
Checklist Sent: 07/16/2018	**Secondary Contact:**		
	Dated	Received	Notes
Annual Certification	-	-	
Audit	3/31/18	9/10/18	Clean opinion
Internal Controls	6/30/18	9/10/18	Gap Letter
ADV	-	-	
DDQ	-	-	NA
Additional Comments:			

PIMCO	**Primary Contact:**		stephanie.king@pimco.com
Checklist Sent: 07/16/2018	**Secondary Contact:**		collin.kroeger@pimco.com
	Dated	Received	Notes
Annual Certification	6/30/18	7/10/18	
Audit	12/31/17	8/30/18	Allianz Asset Management
Internal Controls	9/30/17	8/30/18	
ADV	3/29/18	7/23/18	
DDQ	6/30/18	8/30/18	
Additional Comments: Separate audited financials for the following accounts: Bravo II, Disco II			

PRUDENTIAL	**Primary Contact:**		steve.ahrens@prudential.com & stephen.mamay@pgim.com
Checklist Sent: 07/16/2018	**Secondary Contact:**		nicole.tolento@pgim.com
	Dated	Received	Notes
Annual Certification	6/30/18	8/31/18	See comment below
Audit	12/31/17	8/31/18	Clean opinion
Internal Controls	9/30/17	8/31/18	
ADV	3/30/18	4/16/18	
DDQ	6/30/18	8/31/18	
Additional Comments: An error occurred on 7/18/17 with a voice traded cleared inflation swap, where a trade with UBS was incorrectly allocated due to the Operations team miscalculating the proration. **Staff was notified of the error and the resolution and felt no additional information was needed.*			

QUANTUM ENERGY	**Primary Contact:**		dlin@quantumep.com
Checklist Sent: 07/16/2018	**Secondary Contact:**		
	Dated	Received	Notes
Annual Certification	6/30/18	8/30/18	
Audit	12/31/17	5/1/18	Clean Opinion
Internal Controls	9/30/16	8/30/18	
ADV	3/2/18	8/30/18	
DDQ	-	-	
Additional Comments:			

SEI	**Primary Contact:**		vestadt@seic.com
Checklist Sent: 07/16/2018	**Secondary Contact:**		mmorgan@seic.com
	Dated	Received	Notes
Annual Certification	6/30/18	8/14/18	
Audit	5/31/18	8/14/18	Clean opinion
Internal Controls	3/31/18	8/14/18	
ADV	6/18/18	8/13/18	See comment below
DDQ	6/30/18	8/14/18	

Additional Comments: THE SEC'S ORDER FOUND THAT SEI INVESTMENTS GLOBAL FUNDS SERVICES (SGFS) CAUSED AN UNREGISTERED MONEY MARKET FUND FOR WHICH SGFS SERVED AS FUND ACCOUNTANT AND ADMINISTRATOR TO VIOLATE AFFILIATED TRANSACTION RULES WHEN THAT FUND SOLD ITS SHARES TO, AND REDEEMED THEM FROM, A SET OF AFFILIATED MUTUAL FUNDS. WHILE THE UNREGISTERED MONEY MARKET FUND WAS PERMITTED TO SELL ITS SHARES TO, AND REDEEM THEM FROM, THE MUTUAL FUNDS, IT COULD DO SO ONLY IF IT OPERATED IN CONFORMITY
WITH CERTAIN REGULATORY REQUIREMENTS, INCLUDING RULE 2A-7 AND SECTION 18 OF THE INVESTMENT COMPANY ACT OF 1940.

THE ACTION HAS BEEN RESOLVED PURSUANT TO AN OFFER OF SETTLEMENT THAT WAS ACCEPTED BY THE U.S. SECURITIES AND EXCHANGE COMMISSION, AS SET FORTH IN AN "ORDER INSTITUTING CEASE-AND-DESIST PROCEEDINGS" DATED APRIL 26, 2018. PURSUANT TO THE ORDER, SGFS MUST CEASE AND DESIST FROM FURTHER VIOLATIONS AND PAY A FINE OF $225,000.

**Staff has reviewed the resolution of this disclosure and is comfortable that no additional information is required.*

STATE STREET	**Primary Contact:**		joe_cadigan@ssga.com
Checklist Sent: 07/16/2018	**Secondary Contact:**		joshua_thompson@ssga.com
	Dated	Received	Notes
Annual Certification	6/30/18	9/6/18	
Audit	12/31/17	4/2/18	Clean opinion
Internal Controls	3/31/18	9/6/18	Bridge Letter July 2018
ADV	-	-	NA, See comment below
DDQ	6/30/18	8/31/18	

Additional Comments: SSGA is a division of State Street Bank and Trust Company, a wholly-owned subsidiary of State Street Corporation. As a bank, State Street Bank and Trust Company is exempt from having to register as an investment adviser with the U.S. Securities and Exchange Commission under Section 202(a)(11)(a) of the Investment Advisers Act of 1940. Therefore, no Form ADV is available.

TIR	**Primary Contact:**		johnson@tirllc.com
Checklist Sent: 07/16/2018	**Secondary Contact:**		
	Dated	Received	Notes
Annual Certification	6/30/18	8/27/18	
Audit	12/31/17	4/2/18	Clean opinion - Teredo, Springbank, Eastern
Internal Controls	-	-	NA
ADV	6/19/18	8/27/18	
DDQ	6/30/18	8/27/18	

Additional Comments:

VANGUARD	**Primary Contact:**		mark_a_miller@vanguard.com
Checklist Sent: 07/16/2018	**Secondary Contact:**		travis_t_mack@vanguard.com
	Dated	Received	Notes
Annual Certification	6/30/18	8/27/18	
Audit	10/31/17	8/27/18	Clean opinion
Internal Controls	-	-	NA: N-SAR file w/ SEC, no recordkeeping
ADV	5/10/18	8/27/18	reviewed
DDQ	6/30/18	8/27/18	

Additional Comments:

WELLINGTON	**Primary Contact:**		eohara@wellington.com
Checklist Sent: 07/16/2018	**Secondary Contact:**		kpribeck@wellington.com
	Dated	Received	Notes
Annual Certification	6/30/18	8/31/18	
Audit	12/31/17	8/31/18	Clean opinion
Internal Controls	10/31/17	8/31/18	
ADV	5/15/18	8/31/18	
DDQ	6/30/18	8/31/18	

Additional Comments:

WELLS CAPTIAL	**Primary Contact:**	steve.p.scharre@wellscap.com	
Checklist Sent: 07/16/2018	**Secondary Contact:**		
	Dated	Received	Notes
Annual Certification	6/30/18	8/13/18	
Audit	12/31/17	8/13/18	Clean opinion
Internal Controls	9/30/17	8/2/18	No Material changes
ADV	3/30/18	8/13/18	See comment below
DDQ	6/30/18	8/13/18	

Additional Comments: THE FIRM CONSENTED TO THE ORDER TO CEASE AND DESIST AND TO TAKE AFFIRMATIVE ACTION TO TAKE STEPS TO ENSURE THE BANK COMPLIES WITH CONSENT ORDERS ISSUED BY THE OCC AND CFPB, WITHIN SIXTY DAYS, SUBMIT A WRITTENPLAN TO FURTHER ENHANCE THE EFFECTIVENESS IN CARRYING OUT OVERSIGHT AND GOVERNANCE OF WFC, IMPROVE ITS OVERSIGHT OF SENIOR MANAGEMENT INCLUDING AN EFFECTIVE RISK TOLERANCE PROGRAM AND RISK IDENTIFICATION AND ESCALATION FRAMEWORK. FOLLOWING THE ADOPTION OF THE PLANS AND IMPROVEMENTS, WFC SHALL CONDUCT BY SEPTEMBER 30, 2018 AN INDEPENDENT REVIEW OF THE BOARD'S IMPROVEMENTS, ENHANCEMENTS TO THE FIRM'S COMPLIANCE AND OPERATIONAL RISK MANAGEMENT PROGRAM. WFC MUST CONDUCT A SECOND INDEPENDENT REVIEW INTO WFC'S "BUSINESS-AS-USUAL PRACTICES AND OPERATIONS TO ASSESS THE EFFICACY AND SUSTAINABILITY OF THE IMPROVEMENTS. BOTH REVIEWS MUST BE CONDUCTED BY THIRD PARTY EXPERTS WITH RESULTS SUBMITTED TO THE FEDERAL RESERVE WITHIN 30 DAYS OF COMPLETION OF THE REPORTS. WFC IS RESTRICTED, WITHOUT PRIOR WRITTEN APPOVAL, TO TAKE ANY ACTION THAT WOULD CAUSE THE AVERAGE OF WFC'S TOTAL CONSOLIDATED ASSETS FOR THE CURRENT AND PRECEDING QUARTER TO EXCEED A SPECIFIED LEVEL AS DESCRIBED MORE FULLY IN THE ORDER.

**Staff has reviewed the disclosure and feels that no additional information is required.*

WESTERN ASSET MANAGEMENT	**Primary Contact:**	susan.signori@westernasset.com	
Checklist Sent: 07/16/2018	**Secondary Contact:**	matthew.hillier@westernasset.com	
	Dated	Received	Notes
Annual Certification	6/30/18	8/318/18	See comment below
Audit	3/31/18	8/31/18	Clean opinion, Legg Mason (parent co.)
Internal Controls	9/30/17	8/31/18	
ADV	6/26/18	8/31/18	
DDQ	6/30/18	8/31/18	

Additional Comments: Due to a trade settlement issue in January 2018, the PEN and LEG Domestic Fixed accounts were overdrawn. The incident was notified and reimbursed.

**Staff was made aware of the settlement issue and confirmed reimbursement was made to satisfy the account.*

Additional Comments: Separate audited financials for INS, LEG, INS TIPS, LEG TIPS

WILLIAM BLAIR	**Primary Contact:**	triesenberg@williamblair.com	
	Secondary Contact:	ddenizman@williamblair.com	
	Dated	Received	Notes
Annual Certification	6/30/18	8/31/18	
Audit	12/31/17	8/31/18	Clean opinion
Internal Controls	6/30/18	8/31/18	
ADV	8/14/18	8/31/18	
DDQ	6/30/18	8/31/18	

Additional Comments:

INVESTMENT GUIDELINE EXCEPTIONS REPORT FOR YEAR ENDED 6/30/18

Manager:	Parametric/Clifton	Parametric/Clifton	PIMCO
Date Received:	11/13/2017	11/13/2017	11/14/2017
Guideline Exception:	Below Investment Grade	Below Investment Grade	Non-Agency Mortgage Pos.
CUSIP:	99336UE1	939336UH4	Multiple
Description:	Enhanced S&P PEN	Enhanced S&P PEN	UBF (Core Plus 12/1)
Manager Rec:	Hold/Monitor Price	Hold/Monitor Price	Hold/Monitor
Action Taken:	Concur	Concur	Concur
Maturity Date:	3/25/2033	3/25/2033	Multiple
Par/Shares:	1,000	1,000	Multiple
Cost:	6,310	4,033	Multiple
Fair Value:	6,322	3,955	Multiple
Account #:	26-67453	26-67453	NDK21
Last Date Verified:	6/30/2018	6/30/2018	6/30/2018*

*A portion of the non-agency mortgage positions have been liquidated as of 6/30/18

ATLANTA CAPITAL

August 8, 2018

Mr. Cody Schmidt, Compliance Officer
ND Retirement & Investment Office
3442 E Century Ave, Bismarck, ND 58503

Re: Annual Certification of Investment Guidelines

Dear Mr. Schmidt,

Atlanta Capital Management Company certifies that the investment portfolio managed on behalf of the North Dakota Investment Board is in compliance with all investment guidelines in place as of June 30, 2018. There are no exceptions to be noted. We will continue to provide you with notifications of any compliance exceptions that may occur.

Please do not hesitate to let us know if you need any additional information.

Best regards,

Deborah H Bishop

Deborah H. Bishop
Compliance Director

Charles B. Reed, CFA
Managing Director, Core Equity
Principal

1075 Peachtree Street NE
Suite 2100
Atlanta, Georgia 30309

Tel: 404 876 9411
Fax: 404 872 1672
ATLCAP.COM

NORTH DAKOTA STATE INVESTMENT BOARD

DUE DILIGENCE QUESTIONNAIRE

FOR PERIOD ENDING 6/30/18

Please read the following instructions before completing this questionnaire:

1. All questions must be completed.
2. Type or select answers to each question.
3. If any questions are not applicable, please answer as "N/A".
4. If any answer is larger than the space available, please include it in an attachment that references the page and section number.
5. Responses are due no later than August 31, 2018.

GENERAL INFORMATION

Firm Name:	___		
Address:	___		
City:	___	**State:** ___	**Zip:** ___
Contact Name:	___	**Phone:**	___
Title:	___	**Fax:**	___
E-mail:	___		

FIRM INFORMATION

1. Describe the history of your firm including a timeline of key dates/events (i.e. new products, acquisitions, personnel lift-outs, etc).
2. Describe your firm's ownership structure. List all entities/individuals with 5% ownership or more. Note any recent (within the past five years) or pending changes in ownership structure.
3. Explain owners' relationship to firm.
4. List all related companies and explain related companies' relationship to firm.
5. Is the firm a Registered SEC Investment Advisor? If so, please provide SEC registration name and file number.
6. Is the organization involved in any other business other than investment management? If yes, please explain.
7. Please list your firm's lines of business and the approximate contributions of each business to your organization's total revenue. If you are an affiliate or subsidiary of an organization, what percentage of the parent firm's total revenue does your subsidiary or affiliate generate?
8. Please describe whether investment management capabilities were developed in-house or derived through acquisition of talent from another firm. If the latter, indicate when this occurred.
9. Which of your firm's offices service this account? Which specific services are provided by which offices?
10. List the locations where the firm has other offices.
11. How would you describe the culture of the firm? How would you illustrate this culture to someone outside the firm?
12. Provide information pertaining to any organizational changes that have occurred during the past five years that a prudent investment professional would consider material. Are there any changes anticipated in the coming year?
13. Has your firm been the subject of an audit, censure (fine), inquiry or administrative action by the SEC, IRS, or DOL in the past five years? If so, please explain findings and provide a copy, as well as evidence of any changes in procedures implemented as a result of such audit.
14. Please indicate your firm's fiduciary classification. Please check all that apply:

☐ Registered Investment Advisor (registered under the Investment Advisors Act of 1940)

☐ Bank (as defined in the Investment Advisors Act of 1940)

15. Indicate the name of your insurance carrier and the dollar amount of your coverage:

Errors & Omissions:	Coverage: $
Fiduciary Liability:	Coverage: $
Fidelity Bond:	Coverage: $

PERSONNEL

1. Please list the individuals involved in portfolio management and research for this strategy. For each individual, please provide the following information:
    a. Tenure at company and with this strategy
    b. Industry experience
    c. Education and credentials
    d. Office location
    e. Area(s) of specialization
    f. If applicable, other responsibilities beyond those associated with this strategy
2. Please indicate when and why any investment professionals involved with the subject product departed or joined the firm in the last five years. For personnel who have left, please indicate job titles and years with the firm. Please include all additions and departures, regardless of seniority.
3. Does your firm have a succession plan in place for key personnel on the subject product? Please describe.
4. Discuss your organization's compensation and incentive program for investment professionals. How are professionals evaluated and rewarded? What incentives are provided to attract and retain superior individuals? If equity ownership is possible, on what basis is it determined and distributed? How is the departure of a shareholder treated?
5. Provide information regarding the expiration date of current employment contracts with key personnel. Please include a discussion of long term incentives, options or performance clauses.
6. Provide an organizational chart diagramming the relationships between the professional staff as well as the parent-subsidiary, affiliate, or joint venture entities. You may attach this chart to the end of the DDQ.
7. Has any employee associated with this product been party to any investigations, litigation (including any settled out of court), or regulatory action during the past five years while at this or any other firm? If so, provide a detailed explanation and indicate the current status. Specify whether the employee is involved in any pending litigation or investigations.

ASSETS AND BREAKDOWN

1. Please provide assets managed and number of accounts *as of 6/30/18*.

	Firm		Product	
	Assets ($mil)	# Accounts	Assets ($mil)	# Accounts
Total Assets				
Total Institutional Assets				
US Tax Exempt				
US Taxable				
By Client Type				
Public Fund				
Corporate				
Union/Multi-Employer				
Endowment & Foundation				
Healthcare				
Insurance				
High Net Worth				
Wrap Accounts				
Sub-Advisor				
Other				

Describe "other":

2. Complete the following tables indicating accounts and market value of assets gained and lost for each of the last three years *ending June 30*.

Firmwide

	2018			2017			2016		
	Total	Gain	Loss	Total	Gain	Loss	Total	Gain	Loss
Total accounts									
Total assets									
Total public fund accounts									
Public fund assets									

Subject Product

	2018			2017			2016		
	Total	Gain	Loss	Total	Gain	Loss	Total	Gain	Loss
Total accounts									
Total assets									
Total public fund accounts									
Public fund assets									

3. Please provide an explanation of account departures and additions and for any meaningful changes in firm wide and/or product assets.

4. What is the minimum, average, and maximum account size for the subject strategy?

5. You may include additional detail or explanation of firm assets under management below to demonstrate firm capabilities.

6. Please list clients representing more than 10% of total firm assets under management or total firm revenue. It is adequate to describe the client without identifying them (e.g., public pension plan). Please comment on business risk related to client concentration.

INVESTMENT STRATEGY

1. Describe your investment philosophy for the subject strategy.

2. Describe the drivers of return. What has been your historical experience on return drivers?

3. Have you made or are you planning any modifications to your overall investment philosophy or process? If so, describe the process used to identify and effect the change.

4. Address the following as it relates to your investment strategy and the portfolio construction process you use to implement your philosophy:

    a. Role of top-down, thematic and/or sector allocation decisions in your process, and how these decisions are made and implemented.

    b. What is the firm’s research process as it relates to the subject strategy? How is the research process organized (i.e. regional, country and/or sector)?

c. Comment on security selection, including the initial universe, decision making factors, and analysis by market segment. Include use of model portfolios or recommended lists. Describe the process by which an investment idea is originated and implemented.

d. Describe your portfolio construction process. What specific factors are integral to the portfolio construction process? Specify the portfolio guidelines and rules, such as maximum issue and sector weights. Describe any quantitative techniques or optimization tools used to construct portfolios.

e. How is portfolio risk measured, monitored and controlled? Describe any risk management models used and how this analysis is incorporated in the portfolio management process.

f. Describe your sell discipline. Under what conditions can the manager/investment committee deviate from your stated discipline?

g. If subject strategy is a passive mandate, does your strategy attempt full index replication or are sampling techniques utilized when constructing the portfolio? If sampling is utilized, please describe your sampling process.

5. Please list the relative importance of each of the following decisions:

	Fixed Income		Equity
Allocation		Allocation	
Selection		Selection	
Duration		Currency	
Curve		Other (list and explain below)	
Currency		Totals	100%
Other (list and explain below)			
Totals	100%		

6. What unique attributes or competitive advantage does your firm or subject strategy have, which distinguishes it from its competitors? Why do you believe this advantage is sustainable?

7. Describe what circumstances or market conditions would favor the subject strategy? When can it be expected to be out of phase or be unrewarded?

8. If applicable, please describe your currency decision and hedging policy.

9. Does this strategy utilize leverage in any way? If so, please describe. What is the expected and maximum leverage employed in the strategy?

10. Describe the firm's use of derivatives in the management of the strategy. If applicable, please list any procedures that serve as guidelines for your firm's management of the collateral.

TRADING

1. Please describe your policies and procedures concerning trading and execution, including those relating to the following:

    a. How your firm seeks to achieve best execution;

    b. How your firm measures and minimizes trading costs;

    c. How your traders interact with portfolio managers and analysts.

2. Describe your trading practices, including the trading systems and strategies you use, and indicate any enhancements your firm is contemplating.

3. What guidelines and practices does your firm employ in managing its counterparty risk?

4. How many broker relationships does your firm have? Please describe how the broker/dealers your firm uses are selected.

5. Does your firm trade client accounts through any related or affiliated broker/dealer? If yes, describe the nature of the relationship and the percentage of trades directed through such affiliate(s).

6. Does your firm use soft dollars? If so, for what purpose?

RISK MANAGEMENT

1. Please describe the risk management process within your organization and the degree of independence from your portfolio management process. Please describe how the firm assures the independence of risk management.

2. How is portfolio risk measured, monitored and controlled? Describe any risk management models used and how this analysis is incorporated in the portfolio management process.

ENVIROMENTAL, SOCIAL & GOVERNANCE

1. Does the firm have a policy addressing its approach to incorporating sustainable and responsible investment factors into its investment process? If so, please provide a copy of the policy and the extent of its use in current investment strategies. If not, please explain the rationale.

2. Please indicate the methods of internal investment manager oversight (e.g. oversight by committee, firm, management, board of directors, etc.) including reporting practices.

3. Please describe what ESG data, research, consultants, tools and practices are used and how they are incorporated into the investment and risk management process.

4. Have there been any changes in the firm's ESG practices, policies, applications or reporting in the past year. If so, please explain the changes.

5. Please explain how active investment ownership practices are integrated into investment decisions including any impact on voting shares/rights.

6. Please describe what metrics are used to measure the impact of ESG investing practices.

7. Does the firm include climate related factors into its investment process including the measurement and monitoring of the carbon footprint of its investment portfolio? If yes, please explain the assessment process. If not, please explain the rationale.

8. Please list the various types of sustainable and responsible investing themes considered in the past and if any have been excluded because they were non investible (i.e. eliminate poverty, disease eradication, zero waste, healthy living, etc.).

COMPLIANCE/INTERNAL CONTROLS

1. What compliance system does your firm employ? How is compliance implemented in your firm's operations?

2. Provide a detailed summary of your firm's internal control structure. Who serves as your firm's compliance officer? Who does he/she report to? Does the firm conduct periodic risk assessment?

3. What systems are in place for ensuring that portfolios are in compliance with client guidelines?

4. Has your firm ever violated a client guideline in the subject strategy? If so, please describe the violation and resolution. It is acceptable if this information is grouped by some method of categorization that allows for easier reporting.

5. Describe valuation policies and procedures by security type, list pricing sources and personnel responsible for valuation. Describe any special systems, valuation services, or other unique issues relating to the pricing of less liquid securities in the portfolio.

6. Is your firm registered with the CFA Institute as compliant with the CFA Institute's Asset Manager Code (AMC) of Professional Conduct? If not, would your firm consider registering as compliant in the future?

7. Please state your firm's ethics policy. How do you ensure that employees follow this ethics policy? How are violations of the firm's ethics policy handled?

FEES

1. Please provide a fee schedule for the subject strategy, including any breakpoints.

2. Under what circumstances are your fees negotiable?

3. Do all clients pay the same fee? Please explain any discrepancies.

4. Is there a minimum annual fee?

5. Do you offer a performance-based fee? If so, please provide a performance-based fee schedule. Over what period is performance evaluated and against what benchmark? What is the base fee? Is there a maximum fee (a cap)?

6. Do you offer a Most Favored Nations (MFN) clause? If not, please provide an explanation of why not.

CLIENT SERVICES

1. Describe your firm's approach to client service.

2. What policies are in effect to control the workload as it relates to the number of clients serviced by each account manager? Is there a limit on the number of accounts that an account manager may handle?

3. Provide a breakdown for each key investment person's time dedicated to each listed function (add more rows for additional key persons if necessary):

Key Persons	**Portfolio Management**	**Research**	**Management / Supervision**	**Marketing / Client Service**	**Other**
1.					
2.					
3.					
4.					

Describe other:

BUSINESS PLANS

1. Please discuss the overall business objectives of your firm with respect to future growth. Comment on any present or planned areas of emphasis over the near future. Be sure to include in your response the following:

    a. Total assets or client relationships that will be accepted;

    b. Maximum amount of clients or assets per portfolio manager;

    c. Plans to develop and expand resources.

2. Indicate the details of any new investment services you plan to introduce.

3. Do you have any plans to cap or limit your growth in terms of total assets and total number of accounts? If so, please describe.

DISASTER RECOVERY

1. Describe your emergency and disaster recovery plans. Do you have plans/arrangements in place for an alternative work site should your facilities become inoperative?

ADDITIONAL INFORMATION

1. Please provide a current list of references, including other public fund clients.

BlackRock Solutions

Aladdin

As a reminder, RIO secured BlackRock Solutions to provide us with a comprehensive suite of portfolio risk tools and reports. The system utilizes position-level data to generate sophisticated risk metrics and reports that provide more color and depth than traditional return-based analyses.

As part of internal efforts to enhance compliance monitoring, staff has been leveraging the Aladdin system to monitor potential investment guideline breaches. Previously staff relied on investment managers to self-report issues. The Aladdin system allows for an additional check to ensure our portfolios remain in compliance of investment guidelines.

Green Package

my

Portfolio Information 9/19/2018

Market Date	1Yr GOVT	2Yr GOVT	3Yr GOVT	5Yr GOVT	10Yr GOVT
9/19/2018	2.5750	2.8070	2.8960	2.9600	3.0830

Portfolio/ Group	Portfolio Full Name	CCY	OK	Failed	Warnings
NDRIO TOTAL PLAN	NDRIO TOTAL PLAN	USD	0	0	0
LEGACY FUND	LEGACY FUND	USD	0	0	0
PUBLIC EQUITIES	PUBLIC EQUITIES	USD	0	0	0
N_LEGGE	Global Equities	USD	0	0	0
Domestic Equities	Domestic Equities	USD	0	0	0
International Equities	International Equities	USD	0	0	0
N_EM	Emerging Markets	USD	0	0	0
Developed International	Developed International	USD	0	0	0
DFA_ISCPL	DFA International Small Cap Value	USD	0	0	0
LSV_ILCVL	LSV International Large Cap Value	USD	5	1	0
VG_IEFL	Vanguard International Explorer Fund	USD	0	0	0
WB_ILL	William Blair International Leaders	USD	5	0	0
PUBLIC FIXED INCOME	PUBLIC FIXED INCOME	USD	0	0	0
N_BIGFI	Below Investment Grade Fixed Income	USD	0	0	0
N_IFI	International Fixed Income	USD	0	0	0
Investment Grade Fixed Income	Investment Grade Fixed Income	USD	0	0	0
ALTERNATIVES	ALTERNATIVES	USD	0	0	0
N_TIM	Timber	USD	0	0	0
N_PRIE	Private Equity	USD	0	0	0
Global Real Estate	Global Real Estate	USD	0	0	0

Green Package

my

Compliance Report 09/18/18

1Yr GOVT	2Yr GOVT
2.5720	2.7990

Fund Name: WB_ILL Base Currency: USD Risk Basis: GOVT Risk Setting: NDRRK, 30 Price Setting: NDRIPX, 30 FX Date: 09/18/2018 Position Date: 09/18/18 NAV: U

Show rules: All Failed Warning OK

Use of margin prohibited (coded using collateral)
Use of margin prohibited (coded using collateral) OK

EM securities can be 2X the MSCI ACWI ex-US IMI Index weighting
EM securities can be 2X the MSCI ACWI ex-US IMI Index weighting OK

Max 5% per security
Max 5% per security OK

The portfolio will be diversified by GICS level 1 sector with no individual sector representing over 35% based upon market value
The portfolio will be diversified by GICS level 1 sector with no individual sector representing over 35% based upon market value OK

Prohibited: US stocks
Prohibited: US stocks OK

RETIREMENT AND INVESTMENT OFFICE
EXPENDITURE SUMMARY REPORT
FISCAL YEAR ENDED JUNE 30, 2018

	TFFR		SIB		Total RIO	
	Expenses	% of Total	Actual Expenses	% of Total	Actual Expenses	% of Total
CONTINUING APPROPRIATIONS						
INVESTMENT EXPENDITURES	$ 13,380,893	6.0%	$ 42,293,975	96.2%	$ 55,674,868	20.8%
MEMBER CLAIMS						
ANNUITY PAYMENTS	202,417,031		-		202,417,031	
REFUND PAYMENTS	5,561,668		-		5,561,668	
TOTAL MEMBER CLAIMS	207,978,699	93.1%	-	0.0%	207,978,699	77.8%
OTHER CONTINUING APPROPRIATIONS	581,091	0.3%	759,583	1.7%	1,340,674	0.5%
TOTAL CONTINUING APPROPRIATIONS	221,940,683	99.3%	43,053,557	97.9%	264,994,241	99.1%
APPROPRIATED EXPENDITURES						
SALARIES AND BENEFITS	1,105,264	0.5%	1,043,091	2.4%	2,148,355	0.8%
OPERATING EXPENSES	223,172	0.1%	86,193	0.2%	309,365	0.1%
SIB EXPENSES ALLOCATED TO TFFR	219,267		(219,267)		-	
TOTAL APPROPRIATED EXPENDITURES	1,547,703	0.7%	910,017	2.1%	2,457,720	0.9%
TOTAL EXPENDITURES	$ 223,488,386		$ 43,963,575		$ 267,451,961	

RETIREMENT AND INVESTMENT OFFICE
2017-2019 BIENNIUM APPROPRIATION STATUS REPORT
AS OF JUNE 30, 2018

	2017-2019 BUDGET	ADJUSTED APPROPRIATION	EXPENDITURES BIENNIUM TO DATE ACTUAL	BUDGET AVAILABLE	% BUDGET AVAILABLE	% OF BIENNIUM REMAINING
SALARIES AND BENEFITS	$ 4,425,570	$ 4,425,570	$ 2,148,355	$ 2,277,215	51.46%	50.00%
OPERATING EXPENDITURES	862,484	862,484	309,365	553,119	64.13%	50.00%
CONTINGENCY	52,000	52,000	0	52,000	100.00%	50.00%
TOTAL	$ 5,340,054	$ 5,340,054	$ 2,457,720	2,882,334	53.98%	50.00%

RETIREMENT AND INVESTMENT OFFICE
SCHEDULE OF CONSULTING EXPENSES
FOR THE YEARS ENDED JUNE 30, 2018 and 2017

	Pension Trust		Investment Trust	
	2018	2017	2018	2017
Actuary fees:				
Cavanaugh MacDonald Consulting	$ -	$ 38,632	$ -	$ -
Segal Company	71,499	91,742	-	-
Total Actuary Fees	71,499	130,374	-	-
Auditing/Accounting fees:				
CliftonLarsonAllen LLP	82,527	108,987	29,073	28,213
Total Auditing Fees	82,527	108,987	29,073	28,213
Disability consulting fees:				
Sanford Health	425	300	-	-
Legal fees:				
K&L Gates LLP	16,541	3,152	21,646	4,171
Kasowitz, Benson, Torres & Friedma	197	1,357	309	1,777
Jackson Walker LLP	3,105	-	9,316	-
ND Attorney General	23,805	20,323	20,681	23,520
Total legal fees:	43,648	24,832	51,952	29,468
Total consultant expenses	$198,099	$264,493	$ 81,025	$ 57,681

RETIREMENT AND INVESTMENT OFFICE
BUDGET REQUEST FOR 2019-2021 BIENNIUM

	2017-2019 Biennium Approved Budget			2019-2021 Biennium Requested Base Budget			Change from 2017-19 Approved Budget						2019-2021 Biennium Requested Optional Packages**			2019-2021 Biennium Total Budget Request		
	TFFR	SIB	RIO Total	TFFR	SIB	RIO Total	TFFR		SIB		RIO Total		TFFR	SIB	RIO Total	TFFR	SIB	RIO Total
SALARIES & WAGES	1,637,129	1,591,806	3,228,935	1,269,300	1,396,146	2,665,446	(367,829)	-22.5%	(195,660)	-12.3%	(563,489)	-17.5%	357,628	413,366	770,994	1,626,928	1,809,512	3,436,440
BENEFITS	688,683	507,952	1,196,635	686,754	509,363	1,196,117	(1,929)	-0.3%	1,411	0.3%	(518)	0.0%	50,000	74,196	124,196	736,754	583,559	1,320,313
TOTAL SALARIES & BENEFITS	2,325,812	2,099,758	4,425,570	1,956,054	1,905,509	3,861,563	(369,758)	-15.9%	(194,249)	-9.3%	(564,007)	-12.7%	407,628	487,562	895,190	2,363,682	2,393,071	4,756,753
IT - DATA PROCESSING	151,852	30,456	182,308	129,370	30,831	160,201	(22,482)	-14.8%	375	1.2%	(22,107)	-12.1%	775,000	2,740	777,740	904,370	33,571	937,941
IT - COMMUNICATIONS	12,600	6,480	19,080	12,000	6,600	18,600	(600)	-4.8%	120	1.9%	(480)	-2.5%		360	360	12,000	6,960	18,960
TRAVEL	47,232	26,718	73,949	82,675	16,395	99,070	35,444	75.0%	(10,323)	-38.6%	25,121	34.0%		4,000	4,000	82,675	20,395	103,070
SUPPLIES - IT SOFTWARE	699	401	1,100	444	256	700	(255)	-36.5%	(145)	-36.2%	(400)	-36.4%			-	444	256	700
POSTAGE	77,147	5,240	82,387	57,757	5,435	63,192	(19,390)	-25.1%	195	3.7%	(19,195)	-23.3%		200	200	57,757	5,635	63,392
IT CONTRACT SERVICES	156,468	2,826	159,294	157,112	4,158	161,270	644	0.4%	1,332	47.1%	1,976	1.2%			-	157,112	4,158	161,270
LEASE/RENT - BLDG./LAND	110,237	62,905	173,142	114,724	64,506	179,230	4,487	4.1%	1,601	2.5%	6,088	3.5%			-	114,724	64,506	179,230
PROFESSIONAL DEVELOPMENT	22,769	8,632	31,400	39,543	5,272	44,815	16,775	73.7%	(3,360)	-38.9%	13,415	42.7%		1,500	1,500	39,543	6,772	46,315
OPERATING FEES & SERVICES	29,646	18,143	47,789	29,324	17,955	47,279	(322)	-1.1%	(188)	-1.0%	(510)	-1.1%		500	500	29,324	18,455	47,779
REPAIRS	476	274	750	635	365	1,000	159	33.4%	91	33.2%	250	33.3%			-	635	365	1,000
PROFESSIONAL SERVICES	24,520	9,070	33,590	22,504	9,106	31,610	(2,016)	-8.2%	36	0.4%	(1,980)	-5.9%	2,014,000		2,014,000	2,036,504	9,106	2,045,610
INSURANCE	853	491	1,344	1,299	748	2,047	446	52.3%	257	52.3%	703	52.3%			-	1,299	748	2,047
OFFICE SUPPLIES	3,943	2,267	6,210	3,378	1,942	5,320	(565)	-14.3%	(325)	-14.3%	(890)	-14.3%		150	150	3,378	2,092	5,470
PRINTING	35,315	4,759	40,074	32,030	5,320	37,350	(3,285)	-9.3%	561	11.8%	(2,724)	-6.8%			-	32,030	5,320	37,350
PROFESSIONAL SUPPLIES	875	875	1,750	850	850	1,700	(25)	-2.9%	(25)	-2.9%	(50)	-2.9%			-	850	850	1,700
MISCELLANEOUS SUPPLIES	2,585	1,485	4,070	2,603	1,497	4,100	18	0.7%	12	0.8%	30	0.7%			-	2,603	1,497	4,100
IT EQUIPMENT < $5000	363	368	731	3,176	1,824	5,000	2,813	774.9%	1,456	395.7%	4,269	584.0%		2,500	2,500	3,176	4,324	7,500
OTHER EQUIPMENT < $5000	1,474	847	2,321	-	-	-	(1,474)	-100.0%	(847)	-100.0%	(2,321)	-100.0%			-	-	-	-
OFFICE EQUIP & FURNITURE < $5000	1,071	124	1,195	-	-	-	(1,071)	-100.0%	(124)	-100.0%	(1,195)	-100.0%		2,500	2,500	-	2,500	2,500
TOTAL OPERATING	680,124	182,360	862,484	689,424	173,060	862,484	9,300	1.4%	(9,300)	-5.1%	0	0.0%	2,789,000	14,450	2,803,450	3,478,424	187,510	3,665,934
CONTINGENCY	26,000	26,000	52,000	41,000	41,000	82,000	15,000	57.7%	15,000	57.7%	30,000	57.7%	-	-	-	41,000	41,000	82,000
CAPITAL ASSETS	-	-	-	-	-	-	-	0.0%	-	0.0%	-	0.0%	6,300,000	-	6,300,000	6,300,000	-	6,300,000
TOTAL BUDGET	3,031,936	2,308,118	5,340,054	2,686,478	2,119,569	4,806,047	(345,458)	-11.4%	(188,549)	-8.2%	**(534,007)**	**-10.0%**	9,496,628	502,012	9,998,640	12,183,106	2,621,581	14,804,687
																302%	14%	177%

**** Optional Package Requests:**

#1 - Reinstate the 10% reduction to the Base Budget: $550,194 for 3 FTEs in salary line (no specific positions were identified in the cuts)

#2 - TFFR Pension Administration System Modernization Project (one-time cost): $9,139,000 to upgrade or replace existing 13 year old CPAS system to a more advanced, more secure web based system which would provide significant improvements in functionality for TFFR members, employers and staff.

#3 - Additional Investment Position: $309,446 for Senior Investment Risk Officer to assist in developing and monitoring a more robust investment management oversight and reporting function within the SIB investment program.

Board Travel Budget Assumptions: Due to reallocations within the operating line, additional dollars have been earmarked for travel in the next biennium. Each board member will be allotted at least two trips for the biennium and it is anticipated addtional trips may be authorized based on budget availabilty, particularly for new board members.

In-State Reimbursement Rates: Lodging rate is 90% of Federal GSA rate for ND (increasing from $93 to $94 effective October 1, 2018) so rate is $83.70 ($84.60 starting October 1), plus tax (some higher exceptions in oil counties). Mileage is linked to Federal GSA rate which is currently $0.545 per mile. In-state meal rates: Breakfast: $7.00; Lunch: $10.50; Dinner: $17.50

Informational

RIO Budget Preview

for July 1, 2019 to June 30, 2021

September 26, 2018

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

RIO Budget Background

On April 18, 2018, Governor Burgum released budget guidelines for 2019-2021. The Governor is requesting all agencies (including special fund agencies) to adopt the following guidelines:

1) Agencies with an appropriation less than $5 million should submit a base budget with a 5% reduction in ongoing expenditures;
2) Agencies with an appropriation of $5 million or more should submit a base budget with a 10% reduction in ongoing expenditures; and
3) Agencies with 20 or more FTE should submit a base budget with a 5% FTE reduction.

RIO currently has 19 authorized FTE and our appropriation for 2017-19 is $5.3 million. Given that RIO's budget is over $5 million, we were requested to submit a base budget which included a 10% reduction which translates into less FTE in the summary table below. The FTE reduction is assumed due to RIO's budget largely consisting of salaries and benefits (for $4.4 million or 83%) while operating expenses and contingencies have already been reduced to historically low levels. As evidence, RIO's operating expenses declined by 13% over the past 20 years (to less than $863,000 in 2017-19) due to our agency consistently being very cost conscious. RIO's contingency line has also been subject to extreme budget pressures and was reduced by over 36% in the last biennium (to $52,000).

	2017-19 Base Appropriation		Requested 10% Budget Cut		Governor's Base Budget	
Salaries and Wages	$	4,425,570	$	(572,066)	$	3,853,504
Operating Expenses	$	862,484	$	38,061	$	900,545
Contingencies	$	52,000	$	-	$	52,000
Total Special Funds	$	5,340,054	$	(534,005)	$	4,806,049
Full-time Equivalent	19.00		-3.00		16.00	

RIO management believes our agency has operated in a fiscally conservative manner for many years, while maintaining favorable client satisfaction survey scores (for both TFFR and SIB) despite a 38% increase in TFFR membership (from 15,781 in 1998 to 21,853 in 2017) and 80% increase in assets under management (AUM) since 2013. During the last 20-years, RIO's FTE has only grown by 1 person including two new investment professionals in the last 6-years (which coincided with an 90+% increase in AUM between 2013 and 2018). RIO's overall performance has generally been strong as evidenced by solid client survey scores while investment performance has generally met or exceeded expectations in recent years including above benchmark returns, favorable peer rankings, and a keen focus on optimizing risk adjusted returns. **SIB clients have benefitted from an excellent return on their investment over the last 5-years as evidenced by a 2-for-1 return on investment fees which conservatively translates into over $300 million of incremental client investment income since 2014.**

RIO Budget Submission – Agency Overview

	A	B	C	D	E	F
	2017-19 Approved Budget	2019-21 Base Budget Request	Option 1 - Reinstate 10% Cuts	Option 2 - TFFR Pension System	Option 3 - Investment Risk Officer	2019-21 Total Budget Request
SALARIES & BENEFITS	**4,425,570**	3,861,563	550,194	50,000	294,996	**4,756,753**
OPERATING	**862,484**	862,484	-	2,789,000	14,450	**3,665,934**
CONTINGENCY	**52,000**	82,000	-	-	-	**82,000**
CAPITAL ASSETS	**-**	-	-	6,300,000	-	**6,300,000**
TOTAL	**5,340,054**	4,806,047	550,194	9,139,000	309,446	**14,804,687**
% Change		-10.0%	10.3%	171.1%	5.8%	177.2%

Column A: RIO's **2017-19 Approved Budget** was for **$5.3 million** (including 19 FTE).

Column B: RIO's **Base Budget** submission of **$4.8 million** reflects a 10% cut in agency expenses as OMB requested.

Column C: **Option 1** - Given RIO's desire to maintain high quality service levels while noting that SIB investments and TFFR's client population are at all-time highs, RIO respectfully seeks to reinstate the 10% OMB budget cut request .

Column D: **Option 2** – Given TFFR's pension administration system is 13-years old and our desire to adopt recent IT system advances, efficiencies and cybersecurity protection levels, we respectfully made a 1-time request for **$9.1 million**.

Column E: **Option 3** – RIO also requests **$309,446** to enhance our investment risk management team, controls and processes by adding a new investment risk officer position to further improve our overall risk management environment.

Column F: RIO's **Total Budget Request for 2019-21** including three (3) optional packages exceeds **$14.8 million**.

RIO's Budget submission is classified at the SIB and TFFR board level on the following page.

RIO Budget Submission – July 20, 2018

TFFR and SIB Component Overview

	2017-19 Approved Budget			2019-21 Base Budget Request			Optional Package #1 Reinstate 10% Cuts		
	TFFR	SIB	RIO	TFFR	SIB	RIO	TFFR	SIB	RIO
SALARIES & BENEFITS	2,325,812	2,099,758	4,425,570	1,956,054	1,905,509	3,861,563	357,628	192,566	550,194
OPERATING	680,124	182,360	862,484	689,424	173,060	862,484	-	-	-
CONTINGENCY	26,000	26,000	52,000	41,000	41,000	82,000	-	-	-
CAPITAL ASSETS	-	-	-	-	-	-	-	-	-
TOTAL	3,031,936	2,308,118	5,340,054	2,686,478	2,119,569	4,806,047	357,628	192,566	550,194
% Change				-11.4%	-8.2%	-10.0%	11.8%	8.3%	10.3%

	Optional Package #2 TFFR Pension Administration			Optional Package #3 Additional FTE - Investment			2019-21 Total Budget Request		
	TFFR	SIB	RIO	TFFR	SIB	RIO	TFFR	SIB	RIO
SALARIES & BENEFITS	50,000	-	50,000	-	294,996	294,996	2,363,682	2,393,071	4,756,753
OPERATING	2,789,000	-	2,789,000	-	14,450	14,450	3,478,424	187,510	3,665,934
CONTINGENCY	-	-	-	-	-	-	41,000	41,000	82,000
CAPITAL ASSETS	6,300,000	-	6,300,000	-	-	-	6,300,000	-	6,300,000
TOTAL	9,139,000	-	9,139,000	-	309,446	309,446	12,183,106	2,621,581	14,804,687
% Change	301.4%	0.0%	171.1%	0.0%	13.4%	5.8%	301.8%	13.6%	177.2%

Optional Package # 2 is a one-time request. *Optional Package # 3 does not materially impact internal investment management costs (e.g. 0.001%).*

BOARD LEADERSHIP

INNOVATIVE APPROACHES TO GOVERNANCE

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How Health Care Boards Can Lead in Times of Disruption and Uncertainty

By Kent Bottles, M.D., and Tara Satlow, Ph.D.

Kent Bottles and Tara Satlow work with an array of private-sector and nonprofit clients at The Leadership Development Group, which helps boards of health care organizations position themselves for success through board retreats, board assessment and selection, board succession planning, board team effectiveness, and more. Here, Bottles and Satlow offer insight into what health care boards can do to weather the chaos and uncertainty currently roiling the American health care sector.

"Uncertainty is the only certainty there is, and knowing how to live with insecurity is the only security."

—John Allen Paulos

In our work with health care boards and C-suite leaders, a consistent message is being articulated at strategy planning sessions. Health care leaders today are confused and frustrated by what they perceive to be a chaotic, uncertain, and unpredictable environment that makes planning nearly impossible.

One main source of the uncertainty is the future of the Affordable Care Act (ACA), which continues to be the law of the land while simultaneously being destabilized by the new administration. Although the Republicans were not able to repeal and replace the ACA, they are creating a parallel health insurance system featuring work requirements for Medicaid recipients, short-term health plans not subject to ACA rules, and association plans sold across state lines. These initiatives, coupled with the repeal of the individual mandate in the tax-cut legislation and the cancellation of ACA cost-reduction payments to insurance companies, leave everyone in the health care industry confused about what will happen in the future.

New business models for providing health care are also beginning to emerge. Venture capital organizations are adding to the mix by investing billions of dollars into efforts to capitalize on the flaws of the health care industry. They view the high cost, variability

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ALSO IN THIS ISSUE

NEWS

Survey data give insight into nonprofit boards

In addition to data on the financial health of charities, accounting firm BDO's annual *Nonprofit Standards* benchmark report also tracks data on nonprofit boards. This year's report offers the following insights:

- Forty-four percent of organizations report that attracting quality leadership and board members is a high- or moderate-level challenge.
- Sixty-nine percent of nonprofit boards have term limits for their board members.
- Of those with term limits, about 47 percent use a three-year term as their limit, while 38 percent of organizations have a term limit of five years or more.
- Of those with term limits, about three-quarters allow board members to serve two or three years maximum.
- Nearly half of nonprofits have more than 20 board members.
- A majority of organizations have nominating, investment, executive, and audit and finance board committees. Many organizations (43 percent) have committees in other categories, such as human resources, marketing, education, program-related investments development, public relations, real estate, community and donor relations, quality and outcomes, grants,

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Uncertainty

(continued from front page)

of prices unrelated to underlying costs, increase in employer health benefit costs, and patient dissatisfaction as a prime opportunity for becoming the next Uber for health care. Furthermore, announcements of mergers such as CVS-Aetna, Walmart-Humana, Amazon-Berkshire Hathaway-JPMorgan Chase, and Optum-Davita Medical Group have alarmed traditional health care provider organizations who are concerned about how to compete with the results of such vertical integration. The newly formed organizations intend to remake health care by developing new digital tools for consumers, patients, doctors, insurers, hospitals, health plans, and medical researchers. The potential of these new organizations to shake up traditional business patterns adds to the feeling of uncertainty many leaders and boards are experiencing. Based upon our experience as organizational development practitioners and our work with boards across the country, we provide three approaches—cognitive, emotional, and behavioral—to support board members to shift from a natural negative response to uncertainty to one that is more positive and productive.[1]

Three Approaches to Dealing with Uncertainty

A Cognitive Approach

Mindset and Skillset

Negative cognitive responses to uncertainty include threat, denial, vulnerability, and doubt; positive cognitive responses include opportunity, acknowledgment, confidence, and faith.

> Health care boards and leaders need to model positive cognitive, emotional, and behavioral responses to successfully navigate the uncertainty facing the industry.

Social scientists who study decision-making in times of uncertainty offer useful guidance to health care organizations' boards and C-suite executives. Educating boards to enhance their knowledge of and comfort with the unknown, as well as bringing in key advisors (e.g., physician leaders, nurse leaders, management, IT, HR) to share their direct experience and knowledge for identifying best- and worst-case scenarios, creates a powerful antidote for dealing with uncertainty while also enhancing organizational engagement and effectiveness. Consider our recent visioning and strategy work with a health care board composed of members from various professional backgrounds (e.g., finance, marketing, telecommunications). One by one, each member was asked to share their knowledge on such topics as organizational history, the community they serve, and the current state of health care. Having each member provide their unique perspective helped level the cognitive playing field as well as leverage a collective pool of information and, in turn, propelled their discussion forward on the organization's future direction and goals.

To ensure the best mix of perspectives, best-in-class health systems are utilizing rigorous interview and selection protocols for board members. Selection to ensure diversity of mindset and skillset ensures their boards possess members who offer diverse perspectives and exhibit the competencies and expertise required to take action in today's turbulent health care environment. To attract prospective board members with differing views and an action-oriented mindset, it can be useful to ask such questions as:

- How have you dealt with change and uncertainty in prior executive and/or board roles?
- In your previous board roles, in which areas did you have the greatest impact?
- In a group setting, when have you taken a stance against the prevailing majority view, what was the outcome?
- What skills, connections, resources, and expertise can you offer to complement those of existing board members?

An Emotional Approach

Assessment and Coaching to Develop Self-Awareness

Negative emotional responses to uncertainty include worry, fear, disinterest, aversion, and despair; positive emotional responses include calm, courage, curiosity, attraction, and hope.

Likewise, emotional intelligence expert Dr. Travis Bradberry advises decision-makers to quiet the limbic system by recognizing that the fear one encounters in times of uncertainty impairs good decision-making. Recognizing that fear, doubt, aversion, and inaction are natural human responses to uncertainty allows decision-makers to shift their attention away from negativity and concentrate on possible rational solutions to the problem. Dr.

Bradberry also suggests that seeking perfect solutions in such situations will make it harder to come up with workable proposals that can be successful in the real world.

Facilitated board retreats and team development exercises can help boards strengthen their self- and other-awareness as well as their ability to identify group negativity and shift course to a more productive track. Providing awareness of self through emotional intelligence assessment, feedback, and coaching can be highly effective in enhancing self-awareness, self- and relationship management, constructive conflict, and team psychological safety. Developing such insight and behaviors sets the foundation for board members to engage in disruptive, innovative, and productive conversations.

A Behavioral Approach

Taking Action

Negative behavioral responses to uncertainty include avoidance, inaction, decision deferral, and inattention; positive behavioral responses include approach, action, decision-making, and information seeking.

Nassim Nicholas Taleb, the derivatives trader turned philosophy professor, recommends the best ways to deal with uncertainty are to embrace stoicism and utilize tacit knowledge to create trial-and-error experiments. Health care boards benefit from discussing and identifying where they can take small risks (e.g., investing in new technology) and where they need to exercise caution (e.g., quality and safety). Another useful approach for health care organizations to deal with uncertainty is psychologist Dr. Gary Klein's premortem exercise that he employs before any major decision. After coming up with a major decision but before implementation, he gathers all his advisors for an hourlong meeting with the purpose of finding key vulnerabilities in the plan. Together, they create a master list of all the ways the proposal could fail and identify actions that would make each possibility less likely to occur. If the group still decides to implement the plan, the master list of failure causes is periodically reviewed to mitigate problems encountered during the implementation phase.

These approaches lend credence to the process of bringing together board members and diverse key stakeholders to share tacit knowledge through hands-on exercises in co-creating of solutions. One way to do this is to engage board members in a facilitated action learning process in which an actual problem is the means for learning. Utilizing a needs assessment, the board identifies an organizational problem and then works together to devise a solution with actionable steps. This process is facilitated by an action learning coach, who helps them evaluate whether they're solving the "right" problem and challenges them to think about the problem from different points of view. Board members take action to solve the problem and learn how to learn from the real-time, trial-and-error process. The process further ties learning to organizational change and helps develop an innovative, learning culture.

Conclusion

Health care boards and leaders need to model positive cognitive, emotional, and behavioral responses to successfully navigate the uncertainty facing the industry. This is undoubtedly difficult because leaders are human and therefore not immune to the doubt, fear, and worry that often accompany ignorance, ambiguity, and uncertainty. However, a number of principles and practices such as board retreats and ongoing education, assessment and coaching, and action learning problem-solving can help boards respond in a positive manner to the chaotic and disruptive uncertainty of the health care environment we all encounter every day. ❑

Notes

1. Hillen, M. A., Gutheil, C. M., Strout, T. D., Smets, E. M. A., & Han, P. K. J. (2017, May). Tolerance of uncertainty: Conceptual analysis, integrative model, and implications for healthcare. *Social Science & Medicine*, 180, 62–75.

WHEN WE SAY...

Board Leadership's mission is "to discover, explain and discuss innovative approaches to board governance with the goal of helping organizations achieve effective, meaningful and successful leadership to fulfill their missions."

Board Leadership aims to fulfill this mission by engaging its readers in a lively and illuminating inquiry into how board governance can be made more effective. This inquiry is based on three key assumptions:

- Boards exist to lead organizations, not merely monitor them.
- Effective board governance is not about either systems, structures, processes, theories, practices, culture, or behaviors—it is about all of them.
- Significant improvements are likely to come only through challenging the status quo and trying out new ideas in theory and in practice.

Uniquely among regular publications on board governance, *Board Leadership* primarily focuses on the job of board leadership as a whole, rather than on individual elements of practice within the overall job.

Over time, *Board Leadership* will provide a repository of different approaches to governance created through its regular "One Way to Govern" feature.

Here's what a few of the key terms we use mean to us:

- **Innovative:** Creating significant positive change
- **Approaches:** Principles, theories, ideas, methodologies and practices.
- **Board governance:** The job of governing whole organizations. ❑

Cybersecurity for the Board of Directors of Small and Midsized Businesses

By Erica L. Opitz, Esq.

Erica L. Opitz is an attorney with Atlanta-based Chamberlain Hrdlicka, providing expertise on a variety of matters relating to corporate governance, commercial contract, mergers and acquisitions, and privately held securities, among others. Here, she offers her insight on the responsibilities of board members and leadership in the realm of cybersecurity, an increasingly daunting challenge for organizations of all types and sizes.

"In the last five years, we have observed a steady increase in attacks targeting businesses with less than 250 employees, with 43 percent of all attacks targeted at small businesses in 2015, proving that companies of all sizes are at risk. It's not just Fortune 500 companies and nation states at risk of having IP stolen—even the local laundry service is a target. In one example, an organization of 35 employees was the victim of a cyberattack by a competitor," noted Symantec's Internet Security Threat Report published in 2016.

It is widely accepted that cybersecurity is one of the greatest threats facing businesses today. Further, experts agree that for most companies, the question isn't *if* there will be a cyberattack, but *when* the cyberattack will occur. It is imperative that the board of directors take a proactive role to address cybersecurity issues. There is no shortage of advice on how the board should deal with this cyberthreat, and most of it seems to have one thing in common: $$$$$.

As an attorney, most of my clients tend to be start-up or midsized privately held businesses, but the commonly available advice on how boards should deal with cybersecurity issues primarily targets the boards of directors of public companies. When the issue arises for a midsized client, the answer is rarely to spend a ton of money on outside cybersecurity companies to evaluate the risks and provide a plan of action. Although Fortune 500 companies are more high-profile targets for cybercriminals, every business is in danger of a breach. All it takes is one employee opening one attachment from an email address they don't know, or a customer or supplier being breached and an attack coming through their emails to your employees.

Ultimately, the boards of directors of these businesses need to find a more cost-effective way to deal with cybersecurity risk while still addressing the very real danger a cyberattack can pose to the company. What can the board of directors do to protect their company when every dollar spent is vital to the continued operation and success of the venture? What follows is a list of five vital steps that boards of small to midsized businesses should take to mitigate the potentially catastrophic results of a cyberattack.

1. **Make cybersecurity a topic on the agenda of each board meeting.** Board members for start-ups and midsized companies often must wear many hats and become conversant in topics and issues that would not normally be in their area of expertise. Often, these companies do not have a chief technology officer or chief information security officer unless they are a technology company, but most have at least a small IT department or an outside consultant that performs IT functions for the company. The board should request that their IT professionals provide at least a quarterly update of potential weaknesses in the company's cybersecurity infrastructure and practices.
2. **Treat cybersecurity like any other business risk.** A cost-benefit analysis should be completed weighing security concerns against customer relations. Inevitably, more secure systems tend to be less "user-friendly." If the company is going to lose valuable customers by taking certain security measures, then the cost may be too high. Just like any other risk, the board of directors should determine the types and amounts of risk to accept, avoid, mitigate, and insure against. Cyber liability insurance coverage can be especially important for companies that collect or process customer data or payment information. These insurance policies also typically reimburse for investigations into the security breach, lost profits as a result of business interruption, and legal expenses.
3. **Train your employees and consultants to follow at least basic cybersecurity procedures.** Although most small to medium-sized businesses cannot afford to bring in cybersecurity experts to train staff, the company should provide at least some basic internal training on best practices for cyberdefense. Among other items, these should include not opening attachments from email addresses that you do not know and a procedure for where to forward these emails to determine whether they are legitimate or a phishing

attack. If employees expect they might have been the victim of a cyberattack, there should be a procedure for how to report the issue and how the IT department responds. Further, the board of directors should lead by example. At a minimum, emails with sensitive company information should not be accessed unless through a secure network and personal email addresses should never be used to conduct company business.

4. **Develop a cyberattack response plan.** Since most cyberexperts agree that every organization will most likely fall victim to a cyberattack, the board of directors should develop a plan on how to respond after an attack has occurred. Often, it is not whether a company is attacked but how the aftermath is handled that will affect whether a company will survive. A response plan should address how the company will continue to operate while responding to the attack, including marketing, public relations, complying with government regulations, and decision-making authority. The board of directors should have knowledge of the jurisdictions in which the company operates and the requirements for notifying governmental authorities in the event of a breach. A response plan that mitigates the losses resulting from a cyberattack can mean the difference between whether shareholders bring a derivative suit alleging breach of fiduciary duty or not. Although courts in the past have previously found the directors were not at fault for the breach, such as in relation to the 2013 cybersecurity breach against Target Corp., it is possible that the courts will change their stance. Equifax is currently defending a shareholder derivative suit, and in March of this year, Yahoo! settled a shareholder derivative suit for $80 million. Both Equifax and Yahoo! delayed disclosure of their data breaches. A proper cyberattack response plan may have resulted in a better set of facts or avoided a shareholder derivative suit altogether.
5. **As the business grows, so should your cybersecurity.** Just like your business, cybersecurity is an ever-evolving area. As your business grows, so does your risk. More is at stake, whether through customer or vendor data that can be compromised or through potential losses that could affect future investment by third parties (often times the life blood of a start-up). As the company has money that can be allocated to cyber-risk, it is important that the board of directors use its business judgment to allocate the necessary funds to protect the company from what is quickly becoming one of the greatest risks businesses of all sizes face today.

It may be impossible to fully protect your small to midsized company from a cyberattack, but the board of directors can take inexpensive action now to mitigate the potential cost of such an attack in the future.

Erica L. Opitz is an Atlanta-based attorney in Chamberlain Hrdlicka's Corporate, Securities, and Finance practice group. For more information on board governance issues, she may be reached at Erica.opitz@chamberlainlaw.com *or (404) 658-5440.* ❑

News

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and strategic planning.

- Among all nonprofits surveyed for the report, the top challenges for nonprofit boards are internal resource constraints (cited as a high or moderate challenge by 61 percent of respondents), succession planning (58 percent), cybersecurity (54 percent), changing technology (48 percent), and loss or decline of a major revenue stream (47 percent).

For more information, and to access the report in full, visit https://www.bdo.com.

UK finalizes new Corporate Governance Code

The United Kingdom's Financial Reporting Council (FRC) has finalized its new Corporate Governance Code and guidance on board effectiveness, which will apply to all companies with a premium listing of equity shares for reporting years starting on or after January 1, 2019. According to London-based legal firm Freshfields Bruckhaus Deringer, reporting on the new requirements will begin in 2020, and will cover activities undertaken, and information collected, in 2019.

The firm has issued a rundown of the most significant provisions of the new code, including how the final version differs from the draft proposal issued late last year. According to that summary, which is available on the Freshfields Bruckhaus Deringer website, the key provisions address the following:

- Engagement with workforce and other stakeholders. According to the firm, the final code calls for a board to:
  - Understand the views of the company's key stakeholders.
  - Describe in the annual report how their interests have been considered in board

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News

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discussions and decision-making.
- Keep engagement mechanisms under review so they remain effective.

The code also includes three stated methods for workforce engagement that were included in the draft — a director appointed from the workforce, a formal workforce advisory panel and a designated nonexecutive director (NED). But, the firm said, the final code provides extra flexibility, clarifying that a combination of these methods can be used and that the board may adopt a different approach if it wishes.

- The chair's independence and tenure. According to the firm's analysis, the FRC has reconsidered its position on the independence of the chair. Under the final code, the chair will continue to be independent on appointment but will not have to be independent throughout their tenure, as was proposed initially. This is in recognition of the "special role" of the chair, the FRC said. There is, however, a requirement that the chair "should demonstrate objective judgement throughout their tenure."

  As for tenure, the final code includes a provision that the chair should not remain in that post beyond nine years from the date of first appointment to the board. This period can be extended for a limited time if needed to ensure effective succession planning and board diversity, Freshfields Bruckhaus Deringer said.
- **Board independence.** In one of the more significant deviations from the 2017 proposal, the final code eliminates language stating that if any one of the independence criteria is met, then a relevant nonexecutive director should not be considered to be independent. According to Freshfields Bruckhaus Deringer, this change reflects wide-ranging concerns raised by stakeholders after the proposal was released. As a result, the FRC has reinstated the 2016 code provision, which says the board should determine whether a NED is independent even where one of the code's independence criteria has not been satisfied.
- **Directors' time commitments.** According to the firm's analysis, the final code extends the provision that a full-time executive director should not take on more than one nonexecutive directorship of an FTSE 100 company to cover other significant appointments. The FRC also added provisions that require the board to take into account other demands on a director's time when making new appointments and that significant commitments should be disclosed with an indication of the time involved before appointment, Freshfields Bruckhaus Deringer said.
- **Expanded nomination committee role.** The new code includes a handful of changes to the provisions on what the annual report should say about the nomination committee's work. Specifically, Freshfields Bruckhaus Deringer said, language has been included to align more closely to the diversity reporting requirements in other corporate guidance, and the committee's reporting on board evaluations responsibilities has been expanded to include the nature and extent of an external evaluator's contact with the board and individual directors.
- **Expanded remuneration committee role.** The final code also expands the role of the remuneration committee, Freshfields Bruckhaus Deringer said, but this now relates only to the following aspects of its role:
  - Its remuneration-setting responsibilities, which will be extended to include senior management.
  - When setting executive director remuneration, it will now be required to review and take into account workforce remuneration and related policies and the alignment of incentives and rewards with culture.

The final code also retains the requirement from the draft that called for the committee's chair to have had 12 months' prior remuneration committee experience on appointment.

- **Remuneration.** According to the firm, the final code includes minor changes to the requirements applicable to share awards. More specifically, the final code provides that share awards should be released for sale on a phased basis and be subject to a total vesting and holding period of five years or more, and that the remuneration committee should develop a formal policy for post-employment shareholding requirements encompassing both unvested and vested shares.

Other provisions clarify the draft code's requirement on pension alignment between the executive directors and the workforce. The final code states that the pension contribution rates for executive directors, or payments in lieu of pension contributions, should be aligned with those available to the workforce, reflecting an increasing focus of institutional shareholders, Freshfields Bruckhaus Deringer said.

And, the final code also includes 'risk' as an additional item that the remuneration committee should address when determining executive director remuneration policy and practices, the firm said.

For more information, a complete analysis of the new code can be found at http://www.freshfields.com. ☐

Hands-on or Heads-up? Strategic Foresight as the Heart of the Board's Work

By Jannice Moore

Jannice Moore is president of The Governance Coach, a Calgary, Alberta, Canada–based firm that specializes in Policy Governance consultation and coaching. In this article, Moore looks at the interplay between strategic planning, strategic thinking, and, ultimately, strategic foresight.

Is your board hands-on or heads-up? Being a hands-on board—focusing on operational details, providing approvals, listening to CEO reports—is much easier. The downside is that your organization is left with no one providing the vital strategic foresight necessary for your organization to survive, let alone thrive, in our rapidly changing world.

In 1677, the Dutch philosopher Baruch Spinoza suggested that wisdom is seeing things in view of eternity. As Michael McKinney (2005) describes Spinoza's perspective, "A foundational principle of wisdom is to have a long term perspective; to see the big picture; to look beyond the immediate situation." Robert Greenleaf (1991, p. 18) maintained that failure to foresee is an "ethical failure, because serious ethical compromises today (when the usual judgment on ethical inadequacy is made) are usually the result of a failure at an earlier date to foresee today's events and take the right actions when there was freedom for initiative to act."

Internationally known author on business and management from McGill University Henry Mintzberg (1987) has said that "strategic planning is an oxymoron." He goes on to say that strategy cannot be planned because planning is about analysis while strategy is about synthesis. Synthesis is about combining diverse concepts into a coherent whole.

I propose that the board's key role is much more about synthesis than analysis. Thus, to maintain clarity, boards need to make a distinction between strategic *planning* and strategic *thinking*. The latter focuses on setting strategic direction. The purpose of strategic thinking is to exercise strategic *foresight*.

Noted futurist Ruben Nelson (2015) describes strategic foresight as "the personal, group and societal capacities/culture that enables us to make and live by strategic commitments in the present that are wise and context-sensitive enough to survive context change and actually co-create a more deeply desirable future." Why should a board care about this?

Let's take a step back in time—the future is always connected to the past. The derivation of the very word "governance" comes from the Latin *gubernare*, which in turn was derived from the Greek *kubernetes*. In ancient times, the *kubernetes* was the person on the sailing ship who pointed out the direction the ship was to go and watched for dangerous shoals. He provided *direction* and *protection*. Today, millennia later, those are still the key functions of a board—providing direction and protection for the organization. In Policy Governance, this is accomplished through the use of Ends policies (direction) and Executive Limitations policies (protection from imprudent and unethical means).

To fulfill these responsibilities, the board cannot be mired in the details of current-day operations—it needs to be the lookout, doing the best possible job of foreseeing what may be coming in the future. The best way I can put this into context is to share several diagrams from Ruben Nelson's work (Nelson, 2015). In these diagrams, think of the triangle as your organization.

Figure 1 illustrates your organization. Figure 2 shows your organization's most common connections, the way it spends its days. In Figure 3, we

(continued on next page)

Figure 1

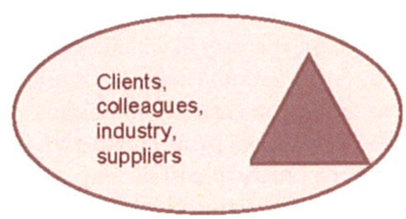

Figure 2

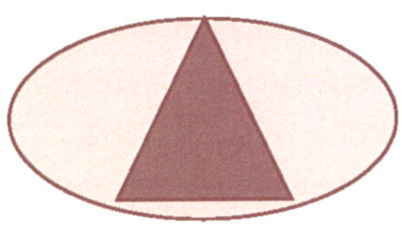

Figure 3

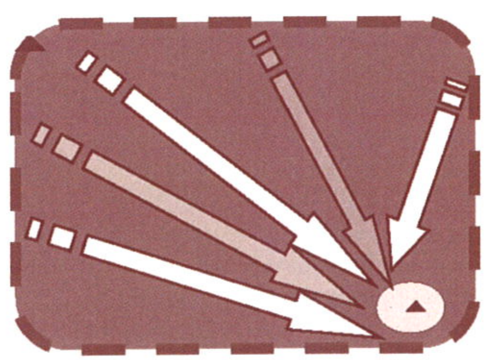

Figure 4

Foresight

(continued from previous page)

see the way in which your organization comes to be preoccupied.

However, reality is shown in Figure 4. Your organization is just a tiny piece in the reality of our rapidly changing world. Threats—and opportunities—are constantly coming at it. The board has a very big job if it is going to direct and protect the organization in light of this reality.

This is disturbing work. Robert Greenleaf (1991, pp. 19–20) said "the opening of awareness stocks both the conscious and unconscious minds with the richness of resources for future need. But it does more than that: it is value building and value clarifying.... Awareness ... is the disturber and an awakener. Able leaders are usually sharply awake and reasonably disturbed. They are not seekers after solace." Becoming sufficiently aware to exercise strategic foresight is a challenge for most boards.

There are many ways in which boards can enhance their learning to enable wise decisions. Here, I want to particularly focus on the awareness needed to begin useful foresight work. All of us have ingrained "default" settings. These come from our personal experiences, the way in which we were raised, organizational biases, cultural biases, and even civilizational biases. We are, in a sense, programmed to experience reality in certain ways. Most of this is unconscious. Even when we *think* we are being future-oriented, we may be deluding ourselves. "Much of what passes for future-think is an imagination of what the world would look like if it 'worked right' ... it is an imagination dominated by now, which aims to imprint the 'best' of now upon the future. The trouble is that the 'best' of now ... is not very satisfactory (in a world of profound change." William Bernbaum said this in 1969. He was right then, nearly 50 years ago; how much more profound is the change in which we now live?

Boards today need to devote significant time to activities that can jolt them out of their current-focused, default thinking mode into a mental space that enables them to think wisely about the future—to help create the future, rather than simply letting it happen to them. The Policy Governance® system allows you to place your day-to-day operational concerns into a system of carefully crafted Executive Limitations policies, which, when rigorously monitored, provide organizational *protection*. The Ends policies provide a place in which to provide *direction*. However, that direction will only be as good as the strategic foresight work you do. I challenge you to take advantage of the opportunity to make it the best possible direction, ready to carry your organization into the future to make a real difference in our world. Focus on being not a hands-on, but a heads-up board!

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FOOD FOR THOUGHT

Good management is the art of making problems so interesting and their solutions so constructive that everyone wants to get to work and deal with them.

Paul Hawken

BOARD LEADERSHIP

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